KPMG

cutting through complexity

Union Budget 2015

Inspiring confidence, empowering change in India

kpmg.com/in

Foreword

This first full year budget by the new government was presented amidst very high expectations of announcement of big bang reforms, by a government which enjoys unprecedented majority in the lower house of parliament.

The economic survey noted that India is today in a sweet spot, largely relieved of the vulnerabilities associated with an economic slowdown. Inflation has steadily tapered down, thanks to the sharp reduction in the price of crude oil, fiscal deficit has reduced, domestic demand is picking up, and the external value of the Indian rupee has also stabilised.

However, the survey also notes that even after 68 years of independence, poverty remains one of India's largest and most pressing problems. To counter this, successive governments have subsidised, food, fuel and fertilisers, however the challenge of ensuring that they are targeted at and utilised by the neediest remains daunting. As a possible solution, the Economic Survey promises cash based transfers based on the 'JAM' number trinity: 'Jan Dhan' (financial inclusiveness), 'Aadhar' (unique identification number), and Mobile to effectively target public resources to those who need it most.

On the investment front, the challenge of stalled projects and the resultant problem of stressed and restructured assets in the banking system tends to result in financial repression. The Prime Minister has made the revival of Indian manufacturing a industry top priority, reflected in his 'Make in India' campaign and slogan. The objective is laudable as the challenges it faces are daunting because Indian manufacturing has been stagnant at low levels.

Given all of the above, the Finance Minister has chosen to focus on relaxing his previously stated fiscal deficit target of 3 per cent over a period of three future years instead of two. The additional fiscal spend is promised to go in be used for raising funding infrastructure investment, with sharply increased outlays proposed for roads, railways and capital expenditure by public sector units. On India's most awaited tax reform, the GST, the Finance Minister is firm on assuring its arrival on the statute books on 1 April - 2016, having already introduced a Constitutional Amendment Bill in the Parliament.

On the direct tax front, there does not seem to be any major changes. Rates remain unchanged for all taxpayers with an increase in surcharge by two percentage points as a quid pro quo for abolishing the largely stagnant collection pool of Wealth tax: an Act which was more of a hassle to comply with for many. There is a carrot of reducing corporate tax rates from the existing 30 per cent to 25 per cent over four years starting 1 April 2016, however that will predictably be accompanied by the removal of many incentive provisions. There are welcome amendments on the deferral of GAAR provisions by two years and also protecting from GAAR, all investments made up to 31 March, 2017. Amendments in the manner of taxing indirect transfer of assets in India bring in much needed clarity, however change in the residency criteria of foreign companies could become the next hot spot for tax disputes, especially for Indian corporates that have ventured overseas. There has been a rationalisation of the capital gains tax regime for sponsors of REITs and pass through status accorded to some AIFs. There are some sops to individuals largely in the area of providing higher deductions for medical insurance spends and investments in the National Pension Scheme.

Developments to watch out for would be the government's intention to usher in new and stringent legislation to combat the menace of black money, both in India and overseas, by providing for hefty penalties and non-compoundable prosecution with rigorous imprisonment upto ten years.

On the indirect taxes front, proposals are largely directed towards GST implementation. Excise duty and service tax rates have been simplified by removing Education Cess and Secondary and Higher Secondary Education Cess. However, the Service Tax rate has increased from 12 per cent to 14 per cent. The ambit of service tax too has increased by pruning the Negative List and exemptions. In select sectors, domestic manufacturing has been incentivised by correcting inverted duty structures. There is a thrust on ease of doing business by allowing digitally signed invoices, maintenance of records in electronic form and time bound electronic registration process.

Overall, one can sense the good intentions behind the budget provisions and the direction that it seeks to give to the economy. However, the proof of the pudding will likely 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.

Table of content

Economic indicators

The Indian economy seems to have gained momentum since the NDA government has come into power; as per the advance estimates of the government GDP growth in FY15 is projected to be at 7.4 per cent.

In January 2015, the Government of India revised the base year for calculations of national accounts and GDP in India from 2004-05 to 2011-12, which resulted in changes in the quarterly GDP growth rate of FY15.[1]

As per latest available data, the advanced estimates suggest a GDP growth of 7.4 per cent in FY15 for India as compared to 6.9 per cent in FY14 (with base as 2011-12)[1], making India one of the fastest growing economies in the world.

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

This chapter discusses the performance of the Indian economy during FY14-15 to provide a context for the Union Budget 2015-16.

Improved economic growth during FY14-15 has been contributed by better performance in the manufacturing and services sector. Agriculture and mining continue to be a concern.

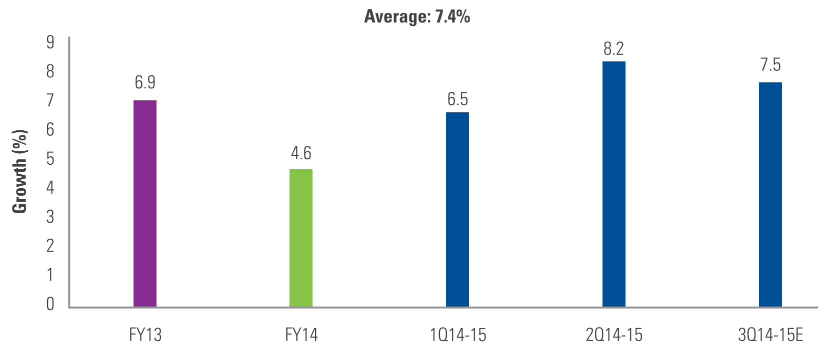
Concerns over India's economic performance grew when, for the first time in 25 years, India witnessed a sub-5 per cent growth for the second consecutive year in FY14.[2] However, since the NDA Government came into power, India is back on its growth trajectory due to better performance in many macroeconomic indicators and reforms announced by the government.

As per advance estimates, the Indian agricultural sector is expected to register a growth of 1.1 per cent in FY15 as compared to 3.8 per cent in FY14 due to decline in production levels.[1]

Industry, on the other hand, is expected to perform better as compared to FY14 due to the 'Make in India' campaign launched by the Government to transform India into a manufacturing hub. Manufacturing in FY15 is expected to grow at 6.7 per cent (5.3 per cent in FY14), power generation at 5.9 per cent (2.9 per cent in FY14), and mining at 1.7 per cent (5.5 per cent in FY14).[1]

Services sector comprising of Trade, hotels, transport, communication and services related to broadcasting; financial, real estate and professional services, and public administration, defence and other services holds the maximum share in India's GDP. Trade, hotels, transport, communication and services related to broadcasting is expected to grow at 8.4 per cent in FY15 (11.1 per cent in FY14) whereas, financial, real estate and professional services is expected to grow at 13.7 per cent in FY15 (7.9 per cent in FY14) and public administration, defence and other services at 9.0 per cent in FY15 (7.9 per cent in FY14).[1]

GDP growth (2011-12 base) (Y-o-Y, %)



Source: Ministry of Statistics and Programme Implementation and Economic Survey of India 2015

Note: FY14 and FY13's quarterly GDP with revised base year of 2011-12 is not available

01. "Press Note on Provisions Estimates of Annual National Income, 2014-15 and Quarterly Estimates of GDP for the third quarter, 2014-15," Ministry of Statistics and Programme Implementation, GOI, 9 February 2015

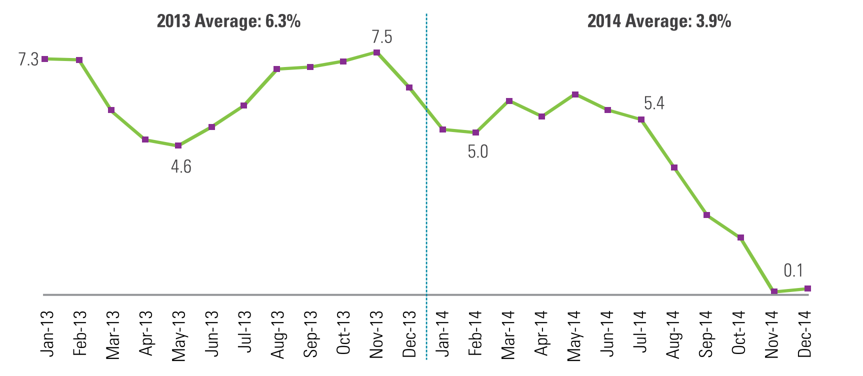
02 "FY14 GDP growth at 4.7%; India sees worst slowdown in 25 years," The Economic Times, 30 May 2014

Inflation has eased throughout FY14-15 which is expected to lead to an expansionary monetary policy and boost industrial production.

