INDIA BUDGET 2021

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Ladderup
Engineering Growth

INDEX

FOREWORD

Unusual times call for unusual measures. With COVID wreaking unprecedented damage to the economy, it called for bold policy decisions to repair the once in a lifetime GDP contraction of 7.7% expected in the current year. The budget has been announced navigating the twin challenges of steering the Indian economy out of a worrisome recession, while ensuring more resources to fight the living memory's worst economic set-back. Given the backdrop, the government garnered political will to announce path-breaking measures, which have been amiss from the last many budgets, probably, second only to the 1991 budgeted presented by Dr. Manmohan Singh in terms of its radical quotient.

The finance minister has given the much needed liquidity booster to the economy, by allotting most of the incremental fiscal headroom to capital creation in physical and health infrastructure, and not to populist largesse, which if rightly implemented, should also avoid run-away inflation, inspite of the expansionary intent. The acceptance of a fiscal deficit of 9.5% signals the government's stance to support the post-pandemic recovery. The projected economic expansion of 11% in FY 22 and the resultant tax buoyancy is expected to restrict fiscal deficit to 6.8%, further moderating to below 5% in the next few years, thus achieving realignment to the path of fiscal prudence in the medium term. Capital spends revolve around creating world-class capacities in roads, ports, railways, with a particularly strong emphasis on metro rail to bolster the relatively weak urban infrastructure in most large cities of India.

Apart from strong fiscal measures for boosting the economy, the budget has been bold with aggressive reform implementation in the finance sector, both with respect to allowing majority foreign ownership of Indian companies and planned de-nationalization of one government owned general insurance co, along with two public sector lenders, apart from continuing with the earlier planned privatization of IDBI Bank & listing of LIC of India. The government also hopes to implement long pending disinvestment priorities including BPCL, Air India, Shipping Corporation of India, BEML etc. In the backdrop of lack-luster implementation of the previous fiscal, expect the government to aggressively implement some of the old pending disinvestment priorities. One novel fund-raising mechanism apart from disinvestment & additional taxes, is selling off unused land and buildings of PSUs, government, and quasi-government bodies. It also proposes to debottleneck government sponsorship of infrastructure projects by incentivizing REITs, cashing out on mature projects amongst other measures. Given the on-going agri-reform protests, the policy makers have displayed strong willingness to take-up extremely sensitive next generation reforms (unlike the 2014 land reforms), which of-course needs to be maneuvered well politically for legislative and executive implementation.

Save for minor policy changes with respect to rationalization of tax enforcement laws for taxpayers, senior citizens, NRIs, start-ups and avoidance of tax buffer for high income earners for interest on EPF, the tax regime remains consistent, thereby ticking the box by reassuring foreign investors on long term continuity of the current tax regime.

The finance minister has furthered the flag-ship Modi regime policy of Atmanirbhar Bharat, by imposing additional custom duties on a host of industry categories like agriculture, chemicals, solar equipments, plastics, automobiles, silks, cotton, alcohol, gems and jewellery etc. Though this would have been viewed as regressive otherwise, it fits well, broadly in line with the inward looking de-globalization policy wave sweeping the world, with emphasis enablement of domestic industry & employment creation.

The budget proposed a development finance institution, to provide local currency debt financing to developers for infrastructure projects. The debt financing of infrastructure projects and REIT's by foreign portfolio investors will be enabled by making necessary amendments. Comprehensively, the budget proposed a number of strong steps that should revive economic growth. The proposed acceleration of investment in infrastructure, creation of a development finance institution and asset monetization across key sectors are timely.

The budget ticks all the boxes that was called for. The policy makers, at least from the policy making perspective, leveraged upon the COVID opportunity to propose path breaking reforms and have budgeted for aggressive re-capitalization the economy through fiscal measures, which is exactly what the doctor ordered for. A lot of the onus shall now be on effective implementation, given that many of the reforms are expected to run-against political opposition, activism from effected masses etc. It requires deft-full management of stakeholders, strong political will and effective executive implementation if the proposed reforms have to be translated into successful action, to usher in disruptive change, something which perhaps only PV Narsimha Rao achieved with Dr. Singh's reforms.

Like every year we have created our budget analysis in the following pages from a macro and micro perspective. Hope you would find this booklet interesting and useful.

Please send your feedback to info@krestonsgco.com

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BUDGET HIGHLIGHTS

Economy

- Fiscal deficit of 9.5% of GDP in RE for the FY 2020-21 and 6.8% BE for the FY 2021-22.
- Receipts for the FY 2021-22 are pegged at ₹ 19.76 lakh crores while expenditure at ₹ 34.83 lakh crore.
- The revised estimated expenditure for the FY 2020-21 has been pegged at ₹ 34.50 lakh crore and receipts at ₹ 16.02 lakh crores.
- Estimated growth of GDP for the year 2021-22 at 14.4%.

Budgetary Allocations

- ₹ 4,78,195 crores allocated to Defence.
- ₹ 1,33,689 crores allocated for Rural development.
- ₹ 1,31,531 crores allocated to Agriculture and Farmers' welfare
- ₹ 1,10,054 crores allocated for Railways.
- ₹ 93,224 crores allocated for Education sector.
- ₹ 80,714 crores allocated for Chemical and Fertilizers.
- ₹ 73,931 crores allocated to Healthcare sector. ₹ 64,180 crores allocated for New scheme called PM Aatmanirbhar Swasth Bharat, over 6 years.
- ₹ 54,581 crores allocated for Housing and Urban Affairs
- ₹ 21,075 crores allocated to Power and renewable energy.
- ₹ 2,785 crores allocated for Skill development.
- ₹ 2,026 crores allocated for Tourism promotion.
- ₹ 1,000 crores allocated for the welfare of Tea workers especially women and their children in Assam and West Bengal.
- ₹ 300 crores allocated to the Government of Goa for the celebration of diamond jubilee year of the state's liberation from Portuguese rule.
- ₹ 34,83,235 crores allocated for the total budgeted expenditure.

Direct Taxes

- No changes proposed in the income tax rates for any class of taxpayers.
- The monetary limit for requirement of Tax Audit u/s. 44AB has been increased to ₹ 10 crores from ₹ 5 crores where 95% of business transactions/turnover is in digital mode.
- Additional deduction of interest u/s. 80EEA of ₹ 1.50 lakhs relating to Affordable Housing Scheme to be extended by one more year, to 31-Mar-2022 for loan sanctioned till 31-Mar-2022.
- Tax incentive of affordable renting housing project u/s. 80IBA of the Act extended up to 31-Mar-2022.
- Exemption from filing income tax returns for senior citizens (75 years and above) having only pension and interest income from same specified bank. The paying bank shall deduct the necessary tax on their income as TDS.
- Exemption available to Charitable trust running Hospitals and Educational Institutions increased from ₹ 1 Crore to ₹ 5 Crores.
- Eligibility for claiming Tax holiday for Start-Ups extended till 31-Mar-2022. Capital Gains exemption for investment in Start-Ups to be extended till 31-Mar-2022.
- Tax holiday for Capital Gains for Aircraft Leasing Cos. and tax exemptions for lease rentals paid to foreign lessors for the units set up in IFSC. Additionally, tax exemption is provided for aircraft lease rentals paid to foreign lessors; tax incentive for relocating foreign funds in the IFSC; and to allow tax exemption to the investment division of foreign banks located in IFSC.
- Reduction of tax on dividend income at lower treaty rate for Foreign Portfolio Investors
- Non/late deposit of employees' contribution by the employer to result in disallowance for the employer.
- Advance tax liability on dividend income shall arise only after the declaration or payment of dividend and the same shall be paid in the next advance tax installment due.
- Time-limit for re-opening of assessment proposed to be reduced to 3 years from 6 years. However, in case of serious tax evasion cases (₹ 50 lakh or more), it can go up to 10 years.

- 'Faceless dispute resolution committee and mechanism' is to be constituted to reduce litigations for small taxpayers (₹ 10 lakhs of disputed amount).
- Faceless Income Tax Appellate Tribunal (ITAT) is proposed to be launched in line with faceless assessments and appeals.
- Last date for filing application under 'Vivad Se Vishwas Scheme' extended to 28th February 2021.
- Income-tax Settlement Commission (ITSC) proposed to be discontinued and Interim Board for settlement to be constituted for pending cases.
- Authority for Advance Rulings proposed to be replaced by Board for Advance Rulings.

