

# BUDGET 2021



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The Union Budget 2021-22 was presented by the Hon'ble Finance Minister Nirmala Sitharaman on 1st February 2021 in the Parliament, which was the first budget of this new decade and also a digital one in the backdrop of unprecedented Covid - 19 crisis.

This year's Budget lays focus on the six pillars for reviving the economy -

- ▶ Health and Well being,
- ▶ Physical and Financial Capital and Infrastructure,
- ▶ Inclusive Development for Aspirational India,
- ▶ Reinvigorating Human Capital,
- ▶ Innovation and R&D,
- ▶ Minimum Government Maximum Governance.

The fiscal deficit for the year has been raised to 9.5% and without worrying about the rating agencies, the budget has increased its out lay for capital expenditure which is a welcome move. The overall capital expenditure for FY 2021-22 is Rs. 5.54 lakh crore. Since the healthcare sector's improvement is the need-of-the-hour, FM proposed a new centrally sponsored scheme, PM Aatmanirbhar Swasth Bharat Yojana, with an outlay of about Rs. 64,180 crore over six years. Further, the Budget outlay for Health and Well being is estimated to be Rs. 2,23,846 crore for FY 2021-22, which is a rise by 137% Y-o-Y basis. The increased allocation is expected to expand and strengthen existing national health institutions, National Center for Disease Control (NCDC), Health Emergency Operation Centers and mobile hospitals. Another major highlight was the increase in the FDI limits in the insurance sector from 49% to 74%. The government plans to divest two PSUs as well as one insurance company.

On Infrastructure, the budget has undertaken a holistic approach with multiple measures that help create new institutions and strengthen credit flow from the formal banking system. There is a renewed focus on highways, railways (including metros) and ports.

The budget proposed consolidating SEBI Act 1992, Depositories Act 1996, Securities Contracts (Regulation) Act 1956 and Government Securities Act, 2007 into a rationalised single securities market code. This move relating to securities laws, aimed at the government's "Ease of Doing Business" objective.

The Budget also proposed to amend the Insurance Act, 1938 to increase the permissible FDI limit from 49% to 74% and allow foreign ownership and control with safeguards. Under the new structure, the majority of Directors on the Board and key management persons would be resident Indians, with at least 50% of Directors being Independent Directors, and specified percentage of profits being retained as general reserve.

In order to promote International Financial Service Center (IFSC) in GIFT City, the budget proposes additional tax incentives. The Government has proposed to introduce a new regime for taxation of off-shore funds choosing GIFT City. As per the proposed changes, profits and business income earned by such funds from GIFT City will be tax exempt.

Under the pillar of Inclusive Development for Aspirational India, the Finance Minister announced to cover Agriculture and Allied sectors, farmers' welfare and rural India, migrant workers and labor and financial inclusion.

To ensure affordable housing for migrant workers, the Budget has proposed an extension of tax holiday for developers for one more year for affordable rental housing projects. This will help the government in achieving "housing for all by 2022".

The Finance Minister provided relief to senior citizens in filing of income tax returns, reduced time limit for income tax proceedings, announced setting up of the Dispute Resolution Committee, faceless ITAT, relaxation to NRIs, increase in exemption limit from audit and relief for dividend income from advance tax liability. She also announced steps to attract foreign investment into infrastructure, relief to affordable housing and rental housing, tax incentives to IFSC, relief to small charitable



trusts and steps for incentivizing Start-ups in the country.

In a bid to reduce the cost of compliance for taxpayers, finance minister has proposed to make proceedings before the Income Tax Appellate Tribunal (ITAT) faceless.

The increase in turnover threshold for tax audit from Rs. 5 crore to Rs. 10 crore should provide relief to the MSME segment and help in improving the sentiment of smaller businesses.

On the issue of Indirect Tax proposals, the Minister said that record GST collections have been made in the last few months. She said several measures have been taken to further simplify the GST. Mandatory requirement of furnishing the GST reconciliation report signed by the specified professional is relaxed by allowing the filing of annual return on a self-certification basis. The capacity of GSTN system has been announced. Deep analytics and artificial intelligence have been deployed to identify tax evaders and fake billers, launching special drives against them. The Finance Minister assured the House that every

possible measure shall be taken to smoothen the GST further and remove anomalies such as the inverted duty structure.

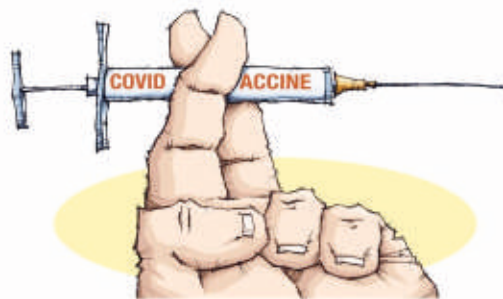
The proposed amendments to the Companies Act for Small Companies by increasing their thresholds for paid up capital from “not exceeding Rs. 50 Lakhs” to “not exceeding Rs. 2 Crore” and turnover from “not exceeding Rs. 2 Crore” to “not exceeding Rs. 20 Crore” would benefit more than two lakh companies in easing their compliance requirement.

Overall, the Budget balances both growth and development aspirations, especially in a difficult year. The Finance minister's promise of a 'never seen before' Budget, has increased expectations.

Regards,

*S. L. Jain*

**(S. L. Jain)**





The economic survey, authored by Chief Economic Adviser Krishnamurthy Subramanian, has analysed various topics from economic growth, fiscal stance, state of banking and more.



Digital Technology has been the 'sprint runner' of this year that enabled the nation to tide over the disruptive effects of the pandemic. As a recognition of its role, the Survey this year has gone digital. To enhance the e-readability, for the first time, the aligning of the text in the Survey is in a single column.

The Covid-19 pandemic engendered— a unique recession where 90 per cent of countries are expected to experience a contraction in GDP per capita. India imposed the most stringent lockdown at the very onset of the pandemic. India focused on saving lives and livelihoods by its willingness to take short-term pain for long term gain. This enabled flattening of the pandemic curve and thereby, provided the necessary time to ramp up the health and testing infrastructure.

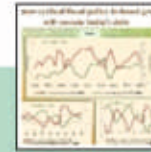
The pandemic has accounted for 20.5 lakh death across 220 countries with a global case fatality rate of 2.2 per cent as of 15th January 2020. However, in the initial stages of the pandemic, the world average case fatality rate (CFR) was much higher at 5-6 per cent. These features have made the virus lethal.

Here are the key highlights from this year's survey:

### 10 New Ideas proposed by Economic Survey 2020-21



- Human and Visionary Policy transformed lives vs livelihood to saving lives & livelihoods
- Counter Cyclical
- Fiscal Policy
- Indian Sovereign credit ratings



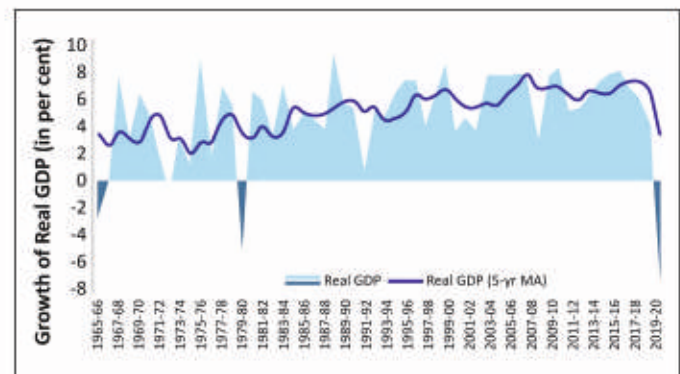
- Continued Focus on Growth
- Healthcare takes centre stage
- Process reforms to enable decision making under uncertainty



- Regulatory Forbearance
- Thrust on private investment in R & D to realise India's potential
- Ayushman Bharat's salutary effect on health
- Improved and Equitable access to 'the bare necessities' across States

### India's Overall Economic Performance in 2020-21: GDP, Inflation, Fiscal Developments, GST:

National Statistical Office (NSO) has estimated a contraction of real GDP by 7.7 per cent in 2020-21 as compared to a growth of 4.2 per cent in 2019-20. This is the **fourth** contraction in India's GDP since 1960-61.



The contraction this year reflects the 'once in a century crisis' unleashed by the pandemic and associated public health measures.

- The economy witnessed a sharp contraction of 23.9 per cent in Q1: FY 2020-21 and 7.5 per cent in Q2: FY 2020-21 due to the stringent lockdown imposed during March-April, 2020.

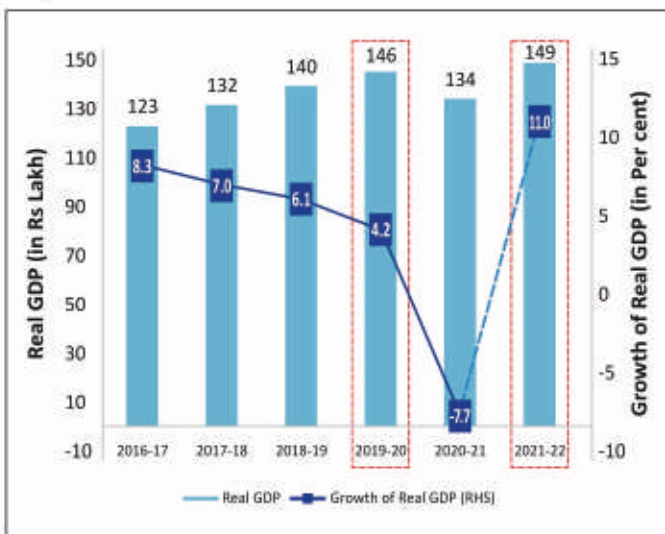


- Agriculture sector growth is pegged at a steady 3.4% in both the halves of 2020-21.
- Industry sector recovered with a positive growth of 1.1% as against a sharp 20.5% drop in the first half of 2020-21.
- Electricity and Construction sectors registered a V shape recovery with growth of 7.1 % and 4.4% respectively in second half.

**GDP**

India is expected to emerge as the fastest growing economy in the next two years as per IMF.

