Overview of the Union Budget

2015-16

Foreword

I think this is a very pragmatic and forward looking budget with a vision which goes beyond just this fiscal. The Finance Minister has shown courage and pragmatism in doing away with Wealth Tax and increasing the surcharge on the super-rich, laying down key features of the law on concealment of foreign sourced income and assets with punitive penalties and prosecution. Bringing the corporate tax rates down to 25% (at par with China) over the next four years along with schemes and policies on skill development and Make in India, reiterating that doing business in India would be made easy by giving a fundamental framework, compliance of which would be adequate to commence operations subject to formal approvals, reiterating GST introduction by 2016 and deferring GAAR by two years with an added statement that its implementation would not be retrospective, bolsters India's position as a favoured investment destination.

Every significant sector, be it infrastructure, defence, tourism, financial markets, micro-finance and environment, has been touched. The government is committed to reduce fiscal deficit to 3% of GDP over the next three years, while the government appreciates that subsidies in some sectors are required, its efforts to make their dispersal more efficient by plugging any leakages, is laudable.

Every budget is a balancing act and this one is no exception. Rate of service tax has increased from 12.36% to 14% and the negative list has been pruned further to broaden the tax base, surcharge on DDT is 12% (as against 10% earlier). The long-standing demand to reduce MAT has not been addressed, particularly for SEZs, which were being looked upon as engines of growth for Make in India. Tax issues around REIT have not been adequately addressed. While the applicability of MAT on FIIs has been clarified prospectively, the treatment of the current tax notices has not been addressed.

On the whole, with an eye on fuelling growth of the economy without losing sight of its investments in the social sector, giving Yoga the importance it deserves here in the country of its origin and minting coins with the Ashok Chakra imprint –all of which evokes national pride, this budget seems to have done well on all scores!

Pallavi J Bakhru
Director
Grant Thornton Advisory Private Limited

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Budget snapshot

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03 Punishments to include imprisonment and penalty of 300% of tax evaded

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02 Additional depreciation for new manufacturing facilities in Andhra Pradesh and Telangana

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Budget snapshot

Procedural simplification

01 Wealth Tax Act, 1957 to be abolished. Assets to be reported in income-tax return. Replaced by an additional 2% surcharge on income over Rs 1 crore

02 Minimum alternate tax on FIIs to be rationalised

03 Domestic transfer pricing to be applicable for transactions over Rs 20 crore

04 Time limit for availing CENVAT credit extended to one year from six months

05 Digitally signed documents and electronic records required for Indirect tax. Registrations shall be granted within two days from application

06 Excise duty consolidated @ 12.50%, subsuming cess

Budget snapshot

Swachh Bharat

01 100% deduction from income for contribution to Swachh Bharat Kosh and Clean Ganga Fund

02 Custom duty concessions for electric and hybrid vehicles extended up to 31 March 2016

03 Clean energy cess doubled from 100% to 200%

04 Swachh Bharat cess @ 2% on the value of taxable service may be levied, if needed

05 Effluent treatment plants exempt from Service Tax

06 Use of bags and sacks of ethylene polymers discouraged by increase of excise duty from 12% to 15%

Budget snapshot

Benefits to individuals

01 Health insurance premium deduction raised to Rs 25,000 from Rs 15,000. For senior citizens, the limit shall be raised to Rs 30,000

02 Deduction for contribution to specified pension schemes up from Rs 100,000 to Rs 150,000

03 Very senior citizens (over 80 years of age) shall be permitted Rs 30,000 deduction for expense on medical treatment, if they are not covered by health insurance

04 Differently-abled persons to get additional deduction of Rs 25,000

05 Additional deduction of Rs 50,000 provided under the New Pension System

06 Transport allowance doubled from Rs 800 per month to Rs 1600 per month

Key policies and announcements

Key policy announcements

Budget estimates

- Total expenditure is budgeted at Rs 17.77 lakh crore and planned expenditure is budgeted at Rs 4.65 lakh crore for FY 2015-16
- Gross tax receipts are estimated to be Rs 14.49 lakh crore. Devolution to the states is estimated to be Rs 5.23 lakh crore and the share of the Central Government shall be Rs 9.19 lakh crore
- Non-tax revenues for the next fiscal year is estimated at Rs 2.21 lakh crore
- Fiscal deficit is estimated at 3.9% of GDP and revenue deficit is estimated at 2.8% of GDP

Rationalisation of key policies

- **General Anti Avoidance Rule** (GAAR) deferred by two years, to come into effect from 1 April 2017. Further, it shall also apply to investments made on or after 1 April 2017
- **Wealth-tax** abolished. Shortfall on account of wealth tax to be met through levy of additional surcharge of 2% on the super-rich that have taxable income over Rs 1 crore
- **Direct Tax Code** shelved as most provisions have been included in the extant Income-tax Act
- Tax pass-through status to be accorded to **Alternative Investment Funds**
- Rationalisation of taxation of share swap by sponsor while listing of units of Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs)

Key policy announcements

Education

A student financial aid authority to be set up to administer and monitor all scholarships as well as educational loan schemes through **Pradhan Mantri Vidya Lakshmi Karyakram.**

Micro, Small and Medium Enterprises

- Proposal to create **Micro Units Development Refinance Agency (MUDRA) Bank**, with a corpus of Rs 20,000 crore, and to facilitate **credit guarantee corpus** of Rs 3,000 crore
- Set up a **trade receivables discounting system (TReDS)**: An electronic platform to facilitate financing of trade receivables of MSMEs

Environment

100% deduction for contributions, other than by way of CSR contribution, to Swachh Bharat Kosh and Clean Ganga Fund

Agriculture

- Rs 5,300 crore to support micro-irrigation, watershed development and **Pradhan Mantri Krishi Sinchai Yojana**
- Target for **agriculture credit flow** to increase to Rs 8,50,000 crore during FY 2015-16
- Rs 25,000 crore allocated to Rural Infrastructure Development Fund - Rs 15,000 crore for long-term rural credit Fund; Rs 45,000 crore for short-term cooperative rural credit refinance fund; and Rs 15,000 crore for short-term RRB refinance fund for attracting higher investments into agriculture
- Proposal to create a **unified national agriculture market** for the benefit of farmers

Key policy announcements

Defence

Made in India and the Make in India policy are being carefully pursued to achieve greater self-sufficiency in the area of defence equipment including aircraft

Power/ Energy

- Target of renewable energy capacity revised to 1,75,000 MW till 2022, comprising 1,00,000 MW for solar, 60,000 MW for wind, 10,000 MW for biomass and 5,000 MW for small hydro power plants
- Proposal to introduce a **Public Contracts** (Resolution of Disputes) Bill to streamline the institutional arrangements for resolution of disputes
- Proposal to introduce a **Regulatory Reform Bill** that will bring about a cogency of approach across various segments within infrastructure
- 5 new **Ultra Mega Power Projects** to be launched, each of 4000 MW, in the plug-and-play mode

Transport

- Tax-free infrastructure bonds to be set up for projects in the rail, road and irrigation sectors. **PPP mode of infrastructure development** to be revisited and revitalised
- Ports that fall under the purview of the public sector, will be encouraged to corporatise and register as companies under the Companies Act, 2013 to attract investment and leverage the huge land resources

Infrastructure

- **National Investment and Infrastructure Fund (NIIF)** to be established with an annual flow of Rs 20,000 crore
- **Self-Employment and Talent Utilisation (SETU)** to be established as techno-financial, incubation and facilitation programme to support all aspects of start-up business. Rs 1,000 crore to be set aside as an initial amount
- An expert committee to examine possibility and prepare a draft legislation where multiple prior permissions can be replaced by a pre-existing regulatory mechanism to help India position itself as a favoured investment destination

Key policy announcements

Financial service

- **Public Debt Management Agency** (PDMA) to be set up by bringing both external and domestic public borrowing under one roof
- Forward Markets Commission to be merged with SEBI
- Proposal to create a **task force** which would serve as a sector-neutral financial redressal agency to address grievances against all financial service providers. **India Financial Code** to be introduced soon in the Parliament for consideration
- **Gold monetisation scheme** to allow depositors of gold to earn interest in their metal accounts and jewellers to obtain loans in their metal account; Sovereign Gold Bond to be developed as an alternative to purchasing metal gold scheme
- Foreign investments in **Alternate Investment Funds** to be allowed
- An autonomous **Bank Board Bureau** to be set up to improve the governance of public sector banks

