

UNION BUDGET 2021-22



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The Union Budget 2021-22, following an economic contraction, has provided the stimulus to boost demand through the enhanced infrastructure spending. The focus on healthcare will only steer the economy faster out of the pandemic and is a welcome move. The extension of tax holidays in affordable housing on both demand and supply sides are in line with expectations. Higher budgetary allocation for MSMEs and agriculture and social security for unorganized sector workers show the government's vision for inclusive growth.

UNION BUDGET 2021-22: GROWTH-ORIENTED BUDGET WITH A SPECIAL FOCUS ON HEALTHCARE AND INFRASTRUCTURE; INCENTIVES FOR AFFORDABLE AND RENTAL HOUSING AND FOREIGN INVESTORS



The Union Budget 2021-22 was unveiled against the backdrop of the unprecedented Covid-19 pandemic, which has had a severe impact on India's economic health over the past year. However, the Budget speech highlighted the success India has had in controlling the pandemic, currently reflected in some of the lowest cases and fatality rates per million globally. This, in turn, has facilitated an economic recovery that has gained momentum in recent months. The Budget has gone a step ahead and unveiled measures to support domestic demand, job creation and boost economic growth.

The expansionary, growth-oriented Budget has increased spending and raised allocations across multiple sectors. Healthcare and infrastructure have received special attention with a significant jump in capital expenditure while agricultural credit target has been hiked. As a welcome step, the government has not imposed any new taxes; instead, higher borrowings will be resorted to fund additional spending. Higher FDI limit for the insurance sector is in keeping with the government's investor-friendly stance while incentives for affordable and rental housing would go a long way in making housing accessible to all citizens.

Fiscal Position

- Fiscal deficit in FY 2020-21 estimated at 9.5% of GDP
- Government spending in FY 2020-21 at INR 34.5 lakh crores out of which capital expenditure at INR 4.39 lakh crores
- Government spending estimated at INR 34.83 lakh crores in FY 2021-22; capital expenditure at INR 5.54 lakh crores, a 34.5% increase over FY 2020-21
- Fiscal deficit in FY 2021-22 estimated at 6.8% of GDP
- Gross market borrowings in FY 2021-22 would be INR 12.05 lakh crores
- Fiscal consolidation to continue with the intention of reaching a fiscal deficit below 4.5% of GDP by FY 2025-26

Key takeaway

The government has relaxed the fiscal deficit target of 3.5% of GDP by FY 2020-21 due to the unprecedented economic situation. Higher capital expenditure will lead to faster economic recovery which, in turn, will enhance tax revenues and allow the government to meet the planned fiscal deficit target by FY 2025-26.

In line with the Budget's eight focus areas - doubling farmers' income, strong infrastructure, healthy India, good governance, opportunities for youth, education for all, women empowerment, and inclusive development - the budget proposals were made on the following six pillars.

PILLAR 1: HEALTH AND WELLBEING

Total Budget outlay for sectors under Health and Wellbeing increased by 137% at INR 2,23,846 crores in FY 2021-22 against INR 94,452 crores in FY 2020-21.

Health Systems

- PM Atmanirbhar Swasth Bharat Yojana to be launched with an outlay of INR 64,180 crores over 6 years
- Support for 17,788 rural and 11,024 urban Health and Wellness Centres
- Integrated public health labs in all districts and 3,382 block public health units in 11 states
- Critical care hospital blocks in 602 districts and 12 central institutions
- 15 Health Emergency Operation Centres and 2 mobile hospitals

Vaccines

- Countrywide rollout of the Pneumococcal vaccine to avert 50,000 child deaths annually
- INR 35,000 crores provided for Covid-19 vaccine in FY 201-22

Nutrition

- Launch of Mission Poshan 2.0 – strategy to improve nutritional outcomes in 112 aspirational districts

Universal water supply

- Launch of the Jal Jeevan Mission (Urban) – expenditure of INR 2,87,000 crores over 5 years
- Universal water supply in 4,378 urban local bodies, 2.86 crore household tap connections, liquid waste management in 500 AMRUT cities

Vehicle Scrapping Policy

- Voluntary vehicle scrapping policy for old vehicles to be announced
- Vehicles to undergo fitness tests after 20 years for personal vehicles and after 15 years for commercial vehicles

Key takeaway

The 137% jump in allocation for Health & Wellbeing shows the government’s commitment to improve the health and social infrastructure and enhance environmental sustainability. New schemes for health, water supply and nutrition along with the voluntary vehicle scrapping policy will enhance the standard of living for the citizens.



