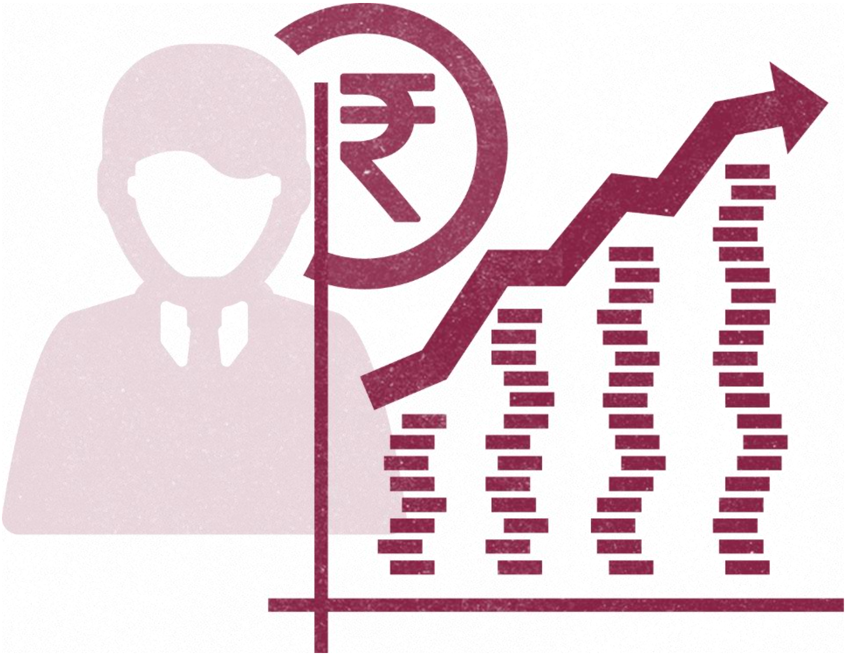
Overview of the Union Budget 2016-17

Contents



Foreword

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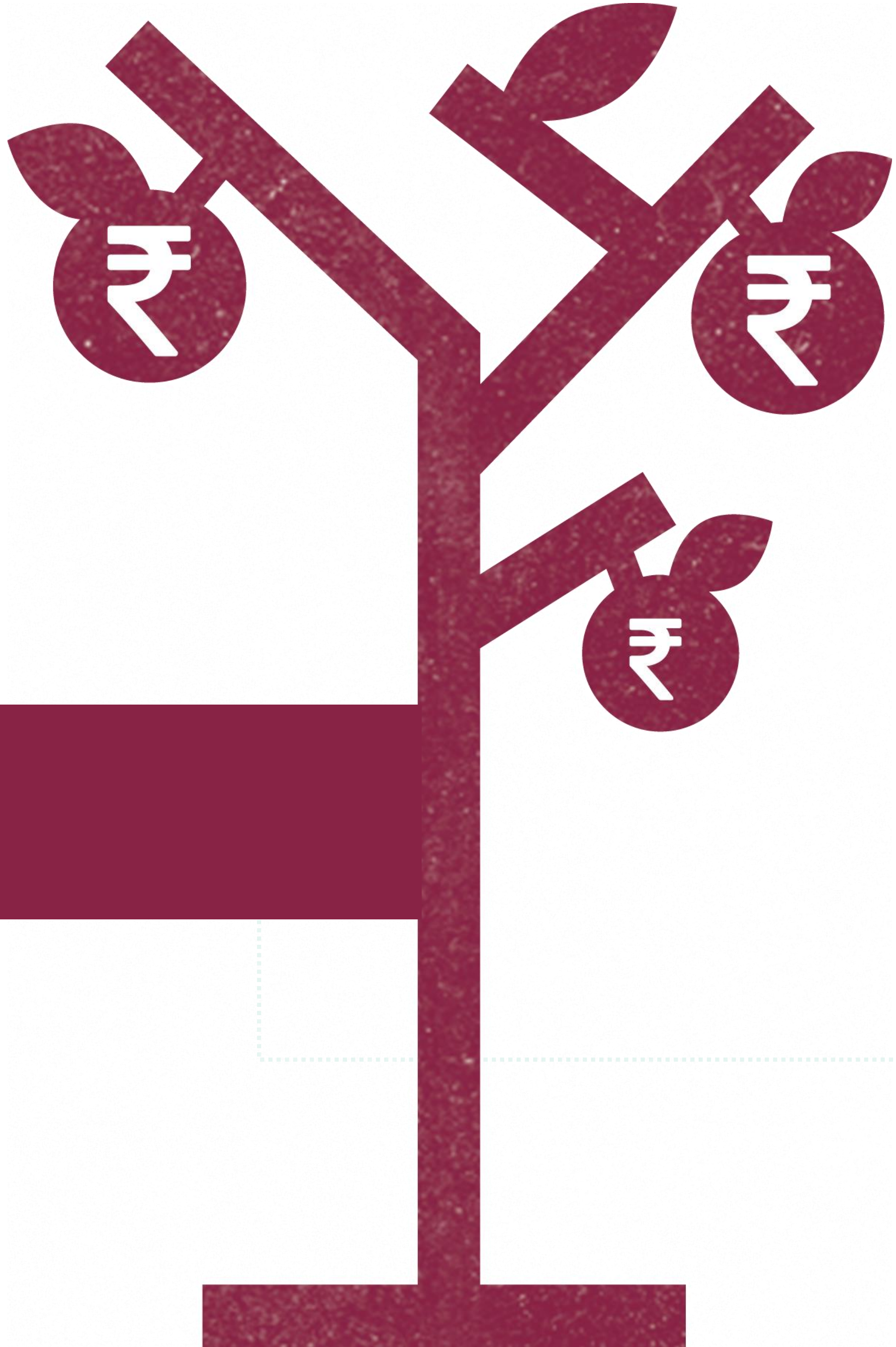
The cornerstones for the Union Budget were laid much before the Finance Minister rose to present the same in Parliament. The economic environment, extensive deliberations with stakeholders, findings of the high level committees and open dialogues with industry veterans and professionals over the past months, all are reflected in the fine print of the Budget documents. The Finance Minister has performed well, following sound economic policies by controlling the fiscal deficit and maintaining current account deficit within manageable levels. On the other hand, he has not been distracted from the growth path by continuing his focus on infrastructure development and laying emphasis on the social sector.

On the tax front, the FM has announced host of measures to reduce tax cost for small and middle income tax payers on one hand and introduced additional levies on super rich tax payers on the other. Tax exemptions for start-ups were on expected lines though Make in India appears to have been neglected on the fiscal incentive front. The voluntary disclosure scheme for taxpayers to declare undisclosed income as a measure to curb black money and dispute resolution scheme to reduce the backlog of litigation has come as a surprise. While there are no game changers in this Budget, there is plenty to make the tax law simple and more efficient.

Overall, this Budget should set the ball rolling to meet the goal of ‘Transform India’ through the nine pillars of agriculture welfare, rural employment, social welfare, education and job creation, infrastructure and investments, financial sector reforms, ease of doing business, fiscal discipline and tax reforms.

Key tax proposals



Top 9 direct tax proposals(1/2)

01	Tax rates remain largely unchanged - additional levy for super-rich individuals
02	Flat income-tax rate of 25% for new manufacturing companies with no other exemptions
03	Dividend income in excess of Rs 10 lakhs to be chargeable to tax at the rate of 10 percent in the hands of resident individuals, HUF or a firm
04	Introduction of equalisation levy on e-income of non-residents (pursuant to OECD's BEPS action plan)
05	Tax fillip to Start up India and Make in India campaigns

Top 9 direct tax proposals(2/2)

06	Roadmap for phasing out of various deductions and exemptions released
07	Widening the scope of presumptive taxation for small businesses and professionals
08	Voluntary Disclosure Scheme for taxpayers to declare undisclosed income as a measure to curb black money
09	Simplification, rationalisation and digitisation of tax procedures

Snapshots of transfer pricing proposals

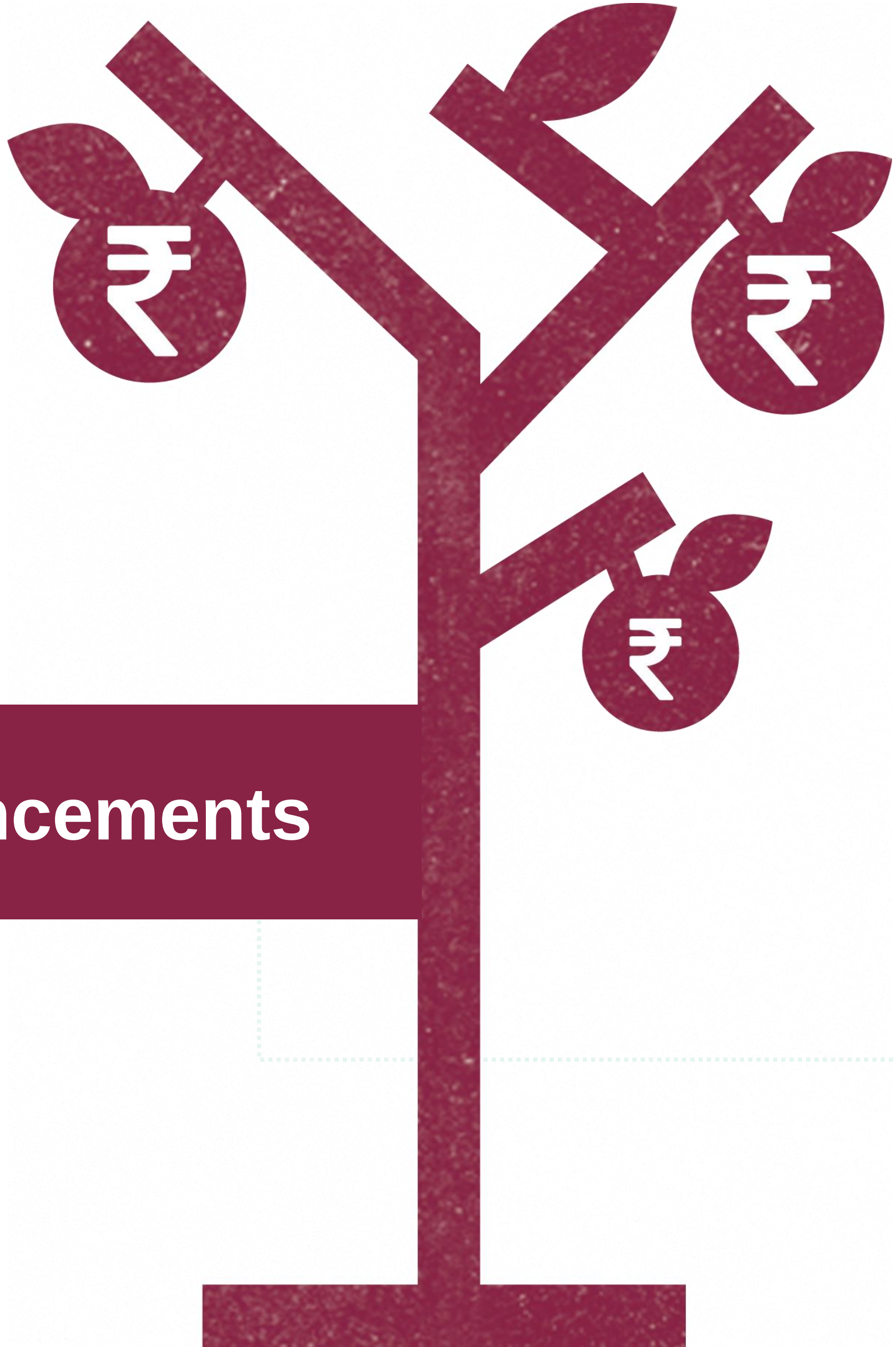
01	Country-by-Country reporting introduced for multinational enterprises along with stringent non-compliance penalty
02	Powers of AO to challenge Dispute Resolution Panel (DRP) order withdrawn

Top 9 indirect tax proposals(1/2)

01	No specific announcement on Goods & Services Tax (GST)
02	Krishi Kalyan Cess (KKC) introduced at 0.5% on all taxable services; effective service tax rate now at 15%
03	CENVAT credit rules tweaked to allow for more logical flow and restriction of credits
04	Interest on delayed payment of customs & excise duties and service tax reduced to 15%
05	Introduction of indirect tax Dispute Resolution Scheme 2016 to reduce litigations

Top 9 indirect tax proposals(2/2)