Other Laws

- It is proposed to focus on the various allied laws of the securities market to be merged into the Securities Market Code.
- SEBI will be notified to regulate the setting up and arrangement of the commodity market system.
- Permanent institutional framework to be created for the Corporate Bond Market.
- Insurance Act, 1938 proposed to be amended to increase the FDI limit in insurance companies to 74% from the existing 49%. However, majority of the directors and key managerial persons to be resident Indians.
- DICGC Act, 1961 proposed to be amended to streamline its provision where the depositors of the bank can get easy access to deposits through insurance in the case of a stressed bank.
- Decriminalization in the LLP Act, 2008 proposed akin to the Companies Act, 2013.
- Modified definition of small companies proposed: Companies with a paid-up capital not exceeding ₹ 2 crores & a turnover not exceeding ₹ 20 crores are to be considered small companies.
- To facilitate the investments in start-ups, the period of stay to determine the 'Residential Status' of NRI's to be reduced from 182 to 120 days.

- For Startups and Innovators, the One Person Company (OPC) can be incorporated without a limit for turnover or paid-up capital. This also allows NRIs to incorporate OPC in India.
- MCA 21 V3.0 to be introduced with additional modules for e-scrutiny and e-adjudication.

Indirect Taxes

- Rationalize customs duties to promote domestic manufacturing industry.
- BCD on cotton increased from Nil to 10 percent.
- BCD on raw silk increased to 15% from 10%.
- BCD on specified Auto parts increased from 10% to 15%
- BCD on copper waste and scrap under heading 7404 is reduced to 2.5%.
- New initiative called 'Turant Customs' to be introduced for Faceless, paperless customs clearance.
- Agriculture Infrastructure and Development Cess (AIDC) on a small number of items
- Exemption of Social Welfare Surcharge on the value of AIDC imposed on gold and silver.
- Exemption to temporary imports of costumes and props by filmmakers.
- BCD on gold and silver reduced.
- Scope of supply amended to include activities or transactions by any person to its members or constituents.
- ITC can be availed provided the same is reflected as outward supplies by supplier and same is communicated to recipient.
- Amendment in Annual Return provision requiring self-certification of supplies with audited financials, omitting provision for getting accounts audited.
- Amendment in Seizure and confiscation of goods in transit provisions, making it separate proceedings from tax recovery, penalty enhanced by twice, 25 percent penalty payable on appeal.

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DIRECT TAX PROPOSALS

(Unless specified, proposals shall take effect from AY 2022-23)

RATES OF TAX / THRESHOLD LIMIT

a. Individual, HUF, AOP or BOI, Artificial Judicial Person

Normal Regime

- No change in tax slabs, basic tax rates. Surcharge @ 10% is applicable where income exceeds ₹ 50 lakhs, @ 15% where income exceeds ₹ 1 crore, @ 25% where income exceeds ₹ 2 crores (excluding income from sale of equity shares, unit of equity-oriented fund or unit of business trust) and @ 37% where income exceeds ₹ 5 crores (excluding income from sale of equity shares, unit of equity-oriented fund or unit of business trust). In any case, the surcharge on income from sale of equity shares, units of equity oriented mutual fund or unit of business trust shall not exceed 15%.
- No change in Health and Education Cess, which is @ 4%.
- No change in Tax rebate for resident individual whose income does not exceeding ₹ 5 lakhs which is at ₹ 12,500.
- Effective tax rate shall be as under:

Taxable Income Slab (₹)	Tax Rates (including surcharge & cess)		
	General	Senior Citizen	Very Senior Citizen
Up to 2,50,000	NIL	NIL	NIL
2,50,001 to 3,00,000	5.20%	NIL	NIL
3,00,001 to 5,00,000	5.20%	5.20%	NIL
5,00,001 to 10,00,000	20.80%	20.80%	20.80%
10,00,001 to 50,00,000	31.20%	31.20%	31.20%
50,00,001 to 1,00,00,000	34.32%	34.32%	34.32%
1,00,00,001 to 2,00,00,000	35.88%	35.88%	35.88%
2,00,00,001 to 5,00,00,000	39.00%	39.00%	39.00%
5,00,00,001 and above	42.75%	42.75%	42.75%

New Optional Regime

- No change in the rates of Optional Regime. Effective rates are as under:

Taxable Income Slab (₹)	Rate of Tax
Up to 2,50,000	NIL
2,50,001 to 5,00,000	5.20%
5,00,001 to 7,50,000	10.40%
7,50,001 to 10,00,000	15.60%
10,00,001 to 12,50,000	20.80%
12,50,001 to 15,00,000	26.00%
15,00,001 to 50,00,000	31.20%
50,00,001 to 1,00,00,000	34.32%
1,00,00,001 to 2,00,00,000	35.88%
2,00,00,001 to 5,00,00,000	39.00%
Above 5,00,00,000	42.75%

b. Firm and LLP

- No change in basic tax rate of 30% and surcharge of 12% for income above ₹ 1 crore.
- No change in Health and Education Cess, which is 4%.
- Effective Tax rates shall be as under (subject to AMT).

Taxable Income	Tax Rates (Including surcharge and cess)
Up to ₹ 1 Crore	31.20%
Above ₹ 1 Crore	34.94%

c. Companies:

Normal Regime

- No change in Tax rate of 25% for domestic companies, having total turnover or gross receipts not exceeding ₹ 400 crores in FY 2019-20.
- For Domestic companies, surcharge of 7% is applicable where income exceeds ₹ 1 crore and 12% where income exceeds ₹ 10 crores.

- For foreign companies, surcharge of 2% is applicable where income exceeds ₹ 1 crore and 5% where income exceeds ₹ 10 crores.
- No change in Health and Education Cess, which is 4%.
- Effective tax rates shall be as under (Subject to MAT):

Particulars	Domestic Company	Foreign Company
Turnover/Gross Receipts up to ₹400 crores in FY 2019-20		
Taxable Income upto ₹ 1 crore	26.00%	41.60%
Taxable Income above ₹ 1 crore to ₹ 10 crores	27.82%	42.43%
Taxable Income above ₹ 10 crores	29.12%	43.68%
Turnover/Gross Receipts above ₹400 Crores in FY 2019-20		
Taxable Income upto ₹1 crore	31.20%	41.60%
Taxable Income above ₹1 crore to ₹10 crores	33.38%	42.43%
Taxable Income above ₹10 Crores	34.94%	43.68%

Optional Regime

- No change in the rates of Optional Regime. The provisions of MAT shall not be applicable.
- Effective rates for companies under both the sections are as under:

Particulars	As per section 115BAA	As per section 115BAB
Effective Tax Rate (Including surcharge and cess)	25.17%	17.16%

d. Co-operative society

Normal Regime

- There is no change in the slab rates for tax. The same are as under:

Taxable Income Slab	Effective Rates
Up to ₹ 10,000	10%
₹ 10,001 to ₹ 20,000	20%
Above ₹ 20,000	30%

- Surcharge @ 12% shall be levied in case of income exceeding ₹ 1 crore.

Optional Regime

- No change has been proposed in the tax rate for Optional Regime. The effective tax rate shall be 25.17%.

e. Minimum Alternative Tax (MAT) & Alternate Minimum Tax (AMT)

- No change in basic MAT @ 15% & AMT rate @ 18.5% and surcharge.
- No change in Health and Education Cess, which is 4%.

TDS PROVISIONS

a. TDS on dividend

- It is proposed that companies paying dividend to Infrastructure Investment Trust and Real Estate Investment Trust, the units of which are listed on the stock exchange, shall now not be required to deduct TDS on the amount paid.

b. Rationalization of provisions concerning TDS on payment to FII

- Earlier, income from securities held by FII were liable to TDS @ 20% u/s 196D. It is proposed that in case of FII to whom DTAA applies and tax residency certificate has been furnished, the TDS shall be deducted @ 20% or at the rates provided in the DTAA for such income, whichever is lower.

c. TDS on purchase of goods (New section 194Q) [w.e.f. 01-Jul-2021]

- It is proposed to levy TDS on purchase of goods from any resident for transaction exceeding ₹ 50 lakhs in the previous year where the turnover of the buyer exceeds ₹ 10 crores in the preceding previous year.

- TDS is required to be deducted at the rate of 0.1% of such sum exceeding ₹ 50 lakhs where PAN is available, otherwise at a higher rate of 5%.
- The provision of this section shall not apply to the following:
  - o Transactions on which TDS is applicable under any other provisions
  - o Transactions covered u/s 206C(1H) i.e. TCS on sale of goods.

d. Higher rate of TDS / TCS for non-filer of return [w.e.f. 01-Jul-2021]

- It is proposed to insert a new section 206AB, for higher TDS deduction for payment made to a specified person.
- Specified person means a person who has not filed its return of income u/s. 139(1) for two assessment years prior to the relevant year and the aggregate of TDS and TCS in case of that person exceeds ₹ 50,000 in each of the two such previous assessment years.
- The proposed TDS rate would be higher of the following rates:
  - o Twice the rate specified in the relevant provisions of the Act or,
  - o Twice the rate or the rates in force or,
  - o The rate of 5%.
- The provision of this section shall not apply for TDS deduction u/s 192, 192A, 192B, 192BB, 194LBC and 194N. It shall also not apply to a non-resident who does not have permanent establishment in India.
- Similar provisions have been inserted vide new section 206CCA, for collection of TCS w.e.f. 01-Jul-2021.

