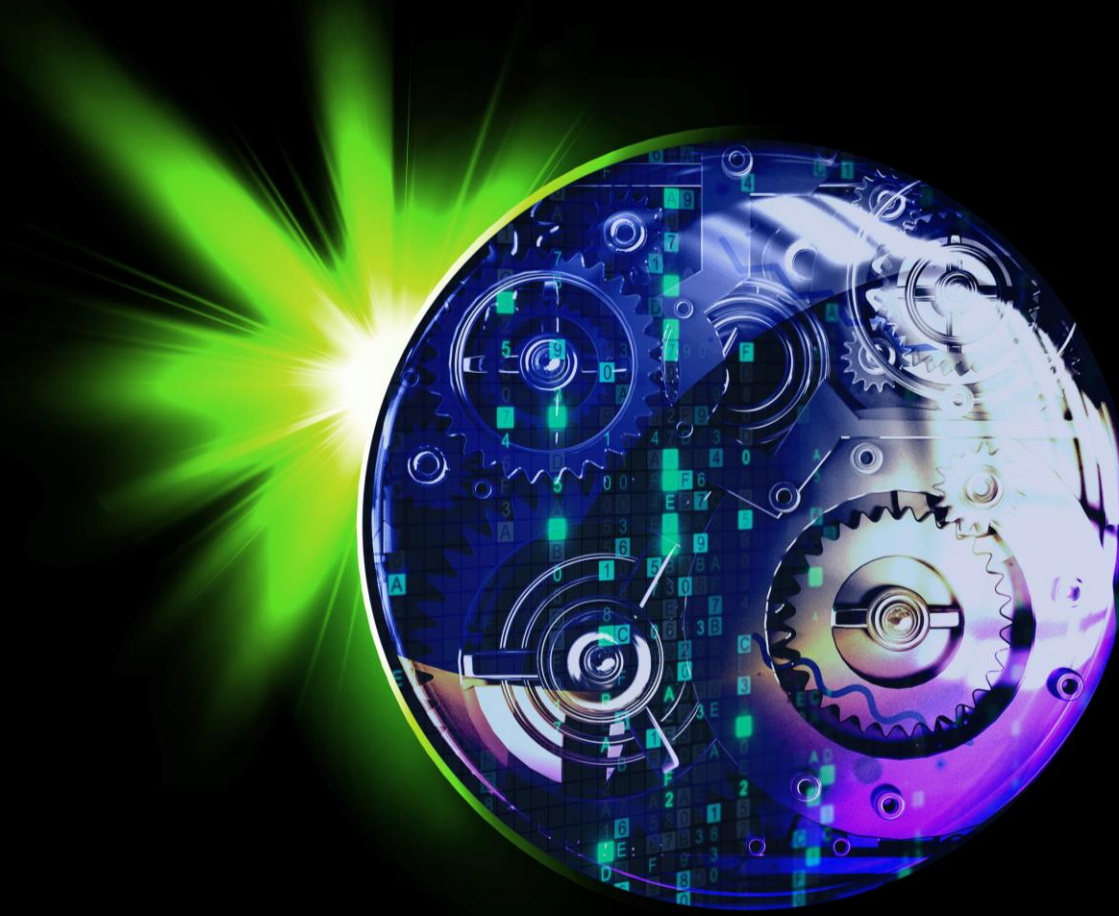


Deloitte.



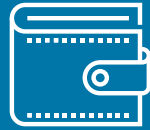
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Towards a thriving India



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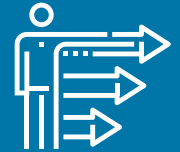
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Economic Indicators



Economy is projected to rebound by 11 percent in FY22

The RBI has to maintain a fine balance between controlling inflation and stimulating growth

Economy

With the number of infections coming down and several highly effective COVID-19 vaccines on the way, India is expected to rebound in double digits after contracting by 7.7 percent in FY21.

Inflation, driven primarily by food prices, remained above 6 percent for much of the year, given the supply disruptions. It is expected to ease in the coming months, but may escalate once GDP picks up momentum.

Growth engines

The virus took a toll on all growth drivers, except for the government spending in Q1 FY21 leading to two consecutive quarters of contraction in GDP by -23.9 percent and -7.5 percent. The second quarter saw a contraction of -22.2 percent in government spending, which is counterintuitive. Contraction in private demand in Q2 was lesser than Q1, suggesting traction in the sector. The Government consumption and net exports cushioned the fall in growth.

Sector wise, agriculture remained the silver lining. Consumer-facing services, manufacturing, and construction were hit hardest, but are recovering.

Source: CMIE, [RBI](#), Deloitte analysis

Infection and vaccine

India launched its mass vaccination programme for COVID-19 on 16 January 2021.

As on 29 January 2021, a total of 2.9 million frontline and healthcare workers have been vaccinated.

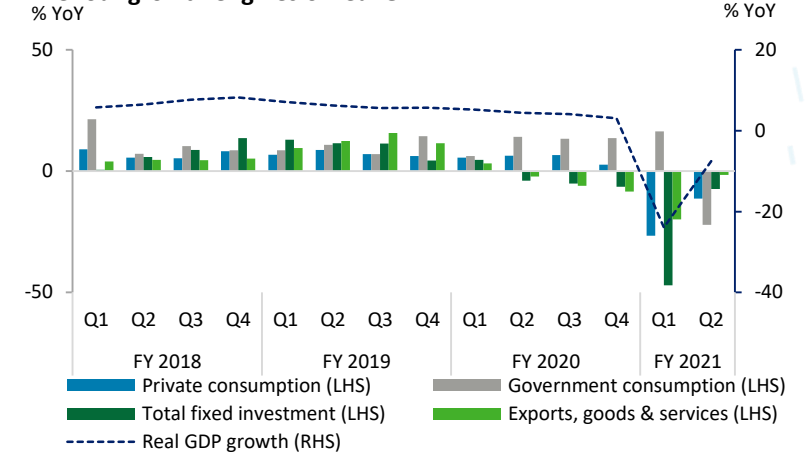
The total number of active cases has been steadily declining since September 2020 and currently stands at 171,686.

Monetary policy

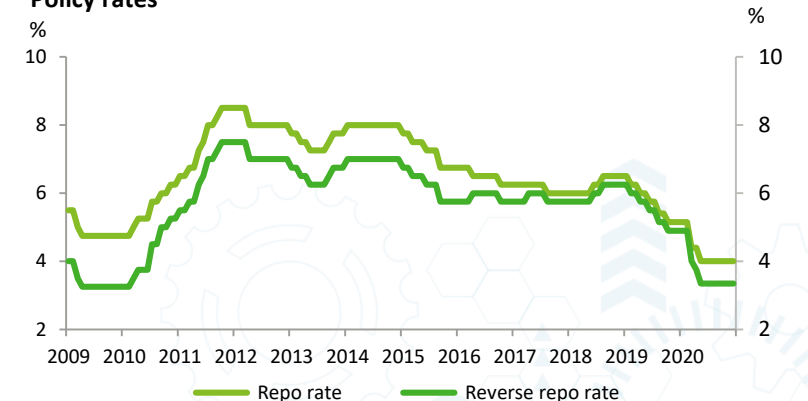
The RBI lowered key policy rates significantly and undertook measures, such as quantitative easing, loan guarantees, refinancing schemes, restructuring loans of MSMEs, and forward guidance. The repo rate was cut to a historic low level of 4 percent, and the reverse repo rate was reduced to 3.35 percent. The RBI kept policy rates steady amidst high inflation concerns.

The RBI announced various measures totalling about INR 12.8 trillion (6.3 percent of nominal GDP of 2019-2020). A favourable monetary policy ensured abundant liquidity, credit flow, and immediate relief to debtors via temporary moratoria that partly mitigated the impact of the pandemic.

The four growth engines of real GDP



Policy rates



Economy: A quick snapshot of the current status

● Weak outlook ● Strong outlook ● Neutral outlooks

India has shown resilience amidst COVID-19 uncertainties

GDP growth

GDP contracted by 7.5 percent in Q2 FY21 after contracting by 23.9 percent in Q1, suggesting the economy is technically in recession.

What to expect in FY21 (growth in percent)

Union Budget: -7.7
IMF WEO: -8.0
Deloitte range: -8.3 to -10.6

Fiscal deficit

Fiscal deficit during April-November 2020 was at 135.1 percent of annual budgeted target.

What to expect in FY21 (in percent of GDP)

Union Budget: 9.5
Deloitte range: 9 to 10.5

Credit growth**

Domestic credit growth fell to 8.5 percent in Q3 FY21 as against 10 percent in Q3 FY20. It even declined from the previous quarter's growth.

What to expect in FY21

Demand for credit growth is likely to remain low because of low economic activity, credit demand, and banks' unwillingness to lend.

Inflation

Inflation (CPI) grew by 6.4 percent in Q3 FY21 compared with 5.8 percent in Q3 FY20. Higher food prices have led to high inflation.

What to expect in FY21 (growth in percent)

Deloitte range: 6
Inflation is expected to decline until the economy picks up sustainably. The RBI will prefer to wait and watch before deciding on further monetary policy easing.

