

Highlights of Union Budget 2014-15

Direct Tax Proposals

Personal Taxation

- Basic exemption limit to be increased from Rs. 2 lakhs to Rs. 2.5 lakhs for taxpayer below the age of 60 years and from Rs. 2.5 lakhs to Rs. 3 lakhs, in case of senior citizens.
- The existing limit of deduction under section 80C to be increased from Rs. 1 lakh to Rs. 1.5 lakhs. The annual ceiling limit for investment in Public Provident Fund to be increased from Rs. 1 lakh to Rs. 1.5 lakh.
- The deduction in respect of interest on housing loan borrowed for self occupied property to be enhanced from Rs. 1.5 lakhs to Rs. 2 lakhs.
- No change proposed in the rate of surcharge rate and education cess.

Business Taxation

- Tax on distributed profits of domestic companies under section 115-O and tax on distributed income to unit holders under section 115-R to be levied on the gross amount of dividend and not on net amount of dividend distributed.
- Deduction under section 32AC@15% of investment in new plant and machinery to be allowed if such investment exceeds Rs. 25 crores during the previous year. Such deduction is allowable for investment made in plant and machinery upto 31.03.2017.
- The terminal date for power sector undertakings to set-up, start transmission or distribution or substantial renovation and modernization of existing network to be extended for a further period upto 31st March, 2017.
- Deduction in respect of capital expenditure extended to two new sectors, namely, laying and operating of slurry pipelines for the transportation of iron ore, and setting up and operating semi conductor wafer fabrication manufacturing units. Period of 8 years being specified for which capital asset to be used for specified business

- The Corporate Social Responsibility (CSR) expenditure under section 135 of the Companies Act, 2013 not deductible under section 37..
- Disallowance of payments made to non-residents not to be attracted if the tax is deducted during the previous year and deposited on or before the due date of filing of return of income.
- Disallowance of payments made to residents without deduction of tax to be limited to 30% of such payment. Further, disallowance to be attracted for all payments on which tax is required to be deducted under Chapter XVII-B..
- Presumptive income of an assessee engaged in the business of plying, hiring or leasing goods carriage to be computed at Rs. 7,500 per month per vehicle for all types of goods carriage vehicles, whether heavy vehicles or not.
- Provisions of AMT to be attracted to assessees claiming investment linked tax deduction under section 35AD
- Since the tax accounting standards that were placed in public domain are not intended for maintenance of accounts but for the purpose of computation of income, the term “accounting standards” is to be replaced with “income computation and disclosure standards”.

Capital Gains

- Units of debt oriented mutual funds and unlisted securities to qualify as a short-term capital asset, if held for not more than 36 months. The period for qualifying as a short-term capital asset to be increased from 12 months to 36 months.
- Long-term capital gains on units of debt-oriented mutual funds not eligible for concessional rate of tax@10% (without indexation benefit);
- Advance received and retained in the course of negotiations for transfer of a capital asset which did not materialize to be treated as income chargeable to tax under the head “Income from other sources” Currently, such sum is being deducted from the cost of acquisition for computing capital gains when the asset is subsequently transferred.

- Enhanced compensation on compulsory acquisition of a capital asset received in pursuance of an interim order of a court, tribunal or other authority to be deemed as 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.
- “Cost Inflation Index” in relation to a previous year to mean such index as may be notified by the Central Government having regard to 75% of average rise in the Consumer Price Index (Urban) for the immediately preceding previous year to such previous year. Reference to Consumer Price Index (CPI) for urban non-manual employees to be removed since release of CPI for such employees has been discontinued.
- Sections 54 and 54F to be amended to provide that the benefit of exemption thereunder would be available only in respect of investment in **one** residential house **situated in India**.
- Exemption under section 54EC for investment in long-term specified asset, out of capital gains arising from transfer of one or more original assets, to be restricted to Rs.50 lacs, whether such investment is made in the same financial year or in the next financial year or partly in the same financial year and partly in the next financial year .

Charitable Trusts

- Where a trust or institution has been granted registration for availing benefit under section 11 and the registration is in force for a previous year, then, such trust or institution cannot claim any exemption under any provision of section 10 [other than section 10(1) and section 10(23C)]. Likewise, where an entity has been approved or notified for claiming benefit of exemption under section 10(23C), it would not be entitled to claim any benefit of exemption under the other provisions of section 10 [except the exemption under section 10(1)].
- Income for the purposes of application under section 11 and section 10(23C), shall be determined without providing deduction or allowance for depreciation in respect of an asset, acquisition of which has been claimed

as an application of income under these sections in the same or any other previous year. In effect, if the cost of asset has been claimed as application of income, then depreciation on such asset cannot be claimed in the same or any other previous year.

- The power of the Commissioner or Principal Commissioner to cancel the registration of the trust or institution has been expanded. Section 12AA has been amended to provide that where a trust or institution has been granted registration and subsequently, it is noticed that its activities are being carried out in such a manner that –
 - (a) Its income does not enure for the benefit of general public;
 - (b) It is for the benefit of any particular community or caste;
 - (c) Any income or property of the trust is applied for the benefit of specified persons like author of trust, trustees, etc.; or
 - (d) Its funds are invested in prohibited modes.the registration may be cancelled, if such trust or institution does not prove that there was a reasonable cause for the activities to be carried out in the above manner.
- Anonymous donations in excess of one lakh or 5% of total donations received by the assessee, is taxable at 30%. The income-tax payable by the assessee shall be the aggregate of 30% of such donations and the income-tax, which would be leviable, had the total income been reduced by the aggregate of anonymous donations which is in excess of 5% of total donations received by the assessee or one lakh, whichever is higher.

Non-resident Taxation

- The benefit of concessional rate of withholding tax@5% extended to borrowings by way of issue of any long-term bond, and not restricted only to long-term infrastructure bonds. Further, the period for which the benefit is available to be extended by two years i.e. borrowings made before 1st July, 2017.

- Benefit of concessional rate of 15% on dividend received by Indian companies from specified foreign companies to be extended without limitation to a particular assessment year;
- “Roll Back mechanism” to be provided in the APA scheme upto a period not exceeding 4 previous years preceding the first previous year for which the APA applies .
- Income arising from transfer of security by a Foreign Portfolio Investors to be in the nature of capital gains.

Tax Deduction at Source

- Tax to be deducted @2% from the sum paid under life insurance policies which are not exempted under section 10(10D). No tax to be deducted where the amount in aggregate exceeds Rs. 1 lakh.

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