MAT PROVISIONS

Rationalization of provisions of MAT

- While calculating the book profit of a foreign company u/s 115JB, it is proposed to exclude dividend income and expenditure thereon if the income tax payable on it under normal provisions (due to concessional DTAA rate or otherwise) is less than the applicable MAT rate.

- In case there is an increase in the book profit of a company in the previous year on account of advance pricing agreement (Section 92CC) or secondary agreement (Section 92CE) relating to past years, it is proposed that the AO may on an application made by the Company, recompute the book profits of the past years as well the tax payable during the previous year and the provisions of section 154 shall apply, with the period of four years being reckoned from the end of the financial year in which the said application is received by the AO.

SALARIES

Exemption for LTC Cash Scheme [For AY 2021-22 only]

- It is proposed to provide tax exemption to cash allowance received or due in lieu of leave travel concession (LTC) due to outbreak of COVID pandemic subject to fulfillment of certain conditions prescribed. This exemption shall not exceed ₹ 36,000 per person or 1/3rd of the specified expenditure incurred between 12-Oct-2020 to 31-Mar-2021 whichever is less.

- It is further clarified that where an individual claims and is allowed exemption, then no exemption shall be allowed for same expenditure to any other individual.

BUSINESS INCOME

a. Increase in safe harbor limit u/s. 43CA & 56(2)(x) for sale of residential units by real estate developers [w.e.f. AY 2021-22]

- In case of transfer of residential units by real estate developers, the safe harbor limit u/s. 43CA & 56(2)(x) (being permissible variation between the stamp duty value and actual sale consideration) of 10% is proposed to be increased to 20% subject to the below conditions:-
  - o Transfer takes place during 12-Nov-2020 to 30-Jun-2021.
  - o Transfer is by way of first-time allotment.
  - o Amount of consideration does not exceed ₹ 2 crores.

b. Amendment in section 36(1)(va) & 43B for disallowance of employees contribution to PF, ESIC, etc. after due date [w.e.f. AY 2021-22]

- It is proposed to provide that any payment of Employees' contribution to PF, ESIC or any other employee welfare fund after the due date as per relevant labour welfare law shall be disallowed.

c. Special provision for computing profits and gains of profession on presumptive basis- Section 44ADA [w.e.f. AY 2021-22]

It is proposed to amend section 44ADA(1) of the Act to provide that the provisions of this section shall apply to assessee, being an individual, HUF or partnership firm, not being an LLP as defined in section 2(1)(n) of LLP Act, 2008.

d. Depreciation on Goodwill

- Sec. 32(1)(ii) of the Act allows depreciation on intangible assets (know-how, patents, copyrights, trademarks, licenses, franchises or any other business or commercial rights of similar nature) acquired on or after the 01-Apr-1998.
- Currently, based on a Supreme Court decision, depreciation is being claimed on goodwill in several cases.
- It is now proposed that no depreciation is to be allowed on goodwill.
- Corresponding amendments are proposed to be made in sections 2(11), 32(1)(ii), 50 and 55(2)(a) of the Act.

CAPITAL GAINS

a. Rationalization of provisions of section 55 to compute cost of acquisition

- It is proposed to provide that the fair market value of the capital asset, being land or building, or both as on 01-Apr-2001 shall not exceed the stamp duty value of the asset on that date if available.

OTHER SOURCES

a. Rationalisation of definition of "Slump sale" [w.e.f. AY 2021-22]

- Section 2(42C) defines the expression "slump sale" as the transfer of one or more undertakings as a result of the sale for a lump sum consideration without values being assigned to the individual assets and liabilities in such sales.
- It is proposed to expand the scope of the definition of the term "slump sale" so as to include all type of transfers, as defined in Section 2(47), by any means including exchange, relinquishment etc. under its purview.

b. Rationalisation of provision of transfer of capital asset to partner on dissolution or reconstitution. [w.e.f. AY 2021-22]

- It is proposed to amend the provisions of section 45(4) relating to transfer of capital assets in case of dissolution or reconstitution of specified entities.
- Also, a new provision u/s. 45(4A) is proposed to be inserted for transfer of money or other assets in case of dissolution or reconstitution of specified entities.
- Where a specified person receives during the previous year any capital asset / money / any other asset at the time of dissolution or reconstitution of the specified entity, the profits and gains arising shall be chargeable as income of the specified entity under the head capital gains.
- The full value of consideration shall be fair market value of the asset or value of money on the date of receipt.
- The cost of acquisition shall be determined as per the provisions of the section.
- The balance in the capital account of the specified person shall be calculated after reducing any increase in the capital account due to revaluation of any asset or due to self-generated goodwill or any other self-generated asset.
- Specified entity shall include firm, AOP or BOI and Specified person shall include Partner of such firm or member of AOP / BOI.

c. Taxation of proceeds of high premium unit linked insurance policy (ULIP) [w.e.f. AY 2021-22]

- It is proposed to provide that the exemption u/s. 10(10D) shall not apply with respect to any ULIP issued on or after 01-Feb-2021 if the amount of premium payable for any of the previous year exceeds ₹ 2.5 lakhs. Further, if premium is payable for more than one ULIP issued on or after 01-Feb-2021, then such exemption shall be available only with respect to such policies aggregate premium whereof does not exceed ₹ 2.5 lakhs.

- It is further proposed that the exemption u/s. 10(10D) for the sum received under the ULIP shall be allowed on death of the person.

- It is further proposed that where any person receives at any time during any previous year any amount under a ULIP, to which exemption u/s. 10(10D) does not apply, including the amount allocated by way of bonus on such policy, then, any profits or gains arising from receipt of such amount shall be chargeable to tax under the head "Capital gains". Such ULIPs shall be included in the definition of equity-oriented fund u/s. 111A and 112A. Consequently, STT shall also be applicable on maturity or partial withdrawal with respect to such ULIPs.

DEDUCTIONS

a. Deductions in respect of profits and gains from affordable housing projects – Section 80-IBA

- Deduction of 100% of profits and gains available u/s. 80-IBA is proposed to be extended to business of developing and building rental housing project as may be notified by the Central Government which fulfils prescribed conditions therein.

- Further, it is also proposed to extend one of the conditions of seeking the project approval from the competent authority by 31-Mar-2021 to 31-Mar-2022.

b. Deduction in respect of interest on loan taken for affordable residential house property – Section 80EEA

- Deduction upto ₹ 1.50 lakhs in respect of interest on loan sanctioned for an affordable residential house property from any financial institutions between 01-Apr-2019 to 31-Mar-2021 available u/s. 80EEA is now proposed to be extended to such loans sanctioned till 31-Mar-2022.

c. Deductions in respect of eligible start-ups– Section 80-IAC [w.e.f. AY 2021-22]

- Section 80-IAC provides for 100% deduction of profits and gains derived from an eligible business by an eligible start-up incorporated on or after 01-Apr-2016 but before 01-Apr-2021. It is now proposed to extend the incorporation of the eligible start-up before 01-Apr-2022.

EXEMPTIONS / INCENTIVES

a. Long term Capital gain on transfer of residential property owned by eligible assessee and utilised for subscription in equity shares of an eligible start-up – Section 54GB [w.e.f. AY 2021-22]

- Exemption of capital gain u/s. 54GB is available only when the residential property is transferred on or before 31-Mar-2021 which is now proposed to be extended upto 31-Mar-2022.

b. Tax neutral conversion of Urban Co-operative Bank into Banking Company [w.e.f. AY 2021-22]

- It is proposed to expand the scope of computing deduction in case of business reorganization of co-operative banks under section 44DB to include conversion of co-operative bank into a banking company.
- Accordingly, the deductions available u/s. 32, 35D, 35DD or 35DDA will be apportioned between the predecessor co-operative bank and the successor banking company in the proportion of the number of days before and after the date of conversion.
- Transfer of assets & liabilities by the co-operative bank to the banking company pursuant to conversion and the allotment of shares of converted banking company to the shareholders of co-operative bank shall not be regarded as transfer under section 47 of the Act.

PROCEDURAL AMENDMENTS

a. Time limit for filing return, revised return and belated return.

