THE UNION BUDGET 2013-14

Economic & Direct Tax Implications

Minoo R. Shroff
S. S. Bhandare
Prof. Kanu H. Doshi

FORUM
OF FREE ENTERPRISE

"Free Enterprise was born with man and shall survive as long as man survives".

- A. D. Shroff
Founder-President
Forum of Free Enterprise

SHAILESH KAPADIA

(24-12-1949 – 19-10-1988)

Late Mr. Shailesh Kapadia, FCA, was a Chartered Accountant by profession and was a partner of M/s G.M. Kapadia & Co. and M/s Kapadia Associates, Chartered Accountants, Mumbai.

Shailesh qualified as a Chartered Accountant in 1974 after completing his Articles with M/s Dalal & Shah and M/s G.M. Kapadia & Co., Chartered Accountants, Mumbai, Shailesh had done his schooling at Scindia School, Gwalior and he graduated in Commerce from the Sydenham College of Commerce & Economics, Mumbai in 1970.

Shailesh enjoyed the confidence of clients, colleagues and friends. He had a charming personality and was able to achieve almost every task allotted to him. In his short but dynamic professional career, spanning over fourteen years, Shailesh held important positions in various professional and public institutions.

Shailesh's leadership qualities came to the fore when he was the President of the Bombay Chartered Accountants' Society in the year 1982-83. During his tenure he successfully organized the Third Regional Conference at Mumbai.

Shailesh was member, Institute of Fiscal Studies, U.K.; member of the Law Committee and Vice-Chairman of the Direct Taxation Committee, Indian Merchants' Chamber. He was also a Director of several public companies in India and Trustee of various Public Charitable Trusts.

He regularly contributed papers on diverse subjects of professional interest at refresher courses, seminars and conferences organised by professional bodies.

THE UNION BUDGET 2013-14

I

Some Impressions

by

Minoo R. Shroff*

The Economic Survey on which many budget proposals are framed presents a realistic overview of the current state of the economy. To say the least, the economy has slowed down considerably and there are many worrying signals. The Budget is not an exclusive economic document but a politico-economics one.

The current situation in India is exacerbated by the anemic state of the economies of many developed countries. Foreign trade, including services, now accounts for almost 55% of India's GDP, which indicates the extent of openness of our economy. Hence, India is obviously affected by global trends.

The Budget is not a cure all for our economic ills. It at best gives a photographic impression of the state of the economy and recommends some corrective actions also suggesting the way forward. But the compulsions facing the UPA Government are many – not only from its partners in the coalition but many strongly entrenched ideologues within its ranks, still harbouring socialistic illusions of an era gone by. Looking at this scenario the Finance Minister (FM) has

* *The author is President, Forum of Free Enterprise.*

presented a well balanced budget combining populism with pragmatism.

What are the key issues facing India today?

Declining growth, stubborn inflation, large fiscal deficit, burgeoning trade and current account deficits, very poor governance, and investment fatigue.

The most pressing issue at the moment is keeping global rating agencies at bay. To tackle this India urgently requires steadily increasing flows of foreign capital which in turn presumes instilling confidence among investors, both domestic and foreign.

As the rating agencies keep a close watch on our fiscal deficits, the budget had to ensure fiscal consolidation. It had to initiate steps to improve revenue collection by widening the tax net, marginally hiking rates in the very high income bracket, raising import duties on certain luxurious products and above all through more effective tax collection. The thrust has been placed largely on service taxes which are growing by the year and expected to rise by 36% in 2013-14, almost equaling customs duties. The overall savings and investment rates have declined by almost 6% of GDP from the peak touched in 2007-08 and these have seriously impacted fresh capital formation in turn resulting in decline in GDP growth rate.

The Budget also envisages rigorous enforcement of tax collection including taking punitive action against tax evaders and defaulters. As a result of these measures as also by slashing expenditure, it is proposed to reduce the fiscal deficit from the estimated 5.2% of GDP in the current fiscal to 4.2% of GDP next year.

In 2012-13 the expenditure targets were too ambitious looking to the tardy pace of execution of projects resulting in total plan expenditure falling short of Budget estimates by

Rs. 60,000 Crores. As government expenditure boosts aggregate demand it has been significantly enhanced in the 2013-14 Budget by 16 % providing adequate funds for all flagship programmes. The FM has left it to the Ministries / Departments to deliver the outcomes through close monitoring and timely implementation. It is fervently hoped that the ministries concerned realize the gravity of the economic situation and deliver.

