

# TAX CHAT - Updates



Monthly Newsletter from SSJCO

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Dear Madam / Sir,  
Namaste!

The festival days are here again. We are awaiting to welcome and celebrate Dhan Teras, Choti Deepawali, Laxmi Poojan, Bhai duj, Childrens day being Chacha Nehru's birthday, Guru Nanak Jayanti and many more. The above all the greatest festival is that the impact of pandemic is reducing and as per media the cases though are still in existence but are minimal. Sincere thanks of gratitude to our scientists for developing and producing vaccines, staff of vaccine manufacturers, medical and para medical staff who administered vaccines, central, state and local governments for making them available, private players and all logistical intermediaries including the developers of software called Cowin, who all have made it possible to vaccinate a large number of population in our country.

On the income tax front also there are not much of a compliance in this month.

Let us all celebrate these days. This is also the time when things could flare up as more People will be outdoors and the tendency is to take things easy. So let us resolve to celebrate the festive season responsibly. Wearing masks at all times and social distancing are the two most easy and effective defenses currently available to keep the disease at bay.

As in earlier months, in this October 2021 edition of Tax Chat, we are attempting to summarize the updates along with other important circulars / notifications/ instructions issued in this month. Rishabh has contributed his article titled as "Investing in Indian Equities vs. US Equities" in this edition.

Trust you will find the same useful.

Happy Reading!

Stay Safe, Connected & Updated

With Regards,

Team - S S Jhunjhunwala & Co

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**Happy Deepawali**

**Circulars, Notifications and Others:**

*(Compiled by: Ms Sonakshi Jhunjhunwala)*

**1. CBDT excludes certain assessments from Section 144B of the Act, where limitation expires on 30th September, 2021: Order F No. 187/3/2020-ITA-I, dated 22nd September, 2021**

The Taxation and Other Laws (Relaxation and Amendment of certain provisions), Act, 2020, has inserted a new Section 144B to incorporate the Faceless Assessment Scheme, 2019 in the Income-tax Act (the Act). CBDT vide Order F. No. 187/3/2020-ITA-I, dated 31<sup>st</sup> August, 2020, directed that all the Assessment Orders shall be passed by the National Faceless Assessment Centre under Section 144B of the Act except as under:-

- (a) Assessment orders in cases assigned to Central Charges;
- (b) Assessment orders in cases assigned to International Tax Charges.

Further, the CBDT vide Order F. No. 187/3/2020-ITA-I, dated, 06<sup>th</sup> September, 2021 has also excluded Assessment Orders in cases where pendency could not be created on ITBA because of technical reasons or cases not having a PAN, as the case may be, from the ambit of Faceless assessment.

In a further modification of the above Order, the CBDT has now included the following two more situations in the list of exceptions:

(a) Assessment order in set-aside cases where assessment to be done 'de novo'; and

(b) Assessment orders in cases where assessment is to be done under section 147.

However, the assessments referred to in these exceptions shall be done by the jurisdictional Assessing Officer only if the time limit for completion of assessment expires on 30<sup>th</sup> September, 2021. Further such assessment must be pending with jurisdictional Assessing Officer as on 11<sup>th</sup> September, 2021 or thereafter, which cannot be completed as per procedure laid down by section 144B of the Act due to technical or procedural constraints in the given period of limitation.

**2. ITRs verified through EVC instead of DSC to be regularised if filed during 07<sup>th</sup> June, 2021 to 30<sup>th</sup> September, 2021: CBDT Order u/s. 119, dated 24<sup>th</sup> September, 2021:**

An Income-tax return can be verified with Digital Signature Certificate (DSC), Electronic Verification Code (EVC), Aadhaar based OTP, or by sending a signed copy of the acknowledgment to CPC Bengaluru.

Though any assessee can file the Income-tax return with DSC, the following class of persons is mandatorily required to file the return using the DSC:

- a. Companies;
- b. Political Parties;
- c. Any person whose accounts are required to be audited under Section 44AB of the Act except person filing return in ITR-7.

