Union Budget 2021

Towards a thriving India

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Economic Indicators

Economic Survey Pointers

How to attain a high, sustainable and inclusive growth?

1. Economic survey brings up the questions whether growth leads to debt sustainability in the Indian context?
2. Sovereign credit rating of India is not appropriate. It does not reflect the economic fundamentals.
3. Health care is an area of attention as India needs to build resilience and prepare itself better for future uncertainties.
4. Addressing inequality is important for economic and social stability. Growth definitely plays an important role.
5. Improving on innovation and move to higher spending on R&D

Policy – Oil & Gas

1. Oil and gas pipelines of GAIL to be monetised under the asset monetisation program
2. 100 more districts would be added to the City Gas Distribution network in the next 3 years
3. Gas pipeline project will be taken up in the union territory of J&K
4. An independent Gas Transport System Operator will be set up for the facilitation and coordination of common carrier capacity's booking, in all-natural gas pipelines, on a non-discriminatory open access basis.

Economy: A quick snapshot of the current status

India has shown resilience amidst COVID-19 uncertainties

Weak outlook (red) · Strong outlook (blue) · Neutral outlooks (green)

GDP growth (Weak outlook)

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 (Weak outlook)

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** (Weak outlook)

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 (Weak outlook)

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 (Neutral outlook)

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 (Neutral outlook)

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 (Strong outlook)

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.

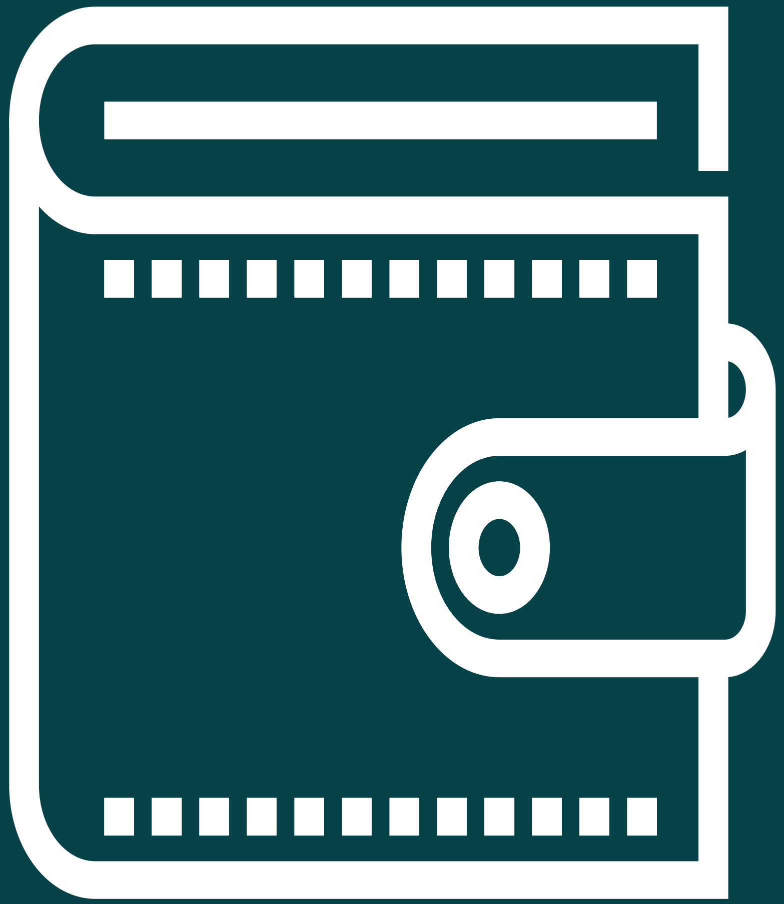
What to expect in FY21 (in percent of GDP)
Deloitte range: 1.7 to 1.9
Expect surplus due to moderated imports even as exports improve.

FDI (Strong outlook)

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.

Direct Tax



Rationalisation of tax provisions and removing difficulties

- **No change in income-tax rates**
- **Levy of TDS on purchase of goods:** TDS of 0.1% on a purchase transaction exceeding Rs. 50 lakhs
- **Higher TDS / TCS rates in case of specified person** (i.e. non-filers of tax returns for past 2 years and aggregate TDS/ TCS amount exceeding INR 50,000 in each of those years)
- **Non-deduction of employee’s contribution in case of delay:** Delay in deposit of employee’s contribution to labour funds not to be allowed as a deduction to the employer
- **Tax treatment of goodwill:** Goodwill not to be considered regarded as a depreciable asset; amount paid for acquiring goodwill to be allowed as deduction on sale
- **Slump sale:** To include all types of transfer, including exchange
- **Rationalisation of MAT provisions:** To provide for certain adjustments related to - dividend income and secondary and / or APA adjustments
- **Advance tax applicable on dividend income only on declaration or payment**
- **Threshold for applicability of tax audit:** Increased to Rs.10 crore provided 95% of transactions are undertaken digitally

Tax filing, assessments & reassessments

Tax Filing and Assessment time-limits

- Now belated and revised returns can be filed 3 months before the end of the relevant assessment year or before the completion of the assessment, whichever is earlier
- Reduced time limit for issuing scrutiny notice - from 6 months to 3 months from the end of the year in which return of income is file
- Time limit for completion of assessment reduced by 3 months

Re-assessment proceedings

- Concept of reassessment revamped, concept of ‘reason to believe’ dropped
- Time limit to reopen reduced from 6 years to 3 years, subject to approval from Principal Commissioner or Principal Director or Commissioner or Director
- However, time limit in cases where the assessing officer has evidence (document/information) to demonstrate that income has escaped assessment of more than INR 5 million and subject to approval of Principal Chief Commissioner or Principal Director General as case may be, is increased to 10 years

Dispute Resolution amendments

Board for Advance Ruling (BFAR)

- AAR was non-functional for a substantial period of time due to the non-availability of eligible person(s) to fill in the post of Chairman and Vice Chairman
- AAR is now being replaced by one or more BFAR, each comprising of two members not below the rank of Chief Commissioner
- The Government has retained an option to allow faceless functioning of BFAR
- BFAR orders are appealable, strict deadlines
  - Appeal can be filed within 60 days;
  - High Court allowed power to extend it by another 30 days

Dispute Resolution Committee

- For eligible small taxpayers, a new voluntary mechanism is being activated
- Returned income below 50 lakhs; and Variation in income less than 10 lakhs
- Other disqualifications mentioned
- Committee has powers to reduce or waive penalty, grant immunity from prosecution
- Faceless scheme for this Committee may be notified

Faceless Tribunal appeals

Faceless scheme may be notified on or before 31 March 2023

- All communications shall be electronic
- Where personal hearing is needed, it shall be done through video-conferencing
- Optimisation of resources and achieve functional specialisation

Settlement Commission scrapped

Effective 1 February 2021, Settlement commission disbanded

Pending applications to be cleared by the Interim Board

Faceless scheme may be notified

Question

Do you think BFAR would be useful for the taxpayers?

Yes ☐ **No** ☐

Indirect 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.

Changes in customs duty rates

Description of goods	Up to 1 February 2021	From 2 February 2021
Various types of coal, lignite, and peat*	2.5%	1%
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*	5% to 10%	Nil
Ammonium nitrate*	10%	2.5%
Nylon chips	7.5%	5%

*Additional AIDC applicable to keep the effective rate same

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

Thank you!