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Union budget 2022-2023 Expectations

Overview

The economy of the resurgent India is expecting a road map with the upcoming Union Budget 2022-23.

The Budget speech is likely to pen down new reforms and policies that helps the economy to maintain a sustained growth rate. Accomplishing this shall rather be dependent on the ability and the capacity to locate additional revenue sources by striking a balancing of the expenses. On the taxpayer front, the Government's focus on domestic manufacturing was manifested through the Production Linked Incentive Schemes (PLI) for various sectors, such as pharma, medical, food processing, auto and Design Linked Incentive Scheme (DLI) for semi – conductors.

On the Direct Tax front, focus is expected to be on incentivising manufacturing sector and employment generation, strengthening Public Health infrastructure, and providing relief from pandemic. Global Minimum Tax deal and taxation of cryptocurrencies is expected to be addressed.

On the customs front, alignment of the customs tariff with the HSN 2022 amendments by World Customs Organisation (WCO) is notified from 1 January 2022. On the GST front, the government continues to work towards easing the compliance burden with initiatives on transfer of unutilised balance in CGST and IGST cash ledgers, rationalisation of late fees, etc.

Key Budget Expectations

Direct Tax

1. **Global Minimum Tax:** It is expected that the Union Budget may provide for India's adoption of "Global Tax deal" and necessary legislative provisions may be introduced in the Income Tax Act.
2. **BEPS 2.0 Implementation:** Clarity on the timelines for implementation of Pillar 1 and Pillar 2 proposals in India (including timelines for withdrawal of equalisation levy) and enabling a public consultation on implementing legislation prior to enactment.
3. **Significant Economic Presence (SEP) implementation:** Framing of rules for determining income that is attributable to an SEP in India. Exemption from return filing requirements for non-residents having an SEP in India if their income is not taxable under treaties.

4. **Crypto Currencies:** It is expected that Government, may introduce necessary changes in the Income Tax Act to address issues relating to taxation of Crypto currencies, Non-Fungible Tokens, and Digital currencies.
5. **Weighted Deduction for Research and Development (R&D) expenses:** Reinstatement of the weighted deduction for R&D expenditure to encourage innovation of new products and technologies, especially in the pharmaceutical industry.
6. **Depreciation on Goodwill:** Allowing depreciation on goodwill arising from taxable transactions.
7. **Facilitating overseas listing:** Creating a regulatory framework to facilitate listing of Indian entities abroad either directly or through SPAC structures through necessary amendments in the SEBI, RBI regulations as well as tax law to provide tax exemptions for such overseas listing.
8. **Tax neutrality for outbound mergers:** Extending tax neutrality to outbound mergers involving Indian entities in light of the increase in cross border merger activity.
9. **Reduction in headline corporate tax rate for foreign companies (including bank branches):** Reduction in headline corporate tax rate for foreign companies including bank branches to harmonise them with rates applicable to domestic companies.
10. **Relaxation of tax deducted at source (TDS)/tax collected at source (TCS) provisions:** All securities (including derivatives) should be specifically excluded from the ambit of TDS /TCS provisions applicable to purchase/sale of goods.
11. **Rationalisation of provisions applicable to NBFCs:** Harmonising tax provisions applicable to NBFCs with banks including specifically by increasing the limit of deduction for NPA provisions, exempting TDS on interest income, and exempting them from thin-capitalisation provisions.
12. **Exemption for dividend income received from Companies operating in Indian Financial System Centre (IFSC):** Under the erstwhile dividend taxation scheme, companies operating in IFSC were exempt from applicability of dividend distribution tax (DDT). After the change in the dividend tax regime, dividend is made taxable in hands of shareholder. An exemption should be accorded to dividend income in the hands of shareholder received from a Company operating in IFSC.
13. **Realignment of income slabs/tax rates:** Realignment of income slabs and tax rates for individuals under both the normal and concessional tax regimes has become due.
14. **Covid related relief:** Clarity on non-taxability of Covid vaccination and other medical supplies / benefits provided by employers to employees and their family members. Additionally, given the substantial costs involved in Covid treatment in hospitals, provision of a separate deduction for such treatment costs incurred by taxpayers for self or their family.

Indirect Tax

1. **Input Tax Credit on goods/services used in Corporate Social Responsibility (CSR) activities:** Allowing input tax credit on goods and services used for CSR activity during the pandemic, especially considering that many companies have undertaken significant welfare measures in kind by supplying free PPE kits, sanitizers, masks and other necessities to government, local bodies, and healthcare workers as a part of their CSR initiatives.

2. **Stability in customs rates-** We foresee some movement in duty rates to incentivise value addition and rectify inverted duty structure.
3. **Petroleum under GST:** Consider the inclusion of petroleum products under GST regime.
4. **Expand Remission of Duties and Taxes on Export Products (RoDTEP) to:**
 - Units operating in Customs Bonded Warehouse
 - Steel, chemical and Pharma sectors
 - Deemed Exports and goods supplied from DTA to SEZ / FTZA
5. **Rationalise PLI Scheme:** PLI Schemes to be expanded to other sectors and industries.
6. **Changes in CAROTAR, 2020:** Amendments / Clarifications in Customs (Administration of Rules of Origin under Trade Agreements) Rules, 2020 to streamline procedural aspects.
7. **Rationalize Manufacture and Other Operations in warehouse Regulations,2019 (MOOWR):** Procedural rationalization to facilitate Ease of Doing Business in India.

The Taxation Practice Group at Kochhar & Co. would be sharing latest updates and extensive insights on the Union Budget 2022-23.

For any queries, please feel free to reach our Tax partners

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To register for our Webinar on **Key Budget 2022 Highlights** on February 1, Tuesday at **6.00 PM IST / 4.30 Dubai Time / 12.30 pm London Time**, write to us at events@kochhar.com