WPI based inflation eased to 3.9 per cent in 2014, as compared to 6.4 per cent in 2013[3], likely due to the fall in global crude oil prices that contributed to improved economic growth this fiscal. Also, the RBI has been able to control inflation by not decreasing rates. However, in January 2015, in its sixth bi-monthly monetary policy review, the RBI reduced the repo rate to 7.75 per cent, reverse repo to 6.75 per cent and the bank rate to 8.75 per cent due to steady decline in the country's inflation.[4]

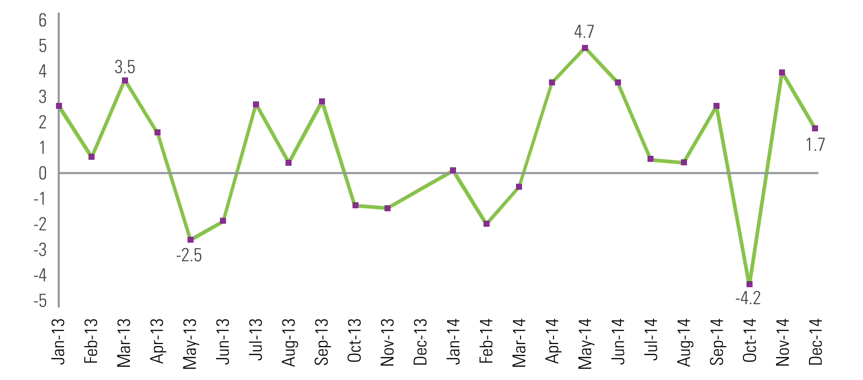
On the other hand, despite easing inflation, there was not much improvement in industrial production, possibly due to high interest rates. However, with further rate cuts that are expected this year, the sector is likely to perform better. In FY14-15 (April-December), with the exception of October 2014, IIP has witnessed positive growth throughout which relatively better than its performance in FY14-15.

WPI growth (Y-o-Y, %)



Source: 'Monthly Economic Report', Ministry of Finance, various issues, January 2013 to December 2014

IIP growth (Y-o-Y, %)



Source: 'Monthly Economic Report', Ministry of Finance, various issues, January 2013 to December 2014

03 "Monthly Economic Report," Ministry of Finance

04 "RBI cuts interest rate by 25 bps to 7.75 pct, hints at more," The Financial Express, 15 January 2015

High interest rates and tight liquidity dampened business sentiment and investment. Consumption, however, was low on account of rebasing and reduction in government spending.

A stringent monetary policy to control inflation led to high interest cost, which seems to have dampened private corporate investment. In comparison to FY13-14, investment as a percentage of GDP remained approximately the same. Easing of the monetary policy in FY15-16 is expected to increase the share of investment.

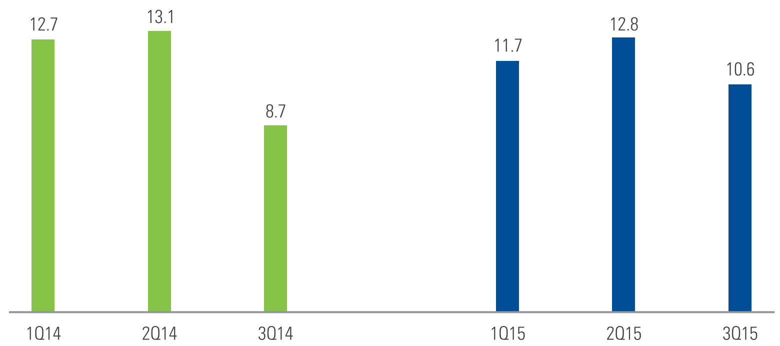
On the other hand, consumption as a percentage of GDP decreased in FY14-15 as compared to FY13-14 likely due to the rebasing of GDP calculations. Also, to control fiscal deficit, the government is making efforts to lower its spending which also seems to have had a downward effect on consumption.

Although FII inflows have picked up tremendously, rupee depreciation continues to be a worry.

FII investment inflow has picked up since the new government came into power in May 2014. Investor sentiment has been high in the past year on the back of policies and reforms announced by the Government. Indian markets received approximately USD38.5 billion in net FII inflows in FY14-15 (April-January), much higher than USD8.9 billion in FY13-14.

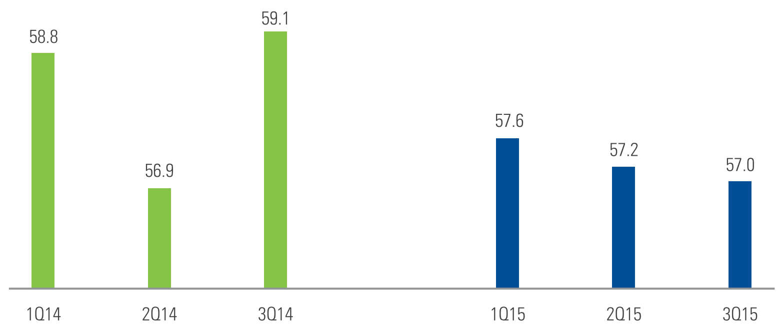
The Indian Rupee, however, has depreciated further still, but is stable possibly due to tight monetary policy and the rise in FII inflows through the year. The Indian Rupee has depreciated approximately 3.3 per cent with respect to USD in the past year.[5]

Quarterly investment (as a % of GDP)



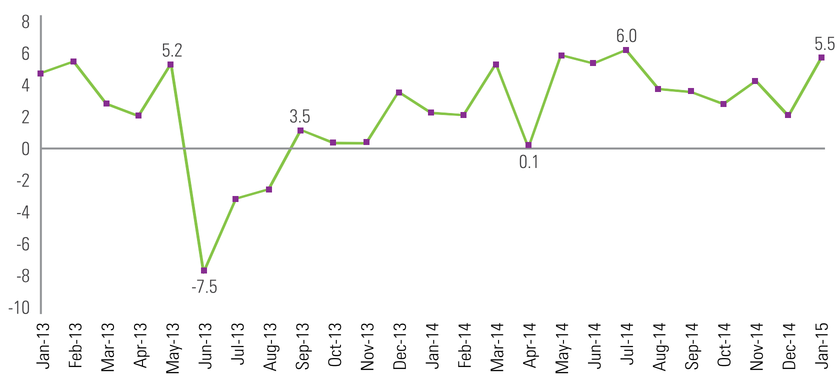
Source: Ministry of Statistics and Programme Implementation
Note: Q4 data of FY14 and FY15 not available, data on 2011-12 prices

Quarterly private consumption (as a % of GDP)



Source: Ministry of Statistics and Programme Implementation, 9 February 2015
Note: Q4 data of FY14 and FY15 not available, data on 2011-12 prices

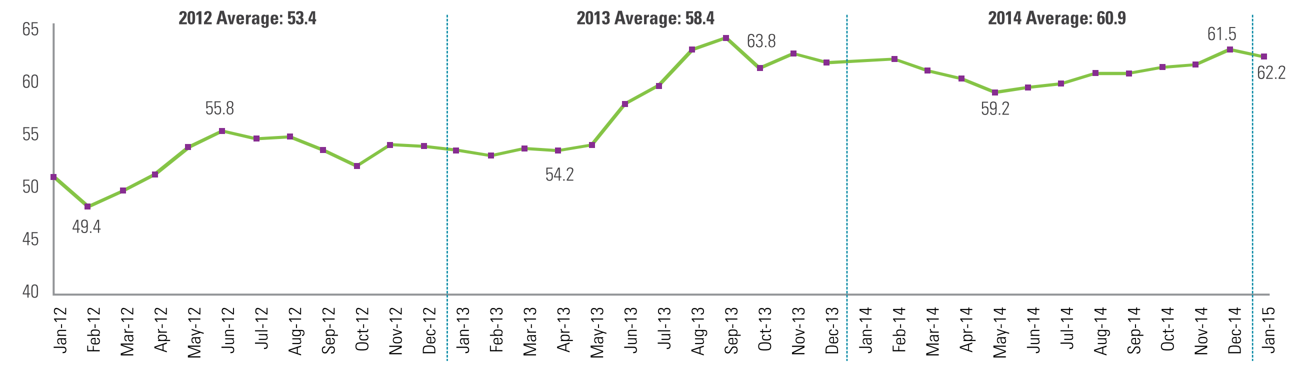
Net FII inflow (USD billion)



Source: FPI Monitor, NSDL website, accessed 26 February 2015

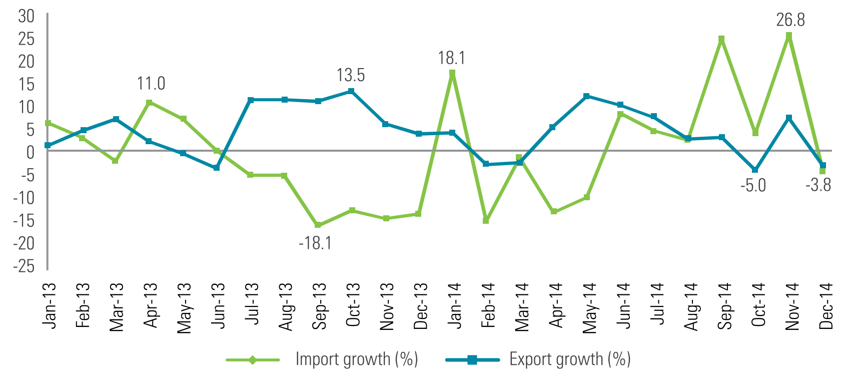
05 Economic Survey of India 2015

Exchange rate - USD/INR



Source: Oanda, accessed 26 February 2015

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



Source: "Monthly Economic Report," Ministry of Finance, various issues

Improved net exports growth seems to have led to the narrowing of trade and CAD.