Government's 10-year security yields

Despite uncertainties, post COVID-19 yields have declined to 5.9 percent in January 2021 from its peak at 8 percent in August 2019

What to expect in FY21

Rates may remain volatile with upside risks amidst the COVID-19 crisis and uncertainty regarding economic revival.

Rupee

Rupee appreciated and averaged at INR 73.6 against dollar in December 2020 compared with INR 76.2 per dollar in April 2020.

What to expect in FY21 (INR to US\$)

Deloitte range: 74
Rupee may appreciate further as the economy revives and capital flow remains strong.

Current account deficit

Current account surplus fell to 2.4 percent of GDP in Q2 FY21 from a surplus of 3.9 percent of GDP in the previous quarter.

What to expect in FY21 (in percent of GDP)

Deloitte range: 1.7 to 1.9
Expect surplus due to moderated imports even as exports improve.

FDI

Net FDI witnessed an inflow of US\$23.3 billion during Q2 FY21 relative to inflow of US\$7.3 billion in Q2 FY20.

What to expect in FY21

FDI to remain strong due to high global liquidity, low policy rates in advanced nations, and policy reforms improving ease of doing business.

Note: **Domestic credit is summation of net bank credit to government and bank credit to commercial sector. Growth is measured on year-on-year basis on real values, wherever applicable.
Source: CMIE, RBI, Times of India

The FM unveils the *Bahi-Khata*: How has the budget fared against our expectations? (1/3)

‘Seven league boots’ that India needs to rebound strongly

1. Infrastructure investment

Deloitte’s views: *The major emphasis was on infrastructure, including health and agriculture. The focus should be on timely implementation.*

Social

- Announced Atmanirbhar Swastha Bharat with an allocation of INR 64,180 trillion over the next six years
- Emphasised strengthening health institutional framework, nutrition, water supply coverage, controlling air pollution, and scrapping policy

Physical infrastructure

- Announced three concrete steps of creating institutional structure, monetising assets, and enhancing the share of capital expenditure
- Planning more economic corridors to augment infrastructure, such as roads

Agri-infrastructure

- Enhanced agri-credit target to be made available to mandis
- Announced integrating 1,000 more mandis into the e-national agriculture market (e-NAM) place
- Increased provision to a rural infrastructure development fund to INR 400 billion from INR 300 billion
- Develop five major fishing harbours as hubs for economic activity

2. Demand generation and employment

Deloitte’s views: *A boost to a few labour-intensive industries could help generate employment.*

Eighty-six percent covered under ‘One Nation One Ration’

Demand generation measures

- To provide minimum wages to all categories of workers where they will be covered by the Employees State Insurance Corporation
- To allow women to work in all categories with adequate protection
- To extend social security to gig and platform workers and will be ensured through the four new labour codes

Employment

- To boost labour-intensive industries, such as textile, fisheries, and urban and road/port infrastructure to create employment

The FM unveils the *Bahi-Khata*: How has the budget fared against our expectations? (2/3)

‘Seven league boots’ that India needs to rebound strongly

3. Financial sector stabilisation

Deloitte’s views: *Measures such as the swift resolution of disputes and promotion of digital spending to increase investors’ confidence.*

- Announced multi-state co-operative for ease of doing business
- Proposed a swift resolution of contractual disputes for those who deal with government or central PSEs
- Tax exemptions to enhance the competitiveness of IFSC
- Setting up a faceless dispute resolution mechanism for small taxpayers
- Allocating INR 15 billion for promoting digital modes of payments

4. Global footprint: Move up the global value chain

Deloitte’s views: *Rationalisation of old custom duties, exemptions to the electronic and mobile industry, and removing duties in iron and steel scrap could help greater domestic value addition and reduce costs.*

- Proposed to review more than 400 old exemptions in customs this year and put into place new customs duty structure by 1 October 2021
- Announced measures to boost credit to small exporters
- Addressed inverted duty structure to boost Atmanirbhar Bharat

Boosts to startups and MSMEs

- Revised definition for small companies by increasing their threshold for capitalisation
- Doubled the support to the MSME sector by setting aside INR 157 billion in FY22

5. Innovation and upskilling

Deloitte’s views: *Investment with a focus to upskill and increase R&D and technological innovation will prepare the workforce of the future and improve factor productivity.*

Education

- Increased school access in tribal and remote areas.
- Re-aligned NATS for providing post-education apprenticeship, training of graduates and diploma holders in engineering
- Collaborate with other countries to facilitate opportunities and skill development for our workforce

R&D

- Allocated INR 500 billion over five years for NRF to strengthen the research ecosystem
- Apportioned funds towards space research and ocean missions

The FM unveils the *Bahi-Khata*: How has the budget fared against our expectations? (3/3)

‘Seven league boots’ that India needs to rebound strongly

6. Business environment and ecosystem

Deloitte’s views: *The Government is prepared to deal with financial instability that may arise because of the pandemic and is trying to infuse capital through various measures.*

- Provided an allocation of INR 200 billion for bank recapitalisation that may be needed to clean up banks’ books
- Set up an asset reconstruction company to take over stressed loans and for value realisation
- Amended the Insurance Act and increased FDI in insurance sector from 49 percent to 74 percent

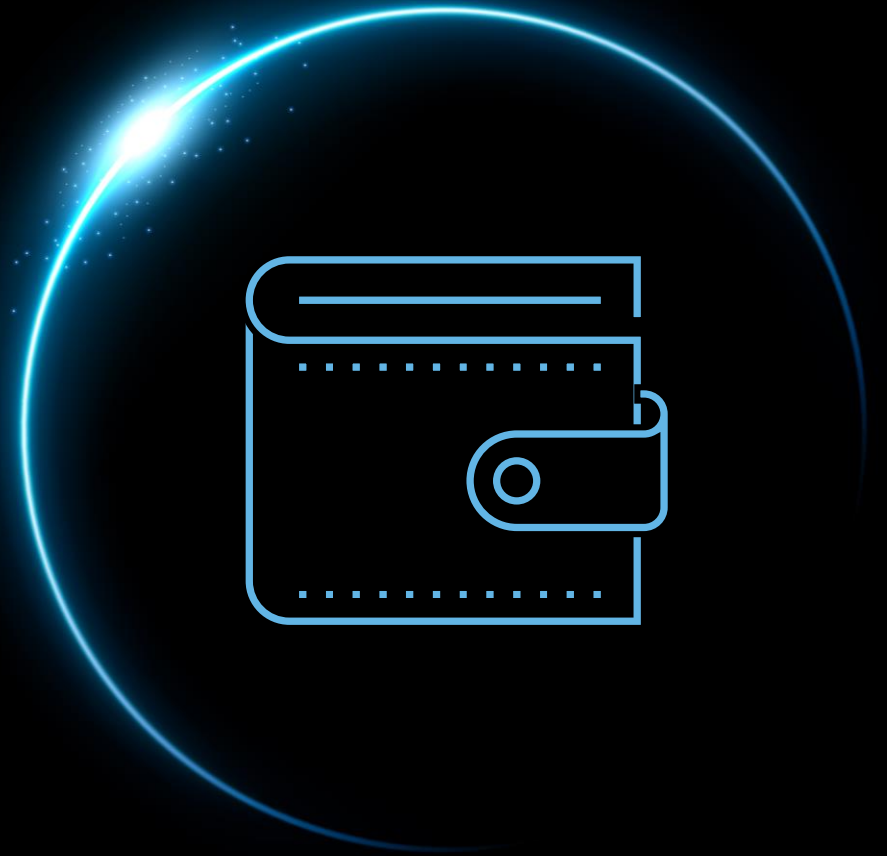
7. Deficit management and raising fund

Deloitte’s views: *Deficit to increase to 9.5 percent of GDP in FY21 before falling to 6.8 percent in FY22. This is in line with our projections made in December 2020. A stronger and sustainable rebound in the second half of FY22 will help the Government improve its fiscal and debt situation in the years ahead. The Government has proposed aggressive asset monetisation and borrowing to finance its expenses. Realising these measures and front-ending a higher share of the spending on multi-year projects will be key.*

- Increased capital expenditure by 34.5 percent to INR 5.5 trillion and allocated INR 2 trillion to states and autonomous bodies for capital expenditure and creation of infrastructure
- To privatise two PSU banks, one general insurance company in FY22, and bring IPO of LIC in FY22

- Approved a new public sector enterprises policy, which is intended to drive privatisation
- NITI Aayog to work out on the next list of Central Public Sector companies for strategic disinvestments
- To borrow INR 12 trillion in FY22

Direct Tax



Note: Unless otherwise specified, income tax proposals will be effective from FY21-22

Individual taxation

Exemption for LTC cash scheme

- Exempted the cash allowance in lieu of LTC, subject to conditions (to be prescribed in the Rules) – see the key ones below:
 - The employee exercises option for deemed LTC fare in lieu of applicable LTC for the 2018-2021 block
 - Expenditure to be incurred from 12 October 2020 to 31 March 2021 on goods or services liable to GST at 12 percent or above
 - Amount of exemption shall not exceed lower of: (i) INR 36,000 per person; or one-third of above expenditure
 - Payment is through banking channels
- The amendment is proposed to be for FY20-21 only

