



Union Budget 2016

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Foreword



The Union Budget 2016 was presented by the government amidst tumultuous times in the global macroeconomic landscape. Global trade and commerce was adversely affected by bottoming of prices of many commodities, slowing down of China's economy as a major consumer, turbulent financial markets and volatile exchange rates; leading to risk-aversion by international investors and putting several economies under considerable stress.

India remained a relatively bright spot with its growth story continuing to bloom, thanks in part to the benefit that it derived from a sharp reduction in crude oil prices, of which India is a major importer, as well as from the resilient domestic consumption. In addition, the Indian economy's domestic economic parameters like inflation and fiscal and current account deficits continued to be moderate. However, its exports faltered and manufacturing trended downwards. New investments were hard to come by despite the efforts of the government to showcase India as an attractive investment destination. The banking sector, especially government owned banks, prodded by the Reserve Bank of India's tough stand on stressed assets, disclosed and provided for massive amounts of bad and irrecoverable loans, pushing many of them in the red in their quarterly performance reviews.

Given this backdrop, certain stakeholders expected the government to follow a Keynesian solution and pump the economy by increasing public spending, especially on the infrastructure front. However, clearly that would have meant straying away from the path of fiscal prudence and relaxation of the commitment to keep the fiscal deficit to the committed figure of 3.5 per cent of India's GDP. That the Finance Minister chose to keep his commitment, showed the government's desire to walk hand-in-hand with the RBI's stance that before it can signal a lower interest rate regime, it needs to take into consideration fiscal parameters such as the deficits to be reined in at acceptable levels and see to it that inflation is under control. The bulk of government's spending was directed towards the upliftment of the rural and agricultural economy in addition with

hastening the pace of infrastructure projects, notably on roads and transportation.

There were no big bang announcements for the corporate sector – what was announced was a clear road map to pruning down and eventually abolishing myriad incentives which reduce the effective corporate tax rate and are fraught with litigation emerging from varying interpretations of the provisions.

The government kept its date with the BEPS provisions which were announced by the OECD and the G-20 country tax officials working together to align taxation to jurisdictions where economic value is created. The three-tiered documentation requirements for corporates having a group turnover of EUR750 million have found place in the Indian transfer pricing legislation. In an effort to give a fillip to domestic research and development, a welcome amendment was to give a concessional rate of taxation of 10 per cent to income from royalty earned by resident taxpayers from patents.

What surprised the budget observers was the introduction of an Income Declaration Scheme as an attempt to tempt unscrupulous taxpayers to disclose and legitimise hitherto evaded income and assets by paying tax, surcharge and penalty aggregating to 45 per cent.

In focus were also the government's attempts to resolve the first appellate level disputes by bringing in separate direct and indirect taxes dispute resolution schemes and promulgating an equalisation levy on some e-commerce transactions which currently escape India's tax reach. The rules of international taxation have yet to evolve despite the runaway growth in digital and internet transactions in recent times, prompting many countries and the OECD to recommend alternate methods of garnering revenue from these digital transactions.

On the personal tax front, an unpleasant surprise was the move to partly tax retirement benefits at the time that individuals seek to withdraw from provident and superannuation funds. For certain taxpayers earning more than INR1 million from dividends

(which were hitherto tax free due to the companies having already borne the dividend distribution tax), there was an additional imposition of a 10 per cent tax. A higher surcharge was introduced for individuals earning more than INR10 million.

On the Indirect taxes front, there was a reaffirmation that the government would continue the reform agenda to usher in the long awaited GST by passing the Constitutional Amendment Bill in the Parliament. The primary focus of these proposals appeared to be towards promoting the 'Make in India' and 'Ease of Doing Business' initiatives.

Customs and excise duty rate structures for capital goods and other products have been realigned to give a boost to domestic manufacturing. Further, proposals on CENVAT Credit rationalisation, customs duty deferment, special warehousing provisions for excisable goods, reduction in interest rates, etc. have also been introduced to simplify and rationalise the indirect tax regime. The service tax net has been widened by removing exemptions on certain services such as specified legal services, construction services for metros, passenger transportation by an air-conditioned stage carriage, etc. While 13 different cesses earlier levied by various ministries have been abolished, an additional Krishi Kalyan cess of 0.5 per cent on all taxable services and an infrastructure cess up to 4 per cent on specific motor vehicles was imposed.

Overall, one can sense the good intentions behind the budget provisions and the direction that it seeks to provide to the economy. One hopes that the provisions are administered in an even handed manner in a business friendly spirit of mutual trust. People's expectations of a stable and prosperous economic climate which reduces poverty and inequality levels and ushers in prosperity are mounting and the government has tried its best to strengthen the pillars for strong economic growth.

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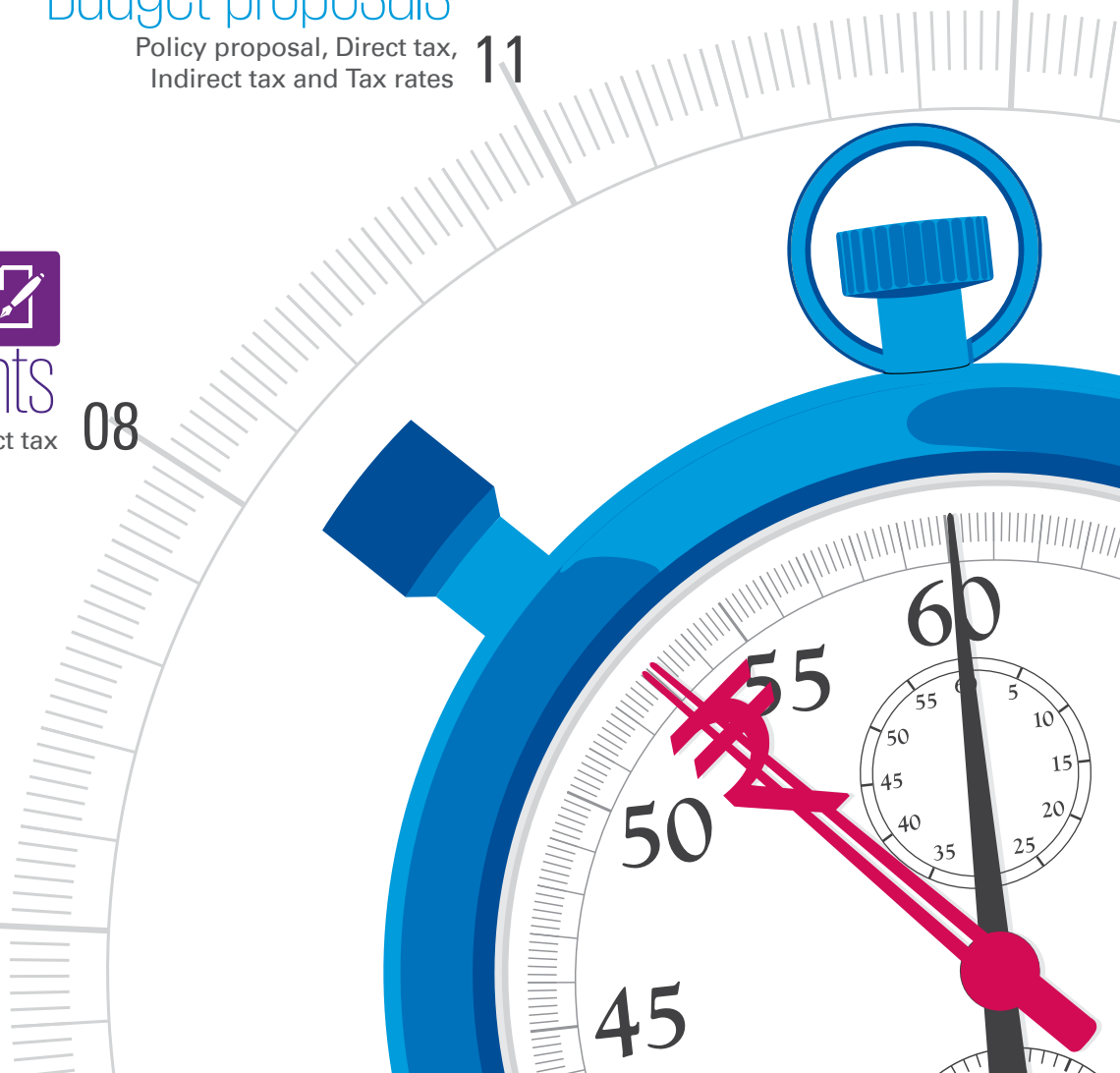
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Economic
indicators

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Economic indicators



The Indian economy is on a high growth trajectory owing to the proactive measures taken by the current government. As per the advance estimates of the government, GDP growth in Financial Year (FY) 2015-16 has been projected to be at 7.6 per cent.¹

In FY15, India became the fastest growing major economy, surpassing China in terms of GDP growth, and has emerged as a bright spot in the global economy.² As per the advanced estimates, the country is expected to register a GDP growth of 7.6 per cent in FY16, as compared to 7.2 per cent in FY15 (with the base as 2011-12), recording the highest percentage increase in the last five years.³ The economic reforms introduced by the government, a stable macroeconomic environment and the falling commodity prices are some of the factors that have helped India achieve strong economic growth estimates.²

However, to attain sustainable economic growth, the government could focus on improving the regulatory environment, increasing the spending on infrastructure, promoting exports, addressing the lukewarm rural economy, and attracting FDI and private sector investments.

This chapter discusses the performance of the Indian economy during FY 2015-16 to provide a context for the Union Budget 2016-17.

Improved economic growth in FY16 is due to the enhanced performance in the manufacturing and services sector. Agriculture continues to be a major area of concern.

India's economic performance, which came under distress in FY13, registering about 5 per cent GDP growth, has attained a high growth

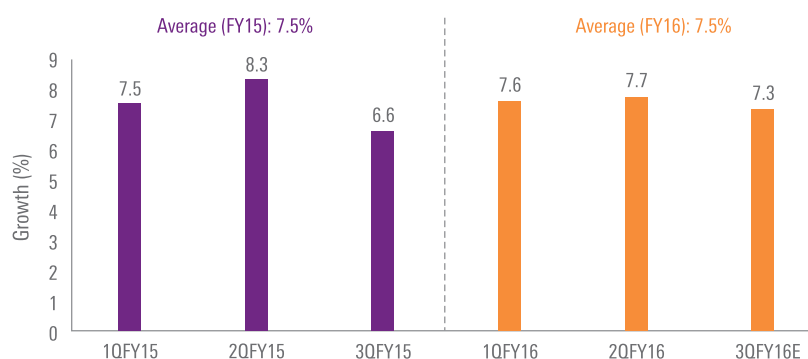
trajectory since the current government came into power.³ India has embarked upon the path of steady growth owing to an improved performance in various macroeconomic parameters as well as the several reforms announced by the government, to provide the much-needed economic stimulus. As per advanced estimates, the Indian agricultural sector is expected to register a modest growth of 1.1 per cent in FY16, due to decline in production levels of various crops and poor monsoon, recorded for the second consecutive year.^{3,5}

Industry, on the other hand, is expected to display better performance as compared to FY15, owing to various initiatives launched by the Government of India, such as 'Make in India', 'Start-Up India, Stand-Up India', 'Skill India' and 'Smart Cities', to facilitate

India's growth. Manufacturing in FY16 is expected to grow at 9.5 per cent as compared to 5.5 per cent in FY15. Mining and power generation sectors are estimated to grow at 6.9 per cent and 5.9 per cent, respectively.³

The services sector, which is an integral part of the Indian economy, witnessed stable growth in FY16. Trade, hotels, transport, communication and services related to the broadcasting sector are anticipated to grow at 9.5 per cent in FY16 as compared to 9.8 per cent in FY15. Financial, real estate and professional services sectors are expected to grow at 10.3 per cent in FY16, compared to 10.6 per cent in FY15. However, public administration, defence and other services sectors are estimated to grow at a slower pace of 6.9 per cent in FY16 against 10.7 per cent in FY15.³

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



Source: "Press Note on Provisions Estimates of Annual National Income, 2015-16 and Quarterly Estimates of GDP for the third quarter, 2015-16," Ministry of Statistics and Programme Implementation, GOI, accessed as on 8 February 2016

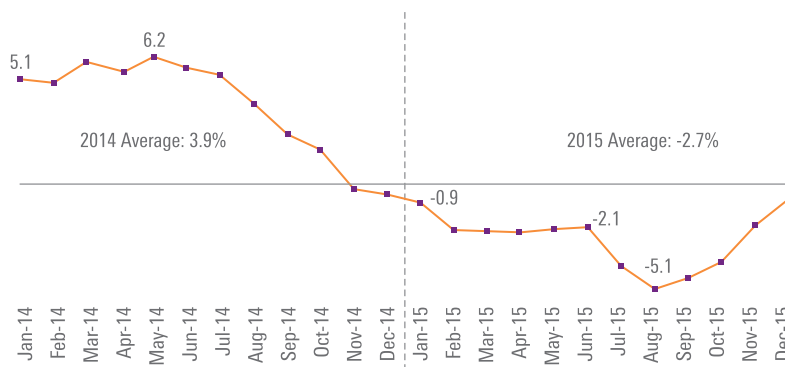
Note: Latest Q4 GDP data is not available

1. Economic Survey 2015-16
2. "Growth star India overtakes China as world's fastest growing major economy", The Telegraph, accessed as on 25 February 2016
3. "Press Note on Provisions Estimates of Annual National Income, 2015-16 and Quarterly Estimates of GDP for the third quarter, 2015-16," Ministry of Statistics and Programme Implementation, GOI, accessed as on 8 February 2016
4. "India under Modi on cusp of major economic revival", Moneycontrol, accessed as on 11 June 2015
5. "Deficiency of rainfall may hit rural income", The Hindu, accessed as on 11 October 2015

WPI has remained firmly entrenched in the negative territory throughout FY16 (till December).

