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BUDGET 2016

Understanding the Business Impact

Impact on Manufacturing

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Policy Updates

- 100% FDI will be allowed through the FIPB route in marketing of food products produced and manufactured in India. This will benefit the farmers and also will give impetus to food processing industry.
- 1500 Multi Skill Training Institutes will be setup across the country under the 'Skill India' mission. National Board for Skill Development Certification to be formed in partnership with the industry and academia to skill one crore youth over the next three years to support manufacturing sector.
- Hybrid instruments to be included as one of eligible FDI instruments for the purpose of raising funds from overseas.
- Proposal to introduce a Centre State Investment Agreement to ensure fulfilment of the obligations of the State Governments under the Bilateral Investment Treaties entered by India with other countries.

Corporate Tax Highlights

Tax rates:

- Corporate tax rate for domestic companies is reduced to 29% plus surcharge and cess if turnover is less than ₹5 crore in FY 2014-15. In all other cases, base tax rate and MAT rate to remain unchanged at 30% and 18.50% respectively.
- Newly set-up domestic manufacturing companies incorporated on or after 1 March 2016 can opt to be taxed at 25% plus surcharge and cess, provided they do not claim any profit-linked incentives, investment-linked incentives, accelerated depreciation, investment allowance, expenditure on scientific research and certain deductions covered under Chapter VI-A.

Phasing out of deductions and incentives:

- New SEZ units to commence operation on or before 31 March 2020 to avail tax holiday benefits as per section 10AA.
- Highest rate of tax depreciation is restricted to 40% for both old or new assets from FY 2017-18.
- For specified business under section 35AD, weighted deduction of capital expenditure at the rate of 150% will be reduced to 100% from FY 2017-18.
- Weighted deduction of 150% on expenditure incurred on skill development under section 35CCD will be available only for four years up to 31 March 2020. With effect from 1 April 2020, the same is restricted to 100%.
- From 1 April 2017 to 31 March 2020, weighted deduction in relation to contribution to scientific research association / National Laboratory / in-house R&D expenditure will be restricted to 150%. With effect from 1 April 2020, deduction is further restricted to 100% of the expenditure.

Other proposals:

- Dual conditions of acquisition and installation of new plant and machinery in the same year is relaxed for claiming investment allowance under Section 32AC. Benefit will be allowed for new asset installed on or before 31 March 2017 even though acquired in earlier year. This provision is applicable retrospectively from AY 2016-17
- Provisions relating to claim of additional deduction under section 80JJAA for new employment is extended to all assesses who are subjected to tax audit. The minimum number of days of employment reduced from 300 days to 240 days to determine the eligibility of new workmen. Further the requirement of minimum number of workmen has been done away with.
- Income from worldwide exploitation of patents developed and registered in India shall be taxable at the rate of 10% on gross basis for resident tax payers.
- Limitation of disallowance under section 14A (Rule 8D) to 1% of the average monthly value of investments yielding exempt income, but not exceeding the actual expenditure.
- Period for getting benefit of long term capital gain regime in case of unlisted companies is proposed to be reduced from three years to two years.
- Applicability of Place of Effective Management ('POEM') to determine residential status of foreign company deferred by one year.
- General Anti Avoidance Arrangement to come into effect from 1 April 2017.
- In accordance with the Base Erosion and Profit Shifting plan, a specific reporting regime has been provided in respect of Country by Country (CbC) reporting, applicable to an international group having consolidated revenue above a threshold limit to be prescribed (likely to be Euro 750 million).
- Penalty rates to be at 50% of tax in case of underreporting of income and 200% of tax where there is misreporting of facts. Other penal provisions rationalized.
- Direct tax Dispute Resolution Scheme, 2016 to be introduced to provide an option to tax payers to settle the tax disputes pending before the first appellate authority.
- Provisions to fast track the tax refunds have been introduced.
- Stay of demand to be granted by the tax officer upon payment of 15% of the disputed tax amount.

Indirect tax highlights

Customs Duty

- Downward revision in customs duty rates on inputs for sectors like information technology, capital goods, textiles, minerals & minerals oils etc to incentivize domestic manufacturing.
- Exemption on certain imports have been withdrawn to incentivize domestic manufacturing.
- Duty drawback scheme widened to support export sector.

Excise Duty

- Excise duty rates reduced for inputs / raw materials used for domestic manufacturing.
- Effective rate of Clean Energy cess increased for coal, lignite and peat.
- Simplified procedure for procurement of exempted goods.
- Reduction in number of excise returns from 27 to 13.
- Facility for revision of excise return made available to manufacturers.
- Infrastructure cess (non-creditable) of 1% levied on small petrol, LPG, CNG cars, 2.5% on diesel cars of certain capacity and 4% on other higher engine capacity vehicles and SUVs.

CENVAT Credit Rules

- Apportionment of CENVAT credit between exempted and taxable products is simplified.
- Flexible credit transfer mechanism for Input Service Distributor.
- Restriction in utilization for payment of NCCD.

Service Tax

- Krishi Kalyan Cess @ 0.5% proposed to be levied w.e.f. 01.06.2016 on all taxable services to finance and promote initiatives to improve agriculture.
- Credit of Krishi Kalyan Cess paid on input services shall be allowed and can be utilized only for payment of Krishi Kalyan Cess.
- Service tax not to be payable on Information Technology Software recorded on media when Excise duty is paid under Retail Selling Price or CVD under Customs duty on off the shelf software.
- Service tax rebate notification has been amended retrospectively from June 2012 allowing refund of service tax paid on services used beyond the factory or any other place or premises of production or manufacture of the said goods.
- Limitation period for recovery of Service tax under section 73 of Finance Act, 1994 is proposed to increase from 18 months to 30 months.
- Reduction in interest rate for non-payment of Service Tax from 18% to 15%. Slab rate of interest has been dispensed.
- Introduction of annual returns is applicable to all assesses unless until specifically exempted by the Government.

Common changes under Excise/Customs and Service tax

- Increase in limitation period from one year to two year in cases not involving fraud, suppression of facts, wilful mis-statement, etc., in case of Excise and Customs.
- Interest rates on delayed payment of duty/tax rationalized.
- The monetary limit for launching prosecution being increased to ₹2 crore of service tax evasion.
- Power to arrest being restricted only to situations where the tax payer has collected the tax but not deposited it to the exchequer above a certain threshold of ₹2 crore.
- Indirect tax Dispute Resolution Scheme, 2016 introduced to reduce existing litigations.

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