# Key Highlights of Union Budget 2021

## Direct Tax Proposals



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Union Budget 2021 was presented in Parliament on Monday, February 1st, 2021. Presenting the **first ever digital Union Budget**, Union Minister of Finance and Corporate Affairs Smt. Nirmala Sitharaman stated that India's fight against COVID-19 continues into 2021 and that this moment in history, when the political, economic, and strategic relations in the post-COVID world are changing, is the **dawn of a new era – one in which India is well-poised to truly be the land of promise and hope**.

## 6 pillars of the Union Budget 2021-22:

The Budget proposals for this financial year rest on following six pillars:

- ✓ Health and Wellbeing
- ✓ Physical & Financial Capital and Infrastructure
- ✓ Inclusive Development for Aspirational India
- ✓ Reinvigorating Human Capital
- ✓ Innovation and R&D
- ✓ Minimum Government and Maximum Governance

**This document summarises the key highlights of the Direct Tax Proposals for easy digest.**

# Direct Tax Proposals

- **Relaxation for certain category of senior citizen from filing return of income-tax**- To provide relief to the senior citizens aged above 75 years from filing Income Tax Return who earn income by the source of either pension or interest, if the following conditions are satisfied:

  - He has pension and/or interest income from the same bank and the bank is specified bank as notified by the Government;
  - He is resident of India and of the age 75 years or more during the previous year;
  - He shall be required to furnish a declaration to the specified bank in such form and verified in such manner as prescribed.

- **Rationalization of provisions relating to tax audit in certain cases**- Earlier through Finance Act, 2020, the threshold limit for tax audit for a person carrying on business is increased from Rs. 1 crore to Rs. 5 crore in cases where aggregate of all receipts and payments in cash during the previous year does not exceed 5% of such receipts/payments. In order to incentivize noncash transactions to promote digital economy and to further reduce compliance burden of small and medium enterprises, it is proposed to increase the threshold from five crore rupees to ten crore rupees in above cases.

- **Extending due date for filing return of income in some cases, reducing time to file belated return and to revise original return and also to remove difficulty in cases of defective returns-** Due date of filing of the original return of income to be extended to October 31 of the assessment year in case of spouse of a partner of a firm whose accounts are required to be audited under the provisions of IT Act.

  Further, due date of filing of the original return of income to be extended to November 30 of the assessment year in case of a partner of the firm which is required to furnish report from an accountant for entering into international transaction or specified domestic transaction as per Section 92E of the IT Act (i.e., Report from an accountant to be furnished by persons entering into international transaction).

  Furthermore, the belated or revised returns could now be filed three months before the relevant assessment year or before the completion of assessment, whichever is earlier.

- **Taxation of proceeds of high premium unit linked insurance policy ("ULIP")-** Limited exemptions on proceeds from ULIP that have so far allowed large investors to receive tax free returns. Individuals holding multiple ULIPs with an aggregate premium in excess of Rs 2.5 lakh will have to pay tax on the proceeds.

- **TDS/TCS on non-filer at higher rates-** To insert a new Section 206AB in the IT Act as a special provision providing for higher rate for TDS for the non-filers of income-tax return. Similarly, it is proposed to insert a new Section 206CCA in the IT Act as a special provision for providing for higher rate of TCS for non-filers of income-tax return. Further, amended sub-section (1) of Section 206AA of the IT Act (i.e., requirement to furnish Permanent Account Number) and insert second proviso to further provide that where the tax is required to be deducted under Section 194Q of the IT Act and Permanent Account Number is not provided, the TDS shall be at the rate of 5%. These amendments will take effect from July 1, 2021.

- **Exemption of deduction of tax at source on payment of dividend** to business trust by a special purpose vehicle in whose hand dividend is exempt under Section 194 of the IT Act (i.e., dividends). This amendment will take effect retrospectively from 1st April, 2020.

- **Advance tax liability on dividends will arise only after declaration of dividend.**

- **Exemption for LTC Cash Scheme-** To provide tax exemption to cash allowance in lieu of leave travel concession due to pandemic. Hence, for Assessment Year beginning on April 1, 2021 the value in lieu of any travel concession or assistance received by an individual shall also be exempt by fulfilment of conditions as may be prescribed. This amendment is applicable to assessment year 2021-2022 only.

- **Raising of prescribed limit for exemption under sub-clause (iiiad) and (iiiae) of clause (23C) of section 10 of the IT Act**- Increase in exemption limit of income received by any person on behalf of university or educational institution under Section 10(23C)(iiiad) and hospital under Section 10(23C)(iiiae) from Rs. 1 crore to Rs. 5 crore. This amendment will take effect from April 1, 2022.

- **Payment by employer of employee contribution to a fund on or before due date**- Employers who mis-utilize employee's contribution by way of late deposit will not be allowed as deduction.

