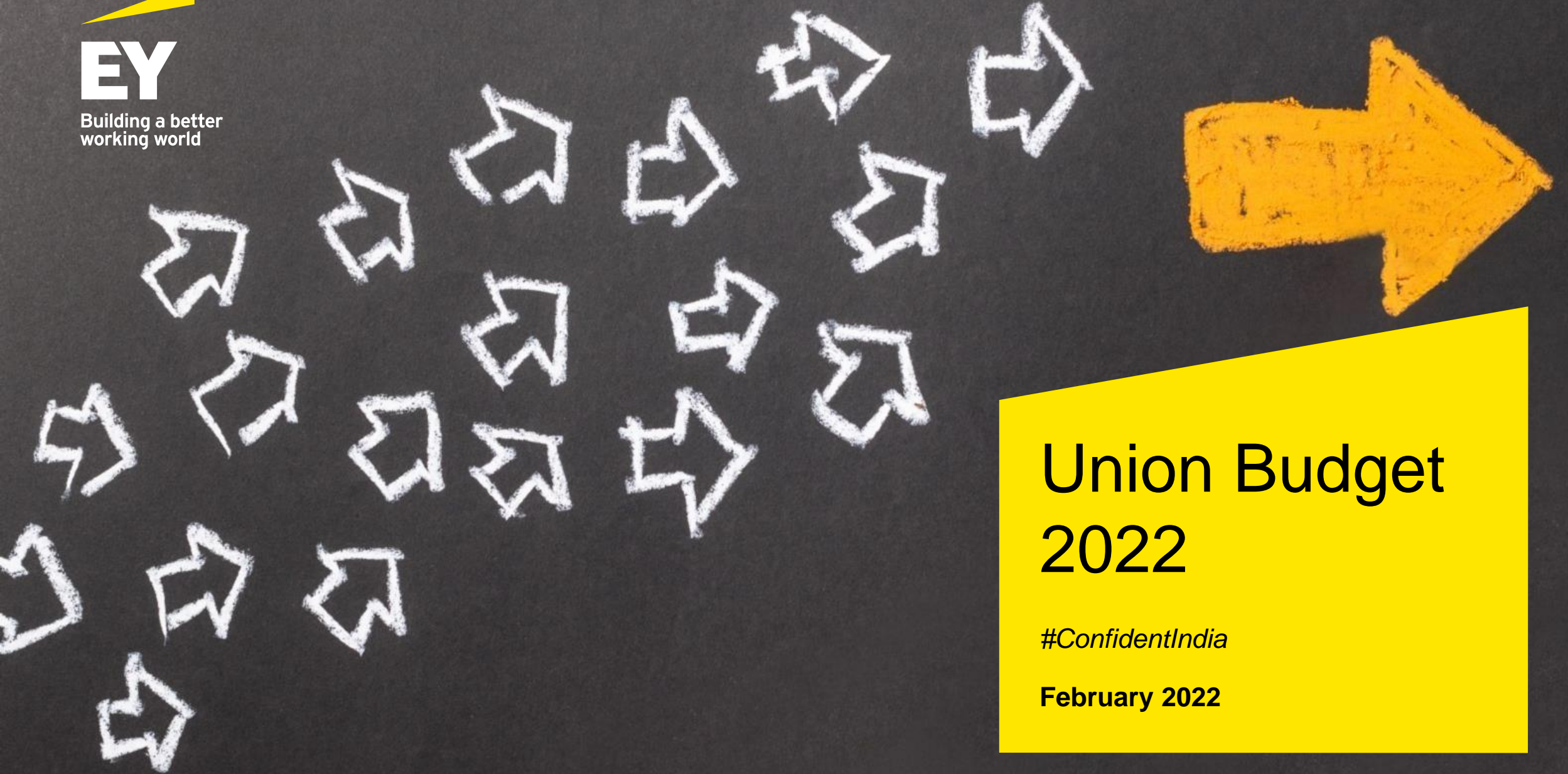




EY

Building a better
working world



Union Budget 2022

#ConfidentIndia

February 2022



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1

Backdrop to
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Backdrop to Budget 2022

