

# India Budget Statement 2016



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The Finance Bill as introduced in the Parliament may undergo changes before its enactment.

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## Foreword

Budget 2016 suggests that the government has initiated its re-election strategy a couple of years early. Pro-farmer, Pro-poor and Pro-rural, it felt like an election budget, though general elections are still away in 2019.

In FY 2015-16, India has been an exception, with economic growth accelerating to 7.6% amidst a global economic slowdown and increased turbulence in the global financial markets. Operationalising Bank Bureau Board, capital infusion into PSU banks, amendment of policy related to SARFESAI and ARCs, 100% FDI in ARCs, listing of general insurance companies are steps in the financial sector which should further boost growth.

On the tax side, the income tax slabs have remained unchanged. There has been a genuine attempt to reduce litigation and simplify taxation – a tax amnesty scheme, a dispute resolution scheme, a onetime window for resolving the retro tax regime, an automatic stay of demand regime on payment of 15% tax, a revised reduced penalty regime and indications of a gradual withdrawal of exemptions/deductions are indeed steps towards this. The incentives of lower tax on start-ups and those commencing manufacturing operations are steps in the right direction.

A new levy called the Equalisation Levy on payments for online advertising and other specified transactions paid to a non-resident will attract a 6% withholding tax. On the positive side, the Budget has reduced the holding period for an investment to qualify as long term capital asset to 2 years from the earlier qualifying period of 3 years. Further, the push-back of Place of Effective Management provisions by one year is welcome. For an individual, the Finance Minister has made Employee Provident Fund (EPF) and National Pension Scheme (NPS) withdrawals partially taxable on retirement, which will cause a large resentment.

All in all, we have an unprecedented number of changes proposed on the tax-side, the largest in the recent past. Most of them are positive and welcome. Many others will have tax experts scrambling for larger ramifications in the days to come.

The main thrust of the indirect tax proposals seems to be around 'Make in India' and 'Ease of doing business' including reduction in litigation, simplification in tax administration and tax compliances. While in the last Budget there was significant emphasis given to the GST reforms, there was no discussion on the status and progress of GST in the current Budget.

A new cess called the Krishi Kalyan Cess (KKC) has been introduced on all taxable services at 0.5% which will effectively increase the service tax rate to 15%. Interest rate on delayed payment for customs, excise and service tax has also been rationalized to 15%, however, in case of service tax collected but not deposited, the rate would be 24%.

As a major industrialist rightly said with a smirk, "Officially, we are all praising the Budget for its socialist priorities. Truthfully, there is nothing much for Corporates".

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February 29, 2016

Team MGB

# Direct Taxes

## Budget Proposals

### DIRECT TAXES

#### INCOME TAX

##### Rates of Income Tax – No change (except for Surcharge)

- Individual Tax Rates (includes HUF, AOP, BOI)

| Income (Rs)           | Tax Rates (%)* |
|-----------------------|----------------|
| 0 – 2,50,000#         | NIL            |
| 2,50,001 – 5,00,000 ^ | 10.30          |
| 5,00,001 – 10,00,000  | 20.60          |
| > 10,00,001**         | 30.90          |

# Rs. 3,00,000 for Senior Citizens (60years+) and Rs. 5,00,000 for very Senior Citizens (80years+). Please note that there is no separate basic exemption limit for women

^ Rebate of tax payable or Rs. 5,000, whichever is less

\*includes Education Cess of 2%, Secondary and Higher Education Cess of 1%

\*\*Surcharge of 15% is chargeable, where taxable income exceeds Rs. 1,00,00,000/-.

- Partnership Firm Tax Rate (including LLP)

| Total Income (Rs) | Tax Rates (%) |
|-------------------|---------------|
| <10,000,000       | 30.90         |
| > 10,000,001      | 34.608**      |

\*includes Surcharge of 12% and Education Cess of 2%, Secondary and Higher Education Cess of 1%

- Tax Rates for Domestic Company

| Total Income (Rs) | Tax Rates (%)                                 |   |
|-------------------|---|---|
|                   | Turnover in AY 15-16 is less than Rs 5 Crores | Turnover in AY 15-16 is more than Rs 5 Crores |
|                   |   |   |

|                           |                     |                     |
|---------------------------|---------------------|---------------------|
| <1,00,00,000              | 29.87               | 30.90               |
| 1,00,00,001 >10,00,00,000 | 31.961 <sup>^</sup> | 33.063 <sup>^</sup> |
| > 10,00,00,001            | 33.454 <sup>*</sup> | 34.608 <sup>*</sup> |

**Note:** The rate for companies with turnover not exceeding Rs 5crores in the immediately preceding financial year is 29% (excluding cess and surcharge), whereas the rate for newly set up manufacturing companies incorporated on or after March 1, 2016 not availing tax relief or incentives is 25% (excluding cess and surcharge)

<sup>^</sup> includes Surcharge of 7% and Education Cess of 2%, Secondary and Higher Education Cess of 1%

<sup>\*</sup> includes Surcharge of 12% and Education Cess of 2%, Secondary and Higher Education Cess of 1%

▪ **Tax Rates for Foreign Company**

| Total Income (Rs)         | Tax Rates (%)       |
|---------------------------|---------------------|
| <1,00,00,000              | 41.20               |
| 1,00,00,001 >10,00,00,000 | 42.024 <sup>^</sup> |
| > 10,00,00,001            | 43.26 <sup>*</sup>  |

<sup>^</sup> includes Surcharge of 2% and Education Cess of 2%, Secondary and Higher Education Cess of 1%

<sup>\*</sup> includes Surcharge of 5% and Education Cess of 2%, Secondary and Higher Education Cess of 1%

▪ **Other Corporate Tax Rates**

| Tax                       | Tax Rates (%)         |
|---------------------------|-----------------------|
| Dividend Distribution Tax | 17.304 <sup>*\$</sup> |
| Minimum Alternative Tax   |                       |
| <1,00,00,000              | 19.055                |
| 1,00,00,001 >10,00,00,000 | 20.39 <sup>^</sup>    |
| > 10,00,00,001            | 21.34 <sup>*</sup>    |

<sup>^</sup> includes Surcharge of 7% and Education Cess of 2%, Secondary and Higher Education Cess of 1%

<sup>\*</sup> includes Surcharge of 12% and Education Cess of 2%, Secondary and Higher Education Cess of 1%

<sup>\$</sup> in case of DDT, the effective rate would be 20.357%, after grossing up

### **Optional tax rate for a domestic company**

- In order to provide relief to newly setup domestic companies engaged solely in the business of manufacture or production of article or thing, it is proposed that the income-tax payable in respect of the total income of a domestic company with effect from AY 2017-18 shall be computed @ 25% at the option of the company, provided the company is incorporated on or after 01.03.2016 and the company does not claim any benefit under section 10AA, benefit of accelerated depreciation, benefit of additional depreciation, investment allowance, expenditure on scientific research and any deduction under Part-C of Chapter VI-A (other than section 80JJAA).

*[Section 115BA w.e.f AY 2017-18]*

### **Various other measures have been announced in the Budget, which are as under:**

- The Assessing Officer to grant stay of demand once the taxpayer pays 15% of the disputed tax demand, wherein the appeal is pending before the Commissioner of Income tax (Appeals).
- Section 14A read with Rule 8D is proposed to be amended wherein disallowance would be limited to 1% of the average monthly value of investments yielding exempt income, but not exceeding actual expenditure claimed.
- Period of getting benefit of long term capital gains in case of shares of unlisted companies proposed to be reduced from 3 years to 2 years.

### **Rationalization of taxation of income by way of dividend**

- Under the existing provisions, dividend which suffer dividend distribution tax (DDT) under Section 115-O is exempt in the hands of the shareholder. Under Section 115-O dividends are taxed only at the rate of 15% at the time of distribution in the hands of company declaring dividends. This creates vertical inequity amongst the tax payers as those who have high dividend income are subjected to tax only at the rate of 15% whereas such income in their hands would have been chargeable to tax at the rate of 30%.
- With a view to rationalise the tax treatment provided to income by way of dividend, it is proposed that any income by way of dividend in excess of Rs. 10 lakh shall be chargeable to tax in the case of an individual, Hindu undivided family (HUF) or a firm who is resident in India, at the rate of 10%. The taxation of dividend income in excess of ten lakh rupees shall be on gross basis. No deduction in respect of any expenditure or allowance or setoff of loss shall be allowed.



*[Section 115BBDA w.e.f. AY 2017-18]*

### **Change in rate of Securities Transaction tax in case where option is not exercised**

- Securities transaction tax on sale of an option in securities where option is not exercised is proposed to be increased from 0.017 % of option premium to 0.05 %.

*[Section 98 of the Finance Act w.e.f. 1 June 2016]*

### **Equalisation Levy**

- With the expansion of information and communication technology, the supply and procurement of digital goods and services have undergone exponential expansion everywhere, including India.
- Currently in the digital domain, business may be conducted without regard to national boundaries and may dissolve the link between an income-producing activity and a specific location. From a certain perspective, business in digital domain doesn't seem to occur in any physical location but instead takes place in the nebulous world of "cyberspace." Persons carrying business in digital domain could be located anywhere in the world.
- These new business models have created new tax challenges. The typical direct tax issues relating to e-commerce are the difficulties of characterizing the nature of payment and establishing a nexus or link between a taxable transaction, activity and a taxing jurisdiction, the difficulty of locating the transaction, activity and identifying the taxpayer for income tax purposes.
- The digital business fundamentally challenges physical presence-based permanent establishment rules. Therefore in order to make permanent establishment (PE) principles effective, it must be reconciled with the new digital reality as follows-
  - (i) Where an enterprise engaged in fully de-materialized digital activities, would constitute a PE if it maintained a significant digital presence in another country's economy.
  - (ii) It further recommended a virtual fixed place of business in the concept of PE i.e. creation of a PE when the enterprise maintains a website on a server of another enterprise located in a jurisdiction and carries on business through that website.
- Considering the potential of new digital economy and the rapidly evolving nature of business operations, it is proposed to insert a new Chapter titled "Equalisation

Levy" in the Finance Bill, to provide for an equalisation levy of 6 % of the amount of consideration for specified services received or receivable by a non-resident not having permanent establishment ('PE') in India, from-

- (i) a resident in India who carries out business or profession, or
  - (ii) a non-resident having permanent establishment in India.
- Further, in order to reduce burden of small players in the digital domain, no such levy shall be made if the aggregate amount of consideration for specified services received or receivable by a non-resident does not exceed one lakh rupees in any previous year.
  - Further, in order to effectively operationalise the provision of levy, the detailed procedures and conditions are given under Chapter VIII of Equalisation Levy.

#### **Exemption of Income**

- In order to avoid double taxation, it is proposed to provide exemption under section 10 of the Act for any income arising from providing specified services on which equalisation levy is chargeable.
- "Specified service" has 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 service as may be notified by the Central Government in this behalf.

#### **Disallowance of Expenses**

- In order to ensure compliance with the provisions this Chapter, it is further proposed to provide that the expenses incurred by the assessee towards specified services chargeable under this Chapter shall not be allowed as deduction in case of failure of the assessee to deduct or after deduction, has not been paid on or before the due date specified in sub-section (1) of section 139:
- Provided that where in respect of any such consideration, the equalisation levy has been deducted in any subsequent year or has been deducted during the previous year but paid after the due date specified in sub-section (1) of section 139, such sum shall be allowed as a deduction in computing the income of the previous year in which such levy has been paid;".

*[This Chapter will take effect from the date appointed in the notification to be issued by the Central Government]*

### **Tax Collection at Source (TCS) on sale of vehicles; goods or services**

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- As per the existing provisions, the seller shall collect tax at source at specified rate from the buyer at the time of sale of specified items such as alcoholic liquor for human consumption, tendu leaves, scrap, mineral being coal or lignite or iron ore, bullion etc. in cash exceeding two lakh rupees.
- In order to reduce the quantum of cash transaction in sale of any goods and services and for curbing the flow of unaccounted money in the trading system and to bring high value transactions within the tax net, it is proposed that the seller shall collect tax at the rate of 1 % from the purchaser on sale of motor vehicle of the value exceeding ten lakh rupees and sale in cash of any goods (other than bullion and jewellery), or providing of any services (other than payments on which tax is deducted at source under Chapter XVII-B) exceeding two lakh rupees.
- It is also proposed that sub-section (1D) relating to TCS in relation to sale of any goods (other than bullion and jewellery) or services shall not apply to certain class of buyers who fulfil such conditions as may be prescribed.

*[Section 206 w.e.f. 1 June 2016]*

#### **Levy of tax where the charitable institution ceases to exist or converts into a non-charitable organization**

- New section has been proposed to tax the accreted income of the Trusts etc. registered u/s 12AA at the time :
  - (i) It is converted into form which is not eligible u/s 12AA
  - (ii) Merged with entity other than an entity which is trust having similar objective; or
  - (iii) On its dissolution, failed to transfer all its assets to trust or institution eligible to claim similar exemption.
- Accreted income shall mean the amount by which aggregate fair market value of the total assets exceeds the total liability. Method of valuation shall be prescribed in the Rules. The tax shall have to be paid at Maximum Marginal Rate.

*[Section 115TD, 115TE, 115TF w.e.f. 1 June 2016]*

#### **Phasing out of Deductions**

The Finance Minister in his Budget Speech, 2015 has indicated that the rate of corporate tax will be reduced from 30% to 25% over the next four years along with

corresponding phasing out of exemptions and deductions. The Government proposed to implement this decision in a phased manner.