Exports have witnessed a contraction in the past year due to the slowdown in global trade as several economies are still recovering from the Euro Zone Crisis of 2011.[6] Imports, on the other hand, have witnessed a contraction, due to the fall in global crude oil prices, thereby reducing India's trade and current account deficit. Since crude oil prices are expected to remain low in the near future, it is expected that deficit will continue to contract.

Current account deficit is expected to be maintained below 1.3 per cent of GDP in FY15.[7]

06. Economic Survey of India 2015

07. Union Budget 2015-16 speech

The GOI and RBI are constantly introducing measures aimed at attracting investments and maintaining growth and improving the ease of doing business in India.

Following are some of the measures:

- **Initiatives:** The newly elected NDA Government has undertaken a number of initiatives such as, Swachh Bharat Abhiyan, Make in India campaign, Clean Ganga Campaign and Pradhan Mantri Jan Dhan Yojana.[8]
- **FDI in key sectors:** The government relaxed FDI norms in key sectors such as railways and defence. Also, a bill was introduced in the Parliament to increase the FDI cap in the insurance sector from 26.0 to 49.0 per cent.[9] The RBI relaxed FDI norms by allowing higher flexibility in pricing of instruments with a view to attract more overseas investment.[10]
- **New regulatory reporting requirement for stressed assets:** The RBI introduced a new system of reporting stressed assets in case of non-payment of interest and principal for 30 days and 60 days onwards. The initiative was supported by formation of a central repository of information for large borrowers of more than INR5 crore.[11]
- **Deposits requirements by banks:** In June 2014, the RBI released approximately INR400 billion by reducing deposits that the banks are mandated to place in government securities.
- **Revision in interest rates:** The RBI signalled softening of the monetary policy stance by cutting policy repo rates by 25 basis points (bps) to 7.75 percent in January 2015. Subsequently, the RBI also reduced the SLR by 50 bps from 22.0 per cent to 21.5 per cent.[12]
- **Gold imports:** In February 2015, the RBI lifted the ban on imports of gold coins by medallions by trading houses and banks on consignment basis. Also, in November 2014, the 80:20 scheme which linked gold imports to exports was withdrawn.[13]
- **Sub-limits for FII:** In July 2014, the RBI raised FIIs' sub-limit in government bonds by USD5 billion. The move is expected to stabilise the yields.[14]

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

The Economic Survey of India 2015 outlines a few priority areas for the GOI such as reviving investments, strengthening macro-economic stability, creating non-agriculture related jobs and developing infrastructure and agriculture.

Moreover, the formation of a new government at the centre after 10 years seems to have increased expectations, especially those of investors', which can be gauged from the 40 per cent rise in the Sensex to the 29,571.0 mark in January 2015 from the 21,140.5 mark in January 2014, making it one of the best performing stock exchanges in the world[15]. The nation expects the government to translate into action the policies announced by it and also to make conscious efforts towards ensuring a growing and stable economy.

8. "Modi government has taken steps to fulfil poll promises: Amit Shah", Business Standard, 20 January 2015
9. "Government determined to push tax, financial sector reforms: PM Narendra Modi", The Economic Times, 1 September 2014
10. "RBI relaxes norms to boost foreign investment", The Economic Times, 3 February 2015
11. "Flashback 2014: Making Progress on banking sector reforms", Business Today, 30 December 2014
12. "RBI cuts repo rate by 25 basis points, adjust reverse repo rate to 6.75 per cent", Business Today, 16 January 2015
13. "RBI lifts ban on import of gold coins, medallions by banks", The Economic Times, 18 February 2015
14. "RBI raises FII sub-limit in govt bonds by $5 bn", Business Standard, 24 July 2014
15. BSE Sensex website

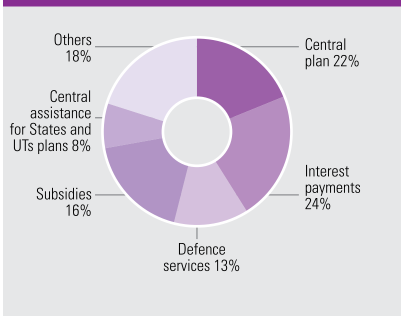
Fiscal deficit of 4.5 per cent of GDP in FY14 is lower than the budgeted target of 4.8 per cent of GDP.

The requirement to cut expenditure and focus more on increasing revenue due to widening of the fiscal deficit (100.2 per cent of FY15's target)[16], the GOI to announce a fiscal consolidation roadmap that aims to reduce India's fiscal deficit to 4.1 per cent in FY15, 3.6 per cent in FY16 and to 3.0 per cent by FY17[17]. To comply with this, the government reduced its expenditure during FY14, which translated into lower fiscal deficit for the year.[18]

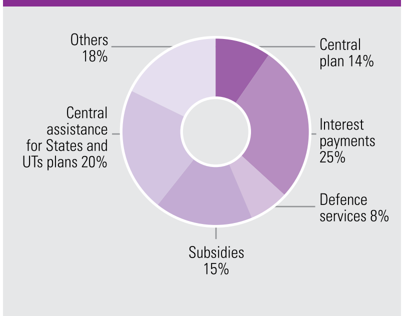
To conclude, the positive momentum in FY15 is likely to continue in FY16, as several other measures are expected to be undertaken and policies are expected to be implemented, especially those aimed at boosting investment and further reducing fiscal deficit to achieve GDP growth of 8.5 per cent in FY16.[18]

Government's finances at a glance

Expenditure 2013-14

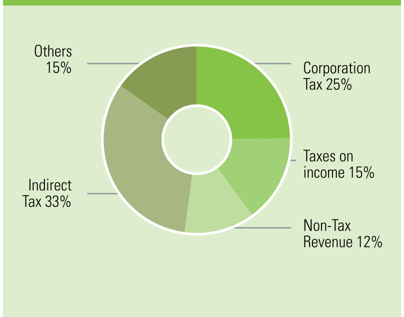


Expenditure 2014-15

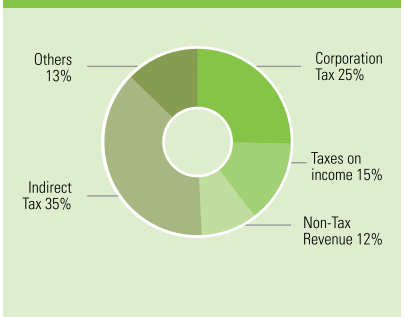


2013-14 (INR cr.)		2014-15 (INR cr.)
6.9%	GDP Growth rate	7.4% (AE)
	Expenditure	Estimate
1,87,895	Capital	2,26,780
13,75,590	Revenue	15,68,112
15,63,485	Total	17,94,892
	Receipts	Estimate
40,057	Capital	73,952
10,15,279	Revenue	11,89,763
10,55,336	Total	12,63,715
4.5%	Fiscal Deficit	4.1%

Receipts 2013-14



Receipts 2014-15



Source: Economic Survey of India 2015 and 2014, KPMG in India analysis; AE – Advanced Estimates

16. "Fiscal deficit overshoots full-year target in December", Reuters India, 30 January 2015
17. "Fiscal deficit, low income constrain India's rating: S&P," Deccan Herald, 23 February 2015
18. Economic Survey of India 2015