It was brought to the notice of the CBDT that due to technical issues in the e-filing portal, certain returns of income (ITR) furnished electronically during the period from 07<sup>th</sup> June, 2021 to 30<sup>th</sup> September, 2021 were/are being allowed to be verified through EVC. However, these are otherwise required to be verified through DSC. Thus, said ITRs may be treated as non-est by the Assessing Officers, which may cause genuine hardship to the taxpayers.

Thus, the CBDT has directed that ITRs furnished electronically under Section 142(1), 148, 153A, and 153C of the Act during the period from 07<sup>th</sup> June, 2021 to 30<sup>th</sup> September, 2021 and verified through EVC instead of DSC shall be deemed to have been furnished and verified as per Rule 12.

**3. CBDT reports tax collection figures; Net collection for FY 2021-22 grow at 74% : Press Release dated 24th September, 2021**

CBDT issues Press Release on direct tax collection for FY 2021-22. It reports that Direct Tax collections as on 22<sup>nd</sup> September, 2021 show that net collections increased at 74.4% from Rs. 3,27,174 crore in the corresponding period of FY 2020-21 to Rs.5,70,568 crore which is inclusive of corporate income tax, personal income tax and STT after adjusting refunds. The advance tax amount is expected to increase as further information is awaited from Banks. Refunds amounting to Rs. 75,111 crore have also been issued in the FY 2021-22 so far.

**4. CBDT extends applicability of Safe Harbour Rules to AY 2021-22: Notification No.117/2021/F, dated 24th September, 2021:**

The CBDT has extended the validity of provisions of Rule 10TD (1) & Rule 10TD(2A) till Assessment Year 2021-22. Rule 10TD (1) and Rule 10TD(2A) prescribe a list of eligible international transactions where transfer price declared by the assessee shall be required to be accepted by the Income-tax Authorities.

Sub-rule (3A) to Rule 10TD sets time limit for the application of the provision of sub-rules (1) and (2A). It provides that provisions shall apply for the Assessment Year 2017-18 and two Assessment Years immediately following that. In other words, the provisions applied for Assessment Years 2017-18 to 2019-20. Later the Board has inserted a new sub-rule 3B to the Rule 10TD to extend the applicability of provisions of sub-rules (1) and (2A) till Assessment Year 2020-21.

The Board has now amended Rule 10TD (3B) to further extend the applicability of Safe Harbour Rules until Assessment Year 2021-22.

**5. CBDT further extends time limit to process refund claimed ITRs filed up to AY 2017-18 to 30th November, 2021: Order F. No. 225/98/2020-ITA-II, dated 30th September, 2021:**

Given pending taxpayers' grievances related to the refund issue, CBDT, had vide Order F. No.225/98/2020-ITA-II, dated 5<sup>th</sup> July, 2021, relaxed the time frame prescribed in section 143(1) of the Act for a given period. The Board had directed that all validly filed ITRs up to AY 2017-18 with refund claims could be processed till 30<sup>th</sup> September, 2021.

However, this benefit was available only to those returns which could not be processed and which had become time-barred. All those time-barred returns could be processed with prior administrative approval of Pr.CCIT/CCIT concerned and intimation to be sent to the assessee by 30<sup>th</sup> September, 2021.

Considering the pendency of taxpayer's grievances, the Board decided to further extend the above time frame by two months. Now the time-barred ITRs can be processed by 30<sup>th</sup> November, 2021.

**6. CBDT prescribes conditions to claim relief on offshore indirect transfer of Indian assets: Notification No. 118 of 2021 dated 01st October, 2021:**

The Taxation Laws (Amendment) Act, 2021 (hereinafter referred to as TLA, 2021) inserted three provisos (Fourth, Fifth, and Sixth Proviso) in Explanation 5 to Section 9(1)(i) to give relief to certain eligible entities impacted by the retrospective amendment made to Section 9 by the Finance Act, 2012.

These amendments provides that the provisions of indirect transfer of assets in India shall not apply to the assets transferred before 28<sup>th</sup> May, 2012 (i.e., the date on which the Finance Bill, 2012 received the assent of the President). Accordingly, all pending assessments shall be deemed to have been concluded without additions for such income.

