Direct Taxes

Budget Highlights: Understanding the Business Impact

February 2016
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Personal Taxation

Tax Rates
- No change in income slabs or tax rates
- Increase in surcharge from 12% to 15% on individuals, HUFs having income exceeding ₹1 crore
- Rebate of income tax for resident individuals with total income not exceeding ₹5 lakh enhanced from ₹2,000 to ₹5,000.

House Property
- An additional deduction of ₹50,000 in respect of interest payable on home loan taken by an individual during the financial year 2016-17. This deduction is available to a person not owning a house property and where the cost of house does not exceed ₹50 lakhs and the loan does not exceed ₹35 lakhs.
- Maximum deduction for house rent paid by individuals not receiving House Rent Allowance increased from ₹2,000 per month to ₹5,000 per month.
- The period within which the construction or acquisition of a self-occupied house property is to be completed, to claim a deduction of interest on housing loan, increased from 3 years to 5 years reckoned from the year in which the loan is borrowed. The permissible deduction limit continues to be ₹200,000.
- The arrears of rent or unrealized rent received from a tenant shall be deemed to be the income from house property in the year of receipt irrespective of whether the assessee continues to be the owner of the house or not. A deduction at 30 percent of the amount so received is allowed.

Capital Gains
- Deposit certificates issued under ‘Gold Monetization Scheme 2015’ will not be considered as capital assets. The interest thereon would also be exempt from tax.
- Gains from redemption of gold bonds issued by the Reserve Bank of India under ‘Sovereign Gold Bonds Scheme 2015’ shall not be subject to capital gains tax in the hands of the individual.

Retirement Benefits
- The lower of employer’s contribution to Provident fund in excess of 12% of the salary of the employee or ₹150,000 p.a. will be subject to tax.
• Exemption limit for employer’s contribution to superannuation has been enhanced from ₹1,00,000 to ₹1,50,000 p.a.

• The exemption on withdrawal of accumulated balance from a recognized PF is reduced from 100% to 40% to the extent it relates to contributions made by the employee (other than excluded employee) after 1 April 2016. Excluded employee is an employee whose monthly salary does not exceed an amount prescribed for this purpose.

• 40% of the amount withdrawn from New Pension Scheme (NPS) on retirement will be tax exempt. Currently the entire withdrawal is being taxed. In order to bring parity between NPS and Superannuation funds, the exemption available on withdrawal from superannuation funds would be restricted to 40%.

• The amounts received by a nominee from NPS on death of the tax payer would be exempt from tax.

The Income Declaration Scheme 2016

• Immunity has been granted from further scrutiny under the income tax Act in cases where the tax payer declares domestic undisclosed income and pays 45% thereof (tax of 30%, surcharge of 7.5% and penalty of 7.5%). A window is available between 1 June 2016 and 30 September 2016 for such declaration.

Corporate Tax

Corporate tax rates

• Tax rate on newly setup domestic companies engaged solely in manufacture or production of any article or thing proposed to be reduced to 25%, at the option of the company, subject to not claiming certain specified deductions/claims.

• Tax rate proposed to be reduced to 29% for domestic companies whose total turnover or gross receipts in the previous year 2014-15 does not exceed ₹5 crores.

• No other changes proposed in corporate tax rates.

Industry specific benefits

• Benefit of initial additional depreciation of 20% available on new machinery or plants proposed to be extended to the business of transmission of power.

• It is proposed that income of a foreign company engaged in the business of mining of diamonds shall not have a business connection in India merely by reasons of its activities which are confined to display of uncut or unassorted diamonds in a special zone notified by the Central Government.

• It is proposed that any income, accruing or arising to a foreign company on account of storage of crude oil in a facility in India, or on account of its sale therefrom to any person resident in India, shall be exempt from taxation if such storage or sale is in pursuance of an agreement or arrangement with Central Government that is notified. The amendment will take effect from assessment year 2016-17.

Concessional tax regime on royalty income from patents

• It is proposed to introduce patent box regime in India to provide tax @ 10% on gross income arising from royalty in respect of a patent developed and registered in India by a person resident in India.

Place of Effective management (POEM) deferred by one year

• Applicability of POEM based residence test deferred by one year. The same will now be applicable from 1 April 2017. The Government will meanwhile provide a transition mechanism for foreign companies who have not earlier been assessed to tax in India under such POEM based residency rule.

Presumptive taxation scheme

• With a view to reduce the compliance burden of small tax payers engaged in eligible business, the existing threshold turnover limit of ₹25 lakhs to ₹50 lakhs has been increased to ₹2 crores. Further, it is proposed that such taxpayers can pay advance tax by 15 March of the financial year.