06	Topical exemptions extended/retrospective amendments to specified services in Infrastructure Sector and Rural India
07	Customs procedures relaxed, particularly on allowing staggered payment of customs duties on import/ export
08	Limitation period extended for tax recovery from 1 year/18 months up to 2 years/30 months in Customs/ Excise & Service tax
09	Infrastructure Cess proposed to be levied at specified rates ranging from 1% to 4% on specified motor vehicles which could be against the spirit of implementing GST



Key Policies and announcements

Key policy measures (1/4)

Proposed changes in Foreign Direct Investment ('FDI')

- Automatic route for FDI up to 49% in insurance and pension sectors subject to the extant guidelines on Indian management and control. (presently FDI beyond 26% & up to 49% is under approval route)
- 100% FDI in Asset Reconstruction Companies (ARCs) is proposed to be allowed under automatic route (presently FDI beyond 26 % & up to 49% is under approval route)
- 100% FDI under approval route in marketing of food products produced in India with a view to boost both the agriculture sector as well as Make in India
- Permissibility of FDI in NBFC activities is proposed to be enhanced beyond the existing 18 specified activities
- The basket of eligible FDI instruments is proposed to be expanded to include hybrid instruments subject to certain conditions.(The present basket includes equity shares, fully and mandatorily convertible debentures, fully and mandatorily convertible preference shares and warrants)
- Foreign investors will be accorded residential status subject to certain conditions (currently foreign investors are granted business visa only up to 5 years at a time)
- Increase in investment limit in Indian Stock Exchanges for foreign entities from 5% to 15%

These measures are reflective of the government's continued efforts in liberalising the FDI policy framework and make the country attractive for investments

Key policy measures (2/4)

Proposed changes in Companies Act 2013

- With a view to removing the impediments to ease of doing business, a bill to amend the Companies Act, 2013 is proposed to be introduced in the current Budget Session of the Parliament
- Registration of companies is proposed to be done in one day

Proposed changes in SEBI regulations

Following key changes in respect of corporate bonds (listed debentures) are proposed -

- A complete information repository for corporate bonds, covering both primary and secondary market segments will be developed jointly by RBI and SEBI
- For developing an enabling eco system for the private placement market in corporate bonds, an electronic auction platform will be introduced by SEBI for primary debt offer

Proposed changes in Companies Act 2013 aim at improving the enabling environment for startups and incorporating recommendations of the Company Law Committee which issued its report earlier in February 2016

Key policy measures (3/4)

Agriculture sector

- Rs 35,984 crores allocated for agriculture and farmer welfare
- Rs 20,000 crores dedicated towards irrigation funds in NABARD
- Rs 17,000 crores allocated for irrigation schemes in 2017
- Rs 6,000 crores earmarked for a major programme for sustainable management of ground water resources
- Rs 412 crores set apart by government to encourage organic farming. Two schemes viz. Parmparagat Krishi Vikas Yojana and Organic Value Chain Development announced in the north east region
- Rs 5,500 crores allocated for crop insurance scheme
- e-Marketing platform for sale/promotion of agricultural produce
- 100% FDI being permitted for food items produced in India

Education and Skill Development sector

- Exemption of service tax on services provided under Grameen Kaushalya Yojna
- Rs 1,700 crores allocated for setting up 1,500 skill training institutes
- Digital literacy scheme to be launched to cover Rs 6 crores of additional rural households
- A digital locker to store school and college certificates, linked with the Aadhar number

Healthcare sector

- Equipments for dialysis to be exempted from basic customs duty, excise/ CVD and SAD
- National Dialysis Service Programme with funds through PPP mode to provide dialysis services at all district hospitals
- For economically weaker sections (EWS) launch of new health protection scheme

Energy sector

- Rs 3,000 crores per annum allocated for nuclear power generation
- Incentives being considered for deep water gas exploration

Key policy measures (4/4)

Social Sector

- Rs 35,000 crores earmarked for MGNREGA for the year 2016
- Rs 11,300 crores allocated for the Swachh Bharat Abhiyan
- 300 rurban clusters to be set up under Shyama Prasad Mukherjee RURBAN Mission
- Plan to implement a digital literacy mission for more than 6,000 rural households
- Rs 8,500 crores proposed for 100% village electrification by 01 May 2018
- Rs 2.87 lakhs crores grant to gram panchayat and municipalities

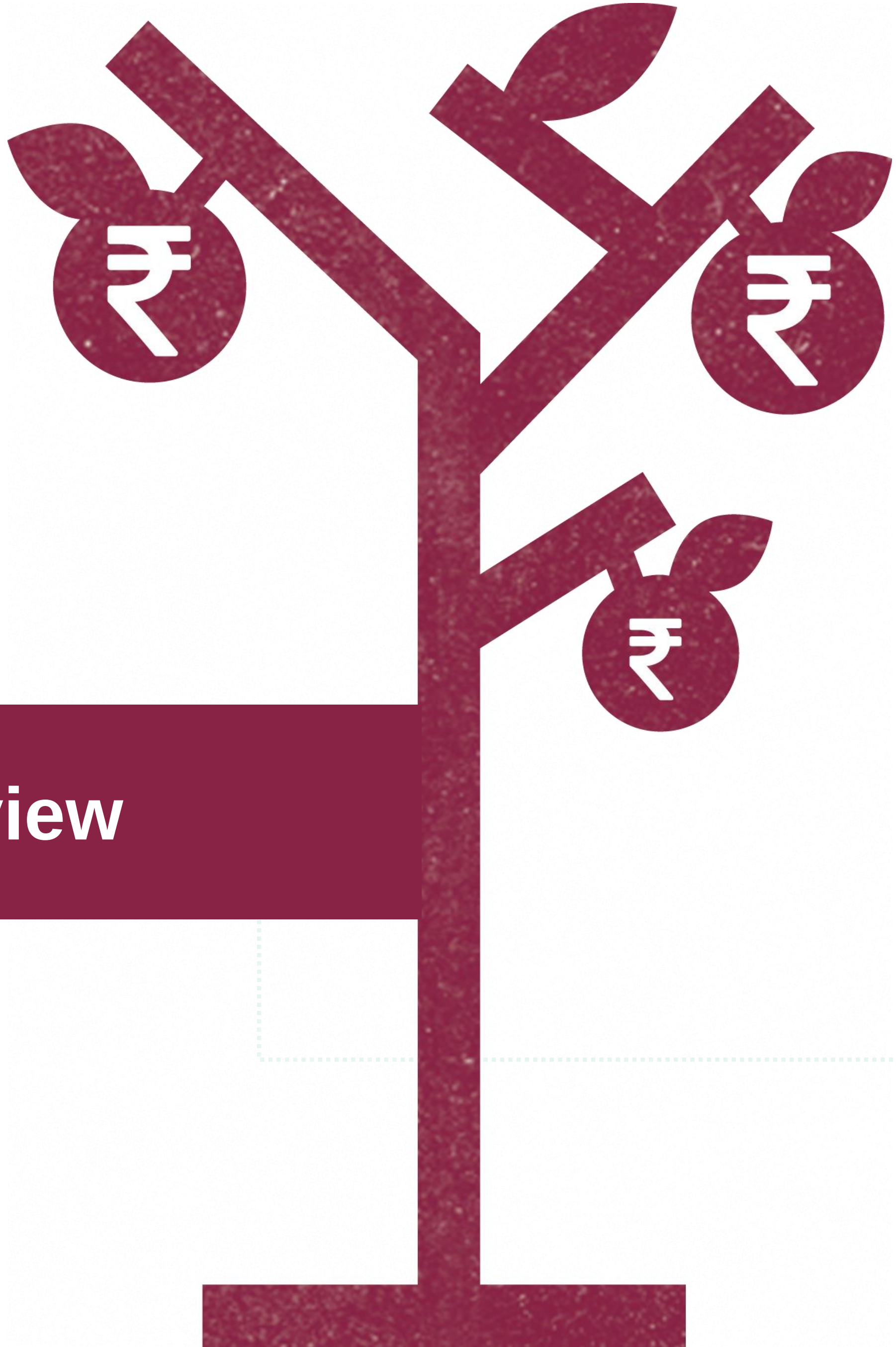
Ease of Doing Business

- Introduction of targeted delivery of subsidies through Aadhaar, with a social security platform for use of Aadhaar
- A bill to amend the Companies Act - enabling environment for start-ups
- Rs 500 crores provided for promoting entrepreneurship among SC/ST under the Stand Up India scheme

Infrastructure sector

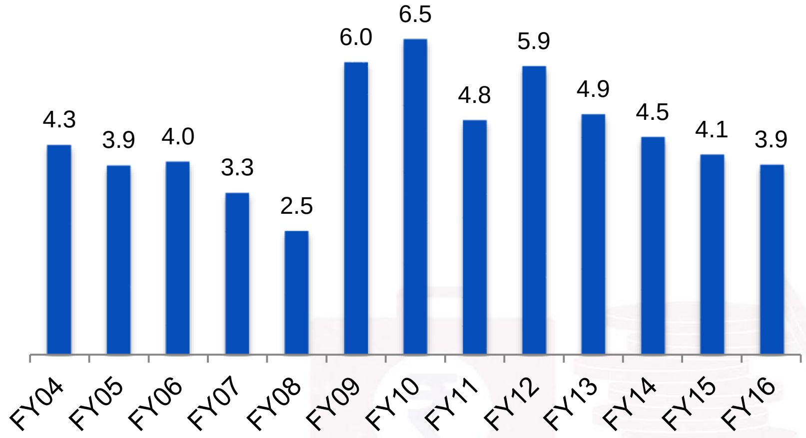
- Total allocation of Rs 97,000 crores out of which, Rs 55,000 crores have been reserved for Highways, Rs 27,000 crores for Railways and an additional Rs 15000 crores to be raised by NHAI
- New Greenfield Ports to be developed in the east and west coast; a budget of Rs 500 crores earmarked
- Plan for reviving around 160 Airports at an indicative cost of Rs 50 -100 crores
- Plan to establish Wi-Fi services in more than 100 stations in the year 2016 and 400 stations in year 2017
- A Public utility (resolution of disputes) Bill will be introduced during the period of 2016-17
- A new credit rating system for infrastructure projects to be announced soon

Fiscal and Economic review



Fiscal and Economic review

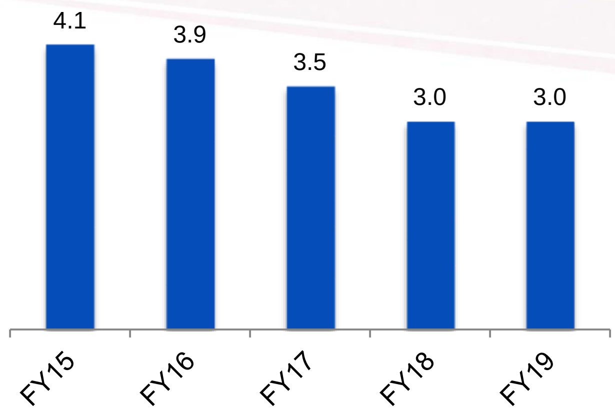
Fiscal Deficit as % of GDP



Meeting Fiscal Deficit target will help in keeping borrowing cost low

- Lower oil prices helped offset shortfall on direct taxes, disinvestments and lower-than-budgeted nominal GDP growth as successive hikes in excise duty on petroleum products added substantially to indirect tax receipts.
- The medium term fiscal roadmap was maintained at 3.5% for FY17 and 3% for FY18.

Medium-Term Fiscal Consolidation Road-Map



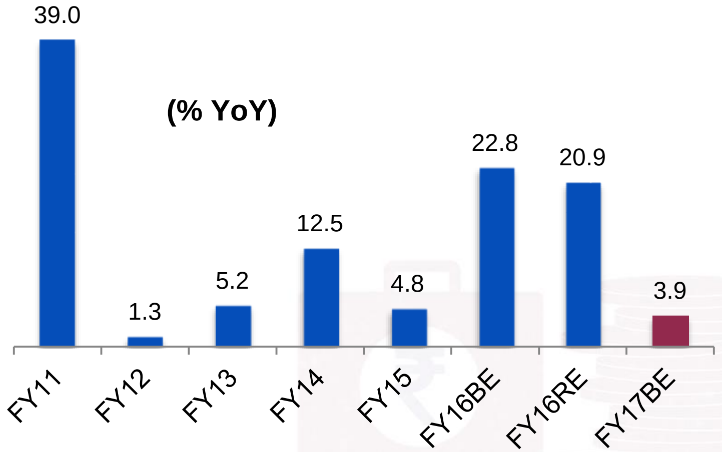
Source: Budget Documents

Fiscal Deficit in FY17 pegged at 3.5%

- Despite higher expenditure owing to the Seventh Pay Commission (SPC), One Rank One Pension scheme (OROP), bank recapitalisation needs in FY17, the government kept the fiscal deficit target at 3.5% in FY 17.
- It will increase credibility of the government which will boost confidence of foreign investors, credit rating agencies and raise the probability of rate cut by RBI. This will help in keeping the corporate borrowing cost low.

