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Chartered Accountants

India Budget Statement 2021

Direct and Indirect Tax Proposals

Overview

Direct Taxes

- No change in tax rates and tax slabs
- Exemption from filing IT returns for Senior Citizens (75 years and above) earning only pension and interest income.
- Time period reduced for initiating IT proceedings
- A Dispute Resolution Mechanism comprising of a faceless committee is on the anvil for taxpayers having total income of less than Rs. 50 lacs and disputed income of less than Rs. 10 lacs.
- Income tax Appellate Tribunal to become faceless and communication between appellant and Tribunal to be only through electronic mode. Hearing of appeals to be only through video conferencing.

Overview

Direct Taxes

- Income tax returns to contain more prefilled information on dividend, interest and capital gains
- Advance tax liability of dividend income to arise only after declaration/payment of dividend
- Deduction of Rs. 1.5 lacs for interest payment on home loans taken for affordable housing extended to loans taken upto 31st March 2022
- Threshold for Tax Audit increased from existing Rs. 5 crores to Rs. 10 crores in cases where cash transactions do not exceed 5% of the total transactions.
- Individuals contributing more than Rs. 2.5 lacs in a financial year to provident fund will not be entitled to tax exemption on interest income from the following year.

Overview

Direct Taxes

- Late deposit of employees contribution to provident fund shall not to be allowed as deduction to the employers
- Limitation period for reopening of assessments curtailed to three years from existing six years. For serious tax evasion cases involving evidence of concealment in excess of Rs. 50 lacs the extended time period of 10 years to continue but reopening to be subject to approval of the principal commissioner of income tax.
- The assessee aggrieved by the orders of Settlement Commission and which have been challenged in writ petitions or SLP would not be entitled to the Vivad Se Vishwas Act. Likewise, proposed that sums payable pursuant to order of Settlement Commission would fall out of the ambit of VsV Act.

Overview

Direct Taxes

- Equalisation levy provisions have been rationalized. For the purpose, the term '*liable to tax*' has been defined to include any person subjected to any tax in any country. Further, on applicability of equalization levy on physical/offline supply of goods and services, the terms '*online sale of goods*' and '*online provision of services*' have been defined. Also, in order to provide certainty, it has been clarified that the transactions liable to income tax shall not be liable for equalization levy.
- TDS on dividend and other income of FIIs to be at treaty rate. Dividend paid to business trust to be exempt from TDS
- The calculation of book profits for the purpose of MAT shall be aligned with the year of taxability of income agreed in APA or on account of secondary adjustment.

Overview

Direct Taxes

- Dividend income is not to be included in the book profits of foreign companies for MAT liability.
- The Authority for Advance Ruling is proposed to be replaced by a Board for Advance Ruling which would consist of two chief commissioners of income tax.
- The Income Tax Settlement Commission is also to be discontinued and the assessee shall have the option to either withdraw or transfer the cases to an interim board of settlement which is to be set up for the purpose.
- Notified Infra debt funds are eligible to raise funds by tax efficient zero coupon bonds.

Overview

Direct Taxes

- Goodwill shall not be eligible for depreciation. However, goodwill purchased shall be allowed as a deduction
- It has been clarified that for the purpose of capital gains taxation arising on transfer of undertakings the scope of the slump sale shall include all types of transfers (including an exchange where non-cash consideration is paid.)
- If no PAN is furnished by resident tax payers, TDS rate under various provisions to be increased to 5%.
- Higher TDS/TCS rates (higher of twice the applicable rate or 5%) applicable to taxpayers who have not filed tax returns for two preceding previous years.

Overview

Direct Taxes

- Last date for belated or revised tax return curtailed from the end of assessment year to 3 months prior to end of respective assessment year.
- Where Firms/LLPs are subject to transfer pricing, the due date for filing return of partners also extended to 30th November of respective year.
- Summary assessments completion time limit curtailed to 9 months from the end of financial year in which tax return is filed.
- Time limit for issue of notice for scrutiny assessment is curtailed to 3 months from the end of financial year in which tax return is filed.

Overview

Direct Taxes

- Time limits for completion of scrutiny assessments is curtailed to nine months from the end of the relevant assessment years
- Presumptive taxation for profession not applicable to LLPs and Companies.
- The enhanced safe harbour limit of 20% between the stamp duty value and transaction value for certain home buyers and real estate developers for specified properties is extended to properties acquired before 30 June 2021.
- Tax holiday for affordable housing projects extended by one year.

Overview

Direct Taxes

- Tax holiday for certain aircraft leasing companies. Also, tax exemption for lease rentals paid by airlines to certain foreign lessors
- Capital gains exemption for investments in startups to be extended by one more year. Tax holiday for startups extended for another year.
- Relaxation of conditions for Sovereign Wealth Funds for claiming exemption from dividend, interest and capital gains.

