Union Budget 2014

Stepping on the Accelerator

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Introduction

Introduction

Backed by the strongest mandate in decades, the new Government unveiled its maiden budget, riding on high expectations that it will reverse the past two years of sub-five per cent growth rates, control inflation and create employment for millions of unemployed youths. Given that it has been in office for just forty five days, it was not expected to present everything that needs to be done.

The Budget has presented a broad road map of the economic policy of the new Government and outlined its plan for reviving the growth spirit of the Indian Economy. The targets for the present year are a growth rate of 5.4 to 5.9 per cent with the fiscal deficit being capped at 4.1 per cent. Maintaining prices at comfortable levels also demands prompt attention.

For the long term, the Finance Minister (FM) has placed emphasis on fiscal consolidation, creating infrastructure, increasing investments in manufacturing and agriculture and the social sectors. To achieve the goal of minimum government, maximum governance, the FM stressed the need for improved allocative and operational efficiencies of Government expenditure" to maximise output. He announced the setting up of an Expenditure Management Commission to recommend expenditure reform. The Government also intends to overhaul the entire subsidy regime, including on food, fertilizer and petroleum, to make it more targeted. The rural job-guarantee scheme, that provides for 100 days of paid employment each year, will be revised to focus on asset creation.

In the longer term of three to four years, the Government expects India to grow at 7 to 8 per cent and the FM assured that he will bring in effective policies to achieve this target. To start with, he raised the limit on FDI in defence and insurance sectors. Recognising the urgent need to develop pockets of urban prosperity, he earmarked INR 7,060 crore to create 100 smart cities that will complement the government's focus on developing industrial corridors, schemes for development of new airports in tier-1 and tier-2 cities, and the target of constructing of 8,500 km of national highways.

Along with growth and investment, the present government's focus is on employment creation for the youth. The FM announced a new scheme, Skill India, to increase the employability and entrepreneurial skills of the youth. The Budget underlined the high priority the Government places on health, elementary education and announced setting up of five new IITs and IIMs, as well as four AIIMs.

Acknowledging the vital importance of the agrarian sector, the government has set a target of sustainable growth of 4 per cent in agriculture. Also, to mitigate the risk of price volatility in agricultural produce, the FM announced Price stabilisation funds worth INR 500 crore. Spurring a tight fabric of social infrastructure the budget also proposes to inject INR 4,000 crore for affordable housing, INR 8,000 crore for rural housing scheme, and make subsidy programs more targeted towards the marginalised.

In order to promote funding for the infrastructure sector, the FM has proposed that Real Estate Investment Trusts (REITs) and a modified REITs structure, i.e. Infrastructure Investment Trusts (InvITs) be introduced and given tax pass through status to avoid double taxation. It is also proposed that the concessional withholding tax rate of 5 per cent on interest payments made on overseas borrowings be extended to all type of bonds, instead of only infrastructure bonds.

The FM has announced a number of tax measures to assuage investor sentiment which had suffered on account of retrospective tax measures and instability in policy and delay in decision making. Although the controversial retrospective amendment on indirect transfers has not been reversed, in order to allay the fears of the investor community, he has promised not to ordinarily introduce retroactive amendments in future, and for indirect transactions in future, set up a high level committee to look into cases before any action is initiated.

In his attempt to reduce tax litigation, he has proposed to allow residents to approach the Advance Rulings Authority, extend Advance Pricing with roll-back provisions, and enlarge the scope of the Settlement Commission. As an administrative reform process, he has ironed out a lot of creases in the existing law and also promised a consultative forum with industry and clarifications on issues to be issued by tax administrative bodies within two months. The FM, in his speech, strongly reaffirmed his commitment to the introduction of GST. However, no timeline for the roll-out of GST was announced.

Overall, the Finance Minister has attempted to cover the needs of the country in totality, within inherent limitations. It is a budget both with a head and a heart. It is inclusive, not just in terms of embracing the needs of the economically and socially marginalised sections of society, but also physically challenged people.

The world will be watching closely as the expectations set out are translated to action.

A detailed analysis of the Union Budget 2014-15 follows, with particular focus on proposals related to taxes.

We trust you will find this useful. As always, we look forward to your feedback.

Economic Performance 2013-14

Economic Performance 2013-14

Summary

The GDP growth is expected to be in the range of 5.4-5.9 per cent in 2014-15 overcoming sub-5 per cent growth in last two years. Despite expectation for a higher growth in 2014-15, the survey draws attention towards a possible poor monsoon and external factors such as the Iraq crisis, as a potential drag on the recovery.

Industry as well as services witnessed slowdown, but agriculture grew at better than average growth rate of 4% due to favourable monsoon. In the past financial year, industry witnessed a growth rate of 0.4% due to a contraction in mining activities and deceleration in manufacturing output. While, deceleration in investment has been a primary cause for the poor performance of these sectors in the past years, delays in regulatory approvals, land acquisition and rehabilitation, environmental clearances have adversely impacted the infrastructure development.

The Survey states that employment and growth are the "defining challenge" in India. "Jobs are created by firms when they invest and grow. The private corporate investment as a percentage of GDP has fallen from a high of 16% in 2011 to 11% in 2013. Reviving investment has therefore been identified as the top priority for the Government.

The Survey has suggested specific areas of focus to revive long-term investment and growth, the key drivers of employment generation and income enhancement.

Economic Performance

Data categories	Units	Financial year 2012-13	Financial year 2013-14
GDP (factor cost 2004-05)	INR	54,821.11 billion (first revised estimates)	57,417.91 billion (provisional estimates)
Growth rate	%	4.5	4.7
Savings rate	% of GDP	31.8 (planning commission)	30.5 (planning commission)
Investment rate	% of GDP	34.7 (planning commission)	31.4 (planning commission)
Index of Industrial Production (growth) (The IIP has been revised since 2005-06 on base (2004-05=100))	%	1.1	0.1
Average WPI inflation	% change	7.4	6.0
Inflation (CPI – IW) (average)	% change	10.4	9.7
Export growth (USD)	% change	-1.8	4.1
Import growth (USD)	% change	0.3	-8.3
Current account balance / GDP	%	-4.7	-1.7
Gross fiscal deficit (as % of GDP)	%	4.9	4.5

Perfomance of the three sectors – industry, agriculture and services	2012-13	2013-14
Manufacturing	1.1	-0.7
Electricity, gas and water supply	2.3	5.9
Mining and quarrying	-2.2	-1.4
Construction	1.1	1.6
Agriculture	1.4	4.7
Services sector	10.4	9.7
Trade, hotels and restaurants, transport and communications	5.1	3.0
Financing, insurance, real state and business services	10.9	12.9
Community, social and personal services	5.3	5.6

Breaking the trend of a weak growth rate

- A confluence of global uncertainties slowed the global economy. A weakness in the external economies was compounded by the structural problems in the domestic economy and price pressures to result in a sub-5% growth rate for two consecutive in the past two-and-a-half decade.
- Other emerging economies also suffered a similar slowdown, but in the case of India, the fall was steeper. The growth rates today are far below the almost double-digit growth rate of 9.3% in 2010-11 and 8.6% in 2009-10.
- However, the good news is that the Finance Minister projects the economy to break free from the phase of sub-5% growth rate in 2014-15.

Did prices play spoilsport?

- Stagflation has become a cause of concern as the slowdown in India has been accompanied by two years of unprecedented high consumer price inflation and volatility. Consumer price inflation has been trending at an elevated level of 9-10%.
- Wholesale price inflation (WPI) witnessed moderation as it declined to a four-year low of around 6% in 2013-14 from an average of 8.6% in the previous three years. Despite the moderation, WPI remains above the comfort zone.
- In the year 2013-14, food prices have been the main drivers of inflation. A key reason for food inflation has been the complete absence of any reform in the food markets, with Government interventions creating price distortions and inefficient utilization and allocation of resources. While the markets in services and goods have been substantially liberalised, with producers of goods and services having the freedom to sell anywhere in India or abroad, there isn't even a national market for food, with laws like the APMC constraining farmers to sell in the local mandi. These distortions have created inefficiencies in production, storage and distribution that have caused losses and artificial scarcity and price rise. WPI inflation in food articles averaged 12.2% annually in the five years ending 2013-14, which was significantly higher than non-food inflation.
- Tariff rationalisation for electricity in many states, greater pass-through in diesel prices and the weak currency, on the other hand, led to soaring fuel inflation.

Trade routes

- India's trade deficit fell by 27.8% from US $190.3 billion to US $ 137.5 billion. The sharp fall in trade deficit was largely due to a fall in imports of gold (a positive, due to a sharp increase in import duty) and capitals goods (a big negative that has impacted investment and growth) as non-oil import deficit fell sharply to US $ 35 billion from US $87.2 billion during the previous FY.
- Imports registered a negative growth of 8.3% in 2013-14.
- Exports registered a moderate growth rate of 4.1% to US $312.6 billion during the same period. Many labour-intensive export sectors like textile, leather, handicrafts and carpets improved. Export in sectors like textile and leather grew by more than 10%.
- The services sector including travel, transportation and insurance improved marginally with a 4% growth rate.

Balance of Payment improves dramatically

- In the last three quarters, India's Balance of Payments (BoP) position improved significantly in 2013-14. Current account deficit (CAD) declined sharply from a record high of US$ 88.2 billion (4.7% of GDP) in 2012-13 to US$ 32.4 billion (1.7% of GDP) in 2013-14.
- Capital flows (net) moderated sharply from US$ 65.3 billion in 2011-12 and US$ 92.0 billion in 2012-13 to US$ 47.9 billion in 2013-14. The moderation in levels essentially reflects a sharp slowdown in portfolio investment and net outflow in 'short-term credit' and 'other capital'.
- The net capital outflow for 2013-14 was US $ 47.9 billion as against US $ 92 billion in the previous year. The net FDI was US$ 21.6 billion, portfolio investments US$ 4.8 billion, ECBs US$ 11.8 billion, and NRI deposits US$ 38.9 billion.
- Foreign exchange reserves in nominal terms increased only by US $ 12.2 billion despite a reserve accretion of US $ 15.5 billion on BOP basis.
- The volatility in the rupee is evident from the fact that the average annual exchange rate went up from INR 54.41 per US dollar to INR 60.50 per US dollar in 2013-14. Indian Rupee witnessed significant depreciation in 2013-14 and average exchange rate of the rupee reached a peak in September 2013 at INR 63.75 per US dollar.

