

--- 2014 ---

# Income Tax Budget Analysis

(For Private Circulation Only)



**A LOOK**  
*at the*  
**BUDGET**

**Surana Maloo & Co.**

Chartered Accountants

2<sup>nd</sup> Floor, Aakash Ganga Complex,  
Parimal Under Bridge, Nr Suvridha Shopping Center,  
Paldi, Ahmedabad-07

Ph: 079-26651777, 26651778, 08156051777

# 'Starting of Acche Din'... 😊

## Personal Income Tax

- Basic Exemption limit raised by ₹ 50,000 –  
Revised exemption limits are as under:-

Particulars	Earlier	Now
For Individual Tax payer below 60 Yrs.	₹ 2,00,000	₹ 2,50,000
For Senior Citizen (i.e. Above 60Yrs)	₹ 2,50,000	₹ 3,00,000
For Super Senior Citizen (i.e. Above 80Yrs)	₹ 5,00,000	₹ 5,00,000

- Deduction Ceiling limit u/s 80C increased by ₹ 50,000/- from ₹ 1,00,000 to ₹ 1,50,000
- Ceiling limit u/s 24(b) in respect of Deduction of interest paid on Housing Loans for Self Occupied House Property increased by ₹ 50,000/- from ₹ 1,50,000 to ₹ 2,00,000



# ADDITIONAL RESOURCE MOBILISATION MEASURES

## Dividend and Income Distribution Tax

- Section 115-O (Tax on distributed profits of domestic companies) and Section 115R (Tax on distributed income to unit holders) Amended
- Now the 'Dividend Distribution Tax' and 'Income Distribution Tax' to be levied on **Gross Amount** instead of amount paid net of taxes – explained through below example:-

Particulars	Existing	Proposed
Amount of Proposed Dividend	1,00,00,000	1,00,00,000
Rate of Dividend Distribution Tax	16.995%	16.995%
Amount of Dividend Distribution Tax	16,99,500	20,47,467 $(1,00,00,000/83.005%)*16.995%$
<b>Now Additional Tax Revenue to Government</b>		<b>3,47,967</b>



- Applicable w.e.f. 01/10/2014

- **More Tax to be paid by Companies**

# To remove tax arbitrage

- Long-term Capital Gains on debt oriented Mutual Fund and its qualification as Short-term capital asset - Section 2(42A) Amended
- Unlisted security and a unit of a mutual fund (other than an equity oriented mutual fund) shall be a short-term capital asset if it is held for not **more than 36 months.**
- **Accordingly rate of tax on long term capital gains increased from 10 percent to 20 percent on transfer of units of Mutual Funds, other than equity oriented funds.**
- Corresponding Amendment also made in Section 112 of the Act

# Measures to Promote Socio-Economic Growth



## A. Investment Allowance to Manufacturing Co.

- Section 32AC Amended
- Investment allowance at the rate of 15 percent to a manufacturing company that invests more than ₹ 25 crore in any year in **new plant and machinery**.
- The benefit to be available for three years i.e. for investments from 01.04.2014 to 31.03.2017.
- Further, no deduction under this new provision shall be allowed for the AY 2015-16 to the assessee, which is eligible to claim deduction under the earlier provision of investment of ₹ 100 Crore or more in New plant & Machinery.
  - Immediate Benefit to Regular Tax Paying Companies – Deferred benefit to new undertakings

Sl. No.	Particulars	P.Y. 2013-14	P.Y. 2014-15	P.Y. 2015-16	P.Y. 2016-17	Remarks
1.	Amount of investment	150	20	70	20	Deduction both u/s 32AC(1) and 32AC(1A)
	Deduction allowable	22.5	3	10.5	Nil	
2..	Amount of investment	30	30	30	40	Under the proposed section 32AC(1A)
	Deduction allowable	Nil	4.5	4.5	6	



