



Union Budget 2014-2015 : Tax & Trade Policy

GST

- Finance minister Indicates early introduction of Goods and Service Tax (GST). Indicates towards end of debate and solution of various issues within this year.

Tax Administration

- Reaffirms right of the Indian Government to undertake retrospective legislation but indicates that such right needs to be exercised with utmost caution. Assures that this government will not bring any more retrospective amendments. Commits that his government will provide a stable and predictable taxation regime that would be investor friendly & spur growth. Any fresh cases relating to such retrospective amendments shall be first scrutinized by high level committee constituted by the CBDT. Finally indicates that cases like Vodafone and other cases which have come up due to retrospective amendments done in finance act 2012 will take its own due legal course.

Advance Ruling and Other matters

- Tax demands under disputes & litigation have gone up by more than INR 4 lakh crore, to mitigate the same facility for advance ruling extended to residents. Additional benches to be introduced in authority for advance ruling. Scope of income tax settlement commission to be enhanced. A high level committee to be constituted which will interact with industry on a regular basis ascertaining areas which require clarity in tax laws. On the basis of any recommendation from such committee CBDT & CBEC shall issue appropriate clarifications. The above measure shall improve the overall tax climate & provide clarity and certainty

FDI

- FDI in defense and insurance increased to 49 percent through FIPB route. Certain relaxation in FDI norms for encouraging development of smart cities.

Real estate investment Trust

- Real estate and infrastructure investment trust to have a pass through tax status. These trust to reduce pressure on banking system.

Employee Provident Fund

- Minimum pension of INR 1,000 introduced to all subscriber members of EP scheme. The mandatory wage ceiling of subscription to EPS from INR 6,500 to INR 15,000. EPFO will launch the “uniform account number” service for contributing members to facilitate portability of Provident fund accounts.

Special Economic Zones

- Government is committed to revive the special economic zones and make them effective instruments of industrial production.

Micro, Small & Medium Enterprises

- INR 10,000 crore fund to be established, which will act as a catalyst to attract private capital by way of providing equity, quasi equity , soft loans and other risk capital for start – up companies

Financial Sector

- Liberalized facility of 5 % withholding tax extended to all bonds issued by Indian corporate abroad for all sectors to 30-06-2017
- ADR /GDR regime to be liberalized to allow issuance of depository receipts on all permissible securities

- International settlement of all Indian Debt securities to be allowed
- Bharat Depository receipt to be introduced and Indian depository receipt to be revamped
- Introduction of uniform KYC norms and inter-usability of the KYC records across the entire financial sector
- Introduction of one single operating demat account so that Indian financial sector consumer access and transact all financial assets through this one account

IFRS

- International Financial reporting standard based Indian accounting standards (Ind AS) to be voluntarily adopted by Indian companies from financial year 2015-2016 and to be mandatorily adopted from financial year 2016-2017. Separate dates to be notified for sectors like banking & insurance

Tax Accounting Standards

- Standards for computation of tax would be notified separately

Public Provident Fund

- Public Provident Fund (PPF) Limit Increased from INR 1 Lac to INR 1.5 lacs

Kisan Vikas Patra

- Kisan Vikas Patra is reintroduced

Union Budget 2014-2015 : Direct Tax Proposals

Tax Rates

- Income tax exemption limit for Individuals & HUF increased from INR 2,00,000 to INR 2,50,000 and for Senior Citizens, it is increased from INR 2,50,000 to INR 3,00,000. No Change in exemption limits for super-senior citizens
- No change in tax rates for company, firms, society, LLP & AOP
- Surcharge and education cess remain same.

Personal Tax Proposals

- Deduction u/s 80C increased from INR 1laks to INR 1.5 lacs
- Maximum interest deduction on housing loan for self -occupied house increased from INR 1,50,000 to INR 2,00,000
- Employees of private sector would be eligible to take the benefit of deduction in respect of notified pension scheme irrespective of date of joining

Corporate Tax Proposal

- GAAR applicability not deferred - applicable from 1 April 2015
- Additional investment allowance of 15% to manufacturing undertakings investing more than INR 250 million per year in Plant and machinery upto March 31, 2017
- 10-year tax holiday to undertakings that begin generation, distribution and transmission of power by 31 March, 2017

