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Key Features of Budget 2014-2015

"Acche Din Aane Wale Hai?"

"How they prepared for acche din ?"

"A good pragmatic budget with a promise of more to come"

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☞ DIRECT TAXES PROPOSALS

- **Change in Individual Tax Rate**

Personal Income-tax exemption limit raised by ` 50,000/- that is, from ` 2 lakh to ` 2.5 lakh in the case of individual taxpayers, below the age of 60 years. Exemption limit raised from ` 2.5 lakh to ` 3 lakh in the case of senior citizens

Sl.No	Income Slabs	Resident individual less than 60 years	Resident individual less than 60 years or above (Senior citizens)	Resident individual of 80 years or above
1	Upto ` 2,50,000	Nil	Nil	Nil
2	` 2,50,001 to ` 3,00,000	10%	Nil	Nil
3	` 3,00,001 to ` 5,00,000	10%	10%	Nil
4	` 5,00,001 to ` 10,00,000	20%	20%	20%
5	Above ` 10,00,001	30%	30%	30%

Note:-

i) No change in the rate of surcharge either for the corporates or the individuals, HUFs, firms etc.

ii) The education cess to continue at 3 percent.

iii) No Change in Other Tax Rate.

- **Increase in deduction under section 80C**

Investment limit under section 80C of the Income-tax Act raised from ` 1 lakh to ` 1.5 lakh.

- **Increase in deduction of Interest under House property**

Deduction limit on account of interest on loan in respect of self occupied house property raised from ` 1.5 lakh to ` 2 lakh.

- **Change in term of Losses in Speculation Business**

Trading in Shares will not be considered Speculative Business to a company which the principal business is trading in shares.

- **CSR Expenses will not be deductible under section 37**

it is hereby declared that for the purposes of section 37(1), any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to be an expenditure incurred by the assessee for the purposes of the business or profession."

However, the CSR expenditure which is of the nature described in section 30 to section 36 of the Act shall be allowed deduction under those sections subject to fulfillment of conditions, if any, specified therein.

- **Change in definition of Short term Capital Gain**

Period of holding of unlisted security and a unit of a mutual fund (other than an equity oriented mutual fund) for short term capital assets has been defined as less than 3 years [Section 2 (42A)]

- **Speculative transaction in respect of commodity derivatives**

Trading in commodity derivatives carried out in a recognized association and chargeable to commodities transaction tax under Chapter VII of the Finance Act, 2013 shall not be considered to be a speculative transaction.

- **New Section 133C added in Search and Seizure case**

It is proposed to insert a new section 133C so as to provide that for the purposes of verification of information in its possession relating to any person, prescribed income-tax authority, may, issue a notice to such person requiring him, on or before a date to be specified, to furnish information or documents, verified in the manner specified therein which may be useful for, or relevant to, any enquiry or proceeding under this Act.

- **Taxability of advance for transfer of a capital asset**

The taxability of any sum of money, received as an advance or otherwise in the course of negotiations for transfer of a capital asset. Such sum shall be chargeable to income-tax under the head *'income from other sources'* if such sum is forfeited and the negotiations do not result in transfer of such capital asset.

where any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset , has been included in the total income of the assessee for any previous year, in accordance with the provisions of clause (ix) of sub-section (2) of section 56*, such amount shall not be deducted from the cost for which the asset* was acquired or the written down value or the fair market value, as the case may be, in computing the cost of acquisition.

- **Signing of Return u/s 140**

Section 140 of the Act relates to return by whom to be signed and verified. It is proposed to amend section 140 of the Act, so as to dispense with the condition of signing the income-tax return and accordingly to omit the statutory requirement of signing such return. With this amendment, only the condition of verifying of the income-tax return will apply

- **Method of Accounting u/s 145 amended**

Central Government may notify in the Official Gazette from time to time income computation and disclosure standards to be followed by any class of assessees or in respect of any class of income

- **Change in Long term Capital gain tax Rate**

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.

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- **Failure to produce accounts and documents**

if a person willfully fails to produce accounts and documents as required in any notice issued under sub-section (1) of section 142 or willfully fails to comply with a direction issued to him under sub-section (2A) of section 142, he shall be punishable with rigorous imprisonment for a term which may extend to one year and with fine.

