

# UNION BUDGET 2021-22 – A Snapshot



**DEWAN P.N. CHOPRA & Co**

## FOREWORD

On this 1<sup>st</sup> day of February 2021, post a year of unprecedented uncertainty, our Honorable Finance Minister, Ms. Nirmala Sitharaman presented India’s first digital Union Budget for FY 21-22 under the 7<sup>th</sup> year of the BJP led NDA regime.



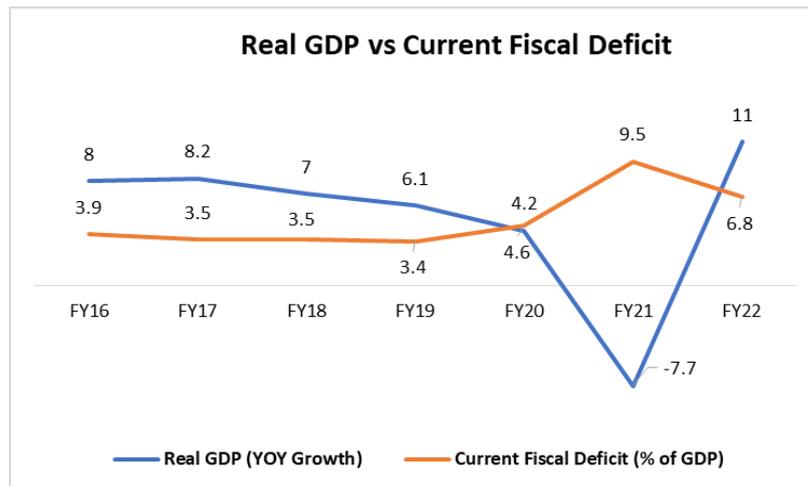
Since the last Union Budget presented on 1<sup>st</sup> February, 2020 for FY 20-21, there have been five ‘mini budgets’ presented by the Finance Minister to address the urgent need of stabilizing the Indian financial ecosystem post the Covid pandemic.

This budget is said to be in line with the five ‘mini budgets’ to achieve the larger objective of reviving the Indian economy post COVID, while not losing sight of our targets for fiscal consolidation.

To give context to our budget snapshot, we thought it may be relevant to take a quick overview of some key historical economic variables which would help highlight critical areas of interest. After all, “you can’t really know where you are going until you know where you have been”.

Accordingly, we have identified a few indicators of historical economic performance that help reflect the economic scenario prior to this Union Budget:

### 1. GDP and Fiscal Deficit:

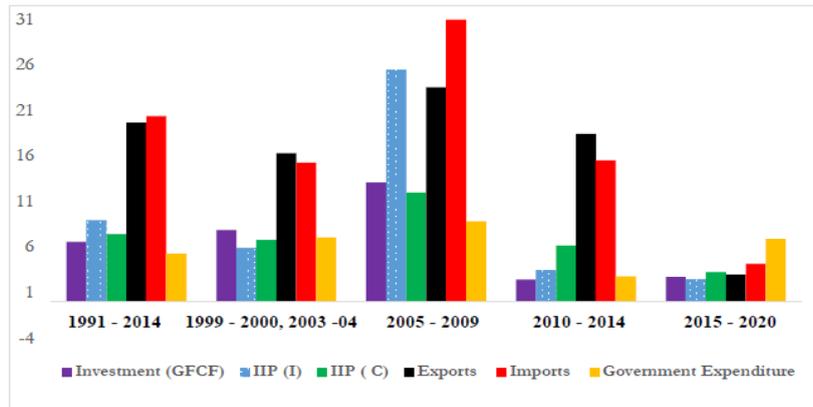


Since 2016, India’s Real GDP growth had slowly plateaued for numerous reasons including the intent of controlling inflation, and reduced spending by government to achieve fiscal consolidation towards their FRBM target of 3% by March 20-21. This slowdown is said to have been exacerbated by numerous bold structural reforms such as GST and Demonetization which however are expected to yield long term economic benefits for years to follow.

Source of Graph: [indiabudget.gov.in](http://indiabudget.gov.in)

2. Real GDP Expenditure Growth<sup>1</sup>

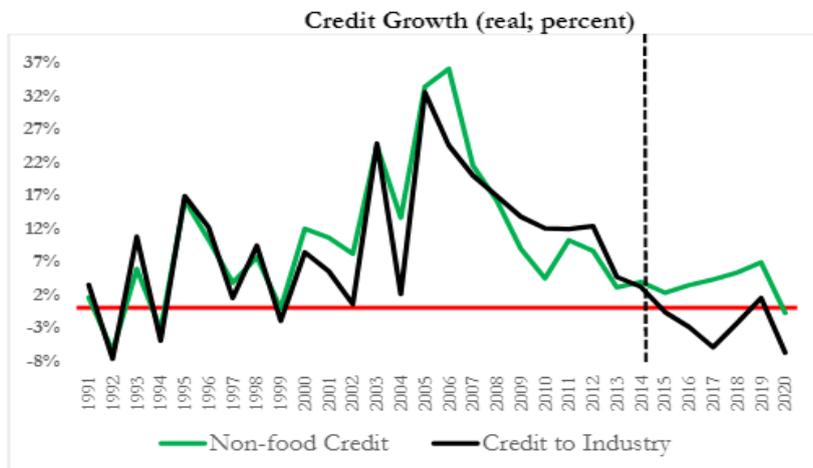
Real GDP Expenditure Growth, FY1991-FY2020  
(In percent; period annual average)



As evident from the above data, there was an enormous boom in the first decade of the 21st century across investments, government expenditure and foreign trade. However, post the Global Financial Crisis of 2008-09, global trade, investments in capital formation, overall government expenditure, index of industrial production for capital goods and consumer goods, all showed a gradual decline and apparently haven't recovered since. These figures highlight the need to enhance such investments and spending by the government to further attract private investments and kick start the engines for long term sustainable growth.

3. Real Credit Growth<sup>2</sup>

With declining investments and sluggish economic growth, the banking and financial sector was facing its own challenges with accumulating stressed assets over the years creating a Twin Balance Sheet Problem. The graph below reflects this growing lack of confidence over the past decade restricting flow of credit. The Insolvency and Bankruptcy Code, 2016 was introduced to help such financial institutions find an exit, reduce the stress of NPAs, regain confidence and lend to worthy corporates fueling the economic value chain.



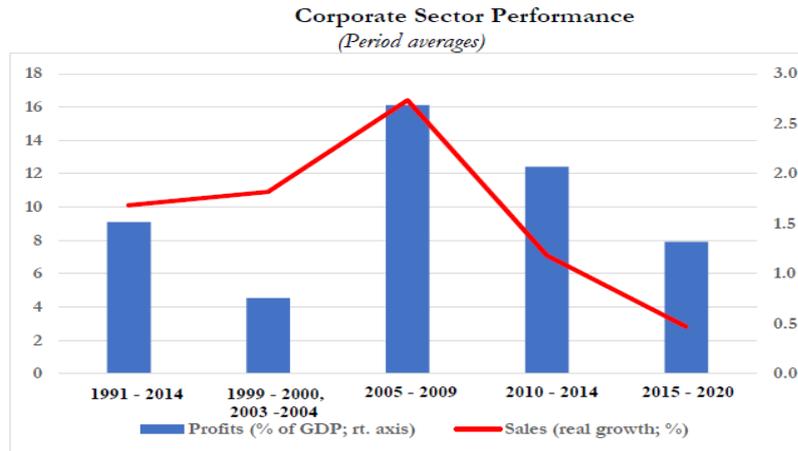
1 . Note: All indicators are averages of annual growth rates.

2 . Note: Data are for end-March of each year.

Source of Graphs: The Economy and Budget: Diagnosis and Suggestions by Arvind Subramanian and Josh Felman, January 2021

#### 4. Corporate Sector Performance<sup>3</sup>

Similarly, following the declining investments and credit confidence, there was a decline recorded in growth of corporate sales and profits as a % of GDP. These reflect a reduced confidence within the private sector, which further curtailed investments, job creation, limited competition and correspondingly reflected in a plateauing GDP growth number as above.



There are various other relevant economic indicators, some of which are also recorded in the “Economic Survey Summary FY 20-21”. However, the reason for highlighting the specific data above is our understanding that these fundamental issues and related aspects are driving government policies including those proposed under the Union Budget 2021-22 to help achieve the Governments key objectives including a Self-Reliant India (‘Atmanirbhar Bharat’); Ease and Quality of Living; Ease of Doing Business to be a USD 5 trillion economy and achieve all this through Sustainable, Inclusive Growth.

Accordingly, over the past seven (7) years, the government has been introducing structural reforms across key areas and elements of the ecosystem to move forward on these outlined objectives. These reforms include Education & Skill Development; Healthcare; Infrastructure Development; Power Supply and Distribution; Banking among others. Such reforms have been supported by changes in softer areas including Digitization (such as Direct Benefit Transfers and Unique Identification Aadhaar Card); simplified and uniform Tax Regime (Goods and Service Tax), Judiciary and Dispute Resolution (Insolvency and Bankruptcy Code); Sustainable Development (FAME, Signatory to Paris Agreement); Land & Labor Reforms (Labor Codes) and Agricultural Reforms (Farms Bill).

With these historical facts, objectives and structural reforms in place, the honorable Finance Minister laid out the theme for this budget on the foundation of six (6) pillars, all of which are consistent with their historical principles – Health & Wellbeing; Physical & Financial Capital and Infrastructure; Inclusive Development for Aspirational India; Reinvigorating Human Capital; Innovation and R&D; Minimum Government, Maximum Governance.

With an estimated GDP of 7.7%, a Fiscal Deficit of 9.5% and a low Debt to GDP ratio of 91%, in FY 20-21, the Finance Minister has adopted a path of slow fiscal consolidation with a target of 4.5% in FY 25-26, increased borrowings of INR 12 lakh crore, enhanced allocation for Capital Expenditure, Privatization and Disinvestments at INR 1.75 lakh crore all targeting a Real GDP growth rate of 11 % and a fiscal deficit of 6.8% in FY 21-22.

<sup>3</sup> . Notes: Data are from the CMIE’s Prowess database. Only non-financial corporate sector firms are included. Data for 2019-20 are not included because reporting is patchy. Sales is calculated as annual nominal growth deflated by consumer price inflation. Profits after tax is expressed as share of nominal GDP.

Addressing the need of the hour, budgeted spending on infrastructure has been substantially increased by 34.5% y-o-y for FY 21-22 along with allocation for reviving the stressed state power distribution companies, which will have an exponential impact on job creation, flow of credit and in turn much needed consumer spending (**Increased Gross Capital Formation**).

The Proposed setting up of a Domestic Financial Institution, an Asset Reconstruction Company, Recapitalization of Banks and streamlining the functioning of IBC will all help strengthen the Banking system, regain confidence at banks with liquidity surplus estimated at over INR 5 lakh crores and permit flow of much needed credit. (**India - an economic superpower**)

Creating new opportunities for the young and aspirational India through higher education and up skilling to mobilize our youth up the value chain and support growth in manufacturing (under new PLI schemes) and services which constitutes over 50% of our GDP (**Inclusive Growth for an Aspirational India**).

Further, allocations have been increased by 137% y-o-y towards enhancing healthcare (including INR 35,000 crores for Covid Vaccine), ensuring water supply, reducing pollution to enhance the Quality and Ease of Living across the nation (**Ease and Quality of Living**).

Proposals to streamline compliances, remove GST Audit, overhaul dispute resolution, decriminalize breaches under LLP Act, widening scope of small company and One Person Company, liberalize foreign investments, enhanced digitization are all dovetailing into principles of Minimum Government, Maximum Governance (**Ease of Doing Business**)

Though there are no changes in the tax rates, there have been substantial amendments in Income Tax provisions including abolition of Settlement Commission, faceless ITAT, pro-investment changes attracting long term stable capital and other such changes following principles of clarity and consistency in the tax regime.

In Conclusion, as evident, this budget addresses historical issues despite testing times, in a consistent, clear, progressive, and collaborative manner with constructive allocation of capital prioritizing the immediate needs of our nation to unleash its true potential. This budget provides the necessary shot in the arm to boost economic recovery in the post pandemic era.

