Budget 2021

Roadmap to Growth

HABIBULLAH & CO.
CHARTERED ACCOUNTANTS
Transforming Knowledge into Values

www.hcoca.com
An ISO 9001: 2015 certified firm

Contents

Presenting the first ever digital Union Budget, Union Minister of Finance and Corporate Affairs Smt. Nirmala Sitharaman stated that India's fight against COVID-19 continues into 2021 and that this moment in history, when the political, economic, and strategic relations in the post-COVID world are changing, is the dawn of a new era – one in which India is well-poised to truly be the land of promise and hope.

The key highlights of the Union Budget 2021-22 are as follows:

MACRO-ECONOMIC FRAMEWORK STATEMENT

The Indian economy was negatively impacted by an unprecedented health crisis in 2020-21 with the highly contagious corona virus (Covid-19) spreading across the country. In response to the pandemic, Government has taken several proactive preventive and mitigating measures starting with progressive tightening of international travel, issue of advisories for the members of the public, setting up quarantine facilities, contact tracing of persons infected by the virus and various social distancing measures. Government imposed a strict 21 days nationwide lockdown from 25th March 2020, under the Disaster Management Act, 2005, with subsequent extensions and relaxations, to contain the spread of Covid-19 while ramping up the health infrastructure in the country. The lockdown measures, imposed to contain the spread of Covid-19 pandemic in India, ubiquitously affected employment, business, trade, manufacturing, and service activities.

The real Gross Domestic Product (GDP) growth is projected to contract by 7.7 percent in 2020-21 as compared to a growth of 4.2 percent in 2019-20. GDP growth, however, is expected to rebound strongly in 2021-22 owing to the reform measures undertaken by the Government

The Government announced a special economic and comprehensive package under Atmanirbhar Bharat of INR 20 lakh crore - equivalent to 10 percent of India's GDP – to fight the Covid-19 pandemic in India. Several structural reforms announced as part of the package, inter alia, include deregulation of the agricultural sector, change in definition of MSMEs, new PSU policy, commercialization of coal mining, higher FDI limits in defense and space sector, development of Industrial Land/ Land Bank and Industrial Information System, Production Linked Incentive Schemes, revamp of Viability Gap Funding scheme for social infrastructure, new power tariff policy and incentivizing States to undertake sector reforms.

Apart from this, various steps were taken to boost consumption which, inter alia, includes cash payment in lieu of the Leave Travel Concessions (LTC) scheme, One-time special Festival advance of INR 10,000 (interest-free) for central Government employees. Other steps such as Interest-free 50- year loan to states, additional capital expenditure budget for the central Government, launch of Emergency Credit Line Guarantee Scheme (ECLGS) 2.0, INR1.46 lakh crore boost for manufacturing through Production-linked incentives for ten Champion Sectors, INR 8,000 crores additional outlay for PM Awaas Yojana (PMAY) –Urban, Equity infusion in National Investment and Infrastructure Fund (NIIF) Debt Platform, Demand booster for Residential Real Estate Income Tax relief for Developers & Home Buyers, Boost for Project Exports, Capital and Industrial Stimulus has been initiated to support economic growth.

As per the first Advance Estimates of annual national income released by the National Statistical Office (NSO), Real GDP is estimated to contract by 7.7 percent in 2020-21, as compared to a growth of 4.2 percent in 2019-20. This contraction in GDP growth is mainly attributed to the contraction in industry and services sector. The growth of Gross Value Added (GVA) at constant (2011-12) basic prices is estimated to contract by 7.2 percent in 2020-21, as compared to a growth of 3.9 percent achieved in 2019-20. Positive growth in real GVA in agriculture & allied sectors at 3.4 percent in 2020-21 against 4.0 percent in PE of 2019-20 indicates resilience of rural economic activity to the Covid-19 pandemic.

From the demand side, private consumption expenditure is estimated to contract at 9.5 percent in 2020-21 as against a growth of 5.3 percent in 2019-20 and fixed investment is estimated to decline by 14.5 percent in 2020-21 as against 2.8 percent in 2019-20. Government consumption final expenditure is estimated to grow at 5.8 percent in 2020-21 as against 11.8 percent in 2019-20. Exports and imports of goods and services are estimated to contract at 8.3 percent and 20.5 percent (at constant prices) respectively in 2020-21.