Other key proposals

- To tax the interest accrued on employee contributions to provident fund/other provident funds exceeding INR 250,000 in a year, subject to conditions
- To not grant tax exemption on maturity with respect to ULIPs issued on or after 1 February 2021, if the premium payable for any previous year exceeds INR 250,000, and treat them as capital assets from FY20-21, subject to conditions
- To tax a resident individual (who was earlier a non-resident), who has a retirement benefit account in a notified country, in India in the manner and year as may be prescribed, subject to conditions
- To exempt resident senior citizens over 75 years from tax return filing requirement, subject to conditions

Highlights



Tax exemption for cash allowance in lieu of LTC up to a maximum of INR 36,000 per person for FY20-21

Corporate taxation

Rate card (no changes in tax rates)

Type of company*	Income up to INR 10 million		Income above INR 10 million up to INR 100 million		Income above INR 100 million	
	Normal provisions	MAT	Normal provisions	MAT	Normal provisions	MAT
Domestic company: Normal rate	31.2%	15.6%	33.38%	16.69%	34.94%	17.47%
Domestic company: Turnover up to INR 4 billion in FY19-20	26%	15.6%	27.82%	16.69%	29.12%	17.47%
Domestic company: Does not avail tax incentives or exemptions	25.17%	Not applicable	25.17%	Not applicable	25.17%	Not applicable
Domestic company: New manufacturing company (set up on or after 1 March 2016)	26%	15.6%	27.82%	16.69%	29.12%	17.47%
Domestic company: New manufacturing company (set up on or after 1 October 2019)	17.16%	Not applicable	17.16%	Not applicable	17.16%	Not applicable
Foreign company	41.6%	15.6%	42.43%	15.91%	43.68%	16.38%

*Tax rates are subject to prescribed conditions to be met by the company

Corporate taxation

Tax incentives

- The definition of 'zero coupon bond' is proposed to be modified to include bonds issued by an infrastructure debt fund. Such bonds have to be notified.
- Tax holidays for real estate:
 - The deadline for the approval of affordable housing projects for tax holiday proposed to be extended to 31 March 2022.
 - Tax holiday proposed to be granted to rental housing projects, which have to be notified on or before 31 March 2022, and need to fulfil the notified conditions
- To extend tax holiday for eligible startups incorporated on or before 31 March 2022; similarly, the outer date of transferring residential property for long-term capital gains tax relief, pursuant to investment in eligible startups, is proposed to be extended to 31 March 2022.

Employee's contribution to welfare funds

- To provide that an employee's contribution to welfare funds, which is deemed to be an employer's income, will be tax deductible only if such sum is credited to the relevant fund on or before the prescribed due date per the law.
- A deduction for such contribution will not be available on a payment basis.
- These amendments are proposed to be effective from FY20-21.

Highlights



Tax incentives granted/extended for infrastructure, real estate, and startups



Employee's contribution to welfare funds to be deposited before the due date provided under law for claiming deduction

Corporate taxation

Other key proposals

- To provide that with effect from 1 April 2020, no TDS on payment of dividends shall apply to income credited or paid by an SPV to a business trust (i.e., InVIT/REIT)
- To facilitate strategic disinvestment of public sector companies, it is proposed to amend the law to enable M&A transactions of such companies
- To amend the law to provide for tax neutral conversion of urban cooperative bank into a banking company
- To expand the safe harbour from 10 percent to 20 percent in case of transfer of a residential unit during 12 November 2020 to 30 June 2021 by way of first-time allotment to any person for consideration not exceeding INR 20 million

Highlights



Benefits extended to infrastructure, real estate, and disinvestment

International taxation

Equalisation levy

- To provide 'online sale of goods' and 'online provision of services' to include one or more of the following online activities:
 - Acceptance of offer for sale
 - Placement of purchase order
 - Acceptance of purchase order
 - Payment of consideration
 - Supply of goods or provision of services, partly or wholly
- The consideration will include the following:
 - For sale of goods irrespective of whether the e-commerce operator owns the goods; or
 - For provisions of services irrespective of whether the service is provided or facilitated by the e-commerce operator
- The consideration liable for equalisation levy shall not include consideration, which is taxable as royalty or fees for technical services in India
- To make the following changes with respect to the income-tax exemption:
 - The exemption will not apply to consideration, which is taxable as a royalty or fees for technical services in India
 - The exemption will apply from 1 April 2020
- These amendments are proposed to be effective from FY20-21

Highlights



Any 'online element' of a transaction may trigger equalisation levy

International taxation

Incentives for IFSC units

- To relax conditions (to be notified separately) for eligible investment fund and eligible fund manager, if the eligible fund manager is located in an IFSC and commences operations on or before 31 March 2024
 - To extend the benefit of exemption from transfer of specified capital assets on a recognised stock exchange in an IFSC, to investment division of OBU, subject to conditions
 - To exempt income of a non-resident as a result of transfer of non-deliverable forward contracts entered into with an OBU of an IFSC, subject to conditions
 - To exempt royalty income of a non-resident on account of lease of aircraft to an IFSC unit, subject to conditions
 - To extend the tax holiday for an IFSC unit to income from transfer of aircraft or aircraft engine, which was leased to an Indian airline, subject to conditions
- To exempt capital gains of an offshore fund and non-resident investors pursuant to relocation of the fund to IFSC at the time of relocation; and subsequent sale of Indian resident company shares (involved in relocation) by the resultant fund shall also not trigger tax liability for non-resident investor, subject to conditions
 - To extend the tax treatment of Category III AIFs located in IFSC to investment division of OBU, to the extent of income attributable to such division as a Category III portfolio investor under the SEBI FPI regulations, subject to conditions

Highlights



Significant tax benefits granted to attract foreign investors to relocate to IFSC

International taxation

Exemption to SWF and PF

- SWF/PF can invest in Category-I or Category-II AIF, if the AIF has 50 percent investment (as against 100 percent) in eligible infrastructure companies, or in InvIT – these relaxations are subject to conditions
 - To hold investments through a domestic holding company set up on or after 1 April 2021 with at least 75 percent investment in one or more infrastructure companies, subject to conditions
 - To permit investments in NBFCs (IFC/IDF), subject to minimum 90 percent lending to infrastructure entities, (subject to conditions)
 - Relaxation in terms of percentage will entail exemption to be computed proportionately, where applicable
 - To not grant exemption in case a SWF or PF has loans or borrowings, directly or indirectly, for Indian investments; in the context of SWF, it is indicated that loans or borrowings for purposes other than Indian investments are fine
- To provide SWF or PF to not participate in the day-to-day operations of investee; the condition of not undertaking commercial activity for SWF is dropped
 - To grant exemption to pension funds liable to tax, but enjoying exemption from taxation for all its income in the home country
 - The amendment is proposed to be effective from FY20-21

Highlights



Conditions for SWF and PF to claim exemption from infrastructure investments relaxed

International taxation

Other key proposals

- To grant tax treaty benefits with effect from 1 April 2021 at the time of withholding tax on income with respect to securities of FPIs, subject to furnishing of tax residency certificate
- To replace AAR by one or more BFAR from a date to be notified:
 - Advance rulings shall not be binding on the applicant or the tax department, and either party can file an appeal to High Court
 - Pending AAR cases will be transferred to BFAR
 - Enabling provision for faceless functioning of BFAR
- To define the term 'liable to tax'; accordingly, where there is a liability of tax on a person under any law of any country, such person is treated as 'liable to tax' even if an exemption has been provided from such tax liability
- To exclude dividend income and related expenditure from the scope of MAT, where such dividend income is subject to tax at a rate lower than MAT

Highlights



Tax treaty benefits at the time of withholding tax is a significant relief for FPIs



BFAR likely to speed up the process of pending AAR applications

Goodwill not an intangible asset for tax depreciation

Goodwill (including existing goodwill) to be non-eligible for tax depreciation

- Where goodwill forms part of an asset block on which tax depreciation has been claimed, the asset block's written down value and the short-term capital gains on goodwill will be determined in a manner to be prescribed
- Acquisition cost of acquired goodwill will be the purchase price (as reduced by obtained tax depreciation); it will be nil for other cases
- The amendment is proposed to be effective from FY20–21

Slump sale to include slump exchange

- “Slump sale” definition amended to include all types of transfer, inter-alia, sale, exchange, relinquishment, and extinguishment
- The amendment is proposed to be effective from FY20–21

Dissolution or reconstitution of firm, etc.