**Dhruv Chopra,**  
**Joint Managing Partner**  
**Dewan P.N. Chopra & Co.**

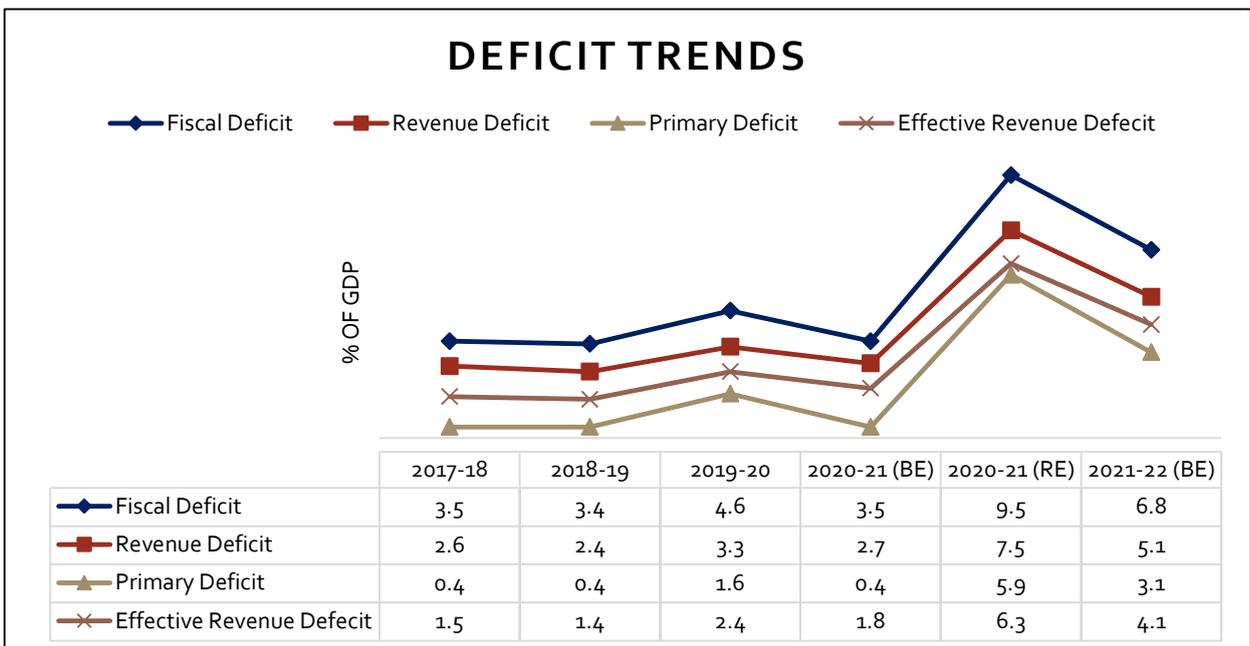
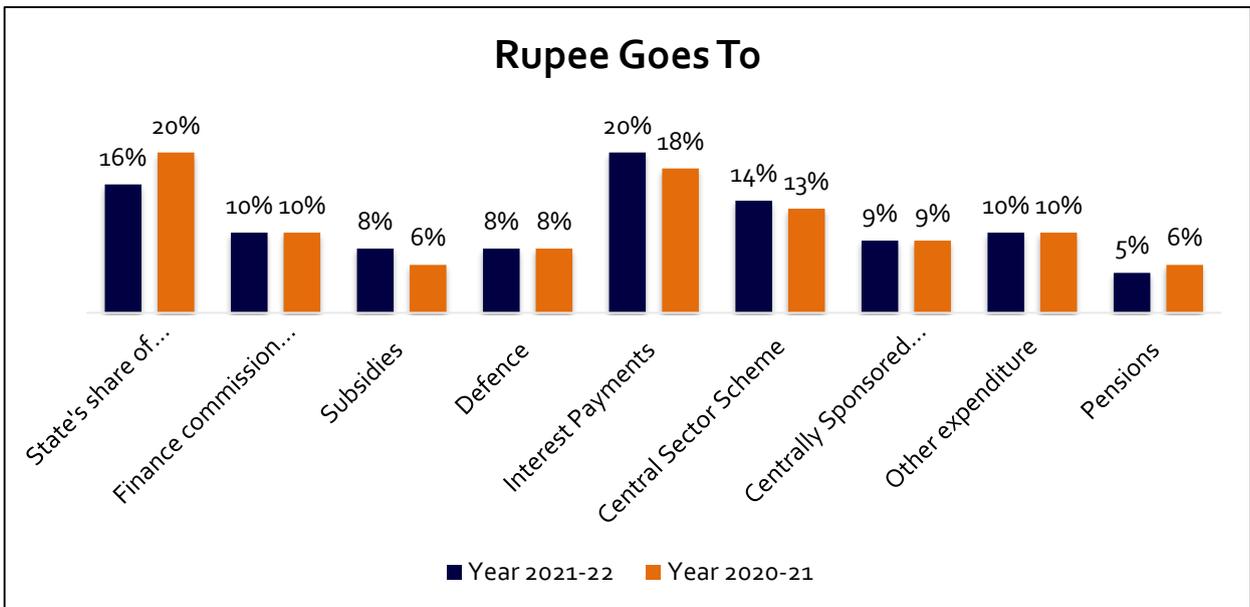
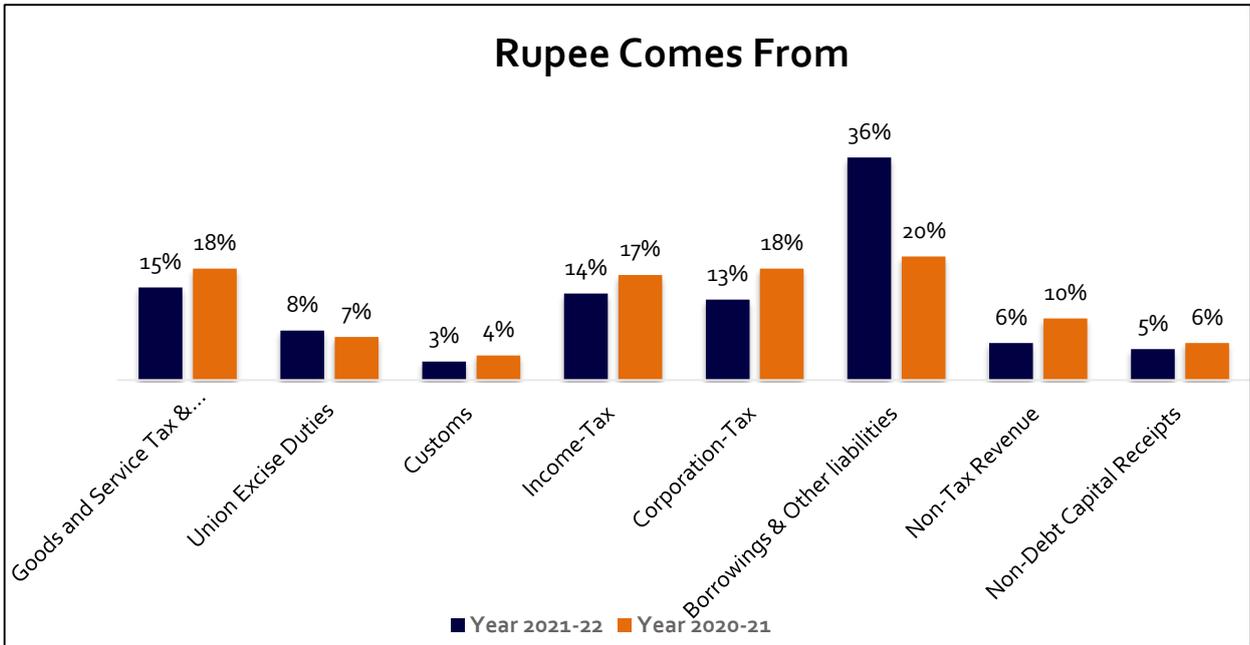
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# Budget Allocation and Fiscal Summary 2021-22

*"Today's budget shows India's confidence and will instill self-confidence in the world. The budget has the vision of self-reliance and features every section of the society. The budget focuses on increasing farmers' income, Farmers will be able to get loans easily, and provisions have been made to strengthen APMC markets with the help of Agriculture Infrastructure Fund (AIF)"*

*~ Hon'ble Prime Minister, Shri Narendra Modi*



# Budget Theme and Allocation 2021-22

*“The Union Budget 2021 had raised a lot of expectations and Finance Minister Nirmala Sitharaman has "fulfilled" them”*

*~ Rajiv Kumar, Vice-Chairman – Niti Aayog,*

## Six Prominent Pillars of Budget

Hon'ble Finance Minister (FM) has listed Six(6) pillars of the Union Budget :

1. Health and Wellbeing;
2. Physical and Financial Capital and Infrastructure;
3. Inclusive Development for Aspirational India;
4. Reinvigorating Human Capital;
5. Innovation and R&D;
6. Minimum Government, Maximum Governance

### 1. Health and Wellbeing

Budget Outlay of INR 2,23,846 Crores in BE 2021-22 (PY: INR 94,452 Crores).

#### A. Health Systems

- Budget Allocation of INR 64,180 crores has been made over 6 years period under PM AtmaNirbhar Swasth Bharat Yojana, to develop capacities of primary, secondary, and tertiary care Health Systems, strengthen existing national institutions, and create new institutions;
- The main intervention under this scheme are:
  - Support for 17,788 rural and 11,024 urban Health and Wellness Centers;
  - Setting up integrated public health labs in all districts and 3382 block public health units in 11 states;
  - Establishing critical care hospital blocks in 602 districts and 12 central institutions;
  - Strengthening of the National Centre for Disease Control (NCDC), its 5 regional branches and 20 metropolitan health surveillance units;
  - Expansion of the Integrated Health Information Portal to all States/UTs to connect all public health labs;
  - Operationalisation of 17 new Public Health Units and strengthening of 33 existing Public Health Units at Points of Entry, that is at 32 Airports, 11 Seaports and 7 land crossings;
  - Setting up of 15 Health Emergency Operation Centers and 2 mobile hospitals; and

- Setting up of a national institution for One Health, a Regional Research Platform for WHO South East Asia Region, 9 Bio-Safety Level III laboratories and 4 regional National Institutes for Virology.

*"Great Budget 2021 announcements, Nirmala Sitharaman ji, especially on healthcare and vaccines; this is the best investment any country can make. A healthier India is a more productive India"*

*~Adar Poonawala, CEO – Serum Institute of India*

#### B. Nutrition

Merging of Supplementary Nutritional Programme and Poshan Abhiyan into Launch of Mission Poshan 2.0 to intensify strategy to improve nutritional outcome across 112 Aspirational Districts.

#### C. Universal Coverage of Water Supply

Budget Allocation of INR 2,87,000 crores over 5 years for universal water supply in all 4,378 Urban Local Bodies with 2.86 crores household tap connections, as well as liquid waste management in 500 AMRUT cities, under Jal Jeevan Mission (Urban).

#### D. Swachh Bharat, Swasth Bharat

The Urban Swachh Bharat Mission 2.0 will be implemented with a total financial allocation of INR 1,41,678 crores over a period of 5 years from 2021-2026.

#### E. Clean Air

INR 2,217 crores has been budgeted for 42 Urban Centres with amillion plus population to tackle the problem of Air Pollution.

#### F. Scrapping Policy

- Voluntary Vehicle Policy announced to phase out old and unfit vehicles;
- Vehicles would undergo fitness tests in automated fitness centres after 20 years in case of personal vehicles, and after 15 years in case of commercial vehicles, more details to follow.

#### G. Vaccines

Budget of INR 35,000 Crore for COVID-19 Vaccine in BE 2021-22.

## 2. Physical and Financial Capital and Infrastructure

### A. AtmaNirbhar Bharat – Production Linked Incentive scheme (PLI)

Budget Allocation of INR 1.97 Lakh Crore over 5 years for 13 sectors starting FY 2021-22, to help bring size and scale in key sectors and create jobs.

### B. Textiles

- Launch of Mega Investment Textiles Parks (MITRA) in addition to the PLI scheme;
- 7 Textile Parks to be established over three years.

### C. Infrastructure

- National Infrastructure Pipeline (NIP) which was announced in December 2019, with 6835 projects is now expanded to 7400 projects;
- 210 projects worth INR 1.10 Lakh Crore under various Infrastructure Ministries have been completed;
- NIP requires major funding from both Government and Financial Sector, this is proposed to be fulfilled by:
  - Creating Institutional Structures;
  - Push towards Monetizing Assets;
  - Increasing capital expenditure in central and state budgets;

### D. Infrastructure financing - Development Financial Institution (DFI)

- Allocation of INR 20,000 crores to set up professionally managed Development Finance Institution to act as a provider, enabler and catalyst for infrastructure financing;
- Aiming a lending portfolio of at least INR 5 lakh crores in three years time;
- Debt Financing of InVITs and REITs by Foreign Portfolio Investors to be enabled by making suitable amendments in the relevant legislations;

### E. Asset Monetization

- “National Monetization Pipeline” of potential brownfield infrastructure assets to be launched.
- Important measures in this direction are as under:
  - Five operational roads with an estimated enterprise value of INR 5,000 crores and

transmission assets of a value of INR 7,000 crores to be transferred to InVITs sponsored by NHA and PGCIL respectively to attract international and domestic investors;

- Railways to monetise Dedicated Freight Corridor assets for operations and maintenance, after commissioning;
- The next lot of Airports will be monetised for operations and management concession;
- Other core infrastructure assets that will be rolled out under the Asset Monetization Programme are:
  - NHA Operational Toll Roads
  - Transmission Assets of PGCIL
  - Oil and Gas Pipelines of GAIL
  - IOCL and HPCL
  - AAI Airports in Tier II and III cities
  - Other Railway Infrastructure Assets
  - Warehousing Assets of CPSEs such as Central Warehousing Corporation and NAFED among others and
  - Sports Stadiums

### F. Sharp Increase in Capital Budget

- Budget Allocation of INR 5.54 Lakh Crores for Capital Expenditure (PY: INR 4.12 Lakh Crore, RE: 4.39 Lakh Crore);
- INR 44,000 Crore out of Budget Allocation kept aside for Department of Economic Affairs for various projects;
- INR 2 lakh crores to be provided to States and Autonomous Bodies for their Capital Expenditure, apart from above expenditure.

*“The focus of the Budget is on the expenditure side rather than the tax part and this in turn will have a multiplier effect on creating more jobs – be it in healthcare, infrastructure, or others. The increase in capital expenditure to INR 5.5 lakh crore means more impetus for new projects which will lead to more job creation across sectors over a period of time”*

*~Madan Sabnavis, chief economist – Care Ratings*

### **G. Roads and Highways Infrastructure**

- Budget Allocation of INR 1,18,101 crores for Ministry of Road Transport and Highways, of which INR 1,08,230 crores is for capital, the highest ever.
- More than 13,000 kms length of roads, at a cost of INR 3.3 lakh crores, awarded under the INR 5.35 lakh crores Bharatmala Pariyojana project of which 3,800 kms have been constructed;
- Another 8,500 kms to be awarded by March 2022 and complete an additional 11,000 kms of national highway corridors;
- Other economic corridors being planned are:
  - 3,500 kms of National Highway works in the state of Tamil Nadu at an investment of INR 1.03 lakh crores;
  - 1,100 km of National Highway works in the State of Kerala at an investment of INR 65,000 crores;
  - 675 km of highway works in the state of West Bengal at a cost of INR 25,000 crores;
  - National Highway works of around INR 19,000 crores are currently in progress in the State of Assam. Further works of more than INR 34,000 crores covering more than 1300 kms of National Highways will be undertaken in the State in the coming three years.

### **H. Railway Infrastructure**

- Budget Allocation of INR 1,10,055 crores, for Railways of which INR 1,07,100 crores is for capital expenditure;
- National Rail Plan for India – 2030 prepared to create future ready Railway System;
- Western Dedicated Freight Corridor (DFC) and Eastern DFC to be commissioned under PPP model by June 2022 to bring down logistics costs;
- 100% electrification of Broad-Gauge routes to be completed by December, 2023.

### **I. Urban Infrastructure**

- Budget Allocation of INR 18,000 crores to support augmentation of public bus transport services under PPP model in order to enable private sector players to finance, acquire, operate and maintain over 20,000 buses;

- 1,016 kms of metro and RRTS is under construction in 27 cities;
- Two new technologies, 'MetroLite' and 'MetroNeo' to be deployed at lesser costs in Tier-2 cities and peripheral areas of Tier-1 cities;
- Central counterpart funding to be provided to:
  - Kochi Metro Railway Phase-II of 11.5 km at a cost of INR 1,957.05 crores;
  - Chennai Metro Railway Phase-II of 118.9 km at a cost of INR 63,246 crores;
  - Bengaluru Metro Railway Project Phase 2A and 2B of 58.19 km at a cost of INR 14,788 crores;
  - Nagpur Metro Rail Project Phase-II and Nashik Metro at a cost of INR 5,976 crores and INR 2,092 crores respectively;

### **J. Power Infrastructure**

- 139 Giga Watts of installed capacity added to connect an additional 2.8 crores households and added 1.41 lakh circuit kms of transmission lines;
- Framework will be put in place to give consumers alternatives to chose from more than one Distribution Company;
- Budget Allocation of INR 3,05,984 crores over 5 years to provide assistance to DISCOMS for Infrastructure creation including pre-paid smart metering and feeder separation, upgradation of systems, etc., tied to financial improvements;
- Proposal to launch a Hydrogen Energy Mission in 2021-22 for generating hydrogen from green power sources.

### **K. Ports, Shipping, Waterways**

- 7 Projects worth more than INR 2,000 crore to be offered by major ports in FY21-22, under PPP model;
- Budget Allocation of INR 1,624 crore over 5 years to provide subsidy support to Indian Shipping Companies to promote flagging of merchant ships in India;
- Recycling capacity of around 4.5 million Light Displacement Tonne (LDT) to be doubled by 2024, to generate an additional 1.5 lakh jobs for youth.

#### L. Petroleum & Natural Gas

- Ujjwala Scheme to be extended to cover additional 1 crores beneficiaries;
- 100 more districts to be added in next 3 years to the City Gas Distribution network;
- Gas pipeline project will be taken up in Union Territory of Jammu & Kashmir;
- Independent Gas Transport System Operator to be set up for facilitation and coordination of booking of common carrier capacity in all-natural gas pipelines on a non-discriminatory open access basis.

#### M. Financial Capital

- Proposal to consolidate the provisions of SEBI Act, 1992, Depositories Act, 1996, Securities Contracts (Regulation) Act, 1956 and Government Securities Act, 2007 into one rationalized single Securities Markets Code;
- Government to support the development of a world class Fin-Tech hub at the GIFT-IFSC;
- Proposal to create a permanent institutional framework, to provide liquidity in secondary market by purchase of investment grade debt securities both in stressed and normal times and to help in the development of the Bond market;
- SEBI to be notified as the regulator and Warehousing Development and Regulatory Authority to be strengthened to set up a Commodity Market eco system arrangement including vaulting, assaying, logistics etc in addition to warehousing, in order to establish a regulated gold exchange;
- Proposal to introduce an investor charter as a right of all financial investors across all financial products;
- Capital infusion of INR 1,000 crores to Solar Energy Corporation of India and of INR 1,500 crores to Indian Renewable Energy Development Agency.