- **Reduction of time limit for completing assessment-** The time limit for completion of assessment proceedings to be 9 months (previously 12 months) from the end of the assessment year in which the income was first assessable.

- **Discontinuance of Income-Tax Settlement Commission w.e.f. February 2021.**

The timeline of reopening of tax assessment cases has been reduced to 3 years from 6 years and serious tax offences of concealment of income of over Rs. 50 lakhs can be reopened after 10 years.

Allowing prescribed authority to issue notice under Section 142 of the IT Act (i.e., inquiry before assessment) for conduct of inquiry before assessment.

- **Constitution of Dispute Resolution Committee for small and medium taxpayers to reduce number of disputes.**
- **Constitution of the Board for Advance Ruling to give rulings to taxpayers in timely manner.**
- **Provision for faceless proceedings before the Income Tax Appellate Tribunal in a jurisdiction less manner.**
- **Extension of date of sanction of loan for affordable residential house property**- Previously the condition to avail additional tax benefits of Rs 1.5 lakh under Section 80EEA of the Income Tax Act, 1961 (**"IT Act"**) (i.e., deduction for interest paid on home loan for affordable housing) stated that the loan to buy house should have been sanctioned between April 1, 2019 and March 31, 2021. Now, it is proposed to extend the time limit given under Section 80EEA ibid by 1 year i.e., from March 31, 2021 to March 31, 2022. This amendment will take effect from April 1, 2022.
- **Incentives for affordable rental housing-** The outer time limit for getting the affordable housing project approved has been extended from March 31, 2021 to March 31, 2022 under Section 80-IBA of the IT Act. This amendment will take effect from April 1, 2022.
- **Extension of date of incorporation for eligible start up for exemption and for investment in eligible start-up-** Extension of date of incorporation for eligible start up for exemption from April 1, 2021 to April 1, 2022 under the provisions of Section 80-IAC of the IT Act (i.e., special provision in respect of specified business). Similarly, extended the time limit under Section 54GB of the IT Act (i.e., capital gain on transfer of residential property not to be charged in certain cases.) from March 31, 2021 to March 31, 2022
- **Tax neutral conversion of Urban Cooperative Bank into Banking Company:** Section 44DB of the IT Act (i.e., special provision for computing deductions in the case of business reorganization of co-operative banks) shall also be made applicable on conversion of primary cooperative bank to the banking company. As a result of conversion shall not be treated as transfer under Section 47 of the IT Act (i.e., transactions not regarded as transfer).

- **Facilitating strategic disinvestment of public sector company -** Relaxing the provisions of Section 2(19AA) (i.e., demerger) and Section 72A of the IT Act (i.e., provisions relating to carry forward and set off of accumulated loss and unabsorbed depreciation allowance in amalgamation or demerger, etc.) for the public sector companies in order to facilitate strategic divestment by the Government.

- **Tax incentives for units located in International Financial Services Centre ("IFSC")-** Government has establishment a world class financial services centre. Units located in IFSC enjoy some concession. Some more incentives are provided to them in this budget. This amendment will take effect from April 1, 2022.

- Infrastructure debt fund can now issue Zero Coupon Bonds. This amendment will take effect from April 1, 2022.

- **Rationalisation of the provision concerning withholding on payment made to Foreign Institutional Investors (FIIs)-** TDS to be deducted on income of Financial Institution Investors from securities under Section 196D of the IT Act (i.e., Income of Foreign Institutional Investors from securities),

  - At the rate of 20% or
  - at the rate of income tax provided in such agreement,

  whichever is lower.

- **Rationalisation of provisions related to Sovereign Wealth Fund (SWF) and Pension Fund (PF)-** To encourage investments of Sovereign Wealth Fund and Pension Fund into infrastructure sector of India, following amendments were proposed:

  - Allowing Alternate Investment Fund (AIF) to invest up to 50%.
  - Investment through holding company subject to some conditions.
  - Investment in NBFC, IDF/IFC
  - No loan or borrowings are allowed to them for the purpose of making investments in India.
  - They shall not participate in day to day operation of investee.

- **Rationalization of the provision of slump sale**- Amend the scope of definition of the Slump Sale so that all types of 'transfer' are included in its scope.

- **Increase in safe harbour limit of 10% to 20% for home buyers and real estate developers selling such residential units.**

- **Addressing mismatch in taxation of income from notified overseas retirement fund**- Insertion of new Section 89A to the IT Act in order to provide that the income of a specified person from specified account shall be taxed in the manner and in the year as prescribed by the Central Government in order to remove the genuine hardship faced by the NRIs in respect of their income accrued on foreign retirement benefit account due to mismatch in taxation. This amendment will take effect from April 1, 2022.

**The above amendments will be effective from April 1, 2021 except otherwise specified.**

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