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Budget analysis with Deloitte

February 2013

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Foreword

The Union Budget of 2013-14 held special importance this year as it was announced in the backdrop of a challenging macroeconomic environment where India had achieved its lowest GDP growth in a decade. Characterized with a depressed global economic outlook and prevalence of domestic policy bottlenecks, the year started with news that the previous fiscal's fourth quarter GDP had dropped to 5.5%. That coupled with low growth, macro-economic issues such as high fiscal deficit, expansionary subsidies and worsening current account balance has added to the slowdown. Expectations were therefore high as to the path the Finance Minister will take in guiding the Indian economy to recovery.

Though there were no high profile announcements or big recovery plans outlined, the Finance Minister did not disappoint. He acknowledged the pain points in the economy and recognized that to boost industrial sector growth, proactive actions would be needed. Policy announcements on creating additional industrial corridors and promoting micro, small and medium enterprises through SIDBI are welcome. However, often we have seen that such policy announcements need strong ground level implementation.

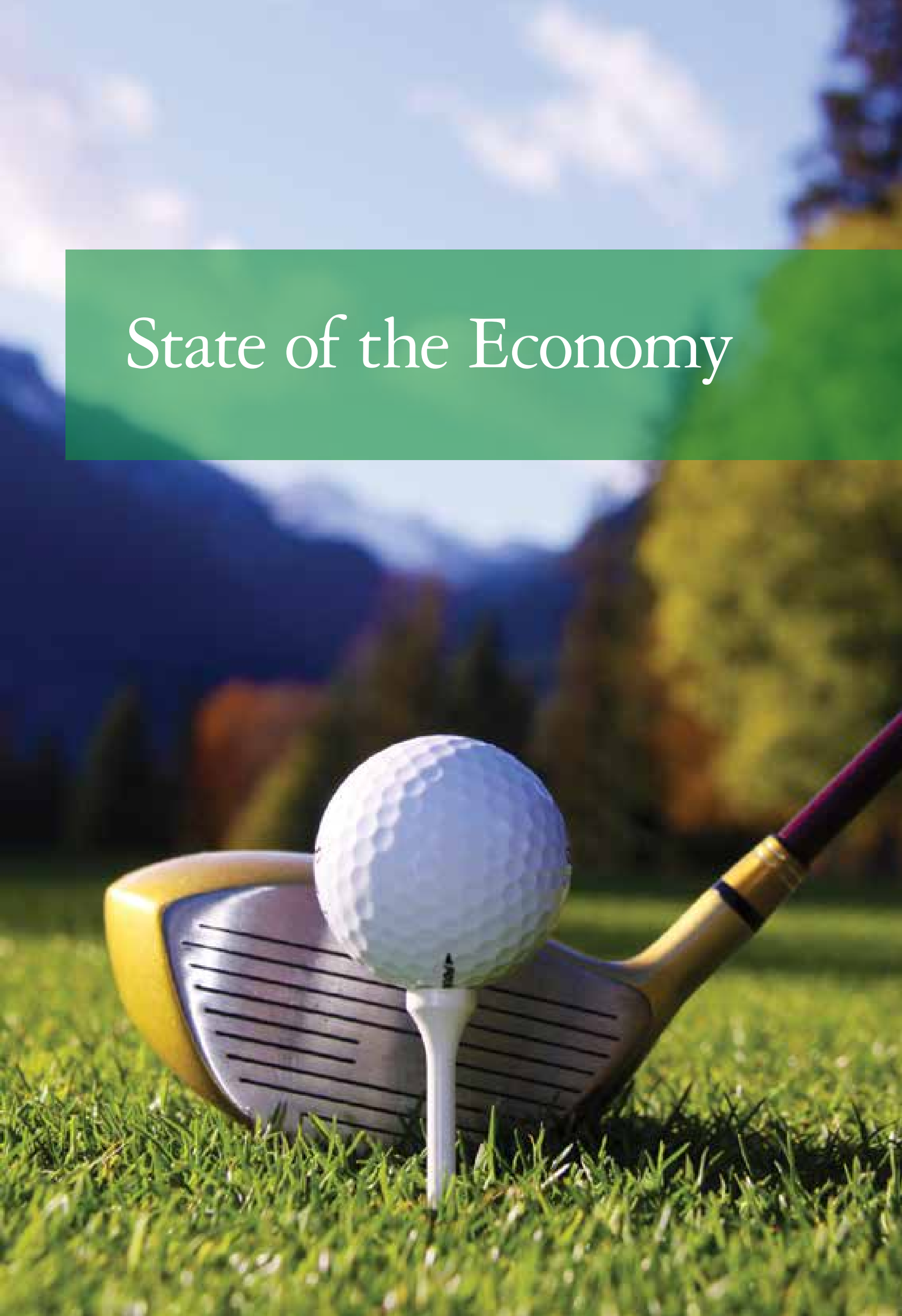
A key positive aspect of the Budget was in respect to commitment shown towards the fiscal consolidation plan. Despite the fact that planned expenditure has increased by almost 30% from the last year, the Finance Minister continued to target fiscal deficit of 4.8% in 2013-14. The Finance minister also announced that fiscal deficit for 2012-13 has been limited to 5.2%. This is clearly due to the focused measures undertaken in the second half of the year in cutting expenditure. With lower than estimated tax collections, meeting fiscal deficit targets was always going to be difficult. The Finance Minister needs to be lauded on this.

Coming to the direct tax policies, not many amendments are suggested in the budget. With regard to GAAR, announcements made by the Finance Minister in January 2013 have been partially incorporated in the legislation. This is expected to provide some level of assurance. On personal taxes, a surcharge of 10% has been introduced on individuals with taxable income in excess of ₹ 1 crore for a period of one year. An important amendment relates to tax on royalty and fees for technical services to non-residents which stands increased from 10% to 25%. Showing his commitment to infrastructure, the Finance Minister has extended the tax holiday in the power sector by one year for commencement of operations. As a matter of comfort, the Finance Minister reiterated his commitment to the Direct Taxes Code by mentioning that the Bill will be tabled in parliament before the end of the budget session.

On indirect taxes, the peak rate of customs duty, excise duty and service tax have remained unchanged though reduction has been provided on basic customs duty related to certain articles. The scope of the negative list has been proposed to be expanded to include courses offered by institutes affiliated to the State Council for Vocational Training and testing activities in relation to agricultural produce. On the service tax front, exemptions related to certain services have been curtailed.

28 February 2013

State of the Economy



State of the Economy

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Economic conditions during the year

The Indian Economy is currently going through a challenging phase as GDP growth slowed down to nearly a decade low in 2012-13. Domestic as well as external factors have played a part in this downfall. Other macroeconomic issues such as high public expenditure, depleting investment and saving levels, worsening current account balance as well as depreciation of the Rupee have added to the present economic pressures over-shadowing positive aspects such as moderation in inflation and recovery of stock markets during the year.

With gradual rise in foreign trade over the years, the Indian economy now looks more integrated with the global economy and hence the uncertain and weak economic climate across the world is affecting the Indian economy adversely even more than before. World growth projections have been slashed by the International Monetary Fund (IMF) during 2012-13 as downside risks persist in the Euro area. Renewed setbacks through considerable fiscal strain in the face of an austerity driven recession has added to Eurozone woes. A fiscal overbalance has also ensured that the US with tight conditions has not been able to drive global recovery to the extent expected in 2012-13. As subdued global economic conditions temper the global growth appetite, the policy of product and market diversification as an export strategy has not worked for India. The import demand in emerging markets including various Asian countries reduced along with the advanced economies to expand the trade imbalance, resulting in the large current account deficit that India has seen.

Domestically, the year started with negative sentiments for foreign investors with the introduction of investment denting proposals like retrospective tax adjustments and General Anti-Avoidance Rules (GAAR) in the Budget 2011-12. These measures affected foreign investment flows in India both through the institutional and direct route. Given low investor confidence and weak economic sentiments, the government proactively announced structural reforms in the second half of 2012-13.

While a host of measures were taken to attract investors, focused actions were taken to reduce subsidies (oil and fertilizers) with the intention of lowering expenditure and in turn reducing the fiscal deficit. However, the success of these policy reforms is expected to be gradual. Consistent implementation during the coming years as well as additional reforms to address other macroeconomic imbalances will dictate the pace of recovery.

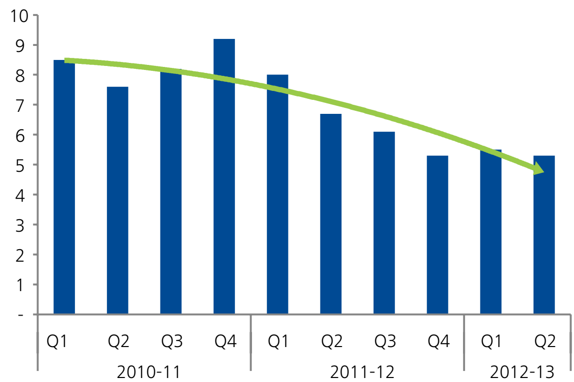
The current state of the economy necessitates the introduction of a robust plan of action for revival of the economy. Even though the long-term prospects of the economy look promising, cautious optimism is the tone in the short to medium-term. In this light, we present in the following analysis of the current state of the Indian economy and its future prospects.

GDP growth slides further

Since the global financial crisis of 2008-09, the Indian economy grew to a healthy 8.6% till 2010-11. Since then, growth started declining. The trend continued in 2012-13 with a disappointing growth rate of 5.4% in the first half, resulting in lowering of expectations. The second quarter's growth at 5.3% is one of the lowest quarterly growth rates seen in the last decade and the annual growth of 5% will be the lowest since 2002-03. This slowdown has been across all the sectors – Agriculture, Industry as well as Services, though Industry and particularly the manufacturing sub-sector has been the worst performer.

The GDP growth rates of the economy for the previous three years are depicted in Figure 1.

Figure1: Percentage GDP Growth Rates



The agricultural sector, despite accounting for less than 15% of GDP, plays an important role in the economy considering its more than 50% share of employment. After an impressive growth of 7.9% in 2010-11, agricultural growth rate declined to 3.6% in 2011-12 and further dipped to 1.8% in 2012-13. The agriculture sector in India is largely monsoon dependent. This downfall is primarily attributable to the delayed and deficient rainfall. It is worth noting that technological gains in agriculture and farmers' response to better infrastructure is expected to positively affect performance of this sector in the coming years.

A larger concern exists with respect to the Services sector which has moderated during 2012. The sector, which showed resilience even at the time of financial crisis in 2008 -09, has suffered this year with quarterly growth rates of just 6.9% and 7.2%, due to slack external demand from Europe and the US.