- **Concessional rate of 15 percent on foreign dividends without any sunset date to be continued.**

- **Revised monetary limits for filing of appeals by the Department before Income Tax Appellate Tribunal, High Courts and Supreme Court**

Henceforth appeals shall not be filed in cases where the tax effect does not exceed the monetary limits given hereunder: -

Appeals in Income-tax matters	Monetary Limit (in Rs)
Before Appellate Tribunal	4,00,000
U/s 260 A before High Court	10,00,000
Before Supreme Court	25,00,000

A definition of the term "tax effect" is given. Certain exceptions to the Instruction have also been stated. It is also made clear that the Instruction applies only to appeals filed on or after 10.07.2014 and that appeals filed before that date will be governed by the Instructions

- **Income and dividend distribution tax to be levied on gross amount instead of amount paid net of taxes. Total cost to company increased to 3% approximately**

- **Disallowance of expenses on account of non deduction of TDS**

In case of non deduction of TDS on payments, 30% of such payments will be disallowed instead of 100 percent, only in case of resident person.

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- **Expand the Scope of disallowance under section 40(a)(ia)**

  Chapter XVII-B of the Act mandates deduction of tax from certain other payments such as salary directors fee, which are currently not specified under section 40(a)(ia) of the Act. Therefore, in order to improve the TDS compliance in respect of payments to residents which are currently not specified in section 40(a)(ia), it is proposed that the disallowance under section 40(a)(ia) of the Act shall extend to all expenditure on which tax is deductible under Chapter XVII-B of the Act.

- **Tax deduction at source from non-exempt payments made under life insurance policy**

  it is proposed to insert a new section in the Act to provide for deduction of tax at the rate of 2 per cent. on sum received by an assessee under a life insurance policy, including the sum allocated by way of bonus, which are not exempt under section 10(10D) of the Act. In order to reduce the compliance burden on the small tax payers, it has also been proposed that no deduction under this provision shall be made if the aggregate sum paid in a financial year to an assessee is less than Rs.1,00,000/-.

- **Flat Rate for Business of Plying, Hiring or Leasing Goods Carriages**

  A uniform amount of presumptive income of ` 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.

- **Non- Taxability of Transfer of Government Security by one non-resident to another non-resident**

  Any transfer of a capital asset, being a Government Security carrying a periodic payment of interest, made outside India through an intermediary dealing in settlement of securities, by a non-resident to another non-resident shall not be considered as transfer for the purpose of charging capital gains.

- Income arising to foreign portfolio investors from transaction in securities to be treated as capital gains.

- **Capital gains arising from transfer of an asset by way of compulsory acquisition**

  The amount of compensation received in pursuance of an interim order of the court, Tribunal or other authority shall be deemed to be income chargeable under the head 'Capital gains' in the previous year in which the final order of such court, Tribunal or other authority is made.

- **Mode of acceptance or repayment of loans and deposits**

  Sections 269SS and 269T so as to provide that any acceptance or repayment of any loan or deposit by use of electronic clearing system through a bank account shall not be prohibited under the said sections if the other conditions regarding the quantum etc. are satisfied.

- **Extension of tax benefits under section 80CCD to private sector employees**

  For employees in the private sector, the date of joining the service is not relevant for joining the New Pension Scheme (NPS), it is proposed to amend the provisions of section 80CCD to provide that the condition of the date of joining the service on or after 1.1.2004 is not applicable to them for the purposes of deduction under the said section.

- **Credit of Alternate Minimum Tax**

  With a view to enable an assessee who has paid alternate minimum tax in any earlier previous year to claim credit of the same, in any subsequent year, it is proposed to amend this section so as to provide that the credit for tax paid under section 115JC shall be allowed in accordance with the provisions of section 115JD, notwithstanding the conditions mentioned in sub-section(1) or (2) of section 115JEE.

- The eligible date of borrowing in foreign currency extended from 30.06.2015 to 30.06.2017 for a concessional tax rate of 5 percent on interest payments. Tax incentive extended to all types of bonds instead of only infrastructure bonds.

- Capital gain exemption on investment in a residential house property available only if the investment is made in one residential house situated in India.

