

Reviving India's growth

Union Budget 2021–22

February 2021



Contents



01

Key highlights



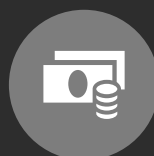
02

Economic outlook



03

Key sector
announcements



04

Key tax and
regulatory proposals



Key highlights



Economic recovery through investment, self-reliance and inclusiveness

Key announcements

Job creation through private and public investment by way of an infrastructure boost; set-up of textile parks, fishing hubs and a financial services hub; an increase in the FDI limit in the insurance sector; allowing one person companies to help start-ups; and allowing women in all categories of jobs and shifts.

Major boost to health and well-being with a 137% increase in Budget allocation for the sectors, launch of PM Aatmanirbhar Swasth Bharat Yojana and Mission Poshan 2.0, allocation of INR 350 billion for COVID-19 vaccines, and expansion of the health information portal to connect all public health labs across all states and union territories.

Support to MSMEs by doubling allocation for the Ministry of Micro, Small and Medium Enterprises to INR 157 billion.

Improving access to credit through setting up of a new asset reconstruction company and asset management company to take over stressed assets of banks, setting up of a Development Finance Institution to finance infrastructure projects and equity infusion of INR 200 billion for public sector banks.

Improving ease of doing business by setting up of a conciliatory mechanism for quick resolution of contractual disputes, strengthening of the NCLT system, adoption of e-courts, setting up of an alternative mechanism of debt resolution, decriminalising of the Limited Liability Partnership (LLP) Act, setting up of a faceless dispute resolution mechanism for small taxpayers and increase in the threshold for tax audit from INR 50 million to INR 100 million.



Economic outlook



Global economy

As per the IMF's World Economic Outlook update (January 2021), while global growth is estimated to decline by 3.5% in 2020, it is expected to rise by 5.5% in 2021. Based on strong policy support and expectations of an early roll-out of vaccines, advanced economies are likely to grow by 4.3% in 2021. Though emerging economies are likely to witness varied recovery paths, on average, they are expected to grow by 6.3% in 2021 on the back of a contracted base.

Indian economy¹

India was already experiencing economic headwinds before the pandemic, with GDP registering 4% growth in FY20. With the onset of the pandemic and lockdown restrictions on economic activity, GDP growth for FY21 is estimated to decline by 7.7%. Private consumption is estimated to contract by 9.5% in FY21 owing to demand shrinkage based on income loss, mobility restrictions and supply constraints. Government consumption is estimated to rise by 5.8% due to increased expenditure as part of pandemic relief packages. Investment is estimated to decline by 14.5% due to economic uncertainty and delays in the implementation of capital projects.

The agriculture sector is estimated to grow at 3.4% in FY21, mainly due to early relaxation of lockdown restrictions for farming activities, a good monsoon, efficient procurement of foodgrains and an increase in kharif and rabi acreage. The manufacturing sector, however, is expected to decline by 9.4% during FY21 owing to weakness in domestic and global demand, temporary closure of production units during the lockdown and supply constraints. The service sector is also estimated to decline by 8.8% in FY21, primarily due to mobility restrictions, low demand for contact services, and deferment of discretionary expenditure by consumers.

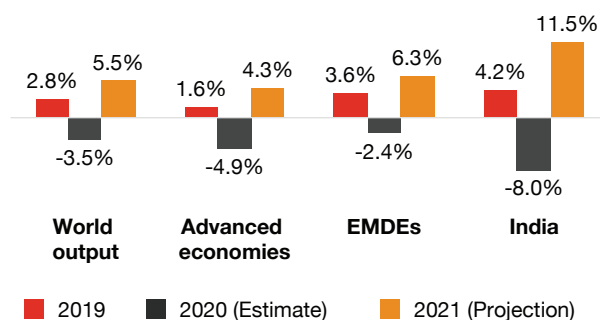
Economic outlook

Consumption indicators indicate demand recovery in Q3, including FMCG and auto sales, and GST collection. Sectors like health, pharma, technology (e-commerce, FinTech, EdTech, etc.) and telecom have shown growth potential during the pandemic and are likely to witness increased investment and robust growth in the future too. The pandemic has led to a higher preference for digital services and online transactions, thus promoting digitalisation in many companies. Further, companies are investing in improving their supply chains and distribution networks to overcome supply challenges and risks that came to light with the COVID-19 disruption.

¹ GDP and sectoral growth rates quoted in this section for FY21 are taken from the first advance estimates of GDP released by the National Statistical Office, Ministry of Statistics and Programme Implementation (MoSPI).

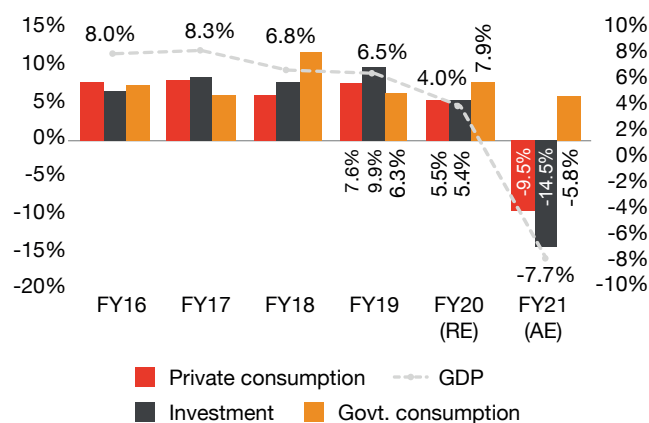


Figure 1: GDP growth rates



Source: World Economic Outlook (January 2021); IMF
(Note: Data for India is presented on a fiscal year basis; all other data is on a calendar year basis.)

Figure 2: Annual GDP growth and demand components at constant prices



Source: Data till FY20 is taken from the first revised estimates of GDP (dated 29 Jan 2021); growth rates for FY21 are taken from the first advance estimates of GDP (dated 7 Jan 2021).

Based on prospects of robust growth in consumption and investment and a lower base effect, GDP is estimated to grow at 11% in FY22 as per the Economic Survey 2020–21. However, there are several risks that require attention. The key downside risks emanate from inflation with upward pressure on prices due to rising input cost, oil prices, unemployment, increasing non-performing assets of banks, rising yields and a likely recurrence of taper tantrums when the tightening of global monetary policy begins.