#### N. Increasing FDI in Insurance Sector

- Proposal to amend the Insurance Act, 1938 to increase the permissible FDI limit from 49% to 74% in Insurance Companies;
- Majority of Directors on the Board and key management persons to be resident Indians, with at least 50% of Directors being

Independent, and specified percentage of profits being retained as general reserve.

#### O. Stressed Asset Resolution by setting up a New Structure

- High level of stressed assets' provisioning by public sector banks calls for measures to clean up the bank books;
- An Asset Reconstruction Company to be set up to consolidate and take over the existing stressed debt and then manage and dispose of the assets to Alternate Investment Funds and other potential investors for eventual value realization.

#### P. Recapitalization of PSBs

Proposal for further recapitalization of PSBs by INR 20,000 Crore.

#### Q. Deposit Insurance

- Proposal to move Deposit Insurance Cover to DICGC Act, 1961 to streamline the provisions, so that if a bank is temporarily unable to fulfil its obligations, the depositors of such a bank can get easy and time-bound access to their deposits to the extent of the deposit insurance cover;
- Minimum loan size eligible for debt recovery under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 is proposed to be reduced from the existing level of INR 50 lakhs to INR 20 lakh, for NBFC with minimum asset size of INR 100 crores.

*“The insurance sector has attained great importance in the post-pandemic phase especially life and health. Therefore, the government's move to raise the FDI cap for the insurance sector from 49% to 74% allowing foreign ownership in insurance with safeguards was indeed a much-required step. We appreciate the government's concerted efforts towards cementing India as a preferred investment destination globally.”*

*~Vishal Yadav, CEO – FDI India*

## R. Company Matters

- Proposal for decriminalization of the Limited Liability Partnership (LLP) Act, 2008;
- Proposal to revise the definition under the Companies Act, 2013 for Small Companies by increasing their thresholds for Paid up capital from “not exceeding INR 50 Lakh” to “not exceeding INR 2 Crore” and turnover from “not exceeding INR 2 Crore” to “not exceeding INR 20 Crore”;
- Proposal to allow One Person Companies (OPC) to grow without any restrictions on paid up capital and turnover, allowing their conversion into any other type of company at any time;
- Residency limit for an Indian citizen to set up an OPC to be reduced from 182 days to 120 days and Non Resident Indians (NRIs) to be allowed to incorporate OPCs in India;
- NCLT framework to be strengthened, e-Courts system to be implemented and alternate methods of debt resolution and special framework for MSMEs to be introduced for faster resolution of cases;
- Data analytics, artificial intelligence, machine learning driven MCA21 Version 3.0 to be launched, with additional modules for e-scrutiny, e-Adjudication, e-Consultation and Compliance Management

## S. Disinvestment and Strategic Sale

- A number of transactions namely BPCL, Air India, Shipping Corporation of India, Container Corporation of India, IDBI Bank, BEML, Pawan Hans, Neelachal Ispat Nigam limited among others would be completed in 2021-22. Other than IDBI Bank, two other Public Sector Banks and one General Insurance have been proposed for privatization in year 2021-22
- IPO of LIC would also be scheduled in 2021-22
- Incentive Package of Central Funds for states will be introduced for disinvestment of their Public Sector Companies.
- Idle assets will not contribute to AtmaNirbhar Bharat. Non-core assets largely consist of surplus land with government Ministries/Departments and Public Sector Enterprises. Monetizing of land can either be by way of direct sale or concession or by similar means, for this a proposal has been made to use Special Purpose Vehicle in the form

of a company that would carry out this activity;

- Revised Mechanism will be introduced to ensure timely closure of such units;
- Estimation of INR 1,75,000 crore as receipts from disinvestment in BE 2021-22.

## T. Government Financial Reform

- System autonomous bodies can directly draw funds from the Government’s account at the time of actual expenditure, saving interest costs under Treasury Single Account (TSA) TSA System will be extended for universal application from 2021-22.
- Detailed exercise to rationalize and bring down the number of Centrally Sponsored Schemes on recommendation of fifteenth Finance Commission.
- To streamline the Ease of Doing Business’ for Cooperatives, proposal has been made to set up a separate Administrative Structure for them.

## 3. Inclusive Development for Aspirational India

### A. Agriculture

- MSP regime to be changed to assure price at least 1.5 times the cost of production across all commodities;
- Increment in the number of wheat growing farmers that were benefitted in 2020-21 to 43.36 lakhs as compared to 35.57 lakhs in 2019-20;
- Under SWAMITVA Scheme, 1.80 lakh property-owners in 1,241 villages received records of rights;
- Budget allocation for Rural Infrastructure Development Fund is INR 40,000 crores (PY INR 30,000 crores) and for Micro Irrigation Fund is INR 10,000 crores (PY INR 5000 crores);
- 1.68 crore farmers registered and INR 1.14 lakh crores of trade value done through e-NAMs;
- Agriculture Infrastructure Fund available to APMCs for infrastructure facilities.

**B. Fisheries**

- Proposal to develop modern fishing harbours and fish landing centres in Kochi, Chennai, Visakhapatnam, Paradip, and Petuaghat
- Proposal to establish Multipurpose Seaweed Park in Tamil Nadu to promote seaweed cultivation.

**C. Migrant Workers and Labourers**

- Launched “One Nation One Ration Card”- 69 crores beneficiaries, total of 86% beneficiaries covered;
- Proposal to launch portal to collect information on gig, building, and construction-workers to formulate Health, Housing, Skill, Insurance, Credit, and food schemes for migrant workers;
- Social security benefits extend to gig and platform workers. Minimum wages apply to all categories of workers and covered by the Employees State Insurance Corporation;
- Women to be allowed to work in all categories and also in the night-shifts with adequate protection.

**D. Financial Inclusion**

- Proposal to reduce margin money requirement from 25% to 15%, and to include loans for activities allied to agriculture under the scheme of Stand Up India for SCs, STs, and women;
- Allocation of INR 15,700 crores to MSME sector.

**4. Reinvigorating Human Capital****A. School Education**

- More than 15,000 schools will be qualitatively strengthened to include all components of National Educational Policy (NEP);
- Setting up 100 Sainik schools in partnership with NGO's/Private schools/states.

**B. Higher Education**

- Introducing an umbrella Body with 4 separate vehicles of standard-setting, accreditation, regulation, and funding for setting up Higher Education Commission of India;
- Setting up of a Central University in Ladakh.

**C. Scheduled Castes and Scheduled Tribes Welfare**

- Target of establishing 750 Eklavya model residential schools in tribal areas;
- Proposal to increase unit cost of each such school from INR 20 crore to INR 38 crores & INR 48 crores for hilly and difficult areas, which will help in creating robust infrastructure;
- Budget Allocation of INR 35,219 crores has been planned for 6 years till 2025-26 for benefit of 4 crores SC students under Post Matric Scholarship Scheme.

**D. Skilling**

- Budget Allocation of INR 3,000 crores will be provided for realignment of existing scheme of National Apprenticeship Training Scheme(NATS) for providing post-education apprenticeship, training of graduates and diploma holders in Engineering;
- Partnership with the United Arab Emirates (UAE), for an initiative to benchmark skill qualifications, assessment, and certification, accompanied by the deployment of certified workforce is underway and also a collaborative Training Inter Training Programme (TITP) between India and Japan for facilitating transfer of Japanese industrial and vocational skills, technique, and knowledge have been set-up.

**5. Innovation and R&D**

- Outlay of INR 50,000 crores, over 5 years for National Research Foundation scheme to ensure overall research ecosystem of country is strengthened to focus on National – priority thrust areas;
- INR 1,500 crores have been provided as financial incentive to boost digital transactions;
- The New Space India Limited (NSIL), will execute the PSLV-CS51 launch, carrying the Amazonia Satellite from Brazil, along with a few smaller Indian satellites;
- Four Indian astronauts are being trained under Gaganyaan mission activities on Generic Space Flight aspects, in Russia. The first unmanned launch is slated for December 2021;
- A Deep Ocean Mission with a budget outlay of more than INR 4,000 crores, over five years to cover deep ocean survey exploration and projects for the conservation of deep sea biodiversity.

## 6. Minimum Government, Maximum Governance

- Introduction of National Commission for Allied Healthcare Professionals Bill in Parliament, with a view to ensure transparent and efficient regulation of the 56 allied healthcare professions;
- Proposal to set up a Conciliation Mechanism and mandate its use for quick resolution of contractual disputes;
- Budget Allocation of INR 3,768 crores for forthcoming first digital census in the history of India;
- Proposal of grant of INR 300 crores to the Government of Goa for celebrations of the diamond jubilee year of state's liberation from Portuguese rule;
- Proposal to provide INR 1,000 crores for welfare of Tea workers especially women and their children in Assam and West Bengal.

### A. Fiscal Position

- RE estimates are INR 34.50 lakh crores against an original BE expenditure of INR 30.42 lakh crores for 2020-2021, due to series of medium-sized packages during the pandemic;
- Capital expenditure, estimated in RE is INR 4.39 lakh crores in 2020-2021 as against INR 4.12 lakh crores in BE 2020-21;
- The fiscal deficit in RE 2020-21 is pegged at 9.5% of GDP. This deficit has been funded through Government borrowings, multilateral borrowings, Small Saving Funds and short term borrowings;
- Need to borrow another INR 80,000 crore for which markets would be approached in next 2 months;
- BE estimates for expenditure in 2021-2022, are INR 34.83 lakh crores which includes INR 5.54 lakh crores as capital expenditure. The fiscal deficit in BE 2021-2022 is estimated to be 6.8% of GDP. The gross borrowing from the market for the next year would be around INR 12 lakh crores. Intend to reach a fiscal deficit below 4.5% of GDP by 2025-2026. Contingency Fund of India is being proposed to be augmented from INR 500 crores to INR 30,000 crores;
- A normal ceiling of net borrowing for the states

at 4% of GSDP for the year 2021-2022 is allowed. Additional borrowing ceiling of 0.5% of GSDP will also be provided subject to conditions. States will be expected to reach a fiscal deficit of 3% of GSDP by 2023-24, as recommended by the 15th Finance Commission;

- Proposal to discontinue the NSSF Loan to FCI for Food Subsidy and accordingly;
- As per 15th Finance Commission report, covering the period 2021-2026, INR 1,18,452 crores as Revenue Deficit Grant to 17 states in 2021-2022, as against INR 74,340 crores to 14 States in 2020-2021.

*“In a time of unprecedented economic stress, the Govt's responsibility was to spend enough to revive the economy or else face enormous human suffering. So I had one expectation from this budget: that we should be very liberal in terms of the targeted fiscal deficit. Box ticked.”*

*~Anand Mahindra, Mahindra Group Chairman*

# Direct Taxation

*“The budget represents a silent and unheralded revolution in economic policy and fiscal thinking. The monumental task of redesigning India has begun. It affords a refreshing contrast to the series of historically retrograde, economically unprogressive and socially stagnant budgets that preceded it in a supreme ironic procession for so many years.”*

*~ Nani Palkhivala on Union Budget 1985-86 from The Wit & Wisdom of Nani A. Palkhivala by Jignesh Shah*

## Personal Taxation

### Tax Rate

There is no change in slab rate, surcharge and education cess. For details please refer Annexure A.

### Relaxation for certain category of senior citizen from filing return of income-tax:

It is proposed to insert a new section 194P in Income Tax Act, 1961 (Act) to provide a relaxation from filing the return of income to senior citizens resident of India aged 75 years or above, if the following conditions are satisfied:

- Such Senior Citizen has pension income and no other income except interest income from the same bank in which he is receiving his pension income;
- This bank is a specified bank as notified by the Government; and
- A declaration is furnished to the specified bank containing such particulars, in such form and verified in such manner, as may be prescribed

Once the declaration is furnished, the specified bank would be required to compute the income of such senior citizen after giving effect to the deduction allowable under Chapter VI-A and rebate allowable under section 87A of the Act, for the relevant AY and deduct income tax on the basis of rates in force. Once this is done, there will not be any requirement of furnishing return of income by such senior citizen for that AY.

This amendment is proposed to be effective from 01.04.2021

### Exemption for Leave Travel Concession (LTC) Cash Voucher Scheme

Considering the outbreak of Covid-19 pandemic and related lockdown, the Government on 12.10.2020 had introduced LTC Cash Voucher Scheme under which employees can purchase any goods or services in lieu of LTC with an objective to avail tax exemption u/s 10(5) of the Act subject to certain conditions.

In order to provide these benefits, it is proposed to insert second proviso in Section 10(5) of the Act providing that the value, received by or due to an individual, in lieu of any travel concession or assistance shall also be exempt subject to fulfilment of conditions which are proposed to be prescribed

in Income Tax Rules, 1962 (Rules) in due course. The conditions proposed to be prescribed in Rules shall inter-alia be as under:

- Employee exercises option for deemed LTC fare in lieu of applicable LTC in Block Year 2018-21;
- specified expenditure means expenditure incurred by an individual or his family member during the period starting from 12.10.2020 to 31.03.2021 on goods or services which are liable to tax at rate of 12% or above under GST law and goods are purchased or services procured from GST registered vendor(s)/service providers;
- Amount of exemption does not exceed Rs. 36,000 or 1/3rd of specified expenditure, whichever is lower;
- Payment to GST registered vendor(s)/service providers is made through banking channels or electronic modes as prescribed in Rule 6ABBA and tax invoice is obtained from them;
- The amount of exemption is limited to the extent of exemption available under the above mentioned provisions even if the value received by, or due to the individual is more than the exemption limit

It is further proposed to clarify that where an individual claims and is allowed exemption in respect of prescribed expenditure as per above mentioned provision, no exemption shall be allowed to any other individual in respect of such prescribed expenditure.

This amendment is proposed to be effective from A.Y. 2021-2022 onwards.

### Extension of date of sanction of loan for affordable residential house property

The provision of Section 80EEA of the Act provides for deduction in respect of interest on loan taken for a residential house property from any financial institution up to INR 150,000 for each AY subject to the condition that the loan has been sanctioned during the period 01.04.2019 to 31.03.2021. This provision allows deduction to the first time home buyers, in respect of interest on home loan for specified residential house property.

It is proposed to amend the provision of section 80EEA of the Act to extend the outer date for sanction of loan from 31.03.2021 to 31.03.2022.

This amendment is proposed to be effective from A.Y. 2022-23 onwards.

## Taxation of proceeds of high premium unit linked insurance policy (ULIP)

It is proposed to amend Section 10(10D) to provide that exemption under the subject section shall not be applicable to any ULIP issued on or after 1.02.2021, if the amount of premium payable for any previous year during the term of the policy exceeds INR 2.5 lakhs. Further, the subject exemption shall also not be available where premium is payable by a person w.r.t more than 1 ULIPs in excess of INR 2.5 lacs in aggregate.

Any profit or gains arising from receipt of any amount under ULIPs [which are not exempt u/s 10(10D)] including amount allocated by way of bonus on such policy shall be chargeable to tax as Capital Gains as per newly inserted section 45(1B) and the rate of tax shall be governed by section 111A/112A.

This amendment is proposed to be effective from AY 2021-22 onwards.

Consequential amendment proposed in Finance (No 2) Act, 2004 to make security transaction tax applicable on maturity or partial withdrawal with respect of such taxable unit linked insurance policy w.e.f 01.02.2021

*“While many thought the government will put the tax burden on the common man, "we focused on a transparent budget”*

*~Hon’ble Prime Minister, Shri Narendra Modi*

## Corporate Taxation

### Tax Rate

There is no change in corporate tax rate, surcharge and education cess. For details please refer Annexure A.

### No Depreciation on Goodwill

Amendments are proposed in section 2(11) and 32(1)(ii) to inter alia provide that goodwill of a business or profession shall not be considered as a depreciable asset and accordingly no depreciation will be allowable on goodwill of a business or profession in any situation.

