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# India Union Budget 2021-22

## Point of view

## Automotive and Industrial Manufacturing

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# Key announcements for the sector

- The Government's focus in this year's budget is clearly to revive the economic growth.
- Major thrust given on promoting domestic manufacturing in accordance with Atmanirbhar Bharat vision of the Government of India. Custom duty rates on various goods, including raw materials and parts, have been rationalised
- The government proposes to rationalise custom duty rates in more than 400 exemptions with an objective to incentivise domestic manufacturing and boost exports for specified sectors
- The budget had a significant emphasis on improving ease of doing business and growth of startups
- Agriculture Infrastructure and Development Cess ('AIDC') - New cess imposed on specified goods, including on petrol/diesel with effect from 2 February 2021
- The government, by extending Production-linked incentive (PLI) scheme to 13 industries in two tranches with combined financial outlay of almost INR 2 lakh crore over 5 years, reaffirms its Make In India initiative
- Voluntary vehicle scrapping policy would be announced. Besides contributing to environment and safety on road, the measure would also create demand for new vehicles.

# Implications for the sector

- Withdrawal of claim for depreciation on goodwill could be a dampener for various M&A deals already conducted in the past / to be undertaken and could result in substantial tax implications in the Industrial Manufacturing & Automotive sector
- Imposing compliance of tax deduction at source on transaction relating to purchase of goods could pose severe compliance burden on the manufacturing sector
- Rationalisation of provision relating to carry forward of loss and unabsorbed depreciation to all categories of PSUs irrespective of their nature of business would be a key step towards the strategic disinvestment of PSUs
- While measures for reducing compliance burden (e.g. GST audit removed), measures to complete enquiries in specified time would have a positive impact on the sector, some procedural amendments may negatively impact working capital. The overall impact of such provisions would thus be mixed.

# Tax implication

## Direct tax

**Deals and investments**

- Goodwill depreciation regime overhauled and assessees would no longer be eligible to claim depreciation on goodwill. Acquired goodwill through slump sale / exchange also not eligible for depreciation.
- "Slump sale" regime amended to tax the transaction based on real substance. "Slump Exchange" transaction, which was claimed to be outside the purview of "slump sale" transaction, would now be taxable.

**Tax deduction and collection at source:**

- Section 194Q introduced for TDS on purchase of goods by buyer, at the rate of 0.1% of value of goods exceeding INR50 lakh. It applies to buyers whose turnover is more than INR10 crore in the immediately preceding financial year
- Higher rate of TDS to apply in case payments are being made to persons
  — who have not filed tax returns for two consecutive previous years, prior to the year in which tax is required to be deducted, and
  — the aggregate of TDS/ TCS exceeds INR50,000 in each of the preceding two years.

**Dispute resolution**

- To further reduce human interface, faceless scheme for appeal before Income Tax Appellate Tribunal to be introduced
- Constitution of new Board for Advance Ruling (BAR) replacing the existing Authority for Advance Ruling (AAR). Orders of BAR appealable before High Court
- Special Dispute Resolution Committee (DRC) for small and medium taxpayers having returned income of INR50 lakh or less and tax adjustment of less than INR10 lakh
- Discontinue the existing Income-tax Settlement Commission and introduction of one or more interim board(s) to decide on the pending applications.

**Compliance**

- Relaxation on applicability of interest under section 234C in respect of Advance Tax on dividend income provided entire tax is discharged in subsequent installment [except for deemed dividend under section 2(22)(e)]
- Threshold limit for applicability of tax audit for entities with at least 95% of transactions in digital mode enhanced from INR5 cr to INR10 cr
- Due date for revised and belated return reduced by further period of 3 months i.e. all belated or revised return to be filed within 9 months from the end of the relevant financial year
- Time limit for issue of notice for scrutiny proceedings u/s 143(2) reduced to 3 months from end of relevant financial year in which the return is furnished
- Time limit for completion of assessment proceedings for Assessment Year 2021-22 onwards reduced from 12 to 9 months from the end of assessment year
- Time limit for issue of intimation u/s 143(1) reduced from 12 months to 9 months from end of financial year in which return is furnished.

**Facilitation of strategic disinvestment for PSUs**

- Splitting up or reconstruction of a public sector company, in the form of asset transfer to a resulting public sector company, shall be deemed to be a 'demerger' for Income-tax purposes
- Benefit of carry forward of losses and unabsorbed depreciation on amalgamation and demerger which was only available to PSUs engaged in business of operation of aircraft, now extended to all existing PSUs irrespective of nature of business and also to few erstwhile PSUs which have undergone strategic disinvestment in the past.

**Others**

- Employee contribution paid after due date under the respective Acts shall not be allowed as deduction in the hands of the employer even if the same is paid on or before due date of filing return of income. Amendment to have retrospective application
- Time limit for reopening of assessment reduced from existing period of 4/6 years to 3 years. In exceptional circumstances where income represented in the form of an asset has escaped assessment and the amount escaping assessment exceeds or is likely to exceed INR50 lakh, time limit of 3 years shall get extended to 10 years.

