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BUDGET 2014-2015

FOREWARD

The Union Budget for 2014-15 was presented by the Finance Minister of India in the Parliament on July 10, 2014 amidst enormous expectations from the taxpayers and investor community at large to usher in the 'non-adversarial' tax regime as promised by the newly formed Government in its election manifesto.

The Indian economy has been going through one of its most challenging period with a GDP growth of less than 5% for last couple of years as compared to staggering GDP growth rate of over 9% for the period 2005-06 to 2007-08. Adding to the sluggish economic growth, persisting high inflation, populist subsidy measures and a battered Rupee made the fiscal situation even worse.

However, the external economic situation did witness a dramatic turnaround with an improved CAD after two years of worrying high levels. The fiscal deficit of the central government also declined for two consecutive years saving the country from the embarrassment of a potential downgrade.

The task of the Finance Minister was therefore clearly cut out:

- Reviving economic growth;
- Achieving fiscal prudence; and
- Ensure low inflation;

Given the fact that the new Government had less than 45 days to present this budget, the Finance Minister, instead of announcing big bang economic reforms has chosen to present a broad road map of the economic policy of the new Government and outlined its plan for reviving the growth spirit of the Indian economy.

To spur the economic growth and improve investment climate, proposals such as development of industrial and economic corridors with creation of 100 smart cities, granting tax pass through status for REITs / Invites and liberalization of FDI in defense and insurance up to 49% have been announced

The Union Budget 2014-15 reflects a number of priorities set out the by new Government in its election manifesto which includes the need to simplify the taxation regime, usher in the 'non-adversarial' tax regime, provide certainty to tax payers, overhaul the dispute resolution mechanism and ensure expeditious implementation of GST.

Finance Minister's commitment to provide a stable and predictable tax regime would be music to the ears of taxpayers and investor community at large. As a measure to reduce litigation and provide certainty to tax payers, number of promises have been made, including extension of the scope of advance rulings to resident taxpayers (which was earlier available only to non-resident taxpayers and public sector undertaking), enlarging the scope of Income-tax Settlement Commission for speedy settlement of tax disputes and roll back of Advance Pricing Agreement (APAs) have been allowed for 4 earlier years to expand the benefit that an APA could confer.

Although the Finance Minister reiterated the Government's intent to provide a non-adversarial and business friendly tax environment, the Union Budget 2014-15 has fallen short of the industry wide expectation to repeal the retrospective amendments brought in the erstwhile government in 2012. However, to settle some nerves, the Finance Minister stressed that Government would not ordinarily resort to retrospective amendments and setting up of a high level committee has been proposed to be set up to look into all cases arising out of the retrospective amendments. Beyond the 'retrospective amendments', widespread expectations that General Anti-Avoidance Rules (GAAR) would be further deferred were also belied.

On Goods and Sales Tax (GST), one of the most keenly awaited indirect tax reforms, the Finance Minister expressed determination in removing the roadblocks before the end of this year paving the way for speedy implantation of GST. However, a clear cut timeline for GST implementation was the least which the industry expected from the Finance Minister.

Finance Minister announced that Indian companies will adopt new Indian Accounting Standards in line with International Financial Reporting Standards (IFRS) over the next three years.

Overall, the Finance Minister has chosen fiscal prudence over populist measures, outlined his vision of controlling inflation, simplifying tax laws, reviving manufacturing growth and improving the infrastructure health of the economy



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Economic Survey 2013-14



Economic Review 2013-2014



A day before the budget day on July 9, 2014 the finance ministry under guidance of Shri. Arun Jaitley delivered the annual economic survey - prepared by senior economic advisor Shri. Ila Patnaik - on the state of Asia's third-largest economy tabled the Economic Survey 2013-14 which reviews the developments in the Indian economy over the previous 12 months, summarizes the performance on major development programmes, and highlights the policy initiatives of the government and the prospects of the economy in the short to medium term. This document is presented to both houses of Parliament during the Budget Session.

India's fiscal situation is worse than it appears, Prime Minister Narendra Modi's government said in an economic report on Wednesday that called for tough measures to shore up public finances and reduce inflation.

The State of the Economy

In 2014-15, the Indian economy is poised to overcome the sub-5 per cent growth of gross domestic product (GDP) witnessed over the last two years.

The growth slowdown in the last two years was broad based, affecting in particular the industry sector. Inflation too declined during this period, but continued to be above the comfort zone, owing primarily to the elevated level of food inflation.

Moderation in inflation would help ease the monetary policy stance and revive the confidence of investors, and with the global economy expected to recover moderately, particularly on account of performance in some advanced economies, the economy can look forward to better growth prospects in 2014-15 and beyond.

Economic growth has slowed due to domestic structural and external factors. Two successive years of sub-5 percent growth is witnessed for the first time in 25 years

After achieving unprecedented growth of over 9 per cent for three successive years between 2005-06 and 2007-08 and recovering swiftly from the global financial crisis of 2008-09, the Indian economy has been going through challenging times that culminated in lower than 5 per cent growth of GDP at factor cost at constant prices for two consecutive years, i.e. 2012-13 and 2013- 14.



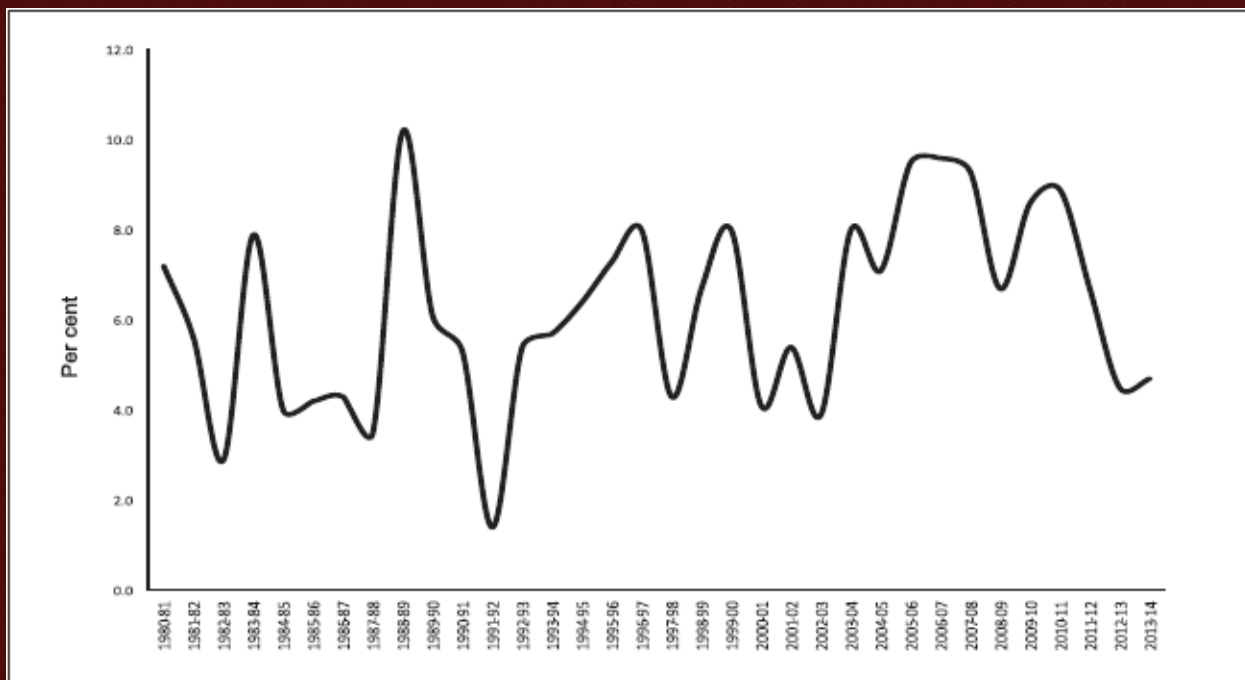


Figure 1.1 : Growth in Real GDP (per cent)

Inflation has eased but is still above comfort levels. Sustenance of early signs of growth pick-up depends on amelioration of structural constraints.

Sectoral Growth Trends

Favorable monsoons helped agricultural growth and power generation. Slowdown in industry continued.



