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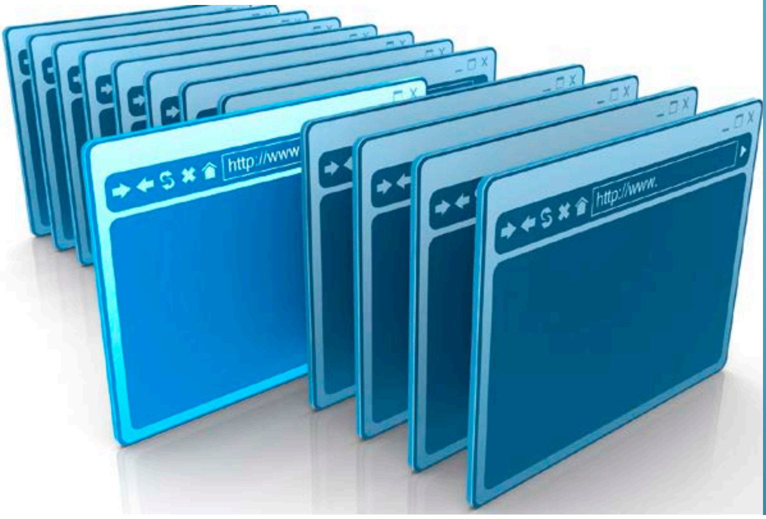
UNION BUDGET 2014

"Amidst buoyancy of hopes,
very little to take home"



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Budget

2014

THE BUDGET DISCUSSION

Dear All, we are happy to present before you details of Budget 2014. Trust you would find it useful. This budget had promised so many structural reforms that would propel growth and buoyancy back into the economy. Now, considering the inflationary trends in the economy, a substantial increase in the Income tax slab was expected. However, the benefits announced for the common man aggregating with benefits that arises from increase in investment limits of Section 80 C and deduction of interest on housing loans, do not augur enough.

To me the nation was looking forward for an announcement of a five point priority wish list, namely – providing the right environment to the manufacturing sector, focusing on education, & thrusting more usage of technology, establishing a tax regime that is progressive & growth oriented, encouraging the start-ups, and complete focus on creating better infrastructure. I would have to admit he has touched upon all of these issues and at least built a platform from where this country can pick up.

Increase in FDI in defence would really support the rupee and curb corruption as we all have witnessed what has happened for years when it comes to procurement of high value defence equipment's from abroad. On the other hand, trying to classify companies investing a minimum of INR 250 million as SME's is not being in sync with reality.

There were many statements given by the FM in his speech which made it very clear that they want to provide an environment which is less prone to litigation and more taxpayer friendly. Many of his amendments in this budget are also on this line. On the other hand it would have been really good if he would have announced a formal date and deadline for implementation of Goods & Service Tax (GST). I thought the intent and effort from the new government was not enough simply because they have not given any specific deadlines for its implementation. We also wish that the Direct Tax Code (DTC) is made applicable from at least next year, which is necessary for Direct tax reforms.

I would like to conclude by saying that there seems to be a conscious effort towards growth & development However, the hopes and expectation based on promises made pre-election were too high, which ends up making the impact of this budget quite tepid.

Economic Highlights

Total Expenditure
INR 17.95 Lakh Crore (Approx)

Total Revenue from Taxes
INR 11.6 Lakh Crore

Revenue from other sources
INR 3.93 Lakh Crore

Resultant Deficit
INR 3.77 Lakh Crore

- Decline in fiscal deficit from 5.7% in 2011-12 to 4.5% in 2013-14 mainly achieved by reduction in expenditure rather than by way of realization of higher revenue. By controlling expenditure one can really not achieve a lot.
- Fiscal Deficit is further planned to be brought down to 4.1 % which is a daunting task in front of the Government. If achieved will be extremely praiseworthy efforts. In order to achieve this, Government may have to target Divestments in PSU's in a big manner. Industry expectation of Fiscal deficit stood at 4.5% of GDP
- FDI increased in Defence and Insurance. This will give a significant boost to the rupee as purchases in the area of defence which forms a great chunk of foreign currency spending will reduce.
- Increased spending in sectors such as Agriculture, Banking, Education, and Infrastructure
- Reduced spending in the social welfare schemes
- Increased focus on Entrepreneurship, Power reforms and usage of technology

Direct Tax Proposals
Rate Card
(1/3)

For individuals, HUF & BOI:

Gross Total Income	Tax Rate
Up to INR 2,50,000 *(Earlier 2,00,000)*	Nil
INR 2,50,001 to INR 5,00,000	10%
INR 5,00,001 to INR 10,00,000	20%
Above INR 10,00,000	30%

In case of Resident Individual of the Age of 60-80 years:

Gross Total Income	Tax Rate
Up to INR 3,00,000 *(Earlier 2,50,000)*	Nil
INR 3,00,001 to INR 5,00,000	10%
INR 5,00,001 to INR 10,00,000	20%
Above INR 10,00,000	30%

In case the Resident Individual of the age 80 years & above:

Gross Total Income	Tax Rate
Up to INR 5,00,000 :	Nil
INR 5,00,001 to INR 10,00,000	20%
Above INR 10,00,000	30%

For Co-operative Societies and Non Profit Organization:

Particulars	Tax Rate
Up to INR 10,000	10%
INR 10,001 to INR 20,000	20%
Above INR 20,001	30%

Corporate Tax Rate Card:

Particulars	Tax Rate
Tax Rate for Domestic Companies	30%
Tax Rate for Foreign Companies	40%
Tax Rate for Partnership Firms, LLP's	30%
Societies Other Than Co-operative Societies	30%

a) Change in the mechanism of computing dividend distribution tax on gross basis resulting into effective DDT rate being gone up to 18.27%.

Direct Tax Proposals
Rate Card
(2/3)

Surcharge

Assessee	Income Range	Surcharge
Domestic Company	Up to INR 1 Cr INR 1 Cr to INR 10 Cr Above INR 10 Cr	Nil 5% 10%
Foreign Company	Up to INR 1 Cr INR 1 Cr to INR 10 Cr Above INR 10 Cr	Nil 2% 5%
Non Corporate	Up to INR 1 Cr Above INR 1 Cr	Nil 10%

a) Education cess is applicable @ 3%.
b) Relief for Tax Payers in the first bracket of INR 2.50 lakhs to INR 5 Lakhs – A Tax Credit of INR 2000 or tax whichever is less to individuals with total income up to INR 5 lakhs.