## Indirect tax

### I. Amendments in customs duty rates impacting cost structure

- Customs duty rates on various goods including raw materials and parts (relevant for Industrial Manufacturing and Auto sector) have been rationalised, with a view to promote domestic manufacturing, in accordance with Aatmanirbhar Bharat Vision of the Government of India. Key rate changes are captured in Annexure 1
- Rationalisation of customs duty rates on more than 400 old exemptions by 1 October 2021 with an objective to incentivise domestic manufacturing and boost exports for specified sectors
- New conditional exemption notifications shall be valid up to 31 March falling immediately after 2 years from the date of the notification. Current exemptions to expire on 31 March 2023
- Changes proposed in the customs tariff classification of specified vehicles, parts and accessories in the first schedule of Customs Tariff Act, 1975 w.e.f. 1 January 2022, to align with the global changes in HSN 2022 as recommended by the World Customs Organization. Industry players would need to monitor possible changes in customs classification and/or customs duty rates
- Agriculture Infrastructure and Development Cess ('AIDC') - New cess imposed on specified goods with effect from 2 February 2021. In the context of IM and Auto sector, it is relevant to note that AIDC @ INR 2.5 per litre on petrol and INR 4 per litre on diesel has been imposed as an additional duty of excise. Further, basic excise duty and special additional excise duty on these items have been calibrated to neutralise the additional burden on consumers.

### II. Key proposals impacting working capital

- Input tax credit on invoice or debit note would be available only when details of invoice or debit note is furnished in GSTR-1 by the supplier
- The benefit of refund of IGST paid in case of zero-rated supplies (including exports) is proposed to be restricted to notified class of taxpayers and/or notified supplies of goods or services
- Refund in case of export of goods to be linked with receipt of foreign exchange remittance – if foreign exchange remittance not received as per FEMA regulations, exporter would need to pay back the refund with applicable interest.

### III. Trade facilitation measures

- Requirement of getting reconciliation statement audited by Cost Accountant/Chartered Accountant withdrawn under GST. Reconciliation can be filed as part of annual return on self-certification basis

- In case of non-payment of GST, interest to be paid on net cash liability (instead of gross tax liability) - provision made effective retrospectively from 1 July 2017
- Amendments introduced under customs law to facilitate processing by job worker, on goods imported at concessional customs duty rate
- Timeframe of two years has been prescribed under customs law to complete an investigation, which can be extended further by one year

## Annexure 1

- Basic customs duty ('BCD') rate changes effective from 2 February 2021
  - 10% to 15% on import of safety glass, consisting of toughened (tempered) or laminated glass used with motor vehicles
  - 10% to 15% on import of parts of electrical lighting and signaling equipment, windscreen wipers, defrosters and demisters, of a kind used for cycles or motor vehicles
  - 10% to 15% on import of ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships
  - 10% to 15% on import of instrument panel clocks and clocks of a similar type for vehicles, aircraft, spacecraft or vessels
  - 10% to 15% on import of specified parts and accessories of Chapter heading 8711 to 8713 (other than bicycles) when imported under the Project Import Scheme
  - 2.5% to Nil on import of raw materials for use in manufacture of CRGO steel (up to 31 March 2023)
  - 10% to 7.5% on import of primary/semi-finished products of non-alloy steel and long product of non-alloy, stainless and alloy steel
  - 10%/12% to 7.5% on import of flat products of non-alloy and alloy steel
  - 10% to 15% on import of screw, bolts, nuts, etc. of iron and steel
  - 2.5% to Nil on import of iron and steel scrap, including stainless steel scrap (up to 31 March 2022)
  - 5% to 2.5% on import of copper scrap
  - 5% to 7.5% on import of carbo black
  - 10% to 15% on import of builder's ware of plastics, not elsewhere specified or included
  - 7.5% to 5% on import of nylon chips
  - 10% to 15% on import of raw silk
  - 10% to 15% on import of silk yarn
  - Nil to 5% on import of cotton, nor carded or combined
  - Nil to 10% on import of cotton waste
  - 7.5% to 5% on import of nylon fiber and yarn
  - 10% To 15% on import of cut and polished synthetic stones, including cut and polished cubic zirconia
  - Nil to 7.5% on import of tunnel boring machine and from Nil to 2.5% on parts and components for manufacture of tunnel boring machine with actual user condition.
  - 12.5% to 15% on import of compressors of a kind used in refrigerating equipment
  - 12.5% to 15% on import of compressors of a kind used in air-conditioning equipment
  - 10% to 15% on import of printed circuit board assembly (PCBA) of charger or adapter
  - 5% to 10% on import of all parts used in manufacture of LED lights, fixtures including LED lamps, LED drivers and MCPCB of LED lights
  - 7.5% to 10% on import of all goods falling under tariff hearing 8544 (except USB cable and goods falling under tariff item 8544 30 00 and sub-heading 8544 70)
  - Nil to 10% on import of inputs or raw materials falling under chapter heading 85 (other than PCBA and moulded plastics) for use in manufacture of charger or adapter for cellular mobile phone
  - Nil to 15% on import of moulded plastic of charger or adaptor

- Key changes in BCD rates effective from 1 April 2021
  - Nil to 2.5% on import of sub-parts, parts, components and accessories [except Lithium-ion cell and Printed Circuit Board Assembly (PCBA)] for use in manufacture of Lithium-ion battery and battery pack
  - Nil to 2.5% on import of inputs, parts or sub-parts for use in manufacturing of PCBA (falling under tariff item 8507 90 90) of Lithium-ion battery and battery pack
- Nil to 2.5% on import of inputs, parts, sub-parts and raw materials of specified parts of cellular mobile phones i.e. printed circuit boards, camera modules, connectors etc.
- Anti-Dumping duty/ Countervailing duty is being temporarily revoked/discontinued on import of certain metal products from specified countries.

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