**JAJODIYA & CO.**
*Chartered Accountants*

*2nd Floor, 238,C.R. Avenue*
*(Girish Park), Kolkata-700006*
*M:09830144895, 09339529625*
*T:033-2241-1871*
*E-Mail: jajodiya.co@gmail.com*
*w:www.cajajodiya.co.in*

# BUDGET HIGHLIGHT ON TAX PROPOSALS 2014-15

A. Rates of Income-tax
B. Additional Resource Mobilisation Measures
C. Measures to Promote Socio-economic Growth
D. Relief and Welfare Measures
E. Widening of Tax Base and Anti Tax Avoidance Measures
F. Rationalisation Measures

## DIRECT TAXES

### A. RATES OF INCOME-TAX

**I. Rates of income-tax in respect of income liable to tax for the assessment year 2014-2015.**

**(1) Surcharge on income-tax—**

Surcharge shall be levied in respect of income liable to tax for the assessment year 2014-2015, in the following cases:—

**(a)** in the case of every individual or Hindu undivided family or every association of persons or body of individuals, whether incorporated or not, or every artificial juridical person referred to in sub-clause (vii) of clause (31) of section 2 of the Income-tax Act, 1961 (hereinafter referred to as 'the Act'), cooperative societies, firms or local bodies, the amount of income-tax shall be increased by a surcharge for the purposes of the Union at the **rate of ten percent (10%)** of such income-tax in case of a person having a total income exceeding **one crore rupees (1 crore) .**

Also, in the case of persons mentioned in (*a*) above having total income chargeable to tax under section 115JC of the Act and where such income exceeds **one crore rupees (1crore)**, surcharge at the rate mentioned above shall be levied and marginal relief shall also be provided.

(b) in the case of a **domestic company**-

(i) having total income exceeding **one crore rupees (1 crore)** but not exceeding **ten crore rupees (10 crore)**, the amount of income-tax computed shall be increased by a surcharge for the purposes of the Union calculated at the rate of **five per cent (5%).** of such income tax;

(ii) having total income exceeding **ten crore rupees (10 crore)**, the amount of income-tax computed shall be increased by a surcharge for the purposes of the Union calculated at the rate of **ten per cent (10%).** of such income-tax.

(c) in the case of a company, **other than a domestic company**,-

(i) having total income exceeding **one crore rupees** but **(1 crore)** but not exceeding **ten crore rupees (10 crore)**, the amount of income-tax computed shall be increased by a surcharge for the purposes of the Union calculated at the rate of **two per cent (2%).** of such income tax.

(ii) having total income **exceeding ten crore rupees (10 crore)**, the amount of income-tax computed shall be increased by a surcharge for the purposes of the Union calculated at the rate of **five per cent (5%)** of such income-tax.

Also, in the case of every company having total income chargeable to tax under **section 115JB (MAT)** of the Act and where such income exceeds one crore rupees but does not exceed ten crore rupees, or exceeds ten crore rupees, as the case may be, **surcharge** at the rates mentioned above shall **be levied** and marginal relief shall also be provided.

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E-Mail: jajodiya.co@gmail.com
w:www.cajajodiya.co.in

**(2) Education Cess —**

**II. Rates for deduction of income-tax at source during the financial year 2014-2015 from certain incomes other than "Salaries".**

The rates for deduction of income-tax at source during the financial year 2014-2015 from certain incomes other than "Salaries" have been specified in Part II of the First Schedule to the Bill. The rates for all the categories of persons will remain the same as those specified in Part II of the First Schedule to the Finance Act, 2013, for the purposes of deduction of income-tax at source during the financial year 2013-2014.

**(1) Surcharge—**

The amount of tax so deducted, in the case of a **non-resident person (NR)** (other than a company), shall be increased by a surcharge at the rate of **ten per cent (10%)** of such tax, where the income or the aggregate of such incomes paid or likely to be paid and subject to the deduction **exceeds one crore rupees (1crore)** . The amount of tax so deducted, in the **case of a company** other than a domestic company, shall be increased by a surcharge,-

(i) at the rate of **two per cent (2%).** of such tax, where the income or the aggregate of such incomes paid or likely to be paid and subject to the deduction exceeds one crore rupees but does not exceed ten crore rupees;

(ii) at the rate of **five per cent (5%)**. of such tax, where the income or the aggregate of such incomes paid or likely to be paid and subject to the deduction exceeds ten crore rupees.

No surcharge will be levied on deductions in other cases.

**III. Rates for deduction of income-tax at source from "Salaries", computation of "advance tax" and charging of income-tax in special cases during the financial year 2014-2015.**

**A. Individual, Hindu undivided family, association of persons, body of individuals, artificial juridical person.**

(i) every individual (other than those mentioned in (ii) and (iii) below) or Hindu undivided family or every association of persons or body of individuals,

| | |
|---|---|
| Upto Rs.2,50,000 | Nil. |
| Rs. 2,50,001 to Rs. 5,00,000 | 10 per cent. |
| Rs. 5,00,001 to Rs. 10,00,000 | 20 per cent. |
| Above Rs. 10,00,000 | 30 per cent. |

(ii) In the case of every individual, being a resident in India, who is of the **age of sixty years (60 yrs)**or more but less than eighty years at any time during the previous year,—

| | |
|---|---|
| Upto Rs.3,00,000 | Nil. |
| Rs. 3,00,001 to Rs. 5,00,000 | 10 per cent. |
| Rs. 5,00,001 to Rs.10,00,000 | 20 per cent. |
| Above Rs. 10,00,000 | 30 per cent. |

(iii) in the case of every individual, being a resident in India, who is of the **age of eighty years (80 yrs)**or more at anytime during the previous year,—

| | |
|---|---|
| Upto Rs. 5,00,000 | Nil. |
| Rs. 5,00,001 to Rs. 10,00,000 | 20 per cent. |
| Above Rs. 10,00,000 | 30 per cent. |

The amount of income-tax computed in accordance with the preceding provisions of this Paragraph shall be increased by a surcharge at the rate of ten percent (10%). of such income-tax in case of a person having a total income exceeding one crore rupees (1 crore).

*2nd Floor, 238,C.R. Avenue*
*(Girish Park), Kolkata-700006*
*M:09830144895, 09339529625*
*T:033-2241-1871*
*E-Mail: jajodiya.co@gmail.com*
*w:www.cajajodiya.co.in*

**B. Co-operative Societies**

Same rates will continue to be the same as those specified for financial year 2013-14.

The amount of income-tax shall be increased by a surcharge at the rate of **ten percent (10%)** of such income-tax in case of a co-operative society having a total income exceeding **one crore rupees (1 crore) .**

**C. Firms**

Same rate will continue to be the same as that specified for financial year 2013-2014.

The amount of income-tax shall be increased by a surcharge at the rate of **ten percent (10%)**. of such income-tax in case of a firm having a total income exceeding **one crore rupees (1 crore) .**

**D. Local authorities**

Same rate will continue to be the same as that specified for the financial year 2013-2014.

The amount of income-tax shall be increased by a surcharge at the rate of **ten percent (10%)**. of such income-tax in case of a local authority having a total income exceeding **one crore rupees (1 crore).**

**E. Companies**

Same rates are the same as those specified for the financial year 2013-2014.

The existing surcharge of **five per cent** in case of a domestic company shall continue to be levied if the total income of the domestic company **exceeds one crore rupees but does not exceed ten crore** rupees. The surcharge at the rate of ten percent shall continue to be levied if the total income of the domestic company exceeds ten crore rupees.