PILLAR 2: PHYSICAL AND FINANCIAL CAPITAL AND INFRASTRUCTURE

Manufacturing

- Production Linked Schemes (PLI) worth INR 1.97 lakh crores over 5 years from FY 2021-22 for 13 sectors
- Launch of Mega Investment Textile Parks (MITRA) with world class infrastructure; 7 textile parks to be established over 3 years

Infrastructure Financing

- National Infrastructure Pipeline (NIP) currently has 7,400 projects; 217 projects worth INR 1.10 lakh crores completed
- Development Financial Institution (DFI) to be set up to fund infrastructure; INR 20,000 crores provided from the Budget
- Debt financing of REITs and InvITs by foreign portfolio investors (FPIs) to be allowed
- Monetization of operating public infrastructure assets through the National Monetization Pipeline
- Capital expenditure of INR 5.54 lakh crores to fund infrastructure; INR 2 lakh crore to states and autonomous bodies for capital expenditure
- Tax benefits for zero coupon bonds issued by Infrastructure Debt Funds (IDF) and used for infrastructure funding
- Relaxation of conditions on Sovereign Wealth Funds (SWF) / Pension Funds (PF) for availing 100% tax exemption to encourage infrastructure investment

Roads and Highways

- Outlay of INR 1,18,101 crores for Roads and Highways out of which INR 1,08,230 crores is for capital expenditure
- By March 2022, 8,500 km of roads will be awarded, and 11,000 km of national highway corridors will be completed
- More economic corridors planned in Tamil Nadu, Kerala, West Bengal and Assam

Urban Infrastructure

- INR 18,000 crores for public bus transport services
- 702 km of metro completed, 1,016 km of metro and RRTS under construction in 27 cities
- Central funding for metro projects in Kochi, Chennai, Bengaluru, Nagpur and Nashik

Ports & Shipping

- 7 projects worth more than INR 2000 crores to be offered by major ports on PPP mode in FY 2021-22

Renewable Energy

- Capital infusion of INR 1,000 crores to Solar Energy Corporation of India and INR 1,500 crores to Indian Renewable Energy Development Agency

Foreign Direct Investment (FDI)

- Increase in the FDI limit in insurance companies from 49% to 74% allowing foreign ownership and control with safeguards

Banking sector

- Allocation of INR 20,000 crores for recapitalization of public sector banks (PSBs) in FY 2021-22
- Setting up of an Asset Reconstruction and Management Company to consolidate, take over and manage the stressed assets of banks and then dispose them to potential investors

Key takeaway

The Budget focuses extensively on infrastructure to increase investments, create long term assets, boost domestic demand and generate jobs. The modalities of infrastructure financing are laid out with a dedicated focus on highways, urban transport infrastructure, shipping and renewable energy. Hike in the FDI limit is a welcome step to attract foreign investors and enhance insurance penetration. Creation of an AMC will help clean up the books of public sector banks and improve the health of the financial sector.



PILLAR 3: INCLUSIVE DEVELOPMENT FOR ASPIRATIONAL INDIA

Agriculture

- Higher agricultural credit target of INR 16.5 lakh crores in FY 2021-22
- Increase in allocation to the Rural Infrastructure Development Fund from INR 30,000 crores to INR 40,000 crores
- SWAMITVA scheme to be extended to all states/ UTs
- Increase in allocation to the Micro Irrigation Fund by INR 5,000 crores
- Operation Green Scheme will be enlarged to cover 22 perishable products

Unorganized sector

- Implementation of four labour codes, social security benefits for gig and platform workers, minimum wages for all categories of workers
- Launch of portal with information on gig, building and construction workers to formulate various schemes for migrant workers

MSMEs

- Allocation of INR 15,700 crores for MSMEs, double of the allocation in FY 2020-21

Key takeaway

The Budget has laid out initiatives focused on farmers' welfare and rural development along with a dedicated focus on providing social security to various categories of workers in the unorganized sector. With MSMEs being the hardest hit by the Covid-19 pandemic, higher budgetary support will enable faster recovery of small businesses.