It is further provided that the demand raised in concluded assessments or rectification orders for indirect transfer of Indian assets made before 28<sup>th</sup> May, 2012 shall be nullified on the fulfilment of specified conditions such as withdrawal or furnishing of undertaking for withdrawal of pending litigation and furnishing of an undertaking to the effect that no claim for cost, damages, interest, etc. shall be filed. Further, the amount paid/collected in these cases shall be refunded, without any interest, on fulfilment of the said conditions. The CBDT had issued the draft rules on 28<sup>th</sup> August, 2021 prescribing the specified conditions to claim the above relief.

After examining the stakeholder comments on the draft rules, the CBDT has notified the final rules vide Notification No. GSR 713(E), dated 01<sup>st</sup> October,

2021 wherein the following rules have been inserted to the Income-tax Rules, 1962:

(a) Rule 11UE provides for the specified conditions in order to be eligible to claim relief under TLA 2021; and

(b) Rule 11UF provides the form and manner of furnishing the undertaking for withdrawal of pending litigation, claiming no cost, damages, etc.

**7. CBDT considering modification in faceless appeal scheme, 2020: Decision of CBDT v. Lakshya Budhiraja (131 taxmann.com 51)(SC), dated 01st October, 2021:**

The assessee challenged the Faceless Appeal Scheme, 2020, alleging that the scheme was discriminatory, arbitrary, and illegal to the extent it provided a virtual hearing as per circumstances to be approved by administrative authorities under Income-tax Act, 1961.

The instant petition was filed to transfer cases challenging Faceless Appeal Scheme, 2020, from High Courts to the instant Supreme Court.

The Additional Solicitor General submitted before the Supreme Court that the Department is having a second look at the matter on the issue of Faceless Appeal Scheme, 2020. He may be granted a period of three months as it may require changing the law.



Considering the submission, the Supreme Court has deferred the matter for three months as sought by the learned Additional Solicitor General.

**8. Multi-Agency Group headed by Chairman, CBDT to monitor investigation into Pandora Papers Cases: Press Release dated 04th October, 2021:**

Pursuant to the report dated 03rd October, 2021 of International Consortium of International Journalists (ICIJ) exposing the offshore secrets of wealthy elites from more than 200 countries and territories, CBDT issued a Press Release stating that the Government has taken note of these developments and that the relevant investigative agencies would undertake investigation in

these cases and appropriate action would be taken in such cases as per law. The Government commits to proactively engage with foreign jurisdictions for obtaining information in respect of relevant taxpayers/entities.

Further, the Government has directed that investigations in cases of Pandora Paper leaks appearing in the media under the name “PANDORA PAPERS” will be monitored through the Multi Agency Group, headed by the Chairman, CBDT, having representation from CBDT, Directorate of Enforcement (ED), Reserve Bank of India (RBI) and Financial Intelligence Unit (FIU).

**9. Italy draft guidance clarifies transfer pricing documentation requirements: MNE Tax: Date 5th October, 2021:**

On 20<sup>th</sup> September, the Italian revenue agency published a draft version of the long-awaited circular letter on transfer pricing, focused on the appropriate documentation necessary to verify the correct application of the arm’s length principle. The publication is coupled with the launch of a public consultation aimed at obtaining views and recommendations from the tax community, including business associations.

The draft circular letter reiterates the main purpose on which the transfer pricing documentation is grounded, i.e., the detailed explanation of the transfer pricing policy applied within the group, ensuring that the transactions are concluded at arm’s length, in line with the indications provided by paragraph 5.5. of the OECD guidelines. As a result, the transfer pricing documentation is seen as an instrument to establish a cooperative and transparent approach with the revenue agency.

Among the various improvements on the transfer pricing side, the regulations specified that the transfer pricing documentation is considered adequate when both the master file (i.e., the document focused on the multinational group in general, the value chain, intangible assets owned by the group, intra-group financial assets, etc.) and the local file (which, as in the past, is more focused on the Italian entity) are drafted. This requirement is mandatory irrespective of whether the Italian entity is a holding or sub-holding.

