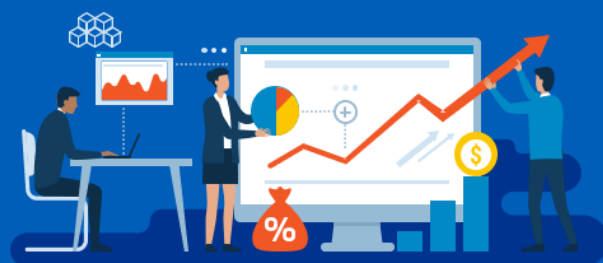


India Union Budget 2021-22

Point of view

Financial Services

#Budget2021 #KPMGBudgetLive



Key announcements for the sector

Banking

- Privatization of PSBs
 - Government to privatize two more public sector banks other than IDBI Bank in 2021-22.
- Stressed Asset Resolution by setting up an ARC/AMC
 - Asset Reconstruction company / Asset Management company to be set up to consolidate and take over the existing stressed debt and then manage and dispose of the assets to Alternative Investment Funds and other potential investors for eventual value realization
- Recapitalization of PSBs to the tune of **INR 20,000 crore** is proposed in 2021-22.
- Potential reforms in Distribution companies to improve efficiencies
 - A revamped reforms-based result-linked power distribution sector scheme will be launched with an outlay of INR 3,05,984 crore over 5 years.

Insurance

- FDI limit from 49% to 74% in Insurance companies and allows foreign ownership and control with safeguards
- Launch of LIC IPO in 2021-22
- Privatization of one public sector general insurance company in 2021-22

NBFCs

- To improve credit discipline while continuing to protect the interest of small borrowers, for NBFCs with minimum asset size of Rs. 100 crore, the minimum loan size eligible for debt recovery under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 is proposed to be reduced from the existing level of Rs. 50 lakh to Rs. 20 lakh
- Budget allocates Rs 20,000 crore to set up a Development Finance Institution (DFI) which is expected to fund infrastructure projects and achieve a portfolio of Rs 5 lakh crore within three years' time

Capital Markets

- Government proposed to consolidate the provisions of the SEBI Act 1992, Depositories Act 1996, Securities Contracts (Regulation) Act, 1956, and Government Securities Act 2007 into a unified Securities Market Code.

- Infrastructure Debt Funds eligible to raise funds by issuing tax efficient Zero-Coupon Bonds will facilitate higher investments in the sector

Fintech

- To give a further boost to the digital transactions, government announced Rs 1,500 crore for a proposed scheme. Government will also facilitate setting up of a world class fintech hub in Gujarat International Finance Tec (GIFT) city.

Others

- Government proposed to use data analytics, artificial intelligence, machine learning to make regulatory filings more frictionless for businesses and startups in a revamp of the ministry of corporate affairs (MCA) portal. Government to introduce AI-based features in MCA-21 when version 3.0 of the portal is rolled out

Key announcements for the sector

Infrastructure funding

- Multiple relaxations to further incentivize Sovereign Wealth Funds and Pension Funds for investment in Indian infrastructure – relaxation of conditions for full tax exemption introduced in 2020.
- To boost infrastructure investment, notified Infrastructure Debt Funds now permitted to issue zero coupon bonds.
- Dividend paid to REIT/InvIT to be exempt from withholding tax.

Banks

- Tax mechanism to aid business re-organizations of co-operative banks now extended to conversion of primary co-operative bank to small finance bank, along with tax neutrality for such transitions.

Disinvestment

- Enabling changes proposed in the constitutional framework of Life Insurance Corporation of India to facilitate its listing.
- Enabling provisions for carry forward of business losses in case of re-organisations now expanded to facilitate disinvestments or mergers in public sector companies.

IFSC

- Single window registration for units in IFSC
 - Government to notify relaxations to scheme of safe harbor for foreign eligible fund managed by Indian fund manager (section 9A), where fund manager is based in IFSC*
 - Tax exemption for income of investment division of IFSC-located offshore banking unit (OBU) of a foreign bank, subject to conditions*
 - Tax incentives for aircraft leasing unit in IFSC
 - Tax holiday for the leasing unit in IFSC (for any 10 consecutive years out of first 15 years).
 - Tax exemption for non-resident receiving lease rentals from such unit
 - Tax neutrality for transfer of aircraft leased to a domestic company by such unit
 - Tax neutrality for transfer of assets (by 31 March 2023) held by an offshore fund to an Alternative Investment Fund (AIF) in IFSC.
 - Tax exemption to non-residents for transfer of non-deliverable forward contract to an OBU in IFSC*
- *subject to commencement of operations by relevant fund manager/ offshore banking unit/ aircraft leasing unit in IFSC by 31 March 2024

FPIs

- Tax treaty relief for FPIs in computing withholding tax on income from securities.

