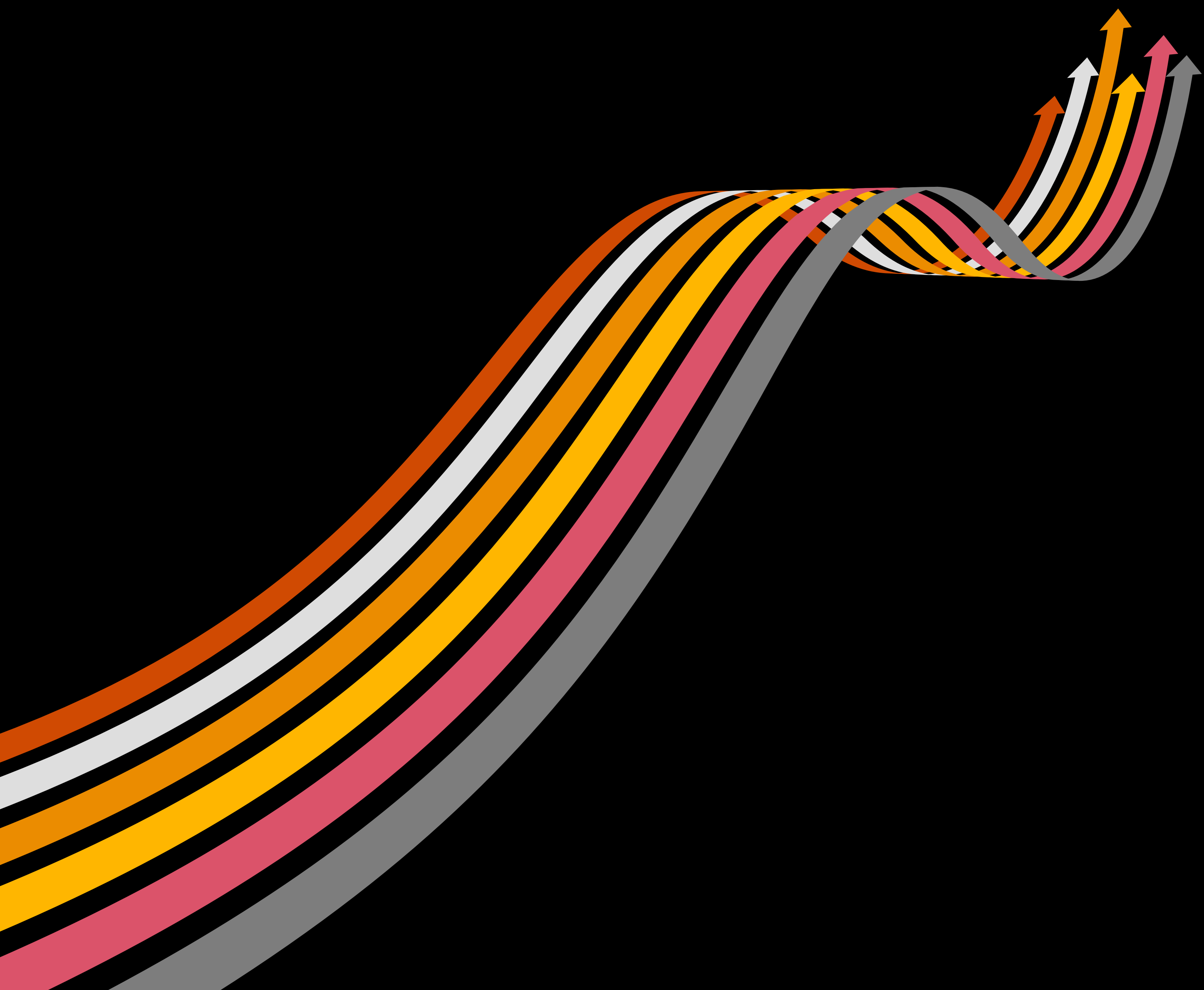
# Powering sustained growth

## Union Budget 2022-23

February 2022



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# Preface

The run-up to the budget witnessed a positive sentiment based on a robust vaccination programme, a tapering Omicron wave, favourable response to the Production Linked Incentive (PLI) schemes announced in the last few years, a vibrant start-up ecosystem with the third-highest number of unicorns in the world after the US and China, and strong revenue collections.

With this backdrop, the budget announcements are largely continuing the Government's priorities in the last few years. The key themes in the budget are around – (i) capex and productivity enhancement with a focus on infrastructure projects, export promotion and start-ups, (ii) announcements on inclusive and sustainable growth through several initiatives for the micro, small and medium enterprise (MSME) sector, agriculture, skill development, affordable housing, EVs, solar power and carbon neutrality, (iii) ease of doing business with significant focus on digitisation of services, land record management, and accelerated corporate exits, and (iv) promoting social well-being with announcements in accessing health services, tap water, supplementary education in regional languages and a digital university.

On the tax front, the Finance Minister has continued with the underlying theme of providing a stable and predictable tax regime, promoting voluntary compliance and reducing litigation. The extension of time limits for newly set-up manufacturing companies and start-ups to be eligible for a concessional tax regime are big positives, as these sectors have become crucial contributors to India's growth story. The provisions for taxation of virtual digital assets will provide much-needed tax certainty on such transactions.

Finally, on the indirect tax front, the budget proposals aim at serving the Government's long-term vision of 'Make in India' and sustainable growth. In this direction, the Finance Minister has continued to rationalise various customs duty exemptions and has sought a gradual phase out of concessional rates on capital goods. Furthermore, as part of the Digital India initiative and promoting ease of doing business, reforms focusing on IT-driven customs administration of special economic zones (SEZs) have been proposed.

Whilst India is in the midst of its 75th year of independence, it is still among the youngest countries in the world in terms of its populace. With growth at its cornerstone, the budget has provided a booster dose for sustaining it in the short and medium term. It has also provided a blueprint for fueling India's aspirations and expectations as the country commences its journey towards India@100.

# Industry speaks

“ The Union Budget 2022-23 is a Budget with a vision to transform India in the medium term. The budget has adopted a new economic growth template for “Amrit Kaal” (run up to India@100) by promoting capital expenditure led economic growth. Outlay of Capital expenditure of Rs 7.5 lakh crore, up ~35% YoY (and at 2.9% of GDP) along with expanding the scope of private capex through PLI for new age segments is expected to deliver inclusive growth, job creation and welfare for all.

The Budget also seems to be presented in the backdrop of likely pandemic aftereffect which is reflective in the relatively conservative estimation of growth (merely ~11% nominal GDP in FY23) and receipts. Thus, there is a likelihood of lower than projected fiscal deficit. With growth oriented focus intact in the Budget, we expect economic and capital market buoyancy to remain.

**Vijay Chandok,** MD and CEO,
ICICI Securities Ltd

“ Overall the budget has been very positive for the start-up ecosystem. The government has put a fine balancing act and this will surely pave the way for many aspiring businesses and give an impetus to startups.