# Extension of the sunset date under section 80IA for the POWER SECTOR

- Section 80IA(4)(iv)
- Proposed to provide further time to the undertakings to commence the eligible activity to avail the tax incentive
- By extending the terminal date by a further period of Three year i.e. up to 31st March, 2017
- But benefit available to POWER SECTOR Only – **Time Extension Only**



# Amendment in Section 35AD –

## Deduction in respect of capital expenditure on specified business

- Proposed to include two new businesses as “specified business” for the purposes of the investment-linked deduction under section 35AD, which are :-
  - **laying and operating a slurry pipeline for the transportation of iron ore;**
  - **setting up and operating a semiconductor wafer fabrication manufacturing unit, if such unit is notified by the Board in accordance with the prescribed guidelines.**
- Also proposed that the date of commencement of operations for availing investment linked deduction in respect of the two new specified businesses shall be on or after 1st April, 2014
- Lock in period for the specified business provided** - Inserted sub-section (7A) in section 35AD to provide - **capital assets must be used for eight years** beginning with the previous year in which such asset is acquired or constructed.
- Section 35AD(7B) also inserted - If any asset on which a deduction under section 35AD has been allowed, is demolished, destroyed, discarded or transferred, the sum received or receivable for the same is chargeable to tax under clause (vii) of section 28. Exception - company which has become a sick industrial company.

### Example:

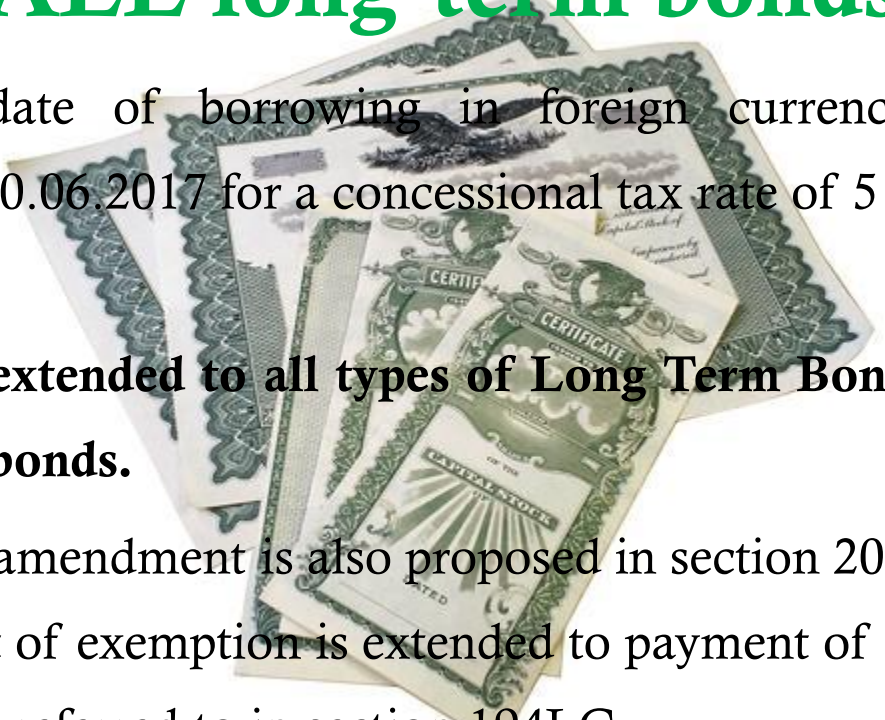
Deduction claimed under section 35AD on a capital asset	:	Rs. 100
Depreciation eligible on such asset under section 32	:	Rs. 15
Profit chargeable to tax in accordance with the proposed sub-section (7B) of section 35AD	:	Rs. 85

- Further No benefit u/s 10AA, if deduction u/s 35AD is claimed & Allowed.