Overview

Indirect Taxes

- No change in GST rates
- Mandatory certification of GST reconciliation statement withdrawn
- Enhancement of GST penal provisions
- Rationalization of Customs duty structure
- Creation of Common Customs Electronic Portal for facilitating operations
- Introduction of AIDC as duty of Customs/Excise on specified products
- Amendment in Central Sales Tax Act

DIRECT TAXES

Direct Taxes

Effective from March 17, 2020

✓ Orders of Settlement Commission not entitled for VsV, if challenged in Writ/SLP.

Likewise, sum payable pursuant to Order of Settlement Commission to fall out of VsV

Direct Taxes

Effective from April 01, 2020

- ✓ Equalisation levy provisions rationalized:
 - the term ‘liable to tax’ to include any person subjected to any tax in any country
 - the terms ‘online sale of goods’ and ‘online provision of services’ defined for Equalization levy on physical/offline supply of goods/services
 - clarified that transactions liable to income tax will not be liable for Equalization levy
- ✓ TDS exempt on dividend paid to business trust by a SPV or to any other person as may be notified

Direct Taxes

Effective from February 01, 2021

- ✓ Income Tax Settlement Commission ceases to operate
- ✓ Assessee to have an option to either withdraw or transfer case to proposed interim Board for Settlement

Direct Taxes

Effective from April 01, 2021

- ✓ Senior Citizens of 75 years and above, earning only pension and interest income exempt from filing IT returns
- ✓ Advance tax liability on dividend income to arise only after declaration/payment of dividend
- ✓ Threshold for Tax Audit increased from INR 5 Crore to INR 10 Crore, in cases where cash transactions do not exceed 5% of total transactions
- ✓ No deduction allowed to employers for late deposit of employees contribution to Provident Fund

Direct Taxes

Effective from April 01, 2021

- ✓ Limitation period for re-opening of assessments reduced to 3 years from 6 years. Extended time period of 10 years to continue subject to approval of Principal Commissioner of IT for re-opening tax evasion cases involving evidence of income escaping assessment in excess of INR 50 lakh
- ✓ ITAT to become faceless and communication between Appellant and ITAT only through electronic mode and hearing of appeals through video conferencing

Direct Taxes

Effective from April 01, 2021

- ✓ ‘Dispute Resolution Mechanism’ through faceless committee formed for taxpayers having total income of less than INR 50 lakh and disputed income of less than INR 10 lakh
- ✓ TDS on dividend and other income of FIIs to be at treaty rate
- ✓ Computation of book profits for calculating MAT to be aligned with year of taxability of income agreed in APA or on account of secondary adjustment
- ✓ Dividend income not to be included for computing book profits of Foreign Companies for MAT liability

Direct Taxes

Effective from April 01, 2021

- ✓ Authority for Advance Ruling proposed to be replaced by a Board for Advance Ruling consisting of two Chief Commissioners of IT
- ✓ Goodwill not eligible for depreciation, however goodwill purchased to be allowed as a deduction
- ✓ Scope of the term ‘Slump Sale’ widened to include all types of transfers (including an exchange where non-cash consideration is paid)
- ✓ Last date for filing belated/revised IT return curtailed from the end of Assessment year to 3 months prior to end of respective Assessment year

Direct Taxes

Effective from April 01, 2021

- ✓ Due date for filing return of Partners also extended to November 30th of respective year for Firms/LLPs subjected to Transfer pricing
- ✓ Summary assessments completion time limit curtailed to 9 months from the end of Financial year in which IT return is filed
- ✓ Time limit for issuance of notice for scrutiny assessment curtailed to 3 months from the end of Financial year in which IT return is filed
- ✓ Time limit for completion of scrutiny assessments curtailed to 9 months from end of relevant Assessment year

Direct Taxes

Effective from April 01, 2021

- ✓ Presumptive taxation for professionals not applicable to LLPs
- ✓ Safe harbour limit for home buyers and real estate developers, enhanced from 10% to 20% subject to fulfilling specified conditions
- ✓ Capital gains exemption for investments for start-ups and tax holiday for start-ups extended by one more year
- ✓ Relaxation of conditions for Sovereign Wealth Funds for claiming exemption from dividend, interest and Capital gains

Direct Taxes

Effective from July 01, 2021

- ✓ Non-furnishing of PAN to attract higher rate of TDS i.e. 5% under Section 194Q
- ✓ Higher TDS/TCS rates (higher of twice the applicable rate or 5%) applicable to taxpayers who have not filed IT returns for two preceding Previous years