Sector	2007- 08	2008- 09	2009- 10	2010- 11	2011-12 (2R)	2012-13 (1R)	2013-14 (PE)
Agriculture, forestry, & fishing	5.8	0.1	0.8	8.6	5.0	1.4	4.7
Mining & quarrying	3.7	2.1	5.9	6.5	0.1	-2.2	-1.4
Manufacturing	10.3	4.3	11.3	8.9	7.4	1.1	-0.7
Electricity, gas, & water supply	8.3	4.6	6.2	5.3	8.4	2.3	5.9
Construction	10.8	5.3	6.7	5.7	10.8	1.1	1.6
Trade, hotels, transport, storage, & communication	10.9	7.5	10.4	12.2	4.3	5.1	3.0
Financing, insurance, real estate, & business services	12.0	12.0	9.7	10.0	11.3	10.9	12.9
Community, social, & personal services	6.9	12.5	11.7	4.2	4.9	5.3	5.6
GDP at factor cost	9.3	6.7	8.6	8.9	6.7	4.5	4.7

Table 1.1 : Growth in GDP at Factor Cost at Constant (2004-05) Prices (per cent)

Net exports

Net exports in national accounts are defined as the difference between export of goods and non-factor services and import of goods and non-factor services. Although full-fledged recovery in the global economy is still distant, the early signs of global economic strengthening helped India achieve partial recovery in exports. The share of exports in GDP increased from 24.0 per cent in 2012-13 to 24.8 per cent in 2013-14, while the share of imports declined from 30.7 per cent to 28.4 per cent, resulting in an improvement in net exports by 3.1 percentage points of GDP.

The fiscal deficit of 4.5 per cent of GDP in 2013-14 as compared to the budgeted target of 4.8 per cent of GDP is indicative of continued focus on fiscal consolidation.

The Reserve Bank of India (RBI) the central bank in India in the Third Quarter Review of Monetary Policy on 28 January 2014 hiked the repo rate by 25 bps to 8 per cent on account of upside risks to inflation. The move was intended to set the economy securely on a disinflationary path.

International Trade, Balance of Payments, and External Debt

India's share in world exports and imports increased from 0.7 per cent and 0.8 per cent respectively in 2000 to 1.7 per cent and 2.5 per cent respectively in 2013.

India's merchandise exports reached US\$ 312.6 billion (on customs basis) in 2013-14, registering a growth of 4.1 per cent as compared to a contraction of 1.8 per cent during the previous year. In April-May 2014, exports registered a growth of 8.9 per cent over the corresponding period of 2013.

Services exports registered a growth of 4 per cent in 2013-14 as against 2.4 per cent in 2012-13. Surplus in services trade (net services) has been a major source of financing India's growing merchandise trade deficit in recent years.

India's Balance of Payments (BoP) position improved significantly in 2013-14, particularly in the last three quarters. The stress on BoP observed during 2011-12 as a fallout of the crisis in the Euro area and inelastic domestic demand for certain key imports continued through 2012-13 and the first quarter of 2013-14. The CAD rose sharply to a high of US\$ 88.2 billion (4.7 per cent of GDP) in 2012-13, surpassing the 2011-12 level of US\$ 78.2 billion.

Capital flows (net) moderated sharply from US\$ 92.0 billion in 2012-13 to US\$ 47.9 billion in 2013-14.

External Debt

India's external debt stock at end March 2013 stood at US\$ 404.9 billion as against US\$ 360.8 billion at end March 2012. This increased further to US\$ 426.0 billion at end December 2013.

Priorities for reviving Growth

Priorities for growth revival include: investment revival, strengthening of macroeconomic stability, creation of non-agricultural jobs, strengthening of infrastructure, and boost to agricultural development.

Outlook for 2014-15

The descent into the present phase of sub-5 per cent growth has been rather sharp. Though some measures have been initiated to this end, reversion to a growth rate of around 7-8 per cent can only occur beyond the ongoing and the next fiscal.

With expectation of better performance in manufacturing, improved balance of payments situation and modest global growth revival, the economy is expected to grow in the range of 5.4-5.9 per cent in 2014-15.

Growth in 2014-15 is expected to remain more on the lower side of the range given above, for the following reasons:

- (i) steps undertaken to restart the investment cycle (including project clearances and incentives given to industry) are perceived to be playing out only gradually;
- (ii) the benign growth outlook in some Asian economies, particularly China;
- (iii) still elevated levels of inflation that limit the scope of the RBI to reduce policy rates; and
- (iv) Expectation of below-normal monsoons. Downside risk also emerges from prolonging of the geo-political tensions. On the upside, such factors as institutional reform to quicken implementation of large projects and a stronger-than-expected recovery in major advanced economies would help the Indian economy clock a higher rate of growth.

Sectoral Developments



Agriculture and Food Management

There was an increase of around 40 lakh ha in overall area coverage under food grains in 2013-14 as compared to 2012-13. A record food grains production of 264.4 million tonnes is estimated in 2013-14, as per the third Advance Estimates, indicating an increase of more than 20 million tonnes over the average production during the previous five years.

Industry and infrastructure

As per the latest GDP data, the industry sector registered a growth of 1.0 per cent in 2012-13 that slowed further to 0.4 per cent in 2013-14. The key reason for poor performance was contraction in mining and deceleration in manufacturing. Manufacturing- and mining-sector GDP declined by 0.7 per cent and 1.4 per cent respectively in 2013-14. The underlying cause for this has been the deceleration in investment particularly by the private corporate sector during 2011-12 and 2012-13.

Services Sector

The services sector has emerged as the fastest growing sector of the economy and the second fastest growing in the world, with a CAGR of 9 per cent, behind China with a Compound Annual Growth Rate (CAGR) of 10.9 per cent during the period from 2001 to 2012.

Financial Intermediation

Financial reforms are critical to the emergence of India as a strong market economy. A well-functioning financial system will support growth, financial inclusion and stability. The passage of the Pension Fund Regulatory and Development Authority (PFRDA) Act, the shift of regulatory supervision of commodity futures trading to the Ministry of Finance, and the presentation of the Financial Sector Legislative Reforms Commission (FSLRC) report, are some of the major developments in 2013-14.

Human Development

India with a large and young population has a great demographic advantage. The proportion of working-age population is likely to increase from approximately 58 per cent in 2001 to more than 64 per cent by 2021. According to the United Nations Human Development Report (HDR) 2013, India with a human development index (HDI) of 0.554 in 2012 slipped down the global ranking to 136 from 134 as per HDR 2012. India is in the medium human development category with countries including China, Egypt, Indonesia, South Africa, and Vietnam having better overall HDI ranking within the same category.

Sustainable Development and Climate Change

Greenhouse Gas Emissions (GHG) emissions grew on an average by 2.2 per cent per year between 2000 and 2010, as compared to 1.3 per cent per year between 1970 and 2000. India's per capita carbon emissions were 1.7 metric tons in 2010, well below the world average of 4.9 metric tonnes.

Governments are currently working on two new agreements on climate change and sustainable development, both of which will be new global frameworks for action to be finalized next year.

Following the Rio +20 mandate, the global community is working to develop a set of Sustainable Development Goals (SDGs), possibly to be integrated with Millennium Development Goals (MDGs) when they end in 2015. Work is already under way and a number of thematic focus areas for the SDGs have been identified.

Issues and Priorities

Reviving investment, essential for growth of jobs and income, requires a three-pronged approach that works through improving India's long-term growth prospects. First, the government must ensure low inflation by putting in place a framework for monetary policy, is consolidation, and food market reforms. Second, it must put public finances on a sustainable path through tax and expenditure reform.

Tax reform requires a GST, Direct Tax Code (DTC), and more predictable tax administration. Expenditure reforms must focus on public goods, new designs for subsidy programmes, and mechanisms for accountability. India requires the legal and regulatory frameworks for a market economy. This requires repealing the old legacy laws and creating state capacity to address market failures.

The present model of infrastructure contracting and financing needs to be reexamined.

Greater policy stability, higher long-term growth and a legal and regulatory framework that strengthens a market economy will help revive investment.

Improving long term-growth prospects will help revive investment.

