

---

# Union Budget 2014-15

*A brief analysis of Direct tax  
Proposals*

---

---

# Introduction

---

## *Highlights*

- Recently CSO has released the GDP based on the new series – 8%. Interesting fact to know is the basis – new series is not straight forward comparable as such with the old one.
- Medium term target of fiscal deficit – 3% of GDP. Starting from 3.9% in FY 2015-16, 3.5% in FY 2016-17 and finally 3% in FY 2017-18.
- CPI Inflation target - 5 by end of year. Currently it is 6.2 (upto Dec 2014)
- Monetising Gold Scheme – A plan to bring Gold reserve of the country in the main stream – 20,000 tones (estimated)

---

# *Introduction .....contd.*

---

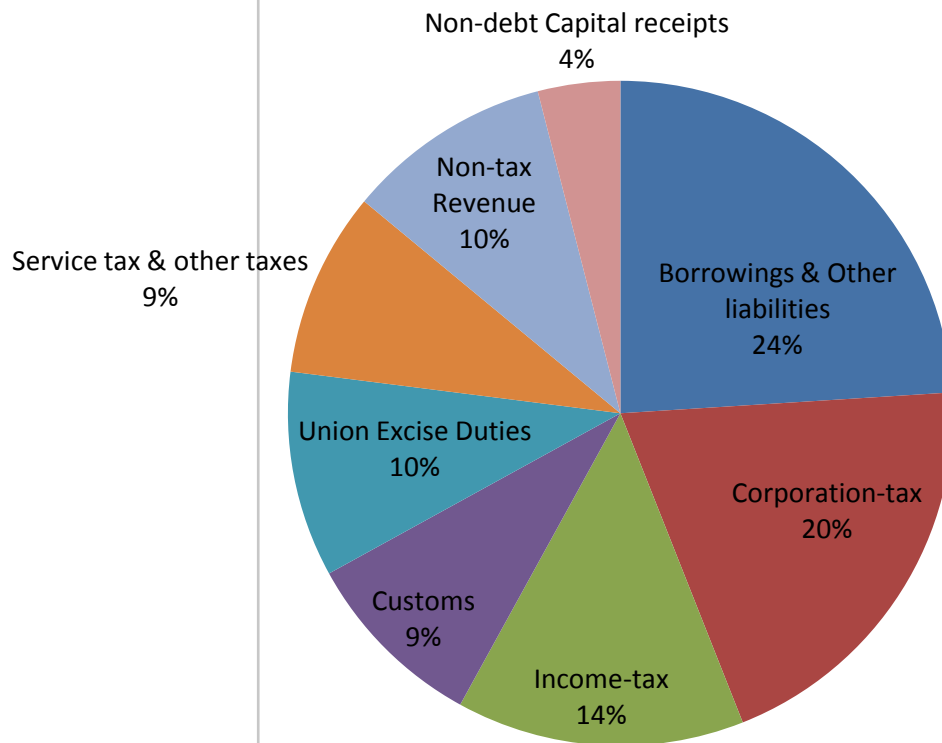
- The overall budget is towards achieving the broad objectives – Make in India, Swatch India – Environmentally and Economically, Easy India
- To Contain the Black Money the Government has proposed introduction of the New Bill for Black and Benami Transactions.
- GST proposed to be implement from April 2016.
- Wealth tax – Abolished, but Superrich (taxable income > INR 1 Crore) now need to pay 2% additional surcharge.

*Highlights  
.....contd.*

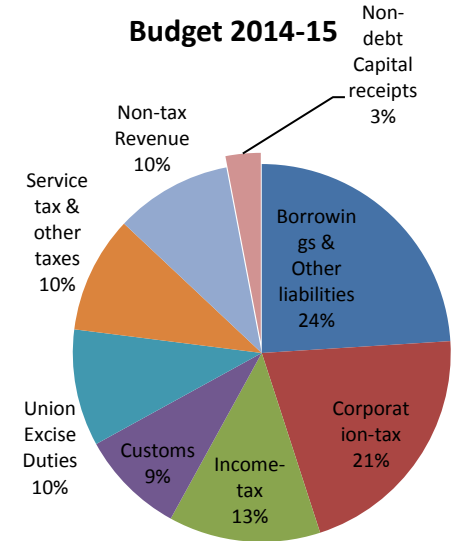
# Budgeted Income and Expenditure at a Glance