• It is proposed to provide an option of presumptive taxation to professionals having total receipts less than ₹50 lakhs in a year. Deduction will be allowed at 50% of the total gross receipts. Professions include legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or any other profession as is notified by the Board in the Official Gazette.

• It is further proposed to increase the threshold limit for audit of persons having income from profession from ₹2.5 lakhs to ₹5 lakhs in a year.

Exemption from requirement of furnishing PAN under section 206AA to certain non-resident

• The existing section 206AA, inter alia, provides that any person who is entitled to receive any sum on which tax is deductible under the Act shall be liable to furnish PAN. Non-furnishing of PAN will attract TDS @ 20% (minimum).

• The provisions of section 206AA also apply to non-residents (with an exception in respect of payment of interest on long-term bonds as referred to in section 194LC). In order to reduce compliance burden, section 206AA is proposed to be amended to provide that the same shall not be applicable to a non-resident (other than a company) or a foreign company in respect of any payments, other than interest on bonds, subject to such conditions as may be prescribed. This amendment shall be applicable from 1 June 2016.
Applicability of Minimum Alternate Tax (MAT) on foreign companies for the period prior to 1 April 2015

It is proposed to make MAT not applicable to a foreign company with effect from 1 April 2001 in the following cases:

• foreign company is a resident of a country with which India has entered into a DTAA and the foreign company does not have a PE in India
• foreign company is a resident of a country with which India has not entered into a DTAA and the foreign company is not required to seek registration under any law for the time being in force relating to foreign companies

New Tax Dispute Resolution Scheme introduced for pending disputes before Appellate Authorities

New Tax Dispute Resolution Scheme introduced for reducing tax disputes in relation to two types of taxes:

• Specified Taxes – defined as any tax determined consequent to or validated by amendment made with retrospective effect in Income Tax Act 1961 or Wealth Tax Act 1957 and dispute in respect of such tax is pending as on 29 February 2016. For being eligible for availing benefit, assessee is required to withdraw writ/appeal/request for arbitration before concerned authorities. The declarant shall get immunity from penalty and prosecution under the respective Acts. Further, scheme also provides for waiver of interest under the respective Acts.
• Tax Arrears – defined as tax, interest or penalty determined under the Income Tax Act 1961 or Wealth Tax Act 1957 in respect of which appeal is pending before Commissioner of Income Tax (Appeals) or Commissioner of Wealth Tax (Appeals) as on 29 February 2016. For being eligible, declarant is required to pay applicable taxes plus interest up to the date of assessment. In case disputed tax exceeds ₹10 lakhs, 25% of minimum penalty leviable will also be payable. Declarant shall get immunity from any prosecution under the respective Acts.

Legal framework for automation of paperless assessment and other processes

In order to put in place a framework of automated paperless assessments and related procedures, amendment made to provide that notices and documents can be issued either in paper form or electronic form. It has been proposed to define the term ‘hearing’ to include communication of data and documents through electronic mode.

Equalization Levy

• An Equalization levy of 6% on the amount of consideration for specified services received by a non-resident not having a PE in India has been proposed to be inserted by way of a new Chapter. ‘Specified services’ has been defined to mean online advertising or any provision for digital advertising space or any other facility or service for the purpose of online advertisement, or any other service as may be notified by the Central Government.
• Levy will not to apply if the consideration does not exceed ₹1 lakhs in a year. It is proposed to specifically provide that such income will not be taxed in the hands of the recipient.
• It is also proposed that corresponding expenses in the nature of such consideration shall be deductible only if such levy is deducted and deposited with the Government on or before the due date of filing tax return for that year. Payment on a subsequent date will enable claiming the deduction in such other year of payment.
• Further, Central Government shall notify the date from which Chapter of ‘Equalization Levy’ shall come into force.

Phasing-out of profit linked deductions/weighted deductions

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<tr>
<th>Section</th>
<th>Proposed phase-out plan with effect from assessment year</th>
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<tbody>
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<td>10AA – SEZ</td>
<td>2021-22</td>
</tr>
<tr>
<td>35AC – eligible products</td>
<td>2018-19</td>
</tr>
<tr>
<td>35CCD – skill development project</td>
<td>2021-22</td>
</tr>
<tr>
<td>80IA; 80IAB; 80IB – Specified businesses</td>
<td>2018-19</td>
</tr>
</tbody>
</table>
### Phasing-out of Weighted Deductions ("WD")

