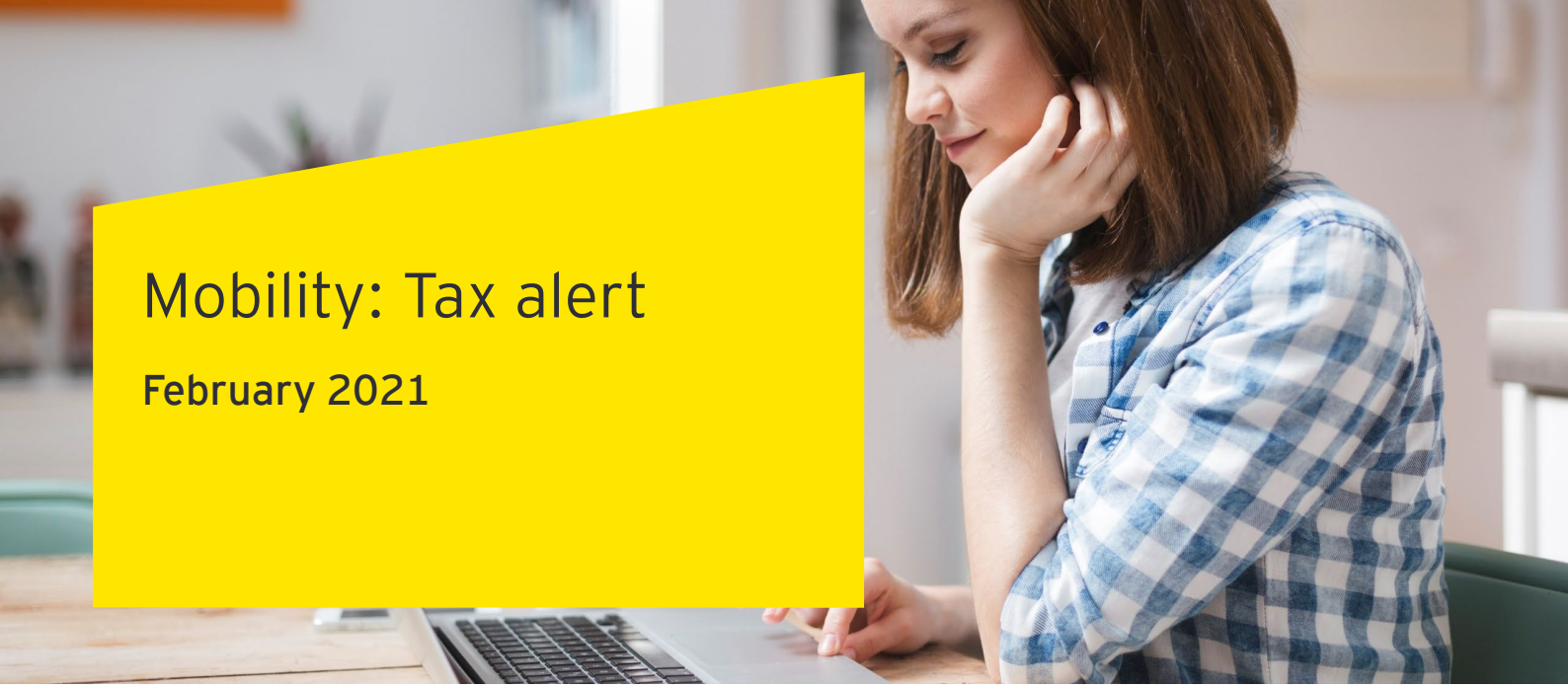

Mobility: Tax alert

February 2021

India

Indian Fiscal Budget 2021 - Key tax proposals impacting individuals and employers

Executive summary

The Finance Bill (Bill) for the fiscal year 2021-22 presented on 01 February 2021 has proposed changes to the tax laws which would be effective from 1 April 2021.

A clear theme of the bill is simplification and reductions in the compliance burden and levels of tax litigation.

Some of the initiatives include, altering the taxation of foreign retirement provision, allowing tax appeals to take place without in person court appearances, eliminating the need to file returns for specified senior citizens and changes to the tax treatment of certain investment schemes.

No specific rules were introduced governing the taxation of workers whose residence has been changed for the fiscal year 2020-21, due to pandemic related travel restrictions.

Details

Relaxation for income of Retirement Benefit Account

Indian tax residents who have invested in a foreign retirement benefit account can face issues generating financial hardship due to a mismatch in the taxation rules. The budget announced a plan to reform the taxation of such funds.

Taxability of interest on various retirement savings funds, where income is exempt

Investment returns accruing in retirement savings funds are typically tax free (subject to satisfaction of certain conditions) but the Finance Bill 2021 proposes that interest accruing on employee contributions to specified funds in excess of INR 2,50,000 (USD 3,571) per annum, will be taxable.

