



INDIA

REVIVING AND ACCELERATING

UNION BUDGET - 2022-2023

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FOREWORD

The Hon'ble Finance Minister Smt. Nirmala Sitaraman presented the Economic Survey on 31st January 2022 giving an analysis of economic development and performance of the Indian Economy during FY 2021-22 under the cloud of the outbreak of Covid-19 globally. The survey demonstrates the commendable efforts of the Government in providing bouquet of safety-nets to cushion the impact of pandemic on the vulnerable sections of society and businesses, adopting several measures and release of stimulus packages, making capital expenditure on infrastructure to build back medium-term demand and implementation of various supply-side measures to prepare the economy for a sustained long-term expansion. The survey states that the Indian economy is expected to witness real GDP expansion of 9.2 per cent in 2021-22 after contracting 7.3 per cent in 2020-21 and fiscal deficit has been revised upward at 6.9 per cent of GDP as against 6.8 per cent projected in the budget estimates in the last year.

The release of the Survey followed presenting of the Union Budget for FY 2022-23 by the Hon'ble Minister on 1st February 2022 before the Parliament. The Budget estimates that India's GDP for the year 2022-23 will be around 8.0 to 8.5 per cent and fiscal deficit is estimated to be 6.4 per cent of GDP. This budget is being termed as a simple and uncomplicated budget and seeks to lay the foundation and provide a blue print to steer the Economy for the next 25 years – from India at 75 (i.e. 2022) to India at 100 (i.e. 2047) post its independence in the year 1947. The 4 priorities of the Budget include (i) PM GatiShakti program which focuses on economic growth and expansion, (ii) Inclusive Development, (iii) Productivity Enhancement and Investment, Sunrise Opportunities, Energy Transition and Climate Action, (iv) Financing of Investments. The total size of the budget is INR `39450 Billion, which is nearly 10% higher than the INR 35950 Billion revised estimate in the current fiscal year.

The Budget has been unique in taking the long term view- looking at where the country needs to be in next plus two decades. The budget has a visionary approach of building a physically and digitally networked green economy and clear road map by allocated outlays on the important goals to be achieved in the near distant future. The focus is on infrastructure, sustainability and growth while aiming fiscal prudence. Capex of INR 7500 Billion budgeted for FY 2023 is a huge jump from INR 5500 Billion in FY 2022 and a rise of over 35%. It is 2.9% of GDP in comparison to 1.6% (pre covid). It will not only drive growth and create jobs for the economy but it will also boost private sector investment.

There are proposals to make amendments in the current laws including IBC law for the speedy resolution of the stressed assets, as well as replacing of the Special Economic Zone Act. Few important measures have been announced for MSMEs as these were most impacted segment during the pandemic.

The budget attempts to ensure that MSMEs are able to overcome the challenges caused due to disruptions and contribute to the growth. Another important aspect is several digital initiatives for building a robust digital infrastructure– digital university for knowledge enhancement, digital banking, e-Market places for public procurement, e-bill system for private sector in government interface, connecting 1.5 lakh post offices network to the banking network, introduction of central bank digital currency which could mark a transformational journey of cashless payments. Digital or virtual currency will be a legal tender issued by the Reserve Bank of India and demonstrates a proactive and positive outlook of the current government towards use of crypto assets which do not have sanctity or security or backing of the Government. These digital building blocks will encourage innovation and transformation and lead to a resurgent India heading towards becoming a \$ 5 trillion economy by the FY 2025.

The direct tax proposals of this budget continue with Governments policy of a stable and predictable tax regime. These intend to bring more reforms and establish a trustworthy tax regime. Measures will help start up enterprises, further simplify the tax system, promote voluntary compliance by the taxpayers and reduce litigation. There is however no change in tax slabs or basic tax rates.

The indirect tax proposals aims at domestic capacity creation, easing the raw material supply side constraints, enhancing ease of doing business and being an enabler to other policy initiatives such as Production Linked Incentive schemes which have been applauded by the Industry. Several concessions being provided in capital goods and project imports shall be phased out in a gradual manner and such imports will be subject to levy of moderate tariff of 7.5% to provide level playing field in areas like coal mining projects, power generation, transmission or distribution projects, railways and metro projects. These initiatives will help in growth of domestic industry and "Make in India" and "Atmanirbhar Bharat" (A self reliant India).

The proposed measures though in the right direction, need to be well implemented for meeting the desired objective of reviving and accelerating India. We are pleased to present herewith an analysis and insights of the proposals of the Union Budget of FY 2022 -23 and sincerely hope that these shall be found useful to the readers.

Thanking You,

**With best wishes for a successful and prosperous year,
MBG Corporate Services**



Macro-Economic Overview

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MACRO ECONOMIC OVERVIEW

Economic Survey 2021-22: Broad Overview

For second year running, the Economic Survey was written under the cloud of the Covid-19 pandemic. These have been difficult times for the world economy. It is not just about the immediate disruptions and uncertainty caused by repeated waves of the pandemic, but also the longer-term uncertainty about the post-Covid world due to accelerated shifts in technology, consumer behaviour, supply-chains, geo-politics, climate change and a host of other factors. Not only are these individual factors difficult to forecast, the impact of their interactions are fundamentally unpredictable. **The theme of this Economic Survey, therefore, relates to the art and science of policy-making under conditions of extreme uncertainty.** This Economic Survey has shifted from the two-volume format of recent years to a single volume plus a separate volume containing statistical appendix to give it a distinct identity as the one-stop source of authentic data.

The last two years have been difficult for the world economy on account of the COVID-19 pandemic. Repeated waves of infection, supply-chain disruptions and, more recently, inflation have created particularly challenging times for policy-making. Faced with these challenges, the Government of India's immediate response was a bouquet of safety-nets to cushion the impact on vulnerable sections of society and the business sector. It next pushed through a significant increase in capital expenditure on infrastructure to build back medium-term demand as well as aggressively implemented supply-side measures to prepare the economy for a sustained long-term expansion.

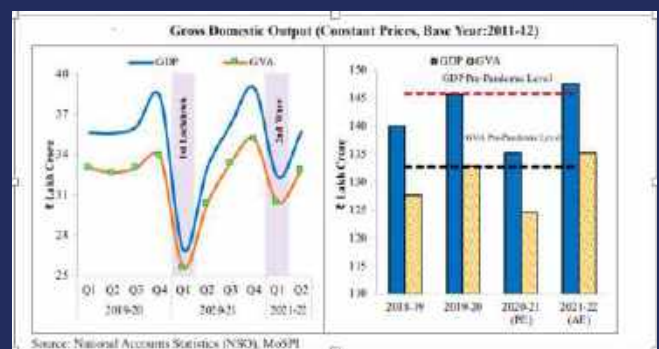
With the vaccination programme having covered the bulk of the population, economic momentum building back and the likely long-term benefits of supply-side reforms in the pipeline, the Indian economy is in a good position to witness

GDP growth of **8.0-8.5** percent in **2022-23**. Vaccination is not merely a health response but is critical for opening up the economy, particularly contact-intensive services. Over the course of a year, India delivered **1570 million** doses that covered **910 million** people with at least one dose and **660 million** with both doses. The vaccination process for boosters and for the 15-18 year age group has also been gathering pace since January, 2022.

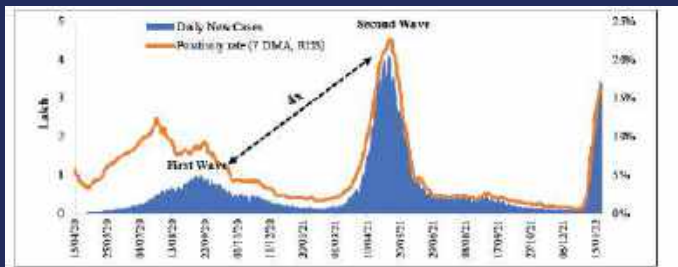
Overall, macro-economic stability indicators suggest that the Indian economy is well placed to take on the challenges of 2022-23.

Economy recovers pas pre-pandemic levels

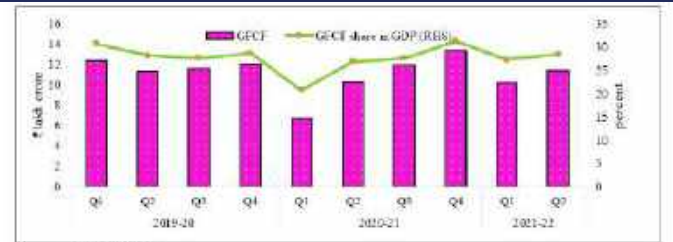
The Indian economy, as seen in quarterly estimates of GDP, has been staging a sustained recovery since the second half of 2020-21. Although the second wave of the pandemic in April- June 2021 was more severe from a health perspective, the economic impact was muted compared to the national lockdown of the previous year. Advance estimates suggest that GDP will record an expansion of **9.2** per cent in **2021-22**. This implies that the level of real economic output will surpass the pre-COVID level of **2019-20**.



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Source: Data accessed from Ministry of Health and Family Welfare (MoH&FW)
Note: DMA stands for Daily Moving Average.



Source: NSO, MeSPI
Note: Absolute figures at constant (2011-12) prices, shares as per current prices

Consumption

Total consumption is estimated to have grown by **7.0** per cent in **2021-22** with government consumption remaining the biggest contributor as in the previous year. Government consumption is estimated to grow by a strong **7.6** per cent surpassing pre-pandemic levels. Private consumption is also estimated to have improved significantly to recover **97** per cent of corresponding pre-pandemic output level.

Investments

Investment, as measured by Gross Fixed Capital Formation (GFCF) is expected to see strong growth of **15** per cent in **2021-22** and achieve full recovery of pre-pandemic level. Government's policy thrust on quickening virtuous cycle of growth via capex and infrastructure spending has increased capital formation in the economy lifting the investment to GDP ratio to about **29.6** per cent in **2021-22**, the highest in seven years.

While private investment recovery is still at a nascent stage, there are many signals which indicate that India is poised for stronger investment. The number of private investment projects under implementation in manufacturing sector has been rising over the years.

Exports and Imports

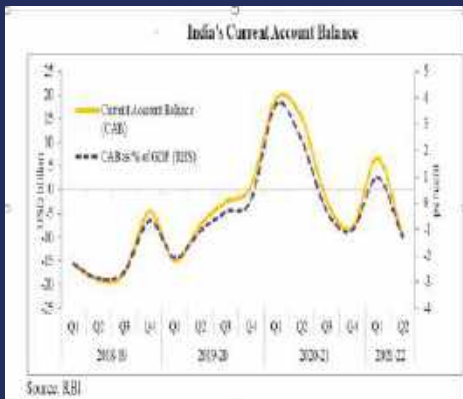
India's exports of both goods and services have been exceptionally strong so far in **2021-22**. Merchandise exports have been above **US\$ 30 billion** for eight consecutive months in **2021-22**.

Net services exports have also risen sharply, driven by professional and management consulting services, audio visual and related services, freight transport services, telecommunications, computer and information services.

Imports also recovered strongly with revival of domestic demand and continuous rise in price of imported crude and metals. Imports are expected to grow by **29.4** per cent in **2021-22** surpassing corresponding pre-pandemic levels.

Resultantly, India's net exports have turned negative in the first half of 2021-22 with current account recording a modest deficit of 0.2 percent of GDP in the first half.

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payments remained in surplus throughout the last two years. This allowed the Reserve Bank of India to keep accumulating foreign exchange reserves, which stands at **US\$634 billion** on 31st December 2021). This is equivalent to **13.2** months of imports and higher than the country's external debt. As of end-November 2021, **India was the fourth largest foreign exchange reserves holder in the world after China, Japan, and Switzerland.**

However, robust capital flows in the form of continued inflow of foreign investment were sufficient to finance the modest current account deficit. Elevated global commodity prices, revival in real economic activity driving higher domestic demand and growing uncertainty surrounding capital inflows may widen current account deficit further during the second half of the year.



SECTORAL TREND

Agriculture and Industry Sector

Agriculture and allied sectors have been the least impacted by the pandemic and the sector is expected to grow by **3.9** per cent in 2021-22 after growing **3.6** per cent in the previous year. Advance estimates suggest that the GVA of Industry (including mining and construction) will rise by **11.8** per cent in 2021-22 after contracting by 7 per cent in 2020-21.

Service Sector

The Services sector has been the hardest hit by the pandemic, especially segments that involve human contact. This sector is estimated to grow by **8.2** per cent this financial year following last year's **8.4** per cent contraction.

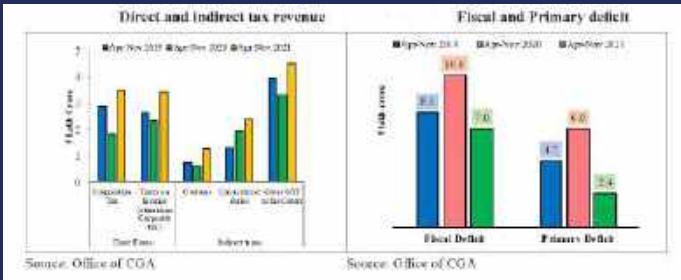
External Sectors

Despite all the disruptions caused by the global pandemic, India's balance of

Fiscal Balance

The fiscal support given to the economy as well as the health response caused the fiscal deficit and government debt to rise in 2020-21. However, there has been a strong rebound in government revenues in 2021-22 so far. The revenue receipts of the central government during April- November 2021 have gone up by **67.2** per cent (YoY), as against an estimated growth of **9.6** per cent in the **2021-22** Budget Estimates. The tax collections have been buoyant for both direct and indirect taxes. The gross monthly GST collections have crossed ` 1 lakh crore consistently since July 2021.

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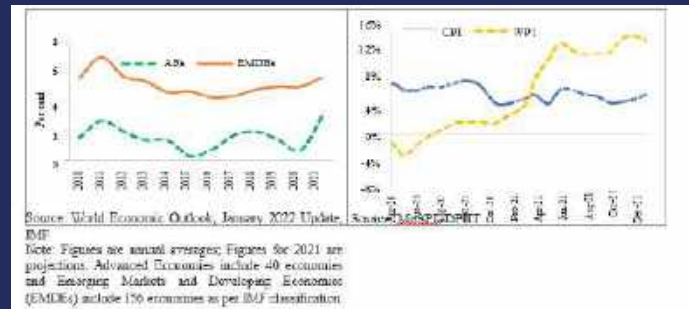
December 2021, which is within the targeted tolerance band. The decline in retail inflation in 2021-22 was led by easing of food inflation. Wholesale Price Inflation (WPI), however, has been running in double-digits. The inflation in 'fuel and power' group of WPI was above 20 per cent reflecting higher international petroleum prices. Although the high WPI inflation is partly due to base effects that will even out, India does need to be vary of imported inflation, especially from elevated global energy prices.

