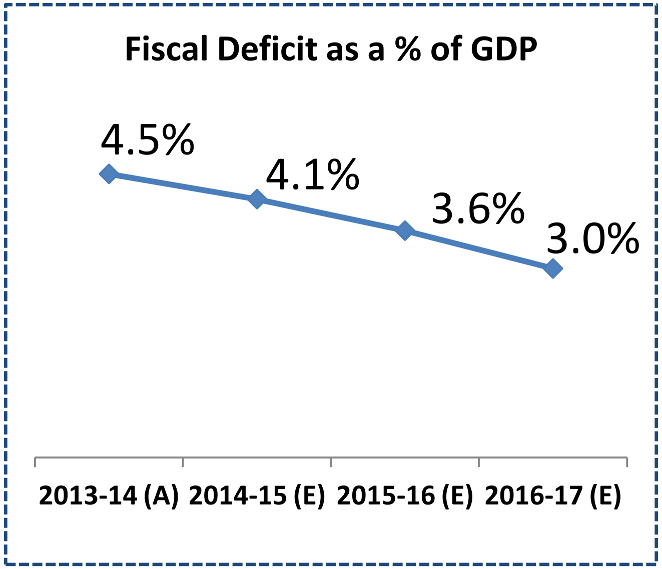
KEY HIGHLIGHTS OF

UNION BUDGET 2014-15
and
Direct Tax proposals

KEY SYNOPSIS

- Decline in fiscal deficit from 5.7 % of GDP in 2011-12 to 4.8 % in 2012-13 and 4.5 % in 2013-14, achieved by reduction in expenditure rather than realization of higher revenue.
- Current Account Deficit of 1.7 % of the GDP against 4.7 % in 2012-13 mainly achieved through restriction on non-essential imports and slowdown in overall aggregate demand.
- Government planned expenditure pegged at Rs. 5.75 lakh crores and non-planned expenditure pegged at Rs. 12.19 lakhs crores, the total expenditure estimates thereby stands at Rs. 17.94 lakhs crores.
- To finance the above expenditure, Gross Tax receipts is estimated at be Rs. 13.64 lakhs crores, Non Tax Revenues will be Rs 2.12 lakhs crores and capital receipts other than borrowings will be Rs 0.74 crores.
- With above estimates, fiscal deficit target retained at 4.1 percent of GDP for current fiscal , 3.6 percent in FY 16 and 3% in FY 17.
- Contours of GST to be finalized this fiscal; government to also look into DTC Proposal.



OTHER IMPORTANT POINTS

- FDI Limit to be hiked at 49% in defense & insurance
- 5 IIM's, 5 IIT's and 4 AIIMS to be opened
- Key focus on increasing safety of women and allocation of 150 crores towards it
- Gross domestic savings as a % of GDP decreased to 30.1% in 2012-13 from 33% in 2009-10, increase in domestic savings & it's productive use key to higher economic growth.
- Additional 1000 crores for development of connectivity in North Eastern Region , new 24-7 channel "Arun Prabha" for North East
- 15000 km of additional pipelines to be developed through PPP mode
- Disinvestment target fixed at 58,425 crores
- A sum of Rs 7,060 crores is for development of smart cities
- Convergence with International Financial Reporting Standard (IFRS) by Adoption of the new Indian Accounting Standards (2nd AS) by Indian Companies.

Budget highlights in Direct Tax

For Individuals/HUF

Particulars	FY 2013-2014	FY 2014 -15
Tax Rates : Individuals **below 60 years of age**	Below Rs. 2,00,000: Nil	Below Rs. 2,50,000 : Nil
	from Rs. 2,00,001 to 5,00,000: 10 %	From Rs. 2,50,001 to 5,00,000 : 10 %
	From Rs. 5,00,001 to Rs 10,00,000: 20 %	From Rs. 5,00,001 to Rs 10,00,000 : 20 %
	Above Rs. 10,00,000: 30 %	Above Rs. 10,00,000: 30 %
Individuals **between 60 to 80 years of age**	Below Rs. 2,50,000: Nil	Below Rs.3,00,000: Nil
	From Rs. 2,50,001 to 5,00,000: 10 %	From Rs. 3,00,001 to 5,00,000: 10 %
	From Rs. 5,00,001 to Rs 10,00,000: 20 %	From Rs. 5,00,001 to Rs 10,00,000: 20 %
	Above Rs. 10,00,000: 30 %	Above Rs. 10,00,000: 30 %

Budget highlights in Direct Tax (contd.)

Individuals **above 80 years of age**	Below Rs. 5,00,000: Nil	Below Rs. 5,00,000: Nil
	From Rs. 5,00,001 to Rs 10,00,000: 20 %	From Rs. 5,00,001 to Rs 10,00,000: 20 %
	Above Rs. 10,00,000: 30 %	Above Rs. 10,00,000: 30 %
Education Cess	2%	2%
Secondary and Higher Education Cess	1%	1%
Surcharge	Total income upto 1 Crore: : Nil	Total income upto 1 Crore: Nil
	Total income above 1 crore :10 %	Total income above 1 crore :10 %

- Deduction limit on account of interest on loan in respect of self occupied house property raised from Rs.1.5 lakh to Rs.2 lakh

- Investment limit under section 80C of the Income-tax Act raised from Rs.1 lakh to Rs 1.5 lakh

Budget highlights in Direct Tax (contd.)