The most salutary tax amendment will be the initiation of the Goods and Services Tax which when fully introduced will result in considerably augmenting revenues and reducing tax evasion. It was first mooted in 2007-08. However it has not yet seen the light of the day due to lack of agreement between the Central and State Governments. There are bright prospects of it going through, probably by 2014-15, as a large number of State Governments have agreed on a Constitutional amendment which is required. This would be a real game-changer for the economy,

In his speech the FM has rightly stressed the need for stepping up manufacturing output both for raising the GDP growth rate as also creating more jobs. Currently there is a gross mismatch between those seeking employment and the type of jobs available which calls for major thrust on skills development. The Government is rightly banking on increasing the share of manufacturing in GDP from the current 15% to 25% within the next 10 years with a view to create an additional employment for a hundred million in the organized sector. This will call for sustained effort on the part of all concerned Governments, PSUs and the private sector. The major constraint in boosting production in the economy has been the poor state of our infrastructure. Numerous projects have been languishing for want of funds besides other reasons such as land acquisition, environmental clearances etc. To address this problem additional measures are being taken to augment investments in specially designated debt funds and allowing raising of tax free bonds.

Power shortages are a frequent occurrence in various parts of the country. The tragedy is that 50,000 MW of capacity already installed cannot be commissioned for want of availability of fuel, particularly coal, though India has the third largest reserves of coal in the world. COAL INDIA, which has a monopoly of coal production, has failed to raise output and even what it produces is of poor quality. Consequently, in the Twelfth Plan, we will have to import almost 200 tons of coal at a time when we have a huge $200 billion trade deficit. The Government has to seriously consider bringing in private sector in the field of exploration of new mines as also management of existing mines to improve productivity, for which there is great scope.

Railways is our largest public sector undertaking and has served the country well. However in the last several years its management and finances have suffered greatly due to wanton political interference. A silver lining is the establishment of dedicated freight corridors, the first being between Mumbai and Delhi, with Japanese technical and financial collaboration. This will go some way in solving the problem of growing urbanization and help develop several new townships.

The real malady today in resolving theses major problems is the multiplicity of agencies pulling in different directions. A sense of urgency is sought to be injected by the creation of a Cabinet Committee on Investments (CCI) headed by the Prime Minister. This should help accelerate decision making 'provided the CCI really exercises its mandate with alacrity.

II

Finance Minister has promises to keep

by

Sunil S. Bhandare*

'Growth is a necessary condition and we must unhesitatingly embrace growth as the highest goal. It is growth that will lead to inclusive development, wifhouf growth there will be neither developmenf nor inclusiveness". Having so said in his Budget speech, *the* FM simulfaneously (and perhaps justifiably) cautions and elaborates a compelling moral cause of equity, inclusive developmenf and imperatives of improving human development indicafors. Growth and equity are necessarily not incompafible goals, but politics of equity makes it so!

On all accounts, it must have been **one** of **the toughest budget-making exercises** in the post-reforms period. The Finance Minister (FM) surely has been overwhelmed by the formidable convergence of multiple economic challenges - reviving growth, containing fiscal drift, combating high inflation, reducing current account deficit, rejuvenating investment outlook, removing stumbling blocks in infrastructure development, generating avenues of employment for growing

* *The author, formerly Economic Adviser, Tata Services Ltd., is presently Adviser, Economic & Government Policy, Tata Strategic Management Group. This article was first published in the MEDC Monthly Digest, March 2013 and is reproduced here with kind permission of Mahsrashtra Economic Development Council.*

labour force, targeting poverty reduction, mitigating deficits in social sector performance, strengthening financial sector, recharging the Twelfth Plan implementation, and many more. To cap it all, a tagging of negative economic outlook for the country by the international credit rating agencies, and a threat of downgrading. The list has, indeed, been endless.

Needless to say, many of these challenges are of **present government's own making,** especially when two or three crucial years were virtually lost by policy paralysis; and also in the wake of persistent uncertain global economic environment. How has the FM sought to "navigate" the economy through such a crisis like situation? How has he managed to create "economic space" in an otherwise constricted fiscal framework? What is it that will enable him to accomplish the "mool mantra" of higher growth leading to inclusive and sustainable development? All such issues need to be reflected upon to unravel the true significance of the FM's budgetary strategy.

Intricacies of Budgetary Arithmetic

But before doing so, it may be meaningful if we could briefly dwell on how the FM could deftly manage the crucial budgetary numbers, be it relating to a very sharp step up in plan expenditure, restrained growth of non-plan spending or garnering huge increases in both tax and non-tax revenues. This issue has been intensely debated after the presentation of the budget; and rightly so. The budget's credibility - and more importantly, **the stability of fiscal performance is inextricably linked** not just with bottom-line numbers of fiscal and revenue deficit ratios, but with inherent quality and internal dynamics of fiscal adjustments, expenditure patterns and their outcomes. [Please see the table below]

It will be evident from these budgetary numbers that given his commitment to compress fiscal deficit/GDP ratio closer to 5.1%, as made by his predecessor in the budget estimates of 2012-13, the FM has fiercely sliced plan spending by as much as Rs.91,838 crores or by 17.6%. **Such cutback of "development-oriented" spending** in a single year **is unprecedented** in the Indian fiscal history. Therefore, all glory to him for keeping fiscal deficit/GDP ratio bound at 5.2% in the revised estimate of 2012-13! But, we believe that it has been achieved **at the cost of sacrificing capital formation and future growth potential of the economy.** At the same time, his helplessness in combating a large slippage in non-plan expenditure is noticeable - an increase of Rs.31,738 crores over the budget estimates. Is this an act of fiscal prudence? Were there any other options before him? Such issues have remained unanswered, but cannot be brushed aside.