In case of companies **other than domestic companies**, the existing surcharge **of two per cent** shall continue to be levied if the total income exceeds **one crore rupees but does not exceed ten crore rupees**. The surcharge at the rate of **five percent (5%)** shall continue to be levied if the total income of the company other than domestic company exceeds **ten crore rupees (10 crore) .**

In other cases (including sections 115-O, 115QA, 115R or 115TA) the surcharge shall continue to be levied at the rate of ten percent.

## B.ADDITIONAL RESOURCE MOBILISATION MEASURES

### Dividend and Income Distribution Tax

In order to provide that for the purposes of determining the tax on distributed profits payable in accordance with the section 115-O, any amount by way of dividends referred to in sub-section (1) of the said section, as reduced by the amount referred to in sub-section (1A) [referred to as net distributed profits], shall be increased to such amount as would, after reduction of the tax on such increased amount at the rate specified in sub-section (1), be equal to the net distributed profits.

Thus, where the amount of **dividend paid** or distributed by a company is **Rs. 85**, then DDT under the amended provision would be calculated as follows:

Dividend amount distributed = Rs. 85

Increase by Rs. 15 [i.e. (85*0.15)/(1-0.15)]

Increased amount = Rs. 100

DDT @ 15% of Rs. 100 = Rs. 15

Tax payable u/s 115-O is Rs. 15

Dividend distributed to shareholders = Rs. 85

Similarly, it is proposed to amend section 115R to provide that for the purposes of determining the additional income-tax payable in accordance with sub-section (2) of the said section, the amount of distributed income shall be increased to such amount as would, after reduction of the additional income-tax on such increased amount at the rate specified in sub-section (2), be equal to the amount of income distributed by the Mutual Fund.

**These amendments will take effect from 1st October, 2014.**

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M:09830144895, 09339529625
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w:www.cajajodiya.co.in

### Long-term Capital Gains on debt oriented Mutual Fund and its qualification as Short-term capital asset

Accordingly, it is proposed to amend the aforesaid clause (42A) of section 2 so as to provide that **an unlisted security** and a unit of a mutual fund (other than an equity oriented mutual fund) shall be a short-term capital asset if it is held for not more than **thirty-six months (36 month).**

These amendments will take effect **from 1st April, 2015** and will accordingly apply, in relation to the assessment year 2015-16 and subsequent assessment years.

### Tax on long-term capital gains on units

It is proposed to amend the provisions of section 112 so as to allow the concessional rate of **tax of ten per cent (10%)** on **long term capital gain to listed securities (other than unit) and zero coupon bonds**.

This amendment will take effect **from 1st April, 2015** and will accordingly apply, in relation to the assessment year 2015-16 and subsequent assessment years.

## C. MEASURES TO PROMOTE SOCIO-ECONOMIC GROWTH

### Taxation Regime for Real Estate Investment Trust (REIT) and Infrastructure Investment Trust (Invit)

The Securities and Exchange Board of India (SEBI) had proposed draft regulations relating to two new categories of investment vehicles namely, the Real Estate Investment Trust (REIT) & Infrastructure Investment Trust (Invit). These regulations were placed in public domain for comments. The final Regulations are yet to be notified.

The amendment will take effect from 1st October, 2014.

### Investment Allowance to a Manufacturing Company

It is also proposed that the assessee who is eligible to claim deduction under the existing combined threshold limit of Rs.100 crore for investment made in previous years 2013-14 and 2014-15 shall continue to be eligible to claim deduction under the existing provisions contained in sub-section (1) of section 32AC even if its investment in the year 2014-15 is below the proposed new threshold limit of investment of Rs. 25 crore during the previous year.

The deduction allowable under this section after the proposed amendment in different scenario of investment is given by way of illustration in the following table:

*(Rs. in crore)*

| Sl. No. | Particulars | P.Y. 2013-14 | P.Y. 2014-15 | P.Y. 2015-16 | P.Y. 2016-17 | Remarks |
|---|---|---|---|---|---|---|
| 1. | Amount of investment | 20 | 90 | - | - | Under the existing section 32AC(1) |
| | Deduction allowable | Nil | 16.5 | - | - | |
| 2.. | Amount of investment | 30 | 40 | - | - | Under the proposed section 32AC(1A) |
| | Deduction allowable | Nil | 6 | - | - | |
| 3. | Amount of investment | 150 | 10 | - | - | Under the existing section 32AC(1) |
| | Deduction allowable | 22.5 | 1.5 | - | - | |
| 4. | Amount of investment | 60 | 20 | - | - | No deduction either u/s 32AC(1) or 32AC(1A) |
| | Deduction allowable | Nil | Nil | - | - | |
| 5. | Amount of investment | 30 | 30 | 30 | 40 | Under the proposed section 32AC(1A) |
| | Deduction allowable | Nil | 4.5 | 4.5 | 6 | |
| 6. | Amount of investment | 150 | 20 | 70 | 20 | Deduction both u/s 32AC(1) & 32AC(1A) |
| | Deduction allowable | 22.5 | 3 | 10.5 | Nil | |

These amendments will take effect from **1st April, 2015** and will, accordingly, apply in relation to the assessment year 2015-16 and subsequent years.

*2nd Floor, 238,C.R. Avenue*
*(Girish Park), Kolkata-700006*
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*T:033-2241-1871*
*E-Mail: jajodiya.co@gmail.com*
*w:www.cajajodiya.co.in*

**Extension of the sunset date under section 80-IA for the power sector**

It is proposed to amend the above provisions to extend the terminal date for a further period up to 31st March, 2017 i.e. till the end of the 12th Five Year Plan.

These amendments will take effect from 1st April, 2015 and will, accordingly, apply in relation to the assessment year 2015-16 and subsequent assessment years.

**Deduction in respect of capital expenditure on specified business**

**Two new businesses as "specified business**" for the purposes of the investment-linked deduction under section 35AD so as to promote investment in these sectors, which are :-

(a) laying and operating a slurry pipeline for the transportation of iron ore;

(b) setting up and operating a semiconductor wafer fabrication manufacturing unit, if such unit is notified by the Board in accordance with the prescribed guidelines.

It is also proposed to provide that the date of commencement of operations for availing investment linked deduction in respect of the two new specified businesses shall be on or after 1st April, 2014.

**II.** It is proposed to insert sub-section (7A) in section 35AD to provide that any asset in respect of which a deduction is claimed and allowed under section 35AD, **shall be used only** for the specified business for a period of **eight years (8 yrs)** beginning with the previous year in which such asset is acquired or constructed.

If any asset on which a deduction under section 35AD has been allowed, is demolished, destroyed, discarded or transferred, the sum received or receivable for the same is chargeable to tax under clause (vii) of section 28.

## D. RELIEF AND WELFARE MEASURES

**Raising the limit of deduction under section 80C**

The limit of above investments eligible for deduction under section 80C was fixed vide Finance Act, 2005. In order to encourage household savings, it is proposed to raise the limit of deduction allowed under section 80C from the existing Rs. 1 lakh to Rs.1.5 lakh. In view of the same, consequential amendments are proposed in sections 80CCE and 80CCD of the Act.

These amendments will take effect from **1st April, 2015** and will, accordingly, apply in relation to the assessment year 2015-16 and subsequent assessment years.

**Deduction from income from house property**

There has been appreciation in the value of house property and accordingly cost of finance has also gone up.

