

OPTYMONEY TIMES

ISSUE NO : 02, DATE : 02nd FEB 2021

DIRECT TAXES AMENDMENTS



1. Insertion of Clauses 11 & 12 in section 10 to make interest accrued on PF taxable to the extent it relates to the contribution made exceeding 2.5 lakhs per annum

Currently, Clause (11) of section 10 of the Act provides for exemption with respect to any payment from a provident fund to which the Provident Funds Act, 1925 (19 of 1925) applies or from any other provident fund set up by the Central Government.

Background

The government says that instances have come to the notice where some employees are contributing huge amounts to these funds and entire interest accrued/received on such contributions is exempt from tax under clause (11) and clause (12) of section 10 of the Act.

This is true mainly in case of employees who contribute towards voluntary provident fund.

Amendment

Accordingly, it is proposed to insert a proviso to clause(11) and clause (12) of section 10 of the Act, providing that the provisions of these clauses shall not apply to the interest income accrued during the previous year in the account of the person to the extent it relates to the amount or the aggregate of amounts of contribution made by the person exceeding Rs 2.5 lakh in a previous year in that fund, on or after 1st April, 2021.



2. Tax exemption on ULIP maturity limited-10(10D)



2. Tax exemption on ULIP maturity limited-10(10D)

Existing Law

Maturity of ULIP policies is exempted u/s 10 (10d)

Amendment

(c) in clause (10D),– (i) after the third proviso and before Explanation 1, the following provisos shall be inserted, namely:– “Provided also that nothing contained in this clause shall apply with respect to any unit linked insurance policy, issued on or after the 1st day of February, 2021, if the amount of premium payable for any of the previous year during the term of such policy exceeds two lakh and fifty thousand rupees: It is proposed to allow tax exemption for maturity proceeds of the ULIP having annual premium up to Rs 2.5 lakh only. However, the amount received on death shall continue to remain exempt without any limit on the annual premium. The cap of Rs 2.5 lakh on the annual premium of ULIP shall be applicable only for the policies taken on or after 01.02.2021.

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Further, in order to provide parity, the nonexempt ULIP shall be provided same concessional capital gains taxation regime as available to the mutual fund.

3. Relaxation to NRI for Income of Retirement Benefit Account



In order to remove the genuine hardship faced by the NRIs in respect of their income accrued on foreign retirement benefit account due to mismatch in taxation, it is proposed to notify rules for aligning the taxation of income arising on foreign retirement benefit account,

4. Affordable house buyers get more time to avail additional tax benefits



Union Budget 2021-22: Giving a fillip to the buyers of affordable houses, Finance Minister Nirmala Sitharaman has extended the time period of taking loans to buy such houses by one year – i.e. from March 31,

2022 - to avail additional tax benefits of Rs 1.5 lakh u/s 80EEA of the Income Tax Act. Section 80EEA provides tax benefits up to Rs 1.5 lakh on the interest paid on loans taken for Residential House Property for affordable housing. The benefit is over and above the tax benefit of Rs 2 lakh available u/s 24(B) of the Income Tax Act on interest on Housing Loan on both self-occupied and rented properties.

5. Income Tax Return Filing: Rule Changed for Senior Citizens!



Budget 2021, has proposed no filing of Income Tax Return (ITR) by senior citizens who are above 75 years of age and have only pension and interest income. Pension from the ex-employer is taxed under the income tax head of Salary while family pension is taxed as 'income from other sources'. Interest income received from SCSS, bank fixed deposit etc is taxed as per one's income slab under the head 'income from other sources'.

The bank, however, will deduct the necessary tax before paying to them. It is important to note that they have not been exempted from paying tax but only from filing ITR provided the eligibility is there.

