

India Union Budget 2022-23

Point of view

Financial Services



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Key announcements for the sector

- Public capital expenditure to grow to INR 7.50 lakh crores in FY 2022-23, (35.4% YOY growth) to boost real economy, crowd in private investment and thereby creating indirect credit demand from Banks and NBFCs
- Emergency Credit Line Guarantee Scheme (ECLGS) will be extended up to March 2023 and its guarantee cover will be expanded by INR 50,000 crore to total cover of INR 5 lakh crore, with the additional amount being earmarked exclusively for the hospitality and related enterprises.
- Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE) scheme will be revamped with required infusion of funds. This will facilitate additional credit of INR 2 lakh crore for Micro and Small Enterprises and expand employment opportunities.
- Anywhere Post Office Savings :1.5 lakh post offices will get connected to the core banking system in 2022 resulting in interoperable access to accounts through net banking, mobile banking, ATMs along with online transfer of funds between post office accounts and bank accounts
- Digital Banking - Scheduled commercial banks will set up 75 Digital Banking Units (DBUs) in 75 districts of the country
- Financial support for digital payment ecosystem announced in the earlier Budget will continue this year with a focus to promote usage of payment platforms that are economical and user friendly
- Central Bank Digital Currency (CBDC) - Reserve Bank of India will introduce Digital Rupee, using blockchain and other technologies in FY 2022-23
- An expert committee will be set up to examine and suggest appropriate measures for scaling up Venture Capital and Private Equity Investments to facilitate one of the largest start-up and growth ecosystems
- GIFT City to open its doors for world-class foreign universities and institutions to offer courses in Financial Management, FinTech, Science, Technology, Engineering and Mathematics free from domestic regulations, except those by IFSCA to build high-end human resources for financial services and technology
- Amendments in the Bankruptcy Code will be carried out to enhance the efficacy of the resolution process and facilitate cross border insolvency resolution

Key tax announcements

- Tax introduced on virtual digital assets (VDA) including crypto, non-fungible token, etc. – income from transfer of VDA to be taxed at 30 per cent; no deductions in computing gains, except for cost of acquisition; losses not allowed to be set off against any other income, losses not allowed to be carried forward, gifts to be taxed in the recipient's hands. Withholding tax at 1 percent for payments exceeding thresholds of INR 10,000/ INR 20,000, as applicable, in certain cases.

- Further tax incentives in IFSC
 - Tax exemptions in IFSC on account of transfer of offshore derivative instruments or over the counter derivatives for non-resident;
 - Tax exemption for securities / financial products / funds accrued outside India, where managed by a PMS in IFSC; and in an account maintained with an offshore banking unit;
 - Tax exemption for transfer of aircrafts by units in IFSC extended to transfer of ships;
 - Tax exemption for royalty and interest arising to non-residents on lease of aircrafts extended to ships
 - Exemption from valuation requirement on issue of shares extended to AIF - Cat I and II regulated under IFSC Act
- Tax on foreign dividends in the hands of Indian company rationalized (concessional tax rate of 15 per cent done away with)
- Bonus stripping and dividend stripping extended to units of InvIT, REIT or AIFs; Bonus stripping extended to securities
- To give impetus to disinvestments in public enterprises, conditions relating to carry forward and set off of business losses relaxed.
- Super rich surcharge done away with (with surcharge being capped at 15%) for all long term capital gains
- No business expense deduction for unpaid interest on borrowing from banks/ other specified lenders is converted into debenture or other form of borrowing (no deduction unless interest is actually paid)
- Provider of non-monetary benefits/perquisites (taxed as business income in the hands of the recipient) to ensure payment of withholding taxes; Disallowance of business expense incurred in the form of benefit or perquisite which are in violation of any law
- No tax on COVID expenditure reimbursement by employer
- No tax on amount received by family of deceased COVID victim from employer (without limit) or any other person (limit of INR 10 lacs) within a year from event of death
- Clarification that disallowance of expenditure in relation to exempt income (under section 14A) would apply even if there is no exempt income arising during the year
- Sunset clause extended until 31 March 2024 (from 31 March 2023) for claim of concessional tax by new manufacturing company
- Sunset clause extended until 31 March 2023 (from 31 March 2022) for claim of 100% tax incentive by eligible new start ups
- Enabler for filing updated/ fresh tax return to offer additional income (post regular filing deadline) within 3 years of the financial year on payment of additional taxes (over and above taxes otherwise payable)
- Provisions to be introduced to allow tax department to defer filing of appeals to Tribunal, High Court or Supreme Court where identical question of law is already pending in appeal before a jurisdictional High Court or the Supreme Court in any case.

Implications for the sector

The Union Budget 2022-23 aims to achieve higher economic growth and sustained development through high public capital expenditure, infrastructure boosting measures and digital initiatives. In fact, various measures around digital shows the government's vision and resolve on financial inclusion by leveraging the digital revolution in banking, fintech and payments. Key implications of budget announcements are as follows:

- Support extended to MSME and hospitality segment through ECGLS and CGTMSE schemes will provide significant boost to Banks and NBFCs with exposure to such entities / segment and will also ease liquidity flow to these segments
- Investment in affordable housing will provide a credit growth boost to Banks and NBFCs in affordable housing finance
- Connecting 1.5 lakh post offices (having more than 35 crore deposit accounts with deposits aggregating to more than INR 10 lakh crores) with core banking system and creating interoperable network is major step towards deeper financial intermediation across the country; especially for unbanked population.
 - Interoperability will help post office deposit account holders get access to mainline banking and payments along with infrastructure access (e.g., Bank ATMs)
 - Ease of access to banking customers is an opportunity for Post office savings schemes to tap the deposits lying with Banks while Banks get access to Post office account deposit holder
- Setting up Digital Banking Units (DBUs) in 75 districts of the country will increase digital adoption, promote ease of doing business and financial inclusion in these locations. We can expect more initiatives and announcements around digital banking in the near future.
- Digital Rupee using blockchain technology will lead to stable, efficient, regulated payments and settlements and lowered transaction cost. This initiative is expected to boost the digital economy and reduce leakages by lowering dependency on cash. With advent of crypto currency / assets in the global economy, it would be imperative for more policies and announcements around the adoption and usage of crypto currency. A calibrated policy and approach can position sovereign backed 'Digital Rupee' as the leading crypto currency thereby mitigating the challenge posed by private or fiat virtual currency
- Steep tax measures on income from virtual digital assets will impact crypto players and exchanges as the transactions become less profitable; even though total ban on holding such assets is ruled out for now
- Extension of the sunset clause for start-ups and new manufacturing companies reinforces the government's agenda to fully promote new business and new manufacturing
- Introducing 'updated returns' is a positive step towards voluntary tax compliance.
- In line with its policy of sound litigation management, the government has sought to reduce repetitive litigation in pending matters – this should save a lot of time and litigation costs for the government as well as taxpayers

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