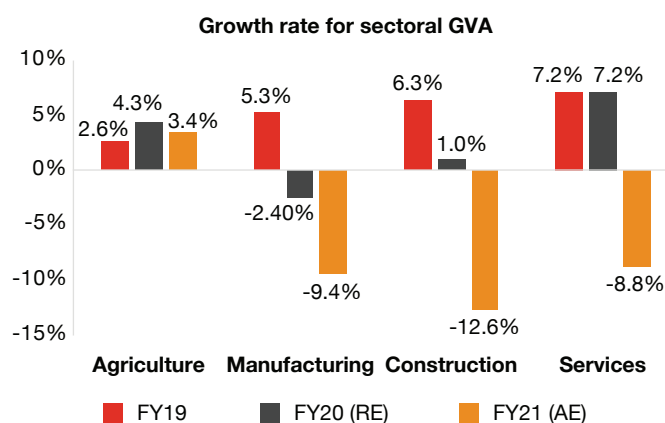
Fiscal position

As per revised estimates, the fiscal deficit is estimated to be 9.5% of the GDP for FY21, which is higher than the 3.5% budgeted for the year based on revenue contraction and increased Government expenditure for COVID relief. For FY22, the Government has budgeted the fiscal deficit to be 6.8% of the GDP based on improvement in revenue collection, expenditure on vaccine roll-out and capital expenditure. The Government plans to reduce the fiscal deficit subsequently to 4.5% by FY26. This indicates that the fiscal stimulus is expected to continue over the next three financial years towards supporting growth in the post-pandemic period.

The Government has budgeted an increase of 14.9% in net tax revenue and 15.4% in non-tax revenue as compared to FY21 RE. Disinvestment receipts are budgeted to be INR 1.75 trillion in FY22. Further, an increase of 11.4% has been budgeted for revenue expenditure and 34.5% for capital expenditure for FY22, as compared to FY21 BE. Sectors that will receive higher allocation in FY22 as compared to the FY21 budget include finance, transport, rural development, commerce and industries, and urban development. Sectors that will receive lower allocation compared to last year's budget include planning and statistics, IT and telecom, education and social welfare.

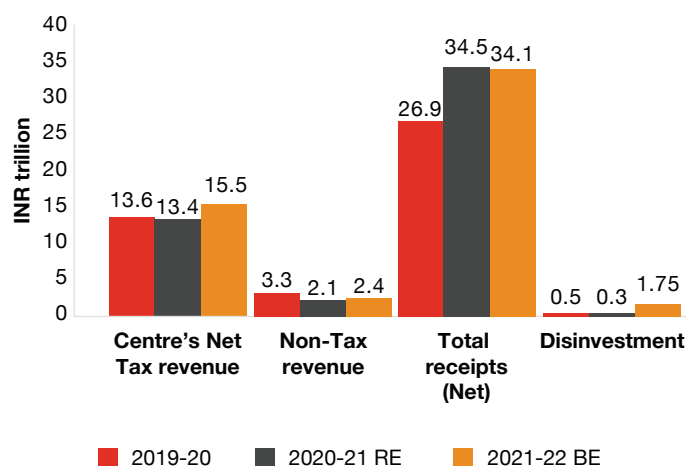
The outstanding liabilities of the Central Government are expected to increase by 12% in FY22 to INR 135.9 trillion as compared to INR 121.2 trillion at the end FY21. Interest payments are expected to rise by 17% in FY22 as compared to FY21 RE. Interest payments as a percentage of revenue receipts are expected to increase from 36.3% in FY20 to 44.6% in FY21 RE and 45.3% in FY22 BE.

Figure 3: Growth rate for sectoral gross value added

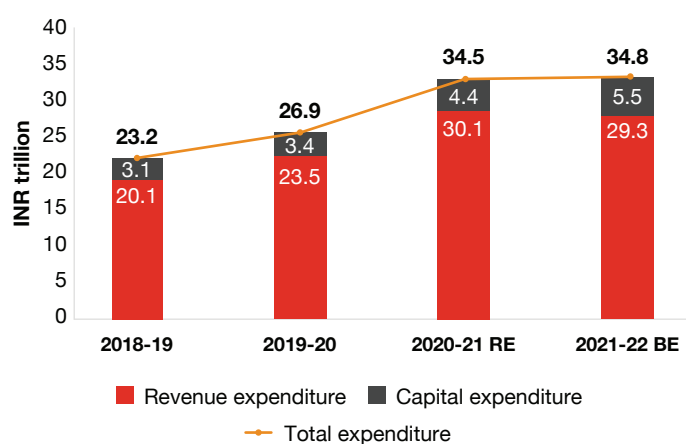


Source: Data till FY20 is taken from the first revised estimates of GDP (dated 29 Jan 2021); growth rates for FY21 are taken from the first advance estimates of GDP (dated 7 Jan 2021).

Receipts of Central Government



Total expenditure and composition



Fiscal deficit	2018–19	2019–20	2020–21	2021–22	Projections
Budget 2019–20	3.4%	3.3%	3.0%	3.0%	NA
Budget 2020–21		3.8%	3.5%	3.3%	3.1% by 2022–23
Budget 2021–22			9.5%	6.8%	4.5% by 2025–26

Key sector announcements



Health industries

Background

- The overall spend of the healthcare sector is around 3.6% of the GDP, with the Government spending around 1.2%. The Government intends to increase its spending to around 2.5% of the GDP by 2025.
- The country was already coping with the dual burden of communicable and non-communicable diseases. The pandemic has added another, and India is now dealing with a triple disease burden.
- While the COVID pandemic tested India's physical healthcare infrastructure, it led to accelerated adoption of digital health (online consultation, increased usage of digital platforms like telemedicine and e-pharmacies) and home health services.
- It also led to elective procedures being postponed, which had an impact on hospital operations and led to fewer consultations and health check-ups. This in turn has impacted the overall health and well-being of the population.
- At the same time, the Government has announced the Production Linked Incentive (PLI) scheme for the active pharmaceutical ingredient (API) industry. This scheme is in line with the theme of building an Aatmanirbhar Bharat (self-reliant India) and could provide a boost to India's pharmaceutical sector, which is the third largest provider of generic drugs globally by volume and supplies over 50% of the global demand for various vaccines, around 40% of generic demand in the US and around 25% of all medicine in the UK.
- The industry expected Budget 2021 to increase the overall spending on healthcare for building better capability and capacity to tackle the triple burden of disease and to incentivise the private sector via benefits or building new healthcare capacity. At the same time, it expected a greater impetus for strengthening R&D in pharma and life sciences companies. It was also expected that the Government should monitor the effectiveness of the PLI scheme and revisit incentives such as technology upgradation fund or capital subsidies for medical equipment, tax holidays and other incentives for manufacturing medical devices in India.

Key announcements

- Health and wellness is an important pillar of this budget. Investment on health infrastructure has increased substantially.
- The total budget outlay for healthcare is INR 2.23 lakh crore, which is an increase of 137% from last year's budget of INR 94,000 crore.
- The New PM Aatmanirbhar Swasth Bharat Yojana is to be launched with an outlay of INR 64,180 crore over six years. This is to build capacities in primary, secondary and tertiary care. This is in addition to the amount budgeted for the National Health Mission
- An additional INR 35,000 crore has been allocated for COVID-19 vaccines. The Government is committed to spend more on this front if needed. India has two vaccines against Covid-19 and two more are on the way.
- The Government proposes to introduce the National Nursing and Midwifery Bill as well as the National Commission for Allied and Healthcare Professionals Bill.
- Pneumococcal vaccines will be rolled out across the country. This will prevent over 50,000 child deaths annually.
- The Supplementary Nutrition Programme and the Poshan Abhiyan are to be merged into Mission Poshan 2.0 to strengthen the nutritional content, delivery, outreach, and outcome of nutrition programmes.
- The outlay for the PLI scheme for manufacturing will be increased over the next five years.
- Innovation and R&D is another important pillar of the budget. A total of INR 50,000 crore has been allocated over five years to strengthen the research ecosystem.
- Medical devices imported by international organisations and diplomatic missions have been exempted from health cess.

