UNION BUDGET 2014-15

Views Of

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Foreword

Dear Reader,

On 10th July'14, Parliament witnessed second lawyer presenting union budget within 6 months after Feb'14. However the approach was different. While Mr Chidambaram had used his skills and mordant wit to defend a failed regime and sharp book-keeping, Mr Jaitley employed his charm, touched on a few long-pending matters and took an unconventional five-minute break midway into his speech to keep alive the hope of an ever-demanding populace.

The new government has probably tried to balance the fiscal deficit restrictions vis a vis the push to be provided to the ailing economy. On one side the Finance Minister has tried to contain the fiscal deficit to about 4% level, where as on the other side he has tried to provide boost to initiatives like job creation, infrastructure, higher FDI and domestic investments, industrial development, better healthcare and education etc.

He has also tried to provide support to agriculture and warehousing to improve the supply and storage of agricultural products. The main focus of the budget seems to be higher growth and job creation through support of PPP programs and more investment through FDI and domestic savings. The government has also demonstrated that it wants to promote use of newer technology whether it is use of broadband or solar energy.

The budget has also tried to provide the inclusive growth through development of underdeveloped regions e.g. Northeast and J&K. It has also provided for development of underprivileged section of society.

It's silly to believe that Mr Jaitley could have done anything dramatically different. Thus, he may have disappointed those who had rather unrealistically hoped that in eight weeks the new minister would usher in a new approach.

However Mr. Jaitly, in his maiden budget, should be remembered for following few things. First, for proposing 49 percent FDI in the cash-guzzling business of insurance; Second, for the first step in creating long-term fund pool that infrastructure developers can tap. Third, for paving the way for foreign fund managers investing in Indian stock market from their offices in Hong Kong and Singapore to set up shop in India – a move that over the years could transform Indian cities like Mumbai into an Asian financial hub. Forth, being first FM to make a serious effort in arresting the dramatic fall in savings and lending some stability in banks deposits by tweaking tax rules. Fifth, for a huge amount of intent and stressing on manufacturing, on job creation, on education, on banking and on infrastructure.

The minister has even made Mauritius, the tax haven that spares foreign investors from capital gains in India, more important. Rather early in his term, he has sensed that it's mindless to put new hurdles before foreign investors as inflows from distant markets could change the fortunes of local businessmen as well.

Does increasing FDI from 26 to 49 percent in Defense makes any sense when for the last 10 years, we have got no FDI in defense?

Terming the Budget as positive for economic growth and job creation, India Inc gave its thumbs up for its comprehensiveness in covering many aspects of the population and that is a positive direction for higher economic growth. However the budget should not be judged on the rhetoric we heard but how it gets implemented.

Overall, It will be great if this possibly the longest, in terms of duration, budget speech anybody has ever seen, turns to be long on vision in reality in time to come. Implementation of the reform agenda will be in focus next.

10 July 2014
Publication Team
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Economic Survey 2013-14

Highlights :

Finance Minister Arun Jaitley tabled the Economic Survey for FY 2013-14 in Lok Sabha on 9th July 14, ahead of the Union Budget.

- ✓ GDP growth seen at 5.4-5.9 pc in 2014/15
- ✓ Growth rate of 7-8 pc can occur after 2015/16
- ✓ Poor monsoon, external factors pose risk to growth
- ✓ Need subsidy reforms for fiscal consolidation
- ✓ Raise tax-to-GDP ratio for fiscal consolidation
- ✓ CAD to be contained at 2.1 pc of GDP in 2014-15
- ✓ Wholesale inflation expected to moderate by end-2014
- ✓ Retail inflation showing signs of moderation
- ✓ Reduce spillovers from food to non-food inflation by putting in place a formal monetary policy framework
- ✓ Contain revenue shortfall via better mobilization, reforms
- ✓ Move towards simple tax regime, fewer exemptions, GST rate
- ✓ Need DTC as clean modern replacement for existing I-T laws
- ✓ Cutting capital expenditure not good for economy
- ✓ Changes in tax administration required
- ✓ Need sharp fiscal correction, new FRBM Act with 'teeth'
- ✓ Government needs to move towards low and stable inflation through fiscal consolidation
- ✓ RBI intervention in forex market behind accumulation of reserves "generally"
- ✓ Rupee has stabilized, reflecting an overall sense of confidence in forex and capital markets
- ✓ Time over-runs in infra project main cause of under achievement in the sector
- ✓ Exports still fragile; Iraq crisis a risk
- ✓ Industrial growth expected to revive gradually over 2-yr
- ✓ Indian legislation governing business need thorough revamp
- ✓ Improve business environment by shifting important decision making from inspectors to higher officers
- ✓ Re-examine laws that empower govt to interfere in markets

- ✓ Capital controls under FEMA do not support rapidly globalizing economy.
- ✓ Banking sector impacted by global and domestic slowdown
- ✓ State APMC laws hurdle to modernization of good economy; have created cartels of buyers who possess market power
- ✓ Food grains production to go up to 264.4 MT in 2013/14
- ✓ Need to review nutrient-based fertilizer subsidy
- ✓ Plan to add 88,537 MW power capacity over next 5 yrs
- ✓ Allow private companies to mine coal commercially
- ✓ Gold & silver imports dropped 40 pc to $33.4 bn in 2013/14
- ✓ Improvement in fiscal deficit and CAD to feed higher growth
- ✓ India's increase in share in world services exports from 0.6 pc in 1990 to 3.3 pc in 2013 faster than goods exports
- ✓ Despite deceleration, services GDP growth at 6.8 pc was above the 4.7 pc overall GDP in 2013/14
- ✓ milestones of 2013/14: passage of PFRDA Act, shift of commodity futures trading into Fin Min & presentation of FSLRC report
- ✓ Poverty ratio declined from 37.2 pc in 2004/05 to 21.9 pc in 2011/12.
- ✓ Setting up public finances by tax & expenditure reform
- ✓ Creating legal & regulatory framework for well-functioning market economy
- ✓ CAD at USD 32.4 billion (1.7% of GDP) 2013-14 as against USD 88.2 billion (4.7% of GDP) in 2012-13
- ✓ Foreign exchange reserves up from USD 292 bn at end March 2013 to USD 304.2 bn at end March 2014
- ✓ Exports up 4.1% in 2013-14, compared to previous year's negative growth of 1.8%

The State of the Economy

In 2014-15, the Indian economy is poised to overcome the sub-5 per cent growth of gross domestic product (GDP) witnessed over the last two years. The growth slowdown in the last two years was broad based, affecting in particular the industry sector. Inflation too declined during this period, but continued to be above the comfort zone, owing primarily to the elevated level of food inflation. Yet, the developments on the macro stabilization front, particularly the dramatic improvement in the external economic situation with the current account deficit (CAD) declining to manageable levels after two years of worryingly high levels was the redeeming feature of 2013-14. The fiscal deficit of the Centre as a proportion of GDP also declined for the second year in a row as per the announced medium term policy stance. Reflecting the above and the expectations of a change for the better, financial markets have surged. Moderation in inflation would help ease the monetary policy stance and revive the confidence of investors, and with the global economy expected to recover moderately, particularly on account of performance in some advanced economies, the economy can look forward to better growth prospects in 2014-15 and beyond.

- ✓ Economic growth has slowed due to domestic structural and external factors. Two successive years of sub-5 per cent growth is witnessed for the first time in 25 years.
- ✓ Inflation has eased but is still above comfort levels.
- ✓ Improvements are visible on the fiscal front and in the current account balance.
- ✓ Sustenance of early signs of growth pick-up depends on amelioration of structural constraints.
- ✓ Favorable monsoons helped agricultural growth and power generation. Slowdown in industry continued.
- ✓ Revival of growth in services depends on growth revival in commodity producing sectors.
- ✓ Industrial revival is central to sustained revival in overall growth.
- ✓ Share of private consumption in GDP has declined in recent years.
- ✓ Fixed investment rate declined steeply in 2013-14.
- ✓ Reduced private corporate investment rate is the primary reason for decline in overall investment rate.
- ✓ Moderate revival of exports, coupled with decline in imports, helped improve net exports.
- ✓ Fiscal consolidation was achieved with lower-than budgeted expenditure in 2013-14.
- ✓ Raising the tax-GDP ratio and furtherance of subsidy reforms are essential for fiscal consolidation.
- ✓ Savings rate has declined significantly since 2007-08.
- ✓ In recent years, households tended to save more in physical than in financial assets.
- ✓ Food inflation has been much higher than non-food inflation.
- ✓ Tight monetary policy stance was followed by RBI for containing inflation and restoring stability in the foreign exchange market.

- ✓ Demand slowdown and restrictions on non-essential imports resulted in reduced trade def icit and lower CAD.
- ✓ Capital flows moderated, but foreign exchange reserves increased in 2013-14.
- ✓ Priorities for growth revival include: investment revival, strengthening of macroeconomic stability, creation of non-agricultural jobs, strengthening of infrastructure, and boost to agricultural development.
- ✓ Despite some measures undertaken to address structural constraints, reversion to a growth rate of around 7–8 per cent can only occur beyond the ongoing and the next fiscal.
- ✓ With expectation of better performance in manufacturing, improved balance of payments situation and modest global growth revival, the economy is expected to grow in the range of 5.4-5.9 per cent in 2014-15.
- ✓ The year 2013-14 witnessed record food grains production.
- ✓ Productivity levels of rice and wheat have not increased significantly after the 1980s.
- ✓ Mining output contracted for the third successive year in 2013-14.
- ✓ Slowdown in industry was reflected in lower sales growth in the corporate sector.
- ✓ Growth of credit flow to industry was lower in 2013-14.
- ✓ Unless timely action is taken, the potential for reaping the demographic dividend is unlikely to last indefinitely.
- ✓ Significant reduction was noticed in the number and proportion of persons below the poverty line in 2011-12.
- ✓ India's per capita carbon emissions were 1.7 metric tons in 2010, well below the world average of 4.9 metric tonnes.
- ✓ New climate deals must ensure that developing countries are granted the required 'carbon space' and 'development space'.

Issues and Priorities

Reviving investment, essential for growth of jobs and income, requires a three-pronged approach that works through improving India's long-term growth prospects. First, the government must ensure low inflation by putting in place a framework for monetary policy, fiscal consolidation, and food market reforms. Second, it must put public finances on a sustainable path through tax and expenditure reform. Tax reform requires a GST, DTC, and more predictable tax administration. Expenditure reforms must focus on public goods, new designs for subsidy programmes, and mechanisms for accountability. India requires the legal and regulatory frameworks for a market economy. This requires repealing the old legacy laws and creating state capacity to address market failures.

- ✓ Improving long term-growth prospects will help revive investment.
- ✓ Default setting for government intervention in the economy needs to change from 'prohibited unless permitted' to 'permitted unless prohibited'.
- ✓ The present model of infrastructure contracting and financing needs to be reexamined.
- ✓ Greater policy stability, higher long-term growth and a legal and regulatory framework that strengthens a market economy will help revive investment.
- ✓ Spillovers from food to nonfood inflation can be reduced by putting in place a formal monetary policy framework.
- ✓ A new FRBM Act with teeth is needed.
- ✓ A CenGST could be the first step towards a full GST.
- ✓ Removing exemptions will help simplify the tax regime.
- ✓ Expenditure reform must create feedback loops for accountability.
- ✓ Cash transfers to poor households, instead of procurement and distribution of cereals, offer savings on the subsidy bill.
- ✓ The role of government in infrastructure can be usefully divided into planning, contracting, and regulating.
- ✓ The early stage of an infrastructure project has political risk, construction risk, regulatory risk and, traffic risk.
- ✓ There is need to re-examine all laws that empower the government to interfere in markets.
- ✓ Laws need to clearly define the objectives of regulation and give limited powers to regulators to meet those objectives.
- ✓ Making it easier and less costly to do business must be a top priority.
- ✓ The Draft Indian Financial Code puts consumer protection at the heart of all financial-sector regulation.
- ✓ Capital controls under FEMA do not support a rapidly globalizing economy.
- ✓ Central Planning permeates every aspect of the food economy.
- ✓ The welfare of both consumers and farmers lies in freeing up agricultural markets in the same way that economic freedom was given to other producers.

- ✓ Market-based economies often provide income support, food stamps, and cash transfers to farmers and producers for protecting them but without distorting market signals.
- ✓ The key to investment and productivity growth on the farm is liberalization of agriculture.
- ✓ Farmers must have the same economic freedom, to buy and sell their produce, as do other producers.
- ✓ A continuous process of improvement of institutions must be created.

Agriculture and Food Management

With the shadow of the El Niño looming over the Indian monsoon, there are legitimate concerns about its likely impact on agricultural production and consequently prices of food products. What is significant is that over the last decade Indian agriculture has become more robust with record production of food-grains and oilseeds. Increased procurement, consequently, has added huge stocks of food-grains in the granaries. India is one of the world's top producers of rice, wheat, milk, fruits and vegetables. However, given that India is still home to a quarter of all undernourished people in the world and since on an average almost half the total expenditure of about half the households is on food, increasing the efficiency of the farm-to-fork value chain is crucial for eliminating poverty and malnutrition.

- ✓ A resilient agriculture with increasing contribution from horticulture and livestock is evident.
- ✓ Record production of Food grains and Oilseeds.
- ✓ The incidence of higher temperatures and higher rainfall variability with lower mean rainfalls is increasing over the years.
- ✓ Contingency measures are in place to tackle the deficient SW monsoon coupled with 70 per cent chance of an El Nino occurrence.
- ✓ More than 85 per cent of investment in the agri sector is by the private sector.
- ✓ Agricultural research has released new varieties of breeder seeds. Policy focus is on creating a seed bank.
- ✓ Pricing of subsidised fertilizers has skewed the usage of nutrients.
- ✓ NBS needs to be reviewed to prevent wasteful and suboptimal use of resources.

- ✓ Despite being among the top countries in agricultural production, India's level of mechanization averages only 25 per cent as compared to more than 90 per cent in developed countries.
- ✓ Overexploitation of water resources is leading to alarming reduction in the water table in the 'rice bowl of India'.
- ✓ Enhanced agricultural credit f lows are exceeding the targets.
- ✓ Modified insurance scheme is expected to have greater coverage.
- ✓ Outreach of strengthened extension schemes has benefited more than 28 million farmers, one-fourth of whom were women.
- ✓ Substantial increases in MSPs and FRP are seen in the last few years.
- ✓ For the first time in 2012-13, horticulture production exceeded the combined production of food grains and oilseeds.
- ✓ Globally, India ranks first in milk production with an average y-o-y growth rate of over 4 per cent.
- ✓ Fisheries and the livestock sector are important secondary sources of income for rural households, contributing over 1 per cent and 4.1 per cent respectively to total GDP.
- ✓ Need for holistic reform of the 'farm-to-fork' supply chain to solve the persistent food inflation.
- ✓ Commodity futures market, as a messenger of future price trends, help governments take pre-emptive action whenever the situation warrants.
- ✓ Despite being a leading producer and consumer of major agricultural commodities, India has not taken on the role of a global price setter.
- ✓ Both futures trading and NWRs would be successful only under competitive market conditions.
- ✓ Large-scale private investments are essential for developing the agro-processing sector, which is the next growth vehicle.
- ✓ Long-term stable trade policy is necessary for improving agricultural productivity.
- ✓ Technological innovation is a must for increasing agricultural productivity.
- ✓ Substantial improvements in per capita availability levels are required to wipe out malnutrition.
- ✓ Significant growth in agricultural exports, by 132 per cent in 2013-14 over 2008-09, is observed.
- ✓ Procurement policy is effective only for rice and wheat and only in a few states.
- ✓ FCI operations are suffering from diseconomies of scale.