- Firm/AOP/BOI liable to capital gains tax on distribution of capital asset, money, or other asset, representing balance/excess balance in capital account to a partner/member pursuant to dissolution or reconstitution
- The amendment is proposed to be effective from FY20–21

Highlights



Tax depreciation not available on goodwill



Slump exchange now taxable

Transfer pricing

MAT treatment of additional income on account of an APA or a secondary adjustment

- AO to recompute the book profit and tax payable for the past years as well as the FY, in which, any additional income is included in the books of account, due to an APA conclusion or a secondary adjustment
- The recomputation will be affected after the assessee makes an application to the AO
- The amendment is proposed to be effective from FY20-21

Highlights



Additional income on account of an APA or a secondary adjustment to be considered for MAT purposes in respective year(s), at the option of the taxpayer

Procedural and miscellaneous

Re-assessment proposed to be revamped

- Entire concept of re-assessment revamped; concept of 'reason to believe' dropped
- Reopening to happen only if AO is in possession of information, which suggests that the income chargeable to tax has escaped assessment
- Information suggesting that income chargeable to tax has escaped includes:
 - Any information flagged in line with the risk management strategy formulated by the CBDT
 - Any final audit objection raised by CAG
- Time limit to re-open reduced to three years; time limit is 10 years where AO has books of account or other documents or evidence revealing that income, represented in the form of asset, has escaped assessment of INR 5 million or more
- Process for passing an order before issuing a re-opening notice
- Stricter provisions for search and seizure cases

Litigation rationalisation

- Effective 1 February 2021, the Settlement Commission proposed to be discontinued; pending applications to be cleared by the Interim Board
- Proposal to constitute a dispute resolution committee if taxpayers' returned income is INR 5 million or less and variation in income is INR 1 million or less, subject to conditions
- The Vivad Se Vishwas scheme not applicable for cases covered by an order passed by the Settlement Commission
- A faceless scheme proposed to be launched for Income-tax Appellate Tribunal appeals

Highlights



Re-assessment provisions revamped significantly



Litigation process rationalised

Procedural and miscellaneous

Tax filing and assessment time limits

- Deadline for filing return of income for partners harmonised with the return filing deadline for the firm in cases where transfer pricing applies
- Belated or revised return to be filed within nine months (at present 12 months) after the end of the FY, or before the completion of assessment, whichever is earlier
- Time limit reduced for processing tax returns to nine months from the end of year in which tax return is filed
- Time limit lowered for initiating an assessment to three months from the end of the year in which return of income is filed
- Time limit is reduced for the completion of assessment proceedings to 21 months from the end of the FY for tax returns filed for FY20-21 and onwards

TDS/TCS on non-filers at higher rates

- TDS on certain payments to 'specified persons' to be higher of the following:
 - a) Twice the rate specified; or
 - b) Twice the rates in force; or
 - c) Five percent
- TCS rates for 'specified persons' shall be higher of the following:
 - a) Twice the rate specified; or
 - b) Five percent
- Provisions of section 206AA also to be considered in these cases
- A 'specified person' is someone (excluding non-residents who do not have a PE in India) who has not filed income-tax return for the two preceding years and aggregate of TDS and TCS in his case is INR 50,000 or more in each year.

Highlights



Reduced timelines for filing return, processing of return, completion of assessment, etc.



Penal provisions for the non-filing of return

Procedural and miscellaneous

TDS on purchase of goods

- TDS of 0.1 percent on purchase of goods from a resident exceeding INR 5 million in an FY proposed to be introduced from 1 July 2021; other conditions applicable as well

Presumptive taxation

- Presumptive taxation on professional services shall only be applicable to individuals, HUF, and firms (not LLPs)

Other key proposals

- Processing of tax return to take into account adjustments for an increase in income indicated in the audit report but not considered while computing the total income
- Threshold for tax audit to increase to INR 100 million, provided at least 95 percent of the transactions are undertaken digitally
- Advance tax proposed to be payable on dividend income only on declaration or payment from FY20-21

Highlights



TCS on sale of goods effectively replaced with TDS on purchase of goods

Indirect Taxes



Goods and Services Tax

Legislative changes

- **Input tax credit:** Further restrictions are imposed on claiming input tax credit by a taxpayer. Now input tax credit can be claimed only after it is matching with the details furnished by the supplier.
- **GST audit and annual returns:** Getting annual accounts audited from a chartered accountant or a cost accountant is no more required. Form 9C may not be required to be certified from a chartered accountant or a cost accountant.
- **Interest on delayed GST payment:** Retrospective amendment is being made from 1 July 2017 to levy interest on late payment of GST only on the net cash liability.
- **Change in the definition of supply:** Activities or transactions between an association and its members for a consideration shall be treated as a supply with effect from 1 July 2017.

- **Detention, seizure, and confiscation of goods:** The proceedings initiated for detention, seizure, and confiscation of goods are de-linked with the proceedings initiated under section 73 and 74 for the recovery of tax and penalty.
- **Supplies to SEZs:** The benefit of zero rating on supplies made to SEZs would be available only if the same is used for authorised operations.
- **Refund of GST on zero-rated supplies:** GST refunds granted on zero-rated supplies of goods are also linked to receipt of sale proceeds.
- **Export of goods on payment of IGST:** The option of refund of IGST paid on exports shall be restricted only to notified categories of persons/supplies.

Highlights



The proposed amendments under GST are largely intended towards improving the taxpayer's compliance behaviour that may also affect working capital.

However, the retrospective amendment in interest-related provision and doing away with the GST audit certification requirement are steps in the right direction.

Customs

Procedural changes

- **A common customs electronic portal will be put in place** for facilitating registration, filing of bills of entry/shipping bills, payment of duty, and other notified purposes.
- **The deadline for filing of bill of entry is advanced by two days.** Now the bill of entry needs to be filed before the end of the preceding day (including holiday) from the day of arrival of goods. Earlier, the time was given until the end of next day (excluding holidays) from the day of arrival of goods.
- **Amendment of bills of entry/shipping bill** after clearance of goods can be made through the customs-automated system based on risk evaluation.
- **Service of a notice**, order, summon, etc., can be done by making it available on the common portal.

Legislative changes

- **Every conditional exemption notification**, unless otherwise specified, shall be valid until 31 March (falling immediately two years after the date of such grant). The existing conditional existing notifications shall be valid until 31 March 2023.
- **Mandatory time limit** of two years is prescribed for completion of any enquiry that culminates into issuance of SCN. Two years shall be computed from the date of initiation of audit, search, seizure or summons, etc.
- **Power to confiscate the goods** entered for exportation is granted in case they are under a wrong claim of remission/refund of duty/tax.
- **A penalty of 'up to five times of the refund claim'**, in case of fraudulent use of ITC of GST, for discharging tax on export of goods under the claim of GST refund.

Highlights



Certain changes are directed towards use of technology to reduce paperwork and enhance the ease of doing business. On the other hand, the move towards rationalising customs duty exemptions aims to promote domestic manufacturing. Also, some stringent penal provisions are introduced to curb unlawful refund claims filed by exporters.

Customs

Customs Tariff Act, 1975

- **Alignment with HSN 2022:** Changes have been proposed in the Customs Tariff Act's Schedule I with effect from 1 January 2022 to align with HSN 2022.
- Provisions have been amended for the levy of countervailing duty and anti-dumping duty to include the following:
 - Power to retrospectively levy such duty from the date of initiation of enquiry
 - Temporary revocation for a period not exceeding one year at a time
 - Levy of such duty on clearance of goods from EOU/SEZ either as such or used in manufacturing of goods cleared in DTA.

Changes under IGCR Rules, 2017

- IGCR rules have been amended to provide the following:
 - To allow job work of materials (except gold, jewellery, and other precious metals) imported under a concessional rate of duty
 - To allow 100 percent outsourcing for manufacturing goods on job work
 - To allow imported capital goods that have been used for the specified purpose to be cleared on payment of differential duty, along with interest, on the depreciated value; the depreciation norms would be the same as applied to EOUs

Highlights



The alignment of the Indian Customs Tariff Act with HSN 2022 is to ensure the classification of goods is done based on the global principles of classification.

Changes made under IGCR rules address long-pending industry demand to further enhance the ease of doing business.

Customs

New levy

- Imposition of AIDC: A new cess called AIDC is imposed on import of specified goods. Consequently, the BCD rate is reduced to ensure no additional burden on the consumer.
- AIDC shall not be applicable on goods imported under FTAs, EOUs and advance authorisation schemes where customs duty is also exempted.
- SWS shall be levied on AIDC, except in specified cases.
- AIDC shall be calculated on a transaction value similar to BCD.

Reduction in customs duty rates

Description of goods	Up to 1 February 2021	From 2 February 2021
Crude palm oil, crude soyabean oil, and crude sunflower seed oil*	27.5% to 35%	15%
Peas, kabuli chana, Bengal gram, chickpeas, and lentils*	30% to 60%	10%/15%
Apples*	50%	15%
Specified alcoholic beverages and spirits, falling under tariff headings 2204, 2205, 2206, and 2208*	150%	50%
All goods except dog and cat food, and shrimp larvae feed	Nil to 30%	15%
Dog and cat food and shrimp larvae food	30%	20%/5%
Various types of coal, lignite, and peat*	2.5%	1%
Naphtha	4%	2.5%
Urea, muriate of potash and diammonium phosphate, for use as manure or for production of complex fertilisers*	5% to 10%	Nil
Nylon fibre and yarn	7.5%	5%
Silver and gold**	12.5%	7.5%

*Additional AIDC applicable to keep the effective rate same

**AIDC@2.5 percent also applicable

Customs

Reduction in customs duty rates

Description of goods	Up to 1 February 2021	From 2 February 2021
Primary/semi-finished products of non-alloy steel	10%	7.5%
Flat products of non-alloy and alloy steel falling under specified headings	10%/12.5%	7.5%
Long products of non-alloy, stainless, and alloy steel falling under specified headings	10%	7.5%
Components or parts, including engines of aircraft that public sector units (under the Ministry of Defense) import for manufacturing such aircraft or parts of such aircraft	Applicable rate	Nil
High-speed rail projects being brought under project imports	Applicable rate	5%

Highlights



A majority of the changes made under BCD rates do not have any impact, with an equal rate of AIDC levy, on customs duty rates.