**Ruchit Agarwal,** CFO and
Cofounder, Cars24

“ A futuristic budget with a vision to support India’s journey towards becoming a stronger and more resilient economy. Initiatives like capital gains tax on transfer of virtual assets and introduction of Digital Rupee demonstrates the commitment to move with changing times. Increased allocation to PLI schemes and continued emphasis on capex for physical infrastructure development will create new opportunities and strengthen the domestic economy.

**Lalit Kasliwal,** CFO,
Tata International

“ Overall Budget is supportive for the technology sector and provides a boost to sunrise sectors such as AI, Drones, Space tech and EV.

**Abhishek Gupta,** CFO, OYO

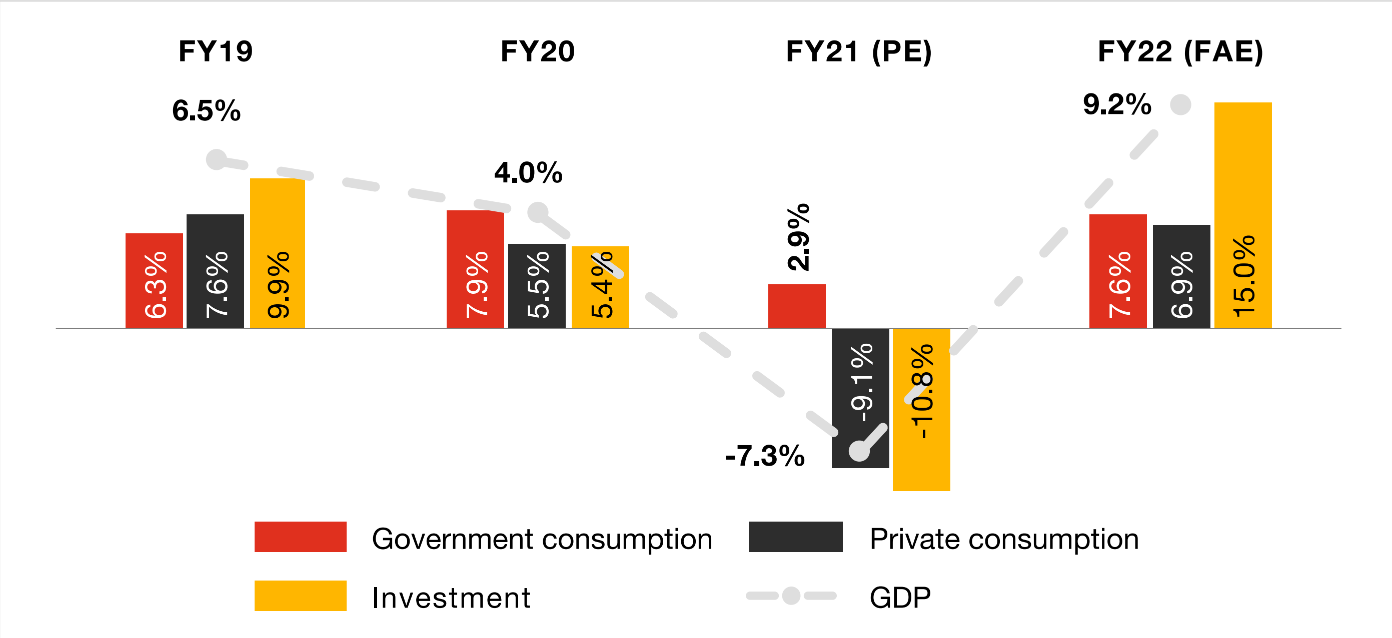
“ The Budget is clearly prioritising growth over fiscal consolidation, which is the right way to go in the near term. Further, the announcements reflect consistency and continuity, which is very important to build long term sustainable growth. From here on, speed and excellence in execution will be key to achieving the desired outcomes.

**Niranjan Gupta,** CFO,
Hero MotoCorp Ltd

# Economic outlook

India is likely to reap the benefits of improved vaccination coverage in FY2023 in the form of higher consumer confidence, improved labour supply and normalisation of supply chains. Government revenues are likely to improve based on economic recovery and tax efficiency gains. The government has done groundwork to initiate disinvestment in several public sector enterprises, including the LIC's IPO. This is likely to increase the government's disinvestment receipts for FY2023. The government's schemes to boost domestic manufacturing including the PLI scheme and the scheme to boost semiconductor and display manufacturing are likely to strengthen the industrial output and exports. Despite these upsides, there are several risks of which we need to be watchful, including rising input cost and volatility in food and oil prices, sluggish recovery in private consumption and investment, supply side constraints, geopolitical risks in certain hotspots such as Ukraine and the Middle East, and the likely repeat of taper tantrums with tightening of the global monetary policy.

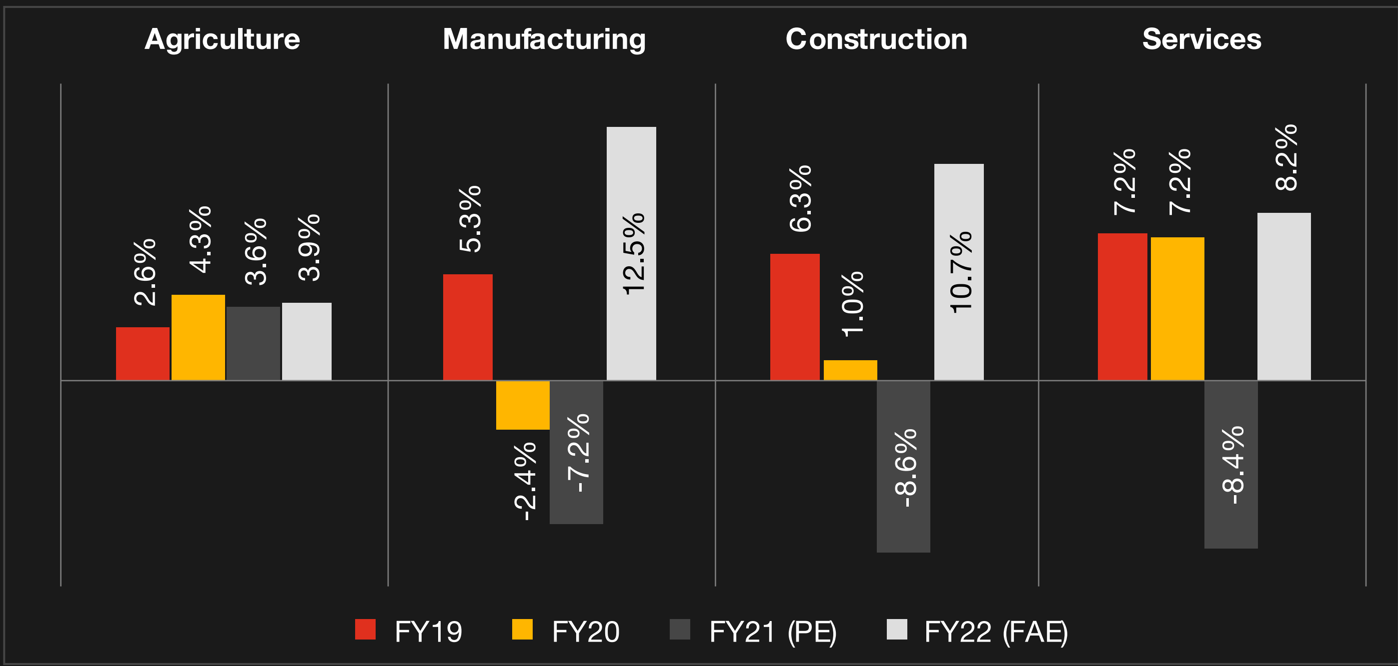
**Annual growth of GDP and demand components at constant prices**




Source: First advance estimates of GDP by the NSO, Ministry of Statistics and Programme Implementation (MoSPI). *PE: provisional estimates.

