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BUDGET2015

REFORMS & PROGRESS THE WAY FORWARD

Impact on Financial Sector

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Foreword

The Finance Minister has laid down broad policies indicating that the Indian economy is about to take off on a fast growth trajectory.

The Indian economy has clearly shown signs of recovery with the estimated growth of the Indian economy in 2014-15, measured by growth in GDP at constant market prices, is pegged at 7.4% as compared to 6.9% during the year 2013-14 and 5.1% during the year 2012-13. The GDP has been calculated with the new base year of 2011-12 as against 2004-05 under which the GDP was estimated at 5.5% for the year 2014-15 as against 4.7% during the year 2013-14 and 4.5% during the year 2012-13. The base year was last revised in January 2010. Also the highlight of the year is that the inflation has declined.

Financial Sector is proved to be the growth driver of the Indian economy. The concerns about asset quality in the banking sector, has not been overcome completely. Further there is a decline in the growth of bank credit by 3.2%. A no. of policy initiatives were taken by the Government of India along with the relevant market regulators to overcome this.

The focus of the Finance Minister this year has remained on the following:

- Creating a functional social security system for all Indians, specially the poor and the under-privileged
- Monetising Gold
- Curb Black Money
- Job creation through 'Make In India'
- Improve ease of doing business - Minimum Government and maximum governance;
- Improve quality of life and public health – Swachh Bharat

The above initiative will, if implemented in a timely manner, foster a sense of confidence in the Indian economy and the projected GDP growth between 8 to 8.5% in 2015-16 should not be far from achievable.

Budget 2015 Highlights-FS

Banking

One of the key achievement is Financial Inclusion - 12.5 crores families financially mainstreamed in 100 days.

One of the game changing reforms on the anvil is Jan Dhan which is devised for direct benefit transfer

Policy initiatives

- Micro Units Development Refinance Agency (MUDRA) Bank, with a corpus of INR 20,000 crores, and credit guarantee corpus of INR 3,000 crores to be created.
- In lending, priority will be given to SC/ST enterprises
- MUDRA Bank will be responsible for refinancing all Micro-finance Institutions which are in the business of lending to such small entities of business through a Pradhan Mantri Mudra Yojana.
- A Trade Receivables discounting System (TReDS) which will be an electronic platform for facilitating financing of trade receivables of MSMEs to be established.
- Comprehensive Bankruptcy Code of global standards to be brought in fiscal 2015-16 towards ease of doing business.
- Postal network with 1,54,000 points of presence spread across villages to be used for increasing access of the people to the formal financial system
- NBFCs registered with RBI and having asset size of `500 crore and above may be considered for notifications as 'Financial Institution' in terms of the SARFAESI Act, 2002.
- An autonomous Bank Board Bureau to be set up to improve the governance of public sector bank.

Direct Tax proposals

- Partial reversal of the decision of the Special Bench in the case of Sumitomo Mitsui Banking Corporation. In the case of Indian branches of foreign banks - Interest received / paid from / to head office (HO) / overseas branches
  - Any interest payable by the Indian Branch to HO / overseas branch will be taxable in India;
  - Withholding provisions would be applicable on interest payable to HO / overseas branches;
  - Non-deduction of tax on interest payment to HO / overseas branches will result in disallowance of expenses and may attract levy of interest and penalty, if applicable.
- Clarified that payment of interest by cooperative banks to its members should be subject to deduction of tax at source.
- Interest exceeding INR 10,000 paid on recurring deposits is subject to withholding tax provisions.
- In case of Banks which have adopted 'Core Banking solutions', it is proposed that interest threshold at bank level instead of at branch level should be aggregated for exemption for the purpose of withholding tax.
- Tax should be withheld from interest on payment basis as against accrual basis on the compensation awarded by the Motor Accident Claim Tribunal, if such amount exceeds INR 50,000.

Implications

- Clarification regarding separate identity to an Indian branch will put an end to a prolonged litigation; Interest received from Head office / overseas branches will be taxable in the hands of an Indian branch;
- Withholding tax liability on interest from recurring deposits may discourage savings in recurring deposits;
- Bank wise withholding tax on interest payment will help in simplifying administrative and e-TDS process. However, in case of Banks having different TANs for different branches may face challenges in administering and payment of TDS.

