



# India Union Budget 2022-23

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# KPMG in India's Pre-Budget Survey 2022-23

As with every year, the Finance Minister will have to address a unique set of opportunities and challenges while presenting the Union Budget for 2022-23. On the one hand, the momentum of the country's promising but fledgling economic recovery, and buoyant tax collections will have to be sustained. On the other, urgent measures to spur demand, create jobs and tackle inflation are needed, even as the country deals with the ongoing third wave of the Covid-19 pandemic.

Fiscal proposals in the Budget are expected to play an important role in this regard. In this backdrop, we, at KPMG in India conducted a pre-budget survey in January 2022 seeking the views of key stakeholders on several tax-related aspects of the upcoming Budget. The key findings of which are summarized below:

## Tax Rates, reliefs and other incentives

On the **individual tax** front, most respondents expect an enhancement in the basic income tax exemption limit of INR2.5 Lakh. Respondents also support an upward revision in the top income slab of INR 10 lakhs and above, and an increase in the existing section 80C deduction limit of INR1.5 lakh.

Currently, **Indian branches of foreign companies** are subject to corporate tax at 40 per cent. With the Government reducing headline corporate tax rate for domestic companies from 30 per cent to 22 per cent starting from financial year 2019-20, the gap between the rates applicable to foreign companies and domestic companies has widened. A majority of respondents believe there is a need to reduce the rate applicable to Indian branches in line with the 2019 rate cuts, in order for India to remain a globally competitive investment jurisdiction.

With **GST** revenues on the rise, respondents also felt that the Government should not change the current GST tax slabs.

The Survey also found significant support for the Government's **Production Linked Incentive Scheme** (PLI) applicable for the telecom, pharmaceuticals, steel, textiles, food processing, white goods, IT hardware and solar sectors. Most respondents felt that this scheme would help India become a key manufacturing hub, and a whopping 83 per cent of respondents favoured an expansion of this scheme to cover other sectors.

## Measures to rationalize Corporate Tax

The concessional **corporate tax rate of 15 percent for new manufacturing companies** comes with a condition that manufacturing/production should commence before 31 March 2023. Given the Covid-19 pandemic and the resultant economic disruptions, a majority of the respondents expect the Government to extend the timeline for commencement of manufacturing /production beyond 31 March 2023.

To **boost job creation**, a majority of respondents also felt that the Government should increase the emoluments' threshold for the deduction under Section 80JJA from the existing limit of INR25,000 per month.

The availability of **depreciation on goodwill** has been a highly controversial matter. Amendments made last year sought to put an end to this controversy by putting in place a blanket ban on claiming depreciation regardless of whether the goodwill arose through tax-neutral transactions like mergers or demergers or through taxable transactions like slump sales or non-tax neutral reorganizations. Most respondents however felt that this should be reconsidered, and a carve-out permitting depreciation on goodwill arising from taxable transactions should be announced.

## Cross-Border Taxation and Transfer Pricing

Global consensus on the OECD's Two Pillar framework has now been achieved and several countries including India have committed to withdraw unilateral measures like Equalisation Levy (EL). However, the lack of certainty as to the withdrawal is reflected in the responses, with 40 per cent of respondents expecting a repeal and over 42 per cent being unsure.

On the transfer pricing front, a significant majority of respondents expect the safe-harbour regulations to be rationalized in order to provide tax certainty to both taxpayers and tax administrators. 73 per cent of respondents also believe that the Government should come up with detailed guidance on highly litigious transfer pricing issues like marketing intangibles, cost contribution arrangements, benchmarking of loans/guarantees, IP restructuring etc.

Respondents also believe that the current arm's length range of 35th to 65th percentile should be broadened to the Interquartile range of 25th to 75th percentile, which is in line with global norms.

## Boosting credit and investment

To provide a level playing field for REIT / InvIT investors, 53 per cent of respondents feel that the holding period of REIT/InvIT units should be reduced to two years to qualify as long-term capital assets. Such a move is expected to boost participation in REIT/InvITs.

Similarly, 63 per cent of respondents feel that there should be parity in the tax treatment for INR-denominated ECB and foreign currency ECB, and that the Budget should accordingly extend the reduced **tax rate of 5 per cent to INR-denominated ECBs** as well.

## Litigation, administration and compliance

Over the past few years, the Government has taken several measures to resolve tax disputes and overhaul the tax dispute resolution framework. Further, faceless assessment and appeal schemes have been introduced to achieve efficiency in tax assessments. However, respondents were divided on the issue of whether there had been a **reduction in litigation** over the past one year.

Specifically, as regards the **faceless assessment scheme**, with many taxpayers having experienced at least one cycle of faceless proceedings, over 50 per cent of respondents believe that the quality and efficiency of the assessment process has been improved by the introduction of Faceless Assessment Scheme. Only 21 per cent of respondents expressed a negative view with the balance taking a 'wait and watch' approach.

From a **GST audit** perspective, a significant proportion of respondents stated that they have started receiving audit notices. Many respondents also indicated that the necessary team bandwidth and technology tools are in place to handle pan-India audits.

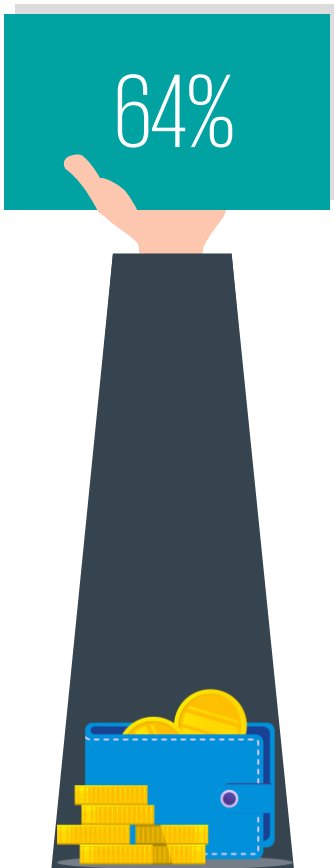
On the compliance side, there has been a significant **increase in the scope of TDS and TCS** provisions over the past few years. Over 85 per cent of respondents believe that the scope of TDS and TCS has led to increased compliance burden on taxpayers. This suggests that a rationalization in the scope and coverage of domestic withholding tax would be welcomed by the taxpaying community. Increased adoption of technology and use of data analytics could help in this area.

01

**Do you expect the Honourable Finance Minister to enhance the basic exemption limit of INR 2.5 lakh which has remained unchanged for the last few years?**

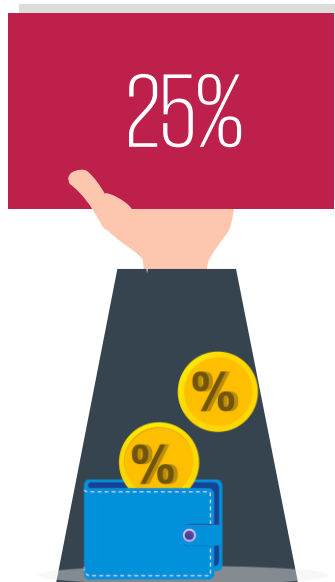
**Yes**

64%



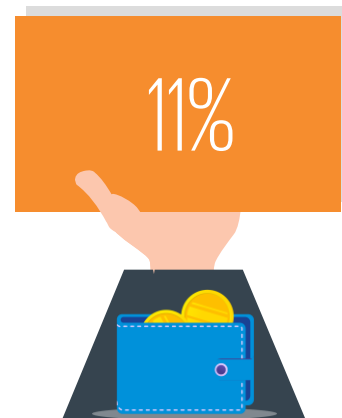
**No**

25%



**Maybe**

11%



## Which of the following is the most anticipated change for individual taxpayers?

29%

Enhance the income limit of INR 10 lakh at which the maximum marginal rate of 30 per cent tax triggers?



36%

Increase the 80C deduction limit of INR 1.5 lakh



19%

Increase in standard deduction limit of INR 50,000 for salaried class



16%

Tax-free allowances/ perquisites for salaried individuals keeping in mind work from home arrangement – provision of internet connection/ furniture/ ear-phones, etc.