Employment

- A national skill mission to be launched to consolidate skill initiatives. The scheme would fall under the purview of several ministries
- **Deen Dayal Upadhyay Gramin Kaushal Yojana** to be introduced to enhance the employability of rural youth

Social security

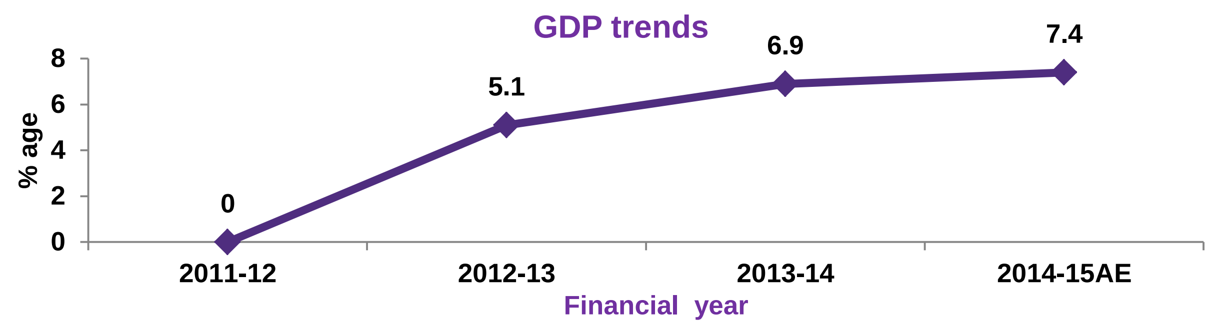
- **Pradhan Mantri Suraksha Bima Yojna** to be introduced to cover accidental death risk of Rs 2 lakh for a premium of just Rs 12 per year
- **Pradhan Mantri Jeevan Jyoti Bima Yojana** to be introduced to cover both natural and accidental death risk of Rs 2 lakh at premium of Rs 330 per year for the age group of 18-50
- Unclaimed deposits of about Rs 3,000 crore in the PPF, and approximately Rs 6,000 crore in the EPF corpus; to be appropriated to a corpus, to subsidise the premiums on social security schemes through creation of a **Senior Citizen Welfare Fund** in the Finance Bill
- Government to bring enabling legislation to allow employees to opt for EPF or the New Pension Scheme. For employees that fall below a certain threshold of monthly income, contribution to EPF should be optional, without affecting employer's contribution

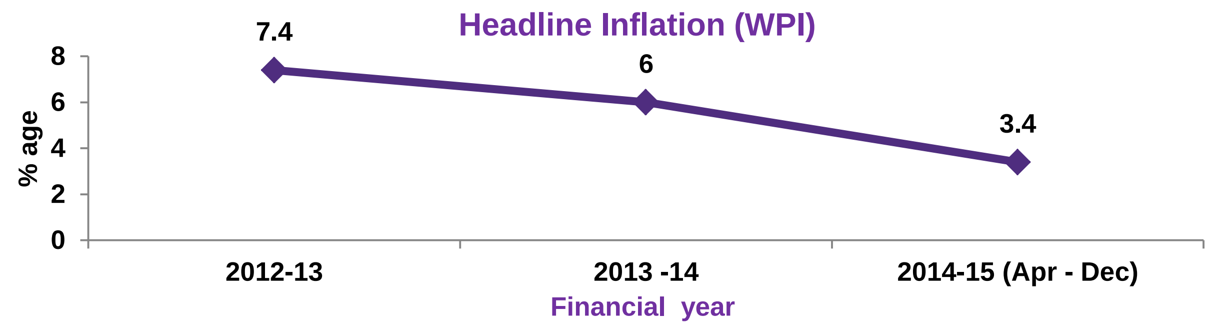
Fiscal and economic review

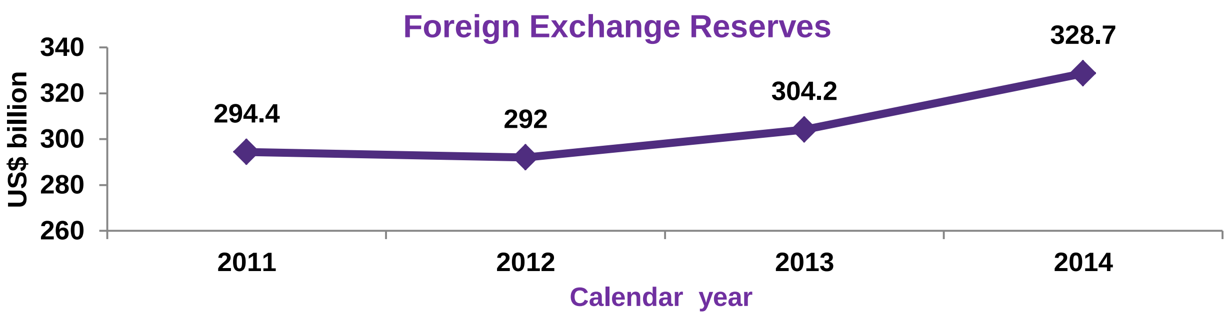
Fiscal and economic review

Economic growth

- Gross Domestic Product (GDP) growth rate accelerated to 7.4% (April till December 2014) during Financial Year (FY) 2014-15 as compared to 6.9% during FY 2013-14. Monetary easing, facilitated by government reforms, provided impetus to growth
- The growth rate of services sector accelerated to 10.6% during FY 2014-15 (advance estimates) as against 9.1% during FY 2013-14. Its contribution to GDP is estimated at 72.4%
- The manufacturing sector registered a growth rate of 1.2% during FY 2014-15 (April-December 2014), as compared to -0.7% during FY 2013-14
- Exports grew in dollar terms at 4.0% during FY 2014-15 (April-December 2014) as against 4.7% during FY 2013-14 (full year)
- Wholesale Price Index (WPI) inflation declined to 3.4% during FY 2014-15 (April-December 2014) which remained persistently high around 6 - 9% during FY 2013-14
- Foreign exchange reserves stood at US$ 328.7 billion at the end of January 2015 registering a marginal increase of US$ 24.5 billion from the end of January 2014



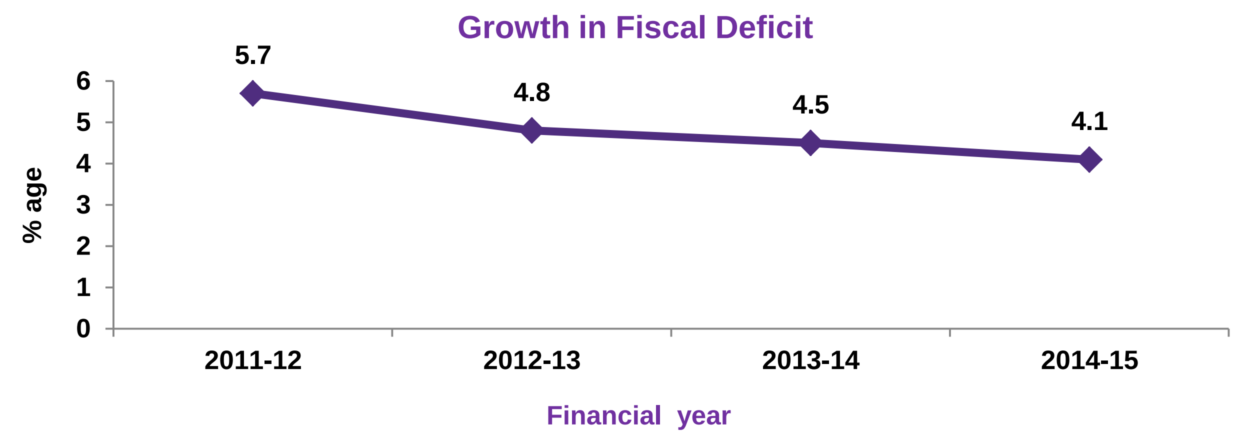




Fiscal and economic review

Fiscal deficit

- Fiscal deficit targeted to be contained at 4.1% of the GDP in FY 2014-15 (budget estimates) as compared to 4.5% of the GDP during FY 2013-14. It is expected to drop to 3.9% in FY 2015-16
- Current Account Deficit (CAD) narrowed down to US$ 17.94 billion (1.9% of GDP) as at September 2014 compared to US$ 26.9 billion in FY 2013-14. CAD continues to be high because of temporarily muted exports and high gold imports



Fiscal and economic review

Key initiatives

The JAM Number Trinity Solution: The JAM Number Trinity – Jan Dhan Aadhaar Mobile — the goal of this initiative will be financial inclusion, and facilitation of direct financial transfers to bank accounts of the poor after identification through Aadhaar numbers. This initiative will be a game-changer and a stride forward in improving the lives of the poor. Delivery mechanics may be achieved through mobile money and post offices.

