

For Private Circulation Only

# INDIA BUDGET – 2014

**SGCO & Co.**  
Chartered Accountants



**Ladderup**  
*Engineering Growth*



---

## INDEX

---

---

Foreword.....	2
Budget Highlights.....	4
Economic Outlook .....	10
Direct Tax Proposals.....	15
Indirect Tax Proposals	
• Central Excise.....	25
• Custom Duty .....	28
• Service Tax.....	31
Key Policy Changes 2013-14 .....	37
Capital Market .....	39
Sectoral Analysis.....	44
Abbreviations.....	49

---

## FOREWORD

With the BJP led NDA having a landslide victory in the Sixteenth Lok Sabha Elections leading to the first majority Government in three decades, the expectations from the Union Budget were very high. The Budget though AAM (for everyone) had quite a few extraordinary introductions, was not just for Capital/Financial markets, but had Countrywide appeal. It has tried to address infrastructure issues, has given impetus to industry by given incentives on new projects, focused on capital formation by re-focusing on small savings schemes. It was clear that the Budget's focus was on giving a long term boost to the economy, rather than on spending related boost which the earlier governments had adopted.

The FM has introduced a reform-inducing Budget seeking to push growth and at the same time cautious on fiscal prudence. With a vow to lift economic growth to rates of 7%-8% and above within the next 3-4 years, the focus is on being realistic about pegging fiscal deficit at around 4.5% of GDP (against target of 4.1% as proposed in the previous Budget).

On the Direct Tax front, the FM has not made any changes to the tax rates but has provided relief to Individual tax payers by increasing the tax exemption limits. Also, Investment limit under Section 80C has been raised to INR 1.5 lacs from INR 1.0 lacs alongwith the ceiling for PPF investments raised upto INR 1.5 lacs. These measures would help increase in domestic savings which has been declining. Deduction limit for interest on housing loan for self-occupied property has been increased from INR 1.5 lacs to INR 2.0 lacs per year. Income and dividend distribution tax to be levied by grossing the amount of dividend instead of directly on dividend.

On Indirect tax front, to boost domestic manufacture and to address the issue of inverted duties, basic customs duty (BCD) reduced on certain items. To encourage new investment and capacity addition in the chemicals and petrochemicals sector, basic customs duty reduced on certain items.

To provide significant boost to manufacturing, the FM has proposed to revive the SEZs and manufacturing companies have been incentivised by providing an allowance of 15% for investment of more than INR 25 Crs in any year in plant and machinery and the benefit would be available until 31-03-2017. Further, to spur entrepreneurship the Budget has proposed stated to establish a INR 10,000 crs Fund to act as catalyst to attract private capital for start-up companies.

The Budget has laid strong emphasis on infrastructure development – Government has committed to infuse INR 37,880 crs in NHAI Also, a sum of INR 14,389 crs would be towards rural road development. Development of Inland waterways has been identified to be focussed on and Airport modernisation projects to happen in Tier I and Tier II. In addition a Ganga conservation mission and initial steps on linking of rivers across

the country are steps in the right direction. The Budget has been inclusive in true sense by the announcement spend on road development spending to the tune of INR 3,000 crs in the North Eastern States. The Budget has also identified J&K as an area of development and such focus will help assimilate this state into the country financially.

FM has spelled out the need for providing good infrastructure in urban areas and in that direction has proposed to develop 100 smart cities. Tourism has been a focus area for this government and to begin with FM proposes to create 5 tourist circuits.

On the Infrastructure lending, Banks have been permitted to raise long term funds for lending to infrastructure sector with minimum regulatory pre-emption such as CRR, SLR and Priority Sector lending - this is a big booster for cash starved infrastructure sector.

Real Estate sector got a real boost – Requirement of BUA and capital conditions for FDI is being reduced from 50,000 sq mtr to 20,000 sq mtr and from USD 10 million to USD 5 million respectively for development of 100 smart cities. Also, REITs will get pass-through entity status. Low cost housing sector has also been incentivised with an allocation of INR 4,000 crs for NHB to increase the flow of cheaper credit for affordable housing.

On the Agricultural the front FM has set an ambitious target of INR 8 lac crore for agriculture credit and has provided several schemes. The FM also stressed on creating Warehouse Infrastructure and has made an allocation of INR 5,000 crs to set up a Warehouse Infrastructure Fund.

On the FDI front, the Budget has increased the FDI limit in Defence and Insurance. The increase in limit from 26% to 49% in Insurance would result in significant inflow of foreign exchange from foreign JV partners.

Allocation to Defence is higher by 12% vis-à-vis previous year. Allocations to Internal security also went up which is a welcome move. The FM has also said that the Government would like to introduce GST and also improve tax-to-GDP ratio. He also mentioned that strengthening of investor confidence is important and government will not introduce any retro amendment though refrained from lingering with old amendments as the matter are pending in different stages of litigation. Indian companies would adopt the new Indian Accounting Standards resulting in convergence with the IFRS beginning from FY15-16.

Considering the high expectations from the Budget and also the fact that this being the first Budget by the new Government, Narendra Modi-led BJP has done a commendable job of focussing on the key areas like infrastructure, urban renewal, education amongst others and at the same time being fiscally prudent and mindful of wasteful expenditure, this Budget sets the tone for game changing reforms (read introduction of GST, severely reducing the subsidy burden, etc.) and ensures that the Government moves in the right direction towards higher economic growth rates, lower inflation, improved administration and building India for future.

## BUDGET HIGHLIGHTS

### Economy

- Challenging situation for the economy due to less than 5% growth rate and double digit inflation.
- Continued slow-down in many emerging economies is posing a threat to sustained global recovery.
- Recovery seen with the growth rate of world economy projected at 3.6 % in 2014 vis-à-vis in 2013.
- Target growth rate of 7%–8% or above with 3 to 4 years along with macro-economic stabilization.
- Decline in fiscal deficit from 5.7% in 2011-12 to 4.5% in 2013-14 mainly achieved by reduction in expenditure rather than by way of realization of higher revenue.
- Improvement in CAD from 4.7 % in 2012-13 to year end level of 1.7% mainly achieved through restriction on non-essential import and slow-down in demand.
- 4.1 % fiscal deficit a daunting task in the backdrop of two years of low GDP growth, static industrial growth, moderate increase in indirect taxes, subsidy burden and not so encouraging tax buoyancy.
- Road map for fiscal consolidation outlines fiscal deficit of 3.6 % for 2015-16 and 3% for 2016-17.
- GST to be rolled out by end of the year 2014-15.
- Raised limit of FDI in defence and insurance sectors to 49% from 26%

### Budgetary Allocations

- Rs.7060 Crores- Project of developing “100 Smart Cities
- Rs.14389 Crores- Pradhan Mantri Gram Sadak Yojna (PMGSY).
- Allocation for National Housing Bank increased to Rs.8,000 Crores to support Rural housing.
- New programme “Neeranchal” to give impetus to watershed development with an initial outlay of Rs.2,142 Crores.
- AIIMS like institutions in Andhra Pradesh, West Bengal, Vidarbha in Maharashtra and Poorvanchal in UP. A provision of Rs. 500 Crores made.