The fiscal situation

- Continued fiscal consolidation brought down fiscal deficit to 4.5% of GDP in 2013-14 as compared to the budgeted target of 4.8% of GDP.
- The path to fiscal prudence was possible mainly because of reduction in expenditure from the budgeted levels, while there were shortfalls in tax revenues and disinvestment receipts, high subsidy bills, and continued pressure from interest and pension payments.
- Investment rate falls below 35%
- In 2012-13, investment rate fell to 34.8%, which is lower than the average growth of 35.4% between 2004-05 and 2012-13. Private investment fell below the 10% mark in 2012-13 while household sector witnessed a positive growth and moved to 14.8%.
- Public investments fell to match the 2004-05 to 2007-08 levels at 8.1%. The rate of gross fixed investment, which accounts for bulk of total investment, fell by 2.1% in 2013-14 as compared to previous year as per the provisional estimates of CSO for the year 2013-14.
- Gross fixed capital formation of the private corporate sector at constant prices has declined sharply from a growth of 17.94% in 2006-07 to a decline of 3.2% in 2012-13 flagging the urgent need to revive investments.

Infrastructure

- The major casualty of policy paralysis, domestic structural distortions and the external environment has been investments in infrastructure. Many large projects (valued at over Rs.8 lakh crores in 2013-14) have stalled because of delays in getting environment and forest clearances, or problems in land acquisition and obtaining raw materials. This has had adverse impact at both the micro and macro levels. Overleveraged firms have gone into financial distress and have been unable to service or refinance their loans. At a macro level, this has increased the percentage of NPAs of particularly the public sector banks.

Magic bullets for reviving the economy

- The Survey has outlined three key areas that need attention in the economy to restore investment and long-term growth.
- The Survey underscores the importance of improving India's long-term growth prospects that also have immediate short-term impacts. Towards this end, it has identified three key areas in which the Government needs to focus.
  - The first is creating a framework for low and stable inflation, through putting in place a monetary policy framework, fiscal consolidation, and food market reforms that would create a national and competitive market for food products.
  - The second focus area is to create sustainability of public finances. Among the key recommendations towards this end are a new Fiscal Responsibility and Budget Management Act "with teeth" and improvements in accounting and budget management. Two key drivers of better fiscal management are tax and expenditure reforms. The Survey has rightly stated that the tax regime needs to be simple, stable and predictable. Putting in place a GST – a Central GST in the initial phase, till the states come around, a simple Direct Tax Code, and overhaul of tax administration are the agenda for tax reforms. "Bad taxes" like surcharges, cesses, transaction taxes, DDT need to go The Survey has identified three key drivers of public expenditure reform: directing subsidies to income support instead of interventions that create price distortions, focusing Government expenditure on the provision of public goods and creating accountability by focusing on outcomes.
  - The third and equally important area of reform is putting in place a legal and regulatory regime that is in sync with, and relevant for a market economy. The guiding principle should be permitted unless prohibited as against the reverse that characterize a centralised command economy.

While most of these are medium to long term measures, the Survey points out that even announcing a commitment to undertake them would send a positive signal and have immediate and beneficial short term repercussions.

Downside risks to future growth

The survey predicts the growth rate to range between 5.4-5.9% in 2014-15, but also realistically expects it to remain more on the lower side of the range because of the following reasons:

- The process of restarting the investment cycle by project clearances and incentivizing industry are perceived to be playing out only gradually
- The growth outlook in some Asian economies, particularly China, is still benign
- Below-normal monsoons
- Prolonged geo-political tensions

Sector Focus

The survey has identified key action points to tackle challenges faced by various sectors in India:

Services

- In order to revive growth, there is need for establishing a nodal agency to identify and reform regulations
- Divest certain services sector PSUs to boost revenue and growth
- Extend collateral free soft loan facilities to credit worthy services firms.
- Identify areas for FDI including in railways as a means to bring in world class rail infrastructure.

Financial services

- Indian financial markets suffer from lack of adequate liquidity.
- Developing Bond Currency Derivative (BCD) nexus to equity market levels a priority.
- Infrastructure financing requires a capable bond market.
- Based on the recommendations of the Financial Sector Legislative Reforms Commission's (FSLRC) recommendations, the survey has suggested Draft Indian Financial Code (IFC) – which proposes to replace most financial sector laws in India.

Sustainable development and climate change

- Echoing the concerns of developing nations, the survey reiterates that India's developmental concerns and requirements should be considered while addressing integration of Sustainable Development Goals (SDGs) with Millennium Development Goals (MDGs).
- Need for institutionalisation of monitoring, accounting and transparancy of climate finance under the UNFCCC. In this regard, efforts are underway in the standing committee on Finance.

Agriculture

Some of the structural constraints confronting the agricultural sector – marketing, storage, infrastructure, inter-state movements, etc. need to be addressed. Since agriculture provides linkage to agro-based industries and services, the sector needs to be viewed holistically as a seam-less farm-to-fork value chain.

- For establishing a national common market, legislative reforms required – examining of APMC Act, EC Act, Land Tenancy Act and such legal framework whose provisions are restrictive and create trade barriers.
- Pursue alternate marketing initiatives – direct marketing and contract farming
- Examine agri-related taxes under GST
- Create trade policy based on tariff interventions
- Private sector should be encouraged to invest in agriculture
- Promote competition in agri-processing sector

Industrial Performance

- Industrial performance has registered flat to negative growth due to both supply and demand side constrains
- There has been a significant contraction in mining activities and similar deceleration has been witnessed in manufacturing output
- The capital goods segment has been hit by the steady deceleration in the fixed investments in the past three years
- Reviving business sentiments, removing infrastructural bottlenecks and facilitating growth of small business are some of the challenges in improving the industrial performance
- There is a need to promote structural changes in the manufacturing sector
- As the overall macroeconomic environment improves, the industry is expected to revive over the next two years
- Focus on reviving investments

Human development

- Various social sector programs for poverty alleviation and employment generation like Mahatma Gandhi NREGA, National Rural Livelihoods Mission (NRLM) and Swarna Jayanti Shahari Rozgar Yojana are being run to promote the social and financial inclusion in the country
- India faces the challenge of tapping the demographic dividend in a time bound manner
- The problem of delivery mechanism for various welfare programs is a key challenge for India
- There is a need for revamping/ reorganizing some of the welfare schemes being run by the government.

Key policy announcements

Key policy announcements

With the objective of taking steps to achieve higher macro-economic growth, lower inflation, sustainable balance of payment position and a judicious policy framework, a roadmap towards key policy initiatives announced by the Finance Minister are as follows:

Financial services and capital markets

- The composite cap in the Insurance sector is to be increased to 49% from 26% for companies with Indian management and control, subject to approval by the FIPB
- The impending Insurance Amendment Law Bill is to be considered in the Parliament
- The RBI will create a framework for licensing small banks and other differentiated banks
- Six new debt recovery tribunals are to be set up for the revival of stressed assets of public sector banks
- Banks are to be encouraged to extend long term loans to the infrastructure sector with flexible structuring
- Banks are to be permitted to raise long term funds for lending to the infrastructure sector with minimum regulatory pre-emption such as CRR, SLR and priority sector lending
- The capital of banks is to be raised by increasing shareholding of citizens in a phased manner
- The regulatory gap to check unfair practices under Price Chits and Money Circulation Scheme (Banning) Act, 1978, to be bridged
- The Government, following consultations with stakeholders, will implement the suggestions of Financial Sector Legislative Reforms Commission, such as the enactment of the Indian Financial Code, and simultaneously work with the RBI to develop a Modern Monetary Policy Framework. To achieve this objective, the Government has proposed the following measures:
  - Develop a robust liquid corporate bond market and currency derivatives market
  - Liberalize the ADR/GDR regime to allow the issuance of depository receipts on all permissible securities
  - Allow international settlement of Indian debt securities.
  - Overhaul of the Indian Depository Receipt framework and introduction of Bharat Depository Receipt
- Introduction of uniform KYC norms and inter usability of KYC records across entire financial sector
- Introduction of single operating demat account for accessing and transacting all financial assets

Real estate and infrastructure

- FDI policy requirements regarding built up area and minimum capital norms to be reduced from 50,000 square meters to 20,000 square meters and USD 10 million to USD 5 million respectively, with a three year post completion lock-in.
- Projects with minimum 30% of its total project cost for low-cost affordable housing to be exempt from built-up area and minimum capital under FDI policy, however, the three year lock-in shall apply.
- A sum of Rs 4,000 crores for the National Housing Bank has been set aside to provide cheaper credit facility under the affordable housing scheme for the urban poor/EWS/LIG segment.
- A sum of Rs 7,060 crores has been allocated for developing 100 Smart Cities
- To overcome the weakness of PPP model, an institution to provide support for the streamlining of PPPs called 3P India to be set up
- Development of sixteen new port projects, policy for encouraging Indian-controlled tonnage and a comprehensive policy to promote the Indian shipbuilding industry are being considered
- Scheme for the development of new Airports in Tier-I & Tier-II cities to be launched either through Airport Authority of India or under the PPP model
- Work on select expressways and development of Industrial corridor will be initiated
- National Industrial Corridor Authority will be set up to coordinate the development of the Industrial Corridors with smart cities
- Development of industrial corridors with an emphasis on Smart Cities linked to transport connectivity to spur growth in manufacturing and urbanization
- Master planning of three new smart cities in the Chennai Bengaluru Industrial corridor region to be completed
- Perspective plan for Bengaluru Mumbai Economic corridor and Vizag Chennai corridor to be completed with provision for building 20 new Industrial Clusters

- Better infrastructure and effective use of unutilized land to be undertaken to promote SEZs
- Slum development to be included in the list of eligible CSR activities
- 15000 km of gas pipelines to be developed using the PPP mode