Tax reform

In a non-market economy, in addition to laws, taxes and subsidies are used for encouraging or discouraging activities that the central planner considers good for the economy. The result is multiple rates and exemptions. Most market economies have moved away from complex tax systems towards simple and rational systems.

India's complex tax system suffers from problems in both structures and administration. Uneven and high tax rates and uneven tax treatment of similar economic activities have induced distortions in the behavior of firms and households. In addition, the manner of functioning of tax administration is imposing legal risk and substantial compliance costs upon households and firms.

Goods and Services Tax

The implementation of a Central GST (CenGST) could be the first step towards the GST. Once the CenGST is implemented, and the information technology system for CenGST has worked, estimation risk will be lower and it will be easier for the centre and states to move to the GST.

Direct Tax Code

Just as the GST is a transformation of indirect taxes, the DTC is required as a clean modern replacement for the existing income tax law. As with the GST, the key objective must be a simplification with a clean conceptual core, and the removal of a large number of special cases and exemptions that favor special interest groups. The tax system must move away from industrial policy, with incentives for one activity or another, towards a simple framework.

Taxation of firms

Firms are ultimately owned by individual shareholders. When individuals are taxed, the taxation of firms acts as double taxation. From the viewpoint of shareholders, the post-tax returns on investment in a firm are shaped by two levels of taxation: the corporation tax rate and the dividend distribution tax. It would be desirable to track the median value for EMS. This would ensure that India is a competitive destination for investments of global and Indian firms.

Tax administration

The Doing Business Report 2014 ranks India at 158 out of 189 countries under the head 'paying taxes'. Expert Committees have identified problems with the taxation system, including retrospective amendment of laws, frequent amendments, especially after the executive is unable to establish a tax claim in courts, and issues with arbitrary tax claims, especially in transfer pricing. This is coupled with long pendency of disputes and a taxation regime that is unfriendly to foreign investors.

Making it easier and less costly to do business must be a top priority.

Objectives, powers, flexibility, accountability

Once a clear objective has been defined, laws should give the agency the minimum possible coercive power through which the objective can be achieved. If expansive powers are given, there is greater risk of abuse of power.

There is a need to drastically simplify cross border activities as an element of reducing the cost of doing business in India.

Conclusion

The ultimate goal of economic policy is to create a sustained renaissance of high growth in which hundreds of millions of good quality jobs are created.

Labour laws create strong incentives for firms to avoid hiring a large number of low skill workers. An array of problems holds back the entry and maturation of new firms. This protects existing businesses, even if inefficient, and limits entry and competition. It is imperative to use India's unique demographic moment wisely and unleash the second generation of reforms.

The pursuit of long-term initiatives will feed back into the economy in the short term, with a rise in consumption and investment. In India today, there is a coincidence between the priorities for the long term and the priorities for the short term.

At the same time, the deeper impact of these policy initiatives will kick in with a lag. When there is an open array of opportunities for individuals and firms, it will take some time for economic agents to understand the new landscape and how they should optimally act in it. Firms will require time and commitment in order to build up organizational capital. Hence we may envision a five year period within which the reforms are put in place, followed by a period within which the economy has fully absorbed the new environment and achieved a higher trend growth rate.



Key Features of Budget 2014-2015



THE CURRENT ECONOMIC SITUATION AND THE CHALLENGES

- The state of world economy has been the most decisive factor affecting the fortunes of every developing country.
- The world economy has been witnessing a sliding trend in growth, from 3.9 percent in 2011 to 3.1 percent in 2012 and 3 percent in 2013.
- The economic situation of major trading partners of India, who are also the major source of our foreign capital inflows, continues to be under stress. United States has just recovered from long recession, Euro zone, as a whole, is reporting a growth of 0.2 per cent, and China's growth has also slowed down.
- The economic challenges faced by our country are common to all emerging economies.
- Despite these challenges, we have successfully navigated through this period of crisis.
- Apart from embarking on the path of fiscal consolidation, the objectives of price stability, self sufficiency in food, reviving the growth cycle, enhancing investments, promoting manufacturing, encouraging exports, quickening the phase of implementation of projects and reducing a stress on important sectors were the goals set in 2012-13.

STATE OF ECONOMY

Deficit and Inflation

- The fiscal deficit for 2013-14 contained at 4.6 percent.
- The current account deficit projected to be at USD 45 billion in 2013-14 down from USD 88 billion in 2012-13.
- Foreign exchange reserve to grow by USD 15 billion in this Financial Year
- No more talk of down grade of Indian Economy by Rating Agencies.
- Fiscal stability at the top of the Agenda.
- Government and RBI have acted in tandem to bring down inflation.
- WPI inflation down to 5.05 percent and core inflation down to 3.0 percent in January 2014.
- Food inflation down to 6.2 percent from a high of 13.8 per cent.

Agriculture

- Agricultural sector has performed remarkably well.
- Food grain production estimated for the current year is 263 million tonnes compared to 255.36 million tonnes in 2012-13.
- Agriculture export likely to cross USD 45 billion higher from USD 41 billion in 2012-13.
- Agricultural credit to exceed the target of 7 lakh crore.
- Agricultural GDP growth for the current year estimated at 4.6 percent compared to 4.0 percent in the last four years.

Investment

- Savings rate at 30.1 percent and investment rate of 34.8 percent in 2012-13.
- Government set up a Cabinet Committee on investment and the Project Monitoring Group to boost investment. By end of January 2014, Projects numbering 296 with an estimated project cost of 660,000 crore cleared.

Foreign Trade

- Despite a decline in growth of global trade, our export has recovered sharply.
- The estimated merchandise export is estimated to reach USD 326 billion indicating a growth rate of 6.3 percent in comparison to the previous year.

Manufacturing

- The sluggish import is a matter of concern for manufacturing and domestic trade sector. Due to deceleration in investment, the manufacturing sector has witnessed a sluggish growth.
- The National Manufacturing Policy has set the goal of increasing the share of manufacturing in GDP to 25 percent and to create 100 million jobs over a decade.
- 8 National Investment and Manufacturing Zones (NIMZ) along Delhi Mumbai Industrial Corridor (DMIC) have been announced. 9 Projects had been approved by the DMIC trust.
- 3 more Industrial Corridors connecting Chennai and Bengaluru and Mumbai & Amritsar and Kolkata are under different stages of preparatory works.
- Additional capacities are being installed in major manufacturing industries.
- Notification of a public procurement policy, establishing technology and common facility centers, and launching the Khadi Mark are steps taken to promote Micro Small and Medium Enterprises.

Infrastructure

- In 2012-13 and in nine months of the current financial year, 29,350 MW of power capacity, 3,928 Kms of National Highways, 39,144 Kms of Rural Roads, 3,343 Kms of New Railway track and 217.5 million tonnes of capacity per annum in our ports have been created to give a big boost to infrastructure industries.
- 19 Oil and Gas blocks were given out for exploration and 7 new Air ports are under construction.
- Infrastructure debt funds have been promoted to provide finances for infrastructure Projects.

Exchange Rates

- Rupee came under pressure following indications by US Federal Reserve of reduction in asset purchases in May 2013.
- Government, RBI and Securities and Exchange Board of India (SEBI) undertook a number of measures to facilitate capital inflows and stabilize the foreign exchange markets.

GDP Growth

- The GDP slow-down which began in 2011-12 reaching 4.4 percent in Q1 of 2013-14 from 7.5 percent in the corresponding period in 2011-12 has been controlled by numerous measures taken by the Government. Growth in the third and fourth quarter of the current year is expected to be 5.2 percent and that for the whole year has been estimated at 4.9 percent.
- The declining fiscal deficit, stable Exchange Rate and reducing Current Account Deficit, moderation in inflation, increasing exports are reflection of a more stable economy today.