- It is proposed to prepone the filing of revised return and belated return by 3 months i.e. by 31st December of the assessment year as compared to 31st March of the assessment year earlier.
- It is proposed that the due date for filing the return of the partner of a firm which is subject to audit u/s 92E, shall be extended to 30th November of the assessment year in line with the due date applicable to such firm.
- It is proposed to relax certain conditions to rectify the defective returns.

b. Increase in threshold limit for Tax Audit u/s. 44AB [w.e.f. AY 2021-22]

- For the purpose of tax audit u/s. 44AB, it is proposed to increase the threshold limit of turnover from ₹ 5 crores to ₹ 10 crores for person carrying on business not having aggregate of all receipts / payments in cash in excess of 5% of total receipt / payment for the year.
- No change in threshold limit of gross receipts of ₹ 50 lakhs in case of persons carrying on profession.
- Liability for TDS / TCS u/s 194A, 194C, 194H, 194I, 194J and 206C for individuals & HUFs would continue to arise if the turnover is exceeding ₹ 1 crore for business and ₹ 50 lakhs for profession.

c. Modification in procedure of reassessments and search assessments.

- It is proposed to rationalize the procedure of re-assessments and search assessments.
- Section 153A & 153C is proposed to be made applicable only to search cases initiated on or before 31-Mar-2021.
- Assessments / Reassessments in cases where search, survey, etc. is initiated after 31-Mar-2021 is proposed to be done under new procedure whereby the case of last 3 years prior to the AY in which search is initiated would be deemed to be reopened u/s. 148.

- In non-search cases, it is proposed that AO to conduct enquiries, provide opportunity of being heard & pass order whether it is a fit case u/s. 148 before issuance of notice for reopening.
- The time limit of issue of notice u/s. 148 of 6 years from the end of AY is proposed to be reduced to 3 years.
- In cases where AO has in his possession books of accounts, or other documents or evidence which reveal that income escaping assessment, represented in the form of asset, is ≥ ₹ 50 lakhs, then the notice can be issued upto 10 years from the end of AY subject to approval from higher authority.

d. Reduction of time for completing assessments.

- Time limit for completing assessments u/s. 143 or 144 for AY 2021-22 onwards is proposed to be reduced from 12 months to 9 months from the end of the AY.

e. Rationalization of provision relating to processing of return u/s. 143(1) and issue of notice u/s. 143(2)

- It is proposed to provide for following further adjustments while processing the return u/s. 143(1):-
    - o Increase in income indicated in Tax Audit report but not considered in return. Earlier only disallowance of expense was allowed.
    - o Disallowance for deduction claimed u/s. 10AA or Chapter VIA under heading 'C' if return is furnished after due date.
- The time limit of issuing notice u/s. 143(2) is proposed to be reduced from 6 months to 3 months from the end of FY in which return is filed.
- The time limit for issuing intimation order u/s. 143(1) is proposed to be reduced from 12 months to 9 months from the end of FY in which return is filed.

f. Provision for Faceless Proceedings before the Income Tax Appellate Tribunal (ITAT)

- It is proposed to launch a faceless scheme of disposal of appeals by the ITAT.

g. Provisional attachment in Fake invoice cases

- It is proposed to extend provisional attachment u/s. 281B even to pending penalty proceedings u/s. 271AAD related to fake invoice cases where the amount or aggregate of amounts of penalty imposable is likely to exceed ₹ 2 crores.

h. Relaxation for certain category of senior citizen from filing return of income tax [w.e.f. AY 2021-22]

- In order to reduce the compliance burden, it is proposed to provide relief to senior citizens having age of 75 years or above in not requiring them to file return of income subject to fulfillment of certain conditions.
- The above benefit is applicable only if he has pension income and no other income except the interest income received or receivable from the same specified bank in which he is receiving his pension income.
- It is further proposed to insert new section 194P relating to TDS on income received/receivable to such person to be deducted by the specified bank.

i. Advance Tax installment for dividend income [w.e.f. AY 2021-22]

- It is proposed that no interest u/s. 234C in respect of dividend income shall be charged provided the assessee has paid full tax in subsequent advance tax installments in respect of such dividend income except deemed dividend u/s. 2(22)(e).

OTHER PROPOSALS

a. Taxability of interest from PF / EPF/ RPF

- Interest accrued/ received on contributions made above ₹ 2.50 lakhs to PF / EPF /RPF in a year by an employee from FY 2021-22 onwards is proposed to be taxable.

b. Rationalization of provision for charitable trusts and Institutions

- It is proposed that corpus donations shall be invested or deposited in one or more modes specified u/s 11(5).
- Application out of corpus shall not be considered as application for the purpose of charitable or religious purpose. However, it shall be allowed as application in the previous year in which it is deposited or invested back in one or more modes specified u/s 11(5).

- Application from loans and borrowings shall not be considered as application for charitable or religious purpose. However, it shall be allowed as application when such loan or borrowing is repaid.
- Any excess application made in any year preceding the previous year, shall not be allowed as set-off, deduction or allowance in computing the income required to be applied or accumulated during the previous year.

c. Clarification regarding the scope of Vivad se Vishwas Act, 2020 [w.r.e.f. 17-Mar-2020]

- It is proposed to exclude cases pending with the Income Tax Settlement Commission (ITSC) from the scope of Vivad se Vishwas Act, 2020.
- The due date for filing application under the said Act is extended to 28-Feb-2021 vide CBDT Notification No. 4/2021.

d. Income Declaration Scheme (IDS) amendment [w.r.e.f. 01-Jun-2016]

- It is proposed that the excess amount of tax, surcharge or penalty paid in pursuance of a declaration made under the said Scheme shall be refundable without payment of any interest.

e. Constitution of Dispute Resolution Committee for small and medium taxpayers

- It is proposed to introduce a new scheme for preventing new disputes (not emanating out of search or requisition) and settling the issue at the initial stage in case of small and medium taxpayers having returned income not exceeding ₹ 50 lakhs and the disputed addition not exceeding ₹ 10 lakhs.
- This scheme shall not be applicable to cases involving detention, prosecution or conviction under various laws.
- Through this scheme, the Central Government (CG) shall constitute one or more Dispute Resolution Committee (DRC) wherein the assessee would have an option to opt for or not subject to the fulfillment of certain conditions.
- The DRC shall have the powers to reduce or waive any penalty or grant immunity from prosecution of any office if the dispute is resolved.
- The CG has been empowered to notify a Scheme for this purpose by eliminating interface.

f. Constitution of the Board for Advance Ruling

- It is proposed to replace the Authority for Advance Rulings (AAR) with a Board for Advance Ruling and make suitable amendments in the existing provisions of AAR and that all the pending applications with the AAR shall be transferred to the Board for Advance Rulings.
- It is proposed to insert a new section 245W to provide for appeal to High Court within sixty days from the date of communication of the order passed or ruling pronounced by the Board for Advance Ruling.
- The CG has been empowered to notify a Scheme for this purpose by eliminating interface

g. Discontinuance of Income tax Settlement Commission [w.e.f. 01-Feb-2021]

- It is proposed to discontinue Income Tax Settlement Commission (ITSC) and no application u/s. 245C shall be made beyond the said date.
- It is proposed to constitute an Interim Board for Settlement of all pending applications in respect of which no order has been passed u/s. 245D(4) on or before 31-Jan-2021.
- With respect to a pending application, the assessee at his option may withdraw such application within a period of 3 months from the date of commencement of Finance Act, 2021 and intimate the Assessing Officer.
- The CG has been empowered to notify a Scheme for this purpose by eliminating interface.

h. Adjudicating Authority under the Prohibition of Benami Property Transaction Act [w.e.f. 01-Jul-2021]

- It is proposed to provide that the Competent Authority u/s. 5(1) of the Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976 (SAFEMA) shall be the Adjudicating Authority under the PBPT Act in place of the Adjudicating Authority and Appellate Authority established under the Prevention of Money- Laundering Act, 2002 (PMLA).

- It is further proposed to extend the time limit for passing order u/s. 26(7) of the PBPT Act to 30-Sep-2021 where its due date expires during the period 01-Jul-2021 to 29-Sep-2021.

i. Definition of the term "Liable to tax" [w.e.f. AY 2021-22]

- It is proposed to insert clause (29A) to section 2 of the Act providing that the term "liable to tax" in relation to a person means that there is a liability of tax on that person under the law of any country and will include a case where subsequent to imposition of such tax liability, an exemption has been provided.

j. Rationalization of Equalization Levy provisions [w.e.f. AY 2021-22]

- Equalisation Levy is currently levied @ 2% of the amount of consideration received or receivable by an e-commerce operator from e-commerce supply or services made or provided or facilitated to specified persons.
- With respect to the same, it is proposed to clarify the following:
    - o Consideration received/receivable for specified services and e-commerce supply or services shall exclude Royalty/Fees for Technical Service taxable in India.
    - o For the purposes of defining e-commerce supply or service, online sale of goods and provision of services shall include acceptance of offer for sale, placing the purchase order, acceptance of purchase order, payment of consideration, or supply of goods or provision of services, partly or wholly.
- It is proposed that consideration received or receivable from e-commerce supply or services shall include consideration for sale of goods/provision of service irrespective of whether the e-commerce operator owns the goods/services are provided or facilitated by the e-commerce operator.

