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India Union Budget 2021-22

Point of view

Energy and Natural Resources

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Key announcements for the sector

Direct Tax

- No change proposed in the tax rates
- Definition of demerger extended to include the reconstruction or splitting up of a public sector company into separate companies. Public sector companies allowed to carry forward and set off of losses/unabsorbed depreciation in case of amalgamation/demerger under strategic disinvestment
- Section 2 and 32 of the Act amended to clarify that Goodwill of a business or profession shall not be considered as an asset eligible for depreciation and shall not be included in the block of assets
- The Authority for Advance Ruling will cease to operate, and a Board for Advance Ruling shall be constituted for disposal of applications in a timely manner
- Faceless scheme to be launched for proceedings before the Income Tax Appellate Tribunal on the same lines as faceless appeal scheme
- Withholding tax provisions introduced on purchase of goods of value exceeding INR 50 lakh in the previous year by specified persons
- Higher rate of TDS/TCS introduced for persons who have not filed their return of income for two immediately preceding previous years having TDS/TCS amounting to INR 50,000 or more for each year
- Exemption from withholding taxes on dividend payments by subsidiaries to REITs / InvITs
- Rationalization of provisions relating to tax exemption for Sovereign Wealth Funds (SWFs) / Pension Funds (PFs) for investments made in infrastructure sector
- Benefit of lower rate provided under double taxation avoidance agreement to be given at the time of deduction of tax on payments made to Foreign Institutional Investors
- Section 36 and 43B of the Act amended to clarify that deposit of employee’s contribution by employer to welfare funds after the due date prescribed in the respective welfare laws to be disallowed
- No interest liability under section 234C on non-payment of advance tax on dividend income on account of under estimation/failure to estimate the accurate dividend income
- Various timelines for filing of belated/revised return, processing of returns, assessment and reassessment proceedings revised

Indirect Tax

– Central Excise

- Agriculture Infrastructure and Development Cess (AIDC) imposed on Petrol and High-Speed Diesel falling under CETH 2710 at a rate of Rs. 2.5 per litre and Rs.4 per litre respectively with the corresponding reduction in the basic excise duty and special additional excise duty. The net impact has been summarized below:

Commodity	Duty rates applicable with effect from 02.02.2021 (Rs. per litre)					Effective Duty rates till 01.02.2021 (Rs. per litre)
	BED	SAED	RIC	AIDC	Total	Total
Petrol (unbranded)	1.40	11	18	2.5	32.90	32.98
Petrol (branded)	2.60	11	18	2.5	34.10	34.16
Diesel (unbranded)	1.80	8	18	4.0	31.80	31.83
Diesel (branded)	4.20	8	18	4.0	34.20	34.19

BED: Basic Excise Duty; SAED: Special Additional Excise Duty; RIC: Road and Infrastructure Cess; AIDC: Agriculture Infrastructure and Development Cess.

- Automotive diesel fuel conforming to IS 1460 and diesel fuel blend (B2to B20) conforming to IS 16531 are proposed to be subject to excise duty 14% ad valorem and Rs. 15 per liter
- Exemptions from Special Additional Excise Duty (SAED) and Road and Infrastructure Cess (RIC) are being provided to the new category of blended fuels namely, 15% Methanol blended Petrol (M-15 fuel) and 20% ethanol blended petrol (E-20 fuel), subject to the condition that the appropriate excise duty on petrol and appropriate GST on ethanol/methanol and cosolvents have been paid.
- Exemption from Agriculture Infrastructure and Development Cess (AIDC) is provided to blended fuels namely 5% ethanol blended petrol, 10% ethanol blended petrol, 20% bio-diesel blended High-speed diesel, and new categories of blended fuels namely, 15% Methanol blended Petrol (M-15 fuel) and 20% ethanol blended petrol (E-20 fuel).

– Customs

- Filing of Bill of Entry mandated latest by the end of the day before the day of arrival of goods in India with some exceptions
- Specific amendment brought in Customs Regulation to permit job work, 100% outsourcing for manufacturing of goods as trade facilitation measures where the goods are imported under an exemption notification
- Various conditional exemptions under the customs are proposed to have a sunset life of two years unless otherwise provided
- Two-years' time limit (extendable by another year by the Commissioner), proposed for completion of any proceedings under the Customs Act
- Capital goods imported under IGCR Rules allowed to be cleared on payment of duty on depreciated value along with applicable interest
- With effect from 2 February 2021, the benefit of concessional rate of Social welfare surcharge @ 3% will not be available on import of HSD and MS and Social welfare surcharge @ 10% would be applicable on import of HSD and MS

- Basic Customs duty on Naphtha has been reduced from 4% to 2.5% (effective from 2 February 2021)
- Basic Customs duty on Solar lanterns or solar lamps (CTH 9405 5040) raised from 5% to 15% (effective from 2 February 2021)
- Basic Customs duty on Solar Inverters (CTH 8504 40) raised from 5% to 20% (effective from 2 February 2021)
- Concessional rate of tax of 5% is being rescinded and thus, all items of machinery etc. required for initial setting up of solar power generation project or solar energy production or facility will be subject to applicable customs duty.