Fiscal and Economic review

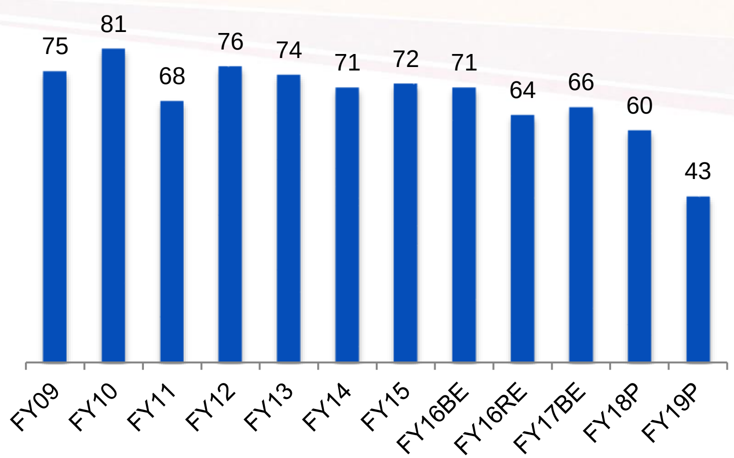
Capital Expenditure Growth



Higher capex spending in FY16

- Capital expenditure had come down from the high of 39% yoy growth in FY11 to 4.8% in FY15.
- However, Capital expenditure in FY16 grew at 21%, slightly lower than budgeted 22.8%. Higher public spending helped growth as private capex remained aneamic.
- However, fiscal constraint will result in lower public capex in FY17. Government may look for other off-budget sources of financing for infrastructure.

Ratio of Revenue Deficit to Fiscal Deficit



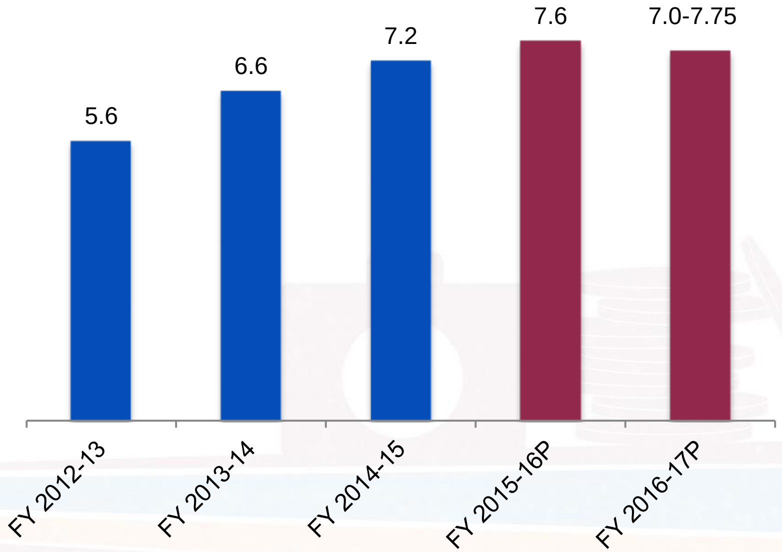
Note: BE- Budgeted Estimate, RE – Revised Estimate, P – Projected
Source: Budget Documents

Improved quality of Fiscal Deficit will support investors' confidence

- The ratio of Revenue Deficit (RD) to Fiscal Deficit (FD), that indicates the extent to which market borrowings are used to meet current expenditure (unproductive spending like interest expense, salary etc) has been coming down. In FY16, it came down to 64% from the budgeted estimate of 71%.
- It is expected to come down further in next two to three years. In other words it means that market borrowings will be increasingly used for capital spending.

Fiscal and Economic review

GDP Growth (% YoY)



- India is expected to grow at 7.6% in FY 16 (CSO advance estimate) despite unsupportive global background, and two consecutive years of weak monsoons.
- However, according to Economic Survey, going forward, growth will remain flat with growth in FY17 expected at 7.0 to 7.5% as against its potential GDP growth at substantial 8 to 10%.

Macro-Stability has Increased and India emerges as a bright spot within Major Economies

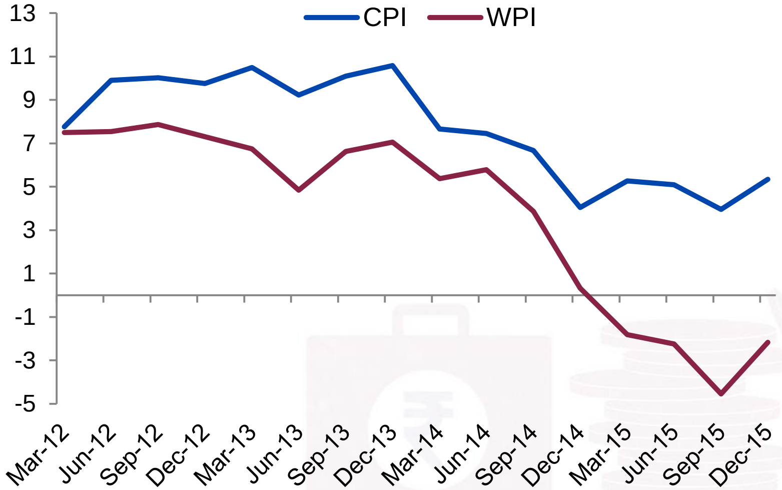
- The macroeconomic fundamentals of the Indian economy has made substantial improvements with reforms in selected areas, pursuit of fiscal prudence, benign price situation and comfortable level of external current account.
- India has emerged as one of the fastest growing major economies in the world – ahead of China.


GDP Growth in 2016		
International Monetary Fund	7.5	6.3
The World Bank	7.8	6.7
OECD	7.3	6.5

Source: CSO, Economic Survey
Note: P - Projected

Fiscal and Economic review

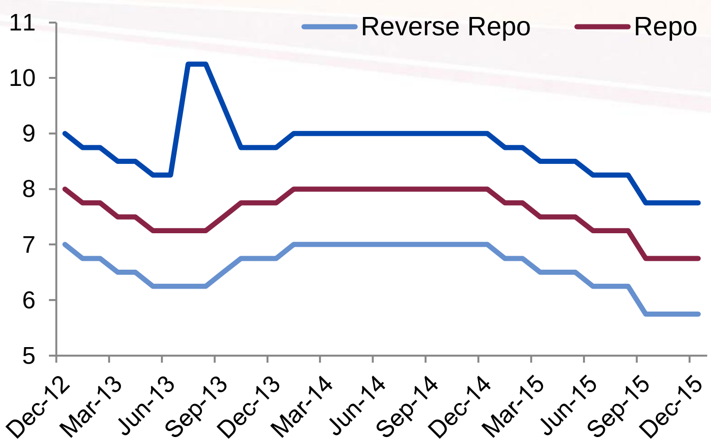
Trend in CPI and WPI Inflation (% YoY)



Inflation eased considerably…

- Consumer inflation dipped to 4.9% during April-January 2015- 16 as against 5.9% in 2014-15 despite poor monsoon for two consecutive years due to astute food supply management by the government and sharp fall in global commodity prices.
- Largest impact of the plunge in commodity prices has been on the wholesale inflation (WPI) as it averaged at -2.8% during Apr-January 2015-16.

Policy Rate of Reserve Bank of India (RBI)



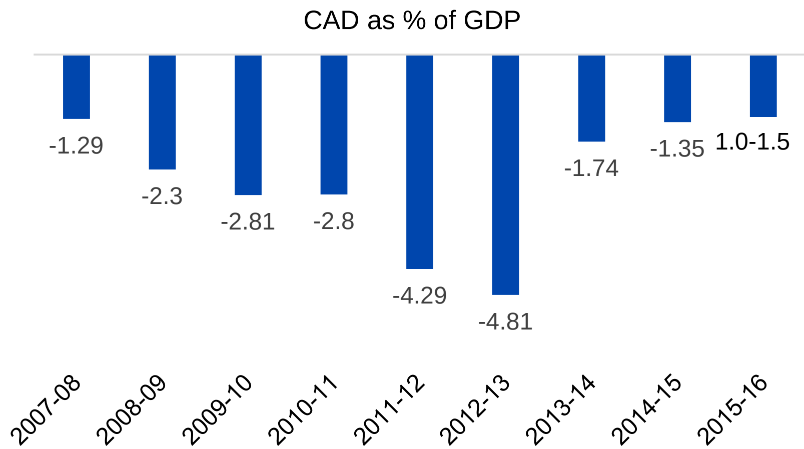
...and led RBI to start the easing cycle

- The easing of inflationary pressures paved the way for reduction in policy repo rates by 125 basis points during 2015 by the Reserve Bank of India.
- Inflation is expected to ease further to 4.5-5% for 2016-17, along the glide path of RBI.
- Inflation at expected level and fiscal consolidation by government will provide space for further rate cut by RBI.

Source: CMIE database, RBI

Fiscal and Economic review

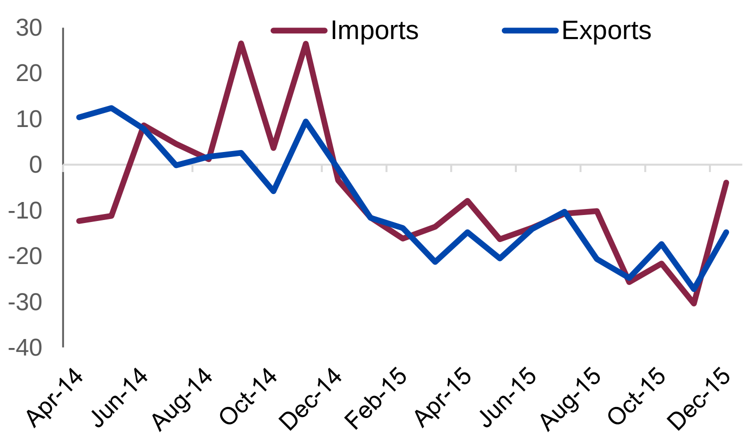
Trend in Current Account Deficit (CAD)



CAD within sustainable level reduces volatility in currency

- Current Account Deficit is expected to be around 1.0 to 1.5% of GDP in FY 2016.
- Sharp fall in commodity prices helped bring CAD well within sustainable level of 2.5% of GDP reducing external vulnerability.