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INDIRECT TAX PROPOSALS

Customs

a. Rate related changes

A. Changes in BCD for creating level playing field for benefit of MSME and other domestic manufacturers [wef 02-Feb-2021]

Sr. No.	Category	Description of Goods	Old	new
1	Chemicals	Carbon Black	5%	7.5%
		Bis-phenol A	Nil	7.5%
		Epichlorohydrin	2.5%	7.5%
2	Plastics	Builder's ware of plastic, not elsewhere specified or included	10%	15%
		Polycarbonates	5%	7.5%
3	Leather	Wet blue chrome tanned leather, crust leather, finished leather of all kinds, including their splits and slides	Nil	10%
4	Gems and Jewellery	Cut and Polished Cubic Zirconia	7.5%	15%
		Synthetic Cut and Polished Stones	7.5%	15%
5	Capital Goods and Machinery	Tunnel Boring Machines	Nil	7.5%
		Parts and components for manufacture of Tunnel Boring Machines	Nil	2.5%
6	Auto Sector	Specified auto parts like ignition wiring sets, safety glass, parts of signaling equipment, etc.	7.5%/ 10%	15%
7	Metal Products	Screws, Nuts, etc.	10%	15%

B. Changes in BCD to promote value addition in Electronics Sector [w.e.f. 02-Feb-2021, unless specified otherwise]

Sr. No.	Description of Goods	Old	New
1	Inputs, parts or sub-parts for manufacture of specified parts of mobile phones, including:		
	(1) Printed Circuit Board Assembly (PCBA)	0	2.5%
	(2) Camera module	0	2.5%
	(3) Connectors	0	2.5%
	[To apply with effect from 01.04.2021]		
2	Printed Circuit Board Assembly [PCBA] and Moulded Plastic, for manufacture of charger or adapter	10%	15%
3	Inputs and parts [other than PCBA and moulded plastic] of mobile charger	Nil	10%
4	Inputs, Parts and Sub-parts [other than PCBA and Li- ion Cell] for manufacture of Lithium-ion battery and battery pack [w.e.f. 01.04.2021]	0	2.5%
5	Compressor of Refrigerator/Air Conditioner	12.5%	15%
6	Specified insulated wires and cables	7.5%	10%
7	Specific parts of transformer such as Bobbins, brackets, wires, etc.	Nil	Applic-able Rate
8	Inputs and parts of LED lights or fixtures including LED Lamps	5%	10%
9	Solar Inverters	5%	20%
10	Solar lanterns or solar lamps	5%	15%

C. Changes in BCD of raw materials and inputs used by Domestic Manufacturers for reducing cost of inputs and correction of inverted duty structure.

Sr. No.	Inputs/Raw materials (for Sector)	Description of Goods	Old	new
1	Textile Industry	Caprolactam	7.5%	5%
		Nylon Chips	7.5%	5%
		Nylon fiber and yarn	7.5%	5%
2	Ferrous & Non-Ferrous Metals	Iron and Steel melting scrap, including stainless steel scrap [upto 31.3.2022]	2.5%	Nil
		Primary/Semi-finished products of non- alloy steel	10%	7.5%
		Flat products of non-alloy and alloy-steel	10%/ 12.5%	7.5%
		Long products of non-alloy, stainless and alloy steel	10%	7.5%
		Raw materials used in manufacture of CRGO Steel	2.5%	Nil
		Copper Scrap	5%	2.5%
3	Precious Metals	Gold and silver*	12.5%	7.5%*
		Gold dore bar*	11.85%	6.9%*
		Silver dore bar*	11%	6.1%*
		Platinum, Pallidum, etc.	12.5%	10%
		Gold/silver findings	20%	10%
		Waste & Scrap of Precious Metals	12.5%	10%
		Spent Catalyst or ash containing precious Metals	11.85%	9.2%
		Precious Metal Coins	12.5%	10%
* Also, to attract Agriculture Infrastructure and development Cess at the rate of 2.5%				

D. Levy of Agriculture Infrastructure and Development Cess (AIDC)

- AIDC to be levied on specified imported goods ranging from 2.5 to 100 percent.
- AIDC to be levied on specified excisable goods as part of Additional Excise Duty:

Sr. No.	Description	Rate
1	Motor Spirit commonly known as Petrol	₹ 2.50 per litre
2	High Speed Diesel	₹ 4.00 per litre

- To ensure that imposition of AIDC does not lead to additional burden on consumer, BCD on imported goods, and Basic Excise Duty and Special Additional Excise Duty on petrol and diesel, have been adjusted accordingly.
- AIDC shall be utilized for the purpose of financing the agriculture infrastructure and other development expenditure.

E. Review of Social Welfare Surcharge (SWS)

- Notification levying 3 percent SWS on gold, silver, petrol and diesel has been rescinded.
- Impact of above notification is that SWS has increased to 10 percent.

b. Others

(changes to come into effect from the date of enactment of Finance Bill, unless specified otherwise)

- Exemptions granted, subject to conditions, unless otherwise specified or varied or rescinded, be valid up to 31 March immediately after 2 years from date of such grant or variation.
- For faster clearance of import consignment, amendment made to ensure mandatory filing of bill of entry before arrival of conveyance

- Provision inserted to prescribe penalty equivalent to 5 times of refund amount in cases of ITC availed on fraudulent invoices.
- Proposed to allow importer/exporter to make specific amendments through customs automated systems, no approval required.
- To encourage paperless working, proposed to use common portal (as one-point digital interface) for registration, filing bill of entry/shipping bill, tax payment, serve notice, order etc.
- HSN 2022, which proposes 351 amendments to existing harmonized nomenclature, covering a wide range of goods, to be implemented w.e.f 01-Jan-2022.
- As trade facilitation measures, certain changes proposed to Customs (Import of Goods at Concessional Rate of Duty) Rules, to allow job work on imported goods, 100 percent outsourcing for manufacture, import of capital goods. (w.e.f 02-Feb-2021)
- Amendment in provisions relating to Anti-Dumping Duty (ADD), Countervailing Duty (CVD), Safeguard measures to include for anti-absorption, retrospective levy from date of initiation of investigation in ant-circumvention cases.

Goods and Services Tax (GST)

(To be effective by way of issuance of notification by Government)

- Scope of supply amended to include activities or transactions by any person to its members or constituents or vice-versa, for cash, deferred payment or other valuable consideration (to be w.e.f. 01-Jul-2017).
- Input Tax Credit (ITC) can be availed provided the same is reflected as outward supplies by supplier while furnishing its GSTR1 and same is communicated to recipient.
- Amendment in Annual Return provision whereby it requires self- certification of supplies with audited financials, omitting provision for getting accounts audited.
- Interest provisions on net cash liability being amended to give retrospective effect from 01-Jul-2017.
- Amendment in provisions to make seizure and confiscation of goods and conveyances in transit a separate proceeding from recovery of taxes.

- Explanation inserted for determination of tax to clarify "self-assessed tax" shall include tax payable in respect of outward supplies furnished in GSTR-1 but not included in GSTR-3B.
- Appeal before Appellate Authority allowed, in case of seizure and confiscation of goods, only on payment of 25 percent of penalty.
- Penalty enhanced by twice or more in case of Detention, seizure and release of goods and conveyances in transit and Confiscation of goods or conveyances.
- Determination of Tax and Interest for Detention, seizure and release of goods and conveyances in transit without giving opportunity of personal hearing.
- Zero rated supply of goods and services provided to SEZ should be for authorised operations.
- Government to notify class of persons or goods or services whereby IGST can be paid and claimed as refund.

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KEY POLICY CHANGES IN FY 2020-21 AND BUDGET AMENDMENTS 2021

FEMA / RBI

- Amendments made in FDI policy and the Rules vide Press Note No. 03 (2020 Series) dated 7/04/2020 read with Foreign Exchange Management (Non-debt Instruments) Amendments rules, 2020 to prevent opportunistic takeovers of firms whose operations and finances may have suffered due to the impact of the COVID-19 pandemic. The following are the key points:

    o Investment made by any non-resident entity of a country, which shares land border with India to be allowed only after obtaining Government approval.

    o Investment in India where beneficial owner of such investment is situated in or is a citizen of any border States to be permitted only under the Government approval route.

    o Further, a citizen of Pakistan or an entity incorporated in Pakistan can invest, only under the Government route, in sectors / activities other than defence, space, atomic energy and sectors / activities prohibited for foreign investment.