03

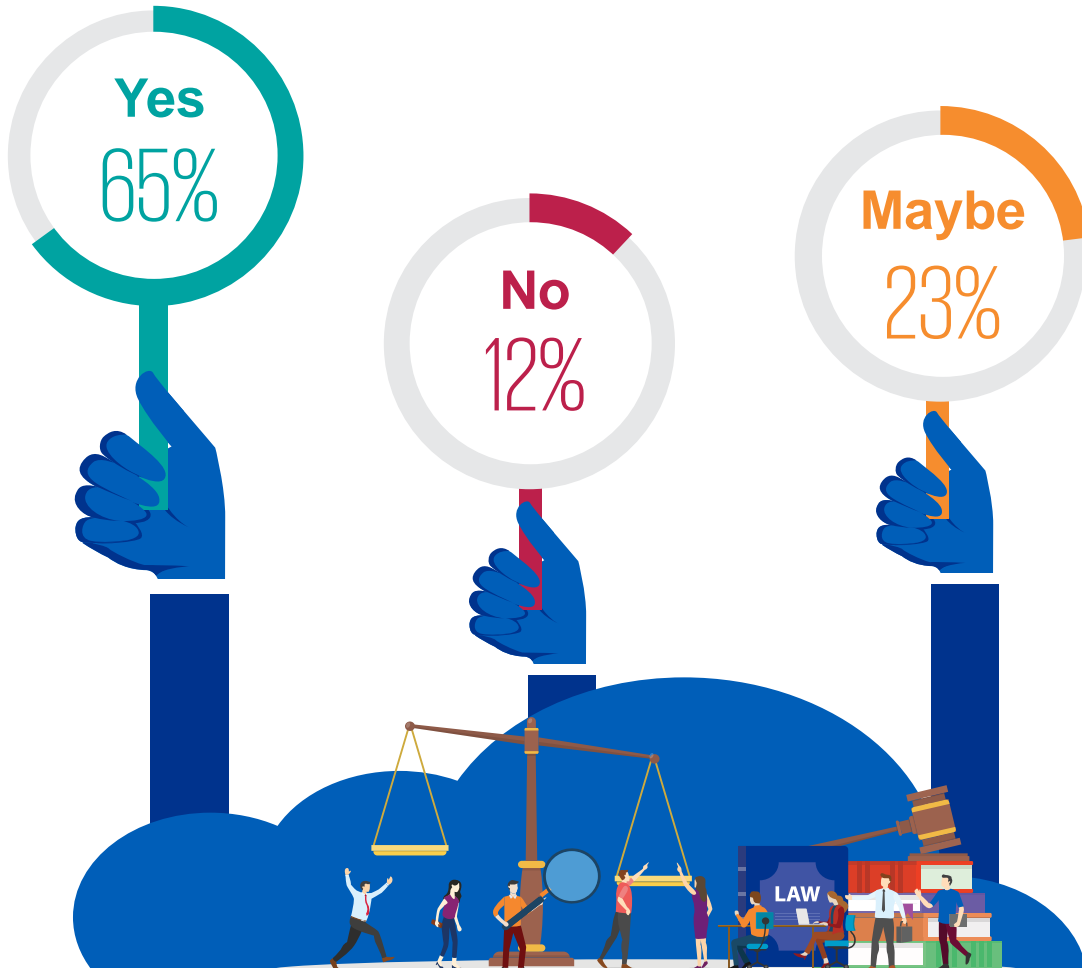
Given the impact of the Covid-19 pandemic, should the Government extend the date of commencement of production beyond 31 March 2023 for new manufacturing companies intending to avail of the concessional 15 per cent tax rate?





04

In order to incentivise new employment generation, should the Government increase the emoluments threshold under section 80JJAA of the Act from the existing limit of INR 25,000 per month?





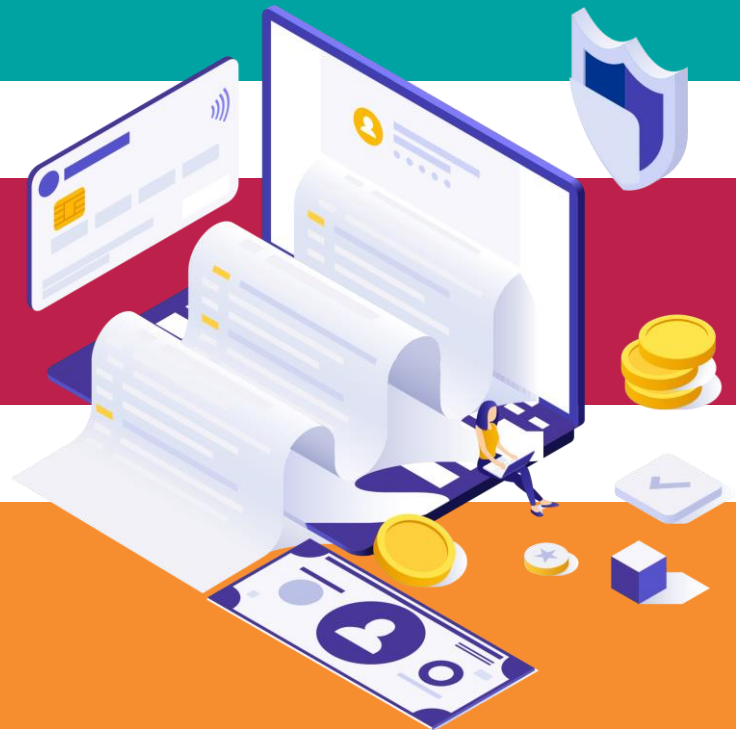
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## Will the Equalisation Levy introduced by the Government be repealed considering the consensus around BEPS Pillar One and Pillar Two proposals?

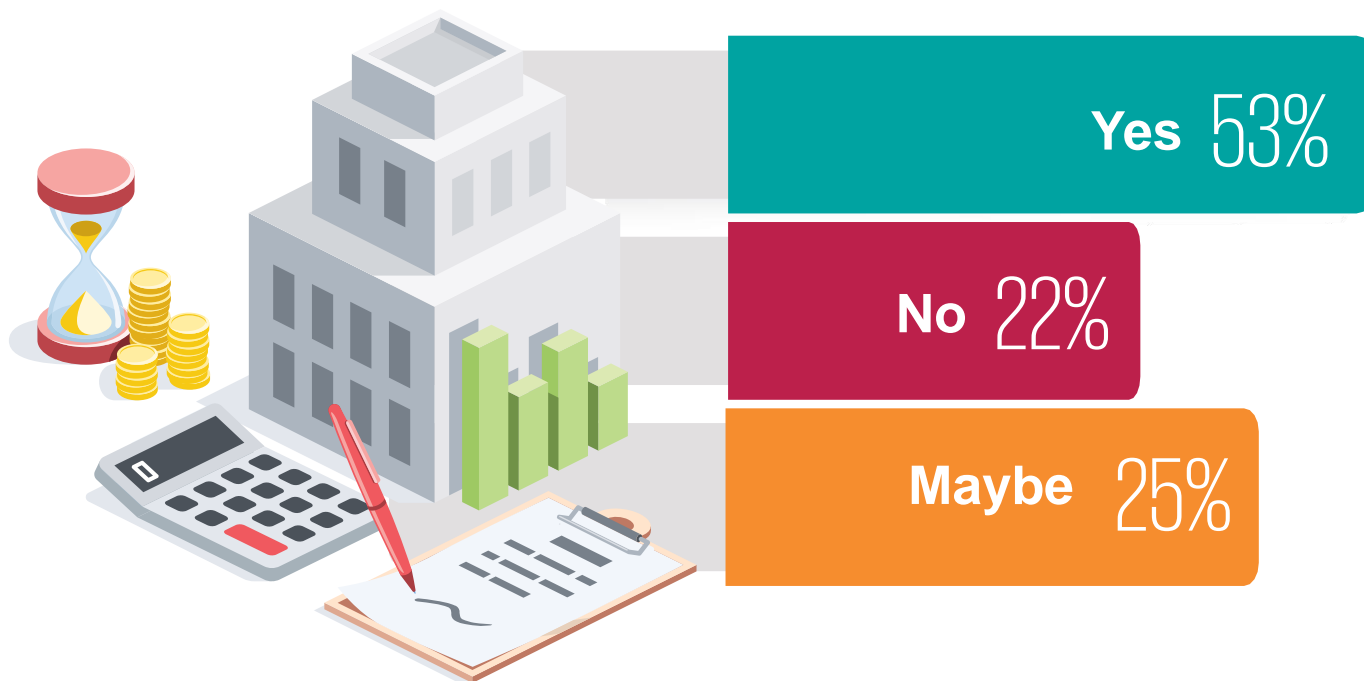
Yes  
40%

No  
18%

Maybe  
42%

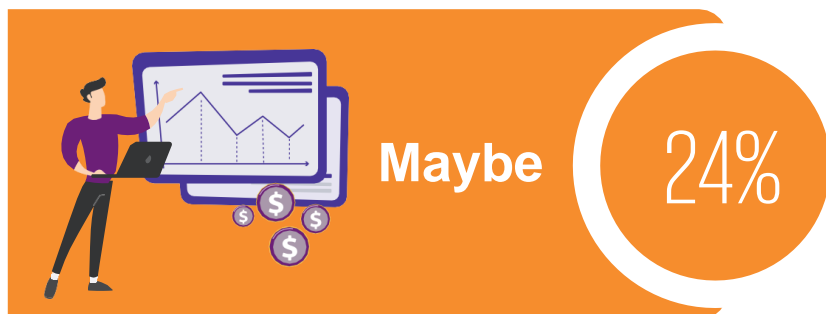


**Do you think the holding period of REIT/InvIT units should be reduced to 2 years to qualify as long-term capital assets?**