Amidst the uncertain and shaky global economic environment affected by Covid-19, India's external sector has emerged as a key cushion for resilience. In H1: FY 2020-21, steep contraction in merchandise imports and stable net service receipts led to a current account surplus of US$ 34.7 billion (3.1 percent of GDP). Balance on the capital account, on the other hand, has been buttressed by robust FDI and FPI inflows. These developments have led to an accretion of foreign exchange reserves that rose to US$ 580.8 billion as on December 25, 2020.

The net FDI inflows at US$ 23.8 billion in H1of 2020-21 were higher than US$21.3 billion in corresponding period of previous year, an endorsement of India's status as a preferred investment destination amongst global investors. After unprecedented sell-offs in March 2020 reflecting recessionary fears among global investors at the onset of the pandemic, foreign portfolio investment (FPI) witnessed strong rebound and recorded a net inflow of US$ 7.6 billion in H1of 2020-21, more than the level recorded in H1: 2019-20.

KEY HIGHLIGHTS OF ECONOMIC SURVEY 2020-21

India's real GDP to record a growth of 11 per cent in 2021-22 and nominal GDP by 15.4 per cent-the highest since independence. The V-shaped economic recovery is supported by the initiation of a mega vaccination drive with hopes of a robust recovery in the services sector and prospects for robust growth in consumption and investment.

The fundamentals of the economy remain strong as gradual scaling back of lockdowns along with the astute support of Atmanirbhar Bharat Mission have placed the economy firmly on the path of revival. This path would entail a growth in real GDP by 2.4 percent over the absolute level of 2019-20-implying that the economy would take two years to reach and go past the pre-pandemic level. These projections are in line with IMF estimate of real GDP growth of 11.5 per cent in 2021-22 for India and 6.8 per cent in 2022-23.

India is expected to emerge as the fastest growing economy in the next two years as per IMF. The Survey observes that the intense lockdown implemented at the start of the pandemic – when India had only a 100 confirmed cases – characterized India's unique response in several ways.

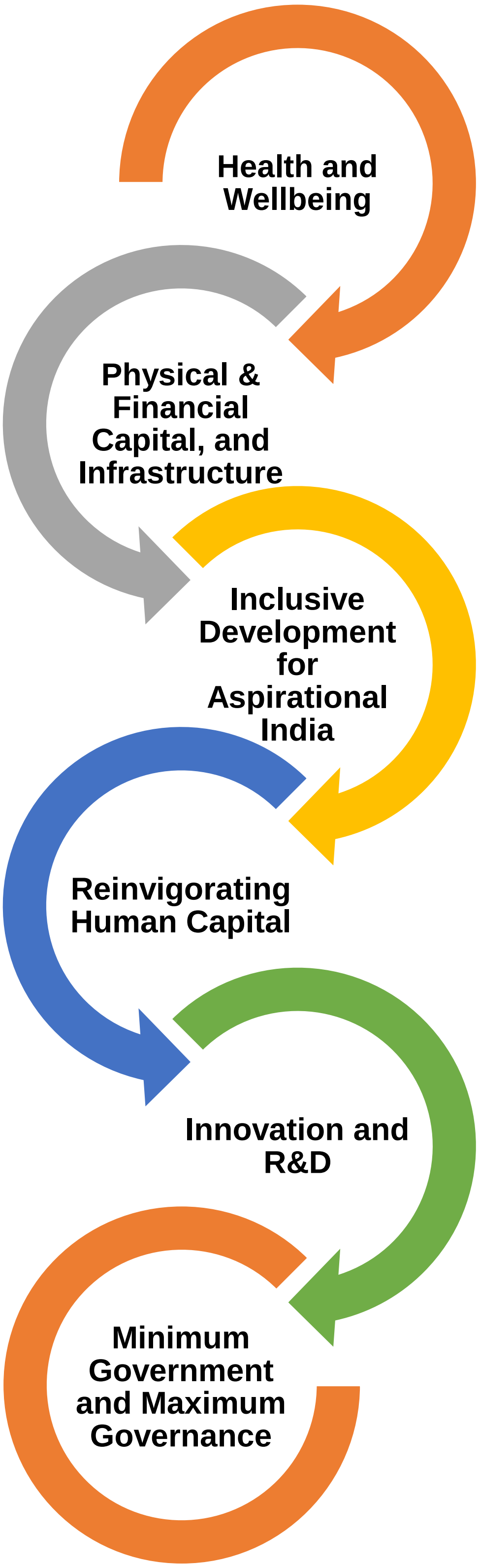
First, the policy response was driven by the findings from both epidemiological and economic research. Specifically, faced with enormous uncertainty about the potential spread of the pandemic, the policy implemented the Nobel prize winning research in Hansen and Sargent (2001) that recommends a policy focused on minimizing losses in a worst case scenario. Faced with an unprecedented pandemic, loss of scores of human lives captured this worst case scenario. Moreover, epidemiological research highlighted the importance of an initial, stringent lockdown especially in a country where high population density posed difficulties with respect to social distancing. Therefore, India's policy humane response that focused on saving human lives, recognized that the short-term pain of an initial, stringent lockdown would lead to long-term gains both in the lives saved and in the pace of the economic recovery. The scores of lives that have been saved and the V-shaped economic recovery that is being witnessed bear testimony to India's boldness in taking short-term pain for long-term gain.

