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India Budget 2014
In A Nutshell

1.0 DIRECT TAXES

- No change in the tax rates. No change in applicable Surcharge and Education Cess.

- Personal income tax exemption limit increased by Rs. 50,000 i.e. from Rs. 2,00,000 to Rs. 2,50,000 in the case of individual taxpayers who are below the age of 60 years. Similarly, the exemption limit in case of senior citizens increased from Rs. 2,50,000 to Rs. 3,00,000.

- Increase in investment limit for claiming deduction under section 80C of the Income-tax Act (the IT Act) from Rs. 1,00,000 to Rs. 1,50,000.

- Increase in deduction limit on account of interest on loan in respect of self-occupied house property from Rs. 1,50,000 to Rs. 2,00,000.

- Manufacturing companies investing more than Rs. 25 crore in any year in new assets (plant and machinery) to be entitled to a deduction of an investment allowance @15% of actual cost of the assets. This allowance is in addition to depreciation claimed on such new assets. This benefit will be available for 3 years i.e. for investments upto 31 March 2017. The investment allowance announced last year will continue to operate in parallel till 31 March 2015.

- Expenditure on Corporate Social Responsibility (CSR) as referred to in section 135 of the Companies Act, 2013 not to be allowed as deduction under section 37 of the IT Act. However, the CSR expenditure which is in the nature as prescribed under section 30 to 36 of the IT Act shall be allowed as deduction subject to fulfillment of conditions as specified in such sections.

- The sunset date for setting up power sector undertakings (in order to claim 100% deduction of profits for 10 years) to be extended upto 31 March 2017.

- Income arising to Foreign Institutional Investors from transactions in securities to be treated as capital gains.

- Concessional rate of 15% on foreign dividends to be continued without specifying any sunset date.

- The benefit of concessional withholding tax rate of 5% on interest payments in respect of borrowing in foreign currency is extended to all types of bonds instead of only infrastructure bonds. Further, the benefit to be extended for the bonds issued upto 30 June 2017 as against 30 June 2015.

- Increase in the rate of tax on long term capital gains from 10% to 20% on transfer of units of Mutual Funds other than equity oriented funds.

- It is proposed to provide that unlisted security and units of Mutual Funds (other than equity oriented funds) be treated as short term capital assets if it is held for not more than 36 months as against existing holding period of 12 months.

- Dividend Distribution Tax (DDT) to be levied on gross amount of dividends as against the existing provisions of computing DDT on net dividends .

- Disallowance of expenses under section 40(a)(ia) of the IT Act for failure to deduct and pay tax on specified payments to residents restricted to 30% of such payments instead of 100% disallowance. Further, the scope of disallowance has been extended to all expenditure on which tax is deductible.

- The new provisions introduced to treat the money received as an advance or otherwise in the course of negotiations for transfer of a capital asset as income chargeable to tax if such sum is forfeited and the negotiations do not result in transfer of capital asset.

- Conducive tax regime prescribed for Infrastructure Investment Trusts and Real Estate Investment Trusts to be set up in accordance with regulations of the Securities and Exchange Board of India.

- Investment linked deduction extended to 2 new sectors, namely, slurry pipelines for the transportation of iron ore, and semiconductor wafer fabrication manufacturing units as notified by CBDT.

- Benefit of exemption under section 54 and 54F of the IT Act to be available if the investment is made in 1 residential house only, which is to be situated in India.

- Introduction of a ‘roll-back’ provision in the Advance Pricing Agreement (APA) scheme so that an APA entered into for future transactions is also applicable to international transactions undertaken in the previous 4 years in the specified circumstances.

- The range concept to be introduced for determination of arm’s length price under the transfer pricing regulations. It is proposed to allow use of multiple year data for comparability analysis under the transfer pricing regulations.

- Advance Authority Ruling (AAR) scope to be expanded with resident taxpayers being allowed to approach AAR with some threshold. More AAR benches proposed. Also, it is proposed to expand scope of settlement commission.

- The powers of survey are extended to verify the TDS or TCS aspects also.

2.0 INDIRECT TAXES

2.1 Service Tax

- Effective service tax rate to remain unchanged at 12.36%.

- Interest rates for delay in payment of Service Tax beyond 6 months increased from 18% p.a. to 24% p.a. For further delay of 6 months, the interest rate to be 30% p.a.

