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India Union Budget 2014

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Foreword

The newly elected government presented its first union budget in the backdrop of huge expectations, given the thumping mandate given by the people of India.

The economic survey highlighted the challenges: Lower than 5 per cent GDP growth for two consecutive years; persistent uncertainty in global outlook, caused by the crisis in the euro-area; general slowdown in the economy impacting the demand for exports; domestic constraints such as low manufacturing base, delays in project approvals and persisting high inflation, particularly in food items had made the fiscal situation worse than it appeared.

Given these factors and considering that the new government had less than 45 days to present the budget, the Finance Minister recognising limited room for fiscal manoeuvrability, has chosen to present a 'working budget', perhaps as an interim measure and as a prelude to concrete bold steps which India requires to take. He has however spoken of a lot of measures that he intends to take, for example on India's most awaited tax reform – the uniform GST, for which he hopes to approve a legislative scheme enabling its introduction this year. Similar promises made in his speech but currently not forming part of his tax proposals include setting up a high level committee to scrutinise all fresh tax cases arising from the retrospective amendments of 2012 in respect of indirect transfers, extending the facility of advance ruling to residents, strengthening the authority for advance rulings by constituting additional benches and promising changes in India's Transfer Pricing regulations to bring them in line with the leading practices.

Direct tax rates remained unchanged for all taxpayers with recalibration of tax slabs for Individuals to provide a higher threshold of exemption with corresponding increases in all slabs and higher amounts provided for eligible investments which give tax breaks. The DDT however goes up by about 3 per centage points due to change in the manner in which its computation will now have to be done. Encouragement is sought to be provided to real estate and infrastructure sector funds by clarifying the basis of taxation in the hands of the Trusts/Funds and investors; however provisions relating to charitable trusts have been tightened to curb abuse. Investment allowance has been continued as an incentive for manufacturing companies to encourage investment in plant and machinery and also by pegging a lower qualifying threshold. FII get clarity on the characterisation of their income and the government has signalled its intention to tap overseas securities markets by keeping out transfers of such securities between non-residents out of the tax net.

On the indirect taxes front, besides the much awaited clarity on GST, there were high expectations which do not seem to have materialised. Some provisions appear retrograde and counterproductive to the promise of igniting growth or simplifying compliance requirements. Proposals like restricting the time limit to claim CENVAT credit, increasing interest rate up to 30 per cent, penalty for delayed payments in addition to interest and mandatory duty and penalty deposit to admit appeals are certainly not good tidings. However there are a few bright sparks such as neutralising the impact of FIAT judgement and rationalisation of the customs duty rates on import of coal will indeed benefit the industry.

There is a lot of thrust which the government intends giving to the infrastructure sector through the Public Private Partnership route to channel funds for investment and FDI. Raising the ceiling limits from 26 per cent to 49 per cent in the insurance and defence manufacturing sectors and reducing the mandatory requirements of built up area and capital conditions in the development of smart cities are much awaited steps in the right direction. The budget speech covers vast swathes of the economy including agriculture, financial sector, health and family welfare, rural development education, SEZ, industry including MSME, and infrastructure in all its avatars, giving a prima facie impression of resources being spread too thinly. The proof of the pudding will be in the action that the government actually takes in the days ahead to ensure that people's expectations and hopes of India regaining her high and more inclusive growth status are met with.



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Economic Indicators

The Indian economy gained momentum in FY14, but it registered sub-5 per cent growth; though GDP growth in FY15 is projected to improve, it is likely to remain under 6 per cent

In FY14, India's GDP grew by 4.7 per cent¹, as compared to 4.5 per cent² in FY13. Though this was the second consecutive year of sub-5 per cent growth, India is believed to have passed its trough in FY13. This is evident from the high GDP growth projections for FY15 both by the RBI and the Economic Survey of India, 2013–14 that estimate GDP growth rate in the range of 5–6 per cent (as of 3 June 2014)³ and 5.4–5.9 per cent (as of 9 July 2014), respectively.⁴

However, sustained economic growth can be ensured only by addressing structural constraints due to low manufacturing base, delay in project approvals and insufficient complementary investments, agricultural production's high dependence on the monsoon and high food inflation.

This chapter discusses the performance of the Indian economy during FY14 to provide a context for the Union Budget 2014–15.

Improved economic growth during FY14 has been contributed by agriculture; sustainability, however, remains a challenge especially in light of poor industrial performance

Concerns⁵ over India's economic performance grew when, for the first time in 25 years (since FY88), India witnessed a sub-5 per cent growth for the second consecutive year in FY14.

On the bright side, GDP growth in FY14 improved marginally due to high growth in the agriculture sector, which grew at 4.7 per cent from 1.4 per cent in FY13 on account of favourable monsoon.

The services sector⁶, which accounted for about 60 per cent of GDP in FY14, grew at 6.8 per cent, as compared to about 7 per cent in FY13 due to less growth in transportation and communication, which offset the high growth recorded in the financial services and real estate sectors.

Industry⁷, on the other hand, was the worst performing sector with a meager growth of 0.4 per cent, as compared to about 1 per cent last year. This was on account of contraction in manufacturing, partially due to less investment, considering high interest costs. Mining continued to pose challenges due to stagnation in crude petroleum and coal (in part due to regulatory issues).

01. "Press Note on Provisions Estimates of Annual National Income, 2013-14 and Quarterly Estimates of GDP, 2013-14," Ministry of Statistics and Programme Implementation, GOI, 30 May 2014

02. "Press Note on Provisions Estimates of Annual National Income, 2013-14 and Quarterly Estimates of GDP, 2013-14," Ministry of Statistics and Programme Implementation, GOI, 30 May 2014

03. "Second Bi-monthly Monetary Policy Statement, 2014-15," RBI, 3 June 2014

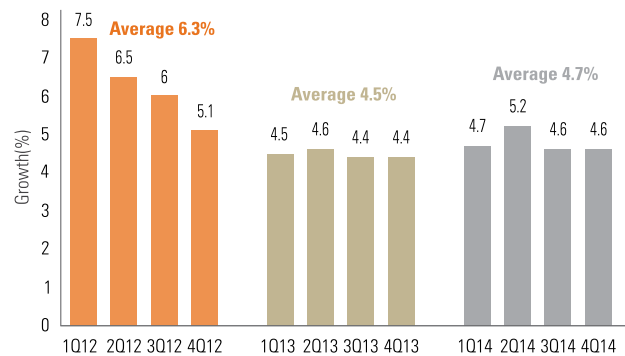
04. "The State of the Economy," Economic Survey of India, GOI, 9 July 2014

05. "Results of the Survey of Professional Forecasters on Macroeconomic Indicators – 26th Round (Q3:2013-14)," RBI website, 28 January 2014

06. "The State of the Economy," Economic Survey of India, GOI, 9 July 2014

07. "Press Release on Quick Estimates of Index of Industrial Production and Use-Based Index for the month of March, 2014,"

Quarterly GDP Growth (Y-o-Y, %)



Source: Ministry of Statistics and Programme Implementation and KPMG in India analysis

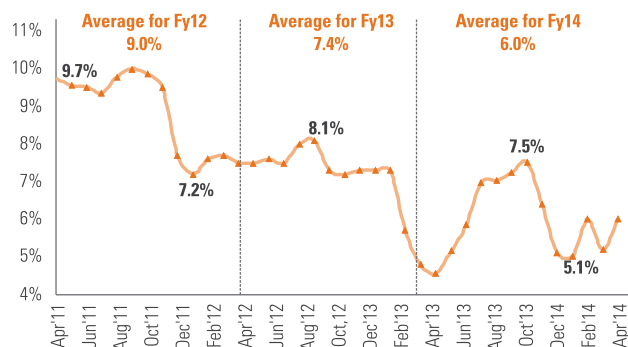


Though inflation eased, industrial production was dismal due to a contractionary monetary policy

The easing of the Wholesale Price Index (WPI) based inflation to 6 per cent in FY14, as compared to 7.4 per cent in FY13, partially contributed to improved economic growth this fiscal. However, it still remains above the RBI's comfort zone of 5–5.5 per cent. Moreover, increased food prices continue to pose upside risks. In FY15 so far, the average WPI-based inflation at 5.6 per cent is less than the RBI's January projection of 7.1 per cent for 1Q15⁸ and is expected to remain within RBI's comfort zone for the entire year. On the other hand, retail inflation based on CPI averaged at 9.7 per cent during FY14, as compared to 10.4 per cent in FY13. Though it demonstrated some improvement, it is still hovering around the 10 per cent mark supporting the RBI's concern over upside risks to prices.

