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# Union Budget 2022

Tax Alert - Infrastructure Sector



## Infrastructure | Road map for growth

*#MultiplierEffect*



**Samir Kanabar**

Partner - Tax and regulatory services  
EY - India

With an intention to provide a blueprint to steer the Indian economy for the next 25 years under the aegis of PM GatiShakti viz. transformative approach for economic growth and sustainable development and to achieve US\$5 trillion GDP, Budget 2022 recognizes infrastructure as key cornerstone.

The Budget has focused on high impact areas and accelerating the capital expenditure cycle by providing for sharp increase in capex outlay by 35.4% (from INR 5.54 lakh crores to INR 7.50 lakh crores in FY 2022-23) which is likely to strongly augment infrastructure spend.

While there is limited guidance/insights into progress of NIP, the PPP model continues to remain at the core of infrastructure policy for successful implementation of NIP and NMP.

The proposed issuance of Sovereign Green Bonds for mobilizing resources for green infrastructure also seeks to harness the untapped potential of the Indian green bond market. Further, Budget has also proposed to allow use of surety bonds from insurance companies as substitute for bank guarantees in Government procurements. Thus, it would be interesting to observe how these major announcements play out.

# How does the budget impact the infrastructure sector?

## Key policy takeaways

- ▶ PM GatiShakti National Master Plan to encompass the engines for economic transformation, seamless multimodal connectivity, and logistics efficiency.
- ▶ Expressways to be augmented in 2022-23 to facilitate faster movement of people and goods.
- ▶ The National Highways network to be expanded by 25,000 KM in 2022-23.
- ▶ Contracts to be awarded in 2022-23 for implementation of Multimodal Logistics Parks at 4 locations through PPP mode.
- ▶ Railways to develop new products and efficient logistics services for small farmers and SMEs to provide seamless solutions for movement of parcels.
- ▶ As a part of 'Atmanirbhar Bharat', 2,000 KM of rail network will be brought under 'Kavach' i.e., the indigenous world-class technology for safety and capacity augmentation in 2022-23.
- ▶ 'One Station-One Product' concept for rail stations to be endorsed to help local businesses and supply chain.
- ▶ Following key developments to be achieved over the next 3 years:
  - ▶ 400 new-generation 'Vande Bharat Trains' with better energy efficiency and passenger riding experience; and
  - ▶ 100 PM GatiShakti Cargo Terminals for multimodal logistics facilities.
- ▶ Multimodal connectivity between mass urban transport and railway stations to be facilitated on priority basis.
- ▶ Design of metro systems, including civil structures to be re-oriented and standardized for Indian conditions.
- ▶ Contracts for 8 ropeway projects totaling to length of 60 KM to be awarded in 2022-23 under PPP mode as preferred ecologically sustainable alternative to conventional roads in difficult hilly areas.
- ▶ In order to achieve target of 280 GW of installed solar capacity by 2030, additional allocation of INR 19,500 crore for PLI scheme for domestic manufacture of high efficiency modules (with priority to fully integrated manufacturing units from polysilicon to solar PV modules).
- ▶ Battery Swapping Policy to inter-operability standards to be formulated to overcome space constraints in urban areas to setup charging stations.
- ▶ Sovereign Green Bonds to be issued for mobilizing resources for green infrastructure - proceeds to be deployed in public sector projects to reduce carbon intensity.
- ▶ Infrastructure status for Data Centres and Energy Storage Systems including dense charging infrastructure and grid-scale battery systems.

## Highlights



**INR 7.5  
lakh crore**  
allocated for CAPEX



**Public Private  
Partnership**



**Tech Platform  
PM GatiShakti**

**Expansion of  
National  
highways**



## Key tax takeaways

- ▶ No change in corporate tax rates.
- ▶ Rationalization of taxation of JVs which are taxed as AOPs - Surcharge reduced from 37% to 15%.
- ▶ Additional incentives in the form of exemptions granted to incentivize operations in IFSC:
  - ▶ Royalty or interest income received from a unit set up in an IFSC on account of the lease of a ship, in addition to existing exemption in relation to lease of aircraft;
  - ▶ Gains from transfer of a ship leased by a unit set up in IFSC.
- ▶ Provisions of bonus stripping and dividend stripping now also applicable to units of InvITs/ REITs/ AIFs and securities.