Second, India recognized that the pandemic impacts both supply and demand in the economy. The slew of reforms – again unique amidst all major economies – were implemented to ensure that the supply-side disruptions, which were inevitable during the lockdown, are minimized in the medium to long-run. Therefore, during the initial months of the pandemic when uncertainty was high and lockdowns imposed economic restrictions, India did not waste precious fiscal resources in trying to pump up discretionary consumption. Instead, the policy focused on ensuring that all essentials were taken care of, which included direct benefit transfers to the vulnerable sections and the world's largest food subsidy programme targeting 80.96 crore beneficiaries. Government of India also launched Emergency Credit Line Guarantee Scheme to provide much needed relief to stressed sectors by helping entities sustain employment and meet liabilities

Summary of Economic Survey

- ✓ V-Shaped Economic Recovery Due to Mega Vaccination Drive, Robust Recovery in the Services Sector and Robust Growth in Consumption and Investment
- ✓ V-Shaped Recovery is Due to Resurgence in High Frequency Indicators Such as Power Demand, Rail Freight, E-Way Bills, GST Collection, Steel Consumption, Etc
- ✓ India to Become the Fastest Growing Economy in Next Two Years as Per IMF
- ✓ India's GDP is Estimated to Contract by 7.7 % in FY2020-21
- ✓ Agriculture to Clock 3.4 Per Cent Growth, While Industry and Services to Contract by 9.6 Per Cent and 8.8 Per Cent Respectively this Year This Year
- ✓ India to Have a Current Account Surplus of 2 % of GDP in FY21, A Historic High After 17 Years
- ✓ Scores of lives saved and V-Shaped Economic Recovery bear Testimony to India's Boldness in taking Short-Term Pain for Long-Term Gain.

6 PILLARS OF THE UNION BUDGET 2021-22



TAX PROPOSALS

Vision of a transparent, efficient tax system to promote investments and employment in the country with minimum burden on tax payers

Direct Taxes

Achievements

- Corporate tax rate slashed to make it among the lowest in the world
- Burden of taxation on small taxpayers eased by increasing rebates
- Return filers almost doubled to 6.48 crore in 2020 from 3.31 crore in 2014
- Faceless Assessment and Faceless Appeal introduced

Relief to Senior Citizens

Exemption from filing tax returns for senior citizens over 75 years of age and having only pension and interest income; tax to be deducted by paying bank