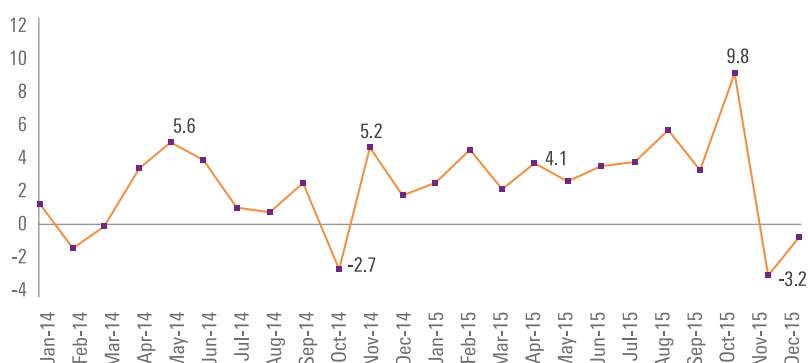
This could further encourage the central bank to maintain a dovish approach toward policy rates. Average WPI-based inflation was recorded at -2.7 per cent in 2015 as compared to the 3.9 per cent average in 2014. The continued decline in crude oil prices, which constitute one of the largest components of India's import basket, have been a major contributor to the declining inflation trend.⁶ On account of inflation being in target range, the Reserve Bank of India (RBI) has been able to reduce the repo rate by 125 basis points since January 2015.⁷

WPI growth (Y-o-Y, %)



Source: 'Monthly Economic Report', Ministry of Finance, various issues, January 2014 to December 2015

IIP growth (Y-o-Y, %)



Source: 'Monthly Economic Report', Ministry of Finance, various issues, January 2014 to December 2015

The Index of IIP witnessed lukewarm growth, throughout FY16. The muted growth could be attributed to low capacity utilisation in the manufacturing sector, along with a decline in domestic demand.

However, a low base effect of 2014 acted as a catalyst for growth in 2015.

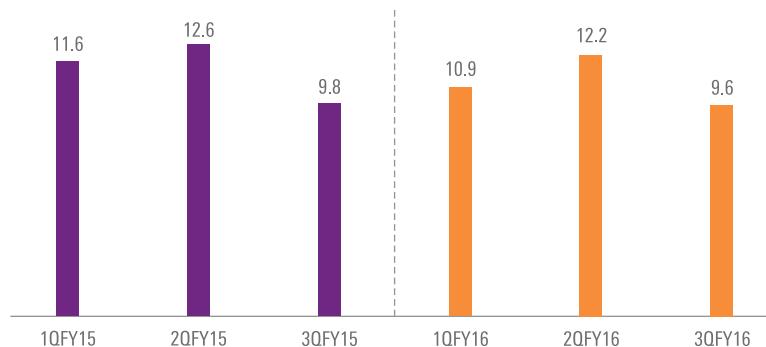
6. 'The impact of falling crude oil prices', Livemint, 9 July 2015

7. 'RBI springs 50 bps rate cut surprise', Livemint, 30 September 2015

The GFCE figures have remained relatively steady in FY16, as compared to FY15.

As the government attempts to adhere to the FRBM road map, it has plans to contain the fiscal deficit at 3.9 per cent of GDP for FY16, and has set a target of 3.5 per cent for FY17, which is expected to curtail the government's expenditure, going forward.⁸

Government final consumption expenditure (GFCE, % of GDP)



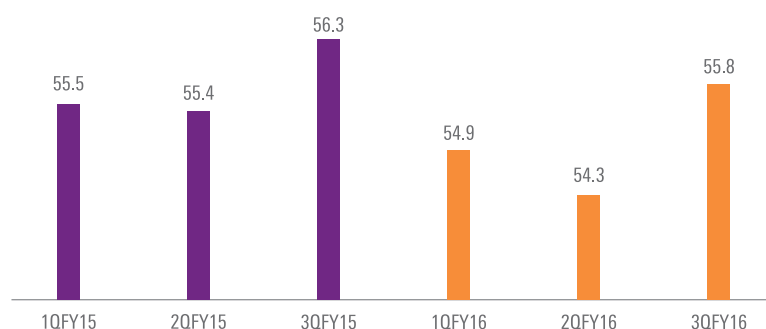
Source: "Advance Estimates of National Income 2015–16 and Quarterly Estimates of Gross Domestic Product for the Third Quarter (3Q) of 2015–16", MoSPI, accessed as on 8 February 2016

Note: Updated 4Q figures not available

Private Final Consumption Expenditure registered a marginal quarter-on-quarter decline in FY16, as compared to FY15.

Consumption demand in rural areas has been impacted by consecutive years of drought, which has caused a decline in discretionary income in these areas.⁹ On the urban private consumption front, the impact of monetary easing by the central bank has not been transmitted fully to the consumers in the form of interest rate cut on loans;¹⁰ and subsequently, credit offtake has been slow to pick up.¹¹ The impact of lower fuel prices, too, has not been fully reflected in retail prices as the government attempts to reach its fiscal targets via imposition of cess and duties.¹² The combined impact of the aforementioned factors has led to a slowdown in PFCE.

Private final consumption expenditure (% of GDP)



8. "FM sticks to fiscal roadmap, Fiscal Year 2016-17 deficit at 3.5%", IBN live, 29 February 2016

9. "Will a second year of bad monsoon hurt rural demand?", The Hindu Business Line, 8 September 2015

10. "Banks, not clients, gain from RBI rate cuts", The Times of India, 7 October 2015

11. "Credit offtake growth falls to 20-year low", The Indian Express, 11 August 2015

12. "With crude on the decline, can consumers expect lower fuel prices?", Livemint, 4 August 2015

Source: "Advance Estimates of National Income 2015–16 and Quarterly Estimates of Gross Domestic Product for the Third Quarter (3Q) of 2015–16", MoSPI, accessed as on 8 February 2016

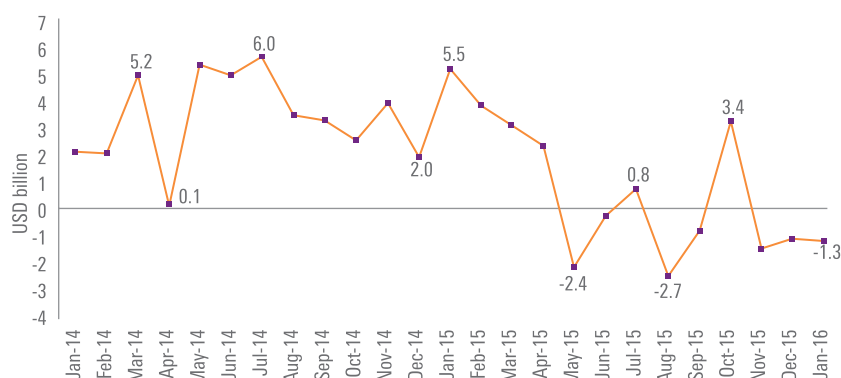
Note: Updated Q4 figures not available

After a record growth in FII inflows in FY15, inflows in FY16 declined on concerns over the global economy; the Indian Rupee continued to depreciate against the rising U.S. Dollar.

FIIs withdrew approximately USD2 billion in 2015–16 (till February) — the steepest decline since the financial crisis of 2008. Although the macroeconomic environment seems stable in India, concerns over the global economy crisis have led to triggering of risk factors among global investors. Uncertainty in China's currency and banks is seen as the biggest risk to inflows in the Indian market, even affecting the global economy.¹³

The withdrawal from FIIs, overall economic slowdown in emerging markets and the strengthening of the U.S. market have led to the weakening of the Indian Rupee in 2015–16. The currency declined further to an average of INR65.04 per U.S. Dollar during

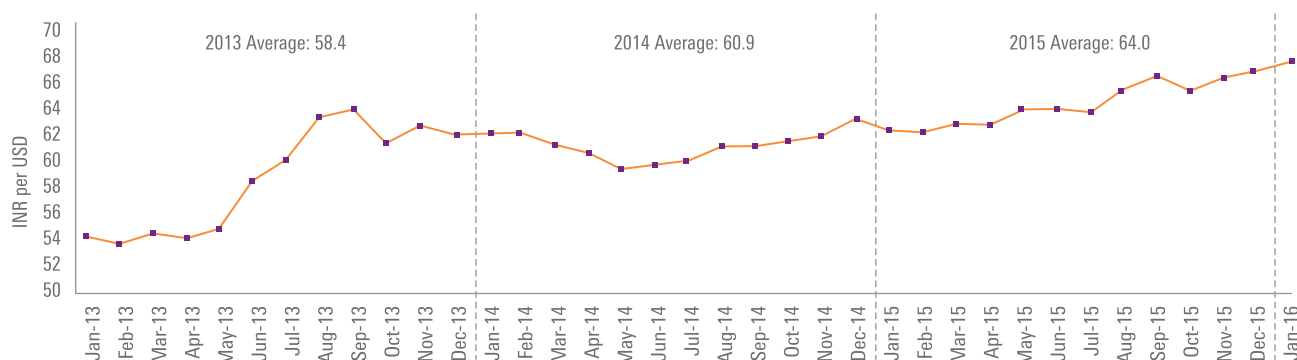
Net FII inflow (USD billion)



Source: Central Depository Services <https://www.cdsindia.com/publications/FIITrends.aspx>, accessed as on 29 February 2016

2015–16 (April–January),¹⁴ compared to INR60.92 per U.S. Dollar during 2014–15 (April–January). The major reasons for depreciation in the value of the Indian Rupee against the U.S. Dollar included the slowdown in China and interest rates hike by the U.S. Federal Reserve in December 2015, driving investors away from riskier emerging market assets.^{14,15}

Exchange rate (INR/USD)



Source: Oanda website, accessed as on 29 February 2016

Exports have declined consistently over the past 13 months and remained firmly in the negative territory throughout FY16 (until December 2015).

A simultaneous decline in the level of imports has helped maintain the

Current Account Deficit (CAD) at 1.4 per cent of GDP in the first half of FY16, as compared to 1.8 per cent, over the corresponding period in FY15. Also, according to the Finance Minister, CAD is expected to remain at 1.4 per cent during the FY16.¹⁷ The reasons for

13. "India may be haven of stability but FII flows unlikely to reverse anytime soon", The Economic Times, accessed as on 26 February 2016

14. "Foreign Exchange Reserves stand at 351.5 billion US dollars as on 5th February, 2016", Press Information Bureau, Govt, accessed as on 26 February 2016

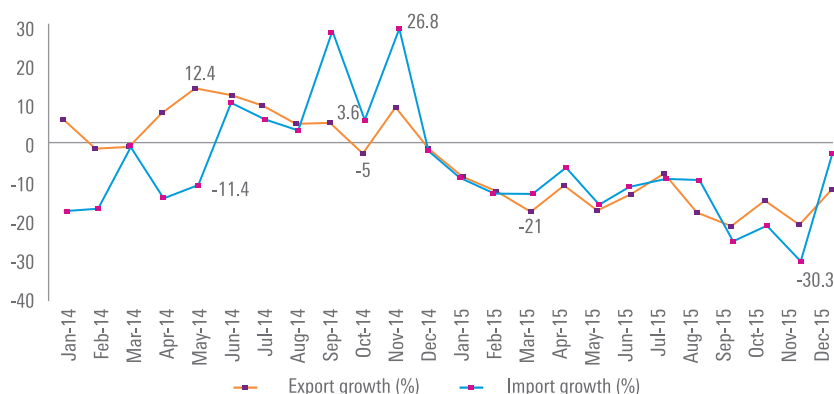
15. "Indian rupee poised for 5th straight fall in 2015, likely to hover around 65-70 in 2016", IBTimes website, 24 December 2015

16. "Rupee likely to remain weak despite better economic indicators", The Hindu, accessed as on 16 August 2015

17. "Investors give thumbs down to Union Budget 2016, Sensex ends 152 points down", Financial Express, accessed as on 29 February 2016

decline in exports and imports could be traced to inconsistent growth in developed market economies. Reduced commodity prices served to be a significant factor that contributed towards the decline registered in imports. Additionally, a sharp slowdown in the Chinese economy has also been a contributing factor for the decline in merchandise trade.