Monthly Export and Import Growth of India (% YoY)

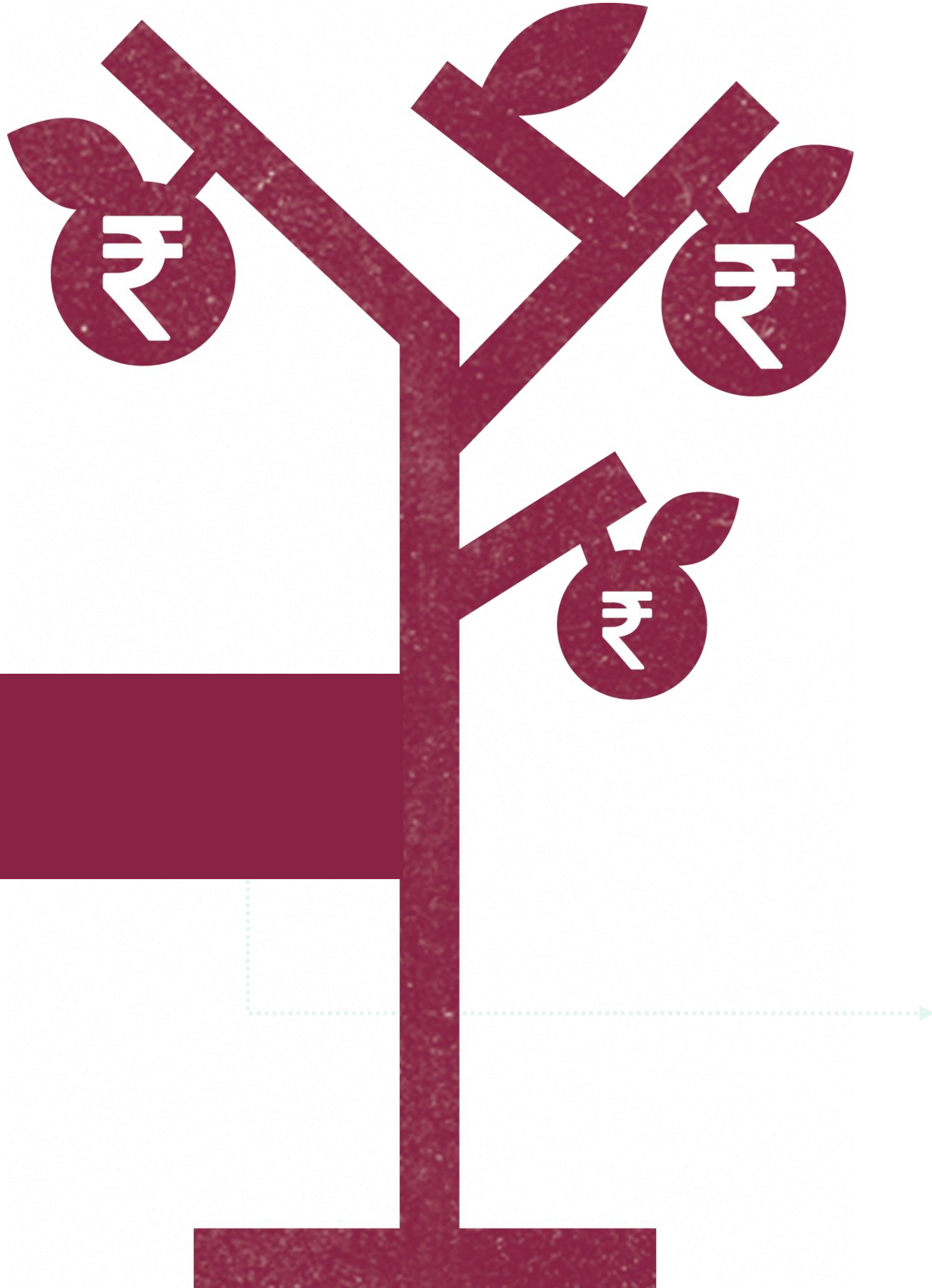


Source: CMIE database

Exports continue to decline lowering India's industrial production

- Exports continued to decline for more than a year on poor global demand.
- With imports falling in tandem due to lower global commodity prices, merchandise trade deficit moderated in 2015-16.
- The rupee remained resilient in the recent turmoil, testifying to a strong macroeconomic outlook for the country.

Direct tax proposals



Income Tax Rates

Individuals

- Tax Slabs remain unchanged
- Surcharge increased from 12% to 15% for individuals with total income exceeding Rs 1 crore (increasing effective marginal rate to 35.535% from 34.608%)

Corporates

- Tax rate reduced by 1% to 29% for domestic companies with a total turnover/gross receipts of upto Rs 5 crores in FY 2014-15
- Option for newly set up domestic companies engaged solely in manufacture or production to be taxed at 25% resulting in a 5% reduction in rate - the company should not avail of specified tax incentives
- No other changes in corporate tax rates or surcharge

Other taxpayers

- No change in tax rates and surcharge for firms, LLPs and co-operative societies

Reduction in corporate tax rates for new manufacturing companies and existing small companies

Individual tax (1/2)

Rebate for small tax payers

- Rebate of income tax is currently available to individuals with total income not exceeding Rs 5 lakhs of an amount equal to 100% of income tax or Rs 2,000, whichever is lower
- This limit of Rs 2,000 is proposed to be increased to Rs 5,000 from FY 2016-17 onwards

Measures to reduce the tax burden of small and middle income tax payers

Deductions in respect of rent paid

- In case of an individual not receiving house rent allowance from his employer, a deduction of Rs 2,000 per month or 25% of his total income, whichever is lower, is currently available in respect of rent paid in excess of 10% of his total income
- The limit of Rs 2,000 per month is proposed to be increased to Rs 5,000 per month from FY 2016-17 onwards

Incentivising first time home buyers

- Deduction of up to Rs. 50,000 for interest on loans up to a maximum of Rs 35 lakhs where the value of the house property purchased does not exceed Rs 50 lakhs
- Applicable to loans sanctioned from 1st April 2016 to 31 March 2017

Tax levy on dividend to shareholders

- Dividend income in excess of Rs. 10 lakhs proposed to be chargeable to tax at the rate of 10% in the hands of resident individuals, HUF or a firm.

This is an additional levy for high income tax payers

Individual tax (2/2)

Amendments in social security and pension schemes

In order to bring greater parity in tax treatment of different types of pension/social security plans, the following changes are proposed:

- Threshold limit for non taxability of employer's contribution to an approved superannuation fund and recognised provident fund increased to Rs 1,50,000 (to align it with the existing provisions in respect of employee's contribution)
- Withdrawal from accumulated balances created from contributions made on or after 1 April 2016 to recognised provident funds not taxable up to 40% of the accumulated balance
- Withdrawal of any amount from National Pension System on closure of account or opting out of the pension scheme referred to in section 80CCD not taxable up to 40% of the total amount payable
- Payment in commutation of an annuity purchased out of contributions made on or after 1 April 2016 is not taxable up to 40% of the annuity

Attempt to shift from Exempt-Exempt-Exempt regime to Exempt-Exempt-Tax regime to bring parity in various pension plans

International tax (1/3)

Deferral of Place of Effective Management (PoEM) Rules by one year

- Applicability of PoEM based residence test to be deferred by one year to FY2016-17 in absence of implementation guidelines
- The government to notify rules providing for the transition mechanism for a company which becomes tax resident of India on account of its PoEM covering aspects such as computation of its taxable income, treatment of unabsorbed depreciation, setoff or carry forward of losses, withholding tax provisions

> Deferment of PoEM by a year pending implementation guidelines

International tax (2/3)

Equalisation levy on non-residents

- It is proposed to levy a new "Equalisation levy" of 6% on online advertisement revenue received by non-resident service providers from resident taxpayers carrying on business and non-resident payers having Permanent Establishment (PE) in India
- The income of a non-resident subject to the equalisation levy would thereafter be exempt under the Income Tax Act
- Non-resident service providers having a PE in India would not be subject to this levy. Further, payments from a single payer not exceeding Rs 1 lakh in an year in aggregate are also exempt from this levy
- Remitters are required to withhold the levy while making remittance. Failure to withhold would attract disallowance under Income Tax Act and expose the payer to interest and penalty

This concept has been picked from the final report on Action Plan 1 of OECD report on Base Erosion and Profit Shifting (BEPS). Equalisation levy has been introduced vide a separate chapter in the Finance Bill. One would need to examine whether tax treaty benefit would be available to the non-resident service providers

International tax (3/3)

Rationalisation of taxation regime for offshore funds

- Conditions for offshore funds not constituting place of business in India has been liberalised to include funds domiciled in a country or territory specified by government. Further, the limitation of carrying on, control or management of business from India by the fund has been removed
- Amendment to apply from FY 2016-17 onwards

> While relaxation of these conditions addresses some of the issued faced by foreign funds, conditions relating to corpus size and investor base remain unchanged

Incentives – start ups

Start ups to be allowed a 100% deduction of profits for three consecutive years out of five years subject to fulfilment of prescribed conditions

Introduction of Patent box regime

- Royalty income earned in respect of patent developed and registered in India by a resident of India proposed to be taxed at a concessional gross rate of 10%
- MAT not applicable to income from patents developed and registered in India subject to prescribed conditions

Capital gains tax regime

- Exemption from capital gains from transfer of any asset, provided proceeds are invested in specified assets (units of specified funds) before 1 April 2019, within a period of 6 months from transfer. The maximum limit of the deduction pegged at Rs 50 lakhs with minimum investment period of 3 years
- Capital gain exemption to Individuals and HUF on sale of their residential property, provided proceeds are invested in subscription of shares of a start-up company

These proposals reflect the tax incentives for the government's Startup policy package which was launched in January 2016

Incentives

Incentives for power transmission

- Accelerated depreciation @ 20% of actual cost of new machinery or plant acquired and installed in a previous year currently available to business of "generation and distribution of power", proposed to be extended to business of "transmission of power"

Incentives for employment generation

- The benefit of deduction in respect of Wage Bill incurred through fresh employment is proposed to be further extended.

These proposals are welcome incentives to boost investment in the power transmission and manufacturing sectors

Incentives – financial services and real estate

NBFCs

- Deduction in respect of provision for bad and doubtful debts proposed to be allowed to Non-Banking Financial companies (NBFCs) up to 5% of the total income, on similar lines as available to public financial institutions, state financial corporations and state industrial investment corporations

New tax regime for recognised securitisation trusts effective 01 June 2016

- Income continues to be exempt in the hands of the securitisation trust and taxable in the hands of its investors
- Tax to be withheld at 25% from payments to resident individual/HUF investors and at 30% for other investors
- In case of non resident investors, tax to be deducted at applicable rates in force

Promotion of International Financial Services Centres

- Exemption from capital gains tax on foreign currency transactions undertaken on recognised stock exchange in IFSC, even if no STT is paid
- Reduced MAT rate of 9% (instead of 18.5%) for IFSC unit earning only foreign currency income coupled with exemption from DDT

Boost for real estate sector

- **Affordable housing:** 100% deduction for approved housing projects subject to fulfilment of conditions including completion of project within 3 years
- **DDT exemption to SPVs of REITs:** Distributions made out of income of asset-owning SPV to Listed Real Estate or Infra Investment Trusts (REITs & INVITs) will not be subjected to Dividend Distribution Tax (DDT)

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Phasing out of incentives (1/2)

- **Proposed phase out of incentives (profit linked/investment linked/weighted deduction):**

Section	Particulars	Current incentive	Proposed phase out of incentives
10AA	Tax holiday on export income of SEZ units	15 year tax holiday without a sunset clause	Sunset clause introduced - applicable only to SEZ units that commence operations prior to 31 March 2020
32	Accelerated depreciation provided to certain industrial sectors to give impetus for investment	Depreciation up to 100% available	Depreciation now capped at 40% for all assets from FY 2017-2018
35(1)(ii)	Expenditure on scientific research: for sum paid to approved scientific research association and other approved institution undertaking scientific research	Weighted deduction of 175%	Deduction capped at: • 150% from FY 2017-18 to 2019-20 • 100% from FY 2020-21
35(1)(iia)	Expenditure on scientific research: for sum paid as contribution to an approved scientific research company	Weighted deduction of 125%	Deduction capped at 100% from FY 2017-18
35(1)(iii)	Expenditure on scientific research: for contribution to an approved research association or university or college or other institution to be used for research in social science or statistical research	Weighted deduction of 125%	Deduction capped at 100% from FY 2017-18
35(2AA)	Expenditure on scientific research: for any sum paid to a National Laboratory or a university or an Indian Institute of Technology or a specified person for the purpose of approved scientific research programme	Weighted deduction of 200%	Deduction capped at: • 150% from FY 2017-18 to 2019-20 • 100% from FY 2020-21

Phasing out of incentives(2/2)

Section	Particulars	Current incentive	Proposed phase out of incentives
35(2AB)	Expenditure on scientific research: incurred by a company, engaged in the business of bio-technology or in the business of manufacture or production of any article or thing, on scientific research on approved in-house research and development facility.	Weighted deduction of 200% of the expenditure (not being expenditure in the nature of cost of any land or building)	• 150% from FY 2017-18 to 2019-20 • 100% from FY 2020-21 onwards
35AC	Deduction for payments to public sector undertakings or local authority and other eligible organisation for specified scheme for promotion socio-economic welfare	100% deduction	Nil from FY 2017-2018
35AD	Investment linked deduction for the purchase of machinery and other capital assets (100% or 150% in various cases) for specified businesses, eg, cold chain facility, warehousing facility for storage of agricultural produce, an affordable housing project, production of fertiliser, hospitals	Weighted deduction of 150% of capital expenditure (other than expenditure on land, goodwill and financial assets)	100% of capital expenditure from FY 2017-18
35CCC	Expenditure on notified agricultural extension project	Weighted deduction of 150%	100% from FY 2017-18
35CCD	Expenditure incurred (not being expenditure in the nature of cost of any land or building) on any notified skill development project by a company	Weighted deduction of 150%	100% from FY 2020-21

Small Businesses and Professional Income

Simplified presumptive tax regime for professionals

Presumptive tax regime introduced for resident Individual, HUF & Partnership firms engaged in profession where gross receipts do not exceed Rs 50 lakhs

