Union Budget 2022-2023

A presentation by Kalra & Associates

A brief Overview- Crypto tax makes debut, Capex hiked

- The Budget 2022-2023 has been a critical budget since the economy stands to revive after a two year long standstill phase.
- The Hon'ble Finance Minister seems to have place a huge responsibility on the Start up unicorns and MSMEs to foster the economic recovery post COVID-19 pandemic.
- Role of public participation has been recognised and welcomed by way of proposing a huge capital expenditure thereby creating an optimistic sentiment in the economy at large.
- Although tax revenue has surged high with GST collection increased to around INR 1.41 lakh crores in January 2022, marking the highest collection since it's inception, and the competitive corporate taxes already paving way for investments, the Government seems to have recognised revenue sources other than tax revenues. Official hand over of Air India to the TATA Group and official approval of NINL sale to TATA Steel Long Products this morning, to announcing the 5G spectrum auction in 2022 and listing of LIC soon are some of the revenue opportunities relied upon by the Government.
- The individual and corporate taxes remain unchanged for the coming fiscal.

Key Takeaways-

Expenditure Breakup

Centrally sponsored schemes 9%

States's share of Taxes and Duties 17%

Subsidies 8%

Finance Commission and other transfers 10%

Defence 8%

Central Sector schemes 15%

Interest Payments 20%

Other expenditures 9%

Pensions 4%

Revenue Breakup

Borrowings and other Liabilities
35%

Non Debt Capital Receipts
2%

Non Tax Revenue
5%

Income Tax
15%

Customs
5%

Excise Duties
7%

GST
16%

Corporate Tax
15%

- A CAPEX Fete

- The Capital Expenditure target has been expanded by 35.4%- from INR 5.45 lakh Crores to INR 7.5 Lakh crores.
- Effective capital expenditure for the FY 2022-2023 estimated at INR 10.68 lakh crores which is 4.1% of GDP
- National Highways to be expanded by 25,000 km to ensure better connectivity.
- For urban capacity building, support will be provided to states - mass transit, planning help, etc.
- PM Gati Shakti National Master Plan introduced with seven engines- road, railways, airports, ports, Mass transport, waterways and logistics infrastructure.
- Additional INR 1 lakh crore allocated to State for capital assets build up.
- Enhanced capital expenditure is expected to bring a much needed boost to employment and entrepreneurial opportunities.

Start ups & MSMEs- Partners in economic recovery

- The Start ups and MSME units have proved to be vital for the overall growth of the Indian Economy with their increased participation in sectors like agritech and defense.
- The participation of Start-up to be promoted to facilitate 'Drone Shakti' through varied applications and for Drone-As-A-Service (DrAAS).
- Defense R&D proposed to be opened up for industry, start-ups and academia with 25% of defense R&D budget earmarked.
- Private industry will be encouraged to take up design and development of military platforms and equipment in collaboration with DRDO and other organizations through the SPV (special purpose vehicle) model.

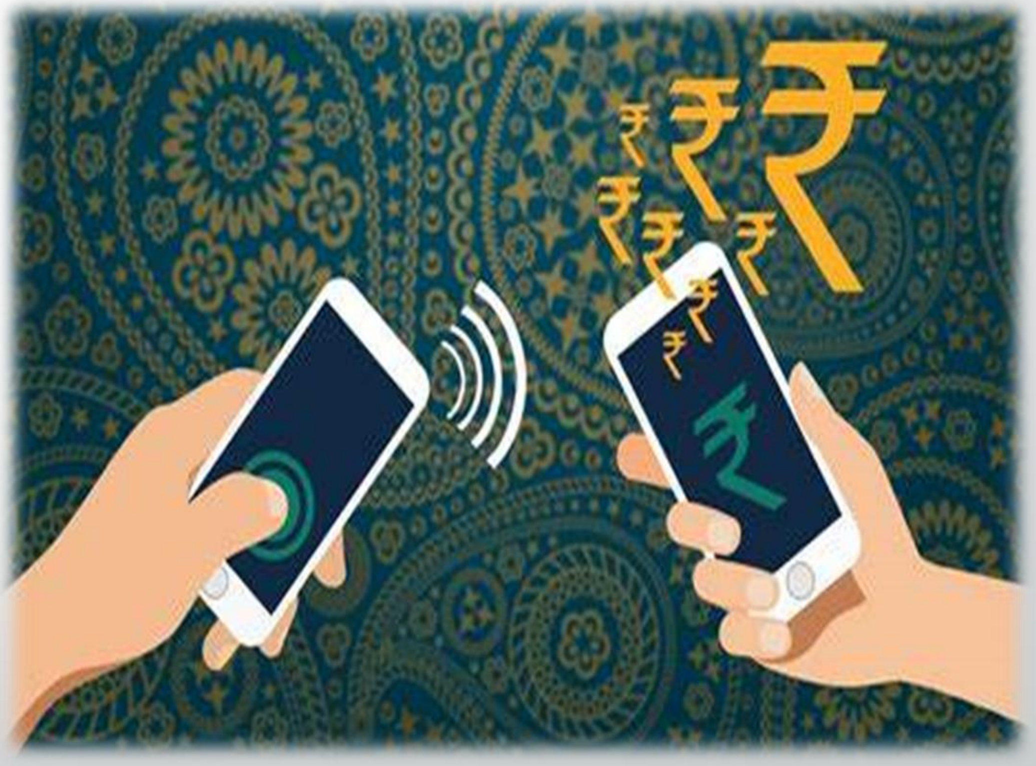
Measures proposed to strengthen the MSMEs and Start-ups:

- ✓ Eligible start-ups established before March 31, 2022 had been provided a tax incentive for three consecutive years out of ten years from incorporation. In view of the Covid pandemic, the period of incorporation of the eligible start-up increased by one more year, that is, up to March 31, 2023 for providing such tax incentive.
- ✓ Surcharge on Long term capital gain on transfer of any type of assets capped @ 15%.
- ✓ A fund with blended capital, raised under the co-investment model, will be facilitated through NABARD to finance start-ups for agriculture and rural enterprise, relevant for farm produce value chain
- ✓ Last date for commencement of manufacturing for newly incorporated manufacturing units for claiming lower tax benefits under section 115 BAB of the I.T. Act increased by one more year from 31/03/2023 to 31/03/2024.