**Table 1: Proposed Phase out plan of incentives (Profit linked Deductions/weighted deduction) available under the Act.**

| Sl. No. | Section  | Incentive currently available in the Act   | Proposed phase out measures/ Amendment   |
|---------|--|--|--|
| 1       | 10AA- Special provision in respect of newly established units in SEZ   | Profit linked deductions for units in SEZ for profit derived from export of articles or things or services   | No deduction shall be available to units commencing manufacture or production of article or thing or start providing services on or after 1st day April, 2020. |
| 2       | 35AC-Expenditure on eligible projects or schemes.  | Deduction for expenditure incurred by way of payment of any sum to a public sector company or a local authority or to an approved association or institution, etc. on certain eligible social development project or a scheme. | No deduction from PY 2017-18 onwards   |
| 3       | 35CCD-Expenditure on skill development project.  | Weighted deduction of 150% on any expenditure incurred (excluding cost of Land or building) on any notified skill development project by a company.  | Deduction shall be restricted to 100% from PY 2020-21 onwards  |
| 4       | Section 80IA; 80IAB, and 80IB -<br>Deduction in respect of profits derive from<br>a) development, operation and maintenance of an infrastructure facility (80-IA)<br>(b) development of special economic zone (80-IAB)<br>(c) production of mineral oil and natural gas [80-IB(9)] | 100% profit linked deductions for specified period on eligible business carried on by industrial undertakings or enterprises referred in section 80IA; 80IAB, and 80IB.  | No deduction if the specified activity commences on or after 1st day April, 2017.  |

**Table 2: Proposed Phase out plan of incentives (Accelerated Depreciation/Weighted Deduction) available under the Act.**

| Sl. No. | Section  | Incentive currently available in the Act   | Proposed phase out measures/ Amendment   |
|---------|--|--|--|
| 1       | 32 read with rule 5 of Income-tax Rules, 1962- Accelerated Depreciation. | Accelerated depreciation is provided to certain Industrial sectors in order to give impetus for investment. The depreciation under the Income-tax Act is available up to 100% in respect of certain block of assets. | To amend the new Appendix IA read with rule 5 of Income-tax Rules, 1962 to provide that highest rate of depreciation under the Income-tax Act shall be restricted to 40% from PY 2017-18 onwards. The new rate is proposed to be made applicable to all the assets (whether old or new) falling in the relevant block of assets. |
| 2       | 35(1)(ii)- Expenditure on scientific research.                           | Weighted deduction upto 175% of any sum paid for scientific research to an approved scientific research association, university, college or other institution.   | Weighted deduction shall be restricted to 150% from PY 2017-18 to PY 2019-20 and 100% from PY 2020-21 onwards.   |
| 3       | 35(1)(ia)- Expenditure on scientific research.                           | Weighted deduction upto 125% of any sum paid as contribution to an approved scientific research Company.   | Deduction shall be restricted to 100% with effect from PY 2017-18 onwards.   |
| 4       | 35(1)(iii)- Expenditure on scientific research.                          | Weighted deduction upto 125% of contribution to an approved research association or university or college or other institution to be used for research in social science or statistical research.                    | Deduction shall be restricted to 100% with effect from PY 2017-18 onwards.   |
| 5       | 35(2AA)- Expenditure on scientific research.                             | Weighted deduction upto 200% of any sum paid to a National Laboratory or a university or an Indian Institute of Technology or a specified person for the   | Weighted deduction shall be restricted to 150% from PY 2017-18 to PY 2019-20 and 100% from PY 2020-21 onwards.   |

|   |   |   |  |
|---|---|---|--|
|   |   | purpose of approved scientific research programme.  |  |
| 6 | 35(2AB)-<br>Expenditure on scientific research.                   | Weighted deduction of 200% of the expenditure (excluding cost of any land or building) incurred by a company, engaged in the business of bio-technology or in the business of manufacture or production of any article or thing except some items appearing in the negative list specified in Schedule-XI, on scientific research on approved in-house research and development facility. | Weighted deduction shall be restricted to 150% from PY 2017-18 to PY 2019-20 and 100% from PY 2020-21 onwards.   |
| 7 | 35AD- Deduction in respect of specified business.                 | In case of a cold chain facility, warehousing facility for storage of agricultural produce, an affordable housing project, production of fertiliser and hospital weighted deduction of 150% of capital expenditure (excluding cost of land, goodwill and financial assets) is allowed.  | In case of a cold chain facility, warehousing facility for storage of agricultural produce, hospital, an affordable housing project, production of fertilizer, deduction shall be restricted to 100% of capital expenditure from PY 2017-18 onwards. |
| 8 | 35CCC-<br>Expenditure on notified agricultural extension project. | Weighted deduction of 150% of expenditure incurred on notified agricultural extension project.  | Deduction shall be restricted to 100% from PY 2017-18 onwards.   |

**Exemption in respect of certain activity related to diamond trading in "Special Notified Zone"**

- In case of non-resident person, income is taxed in India only if the income accrues or arises in India or is deemed to accrue or arise in India or is received in India which include any income directly or indirectly derived through or from a business connection in India.

- A "Special Notified Zone" (SNZ) had been created to facilitate shifting of operations by foreign mining companies (FMC) to India and to permit the trading of rough diamonds in India by the leading diamond mining companies of the world. The activity of FMC of mere display of rough diamonds even with no actual sale taking place in India may lead to creation of business connection in India of the FMC.
- In order to facilitate the FMCs to undertake activity of display of uncut diamond (without any sorting or sale) in the special notified zone, it is proposed that in case of a foreign company engaged in the business of mining of diamonds, no income shall be deemed to accrue or arise in India to it through or from the activities which are confined to display of uncut and unsorted diamonds in a Special Zone notified by the Central Government in the Official Gazette in this behalf.

*[Section 9 retrospective w.e.f. AY 2016-17]*

#### **Extending the benefit of initial additional depreciation for power sector**

- Under the existing provisions, additional depreciation of 20% is allowed in respect of the cost of new plant or machinery acquired and installed by certain assessee engaged in the business of generation and distribution of power. This depreciation allowance is over and above the deduction allowed for general depreciation under section 32(1)(ii) of the Act.
- In order to rationalise the incentive of power sector, it is proposed that an assessee engaged in the business of transmission of power shall also be allowed additional depreciation at the rate of 20% of actual cost of new machinery or plant acquired and installed in a previous year.

*[Section 32(1)(ia) w.e.f. AY 2017-18]*

#### **Taxation of Income from 'Patents'**

- It is proposed that where the total income of an eligible assessee includes any income by way of royalty in respect of a patent developed and registered in India, then such royalty shall be taxable at the rate of 10% (plus surcharge and cess as applicable) on the gross amount of royalty. However, no expenditure or allowance in respect of such royalty income shall be allowed. 'Eligible assessee' means a person resident in India, who is the first inventor of the invention and registered as patentee in accordance with Patents Act, 1970.

*[Section 115BBF w.e.f AY 2017-18]*

### Tax incentives for start-ups

- With a view to providing an impetus to start-ups and facilitate their growth in the initial phase of their business, it is proposed to provide a deduction of one hundred percent of the profits and gains derived by an eligible start-up from a business involving innovation development, deployment or commercialization of new products, processes or services driven by technology or intellectual property.
- The benefit of hundred percent deduction of the profits derived from such business shall be available to an eligible start-up which is setup before 01.04.2019. This deduction can be availed for any three consecutive assessment years out of the five years beginning from the year of incorporation of the said start-up.
- An “eligible start-up” means a company engaged in aforesaid eligible business which is incorporated on or after 01.04.2016 but before 01.04.2019 and whose total turnover does not exceed Rs. 25 Crores in a financial year
- It is proposed to insert a new Section 54EE to provide exemption from capital gains tax if the long term capital gains proceeds are invested by an assessee in units of such specified fund, as may be notified, subject to the condition that the amount remains invested for three years. The investment in the units of the specified fund shall be allowed up to Rs. 50 lakh
- It is proposed to amend section 54GB to provide for relief to individual or HUF willing to setup a start-up company by selling a residential property to invest in the shares of such company i.e. an eligible start-up, from the proceeds of long term capital gains arising on account of transfer of a residential property. The individual or HUF must however, hold more than 50% shares of the company and such company shall utilize the amount to purchase new asset before filing of return by the investor. ‘New asset’ has been proposed to be amended to include computers or computer software in case of technology driven start-ups.

*[Section 80-IAC, 54EE, 54GB w.e.f. AY 2017-18]*

### Incentives for promoting housing for all

- With a view to incentivise affordable housing sector as a part of larger objective of 'Housing for All', it is proposed that 100% deduction of the profits of an assessee developing and building affordable housing projects will be allowed which is approved by the competent authority, before 31.03.2019 subject to the following conditions:
  - (i) the project is completed within 3 years from date of approval,
  - (ii) the project is on a plot of land measuring not less than 1000 sq. metres within 25km from municipal limits in case of four metro cities or 2000 sq.



metres in any other area , and where the size of the residential unit in the said areas is not more than 30 sq. metres and 60 sq. metres respectively, (iii) where the residential unit is allotted to an individual, no such unit shall be allotted to him or any member of his family.

- Further, under existing provisions of Section 80EE, deduction of Rs. 1 Lac rupees is allowed in respect of interest paid on loan by an individual for acquisition of a residential house property. This benefit was available for the two assessment years i.e. AY 2014-15 and AY 2015-16.
- It is proposed to incentivise first-home buyers availing home loans by providing for an additional deduction in respect of interest on loan taken for residential house property from any financial institution up to Rs. 50,000 provided the value of the house property is less than Rs. 50 Lacs and in respect of which the loan of Rs. 35 Lacs is sanctioned during the period from 01.04.2016 to 31.03.2017. The benefit of this deduction is proposed to be extended till the repayment of loan continues. This proposed deduction is over and above the limit of Rs. 2 Lacs provided under Section 24.

*[Section 80-IBA, 80EE w.e.f AY 2017-18]*

#### **Tax incentive for employment generation**

- The existing provisions provide for a deduction of 30% of additional wages paid to new regular workmen in a factory for three years. The provisions apply to the business of manufacture of goods in a factory where 'workmen' are employed for not less than 300 days in a previous year. Further, benefits are allowed only if there is an increase of at least 10% in total number of workmen employed.
- It is proposed to relax the norms for minimum number of days of employment in a financial year from 300 days to 240 days and also the condition of 10% increase in number of employees every year is proposed to be done away with so that any increase in the number of employees will be eligible for deduction under the provision. It is also proposed to provide that in the first year of a new business, a deduction of 30% of all emoluments paid or payable to the employees during the previous year shall be allowed.

*[Section 80JJAA w.e.f AY 2017-18]*

#### **Provision for Tax benefits to Sovereign Gold Bond Scheme, 2015**

- With a view to providing parity in tax treatment between physical gold and Sovereign Gold Bond, it is proposed that any redemption of Sovereign Gold Bond

under the Scheme, by an individual shall not be treated as transfer and therefore shall be exempt from tax on capital gains.

- It is also proposed that indexation benefits of long term capital gains arising on transfer of Sovereign Gold Bond will be available to all cases of assesseees.

*[Section 47, 48 w.e.f. AY 2017-18]*

#### **Provision for Tax benefits to Rupee Denominated Bonds**

- With a view to provide relief to non-resident investor who invest in rupee denominated bonds of Indian corporates and bears the risk of currency fluctuation, it is proposed that the capital gains, arising in case of appreciation of rupee between the date of issue and the date of redemption against the foreign currency in which the investment is made shall be exempt from tax on capital gains.

*[Section 48 w.e.f. AY 2017-18]*

#### **Rationalization of limit of deduction allowable in respect of rents paid under Section 80GG**

- The existing limit of Rs. 2,000 per month is proposed to be increased to Rs. 5,000 per month for maximum amount which can be claimed as deduction in respect of expenditure incurred towards payment of rent where the assessee does not receive house rent allowance from the employer.

*[Section 80GG w.e.f AY 2017-18]*

#### **Tax Treatment of Gold Monetization Scheme, 2015**

- Under the existing provisions, interest on Gold Deposit Bonds issued under Gold Deposit Scheme, 1999 is exempt. Further, these bonds are excluded from the definition of capital asset and therefore exempt from tax on capital gains.
- With a view to extend the same tax benefits to the scheme as were available to the Gold Deposit Scheme, 1999 it is proposed to exclude Deposit Certificates issued under Gold Monetisation Scheme, 2015 notified by the Central Government, from the definition of capital asset and thereby to exempt it from capital gains tax. It is also proposed that the interest on Deposit Certificates issued under the Scheme, shall be exempt from income-tax.

*[Section 2(14), 10(15) retrospective w.e.f. AY 2016-17]*

### **Rationalization of Rebate of income-tax in case of certain individuals**

- The existing provisions of section 87A, provide for a rebate of an amount equal to hundred per cent of such income-tax or an amount of Rs. 2,000, whichever is less, from the amount of income-tax to an individual resident in India whose total income does not exceed Rs. 5 Lacs. It is now proposed to increase the limit of Rs. 2,000 to Rs. 5,000.

*[Section 87A w.e.f AY 2017-18]*

### **Increase in time period for acquisition or construction of self-occupied house property for claiming deduction of interest**

- As per the existing provisions, interest payable on capital borrowed for acquisition or construction of a house property shall be deducted while computing income from house property. The second proviso to the said clause provides that a deduction of an amount of two lakh rupees shall be allowed where a self-occupied house property has been acquired or constructed with capital borrowed on or after the 1 day of April, 1999 and such acquisition or construction is completed within three years from the end of the financial year in which capital was borrowed.
- In view of the fact that housing projects often take longer time for completion, it is proposed that that the deduction under the said proviso on account of interest paid on capital borrowed for acquisition or construction of a self-occupied house property shall be available if the acquisition or construction is completed within five years from the end of the financial year in which capital was borrowed.

*[Section 24 w.e.f. AY 2017-18]*

### **Simplification and rationalisation of provisions relating to taxation of unrealised rent and arrears of rent**

- As per the existing provisions, certain deduction are available when unrealised rent allowed as deduction when realised subsequently, unrealised rent received subsequently and arrears of rent received respectively.
- To bring uniformity in tax treatment of arrears of rent and unrealised rent, it is proposed to simplify these provisions and merge them under a single new Section. It is proposed that the amount of rent received in arrears or the amount of unrealised rent realised subsequently by an assessee shall be charged to income-tax in the financial year in which such rent is received or realised, whether the assessee is the owner of the property or not in that financial year. It is also proposed that 30%

of the arrears of rent or the unrealised rent realised subsequently shall be allowed as deduction.