Turning to the budgetary scenario for 2013-14, the most commonly discussed issue is how the FM could manage further substantial reductions in his revenue and fiscal deficit to GDP ratios, and at the same time, provide for **acceleration of growth in plan expenditure of as much as 29.4% over the revised estimate for 2012-13.** In absolute terms, the increase in plan spending is Rs.126,135 crores in 2013-14 in contrast to an increase of just about Rs.16,812 crores in the revised estimates of 2012-13 over actuals of 2011-12. Is the FM seeking to redeem his sins of cutting back plan spending in relation to budget estimates of 2012-13? Or is it a make-believe effort to build "feel good" ambience of investment acceleration through public sector plan expenditure?

Arithmetic of Central Budget 2013-14				
(Rs. Crores)	12011-12 (A)	2012-13 (BE)	2012-13 (RE)	12013-14 (BE)
1. Revenue Receipts	751,4371	935,6651	871,828	1056,331
2. Capital Receipts	552,928	555,241	558,998	608,967
(A) Total Receipts/ Expenditure [1+2 = 3+4]	1304,365	1490,925	1430,825	1665,297
3. Revenue Expenditure	1145,785	1286,109	1263,072	1436,169
4. Capital Expenditure	158,580	204,816	167,753	229,129
5. Plan Expenditure	412,375	521,025	429,187	555,322
6. Non-Pan Expenditure	891,990	969,900	1001,638	1109,975
7. Revenue Deficit [3–1]	394,348 (4.4)	350,424 (3.4)	391,245 (3.9)	379,838 (3.3)
8. **Fiscal Deficit***	515,990 (5.7)	513,590 (5.1)	520,925 (5.2)	542,499 (4.8)
Note: (A) refers to actuals; (BE) refers to budget estimates; (RE) refers to revised estimates				
*Refers to refers to total borrowing requirements of the government from all sources				
Figures in brackets refer to deficit ratio to GDP at current market prices.				

More importantly, a point can legitimately be raised relating to **absorbing capacity of Ministries and Departments.** Are they genuinely geared to handle such swift increases in plan allocations for 2013-14? The following quote from the FM's budget speech is very telling: "I dare say I have provided sufficient funds to each Ministry or Department consistent with their capacity to spend the funds. Now, it is over to the Ministries and Department to deliver the outcomes through good governance, prudent cash management, close monitoring and timely implementation". His clear message to the concerned

Ministries/Departments for strategising plan allocations prudently is surely music to the ears. The ball is now tossed in their court; and **we are made to believe that all those tenets of good fiscal management will strictly be adhered to!**

But the counter question is whether the FM himself will have adequate fiscal comfort to allocate necessary financial resources as the year progresses. From the above table, it is found that the budget estimates growth in revenue receipts of as much as 21.2% in 2013-14 as compared to 16% increase in 2012-13 in the revised estimates. Where will such receipts growth come from? The FM seems to have **enormous faith in the buoyancy of tax revenues,** which are expected to swell by 191% in 2013-14 on top of an increase of 17.8% in 2012-13. This is apparently predicated on substantial improvement in corporate profitability, facilitating the increased corporate tax mobilisation – a projected growth of 16.9% in 2013-14 as compared to 11.2% in 2012-13 and a sustained surge in services tax receipts of 35.8% as compared to 36.1% in 2012-13. In the hot pursuit of revenue targets, it is quite likely that **tax administration would become ruthless; and this could be really unnerving, especially for the honest tax-payers.**

Also, the FM expects **a huge jump of 32.8% in non-tax revenues** in 2013-14 compared to an increase of just about 6.6% in 2012-13. There are going to be pressures on profitable PSUs and departmental undertakings (including the Reserve Bank) to part with their surpluses to treasury, **If such surpluses were to remain idle** and not to be deployed by the concerned PSUs for their own expansion and developmental projects or for the purpose of contingencies (for example, the RBI requires provisioning for depreciation in the value of securities, exchange rate volatility, etc), there can be justifiable claim of the government on the same during these extraordinary times. But that may not really be the case. Like-wise, the FM seems to be promising **aggressive mobilisation of resources through PSUs' disinvestments,** and auctioning of natural resources like telecom spectrum, coal blocks, shale gas, etc. Such efforts are expected to raise "other non-tax revenues" by as much as 45% in 2013-14 as against 14.9% in 2012-13.

