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On the growth path
Key budget proposals

Changes in ***tax rate***

- The Corporate tax rate has been reduced to 25% for companies with a turnover or gross receipt of up to INR 50 crore in FY 2015-16.
- The Personal tax rate has been reduced to 5% (from existing 10%) for income falling within the slab of INR 2.5-5 lakhs. Similar reduction will be applicable for senior citizens (60 years and above) for the slab of INR 3-5 lakhs.
- A surcharge of 10% has been introduced for a total income between INR 50 lakhs and INR 1 crore for individuals/HUF.

Business ***stimulus***

- It is proposed that the Foreign Investment Promotion Board would be phased out in FY 2017-18. Further, the Foreign Direct Investment Policy is to be liberalized (necessary announcements will be made in this regard in due course).
- The Negotiable Instruments Act is to be amended to enforce realisation of payments if cheques are dishonored.
- Indirect transfer provisions will not apply to specified Foreign Institutional Investors and Foreign Portfolio Investors.
- Conditions have been relaxed for claiming tax holiday by taxpayers for development and construction of housing projects.
- Benefit of reduced tax rate of 5% on interest on foreign borrowings extended from June 30, 2017 to June 30, 2020. The same has also been extented to Rupee Denominated Bonds (RDB).
- Capital gains on transfer of RDB from non-residents to non-residents will be exempt from tax.
- Withholding tax rate has been reduced from 10% to 2% in respect of payment made to domestic call centers.
- The period of holding of an immovable property to qualify as a long-term capital asset has been reduced to 24 months from 36 months.
- Relaxation for startups:
  - Dilution of stakes will not debar claim of carry forward and set-off of losses provided the initial shareholders continue to hold their shares and loss pertains to initial 7 years.
  - Outer limit for profit-linked deduction increased from 3 out of 5 to 3 out of 7 years.
- Specified banks can claim deduction for making provision for bad and doubtful debts at 8.5% (from 7.5% earlier) of the total income.
- Scope of specified domestic transfer pricing rules restricted only where one of the entities involved in a related party transactions enjoys specified profit-linked deductions.
- In order to incentivise domestic manufacturing, various amendments have been made to Customs Duty and Excise Duty rates (to address issues arising from an inverted duty structure etc.).
- Research and Development Cess Act 1986 has been repealed w.e.f. 1st April, 2017.
- Commitment to implement GST as per the schedule.

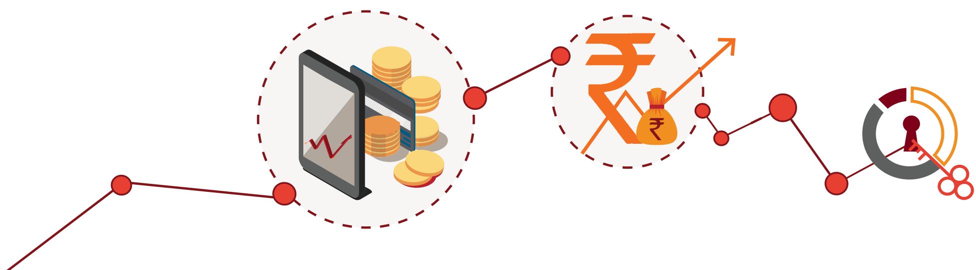
Rationalisation *measures*

- Set-off of losses under the head 'Income from House Property' (IFHP) against any other head of income will be restricted to INR 2 lakhs and the balance unabsorbed loss will be carried forward and set off against IFHP for the following eight years.
- No notional income for house property held as stock-in-trade up to 1 year from end of the financial year in which the completion certificate was obtained
- Partial withdrawal from NPS by any employee will be exempt up to 25% of the contribution payable that was fully taxable earlier.
- A framework for computing book profits for Ind-AS-compliant companies has been proposed.
  - First time adoption adjustments will be applicable from the year of adoption.
  - First-time transition amounts (excluding fair value adjustments made to fixed assets, investments, etc.) will be considered in book profit over a period of five consecutive years.
  - MAT will be liable to be paid on items of adjustment provided under "other comprehensive income" that will not be reclassified to the Statement of Profit and Loss. However, exclusion from applicability of MAT has been provided for adjustment of fair value made to fixed assets and investments, which will be liable to be taxed on actual transfer or realisation of gains.
- MAT /Alternate Minimum Tax (AMT) credit is to be allowed to be carried forward for 15 years, i.e. an additional 5 years.
- Eligibility of MAT or AMT credit have been reduced to the extent such credit relates to the difference between the amount of Foreign Tax Credit (FTC) allowed against the MAT or AMT and FTC allowable against normal tax provisions.