    The amendment is effective from 22-Apr-2020. Thus, all previous investments are grandfathered. **[S.O. 1278 (E)]**

- In view of the disruption caused by the Covid-19 pandemic, the RBI extended the time period for realization and repatriation of export proceeds, to 15 months (from the initial period of 9 months) for exports made up to 31-Jul-2020 from the date of export. **[A. P. (DIR Series) Circular No. 27]**

Proposed Amendments: Finance Bill 2021

- The Finance Bill 2021 proposes to amend the Insurance Act, 1938 to promote additional FDI in the insurance sector. Now FDI in the insurance sector can be made upto 74% from the existing limit of 49%.

- The definition of small companies is proposed to be amended. The companies with a paid-up share capital not exceeding ₹ 2 crores and a turnover not exceeding ₹ 20 crores shall be considered as small companies. This would benefit many small sized companies under various acts.

- With respect to start-ups, it is proposed to amend the provisions relating to One Person Companies (OPC). Now OPC can be incorporated without a limit for turnover or paid-up capital.

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CAPITAL MARKET

The year 2020-21 has witnessed a significant increase in resource mobilization through capital market instruments such as initial public offers, rights issue and public issue (debt), according to the Economic Survey.

The total money raised by public and rights issue increased to ₹ 91,993 crore in the year 2020-21 (up to December 31, 2020) from ₹ 62,815 crore in the corresponding period last year.

The resource mobilization through public issue (equity) increased in April-December 2020 compared to the similar period for previous year, breaking the declining trend after a couple of years.

During April-December 2020, although the number of companies raising money through public issue reduced to 33 from 49 in the same period last year, ₹ 31,086.64 crore were mobilized during this period as compared to ₹ 10,950 crore in the similar period of previous year indicating an increase of 183.9 per cent in resource mobilization over the period.

On the other hand, resource mobilization through rights issues (equity) during April-December 2019 also increased moderately with resource mobilization of ₹ 60,906 crore, as compared to ₹ 51,856 crore in the corresponding period of last year

Primary Market Resource Mobilization through Public and Rights Issues

Issue Type	2019-20 (up to December)		2020-21 (up to December)	
	No. of Issues	Amount (₹ crore)	No. of Issues	Amount (₹ crore)
Public Issue (Equity)	49	10,949	33	31,086
Rights Issue (Equity)	13	51,865	16	60,906
Total Public Issue	**62**	**62,815**	**49**	**91,993**

Resource mobilization through issuance of debt securities to public declined significantly to ₹ 3,871 crore raised through 10 issues during April-December 2020, as compared to 11,746 crore through 27 issues in the corresponding period of the previous year.

During 2020-21 (up to December 31, 2020), Indian corporates preferred private placement route to gear up the capital in the corresponding period in previous year. ₹ 5.95 lakh crore was raised through 1,540 issues in April-December 2020 through private placements, as compared to ₹ 4.49 lakh crore through 1,295 issues in the corresponding period of previous year.

Primary Market Resource Mobilization through Debt Issues				
Issue Type	**2019-20 (up to December)**		**2020-21 (up to December)**	
	No. of Issues	**Amount (₹ crore)**	**No. of Issues**	**Amount (₹ crore)**
Public Issue (Debt)	27	11,746	10	3,871
Private Placement (Debt)	1295	4,49,939	1540	5,95,044
Total Debt Issue	**1322**	**4,61,685**	**1550**	**5,98,916**

The year 2020-21 (up to December) witnessed a decrease in resource mobilization through private placement route compared to that during the similar period for previous year. In April-December 2020, there were 183 issues mobilizing ₹ 91,631 crore through private placement compared to 229 issues raising ₹ 1,79,443 crore during the same period last year.

There was a net inflow of ₹ 2.76 lakh crore into the mutual funds industry during 2020-21 (up to December), as compared to a net inflow of ₹ 1.82 lakh crore in the corresponding period of last year. The net assets under management of all mutual funds increased by 16.9 per cent to ₹ 31.02 lakh crore at the end of December 31, 2020 from ₹ 26.54 lakh crore at the end of December 31, 2019.

There were net inflows to the tune of ₹ 2.1 lakh crore on account of the foreign portfolio investors (FPIs) in the Indian capital market during 2020-21 (up to December), as compared to net inflows of ₹ 0.81 lakh crore during the same period in 2019-20. The total cumulative investment by FPIs (at the acquisition cost) increased by 5.4 per cent to US$ 273.6 billion as on December 31, 2020 from US$ 259.5 billion as on December 31, 2019

During 2020-21 (up to January 31, 2021), India's benchmark indices, namely, Nifty50 and S&P BSE Sensex index reached record highs of 14,644 and 49,792 respectively on January 20, 2021 on a closing basis.

There were some significant corrections due to COVID-19 induced uncertainty in the beginning of this financial year, however both Nifty50 and S&P BSE Sensex index recovered strongly afterwards. The S&P BSE Sensex, the benchmark index of BSE, rose by 68.9 per cent to 49,792 on January 20, 2021, compared to 29,468 on March 31, 2020.

During the same period, Nifty 50 index of National Stock Exchange (NSE) gained by 70.3 percent from March 31, 2020 to January 20, 2021.

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ECONOMIC OUTLOOK

Overview

The Indian economy was negatively impacted by an unprecedented health crisis in 2020-21 with the highly contagious corona virus (Covid-19) spreading across the country. In response to the pandemic, Government had taken several proactive preventive and mitigating measures starting with progressive tightening of international travel, issue of advisories for the members of the public, setting up quarantine facilities, contact tracing of persons infected by the virus and various social distancing measures. Government imposed a strict 21 days nationwide lockdown from 25th March, 2020, under the Disaster Management Act, 2005, with subsequent extensions and relaxations, to contain the spread of Covid-19 while ramping up the health infrastructure in the country.

The lockdown measures, imposed to contain the spread of Covid-19 pandemic in India, ubiquitously affected employment, business, trade, manufacturing, and services activities. The real Gross Domestic Product (GDP) growth is projected to contract by 7.7 percent in 2020-21 as compared to a growth of 4.2 percent in 2019-20. GDP growth, however, is expected to rebound strongly in 2021-22 owing to the reform measures undertaken by the Government.

The Government announced a special economic and comprehensive package under Atmanirbhar Bharat of ₹ 20 lakh crore - equivalent to 10 percent of India's GDP –to fight the Covid-19 pandemic in India. Several structural reforms announced as part of the package, inter alia, include deregulation of the agricultural sector, change in definition of MSMEs, new PSU policy, commercialization of coal mining, higher FDI limits in defence and space sector, development of Industrial Land/ Land Bank and Industrial Information System, Production Linked Incentive Schemes, revamp of Viability Gap Funding scheme for social infrastructure, new power tariff policy and incentivizing States to undertake sector reforms has been initiated to support Economic growth.

Economic growth

As per the first Advance Estimates of annual national income released by the National Statistical Office (NSO), Real GDP is estimated to contract by 7.7 percent in 2020-21, as compared to a growth of 4.2 percent in 2019-20. This contraction in GDP growth is mainly attributed to the contraction in industry and services sector.

The growth of Gross Value Added (GVA) at constant (2011-12) basic prices is estimated to contract by 7.2 percent in 2020-21, as compared to a growth of 3.9 percent achieved in 2019-20. Positive growth in real GVA in agriculture & allied sectors at 3.4 percent in 2020-21 against 4.0 percent in PE of 2019-20 indicates resilience of rural economic activity to the Covid-19 pandemic. From the demand side, private consumption expenditure is estimated to contract at 9.5 percent in 2020-21 as against a growth of 5.3 percent in 2019-20 and fixed investment is estimated to decline by 14.5 percent in 2020-21 as against 2.8 percent in 2019-20. Government consumption final expenditure is estimated to grow at 5.8 percent in 2020-21 as against 11.8 percent in 2019-20. Exports and imports of goods and services are estimated to contract at 8.3 percent and 20.5 percent (at constant prices) respectively in 2020-21.

Prices

Inflation based on Consumer Price Index-Combined (CPI-C) has moderated from 5.9 percent in 2014-15 to 3.4 percent in 2018-19 and 4.8 percent in 2019-20. It averaged 6.6 percent in 2020-21 (Apr-Dec) and stood at 4.6 percent in December 2020. Food inflation based on Consumer Food Price Index (CFPI) declined from 6.4 percent in 2014-15 to 0.1 percent in 2018-19 and recorded 6.7 percent in 2019-20. It averaged 9.1 percent in 2020-21 (Apr-Dec) and stood at 9.5 percent in November 2020 but drastically declined to 3.4 percent in December 2020.

Inflation measured in terms of Wholesale Price Index (WPI) declined from 4.3 percent in 2018-19 to 1.7 percent in 2019-20. It averaged (-) 0.1 percent in 2020-21 (Apr-Dec) and stood at 1.2 percent in December 2020.