- Conducive tax regime to Infrastructure Investment Trusts and Real Estate Investment Trusts to be set up in accordance with regulations of the Securities and Exchange Board of India.

- Transactions with a resident also deemed as international transaction in certain situations.

- Securities held by FIIs in accordance with SEBI regulations to be treated capital asset.

- Investment allowance at the rate of 15 percent to a manufacturing company that invests more than ` 25 crore in any year in new plant and machinery. The benefit to be available for three years i.e. for investments upto 31.03.2017.

- Investment linked deduction extended to two new sectors, namely, slurry pipelines for the transportation of iron ore, and semi-conductor wafer fabrication manufacturing units.

- 10 year tax holiday extended to the undertakings which begin generation, distribution and transmission of power by 31.03.2017.

- Introduction of a “Roll Back” provision in the Advanced Pricing Agreement (APA) scheme so that an APA entered into for future transactions is also applicable to international transactions undertaken in previous four years in specified circumstances.

- Introduction of range concept for determination of arm’s length price in transfer pricing regulations.

- To allow use of multiple year data for comparability analysis under transfer pricing regulations.

- Powers given to transfer pricing officer to levy penalty for failure to furnish transfer pricing documentation.

- Government to review the DTC in its present shape and take a view in the whole matter.

- MF, ST and VCC/VCF shall now be required to file a tax return instead of existing requirement for filing of the prescribed statement.

- Any trust or institution registered under section 12AA, can no longer claim exemption under section 10.

  Registration under section 12AA can be used for claiming tax exemption in earlier years. Computation of tax on anonymous donation rationalized.

- Power to survey specifically to include verification of tax deducted and collected at source.

  Further, the period of retention of books of accounts has been increased from 10 to 15 days.

- Time limit for provisional attachment of property extended to two years

- Finance Act 2013 had introduced a new provision to provide rebate of INR 2,000 or actual tax payable whichever is less for resident individuals with total income up to INR 500,000. This provision is still applicable.

- 60 more Ayakar Seva Kendras to be opened during the current financial year to promote excellence in service delivery.

- **<u>Extension of time limit for depositing withheld taxes to claim deduction of expenditure pertaining to non-residents</u>**

  Payments made to a non-resident will also be allowed as a deduction if the tax deducted at source during the year is deposited on or before the due date of filing the income-tax return.

- **<u>Correction of TDS statement</u>**

  Now section200 has been amended to enable deductor to file correction statement

<u>Net Effect of the direct tax proposals to result in revenue loss of Rs. 22,200 crore</u>

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☞ INDIRECT TAXES PROPOSALS

Custom

- To boost domestic manufacture and to address the issue of inverted duties, basic customs duty (BCD) reduced on certain items.
- To encourage new investment and capacity addition in the chemicals and petrochemicals sector, basic customs duty reduced on certain items.
- Steps taken to boost domestic production of electronic items and reduce our dependence on imports. These include imposition of basic customs duty on certain items falling outside the purview of IT Agreement, exemption from SAD on inputs/ components for PC manufacturing, imposition of education cess on imported electronic products for parity etc.
- Colour picture tubes exempted from basic customs duty to make cathode ray TVs cheaper and more affordable to weaker sections.
- To encourage production of LCD and LED TVs below 19 inches in India, basic customs duty on LCD and LED TV panels of below 19 inches reduced from 10 percent to Nil.
- To give an impetus to the stainless steel industry, increase in basic customs duty on imported flat-rolled products of stainless steel from 5 percent to 7.5 percent.
- Concessional basic customs duty of 5 percent extended to machinery and equipment required for setting up of a project for solar energy production.
- Specified inputs for use in the manufacture of EVA sheets and back sheets and flat copper wire for the manufacture of PV ribbons exempted from basic customs duty.

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- Reduction in basic customs duty from 10 percent to 5 percent on forged steel rings used in the manufacture of bearings of wind operated electricity generators. Exemption from SAD of 4 percent on parts and raw materials required for the manufacture of wind operated generators.

- Concessional basic customs duty of 5 percent on machinery and equipment required for setting up of compressed biogas plants (Bio-CNG).