Financial Sector

The financial system is always a possible area of stress during turbulent times. However, India's capital markets, have done exceptionally well and have allowed record mobilization of risk capital for Indian companies. The Sensex and Nifty scaled up to touch its peak at 61,766 and 18,477 on October 18, 2021. Among major emerging market economies, Indian markets outperformed its peers in April-December 2021. The year 2021-22 so far has been an exceptional year for the primary markets with a boom in fundraising through IPOs by many new age companies/tech start-ups/unicorns. ` INR 89,066 crore was raised via 75 IPO issues in April- November 2021, much higher than in any year in the last decade.

Inflation

Inflation has reappeared as a global issue in both advanced and emerging economies. The surge in energy prices, non-food commodities, input prices, disruption of global supply chains, and rising freight costs stoked global inflation during the year. In India, Consumer Price Index (CPI) inflation moderated to **5.2** per cent in 2021-22 (April-December) from **6.6** per cent in the corresponding period of 2020-21. It was **5.6** per cent (YoY) in



LONG-TERM TRENDS IN GOVERNMENT FINANCES

Central Government Finances

The Government proposes to set up a Conciliation Mechanism and mandate its use for quick resolution of contractual disputes in order to encourage confidence of those who deal with Government or Central Public Sector Enterprises (CPSEs) and carry out contracts.

The budgeted fiscal deficit for 2020-21 was revised from **3.5** per cent in BE to **9.5** per cent in RE. The fiscal deficit for 2020-21

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Provisional Actuals stood at **9.2** per cent of GDP i.e. lower than RE.

As far as sector-wise FDI inflows are concerned, computer software and hardware attracted the highest FDI equity inflows of US\$ 7.1 billion in April-September, 2021. Singapore continues to be the top investing country in terms of FDI equity inflow while USA occupies the second position.



Table: Top Investing Countries FDI Equity Inflows

Rank	Country	US\$ Billion				Share (in Per cent)			
		2019-20	2020-21	2020-21 III	2021-22 III	2019-20	2020-21	2020-21 III	2021-22 III
1	Singapore	14.7	17.4	1.3	1.1	10.4	20.3	27.7	25.0
2	U.S.A.	4.2	13.8	7.1	4.6	8.4	23.2	23.7	14.9
3	Marshall	9.2	5.6	2.0	4.3	16.5	9.5	6.7	13.9
4	Netherlands	6.5	2.8	1.5	1.1	13.0	4.7	5.0	6.9
5	Japan	3.2	2.0	6.7	6.8	6.5	3.3	2.2	2.6
	Sum of Above	36.9	41.6	19.6	20.0	73.0	69.8	63.3	64.1
	All Countries *	50.0	56.6	30.0	31.2	100.0	100.0	100.0	100.0

Foreign Direct investment

The latest aggregate data on FDI is available till November 2021. While net FDI recorded a lower inflow of **US\$ 24.7 billion**, the gross FDI inflows moderated at **US\$ 54.1 billion** during April-November, 2021 compared to corresponding period last year, largely due to lower equity investment.

Source: Department for Promotion of Industry and Internal Trade (DPIIT)
 Note: (i) *Includes inflows under NRI Schemes of RBI.
 (ii) Figures are provisional.

Table: Sectors attracting highest FDI Equity inflows

Industry & infrastructure:

The introduction of the production linked incentive scheme (PLI) to encourage scaling up of industries and major boost provided to infrastructure-both physical as well as digital-combined with continued measures to reduce transaction costs and improve ease of doing business, would support the pace of recovery. Several initiatives such as the National Infrastructure Pipeline (NIP), National Monetization Plan (NMP), amongst others, have been taken to propel the infrastructure investment.

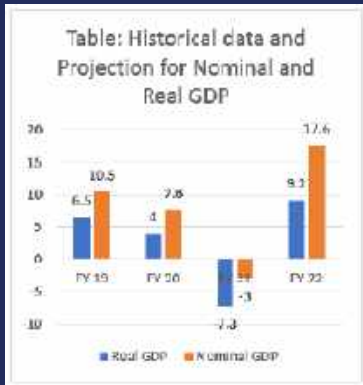
Rank	Sector	(US\$ Billion)				Share (in Per cent)			
		2019-20	2020-21	2021-22 III	2021-22 III	2019-20	2020-21	2020-21 III	2021-22 III
1	Computer Software & Hardware	7.7	26.1	17.6	7.1	15.4	41.1	59.5	22.9
2	Automobile Industry	2.8	1.6	0.4	4.9	5.7	2.7	1.4	15.8
3	Services Sector**	7.9	5.1	2.3	3.2	15.7	8.5	7.5	10.1
4	Trading	4.6	2.6	0.0	2.1	9.3	4.4	3.2	6.6
5	Telecommunications	4.4	0.4	0.0	0.4	8.9	0.7	0.0	1.2
	Total Of Above	37.4	35.8	21.2	17.6	74.8	60.1	70.6	56.6
	Total FDI	50.0	56.6	30.0	31.2	100	100	100	100

Growth Outlook

The Indian economy is estimated to grow by 9.2 per cent in real terms in 2021-22 (as per the First Advance Estimates), after a contraction of 7.3 per cent in 2020-21.

Source: Department for Promotion of Industry and Internal Trade (DPIIT)
 Note: (i)** Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech.
 (ii) Figures are provisional.

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Source:
<https://economictimes.indiatimes.com/news/economy/indicators/india-govt-forecasts-year-to-march-economic-growth-of-9-2/articleshow/88758290.cms>

Growth in 2022-23 will be supported by widespread vaccine coverage, gains from supply-side reforms and easing of regulations, robust export growth, and availability of fiscal space to ramp up capital spending. The year ahead is also well poised for a pick-up in private sector investment with the financial system in a good position to provide support to the revival of the economy. Thus, India's GDP is projected to grow in real terms by 8.0-8.5 per cent in 2022-23. This projection is based on the assumption that there will be no further debilitating pandemic related economic disruption, monsoon will be normal, withdrawal of global liquidity by major central banks will be broadly orderly, oil prices will be in the range of US\$70-\$75/bbl, and global supply chain disruptions will steadily ease over the course of the year.

The above projection is comparable with the World Bank's and Asian Development Bank's latest forecasts of real GDP growth of 8.7 per cent and 7.5 per cent respectively for 2022-23. As per the IMF's latest World Economic Outlook (WEO)

growth projections released on 25th January, 2022, India's real GDP is projected to grow at 9 per cent in both 2021-22 and 2022-23 and at 7.1 per cent in 2023-24. **This projects India as the fastest growing major economy in the world.**

Table: Overview of World Economic Outlook Projection

Country/Country groups	Projections	
	2022	2023
World Output	4.4	3.8
Advanced Economies	3.0	2.6
United States	4.0	2.6
Euro Area	3.0	2.6
Emerging Market and	4.8	4.7
Emerging and Developing Asia	5.9	5.8
China	4.8	5.2
India**	9.0	7.1
ASEAN***	5.6	6.0
Emerging and Developing	3.5	2.9
Brazil	0.5	1.8
Mexico	2.1	2.7
Middle East and Central Asia	4.2	3.6
Nigeria	2.7	2.7

Source; Budget Document

Fiscal Development

The expenditure policy of the central government during 2021-22 has a strong emphasis on capital expenditure. The Budget 2021-22 had not only enhanced the expenditure estimates but also directed them towards more productive capital expenditure. The capital expenditure shows an increasing trend over the first three quarters of 2021-22. During April- November 2021, the capital expenditure has grown by 13.5 per cent (YoY), with focus in infrastructure-intensive sectors like roads and highways, railways, and housing and urban affairs. This increase is particularly substantial given the high YoY growth in capital expenditure registered during the corresponding period of the previous year as well. In addition, the Centre has also put in place several

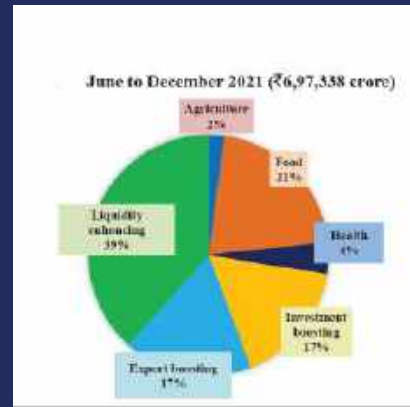
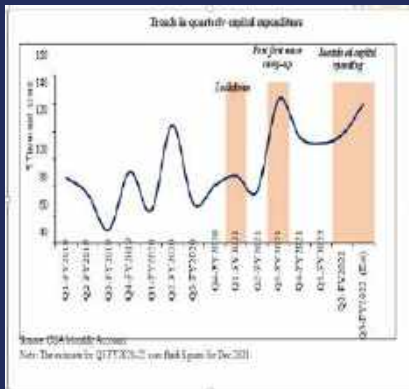
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incentives to boost the capital expenditure by the States.

Fiscal Policy Strategy in the aftermath of the Pandemic outbreak

This enhanced focus on capital expenditure in the second half of the year 2020-21 is reflective of the responsive fiscal policy which Government of India has adopted against COVID-19. Due to movement restrictions in containment zones, and unwillingness or inability of contractors and workers to carry out works, the quarterly capital expenditure was restrained during the first two quarters of 2020-21. With the easing of movement and health-related restrictions in Q3 of 2020-21, the capital spending was pushed for encouraging expenditure in sectors with the most positive effect on the economy. The focus on capital spending has been sustained during the current fiscal, as the capital expenditure shows an increasing trend during the first three quarters of 2021-22.

roads, urban transport, power, telecom, textiles and affordable housing amid continued focus on the National Infrastructure Pipeline. The National Infrastructure Pipeline covering 6835 projects was expanded to 7400 projects in Budget 2021-22. In order to unlock the domestic manufacturing potential across sectors, such as renewable energy, heavy industry, agriculture, automotive and textiles, Budget 2021-22 launched PLI schemes for 13 sectors, with an outlay of INR `1.97 lakh crore, for a period of 5 years starting from 2021-22. All these initiatives are expected to collectively generate employment and boost output in the medium to long term through multiplier-effects. The stimulus measures announced during the year 2021-22 have continued the emphasis on liquidity enhancing and investment boosting measures such as the PLI Scheme, credit guarantee schemes and export boosting initiatives to support the reviving economy, apart from providing free food grains to the poor.



Building on the same approach, the Union Budget 2021-22 had enhanced the budget outlays for the more productive capital expenditure. The Government budgeted for a 34.5 per cent growth in capital expenditure over 2020-21BE – with emphasis on railways,

Tax Revenue

The fiscal support given to the economy as well as to the health response caused the fiscal deficit and government debt to rise in 2020-21. However, a strong rebound in

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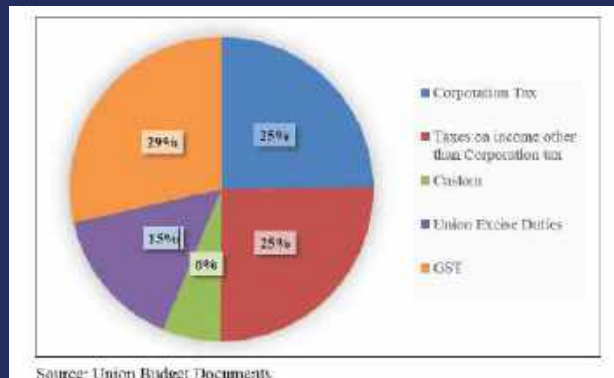
government revenues in **2021-22** has meant that the Government will comfortably meet its targets for the year while maintaining the support, and ramping up capital expenditure. The strong revival in revenues (revenue receipts were up over **67** per cent YoY in April-November 2021) means that the Government has fiscal space to provide additional support if necessary.

The Provisional Actual figures released by the Controller General of Accounts for 2020-21 show that the gross tax revenue grew by 0.7 per cent (YoY) during 2020-21. The muted tax collections were driven by 11.7 per cent (YoY) decline in direct taxes, which was offset by 12.6 per cent (YoY) growth in indirect taxes. However, Budget 2021-22 envisaged a growth of 16.7 per cent in gross tax revenue (GTR) over the revised estimates (RE) of 2020-21. GTR was estimated at INR ` 22.17 lakh crore for 2021-22 BE, which was 9.9 per cent of the GDP. The budgeted growth in GTR was estimated to be led by 22.4 per cent growth in direct taxes and 11.4 per cent growth in indirect taxes over the revised estimates of 2020-21. Broadly, 50 per cent of GTR was estimated to accrue from direct taxes and the remaining 50 per cent from indirect taxes.

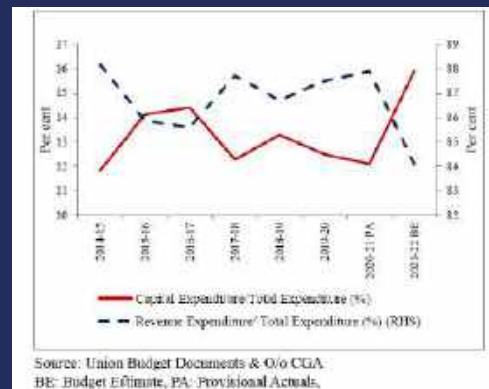
Capital Expenditure

Even the sharp increase in capital spending by the Government can be seen both as demand and supply enhancing response as it creates infrastructure capacity for future growth.

Capital expenditure registered a YoY growth of 26.5 per cent in 2020-21 PA, as it increased from 1.6 per cent of GDP in 2019-20 to 2.2 per cent of GDP in 2020-21 PA. The emphasis on capital expenditure was envisaged to continue in 2021-22 BE to reach a budget estimate of INR ` 5.54 lakh crore i.e. 2.5 per cent of GDP. This translates into a growth of 34.5 per cent and 30.5 per cent over 2020-21 BE and 2020-21 PA, respectively. As a proportion of total expenditure, capital expenditure has been estimated to increase from 12.1 per cent in 2020-21 PA to 15.9 per cent in 2021-22 BE. The higher capital expenditure with a focus on infrastructure spending in 2021-22 BE will have a multiplier effect on the ongoing economic recovery.



Source: Union Budget Documents



Source: Union Budget Documents & O/o CGA
BE: Budget Estimate, PA: Provisional Actuals.

Fiscal Deficit

The Finance Minister said that the revised Fiscal deficit in the current year is estimated at 6.9 per cent of GDP as against 6.8 per cent projected in the Budget Estimates. The Fiscal Deficit in 2022-23 is estimated at 6.4 per cent of

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GDP, which is consistent with the broad path of fiscal consolidation announced by her last year to reach a fiscal deficit level below 4.5 per cent by 2025-26. While setting the fiscal deficit level in 2022-23, she called for nurturing growth, through public investment, to become stronger and sustainable.