Key takeaways

- The increased total budget outlay for healthcare is a big step for strengthening the delivery system and building better capability and capacity to address the current challenges as well as combat any future pandemics.
- India is rolling out the world's second largest vaccination programme and has made budgetary provisions for the same, with commitment to spending more if required. Helping other countries with their vaccine requirements has strengthened India's position as a major player in the healthcare sector and will earn goodwill for the Government.
- Besides curative care, the focus on preventive care and well-being will usher in a more holistic approach for reducing morbidity and mortality.
- This Budget is a step in the right direction to meet the goal of 2.5% of GDP spend on healthcare by the Government.
- PLI push will make India integral part of the global supply chain and create job opportunities. It will also attract global players in the Indian pharma and medical devices manufacturing.



Infrastructure and logistics

Background

- The industry had high expectations from the budget as all experts unequivocally agreed that infrastructure spending would need to be a key element of the Government's plan to revive the economy.
- It was expected that Infrastructure asset monetisation would be aggressively pursued given the reduced risk appetite of lenders, investors and developers alike, and monetising of brownfield assets is needed to sustain and grow PPPs in the sector.
- Stress of lenders needed to be comprehensively addressed as it was impacting their ability to support the large funding requirements of developers, which in turn could impact the progress of the National Infrastructure Pipeline.
- A credit guarantee corporation was also needed for improving short- and long-term access to finance for contractors.
- A centre of excellence for new technology and value engineering would also help the industry improve resilience through better mechanisation.

Key announcements

- Budgetary allocation of INR 5.54 lakh for infrastructure.
- Additional allocation of INR 2 lakh crore to states and autonomous bodies for their capital expenditure.
- Setting up of a development finance institution for infrastructure financing.
- Debt Financing of Infrastructure Investment Trusts (InVITs) and Real Estate Infrastructure Trusts (REITs) by foreign portfolio investors by amending laws suitably.
- Capital recycling for investing in new infrastructure by monetising operating public infrastructure assets to be done through a 'National Monetization Pipeline' of potential brownfield infrastructure assets and monitoring progress – across roads, pipelines, warehouses, airports, transmission, railways and stadiums.
- Railways – SonnagarGomoh section (263.7 km) of Eastern Dedicated Freight Corridor in PPP mode in 2021–22 followed by Gomoh-Dankuni section of 274.3 km.
- INR 18,000 crore to support augmentation of public bus transport services to enable PPP for financing, acquiring, operating and maintaining over 20,000 buses.
- Subsidy support of INR 1,624 crores over five years to Indian flagged ships to compete in global tenders floated by ministries and Central Public Sector Enterprises.
- An asset reconstruction company and asset management company to be set up.
- All non-strategic Central Public Sector Enterprises to be privatised. Only a few Central Public Sector Enterprises to remain. This should see significant privatisation in infra and transport sector.
- Special Purpose Vehicles to be created for monetisation of non-core assets of Central Public Sector Enterprises, especially land.
- Development of five nodal fishing harbours at major port locations and along rivers and waterways.

Key takeaways

- The significant increase in spend allocation (35% over FY20) should see more projects being prepared and rolled out. More importantly, it should incentivise execution by setting aside ~10% (INR 44,000 crore) for additional funding to projects/programmes/departments showing good progress, thereby enabling competition for speedy execution.
- The intention to speed up monetisation of brownfield infrastructure assets by creating a National Monetisation Pipeline will send the right signals to private investors, enabling them to make long-term commitment to Indian opportunities either by way of investment in capital assets, technology or sourcing funds.
- As most stressed assets were in the infra sector, lenders were becoming extremely risk averse and shying away from lending to infra projects which posed a significant risk to successful and timely execution of the National Infrastructure Pipeline. Setting up of the ARC and AMC to address bad assets while recapitalising lending intuitions and creating a new development finance institution can help trigger lending for infra sectors.

However, many of the prevailing infra sector specific and cross-sector issues will still need to be resolved if the momentum has to be built up. Also, the issues plaguing the success of earlier instruments like long-term infra bonds and dedicated financial institutions like The Dedicated Freight Corridor Corporation of India Limited created solely for infrastructure financing need to be addressed in parallel for the success of proposed new institutional arrangements.

- Indian shipping companies have been given badly needed support by way of subsidies to help them commercially compete with international shipping lines while exercising Right of first refusal for cargo of Central Public Sector Enterprises and the government.
- Urban transport has received a boost with funding stepped up for metros and buses. This can help address critical congestion issues while also allowing environment-friendly measures to be adopted, such as e-buses. Such project commitments can also provide a fillip to domestic manufacturing of metro coaches and buses.



Oil and gas

Background

- Fuel and feedstock demand is growing at unexpectedly higher rates over FY19–20 consumption.
- New refinery and petrochemical projects, both green- and brownfield, continue to be built.
- Gas transportation and distribution infrastructure have seen investments.
- The share of bioethanol and biogas is set to grow in transportation fuel consumption.
- Hydrogen is becoming a part of the mid- and long-term business plans of oil companies.
- The sector continues to be a significant revenue source for the state and Central exchequers.
- With gas, petrol, diesel and LPG not in classical GST, the administration continues to be burdened and consumers are deprived of benefits.

Expectations were:

- Including petroleum products and gas in classical GST regime, to avoid sticking costs and administration burden.
- Mechanisms to fund gas and petroleum infrastructure.
- Regulations for enabling open access to oil and gas infrastructures.
- Pricing and market freedom for gas.

Key announcements

- Asset monetisation of pipeline infrastructure – GAIL, IOCL, HPCL.
- The Ujjwala scheme, which has benefited 8 crore households, will be extended to cover 1 crore more beneficiaries.
- 100 more districts are to be added to the City Gas Distribution network.
- A gas pipeline project will be taken up in the Union Territory of Jammu and Kashmir.
- An independent gas Transport System Operator will be set up for facilitation and coordination of booking of common carrier capacity in all natural gas pipelines on a non-discriminatory open access basis.
- BPCL disinvestment will be completed in FY 2021–22.
- It is proposed to launch a Hydrogen Energy Mission in FY 2021–22 for generating hydrogen from green power sources.

Key takeaways

- Gas transportation capacity will get unlocked with an independent Transmission System Operator (TSO), and more so with digitalisation of booking. More licensing in City Gas Distribution (CGD) will make way for gas to be the bridge to a greener economy.
- The oil and gas sector is moving towards significant privatisation. Consumers will benefit in the end, in addition to Government funds getting unlocked.
- Green hydrogen is the energy carrier of the future. The new Energy Mission sets out a critical agenda to bring about the transformation. Capital infusion in Solar Energy Corporation and IREDA will also help in generating renewable power for the hydrogen agenda.
- Health concerns among rural women have been addressed by the Ujjwala LPG scheme. The coverage of remaining households is an impactful social initiative.