- Anthracite coal, bituminous coal, coking coal, steam coal and other coal to attract 2.5 per cent basic customs duty and 2 per cent CVD to eliminate all assessment disputes and transaction costs associated with testing of various parameters of coal.

- Basic customs duty on metallurgical coke increased from Nil to 2.5 percent in line with the duty on coking coal.

- Duty on ship breaking scrap and melting scrap of iron or steel rationalized by reducing the basic customs duty on ships imported for breaking up from 5 percent to 2.5 percent.

- To prevent mis-use and avoid assessment disputes, basic customs duty on semi-processed, half cut or broken diamonds, cut and polished diamonds and coloured gemstones rationalized at 2.5 percent.

- To encourage exports, pre-forms of precious and semi-precious stones exempted from basic customs duty.

- Duty free entitlement for import of trimmings, embellishments and other specified items increased from 3 percent to 5 percent of the value of their export, for readymade garments.

- Export duty on bauxite increased from 10 percent to 20 percent.

- To incentivize expansion of processing capacity, reduction in excise duty on specified food processing and packaging machinery from 10 percent to 6 percent.

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- Reduction in the excise duty from 12 percent to 6 percent on footwear of retail price exceeding ` 500 per pair but not exceeding ` 1,000 per pair.

- Withdraw concessional excise duty (2 percent without Cenvat benefit and 6 percent with Cenvat benefit) on smart cards and a uniform excise duty at 12 percent.

- To develop renewable energy, various items exempted from excise duty.

- ***Duty free baggage allowance of passengers increased as follows:***

    i) Passengers above 10 years and returning after three days: INR 35,000 to INR 45,000.

    ii) Passengers above 10 years and returning within three days or less: INR 15,000 to INR 17,500

    iii) Passengers up to 10 years and returning after three days: INR 15,000 to INR 17,500.

- 24X7 customs clearance facility extended to 13 more airports in respect of all export goods and to 14 more sea ports in respect of specified import and export goods tofacilitate cargo clearance.

- ‘Indian Customs Single Window Project’ to facilitate trade, to be implemented.

- The scheme of Advance Ruling in indirect taxes to be expanded to cover resident Private Limited companies. The scope of Settlement Commission to be enlarged to facilitate quick dispute resolution.

- Customs and Central Excise Acts to be amended to expedite the process of disposal of appeals.

Excise

- No change in the basic Excise duty rate of 12.36%.

- Discretionary powers of CESTAT and commissioner (appeals) for grant of stay of pre-deposit has been replaced with a mandatory deposit of 7.5% for first appeal/10% for second appeal of the duty demanded or penalty imposed or both. The pre-deposit is subject to upper ceiling limit of INR 100,000,000. The amendment is prospective and not applicable to appeals and stay applications pending for decision prior to enactment of Finance Bill.

- Government is now empowered to prescribe an authority or agency to which an information return shall be furnished by specified authorities such as Income tax authorities, Registrar of Companies and State Electricity Boards, to identify tax evaders.

- Discretionary power of CESTAT to refuse admission of appeal has been increased from the existing limit of INR 50,000 to INR 200,000.

- Applicants can approach Settlement Commission even if they have not filed returns.

- Concessional excise duty of 2 percent without Cenvat benefit and 6 percent with Cenvat benefit on sports gloves.

- Specific rates of excise duty increased on cigrettes in the range of 11 per cent to 72 per cent.

- Excise duty increased from 12 percent to 16 percent on pan masala, from 50 percent to 55 percent on unmanufactured tobacco and from 60 percent to 70 percent on gutkha and chewing tobacco.

- Levy of an additional duty of excise at 5 percent on aerated waters containing added sugar.

- To finance Clean Environment initiatives, Clean Energy Cess increased from ` 50 per tonne to ` 100 per tonne.

- E-payment is being made mandatory for all assessees subject to certain exceptions w.e.f. 01/10/2014. (Notification No. 19/2014-CE(NT)

- Benefit of advance ruling extended to resident private limited company. Definition of 'private limited company' linked to Companies Act, 2013 & Income-tax Act.

- Excise Valuation Rules have been amended to prescribe that the sale price shall be deemed to be the transaction value even if goods are being sold below cost (if no additional consideration flows from the buyer), effectively nullifying the decision of the Supreme Court in case of Fiat India Private Limited effective from 11 July 2014.