Source: Budget Summary

Policy Reforms

India's response has been an emphasis on supply-side reforms rather than a total reliance on demand management. These supply-side reforms include deregulation of numerous sectors, simplification of processes, and removal of legacy issues like 'retrospective tax', privatisation, and production-linked incentives.



Direct & Indirect
Taxes
Proposals

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DIRECT TAX PROPOSALS

The major direct tax amendments as proposed by Finance Bill, 2022 are as under:


RATES OF INCOME TAX

Individual Income Tax Rates

There is no change in Income tax rates of Individual taxpayers for the Assessment Year 2023-2024 relevant to Financial Year 2022-2023.

Corporate Tax Rates

There is no change in Corporate Tax Rates on domestic companies subject to that turnover of domestic companies for the Financial Year 2019-20 does not exceed INR 4,000 Million. The rate of income tax for such companies shall continue to remain 25% of the total income and in all other cases it shall be 30%. In case of companies other than domestic companies, the rate of tax remains 40% of the total income.




Further, there is no change in rates of Surcharge and Health & Education Cess. However, Surcharge on cooperative societies reduced from 12% to 7% for those having total income of more than INR 10 Million and up to INR 100 Million.

PROMOTING VOLUNTARY TAX COMPLIANCE AND REDUCING LITIGATION

Provisions for filing of updated return

Section 139 of the Income Tax Act, 1961 ("ITA") casts responsibility on the taxpayer to furnish a return within a definite time period or up to a particular date on which income tax return can be filed.



Presently, belated return under Section 139(4) of ITA can be filed after the expiry of due date, if such return is furnished before 3 months prior to end of relevant Assessment Year or before the completion of assessment, whichever is earlier and similar provision also apply for filing the revised return under Section 139(5) of ITA.

It is proposed to insert Section 139(8A) of ITA to provide that any person, whether or not he has furnished a return under Section 139(1), Section 139(4) or Section 139(5) of ITA, for an assessment year, may furnish an updated return of his income or the income of any other person in respect of which he is assessable under ITA, for the previous year relevant to such assessment year, within twenty four months from the end of the relevant assessment year.

Applicability of proposed Section 139(8A) of ITA shall not apply, if the updated return, is a return of a loss or has the effect of decreasing the total tax liability or increases the refund in the Income Tax Return already filed.

Also, no updated return shall be furnished by any person for the relevant assessment year, if any proceedings in relation with the return of income already filed under ITA for the same assessment year has already been initiated.

New section 140B of ITA has been proposed to provide for the tax required to be paid for opting to file the updated return of income under the proposed provisions i.e. Section 139(8A) of ITA.

(1) Where no return has been furnished earlier under Section 139(1) or Section 139(4) of ITA by an assessee, he shall before furnishing the return under Section 139(8A) of ITA, be liable to pay the tax due together with interest and fee payable under any provision of the ITA for any delay in furnishing the return or any default or delay in payment of advance tax, along with the payment of additional tax.

(2) In the case of an assessee, where, return of income under Section 139(1) or Section 139(4) or Section 139(5) of ITA has been furnished by an assessee, he shall before furnishing the return under Section 139(8A) of ITA, be liable to pay the tax due together with interest and fee payable under any provision of ITA for any delay in furnishing the return or any default or delay in payment of advance tax, along with the payment of additional tax, as reduced by the amount of interest paid under the provisions of ITA in the earlier return.



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(3) The additional tax, payable at the time of furnishing the return under Section 139(8A) of ITA, shall be equal to twenty-five per cent of aggregate of tax and interest payable, as determined in sub- paragraphs I or II above, if such return is furnished after expiry of the time available under Section 139(4) or under Section 139(5) of ITA and before completion of period of twelve months from the end of the relevant assessment year. However, if such return is furnished after the expiry of twelve months from the end of the relevant assessment year but before completion of the period of twenty-four months from the end of the relevant assessment year, the additional tax payable shall be fifty per cent of aggregate of tax and interest payable as determined in sub- paragraphs 1 or 2 above. It is also clarified that for the purposes of computation of “additional income-tax”, tax shall include surcharge and cess, by whatever name called on such tax.

These amendments will take effect from 1st April, 2022.

Litigation management when in an appeal by revenue an identical question of law is pending before jurisdictional High Court or Supreme Court

It is proposed to insert new Section 158AB of ITA, where the two or more commissioners or principal commissioners are of the opinion that any question of law arising in the case of an assessee for any assessment year (“relevant case”) is identical with a question of law already raised in his case for any earlier year, which is pending before the jurisdictional High Court or the Supreme Court in an appeal under Section 261 of ITA or in a special leave petition under Article 136 of the Constitution, against the order of the Appellate Tribunal or the jurisdictional High Court, as the case may be, in favor of such assessee (“other case”), it may, decide and intimate the Commissioner or Principal Commissioner not to file any appeal,

at this stage, to the Appellate Tribunal under Section 253(2) of ITA or to the High Court under Section 260A(2) of ITA against the order of the Commissioner (appeals) or the Appellate Tribunal, as the case may be.

This amendment will take effect from 1st April, 2022.

Amendment in section 245MA of ITA related to Dispute Resolution Committee

Currently, there is no provision which enables the Assessing Officer to pass an order giving effect to the order or directions of the Dispute Resolution Committee (DRC), after the resolution of the dispute by the DRC.

It is proposed to amend the provisions to enable the Assessing Officer to pass an order giving effect to the resolution of dispute by the DRC.

This amendment will take effect from 1st April, 2022.

Clarification regarding treatment of Cess and Surcharge

Section 40(a)(ii) of ITA provides that any sum paid on account of any rate or tax levied on the profits or gains of any business or profession or assessed at a proportion of, or otherwise on the basis of, any such profits or gains shall not be deducted in computing the income chargeable under the head “Profits and gains of business or profession”.

It is proposed to clarify that the term “tax” includes and shall be deemed to have always included any Surcharge or Cess, by whatever name called, on such tax.

This amendment will take effect retrospectively from 1st April, 2005 i.e., Assessment Year 2005-06 and subsequent Assessment Years.



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Amendments related to successor entity subsequent to business Reorganization

As per the existing provision Section 170 of ITA, in cases of succession otherwise than by death, in practice once an entity starts the process of reorganization by filing an application with the adjudicating authority or any High Court, the period of time involved in coming to a conclusion with respect to such reorganization is found to be a long-drawn process and is not time-bound. The reorganization often is from a preceding date. During the pendency of the court proceedings the income tax proceedings and assessments are carried on and often completed on the predecessor entities only. Courts have held such proceedings and consequent assessments illegal as the predecessor assessee ceases to exist in the midst of a perfectly valid and legal proceeding.

Therefore, with a view to clarify that such proceedings under the ITA are valid, it is proposed to insert Section 170(2A) of ITA, to provide that the assessment or other proceedings pending or completed on the predecessor in the event of a business reorganization, shall be deemed to have been made on the successor.

In order to remove this anomaly, it is proposed to insert a new Section 170A to ITA, to enable for the entities going through such business reorganization, for filing of modified returns for the period between the date of effectivity of the order and the date of issuance of final order of the competent authority.

Further, it is proposed to insert a new Section 156A to the ITA to give effect to the orders of the competent authority.

These amendments will take effect from 1st April, 2022.

Clarification in respect of disallowance under Section 14A of ITA in absence of any exempt income during an assessment year

It is proposed to amend Section 14A of the ITA to clarify that notwithstanding anything to the contrary contained in ITA, the provisions of this section shall apply and shall be deemed to have always applied in a case where exempt income has not accrued or arisen or has not been received during the previous year relevant to an assessment year and the expenditure has been incurred during the said previous year in relation to such exempt income.

It is also proposed that no deduction shall be allowed in relation to exempt income, notwithstanding anything to the contrary contained in ITA.

This amendment will take effect from 1st April, 2022.

Clarifications on allowability of expenditure under Section 37 of ITA

It is proposed to amend Section 37 of ITA to further clarify that the expression “expenditure incurred by an assessee for any purpose which is an offence or which is prohibited by law”, shall include and shall be deemed to have always included the expenditure incurred by an assessee. It is proposed to insert following:

1. for any purpose which is an offence under, or which is prohibited by, any law for the time being in force, in India or outside India; or
2. to provide any benefit or perquisite, in whatever form, to a person, whether or not carrying on a business or exercising a profession, and acceptance of such benefit or perquisite by such person is in violation of any law or rule or regulation or guidelines, as the case may be, for the time being in force, governing the conduct of such person; or



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3. to compound an offence under any law for the time being in force, in India or outside India.

This amendment will take effect from 1st April, 2022.

Clarification regarding deduction on payment of interest only on actual payment

As per Section 43B of ITA, it is proposed to amend the explanation, conversion of outstanding interest on loan or borrowing from financial institution / NBFC / scheduled bank or co-operative bank into debentures is not an actual payment and cannot be claimed as deduction.

The amendment will take effect from 1st April, 2023.

Consequence for failure to deduct/collect or payment of tax – Computation of interest

Section 201 and Section 206C of ITA provides the consequences for fail to deduct the TDS/TCS or deduct but fails to pay the TDS/TCS to the credit of the central government, then he shall be liable to pay interest at rates specified in ITA.

It has been observed that computation of interest under the said provisions in case where the default for deduction/collection of tax or payment of tax continues is subject matter of frequent litigation.

To clarify the intention of the legislation clear and to make it free from any misinterpretation, it is proposed to amend Section 201 and Section 206C of the ITA where any order is made by Assessing officer for default under said section, that the interest shall be paid by the person in accordance with the order made by the Assessing Officer.

This amendment will come into effect from 1st April, 2022.

SOCIO-ECONOMIC WELFARE MEASURES

Extension of the last date for commencement of manufacturing or production

Currently, Section 115BAB of ITA provides for an option of concessional rate of taxation of fifteen percentage for new domestic manufacturing companies which is set up and registered on or after 1st October 2019, and commence manufacturing or production of an article or thing on or before 31st March, 2023.

It is proposed to extend the date of commencement of manufacturing or production of an article or thing, from 31st March, 2023 to 31st March, 2024

This amendment will take effect from 1st April, 2022.

Extension of date of incorporation for eligible start up for exemption

At present Section 80-IAC of ITA, prescribes for 100% deduction to business of eligible start up. This is subject to the conditions that start up is incorporated from 1st April, 2016 to 31st March, 2022.

It is proposed to extend the period of incorporation of eligible start-ups to 31st March, 2023.

This amendment will come into effect from 1st April, 2022.

Rationalization of provisions of the Act to promote the growth of Co-operative Societies

Currently, Alternate Minimum Tax (“AMT”) payable by the co-operative societies at the rate of 18.5%



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but Minimum Alternate Tax (MAT) payable by the companies at the rate of 15%. It is proposed to clear the parity between co-operative societies and companies by reducing the AMT payable by the co-operative societies to 15%.

The amendment will take effect from 1st April, 2023.

Tax Incentives to International Financial Services Centre (IFSC)

In order to make location in IFSC more attractive and to make it a global hub, it is proposed to exempt the following incomes earned from units located in IFSC.

1. Income for the non-resident by transfer of offshore derivative instruments or over-the-counter derivatives;
2. Income for the non-resident by way of royalty, interest on account of lease of a ship;
3. Income for the non-resident from portfolio of securities or financial products or funds; and
4. Income earned by the transfer of aircraft, ship which is leased by a unit of the IFSC.

This amendment will come into effect from 1st April, 2023.

Incentives to National Pension System (NPS) subscribers for state government employees

Currently, any contribution by the Central Government or any other employer to the NPS account in Section 80CCD of ITA shall be allowed as a deduction to the assessee in the computation of his total income, if it does not exceed 14% of his salary where such contribution is made by the Central Government. However, this limit is 10% of his salary where such contribution is made by any other employer.

It is proposed to increase the limit of deduction under Section 80CCD of ITA from 10% to 14% in respect of contribution made by the State Government to the account of its employee.

This amendment will come into effect retrospectively from 1st April, 2020.

Condition of releasing of annuity to a disabled person

Currently, Section 80DD of ITA, provide for a deduction to an individual or HUF for expenditure on the medical treatment, of a person being a person with disability or amount paid to LIC or any other insurer in respect of a scheme for the maintenance of a disabled dependent.

Section 80DD(3) of ITA provided that if dependent with disability, predeceases the individual or member of HUF, the amount of deposit in such scheme shall be the income of the previous year in which such amount is received by the assessee and shall be chargeable to tax accordingly.

It is proposed to amend Section 80DD of ITA, deduction allows during the lifetime i.e., attaining age of sixty years or more of individual or member of HUF in whose name subscription to scheme has been made.

It is also proposed that the amount received by the dependant, before his death, by way of annuity or lump sum not included in his total income.

The amendment will take effect from 1st April, 2023.

Exemption of amount received for medical treatment and on account of death due to COVID-19

Section 56 of ITA provides that if person receives any sum of money, the aggregate value of which exceeds fifty thousand rupees, which is received without consideration, the whole of the aggregate value of such sum shall be the income of the person receiving such sum.



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It is proposed to amend the Section 56 of ITA and insert two new clauses so as to provide that-

1. Any sum received by an individual for medical treatment from employer or from any person in respect of any expenditure actually incurred by him on his medical treatment or treatment of any member of his family related to COVID-19, shall not be the income of such person.
2. any sum of money received by a member of the family of a deceased person, from the employer of the deceased person (without limit), or from any other person or persons such sum does not exceed INR 1 Million relating to COVID-19 and the payment is received within twelve months from the date of death of such person, shall not be income of such person.

These amendments will take effect retrospectively from 1st April, 2020.

Facilitating strategic disinvestment of public sector companies

Section 79 of ITA provides for carry forward and set-off of losses in case of certain companies. This section provided that where a change in shareholding has taken place during the previous year, no loss incurred in any year prior to previous year shall be carried forward and set off against the income of previous year, unless on the last day of the previous year, the shares of the company carrying not less than fifty-one per cent of the voting power were beneficially held by persons who beneficially held shares of the company carrying not less than fifty-one per cent of the voting power on the last day of year or years in which the loss was incurred.

In order to facilitate the strategic disinvestment of public sector companies, It is proposed to amend Section 79 of ITA that it shall not apply to an erstwhile public sector company subject to the condition that the ultimate holding company of such erstwhile public sector company, immediately after the completion of strategic disinvestment, continues to hold, directly or

through its subsidiary or subsidiaries, at least fifty one per cent of the voting power of the erstwhile public sector company in aggregate.

It is further proposed that if the above condition is not complied with in any previous year after the completion of strategic disinvestment, the provision of Section 79(1) of ITA shall apply for such previous year and subsequent previous years.

This amendment will take effect from 1st April, 2022.

WIDENING AND DEEPENING OF TAX BASE

Rationalization of provisions of Section 206AB and 206CCA to widen and deepen tax-base

As per existing provision as per sections 206AB and 206CCA of the ITA provide for special provision for deduction and collection of tax at source respectively, in case of specified persons at higher rates specified therein.

