

Union Budget 2021

Tax and Policy Highlights

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. Above the 'Y' is a yellow chevron shape pointing to the right.

Building a better
working world

Macro-fiscal

- ▶ Fiscal deficit relative to GDP at 9.5% in FY21 and 6.8% in FY22 shows a sharp deviation from the Fiscal Responsibility and Budget Management (FRBM) target of 3%. The focus will be on sectors with high employment and output multipliers like construction and health
- ▶ Capital expenditure is estimated to increase from 1.6% of GDP in FY20 to 2.3% of GDP in FY21 Revised Estimates (RE) and further to 2.5% of GDP in FY22 Budget Estimates (BE)
- ▶ The Fifteenth Finance Commission has recommended amendment of the FRBM Act, based on recommendations of an high-powered inter-governmental group
- ▶ The Finance Commission has permitted a higher fiscal deficit for the states in 2021-22 at 4% of GDP for states considered together. Additionally, a flexibility of 0.5% of GDP has been allowed subject to certain conditions. The deficit-GDP ratio is to be brought down in line with the FRBM requirement of 3% of GDP by 2023-24
- ▶ Government's gross tax revenues contracted by (-)5.5% in FY21 RE after having declined by (-)3.4% in FY20
- ▶ Using a nominal growth of 14.4% and a buoyancy of 1.2, centre's gross tax revenues are projected to show a growth of 16.7% in FY22 (BE)
- ▶ Both Personal Income Tax (PIT) and Corporate Income Tax (CIT) are projected to grow by more than 22% in FY22 BE over FY21 RE. This is largely due to base effects
- ▶ A reinvigorated disinvestment plan has been planned for FY22 with receipts from disinvestment budgeted to increase to INR1.75 lakh crores from INR32,000 crores in FY21

Highlights



26%

Growth in center's capex in FY22 (BE)

14.4%

Nominal GDP growth rate for FY22



6.8%

Fiscal deficit target for FY22

Policy


- ▶ INR 35,000 crores allocated for COVID-19 vaccine
- ▶ PM Atma Nirbhar Swasth Bharat Yojana to be launched with an outlay of INR 64,180 crores over 6 years
- ▶ A conciliation mechanism to be set for quick resolution of contractual disputes
- ▶ Decriminalization of the LLP Act, 2008 in FY22
- ▶ The FDI in insurance increased to 74% from 49%
- ▶ IPO of LIC to be undertaken in FY22
- ▶ 7 projects worth more than INR 2,000 crores will be offered by the major ports on PPP mode in FY22
- ▶ 7 mega textiles parks to be set up over 3 years under the proposed MITRA Scheme
- ▶ A Dispute Resolution Committee is proposed to be constituted to enable efficient dispute resolution
- ▶ New tax exemption for the notified Affordable Rental Housing Projects
- ▶ Privatization of 2 PSBs and 1 General Insurance company in FY22
- ▶ A revamped reforms-based result-linked power distribution sector scheme to be launched with an outlay of INR 3,05,984 crores over 5 years
- ▶ To consolidate financial capacity of PSBs, recapitalization of INR 20,000 crores is proposed
- ▶ Asset reconstruction and management companies to be set up to handle stressed assets of PSBs
- ▶ A sum of INR 20,000 crores allocated to set up the Debt Financing Institution
- ▶ An independent Gas Transport System Operator to be set up
- ▶ Voluntary vehicle scrapping policy, to phase out old and unfit vehicles
- ▶ A Hydrogen Energy Mission for generating hydrogen from green power sources to be launched in FY22
- ▶ Development proposed of a Fin-Tech hub at the GIFT-IFSC
- ▶ National Monetization Pipeline of potential brownfield infrastructure assets to be launched
- ▶ Consolidation of the provisions of 4 key securities acts into a rationalized single Securities Markets Code

Highlights



INR2.23
lakh crore for
healthcare

PM Atma Nirbhar
Swasth Bharat Yojana
PPP in ports
Vehicle Scrappage
Policy
Decriminalization of
LLP Act
Privatization of PSB
and Insurance
companies

49%  74%
FDI in
insurance

Corporate Tax

- ▶ Relief for dividend income :
 - ▶ Advance tax liability in respect of dividend income to be computed after declaration or payment of dividend whichever is earlier
 - ▶ Withholding Tax exemption granted to dividends paid to Real Estate Investment Trust (REIT) and Investment Trust (InvIT)
 - ▶ Tax treaty benefits to be available to Foreign Portfolio Investors (FPI)
 - ▶ Minimum Alternate Tax (MAT) exemption to foreign companies in respect of dividend income if applicable tax rate is less than MAT rate
- ▶ Rationalization of provisions relation to relating to taxation of the assets or amount received by partners from the partnership firm in excess of their capital contribution
- ▶ Tax audit exemption limit is increased from INR50 million to INR100 million for persons who are undertaking 95% of their transactions digitally
- ▶ Rate of TDS/ TCS shall be double of the specified rate or 5% whichever is higher in case of non-filing of income tax return for last two years and where TDS /TCS is INR 50,000 or more for last two years
 - ▶ Salary income, payment to NR, lottery etc. excluded
- ▶ Late deposit of employees' contribution to labour welfare funds by the employer shall not be allowed as deduction to the employer
- ▶ Relaxation in conditions (viz. prohibition on loans or borrowings, restriction on commercial activities, direct investment in entity owning infrastructure) for exemption to Sovereign Wealth Fund & Pension Fund
- ▶ Tax holiday for affordable housing extended up to 31 March 2022
- ▶ New Tax exemption introduced for affordable rental housing project for migrant workers
- ▶ Relaxation in conditions for loss carry forward of divested Public Sector Undertaking (PSU) in amalgamation