- Penalty of 1% per month to be levied in case duty declared as per return is not paid within one month from the due date (effective from 1 October 2014).

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Service Tax

- No change in effective Service tax rate of 12.36%.

- To broaden the tax base in Service Tax, sale of space or time for advertisements in broadcast media, extended to cover such sales on other segments like online and mobile advertising. Sale of space for advertisements in print media however would remain excluded from service tax. Service provided by radio-taxis brought under service tax.

- Services by air-conditioned contract carriages and technical testing of newly developed drugs on human participants brought under service tax.

- Provision of services rules to be amended and tax incidence to be reduced on transport of goods through coastal vessels to promote Indian Shipping industry.

- Services provided by Indian tour operators to foreign tourists in relation to a tour wholly conducted outside India to be taken out of the tax net and Cenvat credit for services of rent-a-cab and tour operators to be allowed to promote tourism.

- Service tax exempted on loading, unloading, storage, warehousing and transportation of cotton, whether ginned or baled.

- Services provided by the Employees' State Insurance Corporation for the period prior to 1st July 2012 exempted, from service tax.

- Exemption available for specified micro insurance schemes expanded to cover all life micro-insurance schemes where the sum assured does not exceed ` 50, 000 per life insured.

- For safe disposal of medical and clinical wastes, services provided by common biomedical waste treatment facilities exempted.

- Service tax exemption on services received by educational institutes restricted only to specified services as opposed to all auxiliary education services.

- Benefit of advance ruling extended to resident private limited company. Definition of 'private limited company' linked to Companies Act, 2013 Income-tax Act.

- Domestic reverse charge provisions on two more services:

    i) Service provided by a director to a body corporate.

    ii) Services provided by recovery agents to Banks,Financial Institutions and NBFC.

- Discretionary powers of CESTAT and commissioner (appeals) for grant of stay of pre-deposit has been replaced with a mandatory deposit of 7.5% for first appeal/10% for second appeal of the duty demanded or penalty imposed or both. The pre-deposit is subject to upper ceiling limit of INR 100,000,000. The amendment is prospective and not applicable to appeals and stay applications pending for decision prior to enactment of Finance Bill.

- Time limits recommended for completion of adjudication, within six months or one year from the date of issuance of show cause notice to the extent possible.

- 50% penalty imposable in cases where Service tax has not been levied, not paid or short levied or short paid on account of suppression of facts or wilful misstatement even if the assessee proves that there was reasonable cause for such failure by way of details of such transactions being available in specified records.

- ***E-payment of Service tax made mandatory except with permissions from Deputy Commissioner/Assistant Commissioner***.

- ***Value of service portion for works contracts other than original works rationalized to 70%.***

- **Change in rate of interest on delayed payment of service tax with effect from 1 October 2014:**

Extent of Delay	Simple Interest rate per annum
Upto six months	18%
More than six months and upto one year	18% for first six months, and 24% for the period of delay beyond six months
More than one year	18% for first six months, 24% for the next six months, and 30% for the period of delay beyond one year

- ***Point of taxation for reverse charge payments rationalized (for invoices issued after 1 October 2014):***
  - ***i) Date of payment; or***
  - ***ii) First day after three months from the date of invoice (i.e. where the payment has not been made).***

  whichever is earlier in case

Cenvat

- *Cenvat credit on inputs and input services should be availed within a period of six months from the date of issuance of invoice, bill, challan etc. (effective 1 September 2014)*

- Condition to pay invoice value to the service provider for availing credit of tax paid, to be omitted on services under full reverse charge

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CST

- No change in CST rate.

GST

- No GST implementation date announced, however commitment to introduce GST affirmed.

Tax proposals on the indirect taxes side are estimated to yield Rs 7525 crore.

☞ SMALL SAVINGS PROPOSALS

i) Kissan Vikas Patra (KVP) to be reintroduced.

ii) A National Savings Certificate with insurance cover to provide additional benefits for the small saver.

iii) In the PPF Scheme, annual ceiling has been enhanced to ` 1.5 lakh p.a. from ` 1 lakh at present.

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