

Budget

2020

2021

2022

2023

2024



Infrastructure | Multiplier impact on growth and employment

Road map for #AmritKaal



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Kudos to the Hon'ble Finance Minister for providing a clear roadmap to navigate the Indian economy towards growth trajectory despite global slowdown, challenges posed by the pandemic and Russia-Ukraine war. India's G-20 presidency coupled with growth in world ranking is a testimony that the Indian economy is on the right track which has been globally recognized as a bright spot in world economy.

Budget 2023 lays down the blueprint for prosperous and inclusive India @ 100 which recognizes Infrastructure sector as a key contributor to achieve the vision of sustainable growth in *Amrit Kaal*. Enhanced capex outlay of INR10 lakh crores (representing 3.3% of GDP) including highest outlay for railways, further development of regional airports and transport infrastructure projects will boost last and first mile connectivity. Proposal to provide viability gap funding for battery storage, renewable energy evacuation, green credit programme are strong initiatives to support Green Growth. Further the PPP model continues to be an area of focus to promote coastal shipping as an energy efficient and economical mode of transport. The proposed Urban Infrastructure Development Fund will facilitate development of urban infrastructure thereby providing a better lifestyle to the population in Tier 2 and Tier 3 cities.

In summary, the budget proposals give continuity of growth and seek to propel domestic consumption, employment with focus on training and skilling the youth for digital India. Key announcements relating to the infrastructure sector are discussed in this alert.

How does the budget impact Infrastructure sector?

- ▶ No change in corporate tax rate or new incentive for infrastructure sector
- ▶ Customs duty rationalization to promote "Make in India"
- ▶ Additional restrictions on input tax credit introduced

Key amendments

Direct tax

- ▶ No change in corporate tax rate or new incentive for infrastructure sector.
- ▶ **Curb on set-off of unabsorbed depreciation and brought forward loss against deemed income of foreign EPC contractor**
 - ▶ Non-resident taxpayers engaged in the business of civil construction or business of erection of P&M or testing or commissioning thereof in connection with turnkey power project approved by the Central Government have an option to offer income to tax on presumptive basis or offer income/claim losses under normal provisions.
 - ▶ The Budget provides that set-off of unabsorbed depreciation and brought forward losses shall not be allowed in cases where such non-resident opts to offer income under presumptive regime. This amendment will be effective from 1 April 2023.
- ▶ **Repayment of debt taxable in the hands of unit holder**
 - ▶ Presently interest and dividend income are exempt from tax in the hands of InvIT and subject to tax in the hands of the unit holder. However, such distributions are neither taxed in the hands of InvIT nor the unit holders where they are regarded as repayment of debt.
 - ▶ With the intent to avoid dual non-taxation, now, any income received by unit holder (including repayment of debt) will be subject to tax in the hands of unit holders. However, upon redemption of units, deduction will be allowed for cost of acquisition up to the value of redemption. This amendment will be effective from 1 April 2023.
- ▶ **Widening the eligibility to obtain nil / lower withholding tax certificate**
 - ▶ It has been proposed to grant relief to taxpayers (such as notified Sovereign Wealth Funds, Pension Funds) from withholding of taxes subject to them obtaining a nil / lower withholding certificate. This amendment will be effective from 1 April 2023.
- ▶ **Clarification on benefits and perquisites in cash**
 - ▶ Benefits or perquisites arising from business or exercise of profession in cash or in kind or partly in cash and partly in kind will be taxable. This amendment will be effective from 1 April 2023.
 - ▶ It has also been clarified that TDS on benefits or perquisites arising from business or exercise of profession shall apply to benefit or perquisite whether in cash or in kind or partly in cash and partly in kind.
- ▶ **Claim of TDS pertaining to income offered in previous year**
 - ▶ Taxpayers can file application in prescribed form within two years in which tax was deducted at source and claim such TDS pertaining to income which has already been offered to tax in earlier previous year.
 - ▶ Credit for such TDS shall be available in the year in which income was offered to tax.

Highlights



**INR10
Lakh Crore**
Allocated to
capex

**Viability Gap
Funding for
Battery Energy
Storage Systems**



PPP
in coastal
shipping

**Amendment in
presumptive tax
regime**



**Rationalisation
of customs duty
including
exemptions
restricted**

**Place of supply
for export
freight now
recipient based**



- ▶ Interest on income tax refund, if any, on account of aforesaid application shall be computed from date of application till the date of grant of refund. This amendment will be effective from 1 October 2023.
- ▶ **Deduction in respect of payment to MSME**
 - ▶ Payment to MSME beyond time limits specified in MSME Act will be allowed as deduction only on actual payment. Deduction allowed on accrual basis only if payment is within due date of MSME Act. This amendment will be effective from 1 April 2023.