Indirect Tax proposals

- Consequent to the upward revision in rate of Service Tax, the composition rate on money changing services provided by banks or authorized dealers is to be revised proportionately.
- Any activity relating to use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination for a consideration will attract service tax.

Infrastructure and Investments

Policy initiatives

- Sharp increase in outlays of roads and railways. Capital expenditure of public sector units to also go up.
- National Investment and Infrastructure Fund (NIIF), to be established with an annual flow of INR 20,000 crore to it.
- Tax free infrastructure bonds for the projects in the rail, road and irrigation sectors.
- PPP mode of infrastructure development to be revisited and revitalized.
- Atal Innovation Mission (AIM) to be established in NITI to provide Innovation Promotion Platform involving academicians, and drawing upon national and international experiences to foster a culture of innovation , research and development. A sum of INR 150 crore will be earmarked.
- Concerns of IT industries for a more liberal system of raising global capital, incubation facilities in our Centres of Excellence, funding for seed capital and growth, and ease of Doing Business etc. would be addressed for creating hundreds of billion dollars in value.
- (SETU) Self-Employment and Talent Utilization) to be established as Techno-financial, incubation and facilitation programme to support all aspects of start-up business. INR 1000 crore to be set aside as initial amount in NITI.
- Ports in public sector will be encouraged, to corporatize, and become companies under the Companies Act to attract investment and leverage the huge land resources.
- An expert committee to examine the possibility and prepare a draft legislation where the need for multiple prior permission can be replaced by a pre-existing regulatory mechanism. This will facilitate India becoming an investment destination.
- 5 new Ultra Mega Power Projects, each of 4000 MW, in the Plug-and-Play mode
- Foreign investments in Alternate Investment Funds to be allowed.
- Distinction between different types of foreign investments, especially between foreign portfolio investments and foreign direct investments to be done away with. Replacement with composite caps.
- A project development company to facilitate setting up manufacturing hubs in CMLV countries, namely, Cambodia, Myanmar, Laos and Vietnam.

Implications of the policy initiatives

- Revival of growth and investment and promotion of domestic manufacturing for job creation

Tax proposals

Tax “pass through” to be allowed to both category I and category II alternative investment funds.

The salient features of the special regime are:

- The total income of the investment fund will be charged to tax at -
  - the rate or rates as specified in the Finance Act of the relevant year, where such fund is a company or a firm or
  - at maximum marginal rate in any other case.
- Income of unit holder arising out of investments made in the investment fund shall be chargeable to income-tax in the same manner as if it would have accrued, arisen or received by unit holder if investments made by the investment fund had been made directly by him.
- Profits and gains of business shall be taxable in the hands of the fund. rest of the income is exempt in the hands of the fund.
- Income in the hands of investor which is of the nature of income by way of profits and gain of business at investment fund level shall be exempt.
- Where income, other than income which is taxable at fund level, is payable to the unitholder by the fund, fund will deduct TDS at the rate of 10%.
- The income paid or credited by the investment fund shall be deemed to be of the same nature and in the same proportion in the hands of the unit holder as if it were the income of the investment fund
- If in any year there is a loss at the fund level, such loss would be carried over at fund level to be set off against income of the next year in accordance with the provisions of Chapter VI of the Income-tax Act. The said loss incurred by Investment Fund is not passed to unit holder.

- The provisions of Dividend Distribution Tax or Tax on distributed income shall not apply to the income paid by an investment fund to its unit holders.
- The income received by the investment fund would be exempt from TDS requirement for which a notification would be issued under section 197A(1F) of the Act subsequently.
- The investment fund has to file its return of income and also provide to the prescribed income-tax authority and the investors, the details of various components of income, etc. for the purposes of the scheme.
- The income of the investment fund during a previous year, if not paid to unit holder will be deemed to have been credited to the account of the said person on the last day of the previous year in the same proportion in which such person would have been entitled to receive the income.

Implications of the Scheme

AIF I and II categories are pass through except for business income which is taxed at the fund level. Other incomes are taxed at the investor level. However AIF Category III will still have its challenges and whether the Fund is a determinate or discretionary or fund carrying on business will have to be determined.