# Economic outlook

**Annual growth of sectoral gross value added at constant prices**




Source: First advance estimates of GDP by the NSO, MoSPI.

**Indian economy:** As per the first advance estimates (FAE) released by the National Statistical Office (NSO) that are used as the base for the budget making, India's GDP has declined by 7.3% in FY2021 due to the first COVID-19 wave and the accompanying lockdown restrictions. With accelerated vaccination and less stringent lockdowns during FY2022, India's GDP is estimated to grow by 9.2%, although over a lower base. GDP in FY2022 is expected to be 1.3% higher than that in FY2020, indicating a slight growth from the pre-pandemic level. Private consumption is expected to grow by 6.9% in FY2022 but is likely to remain below the FY2020 level, indicating that consumption recovery has not been broad based. Although there has been partial resumption of contact services during Q2 and Q3 of FY2022, muted rural demand and uncertainties caused by the second and third waves of the pandemic have prevented a substantial increase in private consumption. Government consumption is expected to increase by 7.6% in FY2022 with reliance on higher spending during the second half of the year crossing the pre-pandemic level by 10.7%. Investment is estimated to grow by 15% over FY2021 and by 2.6% over FY2020. This increase is largely to be driven by government capital expenditure, with significant spending generally taking place during Q4. The agriculture sector has shown resilience to the pandemic and is estimated to grow at 3.9% in FY2022, mainly due to a good monsoon, adequate availability of fertilisers and seeds, increased acreage, and efficient procurement of food grains. The manufacturing sector is expected to grow by 12.5% over FY2021 and by 4.4% over the pre-pandemic level owing to the boost in domestic and export demand. The services sector's output is estimated to remain 0.8% below the pre-pandemic level, although growing 8.2% over the FY2021 level. Trade, hotels, transport, communication and services related to broadcasting have witnessed a decline of 8.5% from the pre-pandemic level, indicating slow recovery in contact-based services and sensitivity to pandemic resurgence.

# Economic outlook

While the FAE are used for budget estimate computations, it is important to highlight that the first revised estimates (REs) of national income are released by the NSO on 31 January 2022. As per these REs, GDP growth for FY2021 is revised upwards to -6.6% from the earlier estimate of -7.3% and GDP for FY2020 is downward revised to 3.7%. Thus, by applying the revised base of FY2021 GDP over the advance estimate of FY2022 GDP, the economic growth for FY2022 is estimated to be 8.8%.

## Fiscal position

As per the REs, fiscal deficit is estimated to be 6.9% of the GDP for FY2022, which is higher than the 6.8% budgeted for the year based on a rise in government expenditure, especially capital expenditure, despite revenue collections performing better than budgeted. For FY2023, the Government has budgeted the fiscal deficit to be 6.4% of the GDP. The government has reiterated its commitment to the earlier announced fiscal glide path of 4.5% fiscal deficit by FY2026.

The government has budgeted an increase of 9.6% in the net tax revenue and a decline of 14.1% in the non-tax revenue as compared to FY2022 RE. Disinvestment receipts are budgeted to be INR 780bn in FY2023. Moreover, an increase of only 0.9% has been budgeted for revenue expenditure, while capital expenditure for FY2023 has been budgeted to rise by 24.5% over FY2022 RE, thereby further improving the quality of deficit. Sectors that are to receive higher allocation in FY2023 include education, IT and telecom, and transport. Sectors that are to receive lower allocations compared to last year's revised budget include finance, subsidies, tax administration and rural development. Additionally, grants in aid to states for capital expenditure are budgeted to increase by 33.6% over FY2022 RE.

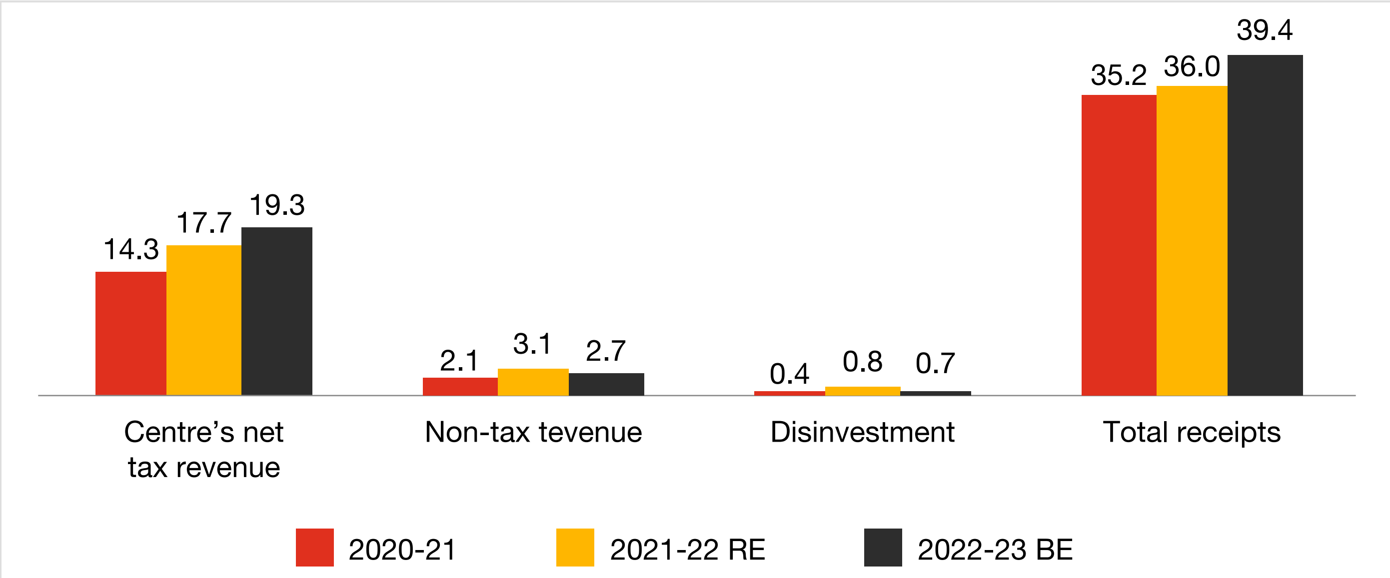
**Fiscal deficit: Rolling targets as a percentage of GDP**

| Fiscal Deficit as a % of GDP | 2019–20 | 2020–21 | 2021–22 | 2022–23 | Medium term |
|---|---|---|---|---|---|
| Budget 2020–21 | 3.8% (RE) | 3.5% (BE) | 3.3% (projection) | | 3.1% by 2022–23 (projection) |
| Budget 2021–22 | | 9.5% (RE) | 6.8% (BE) | | 4.5% by 2025–26 (projection) |
| Budget 2022–23 | | | 6.9% (RE) | 6.4% (BE) | 4.5% by 2025–26 (projection) |

*BE: budgeted estimate.