Make in India: An initiative by the government to attract inflow of foreign resources in the country aimed at boosting domestic manufacturing activity.

Black money: New comprehensive legislation on the anvil to tackle the menace.

From Carbon Subsidy to Carbon Tax - India's Green Actions: Carbon Tax is a financial initiative directed towards sustaining the environment; primarily reducing CO2 emissions through quantitative means. The striking feature is that India has moved from a carbon subsidisation regime to carbon taxation regime – from a negative price to positive price on carbon emissions.

Ease of doing business – Minimum Government Maximum Governance: Slew of measures announced to simplify tax procedures and liberalise onerous thresholds. Useful clarifications have been issued in respect of ambiguities in tax law. Tax Administration Reform Commission (TARC) recommendations are to be appropriately implemented during the course of the year. Government has shown keenness to follow a non-adversarial tax regime. It has also been trying to ease some of the onerous provisions pertaining to land acquisition.

Higher devolution of taxes to states: Accepting the 15th Finance Commission's recommendations, the Central Government has committed itself to higher devolution of taxes to states, which is a step towards strengthening the federal structure of the country.

FDI liberalisation: Steps being taken to facilitate FDI in defence and insurance sectors.

Direct tax proposals

Direct tax rates

Income Tax Rates - Individuals:

- Basic rate of tax, slabs and education cess remain unchanged for all individuals
- Surcharge increased from 10% to 12% for individuals having taxable income exceeding Rs 1 crore

Income Tax Rates - Companies:

- Basic rate of tax and education cess remain unchanged
- Surcharge for domestic companies increased by 2% as under:
  - surcharge @ 7% (if the taxable income > Rs 1 crore but < Rs 10 crore)
  - surcharge @ 12% (if the taxable income > Rs 10 crore)
- Surcharge for foreign companies remain unchanged
- FM proposes to phase out exemptions and bring corresponding reduction in Corporate Tax Rate from 30% to 25% over next four years

Income Tax Rates - Firm/ Local authorities:

- Basic rate of tax and education cess remain unchanged
- Surcharge increased from 10% to 12% where the taxable income exceeds Rs 1 crore

Wealth Tax

- Wealth tax to be abolished

Proposal to reduce corporate tax along with phasing out of exemptions is a welcome step towards ease of doing business. However, no roadmap in this regard has been laid out.

Individual tax proposals

Deductions for investments

- Investments in Sukanya Samriddhi Account Scheme, are now eligible for deduction under Section 80C from A.Y. 2015-16 (F.Y. 2014-15)
- Deductions in respect of annuity plans, increased from Rs 1,00,000 to Rs 1,50,000
- Deduction for medical and insurance expenditure incurred on persons with disabilities increased from Rs 50,000 to Rs 75,000 and for persons with severe disabilities from Rs 1,00,000 to Rs 1,25,000

Medical insurance premium

- Existing limit of Rs 15,000 and Rs 20,000 for senior citizens has been increased to Rs 25,000 and Rs 30,000 respectively
- Deduction of Rs 30,000 has been introduced in respect of **medical expenses** incurred on very senior citizens (individuals who are of 80 years and above)

Individual tax proposals

Deductions for medical treatment of chronic and protracted diseases

- The benefit of deduction for treatment of certain chronic/protracted diseases has been raised from Rs 60,000 to Rs 80,000 for very senior citizens (individuals who are of age of 80 years and above)

Deduction for contribution to pension fund/ schemes

- Limit of deduction from contribution to annuity plan of LIC or any other insurer for receiving pension, increased from Rs 1 lakh to Rs 1.5 lakh
- Quantum ceiling on deduction of Rs 1 lakh from contribution to pension schemes has been removed. Limit of 10% of salary restored
- Additional deduction of Rs 50,000 has been introduced for contribution under the National Pension System

Deduction in respect of certain donations

- A deduction of 100% in respect of donations made by any donor to "Swachh Bharat Kosh" and donations made by a resident donor to "Clean Ganga Fund" shall be allowed w.e.f. A.Y. 2015-16 (F.Y. 2014-15)
- Donations made to National Fund for Control of Drug Abuse (NFCDA) shall be eligible for 100% deduction

There was an expectation that the individual tax rate slabs would be increased to leave more disposable income in the hands of individuals, to spur consumption and investments. We find that the Bill focuses more on driving investment into pension and health security.

International tax proposals

Clarification on 'Indirect' transfers

The meaning of the term “substantially” with respect to transactions involving indirect transfer of assets in India has been clarified as follows:

- The value of assets (whether tangible or intangible) situated in India exceed Rs 10 crore **and** comprises at least 50% of the value of total assets (without reduction of any liabilities) of the foreign company as on the valuation date
- Valuation date shall be the last day of the accounting period preceding the date of transfer. However, where the book value of assets on the date of transfer exceeds book value as on the last day of the accounting period by 15%, valuation should be done on the date of transfer.
- The manner of determination of fair market value of the Indian assets vis-à-vis global assets shall be prescribed in the rules
- The taxation of gains arising on transfer of a share or interest deriving directly or indirectly its value substantially from assets located in India will be on proportional basis (computation mechanism to be prescribed)
- Indian entity to comply with prescribed reporting requirements in relation to indirect transfer, and failure to do so shall attract penalty
- The following transactions have been excluded from the ambit of indirect transfers:
  - **Transfer of direct holding company:** Non resident transferor does not hold right of management, control, voting power or share capital exceeding 5%, at any time immediately preceding the 12 month period, in the direct holding company i.e. company directly holding shares in the Indian company

International tax proposals

Clarification on 'Indirect' transfers

- **Transfer of indirect holding company:** Non resident transferor does not hold right of management, control in such company, nor does he holds any right in such other company which would entitle him to right of management, control, voting power or share capital exceeding 5% in direct holding company

- **Amalgamation / demerger:** Transfer of shares of a foreign company deriving substantial value from shares of Indian company, in a scheme of amalgamation or demerger between two foreign companies, subject to prescribed conditions. Consequently, the cost of acquisition and the period of holding will be computed with reference to the original investment

General Anti Avoidance Rule (GAAR)

Applicability of GAAR has been deferred to 1 April 2017. Further, all investments made till 31 March 2017 have been grandfathered and would be out of ambit of GAAR provisions

Clarification on 'Indirect' transfer is a welcome move. Specially provisions relating to exclusion for small holdings and group restructuring through amalgamation and demerger would provide much needed relief. However, it would have been helpful if all group restructurings were exempted rather than only mergers and demergers.

International tax proposals

Fund managers in India not to constitute business connection of offshore funds

Presently, an offshore fund is vary of having a fund manager located in India. This is due to potential exposure of constituting a business connection of the fund in India on account of fund manager's presence in India.

To promote offshore funds to have fund managers located in India, it has been proposed that the fund management activity carried out through an eligible fund manager shall not, by itself, constitute a business connection in India. However, detailed conditions have been prescribed for being eligible for this exemption.

The eligible investment fund is required to furnish information under Section 9A (5) to prescribed authority. Failure to do so shall attract penalty of Rs 500,000.

This is a welcome clarification as it shall help in relocation of fund managers in India, enhancing job opportunities & overall growth of the economy. However, the long list of conditions may act as deterrent to achieve the desired result.

International tax proposals

Foreign Portfolio Investors (FPI)

In recent past there has been a debate on levy of MAT on income of FII / FPIs. while FPIs were arguing that they are not subject to MAT, the revenue authorities were wanting to collect MAT on their income.

MAT provisions are proposed to be amended to provide for exclusion of income of FPIs. However, short term capital gains, which are not subject to STT, would be subject to MAT.

MAT exemption to FPIs has been provided with prospective effect. It should have been a clarificatory amendment to mitigate past disputes as well!

Residential status for companies

A company shall be considered resident if it has place of effective management in India any time during the year. The term place of effective management (POEM) has been defined to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance made.

Introduction of POEM concept for place of residency is as per international norms. Outbound investors would now need to meet the stricter requirement of having effective management in the country of investment.