Therefore, it is proposed to amend the second proviso to clause (b) of said section 24, so as to increase the limit of deduction on account of interest in respect of property referred to in sub-section (2) of section 23 to **two lakh rupees (2 lakhs).**

This amendment will take effect from 1st April, 2015 and will, accordingly, apply in relation to the assessment year 2015-16 and subsequent assessment years.

**Concessional rate of tax on overseas borrowings**

This amendment will take effect from 1st October, 2014.

*2nd Floor, 238,C.R. Avenue*
*(Girish Park), Kolkata-700006*
*M:09830144895, 09339529625*
*T:033-2241-1871*
*E-Mail: jajodiya.co@gmail.com*
*w:www.cajajodiya.co.in*

**Reduction in tax rate on certain dividends received from foreign companies.**

With a view to encourage Indian companies to repatriate foreign dividends into the country, it is proposed to amend the Act to extend the benefit of lower rate of taxation without limiting it to a particular assessment year. Thus, such foreign dividends received in financial year 2014-15 and subsequent financial years shall continue to be taxed at the **lower rate of 15%.**

This amendment will take effect from **1st April, 2015** and will, accordingly, apply in relation to the assessment year 2015-16 and subsequent assessment years.

**Roll back provision in Advance Pricing Agreement Scheme**

This amendment will take effect from 1st October, 2014.

## E. WIDENING OF TAX BASE AND ANTI TAX AVOIDANCE MEASURES

**Alternate Minimum Tax**

Under the Act, the investment linked deductions have been provided in place of profit linked deductions. These profit linked deductions are subject to alternate minimum tax (AMT). Accordingly, with a view to include the investment linked deduction claimed under section 35AD in computing adjusted total income for the purpose of calculating alternate minimum tax, it is proposed to amend the section so as to provide that **total income shall be increased by the deduction claimed under section 35AD for purpose of computation of adjusted total income.** The amount of depreciation allowable under section 32 shall, however, be reduced in computing the adjusted total income.

Example:

| | | |
|---|---|---|
| Total income | | : Rs. 60 |
| Deduction claimed under Chapter VI-A | | : Rs. 40 |
| Deduction claimed under section 35AD on a capital asset | | : Rs. 100 |

<u>Computation of adjusted total income for the purposes of AMT</u>

| | | | |
|---|---|---|---|
| Total income | | | : Rs. 60 |
| Addition: | | | |
| (i) | deduction under Chapter VI-A (on non-specified business) | | : Rs. 40 |
| (ii) | deduction under section 35AD (on specified business) | Rs. 100 | |
| | Less: depreciation under section 32 | Rs. 15 | : Rs. 85 |
| Adjusted total income under section 115JC | | | : Rs. 185 |

These amendments will take effect from 1st April, 2015 and will, accordingly, apply in relation to the assessment year 2015-16 and subsequent assessment years.

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

It is proposed to insert a new clause (ix) in sub-section (2) of section 56 to provide for 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 <u>and</u>** the negotiations do not result in transfer of such capital asset. A consequential amendment in clause (24) of section (2) is also being made to include such sum in the definition of **the term 'income'.**

These amendments will take effect from 1st April, 2015 and will, accordingly, apply in relation to the assessment year 2015-16 and subsequent years.

**JAJODIYA & CO.**
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2nd Floor, 238,C.R. Avenue
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w:www.cajajodiya.co.in

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

Under the existing provisions of section 10(10D) of the Act, any sum received under a life insurance policy, including the sum allocated by way of bonus on such policy is exempt subject to fulfilment of conditions specified under the said section. Therefore, the sum received under a life insurance policy which does not fulfil the conditions specified under section 10(10D) are taxable under the provisions of the Act.

In order to have a mechanism for reporting of transactions and collection of tax in respect of sum paid under life insurance policies which are not exempted under section 10(10D) of the Act, **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 paid 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/-.

This amendment will take effect from 1st October, 2014.

## F. RATIONALISATION MEASURES

### Signing and verification of return of income

With a view to enable the verification of returns either by a sign in manuscript or by any electronic mode, it is proposed to amend section 140 of the Act so as to provide that the return shall be verified by the persons specified therein. The manner of verification of return is prescribed under section 139 of the Act.

The amendment will take effect from 1st October, 2014.

### Rationalisation of taxation regime in the case of charitable trusts and institutions

These amendments will take effect from 1st April, 2015 and will, accordingly, apply in relation to the assessment year 2015-16 and subsequent assessment years.

### Clarification in respect of section 10(23C) of the Act

Therefore, it is proposed to amend section 10(23C) by inserting an **Explanation** that if **the Government grant** to a university or other educational institution, hospital or other institution during the relevant previous year exceeds a percentage (to be prescribed) of the total receipts (including any voluntary contributions), of such university or other educational institution, hospital or other institution, as the case may be, then such university or other educational institution, hospital or other institution shall be considered as being substantially financed by the Government for that previous year.

This amendment will take effect from 1st April, 2015 and will, accordingly, apply in relation to the assessment year 2015-16 and subsequent assessment years.

### Cancellation of registration of the trust or institution in certain cases

This amendment will take effect from 1st October, 2014.

### Anonymous donations under section 115BBC

This amendment will take effect from 1st April, 2015 and will, accordingly, apply in relation to the assessment year 2015-16 and subsequent assessment years.

### Rationalisation of the Definition of International Transaction

The existing provisions of section 92B of the Act define 'International transaction' as a transaction in the nature of purchase, sale, lease, provision of services, etc. between two or more associated enterprises, either or both of whom are non-residents.

Sub-section (2) of the said section extends the scope of the definition of international transaction by providing that a **transaction entered into with an unrelated person shall be deemed to be a transaction with an associated enterprise,**

2nd Floor, 238,C.R. Avenue
(Girish Park), Kolkata-700006
M:09830144895, 09339529625
T:033-2241-1871
E-Mail: jajodiya.co@gmail.com
w:www.cajajodiya.co.in

if there exists a prior agreement in relation to the transaction between such other person and the associated enterprise, or the terms of the relevant transaction are determined in substance between the other person and the associated enterprise. The sub-section as presently worded has led to a doubt whether or not, for the transaction to be treated as an international transaction, the unrelated person should also be a non-resident.

This amendment will take effect from 1st April, 2015 and will, accordingly, apply in relation to the assessment year 2015-16 and subsequent assessment years.

**Levy of Penalty under section 271G by Transfer Pricing Officers**

This amendment will take effect from 1st October, 2014**.**

**Applicability to earlier years of the registration granted to a trust or institution**

In order to provide relief to such trusts and remove hardship in genuine cases, it is proposed to amend section 12 A of the Act to provide that in case where **a trust or institution has been granted registration under section 12AA of the Act, the benefit of sections 11 and 12 shall be available in respect of any income derived from property held under trust in any assessment proceeding for an earlier assessment year which is pending before the Assessing Officer as on the date of such registration,** if the objects and activities of such trust or institution in the relevant earlier assessment year are the same as those on the basis of which such registration has been granted.

Further, it is proposed that no action for reopening of an assessment under section 147 shall be taken by the Assessing Officer in the case of such trust or institution for any assessment year preceding the first assessment year for which the registration applies, merely for the reason that such trust or institution has not obtained the registration under section 12AA for the said assessment year.

However, the above benefits would not be available in case of any trust or institution which at any time had applied for registration and the same was refused under section 12AA or a registration once granted was cancelled.