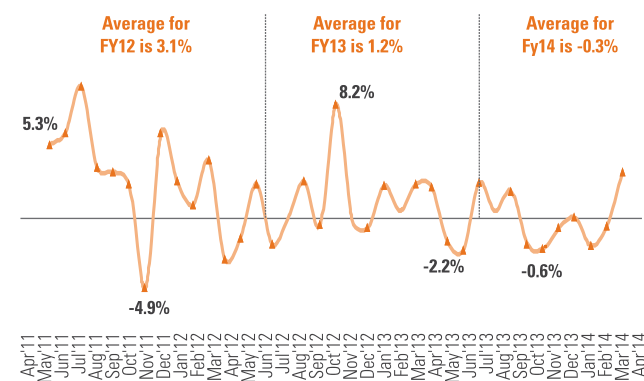
On the other hand, despite easing inflation, there was no improvement in industrial production, possibly due to high interest rates. The IIP contracted 0.3 per cent in FY14, compared to a growth of 1.2 per cent in FY13, due to manufacturing and mining, offsetting the growth recorded by the electricity sector. Poor IIP performance continues to pose a serious concern, as it can hamper sustainable economic growth.

WIP growth (Y-o-Y, %)



Source: "Monthly Economic Report," Ministry of Finance, various issues; KPMG in India analysis

IIP growth (Y-o-Y, %)



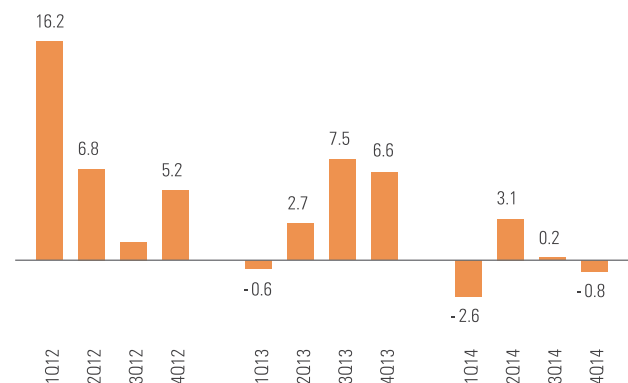
Source: "Monthly Economic Report," Ministry of Finance, various issues; KPMG in India analysis

High interest rates and tight liquidity, more than 6 per cent inflation, dampened business sentiment and political uncertainty prior to the general elections and dampened investment. Consumption, however, was low on account of reduction in government spending⁹

A stringent monetary policy to control inflation led to high interest cost, which dampened private corporate investment. This was accompanied with low liquidity and lack of policy direction amid the general elections that took place in May 2014. Thus, in FY14, investment growth contracted due to low fixed investment. This was evident from the negative growth of 3.7 per cent in the production of capital goods in FY14.¹⁰

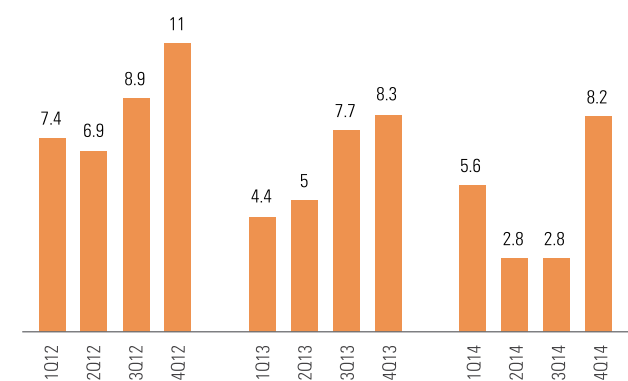
On the other hand, consumption decreased to 4.7 per cent in FY14, as compared to 5.2 per cent in FY13.¹¹ This was on account of reduced spending by the government (accounted for about 16 per cent of consumption in FY14, in line with its objective to control fiscal deficit. Private consumption plummeted marginally in line with other economic indicators after being impacted by high retail inflation and interest rates.

Quarterly investment growth (Y-o-Y, %)



Source: Ministry of Statistics and Programme Implementation and KPMG in India analysis

Quarterly private consumption growth (Y-o-Y, %)



Source: Ministry of Statistics and Programme Implementation and KPMG in India analysis

09. "The State of the Economy," Economic Survey of India, GOI, 9 July 2014

10. "Press Release on Quick Estimates of Index of Industrial Production and Use-Based Index for the month of March, 2014," Ministry of Statistics and Programme Implementation, GOI, 12 May 2014

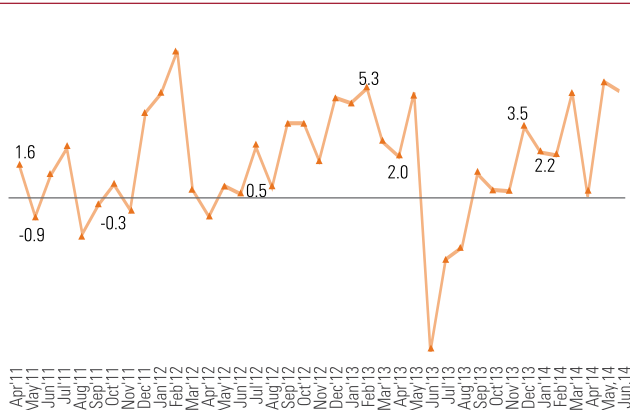
11. "Press Note on Provisions Estimates of Annual National Income, 2013-14 and Quarterly Estimates of GDP, 2013-14," Ministry of Statistics and Programme Implementation, GOI, 30 May 2014; KPMG in India analysis

08 "Results of the Survey of Professional Forecasters on Macroeconomic Indicators – 26th Round (Q3:2013-14)," RBI website, 28 January 2014

Slow recovery, uncertainty over the next government in India (prior to the 2014 general elections) and expectations on the withdrawal of QE in the U.S. resulted in volatility in FII inflow and domestic currency

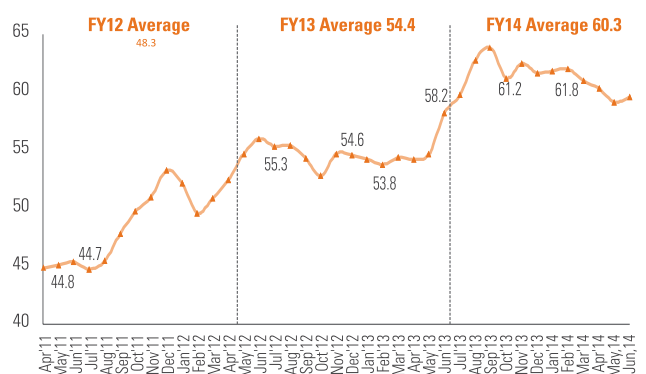
FII investment inflow was slow during the first half of FY14, as investors turned toward the U.S. dollar amid the news on the withdrawal of QE. Though policy announcements such as increased FDI caps for some sectors and consolidation of current account deficit and fiscal deficit helped in improving inflow, the overall investment was a mere USD8.9 billion in FY14 compared to USD29.6 billion¹² in FY13. Lower FII inflows led to about 11 per cent depreciation of the rupee to 60.3 in FY14 to a US dollar, as compared to 54.4 in FY13.¹³

Net FII inflow (USD billion)



Source: SEBI, Oanda and KPMG in India analysis

Exchange rate - USD/INR



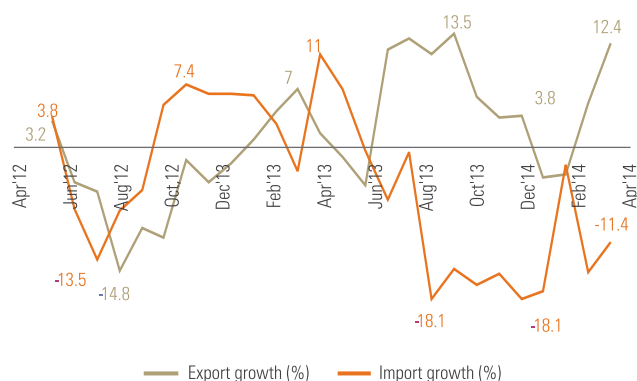
Source: SEBI, Oanda and KPMG in India analysis