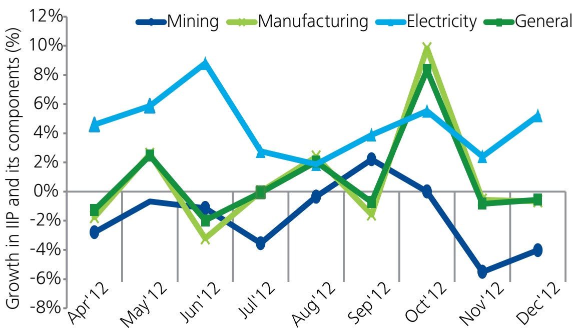
Particularly, the sub category of "trade, hotels, transport, storage and communication" - an important component in services - is expected to perform the worst with annual growth at 5.2%, as compared to growth rates of 7% and 12.3% in 2011-12 and 2010-11, respectively. Additionally, growth across various categories of the Service sector such as cargo handling, civil aviation and railway freight have moderated.

Figure 2 depicts the performance of the year-on-year growth in the IIP Index and its components for the period from April to January 2012.

The latest Index of Industrial Production (IIP) figures indicate that the industrial sector has grown at a rate of 0.7% during the period April '12 to December '12 compared with a growth rate of 3.7% in the corresponding period last year, overall far lower than the annual growth of 6.8% in 2010-11.

Worrying figures of growth in the mining and manufacturing sectors have been the major factors behind the dip in IIP growth. Regulatory hurdles and lack of project clearances have affected these sectors resulting in growth constraints. Particularly, the capital goods industries decelerating at 10.3%

Figure 2: Growth in IIP and its Components



Source: Economic Quick Estimates of IIP, CSO -February, 2013

Contacts | Glossary | Policy Proposals | Budget Proposals-Indirect Taxes | Budget Proposals-Direct Taxes | Budget Highlights | State of the Economy in the first three quarters of 2012-13, posed a challenge during the first half of the year.

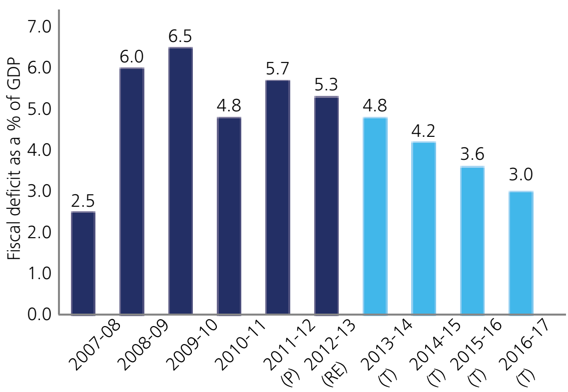
Though sluggish investment activity and fragile global economic recovery have barred the industrial growth this year, systematic implementation of the National Manufacturing Policy as well as the rise in external demand is expected to improve the performance in the next year.

On the demand side, growth in private consumption moderated during 2012-13, primarily due to high inflation. Investments have also remained flat on account of issues such as project cost overruns and regulatory delays. Sectors such as road transport and highway, power, petroleum, railways, coal, etc. continue to suffer due to lack of policy clearances and more importantly funds. Well-structured and continued implementation of reforms may lighten up the investment prospects in the near future.

Fiscal woes continue

After the initial budget target of 5.1% of GDP for the fiscal deficit, the Government revised its fiscal consolidation roadmap in October 2012. As per the revised roadmap, the fiscal deficit of the central government will be reduced in a calibrated way from the new target of 5.3% of GDP in 2012-13 to 3.0% of GDP by 2016-17 (Figure 3). Similar to the previous year when the budgeted fiscal deficit of 4.8% actually fared at 5.7% of GDP, the fiscal deficit target for 2012-13 looks unlikely to be achieved. With lower tax collections, inability to meet divestment targets and burgeoning expenditure outgo, the Indian economy is facing considerable fiscal strain. The Government may look at taking necessary steps to widen the tax base, cut excess expenditure and have a fixed divestment plan in place. A number of these measures have been implemented, which are already showing results. For example, the Government was able to achieve fiscal surplus in the month of December 2012 by cutting down expenditure. However, expenditure restraints need to continue with particular focus on containing subsidies, if the fiscal consolidation plan of 3% is to be achieved by 2017.

Figure 3: Trends in Fiscal Deficit



Source: Economic Survey 2012-13

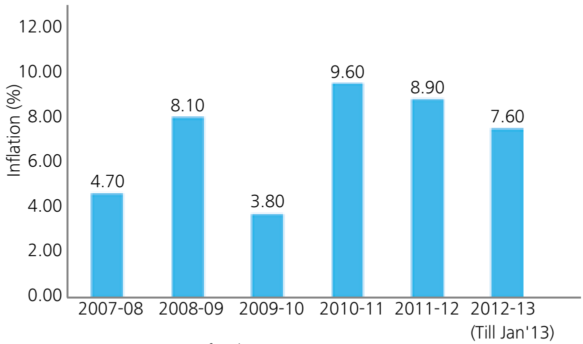
Inflationary pressures moderate

Inflation has remained elevated post the 2008 global financial crisis on account of easing monetary policy and quantitative stimulus used as a rescue package for boosting growth. For most of 2010-11 and 2011-12, the Wholesale Price Inflation (WPI) remained around 9%. Though steps were taken by the RBI through a repo rate increase, inflation refused to subside.

While the downward trend in wholesale inflation is a welcome sign, retail inflation remains elevated as it surged to 10.6% in December 2012.

During 2012-13, till now the RBI has cut policy rates on two occasions, firstly an aggressive 50 basis point cut in April 2012 and second in January 2013 by 25 basis points, bringing the Repo rate to 7.75%. The RBI has been fairly cautious in conducting its monetary policy through 2012-13, despite increasing pressures from the industry to cut the rates in order to motivate slowing economic growth. However, the RBI has reduced the cash reserve ratio and the statutory liquidity ratio in order to maintain adequate liquidity in the economy. This monetary easing is expected to improve the investment and

Figure 4: Wholesale Price Index



Source: Economic Survey of India 2012-13

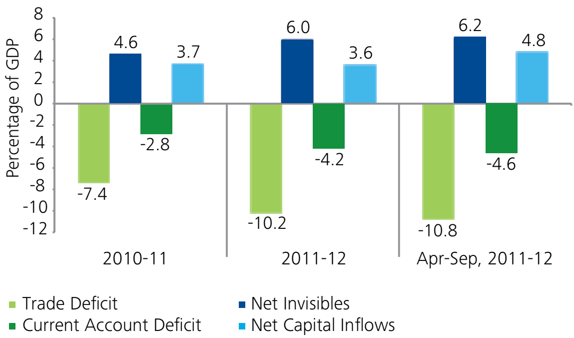
During late 2012-13, inflation finally moderated to reach 7.6% (Figure 4). Currently, inflation stands at a three year low of monthly inflation in January 2013 at 6.62%. Gradual moderation of international commodity prices including crude oil prices and easing of geo-political tensions in the Middle East helped in moderating domestic inflation during the year.

growth prospects consequent to the reduction in interest rates.

External sector performance worsens
The external sector is characterized by a more than proportionate decline in exports as compared to imports leading to increase in trade deficit and increased Current Account Deficit (CAD). The trade deficit increased to US$ 189.8 billion (10.2% of GDP) in 2011-12 as compared to US$ 127.3 billion (7.4% of GDP) during 2010-11. A similar trend continued during 2012-13 as the trade deficit further worsened to 10.8% of GDP in the first half as seen in Figure 5.

The major decline in exports growth is an effect of the sluggish global demand and an uncertain macro-economic environment. In its January 2013 update of the World Economic Outlook, the International Monetary Fund projected the world trade volume to grow at 2.8% in 2012 as compared to 5.9% in 2011 indicating the drop in global demand. Even exports to emerging economies have declined during 2012-13 showing dismal economic conditions across the globe. On the import side, the decline in non-oil imports is largely off-set by inelastic growth in petroleum, oil and lubricants (POL) imports, contributing almost 35% of total imports. Despite Government announced export promotion schemes like extension of interest subvention, broadening scope of Focus Market Scheme and Focus Products Scheme, exports recovery will primarily depend on the level of global economic activity.

Figure 5: Trade Deficit, Net invisibles, CAD and Net Capital Inflows (as % of GDP)



Source: Economic Survey, 2012-2013

The Government has undertaken several policies to achieve the goal of smooth functioning of the financial markets. SEBI gave effect to the Alternative Investment Funds Regulations 2012, in an effort to regulate the market better, ensure stability and increase market efficiency. Another step was the liberalization of the External Commercial Borrowings (ECB) Policy during 2012-13 by enhancing the limit for refinancing rupee loans, allowing ECB for capital expenditure in infrastructure sector

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and reducing the withholding tax from 20% to 5% for a period of three years. With effective measures taken by the regulatory body, the economy did witness an improved investment activity in 2012-13.

Budget Announcement and Conclusion

The Finance Minister presented the Union Budget 2013-14 by suggesting need for an inclusive and sustainable growth. He clearly recognized that current account and fiscal deficits along with inflation, low investments and growth have been problem areas. Although he highlighted the widening of CAD as a concern, he suggested that the Commerce Ministry will propose export boosting policy announcements. The Finance Minister did, on the other hand, identify the importance of foreign investment inflows to counter the widening CAD and introduced certain proposals to widen the scope for FIIs to invest more in India through a simplified investment process.

The Finance Minister also introduced proposals to induce more investments by encouraging Infrastructure Debt Funds and providing incentives for the manufacturing sector undertakings to invest more in plant and machinery. Also, a Cabinet Commission is proposed to be established in order to address and remove bottlenecks in case of large stalled projects. Similarly, declining domestic savings of households are addressed with incentives encouraging investments in financial instruments like Mutual Funds and housing loans.

Another positive aspect of the Budget announcement was in respect of the commitment shown to the fiscal consolidation plan. Despite the fact that planned expenditure is increased by almost 30% from last year, the Finance Minister continued to target fiscal deficit of 4.8% in 2013-14. The Finance Minister also announced meeting of the fiscal target for 2012-13, as the estimated fiscal deficit is limited to 5.2% for 2012-13.

The efforts of the Finance Minister to initiate strong reforms are laudable. Although the impact of the recently announced measures has largely remained unnoticed, the announcements seem to have resulted in lifting investor sentiments. While the Finance Minister has highlighted opportunities in reviving growth, the success of reforms will largely depend on the implementation process and the commitment shown by all stakeholders.

