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# DECODING BUDGET 2022 – INCOME TAX



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A handwritten signature in blue ink, appearing to read 'S. Kochar'.

Finance Minister in the Budget 2022 expressed the intent of laying out initial blueprint to steer the economy from India at 75 to India at 100. Despite Covid, Govt has performed well in collecting revenues for 2021-22 (revised estimate). Gross tax revenue for 2021-22 (RE) is up by 13%, driven by corporation tax, income taxes, customs and GST. This has given the FM to budget for another 9.6% growth for the coming year, 2022-23.

Minimal changes have been made in Income Tax with special focus on domestic manufacturing and startups. A breath of fresh air for the start-up founders and investor community is capping of surcharge on LTCG on sale of unlisted equity shares, resulting in reduction in highest slab of effective LTCG tax rate from 28.49% to 23.92%.

The Government has also made a clear stand on taxation of Virtual Digital Assets, including cryptocurrencies, albeit this may not indicate that these transactions are legitimate, as clarified by the Finance Minister.

Overall, a sensible, non-poll driven budget with a clear focus on increased infra spends & push towards technology.

# Direct Tax Proposals:

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# Direct Tax Proposal applicable for All

## Taxation Scheme for Virtual Digital Asset

### Income Tax on Transfer of Virtual Digital Assets

As a result of increasing crypto transactions, budget has made a series of announcements that aim at effectively bringing them into tax ambit. **Clarity of different aspects of this Section is pending from the Government**

### What is the Tax Rate and from when it will get effective?

Tax is at a flat rate of 30% and is effective for transactions done from 1-4-2022.

### What is the allowability of expenses and losses?

- Deductions ✗
- Set off losses ✗
- Cost of Acquisition ✓



## What is the change in tax rate?



Tax rate changes are shown below:

Type	Before 1-4-2022		After 1-4-2022
	Business Income / STCG / IOS	LTCG	
Individual / HUF	Slab Rate	20%	30%
Firm	30%		
Company	22% / 25% / 30%		

## TDS on payment for transfer of Virtual Digital Asset

### What is the rate of TDS?

TDS will be deducted @1%

### Who will be liable to Deduct TDS?

Payer		
Type	Amount	TDS Applicability
Individual / HUF - Turnover up to Rs. 50 lakhs/ 1 crore	> Rs.50,000/-	✓
Individual / HUF - Turnover above Rs. 50 lakhs/ 1 crore	> Rs.10,000/-	✓
Other than Individual / HUF	> Rs.10,000/-	✓
For All Cases	up to Rs.10,000/-	✗

## **What if the consideration is partly in money and partly in kind?**

TDS to be deducted irrespective of the payment mode.

## **What is the effective Date?**

The effective date is 1-7- 2022.

## **What if the Virtual Digital asset is gifted to a person?**

Taxable as it is included in the Property definition u/s 56(2)(x)

Further clarity is awaited from the Government on practical implementation of this Section.



# Option to file Updated Return

**To declare missed out income, option to file updated return by paying additional 25%/50% tax has been introduced in the Budget.**



## How is this different from revised return?

Time limit	
Revised Return	Updated Return
<b>Earlier of</b>	<b>24 months from the end of Relevant Assessment Year</b>
3 Month prior to end of Relevant Assessment Year	
(or)	
Completion of Assessment	

## When updated return cannot be filed?

- Loss return
- Updated return *reduces tax or increases refund*

## Who cannot file updated return?

Search/Survey initiated (other than TDS/TCS Survey)

Documents called for Search

Updated return already filed

Assessment/ Reassessment is either pending or completed.

## How much is the additional tax in case of updated return?

Updated return filed	Percentage of Additional tax payable
Within 12 months from end of Relevant Assessment year	25%
After 12 months upto 24 months from end of Relevant Assessment	50%



**Additional tax is paid on Tax + Interest + Surcharge + Cess.**

### Let us Understand the same with an Example:

B Pvt Ltd has furnished updated return after filing original return.



## Original Return:

Particulars		Original Return
Total Income of Assessee	(A)	1,000,000
Tax @ 25%	(B)	250,000
Add: Cess @ 4%	(C)	10,000
Less: TDS/TCS credit	(D)	50,000
<b>Total tax paid in original return</b>	<b>(E = B+C-D)</b>	<b>210,000</b>

## Updated Return:



Particulars		Updated Return
Total Income of Assessee	(A)	1,500,000
Tax @ 25%	(B)	375,000
Add: Cess @ 4%	(C)	15,000
Less: TDS/TCS credit not claimed earlier	(D)	10,000
Less : Credit Under Sec 140A(1)	(E)	260,000
Tax payable in Updated return before additional tax	(F)	120,000
Additional tax payable if filed within 12 months from Relevant Assessment year	<b>(G = F* 25%)</b>	30,000
<b>Total tax payable if filed with 12 months from the end of relevant assessment year</b>	<b>(H=F+G)</b>	<b>150,000</b>
Additional tax payable if filed after 12 months from relevant assessment year	<b>(I= F* 50%)</b>	60,000
<b>Total tax payable if filed after 12 months from relevant assessment year</b>	<b>(J=F+I)</b>	<b>180,000</b>

**Note:** Interest on advance tax, if any, previously paid can also be availed as deduction while computing tax payable under updated return



# Covid-19 Exemptions

## Is medical expense borne by employer for COVID-19, a taxable perquisite?

The above expense is not treated as a Perquisite. Hence not taxable.

