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AMENDMENTS

BY FINANCE ACT, 2013

FOR CA IPCC - MAY 2014

by

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1 Tax Rates

REBATE IN TAX OF Rs. 2,000 – SECTION 87A

1. Rebate shall be allowed to **individual resident** in India.
2. Resident includes both ROR & RNOR.
3. Total income shall be ≤ Rs. 5,00,000.
4. Reasons for having total income ≤ Rs. 5,00,000 shall not matter. e.g. because of deductions, brought forward losses, etc.
5. Even if total income comprises of income which are leviable to special rate of tax, rebate is allowed. Even rebate of tax can be claimed form tax on winnings from lotteries.
6. Rebate shall be maximum of Rs. 2,000
7. Stage of rebate is before EC & SHEC.

Question

Compute tax liability of Mr. P, aged 62 yrs., for AY 2014-15 from the information given below assuming he is ROR, RNOR & NR:
Income u/h salaries Rs. 5,30,000
Interest on Saving Bank A/c Rs. 12,000
Amount deposited with PPF A/c in his name Rs. 45,000

Answer

Particulars	ROR	RNOR	NR
Income u/h Salaries	5,30,000	5,30,000	5,30,000
Income u/h Income from Other Sources • Interest on Saving Bank A/c	12,000	12,000	12,000
Gross Total Income	5,42,000	5,42,000	5,42,000
Less: Deductions u/c VI-A			
• 80C – PPF	45,000	45,000	45,000
• 80TTA – Interest	10,000	10,000	10,000
Total Income	4,87,000	4,87,000	4,87,000

Tax Calculation	ROR	RNOR	NR
On first Rs. 2,50,000	—	—	NA
On first Rs. 2,00,000	NA	NA	—
On balance @ 10%	23,700	23,700	28,700
	23,700	23,700	28,700

Less: Rebate u/s 87A	2,000	2,000	NA
	21,700	21,700	28,700
Add: EC @ 2%	434	434	574
SHEC @ 1%	217	217	287
Tax payable	22,351	22,351	29,561
Tax payable (R/o)	22,350	22,350	29,560

SURCHARGE – ANY PERSON OTHER THAN COMPANY

Surcharge @ 10% of income-tax payable shall be levied if Total Income > Rs. 1 crore. But marginal relief shall be available.

Question

Calculate tax liability of Mr. P, an individual aged 40 yrs., for AY 2014-15 if his total income is Rs. 1,01,00,000.

Answer

Particulars	Rs.	Rs.
On first Rs. 2,00,000		—
On next Rs. 3,00,000 @ 10%		30,000
On next Rs. 5,00,000 @ 20%		1,00,000
On balance Rs. 91,00,000 @ 30%		27,30,000
		28,60,000
Add: Surcharge @ 10%	2,86,000	
Less: Marginal Relief (WN 1)	2,16,000	70,000
		29,30,000
Add: EC @ 2%		58,600
SHEC @ 1%		29,300
Tax payable		30,17,900

Calculation of Marginal Relief	Rs.	Rs.
Differential Tax		
Tax on Total Income (28,60,000 + 2,86,000)	31,46,000	
Less: Tax on Rs. 1 cr. (slab rates of Rs. 2 lacs)	28,30,000	3,16,000
Less: Differential Income (Total Income – 1 cr.)		1,00,000
Marginal Relief		2,16,000

FACULTY PROFILE

CA. PANKAJ SARAOGI

CA. Pankaj Saraogi did his graduation from Shri Ram College of Commerce and was a position holder. He is a Fellow of the Institute of Chartered Accountants of India and was placed in the merit list of CA Final (10th Rank). He has been awarded for highest marks (86/100) in Direct Tax Laws (CA Final) by NIRC – ICAI. He is a visiting faculty member of the Institute of Chartered Accounts of India for CA Final – Direct Tax Laws subject since last 2 years. His other qualifications include CS Final, M. Com., B.Ed. & DISA (ICAI). He has been member of Direct Tax Committee of NIRC-ICAI for FY 2012-13& also of Financial Reporting Review Board for FY 2012-13. He is currently listed as Arbitrator in the Arbitrator Panel maintained by the ICAI. Besides theoretical knowledge, he possesses vast & rich practical experience in Direct Taxes. He has worked with PWC, one of the Big 4s, and presently he is doing his own practice in Direct Taxes field only.