- ✓ Suboptimal management of food stocks leads to wastage of economic resources.
- ✓ Growing divergence between economic cost of procurement and the central issue price has led to leakages, fuelled inflationary pressures and added to food subsidy outgo.
- ✓ Food and Nutritional security concerns need to take account of changing consumption patterns.
- ✓ Major challenges include: low productivity levels; soil degradation due to declining fertilizer - use efficiency; market distortions that prevent the creation of a national common market; changing role of government in production and distribution in the current scenario of bumper production and stocks; phased shifting to direct transfer of fertilizer and food subsidies.
- ✓ There appears to be no cause for alarm on the El Niño impact as India is well placed on food grains availability, with record domestic production and huge stocks in the central pool.

Industrial Performance

Post 2008-09, the industrial sector, consisting of manufacturing, mining, electricity, and construction, showed remarkable recovery and steady growth for three years but lost momentum thereafter owing to a combination of supply-side and demand-side constraints. Industrial performance in 2013-14 remained lackluster for the second successive year. The latest gross domestic product (GDP) estimates show that industry grew by just 1.0 per cent in 2012-13 and slowed further in 2013-14, posting a modest increase of 0.4 per cent. While these figures may see upward revision once Annual Survey of Industries (ASI) data is available, there is no denying that industrial revival may take longer and needs stronger initiatives to emulate the peak growth achieved in the recent past. Further, it will be a daunting task to meet the projected Twelfth Plan targets of 10 per cent for the manufacturing sector and 5.7 per cent for the mining sector in the remaining three years.

- ✓ Key reasons for poor performance have been contraction in mining activities and deceleration in manufacturing output.
- ✓ Demand-side constraints, along with a combination of other factors, have resulted in contraction in output of the capital goods and consumer durables sectors.

- ✓ Contraction in mineral index in the past three years has been mainly on account of lower or moderate production in coal and lignite, crude petroleum, iron ore, and natural gas.
- ✓ In addition to a slowdown in fixed investment, several domestic and external factors such as higher interest, infrastructure bottlenecks, inflationary pressure leading to rising input costs, drop in domestic and external demand for some sectors have together contributed to low growth in the manufacturing sector.
- ✓ The use-based industrial classification of IIP estimates identifies the capital goods segment as the weak performer in the manufacturing sector.
- ✓ While corporate debt levels have risen, earnings and profitability remained under pressure, pushing up debt coverage ratios. This has partly impacted the banking sector, with a concomitant increase in non-performing assets.
- ✓ The Twelfth Plan covers various aspects of the MSME sector and its key recommendations fall under six broad verticals: (i) finance and credit, (ii) technology, (iii) infrastructure, (iv) marketing and procurement, (v) skill development and training, and (vi) institutional structure.
- ✓ Rejuvenating small businesses both in the formal and informal sectors is crucial for generating employment opportunities for the teeming millions in the coming years.
- ✓ In the last five years, domestic crude steel production grew at a CAGR of 7.9 per cent. Such an increase in production was driven by 9.8 per cent growth in crude steel capacity, high utilization rates, and a 7.0 per cent growth in domestic steel consumption.
- ✓ Even though detailed estimates of GFCF are not available for 2013-14, the overall decline in growth rates of fixed investment hints at further deceleration in investment in key segments of industry during the year.
- ✓ The level and pattern of economic development in India, notably a diversified industrial structure based on a combination of large and small-scale industries and growing urban and rural population, have produced pressures on the environment.
- ✓ Building a conducive investment climate and uplifting overall business sentiment require close coordination of industrial policy with fiscal, trade, FDI, and exchange rates policies.
- ✓ The role of small businesses and the informal sector is of utmost importance in meeting employment generation targets.

- ✓ Industrial policy need to focus on labour intensive and resource-based manufacturing in the informal sector.
- ✓ There is need to build a consensus on best practices to be applicable to all states and to promote self-certification, e-filing, and e-returns.
- ✓ The medium-term challenge for Indian manufacturing is to move from lower to higher tech sectors, from lower to higher value added sectors, and from lower to higher productivity sectors.
- ✓ With the improvement in overall macroeconomic environment, industry is expected to revive and growth can accelerate gradually over the next two years.

Services Sector

India's services sector that remained resilient even during and immediately after the global financial crisis buckled under the pressure of continued global and domestic slowdown, resulting in sub-normal growth in the last two years. However, early shoots of revival are visible in 2014-15 with signs of improvement in world GDP growth and trade also reflected in pick-up in some key services like IT, aviation, transport logistics, and retail trading. Different indices and estimates also indicate an expansion in India's services business.

Energy, Infrastructure and Communications

As the growth of the economy in general and the manufacturing sector in particular is largely dependent on creation of suitable infrastructure, the policy focus in India has been on infrastructure investment. Such investment has increased manifold over time with increased private-sector participation in the country. The Twelfth Five Year Plan has also laid special emphasis on infrastructure development as quality infrastructure is important not only for sustaining high growth but also ensuring that the growth is inclusive. Large infrastructure investment during the last decade or so has helped India emerge as one of the fastest growing economies in the world. However, over the past few years, need has been felt to kick-start stalled infrastructure projects by stepping up infrastructure investment, improving the productivity and quality of infrastructure spending, removing procedural bottlenecks, and improving governance. In the current perspective, the real challenge is not only to identify a core set of projects that are crucial for accelerating overall economic growth but also to ensure channelization of investment for such viable infrastructure projects and expedite their implementation by addressing issues like delays in regulatory approvals, land acquisition and rehabilitation in fast-track mode.

Prices and Monetary Management

In comparison with previous years, inflation showed signs of receding with average wholesale price index (WPI) inflation falling to a three-year low of 5.98 per cent during 2013-14. Consumer price inflation, though higher than the WPI, has also exhibited signs of moderation with CPI (new-series) inflation declining from 10.21 per cent during 2012-13 to about 9.49 per cent in 2013-14. Food inflation, however, remained stubbornly high during FY 2013-14. As inflation remained above the comfort level of the Reserve Bank of India (RBI), the tight monetary policy stance was maintained by the Central Bank. The depreciation of the rupee, following the taper indication by the Federal Open Market Committee (FOMC) in May 2013, also impacted the inflation situation. The rupee went into a free fall and touched a low of ` 68 to a dollar in August end. However, the government and the RBI were quick to respond and announced immediate measures to arrest volatility and quell speculation. The RBI has since stuck to its commitment to bringing down inflation levels and maintained high rates in Q4 2013-14. Going forward, both wholesale and consumer price inflation in India is expected to inch downwards, paving the way for monetary easing, although, there are risks to the outlook for inflation from a possible sub-normal monsoon during 2014-15 as predicted by the IMD on account of El-Nino effect, possible step up in the pass-through of international crude oil prices, and exchange rate volatility.

Public Finance

The fiscal outcome of the central government in 2013-14, which was in line with the fiscal consolidation targets set as per the Medium Term Fiscal Policy Statement (MTFPS), was achieved despite the macroeconomic challenges of growth slowdown, elevated levels of global crude oil prices, and slow growth of investment. The fiscal position of states has remained firmly in consolidation mode with states' fiscal deficit budgeted at 2.2 per cent of gross domestic product (GDP). Steadfast adherence to fiscal consolidation by the centre and states is key to achieving the desired macroeconomic outcomes. While the initial phase of fiscal consolidation during 2004-08 was made possible by higher growth and was thus revenue led, it will indeed be challenging to maintain the momentum in the current context of lower growth. In the last two years, the focus has been on rationalizing expenditure; this needs to continue, especially should revenues remain below par, but without diluting the quality of expenditure.

Financial Intermediation

Financial markets form an important part of the Indian economy. Their performance in 2013-14 reflected the slowdown in the real economy with most intermediaries growing at a slower rate as compared to previous years. Moreover, there were growing concerns about asset quality in the banking sector. The Government of India along with relevant market regulators took cognizance of these growing challenges including financial inclusion and consumer protection and implemented a multitude of policy initiatives to reinvigorate financial markets. The passage of the PFRDA act and presentation of the FSLRC report in 2013-14 mark important milestones in moving towards the next generation of financial-sector reforms.

Human Development

Economic policy has often to strike a delicate balance between the two goals of economic growth and human welfare which need not necessarily be contradictory. Despite global shocks, India has not compromised on welfare expenditures especially for the needy and marginalized, though growth has lagged behind. A new impetus to growth along with targeted policies aimed at both social and financial inclusion can help convert outlays into outcomes.

- ✓ Demographic dividend will benefit India if its population is educated, healthy, and adequately skilled.
- ✓ The human development dimension needs to be taken into account during formulation and implementation of social-sector programmes and in devolution of funds to states.
- ✓ As a percentage of GDP, expenditure on education has gone up from 2.9 per cent in 2008-09 to 3.3 per cent in 2013-14(BE). There is need not only to increase it further, but also address quality issues.

- ✓ Skill development is vital not only for taking advantage of the demographic dividend, but also for more inclusive growth.
- ✓ Expenditure on health is just 1.4 per cent of India's GDP. A lot more needs to be done to provide quality and affordable healthcare for the large Indian population.
- ✓ Greater inclusion of women involves not just a greater share for the gender budget but also greater share of women in the decision making process.
- ✓ Faster and more inclusive development also depends on economic and social empowerment along with educational upliftment of socially disadvantaged.
- ✓ Massive investment in social infrastructure, skill development, and empowerment of women is needed to reap the benefits of the time-bound demographic dividend.
- ✓ A mere mark up each year in the Budget for existing programmes or starting some new ones will not suffice.
- ✓ What is needed is a 'zero budgeting' approach with a revamp, reorganization, and convergence of schemes.
- ✓ Focused attention on raising the awareness levels of the PRIs, especially Gram Sabhas, will lead to better and more effective planning, execution, monitoring, and social audit of panchayat-centric programmes.

International Trade

The 2008 global financial crisis and subsequent slowdown in the world economy has clearly demonstrated that tremors originating in one corner of the world can quickly reach other parts, among others via the trade channel. The 2008 crisis left world trade (both merchandise and services) shattered with a steep fall to a negative 19.8 per cent in 2009. For f ive years before the crisis (2003–2007) world trade value grew at a robust 16.6 per cent (compound annual growth rate—CAGR) and for five years after the crisis (2009-2013) it grew at a subdued 9.9 per cent. Mirroring the global trend, India's exports (merchandise and services) which also had robust growth of 30.1 per cent in the five pre-crisis years (2003-2007) decelerated to 16.0 per cent in the five post-crisis years (2009-2013). Though the outlook is now better, the situation is still fragile for both world and Indian trade with the deep scars left by the 2008 crisis still visible

Sustainable Development and Climate Change

Human-induced greenhouse gas (GHG) emissions are growing and are chiefly responsible for climate change. Being a global public good, greater effort at collective action to limit the increase in global average temperature to below 2°C above pre-industrial levels is required. Emerging and developing countries in South Asia and Africa, where there are greater needs for adaptation, particularly in view of the nature of livelihoods, are most vulnerable to the adverse impacts of climate change. The sustainable development path has economic implications. There is immense pressure on governments to act through two new agreements on climate change and sustainable development, both of which will be new global frameworks for action to be finalized next year. India has accommodated sustainability concerns in its development path but is constrained in its efforts as many needs are competing for a small amount of resources. The UNFCCC process must gather momentum for securing the global public good.

Budget Highlights

Direct Taxes

- No Changes in tax rates
- Education cess continues as 3 %
- No change in the rate of surcharge either for the corporate or the individuals, HUFs, firms etc.
- Tax exemption limit for individuals increased from Rs 2.0 to Rs 2.5 lakh. For senior citizens, limit increased from Rs. 2.50 lakh to Rs 3 lakh per annum.
- Investment limit under Section 80C from Rs 1 lakh to Rs 1.5 lakh.
- Deduction limit on interest on loan for self-occupied house raised to Rs 2 lakh from Rs 1.5 lakh
- Investment allowance at 15% for 3 yrs to manufacturing company which invest more than Rs. 25 crore in plant and machinery
- Income arising to foreign portfolio investors from transaction in securities to be treated as capital gains.
- Kisan Vikas Patra to be reintroduced as Savings Scheme
- Income Tax Department is expected to function not only for enforcement but also as a facilitator
- CBDT Committee to look into all fresh tax demands for indirect transfer of assets in wake of retrospective tax amendments of 2012. All pending cases of retrospective tax for indirect transfers to be examined by a high-level committee before action is taken
- Long term capital gain tax for mutual funds doubled to 20% from 10% & lock-in period increased to 3 years from 1 year.
- Proposes changes in transfer pricing mechanism
- Extends 5 percent withholding tax on corporate bonds until June 30 2017
- Net effect of direct tax proposals is revenue loss of Rs 22,200 crore
- 10 year tax holiday for power companies who start production and distribution on March 31, 2017

- The eligible date of borrowing in foreign currency extended from 30.06.2015 to 30.06.2017 for a concessional tax rate of 5 percent on interest payments.
- Introduction of a "Roll Back" provision in the Advanced Pricing Agreement (APA) scheme so that an APA entered into for future transactions is also applicable to international transactions undertaken in previous four years in specified circumstances.
- Income and dividend distribution tax to be levied on gross amount instead of amount paid net of taxes.
- In case of non deduction of tax on payments, 30% of such payments will be disallowed instead of 100%

Indirect Taxes

- Tax proposals on indirect tax front would yield Rs 7,525 crore.
- Televisions sets to be cheaper, basic custom duties on LCD, LED panels reduced
- Export duty on bauxite enhanced from 10% to 20%
- Excise duty on footwear reduced from 12% to 6%
- Color picture tubes exempt from customs duty
- Reduction in excise duty for specified food package industry from 10% to 6%
- Excise duty on tobacco products and aerated water products with added sugar increased
- Negative list for service tax has been reviewed
- Indian Custom Single Window Project will be taken up for facilitating trade
- Basic custom duty on LED panel below 19 inch made nil
- To give an impetus to the stainless steel industry, increase in basic customs duty on
- Imported flat-rolled products of stainless steel from 5 percent to 7.5 percent.
- Basic customs duty on metallurgical coke increased from Nil to 2.5 percent in line with the duty on coking coal.