Budget highlights

Direct tax

- No change in basic corporate tax rate. Surcharge in case of domestic companies increased by 2 per cent and now to be levied at 7 per cent (if the total income exceeds INR10 million but does not exceed INR100 million) and at 12 per cent (if the total income exceeds INR100 million).
- Surcharge increased by 2 per cent and to be levied at 12 per cent on additional income tax payable by companies on distribution of dividends and buyback of shares, by mutual funds and securitisation trusts on distribution of income.
- Proposal to reduce basic corporate tax rate from 30 per cent to 25 per cent over the next four years, starting from the next financial year.
- Surcharge to be increased from 10 per cent to 12 per cent where income exceeds INR10 million per annum.
- Contribution to Notified Pension Scheme, aligned to INR150,000, with INR50,000 being additional deduction.
- Withholding tax rate to be 10 per cent on taxable PF withdrawal where payment exceeds INR30,000.
- Wealth Tax abolished.
- Applicability of GAAR provisions deferred by two years and rules to be made to make it applicable to investments on or after1 April 2017.
- Non-Indian company to be a resident in India if it has a POEM in India at any time during the Financial Year.
- Indirect transfer by foreign company taxable in India on proportionate basis, and only if the value of Indian assets represents at least 50 per cent of the value of the global assets.
- Fund managers in India of offshore funds would not constitute business connection in India of the offshore fund, subject to compliance with various terms and conditions stipulated.
- Rental income arising to REIT from the real estate property, directly held by it, eligible for pass-through status.
- At the time of disposal (under an IPO listing or sale thereafter) of the units of the REIT/Invit (i.e. Business Trust), the sponsor of REITs/Invit would be eligible for concessional STT-based capital gains tax regime on par with other investors.
- Tax pass-through granted to all income for AIF Category I and II Funds except business income.
- FII income (except in case of income from shortterm capital gains on which STT is not chargeable) not subject to MAT.
- The manufacturing units set up in the notified backward area in the State of Andhra Pradesh or Telangana on or after 1 April 2015 to be eligible for additional depreciation at the rate of 35 per cent, as well as additional investment allowance at 15 per cent on new plant and machinery acquired and installed during the period 1 April 2015 to 31 March 2020.
- Interest payable by an Indian branch of a foreign bank to its head office or other branch to be taxable in India and subject to applicable withholding tax.
- The basic rate of taxing income of non-residents in the nature of royalty and fees for technical services reduced from 25 per cent on gross basis to 10 per cent on gross basis.
- Lower withholding tax of 5 per cent on gross basis on interest paid to FIIs and QFIs extended by two years to 30 June 2017.
- 100 percent deduction towards contributions to Swatch Bharat Kosh and Clean Ganga mission, but deduction not available for contribution considered as CSR spend.
- Domestic Transfer Pricing threshold increased from INR50 million to INR200 million.
- Foreign tax credit rules to be notified.
- Acceptance or repayment of an advance of INR20,000 or more in cash for purchase of immovable property to attract penalty.
- Repetitive departmental appeals to ITAT to be avoided when an identical question of law is pending before the Supreme Court subject to acceptance by the taxpayer as well.
- New law and measures to be announced to tackle black money including high taxes, penalty and prosecution provisions.

Indirect tax

- Proposals directed towards GST to be implemented from 1 April 2016.
- Excise duty and service tax rates simplified by removing Education Cess and Secondary and Higher Education Cess.
- Service tax rate increased from 12 per cent to 14 per cent.
- Ambit of service tax increased by pruning the Negative List/ exemptions.
- Domestic manufacturing incentivised by correcting inverted duty structure in select sectors.
- Marginal increase in effective customs duty rate to 26.43 per cent (from 25.85 per cent) for capital goods and 29.44 per cent (from 28.85 per cent) for other goods, owing to increase in excise duty rate (from 12 per cent to 12.5 per cent).
- Thrust on ease of doing business by allowing digitally signed invoices, maintenance of records in electronic form, and time bound electronic registration under excise and service tax.

Budget proposals

Policy proposals

- Comprehensive Bankruptcy Code of global standards to be introduced.
- NBFCs registered with the RBI, with asset size of INR5,000 million and above, would be considered for notifications as 'Financial Institution' in terms of the SARFAESI Act, 2002 enabling them to fund SME and midcorporate businesses.
- Forwards Markets Commission to be merged with SEBI to strengthen regulation of commodity forward markets and reduce speculation.
- Foreign Investments in Alternate Investment Funds to be allowed.
- Distinction between different forms of foreign investments, especially between FPI and FDI to be done away with. Replacement to be with composite caps for various sectors.
- Tax free infrastructure bonds for the projects in the rail, road and irrigation sectors.
- Regulatory reform bill proposed that would bring out a certainty and clarity across various sectors of infrastructure.
- The control on Capital Account transactions (except debt instruments) under FEMA to be exercised by central Government in consultation with the RBI.
- Various measures proposed to curb black money including the Benami Transactions (Prohibition) Bill, amendments to FEMA, high monetary penalty and prosecution therein, etc. The amendments proposed to FEMA aim to tackle any foreign exchange, foreign security or any immovable property held in contravention and allowing seizure and eventual confiscation of assets of equivalent value situated in India.

Direct tax

Corporate tax

- No change in basic corporate tax rate. Surcharge in case of domestic companies increased by 2 per cent and now to be levied at 7 per cent (if the total income exceeds INR10 million but does not exceed INR100 million) and at 12 per cent (if the total income exceeds INR100 million).
- Surcharge increased by 2 per cent and to be levied at 12 per cent on additional income tax payable by companies on distribution of dividends and buyback of shares, by mutual funds and securitisation trusts on distribution of income.
- Threshold for applicability of Domestic Transfer Pricing increased from INR50 million to 200 million.
- Understatement of income under MAT/AMT provisions also made liable for concealment penalty.
- Foreign tax credit rules and procedures for granting credit for any income-tax paid in any country or specified territory outside India to be notified.

GAAR

- Applicability of GAAR provisions deferred by two years and rules to be made to make it applicable to investments on or after1 April 2017.

Capital gains

- In case of a domestic demergers, it is now expressly provided that the cost of capital assets transferred to the resulting company should be the cost of such assets to the demerged company. Also, the period of holding of such assets by the resulting company to include the period of holding by the demerged company for categorisation as long-term or short-term capital asset.
- Tax neutrality provided in respect of indirect transfers by way of overseas amalgamations and demergers, involving any transfer of a capital asset, being a share of a foreign company which derives, directly or indirectly, value as stipulated from share(s) of an Indian company.
- Tax neutrality provided to investors upon consolidation or merger of similar schemes of mutual fund under the SEBI (Mutual Funds) Regulations, 1996. The cost of acquisition and period of holding of the consolidated scheme to be the cost and period of holding of the consolidated scheme.

Tax incentives

- Additional depreciation at 20 per cent on new plant and machinery used for less than 180 days in the year of acquisition and installation is allowed at 50 per cent and the balance 50 per cent now eligible for deduction in the immediate succeeding financial year.
- The manufacturing units set up in the notified backward area in the State of Andhra Pradesh or Telangana on or after 1 April 2015 to be eligible for additional depreciation at the rate of 35 per cent instead of 20 per cent in respect of actual cost of new machinery or plant (other than ship and aircraft) acquired and installed on or after 1 April 2015 and before 1 April 2020. During this eligible period, such manufacturing unit will also be eligible for additional investment allowance at 15 per cent on eligible plant and machinery/ assets. Such additional investment allowance to be taxed as income if such asset is sold within a period of five years of its installation.

Non-resident taxation

Royalty/FTS

- The basic rate of taxing income of non-residents in the nature of royalty and FTS reduced from 25 per cent on gross basis to 10 per cent on gross basis.

Tax residency provision for companies (POEM)

- Apart from an Indian company, any company whose POEM at any time during the year is in India, it shall be considered to be resident of India.
- POEM defined to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance, made.

Indirect transfer of assets

- To bring clarity relating to taxation of non-residents in cases of indirect transfers (i.e. transfer of shares of foreign company deriving substantial value from shares of an Indian company/assets located in India), the following key amendments are proposed:
  - The share or interest of foreign company / foreign entity is deemed to derive its value substantially from Indian assets, if on the specified date (date of transfer or last day of accounting year as stipulated), the value of such Indian assets exceeds INR100 million and it represents at least fifty per cent of the value of all the assets owned by the foreign company or entity.

- The value of the assets to be its FMV (without reduction of corresponding liabilities) and the underlying aggregate gains to be apportioned proportionately to Indian assets as per methods to be prescribed.
- Indirect transfer provisions would not apply to the transferor shareholder of the foreign company holding the Indian assets directly and whose shares/ interest are getting transferred if the transferor (along with the AEs) has neither the right to control or manage the foreign company nor holds voting power or share capital or interest exceeding five per cent therein.
- Indirect transfer provisions would not apply to the transfer or shareholder of the foreign company holding the Indian assets indirectly and whose shares/ interest are getting transferred if the transfer or (along with AEs) has neither the right to control or manage the foreign company or the direct holding company nor holds voting power or share capital or interest exceeding five per cent in the direct holding company by virtue of holding in the foreign company.
- Reporting obligation casted on Indian concern, through or in which the Indian assets, are held by the foreign company or the foreign entity and any non-compliances to attract penal consequences.

Applicability of MAT to FIIs

- Income from transaction in securities (other than STCG arising on which STT is not chargeable) arising to FII excluded from the ambit of MAT by excluding both,the income and corresponding expenses, in the computation.

Safe harbour for offshore funds with an Indian fund manager

To facilitate location of fund managers in India of offshore funds, it is proposed that fund management activity undertaken in India by an eligible fund manager on behalf of an eligible offshore fund will not constitute a business connection for the offshore fund in India.