It is proposed u/s 50 that where goodwill of a business or profession formed part of a block of asset for the assessment year beginning on the 1.04.2020 and depreciation has been obtained by the assessee under the Act, the written down value of that block of asset and short term capital gain, if any, shall be determined in the manner as may be prescribed.

Further, changes are proposed in section 55 to provide that depreciation already claimed on acquired goodwill will be reduced from the cost of acquisition of such goodwill which will result in a reduction of the cost and consequent increase or decrease in future capital gains or losses respectively.

These amendments are proposed to be effective from AY 2021-22 onwards.

### Rationalization of provisions of Slump Sale to include Slump Exchange:

There were litigations concerning slump sale whether it includes only a ‘sale’ for monetary consideration or also other forms of ‘transfer’ – such as an exchange of the business undertaking for other assets such as shares of the purchaser entity. To put such litigation to rest, it is proposed to amend the scope of the definition of the term ‘slump sale’ u/s 2(42C) so that all types of ‘transfer’ as defined u/s 2(47) (including exchange) are covered within its scope.

This amendment is proposed to be effective from AY 2021-22 onwards.

### **Incentives for Affordable Housing and Affordable Rental Housing:**

Section 80IBA of the Act provides deduction of 100% of profits and gains derived by the assessee from business of developing and building affordable housing project where the project is approved by competent authority before 31.03.2021. It is now proposed to extend the said time limit of approval from 31.03.2021 to 31.03.2022.

It is further proposed to allow 100% deduction of profits and gains derived by assessee from business of developing and building rental housing projects to be notified by the Government on or before 31.03.2022 which fulfils such conditions as maybe specified in such notification.

This amendment is proposed to be effective from A.Y. 2022-23 onwards.

### **Extension of date of incorporation for eligible start up for exemption and for investment in eligible start-up:**

In order to help eligible start-up and investment into it, it is proposed:

- To amend the provisions of section 80-IAC of the Act to extend the outer date of incorporation from 31.03.2021 to 31.03.2022; and
- To amend the provisions of section 54GB of the Act to extend the outer date of transfer of residential property from 31.03.2021 to 31.03.2022.

These amendments are proposed to be effective from 01.04.2021.

### **Issuance of zero coupon bond by infrastructure debt fund**

In order to enable infrastructure debt fund notified by Government under clause (47) of section 10 of the Act to issue zero coupon bonds as defined in Section 2(48) of the Act, necessary enabling amendments are proposed in clause (48) of section 2 of the Act. Further, it is proposed that Rules 2F and 8B of Rules shall be amendment subsequently.

These amendments are proposed to be effective from A.Y. 2022-23 onwards.

Consequential amendment to this effect has also been proposed in section 194A(3)(x) which provides of exemption of TDS on interest on Zero Coupon bonds which will take effect from

1.04.2021.

### **Tax neutral conversion of Primary Cooperative Bank/ Urban Cooperative Bank into Banking Company**

The Reserve Bank of India (RBI) has permitted voluntary transition of primary cooperative bank or urban co-operative banks (UCB) into a banking company by way of transfer of Assets and Liabilities vide Circular reference no. DCBR.CO.LS.PCB. Cir.No.5/07.01.000/2018-19 dated September 27, 2018.

Accordingly, it is proposed to expand the scope of business reorganization and deduction u/s 44DB of the Act to include conversion of a primary co-operative bank to a banking company.

It is also proposed that transfer of a capital asset by the primary co-operative bank to the banking company as a result of conversion and consequential allotment of shares of the converted banking company to the shareholders of the predecessor primary co-operative bank shall not be treated as transfer u/s 47 of the Act.

Necessary amendments to this effect have been proposed in section 44DB and in clause (vica) and clause (vicb) of section 47 of the Act.

These amendments are proposed to be effective from A.Y. 2021-22 onwards.

### **Facilitating strategic disinvestment of public sector companies:**

In order to facilitate strategic disinvestment of public sector companies by the Government, following amendments are proposed:

- **Definition of “Demerger” u/s 2(19AA) –** Explanation 6 is proposed to be inserted to clarify that the reconstruction or splitting up of a public sector company into separate companies shall be deemed to be a demerger, if:
  - such reconstruction or splitting up has been made to transfer any asset of the demerged company to the resultant company; and
  - the resulting company is a public sector company on the appointed date and fulfils such other conditions as may be notified by the Central Government in the Official Gazette.

- Amendment in section 72A relating to C/f and set off of loss/Depreciation in Amalgamation & Demerger -
  - Clause (c) to subsection (1) is proposed to be substituted to provide that the provisions of subsection (1) of section 72A shall also apply in case of amalgamation of *“one or more public sector company or companies with one or more public sector company or companies”*. Erstwhile clause (c) was referring to amalgamation of public sector companies engaged in business of operation of aircraft only.
  - Clause (d) to subsection (1) is proposed to be inserted to provide that the provision of sub-section (1) of section 72A shall also apply in case of amalgamation of *“an erstwhile public sector company with one or more company or companies, if the share purchase agreement entered into under strategic disinvestment restricted immediate amalgamation of the said public sector company; and the amalgamation is carried out within 5 years from the end of the previous year in which the restriction on amalgamation in the share purchase agreement ends.”*
  - to insert a proviso to sub-section (1) to provide that the accumulated loss and the unabsorbed depreciation of the amalgamating company, in case of an amalgamation referred to in clause (d), which is deemed to be loss or, as the case may be, allowance for unabsorbed depreciation of the amalgamated company shall not be more than the accumulated loss and unabsorbed depreciation of the public sector company as on the date on which the public sector company ceases to be a public sector company as a result of strategic disinvestment.

Further, explanation has been inserted defining “Control”, Erstwhile Public sector company” and “Strategic disinvestment”.

These amendments are proposed to be effective from A.Y. 2021-22 onwards.

## **Delay in payment of employee’s contribution to various funds to be disallowed**

There were litigations on the issue whether delayed payment of employee’s contribution of Provident Fund, ESI etc beyond the due date prescribed in such statutes but paid before the due date of furnishing income tax return by employer is an allowable expense u/s 43B of the Act or not.

Accordingly, in order to provide certainty and to reduce litigation, it is proposed to –

- Amend clause (va) of sub-section (1) of section 36 of the Act by inserting another explanation to the said clause to clarify that the provision of section 43B does not apply and deemed to never have been applied for the purposes of determining the due date under this clause; and
- Amend section 43B of the Act by inserting Explanation 5 to the said section to clarify that the provisions of the said section do not apply and deemed to never have been applied to a sum received by the assessee from any of his employees to which provisions of sub-clause (x) of clause (24) of section 2 applies.

Accordingly, delayed payment of employee’s contribution to various funds beyond due date prescribed in respective statutes shall not be allowed as expense u/s 43B.

These amendments are proposed to be effective from AY 2021-22 onwards

*“While many thought the government will put the tax burden on the common man, we focused on a transparent budget”*

*~Hon’ble Prime Minister, Shri Narendra Modi*

## International Tax

### Rationalisation of provisions related to Sovereign Wealth Fund (SWF) and Pension Fund (PF)

Section 10(23FE) provides for the exemption from tax to SWF and PF on the income in the nature of dividend, interest or long-term capital gains arising from an investment made by it in India subject to fulfillment of certain conditions. In order to rationalise the provision of this clause, the followings relaxations are proposed subject to certain conditions:

- Allowing Alternate Investment Fund (AIF) to invest up to 50% in non-eligible investments:
- Investment through holding company allowed
- Investment in NBFC- IDF/IFC (non-banking finance company-infrastructure debt fund/Infrastructure finance company) allowed
- Loan or borrowings by SWF/Pension Fund allowed
- Commercial activity allowed
- Pension fund (PF) shall also be eligible if such PF is liable to tax but exemption from taxation for all its income has been provided by the foreign country under whose laws it is created or established

These amendments are proposed to be effective from AY 2021-22 onwards.

### Addressing mismatch in taxation of income from notified overseas retirement fund

In order to address the issue of mismatch in the year of taxability of withdrawal from retirement funds by residents who had opened such fund when they were non-resident in India and resident in foreign countries, it is proposed to insert a new section 89A to the Act to provide that the income of a specified person from specified account shall be taxed in the manner and in the year as prescribed by the Central Government.

It is also proposed to define specified person, as a person resident in India who opened a specified account in a notified country (being a country notified by the Government for the purposes of this Section) while being non-resident in India and resident in that country.

Specified account is proposed to be defined as an

account maintained in a notified country which is maintained for retirement benefits and the income from such account is not taxable on accrual basis and is taxed by such country at the time of withdrawal or redemption.

This amendment is proposed to be effective from AY 2022-23 onwards.

### Rationalisation of the provision concerning withholding on payment made to Foreign Institutional Investors (FIIs)

With a view to provide benefit of rates specified under Double Taxation Avoidance Agreements to tax deductions on payments to FIIs u/s 196D, it is proposed to insert a proviso to subsection (1) of section 196D of the Act to provide that in case of a payee to whom an agreement referred to in sub-section (1) of section 90 or sub-section (1) of section 90A applies and such payee has furnished the tax residency certificate referred to in sub-section(s) therein, then the tax shall be deducted at the rate of 20% or rate or rates of income-tax provided in such agreement for such income, whichever is lower.

This amendment is proposed to be effective from 01.04.2021.

### Exemption of deduction of tax at source on payment of Dividend to business trust in whose hand dividend is exempt

Section 194 of the Act provides for deduction of tax at source (TDS) on payment of dividends to a resident. The second proviso to this section provides that the provisions of this section shall not apply to such income credited or paid to certain insurance companies or insurers. It is proposed to amend second proviso to section 194 of the Act to further provide that the provisions of this section shall also not apply to such income credited or paid to a business trust by a special purpose vehicle or payment of dividend to any other person as may be notified.

This amendment is proposed to take effect retrospectively from 1.04.2020.

## Rationalization of provisions of Minimum Alternate Tax (MAT)

It is proposed that MAT shall not be applicable on the past year's income which is included in the current year's books of account on account of an Advance Pricing Agreement (APA) or a secondary adjustment. The Assessing Officer shall, based on an application made to him in this behalf by the tax payer, recompute the book profit of the past year(s) and tax payable, if any, during the previous year, in the prescribed manner. Rectification provision of section 154(7) shall be reckoned from the end of the financial year in which the said application is received by the AO.

It is also proposed that (MAT) exemption shall be applicable to foreign companies in respect of dividend income if applicable tax rate under DTAA is less than MAT rate

This amendment shall be applicable from AY 2021-22 onwards.

## Tax incentives for units located in International Financial Services Centre (IFSC) – International Tax

It is proposed to provide the following additional incentives:

- Amend Section 9A to provide that the Government may specify that one or more conditions as specified in clauses(a) to (m) of sub-section (3) or clauses (a) to (d) of sub-section (4) of Section 9A of the Act shall not apply (or apply with modification) to an eligible investment fund or its eligible fund manager, if the fund manager is located in an IFSC and has commenced operations on or before the 31.03.2024.
- Amend Section 10(4D) so as to provide that exemption thereunder shall also be available in case of any income accrued or arisen to, or received to the investment division of offshore banking unit (OBU) to the extent attributable to it and computed in prescribed manner.
- Amend definition of specified fund to include investment division of OBU which has been granted a Category III AIF registration and fulfils such other conditions as maybe prescribed. The investment division of OBU is proposed to be defined as an investment division of a banking unit of a non-resident located in an IFSC and which has commenced operation on or before the 31.03.2024.

- Insert Section 10(4E) so as to exempt any income accrued or arisen to, or received by a non-resident as a result of transfer of non-deliverable forward contracts entered into with an OBU of IFSC which commenced operations on or before the 31.03.2024 and fulfils prescribed conditions.
- Insert Section 10(4F) so as to exempt any income of a non-resident by way of royalty on account of lease of an aircraft in a previous year paid by a unit of an IFSC, if the unit is eligible for deduction under section 80LA of the Act for that previous year and has commenced operation on or before the 31.03.2024.
- Insert Section 10(23FF) so as to exempt any income of the nature of capital gains, arising or received by a non-resident, which is on account of transfer of share of a company resident in India by the resultant fund and such shares were transferred from the original fund to the resultant fund in relocation, if capital gains on such shares were not chargeable to tax had that relocation not taken place.
- Amend section 47 of the Act to insert new clauses in the said section so as to provide that any transfer, in relocation, of a capital asset by the original fund to the resultant fund shall not be considered as transfer for capital gain tax purpose.
- Provide that any transfer by a shareholder or unit holder or interest holder, in a relocation, of a capital asset being a share or unit or interest held by him in the original fund in consideration for the share or unit or interest in the resultant fund shall not be treated as transfer for the purpose of capital gains.
- Consequential amendments shall be proposed in section 49, 56 and 79 of the Act on account of such relocation.

For the purposes of above, "Original Fund" is proposed to be defined as a fund established outside India, which collects funds from its members for investing it for their benefit and fulfils the following conditions namely:

- The fund is not a person resident in India;
- The fund is a resident of a country with which India has a tax treaty or is established in a country or a specified territory as may be notified by the Central Government in this behalf;

- The fund and its activities are subject to applicable investor protection regulations in the home country where it is established or is a resident; and
- Fulfils such other conditions as prescribed;

“Relocation” is proposed to be defined as transfer of assets of the original fund to a resultant fund on or before the 31.03.2023, where consideration for such transfer is discharged in the form of share or unit or interest in the resulting fund to the shareholder or unit holder or interest holder of the original fund in the same proportion in which the share or unit or interest was held by such shareholder or unit holder or interest holder in such original fund.

“Resultant fund” is proposed to be defined as a fund established or incorporated in India in the form of a trust or a company or a limited liability partnership, which:

- Has been granted a certificate of registration as a Category I or Category II or Category III Alternative Investment Fund, and is regulated under the Securities and Exchange Board of India (Alternative Investment Fund) Regulations, 2012, made under the Securities and exchange Board of India Act, 1992; and
- Is located in any International Financial Services Centre as referred to in sub-section (1A) of section 80LA.

It is also proposed to amend the section 80LA of the Act to:

- provide that deduction under said section is also available to a unit of IFSC if it is registered under the International Financial Services Centre Authority Act, 2019 and thereby removing the earlier requirement of obtaining permission under any other relevant law.
- provide that the income arising from transfer of an asset, being an aircraft or aircraft engine which was leased by a unit referred to in clause (c) of sub-section (2) of said section to a domestic company engaged in the business of operation of aircraft before such transfer shall also be eligible for 100% deduction subject to condition that the unit has commenced operation on or before 31.03.2024.
- to provide that in case the unit is registered under the International Financial Services Centre Authority Act, 2019 then the copy of permission shall mean a copy of the registration obtained

under the International Financial Services Centre Authority Act, 2019.

It is further proposed to amend section 115AD of the Act to make the provision of this section applicable to investment division of an offshore banking unit in the same manner as it applies to specified fund. However, the provisions of this section shall apply to the extent of income that is attributable to the investment division of such banking unit as a Category-III portfolio investor under the Securities and exchange Board of India (Foreign Portfolio investors) Regulations, 2019 made under the Securities and Exchange Board of India Act, 1992 (15 of 1992), calculated in the prescribed manner.

These amendments are proposed to be effective from A.Y. 2022-23

*“The reform measures announced in the budget 2021-22 are aimed at taking India out of the COVID-19 induced downturn and making the country a better destination for private investment, both for domestic and foreign investors”*

*~Rajiv Kumar, Vice Chairman – Niti Aayog*

## Rationalization & Simplification

### Rationalisation of provisions relating to Tax Audit in certain cases

- i. To reduce compliance burden on small and medium enterprises (SMEs), the Finance Act, 2020 had increased the threshold limit of total sales turnover or gross receipts in the business from INR 1 Crore to INR 5 crores for the applicability of Tax Audit Report (TAR) u/s 44AB provided following conditions are fulfilled:
  - a) Aggregate of cash receipts during the year does not exceed 5% of the total receipts; and
  - b) Aggregate of cash payments during the year does not exceed 5% of total payments
- ii. In order to incentivise non-cash transactions to promote digital economy and to further reduce compliance burden of SMEs, it is proposed to increase the aforesaid threshold from INR 5 crore to INR 10 crore.

