

BUDGET

2014

Analysis- **Income tax** provisions

July 21st, 2014 [Budget presented on 10th July - 2014]

Index



Blue Consulting Pvt. Ltd.

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1. Corporate tax

Title	Section	Changes proposed	Effective from
Corporate Tax rates		<ul style="list-style-type: none">Rate of corporate tax remains unchanged at 30% for Domestic/LLPs Company and 40% for Foreign Company.Surcharge - Surcharge rates remains unchanged both for Domestic and Foreign Company.Cess - Education cess and Secondary & Higher Education cess remains unchanged.	Assessment Year 2015-16
Alternate Tax rates		<ul style="list-style-type: none">Rates of both MAT and AMT remain unchanged at 18.5% (plus applicable surcharge and education cess)	Assessment Year 2015-16
Presumptive taxation on business of plying, hiring or leasing of goods carriage	44AE	<ul style="list-style-type: none">For taxation of income on presumptive basis in respect of business of plying, hiring or leasing goods carriage, the income is hither to determined at INR 5,000 and INR 4,500 for HGV and vehicles other than HGVs per vehicle per month (or part of a month), respectively.A uniform amount of presumptive income of INR 7,500 for every month (or part of a month) for all types of goods carriage is proposed.	Assessment Year 2015-16



....contd.(Corporate tax)

Title	Section	Changes proposed	Effective from															
Concessional rate on dividend from foreign companies to continue	115BBC & 115BBD	<ul style="list-style-type: none"> Taxation of gross dividends received by an Indian company from a specified foreign company at the concessional rate of 15% if such dividend is included in the total income. Earlier this provision was brought for a limited period but now it has been extended for an indefinite period. 	Assessment Year 2015-16															
Change in calculation of Dividend Distribution Tax(DDT)	115-O & 115-R	<ul style="list-style-type: none"> DDT remains unchanged @15% (plus applicable surcharge and cess) However, the amount of distributable income and the dividends which are actually received by the unit holder of mutual fund or shareholders of domestic company need to be grossed up for the purpose of computing the DDT. <p>Example:</p>	01.10.2014															
		<table border="1"> <thead> <tr> <th>Particulars</th> <th>Amount (in Rs.)</th> <th>DDT (in Rs.)</th> </tr> </thead> <tbody> <tr> <td>Amount allocated for distribution to shareholders (Pre-DDT payment)</td> <td>100</td> <td></td> </tr> <tr> <td>Total Dividend payout after DDT (Pre-amendment)</td> <td>85.47</td> <td>14.526</td> </tr> <tr> <td>Total dividend payout (proposed amendment)</td> <td>83.00</td> <td>16.995</td> </tr> <tr> <td>Reduction in amount of dividend actually paid to shareholders</td> <td>(85.47 minus 83.00) = 2.47</td> <td></td> </tr> </tbody> </table>		Particulars	Amount (in Rs.)	DDT (in Rs.)	Amount allocated for distribution to shareholders (Pre-DDT payment)	100		Total Dividend payout after DDT (Pre-amendment)	85.47	14.526	Total dividend payout (proposed amendment)	83.00	16.995	Reduction in amount of dividend actually paid to shareholders	(85.47 minus 83.00) = 2.47	
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....contd.(Corporate tax)

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Title	Section	Changes proposed	Effective from
Losses in speculation business	73	<ul style="list-style-type: none">A Company whose principal business is trading in shares would not be deemed to be carrying on a speculation business for the purpose of set off or carry forward and set off of losses, even if any part of business of such company consists of the purchase and sale of shares of other companies.	Assessment Year 2015-16
Disallowance of expenditure on CSR activities	37	<ul style="list-style-type: none">Any expenditure incurred by the tax payer on the activities relating to CSR would not be deemed to be an expenditure incurred for the purpose of business and therefore, the same would not be allowed as a deduction while computing taxable income.	Assessment Year 2015-16

....contd.(Corporate tax)



