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CHARTERED ACCOUNTANTS
Transforming Knowledge into Values

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State of the Economy

The last two years have been difficult for the world economy on account of the COVID-19 pandemic. Repeated waves of infection, supply-chain disruptions and, more recently, inflation have created particularly challenging times for policy-making.

Advance estimates suggest that the Indian economy is expected to witness real GDP expansion of 9.2 per cent in 2021-22 after contracting in 2020-21. This implies that overall economic activity has recovered past the pre-pandemic levels.

With the vaccination programme having covered the bulk of the population, economic momentum building back and the likely long-term benefits of supply-side reforms in the pipeline, the Indian economy is in a good position to witness GDP growth of 8.0-8.5 per cent in 2022-23.

Nonetheless, the global environment remains uncertain. At the time of writing, a new wave in the form of the Omicron variant was sweeping across the world, inflation had jumped up in most countries, and the cycle of liquidity withdrawal was being initiated by major central banks. Therefore, it is especially important to look at India's macro- economic stability indicators and their ability to provide a buffer against the above stresses.

Overall, macro-economic stability indicators suggest that the Indian economy is well placed to take on the challenges of 2022-23. One of the reasons that the Indian economy is in a good position is its unique response strategy. Rather than pre-commit to a rigid response, Government of India opted to use safety-nets for vulnerable sections on one hand while responding iteratively based on Bayesian-updating of information. This "barbell strategy" was discussed in last year's Economic Survey. A key enabler of this flexible, iterative "Agile" approach is the use of eighty High Frequency Indicators (HFIs) in an environment of extreme uncertainty.

Another distinguishing feature of India's response has been an emphasis on supply-side reforms rather than a total reliance on demand management. These supply-side reforms include deregulation of numerous sectors, simplification of processes, removal of legacy issues like 'retrospective tax', privatisation, production-linked incentives and so on

Tax Proposals – Direct Tax

Rates of Tax and Surcharge

No change in Tax Rates

No proposal for changing the rates of tax applicable for individuals HUFs or AOPs or BOIs or Artificial Juridical persons or Firms or Co-operative societies or companies. Therefore, tax rates applicable for such persons would remain unchanged for the A.Y. 2023-24.

Likewise, the basic exemption limit of INR 2,50,000 / INR 3,00,000 / INR 5,00,000 would continue to be same for individuals /HUFs /AOPs /BOIs.

Reduced rate of surcharge for co-operatives societies

Rate of surcharge is proposed to be reduced from 12% to 7% of income-tax in case the total income of a cooperative society exceeds INR 10 million but does not exceed INR 100 million. The existing rate of surcharge of 12% of income-tax would continue to be levied in case of a co-operative society having a total income exceeding INR 100 million.

Withdrawal of enhanced surcharge of 25% or 37% on Long Term Capital Gains taxable under section 112

Long-term capital gains on listed equity shares, units of an equity-oriented fund or a unit of business trust taxable u/s 112A are liable to maximum surcharge of 15%, while the other long term capital gains taxable u/s 112 are subjected to enhanced surcharge of 25% or 37%, depending on the quantum of gains. It is proposed to restrict the surcharge on long term capital gains taxable u/s 112 at 15%.

Personal Taxation

- To maintain parity between Central and State government employees, it is proposed to increase the tax deduction limit from 10% to 14% for State Government employees as well in respect of employer's contribution to the NPS account.

- Section 80DD provides for a deduction to an individual or HUF, who is a resident in India, in respect of, inter alia, amount paid to LIC or any other insurer or administrator or specified company in respect of a scheme for the maintenance of a disabled dependant. It is proposed to allow the deduction under the said section even if the lump sum payment or annuity is available to the disabled dependant on attaining the age of 60 years or more of the individual or the member of the HUF in whose name subscription to the scheme has been made and where payment or deposit has been discontinued.

Corporate Tax

Extension of terminal date for setting up of start-ups eligible for claiming deduction under section 80-IA

The eligible start-up is required to be incorporated between 1.4.2016 and 31.3.2022 to be eligible for deduction under section 80-IAC. In view of Covid Pandemic, the outer time limit for incorporation is proposed to be extended from 31.3.2022 to 31.3.2023, to be eligible for deduction under section 80-IAC.