Key qualifying criteria for an eligible fund are as follows:

- The fund is a non-resident of India (location of the fund manager in India, in itself, will not result in the offshore fund being regarded as a resident in India).
- The fund must be resident of a tax treaty country.
- Indian residents cannot own/ participate in (directly or indirectly) more than five per cent of the corpus of the fund.
- The fund must be subject to investor protection regulations in the relevant overseas jurisdiction.
- The fund must have at least 25 investors who are not connected persons (as defined).
- No individual investor (including connected person) can hold 10 per cent or more in the fund
- The aggregate participation interest of 10 or less members along with their connected persons shall be less than 50 per cent of the fund.
- The fund cannot invest more than 20 per cent of its corpus in any entity.
- The fund cannot invest in any associate entity.
- The monthly average corpus of the fund cannot be lower than INR1 billion (newly incorporated fund to satisfy the condition at the end of the financial year).
- The fund cannot carry on or control and manage any business in or from India.
- The fund does not undertake any other activity in India, which can result into a business connection in India.
- The fund must remunerate the fund manager on an arm's length basis.

Key qualifying criteria for an eligible fund manager are as follows:

- The fund manager cannot be an employee or a connected person of the fund.
- Registration with SEBI under the applicable regulations.
- The fund manager is acting in ordinary course of his business.
- The fund manager is not entitled to more than 20 per cent profits earned by the fund from the transactions carried out by the fund through the fund manager.

Every eligible investment fund must comply with an annual filing requirement, and non-compliance thereof will attract penalty.

Consessional withholding rate for FII and QFI

The eligible period of concessional tax rate of 5 per cent on interest income earned by FII and/or QFI on Government securities and rupee denominated corporate bonds extended by two years i.e. from 30 June 2015 to 30 June 2017.

Pass-through status granted to SEBI registered Category-I and Category-II AIF, subject to following key conditions:

- All income earned by AIF (except business income) would be taxable on pass through basis in the hands of the investors as if he had made the investment directly.
- Any business income earned by the AIF would be taxable at the fund level. Such business income would be tax exempt in the hands of the investors.

- Any income credited or paid by the AIF to its investors would be deemed to be of the same nature and in the same proportion in the hands of the investors as the AIF.
- AIF to deduct tax at 10 per cent on all income (except business income) payable to investors at the time of credit or payment, whichever is earlier. No DDT or tax on distributed income would be applicable to the income paid by AIF to its investors.
- Any loss at AIF level would not be allowed to be passed through to the investors but would be carried over at fund level to be set-off against income of the next year.
- Income of the AIF would not be subject to withholding tax requirements (per notification to be issued).
- AIF would mandatorily be required to file their return of income and also furnish the details of components of income, etc. in a prescribed form to the investors and the income-tax department.

The existing tax pass-through regime would continue to apply to VCFs registered under the SEBI (VCF) Regulations, 1996.

Taxation of Invits and REITs

Capital gains on transfer of units of Invits and REITs by sponsor

- At the time of disposal (under an IPO listing or sale thereafter) of the units of the REIT/Invit (i.e. Business Trust), the sponsor of REITs/Invit would be eligible for concessional STT-based capital gains tax regime on par with other investors (i.e. LTCG on transfer of units would be exempt and STCG would be taxable at the rate of 15 per cent provided STT at 0.2 per cent is paid on the sale of such units).

Tax treatment of the rental income arising to REIT from real estate property directly held by the REIT

- The rental income arising to REIT from the real estate property directly held by the REIT eligible for pass through status. Accordingly, such income will be exempt for the REIT and chargeable to tax in the hands of the REIT unit holders on distribution. The tenant or lessee is not required to withhold tax on payment of rent to the REIT, but the REIT in turn would withhold tax at 10 per cent on distribution of such income to the resident unit holders and at applicable rates on the distribution to the non-resident unit holders.

Provisions dealing with not-for profit organisation

- An activity in the nature of trade, commerce or business, or rendering of any service in relation thereto undertaken by a trust or institution to be considered as 'charitable purpose' only if:
  - such activity is undertaken in the course of actual advancement of its object of general public utility;
  - aggregate receipts from such activities during the previous year do not exceed twenty per cent of the total receipts.
- 'Yoga' included as a specific category in the definition of 'charitable purpose'.
- Income of charitable trust/organisation in excess of fifteen per cent can be accumulated for exemption only if the prescribed Form is filed by it on or before the due date of income tax return. Further, even the return of income would need to be filed by such charitable trust/organisation within the relevant due date.

Personal tax

- No change in the income-slabs, tax rates, cess for individuals.
- Surcharge to be increased from 10 per cent to 12 per cent where income exceeds INR10 million per annum.
- The manner and conditions for determining residential status of Indian citizens, being members of crew of foreign bound ships leaving India, to be prescribed.
- Exemption for transport allowance to be increased from INR800 per month to INR1,600 per month.
- Investments made in SSAS are to be eligible for deduction within the overall limit of INR150,000 per annum (towards specified investments such as life insurance premium, Public Provident Fund, etc.).
- Interest accruing on deposits in SSAS and withdrawals from SSAS to be exempt from tax.
- Contribution to NPS and notified pension schemes to be increased from INR100,000 per annum to INR150,000 per annum, subject to conditions and overall limits towards specified investments.
- Additional deduction of INR50,000 per annum to be available in respect of the individual's contribution to NPS.
- Deduction for health insurance premium towards member of HUF to be increased from INR15,000 per annum to INR25,000 per annum. For senior citizens (60 years of age or above), deduction for health insurance premium to be increased from INR20,000 per annum to INR30,000 per annum. For very senior citizens (80 years of age or above) not covered under health insurance, medical expenditure incurred to qualify for deduction within the said limit of INR30,000 per annum.

- Deductions for self and dependent in case of disability to be increased from INR50,000 per annum to INR75,000 per annum and in case of severe disability from INR100,000 per annum to INR125,000 per annum.

- Deduction for chronic diseases for very senior citizens (80 years of age or above) to be available up to INR80,000 per annum.

- Employer required to obtain specified documents from employees, towards expenses/ losses claimed, while computing tax deductible at source from salary.

- Tax to be deducted at the rate of 10 per cent at source, on taxable provident fund withdrawal, where payment is INR30,000 or more. In case, PAN not furnished by the employee, tax to be deducted at maximum marginal rate.

Withholding tax provisions

- The exemption from deduction of tax at source from payments to contractors engaged in the business of transport by submitting PAN to be eligible only if the contractor does not own more than ten goods carriages at any time during the year.

- TCS provisions rationalised and brought on par with TDS provisions. Delay in payment of TCS to attract only single levy of interest.

  Levy of fee for default relating to delay in filing of TDS/TCS quarterly statement to be determined during processing of such statement.

  TAN requirement to be relaxed for notified deductors.

- Threshold limits for TDS on interest payable to depositors to be applied at an entity level for banking company/co-operative society/ public company where core banking solutions have been adopted instead of branch level.

- TDS applicable in respect of any payment of interest on time deposits by the co-operative bank to its member.

- TDS on interest on the compensation awarded by the Motor Accident Claim Tribunal Compensation, applicable only at the time of payment where such payments exceeds INR50,000 in the financial year.

  All the above amendments are proposed to take effect rom 1 June 2015.

Settlement Commission

- Currently, the application to the Settlement Commission could be made for a case where proceedings are pending before an AO. The taxpayer becomes eligible to approach the Settlement Commission only after notice for reassessment has been issued for the particular AY and not any other AY.

  It is now proposed that where a reassessment notice is issued for any AY, the taxpayer can approach the Settlement Commission for other AYs as well even if notice for such other AYs has not been issued. However, a return of income for such other AYs should have been furnished.

- Settlement Commission is empowered for granting immunity from prosecution to taxpayer who has co-operated in the proceedings and made full and true disclosure of his income and the manner in which such income has been derived Settlement Commission shall be now required to record reasons in writing for granting such immunity.

- Proceedings before the Settlement Commission shall abate if an order has been passed without providing for the terms of settlement.

- Restriction to approach the Settlement Commission is strengthened so as to provide that any person related (as defined) to the person who has already approached the Settlement Commission once cannot approach the Settlement Commission subsequently.

  These amendment are proposed to take effect from 1 June 2015.

Tax administration and assessment procedures

- To ensure independence of the Chartered Accountant in case of any client, eligibility and disqualifications have been prescribed in respect of his services excluding representation services.

- The AO empowered to hand over seized assets belonging to or seized books of accounts or documents pertaining to any other person, to AO having jurisdiction over such other person.

- To bring parity with recourse available to the taxpayers, in cases where the Department is in appeal SLP before the Supreme Court on a question of law for an earlier year, the AO, subject to acceptance by the taxpayer, can file an application to the Appellate Tribunal within 60 days from the date of receipt of order of the Commissioner (Appeals) stating that an appeal on the same question of law arising in the relevant case may be filed when the decision on the question of law becomes final in the earlier case. This would avoid repetitive appeals.

