

RNM ALERT

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FLASH OF THE UNION BUDGET 2014-15

The Union Budget 2014-15 was presented on the floor of the Parliament by the Hon'ble Finance Minister, Mr. Arun Jaitley today. The summary of the key changes made and the expectations of India Inc. from the Budget are as follows:

A. Top 5 Pre-Budget Expectations:

- Fiscal Consolidation- A Fiscal consolidation roadmap of the Central Government, in the background of an expectation of a higher fiscal deficit number than the 4.1% of GDP estimated by the previous Government. The following steps are expected to be announced in this regard:
 - PSU Disinvestments to enhance revenue *-Done*
 - Diesel price de-regulation to control subsidies *-Done*
 - Introduction of unified Goods & Services Tax (GST) within next 12-18 months which should shore up revenues *- Silent on Time line*
- Revival of Manufacturing: Following steps may be taken to revive manufacturing sector:
 - Introduce FDI in defence; *-Done*
 - Electronic hardware sector to get incentive; *-Done*
 - Equipment for renewable energy to get incentive; *-Done*
 - Rail modernization and expansion thru FDI supported Public-Private participation model, railway equipment manufacturers to get support *-Done*

- Reform in Financial Sector: Following steps could be taken to reform the banking and financial sector:
 - recapitalize the Banks by diluting government stake thru IPO and greater FDI. **- Done**
 - Incentivise investments in equity to bring buoyancy in capital markets. **-Done**
 - Relaxation of FDI limits in Life Insurance **-Done**
- Direct Tax Policy Reforms:
 - Deferral of General Anti Avoidance Rules (GAAR) **-Not done**
 - Reversal of retrospective amendments **-Not done**
 - Faster refunds and timebound disposal of appeals **-Silent**
 - Reduction in MAT rates **-Not done**
 - Simplification in Transfer Pricing thru an expeditious dispute resolution mechanism **-Done**
 - Re-examine the Direct Tax Code entirely, with the objective of broadening the tax base and simplifying the implementation **-Done**
- Boost to Tourism Sector: Incentive for development of new tourist destinations **-Done**

As noted from the above, the Budget seems to have hit most of the expectations except the one big ticket announcement on reversing the retrospective tax amendments, and Team RNM gives the Finance Minister a rating of 7/10.

B. Direct Taxes Proposals:

➤ Tax Rate / Slabs -

- No change in tax rates for corporate tax payers.
- Maximum exemption limit for an individual increased to Rs. 250,000 from existing Rs. 200,000. Senior citizen can avail maximum exemption limit for Rs. 300,000.

- For Individuals-
 - Investment limit under Sec. 80C increased from Rs. 0.1 Mn to Rs. 0.15 Mn.
 - Deduction for Interest u/s. 24 on Housing Loan for self occupied property increased from Rs. 0.15 Mn to Rs. 0.20 Mn.

- For Corporates-
 - Dividend Distribution Tax to be worked out by grossing up the Dividend Distribution Tax to the amount distributed to the share holder / unit holder' - effective from 01.10.2014. (Section 115R / 115O)
 - Tax regime, granting pass through status, for Infrastructure Investment Trusts and Real Estate Investment Trusts (REIT's) to be set up in accordance with regulations of the Securities and Exchange Board of India.
 - Proposes to insert sub section 1A to section 32 AC for grant of investment allowance @ 15% to small & medium size enterprises for investment in new assets (plant & machinery) above threshold limit of Rs. 250 Mn.
 - 10 Years Tax Holidays for Investment in generation & distribution of power starting production and distribution on or before March 31, 2017. The present limitation up to 31.03.2014 extended by 3 years.
 - Investment Linked tax incentive u/s. 35AD - deductions extended to two more sectors, namely (a) laying and operating a slurry pipeline for the transportation of iron ore; (b) setting up and operating a semiconductor wafer fabrication manufacturing unit, if such unit is notified by the Board in accordance with the prescribed guidelines.