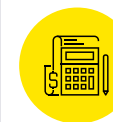
Highlights



Tax Payment relaxation for dividend income



Tax audit threshold from INR 50m to INR 100m



No deduction for late deposit of employee's contribution to PF



Extension in Tax holiday for affordable housing

Key Highlights - Corporate Tax

- ▶ Transfer of assets by PSU to resulting company to be deemed as tax neutral demerger
- ▶ TDS of 0.1% levied on purchase of goods above INR5 million in a year
 - ▶ where turnover of buyer exceeds INR 100 million
- ▶ Substitution of Authority for Advance Rulings (AAR) with Board for Advance Rulings
 - ▶ where turnover of buyer exceeds INR 100 million
- ▶ Limited Liability Partnership (LLP) not eligible for presumptive tax for professionals
- ▶ The term “liable to tax” to be defined to provide certainty
- ▶ Provisional attachment assets if penalty proceedings initiated for fake invoice/sham transactions of more than INR 20M
- ▶ Reduction in time limit for re-opening of assessment reduced from six years to three years
 - ▶ Further, re-opening of assessment up to 10 years only if - when there is a serious tax evasion and concealment on income is INR 5m or more in a year
- ▶ Reduction in time limits for general assessment and processing of Income tax return by three months
- ▶ Faceless dispute resolution committee will be constituted for small taxpayer having taxable income up to INR5 million and disputed income up to INR1 million
 - ▶ Settlement Commission shall be discontinued from 1 February 2021
- ▶ A National Faceless Income-tax Appellate Tribunal Centre to be established to eliminate human interface during Income Tax Appellate Tribunal (ITAT) proceedings
 - ▶ Personal hearings will be conducted through video conferencing

Highlights



LLP not eligible for presumptive tax for professionals



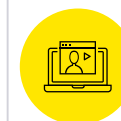
Quick processing of return and closure of revenue audit



Faceless dispute resolution for small taxpayers



Provisional attachment of assets in case of fake / sham invoicing



Faceless appellate proceedings Scheme extended to appellate tribunal

Indirect Tax | Customs

- ▶ Sunset clause provided for all conditional exemptions currently in force. The same shall end on 31 March 2023 (unless withdrawn earlier).
- ▶ New conditional exemptions shall be valid for two years from the end of financial year during which it was enacted.
- ▶ Bill of entry to be filed before end of the preceding day of arrival of goods.
- ▶ Any goods entered for exportation under wrongful claim of refund or remission of duty can be confiscated.
- ▶ Penalty to be levied in cases where ITC is claimed basis fraudulent invoice and the same is utilized for payment of tax on export.
- ▶ Two year time limit (further extendable by one more year) has been laid down for completion of enquiry and investigation culminating into issuance of notice.
- ▶ Common customs electronic portal is notified for facilitating registration, service of orders, filing bill of entry.
- ▶ Countervailing and anti-dumping duty can be levied retrospectively from the date of initiation of investigation in anti-circumvention cases.
- ▶ More anti-avoidance measures have been introduced.
- ▶ Duty has been reduced - gold and silver, goods of iron and steel, copper scrap and others.
- ▶ Duty has been increased - leather, textile goods, compressors, auto-components, tunnel boring machine, parts of mobile phones and others.

Highlights



Sunset clause
2 years
conditional
exemption



Anti-
avoidance
measures
introduced

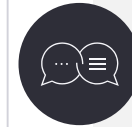
Indirect Tax | Goods and Services Tax

- ▶ Zero-rated benefit for supplies to SEZ shall be available only for authorized operations.
- ▶ Option of paying tax and claiming refund in case of zero-rated supplies will be available only in case of notified supplies and class of taxpayers.
- ▶ Mutuality concept has been done away with through specific provisions to levy tax on such transaction - this has been done to overrule the recent Supreme Court ruling.
- ▶ Law has been amended to give effect to interest liability on net tax payment retrospectively from 1 July 2017.
- ▶ GST audit has been replaced by self-certified reconciliation statement.
- ▶ On recommendations of GST Council, Commissioner may waive the requirement of filing GST annual return for notified class of taxpayers.
- ▶ Law has been amended to allow input tax credit only in cases where the supplier filed the return and details are communicated to the recipient.
- ▶ Mandatory pre-deposit (25% of penalty) required for filing appeal against detention or seizure order.

Highlights



NO GST
Audit



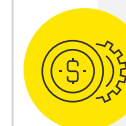
Pre-deposit
25%
Appeal against
detention

Other Indirect Taxes

- ▶ Agriculture Infrastructure and Development Cess (AIDC)
 - ▶ For the purpose of financing the agriculture infrastructure and other development expenditure.
 - ▶ On import of notified goods.
 - ▶ Also on manufacture of petrol and high speed diesel.

- ▶ Central sales tax (CST)
 - ▶ Form "C" can be issued where the registered person either resell or uses the goods in the manufacture or processing for sale of goods currently covered under CST (like petrol and diesel).