The Government has constantly monitored the prices situation and has taken number of measures from time to time to stabilize prices of essential food items. These include appropriately utilizing trade and fiscal policy instruments like import duty, Minimum Export Price, export restrictions, etc., to regulate domestic availability and moderate prices; imposition of stock limits and advising States for effective action against hoarders and black marketers; and, provision of higher Minimum Support Prices to incentivize farmers for increasing production. Government also implements Price Stabilization Fund

Central Government Finances

The fiscal deficit and revenue deficit for 2020-21 were budgeted at 3.5 percent of GDP and 2.7 percent of GDP respectively. The BE 2020-21 envisaged a tax to GDP ratio of 10.8 percent and total expenditure to GDP ratio of 13.5 percent. The envisaged growth for Gross Tax Revenue was 12 percent over 2019-20 Revised Estimates (RE). The total expenditure in BE 2020-21 was estimated to increase by 12.7 percent over 2019-20 RE.

However, the Covid-19 pandemic severely affected the Government revenues, while exerting pressure to increase Government Expenditure. As per the data on Union Government Finances released by Controller General of Accounts for April-November 2020, the Gross Tax Revenue decreased by 12.6 percent over the corresponding period of the previous year achieving 42.4 percent of the budget estimate.

The non-tax revenue declined by 46.6 percent during April-November 2020, over the corresponding period of the previous year achieving 32.3 percent of the budget estimate. At the end of November 2020, the non-debt capital receipts stood at 8.1 percent of the budget estimate. During April-November 2020, fiscal deficit reached 135.1 percent of the budgeted amount in 2020-21 higher relative to 114.8 percent of the budget estimate during the corresponding period of the previous year.

The revenue deficit for April-November 2020 is 139.9 percent of the budget estimate and is higher than the corresponding figure of 128.4 percent in the previous year. The Revised Estimates place fiscal and revenue deficits at 9.5 percent of GDP and 7.5 percent of GDP respectively in 2020-21.

Monetary Management and Financial Intermediation

Monetary policy remained accommodative during 2020. The Monetary Policy Committee (MPC) of the Reserve Bank met five times since March 2020. In view of the Covid-19 pandemic, the MPC advanced its first two meetings of 2020-21 from first week of April to end March and from first week of June to 20th May-22nd May. The repo rate has been cut by 115 bps since March 2020, with 75 bps cut in first MPC meeting in March 2020 and 40 bps cut in second meeting in May 2020. The policy rates were kept unchanged in further meetings, but the liquidity support was significantly enhanced.

During 2020-21, the growth of monetary aggregates witnessed higher growth as compared to previous few years on account of higher liquidity in the economy. In 2020-21 so far, Reserve money (M0) recorded a Year on Year (YoY) growth of 15.1 percent as on January 1, 2021 as compared to 12.3 percent a year ago. Expansion in M0 during 2020-21 so far was driven by currency in circulation (CIC) from the component side. The growth of Broad Money (M3) stood at 12.4 percent as on December 18, 2020, as compared to 10.4 percent in the corresponding period a year ago. Aggregate deposits contributed the most in the growth of M3.

External Sector

Merchandise exports (customs basis) during 2020-21 (April-December), were US$ 200.8 billion, which declined by 15.7 percent over the level of US$ 238.3 billion in the corresponding period of the previous year. During 2020-21 (April-December), merchandise imports were US$ 258.3 billion, registering a decline of 29.1 percent over the level of US$ 364.2 billion in corresponding period of the previous year. Oil imports declined from US$ 96.7 billion in 2019-20 (April-December) to US$ 53.7 billion in 2020-21 (April-December). Merchandise trade deficit improved from US$ 125.9 billion in 2019-20 (April-December) to US$ 57.5 billion in 2020-21 (April-December).

Amidst the uncertain and shaky global economic environment affected by Covid-19, India's external sector has emerged as a key cushion for resilience. In H1: FY 2020-21, steep contraction in merchandise imports and stable net service receipts led to a current account surplus of US$ 34.7 billion (3.1 percent of GDP).

Balance on the capital account, on the other hand, has been buttressed by robust FDI and FPI inflows. These developments have led to an accretion of foreign exchange reserves that rose to US$580.8 billion as on December 25, 2020.

The net FDI inflows at US$ 23.8 billion in H1 of 2020-21 were higher than US$21.3 billion in corresponding period of previous year, an endorsement of India's status as a preferred investment destination amongst global investors. After unprecedented sell-offs in March 2020 reflecting recessionary fears among global investors at the onset of the pandemic, foreign portfolio investment (FPI) witnessed strong rebound and recorded a net inflow of US$ 7.6 billion in H1 of 2020-21, more than the level recorded in H1: 2019-20. The average monthly exchange rate of rupee (RBI's reference rate) was ₹ 74.66 per US dollar in 2020-21 (April-December), as compared to ₹ 70.11 per US dollar during 2019-20. As compared to end-March 2020, there was a decrease in external debt of US$ 2.0 billion, which stands at US$ 556.2 billion as at end-September, 2020. However, the external debt to GDP ratio stands at 21.6 percent as at end-Sept, 2020, as against 20.6 percent as at end-March, 2020.

Sectoral Developments

Banking and Non-Banking Sector

Bank credit growth was 6.1 percent as on December 18, 2020 as compared to 7.1 percent in the corresponding period of the previous year. The non-food credit growth (YoY) was 5.6 percent in October 2020, as compared with a growth of 8.3 percent in October 2019. The moderation in credit growth in 2020-21 was witnessed in mostly all the sectors, barring services. Gross Non-Performing Advances (GNPA) ratio (i.e. GNPAs as a percentage of Gross Advances) of Scheduled Commercial Banks decreased from 8.2 percent at the end-March 2020 to 7.5 percent at end-September 2020. Restructured Standard Advances (RSA) ratio of Scheduled Commercial Banks (SCBs) increased from 0.36 percent to 0.41 percent during the same period. Overall, the Stressed Advances ratio of SCBs decreased from 8.6 percent at the end of March 2020 to 7.9 percent at end- September 2020. GNPA ratio of Public Sector Banks (PSBs) decreased from 10.25 percent at the end-March 2020 to 9.4 percent at the end-September 2020 and the Stressed Advances ratios decreased from 10.75 percent at end-March 2020 to 9.96 percent at end-September 2020. However, this has to be seen in conjunction with the asset classification relief provided to borrowers on account of Covid-19.

Non-Banking Financial Sector

Total assets of NBFCs had increased from ₹ 23.41 lakh crore in March 2018 to ₹ 29.23 lakh crore in March 2019, and further to ₹ 33.91 lakh crore in March 2020, resulting in an annual growth of 16.01 percent during 2019-20 as compared with 24.86 percent in 2018-19. There is an observable shift in the sources of funding of NBFCs. Banks' total exposure to NBFCs increased from ₹ 7.01 lakh crores in March 2019 to ₹ 8.04 lakh crores in March 2020, and further to ₹ 8.17 lakh crores in June 2020.

Agriculture

In 2019-20 (as per Fourth Advance Estimates), total food grain production in the country is estimated at 296.65 million tonnes which is higher by 11.44 million tonnes than the production of food grain of 285.21 million tonnes during 2018-19. Rice production during 2019-20 is estimated at 118.4 million tonnes as compared to 116.5 million tonnes in 2018-19. Wheat production during 2019-20 is estimated at 107.6 million tonnes as compared to 103.6 million tonnes during 2018-19. Government has increased Minimum Support Prices (MSP) for all mandated kharif, rabi and other commercial crops. The enhanced MSP ensures a return of 1.5 times overall India weighted average cost of production for the season 2020-21.

Milk production in the country has increased from 146.3 million tonnes (2014-15) to 198.4 million tonnes (2019-20). The per capita availability of milk is at 412 grams per day in (2019-20). The egg production in the country also increased from 103318 million in 2018-19 to 114419 million in 2019-20. The fish production in India has reached an all-time high of 14.07 million metric tons during 2019-20. Overall, the Fisheries sector of India has sustained an impressive average annual growth rate of over 10 percent from 2014-15 to 2018-19. The agricultural credit flow target for the year

2019-20 was fixed at ₹ 13,50,000 crore and against this target the achievement was ₹ 13,92,469.81 crore. The agriculture credit flow target for 2020-21 has been fixed at ₹ 15,00,000 crore and till 21st October, 2020 against this target a sum of ₹ 6,95,360.82 crore has been disbursed.