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Title	Section	Changes proposed	Effective from
Disallowance restricted to 30% due to non-deduction of TDS	40(a)(i)	<ul style="list-style-type: none">▪ Earlier, the complete expenditure used to be disallowed for non-deduction or non-payment of TDS.▪ Now, in the event of non-deduction or non-payment of TDS on payments made to residents, the disallowance would be restricted to 30% of the amount of expenditure incurred.▪ TDS provisions has been extended to all expenditure (e.g. salary, directors fee) on which tax is deductible at source.	Assessment Year 2015-16
Expenses eligible for deduction if TDS is paid before filing of return in case of payment made to non-residents	40(a)(ia)	<ul style="list-style-type: none">▪ The deductor would be able to claim a deduction for payments made to non-residents in the relevant year itself, if tax is deducted during that year and is paid on or before the due date for filing of the income return.	Assessment Year 2015-16



2. Tax Incentives

Title	Section	Changes proposed	Effective from
Incentive for Manufacturing Sector	32AC(1A) & 32AC(1B)	<ul style="list-style-type: none">Where the investment in eligible plant and machinery in a financial year exceeds INR 25 Crore, such companies would be eligible to claim one time additional deduction of 15% of the cost of such new plant and machinery acquired and installed.This deduction would be available for such investments made till 31 March 2017 (i.e. for three financial years, starting with financial year 2014-15).	Assessment Year 2015-16
Incentives for Power sector	80-IA	<ul style="list-style-type: none">Profit-linked incentive by power companies is proposed to be extended by three years up-to 31 March 2017 (presently up-to 31 March 2014).	Assessment Year 2015-16



....contd. (Tax Incentives)

Title	Section	Changes proposed	Effective from
Investment based incentives	35AD	<ul style="list-style-type: none">▪ The investment based incentive (deduction in respect of the eligible capital expenditure) has been proposed to be extended to two new sectors- 'laying and operating a slurry pipeline for the transportation of iron ore', and 'setting up and operating a semiconductor wafer fabrication manufacturing unit', subject to notification by the Board.▪ It is proposed that the asset, in respect of which the deduction is claimed, should be used only for the specified business for a period of eight years beginning with the year in which the asset is acquired or constructed.▪ In the event that the asset is used for any purpose other than the specified business during the specified period, then the amount of deduction claimed (net of the depreciation that would have been allowable had no such investment based deduction been claimed) would be deemed to be the business income of the year in which the asset is used.	Assessment Year 2015-16



3. Business Trust (Newly Inserted Chapter XII-FA)

Title	Section	Changes proposed	Effective from
Meaning of Business Trust	2(13A) (Inserted)	<ul style="list-style-type: none">Business trust means a trust registered as an 'Infrastructure Investment Trust' or a 'Real Estate Investment Trust', the units of which are required to be listed on a recognised stock exchange	01.10.2014
Capital gain on transfer of units held in trust	10(38)	<ul style="list-style-type: none">Securities Transaction Tax applicable to transfer of units of Business Trust similar to equity shares traded on a stock exchangeLong term capital gain to be exempt from taxShort term capital gain taxable at 15% (plus applicable surcharge and cess)	01.10.2014
Capital gains arising to Sponsor on exchange of shares in Special Purpose Vehicle (SPV) with units of Business Trust	47(xvii) & 49(2AC)	<p>Tax liability deferred till the time of disposal of units by Sponsor</p> <ul style="list-style-type: none">Holding period of shares to be included in holding period of unitsCost of acquisition of shares of SPV to be considered as cost of acquisition of units	01.10.2014



....contd. (Business Trust)

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Title	Section	Changes proposed	Effective from
Interest income of Business trust	194LBA (Inserted)	<ul style="list-style-type: none">No withholding to be done at SPV levelBusiness Trust to withhold tax on distribution attributable to the interest component - from Domestic unit holders @10% / Non-resident unit holders @ 5%Taxes withheld for non-resident investors would also be their effective tax liability on such interest	01.10.2014
Interest to non-resident lenders	194LC	<ul style="list-style-type: none">In case of external commercial borrowings by the business trust, the benefit of reduced rate of 5% tax on interest payments to non-resident lenders shall be available .	01.10.2014
Dividend income of Business Trust	10(23FD)	<ul style="list-style-type: none">Dividend distribution tax (DDT) applicable at SPV levelDividend income exempt from tax in hands of Business TrustOnward distribution of amount attributable to dividend by Business Trust to investors will be exempt	01.10.2014
Other income of Business trust	115UA	<ul style="list-style-type: none">Taxable at marginal rate	01.10.2014