CA. Pankaj Saraogi has been teaching Direct Taxes to students at CA IPCC &CA Final levels for more than 6 years. His result is continuously more than 75% and producing merit holders with distinctions in Direct Taxes exam. He has authored Direct Tax books for CA IPCC, CS and for CA Final (in 5 volumes). He always focuses on development of student as professional and for the purpose he lays stress on conceptual clarity. He has been speaker on Direct Tax Laws in various professionals' study circles and also with NIRC-ICAI.. He believes in quality teaching while maintaining aura of teaching profession.

SURCHARGE – COMPANY

Person	Tax Rate	Surcharge if TI > 1 cr.	Surcharge if TI > 10 cr.
Domestic Company	30%	5%*	10%*
Foreign Company	40%	2%*	5%*

* Surcharge shall be subject to marginal relief.

Question

Calculate tax liability of M/s PS Ltd., a domestic company, for AY 2014-15 if its total income is Rs. 1,01,00,000 or Rs. 10,01,00,000.

Answer

Particulars	Rs.	Rs.
Tax @ 30% of Rs. 1,01,00,000		30,30,000
Add: Surcharge @ 5%	1,51,500	
Less: Marginal Relief (WN 1)	81,500	70,000
		31,00,000
Add: EC @ 2%		62,000
SHEC @ 1%		31,000
Tax payable		31,93,000
Calculation of Marginal Relief	**Rs.**	**Rs.**
Differential Tax		
Tax on Total Income (30,30,000 + 1,51,500)	31,81,500	
Less: Tax on Rs. 1 cr. @ 30%	30,00,000	1,81,500
Less: Differential Income (Total Income – 1 cr.)		1,00,000
Marginal Relief		81,500

Particulars	Rs.	Rs.
Tax @ 30% of Rs. 10,01,00,000		3,00,30,000
Add: Surcharge @ 10%	30,03,000	
Less: Marginal Relief (WN 1)	14,33,000	15,70,000
		3,16,00,000
Add: EC @ 2%		6,32,000
SHEC @ 1%		3,16,000
Tax payable		3,25,48,000
Calculation of Marginal Relief	**Rs.**	**Rs.**
Differential Tax		
Tax on Total Income (3,00,30,000 + 30,03,000)	3,30,33,000	
Less: Tax on Rs. 10 cr. @ 30% + surcharge @ 5%	3,15,00,000	15,33,000
Less: Differential Income (Total Income – 10 cr.)		1,00,000
Marginal Relief		14,33,000

IMPACT OF LEVY OF SURCHARGE ON OTHER PROVISIONS

TDS Rates **-** Whether surcharge, if any, and/or EC & SHEC shall be included or excluded while deducting TDS?

1. If payment is made to **resident assessee** (whether ROR or RNOR), being:
   a. *Company assessee (other than foreign company)*: No surcharge &/or cess shall be added/considered while deducting TDS.
   b. *Any assessee other than company*: No surcharge &/or cess shall be added/ considered while deducting TDS. But in case of TDS on salaries u/s 192, surcharge, if applicable, and cess shall be considered while deducting TDS.
2. If payment is made to **foreign company** (whether resident or not):
   a. *Surcharge*: TDS rates shall be increased by surcharge @ 2% in case amount payable to such company,which is subject to TDS, exceeds Rs. 1 crore for the whole year and @ 5% in case amount payable to such company, which is subject to TDS, exceeds Rs. 10 crores for the whole year. Concept of marginal relief shall not apply.
   b. *Cess*: TDS rates alongwith surcharge (if any) shall be increased by cess @ 3%.
3. If payment is made to **non-resident** (other than foreign company):
   a. *Surcharge*: TDS rates shall be increased by surcharge @ 10% in case amount payable to such assessee, which is subject to TDS, exceeds Rs. 1 crore for the whole year. Concept of marginal relief shall not apply. In case of payment in the nature of salaries on which TDS is deductible u/s 192, average rate shall include surcharge, if applicable.
   b. *Cess*: TDS rates alongwith surcharge (if any) shall be increased by cess @ 3%.

