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Overview on
Indian Union Budget
2016-17

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Foreword

The Finance Bill, 2016 was introduced in the Parliament by the Hon'ble Finance Minister, Mr. Arun Jaitley (his 3rd Budget after BJP Government assumed power at the Centre in May 2014) amid subdued hope. While the new normal in the world economy is turbulence and volatility, India still seems a refuge of stability and outpost of opportunity, despite daunting structural issues in the economy.

Budgets now rarely announce major change in policy direction; economic policy is announced through the year and by different institutions such as Central Bank, financial and industry regulators. To focus on budget as the harbinger of economic trends is to ignore the shift in India's policy process. Despite this year-round exercise of policy making, Budget provides an annual score-card of economic performance and the efficacy of policy initiatives embarked.

The FM has projected fiscal deficit @ 3.5% of GDP for fiscal year 2016-17 despite additional burden on account of recommendations of 7th Pay Commission and implementation of Defense One Rank One Pension (OROP) which casts a long shadow on prioritization of expenditure. In this background, the FM recounted the achievements; GDP growth is now @ 7.6% (in the previous government, the growth had decelerated to 6.3%), CPI inflation has come down to 5.4% from 9.4%, the current account deficit has declined to USD 14.4 bn from USD 18.4 bn and the exchange reserves are highest ever @ USD 350 bn. However, admittedly, the correlation between India and the world has risen and global economic weakness could impact the economic growth engine in India. Further, lack of private investment still remains the single largest concern. Such investment eludes the economy defines the ability of a country to grow over the long run which is critically determined by twin factors; state capacity and entrepreneurial capacity.

In his Budget speech, the FM embarked on 'Transform India' that is built on growth pillars; Agriculture and Farmer's welfare, Rural Sector, Social sector including health care, Education, Skills and Job creation, Infrastructure and Investment, Financial Sector reforms, Governance and Ease of Doing Business, Fiscal discipline and finally, Tax reforms. For each of the pillars, the FM laid out well-intentioned budgetary provisions for furthering economic growth.

Noteworthy amongst the provisions is the push for irrigation coverage which is currently as low as 46% of cultivable area. Schemes such as 'Pradhan Mantri Krishi Sinchai Yojana' and implementation of 89 irrigation projects that would be fast tracked would increase cultivable land under irrigation. This would go a long-way in augmenting depleting water tables across the country.

Infrastructure which is the backbone of all economic activity in the country requires significant attention and to this end, the FM proposed several budgetary allocations. Notably, 3 new initiatives to reinvigorate this sector i.e. arrangement for resolution of disputes in infrastructure related contracts, guidelines for renegotiation of public private partnership ('PPP') agreements and a new credit rating system would be set in motion.

The FM has also announced further reforms in FDI policy inter alia 100% FDI in asset reconstruction companies, 49% in insurance and pension sectors, enhancement in limit of investment in Indian stock exchanges etc. to name a few.

The big casualty in budgetary allocation is of course the recapitalization of banks where the allocation in this budget is INR 250 bn, reeling against mounting NPAs in the banking system whereas the appetite for capitalization is INR 1,800 bn in 4 years. The allocation fell far short on expectation to revive the ailing banking sector.

Insofar as Tax Reforms are concerned, the FM disappointed many in not dropping the Corporate tax rate from present to 30% that was to rest at 25% in a 4-year timeframe beginning this year as promised in last year's Budget. A 1% rate cut was offered to new manufacturing companies that are set up after March 1, 2016 and small enterprises with a turnover less than INR 50 Mn which was clearly not in line with the expectations. On the other hand, the FM red-flagged exemptions and deductions under the Indian IT Act with nearly all being terminated on April 1, 2020. Also disappointing is introduction of 10% dividend tax on individuals etc. who earn dividend in excess of INR 1 Mn per annum whereas the optimist believed that the FM may in fact dislodge the DDT regime which faces much criticism.

Interestingly, the FM has also taken steps to reduce litigation and to this end, introduced a new dispute resolution scheme in respect of 1st appeal before Appellate Authorities in the background that more than 0.3 Mn appeals are pending locking INR 5,500 bn in such litigation. The offer is to pay tax and interest with a waiver of penalty (in part) for settlement of dispute. However, this premeditates that all appeals filed by taxpayer (who actually file the 1st appeal) are either frivolous or suspect. This is far from truth as more often than not, the Taxpayers are compelled to appeal against high-pitched assessment at the behest of Tax Authorities and therefore, the proposed dispute resolution mechanism may not meet with much success.

Last but not the least, the FM accepted the recommendations of the Tax Administration Reforms Committee that was formed by the last Government and Justice Easwar Committee only in part, unlike popular belief that most of the recommendations would be endorsed by the FM in toto.

With this Budget, many questions still remain not fully answered and would remain a work-in-progress for the next year with the hope that the fear of the unknown i.e. the global economic environment does not unsettle India's growth engine in the meantime.

ECONOMIC INDICATORS

The global macroeconomic landscape is currently chartering a rough and uncertain terrain characterized by weak growth of world output, declining prices of commodities, turbulent financial markets and volatile exchange rates. Even in these trying and uncertain circumstances, India's growth story has largely remained positive and the economy is expected to be the fastest growing economy in the world.

The growth rate in GDP at constant market prices is projected to increase to 7.6% in 2015-16 from 7.2% in 2014-15. However, the growth projected for March 17, 2016 is expected between 7–7.75%. A cautious forecast from where we were last year, undoubtedly considering the global scenario and certain domestic factors.

One of the reasons for higher expected growth rates is on account of a number of reforms, each incremental but collectively meaningful, that have been enacted. This is helped by a reorientation of government spending toward needed public infrastructure.

Table showing growth in Gross Value Added (GVA) at constant (2011-12) basic prices (%)

Particulars	2014-15	2015-16
Agriculture, forestry & fishing	-0.2	1.1
Industry	5.9	7.3
Services	10.3	9.2
GVA at basic prices	7.1	7.3
GDP (at market prices)	7.2	7.6

Growth in the agriculture sector in 2015-16 has continued to be lower than the average of last decade, mainly on account of the second successive year of lowerthan- normal monsoon.

The ongoing manufacturing recovery in the current year is aided by robust growth in petroleum refining, automobiles, wearing apparels, chemicals, electrical machinery and wood products and furniture. The other three segments of the industry sector, i.e. electricity, gas, water supply and related utilities, mining and quarrying and construction activities, are witnessing a deceleration in growth.

Being the main driver of the economy, the service sector contributed about 69% of the total growth during 2011-12 to 2015-16; in the process expanding its share in the economy by 4 percentage points from 49% to 53%. Services like trade and repair services, civil aviation and road freight transport services contributed to growth. However, sectors like rail transport, public administration, defence and other services lagged behind. Financing, Insurance, Real Estate and Business Services together are estimated to achieve double-digit growth this year.

Growth in 2015-16 is primarily driven by domestic demand since exports declined by 17.6% and imports declined by 15.5% year-on-year basis.

Inflation remains under control and has declined to 4.9% (CPI), while WPI was (-) 2.8% in 2015-16. The current account deficit has reduced to 1.3% of the GDP and is likely to be in the low range of 1–1.5% of the GDP in the coming year. Lower crude prices have yielded a windfall to the economy keeping a check on inflation, fiscal deficit and so on.

Fiscal deficit for 2015-16 is pegged at 3.9% of the GDP, with the targets of 3.5% and 3.0% for 2016-17 and 2017-18 respectively. However, considering the recommendation of the 7th Pay Commission and outlay due to OROP Scheme, achieving these targets could be challenging.

Future Outlook

Country's macro-economy is stable, founded on the government's commitment to fiscal consolidation and low inflation. The deceleration in growth has ended and the economy appears now to be recovering, the external environment is fragile, and challenges in other major economies have made India the ear-cynosure of eager investors.

The steady acceleration in services and manufacturing growth in the face of subdued global demand conditions point to the strengthening of domestic demand. India's services sector remains the major driver of economic growth.

With enduring efforts, low inflation has taken hold and confidence in price stability has improved. However, retail inflation still poses a challenge.

To provide legal certainty and confidence to investors, the ordinances on coal, insurance and land need to be translated into legislation approved by Parliament.

