



INDIA BUDGET,2011

Synopsis- Direct and Indirect Tax proposals

March 1'2011[Budget presented on 28th February'2011]

Doing common things, *Uncommonly well.*

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A Finance & Accounts outsourcing company

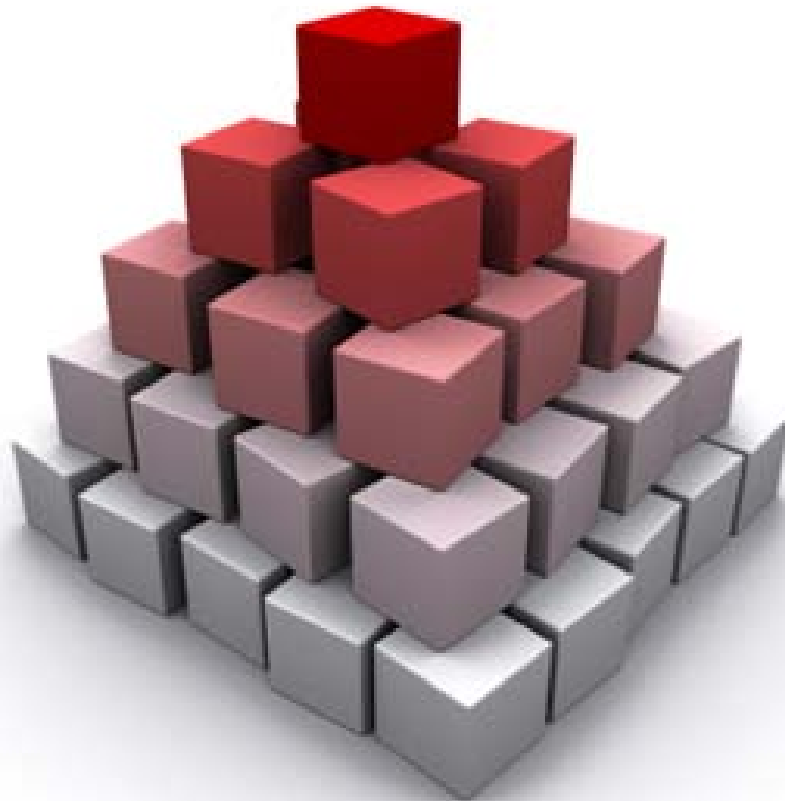
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DIRECT TAX

1. Corporate tax



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- **Surcharge** on tax **reduced** from 7.5% **to 5%** in case of domestic companies and from 2.5% **to 2%** in case of foreign companies.
- Rate of Minimum Alternate Tax (**MAT**) **increased** from 18% **to 18.5%**.
- **Applicability** of **MAT** **extended** to Limited Liability Partnerships, SEZ Developers and Units operating in SEZ.
- Dividend Distribution Tax (DDT) **exemption withdrawn** for SEZ Developers.
- **Dividends received** by Indian companies from their foreign subsidiaries during Financial Year 2011-12 (**only**) to be taxed at a **concessional rate of 15 percent** on a **gross basis**.
- **Tax holiday** for undertakings engaged in the **power sector** – commencement date **extended** to 31 March 2012.
- **Tax holiday** for undertakings engaged in **commercial production of mineral oil** – **not available** for blocks licensed after 31 March 2011.
- **Weighted deduction** **increased** from 175 percent **to 200 percent** for contributions made to specified institutions for **approved scientific research programmes**.
- **Annual Reporting of activities by Liaison Offices** established in India **within 60 days** from the end of the financial year