**Projections of Real GDP for 2021-22.**



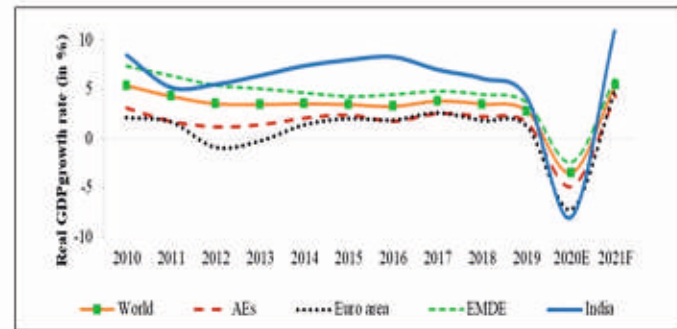
**Global Economy**

The month of April 2020 became the month of “Global Lockdown” with world economic activity coming to a standstill - leading to a steep fall in output during second quarter of 2020.

Global output is expected to witness the sharpest contraction in a century, contracting in the range of 3.5 - 4.3 per cent in 2020 as per the estimates provided by IMF and World Bank.

The rebound in global activity has, however, been uneven and subdued since the beginning of second half of the year due to resurgence in COVID-19 infection rates in AEs.

**Trend in Global Growth**



**Fiscal Developments**

The capital expenditure for April to December 2020 stood at Rs. 3.17 lakh crore, 24 per cent higher than the capital expenditure during the corresponding period in the previous year.

The total expenditure also recorded a YoY growth of 11 per cent, increasing from Rs. 21.1 lakh crore during April to December 2019 to Rs. 23.4 lakh crore during April to December 2020.

The Gross Tax Revenue during the first eight months of 2020-21 was Rs. 10.26 lakh crore, 12.6 per cent lower than in the same period last year. This decline was owing to the negative growth in all direct taxes and major indirect taxes, except excise duties.

**GST**

GST collections for the Centre were 48 per cent of BE during April to November 2020.

Monthly GST revenues for the month of December 2020 stood at Rs. 1.15 lakh crore, after registering a 12 percent growth in the GST revenues over December 2019.

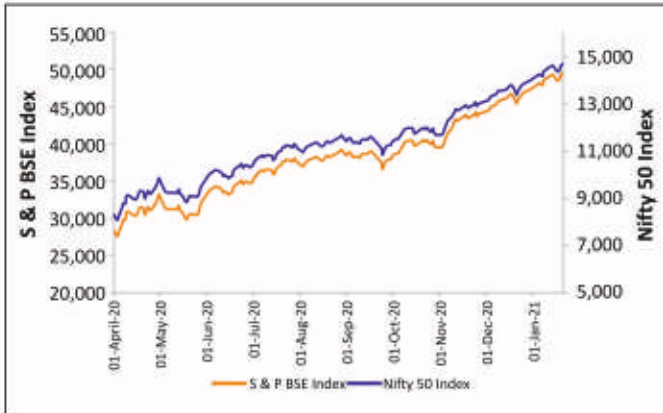
**Movement of Indian Benchmark Indices**

- During 2020-21 (upto January 20, 2021), India's benchmark indices, namely Nifty50 and S&P BSE Sensex index, reached record highs of 14,644.7 and 49,792.1 respectively on January 20, 2021.
- The S&P BSE Sensex, the benchmark index of BSE, rose by 68.9 per cent to 49,792.1 on January 20, 2021, compared to 29,468 on March 31, 2020. During the



same period, Nifty 50 index of National Stock Exchange (NSE) gained by 70.3 percent from March 31, 2020 to January 20, 2021.

#### Movement of Indian Benchmark Indices



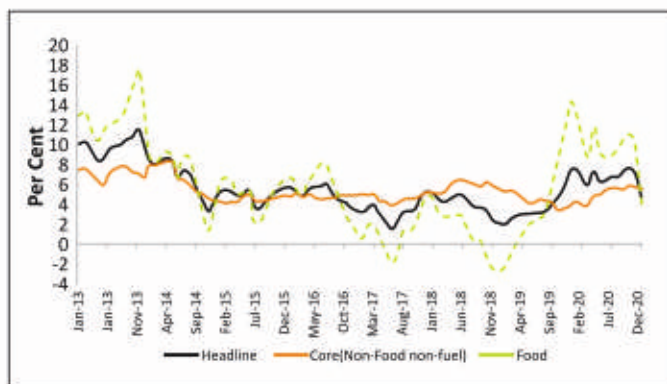
#### Prices and Inflation

Headline inflation based on CPI-Combined (CPI-C) was on a downward path from 2014 to 2018. Though a rising trend was observed since 2019, a moderation in inflation is clearly visible now.

CPI Core (non-food non-fuel) inflation declined from 5.8 per cent in 2018-19 to 4.0 per cent in 2019-20 and averaged 5.4 per cent in 2020-21 (Apr-Dec).

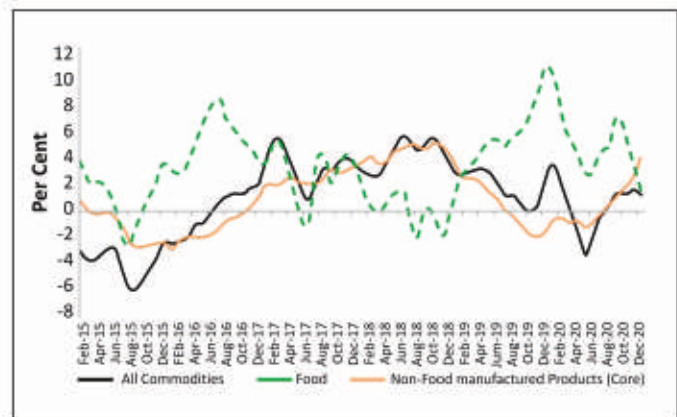
The increase in inflation in the current year was mainly driven by rise in food inflation, which increased from 0.1 per cent in 2018-19 to 6.7 per cent in 2019-20 and further to 9.1 per cent in 2020-21 (Apr – Dec), owing to build up in vegetable prices.

#### Trends in CPI-C Headline, Core and Food inflation



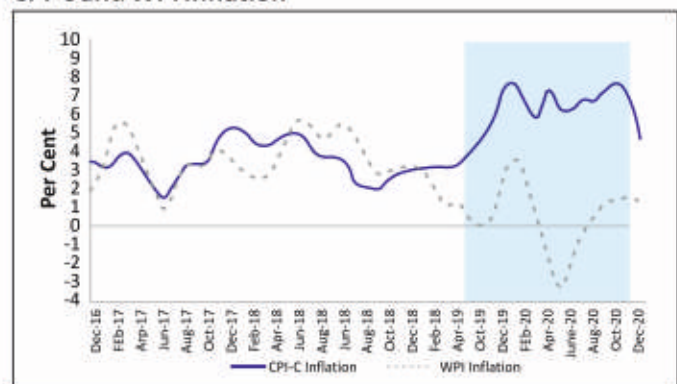
- WPI inflation declined from 4.3 per cent in 2018-19 to 1.7 per cent in 2019-20 and further to (-) 0.1 per cent in 2020-21 (Apr-Dec).
- WPI food inflation declined from 6.9 per cent in 2019-20 to 4.2 per cent in 2020-21 (Apr-Dec).
- WPI core inflation increased to 0.8 per cent in 2020-21 (Apr-Dec) as compared to (-) 0.4 per cent in 2019-20.

#### Trends in WPI All commodities, Core and Food inflation



Since February 2017, CPI-C inflation and WPI inflation have been moving more or less in tandem till beginning of 2019-20. After this period, gap has emerged, which has widened in the recent months. Between April-July 2020, WPI inflation has been in the negative region while CPI-C inflation has been above 6 per cent. The major feature in this widening gap is that this has happened in a period witnessing high food inflation. The shaded region in Figure below shows the period during which CPI inflation has remained higher than non-food inflation.

#### CPI-C and WPI Inflation





### Foreign Exchange Reserves

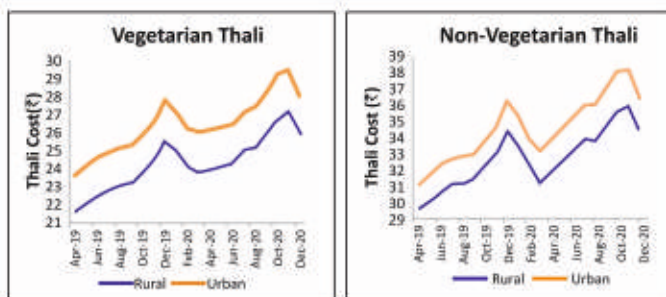
- Foreign Exchange Reserves rose to an all time high of US \$ 586.1 billion as on January 8th, 2021.
- Balance of Capital Account was stronger due to robust FDI and FPI inflows.
- India is the Fifth largest foreign exchange reserves holder among all countries of the world.
- India's international financial liabilities are 210.7 per cent of foreign exchange reserves as at end-September 2020 as compared with 229.7 per cent as at end-March 2020.

### Targeting Ease of Doing Business

- As per the Doing Business Report (DBR), 2020, the rank of India in the Ease of Doing Business (EoDB) Index for 2019 has moved upwards to the 63rd position amongst 190 countries from a rank of 77 in 2018.
- As on December 23, 2020, Govt has recognized a total of 41,061 startups and 4,70,000 jobs have been reported by more than 39,000 startups. The Government has taken several initiatives to promote the startups.
- FDI is a one of the major sources of investment and investment financing that drives the economic growth in the country. During FY20, total FDI equity inflows were US\$49.98 billion as compared to US\$44.37 billion during FY19.

### Thalinomics: Economics of Plate of Food in India

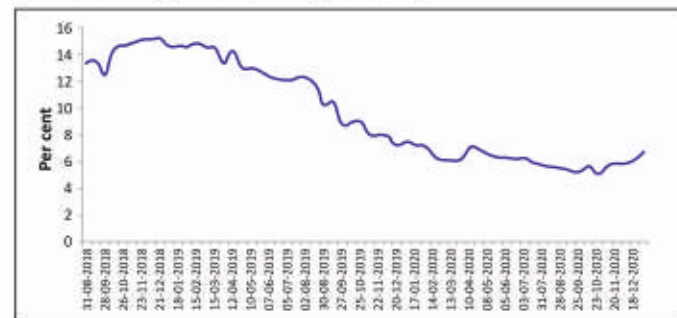
Thali cost (Veg and Non Veg) have increased between June 2020 and November 2020, they witnessed a sharp fall in the month of December reflecting the fall in the prices of many essential food commodities.



