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Union Budget 2021

Tax Alert – Key amendments impacting Telecom sector

Telecom Sector | Thrust to domestic value addition by the Government

The economic vaccine booster for the telecom sector still remains a distant dream

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Advancements made by the telecom sector over the years have helped sustain the pandemic ravaged economy in 2020. Work from home would not have been possible had the telecom sector not invested in new technologies and spread its network infrastructure to the remotest corners of the country. The sector was therefore anticipating that the budget proposals this time would accept the longstanding demand of the sector for prescription of a mechanism for expeditious liquidation of substantial funds that have been blocked in input tax credits and reduction in license fees and GST levies on telecom charges. This would help the sector in making much needed investments in new age telecom infrastructure which is crucial not just to cope up with the increased demand for telecom services but also in enhancing the quality of telecom services. It appears that the sector would need to wait for some more time before this wish list is accepted by the Government.

The Government has recently launched Production Linked Incentive scheme worth INR 12,195 crores to fuel domestic manufacturing of telecom equipment in India. To provide an impetus to the vision of India emerging as a global supplier of telecom gear, the exemption in custom duty on inputs and raw materials required to manufacture telecom equipment has been rationalised. Further, the long standing demand of industry to extend the benefit of concessional duty to third party manufacturers has been met.

While budget proposals have been generally positive and growth oriented, the telecom sector may need to fight its own battle and capitalize on the opportunities opened by the pandemic to raise resources required for graduating to the next level of telecom services.

How does the budget impact the Telecom sector?

Key proposals (Direct Tax)

- Late deposit of employees' contribution to provident fund, superannuation fund or any fund set up under the provisions of ESI Act or any other fund for the welfare of such employees will not be allowed as deduction.
- Interest for deferment in payment of advance tax on dividend income (except deemed dividend) to apply only after declaration of dividend.
- Reduction in timelines:
  - Time limit to initiate assessment reduced from six months to three months from the end of the FY in which the return is furnished.
  - Time limit for completion of assessment reduced by three months.
  - Time limit for reopening of assessment reduced to three years. However, where income escaping assessment amounts to INR 5 million or more, cases can be reopened upto ten years.
  - Time limit for filing of belated or revised income tax return reduced by three months.
- Provisions relating to re-assessment proceedings substituted by amended provisions.
- TDS at the rate of 0.1% (5% if PAN is not provided) to apply on purchase of goods.
- Higher TDS/ TCS rate (twice of prescribed rate or 5%, whichever is higher) to apply in case payee has not filed ITR of past two years; not applicable to non-resident payee who does not have Permanent Establishment in India.
- Faceless scheme to be introduced for appellate proceedings before the ITAT on the same lines as faceless appeal scheme.
- The Authority for Advance Rulings shall cease to operate and a Board of Advance Ruling to be constituted in order to give rulings to taxpayers in timely manner.
- Equalisation Levy provisions amended with retrospective effect from 1 April 2020 to clarify the following:
  - Exemption from income tax to apply on consideration for e-commerce supply or services made or provided or facilitated on or after 1 April 2020. Further, exemption is not applicable for royalty or fees for technical services.
  - Scope of 'online sale of goods', 'online provision of services', and consideration received/ receivable from e-commerce supply/ services.

Highlights

- Thrust on promoting domestic manufacturing
- Value addition in telecom industry promoted
- BCD rate on PCBA of charger or adapter increased from 10% to 15%
- Liquidation of accumulated input tax credits has not been addressed

Key proposals (Indirect Tax)

Customs

- IGCR rules have been amended to allow hundred percent out-sourcing for manufacture of goods on job-work
- Following changes have been introduced in the rate of BCD:

#	Product	Earlier BCD rate	Effective BCD rate	Effective date
1	Inputs or raw materials for use in the manufacture of networking equipment (8517 6290 and 8517 6990) and Base stations (8517 6100)	Nil	Exemption withdrawn (applicable BCD rate to apply)	02.02.2021
2	Inputs or parts or subparts for use in manufacture of PCBA, camera module & connectors of cellular mobile phone	Nil	2.5%	01.04.2021
3	Camera Lens used in manufacture of Camera Module of cellular mobile phones	Nil	Exemption withdrawn (applicable BCD rate to apply)	02.02.2021
4	Inputs or raw material for use in manufacture of following parts such as wired headset, GSM Antenna etc. of Cellular mobile phones	Nil	2.5%	01.04.2021
5	Inputs or raw material (other than PCBA and moulded plastics) for manufacture of charger or adapter of cellular mobile phones	Nil	10% (Covered under new entry of Notification 57/2107)	02.02.2021
6	PCBA of charger or adapter	10%	15%	02.02.2021
7	Inputs, parts or sub-parts for use in the manufacturing of PCBA (falling under tariff item 8507 90 90) of battery pack of cellular mobile and power bank	Nil	Exemption withdrawn (applicable BCD rate to apply)	02.02.2021

Goods and Service Tax

- IGST Act amended to restrict zero-rated supply on payment of Integrated Tax only to notified class of taxpayers or notified supplies of goods or services
- The condition of supplies being made for authorized operations for claiming benefit of zero-rating specifically inserted in IGST Act
- Input tax credit on invoice or debit note may be availed only when the details of such invoice or debit note have been furnished by the supplier in the statement of outward supplies

- Mandatory requirement for getting the annual accounts audited and reconciliation statement submitted by specified professionals has been removed
- A self-certified reconciliation statement shall be filed along with annual return under GST

Impact analysis

The pandemic resulted in opening up new possibilities in the digital space and the entire country has fast forwarded its journey of digital transformation. This has become conceivable only with the robust contribution of the telecom sector. The sector was anticipating a mechanism for liquidation of funds blocked input credit, reduction of license fee and GST incidence to further expand the telecom infrastructure and improve the quality of services. The said requests have not been acceded to by the Government.

Further, the Finance Minister has however exhibited the commitment towards 'Atmanirbhar Bharat' by laying out a cohesive plan for network equipment and mobile phone manufacturing in India by marrying the 'PLI scheme with increase in the value addition norm for the sector. The amendment in IGCR to facilitate the hundred percent out-sourcing for manufacture of goods on job-work is a welcome move by the Government.

Given above, though the economic vaccine as required to take the telecom sector out of stress is not delivered in the required form by the Finance Minister, nonetheless, the telecom sector would need to focus on managing its working capital for upcoming infrastructure expenditure by tapping the opportunities created by pandemic.

Glossary

BCD – Basic Customs Duty

IGCR- Import of Goods at Concessional Rate of Duty Rules, 2017

IGST Act– The Integrated Goods and Service Tax Act, 2017

PLI – Production Linked Incentive

ITAT - Income-tax Appellate Tribunal

FY – Financial Year

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