



# BUDGET ANALYSIS 2014

## Direct Taxes

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# Highlights of Budget, 2014

## A. Rates of Income Tax

### i. Rates of Tax :-

There is no change in the rate of income tax, surcharge, education and SHE cess. The rates for AY 2015-16 will remain the same as in AY 2014-15.

### ii. New Income Tax Slabs for AY 15-16 :-

- Individual, Hindu Undivided family, association of persons, body of individuals, artificial person.:-

Taxable Income	Rate of Tax
Up to Rs. 250000	Nil
Rs.250001 to Rs. 500000	10%
Rs. 500001 to Rs. 1000000	20%
Above Rs. 1000000	30%

# Highlights of Budget, 2014

- Individual , being a resident in India , who is of the age of Sixty years or more but less than eighty years :-

Taxable Income	Rate of Surcharge
Upto Rs. 300000	Nil
Rs. 300001 to Rs. 500000	10%
Rs. 500001 to Rs. 1000000	20%
Above Rs. 1000000	30%

- Individual , being a resident in India , who is of the age of Eighty years or more:-

Taxable Income	Rate of Surcharge
Upto Rs. 500000	Nil
Rs. 500001 to Rs.1000000	20%
Above Rs. 1000000	30%

# Highlights of Budget, 2014

## B. ADDITIONAL RESOURCE MOBILISATION MEASURES

### I) Dividend & Income Distribution Tax

It is proposed to amend section 115-O in order to provide that for the purposes of determining the tax on distributed profits payable in accordance with the section 115-O, any amount by way of dividends referred to in sub-section (1) of the said section, as reduced by the amount referred to in sub-section (1A) [referred to as net distributed profits], shall be increased to such amount as would, after reduction of the tax on such increased amount at the rate specified in sub-section (1), be equal to the net distributed profits.



# Highlights of Budget, 2014

Dividend Amount distributed Increase by Rs. 15 [i.e. $(85 * 0.15) / (1 - 0.15)$ ]	Rs. 85
Increased amount	Rs.100
DDT @ 15% of Rs. 100	Rs. 15
Tax payable u/s 115-O is	Rs.15
Dividend distributed to shareholders	Rs.85

Similarly treatment is proposed for distribution of income to unit holders under section 115R. the amendment shall be applicable w.e.f 01-10-2014

# Highlights of Budget, 2014

## II). Holding period qualifying for LTCG by unlisted securities and units of MF increased

It is proposed to amend the provisions contained in clause (42A) of section 2 so as to provide that an unlisted security and a unit of a mutual fund (other than an equity oriented mutual fund) shall be a short-term capital asset if it is held for not more than thirty-six months.

**These amendments will take effect from 1<sup>st</sup> April , 2015.**

## III) Tax on Long Term Capital Gains on units

It is proposed to amend the provisions of section 112 so as to allow the concessional rate of tax of ten per cent on long term capital gain to listed securities (other than unit) and zero coupon bonds.

**These amendments will take effect from 1<sup>st</sup> April , 2015.**

# Highlights of Budget, 2014

## C. MEASURES TO PROMOTE SOCIO-ECONOMIC GROWTH

### I) Investment Allowance to a Manufacturing Company

- It is also proposed that the deduction u/s 32AC of the Act shall be allowed if the company on or after 1<sup>st</sup> April, 2014 invests more than Rs. 25 crore in plant & machinery in a Previous Year.
- Period of investment in plant and machinery extended to 31-03-2017
- The assessee who is eligible to claim deduction under the existing combined threshold limit of Rs.100 crore for investment made in previous years 2013-14 and 2014-15 shall continue to be eligible to claim deduction under the existing provisions contained in sub-section (1) of section 32AC even if its investment in the year 2014-15 is below the proposed new threshold limit of investment of Rs. 25 crore during the previous year (wef AY2015-16)



# Highlights of Budget, 2013

## II) Extention of Sunset date under section 80IA for Power Sector

With a view to provide further time to the undertakings to commence the eligible activity to avail the tax incentive, it is proposed to amend the above provisions to extend the terminal date for a further period up to 31st March, 2017 i.e. till the end of the 12th Five Year Plan.

