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India Budget highlights

A change in direction

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Direct Taxes

Personal Taxation

- The personal tax exemption limit has been increased by ₹50,000 which will result in a tax benefit of ₹5,000 (excluding surcharge and cess)

Tax rate	Current slabs (₹)	Proposed slabs as per Finance Bill 2014 (₹)
Nil	Up to 200,000*	Up to 250,000
10%	200,001 – 500,000	250,001 – 500,000
20%	500,001 – 1,000,000	500,001 – 1,000,000
30%	1,000,001 and above	1,000,001 and above

* ₹300,000 for senior citizens who are of the age of 60 years or more but less than 80 years

- The monthly wage ceiling under the Employee's Provident Fund Scheme increased from ₹6,500 to ₹15,000 per month to extend social security coverage for more employees
- Minimum monthly pension to be increased to ₹1,000
- Employees Provident Fund Organization to launch Uniform Account Number Service to facilitate portability of accounts
- The limit on deduction allowed in respect of interest payable on housing loan for self-occupied property increased from ₹150,000 to ₹200,000
- The rollover relief in respect of capital gains taxation, available on transfer of long-term asset, restricted to investment made in only one residential house situated in India

Corporate Taxation

Dividend / Income Distribution Tax computation base revised

- Tax on dividends to be distributed by domestic companies and on income to be distributed by specified mutual funds to be computed on the grossed up amount of dividend / income, instead of the net amount paid – applicable from 1 October 2014

Investment allowance to a manufacturing company extended

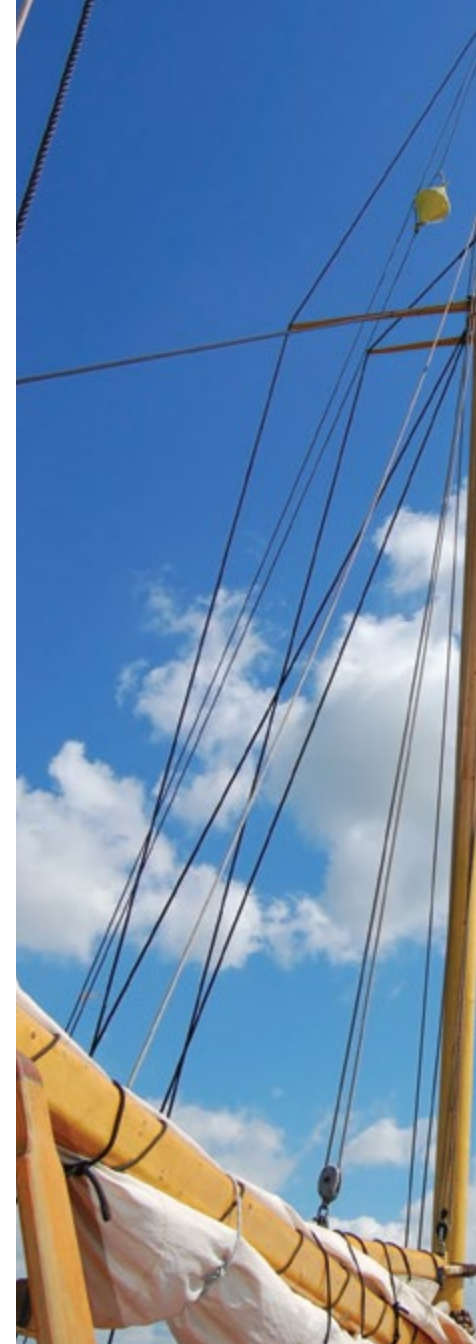
- The benefit of investment allowance of 15% of the cost of new assets in case of manufacturing companies investing more than ₹100 crores in new plant and machinery is extended to investments made till 31 March 2017
- In addition to the above, investments exceeding ₹25 crores in new plant and machinery on or after 1 April 2015 eligible for investment allowance of 15% of such investment

Extension of sunset clause for power sector undertakings

- Sunset date for the power sector undertakings to commence eligible activity extended from 31 March 2014 to 31 March 2017

Concessional rate of withholding tax on interest

- The concessional withholding tax rate of 5% is applicable to interest on monies borrowed in foreign currency upto 30 June 2017 under any loan agreement, or on all long-term bonds