Specified person means –Who has not filed the returns of income for previous two years in which tax is required to be deducted or collected, for which the time limit for filing return of income under sub-section (1) of section 139 has expired; and the aggregate of TDS/TCS INR 0.05 Million or more in each of these two previous years.

In order to ensure that all the persons in whose case significant amount has been deducted do furnish their return of income, it is proposed to amend Section 206AB and Section 206CCA of ITA, to reduce two years requirement to one year.

In order to reduce the additional burden on individual and HUF taxpayers covered under Section 194-IA, Section 194-IB and Section 194M of ITA, it is proposed that the provisions of Section 206AB of ITA will not apply in relation to transactions on which tax is to be deducted under the said sections of ITA.

This amendment will come into effect from 1st April, 2022



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Rationalization of provisions of TDS on sale of immovable property

Currently, Section 194-IA of ITA which provides 1% TDS on payment on transfer of certain immovable property, does not take into account the stamp duty value of the immovable property, however, Section 43CA and 50C of ITA considers the stamp duty value.

It is proposed to amend Section 194-IA of ITA to provide that TDS is to be deducted at the rate of 1% of such sum paid or credited to the resident or the stamp duty value of such property, whichever is higher.

This amendment will come into effect from 1st April, 2022.

TDS on benefit or perquisite of a business or profession (Section 194R)

Currently, as per clause (iv) of section 28 of ITA, the value of any benefit or perquisite, arising from business or profession is to be charged as business income in the hands of the recipient. However, in many cases, such recipient does not report such receipt in their return of income, leading to furnishing of incorrect particulars of income.

It is proposed to insert a new Section 194R of ITA to provide that the person responsible for providing to a resident, such aforementioned benefit or perquisite, shall, before providing such benefit or perquisite, ensure that tax has been deducted at the rate of 10% of the value.

No tax is to be deducted if the value does not exceed INR 0.02 Million during the Financial Year.

Further, the provisions of the said section shall not apply to an individual or a HUF, whose total sales, gross receipts or turnover does not exceed INR 10 Million in case of business or INR 5 Million in case of profession during immediately preceding financial year.

This amendment will take effect from 1st July, 2022.

Widening the scope of reporting by producers of cinematograph films or persons engaged in specified activities

Currently, as per Section 285B of ITA, the producer of cinematographic film is bound to furnish within 30 days from end of the financial year or from completion of film, whichever is earlier, a statement having details of particulars of all payments over INR .05 Million in aggregate made by him or due from him to each person engage by him.

It is proposed to widen the scope of Section 285B of ITA to include persons engaged in specified activities to expand the reporting requirements in Form 52A. "Specified Activities" would mean event management, documentary production, production of programs for telecasting on television or over the top platforms or any other similar platform, sports event management, other performing arts or any other activity as the Central Government may, by notification in the Official Gazette, specify in this behalf.

This amendment will take effect from 1st April 2022.



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Provisions pertaining to bonus stripping and dividend stripping to be made applicable to securities and units

Section 94 of ITA contains anti avoidance provisions to deal with transactions in securities and units of mutual fund.

The scope of this section has been enhanced including the bonus stripping undertaken in case of securities. Further definition of the unit has been modified, so as to include units of business trusts such as InvIT, REIT and AIF, within the definition of units.

This amendment will take effect from 1st April, 2022.

REVENUE MOBILIZATION

Scheme for taxation of virtual digital assets

New Section 115BBH of ITA proposed to provide that where the total income of an assessee includes any income from transfer of any virtual digital asset, the income tax on such transfer shall be calculated at the rate of 30%.

No deduction in respect of any expenditure (other than cost of acquisition) or allowance or set off of any loss shall be allowed to the assessee while computing income from transfer of such asset.

Further, no set off or carry forward of any loss arising from transfer of virtual digital asset shall be allowed.

This amendment will take effect from 1st April, 2022.

TDS on transfer of virtual digital assets (Section 194S)

It is proposed to insert new Section 194S of ITA to provide for deduction of tax on payment for transfer of virtual digital asset to a resident at the rate of 1% of such sum.

No tax is to be deducted if the value does not exceed INR 0.01 Million during the financial year. However, in case of specified persons, this limit is INR 0.05 Million.

This amendment will take effect from 1st July, 2022.

Gifting of virtual digital assets

It is proposed to amend Explanation to clause (x) of sub-section (2) of section 56 of ITA wherein the expression "property" shall include virtual digital asset. It results in taxing the gifting of virtual digital assets.

This amendment will take effect from 1st April, 2022.

Definition of virtual digital asset

Virtual digital asset is proposed to mean any information or code or number or token (not being Indian currency or any foreign currency), generated through cryptographic means or otherwise, by whatever name called, providing a digital representation of value which is exchanged with or without consideration, with the promise or representation of having inherent value, or functions as a store of value or a unit of account and includes its use in any financial transaction or investment, but not limited to, investment schemes and can be transferred, stored or traded electronically. Non fungible token and; any other tokens of similar nature are included in the definition.



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Withdrawal of concessional rate of taxation on dividend income under section 115BBD

Section 115BBD of ITA provides for a concessional rate of tax of 15% on the dividend income received by an Indian company from specified foreign company.

It is proposed to provide that the provisions of section 115BBD of ITA shall not apply to any financial year beginning on or after the 1st April, 2022.

This amendment will take effect from 1st April, 2022.

PHASING OUT EXEMPTIONS

Withdrawal of exemption under clauses (8), (8A), (8B) and (9) of section 10 of ITA

1. Clause (8) of the section 10 of ITA provides for exemption to the income of an individual who is assigned duties in India in connection with any co-operative technical assistance programmes and projects which are in accordance with an agreement entered by the Central Government and the Government of a foreign state.
2. Clause (8A) of the section 10 of ITA provides for exemption on the remuneration or fee received by a consultant, directly or indirectly out of the funds made available to an international organization (agency) under a technical assistance grant agreement between the agency and the Government of a foreign state.
3. Clause (8B) of the section 10 of ITA provides for exemption to an individual who is an employee of the consultant as referred to in clause (8A) of section 10 of the ITA.
4. Clause (9) of the section 10 of the ITA provides for exemption to the income of the family members of any individual or consultant as

referred in clause (8), clause (8A) and clause (8B), who accompanies such individual or consultant to India.

The exemptions as provided under the above-mentioned clauses have outlived their utility in the era of simplification of tax laws.

Further, if under a tax treaty, India gets a right to tax a particular income and the other country is expected to then relieve double taxation by exemption or credit method, providing exemption by India amounts to surrender of right of taxation by India in favor of the other country.

Accordingly, it is proposed to withdraw the aforementioned exemptions w.e.f. 1st April, 2023.

These amendments will take effect from 1st April, 2022.

RATIONALIZATION MEASURES

Amendment in the provisions of Section 248 of ITA and insertion of new Section 239A of ITA

Currently, as per Section 248 of ITA, where, under an agreement or other arrangement, a person who has deducted tax on any income paid to non-resident, other than interest, he may file appeal to the Commissioner (Appeals) for a declaration that no tax was deductible on such income and to obtain a refund of the same, a taxpayer has no recourse to approach the Assessing Officer with such request.

It is proposed that a new Section 239A of ITA provides that such a person may file an application to Assessing Officer for refund of such tax deducted and it is also proposed that if assessee not satisfied with order of Assessing Officer, then he can file appeal to Commissioner (Appeal).

These amendments will take effect from 1st April, 2022.

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Amendment in Section 68: Source of funds in the hands of the creditor / entry provider to be explained

It is proposed to amend the provisions of Section 68 of ITA so as to provide that the nature and source of any sum, , whether in form of loan or borrowing, or any other liability credited in the books of an assessee shall be treated as explained only if the source of funds is also explained in the hands of the creditor or entry provider.

However, this additional onus of proof of satisfactorily explaining the source in the hands of the creditor, would not apply if the creditor is a well-regulated entity, i.e., Venture Capital Fund, Venture Capital Company registered with SEBI.

This amendment will take effect from 1st April, 2023.

Alignment of the provisions relating to Offences and Prosecutions under Chapter XXII of ITA

A sunset clause has been proposed to introduce in Section 276AB of ITA and therefore no fresh prosecution proceeding shall be initiated under this section on or after 1st April 2022.

At present, there is no provision under sections 278A and 278AA of ITA, specifying for offence with respect to tax collected at source under Chapter XVII-BB, providing for punishment with prosecution against persons failing to pay tax collected at source, therefore, it is proposed to include Section 276BB under sections 278A and 278AA owing to the similar nature of offences that are punishable under section 276B and section 276BB.

These amendments will take effect from 1st April, 2022.

Scope of Faceless Proceedings expanded

Provisions for notifying faceless schemes under sections 92CA, 144C, 253 and 264A were introduced in ITA through Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020 with effect from 01.11.2020 and under section 255, was inserted through Finance Act, 2021 with effect from 01.04.2021. The dates for issuing directions have been extended to 31st March 2024 for reasons mentioned in the table:

Section	Nature	Remarks
92CA	Faceless determination of arm's length price	New schemes proposed will have an effect on information technology structure
144C	Faceless Dispute Resolution Panel	New schemes proposed will have an effect on information technology structure
253	Faceless Appeal to Appellate Tribunal	Schemes to be formulated after due consultation with Ministry of Law & Justice
255	Faceless Procedure of Appellate Tribunal	Schemes to be formulated after due consultation with Ministry of Law & Justice

These amendments will take effect from 1st April, 2022.

Amendment in Section 144B of ITA

Section 144B was inserted in ITA to provide the procedure for faceless assessment with effect from 01.04.2021.



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However, various difficulties are being faced by the administration and the taxpayers in the operation of the faceless assessment procedure. In order to address these issues and streamline the process of faceless assessment, it is proposed that the existing provisions of the Section 144B of ITA may be amended.

Key changes to the Scheme include-

- Regional Faceless Assessment Centre removed;
- Reassessments included within the scope of faceless proceedings;
- Functions of the technical unit to include determination of arm length price, valuation of property, technical assistance relating to double tax treaty provisions etc.
- Addition of the review of the income determination proposal specifically to the functions of review units.
- Erstwhile provision, which operated to vitiate assessments in case the prescribed procedure under the scheme was not followed, has been proposed to be omitted retrospectively from first April 2021.

These amendments will take effect from 1st April 2022.

Restriction on Set off of loss in Search Cases by way of introduction of new Section 79A of ITA

At present, assessees claim set off of losses or unabsorbed depreciation against undisclosed income corresponding to difference in stock, undervaluation of stock, unaccounted cash payment etc. which is detected during the course of search or survey proceedings as there is no provision in ITA to disallow such set-off which is there in case of incomes falling in Section 68, Section 69, Section 69B etc. Allowing such set off is resulting in short levy of tax.

Therefore, it is proposed to insert a new Section 79A of ITA to provide that notwithstanding anything contained in ITA, the total income of any previous year of an assessee includes any undisclosed income detected during the course of search or survey proceedings, no set off, against such undisclosed income, of any loss, whether brought forward or otherwise, or unabsorbed depreciation shall be allowed to the assessee under any provision of this Act in computing his total income for such previous year. For this purpose, the term "undisclosed income is also proposed to be amended.

This amendment will take effect from 1st April, 2022.

RATIONALIZATION OF PROVISIONS RELATING TO ASSESSMENT / REASSESSMENT AND PENALTY PROCEEDINGS

Simplification of assessment procedures under Section 143 or 144 or 147 of ITA

It is proposed to insert a new proviso to remove the requirement by the Assessing Officer for taking approval of higher authority to issue notice under Section 148 of ITA if he has passed an order under Section 148A(d) of ITA with prior approval in that case stating that the income is escaping assessment. Also, the requirement of approval of specified authority in clause (b) of section 148A of ITA is now omitted.

These amendments will take effect from 1st April, 2022.

In order to correct the inadvertent drafting errors and align the provisions with the intent of the sections, it is proposed to make following amendments:

- i. the word 'flagged' has been omitted from clause (i) of Explanation 1 to section 148;



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ii. the reference of subsection (5) of section 133A to be made in clause (ii) of Explanation 2 to section 148 has been omitted.

These amendments will take effect from 1st April, 2022.

iii. the reference to three assessment years preceding the assessment year relevant to the year of search has been omitted in Explanation 2 of section 148;

iv. a new sub-section (4) has been inserted in section 153B to provide that nothing contained in the said section shall apply to any search initiated under section 132 or requisition made under section 132A.

v. first proviso of sub-section (1) of section 149 is amended to provide that no notice under Section 148 shall be issued at any time in the cases pertaining to assessment years beginning on or before 1st day of April, 2021, if a notice under Section 148 or Section 153A or Section 153C could not have been issued at that time on account of expiry of the time limit specified under the corresponding provisions of the said sections.

These amendments will take effect retrospectively from 1st April, 2021.

In order to align the scheme of search assessments with the intent of ITA, it is proposed to make following amendments:

i. provisions of sub-section (8) of section 132, clause (i) of sub-section (1) and sub-section (4) of section 132B shall now be applicable to assessment or reassessment or recomputation under subsection (3) of 143 or section 144 or section 147, as the case may be;

ii. in order to reduce avoidable inaccuracies, a new Section 148B of ITA has been inserted to provide that no order of assessment or reassessment or recomputation in cases related to search and survey proceedings, shall be passed by an Assessing Officer below the rank of Joint Commissioner, except

with the prior approval of the Additional Commissioner or Additional Director or Joint Commissioner or Joint Director.

These amendments will take effect from 1st April, 2022.

iii. Provisions of Section 153 of ITA and Section 153B of ITA has been amended to exclude the period of limitation of one hundred eighty days for the purpose of assessment, reassessment or recomputation in cases related to search and survey proceedings under Section 132 or Section 132A of ITA, as the case may be.

These amendments will take effect retrospectively from 1st April, 2021.

iv. the definition of “specified date” has been amended in clause (a) of explanation to Section 271AAB of ITA to make it also applicable to a notice issued under Section 148 of ITA in case where search is initiated on or after 1st April, 2021.

This amendment will take effect from 1st April, 2022.

In order to bring clarification in the existing provisions and to align them with the intent of ITA, it is proposed to make following amendments:

i. explanation 1 to section 148 is modified to clarify that the word ‘information’ shall include 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 of ITA.

ii. clause (b) of sub-section (1) of Section 149 is amended to provide that a notice under Section 148 of ITA shall be issued only after three years but prior to ten years from the end of the relevant assessment year where the Assessing Officer has any material evidence which reveal that the income chargeable to tax which has escaped assessment exceeds INR 5 Million or more.




