



## Highlights of Budget 2021-22 - PART-B

### Why in news?

- Union Finance Minister presented the Union Budget 2021-22.
- In Part B of the Budget Speech, the Minister sought to further simplify the Tax Administration, Litigation Management and ease the compliance of Direct Tax Administration.

### Key Direct Tax Proposals

- As part of the direct tax proposals, the Finance Minister made announcements on the following:
  - i. relief to senior citizens in filing of income tax returns
  - ii. reduction of time limit for income tax proceedings
  - iii. setting up of Dispute Resolution Committee, faceless ITAT (Income Tax Appellate Tribunal)
  - iv. relaxation to NRIs
  - v. increase in exemption limit from audit and relief for dividend income
- Announcements on the following were also made:
  - i. steps to attract foreign investment into infrastructure
  - ii. relief to affordable housing and rental housing
  - iii. tax incentives to IFSC (International Financial Services Centre)
  - iv. relief to small charitable trusts
  - v. steps for incentivizing Start-ups in the country
- It was emphasized that in the post-pandemic scenario, the country's tax system has to be transparent, efficient and should promote investment and employment.
- Meanwhile, it should put minimum burden on the tax payers.
- A series of reforms had been introduced in this regard, including -
  - slashing of corporate tax rate
  - abolition of dividend distribution tax
  - increasing of rebate for small tax payers
- In the year 2020, the income tax return filers saw a dramatic increase to 6.48

crore from 3.31 crore in 2014.

- The Budget seeks to reduce compliance burden on senior citizens who are of 75 years of age and above.
  - Such senior citizens having only pension and interest income will be exempted from filing their income tax return.
  - The paying Bank will deduct the necessary tax on their income.
- The Budget proposes to notify rules for removing the hardship of non-Resident Indians returning to India on the issue of their accrued incomes in their foreign retirement account.
- The Budget proposes to make dividend payment to REIT/InvIT exempt from TDS.
  - REIT - Real Estate Investment Trust
  - InvIT - Infrastructure Investment Trusts
- For Foreign Portfolio Investors, the Budget proposes deduction of tax on dividend income at lower treaty rate.
  - Also, advanced tax liability on dividend income shall arise only after the declaration or payment of dividend.
  - This is because the amount of dividend income cannot be estimated correctly by the shareholders for paying advance tax.
- Key announcement in regards with affordable rental housing projects include the following:
  - i. extending the eligibility period for claim of additional deduction for interest of Rs. 1.5 lakh paid for loan taken for purchase of an affordable house to 31st March, 2022
  - ii. extending the eligibility period for claiming tax holiday for affordable housing projects by one more year to 31st March, 2022, to increase the supply of affordable houses
  - iii. a new tax exemption for the notified affordable rental housing projects was announced, for promoting its use for the migrant workers
- Start-ups:
  - extension of eligibility for claiming tax holiday for start ups by one more year till 31st March, 2022
  - extension of Capital Gains exemption for investment in start ups by one more year till 31st March, 2022
- The Budget mentioned that delay in deposit of the contribution of employees towards various welfare funds results in permanent loss of interest/income for the employees.
  - It thus proposed that late deposit of employee's contribution shall never be allowed as deduction to the employer.
  - This is to ensure timely deposit of employee's contribution to these funds by the 'employers.'

- To reduce tax compliance burden, the Budget provides reduction in the time-limit for reopening of income tax proceeding for 3 years from the present 6 years.
  - It is expected that this would result in less litigation and would provide ease of doing business to taxpayers.
- In serious tax evasion cases, where there is evidence of concealment of income of Rs. 50 lakh or more in a year, the assessment can be reopened up to 10 years.
  - But this can be taken up only after the approval of the Principal Chief Commissioner.
- Litigation in the tax system:
  - Direct Tax Vivad se Vishwas Scheme which came in line with the Government's resolve to reduce litigation in the taxation system has been received well.
  - Until 30 January 2021, over one lakh ten thousand tax payers have opted to settle tax dispute of over Rs. 85000 crores under the Scheme.
- To further reduce litigation of small tax payers, a Dispute Resolution Committee is proposed to be constituted.
  - Anyone with a taxable income up to Rs. 50 lakh and disputed income up to Rs. 10 lakh shall be eligible to approach it.
- The Budget also announced the setting up of National Faceless Income Tax Appellate Tribunal Centre.
  - The Budget proposes to increase the limit for tax audit for persons who are undertaking 95% of their transaction digitally from Rs. 5 Crore to Rs. 10 Crore.
  - This is to incentivize digital transaction and to reduce the compliance burden of the person who is carrying almost all of the transactions digitally.
- To attract foreign investment into infrastructure sector, the Budget proposes to relax certain conditions relating to -
  - i. prohibition on private funding
  - ii. restriction on commercial activities
  - iii. direct investment in infrastructure
- The Budget proposes to make notified infrastructure debt funds eligible to raise funds by issuing tax efficient zero coupon bonds.
- In order to promote International Financial Services Centre (IFSC) in GIFT City, the Budget proposes more tax incentives.
- The Budget proposes that details of capital gains from listed securities, dividend income and interest from banks, post office etc. will also be pre-filled to ease filing of returns.
  - Details of salary income, tax payment, TDS etc already come pre-filled