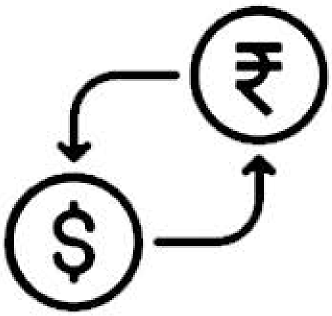
The constitutional amendment bill to GST also needs to be enshrined in legislation. A single GST rate (across States and Products) set at internationally competitive levels with limited exemptions would maximize its pro-growth, pro-compliance and pro-single market creating potential.

Indian Railways could be the next locomotive of growth. Greater public investment in the railways would boost aggregate growth and the competitiveness of Indian manufacturing substantially.

Banking is hobbled by policy, which creates double financial repression, and by structural factors, which impede competition. Banking in India has recently focused on the problem of stressed and restructured assets, the challenges in acquiring the resources to meet the looming Basel III requirements on capital adequacy, including the respective contributions of the government and markets, and the need for governance reforms.

The Prime Minister has made the revival of Indian manufacturing a top priority, reflected in his "Make in India" campaign and slogan. The objective is as laudable as the challenges it faces that are daunting because Indian manufacturing has been stagnant at low levels, especially when compared with East Asian successes

Sector specific key policies and announcements

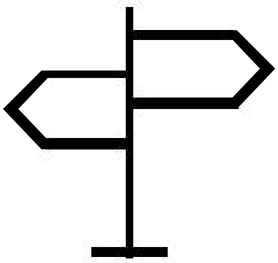


Introduction

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

Challenges in 2016-17

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



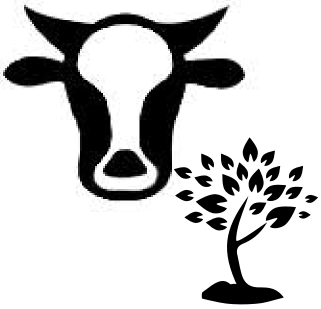
Roadmap & Priorities

- 'Transform India' to have a significant impact on economy and lives of people.
- Government to focus on –
  - ensuring macro-economic stability and prudent fiscal management.
  - boosting on domestic demand
  - continuing with the pace of economic reforms and policy initiatives to change the lives of our people for the better.
- Focus on enhancing expenditure in priority areas of - farm and rural sector, social sector, infrastructure sector employment generation and recapitalisation of the banks.

- Focus on Vulnerable sections through:
  - Pradhan Mantri Fasal Bima Yojana
  - New health insurance scheme to protect against hospitalisation expenditure
  - facility of cooking gas connection for BPL families
- Continue with the ongoing reform programme and ensure passage of the Goods and Service Tax bill and Insolvency and Bankruptcy law
- Undertake important reforms by :
  - giving a statutory backing to AADHAR platform to ensure benefits reach the deserving.
  - freeing the transport sector from constraints and restrictions
  - incentivising gas discovery and exploration by providing calibrated marketing freedom
  - enactment of a comprehensive law to deal with resolution of financial firms
  - provide legal framework for dispute resolution and re-negotiations in PPP projects and public utility contracts
  - undertake important banking sector reforms and public listing of general insurance companies undertake significant changes in FDI policy.

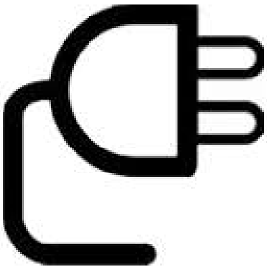
Agriculture and Farmer's Welfare

- Allocation for Agriculture and Farmers' welfare is ` 35,984 crore
- 'Pradhan Mantri Krishi Sinchai Yojana' to be implemented in mission mode. 28.5 lakh hectares will be brought under irrigation.
- Implementation of 89 irrigation projects under AIBP, which are languishing for a long time, will be fast tracked
- A dedicated Long Term Irrigation Fund will be created in NABARD with an initial corpus of about ` 20,000 crore
- Programme for sustainable management of ground water resources with an estimated cost of ` 6,000 crore will be implemented through multilateral funding

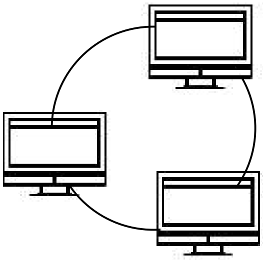


- 5 lakh farm ponds and dug wells in rain fed areas and 10 lakh compost pits for production of organic manure will be taken up under MGNREGA
- Soil Health Card scheme will cover all 14 crore farm holdings by March 2017.
- 2,000 model retail outlets of Fertilizer companies will be provided with soil and seed testing facilities during the next three years
- Promote organic farming through ‘Parmparagat Krishi Vikas Yojana’ and 'Organic Value Chain Development in North East Region'.
- Unified Agricultural Marketing ePlatform to provide a common emarket platform for wholesale markets
- Allocation under Pradhan Mantri Gram Sadak Yojana increased to ` 19,000 crore. Will connect remaining 65,000 eligible habitations by 2019.
- To reduce the burden of loan repayment on farmers, a provision of ` 15,000 crore has been made in the BE 2016-17 towards interest subvention
- Allocation under Prime Minister Fasal Bima Yojana ` 5,500 crore.
- ₹ 850 crore for four dairying projects - ‘Pashudhan Sanjivani’, ‘Nakul Swasthya Patra’, ‘E-Pashudhan Haat’ and National Genomic Centre for indigenous breeds

Rural Sector

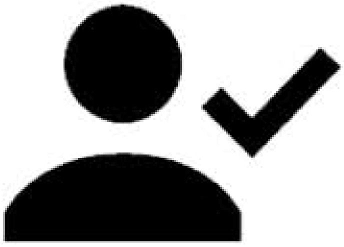


- Allocation for rural sector - ₹87,765 crore.
- ₹ 2.87 lakh crore will be given as Grant in Aid to Gram Panchayats and Municipalities as per the recommendations of the 14th Finance Commission
- Every block under drought and rural distress will be taken up as an intensive Block under the Deen Dayal Antyodaya Mission
- A sum of ` 38,500 crore allocated for MGNREGS.
- 300 Rurban Clusters will be developed under the Shyama Prasad Mukherjee Rurban Mission
- 100% village electrification by 1st May, 2018.



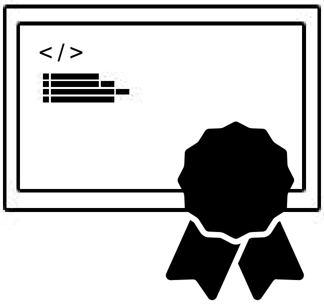
- District Level Committees under Chairmanship of senior most Lok Sabha MP from the district for monitoring and implementation of designated Central Sector and Centrally Sponsored Schemes.
- Priority allocation from Centrally Sponsored Schemes to be made to reward villages that have become free from open defecation.
- A new Digital Literacy Mission Scheme for rural India to cover around 6 crore additional household within the next 3 years.
- National Land Record Modernisation Programme has been revamped.
- New scheme Rashtriya Gram Swaraj Abhiyan proposed with allocation of ₹655 crore.

Social Sector Including Health Care



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

Education, skills and Job Creation

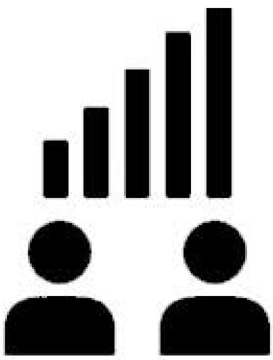


- 62 new Navodaya Vidyalayas will be opened
- Sarva Shiksha Abhiyan to increasing focus on quality of education
- Regulatory architecture to be provided to ten public and ten private institutions to emerge as world-class Teaching and Research Institutions
- Higher Education Financing Agency to be set-up with initial capital base of ₹1000 Crores
- Digital Depository for School Leaving Certificates, College Degrees, Academic Awards and Mark sheets to be set-up.