<table>
<thead>
<tr>
<th>Section</th>
<th>Proposed phase-out plan</th>
</tr>
</thead>
</table>
| 32 – Accelerated depreciation | • Maximum accelerated depreciation of 40% allowed w.e.f. AY 2018-19  
  • Applicable for both old and new assets |
| 35(1)(ii) – Contribution to associations for scientific research | • From AYs 2018-19 to 2020-21, weighted deduction of 150% allowed  
  • W.e.f. AY 2021-22, deduction of only 100% |
| 35(1)(iia) – Contribution to companies for scientific research | • W.e.f. AY 2018-19, deduction of only 100% |
| 35(1)(iii) – Contribution for statistical research | • W.e.f. AY 2018-19, deduction of only 100% |
| 35(2AA) – Contribution for approved scientific research programme | • From AYs 2018-19 to 2020-21, weighted deduction of 150% allowed  
  • W.e.f. AY 2021-22, deduction of only 100% |
| 35(2AB) – In-house R&D | • From AYs 2018-19 to 2020-21, weighted deduction of 150% allowed  
  • W.e.f. AY 2021-22, deduction of only 100% |
| 35AD – Specified businesses | • W.e.f. AY 2018-19, deduction of only 100% |
| 35CCC – Agricultural projects | • W.e.f. AY 2018-19, deduction of only 100% |

### Clarity on deduction of Spectrum Fee

It is proposed to introduce a section providing for deductibility of spectrum fee for telecommunication services on following lines:

- Capital expenditure incurred and actually paid for acquisition of any right to use spectrum to be equally amortized over the period of right to use of spectrum.
- In case where spectrum is transferred, the amount of loss/profit to be treated as expense/income in the year of transfer.
- Unallowed expenses in the case where part of the spectrum has been transferred would be amortized over the remaining period of right retained.
- In case of an amalgamating company transferring spectrum to an Indian amalgamated company under a scheme of amalgamation, these provisions shall apply mutatis mutandis to the amalgamated company.

### Filing of return of income

- It is proposed that every person whose income, without giving effect to income exempt under section 10(38), exceeds maximum amount not chargeable tax shall furnish return of income for the relevant assessment year within the due dates.
- It is proposed that time limit to file the belated return has been curtailed from one year from the end of relevant assessment year to the end of the relevant assessment year.
- It is proposed that that belated tax return can now be revised on or before expiry of one year from the end of relevant assessment year or before the completion of assessment, whichever is earlier.
- It is further proposed to provide that return of income would not be regarded as defective merely because self-assessment tax and associated interests have not been paid within the statutory time limits.

### Taxation of Non-Compete Fees and exclusivity rights in case of Profession

Taxation of non-compete fees and exclusivity rights in case of profession is proposed to be brought at par with similar income in the case of business.
Amended timelines for assessment, reassessment and recomputation

<table>
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<tr>
<th>Proceedings</th>
<th>Existing Time Lines</th>
<th>Proposed Time Lines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 143(3)/144</td>
<td>2 years from end of assessment year</td>
<td>21 months from end of assessment year</td>
</tr>
<tr>
<td>Section 147</td>
<td>1 year from end of financial year in which notice u/s 148 is served</td>
<td>9 months from end of financial year in which notice u/s 148 is served</td>
</tr>
<tr>
<td>Fresh assessment in pursuance of order u/s 254/263/264</td>
<td>1 year from the end of financial year in which order u/s 254 is received or order u/s 263/264 is passed by the prescribed authority</td>
<td>9 months from the end of financial year in which order u/s 254 is received or order u/s 263/264 is passed by the prescribed authority</td>
</tr>
<tr>
<td>Effect to ‘appeal order’ or ‘263/264 order’ or ‘order of settlement commission’ wholly or partly without fresh assessment or reassessment*</td>
<td>No timelines at present</td>
<td>3 months from the end of the month in which order is received or passed by the relevant authority</td>
</tr>
</tbody>
</table>

* If proposed timelines cannot be met by the AO for reason beyond control, AO may apply, in writing, to PCIT or CIT to allow additional time of 6 months. For cases pending as on 1 June 2016, time limit to be extended to 31 March 2017.

Effect to ‘appeal order’ or ‘263/264 order’ or ‘order of any court’ requiring assessment, reassessment or recomputation# |
| • No timelines at present | • 12 months from the end of the month in which order is received by the relevant authority |

# For cases pending as on 1 June 2016, proposed time limit to be 31 March 2017 or 12 months from the end of the month in which such order is received, whichever is later.

Applicable to all aforesaid orders to be passed on or after 1 June 2016.

Similar changes have been made to time limits for assessment in search cases.

Rationalization of provisions relating to Appellate Tribunal

- It is proposed to omit the right of the tax department to appeal against the order of the assessing officer in pursuance of the direction of Dispute Resolution Panel.
- The time limit for rectification of order u/s 254(2) by the Appellate Tribunal is proposed to be reduced from 4 years to 6 months.

