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



SHANKAR
IAS PARLIAMENT
Information is Empowering