

TSMT

A photograph of Nirmala Sitharaman, the Union Finance Minister of India, holding a red folder with the Ashoka Lion Capital emblem. She is wearing a red and white saree and is looking slightly to the right. The background is dark and out of focus.

UNION BUDGET 2021

Highlights



Budget 2021 is
a **“Never Before Budget”**
as it has to address the
revival of
Covid-19 ravaged
economy of India.

UNIQUE FEATURES

1. **Paperless Budget Speech** - The Finance Minister read the whole budget on her tab and no distribution of the Budget speech to members of parliament.
2. **Union budget App** has been introduced to access the Budget documents.
3. The **highest outlay** to the Health Sector ever.

Financial Highlights

Total budgeted revenue	₹ 34,83,236 Cr.	Total budgeted deficit	₹ 9,21,464 Cr.
		Estimated Fiscal deficit	6.8 %

Fiscal Position

- The fiscal deficit in RE 2020-21 is pegged at **9.5% of GDP**, funded through Government borrowings, multilateral borrowings, Small Saving Funds and short term borrowings and would need another *Rs 80,000 crores for the next 2 months*.
- The Government plans to reach a **fiscal deficit level below 4.5% of GDP by 2025-2026** with a fairly steady decline over the period.
- States will be expected to reach a fiscal deficit of **3% of GSDP by 2023-24**, as recommended by the 15th Finance Commission.
- The FRBM Act mandates a fiscal deficit of **3% of GDP** to be achieved by 31st March 2020-2021. An amendment has been introduced to the FRBM Act towards achieving Central Government fiscal deficit.

Atma Nirbhar Bharat

Financial impact
₹ **27.1 lakh** Cr.

13%
of GDP



6 pillars of Budget 2021

Health and Wellbeing

Physical & Financial Capital, and
Infrastructure

Inclusive Development for
Aspirational India

Reinvigorating Human Capital

Innovation and R&D

Minimum Government and
Maximum Governance



1. Health and Wellbeing

- **Total Outlay: ₹ 2,23,846 cr.**
- Focus on primary, secondary and tertiary health care - launching a new scheme "**PM Atma Nirbhar Swasthya Bharat Yojana**"
- **Scrapping policy for vehicles:** 20 years for personal vehicles and 15 years for commercial vehicles
- Allocation to **Covid vaccines: ₹ 35,000 cr.**

2. Physical and Financial Capital and Infrastructure

- **Production linked incentive** schemes to manufacturing sectors
- **Consolidation** of SEBI Act, 1992, Depositories Act, 1996, Securities Contracts (Regulation) Act, 1956 and Government Securities Act, 2007 into a rationalized single **Securities Markets Code.**
- Increase in **FDI limit in Insurance Sector from 49% to 74%**
- **Listing of Life Insurance Corporation**
- **Widening the definition of Small Companies** - the thresholds of paid up capital increased from **50 Lakhs to 2 Crores** and the turnover limits increased from **2 Crores to 20 Crores**
- More companies to be covered under the ambit of **One Person Company (OPC)**
- **Foreign residents are allowed to start OPCs**
- **MCA21 version 3.0** to be introduced driven by **data analytics, artificial intelligence, machine learning**
- **Privatisation of two Public Sector Banks**



3. Inclusive Development for Aspirational India

- **One nation one ration card**
- **Social security** measures for **Gig and Platform workers**

4. Reinvigorating Human Capital

- Apprenticeship Act (launched in 2016) to be amended with a view to further **enhancing apprenticeship opportunities for the youth**
- Thrust on **vocational training**

5. Innovation & Research and development

- **Research ecosystem** to be improved
- **PSLV-CS51 to be launched**

6. Minimum Government Maximum Governance

- Rationalisation of **functioning of Tribunals**
- To **encourage Conciliation** to reduce disputes

Direct Tax Matters

AFFORDABLE RESIDENTIAL HOUSE PROPERTY

The existing provision of the section **80EEA** of the Act, inter alia, provides a deduction in respect of interest on loan taken for a residential house property from any financial institution up to one lakh fifty-thousand rupees subject to the condition that:

1. The loan has been sanctioned during the period beginning on **1st April, 2019** and ending on **31st March, 2021**.
2. The stamp duty value of residential house property does not exceed forty-five lakh rupees and
3. The assessee does not own any residential house property on the date of sanction of loan.

This Provision is over and above the deduction of INR 2 Lakhs under Section 24 of the Act.