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iii. new sub-section (1A) in section 149 has been inserted to provide that where the income chargeable to tax has escaped assessment for the reasons specified in clause (b) of sub-section (1) in of the said section in more than one previous year relevant to the assessment years, notice under Section 148 shall be issued for every such assessment year for assessment, reassessment or recomputation, as the case may be.

iv. the provisions of the Section 148A of ITA shall not apply in cases where the Assessing Officer has received any information regarding the scheme notified under section 135A, pertaining to income chargeable to tax escaping assessment for any assessment year in the case of the assessee.

These amendments will take effect from 1st April, 2022.



Rationalization of the provisions of Sections 271AAB, 271AAC and 271AAD of ITA

Currently, unlike Assessing Officer, Commissioner (Appeals) is not empowered to levy penalty under Section 271AAB, 271AAC and 271AAD in cases involving undisclosed income in cases where search has been initiated under Section 132 of ITA or otherwise, or for false entry etc. in books of account whereas, Commissioner (Appeals) has simultaneous powers along with the Assessing Officer to levy penalty in eligible cases under Section 270A, Section 271, Section 271AA, Section 271G, Section 271J of ITA.

In order to prohibit non-compliance among tax payers, it is proposed to amend the Sections 271AAB, 271AAC and 271AAD by enabling the Commissioner (Appeals) to levy penalty under these sections along with the Assessing Officer.

These amendments will take effect from 1st April, 2022.

Amendment in section 272A – penalty for failures in certain cases increased

There is a penalty under section 272A of INR 100 per day for failure to answer questions, sign statements, furnish information, returns or statements, allow inspections etc. which as per the CAG is too low.

It is proposed to increase the amount of penalty for such failures to INR 500 per day.

This amendment will take effect from 1st April, 2022.

Scope and provisions of section 179 clarified

Section 179 of ITA deals with the recovery of tax due from a private company from its directors, under certain circumstances where such tax cannot be recovered from the company itself. The section makes each director of the private company jointly and severally liable for the payment of such tax with certain conditions.

However, the title of the section inadvertently refers to the “Liability of directors of private company in liquidation” whereas, provisions of the section make no reference to “liquidation”.

To make the title of the section uniform with its provisions, it is proposed to amend the title of the section to “Liability of directors of private company”.

Further, the expression “tax due” in the section includes penalty, interest of any other sum payable under ITA. In order to avoid unnecessary litigation and to provide further clarity, it is proposed to insert the word “fees” in the scope of the expression “tax due” under explanation to the section.

This amendment will take effect from 1st April, 2022.



DIRECT TAX PROPOSALS

Amendment in the provisions of section 263 of ITA

As per the provisions of Section 92CA of ITA, Assessing Officer may with the approval of the Principal Commissioner or Commissioner refer the computation of arm's length price to the Transfer Pricing Officer (TPO). However, it is not clear as to who has the power under Section 263 of ITA to revise the order of the TPO passed under Section 92CA of ITA.

It is proposed to amend the provisions of Section 263 of ITA so as to provide that the Principal Chief Commissioner or Commissioner may, if he considers that any order passed by the TPO, to be erroneous and prejudicial to the interest of the revenue, pass an order directing revision of the order of TPO.

Consequential changes are also be made in the provisions of Section 153 of ITA to provide two months' time to the Assessing Officer to give effect to the order of TPO.

This amendment will take effect from 1st April 2022.

Amendment in the provisions of section 119 of ITA

CBDT may provide relaxation in provisions of certain sections.

Section 234F of ITA provides for a late fee of INR 5,000/- payable by a person failing to furnish return of income within time stipulated under Section 139 of ITA.

It is proposed to amend Section 119 of ITA to include Section 234F of ITA in the list of sections mentioned in clause (a) of sub-section (2) of the said section.

This amendment will take effect from 1st April 2022.

Income-tax authorities for the purposes of section 133A of ITA

It is proposed to amend the Explanation to Section 133A of ITA to provide that income tax authority shall be sub-ordinate to Principal Director General or Director General or Principal Chief Commissioner or Chief Commissioner.

This amendment will take effect from 1st April 2022.

Reduction of Goodwill from block of assets to be considered as 'transfer'

It is proposed to clarify that for the purposes of Section 50 of ITA, reduction of the amount of goodwill of a business or profession, from the block of asset in accordance with sub item (B) of item (ii) of sub-clause (c) of clause (6) of section 43 shall be deemed to be transfer.

The amendment will take effect retrospectively from 1st April 2021.

Definition of the term "slump sale" modified

Vide the Finance Act, 2021, the definition of "slump sale" in clause (42C) of Section 2 of ITA was amended to expand its scope to cover all forms of transfer under slump sale. However, inadvertently, in the last sentence there is reference to the word "sales" instead of "transfer".

It is proposed to amend the aforesaid provisions to substitute the word "sales" with the word "transfer".

This amendment will take effect retrospectively from the 1st April, 2021.



INDIRECT TAX PROPOSALS

Customs

The provisions under Custom Law have been rationalized to go many a step forward in achieving the objective of 'Make in India' and 'Atmanirbhar Bharat' initiatives which in-turn will promote domestic capacity creation, providing level playing field to the MSME's, easing raw material supply side constraints, enhancing ease of doing business and being an enabler to other policy initiatives such as PLI's and phased manufacturing plans.

Review of customs exemptions and tariff rationalization:

- It is proposed to gradually phase out around 350 plus duty exemption entries, including exemption on certain agricultural produce, chemicals, fabrics, medical devices, & drugs and medicines for which sufficient domestic capacity exists;
- Custom tariff structure is being simplified by moving the concessional rates from existing notifications to the First Schedule of Customs Tariff Act, particularly for the sectors like chemicals, textiles and metals to minimize disputes;
- Review of custom duty exemptions / concessional duty rates granted through certain stand-alone notifications and prescribing sunset date for such concessions / exemptions as per Section 25(4A) of Customs Act, 1962;

Key Sector Specific Proposals under Customs:

Electronics Sector

- India observed rapid growth in electronic sector. Customs duty rates are being modified to provide a categorized rate structure in order to facilitate domestic manufacturing of wearable devices, hearable devices and electronic smart meters under Phased Manufacturing Program (PMP);

- Duty concessions are being proposed on the parts of transformer of mobile phone chargers and camera lens of mobile camera module and certain other items;
- Above changes are expected to bring high growth in manufacturing of electronic products;

Gems and Jewellery Sector

- In order to uplift the Gems and Jewellery Sector Customs duty on cutted and polished diamonds and gemstones being reduced to 5 per cent;
- Simply sawn diamond would attract Nil customs duty;
- To facilitate exports of Jewellery through e-commerce, a simplified regulatory framework to be implemented by June 2022;
- Customs duty of at least INR 400 per Kg to be paid on imitation Jewellery to dis-incentivize import of undervalued imitation Jewellery;

Chemical Sector

- Customs duty on certain critical chemicals like methanol, acetic acid and heavy feed stocks for petroleum refining being reduced;
- Duty is being raised on sodium cyanide for which adequate domestic capacity exists;
- These changes will help in enhancing domestic value addition;

MSME Sector

- Customs duty on umbrellas being raised from 10 per cent to 20 per cent and exemption on the parts of umbrella is being withdrawn;
- Exemption being rationalized on implements and tools for agro-sector which are manufactured in India;
- Customs duty exemption given to steel scrap last year extended for another year to provide relief to MSME secondary steel producers;
- Certain Anti- dumping and CVD on stainless steel and coated steel flat products, bars of alloy steel and high-speed steel are being revoked in public interest considering prevailing high prices of metal;

INDIRECT TAX PROPOSALS

Export Sector

- To incentivize exports, exemptions being provided on items such as embellishment, trimming, fasteners, buttons, zipper, lining material, specified leather, furniture fittings and packaging boxes that may be required by bonafide exporters of handicraft, textiles and leather garments, leather footwear and other goods;
- Duty being reduced on certain inputs required for shrimp aquaculture so as to promote its exports;

Review of exemptions on project imports and capital goods

National capital good policy, 2016 to target at doubling the production of Capital Goods till 2025 which will in-turn increase economic activity and generate employment. It has been observed that duty exemptions on various sectors have hindered the growth of capital goods sector. Also, project import concessions have also deprived local producers of a level playing field in the areas like coal mining projects, power generation, transmission or distribution projects, railway and metro projects. Accordingly following proposals are being suggested:

- It is proposed to gradually phase out the concessional rates of duty on capital goods and project imports and apply moderate tariff of 7.5 percent to encourage growth of domestic capital goods sector;
- Certain exemptions for advanced machineries that are not manufactured within the country shall continue;
- A few exemptions introduced on inputs, like specialized castings, ball screw and linear motion guide, to encourage domestic manufacturing of capital goods;

Review of Social Welfare Surcharge (SWS)

- Based on review of levy of Social Welfare Surcharge, certain specified tariff items are proposed to be exempted from Social Welfare Surcharge by amending Notification No. 11 / 2018 Customs dated 02nd February 2018;

Special Economic Zones

- Reforms are proposed to undertake custom administration of SEZ's to make it fully IT driven on Custom National Portal. It will focus on higher facilitation and ease of doing business by SEZ units;
- These reforms are proposed to be implemented by 30th September 2022;

Rationalization of Provisions of Customs

- Section 2(34) of Customs Act, 1962 is modified to specifically state that assignment of functions to a Custom Officer by Board or Commissioner will be governed by new provision of Section 5(1A) and 5(1B) of Customs Act, 1962;
- Section 3 of Customs Act, 1962 is being amended to include officers of DRI, Audit and Preventive formation in class of officers to remove ambiguity in class of officers under Customs;
- Section 5(1A) and (1B) of Customs Act, 1962 is being inserted, to provide explicit power of assignment of function to officers by Board or Commissioner, which in-turn address the infirmity observed by Courts in recent judgments requiring specific provision for such assignment of functions;



INDIRECT TAX PROPOSALS

- Section 5(4) of Customs Act, 1962 is being inserted, to delineate the criteria of board to impose limitations while assigning functions to the officer to regulate jurisdiction of officer considering faceless measures of Customs;
- Section 5(5) of Customs Act, 1962 is being inserted to include concurrent excise of powers by two or more officers to ensure proper management of assigned works;
- Section 14 of Customs Act, 1962 is being amended to enable Board to specify additional obligations on importers in case of improper declared value of specified imports to address issue of undervaluation of declared value;
- Section 28E of Customs Act, 1962 is being amended to rationalize provisions of application of advance ruling for certain specified category of applicants;
- Section 28H of Customs Act, 1962 is being amended to prescribe appropriate fee to apply for advance ruling and extend flexibility to the applicant to withdraw application before pronouncement of ruling;
- Section 28I of Customs Act, 1962 is being amended to relax the mandatory condition of members signature on ruling before circulation, however prescribed certification is retained compulsory;
- section 28J(2) of Customs Act, 1962 is being inserted to provide validity of advance ruling for a period of 3 years or up-till change in law or facts of the case, whichever is earlier;
- Section 110AA of Customs Act, 1962 is being inserted to affirm the principle that, wherever during the original function exercised by an officer, any matter subject to subsequent enquiry, investigation etc. then such officer will have sole authority for initiating such further actions;
- Section 135AA of Customs Act, 1962 is being inserted to prohibit circulation of data of Assessees unless provided by the law to ensure data integrity;

- Clause 96 is inserted in Finance Bill 2022 which seeks to validate of actions of officers envisaged under amended Section 3 of Customs Act 1962, being appointed by Central Government or Board before commencement of Finance Act, 2022;

Other Miscellaneous Changes in Customs

- Various notifications providing concessional rate / exemption from custom duty on import of specified products are being amended to include exemption from Health Cess, Agriculture Infrastructure and Development Cess (AIDC) and Road and Infrastructure Cess (RIC) for goods imported under such notifications;
- Certain clarificatory amendments have been made to the entry no. 525, 526A and 531A of notification no. 50/2017 dated 30th June 2017 to clarify the scope of exemptions in relation to the imports of completely knocked down/semi knocked down forms (CKD/SKD) of electric vehicles (EV) (including commercial, passenger and two-wheeled electric vehicles);
- The concessional rate of Customs duty on 'electric compressor' and 'contactor' have been deleted from the entry No. 531A as these parts are not used in two-wheelers;
- Anti-Dumping duty is being permanently revoked on imports of the following:
 1. Straight Length Bars and Rods of alloy-steel imported from People's Republic of China;
 2. High Speed Steel of Non-Cobalt Grade imported from Brazil, People's Republic of China and Germany;
 3. Flat rolled product of steel, plated or coated with alloy of Aluminum or Zinc exported from People's Republic of China, Vietnam and Korea;



INDIRECT TAX PROPOSALS

- Countervailing Duty is being permanently revoked on imports of Certain Hot Rolled and Cold Rolled Stainless Steel Flat Product exported from People's Republic of China;
- Export duty decrease on Raw hides and skins of buffalo from 40 percent to 30 percent w.e.f. 02nd February 2022;
- Custom (Import of Goods at concessional rate of duty) rules 2017 are being amended to provide the following facilities:
 1. To Introduce end to end Automation in submission of necessary details / forms, claiming incentive and payment of duties through common portal;
 2. Standardization of various forms in electronic mode and phasing out transaction based permissions & intimations;
- Section 16(4) of CGST Act, 2017 is being amended to provide for an extended time for availment of Input Tax Credit up to 30th November of the Next financial Year;
- Section 29(2)(b) and (c) of CGST Act, 2017 are being amended so as to provide that the registration of a person is liable for cancellation, where:
 1. A person paying tax under Section 10 (Composition Tax Payer) has not furnished the return under Form-GSTR-4 beyond three months from due date ;
 2. A person, other than those mentioned above has not furnished returns for such continuous tax period as may be prescribed;

Excise

- Unblended fuel to attract an additional differential excise duty of INR 2 per litre from 01st October, 2022 to encourage efforts for blending of fuel;
- Two new tariff items, that is, 2710 12 43 and 2710 12 44, falling under Chapter 27, have been inserted in the Fourth Schedule to the Central Excise Act, 1944, relating to E12 and E15 fuel blends, conforming to the new BIS specification;
- The Seventh Schedule of the Finance Act, 2001, is being amended to substitute Central Excise tariff item of Petroleum Crude;
- Notification No. 49 / 2008 – Central Excise (N.T.) dated 24th December 2018 which provides Retail sale price (RSP) valuation for specified goods has been suspended to align with current position, post roll out of GST regime;
- Section 34(2) of CGST Act, 2017 is being amended to provide for an extended time for issuance of credit notes for a supply in a financial year up to 30th November of the Next financial Year;
- Section 37 of CGST Act, 2017 is being amended to provide:
 1. That the two-way communication process in filing of GST returns is being scrapped;
 2. To prescribe conditions and restrictions for furnishing the details of outward supply and communication of the details of such outward supplies to recipients;
 3. Any rectification of error in details of outwards supplies (GSTR-1) is now permitted till 30th November of next financial year;
 4. Tax period wise sequential filing of outwards supplies (GSTR-1);