### Monetary Policy & Financial Intermediation

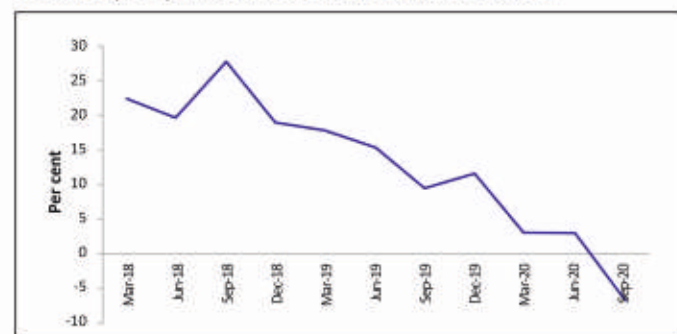
- RBI undertook various conventional and unconventional measures like Open Market Operations, Long Term Repo Operations, Targeted Long Term Repo Operations etc. to manage liquidity situation in the economy.
- Monetary policy remained accommodative in 2020.
- The Repo rate was cut by 115 basis points since March 2020.
- Gross Non Performing Assets ratio of Scheduled Commercial Banks decreased from 8.21 per cent at the end of March 2020 to 7.49 per cent at the end of September 2020.
- Credit growth of banks slowed down to 6.7 per cent as on January 1, 2021.

### Bank Credit growth (YoY) (per cent)



- Credit growth of NBFCs continued to slow down. The sector had witnessed credit growth of 2.72 percent from Rs. 23.16 lakh crore in March 2019 to Rs. 23.8 lakh crore in March 2020 as compared with 17.7 per cent growth during the previous year.

### Growth (YoY) in Loans and Advances of NBFCs





### Sustainable Development and Climate Change

- Localisation of Sustainable Development Growth (SDG) is aimed for achieving the goals under the 2030 Agenda.
- Handholding States / UTs through planning departments.
- From Global to Local to meet the goals.
- India has sought to reduce the emissions intensity of its GDP by 33 to 35 per cent below 2005 levels by the year 2030, achieve 40 per cent of cumulative electric power installed capacity from non-fossil fuel sources by 2030, and enhance forest and tree cover to create additional carbon sink equivalent to 2.5 to 3 billion tons of carbon dioxide by 2030.
- The other goals pertain to adoption of sustainable lifestyles based on traditional values of conservation and moderation, adaptation to climate change, clean economic development and environment friendly technology, etc.

### Agriculture and Food Management

- The national lockdown coincided with the commencement of the harvesting season for the Rabi crops creating further adversity for the sector.
- Migration of agricultural labourers to their native places during the lockdown created a shortage of farm labourers.
- The share of agriculture and allied sectors in GVA of the country has declined from 18.2 per cent in 2014-15 to 17.8 per cent in 2019-20.
- While the GVA for the entire economy contracted by 7.2 per cent, growth in GVA for agriculture maintained a positive growth of 3.4 per cent.

### Industry and Infrastructure

- The IIP growth started contracting immediately after the lockdown reaching its historical low in April 2020. The IIP attained a growth of (-) 1.9 per cent in November 2020 as compared to 2.1 per cent in November 2019.

- The GoI announced a remedial and reform package (Atmanirbhar BharatAbhiyan) comprising of stimulus of package amounting to 15 per cent of India's GDP.
- The eight core industries that support infrastructure, such as coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity have a total weight of nearly 40 percent in the IIP. The eight core index recorded its all time low growth of (-) 37.9 due to Covid -19 led nation wide lockdown in April 2020.
- The cumulative growth of core industries during April-November 2020 was (-) 11.4 per cent as compared to 0.3 per cent during April-November 2019.

### Employment, Social Infrastructure and Human Development

- The size of the workforce increased by about 1.64 crore, of which 1.22 crore were in rural sector and 0.42 crore in urban sector. The gender composition was 0.92 crore females and 0.72 crore males.
- Number of unemployed persons declined by about 0.79 crore between 2017-18 and 2018-19, largely in the category of females and in rural sector.
- The expenditure on social services (education, health and other social sectors) by Centre and States combined as a proportion of GDP increased from 6.2 to 8.8 per cent during the period 2014-15 to 2020-21 (BE).
- A clarion call for 'Atmanirbhar Bharat' was announced to revive the economy and to address the pandemic. A special economic and comprehensive package of Rs. 20 lakh crore - equivalent to 10 per cent of India's GDP was announced in May 2020.
- Composite school grant increased from Rs. 14,500-50,000 to Rs. 25,000 - Rs. 1 lakh and to be allocated on the basis of school enrolment, with atleast 10 per cent allocation for Swachhta activities – support 'SwachhVidyalaya'.
- Enhanced Commitment to 'Beti Bachao Beti Padhao'.



- The value of Human Development Index (HDI) for India has increased from 0.579 in 2010 to 0.645 in 2019

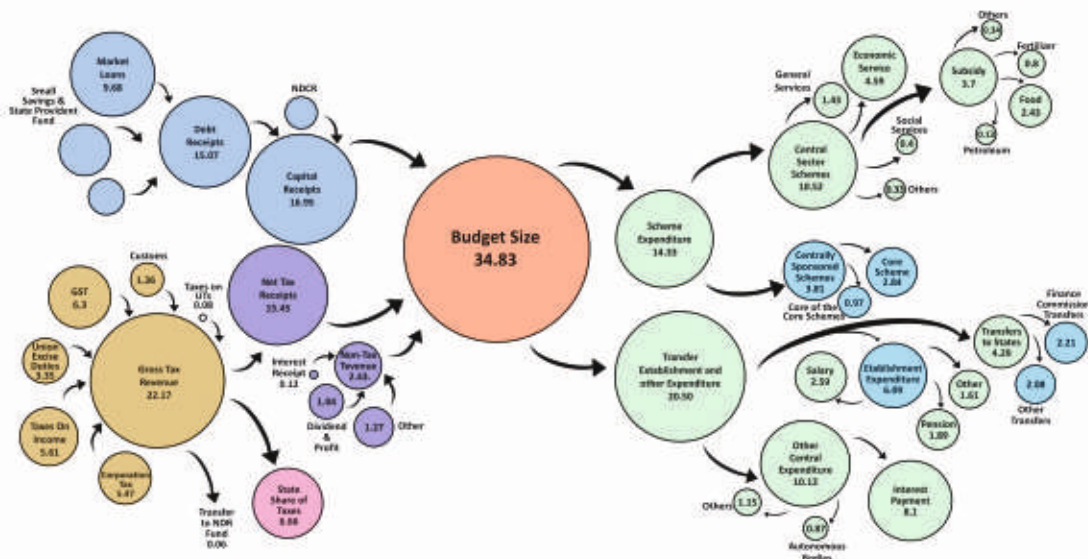
**WAY FORWARD**

The COVID-19 led economic crisis adversely affected the global and domestic economy. The economic activities across the sectors were suddenly suspended that forced billions of people to restrict their movement. The crisis management strategy had to encompass all the stakeholders, especially the weaker and the vulnerable sections. The nature and scale of the unprecedented shock triggered several interventions from the Government – short term as well as those aimed at








ushering in structural reforms through the Atmanirbhar Bharat package. A rapid recovery of the industrial sector following a sudden fall in the high frequency growth indicators could only be witnessed because of timely, meaningful, and appropriate policy measures.





The year after the crisis (FY22) will require sustained and calibrated measures to facilitate the process of economic recovery and to enable the economy to get back to its long-term growth trajectory. The revival of the industrial and infrastructure sector will be key to overall economic growth and macro economic stability.

**BUDGET PROFILE**

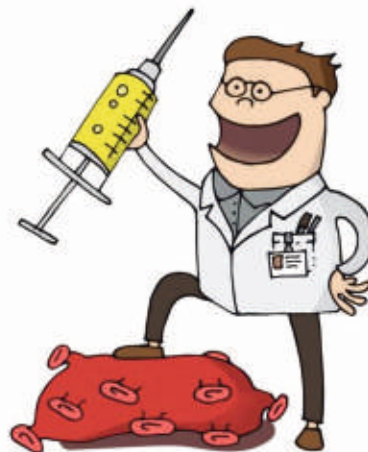




Sector	Policy	Impact	Effect
<b>Health Care</b> 	<ul style="list-style-type: none"> <li>◆ PM Atmanirbhar Swasth Bharat Yojana.</li> <li>◆ Pneumococcal vaccine to be rolled across the country.</li> <li>◆ Rs. 35,000 crore for Covid -19 Vaccine in 2021-22.</li> </ul>	<ul style="list-style-type: none"> <li>◆ A good preventive approach and will boost the sector.</li> <li>◆ A necessary support for health and wellness centers.</li> </ul>	F
<b>Automobiles</b> 	<ul style="list-style-type: none"> <li>◆ Voluntary vehicles scrappage policy announced.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Hike in import duty on automotive parts by 5 - 7.5% to accelerate the "Make in India" drive.</li> </ul>	F
<b>Banking &amp; Finance</b> 	<ul style="list-style-type: none"> <li>◆ Recapitalisation of PSB's by Rs. 20,000 crore is proposed in 2021-22.</li> <li>◆ To privatized State run Banks.</li> <li>◆ A portfolio of Rs. 5 lakh crore for Development Financial Institution (DFI) in 3 years' time.</li> </ul>	<ul style="list-style-type: none"> <li>◆ This will lead to infusion of capital and strengthen the banks.</li> </ul>	F
<b>NBFCs &amp; HFC's</b> 	<ul style="list-style-type: none"> <li>◆ NBFCs eligibility limit for debt recovery reduced from Rs 50 lakh to Rs 20 lakh loan size.</li> </ul>	<ul style="list-style-type: none"> <li>◆ This would provide the necessary liquidity support to the NBFC sector.</li> <li>◆ Would improve the credibility of the sector.</li> </ul>	F
<b>Power</b> 	<ul style="list-style-type: none"> <li>◆ A revamped reforms based result linked power distribution sector scheme will be launched with an outlay of Rs. 3,05,984 crore over 5 years .</li> <li>◆ 1.41 lakh circuit km of transmission lines added.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The fiscal measures could help to attract more capital for power sector.</li> </ul>	F
<b>Infrastructure &amp; Construction</b> 	<ul style="list-style-type: none"> <li>◆ 100% electrification of Broad Gauge Route by 2023.</li> <li>◆ National Rail Plan for developing adequate rail infrastructure by 2030.</li> <li>◆ Rs. 1,18,101 lakh crore for ministry of road transport and highways.</li> <li>◆ Debt Financing of InVITS and REITs by Foreign Portfolio Investors will be enabled by making suitable amendments in the relevant legislations.</li> </ul>	<ul style="list-style-type: none"> <li>◆ It will further ease access of finance to InVITS and REITs thus augmenting funds for infrastructure and real estate sectors.</li> <li>◆ Proposals to Develop highways call for augmenting road connectivity and will rekindle private companies interest in road development.</li> </ul>	F
<b>Cement</b> 	<ul style="list-style-type: none"> <li>◆ The infrastructure spends along with affordable housing likely to substantially increase in the next five years.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Higher allocations to infrastructure &amp; affordable housing will aid all cement makers.</li> </ul>	F