**10. Mexico proposes new transfer pricing rules of the game: MNE Tax: Date 6th October, 2021:**

On 8<sup>th</sup> September, Mexico's Federal Executive presented a decree that would amend various tax laws, modifying the transfer pricing regime to enhance its effectiveness as a tax collection and audit instrument for the tax authorities.

The decree would provide new and aggressive rules of the game for taxpayers through changes amending, adding and repealing several provisions of the Federal Tax Code (CFF), Mexican Income Tax Law (LISR), the Value Added Tax Law (LIVA), and the Special Tax on Production and Services Law (LIESP).

#### *Criteria for the elaboration of transfer pricing analysis*

To confirm the arm's length condition of an operation (that is, to demonstrate that the intercompany transaction was conducted under the terms that would have been agreed with independent third parties), it is necessary to perform a comparability analysis.

The comparability analysis includes the relevant attributes of the intercompany operation – the characteristics of the operation, the asset functions and risks, the contractual terms and the economic circumstances, in the terms prescribed by chapter III of the OECD transfer pricing guidelines and article 179 of the Mexican Income Tax Law.

Until now, the comparability analysis was usually based on the entity analyzed for the confirmation of the arm's length condition of the operation, but the proposed law reform would require that the perspective of the parties involved in the operation be considered (LISR 76-IX,b). The proposal would also restrict the period in which the price, amount of consideration or profit margins of the taxpayer must be evaluated, requiring a year-versus-year comparison, unless the taxpayer demonstrates the existence of a business cycle in the analyzed transaction (LISR 179). Furthermore, the proposal would also specify that when applying any of the transfer pricing methods prescribed by Article 180 of the Mexican Income Tax Law, the detail of the comparability adjustments implemented must be provided: accounting, capital and country risk (Income Tax Law 76-IX,d).

Finally, the result would have to be presented using the interquartile range, the method agreed upon in the framework of an amicable agreement procedure, or eventually, the method proposed by the tax authorities through the issuance of general rules (LISR 180).



## 11. Thailand: New requirements for transfer pricing and Local file documentation: KPMG Bulletin: Date 7th October, 2021

The Director-General of the Thai Revenue Department issued guidance— Notification No. 407 (30 September 2021)—regarding transfer pricing documentation.

Specifically, the guidance addresses the transfer pricing requirements for:

- The information and documentation for the Local file
- An exemption from the benchmarking study requirement

These new measures are effective for all accounting periods beginning on or after 1 January 2021.

List of information and documents for Local file

The guidance provides the information and documents required when preparing a Local file are as follows:

- Business model, management structure; local organization chart with headcount numbers; value chain, key suppliers, customers and competitors; business strategy and economic circumstances
- Relationship structure including shareholding information
- An explanation of business restructuring between related parties and its effects
- An explanation of intangible assets received from or transferred to related parties and their effects
- The nature and amounts of controlled transactions with counterparties and countries
- An explanation of and transfer pricing policy for each controlled transaction with assumptions used in setting prices (unless such controlled transactions are insignificant)
- Agreements relevant to those controlled transactions with a summary of key information, conditions, and prices stated in agreements

- Functions, assets, and risks analysis
- Financial information used in determining prices
- The transfer pricing method applied for each transaction with reasons for selecting (or not selecting) a method and an indication of counterparties to such controlled transactions for transfer pricing testing purposes
- An explanation of uncontrolled comparable transactions or independent comparable companies with financial indicators, independent compensation ranges, search methodologies, and sources of information (“benchmarking study”)
- Any other necessary documents or evidence not listed above but requested by assessment officers with approval from the Director-General

The Local file, along with the associated information and documents listed above, must be prepared in the Thai language. The submission of a Local file is considered complete only if a taxpayer receives a document receipt number or any other evidence of receipt from the tax agency.

**12. MNEs will be subject to a minimum 15% tax rate from 2023; two-pillar solution agreed by 136 countries: News, dated 08th October, 2021:**

Major international tax reform was finalized on 08<sup>th</sup> October, 2021 at the OECD. The reform will ensure that Multinational Enterprises (MNEs) will be subject to a minimum 15% tax rate from 2023.