Budget Highlights

Budget Highlights

Direct Taxes

Personal taxation

No change proposed in the present slab or tax rates which is currently as under:

Tax Rate	Current Slabs, ₹
Nil	Upto 200,000*
10%	200,001 – 500,000
20%	500,001 – 1,000,000
30%	Above 1,000,000

* Basic exemption limit for senior citizens and very senior citizens is ₹ 250,000 and ₹ 500,000 respectively

- Surcharge proposed at the rate of 10% payable if income exceeds ₹ 100 lakhs
- Rebate upto ₹ 2,000 available to resident individuals whose total income does not exceed ₹ 5 lakhs
- Impetus to first-time home buyers
  - Additional deduction of ₹ 1 lakh (over and above the existing ₹ 1.5 lakhs) on interest on housing loan not exceeding ₹ 25 lakhs and value of property not exceeding ₹ 40 lakhs
  - Only for loans sanctioned during FY 2013-14
  - Can be carried forward to next year if not fully utilized
- Rajeev Gandhi Equity Savings Scheme
  - Deduction presently available to new retail investors for investment in equity share extended to include investment in equity oriented mutual fund
  - Eligible limit of gross total income of the investor for this purpose is proposed to be enhanced from ₹ 10 lakhs to ₹ 12 lakhs
  - Deduction available for three consecutive years

- Keyman Insurance Policy assigned to the 'Keyman' before its maturity will not enjoy the exemption available for a life insurance policy and will continue to be treated as a Keyman Insurance Policy

Increase in surcharge for corporates

Particulars	Below ₹1 crore		Above ₹1 crore upto ₹10 crores		Above ₹10 crores	
	Surcharge rate	Effective tax rate	Surcharge rate	Effective tax rate	Surcharge rate	Effective tax rate
Domestic	Nil (Nil)	30.90% (30.90%)	5% (5%)	32.45% (32.45%)	10% (5%)	33.99% (32.45%)
Foreign	Nil (Nil)	41.20% (41.20%)	2% (2%)	42.02% (42.02%)	5% (2%)	43.26% (42.02%)

Note:
- Figures in bracket refers to the current rates
- Education cess of 3% has been considered for determining the effective tax rates

Surcharge at 10% to be payable on additional taxes levied on distribution of profits by domestic companies / mutual funds / securitization trusts and on buybacks.

Policy proposals

Direct tax code

- DTC not an amended version of existing tax laws but a new code based on best international practices
- Ministry of Finance to consider Standing Committee recommendations and place the revised DTC Bill before the Parliament

Circular on Development Centres

- Circular covering tax matters of Development Centres based on based on Rangachary Committee recommendations to be issued shortly

Safe Harbour

- Rules on Safe Harbour to be issued after examining the Rangachary Committee recommendations

Tax incentives and reliefs

Incentive for investment in specified plant or machinery

- Applicable to a Company engaged in the manufacture of article or thing and which invests more than ₹ 100 crores in specified plant or machinery
- Investment to be done between 1 April 2013 to 31 March 2015

- Deduction of 15% on actual cost of plant or machinery acquired and installed
- Assets to be held for a period of 5 years, failing which deduction availed shall be treated as income

Extension of sunset clause for power sector

- Sunset date for the power sector to commence eligible activity extended from 31 March 2013 to 31 March 2014

Deduction for employment of new workmen

- Presently, deduction available for additional wages paid to new regular workmen employed in manufacturing or production activities
- Amendment proposed to restrict the deduction only in respect of workmen employed in manufacturing activities carried out in a factory

Concessional rate of withholding tax on interest

Interest income for a non-resident from the rupee denominated long-term infrastructure bonds of an Indian company is eligible for lower rate of withholding tax @ 5% - Applicable from 1 June 2013

Buyback of shares

- Additional tax of 20% on distributed income in the course of buyback of shares by unlisted companies, payable by such company
- Distributed income is the consideration for buyback less issue price of the shares
- Buyback consideration exempt in the hands of the shareholder

Rate of tax on royalty and fees for technical services payable to a non-resident

- Rate of withholding on royalty and fees for technical services payable to a non-resident increased from 10% to 25%
- Lower rate as per tax treaty can be availed, subject to tax residency certificate

Dividends from specified foreign company

- Beneficial tax rate of 15% on dividend income from specified foreign company extended by 1 year till 31 March 2014
- Dividend distribution tax not payable on dividends payable out of dividends received from a specified foreign company being a subsidiary

General Anti-avoidance Rules

- GAAR provisions now applicable from 1 April 2016
- Amendments proposed in line with the Shome Committee recommendations-
  - Definition of Impermissible Avoidance Arrangement amended to restrict to arrangements, the

main purpose of which is to obtain a tax benefit as against "the main purpose or one of the main purposes"
– Constitution of an approving panel comprising three members being a judge of the high court, member of the Indian Revenue Service and member having specialized knowledge

Transfer of immovable property

- Consideration for transfer of any immovable property of ₹ 50 lakhs and above attracts withholding tax @ 1% - Applicable from 1 June 2013
- Sale consideration on the transfer of immovable property when held as stock in trade to be the higher of the stamp duty value or the actual consideration in computation of business profit
- Purchase of immovable property by individual or HUF for inadequate consideration (Consideration *minus* Stamp duty value > ₹ 50,000) taxable in the hands of the recipient

Amendments in response to judicial precedents

- Bad debts written off are deductible only if the same exceeds the credit balance in the provision for bad and doubtful debts account made under section 36(1)(viia) without any distinction between rural and other advances
- Amendment made in response to the Supreme Court decision in Catholic Syrian bank

Others

- Commodities transaction tax - Introduced at the rate of 0.01% on commodity derivatives (except agricultural commodities)
- Securities transaction tax - Existing rates on taxable securities transactions reduced
- Tax Residency Certificate is necessary but not a sufficient condition for claiming the benefits under the treaty
- Income of Securitisation Trust to be exempt from income tax subject to conditions
- Pass through status for Alternate Investment Funds

Budget Highlights

Indirect Taxes

Customs Duty

- Peak rate of Basic Customs Duty maintained at 10%
- Exemption from education cess, secondary and higher education cess is being withdrawn on aeroplanes, helicopters and a few other goods
- BCD increased on the following:

Description of goods	From	To
Cars / motor vehicles (irrespective of engine capacity) with CIF value more than $ 40,000	75%	100%
New motorcycles with engine capacity of 800cc or more	60%	75%
Raw silk	5%	15%
Set Top Boxes	5%	10%
Steam coal	Nil	2%

- BCD reduced on the following:

Description of goods	From	To
Specified textile machinery and parts thereof	7.5%	5%
Pre-forms of precious and semi-precious stones	10%	2%
Specified machinery for use in the leather industry or footwear industry	7.5%	5%
Bituminous coal	5%	2%

- Increase in Countervailing duty on steam coal from 1% to 2%
- Reduction in CVD on bituminous coal from 6% to 2%
- Exemption from BCD on lithium ion automotive battery for manufacture of lithium ion battery packs for supply to manufacturers of hybrid and electric vehicles
- Exemption from BCD extended to parts and testing equipment for maintenance, repair and overhauling of aircrafts and their parts
- Export duty introduced on the following goods:
  - Bauxite (effective rate –10%)
  - Raw sugar, white or refined sugar (effective rate – Nil)
  - Ilmenite – processed (effective rate –10%)
  - Ilmenite – unprocessed (effective rate – 5%)
- Exemption from export duty on de-oiled rice bran oil cake
- Limit on duty free baggage allowance for jewellery enhanced as below:

Coverage	From	To
An Indian passenger, who has been residing abroad for over one year • Gentleman passenger • Lady passenger	 ₹ 10,000 ₹ 20,000	 ₹ 50,000 ₹ 100,000
A person who is transferring his residence to India • Gentleman passenger • Lady passenger	 ₹ 10,000 ₹ 20,000	 ₹ 50,000 ₹ 100,000

- Time limit for payment of import duty reduced from 5 days to 2 days
- Storage of imported goods in a public warehouse pending clearance for home consumption is permitted up to a period of 30 days and the Commissioner of Customs can grant a further extension of 30 days
- Provisional attachment of property is extended to cases involving suppression, willful mis-statement or collusion
- Appellate Tribunal can extend operation of stay for a period of 185 days where the delay is not attributable to the assessee. The stay order, however, will stand vacated at the end of 365 days from the date of the order
- Section 142 of the Customs Act has been amended to provide for recovery of money due to the Government from an assessee, from any person who holds money for or on account of the assessee

Central Excise Duty

- Standard rate maintained at 12%
- Excise duty increased on the following:
  - Cigarettes
  - Cellular mobile phones (of Retail Sale Price more than ₹ 2000) from 1% to 6%
  - Marble slabs and tiles from ₹ 30 per square meter to ₹ 60 per square meter
  - SUVs from 27% to 30%
- Manufacturers of branded readymade garments and made ups can now avail exemption from payment of excise duty provided no CENVAT credit on inputs is availed
- Branded medicaments used in Ayurvedic, Unani, Sidha, Homeopathic or Bio-Chemic system brought under MRP-based assessment with an abatement of 35%
- Excise duty on chassis of diesel motor vehicles for transport of goods reduced from 14% to 13%
- Excise duty of 4% imposed on silver produced or manufactured during the process of zinc or lead smelting
- Specified goods manufactured and captively used as intermediate products by units located in Uttaranchal or Himachal Pradesh have been exempted from excise duty
- Appellate Tribunal can extend operation of stay for a period of 185 days where the delay is not attributable to the assessee. The stay order, however, will stand vacated at the end of 365 days from the date of the order
- An explanation has been inserted in Rule 3 of the CENVAT Credit Rules,

2004 to enable recovery of amounts not paid on removal of inputs or capital goods, as such or after being put to use and also in those cases where they have been fully or partially written off

- Section 11 of the Central Excise Act, 1944 has been amended to provide for recovery of money due to the Government from an assessee, from any person who holds money for or on account of the assessee

Service Tax

- Service Tax rate remains unchanged

Changes effective upon enactment of the Finance Bill, 2013

- Negative list modified as follows:
  – Courses run by Industrial Training Institute / Centre affiliated to State Council for Vocational Training included in negative list under the definition of 'approved vocational educational course'

- – Scope of testing related to the agriculture sector broadened for the purpose of inclusion in negative list
- – Course run by an institute affiliated to the National Skill Development Corporation subject to service tax
- – Process amounting to manufacture to include processes under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955
- Appellate Tribunal can extend operation of stay for a period of 185 days where the delay is not attributable to the assessee. The stay order, however, will stand vacated at the end of 365 days from the date of the order
- New Section 78A introduced to impose penalty on directors and officials of the company for specified offences in cases of willful actions
- Amnesty scheme proposed to be introduced for those assessees who have not filed or have stopped filing

service tax returns

- If a demand of Service Tax made under extended period of limitation is found to be unsustainable by the Appellate authority/Tribunal/Court on grounds of limitation the tax liability for eighteen months (normal period of limitation) may be computed