Skill Development

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

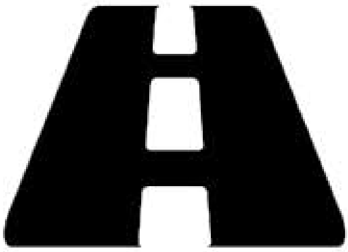
Job Creation



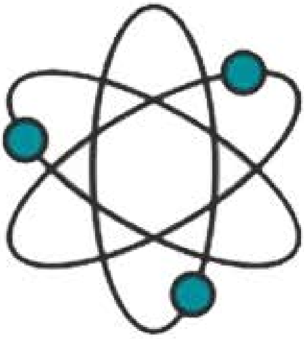
- GoI will pay contribution of 8.33% for of all new employees enrolling in EPFO for the first three years of their employment. Budget provision of ₹ 1000 crore for this scheme.
- Deduction under Section 80JJAA of the Income Tax Act will be available to all assesses who are subject to statutory audit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

Infrastructure and Investment

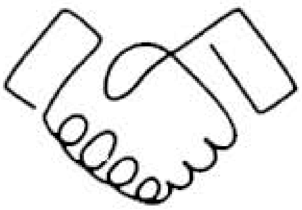
- Total investment in the road sector, including PMGSY allocation, would be ₹97,000 crore during 2016-17.
- India's highest ever kilometres of new highways were awarded in 2015. To approve nearly 10,000 kms of National Highways in 2016-17.



- Allocation of ` 55,000 crore in the Budget for Roads. Additional ₹ 15,000 crore to be raised by NHAI through bonds.
- Total outlay for infrastructure - ₹ 2,21,246 crore.
- Amendments to be made in Motor Vehicles Act to open up the road transport sector in the passenger segment
- Action plan for revival of unserved and underserved airports to be drawn up in partnership with State Governments.
- To provide calibrated marketing freedom in order to incentivise gas production from deep-water, ultra deep-water and high pressure-high temperature areas



- Comprehensive plan, spanning next 15 to 20 years, to augment the investment in nuclear power generation to be drawn up.
- Steps to re-vitalise PPPs:
  - Public Utility (Resolution of Disputes) Bill will be introduced during 2016-17
  - Guidelines for renegotiation of PPP Concession Agreements will be issued
  - New credit rating system for infrastructure projects to be introduced



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

Financial Sector Reforms

- A comprehensive Code on Resolution of Financial Firms to be introduced.
- Statutory basis for a Monetary Policy framework and a Monetary Policy Committee through the Finance Bill 2016.
- A Financial Data Management Centre to be set up.
- RBI to facilitate retail participation in Government securities.

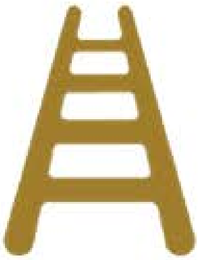
- New derivative products will be developed by SEBI in the Commodity Derivatives market.
- Amendments in the SARFAESI Act 2002 to enable the sponsor of an ARC to hold up to 100% stake in the ARC and permit non institutional investors to invest in Securitization Receipts.
- Comprehensive Central Legislation to be bought to deal with the menace of illicit deposit taking schemes.
- Increasing members and benches of the Securities Appellate Tribunal. Allocation of ₹25,000 crore towards recapitalisation of Public Sector Banks.
- Target of amount sanctioned under Pradhan Mantri Mudra Yojana increased to ₹1,80,000 crore.
- General Insurance Companies owned by the Government to be listed in the stock exchanges.

Governance and Ease of doing Business

- A Task Force has been constituted for rationalisation of human resources in various Ministries.
- Comprehensive review and rationalisation of Autonomous Bodies.
- Bill for Targeted Delivery of Financial and Other Subsidies, Benefits and Services by using the Aadhar framework to be introduced.
- Introduce DBT on pilot basis for fertilizer.
- Automation facilities will be provided in 3 lakh fair price shops by March 2017.
- Amendments in Companies Act to improve enabling environment for start-ups.
- Price Stabilisation Fund with a corpus of ` 900 crore to help maintain stable prices of Pulses.
- "Ek Bharat Shreshtha Bharat" programme will be launched to link States and Districts in an annual programme that connects people through exchanges in areas of language, trade, culture, travel and tourism.

Fiscal Discipline

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



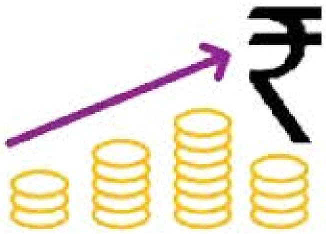
Relief to Small Tax Payers

- Raise the ceiling of tax rebate under section 87A from ₹ 2000 to ₹ 5000 to lessen tax burden on individuals with income upto ₹ 5 laks.
- Increase the limit of deduction of rent paid under section 80GG from ₹ 24000 per annum to `60000, to provide relief to those who live in rented houses.

Boost Employment and Growth

- Increase the turnover limit under Presumptive taxation scheme under section 44AD of the Income Tax Act to ₹ 2 crores to bring big relief to a large number of assessees in the MSME category.
- Extend the presumptive taxation scheme with profit deemed to be 50%, to professionals with gross receipts up to ₹ 50 lakh.

- Phasing out deduction under Income Tax :
  - Accelerated depreciation wherever provided in IT Act will be limited to maximum 40% from 1.4.2017
  - Benefit of deductions for Research would be limited to 150% from 1.4.2017 and 100% from 1.4.2020
  - Benefit of section 10AA to new SEZ units will be available to those units which commence activity before 31.3.2020.
  - The weighted deduction under section 35CCD for skill development will continue up to 1.4.2020



- Corporate Tax rate proposals :
  - New manufacturing companies incorporated on or after 1.3.2016 to be given an option to be taxed at 25% + surcharge and cess provided they do not claim profit linked or investment linked deductions and do not avail of investment allowance and accelerated depreciation.
  - Lower the corporate tax rate for the next financial year for relatively small enterprises i.e companies with turnover not exceeding ` 5 crore (in the financial year ending March 2015), to 29% plus surcharge and cess.

- 100% deduction of profits for 3 out of 5 years for startups setup during April, 2016 to March, 2019. MAT will apply in such cases.
- 10% rate of tax on income from worldwide exploitation of patents developed and registered in India by a resident.
- Complete pass through of income-tax to securitization trusts including trusts of ARCs. Securitisation trusts required to deduct tax at source.
- Period for getting benefit of long term capital gain regime in case of unlisted companies is proposed to be reduced from three to two years.
- Non-banking financial companies shall be eligible for deduction to the extent of 5% of its income in respect of provision for bad and doubtful debts.
- Determination of residency of foreign company on the basis of Place of Effective Management (POEM) is proposed to be deferred by one year.

- Commitment to implement General Anti Avoidance Rules (GAAR) from 1.4.2017.
- Exemption of service tax on services provided under Deen Dayal Upadhyay Grameen Kaushalya Yojana and services provided by Assessing Bodies empanelled by Ministry of Skill Development & Entrepreneurship.
- Exemption of Service tax on general insurance services provided under 'Niramaya' Health Insurance Scheme launched by National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disability.
- Basic custom and excise duty on refrigerated containers reduced to 5% and 6%.

Make in India

- Changes in customs and excise duty rates on certain inputs to reduce costs and improve competitiveness of domestic industry in sectors like Information technology hardware, capital goods, defence production, textiles, mineral fuels & mineral oils, chemicals & petrochemicals, paper, paperboard & newsprint, Maintenance repair and overhauling [MRO] of aircrafts and ship repair.

Moving Towards a Pensioned Society

- Withdrawal up to 40% of the corpus at the time of retirement to be tax exempt in the case of National Pension Scheme (NPS). Annuity fund which goes to legal heir will not be taxable.
- In case of superannuation funds and recognized provident funds, including EPF, the same norm of 40% of corpus to be tax free will apply in respect of corpus created out of contributions made on or from 1.4.2016.
- Limit for contribution of employer in recognized Provident and Superannuation Fund of ₹ 1.5 lakh per annum for taking tax benefit. Exemption from service tax for Annuity services provided by NPS and Services provided by EPFO to employees.

- Reduce service tax on Single premium Annuity (Insurance) Policies from 3.5% to 1.4% of the premium paid in certain cases.

Promoting Affordable Housing

- 100% deduction for profits to an undertaking in housing project for flats upto 30 sq. metres in four metro cities and 60 sq. metres in other cities, approved during June 2016 to March 2019 and completed in three years. MAT to apply.
- Deduction for additional interest of ₹50,000 per annum for loans up to ₹35 lakh sanctioned in 2016-17 for first time home buyers, where house cost does not exceed ₹50 lakh.
- Distribution made out of income of SPV to the REITs and INVITs having specified shareholding will not be subjected to Dividend Distribution Tax, in respect of dividend distributed after the specified date.
- Exemption from service tax on construction of affordable houses up to 60 square metres under any scheme of the Central or State
- Government including PPP Schemes.
- Extend excise duty exemption, presently available to Concrete Mix manufactured at site for use in construction work to Ready Mix Concrete.