Aerospace and defence

Background

- India's FY21–22 defence budget had to address significant challenges due to the face-off with China.
- The armed forces have already made emergency purchases of about USD 2 billion since June 2020.
- They required significant budgetary allocation to sustain combat capability and build strong deterrence.

Key takeaways

Despite the economy being under pressure due to the pandemic, the ongoing tension with our neighbours has ensured that the defence budget for 2021–22 has seen an increase of 7.4% over the last year and accounts for 9.96% of the total budget allocation. The defence budget is around 1.77% of the GDP, which is an increase for the first time in the last 10 years. An increase in capital expenditure by 18.8% over last year's budget estimates is hearty and would boost initiatives for modernisation of the Indian armed forces. Furthermore, reduction in customs duty on import of components or parts, including engines, for manufacture of aircrafts by public sector units of the Ministry of Defence from 2.5% to nil is a welcome move.



Key announcements

- To address the challenge of the intensive face-off with China on the northern borders, the three services have made emergency purchases of the order of USD 2 billion dollars since June 2020 to plug the equipment and ammunition shortfalls. This is clearly visible in the revised estimates of the capital expenditure for the current financial year, which are 18.3% higher than the budget estimates.
- The total defence budget allocation has increased by 7.4% as compared to the 2020–21 budget estimates.
- The growth in capital budget estimates is 18.8% and that of revenue budget estimates is 1.3%, whereas the growth of capital and revenue budget allocations over the revised estimates is 0.4% and 1.3% respectively.
- The capital outlay for the Air Force for 2021–22 is the highest amongst the three forces at INR 53,215 crore and 39% of the total capital budget. Of the total capex allocation, nearly three-fourths or INR 48,750 crore would go into buying and upgrading aircraft and aero-engines as well as S-400 air defence systems.
- The capital outlay for the Indian Army is at INR 33,213 crore, which is an increase of 12.6% over last year's budget estimates.
- The capital outlay for the Indian Navy is INR 33,254 crore, a major portion (INR 16,000 crore) of which will be spent to enhance its naval fleet (warships and submarines), and INR 5,511 crore has been allocated for purchase of aircraft and aero-engines.
- The defence allocation in 2021–22 stands at 9.96% of the total Union Budget of INR 34.8 lakh crore as compared to 10.6% in 2020–21. Though it was likely to reduce due to the expectation of an expansionary budget to stabilise the economy, the overall share of the defence budget in the total union budget has been reducing over the years.
- Over the last five years, the defence budget has grown at 7.0% (CAGR) – the revenue budget grew at 4.4% and the capital budget at 11.8% CAGR.
- Customs duty on import of components or parts, including engines, for manufacture of aircrafts by public sector units of the Ministry of Defence has been reduced from 2.5% to nil.



Automotive

Background

- Due to the pandemic, the first half of FY21 saw a sales decline of close to 38% due to a combination of supply and demand disruption. However, the market has since shown green shoots of recovery, with high growth in Q3 of FY21.
- The industry was expecting Budget 2021–22 to provide demand triggers such as a GST rate cut for one year, vehicle scrappage policy, accelerated depreciation for vehicles and prioritised infra project spends to revive the commercial vehicle segment. These measures would ensure that the recovery process continues and that the sector returns to a healthy growth trajectory.

Key announcements

- The voluntary vehicle scrappage policy along with mandatory vehicle fitness tests will aid personal and commercial vehicle demand.
- Augmentation of public bus transport by about 20,000 buses is a positive for bus manufacturers.
- The customs duty rate has been increased on certain auto parts (such as ignition wiring sets, safety glass, parts of signalling equipment). This is in line with the Government's Aatmanirbhar Bharat initiative to promote localisation in auto spare parts manufacturing.
- Enhanced outlay for infrastructure – railways, metro rail, rural – development projects will benefit the commercial vehicle, construction equipment and tractor segment.

Key takeaways

- The emphasis on credit availability will support demand recovery in the sector.
- While the industry was hoping for GST reduction or accelerated depreciation on vehicles, no additional increase in taxation is a relief to the industry.
- The continued focus on building rural and agricultural infrastructure and prioritising agriculture credit growth will have a long-term positive impact on the rural demand for passenger, small and light commercial vehicles.



Industrial products

Background

- The pandemic has increased the challenges faced by the manufacturing industry, which struggled to stay afloat in the first half of this fiscal. With the economy gradually opening up, pent-up and festive demand resulted in some recovery in sectors such as automotive, white goods, cement and metals, which have witnessed sharp demand growth.
- To get the industry back to pre-COVID levels, strong and sustainable demand growth is vital. Government intervention was expected in terms of policy changes and spending to enable this consumption-led recovery.
- Measures on credit access, digital adoption and reskilling would be critical to support MSMEs, which were amongst the worst hit during the pandemic.

Key announcements

- Increase in custom duties in certain segments such as leather, chemicals, metal and auto parts.
- Outlay to the MSME sector doubled to INR 15,700 crore.
- Seven textile parks to be established over the next three years.
- Enhanced outlay for infrastructure; capex expenditure to increase by 35%.

Key takeaways

- The changes in customs duty will provide a level playing field to MSMEs and aid in attaining global competitiveness.
- Enhanced infrastructure spend will in turn benefit sectors such as construction equipment, metals and cement.
- A faster roll-out of the earlier announced PLI scheme and timely implementation of other announcements will be critical for reviving demand and creating an environment for sustainable growth in the manufacturing sector.



Financial services

Background

- Financial inclusion has accelerated since 2014 with the roll-out of Pradhan Mantri Jan-Dhan Yojana, UPI-based digital payments and linkage of Government subsidies to bank accounts, creating growth in the Indian banking sector.
- NPAs are expected to worsen, creating a need for additional capital infusion and a drive towards privatisation and asset resolution.
- The Government decided to consolidate public sector banks (PSBs) with the hope of creating larger banks with greater financial strength, better international competitiveness and ability to support larger lending volumes.
- Bringing urban cooperatives under the RBI's remit and the revised regulatory framework for NBFCs have tightened the regulatory and governance environment for NBFCs and cooperatives.
- The insurance industry is at a crossroads. While it is among the fastest growing markets in the world, penetration is not enough and coverage needs to be increased substantially and distribution has to be enhanced.
- A year into the post COVID-19 world, the sector expected relief through privatisation and recapitalisation of PSBs, simplification of governance reforms, easing of credit access norms and a boost to digitisation. An increase in insurance FDI limits would allow for new innovation in the sector.