International tax proposals

Global Depository Receipts (GDR)

Definition of GDR has been amended to mean any depository receipt or certificate created by the Overseas Depository Bank outside India and issued to investors (resident as well as non-residents) against the issue of:

- ordinary shares of a company listed on a recognised stock exchange in India; or
- foreign currency convertible bonds of issuing company

Thus, other GDRs under the widened definition of SEBI regulations will not be able to avail tax benefits, which is envisaged for sponsored GDRs and listed companies.

Royalties and Fees for Technical Services

Tax rate on royalty and fee for technical service payable to non residents has been reduced from 25% to 10%.

Taxation of interest income of non resident banking companies

It has been clarified that in case of a non-resident engaged in the business of banking, any interest receivable from Permanent Establishment of such non-resident in India shall be deemed to accrue or arise in India for such non-resident and accordingly will be subject to tax in India.

Rationalisation of tax rates for royalty and FTS is a welcome move and would promote exchange of technology and personnel with non-treaty countries without a TRC.

Tax proposals for investment vehicles

Alternative Investment Fund (AIF)

Currently, only specified Category I AIFs are granted pass through status. Pass through status shall now be available to all classes of Category I and Category II AIFs which are regulated under the Securities and Exchange Board of India (Alternative Investment Fund) Regulations, 2012. The salient features of proposed framework are as follows:

- Pass-through status:
  - All income of the AIF (except income under the head "Profit from business and profession") shall have a pass through status and income shall be taxed directly in the hands of the unit holder
  - The income shall be taxed in the hands of the unit holder under the same head of income as if the investment was made directly in the investee company
  - Profit from business and profession shall be taxed at AIF fund level
- Withholding tax:
  - Payment to AIF by investee companies shall be exempt from withholding tax provisions
  - Income (excluding business income) payable to unit holders by AIF shall be subject to withholding tax @ 10%
- Loss, at AIF level, shall not be allowed to be passed through to the unit holders. However, such loss shall be eligible for set off and carry forward at AIF level
- Dividend Distribution Tax and Tax on distributed income shall not apply to income paid by AIF to unit holders
- AIF shall be mandatorily required to file income tax return

Tax proposals for investment vehicles

Real Estate Investment Trusts (REITs) and Infrastructure Investment Trust (InvITs)

- Rental income earned by REITs shall have a pass through status, being taxable in the hands of the unit holders
- No withholding tax on rental income earned by REITs from directly owned real estate assets - w.e.f. 01 June 2015
- Withholding tax on distribution of rental income (w.e.f. 1 June 2015)
  - Where unit holder is a resident, REIT to withhold tax @ 10%
  - Where unit holder is a non-resident, REIT to withhold tax as per rates in force
- Units received by Sponsors of REITs and InvITs on swap of shares in special purpose vehicles (SPV) shall be entitled to beneficial tax treatment whereby sale or transfer of such units shall be exempted from tax for long term capital assets and taxed at 15% for short term capital assets. This treatment will be available provided the sale of such units has been subjected to Securities Transaction Tax (STT)

Nature of income	REIT and InvIT	Unit holders including sponsor
Interest from SPV	Exempt	Taxable as interest income Withholding tax to be deducted by REIT on distribution (Non-resident – 5%, Others – 10%)
Dividend	Exempt	Exempt
Capital gains on exit by REIT/ InvIT	At the rates applicable to capital gains	Exempt
Capital gains earned by unit holders on sale of REIT/ InvIT units including units held by Sponsors	Not applicable	For unit holders – long-term – exempt – short-term – 15%
Rental income	Exempt	Taxable at the applicable rates

Corporate tax proposals

Minimum Alternate Tax (MAT)

Where tax is levied on the income of an AOP (Association of Persons), share received by members is exempt. However, where a company is a member of AOP, its income is exempt, but it continues to be subject to MAT.

Amendment in MAT provisions has been proposed to exclude income received by a company from AOP while computing 'book profit' for MAT purposes, where such income has been taxed in the hands of AOP.

Capital gains exemption on consolidation of Mutual Fund schemes

Transfer by a unit holder of a mutual fund in consideration of units received upon consolidation or merger of similar schemes of mutual funds shall not be regarded as a taxable event.

Domestic Transfer Pricing

An Indian company is required to comply with transfer pricing provisions, where its specified transactions exceed Rs 5 crore.

This threshold for applicability of domestic transfer pricing provision has been increased from Rs 5 crore to Rs 20 crore.

Increase in domestic TP threshold is a welcome move and would help in ease of doing business for SMEs.

Corporate tax proposals

Revision of Orders which are prejudicial to the interest of revenue

A Commissioner/ Pr Commissioner can review orders of a tax officer, where it is prejudicial to the interest of revenue. In this regard, following situations have been proposed, where an order would be deemed to be prejudicial to the interest of revenue. An order would be deemed to be prejudicial to the interest of revenue of the order passed is:

- without making inquiries or verification
- allowing any relief without inquiring into the claim;
- in contravention of a specific order, direction or instruction issued
- not in accordance with any decision which is in favour of the revenue, rendered by the jurisdictional High Court or Supreme Court in the case of the assessee or any other person.

This provision will be applicable from 1 June 2015.

Penalty - 'tax sought to be evaded' to include increased MAT liability

- Currently penalty on concealment of income or furnishing of inaccurate particulars, is levied on the tax sought to be evaded as calculated under the general provisions of the Act
- It is proposed to include tax payable under Minimum Alternate Tax (MAT) or Alternate Minimum Tax (AMT) on concealed income for purposes of levy of penalty

Corporate tax proposals – Tax deductions

Additional depreciation

Grant of 50% additional depreciation in subsequent year

For qualified assets where additional depreciation is allowed, it is proposed, that in cases where only 50% depreciation has been claimed in the first year on account of the assets being used for less than 180 days, the balance 50% of additional deprecation would be allowed in the subsequent year.

Additional depreciation for new manufacturing units in Andhra Pradesh or Telangana

New manufacturing undertakings set up after 1 April 2015 in any notified backward area in Andhra Pradesh or Telangana, which acquire and install new machinery or plant during the period 1 April 2015 to 31 March 2020, shall be entitled to additional depreciation for @ 35% against 20% allowed currently.

Deduction in respect of 'additional wages'

- 30% deduction in respect of 'additional wages' currently available to Indian companies now extended to all tax payers – corporate or non corporate
- Threshold for computing 'additional wages' reduced from 100 new regular workmen to 50
- No deduction for 'additional wages' where manufacturing factory is acquired from any other person or as a result of business re-organisation

Corporate tax proposals – Tax deductions

Additional investment allowance for new manufacturing units in Andhra Pradesh or Telangana

- New manufacturing undertaking set up after 1 April 2015 in any notified backward area in Andhra Pradesh or Telangana, which acquire and install new machinery or plant (as defined) during the period 1 April 2015 to 31 March 2020, shall be entitled to deduction of 15% of the cost of such machinery or plant in the year of installation
- Allowance shall be in addition to investment allowance granted under Section 32AC
- Sale or transfer of such assets before 5 years from the date of installation shall trigger taxation of the allowance availed earlier – Not applicable in the case of amalgamation, demerger or prescribed re-organisation

Weighted deduction for scientific research

Allowability of weighted deduction of 200% for in-house R&D is subject to an additional condition that it shall be allowed only if the company enters into an agreement with the prescribed authority for cooperation in such research and development facility and fulfils prescribed conditions with regard to maintenance and audit of accounts and also furnishes prescribed reports to the prescribed authority.

Incentives to manufacturing sector are welcome. Additional incentives offered in Andhra and Telangana are to promote manufacturing in the states.

Charitable organisations - Tax proposals

Rationalisation of provisions of Section 11 relating to income of charitable trusts and institutions

- In case where 85% of accumulated income of a charitable trust / institutions is not applied to its objects within a period of 5 years then such Income is subject to tax. It has now been clarified that to avail the benefit of the extended period of 5 year the taxpayer shall be required to file a prescribed form before the due date of filing return of income
- Yoga has been included in the definition of Charitable Purpose
- The ceiling limit on receipts from activities in the nature of trade, commerce or business has been modified to 20% of total receipts from the existing ceiling limit of Rs 25 lakhs

Mandatory filing of return of income

The following entities are now required to mandatorily to file a return of income if their income exceeds maximum amount not chargeable to tax without giving effect to exemption provisions prescribed under Section 10

- Universities and Educational Institutions referred to in referred to section 10(23C)(iiiab)
- Hospitals and medical institutions referred to in Section 10(23)(iiiac)

Corporate tax proposals - Litigation

Avoidance of repetitive appeals by revenue

In cases where question of law is pending before the Supreme court, the revenue on receipt of adverse order from CIT(A) on the identical issue may file an application with the Tribunal stating that an appeal on the question of law may be filed on receipt of order of Supreme Court. However, consent of assessee is required.