The Digital Currency Debut

- The Reserve Bank of India to introduce “Digital Rupee” using the blockchain technology starting from FY 2022-2023.

- Digital Currency expected to lead to a more efficient and cheaper currency management system with much more transparency in transactions.



Virtual Digital Assets

- Virtual Digital Assets shall include any form of cryptocurrency (that shall be suitably defined), other than the “Digital Rupee” to be issued by the Reserve Bank of India.
- Any income generated from the transfer of such Virtual Digital Assets shall be taxable at a flat rate of 30% with no deductions, other than the cost of purchase of such assets, allowed.
- Further, loss from the transfer of such Virtual Digital Assets shall not be allowed to be set off from any other incomes.
- Gift of Virtual Digital Assets, shall be taxable in hand of recipient.
- Also transactions in Virtual Digital Assets above the prescribed threshold shall be subjected to TDS @ 1%.

Direct Taxes

- No change in Income tax slab rates for individual tax payers for the FY 2022-2023.
- No change in standard deduction, as was being largely anticipated.
- No change in corporate tax rates.
- Tax rates for Cooperative societies brought at par with the private companies. The Minimum Alternative Tax (MAT) rate for cooperative societies reduced to 15% from the current 18.5%.
- Surcharge rates rationalized:
  - Surcharge on Long term capital gains capped at 15%.
  - Surcharge on certain AoPs to be reduced to 15% from current rate of 37%.

Direct Taxes

- New provision introduced for filing of updated Income Tax returns within a period of 2 years from the end of relevant Assessment year.

  The facility to file updated returns shall allow the tax payers to report turnover that was missed out from reporting in original return.
- Tax relief for persons with disability: annuity payment to differently abled dependents allowed when parents attain age of 60 years.
- Off-shore banking units/ IFSC income to be provided exemptions.
- Health and education cess not allowable as business expenditure u/s 37.
- No set off of losses against undisclosed income detected during search.
- In order to manage litigations and to avoid appeals being filed on identical issues, the department has been restricted from filing appeals for common matters which have already been decided by the High Courts or the Supreme Court.

Indirect Taxes
- Customs, GST & Excise

- The Special Economic Zone Act 2005 proposed to be replaced with a newer legislation which shall be aimed at including the State government participation in overall growth of the SEZs and enhance the competitiveness of exports.
- Customs enforcement of the SEZs to be made completely IT enabled with only risk based examinations. Reforms to be implemented w.e.f September 2022.
- More than 350 Custom duty exemptions have been proposed to be gradually phased out, such as exemption on certain agricultural produce, chemicals, fabrics, medical devices, and drugs and medicines, for which sufficient domestic capacity exists.
- The Finance Ministry also proposed to remove exemptions on items that are or can be manufactured in India. Instead, concessional duties will be provided on raw materials that go into the manufacturing of intermediate products, in line with the objective of ‘Make in India’ and ‘Atmanirbhar Bharat’.
- To incentivize exports, exemptions are being provided on items such as embellishment, trimming, fasteners, buttons, zipper, lining material, specified leather, furniture fittings and packaging boxes.

What become cheap, what gets costlier

Cheaper:

- Domestic electronic wearable devices, hearable devices and electronic smart meters.
- **Mobile phone parts:** Duty concessions are being given to parts of transformer of mobile phone chargers and camera lens of mobile camera module and certain other items.
- **Gems and Jewelry**: Customs duty on cut and polished diamonds and gemstones are being reduced to 5%. Simply sawn diamond would attract nil customs duty.
    - To facilitate the export of jewelry through e-commerce, a simplified regulatory framework shall be implemented by June this year.
- **Chemicals:** Customs duty on certain critical chemicals namely methanol, acetic acid and heavy feedstocks for petroleum refining are being reduced.

Costlier

- **Umbrellas:** Duty on umbrellas is being raised to 20 per cent. Exemption to parts of umbrellas is being withdrawn.
- Imported Items.

From the Author's Desk

A futuristic budget, as it might be called, the Union Budget 2022-2023 mainly focused on the capital expenditure as a major bet to help the economy revive post the COVID -19 pandemic. The budget although focused on future impacts of the policies being put in place, no immediate reliefs to the salaried tax payer have been provided.

The capital investment is, however, expected to generate the much needed employment and entrepreneurial opportunities. Support provided to the MSMEs and Start-ups and promoting digitization of the business world also seems to foster growth opportunities.

On the revenue front, the Union Budget 2022-2023 seems to be relying too much on the anticipated strong industrial growth and has not provided for any tangible measures to increase the revenue generation.

The Union Budget 2022-23 was however, taken on a positive note by the markets with Sensex and Nifty surging high at day's end, thereby hinting an optimistic sentiment in the public at large.

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