Rationalization of Penalty Provisions

- Section 271(1)(c) has been substituted with Section 270A with effect from AY 2017-18.
- Section 270A prescribes certain scenarios wherein penalty could be imposed for under reporting and misreporting of income respectively. Penalty @ 50% of tax payable is applicable in case of under reporting and @ 200% in case of misreporting.
- Specified situations proposed where adjustment to taxable income will not be regarded as occasioned due to under reporting of income.
Immunity from penalty and prosecution in certain cases

• Section 270AA is proposed to be introduced under the Act which shall contain provisions providing for immunity from penalty and prosecution. To be eligible to avail the same, assessee is required to timely deposit the tax and interest into the Government treasury and should not litigate the matter in appeal. Such immunity is not available in cases of misreporting.

• Application for immunity to be made within one month from the end of the month in which assessment order is received. AO shall decide the application on merits and his order shall be final.

Miscellaneous

• Additional income tax at maximum marginal rate levied when a charitable organization is converted into a non-charitable organization or gets merged with a non-charitable organization or does not transfer the assets to another charitable organization. This amendment will take effect from 1 June 2016.

• Benefit of Section 32AC proposed to be enlarged to situations when installation of plant and machinery (exceeding ₹25 crores) could not be completed within the same financial year when the machinery was acquired. In such cases, the benefit to be deferred to the year in which such machinery has been installed. This amendment will take effect retrospectively from 1 April 2016.

• Benefit of deduction in respect of provision for bad and doubtful debts extended to NBFCs.

• Scope of section 438 extended to include payments made to Railways for the use of their assets.

• Set off of losses shall not be permissible to an assessee against its undisclosed income under specified sections.

• Benefit of Section 80JAA extended to all sectors in respect of cost incurred on any employee whose total emoluments are less than or equal to ₹25,000 per month, subject to certain specified conditions.

• Failure to comply with statutory notices under section 142(1)/143(2)/142(2A) shall attract a penalty of ₹10,000 for each of such default and failure.

• Before making an assessment under section 143(3), the return should be processed under section 143(1).

• TCS @ 1% applicable in case of sale of motor vehicle of the value exceeding ₹10 lakhs and sale in cash of any goods (other than bullion and jewelry) or providing any services other than payments on which TDS applies exceeding ₹2 lakhs. Amendment proposed to be effective from 1 June 2016.

• Presently, TDS under section 194I is deducted even in cases where the recipient’s total income (including rental income) is Nil. Section 197A provides for no TDS in (certain cases) if recipient furnishes a declaration (in Form 15G/15H) to payer declaring Nil taxability. Benefit of section 197A to be extended to recipients earning rental income.

• In order to rationalize the rates and base for TDS provisions, the existing threshold limit for deduction of tax at source and the rates of deduction of tax at source has been revised in respect of most of the sections. The amendment will be effective from 1 June 2016.

• Presently advance tax payment schedule is different for company and non-company assessees. It is proposed to provide one advance tax payment schedule for all assesses other than an eligible assessee in respect of eligible business referred to in section 44AD who shall be required to pay entire advance tax in one installment on or before the 15th March of the financial year. The amendment is effective from 1 June 2016.

• Interest on refund under section 244A rationalized to provide for interest under certain new situations.

• Assessee is provided with an option to furnish bank guarantee for revocation of the provisional attachment made under section 281B.

• Where Transfer pricing assessments are stayed by any court or reference for exchange for information has been made by competent authority and the time limit for completion for assessment by the TPO (after excluding the period of stay or exchange of information) is less than 60 days, then such remaining period shall be extended to 60 days.

Transfer Pricing

Country-by-Country Report and Master File

• In order to implement the international consensus on Action 13 of the Organisation for Economic Cooperation and Development’s (OECD’s) Base Erosion and Profit Shifting (BEPS) project, the Finance Bill 2016 proposes to introduce the Country by Country (CbC) reporting requirement and the concept of master file in the Indian Income Tax Act, 1961.