Appeals to Income Tax Appellate Tribunal

Any order rejecting the recognition of an institutions as an approved educational institution or hospital can now be appealed against before the Tribunal by the assessee

This provision will be applicable from 1 June 2015.

Single Member Bench of ITAT

Single member bench of the income tax tribunal can now dispose matters involving a quantum up to Rs 15 lakh. Earlier, the limit was Rs 5 lakh. This provision will be applicable from 1 June 2015.

Effective implementation of the provisions will avoid repetitive appeals and significantly reduce the work load with the courts.

Corporate tax proposals - Litigation

Provision relating to Settlement Commission

- As per existing provisions, the assessee can approach the commission for those years in which the notice for re-assessment is issued. It is proposed to allow the assessee to approach the commission even for the years in which the notice for re-assessment is not issued provided a reassessment notice could be issued if the assessee had filed a return in the regular course (under Section 139) or on enquiry initiated by the assessing office (under Section 142)

- Presently the commission can suo moto rectify a mistake apparent from record within 6 months from the month in which the order is passed (period). It is proposed to permit the rectification of an order on applications by the revenue or the assessee within the said period

- Presently certain situations result in abatement of proceedings before the commission. In such events, the Revenue can proceed under the provisions of regular assessment of the Act. It is now proposed that an order of the commission without the terms of settlement shall also constitute abatement

- Presently, the assets seized or requisitioned during the process of search and seizure can be adjusted against any existing liability of the Act, liability determined on completion of the assessments or any liability determined under block assessments. It is proposed that any liability arising on settlement made before the commission can also be adjusted

- Provisions will take effect from 1 June 2015

Broadening the scope of settlement commission would make use of this forum more effective.

Corporate tax proposals - Withholding tax

Withholding tax

- **Salary:** Employers shall obtain evidence / proof or particulars of prescribed claims for computing tax deductible from salary to employees as against declaration from employees obtained earlier - w.e.f. 1 June 2015

- A new Section 192A proposes tax withholding on payment of accumulated balance due to an employee contributing to a recognised provident fund where the amount is withdrawn by the employee within 5 years from commencement. Tax withholding shall apply at the rate of 10% on payment in excess of Rs 30,000 - w.e.f. 1 June 2015

- It is proposed that the exemption provided from withholding of tax on payment of interest to members by the co-operative society under Section 194A shall not apply to the payment of interest on time deposits by the co-operative banks to its members

- Currently, as per Section 194C, tax withholding is not required on payments to contractor engaged in plying, hiring or leasing goods carriages, on furnishing of his Permanent Account Number (PAN) to the person making the payment. The exemption is now restricted to contractors owning ten or less goods carriages at any time during the relevant year - w.e.f. 1 June 2015

- Provision for lower withholding tax of 5% on interest on certain bonds and Government securities paid to a Foreign Institutional Investor or a Qualified Foreign Investor have been extended up to 30 June 2017

- Deduction of tax from interest payment on compensation awarded by the Motor Accident Claim Tribunal shall only be made at the time of payment, if the total amount of such payments during the financial year exceeds Rs 50,000

- Any amount paid to non-resident shall require the payer to provide information in the prescribed format to the revenue authorities irrespective of whether such payment constitutes income in the hands of the payee or not

Tax Avoidance proposals

Tax avoidance

Various measures to discourage cash transactions have been introduced detailed as follows:

- Acceptance of advance of Rs 20,000 or more in cash for purchase of immovable property shall attract penalty equivalent to the amount of such receipt
- Quoting of PAN has been made mandatory for any purchase or sale of immovable property exceeding a value of Rs 1 lakh
- A new comprehensive Benami Transactions (Prohibition) Bill is proposed to be introduced to cover benami property especially in real estate
- Further a new law is proposed on control of black money and the salient features are as follows:
  - Prosecution for default with punishment of rigorous imprisonment up to 10 years
  - Offences under this bill shall be non-compoundable
  - The defaulter cannot approach the Settlement Commission
  - Penalty shall be levied @ 300% of tax evaded
  - Foreign assets will be required to be disclosed in the tax return and non compliance shall attract prosecution and rigorous imprisonment of up to 7 years
  - Income from such undisclosed foreign asset shall be taxed at the maximum marginal rate without any exemptions or deductions
  - Beneficiaries of foreign assets shall be mandatorily required to submit return of income even if there is no taxable income
  - Date of opening of foreign account mandatorily required to be specified by the assessee in the return of income
  - Any offence under this bill shall be treated as an offence under the Prevention of Money-laundering Act, 2002 (PMLA) enabling attachment and confiscation of unaccounted assets held abroad and also prosecution
  - Suitable amendments under FEMA are also envisaged to permit confiscation of equivalent Indian assets and levy of penalty along with prosecution with punishment of imprisonment up to 5 years

Indirect tax proposals

Indirect tax proposals

Goods & Services Tax

Indirect tax proposals

Goods & Services Tax (GST)

- Central government working closely with the Empowered Committee of State Finance Ministers (Empowered Committee) to ensure that the implementation of GST in India meets the self-imposed timeline of 1 April 2016
- To enable GST introduction, Constitution Amendment Bill tabled in the winter session of Lok Sabha (Lower House of Parliament). It is expected that the ground level consensus built through the Empowered Committee would create political consensus to move the Bill through both Houses of the Parliament shortly
- Finance Minister reiterates that GST introduction is equal to introducing "state-of-the-art" indirect tax system in India, through the joint efforts of the Centre and the states
- However, the GST roadmap (see table alongside) indicates that much work needs to be done
- **Given the above limitations, introduction of GST by 1 April 2016 still seems optimistic**

GST roadmap/ To-do list	
Centre-State consensus on GST structure for India (dual-GST)	✓
State revenue loss compensation formula agreed	✓
Constitution Amendment Bill to drive agreed structure tabled before Parliament	✓
Constitution amended to give effect to GST structure	?
Model GST Bill (Central GST and State GST) released for discussion	?
Amended GST Bills enacted in respective legislatures	?
Model GST Rules (For Place of Supply, Administration, etc.) released	?
GST Rules and Regulations notified for implementing GST in India	?

Indirect tax proposals

Customs duty

Indirect tax proposals

Customs duty

(Effective from 1 March 2015, unless specified otherwise)

- Effective rate of customs duty increased from 28.85% to 29.44% (see table below)

Particulars	Old rate	New rate
Value of goods (assumed)	100	100
Basic customs duty (BCD)	10	10
Value for computing additional duty of customs (in lieu of excise)	110	110
Additional duty of customs (in lieu of excise)	13.2	13.75
Education cess	0.70	0.71
Special additional duty (in lieu of sales tax)	4.95	4.98
Total	128.85	129.44
Effective rate *	**28.85**	**29.44**

* Doesn't apply to specified goods where rate of excise duty remains 12%

Increase in effective peak rate of customs duty is on account of increase in excise duty from 12% to 12.5%*.

Indirect tax proposals

Customs duty

(Effective from date of enactment of Finance Bill, 2015, unless specified otherwise)

- Penalty provisions rationalised in favour of the taxpayer in the following manner:

Event	Amendment
Notice to recover duty not paid/ short paid or erroneously refunded: (a) in **cases not involving** fraud, etc. (a) in **cases involving fraud**, etc.	If disputed duty and interest paid within 30 days from the receipt of notice: (a) penalty waived and proceedings dropped where fraud not involved (b) penalty reduced from 25% to 15% in cases where fraud is involved
Order passed on any person for **improper import or export** of dutiable goods who has possession or is any way concerned with such improper import/ export	Penalty reduced in all cases to 10% of duty or Rs 5,000, whichever is higher If payment of duty and interest made within 30 days from the order, penalty further reduced to 25% of penalty mentioned in the order

- Settlement Commission not to hear matters where Appellate Authority has remanded cases back to the Adjudication Authority for *de novo* assessment
- Class of persons eligible to approach the Advance Ruling authority now includes specified resident partnership firms as defined under the Customs Act
- Certain sections pertaining to the Settlement Commission removed since they were redundant

Proposed amendments will hasten disposal of cases and for preventing avoidable disputes between the taxpayer and Revenue - leads to confidence building.

