Finance Bill (No.2) 2014:An Overview

Our Finance Minister Shri Arun Jaitley has presented Finance bill (No.2), 2014 also popularly called as Union Budget 2014-15 on 10th July, 2014 before the House of Parliament.

We have made an attempt here in this document, to provide you with an overview of the same. We will appreciate your views/comments/queries, if any in this regards.

Thank you,

-CA Pooja Teli.

Highlights:

- No change in Income Tax rates
- Proposal to/for:
    - Increase Personal Income Tax exemption limit from INR. 2 lakhs to INR. 2.50 lakhs.
    - Increase Investment limit under Section 80C from INR. 1 lakh to INR. 1.50 Lakh
    - Increase the deduction on the interest component in case of Self occupied property from INR. 1.50 lakh to 2 lakh
    - Increase in Tax exemption limit for Senior Citizens from INR. 2.5 Lakh to INR 3 Lakh.
    - The tax exemption limit for Super Senior Citizen remains unchanged.
    - Increase in the Annual Public Provident Fund (PPF) limit from INR.1 lakh to INR. 1.50 lakh
    - Provide 10 year tax holiday exemption to Power Companies who start production and distribution on 31st March 2017
- Measures to improve Tax: GDP ratio.
- Revenue deficit targeted to be at 2.9% of GDP whereas fiscal deficit is targeted to 4.1% of GDP in F.Y. 2014-15.
- The Finance Minister also aims to bring down the fiscal deficit to 3.6% of GDP in F.Y. 2015-16 and 3% of GDP in F.Y.2016-17
- To Overhaul Subsidy regime especially in Food and Fuel.
- Commitment to provide 24*7 electricity in all houses
- Measures to boost Job creation and Skill Development
- To set up Expenditure Management Commission.

- Commitment for a Stable and Investor friendly tax regime. No proposal for retrospective tax amendments though the retrospective amendments made in Finance Bill, 2012 still do continue.
- Increase Free Baggage Allowance for INR. 35,000 to INR 45,000
- Proposals to revive growth in Manufacturing and Infrastructure sector.
- Manufacturing Units will be allowed to sell their products through e commerce and retail without separate approval
- Measures to promote tourism and implementation of E- visas
- Senior Citizen Pension plan extended till August 2015
- Emphasis on fiscal prudence, good governance and resource mobilization
- To selectively promote FDI in sectors that can boost Job creation
- Target to have parity between Indian and International Accounting Standards
- To extend 5% withholding Tax to all bonds
- Revision in rates of Royalty on minerals
- Revival of Special Economic Zone to boost GDP
- Target to implement Goods and Service Tax (GST) in current fiscal year
- To review Direct Tax Code (DTC)

Growth:

Aims to achieve 7-8% growth rate in next 3 to 4 years

Foreign Direct Investment (FDI):

The Budget proposes an increase in the percentage of FDI in:

- Insurance Sector from 26% to 49 % through FIPB (Approval) route
- Defense Sector from 26% to 49 % through FIPB (Approval) route

To encourage development of Smart Cities, requirement of the built up area and capital conditions for FDI is being reduced from 50,000 square meters to 20,000 square meters and from USD 10 million to USD 5 million respectively with a three year post completion lock in.
To further encourage this, projects which commit at least 30 % of the total project cost for low cost affordable housing will be exempted from minimum built up area and capitalization requirements, with the condition of three year lock-in period.

FDI in the manufacturing sector which is now under the automatic route. Such manufacturing units will be allowed to sell its products through retail including E-commerce platforms without any additional approval.