2. International Taxation



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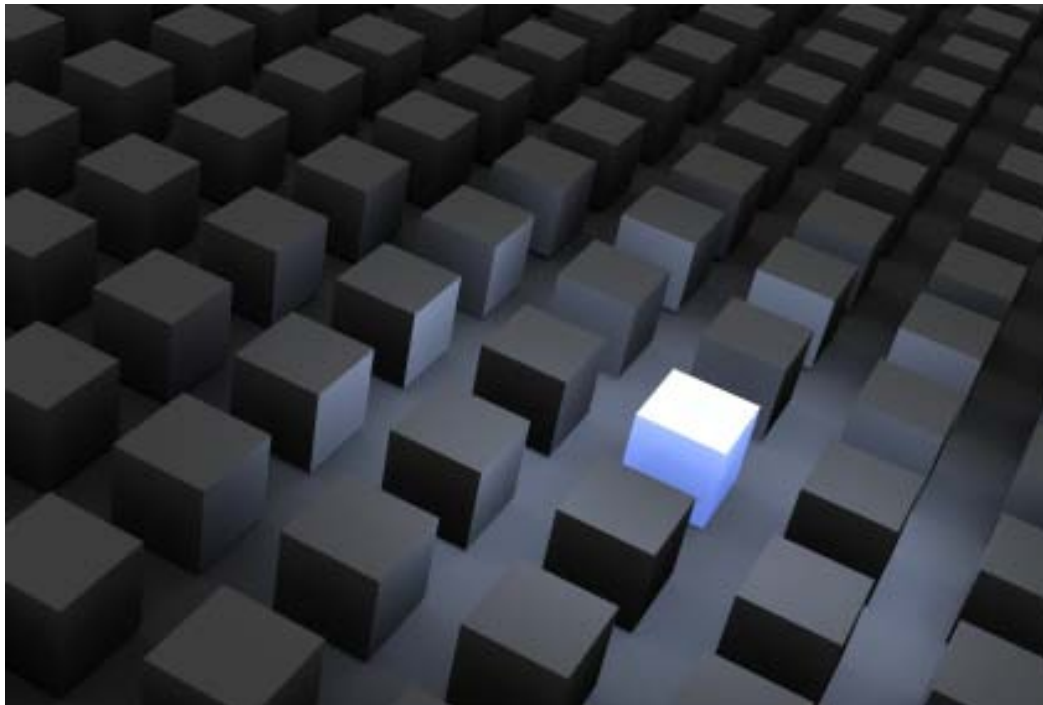
- In the case of Transfer Pricing provisions, **margin of + / - 5 percent** has been **changed** to the percentage as notified by the Central Government.
- **'Powers of survey'** to conduct on-the-spot enquiry and verification have been **given to** the Transfer Pricing Officer (**TPO**).
- Considering the practical difficulties in assessing the arm length price, **due date** of filing **return of income** has been **extended to 30 November** for cases involving **transfer pricing** provisions.
- **Collection of information** on requests received from **tax authorities outside India** in terms of Tax Information Exchange Agreements entered **as per Section 90 and 90A** of the Act.
- **Anti-avoidance measures** have been introduced for transactions with persons in countries which do not effectively exchange information with India. Such transactions shall attract **higher withholding tax @ 30%** and **shall be subject to transfer pricing provisions** even though both the parties are not associated enterprises.

3. Personal Taxation



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- **Basic exemption limit marginally increased** to benefit individual tax payers from Rs. 160,000 to Rs. 180,000.
- **No change** in exemption limit for **women tax payers**.
- **Qualifying age for resident senior citizens reduced to 60 years** from 65 years and the **basic exemption limit increased** to Rs. 250,000 from Rs. 240,000.
- A **special category** of 'Very Senior Citizens' has been **introduced** for resident individuals of **80 years or more**. The basic exemption limit for such individuals is Rs. 500,000.
- **A notified class or class of persons shall be exempted from filing of tax return**. These persons shall include the individuals whose income is only from salary and tax liability is discharged by the employer through deduction of tax at source.
- **Additional deduction** of up to **Rs. 20,000** for investments in notified long-term infrastructure bonds u/s **80CCF** for individuals and Hindu Undivided Families **to continue for one more financial year (FY 2011-12)**.
- Employer contribution towards pension scheme shall be **excluded** from the limit of Rs.1 lakh provided under **Section 80CCE**.
- **Specific deduction** allowable to the **employer** on **contributions** towards the **New Pension Scheme up to 10 percent of the salary** of the employee.