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



Source: 'Monthly Economic Report', Ministry of Finance, various issues, January 2014 to December 2015

Initiatives: Continuing on its path of FY15, the government launched various initiatives, such as 'Start-Up India, Stand-Up India', 'Skill India' and 'Smart Cities', to fast track the pace of economic development. These schemes are expected to play a significant role in infrastructure development, job creation and foster entrepreneurial activities in the country.

Government backing: The government undertook various initiatives to revive public sector banks and power distribution companies, by providing financial assistance and suggesting policy guidelines to achieve operational efficiencies.^{18,19} The RBI also relaxed the norms for Strategic Debt Restructuring (SDR) and Joint Lenders Forum (JLF), to address the challenge of rising Non-Performing Assets (NPA) of banks.²⁰

Social security schemes: The government launched three social security schemes, pertaining to insurance and pension sectors. These schemes could help expand the existing coverage of financial inclusion across the country, while also empowering those who are below the poverty line.²¹

Reforms in the pipeline: A Parliamentary approval for crucial

bills, such as Real Estate Regulation and GST, could translate to enhanced transparency and regulation, in the respective ecosystems. While the Real Estate Bill is expected to empower consumers, GST is anticipated to provide an impetus to the economy by bringing greater revenues and boosting exports.²²

Monetary policy: The RBI reduced key rates — repo, reverse repo and bank rates, by 75 bps in the FY16, to spur consumer demand in the country and provide a boost to the economy. The RBI also stayed firm in its stance of combating long-term inflation and it was successful in bringing down the retail inflation to below 6 per cent in FY16.²³

Investments: The government relaxed the FDI cap across 15 sectors, to attract foreign investments and speed up the growth process. It also raised the limit for the Foreign Investment Promotion Board (FIPB) to provide single-window clearance for investment projects, from INR30 billion to INR50 billion.²⁴

Regulatory framework: In FY16, India moved up by four spots in the World Bank's Ease of Doing Business (EoDB) rankings, with reforms taking place in many domains, such as the minimum

18. "Modi government unveils 7-point revamp plan for Public Sector Banks", The Economic Times, accessed as on 15 August 2015

19. "Govt launches Uday, scheme to rescue state bankrupt discoms", First Post, accessed as on 6 November 2015

20. "Reserve Bank of India eases NPA redressal norms", The Hindustan Times, accessed as on 26 November 2015

21. "PM Narendra Modi launches three mega social security schemes — 2 on insurance, 1 on pension", The Times of India, accessed as on 9 May 2015

22. "Government confident of passing GST, real estate bills in budget session: Naidu", Live Mint, accessed as on 13 February 2016

23. "Economic Survey-Vol II", India Budget, accessed as on 26 February 2016

24. "Government Eases Foreign Investment Norms in 15 Sectors Including Mining, Defence", NDTV, accessed as on 11 November 2015

days to start a business, getting electricity connection faster and reduction of the minimum paid-up capital. To meet the government's aim of India being amongst the top 50 countries, more reforms could be expected, especially with respect to single-window clearances and tax filling processes.²⁵

The government is expected to meet its fiscal deficit target of 3.9 per cent of GDP in FY16, according to the economic survey.

For April-December 2015, the fiscal deficit reached 88 per cent of the full year target, as compared to 100.2 per cent in 2014, over the corresponding nine-month period.²⁶

Going forward, the implementation of Seventh Pay Commission and OROP scheme, could pose challenges to achieve the 3.5 per cent fiscal deficit target of FY17.

However, divestments in public sector enterprises and a possible spectrum sale could help the government in garnering additional revenues, thereby offsetting the impact of the pay commission and OROP.

During FY16, the country moved towards a stable macroeconomic situation, as inflation abated, CAD improved and the government progressed on a path of fiscal prudence. Also, the country's foreign reserves increased to the highest level, achieved till date, industrial production expanded and trade deficit reduced, positioning India as a bright spot in the current global economic scenario.

However, new challenges emerged, such as declining exports due to subdued global demand, fluctuating rupee vis-à-vis the U.S. Dollar, lukewarm rural economy on the back of consecutive weak monsoons, rising NPAs in the banking sector and tepid demand conditions in the country.

Similarly, the economy faces hurdles from the global economic scenario, characterised by low growth rates, such as receding trade volumes, volatile financial and stock markets and sustained periods of low inflation.

However, with global growth is expected to remain at 3.1 per cent for

2015, against 3.4 per cent in 2014, the performance of the Indian economy is likely to stand out. Moreover, the International Monetary Fund (IMF) in its recent world economic outlook, outlined India as the fastest growing major economy.²⁷

According to the latest data released by the Central Statistics Office (CSO), the Indian economy is expected to expand by 7.6 per cent (advance estimates) during FY16, vis-à-vis 7.2 per cent in FY15.

Also, the economic survey of FY16, highlights the possibility of more than 8 per cent growth in the coming years, owing to a stable macroeconomic situation and the reforms agenda adopted by the government.²⁷

India is poised for a long-term growth trajectory, if measures, such as increased spending on infrastructure development, providing a thrust to exports, revamping the banking sector, boosting rural economy and regulatory reforms, are adopted.

25. "How NDA govt pushed India up to 130 in ease of doing business ranking", First Post, accessed as on 28 October 2015

26. "India's fiscal deficit reaches nearly 88% of full-year target in December", The Economic Times, accessed as on 29 January 2016

27. "Economic Survey-Vol II", India Budget, accessed as on 26 February 2016



Indian finances at a glance



Source: Economic Survey of India 2016 and 2015, KPMG in India analysis

Budget highlights



Direct tax



Corporate tax

- No change in the corporate tax rate except for new eligible manufacturing companies which are taxable at 25 per cent without claiming specified deductions, allowances, depreciation, and companies having a turnover or gross receipts not exceeding INR 50 million taxable at 29 per cent.
- POEM is to be effective from the FY 2016-17 (instead of the FY 2015-16). The government is to notify the income computation mechanism in case of a foreign company having a POEM in India.
- With effect from 1 April 2001, MAT provisions are inapplicable to a foreign company if it is resident of a country with which India has a tax treaty and it does not have a PE in India or it is a resident of a country with which India does not have a tax treaty and it is not required to seek registration under any law relating to companies.
- The provision dealing with certain activities not to constitute business connection in India is relaxed to include fund established/incorporated/registered in a country or a specified territory notified by the central government. Further, the condition that the offshore fund is not carrying out or controlling and managing, directly or indirectly, any business from India has been dispensed with.
- LTCG derived by non-residents from the transfer of shares of a closely held private limited company are taxable at the rate of 10 per cent.
- Non-residents (not being a company) or a foreign company would not be liable to a higher initial withholding tax rate of 20 per cent on non-furnishing of PAN, if the conditions to be prescribed are fulfilled.
- Equalisation levy of 6 per cent is applicable on the consideration payable to non-residents not having a PE for online advertisement or similar specified services. These provisions are applicable if the aggregate amount payable exceeds INR0.10 million p.a. Correspondingly, such income would be exempt in the hands of the non-resident recipient.
- Various profit, investment linked and area based deductions are proposed to be removed in a phased manner.
- 100 per cent deduction for a period of 3 consecutive years out of the initial 5 years for eligible 'startups' which are set-up before 1 April 2019 and whose turnover does not exceed INR250 Million in any FY from 1 April 2016 to 31 March 2021.
- LTCG are exempt for investments made till 31 March 2019 in units of the notified fund focussed on startups.
- The twin conditions of acquisition and installation of new plant and machinery exceeding INR250 million in the same previous year is proposed to be relaxed with respect to investment allowance. New plant and machinery acquired in the previous year and installed on or before 31 March 2017 would now be eligible for investment allowance.
- A deduction not exceeding 5 per cent of the gross total income on account of provision for bad and doubtful debts allowed also to NBFCs.
- A buy-back tax is applicable to any buy-back of unlisted shares under the provisions of Companies Act, 1956 and is not restricted to Section 77A of the Companies Act, 1956. The rules are to be prescribed to compute the distributed income under different scenarios, including shares issued under tax business reorganisations and in different tranches. The amendment is to be applicable from 1 June 2016.
- The exemption from DDT on the distribution made by SPV to REIT/ InvITs where REIT/ InvITs hold 100 percent of the SPV, would be available only with respect to the dividend distributed out of the current income and not on dividends paid out of the accumulated profits prior to the acquisition of SPV.
- An additional condition imposed for claiming of an exemption on conversion of a company into a LLP. The total book value of the assets of the company must not exceed INR50 million in any of the three preceding years.
- A new pass through taxation regime has been introduced for a securitisation trust set-up in accordance with the SARFAESI Act. Income of a securitisation trust shall continue to be exempt and any income from such a trust would be taxable in the hands of the investors.
- Income by way of royalty in respect of patents developed and registered in India by a resident in India is to be taxed at the rate of 10 per cent (plus surcharge and cess) on a gross basis. The income will not be subject to MAT.

- The Income Declaration Scheme, 2016 provides a mechanism for voluntary disclosure of undisclosed income levying tax (including interest and penalty) at the rate of 45 per cent effective from 1 June 2016. No scrutiny proceedings are to be initiated and immunity from Benami transactions and prosecution under other Acts.
- DTDR Scheme is to be introduced effective from 1 June 2016 to provide an option to settle specified disputes.
- No deferment of the GAAR provisions. The same shall be applicable from 1 April 2017.
- The penalty for concealment of particulars or furnishing of inaccurate particulars has been revamped, with a penalty of 50 per cent for under reporting and 200 per cent for misreporting.
- In line with the recommendations contained in the OECD report on Action 13 of the BEPS Action Plan, the three-tiered (i.e. Master File, Local File and CbyC reporting) transfer pricing documentation structure proposed to be adopted for specified companies.
- Additional interest deduction of INR50,000 p.a. shall be available to a home buyer, not owning a home as on the loan sanction date for housing loans up to INR35 lakh sanctioned between April 2016 to March 2017 and value of the property not exceeding INR50 lakh.
- The time limit for acquisition or construction of a self-occupied house property for claiming interest deduction has been increased from three years to five years.
- The employer's contribution to RPF in excess of INR150,000 p.a. is now taxable. 40 per cent exemption on withdrawal of the accumulated balance attributable to contributions made on or after 1 April 2016 by an employee.
- The tax exemption for employer contribution to SAF increased from INR100,000 to INR150,000 p.a. 40 per cent exemption on payments in lieu of or commutation of annuity purchased out of the contributions made on or after 1 April 2016.
- 40 per cent exemption on amount payable by the National Pension System Trust to an employee on closure of or opting out of the pension scheme.

Personal tax

- No change in the individual slab and tax rate. Surcharge to be increased from 12 per cent to 15 per cent, when the total income exceeds INR10 million per annum in case of individuals.
- Dividends received by an individual, HUF or a firm resident in India from a domestic company in excess of INR10 lakh are to be taxed at 10 per cent of the dividends on a gross basis.
- Tax exemption is also provided for transfer of the entire balance from the Recognised Provident Fund or the Superannuation Fund to the National Pension Scheme.
- LTCG exemption to individuals/ HUF on transfer of residential house property, if the sale proceeds are invested in the shares of an eligible startup company subject to conditions.

Indirect tax



- The government shall endeavour to pass the Constitutional Amendment Bill in the Parliament for introduction of GST.
- Krishi Kalyan cess to be imposed at the rate of 0.5 per cent on all taxable services and infrastructure cess up to 4 per cent on specific motor vehicles.
- Customs and excise duty rate structures have been realigned to provide a boost to domestic manufacturing of several products.
- Various proposals are introduced to move towards a non-adversarial indirect tax regime:
 - Interest rate for delay in payment of duties/taxes reduced
 - Simplification of procedural requirements and relaxation in compliances
 - Thrust to create a taxpayer friendly environment and reduce litigation
- Liberalisation of CENVAT Credit provisions.



Budget proposal



Policy proposals

Reforms in the FDI policy

- FDI to be allowed in insurance and pension sectors up to 49 per cent under the automatic route subject to guidelines on Indian management and control being verified by the Regulators.
- 100 per cent FDI to be allowed in ARCs under the automatic route. FPIs are allowed to invest up to 100 per cent of each tranche in securities receipts issued by ARCs subject to sectoral caps.
- Investment limit for foreign entities on Indian stock exchanges to be enhanced from 5 to 15 per cent on par with domestic institutions.
- 100 per cent FDI to be allowed through the FIPB route in marketing of food products produced and manufactured in India.
- Limit for investment by FPIs in central public sector enterprises (other than banks) listed in stock exchanges to be increased to 49 per cent from 24 per cent.
- Basket of eligible FDI instruments to be expanded to include hybrid instruments subject to certain conditions.
- FDI to be allowed beyond the 18 specified NBFC activities under the automatic route in other activities which are regulated by financial sector regulators.
 - To promote the 'Make in India' initiative, foreign investors are to be accorded a residency status subject to certain conditions as opposed to the business visa valid for five years at a time, which is presently granted.