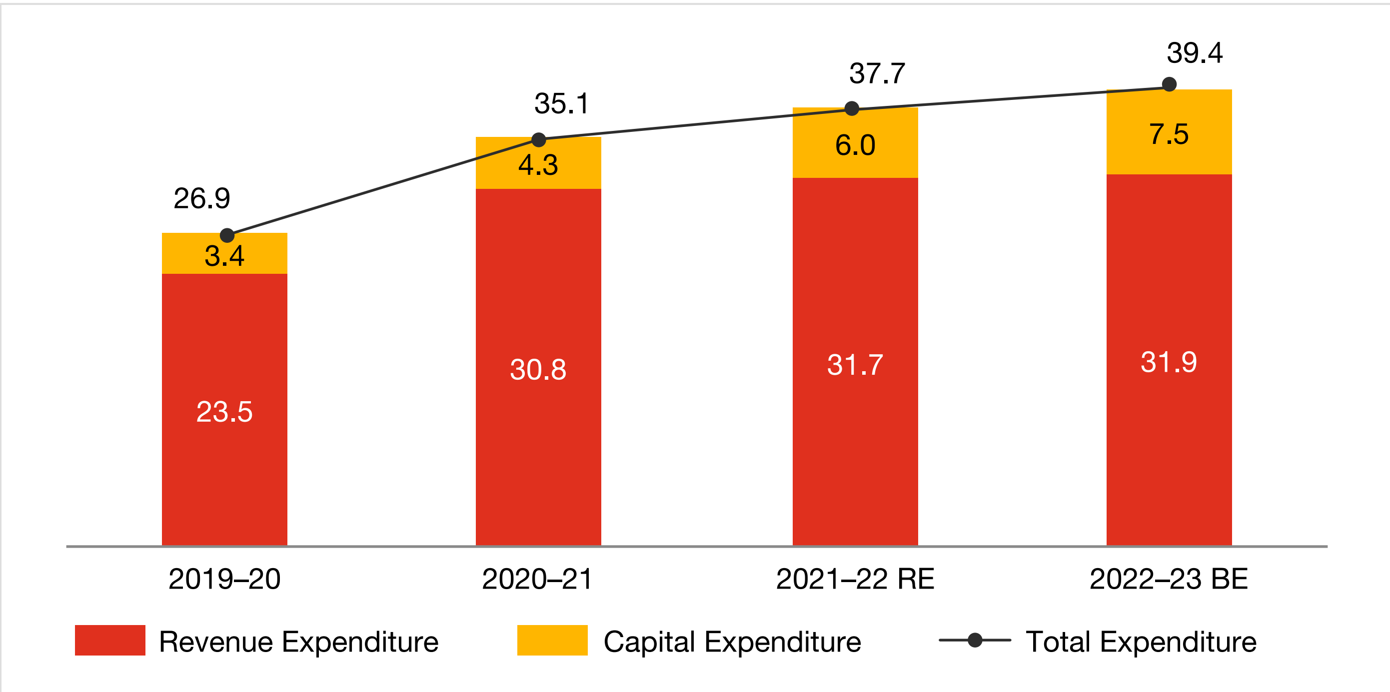
# Economic outlook

### Receipts of the Central Government (INR trillion)




Source: Union Budget 2022–23

### Expenditure of the Central Government (INR trillion)




Source: Union Budget 2022-23

# Key sector announcements

## Health and pharma sector

### Key announcements

- The budget has announced the ‘National Tele Mental Health Programme’, which includes a network of 23 tele-mental health centres of excellence, with National Institute of Mental Health & Neurosciences being the nodal centre.
- Under the Ayushman Bharat Digital Mission, an open platform consisting of digital registries of various health providers and facilities are to be rolled out. This National Digital Health Ecosystem also includes aspects of unique health identity and consent framework, and will assist in enabling universal access to health facilities.
- Two hundred thousand Anganwadis (rural childcare centres) are to be upgraded to ‘Saksham Anganwadis’ to have better infrastructure and audio-visual aids, be powered by clean energy and thus provide improved environments for early child development.
- There is additional spending of INR 600bn under the ‘Har Ghar, Nal Se Jal’ scheme to cover 38m households.
- Customs duty rates are being calibrated to provide a graded rate structure to facilitate domestic manufacturing of wearable devices, hearable devices and 28 electronic smart meters.
- Government is to contribute to R&D in sunrise opportunities such as in genomics and pharmaceuticals.

# Key sector announcements

## Health and pharma sector

### Key takeaways

- The pandemic has revealed a silent mental health epidemic globally. It is estimated that at least one in eight Indians has a mental affliction. However, mental health has been ignored hitherto. The use of telemedicine to diagnose and treat such patients has proven to be highly effective given the unobtrusive nature of the interaction, which also maintains patient privacy. Given the shortage of mental health professionals, especially in rural areas, telemedicine will greatly enhance accessibility for patients requiring psychiatric help. Funding for Indian mental health start-ups has seen exponential growth of four to five times in the past year.
- The National Digital Health Ecosystem is an extension of various initiatives announced under the Ayushman Bharat Digital Mission in the last couple of months. The digital health register can help create a comprehensive interoperable network to store and fetch health records. An open platform will encourage wider adoption and innovation encompassing start-ups, ensuring adoption similar to that of the UPI. The key is to extend the coverage to the million-plus providers in the country and bring them to this platform. A start is required to be made by integrating existing registries. This will need centre-state cooperation, as health is a state subject.
- One out of five start-ups in India is linked to healthcare. The benefits in this budget will create an enabling environment for them to increase accessibility and affordability for the larger population.
- Anganwadis are at the forefront of delivering healthcare, especially in the rural areas. Upgrading these Anganwadis will enable last-mile delivery of quality care.
- Providing clean water under the 'Har Ghar, Nal Se Jal' will help reduce the burden of communicable disease, which continues to remain a major cause of daily-adjusted life years in the country. The prevalence of diseases related to water, sanitation and hygiene in India is greater than 5% among all outpatient visits and hospital admissions.
- Calibration of customs duty rates will boost digital health. Moreover, 'Make in India' wearables will alter the way people track and monitor health in India.
- A want for a stronger focus on R&D to propel India on the innovation curve was expected.

