BUDGET 2016

Budget 2016-17 reflects government's firm commitment to substantially boost investment in agriculture, social sector, infrastructure and employment generation. Budgeted figure for total expenditure comes to Rs.19.7 Lacs crores, out of which half of the revenue i.e. Rs 10.5 Lacs crores comes from tax receipts.

A summary of tax proposals is delineated as follows:

DIRECT TAX

1) For Individual

Relief to small tax payers

- Ceiling of tax rebate u/s 87A raised from Rs 2000 to Rs 5000 for individuals with total income upto Rs 5 Lacs
- Deduction limit u/s 80GG for payment of rent by a salaried individual who neither owns any house nor gets HRA from employer increased from Rs 24000 to Rs 60000 per annum
- Horizon of Presumptive taxation scheme u/s 44AD which frees the assessee from requirement of maintaining books of accounts and getting audited expanded, MSMEs with turnover or gross receipts not exceeding Rs 2 crores can avail the benefit
- Presumptive Taxation scheme made available to professionals with gross receipts upto Rs 50 Lacs (with presumption of profit being 50% of gross receipts)

Measures for moving towards a pensioned society

- Withdrawal up to 40% of the corpus at the time of retirement tax exempt in the case of National Pension Scheme
- 40% of corpus for superannuation funds and recognized provident funds to be tax free in respect of corpus created out of contributions made after 1.4.2016
- Annuity fund which goes to the legal heir after the death of pensioner will not be taxable in all three cases
- A monetary limit of Rs 1.5 Lacs per annum proposed for contribution of employer in recognized Provident and Superannuation Fund for taking tax benefit

Measures for promoting affordable housing

- Deduction of additional interest of Rs 50,000 per annum available to 'first – home buyers' for loans up to Rs 35 Lacs sanctioned during the next financial year, provided the value of the house does not exceed Rs 50 Lacs

Additional resource mobilization for agriculture, rural economy and clean environment

- In addition to DDT paid by the companies, tax at the rate of 10% of gross amount of dividend will be payable by the recipients i.e. individuals, HUFs and firms receiving dividend in excess of Rs 10 Lacs per annum
- Surcharge raised from 12% to 15% on persons, other than companies, firms and cooperative societies having income above Rs 1 crore
- Tax at source at the rate of 1% to be collected on purchase of the following

  - Luxury cars exceeding value of Rs 10 Lacs
  - Goods and services in cash exceeding Rs 2 Lacs

  (Farmers and notified class of persons will have an option of giving a form by which TCS will not be charged)
- Rate of Securities Transaction tax in case of 'Options' increased from .017% to .05%
- Person making payment as consideration for online advertisement to a nonresident, who does not have a permanent establishment, exceeding in aggregate Rsv1 Lac in a year, will withhold tax at 6% of gross amount paid, as Equalization levy. The levy will only apply to B2B transactions

Reducing litigation and providing certainity in taxation

- Limited time Compliance Window for domestic taxpayers proposed to declare undisclosed income or income represented in the form of any asset and clear up their past tax transgressions by paying tax at 30%, krishi kalyan surcharge at 7.5% and penalty at 7.5%, which is a total of 45% of the undisclosed income.
  - There will be no scrutiny or enquiry regarding income declared in these declarations under the Income Tax Act or the Wealth Tax Act and the declarants will have immunity from prosecution
  - Immunity from Benami Transaction (Prohibition) Act, 1988 is also proposed subject to certain conditions
  - This window will be open from 1st June to 30th September, 2016 with an option to pay amount due within two months of declaration
- A taxpayer who has an appeal pending as of today before the Commissioner (Appeals) can settle his case by paying the disputed tax and interest up to the date of assessment
  - No penalty in respect of Income-tax cases with disputed tax up to Rs 10 Lacs will be levied
  - Cases with disputed tax exceeding Rs 10 Lacs will be subjected to only 25% of the minimum of the imposable penalty for both direct and indirect taxes
  - Any pending appeal against a penalty order can also be settled by paying 25% of the minimum of the imposable penalty
- Penalty rate u/s 271(1)(c) for concealment of income will now be 50% of tax in case of underreporting of income and 200% of tax where there is misreporting of facts. Remission of penalty is also proposed in certain circumstances where taxes are paid and appeal is not filed
- Rule 8D (Disallowance of expenditure relatable to exempt income u/s 14A) has been amended to provide that disallowance will be limited to 1% of the average monthly value of investments yielding exempt income, but not exceeding the actual expenditure claimed
- The monetary limit for deciding an appeal by a single member Bench of ITAT is proposed to be enhanced from Rs 15 Lacs to Rs 50 Lacs

Simplification and rationalization of taxation

- TDS provisions rationalized to improve the cash flow position of small tax payers who get their funds blocked due to current TDS provision
- The higher rate of TDS will not apply to Non-residents without PAN on furnishing of alternative documents

Use of Technology for creating accountability

- Scope of e-assessments expanded wherein cases selected for scrutiny will be scrutinized in e-environment, demanding face to face interaction of IT Department with assessee only if assessee himself wants to be heard or for special reasons to be recorded, the assessing officer wants to hear the party

- For matters pertaining to Income Tax Act, Government will pay interest at the rate of 9% p.a against normal rate of 6% p.a in case there is delay in giving effect to Appellate order beyond ninety days