• The core elements of the concept have been proposed by the Bill and the remaining provisions will be detailed in the Income Tax Rules.
The provisions relating to CbC reporting requirement as proposed by the Bill are as follows:

- The provisions will be effective 1 April 2017 and will apply from Financial Year 2016-17.
- The reporting provisions shall apply to an international group (a group that operates in two or more jurisdictions) having consolidated revenues exceeding the prescribed threshold. The current OECD mandated threshold is € 750 million (approximately ₹5,395 crores, at current exchange rate).
- If the parent entity of an international group is resident in India, it is required to furnish the CbC report in respect of the group by the due date of furnishing of return of income for the relevant Financial Year. Accordingly, an Indian parent company will need to furnish the first CbC report by 30 November 2017 for the Financial Year 2016-17.
- An entity in India of an international group having an overseas resident parent is required to provide the details of the country of residence of the parent by the prescribed date to the prescribed Indian tax authority.
- An Indian entity belonging to an international group with an overseas parent shall be required to furnish the CbC report to the prescribed authority if the parent entity of the group is resident:
  a) in a country with which India does not have an arrangement for exchange of the CbC report; or
  b) there is a systematic failure of the country in exchanging the said information with India even though there is an agreement; and
  c) this fact has been intimated to the entity by the prescribed authority
- The CbC report would be furnished in the prescribed manner and form and will contain (in line with the OECD template) aggregate information in respect of revenue, profit & loss before Income-tax, amount of Income-tax paid and accrued, details of capital, accumulated earnings, number of employees, tangible assets (other than cash or cash equivalent) in respect of each country or territory; along with details of each constituent’s residential status, nature and details of main business activity as well as any other information as may be prescribed.
- In cases where more than one entity of an overseas parent group are present in India, the group can nominate (in writing to the prescribed authority) the entity that shall furnish the report on behalf of all the Indian entities.
- The prescribed authority may call for necessary documents and information from the entity furnishing the report for the purpose of verifying the accuracy of the same
- For non-furnishing of the CbC report by an entity which is obligated to do so, a graded penalty structure applies that ranges from ₹5,000 to ₹50,000 per day.
- In case of inaccurate furnishing of information or furnishing of inaccurate information in response to notice by the prescribed authority, a penalty of ₹500,000 may also be levied.
- A parent entity means the entity holding an interest (directly or indirectly) in the other entities of the group such that it is required to prepare a consolidated financial statement of the group.

The Memorandum to the Finance Bill provides that rules for the requirement for maintenance of master file would be prescribed which would be as mandated under OECD BEPS Action 13.

For non-furnishing of the information and documents on the prescribed due date penalty of ₹500,000 is prescribed.

Extension of limitation period for Transfer Pricing audits

- The time limit for TP assessment is proposed to be extended beyond the limitation period to allow the TPO at least 60 days for passing the TP order after excluding the period for which:
  a) The assessment proceedings before the TPO are stayed by any court; or
  b) The information is sought from any other country under the exchange of information provisions
- The provision is applicable from 1 June 2016.

Penalty for failure to report transactions covered under Chapter X

In case of under-reporting of income as a consequence of failure to report international transactions/deemed international transactions or specified domestic transactions, a penalty of 200% of amount of tax payable will be applicable.

Mergers & Acquisitions

Buyback of shares

Currently, a 20% tax is levied on a company making distribution to its shareholders pursuant to buyback undertaken as per section 77A of the Companies Act, 1956. The tax is levied on the difference between the consideration paid for buyback less any amount received by the Company.

It is proposed that the aforesaid tax should be levied on buyback being undertaken by a company in any manner not restricted to only section 77A of the Companies Act, 1956.

It is also proposed that the method to determine the amount received by the Company would be prescribed separately. Consequently, any tax arbitrage opportunity by scaling up the cost through tax neutral reorganization will be avoided.
Start ups
In order to promote start-ups and assist them in their initial years, following benefits are introduced:

- 100% tax holiday for 3 consecutive years for business set-up on or after 1 April 2016 and before 1 April 2019.
- Any long-term capital gains accruing to an individual or HUF on sale of residential property to be exempt provided the proceeds are utilised to subscribe to the shares of an eligible start-up as per the conditions provided in that section.
- A specified fund to be created by Central Government to promote start-up ecosystem. Any person can claim an exemption of long term capital gains tax provided the proceeds (not exceeding ₹50 lakhs) are invested in the units of the Fund for at least 3 years.

International Financial Services Centre (IFSC)
In order to promote International Financial Services Centre, following benefits are introduced:

- Exemption from long term capital gains on transaction in foreign currency on recognized stock exchange in IFSC even when Securities Transaction Tax (STT) is not paid.
- Applicability of concessional rate of MAT at 9% on units in IFSC deriving its income wholly in convertible foreign exchange.
- Exemption on dividends distributed by units located in IFSC (deriving their income wholly in convertible foreign exchange) in the hands of company paying the dividend as well as shareholders.
- Exemption from STT and Commodities Transaction Tax (CTT) on transactions undertaken in foreign currency on recognized stock exchange/recognized association in IFSC (with effect from 1 June 2016).

Rationalization of Section 50C
It is proposed that in case date of agreement fixing amount of consideration for transfer of immovable property and date of registration are not same, it is proposed that the stamp duty value as on date of agreement to be full value of consideration for such transfer provided that consideration is paid by way of an account payee cheque/bank draft/electronic clearing before the date of agreement.