We believe that all these are **extremely ambitious targets,** and therefore, management of revenue and fiscal deficits rests on doubtful foundations. The adversevariances (and these are most likely) in such critical parameters of resource generation in 2013-14, would certainly dislocate the intended plan expenditure (public sector) driven growth momentum of the economy.

Strategic Framework and Growth Drivers

Having so said, let us turn to underlying growth drivers in the budget's strategic framework. Being virtually the last chance for the UPA II government before the next general election (expected in early 2014), there were **two very distinctly divergent perceptions on the eve of the budget:** First, the FM would have inevitable temptation to indulge in **"populist" stance,** thereby aggressively pursuing massive social-welfare spending programs (farm loan waivers included!). Second, that he would seize the opportunity to present **a "responsible" budget** unleashing a flurry of further reforms. While FM has been acclaimed for not falling into a trap of populist extravaganza, **the budget is found wanting in redefining and directing India's quest for next round of reforms –** recharging pending policy changes, their implementation and the system of

governance! In this area, the fault-line may not be of the FM alone, but of the UPA II government.

Doubtless, there is a strong proclamation of getting back to India's potential of 8% annual economic growth. So also, in terms of proposals and promises, there is a lot in the budget – one can easily identify over two dozen new schemes, projects and missions.

We believe that there are **invariably three tracks for ensuring economic resurgence:** consumption; investment; and exports driven growth drivers, There is **nothing directly significant in the budget,** except a few measures by way reduction in customs duties to support exports of leather and leather goods and certain precious and semi-precious stones. Also, there is a withdrawal of export duty on de-oiled bran oil cake to make its exports competitive. But these per **se cannot restore India's high exports growth performance of about 20% per annum** achieved in the previous decade. Indirectly, however, the stimulus to exports would take place if all that is proposed to support investment in manufacturing (including for MSME sector) and infrastructure sector does materialise. But, he has left major policy initiatives to be taken by the Commerce Ministry in the forthcoming Foreign Trade Policy.

Let us, therefore, take a brief overview of the likely strength and sustainability of the two remaining growth drivers. **A predominant part of the consumption demand** would be governed by the consumer confidence in respect of inflation scenario (is it going to soften substantially?); prospects of increased employment; recovery of economic growth; steady improvement in stock markets with relatively low volatility, leading to better "real wealth" effect on consumption proclivity; and more importantly, actual public spending (not just budgetary intentions) on social sector schemes, rural development, etc. Thus, there is still a **large degree of uncertainty and work in progress in this area.**

Lastly, the investment demand is unlikely to gain buoyancy only because of proposed 15% investment allowance for the next two years. Indeed, some part of this benefit is neutralized by the immediate (applicable from 2013-14) increase in the incidence of surcharge on corporate taxes. Admittedly, there are a large number of **supply side initiatives,** which may facilitate increased flow of investible funds through strengthening of banking, financial sector and capital market; simplification and strengthening of their regulatory framework; enlargement of investment avenues for pension funds and provident funds; promises of passing of pending legislations – the Insurance Laws (Amendment) Bill and PFRDA Bill, etc. Beside, there are a whole set of proposals relating to Industrial Corridors, and increased investment in a variety of sectors like ports, road development, national waterways, oil and gas, coal, etc. But once again, all these are promises to fulfil; **and one hopes that their expeditious and effective implementation would take place.**

Further, so much of **infrastructure investment** will be largely driven by the public sector spending. Most of the private sector investment proposals (even in the PPP format) are **stuck for want of various clearances –** land acquisition, environmental, forest related, etc – as well as due to concerns about the economic/financial viability of their earlier business models. And there lies yet another **major fault-line in the prospect of investment driven growth revival.** The budget no doubt **has done well to propel flow of finances –** the financial and capital market reforms – and also create "economic space" through promise of stricter adherence to fiscal consolidation.

Finally, the major concerns in the strategic framework of the budget relate to the implicit assumptions of budgetary arithmetic. The FM has done well to keep the promise of adhering to 5.2% fiscal deficit to GDP ratio in 2012-13. But as explained earlier, this has come at a great cost of compressing plan expenditure and also defence capital spending. In effect, it has meant withdrawal of fiscal stimulus and causing deceleration of GDP growth. **The sanctity of budget numbers** for 2013-14 on fiscal deficit as well on revenue and expenditure side **would only be validated in the latter half of the year.** Till then one only hopes that business and industry and other stakeholders could only be inspired by **the philosophy of FM's budgetary strategy – namely, that if he succeeds in fixing fiscal deficit first,** then everything else would follow. The other dominant macro level issues of "crowding out" of private sector investment, balance of payments imbalances, high interest rates and falling savings/investment rates, improvement in investment outlook would automatically be sorted out.