- Higher of 50% of gross receipts or actual profits shall be deemed to be income chargeable under "Profits and gains of business or profession"
- No need to maintain books of account and get the accounts audited

Tax Audit

- Tax audit turnover threshold increased from Rs 1 crore to Rs 2 crores

Changes in tax regime for small businesses

- Threshold limit to qualify for presumptive taxation increased from Rs 1 crore to Rs 2 crores
- Deduction of salary and interest paid to partners shall no longer be available to firms in case of presumptive tax
- Where assesse does not opt for presumptive tax in any subsequent year, it will not be possible to claim the benefit for further 5 assessment years

These measures are aimed at providing a simplified tax regime for professionals and small businesses to facilitate ease of doing business with minimal compliance burden

Income Declaration Scheme, 2016

- One time amnesty scheme proposed for voluntary declaration of undisclosed income
- Opportunity for voluntary declaration of undisclosed income for any year up to FY.2015-16 on payment of a one-time tax of 45%
- Key benefits/ exemptions:
  - Exemption from wealth tax in respect of assets specified in declaration for previous years
  - No scrutiny and enquiry under the Income Tax and Wealth Tax Act in respect of such declarations, and immunity from prosecution under such Acts
  - Immunity from the Benami Transactions (Prohibition) Act, 1988, subject to certain conditions.
- Eligibility – the following would not be eligible for the Scheme:
  - cases in respect of which any assessment proceedings has already been initiated
  - cases where information is received under an agreement with foreign countries,
  - cases or persons covered under the Black Money Act 2015, Indian Penal Code and certain other specified Acts

The proposed provision is a revisit of Voluntary Disclosure of Income Scheme, 1997 giving opportunity to assesses to declare their undisclosed incomes

Charitable organisations

- A new chapter XII-EB inserted to tax the accreted income of a charitable institution which converts or merges into a non-charitable organisation at the maximum marginal rate
- The accreted income shall be aggregate of total assets as reduced by the liability as on the date of conversion or merger as reduced by the asset and the liability transferred to another charitable organisation within a specified time
- Failure to pay the required tax would attract a simple interest at 1% per month.

This is in the nature of an exit tax in cases where the purpose of exemption availed by trust and charitable organisations is no longer valid on account of its conversion into a for-profit entity

House property

Increased time frame for pre acquisition/construction interest on self-occupied house property

Deduction of interest incurred before the acquisition or construction of a self-occupied house property is available presently if the acquisition or construction of such house property is made within 3 years from the end of the financial year in which loan is availed. It is proposed to increase the time frame to 5 years from FY 2016-17

Tax treatment for unrealised rent and arrears of rent

Provision for taxability of arrears of rent and unrealised rent has been consolidated under a single new section. The amended section continues to tax arrears of rent or recovery of unrealised rent on receipt basis irrespective whether the assessee is the owner of the property or not in the FY of receipt

Standard deduction @30% allowable in year of taxation on receipt basis on both unrealised rent or the arrears of rent

This will be effective from FY 2016-17

> Pre-acquisition/construction interest on house property has been increased taking cognizance of longer time taken for completion of the housing projects

Capital gains – startups

Capital gains exemption for investment in start-up India Fund

Exemption from capital gains tax proposed for long term capital gains invested in units of Startup India Fund subject to conditions

Investment in such units will be permitted upto Rs. 50 lakhs

Capital gains exemption for investment into eligible startup equity

Long term capital gains on sale of residential property proposed to be exempted from tax if such proceeds are invested in the equity of eligible start-ups. This exemption is available for investment made till 31 March 2019, subject to conditions.

This exemption has been inserted in order to raise the requisite funds for start-up in the country

Capital gains – bond and mutual fund units

Exemption from capital gains tax on Sovereign Gold Bonds

- Gains on redemption of Sovereign Gold Bonds proposed to be exempted from capital gains tax
- Indexation benefit shall also be available on long term capital gains arising on transfer of Sovereign Gold Bonds

> Gains from transfer of Sovereign Gold Bonds will be exempt if redeemed, else indexation benefit is available for other modes of transfer. These measures will help meet the objective of encouraging people to invest in these bonds instead of physical gold

Rupee Denominated Bonds

Capital gains arising from appreciation of rupee against the foreign currency of investment between the date of issue and redemption of rupee denominated bonds shall be exempt from tax

Tax exemption on switching of mutual fund plan due to consolidation

Transfer of units in a mutual fund scheme due to consolidation of that scheme of the mutual fund shall not be considered to be a transfer subject to capital gains tax

Holding period for unlisted shares

FM has announced as part of his speech that holding period for unlisted shares to qualify as long term asset would be reduced to 2 years as compared to 3 years currently. However, this proposal is not covered in the bill as it was laid down before the parliament.

Capital gains – immovable property

Deemed consideration on transfer of immovable property

It is proposed that in the case of transfer of immovable property, the value adopted by the stamp valuation authority on the date of transfer shall not be deemed as the transfer consideration in cases where an agreement to sell has been entered into much before the date of transfer. In such cases, the stamp value as on the date of agreement may be taken as full value of consideration for the purposes of computation of capital gain.

This is an anti-abuse provision to make stamp duty value as the minimum consideration for taxing capital gains. The amendment is brought about to give latitude to transactions where the stamp value have increased between the period of agreement to sell and the registration of transfer. Similar provisions exist in the Act with respect to sale of immovable property being stock in trade and deemed income from other sources on receipt of immovable property below the fair market value

Capital gains - others

Non compete fees and exclusivity rights

- It is proposed to include non-compete fees received in relation to carrying out of profession as business income in alignment with the provisions related to business
- Transfer of rights to carry on profession will be subject to capital gains.
- The cost of acquisition of the "right to carry profession", shall be:
  - purchase price in case right to carry the profession has been acquired from previous owner
  - Nil in case the same is self generated
- The cost of improvement shall be considered to be Nil

Clarification with respect to concessional rate on gains from sale unlisted securities

It has been specifically provided that the long term capital gains, arising to non-residents from the transfer of capital asset being unlisted securities or shares of a company not being a company in which public are substantially interested, shall be taxable @10%.

In our view, the proposed amendment of the concessional rate on unlisted securities is a clarification, as also described in the memorandum to explain the Finance Bill

Other income

No set off of available for undisclosed income

- It is proposed to lay to rest divergent jurisprudence on the aspect of set off of losses against undisclosed income by clarifying that cash credits, unexplained investments, unexplained money, undisclosed investments and expenditure are subject to tax at the rate of 30% without any deduction on account of allowance or expenditure
- Set-off of losses would not be permissible against such income.
- This will be effective from FY 2016-17

In our view, the amendment bears testimony to the government's resolve to follow a zero tolerance policy against tax evasion

Reorganisation/restructuring

Buy-back tax

- The scope of levy of buy-back tax has been widened to cover any buy-back irrespective of applicable provisions of the Companies Act.
- Buy-back tax shall continue to be levied at 20% on distributed income
- Amendment proposed to be effective 1 June 2016

Proposal seeks to bring clarity on the buy back tax regime with a view to curbing practice of undertaking buy back through court process merely to mitigate the existing buy-back tax

Additional condition for tax neutral conversion of a company into Limited Liability Partnership (LLP)

An additional condition has been inserted for a tax neutral conversion of a company into a LLP viz. the value of the total assets in books of accounts of the company in any of the 3 preceding FYs does not exceed Rs 5 crores

Insertion of this additional condition has further restricted the flexibility available to small companies for tax neutral conversion into LLPs

Rationalisation of collection and recovery

- TDS rate for payments by AIF to non-resident investors: It is clarified that payments made by AIF to its investor / unit holders shall be subject to withholding tax at the rates applicable under the relevant tax treaty if more beneficial.
- PAN furnishing requirement for non-residents: It is proposed to accept alternate documents in the absence of PAN to obviate withholding tax at the higher rate
- Addition to TCS levy: 1% TCS proposed on sale of motor vehicle exceeding Rs 10 lakhs in value and cash sale of specified goods exceeding Rs 2 lakhs
- Advance tax: Advance tax payment schedule for non-corporate tax payers proposed to be aligned with the schedule for corporate tax payers. Persons opting for presumptive taxation however, to pay complete advance tax in a single installment on or before 15th March of the year
- Time limit for disposing application for waiver of interest /penalty: It is proposed that interest/penalty waiver applications of taxpayers should be disposed off within 12 months from date of application

This is in line with the objective of simplifying compliances, defining timelines and overall ease of doing business for taxpayers

Changes in TDS provisions

Section	Particulars	Existing Threshold limits (Rs)/ Rates of TDS	Proposed Threshold Limit (Rs)/ Rates of TDS
192A	Payment of accumulated balance due to an employee	30,000	50,000
194BB	Winnings from Horse Race	5,000	10,000
194C	Payments to Contractors	75,000 (Annual limit)	1,00,000 (Annual limit)
194D	Insurance commission	20,000	15,000
194LA	Payment of Compensation on acquisition of certain Immovable Property	2,00,000	2,50,000
194DA	Payment in respect of Life Insurance Policy	2%	1%
194EE	Payments in respect of NSS Deposits	20%	10%
194G	Commission on sale of lottery tickets	A) Threshold limit of 1,000 B) Rate - 10%	A) Threshold limit of 15,000 B) Rate - 5%
194H	Commission or brokerage	A) Threshold limit of 5,000 B) Rate - 10%	A) Threshold limit of 15,000 B) Rate - 5%

Rationalisation of penalty provisions

Penalty for 'under-reporting' or 'mis-reporting' of income

- With a view to bring certainty to penalty provisions, a new section has been introduced in the Income Tax Act from FY 2016-17
- Salient aspects of the amendment are:
- Penalty on “under-reporting” of income:
  - Penalty equal to 50% of the amount of tax payable on the “under-reported” income may be levied except where:
  - the taxpayer offers satisfactory explanation and discloses all material facts
  - under-reported income is determined based on an estimate in absence of a suitable method, or the taxpayer provides a lower estimate along with the basis of estimation and all material facts
  - taxpayer has maintained prescribed TP documentation and reported the international transaction
  - undisclosed income related to search operation
- Penalty on “misreporting” of income
- Penalty equal to 200% of the amount of tax payable on the “under-reported” income may be levied

Penalty in case of Search

- It is proposed to levy penalty at a uniform rate of 60% on undisclosed income as against a discretionary range existing currently

Measures are aligned to the government’s stated intentions of minimising litigation

Compliance procedures

Amendment to time limit for filing of Return of Income

Provisions relating to filing of return of income are amended as under:

- Persons earning exempt income are mandatorily required to file a return of income
- Time limit for filing a belated return of income has been reduced to the end of the relevant AY instead of one year from the end of relevant AY
- Belated return can now be revised within an expiry of one year from the end of the relevant AY or before the completion of the assessment, whichever is earlier
- Non payment of self-assessment tax and interest will not automatically render a return defective

Interest on refund

- Grant of refund aligned to date of filing of return
- An assessee shall be eligible to interest on refund of self-assessment tax beginning from the date of payment of tax or filing of return, whichever is later
- Additional interest of 3% for delay refunds arising out of orders giving effect to appellate orders

These proposals are measures for rationalisation and streamlining of tax compliance procedures

Rationalising litigation procedures

Legal framework for paperless assessments

- E –form notices/ documents may now be issued notices by the tax authorities replacing paper form. Similarly, submission of data and documents to the tax authorities will be allowed in e-form.
- These provisions will be applicable from 1 June 2016

Time limit for filing of appeal with CIT(Appeals)

- An appeal before the CIT(Appeals) is to be filed within 30 days of receipt of notice of demand. However, in cases where the assessee makes an application seeking immunity from penalty and prosecution, the time period between the date of making such application and the order rejecting such application shall be excluded for this purpose

Step towards digitisation of compliances procedures doing away with requirement of physical interactions with the tax officers

Rationalisation of ITAT procedures

- Income-tax department cannot file an appeal against the order of the DRP with the ITAT
- The timeline for rectification of any mistake apparent from record by ITAT has been reduced from 4 years to 6 months
- Single bench member of ITAT may dispose of cases where total income as computed by the Assessing Officer does not exceed Rs 50 lakhs

Deductibility of expenses pertaining to exempt income

- It is proposed to limit the disallowance of expenditure for earning exempt income to1% of the average monthly value of investments

