

B R Maheswari & Co LLP
Chartered Accountants






**Need of the hour:
Vaccinating the economy**

Budget 2021: Analysis

February 2021

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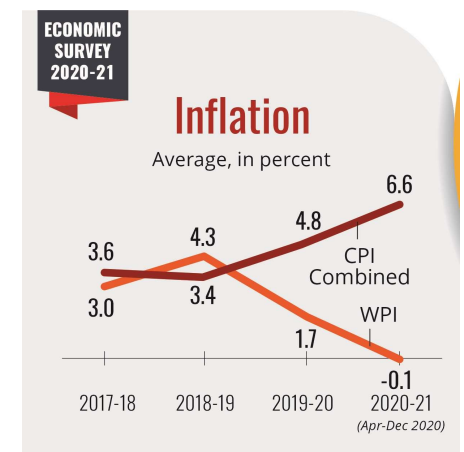
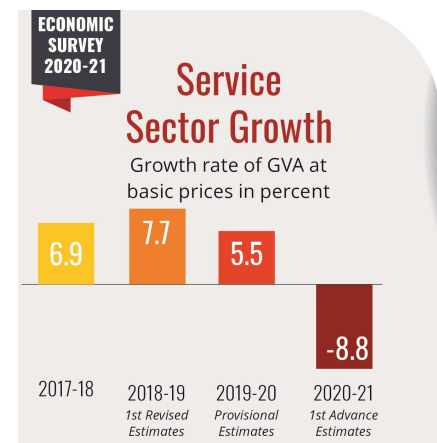
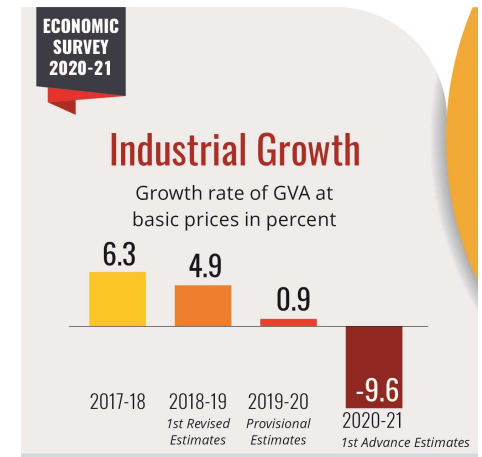
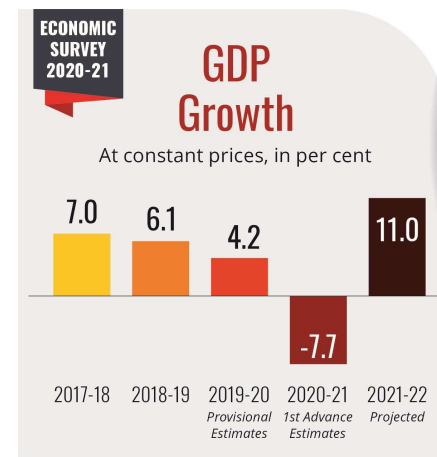
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Economic Survey



Economic Survey

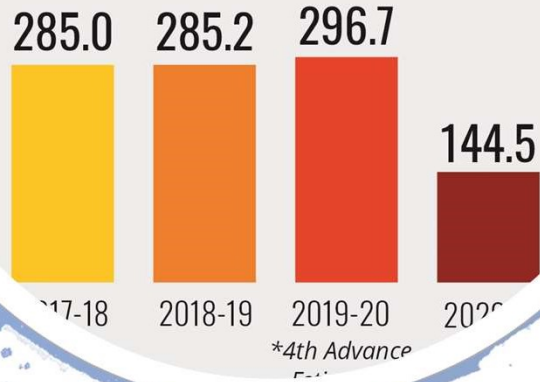
- **V-shaped recovery**, as seen in 7.5% decline in GDP in Q2 and recovery across all key economic indicators vis-à-vis the 23.9% GDP contraction in Q1
- COVID pandemic affected both demand and supply:
 - India was the only country to announce structural reforms to expand supply in the medium-long term and avoid long-term damage to productive capacities
 - Calibrated demand side policies to ensure that the accelerator is slowly pushed down only when the brakes on economic activities are being removed
 - A public investment program centered around the National Infrastructure Pipeline to accelerate the demand push and further the recovery
- Global economic output estimated to fall by 3.5% in 2020.
- India adopted a four-pillar strategy of containment, fiscal, financial, and long-term structural reforms:
 - Calibrated fiscal and monetary support was provided, cushioning the vulnerable during the lockdown and boosting consumption and investment while unlocking
 - A favorable monetary policy ensured abundant liquidity and immediate relief to debtors while unclogging monetary policy transmission
- GDP is estimated to grow by (-) 7.7% in FY21