Concluding Observations:

In summing up, the FM may deserve to be acclaimed for presenting what is widely (and apologetically!) perceived as a "balanced budget" - the best in a given circumstances, but he has many promises to keep. On the fiscal management side, he has to work strenuously not to permit any drift. On plan expenditure side, he has to make promised availability of funds to the concerned Ministries/ Departments, lest they will have excuses for not performing their tasks. For promoting private investments, he has to complete all the off-budget initiatives of steering long-pending legislative changes. For getting the GST off the ground within a promised time-line, he has to assiduously build up coordination with all the State governments. And there are many others. The social sector initiatives would certainly recharge the political constituency of the UPA II government! But the challenges are formidable to inspire confidence of all the stakeholders on realisation of India's true potential of sustainable and inclusive high economic growth ...

III

Domestic Taxation

by

Prof. Kanu H. Doshi*

DIRECT TAXES

INCOME TAX

The proposals in the Finance Bill 2013 shall become applicable from Assessment Year (AY) 2014 - 2015 (i.e. the financial year to end on March 31, 2014), unless otherwise specifically stated,

TAX RATES

There is no revision in either the tax slabs or rates of personal Income Tax, Thus they continue to remain the same in A.Y. 2014-15 as for A.Y.2013-14.

* *The author is a Chartered Accountant and Dean, Finance, Wellngkar Institute of Management, Mumbai.*

FOR INDIVIDUALS, HINDU UNDIVIDED FAMILY, ASSOCIATION OF PERSONS AND BODY OF INDIVIDUALS

Income	Existing Rates (%)			Proposed Rates (%)		
	Tax	Education Cess			Education Cess	Total
Rs. NIL to Rs. 2,00,000	-	-	-	-	-	-
Rs. 2,00,001 to Rs. 5,00.000	10	0.30	10.3	10	0.30	10.30
Rs. 5,00,001 to Rs. 10,00,000	20	0.60	20.60	20	0.60	20.30
Rs. 10,00,001 and above	30	0.90	30.90	30	0.90	30.90

1) In the case of a resident woman below the age of sixty years, the basic exemption limit remains same i.e. Rs.2,00,000/-.

2) In the case of a resident individual of the age of sixty years or above but less than eighty years, the basic exemption limit remains same i.e. Rs. 2,50,000/-. For income upto Rs. 5,00,000 tax @ 10% shall be applicable.

3) In the case of a resident individual of the age of eighty years or above, the basic exemption limit remains same i.e. Rs. 5,00,000/-. For income upto Rs 10,00,000 tax @ 20 % shall be applicable.

FOR CO-OPERATIVE SOCIETIES

Income	Tax Rates
Up to Rs. 10,000	10 per cent
Rs.10,001 to 20,000	20 per cent
Rs. 20,001 and above	30 per cent

FOR LOCAL AUTHORITIES

Local Authorities are taxable at the rate of 30 per cent.

FOR PARTNERSHIP FIRMS

Partnership Firms are taxable @ 30 per cent.

Surcharge and Education Cess

- The Finance Minister has proposed to levy a surcharge @ 10 per cent (other than Companies) for one year on taxpayers whose taxable income exceeds Rs. 1 crore. It will be applicable only for A.Y.2014-15.
- There is no change in the rate of education cess. It continues to remain @ 3 per cent.

FOR DOMESTIC COMPANIES

The tax rate for Domestic Companies continues to remain @ 30 percent.

- Surcharge is increased from 5 per cent to 10 per cent if taxable income exceeds Rs. 10 crore.
- Further, surcharge is increased from 5 per cent to 10 per cent on Dividend Distribution Tax and distribution of income by way of buyback of shares by the unlisted companies; income distributed by Mutual Funds and Securitization Trust.
- The additional surcharge introduced will be applicable for only one year i.e. A.Y.2014-15.

- There is no change in the rate of education cess. It continues to remain @ 3 per cent.

FOR FOREIGN COMPANIES

- The tax rate for Foreign Companies continue to remain @ 40 per cent.
- In case of Foreign Companies, Surcharge is increased from 2 per cent to 5 per cent if taxable income exceeds Rs. 10 crore.
- There is no change in the rate of education cess. It continues @ 3 per cent.

Tax Rebate of Rs. 2,000 for individuals having total income upto Rs. 5 lakh.

- It is proposed to insert a new section 87A to provide rebate from tax to resident individual whose total income does not exceed five lakh rupees.
- The rebate shall be 100% of the tax payable on total income or Rs. 2,000, whichever is less.
- Accordingly, individual earning total income upto Rs. 2,20,000 will not be required to pay any tax and individual earning total income of more than Rs. 2,20,000 but less than Rs.5,00,000 will get a tax relief of Rs. 2,000.
- Such persons will have to file return of income.
- This amendment will take effect from Assessment Year 2014-15.