Dividends from specified foreign company

- Beneficial tax rate of 15% on dividend income from specified foreign company extended indefinitely

Presumptive taxation

- Presumptive income for all type of goods carriages now uniform and increased to ₹7,500 per vehicle, per month

Capital gains taxation

- Exemption from capital gains tax provided on transfer of Government security outside India by a non-resident to another non-resident
- Maximum exemption from capital gains tax on account of investment in specified bonds capped to ₹5,00,000 in aggregate even if investment made in two different financial years
- Unlisted security and mutual fund units (other than equity oriented fund) to be treated as long-term capital asset only if held for more than 36 months instead of 12 months
- Concessional tax rate of 10% on long-term capital gains not available to mutual fund units

Speculation loss

- Companies whose principle business is trading in shares carved out from the applicability of the deeming provisions of speculation loss

Filing of returns / statements by Mutual Funds and Securitisation Trusts

- Filing of return of income by Mutual Funds and Securitisation Trusts made mandatory
- Annual filing of dividend distribution statements by Mutual Funds and Securitisation Trusts dispensed off

Alternate Minimum Tax (AMT)

- Applicability of AMT extended to tax payers claiming deduction in respect of specified business under section 35AD
- Tax credit of AMT paid allowable even in the year in which provisions of AMT are not applicable

Disallowance of expenditure for non-withholding of tax

- Expenditure subject to withholding tax not disallowable in case of non-residents if such tax is deposited on or before the due date of filing tax return
- Disallowance of expenditure payable to residents on account of non-withholding or non-payment of tax restricted to 30% of such expenditure; however, all payments subject to withholding tax made to residents liable to such disallowance

Corporate Social Responsibility (CSR)

- Expenditure incurred on CSR activities as specified in Companies Act, 2013 will not be allowed as deduction unless otherwise allowable

Taxable payments under life insurance policy

- Any taxable sum of ₹100,000 and above received under a life insurance policy subject to withholding tax @ 2%

New Taxation Regime for Real Estate Investment Trust (REIT) and Infrastructure Investment Trust (Invit)

- Taxation regime introduced for REIT and Invit to be set up in accordance with SEBI regulations
- Investment model of REITs and Invits (referred to as 'Business Trusts') will have the following elements:
 - Business trust to raise capital through issue of listed units or may raise debt from resident and non-resident investors
 - Business trust to acquire controlling or other specific interest in the Indian SPV from sponsor
- Salient features of the tax regime are as under:
 - Listed units of business trust when traded on stock exchange shall be liable to STT and subject to the same treatment for capital gains as that of equity shares i.e. long-term capital gains exempt and short-term capital gains taxable at the rate of 15%. If such units are traded outside stock exchange (non STT paid), then long-term capital gains will be taxable @ 10% and short-term capital gains will be taxable @ 30%
 - Capital gains arising to sponsor on exchange of shares in SPVs for the units in business trust deferred till disposal of such units in the business trust. On disposal of such units:
 - a. Cost of units shall be the cost of shares in SPV to the sponsor

- b. The period of holding of shares by sponsor shall be included in calculating the period of holding for units in the business trust
- Interest income received by business trust from SPV will not be taxable i.e. pass through. However, business trust to withhold tax on the interest component of income distribution @ 10% when distributed to resident unit holders and @ 5% when distributed to non-resident unit holders
- Benefit of reduced withholding tax rate of 5% on interest on external commercial borrowings available to business trust
- Dividend distributed by SPV subject to dividend distribution tax but exempt in the hands of the business trust
- Capital gains arising on disposal of assets of the business trust taxable in the hands of the business trust
- Dividend /capital gains portion of the income distributed by business trust to unit holders exempt in the hands of unit holders
- Any other income of the trust is taxable at maximum marginal rate

Advance received for aborted transfer of capital asset

- Presently, advance received for transfer of capital asset when forfeited is reduced from cost of acquisition of such capital asset. Such forfeited advance will now be taxable as income under the head 'income from other sources'

Taxability of enhanced compensation on compulsory acquisition of capital asset

- Enhanced compensation received on compulsory acquisition of capital asset





in pursuance of an interim order of Court, Tribunal or other authority taxable in the previous year in which final order of such Court, Tribunal or other authority is made