- ▶ Government initiatives through 2021
 - ▶ Successful launch of Production Linked Incentive Schemes
 - ▶ Strong steps towards privatisation and PSU divestment – Air India, Life Insurance Corporation IPO
 - ▶ Withdrawal of retrospective indirect transfer taxation
- ▶ India Inc responds
 - ▶ Tremendous fund raising by start-ups and through IPOs; maximum number of unicorns in a year
 - ▶ India silicon valley takes off
 - ▶ Capital investment commitments; pivot towards ESG goals
 - ▶ Attrition – wealth sharing with employees via ESOPs etc
- ▶ Global developments
 - ▶ Global agreement on BEPS 2.0 – Pillar 1 and Pillar 2
 - ▶ Volatility due to US Fed rate changes – global inflation
 - ▶ Regulation of cryptocurrency and similar assets
 - ▶ Global supply chain challenges



Economic Survey

India to remain the fastest growing major economy in the world during 2021-24

GDP growth

- ▶ GDP projected to grow 8.0% - 8.5% in FY23
- ▶ Indian economy to grow by 9.2% in the current fiscal

Sectoral growth

- ▶ Agriculture to grow by 3.9 % in FY22 as against 3.6% last year
- ▶ Industrial sector to expand by 11.8% in FY22 as against a contraction of 7% in FY21
- ▶ Services to clock 8.2% growth in FY22 as against a contraction of 8.4% last year

Investments

- ▶ Robust growth of 15% expected in the Gross Fixed Capital Formation in FY22

Fiscal deficit

- ▶ Sustained revenue collection and a targeted expenditure policy has contained the fiscal deficit for April to November, 2021 at 46.2% of BE

Monetary management

- ▶ Liquidity in the system remained in surplus. Repo rate was maintained at 4% in FY22. Bank credit accelerates to 9.2% as on 31 December 2021

External sector

- ▶ Forex reserves stood at US\$ 634 billion as on 31 December 2021 - equivalent to over 13 months of imports and higher than country's external debt

Capital markets

- ▶ Exceptional year for the capital markets: Rs. 89,066 crore raised via 75 IPOs in April-November 2021 - higher than in any year in the last decade

Macro-economic stability indicators suggest that the Indian economy is well placed to take on the challenges of FY2022-23



2

Policy
announcements





Policy announcements

- ▶ Capital investment commitments - Government's focus on infrastructure with the National Infrastructure Pipeline and Gati Shakti Master planning continues
 - ▶ Capital expenditure increased by 34% in FY23
- ▶ Focus on sunrise sectors and the digital economy under the theme of Atmanirbharta
 - ▶ Government contribution for R&D for sunrise sectors
 - ▶ 5G spectrum auctions in FY23 and PLI for 5G technology manufacturing ecosystem
 - ▶ Digital currency to be launched by the Reserve Bank of India
 - ▶ Infrastructure status for data centres
- ▶ Strong pivot towards climate change and clean energy transition
 - ▶ PLI for manufacture of high efficiency modules increased by another INR 19,500 crores
 - ▶ 5-7% of biomass pellets to be fired in thermal power plants
 - ▶ Battery swapping policy and interoperability standards
- ▶ Ease of Doing Business 2.0 & Ease of Living and focus on digital portals in infrastructure, agriculture, health, education
- ▶ Overhaul of SEZ and expert committee for scaling up PE/VC investments