- For set-off or carry forward and set-off of losses, business of trade in shares excluded from the definition of speculation business
- Trade in commodity derivatives on a recognized association and chargeable to commodities transaction tax shall not be considered as speculative transaction
- Deduction for payments made to non-residents allowed as deduction, if tax is deposited on or before the due date of filing return
- Disallowance on account of non-deduction or non-payment of tax deducted at source on payments made to residents shall be restricted to 30% of the amount of expenditure claimed
- Expenditure on the corporate social responsibility (CSR) will not ordinarily be allowed as deduction u/s 37(1)

Transfer pricing proposals

- Roll back mechanism introduced in APA scheme. APAs which could earlier apply from FY 2013-14 onwards may now extend to previous four years i.e. FY 2009-10 onwards (*Applicable from October 1, 2014*)
- APA team to be strengthened to expedite disposals
- Range concept alongside arithmetic mean and use of multiple year data proposed to be introduced to determine arm's length price and align India's regulations with global best practices
- Transactions with a domestic unrelated party clarified to be covered as an

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international transactions if it meets specified conditions

- TPO now have the authority to levy penalty u/s 271G

Dividend Distribution Tax ('DDT') Proposals

- Grossing up provisions introduced for computing DDT on dividend to be paid by companies. Similar provisions introduced for Mutual Funds (*Applicable from October 1, 2014*)
- Tax rate @15% u/e 115BBD will continue indefinitely

Capital Gain proposals

- Securities held by FIIs (invested in prescribed manner) will be treated as capital asset. Income from transfer of such securities will be capital gains
- Unlisted securities and units of mutual fund (other than equity-oriented mutual funds) held for less than thirty-six months, shall be considered as short-term capital asset

Other proposals

- Advance money received in negotiation of transfer of capital asset is taxable u/s 56, if such sum is forfeited and property not transferred
- TDS @ of 2% in respect of payment made to resident under Life insurance policy (Threshold limit 1lakhs) (*Applicable from October 1, 2014*)
- Procedural amendments w.e.f. October 1, 2014 to provide for filing of WHT

correction statement. Also consequential amendment enabling processing of correction statements filed.

- Deduction u/s 35AD not available if exemption claimed u/s 10AA
- Section 44AE amended- estimated income will be INR 7500 or amount earned whichever is higher
- Stringent powers granted for verification of TDS/ TCS; tax officers proposed to be empowered to enter premises
- Obligations under Annual Information Return (AIR) proposed to be widened to facilitate effective exchange of information in respect of residents and non-residents. Proposed penalty for furnishing incorrect information - INR 50,000
- Exemption u/s 54 available only for purchase and construction of one residential house property
- Concessional tax rate of 5% available for interest on all long-term bonds (earlier only infrastructure bonds) if bonds issued upto 1 July, 2017
- Section 11 modified to avoid claim of depreciation in respect of acquisition of capital asset which is claimed as application
- No general exemption to trust as registered for specific exemption
- Explanation to "substantially financed by Government" inserted u/s 10(23C)
- U/s 12AA scope of cancellation of registration of trust or institution widened
- Amendment in mode of computation of tax u/s 115BBC
- It is proposed that any order treating a person as an 'assessee in default' in not withholding tax on payments made to a

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resident, can be passed at any time within seven years from the end of the financial year in which the payment is made or credit is given. This is a substantial change in the limitation period for passing of such orders from the existing law where such orders could be passed only within two years, where a quarterly WHT statement is filed or after six years in other cases. The amendment shall take effect from October 1, 2014.

Dispute Resolution Proposals to be legislated separately

- **Scheme of Advance Rulings proposed to be made extended to resident taxpayers also**
- **More AAR Benches to be constituted**
- **Scope of Settlement Commission proposed to be enlarged**

Union Budget 2014-2015 : Indirect Tax Proposals

Service Tax – Amendments to be effective from a date to be notified

Review of Negative List

- Service tax levy on sale of space and time for advertisements to be extended to include online and mobile advertisements. Advertisements in print media continue to be exempt.
- Services provided by radio taxis/cabs to be taxable at abated rates applicable to rent-a-cab operator services.

Service Tax – Amendments to be effective from 11 July 2014

Withdrawal of exemptions:

- *air conditioned contract carriages other than for the purpose of tourism, conducted tour, charter or hire*
- *technical testing or analysis of newly developed drugs on human participants by a clinical research organization*
- *Services in relation to renting of immovable property to educational institutions*
- *Consultancy, designing etc. provided to Government or local authority*
- Exemption to 'auxiliary educational services' received by an educational institution replaced with a specific list of services received by an educational institution such as transportation of students, staff, etc, catering, security, cleaning, etc.

