Budget Highlights: 2014-15- Direct Taxes

Amendment Income Tax Rates

(i) For Individuals (below Sixty Years of Age), HUFs, AOP, BOI and Artificial Juridical Persons: Basic exemption limit increases **from ₹2, 00,000 to ₹2, 50,000**. The Proposed Tax Slab will be as under for the AY: 2015-16

Income Limit	Rate of Tax
Up to ₹ 2,50,000	Nil
₹2,50,001 to ₹5,00,000	10%
₹5,00,001 to ₹10,00,000	20%
Above ₹ 10,00,000	30%

(ii) For Senior Citizens- Basic Exemption limit increases from **₹2,50,000 to ₹ 3,00,000** and the Revised Tax slab will be as below

Income Limit	Rate of Tax
Up to ₹ 3,00,000	Nil
₹3,00,001 to ₹5,00,000	10%
₹5,00,001 to ₹10,00,000	20%
Above ₹ 10,00,000	30%

(iii) For Super Senior Citizens: No change in tax slab.

(iv) For Companies: No change Tax Rate.

(v) For Firms and Other Assessees: No change

➢ **Amendment in Method of Calculation of Dividend Distribution Tax[Section 115O and 115R]**

Rate of DDT: 15% (No Change)

Only the amendment is proposed in respect of Calculation of the amount of the Dividend Distribution Tax. As per the proposed provision for calculating the dividend distribution tax, dividend amount shall be increased to such amount as would after reduction of the tax on such increased amount at the rate of 15% be equal to the net distributable profit.

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

Dividend amount distributed = ₹ 85

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

Increased amount = ₹ 100

DDT @ 15% of ₹ 100 = ₹ 15

Tax payable u/s 115O is ₹ 15

- **Income Earned by Indian Companies from investments made in foreign company would continue to tax at the lower rate of 15%. [Section 115BBD)[Effective from 1st April, 2015].**

- **Alternate Minimum Tax[Section 115JC and 115JD]**

  For the purpose of calculating alternate minimum tax, for the purpose of computing adjusted total income deduction claimed under section 35AC shall be added after reducing deduction allowable under section 32 thereon**. [w.e.f 01.10.2014]**

  Further, Credit of alternate minimum tax paid by the assessee shall be allowed under section 115JD notwithstanding the conditions prescribed in sub section (1) and (2) of the Section 115JEE.

Amendment in Provisions regarding Tax Deducted at Source

- New Section 194DA has been inserted in which it has been proposed to deduct TDS @ 2% on any sum paid under a life insurance policy including bonus which are not exempt under section 10(10D) of the Income Tax Act, 1961. However, it has been proposed that no

  Deduction shall be made if the aggregate sum paid during a financial year to an assessee is less than ₹ 1,00,000/-[**w.e.f 01.10.2014].**

- Provision to file Correction Statement by the Tax Deductor has been included in section 200 of the Act.

Amendment in Income from House Property

- Maximum ceiling in relation to interest on borrowings has been increased from ₹1.50 lacs to ₹ 2 lacs. **[Section 24(b)].**

  Effective From: 01.04.2015

Amendment in Profits and Gains on Business or Profession

- **Trading in Shares will not be considered Speculative Business.[w.e.f. 01.04.2015]**
  Explanation to section 73 so as to provide that the provisions of the said *Explanation* shall also not be applicable to a company the principal business of which is the business of trading in shares.

- **Amendments to Section 37 (CSR Expenses will not be deductible)[w.e.f. 01.04.2015]**
  Explanation 2 has been inserted to section 37 it has been declared that for the purposes of sub-section (*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.

- **New Section 10 (23FC) for Business Trust [w.e.f 01.04.2015]**

  Any income of a business trust by way of interest, received or receivable from a special purpose vehicle would not be included in the total income of the trust. It is further proposed to define the term "special purpose vehicle" to mean an Indian company in which the business trust holds controlling interest and any specific percentage of shareholding or interest, as may be required by the regulations under which such trust is granted registration.

- **Amendment in Section 32AC regarding Investment Allowance to Manufacturing Company [w.e.f 01.04.2015]**

  Availability of deduction for investment in New Plant and Machinery by a manufacturing company has been extended to 31.03.2017 from 31.03.2016.

  Further, in order to simplify the existing provisions of Section 32AC of the Act and also to make medium size investments in plant and machinery eligible for deduction, it is also proposed that the deduction under section 32AC of the Act shall be allowed if the company on or after 1st April, 2014 invests more than ₹25 crore in plant and machinery in a previous year.

- **Amendment in Section 35AD [w.e.f. 01.04.2015]**

  - Two new businesses have been proposed to be included in the definition **"specified business"** to promote investment in these sectors if they commence operation on or after 1st April, 2014:

    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.