Changes effective 1 March 2013

- A Resident Public Limited Company would be eligible to seek advance ruling
- Abatement in respect of construction of a complex, building, civil structures etc., is being reduced from the existing 75% to 70% for construction other than residential properties having a carpet area up to 2000 square feet or where the amount charged is less than ₹ 1 crore

Changes effective 1 April 2013

- All restaurants having air-conditioning or central air-heating facility liable to service tax
- Exemptions in relation to transportation of goods by various modes (road, railways & vessels) aligned
- Service tax exemption on the following have been withdrawn:
  - Vehicle parking to general public
  - Aircraft repair or maintenance services provided to government, a local authority or governmental authority
  - Renting of immovable property and auxiliary education services provided by educational institution
  - Charities for advancement of any other object of general public utility
- Exemption for temporary licensing of copyright of cinematographic films restricted to films exhibited in cinema halls or theatre

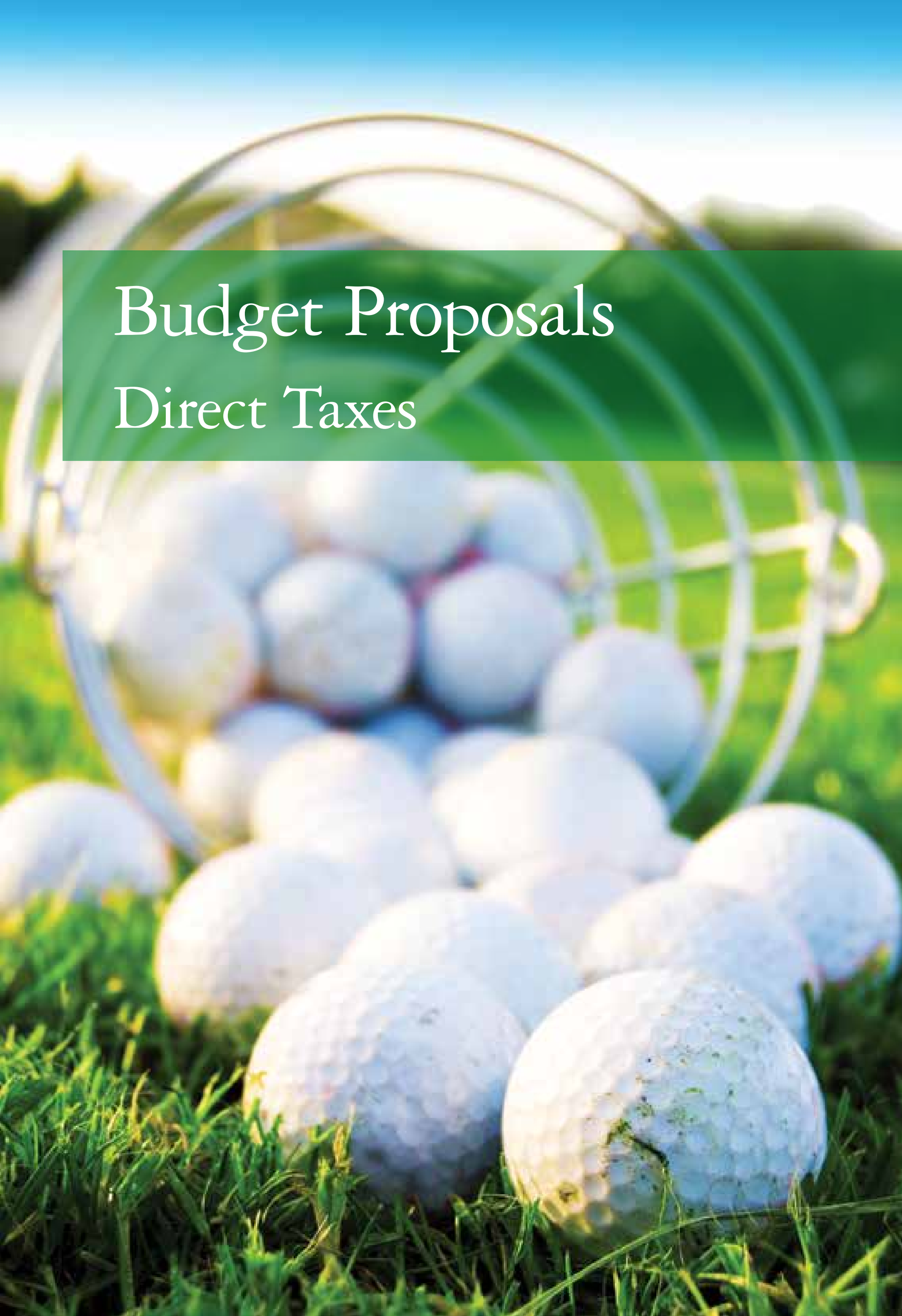
Central Sales Tax

- Central Sales Tax rate continues at 2% against production of Form C

Goods and Services Tax

- Majority of the State Governments have agreed on the need for a Constitutional amendment to facilitate GST introduction
- ₹ 9,000 crore set apart towards payment of first installment of balance CST compensation due to the States
- State Finance Ministers and the GST Council to draft the GST legislation
- Draft bill on Constitutional amendment and a Draft bill on GST to be introduced in the Parliament in the coming months

Budget Proposals
Direct Taxes



Budget Proposals

Direct Taxes*

Rates of Income tax

Individuals / HUFs

There is no change in the basic slab rates and tax rates for individuals / HUFs.

It is proposed to levy a surcharge at the rate of 10% of the Income tax where total income exceeds Rs. 1 crore.

Table 1: Tax Rates for Individuals/HUFs

Income Slabs (₹)	Rate of Tax (%)
Up to 200,000	Nil
200,001-500,000	10
500,001-1,000,000	20
1,000,001 and above	30

It is proposed to allow a rebate to resident individuals whose total income does not exceed ₹ 500,000. The rebate will be equal to amount of income tax payable on the total income or an amount of ₹ 2,000; whichever is less.

Notes:

- For resident senior citizens of 60 years but less than 80 years of age, the basic exemption limit remains unchanged at ₹ 250,000.
- For resident senior citizens of 80 years or more, the basic exemption limit remains unchanged at ₹ 500,000.
- Education Cess will continue to be levied at the rate of 3% of Income Tax.

Companies

There is no change in the basic tax rates for companies.

It is proposed to levy a surcharge at the rate of 10% and 5% of the Income tax for domestic companies and foreign companies respectively, where the total income exceeds ₹ 10 crore. The effective rate of tax for domestic and foreign companies is depicted in table below

Table 2: Tax Rates for Companies

Income Slabs (₹)	Domestic Company (%)		Foreign Company (%)	
	Normal	MAT	Normal	MAT
Upto 1 crore	30.90	19.05	41.2	19.05
Exceeding 1 crore less than 10 crore	32.45	20.00	42.02	19.44
Exceeding 10 crore	33.99	20.96	43.26	20.00

Firms

There is no change in the basic slab rates for firms.

It is proposed to levy a surcharge at the rate of 10% of the Income tax where total income exceeds ₹ 1 crore. Hence, the effective tax rate under normal provisions and AMT will be 33.99% and 20.96% respectively, where the income exceeds ₹ 1 crore.

* Unless otherwise stated, the proposed provisions will be applicable from financial year 2013-14

Co-operative Societies

There is no change in the basic tax rates for Co-operative Societies.

It is proposed to levy a surcharge at the rate of 10% of the Income tax where total income exceeds ₹ 1 crore.

Corporate Taxation

Deduction for investment in new plant and machinery

- It is proposed that a company engaged in the business of manufacture or production of any article or thing, which acquires and installs a plant and machinery (other than ship or aircraft) as defined on or after 1 April 2013 but before 31 March 2015 will be allowed for the financial year 2013-14, a deduction of 15% of the aggregate amount of actual cost of, such asset where such cost exceeds ₹100 crores.
- It is proposed that the company will be allowed a deduction for the financial year 2014-15 of 15% of aggregate amount of actual cost of plant and machinery (other than ship or aircraft) as defined after reducing the deduction as allowed in the financial year 2013-14.
- It is proposed that if such plant and machinery is sold or otherwise transferred except in case of amalgamation or demerger within a period of five years from the date of its installation, the amount of deduction allowed (either by way of depreciation or otherwise) will be deemed to be income chargeable under the head "Profits and gains from business and profession" in the year of transfer, in addition to the taxability under the head "capital gains", arising on account of transfer of such plant and machinery.
- It is proposed that if the plant and machinery is sold or otherwise transferred in connection with amalgamation or demerger within five years of its installation, the aforesaid amendment relating to deemed income and capital gains will be applicable to the amalgamated company or resulting company.

Additional income tax on distributed income by company for buy-back of unlisted shares

- It is proposed that the consideration paid by a company for purchase of its own unlisted shares which is in excess of the sum received by the company at the time of issue of such shares (i.e. the distributed income) will be charged to tax. The company will be liable to pay additional income tax at the rate 20% of such distributed income paid to the shareholder.
- It is also proposed that:
  - the additional income tax paid by the company will be treated as final payment of tax and no credit will be claimed by the company or any other person in respect of such tax.

- no deduction will be allowed to the company or shareholder in respect of the income which has been charged to tax or the tax thereon.

- Further, the income arising to the shareholders in respect of such buy-back by the company will be exempt.

The proposed amendment will be applicable from 1 June 2013.

Deemed full value of consideration in case of transfer of land or building or both held as stock in trade

- It is proposed that where the consideration on transfer of an asset (other than a capital asset), being land or building or both, is less than the stamp duty value then such value will be deemed to be the full value of the consideration for computing profits and gains from such transfer.
- It is also proposed that where the date of agreement fixing the value of consideration for such asset and the date of registration of transfer of such asset are not same, the stamp duty value on the date of agreement will be taken as full value of consideration. The stamp duty value on the date of agreement can be taken only in case the amount of consideration or a part thereof has been received by the assessee by any mode other than cash.

Tax exempt status to certain Alternative Investment Funds

- Currently, the income of a VCC / VCF which satisfies the investment and other conditions as provided in VCF Regulations is exempt.
- It is proposed that the existing VCCs and VCFs registered before 21 May 2012 and which are regulated by the VCF Regulations will continue to be tax exempt.
- Additionally, it is proposed that any income of VCCs / VCFs registered under the AIF Regulations will be tax exempt. For this purpose, VCC will mean a company and VCF will mean a fund (set up as a trust), which has been granted a certificate of registration as VCF being a sub-category of Category I AIF and which satisfies the following conditions:
  - That at least two-thirds of its investible funds are invested in unlisted equity shares or equity linked instruments of VCU.
  - No investment has been made by such AIFs in a VCU which is an associate company as specified.
  - Units of a trust set up as AIF or shares of a company set up as AIF, are not listed on a recognized stock exchange.
- It is proposed that VCU will be defined as per AIF Regulations.