Indirect Tax

Custom Duty

- ▶ Rationalization of BCD and AIDC rates on import of aircraft and aircraft tyres while maintaining the total effective import duty
- ▶ Specified aeroplane and other aircrafts exempted from levy of SWS
- ▶ Customs duty exemption restricted up to 31 March 2024 on -
 - ▶ Pneumatic tyres for MRO operations
 - ▶ Specified goods, component, spares for aeroplane and other aircrafts, ocean going vessels
 - ▶ Cruise ships, fishing vessels, tugs & pusher crafts, barges
 - ▶ Tempered glass, flat copper wire used in the manufacture of solar cells and solar modules
 - ▶ Toughened glass for solar thermal collectors or heaters
 - ▶ Machinery, components for initial setting up of non-conventional power generation plant
 - ▶ Machinery, components for setting up fuel-cell based power generation plant
- ▶ Customs duty exemption restricted up to 31 March 2025 on import of dredgers and raw materials/ parts used in manufacture of vessels/ ships
- ▶ Solar power plant and projects excluded from Customs Project Imports Scheme

Goods and Services Tax

- ▶ Place of supply for transportation of goods outside India (export freight) to be changed from destination of goods to location of the GST registered recipient
- ▶ Supply of specified warehoused goods before clearance for home consumption will be considered as exempt supply for reversal of input tax credit
- ▶ Input tax credit will not be available on goods or services used for activities relating to corporate social responsibility
- ▶ Filing of GST returns and Annual statements not to be allowed after three years from the relevant due dates
- ▶ GSTN portal authorized to share consent-based information to other notified systems
- ▶ Compounding amount in case of offences to be reduced to the range of 25% to 100% of tax amount
- ▶ Decriminalization under GST
 - ▶ Threshold for prosecution raised from INR1 crore–INR2 crores, except for issuance of invoices without supply
 - ▶ Prosecution provisions not to be initiated for -
 - ▶ Obstruction or preventing any officer in discharge of his duties
 - ▶ Tampering of material evidence
 - ▶ Failure to supply information or furnishing incorrect information

Policy updates

- ▶ Budget 2023 provides INR10 lakh crore allocation for development of the infrastructure sector which will enhance growth potential, job creation, pool private investments and provide a cushion against global headwinds.
 - ▶ Highest capital outlay of INR2.40 lakh crores allocated to Railways
 - ▶ 100 critical transport infrastructure projects with capital expenditure of INR75,000 crores identified for last and first mile connectivity including INR15,000 crores from private sector
 - ▶ 50 additional airports, heliports, water aerodromes and advance landing grounds to be revived for improving regional air connectivity
- ▶ Policy announcement proposed to support Green Growth:
 - ▶ Viability Gap Funding for Battery Energy Storage Systems with capacity of 4,000MWH
 - ▶ Investment of INR20,700 crores including central support of INR8,300 crores proposed for Inter-state transmission system for evacuation and grid integration of 13 GW renewable energy to be constructed from Ladakh
 - ▶ Green Credit Programme to be notified under the Environment (Protection) Act to incentivize environmentally sustainable and responsive actions
- ▶ Coastal shipping will be promoted as the energy efficient and lower cost of transport, both for passengers and freight, through PPP mode with viability gap funding
- ▶ Urban Infrastructure Development Fund will be established through use of priority sector lending shortfall for creating urban infrastructure in Tier 2 and Tier 3 cities
- ▶ Harmonized Master List of Infrastructure will be reviewed by an expert committee for recommending classification and financing framework
- ▶ Newly established Infrastructure Finance Secretariat will assist for more private investment in infrastructure sector
- ▶ States and cities will be encouraged to undertake reforms and actions to transform cities into 'sustainable cities of tomorrow'
- ▶ 50-year interest free loan to State Governments extended for one more year to spur investment in infrastructure and incentivize State Governments for complementary policy actions

Impact

This is the third consecutive year where the Government has proposed significant capital investment in the infrastructure sector which will consequently boost the country's GDP and create job opportunities. Further, rationalisation of compliances and decriminalization of legal provisions will support in promoting an investment conducive environment.

While Budget 2023 has stayed away from providing any tax incentives including capex linked deduction to the power sector, policy announcements such as green hydrogen mission, green credit programme, evacuation of renewable energy and battery storage systems with viability gap funding will support the green industrial and economic transition.

Overall, the budget proposals intend to provide impetus to growth (including green growth), job creation and strengthening macro-economic stability. This would have multiplier effect in making India reach its goal of USD 5 trillion economy by 2025.

Glossary

AIDC - Agriculture Infrastructure and Development Cess

BCD - Basic Custom Duty

EPC - Engineering, procurement, and construction

GDP - Gross Domestic Product

GST - Goods and Services Tax

GSTN - Goods and Services Tax Network

INR - Indian Rupee

InvIT - Infrastructure Investment Trust

MRO - Maintenance, Repair and Operations

MSME - Micro, Small & Medium Enterprises

MSMED Act - Micro, Small and Medium Enterprises Development Act, 2006

P&M - Plant and Machinery

PPP - Public Private Partnership

SWS - Social Welfare Surcharge

TDS - Tax Deducted at Source



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