6. Taxation for startups: Eligibility for claiming tax holiday, capital gains exemption extended till Mar 2022: FM



Budget for startups: Finance Minister Nirmala Sitharaman today proposed extension of the eligibility for claiming tax holiday and capital gains exemption for investment in startups till March 31, 2022. "In order to incentivise startups in the country, I propose to extend the eligibility for claiming tax holiday for startups by one more year to March 31, 2022," Finance Minister Nirmala Sitharaman said. (PTI)

7. ITR filing made easy: Interest income, Capital gains from securities to be pre-filled



Sitharaman said that in ITR, details of capital gains, income from list securities, dividend income, income from interest on bank deposits tom come pre-filled in ITR, said Nirmala Sitharaman in Budget Speech 2021.

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8. NRIs can now set One Person Companies (OPC)



Non-resident individuals with entrepreneurial potential are now enabled to set up One Person Companies (OPC) with no paid up capital and turnover restrictions, reducing registration timeline from 182 days to 120 days.

9. Dispute resolution scheme to reduce small taxpayers' compliance



The dispute resolution scheme for small taxpayers should reduce the burden of compliance and adjudication on them, especially since it is expected to be technology driven.

10. Increase in Tax Audit limit-Section 44AB



Union Budget 2021 announced the increase in the Tax Audit Limit increased to Rs.10 crores from 5 cores for those using Digital Transaction Mode.

11. Faceless ITAT-A revolution in litigations



Budget 2021 proposes a National Faceless Income Tax Appellate Tribunal Centre. All communication between the Tribunal and the appellant shall be electronic. Where personal hearing is needed, it shall be done through video-conferencing.

India's Income Tax Appellate Tribunal (ITAT) was set up on 25 January 1941, and it was the first experiment in tribalization in the history of India. It is a second appellate authority under the direct taxes and the first independent

forum in its appellate hierarchy. The orders passed by the ITAT can be subjected to appellate challenge, on substantial questions of law, before the respective High Court.

12. Reassessment & Reopening of Assessment



The budget proposal will amend section 148 of the Income Tax where the time limit for reassessment has been reduced to 3 years from 6 years.

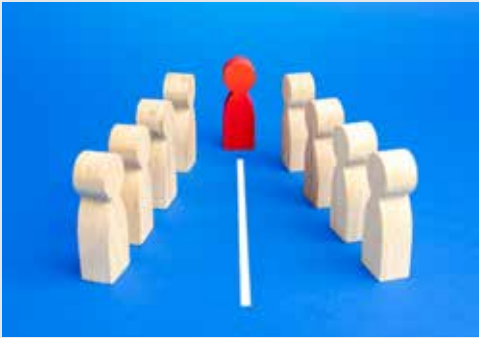
In serious tax evasion cases too, only where there is evidence of concealment of income of Rs. 50 lakh or more in a year, can the assessment be reopened up to 10 years. Even this reopening can be done only after the approval of the Principal Chief Commissioner, the highest level of the Income Tax Department.

Presently, an assessment can be re-opened up to 6 years and in serious tax fraud cases for up to 10 years. As a result, taxpayers have to remain under uncertainty for a long time.

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13. Dispute resolution committee



Anyone with total income less than 50 lacs and disputed income less than 10 Lacs can approach this, faceless committee.

14. Budget 2021 proposes Levy of TDS on Purchase of Goods



194 Q - A New Section

'194Q. (1) Any person, being a buyer who is responsible for paying any sum to any resident (hereafter in this section referred to as the seller) for purchase of any goods of the value or aggregate of such value exceeding fifty lakh rupees in any previous year, shall, at the time of credit of such sum to the account of the seller or at the time of payment thereof by any mode, whichever is earlier, deduct an amount equal to 0.1 per cent. of such sum exceeding fifty lakh rupees as income-tax.

Explanations to the section.

Explanation.— For the purposes of this sub-section, “buyer” means a person whose total sales, gross receipts or turnover from the business carried on by him exceed ten crore rupees during the financial year immediately preceding the financial year in which the purchase of goods is carried out, not being a person, as the Central Government may, by notification in the Official Gazette, specify for this purpose, subject to such conditions as may be specified therein.