Rupee Comes from

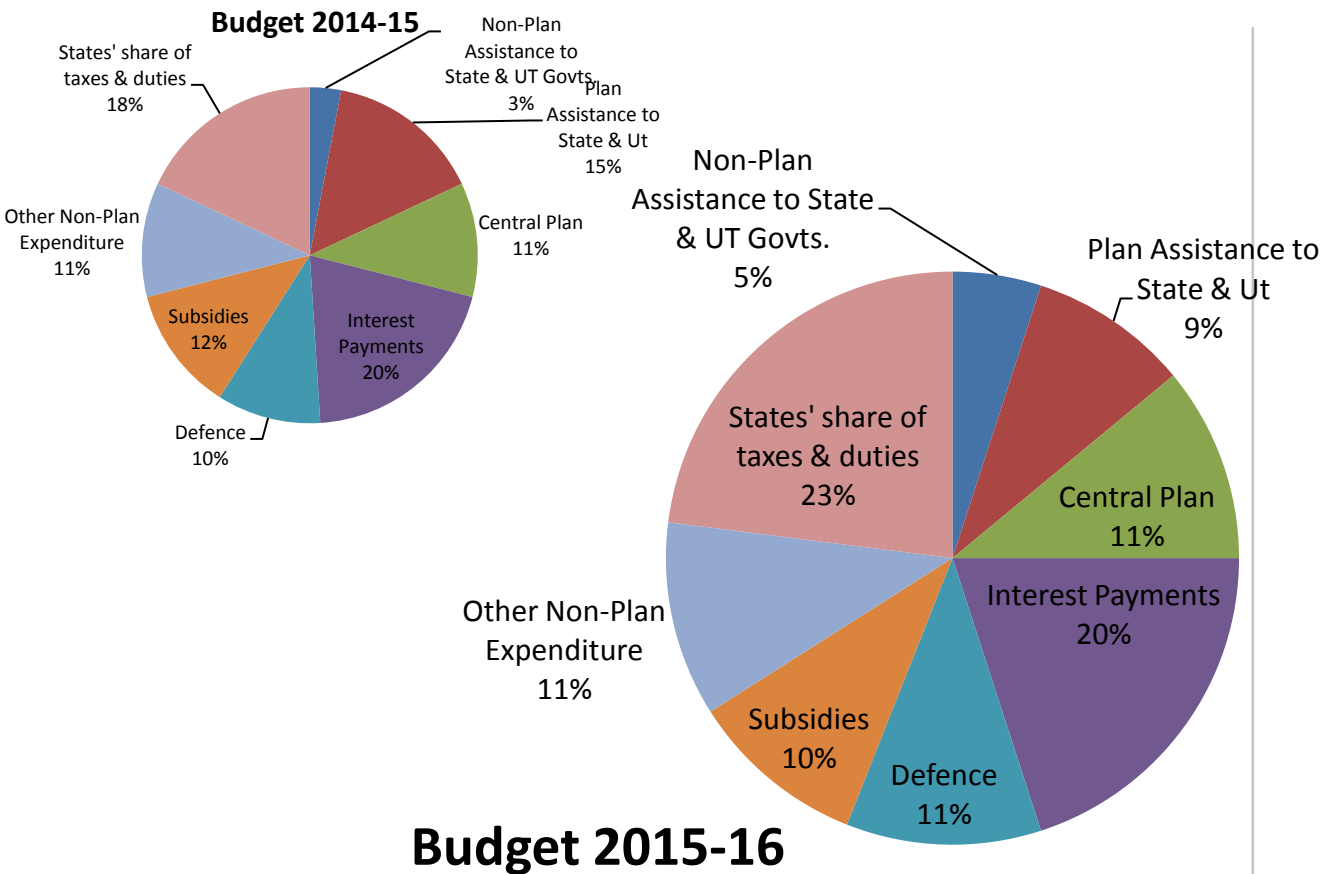
## Budget 2015-16



## Budget 2014-15



# Budgeted Income and Expenditure at a Glance .....contd.



*Rupees Goes To*

---

# Budget Proposals

---

## *Tax Rates*

### *Corporate tax rate*

- Corporate tax rate – Base rate - No change !!!  
Promise to reduce it to 25% in next four years.
- Surcharge increased by 2% - Effective tax rate –  
33.06% / 34.608%

### *MAT/DDT*

- No change in MAT and DDT

### *Individual/ HUF / AOP/ BOI*

- No Change in Tax Rates
- Surcharge increases to 12% in case taxable income  
more than INR 1.00 Crore.

---

# Measure to Curb Black Money

---

- Section 269SS and 269T extended to cover money receivable by way of advance or otherwise, in relation to transfer of immovable property, whether or not transfer take place – No cash more than Rs. 20,000 can be accepted/repaid in transactions related to immovable property
- Proposed law on black money – managed at foreign location
  - Discloser will be mandatory – taxable or non-taxable
  - Non discloser will be rigorously treated – prosecution, non compoundable, no settlement, penalty 300%

*Acceptance/  
Repayment of  
specified sums to  
attract penalty*

*Proposed new law  
for black money  
Outside India*

---

# *Measures to Improve Investment Climate (Make in India)*

---

## *Deferment of GAAR*

## *Pass through status for "AIF"*

- GAAR – Suspension of GAAR provision extended till FY 2016-17. Now will be applicable from FY 2017-18 as BEPS project under OECD is continuing, India being a active participant – its logical to await implementation as a part of comprehensive regime to deal BEPS and aggressive tax avoidance - will increase its acceptability and effectiveness.
- Alternate Investment Fund – to be treated as pass through entity
  - Income other than Profit & Gains of business – not taxable in the hands of funds but taxable in the hands of unit holders
  - Profit & Gains of business – taxable in the hands of fund and exempt in the hands of unit holders



---