Extension of the benefit of the project import scheme to high-speed rail projects is a welcome change.

Customs

Increase in customs duty rates

Description of goods	Up to 1 February 2021	From 2 February 2021
Denatured ethyl alcohol (ethanol) for use in manufacturing excisable goods	2.5%	5%
Carbon black/polycarbonates	5%	7.5%
Plates, sheets, films, etc., of other plastics falling under heading 3920 99 99	10%	15%
Wet blue chrome tanned leather, crust leather, finished leather of all kinds, including splits and sides of the aforesaid	Nil	10%
Raw silk, silk yarn, and yarn spun from silk waste (whether or not put up for retail sale)	10%	15%
Raw cotton**	Nil	5%
Safety glass, consisting of toughened (tempered) or laminated glass falling under heading 7007 (other than those used with motor vehicles)	10%	15%
Screw, bolts, nuts, etc., of iron and steel	10%	15%
Tunnel-boring machines	Nil	7.5%
Parts and components for manufacturing tunnel-boring machines with actual-user conditions	Nil	2.5%

Customs

Increase in customs duty rates

Description of goods	Up to 1 February 2021	From 2 February 2021
Compressors used in refrigerating equipment and gas compressors used in air-conditioning equipment	12.5%	15%
Solar invertor	5%	20%
Parts of electrical lighting or signalling equipment, windscreen wipers, defrosters and demisters, of a kind used for motor vehicles	10%	15%
Parts and inputs used in manufacturing LED lights and fixtures, including LED Lamps	5%	10%
Electrical cables, including insulated wires and cables (except for ignition wiring used in vehicles, USB cable, and optical fibre cable)	7.5%	10%
Ignition wiring cable used in vehicles, aircraft, and ships	10%	15%
Inputs or raw materials (other than PCBA and moulded plastics) for use in manufacturing charger or adapter of cellular mobile phones	Nil	10%
PCBA of charger or adapter, and moulded plastics of charger or adapter	10%	15%

Customs

Increase in customs duty rates

Description of goods	Up to 1 February 2021	From 2 February 2021
Inputs or parts of PCBA, and moulded plastics of charger or adapter of cellular mobile phones	Nil	10%
Inputs or raw materials (other than lithium-ion cell and PCBA) for use in manufacturing lithium-ion battery and battery pack	Nil	2.5%
Solar lanterns or solar lamps	5%	15%
Parts of electronics toys	5%	15%
Inputs and raw material of base stations and other machines for the reception, conversion, and transmission or regeneration of voice, images, or other data, including switching and routing apparatus	Nil	Applicable rate
Specified auto parts (other than bicycle parts and components)	10%	15%

Highlights



Increase in customs duty rates on a majority of the products is aimed towards encouraging local manufacturing.

Apart from these rate changes, the government has also temporarily revoked levy of anti-dumping duty/CVD currently applicable on certain items of steel.

Customs

Increase in customs duty rates

Description of goods	Up to 1 February 2021	From 01 April 2021
Specified inputs/parts for manufacturing PCBA, camera module, connectors, wired headset, USB cable, and microphone and receiver, etc., of mobile phones	Nil	2.5%
Metal shield, camera lens, and specified inputs or raw materials for use in manufacturing cellular mobile phones	Nil	Applicable rate
Inputs, parts, or sub-parts for use in manufacturing PCBA of lithium-ion battery and battery pack	Nil	2.5%
Inputs or raw material for use in manufacturing machines capable of connecting to an automatic data processing machine, ink cartridge, and ink spray nozzle	Nil	2.5%

Highlights



Increase in customs duty rates on a majority of the products is aimed towards encouraging local manufacturing.

Apart from these rate changes, the government has also temporarily revoked levy of anti-dumping duty/CVD currently applicable on certain items of steel.

Central Excise Duty

Rate movement

- **Imposition of AIDC:** A new cess called AIDC is imposed on petrol and HSD of INR 2.5 per liter and INR 4 per liter, respectively. Consequently, the rate of BED and SAED is reduced to ensure no additional burden on the consumer.
- **Exemption for blended fuels:** The exemption from excise duty, cesses, and surcharges on blended fuels is also extended to 20 percent ethanol blended petrol and 15 percent methanol blended petrol.
- **Alignment with HSN 2022:** New tariff items are inserted under Chapter 24 in accordance with upcoming HSN 2022. This change intends to cover products such as e-cigarettes and other electronic nicotine items effective 1 January 2022.

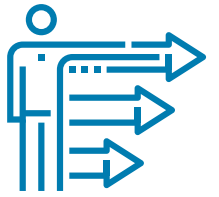
Duty rates applicable with effect from 2 February 2021

Commodity	BED	SAED	RIC	AIDC	Total
Petrol (unbranded)	1.40	11	18	2.5	32.90
Petrol (branded)	2.60	11	18	2.5	34.10
Diesel (unbranded)	1.80	8	18	4.0	31.80
Diesel (branded)	4.20	8	18	4.0	34.10

Policy Updates



Atmanirbhar Bharat



Foreign Direct Investment

- FDI in insurance to be increased from 49 percent to 74 percent, subject to having safeguards such as a majority of the directors on the board and key management persons to be resident Indians with at least 50 percent of directors to be independent directors, specified percentage of profits to be retained as general reserve

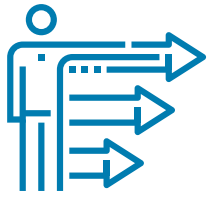
AIF/InvIT/REIT, etc.

- Definition of "securities" amended to include securities/units issued by PIV or other body corporate. PIV registered with SEBI will be eligible to borrow and issue debt securities
- PIV permitted to provide security interest to lenders in terms of the facility documents
- In case of default by the PIVs of principal / interest, the lender shall be entitled to enforce security interest against the trust assets
- Consequential changes made to Recovery of Debts Due to Banks and Financial Institutions Act, 1993 to clarify that definition of "debt" shall also include debt incurred by PIV and SARFAESI Act to clarify that the definition of "borrower" shall also include PIV

Privatisation/disinvestment

- Privatisation of two public sector banks and one general insurance company proposed in FY21-22 after legislative amendments are made
- The Government has approved policy for strategic disinvestment of public sector enterprises. NITI Aayog to identify more Central Public Sector companies for disinvestment
- Special Purpose Vehicle in the form of a company will be set up for monetising non-core assets mainly comprising surplus land
- No stamp duty payable on conveyance or transfer of business/asset or right in any immovable property of a government company, its subsidiary, unit or joint venture, by way of strategic sale or disinvestment, etc., to another government company
- Revised mechanism will be introduced for timely completion of closure of sick or loss making CPSEs

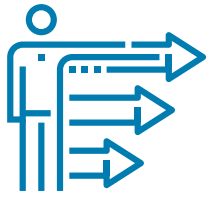
Atmanirbhar Bharat



Ease of doing business

- Paid-up share capital and turnover threshold for determining "Small Companies" under the Companies Act, 2013 proposed to be increased to \leq INR 20 million and \leq INR 200 million, respectively, from the existing limit of \leq INR 5 million and \leq INR 20 million. Small Companies are subjected to fewer compliances under the Companies Act, 2013
- NRIs allowed to incorporate OPCs. OPCs will be allowed to grow without any restriction on capital and turnover. OPCs can be converted into any other type of companies at any time. Residency criteria for Indian citizens to incorporate OPCs have been reduced from 182 days to 120 days
- e-Courts system will be implemented for strengthening the NCLT framework
- MCA21 version 3.0 will be launched to facilitate e-scrutiny, e-adjudication, e-consultation and compliance management
- Offences under the Limited Liability Partnership Act, 2008 to be decriminalised
- Separate administrative structure will be set up for multi-state cooperatives
- To instill confidence in private investors and contractors in dealing with the Government/CPSEs, a conciliation mechanism is to be set up for quick resolution of contractual disputes
- SEBI Act 1992 amended to provide that any AIF or a business trust, as defined in section 2(13A) of the Act, shall establish and operate only after being registered with SEBI

Atmanirbhar Bharat



Other financial sector reforms

- In order to develop corporate bond market, it is proposed to create a permanent institutional framework to purchase investment grade debt securities, both in stressed and normal times
- Setting up of Gold exchange which will be regulated by SEBI
- Alternative methods of debt resolution and special framework for MSMEs shall be introduced
- Minimum loan size eligible for debt recovery under the SARFAESI is proposed to be reduced from INR 5 million to INR 2 million for NBFCs with minimum asset size of INR 1 billion
- An Asset Reconstruction Company Limited and Asset Management Company will be set up to consolidate and take over the existing stressed debt, which can be disposed of to AIF and other potential investors for eventual value realisation
- An investor charter to be introduced as a right of all financial investors across all financial products
- To augment funds for infrastructure and real estate sectors, InvITs and REITs will be allowed to access debt finance from FPIs.
- Proposal to set-up a world class Fin-Tech hub at the GIFT-IFSC to support development
- A professionally managed development financial institution will be set up to act as a provider, enabler, and catalyst for infrastructure financing with an aim to have a lending portfolio of INR 5,000 billion in three years
- Proposal to consolidate SEBI Act, 1992, Depositories Act, 1996, Securities Contracts (Regulation) Act, 1956 and Government Securities Act, 2007 into a single Securities Markets Code
- Recapitalisation of public sector banks by INR 200 billion