Indirect tax proposals

Customs duty

(Effective from date of enactment of Finance Bill, 2015, unless specified otherwise)

- Prosecution provisions of Section 132 of the Customs Act, 1962 relating to giving false declarations, false documents, etc. incorporated as an offence in Part B of the Money Laundering Act

Including Section 132 of the Customs Act under the Money Laundering Act further empowers regulators to pursue unaccounted or concealed transactions.

Indirect tax proposals

Customs duty
(Effective from 1 March 2015 onwards)

- The following goods are exempt from Special Additional duty (SAD), in lieu of value added tax (VAT), subject to actual user condition:
  - specified goods covered under Information Technology (W.T.O) agreement
  - Chemical compounds used in electronics like discs, wafers, printer and copier machines, telephone sets, electrical resistors, etc.
  - Certain optical, photographic, cinematographic measuring, checking, precision medical or surgical instruments and accessories thereof
  - Electronic goods like ATMs, line telephone handsets, etc..
  - Specified goods used for manufacturing of pacemakers
  - Inputs used in the manufacture of LED drivers or metal core printed circuit board for LED lights and fixtures or LED lamps

- Rate of SAD reduced to 2% for the following goods:
  - Naphtha*
  - Styrene*
  - Ethylene dichloride*
  - Vinyl chloride monomer*
  - Melting scrap of iron or steel etc..
  - Copper scrap, aluminium scrap, brass scrap

  * the above reduction in SAD is available only when the importer follows the procedure set out in Customs (Import of Goods at Concessional Rate of Duty for manufacture of Excisable goods) Rules, 1996

SAD exemptions to prevent inverted duty rate structure by minimising CENVAT credit accumulation in the hands of the importer-manufacturer.

Indirect tax proposals

Customs duty
(Effective from 1 March 2015 onwards)

- Exemption of BCD of the following goods have been extended from 31 March 2015 to 1 April 2016
  - Battery pack, battery charger, AC or DC Motor, AC or DC motor controller used in the manufacture of electrically operated vehicles including two and three-wheeler electric motor vehicle
  - Battery pack, battery charger, AC or DC motor, AC or DC motor controller, engine for HV, transaxle for HV, power control unit, control ECU for HV, generator, brake system of recovering, energy monitor, electrical compressor used in the manufacture of hybrid motor vehicle
- CVD on artificial heart, specified goods for manufacture of pacemaker have been exempted
- SAD and CVD exemption on specified goods imported for use by Security Printing and Minting Corporation of India, have been withdrawn
- BCD of the following goods increased:

Particulars	Old rate	New rate
Metallurgical coke	2.5%	5%
Iron and steel and its related articles	7.5%	10%
Motor vehicles for transport of 10 or more persons including the driver other than CKD kits	10%	20%
Motor vehicles for transportation of goods other than refrigerated motor vehicle other than CKD kits	10%	20%

- Additional duty of customs levied on imported motor spirit (petrol) and high-speed diesel oil to increase from Rs 2 per litre to Rs 6 per litre

Indirect tax proposals

Customs duty

(Effective from 1 March 2015, unless specified otherwise)

- BCD reduced for the following goods (contd…)

Particulars	Old rate	New rate
Ulexite Ore	2.5%	Nil
Butanes	5%	2.5%
Sulphuric acid for the manufacture of fertilisers	7.5%	5%
Isoprene	10%	2.5%
Styrene	2.5%	2%
Ethylene dichloride (EDC)	2.5%	2%
Vinyl chloride monomer (VCM)	2.5%	2%
Anthraquinone	7.5%	2.5%
Butyl acrylate	7.5%	5%

Particulars	Old rate	New rate
Water blocking tape for use in the manufacture of insulated wires and cables, except such items made of copper #	10%	7.5%
Ethylene – propylene – non-conjugated diene rubber (EPDM) for use in the manufacture of insulated wires and cables except such items made of copper #	10%	7.5%
Mica glass tape for use in the manufacture of insulated wires and cables except such items made of copper #	10%	7.5%
Unwrought antimony, powders	5%	2.5%
Waste and scrap of antimony and articles thereof	5%	2.5%
Ceria zirconia compounds for use in the manufacture of washcoat for catalytic converters #	7.5%	5%

Indirect tax proposals

Customs duty

(Effective from 1 March 2015 unless specified otherwise)

- BCD reduced for the following goods (contd…)

Particulars	Old rate	New rate
Cerium compounds for use in the manufacture of washcoat for catalytic converters #	7.5%	5%
Zeolite for use in the manufacture of washcoat for catalytic converters #	7.5%	5%
Goods for use in the manufacture of refrigerator compressor like C-Block compressor, crankshafts	7.5%	5%
Over Load Protector (OLP) and positive thermal coefficient for use in the manufacture of refrigerator compressor	7.5%	5%

Particulars	Old rate	New rate
Evacuated tubes with three layers of solar selective coating for use in the manufacture of solar water heater and system #	7.5%	Nil
Ball screws for use in the manufacture of CNC lathes or machining centres #	7.5%	2.5%
Linear motion guides for use in the manufacture of CNC lathes or machining centres #	7.5%	2.5%
CNC systems for use in the manufacture of CNC lathes or machining centres #	7.5%	2.5%
Active Energy Controller (AEC) for use in manufacture of Renewable Power System (RPS) inverters, subject to certain conditions	7.5%	5%

Indirect tax proposals

Customs duty
(Effective from 1 March 2015 unless specified otherwise)

- BCD reduced for the following goods (contd…)

Particulars	Old rate	New rate
Digital still image video cameras capable of recording video with minimum resolution of 800 x 600 pixels, at minimum 23 frames per second, for at least 30 minutes in a single sequence, using the maximum storage (including the expanded) capacity	10%	Nil
Parts and components of digital image video cameras capable of recording video with minimum resolution of 800 X 600 pixels, at a minimum speed of 23 frames per second	5%	Nil
OLED (organic light emitting diode) TV panel	10%	Nil

Particulars	Old Rate	New Rate
Black light unit module used for the manufacture of LCD and LED TV panels	10%	Nil
Specified goods for use in the manufacture of flexible medical video endoscope #	7.5%	2.5%
Artificial hearts	5%	Nil
Specified goods for use in the manufacture of pacemakers #	7.5%	Nil
High density polyethylene used in the manufacture of telecommunication grade optical fibres or optical fibres cable	7.5%	Nil

If importer follows prescribed procedure under Customs (Import of goods at concessional rate of duty for manufacture of excisable goods) Rules,1996

- BCD exempted on parts, components or accessories used in manufacture of PC tablet

Indirect tax proposals

Central excise duty

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Indirect tax proposals

Central excise
(Effective from 1 March 2015 onwards)

- Central excise duty rate increased from 12.36% (inclusive of all cess) to 12.50% (subsuming all cess) with certain exceptions
- Additional goods brought under the ambit of Section 4A Valuation (based on retail sale price), specifically to include condensed milk in unit containers, concentrates of tea, LED lights for fixtures including LED lamps, etc
- Excise duty on tobacco products notified under the Compounded Levy Scheme. It would also factor speed of packing machines in case of pan masala, chewing tobacco, etc
- Prescribed excise records permitted to be maintained in electronic form
- Class of persons eligible to approach the Advance Ruling Authority now includes specified resident partnership firms as defined under the Customs Act
- Key amendments in excise registration process to assure that registration is granted within two working days of receiving duly completed application form

This now leads to ambiguity on treatment of accumulated credits of Ed cess in the hands of assessees after subsuming cess within Excise duty rate.

Indirect tax proposals

Central excise

(Effective from date of enactment of Finance Bill, 2015, unless specified otherwise)

- Penalty provisions rationalised in favour of the taxpayer in the following manner:

Event	Amendment
Notice to recover duty not paid/ short paid or erroneously refunded (a) in cases not involving fraud, etc. (b) in cases involving fraud, etc.	If disputed duty and interest paid within 30 days from receipt of notice (a) penalty waived and proceedings dropped where fraud not involved (b) penalty reduced from 25% to 15% in cases where fraud involved
Order to recover duty not paid/ short paid or erroneously refunded (a) in cases not involving fraud, etc. (b) in cases involving fraud, etc.	If disputed duty and interest paid within 30 days from receipt of order (a) penalty restricted to 10% of duty or Rs 5,000, whichever is higher (b) penalty reduced to 25% of duty in cases where fraud involved

- Settlement Commission not to hear matters where Appellate Authority has remanded cases back to Adjudication Authority for *de novo* assessment
- Revenue authorities can file application for withdrawal of prosecution in accordance with law where any assessee is exonerated in quasi-judicial proceedings on identical set of facts and such order has attained finality

Rationalisation of penalty provisions to create confidence amongst assessees to avoid disputes with Revenue authorities on irrelevant matters.