- Rationalisation of capital gains regime for the sponsors exiting at the time of listing of the units of REITs and InvITs i.e. long-term capital gains will be exempt and short-term capital gains will be charged @15%
- Rental income of REITs from their own assets to have pass-through facility i.e. it shall be deemed to be income of unit holder and charged to tax accordingly. REITs will deduct tax @10% in case of resident unit holder and at the rates in force in case of non-resident unit holder.

Insurance / Pension Funds

Policy initiatives

- Pradhan Mantri Suraksha Bima Yojna to cover accidental death risk of INR 2 Lakh for a premium of just INR 12 per year.
- Atal Pension Yojana to provide a defined pension, depending on the contribution and the period of contribution. Government to contribute 50% of the beneficiaries' premium limited to INR1,000 each year, for five years, in the new accounts opened before 31st December 2015.
- Pradhan Mantri Jeevan Jyoti Bima Yojana to cover both natural and accidental death risk of INR 2 lakh at premium of INR 330 per year for the age group of 18-50.
- A new scheme for providing Physical Aids and Assisted Living Devices for senior citizens, living below the poeverty line.
- Unclaimed deposits of about INR 3,000 crores in the PPF, and approximately INR 6,000 crores in the EPF corpus. The amounts to be appropriated to a corpus, which will be used to subsidize the premiums on these social security schemes through creation of a Senior Citizen Welfare Fund in the Finance Bill.
- Government committed to the on-going schemes for welfare of SCs, STs and Women.

Direct Tax proposals

- Limit of deduction of health insurance premium increased from INR 15,000 to INR 25,000, for senior citizens limit increased from INR 20,000 to INR 30,000.
- Recipient of amount under life insurance policy can submit Form 15G / 15H with the Insurance Company for non-deduction of tax at source under section 194DA.
- Limit on deduction on account of contribution to a pension fund and the new pension scheme increased from INR 1 lakh to INR1.5 lakh.
- Additional deduction of INR 50,000 for contribution to the new pension scheme u/s 80CCD.

Indirect Tax Proposals

- Consequent to the upward revision of Service Tax rate, composition rate on life insurance services to be revised proportionately.
- Service tax on life insurance services provided by way of Varishtha Pension Bima Yojna exempted.

Capital Markets & Monetising Gold

Policy initiatives

- Enabling legislation, amending the Government Securities Act and the RBI Act included in the Finance Bill, 2015.
- Forward Markets commission to be merged with SEBI.
- Section-6 of FEMA to be amended through Finance Bill to provide that control on capital flows as equity, will be exercised by Government in consultation with RBI.
- Proposal to create a Task Force to establish sector-neutral financial redressal agency that will address grievance against all financial service providers.
- India Financial Code to be introduced soon in Parliament for consideration.
- Government to bring enabling legislation to allow employee to opt for EPF or New

Pension Scheme. For employee's below a certain threshold of monthly income, contribution to EPF to be option, without affecting employees' contribution.
- Gold monetisation scheme to allow the depositors of gold to earn interest in their metal accounts and the jewellers to obtain loans in their metal account to be introduced.
- Sovereign Gold Bond, as an alternative to purchasing metal gold scheme to be developed

Direct Tax proposals
- Transfer of mutual fund units in a consolidating scheme (i.e. existing scheme) for obtaining units of consolidated scheme (i.e. resulting from merger of schemes) shall not be regarded as a taxable transfer. Cost of units of consolidated scheme shall be the cost of such units in the consolidating scheme and period of holding of the units shall include the period for which the units were held in consolidating scheme.
- Provide exemption of the income of Core Settlement Guarantee Fund, which is established by Clearing Corporation (CC), arising from contribution received and investment made by the fund and from penalties imposed by CC, subject to certain conditions.

Indirect Tax Proposals
Mutual fund
- Exemptions on the following services withdrawn:
  - Services provided by a mutual fund agent to a mutual fund or AMC;
  - Services provided by distributor to a mutual fund or AMC,

The mutual fund or AMC to pay service tax on the above mentioned services under the reverse charge mechanism.