These amendments will take effect from 1st October, 2014**.**

**Corporate Social Responsibility (CSR)**

The existing provisions of section 37(1) of the Act provide that deduction for any expenditure, which is not mentioned specifically in section 30 to section 36 of the Act, shall be allowed if the same is incurred wholly and exclusively for the purposes of carrying on business or profession. As the CSR expenditure (being an application of income) is not incurred for the purposes of carrying on business, such expenditures cannot be allowed under the existing provisions of section 37 of the Income-tax Act.

**Therefore, in order to provide certainty on this issue, it is proposed to clarify 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 have been incurred for the purpose of business and hence shall not be allowed as deduction under section 37.**

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.

This amendment will take effect from 1st April, 2015 and will, accordingly, apply in relation to the assessment year 2015-16 and subsequent years.

**Disallowance of expenditure for non- deduction of tax at source**

**Non-deduction or non-payment of tax deducted at source (TDS)**

**In order to reduce the hardship, it is proposed that in case of non-deduction or non-payment of TDS on payments made to residents as specified in section 40(a)(ia) of the Act, the disallowance shall be restricted to 30% of the amount of expenditure claimed.**

*2nd Floor, 238,C.R. Avenue*
*(Girish Park), Kolkata-700006*
*M:09830144895, 09339529625*
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*w:www.cajajodiya.co.in*

## Business of Plying, Hiring or Leasing Goods Carriages

The existing provisions of section 44AE of the Act provides for presumptive taxation in the case of an assessee who is engaged in the business of plying, hiring or leasing goods carriages and not owning more than ten goods carriages at any time during the previous year. Income from the said business is calculated as under:

| Type of Goods carriage | Amount of presumptive income |
|---|---|
| Heavy goods vehicle (HGV) | **Rs.5,000** for every month (or part of a month) during which the goods carriage is owned by the taxpayer. |
| Vehicle other than HGV | Rs. 4,500 for every month (or part of a month) during which the goods carriage is owned by the taxpayer. |

This amendment will take effect from 1st April, 2015 and will, accordingly, apply in relation to the assessment year 2015-16 and subsequent years.

## Income Computation and Disclosure Standards

In order to clarify that the standards notified under **section 145(2) of the Act are to be followed for computation of income and disclosure of information** by any class of assessees or for any class of income, it is proposed to provide that the Central Government may notify in the Official Gazette from time to time income computation and disclosure standards to be followed by any class of or in respect of any class of income. It is further proposed to provide that the Assessing Officer may make an assessment in the manner provided in section 144 of the Act, if the income has not been computed in accordance with the standards notified under section 145(2) of the Act.

This amendment will take effect from 1st April, 2015 and will, accordingly, apply in relation to the assessment year 2015-16 and subsequent assessment years.

## Transfer of Government Security by one non-resident to another non-resident

Transfer of Government security **by a non-resident to another non-resident shall not be considered** as transfer for the purpose of charging capital gains.

This amendment will take effect from 1st April, 2015 and will, accordingly, apply in relation to assessment year 2015-16 and subsequent assessment years.

## Speculative transaction in respect of commodity derivatives

Accordingly, it is proposed to amend clause (e) of the proviso to the said clause (5) so as to provide that eligible transaction in respect of trading in commodity derivatives carried out in a recognised association and chargeable to commodities transaction tax under Chapter VII of the Finance Act, 2013 shall not be considered to be a speculative transaction.

This amendment will take effect retrospectively from 1st April, 2014 and will accordingly apply, in relation to the assessment year 2014-15 and subsequent assessment years.

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

Accordingly, it is proposed to provide that 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.

This amendment will take effect from 1st April, 2015 and will, accordingly, apply in relation to the assessment year 2015-16 and subsequent assessment years.

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Chartered Accountants

2nd Floor, 238,C.R. Avenue
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M:09830144895, 09339529625
T:033-2241-1871
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w:www.cajajodiya.co.in

## Capital gains exemption in case of investment in a residential house property

The existing provisions contained in sub-section (1) of section 54F, inter alia, provide that where capital gains arises from transfer of a long-term capital asset, not being a residential house, and the assessee within a period of one year before or two years after the date of transfer, purchases, or within a period of three years after the date of transfer constructs, a residential house then the portion of capital gains in the ratio of cost of new asset to the net consideration received on transfer is not chargeable to tax.

The benefit was intended for investment in one residential house within India. Accordingly, it is proposed to amend the aforesaid sub-section (1) of section 54 so as to provide that the **rollover relief** under the said section is available if the investment is made in one residential house situated in India.

It is further proposed to amend the aforesaid sub-section (1) of section 54F so as to provide that the exemption is available if the investment is made in one residential house situated in India.

These amendments will take effect from 1st April, 2015 and will accordingly apply in relation to assessment year 2015-16 and subsequent assessment years.

## Capital gains exemption on investment in Specified Bonds

Accordingly, it is proposed to insert a proviso in sub-section (1) so as to provide that the investment made by an assessee in the long-term specified asset, out of capital gains arising from transfer of one or more original asset, during the financial year in which the original asset or assets are transferred and in the subsequent financial year does not exceed **fifty lakh rupees (50 lakhs) .**

This amendment will take effect from 1st April, 2015 and will, accordingly, apply in relation to assessment year 2015-16 and subsequent assessment years.

## Losses in Speculation Business

It is proposed to amend the aforesaid *Explanation* so as to provide that the provision of the *Explanation* shall also not be applicable to **a company the principal business of which is the business of trading in shares.**

This amendment will take effect from 1st April, 2015 and will, accordingly, apply in relation to assessment year 2015-16 and subsequent assessment years.

## Estimate of value of assets by Valuation Officer

Accordingly, it is proposed to substitute the said section 142A so as to provide that the Assessing Officer may, for the purposes of assessment or reassessment, require the assistance of a Valuation Officer to estimate the value, including fair market value, of any asset, property or investment and submit the report to him. The Assessing Officer may make a reference whether or not he is satisfied about the correctness or completeness of the accounts of the assessee. The Valuation Officer, shall, for the purpose of estimating the value of the asset, property or investment, have all the powers of section 38A of the Wealth-tax Act, 1957.

**The Valuation Officer is required to estimate the value of the asset, property or investment after taking into account the evidence produced by the assessee and any other evidence in his possession gathered, after giving an opportunity of being heard to the assessee.**

These amendments will take effect from 1st October, 2014.

## Mode of acceptance or repayment of loans and deposits

In the present times many banking transactions take place by way of internet banking facilities or by use of payment gateways. Accordingly, it is proposed to amend the provisions of the said 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.

These amendments will take effect from 1st April, 2015 and will, accordingly, apply in relation to assessment year 2015-16 and subsequent assessment years.

2nd Floor, 238,C.R. Avenue
(Girish Park), Kolkata-700006
M:09830144895, 09339529625
T:033-2241-1871
E-Mail: jajodiya.co@gmail.com
w:www.cajajodiya.co.in

## Failure to produce accounts and documents

It is proposed to amend the provisions of the said section so as to provide that if a person **wilfully fails to produce accounts and documents as required in any notice issued under sub-section (1) of section 142 or wilfully 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.

This amendment will take effect from 1st October, 2014.