- Government would strive to provide toilets and drinking water in all the girls' school in first phase. An amount of Rs.28,635 crores is being funded for Sarv Shiksha Abhiyan (SSA) and Rs.4,966 crores for Rashtriya Madhyamic Shiksha Abhiyan (RMSA).
- Rs.500 Crores provided for setting up 5 more IITs in the Jammu, Chhattisgarh, Goa, Andhra Pradesh and Kerala.
- Present corpus of Pooled Municipal Debt Obligation Facility to be enlarged to Rs.50,000 Crores from Rs.5,000 Crores.
- A sum of Rs.4,000 Crores for NHB from the priority sector lending shortfall with a view to increase the flow of cheaper credit for affordable housing to the urban poor/EWS/LIG segment is provided.
- Corpus of Rural Infrastructure Development Fund (RIDF) raised by an additional Rs.5,000 crores from the target given in the Interim Budget to Rs.25,000 crores.
- Allocation of Rs.5,000 Crores provided for the Warehouse Infrastructure Fund.
- "Long Term Rural Credit Fund" to set up for the purpose of providing refinance support to Cooperative and Regional Rural Banks with an initial corpus of Rs.5,000 Crores.
- Amount of Rs.50,000 Crores allocated for Short Term Cooperative Rural Credit.
- Rs.11,635 Crores will be allocated for the development of Outer Harbour Project, Tuticorin for phase I.
- An investment of an amount of Rs.37,880 Crores in NHAI and State Roads is proposed which includes Rs.3,000 Crores for the North East.
- For venture capital in the MSME sector, Rs.10,000 Crores Fund to act as a catalyst to attract private capital by way of providing equity, quasi equity, soft loans and other risk capital for start-up companies with suitable tax incentives to participating private funds to be established.
- Capital outlay for Defence increased by Rs.5,000 crores including a sum of Rs.1,000 crores for accelerating the development of the Railway system in the border areas.
- Rs.200 crores provided to build the Statue of Unity (National project).
- Rs.500 crores provided for developing 5 tourist circuits around specific themes.

- Rs. 2,037 Crores - Integrated Ganga Conservation Mission "NAMAMI GANGE".
- Rs.1,000 crores provided for development of rail connectivity in the North Eastern Region.
- Total expenditure proposed in the Budget Estimates is Rs. 17,94,892 crores.

### Direct Tax

- Personal tax exemption limit increased by Rs.50,000 to Rs.250,000 for individuals less than 60 years and to Rs.300,000 for senior citizens
- Investment limit u/s. 80C, 80CCE increased to Rs.150,000 from Rs.100,000
- Disallowance due to non-deduction of TDS u/s. 40(a)(ia) reduced from 100% to 30% of expenditure.
- Deduction of interest on self-occupied house property increased to Rs. 2,00,000 from Rs. 1,50,000.
- Impact of Dividend Distribution Tax u/s 115-O has been increased. Effective rate is 19.994%
- To provide investment allowance at 15% for 3 years to manufacturing firms which invest more than Rs.25 crore in new plant and machinery
- Extends 5% withholding tax on corporate bonds until June 30, 2017
- AMT credit clarified to be allowed in cases where the income was below Rs. 20 lacs
- Investment linked deduction claimed u/s. 35AD to be included in computed Adjusted Total income for AMT purpose
- Forfeited amount of advance on transfer of capital asset is revenue income
- TDS @2% to be deducted on payments for life insurance policy which are taxable
- Income Computation and Disclosure Standards are notified
- Exemption u/s. 54 and 54F is restricted to single residential house within India
- Exemption u/s 54EC is restricted to Rs. 50 lacs
- Scope of Explanation to section 73 not to apply to a company whose principal business is of trading in shares

- Roll back provision in Advance Pricing Agreement (APA) scheme
- Tax rate at 15% on certain dividends received from foreign companies applicable without any sunset clause
- CSR activity-an ineligible business expenditure u/s 37(1)

### Central Excise

- No change in peak rate for Basic Excise Duty (BED)
- BED reduced from 12% to 6% on footwear of retail price exceeding Rs.500 per pair but not exceeding Rs.1000 per pair.
- Specific rates of BED increased on cigarettes in the range of 11 % to 72%.
- BED increased from 12% to 16% on pan masala, from 50 % to 55 % on unmanufactured tobacco and from 60 % to 70 % on gutkha and chewing tobacco.
- Levy of an additional BED at 5 % on aerated waters containing added sugar.
- To finance Clean Environment initiatives, Clean Energy Cess increased from Rs. 50 per tonne to Rs.100 per tonne.
- Mandatory fixed pre-deposit of 7.5% of duty demanded or penalty imposed or both for filing appeal with the Commissioner Appeal or the Tribunal at the first stage and Additional 10% of the duty demanded or penalty imposed or both for filing second stage appeal before the Tribunal. The amount of pre-deposit payable would be subject to ceiling of Rs. 10 Crore. (Common for Excise, Custom & Service Tax)
- Discretionary powers of the Tribunal to refuse admission of appeals increased from Rs. 50,000/- to Rs. 2,00,000/-. (Common for Excise, Custom & Service Tax)
- The Central Board of Excise and Customs can condone the delay for a period upto 30 days for review by the Committee of Chief Commissioners of Orders in Original passed by the Commissioner(Common for Excise & Custom)

### Customs

- No change in peak rate for Basic Custom Duty (BCD).
- Imposition of basic customs duty on certain items falling outside the purview of IT Agreement.
- Exemption from SAD on inputs/ components for PC manufacturing.



- Imposition of education cess on imported electronic products for parity etc.
- Colour picture tubes exempted from BCD to make cathode ray TVs cheaper.
- BCD on LCD and LED TV panels of below 19 inches reduced from 10% to Nil.
- BCD on imported flat-rolled products of stainless steel increased from 5% to 7.5%.
- Concessional BCD of 5% extended to machinery and equipment required for setting up of a project for solar energy production.
- Specified inputs for use in the manufacture of EVA sheets and back sheets and flat copper wire for the manufacture of PV ribbons exempted from BCD.
- BCD reduced from 10% to 5% on forged steel rings used in the manufacture of bearings of wind operated electricity generators.
- BCD on semi processed half cut or broken diamond cut and polished diamonds and coloured gemstones rationalized at 2.5%.
- To encourage exports, pre-forms of precious and semi-precious stones exempted from BCD.
- Duty free entitlement for import of trimmings, embellishments and other specified items increased from 3% to 5% of the value of their export, for readymade garments.
- 24x7 customs clearance facility extended to 13 more airports in respect of all export goods & to 14 more sea ports in respect of specified import & export goods to facilitated cargo clearance.
- Free baggage allowance increased from Rs. 35,000/- to Rs. 45,000/-

### **Service Tax**

- No change in service tax rate

### **Changes made with immediate effect:**

- Services provided by way of renting of immovable property to educational institution is brought under service tax net.
- Service provided by a director to a body corporate and services provided by recovery agents to banks, financial institutions and NBFC are brought under the reverse charge mechanism.
- The scheme of Advance Ruling expanded to cover resident private limited companies.

- Procedural simplification in case of SEZ to make it more time bound.

#### **Changes made with effect from 1-October-2014:**

- Simplification of partial reverse charge mechanism in case of renting of motor vehicle.
- Variable interest on delayed payment of service tax dues.
- Mandatory e-payment of service tax dues.

#### **Changes effective upon enactment of the Finance Bill:**

- Time limit for completion of adjudication has been prescribed as 6 months to 1 year depending on the nature of matter.
- Power to recover dues of a predecessor from the assets of a successor purchased from the predecessor incorporated
- Mandatory pre-deposit of 7.5% (at first level appeal) or 10% (at second stage level) of tax demand or penalty or both for filing appeals.

#### **Change effective from a date to be notified after enactment of the Finance Bill:**

- Sale of space or time for advertisement in broadcast media and services provided by radio taxis are brought under service tax net.
- Radio taxi services shall be taxed at 40 per cent of service value provided no CENVAT credit has been availed by the service provider.
- Rules for determination of rate of exchange to be prescribed.