Amendment in the definition of Capital Asset :

- It is proposed to amend the definition of capital asset w.e.f. 1st April, 2014 (Assessment year 2014-15) to extend the meaning of urban land.

- The land within specified area (shortest aerial distance) of municipality or cantonment board having specified population will be considered as urban land (i.e. it will not be considered as agricultural land). As per existing provision any land within 8 Kms from the local limits of any municipality or cantonment board is considered as urban land. The proposed specified population and respective specified area is summarized in table below:

Population	Area
Between 10,000 to 1,00,000	Not more than 2 Kms
Between 1,00,000 to 10,00,000	nNot more than 6 Kms
More than 10,00,000	Notmore than 8 Kms

Keyman Insurance Policy

- It is proposed to amend the provisions of clause (10D) of sec on 10, w.e.f. 1st April, 2014 (Assessment year 2014-15), to provide that a keyman insurance policy which has been assigned to any person during its term, with or without consideration, shall continue to be treated as a keyman insurance policy. This is to plug a loophole brought to light by Delhi High Court in Rajan Nanda's case.

Pass through Status to certain Alternative Investment Funds (AIFs)

- In order to provide benefit of pass through to venture capital funds registered under The SEBI (Alternative Investment Funds) Regulations, 2012 and subject to same conditions of investment restrictions in the context of investment in a venture capital undertaking, it is proposed to amend section 10(23FB) to provide that–
- The existing VCFs and VCCs (i.e. which have been registered before 21/05/2012) and are regulated by the VCF regulations, as they stood before repeal by AIF

regulations, would continue to avail pass through status as currently available.

- In the context of AIF regulations, the Venture Capital Company shall be defined as a company and Venture capital fund shall be defined as a fund set up as a trust, which has been granted a certificate of registration as Venture Capital Fund being a sub-category of Category I Alternative Investment Fund and satisfies the following conditions:-

  That at least two-thirds of its investible funds are invested in unlisted equity shares or equity linked instruments of venture capital undertaking.

  - No investment has been made by such AIFs in a VCU which is an associate company.

  - Units of a trust set up as AIF or shares of a company set up as AIF, are not listed on a recognised stock exchange.

- In the context of AIF regulations, the Venture Capital Undertaking shall be defined as it is defined in the Alternative Investment Funds Regulations.

- Refreshing to note, this amendment will take effect retrospectively from 1st April, 2013 (A.Y. 2013-14).

Incentive for acquisition and installation of new plant or machinery by manufacturing company

- It is proposed to insert a new sec on 32AC w.e.f 1st April, 2014 (Assessment year 2014-15) to provide a deduction to the assessee company engaged in the business of manufacture of an article or things and invests a sum exceeds Rs. 100 crore in new assets during the period beginning from 1st April, 2013 and ending on 31st March, 2015:

- for assessment year 2014-15, a deduction of 15% of aggregate amount of actual cost of new assets acquired and installed during the financial year 2013-14, if the cost of such assets exceeds Rs.100 crore;

- for assessment year 2015-16, a deduction of 15% of aggregate amount of actual cost of new assets, acquired and installed during the period beginning on 1st April, 2013 and ending on 31st March, 2015, as reduced by the deduction allowed, if any, for assessment year 2014-15.

New asset means any new plant or machinery but does not include the following :

- any plant or machinery which before its installation by the assessee was used either within or outside India by any other person;

- any plant or machinery installed in any office premises or any residential accommodation, including accommodation in the nature of a guest house;

- any office appliances including computers or computer so ware;

- any vehicle;

- ship or aircraft ; or

- any plant or machinery, the whole of the actual cost of which is allowed as deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profits and gains of business or profession" of any previous year.

- Further, if any new asset acquired and installed by the assessee during the period beginning on Ist April, 2013 and ending on 31st March, 2015 is sold or otherwise transferred within a period of five years from the date of its installation, the amount of deduction allowed in respect of such new asset in this sec on shall be deemed to be the income of the assessee chargeable under the head "Profits and gains of business or profession" of the previous year in which such new asset is sold or otherwise transferred, in addition to taxability of gains, arising on account of transfer of such new asset. However, this restriction shall not apply in a case of amalgamation or demerger but shall continue to apply to the amalgamated company or resulting company, as the case may be.

Limitation given under section 36(1)(vii) cumulatively applicable to all types of provision for doubtful debt provided by Banks - Rural advances or Urban advances

- It is proposed to insert an Explanation 2 to section 36(1)(vii) w.e.f. 1st April 2014 (A.Y. 2014-15) stating that deduction for banks and financial institutions in respect of bad debts actually written off uls 36(1)(vii) to be limited to amount by which such bad debts exceed the credit balance in provision made u/s 36(1)(viia) without any distinction between rural advances and other advances.