Rates of STT (Securities Transaction Tax):

Sr. No	Security Transaction Tax	Payable by whom	Rates
1	Purchase/Sale of equity shares (delivery based)	Purchaser/ Seller	0.1%
2	Purchase of units of equity-oriented mutual fund(delivery based)	Purchaser	Nil
3	Sales of units of equity-oriented mutual fund	Seller	0.001%
4	Sale of equity shares, units of equity-oriented mutual fund(non delivery based)	Seller	0.025%
5	Sale of an option in securities	Seller	0.017%
6	Sale of option in securities, where option is exercised	Purchaser	0.125%
7	Sale of future in securities	Seller	0.01%
8	Sale of unit of equity oriented funds to Mutual Fund	Seller	0.001%

Rates of CTT (Commodities Transaction Tax):

Sr. no.	Particulars	Payable By	Rate
1	Sale of a commodity derivative	Seller	0.01%

Direct Tax Proposals

Rate Card (3/3)

Withholding Rates for Non Residents

Nature of Income	Tax Rates
Dividend (other than Dividend on which DDT has been paid)	20%
Interest received on loans given in foreign currency	20%
Income received in respect of units purchased in foreign currency of specified mutual funds/ UTI	20%
Sports persons and entertainers	20%
Interest received on notified infrastructure bond	5%
Interest on FCCB, FCEB/ Dividend on GDR"s	10%
Royalty / Fees for technical fees	25%
Interest income received by FII or QFI on rupee denominated bonds or government securities	5%
Distributed income in the nature of interest received by unit holder form the business trust	5%
Interest received form Indian Company or Business Trust on monies borrowed in foreign currency and approved by the Central government	5%

Presumptive tax for all Resident Assessee:

Business Type	Rate at which the income is presumed
Small Business	8% of the gross turnover
Plying, hiring, leasing good carriages (person should not own over ten good carriage at any time during the previous year	A uniform amount of INR 7,500 for every month (or part of a month) for all types of goods carriage without any distinction between HGV and vehicle other than HGV.

Capital Gain Rates:

Gross Total Income	Short Term	Long term
Purchase sale of equity shares on which STT has been paid	15%	Nil
Sale of any other asset other than as mentioned above		
Individuals	As per the slab rates	
Firms & LLP's	30%	20 % with indexation: 10% without indexation in case of listed securities and zero coupon bonds (other than units).
Companies	30%	
Foreign Companies	40%	
Local authority	30%	
Co-operative societies	As per the slab rates	
Overseas Financial Organizations specified in section 115AB	40%(corporate) 30%(Non-Corporate)	10%
FII's	30%	10%

Direct Tax Proposals

Personal Taxes

- The basic threshold limit for taxpayers is proposed to be increased from INR 2 lacs to INR 2.5 lacs and for senior citizens is proposed to be increased from INR 2.5 lacs to INR 3 lacs. No change is proposed in existing rates of surcharge and education cess.

- Section 80C limit (amount that can be claimed as deduction) has been increased to INR 150,000 from existing INR 100,000.

- In case of amounts that can be invested in PPF, the annual ceiling has increased to INR 150,000 from the present limit of INR 100,000.

- Under the existing provisions, a deduction of INR 1,50,000 p.a. is allowed for payment of interest on housing loan for self-occupied house property. The limit has now been increased to INR 2,00,000.

- Under the prevailing provisions, capital gains on transfer of a long term capital assets is exempt to the extent such gains are reinvested in specified bonds within a period of six months. The limit for such investments of bonds was restricted to INR 50 lakhs a year. Now this provision has been amended to curtail the limit “as INR 50 lakhs for the year as well as subsequent year”.

- Threshold limit for employees for getting covered under Employees Provident Fund Scheme has been increased from INR 6,500 to INR 15,000. Hence, all employees drawing a salary of less than INR 15,000 are now under the ambit of PF.

- Capital gains arising from transfer of long term capital asset (residential house not included) are exempted only when proceeds of such gain is reinvested in only one residential house in India. Earlier there was no requirement for the new house to be situated in India.

- Any employee would be eligible to take the benefit of the deduction in respect of the notified pension scheme irrespective of the date of joining. The deduction available under the scheme is restricted to 10% of the amount of salary.

Direct Tax Proposals

Corporate Taxes

(1/2)

- No changes in corporate tax structure.

Revised effect of DDT, eventually hurting both the Corporate and shareholders

- In case of domestic company distributing dividend to share holders, effective rate of Dividend Distribution Tax (DDT) has been increased. An illustrative example is listed below for understanding

Prior to Amendment
Dividend to Shareholders = INR 1,000/-
Amount of DDT payable by the company = **INR 154.5** (1,000*15.45/100)

After Amendment
Dividend to Shareholders = INR 1,000
Amount of DDT payable by the company = **INR 182.73** (1,000*15.45/100) / (100-15.45)

After amendment, there is increase in DDT payment by the company amounting to INR 28.23 which increases by 2.82%.

CSR googly – A dampener for India Inc

- Expenditure incurred on corporate social responsibility (CSR) will not be an allowable business expenditure. However, specific expenses covered under section 30 to 36 of the Act will be allowed which include repairs, depreciation or expenditure towards specified notified projects. Disallowing as business expenditure could result in additional burden for Indian companies.

Infrastructure Investment Trusts (Infra Trust) & Real Estate Investment Trusts (REIT)

- SEBI has proposed guidelines for creation and operations of Infra Trusts and REIT's. Consequentially this Finance Act has proposed and clarified the tax structure that would be applicable for the understanding of the investors willing to invest in such Infra Trusts and REIT's.
- It is envisaged that such Infra Trusts and REIT's will raise funds by issuing units (Equity Oriented/debt) to the investors. Thereafter these monies will be further invested in Indian companies (SPV's) to obtain a specific interest / share

Direct Tax Proposals

Corporate Taxes

(2/2)

- It is envisaged that such Infra Trusts and REIT's will raise funds by issuing units (Equity Oriented/debt) to the investors. Thereafter these monies will be further invested in Indian companies (SPV's) to obtain a specific interest / share
- Thus the income will generally flow from the SPV to the REIT and Infra Trusts. Thereafter these incomes will be repatriated to the investor.
- The following table below will explain the proposed tax structure in case of REIT and Infra Trusts.