**These amendments will take effect from 1<sup>st</sup> April, 2015.**

## III) Deduction in respect of capital expenditure on specified businesses

- It is proposed to include two new businesses as “specified business” for the purposes of the investment-linked deduction under section 35AD so as to promote investment in these sectors, which are :-
  - laying and operating a slurry pipeline for the transportation of iron ore;
  - setting up and operating a semiconductor wafer fabrication manufacturing unit, if such unit is notified by the Board in accordance with the prescribed guidelines.



# Highlights of Budget, 2014

It is also proposed to provide that the date of commencement of operations for availing investment linked deduction in respect of the two new specified businesses shall be on or after 1st April, 2014.

- ❑ Capital asset to be used for minimum 8 years.
- ❑ Withdrawal of exemption if asset is used for other purposes
- ❑ Deduction u/s 10AA shall not be available.

**These amendments will take effect From 1<sup>st</sup> April, 2015 & will , accordingly , apply in relation to the assessment year 2015-16 & subsequent assessment years.**

# Highlights of Budget, 2014

## D. RELIEF AND WELFARE MEASURES

### I) Investment Limit for Deduction u/s 80C increased

The investment limits has been increased from Rs. 1.00 lacs to rs.1.50 lacs. (wef AY 2015-16)

### II). Extention of section 80CCD deduction benefits to private sector employees (w.e.f. AY 2015-16)

Benefit extended for employees in the private sector, joining the New Pension Scheme (NPS) for deduction of amount so paid not exceeding 10% of salary

### III). Housing Loan Interest deduction limit increased

The limit for claiming deduction for interest paid on housing loan for self occupied house has been raised from Rs. 1.50 lacs to Rs. 2.00 lacs (w.e.f. AY 2015-16).

# Highlights of Budget, 2014

## IV) Concessional rate of tax on overseas borrowing

Concessional withholding tax rate of 5% u/s 194LC shall now also apply to any long-term bond and , not only to long term infrastructure bond only.

It is further proposed to extend the benefit by two years the period of borrowing for which the said benefit shall be available. The concessional rate of withholding tax will now be available in respect of borrowings made before 1st day of July, 2017

Section 206AA of the Act provides for levy of higher rate of withholding tax in case the recipient of income does not provide permanent account number to the deductor. An exception from applicability of section 206AA in respect of payment of interest on long-term infrastructure bonds eligible for benefit under section 194LC is currently provided in sub-section (7) of this section.



# Highlights of Budget, 2014

Consequential amendment is also proposed in section 206AA to ensure that this benefit of exemption is extended to payment of interest on any long-term bond referred to in section 194LC.

**These amendments will take effect from 1st October, 2014.**

## V) Roll back provision in Advance Pricing Agreement Scheme

It is proposed to amend the Act to provide roll back mechanism in the APA scheme. The APA may, subject to such prescribed conditions, procedure and manner, provide for determining the arm's length price or for specifying the manner in which arm's length price is to be determined in relation to an international transaction entered into by a person during any period not exceeding four previous years preceding the first of the previous years for which the advance pricing agreement applies in respect of the international transaction to be undertaken in future.

**This Amendment will take effect from 1<sup>st</sup> October, 2014.**

# Highlights of Budget, 2014

## VI) Characterization of Income in case of Foreign Institutional Investor.

It is proposed to amend the Act to provide that any security held by foreign institutional investor which has invested in such security in accordance with the regulations made under the Securities and Exchange Board of India Act, 1992 would be treated as capital asset only so that any income arising from transfer of such security by a Foreign Portfolio Investor (FPI) would be in the nature of capital gain.

**This Amendment will take effect from 1<sup>st</sup> April, 2014.**



# Highlights of Budget, 2014

## E. WIDENING OF TAX BASE AND ANTI TAX AVOIDANCE MEASURES

### **I) Alternate Minimum Tax**

It is proposed to amend the section so as to provide that total income shall be increased by the deduction claimed under section 35AD for purpose of computation of adjusted total income.

Amendment applicable from 1<sup>st</sup> April, 2015.