Budget 2021 proposes to extend this benefit for the loans sanctioned from **31st March 2021 to 31st March 2022**.

INCENTIVES FOR AFFORDABLE RENTAL HOUSING

The existing provision of the section 80-IBA of the Act provides that where the gross total income of an assessee includes any profits and gains derived from the business of developing and building affordable housing project, there shall, subject to certain conditions specified therein, be allowed a deduction of an amount equal to 100% of the profits and gains derived from such business. One of the conditions is that the project is approved by the competent authority after the **1st day of June 2016** but on or before the **31st March 2021**.

It is proposed that the outer time limit of **31st March 2021** in this section for getting the affordable housing project approved be extended to **31st March 2022**.

Further it is proposed to provide similar deduction in case of affordable rental housing projects.

START-UPS INCENTIVES

Tax Holiday Period

The existing provisions of the section 80-IAC of the Act provides for a deduction of an amount equal to 100% of the profits and gains derived from an eligible business by an eligible start-up for three consecutive assessment years out of ten years at the option of the assessee. This is subject to the condition that the total turnover of its business does not exceed one hundred crore rupees. The eligible start-up is required to be incorporated on or after **1st day of April, 2016** but before **1st day of April 2021**.

It is proposed to amend the provisions of section 80-IAC of the Act to extend the date of incorporation till **1st April, 2022**.

Sale of house to invest in eligible startups

The existing provisions of the section 54GB of the Act provide for exemption of capital gain which arises from the transfer of a long-term capital asset, being a residential property (a house or a plot of land), owned by the eligible assessee. The assessee is required to utilise the net consideration for subscription in the equity shares of an eligible start-up, before the due date of furnishing the return of income under sub-section (1) of section 139 of the Act. The eligible start-up is required to utilise this amount for purchase of new asset within one year from the date of subscription in equity shares by the assessee. Further, it was provided that benefit is available only when the residential property is sold on or before **31st March, 2021**.

It is proposed to amend the provisions of section 54GB of the Act to extend the benefit of deduction for residential properties sold between the period **31st March 2021 to 31st March 2022**.

COMPLIANCE RELAXATION TO SENIOR CITIZENS

Senior citizens will be exempted from filing of return (as per Section 194P) subject to the following conditions.

- (i) The senior citizen is resident in India and of the age of 75 or more during the previous year;
- (ii) The income is in the nature of pension and interest Income only and such income is received from specified banks and on furnishing of a declaration

TDS on interest on Pension

A new section 194P has been introduced to mandate banks to deduct applicable taxes from the pension and interest income payable to senior citizens after allowing Chapter VIA deductions.

APPLICABILITY OF TAX AUDIT

Presently, the turnover limits for tax audit is INR 5 crores provided, 95% of the transactions are carried out in digital form

In order to incentivize non-cash transactions to promote digital economy and to further reduce compliance burden of small and medium enterprises, it is proposed to increase the threshold limit from 5 crores to 10 crores. This amendment will take effect from 1st April, 2021 and will accordingly apply for the assessment year 2021-22 and subsequent assessment years.

PRESUMPTIVE TAXATION FOR PROFESSIONALS - SEC. 44ADA

The benefit of presumptive taxation is not allowed to professionals carrying on the business as Limited Liability Partnership (LLP)

ADVANCE TAX NEED NOT BE PAID ON DIVIDEND INCOME UNLESS IT IS RECEIVED

Advance tax on dividends is required to be paid only on receipt basis and no interest liability will arise u/s 234B & C

This amendment will take effect from 1st April, 2021 and will accordingly apply to the assessment year 2021-22 and subsequent assessment years.

BELATED RETURNS AND REVISED RETURNS

With the massive technological upgrade in the Department where the processes under the Act are moving towards becoming faceless and jurisdiction-less, the time taken to conduct and complete processing of the returns has greatly reduced.

In view of the above, it is proposed to reduce the due dates for filing of belated or revised tax returns by three months. Which means the due date is 31st December of every year

TAXATION OF INSURANCE PROCEEDS

Proceeds from Unit Linked insurance Policy will be taxed as Capital gains. The treatment of capital gains will be on par with Equity oriented mutual funds and security transaction tax will be applicable on maturity proceeds or partial withdrawal.

Under the existing provisions of the Act, there is no cap on the amount of annual premium being paid by any person during the term of the policy. Now the same has been limited to rupees two lakh fifty thousand either on single premium paid or on aggregate basis for multiple premiums paid. The above provisions are not applicable to any amount received on death of the person. Henceforth the ULIP for which section 10(10D) is not applicable will be treated as a capital asset.