## Assessment of income of a person other than the person who has been searched

It is proposed to amend section 153C of the Act to provide that notwithstanding anything contained in section 139, section 147, section 148, section 149, section 151 and section 153, where the Assessing Officer is satisfied that any money, bullion, jewellery or other valuable article or thing or books of account or documents seized or requisitioned belongs or belong to any person, other than the person referred to in section 153A,

**then books of account or documents or assets seized or requisitioned shall be handed over to the Assessing Officer having jurisdiction over such other person and that Assessing Officer shall proceed against each such other person**

and issue such other person notice and assess or reassess income of such other person in accordance with the provisions of section 153A if he is satisfied that the books of account or documents or assets seized or requisitioned have a bearing on the determination of the total income of such other person for the relevant assessment year or years referred to in sub-section (1) of section 153A .

The amendment will take effect from 1st October, 2014.

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

Considering the fact that 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.

This amendment will take effect from 1st April, 2015 and will, accordingly, apply in relation to assessment year 2015-16 and subsequent assessment years.

## 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.

This amendment will take effect from 1st April, 2015 and will, accordingly, apply in relation to the assessment year 2015-16 and subsequent assessment years.

2nd Floor, 238,C.R. Avenue
(Girish Park), Kolkata-700006
M:09830144895, 09339529625
T:033-2241-1871
E-Mail: jajodiya.co@gmail.com
w:www.cajajodiya.co.in

# CUSTOMS

## A. General

1) Baggage Rules are being amended to,-
   (i) raise the **free baggage** allowance from Rs.35,000 to Rs.45,000.
   (ii) reduce the duty free allowance of cigarettes from 200 to 100, of cigars from 50 to 25 and of tobacco from 250 gms to 125 gms.

## B. Proposals involving changes in rates of duty:

### I. AGRICULTURE/AGRO PROCESSING/PLANTATION SECTOR:

1) Description of the product "sun dried dark seedless raisins" in notification No.12/2012-Customs, dated 17.03.2012, which attracts concessional Basic Customs Duty of 30% is being changed to "dark seedless raisins".
2) Full exemption from customs duty is being granted to de-oiled soya extract, groundnut oil cake/oil cake meal, sunflower oil cake/oil cake meal, canola oil cake/oil cake meal, mustard oil cake/oil cake meal, rice bran/rice bran oil cake and palm kernel cake, up to 31.12.2014.

### II. CHEMICALS AND PETROCHEMICALS

1) Basic Customs duty on reformate is being reduced from 10% to 2.5%. Basic Customs duty on propane, ethane, ethylene, propylene, butadiene is being reduced from 5% to 2.5%.
2) Basic Customs Duty on ortho-xylene is being reduced from 5% to 2.5%.
3) Basic Customs Duty on denatured ethyl alcohol and methyl alcohol is being reduced from 7.5% to 5%.
4) Basic Customs Duty on crude naphthalene is being reduced from 10% to 5%.
5) Basic Customs Duty on fatty acids, crude palm stearin, RBD and other palm stearin and specified industrial grade crude oils is being reduced from 7.5% to Nil for manufacture of soaps and oleochemicals subject to actual user condition. Basic Customs Duty is also being reduced on crude glycerine from 12.5% to 7.5% in general and from 12.5% to Nil for manufacture of soaps subject to actual user condition.

### III. ENERGYSECTOR

1) The duty structure on non-agglomerated coal of various types is being rationalized at 2.5% BCD and 2% CVD. Accordingly, the BCD on Coking coal is being increased from NIL to 2.5% and on steam coal and bituminous coal from 2% to 2.5%. The BCD on anthracite coal and other coal is being reduced from 5% to 2.5%. The CVD on Anthracite coal, Coking coal and other Coal is being reduced from 6% to 2%.
2) Basic Customs Duty on metallurgical coke is being increased from Nil to 2.5%.
3) Exemption from Basic Customs Duty is being granted on re-gasified LNG for supply to Pakistan.
4) Liquefied Propane and Butane mixture, Liquefied Propane, Liquefied Butane and Liquefied Petroleum Gases (LPG) imported by the Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited or Bharat Petroleum Corporation Limited, for supply to Non-Domestic Exempted Category (NDEC) customers is being fully exempted retrospectively w.e.f. 08.02.2013.

### IV. TEXTILES:

1) The duty free entitlement for import of trimmings & embellishments used by the readymade textile garment sector for manufacture of garments for export is being increased from 3% to 5%.
2) Non-fusible embroidery motifs or prints are being included in the list of items eligible to be imported duty free for manufacture of garments for export.
3) The list of specified goods required by handicraft manufacturer-exporters is being expanded by including wire rolls so as to provide Customs Duty exemption on import by handicraft manufacturer-exporters.

*2nd Floor, 238,C.R. Avenue*
*(Girish Park), Kolkata-700006*
*M:09830144895, 09339529625*
*T:033-2241-1871*
*E-Mail: jajodiya.co@gmail.com*
*w:www.cajajodiya.co.in*

4) Fusible embroidery motifs or prints, anti-theft devices, pin bullets for packing, plastic tag bullets, metal tabs, bows, ring and slider hand rings are being included in the list of items eligible to be imported duty free for manufacture of handloom made ups or cotton made ups or manmade made ups for export.
5) Specified goods imported for use in the manufacture of textile garments for export are fully exempt from BCD and CVD subject to the condition that the manufacturer produces an entitlement certificate from the Apparel Export Promotion Council. In addition, Indian Silk Export Promotion Council (ISEPC) is being authorised to issue entitlement certificate.
6) Basic Customs Duty on raw materials for manufacture of spandex yarn viz. Polytetramethylene ether glycol (PT MEG) and Diphenylmethane 4,4 di-isocyanate (MDI) is being reduced from 5% to Nil.

**V. METALS:**

1) Basic Customs Duty on stainless steel flat products (CTH 7219 and 7220) is being increased from 5% to 7.5%
2) The BCD on ships imported for breaking up is being reduced from 5% to 2.5%.
3) Export duty on bauxite is being increased from 10% to 20% .
4) Basic Customs Duty on coal tar pitch is being reduced from 10% to 5%.
5) Basic Customs Duty on battery waste and battery scrap is being reduced from 10% to 5%
6) Basic Customs Duty on steel grade limestone and steel grade dolomite is being reduced from 5% to 2.5%.

**VI. PRECIOUS METALS:**

1) Basic Customs Duty on half-cut or broken diamonds is being increased from NIL to 2.5% and on cut & polished diamonds and colored gemstones from 2% to 2.5%.
2) Full exemption from Basic Customs Duty is being granted to pre-forms of precious and semi-precious stones.
3) The variation level and the parameter of measurement in respect of re-import of cut and polished diamonds after certification/grading from a foreign laboratory/agency are being increased as a trade facilitation measure.

**VII. ELECTRONICS/HARDWARE:**

1) Basic Customs Duty on LCD and LED TV panels of below 19 inches is being reduced from 10% to NIL.
2) Basic Customs Duty is being exempted on specified parts of LCD and LED panels for TVs.
3) Basic Customs Duty on colour picture tubes for manufacture of cathode ray TVs is being reduced from 10% to NIL.
4) Basic Customs Duty on specified telecommunication products not covered under the ITA (Information Technology Agreement) is being increased from NIL to 10%.
5) Special Additional Duty (SAD) on all inputs/components used in the manufacture of Personal Computers (laptops/ desktops) and tablet computers is being exempted, subject to actual user condition.
6) Education cess and Secondary and Higher Education (SHE) cess is being levied on imported electronic products.
7) Full exemption from Special Additional Duty (SAD) is being provided on specified inputs (PVC sheet & Ribbon) used in the manufacture of smart cards.
8) Basic Customs Duty is being reduced from 7.5% to NIL on E-Book readers.
9) CVD exemption on portable X-ray machine / system is being withdrawn.