Expenditure:

For current financial year the budget proposes:

Planned Expenditure:	INR. 5.75 Lakhs Crore
Unplanned Expenditure:	INR. 12.19 Lakhs Crore
Total Proposed expenditure:	**INR. 17.94 Lakhs Crore**

Sector wise allocation of Expenditure:

Defense:

Proposal to:

- Allocate INR. 2.29 lakh crore to defense sector.
- Allocate INR. 990 crore for Socio-Economic Development of villages along the Border.
- Allocate INR. 1000 crore for One Rank One pension in Defense sector
- Measures to support research & development with allocation of INR.2,100 crore
- Allocation of INR. 5000 crore for capital outlay in this sector

Infrastructure:

Proposal to:

- Allocate INR. 7060 crore for development of 100 smart cities
- Allocate INR. 14,389 crore to Rural Road Development
- To set up Infra Investment Trust to securitize Infra projects
- To allocate INR. 100 crore for metro projects in Lucknow and Ahmedabad
- To allocate INR 12,000 crore to NHB
- Start planning of Metro projects in cities with population of 20 lakhs or more
- Allocate INR. 37,850 crore investments in NHAI and State Roads
- Develop airports in Tier II cities
- To work on expressways to internal corridors.
- Allocate INR. 1000 crore for rail connectivity in Northeastern region

Shipping:

Proposal to:

- Develop 16 new ports and allocate INR. 11,635 crore for Harbor projects
- Allocate INR. 11,000 crore for Port connectivity
- Allocate INR. 4,200 crore for development of Inland water ways

Housing:

Proposal to:

- Allocate INR. 8000 crore to National Housing Banking Programmed.
- INR 4000 crore to be allocated for Low cost/ affordable housing via NHB.

Power & Energy:

Proposal to:

- Allocate INR. 500 crore to New Rural Plan.
- Allocation of adequate coal; to existing Power plants
- Allocate INR. 500 crore for Ultra Modern Solar Power projects.
- Allocate INR. 100 crore for Thermal Energy Scheme
- Allocation to setup additional gas pipelines up to 15,000 Kms.
- Measures to reduce dependence on any one energy source

Water:

Proposal to:

- Allocate INR. 3600 crore to National Rural drinking water programme for safe drinking water
- Allocate INR 2037 crore for Integrated Ganga project
- Allocate INR 100 crore for ghat development and beautification.
- Allocate INR. 2000 crore for Ganga Namami Yojana

Health Care:

Proposal to:

- Allocate INR. 500 crore for four new AIIMs Hospital with a target to create AIIMS in all states in near future.
- To move towards “Health for All”, the two key initiatives i.e. the Free Drug Service and Free Diagnosis Service would be taken up on priority.

- The Central Government will provide central assistance to strengthen the States' Drug Regulatory and Food Regulatory Systems by creating new drug testing laboratories and strengthening the 31 existing State laboratories.

<u>Technology, Textile and Skill development</u>:

Proposal to:

- Allocate INR. 10,000 crore for startup firms.
- Allocate INR. 200 crore to set up six more textile mega clusters
- Allocate INR. 500 crore to National Rural Internet and Technology Mission

<u>Farmers and Agriculture Sector:</u>

Proposals to:

- Provide finance to 5 lakhs landless farmers through NABARD
- To sustain 4 % growth in Agriculture : extending credits to join farming groups
- Measures to stabilize prices of agricultural commodities: an allocation of INR. 500 crore
- To formulate New Urea Policy
- Allocation of INR. 1000 crore for PM Irrigation Scheme
- Allocate INR. 100 crore for Agri Infra Fund
- Interest Subvention to continue on Short Term Crop loan with an additional benefit of reduction of interest rate to 3 % to encourage in time payments
- To set up Long term Rural credit fund within NABARD
- Undertake open Market sales of Food grains when required.
- Allocate INR. 5000 crore for Farm Warehousing Plan

<u>Education:</u>

Proposal to:

- Set up five new IIM's and five new IITs.
- To spend INR 28,635 crore for Sarva Shiksha Abhyaan and INR. 4966 crore on Rashtriya Madiamik Shiksha Abhiyan
- To allocate INR. 500 crore for teachers training programme
- to allocate a sum of `100 crore for setting up virtual classrooms as Communication Linked Interface for Cultivating Knowledge (CLICK) and online courses.
- to ease and simplify norms to facilitate education loans for higher studies.