4. International Taxation

Title	Section	Changes proposed	Effective from
Advance Pricing Agreement (APA)	92CC	<ul style="list-style-type: none">The government has proposed introduction of " a roll back" mechanism in the current APA scheme by amending the Act. Accordingly, an APA, subject to prescribed conditions, may also cover previous four years preceding the first year of the APA.To illustrate, APA applications filed by taxpayers covering the period FY 2013-14 to FY 2017-18 may also cover the period from FY 2009-10 to FY 2012-13.	01.10.2014
Penalty for failure to furnish documentation	271G	<ul style="list-style-type: none">Where the taxpayer fails to furnish transfer pricing documentation within the required time limits, the Assessing Officer or the Commissioner (Appeals) may levy the prescribed penalty. The government has now proposed to include Transfer Pricing Officer(TPO) as a competent authority to levy the penalty.	01.10.2014



5. Tax Deducted at Source (TDS)

Title	Section	Changes proposed	Effective from
TDS on amount received under a life insurance policy	194DA (Inserted)	<ul style="list-style-type: none">Under the existing provisions any sum received under a life insurance policy, including the sum allocated by way of bonus on such policy is exempt subject to fulfillment of conditions specified under the said sectionIt is proposed to insert a new section in the Act to provide for deduction of tax at the rate of 2% on sum paid under a life insurance policy, including the sum allocated by way of bonus.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.	01.10.2014
Benefit of lower withholding tax rate extended	194LC	<ul style="list-style-type: none">Lower withholding tax rate of 5% on interest paid by an Indian company to non-residents on monies borrowed by it in foreign currency from a source outside India under a loan agreement or through issue of long-term infrastructure bonds extended by way of issue of any long-term bond, and not limited to a long term infrastructure bond.The concessional rate of withholding tax will now be available in respect of borrowings made before 1st day of July, 2017.	01.10.2014



6. Return and assessment

Title	Section	Changes proposed	Effective from
Empowerment to conduct survey	133A(2)	<ul style="list-style-type: none">The Income tax authority is empowered to conduct survey for verification of TDS/TCS.The period for retention of books of account or documents impounded is proposed to be increased from a maximum of 10 days (presently) to 15 days (exclusive of holidays).	01.10.2014
Interest on outstanding demands	220(1)	<ul style="list-style-type: none">Where any notice of demand is served upon an assessee and any appeal/ proceeding is filed/initiated in respect of the amount specified in the notice of demand, then such demand shall be deemed to be valid until the disposal of appeal by the last appellate authority/ disposal of proceedings.If the amount on which interest was payable was reduced and subsequently as a result of any orders under appeals etc., the final amount stands increased, interest shall be payable from the expiry of the period mentioned in the first notice of demand until the actual date of payment.	01.10.2014



7. Other important changes

Title	Section	Changes proposed	Effective from
Amendment in the definition of Capital Asset	2(14)	<ul style="list-style-type: none">Any investment in securities made by FII's in accordance with the regulations made under SEBI would be treated as a capital asset. Consequently, any income arising from transfer of these securities by FII's would be in the nature of capital gains.	Assessment Year 2015-16
Holding period of unlisted securities (including shares) & No concessional tax rate for units of mutual fund	2(42A), 112, 111A	<ul style="list-style-type: none">Unlisted shares and securities would need to be held for more than 36 months(earlier it was 12 months) to be treated as a 'long term asset'. Under normal provisions capital gains arising on transfer of long term asset is taxable at rate of 20%.The long-term capital gains arising on transfer of mutual fund units would not be eligible for a concessional tax rate of 10%. It would now be taxable at the rate of 20%. However, it may be noted that the gains arising on the transfer of unit of an equity-oriented mutual fund through a recognised stock exchange (upon payment of securities transaction tax) is exempt.Furthermore, such units of mutual funds (other than equity oriented mutual funds) would need to be held for more than of 36 months(earlier it was 12 months) in order to classify as 'long-term asset'.	Assessment Year 2015-16



....contd. (Other important changes)