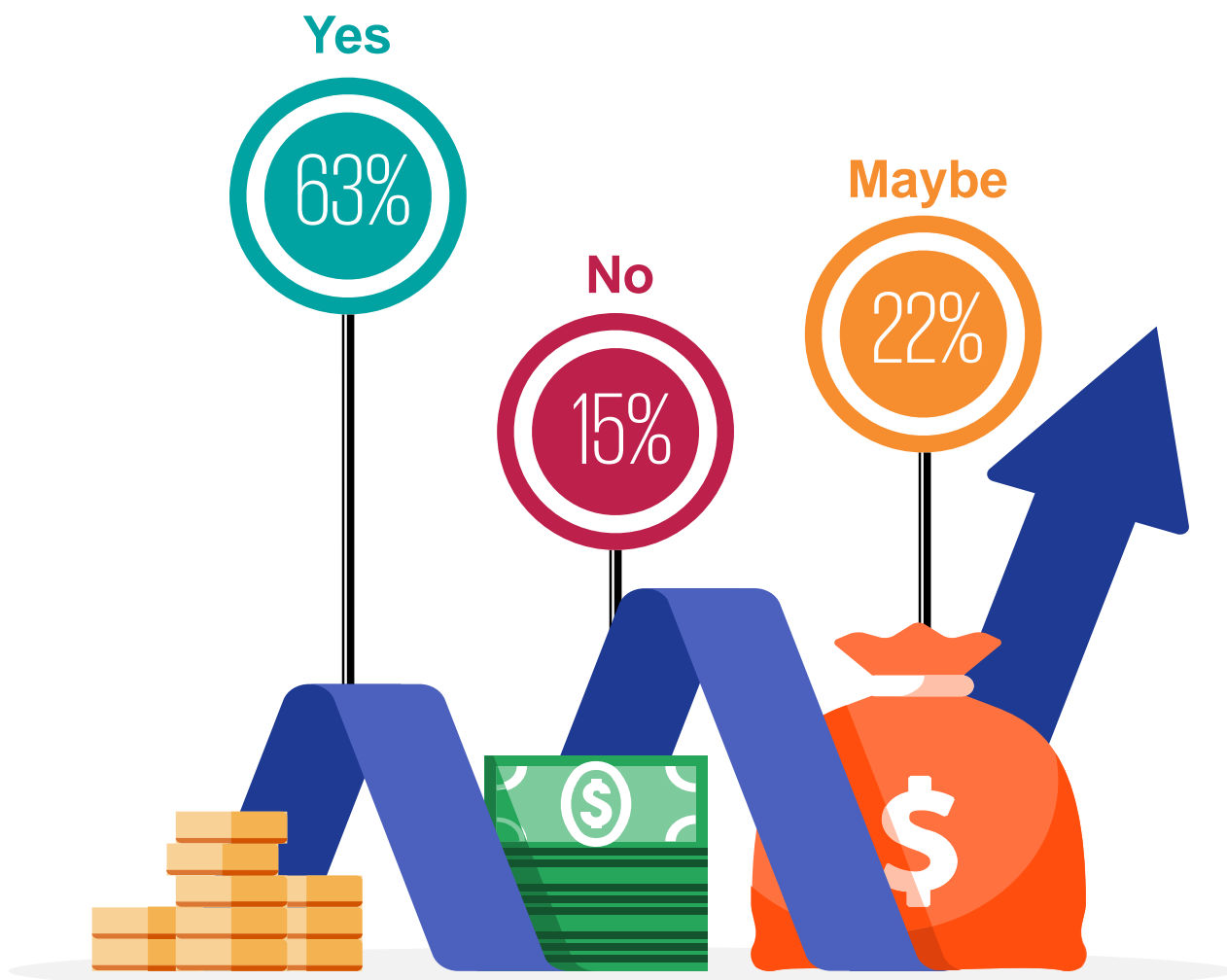


07

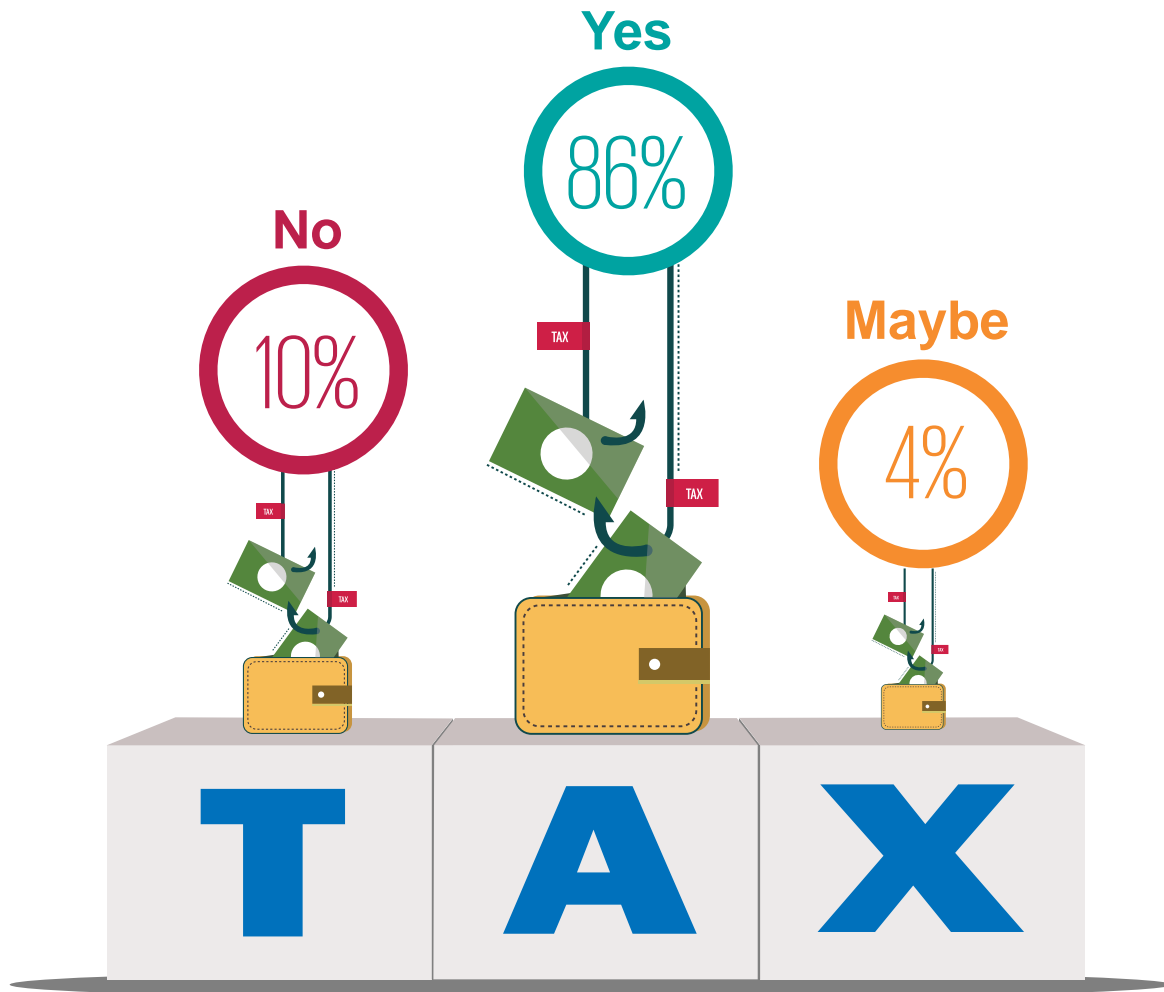
Should the rate of Income Tax for foreign branches be reduced considering the rate cuts that were extended to domestic companies in 2019?