- Point of Taxation in respect of reverse charge mechanism to be the payment date or the first date that occurs immediately after a period of 3 months from the date of invoice, whichever is earlier.

- The composition rate for all Works Contract other than original works is rationalized at 8.652% (70% of 12.36%).
- Commission received from foreign entity as agent or broker for supply of goods liable to Service Tax.

- Sale of space or time for advertisements in all media other than print media to be liable to Service Tax.

- Transport of passenger services by an air-conditioned contract carriage to be liable to Service Tax.

- Transport of passenger services by radio taxis is proposed to be liable to Service Tax.

- Technical testing of newly developed drugs on human participants even in case of approval from Drug Controller General of India, to be liable to Service Tax.

- Loading/unloading, packing, storage or warehousing and transportation of cotton, ginned or baled are exempted from Service Tax.

- Service provided by a tour operator to foreign tourist for tour outside India exempted from Service Tax.

2.2 Customs

- No change in peak rate of Basic Custom Duty (BCD).

- BCD on half-cut or broken diamonds is increased from NIL to 2.5%. BCD on cut and polished diamonds and colored gemstones increased from 2% to 2.5%. However rough diamonds continue to be levied at NIL rate of duty.

- Pre-forms of precious and semi-precious stones exempted from BCD.

- The variance level and the parameter of measurement in respect of re-import of cut and polished diamonds has been changed from height and circumference (± 0.01 mm) to diameter for round shape diamonds (± 0.05mm) and length and breadth for diamonds of other shapes (± 0.07mm). The allowable variance in weight (± 1 cent) remains unchanged.

- Baggage allowance increased for passengers from Rs. 35,000 to Rs. 45,000.

2.3 Excise Duty

- No change in the overall rate structure with the general effective rate continuing at 12.36%.

- Un-branded articles of precious metals are being exempted from excise duty for the period 1 March 2011 to 16 March 2012.

- Mandatory pre-deposit of 7.5% of the duty demanded or penalty imposed or both for filing appeal with the Commissioner (Appeals) or the Tribunal at the 1st stage and 10% of the duty demanded or penalty imposed or both for filing 2nd stage appeal before the Tribunal. The amount of pre-deposit payable would be subject to a ceiling of Rs. 10 crore.

- Education Cess and Secondary and Higher Education Cess (customs component) is being exempted on goods cleared by an EOU into the DTA.

3.0 POLICY ANNOUNCEMENTS

- All cases of indirect transfers arising out of retrospective amendments will be scrutinized by a high level committee of CBDT before initiating any action. Further, the Government will not bring in any retrospective amendments ordinarily.

- High level committee to interact with trade and industry where CBDT / CBEC to issue appropriate clarification within 2 months wherever required.

- Introduction of Goods and Services Tax (GST) to be given a thrust. Find a solution in the course of this year and approve the legislative scheme which enables introduction of GST

- The Government shall consider the comments received from the stakeholders on the revised Direct Tax Code (DTC). The Government will also review the DTC in its present shape and take a view in the whole matter.

- Legislative and administrative changes to sort out pending tax demand for more than Rs. 4,00,000 crore under dispute and litigation.

- Convergence with International Financial Reporting Standards by adoption of the new Indian Accounting Standards by the Indian Companies voluntarily for FY 2015-16 and mandatorily from FY 2016-17.

- The composite cap of foreign investments to be raised to 49% with full Indian management and control in Defence and Insurance sector through FIPB route.

- Requirement of built-up area and capital conditions for FDI to be reduced from 50,000 square meters to 20,000 square meters and USD 10 million to USD 5 million respectively for development of smart cities.

- Slum development to be included in the list of Corporate Social Responsibility (CSR) activity to encourage the private sector to contribute more.

- Introduction of uniform Know Your Customers (KYC) norms and inter-usability of the KYC records across the entire financial sector.

- Introduce one single operating demat account so the Indian financial sector consumers can access and transact all financial assets through this one account.

- Uniform tax treatment for pension fund and mutual fund linked retirement plans.

- To review revival of Special Economic Zones (SEZs) and make them effective instruments of industrial production, economic growth, export promotion and employment generation.

- Complete the ongoing process of consultations with all the stakeholders on the enactment of the Indian Financial Code and reports of the Financial Sector Legislative Reforms Commissions (FSLRC).

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