# BUDGET 2014 - KEY TAX PROPOSALS

The newly elected government presented its first union budget in the backdrop of huge expectations, given the thumping mandate given by the people of India.
In this newsletter, we provide highlights of the key tax proposals made by the Finance Minister

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**For Private Circulation only**
**July 2014**

# PERSONAL TAX

## Tax rates

The Bill proposes to increase the minimum exemption limit in the case of Individuals, HUF, AOP & BOI from INR 2,00,000 to INR 2,50,000. The exemption limit in the case of senior citizens is proposed to be increased from INR 2,50,000 to INR 300,000.

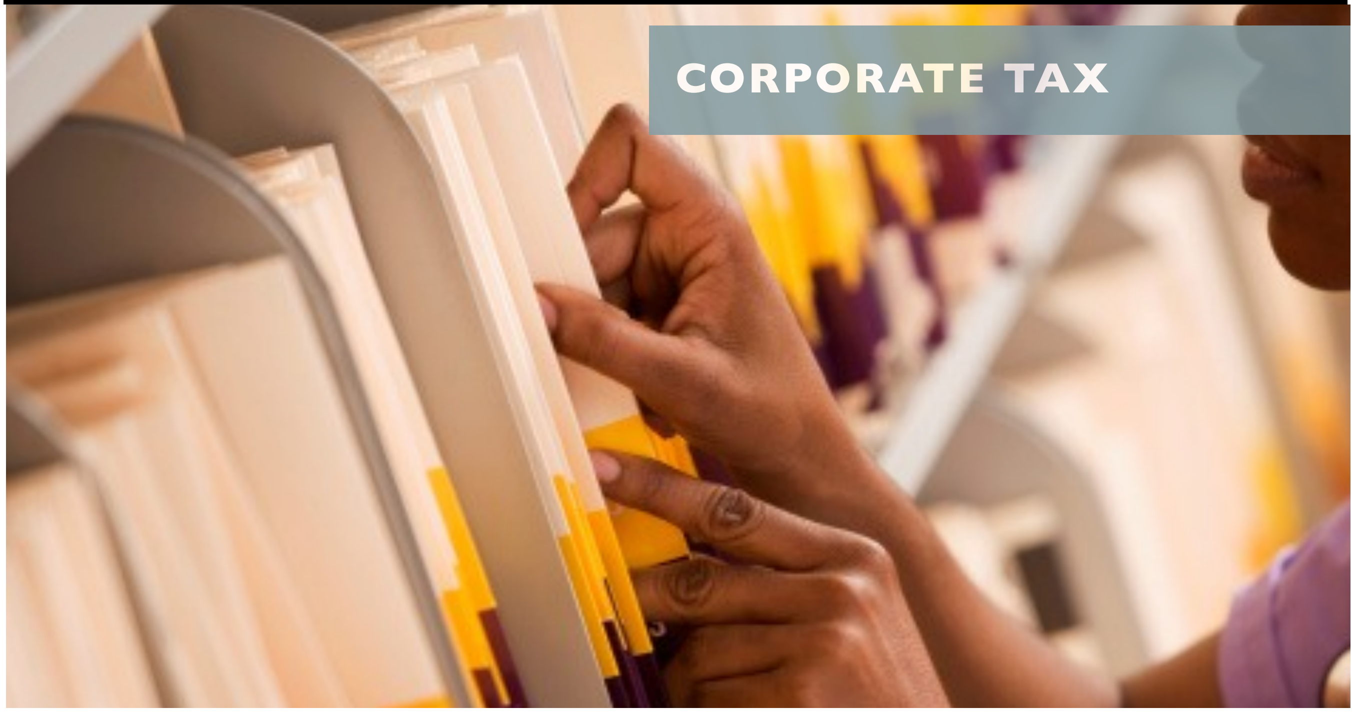
Exemption limit under Section 80C is proposed to be increased from Rs. 1,00,000 to Rs. 1,50,000.

## Incentive for Small Savings

To encourage savings by individuals in the PPF Scheme, the annual ceiling is proposed to be increased to INR 150,000 from the present limit of INR 100,000.

## Deduction for interest paid on housing loan

Under the existing provisions, a deduction of INR 150,000 per annum is allowed for payment of interest on housing loan for self occupied house property. To provide relief due to high cost of borrowings, it is proposed to increase the deduction of interest to INR 200,000 per annum.



# CORPORATE TAX

## NO CHANGE IN TAX RATES

Tax rate, surcharge and education cess remain unchanged.

## Disallowance of expenditure for non-deduction of TDS

In the event of non-deduction or non-payment of TDS on payments made to residents, the disallowance would be restricted to 30% of the amount of expenditure incurred.