Improved net exports growth led to the narrowing of trade and CAD¹⁴

High exports due to improved global demand and reduced imports, owing to RBI restrictions and a depreciated rupee — led to the narrowing of India's trade deficit to USD137.5 billion in FY14 from USD190.3 billion in FY13.¹⁵

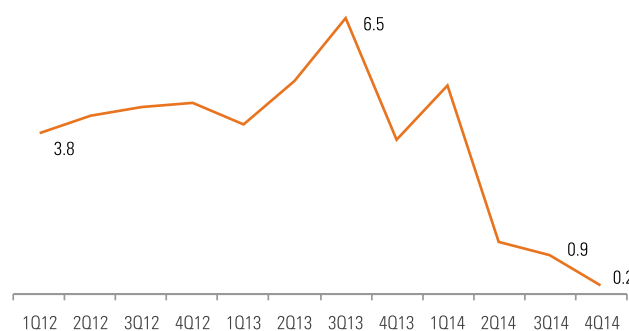
The reduction in CAD to 1.7 per cent of GDP in FY14 from 4.7 per cent in FY13 was a result of RBI's proactive measures towards controlling the rupee's depreciation, on the one hand, and curbing imports, on the other.

Merchandise trade growth (Y-o-Y, %)



Source: Ministry of Finance, RBI and KPMG in India analysis

CAD as % of GDP



Source: Ministry of Finance, RBI and KPMG in India analysis

Given that India's GDP growth rate declined substantially from its previously recorded 9 per cent-plus rate, GOI and RBI were constantly on the edge to introduce measures aimed at reviving growth

Following are some of the measures:

- The previous government cleared a roadmap for addressing issues such as pool pricing of coal; formation of regulatory bodies for coal, roads and railways; and the establishment of an infrastructure investment fund¹⁶

12. "FII", SEBI, accessed on 09 July 2014; KPMG in India analysis

13. "Currency Converter", Oanda, accessed on 09 July 2014

14. "Developments in India's Balance of Payments during the Fourth Quarter (January-March) of 2013-14," RBI, 26 May 2014; "The State of the Economy," Economic Survey of India, Government of India, 9 July 2014; "Monthly Economic Report," Ministry of Finance, GOI, various issues

15. "Monthly Economic Report, April 2014," Ministry of Finance, GOI

16. Pranab Dhal Samanta, "To re-charge sputtering economy, Prime Minister okays eight-week plan with clear deadlines," The Financial Express, 19 June 2013

- In July 2013, FDI limits were revised for about 12 sectors and 100 per cent FDI was allowed in sectors such as asset reconstruction, telecom, courier services and single-brand retail¹⁷
- The RBI relaxed ECB norms to assist entities in production by allowing them to use funds raised from foreign partners for general corporate purposes
- The government permitted sovereign wealth funds to invest in the bonds of public sector infrastructure finance companies
- The term 'infrastructure' was redefined to raise external commercial borrowings to include mobile telephony and companies operating in the fixed network, cellular services and telecom towers¹⁸ domains
- In June 2014, the RBI released approximately INR400 billion by reducing deposits that the banks are mandated to place in government securities
- Additionally, a special term repo facility of 0.25 per cent of the net demand and time liabilities had been introduced to offset the decline in liquidity access under export credit refinance¹⁹
- As per the 80:20 rule for gold import, announced in August 2013, the nominated agencies were required to export finished products of at least 20 per cent of the total gold imported. Also, the RBI had restricted trading houses from importing gold, allowing only selected banks to import gold
 - Though the 80:20 ratio remains unchanged, some relaxations have been introduced.
- In May 2014, the RBI also amended some regulations of the Foreign Exchange Management (Export of Goods and Services) Regulations 2000, under which the AD category 1 banks have been allowed to let exporters receive advance payment for exporting goods that take over a year to manufacture and ship.²⁰

The pace of economic recovery during FY15 is expected to be better than the pace during FY14. However, it will depend on a variety of factors with the performance of agriculture and industry, inflation rate, and policy support being of critical importance.

The Economic Survey of India, 2013–14, outlines a few priority areas for the GOI such as reviving investments, strengthening macro-economic stability, creating non-agricultural jobs, and developing infrastructure and agriculture.

Moreover, the formation of a new government at the centre after 10 years seems to have increased everyone's expectations, especially those of investors', which can be gauged from the 31 per cent rise in the Sensex to 25,413.8 mark in June 2014 from the 19,395.8 mark in June 2013.²¹ The nation expects the new government to bring about a positive 'change', especially in the form of checking high inflation and interest rates, and reviving economic growth.



17. "Govt liberalises FDI limits in 12 sectors, including telecom," IndiaToday, 16 July 2013

18. "RBI includes more segments under infra definition for ECB," The Hindu, 19 August 2013; "Government working on Infrastructure Trust Fund: Arvind Mayaram," The Economic Times, 21 September 2013; Govt may soon permit FDI in Railways," The Financial Express, 18 September 2013

19. "Press Release on Quick Estimates of Index of Industrial Production and Use-Based Index for the month of March, 2014,"

20. "Currency Converter," Oanda, accessed on 09 July 2014

21. "Historical Indices," Bombay Stock Exchange, accessed on 10 July 2014



Budget highlights

Direct tax

- Tax rate, surcharge and education cess remain unchanged
- Basic exemption limit increased by INR50,000 for Individuals taxpayers
- Section 80C deduction limit raised to INR150,000
- Deduction limit for interest expense in respect of self occupied property raised from INR150,000 to INR200,000
- Effective 1 October 2014, dividends distributed by domestic companies and mutual funds to be grossed up for the purpose of computing DDT
- Unlisted security and units (other than equity oriented mutual fund) to be short-term capital asset if held upto 36 months
- LTCG from transfer of units of mutual funds, other than equity oriented funds, to be tax at 20 per cent as against the present levy of 10 per cent
- REITs and Infrastructure Investment Trusts, to be formed as per regulations to be notified by SEBI, shall enjoy tax pass through status (except in respect of capital gains on disposal of assets)
- The time limit increased from 31 March 2015 to 31 March 2017 for claiming investment allowance at 15 per cent of the investment made by a manufacturing company in new plant and machinery (acquired and installed). Further, in respect of investment made on or after 1 April 2014, the threshold of INR1 billion has been reduced to INR250 million
- Sunset date to claim tax holiday by power generating, distributing or transmitting companies extended to 31 March 2017
- Concessional rate of tax of 5 per cent (plus applicable surcharge and cess) on interest on borrowings in foreign currency extended to all types of bonds (earlier only to infrastructure bonds). Time limit applicable for availing such borrowings extended from 30 June 2015 to 30 June 2017
- It is proposed that the APA may also cover four years preceding the years covered by the APA, subject to the rules that will be framed in this regard
- Income from transfer of securities by FPIs to be treated as capital assets in nature
- Advance received and forfeited in relation to a transfer of capital asset now taxable immediately under the head 'income from other sources' and not to be reduced from the cost or written down value or the fair market value, as the case may be, in computing the cost of acquisition of such asset
- Aggregate payments of INR100,000 or more under life insurance policy not exempt under Section 10(10D) liable to withholding tax at two per cent
- CSR expenditure not deductible in computing taxable income
- Disallowance of expenditure on account of non-withholding of tax on payments made to residents restricted to 30 per cent as against 100 per cent disallowed currently
- 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 tax return (brought at par with amount paid/ payable to residents)
- 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)
- Assessee with the principle business of trading in shares shall not be deemed to be carrying on a speculation business
- Concessional tax rate of 15 per cent on dividend received by Indian companies from specified foreign companies (shareholding of 26 per cent or more) to continue without any sunset clause.