Goods & Services Tax (GST)

- Section 16(2)(ba) of the CGST Act, 2017 is being inserted to provide that input tax credit can be availed only if such credit has not been restricted under Form-GSTR-2B;
- Section 38 of the CGST Act , 2017 is being substituted for prescribing the manner as well as conditions and restrictions for communication of details of inward supplies and input tax credit;

INDIRECT TAX PROPOSALS

- Section 39 of the CGST Act, 2017 is being amended so as to:
 1. provide that the non-resident taxable person shall furnish the return by 13th day of the next month;
 2. provide an option to the above persons to pay either the self-assessed tax or an amount that may be prescribed;
 3. provide for an extended time up to 30th November of the next financial year, for rectification of errors;
 4. Provide for furnishing of details of outward supplies in the prescribed form;
- Section 41 of the CGST Act 2017 is being substituted as to do away with the concept of claim Input Tax Credit (ITC) on Provisional basis;
- Section 42, 43 and 43A of the CGST Act 2017 are being omitted as to do away with two way communication;
- Section 47 of the CGST Act 2017 is being amended so as to provide for levy of late fee for delayed filing of TCS return;
- Section 48 of the CGST Act 2017 is being amended to phase-out requirement of appointing GST Practitioner for filing return of inward supplies in Section 38 of the CGST Act, 2017;
- Section 49 of the CGST Act, 2017 is being amended so as to:
 1. provide for prescribing restrictions for utilizing the amount available in the electronic credit ledger;
 2. allow transfer of amount available in electronic cash ledger of a registered person to the electronic cash ledger of a distinct person;
 3. provide for prescribing the maximum proportion of output tax liability which may be discharged through the electronic credit ledger;
- Section 50(3) of CGST Act, 2017 is being substituted retrospectively, w.e.f. 1st July 2017 so as to provide for levy of interest on input tax credit wrongly availed and utilized;
- Section 52(6) of CGST Act, 2017 is being amended so as to provide extended time for rectification of errors in GSTR-8 furnished by e-commerce operators up to 30th November of the next financial Year;
- Section 54 of CGST Act, 2017 is being amended:
 1. explicitly provide that refund claim of electronic cash ledger balance shall be made in prescribed manner;
 2. provide the time limit for claiming refund of tax paid on inward supplies in specified cases under Section 55 of the CGST Act , 2017 as two years from the last day of the quarter of such supply;
 3. extend the scope of withholding of or recovery from refunds in respect of all types of refund;
 4. provide clarity regarding the relevant date for filing refund claim in respect of supplies made to a SEZ developer or unit;
- Section 168(2) of the CGST Act 2017 is being amended as phase-out power to issue instruction or directions to officer with reference to section 38 of CGST Act, 2017 (Furnishing details of Inward Supplies) as requirement of furnishing GSTR-2 is being removed under such provision;
- Notification No. 9/2018 – Central Tax, dated the 23rd January, 2018, is being amended so as to notify www.gst.gov.in, retrospectively, with effect from 22nd June, 2017 as the common Goods and Service Tax Electronic Portal for all functions other than for E-way bill & E-invoices;
- Section 50(3) of the CGST Act , 2017 is being amended retrospectively, so as to notify rate of interest as 18 per cent instead of 24 per cent on excess claim of ITC or undue reduction of outward tax liability.



Policy Reforms & Initiatives

MBG

CORPORATE SERVICES 

POLICY REFORMS AND KEY INITIATIVES

The Finance Minister Smt. Nirmala Sitharaman commenced her speech of Union Budget 2022-23 by stating that the Nation is celebrating its 75th year of Independence and that the Government aims to achieve the vision of PM's address on Independence Day which sets out the vision for India for its 100th year of Independence. The important goals set out by the Budget are as under:

- Complementing the macro-economic level growth focus with a micro-economic level all-inclusive welfare focus;
- Promoting digital economy & fintech, technology enabled development, energy transition, and climate action, and
- Relying on virtuous cycle starting from private investment with public capital investment helping to crowd-in private investment.

Accordingly, this Budget has been prepared with a futuristic and inclusive approach to give a blueprint to manage the economy for the next 25 years i.e., from India at its 75th year to its 100th year of Independence. The Budget aims at economic expansion and growth. It is being termed as a plain speaking, simple to understand, uncomplicated Budget which has prepared the foundation for the resurgent India, for India of tomorrow.

The Budget delivers strongly on the market expectations of a capital expenditure push to help India emerge from the shocks of the COVID-19 waves in the past two years. The huge thrust on the capex by the government will itself have a catapulting effect on the economy with a 4X multiplier. Most of the outlays will go towards the development and creation of physical, digital and social infrastructure in the country. It will generate demand, jobs, provide impetus to the private investments and all different sectors of Industry and Services will stand to gain.

The Policy Reforms and Key Initiatives as contemplated under the Budget may be categorised as under:

1. Infrastructure which subsumes – Digital, Physical and Social Infrastructure;
2. Sustainable Development and Climate Action;
3. Ease of Doing business (EODB 2.0) and Ease of Living;
4. Micro Small and Medium Enterprises (MSMEs);
5. Investments including Public capital & Private Investments.
6. Other Miscellaneous Regulatory Reforms/ Measures

Infrastructure

a. Digital Infrastructure:

Agriculture & Food-processing: Delivery of Digital and Hi-Tech services to farmers in Public Private Participation (PPP) mode.

Any time-Anywhere post office savings: In 2022, 100 % of 1.5 lakh post offices to come on the core banking system enabling financial inclusion and access to accounts through net banking, mobile banking, ATMs, etc. for the betterment of farmers and senior citizens in rural areas.

Digital Banking Units: The government has proposed to set up 75 Digital Banking Units (DBUs) in 75 districts of the country by Scheduled Commercial Banks to ensure that the benefits of digital banking reach every nook and corner of the country in a consumer-friendly manner.

Digital Payments: Financial support for digital payments eco-system announced in previous budget to continue in 2022-23 as well to encourage further adoption of digital payments. Focus to promote use of payment platforms that are economical and user-friendly.

E-passports: Issuance of e-Passports using embedded chip and futuristic technology will be rolled out in 2022-23 to enhance convenience for the citizens in their overseas travel.

Central Bank Digital Currency: In order to give boost to digital economy, the Government proposed to introduce Digital Rupee, using blockchain and other technologies. It will be a formal legal tender to be issued by the Reserve Bank of India starting 2022-23 for more efficient and cheaper currency management system.

POLICY REFORMS AND KEY INITIATIVES

The other Crypto assets do not have backing of the Government of India and therefore cannot be used as a digital currency.

Promoting E-connectivity in Villages:

- Like urban areas, all villages and its residents to have access to e-services, communication facilities and digital resources.
- The contracts for laying optical fibre in all villages, including remote areas, will be awarded under the Bharatnet project through PPP in 2022-23 with a target of completion in year 2025.

b. Physical Infrastructure:

PM Gatishakti: The Finance Minister took a 'whole of government approach' on a gambit of infrastructure projects by extending GatiShakti beyond the Centre to the States. GatiShakti, which brings schemes and projects related to 7 (seven) key sectors/engines namely, Roads, Railways, Airports, Ports, Mass Transport, Waterways, and Logistics Infrastructure, on a common platform, has been positioned as a flagship initiative to ensure better delivery of Infrastructure, with large dollops of allocation for Telecom, Highways and Railways.

Finally, this approach is powered by Clean Energy and Sabka Prayas – the efforts of the Central Government, the state governments, and the private sector together – leading to huge job and entrepreneurial opportunities for all, especially the youth.

National Masterplan for World Class infrastructure:

- Completing 25,000 Km. National Highways in 2022- 23
- Unified Logistics Interface Platform
- Open Source Mobility Stack for seamless travel of passengers
- Integration of Postal and Railways Network
- One Station One Product concept to help local businesses and supply chains
- 400 New-generation Vande Bharat Trains
- Extending coverage under 'Kawach'

- Multimodal Connectivity between mass Urban Transport & Railway Stations
- National Ropeways Development Plan
- Capacity Building for Infrastructure Projects

PM GatiShakti Master Plan for Expressways will be formulated in 2022-23 to facilitate faster movement of people and goods.

The National Highways network will be expanded by 25,000km in 2022-23 and Rs. 20,000 crore will be mobilized through innovative ways of financing to complement the public resources.

Contracts for implementation of Multimodal Logistics Parks at four locations through PPP mode will be awarded in 2022-23.

Agriculture & Food-processing: The Finance Minister underlined that the Emergency Credit Line Guarantee Scheme (ECLGS) has provided much-needed additional credit to more than 130 lakh MSMEs to help them mitigate the adverse impact of the pandemic. She, however added that the hospitality and related services, especially those by micro and small enterprises, are yet to regain their pre-pandemic level of business and after considering these aspects, the ECLGS will be extended up to March 2023. She informed that its guarantee cover will be expanded by Rs 50,000 crore to total cover of Rs 5 lakh crore, with the additional amount being earmarked exclusively for the hospitality and related enterprises.

Chemical-free Natural Farming will be promoted throughout the country, with a focus on farmers' lands in 5-km wide corridors along river Ganga, at the first stage. Use of 'Kisan Drones' will be promoted for crop assessment, digitization of land records, spraying of insecticides, and nutrients.

Blended Finance: Government to promote thematic funds for blended finance with 20% government share and private fund managers to manage the funds. This finance shall aim at encouraging Sunrise sectors such as Climate Action, Digital Economy, Deep-Tech and Agri-Tech Sectors.

POLICY REFORMS AND KEY INITIATIVES

Financial Viability of Infrastructure projects:

- Measures to be taken to enhance financial viability of projects including PPP with technical and knowledge assistants from multi-lateral agencies.
- To adopt Global best practices, innovative ways of financing and balanced risk allocation for enhancing financial viability.

Urban Development Committee: Government to form a high level committee comprising of urban planners, urban economists and institutions to make recommendations on urban sector policies, capacity building, planning, implementation and governance.

C. Social Infrastructure:

Education: Under Ayushman Bharat Digital Mission, an open platform for the National Digital Health Ecosystem will be rolled out and it will consist of digital registries of health providers and health facilities, unique health identity, consent framework, and universal access to health facilities.

Digital University with Universal Education:

- Launch of DESH-Stack E-Portal: A Digital Ecosystem for Skilling and Livelihood
- High Quality E-Content through Digital Teachers
- Startups to Facilitate Drone Shakti for Drone-As-A-Service
- 750 Virtual Labs in Science & Mathematics
- 75 Skilling E-Labs for Simulated Learning Environment

Due to the pandemic-induced closure of schools, children, particularly in the rural areas, and those from Scheduled Castes and Scheduled Tribes, and other weaker sections,

have lost almost 2 years of formal education and mostly, these are children in government schools. Thus, to impart supplementary teaching and to build a resilient mechanism for education delivery, the Finance Minister informed that 'one class-one TV channel' programme of PM eVIDYA will be expanded from 12 to 200 TV channels and this will enable all states to provide supplementary education in regional languages for classes 1-12.

A Digital University will be established to provide access to students across the country for world-class quality universal education with personalised learning experience at their doorsteps. This will be made available in different Indian languages and Information and Communications Technology (ICT) formats. The University will be built on a networked hub-spoke model, with the hub building cutting edge ICT expertise. The best public universities and institutions in the country will collaborate as a network of hub-spokes.

Health:

- National Digital Health Ecosystem will be rolled out:
- National Tele Mental Health Programme will be launched for quality counselling
- Integrated architecture: Mission Shakti, Mission Vatsalya, Saksham Anganwadi, and Poshan 2.0 to be launched
- Two lakh Anganwadis to be upgraded to Saksham Anganwadis

Housing:

- Rs. 48,000 crore is allocated for the purpose of housing.
- Central Government to work with the state governments:
 1. For reduction of time required for all land and construction related approvals,
 2. For promoting affordable housing for middle class and Economically Weaker sections in Urban areas.

POLICY REFORMS AND KEY INITIATIVES

Water:

Allocation of Rs. 60,000 crore to provide water to 3.8 crore households in 2022-23.

Sustainable Development and Climate Action-

68% of the capital procurement budget will be earmarked for domestic industry in 2022-23, up from 58 per cent in 2021-22. Defence R&D will be opened up for industry, startups and academia with 25 per cent of defence R&D budget earmarked.

Transition to Carbon Neutral

Economy:

- Allocation of Rs. 19,500 Crore Proposed for Production Linked Incentives for Manufacturing of High Efficiency Modules
- Circular Economy Transition to Increase Productivity and Opportunities in New Businesses and Jobs
- Proposal to Co-Fire Five to Seven Per Cent Biomass Pellets in Thermal Power Plants; CO2 Savings Of 38 Mmt Expected
- Four Pilot Projects for Coal Gasification and Conversion of Coal into Chemicals to also come up

Sunrise Opportunities: Artificial Intelligence, Geospatial Systems and Drones, Semiconductor and its eco-system, Space Economy, Genomics and Pharmaceuticals, Green Energy, and Clean Mobility Systems have immense potential to assist sustainable development at scale and modernize the country. They provide employment opportunities for youth and make Indian industry more efficient and competitive.

Ease of doing Business (EODB 2.0)

& Ease of Living-

- Next phase of EODB 2.0 and Ease of living will be launched.
- Government to come up with an idea of 'trust-based governance' to improve productive efficiency of capital and human resources.

- Integration of central and state level systems through IT bridges
- States will be encouraged to adopt Unique Land Parcel Identification Number for IT based management of land records. The facility for transliteration of land records across any of the Schedule VIII languages will also be rolled out.
- To ensure uniform process for registration and 'anywhere registration' of deeds and documents, the government has proposed linkage with national generic document registration system (NGDRS) with the 'one nation one registration software'.
- To enable the suppliers and contractors to submit their digitally signed bills and claims, a completely paperless, end to end online e-Bill System to be launched for use by all Central ministries for their procurements.
- The Animation, Visual effects, Gaming, and Comic (AVGC) sector offers immense potential to employ youth. An AVGC promotion task force to be formed to recommend ways to realize this and build domestic capacity for serving our markets & the global demand.
- Support to 5G under PLI scheme: The Finance Minister informed that requisite spectrum auctions will be conducted in 2022 to facilitate rollout of 5G mobile services within 2022- 23 by private telecom providers.
- A scheme for design-led manufacturing will be launched to build a strong ecosystem for 5G as part of the Production Linked Incentive Scheme, she added.
- Opening up defence R&D for industry, startups and academia
- 68% capital procurement budget for Defence sector from domestic industry in 2022 – 23

MSME-

Accelerating growth of MSME:

- Interlinking Udyam, E-Shram, NCS, ASEEM Portals;

POLICY REFORMS AND KEY INITIATIVES

- Rolling out of RAMP Programme: Raising & Accelerating MSME Performance with outlay of 6000 crore over 5 years;
- Revamping Credit Guarantee Trust for Micro and Small Enterprise (CGTMSE) with additional credit of Rs. 2 lakh crore;
- Extending ECLGS with focus on Hospitality & Related Enterprises.