*[Section 25A w.e.f. AY 2017-18]*

### **Exemption from Dividend Distribution Tax (DDT) on distribution made by an SPV to Business Trust**

- In respect of taxation of business trusts comprising of Real Estate Investment Trust (REITs) and Infrastructure Investment Trust (Invits) regulated by SEBI a specific taxation regime has been incorporated in the Act. Under this regime, the multiple taxation due to interposition of business trust, is avoided.
- The existing tax regime provides that in case of REITs, the income by way of interest paid by SPV being a company to REIT is given pass through i.e. it is not taxed at the level of REIT but in the hands of respective investors of REIT. The rental income from directly held assets by REIT is also allowed a pass through. In respect of assets held through an SPV, if SPV is a company then the company pays normal corporate tax and thereafter when the income is distributed to the REIT being a shareholder, it suffers DDT which is paid by the SPV and thereafter the income is exempt both in the hands of REIT and also its investors.
- In case of Invits, there is a similar regime with only exception being that there is no pass through for Invits holding income generating assets directly as normally such large infrastructure projects are not held directly in the trust but are held through an SPV. As an incentive in the case of sponsor (the person setting up trust), capital gain arising at time of swap of its shareholding in SPV for units of business trust is deferred both under normal provisions and from applicability of MAT. Such gains get taxed only after actual sale of units.
- In order to further rationalize the taxation regime for business trusts (REITs and Invits) and their investors, it is proposed to provide a special dispensation and exemption from levy of dividend distribution tax. The salient features of the proposed dispensation are:
  - (i) exemption from levy of DDT in respect of distributions made by SPV to the business trust;
  - (ii) such dividend received by the business trust and its investor shall not be taxable in the hands of trust or investors;
  - (iii) the exemption from levy of DDT would only be in the cases where the business trust either holds 100% of the share capital of the SPV or holds all of the share capital other than that which is required to be held by any

other entity as part of any direction of any Government or specific requirement of any law to this effect or which is held by Government or Government bodies; and

- (iv) the exemption from the levy of DDT would only be in respect of dividends paid out of current income after the date when the business trust acquires the shareholding referred in (c) above in the SPV. The dividends paid out of accumulated and current profits upto this date shall be liable for levy of DDT as and when any dividend out of these profits is distributed by the company either to the business trust or any other shareholder.

*[Section 10(23FC), 115O, 115UA, 194LBA w.e.f. 1 June 2016]*

#### **Modification in conditions of special taxation regime for off shore funds**

- The present provisions, provides for a special regime in respect of offshore funds. It provides that in the case of an eligible investment fund, the fund management activity carried out through an eligible fund manager acting on behalf of such fund shall not constitute business connection in India of the said fund. Further, an eligible investment fund shall not be said to be resident in India merely because the eligible fund manager undertaking fund management activities on its behalf is located in India. The benefit is available subject to the conditions provided in the Section.
- The Section also provides for the conditions for the eligibility of the fund. In respect of activities of fund, there is a restriction that the fund shall not carry on or control and manage, directly or indirectly, any business in India or from India and shall neither engage in any activity which constitutes a business connection in India nor have any person acting on its behalf whose activities constitute a business connection in India other than the activities undertaken by the eligible fund manager on its behalf.
- In order to rationalize the regime and to address the concerns of the industry, it is proposed to modify these conditions to provide that the eligible investment fund, shall also mean a fund established or incorporated or registered outside India in a country or a specified territory notified by the Central Government in this behalf. It is also proposed to provide that the condition of fund not controlling and managing any business in India or from India shall be restricted only in the context of activities in India.

*[Section 9A w.e.f. AY 2017-18]*

**Enabling provision for implementation of various provisions of the Act in case of a foreign company held to be resident in India.**

- Presently, a Company would be resident in India in any previous year if it is an Indian company or its Place of Effective Management (POEM) in that year is in India. The POEM was defined to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are in substance made.
- In the context of implementation of POEM based residence rule, certain issues, relating to the applicability of current provisions of the Act to a company which is incorporated outside India and has not earlier been assessed to tax in India, have arisen. Problems also arise due to the fact that a company may be claiming to be a foreign company not resident in India but in the course of assessment, it is held to be resident based on POEM being in fact in India. This determination would be well after closure of the previous year and it may not be possible for company to undertake many of procedural requirements.
- In order to provide clarity in respect of implementation of POEM based rule of residence and also to address concerns of the stakeholders, it is proposed to defer the applicability of POEM based residence test by one year.

*[Section 6 w.e.f. AY 2017-18]*

**Introduction of Presumptive taxation scheme for persons having income from profession**

- The existing scheme of taxation provides for a simplified presumptive taxation scheme for certain eligible persons engaged in certain eligible business only and not for persons earning professional income. In order to rationalize the presumptive taxation scheme and to reduce the compliance burden of the small tax payers having income from profession and to facilitate the ease of doing business, it is proposed to provide for presumptive taxation regime for professionals.
- It is proposed that for estimating the income of an assessee who is engaged in any profession and whose total gross receipts does not exceed fifty lakh rupees in a previous year, at a sum equal to fifty per cent of the total gross receipts, or, as the case may be, a sum higher than the aforesaid sum earned by the assessee.
- It is also proposed that the assessee will not be required to maintain books of account and get the accounts audited in respect of such income unless the assessee claims that the profits and gains from the aforesaid profession are lower than the profits and gains deemed to be his income and his income exceeds the

maximum amount which is not chargeable to income-tax. Applicable to resident assessee who is an individual, Hindu undivided family or partnership firm but not Limited Liability partnership firm.

*[Section 44ADA w.e.f. AY 2017-18]*

#### **Increase in threshold limit for audit for persons having income from profession**

- Under the existing provisions, every person carrying on a profession is required to get his accounts audited if the total gross receipts exceed twenty five lakh rupees.
- It is proposed to increase the threshold limit of total gross receipts, specified for getting accounts audited, from twenty five lakh rupees to fifty lakh rupees in the case of persons carrying on profession.

*[Section 44AB w.e.f. AY 2017-18]*

#### **Increase in threshold limit for presumptive taxation scheme for persons having income from business**

- Under the existing provisions providing for presumptive taxation scheme for an eligible assessee engaged in an eligible business having total turnover or gross receipts not exceeding rupees one crore, a sum equal to eight per cent of the total turnover or gross receipts, or as the case may be, a sum higher than the aforesaid sum shall be deemed to be profits and gains of such business chargeable to tax under the head "Profits and gains of business or profession".
- In order to reduce the compliance burden of the small tax payers and facilitate the ease of doing business, it is proposed to increase the threshold limit of one crore rupees specified in the definition of "eligible business" to two crore rupees. It is also proposed that the expenditure in the nature of salary, remuneration, interest etc. paid to the partner shall not be deductible while computing the income/
- Further as the turnover limit of presumptive taxation scheme has been enhanced, it is proposed to provide that eligible assessee shall be require to pay advance tax by 15th March of the financial year.

*[Section 44AD w.e.f. AY 2017-18]*

#### **Deduction in respect of provision for bad and doubtful debt in the case of Non-Banking Financial companies**

- As per the existing provisions, deduction in respect of any provision for bad and doubtful debts is available to public financial institutions, State financial

corporations and State industrial investment corporations limited to an amount not exceeding five per cent of the gross total income, computed, before making any deduction under the aforesaid clause and Chapter VI-A.

- Since, non-banking financial companies (NBFC) are also engaged in financial lending to different sectors. It is proposed that NBFC shall also be allowed a deduction to the extent of five per cent of the total income (computed before making any deduction under this clause and Chapter VI-A) on account of provision for bad and doubtful debts.

*[Section 36(1)(viii) w.e.f. AY 2017-18]*

**Rationalisation of scope of tax incentive – Investment in new plant and machinery:**

- As per the existing provisions, investment allowance at the rate of 15% on investment made in new assets (plant and machinery) exceeding Rs.25 crore in a previous year by a company engaged in manufacturing or production of any article or thing subject to the condition that the acquisition and installation has to be done in the same previous year. This tax incentive is available up to 31.03.2017. The dual condition of acquisition and installation causes genuine hardship in cases in which assets having been acquired could not be installed in same previous year.
- It is proposed that the acquisition of the plant & machinery of the specified value has to be made in the previous year. However, installation may be made by 31.03.2017 in order to avail the benefit of investment allowance of 15%. It is further proposed to provide that where the installation of the new asset is in a year other than the year of acquisition, the deduction shall be allowed in the year in which the new asset is installed.

*[Section 32AC retrospective w.e.f. AY 2016-17]*

**Exemptions from requirement of furnishing PAN to certain non-resident**

- As per the existing provisions any person who is entitled to receive any sum or income or amount on which tax is deductible under Chapter XVIIIB of the Act shall furnish his Permanent Account Number to the person responsible for deducting such tax, failing which tax shall be deducted at the rate mentioned in the relevant provisions of the Act or at the rate in force or at the rate of 20%, whichever is higher. The provisions shall also apply to non-residents with an exception in respect of payment of interest on long-term bonds as referred to in Section 194LC.
- In order to reduce compliance burden, it is proposed that the provisions shall also not apply to a non-resident, not being a company, or to a foreign company, in



respect of any other payment, other than interest on bonds, subject to such conditions as may be prescribed.

*[Section 206AA w.e.f. 1 June 2016]*

### **Applicability of Minimum Alternate Tax (MAT) on foreign companies**

- As per the existing provisions, in case of a company, if the tax payable on the total income as computed under the Income-tax Act, is less than 18.50% of its book profit, such book profit shall be deemed to be the total income of the assessee and the tax payable by the assessee for the relevant previous year shall be 18.50% of its book profit.
- Issues were raised regarding the applicability of this provision to Foreign Institutional Investors (FIIs) who do not have a permanent establishment (PE) in India. Vide Finance Act, 2015 provisions of Section 115JB were amended, applicable prospectively w.e.f. AY 2016-17, to provide that in case of a foreign company any income chargeable at a rate lower than the rate specified in Section 115JB shall be reduced from the book profits and the corresponding expenditure will be added back.
- In view of the recommendations of the specific committee set-up and with a view to provide certainty in taxation of foreign companies in view of the fact that FIIs and FPIs normally do not have a place of business in India, it is proposed to clarify the applicability of Minimum Alternate Tax (MAT) provisions to Foreign Institutional Investors/ Foreign Portfolio Investors (FIIs/FPIs) shall not be applicable to a foreign company if certain conditions are satisfied.

*[Section 115JB retrospective w.e.f. AY 2001-02]*

### **Tax Incentives to International Financial Services Centre**

- With a view to incentivise the growth of International Financial Services Centres into a world class financial services hub, it is proposed to amend , so as to provide for :
  - (i) Section 10 - exemption from tax on capital gains to the income arising from transaction undertaken in foreign currency on a recognised stock exchange located in an International Financial Services Centre even when securities transaction tax is not paid in respect of such transactions.

- (ii) Section 115JB - in case of a company, being a unit located in International Financial Services Centre and deriving its income solely in convertible foreign exchange, the Minimum Alternate Tax shall be chargeable at the rate of 9%.
- (iii) Section 115-O - no tax on distributed profits shall be chargeable in respect of the total income of a company being a unit located in International Financial Services Centre, deriving income solely in convertible foreign exchange, for any assessment year on any amount declared, distributed or paid by such company, by way of dividends (whether interim or otherwise) on or after the 1 day of April, 2017 out of its current income, either in the hands of the company or the person receiving such dividend.

*[Section 10, 115JB, 115O w.e.f. AY 2017-18]*

- (iv) Section 113A of Finance (No.2) Act, 2004 - provisions of Chapter VII shall not apply to taxable securities transactions entered into by any person on a recognized stock exchange located in International Financial Services Centre where the consideration for such transaction is paid or payable in foreign currency, thereby exempting such transaction from securities transaction tax.
- (v) Section 132A in Chapter VII of Finance Act, 2013 - shall also not apply to taxable commodities transactions entered into by any person on a recognized association located in unit of International Financial Services Centre where the consideration for such transaction is paid or payable in foreign currency, thereby exempting such transaction from commodities transaction tax.

### **The Income Declaration Scheme, 2016**

- Persons who have not paid full taxes in the past have been provided with an opportunity to come forward and declare the undisclosed income and pay tax, surcharge and penalty totalling in all to **45% (tax 30% + 7.50% Krishi Kalyan Cess + 7.50% penalty)** of such undisclosed income declared.
- It is proposed that declarations made under the Scheme shall be exempt from wealth-tax in respect of assets specified in declaration. It is also proposed that no scrutiny and enquiry under the Income-tax Act and Wealth-tax Act be undertaken in respect of such declarations and immunity from prosecution under such Acts be provided. Immunity from the Benami Transactions (Prohibition) Act, 1988 is also proposed for such declarations subject to certain conditions.

- It is proposed that payment of tax, surcharge and penalty may be made on or before a date to be notified and non-payment up to the date so notified shall render the declaration made under the scheme void and the undisclosed income shall be chargeable to tax under the Income-tax Act in the previous year in which such declaration is made. It is proposed to provide that where a declaration under the scheme has been made by misrepresentation or suppression of facts, such declaration shall be treated as void.
- The scheme is proposed to be brought into effect from 1 June 2016 and will remain open up to the date to be notified by the Central Government in the official gazette. The scheme is proposed to be made applicable in respect of undisclosed income of any financial year upto 2015-16.
- The benefit of the scheme cannot however be taken in case notice for assessments have already been issued.
- The Scheme shall not apply in relation to any undisclosed foreign income and assets.

#### **The Direct Tax Dispute Resolution Scheme, 2016**

- In order to reduce the huge backlog of cases and to enable the Government to realise its dues expeditiously, it is proposed to bring the Direct Tax Dispute Resolution Scheme, 2016 in relation to tax arrear and specified tax.
- The salient features of the proposed scheme are as under:
  - (i) The Scheme be applicable to "tax arrear" which is defined as the amount of tax, interest or penalty determined under the Income-tax Act or the Wealth-tax Act, 1957 **in respect of which appeal is pending before the Commissioner of Income-tax (Appeals)** or the Commissioner of Wealth-tax (Appeals) as on the 29th day of February, 2016.
  - (ii) The pending appeal could be against an assessment order or a penalty order.
  - (iii) The declarant under the scheme be required to pay tax at the applicable rate plus interest upto the date of assessment. However, in case of disputed tax exceeding rupees ten lakh, twenty-five percent of the minimum penalty leviable shall also be required to be paid.
  - (iv) In case of pending appeal against a penalty order, twenty-five percent of

minimum penalty leviable shall be payable alongwith the tax and interest payable on account of assessment or reassessment.