The proposed amendment will be applicable from financial year 2012-13.

Beneficial tax rate on dividend from foreign company

- It is proposed that the beneficial tax rate of 15% (plus surcharge and education cess) on dividends received by an Indian company from a specified foreign company will continue for the financial year 2013-14, if such income is included in the total income of the Indian company for the said year.

Removal of cascading effect on dividend received from foreign subsidiary

- Currently, there is no cascading effect of DDT on dividend declared / paid by an Indian company which in-turn has earned dividend from its Indian subsidiary.
- It is proposed to extend such benefit to dividend declared / paid by an Indian company, which has earned dividend from a specified foreign subsidiary in the same year and such dividend income has been offered to tax by the Indian company.

This amendment would be effective from 1 June 2013.

Exemption of income of Investor Protection Fund

- It is proposed that income, by way of contribution received from a depository, of the Investor Protection Fund will be exempt from tax. However, any amount standing to the credit of the Fund and not charged earlier to tax, will be taxed in the year in which such amount is shared with the depository.

Deduction of bad debts in case of certain banks

- It is proposed to clarify that in the case of certain banks and financial institutions, the amount of bad debts actually written off shall be limited to the amount by which such bad debts exceed the credit balance in the provision of bad and doubtful debts, without any distinction between rural and other advances.

Amounts paid / appropriated to State Governments

- It is proposed that the following amounts paid/appropriated by State Government undertakings (as defined) to the State Government will not be deductible:
  - Royalty, licence fee, service fee, privilege fee, service charge or any other fee or charge levied exclusively on a State Government undertaking by the State Government
  - Any amount which is appropriated, whether directly or indirectly, from a State Government undertaking by the State Government

Non-resident taxation

Tax Residency Certificate

- Currently, it is provided that a non-resident tax payer will be required to obtain a TRC containing the prescribed particulars to be eligible to claim any relief under the tax treaty.

- It is proposed to provide that such TRC will be necessary but not a sufficient condition for claiming any relief under the tax treaty.

The proposed amendment will be applicable from the financial year 2012-13.

Taxation of income by way of royalty or fees for technical services

- Currently, a tax rate of 10% is prescribed for income by way of royalty or fees for technical services earned by non-residents, pursuant to agreements entered into on or after 1 June 2005.
- It is proposed to increase the rate of tax on royalty or fees for technical services from 10% to 25%. However, the increased tax rate would be subject to rates prescribed in the relevant tax treaty.

General Anti-Avoidance Rule

- It is proposed to make GAAR effective from the financial year 2015-16.
- Currently, an arrangement will be held to be an impermissible avoidance arrangement if the main purpose or one of the main purposes of the arrangement is to obtain a tax benefit.
- It is proposed that the arrangement will be held to be an impermissible avoidance arrangement only if the main purpose of the arrangement is obtaining a tax benefit.
- Currently, an arrangement will be presumed to have been carried out for the main purpose of obtaining tax benefit if even a step of the arrangement is to obtain a tax benefit irrespective of the fact that the main purpose of the whole arrangement is not to obtain a tax benefit.
- It is proposed that the above presumption will continue unless it is proved to the contrary by the taxpayer.
- It is proposed to provide an additional condition that an arrangement will be deemed to lack commercial substance if it does not have a significant effect upon the business risks or net cash flows of any party to the arrangement, apart from any effect attributable to the tax benefit that would be obtained.
- Currently, it is provided that while determining whether an arrangement lacks commercial substance or not, factors such as period of existence of arrangement, payment of taxes under the arrangement or exit route being provided by the arrangement, will not be taken into account.
- It is proposed to provide that such factors may be relevant but will not be sufficient for determining whether an arrangement lacks commercial substance or not.
- Currently, the terms 'party' and 'tax benefit' have been defined in an exhaustive manner.
- It is proposed to amend the definition of the above terms to make it an inclusive definition.

Procedure for invoking GAAR

- Currently, it is provided that the directions of the AP (constituted to adjudicate cases in which GAAR has been invoked) will be binding on the AO.
- It is proposed that the directions of the AP will be binding on the taxpayer and the CIT and his subordinates. It is also proposed that no appeal shall lie against the directions of the AP.
- Currently, the AP is to be constituted of not less than three members being officers not below the rank of CIT and joint secretary to the Government of India.
- It is proposed that the Central Government may constitute one or more APs, each of which will consist of the following three members:
  - Chairperson being a person who is or has been a judge of a High Court;
  - One member not below the rank of CCIT; and
  - One member who would be an academic or scholar having special knowledge on direct taxes, business account and international trade practices.
- It is proposed that the term of the AP shall ordinarily be for one year and may extend to a period of three years and the AP will have the powers vested in the AAR.

Prior approval for search assessments

- Currently, assessment or re-assessment orders passed by an AO in search cases cannot be passed without prior approval of the Joint CIT.
- It is now proposed to provide that an approval of the Joint CIT will not be necessary in cases where the assessments or re-assessments pursuant to a search are made by invoking GAAR and after obtaining permission of the CIT.

  The proposed amendment will be applicable from the financial year 2015-16.

Personal taxation

Additional deduction for interest paid on housing loan for first home buyers

- For first-home buyers, it is proposed to allow an additional deduction of ₹ 100,000 in respect of interest payable on housing loan sanctioned by a financial institution during financial year 2013-14 subject to the following conditions:
  - The loan amount sanctioned does not exceed ₹ 25 lakhs;
  - The value of the residential house property does not exceed Rs. 40 lakhs;
  - The owner does not own any other residential house property on the date of sanction of the loan
- In case the interest payable during financial year 2013-14 is less than ₹ 100,000, the balance amount not claimed as a deduction may be claimed in financial year 2014-15.
- No deduction of such interest claimed shall be allowed under any other provisions of the Act.

Income from Other Sources

- Currently, where an individual or HUF receives any immovable property without consideration, the stamp duty value of such immovable property will be chargeable to tax if the amount of stamp duty exceeds ₹ 50,000.
- It is proposed that where any immovable property is received for a consideration which is less than the stamp duty value of the property by an amount exceeding ₹ 50,000, the stamp duty value of such property as exceeds such consideration, shall be chargeable to tax in the hands of the individual or HUF as income from other sources.
- It is also proposed that where the date of agreement fixing the value of consideration for such asset and the date of registration of transfer of such asset are not same, the stamp duty value on the date of agreement will be taken as full value of consideration. The stamp duty value on the date of agreement can be taken only in case the amount of consideration or a part thereof has been received by the assessee by any mode other than cash.

Conditions for life insurance premium

- Currently, any sum received under a life insurance including bonus on such policy issued on or after 1 April 2012 will be exempt from tax, provided the premium on such policy does not exceed 10% of the actual capital sum assured. Further, the deduction on account of insurance premium paid up to 10% of actual capital sum assured is allowed from the total income.
- It is proposed to enhance this limit of 10% of the actual capital sum assured to 15% where such policy is on life of an individual who is suffering from disability or severe disability referred to under section 80U or a specified ailment/ disease referred to under section 80DDB. Similarly, it is proposed to allow deduction in respect of premium paid on insurance policy up to 15% of the actual sum assured in respect of the person referred to above.

  The proposed amendment will be applicable in respect of policy issued on or after 1 April 2013.

Deduction available for equity oriented funds

- Currently, deduction of 50% of investment made (subject to a limit of ₹ 25,000) in listed equity shares under schemes notified by the Central Government is available in the year of investment. Further, this deduction is available where the gross total income of the resident individual does not exceed ₹ 10 lakhs.
- It is proposed to extend the aforesaid deduction for investments made in listed units of equity-oriented fund. This benefit will be available for three consecutive assessment years beginning with the first year of acquisition of shares/units. Further, the limit of gross total income of the resident individual is enhanced to ₹ 12 lakhs.

Medical health insurance benefit extended

- Currently, deduction upto ₹ 15,000 is allowed for premium paid towards Central Government Health Scheme or any payment made towards preventive health check-up of the assessee or his family.
- It is proposed to allow this deduction in respect of any amount paid to any other scheme as notified by the Central Government.

Other amendments

Amendments to withholding taxes

- *TDS on transfer of certain immovable property (other than agricultural land)*
  It is proposed to provide that tax at 1% is required to be deducted by every transferee (other than the transferee in the case of compulsory acquisition of immovable property) from a sum paid/credited to a resident transferor as consideration for transfer of immovable property.

  For this purpose, immovable property means any land (other than agricultural land) or any building or part of a building. Tax is not required to be deducted if the consideration for transfer of immovable property is less than Rs. 50 lakhs.

  The proposed amendment will be applicable from 1 June 2013.

- *Concessional rate of TDS on interest extended to certain rupee denominated long-term infrastructure bonds*
  Currently, a concessional TDS rate of 5% applies to payment of interest on borrowings made by an Indian company in foreign currency either under a loan agreement or by way of issue of long-term infrastructure bonds, as approved by the Central Government.

  It is proposed to provide that the concessional rate of TDS on payment of interest will be available where a non-resident or a foreign company has deposited any sum of money in foreign currency in a designated account and the said money is utilised after converting in rupees to subscribe to any long-term infrastructure bonds issued by the Indian company.

  Further, it is provided that the aforesaid borrowing by the Indian company will be deemed to be received in foreign currency.

  The term 'designated account' is defined to mean a bank account opened solely for the purpose of deposit of money in foreign currency and utilization of such money for payment of subscription of the long-term infrastructure bonds issued by the Indian company.

  The proposed amendment will be applicable from 1 June 2013.

Deductions from income

- *Extension of sunset clause for power sector undertaking*
  Currently, a deduction at 100% of profits is available to an undertaking for a period of 10 consecutive years out of 15 years, if the undertaking:
  - begins to generate power by 31 March 2013;
  - starts transmission and distribution by laying new transmission or distribution lines by 31 March 2013;
  - renovates and modernises existing network of transmission by 31 March 2013

  It is proposed to extend the above terminal date for a further period of one year i.e. upto 31 March 2014.

- *Deduction for additional wages paid to new regular workmen employed in a factory manufacturing goods*
  Currently, a deduction is allowed for 30% of additional wages paid to new regular workmen employed in any previous year by an Indian company deriving profits from any industrial undertaking engaged in manufacture or production of article or thing.

  It is now proposed that the above deduction be available to an assessee engaged in manufacturing of goods in a factory.

  Further, it is proposed to amend the provisions to provide that the deduction would not 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.

- *Deduction for donation made to National Children's Fund*
  Currently, deduction of 50% is allowed for donation made to National Children's Fund.

  It is proposed to allow 100% deduction for donation made to the National Children's Fund.