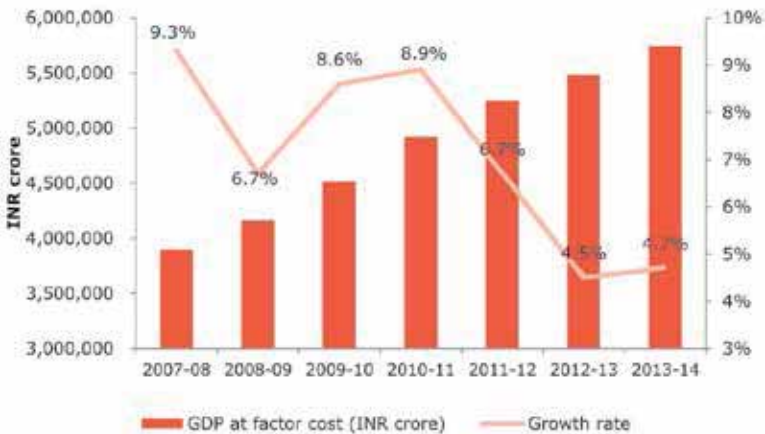
#### **Goods and Service Tax**

- As per the budget speech of FM, Mr. Arun Jaitley, they are hopeful to find a solution about States being apprehensive about surrendering their taxation jurisdiction and others wanting to be adequately compensated thereby improving the legislative scheme which enables the introduction of GST by the end of the year.

## ECONOMIC OUTLOOK

### Economic Survey

After the strong GDP growth in 2010-11 at 8.9%, the growth rate slowed down to 6.7% in 2011-12 and 4.5% in 2012-13. In 2013-14, it is estimated to be 4.7%. Two successive years of sub 5% growth is witnessed for the first time in the past 25 years. The moderation in growth is primarily attributable to the weakness in the industry, which registered a growth rate of only 1.0% in 2012-13 and 0.4% in 2013-14. The growth in services sector marginally weakened from 7.0% in 2012-13 to 6.8% in 2013-14



The reason for slow growth was due to structural issues locally, including policy impasse, and the overall external environment. Inflation declined during this period, but continues to be above the comfort zone, owing primarily to the elevated level of food inflation and increased concerns due to lower-than-normal rainfall expectation in the current monsoon season. Based on the comparison of rainfall distribution in the last five years, the current year seems to be the worst one. Fortunately, the upward trend of inflation that induced in slowdown in growth, savings, investment, and consumption, appears to have subsided.

### Private Final Consumption Expenditure

The share of final consumption in GDP has been declining consistently since the 1950s, reflecting mainly the decline in share of private final consumption expenditure. Private final consumption as a percentage of GDP, which averaged 7.8% during 2003-04 to 2011-12, declined to 5.0% in 2012-13 and further to 4.8% in 2013-14. Reason being higher inflation tends to reduce real disposable incomes of households.

## Investments

Gross domestic capital formation as percentage of GDP at current market prices was 34.8% in 2012-13 as against 35.5% in 2011-12. Both public and private investment declined as a share of GDP. Gross fixed capital formation has declined sharply to 28.3% in 2013-14 from 30.4% in 2012-13.

## Net Exports

2013-14 saw an improvement in net exports by 3.1% of GDP. This was helped by marginal recovery in global economies, which in turn helped the recovery in India's exports. In addition to this, the measures taken by the Government and RBI to contain CAD, primarily by disincentivising the imports of non-essential items helped in reducing imports. The share of exports in GDP increased from 24.0% in 2012-13 to 24.8% in 2013-14, while the share of imports declined from 30.7% to 28.4% in the same period.

## Government Expenditure

Government spending was constrained due to high fiscal deficit. As a result, investment, consumption as well as government spending had slowed down.

## Public Finance

The fiscal deficit of 4.5% of GDP in 2013-14 as compared to the budgeted target of 4.8% is indicative of continued focus on fiscal consolidation. With a shortfall in tax revenues and disinvestment receipts along with higher than budgeted subsidies and interest and pension payments, fiscal consolidation was mainly achieved through reduction in expenditure from the budgeted levels rather than from increased revenues.



## Prices and Monetary Management

Headline WPI inflation which reflects prices of tradeable has moderated to around 6.0% in 2013-14, falling from 8.9% in 2011-12 to 7.4% in 2012-13. Weak global demand and lower international commodity prices along with a sharp seasonal correction in vegetable prices were the main reasons behind the decline in Headline WPI inflation. Although CPI (new-series) marginally declined from 10.2% during 2012-13 to about 9.5% in 2013-14, food inflation, which has remained a major driver of inflation over the last couple of years has still kept CPI at higher level. Fuel inflation, which reached about 7.7% in Q1 2013-14 (lowest in last three years), remained in double digits in the last three quarters of 2013-14 (11.9%, 10.8% and 10.1% in Q2, Q3 and Q4 respectively), largely on account of movements in global crude prices, exchange rates, and revision in the administered prices. To contain the upside risk of inflation and to restore stability in the foreign exchange market, the RBI continued with its tight monetary policy. Repo rate was increased in three steps of 25 bps each in the first three quarters of 2013-14 to 8.0%, which has thereafter remained unchanged.

## Balance of Payments and External Position

With net exports increasing, there has been a drastic improvement in BoP position in the year 2013–14. The primary reasons for the improvement are the steps taken by the Government and RBI in curtailing down the CAD. CAD declined sharply from a record high of USD 88.2 bn (4.7% of GDP) in 2012-13 to USD 32.4 bn (1.7% of GDP) in 2013-14. In the first quarter of 2013-14, the CAD levels were high which gradually improved in the last three quarters.

Government put restrictions on imports of non-essential items like gold and silver by increasing the custom duty to a peak of 10%. Also, measures to augment capital flows through quasi-sovereign bonds and liberalization of External Commercial Borrowings (ECB's) had a positive impact. There was moderation in the net capital flow reflecting a sharp slowdown in portfolio investment and net outflow in 'short-term credit' and 'other capital'. This was compensated by an increase in flow of funds due to the special swap windows incentivised by the RBI for non-resident deposits and overseas borrowing programme of banks, through which USD 34 bn were mobilised. This led to some increase in India's external debt which was at USD 404.9 bn at end of March 2013 to USD 426.0 bn at end of December 2013. India built up on foreign exchange reserves which were at USD 292.0 bn at the end of 2012-13 to USD 304.2 bn at the end of 2013–14. India's external debt remained within manageable limits as indicated by the external debt-GDP ratio of 23.3% in end-Dec 2013-14 (Quick Estimate) and debt service ratio of 5.9% in 2012-13 (Partially Revised).

## ASPECTS OF INDIAN ECONOMY

### Agriculture and Food Management

Agriculture and allied sector accounted for 13.9% of GDP in 2013-14. However, its share in total employment is as high as 54.6% and plays a very important role in the economy. 2013-14 estimate of growth in agriculture is 4.7% compared to its average growth of 3.0% between 1999-2000 and 2012-2013.

The robustness of the agriculture and allied sector can be attributed to the steady increase in Gross Capital Formation (GCF) in this sector, with private investment as a proportion of agri-allied GDP increasing from 12.6% in 2007-08 to 18.1% in 2012-13.

Expansion in cultivable land area and increase in Minimum Support Prices of select agricultural crops, have resulted in higher foodgrain production (per capita net availability of 186.5 kg per year in 2013 from 162.1 kg per year in 2009).

The adoption of the decentralised system of procurement for the PDS needs to be expanded from 11 states and union territories at present to all states, which would help save transport costs, reduce transit losses and other leakages, increase food availability, reduce food prices in the open market and ultimately rein in food subsidy. Further, in the monsoons for 2014-15, there is a probability of occurrence of the El Niño, which would have an impact on India's agricultural produce and consequently on food prices.