- CSR (Corporate Social Responsibility) expenditure is not a deductible expenditure in view of proposed Explanation-2 to Section 37(1)
- Disallowance u/s. 40(a)(ia) on account of non-deduction of tax at source reduced to 30% of expenses as against 100% of expenses by due date of return u/s. 139(1).
- Concessional rate of 5% on interest extended to all types of bonds.
- Concessional rate of tax at 15% on dividend received in India from foreign subsidiaries continues.
- Capital Gains-
- Period for holding for Long Term Capital Gains ('LTCG') on Mutual Funds, other than equity oriented funds increased from 12 Months to 36 Months. (Amendment to Section 242A)
- Increase the rate of tax on long term capital gains from 10 percent to 20 percent on transfer of units of Mutual Funds, other than equity oriented funds.
- Proposed to amend Section 112 to allow concessional rate of tax of 10% on LTCG to listed securities (other than unit)
- Investment by FII will be treated as capital asset and any income from such transaction of such security by Foreign Portfolio Investors (FPI) will be Capital Gain.
- Capital Gain exemption u/s 54 / 54F is restricted to investment in one residential house in India.
- Capital Gains exemption u/s. 54EC for investment in specified bonds restricted to Rs. 5 Mn.
- Transfer Pricing -
 - (a) Introduce a "Roll Back" provision in the Advance Pricing Agreement (APA) Scheme so that an APA entered into for future transactions may also be applied to international transactions undertaken in previous four years in specified circumstances.
 - (b) Introduce range concept for determination of arm's length price (ALP).

- (c) Multiple year data can be used for comparability for T. P study as against current year data to be used.
- Alternate Minimum Tax - Deduction allowed u/s. 35AD as reduced by depreciation will be added to the book profit for liability to be worked out u/s. 115JC.
 - Control of Black Money- Advance money received and forfeited by the proposed seller of capital asset, taxable u/s. 56(2).
 - Amount of capital expenditure allowed as application of income in computation the income of the trust, depreciation on such capital asset will not allowed as application of income.
 - When an Institution has been granted registration u/s. 11 & 12, the trust will not be eligible for exemption u/s. 10.
 - Compensation received in pursuance of interim order of the courts / tribunal or other authority on compulsory acquisition of capital asset is taxable under the head capital gain in previous year in which the final order of court / tribunal is made.
 - The Government will review the DTC in its present shape and take a view in the whole matter.



C. Indirect Taxes Proposals:

I. Service Tax:-

Broadening the tax base:

- Service tax leviable currently on sale of space or time for advertisements in broadcast media, namely radio or television, has been extended to cover such sales on other segments like online and mobile advertising.
- Service tax to be levied on the services provided by radio taxis or radio cabs, whether or not air-conditioned. The abatement presently available to rent-a-cab service would also be made available to radio taxi service, to bring them on par.

Above changes will come into effect from a date to be notified later, after the Finance (No.2) Bill, 2014 receives the assent of the President.

- Exemption extended to clinical research on human participants is being withdrawn.
- Exemption extended to air-conditioned contract carriages like buses is being withdrawn.
- Exemption in respect of services provided to Government or local authority or governmental authority, will be limited to services by way of water supply, public health, sanitation conservancy, solid waste management or slum improvement and upgradation.
- the concept of 'auxiliary educational services' is being omitted and notification will specify, the services which will be exempt when received by the educational institutions.
- Exemption available to accommodation services provided by hotels, dharamshalas or ashrams when they provide rooms for less than Rupees One Thousand per day, is being re-worded to bring out the intent clearly.

Above changes will come into effect immediately.

- In Rule 2A of the Service Tax Valuation Rules, category 'B' and 'C' of works contracts proposed to be merged into one single category, with service portion as 70%; *this change will come into effect from 1st October, 2014.*
- Taxable portion in respect of transport of goods by vessel to be reduced from 50% to 40%. Effective service tax will decrease from the present 6.18% to 4.944%. *This will come into force from 1st October 2014.*

New exemptions

- Life micro-insurance schemes for the poor, approved by IRDA, where sum assured does not exceed Rs. 50,000 to be exempted from service tax.
- Transport of organic manure by vessel, rail or road (by GTA) is being exempted.
- Loading, unloading, packing, storage or warehousing, transport by vessel, rail or road (GTA), of cotton, ginned or baled, is being exempted.

- Services provided by common bio-medical waste treatment facility operators to clinical establishments are being exempted.
- Specialized financial services received by RBI from global financial institutions in the course of management of foreign exchange reserves, e.g., external asset management, custodial services, securities lending services, etc. are being exempted.
- Services provided by Indian tour operators to foreign tourists in relation to a tour wholly conducted outside India are being exempted.

New exemptions will come into effect immediately, i.e. 11.7.2014

Retrospective Exemption:

- Service provided by Employees' State Insurance Corporation (ESIC) during the period prior to 1.7.2012 to be exempted from service tax.