Highlights



Levy of new cess

People Advisory Services

- ▶ Exemption for LTC Cash Scheme: Legislative amendments introduced to give effect to the recently introduced LTC Cash Scheme
- ▶ To further incentivize affordable housing, the time limit for loan sanctioned from a financial institution, has been extended to 31 March 2022
- ▶ Relaxation for certain category of resident senior citizens of the age of 75 or more, from filing return of Income tax
- ▶ New Section has been introduced to address mismatch in taxation of income from notified overseas retirement fund. It is applicable for individuals who are resident in India and have opened specified retirement fund accounts outside India, while being non-resident in India and resident in that country
- ▶ Interest for delay in payment of advance tax not to be levied on dividend income (not applicable on deemed dividend) for instalments prior to receipt/ declaration of dividend income
- ▶ Reduction in time limit for filing belated/ revised return by three months. Accordingly, belated return or revised return can now be filed up to three months before the end of the relevant assessment year or before the completion of the assessment, whichever is earlier
- ▶ Higher rates of TDS under certain provisions on non filers of tax returns for two consecutive tax years. It is not applicable for TDS on salary income
- ▶ Interest accruing on employee's contribution to specified provident funds, on contributions in excess of INR 2,50,000 per annum, will be taxable
- ▶ Focus on concluding the process of the implementation of four new labor codes. Specific mention in the budget speech for social security benefits to be extended to GIG and platform workers, reduction in compliance burden on employers, with single registration and online returns

Highlights



LTC Cash Scheme
legislated

Timeline

Due date to file
revised/ belated
return reduced by 3
months and complete
assessments

Key highlights - People Advisory Services

- ▶ Taxation of proceeds received on maturity of high premium unit linked insurance policies (ULIPs) issued on or after 01 February 2021, where the aggregate premium exceeds INR 2,50,000 per annum

Assessment

- ▶ Time period to issue Notice for reopening of assessment of cases:
 - ▶ Income escaping assessment (normal cases): the time limit has been reduced to three years from six years
 - ▶ In specified cases, can be reopened till 10 years

- ▶ Dispute resolution committee to be set up to reduce litigations for small and medium taxpayers for preventing new disputes and settling the issue at the initial stage
- ▶ Time limit for completion of assessment proceedings reduced by three months. Accordingly, the assessment is proposed to be completed within nine months from the end of the assessment year

Highlights



3 years

Reduction in time period to issue income escaping assessment notice

Transfer Pricing

- ▶ Rationalization of provisions of Minimum Alternate Tax (MAT)
 - ▶ Amendment to address certain ambiguities:
 - ▶ It has been proposed that MAT shall not be applicable on the past year's income which is included in the current year's books of account on account of an Advance Pricing Agreement (APA) or a secondary adjustment.
 - ▶ The Assessing Officer shall, based on an application made to him in this behalf by the tax payer, recompute the book profit of the past year(s) and tax payable, if any, during the previous year, in the prescribed manner.
 - ▶ Re-computation of past years book profits will be done through rectification proceedings.
 - ▶ This amendment shall be applicable from AY 2021-22 onwards.
- ▶ Reduction of time limit for completing assessment
 - ▶ The time limit for completion of assessment proceedings has been proposed to be reduced by three months. For FY 2020-21 onwards, time limit to complete transfer pricing assessments will be 33 months from the end of the financial year.
- ▶ Faceless proceedings before the Income Tax Appellate Tribunal (ITAT)
 - ▶ Faceless scheme has been launched for ITAT proceedings in line with the faceless appeal scheme.
 - ▶ Likely to apply to appeals involving transfer pricing grounds as well.
 - ▶ The faceless scheme for ITAT proceedings shall be effective from 1 April 2021.

Highlights



Rationalizing
MAT provision



3 months
reduction of
completing
assessment



Faceless ITAT

International Tax

- ▶ Rationalization of equalization levy provisions
 - ▶ Taxation as royalty/ fee for technical services under the income-tax law would have priority over equalization levy
 - ▶ In order to be regarded as “online sale of goods” and “online provision of services” for e-commerce supply or service, certain activities are now defined
 - ▶ Sale of goods and provision of services will be covered regardless of whether the e-commerce operator owns the goods or provides the service
 - ▶ Applicability of Income-tax exemption for consideration covered by equalization levy aligned with 1 April 2020 along with date of applicability of equalization levy
 - ▶ The amendments will take effect retrospectively from financial year starting from 1 April 2020
- ▶ No change in applicability of “significant economic presence” criteria for business connection
 - ▶ Accordingly, as provided for by the Finance Act, 2020, the provision would be applicable from 1 April 2021
- ▶ Changes to the advance ruling process
 - ▶ The existing Authority for Advance Ruling (AAR) will cease to operate with effect from date to be notified by the central government
 - ▶ Constitution of one or more Boards for Advance Ruling will be notified
 - ▶ Central government will introduce a new scheme to impart great efficiency, transparency and accountability and also to introduce dynamic jurisdiction
 - ▶ Advance rulings issued by the Board will be appealable before the high court
 - ▶ The cases pending before the Authority for Advance Ruling on the notified date will be transferred to the Board
 - ▶ Corresponding amendments will be made to the relevant provisions with effect from 1 April 2021
- ▶ Definition for “liable to tax” introduced
 - ▶ The Income-tax Act, 1961 did not provide any specific definition of the term “liable to tax”
 - ▶ The amendment will define this as a liability of tax on that person under the law of any country and will include a case where subsequent to imposition of such tax liability, an exemption has been provided

Highlights



Rationalization of provisions related to equalization levy



Constitution of Board for Advance Ruling

Transaction Tax

- ▶ Goodwill of a business or profession will not be eligible for tax depreciation going forward
- ▶ The scope of slump sale transactions amended to specifically include all types transfers –primarily intended to cover slump exchange transactions

