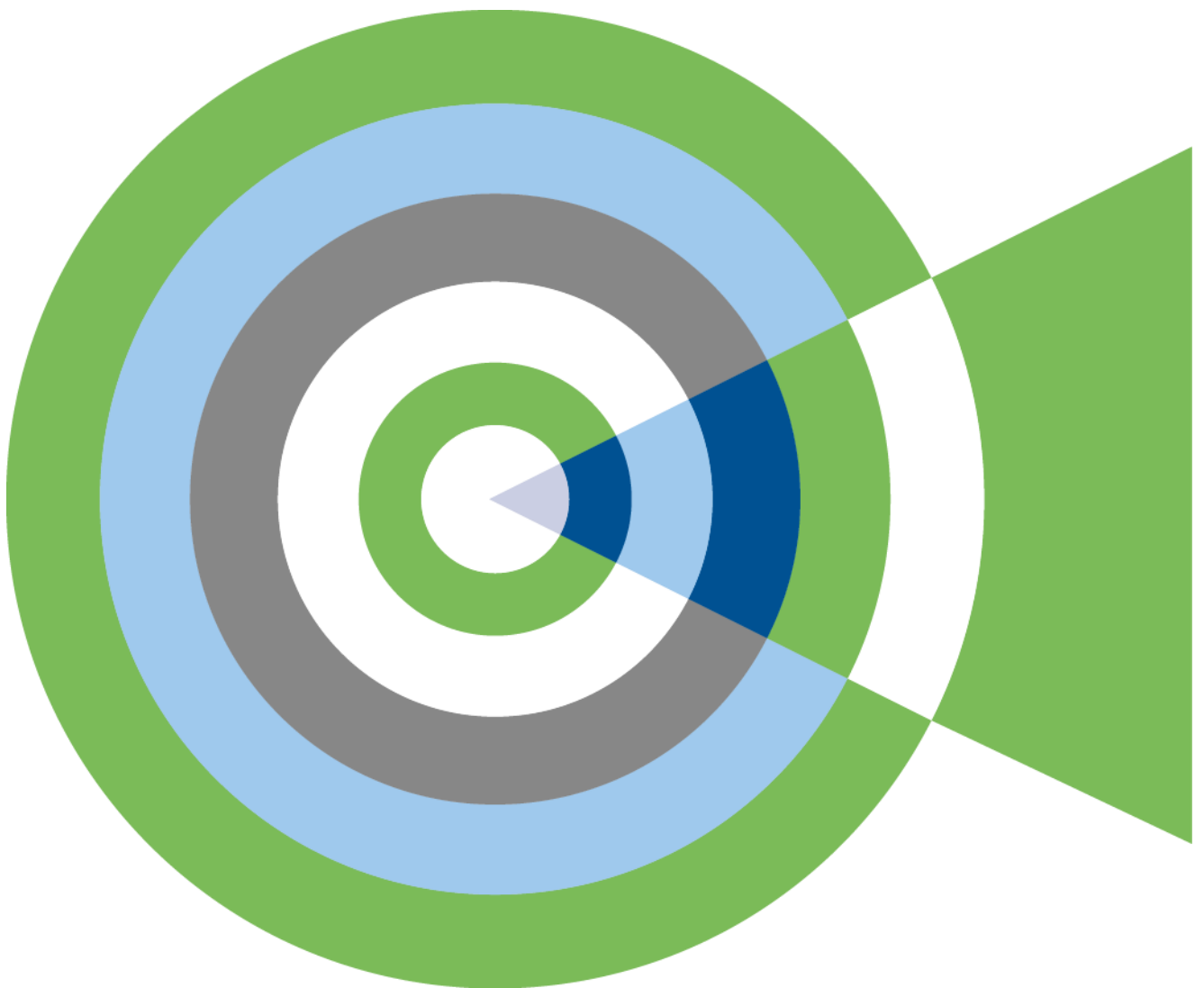


**BUDGET HIGHLIGHTS  
2021**



**DIRECT TAX PROPOSALS**

➤ **PERSONAL TAXATION**

- There is no change proposed in tax rates and slabs, surcharge and cess. The below gives a summarized position of tax slabs:

Income Slabs INR	Tax Rates under the Optional Tax Regime	Tax Rates under the Existing Tax Regime
0 – 250,000	NIL	NIL
250,000 – 500,000	5%	5%
500,000 – 750,000	10%	20%
750,000 – 1,000,000	15%	20%
1,000,000 – 1,250,000	20%	30%
1,250,000 – 1,500,000	25%	30%
Above 1,500,000	30%	30%

Individuals/Hindu Undivided Family (HUF) opting for taxation under the new regime are not entitled to claim specified exemptions/deductions.