- To attract more foreign investments, states are encouraged to sign the Centre State Investment Agreement.
- In an Indian company with a nominal share capital, even if more than half is held by a non-resident in accordance with the FEMA 1999 and its Rules and Regulations, it would not be treated as a foreign source under Foreign Contribution (Regulation) Act, 2010

Financial sector reforms

- A comprehensive Code on Resolution of Financial Firms is to be introduced in the Parliament to deal with bankruptcy situations in banks, insurance companies and financial sector entities.
- The RBI Act, 1934 is proposed to be amended to provide a statutory basis for a Monetary Policy framework and a Monetary Policy Committee to maintain price stability while keeping in mind the objective of growth.
- A financial data management centre is to be set-up to facilitate integrated data aggregation and analysis in the financial sector.
- The RBI is to facilitate retail participation in government securities in the primary and secondary markets through stock exchanges and access to the NDS-OM trading platform.
- New derivative products are to be developed by the Securities and Exchange Board of India (SEBI) in the commodity derivatives market.

- To facilitate deepening of corporate bond market, a number of measures are to be undertaken.
- The SARFAESI Act, 2002 is to be amended to enable the sponsor of an ARC to hold up to 100 per cent stake in an ARC and permit non-institutional investors to invest in securitisation receipts.
 - Amendments in the Companies Act, 2013 to improve the enabling environment for start-ups. The registration of companies proposed to be done in a single day.

Direct tax



Corporate tax

- No change in the corporate tax rate except for new eligible manufacturing companies which are taxable at 25 per cent without claiming specified deductions, allowances, depreciation, and companies having a turnover or gross receipts not exceeding INR 50 million taxable at 29 per cent.
- Levy of buyback tax enlarged to include buyback of shares under various provisions of the Companies Act, 1956/2013. The Rules are to be prescribed for determining consideration received by a company at the time of issue of shares being bought back, including tax neutral reorganisations. The provisions to be applicable from 1 June 2016.
- Income by way of royalty in respect of patent developed and registered in India by an Indian resident to be taxed at the rate of 10 per cent on a gross basis plus surcharge/cess. The income will not be subject to MAT.
- Business losses in respect of specified business (cold chain facility, warehousing facility for agriculture produce, two star category hotel, etc.) can be carried forward and set-off only if return is filed within the relevant due date.
- The deduction of 30 per cent for additional wages paid to new workmen in a factory for three years extended to all assesseees subject to tax audit, as against assesseees deriving income from the manufacture of goods in a factory. The condition of 10 per cent minimum number of persons

employed during the year is relaxed and an employee can be employed for a minimum period of 240 days instead of 300 days with a monthly emolument paid or payable to be less than INR25,000. No deduction shall be admissible in respect of employees for whom the government is paying the entire EPS contribution or an employee who does not participate in the RPF.

- Amortisation of capital expenditure on acquisition of any right to use spectrum any time to be allowed as deduction in equal installments over the useful life of the spectrum on an actual payment basis.

Non-resident taxation

- Implementation of POEM based on the residence test deferred by one year and to apply from the Financial Year 2016-17. Transition provisions for a foreign company not assessed earlier in India to be notified in terms of determination of income, set-off or carry forward of losses, applicability to specified subsequent periods, etc.
- Income of a foreign company on account of storage of crude oil in a facility in India and sale thereof to an Indian resident to be exempt from tax, if it is pursuant to an agreement/ arrangement entered into or approved and notified by the central government.
- Income of a foreign company engaged in the business of mining of diamonds is not to be considered as income deemed to accrue or arise in India for the activities confined to display of uncut or unassorted diamond in a special zone notified by the central government.

- The provision dealing with certain activities not to constitute business connection in India has been relaxed to benefit fund established/ incorporated/registered in a country or specified territory notified by the central government. Further, the condition that the offshore fund shall not carry on or control and manage, directly or indirectly, any business from India is restricted only in the context of activities in India.

- Non-residents eligible for exemption from a higher rate of initial TDS for non-furnishing of PAN on receipt of payments from any person subject to fulfillment of conditions as may be prescribed.

- LTCG arising to a non-resident (not being a company) or a foreign company, from transfer of capital assets being shares of unlisted companies and shares in a company not being a company in which the public is substantially interested, to be chargeable to tax at the rate of 10 per cent without indexation.

- MAT provisions are not applicable to foreign companies unless they have a PE in India. In case of a foreign company which is resident of a non-tax treaty country, MAT provisions will not apply if such companies are not required to seek registration under any law in India. The provisions are applicable from 1 April 2001.

Equalisation Levy

- In order to tax e-commerce transactions of non-residents, an "Equalisation Levy" is to apply in line with the recommendation of the OECD BEPS project.

- The Equalisation levy is to be 6 per cent of the amount of consideration for specified services received or receivable by a non-resident payee not having a PE in India, and it is to be levied and recovered from the payer being a person resident in India engaged in carrying on business/profession or a non-resident having a PE in India. Correspondingly, such income would be exempt from income tax in the hands of a non-resident recipient.
- Specified services have been defined to mean online advertisement, any provision for digital advertising space or any other facility or service for the purpose of online advertisement and includes any other notified services.
- The provision of an Equalisation Levy not to apply if:
 - The non-resident recipient has a PE in India and the specified services are effectively connected with such a PE; or
 - The aggregate amount of consideration received/receivable in a year does not exceed INR1 lakh.
- The payer will not be entitled to a deduction of such specified services payments to non-residents if the Equalisation Levy is not withheld or after withholding it is not deposited with the government by due date. Such expenditure is to be allowed as deduction to the payer in the year of payment of Equalisation Levy.
- The Equalisation Levy is to be governed by a separate chapter which is a code in itself covering establishment of statutory authorities, filings, assessments, penalty and other procedures.

Rationalisation of tax incentives

- Profit linked deduction on eligible business of infrastructure facility (road, rail system, highway project, port, airport, etc.), developer of a special economic zone and production of oil and natural gas, to be available only if the specified activity is commenced on or before 31 March 2017.
- Profit linked deduction of 100 per cent provided to the business of developing and building affordable housing projects approved by the competent authority before 31 March 2019, provided the same is completed within three years of obtaining such an approval, and other conditions are satisfied such as the minimum land area, specified municipal boundaries, etc.
- Profit linked deduction of 100 per cent provided to a start-up in a business involving innovation, development, deployment or commercialisation of new products, processes or services driven by technology or intellectual property for any three consecutive assessment years out of five years, at the option of the assessee, subject to incorporation before 1 April 2019.
- Option provided to newly set-up domestic manufacturing companies incorporated on or after 1 March 2016 engaged solely in the business of manufacture or production of an article or thing to be taxed at the rate of 25 per cent of the total income other than income from capital gains. Such companies can exercise this option before the due date of furnishing its return of income provided such companies do not claim profit linked or investment linked deductions, benefits of investment allowance, accelerated depreciation and no set-off of any loss carried forward from any earlier AY if such a loss is attributable to any of the said deductions/benefits.
- Benefit of additional depreciation at the rate of 20 per cent of the actual cost of the new plant and machinery extended to taxpayers engaged in the business of transmission of power.
- The twin condition of acquisition and installation of new plant and machinery exceeding INR250 million in the same previous year is relaxed with respect to investment allowance at 15 per cent eligible from 1 April 2014 to 31 March 2017. New plant and machinery acquired in the PY and installed on or before 31 March 2017 would now be eligible for investment allowance.
- Investment linked tax deduction eligible in respect of the entire capital expenditure (other than the acquisition of any land or goodwill or financial instrument) extended to developing; or maintaining and operating; or developing, maintaining and operating a new infrastructure facility.
- Deduction not exceeding 5 per cent of the gross total income on account of provision for bad and doubtful debts will be allowed to NBFCs engaged in financial lending to different sectors of the society.
- The deduction in respect of sums payable to the Indian Railways for use of railway assets would be allowable in the previous year in which the liability is incurred, only if paid on or before the due date of furnishing the return of income, else would be allowed on a payment basis in the year in which such a sum is actually paid.

- To avail benefit of tax holiday, units in SEZ need to commence manufacture or production of article or thing or start providing services on or before 31 March 2020.
- Phasing out of the weighted deduction for expenditure on scientific research and other eligible expenditures under various provisions in the manner tabulated below:

Section	Existing quantum of incentive	Phase out measure
Payment to an approved scientific research association having an objective of undertaking scientific research and certain specified institutions	175 per cent	<ul style="list-style-type: none"> • 150 per cent from 1 April 2017 to 31 March 2020; • 100 per cent from 1 April 2020 onwards
Contribution to an approved scientific research company	125 per cent	<ul style="list-style-type: none"> • 100 per cent from 1 April 2017 onwards
Contribution to an approved research association, university, college, other institution to be used for research in social science or statistical research		
Payment to a National Laboratory or a university or an Indian Institute of Technology or a specified person for the purpose of an approved scientific research programme	200 per cent	<ul style="list-style-type: none"> • 150 per cent from 1 April 2017 to 31 March 2020; • 100 per cent from 1 April 2020 onwards
Expenditure (other than the cost of any land or building) on scientific research in approved in-house research and development facility incurred by the company engaged in the business of biotechnology or manufacture or production of any article or thing except specified items		
Expenditure on eligible social development project or schemes	100 per cent	<ul style="list-style-type: none"> • No deduction from 1 April 2017
Expenditure on a cold chain facility, warehousing facility for storage of agricultural produce, hospital, affordable housing project and production of fertiliser	150 per cent	<ul style="list-style-type: none"> • 100 per cent from 1 April 2017
Expenditure on notified agricultural extension project		
Expenditure on skill development project		

AIF

- Under the current regime, AIF are required to deduct tax at 10 per cent on all income (except business income) payable to investors (including non-residents) at the time of credit or payment, whichever is earlier. It is now proposed that AIF shall deduct tax at the rates in force where the investor is a non-resident; and shall continue to deduct tax at 10 per cent on all income (except business income) for resident investors.
- Further, it is proposed that an application for nil or lower deduction of tax at source can be made to the AO in respect of income payable by an AIF to its investors. The above amendment is proposed to take effect from 1 June 2016.

International Financial Service Centre

- Unit set-up in IFSC which receives income solely in convertible foreign exchange is liable to MAT at a reduced basic rate of 9 per cent.
- Furthermore, such a unit is exempted from dividend distribution tax on dividend declared, distributed or paid by it on or after 1 April 2017, out of its current income.
- Securities and commodity transactions undertaken on a recognised stock exchange/ association located in an IFSC is exempted from the levy of securities transaction tax and commodity transaction tax, respectively. These provisions are to take effect from 1 June 2016.
- LTCG exemption to equity shares and units of an equity oriented fund and REITs/InvITs is available to transactions undertaken in a foreign currency on a recognised stock exchange located in an IFSC, even if STT not paid.

New taxation regime for securitisation trusts

- Securitisation trusts are to be accorded a pass through status and the income is to be taxable in the hands of the investor in the same manner and to the same extent as if the investment had been made directly in the underlying assets and not through the trusts. The income accruing, arising or received by the securitisation trust is to be included in the income of the investor irrespective of whether the same has been paid or credited to the investor.
- The definition of securitisation trust expanded to include a trust set-up under the SARFAESI Act, 2002.
- Securitisation trust to deduct tax at the rate of 25 per cent in case of payment to resident investors which are an individual or HUF and 30 per cent in case of others. In case of payments to non-resident investors, deduction to be at rates in force. The investors may obtain a low or nil withholding tax certificate.
- The erstwhile scheme of distribution tax payable by the securitisation trusts on distribution of income to investors and corresponding exemption in the hands of the investors to cease with effect from 1 June 2016.

Capital gains

Transactions not regarded as transfers

- The redemption of Sovereign Gold Bonds issued by the RBI under the Sovereign Gold Bond Scheme, 2015 are not to be regarded as 'transfer' in case of an individual.
- The transfer of capital assets on conversion of a company into a LLP is not considered as a transfer subject to certain conditions. The value of total assets in the books of accounts of the company should not

exceed INR50 million, in any of the three previous years preceding the year of such conversion.

- The consolidation of mutual fund plans as per SEBI guidelines to be tax neutral.

Computation

- It is proposed to extend the indexation benefit to LTCG arising on transfer of Sovereign Gold Bonds issued by RBI under the Sovereign Gold Bonds Scheme, 2015
- Capital gains to a non-resident investor in case of transfer of Rupee denominated bonds issued by Indian companies outside India, due to appreciation of Rupee between the date of issue and the date of redemption of such bonds will be exempt from tax.

Other benefits in case of capital gains

- Where the date of agreement fixing the amount of consideration for transfer of immovable property and the date of registration are not the same, the stamp duty value on the date of agreement may be taken for the purpose of computing the full value of consideration provided such consideration has been paid through normal banking channels on or before the date of agreement for transfer.
- To promote the 'start-up' businesses, exemption from capital gains tax is provided, if the proceeds are invested by an assessee in units of specified fund, as may be notified by the central government within six months, subject to a lock in of three years. The investment in the units of the specified fund during any FY will be allowed up to INR5 million.
- LTCG on transfer of a residential property shall not be chargeable to tax, if such gains are invested in

subscription of shares of a company which qualifies to be an eligible start-up subject to the condition that the individual and HUF holds more than 50 per cent shares of the company and such company utilises the amount invested in shares to purchase a new asset before the due date of filing the return of income by the investor. The expression new asset is to include computers and computer software, in case of technology driven start-ups so certified by the Inter-Ministerial Board of Certification notified by the central government in the Official Gazette.