Direct Taxes

Effective from April 01, 2022

- ✓ Additional deduction of INR 1.5 lakh for interest payment on home loans taken for affordable housing
- ✓ Individuals contributing more than INR 2.5 lakh in a Financial year to Provident Fund not entitled to tax exemption on interest income from the following year
- ✓ Notified Infra debt funds eligible to issue tax efficient zero coupon bonds
- ✓ Tax holiday for affordable housing projects extended by one more year
- ✓ Tax holiday for certain aircraft leasing companies. Conditional tax exemption of lease rentals paid by airlines to certain foreign lessors

INDIRECT TAXES

Central Goods & Services Tax

Effective from enactment of the Finance Bill No. 15 of 2021

- ✓ Scope of ‘Supply’ retrospectively enhanced from July 01, 2017, to include activities or transactions by any person, other than an individual, to its members or constituents or vice-versa, for cash, deferred payment or other valuable consideration
- ✓ For availing ITC, additional condition introduced of supplier furnishing the details of Invoice/debit note in statement of outward supplies and such details being communicated to the recipient
- ✓ Mandatory certification of annual accounts and reconciliation statement by specified professionals withdrawn. However, annual return for specified persons to be on self-certification basis

Central Goods & Services Tax

Effective from enactment of the Finance Bill No. 15 of 2021

- ✓ Commissioner empowered to exempt a class of persons from filing annual return
- ✓ Except for specified cases, retrospective amendment made from July 01, 2017 for payment of interest on net cash liability only
- ✓ Seizure and confiscation of goods and conveyances in transit to be considered as separate proceedings for recovery of tax
- ✓ “Self-assessed tax” to include tax payable in respect of outward supplies declared under Section 37 of CGST Act, but not included in the return furnished under Section 39 of CGST Act

Central Goods & Services Tax

Effective from enactment of the Finance Bill No. 15 of 2021

- ✓ Inclusion of Chapter XII, Chapter XIV or Chapter XV of the CGST Act, for initiating provisional attachment proceedings
- ✓ Appeal to be filed after payment of 25% of penalty against Order issued by the Officer detaining or seizing goods or conveyances
- ✓ Penalties enhanced for detention and seizure of goods/conveyances in transit
- ✓ Penalties enhanced for confiscation of goods/conveyances
- ✓ Jurisdictional Commissioner empowered to call for information from any person in the specified manner relating to any matter under the CGST Act

Central Goods & Services Tax

Effective from enactment of the Finance Bill No. 15 of 2021

- ✓ An opportunity of being heard to be granted to the concerned person, before disclosing/using any information for the purpose of any proceedings under the CGST Act

Integrated Goods & Services Tax

Effective from enactment of the Finance Bill No. 15 of 2021

- ✓ ‘Supply’ of goods or services to SEZ considered as ‘Zero-rated supplies’ only when they are meant for ‘Authorised operations’ of SEZ
- ✓ ‘Zero-rated supplies’ on payment of IGST restricted only to notified class of taxpayers/supplies of goods or services
- ✓ Refund of unutilised ITC for ‘Zero-rated supplies’ of goods, linked to receipt of foreign exchange within period specified under FEMA, failing which refund to be deposited back with interest

Customs

Effective from enactment of the Finance Bill No. 15 of 2021

- ✓ All conditional exemptions to be valid for a period of 2 years from the date of issuance. All existing conditional exemptions valid as on date of Presidential assent to Finance Bill 2021, the period of 2 years to start from February 01, 2021
- ✓ Period for undertaking enquiry/investigation under the CA for issuance of notice under Sub-section (1) / (4) of Section 28 of CA restricted to 2 years with grace period of 1 year, to be granted by specified authorities
- ✓ Section 46 of CA amended to enable filing of BE before the end of the day (including holidays) preceding the day of arrival of goods. CBIC, in specified cases to prescribe different time limit for presentation of the BE but not later than the end of day of such arrival

Customs

Effective from enactment of the Finance Bill No. 15 of 2021

- ✓ Commissioner (Appeals) now empowered to allow disposal of application relating to seizure of Gold
- ✓ Goods entered for exports liable for confiscation due to wrongful claim of remission or refund of any duty or tax or levy
- ✓ Export refund claimed on the basis of fraudulent utilization of ITC liable to penalty not exceeding 5 times of the refund claim
- ✓ Commissioner (Appeals) also empowered to give evidentiary value for specified documents

Customs

Effective from enactment of the Finance Bill No. 15 of 2021

- ✓ Enabling of electronic authorization or amendment of documents via Customs automated systems on the basis of risk evaluation through appropriate selection criteria
- ✓ Introduction of Common Customs portal for facilitating registration, filing of BE, shipment bills other documents and forms prescribed under the CA, including service of notices, order

Customs

Tariff - *Effective from enactment of the Finance Bill No. 15 of 2021*

- ✓ Section 9/9A of CTA amended for making changes relating to countervailing / anti-dumping duty respectively
- ✓ Changes to the First Schedule to the CTA proposed to align amendments to the existing Harmonised Nomenclature in accordance with HSN 2022 (*Effective from January 01,2022*)