# Key sector announcements

## Infrastructure and logistics

### Key announcements

- Roads, railways, airports, ports, mass transport, waterways and logistics infrastructure are identified as key engines to drive PM Gati Shakti for speedier implementation of the infrastructure. Further, one hundred PM Gati Shakti cargo terminals are to be developed in railways over the next three years.
- Capital expenditure is increased substantially by 35.4% to INR 7,500bn.
- National highways are to be expanded by 25,000 km in FY 2022–23. There is to be mobilisation of INR 200bn through innovative financing.
- Multimodal logistics parks are to be developed at four locations under PPP model in FY 2022-23. There is to be multimodal connectivity between mass urban transport and railway stations. The design of metro systems, including civil structures, is to be re-oriented and standardised for Indian conditions.
- The postal and railways networks are to be integrated for seamless movement of parcels.
- The 'One Station-One Product' concept can help local businesses and supply chains.
- Data are to be exchanged among all mode operators through the Unified Logistics Interface Platform (ULIP) to ensure efficient movement of goods, reduce logistics cost and time, eliminate tedious documentation and provide real-time information. An open-source mobility stack to organise seamless travel of passengers is also being facilitated.
- Data centres and energy storage systems are to be included in 'infrastructure'.
- Under the National Ropeways Development Programme, eight ropeway projects of 60 km are to be awarded in FY 2022-23 under the PPP model.

# Key sector announcements

## Infrastructure and logistics

### Key takeaways

- Transport infrastructure and logistics appear to have taken centre stage with this budget. The focus on PM Gati Shakti to speedily deliver infrastructure projects is renewing the emphasis on on-ground delivery to ensure that planned benefits of projects are realised quickly and substantially, and that the projects are not hostage to delays and lack of coordination.
- The increase in capital expenditure outlay by ~35% to INR 7,500bn reflects a continuation of the commitment over the years where capital asset creation is emphasised given its multiplier effect on the economy.
- The emphasis on capacity building of ministries and infrastructure agencies, to implement PM Gati Shakti and make infrastructure and PPP projects viable by addressing issues of risk allocation, can substantially address the risk perception of project owners and financiers.
- The allocation of INR 1,000bn to states for capital investment is a significant positive takeaway and sets the stage for enhanced collaboration in planning and delivery of infrastructure and capital investment projects. For states to benefit from this nearly seven-fold increase in outlay, there must be a concerted effort in project preparation at the state level, which in turn calls for significant capacity building for project preparation at the state level.
- The role of technology in logistics could see a big leap with unveiling of the ULIP. This can enable a massive rise in technology-led solutions, as both established players and the start-up ecosystem can leverage the underlying data.

# Key sector announcements

## Aerospace and defence

### Key announcements

- The total defence budget is INR 3,853.7bn (excluding pension) denotes an increase of 11% compared to the FY 2021–22 budget (4.6% compared to the revised estimate for FY 2021–22).
- The capital budget has increased by 12.8% and the revenue budget by 9.9%.
- There is a 10.4% growth on the budgeted estimate for capital expenditure on equipment modernisation.
- There is continued focus on Atmanirbharta in the defence sector:
  - Of the capital procurement budget, 68% is earmarked for the domestic industry, up from 58% last year.
  - Of the defence R&D budget, 25% is earmarked for the industry, start-ups and academia.
  - Private industry is to be encouraged to design and develop defence platforms and equipment in collaboration with the Defence Research and Development Organisation and other organisations through SPVs.
  - An independent nodal umbrella body is to be set up to meet testing and certification requirements.
- There is a focus on sunrise opportunities: artificial intelligence, geospatial systems and drones, semiconductors and their ecosystem and space economy.

### Key takeaways

- Geopolitics and threat perception has ensured an 11% increase in the defence budget which is an encouraging step for the industry.
- Of the capital budget, 68% is earmarked for domestic industry, which would promote indigenisation in both the public and private sectors and boost 'vocal for local'.
- Capital outlay and the revenue budget has been increased to meet the equipment and platform requirements of the Armed Forces.
- Creation of a nodal agency for the testing and certification necessities of defence equipment would work towards timely processes and bring cost efficiencies.
- Twenty-five percent of the R&D budget for the aerospace and defence ecosystem will infuse investments into private sector innovation, design and development.
- A focus on artificial intelligence, geospatial systems, drones, semiconductors and space would work towards meeting the requirements of preparing our Armed Forces for future warfare.

# Key sector announcements

## Automotive

### Key announcements

- A battery swapping policy will be brought out and inter-operability standards will be formulated.
- The private sector will be encouraged to develop sustainable and innovative business models for ‘Battery or Energy as a Service’.
- Commitment to build 25,000 km of highways
- Enhanced expenditure on rural infrastructure and a large outlay for MSP for supporting rural economic growth.
- The PM GatiShakti National Master Plan has laid a specific focus on multi-modal connectivity
- An additional excise duty of INR 2 per litre on unblended fuel will be imposed from 1 October 2022.

### Key takeaways

- These efforts will improve efficiency in the EV eco-system and will accelerate India’s transformation towards clean and green mobility
- The additional expenditure on infrastructure will be a demand catalyst for the commercial vehicle (CV) segment and the large outlay for MSP will boost the demand for two-wheeler and tractor segments as well.
- The PM GatiShakti National Master Plan will reduce logistics costs and improve the transport network. This will indirectly impact the CV industry with a positive impact on heavy trucks and light commercial vehicles.
- The additional excise duty will encourage blending of fuel, and we expect OEMs to further invest in clean and blended fuel engines.

# Key sector announcements

## Industrial products

### Key announcements

- The national highways network will be expanded by 25,000 km in 2022–23, 8m houses will be completed under the Pradhan Mantri Awas Yojana and 400 new-generation Vande Bharat trains will be manufactured in three years.
- The Raising and Accelerating the MSME Performance (RAMP) programme, with an outlay of INR 60bn over five years, will be rolled out.
- Additional allocation of INR 195bn will be made for the PLI for manufacturing high-efficiency solar photo-voltaic modules.
- The concessional rates in capital goods and project imports will be phased out gradually and a moderate tariff of 7.5% will be applied.
- There will be reforms in the SEZ regulations to optimally use the infrastructure and enhance export competitiveness.

### Key takeaways

- A focus on building the national highways network, affordable homes under the PM Awas Yojana and new-generation trains is expected to increase the demand for sectors such as cement, engineering goods and industrial manufacturing.
- Support for the MSME sector in the manufacturing space (RAMP) will improve credit and market access and help it rebound from the COVID-19-induced crisis.
- The PLI scheme for solar photo-voltaic modules will boost the 2021 United Nations Climate Change Conference's commitment of green energy along with encouraging the 'Make in India' initiative.
- The balanced approach of phasing out of import duty concessions for capital goods and machineries in sectors such as chemicals and textiles may have a short-term adverse impact of increasing capital expenditure. However, this will enhance resilience in the overall supply chain besides boosting the demand for the capital goods sector.
- This is a capital-expenditure-led growth-oriented budget with a strong focus on building self-reliance in the industrial products and capital goods sectors.