## Customs:

- ▶ Several changes to duty rates aligned to "Make-in-India" and "Atmanirbhar Bharat" policy.
- ▶ Proposal to phase out concessional rates in capital goods and project imports gradually; moderate tariff of 7.5% made applicable:
  - ▶ For Project Imports registered on/ after 1 October 2022, BCD rate to be 7.5%;
  - ▶ For Project Imports registered till 30 September 2022, BCD rate to be 7.5% after 30 September 2023.
- ▶ Key Custom Duty changes with effect from 1 April 2022
  - ▶ Increase in tariff rate on photo voltaic cells:
    - (i) Not assembled in modules or made up into panels - from 20% to 25%;
    - (ii) Assembled in modules or made up into panels - from 20% to 40%.

At present, the effective BCD rate is NIL on above products till 31 March 2022.

  - ▶ Exemption being phased out ie Concessional BCD rate of 5% to be withdrawn for Wind operated electricity generators, its parts and raw material.
- ▶ Clarification on applicability of Social Welfare Surcharge on goods exempted from Basic Customs Duty proposed.

## Goods and Services Tax:

- ▶ Realignment of ITC provisions with newly instituted GSTR-2B:
  - ▶ Two-way communication process under GSTR-2A deleted;
  - ▶ Provisions introduced for claiming ITC based on auto-generated statement in GSTR-2B.
- ▶ Additional restrictions introduced for availing ITC:
  - ▶ Continued default in payment of tax by vendor (period to be specified);
  - ▶ Difference between GSTR-1 and GSTR-3B of the vendor (limits to be prescribed);
  - ▶ Availment of excess ITC by vendor (limit to be prescribed);
  - ▶ Breach of prescribed limit of tax payment through Electronic Credit Ledger by the vendor;

- ▶ Newly registered vendors (for specified period);
- ▶ Class of prescribed persons.
  
- ▶ Amendment proposed triggering reversal of input credit along with interest where tax is not paid by the supplier.
- ▶ Other ITC related amendments:
  - ▶ Extension of period for availing ITC to 30 November of subsequent year;
  - ▶ Retrospective reduction in interest rate to 18% for wrong availment and utilization of ITC.
- ▶ Time limit extended to 30 November in case of:
  - ▶ issuance of credit notes;
  - ▶ rectification of errors or omission in returns.
- ▶ Transfer of amount available in electronic cash ledger under CGST or IGST of a 'distinct person' (GST registrations within the same PAN) allowed.
- ▶ GST refunds:
  - ▶ Relevant date for filing refund for SEZ supplies linked to due date of monthly tax payment return (GSTR 3B).

## Others:

- ▶ An additional allocation of INR 19,500 crore to be made for Production Linked Incentive for manufacture of high efficiency modules, with priority to fully integrated manufacturing units from polysilicon to solar PV modules.
- ▶ In order to optimally utilize available infrastructure and enhance competitiveness of exports it is proposed to replace Special Economic Zones Act with new legislation that will enable the states to become partners in 'Development of Enterprise and Service Hubs'.
  - ▶ Customs administration of SEZ to function on the Customs National Portal wef 30 September 2022.

## Impact analysis

The Budget seems to strike a balance with respect to instant stimulus and a continuing structural emphasis. The Budget also intends significant support to States, which will likely drive the capex agenda. There is also a strong pivot towards climate change and clean energy transition with measures such as PLI for manufacturing of high efficiency solar modules, battery swapping policy, and impetus to EV ecosystem etc.

The Budget 2022 has stayed away from big announcements on new projects in the Indian ports and airports sector. Extension of concessional corporate tax rate of 15% to infrastructure sector i.e. services did not find mention in the Budget.

Overall, Budget re-emphasizes virtuous investment cycle which is likely to create employment opportunities and propel sustainable economic growth.

## Glossary

AIF	Alternate Investment Fund
AOP	Association of Person
BCD	Basic Custom Duty
FY	Financial Year
GDP	Gross Domestic Product
GSTR	GST Return
IFSC	International Financial Services Centres
INR	Indian Rupee
InvIT	Infrastructure Investment Trust
ITC	Input Tax Credit
JV	Joint Venture
KM	Kilometers
NIP	National Infrastructure Pipeline
NMP	National Monetisation Pipeline
PLI	Performance Linked Incentive
PM	Prime Minister
PPP	Public Private Partnership
REIT	Real Estate Investment Trust
SME	Small Medium Enterprise
US\$	US Dollars
wef	with effect from



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