This amendment is proposed to be effective from AY 2021-22 onwards

### Increase in Safe Harbour Limit for application of deemed income for home buyers and real estate developers from 10% to 20%

It is proposed to increase the safe harbour threshold from existing 10% to 20% under section 43CA of the Act, if the following conditions are satisfied:

- The transfer of residential unit takes place during the period from 12.11.2020 to 30.06.2021; and
- The transfer is by way of first time allotment of the residential unit to any person; and
- The consideration received or accruing as a result of such transfer does not exceed Rs. 2 crores.

Further it is proposed to provide the consequential relief to buyers of these residential units by way of amendment in clause (x) of sub-section (2) of section 56 of the Act by increasing the safe harbour from 10% to 20% in such cases.

These amendments are proposed to be effective from A.Y. 2021-22 onwards.

### Rationalisation of Advance tax payment on Dividend Income:

- Sec 234C of the Act provides for payment of interest by a taxpayer who does not pay or fails to pay advance tax instalments on time as per section 208 of the Act. The First proviso to section 234C(1) provides for relaxation in certain cases to save the taxpayers from payment of interest u/s 234C of the Act in cases where accurate determination of advance tax liability is not possible due to the intrinsic nature of the income.
- It is proposed to include dividend income [other than deemed dividend u/s 2(22)(e)] in the list of exclusions. Hence the liability to pay advance tax would arise only after the dividend has been declared/ paid.

This amendment is proposed to be effective from AY 2021-22 onwards.

### Rationalisation of the provisions of Equalisation Levy

Following amendments / clarifications have been proposed:

- Insertion of explanation to section 163 of Finance Act, 2016 clarifying that consideration received or receivable for specified services/ e-commerce supply or services shall not include consideration which are taxable as royalty or fees for technical services in the Act read with DTAA.
- Insertion of explanation to section 164 of Finance Act, 2016 providing that for the purpose of defining 'e-commerce supply or service', online sale of goods and online provision of services shall include one or more of the following activities taking place online:
  - Acceptance of offer for sale;
  - Placing the purchase order;
  - Acceptance of the Purchase order;
  - Payment of consideration; and
  - Supply of goods or provision of services partly or wholly

- Proposed amendment to section 165A of the Finance Act, 2016 to provide that consideration received or receivable from e-commerce supply or services shall include:
  - Consideration for sale of goods irrespective of whether the e-commerce operator owns the goods; and
  - Consideration for provision of services irrespective of whether service is provided or facilitated by the e-commerce operator

These amendments are proposed to take effect retrospectively from 1.04.2020.

- Proposed Amendment of section 10(50) to provide following:
  - Section 10(50) will apply for e-commerce supply or services made or provided or facilitated on or after 1.04.2020.
  - Clarify that exemption u/s 10(50) shall not apply for royalty or fees for technical services which taxable under the Act read with DTAA.
  - Define e-commerce supply or services as meaning assigned to explanation to section 164

This amendment is proposed to be effective from A.Y 2021-22 onwards.

### **Extending due date for filing return of income in some cases**

Section 139 of the Act provides for time limit for filing return of income for different persons. Further, section 5A of the Act provides for the apportionment of income between spouses governed by Portuguese Civil Code.

By an amendment in Explanation 2 (a) (ii) to section 139, it is proposed that the due date for the filing of original return of income be extended to 31st October of the assessment year in case of spouse of a partner of a firm whose accounts are required to be audited, if the provisions of section 5A applies to them.

A similar relaxation is proposed in Explanation 2 (aa) to section 139 of the Act, in the case of a firm which is required to furnish report from an accountant for entering into international transaction or specified domestic transaction, as per section 92E of the Act (due of date ITR being 30th November of the assessment year)

This amendment is proposed to be effective from AY 2021-22 onwards

### **Reducing time to file Belated Return and to Revise Original Return**

Time limit for filing Belated or Revised return u/s 139(4) or 139(5) of the Act respectively is proposed to be reduced by three months. Accordingly, it is proposed that belated/revised return could now be filed upto three months before the end of the relevant assessment year or before the completion of the assessment, whichever is earlier.

This amendment is proposed to be effective from AY 2021-22 onwards.

### **Removing difficulty in cases of defective returns**

Section 139(9) of the Act lays down the procedure for curing a defective return. The Explanation to the subsection lists the conditions in which a certain return of income shall be considered to be defective.

It is proposed that a proviso be inserted to the said Explanation empowering the Board to specify, vide notification that any of the conditions shall not apply for a class of assessee or shall apply with such modifications, as maybe specified in such notification.

This amendment is proposed to be effective from AY 2021-22 onwards.

*“The Union Budget 2021-22 is applaudable at various levels. While as expected by many there were no exemptions in the tax slab, but providing exemption to the elderly for filing the return is a great action to reduce the compliance burden for the senior citizens. We commend the Government’s decision to smoothen the GST structure to remove anomalies such as the inverted duty structure. Further, digitization of GST by deploying deep analytics and Artificial Intelligence to identify tax evaders and fake billers and launch of special drives against them is a praiseworthy action.*

*~Mr. M. Natarajan, SVP- Head of Finance & Accounts, JK Technosoft*

### Reduction of time limit for completing assessment u/s 143/144 and for issuance of notice u/s 143(2):

Section 153 of the Act contains provisions in respect of time-limit for completion of assessment, reassessment and re-computation under the Act. The section 153(1) provides that the time-limit for passing an assessment order u/s 143 or 144 of the Act as under:

Assessment year	Time limit from the end of the assessment year in which it was first assessable
Till AY 2017-18	21 months
For AY 2018-19	18 months
For AY 2019-20 & 2020-21	12 months

For AY 2021-22 onwards, above limitation period is further proposed to be reduced to 9 months from the end of the AY.

Consequently, it is also proposed to reduce the time limit for issue of notice u/s 143(2) of the Act from six months to three months from the end of the financial year in which the return is furnished.

These amendments are proposed to be effective from AY 2021-22 onwards.

### Provisional attachment in Fake Invoice cases

In order to protect the interest of the revenue, Section 281B of the Act empowers the Assessing Officer to provisionally attach any property of the assessee for a period of up to 6 months in cases of assessment or reassessment.

Further, Section 271AAD of the Act was inserted vide the Finance Act, 2020 to impose penalty for a false entry or omit an entry from his books of accounts.

To protect the interest of revenue, it is proposed to amend the section 281B to enable the Assessing Officer to exercise the powers under this section during the pendency of proceedings for imposition of penalty u/s 271AAD of the Act, if the amount or aggregate of amounts of penalty imposable is likely to exceed INR 2 Crore.

This amendment is proposed to be effective from AY 2021-22 onwards.

### Rationalisation of the provision relating to processing of return u/s 143(1)

Section 143(1)(a) of the Act list down certain adjustments (specified in clauses i to vi) to be made at the time of processing the ITR. Following amendments widening clauses (iv) and (v) are proposed:

- **Section 143(1)(a)(iv)** – to allow for the adjustment on account of increase in income indicated in the audit report but not taken into account in computing the total income. Existing clause provides of disallowance of expenditure only and not for increase in income.
- **Section 143(1)(a)(v)** – Disallowance of deduction u/s 80AC of the Act as well if return is filed beyond due date of ITR as prescribed in section 139(1).

This amendment is proposed to be effective from AY 2021-22 onwards.

### Clarification under Vivad se Vishwas Act, 2020 – Exclusion of Settlement Commission cases:

The Direct Tax Vivad Se Vishwas Act, 2020 (VSV) was enacted to reduce pending litigation, give peace of mind & certainty to taxpayers.

On the other hand, chapter XIX-A of the Act provides for an alternate settlement mechanism to taxpayer who chooses to exit the regular process of assessment which would have resulted into determination of tax liability and instead approached the Income Tax Settlement Commission (ITSC) for settlement of his case.

In order to remove ambiguity and to clarify that the taxes covered by an order in pursuance to settlement by Income Tax Settlement Commission (ITSC) are outside the purview of the VSV, certain Clarificatory amendments are proposed in the definitions of “Appellant” in section 2(1)(a), — “Disputed tax” in section 2(1)(j) and — “Tax arrear” in section 2(1)(o) of the VSV Act.

These amendments are proposed to effective retrospectively from 17.03.2020.

## **Abolition of Authority for Advance Ruling (AAR) and Constitution of Board for Advance Ruling:**

Since working of AAR was hampered due to non-availability of eligible persons at the post of Chairman and Vice Chairman leading to pendency in disposal of large number of applications pending since many years, it is proposed to abolish AAR and constitute one or more Board of Advance Ruling which will perform the functions of AAR from the date to be notified. Accordingly, various enabling amendments are proposed to the existing provisions of AAR including:

- A two-member (officers not below the rank of Chief Commissioner) Board of Advance Ruling will be constituted.
- Advance Ruling of such Board will not be binding on applicant or Department and will be appealable before High Court.
- Pending applications before AAR shall be transferred to Board of Advance Ruling for disposal.

The Central Government is also proposed to be empowered to make a scheme by notification in the Official Gazette for the purpose of giving advance ruling by Board of Advance Ruling under this provision. The scheme shall impart greater efficiency, transparency and accountability by eliminating interface to the extent technologically feasible, by optimising utilisation of resources and introducing dynamic jurisdiction.

These amendments is proposed to be effective from 1.04.2021.

## **Taxability of Interest on Provident Fund on Employee's Contribution exceeding INR 2.5 Lakh**

It is proposed to insert proviso to clause (11) and (12) of section 10 of the Act, providing that the exemption under these clauses shall not apply to the interest income accrued during the previous year in the account of the person to the extent it relates to the amount or the aggregate of amounts of contribution made by the person exceeding INR 2.5 lacs in a previous year in that fund, on or after 1.04.2021.

The said amendment has been proposed to prevent employees from claiming exempt interest income during the previous year accrued/received on making huge contribution to such funds.

These amendments are proposed to be effective from AY 2022-23 onwards.

## **Adjudicating authority under PBPT Act**

It is proposed to provide that the Competent Authority constituted u/s 5(1) of the Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976 (SAFEMA) shall be Adjudicating Authority under PBTP Act which shall commence discharging the function from 1.07.2021.

Further, it is proposed to extend the period of limitation under sub-section (7) of section 26 of the PBPT Act to provide that where the time limit for passing order under sub- section (7) of section 26 of the PBPT Act expires during the period beginning from 1.07.2021 and ending on 29.09.2021, the time limit for passing such order shall stand extended to 30.09.2021.

This amendment is proposed to be effective from 1.07.2021

## **Definition of the Term “Liable to Tax”**

The interpretation of the term “Liable to tax” has been one of the contentious issue and a source of Litigation in the arena of international tax. Thus in order to avoid litigation it is now proposed to define the term “Liable to Tax” by insertion of clause (29A) to section 2 of the Act as under:

“Liable to tax”, in relation to a person, means that there is a liability of tax on such person under any law for the time being in force in any country, and shall include a case where subsequent to imposition of tax liability, an exemption has been provided.

This amendment is proposed to be effective from AY 2021-22 onwards.

## **Income Declaration Scheme (IDS) amendment (Refund of Excess Payment)**

It is proposed to amend proviso to section 191 to provide that excess amount of tax, surcharge or penalty paid in pursuance of a declaration made under the scheme shall be refundable to the specified class of persons without payment of any interest.

This amendment is proposed to be effective retrospectively from 1.06.2016.

### **Raising of prescribed limit for exemption under sub-clause (iiiad) and (iiiiae) of clause (23C) of section 10 of the Act**

Sub-clauses (iiiad) and (iiiiae) of clause (23C) of the section 10 provides for the exemption for the income received by any person on behalf of university or educational institution or hospital or institution as referred to in that sub-clause.

The exemptions under the said sub-clauses are available subject to the condition that the annual receipts of such university or educational institution do not exceed the annual receipts INR 1 crore.

In order to provide benefit to small trust and institutions, it has been proposed that the exemption under sub-clause (iiiad) and (iiiiae) shall be increased to INR 5 crore.

This amendment is proposed to be effective from AY 2022-23 onwards

### **Constitution of Dispute Resolution Committee for small and medium taxpayers**

In order to provide early tax certainty to small and medium taxpayers, it is proposed to introduce a new scheme for preventing new disputes and settling the issue at the initial stage. The new scheme is proposed to be incorporated in a new section 245MA and has the following features:

- The Central Government shall constitute one or more Dispute Resolution Committee (DRC)
- This committee shall resolve disputes of such persons or class of person which shall be specified by the Board. The assessee would have an option to opt for or not opt for the dispute resolution through the DRC.
- Only those disputes where the returned income is INR 50 lacs or less (if there is a return) and the aggregate amount of variation proposed in specified order is INR 10 lacs or less shall be eligible to be considered by the DRC.
- Specified order based on a search initiated or information received under DTAA shall not be eligible for being considered by the DRC.
- Benefit of this provision is not available if there is detention, prosecution or conviction under various laws as specified in the proposed section.
- Board will prescribe some other conditions in

due course which would also need to be satisfied for being eligible under this provision.

- The DRC, subject to such conditions as may be prescribed, shall have the powers to reduce or waive any penalty imposable under this Act or grant immunity from prosecution for any offence under this Act in case of a person whose dispute is resolved under this provision.
- The Central Government has also been empowered to make a scheme by notification in the Official Gazette for the purpose of dispute resolution under this provision. The scheme shall impart greater efficiency, transparency and accountability by eliminating interface to the extent technologically feasible, by optimising utilisation of resources and introducing dynamic jurisdiction.

This amendment is to be effective from 1.04.2021.

### **Discontinuance of Income-tax Settlement Commission**

It is proposed to discontinue Income-tax Settlement Commission (ITSC) and to constitute Interim Board of settlement for pending cases. The various amendments inter alia proposed are as under

- ITSC shall cease to operate from 1.02.2021 and thus no application under section 245C for settlement of cases shall be made on or after 1.02.2021;
- All applications already filed which are not declared invalid u/s 245D(2C) of the Act and in respect of which no order u/s 245D(4) was issued on or before the 31.01.2021 shall be treated as pending applications.
- Applications where order was required to be passed u/s 245(2C) on or before the 31.01.2021 to declare an application invalid but such order has not been passed on or before 31.01.2021, such application shall also be deemed to be valid and treated as pending application.
- With respect to a pending application, the assessee who had filed such application may, at his option, withdraw such application within a period of three months from the date of commencement of the Finance Act, 2021 and intimate the Assessing Officer, in the prescribed manner, about such withdrawal.

- The Central Government shall constitute one or more Interim Board for Settlement of pending applications. Every Interim Board shall consist of three members, each being an officer of the rank of Chief Commissioner, as may be nominated by the Board. If the Members of the Interim Board differ in opinion on any point, the point shall be decided according to the opinion of majority.
- The Central Government may make a scheme, for the purposes of settlement in respect of pending applications by the Interim Board, so as to impart greater efficiency, transparency and accountability by eliminating the interface between the Interim Board and the assessee in the course of proceedings to the extent technologically feasible; optimising utilisation of the resources through economies of scale and functional specialisation; and introducing a mechanism with dynamic jurisdiction.

These amendments is proposed to be effective from 1.02.2021

### **Faceless Proceedings before the Income-tax Appellate Tribunal (ITAT) in a jurisdiction less manner**

In order to ensure that the reforms initiated by the Department to reduce human interface from the system reaches the next level, it is proposed to launch a scheme for faceless ITAT proceedings on the same line as faceless appeal scheme.