Highlights



Depreciation on Goodwill



Substance over form for slump sale

Union Budget 2021

Sector Highlights



Building a better
working world



Agriculture

- ▶ Increase in the target for agricultural credit
 - ▶ Ensure availability of higher credit to farmers and for animal husbandry, dairy and fisheries sector
- ▶ Enhanced allocation to Rural Infrastructure Development Fund
 - ▶ Facilitating availability of additional funds for agricultural and allied activities
- ▶ Enhanced allocation to Micro Irrigation Fund
 - ▶ Mobilization of additional resources for expanding coverage under micro-irrigation
- ▶ 'Operation Green Scheme' expanded to include additional 22 perishable products
 - ▶ Boost in integrated development of agriculture value chain and exports
- ▶ Integration of 1000 more mandis with e-National Agriculture Market
 - ▶ Increase in transparency and competitiveness in agricultural markets
- ▶ Agriculture Infrastructure Fund to be made available to APMCs
 - ▶ Augmenting availability of funds with APMCs for their infrastructure facilities
- ▶ Development of 5 major fishing harbours into hubs of economic activity
 - ▶ Economic and social boost to fisheries sector
- ▶ Set-up of Multipurpose Sea-weed Park in Tamil Nadu
 - ▶ Filip to employment and additional income
- ▶ Implementation of a special scheme for the welfare of tea workers, especially women and children in Assam and West Bengal
 - ▶ Boost to diversity, inclusiveness and welfare

Highlights

Agriculture credit target increased

15 **16.5**
Lakh crores Lakh crores

Allocation to Rural Infrastructure Development Fund

30,000 **40,000**
crores **crores**
2020-21 2021-22

Allocation to Micro Irrigation Fund

5,000 **10,000**
crores **crores**
2020-21 2021-22

Key Highlights - Agriculture

Key direct tax and corporate law proposals

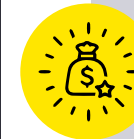
- ▶ No change in income-tax rates applicable to individuals and co-operative societies
- ▶ Start-ups incorporated on or after 1 April 2016 and before 1 April 2022 will be eligible for 100% deduction of profits and gains from business for 3 consecutive years out of 10 years at the option of the taxpayer provided the turnover of business does not exceed INR 100 crores
- ▶ Capital gains arising on transfer of residential property on or before 31 March 2022 will be exempt where the following conditions are satisfied within the specified timelines
 - ▶ The net consideration received is utilized for subscription of equity shares of eligible start-up
 - ▶ The start-up utilizes the amount for purchase of new asset

- ▶ Incentivising set-up of one-person company ('OPC') by allowing them to grow without any restrictions on paid up capital and turnover, reducing the residency limit for an Indian citizen to set up an OPC from 182 days to 120 days and also allow Non Resident Indians (NRIs) to incorporate OPCs in India
- ▶ Conversion of OPC into any other type of company to be allowed at any time

Highlights



Extension of sunset clause for deduction of profits of start-ups and capital gains exemption by 1 more year i.e. 1 April 2022



Incentivization of set-up of OPCs

Key Highlights - Agriculture

Key indirect tax proposals

- ▶ No change in Goods and Service Tax rates
- ▶ Imposition of Agriculture Infrastructure and Development Cess ('AIDC') has been proposed on import of certain specified goods including identified fertilizers under HSN 31 effective from 2 February 2021. BCD rates for such products have been reduced. AIDC for such identified products under HSN 31 is 5%
- ▶ While computing the customs duty, Social Welfare Surcharge would be computed on value including AIDC
- ▶ Changes in BCD rates for certain Agricultural products and by products wef 2 February 2021:

Chapter	Nature of goods	Earlier BCD Rate	New BCD Rate
2207 20 00	Denatured Ethyl Alcohol (ethanol) for use in manufacture of excisable goods	2.5%	5%
23	All goods in the nature of residues and waste from food industries except dog and cat food and shrimp larvae feed	Nil / 5% / 10% / 15% / 20% / 30%	15%
5002	Raw Silk (not thrown)	10%	15%
5004, 5005, 5006	Silk yarn, yarn spun from silk waste (whether or not put up for retail sale)	10%	15%
5201	Raw Cotton	Nil	5% + 5% AIDC
5202	Cotton waste (including yarn waste or garneted stock)	Nil	10%
5402 to 5404, 5405 00, 5406, 5501 to 5510	Nylon Fibre and Yarn	7.5%	5%

Highlights



Levy of AIDC on import of specified goods



Changes in BCD rates for certain agricultural products

Automotive

- ▶ Increase in basic customs duty rate of auto components falling under chapters 70, 73, 85, 87 and 91 from 10 % to 15%
- ▶ Increase in basic customs duty rate for compressors falling under chapter 84 and instruments under chapter 90 from 7.5% to 15%
- ▶ Reduction in basic customs duty for ferrous and non-ferrous metal products falling under chapter 72 & 74 used by domestic manufacturers for reducing cost of inputs by 2.5%
- ▶ Agriculture Infrastructure and Development Cess imposed on petrol and diesel with a consequent reduction in other duties and cess to ensure no additional burden on the consumer
- ▶ Temporary withdrawal of anti-dumping duty and countervailing duty on import of metals from certain countries including China, Germany, Vietnam, Korea and Indonesia
- ▶ Proposed TDS @0.1% on purchase of goods exceeding INR 50 lakh during a year
 - ▶ Sale of motor vehicles covered under section 206C(1F) will continue to be governed by TCS provisions
 - ▶ However, recently introduced provision under section 206C(1H) for TCS on sale of goods shall not apply in case new TDS provision is applicable
- ▶ Equalisation levy provisions amended and scope seems to cover a wider set of transactions
- ▶ Introduction of Voluntary Vehicle Scrappage Policy to replace old vehicles likely to boost demand for newer and less polluting vehicles
 - ▶ Announcement of significant allocation for construction of highways and roads. New scheme to augment public bus transport service likely to aid increase in demand for automobile industry and create job opportunities