Manufacturing and industry

- A company with FDI engaged in manufacturing activity would be allowed to sell its products on a B2C basis, including through e-commerce platforms, under the automatic route, ie. without any additional approval
- The composite cap on foreign investment in Defence manufacturing to be raised to 49% with Indian management and control subject to an approval from FIPB
- Technology Development Fund to be constituted to support and enhance the research & development of Defence systems
- Definition of MSME to be reviewed to provide for higher capital investment ceilings in plant & machinery
- Joint committee of the MoF, Ministry of MSME and RBI to suggest the financial architecture of MSME sector
- Rs 10,000 crore fund to be established to provide start up capital and risk capital for start up companies
- Amendments to the MMDR Act, 1957 to be introduced to encourage investments in mining sector and promote sustainable mining practises
- Comprehensive measures to increase coal production are to be introduced. An exercise is also being undertaken to rationalise coal linkages to optimise the transportation of coal and reduce the cost of power
- The Government is to strengthen research centres in areas such as nanotechnology, materials science and biomedical devices technology through Public Private Partnerships

Agriculture and food security

- Central Government to work with State Governments to revamp their respective APMC Acts and to provide for the establishment of private markets
- A dedicated television channel, i.e. Kisan TV, is to be launched to provide information to farmers regarding new farming techniques, water conservation, organic farming, etc.
- Food sector reforms through the restructuring of FCI, reducing transportation & distribution losses and efficacy of public distribution system and creating scientific warehousing infrastructure

Governance and Compliance

- The Government will constitute an expenditure Management Commission to review the various aspects of expenditure reforms to be undertaken by the Government
- Central Government Departments and Ministries to integrate their services with e-Biz, a single window IT platform for services by 31 December 2014
- New Indian Accounting Standards to be adopted by Indian Companies from FY 2015-16 on a voluntary basis and mandatorily from FY 2016-17

Expertspeak

PwC Practice Leaders' Comments

"It is a pragmatic, well-balanced Budget that does bring in a sense of positivity about the country's overall well-being. Sectors like manufacturing, agriculture, education, healthcare should get the required thrust. Enabling the framework for REIT/ InvITs, including clarity on taxation, would enable flow of investment in real estate and Infrastructure sectors. There will be a major boost to investor sentiment.

It seems the government seeks accountability on all fronts as it sets out time-bound goals for itself. This is much needed in a country like India.

It is a Budget both with a head and heart. It is inclusive not just in terms of embracing the needs of not just economically and socially marginalised sections of society, but also physically challenged people.

Overall, the Finance Minister has attempted to cover the needs of the country in totality within inherent limitations. The world would be watching closely as the expectations set out will be translated to action."

Deepak Kapoor, Chairman, PwC India

"The fiscal and revenue target are well within the range, given the tight situation, and has encouraged manufacturing and infrastructure sector both, by providing fiscal incentives and by allocating resources for improvement in infrastructure and it's financing."

Shyamal Mukherjee, Leader, Tax, PwC India

"There was a widespread expectation regarding neutralisation of the retrospective amendment regarding indirect transfers. However, that has not happened, but at least there has been a clear acknowledgment now that retrospective taxation in future will not be resorted to. Insofar as past pending litigation on these aspects is concerned, the existing matters in litigation will presumably continue, including the one(s) under arbitration. What has been now announced is that if new cases come up, they will be referred to a high level committee; the composition of the committee and the framework for decision making is unclear at this stage. It seems that there have been constraints in neutralisation of the amendment, but some middle path will be evolved."

Ketan Dalal, Senior Tax Partner, PwC India

"The Government seems to be committed to strengthen investor confidence in the economy. The announcement that the government will not introduce any retrospective amendment and will be setting up a mechanism to issue clarification on grey areas will certainly go a long way to bring clarity and certainty on such issues and reduce tax litigation. Setting up a high level committee to review cases arising on account of indirect transfers would balance considerations to protect the interests of the Revenue and those of Investors if the guidelines are embedded in law providing the basis on which such transaction need to be examined. But we need to wait and watch the fate of pending cases . Further, extending Advance Ruling route for resident taxpayers is another welcome route and will surely reduce tax disputes. Transfer Pricing related proposals are a welcome step."

Rahul Garg, Leader, Direct Tax, PwC India

"The Budget proposals for the domestic Asset Management industry represent a mixed bag. The changes to the period of holding for units in debt funds and the increase in long-term capital gains tax rate may dampen the flow into such schemes. Further, the outflow towards tax on dividends distribution by mutual funds is set to increase, given the manner in which the same needs to be computed now.

However, amidst the above changes, the industry may now have the ability to manage offshore Funds from India in certain situations given the changes proposed to taxation of offshore Funds. This may be the single most positive factor for the industry that seeks to change the status quo in the sector."

Gautam Mehra, Leader – Asset Management, PwC India

"The Union Budget has taken a major step towards certainty in tax legislation by extending Advance Ruling to resident assessees and by providing a forum to address the issues faced by industry. The FM has promised action during the year to resolve various issues for the advent of GST. The Budget has also taken steps to address inverted duty structure for specified sectors, rationalization of duty rates, review of negative list and exemptions for services. Overall, the Budget reiterates the Government's commitment for tax reforms and clarity in tax legislation."

Dharmesh Panchal, Executive Director, Indirect Tax, PwC India

"Liberalisation of conditions for claiming investment allowance in new plant and machinery is as per our expectations. Extending reduced taxation rate on foreign dividends should encourage foreign inflows. However, disallowance of CSR expenditure as not being expenditure incurred for business purpose, is not a welcome move. Investments announced for infrastructure projects such as ports, roadways, creation of smart cities should act as a demand driver for capital goods and building material sector. Government's intention of undertaking steps to revive investor interest in SEZs and facilitating introduction of GST, is reassuring."

Bimal Tanna - Leader, Industrial Products, PwC India

"We had missed the earlier deadline of April 2011 and therefore the announcement of adoption of Indian Accounting Standards by 2015 is a positive news and way forward. I am yet to read the fine print but hope that the earlier hurdles such as impact on taxation and fair value have been sorted out . Also the road map will take care of enough time being given to SMEs for preparation."

Harinderjit Singh, Partner, Price Waterhouse

"Basic tax exemption limit for individuals and senior citizens raised by Rs 50,000, resulting in tax saving of Rs.5,150/- for all taxpayers. Enhancement of 80C limit to 1.5 lacs will help the taxpayers to save more taxes. Individuals earning up to Rs.400,000 and making investment of Rs.1.5 lacs under section 80C will go out of the tax net. Enhancing the PPF limit from Rs.1 lac to Rs.1.5 lacs to help the individuals to save more in tax-free income investments."

Kuldip Kumar, Executive Director - Tax & Regulatory, PwC India

"Modi government has just served a healthy "Chai" to all the SMEs & start-ups. An investment allowance of 15% for SMEs investing more than INR 25 Cr in plant & machinery will be a booster as against the earlier investment threshold of INR 100 Cr to claim the said allowance. A Rs.10,000 crore corpus fund and simplified bankruptcy rules may improve the risk-taking capabilities along with providing an easy exit opportunity. All in all, the initiatives coupled with sector-specific indirect tax benefits are sure to encourage the entrepreneurs."

Alok Saraf, Executive Director - Private and Entrepreneurial Practice, PwC India

Agriculture and Natural Resources

"The Budget has touched upon some critical areas such as agri-infrastructure, capacity development, farm lending, etc. which are essential for agricultural development.

Allocation for warehousing capacity development are in the right direction; however, there is a long way to go for meeting the infrastructure gap in agricultural sector.

Tax exemption on cotton ginning mills will be helpful for the Indian cotton industry."

Ajay Kakra, Associate Director -Agri & Natural Resources, PwC India

Aerospace and Defence

"Finance Minister Arun Jailtley today opted for a restrained approach to limit Foreign Direct Investment in defence manufacturing to 49% without control, from the existing cap of 26%. Ultimately, this does not make any material change and may not be enough incentive for foreign firms to bring in investments and proprietary technology. However, on a more positive note, allowing investment by FIIs is a pragmatic step which will remove uncertainty and provide added flexibility and opportunities for raising finances to listed Indian companies. Increasing the defence capital budget by INR 5,000 Crores is encouraging considering the number of contracts which are pending with the Ministry of Defence"

Dhiraj Mathur, Leader – Aerospace & Defence, PwC India

Banking & Capital Markets

"Banking-related actions have dominated policy discussion in the last few years. The low levels of allocations in the current Budget indicates the desire to now move the agenda. To that extent, directionally, it is change for the better. Raising capital from domestic markets, however, sceptically viewed from the liquidity or opportunity perspective, actually sets the right tone. There will be better price discovery and better run banks will be able to command better valuations. If some banks still do not get their act together and flounder, they will pave the way for consolidation rather than being sustained on indirect public funding.

Also, I feel the commentary exceeding the agriculture lending target of Rs 8 lakh crore, in the absence of any changes on the policy front like definition of what constitutes agri-lending, improvement in agriculture market conditions and forward linked businesses is ambitious at best and wishful at worst."

Shinjini Kmar, Leader – Banking & Capital Markets , PwC India

Education

There are number of positives as far as the Education sector is concerned -

First, clearly stating that elementary education is a major priority of the Government. This is a public good and therefore a primary responsibility of the Government. Launch of New Teacher Training Programme with an initial sum of 500 Core allocation is also important for addressing the issue of teacher training and quality. There is focus on the education of the girl child: the FM has announced a new 'Beti bachao, beti padhao yojana' and has also made provision for providing drinking water and toilets in all girls' schools.

The launch of the new Skill India programme is welcome, subject to its ability to achieve convergence of the plethora of programmes being run by multiple departments/ ministries

IT can provide vital support in delivering education and hence the new programme that leverages IT in setting up virtual classrooms, as Communication Linked Interface for Cultivating Knowledge (CLICK) and online courses is also an important decision that would improve the quality of education that is being imparted in schools.

Setting up of five IITs and IIMs is a welcome step. However, there is no mention of involving private sector participation in providing higher education. This is a departure from the recommendations made in the Economic Survey that Government spending must focus on providing public goods - higher education does not fall under that category.

Dhiraj Mathur, Sector Leader – Education, PwC India

Energy, Utilities, Mining

- The proposals for the power sector presage a positive direction, to enhance energy security through renewable energy sources with both, large scale projects and distributed projects, and transmission lines connecting green energy corridors to load centers.
- The proposals for feeder segregation and distributed solar generation will improve availability and quality of power supply in rural areas. The resources required for this, however, are far larger than budgeted, and this initial allocation should be used to attract domestic and multilateral funds.
- The proposal to channel coal supply to projects commissioned by financial year end is a positive step given limitations in increasing coal output in the short-term. This should help existing generating thermal projects improve viability and add to power supply. Further, extension of the ten-year tax holiday to 2017 should encourage new investments especially private sector, across all segments of generation, transmission, and distribution. These two measures are very positive in improving short term and long term outlook of the power sector.