**VIII. RENEWABLEENERGY:**

1) Basic Customs Duty is being reduced from 10% to 5% on forged steel rings used in the manufacture of bearings of wind operated electricity generators.
2) Full exemption from Special Additional Duty is being provided on parts and components required for the manufacture of wind operated electricity generators.
3) Basic customs duty on machinery, equipments, etc. required for setting up of solar energy production projects is being reduced to 5%.
4) Full exemption from Basic Customs Duty is being provided on specified raw materials used in the manufacture of solar backsheet and EVA sheet.
5) Full exemption from Basic Customs Duty is being provided on flat copper wire used in the manufacture of PV ribbons

*2nd Floor, 238,C.R. Avenue*
*(Girish Park), Kolkata-700006*
*M:09830144895, 09339529625*
*T:033-2241-1871*
*E-Mail: jajodiya.co@gmail.com*
*w:www.cajajodiya.co.in*

(tinned copper interconnect) for solar PV cells/modules.

6) Concessional customs duty of 5% is being provided on machinery, equipments, etc. required for setting up of compressed biogas plant (Bio-CNG).

**IX. CAPITALGOODS/INFRASTRUCTURE:**

1) It is being clarified that road construction machinery imported duty free can be sold within 5 years of importation subject to payment of customs duty on depreciated value and that individual constituents of the consortium whose names appear in the contract can import goods without payment of duty.

2) State Governments concerned are being notified as sponsoring authority for Metro Rail Projects covered under the Project Import Regulations, 1986.

3) Plants & Equipment imported prior to 2008 for use in projects financed by the UN or an international organization, which hitherto could not be transferred / sold / re-exported out of the project site, are now being allowed to be transferred / sold / re-exported from the project site.

4) The requirement of certification by Ministry of Road Transport (or NHAI) for availing of customs duty exemption on specified goods required for construction of roads is being done away with.

5) Director (Electrical) is being authorized to issue the requisite certificate to enable Delhi Metro Rail Corporation to avail of Nil BCD and Nil CVD benefits in respect of their Phase-1 and Phase-2 projects instead of Director (Rolling Stock, Electrical & Signalling) at present.

**X. HEALTH**

1) Full exemption from customs duty is being provided for HIV/AIDS drugs and diagnostic kits imported under National AIDS Control Programme (NACP) funded by the Global Fund to Fight AIDS, TB and Malaria (GFATM).

**XI. SECURITY AND STRATEGIC PURPOSES:**

1) Full exemption from Basic customs Duty is being provided to goods imported by National Technical Research Organisation (NTRO).

2) Full exemption of customs duty is being provided on security fibre, security threads and M-feature imported by Bank Note Paper Mill India Private Limited (BNPMIPL), Mysore. Full exemption from BCD and CVD is also being provided for raw materials required for manufacture of security threads and security fibre subject to actual user condition.

3) The scope of exemption notification No.39/96-Customs dated 23.07.1996 [S.No.7] granting full exemption from BCD and CVD on goods imported for use in the manufacture of aircrafts for the Ministry of Defence is being clarified to the effect that the exemption is available to all materials in any form and articles thereof, subject to the overall condition that they conform to aeronautical specification accompanied with certificate of conformance/release note/airworthiness certificate for development.

**XII. AIRCRAFTS & SHIPS:**

1) It is being clarified that aircraft engines and parts thereof are eligible for duty exemption when imported for servicing, repair or maintenance of aircrafts used for scheduled operations.

**XIII. MISCELLANEOUS:**

1) Tariff item 3903 19 90 is being deleted from notification No.10/2008-Customs, [India-Singapore Comprehensive Economic Co-operation Agreement (CECA)]. As a result, Basic Customs Duty on Polystyrene (other than moulding powder) is being increased from 1.15% to 7.5%.

2) Basic Customs Duty is being reduced from 5% to 2.5% on electrolysers and their parts/spares required by caustic soda or caustic potash units and membranes and their parts/spares required by industrial plants based on membrane cell technology. The BCD on other spares (other than membranes and parts thereof) is also being reduced from 7.5% to 2.5%.

3) A provision is being made for refund of Customs duty paid at the time of import of scientific and technical instruments, apparatus, etc. by public funded and other research institutions, subject to submission of a certificate of registration from the Department of Scientific & Industrial Research (DSIR).

4) Section 8B of the Customs Tariff Act, 1975 is being amended so as to provide for levy of safeguard duty on inputs/raw materials imported by an EOU and cleared into DTA as such or are used in the manufacture of final products & cleared into DTA.

*2nd Floor, 238,C.R. Avenue*
*(Girish Park), Kolkata-700006*
*M:09830144895, 09339529625*
*T:033-2241-1871*
*E-Mail: jajodiya.co@gmail.com*
*w:www.cajajodiya.co.in*

# EXCISE

**AMENDMENTS IN THE FIRST SCHEDULE TO THE CENTRAL EXCISE TARIFF ACT, 1985**:

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

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

3) Tariff item 2402 20 60 is being omitted.

4) The entry 2403 19 occurring against the description "Other than paper rolled biris, manufactured without the aid of machine" is being substituted with 2403 19 21.

5) The unit quantity code against certain entries is being changed.

The changes at 1) to 4) will come into effect immediately owing to a declaration under the Provisional Collection of Taxes Act, 1931.

**RETROSPECTIVE AMENDMENT TO RULES**:

2) Rule 8 of the Pan Masala Packing Machines (Capacity Determination and Collection of Duty) Rules, 2008 is being amended with retrospective effect from 13.04.2010 to provide that where a manufacturer manufactures pouches of different RSPs on a single machine, the duty liability for that month would be the duty applicable to the highest of the RSP so manufactured. This will align the Pan Masala Packing Machines (Capacity Determination and Collection of Duty) Rules, 2008 with the Chewing Tobacco and Unmanufactured Tobacco Packing Machines (Capacity Determination and Collection of Duty) Rules, 2010 with regard to manufacture of pouches of different RSPs on a single machine under the compounded levy scheme.

**RETROSPECTIVE EXEMPTIONS**:

1) Un-branded articles of precious metals are being exempted from excise duty for the period 01.03.2011 to 16.03.2012 so as to remove the unintended levy of excise duty on un-branded articles of precious metals for the said period.

2) Excise duty on Polyester Staple Fiber (PSF) and Polyester Filament Yarn (PFY) manufactured from plastic waste or scrap or plastic waste including waste polyethylene terephthalate (PET) bottles (which is already exempt w.e.f. 08.05.2012) is being exempted retrospectively w.e.f. 29.06.2010 to 07.05.2012 and intermediate product 'Tow' arising during the course of manufacture of such PSF/PFY is being exempted retrospectively w.e.f. 29.06.2010 to 10.07.2014 so as to provide relief to the manufacturers of such PSF/PFY and to rectify the unintended levy of central excise duty on tow (an intermediate product) arising during the course of manufacture of such PSF/PFY.

3) Full exemption from Central Excise duty is being provided to Liquefied Propane and Butane mixture, Liquefied Propane, Liquefied Butane and Liquefied Petroleum Gases (LPG) for supply to Non-Domestic Exempted Category (NDEC) customers by the Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited or Bharat Petroleum Corporation Limited retrospectively from 08.02.2013 so as to treat NDEC customers, such as, hospitals, government canteens, BSF/CISF mess, etc., at par with domestic customers for the purposes of supply of LPG.