Economic Initiative

- Centrally Sponsored Schemes were restructured into 66 Programs for greater Synergy.
- Record Capital expenditure of 257,641 crores in 2013-14 by public sector enterprises.
- About 50,000 MW of Thermal and Hydel Power capacity is under construction.
- Liberalised FDI policy in tele-communication, pharmaceuticals, civil aviation, power trading exchange, and multi brand retail to attract large investment.
- Approval to establish 2 semi conductor wafer fab units.
- Approval of IT modernization project of Department of Post.
- Kudankulam Nuclear Power Plant Unit-I achieved criticality and is generating 180 Million Units of power.
- Fast breeder Reactor at Kalpakkam and 7 Nuclear Power Reactors under construction.
- National Solar Mission to add 4 Ultra Mega Solar Power Projects each with the capacity of over 500 MW in 2014-15.
- Ministry of Micro Small and Medium Enterprises (MSME) will create the 'India Inclusive Innovation Fund' to promote grass root innovations with social returns.

Social Sector Initiative

- A Venture Capital Fund to provide concessional finance to Scheduled Caste will be set up by Industrial Finance Corporation of India (IFCI) with an initial capital of 200 crores which can be supplemented every year.
- The restructured Integrated Child Development Services (ICDS), under implementation in 400 districts, will be rolled out in remaining districts from 1.4.2014.
- A National Agro-Forestry Policy 2014 has been approved.
- A mechanism for marketing minor Forest produce has been introduced and an allocation of 444.59 crore has been made to continue the Scheme in 2014-15.
- A new Plan Scheme with an allocation of 100 crores has been approved to promote community radio station.
- New technologies such as Japanese encephalitis vaccine (JE vaccine), a diagnostic test for Thalassaemia and Magnivisualizer for detection of cervical cancer have been delivered to people.

FINANCIAL SECTOR

- All the announcements concerning the financial sector made in the Budget Speech of February 2013 have been implemented.
- 11,300 crore is proposed to be provided for Capital infusion in Public Sector Banks.
- 5,207 new branches have been opened against the target of 8,023.
- Bhartiya Mahila Bank has been established.
- 6,000 crore and 2,000 crore have been provided to Rural and Urban Housing Funds respectively.
- The target of 700,000 crore of Agricultural Credit is likely to be exceeded by the Banks. The target for 2014-15 is 800,000 crore.
- 23,924 crore has been released under the Interest Subvention Scheme on farm loans, with effective rate of interest on farm loans at 4 percent including subvention of 2 percent and incentive of 3 percent for prompt payment. The number of bank accounts of minorities has increased to 43,52,000 at the end of March 2013 from 14,15,000 ten years ago. The volume of lending has soared to 66,500 crore from 4,000 crore in the same period.
- Loans to minorities stood at 211,451 crore at the end of December 2013.

Financial Markets

- American Depositary Receipt/ Global Depositary Receipt (ADR/GDR) Scheme revamp an enlargement of the scope of depository receipt. Liberalization of rupee denominated corporate bond market.
- Currency Derivatives Market to be deepened and strengthened to enable Indian Companies to fully hedge against foreign currency risk.
- To create one record for all financial assets of every individual.
- To enable smoother clearing and settlement for international investors looking to invest in Indian bonds.

VISION FOR FUTURE

- India poised to be third largest economy along with US and China, to play a leading an important role in global economy.
- Fiscal consolidation: We must achieve the target of fiscal deficit of 3 percent of GDP by 2016-17 and remain below that level always.
- Current Account Deficit: CAD will be inevitable for some more years which can be financed only by foreign investment. Hence, there is no room for any aversion to foreign investment.
- Price Stability and Growth: In a developing economy, a high growth target entails a moderate level of inflation. RBI must strike a balance between price stability and growth while formulating the monetary policy.
- Financial Sector reforms to be completed as laid down by Financial Sector Legislative Reforms Commission.
- Massive investment in infrastructure: to be mobilized through the Public Private Partnership.
- Manufacturing sector to be the base of India's development: All taxes, Central and State that go into an exported product should be waived or rebated.
- Subsidies, which are absolutely necessary should be chosen and targeted only to the absolutely deserving.
- Urbanization to be managed to make cities governable and livable.
- Skill development must be given priority at par with secondary and university education, sanitation and universal health care.
- States to partner in development so as to enable the Centre.



Budget highlights



Budget Highlights 2014



Direct Tax

A. Income Tax

- No change in the income tax rates for individuals, Basics exemption limit increased by INR 50,000 for individual tax payers resulting in net benefit of INR 5,000.
- in order to incentivize investments in small savings etc., the maximum limit of deduction Deduction under Section 80C on account of saving and investments increased by INR 50,000.from INR 1lakh to INR 1.5 lakh
- Limit for claiming deduction Deduction for interest on housing loan for a self occupied property increased by INR 50,000 from INR 1.5 Lakh to INR 2 Lakh.
- Benefit of investing in Central Government Pension Scheme under section 80CCD extended to private sector employees.

B. Corporate Tax

- No change in corporate tax rates for domestic and foreign companies.
- Concessional tax rate of 15% for dividends received by an Indian company from specified foreign company (shareholding of 26 per cent or more) extended further without any sunset clause.
- Tax pass through status accorded to REITs and InvITS. New regime for taxation of Business trust
- Dividends distributed by domestic companies and mutual funds to be grossed up for the purpose of computing DDT. Resultantly, companies will have to shell oft 20.47% more towards DDT as compared to existing outflow inspite of net dividend in the hands of shareholders remain same.
- Unlisted securities and units of mutual funds (other than equity oriented funds) to be treated as long term capital assets only if the same are held for a period of more than 36 months.
- Sunset clause for commencement of business for claiming tax holiday by power generating, distributing or transmitting companies extended to 31 March 2017.
- Investment allowance at the rate of 15 percent to a manufacturing company that invests more than Rs. 250 million in new plant and machinery. The benefit to be available for three years i.e. for investments upto 31.03.2017.
- Investment linked deduction extended to two new sectors, namely, slurry pipelines for the transportation of iron ore, and semi-conductor wafer fabrication manufacturing units.
- Income arising to foreign portfolio investors from transaction in securities to be treated as capital gains.
- The eligible date of borrowing in foreign currency extended from 30.06.2015 to 30.06.2017 for a concessional tax rate of 5 percent on interest payments. Tax incentive extended to all types of bonds instead of only infrastructure bonds.

- Introduction of a “Roll Back” provision in the Advanced Pricing Agreement (APA) scheme so that an APA entered may also cover four years preceding the years covered by APA subject to ruled to be framed in this regard.
- Introduction of range concept for determination of arm’s length price in transfer pricing regulations.
- To allow use of multiple year data for comparability analysis under transfer pricing regulations.
- To remove tax arbitrage, rate of tax on long term capital gains increased from 10 percent to 20 percent on transfer of units of Mutual Funds, other than equity oriented funds.
- CSR expenditure not deductible in computing taxable income.
- Disallowance of expenditure on account of non deduction of tax on payments made to residents restricted to 30% of total expenditure as against 100 percent disallowed presently.
- The scope of expenditure disallowable on account of non withholding of tax expanded to include all payments made to residents liable to withholding of tax (e.g. salary, director’s fees)
- No disallowance of amounts paid/ payable to non-residents from which taxes are withheld in the previous year and deposited till the due date of filing of corporate income tax return.

Indirect Tax

- No announcement on timeline for implementation of GST. All pending issues to be resolved during the year.
- General rates for customs, excise and service tax remain unchanged.
- Excisable goods sold at a price below manufacturing cost and profit to be assessed on the basis of ‘transaction value’ for excise duty, if no additional consideration flows directly or indirectly to the seller.
- Benefit of advance ruling extended to include resident private limited companies.
- Sale of space/time on media such as internet, films, billboards, etc. made, subject to service tax.
- Amendment in place of provision services rules for determining taxability of certain services such as intermediary, repairs, etc.
- Amendments made in service tax exemptions pertaining to educational institutions
- Timeline of six months prescribed for availment of cenvat credit on inputs and input services from date of invoice/ challan/specified documents.
- Transfer of credit by large taxpayer from one unit to another not allowed.
- Applicability of excise duty on packing/repacking/labeling activities on specified goods widened to include various goods including packaged software, smart cards.
- Customs duty on certain goods rationalized to give boost to manufacturing, address the issue of inverted duty structure and reduce dependency on imports.
- Free baggage allowance for residents increased from INR35,000 to INR45,000
- Mandatory pre-deposit to the extent of 7.5 per cent of the amount involved (at first appeals level) and 10 per cent (at second stage level) subject to INR100 million in case of appeal.