PILLAR 4: REINVIGORATING HUMAN CAPITAL

Education

- More than 15,000 schools to be qualitatively strengthened to include all components of the National Education Policy.
- Standards to be developed for all schoolteachers in the form of National Professional Standards for Teachers - NPST.
- National Digital Educational Architecture (NDEAR) to be set up within the context of a Digital First Mindset where the Digital Architecture will support teaching and learning activities and educational planning.

Key takeaway

A young and aspirational country like India needs to equip its youth with the necessary skills to enhance innovative capacities and employability. The Budget has laid the foundation for this by strengthening the schooling system and driving the move towards a digital future.



PILLAR 5: INNOVATION AND R&D

- An outlay of INR 50,000 crores over 5 years for National Research Foundation to strengthen the overall research ecosystem of India focusing on identified national priority thrust areas.
- An outlay of INR 1,500 crores for a proposed scheme to provide financial incentives to promote digital modes of payment.
- Incentivize the incorporation of One Person Companies (OPCs); no restrictions on paid up capital and turnover, OPCs will be allowed to convert into any other type of company at any time; residency limit for an Indian citizen to set up an OPC reduced from 182 days to 120 days and NRIs allowed to incorporate OPCs in India.
- To facilitate setting up of a world class fintech hub in Gujarat International Finance Tech (GIFT) City.

Tax benefit for Start-ups

- Eligibility period to claim tax holiday for the start-ups to be extended by one more year to 31st March 2022 to incentivize setting-up of more start-ups in the country.
- Extension of the eligibility period of claiming capital gains exemption for investment made in the start-ups by one more year to 31st March 2022 to encourage investment in start-ups.

Key takeaway

Higher thrust on innovation and enabling the start-up ecosystem will aid self-employment generation and boost demand in the economy. Tax benefits to start-ups and incentives for OPCs to encourage entrepreneurship among the youth.



PILLAR 6: MINIMUM GOVERNMENT AND MAXIMUM GOVERNANCE

To set up a conciliation mechanism and mandate its use for quick resolution of contractual disputes in order to promote ease of doing business for those dealing with Government or CPSEs.

AFFORDABLE & RENTAL HOUSING

- The eligibility period for claim of additional deduction for interest of INR 1.5 lakh paid for loan taken for purchase of an affordable house extended to 31st March 2022, to incentivize purchase of affordable housing as a boost on the demand side.
- To boost the supply side, eligibility period for claiming tax holiday for affordable housing projects to be extended by one more year to 31st March 2022.
- To promote supply of Affordable Rental Housing for the migrant workers, a new tax exemption to be allowed for the notified Affordable Rental Housing Projects.

Key takeaway

Incentives for affordable and rental housing for migrant workers will go a long way in enhancing access to low cost housing. This is in line with expectations though the government refrained from providing infrastructure status to the real estate sector, which could have driven faster growth and investments in the sector.

DIRECT TAXATION

- To ease compliance burden on senior citizen, pensioners of 75 years or above, will be exempted from the requirement of filing of income tax
- Aiming to provide relief to taxpayers, advance-tax liability on dividend income shall arise only after the declaration/payment of dividend.
- The dividend paid to REITs/InvITs shall be exempt from TDS.
- Dividend payment to be exempted from levy of Minimum Alternate Tax (MAT) for foreign company if the applicable tax rate is less than the rate of MAT.
- A National Faceless Income Tax Appellate Tribunal Centre to be established to provide transparent tax appellate mechanism; electronic communication between the Tribunal and the appellant.
- No change in income tax slabs.

Key takeaway

TDS exemption for dividend paid to REITs is a welcome move and will strengthen the Indian REIT ecosystem, which is on a robust growth path. Measures to improve tax transparency also highlight continuous improvement in India's direct tax framework.

CONCLUSION

The budget takes the right measures to expedite economic recovery by boosting spending on infrastructure, healthcare and rural sector. Fiscal consolidation has been shelved and growth has been made a priority. The unorganized sector and MSMEs have received attention while the government has continued to encourage foreign investment. Incentives to affordable and rental housing points towards the governments vision to provide housing for all.



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