This landmark deal has been agreed upon by 136 countries and jurisdictions representing more than 90% of global GDP. It will also reallocate more than USD 125 billion of profits from around 100 of the world’s largest and most profitable MNEs to countries worldwide, ensuring that these firms pay a fair share of tax wherever they operate and generate profits. Four countries - Kenya, Nigeria, Pakistan, and Sri Lanka have not yet joined the agreement.

On 01<sup>st</sup> July, 2021, the majority of the members OECD/G20 Inclusive Framework on BEPS (including India) adopted a high-level statement containing an outline of a consensus solution to address the tax challenges arising from the digitalization of the economy. India favored a consensus solution to tax which is simple to implement and simple to comply with.

The proposed solution consists of two components - Pillar One, which is about reallocation of an additional share of profit to the market jurisdictions, and Pillar Two consisting of minimum tax and subject to tax rules.

Pillar Two introduces a global minimum corporate tax rate set at 15%. The new minimum tax rate will apply to companies with revenue above EUR 750 million and is estimated to generate around USD 150 billion in additional global tax revenues annually. Further benefits will also arise from the stabilization of the international tax system and the increased tax certainty for taxpayers and tax administrations.

**13. Ireland Abandons 12.5% Tax as Global Deal Races to Finish (1): Bloomberg tax 08th October, 2021**

Ireland is ready to sign up to a proposed global agreement for a minimum tax on companies.

On the eve of a key meeting between 140 countries hosted by the Organization for Economic Cooperation and Development, the Irish government said it will join the push for a floor of 15% levied on profits of corporate entities.

“This agreement is a balance between our tax competitiveness and our broader place in the world,” Irish Finance Minister Paschal Donohoe said in a statement.

**14. CBDT exempts certain non-residents from furnishing ITR subject to fulfillment of conditions: Notification No. 119, dated 11th October, 2021:**

CBDT has exempted the following class of persons from the requirement of furnishing a return of income under section 139 of the Act if they satisfy prescribed conditions:

**Non-resident or foreign company**

A non-resident not being a company or a foreign company shall be exempt from furnishing ITR if the following conditions are fulfilled during the previous year:

(a) The non-resident does not earn any income in India other than the income from investment in the specified fund referred to in section 10(4D) (c)(i) of the Act;

(b) The provisions of section 139A of the Act do not apply to him subject to fulfillment of conditions mentioned in Rule 114AAB (1) of the Income-tax Rules, 1962; and

(c) He has not been issued a notice to file return of income under provisions of Section 142(1) or Section 148 or Section 153A or Section 153C of the Act.

### **Eligible Foreign Investor**

A non-resident being an eligible foreign investor shall be exempt from furnishing ITR if the following conditions are fulfilled during the previous year:

(a) The non-resident has made transactions only in capital assets referred to in section 47(viiab) of the Act, which are listed on a recognized stock exchange located in any International Financial Services Centre (IFSC), and the consideration on transfer of such capital asset is paid or payable in foreign currency;

(b) The non-resident does not earn any income in India other than the income from the transfer of capital assets referred to in section 47(viiab) of the Act;

(c) The provisions of section 139A of the Act do not apply to him subject to fulfillment of the conditions mentioned in Rule 114AAB (2A) of the Income-tax Rules, 1962; and

(d) He has not been issued a notice to file return of income under provisions of Section 142(1) or Section 148 or Section 153A or Section 153C of the Act.

The exemption from filing return of income is available to the above class of persons from Assessment Year 2021-22 onwards.

### **15. Fourth G20 Finance Ministers and Central Bank Governors Meeting: Communique, dated 13th October, 2021:**

G20 Finance Ministers and Central Bank Governors at their fourth meeting endorsed the final political agreement as set out in the Statement on a two-pillar solution to address the tax challenges arising from the digitalisation of the economy and in the Detailed Implementation Plan, released by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) on 8<sup>th</sup> October, 2020. They have opined that this agreement will establish a more stable and fairer international tax system and called on to the

OECD/G20 Inclusive Framework on BEPS to swiftly develop the model rules and multilateral instruments as per the Detailed Implementation Plan to make it effective in 2023.