- The Principal Commissioner / Commissioner can revise the assessment order in the following cases which are deemed to 'erroneous and prejudicial to the interests of the revenue', where the order :
  - is passed without making inquiries or verification;
  - is passed allowing any relief without inquiring into the claim;
  - has not been made in accordance with any order, direction or instruction issued by CBDT; or
  - has not been passed in accordance with any decision, prejudicial to the taxpayer, rendered by the jurisdictional High Court or Supreme Court in the case of the taxpayer or any other person.

  The amendment would be effective from 1 June 2015.

Wealth Tax

- Currently wealth-tax is levied on an individual and HUF, if net wealth of such person exceeds INR3 million on the last date of the previous year. It is proposed to abolish the levy of wealth-tax. The resultant loss of revenue is intended to be captured by way of a simultaneous increase in the rate of surcharge on high income bracket taxpayers. The information regarding the assets which are currently required to be furnished in wealth-tax return will be captured in the income tax returns.

Other tax proposals

- The persons responsible for paying any sum to a non-resident to furnish relevant declaration and information irrespective of whether such sum is chargeable to tax or not. Any non-compliance to attract penalty of INR0.1 million. This amendment is proposed with effect from 1 June 2015.
- Donation (other than sum expended in CSR) to Swachh Bharat Kosh, Clean Ganga Fund and National Fund for Drug Abuse would be eligible for 100 per cent deduction. The deduction for donation to first two categories to have retrospective effect from 1 April 2015.
- The deduction for employment of new workmen now eligible to all taxpayers instead of only corporates and the benefit extended to units employing 50 regular workmen instead of 100 regular workmen. This benefit will now not be available for any form of business re-organisation.
- The concessional tax rate for dividend and long-term capital gains to be restricted only in respect of GDRs issued against underlying listed shares or FCCBs.
- Currently, income of certain charitable funds or institutions like the Prime Minister's National Relief Fund, the Prime Minister's Fund (Promotion of Folk Art), etc. is eligible for exemption . This exemption is now extended to the income of Swachh Bharat Kosh and Clean Ganga Fund.
- The assets seized or requisitioned under the search and seizure may be adjusted against the amount of existing liability under the Incometax Act, the Wealth-tax Act and the liability determined on completion of the assessment. It is now proposed to extend such adjustment for the amount of liability arising on an application made before the Settlement Commission. The amendment shall take effect from 1 June 2015.

Indirect taxes

Service tax

Rate changes

(effective from a date to be notified after the enactment of the Finance Bill, 2015).

- Effective service tax rate increased from the existing rate of 12.36 per cent to 14 per cent (cess of 3 per cent exempted).
- Consequential amendments for specified services provided, as given in the table mentioned alongside.
- Swachh Bharat Cess to be imposed on all or any of the taxable services (as may be notified) at the rate of 2 per cent of the value of taxable services.

Service	Old rate	New rate
Air travel agent		
Domestic booking	0.6 per cent	0.7 per cent
International booking	1.2 per cent	1.4 per cent
Life insurance		
First year premium	3 per cent	3.5 per cent
Subsequent year premium	1.5 per cent	1.75 per cent
Money changing service		
Amount of currency exchanged upto INR0.1 million	0.12 per cent subject to minimum of INR30	0.14 per cent subject to minimum of INR35
Amount of currency exchanged exceeding INR0.1 million and upto INR1 million	INR120 and 0.06 per cent	INR140 and 0.07 per cent
Amount of currency exchanged exceeding INR1 million	INR660 and 0. 012 per cent subject to maximum of INR6000	INR770 and 0.014 per cent subject to maximum of INR7000
Lottery		
Where guaranteed prize payout is more than 80 per cent	INR7000	INR8200
Where guaranteed prize payout is less than 80 per cent	INR11000	INR12800

Amendments under the Negative List (effective from a date to be notified after the enactment of the Finance Bill, 2015)

- Following services have been removed from the Negative List, and hence would now be taxable:
  - Service provided by way of admission to entertainment events or access to amusement facilities.
  - Services by way of contract manufacturing/job work production of alcoholic liquor for human consumption for a consideration.
  - All services provided by the Government or local authorities to business entities.

Amendments in Mega Exemption Notification (effective from 1 April 2015, except as otherwise provided)

- Exemption expanded to include:
  - Service by way of right to admission to award function, concert, pageant, musical performance or any sporting event (other than a recognised sporting event) where the amount charged is less than INR500; recognised sports event or exhibition to cinematographic film, circus, dance, etc. continue to be exempt.
  - Ambulance services provided by way of transportation of patient.
  - Life insurance services provided under Varishtha (senior citizen) Pension Bima Yojna.
  - Services provided by Common Effluent Treatment Plant operator for treatment of effluent.
  - Services provided by way of pre-conditioning, pre-cooling, ripening, waxing, retail packing, labelling of fruits and vegetables which do not change/ alter the essential characteristics of fruits or vegetables.
  - Services provided by way of admission to a museum, national park, wildlife sanctuary, tiger reserve or zoo.
  - Services provided by way of exhibition of movie by an exhibitor to the distributor or an association of persons (consisting of the exhibitor as one of its members).
- Exemptions withdrawn:
  - Services provided to government by way of construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, or alteration of:
    - o a civil structure meant for use other than for commerce, industry, etc.
    - o a structure meant predominantly for use as an educational, clinical, or an art or cultural establishment.
    - o a residential complex predominantly meant for self-use or the use of their employees.
  - Services by way of construction, erection, commissioning, or installation of original works pertaining to airports and ports.
  - Services by way of transportation of foodstuff except milk, salt and food grain (including flour, pulses and rice).
  - Services provided by mutual fund agents, distributors to mutual fund/asset management companies and marketing agents of lottery tickets.
  - Carrying out of intermediate production process as job work for manufacture of alcoholic liquor for human consumption.
  - (effective from a date to be notified after the enactment of the Finance Bill, 2015).
  - Services by way of making telephone calls from a public telephone (departmentally run, guaranteed public telephone and free telephone at airports and hospitals).
  - Services provided by performing artists in folk or classical art forms of music, dance and theatre for an amount greater than INR0.1 million.

Amendments in valuation related aspects

- The definition of the term 'consideration' amended to include:
  - any reimbursable expenditure/ cost incurred and charged by the service provider in the course of providing taxable services, except in prescribed conditions.
  - any amount retained (viz. in addition to fee/commission) or discount received by lottery distributor or selling agent (i.e. difference between face value of lottery and procurement price of ticket).

    (effective from enactment of the Finance Bill, 2015)
- Uniform abatement of 70 per cent prescribed for transport by rail, road and vessel with a condition of non-availment of Cenvat credit on inputs, capital goods and input services. As a result, these services would be taxable at 30 per cent of the service value (effective from 1 April 2015)
- Service tax payable on 60 per cent (instead of 40 per cent) of service value in case of air transport services of passenger in other than economy class (effective from 1 April 2015).

Amendments in Service tax Rules (effective from 1 March 2015)

- In case of aggregator model, foreign aggregator of service can appoint a person representing the aggregator or any other person in India for the purposes of payment of service tax.
- Provisions for issuing digitally signed invoices have been added along with the option for maintaining the records in electronic form and their authentication by means of digital signatures.

Other

- Full reverse charge made applicable in case of manpower supply and security services when received by a body corporate from an individual, HUF or partnership firm (effective from 1 April 2015).
- Services provided by the following brought under the ambit of full reverse charge mechanism:
  - Mutual fund agents/distributors (effective from 1 April 2015).
  - Agents of lottery distributors (effective from 1 April 2015).
  - Aggregators (effective from 1 March 2015).
- The term 'Government' defined to mean Central Government, State Government, Union territory and its departments. But it would not include entities whose accounts are not required to be kept under Article 150 of the Constitution (effective from enactment of the Finance Bill, 2015).
- Definition of the term 'service' amended to include services provided by chit fund foreman for conducting a chit and distributor/ selling agent of lottery for organising/conducting a lottery (effective from enactment of the Finance Bill, 2015).
- Exemption on GTA services provided to exporter for transportation of goods from container freight station/inland container depot/from place of removal to land customs station (effective from 1 April 2015).
- Scope of advance ruling extended to cover all resident firms such as one person company, sole proprietor, partnership firm, etc. (effective from 1 March 2015).
- Provision for waiver of penalty withdrawn even in cases where assessee proves the reasonable cause for failure to pay Service tax (effective from enactment of the Finance Bill, 2015).
- In cases not involving fraud/ collusion, maximum penalty reduced from 50 per cent to 10 per cent of the Service tax amount. Also, in specified situations, penalties can be further reduced to nil/25 per cent of the penalty amount (effective from enactment of the Finance Bill, 2015).
- In cases involving fraud/collusion,
  - Benefit of reduced penalty in following specified situations withdrawn:
    - 50 per cent of the Service tax amount where true/complete details of transactions are available.
    - 25 per cent of the Service tax amount where value of taxable service does not exceed INR6 million and payment is made within 90 days from the date of commencement of order.
  - Provision of reduced penalty of 15 per cent of the Service tax amount introduced where penalty is paid within 30 days of serving of notice (effective from enactment of the Finance Bill, 2015).
- Recourse to settlement not available in cases where proceedings are referred back in any manner to the adjudicating authority for fresh adjudication (effective from the date of enactment of Finance Bill, 2015).
- Appeal against the order of Commissioner (Appeals) in matters relating to rebate of Service tax shall be filed with Central Government and not Tribunal (effective from enactment of the Finance Bill, 2015).