# *Measures to Improve Investment Climate (Make in India) .....contd.*

---

- TDS provisions amended – No TDS required on the sum paid/payable to Fund – Notification will follow subsequently
- Fund to file return of income – mandatory
  
- Fund Manager sitting in India – Not a sole criteria to decide residential status of the Fund. S. 9 provides taxability of income bases business connection in India. The fund management activity carried out through an eligible fund manager acting on behalf of eligible investment fund, shall not constitute business connection in India for the said fund – even if his presence in India for more than prescribed period. If eligible fund not files the required statements- Penalties proposed.

*Pass through status for "AIF" .....Contd.*

*Presence of Funds Mangers in India not to Constitute Business Connection for Offshore Funds*

---

# Measures to Improve Investment Climate (Make in India)

---

## *Clarity in taxation regime of REIT and Invit*

- Business Trust (REIT and Invit)- Clarity in taxation regime introduced
  - Income arising to sponsor on transfer of assets would be eligible for beneficial provisions of capital gain on account of STT , on offloading of units at the time of IPO
  - Income by way of renting or leasing on property owned by business trust – exempt in the hands of business trust
  - Income distributed to unit holders – will be taxed in the hands of unit holders.
  - TDS provisions amended – No TDS required on the sum paid/payable to business trust
  - Business trust required to deduct tax, at the time of distribution to unit holders

---

# *Measures to Domestic Manufacturing Climate (Make in India)*

---

*Incentive for State of Andhra Pradesh and Telangana*

- In view of section 94 of AP Reorganization Act, 2014 – tax incentive proposed to State of AP and the State of Telangana for the period from April 01, 2015 to March 31, 2020:
  - To promote manufacturing units , additional investment allowance of 15% of cost of new plant & machinery, in year of installation (section 32AD)
  - Enhanced Additional depreciation of @ 35%.