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 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/labelling activities on specified goods widened to include various goods including packaged software, smart cards
- Customs duty on certain goods rationalised 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.



Budget proposals



Policy proposals

- The government committed to the principle of 'minimum government, maximum governance'. An Expenditure Management Commission to be set-up which will look into various aspects of expenditure reforms that will be undertaken by the government
- The government announces intention to overhaul the subsidy regime, including food and petroleum subsidies, and make it more targeted while providing full protection to the marginalised, poor and SCs/STs
- To improve income-tax administration, all fresh cases arising out of retrospective amendments of 2012 in respect of indirect transfers coming to the notice of AO will be scrutinised by a High Level Committee, to be constituted by CBDT before initiating any action
- Several administrative and legislative measures proposed to reduce direct tax litigation:
 - All resident taxpayers can obtain Advance Ruling in respect of their income-tax liability above a defined threshold
 - The AAR to be strengthened by constituting additional benches
 - The scope of Settlement Commission to be enlarged so that taxpayers can approach the commission for settlement of disputes
 - The government to set-up a High Level Committee to interact with trade and industry on a regular basis to ascertain areas requiring clarity in tax laws
 - Several taxpayer friendly changes proposed to transfer pricing regulations.
- DTC to be reviewed in its present shape and a view to be taken in the whole matter
- Boost given to the FDI policy in the larger interest of the Indian Economy as under:
 - The composite cap of FDI in defense manufacturing to be raised from 26 per cent to 49 per cent with full Indian management and control through the FIPB approval route
 - The composite cap of FDI in the insurance sector to be raised from 26 per cent to 49 per cent with full Indian management and control through the FIPB approval route
 - To encourage development of smart cities, with respect to FDI in the construction development sector, the condition for built up area reduced from 50,000 square metres to 20,000 square metres and minimum capitalisation norms reduced from USD10 million to USD5 million, with three years lock-in. Projects which commit at least 30 per cent of total project cost for low cost affordable housing to be exempted from the built-up and capitalisation conditions but subject to three years lock-in
 - Manufacturing units with FDI that are under the automatic route allowed to sell their products through retail, including e-commerce platforms, without any additional approval.
- In line with the Basel-III norms, the capital of government banks to be raised by increasing the shareholding of people in a phased manner through the retail sale of shares
- PSUs to invest a total sum of INR2,479 billion through capital investment



- The Prime Minister's vision to develop 100 smart cities as satellite towns of larger cities, by modernising the existing mid-size cities, unveiled through a reservation of INR70.60 billion
- The facility of Electronic Travel Authorisation (e-Visa) to identified countries to be introduced in a phased manner at nine airports within the next six months
- A national multi-skill programme called Skill India to be launched along with several other schemes
- A high level committee to examine the financial architecture for the MSME sector, and set the backdrop for changes that will help promote entrepreneurship and innovation
- An eBiz platform of all Central Government Department and Ministries announced which is expected to create a business and investor friendly ecosystem in India by making all business and investment related clearances and compliances available on a 24x7 single portal, with an integrated payment gateway
- SEZ scheme to be revived in order to turn it into an effective instrument of industrial production, economic growth, export promotion and employment generation. SEZs to be developed in Kandla and JNPT
- Sixteen new port projects are proposed, and a scheme for development of new airports in Tier I and Tier II cities to be launched
- Consultation to be completed on the enactment of the Indian Financial Code, and on the reports of the Financial Sector Legislative Reforms Commission
- Indian companies to adopt of the new Indian Accounting Standards in line with IFRS, Indian companies from the financial year 2015-16 voluntarily and from the financial year 2016-17 on a mandatory basis
- RBI will create a framework for licensing small banks and other differentiated banks. The government in close consultation with the RBI to put in place a modern monetary policy framework
- Proposal to revamp ADR/GDR and IDR regimes and introduction of a more liberal Bharat Depository Receipt to be introduced
- Several other focus areas and sectors emphasised e.g. slum development as part of CSR activities, emphasis on ship building industry, mining sector, insurance amendment bill, bank finance to infrastructure sector, women and child focussed programmes, SCs/STs targeted programmes, etc.
- 'Indian Customs Single Window Project' to facilitate trade, to be implemented
- GST introduction to be given thrust including approval of the Legislative Scheme.

Direct taxes

Corporate tax

- No change in corporate tax rate including surcharge and education cess.

Dividend and its grossing up

- Dividends received by an Indian company from any specified foreign company (equity shareholding of 26 per cent or more) to continue to be taxed at concessional rate of 15 per cent without any sunset clause
- Dividend declared by a domestic company must be grossed up for applying DDT resulting in an effective rate increase from 16.99 per cent to 20.47 per cent (including surcharge and cess). This amendment shall take effect from 1 October 2014
- The rate of 'income distribution tax' payable by a mutual fund on distribution of income to unit holders of other than equity oriented mutual fund is now required to be grossed up based on the prescribed rate of DDT for different categories
- This amendment shall take effect from 1 October 2014.

Capital gains

- Income from sale of unlisted shares and units of non-equity oriented mutual fund, not held for more than 36 months to be taxable as STCG; the earlier threshold was 12 months
- Any security held by FIIs to be a capital asset and liable to be taxed under the head capital gains
- In relation to compulsory acquisition of a capital asset, any enhanced compensation received pursuant to an interim order of any authority, will be liable to tax in the previous year in which the final order of such authority is made and not on receipt
- Transfer of government security, carrying a periodic payment of interest, by a non-resident to another non-resident and made outside India through an intermediary dealing in settlement of securities not to be regarded as transfer and accordingly not liable to capital gains tax
- Capital gains from sale of units of mutual funds, including units of equity oriented funds held as long term capital asset, not eligible for concessional tax rate of 10 per cent and the benefit is now available only to listed securities other than units and zero coupon bonds
- Capital gain deduction on investment (within six months) in specified bonds during the financial year in which the asset is transferred and in the subsequent financial year, not to exceed INR5 million. Earlier provisions resulted in a

deduction upto INR10 million in case this six month period spans across two financial years.

Tax incentives

- A company engaged in the business of manufacturing or production of any article or thing acquires and installs new plant and machinery exceeding INR250 million in a financial year then an investment allowance of 15 per cent of the actual cost of such new plant and machinery is to be allowed. This benefit is extended up to 31 March 2017
- Sunset date for being eligible to claim tax holiday for power generation, distribution or transmission extended to 31 March 2017
- Investment linked deduction extended to two specified businesses commenced from 1 April 2014 i.e. slurry pipeline for transportation of iron ore and notified semiconductor wafer fabrication manufacturing unit
- The asset in respect of which the investment linked deduction is claimed should be used for specified business for eight years apart from certain other conditions being satisfied
- Deduction in respect of capital expenditure incurred for the purposes of specified business to be allowed either under Section 10AA or Section 35AD of the Act subject to fulfillment of other conditions.

Taxation of real estate investment trusts and infrastructure investment trust (business trusts)

The SEBI has proposed draft regulations relating to two new categories of investment vehicles, namely:

- REIT; and
- Infrastructure Investment Trust. (both the above entities referred to as 'business trust' hereinafter).

It is envisaged that such business trusts will raise capital through issuance of units (to be listed) / debt and hold income bearing assets in the form of controlling other specific interest in Indian companies (SPVs) acquired from the project sponsor.

It is proposed to introduce a specific taxation regime for business trusts and investors in such a business trusts in a manner that there is no double taxation. The key features of such regime are as under:

Dividends

- SPV (company) distributing dividend to the business trust is subject to DDT
- Dividend is exempt in the hands of the business trust
- Dividend component of the income distributed by the business trust is treated as such in the hands of the unit holder and therefore is exempt in their hands. This amendment shall take effect from 1 October 2014.

Interest

Interest received by the business trust from any SPV is given a complete tax pass through status as under:

- Interest from SPV is not taxable in the hands of the business trust
- SPV is exempted from withholding tax on interest paid to the business trust
- Interest distributed by business trust is taxable in the hands of unit holders
- Business trust will withhold tax on the interest component of the distributed income payable to the unit holders at the rate of 5 per cent for any non-resident unit holder and 10 per cent for a resident unit holder.