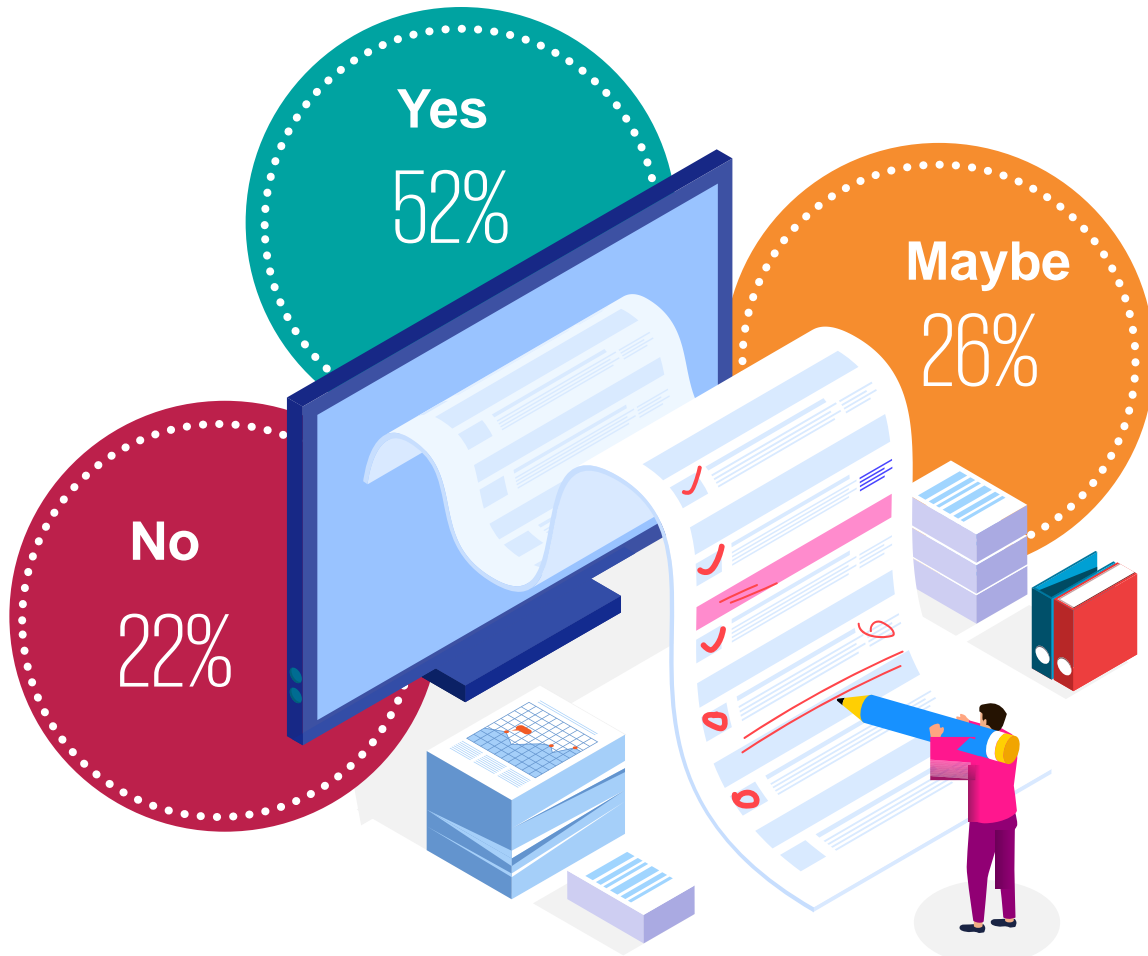
Should the reduced tax rate of 5 per cent on interest income be extended to INR denominated External Commercial Borrowings (ECB)?



## Do you think that the new TDS and TCS provisions have led to increased compliance burdens on taxpayers?



## Has the Faceless Assessment Scheme led to improved quality and efficiency in the assessment process?



**Should depreciation be allowed on goodwill arising from taxable transactions (e.g. slump sale, non-tax neutral merger)?**