**Proposals involving changes in rates of duty:**

**I. AGRICULTURE/AGRO PROCESSING/PLANTATION SECTOR:**

1) Excise duty on machinery for the preparation of meat, poultry, fruits, nuts or vegetables, and on presses, crushers and similar machinery used in the manufacture of wine, cider, fruit juices or similar beverages and on packaging machinery is being reduced from 10% to 6%.

**II. AUTOMOBILES:**

*2nd Floor, 238,C.R. Avenue*
*(Girish Park), Kolkata-700006*
*M:09830144895, 09339529625*
*T:033-2241-1871*
*E-Mail: jajodiya.co@gmail.com*
*w:www.cajajodiya.co.in*

1) Excise duty is being exempted on parts of tractors removed from one or more factories of a tractor manufacturer to another factory of the same manufacturer for manufacture of tractors.

**III. METALS:**

1) Excise duty on winding wires of copper is being increased from 10% to 12%.

**IV. PRECIOUS METALS**

1) Un-branded articles of precious metals are being exempted from excise duty for the period 01.03.2011 to 16.03.2012.

**V. TEXTILES:**

1) Excise duty on Polyester Staple Fiber (PSF) and Polyester Filament Yarn (PFY) manufactured from plastic waste or scrap or plastic waste including waste polyethylene terephthalate (PET) bottles (which is already exempt w.e.f. 08.05.2012) is being exempted retrospectively w.e.f. 29.06.2010 to 07.05.2012 and intermediate product 'Tow' arising during the course of manufacture of such PSF/PFY is being exempted retrospectively w.e.f. 29.06.2010 to 10.07.2014.
2) Excise duty at the rate of 2% (without CENVAT) or 6% (with CENVAT) is being imposed on Polyester Staple Fiber and Polyester Filament Yarn manufactured from plastic waste or scrap or plastic waste including waste polyethylene terephthalate (PET) bottles w.e.f. 11th July, 2014.

**VI. HEALTH:**

1) Full exemption from excise duty is being provided to DDT manufactured by Hindustan Insecticides Limited for supply to the National Vector Borne Diseases Control Programme (NVBDCP) of the Ministry of Health & Family Welfare.
2) Full exemption from excise duty is being provided for HIV/AIDS drugs and diagnostic kits supplied under National AIDS Control Programme (NACP) funded by the Global Fund to Fight AIDS, TB and Malaria (GFATM).
3) Excise duty on cigarettes is being increased by 72% for cigarettes of length not exceeding 65 mm and by 11% to 21% for cigarettes of other lengths. Similar increases are proposed on cigars, cheroots and cigarillos.
4) Basic excise duty is being increased from 12% to 16% on pan masala, from 50% to 55% on unmanufactured tobacco and from 60% to 70% on jarda scented tobacco, gutkha and chewing tobacco.

**VII. ELECTRONICS/HARDWARE:**

1) Excise duty on recorded smart cards is being increased from 2% without CENVAT and 6% with CENVAT to a uniform rate of 12%.
2) Full exemption from Excise Duty is being provided to reverse osmosis (RO) membrane element used in water filtration or purification equipment (other than household type filter). Excise duty on RO membrane element used in household type filters is being reduced from 12%/10% to 6%.
3) Excise duty on Metal Core PCB and LED driver for use in the manufacture of LED lights and fixtures and LED lamps, is being reduced from 12%/10% to 6%.

**VIII. RENEWABLEENERGY**

1) Excise duty is being reduced from 12% to Nil on forged steel rings used in the manufacture of bearings of wind operated electricity generators.
2) Full exemption from excise duty is being provided for solar tempered glass used in the manufacture of solar photovoltaic cells/modules, solar power generating equipment/system, and flat plate solar collectors.
3) Full exemption from excise duty is being granted in respect of machinery, equipments, etc. required for setting up of solar energy production projects.
4) Full exemption from excise duty is being provided to backsheet and EVA sheet used in the manufacture of photovoltaic cells/modules and specified raw materials used in their manufacture.

2nd Floor, 238,C.R. Avenue
(Girish Park), Kolkata-700006
M:09830144895, 09339529625
T:033-2241-1871
E-Mail: jajodiya.co@gmail.com
w:www.cajajodiya.co.in

5) Full exemption from excise duty is being provided to parts consumed within the factory of production for the manufacture of non-conventional energy devices [Sl.No.332 of notification No.12/2012-CE, dated 17.03.2012].
6) Full exemption from Excise Duty is being provided on flat copper wire used in the manufacture of PV ribbons (tinned copper interconnect) for use in the manufacture of solar cells/modules.
7) Full exemption from excise duty is being provided on machinery, equipments, etc. required for setting up of compressed biogas plant (Bio-CNG).

**IX. CONSUMER GOODS**

1. The scope of the phrase "not mixed with any other ingredient" in the context of excise duty exemption on "heena powder or paste, not mixed with any other ingredient" is being clarified so as to provide that the exemption is available to heena powder mixed with a liquid, so far that the liquid is a medium to change the form of heena powder into paste but excludes products like heena dye and such other products which are cosmetics and have no ceremonial or traditional value.

2. Excise duty is being reduced from 12% to 6% on footwear of retail price exceeding Rs.500 per pair but not exceeding Rs.1,000 per pair. Footwear of retail price upto Rs.500 per pair will continue to remain exempted.

3. Excise duty on hand operated sewing machine (2% without CENVAT / 6% with CENVAT) is being rationalized by levying concessional excise duty on sewing machines other than those operated with electric motors (whether in-built or attachable to the body)

4. Semi- mechanized units manufacturing safety matches, which attract concessional excise duty of 6%, are being allowed to carry out the processes of 'Pasting of labels' and 'Packing' with the aid of power.

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

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

**X. ENERGYSECTOR**

1) Central Excise duty on Branded Petrol is being reduced from Rs.7.50 per litre to Rs. 2.35 per litre
2) Full exemption from Central Excise duty is being provided to Liquefied Propane and Butane mixture, Liquefied Propane, Liquefied Butane and Liquefied Petroleum Gases (LPG) for supply to Non-Domestic Exempted Category (NDEC) customers by the Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited or Bharat Petroleum Corporation Limited retrospectively from 08.02.2013.
3) The rate of Clean Energy Cess levied on coal, lignite and peat is being increased from Rs.50 per tonne to Rs. 100 per tonne.

**XI. SECURITY AND STRATEGIC PURPOSES:**

1) Full exemption from Excise Duty is being provided to goods supplied to National Technical Research Organisation (NTRO).
2) Full exemption from excise duty is being provided for security threads and security fibre supplied to Security Paper Mill Corporation of India Limited (SPMCIL) and Bank Note Paper Mill India Private Limited (BNPMIPL).

**XII. MISCELLANEOUS**

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

*2nd Floor, 238,C.R. Avenue*
*(Girish Park), Kolkata-700006*
*M:09830144895, 09339529625*
*T:033-2241-1871*
*E-Mail: jajodiya.co@gmail.com*
*w:www.cajajodiya.co.in*

2) Intermediate goods manufactured and consumed captively for further manufacture of matches is being fully exempted.
3) The scope of the Excise Duty exemption to “all goods supplied against International Competitive Bidding” is being clarified to the effect that the said exemption is also available to sub-contractors for manufacture and supply of goods to the main contractor (who has won the bid for the project through ICB) for execution of the said project.
4) Full exemption from Excise duty is being provided on plastic materials reprocessed out of the scrap or waste and cleared into the DTA by an EOU.
5) Education cess and secondary & higher education cess (customs component) is being exempted on goods cleared by an EOU into the DTA.
6) A clarification is being issued that the exemption from education cess and secondary & higher education cess under notifications No.28/2010-CE and No.29/2010-CE, both dated 22.06.2010 is applicable only in respect of the clean energy cess leviable on coal and not in respect of excise duty leviable on coal.
7) It is being clarified that all goods falling under headings 8601 to 8606 (except 8604) attract 6% excise duty with CENVAT benefit.