Industry

The performance of the industrial sectors based on the Index of Industrial Production (IIP) comprising mining, manufacturing and electricity registered a growth of (-) 0.8 percent in 2019-20 as compared to 3.8 percent in 2018-19. As per the sectoral classification, mining, manufacturing and electricity sectors registered 1.6 percent, (-) 1.4 percent and 1.0 percent growth during 2019-20 respectively. Among the use-based categories, primary goods, capital goods, intermediate goods, infrastructure/ construction goods, consumer durables goods and consumer non-durables goods have attained 0.7 percent, (-) 13.9 percent, 9.1 percent, (-) 3.6 percent, (-) 8.7 percent and (-) 0.1 percent growth respectively in 2019-20. The cumulative growth of IIP during April-November 2020-21 is (-) 15.5 percent as compared to 0.3 percent during April- November 2019-20.

The eight-core infrastructure supportive industries, viz. coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity that have a total weight of nearly 40 percent in the Index of Industrial Production (IIP) grew by 0.4 percent in 2019-20 as compared to 4.4 percent in 2018-19. The production of refinery products, fertilizers, steel and electricity increased by 0.2 percent, 2.7 percent, 3.4 percent and 0.9 percent respectively during 2019-20while the production of coal, crude oil, natural gas and cement fell by 0.4 percent, 5.9 percent, 5.6 percent and 0.9 percent respectively during the same period. The cumulative growth of eight core industries during April-November 2020-21 is (-) 11.4 percent as compared to 0.3 percent during April-November 2019-20.

Prospects

The stimulus measures and reforms initiated by the Government and liquidity measures by the RBI are expected to support industrial activity and demand. The movement of various high frequency indicators in recent months, points towards broad based resurgence of economic activity. The launch of Covid-19 vaccination program in the country will further add momentum to the economic recovery. In line with the projections for strengthening of India's growth by multi-lateral institutions, the nominal growth of the economy is expected to be 14.4 percent in the financial year 2021-22.

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SECTORAL ANALYSIS

Financial Services Sector — Positive

Budget Proposal

- Plans to privatize two public sector banks and one General Insurance company in F.Y 2021-22
- Public Sector banks will be further recapitalized with ₹ 20,000 crores
- Permissible FDI limit in Insurance Companies has been increased from 49% to 74%.
- An Asset Reconstruction Company and Asset Management Company would be set up to consolidate and take over existing stressed debt of public sector banks and manage through alternative investment funds.
- Minimum loan size for debt recovery under SARFAESI Act, 2002 is proposed to be reduced to ₹ 20 lakhs from ₹ 50 lakhs currently.
- The Government would support the development of a world class Fin Tech hub at the GIFT-IFSC.

Impact

- The change in the outlook of the divestment strategy with an aim to transfer ownership to private players represents a fresh change from sticky old regime of owning assets. Thus, potentially retriggering the valuation of all PSU banking stocks.
- Recapitalization of Public Sector banks to help increase equity base and improve Capital adequacy.
- Increasing FDI limit in Insurance will enable foreign players to own controlling stake in domestic insurance companies thus bringing in more portfolio investments towards the space.
- The formation of an ARC would help clean up books of public sector banks and alleviate NPA problems for the banks.
- Reduction in minimum loan size for debt recovery under SARFAESI will enable NBFCs to improve its collection efficiencies and bring in faster recoveries.

Infrastructure and Real Estate | Positive

Budget Proposal

- National Infrastructure Pipeline (NIP), which was initially launched with 6835 projects; project pipeline has now expanded to 7400 projects.
- Set up of a Development Financial Institution (DFI) for long term infrastructure financing. FM has provided a sum of ₹ 20,000 crores to capitalize this institution with an ambition of having lending portfolio of ₹ 5 lakh crores in 3 years.
- A "National Monetization Pipeline" of potential brownfield infrastructure assets will be launched with focus on monetization of roads, transmission assets, Dedicated Freight Corridors (DFCs), Oil & Gas pipelines, Warehousing assets of CPSEs, Airports and Sports Stadiums.
- Under Bharatmala Pariyojana project, government plans to award another 8,500 kms and complete an additional 11,000 kms of national highway corridors by March 2022.
- Enhanced outlay for Ministry of Road Transport and Highways is ₹ 1.18 lakh crores and Railways is ₹ 1.10 lakh crores.
- Western Dedicated Freight Corridor (DFC) and Eastern DFC will be commissioned by June 2022.
- Major ports operation services will be privatized. 7 projects worth ₹ 2000 crore or more will be offered by major ports on Public Private Partnership model in FY21-22.
- Enhanced allocation to Rural Infrastructure Development Fund from ₹ 30,000 crores to ₹ 40,000 crores.

Impact

- Increase in infrastructure project pipeline will give required boost to overall economy and should have trickle effect in the long term.
- Setup of DFI will act as a provider, enabler and catalyst for infrastructure financing which was a much needed.
- National Monetization Pipeline to help companies to reduce capital requirement.
- Awarding additional highway projects under Bharatmala Pariyojana project will improve urban mobility and intercity movement.

- DFC will bring down logistics cost, ensuring faster on time deliveries and thereby enabling make in India strategy a reality.
- Privatization of operational services of Ports will improve their efficiency thereby reducing the transit time.
- Increased allocation towards Rural Infrastructure Development will make more funds available for rural development.

Agriculture — Positive

Budget Proposal

- Agriculture credit targets have been revised to ₹ 16.5 lakh crores in FY22. With focus on credit to animal husbandry, diary and fisheries.
- Ensured MSP at minimum 1.5 times the cost of production across all commodities.
- Micro Irrigation Fund has been created under NABARD with an initial corpus of ₹ 5000 crores. FM proposed to double corpus by augmenting another ₹ 5000 crores.
- Scope of 'Operational Green Scheme' that is presently applicable to tomatoes, Onions, Potatoes, will be enlarged to include 22 perishable products.
- 1000 more mandis will be integrated with e-NAM.
- Fertilizer Budget significantly. The revised outlay is up 98.6% to ₹ 94.95 thousand crores for Urea. Overall Fertilizer subsidy is up 87.8% to 1.34 lakh crore.

Impact

- Upward revision of agriculture credit target will enable easy access to capital for Farmers.
- The increased MSP has helped farmers to get fair price for their produce.
- Expanding the scope of 'Operational Green Scheme' will stabilize price and supply of additional 22 perishable products.
- Establishment of Mandis will help farmers with better price discovery and providing facilities for marketing of their produce.

- The increased allocation towards fertilizer budget would ensure prompt payments enabling clearing of all due.

Capital Goods — Positive

Budget Proposal

- For PLI Scheme government has committed ₹ 1.97 Lakh Crores over 5 years starting FY21-22 in 13 sectors.
- A Scheme of Mega Textiles Park (MITRA) will be launched, which will create world class infrastructure with plug and play facilities to enable create global champions in exports. 7 textile parks will be established over 3 years.

Impact

- PLI scheme will create and nurture global manufacturing base in India, bring scale and size and provide jobs to the youth.
- The scheme of mega textiles park will help us become more globally competitive, attract large investments and boost employment generation and exports.

Energy – Power, Oil and Gas — Neutral

Budget Proposal

- Consumers to have alternatives to choose the distribution company for enhancing competitiveness.
- A revamped reforms-based result-linked power distribution sector scheme will be launched with an outlay of ₹ 3,05,984 crores over 5 years. The scheme will aid DISCOMS for Infrastructure creation including pre-paid smart metering and feeder separation, upgradation of systems, etc., tied to financial improvements.
- Will add 100 more districts in next 3 years to City Gas Distribution network.
- Gas pipeline project will be taken up in Union Territory of Jammu & Kashmir.
- An additional capital infusion of ₹ 1000 crore to Solar Energy Corporation of India and ₹ 1500 crores to Indian Renewable Energy Development Agency.
- Extension of Ujjwala Scheme to cover 1 crore more beneficiaries.

Impact

- Alternative to choose distribution company will reduce monopolies of public and private players in electricity distribution.
- Reforms will help troubled power distribution companies, aid financial improvement, and strengthen DISCOMS.
- Natural Gas will reach more districts across the country.
- Capital infusion towards Solar Energy Corporation of India and India Renewable Energy Development Agency will give required boost to non-conventional energy sector.
- LPG connections will reach more beneficiaries.

Automobile — Positive

Budget Proposal

- FM introduced voluntary vehicle scrapping policy, to phase out old and unfit vehicles. Vehicles would undergo fitness tests in automated fitness centers after 20 years in case of personal vehicles, and after 15 years in case of commercial vehicles.
- Under the PLI scheme, almost 1/3rd is earmarked for auto and auto component manufacture. Increase in custom duty rate on parts of vehicles from 10% to 15%
- Reduction in custom duty on steel products to 7.5%

Impact

- Scrappage policy to boost the demand of commercials as well as private vehicle there by reducing carbon footprints in the form of reduced pollution levels.
- This will promote domestic manufacturing and global investments.
- It will benefit Auto OEMs which will trickle down to end customers thus help in boosting demand.

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