- (v) Consequent to such declaration, appeal in respect of the disputed income and disputed wealth pending before the Commissioner (Appeals) shall be deemed to be withdrawn.
- In addition to the above, the scheme proposes that person may also make a declaration in respect of any tax determined in consequence of or is validated by an amendment made with retrospective effect in the Income-tax Act or Wealth-tax Act, as the case may be, for a period prior to the date of enactment of such amendment and a dispute in respect of which is pending as on 29.02.2016 (referred to as specified tax).
  - For availing the benefit of the Scheme, such declarant shall be required to withdraw any writ petition or any appeal filed against such specified tax before the Commissioner (Appeals) or the Tribunal or High Court or Supreme Court, before making the declaration and shall also be required to furnish a proof of such withdrawal.
  - It is proposed that where the declarant violates any of the conditions referred to in the scheme or any material particular furnished in the declaration is found to be false at any stage, it shall be presumed as if the declaration was never made under this Scheme and all the consequences under the Income-tax Act or Wealth-tax Act under which the proceedings against declarant were or are pending, shall be deemed to have been revived.
  - The declarant under the scheme shall get immunity from institution of any proceeding for prosecution for any offence under the Income-tax Act or the Wealth-tax Act. In case of specified tax the declarant shall also get immunity from imposition of penalty under the Income-tax Act or the Wealth-tax Act. However, in case of tax arrears immunity from penalty is proposed to be of the amount that exceeds the penalty payable as per the scheme. The scheme provides waiver of interest under the Income-tax Act or the Wealth-tax Act in respect of specified tax. However, waiver of interest in respect of tax arrears is to the extent the interest exceeds the amount of interest referred in the scheme.
  - In the following cases a person shall not be eligible for the scheme:-
    - (i) Cases where prosecution has been initiated before 29.02.2016.
    - (ii) Search or survey cases where the declaration is in respect of tax arrears.

- (iii) Cases relating to undisclosed foreign income and assets.
  - (iv) Cases based on information received under Double Taxation Avoidance Agreement under section 90 or 90A of the Income-tax Act where the declaration is in respect of tax arrears.
  - (v) Person notified under Special Courts Act, 1992.
  - (vi) Cases covered under Narcotic Drugs and Psychotropic Substances Act, Indian Penal Code, Prevention of Corruption Act or Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974.
- No matter covered by order of designated authority shall be reopened in any other proceeding under the Income-tax Act, 1961 or Wealth-tax Act, 1957. The designated authority shall subject to the conditions provided in the scheme grant immunity from instituting any proceeding for prosecution for any offence under the two Acts in respect of matters covered in the declaration.

**Providing legal framework for automation of various processes and paperless assessment**

- It is proposed to provide adequate legal framework for paperless assessment in order to enhance efficiency and reduce the burden of compliance. A series of changes are proposed to achieve this end including providing that notices and documents required to be issued by income-tax authority shall be issued by such authority either in paper form or in electronic form in accordance with such procedure as may be prescribed. Further, the term "hearing" is proposed to be amended to include communication of data and documents through electronic mode.

*[Section 2, 143(2), 282A w.e.f. 1 June 2016]*

**Rationalization of tax deduction at source provisions relating to payments by category-I and category-II alternate investment funds to its investors.**

- The Finance Act, 2015 had inserted a special taxation regime in respect of Category-I and II Alternative Investment Funds (investment fund) registered with SEBI. Under this regime, the income of the investment fund (not being in the nature of business income) is exempt in the hands of investment fund but income received by the investor from the investment fund (other than income which is taxed at the level of investment fund) is taxable in the hands of investor. The existing provisions provides that in respect of any income credited or paid by the investment fund to its investor, a tax deduction at source (TDS) shall be made by the investment fund @ 10% of the income.

- The non-resident investor is not able to claim benefit of lower or NIL rate of taxation which is available to him under the relevant Double Taxation Avoidance Agreement (DTAA), and deduction of tax @10% is to be undertaken mandatorily even if under DTAA, the income is not taxable in India. Hence, it is proposed that the person responsible for making the payment to the investor shall deduct tax at source @ 10% where the payee is a resident and at the rates in force where the payee is a non-resident (not being a company) or a foreign company.

*[Section 194LBB w.e.f. 1 June 2016]*

### **New Taxation Regime for securitisation trust and its investors**

- As per the existing provisions, income distributed by the securitisation trust to its investors shall be subject to a levy of additional tax to be paid by the securitisation trust within 14 days of distribution of income. Consequent to the levy of distribution tax, the income of the investor, received from the securitisation trust, is exempt under section 10(35A) of the Act and the income of securitisation trust itself is exempt under section 10(23DA) of the Act.
- In Order, to rationalise the tax regime for securitisation trust and its investors, and to provide tax pass through treatment, it is proposed to amend the provisions of the Act to substitute the existing special regime for securitisation trusts by a new regime:
  - (i) The new regime shall apply to securitisation trust being an SPV defined under SEBI (Public Offer and Listing of Securitised Debt Instrument) Regulations, 2008 or SPV as defined in the guidelines on securitisation of standard assets issued by RBI or being setup by a securitisation company or a reconstruction company in accordance with the SARFAESI Act;
  - (ii) The income of securitisation trust shall continue to be exempt. However, exemption in respect of income of investor from securitisation trust would not be available and any income from securitisation trust would be taxable in the hands of investors;
  - (iii) The income accrued or received from the securitisation trust shall be taxable in the hands of investor in the same manner and to the same extent as it would have happened had investor made investment directly in the underlying assets and not through the trust;

- (iv) Tax deduction at source shall be effected by the securitisation trust at the rate of 25% in case of payment to resident investors which are individual or HUF and @ 30% in case of others. In case of payments to non-resident investors, the deduction shall be at rates in force;
  
  - (v) The facility for the investors to obtain low or nil deduction of tax certificate would be available; and
  
  - (vi) The trust shall provide breakup regarding nature and proportion of its income to the investors and also to the prescribed income-tax authority.
- Further, it is proposed to provide that the current regime of distribution tax shall cease to apply in case of distribution made by securitisation trusts with effect from 01.06.2016.

*[Section 10(23DA), 115TA, 115TC, 115TCA, 194LBC w.e.f. 1 June 2016]*

#### **BEPS action plan - Country-By-Country Report and Master file**

- Sections 92 to 92F of the Act contain provisions relating to transfer pricing regime. Under provision of Section 92D, there is requirement for maintenance of prescribed information and document relating to the international transaction and specified domestic transaction.
  
- The OECD report on Action 13 of BEPS Action plan provides for revised standards for transfer pricing documentation and a template for country-by-country reporting of income, earnings, taxes paid and certain measure of economic activity. India has been one of the active members of BEPS initiative and part of international consensus. It is recommended in the BEPS report that the countries should adopt a standardised approach to transfer pricing documentation. A three-tiered structure has been mandated consisting of:-
  - (i) a master file containing standardised information relevant for all multinational enterprises (MNE) group members;
  - (ii) a local file referring specifically to material transactions of the local taxpayer; and
  - (iii) a country-by-country 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.

- The report mentions that taken together, these three documents (country-by-country (CbC) report, master file and local file) will require taxpayers to articulate consistent transfer pricing positions and will provide tax administrations with useful information to assess transfer pricing risks. It will facilitate tax administrations to make determinations about where their resources can most effectively be deployed, and, in the event audits are called for, provide information to commence and target audit enquiries.
- In order to implement the international consensus, it is proposed to provide a specific reporting regime in respect of CbC reporting and also the master file. It is proposed to include essential elements in the Act while remaining aspects can be detailed in rules.

*[Section 92D, 271AA(2), 271GB, 286 w.e.f. AY 2017-18]*

**Exemption of Central Government subsidy or grant or cash assistance, etc. towards corpus of fund established for specific purposes from the definition of Income.**

- The Finance Act, 2015 had amended the definition of income so as to include the assistance received in the form of a subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement (by whatever name called) by the Central Government or a State Government.
- It is now proposed that subsidy or grant by the Central Government for the purpose of the corpus of a trust or institution established by the Central Government or State Government shall not form part of income.

*[Section 2(24) w.e.f. AY 2017-18]*

**Extension of scope of section 43B to include certain payments made to Railways**

- The existing provisions, inter alia, provide that any sum payable by the assessee by way of tax, cess, duty or fee, employer contribution to Provident Fund, etc., is allowable as deduction of the previous year in which the liability to pay such sum was incurred (relevant previous year) if the same is actually paid on or before the due date of furnishing of the return of income irrespective of method of accounting followed by a person.
- With a view to ensure the prompt payment of dues to Railways for use of the Railway assets, it is proposed to include payments made to Indian Railways for use of Railway assets within its ambit.

*[Section 43B w.e.f. AY 2017-18]*



### **Clarification regarding set-off of losses against deemed undisclosed income**

- Under the existing provisions, income tax is payable at 30% in respect of income relating to sections 68, 69, 69A, 69B, 69C or 69D and that no deduction in respect of any expenditure or allowances in relation to income referred to in the aforesaid sections shall be allowable. It is now proposed to expressly provide that set-off of any loss shall also not be allowable in respect of income under the aforesaid sections.

*[Section 115BBE w.e.f AY 2017-18]*

### **Taxation of Non-compete fees and exclusivity rights in case of Profession**

- It is proposed to bring the non-compete fee received / receivable (which are recurring in nature) in relation to not carrying out any profession, within the scope of the charging section of profits and gains of business or profession.
- Further, it is also proposed to amend the proviso to clarify that receipts for transfer of right to carry on any profession, which are chargeable to tax under the head "Capital gains", would not be taxable as profits and gains of business or profession. It is also proposed to amend section 55 so as to provide that the 'cost of acquisition' and 'cost of improvement' for working out "Capital gains" on capital receipts arising out of transfer of right to carry on any profession shall also be taken as 'nil'.

*[Section 28 & 55 w.e.f. AY 2017-18]*

### **Clarification regarding the definition of the term 'unlisted securities'**

- As per existing provisions, tax rate of ten per cent is prescribed for long-term capital gain arising from transfer of securities, whether listed or unlisted. The expression "securities" for the purpose of the said provision has the same meaning as in clause (h) of section 2 of the Securities Contracts (Regulations) Act, 1956 (32 of 1956)('SCRA'). A view has been taken by the courts that shares of a private company are not "securities".
- It is proposed that long-term capital gains arising from the transfer of a capital asset being shares of a company not being a company in which the public are substantially interested, shall be chargeable to tax at the rate of 10 per cent.

*[Section 112(1)(c) w.e.f. AY 2017-18]*

**Time limit for carry forward and set off of such loss under section 73A of the Income-tax Act**

- The aforesaid section, inter alia, provides that a loss which has not been determined in pursuance of a return filed in accordance with the provisions of Section 139(3), shall not be carried forward and set off.
- It is proposed that the loss under Section 73A shall also be not allowed to be carried forward and set off if such loss has not been determined in pursuance of a return filed in accordance with the provisions of Section 139(3).

*[Section 73A retrospective w.e.f. AY 2016-17]*

**Amortisation of spectrum fee for purchase of spectrum**

- It is proposed to provide for amortization of spectrum fees as a deduction in equal instalments over the period for which the right to use spectrum remains in force.

*[Section 35ABA w.e.f. 2017-18]*

**Rationalization of tax deduction at Source (TDS) provisions**

- Under the scheme of deduction of tax at source as provided in the Act, every person responsible for payment of any specified sum to any person is required to deduct tax at source at the prescribed rate and deposit it with the Central Government within specified time. However, no deduction is required to be made if the payments do not exceed prescribed threshold limit.
- In order to rationalise the rates and base for TDS provisions, the existing threshold limit and the rates of deduction of tax at source are proposed to be revised as mentioned in below table-

**Increase in threshold limit of deduction of tax at source on various payments mentioned in the relevant sections of the Act**

| Present Section | Heads   | Existing Threshold Limit (Rs.)   | Proposed Threshold Limit (Rs.)     |
|-----------------|---|----------------------------------|------------------------------------|
| 192A            | Payment of accumulated balance due to an employee | 30,000                           | 50,000                             |
| 194BB           | Winnings from Horse Race                          | 5,000                            | 10,000                             |
| 194C            | Payments to Contractors                           | Aggregate annual limit of 75,000 | Aggregate annual limit of 1,00,000 |

|       |  |         |          |
|-------|--|---------|----------|
| 194LA | Payment of Compensation on acquisition of certain Immovable Property | 200,000 | 2,50,000 |
| 194D  | Insurance commission   | 20,000  | 15,000   |
| 194G  | Commission on sale of lottery tickets                                | 1,000   | 15,000   |
| 194H  | Commission or brokerage  | 5,000   | 15,000   |

**Revision in rates of deduction of tax at source on various payments mentioned in the relevant sections of the Act:**

| Present Section | Heads                                       | Existing Rate of TDS (%) | Proposed Rate of TDS (%) |
|-----------------|---|--------------------------|--------------------------|
| 194DA           | Payment in respect of Life Insurance Policy | 2%                       | 1%                       |
| 194EE           | Payments in respect of NSS Deposits         | 20%                      | 10%                      |
| 194D            | Insurance commission                        | Rate in force (10%)      | 5%                       |
| 194G            | Commission on sale of lottery tickets       | 10%                      | 5%                       |
| 194H            | Commission or brokerage                     | 10%                      | 5%                       |

*[The above amendments will take effects from 1 June 2016]*

**Enabling of Filing of Form 15G/15H for rental payments**

- Section 194-I provides for deduction of tax at source for payments in the nature of rent beyond a threshold limit of Rs.180,000/- per financial year. In spite of providing higher threshold for deduction of tax under this section, there may be cases where the tax payable on recipient's total income, including rental payments, will be nil.
- Hence, it is proposed to make the recipients of payments referred to in Section 194-I also eligible for filing self-declaration in Form no 15G/15H for non-deduction of tax at source in accordance with the provisions of Section 197A.

*[Section 197A w.e.f. 1 June 2016]*

**Rationalization of Section 50C in case sale consideration is fixed under agreement executed prior to the date of registration of immovable property**

- Under the existing provisions, in case of transfer of a capital asset being land or building on both, the value adopted or assessed by the stamp valuation authority

for the purpose of payment of stamp duty shall be taken as the full value of consideration for the purposes of computation of capital gains.