Kameswara Rao, Sector Leader – Energy, Utilities and Mining, PwC India

Entertainment & Media

We welcome the announcements made in the Union Budget 2014 in the E&M sector especially those relating to budgetary allocations for the sports sector and the National Centre for Excellence for animation, gaming and visual effects.

You would agree with me that the Sports sector in India is much in need of transformation. Budgetary allocations towards upgrading sports infrastructure, training, nurturing best talent and setting up a sports university are in the right direction though the funds allocated are significantly less than what are needed. However, we welcome the recognition from the Government that this sector requires significant investment.

We also welcome the FM's comments on promoting FDI and expect that it will translate into 100% FDI being allowed in sectors of media industry such as television broadcasting, cable and DTH, the proposal for which is already pending with the Government. Expediting the FDI increase will help provide the much-needed stimuli to the 3rd and 4th phases of digitisation. We also believe the reductions in customs duty on LCD and LEC of sub-19 panels will also indirectly provide fillip to the national digitisation agenda.

Budgetary allocations for promoting community radio are also welcome, though the sector policies needs re-visiting to ensure the viability of these stations on a long-term basis.

While some sections of the industry are not happy with the online and mobile advertising being included under the service tax, we believe that the philosophy of pruning the negative list in order to promote GST in the industry, is in the right direction and thus inclusion of such services in the taxation is a small price to pay in the short-term.

Announcement of launch of Kisan TV and Aruna Prabha TV are also welcome in the context of their respective situations but hope these channels are commercially viable and do not add further burden to Public Service Broadcaster, Prasar Bharati, which is already under severe financial pressure.

Smita Jha, Leader- Entertainment and Media, PwC India

Healthcare

“This Budget provisions to enhance both financial and physical access to healthcare for the country. Through broadband in rural areas, telemedicine will increase the accessibility of qualified doctors and specialists into rural areas and increased FDI in health insurance to 49% will help increase financial accessibility of population.

Opening up of 4 additional AIIMS and 12 government medical colleges will ensure improvement in quality of medical education and a step towards covering the shortage of 1 million doctors in India. It will also enhance access to tertiary care for patients who need to travel from far-flung areas to reach AIIMS in Delhi.

10% of India's population is over the age of 60. However, both geriatric facilities and expertise are lacking. The National Institutes on Aging could help develop this expertise.

Given the paucity of medical research in in India, bio-clusters could help the country on the path of new drug discovery.”

Dr. Rana Mehta, Leader- Healthcare, PwC India

Insurance

"Increase of FDI from 26- 49% is a positive development and will bring in much required relief and sense of direction for the industry. Over the last few years, capital shortage has plagued the sector along with low degree of new player interest, which should see a reversal now. We can expect greater interest in India from players across life, general and health insurance, plus some more brokers from overseas markets. Overall, this is another stepping stone towards growth for the insurance sector"

Anuraag Sunder, Insurance Expert, PwC India

Pharma and Life Sciences

"Some good initiatives were announced in the Budget across capacity and infrastructure building. The main one is hike in Insurance investment limit to 49 percent. This will help both the patients and the Pharma industry. Free drugs and free diagnostics for all, sounds potentially promising for patients. We will have to see more details on this."

Sujay Shetty, Leader - Pharma and Life Sciences, PwC India

Public Sector and Governance

"It is good to see prioritisation of issues to be tackled by the government. Improvements in service quality vis-à-vis service standards in urban areas make strong politico-economic sense. Urban areas with better services will attract more economic activity and better water and waste management services will contribute to the political capital."

Ranen Banerjee, Executive Director- Public Sector and Governance Practice, PwC India

REIT/InvIT

An enabling tax pass through structure for REITs/InvITs formed as business trusts (BTs) have been proposed to encourage investors, having stabilised yield expectation, to invest in REITs/InvITs . While a pass through structure to facilitate one layer taxation is a welcome change, no relief has been granted on the DDT leviable on SPVs (holding real estate assets) distributing dividends to REIT/InvIT - this could potentially be a big dent in the BT economics, since SPVs are unlikely to be levered substantially and would therefore need to distribute dividends rather than pay interest.

Real estate and Infra developers would be encouraged to sponsor BTs, since the transfer of the SPV shares to BT in consideration of the BT units would be deferred till they eventually sell the BT units.

Anish Sanghvi, Associate Director, PwC India

"Smart Cities"

"With the urban migration trend, the only way for us to sustain as a society is to invest in new cities. These new cities need to focus on leveraging technology to improve service delivery, quality of life and at the same time optimise the usage of resources. Although actual creation of 100 new cities will require large financial outlays, the current Budget allocation is a step in the right direction.

This announcement will definitely excite stakeholders, including urban planners, city administrators and industry, to come together and create sustainable models for new cities. It is essential to focus on the right governance and regulatory frameworks to ensure speedy execution and benefits realisation. Since smart city concept, on the whole, is a nascent development, it will be prudent for the stakeholders to take insights from the planners of the few smart city initiatives like GIFT, DMIC and Naya Raipur. Conceptualising and developing new cities is a time-taking process and therefore this announcement will give the required thrust to fast-track the planning of new cities.

It has been witnessed during the recent past that technology companies have become wary of Government contracts, which has led to their reduced participation.

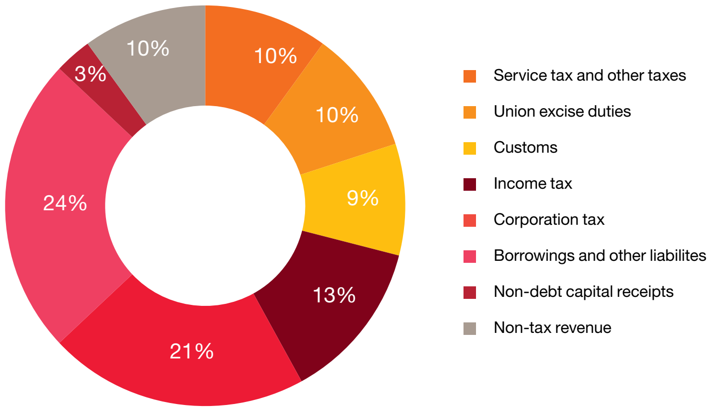
To reinforce the level of confidence in the investor community, it is pertinent for Government to work out measures which help in "ease of doing business" with the Government."

Neel Ratan, Executive Director, Government and Public Sector, PwC India

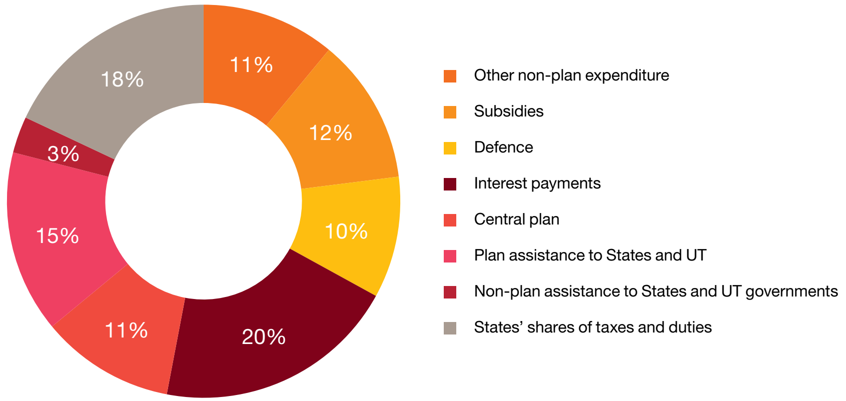
Budget financials

Budget financials

Where the Rupee comes from



Where the Rupee goes to



Billion INR	FY 2012-13	FY 2013-14	FY 2013-14	FY 2014-15
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
Revenue Receipts	87923.2	105633.1	102925.2	118976.3
Capital Receipts	53114	60896.7	56118.2	60512.9
Total Receipts (1 + 2)	141037.2	166528.8	159043.4	179489.2
Non Plan Expenditure	99674.7	110997.5	111490.2	121989.2
Plan Expenditure	41362.5	55532.2	47553.2	57500
Total Expenditure (4 + 5)	141037.2	166529.7	159043.4	179489.2
Revenue Expenditure	124351.4	143616.9	139954	156811.1
Capital Expenditure	16685.8	22912.9	19089.4	22678.1
Revenue Deficit (7 - 1)	36428.2	37983.8	37028.8	37834.8
As a percentage of GDP	3.60%	3.30%	3.30%	2.90%
Fiscal Deficit [6 - (1+Recoveries of Loans + Other Receipts)]	49019	54249.9	52453.9	53117.7
As a percentage of GDP	4.80%	4.80%	4.60%	4.10%
Primary Deficit (10 - Interest Payments)	17702	17181.4	14447.3	10416.6
As a % of GDP	1.80%	1.50%	1.30%	0.80%

Direct Tax Proposals

Direct tax proposals

The proposed amendments are effective from FY 2014-15, unless specified otherwise.

Tax rates

Income Tax Rates

Corporate tax rates remain unchanged at 30% (plus applicable surcharge and education cess) for domestic companies / LLPs and 40% (plus applicable surcharge and education cess) for foreign companies.

Domestic Company / LLP		
Particulars	Taxable income > 10 Million INR, but < 100 Million INR	Taxable Income > 100 Million INR
Corporate tax	30.00%	30.00%
Surcharge	5.00%	10.00%
Corporate tax + Surcharge	31.50%	33.00%
Education Cess thereon	3.00%	3.00%
Effective tax rate	32.445%	33.99%

Foreign Company		
Particulars	Taxable income > 10 Million INR, but < 100 Million INR	Taxable Income > 100 Million INR
Corporate tax	40.00%	40.00%
Surcharge	2.00%	5.00%
Corporate tax + Surcharge	40.80%	42.00%
Education Cess thereon	3.00%	3.00%
Effective tax rate	42.024%	43.26%

For Individuals and Others

The Bill proposes to increase the minimum exemption limit in the case of Individuals, HUF, AOP, BOI and artificial Juridical persons from INR 200,000 to INR 250,000. The exemption limit in the case of senior citizens is proposed to be increased to INR 300,000. The applicable surcharge[1] and cess[2] remains unchanged. The tax slab rates applicable are as follows:

Proposed Income Slab (INR)	Tax rate
0-250,000*	**Nil**
250,001*-500,000	10%
500,001-10,00,000	20%
Above 10,00,000	30%

**INR 300,000 for individual residents aged sixty years and above; and INR 500,000 for individual residents aged eighty years and above.*

Alternate Tax Rates

Rates of both MAT and AMT remain unchanged at 18.5% (plus applicable surcharge and education cess).