Particulars of income	Taxability in the hands of		
	SPV (Target Company)	REIT and Infra Trust	Investor
Dividends	SPV distributing dividend to the REIT and Infra Trust would be subject to DDT	Dividends received by the REIT and Infra Trust will be exempt as DDT has been paid	Dividend distributed by the REIT and Infra Trust to the investor will be treated as such, and hence no tax is required to be paid on dividends
Interest	No withholding taxes is required to be done on Interest payments to REIT and Infra Trusts	Interest Income earned from SPV is not taxable in the hands of REIT and Infra Trust. Thus interest has been given a tax pass through status	Interest received by the Investor will be taxed. TDS @ 5% to be made to interest paid to Non Resident Investor and TDS @ 10% on interest paid to Resident Investor
Capital Gains	Not Applicable	Capital gain will accrue on gains arising from transfer of any SPV or disposal of any of its assets (May be short term or long term)	1) Since capital gains arising on transfer of SPV's already paid by the REIT and Infra Trust the capital gains portion of income distributed to the investors, shall be exempt in the hands of Investor. 2) Further, capital gains may arise on sale of units of Infra Trust and REIT which would be listed on the stock exchange. Hence, in case of long term it would be exempt and in case of short term it would be taxed @ 15%

Direct Tax Proposals

Incentives & Relief

(1/2)

Extended benefit of period for the power sector:

It is proposed to extend 80 IA benefits (Entire income would be available as deduction) to Companies operating in the power sector for a further period up to 31st March, 2017

Deduction in case of Investment in specified businesses:

An amount of 100% deduction is permitted towards expense in capital nature for specified businesses. The specified business has been proposed to be extended to two new sectors- '*laying and operating a slurry pipeline for the transportation of iron ore*', and '*setting up and operating a semiconductor wafer fabrication manufacturing unit*'. The asset in respect of which the investment linked deduction is claimed should be used for specified business for eight years. In case if used for any other purpose then the amount of deduction claimed would deemed to be the income in the year in which it is used.

Investment allowance on acquisition of new plant & Machinery:

- The Finance Act 2013 allowed a deduction of 15% of the cost of new plant and machinery exceeding INR 100 crore.

- Now, in order to provide growth to the SME segment, Companies into the business of manufacturing, would get an additional deduction of 15%, for investments in Plant & Machinery exceeding INR 25 crore. This deduction would be made available for 3 financial years up to 31/03/2017

- Further for the benefit of companies, who could not claim this deduction in the previous year Financial Year 2013-14 on account of investment limit being very high, have the option of clubbing the investments made in the year 2014-15 along with the investments made in 2013-14 to consider the threshold limit of INR 100 crore and claim the deduction accordingly in the financial year 2014-15 onwards.

Direct Tax Proposals

Incentives & Relief

(2/2)

To understand the above please find the below illustration for better clarity.

(Rs. in Crore)

Sr. No.	Particulars	P.Y. 2013-14	P.Y. 2014-15	Remarks
1.	Amount of Investment	20	100	Though amount invested in FY 13-14 not exceeding INR 100 Crore but combined investments in FY 14-15 exceed INR 100 Crore. Thus deduction of 15% on INR 120 available to the taxpayer in FY 14-15
	Deduction allowable	Nil	18	
2.	Amount of Investment	30	40	Under this Scenario since the aggregate amount of investment in FY 14-15 exceeds INR 25 Crore but not INR 100 Crore, hence deduction allowable only on investment made in FY 14-15.
	Deduction allowable	Nil	6	
3.	Amount of Investment	150	10	Though investment made in FY 14-15 is less than INR 25 Crore, still the combined investments including investment in FY 13-14 exceeds INR 25 Crore, a deduction in FY 14-15 would also be permissible.
	Deduction allowable	22.5	1.5	
4.	Amount of Investment	60	20	No deduction permissible because in FY 14 -15 as individually threshold of INR 25 Crore not exceeded and in combination INR 100 cores not exceeded.
	Deduction allowable	Nil	Nil	
	Deduction allowable	Nil	4.5	
5	Amount of Investment	80	21	Though individually in both the years the amount invested in lesser than the threshold limit, however in combination during FY 14-15 the limit exceeds the threshold of INR 100 Crore and hence deduction permissible.
	Deduction allowable	Nil	15.15	

- It is proposed to extend the benefit of lower rate of taxation on dividends received from foreign companies without limiting to a particular assessment year. Thus, such foreign dividends received in F.Y. 2014-15 and subsequent financial years shall continue to be taxed at 15%.

Direct Tax Proposals

Other Proposals

(1/5)

Provisions pertaining to TDS

- Presently, the law provides that certain payments such as interest, royalty and fee for technical services, shall not be allowed as deduction if TDS is not made on such payments. Hence disallowance in such cases would be 100% of expenditure claimed. Now, in case of default in TDS towards any expenditure, the ***disallowance shall be restricted only up to 30%***, instead of disallowing the entire expenditure. Further, to improve the TDS compliance, ***the disallowance shall extend to all kinds of expenditures*** (i.e. payment of salary, director fees etc.) which was earlier restricted to only certain kinds of payments against which expenditure was claimed.
- When a Tax officer has reason to believe that there is a default in case of TDS compliance by the taxpayer then the ***tax officer can pass an order at any time within seven years*** from the end of the financial year in which the payment is made or credit is given. This is a substantial change in the limitation period for passing of such orders from the existing law where such orders could be passed only within two years, where a quarterly TDS statement is filed or after six years where statements are not filed or defaults do not come to the knowledge of the tax payer on account of withholding information or reporting of incorrect information. The amendment shall take effect from October 1, 2014
- From 1st of October 2014 there is a provision ***of filing TDS correction statement*** in case of rectification required for information furnished in the TDS statement
- In order to attract foreign funds, ***the benefit for concessional rate of withholding tax @ 5% is extended up to 1st July 2017***, on interests paid to non-residents on monies borrowed against long-term bonds. (This benefit was earlier available only for ECB and infrastructure bonds)
- W.E.F 1st October 2014 it is proposed to introduce a TDS @ 2% on amounts paid towards life insurance policies which are not exempted u/s 10(10D) of the Act. However, no TDS will be made if the aggregate amount does not exceed INR 1 lac in one financial year.
- In respect of disallowance for non-payment of tax from payment to non-resident, the time limit of payment of withholding tax to the credit of central government has been extended till date of filing of return of income (earlier time available only till the end of financial year) similar to the time limit available for payment of withholding taxes in respect of payments to resident

Direct Tax Proposals

Other Proposals

(2/5)

<u>Proposals for Charitable Trusts and Institutions</u>

If trusts are registered for specific exemptions then general exemption cannot be claimed. There are special exemption provisions relating to the taxation of public charitable trusts which are required to apply their income for charitable or specified purposes. However, some trusts were claiming exemption under both specific as well as general provisions which defeated the objective of granting specific exemption to the trusts. Therefore, it is now being proposed that a trust or an institution which has been granted registration for specific exemption would not be eligible to claim any amounts under the general exemption (Except exemption of agricultural income)

Depreciation on Assets already considered in application of monies - In computing income of the charitable trusts or institutions no deduction or allowance can be claimed towards depreciation in respect of an asset for which purchase price has already been claimed as application of income. This is to ensure that double benefit is not claimed by the trust or the Institution.