2020-21

Foodgrains Production

In million tonnes



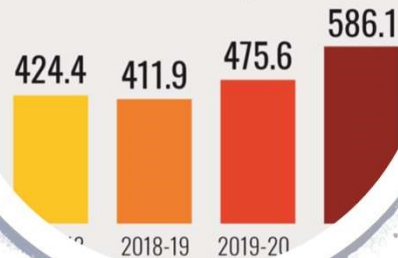
Agriculture & Allied Sectors

Growth rate of GVA at basic prices in percent



Forex Reserves

In US \$ billion, year end



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Economic Survey

- India's real GDP to record a 11.0% growth in FY 2021-22 and nominal GDP to grow by 15.4%
- The recovery in second half of FY2020-21 expected to be powered by government consumption, estimated to grow at 17%
- Exports expected to decline by 5.8% and imports by 11.3% in the second half of FY21
- India expected to have a Current Account Surplus of 2% of GDP in FY21
- Gross Value Added (GVA) growth pegged at ~7.2% in FY21 as against 3.9% in FY20:
 - Agriculture set a growth of 3.4% in FY21
 - Industry and services estimated to contract by 9.6% and 8.8% in FY21
 - Net FPI inflows recorded high of US\$ 9.8 billion in November 2020, as investors' risk appetite returned
- Buoyant SENSEX and NIFTY resulted in India's market-cap to GDP ratio crossing 100%
- Mild contraction of 0.8% in investment in 2nd half vs 29% drop in 1st half of FY21
- Current Account Surplus of 3.1% of GDP in the first half of FY21:
 - Merchandise imports contracted by 39.7% vs merchandise exports contracted by 21.2%.
 - Forex reserves increased to a level so as to cover 18 months' worth of imports in December 2020
 - External debt as a ratio to GDP increased to 21.6% at end-September 2020 from 20.6% at end-March 2020



Experts Speak

Against the backdrop of the pandemic and the sharpest ever gross domestic product (GDP) contraction this fiscal, the economic survey 2021 bats for an expansionary fiscal policy to support growth. On the eve of the Budget, of particular relevance is the Survey's suggestion: "For now, fiscal policy will have to remain centre stage to support growth in the foreseeable future".- Dharmakirti Joshi (Chief economist, Crisil)

Unlike the theme of private investments and wealth creation in earlier Surveys, the economics Survey FY 20-21 focuses on saving lives and livelihoods and on counter-cyclical fiscal policy. This is but obvious given the pandemic and its impact on the economy. It talk about the strategy adopted by India to overcome the challenges and to support the people, especially at the bottom of the pyramid.- Sunil Kumar Sinha (Principal Economist India Ratings)

The expectations of an 11% GDP expansion in FY 22 appears somewhat optimistic , given that the scars left by the covid-19 on the informal sector will take a long time to heal. Achieving this pace of growth would require a substantial push towards spending, especially on capex, by the central as well as the state governments. We expect consumption to record a differentiated recovery across age and the income groups in the coming quarters.- Aditi Nayar (Principal Economist, ICRA)

The main number that was to be projected by the economic Surveys was GDP growth for FY22, and at 11% its appear to be reasonable given that it would come over a negative growth rate in FY 21. The quality of the growth would be different from what was witnessed when it was even in 7-8% range as this boost is more statistical. The GDP would be valued at Rs.149.2lakh crore, that is Rs.3.6 lakh crore above the FY 20 level.- Madan Sabnavis (Chief Economist, CARE Ratings)

Budget Highlights





Budget Highlights

The Budget proposals for 2021-2022 rest on 6 pillars:

1. Health and Wellbeing
2. Physical & Financial Capital, and Infrastructure
3. Inclusive Development for Aspirational India
4. Reinvigorating Human Capital
5. Innovation and R&D
6. Minimum Government and Maximum Governance