Other policy updates

Migrant workers and labourers

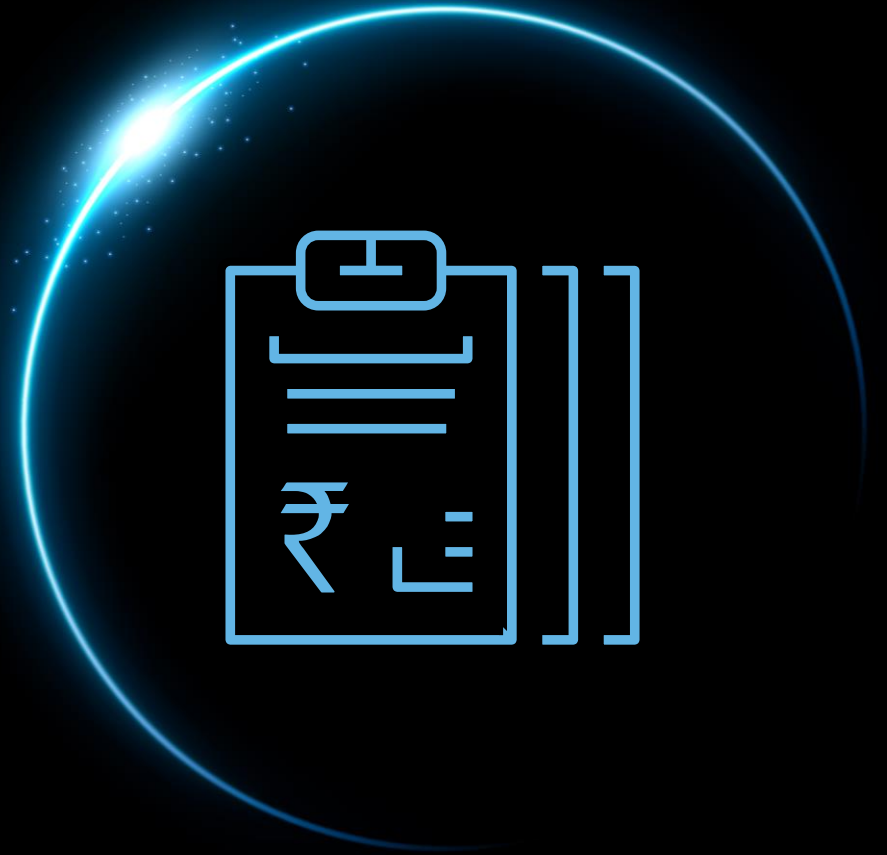
- Social security benefits to be extended to gig and platform workers
- Minimum wages to apply to all categories of workers and will be covered by the ESIC
- Women will be allowed to work in all categories including night shifts with adequate safeguards
- Compliance burden on employers will be reduced with single registration and licensing, and online returns
- Proposal to launch a portal to collect information on gig, building, and construction-workers, amongst others

Others

- Reforms-based result-linked power distribution sector scheme will be launched for DISCOMs for Infrastructure creation including pre-paid smart metering and feeder separation, upgradation of systems, etc., tied to financial improvements.

- INR 1,970 billion committed over five years for 13 sectors under the PLI schemes
- Mega Investment Textiles Parks (MITRA) will be launched and seven textile parks will be established over three years
- An outlay of INR 500 billion over five years announced for National Research Foundation to strengthen research eco-system
- INR 15 billion is earmarked for financial incentive to promote digital modes of payment
- Margin money requirement reduced from 25 percent to 15 percent for extending credit under the 'Stand Up India' scheme for SCs, STs, and women
- Allocation of INR 157 billion announced to support the MSME sector
- Amendments to be made to Deposit Insurance and Credit Guarantee Corporation Act 1961 to help depositors of stressed banks to get easy and time-bound access to their deposits to the extent of the deposit insurance cover
- Amendments proposed to the Life Insurance Corporation Act, 1956 to facilitate IPO

Financial Reporting



Financial reporting assessment/implications

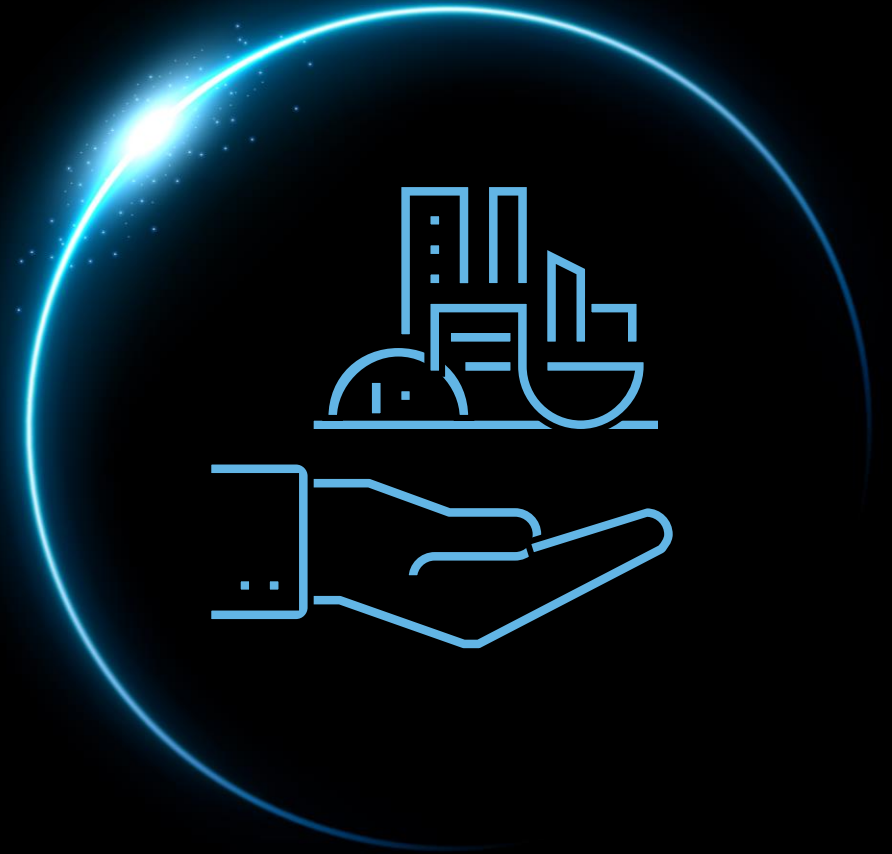
- Non-deduction of goodwill on merger will have accounting implications with reference to deferred tax assets
- To increase tax holidays and exemption by one year in several cases, which will also require appropriate consideration on deferred tax asset/liability balances and evaluation of recoverability
- The significant announcement related to disinvestments will require 'Business Combination' accounting, including assessment of 'control' and 'fair value accounting'
- To similarly assess the increase in FDI limit on insurance sector from 49 percent to 74 percent
- A significant emphasis on private sector participation in core sectors, such as port, transportation, railways, roads, airports, etc., through PPP model, requires a complex assessment and accounting of 'Service Concession Arrangement'; they tend to have long-term impact on the financial reporting
- To change the threshold for tax audit requirement

Highlights



Financial reporting impact of policy and tax changes to be evaluated

Industry Impact



Automotive

The announcement of voluntary vehicle scrapping policy to reduce vehicular pollution and oil import bill is a welcome move and should boost demand in the industry. The specifics of the policy will be announced in due course.

Increase in customs duty rate on some auto parts to align their rates with other components and avoid classification disputes. There is also a reduction in various products of non-alloy and alloy steel. These measures will have an impact on the overall cost for manufacturers in this segment.



Banking and Capital Markets



- **NDF market:** NRs to benefit from the income-tax exemption granted to them on income earned on NDF transfers entered into with banks operating out of an IFSC. This should help bring the overseas NDF market onshore into IFSC-GIFT City
- **Foreign banks** that invest in capital markets globally (including in the Indian capital markets under the FPI route) are being encouraged to set up investment divisions in an IFSC in India to undertake global trading activities onshore from India. These trades could relate to the bank's proprietary positions or client positions
- **Aircraft leasing:** The measures taken by the Government to promote India as an aircraft leasing centre (especially for use by Indian domestic carriers) is a welcome measure. This should encourage aircraft lessors to set up operations in the IFSC, and also encourage Indian domestic carriers to take aircrafts on lease from such IFSC units, as opposed to leasing aircrafts directly from overseas leasing centres (such as Ireland and China)
- **IDFs:** Investors in notified IDFs to benefit from the capital gains treatment on investments made in ZCBs issued by such IDFs. This should boost IDFs and the Infrastructure sector
- **Co-operative banks:** A primary co-operative bank converted into a banking company will enjoy the same tax deductions available to a business reorganisation involving two co-operative banks

Highlights



IFSC made an attractive proposition for Banking and Capital Market players to set up more global financial services activities onshore in India

Consumer Products



The Production Linked Incentives (PLI) scheme for textiles was announced recently. In addition to this, the Union Budget provides for the scheme of Mega Investment Textiles Parks (MITRA) with plug and play facilities. The Budget also proposes establishing seven textile parks within the next three years. These measures should provide a reliable infrastructure to the industry in the long run.