– **<u>Goods and Services Tax</u>**

- With an objective of ease of doing business, the requirement of getting annual accounts audited and reconciliation statement (GSTR-9C) certified by specified professional removed. The taxpayer may furnish annual return with self-certified reconciliation statement.
- Retrospective amendment to Section 50 proposed limiting interest liability on only net cash liability in given circumstances.
- Seizure and confiscation of goods and conveyances in transit to be a separate proceeding from the recovery of tax
- Zero-rated supplies to SEZ unit/ developer will only include supplies for authorised operations
- To curb fraud, etc., Input Tax Credit to be limited to the extent of invoices/ debit notes details furnished by suppliers
- In case of zero-rated supply of goods, refund to be deposited with interest in case of non-receipt of consideration within the prescribed time limit
- The Government may restrict the zero-rated supply on payment of IGST only to a notified class of taxpayers or notified supplies of goods or services
- Section 16 of the IGST Act is being amended so as to link the foreign exchange remittance in case of export of goods with refund

– **<u>Central Sales Tax</u>**

- Facility for issuance of Form C is proposed to be restricted for trading or manufacturing of petroleum product.

Sectoral Announcements

- A framework to be put in place to introduce competition in electricity distribution segment.
- A revamped reforms-based result-linked scheme for Distribution Companies (Discoms) to be launched with an outlay of Rs. 3,05,984 crores over 5 years. The scheme will provide assistance to Discoms for infrastructure creation including pre-paid smart metering, feeder separation and upgradation of systems, etc., tied to financial improvements.
- Power Transmission assets valued at Rs. 7000 Crore to be monetized by PGCIL through InvITs
- The Budget proposes to launch a 'Hydrogen Energy Mission' in 2021-22 for generating hydrogen from green power sources
- The budget provides for additional fund infusion of Rs 1,000 crore for SECI and Rs 1,500 crore for IREDA
- The budget proposes to notify a phased domestic manufacturing plan for solar panel and cells
- To promote domestic manufacturing, duty on solar inverters is proposed to increase from 5 to 20% and duty on solar lanterns from 5% to 15%
- Ujjwala Scheme which has benefited 8 crore households will be extended to cover 1 crore more beneficiaries

- Government will add 100 more districts in next 3 years to the City Gas Distribution network
- A gas pipeline project will be taken up in Union Territory of Jammu & Kashmir
- An independent Gas System Transport Operator will be set up for facilitation and coordination of booking of common carrier capacity in all the natural gas pipelines on a non-discriminatory open access basis
- Oil & Gas pipelines of GAIL, HPCL and IOCL will be rolled out under the Asset Monetization Programme
- One of the key features of Disinvestment/Strategic Disinvestment Policy is that Power, Petroleum, Coal and other minerals are classified as Strategic Sectors. Some public sector enterprises will remain in these sectors. However, it still remains to be seen if Steel and non-ferrous metals cum mining CPSEs fall within the definition of Other Minerals industries

Other relevant announcements

- Railways: 100% electrification of Broad-Gauge routes of railways by December 2023
- Urban Infra: Augmentation of metro rail network across several cities
- Scrapping Policy: Voluntary scrapping of old and unfit vehicles based on automated fitness tests
- Infrastructure Financing: Development Financial Institution (DFI) to be established, with target portfolio of Rs. 5 Lakh Crore in 3 years.

Implications for the sector

- Framework for introduction of competition in power distribution will give consumer choice, lead to increased private participation, better discipline in Discom operations, improved sustainability and consumer-centricity.
  - Power Distribution Companies (Discoms) provide last mile connectivity to consumers and generate revenue for overall power sector value chain. Owing to the capital-intensive nature of business, the Discoms (mostly publicly owned) are regional monopolies. Most Discoms incur heavy financial losses annually and thus are unable to provide quality, reliable and affordable supply to consumers, which is important for socio-economic development and a competitive manufacturing sector.
  - Introduction of competition in Distribution through carriage and content segregation was first promulgated through Electricity Amendment Bill 2014 but was kept out of the purview of Electricity Amendment Bill 2020.
  - While the detailed modalities of the proposed framework in the Union Budget 2021 (for introduction of competition in Distribution segment) are to be developed, competition is expected to bring in operational efficiencies and investments from private sector players. This will provide consumers choice of supplier (as in the case of telecom or internet services), help Discoms become more disciplined and consumer-centric and improve reliability of supply. A strong framework for retail competition, rolled out across states, could help in gradual revival of the power sector.
- Revamped scheme for performance improvement of Discoms to help in improved financial health of Discoms and give impetus to smart grid investments.
  - Ujjwal Discom Assurance Yojana (UDAY) scheme launched in 2015 was the flagship scheme of GoI for financial turnaround of financially ailing Discoms. UDAY scheme was expected to provide a clean slate to Discoms to enable financial turnaround. However, the results have been mixed, as the Discom health (indicated by AT&C losses, ACS-ARR gap and outstanding liabilities etc.) improved initially but has slid back slightly, especially post Covid-19.
  - The proposed Rs. 3.05 Lakh revamped scheme linked to performance improvement will be important to carry out continued reforms and maintain (or even improve upon) the operational and financial improvements achieved under UDAY. Infrastructure upgrade through prepaid smart meters, feeder segregation and other system upgradation, as proposed in the budget announcement, especially