### **II) Taxability of advance for transfer of a capital asset**

It is proposed to insert a new clause (ix) in sub-section (2) of section 56 to provide for the taxability of any sum of money, received as an advance or otherwise in the course of negotiations for transfer of a capital asset. Such sum shall be chargeable to income-tax under the head 'income from other sources' if such sum is forfeited and the negotiations do not result in transfer of such capital asset. A consequential amendment in clause (24) of section (2) is also being made to include such sum in the definition of the term 'income'.



# Highlights of Budget, 2014

## **III) Tax deduction at source from non-exempt payments made under life insurance policy**

In order to have a mechanism for reporting of transactions and collection of tax in respect of sum paid under life insurance policies which are not exempted under section 10(10D) of the Act, it is proposed to insert a new section in the Act to provide for deduction of tax at the rate of 2 per cent on sum paid under a life insurance policy, including the sum allocated by way of bonus, which are not exempt under section 10(10D) of the Act. In order to reduce the compliance burden on the small tax payers, it has also been proposed that no deduction under this provision shall be made if the aggregate sum paid in a financial year to an assessee is less than Rs.1,00,000/-.

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

# Highlights of Budget, 2014

## F. RATIONALISATION MEASURES

### I) Rationalization of taxation regime in the case of charitable trusts and institutions

It is also proposed to amend the Act to provide that under section 11 and section 10(23C), income for the purposes of application shall be determined without any deduction or allowance by way of depreciation or otherwise in respect of any asset, acquisition of which has been claimed as an application of income under these sections in the same or any other previous year.



# Highlights of Budget, 2014

## II) Clarification in respect of section 10(23C) of the Act

It is proposed to amend section 10(23C) by inserting an Explanation that if the Government grant to a university or other educational institution, hospital or other institution during the relevant previous year exceeds a percentage (to be prescribed) of the total receipts (including any voluntary contributions), of such university or other educational institution, hospital or other institution, as the case may be, then such university or other educational institution, hospital or other institution shall be considered as being substantially financed by the Government for that previous year. [ Applicable from 1<sup>st</sup> April, 2015]



# Highlights of Budget, 2014

## III) Cancellation of registration of the trust or institution in certain cases

It is proposed to amend section 12AA of the Act to provide that where a trust or an institution has been granted registration, and subsequently it is noticed that its activities are being carried out in such a manner that,—

- its income does not endure for the benefit of general public;
- it is for benefit of any particular religious community or caste (in case it is established after commencement of the Act);
- any income or property of the trust is applied for benefit of specified persons like author of trust, trustees etc.; or
- its funds are invested in prohibited modes, then the Principal Commissioner or the Commissioner may cancel the registration if such trust or institution does not prove that there was a reasonable cause for the activities to be carried out in the above manner.

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

# Highlights of Budget, 2014

## IV) Anonymous donations under section 115BBC

It is proposed to amend section 115BBC to provide that the income-tax payable shall be the aggregate of the amount of income-tax calculated at the rate of thirty per cent on the aggregate of donations received in excess of five per cent of the total donations received by the assessee or one lakh rupees, whichever is higher, and the amount of income-tax with which the assessee would have been chargeable had his total income been reduced by the aggregate of the anonymous donations which is in excess of the five per cent of the total donations received by the assessee or one lakh rupees, as the case may be.

**This amendment will take effect from 1<sup>st</sup> April, 2015.**



# Highlights of Budget, 2014

## V) Rationalization of the Definition of International Transaction

It is proposed to amend section 92B of the Act to provide that where, in respect of a transaction entered into by an enterprise with a person other than an associated enterprise, there exists a prior agreement in relation to the relevant transaction between the other person and the associated enterprise or, where the terms of the relevant transaction are determined in substance between such other person and the associated enterprise, and either the enterprise or the associated enterprise or both of them are non-resident, then such transaction shall be deemed to be an international transaction entered into between two associated enterprises, whether or not such other person is a non-resident.

**This amendment is applicable from 1<sup>st</sup> April, 2015.**



# Highlights of Budget, 2014

## VI) Levy of Penalty under section 271G by Transfer Pricing Officers

It is, therefore, proposed to amend section 271G of the Act to include TPO, as referred to in Section 92CA, as an authority competent to levy the penalty under section 271G in addition to the Assessing Officer and the Commissioner (Appeals).