# Key sector announcements

## Financial Services

### Key announcements

- The Emergency Credit Line Guarantee Scheme is extended until March 2023, whilst the guaranteed cover is increased to INR 5,000bn.
- The core banking system will be implemented in post offices.
- A total of of 75 digital banking units are to be set up in 75 districts of the country by scheduled banks.
- The RBI will launch the digital rupee in FY23.
- There is an overall increase in capital expenditure, logistics and transport for economic growth, with an emphasis on surety bonds for providing risk mitigation of lengthy and large projects.
- The GIFT city will have (i) an international arbitration centre and (ii) world-class universities free from domestic regulation.

### Key takeaways

- The extension of the ECLGS scheme is a boon for the growth of MSMEs, which have taken a big hit after the pandemic, since it can incentivise banks and NBFCs to extend more financial support to the most impacted MSMEs. Additionally, it will help drive business growth for MSME-focused banks and NBFCs.
- The Government's move to bring 150,000 post offices to the core banking system for financial inclusion will see additional flow of money in savings schemes, mutual funds and insurance, along with increased lending with the addition of new customers to the banking channels.
- The issuance of digital currency will reduce the printing and maintenance costs of currency and rationalise the transactions costs.
- The introduction of surety bonds will open up a fresh stream of insurance revenue and capital; it could even invite many specialised insurance companies with foreign capital to India.
- The international arbitration centre at GIFT city will facilitate faster dispute resolution and improve the ease of doing business, while universities will help develop requisite skills and capabilities.

# Key sector announcements

## Technology, media and telecom

### Key announcements

- The 5G spectrum auction is to be rolled out in FY22–23.
- Bharat net is being pushed by increasing the optical fibre network to reach further into the rural and remote areas of India.
- An animation, visual effects, gaming and comics (AVGC) promotion task force will be built to serve domestic and international demand.
- The RBI will introduce digital rupee using blockchain and other technologies. A comprehensive tax framework for virtual digital assets (VDAs) has also been announced.
- Information and communications technology infrastructure and data centres are being considered as infrastructure and are treated as basic infrastructure as part of the PM Gati Shakti plan.
- The e-Passport will be rolled out in FY2022–23, embedded with chip and futuristic technology.
- There is impetus on electronics manufacturing.
- An expert committee will be set up to suggest measures for scaling up venture capital and private equity investments.
- Start-ups are to be promoted to facilitate 'Drone Shakti' through various applications and to promote drone-as-a-service.


### Key takeaways

- The budget is focused on moving forward the agenda of a digital India with digital infrastructure, digital governance and digital trust as key underlying themes.
- Setting up of the AVGC promotion task force is likely to lead to timely efforts that will help scale up the entertainment and media sector to realise the supply-side opportunities it presents to India.
- Keeping pace with the emerging market, India has paved the way to accept the digital rupee issued by the RBI as a legal tender.
- Favourable announcements for start-up sector and the VC and PE space are welcome. These measures are expected to increase the competitiveness of tech-enabled start-ups and create a conducive environment for investments and deal activity.

# Key sector announcements

## Power and mining

### Key announcements

- The government, for FY 2022-23 has already introduced a scheme allowing additional borrowing space for states by 0.5% of the gross/ net state domestic product, based on the power sector's performance.
- The government is to promote a shift to the use of public transport in urban areas. This is to be complemented by clean tech and governance solutions, special mobility zones with zero fossil-fuel policy and EVs.
- To facilitate domestic manufacturing for the ambitious goal of 280 GW of installed solar capacity by 2030, an additional allocation of INR 195bn is made for PLIs for the manufacture of high-efficiency modules, while prioritising fully integrated manufacturing units from polysilicon to solar photo-voltaic modules.
- Biomass pellets of 5%–7% will be used for co-firing in thermal power plants, resulting in carbon dioxide savings of 38 mmt annually.
- Energy efficiency and savings measures are to be promoted in large commercial buildings through the energy service company (ESCO) business model. This will facilitate capacity building and awareness for energy audits, performance contracts and the common measurement and verification protocol.
- Data centres and energy storage systems including dense charging infrastructure and grid-scale battery systems are to be included in the harmonised list of infrastructure. This will facilitate credit availability for digital infrastructure and clean energy storage.
- The Ken-Betwa Link Project is to be implemented with 103 MW of hydropower and 27 MW of solar power. Allocations of INR 43bn in revised estimates for 2021–22 and INR 14bn for 2022–23 are made for this project.
- Four pilot projects for coal gasification and conversion of coal into chemicals required for the industry are to be set up to evolve technical and financial viability.
- As part of the government's overall market borrowings in FY 2022-23, sovereign green bonds are to be issued to mobilise resources for green infrastructure. The proceeds are to be deployed in public sector projects to help reduce the carbon intensity of the economy.

# Key sector announcements

## Power and mining

### Key takeaways

- Focus of the budget is clearly on production and adoption of green energy. A lot of emphasis is placed on promoting domestic manufacturing of solar modules from polysilicon through an additional INR 195bn PLI scheme.
- Adoption of solar and other renewables in various schemes through decentralised modes and promotion of renewable energy generation has been announced. This is to help achieve 500 GW of renewables by 2030, as announced by Prime Minister in Glasgow.
- Energy efficiency has been recognised as a key element in the overall energy industry. Promotion of ESCO in commercial buildings and adoption of energy efficiency in new trains will go a long way in spreading its reach in new areas.
- Sovereign green bonds are a new idea that will provide necessary funding to create green infrastructure at a cheaper rate.

# Key sector announcements

## Retail and consumer

### Key announcements

- There are to be duty concessions in certain consumer electronic devices, wearable and hearable devices and certain mobile phone parts.
- A simplified regulatory framework is to be implemented for the export of jewellery through e-commerce.
- Exemptions are provided on manufacturing components such as embellishment, lining material, specified leather, furniture fittings and packaging boxes that may be needed by exporters of handicrafts, textiles and leather garments, leather footwear and other goods.
- Significant impetus is provided to farmers and the agriculture sector by promoting chemical-free farming, ‘kisan drones’, funding under the co-investment model facilitated through the NABARD to finance agritech start-ups and rural enterprises relevant to the farm produce value chain.
- The nation’s road and rail networks are to be expanded and built under the PM Gati Shakti Masterplan. This includes the development of 400 new-generation Vande Bharat trains, expansion of the national highway network by 25,000 kms in 2022–23 and 100 cargo terminals in three years, among others.

### Key takeaways

- There is a focussed attention on local manufacturing and ‘Make in India’ for
  - the textile, leather and handicrafts industry by incentivising exports;
  - consumer electronics and several components with reduced customs duty; and
  - gems and jewellery via a reduction in duties, disincentivising of imports for imitation jewellery and facilitation of jewellery export through e-commerce.
- Creation of enabling infrastructure on roads and transport supports long-term development of retail and e-commerce industry. This will help broad-based supply and creation of digital infrastructure via the 5G and fibre optic networks in rural markets to increase the exposure and demand for products and services.
- Focus on agricultural supply security and sustainable farming can improve food availability and address the long-term inflationary pressures on food.

