Corporate advisory on Indian Budget 2022

Introduction

The Union Budget 2022 was announced on 1st February 2022. This Budget focused on **'digital and technology'** and sectors like infrastructure, health, education and provision of e-services to the masses. We are pleased to share the key takeaways from the economy, policy, and tax announcements made by the Hon'ble Finance Minister in the budget speech.

Major Highlights

- **Economic Growth -** 9.2% expansion in GDP in FY 2022 and 8% - 8.5% projected GDP growth in FY 2023.

- **Capital Expenditure -** The government's effective capital expenditure is estimated at INR 10.68 lakh crore (Euro 126 billion) in 2022-23, about 4.1% of GDP. The outlay for capital expenditure to be stepped up sharply by 35.4% from INR 4.54 lakh crore (Euro 53 billion) to INR 7.50 lakh crore (Euro 88 billion) in 2022-23.

- **Road Transport -** National Highways Network to be expanded by 25.000 Km in 2022-23. INR 20.000 Crore (Euro 2.3 billion) to be mobilized for National Highways Network expansion.

- **Railways -** 2000 Km of railway network to be brought under Kavach (which is a world-class technology for safety as well as capacity augmentation) in 2022-23. 400 new generation Vande Bharat Trains to be manufactured over the next three years.

- **Parvatmala** - National Ropeways Development Program, Parvatmala to be taken up on Public Private Partnership (PPP) mode. Contracts to be awarded in 2022-23 for 8 ropeway projects of 60 Km length.

- **E-Passport** - E-Passports with embedded chips and futuristic technology to be rolled-out. The microchip would include information such as the passport holder's name, date of birth, and other details. The e-passport would turn out to be extremely useful for travelers as it would eliminate the need to stand in long queues in front of the immigration counter. The e-passport could be scanned in minutes as opposed to the physical verification at the immigration counter. It will also help curb the fake passport business as the scammers would find it hard to fiddle with the data recorded on the microchip.

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- **Accelerated Corporate Exit** - Centre for Processing Accelerated Corporate Exit (C-PACE) to be established for **speedy winding-up of companies**.

- **Export Promotion** - Special Economic Zones Act to be replaced with a new legislation to enable States to become partners in 'Development of Enterprise and Service Hubs'. The Government will also undertake reforms in customs administration of SEZs and it shall henceforth be fully IT driven and function on the Customs National Portal with a focus on higher facilitation and with only risk-based checks. This will ease doing business by SEZ units considerably.

- **Banking -** Launch of digital rupee using blockchain and other technologies in FY22-23. Scheduled Commercial Banks to set up 75 digital banking units, extend the core banking system to post offices.

Changes under Direct Tax

- **Newly incorporated manufacturing entities will be incentivized under concessional tax regime for one year more**

  As per the previous provisions, a domestic company set up after 1st October 2019 can take the concessional tax rate of 15% if the company commences manufacturing before 31st March 2023. Now the date of commencement of manufacturing is extended to **31st March 2024**.

- **Provisions related to filing of updated return within the period of 2 years for correcting errors**

  A new provision is introduced to allow taxpayers to update the past return and include omitted income by additional tax payment. It will enable the assessee to declare income missed out earlier. **The updated return can be filed within two years from the end of the relevant assessment year**.

- **Income from virtual digital assets (Cryptocurrency) chargeable to tax @ 30%**

  Income from transfer of digital assets such as crypto to be taxed at 30%. No deductions will be allowed except the cost of acquisition of digital assets. Loss on sale of digital assets cannot be set off against any other income. TDS at 1% will be levied above the threshold. Gifting of digital assets will also be taxable in the hands of the receiver.

- **Health and Education cess shall not be allowed as business Expenses under the Income tax Act**

  For removal of doubts, it has been clarified that income tax is not an allowable expenditure for computation of business income. This includes tax as well as surcharges. The 'Health and Education Cess' is imposed as an additional surcharge on the taxpayer for funding specific government welfare programs.

- **Set off of losses against undisclosed income**

  Brought forward losses cannot be set off against undisclosed income detected during any survey or search.

- **Tax Incentives for Start-ups extended**

  Period of incorporation extended by one year, i.e. up to 31st March 2023 for eligible start-ups to avail tax benefit. Previously, the period of incorporation valid was up to 31st March 2022. Eligible start-up can avail the benefit of 100% of the profits & gains derived from eligible business for 3 consecutive years out of 10 years, beginning from the year of incorporation.

- **Litigation Management**

  In cases where question of law is identical to the one pending case in High Court or Supreme Court, the filing of appeal by the Income Tax Department shall be deferred till such question of law is decided by the court. This shall immensely help in reducing repeated litigation between taxpayers and the department.

- **Deduction of tax on benefit of perquisite in respect of business or profession**

  Benefits passed on to agents as business promotion strategy taxable in hands of agents. Tax deduction provided to person giving benefits, if the aggregate value of such benefits exceeds INR 20,000 (Euro 235) during the financial year. TDS / Withholding tax rate will be 10%.

Changes under Indirect Taxes

- **Extension of Time Period**

  An important amendment is proposed to the Central Goods and Services Tax (CGST) Act provisions. The last date to make amendments, corrections, upload missed sales invoices or notes or to claim any missed Input Tax Credit or ITC of one financial year is no longer due date to file September return of the following year, but it is 30th November of the following year.

- **Conditions for claiming Input Tax Credit**

  A new section is being added, which states that **Input Tax Credit can only be claimed if it is being reflected in GSTR 2B.**

- **Interest on Input Tax Credit wrongly availed or utilized**

  Proposal made to amend section 50 retrospectively w.e.f. 1st July 2017, so as to levy interest on input tax credit (ITC) wrongly availed and utilized @ 18%.

- **Reversal of Input Tax Credit (ITC)**

  Buyers must reverse ITC if vendor has not paid tax. He/She shall be liable to pay interest @ 18% as the concept of claiming eligible ITC on provisional basis is removed.

- **Project imports and capital goods**

  Gradually phasing out of the concessional rates in capital goods and project imports; and applying a moderate tariff of 7.5% – conducive to the growth of domestic sector and 'Make in India'. Certain exemptions for advanced machineries that are not manufactured within the country shall continue. A few exemptions introduced on inputs, like specialized castings, ball screw and linear motion guide – to encourage domestic manufacturing of capital goods.

- **Review of customs exemptions and tariff simplification**

  More than 350 exemption entries proposed to be gradually phased out, like exemption on certain agricultural produce, chemicals, fabrics, medical devices, & drugs and medicines for which sufficient domestic capacity exists. Simplifying the Customs rate and tariff structure particularly for sectors like chemicals, textiles and metals and minimize disputes; Removal of exemption on items which are or can be manufactured in India and providing concessional duties on raw material that go into manufacturing of intermediate products – in line with the objective of 'Make in India' and 'Atmanirbhar Bharat (Self Reliant India)'.

- **Custom Duty on Steel**

  Certain Anti- dumping and Counter Veiling Duty (CVD) on stainless steel and coated steel flat products, bars of alloy steel and high-speed steel are being revoked – to tackle prevailing high prices of metal in larger public interest.

Customs duty exemption given to steel scrap last year extended for another year to provide relief to MSME secondary steel-producers.

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