Sector	Policy	Impact	Effect
<b>Metals</b> 	<ul style="list-style-type: none"> <li>◆ BCD on metal products proposed to increase from 10% to 15%.</li> </ul>	<ul style="list-style-type: none"> <li>◆ This may benefit domestic manufacturers.</li> </ul>	F
<b>Textile</b> 	<ul style="list-style-type: none"> <li>◆ A scheme of Mega Investment Textile Parks (MITRA) will be launched.</li> <li>◆ 7 Textile Parks will be established over 3 years.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Would create world class infrastructure and boost employment generation in this sector.</li> </ul>	
<b>Oil &amp; Gas</b> 	<ul style="list-style-type: none"> <li>◆ Ujjawala Scheme which has benefited 8 crore households will be extended to cover 1 crore more beneficiaries.</li> <li>◆ Gas pipeline project to be taken up in J&amp;K.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Will boost the rural sector.</li> </ul>	N
<b>Agriculture</b> 	<ul style="list-style-type: none"> <li>◆ 1000 more mandis to be integrated with e-NAM</li> <li>◆ Expansion of Operation Green scheme to include 22 perishable products.</li> <li>◆ Extending coverage of SWAMITVA Scheme to all state / UT's</li> <li>◆ Agriculture credit target to enhanced to Rs. 16.5 lakh crores in FY 22.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Will boost the mood of the farmers.</li> <li>◆ Agriculture infrastructure fund would be made available for augmenting infrastructural facilities.</li> </ul>	F

F - Favorable. U - Unfavorable. N - Neutral





### ❖ Income tax slabs and rate of tax

The finance minister left the income tax slabs and tax rates unchanged in the budget.

Below is the income tax applicable for FY 2021-22.

#### Individuals & HUF

	Rate of tax	
	As per old tax regime	As per optional new tax regime
<b>Individual tax rates</b>		
Income upto Rs. 2.5 Lacs	Nil	Nil
Income between Rs. 2.5 Lacs - Rs. 5 Lacs	5%	5%
Income between Rs. 5 Lacs - Rs. 7.5 Lacs	20%	10%
Income between Rs. 7.5 Lacs - Rs. 10 Lacs	20%	15%
Income between Rs. 10 Lacs - Rs. 12.50 Lacs	30%	20%
Income between Rs. 12.50 Lacs - Rs. 15.00 Lacs	30%	25%
Income above Rs. 15 Lacs	30%	30%
<b>Senior citizen (&gt;60 years)</b>	Exemption limit of Rs. 3 Lacs	---
<b>Very senior citizen (&gt;80 years)</b>	Exemption limit of Rs. 5 Lacs	---
<b>Surcharge</b>		
Income between Rs. 50 Lacs and Rs. 1 Crore	10%	10%
Income between Rs. 1 crore and Rs. 2 crore	15%	15%
Income between Rs. 2 crore and Rs. 5 crore*	25%	25%
Income exceeding Rs. 5 crore*	37%	37%
*Enhanced surcharge rates introduced in the Finance Bill 2019 have been waived on capital gains from equity.		
<b>Education cess</b>	4% (health and education cess)	4% (health and education cess)

#### Domestic companies

Particulars	Existing/ Old regime Tax rates	New Regime Tax rates
Company opts for section 115BAB (not covered in section 115BA and 115BAA) & is registered on or after October 1, 2019 and has commenced manufacturing on or before 31st March, 2023.	---	15%
Company opts for Section 115BAA, wherein the total income of a company has been calculated without claiming specified deductions, incentives, exemptions and additional depreciation	---	22%
Company opts for section 115BA registered on or after March 1, 2016 and engaged in manufacture of any article or thing and does not claim deduction as specified in the section clause.	---	25%
Turnover or gross receipt of the company is less than Rs. 400 crore in the previous year 2018-19	25%	25%
Any other domestic company	30%	30%

- Additional Health and Education cess at the rate of 4 % will be added to the income tax liability in all cases.
- Surcharge applicable for domestic companies is as below:  
7% of Income tax where total income > Rs. 1 crore  
12% of Income tax where total income > Rs.10 crore  
10% of income tax where domestic company opted for section 115BAA and 115BAB

#### Foreign companies

A foreign company is taxable at 40%

- Additional Health and Education cess at the rate of 4 % will be added to the income tax liability.
- Surcharge applicable for foreign companies is as below:



2% of Income tax where total income exceeds Rs. 1 crore

5% of Income tax where total income exceeds Rs. 10 crore

**Partnership firm and LLP**

A partnership firm and LLP is taxable at 30%.

- Additional Health and Education cess at the rate of 4 % will be added to the income tax liability
- 12% Surcharge is levied on incomes above Rs 1 crore

❖ **Foreign Fund**

◆ **Tax incentives for units located in International Financial Services Centre (IFSC)**

Government has establishment a world class financial services center. Units located in IFSC enjoy some concession. In order to make location in IFSC more attractive, it is proposed to provide the following additional incentives.



Existing provisions provide that an eligible investment fund registered outside India to collect funds for investment on behalf of such beneficiaries and activities through its eligible investment fund or its eligible fund manager be not considered as having business connection in India if complies conditions prescribed in sub sec (3)(a) to(m)and eligible manager complies Certain condition as prescribed under sec (4) (a) to (d).

It is proposed to provide that Central Government by notification in official Gazette can waive one or more conditions as prescribed under sub-section

(3) or (4) if such unit is located in International Financial Service Center and commence operation prior to 31st March 2024.



Under existing provisions of section 10 (4D) income of a fund incorporated in India and recognized by SEBI as Category III Alternate Investment Fund are entitled to certain exemption as provided in said section. It is proposed to extend same exemption to **Investment Division of Offshore Banking Unit** which commences business prior to 31st March 2024 in International Financial Service Center.

Proposed new section 10(4E) exempt such Units from income tax on non-deliverable forward **contracts**.

Proposed Section 10(4F) exempt from tax any income of non –resident by way of **Royalty on lease of an Aircraft or engine** paid by a unit in International Financial Service Center. Even **income on transfer of an aircraft or aircraft engine** which was leased to a domestic company is exempt.



Proposed section 10(23FF) provide that if an foreign '**Original Fund**' **reallocate** its original assets to the '**Resultant Fund**' before 31st March



2023 in International Financial Service Center, subject to compliance of conditions prescribed no capital gain arising on transfer be not chargeable. Even shareholders will not be chargeable to tax on issue of shares or units of 'Resultant Fund'.

Existing provision of **section 80LA** allowed an Offshore Banking unit in a SEZ exemption from tax to the extent of 100% for 5 years and 50% for next 5 years, similar benefits are extended to a **unit in International Financial Service Center**.



Provisions of section 115AD be also applicable to investment division of an offshore banking unit, subject to compliance of conditions prescribed.

Provided that deduction under said section is also available to a unit of International Financial Services Centre 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.

This amendment will take effect from 1st April, 2022.

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

In order to enable infrastructure debt fund [which are notified by the Central Government in the Official Gazette under clause (47) of section 10 of the Act] to issue zero coupon bond necessary amendments are proposed in clause (48) of section 2 of the Act. Rules 2F and 8B of Income-tax Rules shall be amendment subsequently after the Finance Bill 2021 is enacted.

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



Under existing provision of sec 10(23FE) SWE and PF income on investment made in India by way of dividend, interest or long term capital gain is exempt. In order to rationalise the provision of this clause and to remove the difficulties in meeting some of the conditions, the bill propose to allow Alternate Investment Fund (AIF) to invest up to 50% in non-eligible investments.

Presently SWF/PFs may invest in a Category-I or Category-II Alternative Investment Fund, having 100% investment in eligible infrastructure company.



It is proposed to :

- relax the condition of 100% to 50%.
- allow the investment by Category-I or Category-II AIF in an Infrastructure Investment Trust (InvIT).
- Exemption under this clause shall be calculated proportionately, in case if aggregate investment of AIF in infrastructure company or companies or in InvIT is less than 100%.



Presently SWF/PFS are not allowed to invest in NBFC-IFC/IDF. It is proposed to be allowed subject to certain conditions.

Presently SWF/PFS are not allowed to take any commercial activity. It is proposed to provide that such SWF/PFS will not participate in day to day operations of investee but can appoint director for monitoring the investment.



Presently, some PFs are liable to tax in their country though given exemption subsequently. It is proposed to amend this sub-clause to provide that if pension fund 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, then such pension fund shall also be eligible.

It is also proposed to provide that the Central Government may prescribe the method of calculation of 50% or 75% or 90% referred above.

This amendment will take effect from 1st April, 2021.

- ◆ **Addressing mismatch in taxation of income from notified overseas retirement fund**



To insert a new section 89A to the Act to provide that the income of a specified person being a person resident in India who opened a specified

account 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 in a notified country while being non-resident in India and resident in that country income from such specified account shall be taxed in the manner and in the year as prescribed by the Central Government.

This amendment will take effect from 1st April, 2022.

- ◆ **Rationalization of the provision concerning withholding on payment made to Foreign Institutional Investors (FIIs)**



To insert a proviso to subsection of section 196D of the Act to provide that in case of a payee to whom an DTAA agreement applies and such payee has furnished the tax residency certificate, then the tax shall be deducted at the rate of twenty per cent or **rate or rates of income tax provided in such DTAA agreement for such income, whichever is lower.**

This amendment will take effect from 1st April, 2021.

