# Changes introduced by Budget 2013 (applicable for MAY 2014 & Nov 2014)

## I. RATES

**Same Slab Rates are applicable. No change.**

**1. REBATE of `2,000:-** **['New' - Section 87A]**

This section has been inserted to provide a rebate of an amount equal to the amount of income tax payable on the total income for any assessment year or an amount of `2,000, whichever is less.

The rebate is only available for that assessee:

i. Who is resident of India(both ROR and RNOR), and

ii. Whose total income is upto (does not exceed) `5,00,000 after availing deductions u/s 80C to 80U.

The cess shall be computed after giving the rebate of 2,000.

> ***Mischief***:- **[Extracts of Budget Speech]**
> *The current slabs were introduced only last year. Hence, I am afraid, there is no case to revise either the slabs or the rates. Besides, even a moderate increase in the level of threshold exemption will mean that hundreds of thousands of tax payers will go out of the tax net and the tax base will be severely eroded. Nevertheless, I am inclined to give some relief to the tax payers in the first bracket of `2 lakh to `5 lakh.*

**Example**

The gross total income of Mr. X, a resident aged 30 years , for the P.Y.2013-14 comprises of salary (` 5,05,000) and interest on savings bank (` 8,000). Compute his tax liability for the A.Y.2014-15, assuming that he has deposited ` 50,000 in public provident fund.

**Answer**

**Computation of total income of Mr. X for the A.Y.2014-15**

| Particulars | ` | ` |
|---|---|---|
| *Salary* | | *5,05,000* |
| *Interest on savings bank account* | | *80,000* |
| **Gross Total Income** | | **5,13,000** |
| *Less:* **Deductions under chapter VIA** | | |
| *Section 80C (deposit in PPF)* | *50,000* | |
| *Section 80TTA (interest on savings bank account)* | *8,000* | *58,000* |
| **Total Income** | | **4,55,000** |

**Computation of tax liability of Mr. X for the A.Y.2014-15**

| Particulars | ` |
|---|---|
| Tax on total income @10% of 2,55,000 (` 4,55,000 - ` 2,00,000) | 25,500 |
| **Less: Rebate under section 87A** | 2,000 |
| | 23,500 |
| (***Key Skill***:- *Rebate is given before cess)* | |
| Add: Education cess@2% | 470 |
| Secondary and higher education cess@1% | 235 |
| **Total tax liability** | **24,205** |
| **Rounded off u/s 288B** | **24,210** |

**2. Surcharge on income-tax:-**

→ every person having a total income(after deductions of chapter VI-A) exceeding ` 1 crore

→ **10% surcharge shall be imposed on income tax(surcharge shall be calculated on tax)**

***Mischief**:-* **[Extracts of Budget Speech]**
*When I need to raise resources, who can I go to except those who are relatively well placed in society? There are 42,800 persons - let me repeat, only 42,800 persons - who admitted to a taxable income exceeding ` 1 crore per year. I propose to impose a surcharge of 10 percent on persons whose taxable income exceeds ` 1 crore per year. This will apply to individuals, HUFs, firms and entities with similar tax status.*

## II. PROFITS AND GAINS OF BUSINESS OR PROFESSION

### 1. Investment allowance for Manufacturing Co.s for investment in P&M:- ['New' – Section32AC]

An investment allowance @15% to a manufacturing company which invests more than 100 crores in new P&M during the period 1.4.2013 to 31.3.2015.This allowance will be in addition to current rates of depreciation.

Conditions:
a. Assessee is a co.
b. In business of manufacture or production of any article or thing.
c. Acquires **and** installs new asset from 1.4.2013 to 31.3.2015.
d. Investment should exceed ` 100 crores.

Deduction:
For A.Y. 14-15, a deduction of 15% of aggregate amount invested in F.Y. 13-14 if it exceeds `100 crores.
For A.Y. 15-16, a deduction of 15% of aggregate amount **invested during 1-4-2013 to 31-3-2015** if it exceeds `100 crores, reduced by deduction availed under same section in AY 14-15.

Lock in period:
5 years, if the new asset acquired is sold (except transfer by way of amalgamation or merger)before 5 years then the sale consideration shall be charged to tax as income u/h PGBP.