Definition of Substantially financed institution The Act provides exemption to the income earned by universities, trusts hospitals etc. which are not for the purpose of profit and substantially financed by the government. Now if Government grant to a university or any other institution exceeds a specified percentage of their total receipts including any voluntary contributions, then such universities, hospitals trusts etc. shall be considered as substantially financed by government

Treatment of anonymous donations: Existing provisions stipulate taxation of anonymous donations exceeding higher of 5% of total donations or INR 1,00,000 at a flat 30% . This resulted into double taxation of income of the trust or institution as anonymous donation forming part of the total income already was taxed at normal rates. Thus total income of the trust even included the anonymous donations which are already taxed once thereby amounting to double taxation. It is now proposed to amend section 115BBC; the amount of anonymous donation on which tax has already been paid is required to be reduced for computing the taxable income.

Direct Tax Proposals

Other Proposals

(3/5)

Registration of a trust may get cancelled by the commissioner if

a) It monies are not provided for the benefit of general public;
b) It is for the benefit a particular religious community or caste;
c) Income or property of the trust is applied for the benefit of trustees, beneficiaries etc.
d) Its funds are invested in prohibited modes

Benefit not to be disallowed only for the reason of non- registration: Eligible trusts or institutions which have been granted registration under Section 12AA of the Act will be eligible for benefits of the Act ***even for any earlier year*** provided that substantial activities as on date are similar to the activities in the previous year for which registration was not obtained. These benefits will not apply in a case where the registration was either expressly refused or cancelled earlier

<u>Other Direct Tax Proposals:</u>

- ***Presumptive taxation :*** Presumptive income in respect of taxpayers engaged in the business of plying, hiring or leasing goods carriages increased to inflation adjusted amount of INR 7500 per month for all types of goods carriages

- ***Amendment in case of 269SS and 269T***: Acceptance or repayment of loan or deposit exceeding INR20,000 by use of electronic clearing system through a bank account would be a permissible mode, thereby not attracting penalty

- ***Alternate Minimum Tax:***
  For computing adjusted total income in case of AMT, investment inked deductions on capital expenditure for specified business (net of depreciation) should be added. This is a very interesting amendment as similar restrictions of adding back investment linked deductions are not covered in the case of computing MAT for Companies. Further, AMT credit to be made eligible even in a year where no deductions are claimed and even if the adjusted total income is below INR 20,00,000.

- ***Monies received as Advance for agreement to sell:*** Advance received in the course of negotiations for transfer of a capital asset will be taxable as 'other income'. *Hence if monies are forfeited on account of negotiations not resulting into actual transaction or transfer, then amounts received as advance would have to be offered for income tax at normal rate of tax in the year in which such forfeiture takes place*. Earlier such sums were required to be reduced from the cost of capital asset and liability to pay tax arose only in the year of transfer of such capital asset.

Purchase and Sale of Shares Mutual Funds and Other Securities:

- Where the principal business of any company is trading in shares, such business of purchase and sale of shares would not be regarded as a speculation business. Therefore, any loss from such a business will not be treated as speculative loss irrespective of the fact that the taxpayer has not taken delivery of the contract. This will keep resting lot of litigative issues regarding this matter.

- Trading in commodity derivatives carried out through a recognised association and which is chargeable to commodities transaction tax will not be treated as a speculative transaction. This was a very litigative issue and this amendment will help this matter get resolved

- Unlisted security and a unit of mutual fund (other than an equity oriented fund) to qualify as long-term capital asset if held only for more than 36 months (earlier limit: 12 months) which will result in higher tax on sale of unlisted securities and mutual funds held for more than 12 months but up to 36 months. Gain arising out of transaction listed above will be taxable at applicable slab rate. The long-term capital gains arising on transfer of mutual fund units would not be eligible for a concessional tax rate of 10%. It would now be taxable at the rate of 20%.

Characterization of income in case of FII

- In order to bring certainty in characterisation of income arising from transactions in securities, and to give a fillip to the capital markets in India, it is proposed to provide that any investment in securities made by FII's in accordance with the regulations made under SEBI would be treated as a capital asset. Consequently, any income arising from transfer of these securities by FII's would be in the nature of capital gains and not business Income.

Direct Tax Proposals

Other Proposals

(5/5)

Notification of income computation and disclosure standards:

It has been proposed to introduce methodology for computing the income chargeable under the head ‘profits and gains from business or profession’ and “income from other sources’. If income is not computed in accordance with these standards, the tax officer can make additions / assessments accordingly

Tax on dividend received from foreign companies

Reduced tax rate on dividend received from foreign companies to continue. The concessional tax rate of 15% on dividends received by an Indian company from specified foreign companies has been extended indefinitely.

Tax on distributed income to unit holders

Similar to above, provisions have been introduced for additional tax burden on distribution of income by Mutual Funds. This amendment shall take effect from 1 October 2014.

Direct Tax Proposals

International Taxation

Transfer Pricing and International Tax:

- Transfer Pricing provisions now to be extended even to transactions ***between an enterprise and an independent person*** (Earlier it was applicable only to transactions between associated enterprises) where there is a prior arrangement between the independent person and associated enterprise, irrespective of whether such independent person is a non-resident or resident. This provision will be applicable from Financial Year 2014-15.

- ***Multiple year data*** can be used for comparable analysis to determine Arm's Length Price (As against erstwhile provisions of single year data which the companies had to compulsorily gather and use it for comparable analysis). It will relieve taxpayers who face challenges of unavailability of single year data.

- Concept of ***Price Range and tolerance limits*** to be introduced for determination of Arm's Length Price (ALP). By introduction of tolerance limits significant litigation can be reduced.

- ***Transfer Pricing Officers are now authorized to levy penalty*** for non-furnishing of Transfer Pricing documentation by taxpayers.

- The APA programme was introduced with a view to reduce litigation on transfer pricing by providing pricing certainty to the taxpayers. In order to provide further certainty the government has proposed introduction of ***a "roll back" mechanism*** in the current APA scheme by amending the Act. Accordingly, an APA, subject to prescribed conditions, may also cover previous four years preceding the first year of the APA. To illustrate, APA applications filed by taxpayers covering the period FY 2013-14 to FY 2017-18 may also cover FY 2009-10 to FY 2012-13. This amendment will take effect from 1 October 2014.

- ***Advance ruling provisions are now extended to residents***. Earlier, advance ruling provisions could be availed by resident only with respect to transactions with non-residents. Now this provision is applicable with respect to domestic transactions as well. Hence transactions within the group can be decided in advance and litigation can be reduced

- Transfer of a capital asset (Interest bearing Government Security) ***by a non-resident to another non-resident*** will not be considered as transfer for the purpose of charging capital gains.