- In case of transfer of right to carry on any profession which is chargeable as capital gains, the cost of acquisition and improvement would be taken as nil.

TDS, TCS and advance tax provisions

- Existing threshold limit and/or rates of TDS rationalised on the following payments:

Nature of payments		Threshold limit (INR)		Rate of TDS (%)	
		Existing	Proposed	Existing	Proposed
1	Payment of accumulated balance of provident fund due to an employee	30,000	50,000	No change	No change
2	Winnings from a horse race	5,000	10,000	No change	No change
3	Payment to contractors	75,000 Aggregate annual limit	1,00,000 Aggregate annual limit	No change	No change
4	Insurance commission	20,000	15,000	10% (rate in force)	5%
5	Payment towards a life insurance policy	No change	No change	2%	1%
6	Payment towards a NSS deposit	No change	No change	20%	10%
7	Commission on sale of lottery tickets	1,000	15,000	10%	5%
8	Commission or brokerage	5,000	15,000	10%	5%
9	Payment of compensation on acquisition of certain immovable property	2,00,000	2,50,000	No change	No change

DDT

- Income of an individual, HUF and a firm exceeding INR1 million by way of dividends declared, distributed or paid by a domestic company is taxable at the rate of 10 per cent on gross basis.
- DDT shall not be applicable on the dividend declared/distributed by a domestic company to business trust (REIT/InvIT), provided such business trust is a 100 per cent holder of the nominal value of equity share capital of such domestic company (excluding some per cent of equity shares capital that is mandatorily required to be owned by another person under any applicable law or under the direction of the government or any regulatory authority.).
- Dividend is distributed by the domestic company from its current year's income and not income accumulated prior to the date of holding such equity share capital of the company by the business trust. This provision to take effect from 1 June 2016.

- Persons in receipt of rental income (excluding Company or Firm) eligible to file self-declaration in Form No 15G/15H declaring Nil tax liability and thereby avail benefit of non-deduction of TDS.
- Seller obligated to collect tax at source at 1 per cent of value from buyer in respect of the following transactions:
 - Sale of motor vehicle for cash or cheque or any other mode exceeding INR1,000,000; and
 - Sale of goods or provision of services (excluding payments subjected to TDS) exceeding a cash consideration of INR200,000.
- Advance tax payment schedule of 15 per cent, 45 per cent, 75 per cent and 100 per cent of tax by 15 June, 15 September, 15 December and 15 March respectively, currently applicable to companies, extended to all assessees. Further, for assessees paying presumptive tax, 100 per cent advance tax to be paid on or before 15 March.
- All these provisions to take effect from 1 June 2016.

Filing of return of income

- Taxpayers claiming LTCG exemption required to file return of income within due date.
- The time limit to file belated return of income has been reduced by one year and can be furnished at any time before the end of the relevant assessment year or before completion of the assessment whichever is earlier.
- If the taxpayer has not filed the return or has been filed voluntarily or in response to the inquiry of assessment and the taxpayer discovers omission or a wrong statement, the taxpayer can furnish revised return at any time before expiry of one year from the end

of the assessment year or before completion of the assessment whichever is earlier.

- The return of income will not be regarded defective even if self-assessment tax and interest is not paid on or before the date of filing return of income.

Processing of return of income mandated for assessment

- Assessment proceedings or hearings before the AO permissible in a digital mode.
- Mandatory processing of the return of income before issuing a regular assessment order.
- Return of income is to be processed where a notice of assessment is issued to re-compute the total income or loss after considering the adjustment due to arithmetical error or an incorrect claim apparent from the return of income. Scope of adjustment is widened to consider information available with the AO in the audit report, for earlier years' return of income, Form 26AS statement, Form 16, Form 16A.
- An opportunity of being heard is granted to the taxpayer before making an adjustment by giving an intimation in writing or in an electronic mode within 30 days, in absence of any response received the adjustment will be made.
- These provisions are to take effect from 1 June 2016.

Assessment

Time limits

- Time limit to complete the regular assessment reduced to 21 months (from 24 months) from the end of the relevant assessment year and for reassessment reduced to 9 months (from 12 months) from the end of the financial year in which notice for re-opening is issued.

- Time limit for completion of assessment where reference is made to the TPO reduced to 33 months (from 36 months) from the end of the relevant assessment year.
- Time limit to complete assessment of revisionary orders, appellate orders or the Commissioner's order of setting aside or cancelling an assessment reduced to nine months from the end of the relevant financial year.
- The AO is required to pass appeal effect order within three months in cases where no fresh assessment or reassessment is required and can seek six months extension in cases beyond his control.
- It is also proposed to complete assessment, reassessment or re-computation for appellate orders other than any reference, on or before the expiry of 12 months from the end of the month in which such order is received by the Commissioner. However, cases pending on or before 1 June 2016, the time limit is later of 31 March 2017 or 12 months from the end of the month in which such order is received.
- These provisions are to take effect from 1 June 2016.

Administration procedures

- All the notices or other documents issued by any income tax authority is to be signed and issued in paper form or communicated in an electronic form as per the prescribed procedure with effect from 1 June 2016.
- The information and documents for verification called by an income tax authority is to be analysed and shared with jurisdictional AO for adequate action including Re-opening. The amendment to take effect from 1 June 2016.

- Application seeking reduction/ waiver of interest on account of non-payment/delayed payment of demand filed by the assessee in default to be disposed within twelve months from the end of the month in which such application is filed. This provision to take effect from 1 June 2016.

Interest and other time limits

- Advance tax rationalisation to have consequential impact on interest computation on deferred payment of such tax. No interest shall be levied where the assessee earns an income from business or profession for the first time during the financial year. This provision to take effect from 1 June 2016.
- If a tax return is filed by the assessee after the due date, interest on tax refund shall be granted only from the date of filing of the tax return including refund arising on self-assessment tax. Additional interest at a rate of 3 per cent per annum is to be granted on refunds to assesseees where an order giving effect to an appellate/court order is not passed within a prescribed time limit. These amendments are to take effect from 1 June 2016.
- The time limit of 30 days of filing an appeal before the CIT(A) to exclude the period involved in seeking an order for immunity from penalty and prosecution from the tax authorities.
- Appeal to the Appellate Tribunal can be filed against a penalty order for under-reporting and/or misreporting of income. Provision for filing of an appeal by the AO to the Appellate Tribunal against the directions of DRP is to be omitted. This amendment to take effect from 1 June 2016.
- The Appellate Tribunal may rectify any mistake apparent from a record at any time within six months from

the end of the month in which the order is passed as against the time limit of four years specified earlier. This amendment will take effect from 1 June 2016.

- A single member bench of the Appellate Tribunal allowed to deal with cases where total income of an assessee as computed by the AO does not exceed INR50 lakh (earlier, INR15 lakh). The amendment will take effect from 1 June 2016.

Penalty

Under-reporting or misreporting of income

- The existing provisions relating to levy of penalty (100 to 300 per cent of tax sought to be evaded) due to concealment of income or furnishing of inaccurate particulars of income by the taxpayer is to be replaced by provisions categorising the defaults into two categories viz. under-reporting of income and misreporting of income.
- Penalty in the cases of 'under-reporting of income' and under-reporting of income due to 'misreporting' is to be 50 per cent and 200 per cent respectively of tax payable to be computed as stipulated of under-reported income.
- A person shall be considered to have under-reported his/her income if -
 - Assessed income or deemed total income is greater than income determined in the intimation or basic exemption limit where return is not filed.
 - Assessed income is greater than income assessed or reassessed previously or has an effect of reducing loss or converting it into income.
- The under-reported income to exclude certain situations where taxpayers offer satisfactory explanation with all material facts;

assessment on estimate bases where books are accurate and complete; etc.

- The cases of misreporting of income are defined to mean misrepresentation or suppression of facts; failure to record investments in the books of accounts; claim of expenditure without any evidence; recording of false entry in the books of accounts; failure to record any receipt in books; and failure to report any international transaction/ deemed international transaction/ specified domestic transaction.

Other penalty amendments

- Taxpayers can make an application to the tax officer for immunity from penalty imposable for under-reporting of income (otherwise than due to misreporting) and prosecution proceedings subject to payment of tax and interest payable as per the assessment/ re-assessment order and taxpayer not filing appeal against such order. A time limit of one month has been provided each for making an application and passing of order. If the application for immunity is accepted, no appeal can be filed against the said order.
- Time limit of 12 months has been provided for the Commissioner to pass an order in response to an application filed by the taxpayer for reduction or waiver of penalty or immunity therefrom.

Transfer pricing

OECD BEPS Recommendation on Action Plan 13

Documentation

- In line with the recommendations contained in the OECD report on Action 13 of the BEPS Action Plan, the three-tiered transfer pricing documentation structure consisting of following is proposed to be adopted :
 - a master file containing standardised information relevant for all MNE group members;
 - a local file referring specifically to material transactions of the local taxpayer; and
 - a CbyC report containing certain information relating to the global allocation of the MNE's income and taxes paid together with certain indicators of the location of economic activity within the MNE group.

While the Finance Bill has outlined reporting requirements for CbyC report, the detailed rules for master file and local file would be prescribed in due course.

Country-by-Country report

- The CbyC report has to be submitted by parent entity of an international group to the prescribed authority in its country of residence. This is to be based on the template provided in the OECD BEPS report on Action Plan 13, enclosed as **Annexure A** (See next page).
- The CbyC reporting for an international group having Indian parent, for the previous year 2016-17, to apply only if the consolidated revenue of the international group in previous year 2015-16 exceeds Rs. 5395 crore.
- If applicable, then the Indian parent entity will be required to furnish the CbyC report in respect of the

group on or before the due date of furnishing of return of income for the relevant Financial Year;

- An Indian entity, having a parent entity resident outside India, will be required to provide information regarding the country or territory of residence of the parent entity to the prescribed authority on or before the prescribed date.
- An entity in India belonging to an international group is required to furnish CbyC report to the prescribed authority if the parent entity of the group is resident;-
 - in a country with which India does not have an arrangement for exchange of the CbyC report; or
 - such country is not exchanging information with India even though there is an agreement; and
 - this fact has been intimated to the entity by the prescribed authority;
- For non-furnishing of the CbyC report by an entity which is obligated to furnish it, a graded penalty structure would apply which include Rs. 5,000 per day (if default does not exceed one month) and Rs. 15,000 per day (for the period exceeding one month)
- Further, for any default that continues even after service of order levying penalty, as above, then the penalty for any continuing default will be Rs 50,000/- per day
- In case of non-submission of information called by prescribed authority in relation to CbyC report in a timely manner, a penalty of Rs 5000/- per day applies. Similar to the above, if default continues even after service of penalty order, then penalty of INR 50,000/- per day applies for default beyond date of service of penalty order;

- If the entity has provided any inaccurate information in the CbyC report, penalty of INR500,000/- applies subject to certain conditions

Master file

- The information and document in relation to master file will be furnished to the prescribed authority within such period as may be prescribed and the manner of furnishing may also be provided in the rules;
- For non-furnishing of the information and document to the prescribed authority, a penalty of INR5 lakh shall be leviable. However, reasonable cause defence against levy of penalty shall be available to the entity.

Penalty provisions

- Pursuant to the transfer pricing adjustment, following specific penalty provisions proposed in situations wherein the tax payer has failed to maintain appropriate documentation or failed to disclose international transaction:
 - Penalty at 50 percent of the tax payable on under-reported transaction
 - Penalty at 200 percent of the tax payable on misreporting of transaction

Time limit for transfer pricing assessment proceedings

- In the circumstances wherein the time limit for completion of assessment proceedings is stayed (i) by an order or injunction of any court or (ii) where a reference for exchange of information has been made by the competent authority, the period for completion of assessment proceedings by the transfer pricing officer, subsequent to such stay shall be minimum sixty days.

- The timeline for completion of regular assessment proceedings is to be reduced by three months, thus, the timeline for completion of transfer pricing assessment proceedings to be also reduced by three months.

Appeal against DRP Direction

- The right of the Assessing Officer to appeal against the directions issued by the DRP is proposed to be withdrawn with effect from 01 June 2016.