**Example 1.**
The following amounts were invested by ABC Ltd, a manufacturing company in purchase of a new Plant & Machinery during the P/Y 2013-14. Decide the amount of deduction which the company can claim u/s 32AC.

| Answer | P/Y 2013-14 | Deduction |
|---|---|---|
| i. | 99 Cr. | - |
| ii. | 100 Cr. | **Nil** |
| iii. | 101 Cr. | 15% of 101 Cr. = **15.15 Cr.** |

**Example 2.**
The following amounts were invested by ABC Ltd, a manufacturing company in purchase of a new Plant & Machinery during the P/Y 2013-14 & P/Y 2014-15. Decide the amount of deduction which the company can claim u/s 32AC.

| **Answer Case - (i)** | **P/Y 13-14** | **P/Y 14-15** |
|---|---|---|
| Amount Invested | 99 Cr. | 2 Cr. |
| | | 99 Cr.+2 Cr. = 101 Cr. |
| Deduction u/s 32AC | **Nil** | 101 Cr. of 15% = **15.15 Cr.** |

| **Case - (ii)** | **P/Y 13-14** | **P/Y 14-15** |
|---|---|---|
| Amount Invested | 105 Cr. | 10Cr. |
| | | 105 + 10 = 115Cr. |
| | 105 x 15% = 15.75Cr. | 115 x 15% = 17.25 Cr. |
| Deduction u/s 32AC | **15.75 Cr.** | 17.25–15.75 = **1.50 Cr.** |

| **Case – (iii)** | **P/Y 13-14** | **P/Y 14-15** |
|---|---|---|
| Amount Invested | 150Cr | 5Cr |
| | 15% of 150 = 22.50 Cr. | 15% of 155 = 23.25 Cr. |
| Deduction u/s 32AC | **22.50 Cr.** | 23.25-22.50 = **0.75Cr.** |

| **Case – (iv)** | **P/Y 13-14** | **P/Y 14-15** |
|---|---|---|
| Amount Invested | 40Cr | 70Cr |
| | | 70 + 40 Cr = 110 Cr. |
| Deduction u/s 32AC | **Nil** | 15% of 110 Cr. = **16.5 Cr.** |

**2. <u>Deduction in respect of new tax- Commodities Transaction Tax (CTT) :-</u> ['New'-Section 36(1)(xvi)]**

The new clause inserted provides deduction of an amount equal to the CTT paid by assessee during the previous year in respect of taxable commodities transactions entered into the **course of his business** if income arising from such transaction has been included in income**.**

> ***<u>Mischief</u>:*** **[Extracts of Budget Speech]**
> *There is no distinction between derivative trading in the securities market and derivative trading in the commodities market, only the underlying asset is different. CTT shall be allowed as deduction if the income from such transaction forms part of business income.*

**3. <u>Special provisions for Full Value Consideration for transfer of assets other than capital assets in certain cases:</u> ['New'-Section 43CA]**

(i) The new section inserted provides that where the consideration for the transfer of an asset **(other than capital asset),** being land ore building or both, is less than the stamp duty value, the stamp duty value shall be deemed to be full value of the consideration for the purpose of computing income under the head PGBP.

(ii) Where—
  (a) the assessee requests income tax officer that the value of the stamp valuation authority is more than the fair market value and
  (b) assessee has not filed any appeal in any court against the authority(not contested anywhere)
  the income tax officer may refer the valuation of the capital asset to a Valuation Officer.
  And then value determined by valuation officer shall be taken as sale consideration.

(iii) If the value determined by valuation officer exceeds the value assessed by the stamp valuation authority,
  the value of stamp valuation authority shall be taken as the sale consideration.

  In the hands of buyer purchase price shall be the amount contracted between the two persons.

> ***Mischief***:- **[Extracts of Budget Memorandum]**
> *Currently, when a capital asset, being immovable property, is transferred for a consideration which is less than the value adopted, assessed or assessable by any authority of a State Government for the purpose of payment of stamp duty in respect of such transfer, then such value (stamp duty value) is taken as full value of consideration under section 50C of the Income-tax Act. These provisions do not apply to transfer of immovable property, held by the transferor as stock-in-trade.*
> *This was also done to overcome the decision in Kan construction and Colonizers (P.)Ltd., where the Allahbad High court held that section 50C is not applicable to sale of plots by a builder since plots are his stock in trade and not capital asset.*

## III. <u>CAPITAL GAINS:</u>

1. **<u>Definition of Urban agricultural land has been altered</u> [Section 2(14)]**

The Finance Act, 2013 has amended so as to provide that "capital asset" would include the agricultural land situated in any area within such distance, measured aerially(as the crow flies), in relation to the range of population according to the last proceeding census as shown hereunder –

| | Shortest aerial distance from the local limits of a municipality or cantonment board referred to in item (a) | Population according to the last preceding census of which the relevant figures have been published before the first day of the previous year. |
|---|---|---|
| i. | ≤ 2 kilometers | >10,000≤1,00,000 |
| ii. | ≤ 6 kilometers | >1,00,000≤10,00,000 |
| iii. | ≤ 8 kilometers | >10,00,000 |

## IV. DEDUCTION FROM GROSS TOTAL INCOME

### 1. Deduction in respect of investment made under an equity saving scheme: [Section-80CCG]

**Introduced by Finance Act 2012 but few amendments were made by Finance Act 2013.**
Now deduction is allowed to assesse whose GTI is upto 12 lakhs(previously it was 10 lacs).
Now assesse can invest in 3 continuous years to claim this deduction(previously it was only in 1 year)

### 2. Deduction in respect of Life Insurance Premium : [ Section 80C]

Deduction u/s 80C shall be available only for the premium paid towards policies issued after 1-4-2012, if it does not exceed 10% of actual capital sum assured.