1. Health and Wellbeing

- Supplementary Nutrition Programme and Poshan Abhiyan to be merged and launched as Mission Poshan 2.0
- Outlay ₹64180 crore over 6 years to Support for Health and Wellness centres.
- Introduction of National Commission for Allied Healthcare Professionals Bill

2. Physical and Financial Capital and Infrastructure

Infrastructure

- Aims at developing adequate rail infrastructure by 2030 to cater to the projected traffic requirements up to 2050.
- Objective- Increase modal share of rail in freight from current 27% to 45%

- 100% electrification of Broad Gauge Routes by 2023
- Indigenously developed automatic train protection system to be launched.
- Hydrogen energy mission will be launched.

Infra Financing

- Bill to set up a DFI will be introduced
- National monetisation pipeline of brownfield infra assets

Industry

- **PLI** launched to create manufacturing global champions across 13 sectors with amount committed nearly ₹1.97 lakh crore in next 5 years starting FY2021-22
- NIP Project pipeline expanded to 7400 projects.
- MITRA Scheme to create world class infrastructure for global champions in textile sector leading to creation of 7 textile parks over 3 years.

Ports, Shipping, Waterways.

- PPP mode for managing operational services of major ports
- Subsidy support to promote flagging of merchant ships
- Recycling of Ships Act, 2019 enacted and recycling capacity to be doubled by 2024

PNG

- Ujjwala scheme to cover 1 crore more beneficiaries
- 100 more districts under city gas distribution network
- Independent gas transport system operator to be set up



Budget Highlights

Urban Development

- Jal Jeevan Mission (Urban) for universal water supply in all ULBs.
- Urban Swachh Bharat Mission with outlay ₹1,41,678 crore over 5 years
- ₹2,217 crore for 42 urban centres to tackle air pollution.
- Voluntary Vehicle Scrapping policy.
- Innovative PPP models to augment public bus transport
- MetroLite and MetroNeo for tier 2 and peripherals of tier 1 cities.

3. Inclusive Development for Aspirational India

Agriculture

- Concessional Credit Boost to farmers
- Agri Infrastructure Fund
- Emergency working capital for farmers
- Animal Husbandry infrastructure development
- Amendments to the Essential Commodities Act
- Extending coverage of SWAMITVA Scheme to all states/UTs
- Expansion of Operation Green scheme to include 22 perishable products
- 1000 more mandis to be integrated with e-NAM

Fisheries

- Development of modern fishing harbours and fish landing centres
- Multipurpose Seaweed Park to be set up in Tamil Nadu

Migrant Workers And Labourers

- One nation one ration card scheme under implementation in 32 states and UTs.
- A portal to be launched for gig, building and construction workers
- Social security benefits will be extended to gig and platform workers

4. Reinvigorating Human Capital

Education

- Revamped Post Matric Scholarship Scheme for welfare of SCs
- 100 new Sainik schools
- 750 Eklavya schools in tribal areas

Skills

- Realigning National Apprenticeship Training scheme for graduates and diploma holders in Engineering
- Partnership with UAE and Japan in area of skill development and recognition

5. Innovation and R&D

- National Research Foundation with outlay of ₹50,000 crore over 5 years
- National Language Translation Mission to boost internet access
- Deep Ocean Mission for ocean exploration and biodiversity conservation