The Budget proposes to rationalise customs duty rates on inputs and raw materials for textiles and leather products. This should provide a level-playing field to the domestic manufacturers and promote the larger objective of 'Make in India' to promote India as a leading exporter of textile products to the global markets

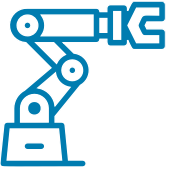
Increase in basic customs duty rate on compressors for air conditioners and refrigerators to have an impact on the costing of these products.

Review of customs exemption notifications and new rate structures, to be implemented effective October 2021, may have an impact on various segments including consumer durables where focus is on encouraging domestic manufacturing and discouraging import of finished products.

Extension of deduction of interest on loan for individuals on purchase of affordable housing and a tax holiday for affordable housing projects till 31 March 2022 to boost demand in this segment. In addition to this, a tax holiday is also proposed for developing and building rental housing project keeping in mind the migrant workers is also proposed.

While the recently introduced TCS provisions are still stabilising, introduction of TDS on domestic sale of goods @ 1% of the sale consideration is likely further increase compliance burden for the industry.

Industrial Products and Construction



MSME sector

- Disallowed global tenders of up to INR 2 billion to support the “Make-in-India” initiative and augment domestic production
- Set up of collateral-free loans and a fund of funds for MSMEs
- Redefinition of MSMEs

Boost to manufacturing sector for industrial products

- PLI launch to create global manufacturing champions across 13 sectors, committed with nearly INR 1,970 billion in the next five years starting FY21–22. This will enable manufacturing companies to become an integral part of the global supply chain and possess core competence and cutting-edge technology
- Duty rationalisation through reduced BCD on iron and steel to cut down domestic manufacturers’ input costs and correct the inverted duty structure

- Increased customs duty rates of several electrical items used in manufacturing to curb imports and safeguard the domestic industry
- Amendments in the IGCR as a trade facilitation measure to allow:
 - Job-work on specified materials imported under IGCR
 - 100 percent outsourcing for goods manufacturing on job-work; and
 - Clearance of capital goods imported under IGCR on customs duty payment on the depreciated value

Increased infrastructure funding to boost consumption in the manufacturing sector

- Customs duty exemption withdrawal on tunnel-boring machines and its parts by levying BCD of 7.5 and 2.5 percent, respectively

- To work towards the NIP target, the following steps are proposed:
 - Create institutional structures for infrastructure financing
 - Monetise assets
 - Enhance the capital expenditure share in central and state budgets
- Promotion of infrastructure development in roads, railways, metro and textile parks will boost consumption in the manufacturing sector

Insurance

- **FDI:** Increase in the FDI limit from the present 49 percent to 74 percent is likely to attract more foreign investment into the sector. However, the proposed safeguards on control and management (including profit retention) need deliberation
- **ULIPs:** Starting 1 Feb 2021, new ULIP policies with an annual premium of more than INR 250,000 are proposed to be taxed on the same basis as applicable to capital gains realised on transfer of equity-oriented mutual fund units. This amendment is likely to take some sheen off ULIPs as an insurance-cum-investment product, given that previously investors in certain ULIPs enjoyed full tax exemption
- **LIC** to be IPOed in FY21–22. This is likely to be the largest IPO in the Indian capital market
- One General Insurance company to be privatised in FY21–22, as part of the Government’s strategic disinvestment policy
- The DICGC Act, 1961, to be amended for last year’s proposal to increase the deposit insurance cover from INR 100,000 to INR 500,000 for bank customers



Highlights



- **Expected increase in FDI limit to 74 percent is welcome**
- **ULIPs to become unattractive as an insurance-cum-investment product**

Investment Management

- **IBFM:** IBFMs that operate from an IFSC in India can now manage monies of FIFs (as opposed to only providing non-binding investment advice to FIFs), without creating an Indian PE and POEM risk for the FIFs, and without having to satisfy the numerous conditions stipulated in section 9A of the Act. This should boost the Indian Asset Management industry
- **FIF:** Relocation of an FIF from overseas to an IFSC in India to be treated as tax exempt in India. This should help in onshoring FIFs, primarily India-focused funds (such as FPIs/private equity funds) from popular overseas investment fund jurisdictions (such as Mauritius and Singapore) to India
- **SWFs/FPFs:** Notified SWFs/FPFs to benefit from the rationalisation of the income-tax exemption provisions applicable to them regarding their investments in eligible infrastructure projects. Now SWFs/FPFs are also permitted to claim the income-tax exemptions on investments made by them in Indian platform arrangements, NBFCs-IFCs, IDFs, Category I and II AIFs that invest in at least 50 percent eligible infrastructure projects, as well as in InVITs
- **FPIs:** Indian corporates to now apply DTAA rates while withholding tax on dividends and interest paid to FPIs. This will benefit FPIs as they need not have to deal with the issue of surplus withholding tax in India on Indian-sourced dividends

Highlights



- **IFSC made an attractive proposition for FIFs and asset management houses to set up presence there**
- **SWFs/FPFs to benefit from the rationalisation and liberalisation of the income-tax exemptions granted to them on their investments in eligible Indian infrastructure projects**
- **FPIs to benefit from their ability to access DTAA rate on TDS on dividends and interest**

Life Sciences and Health Care



Health and well-being tops the priority list (six pillars) of this Budget. The total allocation to the health care sector is INR 2,230,000 million (including INR 350,000 million for COVID-19 vaccination), a 137 percent increase over the past year. A new scheme 'PM Atmanirbhar Swasth Bharat Yojana' proposed to develop and strengthen healthcare infrastructure and cater to detection and cure of new diseases. Under this scheme, virology institutes and integrated public health labs will be set up and health and wellness centres will be supported. Critical care hospital blocks will be established to boost inclusion in healthcare sector. A notable allocation has also been made for water and sanitation.

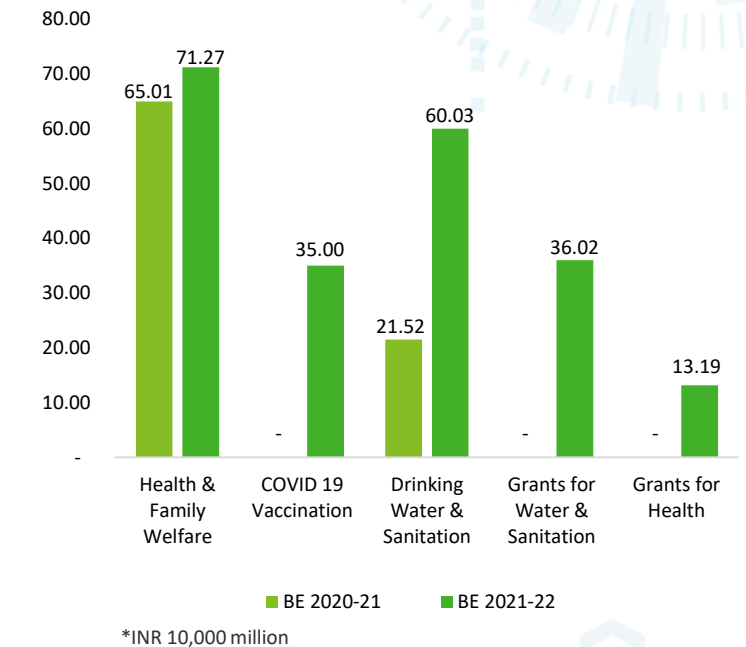
It is expected that these measures will enable public at large to access health care facilities. The pharmaceutical companies will also have a wider reach for their supplies. Likewise, there will be a larger market for medical devices.

These steps would surely lead to requirement of skilled and trained resources, and generating more employment. On the other hand, it could lead to creating a local demand that would enhance the attractiveness of the sector from an investment perspective. Further, expansion of the Integrated Health Information Portal could provide opportunities on the path of digitalisation.

While the increased budgetary allocations are re-assuring, there are no tax proposals specific to this sector. Direct tax incentives would have further encouraged the private sector to invest and engage in R&D, and help position India as an innovation hub. Also, rationalising GST rates on critical/lifesaving drugs and healthcare services would have made them more affordable.

On the whole, as India's health care spend has historically been very low, the present allocations hope to mark a beginning of a strong focus to this sector.