Capital gains

- The business trust is taxable on any capital gains earned by it on disposal of any assets at the applicable rate (depending upon whether the gains are short or long term)
- However, the capital gains component of the distributed income is exempt in the hands of the unit holders.

Capital gains on transfer of units of the business trust by investors

- Units of the business trust shall be listed on the stock exchange; LTCG on transfer of units would be exempt and STCG would be taxable at the rate of 15 per cent provided STT is paid on the transfer of such units.

Tax implications in the sponsor's hands on exchange of SPVs' shares with business trust units

- Exchange of shares of SPV for units of a business trust is not regarded as taxable transfer by virtue of specific exemption being granted. Consequently, taxability is deferred till the time of ultimate disposal of the units by the sponsor
- At the time of ultimate disposal of the units of the business trust, the sponsor shall not be entitled to avail the concessional STT-based capital gains tax regime. Further, the acquisition cost of the units to the sponsor shall be deemed to be the acquisition cost of the shares in the SPV. The holding period

of the shares would also be included in reckoning the holding period of the units.

Transfer pricing

- It is proposed to provide roll back mechanism in the APA Scheme for a period of four years preceding the first previous year for which the APA is applied, subject to prescribed conditions. The roll back provisions refer to the applicability of the methodology of determination of ALP, or the ALP, to be applied to the international transactions which had already been entered into in a period prior to the period covered under an APA. This amendment shall take effect from 1 October 2014. It is also proposed to strengthen the administrative set up for quick disposal of pending APA applications
- It is proposed to extend the authority to levy documentation penalty to the TPO. TPO would now have the authority to levy penalty under section 271G of two per cent of the value of international transactions or specified domestic transactions for failure to furnish prescribed information or documentation. This amendment shall take effect from 1 October 2014
- As per the Budget speech of the Honourable Finance Minister the concept of price range for determination of ALP, will be introduced in the income tax rules, to align the indian transfer pricing regulations with international leading practices. However, the existing concept of arithmetic mean would continue to apply where the number of available comparables are inadequate
- As per the existing practice one year data is used for comparable analysis with some exception. The Honourable Finance Minister in his budget speech proposed to amend regulations to allow the use of multiple year data for comparability analysis
- The deeming TP provisions contained in Section 92B(2) of the Act are now proposed to be extended to transactions between an enterprise and an independent person where there is a prior arrangement between the independent person and associated enterprise, irrespective of whether such independent person is a non-resident or resident.

Personal tax

- Basic exemption limit increased by INR50,000 for all individual tax payers, except super senior citizens (aged eighty years or more)
- No change in surcharge and education cess.
- Maximum deduction allowable for interest on loan for self-occupied property increased from INR150,000 to INR200,000
- Maximum deduction allowable towards prescribed tax saving investments (e.g. life insurance premium, contributions to provident fund, etc.) increased from INR100,000 to INR150,000
- Employer's contribution to NPS by non-Central Government employers eligible for deduction up to ten per cent of salary in a financial year, irrespective of the employees' date of joining of employment and without any limit. The deduction in respect of employee's contribution is restricted to INR100,000 within the overall limit of Section 80CCE
- Overall limit of deduction available towards eligible tax saving investments has been increased from INR100,000 to INR150,000
- LTCG deduction for investment in residential house property will now be available only where such investment is made in one residential house property situated in India.

Alternate Minimum Tax

- For computing adjusted total income for AMT, investment linked deduction on capital expenditure for specified business net of depreciation should be added
- AMT credit to be eligible even in a year where no deduction is claimed under Chapter VI-A or Section 10AA or Section 35AD of the Act and even if the adjusted total income of specified taxpayers is below INR2 million.

Charitable trusts/institutions

- Eligible educational institutions, hospitals and other institutions under Section 10(23C) of the Act to be considered as substantially financed by the government only if the government grant to the institution exceeds such percentage (to be prescribed) of the total receipts (including voluntary contributions) during the previous year
- In computing income of the charitable trusts/institutions, deduction or allowance for depreciation in respect of an asset, acquisition of which has been claimed as application of income in any year, is to be excluded
- Funds, institutions, universities, etc approved/registered under Section 10(23C) and 12AA of the Act cannot claim exemption under any other provision of Section 10 of the Act, except for agricultural income or under Section 10(23C) of the Act

- Eligible trusts or institutions which have been granted registration under Section 12AA of the Act will be eligible for benefits under Sections 11 and 12 of the Act even for any earlier year which is pending assessment on the date of such registration. Further, no reopening of an assessment permitted, merely if such trust or institution has not obtained registration for the earlier assessment year. These benefits will not apply in a case where the registration was either refused or cancelled
- Commissioner of Income-tax empowered to cancel registration granted to trusts or institutions deriving income from property held under trust under specified circumstances, such as investing in prohibited modes, applying income for benefit of trustees, etc.

Withholding tax provisions

- Any person responsible for deducting tax at source is required to file quarterly statements with the relevant authorities. The deductor was permitted to make corrections in the statement pursuant to Centralised Processing of Statements of Tax Deducted at Source Scheme, 2013. However, there was no provision in the Act enabling filing of the correction statement. The act of correction and processing the statement has now been codified. This amendment to take effect from 1 October 2014
- Time limit for passing an order deeming a person to be an assessee in default for failure to deduct the whole or any part of tax on payment to a resident has been extended to seven years from the end of the FY in which payment is made or credit is given. This amendment shall take effect from 1 October 2014
- Income received by a resident under a life insurance policy, including bonus thereon shall be subject to deduction of tax at source at 2 per cent unless such income is exempt under Section 10(10D) of the Act or if the aggregate sum paid to an assessee in a financial year is less than INR100,000. This amendment shall take effect from 1 October 2014
- Reduced rate of withholding tax at 5 per cent would apply on interest paid by an Indian company to non-resident taxpayers on monies borrowed by it in foreign currency from a source outside India:
 - under a loan agreement or by way of issue of long term infrastructure bond up to 30 June 2017 or
 - by way of issue of any long term bond between 1 October 2014 to 30 June 2017.

These amendments shall take effect from 1 October 2014.

Tax administration and assessment procedure

- Specific provisions for conducting TDS or TCS survey introduced and the Tax Authority prohibited from impounding and retaining any books of account or documents or make an inventory of any cash, stock or other valuables

- Tax returns need to be verified, as against signed, by specified person
- Tax Authorities may make reference to a valuation officer for any asset, property or investment irrespective of satisfaction about the correctness or completeness of the accounts of the assessee. Opportunity to be provided to the assessee both by the valuation officer and the tax authority and valuation officer to submit report within six months from the end of the month in which reference is made
- Time limit for completion of assessment or reassessment to exclude the time period with respect to reference made to the valuation officer.
- Where the principal business of any company is trading in shares, such business of purchase and sale of shares would not be regarded as a speculation business. Therefore, any loss from such a business will not be treated as speculative loss
- Any amount received as advance or otherwise during negotiation for transfer of a capital asset, if forfeited when the capital assets is not transferred, to be liable to tax as income from other sources. Earlier such amount was to be reduced from the cost of acquisition/ written down value of the capital asset under transfer
- Any expenditure incurred by companies in respect of CSR as referred under the Companies Act 2013 will not be deemed to be an expenditure incurred for the purpose of business and profession

Collection and recovery

- Liability of assessee to pay interest on amounts specified in the notice of demand extended upto the disposal of appeal by the last appellate authority or disposal of proceedings. In cases where tax payable was reduced due to orders of the settlement commission, etc. but was restored to earlier levels, interest under Section 220 of the Act shall be payable from the date of first notice of demand upto the date when the demand is paid
- AO prescribed as the authority to levy penalty for failure to furnish TDS /TCS statements in certain cases or furnishing of incorrect information therein
- Failure to produce accounts and documents called by the Tax Authority punishable with rigorous imprisonment for one year and with fine as against rigorous imprisonment or fine earlier
- Provisional attachment of property during pendency of any assessment or reassessment proceedings may be extended upto two years from the date of such attachment or upto 60 days after the date of assessment or re-assessment, whichever is later.
- In respect of disallowance for non payment of tax from payment to non resident, the time limit of payment of withholding tax into the government treasury has been extended till date of filing of return of income similar to the time limit available for payment of withholding taxes in respect of payments to resident
- Disallowance of expenditure due to non-withholding of tax on payments made to resident taxpayers is restricted to 30 per cent instead of 100 per cent under existing provisions. Further, the disallowance under this category has been extended to all payments made to resident taxpayers which are subject to withholding tax (e.g. salary, director's fees, etc.)
- Presumptive income in respect of taxpayers engaged in the business of plying, hiring or leasing goods carriages increased to a uniform amount of INR7,500 per month for all types of goods carriages
- Trading in commodity derivatives carried out through a recognised association and which is chargeable to commodities transaction tax will not be treated as a speculative transaction