Reducing Disputes, Simplifying Settlement

- Time limit for re-opening cases reduced to 3 years from 6 years
- Serious tax evasion cases, with evidence of concealment of income of Rs. 50 lakh or more in a year, to be re-opened only up to 10 years, with approval of the Principal Chief Commissioner
- Dispute Resolution Committee to be set up for taxpayers with taxable income up to Rs. 50 lakh and disputed income up to Rs. 10 lakh
- National Faceless Income Tax Appellate Tribunal Centre to be established
- Over 1 lakh taxpayers opted to settle tax disputes of over Rs. 85,000 crore through Vivad Se Vishwas Scheme until 30th January 2021

Relaxation to Non Resident Indians

Rules to be notified for removing hardships faced by NRIs regarding their foreign retirement accounts

Incentivizing Digital Economy

Limit of turnover for tax audit increased to Rs. 10 crore from Rs. 5 crore for entities carrying out 95% transactions digitally

Relief for Dividend

- Dividend payment to REIT/ InvIT exempt from TDS
- Advance tax liability on dividend income only after declaration/ payment of dividend
- Deduction of tax on dividend income at lower treaty rate for Foreign Portfolio Investors

Attracting Foreign Investment for Infrastructure

Infrastructure Debt Funds made eligible to raise funds by issuing Zero Coupon Bonds
Relaxation of some conditions relating to prohibition on private funding, restriction on commercial activities, and direct investment

No Equalisation Levy on Royalty or Technical Services

It has been proposed that equalisation levy shall not be levied on consideration received or receivable for specified services or for e-commerce supply which is taxable as royalty or fees for technical services

Exemption in respect of income chargeable to Equalisation Levy

It has been proposed that exemption under Section 10(50) will apply for the e-commerce supply or services made or provided or facilitated on or after 01-04-2020 on which equalisation levy is levied. Further, no exemption will apply for royalty or fees for technical services which are taxable under the Income-tax Act read with the Double taxation avoidance agreement

NO Minimum Alternate Tax (MAT) on Dividend received by Foreign Company

Dividend received by a foreign company on its investment in India shall be excluded for calculation of book profit in case the tax payable on such dividend income is less than MAT liability on account of concessional tax rate provided under DTAA

Constitution of the Board for Advance Ruling

To provide an alternative method of providing advance ruling which can give rulings to taxpayers promptly, a Board of Advance Ruling is proposed to be constituted. The Authority for Advance Rulings shall cease to operate with effect from the notified date. The Central Government is empowered to notify a scheme to give advance ruling by the Board of Advance Ruling.

Supporting 'Housing for All'

- Additional deduction of interest, up to Rs. 1.5 lakh, for loan taken to buy an affordable house extended for loans taken till March 2022
- Tax holiday for Affordable Housing projects extended till March 2022
- Tax exemption allowed for notified Affordable Rental Housing Projects

Tax incentives to IFSC in GIFT City

- Tax holiday for capital gains from incomes of aircraft leasing companies
- Tax exemptions for aircraft lease rentals paid to foreign lessors
- Tax incentive for relocating foreign funds in the IFSC
- Tax exemption to investment division of foreign banks located in IFSC

Ease of Filing Taxes

Details of capital gains from listed securities, dividend income, interest from banks, etc. to be pre-filled in returns

Relief to Small Trusts

Exemption limit of annual receipt revised from INR10 million to INR 50 Million for small charitable trusts running schools and hospitals

Labour Welfare

- Late deposit of employee’s contribution by the employer not to be allowed as deduction to the employer Eligibility for tax holiday claim for start-ups extended by one more year
- Capital gains exemption for investment in start-ups extended till 31st March, 2022

Indirect Taxes

Goods & Services Tax (GST)

Measures taken till date

- Nil return through SMS
- Quarterly return and monthly payment for small taxpayers
- Electronic invoice system
- Validated input tax statement
- Pre-filled editable GST return
- Staggering of returns filing
- Enhancement of capacity of GSTN system
- Use of deep analytics and AI to identify tax evaders

Custom Duty Rationalization

- Twin objectives: Promoting domestic manufacturing and helping India get onto global value chain and export better
- 80 outdated exemptions already eliminated
- Revised, distortion-free customs duty structure to be put in place from 1st October 2021 by reviewing more than 400 old exemptions
- New customs duty exemptions to have validity up to the 31st March following two years from its issue date