Tax rates on dividend income rationalized
Currently, dividend income is exempt in the hands of the shareholder. It is proposed to levy an additional income tax of 10% in the hands of shareholders, being an individual, Hindu undivided family (HUF) or a firm, being resident in India, in case amount of dividend received exceeds ₹10 lakhs on gross basis.

Sovereign Gold Bonds and Rupee Denominated Bonds
- In order to provide parity in tax treatment between the physical gold and Bond, it is proposed to exempt redemption of the Bonds by an individual.
- In case of Rupee Denominated Bonds (RDBs) where the currency risk is borne by the non-resident investor, it is proposed that any capital gains on appreciation of rupee between date of issue and date of redemption of RDBs will be exempt.

Conversion of company into LLP
- Additional condition introduced for claiming tax neutrality in case of conversion of a company into LLP i.e. value of total assets in the books of company in any of the three preceding years should not exceed ₹500 lakhs.

Clarification regarding ‘unlisted securities’ defined in Section 112
- Long-term capital gains arising on sale of unlisted securities, and shares of a company in which public are not substantially interested are proposed to be taxed at 10%.

Exemption from Dividend Distribution Tax (DDT) on dividends to Business trusts
- It is proposed to provide exemption from DDT in respect of distributions made to the Business trust by SPV in which the trust holds 100% of the share capital, subject to certain exceptions. Dividend shall continue to be exempt from tax in the hands of business trust and its investors.

Tax withholding on payments made by AIF to its investors
- Currently, tax is withheld at 10% on the payments made by Category-I and Category-II AIFs to its investors. It is proposed that for non-resident payee, tax should be withheld at the rate in force.

Securitisation trust and its investors
- As per the existing tax regime, the income distributed by securitization trust is subject to distribution tax and no tax is levied on distributed income in the hands of investor.
- New taxation regime introduced by extending the tax pass through status to certain specified SPVs.
- Further, income of trust to continue to be taxable in the hands of investor in the same manner if the investor would have invested directly.

Simplified conditions for taxation of offshore funds
- Eligible investment fund shall now also include a fund established or incorporated or registered outside India in a country or a notified territory in addition to the fund residing in those countries or territories.
- It has been proposed to restrict the condition of fund not controlling and managing any business in India or from India to only the activities undertaken in India for allowing more flexibility to the operations of funds.
Indirect Taxes

Customs

• Standard rate of BCD is maintained at 10%
• Deferred payment of customs duties based on proven track record for certain class of importers and exporters
• A new class of warehouse is introduced for enabling storage of goods to be specified, under physical control of the customs authorities
• Export duty has been reduced on Ores and Concentrates
• Rate of import duty reduced for cold chain storage, mineral oils and fuels, chemicals and petrochemicals, wood chips or particles for manufacture of paper, fibre, yarn and fabrics, certain electronics/hardware, disposable sterilized dialyzer, micro barrier of artificial kidney, engine for hybrid vehicles
• Rate of duty increased for plans, drawings and designs, e-readers and parts of e-readers, mobile charger/adapter, battery and wired headsets/speakers for manufacture of mobile phone, specified telecommunication equipments, populated PCBs for manufacture of personal computers, PCBs for manufacture of mobile phone/tablet computer, aluminum products, specified machinery required for construction of roads
• Notifications relating to Advance Authorisation and Duty Free Import Authorization Schemes are amended retrospectively to provide exemption from safeguard duty
• The Rules governing import of goods at concessional rate of duty for manufacture of excisable goods simplified. Permission is replaced with self-declaration by the importer with effect from 1 April 2016
• New Baggage Rules introduced to simplify and rationalize multiple slabs of duty free allowance for various categories of passengers with effect from 1 April 2016
• Filing of Customs declaration required only for those passengers who carry dutiable or prohibited goods