Exemption for Leave Travel Concession (LTC) Cash Scheme

The Finance Bill proposes some legislative amendments to the Leave Travel Concession available to salaried employees. In October 2020, the Indian Government, announced a relaxation to the rules of this exemption to allow different types of expenditure to qualify for exemption, subject to certain conditions. The bill proposes changes to help with the implementation of this scheme and clarifies some of the points such as the amount of the exemption and how excess amounts are taxed. These changes are applicable only for the tax year ending 31 March 2021.

Focus on concluding the process of the implementation of new labour codes

While the Indian Government is working on introducing the new labour codes (likely 01 April 2021), specific mention was made in the budget speech to announce that social security benefits will be extended to workers in the gig economy. This will be accompanied by a reduction in the compliance burden on employers through the availability of a single registration and online tax filings.

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Relaxation on advance tax liability on dividend income

The Finance Bill 2021 will relax the rules governing the advanced taxation of dividend income and will mean that no interest is payable on previous advance tax instalments if this is in respect of ordinary dividend that has not yet been declared/received.

Tax deduction at higher rates

Currently, a higher tax rate is applied on the income, where the person fails to provide the details of the Permanent Account Number (tax identification number). Aimed at reducing noncompliance, the government now proposes to apply the higher tax rate to persons who default in filing the income tax return in India.

Under the proposed provision, a higher tax rate will be applied on specified income (not including salary) for non-return filers i.e. any person who has not filed the income-tax return in India within the due date in the preceding two fiscal years.

Taxation of proceeds received on maturity of high premium ULIPs

Currently, proceeds received from maturity of all Unit Linked Insurance Plan (ULIP) are exempt from tax. The Finance Bill 2021 has proposed to consider the ULIPs issued on or after 01 February 2021, where the aggregate premium exceeds INR 2,50,000 (USD 3,571) per annum, as a capital asset. Accordingly, the redemption proceeds from such ULIP would be chargeable to tax in India as capital gains income, subject to the conditions prescribed to calculate the gains.

Reduction in time limit for completion of assessment

The bill proposes to reduce the time limit for completion of an assessment by three months.

Introduction of Faceless Income Tax Appellate Proceedings

In order to impart greater efficiency, transparency and accountability to the interaction between the Indian revenue authorities and ordinary taxpayer faceless assessment, appeal and penalty schemes have already been introduced. In order to reduce the human interface for appellate proceedings also, the bill proposes to introduce faceless Income Tax Appellate Tribunal (ITAT) proceedings.

Reduction in time limit for income escaping assessment

Currently, the Indian revenue authorities can issue a notice of assessment for income that has not been declared or taxed for up to 7 years from the end of the relevant fiscal year. The Indian Government recognizes the importance of the information exchanged digitally and therefore, in the proposed Bill, the time limit for issuance of this notice will be reduced to 4 years.

Extension in the time limit provided for investment in affordable housing scheme

The Indian Government has extended the availability of tax benefits directed towards loans borrowed to purchase a main residence. The benefit was provided to incentivise affordable housing and applied to any loan taken out before 31 March 2021. To help with the continuity for affordable housing, the time limit for loan sanctioned from a financial institution, has been extended to 31st March 2022.

Reduction in time limit specified for filing belated and revised India tax return

The Finance Bill 2021 has proposed to reduce the time limit for filing of late or revised India tax returns by three months. These can now be filed three months before the end of the following fiscal year or before the completion of the assessment, whichever is earlier.

Relaxation for certain category of senior citizens from filing return of income tax

Currently, senior citizens (who are of the age of 60 years or above) and super senior citizens (who are of the age of 80 years or above) are liable to file India tax returns only if their total income exceeds the basic exemption limit i.e., INR 3,00,000 (USD 4,286) and INR 5,00,000 (USD 7,143) respectively. The Bill proposes to provide a similar exemption to senior citizens who are 75 or older and are in receipt of only pension and specified interest income, provided they meet certain specified conditions.

Introduction of Faceless Dispute Resolution Committee for small and medium taxpayers

A new scheme is proposed to reduce tax office disputes and aide settlement at the initial stage. Under the new scheme, the Indian Government will develop A Dispute Redressal Committee which will resolve disputes of certain categories of taxpayer to be defined.

Next steps

The provisions of the Bill will not become law until these are approved by both houses of the Indian Parliament and receive the assent of the President of India. Once approved, the provisions will apply for the 2021/22 Indian fiscal year (1 April 2021 – 31 March 2022).

No relaxation has been announced in this Bill by the Indian Government in residency rules, for the individuals who have been stranded in India due to COVID-19 pandemic, during the period 01 April 2020 to 31 March 2021.

The proposed provisions would require taxpayers to closely monitor their income tax compliance as various changes have been proposed on time-limits for filing of the tax returns as well as for assessment proceedings. Also, as a specific mention has been made of the new labour codes, employers should gear up for a seamless implementation of the new labour codes in their organization.

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