- Value of service portion in works contract relating to movable and immovable property aligned to 70% (effective from 1 October 2014)

New Exemptions:

- *Services provided by a tour operator to a foreign tourist in relation to tour conducted wholly outside India*
- *Life micro-insurance schemes for the poor, approved by IRDA, where sum assured does not exceed rupees fifty thousand*
- *Transportation of organic manure, cotton by vessel, rail or road*
- *Loading, unloading, packing, storage or warehousing, transport by vessel, rail or road, of cotton, ginned or baled*
- *Services provided by common bio-medical waste treatment facility operators to clinical establishments*
- *Received by RBI from outside India in relation to management of foreign exchange reserves*
- *Retrospective exemption to services provided by Employees' State Insurance Corporation (ESIC) during the period prior to 1 July 2012*
- With effect from 1 October 2014, there would be variable simple interest rates (18% upto 6 months, 24 % from six months and upto one year and for more than one year at 30%) to be applicable for delay in payment of taxes
- E-payment of service tax mandatory from 1 October 2014

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- Reverse charge mechanism extended to include recovery agent services provided to banks, NBFC's and other financial institutions;
- Proportion of service tax payable under reverse charge by a service recipient of rent-a-cab services (non-abated) increased to 50% (effective 1 October 2014)
- Concept of intermediary which hitherto was restricted to services is extended to goods in place of provision of services rules.
- Point of taxation as per Rule 7 on reverse charge to be amended to be the date of payment or the date subsequent to end of three months from the date of invoice, whichever is earlier. (Effective for invoices issued on or after 1 October 2014). Transition provision to be notified separately.
- Abatement rate to be revised to 60% in case of transport of goods by vessel (effective from 1 October 2014)
- Advance Ruling option extended to resident private limited companies

Cenvat Credit

- Cenvat credit on inputs and input services to be availed within a period of six months from the date of issue of invoice (effective from 1 September 2014)
- Condition of payment of service tax under full reverse charge for availing cenvat credit withdrawn
- Re-credit of cenvat credit reversed on account of non-receipt of export proceeds within the specified period permitted if received within one year from such specified period

- CENVAT credit of services provided by one rent-a-cab scheme operator to another and by one tour operator to another tour operator allowed (effective 1 October 2014)
- Rule for determination of rate of exchange to be prescribed separately
- Procedure for exemption in case of SEZ units simplified
- Mandatory pre-deposit of 7.5% / 10% of tax demand or penalty or both for filing appeals

Excise Duty

- If goods are sold at a price less than the manufacturing cost including profit at arms length, and if no additional consideration is flowing from the buyer, then transaction value will be adopted
- Restriction on transfer of credit by a LTU from one unit to other
- Discretionary powers of the Tribunal to refuse admission of appeals increased from INR 50K to INR 2 Lacs
- Mandatory fixed pre-deposit of 7.5% of the duty demanded (including penalty) for filing appeal with the Commissioner (Appeals) or the Tribunal at the first stage and 10% for filing second stage appeal before the Tribunal (subject to a total ceiling of INR 10 crores)
- Matters in relation to 'determination of any question having a relation to rate of duty' to be heard before the Supreme Court directly after Tribunal order
- If an assessee fails to pay duty within a period of one month from the due date, penalty is payable at the rate of 1% of the duty not paid for each month.
- Exemption introduced from excise duty on types of drugs and diagnostic equipment

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required for the national AIDS control programme funded by the Global fund to fight AIDS, TB and malaria

- Exemption to machinery/ components for initial setting up of power generation projects using non-conventional materials extended to generation of compressed bio-gas

Customs Duty

- Baggage rules are amended by raising the baggage allowance from INR 35,000 to INR 45,000
- Advance ruling facility extended to private limited companies
- Powers of Settlement Commission expanded to specified exports through post or courier
- Mandatory pre-deposit of 7.5% of duty and penalty at the first stage appeal to Commissioner (Appeals) or Tribunal

Dear Valuable Client,

In case you require any further detailed analysis on above mentioned proposals, please do get back to us and we shall be happy to provide you the same.

With Best Regards,

Team JPC

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