DDT Rate

The rate of DDT also remains unchanged at 15% (plus applicable surcharge and education cess).

Personal Tax

Incentive for Small Savings

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

Deduction for interest paid on housing loan

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

Deduction in respect of notified pension scheme

The Bill proposes that the employees of the private sector would be eligible to take the benefit of the deduction in respect of the notified pension scheme irrespective of the date of joining. Furthermore, the deduction available under the scheme is restricted to INR 100,000

1. Surcharge is applicable @ 10% on the income tax where the total income exceeds INR 10 million.
2. Education cess applicable @ 3% on the income tax and surcharge, as the case may be.

Corporate Tax

Disallowance of expenditure for non-deduction of TDS

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

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

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

Disallowance of expenditure incurred on CSR activities

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

Incentive for manufacturing sector

The incentive introduced by the Finance Act, 2013 to promote investment in new plant and machinery by the companies that are engaged in manufacturing or production of any article or thing is proposed to be further extended for medium sized investments. Where the investment in eligible plant and machinery in a financial year exceeds INR 250 million, such companies would be eligible to claim one time additional deduction of 15% of the cost of such new plant and machinery acquired and installed. This deduction would be available for such investments made till 31 March 2017 (i.e. for three financial years, starting with financial year 2014-15).

Furthermore, the deduction available under the existing combined threshold of INR 1 billion for investment made in financial years 2013-14 and 2014-15 will continue, even if the investment in the year 2014-15 is below the threshold of INR 250 million.

Incentives for the power sector

The sunset clause for commencing eligible activity for claiming profit-linked incentive by power companies is proposed to be extended by three years up-to 31 March 2017 (presently up-to 31 March 2014).

Investment based incentives

The invesment based incentive (deduction in respect of the eligible capital expenditure) has been proposed to be extended to two new sectors- 'laying and operating a slurry pipeline for the transportation of iron ore', and 'setting up and operating a semiconductor wafer fabrication manufacturing unit', subject to notification by the Board.

It is proposed that the asset, in respect of which the deduction is claimed, should be used only for the specified business for a period of eight years beginning with the year in which the asset is acquired or constructed. Furthermore, in the event that the asset is used for any purpose other than the specified business during the specified period, then the amount of deduction claimed (net of the depreciation that would have been allowable had no such investment based deduction been claimed) would be deemed to be the business income of the year in which the asset is used.

Where a taxpayer has claimed deduction for this investment based incentive, it is prohibited from claiming a deduction under section 10AA of the Act for that or any other assessment year. A corresponding provision de-barring claim of this investment based deduction would apply if the tax payer has claimed deduction under section 10AA (profits of SEZ) for any year.

Dividend Distribution Tax (DDT)

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

Particular	Amount (in Rs)	DDT (in Rs.)
Amount allocated for distribution to shareholders (Pre-DDT payment)	**100**	
Total Dividend payout after DDT (Pre-amendment)	85.47	14.526*
Total dividend payout (proposed amendment)	83.00	16.995**
Reduction in amount of dividend actually paid to shareholders	(85.47 minus 83.00) = 2.47	

** worked out @16.995% on INR 85.47*
*** worked out @16.995% on INR. 100*

Consequently, say for INR 100 of dividend allocated for distribution (before payment of DDT), shareholder would lose INR 2.47 as per the proposed amendment compared to existing law.

Tax on distributed income to unit holders
Similar to above, provisions have been introduced for additional tax burden on distribution of income by Mutual Funds. This amendment shall take effect from 1 October 2014.

Reduced tax rate on dividend received from foreign companies to continue
The concessional tax rate of 15% on dividends received by an Indian company from specified foreign companies has been extended indefinitely.

Speculative transaction in respect of commodity derivative
The eligible transaction in respect of trading in commodity derivatives carried out in a recognised association and chargeable to commodities transaction tax would not be considered to be a speculative transaction (effective retrospectively from financial year 2013-14).

Losses in Speculation business
A Company whose principal business is trading in shares would not be deemed to be carrying on a speculation business for the purpose of set off or carry forward and set off of losses, even if any part of business of such company consists of the purchase and sale of shares of other companies.

Presumptive Taxation - Business of plying, hiring or leasing of goods carriage
For taxation of income on presumptive basis in respect of business of plying, hiring or leasing goods carriage, the income is hither to determined at INR 5,000 and INR 4,500 for HGV and vehicles other than HGVs per vehicle per month (or part of a month), respectively.

A uniform amount of presumptive income of INR 7,500 for every month (or part of a month) for all types of goods carriage is proposed.

Capital Gains

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

No concessional tax rate for units of mutual funds
The long-term capital gains arising on transfer of mutual fund units would not be eligible for a concessional tax rate of 10%. It would now be taxable at the rate of 20%. However, it may be noted that the gains arising on the transfer of unit of an equity-oriented mutual fund through a recognised stock exchange (upon payment of securities transaction tax) is exempt.

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

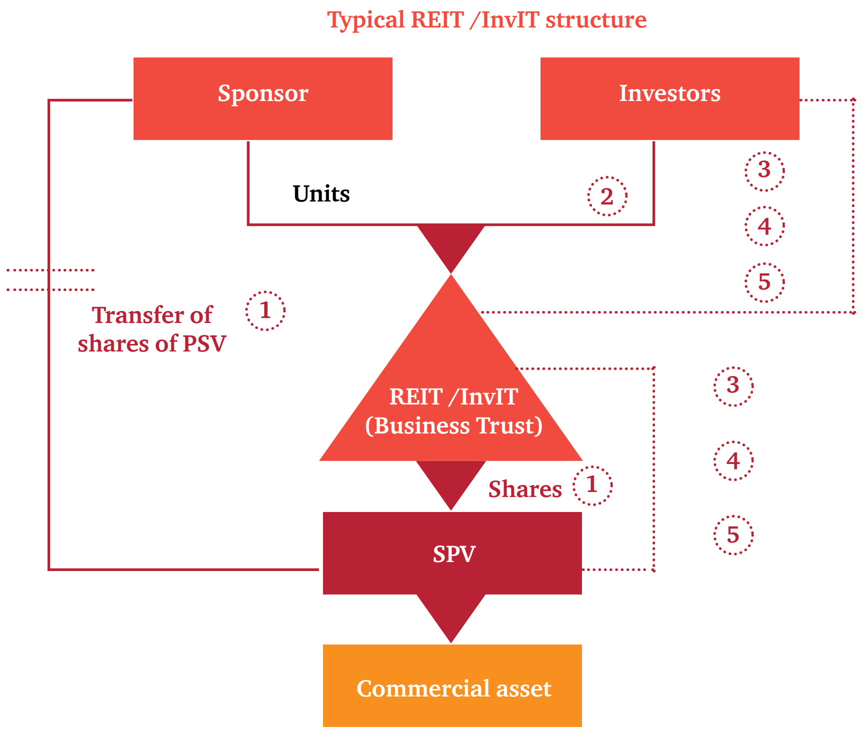
Characterisation of income in case of FII

In order to bring certainty in characterisation of income arising from transactions in securities, it is proposed to amend the Act to provide that any investment in securities made by FII's in accordance with the regulations made under SEBI would be treated as a capital asset. Consequently, any income arising from transfer of these securities by FII's would be in the nature of capital gains.

Other proposals

- Enhanced compensation on compulsory acquisition of a capital asset, received in pursuance to an interim order passed by a Court is proposed to be taxed in the year of receipt of final order.
- With a view to facilitating the listing and trading of Government securities outside India, it is proposed that any transfer of government security carrying periodic payment of interest, through an intermediary from a non-resident to another non resident shall not be taxable as capital gains.
- Under the existing provisions, transfer of long term capital asset is exempt from capital gain tax to the extent such gain is re-invested in a residential house within the specified time period. It is proposed that the exemption can be claimed only if the investment is made in one residential house in India.
- Under the prevailing provisions, capital gains on transfer of a long term capital assets is exempt to the extent such gains are reinvested in specified bonds within a period of six months, subject to the condition that the reinvestment during any financial year should not exceed INR 5 million. In order to remove ambiguity in the wordings of these provisions, it is proposed that the limit of five million shall apply cumulatively for the year in which the asset is transferred and the subsequent year.

Specific tax regime for REIT / InvIT - w.e.f. 1 October 2014



Particulars	Taxability
Capital gains arising to Sponsor on exchange of shares in Special Purpose Vehicle (SPV) with units of Business Trust (1)	Tax liability deferred to the time of disposal of units by Sponsor • Holding period of shares to be included in holding period of units • Cost of acquisition of shares of SPV to be considered as cost of acquisition of units • Preferential capital gains regime (as explained in [2] below) not applicable where such units are sold by Sponsor
Capital gains on transfer of units held in trust (2)	• Securities Transaction Tax applicable to transfer of units of Business Trust similar to equity shares traded on a stock exchange • Long term capital gains to be exempt from tax • Short term capital gains taxable at 15% (plus applicable surcharge and cess)
Dividend income of Business Trust (3)	• Dividend distribution tax (DDT) applicable at SPV level • Dividend income exempt from tax in hands of Business Trust • Onward distribution of amount attributable to dividend by Business Trust to investors will be exempt
Interest income of Business Trust (4)	• Accorded pass through treatment (no taxation at Business Trust level) • No withholding to be done at SPV level • Business Trust to withhold tax on distribution attributable to the interest component - from Domestic unit holders @10% / Non-resident unit holders @ 5% • Taxes withheld for non-resident investors would also be their effective tax liability on such interest
Capital gains on disposal of shares in SPV (5)	• Taxable at normal capital gains (assuming shares in SPV are held as capital asset by Business Trust) • Onward distribution of amount attributable to capital gains is exempt in hands of unit holders
Any other income of Business Trust	Taxable at maximum marginal rate (for example: Income from commercial assets held directly)
Interest on overseas debt incurred by Business Trust	Business Trust to withhold tax at the rate of 5%
Business Trust	Trust registered as Infrastructure Investment Trust or Real Estate Investment Trust, the units of which are listed on a registered stock exchange as per SEBI rules.
SPV	Indian company in which Business Trust holds controlling interest or prescribed shareholding

Transfer Pricing

Enhancing the APA programme
The APA programme was introduced in 2012 with a view to reduce litigation on transfer pricing and provide tax certainty to taxpayers – the programme was successful with more than 400 applications filed and five APAs signed in the first year. In order to provide further certainty and to align the regulations with the global best practices, the government has proposed introduction of " a roll back" mechanism in the current APA scheme by amending the Act. Accordingly, an APA, subject to prescribed conditions, may also cover previous four years preceding the first year of the APA. To illustrate, APA applications filed by taxpayers covering the period FY 2013-14 to FY 2017-18 may also cover FY 2009-10 to FY 2012-13. This amendment will take effect from 1 October 2014.