Others

- Central Government to notify accounting standards for computation of income and disclosures for particular class of tax payers or class of incomes
- Central Government to provide rules for applicability, registrations, and compliance in respect of annual information statement
- Powers of income tax authorities in survey and for calling information enhanced
- Detailed procedure introduced for reference by the assessing officer to valuation officer for estimating the value of investments, fair market value of property, etc
- Acceptance / repayment of loans and deposits through electronic clearing systems recognized as acceptable mode of payment
- Rigorous imprisonment upto 1 year and fine in case of willful failure to produce accounts and documents
- Time limits barring order on withholding tax default extended to seven years from the end of the financial year in which withholding tax obligation arises

Transfer Pricing

Roll-back of Advance Pricing Agreement (APA) to prior years

- Under current provisions, APAs entered into between taxpayers and Indian tax authorities apply prospectively i.e. for a maximum period of future five years. It is proposed that APAs could now also have retrospective effect to cover up to four past years prior to the first prospective year covered under the APA
- Under the roll-back provisions, the APA could provide for determination of the arm's length price or the methodology of determination of arm's length price for the international transactions of the prior years
- Roll-back provisions could thus enable taxpayers to attain certainty in their transfer prices of international transactions for upto nine years in total
- The provisions are proposed to be applicable from 1 October 2014 and the detailed conditions, procedure, etc. would be prescribed later

Deemed international transactions include transactions with residents

- The current Transfer Pricing (TP) regulations contain a deeming provision covering transactions with unrelated parties within the ambit of TP law in certain circumstances
- There were doubts on the interpretation of the deeming provision and its applicability in case of transactions with resident third parties in such circumstances
- It is proposed to amend the said provision to provide that the deeming provision would also apply to cases where the third party is an Indian resident, once the currently prescribed conditions are fulfilled

Introduction of range concept for determination of Arm's Length Price

- The range concept is proposed to be introduced for determination of arm's length price to align the Indian TP regulations with international best practices
- The current concept of arithmetic mean is proposed to be continued in cases where the number of comparables is inadequate
- The detailed rules in this regard would be notified subsequently

Use of Multiple Year data for comparability analysis

- It is proposed that use of multiple year data (instead of single year data) would be allowed for comparability analysis
- The detailed rules in this regard would be notified subsequently

Transfer Pricing Officer (TPO) also empowered to levy penalty

- It is proposed that the TPOs would also be authorized to levy penalty for non-furnishing of Transfer Pricing documentation by taxpayers



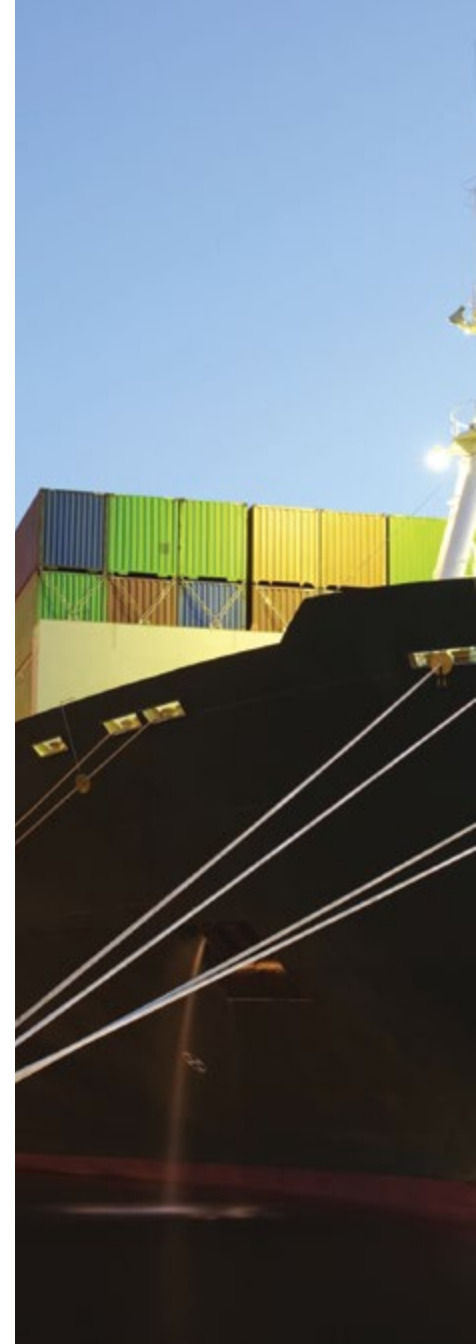
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Indirect Taxes