CENVAT Credit

Applicable from 1 March 2015

- Time limit for availment of Cenvat credit on inputs and input services increased from six months to one year from the date of issuance of any of the specified documents.
- Credit of inputs and capital goods available upon delivery/receipt of goods directly at the job worker's premises on direction of the manufacturer/ output service provider.
- Cenvat credit of inputs allowable even on transfer to subsequent job worker from the premises of the principal job worker for undertaking specified activities, provided the same are received back within 180 days.
- Increase in time limit for return of capital goods sent to job worker for carrying out specific activities from 180 days to 2 years.
- Term 'export of goods' defined for computing refund of Cenvat credit as any goods which are to be taken out of India to a place outside India.
- Value of non-excisable goods cleared for a consideration to be included in value of exempted goods for the purpose of reversal of Cenvat credit.
- Requirement of maintaining records has been extended to importers for transfer of Cenvat Credit in respect of inputs or capital goods.

- Power of recovery of Cenvat credit extended even to cases where Cenvat credit has been wrongly taken but not utilised.
- Order of utilisation of Cenvat credit prescribed for recovery of Cenvat credit wrongly availed/utilised.

Applicable from 1 April 2015

In case of partial reverse charge, the Cenvat credit can be availed by the service receipient as under:

- With respect to service tax to be paid by the service recipient, credit can be claimed on depositing the same with the Government Treasury.
- With respect to service tax charged by the service provider, credit can be claimed immediately on receipt of invoice. However, credit to be reversed if payment not made within a period of three months which can be re-availed on making payment.

Applicable from the date of enactment of Finance Bill

Confiscation and penalty provision for wrong availment or utilisation of Cenvat credit has been aligned with provisions under the Central Excise Act, 1944 and the Finance Act, 1994.

Excise

General

- Excise duty rate increased from 12.36 per cent to 12.5 per cent.
- Education Cess of 2 per cent and Secondary and Higher Education Cess of 1 per cent exempted on all products.

Rate changes (effective from 1 March 2015)

- Excise duty on mobile handsets increased from 6 per cent (with CENVAT) to 12.5 per cent (with CENVAT). Excise duty remains unchanged at 1 per cent on mobile handsets in case CENVAT facility not availed.
- Excise duty on chassis of ambulances reduced from 24 per cent to 12.5 per cent subject to actual user condition.
- Rate of duty on cement changed as below:
  - Mini cement plant: 6 per cent + INR125 per MT (earlier 6 per cent+120 per MT).
  - Other than from mini cement plant:12.5 per cent + INR125 per MT (earlier 12 per cent +120 per MT).
  - Cement other than those cleared in packaged:12.5 per cent (earlier 12 per cent).
- Excise duty on inputs used in manufacture of specified components for LED lights or fixtures, including LED lamps, reduced from 12 per cent to 6 per cent.
- Excise duty on tablets reduced from 12 per cent to 2 per cent (without CENVAT) or 12.5 per cent (with CENVAT).
- Exemption from excise duty on parts, components and accessories for use in manufacture of tablets and their sub-parts.
- Excise duty on wafers for use in manufacture of IC modules for smart cards reduced from 12 per cent to 6 per cent.
- Exemption from excise duty on specified raw material for use in manufacture of pacemakers.
- Exemption to round copper wire and tine alloys for use in the manufacture of specified component of solar PV cells and modules.
- Excise duty on condensed milk and peanut butter increased to 2 per cent (without CENVAT) and 6 per cent (with CENVAT).
- Rate of Clean Energy Cess on coal, lignite and peat increased from INR100 per tonne to INR200 per tonne.
- Excise duty on waters, including aerated and mineral waters containing added sugar or sweetened or flavoured increased from 12 per cent to 18 per cent. Further, additional duty of excise five per cent on these products withdrawn.
- Exemption from excise duty on pig iron SG grade and ferro-silicon magnesium for manufacture of cast components of wind operated electricity generators subject to conditions.

Amendments (effective from 1 March 2015)

- Facility of issuance of digitally signed invoices introduced. However, transporter of goods needs to carry self-attested hard copy during transport of goods.
- Preservation of records in electronic form permitted to manufacturers.
- Direct dispatch of inputs and capital goods by manufacturer or service provider to job worker permitted.
- Direct dispatch of goods to registered dealer/ importer’s customer premises permitted.
- Simplification of registration process in Central Excise.
- Facility of Advance Ruling extended to resident firms.

Amendments (effective from the date of enactment of Finance Bill, 2015)

- Rationalisation of penal provision under Central Excise laws in cases not involving fraud, collusion or willful misstatement e.g. demand of excise duty where fraud is not alleged can be settled on payment of penalty equal to 10 per cent of duty.
- Recourse to settlement not available in cases where proceedings are referred back in any manner to the adjudicating authority for fresh adjudication.
- Penalty of INR100 per day prescribed subject to maximum limit of INR20,000 on filing of Central Excise returns after the due date.

Other

- Basis of levy of excise duty on condensed milk, instant tea, water, lemonade, LED lights, etc. changed from transaction value to MRP based assessment under Central Excise law (abatement of 30 per cent/ 35 per cent on MRP value prescribed).
- Abatement as a percentage of MRP for all footwear reduced from 35 per cent to 25 per cent.

Customs

General

- Due to increase in general rate of excise duty, effective customs duty rate has marginally increased from 25.85 per cent to 26.43 per cent for capital goods and 28.85 per cent to 29.44 per cent for other than capital goods.

Amendments (effective from 1 March 2015)

- BCD increased from 2.5 to 5 per cent on metallurgical coke.
- Effective rate of Additional Duty of Customs levied on petrol and high speed diesel oil increased from INR2 per litre to INR6 per litre.
- BCD and CVD exempted on parts, components and accessories for manufacture of tablets and their sub-parts for manufacture of these items.
- BCD exempted on High Density Polyethylene for manufacture of telecommunication grade optical fibres or optical fibre cables.
- Concessional BCD of 5 per cent extended to Active Energy Controller for manufacture of Renewable Power System inverters.
- BCD reduced from 10 per cent to Nil on specified Digital Still Image Video Cameras and from 5 per cent to Nil on parts and components for manufacture of such Digital Cameras.
- BCD reduced on specified LED TV panels from 10 per cent to Nil.
- BCD reduced from 5 per cent to Nil on magnetron (upto 1 KW) used for manufacture of domestic microwave oven.
- BCD increased on commercial vehicles from 10 per cent to 20 per cent, except in CKD condition, where 10 per cent BCD continues.
- Exemption from BCD extended up to 31 March 2016 for specified goods used in manufacture of hybrid and electrically operated vehicles.

- CVD and SAD exempted on specified raw materials for manufacture of pacemakers.
- SAD reduced from 4 per cent to 2 per cent on the following goods:
  - melting scrap of iron or steel, stainless steel scrap for the purpose of melting, copper scrap and aluminum scrap, etc.
  - naphtha, styrene, ethylene dichloride, vinyl chloride monomer.
- SAD exempted on following goods:
  - all goods except populated PCBs for manufacture of ITA bound goods.
  - all inputs for manufacture of specified components used for LED lights and fixtures, and LED lamps.

Amendments (effective from the date of enactment of Finance Bill, 2015)

- No penalty to be imposed if the amount of duty along with interest leviable (under Section 28AA of Customs Act) - is paid in full within 30 days from the date of receipt of the notice in cases where no fraud or collusion or wilful mis-statement of facts, etc. are alleged. Further, quantum of penalty reduced from 25 per cent to 15 per cent in other cases.
- Penalty in cases of improper import or export of goods, other than prohibited goods, reduced from customs duty sought to be evaded to upto 10 per cent of the duty.
- Scheme of Advance Ruling extended to resident firm, which includes a partnership firm and limited liability partnership.