# Concessional rate of tax on overseas borrowing

## Section 194LC extended to

# ALL long-term bonds

- The eligible date of borrowing in foreign currency extended from 30.06.2015 to 30.06.2017 for a concessional tax rate of 5 percent on interest payments.
  - **Tax incentive extended to all types of Long Term Bonds instead of only infrastructure bonds.**
  - Consequential amendment is also proposed in section 206AA to ensure that this benefit of exemption is extended to payment of interest on any long-term bond referred to in section 194LC.
  - **Applicable w.e.f. 01/10/2014**
- 
- **Time Extension with Wide Coverage**



# Reduction in tax rate on certain dividends received from foreign companies



- Extension to the benefit of lower rate of taxation without limiting it to a particular assessment year
- Section 115BBD applicability extended to all succeeding assessment years instead of limited period for the assessment year 2012-13 or 2013-14 or 2014-2015
- Thus, Now such foreign dividends received shall continue to be taxed at the lower rate of 15%.
  - **Continuous Positive Cash Flow for Indian Companies at Reduced Tax Rates**

# Roll back provision in Advance Pricing Agreement Scheme – to Reduce Long Drawn Litigations

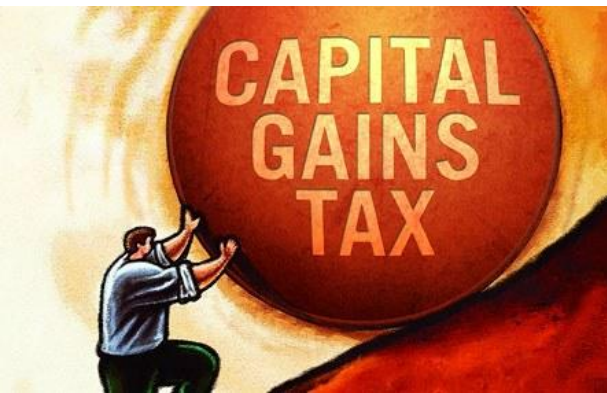
- Introduction of a “Roll Back” provision in the Advanced Pricing Agreement (APA) scheme
- Now an APA entered into for future transactions is also applicable to international transactions undertaken in previous four years in specified circumstances
- This amendment will take effect from 1st October, 2014

**A Welcome Move**

# Characterisation of Income in case of Foreign Institutional Investors – As Capital Gain



- To promote the Foreign Institutional Investors
- Section 2(14) proposed to be amended
- Income arising to foreign portfolio investors from transaction in securities to be treated as capital gains.



**Ambiguity Cleared - Welcome**

# Widening Of Tax Base And Anti Tax Avoidance Measures

## Alternate Minimum Tax

- Section 115JC proposed to be Amended
- Total income shall be increased by the deduction claimed under section 35AD for purpose of computation of adjusted total income.
- The amount of depreciation allowable under section 32 shall, however, be reduced in computing the adjusted total income.

Example:

Total income	:	Rs. 60
Deduction claimed under Chapter VI-A	:	Rs. 40
Deduction claimed under section 35AD on a capital asset	:	Rs. 100

### Computation of adjusted total income for the purposes of AMT

Total income	:	Rs. 60
Addition:		
(i) deduction under Chapter VI-A (on non-specified business)	:	Rs. 40
(ii) deduction under section 35AD (on specified business)	Rs. 100	
Less: depreciation under section 32	Rs. 15	
	:	Rs. 85
Adjusted total income under section 115JC	:	Rs. 185

## Taxability of advance forfeited for capital asset – Now Taxable as *'Income From Other Source'*

- Proposed to insert Section 56(2)(ix) for taxing any sum of money, received as an advance or otherwise and forfeited in the course of negotiations for transfer of a capital asset.
- Such sum shall be chargeable to income-tax under the head 'income from other sources'
- A consequential amendment in clause (24) of section (2) is also being made to include such sum in the definition of the term 'income'.