- ◆ **Constitution of the Board for Advance Ruling**

At present a Scheme of Advance Ruling is in existence. It is proposed to replace by a **Board of Advance Ruling** and to make the following amendments in the existing provisions of AAR:-

- The Authority for Advance Rulings shall cease to operate with effect from such date, as may be notified by the Central Government in the Official Gazette (hereinafter referred to as the notified date).



- b. It is proposed that the Central Government shall constitute one or more Board for Advance Rulings for giving advance ruling under the said Chapter on and after the notified date. **Every such Board shall consist of two members, each being an officer not below the rank of Chief Commissioner. Advance rulings of such Board shall not be binding on the applicant or the Department and if aggrieved, the applicant or the Department may appeal against the ruling or order passed by the Board before the High Court.**



A new section 245W is proposed to be inserted to provide for appeal to High Court against the order passed or ruling pronounced by the Board for Advance Ruling. Appeal be filed within sixty days from the date of the communication of such ruling or order, in such form and manner as may be prescribed. High Court can condone delay.

- c. Since the work of Authority shall be carried out by the Board for Advance Rulings on and after the notified date, amendments are proposed to be made to the various provisions of the Chapter to this effect.

These amendments will take effect from 1st April, 2021.

#### ◆ Rationalise provisions of Equalisation Levy

Under section 165A of Finance Act, 2016 and section 153 of the Finance Act, 2020, Equalisation Levy is to be levied at the rate of two per cent of the amount of consideration received or

receivable by an e-commerce operator from e-commerce supply or services made or provided or facilitated, by it-

- i to a person resident in India; or
- ii. to a non-resident in the specified circumstances as referred to in sub - section (3); or
- iii. to a person who buys such goods or services or both, using internet protocol address located in India.



For this purpose, E-commerce supply or service is defined as to mean:-

- i. online sale of goods owned by the e-commerce operator;
- ii. online provision of services provided by the e-commerce operator;
- iii. online sale of goods or provision of services or both, facilitated by the e-commerce operator; or
- iv. any combination of activities listed in clause (i), (ii) or clause (iii);

Clause (50) of section 10 of the Act provides for the exemption for the income arising from any specified service provided on or after the date on which the provisions of Chapter VIII of the Finance Act, 2016 comes into force or arising from any e-commerce supply or services made or provided or facilitated on or after the 1st day of April, 2021 and chargeable to equalisation levy under that Chapter.



Insert an Explanation to section 163 of the Finance Act, 2016, clarifying that consideration received or receivable for specified services and consideration received or receivable for e-commerce supply or services shall not include consideration which are taxable as royalty or fees for technical services in India under the Income-tax Act read with the agreement notified by the Central Government under section 90 or section 90A of the Income-tax Act.



Insert an Explanation to clause (cb) of section 164 of the Finance Act, 2016, providing that for the purposes 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:

- a. Acceptance of offer for sale;
- b. Placing the purchase order;
- c. Acceptance of the Purchase order;
- d. Payment of consideration; or
- e. Supply of goods or provision of services, partly or wholly

Amend section 165A of the Finance Act, 2016, to provide that consideration received or receivable from e-commerce supply or services shall include:

- i. consideration for sale of goods irrespective of whether the e-commerce operator owns the goods; and
- ii. consideration for provision of services irrespective of whether service is provided or facilitated by the e-commerce operator.

These amendments will take effect retrospectively from 1st April, 2020.



#### ❖ Procedural

##### ◆ Clarification regarding scope of Vivad se Vishwas Act, 2020

With the objective of reducing pending income tax litigation, generating timely revenue for the Government, the **Direct Tax Vivad se Vishwas Act, 2020** (VsV) was enacted on 17th March, 2020. The Scheme got a good response, it is reported that more than 1,20,000 applications are filed till now settling disputed taxes of Rs. 95000/- and generating tax revenue of Rs. 58000/-. Time for making application is **extended till 28th Feb. 2021**.

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

It is proposed to insert a new section to provide a relaxation from filing the return of income, if the following conditions are satisfied:-



- a. The senior citizen is resident in India and of the age of 75 or more during the previous year;
- b. He has pension income and interest income from the same bank in which he is receiving his pension income and no other income;



- c. This bank is a specified bank. The Government will be notifying a few banks, which are banking company, to be the specified bank; and
- d. He shall be required to furnish a declaration to the specified bank. The declaration shall be containing such particulars, in such form and verified in such manner, as may be prescribed.



On declaration being furnished, the specified bank would compute the income tax payable by such senior citizen after giving effect to the deduction allowable under Chapter VI-A and rebate allowable under section 87A and deduct income tax on the basis of such calculation. Thereafter, there will not be any requirement of furnishing return of income by such senior citizen for this assessment year.

This amendment will take effect from 1st April, 2021.

◆ **Advance tax installment for dividend income**



Section 234C of the Act provides that an assessee is liable to pay a simple interest at the rate of 1% per month for a period of three months on the

amount of shortfall calculated with respect to the due dates for advance tax installments, if an assessee who fails to pay advance tax installments as per section 208 of the Act.



The first proviso of the sub section (1) provides relaxation if the shortfall in the advance tax installment is on account of the income listed therein, as accurate determination of advance tax liability is not possible due to the intrinsic nature of the income, no interest under section 234C shall be charged provided the assessee has paid full tax in subsequent advance tax installments.

Aforesaid relaxation, now, proposed to include dividend income but not deemed dividend as per sub-clause (e) of clause (22) of section 2 of the Act.

This amendment will take effect from 1st April, 2021.

◆ **Reducing time to file belated return and revise return/Increase of time in certain cases**

The belated or revised returns under sub-sections (4) and (5) of section 139 at present could be filed before the end of the assessment year or before the completion of the assessment whichever is earlier. It is proposed that the last date for filing of belated or revised returns of income, be reduced by three months. Thus the belated return or revised return could now be filed three months before the end of the relevant assessment year or before the completion of the assessment, whichever is earlier.



In case of assesses governed by provision of section 5A which provides taxation of spouses governed by Portuguese Civil Code, having earned income as partner of a firm who's account are required to be audited , time limit extended to 31st October of the assessment year.

Similarly, in case of a partner of a firm which is required to file Transfer Pricing Report u/s 92 E, time is extended to 30th November of the assessment year

This amendment will take effect from 1st April, 2021.

◆ **Allowing prescribed authority to issue notice under clause (i) of sub-section (1) of section 142**

In order to enable centralized issuance of notices under section 142(1) for filling return of income, it is proposed to amend the provisions of clause (i) of the sub-section of the section 142 to empower the prescribed income-tax authority besides the Assessing Officer to issue notice under the said clause.

This amendment will take effect from 1st April, 2021.



◆ **Notice under sub - section (2) of section 143**

Under the existing provisions of law with a view to verify the return filled by an assessee a notice can be served within six months from end of financial year in which return is filled. Said time for service of notice is reduced to three months.

This amendment will take effect from 1st April, 2021.

◆ **Reduction of time limit for completing assessment**

It has been proposed that the time limit for completion of assessment proceedings be reduced further by three months. Thus the time for completing of assessment is proposed to be nine months from the end of the assessment year in which the income was first assessable, for the assessment year 2021-22 and subsequent assessment years.

This amendment will take effect from 1st April, 2021.

◆ **Income escaping assessment**

The time limitation for issuance of notice under section 148 of the Act is proposed to be changed as below:



- in normal cases, no notice shall be issued if **three years have elapsed from** the end of the relevant assessment year. Notice beyond the period of three years from the end of the relevant assessment year can be issued only, where the Assessing Officer has in his possession evidence which reveal that the income escaping assessment, represented in the form of asset, amounts to or is likely to amount to **fifty lakh rupees** or more, notice can be issued within period of **ten years** from the end of the relevant assessment year;
- The Officer can issue notice based on information with AO suggesting that income chargeable to tax escaped assessment (i) any information flagged in accordance with the



risk management strategy formulated by Board (ii) any final audit objection by CAG.

- The AO will provide information to the assessee for explanation and after consideration of the same will pass an order under section 148A for approving enquiries, providing opportunity, passing order under section 148A of the Act, after conducting enquiry.
- Notice under section 148 of the Act are to issued after sanction by Principal Commissioner or Principal Director or Commissioner or Director, if three years or less than three years have elapsed from the end of the relevant assessment year and in other cases by Pr. Chief Commissioner;



It is also proposed that for the purposes of computing the period of limitation for issue of section 148 notice, the time or extended time allowed to the assessee in providing opportunity of being heard or period during which such proceedings before issuance of notice under section 148 are stayed by an order or injunction of any court, shall be excluded. If after excluding such period, time available to the Assessing Officer for passing order, about fitness of a case for issue of 148 notice, is less than seven days, the remaining time shall be extended to seven days.

This amendment will take effect from 1st April, 2021.

#### ◆ Search assessments

Where search or requisition is initiated or made on or before 31st March 2021, assessments are to be made as per the provision of section 153A,

153B, 153C and 153D of the Act as per existing provisions of the law.



In case of search carried after 31st March 2021, assessments be completed by adopting process of reopening of assessments under section 148, subject to certain modification in procedure for issue of notice under section 148.

#### ◆ Faceless Proceedings Before Income Tax Appellate Tribunal

Faceless Proceedings for assessment, penalty and appeals before Commissioner of Income Tax has already operational.



Provision for Faceless Proceedings before the Income Tax Appellate Tribunal (ITAT) in a jurisdiction less manner, is proposed and a new sub-sections in the section 255 of the Act is proposed to be inserted to enable Central Government to notify a scheme for the purposes of disposal of appeal before 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;
- b. optimising utilisation of the resources through economies of scale and functional specialisation;
- c. introducing an appellate system with dynamic jurisdiction.



Directions for implementation of the scheme are to be issued on or before 31st March, 2023. It is proposed that every notification issued shall, as soon as may be after the notification is issued, be laid before each House of Parliament.

This amendment will take effect from 1st April, 2021.

◆ **Discontinuance of Income Tax Settlement Commission**

ITSC shall cease to operate on or after 1st February, 2021. No application under section 245 Cof the Act for settlement of cases shall be made on or after 1st February, 2021. All applications that were filed under section 245C of the Act and not declared invalid under sub-section (2C) of section 245D of the Act and in respect of which no order under section 245D(4) of the Act was issued on or before the 31st January, 2021 shall be treated as pending applications and such pending applications be dealt with by proposed Interim Board for Settlement to be formed consisting of three officers of Chief Commissioner rank as nominated. The assessee will have an option to

withdraw pending application. After withdrawal of application, assessment be completed by the AO.