**Yes**



**No**

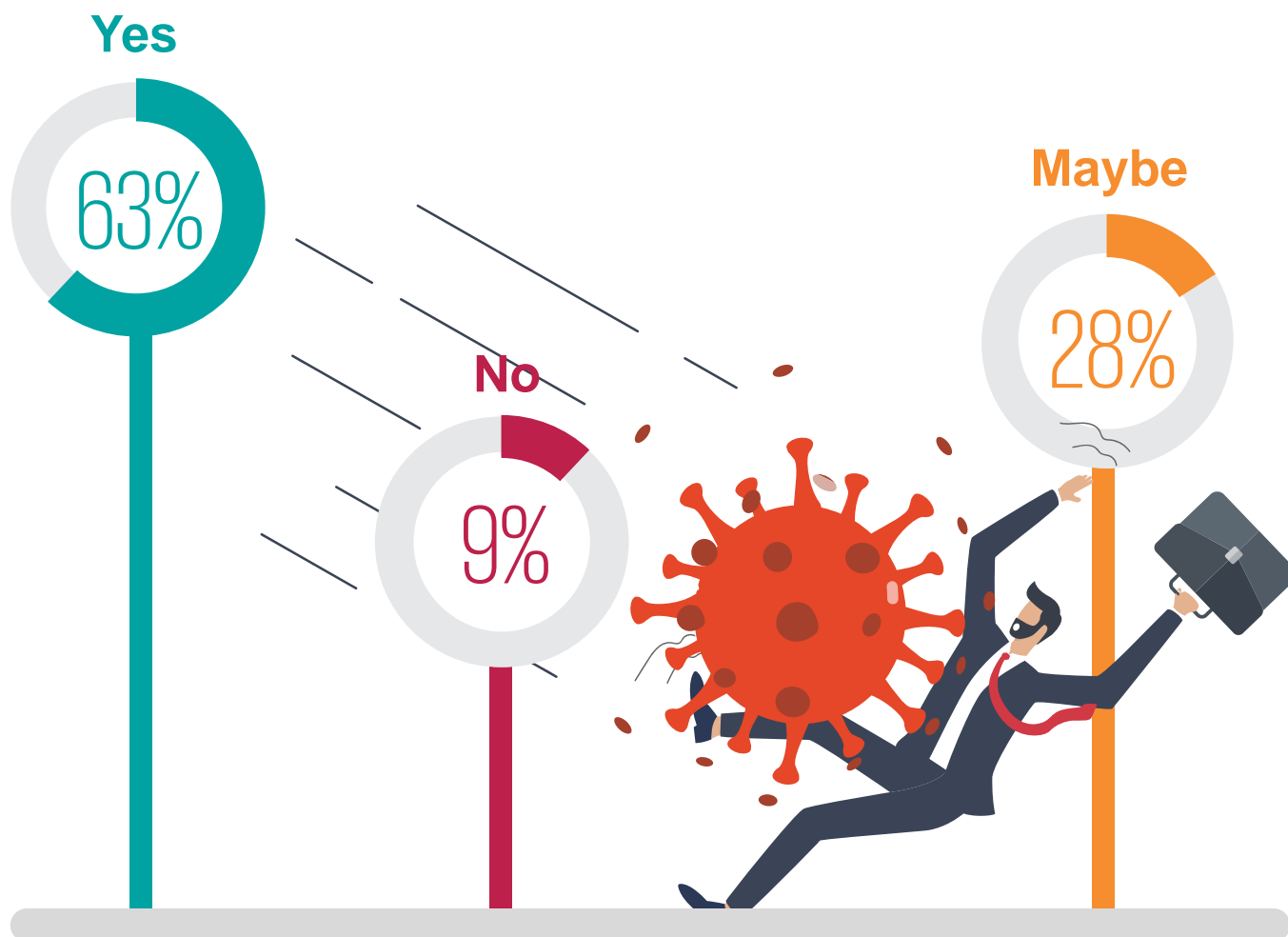


**Maybe**

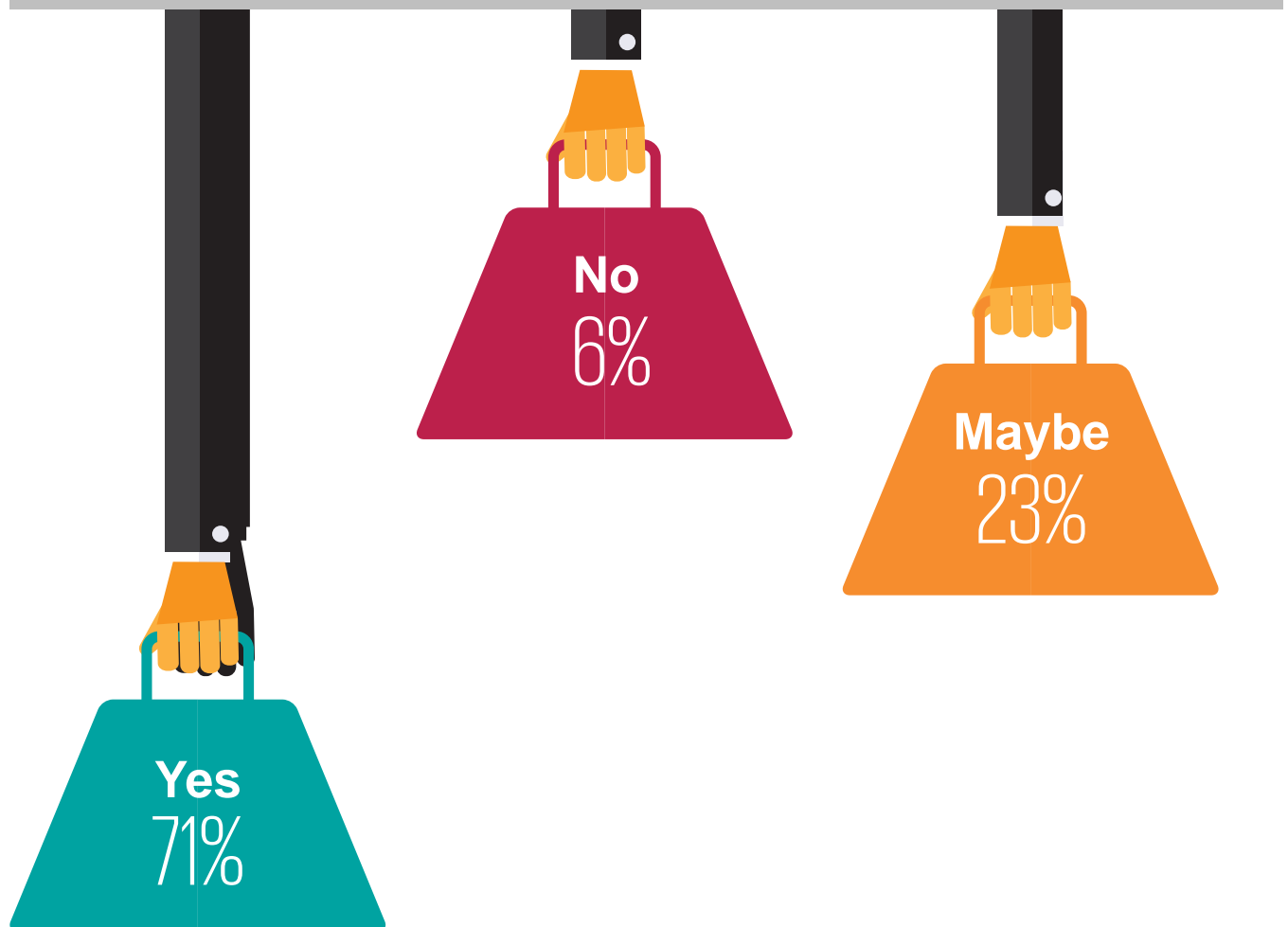




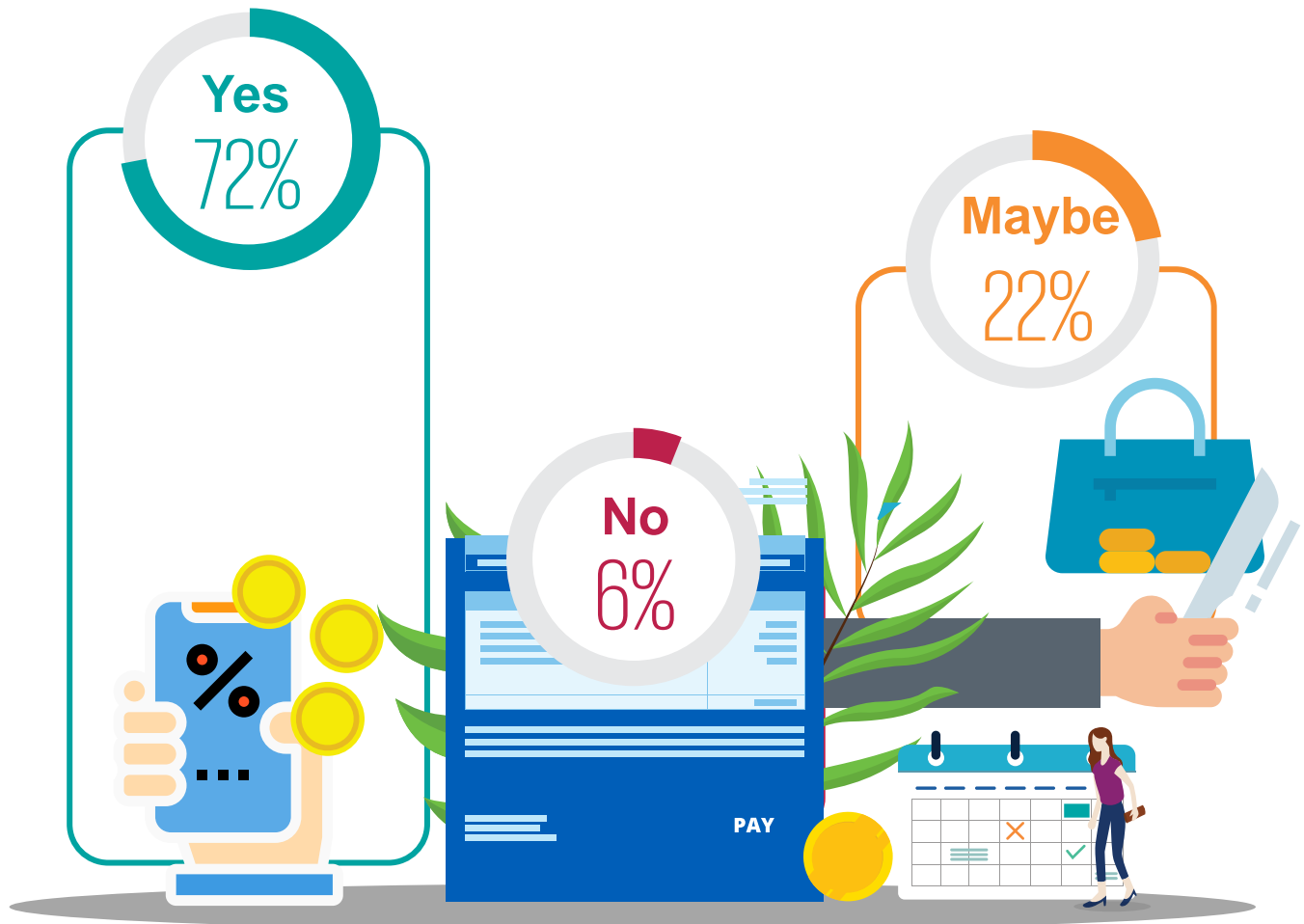
Considering the difficulty in obtaining comparable financial results for Covid impacted years, should the tolerance range in transfer pricing cases be broadened to 25th and 75th percentile, at least for the pandemic impacted period?



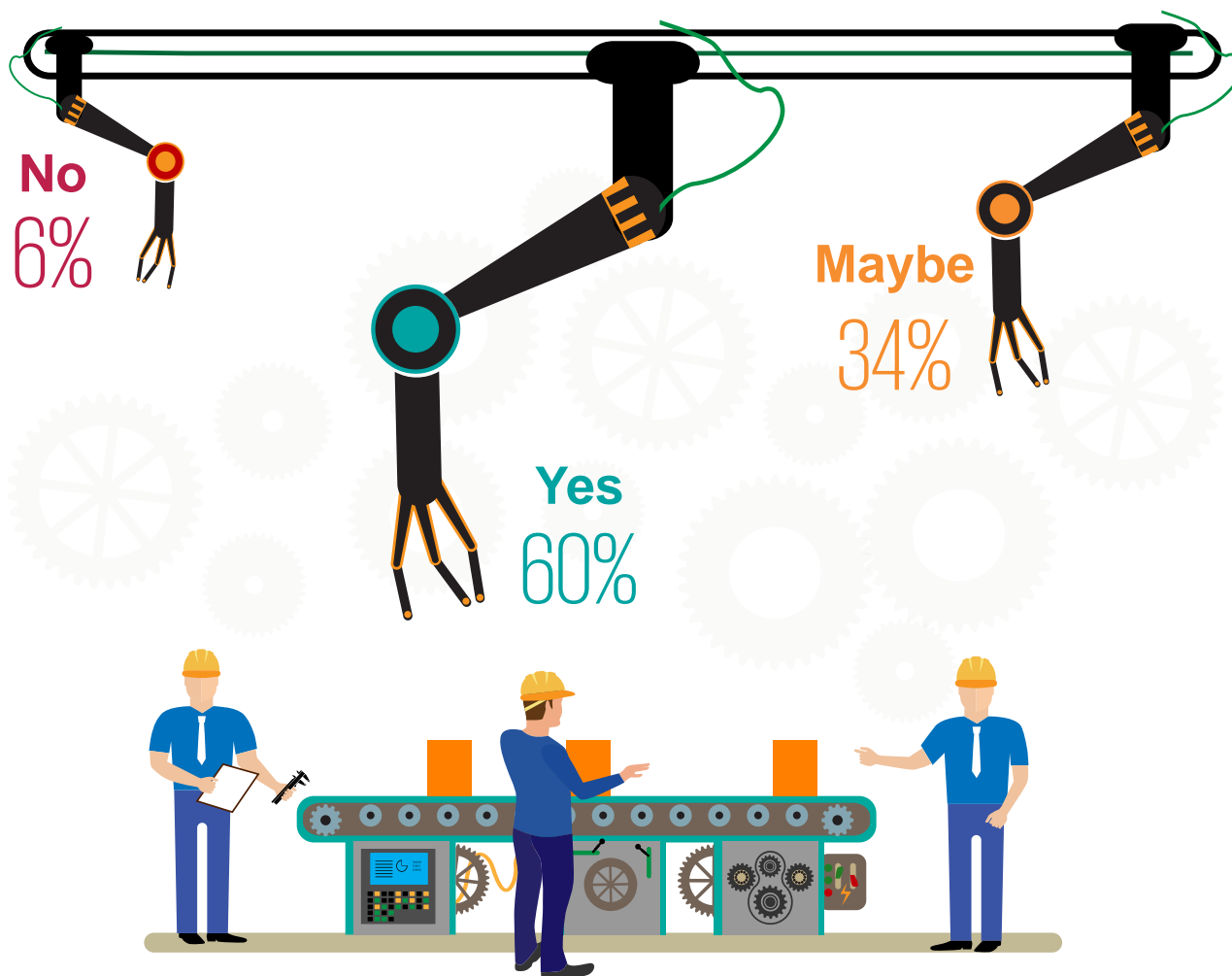
**Do you believe safe harbour regulations need further rationalisation for better acceptability amongst taxpayers?**