Procedural amendments

- *Defective return of income*
  Currently, a return of income filed is treated as a defective return if all the conditions prescribed are not fulfilled.

  It is proposed to include, as a condition, any failure to pay self-assessment tax together with interest which would render the return being treated as a defective return.

- *Special audit*
  Currently, an AO having regard to the nature and complexity of the accounts of a tax payer, can after obtaining specified approvals, direct the tax payer to get his accounts audited by an accountant and furnish a report of such audit.

  It is proposed that the following factors can also be considered by the

AO for directing the tax payer to get his accounts audited:
– Volume of accounts;
– Doubts about correctness of the accounts;
– Multiplicity of transactions in the accounts or specialised nature of business activity of the tax payer; and
– The interests of the revenue.

The proposed amendment will apply from 1 June 2013.

- *Wealth tax returns*
  It is proposed to amend the Wealth-tax Act, 1957 to empower the CBDT for making relevant rules to facilitate electronic filing of the return of net wealth.

Miscellaneous

- *Taxation of securitisation trusts*
  A new Chapter is proposed to be introduced whereby a securitisation trust will be required to pay additional income tax on income distributed to its investors, at the rate of 25% in case of the investor being an individual or HUF, and at the rate of 30% in case of any other investor. However, no additional income tax will be payable if the income distributed by the securitisation trust is received by a person who is not chargeable to tax under the Act.

  The above proposal will be effective from 1 June 2013.

  Further, it is proposed that income from securitization activities of a securitisation trust which is regulated by SEBI / RBI will be exempt from tax.

  It is also proposed that distributed income received by the investor will be exempt from tax.

- *Tax on distributed income by a Mutual Fund*
  Currently, additional tax of 12.5% is charged on income distributed to individuals or HUF by a fund other than money market mutual fund or liquid fund. The same is proposed to be increased to 25%.

  It is also proposed that in the event that an income is distributed by a Mutual Fund under an infrastructure debt fund scheme to a non-resident (not being a company) or a foreign company, the mutual fund will be liable to pay additional tax at the rate of 5% on such distributed income.

  The above proposal will be effective from 1 June 2013.

- *'Tax due' for the purpose of liability of partners / directors in case of liquidation*
  It is proposed to clarify that the term 'tax due' for the purpose of liability of partners / directors in case of liquidation of LLP / private company will include penalty, interest or any other sum payable under the Act.

The proposed explanation will be applicable from 1 June 2013.

- *Amendment in the definition of "agricultural land"*
  Currently, for the purposes of defining "agricultural income" and "capital asset", land is inter-alia considered to be "agricultural land" if:
  - it is situated in any area within the jurisdiction of a municipality or cantonment board having population of not less than ten thousand according to the last preceding census; or
  - it is situated in any area within such distance not exceeding eight kilometers from the local limits of any municipality or cantonment board as notified having regard to the extent and scope of urbansiation and other relevant factors.

  It is proposed to amend the second criteria so as to provide that land will be considered as an "agricultural land" if it is situated in any area within the distance, measured aerially of not being more than:
  - two kilometers, from the local limits of any municipality or cantonment board and which has a population of more than ten thousand but not exceeding one lakh; or
  - six kilometers, from the local limits of any municipality or cantonment board and which has a population of more than one lakh but not exceeding ten lakh; or
  - eight kilometers, from the local limits of any municipality or cantonment board and which has a population of more than ten lakh.

  It is also proposed to define the term "population" to mean population according to the last preceding census of which the relevant figures have been published before the first day of the previous year.

  Similar amendments are also proposed for the purposes defining "urban land" in the Wealth-tax Act, 1957.

Commodities Transaction Tax

- A new tax called CTT is proposed to be levied on taxable commodities transactions traded in a recognized association. Taxable commodities transaction will mean a transaction of sale of commodity derivatives other than agriculture commodities, traded in recognized associations. Commodity derivative is defined to mean a contract for delivery of goods which is not a ready delivery contract, or, a contract for differences deriving value from prices or price indices of underlying goods; related services and rights such as warehousing or freight; or with reference to weather and similar events.
- The tax is proposed to be levied at 0.01% on the value of such transaction and will be collected by the recognized association from the seller. Provisions with regard to furnishing

of return, assessment, levy of interest and penalty, etc. have also been prescribed.

- The tax will be levied from a date to be notified by the Central Government.
- It is proposed that the CTT paid shall be allowed as a deduction if the income arising from the commodities transaction is included as a part of business income.

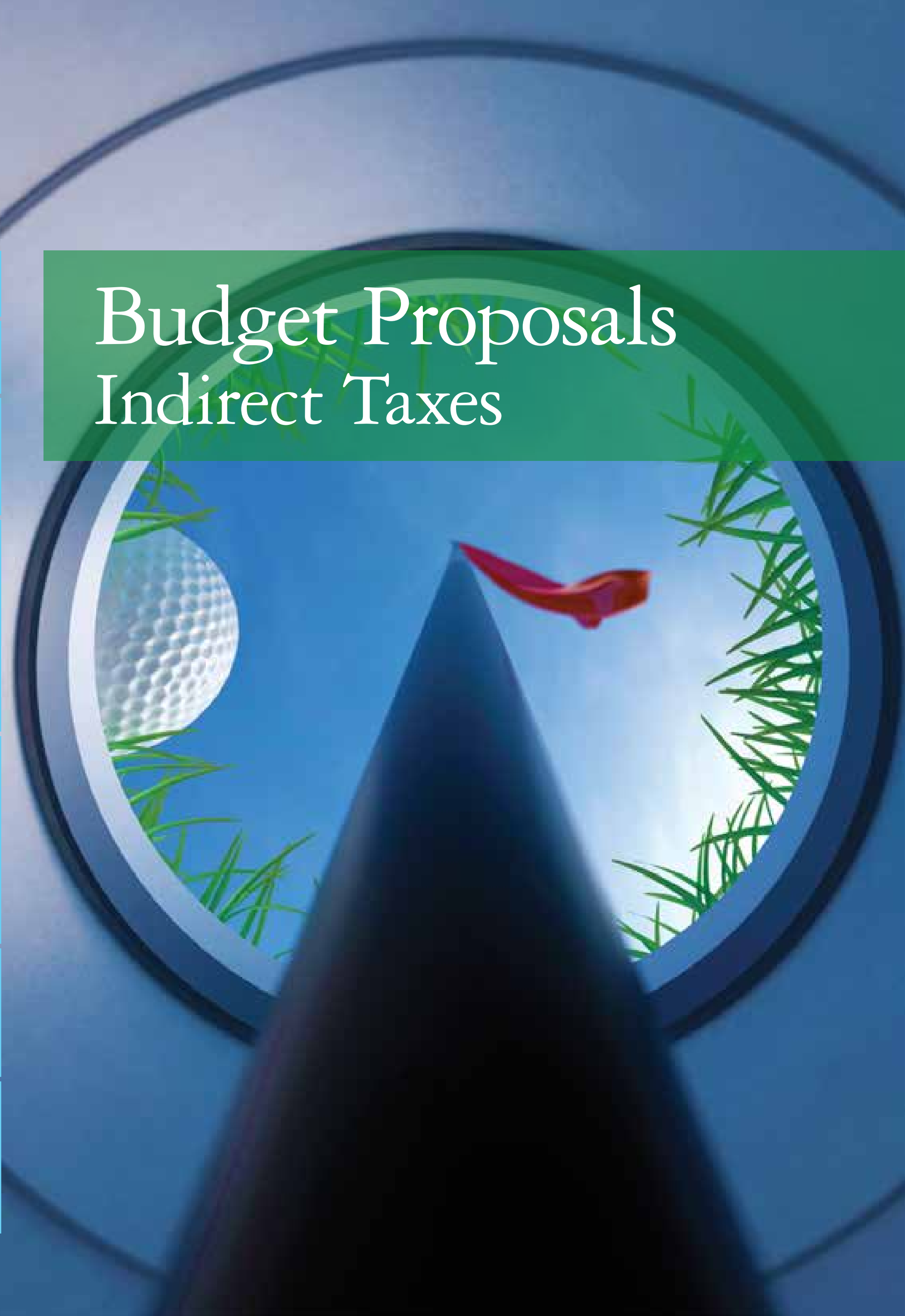
Securities Transaction Tax

- It is proposed to reduce STT rates on taxable securities transactions as under:

Sr. No.	Nature of taxable securities transaction	Payable by	Existing Rate (%)	Proposed Rate (%)
1	Delivery based purchase of units of an equity oriented fund entered into, in a recognized stock exchange	Purchaser	0.1	No tax
2	Delivery based sale of units of an equity oriented fund entered into, in a recognized stock exchange	Seller	0.1	0.001
3	Sale of futures in securities	Seller	0.017	0.01
4	Sale of a unit of an equity oriented fund to the mutual fund	Seller	0.25	0.001

The amendments will apply to a transaction made on or after 1 June 2013.

Budget Proposals
Indirect Taxes



Budget Proposals
Indirect Taxes

Customs

Import Duty
Rate Changes
- Peak rate of BCD retained at 10%.

Changes in effective rates of duty
- Aero planes, helicopters and their parts, soya bean oil, olive oil and other specified oils were exempted from payment of education, secondary and higher education cesses. The exemption has now been withdrawn.
- The following goods have been exempted from BCD:
  - Lithium ion automotive battery for manufacture of lithium ion battery packs meant for supply to manufacturers of hybrid and electric vehicles
  - Parts and testing equipment for maintenance, repair and overhauling of aircraft parts
- Concessional BCD for specified parts of hybrid and electric vehicles available till April 2013 has been extended up to 31 March 2015.
- Concessional BCD rate of 5% extended to stainless steel wire cloth stripe and wash coat.
- CVD on steam coal has been increased from 1% to 2%, while CVD on bituminous coal has been reduced from 6% to 2%.

The above changes will be effective from 1 March 2013.

Table 3: Increase in Basic Customs Duty

Description of goods	Up to 28 February 2013 (%)	Effective 1 March 2013 (%)
New Cars / motor vehicles (irrespective of engine capacity) with CIF value more than $ 40,000	75	100
New motorcycles with engine capacity of 800cc or more	60	75
Raw Silk	5	15
Set Top Boxes	5	10
Steam Coal	Nil	2

Table 4: Decrease in the Basic Customs Duty

Description of goods	Up to 28 February 2013 (%)	Effective 1 March 2013 (%)
Specified textile machinery and parts thereof	7.5	5
Pre-forms of precious and semi-precious stones	10	2
Specified machinery for use in the leather industry or footwear industry	7.5	5
Bituminous coal	5	2
Hazel nut	30	10
De-hulled oat grain	30	15

Export Duty

- Table 5: Introduction of Export Duty

Description of goods	Effective 1 March 2013 (%)
Bauxite (natural), not calcined and calcined	10
Ilmenite, unprocessed	10
Ilmenite, upgraded	5
Raw sugar, white or refined sugar	Nil

- De-oiled rice bran oil cake to be exempted from export duty.
- Flat rolled products of iron or non-alloy steel, plated or coated with zinc exempted from export duty retrospectively from 1 March 2011.