Chit Fund
- Services provided by a foreman of chit fund for conducting or organizing a chit in any manner shall be subject to service tax.

General
Policy initiatives
- Objective of stable taxation policy and a non-adversarial tax administration
- Fight against the scourge of black money to be taken forward
  - New structure of electronic filing of statements by reporting entities to ensure seamless integration of data for more effective enforcement (FATCA and OECD CRS implementation)
  - Bill for a comprehensive new law to deal with black money parked abroad to be introduced in the current session.
  - Benami Transactions (Prohibition) Bill to curb domestic black money to be introduced in the current session of Parliament
  - Leverage of technology by CBDT and CBEC to access information from either's data bases
- Job creation through revival of growth and investment and promotion of domestic manufacturing – "Make in India"
- Improve ease of doing business - Minimum Government and maximum governance
- Improve quality of life and public health – Swachh Bharat

Direct Tax proposal
- Domestic transfer pricing threshold limit increased from INR 5 crore to INR 20 crore
- Wealth-tax replaced with additional surcharge of 2 per cent on super rich with a taxable income of over INR 1 crore annually w.e.f. AY 2016-17
- Benefit of reduced withholding tax rate of 5% under section 194LD on interest payable on certain bonds and Government securities has been extended to 30 June 2017.
- Rate of Income-tax on royalty and fees for technical services reduced from 25% (plus surcharge and education cess) to 10% (plus surcharge and education cess).
- A procedure has been prescribed for the Income-tax Department to avoid multiple filing of appeals before the Tribunal in case of the same question of law which is pending disposal before the Supreme Court.
- In case of resident, currently there is a mechanism to claim treaty benefit in-case of income which is taxed in India as well as outside India. But, there is no procedure

to grant credit for tax paid outside India. The CBDT may make rules to provide procedure for granting relief or deduction of any income tax paid in any country outside India.

It is clarified that the tax benefits shall be available only with respect to GDRs issued to investors against the issue of equity shares listed in India or FCCBs of the issuing company.

- Donation made to National Fund for Control of Drug Abuse (NFCDA) to be eligible for 100% deduction u/s 80G of Income-tax Act
- 100% deduction for contributions, other than by way of CSR contribution, to Swachh Bharat Kosh and Clean Ganga Fund
- No requirement to deduct tax at source under section 194C in case of payment on account of transport charges made to a contractor who is engaged in the business of transport and who is eligible to compute income tax under presumptive taxation. It is mandatory to obtain PAN.
- Only an independent Chartered Accountant (who is eligible to be appointed as an independent auditor of a company) is allowed to be appointed to furnish reports / certificates under the Act in respect of the company.
- The expression 'erroneous in so far as it is prejudicial to the interest of the revenue' used under section 263 of the Income-tax Act has been clarified with providing specific instances.
- Acceptance or re-payment of an advance of INR 20,000 or more in cash for purchase of immovable property to be prohibited.
- PAN being made mandatory for any purchase or sale exceeding Rupees 1 lakh.
- Third party reporting entities would be required to furnish information about foreign currency sales and cross border transactions.
- Provision to tackle splitting of reportable transactions.
- Simplification of tax procedures.
- Monetary limit for a case to be heard by a single member bench of ITAT increase from INR 5 lakh to INR 15 lakh.
- Seized cash can be adjusted towards assessees tax liability
- The share of a member (being a company) of an association of persons (AOP) in the income of an AOP, on which no income-tax is payable shall be excluded and corresponding expenses shall be added back while computing income under Minimum Alternate tax (MAT) provisions.
- Interest on defaults in payment of advance tax under section 234B shall be computed @1% from 1st day of the assessment year:
  - upto the date of reassessment order or order passed as a result of search or requisition.
  - upto the date of filing application before Settlement Commission on the additional income-tax declared.
  - upto the date of Settlement Commission's order on additional income as a result of Settlement Commission order.

  These proposals will take effect from 1 June 2015
- Amendments related to TDS process:
  - Fee payable for late furnishing of TDS Statements shall be computed at the time of processing of TDS returns.
  - If tax deducted has been paid to credit of Central Government through book entry, a prescribed statement shall be submitted within such prescribed time. Failure to submit such statement shall result in a penalty of INR 100 for each day of default subject to limit of the tax deductible.
  - The employer shall obtain evidence or proof or particulars of the prescribed claim (including set off of loss), while computing tax deductible from salary of the employees.
  - Penalty of INR 1,00,000 shall be levied for non-furnishing of Form 15CA (Form for furnishing information of payment of any sum to non-residents).