- To encourage exports, pre-forms of precious and semi-precious stones exempted from basic customs duty.
- For passenger facilitation, free baggage allowance increased from Rs. 35,000 to 45,000.
- Withdraw concessional excise duty (2 percent without Cenvat benefit and 6 percent with Cenvat benefit) on smart cards and a uniform excise duty at 12 percent.
- Service tax exempted on loading, unloading, storage, warehousing and transportation of cotton, whether ginned or baled.
- Services provided by the Employees' State Insurance Corporation for the period prior to 1st July 2012 exempted, from service tax.
- Exemption available for specified micro insurance schemes expanded to cover all life micro-insurance schemes where the sum assured does not exceed Rs. 50, 000 per life insured.
- The scheme of Advance Ruling in indirect taxes to be expanded to cover resident private limited companies.
- The scope of Settlement Commission to be enlarged to facilitate quick dispute resolution.
- Clean energy cess increased from Rs 50/ tonne to Rs 100/tonne.
- Additional 5% excise tax to be levied on aerated drinks with added sugar (cold drinks).
- Tobacco products also to get costly as excise duty hiked to 72%
- Excise duty on footwear reduced from 12% to 6%

Others

- PPF limit to be raised to Rs 1.5 lakh
- A new 24/7 TV channel Arun Prabha for northeastern region
- Policy of One Rank One Pension to be adopted for defence personnel.
- RBI will create framework for licenses of small banks.
- To empower weaker households with banking facilities; there should be atleast 2 bank accounts in each household.
- To adopt international accounting standards in year 2015-16, from 2016-17 mandatory

- Revision of rate of royalty on minerals to be taken up on request from the states.
- In order to complete gas grid, 15000 km of additional pipeline to be developed through PPP mode.
- Scheme for development of new airports at tier II and III cities through PPP mode.
- MSMEs are the backbone of the economy; to be revived through a Committee to examine and report in three months.
- Industrial Smart Cities to come up at 7 cities.
- All govt departments and ministries to be integrated through E-platform by 31 December this year.
- Propose to provide finance to 5 lakh landless farmers through NABARD.
- Agriculture University in Andhra Pradesh and Rajasthan, and Horticulture University in Haryana, Telangana; Rs. 200 cr allocated
- Slum development to be included in Corporate Social Responsibility activities.
- To set up Center of Excellence in MP named after Lok Nayak Jai Prakash Narayan.
- 5 more IITs and 5 IIMs to be set up .
- Crisis Management Center for women at Delhi; money to be provided from Nirbhaya fund.
- EPFO will launch a unified account scheme for portability of Provident Fund accounts.
- Schemes for disabled persons in the country. 15 new Brail presses to be established and revival of 10 existing.
- 24/7 power supply to all homes. Deen Dayal Upadhyay Gram Jyoti Yojna for electricity supply to rural areas.
- Pradhan Mantri Krishi Sichayin Yojana to be started for irrigation.
- E-visas to be introduced at nine airports in India in phased manner.
- FDI in insurance to be increased to 49%
- FDI in defence up from 26 to 49 % with Indian management and control
- Transfer pricing is major area for litigation; proposes changes in transfer pricing regulation

- Aim to achieve 7-8 per cent economic growth rate in next 3-4 years. Expenditure management commission will be constituted
- Will approve scheme to enable legislation of GST to streamline tax administration & result in higher tax collection for centre and states
- Committed to provide stable taxation regime, which will be investor friendly
- Will set up commission for tax payers to approach with disputes
- Will provide the necessary tax changes to introduce real estate investment trusts and infrastructure investment trusts
- Proposes Rs 4000 crore for affordable housing through national housing bank and extends tax incentives for housing loans
- Earmarks Rs 7000 crore to create 100 "smart cities"
- World class convention facilities to be developed through PPP mode
- RBI will create framework for licences of small banks
- Uniform KYC across the finance sector.
- 60 more Ayakar Seva Kendras to be opened during the current financial year to promote excellence in service delivery
- Government aims to provide all households with banking facilities to empower the weaker sections; there should be atleast 2 bank a/cs in each household.

Allocations to various Schemes and Plans

- Rs 100 crore for training of sportspersons for upcoming Asian Games.
- Rs 150 crore for communication needs of Andaman and Nicobar islands.
- Rs 1000 crore provided for rail connectivity in northeastern region.
- Programme for displaced Kashmiri migrants with Rs 500 crore to be started.
- Rs 100 crore set aside for project to link rivers.
- Rs 100 crore for development of Archaeological sites. Gaya to be developed as world class tourism spot.
- Rs 5000 crore for defence outlay over and above amount provided under interim budget.

- Rs. 50 crore for National Police Memorial to be set up.
- Rs 100 crore set aside for development of Technology Development Fund.
- Rs 100 crore War Memorial at Princess Park, India Gate.
- Rs 37, 800 crore allotted for National Highways.
- Rs 200 crore set aside for 6 more textile clusters in Rae Bareily, Lucknow, Surat, Bhagalpur. Rs 50 crore set aside for Pashmina Production program in J&K.
- Rs 100 crore set aside for Kisan Television to provide real time information on various farming and agriculture issues.
- National Industrial Corridor to be set up. Rs 1000 crore set aside for this.
- Rs 5000 crore short time rural credit refinance fund for 2014-15.
- Rs 50 core set aside for indigenous cattle breed and blue revolution for inland fisheries.
- Rs. 100 Cr to provide a soil health card; Rs 56 crore for soil testing labs across the country.
- Govt announces Rs 100 crore for modernization of madrassas.
- Govt announces development of Metro rails in PPP mode; Rs 100 crore set aside for metro scheme in Ahmedabad and Lucknow.
- Rs 100 crore set aside for Community Radio Centres; 600 new and existing ones will be supported.
- Rs. 500 Cr for National Rural Internet and Technology Mission
- Rs. 500 Cr to set up four more AIIMS in Andhra Pradesh, West Bengal, Vidarbha and Purvanchal.
- Rs. 8000 cr for National Housing Banking programme
- Rs. 14389 Cr for Pradhan Mantri Gram Sadak Yojana.
- Rs. 100 Cr for Beti Padhao, Beti Badhao Yojana
- Rs 50,548 crore proposed for Schedule Caste development.
- Rs 200 crore for 'Statue of Unity' of Sardar Vallabh Patel.

Sector wise Proposals

AGRICULTURE

- Government to establish two more Agricultural Research Institute of excellence in Assam and Jharkhand with an initial sum of ` 100 crore.
- 200 crore provided to open Agriculture Universities in Andhra Pradesh and Rajasthan and Horticulture Universities in Telangana and Haryana.
- A sustainable growth of 4% in Agriculture will be achieved.
- Technology driven second green revolution with focus on higher productivity and including “Protein revolution” will be area of major focus.
- To mitigate the risk of Price volatility in the agriculture produce, a sum of ` 500 crore is provided for establishing a “Price Stabilization Fund”.

Agriculture Credit

- To provide institutional finance to landless farmers, it is proposed to provide finance to 5 lakh joint farming groups of “**Bhoomi Heen Kisan**” through NABARD .
- A target of ` 8 lakh crore has been set for agriculture credit during 2014-15.
- Corpus of Rural Infrastructure Development Fund (RIDF) raised by an additional Rs. 5000 crores from the target given in the Interim Budget to ` 25000 crores .
- Allocation of ` 5,000 crore provided for the Warehouse Infrastructure Fund**.**

Food Security

- Restructuring FCI, reducing transportation and distribution losses and efficacy of PDS to be taken up on priority.
- Government committed to provide wheat and rice at reasonable prices to the weaker sections of the society.

FINANCIAL SECTOR

Capital Market

- Introduction of uniform KYC norms and inter-usability of the KYC records across the entire financial sector.
- Introduce one single operating demat account
- Uniform tax treatment for pension fund and mutual fund linked retirement plan

BANKING AND INSURANCE SECTOR

Banking

- Banks to be encouraged to extend long term loans to infrastructure sector with flexible structuring.
- RBI to create a framework for licensing small banks and other differentiated banks.
- Six new Debt Recovery Tribunals to be set up.
- For venture capital in the MSME sector, a ` 10,000 crore fund to act as a catalyst to attract private Capital by way of providing equity , quasi equity, soft loans and other risk capital for start-up companies.

Insurance Sector

- The pending insurance laws (amendment) Bill to be immediately brought for consideration of the Parliament.
- The regulatory gap under the Prize Chits and Money Circulation Scheme (Banking) Act, 1978 will be bridged.

Small Savings

- Kissan Vikas Patra (KVP) to be reintroduced.
- A special small savings instrument to cater to the requirements of educating and marriage of the Girl Child to be introduced.
- In the PPF Scheme, annual ceiling will be enhanced to `.1.5 lakh p.a. from `.1 lakh at present.

DEFENCE & INTERNAL SECURITY

- A further sum of ` 1000 crore to meet requirement for "One Rank One Pension".
- Capital outlay for Defence increased by Rs. 5000 crore including a sum of Rs. 1000 crore for accelerating the development of the Railway system in the border areas.
- Urgent steps would also be taken to streamline the procurement process to make it speedy and more efficient.

- 100 crore is provided for construction of a war memorial in the Princes Park, which will be supplemented by a War Museum. I am allocating a sum of Rs. 100 crore for this purpose.
- Rs. 100 crore is provided to set up a Technology Development Fund for Defence.

Internal Security

- 3000 crore is provided in the current financial year for modernization of state police forces.
- 2250 crore provided to strengthen and modernize border infrastructure.
- 990 crore allocated for the socio economic development of the villages along the borders.
- Rs. 50 crores provided for construction of National Police Memorial.

CULTURE & TOURISM

- 200 crore provided to build the Statue of unity(National project).
- Facility of Electronic Travel Authorization (e-Visa) to be introduced in phased manner at nine airports in India.
- 500 crore provided for developing 5 tourist circuits around specific themes.
- 200 crore provided for National Heritage City Development and Augmentation Yojana (HRIDAY).
- 100 crore provided for Archaeological sites preservation.

Water Resources and cleaning of Ganga

- 100 crore provided for Detailed Project Reports for linking of rivers.
- 2037 crores provided for Integrated Ganga Conservation Mission "NAMAMI GANGE".
- Rs. 100 crore provided for Ghat development and beautification at Kedarnath, Haridwar, Kanpur, Varanasi, Allahabad, Patna and Delhi.
- NRI Fund for Ganga will be set up.

INDUSTRY

- Central Government Departments and Ministries to integrate their services with the e- Biz -a single window IT platform- for services on priority by 31 December this year.
- Rs. 100 crore provided for setting up a National Industrial Corridor Authority.

- Amritsar Kolkata Industrial master planning to be completed expeditiously.
- Master planning of 3 new smart cities in the Chennai-Bengaluru Industrial Corridor region, viz., Ponneri in Tamil Nadu, Krishnapatnam in Andhra Pradesh and Tumkur in Karnataka to be completed.

Foreign Direct Investment

- Government has promised to provide affordable housing to all by 2022.
- To encourage FDI in real estate, requirements for built up area & capital conditions has been reduced from 50,000 sq.mt to 20,000 sq.mt and from $ 10 million to $ 5 million respectively, with a three-year post completion of lock-in period.
- Capital Investment increased from 26% to 49% in insurance & defense sectors.

Real Estate

- Incentives for Real Estate Investment Trusts (REITS) to be provided.
- A modified REITS type structure for infrastructure projects as the Infrastructure Investment Trusts (INVITS) has been launched.
- These will attract long term finance from foreign & domestic sources.

Micro Small and Medium Enterprises (MSME) Sector

- Skill India to be launched to skill the youth with an emphasis on employability and entrepreneur skills.
- Fund of Funds with a corpus of `.10,000 crore for providing equity through venture capital funds, quasi equity, soft loans and other risk capital specially to encourage new startups by youth to be set up.
- Corpus of ` 200 crore to be set up to establish Technology Centre Network .

Textiles

- Sum of ` 500 crore for developing a Textile mega-cluster at Varanasi and six more at Bareilly, Lucknow, Surat, Kutch, Bhagalpur and Mysore.
- 20 crore to set up a Hastkala Academy for the preservation, revival, and documentation of the handloom/handicraft sector in PPP mode in Delhi.

Shipping

- 11635 crore will be allocated for the development of Outer Harbour Project in Tuticorin for phase I.
- SEZs will be developed in Kandla and JNPT.
- Project on Ganges called " Jal Marg Vikas' to be developed between Allahabad and Haldia.
- Scheme for development of new airports in Tier I and Tier II Cities to be launched.

INFRASTRUCTURE

- An institution to provide support to mainstreaming PPPPs called 4PIndia to be set up with a corpus of ` 500 crores.

Roads sector

- An investment of an amount of ` 37,880 crores in NHAI and State Roads is proposed which includes ` 3000 crores for the North East.
- Target of NH construction of 8500 km will be achieved in current financial year.
- Work on select expressways in parallel to the development of the Industrial Corridors will be initiated. For project preparation NHAI shall set aside a sum of ` 500 crore.

ENERGY

- 100 crore is allocated for a new scheme "Ultra-Modern Super Critical Coal Based Thermal Power Technology."
- 500 crores provided for Ultra Mega Solar Power Projects in Rajasthan, Gujarat, Tamil Nadu, Andhra Pradesh and Laddakh.
- 400 crores provided for a scheme for solar power driven agricultural pump sets and water pumping stations.
- 100 crore provided for the development of 1 MW Solar Parks on the banks of canals.

HOUSING

- Extended additional tax incentive on home loans shall be provided to encourage people, especially the young, to own houses.
- Mission on Low Cost Affordable Housing anchored in the National Housing Bank to be set up.

- A sum of ` 4000 crores for NHB from the priority sector lending shortfall with a view to increase the flow of cheaper credit for affordable housing to the urban poor/EWS/ LIG segment is provided
- Slum development to be included in the list of Corporate Social Responsibility (CSR) activities to encourage the private sector to contribute more.

SPORTS AND YOUTH AFFAIRS

- 200 crore provided for upgrading the indoor and outdoor sports stadiums in Jammu and Kashmir Valley to international standards.
- 100 crore provided for sports university in Manipur.
- India to start an annual event to promote Unique sports traditions in the Himalayan region games.
- 100 crore provided for the training of sports women and men for forthcoming Asian games.
- A "Young Leaders Programme" with an initial allocation of ` 100 crore to be set up.

INFORMATION AND BROADCASTING

- 100 crore allocated for 600 new and existing Community Radio Stations.
- A sum of Rs 100 crore to promote Good Governance.
- Launch of "Digital India" a pan India programme with an outlay of 500 crore.
- Film & Television Institute, Pune and Satyajit Ray Film & Television Institute, Kolkata are proposed to be accorded status of Institutes of national importance and a "National Centre for Excellence in Animation, Gaming and Special Effects to be set up.
- 100 crore is provided for Kisan TV, to disseminate real time information to the farmers on issues such as new farming techniques, water conservation, organic farming etc.

URBAN DEVELOPMENT

- Vision of the Government is that 500 urban habitations to be provided support for renewal of infrastructure and services in next 10 years through PPPs
- Present corpus of Pooled Municipal Debt Obligation Facility facility to be enlarged to ` 50,000 Crore from ` 5000 crore.
- 100 crore provided for Metro Projects in Lucknow and Ahemdabad.

HEALTH

Drinking Water & Sanitation

- Safe drinking water to be provided to victims affected by arsenic, fluoride, heavy/ toxic elements, pesticides.
- Proper Sanitation facilities to every household through "Swachh Bharat Abhiyan" by 2019.