The above changes will be effective from 1 March 2013.

Changes in the Customs Act, 1962

- The time limit for payment of import duty is reduced from 5 to 2 days from the date on which the bill of entry is returned to the importer.
- Storage of imported goods in a public warehouse, pending clearance for home consumption, is permitted up to a period of 30 days. The Commissioner of Customs is now empowered to extend the period by further 30 days.
- Provisional attachment of property now extended to cases involving suppression, willful mis-statement or collusion.
- Section 104 has been amended to specify offences that are non-bailable. These offences, punishable under Section 135, relate to:
  - evasion or attempted evasion of duty exceeding ₹ 50 lakh; or
  - prohibited goods notified under Section 11; or
  - non declaration of import or export of goods in accordance with the provisions, and market price of which exceeds ₹ 1 crore; or
  - fraudulently availing of or attempt to avail of drawback or exemption from duty provided, if the amount of drawback or exemption from duty exceeds ₹ 50 lakh.
- Appellate Tribunal can now extend operation of stay for a further period of 185 days where the delay is not attributable to the assessee. The stay order, however, will stand vacated at the end of 365 days from the date of the order.
- Definition of 'activity' for the purpose of Advance Ruling is amended to include any new business of import or export proposed to be undertaken by an existing importer or exporter.

The above changes will be effective from the date of enactment of Finance Bill 2013.

- Limit on duty free baggage allowance for jewelry has been enhanced as below:

Coverage	Up to 28 February 2013 (₹)	Effective 1 March 2013 (₹)
An Indian passenger, who has been residing abroad for over one year		
• Gentleman passenger	10,000	50,000
• Lady passenger	20,000	100,000
A person who is transferring his residence to India		
• Gentleman passenger	10,000	50,000
• Lady passenger	20,000	100,000

Central Excise Duty

Rate Changes

Normal rate of Central Excise Duty retained at 12%.

Changes in effective rates of duty

Table 6: Increase in Excise Duty

Description of goods	Up to 28 February 2013	Effective 1 March 2013
Silver produced or manufactured during the process of zinc or lead smelting	Nil	4%
Stainless steel pattis and pattas	₹ 30,000 per machine per month	₹ 40,000 per machine per month
Marble slabs and tiles	₹ 30 per square meter	₹ 60 per square meter
Mobile handsets including cellular phones having retail sale price more than ₹ 2,000	1%	6%
SUVs with engine capacity exceeding 1500 cc	27%	30%

Table 7: Increase in Excise Duty for Cigarettes etc. (per thousand)

Description of goods	Up to 28 February 2013	Effective 1 March 2013
Non-filter exceeding 65mm but not exceeding 70mm	₹ 1,463	₹ 1,772
Filter exceeding 65mm but not exceeding 70mm	₹ 1,034	₹ 1,249
Filter exceeding 70mm but not exceeding 75mm	₹ 1,463	₹ 1,772
Filter exceeding 75mm but not exceeding 85mm	₹ 1,974	₹ 2,390
Other	₹ 2,373	₹ 2,875
Cigar and cheroots	12% or ₹ 1,370 whichever is higher	12% or ₹ 1,781 whichever is higher
Cigarillos	12% or ₹ 1,370 whichever is higher	12% or ₹ 1,781 whichever is higher
Cigarettes of Tobacco Substitutes	₹ 1,258 per thousand	₹ 1,511 per thousand
Cigarillos of Tobacco Substitutes	10% or ₹ 1,473 whichever is higher	12% or ₹ 1,738 whichever is higher
Other	10% or ₹ 1,473 whichever is higher	12% or ₹ 1,738 whichever is higher

Table 8: Decrease in the Excise Duty

Description of goods	Up to 28 February 2013 (%)	Effective 1 March 2013 (%)
Henna powder or paste, not mixed with any other ingredient	6	Nil
Peanut butter	6	Nil
Tapioca (Sago)	6	Nil
Chassis of diesel motor vehicles for transport of goods	14	13
Branded garments completely made up of cotton (not containing any other textiles)	12	6
Handmade Carpets, Carpets and other textile floor coverings etc.	2 (without credit) or 6 (with credit)	Nil
SUVs registered for use solely as taxi	80% of excise duty paid at the time of clearance	72% of excise duty paid at the time of clearance#
Cruise ships, Excursion boats , ferry-boats, Cargo Ships, Barges and similar vessels for the transport of persons or goods	6	Nil
Tugs and Pusher craft	6	Nil
Light-vessels, fire-floats, dredgers, floating cranes, and other vessels the navigability of which is subsidiary to their main function; floating docks; Floating or submersible drilling or production platforms	6	Nil
Other vessels, including lifeboats other than rowing boats and warships	6	Nil

Exemption by way of refund of 28% of excise duty paid at the time of clearance would be applicable subject to prescribed conditions

Other relevant changes in excise duty

- Manufacturers of branded readymade garments and made ups can now avail exemption from payment of excise duty provided no CENVAT credit on inputs is availed.
- Branded medicaments used in Ayurvedic, Unani, Sidha, Homeopathic or Bio-Chemic system, have been brought under MRP-based assessment, with an abatement of 35%.
- Concessional excise duty of 6%, currently available till 31 March 2013, has been extended up to 31 March 2015 on the following:
  - battery packs, battery charger, AC or DC motor and AC or DC motor controller, used in manufacture of electrically operated vehicles, including two and three wheeled electric motor vehicles,
  - battery packs of lithium ion batteries supplied to manufacturers of hybrid and electric vehicles extended up to 31 March 2015
- Specified goods manufactured and captively used as intermediate products by units located in Uttaranchal or Himachal Pradesh have been exempted from payment of central excise duty.
- Excise duty prescribed to be Nil for following excisable goods:
  - Tapioca starch manufactured and captively consumed within the factory of their production, in the manufacture of Tapioca sago (sabudana).
  - All goods for manufacture of fertilizers including bentonite sulphur, provided that the procedure laid down under Central Excise (Removal of Goods at Concessional Rate of Duty for Manufacture of Excisable goods) Rules, 2001 is followed.

The above changes will be effective from 1 March 2013.

Changes in the Central Excise Act, 1944

- Any statement issued by a Central Excise Officer containing the details of non-payment, short payment, non-levy and short levy of duty is deemed to be service of notice
- The provisions relating to advance rulings are proposed to be amended as follows:
  - Definition of 'Activity' under Section 23A(a) has been widened to include any new business of production/ manufacture by existing producers or manufacturers enabling such producers / manufacturers to seek advance ruling on starting a new line of business.
  - Scope of application of Advance Ruling extended to include admissibility of the credit of service tax paid on or deemed to have been paid on input services used in the manufacture of excisable goods.
  - Resident public limited companies have been included as class of

persons for purpose of seeking advance ruling

- Appellate Tribunal can extend operation of stay for a further period of 185 days where the delay is not attributable to the assessee. The stay order, however, will stand vacated at the end of 365 days from the date of the order.
- Single Member Bench can now dispose cases involving duty or penalty up to ₹ 50 lakh as against ₹ 10 lakh
- Section 9A has been amended to specify those offences that are non-bailable. These offences, punishable under Section 9, relate to:
  - evasion of duty exceeding ₹ 50 lakh; or
  - contravention of provisions of the law, in relation to credit of any duty, in excess of ₹ 50 lakh.

The above changes will be effective from the date of enactment of Finance Bill 2013.

Changes in CENVAT Credit Rules, 2004

An explanation has been added to Rule 3 of the CENVAT Credit Rules, 2004 to enable recovery of amounts not paid on removal of inputs or capital goods, as such or after being put to use and also in those cases where they have been fully or partially written off. The amounts can now be recovered as provided in Rule 14.

The above change will be effective from 1 March 2013.

Service Tax

Service Tax rate remains unchanged.

Changes in the Finance Act, 1994

- Negative list modified as follows:
  - Courses run by Industrial Training Institute / center affiliated to State Council for Vocational Training included in negative list under the definition of 'approved vocational educational course'. This entry hitherto covered only those courses affiliated to the National Council for Vocational Training.
  - Scope of 'testing', previously confined to seed testing only, broadened for the purpose of inclusion in negative list, to cover all testing related to the agriculture sector
  - Courses run by an institute affiliated to the National Skill Development Corporation would now be taxable.
  - Processes amounting to manufacture under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955 will also be covered under the negative list.

- As a result of changes made to Section 35C(2A) of the Central Excise Act, 1944, (as made applicable to service tax provisions), Appellate Tribunal can extend operation of stay for a period of 185 days where the delay is not attributable to the assessee. The stay order, however, will stand vacated at the end of 365 days from the date of the order.

- If a demand of service tax made under extended period of limitation is found to be unsustainable by the Appellate authority / Tribunal / Court on grounds of limitation, the tax liability for eighteen months (normal period of limitation) may be computed.
- Tribunal is now empowered to condone delays in filing appeals and cross objections by the assessee. Earlier, this was limited to appeals and cross objections filed by the revenue only.

The above changes will be effective from the date of enactment of Finance Bill 2013.

Penalties and Offences

- Section 77(1)(a) of Finance Act, 1994 contains residuary penal provisions. The said Section prescribes a penalty of ₹ 10,000 or ₹ 200 per day of default. It is now proposed that the penalty of ₹ 200 per day of default should be done away with.
- New Section 78A has been introduced. The said Section prescribes a penalty of up to ₹ 100,000 in respect of specified offences, including those relating to wrong availment of input service tax credit on services not received, issuing invoices for services not rendered and the like, on any director, manager, secretary or other officer of a company responsible for commission of such offence.
- Amendments have been proposed to increase the period of imprisonment from three years to seven years, in some cases.
- Section 91(1) has been introduced to grant the Commissioner of Central Excise the power to arrest in specified cases.

Introduction of amnesty scheme

- An amnesty scheme under service tax is proposed to be introduced by inclusion of new Chapter VI in the Finance Act, 1994 covering service tax and other dues payable for the period 1 October 2007 to 31 December 2012.
- Such pending dues can be paid in two installments; one before 31 December 2013 and the next before 30 June 2014. Interest and penalty would be waived for assessees opting for the amnesty scheme.
- The following conditions are to be fulfilled in order to avail the benefit of the scheme:
  - There should not be any notice or order before 1 March 2013 on the same issue
  - The liability was not disclosed in the returns filed
  - No inquiry or investigation is initiated by way of search, issuance of summons, requisition of accounts and records and pending as on 1 March 2013
  - No audit is initiated and pending as on 1 March 2013.