Rate of Interest:

- Simple interest rates per annum payable under section 75, to vary on the basis of extent of delay in payment of service tax. This will come into force on 1st October 2014.
 - Extent of delay Simple interest rate per annum Up to six months 18%
 - From six months and upto one year 24%
 - More than one year 30%



Cenvat Credit:

- Service tax paid under full reverse charge: the condition to pay invoice value to the service provider for availing credit of tax paid, to be omitted.
 - GTA service: service receiver may avail abatement, without having to obtain non-availment of Cenvat Credit certificate from service provider [*Above mentioned changes to have immediate effect*].

- Rent-a-cab operator and tour operator: service tax paid by sub-contractor in the same line of business would be allowed as eligible credit to the main service provider to avoid double taxation, subject to certain conditions [with effect from 1st October 2014].
- Time limit for taking credit on input and input services: credit shall be taken within six months from the date of the invoice or challans or other documents specified [change to have effect from 1st September, 2014].

Place of Provision of Services Rules:

- Intermediary of goods to be given the same treatment as is given to intermediary of services.

II. CENTRAL EXCISE:-

(The change will come into effect from the date of enactment of Finance Act 2014)

New Levy of Duty

Optional excise duty of 2% (without CENVAT)/6% (with CENVAT) on writing and printing paper for printing of educational textbooks is being withdrawn and instead a uniform excise duty of 6% with CENVAT is being levied

A) EXEMPTION

Sl. No	Particular
1.	Parts of tractors removed from one or more factories of a tractor manufacturer to another factory of the same manufacturer for manufacture of tractors
2.	DDT manufactured by Hindustan Insecticides Limited for supply to the National Vector Borne Diseases Control Programme (NVBDCP) of the Ministry of Health & Family Welfare.
3.	HIV/AIDS drugs and diagnostic kits supplied under National AIDS Control Programme (NACP) funded by the Global Fund to Fight AIDS, TB and Malaria (GFATM)
4.	Reverse osmosis (RO) membrane element used in water filtration or purification equipment (other than household type filter)
5.	Solar tempered glass used in the manufacture of solar photovoltaic cells/modules, solar power generating equipment/system, and flat plate solar collectors
6.	Machinery, equipments, etc. required for setting up of solar energy production projects.
7.	Backsheet and EVA sheet used in the manufacture of photovoltaic cells/modules and specified raw materials used in their manufacture

<u>8.</u>	Parts consumed within the factory of production for the manufacture of non-conventional energy devices [Sl.No.332 of notification No.12/2012-CE, dated 17.03.2012]
<u>9.</u>	Flat copper wire used in the manufacture of PV ribbons (tinned copper interconnect) for use in the manufacture of solar cells/modules.
<u>10.</u>	Machinery, equipments, etc. required for setting up of compressed biogas plant (Bio-CNG)
<u>11.</u>	Liquefied Propane and Butane mixture, Liquefied Propane, Liquefied Butane and Liquefied Petroleum Gases (LPG) for supply to Non-Domestic Exempted Category (NDEC) customers by the Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited or Bharat Petroleum Corporation Limited retrospectively from 08.02.2013
<u>12.</u>	Goods supplied to National Technical Research Organisation (NTRO)
<u>13.</u>	Security threads and security fibre supplied to Security Paper Mill Corporation of India Limited (SPMCIL) and Bank Note Paper Mill India Private Limited (BNPMIPL)
<u>14.</u>	Intermediate goods manufactured and consumed captively for further manufacture of matches is being fully exempted
<u>15.</u>	Plastic materials reprocessed out of the scrap or waste and cleared into the DTA by an EOU
<u>16.</u>	Education cess and secondary & higher education cess (customs component) is being exempted on goods cleared by an EOU into the DTA.

B) INCREASE IN RATE

<u>Sl. No</u>	<u>Particular</u>	<u>New Rate</u>	<u>Previous Rate</u>
<u>1.</u>	Excise duty on winding wires of copper	<u>12%</u>	<u>10%</u>
<u>2.</u>	Excise duty on Polyester Staple Fiber and Polyester Filament Yarn manufactured from plastic waste or scrap or plastic waste including waste polyethylene terephthalate (PET) bottles w.e.f. 11th July, 2014.28	2% (without CENVAT) or 6% (with CENVAT)	
<u>3.</u>	Basic excise duty on pan masala, from 50% to 55% on unmanufactured tobacco and from 60% to 70% on jarda scented tobacco, gutkha and chewing tobacco	<u>16%</u>	<u>12%</u>
<u>4.</u>	Basic excise duty on unmanufactured tobacco	<u>55%</u>	<u>50%</u>
<u>5.</u>	Basic excise duty on jarda scented tobacco,	<u>70%</u>	<u>60%</u>