- It is proposed that where the date of the agreement fixing the amount of consideration for the transfer of immovable property and the date of registration are not the same, the stamp duty value on the date of the agreement may be taken for the purposes of computing the full value of consideration, where the amount of consideration referred to therein, or a part thereof, has been paid by way of an account payee cheque or account payee bank draft or use of electronic clearing system through a bank account, on or before the date of the agreement for the transfer of such immovable property.

*[Section 50C w.e.f. AY 2017-18]*

#### **Rationalization of conversion of a company into Limited Liability Partnership (LLP)**

- As per the existing provisions conversion of a private limited or unlisted public company into Limited Liability Partnership (LLP) shall not be regarded as transfer, if certain conditions are fulfilled, which, inter alia, include a condition that the company's gross receipts, turnover or total sales in any of the preceding three years did not exceed Rs.60 lakh.
- It is proposed that, for availing tax-neutral conversion, in addition to the existing conditions, the value of the total assets in the books of accounts of the company in any of the three previous years preceding the previous year in which the conversion takes place, should not exceed five crore rupees.

*[Section 47(xiiib) w.e.f. AY 2017-18]*

#### **Rationalisation of tax treatment of Recognised Provident Funds, Pension Funds and National Pension Scheme**

- Under the existing provisions, tax treatment for the National Pension System (NPS) referred to in section 80CCD is Exempt, Exempt and Tax (EET) i.e., the monthly/periodic contributions during the pension accumulation phase are allowed as deduction from income for tax purposes; the returns generated on these contributions during the accumulation phase are also exempt from tax; however, the terminal benefits on exit or superannuation, in the form of lump sum withdrawals, are taxable in the hands of the individual subscriber or his nominee in the year of receipt of such amounts.
- However, commutation of Government Pension and superannuation fund is exempt from taxation. The monthly contribution, annual accrued income, advances/withdrawals for specific purposes and final withdrawal from the Recognised

Provident Funds (RPFs) on superannuation are also accorded EEE status i.e. Exempt, Exempt, Exempt.

- In order to bring greater parity in tax treatment of different types of pension plans, it is proposed that in respect of the contributions made on or after the 1<sup>st</sup> day of April, 2016 by an employee participating in-
  - (i) Recognised provident fund, up to 40 % of the accumulated balance attributable to such contributions and such conditions as may be prescribed on withdrawal shall be exempt from tax.
  - (ii) Approved Superannuation Fund, *in lieu* of or in commutation of an annuity purchased out such contributions and such conditions as may be prescribed, where it exceeds forty per cent of the annuity, shall be taken into account in computing the total income
  - (iii) National Pension System Trust, on closure of his account or on his opting out of the pension scheme to the extent it does not exceed forty percent of the total amount payable to him at the time of such closure or his opting out of the scheme; shall be exempt from tax. However, the whole amount received by the nominee, on death of the assessee shall be exempt from tax.

#### **Limit on contribution of Employer to approved superannuation Fund**

- Under the existing provision, perquisite includes the amount of any contribution exceeding one lakh rupees to an approved superannuation fund by the employer in the hands of the assessee.
- The limit of contribution by the employee eligible under section 80C of the Act has been increased from one lakh rupees to one lakh and fifty thousand rupees vide Finance Act (No.2), 2014. Therefore, in order to bring parity in the monetary limit for contribution by the employer and the employee, it is proposed to amend the said section and said schedule so as to provide the limit of employer's contribution to one lakh and fifty thousand rupees, without attracting tax.
- Further with a view to bring all the pension plans under one umbrella, it is also proposed to amend:-
  - (i) the said schedule so as to provide exemption to one-time portability from a recognised provident fund to National Pension System;
  - (ii) Section 10(13) so as to provide that any payment from an approved superannuation fund by way of transfer to the account of the employee

under NPS referred to in section 80CCD and notified by the Central Government shall be exempt from tax.

### **Filing of return of income**

- As per the present provisions, a return filed under Section 139(4) i.e. belated return cannot be revised. It is also proposed to substitute sub-section (4) to provide that any person who has not furnished a return within the time allowed to him under sub-section (1), may furnish the return for any previous year at any time before the end of the relevant assessment year or before the completion of the assessment, whichever is earlier.
- It is also proposed to substitute sub-section (5) to provide that if any person, having furnished a return under sub-section (1) or under sub-section (4), or in a return furnished in response to notice issued under sub-section (1) of section 142, discovers any omission or any wrong statement therein, he may furnish a revised return at any time before the expiry of one year from the end of the relevant assessment year or before the completion of the assessment, whichever is earlier.
- Under the existing provisions of clause (aa) to section 139(9), a return of income shall be regarded as defective unless the self-assessment tax payable together with interest, if any, has been paid on or before the date of furnishing of return. It is proposed to omit this clause and that a return of income shall not be treated defective merely because self-assessment tax and interest has not been paid.

*[Section 139 w.e.f AY 2017-18]*

### **Processing of return mandated before Assessment**

- Under the existing provisions of Section 143(1D), processing of return is not necessary where a notice has been issued under Section 143(2).
- It is proposed that before making an assessment under Section 143(3), a return shall be processed under Section 143(1).

*[Section 143 w.e.f AY 2017-18]*

### **Rationalization of time limit for assessment and reassessment**

- It is proposed to make the following changes in time limits for completion of assessment from the existing time limits:
  - (i) the period for completion of assessment under Section 143 or 144 be changed from existing 2 years to 21 months from the end of the assessment year.

- (ii) the period for completion of assessment under Section 147 be changed from existing 1 year to 9 months from end of financial year in which the notice under Section 148 was served
- (iii) the period for completion of fresh assessment in pursuance of an order under Section 254 or 263 or 264 be changed from existing 1 year to 9 months.

*[Section 153 w.e.f 1 June 2016]*

#### **Rationalization of time limit of assessment in search cases**

- It is proposed to amend the section 153B by substituting the following changes in time limit from the existing time limits:
  - (i) the limitation for completion of assessment under section 153A be changed from existing 2 years to 21 months
  - (ii) the limitation for completion of assessment under section 153C be changed from existing 2 years to 21 months

*[Section 153B w.e.f 1 June 2016]*

#### **Rationalization advance tax payment schedule**

- Under the existing provisions, the advance tax payment schedule for a company is 15%, 45%, 75% and 100% of tax payable to be paid by 15<sup>th</sup> June, 15<sup>th</sup> September, 15<sup>th</sup> December and 15<sup>th</sup> March respectively. For other assessee's, the schedule is 30%, 60% and 100% of tax payable to be paid by 15<sup>th</sup> September, 15<sup>th</sup> December and 15<sup>th</sup> March respectively.
- It is proposed to rationalize the advance tax payment schedule and that all assessee's, except eligible assessee's in respect of eligible business referred to in section 44AD, who are liable to pay advance tax shall pay the same in four installments and that each installment with the respective due date shall be 15%, 45%, 75% and 100% of tax payable to be paid by 15<sup>th</sup> June, 15<sup>th</sup> September, 15<sup>th</sup> December and 15<sup>th</sup> March respectively.
- It is further proposed that an eligible assessee in respect of eligible business referred to in section 44AD opting for computation on presumptive basis, shall be required to pay advance tax of the whole amount in one installment on or before the 15<sup>th</sup> March of the financial year.
- It is also proposed that interest under Section 234C shall not be chargeable in

case of an assessee having income under the head "Profits and gains of business or profession" for the first time, subject to fulfillment of conditions specified therein.

*[Section 211, 234C w.e.f 1 June 2016]*

#### **Payment of interest on refund**

- It is proposed to provide that an assessee shall be eligible to interest on refund of self-assessment tax from date of payment of tax or filing of return, whichever is later, to the date on which the refund is granted.
- It is also proposed to provide that where a refund arises out of appeal effect being delayed beyond the time prescribed under Section 153(5), the assessee shall be entitled to receive, in addition to the interest payable under Section 244(1), an additional interest on such refund calculated at 3% per annum, for the period from the date following the date of expiry of the time allowed under 153(5) to the date on which the refund is granted.

*[Section 244A w.e.f. 1 June 2016]*

#### **Rationalization of provisions relating to Appellate Tribunal**

- As per the present provisions, the Principal Commissioner or Commissioner may if he objects to any direction issued by the DRP in pursuance of which the assessing officer has passed an order completing the assessment, direct the assessing officer to appeal to the Appellate Tribunal against such order.

It is proposed to do away with the filing of appeal by the assessing officer against the Order of DRP.

- It is proposed that the Appellate Tribunal may rectify any mistake apparent from the record in its order at any time within six months from the end of the month in which the order was passed as against the present time limit of four years from the date of the Order.
- It is proposed that a single member bench may dispose of a case where the total income as computed by the assessing officer does not exceed Rs. 50 Lacs as against present limit of Rs. 15 Lacs.

*[Section 253, 254, 255 w.e.f 1 June 2016]*

- The Departmental appeal already pending against the DRP orders shall not be rejected on account of non-payment of fee. Enabling provisions are being inserted



w.r.e.f. 1.4.2012.

### **Rationalisation of penalty provisions**

- In order to rationalize and bring objectivity, certainty and clarity in the penalty provisions, it is proposed that existing provisions of Section 271(1)(c) where penalty is levied on account of concealment of particulars of income or furnishing inaccurate particulars of income shall not apply to and in relation to any assessment for the assessment year commencing on or after the 1 April, 2017 and penalty be levied under the newly inserted Section.
- The proposed new section 270A provides for levy of penalty in cases of under reporting and misreporting of income.
- It is proposed that a person shall be considered to have under reported his income if,-
  - (i) the income assessed is greater than the income determined in the return processed under Section 143(1)(a);
  - (ii) the income assessed is greater than the maximum amount not chargeable to tax, where no return of income has been furnished;
  - (iii) the income reassessed is greater than the income assessed or reassessed immediately before such re-assessment;
  - (iv) the amount of deemed total income assessed or reassessed as per the provisions of section 115JB or 115JC, as the case may be, is greater than the deemed total income determined in the return processed under Section 143(1)(a);
  - (v) the amount of deemed total income assessed as per the provisions of section 115JB or 115JC is greater than the maximum amount not chargeable to tax, where no return of income has been filed;
  - (vi) the income assessed or reassessed has the effect of reducing the loss or converting such loss into income.
- In a case where return is furnished and assessment is made for the first time, the amount of under reported income in case of all persons shall be the difference between the assessed income and the income determined under Section 143(1)(a).

- In a case where no return has been furnished and the return is furnished for the first time, the amount of under-reported income is proposed to be:
  - (i) for a company, firm or local authority, the assessed income;
  - (ii) for a person other than company, firm or local authority, the difference between the assessed income and the maximum amount not chargeable to tax.
  
- In case of any person, where income is not assessed for the first time, the amount of under reported income shall be the difference between the income assessed or determined in such order and the income assessed or determined in the order immediately preceding such order.
  
- It is further proposed, that in a case where under reported income arises out of determination of deemed total income in accordance with the provisions of section 115JB or section 115JC, the amount of total under reported income shall be determined in accordance with the prescribed formula.
  
- It is proposed that the rate of penalty shall be **50%** of the tax payable on under-reported income.
  
- However, in case where under reporting of income **results from misreporting of income** by the assessee, the person shall be liable for penalty **at the rate of 200% of the tax payable** on such misreported income. The cases of misreporting of income have been specified as under:
  - (i) misrepresentation or suppression of facts;
  - (ii) non-recording of investments in books of account;
  - (iii) claiming of expenditure not substantiated by evidence;
  - (iv) recording of false entry in books of account;
  - (v) failure to record any receipt in books of account having a bearing on total income;
  - (vi) failure to report any international transaction or deemed international transaction under Chapter X.
  
- It is also proposed that in case of company, firm or local authority, the tax payable on under reported income shall be calculated as if the under-reported income is the

total income. In any other case the tax payable shall be thirty per cent of the under-reported income.

*[Section 270A w.e.f. AY 2017-18]*

#### **Other penalty provisions**

- In order to rationalise the rate of penalty and to reduce discretion it is proposed that penalty shall be levied at a flat rate of 60% on such undisclosed income of the specified previous year if undisclosed income is not offered in the return filed after the search.

*[Section 271AAB w.e.f. AY 2017-18]*

- Penalty of ten thousand rupees for each default or failure to comply with a notice issued under Section 142(1) or Section 143(2) or failure to comply with a direction issued under Section 142(2A) shall now be levied u/s 272A instead of section 271(1)(b) as the entire section 271 shall be inapplicable w.e.f. 1.4.2017..

*[Section 272A w.e.f. AY 2017-18]*

#### **Provision for bank guarantee**

- Under the existing provisions, the Assessing Officer may provisionally attach any property of the assessee during the pendency of assessment or reassessment proceedings, for a period of six months with the prior approval of the income- tax authorities specified therein, if he is of the opinion that it is necessary to do so for the purpose of protecting the interests of the revenue. Such attachment of property is extendable to a maximum period of two years or sixty days after the date of assessment order, whichever is later.
- It is proposed that the Assessing Officer shall revoke provisional attachment of property in a case where the assessee furnishes a bank guarantee from a scheduled bank, for an amount not less than the fair market value of such provisionally attached property or for an amount which is sufficient to protect the interests of the revenue. Also, in a case where the Assessing Officer is satisfied that the bank guarantee is not required anymore to protect the interests of the revenue, he shall release that guarantee forthwith.

*[Section 281B w.e.f. 1 June 2016]*

### **Extension of time limit to Transfer Pricing Officer in certain cases**

- As per the existing provisions, the Transfer Pricing Officer (TPO) has to pass his order sixty days prior to the date on which the limitation for making assessment expires.
- It is proposed that where assessment proceedings are stayed by any court or where a reference for exchange of information has been made by the competent authority, the time available to the Transfer Pricing Officer for making an order after excluding the time for which assessment proceedings were stayed or the time taken for receipt of information, as the case may be, is less than sixty days, then such remaining period shall be extended to sixty days.