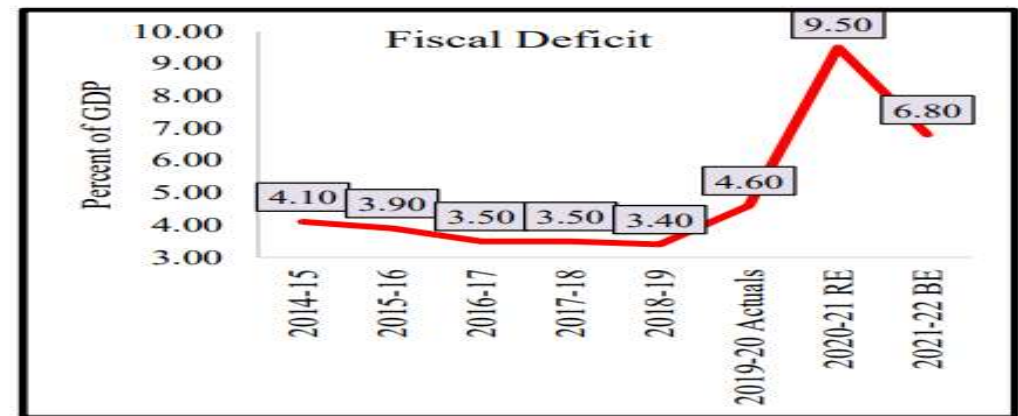
Budget Highlights

6. Minimum Government, Maximum Governance

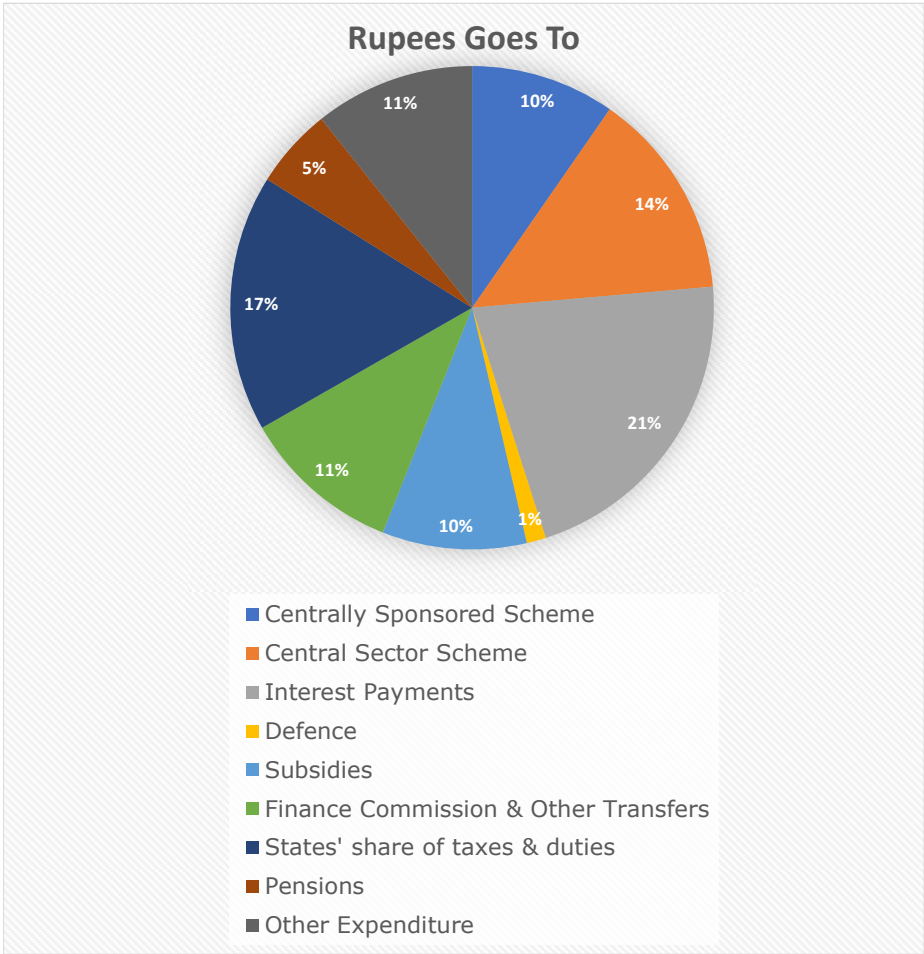
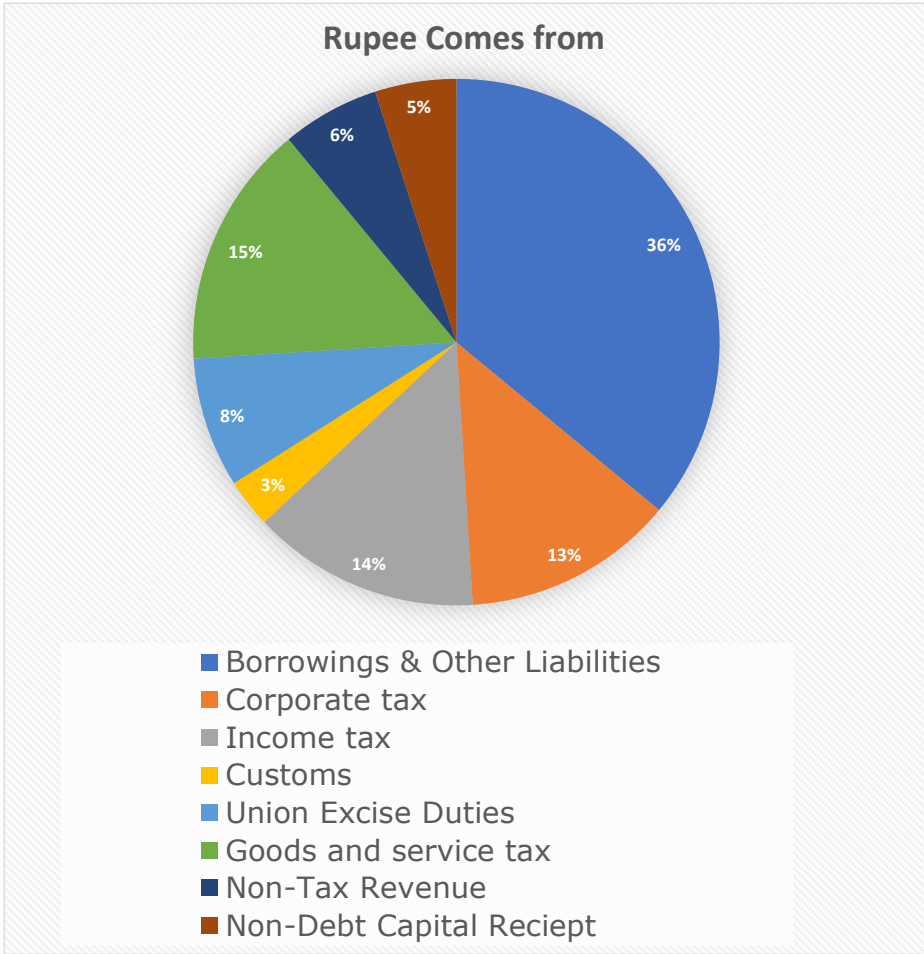
- Introduction of National Commission for Allied Healthcare Professionals Bill
- To set up a Conciliation Mechanism and mandate its use for quick resolution of contractual disputes.
- To provide 1,000 crores for the welfare of Tea workers especially women and their children in Assam and West Bengal. A special scheme will be devised for the same.
- Grant of 300 crores to the Government of Goa for the celebrations.
- The forthcoming Census could be the first digital census in the history of India. For this monumental and milestone-marking task, allocated 3,768 crores in the year 2021-2022.