Streamlining assessment timelines

Amendments in time limits for assessment, reassessment and recomputation

Nature of assessment	Proposed Timelines	Existing
Scrutiny Assessment (u/s 143) or Best Judgment Assessment (u/s 144)	21 months from the end of AY in which income was first assessable	24 months
Re-assessment (u/s 147)	9 months from the end of the FY in which re-assessment notice was served	12 months
Fresh assessment in pursuance of order of ITAT (u/s 254) or revision of orders (u/s 263/ 264)	9 months from the end of the FY in which subject order is received/ passed	12 months
Introduction of timeline to give effect to appellate and revision orders (cases not requiring any fresh assessment), except pending cases	3 months from the date of passing/ receipt of order	No prescribed timeline
Introduction of timeline to give effect to appellate and revision orders (cases requiring fresh assessment/ re-assessment/ re-computation), except pending cases	12 months from the date of passing/ receipt of order	No prescribed timeline
Assessment proceedings on a partner of a firm, consequential to the re-assessment (u/s 147) made on the firm, except pending cases	12 months from the end of the month of passing the assessment order in case of the firm	No prescribed timeline
Assessment for search cases (u/s 153A)	21 months from the end of FY in which search authorisation was executed	24 months
Assessment of other person when search is conducted (153C)	9 months from the end of FY in which subject information/ assets seized/ requisition were handed over to the AO	12 months

Direct Tax Dispute Resolution Scheme (1/2)

- Proposal to introduce the Direct Tax Dispute Resolution Scheme, 2016 with a view to lessen the backlog of pending tax cases effective 1 June 2016
- The Scheme to cover "'Tax Arrears' and 'Specified Tax', as detailed below:

The Salient Features of the Scheme are as under:

Scheme features

Coverage	Tax Arrears			Specified Tax
Meaning	The amount of tax + interest + penalty under the Income-tax Act (ITA) or Wealth Tax Act, 1957 (WTA) in respect of which appeal is pending before the CIT (Appeals) or the Commissioner of Wealth-tax (Appeals) as on 29 February 2016			Tax consequential to or validated by a retrospective amendment in the Income-tax Act or Wealth-tax Act, relating to a period prior to the date of enactment of such amendment, and dispute in respect of which is pending as on 29 February 2016
Nature of appeal pending	Pending assessment cases		Pending penalty cases	All cases
Disputed tax (excluding interest & penalty)	Rs 10 lakhs or less	More than Rs 10 lakhs	All cases	All cases
Amount required to be paid	100% of tax and interest up to the date of assessment	100% of tax and interest up to the date of assessment, and 25% of minimum penalty	100% of tax and interest up to the date of assessment, and 25% of minimum penalty	100% of the amount of tax

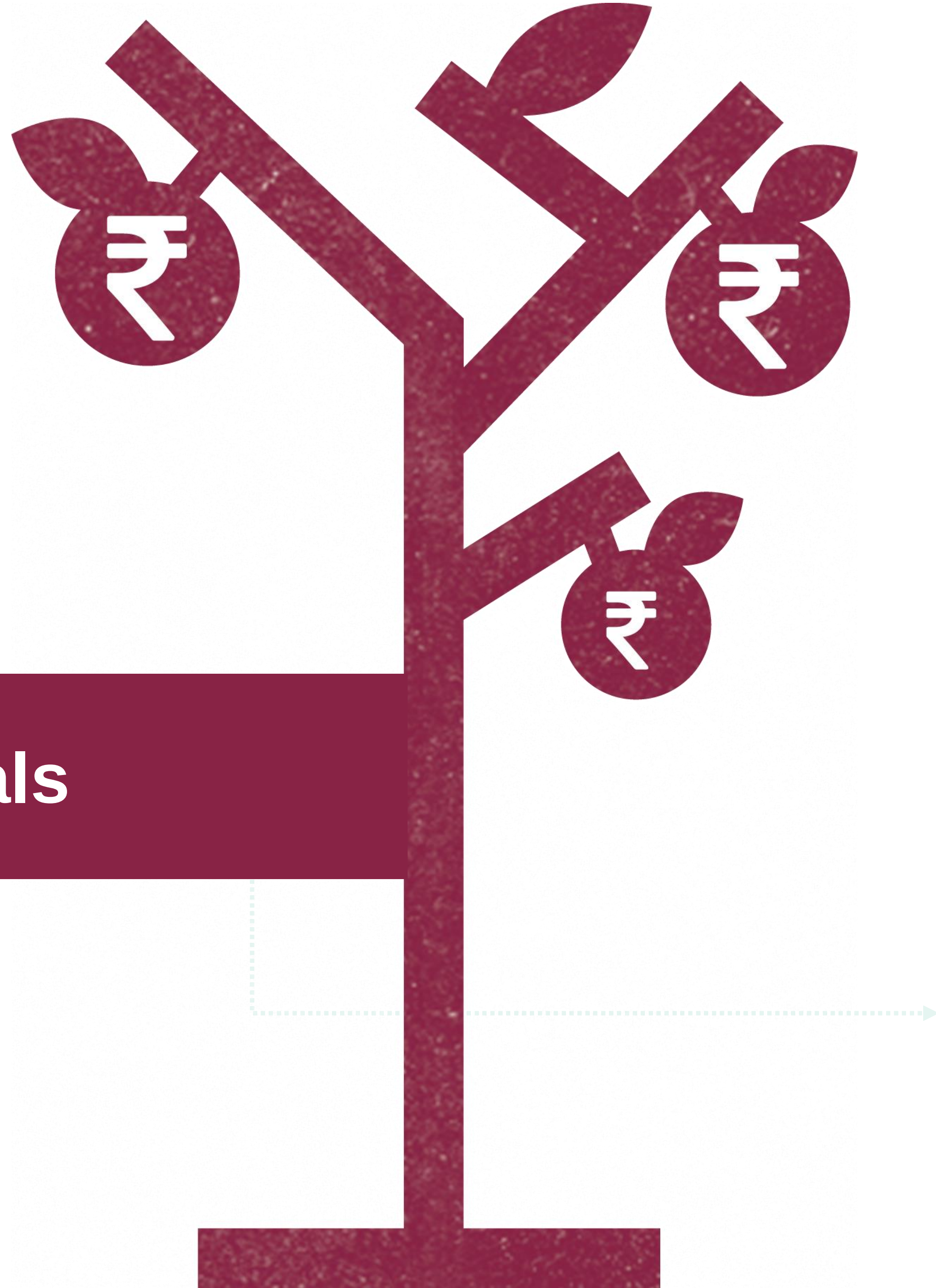
Direct Tax Dispute Resolution Scheme (2/2)

Scheme features

(…contd)

Coverage	Tax Arrears	Specified Tax
Eligibility	The following would not be eligible for the Scheme: • All cases covered in case of 'Specified Tax' • Search or survey cases • Cases based on information received under a DTAA	The following would not be eligible for the Scheme: • Cases where prosecution has been initiated before 29 February 2016 • Cases relating to undisclosed foreign income and assets • Cases or persons covered under the Indian Penal Code and certain other specified Acts
Impact/ Obligations	• Deemed withdrawal of the subject appeal relating to the disputed income or wealth • Immunity from any prosecution proceedings under the ITA / WTA • Immunity from imposition of penalty and interest in excess of the amount payable under the Scheme	• Immunity from any prosecution proceedings under the ITA / WTA • Immunity from imposition of any penalty and interest
Other obligations/ guidelines	• In case declaration relating to Specified tax, the declarant would be required to withdraw writ petition / appeal filed against such specified tax. Also, declarant is required to furnish an undertaking waiving his right to seek any remedy in relation to specified tax otherwise available in any other law, failing which the declaration would be deemed to be void ab-initio • Designated authority to determine the amount payable within 60 days of receipt of declaration • Declarant to pay the amount within 30 days of passing such order. The said amount is not refundable under any circumstances • The above matter cannot be reopened in any other proceedings under ITA / WTA • Central Government to be empowered to issue directions, orders, instructions for proper administration of the scheme upto a period of 31 May 2018	

Transfer pricing proposals



Transfer pricing proposals

Revised reporting standards for Multinational Enterprise

- In keeping with India's commitment to implement the BEPS action points, country-by-country (“CbC”) reporting has been proposed to be implemented for multinational enterprise. The FM announced a threshold of € 750 mn (Rs. 5,395 crores) on consolidated group revenue for CbC reporting. Detailed documentation requirements to be prescribed.
- To ensure adequate compliance with the new CbC reporting standard, onerous penal consequences have been introduced including daily non-compliance escalating penalties from Rs 5,000 to 50,000 per day.
- The new reporting standard is applicable from FY 2016-17 and is required to be filed on or before the due date of filing income tax return.

Three-tiered documentation approach

The memorandum provides guidance on the documentation, wherein following three-tiered structure has been proposed:

I. a master file containing standardised information relevant for all multinational enterprises (“MNE”) group members;

II. a local file referring specifically to material transactions of the local taxpayer; and

III. a CbC report containing certain information relating to the global allocation of the MNE's income and taxes.

Transfer pricing proposals

Salient features

- Indian entity to furnish CbC report if it is a parent entity or the alternate reporting entity
- Indian constituent entity ("CE") to furnish the CbC report if the country of parent entity or the alternate entity:
  - does not have any exchange agreement with India; or
  - has failed to exchange such information and the same has been intimated to prescribed authority;
- Indian entity also to furnish CbC report in case the alternate entity fails to file the same by due date of filing income tax return

Penalty provisions in case of non-compliance with revised reporting standards

Default	Amount of penalty
Failure to furnish CbC report to the prescribed authority	• Rs 5,000 per day, where period of failure does not exceed one month • Rs. 15,000 per day for every day beyond the above period • Rs. 50,000 per day, if the default continues beyond date of service of penalty order
Failure to produce information before the prescribed authority for checking accuracy of data contained in CbC report	• Rs. 5,000 for every day during which default continues • Rs. 50,000 per day, if the default continues beyond date of service of penalty order
Furnishing inaccurate particulars in CbC report or non-furnishing of prescribed documentation	Penalty of Rs. 5,00,000 may be imposed

The new documentation requirements comes coupled with stringent penalties to ensure adherence to the revised reporting standard

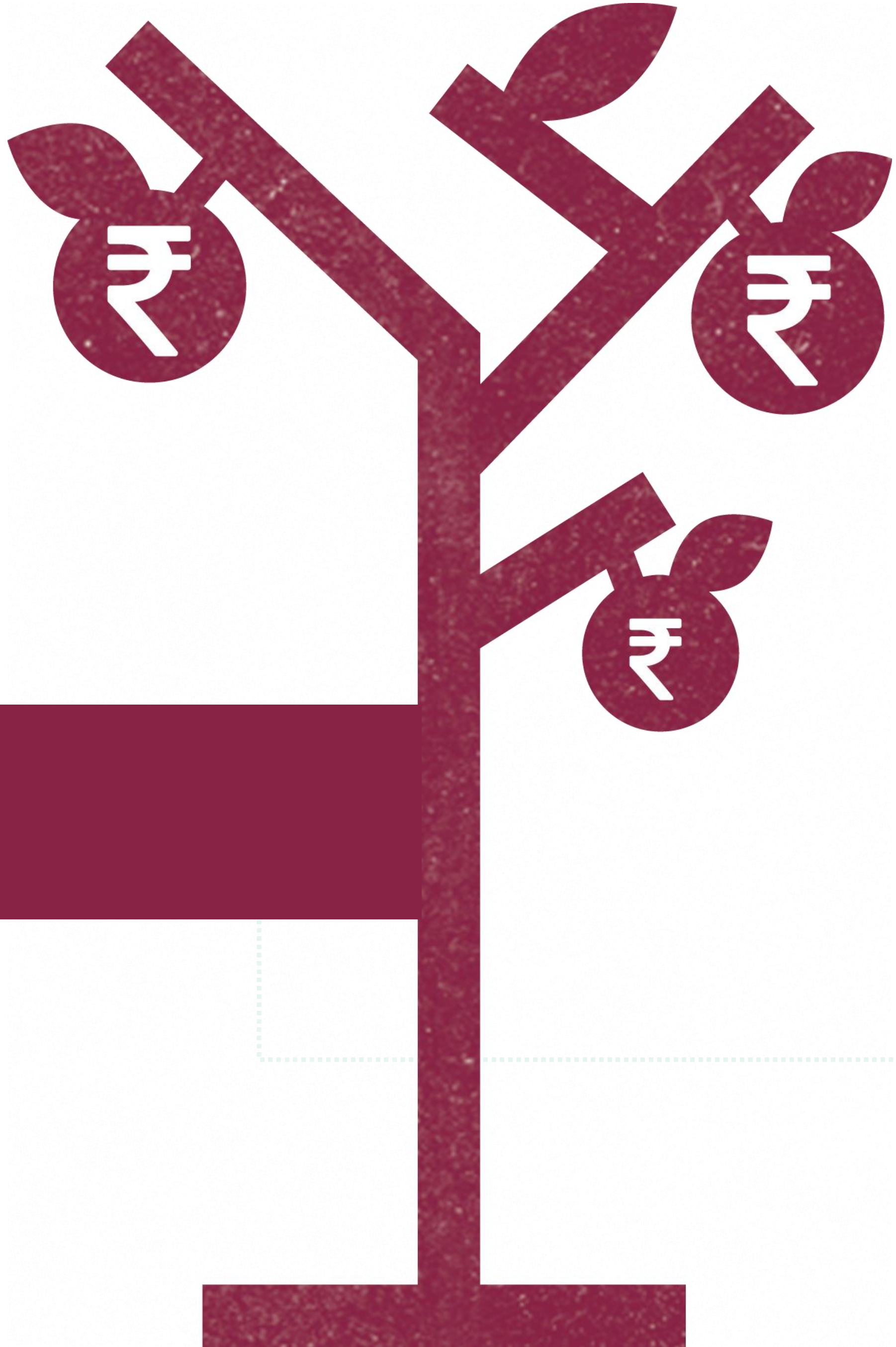
Transfer pricing proposals

AO's power to challenge DRP's directions

- Proposal to do away with AO's power to challenge DRP's directions
- Proposed amendment to apply w.e.f. 1 June 2016
- Move in line with government's decision to minimise litigation