### Industry and Infrastructure

The industry sector's share in GDP declined from 27.3% in 2012-13 to 26.1% in 2013-14. Key reasons for poor performance have been contraction in mining activities, decline in capital goods sector growth and deceleration in manufacturing output, due to factors such as considerable deceleration in investment particularly by the private corporate sector, slow growth in bank credit flow, higher interest rates, and import competition.

The slowdown has also impacted the performance of the corporate sector. Growth of sales, particularly of the listed private manufacturing companies, declined considerably from 25.3% in the first quarter of 2011-12 to 5.0% in the fourth quarter of 2013-14. While corporate debt levels have risen, earnings and profitability remained under pressure, pushing up debt coverage ratios. This has partly impacted the banking sector, with a concomitant increase in non-performing assets.

The eight core infrastructure industries registered a growth of 2.7% during 2013-14 compared to 6.5% during 2012-13. The decline in growth in the current year is mainly on account of contraction in natural gas and crude oil, and subdued growth in coal, fertilizers, and refinery products.

Among infrastructure services, growth in freight traffic by railways, cargo handled by major ports and civil aviation sector has been comparatively higher during 2013-14. In the road sector, the NHAH posted negative growth of 33% during 2013-14 as compared to a positive growth of 26.5% during 2012-13. Also, total FDI inflows into major infrastructure sectors registered a growth of 22.8% in 2013-14 as compared to contraction of 60.9% in 2012-13.

### Services

The services sector has emerged as the fastest growing sector of the economy and the second fastest growing in the world, with a CAGR of 9.0%, behind China with a CAGR of 10.9% during the period from 2001 to 2012. Besides being the dominant sector in India's GDP (59.9% share in GDP), it has also contributed substantially to foreign investment flows, exports and employment. The growth of services-sector GDP has been higher than that of overall GDP during 2000-01 to 2013-14.

Going forward, the year 2014-15 seems to augur well for the services sector with expansion in business activity and quick reforms expected from the new Government.

### Economic Outlook

The subdued growth over the last couple of years is an effect of a series of problems faced by the economy which gradually got compounded. To turn the economy from its current impasse it would really need major efforts and policy measures backed up by timely implementation. A lot is desired, especially towards boosting overall business environment and reposing faith in the Indian economy.

The policy measures towards some of the sectors like energy, infrastructure, manufacturing and exports would facilitate the Indian economy to regain its lost momentum and aim at higher GDP growth.

At the same time the RBI and the Government is quite focused in improving the fiscal discipline by reining the fiscal deficit and bringing it further down. For this an important consideration would be the achievement of disinvestment targets and improvement in revenue collections.

The external environment especially the improving global economy will also weigh on improving the overall growth.

In 2014-15, the economy is expected to grow in the range of 5.4%-5.9% with expectation of better performance in manufacturing, modest global growth revival and improved balance of payments.

## DIRECT TAX PROPOSALS

*(Unless specified, proposals shall take effect from AY 2015-16)*

### ➤ **Thresh-hold Limit / Rates of Tax**

#### **a. Individual, HUF, AOP or BOI**

- No change in Tax rate except for increase in Basic Exemption Limit
- No change in Surcharge and Secondary & Higher Education Cess
- Effective tax rate shall be as under (subject to Alternate Minimum Tax)

Taxable Income Slab (Rs.)	Tax Rates		
	General	Senior Citizen	Very Senior Citizens
Up to 2,50,000	NIL	NIL	NIL
2,50,001 to 3,00,000	10.30%	NIL	NIL
3,00,001 to 5,00,000	10.30%	10.30%	NIL
5,00,001 to 10,00,000	20.60%	20.60%	20.60%
10,00,001 to 1,00,00,000	30.90%	30.90%	30.90%
1,00,00,001 and above	33.99%	33.99%	33.99%

#### **b. Firm/Limited Liability Partnership (LLP)/Corporates**

- No change in basic tax rate.
- No change in Surcharge & Education Cess.
- The effective tax rate shall continue to be the same as those specified for the A.Y. 14-15. The same is as under:

Assessee	Total Income < = Rs.1 Crs	Total Income > Rs.1 Crs but < = Rs.10 Crs	Total Income > Rs.10 Crs
Firm / LLP	30.90%	33.99%	33.99%
Domestic Company	30.90%	32.45%	33.99%
Foreign Company	41.20%	42.02%	43.26%



**c. Tax deduction under Chapter XVII-B including surcharge in certain cases**

In case of non- resident person(other than a company), the amount of tax deducted shall be increased by surcharge @ 10% where total income exceeds 1Cr. Accordingly, the amount of tax deducted under Chapter XVII-B shall also be increased by a surcharge in the following cases:

Payee	Total Income < = Rs.1 Crs	Total Income > Rs.1 Crs but < = Rs.10 Crs	Total Income > Rs.10 Crs
Non-resident person (other than a company)	No surcharge	Surcharge @ 10%	Surcharge @ 10%
Foreign Company	No Surcharge	Surcharge @ 2%	Surcharge @ 5%

**d. Tax on distributed profits (w.e.f. 1.10.2014)**

It is proposed that the profits distributed by a domestic company or a mutual fund shall be grossed up for the purpose of computing the dividend/income distribution tax as the case may be.

➤ **Capital Gains**

**a. Definition of short term capital asset amended**

Unlisted security and a unit of mutual fund (other than an equity oriented mutual fund) is proposed to be a short-term capital asset if it is not held for more than 36 months.

**b. Tax on long-term capital gains on units:**

Benefit of concessional rate of tax @ 10% is proposed to be restricted to long term capital gain arising from transfer of listed securities other than a unit.

**c. Amount received for transfer of capital asset forfeited is income**

It is proposed to insert clause (ix) in section 56(2) to treat the amount received as an advance or otherwise in the course of negotiations for transfer of a capital asset as income under the head "Income from other sources", if such amount is forfeited and negotiations do not result in transfer of capital asset. In such situation no adjustment to cost will be required at the time of actual transfer of such capital asset.

**d. Following not regarded as transfer u/s. 47**

It is proposed to insert clause (xvii) in section 47 to provide that any transfer of a share of a special purpose vehicle to a business trust in exchange of units allotted by that trust to the transferor shall not be construed as transfer. This is to facilitate Real Estate Investment Trust and Infrastructure Investment Trust.

**e. Speculative transaction in respect of commodity derivatives (w.e.f. A.Y. 2014-15)**

It is proposed to amend clause (e) of proviso to section 43(5) to provide that an eligible transaction in respect of trading in commodity derivatives carried out in a recognized association, which is chargeable to commodities transaction tax shall not be considered to be a speculative transaction.

**f. Restriction on exemption claimed u/s. 54 & 54F**

It is proposed that benefit of investment made in one residential house situated in India shall only be allowed for claiming exemption u/s. 54 and 54F.

**g. Restriction on exemption claimed u/s. 54EC**

Exemption emanating out of the investment in long term specified asset is sought to be restricted to Rs. 50 lacs by considering the subsequent financial year also for the purpose of making such investments while adhering to the condition of investing within a period of six months.

**Business Income****a. Disallowance of expenditure for non-deduction of tax at source:**

In case of failure to deduct or pay TDS, disallowance is proposed to be restricted to 30% of all the expenditures claimed in respect of which Chapter XVII-B applies.

Payments made to a non-resident is proposed to be allowed as deduction u/s. 40(a)(i) of the Act, if tax is deducted during the previous year and the same is paid on or before the due date for filing the return of income.