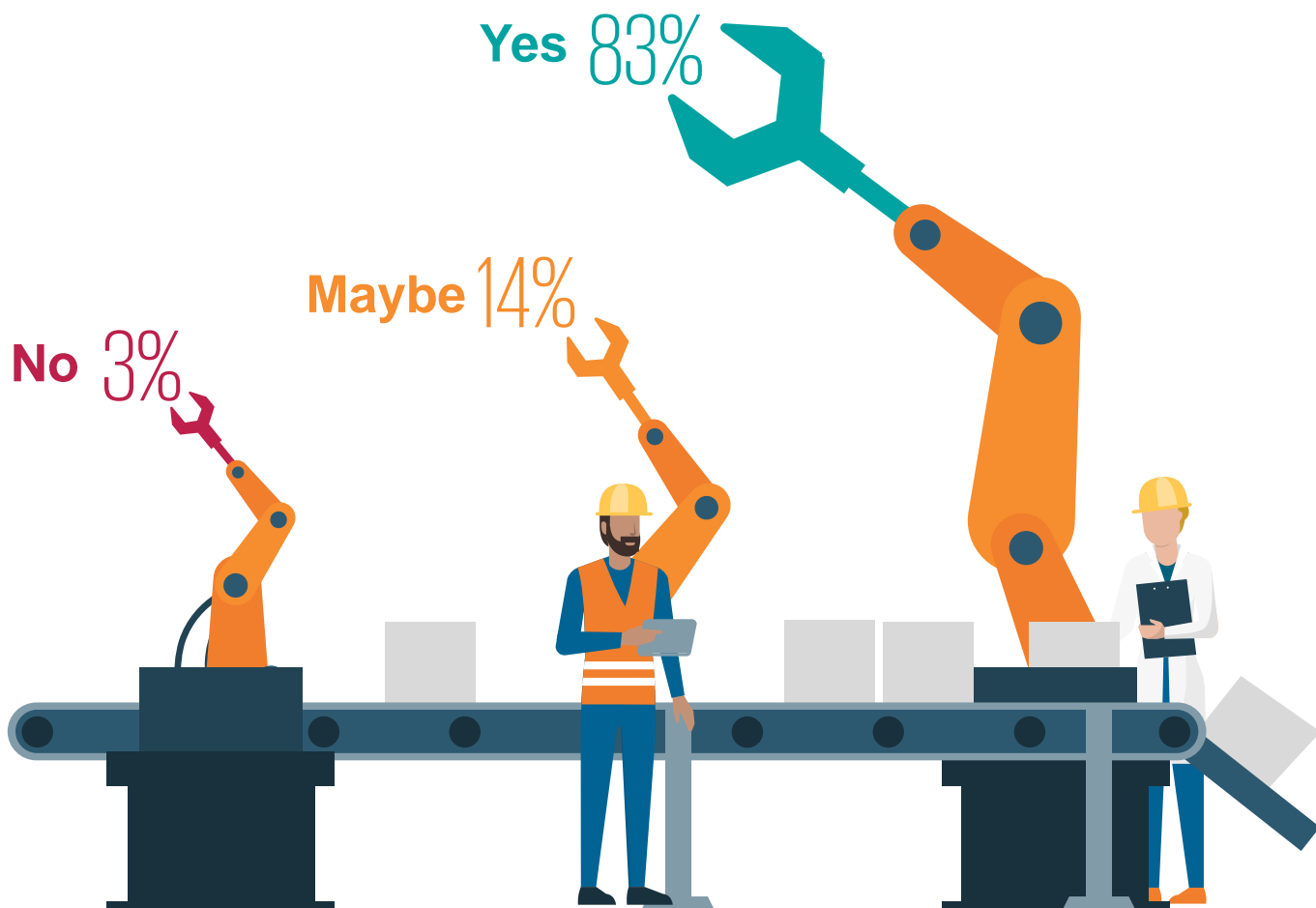
Detailed transfer pricing guidance on complex transactions like marketing intangibles, cost contribution arrangements, benchmarking of loans/guarantees IP restructuring etc. is the need of the hour—do you agree?



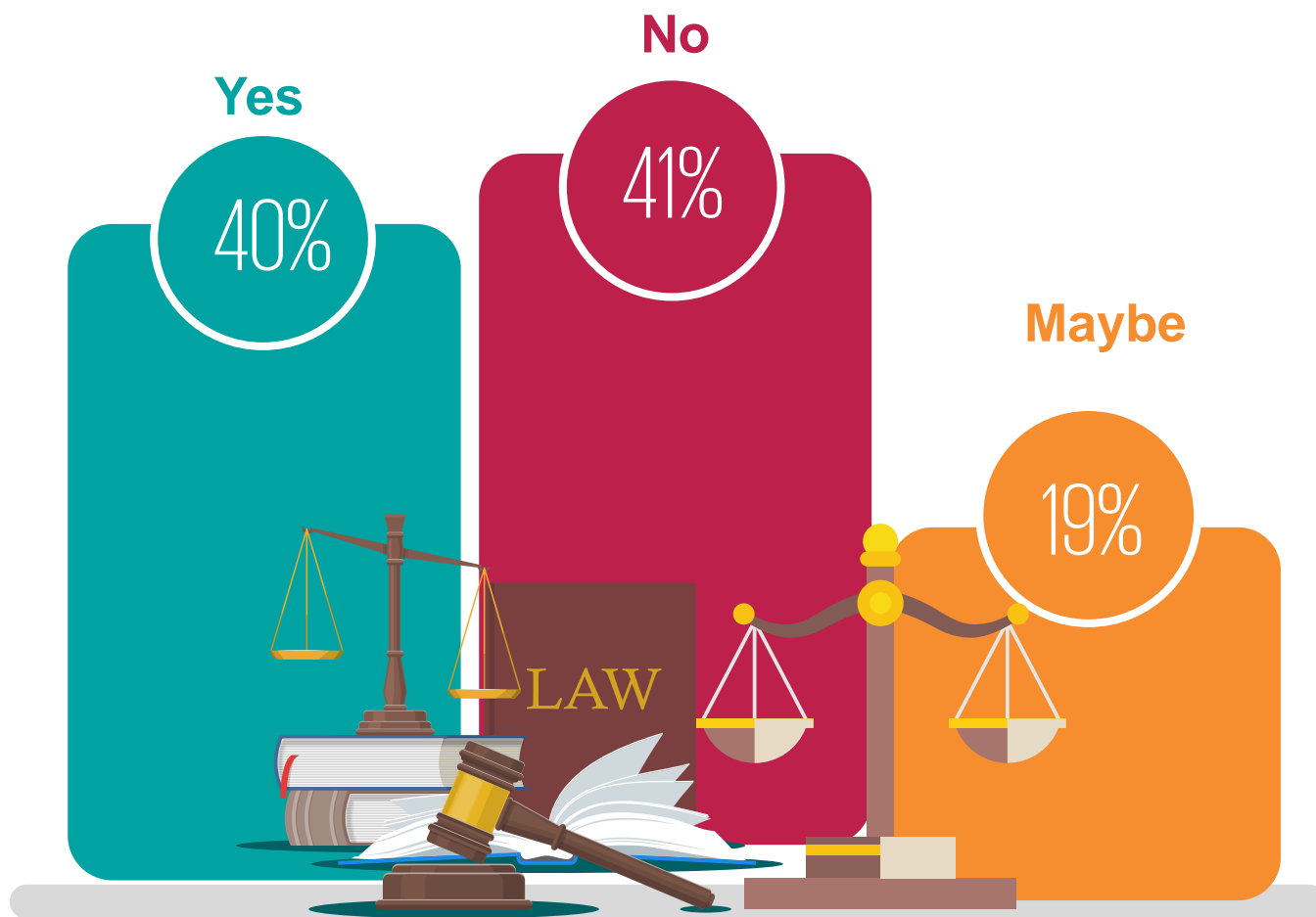
Do you think that the Production Linked Incentive (PLI) scheme announced by the Government will have the desired results of making India a manufacturing hub?