For Companies

Particulars	Previous Year	Current Year
Tax Rate - Domestic Companies - Foreign Companies	30% 40%	30% 40%
Education Cess	2%	2%
Secondary and Higher Education Cess	1%	1%
Surcharge – Domestic Companies	Total income upto 1 Crore: : Nil	Total income upto 1 Crore: : Nil
	Total income between 1 crore to 10 crore :5%	Total income between 1 crore to 10 crore :5%
	Total income above 10 crores : 10%	Total income above 10 crores : 10%
Surcharge – Foreign Companies	Total income upto 1 Crore: : Nil	Total income upto 1 Crore: : Nil
	Total income between 1 crore to 10 crore :2%	Total income between 1 crore to 10 crore :2%
	Total income above 10 crores : 5%	Total income above 10 crores : 5%

- Investment allowance at the rate of 15 percent to a manufacturing company that invests more than Rs.25 crore in any year in new plant and machinery.

Budget highlights in Direct Tax (contd.)

- Amount needs to be grossed up for calculating dividend distribution tax , which was earlier on net amount payable, thereby increasing the DDT rate

- The concessional tax rate on interest payments on External Commercial Borrowings shall be maintained at 5% , however the cut off date for borrowing is extended from 30.06.2015 to 30.06.2017

<u>Relevant changes in Transfer Pricing:</u>

- 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

- Introduction of Range Concept for calculating the Arm's Length Price in transfer Pricing regulations , however the arithmetic mean concept will prevail

- The use of multiple year data for comparability analysis under transfer pricing regulations instead of only current year data as used earlier

Budget highlights in Direct Tax (contd.)

Other Provisions:

- Expenditure incurred in respect of Corporate Social Responsibility as per Section 135 of the Companies Act 2013 shall now be **disallowed for the purpose of the business or profession. Though it can be claimed under section 30 to 36 if it satisfies those conditions**

- All the loans & deposits should be accepted or repaid by an account payee cheque, bank draft or through electronic clearing system (ECS), earlier ECS was excluded from the ambit.

- Income earned by foreign portfolio investors (referred as foreign institutional investors would be treated as capital asset only so that any income arising from transfer of such security would be in the nature of capital gain, ending uncertainty over the characterization of their income.

Budget highlights in Direct Tax (contd.)

Other Provisions:

- In Case of non deduction of TDS on payments , 30% of such payments will be disallowed instead of 100%

- In respect of payments, where tax is to be deducted and has not been deducted or has been deducted during the previous year but paid after the due date of filing of Income Tax return, only 30% of the such sum will be allowed as deduction in the previous year in which the tax has been paid. (consequential amendment as disallowance is restricted to 30%.) But no reference to assessee who have already suffered 100% disallowance in earlier years.

- Earlier specific payments were disallowed for non deduction of TDS , now it is proposed to disallow all payments on which TDS is deductible.

- Power to conduct survey to TDS officers granted

- Time limit for passing an order for failure to deduct or pay TDS has been extended to seven years

Budget highlights in Direct Tax (contd.)

- 10 year tax holiday extended to the undertakings which begin generation, distribution and transmission of power by 31.03.2017

- Concessional rate of 15 percent on foreign dividends without any sunset date to be continued

- Resident tax payers enabled to obtain on advance ruling in respect of their income-tax liability above a defined threshold , which was earlier available only to Non Residents & Public sectors

- Trust can enjoy exemption benefit retrospectively ,once the Section 12A registration certificate is received , which was prospective earlier
- It is proposed that trust will not be allowed to claim depreciation on assets the cost of which has been treated as application of income

- To remove tax arbitrage, rate of tax on long term capital gains increased from 10 percent to 20 percent on transfer of units of Mutual Funds, other than equity oriented funds, and period of holding increased from 12 months to 36 months

Budget highlights in Direct Tax (contd.)

- Exemption from Capital Gains arising out of transfer of Long Term Capital asset shall be available on investment in certain bonds within a period of 6 months. Exemption available under this section is upto Rs.50 lakhs in aggregate which was earlier as Rs. 50 lakhs per financial year

- Exemption from Capital Gains arising on transfer of Residential house or any other long term capital asset be available if investment is made in purchase or construction of **ONE** residential house in India. (clarificatory amendment the word a has been replaced by one)

- The forfeited advance money (received earlier for transfer of capital asset) will be chargeable to tax under Income from other source , which was earlier deducted from cost of acquisition of capital asset
- Transactions of trading in commodity trading carried in recognized commodity exchange will not be treated as speculative transaction
- Accounting standards for tax computation and disclosure to be prescribed

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The amendments are proposals which may be modified at the time of passage of the bill in the Parliament.