> The reversal to earlier regime is aimed at reducing litigation. However, the apprehension is that no recourse to appeal by revenue against DRP directions may influence the decision making process

Indirect tax proposals



Goods and Service tax

GST preparedness

- No change in the current status-quo on passing the GST Constitution Amendment Bill. The bill is currently pending with the Rajya Sabha (Upper House of Parliament)
- The Central Government may attempt to pass the GST Constitution Amendment Bill despite differences with key opposition parties in the next parliament session
- Tentative implementation date of GST remains at 01 April 2017 although time running out for both Government and Industry to meet this timeline

No concrete announcements around GST preparedness, lack of political consensus continues to create ambiguity on a realistic implementation date

Customs duty

Tariff changes – product wise

Effective from 1 March 2016

- Refer Annexure
  http://gtw3.grantthornton.in/assets/union_budget/2016-17/Budget_2016-17_Customs_Rate_Change.pdf

Ease of business

Effective from 01 March 2016

- Project Import Regulations amended to include projects relating to specified cold chains
- Exemption to parts of aircraft imported under Standard Exchange Scheme subject to fulfilment of conditions specified

Effective from 1 April 2016

- New Baggage Rules notified allowing for duty-free articles limit increased to Rs 50,000
- Amendment to Customs Baggage Declaration Rules waiving requirement to file declaration to passengers who have nothing to declare
- Regulations amended to:
  - Replace registration with a mere application detailing out intention to avail the exemption
  - Allow re-export or clearance of unutilised or defective goods
- Rate of interest reduced from 18% to 15% on delayed/short-payment of Customs duty

Procedural relaxations, reduction of interest rates on delayed payment of duty to aid ease in imports

Customs duty

Ease of business

Effective from date of enactment of Finance Bill 2016

- Amendment in Customs Act to provide facility to defer payment of duties for certain class of importers/exporters as prescribed by Rules to be notified
- Interest provisions changed to reflect above amendment
- Enabling Special Warehouse licenses for storage of dutiable goods; to enable storage of specific goods subject to physical controls of the department and power to cancel licenses
- Capital goods intended for use in EOU/EHTP/STPI to be treated as warehoused goods till their clearance from warehouse
- Warehousing period for all other goods extended to 1 year with further extension permitted 1 year at a time
- Amendment to provide for cancellation of warehousing Bond in case of transfer of ownership
- Various notifications pertaining to Advance License and Duty Free Import Authorisation Schemes amended retrospectively to correct reference under relevant provisions for exemption from safeguard duty

Amendments aimed at easing importer hardships

Customs duty

Other changes

Effective from date of enactment of Finance Bill 2016

- Powers of Central Government to levy transitional product specific safeguard duty proposed to be removed

Effective from 01 January 2017

- Editorial changes in Harmonised System of Nomenclature in certain chapters to be incorporated in First Schedule of Customs Act

Central excise duty

Key changes

Effective from 01 March 2016

- Retail Sales Price (RSP) based abatement on all footwear increased from 25% to 30%
- Scope of "deemed manufacture" for RSP based assessments extended to following goods
  - Accessories of motor vehicles; with abatement of 30%
  - Soaps/washing preparations of all kinds; with abatement of 30%
  - Wrist wearable devices (smart watches); with abatement of 35%
  - Aluminium foils of thickness not exceeding 0.2mm; with abatement of 25%
- Clean Energy cess on coal, lignite and peat renamed as '**Clean Environment cess (CEC)**'; increased to Rs 400 per tonne
- **Infrastructure cess** introduced from Nil to 4% as specified on motor vehicles other than those notified
- Tariff value in respect of specified articles of apparels, clothing accessories and other specified made up textile articles increased from 30% to 60%
- Existing abatement of 70% on value of specified articles of jewellery done away with; option to pay 1% duty without CENVAT credit or 12.5% duty with CENVAT credit

Sectoral changes in tariff to align taxable values to market reality; infra cess levied on auto without credits

Central excise duty

Tariff changes

Effective from 01 March 2016

- Refer Annexure (Slide 81)

Procedural relaxations

Effective from 01 March 2016

- Single registration of two or more manufacturing premises in a close area of a factory undertaking interlinked processes
- Chartered Engineer certificate instead of prior approval from Central Excise authorities for rebate claims on excisable goods used in manufactured goods exported to countries other than Bhutan
- Registration/procedures relaxed for specified jewellery manufacturers

Effective from 01 April 2016

- Reduction in interest rates from 18% to 15% per annum on delayed payment of duty
- New concessional duty rules allowing duty concessions on self-declaration basis instead of prior permission basis
- Number of Central Excise returns to be filed by a manufacturer (including EOU's) reduced from 27 to13 in a year (12 monthly returns and 1 Annual return)
- Revised returns under Central Excise introduced
- Where invoices are digitally signed, no need for manual attestation on duplicate copy of invoice meant for transporters

Effective from date of enactment of Finance Bill, 2016

- Limitation period extended from 1 year to 2 years for normal recovery of tax
- Scope of instructions/orders/clarifications widened to cover any matter in relation to implementation of provisions of Central Excise

Central excise duty

Other changes

Effective from 01 March 2016

- Concessional Excise duty of 6% on specified goods for use in manufacture of electrically operated vehicles/hybrid vehicle extended indefinitely
- Exemption from Excise duty provided to 'Capital Goods and spares thereof raw material, parts, material handling equipment and consumables for repairs of Ocean going vessels by a ship repair unit'
- Excise duty of 8% on Aviation Turbine Fuel for supply to scheduled commuter airline from regional connectivity scheme airports
- Area Based Exemption for production of refined Gold and Silver from Gold dore and Silver dore withdrawn for new units and substantial expansion
- Excise duty exemption provided to value of IT software on media (non RSP) on which service tax has been paid
- Area based exemption allowed to Industrial units, located in north eastern region including Sikkim, which undertakes substantial expansion (but not less than 25%) before 31 March 2017 and commences commercial production before such date

Reinstatement of excise exemption on IT software in media form welcome move to avoid dual taxation

Central Excise duty

Other changes

Effective from 01 March 2016

In case of higher duty amounts being finalised under provisional assessments, interest would be payable from due date of payment of Excise duty

Effective from 01 January 2017

Editorial changes made in Central Excise law for alignment in accordance with Harmonised System of Nomenclature (HSN)

Aligning Central Excise law with HSN to bring interpretations in line with GATT

Infrastructure cess

Introduction of new levy

Effective from 01 March 2016

- Infrastructure Cess proposed to be levied at specified rates on motor vehicles
  - 4% on specified motor vehicles falling under Chapter 8,703
  - 1% on Motor vehicles of length not exceeding 4,000 mm, namely petrol, LPG or CNG driven vehicles of engine capacity not exceeding 1200 cc
  - 2.5% on Motor vehicles of length not exceeding 4,000 mm, namely diesel driven vehicles of engine capacity not exceeding 1500 cc
- All other motor vehicles falling under Tariff 8,703 except above notified and certain other notified vehicles such as ambulance/ taxi/electrically operated vehicles/hybrid motor vehicles etc. have been exempted from levy of this cess, subject to fulfillment of specified conditions
- CENVAT Credit cannot be utilised for payment of Infrastructure cess.

Levy of Infrastructure Cess against the spirit of GST and a possible dampner for the Auto Industry

Oil Industry Development cess

Change in rate

(effective from date of enactment of Finance Bill, 2016)

Product	Old rate	New rate
Domestically produced crude oil	4,500 per MT	20% ad valorem

Replacing specific duty with ad valorem duty structure to align cess collections with crude prices

CENVAT Credit Rules

All changes are effective from 01 April 2016 except where otherwise specified

Changes to definitions

- Definition of '**capital goods**' expanded to include specified goods used in office/railway wagons etc.
- Definition of '**input**' expanded to include all capital goods of value up to Rs 10,000 per piece
- Definition of '**exempted service**' to exclude services by way of transportation of goods by a vessel from customs station of clearance in India to a place outside India (effective 01 March 2016)

Further liberalisation of Credit regime by expansion of existing definitions is in line with proposed GST intent

CENVAT credit rules

Changes in CENVAT reversals for taxable and exempt manufacturers/service providers

- CENVAT credit reversals undergoes significant changes, as under:
  - Exempted services will include an activity, which is not a service (for e.g. trading of goods)
  - Option of maintaining separate books earlier available under Rule 6(2) replaced with specified methods highlighted below depending on the nature of output activity
  - CENVAT credit on capital goods exclusively attributable to exempted activity now proposed to be claimed after two financial years from commencement/ installation

CENVAT credit (except CG) attributable to	CEVANT credit availability
Exclusively exempted goods / services	Not allowed in entirety
Exclusively non-exempted goods / services	Allowed in entirety
Common CENVAT credit	To be reversed in the ratio of exempted turnover to sum of exempted and non-exempted turnover for the pervious financial year *

* where no activity done in previous financial year, CENVAT credit reversal to be 50% of common credit

- Monthly reversal to be computed based on pervious financial year's turnover
- Interest rate for non-reversal of CENVAT credit reduced from 24% to 15% per annum
- For banks, financial institutions and non-banking finance companies, option given to either follow above method or opt for 50% reversal of eligible credits of inputs and input services

Ambiguity around reversal of common credit likely to be eliminated

CENVAT credit rules

Restrictions/ Conditions on CENVAT credits (Effective from 01 March 2016)

Type of tax/duty/cess	Credit restrictions/conditions
National Calamity Contingency Duty (NCCD)	Cannot be paid by using CENVAT Credit
Infrastructure Cess	Cannot be paid by using CENVAT Credit
Service tax paid on right to use natural resources assigned by Government or any other person	CENVAT credit spread over the period of time for which right to use is assigned
Duties paid on capital goods for manufacturers of specified articles of jewellery	Turnover limit for claiming CENVAT credit increased from Rs 4 crores to Rs 12 crores

Relaxations on CENVAT credits (Effective from 01 April 2016)

Type of inputs/capital goods	Credit relaxations
Jigs, fixtures, moulds and dies or tools falling under Chapter 82	CENVAT credit allowed to principal manufacturer even if goods are directly sent to premises of job worker
Goods at the premises of job worker	Permitted period for storage of goods extended from one to three financial years subject to approval

Procedural tweaks to CCR to rationalise flow of credits where desired

CENVAT credit rules

Change in time limit for filing refund claims under Rule 5 of CCR

- Service providers can file refund claim before the expiry of one year from the following dates:
  - Date of receipt of payment, where service has been already provided
  - Date of issue of invoice, where payment has been received in advance prior to issuance of invoice

> Much need clarity provided to end refund related litigations

Expansion of Input Service Distributor mechanism

- Input Service Distributor (ISD) allowed to distribute CENVAT credit to an outsourced manufacturing unit with requirement to maintain separate account for credit received from each ISD
- Applicable credit reversals to be done by outsourced manufacturing units separately for each ISD
- Transitional provision inserted to clarify that credit available with ISD as on 31 March 2016 not to be transferred to any outsourced manufacturing unit

> Extension of ISD facility to outsourced manufacturing units to allow easy credit flow

