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Impact of Budget 2021 on Taxation

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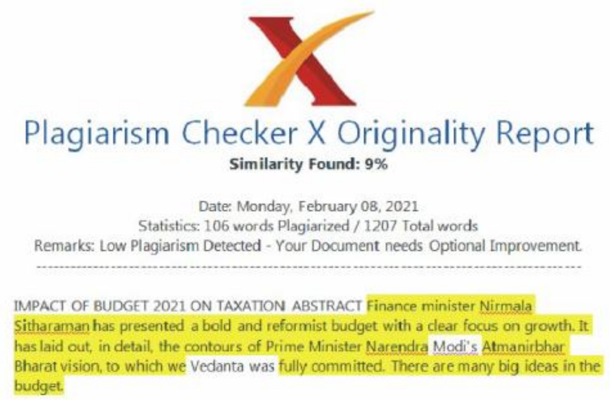
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IMPACT OF BUDGET 2021 ON TAXATION ABSTRACT Finance minister Nirmala Sitharaman has presented a bold and reformist budget with a clear focus on growth. It has laid out, in detail, the contours of Prime Minister Narendra Modi's Atmanirbhar Bharat vision, to which we Vedanta was fully committed. There are many big ideas in the budget.

Abstract

Finance minister Nirmala Sitharaman has presented a bold and reformist budget with a clear focus on growth. It has laid out, in detail, the contours of Prime Minister Narendra Modi's Atmanirbhar Bharat vision, to which we Vedanta was fully committed. There are many big ideas in the budget. This year's Budget lays focus on the seven pillars for reviving the economy - Health and Wellbeing, Physical and Financial Capital and Infrastructure, Inclusive Development for Aspiration India, Reinvigorating Human Capital, Innovation and R&D, and Minimum Government Maximum Governance. Several regulations around the securities market are proposed to be merged as a single code. Several direct taxes and indirect taxes amendments were also proposed.

Key Words

Budget, Tax, Atmanirbhar Bharat, Finance, Challenge.

While stopping short of making any major changes in personal taxes, the finance minister introduced a host of smaller measures in the budget that will make tax compliance easier. Senior citizens aged above 75 who earn only pension and interest income will be exempted from filing income tax returns. They can avail of this benefit if the full tax has been paid, but tax payers who have capital gains are not eligible from filing tax returns.

Since pension is treated as salary, tax will be deducted at source. However, annuities received from insurance companies are treated as pension and don't qualify for TDS. Senior citizens with annuities need not file returns provided they pay tax on this additional income.

In the case of tax disputes, the time limit for reopening of income tax assessments is being reduced to three years from six from the end of the relevant assessment year. However, this is not a big boon for honest taxpayers because technology has improved and most assessment are smooth.

A crisis can make life simple, reducing it to the absolute necessities. Since the corona virus hit us last year, most activities and complexities of life melted away, postponed to some far future.

Essentially, the government has got a two to three year free pass on the deficit and can borrow and spend liberally. The economic cost of fiscal deficit will have to be paid but as the last few months have taught us, there are no perfect solutions, only trade-off. At this point, the trade –off that the FM has chosen is the obvious, practical one.

Direct tax proposals were introduced, providing relaxation to individual taxpayers and startups to some extent. The individual and corporate tax rates for FY 2021-22 (AY 2022-23) was left unchanged. In a major move, the limit for tax audits under section 44AB has been increased from Rs 5 crore to Rs 10 crore (only where 95% of payments are digitized), providing relief to many corporate houses. The following are other proposed amendments:

IT relaxation for senior citizens of 75 years age and above

It has been proposed to exempt the senior citizens from filing income tax returns if pension income and interest income are their only annual income source. Section 194P has been newly inserted to enforce the banks to deduct tax on senior citizens more than 75 years of age who have a pension and interest income from the bank.

Reduction in time for IT Proceedings

Except in cases of serious tax evasion, assessment proceedings in the rest of the cases shall be reopened only up to three years, against the earlier time limit of six years.

Constitution of 'Dispute Resolution Committee'

Those assessed with a taxable income of up to Rs.50 lac (for small and medium taxpayers) and any disputed income of Rs.10 lakh can approach this committee under section 245MA. It will prevent new disputes and settle the issue at the initial stage.

National Faceless Income Tax Appellate Tribunal Centre

Provision is made for faceless proceedings before the Income Tax Appellate Tribunal (ITAT) in a jurisdiction less manner. It will reduce the cost of compliance for taxpayers, and increase transparency in the disposal of appeals. Further, it will also help achieve even distribution of work in different benches and ensure efficient administration.

Tax incentives to startups

The tax holiday for startups has been extended by one more year up to 31st March 2022.