Direct Taxes

Administrative Proposals

- Provisions related to conducting TDS / TCS survey freshly introduced and the Tax Authorities are **not allowed to impound and retain any books of account** or documents or make an inventory of any cash, stock or other valuables.

- **Tax returns** needs to be **verified** by specified person as against signed person.

- Tax authorities may make reference to valuation officer for any asset, property or investment whether satisfied about the correctness or completeness of the books of account. Opportunity of being heard to be provided to assessee by valuation officer and tax authority. Valuation officer is required to submit report within six months from the end of the month in which reference is made.

- ***Interest on outstanding demands:*** It is proposed that where any notice of demand is served on the taxpayer and any appeal/ proceeding is filed/initiated in respect of the amount specified in the notice of demand, then such demand shall be deemed to be valid until the disposal of appeal by the last appellate authority/ disposal of proceedings. Consequently, if the amount on which interest was payable was reduced and subsequently as a result of any orders under appeals etc., the final amount stands increased, ***interest shall be payable from the expiry of the period mentioned in the first notice of demand until the actual date of payment.*** This provision could have a significant impact looking at the duration Indian courts take to arrive at a decision. ***The amendment shall be effective from October 1, 2014.***

- If assessee is not furnishing / fails to produce accounts and documents called by the Tax Authority then now it will be punishable with rigorous imprisonment for one year **and** with fine.

- Provisional attachment of property during pendency of assessment / re-assessment now extended up to two years from the date of such attachment or up to 60 days after the date of assessment / re-assessment whichever is later.

Indirect Tax Proposals

Excise Duty

(1/4)

General

No change in excise duty basic rate

Increase in Excise Duty

- Excise duty on cigarettes increased by 72% for cigarettes of length not exceeding 65 mm and by 11% to 21% for cigarettes of other lengths. Similar increases are proposed on cigars, cheroots and cigarillos.

- Basic excise duty is increased from 12% to 16% on pan masala, from 50% to 55% on unmanufactured tobacco and from 60% to 70% on Jordan scented tobacco, gutkha and chewing tobacco.

- Excise duty imposed at 2% (without CENVAT) or 6% (with CENVAT) on Polyester Staple Fibre and Polyester Filament Yarn manufactured from plastic waste or scrap or plastic waste including waste polyethylene terephthalate (PET) bottles w.e.f. 11th July, 2014.

- Excise duty on recorded smart cards has been leviable at a basic excise duty rate and is now no longer in the notification of condensed rate regime.

- An additional duty of excise levied at the rate of 5% ad valorem on aerated waters containing added sugar.

- Optional excise duty of 2% (without CENVAT) / 6% (with CENVAT) on writing and printing paper for printing of educational textbooks is withdrawn and instead a uniform excise duty of 6% with CENVAT is levied.

- Education cess and secondary & higher education cess is leviable in respect of excise duty leviable on coal.

- Concessional excise duty of 2% without CENVAT credit and 6% with CENVAT credit extended to gloves specially designed for use in sports.

- Rate of clean energy cess on coal, lignite and peat increased from INR50 per tonne to INR100 per tonne.

Indirect Tax Proposals

Excise Duty

(2/4)

Exemptions from Excise Duty

- Excise duty on Polyester Staple Fibre (PSF) and Polyester Filament Yarn (PFY) manufactured from plastic waste or scrapor plastic waste including waste polyethylene terephthalate (PET) bottles (which is already exempt w.e.f. 08.05.2012) exempted retrospectively w.e.f. 29.06.2010 to 07.05.2012 and intermediate product 'Tow' arising during the course of manufacture of such PSF/PFY exempted retrospectively w.e.f. 29.06.2010 to 10.07.2014.
- Exemption from excise duty given for HIV/AIDS drugs and diagnostic kits supplied under National Aids Control Programme.
- Reverse Osmosis (RO) membrane element used in water filtration or purification equipment (other than household type filter) will be fully exempt from Excise Duty.
- Full exemptions are provided to the articles used for generation of renewable energy:
  - Solar tempered glass used in the manufacture of solar photovoltaic cells/modules, solar power generating equipment/system, and flat plate solar collectors.
  - Machinery, equipments, etc. required for setting up of solar energy production projects.
  - Back sheet and EVA sheet used in the manufacture of photovoltaic cells/modules and specified raw materials used in their manufacture.
  - Parts consumed within the factory of production for the manufacture of non-conventional energy devices.
  - Flat copper wire used in the manufacture of PV ribbons (tinned copper interconnect) for use in the manufacture of solar cells/modules.
  - Machinery, equipments, etc. required for setting up of compressed biogas plant (Bio-CNG).
- Intermediate goods manufactured and consumed captively for further manufacture of match boxes fully exempted.
- Full exemption from Excise duty on plastic materials reprocessed out of the scrap or waste and cleared into the Domestic Tariff Area (DTA) by an EOU.
- Exemption from education cess and secondary and higher education cess (customs component) on goods cleared by an EOU.

Indirect Tax Proposals

Excise Duty

(3/4)

<u>Amendments (effective from 11th July 2014)</u>

- The Supreme Court judgement in case of FIAT India Private Limited, which held that excise duty should be payable on value which is at least equal to cost of goods**, has been reversed.** This provision benefits those manufacturers who sell goods at steeply discounted prices.
- Benefit of advance ruling extended to include resident private limited companies.

<u>Amendments (effective from 1st October 2014)</u>

- E-payment of excise duty mandatory without any threshold limits. Manual payment at discretion of the authorities on case to case basis
- Delayed payment of excise duty beyond one month subject to penalty of one per cent of unpaid duty per month.

<u>Amendments (effective from enactment of Finance Bill 2014)</u>

- In case of appeal, mandatory pre-deposit needs to be made to the extent of 7.5 per cent of the amount involved at first appeals level and 10 per cent at second stage level subject to a cap of INR100 million.
- Activity of packing, re-packing, labelling, etc. for specified products such as vaccines, toothpowder, packaged software, air conditioners, batteries, smart cards etc. to be a considered as 'manufacture'.

<u>Reduction in Excise Duty</u>

- Excise duty on machinery for the preparation of meat, poultry, fruits, nuts or vegetables, and on presses, crushers and similar machinery used in the manufacture of wine, cider, fruit juices or similar beverages and on packaging machinery is being reduced from 10% to 6%.
- Excise duty on RO membrane element used in household type filters is being reduced from 12% / 10% to flat 6% for both the categories.
- Excise duty on Metal Core PCB and LED driver for use in the manufacture of LED lights and fixtures and LED lamps, is being reduced from 12% / 10% to flat 6% for both the categories.