Any amount received which does not fall under the above provisions of section 10(10D) will be treated as capital gains under section 45(1B) as mentioned above.

CHARITIES

Certain amendments have been made in order to eliminate possibility of double deduction while calculating application or accumulation of income of Charitable Institutions. As per the provisions of the Act, 15% of the income is exempt, however the balance 85% is required to be applied for the purpose of the Trust.

An amendment has been made, wherein the Corpus donations received by Charitable Institutions shall be considered as application only if it is invested or deposited in the modes prescribed in section 11(5) of the Act maintained specifically for such corpus.

Further, in case of loan borrowed by such institutions, the application from loans and borrowings shall not be regarded as application for charitable and religious purposes. However, when loan or borrowing is repaid from the income of the previous year, such repayment shall be allowed as application in the previous year in which it is repaid to the extent of such repayment

The excess application of any year shall not be allowed to be carried forward and adjusted against the subsequent year's utilization

DENIAL OF DEPRECIATION ON GOODWILL

The provisions of section 32 provides for depreciation on tangible and intangible assets. Goodwill of a business or profession was one of the eligible intangible assets. An amendment has been made in the provisions to exclude depreciation on goodwill of a business or profession.

Further, similar amendments have been made in section 50 and 55 of the Act wherein the cost of acquisition will be the purchase price as reduced by the depreciation claimed by the assessee before 1st April, 2021

EMPLOYEES CONTRIBUTION TO PF AND ESI

Delay in deposit of employee's contribution to PF/ESI was considered as Income if the same was not deposited within the due dates as specified in the respective Acts. However, few courts had allowed the deduction by considering the due date to be the date of filing income tax returns which caused a confusion, whether the "due date" shall mean due date as specified in respective act, such as PF/ESI or due date as per section 139(1) of the Income-tax Act.

The Income-tax Act has been amended to clarify that delay in deposit of employees contribution shall not be allowed as expenses and will be considered as income if the same is deposited beyond the due dates of respective Acts.

No exemption on interest earned on contribution to PF

Interest earned on PF will be taxed if the annual contribution exceeds INR 2,50,000. This will apply only to employee's contribution and not employer's contribution.

RESTRICTIONS ON RESTRUCTURING OF PARTNERSHIP FIRMS

Partnership Firms were allowed to restructure and transfer assets to partners without payment of any taxes either in the hands of the Firm or the partners. This has now been curbed by the introduction of new sub-sections to section 45.

As per the amendment, receipt of any amount or asset by a partner over and above the balance in the capital account shall be taxed as capital gains in the hands of the Firm. Any increase in such capital accounts due to revaluation of assets shall be ignored.

This is effective from Financial year 2020-21

RELIEF TO REAL ESTATE

The Atma Nirbhar Bharat Package 3.0 provided tax reliefs to the developers and home buyers by increasing the tolerable limit/acceptable difference between circle rate and agreement value from 10% to 20% on the primary sale of residential units having value up to INR 2 crores. The Finance Bill 2021 incorporates the above by making amendments in section 43CA and 53(2)(x) of the Act. Accordingly, the amendment shall take effect from April 1, 2021. The following conditions are to be satisfied :

- The property is transferred by a developer or builder who is engaged in the business of construction or sale or purchase of immovable property;
- The property should be transferred during the period of 12-11-2020 to 30-06-2021;
- The property so transferred should be a residential house property;
- It should be a primary sale directly by the builder or developer; and
- The value of the property should not exceed INR 2 crores

TIME LIMIT FOR RE-OPENING OF ASSESSMENTS

Presently an assessment can be re-opened up to 6 years and in serious tax fraud cases for up to 10 years. The Government has proposed to reduce the timelines for reopening of assessment to 3 years from the present 6 years. In serious tax evasion cases too, only where there is evidence of concealment of income of INR 50 lakh or more in a year, can the assessment be reopened up to 10 years and after obtaining prior approval of PCIT.

INSERTION OF NEW SECTION 206AB AND 206CC

New sections have been introduced for higher rate of TDS and TCS for non-filers of income tax returns. This section shall apply where the tax is required to be deducted under specified sections of the Act. The proposed TDS rate in this section is higher of

- twice the rate specified in the relevant provision of the Act; or
- twice the rate or rates in force; or
- the rate of five percent.