Customs

Tariff - *Effective from February 02, 2021*

AIDC – on specified imports

- ✓ Levied as duty of Customs on 25 items at specified rates for the purpose of financing agriculture infrastructure and other development expenditure
- ✓ Levied in addition to other duty of Customs chargeable under the CA or any other law for the time being in force
- ✓ SWS would be levied on AIDC
- ✓ Goods imported through Customs duty exemption available under FTA, EOU and AA schemes exempted from AIDC

Customs

Tariff - *Effective from February 02, 2021*

- ✓ Notification No. 2/2021 to 15/2021 dated February 01, 2021 (Customs Tariff) amends rate of Customs duty on various products in addition to providing exemption and concession to specified products

Customs

Non–Tariff *(Effective from February 02, 2021)*

✓ Notification No. 09/2021 dated February 01, 2021 amends IGCR, Rules to allow:

- Job work of specified materials imported under Concessional rate of duty
- 100% outsourcing for manufacture of goods on job work
- Imported capital goods used for specified purpose upon payment of differential duty along with interest on depreciated value as per FTP

Customs

Non–Tariff *(Effective from February 02, 2021)*

- ✓ Notification No. 10/2021 dated February 01, 2021 makes various amendment on specified dates to Customs Tariff (Identification, Assessment and Collection of Anti-dumping duty on Dumped Articles and for Determination of Injury) Rules, 1995
- ✓ Notification No. 11/2021 dated February 01, 2021 makes various amendment on specified dates to Customs Tariff (Identification, Assessment and Collection of Countervailing duty on subsidized Article and for Determination of Injury) Rules, 1995
- ✓ Notification No. 12/2021 dated February 01, 2021 makes various amendment on specified dates to Customs Tariff (Identification and Assessment of Safeguard duty on subsidized Article and for Determination of Injury) Rules, 1997

Central Excise

Tariff - *Effective from February 02, 2021*

AIDC – on manufacture of specified products

- ✓ Levied as additional duty of Excise on manufacture of specified products. BED and SAED on Petrol and Diesel calibrated to maintain the end price to the Consumers even after levying AIDC

Central Sales tax

Effective from enactment of the Finance Bill No. 15 of 2021

✓ Eligibility to issue Form 'C' restricted to certain classes of registered dealers for the purpose of sale or manufacturing of following goods:

- Petroleum Crude
- High Speed Diesel
- Motor Spirits
- Natural Gas
- Aviation Turbine Fuel and
- Alcoholic liquor for human consumption

Glossary

Abbreviations	
AA	Advance Authorisation
AIDC	Agriculture Infrastructure and Development Cess
APA	Advance Pricing Agreement
BCD	Basic Customs Duty
BE	Bill of Entry
BED	Basic Excise Duty
CA	Customs Act
CBIC	Central Board of Indirect taxes and Customs
CGST	Central Goods & Service tax
CTA	Customs Tariff Act
EOU	Export Oriented Unit
FEMA	Foreign Exchange Management Act

Abbreviations	
FIIIs	Foreign Institutional Investors
FTA	Free Trade Agreement
FTP	Foreign Trade Policy
GST	Goods & Services tax
HSN	Harmonised Nomenclature
IGCR	Import of Goods at Concessional Rate
IGST	Integrated Goods & Service tax
INR	Indian Rupees
IT	Income tax
ITAT	Income Tax Appellate Tribunal
ITC	Input tax credit
LLPs	Limited Liability Partnerships

Glossary

Abbreviations	
MAT	Minimum Alternate Tax
NRI	Non resident Indian
PAN	Permanent Account Number
SAED	Special Additional Excise Duty
SEZ	Special Economic Zone
SLP	Special Leave Petition
SPV	Special Purpose Vehicle
SWS	Social Welfare Surcharge
TCS	Tax Collected at Source
TDS	Tax Deducted at Source
VsV	Vivad se Vishwas
MAT	Minimum Alternate Tax

Disclaimer

This document is a result of our study of the direct tax proposals forming part of the Finance Bill, 2021 and is intended to bring to you the salient proposals in a simple, condensed and comprehensible manner.

We would like to reiterate that what have been discussed in the above sections are the proposals pertaining to the direct and indirect taxes. The said proposals are open to modifications and alterations during the course of discussion in the Parliament before they eventually become law upon receiving the assent of the President of India.

This document is intended for use by Firm's personnel and clients only. It summarizes the Direct tax proposals forming part of the Union Budget 2021.

While due care has been taken during the compilation of this document to ensure that the information is accurate to the best of our knowledge and belief, the content is not to be construed in any manner whatsoever as a substitute for professional advice. We do not assume any liability or responsibility for the outcome of decisions taken as a result of any reliance placed on this publication.

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Thank you