Indirect tax proposals

Central excise

(Effective from date of enactment of Finance Bill, 2015, unless specified otherwise)

- Amendment in definition of "relevant date" :
  - cases where returns not filed on due date, relevant date to be date of actual filing of returns
  - where interest is required to be recovered; from the date of payment to which such interest pertains
- Section 11A amended to provide for manner of recovery of excise duty declared in excise returns as payable but not yet paid (recovery as per prescribed Rules and not as per Central Excise Act)

Procedural amendments made under Central Excise Act and Rules to reduce ambiguities of computing interest or manner of recovery of excise duties.

Indirect tax proposals

Central excise

(Effective from 1 March 2015, unless specified otherwise)

- Product specific changes in basic excise duty are as follows:

Product	Old rate	New rate
High Speed Diesel (HSD)	14% + Rs 5 per ltr	14% + Rs 15 per ltr
(However, no change in effective excise duties on HSD)		
Filter cigarettes of length - Up to 65mm - 65mm to 70mm - 70mm to 75mm	 Rs 990* Rs 1490* Rs 1995*	 Rs 1280* Rs 1740* Rs 2335*
Non-filter cigarettes of length - Up to 65mm - 65mm to 70mm	 Rs 990* Rs 1995*	 Rs 1280* Rs 2335*

Product	Old rate	New rate
Cigarillos of tobacco substitutes	Rs 2875*	Rs 3375*
Cigarillos of tobacco substitutes and other	12% or Rs 2250* whichever is higher	12.5% or Rs 3375* whichever is higher
Sacks and bags (including cones) of Polymers of ethylene and of other plastics for industrial use	12%	18%
Sacks and bags (including cones) of polymers of ethylene for industrial use	12%	15%
Cement	Rs 900 per tonne	Rs 1000 per tonne

* Rates mentioned are per thousand sticks

Indirect tax proposals

Central excise

(Effective from 1 March 2015, unless specified otherwise)

- Product specific changes in basic excise duty are as follows:

Product	Old rate	New rate
Water, including mineral water and aerated water, containing added sugar or other sweetening matter or flavoured*	12%	18%
Condensed milk put up in unit containers	Nil	2% without CENVAT Credit
Condensed milk put up in unit containers	Nil	6% with CENVAT Credit
5% ad valorem on aerated waters, containing added sugar or other sweetening matter to be discontinued with effect from enactment of Finance Bill 2015		

Product	Old rate	New rate
Leather footwear having retail price more than Rs 1000 per pair	12%	6%
Petrol intended for sale without a brand name/ with brand name*	Rs 2.70/ Rs 3.85	Rs 5.46/ Rs 6.64
HSD without a brand name/ with brand name*	Rs 2.96/ Rs 5.25	Rs 4.26/ Rs 6.62
Peanut butter	Nil	2% without CENVAT Credit
Peanut butter	Nil	6% with CENVAT Credit

*Additional duty of excise levied at the rate of Petrol and HSD increased from Rs 2 to Rs 6 per litre

Indirect tax proposals

Central excise

(Effective from 1 March 2015, unless specified otherwise)

- Product specific changes in BCD are as follows:

Product	Old rate	New rate
All goods manufactured and cleared in packages from a mini cement plant	6% + Rs120 Per metric tonne	6% + Rs 125 Per metric tonne
All goods manufactured and cleared in packages other than from a mini cement plant	12% + Rs 120 Per metric tonne	12.50% + Rs125 Per metric tonne
Silicon wafers for use in the manufacture of Integrated Circuit (IC) modules for smart cards	NIL	6%
All goods used in the manufacture of LED (Light Emitting Diode) driver or MCPCB (Metal Core Printed Circuit Board) for LED lights and fixtures or LED Lamps	NIL	6%

Product	Old rate	New rate
Chassis for use in the manufacture of motor vehicles cleared as ambulance	24%	12.5%
Drilling rigs mounted on motor vehicle chassis manufactured from chassis and compressor	10%	12.5%
Tablet computer	10%	2% without CENVAT
Tablet computer	10%	12.5% with CENVAT
Solar water heater and system	NIL	NIL without CENVAT Credit

Indirect tax proposals

Central excise

(Effective from 1 March 2015, unless specified otherwise)

- Product-specific changes in BCD are as follows:

Product	Old rate	New rate
Solar water heater and system	NIL	12.5% with CENVAT Credit
Cut tobacco	Rs 60 per kg	Rs 70 per kg

Indirect tax proposals

Central excise

(Effective from 1 March 2015; unless specified otherwise)

- Excise duty rate benefit for prescribed goods in two and three wheeler electric motor vehicles and hybrid motor vehicle extended to 28 February 2016
- Bank guarantee or fixed deposit receipts to be submitted for period of 66/ 42 months for setting up mega/ ultra power projects instead of the prevailing condition of 36 months or more
- Increase in additional duty of excise on clean energy cess levied on coal, lignite and peat from Rs 100 per tonne to Rs 200 per tonne. Also, education cess and secondary and higher education cess would be applicable on the manufacture of coal, lignite and peat
- Excise duty on mobile handsets including cellular phones to attract excise duty of 1% with prescribed conditions
- Goods manufactured domestically and supplied against international competitive bidding are eligible for full excise duty exemption, provided that such goods, when imported, attract nil BCD and Nil CVD
- It has been clarified that excise duty on iron and steel used as railway or tramway track construction material is retrospectively exempted, subject to the condition that such rails have suffered excise duty earlier and no CENVAT credit has been taken

Excise duty rates tinkered to focus on cleantech sector, with specified procedural changes for UMPP projects.

Indirect tax proposals

Central excise

(Effective from 1 March 2015, unless specified otherwise)

- Exemptions from excise duty on:
  - Pig iron SG grade used for manufacture of cast components of wind operated electricity generators
  - Ferro-silicon-magnesium for manufacture of cast components of wind operated electricity generators
  - Flat copper wire, round copper wire for manufacture of Photovoltaic (PV) ribbon (tinned copper interconnect) for manufacture of solar photovoltaic cells or modules
  - Tin alloys for manufacture of Photovoltaic (PV) ribbon (tinned copper interconnect) for manufacture of solar photovoltaic cells or modules
  - Parts of solar water heater system subject to Actual User condition
  - Parts, components, accessories and sub-parts used for manufacture of PC tablets
  - All goods used in the manufacture of agarbatti and other odoriferous preparations which operate by burning
  - Prescribed items used in the manufacture of pacemaker

Excise duty exemptions provided to select sectors/ products to facilitate growth in such identified industries that are mostly geared towards clean energy.

Indirect tax proposals

CENVAT credit rules

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Indirect tax proposals

CENVAT Credit Rules, 2004
(Effective from 1 March 2015, unless specified otherwise)

- The period of availing CENVAT credit on inputs and input services extended from **six months** to **one year** from date of invoice/ challan or other specified documents
- CENVAT credit of service tax paid under domestic reverse charge now allowed to the claimant, without linking it to the payment of services to the input service provider (effective from 1 April 2015)
- 'Export of goods' specifically defined for claiming refund of CENVAT credit
- Importer required to maintain same records as prescribed for First Stage or Second Stage dealer in cases where such importer issues invoice to allow buyer/ receiver of goods to claim CENVAT credit
- 'Exempted goods or final products' for CENVAT credit reversal now includes non-excisable goods. Value for CENVAT reversal to be invoice value or value determined under Central Excise Act and Rules
- Effective from 1 April 2015, CENVAT credit wrongly taken (i.e. availed) or utilised by manufacturer or output service provider to attract recovery proceedings under Central Excise Act and Service Tax Law, respectively with similar penalties. Thus, re-enforcing earlier Supreme Court verdict (Penalties levied only from enactment of Finance Bill, 2015)
- For this purpose, CENVAT credit taken would be deemed to have occurred on last day of the month and utilisation would follow the hierarchy, as below:
  - Opening balance of month to be utilised first;
  - Credit admissible under CENVAT Credit Rules (CCR) taken during the month to be utilised next;
  - Credit inadmissible in terms of CCR taken during the month utilised thereafter.

