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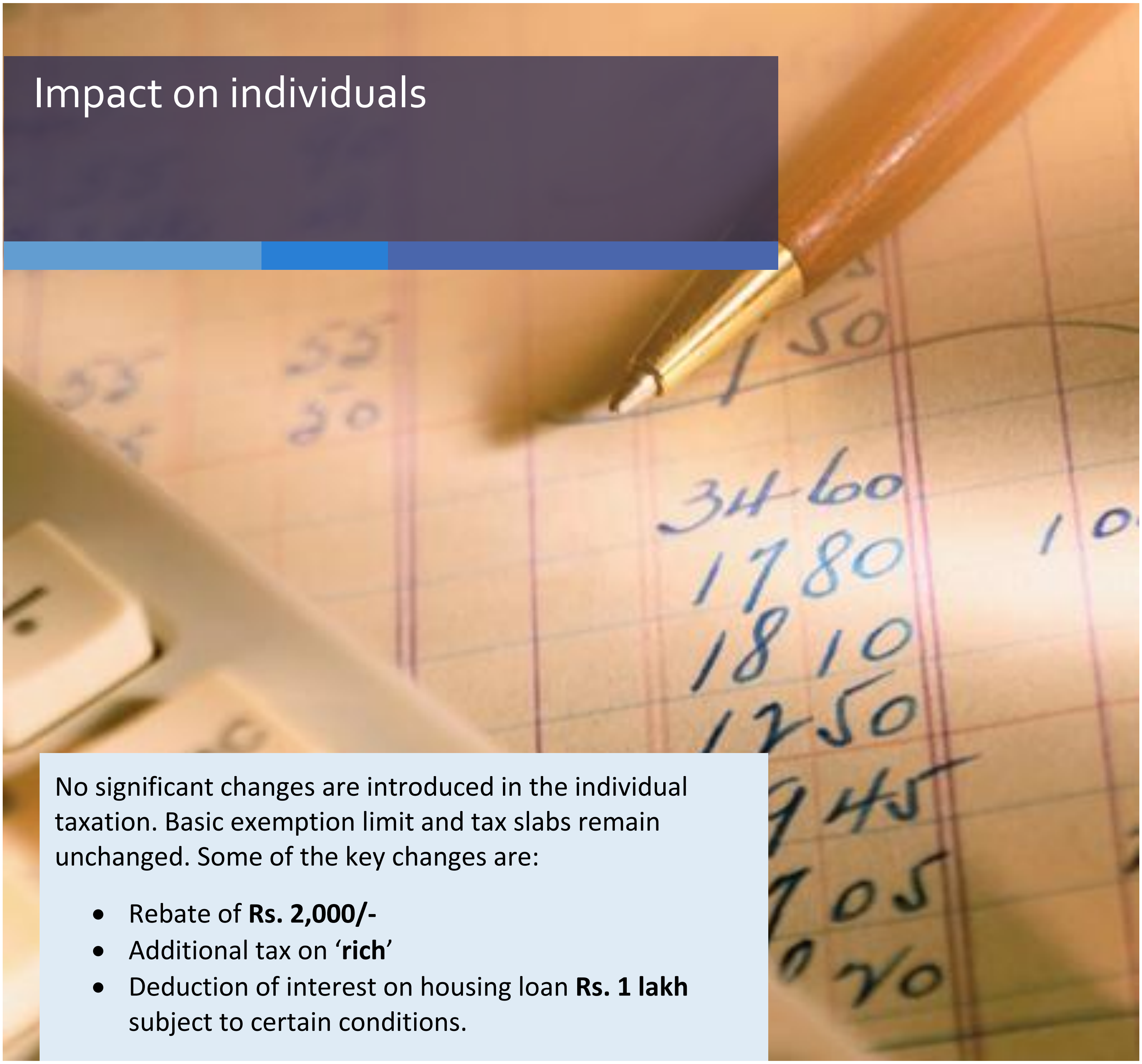
Budget 2013 highlights

(As per Finance Bill 2013 introduced in Lok Sabha on 28th February 2013)



Impact on individuals

No significant changes are introduced in the individual taxation. Basic exemption limit and tax slabs remain unchanged. Some of the key changes are:

- Rebate of **Rs. 2,000/-**
- Additional tax on '**rich**'
- Deduction of interest on housing loan **Rs. 1 lakh** subject to certain conditions.

Rebate of Rs. 2,000

Although the basic income tax slabs and exemption limits remain unchanged, a rebate of Rs. 2,000 will be provided to all individuals earning income up to Rs. 5 lakhs.

This rebate is only for individuals and not for other assessees like HUF, company, partnerships etc. The rebate is available to individuals whose taxable income does not exceed Rs. 5 lakh.

‘Crorepatis’ to pay more

For individuals earning above Rs. 1 crore, a surcharge of 10% is proposed. This increases the effective tax rate on rich by 3%.