Goods and ServiceTax

General

- Strong commitment shown towards implementation of GST from 1 April 2016. It was mentioned that Government is 'moving in various fronts' to implement GST from next year.
- As a run up to GST, several steps have been taken such as increase in Service tax rate by 2 percent (as tax rates on services under GST are likely to go up), broadening of Excise and Service tax base, subsuming Education and Higher Education cess under central excise and service tax, etc.
- Visible thrust on e-compliances in line with GST expectations including allowing issuance of digital invoices, time bound online registrations under excise and service tax, and maintenance of electronic records.
- Higher budgetary allocations to State Governments (total share of States now being 62 per cent of the total tax receipts of the country) likely to reduce the trust deficit between the states and the centre, thus paving the way for early implementation of GST.

Tax rates

These rates are subject to enactment of the Finance Bill, 2015. The rates are for the Financial Year 2015-16.

1. Income tax rates

1.1 For Individuals, Hindu Undivided Families, Association of Persons and Body of Individuals

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%

(a) For a resident individual aged between sixty and eighty, the basic exemption limit is INR300,000.

(b) For a resident individual aged eighty or above, the basic exemption limit is INR500,000.

(c) 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.

(d) A 12 per cent surcharge is applicable if the total income exceeds INR10,000,000. Marginal relief available.

(e) A 3 per cent education cess is applicable on income-tax (inclusive of surcharge, if any 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) A 12 per cent surcharge is applicable if 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).

1.3 For Local Authorities

- Local Authorities are taxable at 30 per cent.
- A 12 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 12 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 7 per cent surcharge is applicable if the total income exceeds INR10,000,000 but does not exceed INR100,000,000. Marginal relief available.
- A 12 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 on income tax (inclusive of surcharge, if any).

2. Minimum Alternate Tax/ Alternate Minimum Tax

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 7 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 12 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.

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 12 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) or a unit of business trust	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 business trusts, 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
Sale of unlisted units of business trust under an initial offer[(a)]	0.2%	Seller

(a) With effect from 1 June 2015

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 proposed to be abolished with effect from FY 2015-16.

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 15 per cent (plus applicable surcharge and education cess) on such dividends.
- 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.

  a. 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.

  b. 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.

  c. 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:
     – 25 per cent (plus 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.
     – 30 per cent (plus applicable surcharge and education cess) on income distributed to any other person by a money market Mutual Fund or a liquid fund
     – 25 per cent (plus 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.
     – 30 per cent (plus 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 per cent (plus applicable surcharge and education cess) on income distributed to non-resident or foreign company by mutual fund under an infrastructure debt scheme.

8. Tax on Distributed Income to Shareholders*

Any amount of distributed income by the company on buy-back of shares (not being shares listed on recognised stock exchange) from a shareholder shall be charged to tax at the rate of 20 per cent (plus applicable surcharge and education cess) on such distributed income.

* For computation of effective DDT, 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. Similarly, 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

9. 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 Government of India	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: – Under a loan agreement from 01 July 2012 to 30 June 2017 – On issue of long-term infrastructure bond from 01 July 2012 to 30 June 2017 – On issue of long-term bond from 01 October 2014 to 30 June 2017	5%
Interest income received by FII or QFI on rupee denominated bonds or government securities up to 30 June 2017	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 on or after 1 April 1976	10%
Fees for Technical Services For agreements entered into on or after 1 April 1976	10%
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 12 per cent surcharge shall be applicable, where the total income exceeds INR 10,000,000. 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.

10. 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 that mentioned above [c]		
Individuals (resident and non-resident)	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%
FIIs	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) 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

(c) 20 per cent with indexation and 10 per cent without indexation for listed securities and zero coupon bonds (other than units)

(d) Long term capital gains arising to a non-resident from transfer of unlisted securities subject to 10 per cent tax (without benefit of indexation and foreign currency fluctuation)

11. Presumptive taxation

1. In the case of a non-resident taxpayer

Business	Rate at which income is presumed
Shipping [b]	7.5% of gross receipts
Exploration of mineral oil [b][c]	10% of gross receipts
Operations of Aircraft [b]	5% of gross receipts
Turnkey power projects [b][c]	10% of gross receipts

2. All resident taxpayers

Business	Rate at which income is presumed
Small Business [excluding (ii)] [a][b][c][d][e]	8% of gross turnover/ receipts
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, HUFs 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.

Glossary

AE	Associated Enterprises
AIF	Alternative Investment Fund
AMT	Alternate Minimum Tax
AO	Assessing Officer
AY	Assessment Year
BCD	Basic Customs Duty
BEPS	Base Erosion and Profit Shifting
BOP	Balance of Payments
CAD	Current Account Deficit
CBDT	Central Board of Direct Taxes
CKD	Completely knocked down units
CSR	Corporate Social Responsibility
CVD	Countervailing duty
DDT	Dividend Distribution Tax
FCCB	Foreign Currency Convertible Bonds
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act, 1999
FII	Foreign Institutional Investors
FMV	Fair Market Value
FPI	Foreign Portfolio Investments
FY	Financial Year
FTS	Fees for Technical Services
GAAR	General Anti-Avoidance Rules
GDP	Gross Domestic Product
GDR	Global Depository Receipts
GOI	Government of India
GST	Goods and Services Tax
GTA	Goods Transport Agency
HUF	Hindu Undivided Family
IIP	Index of Industrial Production
INR	Indian Rupees
INVIT	Infrastructure Investment Trust

IPO	Initial Public Offering
ITA	Information Technology Agreement
ITAT	Income-tax Appellate Tribunal
LED	Light-emitting diode
LTCG	Long-Term Capital Gains
MAT	Minimum Alternate Tax
MRP	Maximum Retail Price
NBFC	Non-Banking Financial Company
NDA	National Democratic Alliance
NPS	National Pension Scheme
OECD	Organisation for Economic Co-operation and Development
PAN	Permanent Account Number
PF	Provident Fund
POEM	Place of Effective Management
QFI	Qualified Foreign Investor
RBI	Reserve Bank of India
REIT	Real Estate Investment Trust
SAD	Special Additional Duty
SARFAESI Act, 2002	The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
SEBI	Securities and Exchange Board of India
SLR	Statutory Liquidity Ratio
SME	Small and Medium Enterprises
SSAS	Sukanya Samriddhi Account Scheme
STCG	Short-Term Capital Gains
STT	Securities Transaction Tax
TCS	Tax Collection at Source
TAN	Tax Deduction and Collection Account Number
TDS	Tax Deducted at Source
USD	US Dollars
VCF	Venture Capital Funds
WPI	Wholesale Price Index

Key contact

Girish Vanvari
Partner and Head
Tax
T: +91 22 3090 1910
E: gvanvari@kpmg.com

KPMG in India

Ahmedabad
Commerce House V
9th Floor, 902 & 903
Near Vodafone House
Corporate Road, Prahlad Nagar
Ahmedabad 380 051
T: +91 79 4040 2200
F: +91 79 4040 2244

Bengaluru
Maruthi Info-Tech Centre
11-12/1
Inner Ring Road
Koramangala
Bangalore 560 071
T: +91 80 3980 6000
F: +91 80 3980 6999

Chandigarh
SCO 22-23 (Ist Floor)
Sector 8C, Madhya Marg
Chandigarh 160 009
T: +91 172 393 5777/781
F: +91 172 393 5780

Chennai
No.10, Mahatma Gandhi Road
Nungambakkam
Chennai 600 034
T: +91 44 3914 5000
F: +91 44 3914 5999

Delhi
Building No.10
8th Floor
DLF Cyber City
Phase II, Gurgaon
Haryana 122 002
T: +91 124 307 4000
F: +91 124 254 9101

Hyderabad
8-2-618/2,
Reliance Humsafar
4th Floor, Road No.11
Banjara Hills
Hyderabad 500 034
T: +91 40 3046 5000
F: +91 40 3046 5299

Kochi
Syama Business Center
3rd Floor, NH By Pass Road,
Vytilla, Kochi 682 019
T: +91 0484 3027000
F: +91 0484 3027001

Kolkata
Unit No. 603 – 604, 6th Floor
Tower – 1, Godrej Waterside
Sector - V, Salt Lake
Kolkata 700 091
T: +91 33 4403 4000
F: +91 33 4403 4199

Mumbai
Lodha Excelus
Apollo Mills
N. M. Joshi Marg
Mahalaxmi
Mumbai 400 011
T: +91 22 3989 6000
F: +91 22 3983 6000

Noida
6th Floor, Tower A,
Advant Navis Business Park
Plot No. 07, Sector 142
Noida Express Way
Noida 201 305
T: +91 0120 386 8000
F: +91 0120 386 8999

Pune
703, Godrej Castlemaine
Bund Garden
Pune 411 001
T: +91 20 3058 5764/65
F: +91 20 3058 5775

kpmg.com/in/Budget2015

Follow us on:
Latest insights and updates are now available on the KPMG India app.
Scan the QR code below to download the app on your smart device

Play Store | **App Store**

kpmg.com/in/socialmedia

Printed in India (BRA0115_043)