Indirect tax proposals

CENVAT Credit Rules, 2004
(Effective from 1 March 201, unless otherwise specified)

- CENVAT credit on inputs and capital goods allowed to manufacturer or output service provider, as the case may be, even in case of direct receipt of such goods in the premises of the job worker on the direction of principal manufacturer/ output service provider

- CENVAT credit allowed to principal manufacturer on inputs, whether as such or after partial processing, sent from premises of one job worker to another job worker

- The time limit for return of capital goods from premises of a job worker to principal manufacturer/ output service provider increased from six months to two years

Changes in CCR is a mixed bag. On one hand, it provides much needed relaxation, while on the other hand, it penalises wrong claim/ utilisation of credits.

Indirect tax proposals

Service tax

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Indirect tax proposals

Service tax

(Effective from a date to be notified after enactment of Finance Bill, 2015)

- Service tax rate increased from 12.36% (inclusive of all cess) to 14% (subsuming all cess)
- Additional 2% proposed to be charged on taxable service value in the form of Swachh Bharat cess (SBC)

Service tax rate change is reflective of need for tax buoyancy with proposed reduction in corporate tax rates. Also, the overall indirect tax rates have been aligned to the proposed GST rate structure.

- Consequent changes made in various composition rates of service tax as follows:

Particulars	Pre-budget rate	Post-budget rate
Air travel agent		
- Domestic bookings	0.60%	0.70%
- International bookings	1.20%	1.40%
Life insurance		
- First year	3.00%	3.50%
- Subsequent years	1.50%	1.75%
Money changer		
- Up to Rs 100,000	Minimum Rs 30 or 0.12%	Minimum Rs 35 or 0.14%
- Exceeding Rs 100,000 and upto Rs 1,000,000	Rs 120 plus 0.06% of sum exceeding Rs 100,000	Rs 140 plus 0.07% of sum exceeding Rs 100,000
- Rs 1,000,000 or more	Rs 660 plus 0.012% of sum exceeding Rs 1,000,000 (subject to max. of Rs 6000)	Rs 770 plus 0.014% of sum exceeding Rs 1,000,000 (subject to max. of Rs 7000)

Indirect tax proposals

Service tax

(Effective from 1 April 2015, unless specified otherwise)

- The rate of abatement available in relation to the GTA services, and to the transport of goods by vessel and of passengers by air is as follows:

Particulars	Pre-budget	Post-budget
Transport of goods by road	75%	70%
Transport of goods in a vessel	60%	70%
Transport of passenger by air - Economy class - Other than economy class	 60% 60%	 60% 40%

- Service tax abatement made conditional to the following services:
  - Transport of goods by rail
  - Transport of passengers by rail

  where CENVAT credit on inputs, capital goods and input services is disallowed

- Change in "reverse charge" percentage for certain services prescribed as follows:

Particulars	Pre-budget		Post-budget	
	Service provider	Service recipient	Service provider	Other than service provider
Manpower services (by non-corporates)	25%	75%	0%	100%
Mutual fund agent	No reverse charge applicable		0%	100%
Mutual Fund (MF) Distributor to MF or AMC			0%	100%
Selling/ marketing agent of lottery tickets to lottery distributor or selling agent			0%	100%

Note: Important change in reverse charge table is replacement of "service recipient" with the "other than service provider" nomenclature

Indirect tax proposals

Service tax
(Effective as specified below)

- Service tax **applicable** on the following:
  (Effective from 1 April 2015)
  - Performing artist in folk or classical art forms of music, dance and theatre where consideration charged is in excess of Rs 1,00,000
  - Transportation by road (GTA), rail or vessel of tea, coffee, jaggery, sugar, milk products, edible oil from one place in India to another
  - Construction, erection, commissioning or installation of original works in relation to port or airport
  - Activities of mutual fund agent or distributor to mutual fund or asset management company
  - Selling or marketing agent of lottery tickets to a distributor or selling agent
  - Making telephone call from specified telephones mainly for public use
  - Specified activities such as construction, erection, installation, repairs, etc in relation to the following events provided to the government/ government authority
    a) Civil structure or original works in relation to anything other than commerce, industry or business or profession;
    b) Structure meant for educational, clinical, art or cultural establishment;
    c) Residential complex meant for self use, use of employees or use of specified Government personnel

Indirect tax proposals

Service tax
(Effective as specified below)

- Service tax **applicable** on the following:
  (Effective from 1 March 2015)
  - "Aggregator" of services, namely a person using web-based applications and a communications device can enable potential customers to be served by service providers, subject to the following:
    - Aggregator liable to pay service tax even though actual service is provided by the service provider
    - Where aggregator does not have physical presence in India, any person representing the aggregator is liable to pay service tax on his behalf
    - Where no representative can be identified, aggregator to nominate person liable to pay service tax on his behalf
  - Commission agent services provided to exporters of goods from India

- Service tax **applicable** on the following:
  (Effective from a date to be notified after enactment of the Finance Bill, 2015)
  - Intermediate production process (as job work) on alcoholic liquors for human consumption, where excise duty is payable by the principal manufacturer

Service tax base expanded to reflect intent to whittle down list of exemptions and exclusions from the tax ambit.

Indirect tax proposals

Service tax
(Effective as specified below)

- Service tax **exempted** on the following:
(Effective from a date to be notified after enactment of the Finance Bill, 2015)
  - Right of admission for exhibition of cinematographic film, circus, dance or theatrical performance including drama or ballet, recognised sporting events
  - Right of admission to award functions, concerts, pageants, musical performances or sporting events, other than recognised sporting event where admission fee is less than Rs 500 per person
- Service tax **exempted on** the following (Effective from 1 April 2015)
  - Ambulance services used for transporting patients
  - Life insurance services provided under Varishtha Pension Bima Yojana
  - Transportation of rice and pluses by road, rail or vessel from one place in India to another
  - Services by operator of common effluent treatment plant
  - Specific activities in relation to fruits and vegetables which do not alter or change the essential characteristics of the said fruits or vegetables
  - Admission to a museum, national park, wildlife sanctuary, tiger reserve or zoo
  - Services provided by the exhibitor of a movie to a distributor or an Association of Persons (AOP) consisting of exhibitor as one of its members

Service tax exemptions/ exclusions reflects focus towards certain sectors and activities that need special support.

Indirect tax proposals

Service tax

(Effective from 1 March 2015, unless specified otherwise)

- Digitally signed invoice, bills, challans or consignment notes have been given legal status
- Service tax records may be maintained in electronic form with digital signature on each page
- Class of persons eligible to approach the Advance Ruling Authority now includes specified resident partnership firms as defined under the Service Tax law

Digitisation of invoices and records a welcome change enabling taxpayers to implement e-administration of service tax matters.

Indirect tax proposals

Penalty provisions have been amended to promote faster resolution of litigation matters by waiving complete penalty, if the service tax and interest is paid within 30 days of the serving of notice.

Service tax

(Effective from date of enactment of the Finance Bill, 2015, unless specified otherwise)

- The terms "Government" defined for the first time in the Service Tax law
- Government services not liable to service tax now restricted by excluding "support services" from the negative list
- Admission to entertainment events or access to amusement facilities are liable to service tax
- Definition of 'consideration' expanded to include reimbursements charged in course of providing taxable service
- Where service tax disclosed as payable in returns but amounts not paid, coercive measures of recovery could be initiated without issuing demand notice
- Discretion to levy penalty under Section 80 that is available to the revenue authorities is to be removed
- Penalty provisions rationalised in favour of taxpayer in the following manner:

Event	Amendment
Notice to recover service tax not paid/ short paid (a) in cases not involving fraud, etc. (b) in cases involving fraud, etc.	If disputed service tax paid within 30 days from receipt of Notice: (a) No penalty to be charged (If disputed service tax paid after 30 days in cases not involving fraud, penalty reduced from 50% to 10%) (b) penalty reduced from 100% to 15% in cases where fraud involved
Order passed for recovery of service tax	If service tax paid within 30 days of the Order, penalty reduced to 25% of amount demanded in said Order

- Specific provisions introduced to facilitate smooth transition of pending matters from previous penalty regime to the penalty regime proposed above

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