*Extension for Eligible tax rate*

- 194LD – low rate of tax withholding (5%) on interest. Concessional tax rate period – extended till 30<sup>th</sup> June 2017

*Reduced withholding tax on Royalty/FTS*

- Withholding Tax Rate for Royalty and FTS – again reduced to 10% from 25%.

---

# *Measures to Domestic Manufacturing Climate (Make in India) .....contd.*

---

- Incentive for employment of new workmen in manufacturing unit – w.e.f. FY 2015-16
  - Extended from companies assessee to all the assessee
  - Minimum limit of new regular employee reduced from 100 to 50
- Additional depreciation (20%) on the Plant and Machinery put to use for less than 180 days – effective depreciation can be claimed only 10% but now balance 10% can be claimed in succeeding Financial year.

*Deduction for employment of new workmen*

*Allowance of balance 50% of additional depreciation*

---

# *Ease of Doing Business in India*

---

*Clarity provisions relating to Indirect Transfer by Foreign companies.*

*Raising threshold for SDT*

- Direct/indirect transfer of shares of Indian company by foreign entities – Current ambiguity related to “substantial interest” – removed
  - Definition of substantial interest – incorporated
  - Mechanics of calculation of value of interest – incorporated
  - A return to be prescribed will required to be filed – will captures details of transactions and computations.
- Domestic Transfer Pricing – Applicable threshold limit for SDT - INR 5 Crore now moved to INR 20 Crore w.e.f FY 2015-16

---

# *Ease of Doing Business in India ... Contd.*

---

- Way to manage prolong and repetitive litigation – In case revenue's appeal is pending before Supreme Court – revenue can wait for its disposal before steering appeal to ITAT, if assessee agrees.
- Presently, Wealth tax is levied on Individual, HUF or Company, if the net wealth exceeds INR 30 lakhs. The revenue from Wealth Tax is insignificant as compared to cost of collection – considering this Wealth Tax has been abolished, a levy of 2% in the form of Surcharge has been made in case of High Net worth persons and reporting of Assets in the ITR made mandatory.

*Appeal by revenue where identical questions is pending before Apex Court.*

*Abolition of Wealth Tax Act, 1957*

---

# *Benefits for Individual Taxpayers*

---

## *Tax Benefit u/s 80C and S. 10 for Sukanya Samriddhi Account Scheme*

- Sukanya Benefit: Scheme announced in July 2014 and more clarification proposed now:
  - Investment by parents/guardian– eligible for deduction u/s 80C;
  - Interest accrued on the deposit - exempted from Income tax section 10(11A);
  - Withdrawal from this scheme - exempt from tax;
  - The above provisions proposed shall be applicable from F.Y. 2014-15.

## *Health Insurance Premium and Medical Expenditure*

- Health Insurance Premium – Deduction increase from Rs.15,000 to Rs. 20,000 & for senior citizens from Rs.20,000 to Rs. 30,000-from FY 2015-16;
- Medical expenditure in respect of very senior citizens(age 80+) a deduction of Rs. 30,000 - from FY 2015-16;

---

# *Benefits for Individual Taxpayers..Contd.*

---

- The Transport Allowance exemption is being increased from Rs. 800 to Rs 1600
- The limit for deduction toward investment under pension scheme has been increased from Rs.1,00,000/- to Rs. 1,50,000/- , the same is in overall limit u/s 80C, in F.Y 2015-16.
- An additional deduction toward investment in National Pension System – Rs. 50,000/-. This is over and above the limit of Rs. 1,50,000/- u/s 80C.

*Transport allowance  
to salaried  
employees*

*Increased deduction  
in pension scheme*

*Additional deduction  
for NPS*



---

# *Benefits for Individual Taxpayers..Contd.*

---

## *Deduction u/s 80G*

### *Tax benefit for Swachh Bharat Kosh and Clean Ganga Fund*

- The benefits of 100% deduction under section 80G has been extended from F.Y 2015-16 in the case of the National Fund for Control of drug abuse created under the Narcotic Drugs and Psychotropic Substance Act, 1985.
- Contribution to Swachh Bharat Kosh and Clean Ganga Fund – 100% deduction allowed u/s 80G, if not claimed to be part of CSR.