**16. CBDT extends recently notified Rules 11UE/11UF to Sec.119 of Finance Act, 2012: Notification No. 120/2021/F. No. 370142/47/2021-TPL, dated 13th October, 2021:**

CBDT has notified Relaxation of Validation (section 119 of the Finance Act, 2012) Rules, 2021. Section 119 to Finance Act, 2012 was introduced to effectuate the retrospective amendments made to Section 9(1)(i) by Finance Act, 2012 for taxing the indirect transfers, the retrospectivity of which was recently nullified by Taxation Laws (Amendment Act), 2021 pursuant to which Rules 11UE and 11UF were also notified vide Notification No. 118 of 2021 dated 01st October, 2021 (mentioned in Para 12 above). The Rules provide that the form and manner of furnishing undertaking under Explanation to fifth and sixth proviso to Explanation 5 to Section 9(1)(i) as prescribed under Rule 11UE(1)/(3) and Rule 11UF of the Income-tax Rules, 1962, shall mutatis mutandis apply to clauses (i), (ii) and (iii) of the first proviso to Section 119 of the Finance Act, 2012. Also provides that the conditions for the purposes of clause (iv) of the Explanation to fifth and sixth proviso to Explanation 5 to Section 9(1)(i) as prescribed under Rule 11UE(2) shall also mutatis mutandis apply to clause (iv) of the first proviso to Section 119 of the Finance Act, 2012.

**17. Over 2 crore Income Tax Returns filed on the e-Filing portal of the Income Tax Department: Press Release dated 14th October, 2021:**

CBDT stated that the e-filing portal of the Income Tax Department has marked receipt of more than 2 crore Income Tax returns as on 13th October 2021. The new portal was launched on 7th June, 2021 and in the initial period taxpayers had reported glitches and difficulties in the functioning of the portal. A number of technical issues have since been resolved and the performance of the portal has substantially stabilized.

Further CBDT has stated that over 13.44 crore unique taxpayers have logged in till 13th October, 2021. Approximately 54.70 lakh taxpayers have availed of 'forgot password' facility to obtain their passwords. All Income Tax Returns have been made available for e-filing. Further more than 1.70 crore returns have been e-verified, out of which 1.49 crore are through Aadhaar based OTP.

Of the verified ITRs 1 & 4, over 1.06 crore ITRs have been processed and over 36.22 lakh refunds for AY 2021-22 have been issued. Processing of ITRs 2 & 3 will be taken up shortly.

The Digital Signature (DSC) registration of non-residents has been enabled and overall 4.87 lakh DSCs have been registered.

Over 15.72 lakh Statutory Forms have been submitted including 9.08 lakh TDS statements, 1.29 lakh Form 10A for registration of Trusts/institutions, 1.98 lakh Form 10E for arrears of salary, 23,920 Form 35 pertaining to filing of Appeal and 22,075 DTVSV Form 4 till 13th October, 2021.



In response to feedback from taxpayers, the submission process of 15CA and 15CB forms required for foreign remittances has been revamped.

Over 1.83 lakh 15CA and 37,870 15CB forms have been filed. More than 21.40 lakh e-PANs have been allotted online free of cost. The Legal Heir functionality has been enabled for registrations and compliance.

Further, e-proceedings and faceless proceedings have been enabled with functionalities including video conferencing for assessment and seeking adjournments or appointment and filings by Authorized Representatives. Taxpayers have been able to view over 12.20 lakh Notices issued by the Department under the Faceless Assessment/Appeal/Penalty proceedings, to which over 6.24 lakh responses have been filed.