Title	Section	Changes proposed	Effective from
Exemption from Capital gain by reinvestment in one residential house in India	54 & 54(F)	<ul style="list-style-type: none">• Earlier, there was no clarity whether investment in a residential house can be made outside India or not.• Now both the sections has been proposed to be amended to mention that exemption will be available for reinvestment in only one residential house in India.	Assessment Year 2015-16
Capital gain on transfer of a long term capital asset	54EC	<ul style="list-style-type: none">• Capital gains on transfer of a long term capital assets is exempt to the extent such gains are reinvested in specified bonds within a period of six months, subject to the condition that the reinvestment during any financial year should not exceed INR 50 lacs.• In order to remove ambiguity in the wordings of these provisions, it is proposed that the limit of fifty lakhs shall apply cumulatively for the year in which the asset is transferred and the subsequent year.	Assessment Year 2015-16



....contd. (Other important changes)

Title	Section	Changes proposed	Effective from
Forfeiture of advance receipt shall be taxable	56(2)(ix) (New Clause)	<ul style="list-style-type: none">Any money received as an advance or otherwise which is forfeited due to failure of negotiations not resulting in transfer of capital assets, shall be taxable as income from other sources.A consequential amendment has been made to provide that such amount already taxed as income from other sources shall not be reduced from the cost of acquisition for the purpose of capital gains.Earlier, this receipt was not taxable in the hands of recipient.	Assessment Year 2015-16
Mode of acceptance or repayment of loan	269SS & 269T	<ul style="list-style-type: none">Presently, section 269SS and 269T of the Act penalize loans or deposits of INR 20,000 or more by means other, than by an account payee cheque or account payee bank draft.It has been proposed not to penalize loans or deposits paid by way of an electronic clearing system through a bank.	Assessment Year 2015-16



8. Personal Taxation

Title	Section	Changes proposed	Effective from
Individual and others tax rates		<ul style="list-style-type: none">Basic exemption has been increased from INR 2,00,000 to INR 2,50,000 for Individuals.The exemption limit in case of senior citizens is proposed to be increased to INR 3,00,000.The applicable surcharge and cess remains unchanged.	Assessment Year 2015-16
Deduction for interest paid on housing loan	24(b)	<ul style="list-style-type: none">Deduction for interest on housing loan for self occupied house property has been increased from INR 1,50,000 to INR 2,00,000.	Assessment Year 2015-16
Increase in 80C	80C	<ul style="list-style-type: none">Limit of deduction allowed under section 80C has been raised from the existing INR 1,00,000 to INR 1,50,000.	Assessment Year 2015-16



....contd. (Personnel taxation)

Title	Section	Changes proposed	Effective from
Deduction in respect of notified pension scheme	80CCD	<ul style="list-style-type: none">▪ The Bill proposes that the employees of the private sector would be eligible to take the benefit of the deduction in respect of the notified pension scheme irrespective of the date of joining.▪ Furthermore, the deduction available under the scheme is restricted to INR 1,00,000	Assessment Year 2015-16



9. About us

- Blue Consulting or 'BC' provides value added and high quality **Finance & Accounts Outsourcing Services to Domestic Companies in India.**
- BC, has its roots in a well established, **four decade old chartered accountants firm.**
- We invest great deal of time and efforts in understanding our client's business which ensures that we **provide customized solutions** to their specific needs and requirements.
- We are a strong and stable of team of **70 people.**
- Key associates at BC have **rich experience in the area of Finance, Taxation, Accounts, Management and Information Technology.**
- We take **complete ownership and responsibility of the F&A processes** outsourced to us and render services strictly within agreed timelines.



10. Contact us

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Blue Consulting provides value added and high quality Finance & Accounts Outsourcing Services through its contemporary onsite and offsite service delivery model. Our goal is to be a trusted partner in your business by bringing value and serving as an integral part of your set up.

Blue Consulting, or BC, has its roots in a well established, four decade old chartered accountants firm. Utilizing forty years of industry experience and functional expertise, BC looks innovatively beyond standard solutions to develop new insights, drive tangible results, and empower clients to achieve greater results.

For further detail, please log on to:

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*“A dream is not that
which you see in sleep
A dream is that
which does not let you sleep”*

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