Interim Budget 2014

The Union Finance Minister, P Chidambaram presented his interim budget for FY 2014-15 in the Lok Sabha today. As this was not a full fledged budget, it was widely expected that there would not be many major tax changes. The primary purpose of this budget was to 'vote-on-account' so that the government had funds to function while the country elected a new parliament.

Taxation

Direct Taxes

In line with expectations, the Direct Tax laws saw no changes. However, this too has implications. There are at least five provisions of the law which 'expire' on 31 March 2014. These are:

- Profit linked incentive for power sector undertakings commencing after 31 March 2014
- Concessional tax rate on dividend from foreign subsidiary [section 115BBD]
- Additional deduction upto INR 100 thousand for interest paid on loan for first residential property – loans sanctioned after this date do not get this deduction [section 80EE]
- Exception of income of National Financial Holding Companies Limited [section 10(49)]
- Provident funds recognised before 31 March 2006 which do not satisfy conditions specified in Rule 4(ea) of Schedule IV of the Income Tax Act, 1962 would stand withdrawn if these conditions remain unsatisfied

Benefits under all these provisions will lapse, if they are not renewed or extended by the newly elected Parliament.

Indirect Taxes

Excise Duty

Major changes include reduction in excise duty on cars and two wheelers, mobile handsets, consumer durables and capital goods. These reductions are clearly intended to give a demand fillip to these sectors. Automobile and capital goods sectors have in particular, faced rough weather in the past year, with many players experiencing de-growth in Indian markets. (All indirect tax changes take effect from 17 February 2014.

The rate of excise duty has been reduced on the following goods:

Description of Products	Existing Rate	New Rate
All goods falling under Chapter 84 and 85 (Capital goods and consumer non -durable goods)	12%	10%
Small Cars, two and three wheelers	12%	8%
SUVs	30%	24%
Large and mid-segment Cars	27%/24%	24%/20%

All categories of mobile handset would attract 6% and 1% excise duty with CENVAT and without CENVAT credit respectively; all imported mobile handsets shall attract 6% CVD

(Notification No. 4/2014-Central excise, dated 17 February, 2014)

Customs Duty

- Road construction machinery would henceforth attract CVD and SAD, as exemption has been withdrawn.
- Human embryo has been exempted from customs duty

(Notification No. 5/2014-Customs, dated 17 February, 2014)

Service Tax

Exemption from service tax has been granted to the following two services:

- Loading, unloading, packing, storage and warehousing of rice
- Services provided by Cord blood banks

Macro-economic overview

As the world economy as a whole shrank over the 3 years till FY 2012-13, the Indian economy continued to grow, but at slower rates, thanks to continuing global uncertainty. In FY 2012-13, the GDP grew by 4.5% and the estimate for FY 2013-14 is 4.9%, the increase representing a green shoot. Inflation remained worryingly high and sticky for much of the year, except the last few weeks preceding the budget.

The spectre of sovereign credit rating downgrade, however, has receded, thanks to the sharp brakes applied on the threateningly high fiscal deficit (though it rose in the first half perilously close to the 6% mark, the whole year's deficit was down to 4.6% of GDP, down from 4.9% in FY 2012-13) and current account deficit (down from $88Bn to $45Bn). The Centre had slapped import duties on gold bullion and jewellery, which sharply reduced private imports of gold. The sharp fall in the value of the rupee in August also made imports costlier; and boosted the rupee value of exports, especially of services.
Agricultural sector provided a surprise boost (growing at 4.6%), while manufacturing and service sector remained sluggish; the cut in excise duty for select sectors is clearly a measure to boost demand in major industry sectors. Price distortion due to subsidised LPG and diesel has been narrowed gradually.

Tax collections as percentage of GDP have been less than planned (estimates for FY 2013-14 lower at 10.2% than the expected 10.9%). Indirect taxes have grown more slowly than direct taxes. A 19% growth rate in tax collection is expected to boost the Tax-GDP ratio to 10.7% in FY 2014-15. Budgeted growth in indirect taxes is very ambitious.
The big uncertainty, however, is the shape of the political landscape resulting after the elections – and a great deal will turn on that. At this stage, it is nearly impossible to predict what the real Budget, to be presented in July by the new FM, will look like.

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