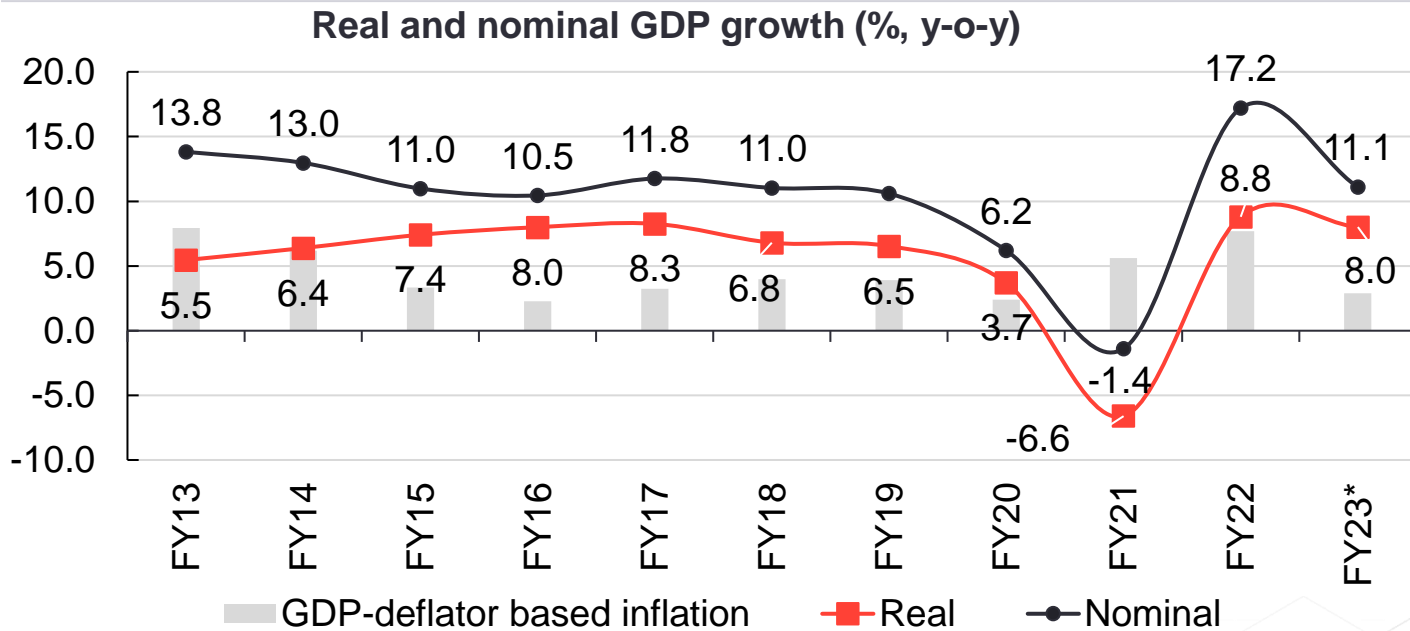


3

Tax Economy



India's real and nominal GDP growth: *returning to normalcy*



Real and nominal GDP (INR lakh crore)

| Fiscal year | Nominal | Real |
|------------------------------|--------------------|--------------------|
| FY20 | 200.7 | 145.2 |
| FY21 | 198.0 | 135.6 |
| FY22 | 232.1 | 147.5 |
| FY23 | 258.0 [^] | 159.3 [#] |
| CAGR (FY22 over FY20) | 7.5% | 0.8% |
| CAGR (FY23 over FY20) | 8.7% | 3.1% |

estimated using the lower end of real growth range at 8.0% as given by the Economic Survey 2021-22; [^]Budget assumption

- ▶ The magnitude of real GDP at INR147.5 lakh crore in FY22 is marginally higher than INR145.2 lakh crore in FY20, implying a CAGR of only 0.8% over FY20; CAGR when calculated during FY20 to FY23 stands at 3.2%
- ▶ The Union Budget FY23 estimates nominal GDP growth of 11.1%.
- ▶ Using the nominal growth of 11.1% (Union Budget) and real growth of 8.0%, the implied IPD-based inflation stands at 2.9% in FY23.
- ▶ With an assumed GTR buoyancy of 0.9 for FY23, the estimated growth in centre's GTR stands at 9.6%.

Source (basic data): MoSPI, Economic Survey 2021-22; * lower limit of the real growth range given by Economic Survey 2021-22 and Union Budget 2022-23's estimate of nominal growth

Achieving budgetary balance: *reducing fiscal deficit while expanding capital expenditure*