Excise

• Standard rate of Excise duty is maintained at 12.5%
• The Rules governing procurement of goods at concessional rate of duty for manufacture of excisable goods simplified. Permission is replaced with self-declaration by the manufacturer/importer with effect from 1 April 2016
• Aluminum foils, smart watches and motor vehicle accessories liable to Central Excise Duty based on Retail Selling Price (RSP) and subject to specified abatement
• Excise duty increased from 9% to 9.5% on refined gold bards manufactured from gold dore bar, gold ore or concentrate. Also, excise duty exemption under existing area based exemption on refined gold withdrawn in respect of new units or substantial expansion of existing units. Similar changes carried out in respect of refined silver where rate increased from 8% to 8.5%
• Increase in Excise duty rates in respect of tobacco products, aerated beverages, branded readymade garments, disposable aluminum foil containers, jewellery, accessories of mobile phone with effect from 1 March 2016
• In case of customized information technology software recorded on media that is not required to bear Retail Sale Price (RSP) under the Legal Metrology Act, 2009, Central Excise Duty or Additional Custom Duty will be required to be paid only on the value of the said media, along with freight and insurance, subject to fulfilment of specified conditions. Therefore, service tax will not be required to be paid on such value.
• Decrease in Excise duty rates in respect of refrigerated containers, fertilizers, footwear, specific parts for wind power blades, specified IT products, centrifugal pump, parts and engine for electric vehicles, ready mix concrete manufactured at site, parts for use by railways, with effect from 1 March 2016
• Excise duty exempted in respect of solar lamps, kits and tools for aircraft maintenance/overhauling, parts for specified IT products, inputs, parts and components, subparts for manufacture of mobile phone accessories, specified...
disposable dialysis instruments with effect from 1 March 2016

- Centralized registration and other simplified Excise compliance procedures for jewellery manufacturers introduced with effect from 1 March 2016
- Number of Excise returns reduced from 27 to 13 with effect from 1 April 2016
- Provision for revision of Central Excise returns introduced with effect from 1 April 2016.
- E-filing of annual returns proposed
- Withdrawal of prosecution in cases involving duty of less than ₹5 lakhs and pending for more than 15 years proposed
- Single registration for multiple premises of same manufacturer located in close proximity is permitted subject to conditions, with effect from 1 March 2016
- Chartered Engineer certificate to be submitted for claiming rebate of inputs used in goods exported

Cesses

- Clean Energy cess is renamed as Clean Environment Cess. Effective rate of cess increased from ₹200 per tonne to ₹400 per tonne
- Rate of Oil Industries Development cess reduced on domestically produced crude oil from ₹4500 per metric tonne to 20% ad valorem
- Infrastructure cess is being levied on motor vehicles as below:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Rate of Cess</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petrol/LPG/CNG driven motor vehicles of length not exceeding 4m and engine capacity not exceeding 1200cc</td>
<td>1%</td>
</tr>
<tr>
<td>Diesel driven motor vehicles of length not exceeding 4m and engine capacity not exceeding 1500cc</td>
<td>2.5%</td>
</tr>
<tr>
<td>Other higher engine capacity motor vehicles and SUVs and bigger sedans</td>
<td>4%</td>
</tr>
</tbody>
</table>

- CENVAT credit of the cess shall not be available and credit of no other duty can be utilized for payment of the cess

Service Tax

- Rates of service tax and Swachh Bharat Cess are maintained at 14% and 0.5% respectively
- Krishi Kalayan Cess (KKC) at 0.5% of value of all taxable services to be levied from 1 June 2016

Changes effective from 1 March 2016

- Service tax exemption towards construction, erection, commissioning or installation of original works pertaining to monorail or metro, in respect of contracts entered into on or after 1 March 2016 has been withdrawn
- Time limit for filing application for refund of CENVAT Credit in case of export of services has been amended to be 1 year from the date of:
  - receipt of payment in convertible foreign exchange if the provision of service has been completed prior to receipt of such payment, or,
  - date of issue of invoice, if payment for the service has been received in advance prior to the date of issue of the invoice
- Service tax on the services of Information Technology Software on media bearing Retail Sale Price (RSP) is being exempted provided Central Excise Duty/Additional Customs Duty is paid on the same

Changes effective from 1 April 2016

- Service tax exemptions introduced for:
  - Life insurance business provided by way of annuity under the National Pension System regulated by Pension Fund Regulatory and Development Authority (PFRDA)
  - General insurance business provided under ‘Niramaya’ Health Insurance scheme launched by National Trust for the Welfare of Persons for specific disabilities in collaboration with private/public insurance companies
  - Services provided by:
    a) Employees’ Provident Fund Organisation (EPFO) to employees
    b) Insurance Regulatory and Development Authority (IRDA) of India
    c) Regulatory services provided by Securities and Exchange Board of India (SEBI)
    d) Biotechnology incubators approved by Biotechnology Industry Research Assistance Council (BIRAC), to incubatees
    e) Training partners under Deen Dayal Upadhyay Grameen Kaushalya Yojana by way of skill/vocational training
    f) Assessing bodies empaneled centrally by Directorate General of Training, Ministry of Skill Development & Entrepreneurship
    g) National Center for Cold Chain Development by way of knowledge dissemination
- The rate of Service tax on single premium annuity (insurance) policies is being reduced from 3.5% to 1.4% of the premium subject to conditions
• Service tax exemptions withdrawn on:
  – Services provided by a senior advocate to an advocate or partnership firm of
    advocates providing legal service and by a person represented on an arbitral
    tribunal to an arbitral tribunal
  – Any service provided by Government or Local Authority to business entities, service
    tax to be applicable on reverse charge basis
  – Transportation of passengers by ropeway, cable car or aerial tramway
• Benefit of quarterly payment of service tax has been extended to ‘One Person
  Company’ and HUF
• Benefit of payment on receipt basis has been extended to ‘One Person Company’
• Annual return in addition to half yearly return to be filed by service tax assesses above
  certain threshold, by 30 November of succeeding financial year
• Mutual fund agents/distributors to a mutual fund or asset management company are
  proposed to be taxed under normal charge from 1 April 2016 with a view to enable
  such agents/distributors to avail the exemption of ₹10 lakhs per year