Health & Family Welfare

- Every State to have a AIIMS Center in coming 5 years.
- To set up 12 Government Medical Colleges.
- A national level research and referral Institute for higher dental studies to be launched.
- New Drug testing Laboratories will be created to strengthen States Drug Regulatory & Food Regulatory Systems.
- 15 Model Rural Health Research Centers to be set up for research on local health issues concerning rural population.

EDUCATION

- An amount of 28635 crore & 4966 crore would be funded by Sarva Shiksha Abhiyan & Rashtriya Madhyamic Shiksha Abhiyan to provide toilets & drinking water in all girls school.
- 100 crore provided to set up a Virtual Classroom as Communication Linked Interface fro Cultivating Knowledge (CLICK) & Online courses.
- 5 New IIM's in the States of HP, Punjab, Bihar, Odisha and Rajasthan.
- Easier Norms to facilitate Educational loans for higher studies.
- 500 crore provided for “Pandit Madan Mohan Malviya New Teachers Training Programme” to infuse new training tools and motivate teachers.
- 5 More IIT's to be set up in Jammu, Chhattisgarh, Goa, Andhra Pradesh & Kerala by a cost of 500 Crores.
- Jai Prakash Narayan National Centre for Excellence in Humanities to be set up in MP.

SOLAR ENERGY

- Calling it a 'high priority' area, FM allocated Rs 1,000 crore for the solar power sector.
- The government aims to construct Ultra Mega Solar Power Projects or high capacity plants in the radiation rich states of Rajasthan, Gujarat, Tamil Nadu, and Ladakh in Jammu & Kashmir.

Rs 500 crore allocated to push ultra-modern solar power projects in Rajasthan, Tamil Nadu and Ladakh. The funds may be routed through Solar Energy Corporation of India as seed capital.

- Rs 100 crore is set aside for the development of 1 MW Solar Parks on the banks of canals.
- Implementation of the Green Energy Corridor Project will be accelerated in the current financial year to facilitate evacuation of renewable energy across the country.
- Green Energy Corridor Project is aimed at synchronising electricity produced from renewable sources, such as solar and wind, with conventional power stations in the grid.
- Flat copper wire used for the manufacture of PV (photovoltaic) ribbons will be exempted from basic customs duty.
- A concessional basic customs duty of 5 percent is also being extended to machinery and equipment required for setting up of a project for solar energy production.
- Solar power panels will become cheaper as solar power gear makers will attract lower duty.
- Government wants to expand the current target of 20000 mw solar power projects in India. They have programme to set up one lakh solar powered irrigation pumps.
- Customs duty reduced on forged steel bearings for wind power turbines by 5 per cent.
- Rs. 100 Cr allocated to replicate the solar power project commissioned on Narmada canal in Gujarat.

Direct Tax Proposals

The tax structure will remain same as earlier with some highlighted changes. The structure is reproduced below for ready reference.

Tax Rates

(A) Individual/ HUFs/ AOPs/ BOI/ Artificial Juridical person

(I) The Tax Slabs for Individuals/ HUFS/ AOPS/ BOI, whether incorporated or not, or every artificial juridical person will be as follows for Assessment year 2014-15. The only change is increase of exemption limit from Rs. 2,00,000 to Rs. 2,50,000.

Slab Rates		
Income	**Existing Tax Rate**	**Proposed Tax Rate**
Up to Rs. 2,00,000	Nil	Nil
Rs. 2,00,000 to Rs. 2,50,000	10%	Nil
Rs. 2,50,001 to Rs. 5,00,000	10%	10%
Rs. 5,00,001 to Rs. 10,00,000	20%	20%
Above Rs. 10,00,000	30%	30%

(J)(II) In case of every individual, being a resident in India, who is of the age of sixty years or more but less than eighty years at any time during the previous year: The only change is increase of exemption limit from Rs. 2,50,000 to Rs. 3,00,000.

Slab Rates		
Income	**Existing Tax Rate**	**Proposed Tax Rate**
Up to Rs. 2,50,000	Nil	Nil

Rs. 2,50,000 to Rs. 3,00,000	10%	Nil
Rs. 3,00,001 to Rs. 5,00,000	10%	10%
Rs. 5,00,001 to Rs. 10,00,000	20%	20%
Above Rs. 10,00,000	30%	30%

(III) In case of every individual, being a resident in India, who is of the age of eighty years or more at any time during the previous year:

Slab Rates		
Income	**Existing Tax Rate**	**Proposed Tax Rate**
Up to Rs. 5,00,000	Nil	Nil
Rs. 5,00,001 to Rs. 10,00,000	20%	20%
Above Rs. 10,00,000	30%	30%

(B) Co-operative Societies:

In case of Co-operative Societies, the rates of income-tax are as given below. The rates will be as follows for Assessment year 2014-15. No changes in Budget.

Slab Rates	
Income	**Tax Rate**
Upto Rs. 10,000	10%
Above Rs. 10,000-Rs. 20,000	20%
Above 20,000	30%

(C) Firms:

The rate of income-tax in case of firm is @ 30% which will further be increased by Education Cess @ 2% and Secondary and Higher Education Cess @ 1%. No changes in Budget.

(D) Local Authorities:

The rate of income-tax in case of local authority is @ 30% which will further be increased by Education Cess @ 2% and Secondary and Higher Education Cess @ 1%. No changes in Budget.

The amount of income-tax computed in accordance with the preceding provisions shall be increased by a surcharge at the rate of ten percent of such income-tax in case of all the above assesses having a total income exceeding one Crore Rupees.

However, the total amount payable as income-tax and surcharge on total income exceeding one Crore rupees shall not exceed the total amount payable as income-tax on a total income of one Crore rupees by more than the amount of income that exceeds one Crore rupees.

(E) Companies: No changes in Budget.

Income Tax Slab Rate		**Surcharge Rate**	
Income	**Tax Rate**	**Total Income**	**Rate**
In Case of Domestic Company (On the whole of the total income)	30%	Above Rs. 1 Crore but not exceed Rs. 10 Crore	5%
		Above Rs. 10 Crore	10%
In case of Company other than a domestic company -	40%	Above Rs.1 Crore but not exceed Rs.10 Crore	2%
		Above Rs.10 Crore	5%

In other cases (including sections 115-O, 115QA, 115R or 115TA) the surcharge shall be levied at the rate of ten percent.

For Assessment year 2015-16, additional surcharge called the "Education Cess on income-tax" and "Secondary and Higher Education Cess on income-tax" shall continue to be levied at the rate of two percent and one per cent. Respectively, on the amount of tax computed, inclusive of surcharge (wherever applicable), in all cases. No marginal relief shall be available in respect of such Cess.

Section-wise detailed Analysis

Long Term Capital Gains on debt oriented Mutual Fund as Short- term capital asset

Section 2 (42A):

Existing provisions:
The existing provisions contained in clause (42A) section 2 provides that short capital asset means a capital asset held by an assessee for not more than thirty six months immediately preceding the date of its transfer. However, in the case of a share held in as company or any other security listed in recognized stock exchange in India or a unit of the Unit Trust of India or a unit of a mutual fund or a zero coupon bond, the period of holding for qualifying it as short- term capital asset is not more than twelve months.

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

W.E.F.: 1st April, 2015

Implication:

Due to enhancement of holding time limit, investment in above mentioned securities will diminish.

Tax deduction at source from non-exempt payments made under life insurance policy

Section 10(10D)

Existing Provision:
Under the existing provisions of section 10(10D) of the Act, any sum received under a life insurance policy, including the sum allocated by way of bonus on such policy is exempt subject to fulfillment of conditions specified under the said section.

Proposed Provision:
It is proposed to insert a new section in the Act to provide for deduction of tax at the rate of 2 per cent. on sum paid under a life insurance policy if amount exceed Rs.1,00,000/-

Implicatiion:
Addition of TDS burden on income/amount received through LIC policy. However some relaxation given whose LIC income not exceeds Rs. 1 lakh. This provision will bring all such receipts to the knowledge of department.

W.E.F:- 1st Oct 2014

Clarification of Definition “Substantially Financed By The Government"

Sec 10(23C)

Existing Provisions

The Act provides exemption, subject to various conditions, in respect of income of certain educational institutions, universities and hospitals which exist solely for educational purposes or solely for charitable purposes, and not for purposes of profit and which are wholly or substantially financed by the Government.

Proposed Amendments

Now the section enlarge the definition by adding certain explanation that if the Government grant to a university or other educational institution, hospital or other institution during the relevant previous year exceeds a percentage (to be prescribed) of the total receipts (including any voluntary contributions), of such university or other educational institution, hospital or other institution, as the case may be, then such university or other educational institution, hospital or other institution shall be considered as being substantially financed by the Government for that previous year.

Implication

By proper definition of "substantially financed by the Government" it will prevent litigation and varying decisions. There was lack of certainty without proper definition but now it is clearly explained.

W.E.F. This amendment will take effect from 1st April, 2015.

Cancellation of registration of the trust or institution in certain cases

Section 12(AA)

Existing Provision

The existing provisions of section 12AA of the Act provide that the registration once granted to a trust or institution shall remain in force till it is cancelled by the Commissioner.

The Commissioner can cancel the registration under two circumstances:

(a) the activities of a trust or institution are not genuine, or;

(b) the activities are not being carried out in accordance with the objects of the trust or institution.

Only if either or both the above conditions are met, would the Commissioner be empowered to cancel the registration, and not otherwise. Therefore, the powers of Commissioner to cancel registration are severely restricted.

Proposed Provision

Now it is proposed to amend the provisions relating to cancellation of registration of a trust, according to the proposed section, commissioner can cancel registration of trust in following manners.

(i) Its income does not enure for the benefit of general public.

(ii) It is for benefit of any particular religious community or caste (in case it is established after commencement of the Act)

(iii) any income or property of the trust is applied for benefit of specified persons like author of trust, trustees etc.; or

(iv) its funds are invested in prohibited modes,

By this the Commissioner may cancel the registration if such trust or institution does not prove that there was a reasonable cause for the activities to be carried out in the above manners.

Implication

By this provision the working of Trust will be regulated and trust with malpractices will come under clutch.

W.E.F. This amendment will take effect from 1st October, 2014.

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

SECTION 12A:-

Existing provision

The Act provide that a trust or an institution can claim exemption under sections11 and 12 only after registration under section 12AA has been granted. In case of trusts or institutions which apply for registration after 1st June, 2007, the registration shall be effective only prospectively.

Non-application of registration for the period prior to the year of registration causes genuine hardship to charitable organizations. Due to absence of registration, tax liability gets attached even though they may otherwise be eligible for exemption and fulfill other substantive conditions. The power of condensation of delay in seeking registration is not available under the section. In order to provide relief to such trusts and remove hardship in genuine cases, it is proposed to amend section 12A of the Act to provide that in case where a trust or institution has been granted registration under section 12AA of the Act, the benefit of sections 11 and 12 shall be available in respect of any income derived from property held under trust in any assessment proceeding for an earlier assessment year which is pending before the Assessing Officer as on the date of such registration, if the objects and activities of such trust or institution in the relevant earlier assessment year are the same as those on the basis of which such registration has been granted. Further,

Proposed Provisions

it is proposed that no action for reopening of an assessment under section 147 shall be taken by the Assessing Officer in the case of such trust or institution for any assessment year preceding the first assessment year for which the registration applies merely for the reason that such trust or institution has not obtained the registration under section 12AA for the said assessment year. However, the above benefits would not be available in case of any trust or institution which at any time had applied for registration and the same was refused under section 12AA or a registration once granted was cancelled.

W.E.F - These amendments will take effect from 1st October, 2014.

Increase in Limit of Deduction Of Interest On Housing Loan

Section 24 B

Existing provision: Provides that where the property is acquired with borrowed capital, the amount of any interest payable on such capital shall be allowed as deduction in computing the income from house property. Also, provides that in case of self occupied property where the acquisition or construction of the property is completed within 3 years from the end of the financial year in which the capital is borrowed, the amount of deduction shall not exceed one Rs. 1.5 lakh.

Proposed Provision: To increase the limit of deduction on account of interest in respect of house property from 1.5 lakh to 2 lakh rupees.

☺**Implication:** It will help in reducing the tax burden of the assessee. A step towards government's promise to ensure home to all by 2022.

W.E.F: 1st April 2015 i.e. AY 2015-16.

Change in conditions to availe the deduction u/s 35AD in respect of Capital Expenditure on Specified Business.

Section: 35AD

Existing Provision:

1. Investment-linked incentive is provided by way of allowing a deduction in respect of the whole of any expenditure of capital nature(other than expenditure on land, goodwill and financial instrument) incurred wholly and exclusively, for the purpose of the "Specified Business" during the previous year in which such expenditure is incurred.
2. The existing provision of the said section do not provide for a specific time period for which capital assets are to be used for the specified business.
3. If any asset on which a deduction under section 35AD has been allowed, is demolished, destroyed, discarded or transferred, the sum received or receivable for the same is chargeable to tax under clause (vii) of section 28.
4. If any assessee has claimed a deduction under this section, no deduction shall be allowed under the provisions of Chapter VIA for the same or any other assessment year.

Proposed Provision:

1. It is proposed to include **two new businesses** commenced on or after 1st April,2014 as "Specified Business" for the purpose of the investment-linked deduction under the section 35AD, which are:-

(a) Laying and operating a slurry pipeline for the transportation of iron ore;

(b) Setting up and operating a semiconductor wafer fabrication manufacturing unit.

2. It is proposed to insert sub-section (7A) in the section 35AD to provide that any assets(for which deduction is claimed and allowed under the said section) shall be used for a period of **eight years** beginning with the previous year in which such asset is acquired or constructed.
3. The existing provision does not include a case of the asset which is used for any purpose other than the specified business. Hence for such case, it is proposed to insert sub-section (7B) to provide that the total amount of deduction so allowed in any previous year (after deducting the allowable depreciation amount) shall be deemed to be income of the assessee chargeable under the head "Profits and gains of business or profession" of the previous year in which the asset is so used.
4. Disallowance of deduction u/s 10AA along with deduction of Chapter VIA proposed to be inserted now.

Implication:
Provision of this section proposed to be defined more precisely with addition of more condition to be fulfilled to get the benefit of it.

W.E.F.: 1st April,2015 i.e. AY 2015-16

Period to pay TDS extended till return filing in case of TDS on payments to person outside India or to Non-resident

Section: 40 (a) (i)

Existing : If Any assessee fails to deduct TDS or fails to pay TDS in previous year or in the subsequent year before expiry of the time prescribed under subsection (1) of section 200, on which tax is deductible at source under chapter XVII-B on interest, royalty, fees for technical services or sum charge able under The Income Tax Act, 1961, which is payable to a] outside India or b] in India to a non resident, not being a company or to a foreign company than assesee can not claim such expenses in pervious year however assessee can claim such expense in the year of payment.

Proposed: it is proposed that the assessee shall be allowed to claim deduction for payments made to non-residents in the previous year of payment, if tax is deducted during the previous year and the same is paid on or before the due date specified for filing of return under section 139(1) of the Act.

