# Budget Circular 2014-15

Finance (No. 2) Bill, 2014


## JAIN SARAOGI & CO.

**CHARTERED ACCOUNTANTS**

# DIRECT TAX

The Hon'ble Finance Minister has proposed number of clarificatory provisions in the Finance Bill which is a welcome step towards reducing unnecessary litigation. The broad proposals are as under:

- **Income Tax Slab** (For AY 2015-16)

| Particulars | Nil | 10% | 20% | 30% |
|---|---|---|---|---|
| Individuals (< 60 yrs), HUF, AOP, Body of Individuals, Artificial Juridical Person | Upto ₹ 2,50,000 | ₹ 2,50,001 to ₹ 5,00,000 | ₹ 5,00,001 to ₹ 10,00,000 | Above ₹ 10,00,000 |
| Individuals (60 yrs < X < 80 yrs) | Upto ₹ 3,00,000 | ₹ 3,00,001 to ₹ 5,00,000 | ₹ 5,00,001 to ₹ 10,00,000 | Above ₹ 10,00,000 |
| Individuals (> 80 yrs) | Upto ₹ 5,00,000 | - | ₹ 5,00,001 to ₹ 10,00,000 | Above ₹ 10,00,000 |

- **Debt-Oriented Mutual Fund qualification as Short-term Capital Asset** (w.e.f. AY 2015-16)
  Amendment to the provision of Section 2(42A) provides that an unlisted security and a unit of mutual fund (other than an equity oriented mutual fund) shall be a short-term capital asset if it is held for not more than thirty-six months.
- **Rationalisation of taxation regime in the case of charitable trusts and institutions** (w.e.f. AY 2015-16)
  Amendments to the Act will provide that where a trust or an institution is availing exemption under section 11 then such trust or institution cannot claim any exemption under any provision of section 10 [other than that relating to exemption of agricultural income and income exempt under section 10(23C)]. Similarly, entities which have been approved or notified for claiming benefit of exemption under section 10(23C) would not be entitled to claim any benefit of exemption under other provisions of section 10 (except the exemption in respect of agricultural income).
  Also, under it is also proposed that under Section 11 and Section 10(23C) income for the purposes of application shall be determined without any deduction or allowance by way of depreciation or otherwise in respect of any asset, acquisition of which has been claimed as an application of income under these sections in the same or any other previous year.
- **Section 10(23C)** (w.e.f. AY 2015-16)
  An explanation will be inserted in the Section 10(23C) that if the Government grant to a university or other educational institution, hospital or other institution during the relevant previous year exceeds a percentage (to be prescribed) of the total receipts (including any voluntary contributions), of such university or other educational institution, hospital or other institution, as the case may be,

then such university or other educational institution, hospital or other institution shall be considered as being substantially financed by the Government for that previous year.

- **Deduction from Income of House Property** (w.e.f. AY 2015-16)

  Amendment to the second proviso to clause (b) of Section 24 will increase the limit of deduction on account of interest in respect of property referred to in sub-section (2) of Section 23 to ₹ 2,00,000.

- **Investment Allowance to a Manufacturing Company** (w.e.f. AY 2015-16)

  An investment allowance of 15% of the investment made in Plant & Machinery by a Manufacturing Company shall be allowed if the company invests more than ₹ 25 Crores in a previous year starting on or after 1st April, 2014 and ending on 31st March, 2017.

- **Widening of Scope of Section 35AD**

  Specified Businesses will include two new businesses for the purposes of the investment linked deduction under Section 35AD so as to promote investment in these sectors, which are as follows:

  - laying and operating a slurry pipeline for the transportation of iron ore
  - setting up and operating a semiconductor wafer fabrication manufacturing unit, if such unit is notified by the Board in accordance with the prescribed guidelines.

  For the purpose of availing deduction the date of commencement of operations shall be on or after 1st April, 2014.

  Insertion of sub-section (7A) in section 35AD to provide that any asset in respect of which a deduction is claimed and allowed under section 35AD, shall be used only for the specified business for a period of eight years beginning with the previous year in which such asset is acquired or constructed.