Fiscal aggregates in FY22 and FY23: broad contours

| Item | FY20 | FY21 | FY22 (RE) | FY23 (BE) | FY21 over FY20 | FY22 (RE) over FY21 | FY23 (BE) over FY22(RE) |
|---------------------------|-----------------------|-------------|-------------|-------------|-----------------|---------------------|-------------------------|
| | % to GDP | | | | % growth | | |
| Gross tax revenues | 10.01 | 10.24 | 10.84 | 10.69 | 0.8 | 24.1 | 9.6 |
| Net tax revenues | 6.76 | 7.20 | 7.60 | 7.50 | 5.1 | 23.8 | 9.6 |
| Non-tax revenues | 1.63 | 1.05 | 1.35 | 1.05 | -36.5 | 51.1 | -14.1 |
| Non-debt capital receipts | 0.34 | 0.29 | 0.43 | 0.31 | -16.0 | 73.5 | -20.7 |
| Fiscal deficit | 4.65 | 9.18 | 6.85 | 6.44 | -- | -- | -- |
| Total expenditure | 13.38 | 17.73 | 16.24 | 15.29 | 30.7 | 7.4 | 4.6 |
| Revenue exp. | 11.71 | 15.57 | 13.64 | 12.38 | 31.2 | 2.7 | 0.9 |
| Capital exp. | 1.67 | 2.15 | 2.60 | 2.91 | 27.0 | 41.4 | 24.5 |
| Memo | INR lakh crore | | | | % growth | | |
| Nominal GDP | 200.7 | 198.0 | 232.1 | 258.0 | -1.4 | 17.2 | 11.1 |

- ▶ Union Budget's clear emphasis on expanding capital expenditure is a welcome directional change particularly since a larger portion of 45.2% of fiscal deficit is being devoted to capital expenditure.

Source (basic data): MoSPI, Union Budgets

Centre's tax revenues: growth and buoyancy – *cyclical variations*

| Fiscal Year | Direct tax of which | CIT | PIT | Indirect taxes | Gross taxes |
|---------------------------|---------------------|-------|------|----------------|-------------|
| Growth (% , y-o-y) | | | | | |
| FY19 | 13.4 | 16.2 | 9.8 | 2.9 | 8.4 |
| FY20 | -7.7 | -16.1 | 4.2 | 1.8 | -3.4 |
| FY21 | -10.0 | -17.8 | -1.1 | 12.7 | 0.8 |
| FY22 (RE) | 32.3 | 38.7 | 26.2 | 17.0 | 24.1 |
| FY23 (BE) | 13.6 | 13.4 | 13.8 | 5.7 | 9.6 |
| Buoyancy | | | | | |
| FY19 | 1.3 | 1.5 | 0.9 | 0.3 | 0.8 |
| FY20 | -1.2 | -2.6 | 0.7 | 0.3 | -0.5 |
| FY21 | 7.3 | 13.0 | 0.8 | -9.3 | -0.6 |
| FY22 (RE) | 1.9 | 2.2 | 1.5 | 1.0 | 1.4 |
| FY23 (BE) | 1.2 | 1.2 | 1.2 | 0.5 | 0.9 |

- ▶ Centre's gross and net tax revenues are estimated to grow at 24.1% and 23.8% respectively in FY22 (RE). This indicates achieving a buoyancy of 1.4 in each case.
- ▶ In FY23 (BE) however, the buoyancy has been brought down to 0.9 using the budgeted nominal growth of 11.1%. Given the expanded digitization and formalization of the economy and the tax assessees, Centre's tax buoyancy may turn out to be higher.
- ▶ If the underassessment in both tax buoyancy and nominal GDP growth assumption are marginally corrected to say, 1.1 and 13% respectively, Centre's gross tax revenues would have growth more realistically by 14.3%.