Resource Mobilization for agriculture, Rural economy and clean environment

- Additional tax at the rate of 10% of gross amount of dividend will be payable by the recipients receiving dividend in excess of ₹10 lakh per annum.
- Surcharge to be raised from 12% to 15% on persons, other than companies, firms and cooperative societies having income above ₹1 crore.
- Tax to be deducted at source at the rate of 1 % on purchase of luxury cars exceeding value of ₹ ten lakh and purchase of goods and services in cash exceeding ₹ two lakh.
- Securities Transaction tax in case of ‘Options’ is proposed to be increased from .017% to .05%.

- Equalization levy of 6% of gross amount for payment made to nonresidents exceeding ₹ 1 lakh a year in case of B2B transactions.
- Krishi Kalyan Cess, @ 0.5% on all taxable services, w.e.f. 1 June 2016. Proceeds would be exclusively used for financing initiatives for improvement of agriculture and welfare of farmers. Input tax credit of this cess will be available for payment of this cess.
- Infrastructure cess, of 1% on small petrol, LPG, CNG cars, 2.5% on diesel cars of certain capacity and 4% on other higher engine capacity vehicles and SUVs. No credit of this cess will be available nor credit of any other tax or duty be utilized for paying this cess.
- Excise duty of '1% without input tax credit or 12.5% with input tax credit' on articles of jewellery [excluding silver jewellery, other than studded with diamonds and some other precious stones], with a higher exemption and eligibility limits of ₹6 crores and ₹12 crores respectively.
- Excise on readymade garments with retail price of ₹1000 or more raised to 2% without input tax credit or 12.5% with input tax credit. 'Clean Energy Cess' levied on coal, lignite and peat renamed to 'Clean Environment Cess' and rate increased from ₹ 200 per tonne to ₹ 400 per tonne.
- Excise duties on various tobacco products other than beedi raised by about 10 to 15%.
- Assignment of right to use the spectrum and its transfers has been deducted as a service leviable to service tax and not sale of intangible goods.

Social Sector Including Health Care

- Committed to providing a stable and predictable taxation regime and reduce black money.
- Domestic taxpayers can declare undisclosed income or such income represented in the form of any asset by paying tax at 30%, and surcharge at 7.5% and penalty at 7.5%, which is a total of 45% of the undisclosed income. Declarants will have immunity from prosecution.

- Surcharge levied at 7.5% of undisclosed income will be called Krishi Kalyan surcharge to be used for agriculture and rural economy.
- New Dispute Resolution Scheme to be introduced. No penalty in respect of cases with disputed tax up to ` 10 lakh. Cases with disputed tax exceeding ` 10 lakh to be subjected to 25% of the minimum of the imposable penalty. Any pending appeal against a penalty order can also be settled by paying 25% of the minimum of the imposable penalty and tax interest on quantum addition.
- High Level Committee chaired by Revenue Secretary to oversee fresh cases where assessing officer applies the retrospective amendment.
- One-time scheme of Dispute Resolution for ongoing cases under retrospective amendment.
- Penalty rates to be 50% of tax in case of underreporting of income and 200% of tax where there is misreporting of facts.

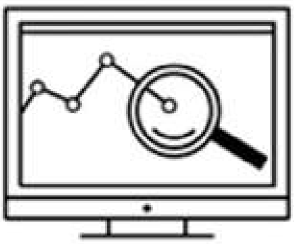
- Disallowance will be limited to 1% of the average monthly value of investments yielding exempt income, but not exceeding the actual expenditure claimed under rule 8D of Section 14A of Income Tax Act.
- Time limit of one year for disposing petitions of the tax payers seeking waiver of interest and penalty.
- Mandatory for the assessing officer to grant stay of demand once the assesse pays 15% of the disputed demand, while the appeal is pending before Commissioner of Income-tax (Appeals).
- Monetary limit for deciding an appeal by a single member Bench of ITAT enhanced from ` 15 lakhs to ` 50 lakhs.
- 11 new benches of Customs, Excise and Service Tax Appellate Tribunal (CESTAT).

Simplification and Rationalization od Taxes

- 13 cesses, levied by various Ministries in which revenue collection is less than ₹ 50 crore in a year to be abolished.
- For non-residents providing alternative documents to PAN card, higher TDS not to apply.
- Revision of return extended to Central Excise assessees.

- Additional options to banking companies and financial institutions, including NBFCs, for reversal of input tax credits with respect to nontaxable services.
- Customs Act to provide for deferred payment of customs duties for importers and exporters with proven track record.
- Customs Single Window Project to be implemented at major ports and airports starting from beginning of next financial year.
- Increase in free baggage allowance for international passengers. Filing of baggage only for those carrying dutiable goods.

Technology and Accountability



- Expansion in the scope of e-assessments to all assessees in 7 mega cities in the coming years.
- Interest at the rate of 9% p.a against normal rate of 6% p.a for delay in giving effect to Appellate order beyond ninety days.
- ‘e-Sahyog’ to be expanded to reduce compliance cost, especially for small taxpayers.

Direct Tax Proposals

Personal Taxation

Tax Rates

- No change in income slabs or tax rates
- Increase in surcharge from 12% to 15% on individuals, HUFs having income exceeding Rs. 1 crore
- Rebate of income tax for resident individuals with total income not exceeding Rs. 5 lakh enhanced from Rs. 2,000 to Rs. 5,000.

House Property

- An additional deduction of Rs. 50,000 in respect of interest payable on home loan taken by an individual during the financial year 2016-17. This deduction is available to a person not owning a house property and where the cost of house does not exceed `50 lakhs and the loan does not exceed Rs. 35 lakhs.
- Maximum deduction for house rent paid by individuals not receiving House Rent Allowance increased from Rs. 2,000 per month to Rs. 5,000 per month.
- The period within which the construction or acquisition of a selfoccupied house property is to be completed, to claim a deduction of interest on housing loan, increased from 3 years to 5 years reckoned from the year in which the loan is borrowed. The permissible deduction limit continues to be Rs. 200,000.
- The arrears of rent or unrealized rent received from a tenant shall be deemed to be the income from house property in the year of receipt irrespective of whether the assesse continues to be the owner of the house or not. A deduction at 30 percent of the amount so received is allowed.

Capital Gains

- Deposit certificates issued under 'Gold Monetization Scheme 2015' will not be considered as capital assets. The interest thereon would also be exempt from tax.
  Gains from redemption of gold bonds issued by the Reserve Bank of India under 'Sovereign Gold Bonds
- Scheme 2015' shall not be subject to capital gains tax in the hands of the individual.

Retirement Benefits

- The lower of employer's contribution to Provident fund in excess of 12% of the salary of the employee or Rs.150,000 p.a. will be subject to tax.
- Exemption limit for employer's contribution to superannuation has been enhanced from Rs.100,000 to Rs.150,000 p.a.
- The exemption on withdrawal of accumulated balance from a recognized PF is reduced from 100% to 40% to the extent it relates to contributions made by the employee (other than excluded employee) after 1 April 2016. Excluded employee is an employee whose monthly salary does not exceed an amount prescribed for this purpose.
- 40% of the amount withdrawn from New Pension Scheme (NPS) on retirement will be tax exempt. Currently the entire withdrawal is being taxed. In order to bring parity between NPS and Superannuation funds, the exemption available on withdrawal from superannuation funds would be restricted to 40%.
- The amounts received by a nominee from NPS on death of the tax payer would be exempt from tax.

International Taxation

Place of Effective management (POEM) deferred by one year

- Applicability of POEM based residence test deferred by one year. The same will now be applicable from 1 April 2017. The Government will meanwhile provide a transition mechanism for foreign companies who have not earlier been assessed to tax in India under such POEM based residency rule.

Equalization Levy

- An Equalization levy of 6% on the amount of consideration for specified services received by a non-resident not having a PE in India has been proposed to be inserted by way of a new Chapter. 'Specified services' has been defined to mean online advertising or any provision for digital advertising space or any other facility or service for the purpose of online advertisement, or any other service as may be notified by the Central Government.
- Levy will not to apply if the consideration does not exceed Rs.1 lakh in a year. It is proposed to specifically provide that such income will not be taxed in the hands of the recipient.
- It is also proposed that corresponding expenses in the nature of such consideration shall be deductible only if such levy is deducted and deposited with the Government on or before the due date of filing tax return for that year. Payment on a subsequent date will enable claiming the deduction in such other year of payment.
- Further, Central Government shall notify the date from which Chapter of 'Equalization Levy' shall come into force.