Implication : Extended time is allowed to assessee to deduct or pay TDS to claim expense in previous year, It will give an opportunity to genuine assessee to claim such expenses in the same previous year..

W.E.F.: 1st April, 2015

Now claim 70% expense even on non - deduction of TDS:

Section: 40 (a) (ia)

Existing :If assessee any interest, commission or brokerage, rent, royalty, fees for professional services of fees for technical services payable to a resident, or amounts payable to a contractor or subcontractor, being resident, for carrying out any work (including supply of labour for carrying out any work), on which tax is deductible at source under chapter XV1I-B and such tax has not been deducted or, after deduction, has not been paid on or before the due date specified in sub-section (1) of section 139 than such expenses can not claimed by assessee under the head of Income from Business or Profession.

Further, existing provisions of section 40(a)(ia) of the Act provides that certain payments such as interest, commission, brokerage, rent, royalty fee for technical services and contract payment made to a resident shall not be allowed as deduction for computing business income if tax on such payments was not deducted, or after deduction, was not paid within the time specified under the said section. Chapter XVII-B of the Act mandates deduction of tax from certain other payments such as salary, directors fee, which are currently not specified under section 40(a)(ia) of the Act.

Proposed: In order to reduce the hardship, it is proposed that in case of non-deduction or non-payment of TDS on payments made to residents as specified in section 40(a)(ia) of the Act, the disallowance shall be restricted to 30% of the amount of expenditure claimed.
In order to improve the TDS compliance in respect of payments to residents which are currently not specified in section 40(a)(ia), it is proposed that the disallowance under section 40(a)(ia) of the Act shall extend to all expenditure on which tax is deductible under Chapter XVII-B of the Act.

Implication : Assessee can claim 70% of the amount which are earlier fully disallowed under section 40 (a) (i) and other Items which are not covered earlier under this section is now under the scope of the said section.
W.E.F.: 1st April, 2015

Amendment in Definition of Speculative transaction in respect of commodity derivatives

Section : 43 (5)

Existing: The Finance Act, 2013 made a provision for levy of commodities transaction tax on commodity derivatives in respect of commodities other than agricultural commodities. As a consequence to the levy of commodities transaction tax, clause (e) was inserted in the proviso to clause (5) of section 43 of the Act to provide that eligible transaction in respect of trading in commodity derivatives carried out in a recognised association shall not be considered as speculative transaction. it was clarified that the eligible transaction shall include only those transactions in commodity derivatives which are liable to commodities transaction tax.

Proposed: it is proposed to amend clause (e) of the proviso to the said clause (5) so as to provide that eligible transaction in respect of trading in commodity derivatives carried out in a recognised association and chargeable to commodities transaction tax under Chapter VII of the Finance Act, 2013 shall not be considered to be a speculative transaction.

W.E.F. : 1st April, 2014.

Hike in presumptive Income of an assessee who is engaged in the business of plying, hiring or leasing goods carriages

Section : 44AE

Existing: The existing provisions of section 44AE of the Act provides for presumptive taxation in the case of an assessee who is engaged in the business of plying, hiring or leasing goods carriages and not owning more than ten goods carriages at any time during the previous year. Income from the said business is calculated as under:

Type of Goods carriage	Amount of presumptive income
Heavy goods vehicle (HGV)	Rs.5,000 for every month (or part of a month) during which the goods carriage is owned by the taxpayer.
Vehicle other than HGV	Rs. 4,500 for every month (or part of a month) during which the goods carriage is owned by the taxpayer.

Proposed: it is proposed to provide for a uniform amount of presumptive income of Rs.7,500 for every month (or part of a month) for all types of goods carriage without any distinction between HGV and vehicle other than HGV:

<table>
<tr><th>Type of Goods carriage</th><th>Amount of presumptive income</th></tr>
<tr><td>Heavy goods vehicle (HGV)</td><td rowspan="2">Rs.7,500
for every month (or part of a month) during which the goods carriage is owned by the taxpayer.</td></tr>
<tr><td>Vehicle other than HGV</td></tr>
</table>

Implication: It will increased taxable income and tax burden of aseesee.
W.E.F.: 1st April, 2015

Extension of income-tax exemption to Special Undertaking of Unit Trust of India (SUUTI) till 31.03.2019

Existing: section 13(1) of the said Repeal Act, SUUTI is exempt from income-tax or any other tax or any income, profits or gains derived, or any amount received in relation to the specified undertaking for a period of five years, computed from the appointed day, i.e. 1st day of February, 2003. This exemption was to come to an end on 31st January, 2008 and the exemption was extended up to the 31st March, 2009 and thereafter, up to the 31st March, 2014.

Proposed: it is proposed to amend section 13(1) so as to extend the exemption for a further period of five years that is upto 31st March, 2019.

Implication: It will extend the exemption to SUUTI.

W.E.F.: 1st April, 2014 up to 31st March, 2019.

Amendment in Taxability of Income arising from transfer of an asset by way of compulsory acquisition

Section: 45(5)
Existing: section 45 provide for charging of any profits or gains arising from transfer of a capital asset. Sub-section (5) of the said section provides for dealing with capital gains arising from transfer by way of compulsory acquisition where the compensation is enhanced or further enhanced by the court, Tribunal or any other authority. Clause (b) of the said sub-section provides that where the amount of compensation is enhanced or further enhanced by the court it shall be deemed to be the income chargeable of the previous year in which such amount is received by the assessee.

Proposed: it is proposed to provide that the amount of compensation received in pursuance of an interim order of the court, Tribunal or other authority shall be deemed to be income chargeable under the head 'Capital gains' in the previous year in which the final order of such court, Tribunal or other authority is made.

Implication Income arising on transfer of an assets by the way of compulsory acquisition are chargeable in previous year in which final order passed instead of receipt basis which lead to extend liability of tax to year of final order and whole amount charged in Single year.

W.E.F. : 1st April, 2015.

No Capital gain on Transfer of Government Security by one non-resident to another non-resident

Section : 47 (viib)

Existing: Newly Inserted Provision

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

Implication: Tax Benefit to non resident on transfer of Government security to non resident.

W.E.F. : 1st April, 2015

Amendment in Definition of Cost inflation Index

Section: 48

Existing: the term "Cost Inflation Index" (CII) which in relation to a previous year means such index as may be notified by the Government having regard to seventy-five percent of average rise in the Consumer

Price Index (CPI) for urban non-manual employees (UNME) for the immediately preceding previous year to such previous year.

Proposed: it is proposed to amend the said clause (v) of the Explanation to section 48 to provide that "Cost Inflation Index" in relation to a previous year means such index as may be notified by the Central Government having regard to seventy-five percent of average rise in the Consumer Price Index (Urban) for the immediately preceding previous year to such previous year.

W.E.F. : 1st April, 2016.

Taxability of advance forfeiture amount for transfer of a capital asset.

Section: 51

Existing Provision:
The existing provisions of section 51 provides that any advance retained or received shall be reduced from the cost of acquisition of the asset or the written down value or the fair market value of the asset.

Proposed Provision:

1. It is proposed to provide for the taxability of any sum of money received in advance and forfeited to be taxable under the head Income from other sources", if it is not chargeable to income-tax under any other head of income.
2. It is proposed to insert a new clause that where any sum of money received as an advance for transfer of a capital asset, has been included in the total income of the assessee for any previous year, such amount shall not be deducted from the cost for which the asset was acquired/written down value/fair market value in computing the cost of acquisition.

Implication:
Shifting of tax burden in a year of forfeiture of advance amount instead of deduction of said indexed amount in a year of transfer of said assets.

W.E.F:- 1st April 2015 i.e AY 2015-16.

Capital gains exemption in case of investment in a residential house property is available for investment in only one Residential house

Section: 54 (1)

Existing: The existing provisions contained in sub-section (1) of section 54, *inter alia*, provide that where capital gain arises from the transfer of a long-term capital asset, being buildings or lands appurtenant thereto, and being a residential house, and the assessee within a period of one year before or two years after the date of transfer, purchases, or within a period of three years after the date of transfer constructs, a residential house then the amount of capital gains to the extent invested in the new residential house is not chargeable to tax under section 45 of the Act.

Propose: it is proposed to amend the aforesaid sub-section (1) of section 54 so as to provide that the rollover relief under the said section is available if the investment is made in one residential house situated in India.

Implication: Exemption to investment in more than one residential house property in India is not allowed.

W.E.F. : 1st April, 2015.

Capital gains exemption in case of investment in a residential house property is available for investment in only one Residential house

Section: 54F

Existing The existing provisions contained in sub-section (1) of section 54F, inter alia, provide that where capital gains arises from transfer of a long-term capital asset, not being a residential house, and the assessee within a period of one year before or two years after the date of transfer, purchases, or within a period of three years after the date of transfer constructs, a residential house then the portion of capital gains in the ratio of cost of new asset to the net consideration received on transfer is not chargeable to tax

Propose: it is proposed to amend the aforesaid sub-section (1) of section 54F so as to provide that the exemption is available if the investment is made in one residential house situated in India.

Implication: Exemption to investment in more than one residential house property in India is not allowed.

W.E.F. : 1st April, 2015.

Capital gains exemption on investment in Specified Bonds in F.Y. of Transfer of asset and subsequent year is restricted to Rs. 50 Lakhs only.

Section:54 EC (1)

Existing where capital gain arises from the transfer of a long-term capital asset and the assessee has, within a period of six months, invested the whole or part of capital gains in the long-term specified asset, the proportionate capital gains so invested in the long-term specified asset, out of the whole of the capital gain, shall not be charged to tax. The proviso to the said sub-section provides that the investment made in the long-term specified asset during any financial year shall not exceed fifty lakh rupees.

However, the wordings of the proviso have created an ambiguity. As a result the capital gains arising during the year after the month of September were invested in the specified asset in such a manner so as to split the investment in two years i.e., one within the year and second in the next year but before the expiry of six months. This resulted in the claim for relief of one crore rupees as against the intended limit for relief of fifty lakh rupees.

Propose: it is proposed to insert a proviso in sub-section (1) so as to provide that the investment made by an assessee in the long-term specified asset, out of capital gains arising from transfer of one or more original asset, during the financial year in which the original asset or assets are transferred and in the subsequent financial year does not exceed fifty lakh rupees.

Implication: Exemption can be claimed only upto Rs. 50 Lakhs.

W.E.F. : 1st April, 2015.

Trading In share is non speculative business if it is principal business a company assesssee.

Section: 73

Existing section 73 of the Act provide that losses incurred in respect of a speculation business cannot be
set off or carried forward and set off except against the profits of any other speculation business. *Explanation* to section 73 provides that in case of a company deriving its income mainly under the head "Profits and gains of business or profession" (other than a company whose principal business is business of banking or granting of loans and advances), and where any part of its business consists of purchase or sale of shares, such business shall be deemed to be speculation business for the purpose of this section. Sub-section (5) of section 43 defines the term speculative transaction as a transaction in which a contract for purchase or sale of any commodity, including stocks and shares, is settled otherwise than by way of actual delivery. However, the proviso to the said section exempts, *inter alia*, transaction in respect of trading in derivatives on a recognized stock exchange from its ambit

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

Implication: The business of trading in shares is not speculative business of a company having principal business of trading in share.

W.E.F. : 1st April, 2015.

Extension of tax holiday date for the power sector till 31.03.2017

Section 80-IA(4)(iv)

Existing Provision:
Under the existing provisions, deduction of profits and gains is allowed to an undertaking which is set up for the generation and distribution of power if it begins to generate power at any time during the period beginning on 1st April, 1993 and ending on 31st March, 2014.

Proposed Provision:
It is proposed to amend the above provision to extend the terminal date for a further period up to 31st March, 2017 i.e. till the end of the 12th Five Year Plan.

Implication: Eligible assessee can avail the benefit of deduction of profits and gains for three more years. A promotional step to boost power generation.

W.E.F.: 1st April,2015 i.e. AY 2015-16

Increase in limit of deduction for contribution to LIC Premium, Provident Fund, schemes for deferred annuities etc. From 1 lakh to 1.5 lakh

Section 80 C

Existing provision: An individual or a HUF, is allowed a deduction from income of an amount not exceeding Rs. 1 lakh with respect to sums deposited in the previous year specified under sub-section (2) of section 80C, 80CCE, 80CCD include life insurance premium, contributions to provident fund, schemes for deferred annuities etc. The assessee is free to invest in any one or more of the eligible instruments within the overall ceiling of Rs. 1 lakh.

Proposed Provision: To raise the limit of deduction allowed under section 80C from the existing Rs. 1 lakh to Rs.1.5 lakh. In view of the same, consequential amendments are proposed in sections 80CCE and 80CCD of the Act.

☺**Implication:** It will help in reducing the tax liability of the assessee. Further it will promote the savings by people.

W.E.F: 1st April 2015 i.e. AY 2015-16.

Rationalization of the Definition of International Transaction

Section 92B

Existing provision

Section 92B of the Act define 'International transaction' as a transaction in the nature of purchase, sale, lease, provision of services, etc. between two or more associated enterprises, either or both of whom are non-residents. Sub-section (2) of the said section extends the scope of the definition of international transaction by providing that a transaction entered into with an unrelated person shall be deemed to be a transaction with an associated enterprise, if there exists a prior agreement in relation to the transaction between such other person and the associated enterprise, or the terms of the relevant transaction are determined in substance between the other person and the associated enterprise. The sub-section as presently worded has led to a doubt whether or not, for the transaction to be treated as an international transaction, the unrelated person should also be a non-resident.

Proposed Provision

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

W.E.F. This amendment will take effect from 1st April, 2015

Tax on long-term capital gains on units

Section 112:

Existing Provisions:
Under the existing provisions of section 112 of the Act, where tax payable on long-term capital gains arising on transfer of a capital asset, being listed securities or unit or zero coupon bond exceeds(>10%) ten per cent. of the amount of capital gains before allowing for indexation adjustment, then such excess shall be ignored.

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

W.E.F.: 1st April, 2015

Implication:
Investment in mutual fund units will diminish.

Anonymous donations

Section 115BBC

Existing provisions

Section 115BBC of the Act provides for levy of tax at the rate of 30 per cent. in case of certain assessees, being university, hospital, charitable organisation, etc. on the amount of aggregate anonymous donations exceeding five per cent of the total donations received by the assessee or one lakh rupees, whichever is higher.

Due to the mechanism of aggregation of tax provided in section 115BBC, while tax at the rate of 30 per cent. is levied on the amount of anonymous donations exceeding the threshold, the remaining tax is chargeable on total income after reducing the full amount of anonymous donations. The proper way of computation is to reduce the income by the amount which has been taxed at the rate of 30 per cent.

Proposed Provision

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

W.E.F. - This amendment will take effect from 1st April, 2015

Change in base for calculation of Dividend and Income Distribution Tax

Section 115O & 115R :

Existing provision:

As per the existing provisions under clause 40 & 41 Domestic company shall be pay such additional income tax on any amount declared, distributed or paid by such company by way of dividend. Tax is 15% plus surcharge @10% plus education cess @2% plus SHEC @ 1% of the amount so declared, distribution or paid. This rate is being applied on the amount paid as dividend after reduction of DDT paid by the company. Therefore tax is computed with reference to the net amount. Similar case is there when is distributed by mutual funds. Due to difference in the base of the income distributed or the dividend on which the distribution tax is calculated, the effective tax rate is lower than the rate provided in the respective sections. In order to ensure that tax is levied on proper base, the amount of distributable income and the dividends which are actually received by the unit holder of mutual fund or shareholders of the domestic company need to be grossed up for the purpose of computing the additional tax.