But this limit has been increased to 15 % for insurance on the life of any person who is:

**a.** A person with disability or a person with severe disability as referred to in section 80U;
**b.** Suffering from disease or ailment as specified in rule 11DD/ section 80DDB.

> ***Mischief:*** **[Extracts of Budget Memorandum]**
> *Some insurance policies for persons with disability or suffering from specified diseases provide for an annual premium of* ***more than ten per cent*** *of the actual capital sum assured. But the deduction under section 80C is eligible only to an extent of the premium paid up to 10 % of the 'actual capital sum assured'.*
> **[Extracts of Budget Speech]**
> *I propose to relax the eligibility conditions of life insurance policies for persons suffering from disability or certain ailments.*

### 3. Deduction in respect of health insurance premium: [ Section 80D]

Section 80D is amended to allow the benefit of deduction under this section of any payment or contribution made by the assessee to such other health scheme as may be notified by the Central Government.

> ***Mischief***:- **[Extracts of Budget Memorandum]**
> *It has been noticed that there are other health schemes of the Central and State Governments, which are similar to the CGHS but no deduction for such schemes is available to the subscribers of such schemes. In order to bring such schemes at par with the CGHS, it is proposed to amend section 80D.*
> **[Extracts of Budget Speech]**
> *Contributions made to the Central Government Health Scheme are eligible for deduction under section 80D of the Income-tax Act. I propose to extend the same benefit to similar schemes of the Central Government and State Governments.*

### 4. Restriction on mode of payment of donation made to political parties & electoral trusts:
**[Section 80GGB and 80GGC]**

Sections 80GGB and 80GGC have been amended so as to provide that no deduction shall be allowed under this section in respect of any sum contributed in cash to any political party or an electoral trust.(Earlier payment upto 10,000 was allowed in cash). But cash payment upto 10,000 can be made in 80GGA.

> ***Mischief***:- **[Extracts of Budget Memorandum]**
> *To discourage cash payments by the contributors.*

5. **100% deduction to National Children Fund:** **[Section 80G]**

This Section has been amended to allow 100% deduction in respect of donations to National Children Fund as against 50% deduction allowed under existing provisions.

***[Shifted from B category to A category]***

> ***Mischief:-*** **[Extracts of Budget Memorandum]**
> *Donations to Funds which are of national importance have been generally provided a deduction of one hundred per cent of the amount donated. Since the National Children's Fund is also a Fund of national importance, it is proposed to allow hundred per cent deduction in respect of any sum paid to the Fund in computing the total income of an assessee.*

6. **Interest on Loan taken for Residential House Property:** **['New'Section-80EE]**

| **Section 80 EE<br>Interest on Loan taken for Residential House Property** | | |
|---|---|---|
| **1.** | **Persons entitled** | Individual (Resident or Non – resident) |
| **2.** | **Payment regarding** | Interest payable on loan taken for acquisition (construction or purchase) of House property |
| **3.** | **Quantum of deduction** | → Maximum deduction allowed for ` 1,00,000<br>→ If interest payable is less than 1,00,000 in AY 14-15 , then deduction for balance shall be claimed in A.Y. 15-16. |
| **4.** | **Conditions for deduction** | → Loan is sanctioned by a financial institution in PY 2013-14<br>→ Loan amount does not exceed ` 25 lakhs<br>→ Value of House property is upto ` 40 lakhs<br>→ No house property owned by assessee on the date of sanction of loan. |
| **5.** | Deduction shall not be allowed in respect of such interest under any other provisions of the Act | |

> ***Mischief:*** **[Extracts of Budget Speech]**
> *This will promote home ownership and give a fillip* to a number of industries like steel, cement, brick, wood, glass etc. besides jobs to thousands of construction workers.* **[*boost]**

**Example 1.**

Mr. A avails a home loan of ` 25 lakhs from National Housing Bank (NHB) during P/Y 13-14 to purchase a new house for **his own residence** costing ` 35 lakhs. The interest **payable** amounted to ` 4,00,000 which was duly paid by him in 13-14 and principal amount of 3,00,000 was also repaid.
Decide the amount of deduction available to Mr. A under various sections for the P/Y 13-14. Also decide that whether assesse can avail any deduction u/s 80EE in the next year.