Fiscal Deficit - Expansionary Fiscal Stance

- Economic activities hampered due to lockdown, resulting in contraction in economy by 7.7% which in turn led to massive fall in government revenue. This led to sharp rise in deficit and borrowings.
- Fiscal deficit for FY21 pegged at 9.5%
- Deficit target of 6.8% FY22 signals expansionary fiscal stance to support nascent recovery after Covid-19
- To fund the deficit, Govt. to borrow Rs. 80,000 crores during residual fiscal period. FY22 gross borrowings pegged at Rs.12 lakh crores
- Capex spending at Rs. 5.54 lakh crore in FY22
- FRBM Act to be amended to reduce Fiscal Deficit to 4.5% by FY26.



Budgeted Revenue vs Expenditure



Section

Tax Proposals





Tax Proposals: Direct taxes

- **Senior Citizens:** Reduced Compliance burden. 75 years and above. Proposal not to file ITR if only pension income and interest income.
- **Reduction in time for IT Proceedings:** Reopening of Assessments period under section 148 reduced from 6 years to 3 years except in cases of serious tax (above Rs 50 lakh) evasion cases. In case of serious tax evasion cases, the time limit has increased to 10 years.
- Proposal to constitute '**Dispute Resolution Committee**' - *Taxable income 50 lakhs and disputed income 10 lakh*
- National **Faceless** Income Tax **Appellate Tribunal** Centre
- **Relaxations to NRIs:** Propose to notify rules for removing hardship for double taxation.
- **Tax Audit Limit:** Proposal of tax audit increased from 5 Cr. to 10 cr. (Only for 95% digitized payments business)
- Propose to provide **relief** on advance tax liability on **dividend income**. This will be considered for Advance tax calculation as and when Right to Receive arise.
- Propose to include tax holidays for **Aircraft leasing companies**
- **Prefilling of returns** (Salary, Tax payments, TDS etc.) - Details of Capital gains from listed Securities, dividend income, etc. will be prefilled
- **Small Charitable Trusts** – Compliance limits increased from 1 crore to 5 crores
- **Late deposit** of employee's PF and ESI contribution by employer will **not be allowed as deduction**. This amendment will have retrospective effect.



