SignificantDirectTaxProposalsintheUnion Budget 2014-15

Personal Taxation

- **Basic exemption limit** to be increased from **Rs. 2 lakhs to Rs. 2.5 lakhs** for an individual below the age of 60 years and from **Rs. 2.5 lakhs to Rs. 3 lakhs**,in case ofanindividualwho is ofage of 60 years or above, butbelow the age of 80 years.
- 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 acquisition or construction of self occupied house property to be enhanced from **Rs. 1.5 lakhs to Rs. 2 lakhs.**
- No changeproposedin theincome taxrate,surcharge and education cess.

Business Taxation

- **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 machineryupto 31.03.2017.
- **Investment linked tax deduction** in respect of capital expenditure incurred to be 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 such capital asset is to be used for specified business.
- **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 tax is being deductedduring 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 taxtobe limited **to 30% of such payment**. Further, disallowance to be attracted for **all payments** on which tax is required to be deductedunder Chapter XVII-B.
- **Presumptive business 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.
- Thebusiness of purchase and sale of shares carried on by a company **not** to be deemed as a speculation business, **if the principal business of such companyis the business of trading in shares**.
- 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.**
- Provisions of **AMT** to be attracted, in case of **assessees claiming investment linkedtaxdeduction undersection 35AD.**
- Theclaim ofcreditof AMTto beallowed evenin anassessment yearwhere the adjusted total income does not exceed twenty lakh rupees and there is no claim of any deduction under section 10AA or section 35AD or Chapter VIAunder the heading "C- Deductions in respect of certain incomes".
- 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. For example, if Rs.10,000 is to be distributed to shareholders, the dividend distribution tax would be Rs.2,047 [$10{,}000 \times \frac{16.995}{83.005}$] and not Rs.1,700 [i.e., 10,000 × 16.995%].
- **Special taxation regime proposed for Real Estate Investment Trust (REIT) & Infrastructure Investment Trust (InvIT)**, to provide a pass-through tax status for the business trust and also provide the manner in which the income is to be taxed in the hands of the unit holders of the business trust. However, income by way of capital gains on disposal of assets by the trust would be taxable in the hands of the trust. If such capital gains is

distributed to unit holders, the component of distributed income attributable to capital gains would be exemptin the hands of unit holders.

- Permissible mode of acceptance or repayment of loan and deposits under sections 269SS and 269T, respectively,to beexpanded to include **Electronic Clearing System (ECS) through a bank account.**
- Central Government to notify in the Official Gazette from time to time income computation and disclosure standards to be followed by any class of assesses or in respect of any class of income.

Capital Gains

- **Units of debt oriented mutual funds** and **unlisted securities** to remainas a **short-term capital asset, if held for not more than 36 months**. Resultantly, the period for qualifying as a long-term capital asset to be increased from "more than12 months"to"more than36 months".
- Long-term capital gains on units of debt-oriented mutual funds not eligible for benefit ofconcessional rate oftax@10%without indexation.
- Any transfer of capital asset, being Government Security carrying periodic payment of interest, made outside India, through an intermediary dealing in settlement of securities, by a non-resident to another non-resident, not tobe considered as"transfer"for the purpose of capital gains.
- **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 totaxunder 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. With effect from A.Y. 2016-17, 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 to be available only in respect of investment in **one** residentialhouse **situatedin 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 in a financial year, 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 financialyear.

<u>Charitable Trusts</u>

- 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) in respect of agricultural income].
- Income for the purposes of application under section 11 and section 10(23C), to be determined without providing deduction or allowance for depreciation in respect of an asset, the cost of 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 to be expanded. Section 12AA to be 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 Rs. 1 lakh or 5% of total donations received by the assessee,is taxable at 30%. Section 115BBC to be amended to provide that the income-tax payable by the assessee shall be the aggregate of 30% of such donations in excess of Rs. 1 lakh or 5% of total donations, whichever is higher **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.

<u>Non-resident Taxation</u>

- The benefit of concessional rate of withholding tax@5% extended to **foreign borrowings by way of issue of any long-term bonds**, and not restricted only to long-term infrastructure bonds. Further, the period for which the benefit is available is to be extended by two years i.e. benefit to be available forborrowings made before 1st July, 2017.
- Benefit of concessional rate of tax @15% on gross dividend received by Indian companiesfrom 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 of the previous years for which the APA applies .**

- Income arising from transfer of security by a Foreign Portfolio Investor(FPI) to bein the nature of capital gains, irrespective of the presence of the fund manager managing the funds of the FPI in India.

Tax Deduction at Source

- Tax to be deducted **@2% on the sum paid under life insurance policies, including the sum allocated by way of bonus, which are not exempted under section 10(10D).** However, no tax to be deducted where the aggregate sum paid to an assessee in a financial year is less thanRs. 1 lakh.