(2) Where any sum referred to in sub-section (1) is credited to any account, whether called “suspense account” or by any other name, in the books of account of the person liable to pay such income, such credit of income shall be deemed to be the credit of such income to the account of the payee and the provisions of this section shall apply accordingly.

15. Budget 2021 Rate of TDS/TCS would be doubled for Non-Filers of Returns



Section 206AB New Section

The Union Budget 2021 has introduced new special provisions to the Income Tax Act, 1961. The new provision is expected to discourage the practice of not filing returns by the ‘specified person’ whose case TDS has been deducted/collected. As per the new provision, a person in whose case TDS/TCS of Rs. 50,000 or more has been made for the past two years and who has defaulted to file return of income, the rate of TDS/TCS shall be deducted at the higher of the following rates: at twice the rate specified, **at twice the rate or rates in force at the rate of five per cent.**

It is also provided that the specified person shall not include a non-resident who does not have a permanent establishment in India. The provision shall not be applicable for the transactions where full amount of tax is required to be deducted. **The provisions will come into effect from 1st July 2021.** The penalty for late filing or Non filing of TDS statement is provided under section 271H. As per the section, where a person fails to file the statement of tax deducted/collected at source return on or before the due dates, then the assessing officer may direct such person to pay a penalty. The minimum penalty is Rs. 10,000 which can go up to Rs. 1,00,000. It should be noted that this penalty is in addition to late filing fees.

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16. Transaction Taxable under Income Tax are not liable for Equalization Levy



Clause (50) of the said section provides for the exemption for the income arising from any specified service provided on or after the date on which the provisions of Chapter VIII of the Finance Act, 2016 comes into force or arising from any e-commerce supply or services made or provided or facilitated on or after 1st April, 2021 and chargeable to equalization levy under the provisions of that Chapter. It is proposed to change the said year to 2020. It is proposed to substitute the Explanation to the said clause with Explanations 1 and 2. Explanation 1 proposes to clarify that the income referred to in this clause shall not include and shall never be deemed to have included any income which is chargeable to tax as royalty or fees for technical services in India under the said Act read with the agreement notified by the Central Government under section 90 or section 90A. Explanation 2 proposes to define the expressions “e-commerce supply or services” and “specified service” for the purposes of the said clause. These amendments will take effect from 1st April, 2021 and will, accordingly, apply in relation to the assessment year 2021-2022 and subsequent assessment years.

Applicability of Equalization Levy

Equalization Levy is a direct tax, which is withheld at the time of payment by the service recipient. The two conditions to be met to be liable to equalization levy

The payment should be made to a non-resident service provider

The annual payment made to one service provider exceeds Rs. 1,00,000 in one financial year

Services Covered Under Equalization Levy

Currently, not all services are covered under the ambit of equalisation Levy. The following services covered

Online advertisement

Any provision for digital advertising space or facilities/ service for the purpose of online advertisement

As and when any other services are notified will be included with the aforesaid services.

17. Tax incentives to IFSC



The Finance Minister, Nirmala Sitharaman while announcing the Budget 2021-22 has announced the Tax incentives to International Financial Services Centre (IFSC). The government with the objective of attracting foreign investment into the infrastructure sector government had granted 100% tax exemption, subject to certain conditions, to foreign Sovereign Wealth Funds and Pension Funds, on their income from investment in Indian infrastructure. In addition to the tax incentives already provided, the Finance Minister proposed to include, among others, tax holiday for capital gains for aircraft leasing companies, tax exemption for aircraft lease rentals paid to foreign lessors; tax incentive for relocating foreign funds in the IFSC; and to allow tax exemption to the investment division of foreign banks located in IFSC. The government has now proposed to relax some of these conditions relating to prohibition on private funding, restriction on commercial activities, and direct investment in infrastructure include, among others, tax holiday for capital gains for aircraft leasing companies, tax exemption for aircraft lease rentals paid to foreign lessors; tax incentive for relocating foreign funds in the IFSC; and to allow tax exemption to the investment division of foreign banks located in IFSC.