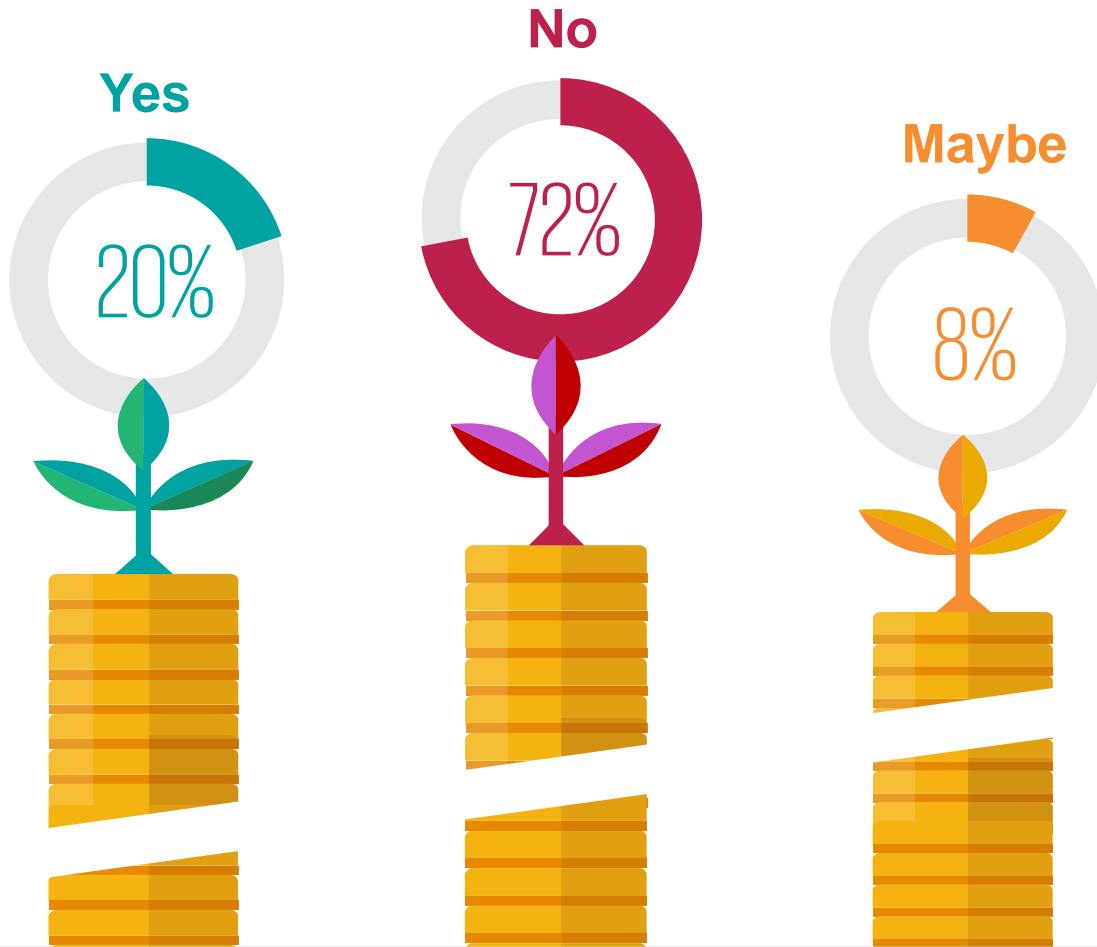
Do you think that the Government should expand the scope of the PLI scheme to cover more sectors?



Do you agree that there has been a reduction in tax litigation over the last one year?

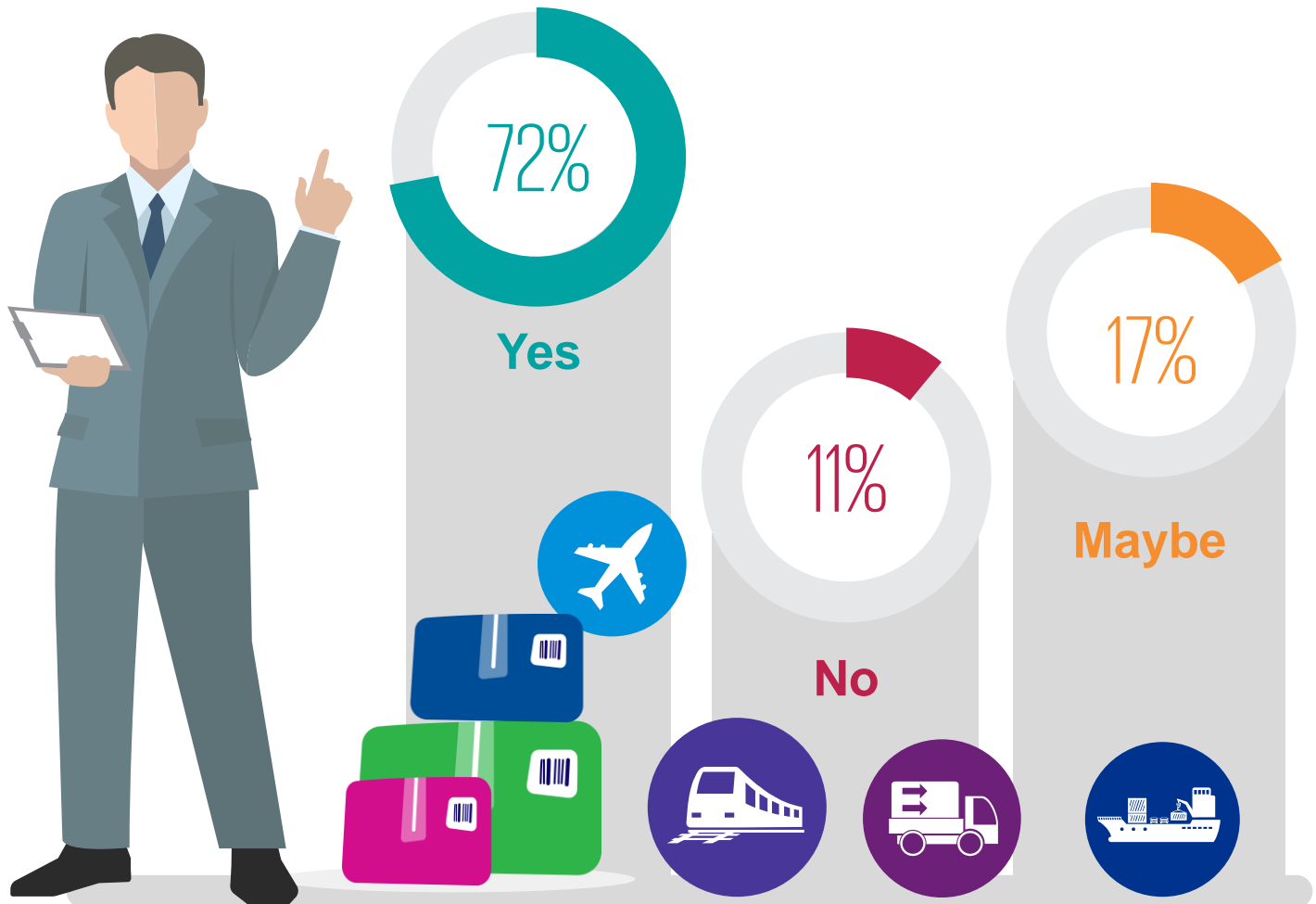


Given that indirect tax revenue exceeded direct tax revenues this year, do you think the Government should still go ahead with increasing GST slabs?