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

# Highlights of Budget, 2014

## VII) Applicability to earlier years of the registration granted to a trust or institution

In order to provide relief to such trusts and remove hardship in genuine cases, it is proposed to amend section 12 A of the Act to provide that in case where a trust or institution has been granted registration under section 12 AA of the Act, the benefit of sections 11 and 12 shall be available in respect of any income derived from property held under trust in any assessment proceeding for an earlier assessment year which is pending before the Assessing Officer as on the date of such registration, if the objects and activities of such trust or institution in the relevant earlier assessment year are the same as those on the basis of which such registration has been granted.

Further, it is proposed that no action for reopening of an assessment under section 147 shall be taken by the Assessing Officer in the case of such trust or institution for any assessment year preceding the first assessment year for which the registration applies, merely for the reason that such trust or institution has not obtained the registration under section 12A A for the said assessment year.

**These amendments will take effect from 1st October, 2014.**



# Highlights of Budget, 2014

## **VIII) No Income Tax deductions for expenses by companies on CSR**

The deductions on only those CSR expenditure which is of the nature described in section 30 to section 36 of the Act shall be allowed.

**This Amendment will take effect from 1<sup>st</sup> April, 2015.**

## **IX) Disallowance of Expenses for non deduction of tax at source**

- For claiming deduction of payments to non-residents, time limit for payment of TDS shall be date of filing of ITR
- The disallowance u/s 40(a)(ia) shall be restricted to 30% of the amount of expenditure claimed
- The disallowance u/s 40(a)(ia) shall apply to all expenses on which tax is required to be deducted at source.

**This Amendment will take effect from 1<sup>st</sup> April, 2015.**



# Highlights of Budget, 2014

## X) Tax Deduction at Source

- It is proposed to omit clause (i) of sub-section (3) of section 201 of the Act which provides time limit of two years for passing order under section 201(1) of the Act for cases in which TDS statement have been filed.
- It is proposed that time limit provided under section 201(3)(ii) of the Act for passing order under section 201(1) of the Act shall be extended by one more year.
- Provisions of section 271H are proposed to be amended to provide that the penalty under section 271H of the Act shall be levied by the Assessing officer.

**This Amendment will take effect from 1<sup>st</sup> October, 2014.**

# Highlights of Budget, 2014

## XI) Uniform rates for Business of Hiring and Leasing Goods Carriage u/s 44AE

Uniform presumptive rate of Rs.7,500/ p.m. provided for all types of goods carriage without any distinction between Heavy Goods Vehicle and vehicle other than HGV

**Applicable from AY 2015-16.**

## XII) Accounting Standards are meant for computation

Accounting Standards notified u/s 145 are not meant for maintenance of books. These computation and disclosure standards shall be used for computation of income. AO will be allowed to frame Assessment u/s 144 if standards notified u/s 145(2) has not been followed.

**Applicable from AY 2015-16.**



# Highlights of Budget, 2014

## XIII) Transfer of Government Security by one non-resident to another non-resident

With a view to facilitate listing and trading of Government securities outside India, it is proposed to insert clause (viib) of S.47 in the said section so as to provide that any transfer of a capital asset, being a Government Security carrying a periodic payment of interest, made outside India through an intermediary dealing in settlement of securities, by a non-resident to another non-resident shall not be considered as transfer for the purpose of charging capital gains

**Applicable from 1<sup>st</sup> April, 2015**



# Highlights of Budget, 2014

## XIV) Speculative Transactions in commodity derivatives

Eligible transaction in respect of trading in commodity derivatives carried out in a recognised association and chargeable to commodities transaction tax shall not be considered to be a speculative transaction.

Applicable from 1<sup>st</sup> April, 2014.

## XV) Capital gains arising from transfer of an asset by way of compulsory acquisition

The amount of compensation received in pursuance of an interim order of the court, Tribunal etc. shall be taxable in the previous year in which the final order of such court, Tribunal or other authority is made

Applicable from 1<sup>st</sup> April, 2015.

# Highlights of Budget, 2014

## XVI) Capital gains exemption in case of investment in a residential house property

Section 54(1) amended to provide that relief is available if the investment is made in one residential house.