- **Disallowance of expenditure for non-deduction of tax at source** (w.e.f. AY 2015-16)

  Amendment to Section 40(a)(i) will extend the time limit for payment of tax deducted from payments made to non-residents to due date specified for filing of return under section 139(1) of the Act.

  Amendment to Section 40(a)(ia) will provide that the disallowance shall be restricted to 30% of the amount of expenditure claimed on non-deduction or non-payment of TDS instead of 100%.

- **Speculative transaction in respect of commodity derivatives** (w.e.f. AY 2015-16)

  Amendment to the provisions of clause (e) of the proviso to the said clause (5) of Section 43 will provide that eligible transaction in respect of trading in commodity derivatives carried out in a recognised association and chargeable to commodities transaction tax under Chapter VII of the Finance Act, 2013 shall not be considered to be a speculative transaction.

- **Business of Plying, Hiring or Leasing Goods Carriages** (w.e.f. AY 2015-16)
  Amendment to the provisions of Section 44AE of the Act will provide for a uniform amount of presumptive income of ₹ 7,500 for every month (or part of a month) for all types of goods carriage without any distinction between HGV and vehicle other than HGV.
  **Capital Gains exemption in case of investment in a residential house property** (w.e.f. AY 2015-16)
  Amendments to the provision of Section 54(1) and Section 54F(1) will provide that the amount of capital gains will be exempt to the amount invested in one residential house situated in India.
- **Capital Gains exemption on investment in Specified Bonds** (w.e.f. AY 2015-16)
  Amendments to sub-section (1) of Section 54EC will restrict the deduction on the investment made by an assessee in the long-term specified asset, out of capital gains arising from transfer of one or more original asset, during the financial year in which the original asset or assets are transferred and also in the subsequent financial year does not exceed fifty lakh rupees.
- **Taxability of Forfeited Advance for transfer of Capital Asset** (w.e.f. AY 2015-16)
  A new clause (ix) in sub-section (2) of Section 56 will be inserted and provide for the taxability of any sum of money, received as an advance or otherwise in the course of negotiations for transfer of a capital asset. Such sum shall be chargeable to income-tax under the head 'income from other sources' if such sum is forfeited and the negotiations do not result in transfer of such capital asset.
- **Losses in Speculation Business** (w.e.f. AY 2015-16)
  Amendment to the provisions of Section 73 will provide that it will not be applicable to a company whose principal business is the business of trading in shares.
- **Limit of deduction under Section 80C** (w.e.f. AY 2015-16)
  The limit of deduction allowed under Section 80C was raised from the existing limit of ₹ 1,00,000 to ₹ 1,50,000.
- **Extension of the sunset date under Section 80-IA for the Power Sector** (w.e.f. AY 2015-16)
  Amendment of the terminal date for a further period up to 31st March, 2017 for the undertakings to commence the eligible activity to avail the tax incentive under Section 80-IA.
- **Rationalisation of the Definition of International Transaction** (w.e.f. AY 2015-16)
  Amendment to the Section 92B of the Act will provide that in respect of a transaction entered into by an enterprise with a person other than an associated enterprise, there exists a prior agreement in relation to the relevant transaction between the other person and the associated enterprise or, where the terms of the relevant transaction are determined in substance between such other person and the associated enterprise, and either the enterprise or the associated enterprise or both of them are non-resident, then such

transaction shall be deemed to be an international transaction entered into between two associated enterprises, whether or not such other person is a non-resident.