	Existing	
	No tax	
akh	10% tax	Tot
lakh	20% tax	
crore	30% tax	
	30% tax	10%

Impact on businesses

No significant changes are proposed in the basic tax rates on corporates. Some of the highlights are:

- Service tax amnesty scheme
- Investment allowance
- Higher corporate surcharge
- No change in basic custom duty and service tax rates

Service tax amnesty scheme

This is a crucial scheme launched by the government for service providers to encourage voluntary compliance with service tax in the current year. The scheme is called VCES (Voluntary Compliance Encouragement Scheme).

It is proposed to provide one-time amnesty to stop filers, non-filers, non-registrants or service providers (who have not disclosed true liability in the returns filed by them during the period October 2007 to December 2012). Following shall be waived by the tax authorities:

1. Waiver of interest
2. Waiver of penalty
3. Immunity from prosecution

This can be an excellent opportunity to escape heavy interest and penalty liabilities relating to service tax defaults and non-compliances!

Incentive for the manufacturing sector

Companies engaged in manufacturing activities have been incentivized to acquire and install new plant and machinery. The company shall be entitled to a deduction @15% of the cost of assets purchased during financial year 2013-14 and 2014-15, if the total investment exceeds Rs. 100 crores. However a lock in period of 5 years has been proposed for transfer of such plant and machinery.

Corporate surcharge

In case of domestic companies with total income exceeding Rs. 10 crore, surcharge rate has been increased from 5% to 10%.

Increased expenditure on royalty and technical services received from non-residents

Presently, on payments made to non-residents towards "royalty" or "fee for technical services", TDS is applicable @ 10%. This is proposed to increase to 25%.

Usually, the payments demanded by non-residents are net of TDS. Hence this proposal will directly hit the profitability of all Indian businesses procuring technical services from outside India as the additional 15% TDS may have to borne by the Indian service recipient.

Impact on immovable property transactions

Big changes are proposed in certain tax laws concerning property transactions. Some of the key changes proposed are:

- TDS on premium housing (over Rs. 50 lakh
- Rs. 1 lakh deduction for 'first time' homebuyers
- Use of circle rates gains importance in taxing property sale transactions.

Premium housing to cost more

In case of sale of immovable property (other that agricultural land), TDS @1% has to be deducted from the sale value if the sale consideration exceeds Rs. 50 lakh. This means that on all payments made towards purchase of immovable properties like plots, flats, and buildings etc. the buyer needs to deduct TDS @1% from payments made towards such purchases. This will increase the transaction cost and paperwork of the buyers and sellers of properties.

This proposal can affect regular sale and purchase transactions relating to land and property since a buyer of property will need to obtain TAN (Tax Deduction Account Number) to deduct tax before making payment to seller of property.

This amendment is to take effect from 1 June 2013.

Additional deduction for 'first-time' homebuyers

Presently a deduction of up to Rs. 1.5 lakh is allowed towards interest paid on housing loan from taxable income.

Finance Bill 2013 has proposed a "one-time" an additional deduction of Rs. 1 lakh towards such loan. However this deduction is available subject to certain strict conditions, which make it practically very difficult to claim this benefit under normal circumstances. The conditions to be fulfilled are:

- Loan does not exceed Rs. 25 lakh
- Loan is taken from a financial institution only
- Loan is taken for the 'first' house property
- Loan is taken for acquisition and not construction of house property
- Value of property does not exceed Rs. 40 lakh
- Loan is "sanctioned" during the period 1 April 2013 to 31 March 2014

Properties sold without adequate consideration now taxable using circle rates

Where an immovable property is received by an individual / HUF for inadequate consideration (i.e. the sale price is less than the circle rate), the difference between the circle rate and actual payment will be taxable as other income.

Profit on sale of properties held as "stock-in-trade" now taxable based on circle rate

Profit on sale of properties held as stock-in-trade will now be taxable based on actual sale value or circle rate whichever is higher.

The circle rate, for this purpose will be considered as the rate applicable at the time of agreement to sell and not at the time of registration of transfer. This is applicable only if the sale consideration (whether full or in part) was paid at the time of agreement by a mode other than 'cash'.

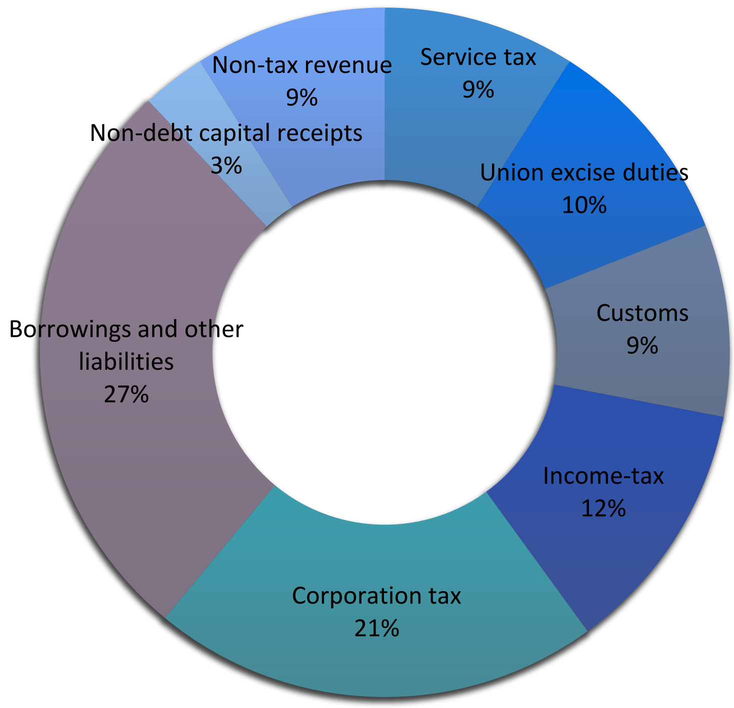
What’s getting costlier and what’s cheaper