indicates focus on AT&C loss reduction, which will eventually improve financial position of Discoms and enable timely payments to generation companies and improved consumer services.

— Improved financial position of Discoms will also attract more private investments (once the proposed competition framework) and help provide a stronger foundation for new entrants to achieve success. However, it needs to be seen how the scheme will ensure adherence with the mandated goals for efficiency improvement and avoiding a slide back to previous levels, as experienced with earlier schemes.

- Power transmission asset monetisation through PGCIL sponsored InvIT to help boost greenfield investments in power sector

  — Monetisation of Rs. 7000 Crore assets by PGCIL is aimed at freeing up capital tied up in operational assets for financing greenfield projects. This is first InvIT by any PSU and will set a precedent for other public and private companies to take the InvIT route for raising capital. InvIT as an investment vehicle will help attract more risk averse institutional investors and create headroom for PGCIL to invest in riskier greenfield projects.

- Implications of other announcements

  — **Electricity demand stimulation** expected through electrification of railways and expansion of metro rail network, especially in local/ regional grids where electrification takes place.

  — **Promotion of Electric Vehicles (EV)** likely with scrapping of old and unfit vehicles. Scrapping policy will could further disincentivize ownership of old and unfit Internal Combustion Engine (ICE) based vehicles.

  — **Boost to clean energy and transmission sector** likely with mobilisation of fresh capital through DFI focused on infrastructure finance, since these are two key sectors which are expected to garner investments on account of national sustainable energy development goals.

- The Budget proposes to launch a 'Hydrogen Energy Mission' in 2021-22 for generating hydrogen from green power sources

  — This will further encourage RE developers to set up large renewable energy projects which will use the energy to produce Green Hydrogen a cleaner form of Hydrogen

- The budget provides for additional fund infusion of Rs 1,000 crore for SECI and Rs 1,500 crore for IREDA

  — This additional fund infusion of INR 2,500 Cr will encourage the growth of RE with incremental deployment potential of 0.8 – 1 GW

- The budget proposes to notify a phased domestic manufacturing plan for solar panel and cells

  — This plan will promote domestic manufacturing of cells and modules which shall reduce import dependence and help local manufacturers in achieving competitiveness with global peers. This will also help in solar capacity build-up which will help in achieving the 450 GW RE target by 2030

- To promote domestic manufacturing, duty on solar inverters is proposed to increase from 5 to 20% and duty on solar lanterns from 5% to 15%

  — This will encourage domestic manufacturing and shall reduce the dependence on imports. It shall also lead to job creation in the MSME sector. Hike on import duties on lanterns will encourage local manufacturers in catering to the local market and also for exports.

- Ujjwala Scheme which has benefited 8 crore households will be extended to cover 1 crore more beneficiaries. Also, Government will add 100 more districts in next 3 years to the City Gas Distribution network

  — The government shows its intent of increasing availability and accessibility of clean energy to its citizens. It is admirable that the government has continued with its focus on clean energy and Infrastructure augmentation

- An independent Gas System Transport Operator will be set up for facilitation and coordination of booking of common carrier capacity in all the natural gas pipelines on a non-discriminatory open access basis

— This is a much-awaited initiative that will ensure fair, non-discriminatory and easy access to the common carrier capacity in the national gas grid system. Gas consumers are poised to benefit immensely. An important step that will add to government's effort to move towards a gas-based economy

- Marginal increase/decrease in excise duty and taxes on petrol/diesel balancing the logistics cost
- Customs duty proposed on import of solar inverters and goods required for setting up the solar power plant
- Concessional rate of procurement of petroleum product at concession rate through Form C will not be available except for trading or manufacturing of petroleum products
- While the reduction in Customs duty on Steel products will reduce the landed prices, there may not be significant impact on finished steel products' Prices as India already has Free Trade Agreement (FTA) with major exporters such as Korea and Japan. However, the reduced Customs duty on Scrap will increase profitability of the Steel producers producing Steel through Scrap route.

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