Key announcements

- Development Finance Institution (DFI) to be set up with INR 20,000 crore to raise INR 5 lakh crore funding for infrastructure projects.
- A unified securities market code to be created to include the SEBI Act, Govt Securities Act and Depositors Act.
- FinTech hub to be established in Gujarat International Finance Tec-City under the IFSC.
- Investment grade bond fund purchase framework to be established to invest in corporate bonds during stressed times.
- SEBI to regulate gold exchanges.
- FDI in insurance to be increased to 74% with protection through a majority of board and management of Indian origin, 50% of board members being independent and retention of a percentage of profits. This will need a separate Parliament nod to amend the Insurance Act, 2015, which fixed it at 49% with no foreign control.
- In addition to IDBI, two PSBs and one general insurance company to be privatised.
- A possible strategic disinvestment of a PSU insurance company and IPO of LIC have been announced. The latter will require an amendment of the LIC Act.
- ARC and AMC to take over the management and sale of NPAs.
- Recapitalisation of PSBs to the extent of INR 20,000 crores.
- Easy and time-bound access to the extent of deposit insurance of INR 5 lakh during bank failure.
- Debt recovery for NBFCs with INR 100 crore of asset base reduced to INR 20 lakh from the current INR 50 lakh limit under Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.
- Margin money under the Stand-Up India scheme reduced to 15% from 25% and allows for allied agricultural lending.
- MSME credit access of INR 15,700 crore provided.

Key takeaways

- The Budget is bold in its approach towards the financial services sector in terms of privatisation of PSBs and insurance companies and allowing greater FDI in insurance. As one of India's largest companies, moving LIC towards IPO is a bold step by the Government.
- The LIC IPO can position the state insurer in the global arena as one of the most valuable insurers in the world.
- ARC set-up, commonly referred to as the Bad Bank, is a long-awaited reform to clean up NPAs in India. Success will be based on the implementation and constraints on the ARC to sell the assets in the market. This should also reduce the amount of new capital required by PSBs from the Government.
- Depositor protection through timely access to funds under financial institution (FI) failure is helpful, but customers are looking for greater protection and faster resolution by the regulators.
- Development Finance Institution brings back infrastructure lending companies of the past with the hope that it would have broader and easier access to private capital. This could boost the infrastructure space and employment in the country.
- Credit access impact was not as extensive as expected in the Budget. With prior actions taken during the lockdown, only a few additional norms for easing the Stand-Up India scheme and MSME funding were announced.
- An increase of FDI in insurance should bring in more capital from existing players and attract several new insurers who were unwilling to come in without control. However, regulatory considerations like IFRS17 accounting principles, deferred acquisition costs and Solvency II measures have to be addressed at the policy level to bring India at par with the world and encourage FDI.
- Strategic disinvestment of the PSU company can mean more large FDI into the country as well as an increase in the country's underwriting capacity.



Technology, media and telecom

Background

- 2020 has been a mixed bag for technology, media and telecom (TMT) companies. While the COVID-19 crisis had a significant impact on the entertainment industry, IT, e-commerce, digital media and telcos showed greater resilience and ensured business continuity.
- Despite 2020 being a challenging year, deal activity remained robust, with large deals across telecom, online aggregators and SaaS. The pandemic led to a rise in digital spends even in laggard sectors like healthcare and education.
- The industry was expecting the Budget to recognize the potential of technology and digital platform businesses, and create supportive regulations to spur further investment.

Key announcements

- Incorporation of one person companies (OPCs) has been incentivised by removing the restrictions on paid-up capital, enabling conversion into other types of company at any time and reducing the residency time limit.
- Time limits for tax exemptions available to recognised start-ups have been extended by a year.
- Some clarifications have been provided in the Equalisation Levy provisions.
- Push to digital infrastructure by launching a new Ministry of Corporate Affairs portal, MCA 21 3.0, Digital Census, e-courts and portal for gig workers.
- Strengthening research and development by setting up a Natural Language Translation Mission and National Research Foundation.
- INR 1,500 crore scheme to promote digital mode of payments.
- Increase in custom duty on mobile chargers and some sub-parts of mobile phones.

Key takeaways

- The significant push to building digital infrastructure and digitisation across both the private and public sector is welcome. In addition, the proposed investments in harnessing new technologies such as analytics, artificial intelligence (AI) and machine learning (ML) will further create new opportunities for the sector and act as a catalyst to the industry's efforts of being an intellectual tech hub for global markets.





Power and mining

Background

- Electricity demand surged to an all-time high of 189 GW (January 2021), indicating gradual economic recovery.
- PPPs are back on the agenda, with Odisha completing distribution company (DISCOM) privatisation and DISCOMs in UTs in the pipeline. Progressive commercial mining was enabled.
- There is a focus on coal evacuation infrastructure and indigenisation of capital goods in mining.
- Clean energy capacity has grown to 140 GW, with plans to increase to 450 GW by 2030. This suggests credible progress towards climate change commitments. Prices from solar power tariff reached under INR 2 per unit.
- The industry expected reforms for electricity distribution companies and investment support.

Key announcements

- INR 3,05,984 crore has been provided over five years for power sector reform and restructuring – assistance for infra creation, smart metering, feeder segregation, upgradation of systems, etc., tied to financial improvement.
- A Comprehensive National Hydrogen Energy Mission is to be launched in 2021–22 for generating hydrogen from green power sources.
- A framework enabling electricity consumers to choose between service providers in electricity distribution has been announced.
- To support the promotion of renewable energy, INR 1000 crore has been allocated to the Solar Energy Corporation of India (SECI) and INR 1500 crore to Indian Renewable Energy Development Agency Limited (IREDA).
- There is a push for indigenisation – custom duties on solar inverters have been increased from 5% to 20% and on solar lanterns, from 5% to 15%.
- The rate of basic customs duty on coal, lignite and peat has been reduced from 2.5% to 1%. However, an additional agriculture infrastructure and development cess of 1.5% has been levied on coal.
- An Agriculture Infrastructure and Development Cess has been proposed on gold, silver, coal, lignite and peat, with a proposed cess of 1.5%.
- Exemptions on natural borates and concentrates have been rationalised from nil/5% to 2.5%.
- Disinvestment of public-owned Neelachal Ispat Nigam Limited to be completed in 2021–22.
- Power, petroleum, coal and other minerals have been classified as ‘strategic sectors’.
- Reductions made in duties for various metals.
- Changes in customs duty raw materials and inputs used by domestic manufacturers for reducing cost of inputs will likely give a boost to the EAF steelmaking route and secondary steel sector.

Key takeaways

- The framework for electricity consumers to choose service providers will encourage public and private utility monopolies to enhance operational efficiency and attract start-ups/new age companies/talent.
- The large investment outlay for distribution upgradation and automation has the potential to enhance network performance and customer satisfaction, manage renewable integration, and improve sector financials.
- Plans around hydrogen and promoting renewable and battery technologies will promote energy security, help in meeting our climate change commitments and indigenise manufacturing.
- As per the Government’s vision for Aatmanirbhar India, the PLI scheme is expected to incentivise global and domestic manufacturers to engage in high-volume, high-value production hereby increasing self-reliance and also, increasing exports.
- Reduction of duty on melting scrap and stainless scrap will reduce raw material costs for secondary steel producers.
- With the reduction in customs duties on steel products, the imports are expected to rise. This will put pressure on the domestic steel industry to be more competitive. This is expected to be a bigger challenge for the smaller players in the market as they may struggle to meet their margins.
- The infrastructure push will create demand for key input materials such as cement, steel and aluminium, which will in turn drive the demand for minerals – limestone, iron ore, bauxite, etc.
- The National Apprenticeship Training Scheme will help in enhancing sectoral capabilities and bridge the skill gap.
- The disinvestment step is taken towards attracting private participation in the steel sector, with the potential to bring in the latest world-class technologies.