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18. Govt. clarifies Depreciation on Goodwill



The word goodwill was not specifically provided within the meaning of intangible assets. But it was considered to be eligible for depreciation. By amending the definition and clarifying that depreciation of goodwill shall not be allowed, the government has resolved the debate of whether Section 32 of the IT Act provides for such depreciation.

The Union Budget 2021 has clarified that no depreciation on Goodwill shall be allowed. The bill also amends the definition of 'block of assets' by expressly excluding goodwill' from intangible assets. Earlier depreciation was allowed only on tangible assets but since 1998 depreciation of intangible assets had become a norm. then the intangible assets only included know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature.

19. IDS Scheme 2016- Refund of Excess Payment to be sanctioned but No Interest



Presently, as per section 191 of the Finance Act, 2016, any excess amount of tax, surcharge or penalty paid in pursuance of a declaration made under the Income Declaration Scheme, 2016 shall not be refundable. The proviso to the section provides that the Central Government may, by notification, specify a class of persons to whom the excess amount so paid shall be refundable. However, the Union Budget 2021 has proposed to amend the proviso of section 191 of the Finance Act, 2016 which says that such excess amount of tax, surcharge or penalty paid in pursuance of a declaration made under the Scheme shall be refundable to the specified class of persons without payment of any interest. The amendment will take effect retrospectively from 1st June, 2016.

Indirect Tax Proposals - Budget highlights 2021

1) Section 50 of the CGST Act is being amended, retrospectively, to substitute the proviso to sub-section (1) so as to charge interest on net cash liability with effect from the 1st July, 2017. The main issue arised due to the calculation method adopted by the department. It is calculating interest on gross liability payable from the due date of return till the date of filing of return without considering input tax credit and cash payment made. Now it seems to be rectified.

2) A new clause (aa) to sub-section (2) of the section 16 of the CGST Act is being inserted to provide that input tax credit on invoice or debit note may be availed only when the details of such invoice or debit note have been furnished by the supplier in the statement of outward supplies and such details have been communicated to the recipient of such invoice or debit note.

3) A new clause (aa) in sub-section (1) of Section 7 of the CGST Act is being inserted, retrospectively with effect from the 1st July, 2017, so as to ensure levy of tax on activities or transactions involving supply of goods or services by any person, other than an individual, to its members or constituents or vice-versa, for cash, deferred payment or other valuable consideration.

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4) Few of the items on which Customs Duty Rates are revised are as follows:

- Reduced duty on copper scrap from 5% to 2.5%
- Basic and Special additional excise duty on petrol and high-speed diesel oil (both branded and unbranded) is reduced
- Increased duty on solar inverters from 5% to 20%
- Raised duty on solar lanterns from 5% to 15%
- The basic customs duty on gold and silver reduced.
- The department will rationalize duty on textile, chemicals and other products
- The revised rates will be applicable from 2nd February 2021 onwards.

5) New tariff items under 2404 11 00 and 2404 19 00 have been inserted in accordance with upcoming HS 2022 nomenclature. Further, NCCD of 25% is prescribed on these tariff items with effect from 1st January 2022.

6) Agriculture Infrastructure And Development Cess (AIDC) has been newly imposed on petrol and diesel at Rs.2.5 and Rs.4 per litre respectively.

7) Regarding agricultural products, the customs duty is increased on cotton, silks, alcohol, etc.



8) Exemption of Social Welfare Surcharge on the value of AIDC imposed on gold and silver. Therefore, these items would attract surcharge at the normal rate, only on value plus basic customs duty.

9) The exemption on import of leather will be withdrawn as they are domestically produced.

10) A new initiative called 'Turant Customs' will be introduced for faceless, paperless, and contactless customs measures.

11) Section 35 and 44 amended: Mandatory requirement of furnishing the GST reconciliation report signed by the specified professional is relaxed by allowing the filing of annual return on a self-certification basis. The Commissioner can exempt a class of taxpayers from the requirement of filing the annual return.