2) For Corporates

Measures to boost growth and employment generation

- The accelerated depreciation provided under IT Act will be limited to maximum 40% from 1.4.2017
- The benefit of deductions for Research would be limited to 150% from 1.4.2017 and 100% from 1.4.2020
- Deduction under section 35(1) (iia) and (iii) of the Income-tax Act shall be reduced from 125% to 100% with effect from 01.04.2017
- The benefit of section 10AA to new SEZ units will be available to those units which commence activity before 31.3.2020.
- The weighted deduction under section 35CCD for skill development will continue up to 1.4.2020
- New manufacturing companies incorporated on or after 1.3.2016 have an option to be taxed at 25% + surcharge and cess, provided they do not claim profit linked or investment linked deductions and do not avail of investment allowance and accelerated depreciation
- Corporate income tax rate for companies with turnover not exceeding Rs 5 crores (in financial year ending March 2015) reduced to 29% plus surcharge and cess
- 100% deduction of profits for 3 out of 5 years for startups set up during April 2016 to March 2019 (MAT applicable). Capital gains will not be taxed if invested in regulated/notified Fund of Funds and by individuals in notified startups, in which they hold majority shares
- A special patent regime with 10% rate of tax on income from worldwide exploitation of patents developed and registered in India
- The period for getting benefit of long term capital gain regime in case of unlisted companies reduced from three to two years

Measures for promoting affordable housing

- 100% deduction for profits to an undertaking from a housing project
    - for flats upto 30 sq. metres in four metro cities and
    - 60 sq. metres in other cities

  approved during June 2016 to March 2019, and is completed within three years of the approval (MAT applicable)

Additional resource mobilization for agriculture, rural economy and clean environment

- Rate of Securities Transaction tax in case of 'Options' increased from .017% to .05%
- Person making payment as consideration for online advertisement to a nonresident, who does not have a permanent establishment, exceeding in aggregate Rs 1 Lac in a year, will

withhold tax at 6% of gross amount paid, as Equalization levy. The levy will only apply to B2B transactions

3) For Artificial Juridical Person

Measures to boost growth and employment generation

- The income will be taxed in the hands of the investors instead of the trust providing a complete pass through of income-tax to securitization trusts including Asset Reconstruction Companies. However, the trust will be liable to deduct tax at source.
- Non-banking financial companies shall be eligible for deduction to the extent of 5% of its income in respect of provision for bad and doubtful debts

Measures for promoting affordable housing

- Any distribution made out of income of SPV to the REITs and INVITs having specified shareholding will not be subjected to Dividend Distribution Tax

INDIRECT TAX

Measures to boost growth and employment generation

- Service tax exempted on
  - services provided under Deen Dayal Upadhyay Grameen Kaushalya Yojana and services provided by Assessing Bodies empanelled by Ministry of Skill Development & Entrepreneurship
  - general insurance services provided under 'Niramaya' Health Insurance Scheme launched by National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disability
- Basic custom and excise duty reduced on refrigerated containers to 5% and 6% respectively
- Nil Basic custom duty attracted for a number of assistive devices, rehabilitation aids and other goods for differently abled extended to Braille Paper

Incentivising domestic value addition to help Make in India

- Customs and Excise duty rates on certain inputs, raw materials, intermediariesand components and certain other goods stand changed

Measures for moving towards a pensioned society

- Annuity services provided by the National Pension System exempt from service tax
- Service tax reduced on Single premium Annuity

Measures for promoting affordable housing

- Service Tax on construction of affordable houses up to 60 square metres under any scheme of the Central or State Government including PPP Schemes has been exempted
- Excise duty exemption, presently available to Concrete Mix manufactured at site for use in construction work at such site also made available to Ready Mix Concrete

Additional resource mobilization for agriculture, rural economy and clean environment

- A cess @ 0.5% on all taxable services in name of Krishi Kalyan Cess to be levied with effect from 1st June 2016
- An infrastructure cess to be levied as follows
  - Small petrol, LPG, CNG cars – 1%
  - Diesel cars of certain capacity – 2%
  - Other higher engine capacity vehicles & SUVs – 2.5%
- Excise duty rate on branded readymade garments and made up articles of textiles with a retail sale price of Rs 1000 and above changed as follows
  - without input tax credit - from Nil to 2%
  - with input tax credit – from 6% or 12.5% to 12.5%
- Clean Energy Cess levied on coal, lignite and peat renamed as 'Clean Environment Cess' and its rate increased from Rs 200 per tonne to Rs 400 per tonne
- Excise duty on various tobacco products (except beedi) raised from 10% to 15%

Simplification and rationalization of taxation

- 13 cesses abolished to reduce multiplicity of taxes and associated cascading effects
- Facility for revision of return, hitherto available to a service tax assessee, also extended to Central Excise assessee
- Additional option provided to banking companies and financial institutions (including NBFC), for reversal of input tax credits with respect to non-taxable services provided by them by way of extending deposits, loans and advances
- Customs Single Window Project would be implemented at major ports and airports starting from beginning of next financial year
- Customs Act amended to provide for deferred payment of customs duties for importers and exporters with proven track record
- The customs Baggage Rules for international passengers simplified so as to increase the free baggage allowance, filing of baggage declaration will be required only for those passengers who carry dutiable goods

Use of Technology for creating accountability

- Procedural change to shift from physical control to record based control proposed for customs bonded warehouses, supported by sophisticated IT systems