*[Section 92CA w.e.f 1 June 2016]*

### **Immunity from penalty and prosecution in certain cases**

- It is proposed that an assessee may make an application to the Assessing Officer for grant of immunity from imposition of penalty under Section 270A and initiation of proceedings under Section 276C, provided he pays the tax and interest payable as per the order of assessment or reassessment within the period specified in such notice of demand and does not prefer an appeal against such assessment order. The assessee can make such application within one month from the end of the month in which the order of assessment or reassessment is received in the form and manner, as may be prescribed.
- Immunity may be granted, if penalty has not been initiated on account of the following:
  - (i) misrepresentation or suppression of facts;
  - (ii) failure to record investments in the books of account;
  - (iii) claim of expenditure not substantiated by any evidence;
  - (iv) recording of any false entry in the books of account;
  - (v) failure to record any receipt in books of account having a bearing on total income; or
  - (vi) failure to report any international transaction or any transaction deemed to be an international transaction or any specified domestic transaction to which the provisions of Chapter X apply.

- It is proposed that the Assessing Officer shall pass an order accepting or rejecting such application within a period of one month from the end of the month in which such application is received after giving the assessee an opportunity of being heard. It is proposed that the order of Assessing Officer shall be final.
- **In case of rejection by the Assessing Officer, the assessee shall be entitled to file an appeal against the assessment order and the period taken by Assessing Officer shall be excluded to calculate the time limit of 30 days.**

*[Section 270AA and Section 249 w.e.f. AY 2017-18]*

# Indirect Taxes

**INDIRECT TAXES****EXCISE****Amendments in the Central Excise Act, 1944:**

Section 11A is being amended so as to increase the period of limitation from one year to two years in cases not involving fraud, suppression of facts, willful mis-statement, etc.

Section 37B is being amended so as to empower the Board for implementation of any other provision of the said Act in addition to the power to issue orders, instructions and directions.

|   | <b>Amendments involving change in the rate of duty</b>  | <b>From</b>  | <b>To</b>   |
|---|---|--|---|
|   | <b>Aerated Beverages</b>  |  |   |
| 1 | Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured | 18%  | 21%   |
|   | <b>Tobacco and Tobacco Products</b>   |  |   |
| 2 | Cigar and cheroots, Cigarillos, Cigarillos of tobacco substitutes, Others of tobacco substitutes                    | 12.5% or Rs.3375 per thousand, whichever is higher | 12.5% or Rs.3755 per thousand whichever is higher |
| 3 | Cigarettes of tobacco substitutes   | Rs.3375 per thousand                               | Rs.3755 per thousand                              |
| 4 | Gutkha, chewing tobacco (including filter khaini) and jarda scented tobacco   | 70%  | 81%   |
| 5 | Unmanufactured tobacco  | 55%  | 64%   |

|   |   |                    |                    |
|---|---|--------------------|--------------------|
| 6 | Paper rolled biris [whether handmade or machine made] and other biris [other than handmade biris]<br><br>However, the effective rate of basic excise duty of Rs.21 per thousand shall remain unchanged. | Rs.30 per thousand | Rs.80 per thousand |
|---|---|--------------------|--------------------|

The amendments involving increase in the duty rates will come into effect immediately wing to a declaration under the Provisional Collection of Taxes Act, 1931.

**Other Proposals involving changes in Duty Rates (only Important ones)**

|   | <b>Amendments involving change in the rate of duty</b>  | <b>From</b>  | <b>To</b>  |
|---|---|--|--|
|   | <b>Textiles</b>   |  |  |
| 1 | Tariff Value of readymade garments and made up articles of textiles   | 30% of retail sale price                                     | 60% of retail sale price                                 |
| 2 | Branded readymade garments and made up articles of textiles of retail sale price of Rs.1000 or more   | Nil [without CENVAT credit] or 6%/12.5% [with CENVAT credit] | 2% [without CENVAT credit] or 12.5% [with CENVAT credit] |
|   | <b>Precious metals &amp; Jewellery</b>  |  |  |
| 3 | Refined gold bars manufactured from gold dore bar, silver dore bar, gold ore or concentrate, silver ore or concentrate, copper ore or concentrate. Prospectively, the excise duty exemption under the existing area based exemptions on refined gold is being withdrawn.                        | 9%   | 9.5%   |
| 4 | Articles of Jewellery [excluding silver jewellery, other than studded with diamonds or other precious stones namely, ruby, emerald and sapphire] with a higher threshold exemption upto Rs. 6 crore in a year and eligibility limit of Rs.12 crore, along with simplified compliance procedure. | Nil  | 1% [without CENVAT credit] or 12.5% [with CENVAT credit] |



|    |   |  |  |
|----|---|--|--|
|    | <b>Civil Aviation</b>   |  |  |
| 5  | Aviation Turbine Fuel [ATF] other than for supply to Scheduled Commuter Airlines (SCA) from the Regional Connectivity Scheme airports   | 8%   | 14%  |
|    | <b>Electronics &amp; IT hardware</b>  |  |  |
| 6  | Routers, broadband Modems, Set-top boxes for gaining access to internet, set top boxes for TV, digital video recorder (DVR) / network video recorder (NVR), CCTV camera / IP camera, lithium ion battery [other than those for mobile handsets] | 12.5%  | 4% [without CENVAT credit] or 12.5% [with CENVAT credit] |
|    | <b>Automobiles</b>  |  |  |
| 7  | Specified parts of Electric Vehicles and Hybrid Vehicles  | 6% Upto 31.03.2016   | 6% Without time limit                                    |
| 8  | Engine for xEV (hybrid electric vehicle)  | 12.5%  | 6%   |
|    | <b>Miscellaneous</b>  |  |  |
| 9  | Excise duty on sacks and bags of all plastics is being rationalized at 15%.   | 12.5%/ 15%   | 15%  |
| 10 | Ready Mix Concrete manufactured at the site of construction for use in construction work at such site   | 2% [without input tax credit] / 6% [with input tax credit] | Nil  |

### Miscellaneous

- The Clean Energy Cess is being renamed as Clean Environment Cess. Also, the Tenth Schedule to the Finance Act, 2010 dealing with Clean Energy Cess is being amended

so as to increase the Scheduled rate of Clean Energy Cess from Rs.300 per tonne to Rs.400 per tonne. The effective rate of Clean Energy Cess is being increased from Rs.200 per tonne to Rs.400 per tonne

- Infrastructure Cess is being levied on motor vehicles, of heading 8703, as under:
  - b) Petrol/LPG/CNG driven motor vehicles of length not exceeding 4m and engine capacity not exceeding 1200cc – 1%
  - c) Diesel driven motor vehicles of length not exceeding 4m and engine capacity not exceeding 1500cc – 2.5%
  - d) Other higher engine capacity motor vehicles and SUVs and bigger sedans – 4%.

Three wheeled vehicles, Electrically operated vehicles, Hybrid vehicles, Hydrogen vehicles based on fuel cell technology, Motor vehicles which after clearance have been registered for use solely as taxi, Cars for physically handicapped persons and Motor vehicles cleared as ambulances or registered for use solely as ambulance will be exempt from this Cess. No credit of this Cess will be available, and credit of no other duty can be utilized for payment of this Infrastructure Cess.

The changes at 2), 3) and 4) above will come into effect immediately owing to a declaration under the Provisional Collection of Taxes Act, 1931.

#### **Rules and Regulations under the Customs Act, 1962**

- The existing Baggage Rules, 1998 are being substituted with the Baggage Rules, 2016, so as to simplify and rationalize multiple slabs of duty free allowance for various categories of passengers. The new Rules are effective from 01.04.2016.
- The Customs Baggage Declaration Regulations, 2013 is being amended so as to prescribe filing of Customs declaration only for those passengers who carry dutiable or prohibited goods.

#### **Amendment in the Central Excise Rules, 2002 and the Cenvat Credit Rules, 2004**

The Central Excise Rules, 2002 are being amended so as to:

- (a) reduce the number of returns to be filed by a central excise assessee above a certain threshold from 27 to 13, that is, one annual and 12 monthly returns. Monthly returns are already being e-filed. CBEC will provide for e-filing of annual return also. This annual return will have to be filed by service tax assessee also, above a certain threshold, taking total number of returns to three in a year for them,

(b) extend the facility for revision of return, hitherto available to a service tax assessee only, to manufacturers also.

(c) provide that in cases where invoices are digitally signed, the manual attestation of copy of invoice, meant for transporter, is done away with.

(d) provide that in case of finalization of provisional assessment, the interest will be chargeable from the original date of payment of duty.

- The CENVAT Credit Rules, 2004 are being amended, so as to improve credit flow, reduce the compliance burden and associated litigations, particularly those relating to apportionment of credit between exempted and non-exempted final products / services. Changes are also being made in the provisions relating to input service distributor, including extension of this facility to transfer input services credit to outsourced manufacturers, under certain circumstances. The amendments in these Rules will also enable manufacturers with multiple manufacturing units to maintain a common warehouse for inputs and distribute inputs with credits to the individual manufacturing units.
- Instructions are being issued to Chief Commissioners of Central Excise to file application to Courts to withdraw prosecution in cases involving duty of less than rupees five lakh and pending for more than fifteen years.
- The existing Central Excise (Removal of Goods at Concessional Rate of Duty for Manufacture of Excisable and Other Goods) Rules, 2001 are being substituted with the Central Excise (Removal of Goods at Concessional Rate of Duty for Manufacture of Excisable and Other Goods) Rules, 2016, so as to simplify the rules, including allowing duty exemptions to importer/manufacture based on self-declaration instead of obtaining permissions from the Central Excise authorities.

**CUSTOMS****Amendments in the Customs Act, 1962**

- Amendment in current Sections to
  - increase the period of limitation from one year to two years in cases not involving fraud, suppression of facts, willful mis-statement, etc
  - provide for deferred payment of customs duties for importers and exporters to certain class of importers and exporters.
- The existing section 61 is being substituted to extend the period of warehousing to all goods used by Export Oriented Undertakings, Units under Electronic Hardware Technology Parks, Software Technology Parks, Ship Building Yards and other units manufacturing under bond; empower Principal Commissioners and Commissioners to extend the warehousing period upto one year at a time.

**Amendment in the First Schedule to the Customs Tariff Act, 1975 (only Important ones)**

|   | <b>Amendments affecting rates of duty</b>                           | <b>From</b> | <b>To</b> |
|---|---|-------------|-----------|
|   | <b>Articles of rubber</b>   |             |           |
| 1 | Natural latex rubber made balloons falling under specified headings | 10%         | 20%       |
|   | <b>Metals</b>   |             |           |
| 2 | Primary aluminium   | 5%          | 7.5%      |
| 3 | Zinc alloys   | 5%          | 7.5%      |
|   | <b>Jewellery</b>  |             |           |
| 4 | Imitation jewellery   | 10%         | 15%       |
|   | <b>Renewable Energy</b>   |             |           |
| 5 | Industrial solar water heater                                       | 7.5%        | 10%       |
|   | <b>Capital goods and parts thereof</b>                              |             |           |

|   |  |      |      |
|---|--|------|------|
| 6 | Increase the tariff rate of BCD for 211 specified tariff lines in Chapters 84, 85 and 90 | 7.5% | 10%  |
|   | a) The effective rates for 96 specified tariff lines will increase                       | 7.5% | 10%  |
|   | b) The effective rate for 115 tariff lines will be maintained                            | 7.5% | 7.5% |

The amendments involving increase in the duty rates will come into effect immediately owing to a declaration under the Provisional Collection of Taxes Act, 1931.

**Other Proposals involving Changes in BCD, CVD, SAD and Export Duty Rates  
(only Important ones)**

| S.No. |  | BCD/CVD/SAD/<br>Export Duty |      |
|-------|--|-----------------------------|------|
|       |  | From                        | To   |
|       | <b>Export duty</b>   |                             |      |
|       | <b>Ores and concentrates</b>   |                             |      |
| 1     | Iron ore fines with Fe content below 58%                                       | 10%                         | NIL  |
| 2     | Iron ore lumps with Fe content below 58%                                       | 30%                         | Nil  |
| 3     | Chromium ores and concentrates, all sorts                                      | 30%                         | Nil  |
| 4     | Bauxite (natural), not calcined or calcined                                    | 20%                         | 15%  |
|       | <b>Basic Customs Duty</b>  |                             |      |
|       | <b>Paper, Paperboard and newsprint</b>   |                             |      |
| 5     | Wood in chips or particles for manufacture of paper, paperboard and news print | 5%                          | Nil  |
| 6     | Plans, drawings and designs  | Nil                         | 10%  |
|       | <b>Textiles</b>  |                             |      |
| 7     | Specified fibres and yarns   | 5%                          | 2.5% |

|    |  |                                   |                             |
|----|--|-----------------------------------|-----------------------------|
| 8  | Specified fabrics [for manufacture of textile garments for export] of value equivalent to 1% of FOB value of exports in the preceding financial year subject to the specified conditions. The entitlement for the month of March 2016 shall be one twelfth of one per cent. of the FOB value of exports in the financial year 2014-15. | Applicable BCD                    | Nil                         |
|    | <b>Electronics / Hardware</b>  |                                   |                             |
| 9  | E-Readers  | Nil                               | 7.5%                        |
|    | <b>Capital Goods</b>   |                                   |                             |
| 10 | Specified machinery required for construction of roads   | CVD – Nil                         | CVD – 12.5%                 |
|    | <b>Defence Production</b>  |                                   |                             |
| 11 | Direct imports of specified goods by Government of India or State Governments, with effect from 01.4.2016  | BCD Nil<br>CVD – Nil<br>SAD – Nil | Applicable BCD, CVD and SAD |
| 12 | Imports of specified goods for defence purposes by contractors of the Government of India, PSUs or sub-contractors of PSUs, with effect from 01.4.2016   | BCD Nil<br>Applicable CVD and SAD | Applicable BCD, CVD and SAD |

**SERVICE TAX****Krishi Kalyan Cess**

- An enabling provision is being made to levy Krishi Kalyan Cess of 0.5% on all taxable services with effect from 1st June, 2016, to finance and promote initiatives to improve agriculture.