CENVAT credit rules

Other changes

- CENVAT credit of inputs transferred from Manufacturer warehouse can be taken on invoice raised by such warehouse
- CENVAT credit of inputs or capital goods can be claimed basis the invoice raised by a service provider
- Manufacturer/ Service provider required to file annual return by 30 November of succeeding year in format to be prescribed
- Hierarchy for utilisation of CENVAT credit deleted

Service tax

Expansion in scope of levy

Effective from 01 April 2016

- Service tax exemption withdrawn for following activities:
  - legal services provided by Senior Advocate to an advocate or partnership firm of advocates
  - person represented on an arbitral tribunal to an arbitral tribunal
  - transport of passengers by ropeway, cable car or aerial tramway
- Insurer carrying out life insurance business has option to pay service tax at 1.4% for single premium policies

Effective from 01 June 2016

- Service tax exemption withdrawn for import of goods by vessel from outside India to customs station in India
- Levy of service tax on air-conditioned stage carriage for transportation of passengers

Effective from date of enactment of Finance Bill, 2016

- Declared Service to include assignment of the right to use the radio-frequency spectrum by government and subsequent transfers thereof to attract service tax

Topical changes to service tax; key insertion is assignment of right to use R/F Spectrum as declared service attracting service tax

Service tax

Changes in abatements to taxable value

Effective from 01 April 2016

- Single abatement prescribed for construction services of complex, building, civil structure at 70% of value
- Abatement rationalised for tour operators as under:
  - 70% of value for services other than booking or arranging for accommodation
  - 90% of value in case cost of accommodation is included in tour package
- Abatement at 60% of value on:
  - transport of passenger by air-conditioned stage carriage
  - goods transport agency for transport of used household goods
  - transport of goods in containers by rail by any person other than Indian Railways (abatement at 70% for Indian Railways)
- CENVAT credit of input services allowed in respect of transportation of goods by rail/vessel and/or passenger by rail, where tax is paid on abated value

Changes in abatements to taxable value to reduce tax litigation and remove ambiguities

Service tax

Exemptions introduced

Effective from 01 July 2012

- Exemption restored on construction and maintenance of canal, dam, etc. or other irrigation works
- Refund available to service providers for past period, subject to conditions

Effective from 01 March 2015 - for contracts already entered and appropriate stamp duty paid before 01 March 2015 with sunset date of 31 March 2020

- Specified construction services provided to Government (civil structure for use other than for commerce, industry or any other business or profession, educational, clinical, art or cultural establishment, self use residential complex)
- Service provided by way of construction of original works pertaining to airport/port

Effective from 01 March 2016

- Specified educational programmes offered by IIMs (except executive development programmes)
- Customised software sold through media bearing RSP on package exempted subject to payment of customs/ excise duty on value of media and software

Service tax

Exemptions introduced

Effective from 01 April 2016

- Increase in exemption limit from Rs 1 lakh to Rs 1.5 lakhs on performing artists for each appearance in folk/ classical art forms of music, dance and theatre
- Service tax exemption extended to following services:
  - Life insurance services by way of annuity under National Pension Scheme (NPS)
  - General insurance services provided under Niramaya Health Insurance Scheme
  - Services by SEBI to promote and protect the interest of investors and to regulate securities markets
  - EPFO to employees of the organisation
  - biotechnology incubators approved by biotechnology incubators industry research assistance council
  - Specified National Centre for cold chain development
  - Insurance Regulatory & Development Authority (IRDA)
  - Skill/vocational skill training by Deen Dayal Upadhyay Grameen Kaushalya Yojana training partners
  - Assessing bodies empanelled centrally by Directorate General of Training

Topical exemptions introduced to support Government's priorities of benefiting rural India & infra sectors

Service tax

Other key changes

Effective from 01 April 2016

- Annual Return for specified assessees to be filed by 30 November

Effective from 01 June 2016

- Krishi Kalyan Cess (KKC) at 0.5% of value on all taxable services - Effective service tax to increase to 15% (inclusive of SBC and KKC)
- KKC paid on input services adjustable against output KKC liability

Effective from date of enactment of Finance Bill, 2016

- Interest rates for delayed payment of service tax reduced from existing slabs of 18/24/30% to flat rate of 15%
- Interest rates where service provider collected but not deposited service tax proposed at 24%
- Interest subvention of 3% to small service providers with revenue upto Rs 60 lakhs
- Normal period for issuance of Show Cause Notice increased from 18 to 30 months
- Indirect tax Dispute Resolution Scheme 2016 introduced to reduce litigations
- Monetary limit for prosecution offences to be enhanced from Rs 50 lakhs to Rs 2 crores
- Penalty proceedings against Director/Manager/Officer of Company for evasion or failure to pay service tax shall be deemed to be concluded if main demand/ proceeding is closed

Clarifications issued

- Incentives received by air travel agents from Computer Reservation Systems companies taxable

Service tax

Changes in "reverse charge" mechanism
Effective from 01 April 2016

- Following services removed from list of domestic reverse charge:
  - Legal services provided by senior advocates
  - Mutual fund agents/brokers providing services to Fund/ AMC
- Reverse charge extended to all services provided by Government to business entities

Exemptions withdrawn
Effective from 01 March 2016

- Exemption from construction, erection, etc. of original work pertaining to monorail or metro

Introducing KKC against spirit of GST due to adding of cesses to basic tax charged

Indirect tax dispute resolution scheme

Brief on Coverage	• All Disputes pending at Commissioner (Appeals) as on 01 March 2016 under Customs/Central Excise/Service Tax • Disputes relating to other legislation (except mentioned above) are not covered • Pending dispute relating to refund are not covered • Ambiguity with regard to manner and depth of declaration to be filed before the revenue authorities
Procedure	File declaration pertaining to each order within prescribed timelines and pay tax along with interest and 25% of penalty
Time Limit	Declaration has to be filed on or before 31 December 2016
Benefits	• Against orders for which schemes has been opted, pending appeal would be disposed off and applicant to get immunity from all proceedings under the respective Acts • Balance penalty of 75% would also be waived off • Restriction on revenue authorities to reopen case in respect of which declaration has been filed under this scheme
Non-Eligible category of cases	• Order is respect of search and seizure • Cases where prosecution has been instituted before 01 June 2016 • Order in respect of narcotics drugs or prohibited goods • Offence punishable under Indian Penal Code, the Narcotic Drugs and Psychotropic Substances Act, 1985 or the Prevention of Corruption Act, 1988 • Any detention order passed under Conservation of Foreign Exchange and Prevention of Smuggling Act, 1974

The scheme is a welcome change as it would ensure speedy disposal of cases pending before Commissioner (Appeals)

Central Sales Tax Act

Clarification in charging section

(effective from date of enactment of Finance Bill 2016)

Gas sold, purchased or transported through common pipeline or system from one state and taken out from another state to be treated as deemed interstate movement of sale, purchase of goods

Relief for Oil & Gas sector by reducing litigation

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Annexure - Central Excise duty

Tariff changes – productwise (increase)

Effective from 1 March 2016

Product	Old rate	New rate
Pan Masala	16%	19%
Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured waters	18%	21%
Cigar and cheroots	12.5% or Rs 3,375 per thousand, whichever is higher	12.5% or Rs 3,755 per thousand, whichever is higher
Cigarillos	12.5% or Rs 3,375 per thousand, whichever is higher	12.5% or Rs 3,755 per thousand, whichever is higher
Cigarettes of tobacco substitutes	Rs 3,375 per thousand	Rs 3,755 per thousand
Cigarillos of tobacco substitutes	12.5% or Rs 3,375 per thousand, whichever is higher	12.5% or Rs 3,755 per thousand, whichever is higher
Others of tobacco substitutes	12.5% or Rs 3,375 per thousand, whichever is higher	12.5% or Rs 3,755 per thousand, whichever is higher
Gutkha	70%	81%

Annexure - Central Excise duty

Tariff changes – productwise (increase)

Effective from 1 March 2016

Product	Old rate	New rate
Chewing Tobacco (including filter khaini)	70%	81%
Zarda Scented Tobacco	70%	81%
Unmanufactured Tobacco	55%	64%
Aviation Turbine Fuel (ATF) other than supply to Schedule Commuter Airlines from Regional Connectivity Scheme Airports	8%	14%
Sacks and bags of polymers of any plastics	15%/12.5%	15%
PSF / PFY manufactured from plastic scrap or plastic waste including waste PET bottles	6% with CENVAT credit	12.5% with CENVAT credit
Branded readymade garments and made up articles of textiles of RSP of Rs 1,000 or more	Nil (without CENVAT credit) or 6%/12.5% (with CENVAT credit)	2% (without CENVAT credit) or 12.5% (with CENVAT credit)
Articles of jewellery including studded with diamond, ruby, emerald or sapphire	Nil	1% (without CENVAT credit) or 12.5% (with CENVAT credit)
Silver manufactured from silver ore or concentrate; silver dore bar and gold dore bar	8%	8.5%

Annexure - Central Excise duty

Tariff changes – productwise (increase)

Effective from 1 March 2016

Product	Old rate	New rate
Silver manufactured from silver ore or concentrate; silver dore bar and gold dore bar	8%	8.5%
Specified Gold bars manufactured from gold ore or concentrate; gold dore bar and silver dore bar	9%	9.5%
Gold bars and gold coins of purity not below 99.5%, produced during the process of copper smelting	9%	9.5%
Silver in any form, except silver coins of purity below 99.9%, produced during the process of copper smelting	8%	8.5%
Silver produced during the process of zinc or lead smelting	8%	8.5%
Disposable aluminum foil containers	2% (without CENVAT credit) and 6% (with CENVAT credit)	2% (without CENVAT credit) and 12.5% (with CENVAT credit)
Charger/adapter, battery and wired headsets/speakers, for manufacture of mobile handsets including cellular phone, subject to actual user condition	Nil	2% without CENVAT credit / 12.5% with CENVAT credit
Specified Rotor blades and intermediates, parts and sub-parts of rotor blades for wind operated electricity generators	Nil	6%

Annexure - Central Excise duty

Tariff changes – productwise (decrease)

Effective from 1 March 2016

Product	Old rate	New rate
Consumer Premise Equipment (routers, broadband modems, set top boxes, reception apparatus for TV but not designed to incorporate a video display, Digital Video Recorder (DVR)/Network Video Recorder (NVR), CCTV Camera/IP Camera, Lithium-ion batteries other than those for mobile handsets including cellular phones	12.5%	4% without CENVAT credit / 12.5% with CENVAT credit
Carbon pultrusions, for manufacture of rotor blades and intermediates, parts and sub-parts of rotor blades for wind operated electricity generators	12.5%	6%
Rubber sheets & resin rubber sheets for soles and heels	12.50%	6%
Goods for use in manufacture of centrifugal pumps namely shafts, sleeve, chamber, impeller, washer and electric motor	12.5%	6%
Solar Lamp	12.50%	Nil
Disposable sterilised dialyzer and micro barrier of artificial kidney	12.50%	Nil
Inputs , parts and sub-parts for use in manufacture of charger/adapter, battery and wired headsets /speakers of mobile handsets including cellular phone subject to actual used condition	12.5%/ Nil	Nil
Parts of railway or tramway locomotives or rolling stock and railway or tramway track fixtures and fitting, etc.	12.50%	6%

Annexure - Central Excise duty

Tariff changes – productwise (decrease)

Effective from 1 March 2016

Product	Old rate	New rate
Inputs , parts and sub-parts for use in manufacture of charger/adapter, battery and wired headsets /speakers of mobile handsets including cellular phone subject to actual used condition	12.5%/ Nil	Nil
Parts, components and accessories and sub parts for use in manufacture of routers, broadband Modems, Set-top boxes for gaining access to internet, set top boxes for TV, digital video recorder (DVR) / network video recorder (NVR), CCTV camera / IP camera, lithium ion battery [other than those for mobile handsets]	12.5%	Nil
Refrigerated containers	12.50%	6%
Tools and tool kits for maintenance, repair, and overhauling of aircraft	12.50%	Nil

Central Excise duty

Additional Excise duty; Tariff changes – productwise

Effective from 1 March 2016

Product	Old rate	New rate
Filer and Non Filer Cigarettes	**Rs per 1000 sticks**	
Non filter not exceeding 65	70	215
Non-filter exceeding 65 but not exceeding 70	110	370
Filter not exceeding 65	70	215
Filter exceeding 65 but not exceeding 70	70	260
Filter exceeding 70 but not exceeding 75	110	370
Other	180	560