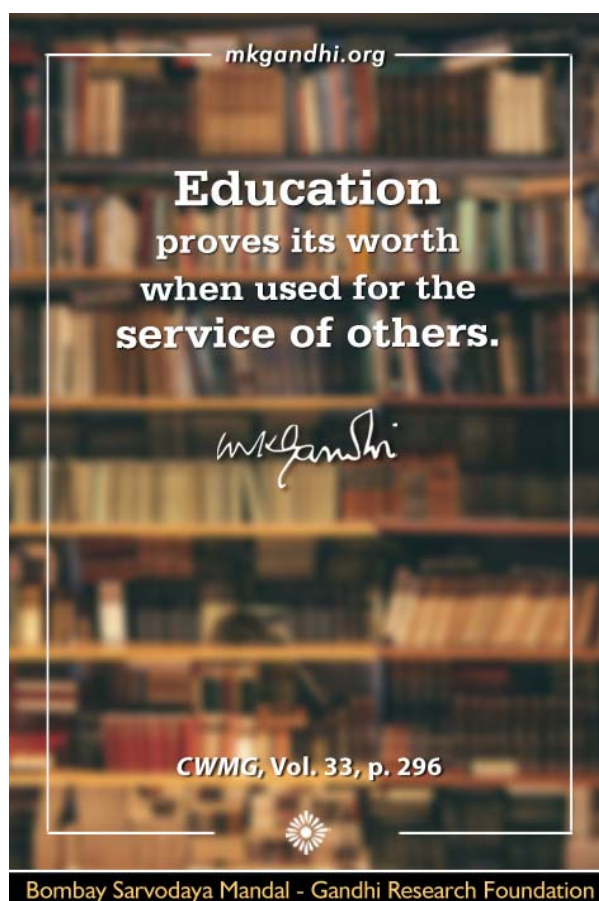
The Income Tax Department strongly urged all taxpayers to view their Form 26AS through the e-filing portal to verify the accuracy of the TDS and Tax Payments and avail of pre-filing of ITRs. They further requested all taxpayers who are yet to file their Income Tax returns for AY 2021-22 to file their returns at the earliest.

**18. Exemptions: Statutory Authority / Body / Commission: Notified Body or Authority: Section 10(46) of the Income Tax Act, 1961:**

The Central Government hereby notifies following entity as eligible under section 10(46) of the Income Tax Act, 1961.

<i>Sl. No.</i>	<i>Name of the Entity</i>	<i>Notification No. and date</i>	<i>Period for which income is notified as exempt</i>
(1)	(2)	(3)	(4)
1	Punjab State Electricity Regulatory Commission, Chandigarh (PAN-AAAGT0052L)	Notification S.O. 4263 (E) [NO. 121/2021/F. NO.300196/5/2021-ITA-I], dated 13 <sup>th</sup> October, 2021	Notification shall apply with respect to the financial years 2021-22, 2022-23, 2023-24, 2024-25 and 2025-26.

The terms and conditions have been prescribed.



# ARTICLE:

## Investing in Indian Equities vs. US Equities

(by CA Rishabh Adukia)

Often this question is asked and discussed amongst the investing community whether to invest in Indian markets or consider investing in some of the developed markets. We are familiar that US markets have outperformed the Indian markets in the last decade but in the coming years will this performance continue is the question which needs to be answered and let us discuss the same.



As can be seen below, during the calendar year 2021 so far, Nifty 50 in dollar terms has seen a turnaround and performed better than both NASDAQ composite and S&P 500.

Returns in %	NASDAQ composite	S&P 500	Nifty 50 (Rupee)	Nifty 50 (USD)
2015-20	19.4	11.2	9.6	7.3
2021 till Aug' 21	18.4	20.4	22.5	22.6

The view that Indian Equities could perform better than US Equities was based on below factors:

1. Indian Equities have a higher earnings potential than US Equities which could lead to outperformance of Indian Equities.
2. US Equities witnessed de-growth in profitability in 2020 thus pushing the earnings growth to 2021. However, this is expected to normalize in 2022. On the other hand, the EPS estimate of Nifty 50 for 2021, is factoring in the negative impact of second wave.



3. At this point of time, considering half the year of 2021 has gone by, markets are factoring the earnings estimate of 2022. On a 2 year earnings growth basis, Nifty 50 EPS is expected to be significantly better than S&P 500.

EPS	S&P 500		Nifty 50	
	EPS	Growth in %	EPS	Growth in %
2019	141	3.0	470	2.5
2020	140	-1.0	518	9.9
2021E	205	46.4	692	34
2022E	215	4.9	797	15

*Source: Bloomberg and Yardeni Research, Inc. Note: For S&P 500, data relates to end December of the respective year and for Nifty 50, end March of the next year.*

4. Valuation for Indian Equities relatively better than US Equities.

US market is definitely overvalued on Market cap to GDP compared to the Indian markets. Currently, market capitalization in the US is close to 205% of the GDP which is at all time high and nearly 40% higher than the 2007 levels.

