

BASIC CONCEPTS

AMENDMENTS BY THE FINANCE (No.2) ACT, 2014

RATES OF TAX

Section 2 of the Finance (No.2) Act, 2014 read with Part I of the First Schedule to the Finance (No.2) Act, 2014, seeks to specify the rates at which income-tax is to be levied on income chargeable to tax for the assessment year 2014-15. Part II lays down the rate at which tax is to be deducted at source during the financial year 2014-15 from income subject to such deduction under the Income-tax Act, 1961; Part III lays down the rates for charging income-tax in certain cases, rates for deducting income-tax from income chargeable under the head "salaries" and the rates for computing advance tax for the financial year 2014-15 i.e., A.Y.2015-16. Part III of the First Schedule to the Finance (No.2) Act, 2014 will become Part I of the First Schedule to the Finance Act, 2015 and so on.

Rates for deduction of tax at source for the F.Y.2014-15 from certain income

Part II of the First Schedule to the Act specifies the rates at which income-tax is to be deducted at source under sections 193, 194, 194A, 194B, 194BB, 194D and 195 during the financial year 2014-15. These rates of tax deduction at source are the same as were applicable for the F.Y.2013-14.

Surcharge would be levied on income-tax deducted at source in case of non-corporate non-residents and foreign companies. If the recipient is a non-corporate non-resident, surcharge@10% would be levied on such income-tax if the income or aggregate of income paid or likely to be paid and subject to deduction exceeds ₹ 1 crore. If the recipient is a foreign company, surcharge@ –

- (i) 2% would be levied on such income-tax, where the income or aggregate of such incomes paid or likely to be paid and subject to deduction exceeds ₹ 1 crore but does not exceed ₹ 10 crore; and
- (ii) 5% would be levied on such income-tax, where the income or aggregate of such incomes paid or likely to be paid and subject to deduction exceeds ₹ 10 crore.

Surcharge would not be levied on deductions in all other cases. Also, education cess and secondary and higher education cess would not be added to tax deducted or collected at source in the case of a domestic company or a resident non-corporate assessee. However, education cess @2% and secondary and higher education cess @1% on income-tax plus surcharge, wherever applicable, would be added to tax deducted at source in cases of non-corporate non-residents and foreign companies.

Rates for deduction of tax at source from "salaries", computation of "advance tax" and charging of income-tax in certain cases during the financial year 2014-15

Part III of the First Schedule to the Act specifies the rate at which income-tax is to be deducted at source from "salaries" and also the rate at which "advance tax" is to be computed and income-tax is to be calculated or charged in certain cases for the financial year 2014-15 i.e., A.Y. 2015-16.

It may be noted that education cess @2% and secondary and higher education cess @1% would continue to apply on tax deducted at source in respect of salary payments.

The general basic exemption limit for individuals (men and women)/HUFs/AOPs/BOIs and artificial juridical persons has been increased from ₹ 2,00,000 to ₹ 2,50,000. The basic exemption limit of ₹ 2,50,000 for senior citizens, being resident individuals of the age of 60 years or more but less than 80 years has also been increased to ₹ 3,00,000. Resident individuals of the age of 80 years or more at any time during the previous year would continue to be eligible for the higher basic exemption limit of ₹ 5,00,000. The tax slabs are shown hereunder -

(i) (a) Individual/HUF/AOP /BOI and every artificial juridical person

Level of total income	Rate of income-tax
Where the total income does not exceed ₹ 2,50,000	Nil
Where the total income exceeds ₹ 2,50,000 but does not exceed ₹ 5,00,000	10% of the amount by which the total income exceeds ₹ 2,50,000
Where the total income exceeds ₹ 5,00,000 but does not exceed ₹ 10,00,000	₹ 25,000 plus 20% of the amount by which the total income exceeds ₹ 5,00,000
Where the total income exceeds ₹ 10,00,000	₹ 1,25,000 plus 30% of the amount by which the total income exceeds ₹ 10,00,000

(b) For resident individuals of the age of 60 years or more but less than 80 years at any time during the previous year

Level of total income	Rate of income-tax
Where the total income does not exceed ₹ 3,00,000	Nil
Where the total income exceeds ₹ 3,00,000 but does not exceed ₹ 5,00,000	10% of the amount by which the total income exceeds ₹ 3,00,000
Where the total income exceeds ₹ 5,00,000 but does not exceed ₹ 10,00,000	₹ 20,000 plus 20% of the amount by which the total income exceeds ₹ 5,00,000