- Sub-Section (7A) is proposed to be inserted to provide that the assets for which deduction has been claimed and allowed shall be used for the specified business for a period of eight years beginning from the financial year in which the asset was acquired or constructed.

- Sub-section (7B) is proposed to provide that if such asset is used for any purpose other than the specified business, the total amount of deduction so claimed and allowed in any previous year in respect of such asset, as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction had been allowed under section 35AD, shall be deemed to be income of the assessee chargeable under the head “Profits and gains of business or profession” of the previous year in which the asset is so used.

➢ **Amendment in Section 44AE [w.e.f. 01.04.2015]:**

Present Provision	Proposed Provison
<u>**Heavy Goods Vehicle:**</u> Presumptive income is ₹ **5,000 per month** or part of a month during which the goods carriage is owned by the tax payer. <u>**Other Vehicles**</u> Presumptive income **is ₹ 4,500 per month** or part of a month during which the goods carriage is owned by the tax payer.	Presumptive income would be **₹ 7,500 per month** for **all types of goods carriage** without any distinction.

➢ **Amendment in Section 145 [w.e.f 01.04.2015]**

i) The word accounting standard has been proposed to be replaced with income computation and disclosure standards.

ii) 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.

iii) 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.

- **Disallowance of Expenditure under section 40(a)(ia)[w.e.f 01.04.2015]**

i. It has been 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 expenditures towards Rent, interest, commission, brokerage, rent, royalty fee for technical services and contract payment.

ii. The scope of the section 40(a)(ia) has been widened by including all expenditures on which Tax is Deductible at Source under Chapter XVII of the Income Tax Act, 1961.

Amendment in Income from Capital Gains

- **Amendment in Section 2(42A) [w.e.f 01.04.2015]**

It has proposed 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.

- **Amendment in Section 2(14) in respect of Definition of Capital Assets [w.e.f 01.04.2015]**

The definition of capital asset is proposed to be substituted. As per the new provision, capital assets means:

(a) Property of any kind held by an assessee, whether or not connected with his business or profession

(b) Any securities held by a Foreign Institutional Investor which has invested in such securities in accordance with the regulations made under the SEBI Act, 1992

However, only exclusion of stock in trade [other than securities] has been provided.

- **Tax on Long Term Capital Gain on Units (Section 112) [w.e.f. 01.04.2015]**

  It is proposed to amend the provisions of section 112 so as to allow the concessional rate of tax of ten per cent on long term capital gain to listed securities (other than unit) and zero coupon bonds. Earlier, transfer of unit of an equity oriented fund liable to STT, the benefit of this section could be availed even though the fact that it is already exempt from tax.

- **Transfer of Government Security by one Non Resident to another non resident [Retrospective amendment w.e.f. 01.04.2014]**

  Clause (viib) to Section 47 of the Income Tax Act, 1961 is proposed to be inserted to provide that 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.

- **Capital Gain on Compulsory Acquisition of an Asset [Section 45 (5)] (w.e.f 01.04.2015)**

  <u>Present Provision:</u>

  As per Clause (b)of Section 45(5) of the IT Act, where the amount of compensation is enhanced or further enhanced by the court in respect of compulsory acquisition of an asset, then it shall be deemed to be the income chargeable of the previous year in which such amount is received by the assessee.

  <u>Proposed Provision</u>

  It has been proposed to amend clause (b) of Section 45(5) of the Act 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.

- **Exemption from Long Term Capital Gains**

Sections	Current Provision	Proposed Provision
54	Where capital gain arises from the transfer of a long-term capital asset, being buildings or lands appurtenant thereto, and 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 amount of capital gains to the extent invested in the new residential house is not chargeable to tax under section 45 of the Act.	Where capital gain arises from the transfer of a long-term capital asset, being buildings or lands appurtenant thereto, and 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, **one residential house in India** then the amount of capital gains to the extent invested in the new residential house is not chargeable to tax under section 45 of the Act.
54F	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.	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, **one residential house in India** 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.
54EC	Where capital gain arises from the transfer of a long-term capital asset and the assessee has, within a period of six	It is proposed to insert a proviso in sub-section (1) so as to provide that the investment made by an

	months, invested the whole or part of capital gains in the long-term specified asset, the proportionate capital gains so invested in the long-term specified asset, out of the whole of the capital gain, shall not be charged to tax. The proviso to the said sub-section provides that the investment made in the long-term specified asset during any financial year shall not exceed fifty lakh rupees	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.

Amendment in Income from Other Sources

- **Taxability of Advance Received for Transfer of Capital Assets [New Provision]**

New clause (ix) in sub-section (2) of section 56 is proposed to be inserted 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 and the negotiations do not result in transfer of such capital asset.**

Consequential amendment in clause (24) of section (2) is also proposed to include such sum in the definition of the term 'income' by inserting clause (xvii) to the aforesaid section.