Consumer Items	Impact	Budget Measure
Television set-top boxes	Negative	Customs duty on imported set-top boxes increased from 5% to 10%
Mobile Phones worth more than Rs 2,000	Negative	Increase in excise duty to 6%
Silk & silk products	Negative	Increase in the customs duty on raw silk from 5% to 15%
Cigarettes and tobacco products	Negative	Increase in the specific excise duty on cigarettes to about 18%. Similar increases are proposed on cigars, cheroots and cigarillos.
Imported Jewellery	Positive	Duty-free limit on imported jewellery raised to Rs 50,000 in the case of a male passenger and Rs 100,000 in the case of a female passenger
Ready-made Garments	Positive	Zero excise duty for cotton and manmade sector (spun yarn) at the yarn, fabric and garment stages
Eating Out	Negative	Service tax now levied on all air-conditioned restaurants, whether serving liquor or not.
SUVs (except taxis)	Negative	Excise duty on SUVs increased from 27% to 30%
Imported Luxury Vehicles	Negative	Increase in the customs duty on imported motor vehicles from 75% to 100%; on motorcycles with engine capacity of 800cc or more from 60% to 75%; and on yachts and similar vessels from 10% to 25%
Home Furnishing and Decor	Positive	Handmade carpets and textile floor coverings of coir or jute exempted from excise duty
Housing Construction	Negative	Increase in the excise duty on marble from Rs 30 per sq. mtr to Rs 60 per sq mtr.
High-end Homes	Negative	For buildings having homes and flats with a carpet area of 2,000 sq.ft. or more or of a value of Rs 1 crore or more, reduction in the rate of abatement on the service tax from 75% to 70%.

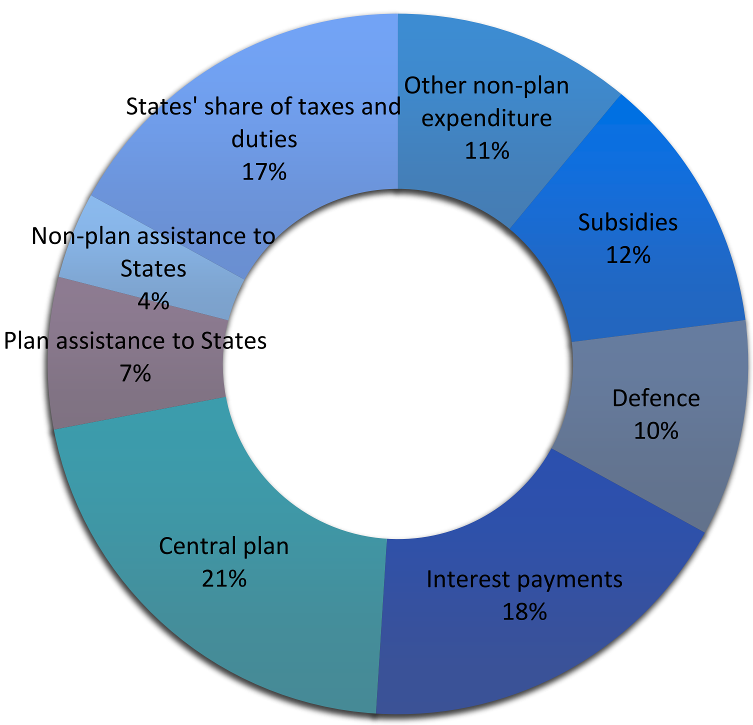
Budget financials

Rs. In crores	2011-12 Actual	2012-13 Revised estimate	2013-14 Budget estimate
Revenue Receipts	751,437	871,828	1,056,331
Capital Receipts	552,928	558,998	608,967
Total Receipts	**1,304,365**	**1,430,826**	**1,665,298**
Non Plan Expenditure	891,990	1,001,638	1,109,975
Plan Expenditure	412,375	429,187	555,322
Total Expenditure	**1,304,365**	**1,430,825**	**1,665,297**
Revenue expenditure	1,145,785	1,263,072	1,436,169
Capital Expenditure	158,580	167,753	229,129
Fiscal deficit	515,990	520,925	542,499
As a % of GDP	5.70	5.20	4.80

A snapshot of sources and application of budget funds



Where the money comes from



Where the money goes to

This document attempts to highlight key changes introduced in Finance Bill 2013. The information presented here is not exhaustive and is intended for exclusive use of audience with whom Rakesh Jain & Co shares the document. All the proposals of Finance Bill 2013 are not included in the document.

If there are any suggestions, or anything which you would like to comment on the matter kindly contact us at:

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