Changes effective upon enactment of the Finance Bill
• Interest rate under service tax rationalized:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Interest rate (p.a.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessee, whose value of taxable services in the</td>
<td>12%</td>
</tr>
<tr>
<td>preceding year/years covered by the notice is less</td>
<td></td>
</tr>
<tr>
<td>than ₹60 Lakhs</td>
<td></td>
</tr>
<tr>
<td>Service tax collected but not deposited to the</td>
<td>24%</td>
</tr>
<tr>
<td>exchequer</td>
<td></td>
</tr>
<tr>
<td>Other than the above</td>
<td>15%</td>
</tr>
</tbody>
</table>

Changes effective from 1 June 2016
• Service tax applicable on services by way of transportation of goods by a vessel from
  a place outside India

Retrospective amendments
• Effective 1 July 2012, refund of Service tax allowed on services used beyond the
  factory or any other place or premises of production or manufacture of the said
  goods for the export of the said goods
• Exemption from service tax provided to the following services, for service provided
  under a contract entered prior to 1 March 2015, which was withdrawn with effect
  from 1 April 2015 has been restored till 31 March 2020:
  – service provided to Government, local authority or Governmental Authority by way
    of construction, erection, etc. of specified civil structures
  – services by way of construction, erection, etc. of airport and port
• The services provided during 1 April 2015 to 29 February 2016 are also proposed to
  be exempted.

CENVAT Credit
• Definition of Capital Goods amended with effect from 1 April 2016 to include:
  – any equipment or appliances used in office located within a factory and
  – goods used outside the factory of the manufacturer of final products for pumping
    of water for captive use within the factory
• Definition of input has been amended to include:
  – all goods used for pumping of water for captive use within the factory and
  – all capital goods which have a value up to ₹10,000 per piece
• CENVAT credit shall not be utilised for payment of infrastructure cess leviable with
  effect from 1 March 2016
• CENVAT credit shall be allowed to a manufacturer where jigs, fixtures, molds and
  dyes or tools are sent by such manufacturer to another manufacturer or job worker
  without bringing the said goods to his own premises
• Manufacturer shall be allowed to take credit on the inputs received under the cover
  of invoice issued by a warehouse of the said manufacturer with effect from
  1 April 2016
• Exempted service not to include services provided by way of transportation of goods
  by a vessel from customs station of clearance in India to a place outside India
• Annual return to replace filing of information relating to principal inputs
• New methodology introduced to reduce the litigation with regard to apportionment
  of credit between exempted and non-exempted goods and services
• Input service distributor can also distribute the CENVAT credit in respect of service tax
  paid on the input services to its outsourced manufacturing units
Common changes under Customs Duty/Central Excise Duty/Service Tax

• Interest rates for delayed payment of customs duty are being rationalized at 15%

• Indirect Tax Dispute Resolution Scheme, 2016 is being introduced to provide the assesses an opportunity to settle the cases pending before Commissioner (Appeals), after payment of duty, interest and 25% of penalty

• Period of limitation for cases not involving fraud, collusion, misrepresentation of facts increased as below:

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Time period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Tax</td>
<td>From 18 months to 30 months</td>
</tr>
<tr>
<td>Central Excise Duty and Customs Duty</td>
<td>From 1 year to 2 years</td>
</tr>
</tbody>
</table>

Central Sales Tax (CST)

• An explanation has been added under section 3 of Central Sales Tax Act to provide that where the gas sold or purchased and transported through a common carrier pipeline or any other common transport distribution system becomes co-mingled and fungible with other gas in the pipeline or system and such gas is introduced into the pipeline or system in one State and is taken out from the pipeline in another State, such sale or purchase of gas will be deemed to be a movement of goods from one State to another and hence, liable to CST.

• The amendment will come into effect from a date to be notified.

Goods and Services Tax (GST)

• Government to continue with the ongoing reform program and ensure passage of GST Bill.