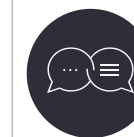
Highlights



Increase in BCD rate of certain auto components from 7.5% /10% to 15%



Announcement of **Voluntary Vehicle Scrappage Policy**



Equalisation levy provisions clarified

Reduction in BCD rate of certain metals by

2.5%

Chemicals

- ▶ PM AtmaNirbhar Swasth Bharat Yojana announced with an outlay of INR642 billion over 6 years, for creating new healthcare institutions and for detecting and curing new and emerging diseases and INR350 billion allocated for COVID19 vaccine
 - ▶ Positive impact on intermediaries or raw materials used for producing active pharmaceutical ingredients
- ▶ Allocation of INR2870 billion under “Jal Jeevan Mission (Urban)” to be implemented over a period of five years - aiming at universal water supply in 4,378 urban local bodies with 28.6 million household tap connections
 - ▶ Positive impact on PVC, water treatment chemicals, etc.
- ▶ A scheme of Mega Investment Textiles Parks (MITRA) is proposed to boost manufacturing of technical textiles in India and its exports. Seven textile parks will be established over three years
 - ▶ Positive impact on dye and intermediaries, colourants and paints, speciality chemicals, etc
- ▶ Continued focus on infrastructure projects such as road, highways, railways, urban infrastructure through expansion of metro projects and city bus service and affordable housing
 - ▶ Positive impact on varied speciality chemicals including construction chemicals
- ▶ Hydrogen Energy Mission to be launched for generating hydrogen from green power sources
 - ▶ Positive impact for hydrogen producing companies
- ▶ Voluntary vehicle scrapping policy announced to scrap old and unfit vehicles and encourage fuel efficient and environmental friendly vehicles
 - ▶ Positive impact for emission control catalyst, polyurethane and TPU

Highlights

INR350 billion
allocated for
COVID-19 vaccine




Capital expenditure
increased to **INR5450 billion**, with focus on
creation of infrastructure

Jal Jeevan Mission to be
implemented

Scheme of Mega
Investment Textile Parks
proposed

Hydrogen Energy Mission to
be launched

Scheme to encourage
environment friendly
vehicles

**POSITIVE IMPACT
on chemical
sub-segments**

Key Highlights - Chemicals

Key indirect tax proposals

- ▶ Following changes made in the Basic Customs Duty (BCD) rates with effect from 2 February 2021

Chapter	Nature of goods	Existing BCD rate	Proposed BCD rate
28030010	Carbon Black	5%	7.5%
2710	Naphtha	4%	2.5%
2907 23 00	Bis-phenol A	Nil	7.5%
2910 30 00	Epichlorohydrin	2.5%	7.5%
2933 71 00	Caprolactam	7.5%	5%

- ▶ Agriculture Infrastructure and Development Cess (AIDC) is proposed to be levied on following chemical sector goods with effect from 2 February 2021

Chapter	Nature of goods	AIDC	Existing BCD rate	Proposed BCD rate
2701	Various types of coal	1.5%	2.5%	1%
2702	Lignite, whether or not Agglomerated	1.5%	2.5%	1%
2703	Peat, whether or not agglomerated	1.5%	2.5%	1%
31021000	Urea	5%	5%	Nil
31023000	Ammonium nitrate	5%	7.5%	2.5%
31	Muriate of potash, for use as manure or for the production of complex fertilisers	5%	5%	Nil
31053000	Diammonium phosphate, for use as manure or for the production of complex fertilisers	5%	5%	Nil

Highlights

BCD increased to **7.5%** for **Carbon Black, Bis-phenol A and Epichlorohydrin**

BCD reduced on **Naphtha** from 4% to **2.5%** and on **Caprolactam** from 7.5% to **5%**

To earmark resources for improving agricultural infrastructure, **Agricultural Infrastructure and Development Cess** payable on chemical sector goods. An equivalent reduction has been made to BCD

Defence

- ▶ Defence budget allocation of INR 1350.60 bn for capital expenditure and INR 2120.27 bn for revenue expenditure
- ▶ Increase in budget allocation for capital defence expenditure by 18.75% over 2020-21 (BE)
- ▶ Policy for Strategic Disinvestment in Defence
 - ▶ To increase investment space for private sector and minimize presence of Central Public Sector Enterprises (CPSEs), defence is one of the identified strategic sector for disinvestment
 - ▶ Policy to result in minimal presence of CPSEs in the defence sector and remaining CPSEs to be privatized or merged or subsidiarized with other CPSEs or closed
- ▶ Tax incentives introduced to promote domestic aircraft leasing market
 - ▶ Defence Acquisition Program (DAP) 2020 introduced "Leasing" as an acquisition category in addition to "buy" and "make" category
 - ▶ In Oct 2020, aircraft leasing was notified as an eligible financial product to be transacted in International Financial Services Centre (IFSC)
 - ▶ Proposal for income-tax exemption on royalty income received on aircraft lease by non-resident lessors from eligible IFSC units engaged in Aircraft leasing
- ▶ Reduction in custom duty rate for domestic manufacturing of aircrafts or its parts by public sector units
 - ▶ To reduce the cost of raw materials and inputs, basic custom duty has been reduced from 2.5% to 0% for components or parts, including engines, for manufacture of aircrafts by public sector units of Ministry of Defence