RNM ALERT SPECIAL ISSUE

July 10, 2014

	gutkha and chewing tobacco		
<u>6.</u>	Excise duty on recorded smart cards.	<u>12%</u>	2% without CENVAT and 6% with CENVAT
<u>7.</u>	Additional duty of excise is being levied on aerated waters containing added sugar	<u>5%</u>	NIL
<u>8.</u>	Clean Energy Cess levied on coal, lignite and peat	Rs. 100/- per tonne	Rs. 50/- per tonne



C) REDUCTION IN RATE

<u>Sl. No</u>	<u>Particular</u>	<u>New Rate</u>	<u>Previous Rate</u>
<u>1.</u>	Excise duty on machinery for the 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 packaging machinery	<u>6%</u>	<u>10%</u>
<u>2.</u>	Excise duty on RO membrane element used in household type filters	<u>6%</u>	<u>12%/10%</u>
<u>3.</u>	Excise duty on Metal Core PCB and LED driver for use in the manufacture of LED lights and fixtures and LED lamps	<u>6%</u>	<u>12%/10%</u>
<u>4.</u>	Excise duty on forged steel rings used in the manufacture of bearings of wind operated electricity generators	<u>NIL</u>	<u>12%</u>
<u>5.</u>	Excise duty on footwear of retail price	<u>6%</u>	<u>12%</u>

	exceeding Rs.500 per pair but not exceeding Rs.1,000 per pair.		
6.	Central Excise duty on Branded Petrol	Rs. 2.35 per litre	Rs.7.50 per litre

III. CUSTOMS:-

(The change will come into effect from the date of enactment of Finance Act 2014)

EXEMPTION:

Sl. No	Particular
1.	De-oiled soya extract, groundnut oil cake/oil cake meal, sunflower oil cake/oil cake meal, canola oil cake/oil cake meal, mustard oil cake/oil cake meal, rice bran/rice bran oil cake and palm kernel cake, up to 31.12.2014
2.	Re-gasified LNG for supply to Pakistan
3.	Liquefied Propane and Butane mixture, Liquefied Propane, Liquefied Butane and Liquefied Petroleum Gases (LPG) imported by the Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited or Bharat Petroleum Corporation Limited, for supply to Non-Domestic Exempted Category (NDEC) customers is being fully exempted retrospectively w.e.f. 08.02.2013
4.	Full exemption from Basic Customs Duty is being granted to pre-forms of precious and semi-precious stones
5.	Basic Customs Duty is being exempted on specified parts of LCD and LED panels for TVs
6.	Special Additional Duty (SAD) on all inputs/components used in the manufacture of Personal Computers (laptops/desktops) and tablet computers is being exempted, subject to actual user condition.
7.	Full exemption from Special Additional Duty (SAD) is being provided on specified inputs (PVC sheet & Ribbon) used in the manufacture of smart cards.
8.	Full exemption from Special Additional Duty is being provided on parts and components required for the manufacture of wind operated electricity generators.
9.	Full exemption from Basic Customs Duty is being provided on specified raw materials used in the manufacture of solar backsheet and EVA sheet.
10.	Full exemption from Basic Customs Duty is being provided on flat copper wire used in the manufacture of PV ribbons (tinned copper interconnect) for solar PV cells/modules.
11.	Full exemption from customs duty is being provided for HIV/AIDS drugs and

	diagnostic kits imported under National AIDS Control Programme (NACP) funded by the Global Fund to Fight AIDS, TB and Malaria (GFATM).
<u>12.</u>	Full exemption from Basic customs Duty is being provided to goods imported by National Technical Research Organisation (NTRO).
<u>13</u>	Full exemption of customs duty is being provided on security fibre, security threads and M-feature imported by Bank Note Paper Mill India Private Limited (BNPMIPL), Mysore. Full exemption from BCD and CVD is also being provided for raw materials required for manufacture of security threads and security fibre subject to actual user condition.
<u>14.</u>	The scope of exemption notification No.39/96-Customs dated 23.07.1996 [S.No.7] granting full exemption from BCD and CVD on goods imported for use in the manufacture of aircrafts for the Ministry of Defence is being clarified to the effect that the exemption is available to all materials in any form and articles thereof, subject to the overall condition that they conform to aeronautical specification accompanied with certificate of conformance/release note/airworthiness certificate for development.

