

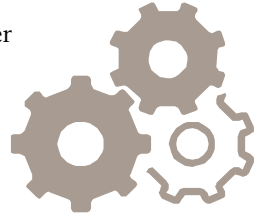
*Looking at a new  
horizon  
Budget Analysis 2015*



## *Promoting and incentivizing 'Make in India':*

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- Income tax on royalties and fee for technical services received by non-residents restored to 10 from 25%
- Phased reduction of corporate tax rate from 30 to 25% over next four years
- Reduction in basic customs duty rate on specific items of inputs to address inverted duty structure concerns and to reduce manufacturing costs
- Reiteration of government's resolve of rolling out GST from 1 April 2016 and reiteration of presenting the Land Acquisition Ordinance to current session of Parliament to enact it
- Threshold for weighted deduction from corporate tax for wages of new workmen reduced from 100 to 50; benefit extended to even non corporate taxpayers
- Extension in excise duty exemption and concessions for manufacture of cleaner technology vehicles (i.e. hybrid and electrically operated vehicles)
- Special additional duty exemption on import of raw materials for use in manufacture of specific goods (ITA bound goods, LED lights, pacemakers)



## *Ensuring the much-needed ease of doing business in India*

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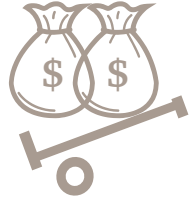
- Principle of composite cap (FDI + FPI) introduced to simplify calculation of foreign investment limit in sectors where FDI cap apply (e.g retail, banking, brownfield pharma, etc.)
- Powers to make or amend rules relating to foreign investments and outbound investments to vest with government, being a policy matter; this simplification to ensure a faster policymaking process; requires a legislative amendment in Foreign Exchange Management Act (FEMA)
- Setting up business in India to be made easy by prescribing simple compliance with a pre-existing regulatory mechanism instead of prior multiple approvals permissions; expert committee to be set up to examine and make recommendations in this regard
- Comprehensive Bankruptcy Code of global standards to be brought in year 2015-16
- Implementation of General Anti Avoidance Rule (GAAR) deferred by two years; GAAR provisions to be applicable from FY 2017-18 onwards
- Threshold for specified domestic transactions (domestic transfer pricing provisions) raised from Indian Rupees (INR) 5 crore to INR 20 crore.
- Advance ruling option for customs, excise and service tax extended to resident firms (including partnership firms, sole proprietorship and one-person companies)



## ***Measures to curb black money***

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- A separate Bill for a comprehensive new law to be introduced for black money parked outside India; stringent measures proposed to be introduced for non-disclosure of overseas income and assets including rigorous imprisonments and steep penalties
- Benami Transactions (Prohibition) Bill for curbing domestic black money on the anvil
- Confiscation of overseas assets held by Indian residents in violation of FEMA regulations or equivalent Indian assets held by the resident; FEMA/Prevention of Money Laundering Act to be amended to this effect



## ***Indirect transfer rules clarified***

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- The interest or share in an Indian company to be deemed to derive value substantially from India, if the fair market value of Indian assets (without reduction of liabilities) exceeds 10 crore INR and represents at least 50% of the value of all assets owned by transferor entity
- A transaction to not be taxed if the transferor (along with associate enterprises) neither holds right of control or management nor holds voting power or share capital or interest exceeding 5%
- Indirect transfer on account of group reorganisation exempted subject to meeting specified conditions
- The Indian entity in the chain obligated to furnish information relating to transaction; failure to report may attract a penalty up to 2% of transaction value
- Central Board of Direct Taxes to clarify the dividends declared by foreign company from Indian source income to not be subject to indirect transfer rules



## ***Special benefits to financial investors and financial services sector***

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- Foreign investments in alternate investment funds (AIFs) to be permitted; entail issue of an enabling policy framework
- In case of eligible offshore funds, fund management activity carried out through independent fund managers in India to not constitute a taxable presence in India albeit subject to conditions
- Rationalisation of tax regime of real estate investment trust (REIT) and infrastructure investment trust (InvIT)
- Concessional rate of 5% withholding tax on interest payable to FIIs and QFIs on their investment in government securities and rupee denominated bonds to be available upto 30 June, 2015
- Benefit of reduced tax rate of 5% on rupee denominated bonds issued to QIP extended upto 30 June 2017
- Capital gain income of FII (other than short-term capital gain not subject to securities transaction tax) to be excluded from levy of minimum alternate tax (MAT)



- In case of merger of similar scheme of mutual funds, no capital gains arise in the hands of the unit holder
- Non-Banking Finance Companies with a minimum asset size of 500 crore INR to be empowered to enforce its security interest in non-performing assets; SARFAESI Act, 2002 to be amended to this effect
- Forwards Markets Commission to be merged with the capital markets regulator (Securities Exchange Board of India) to strengthen regulation of commodity forward markets and reduce speculation
- Any interest payable by an Indian branch of a foreign bank to its head office to be income deemed to accrue or arise in India, also subject to withholding tax



## *Some Direct Tax Rationalisation measures*

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- The Wealth Tax Act, 1957 be abolished and compensated by an increased levy of surcharge on taxpayers earning higher income; effective increase in tax rate for the affluent (including corporates) in FY 15-16 on account of this additional 2% surcharge
- Rationalised the criteria for tax residency of companies to include the concept of place of effective management
- To avoid ambiguity, any person responsible for paying any sum, whether chargeable to tax or not, to a non-resident to be required to furnish the information of such sum in prescribed forms
- Rationalisation of provisions relating to Income Tax Settlement Commission



## *Some important indirect tax proposals*

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- Service tax rate effectively increased from 12.36 to 14%; enabling provision introduced to empower imposition of additional Swachh Bharat Cess at the rate of 2%
- Rationalisation of general rate of excise duty from 12.36 to 12.5%
- Rate of clean energy cess increased from 100 INR per tonne to 200 INR per tonne on specific products
- Increase in additional duty of excise on manufactured HSD and motor spirits (petrol) from 2 INR per litre to 6 INR per litre; however, no change in effective excise duty rate
- Service tax net widened by including new services and withdrawal of some exemptions. An indicative list includes the following:
  - Entry to entertainment events and amusement facility
  - Job-work activity for manufacture of alcohol for human consumption
  - Transportation service of food stuff by rail, vessels, road limited to foodgrains including rice and pulses, flour milk and salt
  - Services provided by a mutual fund agent and distributor to an MF/AMC
- Service tax exemption extended to the following:
  - Ambulance services provided to patients
  - Life insurance service provided by way of Varishtha Pension Bima Yojna
  - Services by a common effluent treatment plant operator for treatment of effluent
  - Services of pre-conditioning, pre-cooling, ripening, waxing, retail packing, labeling of fruits and vegetables



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