Extension of terminal date for commencement of manufacturing or production of article or thing for companies eligible to claim concessional tax regime under section 115BAB

To become eligible for a concessional tax regime under section 115BAB providing for tax rate of 15%, a company is required to be set up and registered on or after 1.10.2019 and commenced manufacturing or production of an article or thing on or before 31.3.2023. It is proposed to extend this last date for commencement of manufacturing or production under section 115BAB by one year i.e., from 31st March 2023 to 31st March 2024.

Scheme for taxation of Virtual Digital Assets

- There has been a phenomenal increase in transactions in virtual digital assets. Further, a market is emerging where payment for the transfer of a virtual digital asset can be made through another such asset. The proposed section 115BBH provides that any income from transfer of any virtual digital asset would be taxed at the rate of 30%. However, no deduction in respect of any expenditure or allowance would be allowed while computing such income except cost of acquisition. Further, no set off any loss is allowed from such income or vice a versa.
- Section 194S proposed to be inserted to provide for tax deduction at source on payment made to a resident in relation to transfer of virtual digital asset @1% of such consideration at the time of credit of such sum or payment, whichever is earlier.
- However, no tax would be required to be deducted in case
    - the payer is the specified person and the value or the aggregate of such value of consideration to a resident does not exceed INR 50,000 during the financial year.
    - In any other case, such value of consideration to a resident does not exceed INR 10,000 during the financial year.

Virtual Digital Asset

- Any information or code or number or token (not being Indian currency or foreign currency), generated through cryptographic means or otherwise, by whatever name called, providing a digital representation of value exchanged with or without consideration, with the promise or representation of having inherent value, or functions as a store of value or a unit of account including its use in any financial transaction or investment, but not limited to investment scheme; and can be transferred, stored or traded electronically.

- a non-fungible token or any other token of similar nature, by whatever name called.
- any other digital asset, as the Central Government may, by notification in the Official Gazette specify.

Cess and surcharge not allowable as deduction

To make the intention of the legislation clear and to make it free from any misinterpretation, it is proposed retrospectively with effect from A.Y. 2005-06 that the term "tax" includes and shall be deemed to have always included any surcharge or cess, by whatever name called, on such tax and consequently Cess and surcharge are not to be allowed as business expenditure.

Withdrawal of concessional rate of 15% applicable on dividend income received by an Indian company from a specified foreign company

Section 115BBD provides for a concessional rate of tax of 15% on the dividend income received by an Indian company from specified foreign company. However, dividend received by an Indian company from domestic companies is chargeable to tax at normal rates applicable to such company.

To provide parity in the tax treatment in case of dividends received by Indian companies from specified foreign companies' vis a vis dividend received from domestic companies; it is proposed that concessional rates provided under section 115BBD would not be applicable with effect from A.Y. 2023-24.

Voluntary tax compliance - Updated return

- To provide an opportunity to taxpayers, who have committed omissions or mistakes in correctly estimating their income for tax payment, it is proposed to permit them to file an Updated Return on payment of additional tax.
- Taxpayer could file an updated return of income, whether he has filed a return previously for the relevant assessment year, or not within 24 months from the end of the relevant assessment year. However, the updated return provisions would not be applicable if the updated return
  - is a return of loss or
  - has the effect of decreasing the total tax liability determined or results in refund or
  - increases the refund due.
- The additional tax, payable at the time of furnishing the updated return would be 25% or 50% aggregate of tax and interest payable, depending upon the period after end of relevant assessment year.

Deferment of appeal by the Department in case of identical question of law pending before High Court / Supreme Court

It is proposed to insert a sunset clause in section 158AA and insert new section 158AB to provide that, if a question of law in the case of an assessee is identical to a question of law which is pending in appeal before the jurisdictional High Court or the Supreme Court in his case for any other assessment year or in the case of any other assessee for any assessment year, the filing of further appeal in the case of this assessee by the department shall be deferred till such question of law is decided by the jurisdictional High Court or the Supreme Court.

Bonus and dividend stripping

- Bonus stripping and dividend stripping provision extended to units of Infrastructure Investment Trust (InvIT), Real Estate Investment Trust (REIT) or Alternative Investment Fund (AIFs).
- Also, Bonus stripping has been extended to securities.