**MISCELLANEOUS**

1) The Seventh Schedule to the Finance Act, 2001 dealing with National Calamity Contingent Duty is being amended to omit the tariff item 2402 20 60 as a consequential change to amendment in the First Schedule to the Central Excise Tariff Act.

This change **will come into effect immediately** owing to a declaration under the Provisional Collection of Taxes Act, 1931.

*2nd Floor, 238,C.R. Avenue*
*(Girish Park), Kolkata-700006*
*M:09830144895, 09339529625*
*T:033-2241-1871*
*E-Mail: jajodiya.co@gmail.com*
*w:www.cajajodiya.co.in*

# SERVICE TAX

**I. Broadening the tax base:**

(i) Review of the Negative List of services:

- Service tax leviable currently on **sale of space or time for advertisements in broadcast media, namely radio or television,** has been 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.** Print media is being defined in service tax law for the purpose. This change will come into effect from a date to be notified later, after the Finance (No.2) Bill, 2014 receives the assent of the President.
- Service tax to be levied on the services provided by **radio taxis or radio cabs, whether or not air-conditioned.** The abatement presently available to rent-a-cab service would also be made available to radio taxi service, to bring them on par. Service tax on radio taxi services will come into effect from a date to be notified later, after the Finance (No.2) Bill, 2014 receives the assent of the President.

(ii) Review of general exemptions extended under Notification No. 25/2012-ST in exercise of powers conferred under section 93(1) of the Finance Act,1994:

- **Exemption extended to clinical research on human participants is being withdrawn.**
- **Exemption extended to air-conditioned contract carriages like buses is being withdrawn.**

(iii) Rationalization of general exemptions extended under Notification No. 25/2012-ST in exercise of powers conferred under section 93(1):

- Exemption in respect of services provided to Government or local authority or governmental authority, will be limited to services by way of water supply, public health, sanitation conservancy, solid waste management or slum improvement and up gradation.
- The services which will be exempt when received by the educational institutions. Accordingly, in respect of services received by an eligible educational institution:

  (i) transportation of students, faculty and staff;

  (ii) catering service including any mid-day meals scheme sponsored by the Government;

  (iii) security or cleaning or house-keeping services in such educational institutions; and

  (iv) services relating to admission to such institution or conduct of examination, are being exempted from service tax. In view of this rationalization, exemption extended so far in respect of renting of immovable property service received by educational institutions, stands withdrawn.

- Exemption available to accommodation services provided by **hotels, *dharamshalas* or *ashrams*** when they provide rooms **for less than Rupees One Thousand per day**, is being re-worded to bring out the intent clearly.

**Changes in the exemption notification No. 25/2012-ST to come into effect immediately.**

**II. Service tax on service portion in Works Contracts - Rationalization**:

- In Rule 2A of the Service Tax Valuation Rules, category 'B' and 'C' of works contracts proposed to be merged into one single category, with service portion as 70%; this change will come into effect from 1st October, 2014.

**III. Service tax on taxable portion in respect of transportation service by vessels**:

- Taxable portion in respect of transport of goods by vessel to be reduced from 50% to 40%. Effective service tax will decrease from the present 6.18% to 4.944%. This will come into force from 1st October 2014.

*2nd Floor, 238,C.R. Avenue*
*(Girish Park), Kolkata-700006*
*M:09830144895, 09339529625*
*T:033-2241-1871*
*E-Mail: jajodiya.co@gmail.com*
*w:www.cajajodiya.co.in*

**IV. New exemptions**

- Life micro-insurance schemes for the poor, approved by IRDA, where sum assured does not exceed Rupees Fifty Thousand to be exempted from service tax.
- Transport of **organic manure** by vessel, rail or road (by GTA) is being exempted.
- Loading, unloading, packing, storage or warehousing, transport by vessel, rail or road (GTA), of **cotton, ginned or baled,** is being exempted.
- Services provided by common bio-medical waste treatment facility operators to clinical establishments are being exempted.
- Specialized financial services received by RBI from global financial institutions in the course of management of foreign exchange reserves, e.g., external asset management, custodial services, securities lending services, etc. are being exempted.
- Services provided by Indian tour operators to foreign tourists in relation to a tour wholly conducted outside India are being exempted.
- New exemptions will come into effect immediately,i.e.11.7.2014

**V. Retrospective Exemption**:

- Service provided by Employees' State Insurance Corporation (ESIC) during the period prior to 1.7.2012 to be exempted from service tax.

**VI. Compliance enhancement**:

- Simple interest rates per annum payable under section 75, to vary on the basis of extent of delay in payment of service tax. This will come into force on 1st October 2014.

| Extent of delay | Simple interest rate per annum |
|---|---|
| Up to six months | 18% |
| From six months and upto one year | 24% |
| More than one year | 30% |

**VII. Service Tax Rules**: [changes to have immediate effect]

- **Service** provided by a Director to a body corporate to be brought under the reverse charge mechanism; service receiver, who is a body corporate will be the person liable to pay service tax.
- Services provided by Recovery Agents to Banks, Financial Institutions and NBFC to be brought under the reverse charge mechanism; service receiver will be the person liable to pay service tax.

**VIII. Cenvat Credit**:

- Service tax paid under full reverse charge: the condition to pay invoice value to the service provider for availing credit of tax paid, to be omitted [change to have immediate effect].
- Re-credit of Cenvat credit reversed on account of non-receipt of export proceeds within the specified period, to be allowed, if such export proceeds are received within one year from the specified period on the basis of documentary evidence of receipt of payment [change to have immediate effect].
- Rent-a-cab operator and tour operator: service tax paid by sub-contractor in the same line of business would be allowed as eligible credit to the main service provider to avoid double taxation, subject to certain conditions [with effect from 1st October 2014]. Refer amendment in Notification No.26/2012-ST.
- GTA service: service receiver may avail abatement, without having to obtain non-availment of Cenvat Credit certificate from service provider [change to have immediate effect]. Refer amendment in Notification No.26/2012-ST.

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- **Time limit for taking credit on input and input services: credit shall be taken within six months from the date of the invoice or challans or other documents specified [change to have effect from 1st September, 2014].**

**IX. Place of Provision of Services Rules**:

- Provision for prescribing conditions for determination of place of provision of repair service carried out on temporarily imported goods, to be omitted.
- Intermediary of goods to be given the same treatment as is given to intermediary of services.

[The above changes to have effect from 1st October 2014]

**X. Point of Taxation Rules**:

- In case of reverse charge services, to bring certainty in the determination of point of taxation, it is proposed to provide that **point of taxation will be the payment date or first day after three months from the date of invoice, whichever is earlier**. The amended point of taxation will apply to invoices issued after 1st October 2014. A transition rule is proposed to be prescribed

[Change to have effect from 1st October, 2014].

**XI. Simplification of partial reverse charge mechanism**:

- In **renting of motor vehicle**, portion of service tax payable by service provider and service receiver will be 50% each. This will come into effect from 1st of October 2014.