Highlights

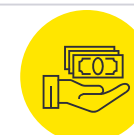


19%

Increase in Defence capital expenditure, highest in **15 years**



Custom Duty on components/parts of aircrafts reduced from **2.5% to 0%**



Tax exemption for aircraft lease rentals paid to foreign lessors

Financial Services

Policy Proposals

- ▶ Allowing Debt financing of Infrastructure Investment Trust (InvITs) and Real Estate Investment Trusts (REITs) by Foreign Portfolio Investors (FPIs)
- ▶ Consolidation of several securities market laws into a rationalized single Securities Markets Code
- ▶ Development of world class Fin-Tech hub at International Financial Services Centre (IFSC)
- ▶ Creation of a permanent institutional framework for developing the bond market
- ▶ Introduction of an investor charter as a right of all financial investors towards investor protection

- ▶ Increase in FDI limit in the insurance sector from 49% to 74% with additional controls and safeguards
- ▶ Recapitalization of INR20,000 crores to consolidate the financial capacity of PSBs
- ▶ Set up of an Asset Reconstruction Company and Asset Management Company to take over, manage and dispose existing stressed debts of public sector banks to Alternate Investment Funds and other potential investors
- ▶ Minimum loan size for debt recovery reduced from INR50 lakhs to INR20 lakhs for NBFCs with minimum asset size of INR100 crores
- ▶ Privatization of two PSBs and one General Insurance company
- ▶ Divestment of Government's stake in LIC through the IPO route this year

Highlights

Increase in FDI limit in the insurance sector

49%  74%

Development of world class Fin-Tech hub at IFSC

Permanent institutional framework for bond market

Key Highlights - Financial Services

Tax Proposals

- ▶ Dividend payment to REITs and InvITs shall be exempt from withholding tax
 - ▶ Conversion of urban co-operative banks into banking company to be tax neutral
 - ▶ Withholding tax on dividend income paid to FPIs to be restricted to DTAA rates, where applicable
 - ▶ Rationalization of conditions of tax exemption for foreign sovereign wealth funds (SWF) and pension funds (PF)
- ▶ Tax incentive proposals for IFSC units:
 - ▶ Relaxation of certain conditions for offshore fund manager located in IFSC
 - ▶ Exemption on the following:
 - ▶ Income earned by the investment division of banking unit in IFSC
 - ▶ Transfer of non-deliverable forward contracts entered by non-resident with an offshore banking unit in IFSC
 - ▶ Royalty income earned by non-resident from aircraft leasing to IFSC unit
 - ▶ Tax neutrality on relocation of funds into IFSC, subject to certain conditions

Highlights

Conditions for tax exemption rationalized in case of foreign SWF and PF

Tax incentives for eligible funds located in IFSC

Infrastructure

- ▶ Infrastructure has emerged as a top priority to fuel Growth, Development and Employment generation; its “never like before”. Certainly, the voice of stakeholders finds an ear in this Budget.
- ▶ Interestingly, Infrastructure to garner revenues under asset monetization program; one of the rationales for no increase in taxes.
- ▶ Unprecedented increase in capital expenditure for FY 2021-22 by 34.5% to Rs 5.5 lakh crore to push growth via infrastructure creation.
- ▶ Much on expectations - Development Financial Institution (‘DFI’) to be set-up and professionally managed with budgetary allocation of INR 20,000 crores for funding infrastructure projects - Lending Portfolio to be INR 5 lakh crores in 3 years.
- ▶ National Monetisation Pipeline to be set-up for brownfield infrastructure investment and monetizing public infrastructure investments.
- ▶ Several measures rolled out in direction of monetisation:
 - ▶ Augmentation of funds to be carried out through revised framework of InVITs/ REITs - NHAI and PGCIL to have sponsored InVIT to attract foreign and domestic investors
 - ▶ Dedicated Freight Corridor and other infrastructure assets of Railways
 - ▶ Continue with Airport privatization
 - ▶ Oil and gas pipelines, Warehousing assets under CPSE etc.
 - ▶ Setup of SPV to monetize land assets of various PSUs and CPSEs
- ▶ Commissioning of Western Dedicated Freight Corridor (DFC) and Eastern DFC Indian Railways to be completed by June 2022.

Highlights



Set up of Development Financial Institution



Focus on Asset Monetisation

Key Highlights - Infrastructure

- ▶ A new scheme to be launched to support augmentation of public bus transport services under innovative PPP model to enable private sector players to finance, acquire, operate and maintain over 20,000 buses
- ▶ Strategic divestments in case of core infrastructure companies such as Shipping Corporation of India, Air India, Container Corporation of India amongst others to be completed by FY 2021-22
- ▶ New technologies i.e., 'MetroLite' and 'MetroNeo' to be deployed in metro rail systems to enhance experience, convenience and safety in Tier-2 cities and peripheral areas of Tier-1 cities.
- ▶ Scheme to be launched for Power Distribution Companies with an outlay of INR 3.05 lakh crores over 5 years for Infrastructure creation including pre-paid smart metering and feeder separation, upgradation systems, etc.
- ▶ Framework to be established for providing option to choose power distribution company
- ▶ 7 projects worth more than INR 2,000 crores to be offered by the Major Ports on PPP mode in FY21-22.
- ▶ Scheme to promote flagging of merchant ships in India to be launched by providing subsidy support to Indian shipping companies in global tenders floated by Ministries and CPSEs
- ▶ Announcement of set-up of a Conciliation Mechanism for resolution of contractual disputes for private players carrying out contracts for Government and CPSEs.