Others

- Timeline for issuing direction for introducing faceless schemes for Transfer Pricing International Taxation matters and Tribunal appeals extended till 31 March 2024
- No set-off of losses and unabsorbed depreciation to be not allowed against undisclosed income identified during a search or survey.
- Tax exemption regime for charitable trusts and institutions have now been aligned for granting exemptions, effective monitoring and providing clarity on taxation.

Indirect Tax Proposal- Goods & Service Tax

- Time limit extended by two months (i.e.up to 30 November of subsequent financial year) with respect to following transactions of previous financial year:
    - Availment of Input Tax Credit
    - Issuance of credit note
    - Rectification of details reported in periodic monthly return;
- GSTR-3B cannot be filed without filing GSTR-1. The Government may notify exceptions.
- Claim of provisional credit has been replaced with self-assessed credit.
- Late fees introduced for TCS return
- Grant of alcoholic liquor license has been declared as an activity which shall be treated neither as a supply of goods nor as a supply of service retrospectively from 01 July 2017 nor any refund shall be granted.
- Registration can be cancelled if returns are not furnished for a period as may be prescribed.

Sectoral Highlights

Prime Minister GATISHAKTI

- Driven by 7 engines: Roads, Railways, Airports, Ports, Mass Transport, Waterways, and Logistics Infrastructure.
- National Master Plan aimed at world class modern infrastructure and logistics synergy
- Formulation of Master Plan for expressways.
- Completing 25000 km national highways in 2022-23
- Unified Logistics Interface Platform allowing data exchange among all mode operators
- Open Source Mobility Stack for seamless travel of passengers
- 4 Multimodal Logistics parks through PPP to be awarded in 2022-23
- Integration of Postal and Railways Network facilitating parcel movement.
- One Station One Product
- Extending coverage under Kavach
- 400 new generation Vande Bharat Trains to be deployed
- Multimodal connectivity between mass urban transport and railway stations
- National Ropeways Development Plan as sustainable alternative to conventional roads.
- Capacity building for infrastructure Projects

Agriculture and Food Processing

- Promoting chemical free natural farming starting with farmers' lands close to river Ganga
- Promoting post-harvest value addition, consumption and branding of millet products
- Delivery of Digital and Hi-Tech services to farmers in PPP mode.
- Use of Kisan Drones to aid farmers.
- Launching fund with blended capital to finance agriculture start ups
- Implementation of Ken Betwa Link Project benefitting 9.1 lakh hectare farm land, providing drinking water to 62 lakh people, and generating 130MW power.
- 5 more such projects under process of implementation.

Education & Skill Development

- One class One TV channel programme to be expanded to 200 TV channels
- Virtual labs and skilling e-labs to promote critical thinking skills and stimulated learning environment
- A Digital University will be established with world class quality universal education
- High quality e-content will be delivered through Digital Teachers
- Digital Ecosystem for Skilling and Livelihood (DESH-Stack e-portal) will be launched to promote online training
- Start-ups will be promoted to facilitate Drone Shakti for Drone-As-A-Service

Health

- National Digital Health Ecosystem will be rolled out
- National Tele Mental Health Programme will be launched for quality counselling
- Integrated architecture: Mission Shakti, Mission Vatsalya, Saksham Anganwadi, and Poshan 2.0 to be Launched

Productivity Enhancement and Investment

Ease of Doing Business 2.0

- Trust based governance
- Integration of central and state level systems through IT bridges
- Expanding scope of PARIVESH Portal
- Unique Land Parcel Identification Number for IT based management of land records.
- Establishing C-PACE to facilitate voluntary winding up of companies
- End to end online e-Bill System and utilizing surety bonds in government procurement.
- AVCG promotion task force Support to 5G under PLI scheme
- Opening up defense R&D for industry, startups, and academia

Ease of Living

- Issuance of chip embedded e- Passports
- Modernization of building byelaws, implementing Town Planning Schemes and Transit Oriented Development
- Establishing Centers of Excellence in urban planning
- Providing a battery swapping policy as an alternative to setting up charging stations in urban areas

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:

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