**Broadening of Tax Base**

| II | Broadening of Tax base  | Existing | Proposed |
|----|---|----------|----------|
| 1. | Exemption on services provided by,-<br>(i) a senior advocate to an advocate or partnership firm of advocates providing legal service; and<br>(ii) a person represented on an arbitral tribunal to an arbitral tribunal,   | Nil      | 14%      |
| 2. | Exemption on construction, erection, commissioning or installation of original works pertaining to monorail or metro, in respect of contracts entered into on or after 1 <sup>st</sup> March 2016, is being withdrawn with effect from 1 <sup>st</sup> March, 2016.   | Nil      | 5.6%     |
| 3. | Exemption on the services of transport of passengers, with or without accompanied belongings, by ropeway, cable car or aerial tramway is being withdrawn with effect from 1 <sup>st</sup> April, 2016.  | Nil      | 14%      |
| 4. | The Negative List entry that covers 'service of transportation of passengers, with or without accompanied belongings, by a stage carriage' is being omitted with effect from 1 <sup>st</sup> June, 2016. Service Tax is being levied on transportation of passengers by air conditioned stage carriage with effect from 1 <sup>st</sup> June, 2016, at the same level of abatement as applicable to the transportation of passengers by a contract carriage, that is, 60% without credit of inputs, input services and capital goods. | Nil      | 5.6%     |





|   |   |                      |     |
|---|---|----------------------|-----|
| 2 | Notification No. 41/2012- ST, dated the 29th June, 2012 was amended by notification No.1/2016-ST dated 3rd February, 2016 so as to, <i>inter alia</i> , allow refund of Service Tax on services used beyond the factory or any other place or premises of production or manufacture of the said goods for the export of the said goods. This amendment is being made effective from the date of application of the parent notification (i.e. 1 <sup>st</sup> July 2012).                      |                      |     |
| 3 | The benefit of quarterly payment of Service Tax is being extended to 'One Person Company' (OPC) and HUF with effect from 1st April, 2016.   |                      |     |
| 4 | The facility of payment of Service Tax on receipt basis is being extended to 'One Person Company' (OPC) with effect from 1st April, 2016.   |                      |     |
| 5 | Exemptions on services of:<br><br>a) construction provided to the Government, a local authority or a governmental authority, in respect of construction of govt. schools, hospitals etc.<br>b) construction of ports, airports,<br><br>[which were withdrawn with effect from 01.04.2015], are being restored in respect of services provided under contracts which had been entered into prior to 01.03.2015 on payment of applicable stamp duty, with retrospective effect from 01.04.2015. | 5.6% of total amount | Nil |
| 6 | Services provided by way of construction, maintenance etc. of canal, dam or other irrigation works provided to bodies set up by Government but not necessarily by an Act of Parliament or a State Legislature, during the period from the 1 <sup>st</sup> July, 2012 to 29th January, 2014, are being exempted from Service Tax with consequential refunds, subject to the principle of unjust enrichment.  | 5.6% of total amount | Nil |
| 8 | The services provided by mutual fund agent/distributor to a mutual fund or asset management company, are being made taxable under forward charge with effect from 1 <sup>st</sup> April, 2016, so as to enable the small sub-agents down the distribution chain to avail small scale exemption having threshold turnover of Rs 10 lakh per year, subject to fulfillment of other conditions prescribed.   | 14%                  | 14% |

| <b>V Interest Rate</b> |   |  |   |
|------------------------|---|--|---|
| 1.                     | <p>Interest rates on delayed payment of duty/tax across all indirect taxes are being rationalized and made uniform at 15%, except in case of Service Tax collected but not deposited to the exchequer, in which case the rate of interest will be 24% from the date on which the Service Tax payment became due.</p> <p>In case of assesseees, whose value of taxable services in the preceding year/years covered by the notice is less than Rs. 60 Lakh, the rate of interest on delayed payment of Service Tax will be 12%.</p> <p>[The above changes will come into effect on the day the Finance Bill receives the assent of the President.]</p> | <p>Customs 18%<br/>Excise 18%</p> <p>Service Tax<br/>18%<br/>24%<br/>30%</p> | <p>Cust oms, Excise &amp; Service Tax 15%;</p> <p>24% in case of Service Tax collected but not deposited to the exchequer</p> |
| <b>VI</b>              | <b>Rationalization of Abatements</b>  | <b>Existing</b>  | <b>Proposed</b>   |
| 1                      | Credit of input services is being allowed on transport of passengers by rail at the existing rate of abatement of 70%.  | 4.2%<br>Without credit   | 4.2%<br>With input service credit   |
| 2                      | Credit of input services is being allowed on transport of goods, other than in containers, by rail at the existing rate of abatement of 70%.  | 4.2%<br>Without credit   | 4.2%<br>With input service credit   |
| 3                      | Credit of input services is being allowed on transport of goods in containers by rail at a reduced abatement rate of 60%.   | 4.2%<br>Without credit   | 5.6%<br>With input service credit   |

|            |  |                                 |                                   |
|------------|--|---------------------------------|-----------------------------------|
| 4          | Credit of input services is being allowed on transport of goods by vessel at the existing rate of abatement of 70%.  | 4.2%<br>Without credit          | 4.2%<br>With input service credit |
| 5          | The abatement rate in respect of services by way of construction of residential complex, building, civil structure, or a part thereof, is being rationalized at 70% by merging the two existing rates (70% for high end flats and 75% for low end flats).  | 3.5%/<br>4.2%                   | 4.2%                              |
| 6          | The abatement rate in respect of services by a tour operator in relation to packaged tour (defined where tour operator provides to the service recipient transportation, accommodation, food etc) and other than packaged tour is being rationalized at 70%.   | 3.5%/<br>5.6% of amount charged | 4.2% of amount charged            |
| 7          | The abatement on shifting of used household goods by a Goods Transport Agency (GTA) is being rationalized at the rate of 60%, without CENVAT credit on inputs, input services and capital goods. (The existing rate of abatement of 70% allowed on transport of other goods by GTA continues unchanged).   | 4.2%                            | 5.6%                              |
| 8          | The abatement rate on services of a foreman to a chit fund is being rationalised at the rate of 30%, without CENVAT credit on inputs, input services and capital goods.  | 14%                             | 9.8%                              |
|            | [The above changes will come into effect from 1 <sup>st</sup> April, 2016.]  |                                 |                                   |
| <b>VII</b> | <b>Reduce litigation and providing certainty in taxation</b>   |                                 |                                   |
| 1          | Indirect tax Dispute Resolution Scheme, 2016, wherein a scheme in respect of cases pending before Commissioner (Appeals), the assessee, after paying the duty, interest and penalty equivalent to 25% of duty, can file a declaration, is being introduced. In such cases the proceedings against the assessee will be closed and he will also get immunity from prosecution. However, this scheme will not apply in cases: <ul style="list-style-type: none"> <li>a) where prosecution has already been launched</li> <li>b) involving narcotics &amp; psychotropic substances</li> <li>c) involving detention under COFEPOSA.</li> </ul> |                                 |                                   |

|   |   |     |     |
|---|---|-----|-----|
| 2 | Section 67A is being amended to obtain rule making powers in respect of the Point of Taxation Rules, 2011, so as to provide that the point in time when service has been provided or agreed to be provided shall be determined by rules made in this regard. Point of Taxation Rules, 2011 is being amended accordingly.  |     |     |
| 3 | Section 93A of the Finance Act, 1994 is being amended so as to allow rebate by way of notification as well as rules.  |     |     |
| 4 | Explanation 2 in section 65B (44) of the Finance Act, 1994 is being amended so as to clarify that any activity carried out by a lottery distributor or selling agent in relation to promotion, marketing, organizing, selling of lottery or facilitating in organizing lottery of any kind, in any other manner, of the State Government as per the provisions of the Lotteries (Regulation) Act, 1998 (17 of 1998), is leviable to Service Tax.  |     |     |
| 5 | <p>Notification No. 27/2012 – C.E. (N.T.) dated 18.06.2012 is being amended with effect from 1st March, 2016 so as to provide that time limit for filing application for refund of CENVAT Credit under Rule 5 of the CENVAT Credit Rules, 2004, in case of export of services, is 1 year from the date of :</p> <p>(a) receipt of payment in convertible foreign exchange, where provision of service has been completed prior to receipt of such payment; or</p> <p>(b) issue of invoice, where payment, for the service has been received in advance prior to the date of issue of the invoice.</p> |     |     |
| 6 | Assignment by the Government of the right to use the radio-frequency spectrum and subsequent transfers thereof is being declared as a service under section 66E of the Finance Act, 1994 so as to make it clear that assignment of right to use   | 14% | 14% |
| 7 | A condition mandating inclusion of cost of fuel in the consideration for availing statement on the services by way of renting of motor-cab is being prescribed with effect from 1st April, 2016.  |     |     |
| 8 | Service tax on the services of Information Technology Software on media bearing RSP is being exempted from Service Tax with effect from 1 <sup>st</sup> March, 2016 provided Central Excise duty is paid on RSP in accordance with Section 4A of the Central Excise Act.  | Nil | Nil |

|  |  |     |     |
|--|--|-----|-----|
| 9  | Mutual exclusiveness of levy of excise duty and Service Tax on Information Technology Software in respect of software recorded on media "NOT FOR RETAIL SALE" is being ensured by exempting from excise duty only that portion of the transaction value on which Service Tax is paid.  | 14% | 14% |
| <b>VIII Service Tax Rules</b>  |  |     |     |
| 1  | To reduce compliance cost, the number of returns to be filed by a central excise assessee, above a certain threshold, is being drastically reduced, from 27 to 13, one annual and 12 monthly returns. Monthly returns are already being e-filed. CBEC will provide for e-filing of annual return also. The annual return will also have to be filed by Service Tax assessees, above a certain threshold, taking total number of returns to three in a year for them. This change shall come into effect from 1st April, 2016.  |     |     |
| <b>IX CENVAT Credit Rules</b>  |  |     |     |
| 1  | The rules are being amended so as to allow banks and other financial institutions to reverse credit in respect of exempted services on actual basis in addition to the option of 50% reversal.   |     |     |
| 2  | The rules are being amended to improve credit flow, reduce the compliance burden and associated litigation, particularly those relating to apportionment of credit between exempted and non-exempted final products / services. Changes are also being made in the provisions relating to input service distributor, including extension of this facility to transfer input services credit to outsourced manufacturers, under certain circumstances. The amendments in these rules will also enable manufacturers with multiple manufacturing units to maintain a common warehouse for inputs and distribute inputs with credits to the individual manufacturing units. |     |     |
| 3  | The rules are being amended to provide for reversal of CENVAT Credit of inputs/input services which have been commonly used in providing taxable output service and an activity which is not a 'service' under the Finance Act, 1994.  |     |     |
| 4  | The CENVAT credit rules are being amended so as to allow CENVAT credit of Service Tax paid on amount charged for assignment by Government or any other person of a natural resource, over such period of time as the period for which the rights have been assigned.   |     |     |
| [The above amendment shall come into effect from 1 <sup>st</sup> April, 2016.] |  |     |     |

| X | Miscellaneous   |
|---|---|
|   | <b>Period for issuing demand notices</b>  |
| 1 | Section 73 of the Finance Act, 1994 is being amended so as to increase the limitation period from 18 months to 30 months for short levy/non levy/short payment/non-payment/erroneous refund of Service Tax.   |
|   | <b>Other changes in the Finance Act, 1994</b>   |
| 2 | The Negative List entry covering 'educational services by way of (a) pre-school education and education up to higher and secondary school or equivalent, (b) education as a part of a curriculum for obtaining a qualification recognized by any law for the time being in force and (c) education as a part of an approved vocational education course [Section 66D (l)] and the definition of 'approved vocational education course' [section 65B (11)] are being omitted. However, the exemption shall continue by way of exemption notification No. 25/2012 – ST. |
| 3 | In the last Budget, the Customs, Central Excise and Service Tax laws were amended to provide for closure of proceedings where the assessee pays duty/tax due, interest and specified penalty. Further amendments are being made to Service Tax law so as to provide for closure of proceedings against co-noticees, once the proceedings against the main noticee have been closed.   |
| 4 | The power to arrest in Service Tax is being restricted only to situations where the tax payer has collected the tax but not deposited it to the exchequer, and that too above a threshold of Rs 2 crore. The monetary limit for launching prosecution is being increased from Rs. 1 crore to Rs. 2 crore of Service Tax evasion.  |

# Budget Announcements

## BUDGET ANNOUNCEMENTS

### OVERVIEW OF THE ECONOMY

- Growth of Economy accelerated to 7.6% in 2015-16.
- India hailed as a 'bright spot' amidst a slowing global economy by IMF.
- Robust growth achieved despite very unfavourable global conditions and two consecutive years shortfall in monsoon by 13%.
- Foreign exchange reserves touched highest ever level of about US\$350 billion.
- Despite increased devolution to States by 55% as a result of the 14<sup>th</sup> Finance Commission award, plan expenditure increased at RE stage in 2015-16 – in contrast to earlier years.

### CHALLENGES IN 2016-2017

- Risks of further global slowdown and turbulence.
- Additional fiscal burden due to 7th Central Pay Commission recommendations and OROP.

### ROADMAP & PRIORITIES

- 'Transform India' to have a significant impact on economy and lives of people.
- Government to focus on –
  - ensuring macro-economic stability and prudent fiscal management.
  - boosting on domestic demand
  - continuing with the pace of economic reforms and policy initiatives to change the lives of our people for the better.
- Focus on enhancing expenditure in priority areas of - farm and rural sector, social sector, infrastructure sector employment generation and recapitalisation of the banks.
- Focus on Vulnerable sections through:
  - Pradhan Mantri Fasal Bima Yojana
  - New health insurance scheme to protect against hospitalization expenditure
  - facility of cooking gas connection for BPL families
- Continue with the ongoing reform programme and ensure passage of the Goods and Service Tax bill and Insolvency and Bankruptcy law
- Undertake important reforms by:
  - giving a statutory backing to AADHAR platform to ensure benefits reach the deserving.
  - freeing the transport sector from constraints and restrictions
  - incentivising gas discovery and exploration by providing calibrated marketing freedom



- enactment of a comprehensive law to deal with resolution of financial firms
- provide legal framework for dispute resolution and re-negotiations in PPP projects and public utility contracts
- undertake important banking sector reforms and public listing of general insurance companies undertake significant changes in FDI policy.