Where the total income exceeds ₹ 10,00,000	₹ 1,20,000 plus 30% of the amount by which the total income exceeds ₹ 10,00,000
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(c) For resident individuals of the age of 80 years or more at any time during the previous year

Level of total income	Rate of income-tax
Where the total income does not exceed ₹ 5,00,000	Nil
Where the total income exceeds ₹ 5,00,000 but does not exceed ₹ 10,00,000	20% of the amount by which the total income exceeds ₹ 5,00,000
Where the total income exceeds ₹ 10,00,000	₹ 1,00,000 plus 30% of the amount by which the total income exceeds ₹ 10,00,000

(ii) Co-operative society

There is no change in the rate structure as compared to A.Y.2014-15.

	Level of total income	Rate of income-tax
(1)	Where the total income does not exceed ₹ 10,000	10% of the total income
(2)	Where the total income exceeds ₹ 10,000 but does not exceed ₹ 20,000	₹ 1,000 plus 20% of the amount by which the total income exceeds ₹ 10,000
(3)	Where the total income exceeds ₹ 20,000	₹ 3,000 plus 30% of the amount by which the total income exceeds ₹ 20,000

(iii) Firm/Limited Liability Partnership (LLP)

The rate of tax for a firm for A.Y.2015-16 is the same as that for A.Y.2014-15 i.e., 30% on the whole of the total income of the firm. This rate would apply to an LLP also.

(iv) Local authority

The rate of tax for a local authority for A.Y.2015-16 is the same as that for A.Y.2014-15 i.e. 30% on the whole of the total income of the local authority.

(v) Company

The rates of tax for A.Y.2015-16 are the same as that for A.Y.2014-15.

(1)	In the case of a domestic company	30% of the total income
(2)	In the case of a company	40% of the total income

other than a domestic company	However, specified royalties and fees for rendering technical services (FTS) received from Government or an Indian concern in pursuance of an approved agreement made by the company with the Government or Indian concern between 1.4.1961 and 31.3.1976 (in case of royalties) and between 1.3.1964 and 31.3.1976 (in case of FTS) would be chargeable to tax @50%.
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Surcharge

The rates of surcharge applicable for A.Y.2015-16 are as follows -

(i) **Individual/HUF/AOP/BOI/Artificial juridical person/Co-operative societies/Local Authorities/Firms/LLPs**

Where the total income exceeds ₹ 1 crore, surcharge is payable at the rate of 10% of income-tax computed in accordance with the provisions of para (i)/(ii)/(iii)/(iv) above or section 111A or section 112.

Marginal relief is available in case of such persons having a total income exceeding ₹ 1 crore i.e., the additional amount of income-tax payable (together with surcharge) on the excess of income over ₹ 1 crore should not be more than the amount of income exceeding ₹ 1 crore.

(ii) **Domestic company**

(a) **In case of a domestic company, whose total income is > ₹ 1 crore but ≤ ₹ 10 crore**

Where the total income exceeds ₹ 1 crore but does not exceed ₹ 10 crore, surcharge is payable at the rate of 5% of income-tax computed in accordance with the provisions of para (v)(1) above or section 111A or section 112. Marginal relief is available in case of such companies i.e. the additional amount of income-tax payable (together with surcharge) on the excess of income over ₹ 1 crore should not be more than the amount of income exceeding ₹ 1 crore.

Example

Compute the tax liability of X Ltd., a domestic company, assuming that the total income of X Ltd. is ₹ 1,01,00,000 and the total income does not include any income in the nature of capital gains.

Answer

The tax payable on total income of ₹ 1,01,00,000 of X Ltd. computed @ 31.5% (including surcharge @ 5%) is ₹ 31,81,500. However, the tax cannot exceed ₹ 31,00,000 (i.e., the tax of ₹ 30,00,000 payable on total income of ₹ 1 crore plus ₹ 1,00,000, being the amount of total income exceeding ₹ 1 crore). Therefore, the tax payable on ₹ 1,01,00,000 would be ₹ 31,00,000. The marginal relief is ₹ 81,500 (i.e., ₹ 31,81,500 - ₹ 31,00,000).

(b) In case of a domestic company, whose total income is > ₹10 crore

Where the total income exceeds ₹ 10 crore, surcharge is payable at the rate of 10% of income-tax computed in accordance with the provisions of para (v)(1) above or section 111A or section 112.