Annexure A

CbyC Template - Page 1*

Country	Revenue			Profit (loss) before income tax	Income tax paid (on a cash basis)	Income tax accrued - current year	Stated capital and accumulated earnings	Number of employees	Tangible assets other than cash and cash equivalents
	Related party	Unrelated party	Total						
Country A	X	X	X	X	X	X	X	X	X
Country B	X	X	X	X	X	X	X	X	X

CbyC Template - Page 2* (onwards)

Country	Constituent entities resident in country	Country of organization or incorporation in different from country of residence	Activities									
			R&D	Purchasing & procurement	Manufacturing & production	Sales, marketing & distribution	Administrative, management & support services	External service business	Insurance	Holding company	Dormant	Others
Country A	Entity A	Country B	✓			✓						
	Entity B			✓	✓			✓				

Direct Tax Dispute Resolution Scheme 2016

- The DTDR Scheme provides an option to settle specified tax disputes. The DTDR Scheme relates to tax arrears (matters before Appellate Commissioner) and specified tax (tax arising due to retrospective amendment and dispute pending as on 29 February 2016).
- Once the declaration is filed with a Designated Authority then a certificate would be issued within 60 days as stipulated for the tax to be paid within 30 days.
- The Final Tax Liability with respect to declaration in cases of tax arrears is the disputed tax liability plus nil or 25 per cent penalty along with interest payable till the date of assessment/reassessment as stipulated. For specified tax, it would relate to the amount of tax so determined.
- Once the declaration in respect of tax arrears is filed, all the appeals filed before the Appellate Commissioner are deemed to be withdrawn. The declaration would be void if found to be false.
- In case of specified tax, the declarant has to withdraw the relevant appeal/notices/claims filed with any Authorities, as may be applicable and should furnish the proof of withdrawal along with the declaration.
- The Order passed by Designated Authority under this DTDR Scheme to be conclusive and cannot be subject to re-opening. Further, no prosecution can be initiated against the declarants.
- The Scheme is not available to taxpayers where prosecution has been initiated, search or survey cases, undisclosed foreign income and asset cases, exchange of information cases, etc.
- The Rules for the DTDR Scheme to be notified by the government and these provisions are effective from 1 June 2016.

Income Declaration Scheme, 2016

- Under IDS, any person can make a declaration within the prescribed timeline in respect of any income chargeable to tax under the Income-tax Act, 1961 which has:
 - not been furnished due to failure to furnish a return of income
 - not been disclosed in a return of income furnished
 - escaped assessment by reason of the omission or failure on the part of such person to furnish a return or to disclose fully and truly all material facts necessary for the assessment or otherwise
- The IDS to relate to undisclosed income of any financial year upto 2015-16 which would be declared is proposed to be taxed at 45 per cent as under:
 - 30 per cent of such undisclosed income as tax
 - 25 per cent of aforesaid tax as Krishi Kalyan Cess (7.5%)
 - 25 per cent of such tax as penalty (7.5%)
- The IDS would not apply to cases where assessment, reassessment, survey, black money proceedings, exchange of information, etc. are in progress.
- The IDS scheme provides for immunities from wealth tax, tax scrutiny, prosecutions, Benami Transaction Act, etc.
- The payment of aggregate tax, as mentioned above, to be made on or before the date to be notified by the central government
- The declaration shall become void - in case where the payment is not made before the due date or is made by misrepresentation or suppression of facts. In that case, such undisclosed income shall become taxable in the year in which the declaration is made
- The CBDT to notify the Rules for implementation of the IDS.
- The IDS to come into effect from 1 June 2016.

Personal tax

- No change in the income-slabs, tax rates and cess for individuals.
- Surcharge to be increased from 12 per cent to 15 per cent where income exceeds INR10 million per annum.
- Rebate from tax to be increased from INR2,000 to INR5,000, for resident individuals with total income below INR500,000
- Employer contribution to RPF in excess of INR150,000 per annum now taxable. Tax exemption on withdrawal now limited to 40 per cent of accumulated balance attributable to contributions made on or after 1 April 2016 by an employee. Salary limits to be separately prescribed for employees excluded from tax on such withdrawal.
- Tax exemption for employer contribution to SAF increased from INR100,000 to INR150,000 per annum. Payments in lieu of or commutation of annuity purchased out of contributions made on or after 1 April 2016, in excess of 40 per cent of the annuity, now taxable.
- Tax exemption now available for 40 per cent of the amount payable at the time of closure or opting out of NPS. Amount received by nominee from NPS on death of assessee to be considered wholly exempt from tax.
- Tax exemption for transfer of entire balance from RPF or SAF to NPS
- Time limit to complete acquisition or construction of self-occupied house property for availing enhanced interest deduction increased from three years to five years from the end of the FY in which capital was borrowed
- Additional deduction of INR50,000 per annum towards interest on housing loan, for loans upto INR3.5 million (sanctioned during FY 2016-17), where the value of the house is less than INR5 million and where assessee does not own any other house property on the date of sanction of loan
- Deduction of 30 per cent now also available in respect of subsequent realisation of unrealised rent at with arrears of rent
- Limit for deduction of rent paid, where assessee does not own a house and does not receive HRA, increased from INR24,000 per annum to INR60,000 per annum.



Presumptive scheme taxation

- New Presumptive taxation scheme introduced for professionals - Individual, HUF or Partnership Firm (excluding LLP). Persons engaged in specified profession and whose gross receipts does not exceed INR5 million shall have option to determine their income at the rate of 50 per cent of gross receipts. If the taxpayer wants to offer profits and gains lower than 50 per cent and the total income exceeds the maximum amount not chargeable to tax, the taxpayer would have to maintain books of accounts, get them audited and furnish a report of such audit.
- The threshold limit for presumptive income in respect of taxpayer carrying on specified business increased to INR20 million. In case the taxpayer does not offer income in accordance with presumptive taxation for five consecutive assessment years, then the taxpayer will not be eligible to claim the benefit of presumptive taxation for the next five assessment years.
- No loss will be allowed to be set off against income from unexplained cash credits, investments, money, investments not fully disclosed in books of account, expenditure and amount borrowed or repaid on hundi.
- Highest rate of depreciation to be restricted to 40 per cent.
- The threshold limit to get the accounts audited in case of taxpayer carrying on profession is increased to INR5 million.
- Non-compete fee in relation to not carrying out any profession to be taxable as profits and gains of business or profession.
- Income definition amended to exclude subsidy or grant by the central government for the purpose of the corpus of specified trust or institution.
- Deposit certificates issued under the Gold Monetisation Scheme, 2015 not be treated as capital asset. Likewise, interest on Gold Monetisation Scheme, 2015 to be exempt from tax.

Other amendments

- The right of the AO to appeal against the directions issued by the DRP is proposed to be withdrawn with effect from 1 June 2016.
- Exit tax to be levied on accreted income of charitable organisations converted or merged into non-charitable organisation or where it does not transfer assets to another charitable organisation. Accreted income defined to mean aggregate fair market value of the total assets reduced by the liabilities of such trust, as on the date such event takes place as per prescribed valuation rules. The provisions shall be applicable from 1 June 2016.
- STT rate to be increased to 0.05 per cent from existing rate of 0.017 per cent in case of sale of an option in securities (other than those exercised).
- In order to bring uniformity in tax treatment with a firm or a company, it is proposed that any shares received by an individual or HUF as a consequence of demerger or amalgamation of a company shall not be chargeable to tax under Income from other sources.



Indirect taxes



Service tax

Rate changes (effective from 1 June 2016)

- Krishi Kalyan cess to be imposed at the rate of 0.5 per cent on the value of all taxable services.

Amendments in the negative list

- Passenger transportation services by a stage carriage is excluded from the negative list. However, as services provided by non-air conditioned stage carriages are exempted vide mega exemption notification (notification no. 25/2012-ST dated 20 June 2012), only air-conditioned stage carriage would become taxable (effective from 1 June 2016).
- Services by way of transportation of goods by an aircraft or a vessel from a place outside India up to the customs station of clearance is excluded from the negative list. However, as services by way of transportation of goods by aircraft is exempted vide a mega exemption notification, services by way of transportation of goods by vessel would become taxable (effective from 1 June 2016).

Amendments in mega exemption notification

- Exemptions expanded to include:
 - Services of life insurance provided by way of annuity under the NPS regulated by the Pension Fund Regulatory and Development Authority of India (effective from 1 April 2016).
 - Services provided by the SEBI for protecting the interests of investors and promoting/

regulating the securities market (effective from 1 April 2016).

- Services provided by the EPFO to persons governed under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 (effective from 1 April 2016).
- Services of cold chain knowledge dissemination provided by the National Centre for Cold Chain Development under the Department of Agriculture, Cooperation and Farmer's Welfare, GoI (effective from 1 April 2016).
- Services by the IRDA to insurers under Insurance Regulatory and Development Authority of India Act, 1999 (effective from 1 April 2016).
- Services of general insurance provided under the Niramaya Health Insurance scheme launched by the National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disability Act, 1999 (effective from 1 April 2016).
- Skill or vocational courses certified by the National Council for Vocational Training provided under the Deen Dayal Upadhyay Grameen Kaushalya Yojana (effective from 1 April 2016).
- Services of assessment provided by empanelled bodies under the Skill Development Initiative Scheme (effective from 1 April 2016).
- Services by way of construction, erection, etc. of a civil structure or any other original work pertaining to:

- Rehabilitation of existing slum dwellers under a specific scheme.
- Beneficiary led individual house construction/ enhancement under a specific scheme.
- Low cost houses up to a carpet area of 60 sq. m. per house (approved by the competent authority or any housing scheme of the state government).

(effective from 1 March 2016)

- Services provided by Indian Institutes of Management for specified programmes (effective from 1 March 2016).
- Threshold exemption limit for services provided by performing artists in folk or classical forms of music, dance or theatre increased from INR1 lakh to INR1.5 lakh per performance (effective from 1 April 2016).
- Exemptions withdrawn:
 - Services provided by a senior advocate to an advocate or partnership firm of advocates or business entity having turnover up to INR10 lakh. Further, it has been clarified that such service tax would be payable by the service provider (effective from 1 April 2016).
 - Services provided by a person represented on an arbitral tribunal to an arbitral tribunal. Further, it has been clarified that such

service tax would be payable by the service provider (effective from 1 April 2016).

- Services of transport of passengers by ropeway, cable car or aerial tramway (effective from 1 April 2016).
- Construction, erection, commissioning or installation of original works pertaining to a monorail or metro in respect of contracts entered into with effect from 1 March 2016.

Other exemption (effective from 1 March 2016)

- To avoid an overlap between service tax and excise/customs, a new exemption notification has been introduced in relation to information technology software recorded on a media in respect of which the RSPis required to be declared under the provisions of the Legal Metrology Act, 2009.

Amendments in valuation related aspects (effective from 1 April 2016)

- Passenger transportation services

Services	Existing abatement percentage and CENVAT Credit eligibility	Proposed abatement percentage and CENVAT Credit eligibility
Transport of passengers by rail	70 per cent without CENVAT Credit	70 per cent with only CENVAT Credit on input services
Transport of goods, other than in containers, by rail	70 per cent without CENVAT Credit	70 per cent with only CENVAT Credit on input services
Transport of goods in containers by rail	70 per cent without CENVAT Credit	70 per cent with only CENVAT Credit on input services
Transport of goods by a vessel	70 per cent without CENVAT Credit	70 per cent with only CENVAT Credit on input services
Services by way of construction of a residential complex, building, civil structure, or a part thereof	<ul style="list-style-type: none"> • 75 per cent where the carpet area is less than 2000 sq. feet and costs less than INR1 crore • 70 per cent in all other cases without CENVAT Credit on inputs	70 per cent with only CENVAT Credit on input services
Services by a tour operator in relation to a tour (other than a tour which is only for the purpose of arranging or booking accommodation for any purpose)	<ul style="list-style-type: none"> • 75 per cent in case of package tours • 60 per cent in other cases without CENVAT Credit	70 per cent without CENVAT Credit
Services by a Goods Transport Agency (GTA) in relation to household goods	70 per cent without CENVAT Credit	60 per cent without CENVAT Credit
Services by a foreman of a chit fund in relation to chit	-	70 per cent without CENVAT Credit

- In case of single premium annuity policies, the service tax rate is prescribed to be at 1.4 per cent of the total premium charged, except in cases where the amount allocated for investment or savings on behalf of the policyholder is not intimated to the policyholder at the time of providing of the service (effective from 1 April 2016).

Amendments in the service tax rules (effective from 1 April 2016)

- Service tax on services provided by a mutual fund agent/distributor to a mutual fund or asset management company would be payable by the service provider instead of the service recipient.
- The benefit of quarterly payment of service tax has been extended to a 'one person company' (whose aggregate value of taxable services provided from one or more premises is INR50 lakh or less in the previous financial year) and a HUF.
- Facility of payment of service tax on a receipt basis has been extended to a 'one person company'.
- A reverse charge has been introduced on all services provided by the government or local authority to business entities. Prior to this amendment, a reverse charge was applicable only on support services provided by the government or local authority to business entities.
- Annual return introduced for service tax assessee above a certain threshold.
- Interest rate on delayed payment proposed to be made uniform at 15 per cent. However, in cases where service tax is collected but not deposited, the interest rate would be 24 per cent. Further, where the value of taxable services in the preceding year(s) covered by the notice is less than INR60 lakh, interest rate would be 12 per cent.
- Monetary limit for invoking imprisonment provisions has been increased from INR50 lakh to INR2 crore for specific offences. The power to arrest is restricted to situations where the taxpayer has collected service tax exceeding INR2 crore but not deposited the same.
- Retrospective exemption (i.e. from 1 July 2012 to 29 January 2014) from service tax on services provided by way of construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, etc. of a canal, dam or other irrigation works to entities set-up by an Act of Parliament or state legislature or established by the government.
- Retrospective exemption in respect of the following services provided under contracts entered into prior to 1 March 2015 (on payment of the applicable stamp duty) has been restored:
 - services provided to the government by way of construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, or alteration of -
 - a civil structure meant for use other than for commerce, industry, etc.
 - a structure meant predominantly for use as an educational, clinical, an art or cultural establishment.