Financial Sector:

Proposal to :

- Provide greater autonomy to Banks will be examined.
- Need to flush INR 2.4 Lakh crore in PSU
- Banks to sell shares to retail investors thereby enabling Direct investments in Banks
- Encourage investments in Kishan Vikas Patras for Banked and Unbanked funds.
- Introduce Single DEMAT a/c for all financial transactions
- Implementation of Modern Monetary policy in consultation with the Reserve bank of India.
- Introduction of uniform KYC norms.
- Measures to be taken Strengthen and modernize Finance Sector with better governance and accountability.
- Measures to deepen currency derivative market
- To set up six new debt recovery tribunal.
- Target to provide all households with Banking Services.

Women Safety:

Proposal to:

- Allocate INR. 100 crore to Beti Bachao, Beti Padhav Yojana
- Expend INR. 150 crore for safety of women in all cities.
- Allocate INR. 3000 crore for State Police Modernization

Others:

Proposal to :

- Allocate INR. 50,500 crore for Schedule Caste and Tribal Schemes
- Encourage research in Nano & Bio technology
- Several major space missions planned
- To setup National level sports Academy for major games.
- To set up Sports University in Manipur

TAX PROPOSALS:

DIRECT TAX:

- No change in Tax rates
- Surcharge and Education cess remain unchanged
- Personal Income Tax Slab rates :
  - Below 60 years of age

Income Slabs	Tax Rate
Up to 250,000	Nil
250,001 – 500,000	10%
500,001 – 10,00,000	20%
Above 10,00,000	30%

  - Equal to or above 60 years of age but less than 80 years of age:

Income Slabs	Tax Rate
Up to 300,000	Nil
300,001 – 500,000	10%
500,001 – 10,00,000	20%
Above 10,00,000	30%

- Exemption Limit under Section 80 C increased to INR 1.5 lakh from INR 1 lakh
- Deduction of Interest on Housing Loan in case of Self occupied property increased to INR 2 lakh from INR 1.5 lakhs
- To provide Investment allowance of 15% on Total Investment in Plant & Mach during a financial year, if a manufacturing Company invests more than INR. 25 crore in new plant and machinery. This benefit will be available for three years till 31st March 2017.
- To provide investment liked deduction to two new sectors, namely, slurry pipelines for the transportation of iron ore, and semiconductor wafer fabrication manufacturing units
- To provide 10 year tax holiday exemption to Power Companies who start production and distribution on 31st March 2017
- To provide that income arising to foreign portfolio investors from transaction in securities will be treated as capital gains.
- To retain 15% tax rate in case dividends received from Foreign Companies without any sunset date.
- In order to augment low cost long term foreign borrowings for Indian companies, an extension in the eligible date of borrowing in foreign currency from 30.06.2016 to 30.06.2017, for a concessional tax rate of 5 percent on

interest payments, is proposed. This tax incentive is extended to all types of bonds instead of only infrastructure bonds.

Measures to reduce tax litigation and/ or arbitrage:

- With the view to remove tax arbitrage, rate of Long term Capital gain tax to be increased from 10% to 20% in case of transfer of Mutual funds, other than equity oriented Mutual funds. Increase in holding period from 12 months to 36 months in case of such units to be classified as Long Term.
- Enhance the scope of Income tax settlement commission.
- To setup a High Level Committee that will interact with trade and industry on regular basis to ascertain the areas where clarity in tax laws is required.

  Based on the recommendation of this committee both Central Board of Direct taxes and the Central Board of Excise and customs shall issue clarificatory notification, wherever needed within two months.

- Facility of Advance ruling extended to residential tax payers provided they exceed the define threshold limit
- To create a roadmap for Advance Transfer Pricing agreement to reduce tax litigation
- To introduce Range concept for determination of Arms Length price and appropriate rules in this regards will be prescribed.
- As per existing provisions of Transfer Pricing Regulations, only one year data is allowed to be used for comparable analysis with some exception. I propose to amend the regulations to allow use of multiple year data
- With an intent to reduce the anomaly faced by Companies and Mutual funds to reduce the percentage of disallowance of related expenditure, dividend in this case, from 100% to 30% in case of nonpayment of Dividend Distribution Tax by Companies and Income distribution Tax in case of Mutual funds.