- To expedite the process of disposal of appeals, amendments have been proposed in the Customs and Central Excise Acts with a view to freeing appellate authorities from hearing stay applications and to take up regular appeals for final disposal.
- Settlement Commission, Customs, Central Excise & Service Tax in news...again...with a name change.
- Big blow to service providers - Incremental interest rates for delayed payment of service tax.
- Major relief in Appeal procedures - Amount of Pre-deposit stipulated in Statute.
- Service tax negative list reviewed and to be pruned.

Direct tax proposals



Income Tax

Tax Rate Card

1. **Personal income tax** rates remain unchanged. However, basic exemption limit increased by INR 50,000 for all individual tax payers (except individuals of the age eighty years or more) Personal income tax rates have been summarized below:

Total Income	Tax Rates (c) (d)
Up to INR 250,000 (a) (b)	NIL
INR 250,001 to INR 500,000	10%
INR 500,001 to INR 1,000,000	20%
INR 1,000,001 and above	30%

- a) In the case of a resident individual of the age of sixty years or above but below eighty years, the basic exemption limit is INR 300,000.
- b) In the case of a resident individual of the age of eighty years or above, the basic exemption limit is INR 500,000
- c) Surcharge @ 10 percent for total income exceeding one crore rupees.
- d) Education cess of 3% leviable on the amount of income-tax and surcharge.

Tax rates for cooperative societies, partnership firms and local authorities

Rates of tax for cooperative societies, partnership firms and local authorities remain unchanged. Surcharge of 10% if income exceeds INR 10 million also remains.

Corporate tax rates

Rates of corporate tax remain unchanged for both domestic and foreign companies.

For Domestic company/Limited Liability Partnership		
Particulars	Taxable income > 10 Million INR, but < 100 Million INR	Taxable Income > 100 Million INR
Corporate tax	30.00%	30.00%
Surcharge	5.00%	10.00%
Corporate tax + Surcharge	31.50%	33.00%
Education Cess thereon	3.00%	3.00%
Effective tax rate	32.445%	33.99%

For a Foreign company/LLP

Foreign Company		
Particulars	Taxable income > 10 Million INR, but < 100 Million INR	Taxable Income > 100 Million INR
Corporate tax	40.00%	40.00%
Surcharge	2.00%	5.00%
Corporate tax + Surcharge	40.80%	42.00%
Education Cess thereon	3.00%	3.00%
Effective tax rate	42.024%	43.26%

Alternate Tax Rates

Rates of both MAT and AMT remain unchanged at 18.5% (plus applicable surcharge and education cess) of book profits.

Deduction under Chapter VIA

- To encourage savings by individuals in the PPF Scheme, the annual ceiling is proposed to be increased to INR 150,000 from the present limit of INR 100,000.
- Consequent increase in limit of investments eligible for deduction under Section 80C from INR 100,000 to INR 150,000.
- The Bill proposes that the employees of the private sector would be eligible to take the benefit of the deduction in respect of the notified pension scheme irrespective of the date of joining. Furthermore, the deduction available under the scheme is restricted to INR 100,000
- Slum Development to be part of CSR

Corporate Tax

Tax Withholding

(a) Disallowance of expenditure for non-deduction of TDS

(i) In the event of non-deduction or non-payment of TDS on payments made to residents, the disallowance would be restricted to 30% of the amount of expenditure incurred.

(ii) In order to improve the TDS compliance in respect of payments to residents, the disallowance on account of non-compliance of TDS provisions has been extended to all expenditure (e.g. salary, directors fee, etc) on which tax is deductible at source.

(iii) The deductor would be able to claim a deduction for payments made to non-residents in the relevant year itself, if tax is deducted during that year and is paid on or before the due date for filing of the income return (currently this provision was applicable only for payments made to residents)

(b) Correction/rectification of quarterly TDS statements

The deductor can deliver a correction statement for rectification/update of TDS statement in the prescribed form and manner. The proposed amendment will take effect from 1 October 2014.

Disallowance of expenditure for non-deduction of TDS

In the event of non-deduction or non-payment of TDS on payments made to residents, the disallowance would be restricted to 30% of the amount of expenditure incurred.

In order to improve the TDS compliance in respect of payments to residents, the disallowance on account of non-compliance of TDS provisions has been extended to all expenditure (e.g. salary, directors fee) on which tax is deductible at source.

The deductor would be able to claim a deduction for payments made to non-residents in the relevant year itself, if tax is deducted during that year and is paid on or before the due date for filing of the income return.

Disallowance of expenditure incurred on CSR activities

Any expenditure incurred by the tax payer on the activities relating to CSR would not be deemed to be an expenditure incurred for the purpose of business and therefore, the same would not be allowed as a deduction while computing taxable income. However, the CSR expenditure that is of the nature described in other specified provisions of the Act, may be allowable as deduction subject to fulfillment of the conditions prescribed in those sections.

Incentive for manufacturing sector

The incentive introduced by the Finance Act, 2013 to promote investment in new plant and machinery by the companies that are engaged in manufacturing or production of any article or thing is proposed to be further extended for medium sized investments.

Additional depreciation under section 32AC is extended to companies engaged in business of manufacturing whose investments in new plant and machinery is more than 250 million in any year during the period 1 April 2014 to 31 March 2016

Incentives for the power sector

The sunset clause for commencing eligible activity for claiming profit-linked incentive by power companies is proposed to be extended by three years up-to 31 March 2017 (presently up-to 31 March 2014).

Investment based incentives

The investment based incentive (deduction in respect of the eligible capital expenditure) has been proposed to be extended to two new sectors- 'laying and operating a slurry pipeline for the transportation of iron ore', and 'setting up and operating a semiconductor wafer fabrication manufacturing unit', subject to notification by the Board.

It is proposed that the asset, in respect of which the deduction is claimed, should be used only for the specified business for a period of eight years beginning with the year in which the asset is acquired or constructed. Furthermore, in the event that the asset is used for any purpose other than the specified business during the specified period, then the amount of deduction claimed (net of the depreciation that would have been allowable had no such investment based deduction been claimed) would be deemed to be the business income of the year in which the asset is used.

Where a taxpayer has claimed deduction for this investment based incentive, it is prohibited from claiming a deduction under section 10AA of the Act for that or any other assessment year. A corresponding provision de-barring claim of this investment based deduction would apply if the tax payer has claimed deduction under section 10AA (profits of SEZ) for any year.

New regime for taxation of Business trust

In a major boost for real estate and infrastructure sectors, the government today proposed tax incentives for two new investment instruments — REITs and InvITs — to help attract long term funds from foreign and domestic investors, including the NRIs.

The new investment products, Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs), can be listed on stock exchanges like shares of any company and allow retail and institutional investors to buy or sell those securities.

Dividend Distribution Tax (DDT)

Presently, the DDT is paid by a domestic company on the net amount of dividends declared, distributed or paid by such company. To ensure that tax is levied on a proper base, it is proposed to gross up the amount of dividend for the purpose of computing DDT. This amendment shall take effect from 1 October 2014.

Particular	Amount (in Rs)	DDT (in Rs.)
Amount allocated for distribution to shareholders (Pre-DDT payment)	100	
Total Dividend payout after DDT (Pre-amendment)	85.47	14.526*
Total dividend payout (proposed amendment)	83.00	16.995**
Reduction in amount of dividend actually paid to shareholders	(85.47 minus 83.00) = 2.47	

* worked out @16.995% on INR 85.47

** worked out @16.995% on INR. 100

Effective tax rate for DDT shall now stand increased to 20.248% from 16.995%.

Such amendment is also made in relation to distribution made by mutual funds to the unit holders. The amendment is proposed to take effect from 1 October 2014.

Trading in commodity derivatives

The eligible transaction in respect of trading in commodity derivatives carried out in a recognised association and chargeable to commodities transaction tax would not be considered to be a speculative transaction (effective retrospectively from financial year 2013-14).

Losses in Speculation business

A Company whose principal business is trading in shares would not be deemed to be carrying on a speculation business for the purpose of set off or carry forward and set off of losses, even if any part of business of such company consists of the purchase and sale of shares of other companies.

