Union Budget 2013-14 – Highlights of Direct Tax Proposals

The Direct Taxes Code Bill is to be re-introduced before the end of this Budget Session. The Bill is expected to give due weightage to the recommendations of the Parliamentary Standing Committee on Finance and incorporate the best global practices. The other major proposals on the direct taxes front are as follows -

I	Personal Taxation	
	(i)	Basic Exemption limit and the tax slabs to remain unchanged
	(ii)	Rebate of Rs.2,000 for individuals having total income of upto Rs.5 lakh.
	(iii)	Surcharge@10% attracted if total income exceeds Rs.1 crore.
	(iv)	Additional one-time deduction of Rs.1,00,000 in respect of interest on housing loan not exceeding Rs.25 lakhs taken from any financial institution in respect of the first house property acquired by an individual, provided the value of the property does not exceed Rs.40 lakhs. However, the deduction is only on loan taken for acquisition of house property, and not for construction.
	(v)	Deduction under section 80D to be extended to health schemes similar to CGHS, as notified by the Central Government.
	(vi)	Deduction under section 80CCG to be available to a new retail investor, being an individual with gross total income of upto Rs.12 lakh, for investment in listed equity shares or units of equity oriented fund. The deduction to be allowed for three consecutive assessment years.
	(vii)	Increase in deduction for donation to National Children's Fund from 50% to 100%.
	(viii)	The maximum percentage of premium paid for availing exemption benefit under section 10(10D) of maturity proceeds of insurance policy to be increased from 10% to 15%, where the policy is taken on or after 1.4.2013 and premium is paid to insure the life of a person with disability or severe disability as referred to in section 80U or suffering from a disease or ailment as specified in section 80DDB.
II	Business Taxation	

	(i)	Commodities Transaction Tax (CTT) to be levied on non-agricultural commodities futures contracts at the same rate as on equity futures. Trading in commodities not to be considered as a speculative transaction. CTT to be allowed as deduction while computing business income.
	(ii)	A manufacturing company to be entitled to investment allowance@15% of the aggregate amount of actual cost of new assets acquired and installed during the financial years 2013-14 & 2014-15, if the same exceeds Rs.100 crores.
	(iii)	Terminal date for power sector undertakings to set up, start transmission or distribution or undertake substantial renovation, to be extended by one year i.e. from 31.3.2013 to 31.3.2014.
	(iv)	STT on equity futures, mutual fund/exchange traded fund redemptions at fund counters and mutual fund/exchange traded fund purchase/sale on exchanges, reduced.
	(v)	Stamp duty value on the date of agreement fixing the value of consideration to be adopted as sale consideration even in case of transfer of immovable property, being land or building, held as stock-in-trade.
	(vi)	Disallowance of privilege fee, license fee, royalty etc. paid by State Government Undertakings to State Government.
	(vii)	Keyman insurance policy assigned to any person during its term, with or without consideration, to continue to be treated as a keyman insurance policy. Hence, maturity proceeds would not be exempt under section 10(10D).
	(viii)	Amount of deduction for bad debts to be restricted to the amount in excess of the credit balance in the provision for bad and doubtful debts made under section 36(1)(viia), without any distinction between rural advances and urban advances.
III	Corporate Taxation & Tax on distributed profits/dividends	
	(i)	Concessional rate of 15% on dividends received by an Indian company from a specified foreign company to continue for one more year. Further, in case of an Indian company being a holding company,

		dividends distributed by it would be exempt from DDT u/s 115-O.
	(ii)	Introduction of additional income-tax@20% of profits distributed by unlisted companies to shareholders through buyback of shares.
	(iii)	Cash donations to political parties and electoral trusts not to be allowed as deduction.
	(iv)	Tax on distributed income to be increased from 12.5% to 25% in all cases where distribution is made by a fund, other than equity oriented fund, to an individual or a HUF.
	(v)	Securitisation Trust to pay additional income-tax on income distributed to investors (25% to individual & HUF investors and 30% to others). Income received by investor to be exempt from tax.
	(vi)	Corporate surcharge increased from 5% to 10% in case of domestic companies with total income exceeding Rs.10 crores and from 2% to 5% in case of foreign companies with total income exceeding Rs.10 crores.
IV	Non-resident Taxation	
	(i)	Tax@5% on income distributed shall be payable in respect of income distributed by an infrastructure debt fund, whether set up as a mutual fund or a NBFC, to a non-resident investor.
	(ii)	Royalty and Fees for Technical Services received by a non-resident under an agreement entered after 31.3.1976 which is taxable under section 115A to be taxed at a higher rate of 25%.
V	TDS	
	(i)	Tax to be deducted at a concessional rate of 5% on interest payable to a non-resident in case of certain rupee-denominated long-term infrastructure bonds issued by an Indian company in India.
	(ii)	Sale consideration of immovable property other than agricultural land, to be subject to TDS@1%, if the sale consideration exceeds Rs.50 lakhs.

VI	Miscellaneous	
	(i)	Income of Investor Protection Fund set up under the SEBI (Depositories and Participants) Regulations, 1996 to be exempt.
	(ii)	Certain Venture Capital Funds under SEBI (Alternative Investment Funds) Regulations, 2012, to enjoy pass-through status similar to Venture Capital Funds under erstwhile SEBI (Venture Capital Fund) Regulations, 1996.
	(iii)	Immovable property received by an individual or HUF for inadequate consideration to be subject to section 56(2)(vii), if the difference in consideration and Stamp duty value on the date of agreement exceeds Rs.50,000.
	(iv)	GAAR provisions modified and to be made effective from A.Y.2016-17. An arrangement, the main purpose of which is to obtain a tax benefit, to be considered as an impermissible avoidance agreement. Approving Panel to consist of a Chairperson who is or has been a Judge of a High Court, one Member of the Indian Revenue Service not below the rank of Chief Commissioner of Income-tax and one Member who shall be an academic or scholar having specialized knowledge in matters such as direct taxes, business accounts and international trade practices. The directions of the Approving Panel shall be binding on the assessee as well as the income-tax authorities.
	(v)	Definition of "Capital Asset" excludes agricultural land. The scope of the term "Agricultural land" to be amended in relation to the distance from the local limits of municipality/cantonment board vis-a-vis population as per the last preceding census. Three categories proposed to be created as regards the second part of the definition.
	(vi)	"Tax due" for the purpose of section 179, dealing with liability of directors of a private company, to include interest, penalty or any sum payable under the Act.
	(vii)	Deduction under section 80JJAA to be available only to Indian companies deriving profits from manufacture of goods in its factory. Deduction not to be available if the factory is hived off or transferred from another existing entity or acquired by the assessee-company as a result of amalgamation with another company.
	(viii)	Section 132B dealing with application of seized assets against "existing liability" to be amended to clarify that the existing liability

		does not include advance tax payable.
	(ix)	Return of income to be treated as defective, unless the self assessment tax along with interest, if any, under section 140A is paid on or before the date of furnishing the return.
	(x)	Direction for special audit under section 142(2A) can be given having regard to the nature and complexity of the accounts, volume of accounts, doubts about the correctness of the accounts, multiplicity of transactions in the accounts or specialized nature of business activity of the assessee and the interests of revenue.
	(xi)	Penalty of Rs.100 per day of continuing default in case of failure to furnish AIR within the time prescribed under section 285BA(2). Further, in case of issue of notice under section 285BA(5), and failure to furnish AIR within the time stipulated in the notice, penalty at Rs.500 to be levied for every day during which the failure continues beginning from the day immediately following the day on which the time specified in such notice for furnishing the return expires.