- FTC not granted earlier to an assessee on grounds of a pending dispute of payment is now to be allowed, subject to fulfillment of certain conditions.
- A beneficial rate of 10% on long-term capital gains on transfer of the shares of a private limited company by a non-resident is to be effective from April 1, 2013 instead of April 1, 2017.
- Provisions of the Income Declaration Scheme, 2016, which enables the tax department to assess or reassess undisclosed income of indefinite prior years has been omitted.
- The cost of acquisition of an asset acquired before April 1, 2001 may be considered at the fair market value as on April 1, 2001.
- Secondary adjustments are to be made in situations where primary adjustments exceeding INR 1 crore have been made in transfer price. Excess funds available with the associated enterprise, as a result of the primary adjustment, are to be treated as advance on which interest will be computed in the prescribed manner if it is not repatriated to India within the stipulated time.
- Interest, in excess of 30% of EBIDTA, not deductible in computing income chargeable under the head 'Profits and gains of business or profession', if borrowed from the associated enterprise or a third party (if the debt is implicitly or explicitly guaranteed by the AE). The provision will not apply where the interest does not exceed INR 1 crore. Interest to the extent considered not deductible under this provision for any year will be carried forward for up to eight future years, and be allowed as a deduction in these years up to the maximum allowable interest, as computed for those years.
- In case of merger/ amalgamation involving credit transfer, the application for such transfer is to be approved by the authorities within 3 months which can be extended further by 6 months.

Litigation-reduction ***measures***

- Terms defined in tax treaties are to be addressed by honouring the meaning given therein. Where terms are not defined in tax treaties, their meaning will be as per the IT Act or any explanation issued thereafter.
- Administrative reforms are to be introduced to improve the efficiency and efficacy of the Authority for Advance ruling (AAR). AAR is to be the combined forum for Income Tax, Central Excise Duty, Customs Duty and Service Tax.
- Tax holiday deductions to Special Economic Zone units will be restricted to the total income of the taxpayer (including all its units).
- Capital Gains Tax on joint development agreements will arise in the year in which the certificate of completion for a project is issued, subject to certain specified conditions. Tax will be deducted on the monetary consideration at the rate of 10%.
- Exemption for conversion of preference shares into equity shares codified.



Digital economy - *a new normal*

- Receipt of INR 3 lakhs or more in cash has been prohibited. Contravention would be liable to penalty equivalent to the amount received in cash.
- Any expenditure (revenue or capital) exceeding INR 10,000 incurred in cash will not be eligible for deduction or depreciation.
- Cash donations to charitable funds, institutions, etc. are restricted to INR 2,000 (from existing limit of INR 10,000).
- The rate of income will be reduced to 6% with respect to turnover received digitally (as against 8%) for small enterprises under presumptive taxation regime.
- Customs and Excise Duty rates have been reduced to Nil on various products such as micro-ATMs, fingerprint readers and scanners, iris scanners, miniature POS card readers, etc., including parts or components used in their manufacture.

Accountability and *governance*

- A simplified one-pager tax return form is to be introduced for individuals with taxable income (other than business income) of up to INR 5 lakhs.
- The time limit to file revised returns for FY 2017-18 onwards is reduced to one year from the end of financial year.
- Rationalisation of time limit for completion of assessment/ reassessment.
- Limitations on the power of tax officers to grant refunds when a tax return selected for assessment is removed for a tax return filed for AY 2017-18 onwards, except where it may adversely affect the interests of revenue.

Widening of ***tax base***

- Individual or HUF is to deduct tax at the rate of 5% on rent paid in excess of INR 50,000 per month in the last month of the previous year or tenancy, as the case may be.
- The TCS rate is to be increased to higher of 5% or twice the prescribed rate on failure to furnish PAN.
- A fee has been introduced for delay in filing return after due date instead of a penalty. The delayed fee will be INR 1,000, 5,000 or 10,000, depending on the nature of the default.
- A penalty of INR 10,000 will be levied on professionals for providing incorrect information in reports or certificates for each such default.
- Exemption on long-term capital gains on transfer of shares acquired on or after October 1, 2004 will now be available only if acquisition of the shares were subjected to Securities Transaction Tax (genuine cases to be notified and excluded).
- The provision for taxability of money or property (including shares) received without or inadequate consideration in excess of INR 50,000 has been extended to all taxpayers.
- For the purpose of capital gains tax, the Fair Market Value (FMV) of unquoted equity shares is to be considered where the FMV is higher than the actual consideration.
- Non-deduction of tax on residents payments is to attract disallowance when computing income from other sources.
- Income from transfer of carbon credits will be taxable at a concessional gross rate of 10% (plus applicable surcharge and cess).

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