**b. Business of Plying, Hiring or Leasing Goods Carriages:**

Uniform amount of presumptive income of Rs. 7,500/- for every month (or part of a month) as per section 44AE is proposed for all types of goods carriage without making any distinction between Heavy goods vehicle (HGV) and vehicle other than HGV.

**c. Corporate Social Responsibility**

It is proposed to clarify that CSR activity, being an application of income cannot be deemed as a business expenditure and therefore, ineligible for deduction u/s. 37. However, the CSR expenditure which is of the nature described in section 30 to section 36 of the Act shall be allowed as deduction under those sections subject to fulfillment of prescribed conditions of those sections.

**d. Investment linked deductions to be included for AMT**

It is proposed to include the investment linked deductions u/s. 115JC and accordingly, the adjusted total income is to be increased by the amount of deduction claimed u/s. 35AD after reducing the depreciation u/s. 32 on such capital expenditure, as if deduction u/s. 35AD was not allowed.

**e. Scope of Explanation to Section 73 condensed**

It is proposed that Explanation to section 73 shall not apply to a company whose principal business is that of trading in shares.

**f. Incentive for new plant & machinery**

Benefit of 15% deduction for investment in Plant & Machinery by a company is sought to be extended to even those companies where such investment is less than Rs. 100 crores but more than Rs. 25 crores in a financial year. This deduction shall be available for investments made till F.Y. 2017-18.

**g. Sun set date u/s. 80IA extended**

Extension of sun-set date u/s 80IA for power sector is extended up to 31.03.2017.

**h. AMT Credit liberalised**

Credit for Alternate Minimum Tax (AMT) paid shall be allowed to be carried forward, irrespective of the fact that the adjusted total income of the person does not exceed Rs. 20 Lacs.

**➤ Other Tax Incentives and Reliefs****a. TDS on non-exempt payments under life insurance policy**

In respect of any sum paid under life insurance policies including bonus, which is not exempt u/s. 10(10D), it is proposed to insert a new section namely 194DA to provide

for tax deduction @2% on such payments, if aggregate amount exceeds Rs. 1 lac during a financial year.

**b. Relief and Welfare Measures**

It is proposed to raise the limit of eligible deduction under section 80C from Rs 1 Lac [for individuals or HUF's] to Rs. 1.5 Lac. Consequentially, limit of Rs. 1 Lac is enhanced to Rs. 1.5 Lac under section 80CCE also.

Existing deduction limits in respect of contribution to pension scheme of Central Government as envisaged u/s. 80CCD is proposed to be limited to maximum sum of Rs. 1 Lac. The benefit of this deduction is also sought to be extended to individuals employed by employers other than Central Government.

**c. Enhancement of deduction for Interest under House Property Income**

It is proposed to enhance the eligible deduction on account of interest paid in respect of Self Occupied House Property u/s. 24(b) to Rs. 2 Lac from existing limit of Rs. 1.5 lacs.

**d. Tax Deduction at Source (w.e.f. 1.10.2014):**

- Provision for filing correction statement for rectification of any mistake in the quarterly statement of TDS is proposed to be inserted in section 200.
- It is proposed to omit the time limit of 2 years specified for passing of an order u/s. 201(1) for deeming a payer as assessee in default in cases where TDS statements have been filed.
- Time limit for passing an order u/s. 201(1) in cases where TDS statement has not been filed, is proposed to be extended to 7 years from the end of the financial year in which payment / credit is made, to align it with period prescribed in section 148 of the Act.
- Penalty for failure to furnish or furnish incorrect information in TDS/TCS statements shall be levied by the Assessing Officer.

➤ **International Taxation/ Taxation of Non Resident**

**a. Definition of International Transaction u/s 92B**

It is proposed to amend section 92B(2), to clarify that in respect of a transaction entered into by an enterprise with a person other than associated enterprise, there exists a prior agreement in relation to the relevant transaction

between the other person and the associated enterprise or, where the terms of the relevant transaction are determined in substance between such other person and the associated enterprise, and either the enterprise or the associated enterprise or both of them are non-resident, then such 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.

**b. Penalty u/s 271G [w.e.f. 01.10.2014]**

It is proposed to empower Transfer Pricing Officer as an authority competent to levy the penalty u/s. 271G in addition to the AO and the CIT(Appeals) in case of failure to furnish documents or information.

**c. Concessional Rate of tax on overseas borrowing [w.e.f 1st October, 2014]**

It is proposed to extend the concessional withholding tax rate at 5% u/s 194LC on account of interest payable by an Indian company to a non-resident on foreign currency borrowings made before 01-07-2017 through any long term bond.

**d. Reduction in rate of tax on certain dividends received from foreign companies**

With a view to encourage Indian Companies to repatriate foreign dividends into India, it is proposed to extend the period of benefit of lower taxation at the rate of 15% u/s 115BBD without any sunset clause.

**e. Characterisation of income in case of FIIs:**

To stabilize the tax regime for FDI, it proposed to amend section 2(14) to clarify that any investment in securities in accordance with SEBI regulation shall be Capital Asset for the FII's and taxed accordingly.

**f. Roll back provision in Advance Pricing Agreement (APA) scheme [w.e.f 1.10.2014]**

It is proposed to introduce "roll back" scheme wherein mechanism to deal with the Arms Length Pricing issues relating to transactions entered into during the period prior APA would be levied provided that the relief would apply to not more than four previous years preceding the previous year for which APA is sought.

## ➤ Other Proposals

### a. **Signing and Verification of Return of Income [w.e.f. 01.10.2014]**

It is proposed to amend section 140 to provide for verification of returns either by a sign in manuscript or by any electronic mode thereby broadening the scope beyond mere physical signing of return.

### b. **Charitable Trusts and Institutions**

It is proposed that the Trust or institution availing specific exemption under section 11 to have restricted scope of further exemption limited to agricultural income and income exempt under section 10(23C).

Similarly, entities which have been approved or notified for claiming benefit of exemption under section 10(23C) would not be entitled to claim any benefit of exemption under other provisions of section 10 except the exemption in respect of agricultural income.

It is further proposed that no deduction by way of depreciation to be allowed in respect of application of income for the above referred entities.

### c. **Cancellation of Registration of Trust u/s 12AA [w.e.f. 01.10.14]**

It is proposed to amend the provision in order to widen the scope to cancel the registration granted u/s 12AA unless trust or institution proves that there was a reasonable cause for the activities to be carried out in the manner expressly prohibited

### d. **Anonymous donations u/s 115BBC**

It is proposed to amend section 115BBC to provide for the levy of income tax on the total income after excluding the anonymous donations attracting 30% tax rate [i.e. the aggregate of the anonymous donations in excess of five percent of the total donations or one lakh rupees, whichever is higher] as against the existing provisions providing for the reduction of full amount of anonymous donations.

### e. **Retrospective benefit of registration u/s 12A [w.e.f. 01.10.14]**

- It is proposed to extend the benefit of registration u/s 12AA even for the years preceding the year of registration i.e. earlier Assessment years pending for adjudication before the AO as on date of registration

provided that no such benefit is refused or cancelled in those preceding years.

- Further, it is proposed that non obtaining of registration for earlier assessment year would not be a ground for reopening of earlier assessments.

**f. Income Computation and Disclosure Standards to be complied**

It is proposed to provide the Central Government powers to notify "income computation and disclosure standards" instead of "accounting standards" in the official gazette from time to time. Any deviation in computing the total income as per these standards shall empower the AO to make the best judgment assessment in the manner provided u/s. 144.

**g. Year of taxability of compensation received under compulsory acquisition of assets**

It is proposed to provide that any amount of compensation received in pursuance of an interim order of the court, Tribunal or other authority shall be deemed to be the income of the previous year in which the final order is made.