Other tax proposals

- As per the Budget speech of the Honorable Finance Minister all resident taxpayers can obtain Advance Ruling in respect of their income-tax liability above a defined threshold. Further the AAR is to be strengthened by constituting additional benches
- The Honorable Finance Minister in his Budget speech also proposed to enlarge the scope of Settlement Commission so that taxpayers can approach the Commission for settlement of disputes
- Mutual funds, securitisation trusts, VCC /VCF are required to furnish a return of income if their total income exceeds the maximum amount not chargeable to tax. Accordingly, the requirement of filing prescribed statement (giving particulars of amount of income distributed to investors, the tax paid thereon, etc.) has been done away with in case of mutual funds and securitisation trusts
- Central Government to notify 'income computation and disclosure standards' to be followed by the taxpayers for computation of income under the head 'profits and gains from business or profession' or 'income from other sources'. If income is not computed in accordance with these standards, the tax officer can make best judgement assessment
- Acceptance or repayment of loan or deposit exceeding INR20,000 by use of electronic clearing system through a bank account would be a permissible mode not attracting penalty in addition to the existing modes of acceptance or repayment by an account payee cheque or account payee bank draft.

Indirect Tax

Service tax

Rate changes

- Effective service tax rate remains unchanged at 12.36 per cent.

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/ house-keeping, 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 NBFCs (effective from 11 July 2014).

Amendments 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).

Excise

General

- No change in Excise duty rates.

Rate changes (effective from 11 July 2014)

- Additional excise duty of 5 per cent imposed on water, including aerated and mineral waters containing added sugar or sweetened or flavoured
- Rate of clean energy cess on coal, lignite and peat increased from INR50 per tonne to INR100 per tonne
- Excise duty on branded petrol reduced from INR7.50 per litre to INR2.35 per litre
- Exemption from excise duty to:
 - EVA and backsheet and specified raw material used in manufacture of backsheet and EVA sheet used in manufacture of solar photovoltaic cells or modules
 - Solar tempered glass used in manufacture of solar photovoltaic cells or modules, solar power generating equipment or systems and flat panel solar collectors
 - Flat copper wire used in manufacture of PV ribbons for use in manufacture of solar or modules
 - Machinery, equipments, etc. required for initial setting up of solar energy production projects.
- Excise duty on forged steel rings used in manufacture of bearings of wind operated electricity generators reduced from 12 per cent to nil
- Exemption from excise duty on machinery for preparation of specified food and agro products
- Exemption from excise duty on machinery, equipments, etc. required for initial setting up of compressed biogas plant
- Excise duty on recorded smart cards increased from 2 per cent (without credit facility) or 6 per cent (with credit facility) to 12 per cent
- Exemption from education cess and secondary and higher education cess (customs component) on goods cleared by an EOU.

Amendments (effective from 11 July 2014)

- Excisable goods sold at a price below manufacturing cost and profit to be accepted as 'transaction value' for excise duty if no additional consideration flow directly or indirectly to the seller
- Benefit of advance ruling extended to include resident private limited companies.

Amendments (effective from 1 October 2014)

- E-payment of excise duty mandatory without any threshold limits. Manual payment at discretion of the authorities on case to case basis
- Delayed payment of excise duty beyond one month subject to penalty of one per cent of unpaid duty per month.

Amendments (effective from the date of enactment of Finance Bill, 2014)

- 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
- Activity of packing, re-packing, labeling, etc. for specified products such as vaccines, toothpowder, packaged software, air conditioners, batteries, smart cards etc. to be considered as 'manufacture'.

Other

- Scope of exemption from excise duty to goods supplied against international competitive bidding clarified to include sub-contractor supplying manufactured goods to main contractor (who has won the contract through international competitive bidding).

Customs

General

- General Customs duty rates remain unchanged
- 'Indian Customs Single Window Project' is proposed to be implemented.

Amendments (effective from 11 July 2014)

- Upfront exemption from BCD earlier available to specified telecom equipment like soft switches, optical transport equipments, carrier, ethernet switches, etc. is now available only if these are used in the manufacturing process
- Exemption from BCD on specified raw materials such as crude palm oil, free fatty acid, etc. used in the manufacture of soaps, fatty acids and fatty alcohol
- Alignment in duty rates of various type of coals falling under chapter heading 2701 by rationalising BCD at 2.5 per cent and CVD at 2 per cent

- Increase in BCD from nil to 2.5 per cent on metallurgical coke
- Reduction in BCD on propane, ethane, ethylene, propylene, etc. from 5 per cent to 2.5 per cent
- Exemption from BCD on specified raw materials used in manufacture of EVA sheets or backsheet used in the manufacture of solar PV cells or modules
- Exemption from BCD allowed to flat copper wire for use in the manufacture of PV ribbon (tinned copper interconnect) for manufacture of SPV cells or modules
- BCD and CVD on machinery and instrument required for initial setting up of solar energy projects has been reduced to 5 per cent and NIL respectively
- Increase in BCD on specified stainless steel flat products covered from 5 per cent to 7.5 per cent
- Reduction in BCD on forged steel rings used in the manufacture of bearings of wind operated electricity generator from 10 per cent to 5 per cent
- Exemption from BCD on LCD/ LED panel (below 19 inches), colour television picture tube used in the manufacture of cathode ray televisions, specified parts of LCD/ LED panels
- Exemption from BCD on e-book readers
- Extension of BCD at concessional rate of 5 per cent to machinery and equipment required for initial setting up of compressed biogas plant
- Increase in export duty on bauxite increased from 10 per cent to 20 per cent
- Exemption from education cess and secondary and higher education cess leviable on CVD withdrawn on specified electronic goods such as computers, unrecorded and recorded smartcards, printed circuits, ATM, cellular phones
- Exemption from SAD on following goods, subject to conditions:
 - Inputs or components used in manufacture of personal computers
 - PVC sheet and ribbon for use in the manufacture of smart cards
 - Parts and raw materials for use in the wind operated electricity generator.
- Increase in free baggage allowance for inbound travellers from INR35,000 to INR45,000
- Scope of advance ruling expanded to include resident private limited companies.

Amendments (effective from the date of enactment of Finance Bill, 2014)

- 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 INR10 million
- Safeguard duty to be levied on inputs imported by an EOU and cleared as such into DTA or used in the manufacture of the final product and cleared in DTA.

Miscellaneous

- It has been clarified that aircraft engines and parts would be eligible for customs duty exemption when imported for servicing, repair or maintenance of aircrafts used for scheduled operations
- Certification by Ministry of Road Transport (or NHAI) not required for availing customs duty exemption on specified goods used for construction of roads.

Goods and service tax

The Finance Minister expressed hope to resolve the following areas within this year:

- Apprehension amongst states on surrendering their taxation jurisdiction
- Compensation to states
- Legislative scheme for introduction of GST.



Tax rates

These rates are subject to enactment of the Finance Bill 2014. The rates are for the FY 2014-15.

1. Income tax rates

1.1 For Individuals, HUF, AOP and BOI

Total Income	Tax Rates ^(e)
Up to INR250,000 ^{(a) (b)}	NIL
INR250,001 to INR500,000 ^(c)	10%
INR500,001 to INR1,000,000	20%
INR1,000,001 and above ^(d)	30%

- For a resident individual aged between sixty and eighty, the basic exemption limit is INR300,000
- For a resident individual aged eighty or above, the basic exemption limit is INR500,000
- Rebate from tax of upto INR2,000 or 100 per cent of the tax whichever is less available for a resident individual whose total income is below INR500,000
- A 10 per cent surcharge is applicable if the total income exceeds INR10,000,000. Marginal relief available
- A 3 per cent education cess is applicable on income-tax (inclusive of surcharge, if any).