Investment-

- Capital Investment holds the key to speedy and sustained economic revival and consolidation through its multiplier effect. Capital Investment also helps in creating employment opportunities, inducing enhanced demand for manufactured inputs from large industries and MSMEs, services from professionals, and help farmers through better agri-infrastructure. The economy has shown strong resilience to come out of the effects of the pandemic with high growth. However, we need to sustain that level to make up for the setback of 2020-21.
- The Finance Minister stressed that Public investment must continue to take the lead and pump-prime the private investment and demand in 2022-23 and therefore the outlay for capital expenditure in the Union Budget is once again being stepped up sharply by 35.4 per cent from Rs 5.54 lakh crore in the current year to Rs 7.50 lakh crore in 2022-23. This has increased to more than 2.2 times the expenditure of 2019-20 and this outlay in 2022-23 will be 2.9 per cent of GDP. With this investment taken together with the provision made for creation of capital assets through Grants-in-Aid to States, the 'Effective Capital Expenditure' of the Central Government is estimated at Rs 10.68 lakh crore in 2022-23, which will be about 4.1 per cent of GDP.

Other Miscellaneous Regulatory Reforms/Measures-

Battery Swapping Policy:

Considering the constraint of space in urban areas for setting up charging stations at scale, 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'. This will improve efficiency in the EV ecosystem.

Amendments under the framework of Insolvency and Bankruptcy Code:

- Necessary amendments in the Code will be carried out to enhance the efficacy of the resolution process and facilitate cross border insolvency resolution.
- **Establishing C-PACE to facilitate voluntary winding up of companies:** The insolvency resolution process under the Insolvency and Bankruptcy Code 2016 was set-up with the objective of addressing the stressed assets in a time-bound and quick manner. The code was meant to be used by stake-holders at the right time, in the right case and in the right manner. However, the purpose was defeated due to exceptional delays. The recent data from the Insolvency and Bankruptcy Board of India shows that a major portion of the corporate insolvency resolution processes took over 270 days. Accordingly, speedy disposal of cases is the need of the hour.

Hence, the Finance Minister has rightly proposed the establishment of a Centre for Processing Accelerated Corporate Exit (C-PACE), which is expected to expedite the Corporate Exit process in 2022-23 fiscal year. The C-PACE with process – engineering, will be established to facilitate and speed up the voluntary winding up of the Companies from the currently required 2 years to less than 6 months.



POLICY REFORMS AND KEY INITIATIVES

GIFT-IFSC:

- World-class foreign universities and institutions to be allowed in the GIFT City.
- An International Arbitration Centre to be set up for timely settlement of disputes under international jurisprudence

Special Economic Zones:

With a mission to help Special Economic Zones (SEZs) enhance ease of conducting businesses, Finance Minister Ms. Nirmala Sitharaman announced the launch of new legislation that is to replace current Special Economic Zones Act.

The new law has been set up to enable collaboration among states to develop enterprises and service hubs. This will include all existing and emerging industrial hubs and urge them to optimally utilise the available infrastructure to boost the export competitiveness of the country.

Furthermore, provisions to reform the Customs administration of the SEZs have been made. The process would be fully IT-driven and would be conducted through the Customs National Portal. The focus has been laid on improving facilitation and conducting just risk-based checks to make the procedures compliant with global trade norms. (Source: Strategic Investment Research Unit (SIRU) Invest India)

POLICY REFORMS AND KEY INITIATIVES

BUDGET INFLOW & OUTFLOW

RUPEE COMES FROM



Source: Budget Document

RUPEE GOES TO




Source: Budget Document



Brief sectoral
Analysis

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BRIEF SECTORAL ANALYSIS

AUTOMOBILE & AUTO-COMPONENTS

OVERALL BUDGET IMPACT

State of the Industry ¹

In 2020, India was the fifth-largest auto market, with ~3.49 Mn. units combined sold in the passenger and commercial vehicles categories. It was the seventh-largest manufacturer of commercial vehicles in 2019.

In FY21, the total passenger vehicles production reached **22,652,108 units**. In October 2021, the total production volume of passenger vehicles^[1], three-wheelers, two-wheelers and quadricycles reached 2,214,745 units.

Indian automobile exports stood at 1,419,430 units from April 2021 to June 2021 as compared to 436,500 units from April 2020 to June 2020.

During July-September 2021, the luxury car market registered sales were 8,500 units.

The Industry attracted Foreign Direct Investment (FDI) worth US\$ 30.51 Bn. between April 2000 and June 2021 accounting for ~5.5% of the total FDI during the period according to the data released by the Department for Promotion of Industry and Internal Trade (DPIIT)

Impact of Union Budget 2022

- To boost the **logistical capacity** of India's road networks under the **PM Gati Shakti initiative**, the Indian government has stated that the **National Highway network** will be expanded by **25,000 km** between **2022** and **2023**. This is an ambitious endeavour by the government, which had constructed a more modest **8500 km of highways** in the previous budget. The **allocation of Rs 20,000 Crs.** in infrastructure projects, movement of people, and goods effectively, upgraded roads will also positively impact the preservation of vehicles, thereby reducing the repair costs.

- Electric Vehicles (EVs) in public transport will encourage cleantech and electric vehicles into the public transport space. EVs receive a boost in the form of efficiency-focused EV policies. To improve EV adoption in cities, a focus on **battery swapping policy** is being emphasized with the **Battery as a Service model**. Under this battery swapping policy, the government will encourage private players to take part in the process of setting up battery-swapping stations and technology. The policy is expected to drive movement to the electrification of fleets for last-mile mobility for both people and goods. This will help create standards of interoperability to make EVs more affordable and accessible.
- Under Section 115BAB considering the continuous movement in "Make in India" a one year extension towards the due date (extended to 31 March 2024) has been provided for commencing commercial production by new manufacturing units. The said extension should cater to new manufacturing projects such as those that have opted for Performance Linked Incentive (PLI) scheme, an additional window of time for income tax concession.
- Regarding applicable customs duty rate clarification has been provided. Consistent with the PLI thrust, 5 % basic customs on the import of batteries for electrically operated vehicles is proposed to be withdrawn, effective April 2023
- The Finance Minister announced minimum support price (MSP) payments of INR 2.73 Crs. to aid incomes in rural India. This will have an indirect boost for automotive demand in rural India, especially for entry-level cars, used cars, and two-wheelers. The announcement is viewed as a positive to recover the falling rural demand for vehicles, which have made up the volumes for carmakers. This could help improve the rural economic sentiment and eventually improve demand for vehicles in rural markets that contribute largely to the sales of two-wheelers, entry-level cars and SUVs along with small commercial vehicles and tractors.

¹ <https://www.ibef.org/industry/india-automobiles.aspx>

² (except for BMW, Mercedes, and Tata Motors & Volvo Auto)

BRIEF SECTORAL ANALYSIS

- Opening **R&D defence to private auto component** makers could provide auto component players with a new revenue and growth area. However, till date, carmakers such as Tata Motors¹ and Mahindra have successfully delivered products to the armed forces.
- The **extension of the concessional Income tax regime of 15%** for the new domestic manufacturing facility set-up, **up to 31 March 2024**, is a welcome move and would help attract new investment in the manufacturing of EVs and their components. The incentives announced for start-ups could also be a booster for EVs.
- Rs **20,000 Crs. infused to boost infrastructure project**. This will eventually boost demand for commercial vehicles (CVs) as new projects at a large create demand for new CVs. The announcement comes at a time when the CV sector has been hit hard by the pandemic and has just started showing signs of revival.

ENGINEERING AND CAPITAL GOODS

State of the Industry³

- The engineering sector is the largest of the industrial sectors in India. It accounts for 27% of the total factories in the industrial sectors and represents 63% of the overall foreign collaborations.
- India's engineering sector is divided into two major segments - heavy engineering and light engineering. Turnover of the capital goods industry was estimated at US\$ 92.00 billion in 2019.
- Government has announced a sheep increase in capital expenditure with budgeted expenditure in FY 2022-23 of INR 7.50 Trillion which is 35.4% more than the 2021-22 i.e. INR 5.54 Trillion.

³ <https://www.ibef.org/industry/engineering-india.aspx>

Market Size⁴

- Turnover of the capital goods industry was estimated at US\$ 92.00 Billion in 2019 and is forecast to reach US\$ 115.17 Billion by 2025.
- Comparative advantage such as manufacturing cost, market knowledge, technology and creativity has been the driving force behind engineering export from India. Index of industrial production (IIP) for electrical equipment industry stood at 127.9 in Financial Year 2021.
- India's share in the global engineering and research and development (ER&D) market is likely to expand at a Compounded Annual Growth Rate (CAGR) of 12-13% to reach US\$ 63 billion by 2025.
- Engineering exports reached US\$ 39.97 Billion in Financial Year 2021 and reached US\$ 63.89 Billion in Financial Year 2022 (as of October 2021).

Investments⁵

- The engineering sector in India attracts immense interest from foreign players as it enjoys a comparative advantage in terms of manufacturing costs, technology and innovation. The above, coupled with favourable regulatory policies and growth in the manufacturing sector has enabled several foreign players to invest in India.
- With 100% Foreign Direct Investment (FDI) allowed through the automatic route and initiatives like Make in India, major international players have entered the Indian engineering sector due to significant growth opportunities available.

⁴ Refer Foot Note 1

⁵ Refer Foot Note 1

BRIEF SECTORAL ANALYSIS

Government Initiatives ⁶

- Prime Minister, Narendra Modi, on the country's 75th Independence Day, announced plans to invest INR 100 trillion (US\$ 1.35 trillion) in infrastructure to stimulate economic development and generate employment.
- In October 2021, the Ministry of Textiles allowed pilot projects for application of geotextiles in infrastructure projects
- In September 2021, the Indian government announced a PLI scheme for automobiles and auto components worth INR 259.38 billion (US\$ 3.49 billion). This scheme is expected to bring investments of more than INR 425 billion (US\$ 5.74 billion) by 2026.
- Voluntary Vehicle-Fleet Modernisation Program (VVMP), also known as the Vehicle Scrapping Policy was launched, the policy will bring in investments worth INR 100 billion (US\$ 1.35 billion) to set up 450-500 Automated Testing Stations (ATS) and 60-70 Registered Vehicle Scrapping Facilities (RVSF) across the country. A single window clearance portal is being developed where applications for ATS and RVSF will be catered through a single portal within 60 days.

Road Ahead ⁷

- Turnover of capital goods industry is expected to increase to US\$ 115.17 Billion by 2025.
- India's engineering R&D market will increase from US\$ 36 billion in Financial Year 2019 to US\$ 42 Billion by Financial Year 2022.
- India needs US\$ 3.36 Trillion of investment in infrastructure in the next decade i.e. 2020-2029.
- The export of engineering goods is expected to reach US\$ 200 Billion by 2030.

Budget Impact ⁸

The Union Budget 2022 has laid down several proposals for Capital Goods Industry which are as under:

- The government is planning a gradual phase out of concessional tariff rates offered for capital goods and project imports. The Budget 2022-23 has proposed a 7.5% tariff on all such products and services.
- Exemptions are being introduced on inputs, like specialised castings, ball screw and linear motion guide, to encourage domestic manufacturing of capital goods.
- The production linked incentive (PLI) schemes and other government measures have augmented investments in various sectors like food, textile, electronics, chemicals, etc. However, the dependency on import of capital goods still continues. Increase in customs duty on capital goods in these sectors would mean that such investments would be dearer and thereby also affect cash flows and profitability. Thus, companies would have to look at options to reduce such an impact. The increase in duties would enable a twofold benefit. One, companies would now try to procure capital goods locally. Two, Indian companies and the MNCs would now look at greenfield and brownfield expansion in the capital goods sector as well. The increase in duties on capital goods coupled with various incentive schemes would boost the investment even in the capital good sector and complete the value chain in terms of the intent of Make in India.

⁶ Refer Foot Note 1

⁷ <https://www.ibef.org/industry/engineering-india.aspx>

⁸ Budget speech and Finance Bill 2022

BRIEF SECTORAL ANALYSIS

RETAIL SECTOR AND COMMODITIES BUSINESS

State of the Industry ⁹

- Indian retail industry has emerged as one of the most dynamic and fast-paced industries due to the entry of several new players. It accounts for over 10% of the country's Gross Domestic Product (GDP) and around 8% of the employment. India is the world's fifth-largest global destination in the retail space.
- India ranked 73 in the United Nations Conference on Trade and Development's Business-to-Consumer (B2C) E-commerce Index 2019. India is ranked 63 in World Bank's Doing Business 2020.
- In FDI Confidence Index, India ranked 16 (after US, Canada, Germany, United Kingdom, China, Japan, France, Australia, Switzerland, and Italy).

Market Size ¹⁰

- India's retail industry is projected to grow at a slower pace of 9% over 2019-2030, from US\$ 779 billion in 2019 to US\$ 1,407 billion by 2026 and more than US\$ 1.8 trillion by 2030.
- According to the Retailers Association of India (RAI), the retail industry achieved 93% of pre-COVID sales in February 2021; consumer durables and quick service restaurants (QSR) increased by 15% and 18% respectively.
- E-Retail has been a boon during the pandemic and according to a report by Bain & Company in association with Flipkart 'How India Shops Online 2021' the e-retail market is expected to grow to US\$ 120-140 billion by FY26, increasing at approximately 25-30% p.a. over the next 5 years. India has the third-highest number of e-retail shoppers (only behind China, the US). The new-age logistics players are expected to deliver 2.5 billion Direct-to-Consumer (D2C) shipments by 2030.

Online used car transaction penetration is expected to grow by 9x in the next 10 years. During the festival period in 2020, Amazon, Flipkart and various vertical players sold goods worth US\$ 9 billion despite the pandemic onslaught.

Development Scenario ¹¹

- Retail tech companies supporting the retail sector with services such as digital ledgers, inventory management, payments solutions, and tools for logistics and fulfillment are taking off in India. In the first nine months of 2021, investors pumped in US\$ 843 million into 200 small and mid-sized retail technology companies, which is an additional 260% of capital compared to the entire 2020.
- India's retail sector attracted US\$ 6.2 billion from various private equity and venture capital funds in 2020.