**Pay tax as you forfeit – Parallel Revenue to Govt**



# Tax deduction at source from non-exempt payments made under life insurance policy

- Section 194DA Inserted - deduction of tax **at the rate of 2 per cent**
- Now TDS applicable in respect of sum paid under life insurance policies which are not exempted under section 10(10D) of the Act
- No deduction under this provision shall be made if the aggregate sum paid in a financial year to an Assessee is less than Rs.1,00,000/-.
- Applicable with effect from 1st October, 2014.
- **A mechanism for reporting of transactions**



donations  
accepted



# Rationalisation Measures Anonymous donations u/s 115BBC

Section 115BBC – amendment explained through below example

Particulars	Existing	Proposed
Break up of Donations Received		
a) Anonymous Donation	5,00,000	5,00,000
b) Other Donation	10,00,000	10,00,000
<b>Taxation of Such Donations</b>		
a) Anonymous Donation	4,00,000*	4,00,000*
b) Other Donation	10,00,000	11,00,000**
Total Taxable Amount	14,00,000	15,00,000

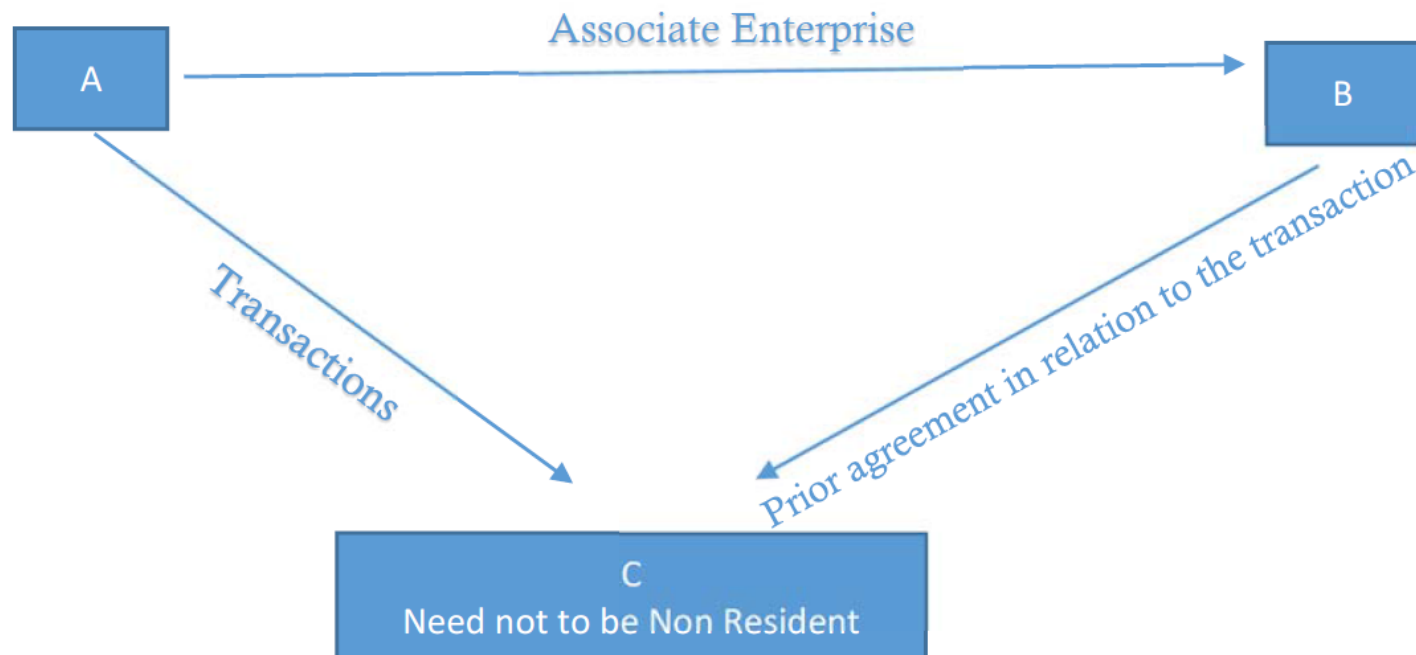
- \* Taxable Anonymous Donation = ( 5,00,000 Less 5% of total Donation or ` 1,00,000 w .e. higher)
- \*\* Total Taxable Donations = ( ` 15,00,000 Less taxable Anonymous Donation ` 4,00,000)