India's equity market capitalization to GDP ratio even though close to 100% levels, is 34% below the all-time high of 2007. The current market capitalisation is also comparable with the levels that prevailed during 2009 and 2010.

#### Market Cap to GDP Ratio

Year	US	India
2006	142	95
2007	138	161
2008	79	66
2009	104	102
2010	115	105
2011	101	68
2012	115	76
2013	143	68
2014	150	83
2015	137	83
2016	146	76
2017	164	96
2018	148	84

2019	158	80
2020	174	99
Aug 2021	206	103

Source: CEIC

5. Rupee unlikely to depreciate against US dollar

We have seen in the past that depreciation of rupee versus the US dollar during 2010-20 was an average of 3.6% per year. This was one of the major reasons for the relative underperformance of Indian versus US equities. Since April 2020, US dollar has depreciated considerably against most major currencies and modestly against Indian rupee. Our view is that over the next couple of years rupee is unlikely to depreciate considerably against US dollar. The depreciation of rupee against US dollar in this calendar year has been almost negligible at 0.22%

**Conclusion:**

Indian and US markets have their own set of advantages but in view of all 3 factors of earnings, valuation and currency depreciation, we continue to believe that Nifty 50 is likely to perform better than S&P 500 for the next couple of years. It would be advisable for investors to reduce allocation in US equities and continue to build allocation to Indian Equities as per their desired allocation given the above scenario.

(The author Rishabh Adukia is a Chartered Accountant and qualified professional advising on wealth management to individuals, millennial's, emerging HNIs including others and can be reached on [adukia.rishabh@gmail.com](mailto:adukia.rishabh@gmail.com))

**Action Points under Income Tax Act, 1961**

**For the Month of November 2021:**

<b>7<sup>th</sup> November</b>	TDS Payment for October 2021
<b>30<sup>th</sup> November</b>	E-filing of the Accounts of charitable trusts with the Office of the Charity Commissioner for the year ended 31 <sup>st</sup> March, 2021
<b>30<sup>th</sup> November</b>	Holding of AGM under Companies Act, 2013 for the year ended 31 <sup>st</sup> March, 2021

....STORY TO REMEMBER....

*Comparisons*

*Shweta covered a distance of 10 km in one hour.*

*Anshul covered the same distance in one and a half hours.*

*Which of the two is faster and healthier??*

*Of course our answer will be Shweta.*

*What if we say that Shweta covered this distance on a prepared track while Anshul did it by walking on a sandy path???*

*Then our answer will be Anshul.*

*But when we come to know that Shweta is 50 years old while Anshul is 25 years old??*

*Then our answer will be Shweta again.*

*But we also come to know that Anshul's weight is 140 kg while Shweta's weight is 65 kg.*

*Again our answer will be Anshul.*

*As we learn more about Anshul and Shweta, our opinions and judgments about who is better will change.*

*The reality of life is also similar. We form opinions very superficially and hastily, due to which we are not able to do justice to ourselves and others.*

- *Opportunities vary.*
- *Life is different.*
- *Resources differ.*
- *Problems change.*
- *Solutions are different.*

*Therefore the excellence of life is not in \*comparing\* with anyone but in testing oneself.*

*You are the best. Stay as you are and keep trying your best according to your circumstances.*

*Stay healthy, stay cool, stay satisfied, keep smiling, keep laughing, keep on serving society and the country.*

This Tax Chat is prepared only for information of our clients and colleagues in the office. In this Tax Chat an attempt has been made to summarize various changes / development in Direct Tax Law during previous months.

The information is of a general nature and is not intended to address specific facts and circumstances. Specific guidance may be obtained before acting on the same.

If you need full text of circular, notification, press release, etc., we will be happy to provide the same on hearing from you. We have compiled the information from Taxmann and Taxsutra websites and mails.

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HAPPY  
GURU NANAK  
JAYANTI