- Senior citizens (75 years and above) exempted from filing return of income-tax if total income comprises only of pension and interest income, subject to conditions.
- Tax exemption of Leave Travel Concession (LTC) Cash Scheme provided by the employer in lieu of Leave travel concession, limited to the lesser of INR 36,000 or 1/3 of the actual expenditure, subject to condition.
- No tax exemption on interest on contributions exceeding INR 250,000 to any provident fund scheme.
- Maturity proceeds (unless received on death of a person) of ULIP (Unit Linked Insurance Plan) policies issued on or after February 01, 2021, taxable as capital gains at the rate of 10% without indexation, if the aggregate premium payable for any of the previous year exceeds INR 250,000.
- Deduction for reinvestment of capital gain on residential property in equity shares of an eligible startup, extended to March 31, 2022.

➤ **CORPORATE TAXATION**

- There is no change proposed in tax rates and slabs, surcharge and cess. The below gives a summarized position of tax slabs:

Particulars	Rates in force	Surcharge
Section 115BA (Companies having turnover up to INR 400 crore (4 billion) in FY 2018-19)	25%	7% or 12%
Section 115BAA*	22%	10%
Section 115BAB*	15%	10%
Any other case	30%	7% or 12%

\* Subject to fulfilment of conditions.

- Tax holiday extended to eligible start-ups incorporated on or before March 31, 2022.
- Tax holiday for affordable housing extended by one year to March 31, 2022 and will also cover rental housing projects notified by the Central Government in the Official Gazette.
- Deduction for employee's contribution to provident allowed only if such contribution is paid on or before the due date as specified under the provisions of the respective Acts. The extended time limit to claim such deduction till the date of filing of return of income is not available to such contribution.
- Goodwill, whether acquired or otherwise, not to be considered as a depreciable asset and therefore no depreciation available on goodwill.
- Any gain or loss arising on transfer of any capital asset, money or other asset to a specified person at the time of dissolution or reconstitution of the specified entity shall be chargeable to tax as income of such entity in the year of receipt of such asset by specified person.
- Reconstruction or splitting up of a public sector company into separate companies deemed to be a demerger subject to satisfaction of other prescribed conditions.
- Accumulated losses and unabsorbed depreciation allowed to be carried forward in the hands of resulting company in case of amalgamation of public sector company with other public sector company, subject to satisfaction of other prescribed conditions.
- All types of transfer (including an exchange) included in the definition of 'slump sale'.

#### **UNITS LOCATED IN INTERNATIONAL FINANCIAL SERVICES CENTRE (IFSC)**

- Relaxation of conditions for an eligible investment fund and the fund manager located in IFSC commencing operations by March 31, 2024, through a notification in Official Gazette.
  - (i) Income of the investment division of offshore banking unit in IFSC will be exempt, subject to conditions.
  - (ii) Income of a non-resident on transfer of non-deliverable forward contracts entered into with an offshore banking unit of an IFSC will be exempt, subject to conditions.
- Royalty income from aircraft leasing paid by a unit of an IFSC to foreign entity, exempt from tax, if such unit is eligible for tax holiday and has commenced operation on or before the March 31, 2024.
- Further, 100% deduction of capital gains on transfer of aircraft or aircraft engine leased by a unit in an IFSC to a domestic company, if such unit has commenced its operation before March 31, 2024.
- Tax holiday to a unit in the IFSC available if it is registered under the IFSC Authority Act, 2019 and has commenced operations by March 31, 2024.