Therefore, it is proposed to insert new sub-sections in the section 255 of the Act so as to provide that the Central Government may notify a scheme for the purposes of disposal of appeal by the ITAT so as to impart greater efficiency, transparency and accountability by:

- eliminating the interface between the ITAT and parties to the appeal in the course of proceedings to the extent technologically feasible;
- optimising utilisation of the resources through economies of scale and functional specialisation;
- introducing an appellate system with dynamic jurisdiction.

This amendment is proposed to be effective from 1.04.2021

### **Allowing prescribed authority to issue notice u/s 142(1)(i)**

- Notice u/s 142 (1) (i) can be currently issued only by the Assessing Officer.
- In order to further promote faceless policy and in order to enable centralized issuance of notices etc. in an automated manner, it is proposed to amend the provisions of clause (i) of the sub-section (1) of the section 142 to empower the prescribed income-tax authority besides the Assessing Officer to issue notice under the said clause.
- This amendment is proposed to be effective from 1.04.2021

### **Rationalisation of the provision of presumptive taxation for professionals under section 44ADA**

Section 44ADA of the Act provides special provisions for computing profits and gains of profession on presumptive basis

The proposed amendment aims at clarifying the position of law in respect of non applicability of section 44ADA to LLP which is required to maintain books of accounts in any case under the LLP Act. It is proposed to amend section 44ADA(1) to state that provisions of this section are applicable to following resident assessee:

- Individual
- HUF
- Partnership firm but not an Limited Liability Partnership (LLP)

This amendment is proposed to be effective from from AY 2021-22

### **Income escaping assessment and search assessments**

To promote ease of doing business and to reduce litigation, the Finance Bill, 2021 has proposed a complete reform in the system of assessment or reassessment of income escaping assessment and the assessment of search related cases.

The salient features of new procedure inter alia includes:

- The provisions of section 153A and 153C are proposed to be made applicable to only search initiated u/s 132 of the Act or books of accounts/other documents/ assets requisitioned u/s 132A of the Act, on or before 31.03.2021.

- Assessments or reassessments in cases where search is initiated or requisition is made after 31.03.2021, shall be under the new procedure.
- The time limitation for issuance of notice u/s 148 of the Act is proposed to be provided in section 149 of the Act and is as below:
  - In normal cases, no notice shall be issued if 3 years have elapsed from the end of the relevant assessment year.
  - In specific cases where the Assessing Officer has in his possession evidence which reveal that the income escaping assessment is amounts to or likely to amount to INR 50 lakhs or more, notice can be issued beyond the period of 3 years but not beyond the period of 10 years from the end of the relevant assessment year;
  - In search, survey or requisition cases initiated or made or conducted, on or after 1.04.2021, it shall be deemed that the Assessing officer has information which suggests that the income chargeable to tax has escaped assessment in the case of the assessee for the 3 assessment years immediately preceding the assessment year relevant to the previous year in which the search is initiated or requisition is made or any material is seized or requisitioned or survey is conducted.
  - No notice u/s 148 can be issued at any time in a case for the relevant assessment year beginning on or before 1.04.2021, if such notice could not have been issued at that time on account of being beyond the time limit prescribed under the provisions of clause (b), as they stood immediately before the proposed amendment.
  - Before such assessment or reassessment, a notice is required to be issued u/s 148, which can be issued only when there is information with the Assessing officer which suggests that the income chargeable to tax has escaped assessment for the relevant assessment year. Prior approval of specified authority is also required to be obtained before issuance of such notice by the Assessing Officer.
- New Section 148A proposes that before issuance of notice [except search or requisition cases] the Assessing Officer shall conduct enquiries, if required, and provide an opportunity of being heard to the assessee after obtaining approval of specified authority. After considering his reply, the Assessing Office shall decide, by passing an order, whether it is a fit case for issue of notice under section 148 and serve a copy of such order along with such notice on the assessee.

These amendments is proposed to be effective from 1.04.2021.

### **Rationalisation of the provision of Charitable Trust and Institutions to eliminate possibility of double deduction while calculating application or accumulation**

Under the existing provisions of the Income-tax Act, 1961, corpus donations received by trusts, institutions, funds etc are exempt u/s 10(23C) and 11(1)(d).

It was noticed that some entities are claiming the corpus donations to be exempt and at the same time claim their application as part of the mandatory 85% application from income other than such corpus. This results in a situation where the corpus income has been exempted and its application has been claimed as application against the mandatory 85% application of non-corpus income.

It was also noticed that these entities take loans or borrowings and make application for charitable or religious purposes out of the proceeds of loans and borrowings. Such loans or borrowings when repaid, are again claimed as application. This results in unintended double deduction.

Thus to ensure that there is no double counting while calculating application or accumulation, it has been proposed that:

Voluntary contributions made with a specific direction that it shall form part of the corpus shall be invested or deposited in one or more of the forms or modes specified in sub-section (5) of section 11 maintained specifically for such corpus.

- Application out of corpus shall not be considered as application for charitable or religious purposes for the purposes of third proviso of clause (23C) and clauses (a) and (b) of section 11. However, when it is invested or deposited back, into one or more of the forms or modes specified in sub-section (5) of section 11 maintained specifically for such corpus from the income of the previous year, such amount shall be allowed as application in the previous year in which it is deposited back to corpus to the extent of such deposit or investment.
- Application from loans and borrowings shall not be considered as application for charitable or religious purposes for the purposes of third proviso of clause (23C) and clauses (a) and (b) of section 11. However, when loan or borrowing is repaid from the income of the previous year, such repayment shall be allowed as application in the previous year in which it is repaid to the extent of such repayment.
- For the computation of income required to be applied or accumulated during the previous year, no set off or deduction or allowance of any excess application, of any of the year preceding the previous year, shall be allowed.

These amendments are proposed to be effective from AY 2021-22

### **Rationalization of provision of transfer of capital asset to partner on dissolution or reconstitution**

It is proposed to substitute the existing sub-section (4) of section 45 of the Act with a new sub-section (4) and (4A) to rationalize the provisions of taxation of capital gains on distribution of assets on dissolution or otherwise of firm/AOP/BOI

#### **Where the capital asset represents the balance in the capital account of the person in the books of the entity:**

Where a specified person receives any capital asset at the time of dissolution or reconstitution of the specified entity, which represents the balance in his capital account in the books of accounts of such specified entity at the time of its dissolution or reconstitution (to be calculated without taking into account increase in the capital account of the specified person due to revaluation of any asset or due to self-generated goodwill or any other self-generated asset), then any profits or gains arising from receipt of such capital asset by the specified person shall be taxable as income of such specified entity under the head "Capital gains" of the

previous year in which such capital asset was received by the specified person and for the purposes of section 48:

- Fair market value (FMV) of the capital asset on the date of such receipt shall be deemed to be the full value of the consideration for transfer of such capital asset; and
- The cost of acquisition of the capital asset shall be determined in accordance with the provisions of this Chapter

#### **Subsection 4A - Where the money or other asset is in excess of the balance in the capital account of the person in the books of the entity:**

It is proposed that where a specified person receives during the previous year any money or other asset at the time of dissolution or reconstitution of the specified entity, which is in excess of the balance in his capital account at the time of its dissolution or reconstitution (to be calculated without taking into account increase in the capital account of the specified person due to revaluation of any asset or due to self-generated goodwill or any other self-generated asset), then any profits or gains arising from receipt of such money or other asset by the specified person shall be taxable as income of such specified entity under the head "Capital gains" for the previous year in which such money or other asset was received by the specified person and, for the purposes of section 48:

- Value of any money or the fair market value of other asset on the date of such receipt shall be deemed to be the full value of the consideration for transfer of such capital asset; and
- The balance in the capital account of the specified person in the books of accounts of the specified entity at the time of its dissolution or reconstitution shall be deemed to be the cost of acquisition:

Specified person is proposed to be defined as a person who is partner of a firm or member of other association of persons or body of individuals (not being a company or a cooperative society), in any PY.

Specified entity is proposed to be defined as a firm or other association of persons or body of individuals (not being a company or a cooperative society).

These amendments are proposed to be effective from AY 2021-22

## Withholding Tax

### Tax Deduction at Source (TDS) on purchase of goods

It is proposed to insert a new section 194Q providing for deduction of tax at source on purchase of goods. The details of the same are given below:

- Applicable on purchase of any goods of the value or aggregate of such value exceeding Rs. 50 lakhs in any previous year;
- Rate of TDS: 0.1% of sum exceeding Rs. 50 lakh.
- Only buyer whose total sales, gross receipts or turnover from the business carried on by them exceed Rs. 10 Crore during the financial year immediately preceding the financial year in which the purchase of goods is carried out are responsible to deduct TDS under this section.
- No TDS deduction under this section if tax is deductible under any of the provisions of the Act or TCS is collectable u/s 206C [except u/s 206C(1H)]. In case TCS u/s 206C(1H) is also applicable on same transaction alongwith TDS under this section, then only TDS u/s 194Q will apply.

This amendment is proposed to be effective from 1.07.2021.

### TDS/TCS on non-filers at higher rates

With a view to ensure filing of return of income by those persons who have suffered a reasonable amount of TDS/TCS, it is proposed to insert new sections 206AB & 206CC providing for higher rate for TDS & TCS respectively for non –filers of income tax return.

#### TDS

Proposed section 206AB of the Act would apply on any sum or income or amount paid, or payable or credited, by a person (herein referred to as deductee) to a specified person. This section shall not apply where the tax is required to be deducted under sections 192, 192A, 194B, 194BB, 194LBC or 194N of the Act. The proposed TDS rate in this section is higher of the followings rates:

- Twice the rate specified in the relevant provision of the Act; or
- Twice the rate or rates in force; or

- The rate of five per cent

Where provision of section 206AA (No PAN) of the Act is applicable to a specified person, in addition to section 206AB, the tax shall be deducted at higher of the two rates provided in this section and in section 206AA of the Act.

#### TCS

Proposed section 206CCA of the Act would apply on any sum or amount received by a person (herein referred to as collectee) from a specified person. The proposed TCS rate in this section is higher of the following rates:

- Twice the rate specified in the relevant provision of the Act; or
- The rate of five per cent

Where provision of section 206CC (NO PAN) of the Act is applicable to a specified person, in addition to the section 206CCA, the tax shall be collected at higher of the two rates provided in this section and in section 206CC of the Act.

Specified person is a person:

- Who has not filed the returns of income for both of the 2 AYs relevant to the 2 PYs which are immediately before the PY in which tax is required to be deducted or collected, as the case may be; and
- The time limit for filing tax return under sub-section (1) of section 139 of the Act has expired for both these assessment years; and
- Aggregate of tax deducted at source and tax collected at source in his case is rupees fifty thousand or more in each of these two previous years.

This amendment is proposed to be effective from 1.07.2021.

# Indirect Taxation

*“The Budget 2021 holds out various positives for the start-up sector. The move towards providing social security benefits for gig workers will add a much-needed safety net that will help this sector grow in a sustainable way and help the many millions that are a part of it”*

*~Kunal Bahl, CEO & Co-founder – Snapdeal*

## Amendments in The Central Goods and Services Tax Act, 2017

- New clause (aa) is inserted under Sec. 7(1) with retrospective effect from 1.07.2017, which requires GST to be levied on supply of goods or services by any person, other than individual, to its members or constituents or vice versa, for cash, deferred payment or other valuable consideration.
- New Clause (aa) is inserted in Sec. 16(2) specifying condition on availment of input tax credit i.e. details of invoice and debit note should have been furnished by the supplier in his statement of outward supplies (GSTR-1).
- Sec. 35(5) is omitted which requires audit of annual accounts and furnishing of reconciliation statement if turnover exceeds prescribed limit duly certified by specified professional.
- Sec. 44 is substituted so as to mandate specified person to furnish annual return including a self certified reconciliation statement reconciling the value of supplies declared in return with audited financial statement.
- Proviso to Sec 50 is substituted so as to ensure the charging of interest on net cash liability W.E.F. 1.07.2017.
- Amendment is made in Explanation 1 in clause (ii) of Sec 74 so as to separate proceeding w.r.t. detention, seizure, release, confiscation of goods and conveyance in transit from other recovery proceedings of tax.
- Explanation inserted in Sec 75, clarifying “self assessed” tax to include tax payable as per details of outward supplies furnished in GSTR-1, though not declared in return furnished under section 39.
- Sect 83(1) is amended so as to provide provisional attachment of any property, including bank account, may be made after initiation of any proceeding under Chapter XII, XIV & XV, belonging to the taxable person or any person specified in S. 122(1A).
- A Proviso is inserted in Sec 107(6) providing that no appeal shall be filed unless a sum equal to twenty-five percent of penalty under section 129(3) has been paid by the appellent.
- Section 129 has been amended so as to delink the proceedings under that section relating to detention, seizure and release of goods and

conveyances in transit, from the proceedings under section 130 relating to confiscation of goods or conveyances and levy of penalty.

- Sec. 130 of the CGST Act is being amended to delink the proceedings under that section relating to confiscation of goods or conveyances and levy of penalty from the proceedings under Sec. 129 relating to detention, seizure and release of goods and conveyances in transit.
- Substitution has been made in Sec. 130 of the CGST Act empowering the jurisdictional commissioner to call for information from any person relating to any matter dealt with in connection with this act.
- Sec. 152 has been amended providing that no information obtained under Sec. 150 and 151 (i.e. information / detail obtained from third person shall be used for the purposes of any proceedings under the Act without giving an opportunity of being heard to the person concerned.
- Paragraph 7 of Schedule II to the CGST Act is omitted W.E.F. 1.07.2021 (read with new clause (aa) is inserted in Sec. 7(1)).

## Amendments in The Integrated Goods and Services Tax Act, 2017

Section 16 of the IGST Act is being amended so as to:

- “Zero rated” in respect of supply of goods or services to a SEZ developer or unit would be applicable only when the said supply is for authorized operations;
- In case where refund of unutilized input tax credit is claimed on account of zero rated supply of goods and registered person has not realized foreign exchange remittance within thirty days after the expiry of time limit prescribed under FEMA., refund received shall be liable to deposited along with applicable interest.
- Refund route of IGST (i.e. zero rated supply with payment of IGST) would be restricted to notified class of person or notified class of goods or services.

## Amendments under Customs Laws

For details to Amendments in the First Schedule to the Customs Tariff please refer to Annexure B.

- Common customs electronic portal for facilitating registration, filing of BOE, shipping bills and other prescribed documents would be notified. This portal would also serve orders, summons, notices etc. among other mediums used for such service.
- Any exemption granted under Sec. 25(1) shall be valid upto 31<sup>st</sup> March falling immediately after two years from the date of such grant, unless otherwise specified, varied or rescinded.
- A new section 28BB is being introduced prescribing a two-year time limit, further extendable by one year by the Commissioner, for completion of any proceedings under this act which would culminate in issuance of a notice under section 28 of the Customs Act, 1962.
- BOE needs to be presented before the end of the day (including holidays) preceding the day of arrival of vessel/aircraft. CBIC may extend time limit, which shall not be later than the end of the day of such arrival. Earlier BOE was required to be presented before the end of the next day following the day (excluding holidays).
- Sub-section (ja) is being added to section 113 to provide for the confiscation of any goods entered for exportation under claim of remission or refund of any duty or tax or levy, so as to make a wrongful claim in contravention of the provisions of the Customs Act, 1962 or any other law for the time being in force.
- A new section 114AC is being inserted in Customs Act to prescribe penalty in specific case where any person has obtained any invoice by fraud, collusion, willful misstatement or suppression of facts to utilize Input Tax Credit on the basis of such invoice for discharging any duty or tax on goods that are entered for exportation under claim of refund of any duty or tax.
- Section 149 is being amended so as to:
  - Introduce a second proviso which would allow amendments of documents (such as BOE, shipping bill, etc.) to be done through the customs automated system on the basis of risk evaluation through appropriate selection criteria.
  - Introduce a third proviso so that certain specified amendments may be done directly on the common customs electronic portal.