## **AGRICULTURE AND FARMERS' WELFARE**

- Allocation for Agriculture and Farmers' welfare is Rs 35,984 crore
- Pradhan Mantri Krishi Sinchai Yojana' to be implemented in mission mode. 28.5 lakh hectares will be brought under irrigation.
- Implementation of 89 irrigation projects under AIBP, which are languishing for a long time, will be fast tracked
- A dedicated Long Term Irrigation Fund will be created in NABARD with an initial corpus of about Rs 20,000 crore
- Programme for sustainable management of ground water resources with an estimated cost of Rs 6,000 crore will be implemented through multilateral funding
- 5 lakh farm ponds and dug wells in rain fed areas and 10 lakh compost pits for production of organic manure will be taken up under MGNREGA
- Soil Health Card scheme will cover all 14 crore farm holdings by March 2017.
- 2,000 model retail outlets of Fertilizer companies will be provided with soil and seed testing facilities during the next three years
- Promote organic farming through 'Pamparagat Krishi Vikas Yojana' and 'Organic Value Chain Development in North East Region'.
- Unified Agricultural Marketing ePlatform to provide a common e-market platform for wholesale markets
- Allocation under Pradhan Mantri Gram Sadak Yojana increased to Rs 19,000 crore. Will connect remaining 65,000 eligible habitations by 2019.
- To reduce the burden of loan repayment on farmers, a provision of Rs 15,000 crore has been made in the BE 2016-17 towards interest subvention
- Allocation under Prime Minister Fasal Bima Yojana Rs 5,500 crore.
- Rs 850 crore for four dairying projects - 'Pashudhan Sanjivani', 'Nakul Swasthya Patra', 'E-Pashudhan Haat' and National Genomic Centre for indigenous breeds

## **RURAL SECTOR**

- Allocation for rural sector - Rs 87,765 crore.
- Rs 2.87 lakh crore will be given as Grant in Aid to Gram Panchayats and Municipalities as per the recommendations of the 14th Finance Commission
- Every block under drought and rural distress will be taken up as an intensive Block under the Deen Dayal Antyodaya Mission
- A sum of Rs 38,500 crore allocated for MGNREGS.

- 300 Rurban Clusters will be developed under the Shyama Prasad Mukherjee Rurban Mission
- 100% village electrification by 1st May, 2018.
- District Level Committees under Chairmanship of senior most Lok Sabha MP from the district for monitoring and implementation of designated Central Sector and Centrally Sponsored Schemes.
- Priority allocation from Centrally Sponsored Schemes to be made to reward villages that have become free from open defecation.
- A new Digital Literacy Mission Scheme for rural India to cover around 6 crore additional household within the next 3 years.
- National Land Record Modernisation Programme has been revamped.
- New scheme Rashtriya Gram Swaraj Abhiyan proposed with allocation of ` 655 crore.

#### **SOCIAL SECTOR INCLUDING HEALTH CARE**

- Allocation for social sector including education and health care Rs 1,51,581 crore.
- Rs 2,000 crore allocated for initial cost of providing LPG connections to BPL families.
- New health protection scheme will provide health cover up to Rs One lakh per family. For senior citizens an additional top-up package up to Rs 30,000 will be provided.
- 3,000 Stores under Prime Minister's Jan Aushadhi Yojana will be opened during 2016-17
- 'National Dialysis Services Programme' to be started under National Health Mission through PPP mode
- "Stand Up India Scheme" to facilitate at least two projects per bank branch. This will benefit at least 2.5 lakh entrepreneurs
- National Scheduled Caste and Scheduled Tribe Hub to be set up in partnership with industry associations
- Allocation of Rs 100 crore each for celebrating the Birth Centenary of Pandit Deen Dayal Upadhyay and the 350th Birth Anniversary of Guru Gobind Singh.

#### **EDUCATION, SKILLS AND JOB CREATION**

- 62 new Navodaya Vidyalayas will be opened
- Sarva Shiksha Abhiyan to increasing focus on quality of education
- Regulatory architecture to be provided to ten public and ten private institutions to emerge as world-class Teaching and Research Institutions
- Higher Education Financing Agency to be set-up with initial capital base of Rs 1000 Crores

- Digital Depository for School Leaving Certificates College Degrees, Academic Awards and Mark sheets to be set-up.

### **SKILL DEVELOPMENT**

- Allocation for skill development – Rs 1804. crore.
- 1500 Multi Skill Training Institutes to be set-up.
- National Board for Skill Development Certification to be setup partnership with the industry and academia
- Entrepreneurship Education and Training through Massive Open Online Courses

### **JOB CREATION**

- Govt will pay contribution of 8.33% for of all new employees enrolling in EPFO for the first three years of their employment. Budget provision of Rs 1000 crore for this scheme.
- Deduction under Section 80JJAA of the Income Tax Act will be available to all assesses who are subject to statutory audit under the Act
- 100 Model Career Centres to operational by the end of 2016-17 under National Career Service.
- Model Shops and Establishments Bill to be circulated to States.

### **INFRASTRUCTURE AND INVESTMENT**

- Total investment in the road sector, including PMGSY allocation, would be Rs 97,000 crore during 2016-17.
- India's highest ever kilometres of new highways were awarded in 2015. To approve nearly 10,000 kms of National Highways in 2016-17.
- Allocation of Rs 55,000 crore in the Budget for Roads. Additional Rs 15,000 crore to be raised by NHA through bonds.
- Total outlay for infrastructure - Rs 2,21,246 crore.
- Amendments to be made in Motor Vehicles Act to open up the road transport sector in the passenger segment
- Action plan for revival of unserved and underserved airports to be drawn up in partnership with State Governments.
- To provide calibrated marketing freedom in order to incentivise gas production from deep-water, ultra deep-water and high pressure-high temperature areas
- Comprehensive plan, spanning next 15 to 20 years, to augment the investment in nuclear power generation to be drawn up.
- Steps to re-vitalise PPPs:
  - Public Utility (Resolution of Disputes) Bill will be introduced during 2016-17
  - Guidelines for renegotiation of PPP Concession Agreements will be issued

- New credit rating system for infrastructure projects to be introduced
- Reforms in FDI policy in the areas of Insurance and Pension, Asset Reconstruction Companies, Stock Exchanges.
- 100% FDI to be allowed through FIPB route in marketing of food products produced and manufactured in India.
- A new policy for management of Government investment in Public Sector Enterprises, including disinvestment and strategic sale, approved.

#### **FINANCIAL SECTOR REFORMS**

- A comprehensive Code on Resolution of Financial Firms to be introduced.
- Statutory basis for a Monetary Policy framework and a Monetary Policy Committee through the Finance Bill 2016.
- A Financial Data Management Centre to be set up.
- RBI to facilitate retail participation in Government securities.
- New derivative products will be developed by SEBI in the Commodity Derivatives market.
- Amendments in the SARFAESI Act 2002 to enable the sponsor of an ARC to hold up to 100% stake in the ARC and permit non institutional investors to invest in Securitization Receipts.
- Amendments in the SARFAESI Act 2002 to enable the sponsor of an ARC to hold up to 100% stake in the ARC and permit non institutional investors to invest in Securitization Receipts.
- Increasing members and benches of the Securities Appellate Tribunal.
- Allocation of Rs 25,000 crore towards recapitalisation of Public Sector Banks.
- Target of amount sanctioned under Pradhan Mantri Mudra Yojana increased to Rs 1,80,000 crore.
- General Insurance Companies owned by the Government to be listed in the stock exchanges.

#### **GOVERNANCE AND EASE OF DOING BUSINESS**

- A Task Force has been constituted for rationalisation of human resources in various Ministries.
- Comprehensive review and rationalisation of Autonomous Bodies.
- Bill for Targeted Delivery of Financial and Other Subsidies, Benefits and Services by using the Aadhar framework to be introduced.
- Introduce DBT on pilot basis for fertilizer.
- Automation facilities will be provided in 3 lakh fair price shops by March 2017.
- Amendments in Companies Act to improve enabling environment for start-ups.

- Price Stabilisation Fund with a corpus of Rs 900 crore to help maintain stable prices of Pulses.
- “Ek Bharat Shreshtha Bharat” programme will be launched to link States and Districts in an annual programme that connects people through exchanges in areas of language, trade, culture, travel and tourism.

#### **FISCAL DISCIPLINE**

- Fiscal deficit in RE 2015-16 and BE 2016-17 retained at 3.9% and 3.5%.
- Revenue Deficit target from 2.8% to 2.5% in RE 2015-16
- Total expenditure projected at Rs 19.78 lakh crore
- Plan expenditure pegged at Rs 5.50 lakh crore under Plan, increase of 15.3%
- Non-Plan expenditure kept at Rs 14.28 lakh crores
- Special emphasis to sectors such as agriculture, irrigation, social sector including health, women and child development, welfare of Scheduled Castes and Scheduled Tribes, minorities, infrastructure.
- Mobilisation of additional finances to the extent of Rs 31,300 crore by NHAI, PFC, REC, IREDA, NABARD and Inland Water Authority by raising Bonds.
- Plan / Non-Plan classification to be done away with from 2017-18.
- Every new scheme sanctioned will have a sunset date and outcome review.
- Rationalised and restructured more than 1500 Central Plan Schemes into about 300 Central Sector and 30 Centrally Sponsored Schemes.
- Committee to review the implementation of the FRBM Act.

## UPDATE ON IND AS (IFRS CONVERGENCE)

The MCA through notification dated 16 February 2015 has issued the Companies (Indian Accounting Standards) Rules, 2015 (Rules) which lay down a roadmap for companies other than insurance companies, banking companies and non-banking finance companies (NBFC) for implementation of Ind AS converged with IFRS. The Rules will come into force from the date of its publication in the Official Gazette. Presently, MCA has issued 39 Indian Accounting Standards.

**The Ind AS shall be applicable to companies as follows:**

| Financial year      | Applicable to   |
|---------------------|---|
| 2016-17(Mandatory)  | Companies (listed and unlisted) whose net worth is equal to or greater than 500 crores INR            |
| 2017-18 (Mandatory) | Unlisted companies whose net worth is equal to or greater than 250 crore INR and all listed companies |
| 2015-16 or later    | Entities, not under the mandatory roadmap, may later voluntarily adopt Ind AS                         |

Net worth means - Based on Stand-alone financial as on 31 March 2014 or the first audited financial statements for accounting period ending subsequently, as defined under sec 2 (57) of the Companies Act, 2013 which does not include reserves created out of revaluation of assets, write back of depreciation and amalgamation.

The net worth of companies which are not existing on 31 March 2014 or an existing company falling under any of thresholds for the first time after 31 March 2014 should be calculated based on the first audited financial statements ending after 31 March 2014.

### Exceptions

Companies whose securities are listed or in the process of listing on the Small and Medium Enterprises (SME) exchanges will not be required to apply Ind AS and can continue to comply with the existing accounting standards unless they choose otherwise.

### Subsequent amendment to Ind AS

- Deferment of Ind As 115 - Contract with customers
  - In September 2015, National Advisory Committee on Accounting Standards (NACAS) recommended the Ministry of Corporate Affairs ('MCA') to defer implementation of Ind AS 115 - Revenue recognition
  - Consequently, Institute of Chartered Accountants of India (ICAI) issued an Exposure Draft contains Ind AS 11, Construction Contracts, along with the appendices corresponding to IFRIC 12, Service Concession Arrangements, SIC-29, Service Concession Arrangements: Disclosures, and Ind AS 18, Revenue, along with the appendices which form integral part of the Standard, corresponding to IFRIC 13, Customer Loyalty Programmes, IFRIC 18, Transfers of Assets from Customers, SIC-31 Revenue- Barter Transactions Involving Advertising Services

and consequential amendments to other Ind ASs, however IFRIC 15, Agreement of construction of Real Estate, have not been included in Ind AS 18, to scope out such agreements and to include the same in Ind AS 11 along with consequential amendments to other Ind ASs. These will supersede Ind AS 115 once notified.

- MCA is yet to notify the deferral and Exposure Draft issued by ICAI.
- Applicability of Ind AS to Scheduled Commercial Banks (Excluding Regional Rural Banks), Insurers/Insurance Companies and Non-Banking Financial Companies (NBFC's) <http://pib.nic.in/newsite/PrintRelease.aspx?relid=134578>, and RBI notification dtd February 11, 2016 RBI/2015-16/315 DBR.BP.BC.No.76/21.07.001/2015-16

In pursuance to the Budget Announcement by the Union Finance Minister Shri Arun Jaitley, after consultations with Reserve Bank of India (RBI), Insurance Regulatory and Development Authority (IRDA) and Pension Fund Regulatory and Development Authority (PFRDA), roadmap for implementation of Indian Accounting Standards (Ind AS) converged with International Financial Reporting Standards (IFRS) for Scheduled commercial banks (excluding RRBs), insurers/insurance companies and Non-Banking Financial Companies (NBFC's) has been drawn up.

- Circular on Formats for publishing financial results  
[-http://www.sebi.gov.in/cms/sebi\\_data/attachdocs/1448885855487.pdf](http://www.sebi.gov.in/cms/sebi_data/attachdocs/1448885855487.pdf)

As per the circular :-

Companies adopting the Ind AS in terms of Companies (Indian Accounting Standards) Rules, 2015 notified by the Ministry of Corporate Affairs on February 16, 2015 while publishing quarterly/annual financial results under Regulation 33 of the Listing Regulations, 2015, shall ensure that the comparatives filed along with such quarterly/annual financial results are also Ind AS compliant.

- As per Ind AS 101- Interim financial reports  
If an entity presents an interim financial report in accordance with Ind AS 34 for part of the period covered by its first Ind AS financial statements, the entity shall satisfy the following requirements in addition to the requirements of Ind AS 34:
  - (a) Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include:
    - (i) a reconciliation of its equity in accordance with previous GAAP at the end of that comparable interim period to its equity under Ind ASs at that date; and
    - (ii) a reconciliation to its total comprehensive income in accordance with Ind ASs for that comparable interim period (current and year to date). The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for that period or, if an entity did not report such a total, profit or loss in accordance with previous GAAP.

(b) In addition to the reconciliations required by (a), an entity's first interim financial report in accordance with Ind AS 34 for part of the period covered by its first Ind AS financial statements shall include the reconciliations described in paragraph 24(a) and (b) of Ind AS 101 (supplemented by the details required by paragraphs 25 and 26) or a cross-reference to another published document that includes these reconciliations.

(c) If an entity changes its accounting policies or its use of the exemptions contained in this Ind AS, it shall explain the changes in each such interim financial report in accordance with paragraph 23 and update the reconciliations required by (a) and (b)