Marginal relief is available in case of such companies i.e. the additional amount of income-tax payable (together with surcharge) on the excess of income over ₹ 10 crore should not be more than the amount of income exceeding ₹ 10 crore.

Example

Compute the tax liability of X Ltd., a domestic company, assuming that the total income of X Ltd. is ₹ 10,01,00,000 and the total income does not include any income in the nature of capital gains.

Answer

The tax payable on total income of ₹ 10,01,00,000 of X Ltd. computed @ 33% (including surcharge @ 10%) is ₹ 3,30,33,000. However, the tax cannot exceed ₹ 3,16,00,000 [i.e., the tax of ₹ 3,15,00,000 (31.5% of ₹ 10 crore) payable on total income of ₹ 10 crore plus ₹ 1,00,000, being the amount of total income exceeding ₹ 10 crore]. Therefore, the tax payable on ₹ 10,01,00,000 would be ₹ 3,16,00,000. The marginal relief is ₹ 14,33,000 (i.e., ₹ 3,30,33,000 - ₹ 3,16,00,000).

(iii) **Foreign company**

(a) In case of a foreign company, whose total income is > ₹ 1 crore but ≤ ₹10 crore

Where the total income exceeds ₹ 1 crore but does not exceed ₹ 10 crore, surcharge is payable at the rate of 2% of income-tax computed in accordance with the provisions of paragraph (v)(2) above or section 111A or section 112. Marginal relief is available in case of such companies i.e., the additional amount of income-tax payable (together with surcharge) on the excess of income over ₹ 1 crore should not be more than the amount of income exceeding ₹ 1 crore.

(b) In case of a foreign company, whose total income is > ₹10 crore

Where the total income exceeds ₹ 10 crore, surcharge is payable at the rate of 5% of income-tax computed in accordance with the provisions of para (v)(2) above or section 111A or section 112.

Marginal relief is available in case of such companies i.e. the additional amount of income-tax payable (together with surcharge) on the excess of income over ₹ 10 crore should not be more than the amount of income exceeding ₹ 10 crore.

Note – Marginal relief would also be available to those companies which are subject to minimum alternate tax under section 115JB, in cases where the book profit (i.e. deemed total income) exceeds ₹ 1 crore and ₹ 10 crore, respectively.

Education cess / Secondary and higher education cess on income-tax

The amount of income-tax as increased by the union surcharge, if applicable, should further be increased by an "Education cess on income-tax", calculated at the rate of 2% of such income-tax plus surcharge, wherever applicable. Further, "Secondary and higher education cess on income-tax" (SHEC) @ 1% of income-tax and surcharge, wherever applicable, is leviable to fulfill the commitment of the Government to provide and finance secondary and higher education. Education cess, including SHEC, is leviable in the case of all assesseees i.e., individuals, HUFs, AOP/BOIs, artificial juridical persons, co-operative societies, firms, LLPs, local authorities and companies. No marginal relief would be available in respect of such cess.

Applicability of surcharge and cess on distribution tax

Surcharge @ 10% would be leviable on distribution tax levied under sections 115-O, 115-QA, 115R and 115TA. Further, education cess @ 2% and secondary and higher education cess @ 1% would be leviable on the distribution tax inclusive of surcharge.

Section	Particulars	Rate of tax	Effective rate of tax
115-O	Tax on distributed income of domestic companies by way of dividend	15%	16.995%
115QA	Tax on distributed income of domestic company for buyback of shares	20%	22.66%
115R	Tax on distributed income of mutual funds - Distribution by debt funds to individuals and HUFs - Distribution by debt funds to other persons - Distribution by infrastructure debt funds to non-corporate non-residents and foreign companies	25% 30% 5%	28.325% 33.99% 5.665%
115TA	Tax on income distributed by securitization trusts - Distribution to persons exempt from tax - Distribution to individuals and HUFs - Distribution to other persons	Nil 25% 30%	Nil 28.325% 33.99%

Note – The dividend and income referred to in section 115-O and 115R, respectively, have to be first grossed up by applying the rates of tax mentioned in column (3) above. Thereafter, the effective rates of tax under section 115-O and 115R mentioned in column (4) above have to be applied on gross dividend/income to compute the additional income-tax payable by domestic companies and mutual funds, respectively, under section 115-O and 115R. For detailed understanding, please refer to point (e) of Chapter 13 "Assessment of Various Entities" of this Supplementary Study Paper, wherein this aspect has been discussed with the aid of an example.