*“This is the beginning of a multi-year investment cycle and we will see positive results of the government’s measures taken over the last few years. The budget was fairly sensible, with a credible set of numbers on both the revenue side and expenditure side. The more important thing is the continuous focus on the supply-side reforms. He said govt has been doing the right things for the last two years on the reform side”*

*~Sanjeev Prasad, Managing Director, Co-Head – Kotak Institutional Equities*

# Company law, Foreign Exchange Management Act (FEMA) and Securities Law

*“This year's budget provides a great philip to the economic growth by clearly laying out strategic moves that not only foster the growth of key industries such as manufacturing but also make India an attractive investment destination. We are thrilled that the government has put an increased emphasis on ease of doing business as is a basic prerequisite for a thriving FDI ecosystem. There is definitely a balanced approach to FDI whether in terms of equity or debt”*

*~Vishal Yadav, CEO – FDI India*

## Key Highlights under the Companies Act, 2013; Limited Liability Partnership Act, 2008; the Foreign Exchange Management Act, 1999 and the Securities Law

### A. Proposal to launch the all-new version of MCA portal

- The much-awaited version of the MCA portal is on the cards this year which will cater to the data analytics, E-Scrutiny, E-Adjudication for the Companies easing out Compliance management with optimum use of the artificial intelligence and machine learning at another level.
- This new version of the MCA system is primarily aimed at in-house E-Adjudication Mechanism of certain offences which at the background intends to further promote ease of doing business, to reduce the burden of NCLT and special court, as ROC will be adjudication officer here.

### B. Making the concept of One Person Company (OPC) more flexible and lucrative for small businesses

- It is proposed that the NRIs shall be allowed to incorporate One Person Companies in India. Presently, only Indian resident citizens are allowed to form One Person Companies in India.
- The Government also proposes to remove threshold limits of paid-up share capital and turnover to boost early start-ups and overall entrepreneurial spirit in the Country allowing them to grow limitless at par with other type of Companies. Presently, the thresholds for size of an OPC are paid up share capital of INR 50 lakh and average annual turnover of INR 2 Crore in three years preceding consecutive years, exceeding these makes it mandatory for the OPC to lose the OPC Status.
- Furthermore, it is also proposed to allow conversion of OPCs into any type of Company any time. Apart from this, residency requirement for a person setting up OPC has also been proposed to be eased from 182 days to 120 days in India.
- All these moves shall certainly encourage budding entrepreneurs, early stage start-ups and small businesses to register as a legal entity as they will not be forced to convert into private or public companies which have a greater

compliance burden. Lower residency requirement will also encourage Resident and Non-resident Indians to set up One Person Companies

### C. Widening of the definition of Small Company

- Comparatively, Small Companies have been subject to less compliances under the Companies Act, 2013, with yet another attempt in further ease of doing business the Hon'ble Finance Minister has proposed to revise present definition of Small Company by increasing their threshold for capitalization from not exceeding INR 50 Lakh to not exceeding INR 2 Cr and turnover from not exceeding INR 2 Cr to not exceeding INR 20 Cr.
- This proposal will certainly boost up the small start-ups as the small companies have lesser compliance burden as compared to other Companies. According to the figures of the Government, this will help more than 200,000 companies in easing their compliance requirements.

### D. After companies, the LLPs to enjoy decriminalization of offences for non-serious offences

- Recently, the Company law Committee has provided its report on Decriminalization of various compoundable offences under the LLP Act, 2008 in line with the amendments made to the Companies Act, 2013 with a view to promote ease of doing business for law abiding corporates in the country.
- Various offences pertaining to non-compliances of minor or procedural nature of violations by LLP had been recommended for decriminalization in the Committee Report just prior to presentation of this Budget.
- The proposed amendments pertaining to decriminalization of offences covering procedural requirements of LLP will have a positive impact on the stakeholders including SME and MME.

### E. FDI in Insurance Sector hiked to 74% from 49%

- As expected, the Government has proposed to increase the limit of FDI from 49% to 74%. This entails entities in the Insurance Sector to be controlled through foreign ownership with appropriate safeguards for the Indian entities by way of ensuring that majority of the Directors on the Board and Key Managerial Person (KMP) remain Indian residents and at the same time 50% of the Directors must be independent directors.
- Furthermore, a part of the profits needs to be retained as general reserve.
- It will require suitable amendments in the Insurance Act, 1938 in order to ensure safeguards and transparency in case of foreign investment. Since insurance is a capital-intensive business, this move will result in infusion of capital to conserve solvency markets. At the same time this will also result in an increase in the foreign currency inflow for the country and the Companies shall have more funds available at their disposal.

### F. Unified securities market code to streamline all individual security laws

- A Unified Securities Markets Code is proposed to be launched. This Code will consolidate provisions pertaining to Securities & Exchange Board of India Act, 1992; The Depositories Act, 1996; Securities Contracts (Regulation) Act, 1956; and Government Securities Act, 2007.
- In addition to the powers of SEBI as a capital markets watchdog, it will also be notified as a regulator for Gold Exchange.
- In order to strengthen the Investor Protection framework, an Investor Charter in all financial products is also proposed as a right for investors.
- This will not only make it easier to implement the securities market framework but will also help in regulating all the players involved in the market in a better and efficient manner. At the same time, it will help to ensure better oversight by SEBI.

### G. Changes proposed for swift resolution of contractual disputes

- The Government also proposed to take a number of steps to further rationalize and bring reforms

in tribunals including rolling out of a system for swift resolution of contractual disputes for those who deal with govt or central PSEs.

- The proposed reforms shall enable efficiency and effectiveness in the Companies which have to represent themselves before the Tribunals. Such speedy disposal will provide greater flexibility and responsiveness to the individual needs of the parties involved and the parties' involvement in the process creates greater commitment to the result so that compliance is more likely.

*“It is a visionary and growth-oriented budget that provides further impetus to build India’s competitiveness as also foster inclusive growth. The enhanced capital expenditure, particularly on infrastructure, will create livelihoods and provide an accelerated thrust to the V-shaped recovery trajectory.”*

*~Sanjiv Puri, Chairman & Managing Director – ITC Limited*

**ANNEXURE - A**

**Personal Tax**

**Tax Slab for Individuals : -**

<b>Tax Slab as per <u>New</u> Regime</b>	<b>Tax Rate</b>
Upto INR 2.5 lakhs	Exempt
INR 2.5 lakhs - INR 5 lakhs	5%
INR 5 lakhs – INR 7.5 lakhs	10%
INR 7.5 lakhs – INR 10 lakhs	15%
INR 10 lakhs – INR 12.5 lakhs	20%
INR 12.5 lakhs – INR 15 lakhs	25%
Above INR 15 lakhs	30%

<b>Tax Slab as per <u>Old</u> Regime</b>	<b>Tax Rate</b>
Upto INR 2.5 lakhs	Exempt
INR 2.5 lakhs - INR 5 lakhs	5%
INR 5 lakhs – INR 10 lakhs	20%
Above INR 10 lakhs	30%

No Tax on individual having taxable income upto Rs.5,00,000 as a result of rebate of Rs. 12,500 u/s 87A under both old and new scheme

The new scheme is optional and is applicable if the individual agree to forego prescribed deductions and exemptions under the Income Tax Act

**Corporate Tax**

**Basic tax rates for companies are as under :-**

<b>Particulars</b>	<b>Proposed Tax rates</b>
For domestic companies whose total turnover or gross receipts in the FY 2017-18 does not exceed Rs. 400 Crores	25%
For companies opting for Section 115BA	25%
For companies opting for Section 115BAA	22%
For companies opting for Section 115BAB	15%
For other domestic Companies	30%
MAT (except companies option for Sec 115BAA/115 BAB)	15%
Foreign Companies	40%

- For companies opting for Section 115BA/115BAA/115BAB Surcharge of 10% would be levied irrespective of the income

**Firms and LLP**

- Basic tax rate remains at 30%

**Surcharge of Income Tax**

- Surcharge for domestic and foreign companies are as :

<b>Particulars</b>	<b>Domestic Company</b>	<b>Foreign Company</b>
Income exceeding Rs. 1 crore but not exceeding Rs. 10 Crore	7%	2%
Income exceeding Rs. 10 crore	12%	5%

- Surcharge for Individuals, HUF, AOP, BOI and AJP are as under :-;

<b>Particulars</b>	<b>Proposed Rate</b>
Income exceeding Rs. 50 Lakh but not exceeding Rs. 1 Crore	10%
Income exceeding Rs. 1 Crore but not exceeding Rs. 2 Crore	15%
Income exceeding Rs. 2 Crore but not exceeding Rs. 5 Crore	25%
Income exceeding Rs. 5 Crore	37%

- Surcharge for firms & LLP is 12% on the total income exceeding Rs. 1 Crore The enhanced surcharge of 25% & 37% is not applicable on dividend income and Capital gains made on sale of listed equity shares, units of equity mutual fund and units of business trust

**Cess**

- The health & Education cess in all cases remains unchanged at 4%

**ANNEXURE – B**  
**AMENDMENTS IN THE FIRST SCHEDULE TO THE CUSTOMS TARIFF ACT 1975**

<b>AMENDMENTS</b>					
<b>A.</b>	<b>Tariff rate changes for Basic Customs Duty [to be effective from 02.02.2021, unless otherwise specified] * [Clause [95 (i) ] of the Finance Bill, 2021]</b>			<b>Rate of Duty</b>	
<b>S. No.</b>	<b>Heading, sub-heading tariff item</b>	<b>Commodity</b>	<b>From</b>	<b>To</b>	
		<b>Chemicals</b>			
1.	2803 00 10	Carbon Black	5%	7.5%	
		<b>Plastic items</b>			
2.	3925	Builder’s ware of plastic	10%	15%	
		<b>Gems and Jewellery Sector</b>			
3.	7104	Cut and Polished Synthetic stones, including Cut and Polished Cubic Zirconia	10%	15%	
		<b>Electrical and Electronics Sector</b>			
4.	8414 30 00	Compressors of a kind used in refrigerating equipment	12.5%	15%	
5.	8414 80 11	Compressors of a kind used in air-conditioning equipment	12.5%	15%	
6.	8504 90 90	Printed Circuit Board Assembly [PCBA] of charger or adapter  (All goods under this tariff item, other than above, will continue to attract the existing effective rate of BCD at 10%)	10%	15%	
		<b>Parts of Automobiles</b>			
7.	7007	Safety glass, consisting of toughened (tempered) or laminated glass.  (All goods under this heading, other than those used with motor vehicles, will continue to attract the existing effective rate of BCD at 10%)	10%	15%	
8.	8512 90 00	Parts of Electrical lighting and signaling equipment, windscreen wipers, defrosters and demisters, of a kind used for cycles or motor	10%	15%	

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		vehicles		
9.	8544 30 00	Ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships	10%	15%
10.	9104 00 00	Instrument Panel Clocks and Clocks of a similar type for vehicles, Aircraft, Spacecraft or Vessels	10%	15%
<b>B.</b>	<b>Tariff rate changes (without any change in the effective rates of Basic Customs Duty)</b>		<b>Rate of Duty</b>	
<b>S. No.</b>	<b>Heading, sub-heading tariff item</b>	<b>Commodity</b>	<b>From</b>	<b>To</b>
1.	8414 40	Air compressors mounted on a wheeled chassis for towing	7.5%	15%
2.	8414 80 (except 8414 80 11)	Gas Compressors (other than of a kind used in air-conditioning equipment), free-piston generators for gas turbine, turbo charger and other compressors	7.5%	15%
3.	8501 10 to 8501 53	Electric Motors	10%	15%
	8536 41 00 and 8536 49 00	Relays	10%	15%
5.	8537	Boards, panels, consoles, etc. for electric control or distribution of electricity	10%	15%
6.	9031 80 00	Other instruments, appliances and machines	7.5%	15%
7.	9032 89	Electronic automatic regulators and other controlling instruments or apparatus	10%	15%
<b>C.</b>	<b>New entries added to the First Schedule [Clause 95 (ii) and 95 (iii) of the Finance Bill, 2021]</b>			
<b>1.</b>	<b>Harmonizing the Customs Tariff Act 1975 with the HSN 2022</b>			
	<p>a) Changes to the first schedule to the Customs Tariff Act are being proposed that are to come into effect from 01.01.2022. This is in accordance with HSN 2022, which proposes 351 amendments to the existing harmonized nomenclature, covering a wide range of goods moving across borders.</p> <p>b) The amendments are necessary to adapt to the current trade through the recognition of new product streams, the changing nature of commodities being traded, advent of new technologies and addressing the environmental and social issues of global concern- all with a prime focus on the larger goal of ease of doing business and trade facilitation.</p>			
<b>2.</b>	New tariff lines under the heading 2709 in the Customs Tariff Act, 1975#: 2709 00 10 -- petroleum crude 2709 00 20 – other			



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			20%/30%	
		Minerals		
3.	2528	Natural borates and concentrates thereof	Nil/5%	2.5%
		Fuels, Chemicals and Plastics		
3.	2710	Naphtha	4%	2.5%
5.	2907 23 00	Bis-phenol A	Nil	7.5%
6.	2910 30 00	Epichlorohydrin	2.5%	7.5%
7.	2933 71 00	Caprolactam	7.5%	5%
8.	3907 40 00	Polycarbonates	5%	7.5%
9.	3908	Nylon chips	7.5%	5%
10.	3920 99 99	Other plates, sheets, films, etc. of other plastics	10%	15%
		Leather		
11	41	Wet blue chrome tanned leather, crust leather, finished leather of all kinds, including splits and sides of the aforesaid	Nil	10%
		Textiles		
12.	5002	Raw Silk (not thrown)	10%	15%
13.	5004, 5005, 5006	Silk yarn, yarn spun from silk waste (whether or not put up for retail sale)	10%	15%
14.	5201	Raw Cotton	Nil	5% + 5% AIDC*
15.	5202	Cotton waste (including yarn waste or garneted stock)	Nil	10%
16.	5402, 5403, 5404, 5405 00 00, 5406, 5501 to 5510	Nylon Fibre and Yarn	7.5%	5%
		Gems and Jewellery Sector		
17.	7106	Silver	12.5.%	7.5%+ 2.5% AIDC*
18.	7106	Silver Dore	11%	6.1% + 2.5%

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				AIDC*
19.	7108	Gold	12.5%	7.5%+ 2.5% AIDC*
20.	7108	Gold Dore	11.85%	6.9%+ 2.5% AIDC*
21.	7107 00 00, 7109 00 00, 7111 00 00	Base metals or precious metals clad with precious metals	12.5%	10%
22.	7110	Other precious metals like Platinum, Palladium, etc.	12.5%	10%
23.	7112	Waste and scrap of precious metals or metals clad with precious metals	12.5%	10%
24.	7112	Spent catalyst or ash containing precious metals	11.85%	9.17%
25.	7113	Gold or Silver Findings	20%	10%
26.	7118	Coin	12.5%	10%
		Metals		
27.	7204	Iron and steel scrap, including stainless steel scrap [up to 31.03.2022]	2.5%	Nil
28.	7206 and 7207	Primary/Semi-finished products of non-alloy steel	10%	7.5%
29.	7208, 7209, 7210, 7211, 7212, 7225 (except 7225 11 00) and 7226 (except 7226 11 00)	Flat products of non-alloy and alloy steel	10% /12.5%	7.5%
30.	7213, 7214, 7215, 7216, 7217, 7221, 7222, 7223, 7227 and 7228	Long product of non-alloy, stainless and alloy steel	10%	7.5%
31.	7225	Raw materials for use in manufacture of CRGO steel [up to 31.03.2023]	2.5%	Nil
32.	7404	Copper Scrap	5%	2.5%
33.	7318	Screw, bolts, nuts, etc. of iron and steel	10%	15%