Customs Duty

- Standard rate of BCD is maintained at 10%
- BCD is being increased on import of the following goods:
 - Half-cut or broken diamond from 'Nil' to 2.5%
 - Cut and polished diamonds including lab-grown diamonds and colored gemstones from 2% to 2.5%
 - Specific stainless steel flat products from 5% to 7.5%
 - Specified telecommunication products, which are not covered under the Information Technology Agreement, from 'Nil' to 10%
- BCD is being reduced on import of the following goods:
 - Fatty acids, crude palm stearin, RBD and other palm stearin and specified industrial grade crude oil for manufacture of soaps and oelochemicals subject to actual user condition from 7.5% to 'Nil'
 - Crude glycerine for manufacture of soaps from 12.5% to 'Nil' and for any other purpose subject to actual user condition from 12.5% to 7.5%
 - Denatured ethyl alcohol from 7.5% to 5%
 - Steel grade dolomite and steel grade limestone from 5% to 2.5%.
 - Crude naphthalene from 10% to 5%
 - Machinery, equipments, etc. required for initial setting up of compressed biogas plant (Bio-CNG) to 5%
 - Ships imported for breaking up from 5% to 2.5%
 - LCD and LED TV panels of below 19 inches from 10% to 'Nil'
 - Colour picture tubes for manufacture of cathode ray TVs from 10% to 'Nil'
 - E-Book readers from 7.5% to 'Nil'
- Custom duty on import of various types of agglomerated coal is rationalized to BCD of 2.5% and CVD of 2% to keep the rate of customs duty uniform
- BCD and CVD on machinery, equipment, etc. required for initial setting up of solar energy production projects is reduced to 5% and 'Nil', respectively
- Full exemption from BCD is provided on import of specified parts of LCD and LED panels for TVs
- Exemption from Special Additional Duty is being provided on following:
 - Parts and raw materials required for use in the manufacture of 'wind operated' electricity generators
 - inputs/components used in the manufacture of Personal Computers (laptops/desktops) and tablet computers, subject to actual user condition
 - Specified inputs (PVC sheet & Ribbon) used in the manufacture of smart cards
- Export duty on bauxite is being increased from 10% to 20%
- Free baggage allowance is increased from ₹35,000 to ₹45,000
- Inputs / raw materials imported by an EOU and cleared into DTA as such or used in the manufacture of final products and cleared into DTA to attract safeguard duty, as was leviable when the same was imported into India
- Customs duties on mineral oils including petroleum and natural gas extracted or produced in the continental shelf of India or the exclusive economic zone of India shall not be recovered for the period prior to 7 February 2002
- Mandatory fixed pre-deposit of:
 - 7.5% of duty demanded or penalty imposed or both for filing appeal with the Commissioner (Appeal) or the Tribunal at the first stage; and





– Additional 10% of the duty demanded or penalty imposed or both for filing second stage appeal before the Tribunal

The amount of pre-deposit payable would be subject to a ceiling of ₹10 crore

- The scheme of 'Advance Ruling' is extended to Resident Private Limited Companies

Central Excise Duty

- Standard rate maintained at 12%
- Excise duty increased on the following:
 - On cigarettes in the range of 11% to 72%
 - Pan masala from 12% to 16%
 - Unmanufactured tobacco from 50% to 55%
 - Jarda scented tobacco, gutkha, chewing tobacco from 60% to 70%
 - Recorded smart cards from 2% (without CENVAT credit) and 6% (with CENVAT credit) to uniform 12%
- Additional duty of excise at 5% on aerated water containing added sugar
- Clean Energy Cess increased from ₹50 per tonne to ₹100 per tonne.
- Excise duty reduced on the following:
 - Branded Petrol from ₹7.50 per litre to ₹2.35 per litre
 - Footware of (retail price between ₹500 per pair to ₹1000 per pair) from 12% to 6%
- Concessional excise duty of 2% (without CENVAT credit) and 6% (with CENVAT credit) is extended to following products:
 - Gloves specially designed for use in sports