  These proposals will take effect from 1 June 2015
- The cost of acquisition of an asset acquired by resulting company shall be the cost for which the demerged company acquired the capital asset as increased by the cost of improvement incurred by the demerged company.
- Penalty for concealment of income or furnishing inaccurate particulars of income would also apply where the provisions of section 115JB and 115JC (MAT and AMT) apply.
- Payment of accumulated provident fund balance to suffer tax deduction at 10% provided it is taxable in the individual hands (based on the conditions laid down in the Rule 8 of Part A of the Fourth Schedule)
  - No such deduction to be made if the payment is less than INR 30,000
  - In absence of PAN, tax to be deducted at 30%

  This proposal will take effect from 1 June, 2015.

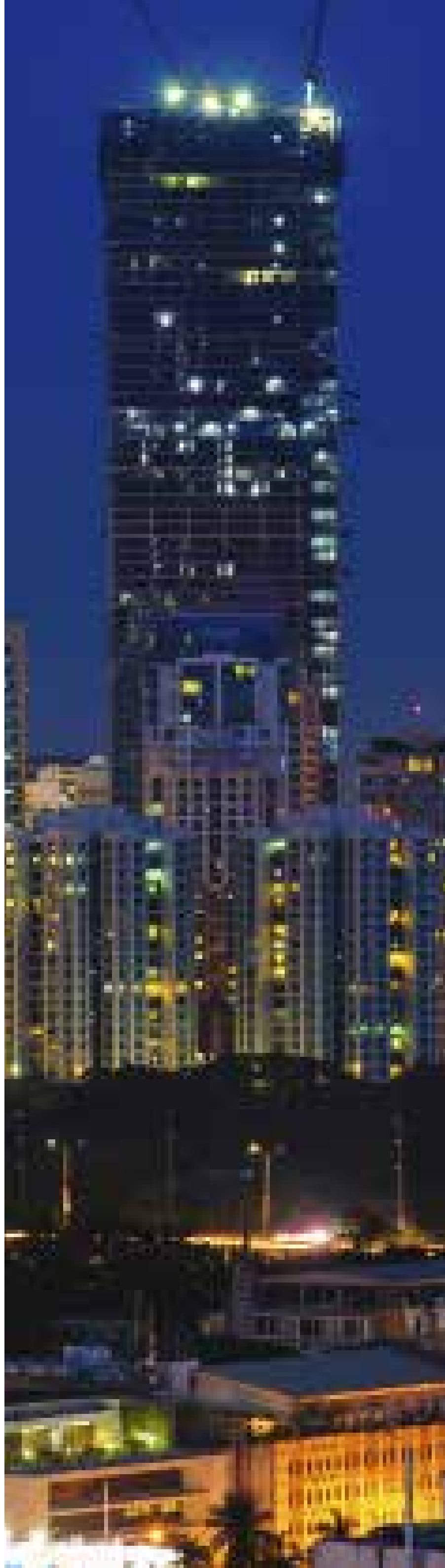


Table for rate of tax applicable to the companies

Particulars	Tax rate under Normal provisions (%)			Rate of Tax under Minimum Alternate Tax (%)			DDT Rate (%)
	Taxable Income < INR 1 crore	Taxable Income > INR crore but < INR 10 crores	Taxable income > INR 10 crores	Taxable Income < INR 1 crore	Taxable Income > INR 1 crore but < INR 10 crores	Taxable income > INR 10 crores	
Domestic Company	30.9	33.063	34.608	19.055	20.38885	21.3416	20.3576
Foreign Company	41.2	42.024	43.26	19.055	19.4361	20.00775	NA