Simplified conditions for taxation of off shore funds

- Eligible investment fund shall now also include a fund established or incorporated or registered outside India in a country or a notified territory in addition to the fund residing in those countries or territories.
- It has been proposed to restrict the condition of fund not controlling and managing any business in India or from India to only the activities undertaken in India for allowing more flexibility to the operations of funds.

Corporate Tax

Corporate tax rates

- Tax rate on newly setup domestic companies engaged solely in manufacture or production of any article or thing proposed to be reduced to 25%, at the option of the company, subject to not claiming certain specified deductions/claims.
- Tax rate proposed to be reduced to 29% for domestic companies whose total turnover or gross receipts in the previous year 2014-15 does not exceed Rs.5 crores.
  No other changes proposed in corporate tax rates.

Industry specific benefits

- Benefit of initial additional deprecation of 20% available on new machinery or plants proposed to be extended to the business of transmission of power.
- It is proposed that income of a foreign company engaged in the business of mining of diamonds shall not have a business connection in India merely by reasons of its activities which are confined to display of uncut or unassorted diamonds in a special zone notified by the Central Government.
- It is proposed that any income, accruing or arising to a foreign company on account of storage of crude oil in a facility in India, or on account of its sale therefrom to any person resident in India, shall be exempt from taxation if such storage or sale is in pursuance of an agreement or arrangement with Central Government that is notified. The amendment will take effect from assessment year 2016-17.

Concessional tax regime on royalty income from patents

- It is proposed to introduce patent box regime in India to provide tax @ 10% on gross income arising from royalty in respect of a patent developed and registered in India by a person resident in India.

Presumptive taxation scheme

- With a view to reduce the compliance burden of small tax payers engaged in eligible business, the existing threshold turnover limit of Rs.1 crore to qualify for presumptive taxation is proposed to be increased to Rs.2 crores. Further, it is proposed that such taxpayers can pay advance tax by 15 March of the financial year.
- It is proposed to provide an option of presumptive taxation to professionals having total receipts less than Rs. 50 lakhs in a year. Deduction will be allowed at 50% of the total gross receipts. Professions include legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or any other profession as is notified by the Board in the Official Gazette.
- It is further proposed to increase the threshold limit for audit of persons having income from profession from Rs.25 lakhs to Rs.50 lakhs in a year.

The Income Declaration Scheme 2016

- Immunity has been granted from further scrutiny under the income tax Act in cases where the tax payer declares domestic undisclosed income and pays 45% thereof (tax of 30%, surcharge of 7.5% and penalty of 7.5%). A window is available between 1 June 2016 and 30 September 2016 for such declaration.

Exemption from requirement of furnishing PAN under section 206AA to certain non-residents

- The existing section 206AA, inter alia, provides that any person who is entitled to receive any sum on which tax is deductible under the Act shall be liable to furnish PAN. Non-furnishing of PAN will attract TDS @ 20% (minimum).

- The provisions of section 206AA also apply to non-residents (with an exception in respect of payment of interest on long-term bonds as referred to in section 194LC). In order to reduce compliance burden, section 206AA is proposed to be amended to provide that the same shall not be applicable to a non-resident (other than a company) or a foreign company in respect of any payments, other than interest on bonds, subject to such conditions as may be prescribed. This amendment shall be applicable from 1 June 2016.

Applicability of Minimum Alternate Tax (MAT) on foreign companies for theperiod prior to 1 April 2015

It is proposed to make MAT not applicable to a foreign company with effect from 1stApril 2001 in the following case:

- foreign company is a resident of a country with which India has entered into a DTAAand the foreign company does not have a PE in India
- foreign company is a resident of a country with which India has not entered into aDTAA and the foreign company is not required to seek registration under any law forthe time being in force relating to foreign companies.

Phasing-out of profit linked deductions/weighted deductions

Section	Proposed Phase-Out Plan With Effect From Asst Year.
10AA –Tax holiday on export income of SEZ units	2021-22. ie sunset clause introduced.
35AC – Deduction for payments to public sector undertakings or local authority and other eligible organisation for specified scheme for promotion socio-economic	2018-19 .ie No deduction shall be given
35CCD – Expenditure incurred (not being expenditure in the nature of cost of any land or building) on any notified skill development project by a company	2021-22. ie The Actual Expenditure incurred shall only be allowed.
80IA; 80IAB; 80IB – Specified businesses	2018-19

Phasing-out of profit linked deductions/weighted deductions

Section	New Rate Of Deduction	Current Rate
32 – Accelerated depreciation	• Maximum accelerated depreciation of 40%allowed w.e.f. AY 2018-19 • Applicable for both old and new assets	Upto 100%
35(1)(ii) – Expenditure on scientific research, for sum paid to approved scientific research association and other approved institution undertaking scientific research.	• From AYs 2018-19 to 2020-21, weighteddeduction of 150% allowed • W.e.f. AY 2021-22, deduction of only 100%	175%
35(1)(iia) – Expenditure on scientific research, for sum paid as contribution to an approved scientific research company	• W.e.f. AY 2018-19, deduction of only 100%	125%
35(1)(iii) – Expenditure on scientific research, for contribution to an approved research association or university or college or other institution to be used for research in social science or statistical research	• W.e.f. AY 2018-19, deduction of only 100%	125%
35(2AA) – Expenditure on scientific research, for any sum paid to a National Laboratory or a university or an Indian Institute of Technology or a specified person for the purpose of approved scientific research programme	• From AYs 2018-19 to 2020-21, weighteddeduction of 150% allowed • W.e.f. AY 2021-22, deduction of only 100%	200%

Phasing-out of profit linked deductions/weighted deductions

35(2AB) – Expenditure on scientific research, incurred by a company, engaged in the business of bio-technology or in the business of manufacture or production of any article or thing, on scientific research on approved in-house research and development facility.	• From AYs 2018-19 to 2020-21, weighteddeduction of 150% allowed • W.e.f. AY 2021-22, deduction of only 100%	200%
35AD – Specified businesses-Investment linked deduction for the purchase of machinery and other capital assets(Cold Chain Facility, Warehousing For Agricultural Purpose, Affordable Housing, Production Of Fertilizers, Building 100 Bed Hospital)	• W.e.f. AY 2018-19, deduction of only 100%	150%
35CCC – Expenditure on notified agricultural extension project	• W.e.f. AY 2018-19, deduction of only 100%	150%

Amendments In TDS Provisions

Section	Particulars	Existing Threshold Limits(Rs.)/Rates Of TDS	Proposed Threshold Limits(Rs.)/Rates Of TDS
192A	Payment of accumulated balance due to an employee.	30,000	50,000
194BB	Winnings from Horse Race.	5,000	10,000
194C	Payments to Contractors.	75,000(Annual Limit)	1,00,000(Annual Limit)
194D	Insurance commission.	20,000	15,000

194LA	Payment of Compensation on acquisition of certain Immovable Property.	2,00,000	2,50,000
194DA	Payment in respect of Life Insurance Policy.	2%	1%
194EE	Payments in respect of NSS Deposits.	20%	10%
194G	Commission on sale of lottery tickets.	a)Threshold Limit Of 1,000. b)Rate 10%	a)Threshold Limit Of 15,000. b)Rate 5%
194H	Commission or brokerage.	a)Threshold Limit Of 5,000. b)Rate 10%	a)Threshold Limit Of 15,000. b)Rate 5%

- TCS @ 1% applicable in case of sale of motor vehicle of the value exceeding Rs.10 lakhs and sale in cash of any goods (other than bullion and jewellery) or providingany services other than payments on which TDS applies exceeding Rs.2 lakhs (Amendment proposed to be effective from 1 June 2016).
- Presently, TDS under section 194I is deducted even in cases where the recipient's totalincome (including rental income) is Nil. Section 197A provides for no TDS (in certaincases) if recipient furnishes a declaration (in Form 15G/15H) to payer declaring Niltaxability. Benefit of section 197A to be extended to recipients earning rental income.

Taxation of Non-Compete Fees and exclusivity rights in case of Profession

Taxation of non-compete fees and exclusivity rights in case of profession is proposed to be brought at par with similar income in the case of business.