# Key tax and regulatory proposals

## Tax rates

### Income tax

- Maximum surcharge rate on long-term capital gains is capped to 15%.
- Surcharge rate is restricted to 15% for an AOP (consisting of only companies as members).
- Benefit of lower rate of tax of 15% on dividend received by an Indian company from a foreign company in which it holds 26% or more of the equity share capital is not available after 1 April 2022.
- Income-tax rates (including surcharge, health and education cess) for companies (domestic and foreign), firms, LLPs and individuals remain unchanged. This includes rates for MAT and alternative minimum tax.

### Customs Duty

- Rationalisation of Customs duty structure continues with nearly 350 exemptions being withdrawn.
- Gradual phase out of concessional Basic Customs Duty (BCD) rate on capital goods and project imports is proposed. New projects registered under project import after 30 September 2022 are to attract 7.5% duty. Existing projects will continue to get the lower rate of duty (0%/ 2.5%/ 5%) till 30 September 2023.
- Miscellaneous exemption notifications that are obsolete or redundant are to be rescinded.
- Scheme for duty free imports, for use in the manufacture of goods exported within a period of six months, based on end use under the Import of Goods at Concessional Rate Rules, 2017 (IGCR), is proposed to be introduced.
- Phased Manufacturing Program is to be introduced for wrist wearable devices (commonly known as smart watches), hearable devices and smart meters including their inputs, parts and sub-parts.

# Key tax and regulatory proposals

## Providing tax certainty

### Income tax

- Clarification has been provided that reduction of goodwill from the block of assets will constitute as transfer as applicable for other assets forming part of block.
- Section 68 imposes obligation on taxpayers to satisfactorily explain credits in the books of accounts. Whilst a specific onus to explain the credits was cast for share capital, judicial rulings had held such onus does not extend to loan and borrowings. It is now proposed to bring loans and borrowing within the purview of this section and the same shall be treated as explained only if the nature and source of such sum is also explained in the hands of the lender or creditor to the satisfaction of the tax authorities.
- The term 'tax' has been clarified with effect from AY 2005-06 to include any surcharge or cess for the purpose of disallowance from business profits.
- Deductibility of business expenditure is restricted on expenditure which is an offence or is prohibited by law. This has been clarified to include (a) an offence or a prohibition under any law even outside India, (b) provision of any benefit or perquisite, acceptance of which by the recipient is in violation of any law, rule, regulations or guidelines governing such person and (c) compounding of any offence under any law in or outside India.
- Scope of the section dealing with the disallowance of expenditure incurred for earning exempt income has been expanded to cover cases wherein no exempt income has been accrued or received during the relevant year.
- A scheme for the taxation of virtual digital assets (VDAs) is to be introduced as follows:
  - **Tax rate:** Income from the transfer of any VDA is taxable at 30% (plus surcharge and cess). A specific definition for the term "VDA" has also been included in the Income-tax Act, 1961 (the Act);
  - **Expense deduction:** No deduction is available in respect of any expenditure or allowance (other than the cost of acquisition) or set off of any loss;
  - **Treatment of loss:** Loss from transfer of VDAs is neither eligible to be set off against income under any other provisions of the Act nor permitted to be for carried forward;
  - **Gift:** A gift of VDAs is to be taxed in the hands of the recipient subject to prescribed conditions; and
  - **TDS:** Tax is to be deducted at 1% on payment to a resident on the transfer of VDAs.

# Key tax and regulatory proposals

## Providing tax certainty

### Customs

- Amendments to the notification for EVs to provide duty benefits to Complete Knocked Down kits even if each individual component in the kit is not in a disassembled form.
- Social Welfare Surcharge (SWS) payable is to be 'Nil' in cases where the aggregate of customs duties (which form the base for computation of SWS) is zero, even though SWS is not exempted.

## Spurring investment and demand

### Income tax

- Section 79 of the Act has been amended to provide certain relaxation for carry forward of losses in case of public sector companies to facilitate strategic disinvestment by the Government.
- The existing exemption to notified sovereign wealth funds and pension funds to now cover the income earned from investments in data centres.
- **International Financial Services Centre (IFSC):**
    - Income of a non-resident on the transfer of offshore derivative instruments or over-the-counter derivatives entered into with an Offshore Banking Unit (OBU) of an IFSC is to be exempt from tax.
    - Any income accruing or arising to a non-resident outside India and received by it in an account maintained with an OBU in an IFSC from a portfolio of securities or financial products or funds, managed or administered by any portfolio manager acting on behalf of such non-resident, is to be exempt from tax.

  **Ship leasing**

    - Income by way of royalty or interest, on account of lease of a ship paid to foreign entities is to be exempt from tax if the unit has commenced operations on or before 31 March 2024.
    - Capital gains on the transfer of a ship leased by an IFSC unit to any person is to be eligible for 100% deduction if the unit has commenced operations on or before 31 March 2024.

  **Others**

    - Deemed income implications under section 56(2)(viib) of the Act are not applicable on issue of shares by a venture capital undertaking to a Category I and II AIF in the IFSC.

# Key tax and regulatory proposals

## Spurring investment and demand

### GST

- The budgetary allocation under the PLIs scheme for solar power and integrated solutions is to increase.

## Ease of doing business

### Income tax

- Section 170A (insertion of new section): Modification of tax returns is enabled for entities going through business reorganisations to give effect to such business reorganisation orders within a period of six months from the end of the month in which the order is received. Furthermore, it has been provided that any assessments or proceedings, made on the predecessor during the course of pendency of such reorganisation, will be deemed to have been made on the successor.
- To encourage voluntary tax compliance, a new section has been inserted which allows taxpayers to furnish updated tax returns within 24 months from the end of the relevant assessment year upon payment of 25% or 50% as additional tax, depending on the timing of filing the updated return.
- A new provision is proposed to be introduced to reduce litigation. Tax authorities are not to file appeals in respect of identical questions of law pending before the jurisdictional High Court or Supreme Court, whether in the taxpayer's own case or in the case of another taxpayer, subject to specified conditions.
- The special provisions introduced vide Finance Act 2021 for a higher rate of tax deduction/ tax collection in case of non-filers of income-tax returns have been amended. As per the new provisions, a higher rate is to be applied on certain payments where the payee has not filed income-tax returns for the last one FY (instead of the last two FYs).
- A new section has been inserted which provides that if under a grossing-up arrangement, a person has made deduction of tax when no tax deduction was required, he may file an application for refund of such tax before the Assessing Officer. Furthermore, if that person is not satisfied with the order of the Assessing Officer, he may file an appeal against the same before the Commissioner (Appeals).
- The erstwhile provisions regarding the Faceless Assessment Scheme are proposed to be substituted to streamline the process and overcome difficulties in the implementation and operation of the scheme. Importantly, the non-obstante provision which renders assessments non est if not completed in consonance with the provisions of the Faceless Assessment Scheme are proposed to be deleted with retrospective effect from 1 April 2021.