Key Allocations



Mining and Metals

MSME sector

- Support to MSMEs hit by a recent sharp rise in iron and steel prices, and relief to metal recyclers
- Collateral-free loans and setting up of the fund of funds for MSMEs

Support to the metal sector

- Customs duty reduced uniformly on iron and steel to provide relief to metal re-cyclers
- Temporary revocation of anti-dumping duty and countervailing duty on some steel products imported from specified countries
- As a step to reduce instances of smuggling and bring down customs duty to the previous levels, customs duty reduced on gold and silver
- Duty reduced on precious metals and spent catalysts or ash containing precious metals
- Social welfare surcharge exempted on the value of agriculture infrastructure and development cess imposed on gold and silver; these items to attract surcharge at a normal rate

- The procedure for the pre-trial disposal of seized gold revised
- Relief provided to copper recyclers by reducing duty on copper scrap



Oil, Gas, and Chemicals



Tax concessions to SWFs/PFs

- Eligibility conditions for tax exemption to SWF and PFs recalibrated
- Focus on encouraging long-term investment commitments from a wider set of SWFs/PFs into the infrastructure sector (including oil and gas assets)

Imposition of Agriculture and Infrastructure Development Cess (AIDC) with effect from 2 February 2021

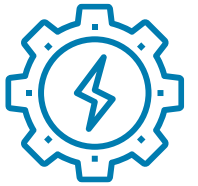
- AIDC of INR 2.5 per litre and INR 4 per litre imposed on petrol and HSD, respectively, with corresponding cuts in excise duties
- AIDC imposed on other specified goods (lignite, peat, etc.) with a corresponding reduction of BCD; no adverse impact on overall duty rates

Customs duty rates rationalised with effect from 2 February 2021

Description of goods	Existing BCD	Revised BCD
Naphtha	4%	2.5%
Caprolactam	7.5%	5%
Urea, muriate of potash and diammonium phosphate, for use as manure or in the production of complex fertilisers	Applicable rate	Nil
Ammonium nitrate	10%	2%
Nylon chips	7.5%	15%

- Exemption from SAED, RIC, and AIDC to blended fuels M-15 and E-20, subject to payment of duty on specified inputs

Power and Utilities



Change in policy

Proposal to launch a Hydrogen Energy Mission in FY21–22 to generate hydrogen from green power sources

To contribute to economic growth, the Government has opened doors for the private sector to invest in the Power sector.

To encourage investments of SWF and PF into the infrastructure sector, amendments are proposed to:

- Allow AIF to invest up to 50 percent in non-eligible investments
- Relax investments from 100 percent to 50 percent in Category-I or Category-II AIF
- Allow investment in InvITs
- Availability of proportionate exemption

Additional capital infusion of INR 10 billion in Solar Energy Corporation of India and INR 15 billion in Indian Renewable Energy Development Agency to boost the non-conventional Energy sector

A framework to be made for an alternative choice to consumers to choose from more than one distribution company

Direct tax

Enabling infrastructure debt fund to issue zero coupon bonds

TDS exempted on dividend payments to InvITs and REITs

Customs

Increased BCD on the following goods:

- Solar lanterns or lamps – 5 percent (till 1 Feb 2021); 15 percent (from 2 Feb 2021)
- Solar inverters – 5 percent (till 1 Feb 2021); 20 percent (from 2 Feb 2021)

A new tariff heading and relevant rates have been prescribed for solar water heaters; BCD rate: 10 percent

Notification granting customs duty exemption to all machinery, instruments, appliances, components, or auxiliary equipment in excess of 5 percent duty for initial set up of solar power generation projects or facilities has been rescinded

Real Estate

- **REITs/InVITs** to be allowed access to debt financing from FPIs, thereby providing them with a new channel of funds and liquidity. Additionally, REITs/InVITs to benefit from the exemption granted to them on TDS on dividends that they earn from their Indian portfolio companies
- **Affordable housing:** For tax holiday on affordable housing projects, the period for obtaining project approval has been extended by one more year till 31 March 2022. Additionally, the interest deduction of INR 150,000 for home loans taken to purchase an eligible house has also been extended by one year and would cover loans taken up till 31 March 2022. To incentivise developers to provide housing solutions to migrant workers, tax exemption to notified rental housing projects is proposed
- **Incentive for residential unit sale:** Acknowledging the softening in real estate prices on account of the pandemic, it is proposed to increase the safe harbour limit for specified primary sale of residential units from 10 to 20 percent. This should provide relief to home buyers

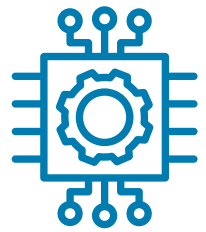


Highlights



- **REITs/InVITs to benefit from the liberalisation policy to raise capital, as well as fiscal benefit granted from a TDS perspective**
- **The tax incentive announcement for affordable housing development is welcome**

Technology



- Innovation and R&D have been identified as strategic pillars of the economy. The Government proposed a INR 500,000 million package for the National Research Foundation for five years to focus on national priorities and build capacity in strategically important areas
- To provide impetus to the digital economy, the Government has announced a INR 15,000 million outlay to incentivise digital payments
- Being the first “Digital Budget”, the Hon. FM also underscored the importance of technology in governance, which is likely to act as a force multiplier for the “Minimum Government Maximum Governance” model. Taken together with proposed schemes (such as the following), it will enable the digital delivery of governance and citizen services:
 - Making governance and policy-related knowledge on the Internet available in major Indian languages through the National Language Translation Mission (NTLM)
 - Making the forthcoming census a “digital census”
 - Including data analytics, Artificial Intelligence (AI), machine-learning-driven modules for e-scrutiny, e-Adjudication, e-Consultation, and Compliance Management in MCA21 version 3.0
 - Enabling GST digitisation with deep analytics and AI
- Various changes have been proposed/clarifications provided on digital tax/Equalisation Levy (EL) provisions:
 - Consideration taxable as “royalty” or “fees for technical services” will be outside the ambit of EL
 - Inclusive definition of “online sale of goods”, “online provision of services”, and “consideration” to widen the ambit
 - Ambiguity in the applicable period of exemption removed

Telecom

- To promote domestic manufacturing, Basic Customs Duty (BCD) rates have been increased as follows:
 - Specified parts of mobile phone from Nil to 2.5 or 10 percent
 - Withdrawal of exemption on certain inputs and mobile phone parts and imposition of duty at 10 percent
 - Printed circuit board assembly and moulded plastic of mobile phone chargers increased from 10 to 15 percent
- The Government to review 400 customs duty exemptions and bring in a revised customs duty structure from Oct 2021, which could include exemptions related to the telecom sector

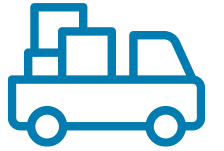


Transportation, Hospitality, and Services

Monetisation of toll roads, railway infrastructure assets, airports in tier II and tier III cities should invite private participation in this sector. Proposal to introduce a new scheme to facilitate deployment of public-private partnership models in public bus transport services will also provide the necessary fillip to the private sector participation in the transport sector.

The introduction of aesthetically designed Vista Dome LHB coach on tourist routes and high density network should support tourism.

Income tax exemption on aircraft lease rentals paid to foreign lessors has been proposed, which may provide relief to the aviation sector.



Glossary



Glossary

AAR	Authority for Advance Rulings	ESIC	Employees State Insurance Corporation
AIDC	Agriculture Infrastructure and Development Cess	FIF	Foreign Investment Funds
AIF	Alternative Investment Fund	FPF	Foreign Pension Fund
AO	Assessing Officer	FPI	Foreign Portfolio Investment
AOP	Association of Persons	FTA	Free Trade Agreement
APA	Advance Pricing Agreement	FY	Financial Year
BCD	Basic Customs Duty	GST	Goods and Services Tax
BED	Basic Excise Duty	HSD	High Speed Diesel
BFAR	Board for Advance Ruling	HSN	Harmonised System of Nomenclature
BOI	Body of Individuals	HUF	Hindu Undivided Family
CAG	Comptroller and Auditor General of India	IBFM	India-based Fund Manager
CBDT	Central Board of Direct Taxes	IDF	Infrastructure Debt Fund
CVD	Countervailing Duty	IFSC	International Financial Services Centre
DISCOMs	Electricity distribution companies	IGCR	Import of Goods at Concessional Rate
DTA	Domestic Tariff Area	IGST	Integrated Goods and Services Tax
DTAA	Double Tax Avoidance Agreement	INR	Indian Rupee
EL	Equalisation Levy	InVIT	Infrastructure Investment Trust
EOU	Export Oriented Unit		

Glossary

ITC	Input Tax Credit	PPP	Public-Private Partnership
IPO	Initial Public Offering	PSE	Public Sector Enterprise
LLP	Limited Liability Partnership	REIT	Real Estate Investment Trust
LTC	Leave Travel Concession	RBI	Reserve Bank of India
M&A	Mergers and acquisitions	RIC	Road and Infrastructure Cess
MAT	Minimum Alternate Tax	SAED	Special Additional Excise Duty
MSME	Micro, Small and Medium Enterprises	SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
NATS	National Apprenticeship Training Scheme	SCN	Show Cause Notice
NBFC	Non Banking Financial Company	SEZ	Special Economic Zone
NBFC-IFC	NBFC – Infrastructure Finance Company	SEBI	The Securities and Exchange Board of India
NDF	Non Deliverable Forward	SPV	Special Purpose Vehicle
NRF	National Research Federation	SWF	Sovereign Wealth Fund
OBU	Offshore Banking Unit	TCS	Tax Collected at Source
OPC	One Person Company	TDS	Tax Deducted at Source
PCBA	Printed Circuit Board Assembly	ULIP	Unit Linked Insurance Plan
PF	Pension Fund	USB	Universal Serial Bus
PIV	Pooled Investment Vehicle	ZCB	Zero Coupon Bond



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