Immovable property held in stock-in-trade

- W.e.f. 1st April, 2014 (Assessment year 2014-15), it is proposed to insert section 43CA to adopt the stamp duty value as full value of consideration for the purpose of computing "Income from Business /Profession", where the consideration for the transfer of an asset (other than capital asset) being land or building or both, is less than the stamp value.
- Where the date of agreement fixing the value of consideration for transfer of the asset and date of registration of such transfer are not same, the stamp duty value shall be taken as on the date of agreement of

transfer. This exception shall apply only where any part of consideration has been paid by any mode other than cash on or before the date of agreement.

Taxability of immovable property received for inadequate consideration

- It is proposed to amend clause (b) of section 56(2)(vii) from Assessment year 2014-15 to include a situation where the consideration received on transfer of immovable property is inadequate i.e. less than the stamp duty value by an amount exceeding Rs. 50,000, the stamp duty value of such property as exceeds such consideration will be chargeable to tax in the hands of individual /HUF as " Income From Other Sources".

Raising the limit of percentage of eligible premium for life insurance policies of persons with disability or disease

- Under the existing provisions of section 10(10D) as amended in the Finance Act 2012, any sum received under a life insurance policy issued on or after 1st April,2012 is exempt subject to the condition that the premium paid for such policy does not exceed 10% of the 'actual capital sum assured'. Similarly the deduction for such premium paid is allowed under section 80C (3A) to the extent of 10% of the 'actual capital sum assured'.
- It is proposed from assessment year 2014-15 that any sum under life insurance policy issued on or after 1st April 2013, that is received by a person with disability or severe disability under sec on 80U or by a person suffering from disease or ailment under section 80DDB, shall be exempt subject to the condition that the premium paid for such policy does not exceed 15% of the 'actual capital sum assured'.

- Similarly, the deduction for such premium paid shall be allowed under section 80C (3A) ton the extent of 15% of the 'actual capital sum assured'.

Expanding the scope of deduction and its eligibility under section 80CCG

- It is proposed to liberalize the Rajiv Gandhi Equity Savings Scheme, w.e.f. 1st April, 2014 (Assessment year 2014-15), to enable first time investor to invest in listed units of an equity oriented fund and extended tax benefits to three successive years. The limit of income for investors wanting to invest in RAJIV GANDHI EQUITY SAVING SCHEME has been raised to Rs 12 lakh from Rs 10 lakh earlier. An individual with an income of less than Rs. 12 lakh would get tax deduction of fifty per cent of the amount invested in such equity shares to the extent such deduction does not exceed twenty-five thousand.

Deduction for contribution to Health Schemes similar to CHGS under section 80D

- It is proposed from 1st April 2014 and accordingly for assessment year 2014-15 to extend the benefit of deduction under section 80D in respect of any payment or contribution made by the assessee to any other health scheme as may be notified by the Central Government.

Deduction of interest upto Rs. 1 lakh on Housing Loan sanctioned during F.Y. 2013-14.

- It is proposed to insert a new section 80EE to provide deduction of interest payable on loan taken by an individual from any financial institution for acquisition of a residential property.
- The proposed deduction shall be allowed in computing total income for A.Y. 2014-15 and shall not exceed

Rs. 1 lakh. In case where the interest payable is less than Rs. 1 lakh for assessment year 2014-15, the individual shall be allowed deduction of the balance amount in A.Y. 2015-16.

- The proposed deduction shall be allowed subject to the following conditions:
  - The loan is sanctioned by the financial institution during the period beginning on 1st April, 2013 and ending on 31st march, 2014;
  - The amount of loan borrowed does not exceed Rs. 25 lakh;
  - The value of the residential property does not exceed Rs. 40 lakh;
  - The individual does not own any residential house property on the date of sanction of the loan,
- It is also proposed that no deduction shall be allowed under any other provisions of Income Tax Act, 1961 in respect of the interest claimed as deduction under the proposed Section.
- These amendments will take effect from 1st April 2014 and accordingly apply to assessment year 2014-15 and subsequent assessment year 2015-16.

Contribution not to be in cash for deduction under section 80GGB & section 80GGC

- It is proposed to amend the provisions of sections 80GGB and 80GGC w.e.f. 1st April 2014 (A.Y. 2014-15), so as to provide that no deduction shall be allowed for any sum contributed by way of cash to political parties and electoral trusts.

Extension of sunset date for tax holiday for power sector

- It is proposed to amend section 80-IA (4) (iv) to extend the terminal date for a further period of one year, i.e., up to 31st March, 2014. The aforesaid amendment will take effect from 1st April, 2014 (i.e. AY 2014-15).

Return of Income filed without payment of self-assessment tax to be treated as defective return

- It is proposed to amend section 139(9) w.e.f. 1st June, 2013 to include new Explanation (aa) so as to provide that the return of income shall be regarded as defective unless the tax together with interest, if any, payable in accordance with the provisions of section 140A (self-assessment tax) has been paid on or before the date of furnishing of the return.