# Key tax and regulatory proposals

## Ease of doing business

### Income tax

- The timelines to introduce faceless schemes for TP, DRP and Tribunal have been extended to 31 March 2024 on account of IT system stabilisation and other procedural aspects.
- The provisions of reassessment proceedings are proposed to be rationalised to remove redundancy in seeking approvals/ conducting inquiries by the tax authorities. Furthermore, it has been clarified that a reassessment notice may be served on the basis of information such as any audit objection, or any information received from a foreign jurisdiction under an agreement or directions contained in a court order, or information received under a scheme notified under section 135A etc.
- In case of reassessment proceedings, the applicability of the extended timeline of ten years applies to cases where income escaping assessment exceeds INR 5m and is represented in the form of an asset. This has been further expanded to cover cases of expenditure in respect of a transaction/ event/ occasion or entry in the books of account exceeding INR 5m.
- The scope of revision of orders has been expanded to cover orders passed by TPOs. The income-tax authorities empowered to issue such revision instructions have also been specified.

### Customs

- Reforms focusing on IT-driven customs administration of SEZs are proposed.
- Compliance procedures under IGCR are automated through a common portal for effective monitoring of requirements.
- Flexibility is provided to the applicant to withdraw application for advance ruling at any time before the ruling is pronounced from the current time period of 30 days.
- Customs tariff structure is to be simplified by way of moving unconditional concessional rates from separate notification to tariff itself.

### GST

- Time limit for availment of ITC under the GST is extended to 30 November of the subsequent financial year.
- Time limit for the issuance of credit note and amendment in outward return is extended to 30 November of the subsequent financial year.
- Balance in Central GST electronic cash ledger is to be made transferrable to the electronic Central GST or Integrated GST cash ledger of different GSTIN of same PAN.

# Key tax and regulatory proposals

## Addressing COVID Impact

### Income tax

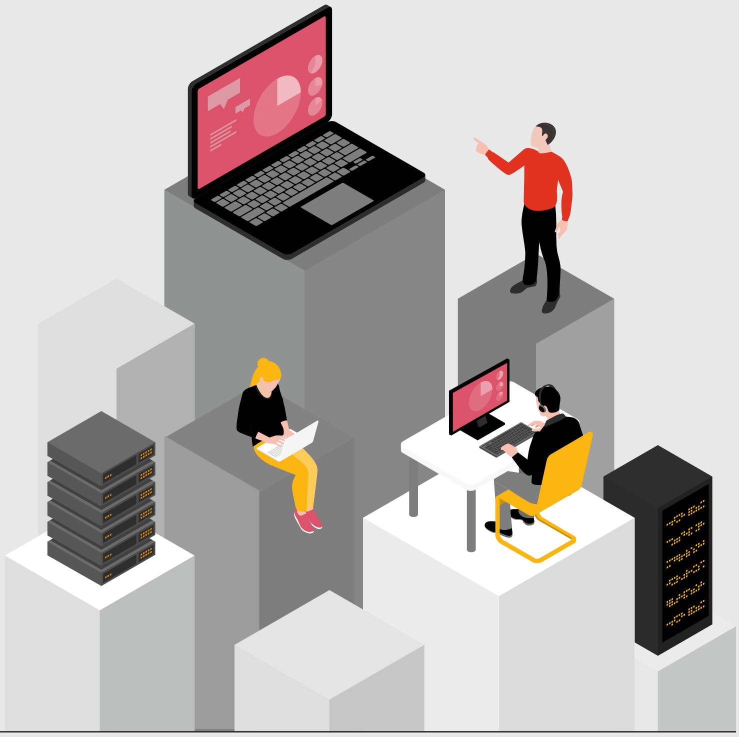
- In order to codify the relief announced earlier, it has been provided that COVID-19 related medical treatment expenses met by the employer for the treatment of an employee or family members shall not be considered as a taxable benefit. Similarly, any financial assistance received by an individual from any person for treatment of COVID-19 related illness for self or family members shall also not be taxable.
- Financial aid received by the family of a deceased person within 12 months from death on account of COVID-19 is not taxable as follows:

  a. Received from the employer of the deceased person: no limit

  b. Received from any other person(s): INR 1m in aggregate
- The last date for commencing manufacturing or production to claim the concessional tax rate (15% plus surcharge and cess) available to newly set-up manufacturing companies has now been extended to 31 March 2024.
- The last date for the incorporation of start-ups eligible for claiming a tax holiday under section 80-IAC has been extended to 31 March 2023.

### Customs

- Customs duty exemption is proposed for drugs or medicines used for the treatment of rare diseases, subject to prescribed conditions.



# Key tax and regulatory proposals

## Other key tax and regulatory proposals

### Income tax

- Anti-abuse provision with respect to bonus stripping and dividend stripping expanded will include units of REIT, InvITs and AIFs.
- It has been clarified that conversion of interest payable on an existing loan into a debenture or any other instrument shall not be deemed to have been actually paid for the purpose of section 43B of the Act.
- Withholding tax (WHT) related amendments:
  - Any benefit or perquisite arising to a resident during the course of business or exercising of profession would now be subject to withholding @ 10%.
  - Withholding on the sale of immovable property is to be done @ 1% with reference to the actual consideration or stamp duty value, whichever is higher.
- A new section is introduced that denies the set-off of any business loss, whether brought forward or otherwise, or any unabsorbed depreciation against any undisclosed income, consequent to a search, requisition or survey proceedings. The definition of 'undisclosed income' for the new section has also been provided.

### Customs

- Retrospective amendment is made, allowing powers to investigating officers for initiating proceedings under customs.
- The validity period of an advance ruling under customs is limited to three years or till there is a change in the law or facts based on which the ruling has been pronounced, whichever is earlier.
- Publication of export-import information such as value, classification and details of exporter or importer (except as required by law) is considered a non-cognizable offence.
- Sunset clause is introduced in conditional exemption notifications issued as per section 25 (4A) of the Customs Act, 1962.
- Enabling provision is proposed to curb undervaluation by importers.
- Jurisdiction of officers is extended to undertake faceless assessment.

# Key tax and regulatory proposals

## Other key tax and regulatory proposals

### GST

- The provision related to provisional ITC is to be dispensed off.
- ITC for a month is restricted to the extent of inward supplies communicated to the recipient by means of auto-generated report (Form GSTR-2B).
- Enabling provisions are introduced in GST law to limit the amount of ITC that can be used for the discharge of output tax liability.
- Buyer to reverse ITC along with applicable interest of 18% if supplier fails to deposit output tax within the prescribed time period.
- Retrospective amendment is proposed for the levy of interest @18% on GST credit wrongly availed and utilised.

# About PwC

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