Presumptive Taxation - Business of plying, hiring or leasing of goods carriage

For taxation of income on presumptive basis in respect of business of plying, hiring or leasing goods carriage, the income is hitherto determined at INR 5,000 and INR 4,500 for HGV and vehicles other than HGVs per vehicle per month (or part of a month), respectively.

A uniform amount of presumptive income of INR 7,500 for every month (or part of a month) for all types of goods carriage is proposed.

Capital Gains

Holding period of unlisted securities (including shares)

Capital gains exemption in case of investment in long term specified assets

It has been clarified that the investment made by a tax payer during the financial year in which the assets are transferred and in the subsequent financial year should not exceed INR 5,000,000.

Transfer Pricing

a. Definition of international transaction

Presently, transactions entered with an unrelated person is deemed as a transaction between associated enterprises if there exists a prior agreement in relation to such transaction between such unrelated person and an associated enterprise or the terms of the relevant transaction are determined in substance between such unrelated person and the associated enterprise. The present provisions do not provide whether or not such unrelated person should also be a non-resident.

With the proposed amendment, such transaction shall be deemed to be an international transaction irrespective of whether such unrelated person is a resident or nonresident, as long as either the enterprise or the associated enterprise is a non-resident.

b. APA roll back provisions

Government in 2012 introduced the APA scheme to provide certainty to taxpayers for determining the arm's length price in relation to international transactions. APA is an agreement between the taxpayer and the income-tax authorities on an appropriate TP methodology for a set of international transactions over a fixed time period in future. It is proposed to now introduce roll back provisions in the APA scheme. Salient features of the roll back provisions are as follows:

Roll back refers to the applicability of the TP methodology agreed in an APA to international transactions entered prior to the period covered under the APA.

Roll back period not to exceed four years preceding the first financial year for which APA is applicable.

Procedure, conditions and manner in respect of roll back of APAs to be prescribed. This amendment will be effective from 1 October 2014.

c. Use of multiple year data for comparability analysis

Presently, the Indian transfer pricing regulations allow the use of single year data for comparability analysis and multiple year data in exceptional cases

It is proposed to amend the regulations to allow use of multiple year data for comparability analysis. Rules to be issued on this aspect.

d. Computation of arm's length price

Range concept to be introduced for determination of arm's length price.

Concept of arithmetic mean to continue where number of comparables is inadequate. Appropriate rules will be prescribed in due course.

e. Penalty for failure to furnish transfer pricing documentation

Presently, for failure to furnish transfer pricing documentation, a penalty of 2% of value of international transaction or specified domestic transaction is leviable by assessing Officer or the commissioner (appeals).

It is proposed to include the transfer pricing officer as an authority to levy such penalty. This amendment will be effective from 1 October 2014.

Income from other sources

Forfeiture of advance receipt

It is proposed that any money received as an advance or otherwise which is forfeited due to failure of negotiations not resulting in transfer of capital assets shall be taxable as income from other sources.

A consequential amendment has been made to provide that such amount already taxed as income from other sources shall not be reduced from the cost of acquisition for the purpose of capital gains.

Withholding Taxes

In order to further encourage raising of long term foreign borrowings by Indian companies, it is proposed to extend the beneficial WHT rate of 5% to interest on borrowings by way of issue of long term bonds (currently available only for ECB and long term infrastructure bonds). It is further proposed to extend the window for making such eligible borrowings by two more years i.e. up to 1 July 2017. The amendment shall take effect from October 1, 2014.

Procedural amendment proposed with effect from 1 October 2014, to provide for filing of WHT correction statements. It is also proposed to make a consequential amendment enabling processing of correction statements filed.

It is proposed that any order treating a person as an 'assessee in default' in not withholding tax on payments made to a resident, can be passed at any time within seven years from the end of the financial year in which the payment is made or credit is given. The amendment shall take effect from October 1, 2014

Others

Redressal of the Disputes- to be legislated separately

Advance Authority Ruling

Presently, the facility to obtain Advance Ruling is not available to resident taxpayers except public sector undertakings. It is proposed to enable resident taxpayers to obtain an advance ruling in respect of their income tax liability above a defined threshold so as to reduce litigation in direct taxes.

Additional benches have also been proposed to be constituted. The legislative provisions in this regard are yet to be prescribed.

Settlement Commission

It is proposed that the scope of the Income-tax Settlement Commission should be enlarged so that taxpayers can approach the Commission for settlement of disputes. The legislative provisions in this regard are yet to be prescribed.

Power of Survey

Section 133A of the Act is proposed to be amended to clarify that the Income tax authority is empowered to conduct survey for verification of TDS/TCS.

The period for retention of books of account or documents impounded is proposed to be increased from a maximum of 10 days (presently) to 15 days (exclusive of holidays).

This amendment shall be effective from 1 October 2014.

Estimate of Value of Assets by Valuation Officer

Presently, section 142A of the Act does not contain any pre-conditions for rejection of books before reference is made a to valuation officer. Now, it has been proposed that a tax officer can make reference without assigning any specific reason for such reference and without rejection of books of accounts etc.

A time limit of six months has been to be prescribed for the valuation officer to provide his report to the Assessing Officer.

This amendment shall be effective from 1 October 2014.

Interest on outstanding demands.

It is proposed that where any notice of demand is served upon an assessee and any appeal/ proceeding is filed/initiated in respect of the amount specified in the notice of demand, then such demand shall be deemed to be valid until the disposal of appeal by the last appellate authority/ disposal of proceedings.

The amendment shall be effective from October 1, 2014.

Assessment of income of a person other than the person who has been searched

Presently, under section 153C of the Act, an assessing officer is not required to have satisfaction regarding bearing on the determination of the total income of person other than the person searched upon. This section has been proposed to be amended to have such satisfaction.

Mode of acceptance or repayment of loan

Presently, section 269SS and 269T of the Act penalise loans or deposits of INR 20,000 or more by means other, than by an account payee cheque or account payee bank draft. It has been proposed not to penalise loans or deposits paid by way of an electronic clearing system through a bank.

Provisional attachment to protect revenue in certain cases

The existing provisions enable the assessing officer to attach provisionally any property of the assessee, subject to certain conditions, for a period of six months, which could be extended to two year. It is now proposed that the total period would not exceed two years or sixty days after the assessment or reassessment, whichever is later.

This amendment will take effect from 1st October, 2014.

Obligation to furnish statement of financial transaction or reportable account

The existing provisions of Section 285BA provide for filing of an AIR by specified persons in respect of specified financial transactions to the prescribed income-tax authority.

The scope of section 285BA has been extended to include prescribed reporting financial institution. Furthermore, it is provided that where a person, who has furnished a statement of information, discovers any inaccuracy then he shall within ten days, furnish the correct information and any failure to furnish correct information may be liable to a penalty of INR 50,000/-.

Taxation of Mutual Funds

(a) Change in holding period of unlisted securities and units of Mutual funds for qualification as long term capital assets

Unlisted shares and securities and units of Mutual Funds (other than equity oriented mutual fund) would need to be held for more than 36 months to be treated as a 'long term asset'. Under normal provisions capital gains arising on transfer of long term asset is taxable at rate of 20%.

(b) Concessional tax rate of 10% on long term capital gains/increase in capital gain tax rate on Mutual funds

Currently, the concessional tax rate of 10% is applicable on long term capital gains arising from transfer of listed securities, units of mutual funds and zero coupon bonds.

Now, the said tax rate shall be applicable only on long term capital gains arising from the transfer of listed securities (other than units) and zero coupon bonds.

(c) Obligation to file return of income

Mutual Funds, VCC/VCF (including Category I AIF VCF) /Securitisations Trusts obligated to file the income-tax return if its total income, without giving effect to the provisions of section 10, exceeds the maximum amount not chargeable to income-tax.