#### **INTERNATIONAL TAX AND TRANSFER PRICING**

- Revision in basis for computing book profits of earlier years under Minimum Alternate Tax (MAT), for Advance Pricing Agreement (APA) adjustments, as well as for secondary adjustments, where past year's income is included in the books of accounts of the current financial year.
- Adjustment to book profits is to be made on account of dividend income earned by foreign companies on investments made in India, where the tax rate applied is less than the MAT rate due to more beneficial rates in the double tax avoidance agreement (DTAA).
- The Authority for Advance Rulings ('AAR') replaced by the Board of Advance Ruling ('the Board'). The applications pending before the AAR will be transferred to the Board. Orders of the Board appealable before the High Court.

## ➤ **ASSESSMENTS AND APPEALS**

- Effective time limit for issuing summary intimation reduced from 12 months to 9 months from the end of the financial year in which the return was furnished.
- Effective time limit for issuing notice for detailed/limited assessment proceedings reduced from 6 months to 3 months from the end of the financial year in which the return was furnished.
- Assessments to be completed within 9 months from the end of the assessment year in which the income was first assessable, from the assessment year 2021-22 (tax year 2020-21) onwards.
- Apart from the Assessing Officer, the prescribed income-tax authority to be empowered to issue assessment notice to the assessee for submission of return.
- Faceless Income Tax Appellate Tribunal ('ITAT') Scheme to be implemented for providing online resolution through electronic communication, such as video conferencing.
- In specified cases, time limit for reopening of cases for assessment of tax returns reduced to 3 years from 6 years, where tax evasion is less than INR 50 lakhs (5 million).
- Serious tax evasion cases, can be reopened till 10 years, only when concealment of income is more than INR 50 lakhs (5 million) in a year and subject to the prior approval from the Principal Chief Commissioner. A completely new procedure of search assessment cases to be implemented for the purpose of lesser litigation and ease of doing business for taxpayers.
- Notice for reopening of assessment can be issued after conducting enquiry and giving opportunity of being heard. Reassessment to be initiated, based on the information available with Assessing Officer which is flagged as per risk management strategy formulated by the Central Board of Direct Taxes (the Board) and final objection raised by the Comptroller and Auditor General of India.
- New dispute resolution mechanism to be established for resolving disputes, except relating to search and surveys, of specified class of persons, where the returned income is up to INR 5 million and the disputed income is up to INR 1 million.
- It is clarified that any amount of tax, surcharge and penalty paid in pursuance of a declaration made under the Income Declaration Scheme by a specific a class of persons, now refundable without payment of any interest.
- Provisions of Vivad se Vishwas Act, 2020 are not available to cases decided by Income Tax Settlement Commission.
- Income-tax Settlement Commission ('ITSC') to be discontinued with immediate effect and an Interim Board to be set up for settlement of pending cases.

## ➤ **TAX DEDUCTED AND COLLECTED AT SOURCE (TDS/TCS)**

- TDS at the rate of 0.1% (5% in the absence of PAN) on purchase of goods from and payments to resident buyer where payment exceeds or likely to exceed INR 50 lakhs (5 million) in a financial year in the case of buyers whose gross turnover/receipts from business, exceeds INR 10 crores (100) million in the preceding year.
- The rate of TDS / TCS to be higher of the double of the specified rate or 5%, in case of non-filing of tax return for two prior years by recipient and where TDS/TCS exceeds INR 50,000 in each of the 2 prior years. The provisions do not apply to TDS on salary income, payment to non resident, lottery, etc

- TDS exemption granted to dividends paid by Special Purpose Vehicle (SPV) to Real Estate Investment Trust (REIT) and Investment Trust (InvIT).
- Withholding tax on dividend, interest income paid to FIIs to be restricted to DTAA rates, where applicable, subject to furnishing of Tax Residency Certificate (TRC) by such FII.

## **OTHER TAX PROPOSALS**

### **❖ EQUALISATION LEVY**

- Equalisation levy not to apply if the consideration is chargeable to tax as royalty or fees for technical services
- Scope of 'online sale of goods' and 'online provision of services' would include instances where one or more of the following activities are carried out online:
  - Acceptance of offer for sale;
  - Placing the purchase order;
  - Acceptance of the Purchase order;
  - Payment of consideration; or
  - Supply of goods or provision of services, partly or wholly
- Consideration to include value of sale of goods and provision of services irrespective of the ownership status or facilitation by the e-commerce operator.