Government Initiatives ¹²

The Government of India has taken various initiatives to improve the retail industry in India. Some of them are listed below:

- In October 2021, the RBI announced plans for a new framework for retail digital payments in offline mode to accelerate digital payment adoption in the country.
- In July 2021, the Andhra Pradesh government announced retail parks policy 2021-26, anticipating targeted retail investment of INR 50 billion (US\$ 674.89 million) in the next five years.
- Government may change Foreign Direct Investment (FDI) rules in food processing in a bid to permit E-commerce companies and foreign retailers to sell Made in India consumer products.

⁹ Refer Foot Note 5

¹⁰ <https://www.ibef.org/industry/engineering-india.aspx>

¹¹ Refer Foot Note 8

¹² Refer Foot Note 8

BRIEF SECTORAL ANALYSIS

- Government of India has allowed 100% FDI in online retail of goods and services through the automatic route, thereby providing clarity on the existing businesses of E-commerce companies operating in India.
- The Minister of MSME announced inclusion of retail and wholesale trades as MSMEs. Retail and wholesale trade will now get the benefit of priority sector lending under the RBI guidelines.
- With an estimated GDP growth of over 9%, and the initiatives in the budget, consumer goods companies could expect an increase in consumption over the short to medium term driven by the thrust on investment, employment, and financial inclusion. We could also see an uptick in rural consumption, driven by the budgetary allocations towards infrastructure building. Rationalization of import duties as part of "Make in India" initiative is likely to give a strong impetus to consumption bringing sustainable growth for consumer, e-commerce and retail sector. For the retail sector, reeling under the pandemic, the budget has very little direct support to offer. The direct and short-term benefits with respect to "putting more money in consumer wallets" or special subsidies or support to industry in general seem to have got lesser emphasis.

Road Ahead ¹³

- E-commerce is expanding steadily in the country. Customers have the ever-increasing choice of products at the lowest rates. E-commerce is probably creating the biggest revolution in retail industry, and this trend is likely to continue in the years to come. Retailers should leverage digital retail channels (E-commerce), which would enable them to spend less money on real estate while reaching out to more customers in tier II and tier III cities.
- Online retail market in India is projected to reach US\$ 350 billion by 2030 from an estimated US\$ 55 billion in 2021, due to rising online shoppers in the country. In 2020, the most common payment methods online were digital wallets (40%), followed by credit cards (15%) and debit cards (15%). Online penetration of retail is expected to reach 10.7% by 2024 versus 4.7% in 2019.

Budget Impact

- Though there was no specific proposal for this sector, the thrust on employment, infrastructure and financial inclusion is expected to boost consumption over the medium term. The 0.15 million post offices into the core banking system is a positive particularly for rural India and a higher minimum support price (MSP) allocation will drive consumption of fast-moving consumer goods (FMCG) products in the hinterland.

¹³ Refer Foot Note 8

INFRASTRUCTURE

Overall Budget Impact

Infrastructure is vital for any growing economy. While presenting the blue print of India @ 2047 (for next 25 years) under the aegis of PM Gati Shakti, the Finance Minister Smt. Nirmala Sitharaman said that PM Gati Shakti was sparked by the seven engines of roads, railways, airports, ports, mass transport, waterways and logistics. The Government has given a massive push to improve Digital, Social and Physical infrastructure which includes railways, roads and highways, rope ways water transport, green energy and urban infrastructure coupled with several digital initiatives.

The following are some key announcements made in the budget:

- Sharp increase in Capex outlay by 35.4% (from INR 5.54 lakh crores to INR 7.50 lakh crore in FY 2022-23);



BRIEF SECTORAL ANALYSIS

- **The National Highways network** will be expanded by 25,000 km in FY'23. The Government has allotted INR 20,000 crore to speed up this project;
- **New scheme PM-DevINE** launched to fund infrastructure and social development projects in the North-East.
- **Vibrant Villages Programme:** The activities will include construction of village infrastructure, housing, tourist centres, road connectivity, provisioning of decentralized renewable energy, direct to home access for Doordarshan and educational channels, and support for livelihood generation.
- Contracts for implementation of Multimodal Logistics Parks at four locations through PPP mode will be awarded in 2022-23.
- Railways will develop new products and efficient logistics services for small farmers and Small and Medium Enterprises.
- As a part of Atmanirbhar Bharat, 2,000 km of network will be brought under Kavach, the indigenous world-class technology for safety and capacity augmentation in 2022-23.
- 400 new-generation Vande Bharat Trains with better energy efficiency and passenger riding experience will be **developed and manufactured** during the next three years.
- 100 PM GatiShakti Cargo Terminals for multimodal logistics facilities will be developed during the next three years.
- Innovative ways of financing and faster implementation will be encouraged for building metro.
- Multimodal connectivity between mass urban transport and railway stations will be facilitated on priority.
- As a preferred ecologically sustainable alternative to conventional roads in difficult hilly areas, National Ropeways Development Programme will be taken up on PPP mode. Contracts for 8 ropeway projects for a length of 60 km will be awarded in 2022-23.
- Implementation of the Ken-Betwa Link Project, at an estimated cost of INR ` 44,605 crore will be taken up. This is aimed at providing irrigation benefits to 9.08 lakh hectare of farmers' lands, drinking water supply for 62 lakh people, 103 MW of Hydro, and 27 MW of solar power.
- Draft DPRs of five river links, namely Damanganga-Pinjal, Par-Tapi- Narmada, Godavari-Krishna, Krishna-Pennar and Pennar-Cauvery have been finalized. Once a consensus is reached among the beneficiary states, the Centre will provide support for implementation.
- To facilitate domestic manufacturing for the ambitious goal of 280 GW of installed solar capacity by 2030, an additional allocation of INR ` 19,500 crore for Production Linked Incentive for manufacture of high efficiency modules will be made.
- **Sovereign Green Bonds** to be issued for mobilizing resources for green infrastructure. The proceeds will be deployed in public sector projects which help in reducing the carbon intensity of the economy.
- **Data Centres and Energy Storage Systems** to be given infrastructure status to facilitate credit availability for digital infrastructure and clean energy storage.
- To improve efficiency in the EV eco-system and considering the constraint of space in urban areas for setting up charging stations at scale, 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'.

BRIEF SECTORAL ANALYSIS

PHARMACEUTICALS

Overall Budget Impact

State of the Industry ¹⁴

India's medical devices market stood at **US\$ 10.36 Bn. in FY20**. The market is expected to **increase at a CAGR of 37% from 2020 to 2025 to reach US\$ 50 Bn.**

As of **August 2021**, **CARE Ratings** expect India's pharmaceutical business to develop at an annual rate of ~11% over the next two years to reach more than US\$ 60 Bn. in value.

In **August 2021**, the Indian pharmaceutical market increased at **17.7% annually, up from 13.7% in July 2020.**

The **Foreign direct investment (FDI)** inflows in the Indian drugs and pharmaceuticals sector **reached US\$ 130 Mn. between April 2021 and June 2021.**

Indian drugs and pharma **exports** reached **US\$ 5.78 Bn. between April 2021 and June 2021.**

In **June 2021**, the Finance Minister announced an additional outlay of **Rs. 197,000 Crs.(US\$ 26,578.3 Mn.)** that will be **utilized over 5 years** for the pharmaceuticals **PLI** scheme in **13 key sectors** such as active pharmaceutical ingredients, drug intermediaries and key starting materials.

India's drugs and pharmaceuticals exports stood at US\$ 24.44 billion in FY21. India is the 12th largest exporter of medical goods in the world.

The Indian drugs and pharmaceuticals sector received cumulative FDIs worth US\$ 17.99 Bn. between April 2000 and March 2021.

Impact of Union Budget 2022

- The Government will promote thematic funds for blended finance with the government share being limited to 20% and the funds being managed by private fund managers.
- Basic Customs Duty (BCD) rate on following goods are increased:

S. No	Nature of Product	Until 31 st Mar'22	From 1 st Apr'22
1	X-Ray Machines	7.5%	10%
2	Specified Parts of X-Ray Machines	5%	10%
S. No	Nature of Product	Until 1 st Feb'22	From 2 nd Feb'22
3	Artificial Kidney and disposable sterilized dialyzer and related raw materials, parts, or accessories	NIL	Per Tariff

- Concessional BCD/Nil BCD on various items covered under drugs (including lifesaving drugs), medicines, diagnostic kits or equipment, and bulk drugs used in the manufacturing of drugs or medicines has been rationalized. Revised BCD rate per tariff will be applicable from **2 February 2022 (1 October 2023 for influenza vaccine)**
- The pharma industry also welcomed the extension time limit for the commencement of business to claim benefits of concessional tax regime for manufacturing companies which has been extended by a year to **31 March 2024.**
- **National Tele Mental Health program** under the expert guidance of **NIMHANS** as the nodal organization is another extension of the digital health mission while improving the quality of life of citizens. Creating a robust national digital health ecosystem through extensive use of technology and launching the National Tele Mental Health programme. Mission Shakti, Mission Vatsalya, Saksham Anganwadi, and Poshan 2.0 were recently launched to provide integrated benefits to women and children.

¹⁴ <https://www.ibef.org/industry/pharmaceutical-india.aspx>

BRIEF SECTORAL ANALYSIS

- The Government has made a path-breaking move with the introduction of the **Ayushman Bharat Digital Mission in Budget 2022** to ensure universal access to healthcare facilities for all Indian citizens in the longer run.
- Government contribution to be provided for R&D in Sunrise Opportunities like Artificial Intelligence, Geospatial Systems and Drones, Semiconductor and its eco-system, Space Economy, Genomics and Pharmaceuticals, Green Energy, and Clean Mobility Systems.

CHEMICALS

Overall Budget Impact

State of the Industry ¹⁵

In August 2021, production volumes of key chemicals stood at **935,513 MT** and petrochemicals at **1,716,781 MT**.

The speciality chemicals constitute **22%** of the total chemicals and petrochemicals market in India. Indian manufacturers have recorded a **CAGR of 11% in revenue between FY15 and FY21**, increasing India's share in the global speciality chemicals market to **4% from 3%**, according to the Crisil report.

In October 2021, exports of organic & inorganic chemicals increased 41.93% YoY to reach US\$ 2.56 Bn.

FDI inflows in the chemicals sector (other than fertilizers) reached US\$ 18.69 Bn. between April 2020 and June 2021.

In Nov 2021, Indian Oil Corporation (IOCL) announced plans to invest INR 3,681 Crs. (US\$ 495.22 Mn.) to set up India's first mega-scale maleic anhydride unit for manufacturing high-value speciality chemicals at its Panipat refinery in Haryana.

¹⁵ <https://www.ibef.org/industry/chemical-industry-india.aspx>

Impact of Union Budget 2022

- **Reduction of customs duty** on certain critical chemicals namely, methanol, acetic acid and heavy feed-stocks for petroleum refining, while **increasing the duty on sodium cyanide**. Duty reduction on key feed-stocks like Acetic acid and Methanol is likely to boost the profitability of manufacturers dependent on imports however it is a negative for domestic manufacturers of these products.
- To promote the blending of fuel, the government proposes to charge an additional **differential excise duty of ₹2 per litre** from 1 October 2022 on unblended fuel. Reduction in basic custom duties for these chemicals will help in the development of the downstream value chain till the time some commercial capacities come online.
- Setting up **pilot projects** for coal gasification and conversion of coal into chemicals are important, primarily to reduce dependence on methanol and acetic acid, which top the list of imported chemicals in terms of volume. **Four pilot projects for coal gasification and conversion of coal into chemicals** required for the industry will be setup to evolve technical and financial viability.
- **Govt. of India's** announcements of promotion of **drone-based intervention in pesticide spraying, digitization of land records and crop assessment** are steps towards mechanization of farms and improvement in productivity. In light of the significant increase in the subsidy requirement during the year, the Government of India has allocated an additional around **Rs. 605.6 Bn.** to meet the subsidy outgo during **FY2022 (RE)**. The budgetary allocation for the subsidy for the fertilizer sector for **FY 2022-23 is around INR 1,052.1 Bn.** which as per ICRA estimates inadequate to meet the sector's requirement for the year.
- Focuses on a calibrated approach to **ESG**, ensuring that we prioritise large scale capacity to manage the energy transition with solar, hydrogen and **5G infrastructure investments-** policies that are aligned with promoting opportunity rather than handouts.

BRIEF SECTORAL ANALYSIS

- **Chemical-free Natural Farming** will be promoted throughout the country, with a focus on farmers' lands in 5-km wide corridors along river Ganga, at the first stage. **Rs. 2.37 lakh Crs. direct payment to Rs. 1.63 Crs.** farmers for procurement of wheat and paddy. NABARD to facilitate fund with blended capital to finance startups for agriculture & rural enterprise.
- The announcement of **SEZ Act to be replaced** by the new legislation will be closely watched by the Indian chemical industry as it could support the Indian chemical industry to become more competitive in the global market.
- Simplifying the Customs rate and tariff structure particularly for sectors like chemicals, textiles and metals and minimize disputes; Removal of exemption on items which are or can be manufactured in India and providing concessional duties on the raw material that goes into the manufacturing of intermediate products – in line with the objective of **'Make in India'** and **'Atmanirbhar Bharat'**.
- Last date for commencement of operations by new manufacturing companies for availing concessional tax rate of 15% to be extended by 1 year from **31 March 2023 to 31 March 2024**. The same will give an impetus to fresh investment in the manufacturing of chemicals.
- Customs Tariff structure is being simplified by moving unconditional concessional rates from existing exemption notifications. Certain tariff lines and rates have also been rationalized. As a result, applicable Basic Custom Duty (BCD) rates on the chemical sector will operate almost entirely through tariff, which shall support the domestic manufacturers from a **"Make in India"** perspective.

Following key changes are proposed in BCD rates with effect from 02 February 2022 :

Chapter Heading	Nature of goods	Existing BCD Rates	Proposed BCD Rates
271019	Fuel oil, Straight run fuel oil, Low Sulphur wax residue, vacuum residue, slurry and Vacuum gas oil	5%	2.5%
28371100	Sodium Cyanide	7.5%	10%
29051100	Methyl Alcohol	5%	2.5%
29152100	Acetic Acid	7.5%	5%
32019020	Myrobalan fruit extract	2.5%	7.5%
32065000	Triband Phosphor	NIL	7.5%
32071040	Ceramic colors	5%	7.5%
32074000	Glass frit and other glass, in the form of powder, granules or flakes	5%	7.5%
34042000	Vinyl Polyethylene Glycol for use in the manufacture of Poly Carboxylate Ether	7.5%	10%

Disclaimer: The information contained herein are intended to provide information of general nature and is not an exhaustive treatment on the topics mentioned herein. This document is prepared only as guiding tool reflecting insights and analysis of the Union Budget 2022. Whilst every care has been taken in the preparation of this document, it may contain inadvertent errors for which we shall not be held responsible. No one should act on such information without appropriate professional advice. We accept no responsibility for loss arising from any action taken or not taken by anyone using this information.

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