## Is amount received on account of COVID -19 treatment/death taxable?\*

Cash Gift received from any person for Covid-19 treatment is NOT taxable.

- Any amount received by family members of employee from an employer on account of death due to Covid-19 is not taxable.
- Amount received from any other person on account of death due to Covid-19 is not taxable upto Rs 10,00,000.

*\*subject to conditions to be notified by the Government*



# Explanation of a Cash Credit availed.

**Explanation to be given regarding Cash credits, if not, the same will be offered to tax.**

## Who needs to explain the source of the cash credits?

Before 31-03-2022	After 01-04-2022
<ul style="list-style-type: none"><li>• Assessee.</li><li>• Shareholders for their Share Capital. (Closely held companies).</li></ul>	<p><b>Additionally,</b></p> <p><b>Lender of a loan or advance.</b></p> <p>Exceptions to the above:</p> <ul style="list-style-type: none"><li>• Venture Capital Fund/</li><li>• Venture Capital Company registered with SEBI</li></ul>



# Direct Tax Proposal applicable for Business

## **New TDS introduced on Benefits / Business Promotion Expenses (194R).**

A new section has been introduced effective from 01.07.2022 that makes it mandatory to deduct TDS on Benefits/ Perquisites provided.

### **For whom is this applicable?**

Benefit/ Perquisite arising due to Business/ Profession.

### **What is the Threshold Limit?**

The threshold limit is Rs.20,000.

### **What is the Rate at which TDS needs to be deducted?**

10% of the aggregate value of the benefit or perquisite.

### **Who is not required to deduct TDS u/s 194R?**

Individual/ HUF for whom Tax Audit not applicable.

### **Let us understand with an example:**

**Mr. X gives a free sample whose aggregate value is Rs.25,000 on 01-07-2022 to his agent. Does Mr. X need to deduct TDS?**

Yes. He needs to deduct TDS @ 10% on Rs.25000 i.e., Rs.2500 under the Sec. 194R.

# Concessional Tax Regime for Domestic Manufacturing Companies

**Concessional tax rate @ 17.16% for new Domestic Manufacturing Companies to encourage local manufacturers.**

## Applicable for whom?

Companies Set- Up or Registered on or after 01-10-2019.  
Commenced Production on or before 31-03-2023.

## What is the Relief given in the budget?

Commencement of Production criteria extended to 31-03-2024.

## Which Industries are not covered?

Developing  
Computer  
Software

Bottle of  
Gas  
Cylinders

Mining

Printing of  
Books

Production  
of  
cinematograph  
films.

Other  
notified  
Business.



## What are the Incentives & Exemptions for gone?

SEZ Unit (Sec. 10AA)	Infrastructure Development (Sec. 80 IA)	Business other than Infrastructure sector. (Sec. 80IB)	Eligible Start-Ups (Sec. 80IAC)
Capital Expenditure incurred for a Specified Business. (Sec. 35AD)	Investment Allowance for P&M. (Sec. 32AD)	Scientific Research (Sec. 35)	Additional Depreciation (Sec. 32)



# Tax Holiday for Start-Ups

**Tax Holiday granted for an Eligible Start-Up for 3 consecutive A.Y.s out of the first ten years of business.**

## Applicable to whom?

- Start-Ups incorporated between 01-04-2016 - 01-04-2022.
- Turnover upto 100 Crores in the preceeding F.Y. of Tax Holiday availment.

## What is the Relief given due to Pandemic?

Incorporation Period Criteria being extended to 31-03-2024.



# Co-operatives Society tax concessions

## What is the amended rate in Alternate Minimum Tax (AMT) and Surcharge?



Type	Previous Rate	Amended Rate
AMT	18.50%	15%
Surcharge	12 % (If Total income > Rs.1 crore)	7% (If the total income is between Rs.1 crore to 10 Crores)
		12 % (If total Income > Rs.10 crores)

## What is the effective date?

The effective date is 01-04-2022.



# Set off of Losses in Search Cases

**The budget has amended the section 79A to curb availing set off of losses against undisclosed income in search/survey effective from 1-4-2022.**

## **What is not allowed under this section?**

Now assessee cannot set off:

- Current period losses
- Brought forward losses
- Unabsorbed depreciation

Except in case of **TDS/TCS** survey.





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