Highlights



Seven Port Projects
in PPP Mode



Introduction of
Conciliation
mechanism for
disputes

Key Highlights - Infrastructure

- ▶ Dividend payment to REITs/ InVIT exempted from withholding tax
- ▶ Relaxation in conditions to claim 100% tax exemptions by Sovereign Wealth Funds / Pension Funds
- ▶ Notified Infrastructure debt funds to be able to raise funds through issuance of zero coupon bonds
- ▶ Announcement of Tax exemption for aircraft lease rentals paid to foreign lessors by unit of IFSC

Highlights



Introduction of
Tax exemption
and Tax holiday

Media & Entertainment

- ▶ Certain aspects of e-commerce equalization levy clarified on a retrospective basis from 1 April 2020. M&E players impacted by the levy should analyze the impact:
 - ▶ Exemption of income chargeable to equalization levy to apply from 1 April 2020 onwards, instead of previously 1 April 2021
 - ▶ Income taxable as “royalty” and “fees for technical services” excluded from the scope of the levy, thus removing the previous ambiguity around potential double taxation
 - ▶ Scope of “online sale of goods” and “online provision of services” to include one or more of the following activities:
 - ▶ Acceptance of offer for sale
 - ▶ Placing of purchase order
 - ▶ Acceptance of purchase order
 - ▶ Payment of consideration
 - ▶ Supply of goods or provision of services
 - ▶ “Consideration received or receivable” on which levy is chargeable to include consideration irrespective of whether the e-commerce operator owns the goods or provides the services

- ▶ Effective date of applicability of Significant Economic Presence remains unchanged - to apply from 1 April 2021 onwards

Highlights



**Equalization
levy:** Scope
clarified



**Significant
Economic
Presence:**
Effective date
remains
unchanged

Oil & Gas

- ▶ Petroleum has been classified as a “Strategic Sector” by the government, where central public sector enterprises would have minimum presence. Balance to be privatized/ merged/ subsidiarized
- ▶ Government continues its focus on building a gas-based economy and moving towards a regime where the natural gas sector will be deregulated and gas pricing would be market determined. This is meant to be achieved through:
 - ▶ Adding 100 districts to city gas networks over a period of 3 years
 - ▶ Setting up an Independent Gas Transport System Operator for booking common carrier capacity on natural gas pipelines on a non-discriminatory open access basis
 - ▶ Monetization of certain gas pipelines owned by PSUs
 - ▶ Gas pipeline project to be taken up in Jammu and Kashmir
- ▶ Ujjwala scheme extended to cover 10 million additional beneficiaries
- ▶ Agricultural infrastructure and development cess introduced on certain petroleum products, however, other duties calibrated to ensure no additional burden on consumer
- ▶ No announcement for inclusion of natural gas and aviation turban fuel into the GST regime

Highlights

 **100**
more districts in
CGD network

 **10** million
more beneficiaries
of Ujjwala scheme

Pharma & Life Sciences

- ▶ The total budget outlay for healthcare is INR2.23 lakh crore vs. INR94,452 crores in FY 20-21 resulting in an increase of 137%
- ▶ Provision of INR35,000 crores for Covid-19 vaccine in FY 2021-22
- ▶ Pradhan Mantri AtmaNirbhar Swasth Bharat Yojana proposed to be launched with outlay of about INR64,180 crore over 6 years to develop capabilities of primary, secondary and tertiary care health systems, strengthen existing national institutions, and create new institutions including set up of integrated public health labs, critical care hospital blocks, expansion of Integrated Health Information Portal, etc.
- ▶ Launch of Mission Poshan 2.0 in order to strengthen nutritional content, delivery, outreach, and outcome by merger of Supplementary Nutrition Programme and the Poshan Abhiyan
- ▶ Health cess on medical devices imported by international organization and diplomatic missions reduced from 5% to nil
- ▶ Launch of Jal Jeevan Mission (Urban) announced to aim universal water supply in all 4,378 Urban Local Bodies with 2.86 crores household tap connections, as well as liquid waste management in 500 AMRUT cities, with an outlay of INR2.87 lakh crores over 5 years
- ▶ The Urban Swachh Bharat Mission 2.0 will be implemented with a total financial allocation of INR1.42 lakh crore over a period of 5 years from 2021-2026
- ▶ Pneumococcal vaccine a Made in India product to be rolled across country
- ▶ With a view to ensure transparent and efficient regulation of the 56 allied healthcare professions, National Commission for Allied Healthcare Professionals Bill has been introduced in Parliament
- ▶ The National Nursing and Midwifery Commission Bill will be introduced with the intention of bringing about transparency, efficiency and governance reforms in the nursing profession

Highlights



Increase of **137%** in budget outlay on healthcare sector



Provision for **INR35,000** crore for COVID-19 vaccine

Health cess on Medical Devices imported by International Organization and Diplomatic Missions

5%  Nil

Real Estate

- ▶ Tax holiday for notified affordable rental housing projects introduced.
- ▶ Affordable housing projects approved up to 31 March 2022 ('erstwhile 31 March 2021') to be eligible for tax holiday.
- ▶ Additional interest deduction of INR 1.5 lakhs for acquisition of specified residential house property by individuals for loan obtained till 31 March 2022 ('erstwhile 31 March 2021').
- ▶ Deviation up to 120% ('erstwhile 110%') where sales consideration is less than stamp duty value for sale of residential units subject to specified conditions.
- ▶ Exemption from withholding tax on dividend credited or distributed to REITs.
- ▶ Time limit for claiming exemption on long term capital gains derived by individual/HUF from sale of residential property by way of investment in eligible start-up extended by one year. Eligible start-up to mean company/ LLPs incorporated before 1 April 2022
- ▶ Foreign Portfolio Investors to be permitted to provide debt funding to REITs.
- ▶ Establishment of Special Purpose Vehicle to monetise land owned by Government/ Ministries/ PSE

Highlights

Affordable housing approval of project, loan sanction approval and investment in start up for LTCG exemption increased by