- **Tax on Long-term Capital Gains on Units** (w.e.f. AY 2015-16)
  Amendment to the provisions of Section 112 withdraw the concessional rate of tax of 10% on long term capital gains unit.
- **Alternate Minimum Tax** (w.e.f. AY 2015-16)
  Amendments made to the provisions of Section 115JC provides that the total income shall be increased by the deduction claimed under Section 35AD for the purpose of computation of adjsted total income.
- **Dividend and Income Distribution Tax** (w.e.f. 1st October, 2014)
  Amendment to the provisions of Section 115R will require the amount of distributed income to be increased by such amount as would, after reduction of the additional income-tax on such increased amount at the rate specified in sub-section (2), be equal to the amount of income distributed by the Mutual Fund. Thus, will lead to a higher effective Dividend Distribution Tax rate.
- **Reduction in tax rate on certain dividend received from Foreign Companies** (w.e.f. AY 2015-16)
  The benefit of lower rate of taxation of 15% on foreign dividends repatriated into the country will be applicable on foreign dividends received in FY 14-15 and subsequent financial years.
- **Tax deduction at source from non-exempt payments made under life insurance policy** (w.e.f. 1st October, 2014)
  A new section in the Act is to be inserted to provide for deduction of tax at the rate of 2% on sum paid under a life insurance policy, including the sum allocated by way of bonus, which are not exempt under section 10(10D) of the Act. It has also been proposed that no deduction under this provision shall be made if the aggregate sum paid in a financial year to an assessee is less than ₹ 1,00,000.
- **Corporate Social Responsibility (CSR)** (w.e.f. AY 2015-16)
  It is proposed to clarify that the CSR expenditure which is of the nature described in Section 30 to Section 36 of the Act shall be allowed deduction under those sections subject to fulfillment of conditions, if any, specified therein.
- **Estimate of value of assets by Valuation Officer** (w.e.f. 1st October, 2014)
  Time limit of six month has been prescribed for report to be submitted by Valuation Officer for cases referred to him and accordingly time for assessment will also get extended.
- **Mode of acceptance or repayment of loans and deposits** (w.e.f. AY 2015-16)
  Use of electronic clearing system viz. e-payment and internet banking has been included for the purpose of acceptance and repayment of loans and deposits under section 269SS and 269T.

## SERVICE TAX

- No change in Service Tax Rate of 12%.
- Service tax is now leviable on sale of space or time for advertisements on segments like online and mobile media.
- Service tax to be levied on the services provided by radio taxis or radio cabs, whether or not air-conditioned. The abatement presently available to rent-a-cab service would also be made available to radio taxi service.
- Exemption extended to clinical research on human participants is being withdrawn.
- Exemption extended to air-conditioned contract carriages like buses is being withdrawn.
- Exemption in respect of services provided to Government or local authority or governmental authority, will be limited to services by way of water supply, public health, sanitation conservancy, solid waste management or slum improvement and upgradation.
- Exemption in respect of renting of immovable property service received by educational institutions is withdrawn.
- Exemption available to accommodation services provided by hotels, dharamshalas or ashrams when they provide rooms for less than Rupees One Thousand per day, is being re-worded to bring out the intent clearly.
- In Rule 2A of the Service Tax Valuation Rules, category 'B' and 'C' of works contracts proposed to be merged into one single category, with service portion as 70%. This amendment will take effect from 1st October, 2014.
- Taxable portion in respect of transport of goods by vessel to be reduced from 50% to 40%. Effective service tax will decrease from the present 6.18% to 4.944%. This amendment will take effect from 1st October, 2014.
- Life micro-insurance schemes for the poor, approved by IRDA, where sum assured does not exceed ₹ 50,000 to be exempted from service tax.
- Transport of organic manure by vessel, rail or road (by GTA) is being exempted.
- Loading, unloading, packing, storage or warehousing, transport by vessel, rail or road (GTA), of cotton, ginned or baled, is being exempted.
- Services provided by common bio-medical waste treatment facility operators to clinical establishments are being exempted.
- Specialized financial services received by RBI from global financial institutions in the course of management of foreign exchange reserves, e.g., external asset management, custodial services, securities lending services, etc. are being exempted.
- Services provided by Indian tour operators to foreign tourists in relation to a tour wholly conducted outside India are being exempted.