**Answer** **Amount of deduction available to Mr. A for various Sections for the P/Y 13-14**

| | |
|---|---|
| U/s 24(b) for the amount of interest payable on loan | 1,50,000 |
| (Limited to ` 1,50,000 as the house is self-occupied for own residence) | |
| U/s 80C for Repayment of principal amount of housing loan | 1,00,000 |
| U/s 80EE for the amount of interest payable on loan (Note) | 1,00,000 |
| | **3,50,000** |

Assessee can not avail deduction u/s 80EE in the next year, as the maximum deduction allowed under this section is ` 1,00,000 for both A/Y 2014-15 & A/Y 2015-16.

**Note: -** The interest payable amounted to ` 4,00,000. Out of this amount, deduction of `1,50,000 has been claimed u/s 24(b) u/h House property.

Now, as per the Section 80EE, if deduction of interest payable on loan has been claimed under any other section [in this case Sec. 24(b)] then no deduction of the same amount shall be given u/s 80EE. So, the remaining amount is ` 2,50,000 (4,00,000 – 1,50,000). But **maximum deduction** allowed u/s 80EE is ` 1,00,000. So, assessee can only claim ` 1,00,000 as deduction u/s 80EE.

**Example 2.**

Mr. B avails a home loan of ` 25 lakhs from National Housing Bank (NHB) during P/Y 13-14 to purchase a new house for **his own residence** costing ` 35 lakhs. The interest **payable** amounted to ` 1,75,000 which was duly paid by him in 13-14 and principal amount of 30,000 was also repaid.

Decide the amount of deduction available to Mr. B u/s 24(b) and 80EE for the A.Y. 14-15. Also decide that whether assesse can avail any deduction u/s 80EE in the next year.

**Answer** **<u>Amount of deduction available to Mr. B u/s 24(b) and 80EE for the A/Y 14-15</u>**

| | |
|---|---|
| U/s 24(b) for the amount of interest payable on loan | 1,50,000 |
| (limited to `1,50,000 as the house is self-occupied for own residence) | |
| U/s 80EE for the amount of interest payable on loan (**Note**) | 25,000 |
| | **1,75,000** |

Assessee can claim deduction of **` 75,000** u/s 80EE in the next year.

**Note: -** The interest payable amounted to ` 1,75,000. Out of this amount, deduction of `1,50,000 has been claimed u/s 24(b) u/h House property.

Now, as per the Section 80EE, if deduction of interest payable on loan has been claimed under any other section [in this case Sec. 24(b)] then no deduction of the **<u>same amount</u>** shall be given u/s 80EE. So, u/s 80EE deduction of the balance amount of ` 25,000 (1,75,000 -1,50,000) shall only be allowed for the A/Y 2014-15.

## V. <u>TDS:</u>

### 1. <u>Payment on transfer of certain immovable property other than agricultural land:</u> [Section 194IA]

**(i)** **Section:** 194IA
**(ii)** **Nature of payment:** Payment on transfer of certain immovable property (except agricultural land)
**(iii)** **Person from whose income tax is being deducted:** Any resident transferor
**(iv)** **Person Liable for deducting tax:** Any Resident person (other than the person paying compensation on compulsory acquisition of any immovable property)
**(v)** **Exemption Limit:** Consideration for transfer is **<u>less than</u>** `50,00,000.
**(vi)** **Rates:** 1%.

> ***Mischief:*** **[Extracts of Budget Memorandum]**
> *In order to have a reporting mechanism of transactions in the real estate sector and also to collect tax at the earliest point of time…In order to reduce the compliance burden on the small taxpayers, it is further proposed that no deduction of tax under this provision shall be made where the total amount of consideration for the transfer of an immovable property is less than fifty lakh rupees.*
>
> **[Extracts of Budget Speech]**
> *Transactions in immovable properties are usually undervalued and underreported. One-half of the transactions do not carry the PAN of the parties concerned. With a view to improve the reporting of such transactions and the taxation of capital gains, I propose to apply TDS…….. However, agricultural land will be exempt.*

**Example:**

Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ` 60 lakh and ` 65 lakh, respectively, to Mr. Y on 1.8.2013. He has purchased the house property and the land in the year 2011 for ` 40 lakh and ` 10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2013, is ` 85 lakh and ` 20 lakh for the house property and rural agricultural land, respectively. Determine the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr.Y are resident Indians.

**Answer**

**<u>TDS implications in the hands of Mr. Y:</u>**

Since the sale consideration of house property exceeds ` 50 lakh, Mr. Y is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be ` 60,000, being 1% of ` 60 lakh. TDS provisions under section 194-IA are not attracted on rural agricultural land.

# BEST OF LUCK