**Now All such Donations are fully taxable though at different rates**

# Rationalisation of the Definition of International Transaction

- Section 92B proposed to amended – Following transaction shall be deemed to be an international transaction entered into between two associated enterprises, whether or not such other person is a non-resident

**Now Indirect Transactions also under Scrutiny of Transfer Pricing**



# Corporate Social Responsibility (CSR) – Expenses NOT Allowable u/s 37(1)

- Based on Section 135 of the Companies Act 2013, Section 37(1) of the Act amended
- Any expenditure incurred by an Assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence shall not be allowed as deduction under section 37.
- However, the CSR expenditure which is of the nature described in section 30 to section 36 of the Act shall be allowed deduction under those sections subject to fulfillment of conditions, if any, specified therein.

**Social Responsibility at additional Tax Liabilities**

Corporate Social  
Responsibility

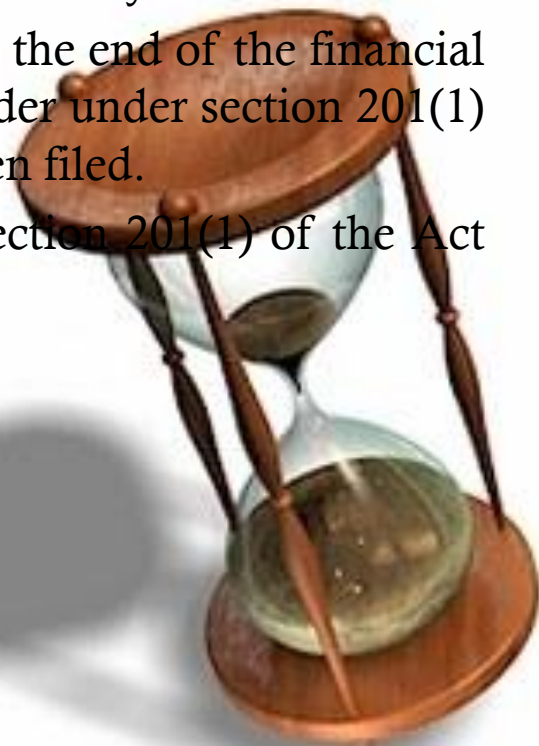
# Disallowance of expenditure for non-deduction of tax at source

- Section 40(a)(i) amended – **payments such as interest, royalty and fee for technical services made to a non-resident** - now TDS deducted during the previous year but Paid on or before the date of filing return u/s 139(1) – such expenses **will be allowed**
  - Proposed that in case of non-deduction or non-payment of TDS on payments made to residents as specified in section 40(a)(ia) of the Act, the disallowance shall be restricted to 30% of the amount of expenditure claimed.
  - Proposed that the disallowance under section 40(a)(ia) of the Act shall extend to all expenditure on which tax is deductible under Chapter XVII-B of the Act (specially to cover up the salary expenses and Director Fee).
- **All above points are welcome move By the Finance Minister**



# Tax Deduction at Source – Processing of TDS Statement and Raising Default Demand u/s 201 of the Act

- Time limits for passing order u/s 201 extended – similar to section 153A / 148
- Revised time limit is seven years from the end of the Previous year
- Section 201(3) prescribes a time limit of six years from the end of the financial year in which payment/credit is made for passing of order under section 201(1) of the Act for cases in which TDS statement has not been filed.
- Section 201(3)(ii) of the Act for passing order under section 201(1) of the Act shall be **extended by one more year..**
- **Applicable w.e.f. 01/10/2014**



# Business of Plying, Hiring or Leasing Goods Carriages

- Section 44AE Amended & Simplified
- Proposed to provide for a uniform amount of presumptive income of Rs.7,500 for every month (or part of a month) for all types of goods carriage
- Now no more distinction between Heavy Goods Vehicle and vehicle other than Heavy Goods Vehicle .