Furthermore, to expedite the disposal of existing APA applications, the government has proposed to strengthen the administrative set up.

Aligning with global best practices
Indian regulations prescribe the "arithmetic mean" for determination of arm's length price. Furthermore, a tolerance band of 3%/1% is provided relative to the arithmetic mean. Recognising that this has created significant transfer pricing disputes, in order to align the regulations with global best practices, the government has proposed to introduce the concept of a 'range'. The authorities are presently undertaking an analysis of relevant data after which the rules will be prescribed. It seems that the current arithmetic mean concept will continue wherever the number of comparables is inadequate.

Furthermore, the Indian regulations require use of the current year's data for comparability analysis, unless the taxpayer demonstrates that prior years' data (for the last two years) has had an influence in setting up transfer prices. Taxpayers face difficulty in obtaining accurate and reliable current year data while preparing the TP documentation and authorities routinely use single year data at the time of transfer pricing audits and reject multiple year data. To address this, the government has proposed to amend the regulations to allow the use of multiple year data.

Other amendments
Presently, transactions between a taxpayer and an unrelated person are deemed to be a transaction with an associated enterprise, if there exists a prior agreement in relation to the transaction between such other person and the associated enterprise, or the terms of the relevant transaction are determined in substance between the other person and the associated enterprise. The above provision has led to a doubt whether or not, for the transaction to be treated as an international transaction, the unrelated person should also be a non-resident. The government has proposed that in the above situation, a transaction between a taxpayer and an unrelated person that satisfies the above mentioned conditions shall be deemed to be an international transaction, whether or not such unrelated person is a non-resident. This amendment will take effect from 1 April 2015 and will apply in relation to assessment year 2015-16 and subsequent assessment year.

Where the taxpayer fails to furnish transfer pricing documentation within the required time limits, the assessing officer or the Commissioner (Appeals) may levy the prescribed penalty. The government has now proposed to include transfer pricing officer as a competent authority to levy the penalty.

Income from other sources

Forfeiture of advance receipt
It is proposed that any money received as an advance or otherwise which is forfeited due to failure of negotiations not resulting in transfer of capital assets, shall be taxable as income from other sources.

A consequential amendment has been made to provide that such amount already taxed as income from other sources shall not be reduced from the cost of acquisition for the purpose of capital gains.

Withholding Taxes

- In order to further encourage raising of long term foreign borrowings by Indian companies, it is proposed to extend the beneficial WHT rate of 5% to interest on borrowings by way of issue of long term bonds (currently available only for ECB and long term infrastructure bonds).It is further proposed to extend the window for making such eligible borrowings by two more years i.e. up to 1 July 2017. The amendment shall take effect from October 1, 2014.
- Procedural amendments are proposed with effect from 1 October 2014, to provide for filing of WHT correction statements. It is also proposed to make a consequential amendment enabling processing of correction statements filed.
- Under existing provisions, the amount received under a life insurance policy is exempt subject to fulfillment of certain specified conditions. In order to have a mechanism for reporting of transactions and collection of tax on amounts paid under life insurance policies that are not exempt, a new section has been inserted to

provide for WHT at 2% on such payments subject to a threshold limit of more than INR 100,000 in a financial year. The amendment shall be effective from 1 October 2014.

- It is proposed that any order treating a person as an 'assessee in default' in not withholding tax on payments made to a resident, can be passed at any time within seven years from the end of the financial year in which the payment is made or credit is given. This is a substantial change in the limitation period for passing of such orders from the existing law where such orders could be passed only within two years, where a quarterly WHT statement is filed or after six years in other cases. The amendment shall take effect from October 1, 2014.

Other proposals

Redressal of the Disputes- to be legislated separately

Advance Authority Ruling
Presently, the facility to obtain Advance Ruling is not available to resident taxpayers except public sector undertakings. It is proposed to enable resident taxpayers to obtain an advance ruling in respect of their income tax liability above a defined threshold so as to reduce litigation in direct taxes.

Additional benches have also been proposed to be constituted. The legislative provisions in this regard are yet to be prescribed.

Settlement Commission
It is proposed that the scope of the Income-tax Settlement Commission should be enlarged so that taxpayers can approach the Commission for settlement of disputes. The legislative provisions in this regard are yet to be prescribed.

Power of Survey
Section 133A of the Act is proposed to be amended to clarify that the Income tax authority is empowered to conduct survey for verification of TDS/TCS.

The period for retention of books of account or documents impounded is proposed to be increased from a maximum of 10 days (presently) to 15 days (exclusive of holidays). This amendment shall be effective from 1 October 2014.

Estimate of Value of Assets by Valuation Officer
Presently, section 142A of the Act does not contain any pre-conditions for rejection of books before reference is made a to valuation officer. Now, it has been proposed that a tax officer can make reference without assigning any specific reason for such reference and without rejection of books of accounts etc.

A time limit of six months has been to be prescribed for the valuation officer to provide his report to the Assessing Officer. This amendment shall be effective from 1 October 2014.

Interest on outstanding demands
It is proposed that where any notice of demand is served upon an assessee and any appeal/ proceeding is filed/initiated in respect of the amount specified in the notice of demand, then such demand shall be deemed to be valid until the disposal of appeal by the last appellate authority/ disposal of proceedings. It is also proposed that such notice of demand shall remain effective as specified in Taxation Laws (Continuation and Validity of Recovery Proceedings) Act,1964. This amendment gives sanctity to circular no 334 dated 3 April 1982 which was interpreted differently by various Courts. Consequently, if the amount on which interest was payable was reduced and subsequently as a result of any orders under appeals etc., the final amount stands increased, interest shall be payable from the expiry of the period mentioned in the first notice of demand until the actual date of payment. The amendment shall be effective from October 1, 2014.

Assessment of income of a person other than the person who has been searched
Presently, under section 153C of the Act, an assessing officer is not required to have satisfaction regarding bearing on the determination of the total income of person other than the person searched upon. This section has been proposed to be amended to have such satisfaction.

Mode of acceptance or repayment of loan
Presently, section 269SS and 269T of the Act penalise loans or deposits of INR 20,000 or more by means other, than by an account payee cheque or account payee bank draft. It has been proposed not to penalise loans or deposits paid by way of an electronic clearing system through a bank.

Provisional attachment to protect revenue in certain cases
The existing provisions enable the assessing officer to attach provisionally any property of the assessee, subject to certain conditions, for a period of six months, which could be extended to two years. It is now proposed that the total period would not exceed two years or sixty days after the assessment or reassessment, whichever is later.

This amendment will take effect from 1st October, 2014.

Obligation to furnish statement of financial transaction or reportable account
The existing provisions of Section 285BA provide for filing of an AIR by specified persons in respect of specified financial transactions to the prescribed income-tax authority.

The scope of section 285BA has been extended to include prescribed reporting financial institution. Furthermore, it is provided that where a person, who has furnished a statement of information, discovers any inaccuracy then he shall within ten days, furnish the correct information and any failure to furnish correct information may be liable to a penalty of INR 50,000/-.

Obligation to file return of income
Mutual Funds, VCC/VCF (including Category I AIF VCF) /Securitisation Trusts obligated to file the income-tax return if its total income, without giving effect to the provisions of section 10, exceeds the maximum amount not chargeable to income-tax.

Charitable trusts and specified institutions

No general exemption as registered for specific exemptions
There are special exemption provisions relating to the taxation of public charitable trusts which are required to apply their income for charitable or specified purposes. However, some trusts were claiming exemption under both specific as well as general provisions which defeated the objective of specific exemption. Therefore, it has been proposed that a trust or an institution which has been granted registration for specific exemption would not be eligible to claim any exemption under the general exemption (except exemption of agricultural income, if any).

Depreciation not to be treated as application of income
It is also proposed that application of income of trust or specified institution shall be determined without any deduction or allowance by way of depreciation for an asset which has already been claimed as 'application of income' in prior years. This amendment is to ensure that no double deduction is claimed.

Extension of powers of Commissioner
The power of the Commissioner relating to cancellation of registration of trusts has been extended in certain circumstances

This proposal will be effective from 1 October 2014.

Exemption available for pending assessment proceedings
A trust or institution may be able to avail specific exemptions for the period prior to registration being granted provided the assessment proceedings for the relevant assessment years are pending before the assessing officer as at the date of such registration. This proposal will be effective from 1 October 2014.

Indirect Tax Proposals

Indirect tax proposals

Goods and Services Tax (GST)

- One of the key expectations of the industry from the Budget was that the Finance Minister will lay down a roadmap for implementation of GST. However, the Budget merely reiterated the introduction of the GST without any clear road map or likely date for such an introduction.
- The Finance Minister has indicated Central Government's intentions to clear various apprehensions of the States in terms of surrendering their taxation jurisdiction and adequate compensation by the end of the fiscal year 2014-15.
- It now remain to be seen to what extent the States move forward and work with the Government to introduce this transformation in the Indirect Tax regime of India.

Customs Duty

Rate of Duty

- The median rate of BCD has been retained at 10%.