**h. Powers of Survey enhanced**

- An income tax authority shall be empowered to retain in his custody any such books of account or other documents for a period exceeding 15 days vis-à-vis hitherto 10 days, after obtaining the approval of the Principal Chief Commissioner or Principal Director General, as the case may be.
- Scope of survey is extended for the purpose of verifying whether tax has been deducted or collected at source in accordance with the provisions of Chapter VII-B or XVII-BB as the case may be.

**i. Satisfaction note mandated for 153C proceedings (w.e.f. 01.10.2014)**

It is proposed to amend the section 153C to provide for satisfaction of the AO that the books of account or documents or assets seized or requisitioned referred to him in case of persons other than those searched, that have a bearing on the determination of the total income of such other person for the relevant assessment year or years referred in section 153(A)(1).

**j. Return of Income to be filed by Mutual Funds, Securitisation Trusts, VCCs and VCFs:**

If income of a Mutual Fund, Securitisation Trust, VCC or VCF in respect of such fund, trust or company without giving effect to exemption u/s 10 exceeds the basic exemption limit, they shall furnish a return of income for the previous year in the prescribed form and manner as if it were return to be filed u/s. 139(1). Further, the requirement of filing statements before an income tax authority is now dispensed with by omitting section 115R(3A) and section 115TA(3).

**k. Inquiry by prescribed income tax authority: [w.e.f 01.10.14]**

A new section 133C is proposed to be introduced to provide that verification of information in the possession of any prescribed Income Tax Authority relating to any person can be made through issue of a notice to such person requiring him, to furnish information or documents which may be useful in any enquiry or proceedings.

**l. Interest payable by assessee u/s.220[w.e.f 01.10.14]**

It is proposed to insert a provision u/s. 220 to provide that where any notice of demand is served u/s.156 and appeal or other applications / petition is filed in respect of demand raised therein, the notice of demand shall continue to remain valid till the disposal of the appeal by the last appellate authority. Further if any demand is reduced and subsequently increased due to proceedings u/s.263 or otherwise, the interest on the increased demand shall be computed from the day immediately following the end of the period mentioned in the original notice.

**m. Mode of acceptance or repayment of loans and deposits**

It is proposed to clarify that account payee cheque or bank draft as provided u/s. 269SS & 269T shall even include use of electronic banking system through banking account, provided other conditions specified are satisfied.

**n. Provisional attachment u/s.281B**

It is proposed to amend Section 281B to provide that the total period of extension for the provisional attachment shall extend upto two years, or sixty days post assessment or reassessment whichever is later as against the existing provision which provides a limitation period of a maximum of two years.



**o. Tax regime for Real Estate Investment Trust (REIT) and Infrastructure Investment Trust (Invit)**

SEBI has already issued draft regulations in relation to REIT & Invit. Broadly, as per the Scheme the REITs and Invits shall raise funds and invest in Special Purpose Vehicles floated by the Sponsors for Real Estate and Infrastructure development.

In order to boost further development of affordable housing and infrastructure, broadly following tax mechanism is proposed for business trusts and their unit holders:

- Listed units of business trust on stock exchange would attract Securities Transaction Tax (STT) and shall bear same tax benefits as provided for listed equity shares i.e LTCG shall be exempt and STCG shall be charged @15%.
- Capital gains arising at time of exchange of shares for units of trust shall be deferred till the sponsor disposes the units
  - o COA shall be cost of acquiring shares
  - o Period of holding of shares shall be included for determining period of holding of units
- Interest income from SPV shall be exempt in hands of trust (as pass through entity). There shall not be any withholding of tax at SPV level, however there shall be withholding of 5% tax in case of interest component of income distributed to non-resident and 10% tax in case of interest component of income distributed to resident.
- In case of External Commercial Borrowings, benefit of reduced rate of 5% tax withholding on interest payment for ECB shall be available for period as prescribed in section 194LC.
- Dividend received from SPV shall be laible for DDT. However, same shall be exempt in hands of the trust and Dividend component of income distributed to unit holders shall also be exempt.
- Capital gains by way of disposal of assets by trust shall be taxed in the hands of trust at the applicable rates. However, capital gain component of income distributed shall be exempt in hands of unit holders.
- Any other income of trust shall be taxable at maximum marginal rate.

## **INDIRECT TAX PROPOSALS**

### **Central Excise**

*(Note: Changes to come into effect immediately unless otherwise specified)*

There is no change in the basic rate of excise duty which continues to be 12%.

#### **a. Beverages**

An additional excise duty is being levied at the rate of 5% ad valorem on waters, including aerated waters, containing added sugar falling under chapter heading 2202 10

#### **b. Cigarettes, Tobacco etc.**

Basic excise duty rates on cigarettes and other products of tariff heading 2402 has been increased. Between 4% to 10% with immediate effect

There is no change in NCCD and Health Cess rates

#### **c. Petroleum and petroleum gases [w.e.f. 11.07.2014]**

- i) Excise duty on Branded Petrol is being reduced from Rs. 7.50 per litre to Rs. 2.35 per litre.
- ii) Full exemption from excise duty is being provided to various petroleum gases for supply to household domestic consumers, now extended to NDEC customers by HPCL or BPCL retrospectively w.e.f. 08.02.2013.

#### **d. Footwear [w.e.f. 11.07.2014]**

Excise duty is being reduced from 12% to 6% on footwear of retail price exceeding Rs. 500 per pair but not exceeding Rs.1,000 per pair

#### **e. Precious Metals**

Un-branded articles of precious metals are being exempted from excise duty retrospectively for the period 01.03.2011 to 16.03.2012.

#### **f. Machinery and Mechanical Appliances [w.e.f. 11.07.2014]**

- i) 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 is being reduced from 10% to 6%.

- ii) Full exemption from excise duty is being provided on machinery, equipments, etc. required for initial setting up of solar energy production projects and compressed biogas plant (Bio-CNG).
- iii) Excise duty on hand operated sewing machine (2% without CENVAT / 6% with CENVAT) is being rationalized by levying concessional excise duty on sewing machines other than those operated with electric motors (whether in-built or attachable to the body).

### Withdrawal of Exemptions/Concessions

- 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. [w.e.f. 11.07.2014]
- Excise duty at the rate of 2% (without CENVAT) or 6% (with CENVAT) is being imposed 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. 11.07.2014.
- Excise duty on recorded smart cards is being increased from 2% without CENVAT or 6% with CENVAT to a uniform rate of 12%.

### Other Relief Measures

- By providing relief to assessee against the decision of the Supreme Court in CCE, Mumbai vs. Fiat India (P) Ltd. where value of the goods shall be deemed to be the transaction value if the assessee sells the goods at a price less than the manufacturing cost and no additional consideration shall be added which is flowing directly or indirectly from the buyer to the assessee.
- Full exemption from excise duty is being provided to specified raw materials used in the manufacture of backsheet and EVA sheet and also to backsheet and EVA sheet used in the manufacture of solar photovoltaic cells or modules.
- Full exemption from excise duty is being provided on plastic materials reprocessed out of the scrap or waste and cleared into the DTA by an EOU. This would bring EOU at par with domestic and SEZ Units.
- Full exemption from excise duty is being provided on flat copper wire used in the manufacture of PV ribbons (tinned copper interconnect) for use in the manufacture of solar cells or modules.

- Excise duty is being reduced from 12% to Nil on forged steel rings used in the manufacture of bearings of wind operated electricity generators.
- Excise duty on Metal Core PCB and LED driver for use in the manufacture of LED lights and fixtures and LED lamps is being reduced from 12% / 10% to 6%.
- Full exemption from excise duty is being provided to reverse osmosis (RO) membrane element for water filtration or purification equipment (other than household type filter).
- Excise duty on RO membrane element used in household type filters is being reduced from 12% / 10% to 6%.
- Education cess and secondary & higher education cess (customs component) is being exempted on goods cleared by an EOU into DTA.