Relaxation of variance in case of residential units between SDV and SC increased from

10% → 20%

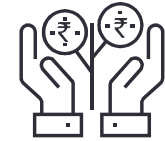
TDS on dividend credited/ distributed to REITs ↓ Nil

Retail and Consumer Products

- ▶ Increase in purchasing power of rural and urban consumers likely because of focus on capital expenditure, infrastructure, affordable housing, health care etc.
 - ▶ Capital expenditure - INR 5.54 lakh crores (FY 2021-22 BE) as against INR 4.12 lakh crores (FY 2020-21 BE)
 - ▶ Health outlay INR 2.23 lakh crores (FY 2021-22 BE) as against INR 0.94 lakh crores (FY 2020-21 BE)
- ▶ Renewed focus on 'Make in India'/ Indian manufacturing - sourcing strategies may be impacted.
 - ▶ PLI launched to create manufacturing global champions across 13 sectors with amount committed nearly INR 1.97 lakh crore in the next 5 years starting FY 2021-22

- ▶ Mega Investment Textiles Parks ('MITRA') Scheme to create world class infrastructure for global champions in the textile sector leading to creation of 7 textile parks over 3 years.
- ▶ Rationalization of customs duty structure by eliminating outdated exemptions.
- ▶ Rationalization of duties on raw material inputs to man made textiles/ gold and silver.

Highlights



Increase in capital outlay resulting in increased purchasing power



Custom duty rationalization



1.97

Lakh Crores
for PLI scheme

Start-up

- ▶ In order to boost the start-up ecosystem in India, the eligibility period for incorporating the eligible start-up has been extended by one more year (i.e., subject to other conditions, start-up incorporated on or before 1 April 2022 can now claim income-tax holiday).
- ▶ Existing provisions of section 54GB provide exemption from capital gains (from transfer of residential property on or before 31st March, 2021) utilised for subscription in the equity shares of an eligible start-up. The Finance Bill, 2021, has extended the period of transfer of residential property up to 31 March 2022
- ▶ In order to incentivize tax payers to use digital mode of transactions, the turnover threshold for tax audit of accounts has been increased from INR 5 crores to INR 10 crores, where 95% of receipts and payments are executed through digital modes

- ▶ Indirect tax
 - ▶ Requirement of furnishing GST Audit report in Form 9C has been removed
 - ▶ Requirement of furnishing annual return in Form 9 to be replaced with a self-certified reconciliation statement. Due dates to be notified
 - ▶ Requirement of Input Tax Credit reconciliation with the invoice statement uploaded by supplier inserted in CGST Act
- ▶ One Person Company (OPC)
 - ▶ The restriction on paid up share capital and annual turnover on an OPC to convert itself into private company or public has been removed
 - ▶ Also, it is proposed to reduce the residency limit for an Indian citizen to set up an OPC from 182 days to 120 days and has also allowed Non Resident Indians (NRIs) to incorporate OPCs in India to act as a member and nominee of OPC

Highlights



Extension of date of incorporation to claim tax holiday



Promoting digital



12 months

Threshold for tax audit
5 crores → **10** crores

Technology

- ▶ To give impetus to digital payments, INR 1,500 Crores earmarked to promote digital payments
- ▶ Internet services to be utilized for National Language Translation Mission for dissemination of governance-and-policy related knowledge
- ▶ Government to support development of a world class Fin-tech hub at the GIFT-IFSC by providing additional tax incentives
- ▶ National Digital Educational Architecture (NDEAR) to be set up to support educational planning, governance and administrative activities. This will support education ecosystem architecture for development of digital infrastructure
- ▶ Government to launch data analytics, artificial intelligence, machine learning driven MCA21 Version 3.0. to have additional modules for e-scrutiny, e-Adjudication, e-Consultation and Compliance Management

- ▶ Social security benefits extended to gig and platform workers. Women will be allowed to work in night shifts with adequate protection
- ▶ Retrospective amendments introduced with effect from 1 April 2020 to provide clarification on the applicability of Equalisation Levy
 - ▶ Consideration which is taxable as royalty and fees for technical service not to be included
 - ▶ Nature of activities that would constitute online sale of goods or provision of services specifically listed
 - ▶ Consideration from e-commerce supply shall include:
 - ▶ Value of goods irrespective of whether the operator owns the goods
 - ▶ Value of services irrespective of whether the services are provided or facilitated by the operator
- ▶ Zero-rating benefit in case of supplies made to SEZ units and developers to be curtailed only in cases where supplies used for authorized operations.
- ▶ Basic Custom Duty rates on certain IT sector specific products like inputs related to machines capable of connecting to automatic data processing machines, ink cartridges etc. has been increased from NIL to 2.5%.

Highlights



Promoting Digital



Boost for Fin-tech hub in Gift City

Equalisation Levy



Zero-rating benefit available for SEZ's authorised operations only

Telecom

- ▶ To promote value addition in the mobile phone industry, Customs Duty on inputs, parts or sub-parts for manufacture of specified parts of mobile phones increased
- ▶ Custom Duty exemptions on inputs and raw material used to manufacture certain telecom equipment withdrawn to give thrust to domestic manufacturing

- ▶ In line with industry demand, benefit of concessional duty of customs extended to third party manufacturers
- ▶ The government has approved the policy of disinvestment of Central Public Sector Enterprises (CPSEs), which provides a clear roadmap for disinvestment in non-strategic and strategic sectors. In strategic sectors, including telecommunications, there will be a minimal presence of CPSEs

Highlights



Promoting domestic manufacturing



Value addition in the mobile phone promoted

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