- 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 an airport and port.

These exemptions are being restored till 31 March 2020 (effective from 1 March 2016).

CENVAT Credit

Applicable from 1 March 2016

- CENVAT Credit is not to be utilised for payment of newly introduced infrastructure cess.
- CENVAT Credit reversal is not required in case of services provided by transportation of goods by a vessel to a place outside India.
- Restriction on utilisation of CENVAT Credit to pay for the NCCD expanded from mobile phones to all goods which attract NCCD.
- The time limit for filing of a refund claim on export of services is prescribed as under:
 - In case of receipt of advance: one year from the date of the invoice
 - In other cases: one year from the date of receipt of payment.

Applicable from 1 April 2016

- Open wagons specifically included under the definition of capital goods.
- Restriction of availing CENVAT Credit on equipment or appliances used in the office located within a factory is deleted.
- Scope of capital goods has been expanded to include goods located physically outside the factory if meant for pumping of water for

Amendments in the point of taxation rules (effective 1 March 2016)

- It has been clarified that the rule governing point of taxation for services taxed for the first time shall apply mutatis mutandis in case of new levy of services.

Other amendments (effective from the enactment of the Finance Bill, 2016, unless specified)

- Assignment of spectrum on a right to use basis by the government and subsequent transfers declared as a 'service'
- Limitation period for recovery of service tax in cases not involving fraud, collusion, suppression, etc. enhanced from 18 months to 30 months.

captive use in the factory; a similar change has been made in the definition of inputs to allow CENVAT Credit on goods meant for the said purpose.

- All capital goods of value less than INR10,000 are to be treated as inputs and hence, are eligible for full CENVAT Credit in the first year itself.
- In respect of jigs, fixtures, moulds and dies, CENVAT Credit is available even when such goods are sent by the manufacturer of the final product directly to the premises of the job worker/another manufacturer. Such a benefit has been extended to tools as well. Further, CENVAT Credit is to be made available to the manufacturer of the final product.
- A special mechanism has been prescribed for availing CENVAT Credit of service tax paid for assignment of the right to use a natural resource. CENVAT Credit to be available on a staggered basis depending on the period for which rights have been assigned.
- Rule 6 prescribing the CENVAT Credit mechanism in case of both taxable and exempt activities has been amended inter alia as follows:
 - Scope of exempt services is explained to include any activity which is not a 'service'
 - Option to maintain separate accounts is done away with. Only two options are provided under the amended rule:
 - Claim entire CENVAT Credit and reverse 6 per cent of the value of exempted goods and 7 per cent of the value of exempted services;
 - Claim entire CENVAT Credit on procurements meant exclusively for taxable output and proportionate CENVAT credit on common procurements.
- Banks and financial institutions (including NBFCs) provide an option to either claim a fixed 50 per cent CENVAT Credit or adopt the option available to the other assesseees.
- Capital goods are ineligible for CENVAT Credit if used for exempt goods or services for the first two years.
- Rationalisation of provisions for service tax CENVAT Credit distribution by an ISD:
 - CENVAT Credit pertaining to more than one unit but not all, is to be distributed pro rata to only those units to which it pertains
 - CENVAT Credit reversals for exempt turnover to be undertaken at the unit level; ISD to distribute the entire CENVAT Credit without any reversal at its level
 - ISD is allowed to distribute CENVAT Credit to the outsourced manufacturing unit i.e. job worker or contract manufacturer manufacturing the goods which bear the brand name of ISD and are liable to excise duty on the RSP basis
 - An outsourced manufacturing unit is allowed to utilise the CENVAT Credit distributed to it by the ISD, only for discharging the duty payable on the goods manufactured for the said ISD.
- Provision inserted for transfer of CENVAT Credit on movement of inputs from warehouses to factories (accorded a similar treatment as a first/second stage dealer).
- Order of utilisation of CENVAT Credit prescribed last year for recovery of CENVAT Credit wrongly availed/ utilised is done away with.
- CENVAT Credit is allowed on the basis of an invoice issued by a service provider on removal of inputs and capital goods as such.

Excise duty

General

- The excise duty rates remain unchanged.
- 13 cess levied under different enactments are proposed to be abolished.

Rate changes (effective from 1 March 2016)

- Excise duty exemption on the concrete mix manufactured at the site for use in construction work has been extended to ready mix concrete.
- Readymade branded garments with RSP of INR1000 and above are to be subject to 2 per cent excise duty (without CENVAT Credit) and 12.5 per cent (with CENVAT Credit).
- Clean environment cess (erstwhile clear energy cess) applicable on coal, lignite and peat is increased to INR400 per tonne.
- Excise duty exemption withdrawn on charger/adaptor, battery, wired headsets and speakers of mobile phones. Further, excise duty of 2 per cent (without CENVAT Credit) and 12.5 per cent (with CENVAT Credit) is prescribed, subject to conditions.
- Furthermore, excise duty exemption is extended to the parts and sub parts used in the manufacture of the aforementioned goods.
- Excise duty of 4 per cent (without CENVAT Credit) and 12.5 per cent (with CENVAT Credit) extended to lithium-ion batteries, broadband modem, routers, set top boxes for gaining access to internet, digital or network video recorder, CCTV or IP cameras, etc. subject to the prescribed conditions.

- Furthermore, excise duty exemption is extended to the parts and sub parts used in the manufacture of the aforementioned goods.
- Excise duty on refrigerated containers reduced to 6 per cent.
- Excise duty exempted for disposable sterilised dialyser or micro barrier of an artificial kidney.
- Concessional excise duty of 6 per cent on specified goods used in the manufacture of electrically operated vehicles and hybrid vehicles extended without a time limit.
- Infrastructure cess ranging from 1 per cent to 4 per cent is levied on specified vehicles. However, three-wheelers, electrically operated vehicles, hybrid vehicles, hydrogen vehicles based on fuel cell technology, etc. are exempted.
- Exemption from excise duty extended to tools and tool kits used by the MRO facility for aircraft maintenance.
- Excise duty on ATF increased from 8 per cent to 14 per cent except on supplies to scheduled commuter airlines from the Regional Connectivity Scheme.
- Oil industry development cess on domestically produced crude oil revised from INR4500 per metric tonne to 20 per cent ad valorem.
- Excise duty on waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavour increased from 18 per cent to 21 per cent.
- Rate of abatement for RSP valuation on all footwear increased from 25 per cent to 30 per cent.
- Smart watches and accessories of motor vehicles, specified fork lift trucks, cranes, etc. are subject to RSP based assessment. Further, the activity of packing/re-packing, labeling, etc. in relation to these goods is to be considered as 'manufacture'.
- In case of provisional assessment, interest on excise duty is to be applicable from the date duty is payable.
- To avoid overlap between service tax and Excise, an earlier exemption notification has been withdrawn and a new exemption notification has been introduced in relation to information technology software recorded on a media in respect of which the RSP is not required to be declared under the provisions of the Legal Metrology Act, 2009.

Amendments (effective from the date of enactment of the Finance Bill, 2016)

- Period of limitation seeking recovery of excise duty in specific cases has been extended from one year to two years.

Amendments (effective from 1 April 2016)

- Penal rate of interest under central excise is reduced from 18 per cent to 15 per cent.

Miscellaneous (effective from the date to be notified)

- Number of statutory returns reduced from 27 to 13. Further, an annual return has now been made mandatory for EOUs.
- Central excise returns can now be revised by the end of month in which they are submitted.

- First Schedule to the Central Excise Tariff Act, 1985 is to be realigned with the changes in Harmonised System of Nomenclature notified by World Customs Organisation (effective from 1 January 2017).

Customs duty

General

- General BCD rates remain unchanged. Thus, the general effective customs duty rate continues to be 26.43 per cent (specific capital goods)/29.44 per cent (other goods).

Amendments (effective from 1 March 2016)

- BCD increased from 7.5 per cent to 10 per cent for specific goods of chapter 84, 85 and 90. e.g. boiler, hydraulic turbines and electric motors and generators.
- BCD increased from 10 per cent to 15 per cent on imitation jewellery.
- BCD increased from nil to 5 per cent on solar tempered glass/solar tempered (anti-reflective coated) glass used in the manufacture solar cells/modules/panels.
- BCD increased from nil to 10 per cent on plans, drawings and designs.
- CVD exemption withdrawn on specified machinery for construction of roads.
- SAD increased from nil to 4 per cent on populated PCBs used in the manufacturing of personal computers (laptop or desktop), including a tablet computer.
- SAD increased from nil to 2 per cent on populated PCBs used in the manufacturing of mobile phones or tablet computers, subject to the prescribed conditions.

Amendments (effective from 1 March 2016)

- Tariff value for readymade garments and made up articles of textiles increased from 30 per cent to 60 per cent of RSP.

- BCD, CVD and SAD exemptions withdrawn on charger/adaptor, battery and wired headsets/speakers for use in the manufacturing of mobile handsets.
- BCD, CVD and SAD exempted on inputs and parts for manufacture of a charger/adaptor, battery and wired headsets/speakers of mobile handsets, including inputs and sub-parts used for manufacturing these parts, subject to the prescribed conditions.
- BCD, CVD and SAD exempted on parts, components and accessories for use in the manufacture of specified goods such as routers, broadband modems and set-top boxes for gaining access to the internet, subject to the prescribed conditions. Complete exemption from customs duty extended to sub-parts for use in the manufacture of parts, components and accessories of these equipment, subject to the prescribed conditions.
- BCD exemption on LCD and LED/OLED is restricted to manufacturing of TVs, subject to the prescribed conditions.
- BCD increased from nil to 7.5 per cent on e-readers. However, BCD on parts and raw materials for manufacturing e-readers is reduced to 5 per cent, subject to the prescribed conditions.
- BCD on refrigerated containers reduced from 10 per cent to 5 per cent.
- BCD exemption and concessional rate of CVD on specified goods used in the manufacture of electrically operated vehicles and hybrid vehicles extended without time limit.
- Benefit of concessional BCD of 5 per cent has been extended to a cold chain, including a pre-cooling unit, pack houses, sorting and grading

lines and ripening chambers, subject to the prescribed conditions.

- BCD, CVD and SAD exempted on disposable sterilised dialyzer and micro barrier of an artificial kidney.
- BCD exemption on specific telecommunication equipment such as soft switches and VoIP equipment has been withdrawn.
- To avoid overlap between service tax and customs, the earlier exemption notification has been withdrawn and a new exemption notification is introduced in relation to information technology software recorded on a media in respect of which the RSP is not required to be declared under the provisions of the Legal Metrology Act, 2009.

Amendments (effective from the date of enactment of the Finance Bill, 2016)

- Revised provisions for a bonded warehouse introduced inter alia in terms of approvals, warehousing period, furnishing of security, payment of charges, etc. with the objective to move from physical control to record based control. Further, the concept of a special warehouse for storage of specific goods has been introduced.
- Period of limitation seeking recovery of customs duty in specific cases has been extended from one year to two years.
- The facility of deferred payment of customs duty to be extended to specified importers and exporters.

Amendments (effective from 1 April 2016)

- Interest rate on delayed payment of customs duty reduced from 18 per cent to 15 per cent.
- Revised baggage rules simplifying and rationalising multiple duty free allowances have been introduced.

Amendments (effective from 1 January 2017)

- First Schedule to the Customs Tariff Act, 1975 is to be realigned with the changes made in the Harmonised System of Nomenclature by the World Customs Organisation.

Miscellaneous

- Indirect Tax Dispute Resolution Scheme, 2016 has been introduced and will come into force from 1 June 2016.
- 11 new benches of the Customs, Excise and Service Tax Appellate Tribunal are to be created to clear the backlog of cases.
- Customs Single Window Project is to be implemented at major ports and airports from the next financial year.

Central sales tax

An explanation has been inserted to clarify that with respect to purchase/sale of gas which gets mingled with other gases during the course of its movement through a pipeline, etc., such a sale/purchase shall be deemed to be interstate, if the same is introduced into the pipeline in one state and is taken out in another state.

Tax rates



These rates are subject to enactment of the Finance Bill, 2016. The rates are for the FY 2016-17.