Key tax and regulatory proposals



Tax rates

Income tax

- Income tax rates (including surcharge, health and education cess) for companies (domestic and foreign), firms, Limited Liability Partnerships and individuals remain unchanged including rates for Minimum Alternate Tax and Alternate Minimum Tax.

Customs Duty

- Proposal to impose Agriculture Infrastructure and Development Cess on import of specified items to finance improvement of agriculture infrastructure and other development expenditure (w.e.f. 02 February 2021).
- Agriculture Infrastructure and Development Cess imposed an additional duty of excise on Petrol and High-Speed Diesel (effective immediately).
- Corresponding reduction in duty rates proposed to mitigate the impact of levy of Agriculture Infrastructure and Development Cess on above-mentioned products.
- Electronic and Mobile Phone Industry: To promote domestic value addition, some exemptions are to be withdrawn and some parts of mobile and rate of duty increased to 2.5% from nil.
- Increase on duty proposed on solar inverters from 5% to 20%, and on solar lanterns from 5% to 15%.
- To bring parity in the duty rate for certain auto parts, duty is proposed to be raised to 15%.



Providing tax certainty

Income tax

- Scope of Slump Sale extended to cover all types of transfer undertaken by any means (including exchange).
- 'Goodwill' excluded from definition of Intangible Assets and thus no depreciation to be allowed on goodwill.
- Distribution of cash/ asset on account of dissolution or reconstitution of a Partnership firm/Association of Person to be taxed in its hands and any revaluation of assets/value of self generated assets to be ignored.
- Delays in depositing employees' contributions to employee welfare funds are proposed to be disallowed permanently.
- It is proposed that the presumptive taxation regime which is applicable to professionals earning less than INR 50 lakhs and 50% thereof is treated as income, not to be applicable on Limited Liability Partnerships.
- Minimum Alternate Tax provisions are to be relaxed for incomes taxed in the past years on account of Advance Pricing Agreement or secondary adjustment.
- TDS on payment of income on securities (interest, dividends, etc.) to FPIs at 20% or treaty rate, whichever is lower.
- Definition of zero coupon bond amended to include bond issued by infrastructure debt fund notified by Central Government.
- Leave Travel Concession/ Assistance (LTC/ LTA) exemption provision is to be amended to give effect to the deemed LTC Scheme announced by the Government in October 2020. Rules are to be notified in due course.
- No interest for late deposit of advance tax on dividend income (other than deemed dividend) proposed, provided applicable taxes are paid in subsequent advance tax installments subsequent to the date of payment/ declaration of dividend.
- Government is to notify rules to provide relief on income accruing from overseas retiral benefit accounts, which is taxed overseas on withdrawal or retirement.
- A Dispute Resolution Committee is to be constituted to resolve disputes in a faceless manner for small taxpayers whose returned income is up to INR 50 lakhs and the disputed amount is up to INR 10 lakhs.
- In order to make the advance ruling mechanism more effective and efficient, it is proposed to constitute one or more Boards for Advance Ruling.
- It is proposed that consideration taxable as royalty and FTS will not be subjected to Equalisation levy.
- In context of the Equalisation levy, the expressions 'Online sale of goods' and 'online provision of services' are proposed to be defined to include various online activities namely acceptance of offers, placing and acceptance of purchase orders and payment of consideration. e-Commerce supply or services are to include consideration for sale of goods and provision of services, even where goods are not owned or services not provided by an e-Commerce operator.
- Exemption from Income-tax on consideration subjected to Equalisation levy is to apply from 1 April 2020.



Providing tax certainty

Customs

Validity of Customs exemption

- Provisions are to be amended to prescribe that all conditional exemptions will come to an end on 31 March 2021, falling immediately two years after the date of such grant or variation unless otherwise prescribed or rescinded earlier.
- All existing conditional exemptions in force as on the date on which the Finance Bill 2021 receives the assent of the President (unless these have a prescribed end date) will come to an end on 31 March, 2023 (if not specifically extended/ rescinded earlier) on review.

GST

It is proposed to delink proceedings relating to detention, seizure and release of goods and conveyances in transit from the proceedings relating to confiscation of goods or conveyances and levy of penalty.



Spurring investment and demand

Income tax

- Additional interest deduction of INR 150,000 u/s 80EEE, available to first time residential home buyers, to be extended until March 31, 2022.
- To help home buyers and real estate developers, the safe harbour threshold (i.e., the difference between the transaction value and the circle rate) on residential property is proposed to be increased from 10 percent to 20 percent, subject to certain additional conditions.
- It is proposed to extend the outer limit for obtaining approval for claiming deduction for affordable housing projects to 31 March 2022. Furthermore, it is proposed to incentivise affordable housing rental projects notified by the Central Government.
- Extension of sunset clause for date of incorporation of an eligible start-up from 1 April 2021 to 1 April 2022 for claiming tax holiday deduction.
- Extension of date of investment in eligible start-up from 31 March 2021 to 31 March 2022 for claiming exemption of capital gains from transfer of residential property.

Aircraft leasing

- Any income by way of royalty on account of lease rental paid to foreign enterprises exempt for tax.
- Gains on disposal/sale of aircraft exempt under section 80LA.

Banking

- Tax to be withheld at source at rates in force by a specified bank on pension income and interest income of specified senior citizens, after giving effect to chapter VI-A and rebates.
- Deductions available under section 44DB of the Act to be made applicable in relation to conversion of primary co-operative bank to the banking company.
- Transfer of a capital asset by the primary co-operative bank to the banking company as a result of conversion shall not be treated as transfer under section 47 of the Act.
- Transfer of shares held by a shareholder in the predecessor co-operative bank, if the transfer is made in consideration of the allotment to him of any share in the converted banking company.

International Financial Service Centre:

Redomiciliation of offshore funds

- Transfer of capital asset by an offshore fund (original fund) to a resultant fund upon re-domiciliation to an IFSC, before 31 March 2023 – not regarded as transfer.
- For non-residents, capital gains exemption on account of treaty benefits for investments— to be continued under the domestic tax law.
- Cost and holding period protected.

Investment division of offshore banking units

- Exemption on income earned on transfer of non deliverable forward contracts by non-residents where investment division of offshore banking units in IFSC have commenced their operations before 31 March 2024.
- Special tax regime for investment division of offshore banking units making public market investments in India – at par with Category III Alternative Investment Funds in IFSC.