Tax Deduction at Source on transfer of Immovable properties

- It is proposed from 1st June, 2013 to insert a new section 194-IA to provide that every transferee shall be required to deduct tax at source @ 1% for the transfer of immovable property (other than agricultural land) at the time of making payment or crediting any sum as consideration for transfer of immovable property to a resident transferor,

Concessional rate of withholding tax on interest paid by Indian Company on rupee denominated infrastructure bonds.

- It is proposed to amend section 194LC which, under the existing law, provides for withholding tax at concessional rate of 5% on the interest paid by Indian company to non-resident, on loan taken in foreign currency from a source outside India either under a loan agreement or by way of

issue of long-term infrastructure bonds, as approved by the Central Government.

- The proposed amendment will extend the benefit of such concessional rate of withholding tax to cases where the non resident deposits foreign currency in a designated account opened with a bank and such money, as converted in rupees is utilized for subscription in long term infrastructure bonds issued by an Indian company. The benefit of concessional rate of tax to the non resident will be available on interest income arising on such subscription.

- It is proposed that the designated account should be solely for the purpose of deposit of money in foreign currency and such money is to be used for payment to the Indian company for subscription in the long term infrastructure bonds issued by it.

- This amendment will take effect form 1st June, 2013.

Penalty for non-filing of Annual Information Return

- It is proposed to amend the section 271FA so as to provide that if a person who is required to furnish an annual information return under section 285BA (1), fails to furnish such return within the time prescribed under sub-section (2) thereof, the income-tax authority prescribed may direct that such person shall pay, by way of penalty, a sum of one hundred rupees for every day during which the failure continues.

- It is further proposed to provide that where such person fails to furnish the return within the period specified in the notice under sec on 285BA (5), he shall pay, by way of penalty, a sum of five hundred rupees for every day during which the failure continues, beginning from the day immediately following the day on which the time specified in such notice for furnishing the return expires.

- These amendments will take effect from 1st April, 2014.

SECURITIES TRANSACTION TAX (STT)

- It is proposed to reduce Security Transaction tax in the following nature of taxable securities transaction

Sr. No.	Nature of Taxable Securities transaction	Payable by	Proposed Rates (%)
1	Delivery based purchase of units of an equity oriented fund entered into in a recognized stock exchange	Purchaser	NIL
2	Delivery based sale of units of an equity oriented fund entered into in a recognized stock exchange	Seller	0.001
3	Sale of futures in Securities	Seller	0.01
4	Sale of a units of an equity oriented fund to the mutual fund	Seller	0.001

- This amendment will take effect from 1st June, 2013 and will, accordingly, apply to any transaction made on or after that date.

Introduction of Commodities Transaction Tax

- Commodities Transaction Tax (CTT) is proposed to be levied on taxable commodities transactions.
- 'Taxable commodities transaction' would mean a transaction of sale of commodity derivatives in respect of commodities, other than agricultural commodities, traded in recognized associations.

- The tax is proposed to be levied at the rate of 0.01% on the value of taxable commodities transactions being sale of commodity derivative is traded.
- The provisions with regard to collection and recovery of CTT, furnishing of returns, assessment procedure, power of assessing officer, chargeability of interest, levy of penalty, institution of prosecution, filing of appeal, power to the Central Government, etc. have also been provided in the chapter VII of Finance Bill, 2013 contained in section 105 to 124 of the said chapter.
- This tax is proposed to be levied from the date on which Chapter VII of the Finance Bill, 2013 comes into force by way of notification in the Official Gazette by the Central Government.

Deduction of Commodities Transaction Tax Paid

- It is proposed to amend section 36 of the Income-tax to provide that an amount equal to the commodities transaction tax paid by the assesses in respect of the taxable commodities transactions entered into in the course of his business during the previous year shall be allowable as deduction, if the income arising from such taxable commodities transactions in included in the income computed under the head "profits and gains of business or profession".
- It is also proposed to insert an Explanation to provide that for the purposes of this clause, the expressions " commodities transaction tax" and "taxable commodities transaction" shall have the meanings respectively assigned to them under Chapter VII of the Finance Act, 2013.
- This amendment will take effect from 1st April, 2014 (A.Y. 2014-15).

Enabling Provision for facilitating electronic filing of annexure-less return of net wealth

- In order to facilitate electronic filing of annexure-less return of net wealth, it is proposed to insert section 14A and 14B in Wealth Tax Act on similar line with sections 139C and 139D of Income Tax Act.
- Consequently, it is also proposed to amend provision of section 46 of the Wealth Tax which provides for rule making powers of the Board.
- This amendment will take effect from 1st June, 2013.

The views expressed in this booklet are not necessarily those of the Forum of Free Enferprise.

"People must come to nccept private enterprise not as a necessary evil, but as an affirmative good".

- Eugene Black
Former President,
World Bank

FORUM
of Free Enterprise

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