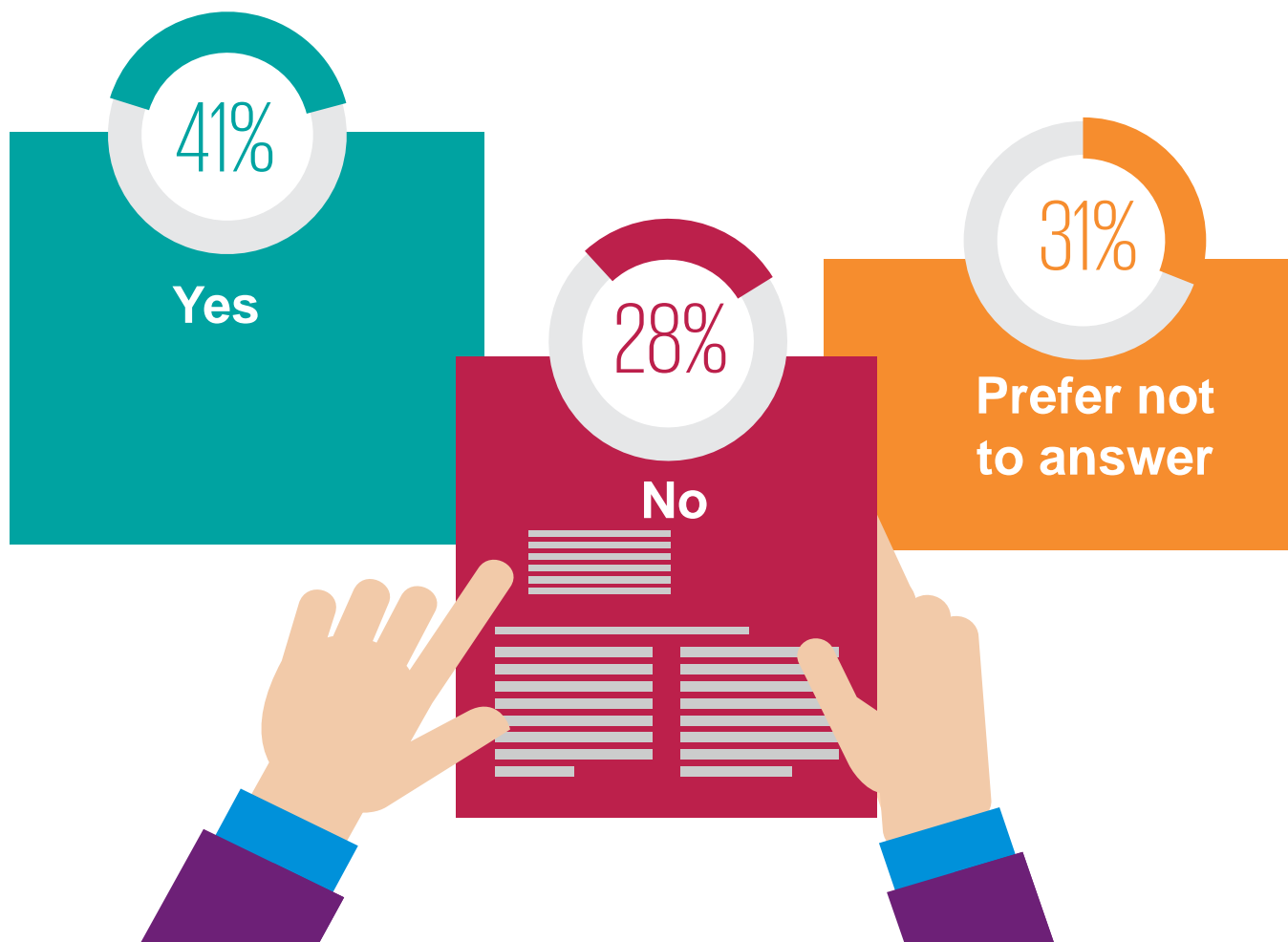




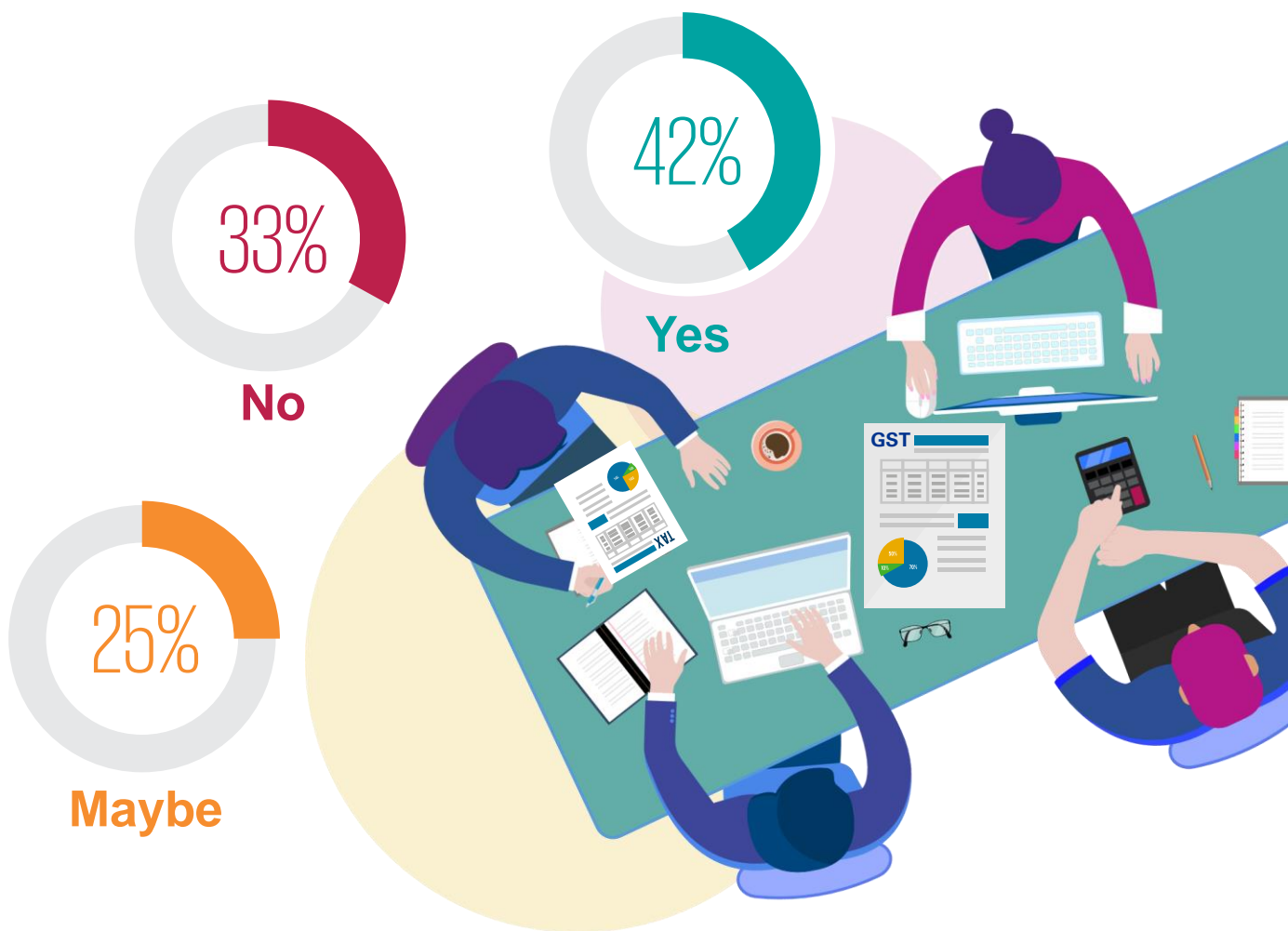
**Should Government amend the customs law to clarify that if the basic customs duty is exempt, additional levies on customs duty will also be exempt?**



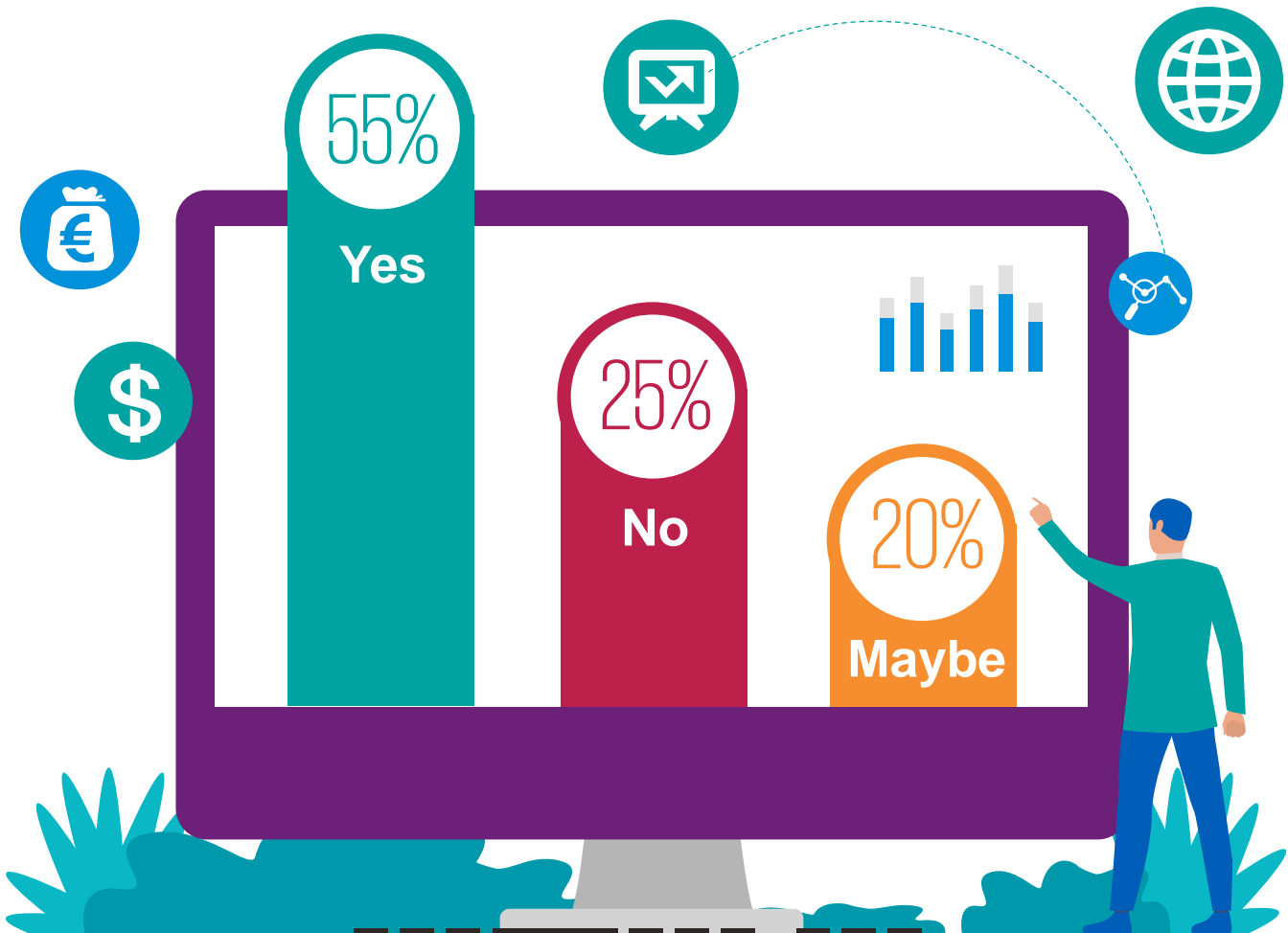
## Have you started receiving GST audit notices from the Department?



**Does your team have the necessary bandwidth and technology tools to handle pan-India GST audits initiated by the Department?**



Is your organisation effectively using technology in the tax function (areas such as compliance management, data reconciliation, digitalisation of tax records)?



KPMG in India's pre-budget survey was conducted in January 2022. Approximately **200** finance professionals participated in the survey across various sectors.



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The views and opinions expressed herein are those of the survey respondents and do not necessarily represent the views and opinions of KPMG in India.

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