Clarity on deduction of Spectrum Fee

It is proposed to introduce a section providing for deductibility of spectrum fee for telecommunication services on following lines:

- Capital expenditure incurred and actually paid for acquisition of any right to use spectrum to be equally amortized over the period of right to use of spectrum.
- In case where spectrum is transferred, the amount of loss/profit to be treated as expense/income in the year of transfer.
- Unallowed expenses in the case where part of the spectrum has been transferred would be amortized over the remaining period of right retained.
- In case of an amalgamating company transferring spectrum to an Indian amalgamated company under a scheme of amalgamation, these provisions shall apply mutatis mutandis to the amalgamated company.

New Tax Dispute Resolution Scheme introduced for pending disputes before Appellate Authorities

New Tax Dispute Resolution Scheme introduced for reducing tax disputes in relation to two types of taxes:

- **Specified Taxes**
  defined as any tax determined consequent to or validated by amendment made with retrospective effect in Income Tax Act 1961 or Wealth Tax Act 1957 and dispute in respect of such tax is pending as on 29 February 2016. For being eligible for availing benefit, assessee is required to withdraw writ/appeal/request for arbitration before concerned authorities. The declarant shall get immunity from penalty and prosecution under the respective Acts. Further, scheme also provides for waiver of interest under the respective Acts.

- **Tax Arrears**
  defined as tax, interest or penalty determined under the Income Tax Act 1961 or Wealth Tax Act 1957 in respect of which appeal is pending before Commissioner of Income Tax (Appeals) or Commissioner of Wealth Tax (Appeals) as on 29 February 2016. For being eligible, declarant is required to pay applicable taxes plus interest up to the date of assessment. In case disputed tax exceeds Rs. 10 lakhs, 25% of minimum penalty leviable will also be payable. Declarant shall get immunity from any prosecution under the respective Acts.

Legal framework for automation of paperless assessment and other processes

In order to put in a place a framework of automated paperless assessments and related procedures, amendment made to provide that notices and documents can be issued either in paper form or electronic form. It has been proposed to define the term 'hearing' to include communication of data and documents through electronic mode.

Rationalization of provisions relating to Appellate Tribunal

- It is proposed to omit the right of the tax department to appeal against the order of the assessing officer in pursuance of the direction of Dispute Resolution Panel.
- The time limit for rectification of order u/s 254(2) by the Appellate Tribunal is proposed to be reduced from 4 years to 6 months.

Rationalization of Penalty Provisions

- Section 271(1)(c) has been substituted with Section 270A with effect from AY 2017-18.
- Section 270A prescribes certain scenarios wherein penalty could be imposed for under reporting and misreporting of income respectively. Penalty @ 50% of tax payable is applicable in case of under reporting and @ 200% in case of misreporting.
- Specified situations proposed where adjustment to taxable income will not be regarded as occasioned due to under reporting of income.

Immunity from penalty and prosecution in certain cases

- Section 270AA is proposed to be introduced under the Act which shall contain provisions providing for immunity from penalty and prosecution. To be eligible to avail the same, assessee is required to timely deposit the tax and interest into the Government treasury and should not litigate the matter in appeal. Such immunity is not available in cases of misreporting.
- Application for immunity to be made within one month from the end of the month in which assessment order is received. AO shall decide the application on merits and his order shall be final.

Amended timelines for assessment, reassessment and re-computation

Nature Of Assessment	Proposed Timelines	Existing
Scrutiny Assessment (u/s 143) or Best Judgment Assessment (u/s 144)	21 months from the end of AY in which income wasfirst assessable	24 months
Re-assessment (u/s 147)	9 months from the end of the FY in which re-assessmentnotice was served	12 months
Freshassessment in pursuance of order of ITAT (u/s 254) or revision of orders (u/s 263/ 264)	9 months from the end of the FY in which subject order is received/ passed	12 months
Introduction of timeline to give effect to appellateand revision orders (cases not requiring any fresh assessment), except pending cases.	3 months from the date of passing/ receiptof order	No prescribed timeline
Introduction of timeline to give effect to appellateand revision orders (cases requiring fresh assessment/ re-assessment/ re-computation), except pending cases	12 months from the date of passing/ receiptof order	No prescribed timeline
Assessment proceedings on a partner ofa firm, consequential to the re-assessment (u/s 147) made on the firm, except pending cases	12 monthsfrom the end of the month of passing the assessment order in case of the firm	No prescribed timeline

Assessment for search cases (u/s 153A)	21 months from the end of FYin which search authorisationwas executed	24 Months
Assessment of other person when search is conducted (153C)	9 monthsfrom the end of FYin which subject information/ assets seized/ requisition were handed over to the AO	12 Months

Transfer Pricing

- Where Transfer pricing assessments are stayed by any court or reference for exchangefor information has been made by competent authority and the time limit forcompletion for assessment by the TPO (after excluding the period of stay or exchangeof information) is less than 60 days, then such remaining period shall be extended to60 days

Country-by-Country Report and Master File

- In order to implement the international consensus on Action 13 of the Organisationfor Economic Cooperation and Development's (OECD's) Base Erosion and ProfitShifting (BEPS) project, the Finance Bill 2016 proposes to introduce the Country byCountry (CBC) reporting requirement and the concept of master file in the IndianIncome Tax Act, 1961.
- The core elements of the concept have been proposed by the Bill and the remainingprovisions will be detailed in the Income Tax Rules.
- The provisions relating to CBC reporting requirement as proposed by the Bill are as follows:
    - The provisions will be effective 1 April 2017 and will apply from Financial Year 2016-17.
    - The reporting provisions shall apply to an international group (a group that operates in two or more jurisdictions) having consolidated revenues exceeding the prescribed threshold. The current OECD mandated threshold is € 750 million (approximately Rs.5395 crores, at current exchange rate).
    - If the parent entity of an international group is resident in India, it is required to furnish the CBC report in respect of the group by the due date of furnishing of return of income for the relevant Financial Year. Accordingly, an Indian parent company will need to furnish the first CBC report by 30 November 2017 for the Financial Year 2016-17.
    - An entity in India of an international group having an overseas resident parent is required to provide the details of the country of residence of the parent by the prescribed date to the prescribed Indian tax authority.
    - An Indian entity belonging to an international group with an overseas parent shall be required to furnish the CBC report to the prescribed authority if the parent entity of the group is resident:
- In a country with which India does not have an arrangement for exchange of the CBC report; or
- There is a systematic failure of the country in exchanging the said information with India even though there is an agreement; and
- This fact has been intimated to the entity by the prescribed authority

- The CBC report would be furnished in the prescribed manner and form and will contain (in line with the OECD template) aggregate information in respect of revenue, profit & loss before Income-tax, amount of Income-tax paid and accrued, details of capital, accumulated earnings, number of employees, tangible assets (other than cash or cash equivalent) in respect of each country or territory; along with details of each constituent's residential status, nature and details of main business activity as well as any other information as may be prescribed.
- In cases where more than one entity of an overseas parent group are present in India, the group can nominate (in writing to the prescribed authority) the entity that shall furnish the report on behalf of all the Indian entities.
- The prescribed authority may call for necessary documents and information from the entity furnishing the report for the purpose of verifying the accuracy of the same
- For non-furnishing of the CBC report by an entity which is obligated to do so, a graded penalty structure applies that ranges from Rs.5,000 to Rs.50,000 per day.
- In case of inaccurate furnishing of information or furnishing of inaccurate information in response to notice by the prescribed authority, a penalty of Rs.500,000 may also be levied.
- A parent entity means the entity holding an interest (directly or indirectly) in the other entities of the group such that it is required to prepare a consolidated financial statement of the group.

- The Memorandum to the Finance Bill provides that rules for the requirement for maintenance of master file would be prescribed which would be as mandated under OECD BEPS Action 13.
- For non-furnishing of the information and documents on the prescribed due date penalty of Rs.500,000 is prescribed.

Extension of limitation period for Transfer Pricing audits

- The time limit for TP assessment is proposed to be extended beyond the limitation period to allow the TPO at least 60 days for passing the TP order after excluding the period for which:
  - The assessment proceedings before the TPO are stayed by any court; or
  - The information is sought from any other country under the exchange of information provisions
- The provision is applicable from 1 June 2016.

Penalty for failure to report transactions covered under Chapter X

- In case of under-reporting of income as a consequence of failure to report internationaltransactions/deemed international transactions or specified domestic transactions, a penalty of 200% of amount of tax payable will be applicable.

Mergers & Acquisitions

Buyback of shares

- Currently, a 20% tax is levied on a company making distribution to its shareholders pursuant to buyback undertaken as per section 77A of the Companies Act, 1956. The tax is levied on the difference between the consideration paid for buyback less any amount received by the Company.