1. Income tax rates

1.1 For Individuals, HUFs, AOPs, BOIs and Artificial Juridical persons

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 60 and 80, the basic exemption limit is INR300,000.
- For a resident individual aged 80 or above, the basic exemption limit is INR500,000.
- Rebate from tax of up to INR5,000 or 100 per cent of the tax, whichever is less available for a resident individual whose total income is below INR500,000
- A 15 per cent surcharge is applicable, if the total income exceeds INR10,000,000. A marginal relief is 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 12 per cent surcharge is applicable, if the total income exceeds INR10,000,000. A marginal relief is 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 12 per cent surcharge is applicable, if the total income exceeds INR10,000,000. A marginal relief is available.
- A 3 per cent education cess is applicable on income-tax (inclusive of surcharge, if any) available

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

1.5 For Domestic Companies

- Domestic companies, whose total turnover or gross receipts in the FY 2014-15 does not exceed INR50,000,000, are taxable at 29 per cent.
- Companies set-up and registered on or after 1 March 2016 engaged solely in the business of manufacture or production of an article or thing, may at their option be taxable at 25 per cent provided they do not claim specified benefits or deductions.
- Other 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. A marginal relief is available.
- A 12 per cent surcharge is applicable, if the total income exceeds INR100,000,000. A marginal relief is 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. A marginal relief is available.
- A 5 per cent surcharge is applicable, if the total income exceeds INR100,000,000. A marginal relief is available.
- A 3 per cent education cess is applicable per cent on income-tax (inclusive of surcharge, if any).

2. MAT / AMT

Domestic 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.
- MAT is levied at 9 per cent of the adjusted book profit for companies being units located in an IFSC which derives income solely in convertible foreign exchange where income-tax payable on the total income (according to the normal provisions of the Act) is less than 9 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. A marginal relief is available.
- A 12 per cent surcharge is applicable in case of domestic companies, if the adjusted book profit exceeds INR100,000,000. A marginal relief is available.
- A 3 per cent education cess is applicable on income-tax (inclusive of surcharge, if any).
- MAT credit as computed can be carried forward for 10 years.

Foreign companies

- MAT is levied^{(Note (a))} 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 2 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. A marginal relief is available.
- A 5 per cent surcharge is applicable in case of domestic companies, if the adjusted book profit exceeds INR100,000,000. A marginal relief is available.
- A 3 per cent education cess is applicable on income-tax (inclusive of surcharge, if any).
- MAT credit as computed can be carried forward for 10 years.

Note (a): MAT is not applicable, if

- iii. Such a company is a resident of a country or a specified territory with which India has a DTAA or the central government has adopted any agreement and such a company does not have a permanent establishment in India; or

- iv. Such company is the resident of a country with which India does not have DTAA and such a company is not required to seek registration in India under the Companies Act

Persons Other than a Company

- AMT is applicable to persons other than a 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 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 15 per cent surcharge is applicable to an Individual, HUF, AOP, BOI or Artificial Juridicial person, if the adjusted total income exceeds INR10,000,000. Marginal relief available
- A 12 per cent surcharge is applicable to Firms (including LLP), co-operative society and local authority, 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 as computed can be carried forward for 10 years.



3. STT

- 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	0.05% ^(a)	Seller
Sale of an option in securities, where an option is exercised	0.125%	Purchaser
Sale of a futures in securities	0.01%	Seller
Sale of unit of an equity oriented fund to the mutual fund	0.001%	Seller
Sale of unlisted equity shares and units of business trust under an initial offer	0.2%	Seller

a. with effect from 1 June 2016

- STT is not applicable to taxable securities transactions entered into by any person –
 - for and on behalf of a New Pension Fund Trust; and
 - on a recognised stock exchange located in an IFSC, where the consideration is paid in foreign currency.

4. CTT

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

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

CTT not applicable to taxable commodities transactions entered into by any person on a recognised association located in an International Financial Services Centre where the consideration is paid in foreign currency.

5. Royalty earned by Indian resident from patents

- Royalty income earned from patents developed and registered in India by a person resident in India, being a patentee, is taxable at 10 per cent (plus applicable surcharge and cess).
- MAT is not applicable on such royalty income.

6. Dividends earned by an Individual, HUF or a Firm resident in India

- Dividend income exceeding INR1,000,000 received by a resident Individual, HUF or Firm from a domestic company is taxable at 10 per cent (plus applicable surcharge and education cess) on the gross amount of such dividends in addition to DDT payable by the company.

7. 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 the gross amount of such dividends.

8. DDT

- A domestic company is liable to pay DDT at 15 per cent (plus applicable surcharge and education cess) on the dividends distributed.
- 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 a 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 a 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:
 - 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; and
 - 5 per cent (plus applicable surcharge and education cess) on income distributed to a non-resident or a foreign company by a mutual fund under an Infrastructure Debt scheme.
- For computation of DDT, the amount of dividend distributed to the shareholders shall be increased to such an 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.
- A 12 per cent surcharge is applicable.
- A 3 per cent education cess is applicable (inclusive of surcharge).
- DDT shall not be levied –
 - where dividend is paid or distributed by a specified domestic company out of its current income to a business trust
 - where dividend is paid or distributed by unit of an IFSC deriving income solely in convertible foreign exchange.

9. Tax on Distributed Income to Shareholders

- Any amount of distributed income by the company on buy-back of shares (not being shares listed on a recognised stock exchange) from a shareholder shall be charged to tax at the rate of 20 per cent on such distributed income.
- A 12 per cent surcharge is applicable.
- A 3 per cent education cess is applicable (inclusive of surcharge).



10. Special Rates for Non-Residents

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

Nature of Income	Rate ^{(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%
Income (other than that chargeable under the head 'Income from business and profession') received from specified investment fund	at the rates in force
Income from investment in securitization trust	at the rates in force
Interest received from Indian Company or a business trust on monies borrowed in foreign currency and approved by the central government: <ul style="list-style-type: none"> Under a loan agreement from 1 July 2012 to 30 June 2017 On issue of long-term infrastructure bonds from 1 July 2012 to 30 September 2014 On issue of long-term bonds from 1 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 the business trust	5%
Income received in respect of units purchased in foreign currency of specified mutual funds/UTI	20%
Royalty For agreements entered into: <ul style="list-style-type: none"> On or after 1 April 1961 but before 1 April 1976 On or after 1 April 1976 	50% 10%
Fees for Technical Services For agreements entered into: <ul style="list-style-type: none"> On or after 1 March 1964 but before 1 April 1976 On or after 1 April 1976 	50% 10%
Interest on FCCB, FCEB /dividends on GDRs ^(d)	10%

- 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 12/15 per cent surcharge, as the case may be, shall be applicable, where the total income exceeds INR10,000,000. A marginal relief is available.
- A 3 per cent education cess is applicable on income tax (inclusive of surcharge, if any).
- Other than dividends on which DDT has been paid.
- If the non-resident has a PE in India and the royalties/fees for technical services paid are effectively connected with such a PE, this could be taxed at 40 per cent (plus surcharge and education cess) on a net basis

11. 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 a business trust which attracts STT	15%	Nil
Sale transaction other than those mentioned above		
Individuals (resident and non-residents)	Progressive slab rates	
Firms including LLP (resident and non-resident)	30%	20% / 10% ^(d)
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%	
Co-operative Society	Progressive slab rates	20% / 10% ^(d)

- These rates will further increase by the applicable surcharge and 3 per cent education cess on income-tax (inclusive of surcharge, if any).
- 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.
- 20 per cent with indexation and 10 per cent without indexation for listed securities and zero coupon bonds (other than units).
- LTCG arising to a non-resident from the transfer of unlisted securities or shares of a company, not being a company in which the public are substantially interested, subject to 10 per cent tax (without benefit of indexation and foreign currency fluctuation).

12. 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 an aircraft ^(b)	5% of gross receipts
(iv) Turnkey power projects ^{(b)(c)}	10% of gross receipts

2. In the case of a non-resident taxpayer

Business	Rate at which income is presumed
(i) Small business [excluding (ii) and (iii)] ^{(a)(d)(e)(f)(g)}	8% of gross turnover/receipts
(ii) Specified profession ^{(b)(c)(d)(e)}	50% of total gross receipts
(iii) Plying, hiring or leasing goods carriages (person should not own over 10 goods carriages at any time during the previous year) ^{(d)(e)}	INR7,500 per month/part of the month for each vehicle

- The gross receipts of the taxpayer do not exceed INR 20,000,000.
- The gross receipts of the taxpayer do not exceed INR5,000,000.
- Specified profession includes legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or profession of authorised representative, film artist (actor, cameraman, director, music director, art director, dance director, editor, singer, lyricist, story writer, screen play writer, dialogue writer and dress designer), company secretary and information technology.
- All deductions/expenses (including depreciation) shall be deemed to have been allowed.
- The taxpayer can claim lower profits, if he keeps and maintains the specified books of account and obtains a tax audit report.
- 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)

- Specifically excludes persons carrying on specified professions, persons earning commission or brokerage income and persons carrying on any agency business.

3. Special code of tonnage tax on income earned by domestic shipping companies .

13. Equalisation levy

- Equalisation Levy at 6 per cent is applicable on the amount of consideration for online advertisement, any provision for digital advertising space or any other facility or service for the purpose of online advertisement. The levy is to be deducted from payments to a non-resident by:
 - A person resident in India; or
 - A non-resident having a permanent establishment in India
- Equalisation Levy is not chargeable where:
 - Non-resident recipient has a permanent establishment in India and the service is effectively connected with such permanent establishment.
 - The aggregate consideration in a previous year does not exceed INR100,000.
 - The payment is not for the purpose of carrying out business or profession

Glossary



AE	Associated Enterprises	FY	Financial Year	NPAs	Non Performing Assets
AIF	Alternative Investment Fund	FTS	Fees for Technical Services	NSS	National Savings Scheme
AMT	Alternate Minimum Tax	GAAR	General Anti-Avoidance Rules	OECD	Organisation for Economic Co-operation and Development
ARCs	Asset Reconstruction Companies	GDP	Gross Domestic Product	OLED	Organic Light Emitting Diode
AO	Assessing Officer	GDR	Global Depository Receipts	OROP	One Rank One Pension
AOP	Association of Persons	GOI	Government of India	PAN	Permanent Account Number
ASF	Approved Superannuation Fund	GST	Goods and Services Tax	PCBs	Printed Circuit Boards
ATF	Aviation Turbine Fuel	GTA	Goods Transport Agency	PE	Permanent Establishment
AY	Assessment Year	GFCE	Government Final Consumption Expenditure	PF	Provident Fund
BCD	Basic Customs Duty	HRA	House Rent Allowance	PY	Previous Year
BEPS	Base Erosion and Profit Shifting	HUF	Hindu Undivided Family	PFCE	Private Final Consumption Expenditure
BOP	Balance of Payments	IIP	Index of Industrial Production	POEM	Place of Effective Management
BOI	Body of Individuals	IMF	International Monetary Fund	QFI	Qualified Foreign Investor
CAD	Current Account Deficit	IDS	Income Declaration Scheme	RBI	Reserve Bank of India
CBDT	Central Board of Direct Taxes	INR	Indian National Rupee	REIT	Real Estate Investment Trust
CbyC	Country-by-Country Reporting	IFSC	International Financial Service Centre	RPF	Recognised Provident Fund
CCTV	Closed Circuit Television	InvIT	Infrastructure Investment Trust	RSP	Retail Sales Price
CKD	Completely Knocked Down	IPO	Initial Public Offer	R&D	Research & Development
CSR	Corporate Social Responsibility	IRDA	Insurance Regulatory and Development Authority	SAD	Special Additional Duty
CVD	Countervailing Duty	ISD	Input Service Distributor	SDR	Strategic Debt Restructuring
CSO	Central Statistics Office	ITA	Information Technology Agreement	SARFAESI Act, 2002	The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
CTT	Commodity Transaction Tax	ITAT	Income Tax Appellate Tribunal	SEBI	Securities and Exchange Board of India
CIT(A)	Commissioner of Income-tax (Appeals)	JLF	Joint Lenders Forum	SLR	Statutory Liquidity Ratio
DDT	Dividend Distribution Tax	LCD	Liquid Crystal Display	SME	Small and Medium Enterprises
DRP	Dispute Resolution Panel	LED	Light Emitting Diode	SSAS	Sukanya Samriddhi Account Scheme
DTAA	Double Taxation Avoidance Agreement	LLP	Limited Liability Partnership	STCG	Short-Term Capital Gains
DTDR	Direct Tax Dispute Resolution	LTCG	Long-Term Capital Gains	STT	Securities Transaction Tax
EoDB	Ease of Doing Business	MAT	Minimum Alternate Tax	TCS	Tax Collection at Source
EOU	Export Oriented Unit	MNE	Multinational Enterprise	TDS	Tax Deduction at Source
EPS	Employees Pension Scheme	MRO	Maintenance, Repair and Overhaul	TPO	Transfer Pricing Officer
EPFO	Employees Provident Fund Organisation	MRP	Maximum Retail Price	USD	United States Dollar
FCCB	Foreign Currency Convertible Bonds	NBFC	Non-Banking Financial Company	UTI	Unit Trust of India
FDI	Foreign Direct Investment	NCCD	National Calamity Contingent Duty	VCF	Venture Capital Funds
FEMA	Foreign Exchange Management Act, 1999	NDA	National Democratic Alliance	VoIP	Voice over Internet Protocol
FII	Foreign Institutional Investors	NDS-OM	Negotiated Dealing System – Order Matching	WPI	Wholesale Price Index
FIPB	Foreign Investment Promotion Board	NPS	National Pension System		

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