The provisions be applicable from 1st February 2012

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

The new scheme is proposed to be incorporated in a new section 245MA and has the following features -

- a. The Central Government shall constitute one or more Dispute Resolution Committee (DRC).
- b. This committee shall resolve disputes in the cases of such persons where the returned income is fifty lakh rupee or less (if there is a return) and the aggregate amount of variation proposed in specified order is ten lakh rupees or lessor as 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.
- c. If the specified order is based on a search initiated under section 132 or requisition made under section 132A or a survey initiated under 133A or information received under an agreement referred to in section 90 or section 90A of the Act, such specified order shall not be eligible for being considered by the DRC.



- d. Assessee would not be eligible for benefit of this provision if there is detention, prosecution or conviction under various laws as specified in the proposed section.



- e. 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.
- f. The scheme shall eliminating interface to the extent technologically feasible.

This amendment will take effect from 1st April, 2021.



◆ **Rationalisation of the provision of Charitable Trust and Institutions - Raising of prescribed limit for exemption under sub-clause (iiia) and (iiib) of clause (23C) of section 10 of the Act**

Under the existing provisions of law a university or educational institution and a hospital whose annual receipt is not exceeding Rs. 1 lac during the year subject to compliance of conditions prescribed therein is exempt from tax. Now quantum of receipt is increased to Rs. 5 crore.

This amendment will take effect from 1st April, 2022.

◆ **Certain changes in assessment provision of Charitable Trust and Institutions**

To ensure that there is no double deduction, it has been proposed that voluntary contributions made with a specific direction i.e. Corpus Donations shall be invested in one or more of the forms or modes specified in sub-section (5) of section 11.

- a. 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.



- b. 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.
- c. Clarify in both clause (23C) of section 10 and section 11 that 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 (deficiency) of any of the year preceding the previous year, shall be allowed

These amendments will take effect from 1st April, 2022.

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

It is proposed to provide for the followings:

- a. ULIP a life insurance policy which has



components of both investment and insurance and is linked to a unit as defined in clause (ee) of regulation (3) of the Insurance Regulatory and Development Authority of India (Unit Linked Insurance Products) Regulations, 2019 dated the 8th day of July, 2019, issued on or after the 1st February, 2021, if the amount of premium payable for any of the previous year during the term of the policy exceeds two lakh and fifty thousand rupees no exemption under clause (10D) of section 10 of the Act be allowed.



- b. However exemption shall not be denied to any sum received on the death of a person.
- c. The deemed taxation of profit and gains from the redemption of ULIP [to which exemption under clause (10D) of section 10 of the Act does not apply be taxed as capital gains by inserting new sub-section (1B) in section 45.

These amendments will take effect from 1st April, 2021.

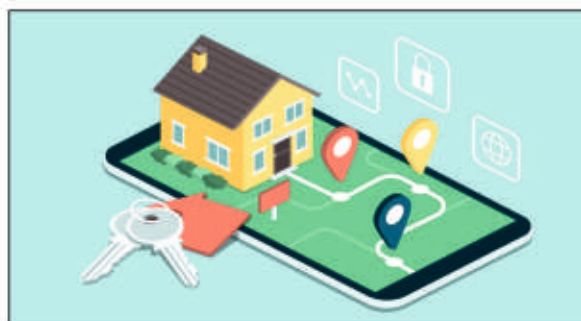
#### ◆ Rationalisation of the provision of slump sale

It is proposed to amend the scope of the definition of the term 'slump sale' by amending the provision of clause (42C) of section 2 of the Act so as to provide that all types of transfers whether for cash consideration or exchange of shares, debentures or any other property be treated as 'slump sale'.

This amendment will take effect from the 1st April, 2021.

#### ◆ Tax neutral conversion of Urban Cooperative Bank into Banking Company

Under existing provisions of sec 44DB in case of amalgamation or demerger of a Co-operative Bank deduction under section 32, 35D, 35DD & 35DDA are allowed to amalgamated company and amalgamating company and in case of demerger to demerged company and resulting company as per provision of said section.



It is proposed to provide that provisions of section 44DB be also apply in case of conversion of a primary co-operative bank to a banking company.

Transfer of a capital asset by the primary co-operative bank to the banking company as a result of conversion shall not be treated as transfer under section 47 of the Act and the allotment of shares of the converted banking company to the shareholders of the predecessor primary co-operative bank shall not be treated as transfer under the said section of the Act

This amendment will take effect from 1st April, 2021.

#### ◆ Facilitating strategic disinvestment of Public Sector Company

It is proposed to provide that the reconstruction or splitting up of a public sector company into separate companies shall be deemed to be a demerger defined in clause (19AA) of section 2 of the Act, if such reconstruction or splitting up has been made to transfer any asset of the demerged company to the resultant company and the



resultant company is a public sector company on the appointed date .

The provisions of carry forward for losses are also suitably amended.

This amendment will take effect from 1st April, 2021.

◆ **Rationalisation of provision of transfer of capital asset to partner on dissolution or Reconstitution**

Under the existing provision of law section 45(4) provides that any gain arising on transfer of any asset to a partner under dissolution or otherwise be taxable as capital gain in hands of the firm.



It is proposed to substitute the existing sub-section (4) of section 45 of the Act to provide that where a partner receives during the previous year any capital asset at the time of dissolution or reconstitution of the firm/AOP the profit and gains arising from the receipt of such capital asset by the such person shall be chargeable to income-tax as income of the such entity under the head capital gains of the previous year in which the capital asset was received by the such person.

New proposed section sub-section (4A) of section 45 of the Act applies in a case where a such person receives during the previous year any money or other asset at the time of dissolution or reconstitution of the specified entity in excess of the balance in the capital account of such specified person in the books of accounts of the specified entity at the time of its dissolution or reconstitution, the profits or gains arising from the receipt of such money or other asset by the such person shall be chargeable to income-tax

as income of the such entity under the head "Capital gains" and shall be deemed to be the income of such entity of the previous year in which the money or other asset was received by the specified person. The balance in the capital account of the person in the books of account of the specified entity is to be calculated without taking into account increase in the capital account of the person due to revaluation of any asset or due to self-generated goodwill or any other self-generated asset. For the purposes of section 48 of the Act,



- value of the 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 received or accruing as a result of the transfer of the 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.

This amendments will be effective from the 1st April, 202

❖ **Housing and Real Estate**

◆ **Incentives for affordable housing/ rental housing**

Under the existing provisions of section 80 IBA profit of developing Affordable Housing is exempt to the extent of 100% on compliance of conditions prescribed. One of the conditions is approval of the project before 31st March 2021. Now the



projects approved till 31st March 2022 be entitled to such benefit.

To allow deduction under section 80-IBA(1A) of the Act also to such rental housing project which is notified by the Central Government in the Official Gazette and fulfills such conditions as specified in the said notification.

This amendment will take effect from 1st April, 2022.

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



Provision of the section 80EEA of the Act, inter alia, provides a deduction in respect of interest on loan taken for a residential house property from any financial institution up to one lakh fifty-thousand rupees provided the loan has been sanctioned during the period beginning on 1st April, 2019 and ending on 31st March, 2021. There are further conditions that the stamp duty value of residential house property does not exceed forty-five lakh rupees and the assessee does not own any residential house property on the date of sanction of loan. It is proposed to amend the provision of section 80EEA of the Act to extend the outer date for sanction of loan from 31st March 2021 to 31st March 2022.

This amendment will take effect from 1st April, 2022.

#### ❖ Business Related

##### ◆ Depreciation on goodwill not to be allowed

Goodwill being an intangible asset falls under

'block of assets' as defined under clause (11) to section 2. Under sub section (1) to section 32, depreciation is allowable on goodwill being intangible asset, whether acquired by purchase or on amalgamation or de merger of another company.

Now it is proposed to provide that goodwill will not form part of 'block of assets' hence no depreciation be allowable under section 32.

It is further provided that goodwill on which depreciation is allowed prior to AY 2021-22, on transfer depreciated value be cost for calculation of capital gain under section 50 of the Act.

Hence, no depreciation be allowable on goodwill for AY 2021-22 and thereafter.

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

In order to help such eligible start-up -

- it is proposed to amend the provisions of section 80-IAC of the Act to extend the outer date of incorporation to be before 1st April, 2022 from 1st April, 2021 ; and
- it is proposed to amend the provisions of section 54GB of the Act to extend the outer date of investment in eligible startup of capital gain arising on transfer of residential property from 31st March 2021 to 31st March 2022.

This amendment will take effect from 1st April, 2021.





#### ◆ SAFE HARBOUR RULE UNDER SECTION 43CA

Under the existing provisions if a residential house is sold at a price lower to stamp duty value such difference is taxable as income of the Developer selling under section 43CA and as income of the purchaser under section 56(2). Finance Act 2020 provided that difference to the extent of 10% be not taxable as income either of seller or buyer. Now it is proposed to increase the said safe harbour from existing 10% to 20%, if the following conditions are satisfied:-



- The transfer of residential unit takes place during the period from 12th November, 2020 to 30th June, 2021
- The transfer is by way of first time allotment of the residential unit to any person
- The consideration received or accruing as a result of such transfer does not exceed two crore rupee

Amended provisions are in applicable to non-residential properties.

This amendment will take effect from 1st April, 2021.

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

It is proposed to –

- provide that in cases where past year(s) income is included in books of account during the previous year on account of an Advance

Pricing Agreement or a secondary adjustment under section 92 CE, the Assessing Officer shall, on an application made to him in this behalf by the assessee, recompute the book profit of the past year(s) and tax payable, if any, during the previous year, in the prescribed manner under the provision of section 154 of the Act shall apply so far as possible and the period of four years specified in sub-section (7) of section 154 shall be reckoned from the end of the financial year in which the said application is received by the Assessing Officer and such income of past years be not considered for Book Profit.



- to provide that dividend, interest, royalty and Fee for Technical Services (FTS) in case of foreign companies are taxed at rate provided in DTA at lower rate than MAT rate due to DTAA.

This amendment will take effect from 1st April, 2021.

#### ◆ Rationalisation of provisions relating to tax audit in certain cases

Under section 44AB of the Act, every person carrying on business having total sales, turnover or gross receipts, in business exceeding one crore rupees in any previous year is required to get its accounts audited. In case of a person carrying on profession he is required to get his accounts audited, if his gross receipt in profession exceeds, fifty lakh rupees in any previous year.