Indirect Tax proposals

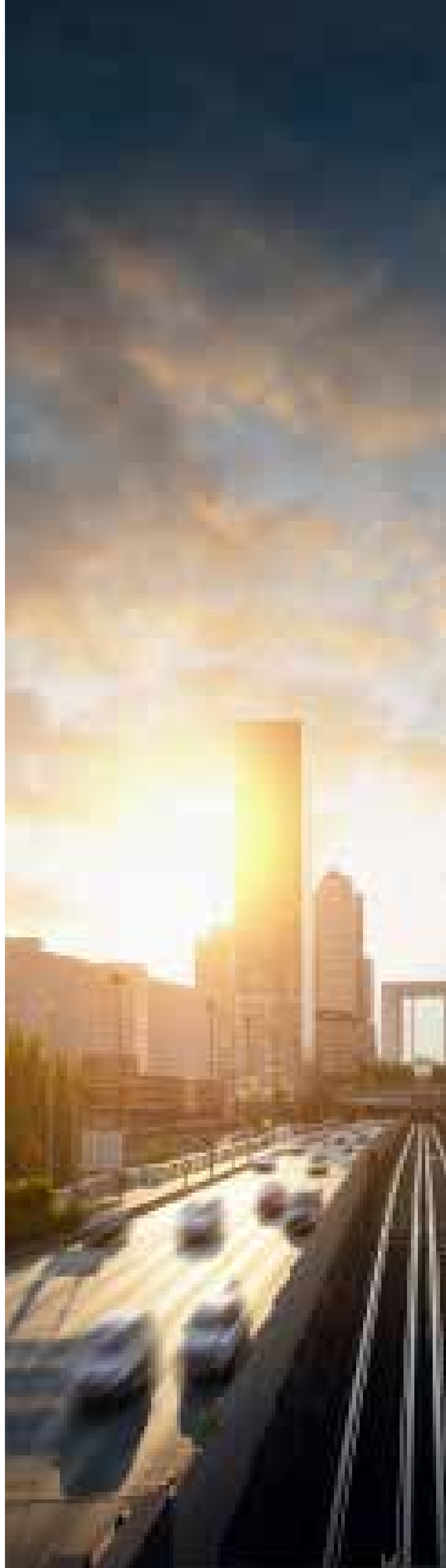
Proposed changes in rate of Service Tax

- The rate of service tax on taxable services will be increased from the present 12.36% (inclusive of cesses) to 14%. The new rate shall come into effect from a date to be notified by the Central Government after the enactment of the Finance Bill, 2015.
- Further, the Central Government has been empowered to impose a Swachh Bharat Cess on all or any of the taxable services at a rate of 2% on value of such taxable services.

Significant Legislative changes in Service Tax

- The definition of the term 'Consideration' for taxable services has been amended to include any reimbursable expenses or cost incurred and charged by the service provider in the course of providing a taxable service.
- Provisions relating to penalty for service tax matters have been rationalized as per following:

In respect of cases not involving fraud or collusion or willful misstatement or suppression of facts or contravention of any provisions of any provision with intent to evade tax	In respect of cases involving fraud or collusion or willful misstatement or suppression of facts or contravention of any provisions with intent to evade tax
• Penalty not to exceed 10% of service tax amount involved; • No penalty to be paid, if service tax and interest is paid within 30 days of issuance of show cause notice; • 25% of the penalty confirmed in the order, if the same is paid along with service tax and interest within 30 days of such order.	• Penalty shall be 100% of service tax amount involved; • 15% of service tax amount shall be payable as penalty, if service tax and interest is paid within 30 days of issuance of show cause notice; • 25% of the service tax demand confirmed in the order, if the same is paid along with tax and interest within 30 days of such order.



Significant compliance and procedural changes

- Service Tax Registration to be issued online within two working days without any examination of documents and verification of documents, verification of documents to be carried out subsequently.
- Provisions relating to authentication of invoices by means of digital signature and preservation of service tax in electronic form introduced
- Time limit for taking CENVAT Credit on inputs and input services increased from six months to one year from the date of issue of invoice.
- Cenvat Credit of service tax paid under partial reverse charge can be availed on payment of service tax.
- Manpower supply and security services received from non- corporate service providers to be covered under full reverse charge mechanism instead of partial reverse charge mechanism.

Goods and Services Tax (GST)

- The Government expressed its resolve to introduce GST from April 1, 2016.

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