1.2 For Co-operative Societies

Total Income	Tax Rates ^(b)
Up to INR10,000	10%
INR10,001 to INR20,000	20%
INR20,001 and above ^(a)	30%

- A 10 per cent surcharge is applicable if the total income exceeds INR10,000,000. Marginal relief available
- A 3 per cent education cess is applicable on income-tax (inclusive of surcharge, if any).

1.3 For Local Authorities

- Local Authorities are taxable at 30 per cent.
- A 10 per cent surcharge is applicable if the total income exceeds INR10,000,000. Marginal relief available
- A 3 per cent education cess is applicable on income-tax (inclusive of surcharge, if any).

1.4 For Firms [including (LLP)]

- Firms (including LLPs) are taxable at 30 per cent.
- A 10 per cent surcharge is applicable if the total income exceeds INR10,000,000. Marginal relief available
- A 3 per cent education cess applicable on income-tax (inclusive of surcharge, if any).

1.5 For Domestic Companies

- Domestic companies are taxable at 30 per cent
- Special method for computation of total income of insurance companies. The rate of tax on profits from life insurance business is 12.5 per cent
- A 5 per cent surcharge is applicable if the total income exceeds INR10,000,000 but does not exceed INR100,000,000. Marginal relief available
- A 10 per cent surcharge is applicable if the total income exceeds INR100,000,000. Marginal relief available
- A 3 per cent education cess is applicable on income-tax (inclusive of surcharge, if any).

1.6 For Foreign Companies

- Foreign companies are taxable at 40 per cent
- A 2 per cent surcharge is applicable if the total income exceeds INR10,000,000 but does not exceed INR100,000,000. Marginal relief available
- A 5 per cent surcharge is applicable if the total income exceeds INR100,000,000. Marginal relief available
- A 3 per cent education cess is applicable per cent on income-tax (inclusive of surcharge, if any).

2. Minimum Alternate Tax / Alternate Minimum Tax

a. Companies

- MAT is levied at 18.5 per cent of the adjusted book profit for companies where income-tax payable on the total income (according to the normal provisions of the Act) is less than 18.5 per cent of the adjusted book profit
- A 5 per cent surcharge is applicable in case of domestic companies, if the adjusted book profit exceeds INR10,000,000 but does not exceed INR100,000,000. Marginal relief available
- A 10 per cent surcharge is applicable in case of domestic companies, if the adjusted book profit exceeds INR100,000,000. Marginal relief available
- A 3 per cent education cess is applicable on income-tax (inclusive of surcharge, if any)
- MAT credit is available for ten years.

b. Persons Other than a Company

- AMT is applicable to persons other than Company
- AMT is levied at 18.5 per cent of the adjusted total Income in case of persons other than a Company where income-tax payable on the total income (according to the normal provisions of the Act) is less than 18.5 per cent of the adjusted total Income
- AMT will not apply to an Individual, HUF, AOP, BOI or an Artificial Judicial Person if the adjusted total income of such person does not exceed INR2,000,000
- A 10 per cent surcharge is applicable if the adjusted total income exceeds INR10,000,000. Marginal relief available
- A 3 per cent education cess is applicable on income-tax (inclusive of surcharge, in any)
- AMT credit is available for ten years.

3. Securities Transaction Tax

- STT is levied on the value of taxable securities transactions as follows:

Transaction	Rate	Payable by
Purchase/Sale of equity shares (delivery based)	0.1%	Purchaser / Seller
Purchase of units of equity-oriented mutual fund (delivery based)	Nil	Purchaser
Sale of units of equity-oriented mutual fund (delivery based)	0.001%	Seller
Sale of equity shares, units of equity-oriented mutual fund (non-delivery based)	0.025%	Seller
Sale of an option in securities	0.017%	Seller
Sale of an option in securities, where option is exercised	0.125%	Purchaser
Sale of a futures in securities	0.01%	Seller
Sale of unit of equity oriented fund to the Mutual Fund	0.001%	Seller

- With effect from 1 October 2014, Listed units of business trusts traded on recognised stock exchange would attract levy of STT.

4. Commodity Transaction Tax

CTT is levied on the value of taxable commodities transactions as follows:

Transaction	Rates	Payable by
Sale of commodity derivative (other than agricultural commodities) entered in a recognised association	0.01%	Seller

5. Wealth Tax

Wealth tax is imposed at 1 per cent on the value of specified assets held by the taxpayer on the valuation date (31 March) in excess of the basic exemption of INR3,000,000.

6. Dividends Earned by an Indian Company

Dividends earned by an Indian company from a foreign Company in which it holds 26 per cent or more equity shares shall be taxable at the rate of 15 per cent (plus applicable surcharge and education cess) on gross amount of such dividends.

7. Dividend Distribution Tax

- Dividends distributed by a Domestic Company are exempt from income-tax in the hands of all shareholders. The Domestic Company is liable to pay DDT at 16.995 per cent (inclusive of surcharge and education cess) on such dividends.
- For computation of DDT with effect from 1 October 2014, the amount of dividend distributed to shareholders shall be increased to such amount as would after reduction of tax on such increased amount be equal to the net distributed profits.
- For computation of DDT, the amount of dividend declared by the Domestic Company will be reduced by the following amounts of dividend, if any, received by it during the financial year -
 - Dividend received from domestic company if -
 - the dividend is received from its subsidiary (i.e. in which it holds more than 50 per cent of equity shares)
 - the subsidiary has paid DDT payable under Section 115-O of the Act.
 - Dividend received from foreign company if -
 - the dividend is received from its subsidiary (i.e. in which it holds more than 50 per cent of equity shares)
 - the tax on such dividend is payable by the domestic holding company under section 115BBD of the Act.
 - Dividends paid to any person for and on behalf of a New Pension System Trust.

- Income received by unit holders from a Mutual Fund is exempt from income tax. The Mutual Fund (other than an equity oriented Mutual Fund) is liable to pay income distribution tax as follows:
 - 28.325 per cent (inclusive of applicable surcharge and education cess) on income distributed to any person being an individual or a HUF by a money market Mutual Fund or a liquid fund
 - 33.99 per cent (inclusive of applicable surcharge and education cess) on income distributed to any other person by a money market Mutual Fund or a liquid fund
 - 28.325 per cent (inclusive of applicable surcharge and education cess) on income distributed to any person being an individual or a HUF by a debt fund other than a money market mutual fund or a liquid fund
 - 33.99 per cent (inclusive of applicable surcharge and education cess) on income distributed to any other person by a debt fund other than a money market mutual fund or a liquid fund
 - 5.665 per cent (inclusive of applicable surcharge and education cess) on income distributed to non-resident or foreign company by Mutual Fund under an Infrastructure Debt scheme.
- Like DDT from 1 October 2014, the amount of income distributed to mutual fund unit holders shall be increased to such amount as would after reduction of tax on such increased amount be equal to the net distributed income.