Source (basic data): Union budgets, MoSPI

Budget FY23: *high debt-GDP ratio pushes up the interest burden*

Structure of centre's expenditure: revenue and capital

| Expenditure items | FY19 | FY20 | FY21 | FY22 (RE) | FY23 (BE) |
|--|------------------------|--------------|--------------|--------------|-------------|
| | % of total expenditure | | | | |
| Revenue Expenditure | 86.7 | 87.5 | 87.9 | 84.0 | 81.0 |
| Interest Payments | 25.2 | 22.6 | 19.1 | 21.4 | 23.8 |
| Pensions and other Retirement Benefits | 6.9 | 6.8 | 5.9 | 5.3 | 5.3 |
| Defence Services | 8.4 | 7.7 | 5.9 | 6.1 | 5.9 |
| Education | 1.6 | 1.6 | 1.2 | 1.3 | 1.4 |
| Medical, public health et.al. | 0.9 | 1.1 | 1.0 | 2.8 | 2.5 |
| Capital expenditure of which | 13.3 | 12.5 | 12.1 | 16.0 | 19.0 |
| Capital Outlay | 12.1 | 11.6 | 9.0 | 14.5 | 15.5 |
| Capital outlay on non-defence | 8.0 | 7.5 | 5.2 | 10.8 | 11.6 |
| Capital outlay on defence | 4.1 | 4.1 | 3.8 | 3.7 | 3.9 |
| Memo items as % of revenue receipts | | | | | |
| Interest Payments | 37.5 | 36.3 | 41.6 | 39.1 | 42.7 |
| Memo items as % of GDP | | | | | |
| Total expenditure | 12.2 | 13.4 | 17.7 | 16.2 | 15.3 |
| Centre's debt** | 47.9 | 51.0 | 61.0 | 58.5 | 59.0 |
| Combined debt* | 70.8# | 74.6# | 89.7# | 89.3# | - |

- ▶ Union Budget spells a welcome structural change in government expenditure in favour of capital expenditures.
- ▶ General government debt-GDP ratio is estimated to touch 90% at the end of FY22 leading to higher interest payments relative to revenue receipts.

Source (basic data): MoSPI, Union Budgets; *data sourced from IMF up to FY19, EY estimates for FY20, FY21, and FY22

Data sourced from Economic Survey 2021-22

**external debt is evaluated at historic exchange rate

Fiscal consolidation: *graduated reduction in fiscal deficit*

Centre's fiscal deficit to GDP ratio - glide path

| | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 |
|--------------------|-----------|------------|------------|------------|-----------|-----------|------------|
| FRBM Act 2018 | -- | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| FY23 Budget | -- | 9.2 | 6.9 | 6.4 | -- | -- | 4.5 |
| 15 FC (2nd Report) | -- | -- | 6.5 | 6.0 | 5.5 | 5.0 | 4.5 |

Centre's debt to GDP ratio - glide path

| | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 |
|--------------------|-------------|-------------|-------------|-------------|-----------|-----------|-----------|
| FRBM Act 2018 | -- | -- | -- | -- | -- | 40 | 40 |
| FY23 Budget | 51.0 | 61.0 | 59.9 | 60.2 | -- | -- | -- |
| 15 FC (2nd Report) | -- | 62.9 | 61.0 | 61.0 | 60.1 | 58.6 | 56.6 |

Source (basic data): Union Budget-Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement ; Report of the Fifteenth Finance Commission, Centre's FRBM Act (2018)



4

Direct tax
proposals





Individual tax proposals

- ▶ No change in tax slab rates, standard deduction and deduction for interest on housing loans
- ▶ 15% cap on surcharge on long term capital gains applicable to all capital assets

Covid relief measures

- ▶ Relief measures were announced via press statement on 25 June 2021 towards medical treatment expenditure and compensation received by family members in relation to death of an individual. These measures have now been introduced in the Act with effect from Assessment Year 2020-21 to provide clarity on various aspects
- ▶ Compensation received only within 12 months from the death of an individual eligible for exemption



Measures to stimulate growth

Extension of the last date for commencement of manufacturing or production

- ▶ Concessional tax rate of 15% for domestic manufacturing companies commencing manufacturing or production by 31 March 2023 extended to 31 March 2024
- ▶ This amendment will be effective from AY 2022-23

Extension of profit linked exemption for eligible start-ups

- ▶ Profit-linked tax exemption for eligible start ups extended by another year – start ups incorporated upto 31 March 2023 will now be eligible



Revenue mobilisation

Crypto tax

- ▶ Virtual digital assets means inter-alia code or number or token (not being Indian or foreign currency) generated through cryptographic means or otherwise and includes Non-Fungible Tokens or any other token of similar nature
- ▶ Income from virtual digital assets taxable at 30%
 - ▶ Cost of acquisition allowed as a deduction – no other deduction allowed
 - ▶ Loss on transfer of virtual digital asset not allowed for set off or carry forward purposes
 - ▶ This provision shall take effect from AY 2023-24
- ▶ Gifts of virtual digital assets will be a benefit taxable in the hands of the recipient
- ▶ TDS at 1% introduced for virtual digital assets transactions
 - ▶ On transfer consideration payable/ paid to residents
 - ▶ Applicable even where consideration is wholly / partly in kind or in exchange of another virtual digital asset
 - ▶ Will override TDS obligations under section 194O, which applies to payment made by e-commerce operator to an e-commerce participant
 - ▶ This provision shall take effect from 1 July 2022