- Service provided by Employees' State Insurance Corporation (ESIC) during the period prior to 1.7.2012 to be exempted from service tax.
- In section 87, power to recover dues of a predecessor from the assets of a successor purchased from the predecessor, is to be provided, as it is available in section 11 of the Central Excise Act.
- Rate of interest for delay in payment of service tax for delay upto 6 months @ 18% per annum, from 6 months to 12 months @ 24% per annum and for delay of more than 12 months @ 30% per annum.
- Services provided by Recovery Agents to Banks, Financial Institutions and NBFC to be brought under the reverse charge mechanism; service receiver will be the person liable to pay service tax.
- Service tax paid under full reverse charge: the condition to pay invoice value to the service provider for availing credit of tax paid, to be omitted [change to have immediate effect].
- Service receiver may avail abatement, without having to obtain non-availment of Cenvat Credit certificate from service provider.
- Time limit for taking credit on input and input services: credit shall be taken within six months from the date of the invoice or challans or other documents specified [change to have effect from 1st September, 2014].
- In case of reverse charge services, to bring certainty in the determination of point of taxation, it is proposed to provide that point of taxation will be the payment date or first day after three months from the date of invoice, whichever is earlier. The amended point of taxation will apply to invoices issued after 1st October 2014. A transition rule is proposed to be prescribed [change to have effect from 1st October, 2014].
- In renting of motor vehicle, portion of service tax payable by service provider and service receiver will be 50% each. This will come into effect from 1st of October 2014.

# EXCISE DUTY

- **Precious Metals**
  - Un-branded articles of precious metals are being exempted from excise duty for the period 01.03.2011 to 16.03.2012.
- **Health**
  - Excise duty on cigarettes is being increased by 72% for cigarettes of length not exceeding 65 mm and by 11% to 21% for cigarettes of other lengths. Similar increases are proposed on cigars, cheroots and cigarillos.
  - Basic excise duty is being increased from 12% to 16% on pan masala, from 50% to 55% on unmanufactured tobacco and from 60% to 70% on jarda scented tobacco, gutkha and chewing tobacco.
- **Renewable Energy**
  - Excise duty is being reduced from 12% to Nil on forged steel rings used in the manufacture of bearings of wind operated electricity generators.
  - Full exemption from excise duty is being provided for solar tempered glass used in the manufacture of solar photovoltaic cells/modules, solar power generating equipment/system, and flat plate solar collectors & in respect of machinery, equipments, etc. required for setting up of solar energy production projects.
  - Full exemption from excise duty is being provided to backsheet and EVA sheet used in the manufacture of photovoltaic cells/modules and specified raw materials used in their manufacture.
  - Full exemption from excise duty is being provided to parts consumed within the factory of production for the manufacture of non-conventional energy devices [Sl.No.332 of notification No.12/2012-CE, dated 17.03.2012].
  - Full exemption from Excise Duty is being provided on flat copper wire used in the manufacture of PV ribbons (tinned copper interconnect) for use in the manufacture of solar cells/modules.
- **Consumer Goods**
  - The scope of the phrase "not mixed with any other ingredient" in the context of excise duty exemption on "heena powder or paste, not mixed with any other ingredient" is being clarified so as to provide that the exemption is available to heena powder mixed with a liquid, so far that the liquid is a medium to change the form of heena powder into paste but excludes products like heena dye and such other products which are cosmetics and have no ceremonial or traditional value.

- ➢ Excise duty is being reduced from 12% to 6% on footwear of retail price exceeding Rs.500 per pair but not exceeding Rs.1,000 per pair. Footwear of retail price upto Rs.500 per pair will continue to remain exempted.
- ➢ Excise duty on hand operated sewing machine (2% without CENVAT / 6% with CENVAT) is being rationalized by levying concessional excise duty on sewing machines other than those operated with electric motors (whether in-built or attachable to the body)
- ➢ Semi- mechanized units manufacturing safety matches, which attract concessional excise duty of 6%, are being allowed to carry out the processes of 'Pasting of labels' and 'Packing' with the aid of power.
- ➢ Concessional excise duty of 2% without CENVAT credit and 6% with CENVAT credit is being extended to gloves specially designed for use in sports.
- ➢ An additional duty of excise is being levied at the rate of 5% ad valorem on aerated waters containing added sugar.

- **Energy Sector**
  - ➢ Central Excise duty on Branded Petrol is being reduced from Rs.7.50 per litre to Rs. 2.35 per litre.
  - ➢ The rate of Clean Energy Cess levied on coal, lignite and peat is being increased from Rs.50 per tonne to Rs. 100 per tonne.
- **Other Changes**
  - ➢ Intermediate goods manufactured and consumed captively for further manufacture of matches is being fully exempted.
  - ➢ Full exemption from Excise duty is being provided on plastic materials reprocessed out of the scrap or waste and cleared into the DTA by an EOU.
  - ➢ Education cess and secondary & higher education cess (customs component) is being exempted on goods cleared by an EOU into the DTA.
  - ➢ It is being clarified that all goods falling under headings 8601 to 8606 (except 8604) attract 6% excise duty with CENVAT benefit.