– Polyester Staple Fiber and Polyester Filament Yarn

- Education cess and secondary and higher education cess (customs component) is exempted on goods cleared by an EOU into DTA
- Third Schedule to the Central Excise Act, 1944 aligned with notification issued for assessment based on Retail Sale Price (RSP)
- Central Government to prescribe an authority or agency to whom the information return shall be filed by the specified persons
- Mandatory fixed pre-deposit of:
 - 7.5% of duty demanded or penalty imposed or both for filing appeal with the Commissioner (Appeal) or the Tribunal at the first stage and
 - Additional 10% of the duty demanded or penalty imposed or both for filing second stage appeal before the TribunalThe amount of pre-deposit payable would be subject to a ceiling of ₹10 crore
- Appeal against Tribunal orders in matters relating to taxability or excisability of goods would lie before the Supreme Court
- Transfer of credit by a Large Taxpayer Unit (LTU) from one unit to another unit discontinued
- Subject to certain exceptions, e-payment mandatory for all assessees
- In case of default in payment of duty, assessee shall on his own pay a penalty of 1% per month on the amount of duty not paid for each month or part thereof
- Assessment of excise duty to be done on transaction value in the cases where excisable goods are sold at a price below the manufacturing cost and profit and there is no additional consideration flowing from the buyer to the

- assessee directly or from a third person on behalf of the buyer
- Scheme of Advance Ruling extended to Resident Private Limited Companies.
- Definition of 'place of removal' *pari materia* to definition given in Section 4 of Central Excise Act, 1944 included in the CENVAT Credit Rules, 2004
- In case of service tax paid under full reverse charge, the condition of payment of invoice value to the service provider for availing credit of input services is being withdrawn
- Re-credit of CENVAT credit reversed on account of non-receipt of export proceeds within the specified period or extended period, to be allowed, if export proceeds are received within one year from the period so specified or the extended period. This can be done on the basis of documents evidencing receipt of export proceeds
- With effect from September 2014, a manufacturer or a service provider shall take credit on inputs and input services within a period of six months from the date of issue of invoice, bill or challan

Service Tax

- Service Tax rate remains unchanged

Changes made with immediate effect

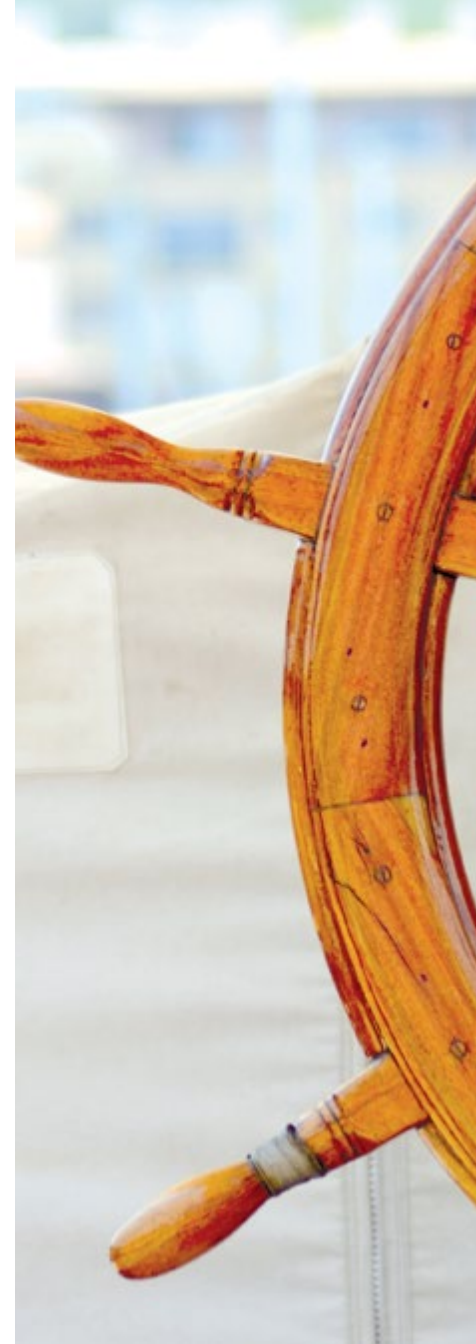
- Exemption available to services provided by way of renting of immovable property to educational institutions stands withdrawn
- Certain services received by educational institutions providing services specified in negative list will only be eligible for service tax exemption
- Exemption granted to services provided to Government or local authority or

governmental authority has been restricted to specified functions ordinarily performed by municipality