Example where INR100 is to be distributed to shareholders:

Details	Current	Proposed	Difference
Dividend paid / distributed	INR100	INR100	-
Dividend distribution tax on at 16.995%	INR16.995 ^(a)	INR20.475 ^(b)	INR3.479
Amount required for distribution	INR116.995	INR120.475	INR3.479

(a) $INR16.995 = INR100 \times 16.995\%$

(b) $INR20.475 = INR120.475 \times 16.995\%$

8. Special Rates for Non-Residents

- The following incomes in the case of non-resident are taxed at special rates on a gross basis:

Nature of Income	Rates ^(a) ^(b)
Dividend ^(c)	20%
Interest received on loans given in foreign currency to Indian concern or GOI	20%
Interest received on notified Infrastructure debt fund	5%
Interest received from Indian Company or Business Trust on monies borrowed in foreign currency and approved by the Central government: <ul style="list-style-type: none"> Under a loan agreement borrowed from 1 July 2012 to 30 June 2017 By issue of long term infrastructure bond from 1 July 2012 to 30 June 2017 By issue of long term bond from 1 October 2014 to 30 June 2017 	5%
Interest income received by FII or QFI on rupee denominated bonds or government securities	5%
Distributed income in the nature of interest received by the unit holder from business trust	5%
Income received in respect of units purchased in foreign currency of specified Mutual Funds / UTI	20%
Royalty	For Agreements entered into: monies borrowed in foreign currency and approved by the Central government: <ul style="list-style-type: none"> On or after 1 April 1961 but before 1 April 1976 - @ 50% On or after 1 April 1976 - @ 25%
FTS	For Agreements entered into <ul style="list-style-type: none"> On or after 1 March 1964 but before 1 April 1976 - @ 50% On or after 1 April 1976 - @ 25%
Interest on FCCB, FCEB /dividends on GDRs ^(c)	10%

- (a) For a foreign company, 2 per cent surcharge shall be applicable, where the total income exceeds INR10,000,000 but does not exceed INR100,000,000 and at 5 per cent where the total income exceeds INR100,000,000. For other persons, a 10 per cent surcharge shall be applicable, where the total income exceeds INR10,000,000. Marginal relief available.
- (b) A 3 per cent education cess is applicable on income tax (inclusive of surcharge, if any).
- (c) Other than dividends on which DDT has been paid.
- (d) If the non-resident has a PE in India and the royalties/ fees for technical services paid are effectively connected with such PE, this could be taxed at 40 per cent (plus surcharge and education cess) on net basis.

9. Capital Gains

Particulars	Short-term capital gains tax rates ^(a)	Long-term capital gains tax rates ^(a)
Sale transactions of equity shares / unit of an equity oriented fund / unit of business trust ^(b) which attract STT	15%	Nil
Sale transaction other than mentioned above ^(c)		
Individuals (resident and non-residents)	Progressive slab rates	20% / 10% ^(d)
Firms including LLP (resident and non-resident)	30%	
Resident Companies	30%	
Overseas financial organisations specified in section 115AB	40% (corporate) 30% (non-corporate)	10%
FIs	30%	10%
Foreign Companies	40%	20% / 10% ^{(d)(e)}
Local authority	30%	20% / 10% ^(d)
Co-operative Society	Progressive slab rates	

- (a) These rates will further increase by the applicable surcharge and 3 per cent education cess on income-tax (inclusive of surcharge, if any)
- (b) Concessional rate of 15 per cent not applicable in case of units acquired under transfer mentioned in section 47(xvii)

- (c) Unlisted security and a unit of a mutual fund (other than equity oriented mutual fund) shall be considered as short term capital asset if held for not more than 36 months
- (d) 20 per cent with indexation and 10 per cent without indexation for listed securities and zero coupon bonds (other than units).

10. Presumptive Taxation

1. In the case of a non-resident taxpayer

Business	Rate at which income is presumed
i) Shipping ^(b)	7.5% of gross receipts
ii) Exploration of mineral oil ^{(b)(c)}	10% of gross receipts
iii) Operations of Aircraft ^(b)	5% of gross receipts
iv) Turnkey power projects ^{(b)(c)}	10% of gross receipts

2. All resident taxpayers

Business	Rate at which income is presumed
i) Small Business [excluding (ii)] ^{(a)(b)(c)(d)}	8% of gross turnover/ receipts
ii) Plying, hiring or leasing goods carriages (person should not own over ten goods carriages at any time during the previous year) ^{(b)(c)}	INR7,500 per month/part of month for each vehicle

- (a) The gross receipts of the taxpayer do not exceed INR10,000,000.
- (b) All deductions/expenses (including depreciation) shall be deemed to have been allowed.
- (c) The taxpayer can claim lower profits, if he keeps and maintains specified books of account and obtains a tax audit report.
- (d) Applicable to Individuals, Hindu Undivided Families and Firms (excludes LLP, tax payer availing deduction under Section 10AA or Chapter VI-A(C) of the Act.)
- (e) Specifically excludes persons carrying on specified professions, persons earning commission or brokerage income and persons carrying on any agency business.

11. Personal tax scenarios

Individual (Other than covered in other tables)	Income Level (INR)*					
	1,000,000		2,000,000		12,000,000	
	Current	Proposed	Current	Proposed	Current	Proposed
Basic Tax	130,000	125,000	4,30,000	425,000	3,430,000	3,425,000
Surcharge	0	0	0	0	343,000	342,500
Education Cess	3,900	3,750	12,900	12,750	113,190	113,025
Total	133,900	128,750	442,900	437,750	3,886,190	3,880,525
Increase / (Decrease) in Tax	(5,150)		(5,150)		(5,665)	
Increase / (Decrease) (%)	(3.85)		(1.16)		(0.15)	

Resident senior citizen (aged between 60 and 80 years)	Income Level (INR)*					
	1,000,000		2,000,000		12,000,000	
	Current	Proposed	Current	Proposed	Current	Proposed
Basic Tax	125,000	120,000	425,000	420,000	3,425,000	3,420,000
Surcharge	0	0	0	0	342,500	342,000
Education Cess	3,750	3,600	12,750	12,600	113,025	112,860
Total	128,750	123,600	437,750	432,600	3,880,525	3,874,860
Increase / (Decrease) in Tax	(5,150)		(5,150)		(5,665)	
Increase / (Decrease) (%)	(4.00)		(1.18)		(0.15)	

Resident very senior citizen (aged 80 years or above)	Income Level (INR)*					
	1,000,000		2,000,000		12,000,000	
	Current	Proposed	Current	Proposed	Current	Proposed
Basic Tax	100,000	100,000	4,00,000	4,00,000	3,400,000	3,400,000
Surcharge	0	0	0	0	340,000	340,000
Education Cess	3,000	3,000	12,000	12,000	112,200	112,200
Total	103,000	103,000	412,000	412,000	3,852,200	3,852,200
Increase / (Decrease) in Tax	0		0		0	
Increase / (Decrease) (%)	0		0		0	

*Additional deduction of INR50,000 in respect of Section 80C and INR50,000 for interest on housing loan has not been factored in the above income levels.

Glossary

AAR	Authority of Advance Rulings
ADR	American Depository Receipt
ALP	Arm's Length Price
AO	Assessing Officer
AOP	Association of Persons
APA	Advance Pricing Agreement
ATM	Automated Teller Machine
AY	Assessment Year
BCD	Basic Customs Duty
BOI	Body of Individuals
BOP	Balance of Payments
CAD	Current Account Deficit
CBDT	Central Board of Direct Taxes
CIT	Commissioner of Income Tax
CPI	Consumer Price Index
CSR	Corporate Social Responsibility
CVD	Countervailing Duty
DDT	Dividend Distribution Tax
DTA	Domestic Tariff Area
ECB	External Commercial Borrowings
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act
FERA	Foreign Exchange Regulation Act
FII	Foreign Institutional Investors
FIPB	Foreign Investment Promotion Board
FPI	Foreign Portfolio Investment
FTS	Fees for Technical Services
FY	Financial Year
GDP	Gross Domestic Product
GDR	Global Depository Receipt

Glossary

GOI	Government of India
GST	Goods and Services Tax
HUF	Hindu Undivided Family
IFRS	International Financial Reporting Standard
IDR	Indian Depository Receipt
IIP	Index of Industrial Production
IRDA	Insurance Regulatory Development Authority
LCD	Liquid-crystal Display
LED	Light-emitting Diode
LTCG	Long Term Capital Gain
MSME	Micro Small and Medium Enterprises
NBFC	Non Banking Finance Company
NHAI	National Highway Authority of India
NPS	National Pension Scheme
PSU	Public Service Undertakings
QE	Quantitative Easing
QFI	Qualified Foreign Investor
RBI	Reserve Bank of India
REIT	Real Estate Investment Trust
SAD	Special Additional Duty
SC	Scheduled Caste
SEBI	Securities and Exchange Board of India
SEZ	Special Economic Zone
ST	Scheduled Tribes
STCG	Short Term Capital Gain
The Act	Income-tax Act, 1961
TDS	Tax Deducted at Source
TPO	Transfer Pricing Officer
VCC	Venture Capital Companies
VCF	Venture Capital Fund
WPI	Wholesale Price Index

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