Indirect Tax Proposals

Excise Duty

(4/4)

- Excise duty reduced from 12% to Nil on forged steel rings used in the manufacture of bearings of wind operated electricity generators.
- Excise duty reduced from 12% to 6% on footwear of retail price exceeding INR 500 per pair but not exceeding INR 1,000 per pair. Footwear of retail price up to INR 500 per pair will continue to remain exempted.
- Excise duty on Branded Petrol (e.g Premium Petrol) reduced from INR 7.50 per litre to INR 2.35 per litre.

Indirect Tax Proposals

Service Tax

(1/3)

Retaining the service tax rate

- Effective service tax rate remains unchanged at 12.36%

Following are the new services covered under the ambit of service tax provisions:

- Sale of time or space for online and mobile advertising, out of home, on film screens in theatres, aerial advertising. (Advertisements in print media will still remain exempted from service tax) – Effective date to be notified.
- Services provided by radio taxis or radio cabs (i.e. Meru Cab, Manan Cab etc.), whether or not air-conditioned. (Abatement of 60% will be available)) – Effective date to be notified.
- Testing of new drugs on human participants
- Air-conditioned contract carriages like buses (e.g. transportation of employees from office to home)
- Renting of immovable property service received by educational institutions
- All services provided to Government or local authority except water supply, public health, sanitation conservancy, solid waste management and slum improvement and up gradation.
- Services provided by Recovery Agents to Banks, Financial Institutions and NBFC. (Service receiver will be the person liable to pay service tax)

Other major changes in the Service Tax Regime:

- In works contract valuation provisions, effective from 1 October 2014, there will be two slabs for computing taxable value (40 per cent and 70 per cent) instead of the existing three slabs (40 per cent, 60 per cent and 70 per cent).
- Rate of interest on late payment of service tax has been sharply increased as under :

(Effective from 1st October 2014)

Extent of delay (In months)	Simple interest rate per annum
Up to 6	18%
From 6 to 12 months	24%
More than 12 months	30%

Indirect Tax Proposals

Service Tax

(2/3)

- Point of taxation for payment of service tax for the services covered under reverse charge mechanism now changed to 3 months instead of earlier provision of 6 months. Rule will apply with regard to invoices issued after 1st October 2014.
- Credit of service tax paid under reverse charge for the following 4 services can now be availed on accrual basis (though point of taxation remains 3 months which was earlier 6 months):
    1. Director services to companies
    2. GTA Services
    3. Advocate Services
    4. Import of Services
- Change in taxable portion of service tax in rent-a-cab services which is now tilted to 50% - 50% between service provider and receiver. Earlier it was 60% - 40% respectively. (Effective from 1st of October 2014)
- CENVAT credit can now be availed within extended period of 12 months (earlier it was 6 months) by which exporter will be required to receive proceeds on the basis of documentary evidences of receipt.
- Service providers and manufacturers are now required to avail CENVAT credit on inputs, capital goods and input services within 6 months from the date of the invoice. Earlier, there was no restriction prescribed under the CENVAT credit law for the time limit in availing credit. (Effective from 1st September, 2014)
- Previously, there was no time limit prescribed under CENVAT credit provisions which makes way for availment of service tax credit even for earlier year's expenses / services, which now has been triggered on time bound way.
- Service tax on transport of goods by vessel to be reduced from 6.18% to 4.944%. (Effective from 1st October, 2014)
- Sub-contracting activity in Rent-a-cab services and tour operator services will now be eligible for CENVAT credit. This measure is taken in order to avoid double taxation.
- Exemption in relation to services by a hotel, guest house etc. on a declared tariff of less than Rs. 1000 per day will apply irrespective of whether the place is commercial or non-commercial in nature.

Indirect Tax Proposals

Service Tax

(3/3)

Following services are exempted from service tax regime:
(Effective from 11 July 2014)

- Life insurance schemes for the poor, approved by IRDA, where sum assured does not exceed INR 50,000/-
- Transport of organic manure by vessel, rail or road (by GTA)
- Services related to cotton, ginned or baled like loading, unloading, packing, storage or warehousing, transport by vessel, rail or road (GTA)
- Services provided by common bio-medical waste treatment facility operators to clinical establishments
- Services provided by Indian tour operators to foreign tourists in relation to a tour wholly conducted outside India.

Indirect Tax Proposals

Customs

(1/4)

GENERAL: (Applicable from 11th July,2014)

- The Rate of Basic Custom Duty remains same at 10%.
- Rise in the baggage allowance from INR 35,000to INR45,000 for inbound travellers.
- Reduction in duty free allowance of cigarettes from 200 to 100, of cigars from 50 to 25 and of tobacco from 250 grams to 125 grams.
- Mandatory pre fixed deposit of 7.5 % of duty or penalty demanded required for filling appeal before Commissioner (Appeals).
- Mandatory pre fixed deposit of 10 % of duty or penalty demanded required for filling appeal before Tribunal.
- The ceiling of pre-deposit payable for cases amounting to INR 10 Crores or more before appeals.
- Indian Customs Single Window Project to be implemented for importer and exporter to lodge their clearance documents at a single point.
- 24*7 custom clearance facilities to be extended to 13 more airports for export goods and to 14 more sea ports in respect of specified import and export goods.
- Embroidery prints, anti-theft devices, pin bullets for packing, plastic tag bullets, metal tabs, bows,ring and slider hand rings are now free from duty for manufacture and export of handloom, cotton and manmade products.
- LPG imported by IOCL, HPCL, and BPCL for supply to Non-Domestic Exempted Category (NDEC) customers is fully exempted retrospectively w.e.f. 8.2.2013.
- Discretionary powers of Tribunal to refuse admission of appeals increased form INR 50,000 to INR 2,00,000.
- Filing of a Bill of Entry prior to the filing of Import Report for imports through land route is now permitted. Also, new rules regarding the determination of rate of duty and tariff valuation for this process has been provided.

EXEMPTION FROM SPECIAL ADDITIONAL DUTY (SAD):

Exemption from SAD has been provided on following goods:

- Components used in the manufacture of personal computers (laptop & desktop) and tablet computers.
- PVC sheets and ribbons used in the manufacture of smart cards.
- Parts and raw materials required for the manufacture of wind operated generators.

Indirect Tax Proposals

Customs

(2/4)

CHANGES IN CUSTOM DUTY STRUCTURE:

TEXTILE:

- Duty free entitlement for import of trimmings & embellishments (decorative items) used for manufacture of garments for export increased from 3 % to 5 %.
- Basic Customs Duty on raw materials for manufacture of spandex yarn reduced from 5% to Nil.
- Wire roll imported by handicraft manufacturers-exporters is being exempted from Custom Duty.
- Specified goods imported for manufacture and export of textile garments are exempted from Basic Custom Duty and Counter Vailing Duty. To avail this exemption, manufacturer needs produce and entitlement certificate issued by Apparel Export Promotion Council (AEPC) or Indian Silk Export Promotion Council (ISEPC).