Proposed provisions:

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

Dividend amount distributed = Rs. 85

Increase by Rs. 15 [(85*0.15)/(1-0.15)]

Increased amount = Rs. 100

DDT @ 15% of Rs. 100= Rs. 15

Tax payable u/s 115-O is Rs.15

Dividend distributed to shareholders = Rs. 15

W.E.F.: 1st October, 2014

Implication:

Due to difference in the base of the income distributed or the amount of the dividend on which the distribution tax is calculated, the effective tax rate is lower than the rate provided in the respective sections.

Widening Of Tax Base and Anti Tax Avoidance Measures

Section 115JC

Existing Provision:
The existing provisions of section 115JC of the Act provides that where the regular income tax payable by a person, other than a company, for a previous year is less than the alternate minimum tax for such previous year, the person would be required to pay income tax at the rate of 18.5% on its adjusted total income.

Proposed Provision:

1. It is proposed that the total income shall be increased/added by following amount to arrive at adjusted total income.
    a. deductions claimed under Part C of Chapter VI-A and
    b. deductions claimed under section 10AA.

Implication:
It will increase tax burden of the assessee.

W.E.F:-1st April 2015 i.e AY 2015-16

Lower rate of tax on dividends received from foreign companies

Section 115BBD:

Existing provision:

Section 115BBD of Income-tax Act provides for taxation of gross dividends received by an Indian company from a specified foreign company (in which it has shareholding of 26% or more) at the rate of 15% if such dividend is included in the total income for the Financial Year 2013-14 i.e. Assessment Year 2014-15.

Proposed amendment:

To extend the applicability of this section in respect of income by way of dividends received from a specified foreign company in Financial Year 2014-15 and subsequent financial years shall continue to be taxed at the lower rate of15%.

☺ **Implication:** The amendment is proposed for attracting repatriation of income earned by residents from investments made abroad subject to certain conditions.

W.E.F.: 1st April, 2015

Creation of new Income-tax Authorities

Section:116

Exiting Provision:

Section 116 of Income Tax Act include Central Board of Direct taxes, Directors-General of Income-tax or Chief Commissioners of Income-tax, Directors of Income-tax or Commissioners of Income-tax etc and section 117 states that the Central Government may appoint such persons as it thinks fit to be income-tax authorities.

Proposed Provision:

In view of the creation of new income-tax authorities, it is proposed to amend the aforesaid section 116 of the Act so as to include the newly created income-tax authorities. It is further proposed to insert clauses (34A), (34B), (34C) and (34D) in section 2 of the Act so as to define the terms "Principal Chief Commissioner of Income-tax", "Principal Commissioner of Income-tax", "Principal Director General of Income-tax" and "Principal Director of Income-tax" to mean a person appointed to be an income-tax authority under section 117 of the Act.

W.E.F.:1st June,2013

Now IT authority can retain Books of Accounts/ Documents in case Survey for 15 days

Section:133A

Existing provision:

The existing provision contained in section 133A of the Act enables the Income-tax authority to enter any premises in which business or profession is carried out for the purposes of survey and may impound and retain in his custody any books of account or documents inspected by him during the course of survey. However, he shall not retain in his custody any such books of account or document for a period exceeding ten days (exclusive of holidays) without obtaining the approval of the Chief Commissioner or Director General therefore, as the case may be.

Proposed Provision:

It is proposed to provide that an income-tax authority under section 133A shall not retain in his custody any such books of account or other documents for a period exceeding fifteen days (exclusive of holidays).

Implications: Income Tax authority will get sufficient time to verify contents of books and documents of assessee.

W.E.F.:1st Oct,2014

Inquiry by prescribed income-tax authority:

Section: 133C

Existing provision: Nil

Proposed Provision: Newly inserted

A new section 133C is inserted in the Act so as to provide that for the purposes of verification of information in its possession relating to any person, prescribed income-tax authority, may, issue a notice to such person requiring him, on or before a date to be therein specified, to furnish information or documents, verified in the manner specified therein which may be useful for, or relevant to, any enquiry or proceeding under this Act.

Implications: It will help the income tax authority to get more information or document as required from client by issuing notice.

W.E.F.:1st october,2014

Mutual Funds, Securitization Trusts and Venture Capital Companies or Venture Capital Funds to file return of income

Section: 139

Existing provisions:

Certain entities mentioned below, who are not chargeable to income-tax in accordance with the provisions of section 10, are obligated to file their return of income if their total income without giving effect to the provisions of section 10, exceeds the maximum amount which is not chargeable to income-tax.

Clause (23D) of section 10 exempts the income of a Mutual Fund, clause (23DA) of section 10 exempts the income of a securitization trust from the activity of securitization and clause (23FB) of section 10 exempts the income of a venture capital company (VCC) or venture capital fund (VCF) from investment in a venture capital undertaking. The Mutual Fund or securitization or VCC or VCF are not obligated to furnish their return of income under section 139 of the Act. Instead they are required to furnish a statement giving details of the nature of the income paid or credited during the previous year and such other relevant details as may be prescribed.

Proposed provision:

It is proposed to amend sub-section (4C) of section 139 so as to provide that Mutual Fund ,securitization trust and Venture Capital Company or Venture Capital Fund shall, if the total income in respect of which such fund, trust or company is assessable, without giving effect to the provisions of section 10, exceeds the maximum amount which is not chargeable to income-tax, furnish a return of such income of the previous year in the prescribed forms and verified in the prescribed manner and setting forth such other particulars as may be prescribed and all the provisions of the Act, so far as may be, apply as if it were a return required to be furnished under sub-section (1) of section 139.
Further, in the case of the Mutual Funds and securitization trusts referred to above, the requirement of filing of statements before an income-tax authority is proposed to be dispensed with by omitting sub-section (3A) of section 115R and sub-section (3) of section 115TA.

Implication:

Transparency of records will be ensured now when Mutual Funds, Securitization Trusts and Venture Capital Companies or Venture Capital Funds have to file their return of income.

W.E.F: 1st April ,2015

Section 140

Existing Provision: Under this section return shall be signed and verified by the person specified in the said section.

Proposed Provision: It is proposed to amend current section of the Act, so as to dispense with the condition of signing the income-tax return and accordingly to omit the statutory requirement of signing such return. With this amendment, only the condition of verifying of the income-tax return will apply.

Estimation of value of assets by Valuation Officer

Section: 142A

Existing Provision

The Assessing Officer may, for the purpose of making an assessment or reassessment, require the Valuation Officer to make an estimate of the value of any investment, any bullion, jewellery or fair market value of any property.

On receipt of the report of the Valuation Officer, the Assessing Officer may after giving the assessee an opportunity of being heard take into account such report for the purposes of assessment or reassessment.

Section 142A does not provide for any time limit for furnishing of the report by the Valuation Officer.

Proposed Provision:

(1) It is proposed to substitute the said section 142A so as to provide that the Assessing Officer may, for the purposes of assessment or reassessment, require the assistance of a Valuation Officer to estimate the value, including fair market value, of any asset, property or investment and submit the report to him.

(2) The Assessing Officer may make a reference whether or not he is satisfied about the correctness or completeness of the accounts of the assessee. The Valuation Officer, shall, for the purpose of estimating the value of the asset, property or investment, have all the powers of section 38A of the Wealth-tax Act, 1957.

(3) The Valuation Officer is required to estimate the value of the asset, property or investment after taking into account the evidence produced by the assessee and any other evidence in his possession gathered, after giving an opportunity of being heard to the assessee.

(4) If the assessee does not co-operate or comply with the directions of the Valuation Officer he may, estimate the value of the asset, property or

investment to the best of his judgment. It is also proposed to provide that the Valuation Officer shall send a copy of his estimate to the Assessing Officer and the assessee within a period of six months from the end of the month in which the reference is made after giving the assessee an opportunity of being heard.

(5)It is also proposed to amend sections 153 and 153B of the Act so as to provide that the time period beginning with the date on which the reference is made to the Valuation Officer and ending with the date on which his report is received by the Assessing Officer shall be excluded from the time limit provided under the aforesaid section for completion of assessment or reassessment.

Implications: It will help the Income Tax Department to get fair market value of property for correct assessment.

W.E.F.: 1st October, 2014.

Clarification in Applicability of Accounting Standard notified by CBDT in income computation and disclosure of information

Section : 145

Existing: Section 145 of the Act provides that the method of accounting for computation of income under the heads "Profits and gains of business or profession" and "Income from other sources" can either be the cash or mercantile system of accounting. The Finance Act, 1995 empowered the Central Government to notify Accounting Standards (AS) for any class of assessees or for any class of income. Since the introduction of these provisions, only two Accounting Standards relating to disclosure of accounting policies and disclosure of prior period and extraordinary items and changes in accounting policies have been notified.

Proposed: it is proposed to provide that the Central Government may notify in the Official Gazette from time to time income computation and disclosure standards to be followed by any class of or in respect of any class of income. It is further proposed to provide that the Assessing

Officer may make an assessment in the manner provided in section 144 of the Act, if the income has not been computed in accordance with the standards notified under section 145(2) of the Act.

Implication: This amendment clarified applicability of accounting Standards in computation of income and disclosure of information.
W.E.F.: 1st April, 2015.

Concessional Rate Of Tax On Overseas Borrowing

Section: 194LC
Existing provision: If an Indian company borrows money on or after the 1st July, 2012 but before the 1st July, 2015 in foreign currency from a source outside India either under a loan agreement or by way of issue of long-term infrastructure bonds, as approved by the Central Government, then the interest payment to a non-resident person would be made after deduction of TDS at the rate of 5%.
Further, An exception in respect of payment of interest on long-term infrastructure bonds eligible for benefit under section 194LC is provided.

Proposed Provision: To extend the benefit of this concessional rate of withholding tax to borrowings by way of issue of any long-term bond, now it will be available in respect of borrowings made before 1st July, 2017.
It is also proposed that the benefit of exemption is extended to payment of interest on any long-term bond referred to in section 194LC.

☺**Implication**: Foreign investment can be boosted through such efforts.
W.E.F: 1st October, 2014.

Characterization of Income in case of Foreign Institutional Investors

Existing provision: No clarification on income arising from transaction of securities by foreign institution investor as to whether it is capital gain or business income.

Proposed Provision: income arising from transfer of securities by foreign institutional investor would be treated as capital gain.

☺**Implication**: Relief about characterization of income

W.E.F: 1st April 2015 i.e. AY 2015-16.

New provisions to allow to File correction Statement of original statement filed of TDS.

Section: 200

Existing : As per the central Processing of Statements of Tax Deducted at Source Scheme, 2013 deductor is allowed to file correction statement for rectification/updation of the information furnished in the original TDS statement. However, there does not exist any express provision in the Act for enabling a deductor to file correction statement.

Proposed: it is proposed to amend section 200 of the Act to allow the deductor to file correction statements. Consequently, it is also proposed to amend provisions of section 200A of the Act for enabling processing of correction statement filed.

Implication : now, There is provision in act, which allows deductor to file correction statement.

W.E.F.: 1st October ,2014

Increase Time Limit To Pass Order On Default In Filling TDS Certificate

Section:201 (3)

Existing: section 201(1) of the Act provide for passing of an order deeming a payer as assessee in default
if he does not deduct or does not pay or after deduction fails to pay the whole or part of the tax as per the provisions of Chapter XVII-B of the Act. Section 201(3) of the Act provides for time limit for passing of order under section 201(1) of the Act for deeming a payer as assessee in default for failure to deduct tax from payments made to a resident. Clause (i) of section 201(3) of the Act provides that no order under section 201(1) of the Act shall be passed after expiry of two years from the end of the financial year in which the TDS statement has been filed.

further, clause (ii) of section 201(3) of the Act provides a time limit of six years from the end of the financial year in which payment/credit is made for passing of order under section 201(1) of the Act for cases in which TDS statement has not been filed. However, notice under section 148 of the Act may be issued for reassessment up to 6 years from the end of the assessment year for which the income has escaped assessment.

Proposed: It is proposed to omit clause (i) of sub-section (3) of section 201of the Act which provides time limit of two years for passing order under section 201(1) of the Act for cases in which TDS statement have been filed.

further, the time limit provided under section 201(3)(ii) and section 148 of the Act, it is proposed that time limit provided under section 201(3)(ii) of the Act for passing order under section 201(1) of the Act shall be extended by one more year.

Implication: Increased time limit to passing order will lead to cover more cases by assessing officer under the scope of section 201.

W.E.F.: 1st October ,2014

Interest payable by the assessee

Section: 220

Existing provisions:

As per section 220, any amount specified in a notice of demand under section 156 shall be paid within thirty days of the service of notice at the place and to the person mentioned in the notice and if the amount specified in the notice is not paid within the period, then the assessee shall be liable to pay simple interest at one per cent for every month or part of a month comprised in the period commencing from the day immediately following the end of the period mentioned in the subsection 1 of Section 220 and ending on the date on which amount is paid.

Proposed provision:

(1) Provide that where any notice of demand has been served upon an assessee and any appeal or other proceeding, is filed or initiated in respect of the amount specified in the said notice of demand, then such demand shall be deemed to be valid till the disposal of appeal by the last appellate authority or disposal of proceedings, and such notice of demand shall have effect as provided in section 3 of the Taxation Laws Act, 1964.

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

Implications:

Will increase the burden of tax on assessee

W.E.F.:1st October, 2014.

Insertion of Electronic Mode of acceptance or repayment of loans and deposits

Section: 269SS and 269ST

Existing provisions:

In section 269SS of the Act, no person shall take from any other person any loan or deposit otherwise than by an account payee cheque or account payee bank draft, if the amount of such loan or deposit or aggregate of such loans or deposits is twenty thousand rupees or more.

Similarly, the existing provisions of section 269T of the Act, *inter alia*, provide that no loan or deposit shall be repaid otherwise than by an account payee cheque or account payee bank draft, if the amount of such loan or deposit together with interest or the aggregate amount of such loans or deposits together with interest, if any payable thereon, is twenty thousand rupees or more.

Proposed provision:

It is proposed that any acceptance or repayment of any loan or deposit by use of electronic clearing system through a bank account shall not be prohibited under the said sections if the other conditions regarding the quantum etc. are satisfied.

Implication:

Internet banking would facilitate to carry out transactions of loan as per prescribed guidelines of Income Tax Department.

W.E.F.: 1st April,2015

Obligation to furnish statement of Information

Section: 285B & 271F

Existing provisions:

The existing provisions of section 285BA of the Act provide for filing of an annual information return by specified persons in respect of specified financial transactions which are registered or recorded by them and which are relevant and required for the purposes of the Act to the prescribed income-tax authority. . Further, the existing provisions of section 271FA of the Act provide for penalty for failure to furnish an annual information return.