Revenue mobilisation

Withdrawal of concessional rate of taxation on dividend income received from specified foreign company

- ▶ Dividend received by an Indian company from specified foreign company taxable at concessional tax rate of 15%
- ▶ Now this concessional tax rate stands withdrawn
- ▶ This amendment will be effective from AY 2023-24

Bonus stripping and dividend stripping to be made applicable to securities and units

- ▶ Provisions of bonus stripping now also applicable to units of InvITs/ REITs/ AIFs and securities
- ▶ Provisions of dividend stripping now also applicable to units of InvITs/ REITs/ AIFs
- ▶ This amendment will take effect from AY 2023-24

Clarification regarding deduction on payment of interest only on actual payment

- ▶ Section 43B of the Act permits deduction of interest payable on any loan or borrowing from certain specified financial institutions/ NBFC/ scheduled bank/ co-operative bank on payment basis
- ▶ It is now clarified that conversion of interest payable into debenture or any other instrument by which liability to pay is deferred to a future date, shall not be deemed to have been actually paid
- ▶ This amendment will take effect from AY 2023-24



Revenue mobilisation

Introduction of TDS on benefit/ perquisite arising from a business or profession

- ▶ Benefit or perquisite provided to a resident carrying on business or profession shall be subject to TDS at the rate of 10% of the value of such benefit/ perquisite
- ▶ In case of non-monetary benefit/ perquisites or where the monetary component is not sufficient to cover the TDS liability, the person responsible for providing shall be required to ensure that tax has been paid before such benefits/ perquisites are released
- ▶ These provisions shall not apply if the value of the benefit or perquisite does not exceed INR 20,000 in each financial year
- ▶ This amendment will take effect from 1 July 2022



Ease of compliance

Updated return of income

- ▶ Tax payer allowed to file updated return of income within 24 months from end of the relevant assessment year on payment of additional tax
 - ▶ If updated return filed within 12 months - additional tax payable at the rate of 25% of aggregate of tax and interest payable
 - ▶ If updated return filed in the subsequent 12 months - additional tax at the rate of 50% of aggregate of tax and interest payable
- ▶ Option to file an updated return of income cannot be availed by taxpayers in certain circumstances



Reducing litigation

Reducing multiplicity of appeals before the High Court and Tribunal

- ▶ Revenue authorities can now defer filing an appeal before the High Court and Tribunal if an identical question of law is pending before the jurisdictional High Court or the Supreme Court including in case of another taxpayer
- ▶ Application for deferral to be filed only on receipt of acceptance from the taxpayer
- ▶ This amendment is applicable from 1 April 2022

Deductibility of surcharge and cess

- ▶ It has now been clarified that tax includes surcharge and cess and hence, such payments are not a deductible business expenditure
 - ▶ Amendment applicable retrospectively with effect from 1 April 2005

Modification and revision of tax demand in insolvency and bankruptcy cases

- ▶ Currently there are several instances where Revenue authorities continue to ask for payment of outstanding demands even where these were reduced/ waived by the NCLT
- ▶ Now, procedure provided in the IT Act to reduce such tax demand from the outstanding demand register
- ▶ The amendment will take effect from 1 April 2022



Rationalisation measures

Rationalisation of TDS/ TCS provisions on payments to non-filers of income tax returns

- ▶ Finance Act 2021 introduced higher rates of TDS/ TCS for payments to persons who have not filed tax returns for last 2 years
- ▶ The 2 year requirement has now been reduced to 1 year ie higher TDS/ TCS rates shall apply only in case of persons who have not filed tax return in the immediately preceding year
- ▶ This amendment will take effect from 1 April 2022

Revision of transfer pricing order under Section 263

- ▶ Provisions of Section 263 amended to specifically provide for revision of transfer pricing orders
- ▶ Consequent amendment to Section 153 to allow the AO a time limit of two months to give effect to the TPO's order issued consequent to the revision order