---

# *Rationalisation Measures*

---

- The provision for minimum alternate tax has been rationalize by proposing the adjustment while computing income under MAT for the following
  - Share of income of member of an AOP, and corresponding expense being tax exempted
  - and capital gain /loss in case FII registered with SEBI.
- Order of denial to registration of university/ educational institution, hospital or other not for the purpose of profit (Section 10(23C)(vi)/(via) – Now appealable before ITAT w.e.f. 1st June 2015.
- Approval for issue of notice for re-assessment has been made easier w.e.f 1<sup>st</sup> June 2015.

*Provisions of MAT*

*Order for denial of registration now made appealable*

*Notice for reassessment*

---

# *Rationalisation Measures .. Contd.*

---

*Revision of order u/s 263 – erroneous has been defined.*

- A clarification has been provided to section 263, to provide that when an order said be erroneous or prejudicial to the interest of the revenue i.e:
  - Order passed without making inquires or verification, which should have been made
  - Order is passed allowing any relief without inquiring into the claim.
  - Order is not in conformity with order, direction, or instruction of Board
  - order has not been passed in accordance with any decisions, prejudicial to the assessee, render by the jurisdictional High Court or Apex Court , in the case of assessee or any other persons.

---

# *Rationalisation Measures .. Contd.*

---

- Determination of residency status in respect of Company. The section 6 has been amended to provide that a company shall be said to be resident in India in any previous year.
  - It is an Indian company or
  - Its place of effective management (POEM) any time that year in India .

POEM is the place where key management and commercial decision that are necessary for the conduct of the business as whole are, in substance is made, applicable from F.Y 2015-16.

*Residency status  
for company and  
POEM*

---

# *Rationalisation Measures .. Contd.*

---

*Certain Accountant not to give reports/certificate.*

*Board to notify rules for credit of foreign taxes*

- To ensure the independence of accountant issuing certificates/reports for the purpose the Act : The definition of accountant has been amended to exclude accountant who are not eligible to be appointed as an auditor as per Companies Act 2013 – w.e.f. 1st June 2015.
- Foreign tax credit – Ray of hope – board to provide procedure for grant of relief/deductions for taxes paid outside India. – Currently no such rules.

# Glossary

AIF	Alternate Investment Fund	GST	Goods and Services Tax
AOP	Association of Persons	HUF	Hindu Undivided Family
BEPS	Base Erosion and Profit Shifting	Invit	Infrastructure Investment Trusts
Board / CBDT	Central Board of Direct Taxes	ITR	Income Tax Return
BOI	Body of Individuals	MAT	Minimum Alternate Tax
CSO	Central Statistics Office	OECD	Organization of Economic Cooperation and Development
CSR	Corporate Social Responsibility	POEM	Place of Effective Management
DDT	Dividend Distribution Tax	REIT	Real Estate Investment Trusts
FII	Foreign Institutional Investor	SDT	Specified Domestic Transactions
GAAR	General Anti Avoidance Rule	SEBI	Securities Exchange Board of India

---

## ***Contact Us***

### **Delhi NCR Office**

**CA Rajeev Ahuja**

**Ahuja Rajeev & Associates**

Chartered Accountants

354/G-1, Sector 4, Vaishali

Ghaziabad- 201012

Uttar Pradesh, INDIA

t: + 91 120 4563423

m: +91 9958 622994

e: [info@araindia.co.in](mailto:info@araindia.co.in)

***Disclaimer:*** *The contents of this document are solely for informational purpose. It does not constitute professional advice or recommendation of firm. Neither the authors nor firm and its affiliates accepts any liabilities for any loss or damage of any kind arising out of any information in this document nor for any actions taken in reliance thereon.*

*Readers are advised to consult the professional for understanding applicability of this newsletter in the respective scenarios. While due care has been taken in preparing this document, the existence of mistakes and omissions herein is not ruled out. No part of this document should be distributed or copied (except for personal, non-commercial use) without our written permission.*