METALS:

- Increase in basic customs duty on imported stainless steel flat products from 5 % to 7.5 %.
- Duty on ship imported for breaking and melting scrap of iron or steel reduced from 5% to 2.5%.
- Duty on bauxite is increased from 10 % to 20 %.
- Basic Customs Duty on coal tar pitch, battery waste and battery scrap reduced from 10% to 5%.
- Duty on steel grade limestone and steel grade dolomite reduced from 5% to 2.5%.

PRECIOUS METALS:

- Basic Customs Duty on half-cut or broken diamonds is being increased from NIL to 2.5% and on cut & polished diamonds and coloured gemstones from 2% to 2.5%.
- Full exemption from Basic Customs Duty is being granted to pre-forms of precious and semi-precious stones.

PETROCHEMICALS:

- Basic Customs duty on propane, ethane, ethylene,propylene, butadiene&ortho-xylene is being reduced from 5% to 2.5%.
- Basic Customs Duty on denatured ethyl alcohol and methyl alcohol is being reduced from 7.5% to 5%.
- Basic Customs Duty on crude naphthalene is being reduced from 10% to 5%.
- Basic Customs Duty on fatty acids and specified industrial grade crudeoils is being reduced from 7.5% to Nil for manufacture of soaps and oleo chemicals.
- Basic Customs Duty is also being reduced on crude glycerine from 12.5% to 7.5% in general and from 12.5% to Nilfor manufacture of soaps subject to actual user condition.

Indirect Tax Proposals

Customs

(3/4)

ELECTRONICS / HARDWARE:

- Colour picture tubes exempted from basic customs duty.
- Basic customs duty on LCD and LED TV panels of below 19 inches reduced from 10 % to Nil.
- Basic Customs Duty on specified telecommunication products not covered under the ITA (Information TechnologyAgreement) is being increased from NIL to 10%.
- Education cess and Secondary and Higher Education Cess are being levied on imported electronic products.
- CVD Exemption on portable X-Ray Machine / system is being withdrawn.
- Duty reduced from 7.5 % to NIL on E-Book readers (gadgets).

RENEWABLE ENERGY:

- Basic customs duty on machinery, equipment, etc. required for setting up of solar energy production projects is being reduced to 5%.
- Specified inputs used in the manufacture of EVA sheets, back sheets and flat copper wire for the manufacture of PV ribbons exempted from basic customs duty.
- Reduction in basic customs duty from 10 % to 5 % on forged steel rings used in the manufacture of bearings of wind operated electricity generators.
- Concessional basic customs duty of 5 percent on machinery and equipment required for setting up of compressed biogas plants (Bio-CNG).

MISCELLANEOUS:

- Basic Customs Duty reduced from 5% to 2.5% on electrolysers and its parts used in caustic sodaor caustic potash units.
- Duty on membranes and its parts required by industrial plants based on membrane cell technology reduced from 5% to 2.5%.
- The BCD on other spares (other than membranes and its parts) is also being reduced from 7.5% to2.5%.
- Custom duty paid at the time of import of scientific and technical instruments, will be refunded to the public funded and other research institutions. A certificate of registration from Department of Scientific & Industrial Research (DSIR) to be submitted to claim refund.

CAPITAL GOODS:

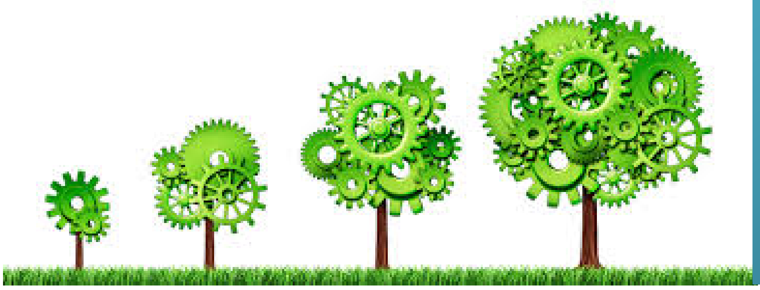
- Custom Duty is to be paid on sale of road construction machinery within 5 years of duty free importation.

Indirect Tax Proposals

Customs

(4/4)

Particulars	New Tax Rate (%)	Existing Tax Rate (%)
Duty Free Entitlement for Import of Trimmings & Embellishments (decorative items)	5%	3%
Raw Material for Spandex Yarn	0%	5%
Stainless Steel Flat Products	7.5%	5%
Ship imported for breaking and melting scrap	2.5%	5%
Bauxite	20%	10%
Coal Tar Pitch	5%	10%
Battery Waste	5%	10%
Battery Scrap	5%	10%
Steel Grade Limestone	2.5%	5%
Steel Grade Dolomite	2.5%	5%
Half-cut or Broken Diamonds	2.5%	0%
Cut & Polished Diamonds and Coloured Gemstones	2.5%	2%
Colour Picture Tubes	0%	10%
LCD and LED TV Panels	0%	10%
Telecommunication Products (not covered under ITA)	10%	0%
E-Book Readers (Gadgets)	0%	7.5%
Machinery and Equipment required Solar Energy Production	5%	10%
Steel Rings used in the manufacture of bearings of Wind Operated Electricity Generators	5%	10%
Machinery and Equipment required for setting up of Compressed Biogas Plants	5%	10%
Metallurgical Coke	2.5%	0%
Coking Coal	2.5%	0%
Steam Coal & Bituminous Coal	2.5%	2%
Anthracite & Other Coal	2.5%	5%
CVD on anthracite Coal, Coking Coal & Other Coal	2%	6%
Propane, Ethane, Ethylene, Propylene, Butadiene & Ortho-xylene	2.5%	5%
Ethyl Alcohol and Methyl Alcohol	5%	7.5%
Crude Naphthalene	5%	10%
Fatty Acids and specified Industrial Grade Crude Oils	0%	7.5%
Crude Glycerine (General Use)	7.5%	12.5%
Crude Glycerine (Manufacture of Soaps)	0%	12.5%
Electrolysers and its parts	2.5%	5%
Membranes and its parts	2.5%	5%
Spares (other than membranes and its parts)	2.5%	7.5%



Key Sectoral Analysis (1/4)

Consumer Goods

- Reduction in excise duty on footwear from 12% to 6%
- Reduction in Excise duty on food processing to 6%
- Increase in Excise duty on Tobacco products and cigarettes
- Increase in Excise duty on aerated water drinks with added sugar
- Internet & Online advertising services brought under the ambit of Service Tax
- BCD on specified telecommunication products increased from 0% to 10%

Textiles

- The duty free entitlement for import of trimmings & embellishments used by the readymade textile garment sector for manufacture of garments for export is being increased from 3% to 5%.
- BCD to be set to NIL rate for certain raw material in manufacture of spandex yarn
- Wire rolls for handicraft manufacturer exporter is exempted.