# Transaction in respect of commodity derivatives And Losses in Speculation Business

- **Section 43(5) amended and further clarified w.r.f. 01/04/2014**
- It is proposed to amend clause (e) of the proviso to the said clause (5) so as to provide that eligible transaction in respect of trading in commodity derivatives carried out in a **recognised association** and **chargeable to commodities transaction tax** under Chapter VII of the Finance Act, 2013 shall **NOT BE CONSIDERED** to be a speculative transaction.
- **Explanation to Section 73 amended w.e.f. 01/04/2015**
- Explanation Amended so as to provide that the provision of the Explanation shall also not be applicable to a company the principal business of which is the business of trading in shares.

# Amendments to Capital Gain

## Capital gains arising from transfer of an asset by way of compulsory acquisition Section 45(5)

- the amount of compensation received in pursuance of an interim order of the court, Tribunal or other authority shall be deemed to be income chargeable under the head 'Capital gains' in the previous year **in which the final order of such court, Tribunal or other authority is made.**

## Capital gains exemption in case of investment in a residential house property – for Section 54 and 54F both

- The benefit was intended for investment in residential house **within India only.**

## Capital gains exemption on investment in Specified Bonds – Section 54EC

- Proposed to insert a proviso in sub-section (1) so as to provide that the investment made by an assessee in the long-term specified asset, out of capital gains arising from transfer of one or more original asset, during the financial year in which the original asset or assets are transferred and in the subsequent financial year does not exceed fifty lakh rupees.



## TDS survey also covered u/s 133A – With limited Authorative Powers

- Proposed to provide that income-tax authority can carry out Survey for the purpose of verifying that tax has been deducted or collected at source in accordance with the provisions of Chapter XVII-B or Chapter XVII-BB
- However, with limited powers while acting under sub-section (2A) **he shall not impound and retain** in his custody any books of account or documents inspected by him or make an inventory of any cash, stock or other valuables.
- These amendments will take effect from 1st October, 2014



# Inquiry by prescribed income-tax authority – New Section WITH New Powers

- **Section 133C inserted**
- With a view to enable prescribed income-tax authority to verify the information in its possession relating to any person, it is proposed to insert a new section 133C in the Act so as to provide that for the purposes of verification of information in its possession relating to any person, prescribed income-tax authority, may, issue a notice to such person requiring him, on or before a date to be therein specified, to furnish information or documents, verified in the manner specified therein which may be useful for, or relevant to, any enquiry or proceeding under this Act.
- This amendment will take effect from 1st October, 2014.

# Section 142A amended – Time limit provided to Valuer

- **Best judgment provision to the valuer added** - If the assessee does not co-operate or comply with the directions of the Valuation Officer he may, estimate the value of the asset, property or investment to the best of his judgment.
- **Time limit provided to the Valuer** - It is also proposed to provide that the Valuation Officer shall send a copy of his estimate to the Assessing Officer and the assessee within a period of six months from the end of the month in which the reference is made.
- Corresponding Amendment made to sections 153 and 153B of the Act so as to provide that the time period beginning with the date on which the reference is made to the Valuation Officer and ending with the date on which his report is received by the Assessing Officer shall be excluded from the time limit provided under the aforesaid section for completion of assessment or reassessment.
- These amendments will take effect from 1st October, 2014.

# Interest payable by the Assessee under section 220

- Theory of continuity of the proceedings and the doctrine of relation Back followed
- Section 220(1A) newly inserted
- Proposed to provide that where as a result of an order under sections specified in the first proviso, the amount on which interest was payable under this section **had been reduced** and **subsequently** as a result of an order under said sections or section 263, the amount on which interest was payable under section 220 is **increased**, the assessee shall be liable to pay interest under sub-section (2) of the said section on the amount payable as a result of such order, from the day immediately following the end of the period mentioned in the first notice of demand referred to in sub section (1) of the said section and ending with the day on which the amount is paid.
- These amendments will take effect from the 1st day of October, 2014.

**Technically SC judgment in the case of Vikrant Tyres Ltd. 247 ITR 0821, Overruled**

# Mode of acceptance or repayment of loans and deposits

- internet banking facilities or by use of payment gateways also added in the approved mode of acceptance / repayments of loans or deposits.