### **❖ OTHERS**

- Threshold limit of turnover for Tax Audit is raised to INR 10 crores (100 million) from INR 5 crores (50 million) for the entities which carry out their business at less than 5% in cash.
- The due date for filing tax return of a Partner of a Firm, who is required to furnish an accountants' report in Form 3CEB, will be November 30.
- Last date for filing of belated and revised returns of income is now 3 months before the earlier of the end of the relevant assessment year or before the completion of the assessment.
- Increase in safe harbour from 10% to 20% for real estate developers for determining the sale proceeds of residential property as per agreement as compared to stamp duty value for first time of allotment of residential units of less than INR 20 million and if transfer of such units takes place between November 12, 2020 to June 30, 2021. Consequential relief from tax in the hands of home buyer.
- Advance tax on dividend income (other than deemed dividend) shall be payable when such dividend is declared or paid.
- Rationalization of provisions relating to taxation of the assets or amount received by partners from the partnership firm in excess of their capital contribution.
- Relaxation in conditions (viz. prohibition on loans or borrowings, restriction on commercial activities, direct investment in entity owning infrastructure) for exemption to Sovereign Wealth Fund & Pension Fund.
- Government notified infrastructure debt funds are now eligible to issue zero coupon bonds.
- Clarification that the provisions of the scheme of presumptive taxation in case of professionals do not apply to Limited Liability Partnerships.

- The Assessing Officer can invoke provisional attachment of property during pendency of penalty proceedings for fake entries / invoice cases if the amount of penalty imposable is likely to exceed INR 20 million.

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## **INDIRECT TAX PROPOSALS**

### **GOODS AND SERVICE TAX**

- The concept of mutuality is done away with by amending definition of supply retrospectively with effect from (w.e.f) July 01, 2017 so as to ensure levy of tax on activities or transactions involving supply of goods or services by any person, other than individual, to its members or constituents or vice-versa, for cash, deferred payment or other valuable consideration.
- Input tax credit to be allowed only in cases where the supplier has filed the return and details are communicated to the recipient.
- Mandatory requirement of filing reconciliation statement duly audited by specified professional now done away with and proposed to be replaced by self - certified reconciliation statement. It further provides for the Commissioner to exempt a class of taxpayers from the requirement of filing the annual return
- Interest liability effective on net tax payment w.e.f July 01, 2017.
- Earlier, there were two options to exporters - export with payment of tax and export without payment of tax. This is now amended to take away the option. Export of goods/services can now be made without payment of tax. The government has been vested with powers to specify class of persons or class of goods / services which can be exported with payment of tax and subsequent refund.
- Supply of goods / services to SEZ shall be zero rated only if it is used for authorized operations.
- "Self-assessed tax" to include the tax payable as disclosed in GSTR 1 but not included in GSTR 3B. This provides power to the government to recover tax in case there is difference in GSTR 1 vs GSTR 3B.
- Substantial changes to rules pertaining to appeals, penalty and confiscation of goods.

### **CUSTOMS**

#### **CUSTOMS ACT, 1962**

- Sunset clause for all conditional exemptions currently in force and will now end on March 31, 2023 (unless withdrawn earlier).
- New conditional exemptions valid for 2 years from the end of financial year during which it was enacted.
- Any goods entered for exportation under wrongful claim of refund or remission of duty can be confiscated.
- Penalty to be levied in cases where ITC is claimed on the basis of fraudulent invoice and the same is utilized for payment of tax on export.
- 2 year time limit (further extendable by one more year) has been laid down for completion of enquiry and investigation culminating into issuance of notice.
- Common customs electronic portal is notified for facilitating registration, service of orders, filing bill of entry.

**CUSTOMS TARIFF ACT, 1975**

- Counter-vailing duty and anti- dumping duty can be levied retrospectively from the date of initiation of investigation in anti – circumvention cases.
  - More anti – avoidance measures have been introduced.
  - Revision of tariff rates in respect of certain tariff items and insertion of new tariff lines.
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