Changes in Customs Act

- Central Government has amended Section 25 to provide that customs duties on mineral oils including petroleum and natural gas extracted or produced in the continental shelf of India or the exclusive economic zone of India shall not be recovered for the period prior to 07/02/2002. Furthermore, it has been provided that notwithstanding anything contained in any judgement, decree or order of any Court, Tribunal or other authority, no suit or proceedings in respect of such mineral oil shall be maintained or continued in court. However, no refund of duties already paid in respect of such mineral oils shall be granted.
- Central Government has provided that the bills of entry can be presented before the delivery of the import manifest or import report without the permission of the Commissioner of Customs.
- Central Government has amended the provisions related to the Settlement Commission to provide that an application can also be filed in cases where a Bill of Export, Baggage Declaration, Label or Declaration accompanying the goods effected through Post or Courier is filed.
- Central Government has deleted the time limit of 180 days, from the date of order of stay, for disposing of appeals. Moreover further extention by 185 days in case of non-disposal of appeal with in the stipulated period also stands deleted.

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

- Central Government has enhanced the duty free baggage allowance limit, for passenger returing from countries other than Nepal, Bhutan, Myanmar or China from INR 35,000 to INR 45,000. Further, duty free allowance of cigarettes, cigar and tobacco has been reduced.

The above changes will be effective from 11 July 2014.

- Central Government has clarified that road construction machinery imported duty free can be sold within 5 years of importation subject to payment of customs duty on depreciated value. Further, it is clarified that individual constituents of consortium whose name appears in the contract can also import the said goods.
- State Governments concerned are been notified as sponsoring authority for Metro Rail Projects covered under Project Import Regulations, 1986.

Changes in Customs Tariff Act

- To boost domestic manufacture and to address the issue of inverted duties the following changes have been made.

Goods on which BCD is decreased		
Goods	**Existing Rate (%)**	**New Rate (%)**
Fatty Acid, Crude Palm stearin, RBD and other Palm Stearin and industrial grade crude oils	7.5	Nil
Crude Glycerine	12.5	7.5
Crude Glycerine for manufacture of soaps	12.5	Nil
Denatured Ethyl Alcohol	7.5	5
Other Coal	5	2.5
Ethylene, Propylene and Butadiene	5	2.5
Specified raw material required for manufacture of solar backsheet and EVA Sheet for use in manufacture of Solar PV Cells or modules	Applicable rate	Nil
Polytetrametylene Ether Glycol, (PT MEG) for use in the manufacture of spandex yarn	5	Nil
LCD and LED TV panels below 19 Inches	10	Nil
Colour television picture tubes for use in manufacture of cathode ray television	10	Nil
Specified parts for manufacture of LCD/LED TV panels	Applicable rate	Nil
E-Readers	7.5	Nil
Battery scrap and battery waste	10	5
Specified machinery, equipment etc required for initial setting up of compressed biogas plant	Applicable rate	5
Specified machinery, equipment etc required for initial setting up of solar energy production projects	Applicable rate	5
Ships imported for breaking up	5	2.5

Goods on which BCD is increased		
Goods	**Existing Rate (%)**	**New Rate (%)**
Specified telecommunication equipment of CTH 8517	Nil	10
Coking Coal	Nil	2.5
Bituminious Coal	2	2.5
Steam Coal	2	2.5
Cut and polished coloured gemstones	2	2.5
Diamonds including lab grown diamonds-semi-processed, half-cut or broken	Nil	2.5
Non-industrial diamonds including lab-grown diamonds(other than rough diamonds)	2	2.5

Goods on which SAD is exempt		
Goods	**Existing Rate (%)**	**New Rate (%)**
Inputs/components used in manufacture of Personal Computers (laptops/desktops) and tablet computers.	4	Nil

Goods on which Export Duty Increased		
Goods	**Existing Rate(%)**	**New Rate(%)**
Bauxite (natural), calcined or not	10	20

- Central Government has amended the provisions dealing with levy of Safeguard Duty to provide for such levy on inputs/raw material imported by EOU/SEZ and cleared into DTA as such or for use in manufacture of final products which are cleared into DTA.
- Central Government has withdrawn exemption provided from levy of Education Cess and Secondary and Higher Education Cess on CVD portion of duty leviable on import of various electronic goods such as mobile phones, computers, parts and accessories of computers, etc. so as to bring levy of these Cesses on parity with domestically manufactured goods.

The above changes will be effective from 11 July 2014.

Trade Facilitation Measures
To reduce interface with Government agencies, dwell time and cost of doing business the following have been proposed.

- 24X7 customs clearance facility to be extended to 13 more airports in respect of export goods and to 14 more sea ports in respect of specified import and export goods.
- Indian Customs Single Window Project for importer and exporter to lodge their clearance document at a single point.

Central Excise Duty

Rate of Duty
- The general excise duty has been retained at 12%.

Changes in Central Excise Act
- Central Government has amended Section 35L so as to clarify that disputes relating to taxability or excisability of goods are covered under the term 'determination of any question having a relation to rate of duty' and are appealable to the Supreme Court.
- Central Government has amended Section 35R so as to enable the Commissioner (Appeals) to take into consideration the fact that a particular order being cited as a precedent decision on the issue has not been appealed against for reasons of low amount.

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

- The Third Schedule to the Act has been aligned with Notification No. 49/2008-CE(NT) dated 24/12/2008 entailing a list of goods based upon MRP assessment.

The above changes will be effective from 11 July 2014.

Changes in Central Excise Rules
- E-Payment of duty is compulsory for all assessees subject to certain exceptions.

The above changes will be effective from 1 October 2014.

- Cental Government has substituted Rule 8(3A) to provide for compulsory penalty of 1% per month on the amount of duty not paid for each month or part thereof in the case of default.

The above changes will be effective from 11 July 2014.

Changes in Central Excise Valuation Rules
- Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 is being amended so as to provide that in the case of no additional consideration flowing to manufacturer from the buyer or from a third party the transaction value would be accepted even in case where the goods are sold below the cost of production or profit.

The above changes will be effective from 11 July 2014.

Changes in Central Excise Tariff Act
- Excise duty on cigarettes is being increased by 72% for cigarettes of length not exceeding 65 mm and by 11% to 21% for cigarettes of other lengths. Similar increases are proposed on cigars, cheroots and cigarillos.
- 5 % Ad-valorem Additional Duty of excise will be levied on waters including aerated water, containing added sugar falling under chapter heading 220210, i.e. aerated waters (22021010), lemonade (22021020) and other such drinks.
- Duty on Pan Masala has been increased from 12% to 16%, unmanufactured tobaccofrom 50% to 55% on unmanufactured tobacco & from 60% to 70% on jarda scented tobacco, gutkha and chewing tobacco.

The above changes will be effective from 10 July, 2014.

- Exemption from excise duty is being provided to reverse osmosis (RO) membrane element used for water filtration or purification equipment (other than household type filter).
- Reduction in excise duty from 12%/10% to 6% on RO membrane element used in household type filters.
- Duty on branded petrol has been reduced from INR 7.50/litre to INR 2.35/litre.
- Exemption from duty to Liquefied Propane and Butane Mixture, Liquefied Propane, Liquefied Butane and LPG for supply to Non-Domestic Exempted Category (NDEC) customers by the IOCL, HPCL or BPCL retrospectively w.e.f. 8/02/2013.

- Full Exemption from excise duty is being provided on plastic materials reprocessed out of scrap or waste cleared into the DTA by EOU.
- Full Exemption from Excise Duty is being provided to backsheet & EVA sheet used in the manufacture of solar photovoltaic cells or modules.
- Gloves specially designed for use in sports would attract concessional excise duty of 2% without CENVAT and 6% with CENVAT.
- Writing and printing paper for printing of educational textbooks would attract uniform excise duty of 6%with CENVAT.
- Machinery, equipment etc. required for initial setting up of solar energy production projects, is fully exempted from excise duty.
- Similarly, machinery, equipment etc. required for initial setting up of compressed biogas plant, is fully exempted from excise duty.
- Duty exemption on removal of parts of tractors from one or more factories of a tractor manufacturer to another factory of the same manufacturer for manufacture of tractors.

The above changes will be effective from 11 July, 2014.

Miscellaneous Provisions

- In respect of International Competitive Bidding, exemption from excise duty is available to sub-contractors also for manufacture and supply of goods for or on bahlf of the main contractor
- Education Cess and Secondary & Higher Education Cess (Customs component) is being exempted on goods cleared by an EOU into the DTA.
- Director (Electrical) is being authorized to issue the requisite certificate to enable DMRC to avail of Nil excise duty benefit in respect of their Phase-1 and Phase-2 projects instead of Director (Rolling Stock, Electrical & Signalling) who the authority at present.

The above changes will be effective from 11 July, 2014.

Swings in excise duty rates

Additional Duty of Excise		
Goods	Existing rate (%)	New rate (%)
Aerated waters, containing added sugar falling under chapter heading 2202 10 i.e. aerated waters, lemonade and other	NIL	5

Changes in the rates of Tobacco Related Products		
Goods	Existing rate (%)	New rate (%)
Pan Masala	12	16
Unmanufactured Tobacco	50	55
Jarda scented tobacco, gutkha and chewing tobacco	60	70

The above rates changes would be applicable from 10th July, 2014.

Proposed Changes in the rates of Agriculture/Agro Processing/Plantation Sector		
Goods	Existing rate (%)	New rate (%)
Machinery for preparation of meat, poultry, fruits, nuts or vegetables, and on presses, crushers and similar machinery used in the manufacture of wine, cider, fruit juices or similar beverages and on packing machinery	10	6

Changes in the rate of Electronics/Hardware Products		
Goods	Existing rate (%)	New rate (%)
Recorded Smart Card without CENVAT	2	12
Recorded Smart Card with CENVAT	6	12
Metal Core PCB and LED driver for use in the manufacture of LED lights and fixtures and LED lamps	12/10	6

Changes in the rate of Renewable Energy Products		
Goods	**Existing rate (%)**	**New rate (%)**
Forged steel rings used in the manufacture of bearings of wind operated electricity generators	12	NIL

Changes in the rate of Consumer Products		
Goods	**Existing rate (%)**	**New rate (%)**
Footwear of retail price exceeding Rs. 500 per pair but not exceeding Rs. 1,000 per pair	12	6

Service Tax

Rate of tax
The rate of Service Tax has been retained at 12%.

Negative list based tax regime
The negative list has been pruned and service tax has been extended to the following services:

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

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

Mega Exemption

Exemptions have been withdrawn in relation to the following:

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

Exemptions have been introduced in relation to the following:

- All life micro-insurance schemes approved by the Insurance Regulatory Development Authority ('IRDA'), where the sum assured does not exceed fifty thousand rupees
- Transport of organic manure by vessel, rail or road (by GTA)
- Loading, unloading, packing, storage or warehousing, transport by vessel, rail or road (GTA), of cotton, ginned or baled
- Services provided by Common Bio-medical Waste Treatment Facility operators by way of treatment, disposal of bio medical waste or processes incidental to such treatment or disposal
- Specialized financial services received by RBI from outside India, in the course of management of foreign exchange reserves, e.g. external asset management, custodial services, securities lending services.
- Services provided by the Indian tour operators to foreign tourists in relation to tours conducted wholly outside India.