Insurance

- Taxation of proceeds of unit linked insurance plans (ULIP)
 - ULIP proceeds to remain tax free so long as ULIP premium is capped at Rs. 250,000 for ULIPs issued from 1 February 2021
 - Taxation of ULIPs outside the cap to be in the same manner as equity-oriented fund

Tax administration

- Time limits for revision of returns, completion of assessments, etc. reduced.
- Penal rate of withholding proposed to tackle non-filers.
- Provisional attachment of property in case of false books of accounts cases.

Dispute resolution

- Faceless scheme of appeals extended to appeals before Tribunal (second level appellate authority).
- New Board for Advance Ruling to enable more timely advance rulings.
- New faceless dispute resolution mechanism to specifically address small taxpayers (incomes up to Rs. 50 lakh and disputed income up to Rs. 10 lakh).

Indirect tax

Goods & Services Tax (GST)

- Credit availment restricted basis disclosure of invoice / debit note in GSTR1.
- Condition to get GST Audit Report certified by Chartered Accountant, withdrawn.
- Supply to SEZ developer / Unit treated as Zero rated only if used for Authorized operations
- Option of Zero-rated supplies with payment of IGST applicable only to notified class of taxpayers or notified supplies
- Export of goods linked with foreign exchange remittance for claiming refund
- Payment of interest on net cash liability given retrospectively, effective 1st July 2017

Customs

- Agriculture Infrastructure and Development Cess (AIDC) to be levied on specified goods w.e.f. 2nd February 2021
 - Social Welfare Surcharge levied on AIDC on Gold and Silver exempted
- Basic Customs Duty rate on Gold or Silver findings reduced from 20% to 10%.

Implications for the sector

- Banking, especially Public sector banks, has been given significant support through measures around capitalization, setting-up of Asset reconstruction to handle bad loans and divestment of 2 PSU Banks. It would be required to review finer details of structure and operations of Asset Reconstruction and management company handling the Bad Loans/ Assets
- Divestment of PSU Banks – Few steps forward – will bring greater focus on low performing PSU Banks, autonomy and capital optimization. This will also lead to consolidation in banking and NBFC sector. We look forward to RBI's expected guidelines on Ownership of Banks

- Increase in FDI limit to 74% in Insurance will help revive growth capital in smaller and mid-sized Insurance players. Insurance sector may see heightened interest from foreign investors considering liberalization including realignment of stakeholders. However, the level of interest may be calibrated depending on the ability to control versus own
- Suggested Amendments to LIC Act around governance and surplus distribution key enabler for a LIC IPO. This will have a greater impact on the Insurance industry and make products of private insurers more competitive and at par with LIC with prospective effect.
- Reduction of limit for NBFCs for collection under SARFAESI Act from INR50 lakh to INR20 lakh will enable NBFCs in NPA recovery especially in MSME sector
- Setting up of DFI with capability to finance Rs 5 lakh cr within 3 years is a positive development
- The proposed launch of securities market code consolidating multiple securities related laws and creation of new investors' charter is expected to be beneficial for protecting investors' interests. Need to understand the specifics on how this will improve efficiency, costs and compliance related aspects.
- Fin-Tech hub at the GIFT will further strengthen India's position in global fintech landscape. Mobilizing right talent pool and creating conducive ecosystem is critical to support this initiative.
- Announcements related to Digital payments, digital census and investment in AI/ML is a definite next step in Digital India movement which will primarily aid the growth of Start-ups and Fintechs focusing on these segments

KPMG in India contacts

Sanjay Doshi

Partner and Head

Financial Services Advisory

E: sanjaydoshi@kpmg.com

Sunil Badala

Partner and Head

Financial Services, Tax

E: sunilbadala@kpmg.com



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KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011
Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.

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