- It is proposed that the aforesaid tax should be levied on buyback being undertaken by a company in any manner not restricted to only section 77A of the Companies Act, 1956.
- It is also proposed that the method to determine the amount received by the Company would be prescribed separately. Consequently, any tax arbitrage opportunity by scaling up the cost through tax neutral reorganization will be avoided.

Other Amendments

- Additional income tax at maximum marginal rate levied when a charitableorganization is converted into a non-charitable organization or gets merged witha non-charitable organization or does not transfer the assets to another charitableorganization. This amendment will take effect from 1 June 2016.
- Benefit of Section 32AC proposed to be enlarged to situations when installation ofplant and machinery (exceeding Rs.25 crores) could not be completed within the samefinancial year when the machinery was acquired. In such cases, the benefit to bedeferred to the year in which such machinery has been installed.
- This amendment willtake effect retrospectively from 1 April 2016.
  Benefit of deduction in respect of provision for bad and doubtful debts extended toNBFCs.
- Scope of section 43B extended to include payments made to Railways for the use oftheir assets.
- Set off of losses shall not be permissible to an assessee against its undisclosed incomeunder specified sections.
- Benefit of Section 80JJAA extended to all sectors in respect of cost incurred on anyemployee whose totalemoluments are less than or equal to Rs.25,000 per month,subject to certain specified conditions. Failure to comply with statutory notices under section 142(1)/143(2)/142(2A) shallattract a penalty of Rs.10,000 for each of such default and failure.
- Before making an assessment under section 143(3), the return should be processedunder section 143(1). Scope of section 143(1) expanded to include adjustments on the basis of dataavailable with tax department in the form of audit report, past returns, 26AS andForm 16/16A, after providing opportunity to assessee.
- Presently advance tax payment schedule is different for company and non-companyassessees. It is proposed to provide one advance tax payment schedule for all assesseesother than an eligible assesse in respect of eligible business referred to in section44AD who shall be required to pay entire advance tax in one installment on or beforethe 15th March of the financial year. The amendment is effective from 1 June 2016.
- Interest on refund under section 244A rationalized to provide for interest undercertain new situations.
- Assessee is provided with an option to furnish bank guarantee for revocation of theprovisional attachment made under section 281B.

Startup’s

In order to promote start-ups and assist them in their initial years, following benefits areintroduced

- 100%tax holiday for 3 consecutive years for business set-up on or after 1 April 2016 andbefore 1 April 2019
- Anylong-term capital gains accruing to an individual or HUF on sale of residential propertyto be exempt provided the proceeds are utilised to subscribe to the shares of an eligiblestart-up as per the conditions provided in that section

- Aspecified fund to be created by Central Government to promote start-up ecosystem.Any person can claim an exemption of long term capital gains tax provided the proceeds(not exceeding `50 lakhs) are invested in the units of the Fund for at least3 years.

International Financial Services Centre (IFSC)

In order to promoted International Financial Services Centre, following benefits areintroduced:

- Exemptionfrom long term capital gains on transaction in foreign currency on recognizedstock exchange in IFSC even when Securities Transaction Tax (STT) is not paid.
- Applicabilityof concessional rate of MAT at 9% on units in IFSC deriving its income whollyin convertible foreign exchange.
- Exemptionon dividends distributed by units located in IFSC (deriving their income whollyin convertible foreign exchange) in the hands of company paying the dividend as well asshareholders Exemptionfrom STT and Commodities Transaction Tax (CTT) on transactions undertaken inforeign currency on recognized stock exchange/recognized association in IFSC (with effectfrom 1 June 2016)

Rationalization of Section 50C

- It is proposed that in case date of agreement fixing amount of consideration for transferof immovable property and date of registration are not same, it is proposed that thestamp duty value as on date of agreement to be full value of consideration for suchtransfer provided that consideration is paid by way of an account payee cheque/bankdraft/electronic clearing before the date of agreement.

Sovereign Gold Bonds and Rupee Denominated Bonds

- In order to provide parity in tax treatment between the physical gold and Bond, it is proposed to exempt redemption of the Bonds by an individual
- In case of Rupee Denominated Bonds (RDBs) where the currency risk is borne by the non-resident investor, it is proposed that any capital gains on appreciation of rupee between date of issue and date of redemption of RDBs will be exempt.

Conversion of company into LLP

- Additional condition introduced for claiming tax neutrality in case of conversion of a company into LLP i.e. value of total assets in the books of company in any of the three preceding years should not exceed Rs.500 lakhs. Clarification regarding ‘unlisted securities’ defined in Section 112
- Long-term capital gains arising on sale of unlisted securities, and shares of a company in which public are not substantially interested are proposed to be taxed at 10%.

Exemption from Dividend Distribution Tax (DDT) on dividends to Business trusts

- It is proposed to provide exemption from DDT in respect of distributions made to the Business trust by SPV in which the trust holds 100% of the share capital, subject to certain exceptions. Dividend shall continue to be exempt from tax in the hands of business trust and its investors.

Tax withholding on payments made by AIF to its investors

- Currently, tax is withheld at 10% on the payments made by Category-I and Category-II AIFs to its investors. It is proposed that for non-resident payee, tax should be withheld at the rate in force.

Securitisation trust and its investors

- As per the existing tax regime, the income distributed by securitization trust is subject to distribution tax and no tax is levied on distributed income in the hands of investor.
- New taxation regime introduced by extending the tax pass through status to certain specified SPVs.
- Further, income of trust to continue to be exempt and income received by Investor from the trust shall be taxable in the hands of investor in the same manner if the investor would have invested directly.

Indirect Tax Proposals

Customs

- Standard rate of BCD is maintained at 10%
- Deferred payment of customs duties based on proven track record for certain class of importers and exporters
- A new class of warehouse is introduced for enabling storage of goods to be specified,under physical control of the customs authorities
- Export duty has been reduced on Ores and Concentrates
- Rate of import duty reduced for cold chain storage, mineral oils and fuels, chemicals and petrochemicals, wood chips or particles for manufacture of paper, fibre, yarn and fabrics, certain electronics/hardware, disposable sterilized dialyzer, micro barrier of artificial kidney, engine for hybrid vehicles
- Rate of duty increased for plans, drawings and designs, e-readers and parts of e-readers, mobile charger/adapter, battery and wired headsets/speakers for manufacture of mobile phone, specified telecommunication equipment's, populated PCBs for manufacture of personal computers, PCBs for manufacture of mobile phone/tablet computer, aluminium products, specified machinery required for construction of roads
- Notifications relating to Advance Authorisation and Duty Free Import Authorization Schemes are amended retrospectively to provide exemption from safeguard duty
- The Rules governing import of goods at concessional rate of duty for manufacture of excisable goods simplified. Permission is replaced with self-declaration by the importer with effect from 1 April 2016
  New Baggage Rules introduced to simplify and rationalize multiple slabs of duty free allowance for various categories of passengers with effect from 1 April 2016
- Filing of Customs declaration required only for those passengers who carry dutiable or prohibited goods

Excise

- Standard rate of Excise duty is maintained at 12.5%
- The Rules governing procurement of goods at concessional rate of duty for manufacture of excisable goods simplified. Permission is replaced with self-declaration by the manufacturer/importer with effect from 1 April 2016
- Aluminum foils, smart watches and motor vehicle accessories liable to Central Excise Duty based on Retail Selling Price (RSP) and subject to specified abatement
- Excise duty increased from 9% to 9.5% on refined gold bards manufactured from gold dore bar, gold ore or concentrate. Also, excise duty exemption under existing area based exemption on refined gold withdrawn in respect of new units or substantial expansion of existing units. Similar changes carried out in respect of refined silver where rate increased from 8% to 8.5%
- Increase in Excise duty rates in respect of tobacco products, aerated beverages,branded readymade garments, disposable aluminum foil containers, jewellery,accessories of mobile phone with effect from1 March 2016
- In case of customized information technology software recorded on media that is not required to bear Retail Sale Price (RSP) under the Legal Metrology Act, 2009, Central Excise Duty or Additional Custom Duty will be required to be paid only on the value of the said media, along with freight and insurance, subject to fulfilment of specified conditions. Therefore, service tax will not be required to be paid on such value.