Finance Act 2020, the threshold limit for a person



carrying on business was increased from one crore rupees to five crore rupees in cases where –

- aggregate of all receipts in cash during the previous year does not exceed five per cent of such receipt; and
- aggregate of all payments in cash during the previous year does not exceed five per cent of such payment.

It is proposed to increase the threshold from five crore rupees to ten crore rupees in cases of a concern complies above conditions.

This amendment will take effect from 1st April, 2021.



◆ **Late deposit of employee's contribution to retirement fund will not allowed as deduction**

Payment by employer of employee contribution to a fund such as PF/ESIC on or before due date is disallowable under clause (va) of sub-section (1) of section 36 of the Act. However certain High Courts has held that no disallowance be made if assessee pay PF/ESIC before due date of return. Certain High Courts have taken contrary view.

Now it is proposed to provide that such payment be allowable only if paid within due date, by inserting an explanation to the said clause to clarify that the provision of section 43B apply to these payments and deemed to never have been applied for the purposes of determining the due date under this clause; and a consequential amend is to be made to section 43B of the Act.

These amendments will take effect from 1st April, 2021.

◆ **Deduction at Source (TDS) on purchase of goods**

It is proposed to provide that TDS at 0.1% be made by person responsible for paying any sum to any resident for purchase of goods. Tax is required to be deducted by those person (i.e. buyer) whose total sales, gross receipts or turnover from the business carried on by him exceed ten crore rupees during the financial year immediately preceding the financial year in which the purchase of goods is carried out. Tax is required to be deducted by such person, if the purchase of goods by him from the seller is of the value or aggregate of such value exceeding fifty lakh rupees in the previous year. It is also proposed to provide that the provisions of this section shall not apply to -



- a transaction on which tax is deductible under any provision of the Act; and
- a transaction, on which tax is collectible under the provisions of section 206C other than transaction to which sub-section (1H) of section 206C applies.

It is also proposed to provide that when Permanent Account Number (PAN) is not provided, the TDS shall be at the rate of five percent.

These amendments will take effect from 1st July, 2021.



#### ◆ TDS/TCS on non-filer at higher rates

Section 206AA of the Act provides for higher rate of TDS for non-furnishing of PAN. Similarly section 206CC of the Act provides for higher rate of TCS for non-furnishing of PAN.



It is proposed to insert a new section 206AB in the Act providing for higher rate for TDS for the non-filers of income-tax return. Similarly it is proposed to insert a section 206CCA in the Act for providing for higher rate of TCS for non-filers of income-tax return. The provisions are applicable to person who has not filed the returns of income for previous two assessment years immediately before the previous year in which tax is required to be deducted or collected. Further the time limit for filing tax return under sub-section (1) of section 139 of the Act has expired for both these assessment years. For application of this section 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. Specified person shall not include a non-resident who does not have a permanent establishment in India.

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 such a 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 following 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

These amendments will take effect from 1st July, 2021.

#### ◆ 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 will take effect retrospectively from 1st April, 2020.



#### ◆ Exemption for LTC Cash Scheme

To boost consumer demand and to provide tax benefit to individuals who are unable to claim the usual LTC tax benefit due to Covid-related travel restrictions, the government had announced an LTC cash voucher scheme on 12/10/2020 which has now been ratified in the budget as part of the Income Tax Act.



Under this scheme the value in lieu of any travel concession or assistance received by, or due to, an individual shall also be exempt for block period 2018-21, if the individual spent such amount on purchase of goods or services liable to GST at rate of 12% or more during the period 12th October, 2020 to 31st March, 2021 and subject to fulfillment of certain other conditions prescribed.

This amendment will take effect from 1st April, 2021.

#### ◆ Taxability of Interest on provident funds exempt

Clause (11) of section 10 of the Act provides for exemption with respect to any payment from a provident fund to which the Provident Funds Act, 1925 (19 of 1925) applies or from any other provident fund set up by the Central Government. Similarly, Clause (12) of this section provides for exemption with respect to the accumulated balance due and becoming payable to an employee participating in a recognised provident fund, to the extent provided in rule 8 of Part A of the Fourth Schedule. Even in case an employee contribute huge amounts to these funds and entire interest accrued/received on such contributions is exempt from tax under clause (11) and clause (12) of section 10 of the Act.



Now it is proposed to provide that the provisions of 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 two lakh and fifty thousand rupees in a previous year in that fund, on or after 1st April, 2021, computed in such manner as may be prescribed.

These amendments will take effect from 1st April, 2022.

#### ◆ Provisional attachment in fake invoice cases

Section 281B of the Act contains provisions which provide that in cases of assessment or reassessment, the Assessing Officer may provisionally attach any property of the assessee, if necessary, in order to protect the interest of revenue. This can be done only with prior approval of Pr. Chief Commissioner or Principal Director General or Chief Commissioner or Director General or Principal Commissioner or Principal Director or Commissioner or Director, of Income-tax. Such provisional attachment is valid for a period of six months. Further, the said section allows the assessee to furnish a bank guarantee of the value of the property so attached for revocation of the provisional attachment. The above bank guarantee shall be invoked if the assessee fails to pay his tax demand on time. The powers under this section can only be exercised by the Assessing Officer.



Section 271AAD of the Act was inserted vide the Finance Act, 2020 to impose penalty on a person or a person who causes such person to make a false entry or omit an entry from his books of accounts. It is an anti-abuse provision. Upon initiation of such penalty proceedings, it is highly



likely that the taxpayer may also evade the payment of such penalty, if imposed.

Hence, in order to protect the interest of revenue, it is proposed to amend the provision of section 281B of the Act to enable the Assessing Officer to exercise the powers under this section during the pendency of proceedings for imposition of penalty under section 271AAD of the Act, if the amount or aggregate of amounts of penalty imposable is likely to exceed two crore rupees.

This amendment will take effect from 1st April, 2021.

#### ◆ Consolidation of capital market laws

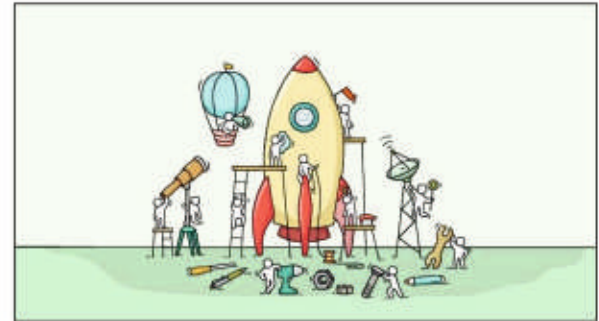
The government proposed to consolidate four existing capital market laws —SEBI Act, 1992; Depositories Act, 1996; the Securities Contract Regulation Act, 1956 and Government Securities Act, 2007- into a single Securities Market Code.



The 1992 Act confers power on the Securities and Exchange Board of India to regulate the securities market, promote its development and take measures for protection of investors. SEBI also exercises powers under the Securities Contract Regulation Act to regulate stock exchanges, certain intermediaries and trading of futures and options contracts. The market regulator can also regulate the setting up and operations of depositories in the country. Though SEBI as market regulator is the implementer for all these Acts, on many occasions in the past courts have

had to interpret the effect of one or more of these Acts on each other, making it a very complex process. A unified code will help enable clarity and safeguard investor interest.

#### ◆ Incentivise incorporation of One Person Company



Existing provisions of Rule 3 of the Companies (Incorporation) Rules, 2014 provides that an OPC can be formed with following restrictions:

- Only a natural person who is an Indian citizen and resident in India shall be eligible to incorporate a One Person Company;
- For the purposes of this rule, the term "resident in India" means a person who has stayed in India for a period of not less than 182 days during the immediately preceding financial year.
- No One Person Company can convert voluntarily into any kind of company unless 2 years have expired from the date of incorporation of One Person Company,
- Threshold limit (paid up share capital) is fifty lakh rupees and its average annual turnover exceeds two crore rupees.

Existing provisions of Rule 6 of the Companies (Incorporation ) Rules, 2014 provide that OPC shall cease to be entitled to continue as OPC where its paid up share capital exceeds Rs. 50 lakhs or its average annual turnover during the immediately 3 preceding financial years exceeds two crore rupees. Within 6 months of ceasing to



be OPC as above, the company is required to convert itself into either a private company with minimum 2 members or 2 directors or into a public company with minimum 7 members and three directors.

In order to incentivise the incorporation of One Person Companies (OPCs) following is measures are proposed -

- i. allowing OPCs to grow without any restrictions on paid up capital and turnover
- ii. allowing their conversion into any other type of company at any time
- iii. reducing the residency limit for an Indian citizen to set up an OPC from 182 days to 120 days
- iv. allowing Non Resident Indians (NRIs) to incorporate OPCs in India.

Non-resident individuals with entrepreneurial potential will now be able to set up One Person

Companies (OPC) with no paid up capital and turnover restrictions. It can encourage startups and small business set up without the concerns of a larger compliance framework or minimum capital commitment.

#### ◆ Changes in small companies' threshold

Small Company is a company other than a public company which satisfies both the following limits:

- Paid up share capital limit of Rs. 50 lakhs and
- Turnover limit of Rs. 2 crores

It is proposed to revise the definition under the Companies Act, 2013 for Small Companies by increasing their thresholds for Paid up capital from "not exceeding Rs. 50 Lakh" to "not exceeding Rs. 2 Crore" and turnover from "not exceeding Rs. 2 Crore" to "not exceeding Rs. 20 Crore".

This amendment will take effect from 1st April, 2021.





### A. Goods and Services Tax

**CGST Act was amended for several provisions as follows:**

- Section 16 amended to allow taxpayers' claim of the input tax credit based on GSTR - 2A & GSTR-2B.
- Section 50 of the CGST Act is being amended to provide for a retrospective charge of interest on net cash liability with effect from the 1st July 2017.
- Section 35 and 44 amended: Mandatory requirement of furnishing the GST reconciliation report signed by the specified professional is relaxed by allowing the filing of annual return on a self-certification basis. The Commissioner can exempt a class of taxpayers from the requirement of filing the annual return.