Further, the existing provisions of Section 51 provide that any advance retained or received shall be reduced from the cost of acquisition of the asset or the written down value or the fair market value of the asset. In order to avoid double taxation of the advance received and retained, section 51 is also proposed to be amended to provide that 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.

Deductions under Chapter VIA

Sections	Current Provision	Proposed Provision
80C, 80CCD and 80CCE	Maximum permissible deduction **is ₹ 1,00,000/-**	Maximum permissible deduction is proposed to be increased to **₹1,50,000/-**
80IA	Terminal date for availing deduction is the financial year ending on 31st March, 2014 for industries under Power Sector.	It is proposed extend the terminal date for availing **deduction till 31st March, 2017.**
80CCD	The Scope of the Section 80CCD is only restricted to any employee of Central Government or other private sector employees joined in service on or after 01.01.2004	It is proposed that date of joining in service will not be applicable for claiming deduction under this section **[w.e.f 01.04.2015]** in line with the New Pension Scheme.

Other Important Amendments

- **Mode of acceptance or repayment of loans and deposits [Section 269SS and Section 269T]**

Present Provision	Proposed Provision
No Person shall accept any deposit or take any loan or repay any loan or deposit otherwise than by an account payee cheque or account payee bank draft.	Amendment is proposed to include acceptance or repayment of deposits by use of electronic clearing system through bank account shall not be prohibited under the aforesaid sections.[w.e.f 01.04.2015]

- **Interest Payable by the assessee under section 220 [w.e.f 01.10.2014]**

  It is proposed to insert a new sub-section in **Section 220** so as to provide that where any notice of demand has been served upon an assessee and any appeal or other proceeding, as the case may be, is filed or initiated in respect of the amount specified in the said notice of demand, then such demand shall be deemed to be valid till the disposal of appeal by the last appellate authority or disposal of proceedings, as the case may be and such notice of demand shall have effect as provided in **Section 3** of the Taxation Laws (Continuation and Validation of Recovery Proceedings) Act, 1964.

  Further a new proviso has been inserted in Section 220(2) to provide that where as a result of an order under sections specified in the first proviso, the amount on which interest was payable under this section had been reduced and subsequently as a result of an order under said sections or section 263, the amount on which interest was payable under section 220 is increased, the assessee shall be liable to pay interest under sub-section (2) of the said section on the amount payable as a result of such order, from the day immediately following the end of the period mentioned in the first notice of demand referred to in sub section (1) of the said section and ending with the day on which the amount is paid.

- **Amendment in the Definition of International Transactions(Section 92B)[w.e.f 01.04.2015]**

  The existing provision of Section 92B of the Act has defined the 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.

  The proposed amendment has been made in sub-section (2) of Section 92B to provide that a transaction entered with an unrelated enterprise shall be deemed to be an international transaction entered with an associated enterprise if there exists a prior agreement whether or not such unrelated person is a non-resident.

- **Roll Back Provision in Advance Pricing Agreement Scheme (Section 92CC) [w.e.f 01.10.2014]**

  Section 92CC is proposed to be amended by insertion of Clause (9A) to Sub-section (1) which propose to provide that the APA may, subject to such prescribed conditions, procedure and manner, provide for determining the arm's length price or for specifying the manner in which arm's length price is to be determined in relation to an international transaction entered into by a person during any period not exceeding four previous years preceding the first of the previous years for which the advance pricing agreement applies in respect of the international transaction to be undertaken in future.

- **Section 271G** has been proposed to be amended to include Transfer Pricing Officer (TPO) as a competent authority to levy penalty under section 271G in addition to Assessing Officer and Commissioner (Appeals).

- **Section 140** has been amended to substitute the word Sign by the word verify. It will enable verification of return either by signing in manuscript or by any electronic mode. **[w.e.f 01.10.2014].**

- **Change in Income Tax Authorities [retrospective amendment w.e.f. 01.06.2013]**

Earlier Authorities	Proposed New Authorities
Commissioner	Principal Commissioner or Commissioner
Director	Principal Director or Director
Chief Commissioner	Principal Chief Commissioner or Commissioner
Director General	Principal Director General or Director General

- **Section 276D** has been amended to provide rigorous imprisonment for a term which may extend to One Year with fine as penalty for wilful failure to produce accounts and documents as per notice issued under section 142(1) or for wilful non compliance of direction issued under section 142(2A). **[w.e.f. 01.10.2014]**

- **Section 285BA** has been proposed to be substituted to provide strict obligation to file annual information return before the income tax authority by certain specified persons in respect of specified financial transactions or reportable account as may be prescribed under any law. **[w.e.f. 01.04.2015].**