### Clean Energy Cess

Clean Energy Cess is being amended so as to expand the scope of purposes of levy of the aforesaid cess to include clean environment initiatives and funding research in the area of clean environment.

### CENVAT Credit Rules, 2004 [w.e.f. 11.07.2014]

- Definition of Place of removal of goods inserted as Place of removal of goods would be a factory or any other place or premises of production or manufacture of the excisable goods; a warehouse or any other place or premises wherein the excisable goods have been permitted to be deposited without payment of duty; a depot, premises of a consignment agent or any other place or premises from where the excisable goods are to be sold after their clearance from the factory, from where such goods are removed.
- A manufacturer or the provider of output service shall not take CENVAT credit after six months of the date of issue of any of the documents specified in Rule 9(I).
- In respect of input service where whole of the service tax is liable to be paid by the recipient of service, CENVAT Credit shall be allowed after service tax is paid. Prior to amendment such CENVAT was eligible only if payment of service tax under RCM is made to the Government along with payment of value of service to vendor.
- As per Rule 12A (4) Large Tax Payer is restricted to transfer of CENVAT to any of its registered manufacturing premises. Such transfer can be made upto amount available as CENVAT till 10.07.2014.

## Central Excise Rules, 2002

- W.e.f. 01.10.2014 excise duty shall be paid electronically by every manufacturer/dealer. However Assistant or Deputy Commissioner has the discretion to allow an assessee to make payment in other than electronic mode, if he is satisfied for reasons recorded in the writing. If the assessee fails to pay the duty declared in the return within one month from the due date, then 1% penalty would be levied.

### Clarification

Advance ruling facility extended to resident private limited company. In order to include private limited company within the definition of applicant under 'Advance Ruling', 'private limited company' and 'resident' shall be defined as per the Companies Act, 2013 and the Income Tax Act, 1961 respectively.

### Customs:

#### A. Tariff:

##### Oil and Chemical Products:

Full exemption from BCD is being granted to 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.

For manufacture of soaps and chemicals, BCD on fatty acids, crude palm stearin, RBD and other palm stearin and specified industrial grade crude oils is being reduced from 7.5% to Nil.

##### Beverages and Spirits:

BCD on denatured ethyl alcohol is being reduced from 7.5% to 5%.

##### Cigarette and Tobacco:

Tariff item 2402 20 60 is being omitted. Length of cigarettes exceeding 75 mm but not exceeding 85 mm and cigarettes of length exceeding 85 mm are being merged into a single tariff item i.e. others [2402 20 90] chargeable at 30%.

##### Ore Minerals and Gas:

Export duty on bauxite is being increased from 10% to 20%.

BCD on steel grade dolomite and steel grade limestone is being reduced from 5% to 2.5%

The duty structure on all non-agglomerated coal of various types is being rationalized at 2.5% BCD and 2% CVD. BCD on metallurgical coke is being increased from Nil to 2.5%.

BCD on crude naphthalene is being reduced from 10% to 5%

BCD on coal tar pitch is being reduced from 10% to 5%.

BCD on propane is being reduced from 5% to 2.5%.

### **Chemical or Allied Industries:**

BCD on ethane and other goods under sub-heading 2901 10 00, ethylene, propylene and butadiene is being reduced from 5% to 2.5%.

BCD on ortho-xylene is being reduced from 5% to 2.5%.

BCD on methyl alcohol is being reduced from 7.5% to 5%.

Full exemption from BCD is being provided on specified raw materials used in the manufacture of solar backsheet and EVA sheet for use in manufacture of solar PV cells or modules.

### **Textile Industry:**

The list of specified goods required by handicraft exporters is being expanded so as to include wire rolls in the same for the purpose of granting the facility of duty free import.

Non-fusible embroidery motifs or prints are being included in the list of items eligible to be imported duty free for manufacture of garments for export.

The duty free entitlement for import of trimmings & embellishments and other goods used by the readymade textile garment sector for manufacture of garments for export is being increased from 3% to 5%.

Fusible embroidery motifs or prints, anti-theft devices like labels, tags and sensors, pin bullets for packing, plastic tag bullets, metal tabs, bows, ring and slider and rings are being included in the list of items eligible to be imported duty free for manufacture of handloom made ups or cotton made ups or manmade made ups for export.

### **Precious metals and Stones:**

Full exemption from BCD is being granted to pre-forms of precious and semi-precious stones.

BCD on half-cut or broken diamonds is levied at the rate of 2.5% and on cut & polished diamonds including lab-grown diamonds and colored gemstones is being increased from 2% to 2.5%.

### **Base metals:**

a) Stainless Steel:-

BCD on stainless steel flat products is being increased from 5% to 7.5%.

b) Forged Steel:-

BCD is being reduced from 10% to 5% on forged steel rings used in the manufacture of bearings of wind operated electricity generators.

c) Copper Wire:-

Full exemption from BCD is being provided on flat copper wire for use in the manufacture of PV ribbons (tinned copper interconnect) for solar PV cells or modules.

### **Nuclear Reactors, Boilers, Machinery and Mechanical Appliances:**

BCD at a concessional rate of 5% is being provided on machinery, equipments, etc. required for initial setting up of compressed biogas plant (Bio-CNG).

BCD and CVD on machinery, equipment, etc. required for initial setting up of solar energy production projects is being reduced to 5% and Nil respectively.

Full exemption from Special Additional Duty is being provided on parts and raw materials required for use in the manufacture of wind operated electricity generators.

### **Electronic Industry:**

BCD on LCD and LED TV panels of below 19 inches is being reduced from 10% to NIL.

BCD on colour picture tubes for manufacture of cathode ray TVs is being reduced from 10% to NIL.

BCD is being exempted on specified parts of LCD and LED panels for TVs.

BCD is being reduced from 7.5% to NIL on E-Book readers.

BCD on battery waste and battery scrap is being reduced from 10% to 5%.

Exempted all inputs/components used in the manufacture of personal computers from 4% special additional duty (SAD).

Imposed education cess on imported electronic products to provide parity between domestically produced goods and imported goods.

Exempt 4% SAD on PVC sheet and ribbon used for the manufacture of smart cards.

### **Shipping Industry:**

The BCD on ships imported for breaking up is being reduced from 5% to 2.5%.

### **Surgical and Medical Equipments:**

CVD exemption on portable X-ray machine / system is being withdrawn

### **Baggage Rules:**

#### **Baggage Rules are being amended to,-**

- (i) raise the free baggage allowance from Rs.35,000 to Rs.45,000.
- (ii) reduce the duty free allowance of cigarettes from 200 to 100, of cigars from 50 to 25 and of tobacco from 250 gms to 125 gms.

## **B. Non-Tariff**

### **Amendment in Section 46 of Custom Act:**

The first proviso of Section 46(3) of the Act is omitted to provide that no Bill of Entry shall be presented before delivery of import manifest or import report.

### **Amendment in Section 129A of Custom Act:**

Section 129A of the act amended to enhance power to Appellate Tribunal to refuse to admit an appeal in respect of an order where amount of fine or penalty does not exceed Rs. 2,00,000 (Earlier Rs. 50,000)

## **Service Tax**

### **Widening of Tax Base**

Service tax is currently leviable on sale of space or time for advertisements in broadcast media, namely radio or television and the same is proposed to be extended to advertisements in internet websites, out-of-home media, on film screen in theatres, bill boards, conveyances (vehicles), cell phones, Automated Teller Machines, tickets, commercial publications, aerial advertising, etc. However print media, would continue to be exempt.