- Decrease in Excise duty rates in respect of refrigerated containers, fertilizers, footwear, specific parts for wind power blades, specified IT products, centrifugal pump, parts and engine for electric vehicles, ready mix concrete manufactured at site, parts for use by railways, with effect from 1 March 2016
- Excise duty exempted in respect of solar lamps, kits and tools for aircraft maintenance/ overhauling, parts for specified IT products, inputs, parts and components, subparts for manufacture of mobile phone accessories, specified disposable dialysis instruments with effect from 1 March 2016
  Centralized registration and other simplified Excise compliance procedures for jewellery manufacturers introduced with effect from 1 March 2016
- Number of Excise returns reduced from 27 to 13 with effect from 1 April 2016
- Provision for revision of Central Excise returns introduced with effect from 1 April 2016.
- E-filing of annual returns proposed
- Withdrawal of prosecution in cases involving duty of less than Rs.5 lakhs and pending for more than 15 years proposed
- Single registration for multiple premises of same manufacturer located in close proximity is permitted subject to conditions, with effect from 1 March 2016
- Chartered Engineer certificate to be submitted for claiming rebate of inputs used in goods exported

Cesses

- Clean Energy cess is renamed as Clean Environment Cess. Effective rate of cessincreased from Rs.200 per tonne to Rs.400 per tonne
- Rate of Oil Industries Development cess reduced on domestically produced crude oil From Rs.4500 per metric tonne to 20% ad valorem
- Infrastructure cess is being levied on motor vehicles as below:

Criteria	Rate Of Cess
Petrol/LPG/CNG driven motor vehicles of length not exceeding 4m and engine capacity not exceeding 1200cc	1%
Diesel driven motor vehicles of length not exceeding 4m and engine capacity not exceeding 1500cc	2.5%
Other higher engine capacity motor vehicles and SUVs and bigger sedans	4%

- CENVAT credit of the cess shall not be available and credit of no other duty can beutilized for payment of the cess

Service Tax

- Rates of service tax and Swachh Bharat Cess are maintained at 14% and 0.5% respectively
- KrishiKalyan Cess (KKC) at 0.5% of value of all taxable services to be levied from 1 June 2016

Changes effective from 1 March 2016

- Service tax exemption towards construction, erection, commissioning or installation of original works pertaining to monorail or metro, in respect of contracts entered into on or after 1 March 2016 has been withdrawn
- Time limit for filing application for refund of CENVAT Credit in case of export of services has been amended to be 1 year from the date of:
    - receipt of payment in convertible foreign exchange if the provision of service has been completed prior to receipt of such payment, or,
    - date of issue of invoice, if payment for the service has been received in advance prior to the date of issue of the invoice
- Service tax on the services of Information Technology Software on media bearing Retail Sale Price (RSP) is being exempted provided Central Excise Duty/Additional Customs Duty is paid on the same

Changes effective from 1 April 2016

- Service tax exemptions introduced for:
    - Life insurance business provided by way of annuity under the National Pension System regulated by Pension Fund Regulatory and Development Authority (PFRDA)
    - General insurance business provided under 'Niramaya' Health Insurance scheme launched by National Trust for the Welfare of Persons for specific disabilities in collaboration with private/public insurance companies
    - Services provided by:
- Employees' Provident Fund Organisation (EPFO) to employees
- Insurance Regulatory and Development Authority (IRDA) of India
- Regulatory services provided by Securities and Exchange Board of India (SEBI)
- Biotechnology incubators approved by Biotechnology Industry Research Assistance Council (BIRAC), to incubatees
- Training partners under DeenDayalUpadhyayGrameenKaushalyaYojana by way of skill/vocational training Assessing bodies empanelled centrally by Directorate General of Training, Ministry of Skill Development & Entrepreneurship
- National Center for Cold Chain Development by way of knowledge dissemination
- The rate of Service tax on single premium annuity (insurance) policies is being reduced from 3.5% to 1.4% of the premium subject to conditions

Service tax exemptions withdrawn on:

- Services provided by a senior advocate to an advocate or partnership firm of advocates providing legal service and by a person represented on an arbitral tribunal to an arbitral tribunal
- Any service provided by Government or Local Authority to business entities, service tax to be applicable on reverse charge basis
- Transportation of passengers by ropeway, cable car or aerial tramway
- Benefit of quarterly payment of service tax has been extended to 'One Person Company' and HUF
- Benefit of payment on receipt basis has been extended to 'One Person Company'
  Annual return in addition to half yearly return to be filed by service tax assesses above certain threshold, by 30 November of succeeding financial year
- Mutual fund agents/distributors to a mutual fund or asset management company are proposed to be taxed under normal charge from 1 April 2016 with a view to enable such agents \distributors to avail the exemption of Rs.10 lakhs per year

Service tax exemptions withdrawn on:

- Interest rate under service tax rationalized:

Criteria	Rate Of Cess
Assessee, whose value of taxable services in the preceding year/years covered by the notice is less than Rs.60 Lakhs	12%
Service tax collected but not deposited to the exchequer	24%
Other than the above	15%

Changes effective from 1 June 2016

- Service tax applicable on services by way of transportation of goods by a vessel from a place outside India

Retrospective amendments

- Effective 1 July 2012, refund of Service tax allowed on services used beyond the factory or any other place or premises of production or manufacture of the said goods for the export of the said goods
- Exemption from service tax provided to the following services, for service provided under a contract entered prior to 1 March 2015, which was withdrawn with effect from 1 April 2015 has been restored till 31 March 2020:
  - service provided to Government, local authority or Governmental Authority by way of construction, erection, etc. of specified civil structures
  - services by way of construction, erection, etc. of airport and port

- The services provided during 1 April 2015 to 29 February 2016 are also proposed to be exempted.

CENVAT Credit

- Definition of Capital Goods amended with effect from 1 April 2016 to include:
  - any equipment or appliances used in office located within a factory and
  - goods used outside the factory of the manufacturer of final products for pumping of water for captive use within the factory
- Definition of input has been amended to include:
  - all goods used for pumping of water for captive use within the factory and
  - all capital goods which have a value up to Rs.10,000 per piece
- CENVAT credit shall not be utilised for payment of infrastructure cess leviable with effect from 1 March 2016
- CENVAT credit shall be allowed to a manufacturer where jigs, fixtures, molds and dyes or tools are sent by such manufacturer to another manufacturer or job worker without bringing the said goods to his own premises
- Manufacturer shall be allowed to take credit on the inputs received under the coverof invoice issued by a warehouse of the said manufacturer with effect from1 April 2016
- Exempted service not to include services provided by way of transportation of goodsby a vessel from customs station of clearance in India to a place outside India
- Annual return to replace filing of information relating to principal inputs
- New methodology introduced to reduce the litigation with regard to apportionmentof credit between exempted and non-exempted goods and services
- Input service distributor can also distribute the CENVAT credit in respect of service taxpaid on the input services to its outsourced manufacturing units

Common changes under Customs Duty/Central Excise Duty/Service Tax

- Interest rates for delayed payment of customs duty are being rationalized at 15%
- Indirect Tax Dispute Resolution Scheme, 2016 is being introduced to provide theassessees an opportunity to settle the cases pending before Commissioner (Appeals),after payment of duty, interest and 25% of penalty
- Period of limitation for cases not involving fraud, collusion, misrepresentation of factsincreased as below:

Legislation	Time Period
Service Tax	From 18 months to 30 months
Central Excise Duty and Customs Duty	From 1 year to 2 years

Central Sales Tax (CST)

- An explanation has been added under section 3 of Central Sales Tax Act to providethat where the gas sold or purchased and transported through a common carrierpipeline or any other common transport distribution system becomes co-mingled andfungible with other gas in the pipeline or system and such gas is introduced into thepipeline or system in one State and is taken out from the pipeline in another State,such sale or purchase of gas will be deemed to be a movement of goods from oneState to another and hence, liable to CST.
- The amendment will come into effect from a date to be notified.

Goods and Services Tax (GST)

- Government to continue with the ongoing reform program and ensure passage ofGST Bill.

CRK & ASSOCIATES
CHARTERED ACCOUNTANTS

Hyderabad

Plot No 3A, Navodaya Colony, Road No 14,
Banjara Hills, Hyderabad-500034

Phone No : +91-40-23552305
Fax : +91-40-23552304
Email : info@crkandassociates.com

Bangalore

Flat No.414, Vibha Elite,Akash Nagar,
B. Narayanapura, PWD Main Road,
Bangalore 560016

Phone No : 09916777116
Fax : +91-40-23552304
Email : info@crkandassociates.com

www.crkandassociates.com