Ease of doing business

Income tax

- A new procedure provided for reassessment proceedings. The new timelines will be as follows:
 - Time limit to issue notice reduced to three years from four or six years (in cases other than that of serious tax evasion).
 - In case of serious tax evasion: Up to 10 years if Assessing Officer is in possession of evidence/ documents/accounts that results in escapement of income of INR 50 lakhs or more.
- Due to the introduction of Faceless Assessment Scheme, 2019, the time limit for completing an assessment is proposed to be reduced from 12 months to 9 months.
- Faceless Appeals for Income-tax Appellate Tribunal proceedings are to be notified to bring in increased efficiency, transparency and accountability.
- The limit for tax audit is to be increased to INR 10 crores rupees in cases where receipts and payments (by way of cash) are not more than 5%.
- Pre-filled return form already in place will now cover expanded details such as capital gain, dividend income and interest from bank/ post office.
- Resident senior citizens (aged 75 years or more) with only pension and interest income from the same bank, are to be exempted from return filing subject to fulfillment of other prescribed conditions.

Sovereign Wealth Fund / Pension Funds exemption

Exemption available on investment in:

- Alternative Investment Funds which:
 - Have minimum 50% investments in Special Purpose Vehicles engaged in notified infrastructure sectors.
 - Are investing in InvITs.
- Domestic holding companies set up on after 1 April 2021 with at least 75% investment in SPVs engaged in notified infrastructure.
- NBFC: Infrastructure Development Fund / Infrastructure Finance Company with at least 90% lending to companies/entities in notified infrastructure.
- Exemption proportionately available to the extent of investments by Alternative Investment Funds, domestic companies and NBFCs in infrastructure sectors.

Conditions for qualification relaxed

- Direct or indirect leverage for the purpose of making investments in India not permitted.
- Commercial activity - deleted
- Not permitted to participate in day-to-day operations of investee entity.
- The following is permitted:
 - Monitoring mechanism to protect investment.
 - Appointment of directors/executive directors.
- 'Liable to tax' clarified for Pension Funds to include Pension Funds liable to tax but provided specific exemption subsequently in home country.

Customs

Proposal to prescribe a two-year time-limit, extendable by one year by the Commissioner, for completion of investigation under Customs.

Proposed changes in Customs (Import of Goods at Concessional Rate of Duty) Rules, 2017:

- To allow import of goods at the concessional rate of duty for job work (except gold, jewellery and precious metals)
- To allow 100% outsourcing for manufacture of goods on job work.
- Imported capital goods used for a specified purpose to be allowed to clear on payment of differential duty, along with interest, on the depreciated value (depreciated norms similar to those applicable to Export Oriented Units).

Introduction of common portal:

- Proposal to notify a new common portal, which will enable facilitation of registration, filing of bills of entry, shipping bills, payment of duty, any other document or form prescribed and carrying out of such other functions, as may be specified.
- Service of order, summons, notice, etc., on the common portal.

Proposed to allow amendment of bill entry or shipping bill through custom automated system on basis of risk evaluation criteria and certain amendments, as specified by Central Board of Indirect Taxes & Customs, the importer or the exporter on the common portal.

GST

- Retrospective amendment w.e.f 1 July 2017 to provide charge of interest on net cash liability.
- Removal of the mandatory requirement of getting annual accounts audited and filing reconciliation statements submitted by specified professionals.
- Introduction of provision of filing of annual return on self - certification basis.

Regulatory

- A portal will be set up for unorganised labour, especially for gig and platform workers. The portal will help relevant information being collected on gig, building and construction workers.
- Compliance-related burden on the employer is to be reduced by the introduction of single registrations and licensing, and online returns.





Ease of doing business

- Legislation to be introduced to set up a Higher Education Commission, which will have four separate vehicles for standard setting, accreditation, regulation and funding to ensure transparency, independence and enhanced accountability.
- Companies Act and LLP:
 - Amendment made in the definition of small companies by increasing their thresholds for paid-up capital (from not exceeding INR50 lakh to not exceeding INR 2 crore and turnover from not exceeding INR 2 crore to not exceeding INR 20 crore).
- Launch of data analytics, artificial intelligence, machine learning driven MCA21 Version 3.0. With modules for e-Scrutiny, e-Adjudication, e-Consultation and Compliance Management.
- Decriminalisation of the Limited Liability Partnership Act 2008.
- The NCLT framework will be strengthened to ensure fast resolution of cases, e-Courts system shall be implemented and alternative methods of debt resolution and special framework for MSMEs shall be introduced.



Other key proposals

Income tax

- The Income Tax Settlement Commission scheme is to be discontinued from 1 February 2021. One or more interim Boards are to be constituted to review and dispose of pending applications filed on or before 31 January 2021.
- TDS is to be applied on purchase of goods at the rate of 0.1%, subject to certain exceptions, where the aggregate consideration exceeds INR50 lakhs and buyers sales, etc., constitute more than INR10crores. The rate of TDS is to be increased to 5% in the absence of PAN.
- The rate of TDS/ TCS is proposed to be increased to double the rate of applicable rates (subject to a minimum of 5%) where the payer is in default in filing its tax return.
- Provisional attachment provisions are proposed to be expanded in cases of penalty for fake invoices/false entries where penalty is likely to exceed INR2 crores.
- Effective 1 April 2022, interest on an employee's own contribution is to attract tax where this contribution exceeds INR 2.5 lakhs.
- Any sum received from unit linked insurance policies issued on or after 1 February 2021 is to be taxable if the amount of premium payable for any financial year (during the term of the policy) exceeds in aggregate INR250,000. However, proceeds received on death of assessee will be fully exempt.

Insurance

- Exemption under section 10(10D) not available in respect of unit linked insurance policies issued on or after 1 February 2021, where premiums payable for any of the years during the term of the policy exceeds INR 250,000.
- Unit linked insurance policies to which exemption under section 10(10D) is not available, to be considered as a 'capital asset' and income therefrom to be taxable as capital gains - method to be prescribed.
- The definition of 'equity oriented fund' has been amended to include unit linked insurance policies issued on or after 1 February 2021, and to which exemption under section 10(10D) is not available.

Customs:

- Proposal to mandate filing bill of entry before the end of the day preceding the day (including holidays) of arrival of goods

- Proposal to levy penalty in cases where invoice has been obtained by fraud, collusion, willful misstatement or suppression of facts to utilise Input Tax Credit for discharging any duty on export of goods.
- Proposal to enable confiscation of any goods entered for exportation under a wrongful claim of remission or refund of any duty in terms of the provisions of Custom Act or any other law.
- Proposal to review more than 400 old exemptions to overhaul the custom duty structure.

GST

Input Tax Credit on invoice or debit note to be availed only when the details of such invoice or debit note are furnished by the supplier in the statement of outward supplies and such details communicated to the recipient.

Power granted to the jurisdictional Commissioner to call for information from any person relating to any matter dealt with in connection with GST Law with safeguards.

Provision amended in relation to detention or seizure of goods or conveyances in transit:

- Pre- deposit of 25% of the penalty to be paid by the appellant to file appeal against the order for detaining or seizure of goods or conveyances.
- To increase the penalty to 200% of the tax payable.
- Proper officer to issue notice within seven days of detention or seizure; order to be passed within seven days from the date of service of such notice.
- No opportunity of being heard to be given for levy of tax and interest.