The above scheme will be effective from

the date of enactment of Finance Bill 2013.

Changes in exemptions

- All restaurants having air-conditioning or central air-heating facility would be covered under the service tax net. The requirement of serving liquor has been omitted.
- Exemptions in relation to transportation of goods by various forms (road, railways & vessels) have been aligned.
- The following exemptions have been withdrawn:
  - Transportation by road of petroleum & petroleum products, postal mails or postal bags and household effects
  - Vehicle parking to general public
  - Aircraft repair or maintenance services provided to government, a local authority or governmental authority
  - Renting of immovable property and auxiliary education services provided by educational institution
  - Charities up to ₹ 25 lakh for advancement of any other object of general public utility.
- Exemption for temporary licensing of copyright of cinematographic films restricted to films exhibited in cinema halls or theatres.

The above changes will be effective from 1 April 2013.

Other changes

- A Resident Public Limited Company would now be eligible to seek advance ruling; the term 'Resident' and 'Public Limited Company' being, as defined in the Income Tax Act and the Companies Act respectively.
- Abatement in respect of construction of a complex, building, civil structures etc., is being reduced from the existing 75% to 70% for construction other than residential properties having a carpet area up to 2000 square feet or where the amount charged is less than ₹ 1 crore.

The above changes will be effective from 1 March 2013.

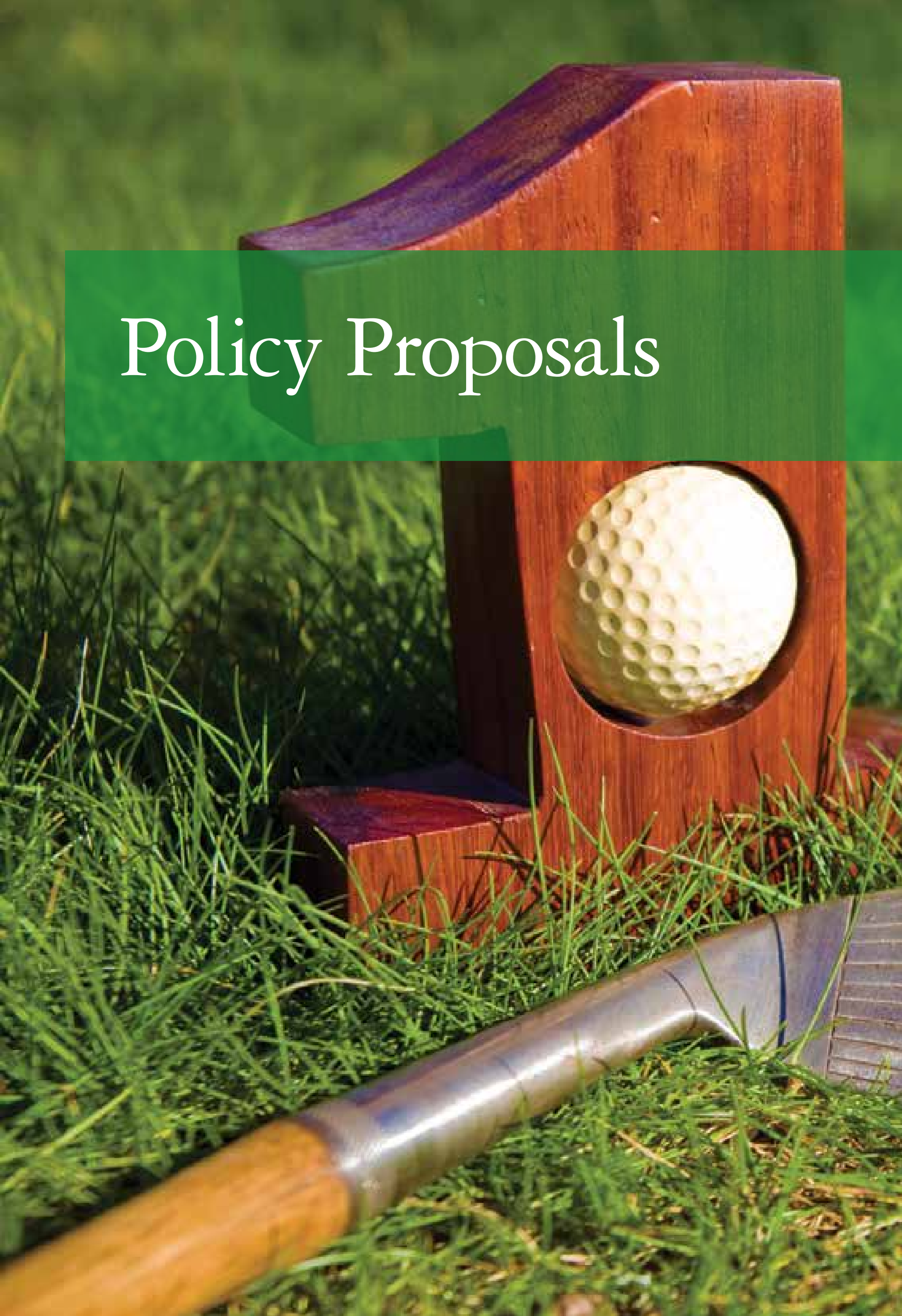
Central Sales Tax

- CST rate continues at 2% against production of Form C.

Goods and Services Tax

- An overwhelming majority of the State Governments have agreed on the need for a Constitutional amendment for introduction of GST.
- Central Government would compensate the States for loss in revenue on account of reduction in the CST rate.
- ₹ 9,000 crore set apart towards payment of first installment of balance CST compensation due to the States.
- State Finance Ministers and the GST Council have been assigned the task of drafting the GST legislation.
- Draft Bills on the Constitutional amendment and GST to be introduced in the Parliament in the coming months.

Policy Proposals



Policy Proposals

Direct taxes

- DTC Bill based on best international practices will be compatible with the needs of a fast developing economy. It will be placed before the House during the Budget session.
- Tax Administration Reform Commission will be set up to review the application of tax policies and tax laws and submit periodic reports that can be implemented to strengthen the capacity of tax system.
- Safe harbour rules will be notified after examining the reports of the Rangachary Committee, which is expected by 31 March 2013.

Capital Markets

- It is proposed that where an investor has a stake of 10% or less in a company, it will be treated as an FII and where an investor has a stake of more than 10%, it will be treated as FDI.
- FIIs will be permitted to participate in the exchange traded currency derivative segment to the extent of their Indian rupee exposure in India.
- FIIs will also be permitted to use their investment in corporate bonds and Government securities as collateral to meet their margin requirements.
- SEBI to prescribe requirement for angel investor pools by which they can be recognised as Category I AIF venture capital funds.
- Small and medium enterprises to be permitted to list on the SME exchange without being required to make an initial public offer.
- Stock exchanges to be allowed to introduce a dedicated debt segment on the exchange.
- The list of eligible securities in which Pension Funds and Provident Funds may invest will be enlarged to include exchange traded funds, debt mutual funds and asset backed securities.

Banking and Financial

- A standing Council of Experts to be constituted in the Ministry of Finance to analyse the international competitiveness of the Indian financial sector.
- National Housing Bank to set up Urban Housing Fund.
- Small and medium enterprises, to be permitted to list on the SME exchange without being required to make an initial public offer.
- Proposal to set-up India's first Women's Bank as a public sector bank.
- SIDBI to set up a Credit Guarantee Fund for factoring.

Insurance

- Insurance companies to be empowered to open branches in Tier-II cities and below without prior approval of IRDA.
- KYC of banks to be sufficient to acquire insurance policies.
- Banks to be permitted to act as

insurance brokers. Banking correspondents allowed to sell micro-insurance products. Goal of having an office of LIC and an office of at least one public sector general insurance company in towns with population exceeding 10,000 to be achieved.

Infrastructure

- Measures have been identified towards new and innovative instruments to mobilise funds for investment in the infrastructure sector.
- The Cabinet Committee on Investment has been set up and decisions have been taken in respect of a number of gas, power and coal projects.
- A policy to encourage exploration and production of shale gas will be announced.
- In the medium to long term, need to reduce dependence on imported coal has been identified.
- A proposal has been made to devise a PPP policy framework with Coal India Limited as one of the partners.
- Benefits or preferences enjoyed by MSME to continue upto three years after they grow out of this category.
- Ministry of Corporate Affairs to notify that funds provided to technology incubators located within academic Institutions and approved by the Ministry of Science and Technology or Ministry of MSME will qualify as CSR expenditure.
- Chennai-Bengaluru Industrial Corridor to be developed.
- Preparatory work commenced for Bengaluru-Mumbai Industrial Corridor.

Environment

- 'Generation-based incentive' reintroduced for wind energy projects.

Entertainment

- Proposal to expand private FM radio services to 294 more cities.
- Around 839 new FM radio channels will be auctioned in 2013-14 and after the auction, all cities having a population of exceeding 100,000 will be covered by private FM radio services.

Glossary

AAR – Authority for Advance Rulings

Act – Income tax Act, 1961

AIF – Alternative Investment Fund

AIF Regulations – SEBI (Alternative Investment Funds) Regulations, 2012

AMT – Alternate Minimum Tax

AO – Assessing Officer

AP – Approving Panel

BCD – Basic Customs Duty

CBDT – Central Board of Direct Taxes

CCIT – Chief Commissioner of Income Tax

CIF – Cost, Insurance and Freight

CIT – Commissioner of Income Tax

CST – Central Sales Tax

CTT – Commodities Transaction Tax

CSR – Corporate Social Responsibility

CVD – Countervailing duty

DDT –Dividend Distribution Tax

DTC – Direct Taxes Code

FDI – Foreign Direct Investment

FII – Foreign Institutional Investor

GAAR – General Anti-Avoidance Rule

GST – Goods and Services Tax

HUF – Hindu Undivided Family

IRDA – Insurance Regulatory and Development Authority

KYC – Know Your Customers

LIC – Life Insurance Corporation of India

LLP – Limited Liability Partnership

MAT – Minimum Alternate Tax

MSME – Micro Small and Medium Enterprises

PPP – Public Private Partnership

RBI – Reserve Bank of India

SEBI – Securities and Exchange Board of India

SIDBI – Small Industries Development Bank of India

SME – Small and Medium Enterprises

STT – Securities Transaction Tax

SUV – Sports Utility Vehicle

TDS – Tax deducted at Source

TRC – Tax Residency Certificate

VCC – Venture Capital Company

VCF – Venture Capital Fund

VCF Regulations – SEBI (Venture Capital Fund) Regulations, 1996

VCU – Venture Capital Undertaking

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