### B. Customs Act, 1962

**Some Important amendments made are as follows:**

- Few of the items on which Customs Duty Rates are revised are as follows:
  - Reduced duty on copper scrap from 5% to 2.5%.
  - Basic and Special additional excise duty on petrol and high-speed diesel oil (both branded and unbranded) is reduced.
  - Increased duty on solar inverters from 5% to 20%.
  - Raised duty on solar lanterns from 5% to 15%.
  - The basic customs duty on gold and silver reduced.
  - The department will rationalise duty on textile, chemicals and other products.
  - The revised rates will be applicable from 2nd February 2021 onwards.
- New tariff items under 2404 11 00 and 2404 19 00 have been inserted in accordance with upcoming HS 2022 nomenclature. Further, NCCD of 25% is prescribed on these tariff items with effect from 1st January 2022.

- Agriculture Infrastructure And Development Cess (AIDC) has been newly imposed on petrol and diesel at Rs. 2.5 and Rs. 4 per litre respectively.
- Regarding agricultural products, the customs duty is increased on cotton, silks, alcohol, etc.
- Exemption of Social Welfare Surcharge on the value of AIDC imposed on gold and silver. Therefore, these items would attract surcharge at the normal rate, only on value plus basic customs duty.
- The exemption on import of leather will be withdrawn as they are domestically produced.
- Any new customs duty exemption henceforth will have a validity up to the 31st March following two years from the date of its issue.
- A new initiative called 'Turant Customs' will be introduced for faceless, paperless and contactless customs measures.

### C. Changes in Custom Duty for creating a level playing field for MSME and promoting MAKE IN INDIA

Level playing field for domestic producers

Custom duty is being increased on following goods

S. No.	Category	Specific items	Rate of Duty	
			From	To
1.	Agricultural products and fishery sector	Cotton	0	5%*
		Cotton waste	Nil	10%
		Raw Silk (not thrown) and silk yarn	10%	15%
		De-natured ethyl alcohol (ethanol) for Prawn Feed	2.5%	5%
		Fish feed in pellet form	5%	15%
		Flours, meals and pellets of fish, crustaceans, molluscs or Maize Bran	5%	15%
		De-oil ed rice bran cake	Nil	15%
		Carbon Black	5%	7.5%
		Bis-phenol A	Nil	7.5%
		Epic chlorohydrin	2.5%	7.5%
3.	Plastics	Builder's ware of plastic, not else where specified or Polycarbonates	10%	15%
			5%	7.5%



S. No.	Category	Specific items	Rate of Duty	
			From	To
4.	<b>Leather</b>	Wet blue chrome tanned leather, crust leather, finished	Nil	10%
5.	<b>Gems and Jewellery</b>	Cut and Polished Cubic Zirconia	7.5%	15%
		Synthetic Cut and Polished Stones	7.5%	15%
6.	<b>Capital Goods &amp; Machinery</b>	Tunnel Boring Machines	Nil	7.5%
		Parts and components for manufacture of Tunnel Boring Machines	Nil	2.5%
7.	<b>Auto Sector</b>	Specified auto parts like ignition wiring sets, safety glass,	7.5%/10%	15%
8.	<b>Metal Products</b>	Screws, Nuts, etc.	10%	15%

\*Also, to attract Agriculture Infrastructure and development Cess at the rate of 5%



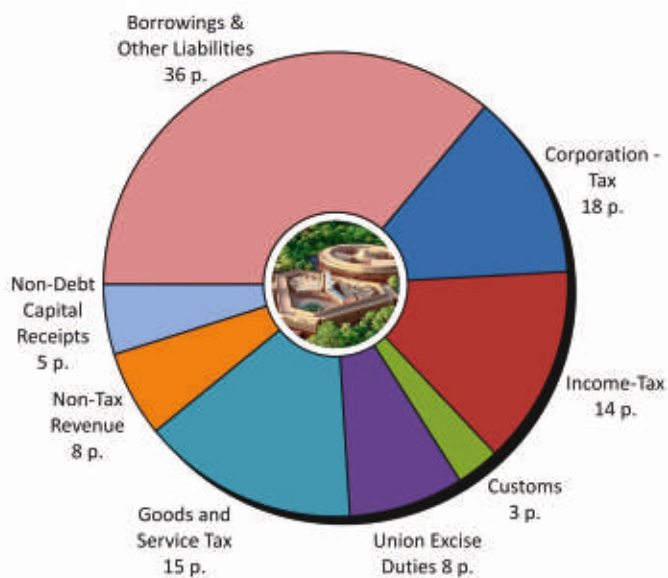


1. Budget at a Glance presents broad aggregates of the budget for easy understanding. This document shows receipts and expenditure as well as the Fiscal Deficit (FD), Revenue Deficit (RD), Effective Revenue Deficit (ERD) and the Primary Deficit (PD) of the Government of India. It gives an illustrative account of sources of receipts and their expenditure through graphs and info-graphics. In addition, the document contains the resources transferred to States and Uts with legislature. The document also contain extracts of allocations for programme and schemes and giving insights on sources of deficit financing and composition of important budgetary variables.
2. Fiscal Deficit is the difference between the Revenue Receipts plus Non-Debt Capital Receipts (NDCR) and the total expenditure. FD is reflective of the total borrowing requirement of Government. Revenue Deficit refers to the excess of revenue expenditure over revenue receipts. Effective Revenue Deficit is

the difference between Revenue Deficit and Grants for Creation of Capital Assets. Primary Deficit is measured as Fiscal Deficit less interest payments.

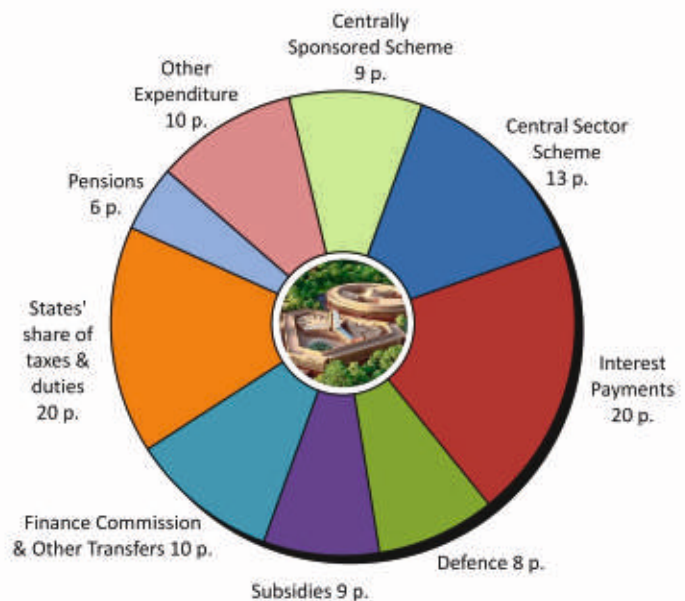
3. Budget 2021-22 reflects firm commitment of the Government to boost economic growth by investing in infrastructure development. This is substantiated by increase in capital expenditure by 34.5% (Rs. 1,42,151 crore) over BE 2020-21.
4. In RE 2020-21, the total expenditure has been estimated at Rs. 34,50,305 crore and is more than Provisional Actual (2019-20) by Rs. 7,63,975 crore.
5. The total resources being transferred to the States including the devolution of State's share, Grants/ Loans and releases under Centrally Sponsored Schemes etc in BE 2021 - 22 is Rs. 13,88,502 crore, which shows an increase of Rs. 74,565 crore over RE (2020-21). Actuals for 2019-20 are provisional.

#### Rupee Comes From (Budget 2021-22)



- Notes : 1. Total receipts are inclusive of States' share of taxes and duties which have been netted in the table on page 00.  
2. Figures have been rounded.

#### Rupee Goes To (Budget 2021-22)



- Notes : 1. Total expenditure is inclusive of the States' share of taxes and duties which have been netted against receipts in the table on page 00.  
2. Figures have been rounded.



(In crore of Rupees)				
Particulars	2019-2020 Actuals	2020-2021 Budget Estimates	2020-2021 Revised Estimates	2021-2022 Budget Estimates
1. <b>Revenue Receipts</b>	<b>1684059</b>	<b>2020926</b>	<b>1555153</b>	<b>1788424</b>
2. Tax Revenue (Net to Centre)	1356902	1635909	1344501	1545396
3. Non Tax Revenue	327157	385017	210652	243028
4. <b>Capital Receipts</b>	<b>1002271</b>	<b>1021304</b>	<b>1895152</b>	<b>1694812</b>
5. Recovery of Loans	18316	14967	14497	13000
6. Other Receipts	50304	210000	32000	175000
7. Borrowings and Other Liabilities <sup>1</sup>	933651	796337	1848655	1506812
8. <b>Total Receipts (1+4)</b>	<b>2686330</b>	<b>3042230</b>	<b>3450305</b>	<b>3483236</b>
9. <b>Total Expenditure (10+13)</b>	<b>2686330</b>	<b>3042230</b>	<b>3450305</b>	<b>3483236</b>
10. On Revenue Account of which	2350604	2630145	3011142	2929000
11. Interest Payments	612070	708203	692900	809701
12. Grants in Aid for creation of capital assets	185641	206500	230376	219112
13. On Capital Account	335726	412085	439163	554236
14. <b>Revenue Deficit (10-1)</b>	<b>666545</b>	<b>609219</b>	<b>1455989</b>	<b>1140576</b>
	(3.3)	(2.7)	(7.5)	(5.1)
15. <b>Effective Revenue Deficit (14-12)</b>	<b>480904</b>	<b>402719</b>	<b>1225613</b>	<b>921464</b>
	(2.4)	(1.8)	(6.3)	(4.1)
16. <b>Fiscal Deficit [9-(1+5+6)]</b>	<b>933651</b>	<b>796337</b>	<b>1848655</b>	<b>1506812</b>
	(4.6)	(3.5)	(9.5)	(6.8)
17. <b>Primary Deficit (16-11)</b>	<b>321581</b>	<b>88134</b>	<b>1155755</b>	<b>697111</b>
	(1.6)	(0.4)	(5.9)	(3.1)
1. Includes drawdown of cash Balance				

Notes: (i) GDP for BE 2021-2022 has been projected at Rs.22287379 crore assuming 14.4% growth over the estimated GDP of Rs. 19481975 crore for 2020-2021 (RE).

(ii) Individual items in this document may not sum up to the totals due to rounding off.

(iii) Figures in parenthesis are as a percentage of GDP.







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