Further, section 206CCA of the Act would apply on any sum or amount received by a person (herein referred to as collectee) from a specified person. The proposed TCS rate in this section is higher of the following rates

- twice the rate specified in the relevant provision of the Act; or
- the rate of five percent

The specified person is a person who has not filed the returns of income for both of the two assessment years relevant to the two previous years which are immediately before the previous year in which tax is required to be deducted or collected, as the case may be. The section is effective from 1st July 2021

CONSTITUTION OF DISPUTE RESOLUTION COMMITTEE FOR SMALL AND MEDIUM TAXPAYERS

In order to provide early tax certainty to small and medium taxpayers, a new scheme for preventing disputes and settling the issue at the initial stage has been introduced. As per this scheme, the Govt shall set-up Dispute Resolution Committee (“DRC”). A taxpayer having taxable income up to INR 50 lakh and disputed income up to INR 10 lakh shall be eligible to approach the Committee. For ensuring efficiency, transparency and accountability, the procedure of the Committee will be conducted in a faceless manner.

FACELESS INCOME-TAX APPELLATE PROCEEDINGS

In order to provide transparent tax appellate mechanism, it is proposed to make the Income Tax Appellate Tribunal faceless and jurisdiction-less. A National Faceless Income tax Appellate Tribunal Centre shall be established and all the communication between the Tribunal and the appellant shall be made electronically. Further, personal hearing is needed, it shall be done through video-conferencing.

TDS ON HIGH VALUE PURCHASES - 194Q

Tax is required to be deducted at the rate of 0.1% if the value of goods purchased exceeds 50 lakh rupees by the “Buyer” whose gross receipts or turnover from business exceed 10 crore rupees during the financial year immediately preceding the financial year in which the purchase transaction has taken place.

Tax is not required to be deducted under this provision if the tax is already deducted/collected on such transaction based on the applicability of any other provision of the Income Tax Act, 1961. The section is effective from 1st July 2021

Amendments to GST Act

1. SERVICES PROVIDED BY ASSOCIATIONS (LIKE CLUBS AND SOCIETIES) TO THEIR MEMBERS

Any supply of services or goods provided by any person other than an individual, to its members is now included in the scope of supply and attracts GST at the applicable rates. This amendment has been made retrospectively effective from 1st July 2017. This amendment has been made in light of several Advance Rulings favoring the Assessee and granting exemptions on the basis of the Principle of Mutuality.

2. CONDITIONS TO CLAIM INPUT TAX CREDIT

One of the conditions to avail Input Tax Credit includes possession of any document evidencing charge of tax (Invoice / Debit Note / Any other document). Now, a further condition has been added, requiring the details of such Invoices or debit notes are reported in their Return of Outward Supplies in form GSTR1. In other words, Credit cannot be availed unless it appears in GSTR-2A/2B statement.

3. CHANGES RELATED TO GST AUDIT AND ANNUAL RETURNS

The requirement of audit under the GST Law and the consequent Reconciliation Statement in form GSTR9C has been removed. The Annual Return now needs to be filed on a Self-Certification basis. Further, any class of taxpayers, as notified can be exempted from the requirement of filing the Annual Return.

4. INTEREST COMPUTATION ON DELAYED FILING

As decided in many cases in the Courts, interest on delayed filing of returns will now be computed on Net Cash Liability. This means that interest will be calculated on the Output liability as reduced by the available Input Credit.

5. DIFFERENCES BETWEEN GSTR1 AND GSTR3B

Any transactions reported in GSTR1 and not reported in GSTR3B will now be subject to tax and consequent recovery proceedings.

6. ADMITTING OF APPEALS

An appeal against any order under the GST Law, levying penalty, can be filed only on deposit of 25% of the Penalty amount. This is in addition to the requirement of deposit of 10% in the case of disputed tax amounts.

7. COLLECTION OF INFORMATION RELATING TO GST MATTERS.

The Jurisdictional Officer has now been conferred powers to collect information/statistics from any person, in addition to the Assessee.

8. MODIFICATION IN DEFINITION OF ZERO-RATED SUPPLY

Supplies to any SEZ Unit or Developer will be considered as Zero-Rated Supply, only if it is for Authorized Operations. Further, it restricts the zero-rated supply on payment of tax only to a notified class of taxpayers or on notified supplies of goods or services. Moreover, in case of Refunds pertaining to Export of Goods, foreign inward remittances need to be linked to such exports.