INDIRECT TAX

Excise and Custom Duty:

Proposal to:

- Reduction in Basic Custom Duty on Certain Products like fatty acids, crude glycerin used in manufacture of soaps, steel grade limestone, battery waste &

scrap, Coal tar pitch, certain products used in chemicals and petrochemicals sector etc.

- Scrap excise duty n specified inputs used in manufacture of spandex yarn.
- Measures to boost domestic Production and reduce dependence on imports of Electronics:
  - Exempt all inputs/components used in manufacture of Personal computers from Special Additional Duty
  - Impose Basic Custom Duty @ 10% on specified telecommunication products
  - Levy of Education cess on import of Electronics
- Exempt Basic Custom Duty on Color Picture Tubes
- LCD & LEDs below 19 inches to be exempt from Basic Custom Duty
- Increase the Basic Custom Duty on imported flat rolled products of stainless steel.
- Exempt from Basic Custom Duty on certain products used in manufacture of EVA sheets, solar tempered glass, flat copper wire used in manufacture of PV ribbons, related machinery and equipments etc in order to maximize utilization of Solar Power.
- To promote Wind Energy exempt from basic custom Duty and/or Special Additional duty in respect of parts and/or raw materials used to manufacture wind operated generators.
- Rationalize duties over various coal grades
- To impose basic Custom Duty on Semi/Processed & half cut diamonds of 2.5% to bring it at par with the Basic custom duty imposed on Cut and Polished Diamonds- A measure to reduce tax litigation
- Measures to encourage exports of readymade garments.
- Increase Free Baggage Allowance for INR. 35,000 to INR 45,000
- To boost domestic production, reduction in Excise duty to 6 on food processing and packaging
- To promote sports a proposal is made to provide concessional excise duty of 2% without Cenvat benefit and 6% with Cenvat benefit on Sports gloves.
- To reduce excise duty on footwear with retail price exceeding INR.500 but not exceeding INR1000 per pair from 12% to 6%.
- Increase in excise duty on :
  - Cigarettes, cigars, cheroots and cigarillos from 11% to 72%
  - Unmanufactured Tobacco from 50% to 55%
  - Gutkas and Chewing Tobacco from 60% to 70%
  - Pan Masala from 12% to 16%
- Levy Additional Excise Duty of 5% on Aerated waters containing additional sugar

- Increase Clean energy cess from INR. 50 per tonne to INR. 100 per tonne.

Service tax

With an intention to widen the Tax base and enhance Compliances proposals are made to:

- Sale of Space or time for in broadcast media is extended to cover such sales on other segments like online and mobile advertising. Sale of space in print media though still remains excluded from Service tax. *
- Services provided by Radio taxis are bought under the net of Service Tax to bring them at par with Rent a Cab Services.*
- Withdrawal of exemption on certain services including services provided by:
  - Air conditioned Contract Carriages.
  - Testing of newly developed drugs on human participants
- Extend the benefit of Cenvat credit in same line of business for services rendered by tour operators and Rent a cab.
- Exempt from Service tax, services rendered for Loading, Unloading, Warehousing and Transportation of Cotton whether ginned or baled.
- Take out of the tax net, Services provided by Indian tour operators to foreign tourists in relation to tours wholly conducted outside India.
- Amendments are proposed to The Customs and Central Excise Act and Finance Act, 1994 relating to Service Tax.

Note: * New levies will come into effect from the date notified after the passing of the Finance Bill.

Others

Proposal to:

- Implement an Indian Custom Single Window Project to facilitate Trade
- Faster clearance of import and export cargos to reduce transaction cost and increase business competitiveness.
- To expand the benefit of Advance Rulings in Indirect tax to Private Limited Companies
- To expedite the process of disposal of appeals.