## Green Revolution & Acceptability of E-Commerce



# If Failed to produce accounts and documents – Then get ready for the Prosecution!!!

- Section 276D of the Act Proposed to be Amended
- Proposed to amend the provisions of the said section so as to provide that if a person willfully fails to produce accounts and documents as required in any notice issued under sub-section (1) of section 142 or willfully fails to comply with a direction issued to him under sub-section (2A) of section 142, he shall be punishable with rigorous imprisonment for a term **which may extend to one year and with fine.**
- This amendment will take effect from 1st October, 2014



# Provisional attachment under section 281B – Period Extended

- Proposed to amend the proviso to sub-section (2) so as to provide that the Chief Commissioner, Commissioner, Director General or Director may extend the period of provisional attachment
  - so that the total period of extension does not exceed two years or
  - upto sixty days after the date of assessment or reassessment,  
**whichever is later.**
- This amendment will take effect from 1st October, 2014.

# Amendment in AIR Returns Provisions

- Now AIR returns can also be revised if the person comes to know or discovers any inaccuracy in the information provided in the statement, then, he shall, within a period of ten days, inform the income-tax authority or other authority or agency referred to in sub-section (1) the inaccuracy in such statement and furnish the correct information in the manner as may be prescribed.
- New section 271FAA
- If a person provides inaccurate information in the statement and where,
  - (a) the inaccuracy is due to a failure to comply with the due diligence requirement prescribed under sub-section (7) of section 285BA or is deliberate on the part of the person; or
  - (b) the person knows of the inaccuracy at the time of furnishing the statement of financial transaction or reportable account, but does not inform the prescribed income-tax authority or such other authority or agency; or
  - (c) the person discovers the inaccuracy after the statement of financial transaction or reportable account is furnished and fails to inform and furnish correct information within the time specified under sub-section (6) of section 285BA, then, the prescribed income-tax authority may direct that such person shall pay, by way of penalty, a sum of fifty thousand rupees.

# Assessment of income of a person other than the person who has been searched

- Section 153C amended
- Where the Assessing Officer is satisfied that any money, bullion, jewellery or other valuable article or thing or books of account or documents seized or requisitioned belongs or belong to any person, other than the person referred to in section 153A, then books of account or documents or assets seized or requisitioned shall be handed over to the Assessing Officer having jurisdiction over such other person and that Assessing Officer shall proceed against each such other person and issue such other person notice and assess or reassess income of such other person in accordance with the provisions of section 153A **if he is satisfied that the books of account or documents or assets seized or requisitioned have a bearing on the determination of the total income of such other person for the relevant assessment year or years referred to in sub-section (1) of section 153A .**
- The amendment will take effect from 1st October, 2014.

# Extension of tax benefits under section 80CCD to private sector employees

- Considering the fact that for employees in the private sector, the date of joining the service is not relevant for joining the New Pension Scheme (NPS), it is proposed to amend the provisions of section 80CCD to provide that the condition of the date of joining the service on or after 1.1.2004 is not applicable to them for the purposes of deduction under the said section.

# Use of multiple year data for comparability analysis under transfer pricing regulations

- The agreement referred to in sub-section (1), may, subject to such conditions, procedure and manner as may be prescribed, provide for determining the arm's length price or specify the manner in which arm's length price shall be determined in relation to the international transaction entered into by the person during any period **not exceeding four previous years preceding the first of the previous years referred to in sub-section (4)**, and the arm's length price of such international transaction shall be determined in accordance with the said agreement.” – **A Welcome Amendment**



# Disclaimer



**CA Surana**

This immediate analysis has been Prepared keeping in mind the interest of our clients and is for private circulation only.

**Full care have been taken While doing the analysis, however we disclaim any liability if any arise.**



**CA Maloo**

[vidhansurana@suranamaloo.com](mailto:vidhansurana@suranamaloo.com)

[sunilmaloo@suranamloo.com](mailto:sunilmaloo@suranamloo.com)

Thanks...