Electricals & Hardware

- Reduction in Basic Custom Duty (BCD) on LED panels below 19 Inches to NIL rate of duty
- BCD on specified parts of LCD & LED panels to be exempt
- Special Additional duty on inputs and components used in manufacture of personal computer exempted
- BCD exempt from e-book readers
- Basic Customs Duty on colour picture tubes for manufacture of cathode ray TVs is being reduced from 10% to NIL.
- CVD exemption on portable X-Ray Machine/System is being withdrawn

Micro, Small and Medium enterprises

- To provide equity, quasi equity, soft loans and other risk capital amounting to INR 10,000 crores for start up companies in order to create a conducive ecosystem
- Technology centre network to be set up to promote innovation entrepreneurship and agro-industry with an outlay of INR 200 Crore

Key Sectoral Analysis

(2/4)

Real Estate

- Requirement of the built up area and capital conditions for FDI to be reduced from 50,000 Sqr. Mtrs. To 20,000 Sqr. Mtrs. and from $10 Million to 5$ for development of smart cities.
- Sum of INR 7,060 Crore is provided in the current fiscal year for development of smart cities.
- Incentives for Real Investment Trusts (REITs). Complete pass through status for tax purposes.
- Formation of modified REITs for infrastructure projects as the infrastructure Investment Trusts (INVITS)
- Slum development to be included in list of Corporate social responsibility activities
- Sum of INR 4,000 Crore for National Housing Bank from the priority sector lending with a view to provide low cost housing
- Additional tax incentives to be provided to encourage people to own houses.
- Deduction limit on account of Interest on loan in respect of self occupied house property raised form INR 1.5 Lacs to INR 2 Lacs

Key Sectoral Analysis (3/4)

Capital Markets

- Composite cap of foreign investment to be raised to 49% with full Indian management and control through FIPB route
- The composite cap in the insurance sector to be increased up to 49% from 26% with full Indian management and control through FIPB route
- The manufacturing units to be allowed to sell its products through retail e-commerce platforms
- Relaxation of requirements for FDI in housing
- Introduction of uniform KYC norms and inter usability of the KYC records across the sector
- Clarification of taxes arising to foreign portfolio investors as capital gains
- Rate of 15% on foreign dividends without any sunset date

- In order to remove tax arbitrage, rate of tax on long term capital gains increased from 10 percent to 20 percent on transfer of units of Mutual Funds, other than equity oriented funds

Key Sectoral Analysis (4/4)

Power Generating Companies & Power Saving Apparatus

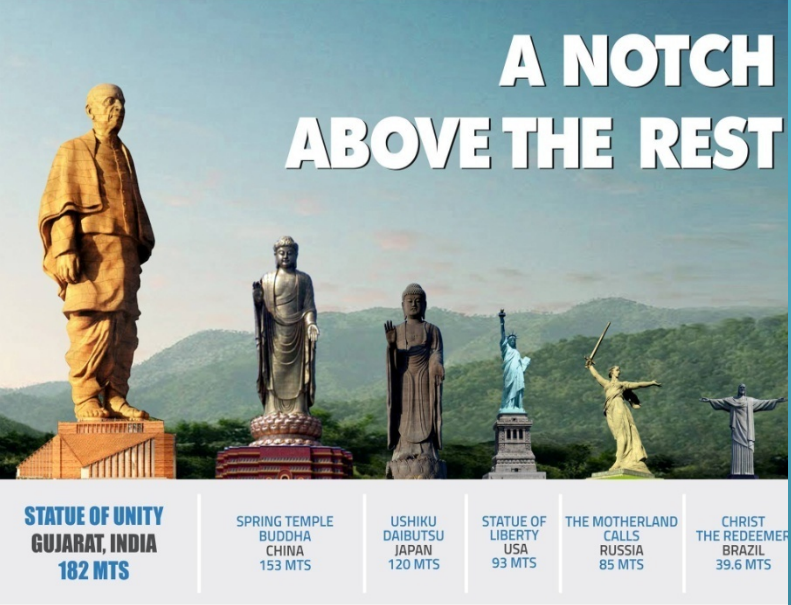
- Reduction in customs duty on specified wind power equipment to 5%
- Extension of 10 Year tax holiday for power generating companies.
- Power & water shortages to be resolved on an urgent basis.
- Ultramodern power projects be established in Rajasthan, Tamil Nadu & Ladakh
- Concessional customs duty on machinery, equipments for setting up of compressed bio-gas (Bio-CNG)
- Exemption from BCD on specified raw materials used in manufacture of solar back sheets & EVA sheets
- Rationalization on Customs duty on all grades of coal to 2.5%

Infrastructure development

- Impetus on linking rivers and providing irrigation facilities across the nation
- Completion of gas grid on PPP basis
- Setting up of 16 new ports worth INR 11,000 Crore
- Completion of Industrial corridors on top priority
- Investment in NHAI & state highways to tune of INR 38,000 Crore approximately with importance to North East
- Development of Metros in Chennai & Ahmedabad

Steel

- Stainless steel flat products basic custom duty increased from 5% to 7.5%



Gujarat Budget

Synopsis of Major Proposals:

- **Value Added Tax :**
  - Tax credit reduced to 1% from 2% on purchase of goods made from the state and used in the inter-state sales.
- **Ensuring NO increase in LPG price:**
  - A separate mechanism will be put in place with the Gas Companies in order to ensure that there is no increase in the prices of L.P.G for domestic use.
- **Civil Works Contract**:
  - A special remission scheme for the developers & contractors have been introduced for those who have not discharged the works contract tax @ 0.6% on the value of works contract to come out clean & avail the immunity from interest and penalty.
- **Stamp Duty Rate :**
  - The Stamp Duty on property development agreements hiked from 1% to 3.5%.
  - Immovable property brought in the partnership firm by the way of Capital will attract the stamp duty of 3.5%.
- **State Transportation :**
  - Benefit to the consumers by reducing the tax on the ticket fares of the state transport buses from 17.5% to 7.5%.

    The rates of the motor vehicle tax on the luxury buses have been almost doubled:

Particulars	Present Motor Vehicle Tax (INR)	Increased Motor Vehicle Tax (INR)
6 - 8 seater bus	1200 - 4620 per seat per year	1500 – 3000 per seat per year
12 - 20 seater bus	3600 - 6000 per seat per year	4500 - 7800 per seat per year
Luxurious designed omnibus	9000 per berth per year	15000 per berth per year

Committed to Excellence

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