## CUSTOM DUTY

- Baggage Rules are being amended to,-
  - raise the free baggage allowance from Rs.35,000 to Rs.45,000.
  - reduce the duty free allowance of cigarettes from 200 to 100, of cigars from 50 to 25 and of tobacco from 250 gms to 125 gms.
- **Energy Sector**
  - The duty structure on non-agglomerated coal of various types is being rationalized at 2.5% BCD and 2% CVD. Accordingly, the BCD on Coking coal, on anthracite coal, other coal and on steam coal and bituminous coal is changed to 2.5%. The CVD on Anthracite coal, Coking coal and other Coal is being reduced from 6% to 2%.
  - Basic Customs Duty on metallurgical coke is being increased from Nil to 2.5%.
  - Exemption from Basic Customs Duty is being granted on re-gasified LNG for supply to Pakistan.
- **Textiles**
  - The duty free entitlement for import of trimmings & embellishments used by the readymade textile garment sector for manufacture of garments for export is being increased from 3% to 5%.
  - Non-fusible embroidery motifs or prints are being included in the list of items eligible to be imported duty free for manufacture of garments for export.
  - The list of specified goods required by handicraft manufacturer-exporters is being expanded by including wire rolls so as to provide Customs Duty exemption on import by handicraft manufacturer-exporters.
  - Fusible embroidery motifs or prints, anti-theft devices, pin bullets for packing, plastic tag bullets, metal tabs, bows, ring and slider hand rings are being included in the list of items eligible to be imported duty free for manufacture of handloom made ups or cotton made ups or manmade made ups for export.
  - Specified goods imported for use in the manufacture of textile garments for export are fully exempt from BCD and CVD subject to the condition that the manufacturer produces an entitlement certificate from the Apparel Export Promotion Council. In addition, Indian Silk Export Promotion Council (ISEPC) is being authorised to issue entitlement certificate.
- **Precious Metals**
  - Basic Customs Duty on half-cut or broken diamonds is being increased from NIL to 2.5% and on cut & polished diamonds and colored gemstones from 2% to 2.5%.

- Full exemption from Basic Customs Duty is being granted to pre-forms of precious and semi-precious stones.

- **Electronics/Hardware**
  - Basic Customs Duty on LCD and LED TV panels of below 19 inches, E-Book readers and on colour picture tubes for manufacture of cathore ray TVs is being reduced to NIL.
  - Basic Customs Duty is being exempted on specified parts of LCD and LED panels for TVs.
  - Basic Customs Duty on specified telecommunication products not covered under the ITA (Information Technology Agreement) is being increased from NIL to 10%.
  - Special Additional Duty (SAD) on all inputs/components used in the manufacture of Personal Computers (laptops/ desktops) and tablet computers is being exempted, subject to actual user condition.
  - Full exemption from Special Additional Duty (SAD) is being provided on specified inputs (PVC sheet & Ribbon) used in the manufacture of smart cards.
  - CVD exemption on portable X-ray machine / system is being withdrawn.
- **Renewable Energy**
  - Basic Customs Duty is being reduced to 5% on forged steel rings used in the manufacture of bearings of wind operated electricity generators and on machinery, equipments, etc. required for setting up of solar energy production projects.
  - Full exemption from Special Additional Duty is being provided on parts and components required for the manufacture of wind operated electricity generators.
  - Full exemption from Basic Customs Duty is being provided on specified raw materials used in the manufacture of solar backsheet and EVA sheet and on flat copper wire used in the manufacture of PV ribbons (tinned copper interconnect) for solar PV cells/modules.
  - Concessional customs duty of 5% is being provided on machinery, equipments, etc. required for setting up of compressed biogas plant (Bio-CNG).
- **Capital Goods/Infrastructure**
  - It is being clarified that road construction machinery imported duty free can be sold within 5 years of importation subject to payment of customs duty on depreciated value and that individual constituents of the consortium whose names appear in the contract can import goods without payment of duty.

# THANK YOU


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