- Services provided by a Director to a body corporate have been brought under the reverse charge mechanism
- Services provided by recovery agents to banks, financial institutions and NBFC have been brought under the reverse charge mechanism
- Services provided by goods transport agency in relation to transportation of goods will be eligible for abatement on fulfilment of stipulated condition of non-availment of CENVAT credit by service provider. Service recipient will not be required to establish satisfaction of the condition by the service provider.
- Service of transportation of passengers by air-conditioned contract carriage has been made taxable and an abatement of 60% shall be available subject to fulfilment of conditions
- Resident private limited company is being included as a class of persons eligible to make an application for Advance Ruling in service tax.
- SEZ procedures for claiming exemption for procurement of input services have been simplified
- Service tax exempted on loading, unloading, storage, warehousing and transportation of cotton, whether ginned or baled
- Exemption available for specified micro-insurance schemes expanded to cover all life micro-insurance schemes where the sum assured does not exceed ₹50,000 per life insured

Changes made w.e.f. 1 October, 2014

- Abatement for all works-contract services, except those in relation to original





- works, will be restricted to 30%
- Variable rates of interest have been notified depending upon the extent of delay in discharge of service tax. The rates vary from 18% to 30%
- E-payment of service tax has been made mandatory except where relaxation is allowed by Deputy Commissioner / Assistant Commissioner on case to case basis
- Under the Place of Provision of Services Rules, 2012, the following changes have been made:
 - Rule regarding place of performance of service shall not apply to goods imported for repair which are exported after repair without being put to any use other than that which is required for such repair;
 - Definition of intermediary has been amended to include intermediary of goods;
 - Place of provision of services in respect of services consisting of hiring of vessels (excluding yachts) or aircrafts will be the location of recipient of service
- Point of taxation in respect of reverse charge will be the payment date or the first day that occurs immediately after a period of three months from the date of invoice, whichever is earlier
- CENVAT credit shall be available for rent-a-cab services received by the main contractor from a sub-contractor. Where service provider avails abatement, whole CENVAT credit would be allowed and in case where service provider does not avail abatement the credit shall be restricted to 40% of the credit of the input service
- Tour operator service providers are also being allowed to avail CENVAT credit

- on the input service of another tour operator, which are used for providing the taxable service
- Taxable portion in respect of transport of goods by vessel is being reduced from 50% to 40%
- Service provider and recipient of rent-a-cab services would be liable to discharge 50% each of service tax liability in cases where service provider does not take abatement

Changes which would be made effective upon enactment of the Finance Bill

- Services provided by the Employees' State Insurance Corporation for the period prior to 1 July 2012, exempted from service tax
- Certain Sections of Central Excise have been made applicable to the provisions of service tax
- Mandatory fixed pre-deposit of:
 - 7.5% of service tax demanded or penalty imposed or both for filing appeal with the Commissioner (Appeal) or the Tribunal at the first stage and
 - Additional 10% of the service tax demanded or penalty imposed or both for filing second stage appeal before the TribunalThe amount of pre-deposit payable would be subject to a ceiling of ₹10 crore
- Time-limits for completion of adjudication prescribed
- Withdrawal of power to waive 50% penalty imposable in cases where extended period of limitation is invocable but details of transactions are available in specified records



- Joint Commissioner / Additional Commissioner or any other officer notified by the Board can authorize any Central Excise Officer to search and seize.
- Power to recover dues of a predecessor from the assets of a successor purchased from the predecessor incorporated

Changes which will become effective from a date to be notified after enactment of the Finance Bill

- Sale of space or time for advertisements in broadcast media, extended to cover such sales on other segments like online and mobile advertising. Sale of space for advertisements in print media would however remain excluded from service tax
- Services provided by radio-taxis brought under service tax
- Rules for determination of rate of exchange for calculation of taxable value in respect of certain services will be prescribed in due coursew



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