

## Budget 2021 – a big leap towards sustainable growth

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Set against the backdrop of global pandemic which has dealt a severe blow to the world economy, the Union Budget 2021-22 seeks to get the Indian economy back on the track of sustainable growth. Massive government initiatives in the focus areas of health, infrastructure, inclusive development, human capital, innovation and governance have required huge outlays over the last year and will continue to so require. The fiscal deficit is pegged at a huge 9.5 per cent of the gross domestic product for FY20-21. As tax rates have been left untouched much to the relief of industry, it becomes imperative to tap into a mix of means to bridge the deficit.

Disinvestment projects in several public sector undertakings (PSUs) have been underway for some time now and FY 20-21 is expected to see more disinvestments - in two PSU banks and one general insurance company. The timing could not have been more right for the proposed listing of the mammoth LIC. Monetisation of surplus real estate held by the government and PSUs is another avenue of non-tax revenue while opening up investment opportunities for the private sector. To facilitate disinvestments and also mergers of PSUs, the scope of relevant tax enablers to carry forward business losses in case of re-organisations has expanded.

Infrastructure spends bring multiplier benefits and hence, are rightly the main focus of the budget with various well-intentioned proposals to fund the same. The promotion of the Development Finance Institution with a target lending portfolio of INR5 lakh crore is a huge boost. Monetisation of assets of the railways, highways, ports, pipelines and sports stadiums is also a step in the right direction and presents interesting avenues for investors. Changes are underway to enable debt financing of REITs and InVITs by foreign portfolio investors. Infrastructure Debt Funds have been allowed to issue zero coupon bonds with tax benefits for the investor. Multiple new relaxations have been provided to sovereign wealth funds and pension fund for investment in infrastructure, as an improvement of the new tax exemption regime

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introduced last year. Exemption from withholding tax on dividend paid to Real Estate Investment Trust and Infrastructure Investment Trust are also expected to ease cash flows.

There is no doubt on the government's firm commitment to make the maiden IFSC in GIFT City a huge success story. Over the years, we have seen several moves to enhance its competitiveness. There are fresh tax incentives for aircraft leasing companies, investment operations of offshore banking units of foreign banks, and relocation of foreign funds to the IFSC under an AIF.

On the major policy front, the increase in foreign investment limit in insurance is in line with industry ask and may pave the way for more competitiveness with better products, processes, customer experience and also financial ease. In the resolution of stressed assets of PSU banks, the move to have an asset reconstruction or asset management company take over the stressed debt and manage it to eventually dispose of the stressed assets to investors in an AIF makes good business sense.

The government has taken further steps in the direction of ease of tax administration, dispute resolution and regulatory compliance. The scheme of faceless assessments and appeals is being extended to appeals before the Tribunal (second level appellate authority). Time limits for revision of returns, completion of assessments, etc. are proposed to be reduced. A mechanism is underway to address disputes of small taxpayers. Automation is being used to enhance compliance processes for large and small taxpayers alike. The consolidation of securities laws into a single code and an investor charter setting out investor rights across financial products is also in sync with the needs of the markets.

While there are no new taxes, much to the relief of all taxpayers, the salaried class takes a hit with the denial of tax exemption on interest on annual employee contribution to recognised provident fund where contribution is above INR2.5 lakh. The mechanics of this tax need to be understood though. Tax savings achieved hitherto through use of unit-linked insurance plans (ULIPs) are now history with a cap proposed on the annual premium upto INR2.5 lakh to avail tax free maturity proceeds. This may also be seen as a move towards achieving parity in the tax treatment of ULIPs and mutual fund investments, although there is still a significant gap.

In the final analysis, one may say, the budget addresses the economy's need of the hour without too much of a burden on taxpayers. The government has continued its initiatives towards

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consolidation, simplification and ease of conditions and processes. Backed by the positive announcements, one hopes to see the economy well poised to surge ahead in its growth.

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