Tax Proposals: Direct taxes

- **Incentive to startups:** Tax holiday exemption for one more year.
- In case of persons from whom TCS and TDS Rs 50,000 or more is to be collected in preceding previous 2 years and that person has not filed its Income Tax Return (ITR) then the **rate of TCS** will be higher of the following:
 - at twice the rate specified in the relevant provision of the Act; or
 - at the rate of 5%
- In computing business income, if **transfer of Immovable property** is done at a figure of 20% (earlier 10%) below stamp duty, then no addition will be made.



Tax Proposals: GST

- New clause - Section 7 (1) (aa) is being inserted in the CGST Act, retrospectively with effect from the 1st July, 2017, so as to ensure levy of tax on activities or transactions involving supply of goods or services by any person, other than an individual, to its members or constituents or vice-versa, for cash, deferred payment or other valuable consideration.
- Section 35 (5) of the CGST Act is being omitted so as to **remove the mandatory requirement of getting annual accounts audited** and reconciliation statement submitted by specified professional.
- Section 44 of the CGST Act is being substituted so as to remove the mandatory requirement of furnishing a reconciliation statement duly audited by specified professional and to provide for filing of the **annual return on self certification basis**. It further provides for the Commissioner to exempt a class of taxpayers from the requirement of filing the annual return
- Section 50 of the CGST Act is being amended, retrospectively, to substitute the proviso to sub-section (1) so as to **charge interest on net cash liability** with effect from the 1st July, 2017.
- An explanation to sub-section (12) of section 75 of the CGST Act is being inserted to clarify that "self-assessed tax" shall include the tax payable in respect of outward supplies, the details of which have been furnished under section 37, but not included in the return furnished under section 39.
- A proviso to sub-section (6) of section 107 of the CGST Act is being inserted to provide that **no appeal** shall be filed against an order made under sub-section (3) of section 129, **unless a sum equal to 25% of penalty has been paid** by the appellant
- Section 16 of the IGST Act is being amended so as to:
 - zero rate the supply of goods or services to a **Special Economic Zone** developer or a Special Economic Zone unit only when the said supply is for authorized operations;
 - restrict the zero-rated supply on payment of integrated tax only to a notified class of taxpayers or notified supplies of goods or services; and
 - link the foreign exchange remittance in case of export of goods with refund



Tax Proposals: Other indirect taxes

CUSTOM DUTY

Objective - Promoting domestic manufacturing and helping India get onto global value chain and increase exports

- 80 outdated exemptions already eliminated
- **Revised, distortion-free customs duty structure** to be put in place from 1st October 2021 by reviewing more than 400 old exemptions
- New customs duty exemptions to have validity up to the 31 March following two years from its issue date
- Rationalization of customs duty on **copper, textile, gold and silver**
- Customs duty on **solar inverters** increased from 5% to 20% and solar lanterns from 5% to 15%.
- Withdrawal of exemption on import of **leather**.
- '**Turant Customs**' initiative for faceless, paperless, and contactless customs measures.

EXCISE

- Additional duty of excise has been proposed on **Petrol** and **High speed diesel**
- BED and SAED on Petrol and High-speed diesel is being reduced. No additional burden on consumers.



Company Law Matters





Company Law Matters

- **Easing compliance requirements of Small Companies**
 - Threshold increased to share capital upto Rs. 2 crores and turnover upto Rs. 20 crores
- **One Person Company (OPC)**
 - No restriction w.r.t. share capital and turnover. Residency limit reduced from 182 days to 120 days
 - NRIs allowed to set up OPCs
- **MCA 21**
 - - Launching MCA 21 version 3.0
 - - Simplification of e-scrutiny, e-adjudication and compliance management
- **Proposed Decriminalization of LLP Act, 2008**
- **Tribunals to be rationalized**
 - Faster resolution of cases by implementing e-court systems and alternate methods of debt resolution and framework for MSMEs



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