In order to improve the TDS compliance in respect of payments to residents, the disallowance on account of non-compliance of TDS provisions has been extended to all expenditure (e.g. salary, directors fee) on which tax is deductible at source.

The deductor would be able to claim a deduction for payments made to non-residents in the relevant year itself, if tax is deducted during that year and is paid on or before the due date for filing of the income return.

## Disallowance of expenditure incurred on CSR activities

Any expenditure incurred by the tax payer on the activities relating to CSR would not be deemed to be an expenditure incurred for the purpose of business and therefore, the same would not be allowed as a deduction while computing taxable income. However, the CSR expenditure that is of the nature described in other specified provisions of the Act, may be allowable as deduction subject to fulfilment of the conditions prescribed in those sections

## Incentive for manufacturing sector

The incentive introduced by the Finance Act, 2013 to promote investment in new plant and machinery by the companies that are engaged in manufacturing or production of any article or thing is proposed to be further extended for medium sized investments.
Where the investment in eligible plant and machinery in a financial year exceeds INR 25 crores, such companies would be eligible to claim one time additional deduction of 15% of the cost of such new plant and machinery acquired and installed. This deduction would be available for such investments made till 31 March 2017 (i.e. for three financial years, starting with financial year 2014-15).

## Dividend Distribution Tax (DDT)

Presently, the DDT is paid by a domestic company on the net amount of dividends declared, distributed or paid by such company. To ensure that tax is levied on a proper base, it is proposed to gross up the amount of dividend for the purpose of computing DDT. This amendment shall take effect from 1 October 2014.

# CAPITAL GAINS

## Holding period of unlisted securities (including shares)

Unlisted shares and securities would need to be held for more than 36 months to be treated as a ‘long term asset’. Under normal provisions capital gains arising on transfer of long term asset is taxable at rate of 20%.

## No concessional tax rate for units of mutual funds

The long-term capital gains arising on transfer of mutual fund units would not be eligible for a concessional tax rate of 10%. It would now be taxable at the rate of 20%. However, it may be noted that the gains arising on the transfer of unit of an equity-oriented mutual fund through a recognized stock exchange (upon payment of securities transaction tax) is exempt.

Furthermore, such units of mutual funds (other than equity oriented mutual funds) would need to be held for a period of 36 months or more in order to classify as ‘long- term asset’.

## Advance towards capital assets forfeited

Advance received and retained in the course of negotiations for transfer of a capital asset which did not materialize to be treated as income chargeable to tax under the head “Income from other sources” Currently, such sum is being deducted from the cost of acquisition for computing capital gains when the asset is subsequently transferred.

# SERVICE TAX, EXCISE & CUSTOM DUTY

## GST
No announcement on timeline for implementation of GST.

## Service tax - Negative list pruned
The negative list has been pruned and service tax has been extended to the following services:

1. Sale of space or time for advertisement in online and mobile advertising, internet websites, out of home media, on film screen in theatres, bill boards, conveyances, buildings, cell phones, Automated Teller Machines, tickets, commercial publications, aerial advertising etc.
2. Services provided by Radio Taxis or Radio Cabs whether air-conditioned or not.

The above changes will be effective from the date of enactment of the Finance Bill 2014

## Service tax - Changes in Mega Exemptions
Exemptions have been withdrawn in relation to the following:

1. Transport of passengers in air-conditioned contract carriages
2. Technical testing or analysis of newly developed drugs, including vaccines and herbal remedies on human participants by a Clinical Research Organisation approved to conduct clinical trials by the Drugs Controller General of India
3. Renting of immovable property to educational institutions

Exemption has been introduced in relation to services provided by the Indian tour operators to foreign tourists in relation to tours conducted wholly outside India.
The above changes will be effective from 11.07.2014.

## Service tax - Partial Reverse Charge
In motor vehicle rental, 50% liability cast on both the service provider and service receiver where the service provider does not take abatement.

## Service Tax - E-payment now mandatory
With effect from 01.10.2014, e-payment of service tax is made mandatory.

## Service Tax - Interest on late payment
Simple interest rates per annum payable under section 75, to vary on the basis of extent of delay in payment of service tax. This will come into force on 1st October 2014.

- Delay up to six months - 18%,
- Delay from six months and upto one year - 24%,
- Delay more than one year - 30%

## CENVAT credit timeline
Timeline of six months prescribed for availment of cenvat credit on inputs and input services from date of invoice/ challan/ specified documents.

## Excise duty - Goods sold below cost
Excisable goods sold at a price below manufacturing cost and profit to be assessed on the basis of 'transaction value' for excise duty, if no additional consideration flows directly or indirectly to the seller

## Custom duty - Baggage allowance
Free baggage allowance for residents increased from INR35,000 to INR45,000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