Provision related to zero rated supplies amended to:

- Supply of goods or services to a Special Economic Zone developer or a Special Economic Zone unit restricted for authorised operations.
- Supply on payment of integrated tax restricted to a notified class of taxpayers or notified supplies of goods or services.
- Linking of foreign exchange remittance in the case of export of goods with refund.



Other key proposals

Indian Stamp Act

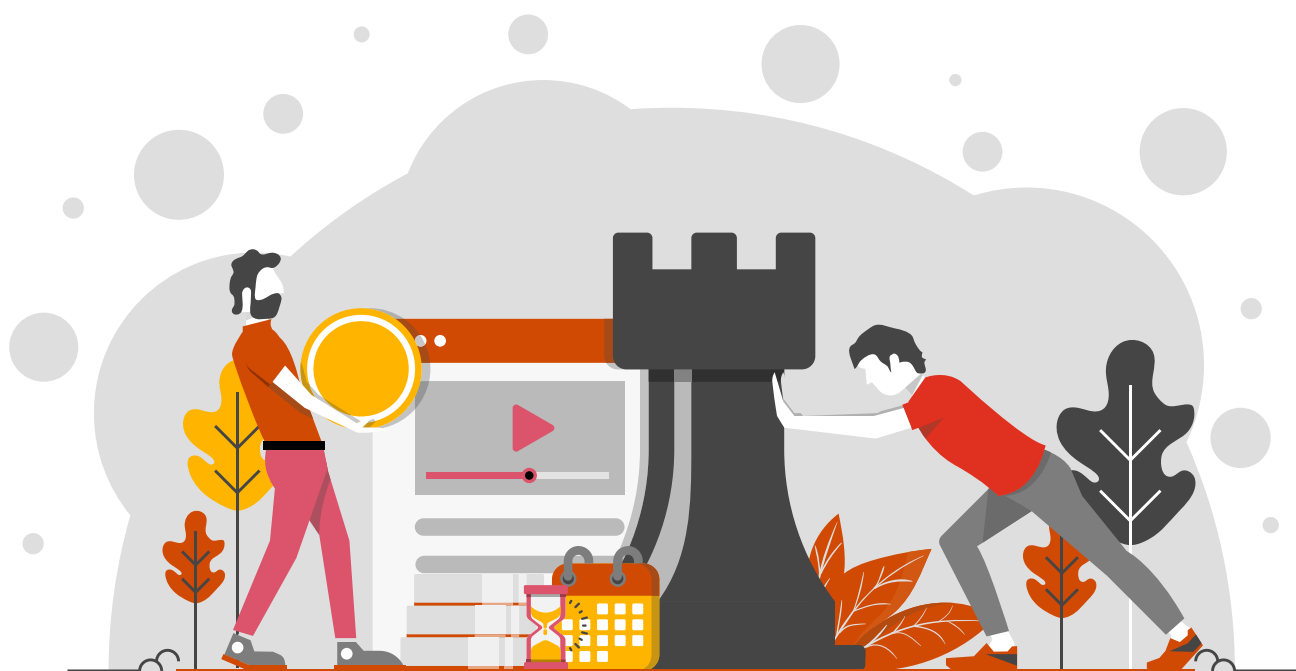
Stamp duty is proposed to be exempted on instruments for conveyance or transfer of a business, asset or right in any immovable property from a government company or its subsidiary, unit or joint venture by way of a strategic sale, disinvestment or demerger, or any other scheme of arrangement to another government company, the Central Government or any state government on the approval of the Central Government.

Securities Contract Regulation Act

- A new definition of 'pooled investment vehicle' is proposed to be introduced in Securities Contract Regulation Act and shares, scrips or other marketable securities of a 'pooled investment vehicle' as well as units or any other instrument issued by a 'pooled investment vehicle', which are to be classified as 'securities' under Securities Contract Regulation Act.
- Special provisions in relation to 'pooled investment vehicle' on account of dealing with borrowing and issuing of debt securities, providing security interest to lenders, enforcement of security interest against trust assets by initiating proceedings against the trustee, etc., have also been introduced under the Securities Contract Regulation Act.
- Corresponding changes in introducing the concept of 'pooled investment vehicle' is also added under Recovery of Debts Due to Banks and Financial Institutions Act, 1993 and Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

Labour laws

- All workers are to come under the ambit of the Employees State Insurance Corporation.
- Minimum wages will apply to all categories of workers.
- Women will be allowed to work in all categories of 'workers' and also in night shifts with adequate protection.



About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 155 countries with over 284,000 people who are committed to delivering quality in assurance, advisory and tax services. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity.

Please see www.pwc.com/structure for further details.

Find out more about PwC India and tell us what matters to you by visiting us at www.pwc.in.

© 2021 PwC. All rights reserved.

Contact us

Sanjay Tolia

Tax Leader, India
sanjay.tolia@pwc.com

Vivek Prasad

Markets Leader, India
vivek.prasad@pwc.com

Vikram Doshi

Tax Markets Leader
vikram.doshi@pwc.com

Shashank Tripathi

Sector Leader - Aerospace and Defence
shashank.tripathi@pwc.com

Kavan Mukhtyar

Sector Leader - Automotive
kavan.mukhtyar@pwc.com

Vivek Prasad

Sector Leader - Financial Services
vivek.prasad@pwc.com

Sujay Shetty

Sector Leader - Pharmaceutical and
Lifesciences Health Industries
sujay.shetty@pwc.com

Dr. Rana Mehta

Sector Leader - Healthcare
rana.mehta@pwc.com

Arnab Basu

Sector Leader (Advisory) -
Industrial Products
arnab.basu@pwc.com

Manish R Sharma

Sector Leader -
Infrastructure and Logistics
manish.r.sharma@pwc.com

Sambitosh Mohapatra

Sector Leader - Power & Mining
sambitosh.mohapatra@pwc.com

Deepak Mahurkar

Sector Leader - Oil and Gas
deepak.mahurkar@pwc.com

Pawan Kumar S

Sector Leader - Technology, Media, Telecom
pawan.k.s@pwc.com



Data Classification: DC0 (Public)

In this document, PwC refers to PricewaterhouseCoopers Private Limited (a limited liability company in India having Corporate Identity Number or CIN : U74140WB1983PTC036093), which is a member firm of PricewaterhouseCoopers International Limited (PwCIL), each member firm of which is a separate legal entity.

This document does not constitute professional advice. The information in this document has been obtained or derived from sources believed by PricewaterhouseCoopers Private Limited (PwCPL) to be reliable but PwCPL does not represent that this information is accurate or complete. Any opinions or estimates contained in this document represent the judgment of PwCPL at this time and are subject to change without notice. Readers of this publication are advised to seek their own professional advice before taking any course of action or decision, for which they are entirely responsible, based on the contents of this publication. PwCPL neither accepts or assumes any responsibility or liability to any reader of this publication in respect of the information contained within it or for any decisions readers may take or decide not to or fail to take.

© 2021 PricewaterhouseCoopers Private Limited. All rights reserved.

PD/AW/February 2021 - M&C