Taxation of Charitable trusts and specified institutions

(a) Charitable entities are required to apply 85% of their "total income" for charitable activities/speciifed purposes during each year. Under the proposed amendment Charitable entities would not be eligible to claim any exemption under the general exemption (except exemption of agricultural income, if any). for the purpose of computing "total incme". Consequently, exempt income will also come under the purview of 85% applicable rule

(b) Depreciation not to be treated as application of income It is also proposed that application of income of trust or specified institutionCharitable entities shall not be determined without any deduction or allowance by way of allowed notional depreciation for anon asset/expenditure incurred on purchase of such asset which has already been claimed as 'application of income' in prior years. This amendment is to ensure that no double deduction is claimed.

It is also proposed that application of income of trust or specified institution shall be determined without any deduction or allowance by way of depreciation for an asset which has already been claimed as 'application of income' in prior years. This amendment is to ensure that no double deduction is claimed.

c. Extension of powers of Commissioner

The power of the Commissioner relating to cancellation of registration of trusts has been extended in certain circumstances

This proposal will be effective from 1 October 2014.

(d) Exemption available for pending assessment proceedings

The grant of registration under section 12AA of the Act is proposed to have retrospective effect and the benefits under section 11 and 12 of the Act will be available in relation to all past assessments years for which

A trust or institution may be able to avail specific exemptions for the period prior to registration being granted provided the assessment proceedings for the relevant assessment years are pending before the assessing officer as at the date of such registration. This proposal will be effective from 1 October 2014.

Budget proposals



Indirect tax proposals



Customs Duty

Rate of Duty

The median rate of Basic Customs Duty (BCD) has been retained at 10%.

Changes in Customs Act

Central Government has amended Section 25 to provide that customs duties on mineral oils including petroleum and natural gas extracted or produced in the continental shelf of India or the exclusive economic zone of India shall not be recovered for the period prior to 07/02/2002.

Furthermore, it has been provided that notwithstanding anything contained in any judgment, decree or order of any Court, Tribunal or other authority, no suit or proceedings in respect of such mineral oil shall be maintained or continued in court. However, no refund of duties already paid in respect of such mineral oils shall be granted.

Central Government has provided that the bills of entry can be presented before the delivery of the import manifest or import report without the permission of the Commissioner of Customs.

Central Government has amended the provisions related to the Settlement

Commission to provide that an application can also be filed in cases where a Bill of Export, Baggage Declaration, Label or Declaration accompanying the goods effected through Post or Courier is filed.

Central Government has deleted the time limit of 180 days, from the date of order of stay, for disposing of appeals. Moreover further extension by 185 days in case of non-disposal of appeal within the stipulated period also stands deleted.

The above changes will be effective from the date of enactment of the Finance Bill.

Central Government has enhanced the duty free baggage allowance limit, for passenger returning from countries other than Nepal, Bhutan, Myanmar or China from INR 35,000 to INR 45,000. Further, duty free allowance of cigarettes, cigar and tobacco has been reduced.

The above changes will be effective from 11 July 2014.

Central Government has 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. Further, it is clarified that individual constituents of consortium whose name appears in the contract can also import the said goods.

State Governments concerned are been notified as sponsoring authority for Metro Rail Projects covered under Project Import Regulations, 1986.

Changes in Customs Tariff Act

To boost domestic manufacture and to address the issue of inverted duties the following changes have been made.

Goods on which BCD is decreased		
Goods	Existing Rate (%)	Proposed Rate (%)
Fatty Acid, Crude Palm stearin, RBD and other Palm Stearin and industrial grade crude oil	7.5	Nil
Crude Glycerin	12.5	7.5
Crude Glycerin for manufacture of soaps	12.5	Nil
Denatured Ethyl Alcohol	7.5	5
Other Coal	5	2.5
Ethylene, Propylene and Butadiene	5	2.5
Specified raw material required for manufacture of solar back sheet and EVA sheet for use in manufacture of solar PV cells or modules	Applicable rate	Nil
Polytetramethylene Ether Glycol,(PT MEG) for use in the manufacture of spandex yarn	5	Nil
LCD and LED TV panels below 19 inch	10	Nil
Color television picture tubes for use in manufacture of cathode ray television	10	Nil
Specified parts for manufacture of LCD/LED tv panels	Applicable rate	Nil
E-readers	7.5	Nil
Battery scrap and battery Nil	10	5
Specified machinery, equipment etc required for initial setting up of compressed bio gas plant	Applicable rate	5
Specified machinery, equipment etc required for initial setting up of solar energy production projects	Applicable rate	5
Ships imported for breaking up	5	2.5

Goods on which BCD is increased			
Goods	Existing Rate (%)	Proposed Rate (%)	
Specified telecommunication equipments of CTH 8517	Nil	10	
Cooking coal	Nil	2.5	
Bituminous coal	2	2.5	
Steam coal	2	2.5	
Cut and polished colored gemstones	2	2.5	
Diamonds including lab grown diamonds, semi – processed, half cut or broken	Nil	2.5	
Non industrial diamonds including lab grown diamonds (other than rough diamonds)	2	2.5	

Goods on which SAD is exempt			
Goods	Existing Rate (%)	Proposed Rate (%)	
Inputs/components used in manufacture of personal computers (laptops/desktop) and tablet computers	4	Nil	

Goods on which export duty increased		
Goods	Existing Rate (%)	Proposed Rate (%)
Bauxite (natural), calcined or not	10	20

Central Government has amended the provisions dealing with levy of Safeguard Duty to provide for such levy on inputs/raw material imported by Export Oriented Unit (EOU)/SEZ and cleared into Domestic tariff area (DTA) as such or for use in manufacture of final products which are cleared into DTA.

Central Government has withdrawn exemption provided from levy of Education

Cess and Secondary and Higher Education Cess on CVD portion of duty leviable on import of various electronic goods such as mobile phones, computers, parts and accessories of computers, etc. so as to bring levy of these Cesses on parity with domestically manufactured goods.

The above changes will be effective from 11 July 2014.

Central Excise Duty

Rate of Duty

The general excise duty has been retained at 12%.

Changes in Central Excise Act

Central Government has amended Section 35L so as to clarify that disputes relating to taxability or excisability of goods are covered under the term 'determination of any question having a relation to rate of duty' and are appealable to the Supreme Court.

Central Government has amended Section 35R so as to enable the Commissioner (Appeals) to take into consideration the fact that a particular order being cited as a precedent decision on the issue has not been appealed against for reasons of low amount.

The above provisions will be effective from the date of enactment of the Finance Bill 2014.

The Third Schedule to the Act has been aligned with Notification No. 49/2008 CE(NT) dated 24/12/2008 entailing a list of goods based upon MRP assessment.

The above changes will be effective from 11 July 2014.

Changes in Central Excise Rules

E-Payment of duty is compulsory for all assesseees subject to certain exceptions.

The above changes will be effective from 1 October 2014.

Central Government has substituted Rule 8(3A) to provide for compulsory penalty of 1% per month on the amount of duty not paid for each month or part thereof in the case of default.

The above changes will be effective from 11 July 2014.

Changes in Central Excise Valuation Rules

Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 is being amended so as to provide that in the case of no additional consideration flowing to manufacturer from the buyer or from a third party the transaction value would be accepted even in case where the goods are sold below the cost of production or profit.

The above changes will be effective from 11 July 2014.

Changes in Central Excise Tariff Act

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.

5 % Ad-valorem Additional Duty of excise will be levied on waters including aerated water, containing added sugar falling under chapter heading 220210, i.e. aerated waters (22021010), lemonade (22021020) and other such drinks.

Duty on Pan Masala has been increased from 12% to 16%, unmanufactured tobacco from 50% to 55% on unmanufactured tobacco & from 60% to 70% on jarda scented tobacco, gutkha and chewing tobacco.

The above changes will be effective from 10 July, 2014.

Exemption from excise duty is being provided to reverse osmosis (RO) membrane element used for water filtration or purification equipment (other than household type filter).

Reduction in excise duty from 12%/10% to 6% on RO membrane element used in household type filters.

Duty on branded petrol has been reduced from INR 7.50/litre to INR 2.35/litre.

Exemption from duty to Liquefied Propane and Butane Mixture, Liquefied Propane, Liquefied Butane and LPG for supply to Non-Domestic Exempted Category (NDEC) customers by the IOCL, HPCL or BPCL retrospectively w.e.f. 8/02/2013.