Refund of withholding tax under tax protected contracts

- ▶ Application for refund of withholding tax will now need to be filed with the assessing officer instead of direct appeal to the CIT(A)



Rationalisation measures

Validity of proceedings made on the predecessor during pendency of reorganisation

- ▶ Proceedings pending or completed on the predecessor during the pendency of application for business reorganisation deemed to be applicable to the successor
- ▶ This amendment will be effective from AY 2023-24

Window for filing modified return by successor entity

- ▶ Modified return can be filed by the successor in case of business reorganisation, for the period between the appointed date and date of the final order of the competent authority
- ▶ Such modified tax return to be filed within six months from the end of the month in which the competent authority issues the order
- ▶ This amendment will be effective from 1 April 2022



5

Indirect tax
proposals





Customs – Proposed amendments

Duty rates

- ▶ Several changes to duty rates aligned to “Make-in-India” and “Atmanirbhar Bharat” policy
- ▶ Proposal to phase out concessional rates in capital goods and project imports gradually; moderate tariff of 7.5% made applicable
- ▶ Clarification on applicability of Social Welfare Surcharge on goods exempted from Basic Customs Duty proposed

Customs adjudication

- ▶ Limitations to validity of DRI proceedings and other investigative wings of Customs sought to be removed
 - ▶ Effectively addresses the observations of the Supreme Court in case of Cannon India
- ▶ Post completion of any investigation or audit, further proceedings like re-assessment, adjudication to be exercised by the original jurisdictional authority
- ▶ Advance Ruling now applicable for three years from the date of its pronouncement, or till there is a change in law or facts, whichever is earlier
 - ▶ Existing Advance Rulings valid for three years from date of presidential assent on the Finance Bill, 2022

Customs procedure

- ▶ Import of goods under Import of Goods at Concessional Rate of Duty (‘IGCR’) regulations to follow a digital process requiring submission of information on online portal and seeking Import Identification Number (‘IIN’)

Realignment of ITC provisions with newly instituted GSTR-2B

- ▶ Two-way communication process under GSTR-2A deleted
- ▶ Provisions introduced for claiming ITC based on auto-generated statement in GSTR-2B

Additional restrictions introduced for availing ITC

- ▶ Continued default in payment of tax by vendor (period to be specified)
- ▶ Difference between GSTR-1 and GSTR-3B of the vendor (limits to be prescribed)
- ▶ Availment of excess ITC by vendor (limit to be prescribed)
- ▶ Breach of prescribed limit of tax payment through Electronic Credit Ledger by the vendor
- ▶ Newly registered vendors (for specified period)
- ▶ Class of prescribed persons

Other ITC related amendments

- ▶ Extension of period for availing ITC to 30 November of subsequent year
- ▶ Retrospective reduction in interest rate to 18% for wrong availment and utilisation of ITC



GST Proposals

Legislative changes

- ▶ Regulations now require sequential filing of returns of outward supplies (GSTR 1) and tax payment (GSTR 3B)
- ▶ GST registration liable to be cancelled if the returns have not been filed for continuous period prescribed [earlier 6 months]
- ▶ Power to restrict maximum proportion of output tax liability which may be discharged through the electronic credit ledger enabled
- ▶ Late fee to apply on delayed filing of GST TCS returns

Relaxations

- ▶ Time limit extended to 30 November in case of
 - ▶ issuance of credit notes
 - ▶ rectification of errors or omission in returns
- ▶ Transfer of amount available in electronic cash ledger under CGST or IGST of a 'distinct person' (GST registrations within the same PAN) allowed



GST Proposals

GST refunds

- ▶ Reference date for filing refund for SEZ supplies linked to due date of monthly tax payment return (GSTR 3B)

Exclusion to fee for grant of alcoholic liquor licence as a ‘supply’ under GST made retrospective

- ▶ Earlier, notification was issued wef 30 September 2019



SEZ Proposals

SEZ Act to be replaced by new legislation to enable states to become partners in ‘Development of Enterprise and Service Hubs’.

- ▶ To cover existing and new industrial enclaves to optimally utilise infrastructure and enhance export competitiveness

Customs administration of Special Economic Zones to function on the Customs National Portal wef 30 September 2022



Questions

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