INDIRECT TAX

1. Service Tax



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- **The Point of Taxation Rules** have been **introduced** to determine the point in time when the services shall be deemed to be provided. These rules would virtually **shift the basis for tax collection from “cash” towards “accrual” basis** in the cases where payments are received after raising of invoice.
- **Definition of ‘input services’** has been **amended** under CENVAT Credit Rules’2004 to bring greater clarity and to reduce litigation around the interpretation of this definition.
- **Limit of self adjustment** of service tax has been **raised** from Rs. 1,00,000 to **Rs. 2,00,000**.
- **Maximum penalty for delay in filing of returns** has been **increased** from Rs. 2,000 to **Rs. 20,000**. This change will have no impact if delay in filing of service tax return is only for 40 days. It means maximum penalty amount shall be only Rs. 2000 if delay is for only 40 days.
- **Penalty (u/s 76)** for failure to pay service tax has been **reduced** to higher of 1% (earlier 2%) per month or Rs. 100 (earlier Rs. 200) per day up to a maximum of 50% (earlier 100%) of the service tax amount.
- **Maximum penalty u/s 77** for contravention of any other provisions has been **increased** from Rs. 5,000 to **Rs. 10,000**.
- **Interest rate** for delayed payment of service has been **increased** from 13% to **18%** per annum. However, in case of an assessee with a turnover of up to Rs. 60 lakh, there shall be a reduction of 3% and the effective interest rate shall be 15%.

- **Penalty u/s 78** for suppressing value of taxable services:
 - where taxpayer has not captured the true and complete information in the specified records – Penalty has been reduced from “an amount up to twice the amount of tax” [200%] to “an amount equal to the tax” [100%] and
 - where taxpayer has captured the true and complete information in the specified records – Penalty has been prescribed at 50% of the tax amount.
- **Rule 6(5)** of CENVAT Credit Rules, 2004, which allowed full credit of 17 specified services, has been deleted.
- Under Rule 6 of CENVAT Credit Rules, 2004, the amount payable under ad hoc payment/ reversal scheme in respect of services has been **reduced from 6% to 5% of exempt turnover**.

About us

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We are coming with an in-depth analysis of budget provisions related to Direct and Indirect taxes and it shall be available on 5th of March'2011, you will receive it through an e-mail.

Chandan Goyal

Chief Executive Officer

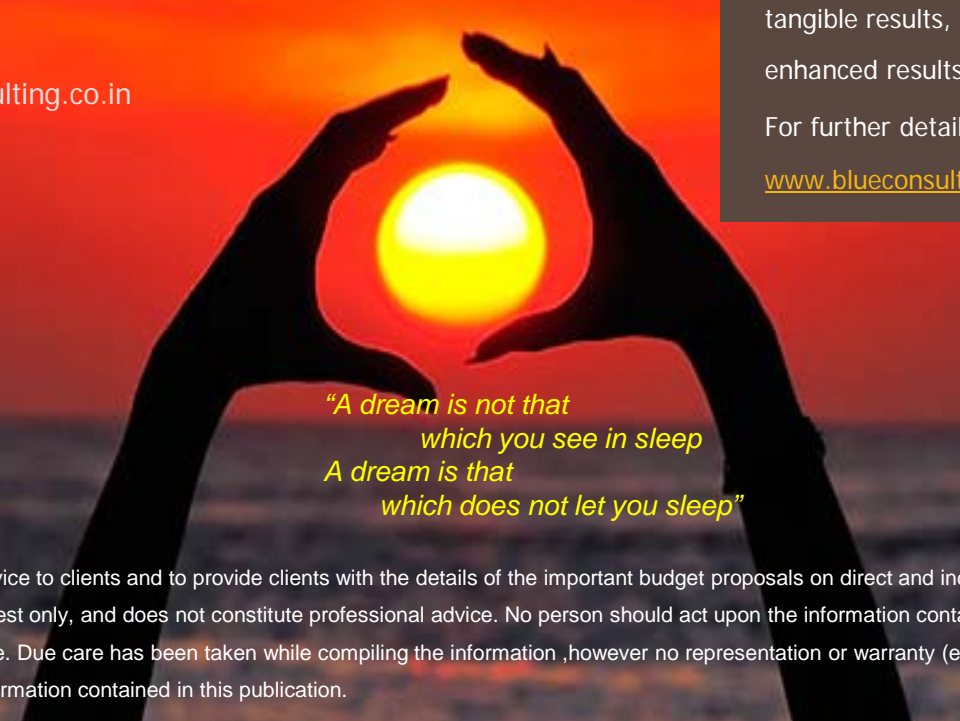
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*"A dream is not that
which you see in sleep
A dream is that
which does not let you sleep"*

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