

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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