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		Capital Goods		
34.	8430	Tunnel boring machines	Nil	7.5%
35.	8431	Parts and components for manufacture of tunnel boring machines with actual-user condition	Nil	2.5%
		IT, Electronics and Renewable		
36.	8544 (other than 8544 70 and 8544 30 00)	Specified insulated wires and cables	7.5%	10%
37.	39, 74 and 85	Former, bases, bobbins, brackets; CP wires; P.B.T.; Phenol resin moulding powder; Lamination/ EI silicon steel strips for use in manufacture of transformers (entry at S.No. 198 of 25/1999- Customs)	Nil	Applicable rate
38.	Any Chapter	Inputs or parts for manufacture of Printed Circuit Board Assembly (PCBA) of cellular mobile phone (w.e.f. 1.4.2021)	Nil	2.5%
39.	Any Chapter	Inputs or parts for manufacture of camera module of cellular mobile phone (w.e.f. 1.4.2021)	Nil	2.5%
40.	Any Chapter	Inputs or parts for manufacture of connectors of cellular mobile phone (w.e.f. 1.4.2021)	Nil	2.5%
41.	Any Chapter	Inputs or raw material for manufacture of specified parts like back cover, side keys etc. of cellular mobile phone (w.e.f. 1.4.2021)	Nil	2.5%
42.	Any Chapter	Inputs or raw material (other than PCBA and moulded plastics) for manufacture of charger or adapter of cellular mobile phones	Nil	10%
43.	8504 90 90 or 3926 90 99	Moulded plastics for manufacture of charger or adapter	10%	15%
44.	Any Chapter	Inputs or parts of Printed Circuit Board Assembly of charger or adapter of cellular mobile phones	Nil	10%
45.	Any Chapter	Inputs or parts of Moulded Plastic of charger or adapter of cellular mobile phones	Nil	10%

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46.	Any Chapter	Inputs or raw materials (other than Lithium-ion cell and PCBA) of Lithium-ion battery or battery pack (w.e.f. 1.4.2021)	Nil	2.5%
47.	Any Chapter	Parts or components of PCBA of Lithium-ion battery or battery pack (w.e.f. 1.4.2021)	Nil	2.5%
48.	Any Chapter	Inputs or raw materials of following goods: - (i) Other machines capable of connecting to an automatic data processing machine or to a network (8443 32 90) (ii) Ink cartridges, with print head assembly (8443 99 51) (iii) Ink cartridges, without print head assembly (8443 99 52) (iv) Ink spray nozzle (8443 99 53) (w.e.f. 1.4.2021)	Nil	2.5%
49.	Any Chapter	Inputs and parts of LED lights or fixtures including LED Lamps	5%	10%
50.	Any Chapter	Inputs for use in the manufacture of LED driver or MCPCB (Metal Core Printed Circuit Board) for LED lights or fixtures including LED Lamps	5%	10%
51.	9405 50 40	Solar lanterns or solar lamps	5%	15%
52.	8504 40	Solar Inverters	5%	20%
53.	9503	Parts of Electronic Toys for manufacture of electronic toys	5%	15%
		Aviation Sector		
54.	Any Chapter	Components or parts, including engines, for manufacture of aircrafts or parts of such aircrafts, by Public Sector Units under Ministry of Defence subject to condition specified.	2.5%	0%
		Medical devices		
55.	9018-9022	Medical Devices imported by International Organization and Diplomatic Missions	Health Cess @ 5%	Health Cess @ Nil
		Goods imported under Project Import Scheme		
56.	9801	High Speed Rail Projects being brought under project imports	Applicable Rate	5%

57.	8714 91 00, 8714 92, 8714 93, 8714 94 00, 8714 95, 8714 96 00, 8714 99	All goods other than Bicycle parts and components	10%	15%
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\* Agriculture Infrastructure and Development Cess

**Other miscellaneous changes**

S. No.	Notification No.	Notification Subject
1.	42/1996 Customs dated 23 <sup>rd</sup> July, 1996	High Speed Rail Projects are being included in list of projects to which Project Imports Scheme is applicable
2.	230/1986 Customs dated 3 <sup>rd</sup> April, 1986	National High Speed Rail Corporation Ltd. is being nominated as the approving the items required to be imported under the Project Imports Scheme for High-Speed Rail Projects

**Pruning and review of customs duty concessions/ exemptions:**

**A. Review of concessional rates of BCD prescribed in notification No. 50/2017 customs dated**

**30.6.2017:** The BCD exemption hitherto available on certain goods are being withdrawn by omitting following entries of notification No. 50/2017-Customs dated 30.6.2017.

S. No.	S. No. of Notification	Description/ CTH
1.	209	Diphenylmethane 4, 4-diisocyanate (MDI) for use in the manufacture of spandex yarn
2.	230	Ink cartridges, ribbon assembly, ribbon gear assembly, ribbon gear carriage, for use in printers for computers
3.	229 [w.e.f 1.4.2021]	71 items like wax items, wood polish materials, prints for photo frames, velvet fabric/paper, handles/blades for cutlery, jigat, wine tools etc.
4.	311 [w.e.f 1.4.2021]	35 items like fasteners, zippers, shoulder pads, buckles, rivets, Velcro tape, toggles, stud, elastic cloth and band, bobbin, hooks, anglets etc.
5.	312	42 items like buckles, buttons, stamping foil, sewing thread,

	[w.e.f 1.4.2021]	Loop rivets, Glove Liners, shoe laces, inlay cards etc.
6.	313 [w.e.f 1.4.2021]	18 items like lace, Velcro tape, curtain hooks, Tassel, Beads, Sequins, sewing threads, poly wadding materials, quilted wadding materials etc.

**B. Prescribing the condition of observance of the Customs (Import of Goods at Concessional Rate of Duty) Rules, 2017 (IGCR Rules, 2017) for certain conditional entries in notification No. 50/2017-Customs dated 30.06.2017, in lieu of certain exiting conditions. Besides certain other conditions for imports are being rationalized/simplified.**

Accordingly, the condition Nos. 22, 24, 30, 38, 51, 52, 53, 54, 60, 61 and 74, in the said customs notification have been amended to prescribe condition of IGCR. In addition, it has been prescribed that the changed jurisdictional authority under IGCR Rules, 2017, shall also issue the end use certificate for the past period after due verification as per the rules.

**C. Customs duty exemptions, including those which have been granted through certain other stand-alone notifications, have also been reviewed by rescinding the notification:**

<b>S. No.</b>	<b>Notification No.</b>	<b>Notification Subject</b>
1.	1/2011-Customs, dated the 6.1.2011	Exemption to all items of machinery, instruments, appliances, components or auxiliary equipment for initial setting up of solar power generation project or facility
2.	34/2017-Customs dated 30 <sup>th</sup> June, 2017	This notification provided exemption to tags or labels (whether made of paper, cloth, or plastic), or printed bags (whether made of polyethene, polypropylene, PVC, high molecular or high density polyethene) imported for fixing on articles for export or for the packaging of such articles. Similar exemption exists at S. No.257 of notification No. 50/2017-Cus. These have been merged in the said S. No.257 and notification No 34/2017-Cus has been omitted.
3.	75/2017-Customs dated 13 <sup>th</sup> September, 2017	Exemption for goods imported for organizing FIFA Under-17 World Cup, 2017.

**IMPOSITION OF AGRICULTURE INFRASTRUCTURE AND DEVELOPMENT CESS ON IMPORT OF CERTAIN ITEMS [to be effective from 02.02.2021] [Clause [115] of the Finance Bill, 2021]**

An Agriculture Infrastructure and Development Cess (AIDC) has been proposed on import of specified goods. To ensure that imposition of cess does not lead to additional burden in most of these items on the consumer, the BCD rates has been lowered. This cess shall be used to finance the improvement of agriculture infrastructure and other development expenditure. The list of items on which cess has been imposed and the applicable duty and AIDC on them would be as follows:

S. No	Heading, sub-heading tariff item	Commodity	Basic customs duty	AIDC
1.	0808 10 00	Apples	15%	35%
2.	1511 10 00	Crude Palm Oil	15%	17.5%
3.	1507 10 00	Crude Soya-bean oil	15%	20%
4.	1512 11 10	Crude Sunflower seed oil	15%	20%
5.	0713 10	Peas (Pisum sativum)	10%	40%
6.	0713 20 10	Kabuli Chana	10%	30%
7.	0713 20 20	Bengal Gram (desichana)	10%	50%
8.	0713 20 90	Chick Peas (garbanzos)	10%	50%
9.	0713 40 00	Lentils (Mosur)	10%	20%
10.	2204	All goods (Wine)	50%	100%
11.	2205	Vermouth and other wine of fresh grapes, flavoured	50%	100%
12.	2206	Other fermented beverages for example, Cider, Perry, Mead, sake, mixture of fermented beverages or fermented beverages and nonalcoholic beverages	50%	100%
13.	2208	All goods (Brandy, Bourbon whiskey, Scotch etc.)	50%	100%
14.	2701	Various types of coal	1%	1.5%
15.	2702	Lignite, whether or not agglomerated	1%	1.5%
16.	2703	Peat, whether or not agglomerated	1%	1.5%
17.	3102 10 00	Urea	Nil	5%
18.	3102 30 00	Ammonium nitrate	2.5%	5%
19.	31	Muriate of potash, for use as manure or for the production	Nil	5%

		of complex fertilisers		
20.	3105 30 00	Diammonium phosphate, for use as manure or for the production of complex fertilisers	Nil	5%
21.	5201	Cotton (not carded or combed)	5%	5%
22.	7106	Silver (including imports by eligible passengers)	7.5%	2.5%
23.	7106	Silver Dore	6.1%	2.5%
24.	7108	Gold (including imports by eligible passengers)	7.5%	2.5%
25.	7108	Gold Dore	6.9%	2.5%

**OTHER CHANGES (INCLUDING CERTAIN CLARIFICATIONS/ TECHNICAL CHANGES BY AMENDING NOTIFICATION NO. 50/2017-CUSTOMS DATED 30.06.2017**

S.No.	S.No. of Notfn	Description
1.	20	a) The HS [0713 20 00] was split into [0713 20 10], [0713 20 20] and [0713 20 90] vide notification 22/2018-Cus dated 20.03.2020. However, the transposition of the same has not been done for entry 20 of notification No. 50/2017-Cus. b) It is proposed to specifically mention Kabuli Chana & Bengal gram (desichana) in the exclusions to this entry.
2.	21E	The entry is redundant (was valid only upto 31.12.2020 and is proposed to be omitted.
3.	44	The entry is redundant (was valid only upto 30.09.2017) and is proposed to be omitted.
4.	131	Acid grade fluorspar attracts 5% BCD vide serial numbers 120 and S.N. 131 of notification No. 50/2017-Customs dated 30.06.2017. Entry at S.No. being redundant is being omitted.
5.	175	Any chapter mentioned in the Chapter/heading etc. of this entry is being replaced by the specific entry heading 2501
6.	284	An explanation is being inserted in Sr. No. 284 of the notification no. 50/2017-Customs dated 30 <sup>th</sup> June 2017 so as to clarify that the said exemption entry does not cover toy balloons made of natural

S.No.	S.No. of Notfn	Description
		rubber latex as such toy balloons are classified under customs heading 9503, so as to avoid misclassification.
7.	293A & 293B	The language of exemption entries providing concessional rates on newsprint & other uncoated paper conforming to the specifications of newsprint (other than its surface roughness) is being simplified so as to remove any doubts regarding the specification of uncoated papers used for printing of newspapers on which the concessional rates apply.
8.	First Proviso	Clauses (b), (c) and (e) are being omitted as they are redundant.

### **Review of levy of Social Welfare Surcharge on various items.**

- A. Notification No. 12/2018-Customs, dated 02.02.2018 prescribing effective rates of 3% on certain items, including gold and silver, is being rescinded.
- B. SWS is also being rescinded on goods falling under heading 2515 11 and 2515 12
- C. SWS is being exempted on the value of AIDC imposed on gold and silver. Accordingly, these items would attract SWS, at normal rate, only on value plus basic customs duty.

### **Other Miscellaneous changes pertaining to Anti-Dumping Duty (ADD)/ Countervailing Duty (CVD) / Safeguard Measures**

1.	Customs Tariff (Identification, Assessment and Collection of Anti-dumping Duty on Dumped Articles and for Determination of Injury) Rules, 1995 provide for manner and procedure for investigation into dumping of goods that cause injury to domestic industry. Changes are being made in the Rules, to provide that with effect from 01.07.2021, to provide that final findings are to be issued by the designated authority, in review cases, at least three months prior to expiry of the ADD under review. The ADD Rules are also being amended to provide for provisional assessment in cases of anti-circumvention investigation. Certain other changes are being made for bringing clarity in the scope of these rules.
2.	Customs Tariff (Identification, Assessment and Collection of Countervailing Duty on Subsidized Articles and for Determination of Injury) Rules, 1995 provide for manner and procedure for causing investigation into the cases of imports of subsidized goods that cause injury to domestic industry. Changes are being made in the Rules to provide that with effect from 01.07.2021, the final findings are to be issued by the designated authority, in review cases, at least three months prior to expiry of the CVD under review. The CVD Rules are also being amended to provide for provisional assessment in cases of anti-circumvention

	investigation. Certain other changes are being made for bringing clarity in the scope of these rules.
3.	Customs Tariff (Identification and Assessment of Safeguard Duty) Rules, 1997 (Safeguard Duty being changed to Safeguard Measures) provide for manner and procedure for causing investigation into the cases of imports in increased quantity that cause injury to domestic industry. Changes in the rules are being proposed to elaborate in detailed manner the modalities of implementation of safeguard measure, along with technical modifications consequent to the changes made earlier in section 8B of the Customs Tariff Act vide Finance Act, 2020.
4.	Anti-Dumping duty is being temporarily revoked for the period commencing from 2.2.2021 till 30.09.2021, on imports of the following:- a) Straight Length Bars and Rods of alloy-steel, originating in or exported from People’s Republic of China, imposed vide notification No. 54/2018-Cus (ADD) dated 18.10.2018; b) High Speed Steel of Non-Cobalt Grade, originating in or exported from Brazil, People’s Republic of China and Germany, imposed vide notification No. 38/2019-Cus (ADD) dated 25.09.2019; c) Flat rolled product of steel, plated or coated with alloy of Aluminum or Zinc, originating in or exported from People’s Republic of China, Vietnam and Korea RP, imposed vide notification No. 16/2020-Cus (ADD) dated 23.06.2020.
5.	Countervailing duty is being temporarily revoked for the period commencing from 2.2.2021 till 30.09.2021, on imports of Certain Hot Rolled and Cold Rolled Stainless Steel Flat Products, originating in or exported from People’s Republic of China, imposed vide notification No. 1/2017-Cus (CVD) dated 07.09.2017.
6.	Provisional Countervailing duty is being revoked on imports of Flat Products of Stainless Steel, originating in or exported from Indonesia, imposed vide notification No. 2/2020-Customs (CVD) dated 9.10.2020.
7.	In Sunset Review, anti-dumping duty on Cold-Rolled Flat Products of Stainless Steel of width 600 mm to 1250 mm and above 1250 mm of non bonafide usage originating in or exported from People’s Republic of China, Korea RP, European Union, South Africa, Taiwan, Thailand and United States of America has been discontinued upon expiry of the anti-dumping duty hitherto leviable vide notifications no. 61/2015-Customs (ADD) dated 11th December, 2015 and 52/2017-Customs (ADD) dated 24th October, 2017.

## **DISCLAIMER**

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