Proposed provision:
(1) To provide for furnishing of statement by a prescribed reporting financial institution in respect of a specified financial transaction or reportable account to the prescribed income-tax authority.

(2) The statement of information shall be furnished within such time, in the form and manner as may be prescribe and where any person, who has furnished a statement of information under sub-section (1),or (5), comes to know or discovers any inaccuracy in the information provided in the statement, then, he shall, within a period of ten days, inform the income-tax authority or other authority or agency referred to in sub-section (1) the inaccuracy in such statement and furnish the correct information in the manner as may be prescribed.

(3) It is also proposed that the Central Government may, by rules, specify,-

(a) the persons referred to in sub-section(1) of section 285BA to be registered with the prescribed income-tax authority;

(b) the nature of information and the manner in which such information shall be maintained by the persons referred to in (a) above; and

(c) the due diligence to be carried out by the persons referred in (a) for the purpose of identification of any reportable account referred to in sub-section (1) of section 285BA.

(4) It is proposed to amend the said section so as to provide for penalty for failure to furnish statement of information or reportable account.

(5) It is also proposed to insert a new section 271FAA so as to provide that if a person referred to in clause (k) of sub-section(1) of section 285BA, who is required to furnish a statement of financial transaction or reportable account, provides inaccurate information in the statement and where

(a) the inaccuracy is due to a failure to comply with the due diligence requirement prescribed under sub-section(7) of section 285BA or is deliberate on the part of the person; or

(b) the person knows of the inaccuracy at the time of furnishing the statement of financial transaction or reportable account, but does not inform the prescribed income-tax authority or such other authority or agency; or

(c) the person discovers the inaccuracy after the statement of financial transaction or reportable account is furnished and fails to inform and furnish correct information within the time specified under sub-section (6) of section 285BA, then, the prescribed income-tax authority may direct that such person shall pay, by way of penalty, a sum of fifty thousand rupees.

W.E.F: 1st April,2015

Levy of Penalty by Transfer Pricing Officers

Section 271G

Existing provision

Section 271G of the Act provide that if any person who has entered into an international transaction or specified domestic transaction fails to furnish any such document or information as required by sub-section (3) of section 92D, then such person shall be liable to a penalty which may be levied by the Assessing Officer or the Commissioner (Appeals).

Section 92CA provides that an Assessing Officer may make reference to a Transfer Pricing Officer (TPO) for determination of arm's length price (ALP). TPO has been defined in the said section to mean a Joint

Commissioner or Deputy Commissioner or Assistant Commissioner who is authorised by the Board to perform all or any of the functions of an Assessing Officer specified in sections 92C and 92D. The determination of arm's length price in several cases is done by the TPO.

Proposed Provisions

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

W.E.F. This amendment will take effect from 1st October, 2014.

Assessing Officer empowered to levy penalty for furnishing incorrect information in TDS/TCS statement or failure to file TDS/TCS statement

Section : 271H

Existing: provisions of section 271H of the Act provides for levy of penalty for failure to furnish TDS/TCS statements in certain cases or furnishing of incorrect information in TDS/TCS statements. The existing provisions of section 271H of the Act do not specify the authority which would be competent to levy the penalty under the said section.

Proposed: It is proposed to authorized the Assessing officer to levy penalty under section 271H of the Act .

Implication: It will provide additional power to the assessing office to levy penalty.

W.E.F.: 1st October ,2014.

Now both Fine and Imprisonment in case of failure to produce accounts and documents

Section: 276D

Existing provision:

If a person willfully fails to produce accounts and documents as required in any notice issued under sub-section (1) and (2A) of section 142, he shall be punishable with imprisonment for a term which may extend to one year or with fine equal to a sum calculated at a rate which shall not be less than four rupees or more than ten rupees for every day during which the default continues, or with both.

Proposed provision:

It is proposed to amend the provisions that if a person willfully fails to produce accounts and documents as required in any notice issued under sub-section (1) and (2A) of section 142, he shall be punishable with imprisonment for a term which may extend to one year and with fine.

Implication: Now the provision will become more stringent to ensure timely compliance and completion of Assessment Procedures**.**

W.E.F: 1st Octobe,2014

Period may be extended for Provisional attachment of property

Section 281B

Existing provisions:

The Assessing Officer, during the pendency of any proceeding for assessment or reassessment, in order to protect the interest of revenue may, with the previous approval of the Chief Commissioner or Commissioner, attach provisionally any property belonging to the assessee and provisional attachment shall cease to have effect after the expiry of six months provided that the Chief Commissioner or Commissioner may extend the period upto a total period of two years.

Proposed provision:

It is proposed to amend the provision so as to provide that the Chief Commissioner, Commissioner, Director General or Director may extend the period of provisional attachment so that the total period of extension does not exceed two years or upto sixty days after the date of assessment or reassessment, whichever is later.

Implication:

Enhancement of power of Income Tax Authority and extension of time-limit for Provisional attachment of property

W.E.F: 1st Octobe,2014

Indirect tax proposals

Excise Duty

The Finance Minister has proposed many changes in Central Excise law and rates of duty through the Finance (No.2) Bill, 2014. Major changes in Automobile , Metal, Textiles, Health, Electronic Hardware and Power.

Full exemption from Central Excise duty to following products-

1. Liquefied Propane and Butane mixture, Liquefied Propane, Liquefied Butane and LPG for supply to Non-Domestic Exempted Category (NDEC) customers by the IOC , HPCL and BPCL retrospectively with effect from 08.02.2013.
2. Specified raw materials used in the mfg. of backsheet and EVA sheet for manufacture of solar photovoltaic cells or modules.

3. Plastic materials reprocessed out of the scrap or waste and cleared into the DTA by an EOU. This would bring EOU at par with domestic and SEZ Units.
4. Back sheet and EVA sheet used in the manufacture of solar photovoltaic cells or modules.
5. Security threads and security fibre supplied to Security Paper Mill.
6. Excise duty on Polyester Staple Fiber (PSF) and Polyester Filament Yarn (PFY) manufactured from plastic waste or scrap or plastic waste including waste polyethylene terephthalate (PET) bottles.
7. Solar tempered glass used in the manufacture of solar photovoltaic cells or modules, solar power generating equipment or systems and flat plate solar collectors.
8. Un-branded articles of precious metals.
9. Flat copper wire used in the manufacture of PV ribbons (tinned copper interconnect) for use in the manufacture of solar cells or modules.
10. Machinery, equipments, etc. required for initial setting up of solar energy production projects.
11. Machinery, equipments, etc. required for initial setting up of compressed biogas plant (Bio-CNG).

Concessional Excise Duty:

1. Concessional excise duty of 2% without CENVAT credit and 6% with CENVAT credit is being extended to gloves specially designed for use in sports.
2. Excise duty on hand operated sewing machine (2% without CENVAT / 6% with CENVAT) is being rationalized by levying concessional excise duty on sewing machines other than those operated with electric motors

Changes in Excise Duty in the following Items.

Product	**Peak Rate**		**Movement**
	From	**To**	
Cigarettes incudes cigars, cheroots, cigarillos (length not exceeding 65mm)	11%	72%	Increased↑

Cigarettes incudes cigars, cheroots, cigarillos (Other length)	11%	21%	Increased↑
Pan Masala	12%	16%	Increased↑
Unmanufactured tobacco	50%	55%	Increased↑
Jarda, Gutkha, Chewing Tobacco	60%	70%	Increased↑
Plant and Machinery used in Agriculture, agro processing and Plantation sector	10%	6%	Decreased↓
Metals (Winding wires of Copper)	10%	12%	Increased↑
Smart Cards (Without CENVAT)	2%	12%	Increased↑
(With CENVAT)	6%	12%	Increased↑
RO Membrane (In households)	12%	6%	Decreased↓
Metal Core PCB	12%	6%	Decreased↓
LED Driver	10%	6%	Decreased↓
Forged Steel Ring	12%	0%	Decreased↓
Footwear (RSP exceeding 500 per pair & not exceeding 1000 per pair)	12%	6%	Decreased↓
Branded Petrol (per litre)	Rs 7.5	Rs 2.35	Decreased↓
Coal, lignite & peat (Per Tonne)	Rs 50	Rs 100	Increased↑
Writing & Printing Paper for Educational Textbooks (Without CENVAT)	2%	6%	Increased↑
Writing & Printing Paper for Educational Textbooks (With CENVAT)	6%	6%	Increased↑

Details of other proposals in central excise legislation.

1. Principal Chief Commissioner of Central Excise and Principal Commissioner of Central Excise included in the definition of the Central Excise Officer.
2. CG to prescribe an agency to whom the information return shall be filed by the assessees such as Income Tax Authorities, State Electricity Boards, VAT or Sales Tax Authorities, Registrar of Companies. Information can be collected for the purposes of the Act, such as, to

identify tax evaders or recover confirmed dues. Penalty may also be imposed in case of information return is not submitted.

3. Earlier, to file application with settlement commission applicant must file the return with department now applicant can go to settlement commission for settlement where he has not filed the returns but after recording reasons for the non filling.
4. Increasing the discretionary powers of the Tribunal to refuse admission of appeal from the existing Rs.50,000 to Rs.2 lakh.
5. The Board has been vested with powers to condone delay for a period upto 30 days for review by the Committee of Chief Commissioners of the orders in original passed by the Commissioner of Central Excise.
6. New section has been inserted to prescribe a mandatory fixed pre-deposit of 7.5% of the duty demanded or penalty imposed or both for filing appeal with the Commissioner (Appeals) or the Tribunal at the first stage and 10% of the duty demanded or penalty imposed or both for filing second stage appeal before the Tribunal. The amount of pre-deposit payable would be subject to a ceiling of Rs. 10 crores.

Customs

AMENDMENTS IN THE CUSTOMS ACT, 1962:

Changes in customs duty:

Industry	Chapter No	Product Name	Existing Rate	Proposed Rate	Effect
Chemicals & Petrochemicals	Chap-15, 29 & 38	fatty acids, crude palm stearin, RBD and other palm stearin and specified industrial grade crude oils	7.50%	NIL	☺
		crude glycerine (for general use)	12.50%	7.50%	☺
		crude glycerine (for mfg of Soap)	12.50%	NIL	☺

	Chap-27	Reformate	10.00%	2.50%	☺
		Propne, ethane, ethylene, propylene, butadiene	5.00%	2.50%	☺
	Chap-28-49	Ortho-xylene	5.00%	2.50%	☺
		Denatured ethyl alcohol and methyl alcohol	7.50%	5.00%	☺
	Chap-27	Crude naphthalene	10.00%	5.00%	☺
Agriculture, Agro processing, Plantation	Chap-23	de-oiled soya extract, groundnut oil cake/oil cake meal, sunflower oil cake/oil cake meal, canola oil cake/oil cake meal, mustard oil cake/oil cake meal, rice bran/rice bran oil cake and palm kernel cake	NIL	Fully Exemption	☺
Energy	Chap-27	Cocking coal	BCD-Nil CVD-6.00%	BCD-2.50% CVD-2.00%	☺
		Steam coal and bituminous coal	BCD-2.00%	BCD-2.50%	☹
		anthracite coal and other coal	BCD-5.00% CVD-6.00%	BCD-2.50% CVD-2.00%	☺
		metallurgical coke	Nil	2.50%	☹

		Re-gesified LNG (for supply to pakistan)		Fully Exemption	☺
Textile	Chap-51 & 52	trimmings & embellishments and other goods (used by the readymade textile garment sector for manufacture of garments for export)	3.00%	5.00%	☹
		Ram Material for spandex yarn Viz.PT MEG and MDI.	5.00%	NIL	☺
Metals	Chap-72	stainless steel flat products	5.00%	7.50%	☹
	Chap-89	Ships imported for breaking up	5.00%	2.50%	☺
	Chap-26	Bauxite-Export duty	10.00%	20.00%	☹
	Chap-27	Coal tar pitch	10.00%	5.00%	☺
	Chap-85	Battery waste and battery scrap	10.00%	5.00%	☺
	Chap-24&25	Steel grade limestone and stell grade dolomite	5.00%	2.50%	☺
Precious Metals	Chap-71	Half cut or broken Diamond	NIl	2.50%	☹
		Cut & polished Diamonds and colored gemstones	2.00%	2.50%	☹

Electronics & Hardware	Chap-85	LCD and LED TV (below 19 inch)	10.00%	NIL	☺
		Color picture tubes(for mfg of cathode ray TV)	10.00%	NIL	☺
		Specified telecommunication products(not coverd under ITA)	NIL	10.00%	☹
		E-book readers	7.50%	NIL	☺
Renewable Energy	CHAP-73	Forged steel rings(used in mfg of bearings of wind operated electricity generators.	10.00%	5.00%	☺

Power of Tribunal to refuse appeal up to Rs. 2.00 lacs.

Section:129A(1)

Existing Provision

Discretionary powers of the Tribunal to refuse admission of appeal up to Rs.50,000

Proposed Provision

Section is being amended so as to Increase the discretionary powers of the Tribunal to refuse admission of appeal up to Rs.2 lakh.

W.E.F. Will come into force on enforcement of finance bill.

limit in free Baggage raised:

Exciting Provision:

Free Baggage allowance of Rs.35,000/-

Proposed Provision:

Baggage allowance is raise up to Rs.45,000/-

W.E.F. Will come into force on enforcement of finance bill.

Reduction in free allowance of Cigarettes:

Exciting Provision:

Duty Free allowance of cigarettes are 200, of cigars are 50 and tobacco is 250 grams.

Proposed Provision:

Reduce the duty Free allowance of cigarettes from 200 to 100, of cigars from 50 to 25 and tobacco from 250 grams to 125 grams.

W.E.F. Will come into force on enforcement of finance bill.

Deletion the word of Product description in Agricultural:

Existing Provision:

Existing word is sun dried dark seedless raisins

Proposed Provision:

Description of the product deletion of sun dried and new word defined is **dark seedless raisins**.

W.E.F. Will come into force on enforcement of finance bill.

Changes into Textiles Industry

Addition to the listed items allowed to duty free import for handicraft manufacturer.

Existing Provision:

Specified goods required.

Proposed Provision:

Addition of **wire rolls** in specified goods.

Chapter:51 and 52

W.E.F. Will come into force on enforcement of finance bill.

Addition to the listed items allowed to duty free import for handloom made ups or cotton made ups or manmade ups for exports.

Existing Provision:

Specified goods required.

Proposed Provision:

Addition of Fusible embroidery motifs or prints, anti-theft devices like labels, tags and sensors, pin bullets for packing, plastic tag bullets, metal tabs, bows, ring and slider and rings are being included in the list of items eligible to be imported duty free.

W.E.F. Will come into force on enforcement of finance bill.

Specified goods Imported for manufacture of textiles.

Proposed Provision:

Specified goods imported for use in the manufacture of textile garments for export are fully exempt from BCD and CVD subject to the condition that the manufacturer produces an entitlement certificate from the Apparel Export Promotion Council. In addition, Indian Silk Export Promotion Council (ISEPC) is being authorized to issue entitlement certificate.

W.E.F. Will come into force on enactment of finance bill.

Changes into Precious Metals

Fully Exemption of custom duty on pre form and semi precious stones.