INCREASE IN RATE

<u>Sl. No</u>	<u>Particular</u>	<u>New Rate</u>	<u>Previous Rate</u>
<u>1.</u>	free baggage allowance	Rs.45,000	Rs.35,000
<u>2.</u>	BCD on Coking coal	<u>2.5%</u>	<u>NIL</u>
<u>3.</u>	BCD on steam coal and bituminous coal	<u>2.5%</u>	<u>2%</u>
<u>4.</u>	Basic Customs Duty on metallurgical coke	<u>2.5%</u>	<u>NIL</u>
<u>5.</u>	Basic Customs Duty on stainless steel flat products (CTH 7219 and 7220)	<u>7.5%</u>	<u>5%</u>
<u>6.</u>	Export duty on bauxite	<u>20%</u>	<u>10%</u>
<u>7.</u>	Basic Customs Duty on half-cut or broken diamonds	<u>2.5%</u>	<u>NIL</u>
<u>8.</u>	BCD on cut & polished diamonds and colored gemstones	<u>2.5%</u>	<u>2%</u>
<u>9.</u>	BCD on specified telecommunication products not covered under the ITA (Information Technology Agreement)	<u>10%</u>	<u>NIL</u>
<u>10.</u>	Basic Customs Duty on E-Book readers	<u>7.5%</u>	<u>NIL</u>
<u>11.</u>	Basic Customs Duty on Polystyrene (other than moulding powder)	<u>7.5%</u>	<u>1.15%</u>

REDUCTION IN RATE

Sl. No	Particular	New Rate	Previous Rate
1.	duty free allowance of cigarettes	<u>100</u> gms	200 gms
2.	duty free allowance of Cigars	<u>25</u> gms	<u>50</u> gms
3.	duty free allowance of tobacco	<u>125</u> gms	<u>250</u> gms
4.	Basic Customs Duty on reformat	<u>2.5%</u>	<u>10%</u>
5.	Basic Customs duty on propane, ethane, ethylene, propylene, butadiene	<u>2.5%</u>	<u>5%</u>
6.	Basic Customs Duty on ortho-xylene	<u>2.5%</u>	<u>5%</u>
7.	Basic Customs Duty on denatured ethyl alcohol and methyl alcohol	<u>5%</u>	<u>7.5%</u>
8.	Basic Customs Duty on crude naphthalene	<u>5%</u>	<u>10%</u>
9.	Basic Customs Duty on fatty acids, crude palm stearin, RBD and other palm stearin and specified industrial grade crude oils for manufacture of soaps and oleochemicals subject to actual user condition	<u>NIL</u>	<u>7.5%</u>
10.	Basic Customs Duty on crude glycerine for general use	<u>7.5%</u>	<u>12.5%</u>
11.	Basic Customs Duty on crude glycerine for manufacture of soaps subject to actual user condition	<u>NIL</u>	<u>12.0%</u>
12.	Basic Customs Duty on non-agglomerated coal of various types	<u>2.5%</u>	<u>5%</u>
13.	CVD on on non-agglomerated coal of various types	<u>2%</u>	
14.	BCD on anthracite coal and other coal	<u>2.5%</u>	<u>5%</u>
15.	CVD on Anthracite coal, Coking coal and other Coal	<u>2%</u>	<u>6%</u>
16.	Basic Customs Duty on raw materials for manufacture of spandex yarn viz. Polytetramethylene ether glycol (PT MEG) and Diphenylmethane 4,4 di-isocyanate (MDI)	<u>NIL</u>	<u>5%</u>
17.	BCD on ships imported for breaking up	<u>2.5%</u>	<u>5%</u>
18.	Basic Customs Duty on coal tar pitch	<u>5%</u>	<u>10%</u>
19.	Basic Customs Duty on battery waste and	<u>5%</u>	<u>10%</u>

RNM ALERT SPECIAL ISSUE

July 10, 2014

	battery scrap		
<u>20</u>	Basic Customs Duty on steel grade limestone and steel grade dolomite	<u>2.5%</u>	<u>5%</u>
<u>21.</u>	Basic Customs Duty on LCD and LED TV panels of below 19 inches	<u>NIL</u>	<u>10%</u>
<u>22.</u>	Basic Customs Duty on colour picture tubes for manufacture of cathode ray TVs	<u>NIL</u>	<u>10%</u>
<u>23.</u>	Basic Customs Duty on forged steel rings used in the manufacture of bearings of wind operated electricity generators.	<u>5%</u>	<u>10%</u>
<u>24.</u>	Basic customs duty on machinery, equipments, etc. required for setting up of solar energy production projects	<u>5%</u>	<u>10%</u>
<u>25.</u>	Basic Customs Duty is being reduced from 5% to 2.5% on	<u>2.5%</u>	<u>5%</u>



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