Relaxations to NRI

There is a proposal to notify rules for removing hardship for double taxation.

Pre-filing of returns to be forefront

Pre-filling will be allowed for salary, tax payments, TDS, etc. Further, details of capital gains from listed securities, dividend income, etc. will be prefilled.

Advance Tax on dividend income

Advance tax will henceforth be applicable on dividend income only after its declaration. Tax holidays are proposed for aircraft leasing and rental companies.

Scrutiny time limit cut

Scrutiny time limit for reopening of income tax assessment cut to 3 years.

Disallowance of PF contribution

In case the employee's PF contribution was deducted but not deposited by the employer, it will not be allowed as a deduction for the employer.

Section 43CA stands amended

The stamp duty value can be up to 120% (earlier 110%) of the consideration if the transfer of "residential unit", which means an independent housing unit is made between 12th November 2020 and 30th June 2021.

Amendment to Section 44ADA

Section 44ADA applied to all the assessees being residents in India. Now onwards, it applies only to the resident individual, Hindu Undivided Family (HUF) or a partnership firm, other than LLP.

Section 80EEA deduction extended

Indirect Tax Proposals - Budget highlights 2021

Few of the items on which Customs Duty Rates are revised are as follows:

1. Reduced duty on copper scrap from 5% to 2.5%
2. Basic and Special additional excise duty on petrol and high-speed diesel oil (both branded and unbranded) is reduced
3. Increased duty on solar inverters from 5% to 20%
4. Raised duty on solar lanterns from 5% to 15%
5. The basic customs duty on gold and silver reduced.
6. The department will rationalise duty on textile, chemicals and other products
7. The revised rates will be applicable from 2nd February 2021 onwards.

- New tariff items under 2404 11 00 and 2404 19 00 have been inserted in accordance with upcoming HS 2022 nomenclature. Further, NCCD of 25% is prescribed on these tariff items with effect from 1st January 2022.
- Agriculture Infrastructure And Development Cess (AIDC) has been newly imposed on petrol and diesel at Rs 2.5 and Rs 4 per litre respectively.
- Regarding agricultural products, the customs duty is increased on cotton, silks, alcohol, etc.
- Exemption of Social Welfare Surcharge on the value of AIDC imposed on gold and silver. Therefore, these items would attract surcharge at the normal rate, only on value plus basic customs duty.
- The exemption on import of leather will be withdrawn as they are domestically produced.
- A new initiative called 'Turant Customs' will be introduced for faceless, paperless, and contactless customs measures.

Changes in GST Law

a) Section 7 of the CGST Act, 2017– A new clause (aa) in sub-section (1) inserted retrospectively with effect from 01.07.2017 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.

b) Section 16 of the CGST Act, 2017– A new clause (aa) to sub-section (2) of the section 16 of the CGST Act has been inserted to provide that input tax credit on invoice or debit note may be availed only when the details of such invoice or debit note have been furnished by the supplier in the statement of outward supplies.

c) Section 35 of the CGST Act, 2017– Section 35 (5) is being omitted to remove the mandatory provision of getting annual accounts audited.

d) Section 44 of the CGST Act, 2017– Section 44 substituted to remove the mandatory requirements of furnishing of reconciliation statement duly audited by professional and it provide provision of annual return on self-certification basis.

e) Section 50 of the CGST Act, 2017– The section retrospectively to charge interest on net cash liability from 01.07.2017.

f) Section 74 of the CGST Act, 2017– Section 74 is being amended to clear that seizure and confiscation of goods and conveyances in transit a separate proceeding from recovery of tax.

g) Section 75 of the CGST Act, 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 32 supplies, the details of which have been furnished under section 37, but not included in the return furnished under section 39.

h) Section 83 of the CGST Act, 2017– It has been amended that provisional attachment shall remain valid for the entire period starting from the initiation of any proceeding under Chapter XII, Chapter XIV or Chapter XV till the expiry of a period of one year from the date of order made there under.

Conculsion

A crisis can make life simple, reducing it to the absolute necessities. Since the corona virus hit us last year, most activities and complexities of life melted away, postponed to some far away future. The formula became simple-stay safe while keeping work/business going as best possible. Finance minister had an equally simple task for this budget-spend a lot of money and just borrow what's needed. In terms of overall direction, this must have been the simplest budget in years. For the first time there was hardly any need for a fiscal high-wire act. The revised fiscal deficit estimate is 9.5% for 2020-21. That's a number a number that would have had most analysis splutter and foam in the mouth a year ago. All things considered, the virus is crisis that can be turned into an opportunity in many areas. The budget show that the government recognizes that this is the best course to take. Will it work out? I think it will.

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