Full Exemption from excise duty is being provided on plastic materials reprocessed out of scrap or waste cleared into the DTA by EOU.

Full Exemption from Excise Duty is being provided to backsheet & EVA sheet used in the manufacture of solar photovoltaic cells or modules.

Gloves specially designed for use in sports would attract concessional excise duty of 2% without CENVAT and 6% with CENVAT.

Writing and printing paper for printing of educational textbooks would attract uniform excise duty of 6% with CENVAT.

Machinery, equipment etc. required for initial setting up of solar energy production projects, is fully exempted from excise duty.

Similarly, machinery, equipment etc. required for initial setting up of compressed biogas plant, is fully exempted from excise duty.

Duty exemption on removal of parts of tractors from one or more factories of a tractor manufacturer to another factory of the same manufacturer for manufacture of tractors.

The above changes will be effective from 11 July, 2014.

Miscellaneous Provisions

In respect of International Competitive Bidding, exemption from excise duty is available to sub-contractors also for manufacture and supply of goods for or on behalf of the main contractor

Education Cess and Secondary & Higher Education Cess (Customs component) is being exempted on goods cleared by an EOU into the DTA.

Director (Electrical) is being authorized to issue the requisite certificate to enable DMRC to avail of Nil excise duty benefit in respect of their Phase-1 and Phase-2 projects instead of Director (Rolling Stock, Electrical & Signaling) who the authority at present.

The above changes will be effective from 11 July, 2014

Service Tax

Rate of tax

The effective rate of Service Tax has been retained at 12.36%.

Amendments under the negative list (effective from a date to be notified after the enactment of the Finance Bill 2014)

Following services have been removed from the Negative List and hence would now be taxable:

- Sale of advertisement space/ time on a media platform other than sale of space in print media (sale of space on television and radio was already taxable, now, sale of space on media like internet, out-of-home, films, etc. will also be taxable)
- Radio taxi services.

Amendments in mega exemption notification (effective from 11 July 2014)

Exemption expanded to include:

- Services provided by life insurance business under all life micro-insurance schemes approved by the Insurance Regulatory Development Authority, where sum assured does not exceed INR50,000.
- Goods transport services for transport of organic manure by vessel, rail or road.
- Services by way of loading, unloading, packing, storage or warehousing, transport by vessel, rail or road of cotton, ginned or baled.
- Services provided by common bio-medical waste treatment facility operators to a clinical establishment by way of treatment or disposal of bio medical waste, or processes incidental to such treatment or disposal.
- Services provided by the Indian tour operators to foreign tourists in relation to tours wholly conducted outside India.

Exemptions withdrawn:

- Air-conditioned contract carriages for transportation of passengers.
- Technical testing or analysis services of newly developed drugs, including vaccines and herbal remedies on human participants.
- Services provided by way of renting of immovable property to educational institutions.

Exemptions rationalised:

- The exemption entry 'auxiliary education services (provided to educational institutions) has been replaced by specified services which include transportation of students/ faculty/staff, security /cleaning/ housekeeping, catering services including government sponsored mid-day meal, services relating to admission, conduct of examination.
- The exemption entry pertaining to services provided to government/ local authority has been amended with its coverage being restricted to water supply, public health, sanitation, conservancy, solid waste management or slum improvement and up-gradation.
- Exemption in relation to services by a hotel, guest house etc. on a declared tariff of less than INR1000 per day will apply irrespective of whether the place is commercial or non-commercial in nature.

Amendments in Valuation related aspects

- In works contract valuation provisions, effective from 1 October 2014, there will be two slabs for computing taxable value (40 per cent and 70 per cent) instead of the existing three slabs (40 per cent, 60 per cent and 70 per cent).
- The tax on transport of passengers by a contract carriage other than a motor cab will be computed on 40 per cent of the service value provided no cenvat has been availed by the service provider (effective from 1 October 2014)
- The tax for transport of goods by vessels will be computed on 40 per cent of the service value instead of 50 per cent of the contract value (effective from 1 October 2014)
- Radio taxi services shall be taxed at 40 per cent of service value provided no cenvat has been availed by the service provider (effective from a date to be notified after the enactment of the Finance Bill, 2014).

Amendments in service tax rules

- Differential interest rate regime has been prescribed for delayed payment of service tax ranging for 18 per cent to 30 per cent as against the current rate of 18 per cent (effective from 1 October 2014)
- The scope of reverse charge mechanism has been extended to cover services provided by directors to body corporate and services provided by recovery agents to banks, financial institutions and Non Banking Finance Company (NBFCs) (effective from 11 July 2014).

Amendment in place of provision of services rules, 2012 (effective from 1 October 2014)

- The term intermediary will include a person who arranges or facilitates supply of goods or services (currently, the same was only applicable for services) and hence the place of provision of the same would be the place of the service provider
- The place of provision for services of hiring of aircraft and vessels (other than yachts) upto a period of one month would be based on location of recipient (currently, the same is based on location of service provider)
- The place of provision of repair services for goods imported and exported after repair without being put to any use (other than which is required for such repair) would be based on location of service recipient.

Other amendments

- Procedure for claiming Service tax exemption by a SEZ has been amended to address issues such as time limit within which exemption certificate needs to be issued by the authorities, manner of determining exclusive use by SEZ, etc. (effective from 11 July 2014)
- Number of amendments pertaining to adjudication, appeal related provisions which are effective from the date of assent of the Finance Bill 2014 have been made:
 - In case of appeal, mandatory pre-deposit needs to be made to the extent of 7.5 per cent of the amount involved (at first appeals level) and 10 per cent (at second stage level) subject to a cap of INR100 million.
 - time limit for completion of adjudication have been prescribed (6 months – 1 year depending upon the nature of the matter).

CENVAT credit

- Cenvat credit on inputs and input services can be claimed only within a period of six months from the date of the invoice/challans/other specified documents (effective from 1 September 2014)
- Under reverse charge mechanism (except in case of partial reverse charge), cenvat credit can be availed on payment of service tax. The condition to pay invoice value to the service provider has been dispensed with (effective from 11 July 2014).
- Cenvat credit reversed on account of non-receipt of export proceeds can be taken again, if export proceeds are received within one year from the specified period (effective from 11 July 2014)
- Under rent-a-cab operator and tour operator services, Cenvat credit would be available in respect of service tax paid by sub-contractor in the same line of business (effective from 1 October 2014)
- Under goods transport agency service, the condition for non-availment of Cenvat credit is required to be satisfied only by the service provider and not by the service recipient (effective from 11 July 2014)
- Transfer of credit by large taxpayer from one unit to another no longer permitted (effective from 11 July 2014).
- Advance Ruling option extended to resident private limited companies
- Mandatory pre-deposit of 7.5% / 10% of tax demand or penalty or both for filing appeals.

Disclaimer

The Finance Bill (No. 2) 2014 proposals are subject to further amendment as the Finance Bill passes through Parliament. This write-up is not an offer, invitation or solicitation of any kind. Kindly note that this document is intended to give a brief overview of specific provisions dealt with in respect to the 'Highlights of the Finance Bill 2014 relating to the Direct Taxes & the Service Tax', and should not be regarded as offering a complete explanation of the tax matters referred to. The contents of this document are solely for informational purpose. It does not constitute professional advice or a formal recommendation. Readers are requested to seek professional tax guidance and advice before acting on any of the matters dealt with in this document. Unauthorized reading, dissemination, distribution or copying of this document is prohibited. Although due care and diligence has been taken in the preparation/compilation of this material, the existence of unintended errors and omissions herein is not ruled out. We shall not be responsible for any loss or damage resulting from any action or decision taken on the basis of contents of this reading material.

Head Office

S-38, Greater Kailash,
New Delhi- 110048
India
E-mail: info@skattorneys.in

Mumbai

Chamber No. 1, 2nd Floor,
Panthaky House, Maruti Cross
Lane, Raghunath Dadaji Street,
Fort, Mumbai 400001
India

Nashik

B-17, Meghdoot Shopping
Centre, Opp. Nashik District
Court, CBS Nashik - 422001
Maharashtra,
India

East Africa

Plot No. 861,
Mazango Street,
Dar es Salaam
United Republic of
Tanzania.