in returns.

- In order to reduce compliance burden on small charitable trust running educational institutions and hospitals the Budget proposes to -
  - increase the limit on annual receipts from present Rs.1 Crore to Rs. 5 Crore for non-applicability of various compliances

## **Key Indirect Tax Proposals**

- The indirect tax proposals primarily focus on custom duty rationalization and rationalization of procedures and easing of compliance.
- **GST**
  - Record GST collections have been made in the last few months.
  - It was assured that every possible measure would be taken to smoothen the GST further and remove anomalies such as the inverted duty structure.
  - Deep analytics and artificial intelligence have been deployed to identify tax evaders and fake billers, launching special drives against them.
- **Custom duty**
  - With respect to the custom duty policy, the Finance Minister said that it has the twin objectives of -
    - promoting domestic manufacturing
    - helping India get on to global value chain and export better
  - It was said that the thrust now has to be on easy access to raw materials and exports of value added products.
  - In this regard, 400 old exemptions in the custom duty structure are proposed to be reviewed this year.
    - extensive consultation will be conducted
    - from 1st October, 2021, a revised custom duty structure free of distortions will be put in place
  - Any new custom duty exemptions henceforth will have validity up to the 31st March following 2 years of the date of its issue.
  - The Finance Minister announced the withdrawal of a few exemptions on parts of chargers and sub-parts of mobile phones.
    - Further, some parts of mobiles will move from “NIL” rate to a moderate 2.5%.
    - Reducing custom duty uniformly to 7.5% on semis, flat, and long products of non-alloy and stainless steel was announced.
    - It was also announced of exempting duty on steel scrap for a period up to 31st March 2022.
  - The Budget also stressed on the need to rationalize duty on raw material inputs to man-made textile.
    - In this regard, it was announced to bring nylon chain on par with polyester and other man-made fibers.

- Uniform deduction of the BCD (Basic Customs Duty) rates on Caprolactam, nylon chips and nylon fiber and yarn to 5% was made.
- This would help the textile industry, MSMEs and exports too.
- The Budget also announced calibration of customs duty rate on chemical to encourage domestic value addition and to remove inversions.
- The Minister also announced rationalization of custom duty on gold and silver.
- **Solar power**
- A phased manufacturing plan for solar cells and solar panels will be notified to build up domestic capacity.
- The Budget proposed raising duty on solar inverter from 5% to 20% and on solar lanterns from 5% to 15%.
- The Budget mentioned of the immense potential in manufacturing heavy capital equipment domestically.
  - In this regard, it was said that the rate structure would be comprehensively reviewed in due course.
  - However, revision in duty rates on certain items including tunnel boring machine and certain auto parts was announced.
- **MSMEs**
- The Budget proposes certain changes to benefit MSMEs.
  - These include increasing duty on steel screws, plastic builder wares and prawn feed.
- The Budget also provides for rationalizing exemption on import of duty free items as an incentive to exporters of garments, leather and handicraft items.
- It also provides withdrawing exemption on imports of certain kind of leather and raising custom duty on finished synthetic gem stones.
- **Farmers**
- To benefit farmers, the Finance Minister announced –
  - raising custom duty on cotton, raw silk and silk yarn
  - an Agriculture Infrastructure and Development Cess on a small number of items
- On the cess, it was assured that care was taken to not put additional burden on consumers on most items.
- Besides these, regarding rationalization of procedures and easing of compliance, certain changes were proposed in the provisions relating to ADD (anti-dumping duty) and CVD (countervailing duty) levies.
- To complete customs investigation, definite time-lines are being prescribed.
  - In this context, the Turant Custom Initiative rolled out in 2020 has helped in putting a check of misuse of FTAs (Free trade agreement).

Source: PIB



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