The above changes will be effective from 11 July 2014.

Existing exemptions have been amended to provide the following:

- Concept of auxiliary education services have been omitted and specific services have been specified like transportation of students etc, security or cleaning of educational institution, service relating to admission which when provided to educational institutions will be exempted
- The exemption in respect of service provided to the Government, or Local Authority or Governmental Authority would not be extendable to other services such as consultancy, designing, etc., not directly connected with these specified services.
- Dharmashalas, ashram and other non-commercial entities that offer accommodation meant for residential or lodging purposes, having a declared tariff of a unit of accommodation below one thousand rupees per day or equivalent will be exempt.

The above changes will be effective from 11 July 2014.

Amendments in the Finance Act

- Section 67A - The Explanation to Section 67A amended for determination of exchange rate for calculation of taxable value in respect of certain services, rules to be prescribed.
- Section 73 - Amended to prescribe time limits for completion of adjudication as under in Central Excise as far as possible
  - Within 6 months from the date on SCN in case of 18 months limitation.
  - Within in a period of one year from the date of SCN in case of 5 year limitation.

  These provisions already existed in Central Excise.
- Section 80 - Amended to remove the power to waive the 50% penalty imposable in cases where service tax has not been levied, not paid or short levied or short paid on account of the suppression of facts or willful misstatement but details of transactions are available in the specified record. The benefit of wavier of Penalty is limited to cases within the normal period of limitation.
- Section 82(1)- Amended so that Joint Commissioner or Additional Commissioner or any other officer notified by the Board can authorize any Central Excise Officer to search and seize
- Section 87 - Amended to incorporate the power to recover dues of a predecessor from the assets of a successor purchased from the predecessor.
- Section 94 - Amended to enhance the rule making power of the Government among others for the following purposes:
  - Imposition of duty of furnishing information, keeping records etc.
  - Making provisions for withdrawal of facilities or imposition of restriction for dealing with evasion of ST/ misuse of CENVAT Credit.

Following provisions from Central Excise Act made applicable (Section 83)

- Section 5A(2A) : Insertion of an explanation in notifications/orders within one year shall have the same effect as if it had always been the part of the notification;
- Section 15A : Specified third party sources shall furnish periodic information in the manner as may be prescribed.
- Section 15B : Failure to provide information under Section 15A would attract penalty as specified.

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

Point of Taxation Rules

- Point of taxation in respect of reverse charge will be the payment date or the first day that occurs immediately after a period of three months from the date of invoice, whichever is earlier.

The above changes will be effective only to invoices issued after 1 October, 2014

Abatement

- The condition for using a abatement in the case of GTA service is being amended to clarify that the condition for not using of credit is required to be satisfied by the service providers only. The service recipient will not be required to establish satisfaction of this condition by the service provider
- The taxable portion of the service of transportation of passengers by air-conditioned contract carriages shall be 40% with the condition that CENVAT credit of inputs or capital goods or input services has not been taken

The above changes will be effective from 11 July 2014.

- CENVAT credit of services provided by one rent-a-cab scheme operator to another and by one tour operator to another tour operator is allowed
- The taxable portion in respect of the transport of goods by vessel is being reduced from 50% to 40%

The above changes will be effective from 1 October 2014.

Partial Reverse Charge

- In motor vehicle rental, 50% liability cast on both the service provider and service receiver where the service provider does not take abatement.

The above changes will be effective from 1 October 2014.

Valuation

- The value of the service portion in works contract relating to movable and immovable property is aligned to 70%.

The above changes will be effective from 1 October 2014.

Compliance enhancement

To encourage prompt payment of service tax, simple interest rates per annum payable on delayed payments, are prescribed as follows;

Extent of delay	Simple interest rate per annum
Up to six months	18%
More than six months & and upto one year	18% for the first six months, and 24% for the period of delay beyond six months
More than one year	18% for the first six months, 24% for second six months, and 30% for the period of delay beyond one year

The above changes will be effective from 1 October 2014.

SEZ - Procedural Simplification

- Central Excise Officer to issue Form A-2, within 15 days from the date of receipt of Form A-1.
- An exemption is available from the date of endorsement of Form A-1 by the authorised officer of SEZ where From A-1 is furnished to the jurisdictional Central Excise Officer within 15 days of its verification. If furnished later, exemption to be available from date of furnishing of Form A-1.
- Pending issuance of Form A-2, exemption available in cases where the authorisation issued by Central Excise officer is furnished to the service provider within a period of three months from provision of service. If a copy of authorisation is not provided within the said period of three months, the service provider shall pay service tax on the service provided availing the exemption.
- Requirement of furnishing service tax registration number of service provider for services covered under reverse charge dispensed with.
- Service to be treated as exclusively used for SEZ operation if the recipient of service is SEZ unit or developer,the invoice is in name of such unit/developer and the service is used exclusively for furtherance of authorized operations in SEZ.

The above changes will be effective from 11 July, 2014.

Retrospective Amendment

- The service provided by Employees' State Insurance Corporation (ESIC) during the period prior to 1 July 2012 is to be exempted from service tax.

Service Tax Rules, 1994

- The following services have been brought under the reverse charge mechanism:
  - Services provided by the Director of a company or a body corporate to the company or the body corporate;
  - Services provided by recovery agents to Banks or Financial Institutions or Non-Banking Financial Company

The above changes will be effective from 11July, 2014.

- E-payment of service tax made mandatory for all assessees. Relaxation from e-payment may be allowed by the Deputy Commissioner/ Assistant Commissioner on case to case basis.

The above change will be effective from 1 October, 2014.

CENVAT Credit

- A time limit for availing CENVAT credit on inputs and input services has been prescribed within six months from the date of issue of invoice, bill or challan

The above changes will be effective from 1 September, 2014

- Re-credit of Cenvat credit reversed on account of non-receipt of export proceeds within the specified period, to be allowed, if such export proceeds are received within one year from the specified period on the basis of documentary evidence of receipt of payment.
- CENVAT credit of input services where service tax is paid under full reverse charge is allowed to the service recipient after the payment of service tax only
- The term 'place of removal' has been specifically defined to mean a factory or any other place of production or manufacture of the excisable goods; a warehouse or any other place where the excisable goods have been permitted to be deposited without payment of duty; a depot, premises of a consignment agent or any other place from where the excisable goods are to be sold after their clearance from the factory.

- Rule 12A is being amended so as to disallow transfer of credit by a large taxpayer from one unit to another.
- Input Service Distributor rules clarified to provide for distribution of common credit of more than one unit to all the units operational during the year.

The above changes will be effective from 11 July, 2014

Place of Provision of Service Rules, 2012

An amendment has been made in the following provisions:

- Hiring of vessels (excluding yachts) or aircraft, whether short term or long term, will be covered by the general rule, i.e. the location of the service receiver.
- The definition of 'Intermediary' has been modified to include the intermediary of 'goods'.
- Point of taxation as per Rule 7 on reverse charge to be amended to be the date of payment or the date subsequent to end of three months from the date of invoice, whichever is earlier

The above changes will be effective from 1 October, 2014

General

Advance Ruling

- Central Government has extended the facility of filing an Advance Ruling to a resident private limited company.

The above changes will be effective from 11 July, 2014

Settlement Commission

- Applications of settlement are allowed to be filed before the Settlement Commission in cases where the applicant has not filed the returns after recording reasons for it.
- The provision prescribing an application to be made after the expiry of 180 days from the date of seizure has been omitted.
- An explanation inserted in order to define the concealment of particulars of duty as concealment made from the officer of central excise and not from the Settlement Commission.

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

Dispute Resolution

- Central Government has extended the amount from INR 50,000 to INR 2,00,000 in relation to cases involving value of goods/duty amount/fine/penalty as the case may be, where a Tribunal can refuse to admit the appeal.
- Central Government has introduced a new Section in relation to the pre deposit requirment for filing a appeal before the Commissioner (Appeals) and Tribunal. Following are the pre-deposit requirements:
  - First Stage Appeal – 7.5% of duty demanded or penalty or both
  - Second Stage Appeal – 10% of duty demanded or penalty or both

  The above pre-deposit amounts are subject to a ceiling of INR 10 Crore.

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

Abbreviations

ACT	Income-tax Act, 1961
ADR	American Depository Receipt
AIR	Annual Information Report
AMT	Alternate Minimum Tax
APA	Advance Pricing Agreement
APMC	Agriculture Produce Market Committee
B2C	Business to Customer
BCD	Basic Custom Duty
CRR	Cash Reserve Ratio
CSR	Corporate Social Responsibility
CVD	Countervailing Duty in lieu of Excise Duty
DDT	Dividend Distribution Tax
DTA	Domestic Tariff Area
EOU	Export Oriented Unit
EWS	Economically Weaker Section
FCI	Food Corporation of India
FDI	Foreign Direct Investment
FII	Foreign Institutional Investor
FIPB	Foreign Investment Promotion Board
FY	Financial Year
GDR	Global Depository Receipt
GST	Goods and Service Tax
HGV	Heavy goods vehicle
HUF	Hindu Undivided Family
INR	Indian Rupee
InvIT	Infrastructure Investment Trust
IT	Information Technology
KYC	Know Your Customer
LIG	Low Income Group
LLP	Limited Liability Partnership
MAT	Minimum Alternate Tax
MMDR	Mines and Minerals (Development And Regulations)
MSME	Micro Small and Medium Enterprise
PPP	Public Private Partnership
R&D	Research & Development
RBI	Reserve Bank of India
REIT	Real Estate Investment Trust
SAD	Special Additional Duty in lieu of Sales Tax
SCN	Show Cause Notice
SEBI	Securities Exchange Board of India
SEZ	Special Economic Zone
SLR	Statutory Liquidity Ratio
SPV	Special Purpose Vehicle
TCS	Tax collected at source
TDS	Tax deducted at source
USD	United State Dollar
VCC	Venture Capital Company
VCF	Venture Capital Fund

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