Corporate Dividend Tax/ Dividend Distribution Tax/ Tax on distributed profits

CDT shall be payable by the company on dividend paid @ 15% + SC @ 10% + EC @ 2% + SHEC @ 1% i.e. effective rate = 16.995%

CHAPTER 2

Profits and Gains of Business or Profession

INVESTMENT IN NEW PLANT & MACHINERY – SEC. 32AC

1. Assessee – Company
2. Business – manufacture/production of any article or thing
3. Acquires & installs new assets during PY 2013-14 & PY 2014-15 aggregating > Rs. 100 crores
4. Deduction u/h PGBP = 15% of actual cost of new assets (one time deduction)
5. If investment in new assets in PY 2013-14 > Rs. 100 crores, then deduction in PY 2013-14 = 15% of investment made in PY 2013-14, and deduction in PY 2014-15 = 15% of investment made in PY 2014-15.
6. If investment in new assets in PY 2013-14 ≤ Rs. 100 crores but investment in PY 2013-14 + PY 2014-15 > Rs. 100 crores, then no deduction in PY 2013-14, but deduction in PY 2014-15 = 15% of investment in PY 2013-14 + PY 2014-15.
7. If any asset is sold within next 5 years from the date of its installation, then deduction on account of such asset shall be deemed to be income of the PY u/h PGBP in which asset is sold. Gains, if any, on sale of such asset shall be taxable separately. Exception – amalgamation/demerger
8. Deduction u/s 32AC shall be in addition to depreciation (or additional depreciation). Further this deduction shall not be counted for the purpose of computing opening WDV of next year.
9. New asset means any new plant & machinery, except:
   (a) second hand P&M
   (b) installed in office premises/residential accommodation/guest house
   (c) office appliances including computers or computer software
   (d) vehicle, ship or aircraft
   (e) any machinery or plant, the whole of the actual cost of which is allowed as deduction

Question & Answer

Compute the admissible investment allowance u/s 32AC for A.Y. 2014-15 and A.Y. 2015-16 in each of the following cases –

Company	Investment in new P&M (Rs. in crores)		Investment allowance u/s 32AC (Rs. in crores)	
	PY 2013-14	PY 2014-15	AY 2014-15	AY 2015-16
A Ltd.	80	10	Nil	Nil
B Ltd.	75	35	Nil	16.50
C Ltd.	110	40	16.50	6.00
D Ltd.	0	98	Nil	Nil
E Ltd.	105	0	15.75	Nil
F Ltd.	0	110	Nil	16.50

Question

B Ltd., a company engaged in the business of manufacture of sports equipments, furnishes the following particulars pertaining to P.Y. 2013-14 and P.Y. 2014-15. Compute the depreciation allowable u/s 32 as well as the investment allowance allowable u/s 32AC for A.Y. 2014-15 and A.Y. 2015-16, while computing its income under the head "Profits and gains of business or profession". Also, compute the written down value of plant and machinery as on 1.4.2014 and 1.4.2015.

Particulars	Rs. in crores
Written down value of plant and machinery (15% block) as on 01.04.2013	25.00
Sold plant and machinery on 20.5.2013 (15% block)	4.00
Purchase of second hand machinery (15% block) on 29.5.2013 for business purpose (the machinery was put to use immediately)	12.00
Purchased new computers (60% block) on 8.11.2013 for office	0.40
Acquired and installed new plant and machinery (15% block) on 31.7.2013 (Rs. 50 crore) and on 31.10.2013 (Rs. 40 crore)	90.00
New air conditioners purchased & installed in office premises on 30.6.2013	0.15
Acquired and installed new plant and machinery (15% block) on 2.4.2014	15.00

Answer

Computation of depreciation allowance u/s 32 for the A.Y. 2014-15

Particulars		P & M	
		15%	60%
WDV as on 01.04.2013		25.00	—
Add: Plant and Machinery acquired during the year			
• Second hand machinery	12.00		
• New plant and machinery	90.00		
• Air conditioner installed in office	0.15	102.15	—
Computers acquired during the year		—	0.40
		127.15	0.40
Less: Asset sold during the year		4.00	—