Applicable from 1<sup>st</sup> April, 2015.

## XVII) Capital gains exemption on investment in Specified Bonds

Relief under section 54EC shall be 50 lacs including the financial year in which the original asset or assets are transferred and the subsequent financial year.

Applicable from 1<sup>st</sup> April, 2015.

# Highlights of Budget, 2014

## XVIII) Losses in Speculation Business

It is proposed to amend the aforesaid Explanation so as to provide that the provision of the Explanation shall also not be applicable to a company the principal business of which is the business of trading in shares.

Applicable from AY 2015-16.

## XIX) New Income tax Authorities

New Income tax Authorities (w.e.f. 01/06/2013) Principal Chief Commissioner of Income-tax, “Principal Commissioner of Income-tax”, “Principal Director General of Income-tax” and “Principal Director of Income-Tax” to be new authorities

Applicable from 1<sup>st</sup> June, 2013.



# Highlights of Budget, 2014

## XX) Power of survey

- (a) Period of retention without approval extended to 15 days
- (b) Power to survey for verifying TDS Compliances

Applicable from 1<sup>st</sup> October, 2014.

## XXI) Power to call for Information – New Section

### 133C

For verification of information in its possession relating to any person, prescribed income-tax authority, may, issue a notice and call for information or documents.

Applicable from 1<sup>st</sup> October, 2014.

# Highlights of Budget, 2014

## XXII) Valuation of property, investments etc. u/s 142A

- Valuation Officer to estimate the value after taking into account the evidence produced by the assessee and any other evidence in his possession after giving an opportunity of being heard to the assessee.
- Time between reference to valuation officer and submission of his report to be excluded from time of **completion of assessment**.

Applicable from 1<sup>st</sup> October, 2014.

## XXIII) Interest payable by the assessee under section 220

Liability of the assessee to pay interest is based on the theory of continuity of the proceedings and the doctrine of relation back. Accordingly, it is proposed to insert a new sub-section in section 220 so as to provide that where any notice of demand has been served upon an assessee and any appeal or other proceeding, as the case may be, is filed or initiated in respect of the amount specified in the said notice of demand, then such demand shall be deemed to be valid till the disposal of appeal by the last appellate authority or disposal of proceedings, as the case may be and such notice of demand shall have effect as provided in section 3 of the Taxation Laws (Continuation and Validation of Recovery Proceedings) Act, 1964.



# Highlights of Budget, 2014

It is further proposed to provide that where as a result of an order under sections specified in the first proviso, the amount on which interest was payable under this section has been reduced and subsequently as a result of an order under said sections or section 263, the amount on which interest was payable under section 220 is increased, the assessee shall be liable to pay interest under sub-section (2) of the said section on the amount payable as a result of such order, from the day immediately following the end of the period mentioned in the first notice of demand referred to in sub-section (1) of the said section and ending with the day on which the amount is paid.

**These amendments will take effect from the 1.10.2014**



# Highlights of Budget, 2014

## XXIV) Mode of acceptance or repayment of loans and deposits u/s 269SS and 269 T

Any acceptance or repayment of any loan or deposit by use of electronic clearing system through a bank account shall not be prohibited under the said sections.

*Applicable from AY 2015-16.*

## XXV) Failure to produce accounts and documents

Section 276D amended to provide for a fine as against the present rate based fine for days under default.

*Applicable from 1<sup>st</sup> October , 2014.*

# Highlights of Budget, 2014

## **XXVI) Provisional attachment under section 281B**

Chief Commissioner, Commissioner, Director General or Director may extend the period of provisional attachment for maximum two years or up to sixty days

**Applicable from 1<sup>st</sup> October, 2014**

# Highlights of Budget, 2014

## XXVII) Credit of Alternate Minimum Tax

With a view to enable an assessee who has paid alternate minimum tax in any earlier previous year to claim credit of the same, in any subsequent year, it is proposed to amend this section so as to provide that the credit for tax paid under section 115JC shall be allowed in accordance with the provisions of section 115JD, notwithstanding the conditions mentioned in sub-section (1) or (2) of section 115JEE.



# Highlights of Budget, 2014

 Thank you