Electronic and Mobile Phone Industry

- Some exemptions on parts of chargers and sub-parts of mobiles withdrawn
- Duty on some parts of mobiles revised to 2.5% from 'nil' rate

Iron and Steel

- Customs duty reduced uniformly to 7.5% on semis, flat, and long products of non-alloy, alloy, and stainless steels
- Duty on steel scrap exempted up to 31st March, 2022
- Anti-Dumping Duty (ADD) and Counter-Veiling Duty (CVD) revoked on certain steel products
- Duty on copper scrap reduced from 5% to 2.5%

Textiles

Basic Customs Duty (BCD) on caprolactam, nylon chips and nylon fiber & yarn reduced to 5%

Chemicals

- Calibrated customs duty rates on chemicals to encourage domestic value addition and to remove inversions
- Duty on Naptha reduced to 2.5%

Gold and Silver

Custom duty on gold and silver to be rationalized

Renewable Energy

- Phased manufacturing plan for solar cells and solar panels to be notified
- Duty on solar invertors raised from 5% to 20%, and on solar lanterns from 5% to
- 15% to encourage domestic production

Capital Equipment

- Tunnel boring machine to now attract a customs duty of 7.5%; and its parts a duty of 2.5%
- Duty on certain auto parts increased to general rate of 15%

MSME Products

- Duty on steel screws and plastic builder wares increased to 15%
- Prawn feed to attract customs duty of 15% from earlier rate of 5%
- Exemption on import of duty-free items rationalized to incentivize exporters of garments, leather, and handicraft items
- Exemption on imports of certain kind of leathers withdrawn
- Customs duty on finished synthetic gem stones raised to encourage domestic processing

Agriculture Products

- Customs duty on cotton increased from nil to 10% and on raw silk and silk yarn from 10% to 15%.
- Withdrawal of end-use based concession on denatured ethyl alcohol
- Agriculture Infrastructure and Development Cess (AIDC) on a small number of items

Rationalization of Procedures and Easing of Compliance

- **Turant Customs** initiative, a Faceless*, Paperless, and Contactless Customs* measures
- New procedure for administration of Rules of Origin

2021 - YEAR OF MILESTONES FOR INDIAN HISTORY

75th year of India's independence

60 years of Goa State accession to India

India's turn at the **BRICS Presidency**

50 years of the 1971 India-Pakistan War

Year of the **8th Census** of Independent India

Year for **Chandrayaan -3 Mission**

About Us

Habibullah & Co. (HCO) is a professional services firm providing audit, assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies, guided by core values including competence, honesty and integrity, professionalism, dedication, responsibility and accountability.

At HCO, the interests of our clients are paramount. Our focus on the mid-market means we have a real understanding of the environment in which our clients operate and are ideally placed to help them grow and prosper.

Who we are and what we stand for

- Established 1962
- 9 Partners
- 75+ staff
- 8+ offices across India
- International Representation through “Antea- Alliance of Independent Firms”
- Member Firm of The Institute of Chartered Accountants of India since 1962
- Registered with all major Government Regulators in India

Our Services

- Accounting and Auditing
- Business Setups in India
- Tax Compliance, Planning and Management
- Transfer Pricing Advisory
- Business Advisory

Let’s talk

For a deeper discussion of how this issue might affect your business, please contact, Managing Partner for International Relations:

CA. Vivek Agarwal
E: vivek@hcoca.com
T: +91-98391-19370

Offices in India

New Delhi	Lucknow
Gorakhpur	Ranchi
Varanasi	Mau
Rewa	Patna

Associates at

Kolkata	Mumbai
Allahabad	Agra

Email

info@hcoca.com

Website

www.hcoca.com

Follow Us

Unsubscribe

Reply to this mail with subject “unsubscribe”

Disclaimer

This presentation is exclusively designed and prepared by Habibullah & Co. and no part of this can be reproduced without consent. While due care has been taken to draft this please obtain professional advice before taking any decision.

Content Source: www.finmin.nic.in