Proposed Provision:

Fully Exemption of custom duty is being granted to pre form of precious and semi precious stones

W.E.F. Will come into force on enforcement of finance bill.

Changes into Electronics Hardware

Fully Exemption of custom duty on specified parts of LCD and LED.

Proposed Provision:

Fully Exemption from basic custom duty is being granted on specified parts of LCD and LED panels for TVs.

W.E.F. Will come into force on enforcement of finance bill.

Fully Exemption of Special Addition duty(SAD) on all inputs/components for Computers(PC/Tablet computer/Laptop).

Proposed Provision:

Fully Exemption of Special Addition duty(SAD) on all inputs/components used for manufacture of Computers (Desktops/Laptop) and Tablet computers subject to actual user condition.

W.E.F. Will come into force on enforcement of finance bill.

Levy of Education cess and Higher education cess on Electronic items.

Existing Provision:

No Education or Higher Education cess on Import of Electronic Products.

Proposed Provision:

Education or Higher Education cess levied on all imported Electronic Products.

W.E.F. Will come into force on enforcement of finance bill.

Fully Exemption of Special Addition duty(SAD) on specified inputs for smart card.

Proposed Provision:

Fully Exemption of Special Addition duty(SAD) on specified inputs (PVC sheet & Ribbon) used in manufacture of smart cards.

W.E.F. Will come into force on enforcement of finance bill.

Changes into Renewable Energy

Reduction of Basic custom duty on machinery, Equipments for solar energy Productions

Proposed Provision:

Basic custom duty on machinery, Equipments etc required for setting up of solar energy Productions projects is being reduced to 5%.

W.E.F. Will come into force on enforcement of finance bill.

Concessional Customs duty on machinery, Equipments for compressed biogas plant.

Proposed Provision:

Concessional customs duty of 5% is being provided on machinery, equipments, etc. required for setting up of

compressed biogas plant (Bio-CNG).

W.E.F. Will come into force on enforcement of finance bill.

Full exemption from customs duty for HIV/AIDS drugs and diagnostic kits

Proposed Provision:

Full exemption from customs duty is being provided for HIV/AIDS drugs and diagnostic kits imported under National AIDS Control Programme (NACP) funded by the Global Fund to Fight AIDS, TB and Malaria (GFATM).

W.E.F. Will come into force on enforcement of finance bill.

Changes Into Security And Strategic Purposes:

Full exemption from BCD and CVD on security fibre, security threads and M-feature

Proposed Provision:

Full exemption of customs duty is being provided on security fibre, security threads and M-feature imported by Bank Note, Paper Mill India Private Limited (BNPMIPL), Mysore. Full exemption from BCD and CVD is also being provided for raw materials required for manufacture of security threads and security fibre subject to actual user condition.

W.E.F. Will come into force on enforcement of finance bill.

MISCELLANEOUS Changes:

Reduce of BCD on Electrolysers and their parts:

Existing Provision:

Basic Customs Duty is being 5% on electrolysers and their parts/spares required by caustic soda or caustic potash units and membranes and their parts/spares required by industrial plants based on membrane cell technology. The BCD on other spares (other than membranes and parts thereof) is 7.5%

Proposed Provision

Basic Customs Duty is being reduced to 2.5%

W.E.F. Will come into force on enforcement of finance bill.

RETROSPECTIVE EXEMTPIONS:

Fully exemption of duty on Gases imported by IOC, HPCL, BPCL for Non Domestic Exempted Category (NDEC).

Liquefied Propane and Butane mixture, Liquefied Propane, Liquefied Butane and Liquefied Petroleum Gases (LPG)

imported by the Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited or Bharat Petroleum

Corporation Limited, for supply to Non-Domestic Exempted Category (NDEC) customers is being fully exempted

W.E.F. this exemption provision is effect retrospectively from 08.02.2013.

Clause : *clause 85*

AMENDMENT IN THE CUSTOMS TARIFF ACT, 1975:

Section 8B Safeguard Duty

This is being amended so as to provide for levy of safeguard duty on inputs/raw materials imported by an EOU and cleared into DTA as such or are used in the manufacture of final products & cleared into DTA.

W.E.F. change will come into effect immediately owing to a declaration under the Provisional Collection of Taxes Act, 1931

AMENDMENT IN THE FIRST SCHEDULE TO THE CUSTOMS TARIFF ACT, 1975:

1) Tariff item 2402 20 60 is being omitted as a consequential change to amendment in the First Schedule to the Central Excise Tariff Act.
2) The tariff rate of basic customs duty on goods falling under tariff items 8517 62 90 and 8517 69 90 is being increased from Nil to 10%.

3) The unit quantity code against certain entries is being changed. *[Clause 87]*

W.E.F. The changes at 1) and 2) will come into effect immediately owing to a declaration under the Provisional Collection of Taxes Act, 1931.

Service Tax

Service Tax Rules, 1994

Service provided by a Director to a body corporate brought under the reverse charge mechanism.

Existing rule:

Service provider	**Service receiver**	**% of service tax payable by**	
		Service provider	**Service receiver**
Director	Company	Nil	100%
Director	Body corporate other than company	100%	Nil

Proposed rule:

Service provider	Service receiver	% of service tax payable by	
		Service provider	Service receiver
Director	Company	Nil	100%
Director	Body corporate other than company	Nil	100%

W.E.F: Immediate effect

Implication: Service provided by directors to body corporate (company already cover earlier) are now covered under RCM.

Services provided by Recovery Agents to some Institutions brought under the reverse charge mechanism.

Existing rule:

Service provider	Service receiver	% of service tax payable by	
		Service provider	Service receiver
Recovery Agents	Banks, Financial Institutions and NBFC	100%	Nil

Proposed rule:

Service provider	Service receiver	% of service tax payable by	
		Service provider	Service receiver
Recovery Agents	Banks, Financial Institutions and NBFC	Nil	100%

W.E.F: Immediate effect

Implication: Service provided by Recovery agents are now covered under RCM.

RCM increased to 50% for renting of motor vehicle.

Existing rule:

Service provider	Service receiver	% of service tax payable by	
		Service provider	Service receiver
Renting of vehicle to any person who is not engaged in the similar line of business to carry passenger by individual, HUF, firm or AOP. - With abatement -Without abatement	Body corporate	 Nil 60%	 100% 40%

Proposed rule:

Service provider	Service receiver	% of service tax payable by	
		Service provider	Service receiver
Renting of vehicle to any person who is not engaged in the similar line	Body corporate		

of business to carry passenger by individual, HUF, firm or AOP. - With abatement -Without abatement		Nil 50%	100% 50%

W.E.F: Immediate effect

Implication: Simplification of partial reverse charge mechanism in renting of motor vehicle.

Place of Provision of Service Rules, 2012

Repair service excluded from Rule 4(a).

Rule 4(a)

Existing rule: Place of provision of repair service carried out on temporarily imported goods will be the location where services are actually performed.

Proposed rule: Proposed that Repair service will be excluded from applicability of rule 4(a) i.e. the goods imported for repair will be exported after repair without being put to any use other than that which is required for such repair. However, exclusion does not apply to goods that arrive in the taxable territory in the usual course of business and are subject to repair while such goods remain in the taxable territory.

W.E.F: 1st October, 2014

Implication: Place of provision of repair service carried out on temporarily imported goods will be the location of service recipient which leads to non taxability of such services.

Intermediary of goods, such as a commission agent or consignment agent covered under rule 9(c).

Rule 9(c): Intermediary services

Existing rule: Intermediary in respect of goods are excluded from intermediary services. Thus place of provision for these services were location of service recipient.

Proposed rule: The definition of intermediary is being amended to include the intermediary of goods in its scope. Thus intermediary of goods are now covered under rule 9(c) i.e. place of provision will be location of service provider.

W.E.F: 1st October, 2014

Implication: Place of provision of services by intermediary of goods will be the location of service provider.

Hiring of vessels or aircrafts, will be covered by the general rule, which is place of location of the service receiver.

Rule 9(d): Hiring of means of transport.

Existing rule: Hiring of vessels or aircrafts are covered by rule 9 (d), that is, the place of location of the service provider.

Proposed rule: Service consisting of hiring of Vessels (excluding yachts) and Aircraft is being excluded from rule 9(d). Thus hiring of vessels or aircrafts will be covered by the general rule, that is, the place of location of the service receiver.

W.E.F: 1st October, 2014

Implication: Place of provision of hiring of vessels or aircrafts will be the location of service receiver.

Point of taxation Rules, 2011

Change in Point of Taxation for reverse charge mechanism

Rule 7: Point of taxation - Reverse charge mechanism

Existing rule: Point of taxation in respect of Reverse charge mechanism is the date when the payment is made to the person providing the service. However, if the payment is not made within 6 months then the point of taxation will be governed by Rule 3.

Proposed rule: Point of taxation in respect of reverse charge will be the payment date or the first day that occurs immediately after a period of three months from the date of invoice, whichever is earlier.

W.E.F: 1st October, 2014

Implication: The proposed amendment will bring certainty in the determination of point of taxation.

Increase in Interest rate on delay deposition of Service Tax.

Section 75

Existing provision: Every person who fails to credit the tax to the account of the Central Government within the period prescribed, shall pay simple interest @ 18% p.a. However service provider, whose value of taxable services provided in a financial year does not exceed sixty lakhs rupees during any of the financial years covered by the notice or during the last preceding financial year, as the case may be, shall be reduced be 15% p.a.

Proposed provision: Simple interest rates per annum payable under section 75 will be as below:

Extent of delay	Simple interest rate per annum
Up to six months	18%
From six months and upto one year	24%
More than one year	30%

W.E.F: 1st October, 2014

Implication: Burden of heavy interest on delay deposition of service tax.

Valuation of service portion of work contract to be done at 70% only.

Rule 2A(ii)

Existing rule: Where the value has not been determined under clause (i), the person liable to pay tax on the service portion involved in the execution of the works contract shall determine the service tax payable in the following manner.

Category	In case of-	Value liable to service tax
(A)	Works contracts entered into for execution of original works	40% of Total amount charged for works contract.
(B)	works contract entered into for maintenance or repair or reconditioning or restoration or servicing of any goods	70% of Total amount charged for works contract.
(C)	other contracts, not covered under sub-clauses (A) and (B), including	60% of Total amount charged for works

	maintenance, repair, completion and Finishing services such as glazing, plastering, floor and wall tiling, installation of electrical fittings of an immovable property.	contract.

Proposed rule: The above categories will be merged into one single category and the Value liable to service tax will be 70% of Total amount charged for works contract.

W.E.F: 1st October, 2014

Implication: Rationalization of service tax on service portion in Works Contracts.

Taxable portion in respect of transport of goods by vessel to be 40% of the amount charged.

Entry 10 of notification no. 26/2012-ST

Existing provision: Taxable value = 50% of amount charged by service provider. CENVAT credit of capital goods, inputs and input services not allowed.

Proposed provision: The above 50 % has been reduce to 40% of amount charged by service provider.

W.E.F: 1st October, 2014

Implication: Effective service tax will decrease from the present 6.18% to 4.944%.

Specified services which will be exempt when received by the educational institutions

Existing provision: Auxiliary educational services received by educational institution are exempted from service tax.

Proposed provision: The concept of 'auxiliary educational services' has been omitted and the following specified services received by educational institution are exempt : (i) transportation of students, faculty and staff; (ii) catering service including any mid-day meals scheme sponsored by the Government;(iii) security or cleaning or house-keeping services in such educational institutions; and (iv) services relating to admission to such institution or conduct of examination.

W.E.F: 1st October, 2014

Implication: The proposed amendment will rationalize the general exemption available to auxiliary educational services received by educational institutions.

Review of General Exemption

Widen the service tax applicability on Transport of passengers by air conditioned Contract Carriage.

Existing rule: Service of passenger transportation by a contract carriage other than for the purpose of tourism, conducted tour, charter or hire, is exempt from service tax, whether air conditioned or not.

Proposed rule: Now any Service of passenger transportation provided by air conditioned contract carriage will attract service tax. Service by non-air conditioned contract carriage other than for the purpose of tourism, conducted tour, charter or hire continue to exempted. Service tax will be charged at an abated value of 40% of the amount charged from service receiver; therefore, effective tax will be 4.944% with the condition that CENVAT credit of inputs or capital goods or input services has not been taken against

W.E.F.: Immediate effect

Implication: All service of passenger transportation provided by air conditioned contract carriage will attract service tax burden.

Change in taxability of various services.

Name of Service	Existing rule	Proposed rule
Life micro-insurance schemes for the poor, approved by IRDA, where sum assured does not exceed Rupees Fifty Thousand.	Taxable	Exempted
Transport of organic manure by vessel, rail or road by GTA	Taxable	Exempted
Loading, unloading, packing, storage or warehousing, transport of cotton, ginned or baled by vessel, rail or road by GTA	Taxable	Exempted
Common bio-medical waste treatment service provided to clinical establishments by facility operators	Taxable	Exempted
Specialized financial services received by RBI from global financial institutions in the course of management of foreign exchange reserves, e.g., external asset management, custodial services, securities lending services, etc.	Taxable	Exempted
Services provided by Indian tour operators to foreign tourists in relation to a tour wholly conducted outside India	Taxable	Exempted
Sale of space or time for advertisements	Not Taxable	Taxable

in broadcast media like online and mobile advertising.		
Services provided by radio taxis or radio cabs, whether air-conditioned or not	Not Taxable	Taxable
Services by way of technical testing or analysis of newly developed drugs, including vaccines and herbal remedies on human participants by a clinical research organization	Exempted	Taxable

Amendment in SEZ Procedural Part.

Existing Provision: On the basis of the authorization issued in Form A-1, the service provider shall provide the specified services to the SEZ Unit or the Developer without payment of service tax.

Proposed Provision: To be provided that the Central Excise Officer would issue Form A-2, within fifteen days from the date of receipt of Form A-1. Exemption would be available from the date when list of service on which SEZ is entitled to upfront exemption is endorsed by the authorized officer of SEZ in Form A-1, provided Form A-1 is furnished to the jurisdictional Central Excise Officer within fifteen days of its verification. If furnished later, exemption would be available from the date on which Form A-1 is so furnished.

Clarifications:

Services ordinarily provided by a Municipality:

The exemption in respect of services provided to Government or local authority or governmental authority, has been made more specific. Services by way of water supply, public health, sanitation conservancy, solid waste management or slum improvement and up-gradation will continue to remain exempted but the exemption would not be extendable to other services such as consultancy, designing, etc., not directly connected with these specified services.

Services by a Hotel, Inn or Guest House:

Service by way of renting of a hotel, inn, guest house, club or campsite or other commercial places meant for residential or lodging purposes, having a declared tariff of a unit of accommodation below Rs. 1000 per day or equivalent, is exempt from service tax. Some doubts appears to have arisen on account of use of the word "commercial" in the entry. Commercial places is covered Dharmashalas, Ashram or any such entity which offer accommodation below rupees one thousand per day or equivalent. To remove any ambiguity, the word „commercial‟ is being omitted. Renting of vacant land or buildings for hotels would continue to be taxable irrespective of the hotel‟s declared tariff.

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