Service tax is proposed to be levied on services provided by radio taxis or radio cabs, whether or not air-conditioned. The abatement of 40% available to rent-a-cab service would also be made available to radio taxi service.

Any service provided for transport of passenger by air-conditioned contract carriage including which are used for point to point travel, will attract service tax.

Exemption available for services provided by way of renting of immovable property to educational institutions stands withdrawn.

Review of Mega Exemption Notification



## New Exemptions

- Services by way of loading, unloading, packing, storage or warehousing, transport by vessel, rail or road (GTA), of cotton, ginned or baled, is being exempted.
- All life micro-insurance schemes approved by the Insurance Regulatory Development Authority (IRDA), where sum assured does not exceed Fifty Thousand Rupees are being exempted from service tax in addition to other scheme prescribed under Notification No. 25/2012.
- Services provided by Indian tour operator to a foreign tourist in relation to a tour wholly conducted outside India.

## Rationalization of Exemptions

- Only following services received by eligible educational institutions are exempted from service tax: (i) transportation of students, faculty and staff of the eligible educational institution; (ii) catering service including any mid-day meals scheme sponsored by the Government; (iii) security or cleaning or house-keeping services in such educational institution; (iv) services relating to admission to such institution or conduct of examination.
- Presently "service by way of renting of a hotel, inn, guest house, club or campsite or other commercial places meant for residential or lodging purposes, having a declared tariff of a unit of accommodation below rupees one thousand per day or equivalent" is exempt from service tax. Some doubts appears to have arisen on account of use of the word "commercial" in the entry. To remove any ambiguity, the word "commercial" is being omitted.
- Transport of organic manure by vessel, rail or road (by GTA) is being exempted

## Service Tax Rules, 1994 and Notification No. 30/2012-ST

- Service provided by a director to a body corporate and services provided by recovery agents to banks, financial institutions and NBFC are brought under the reverse charge mechanism.
- In renting of motor vehicle, where the service provider does not avail abatement, the portion of service tax payable by the service provider and service receiver is being modified as 50% each. This change will come into effect from 01.10.2014.

## E-payment

E-payment of service tax is being made mandatory with effect from the 01.10.2014. Relaxation from e-payment may be allowed by the Deputy Commissioner/Asst. Commissioner on a case to case basis.

## Place of Provision of Services Rules, 2012:

- The second proviso to rule 4(a) is being amended to prescribe that for the purpose of exclusion of repair service the goods imported for repair are exported after repair without being put to any use other than that which is required for such repair. This exclusion does not apply to goods that arrive in the taxable territory in the usual course of business and are subject to repair while such goods remain in the taxable territory.
- The definition of intermediary is being amended to include the intermediary of goods in its scope. Accordingly, w.e.f. 01.10.2014, an intermediary of goods, such as a commission agent or consignment agent shall be covered under Rule 9(c) of the Place of Supply of Services Rules where the place of provision shall be the location of the service provider.
- Services consisting of hiring of Vessels (excluding yachts) and Aircrafts are being excluded from Rule 9(d). Accordingly, hiring of vessels, or aircrafts, irrespective of whether short term or long term, will be covered by the general rule, i.e., the place of location of the service receiver. Hiring of yachts would however continue to be covered by Rule 9(d)

## Variable rate of Interest

To encourage prompt payment of service tax, it is being proposed to introduce interest rates which would vary with the extent of delay. Therefore with effect from 01.10.2014 interest under section 75 shall now be levied as follows:

Sr. No	Period of Delay	Rate of Interest (%)
1.	Up to 6 months	18
2.	6 months to 1 year	24
3.	More than 1 year	30

## Section 67A in the Finance Act, 1994:

The Explanation to section 67A is being amended to enable the Government to prescribe rules for determination of rate of exchange for calculation of taxable value in respect of certain services. Rules will be prescribed in due course after the Bill receives the assent.

**SEZ – procedural simplification:**

For a Developer of SEZ or unit holder in SEZ, procedure relating to refund of service tax paid on services received and relating to receipt of services without payment of service tax to provider of services is simplified with immediate effect by amending notification no. 12/2013-ST.

**Input Service Distributor:**

Notification no. 05/2014-CE (N.T.) dated 24th February, 2014 stated that the manner of distribution of credit of common input services, utilized by more than one unit, under Rule 7(d) among all units shall be in the turnover ratio of the operational units of the relevant period. It has been clarified that the credit of the common input services shall be distributed among all the units irrespective of the fact whether they have used such input services or not.

**Abatement Notification No. 8/2014****(a) Changes in conditions**

- Abatement to Services of GTA in relation to transportation of goods shall be taken on the condition that CENVAT credit on inputs, capital goods and input services, used for providing the taxable service, has not been taken by the service provider under the provisions of the CENVAT Credit Rules, 2004.
- Abatement on Renting of any motor vehicle designed to carry passengers shall be available only on Renting of Motorcab with effect from the 01-10-2014 subject to fulfillment of certain conditions.
- CENVAT Credit on the input service of a tour operator can be taken under the provisions of the CENVAT Credit Rules, 2004 to provide services of tour operator as specified in serial number 11 of the abatement notification.

**(b) New Entry**

After serial number 9, a new entry 9A has been inserted wherein abatement of 60% on transport of passengers, with or without accompanied belongings, by a (a) contract carriage other than motorcab (b) a radio taxi shall be available on the condition that CENVAT credit on inputs, capital goods and input services, used for providing the taxable service, has not been taken under the provisions of the CENVAT Credit Rules, 2004.

**(c) Change in Rate**

Abatement on transport of goods in a vessel shall be increased to 60% the w.e.f. 01.10.2014.

## Changes in Valuation Rules

In Rule 2A of the Service Tax (Determination of Value) Rules, 2006, category "B" and "C" of works contracts are proposed to be merged into one single category "B" as (i) maintenance or repair or reconditioning or restoration or servicing of any goods; or (ii) maintenance or repair or completion and finishing services such as glazing or plastering or floor and wall tiling or installation of electrical fittings of immovable property, with percentage of service portion as 70% of the total amount charged for the works contract.

## Point Of Taxation Rules:

The first proviso to Rule 7 of the POTR is being amended to provide that point of taxation in respect of reverse charge will be the payment date or the first day that occurs immediately after a period of 3 months from the date of invoice, whichever is earlier. This amendment will apply only to invoices issued after 01.10.2014. A transition rule is being prescribed (new rule 10 of POTR).

## Advance Ruling:

The resident private limited company is being included as a class of persons eligible to make an application for Advance Ruling in service tax.

## Time limit

Section 73 is being amended by inserting sub section 4B to prescribe time limit to the Service Tax Officer for completion of adjudication which is as follows:

- One year from the date of notice (for reason involving of fraud, collusion, willful mis-statement or suppression of facts or contravention of any other provisions with the intent to evade service tax payment)
- Six months from the date of notice in any other case

## Reasonable cause for penalty

Section 80 is being amended which provides in case of serious offences, waiver of penalty not to be available even though details may be available in records.

## Recovery of dues

Section 87 is being amended to incorporate power to recover dues of a predecessor from the assets of a successor purchased from the predecessor.

### **Pre-Deposit**

Vide section 83, section 35F of the Central Excise Act is already applicable to Service Tax. Section 35F of the Central Excise Act is now being substituted with a new section which prescribes a mandatory fixed pre-deposit of 7.5% of the duty demanded or penalty imposed or both, for filing appeal before the Commissioner (Appeals) or the Tribunal at the first stage and 10% of the duty demanded or penalty imposed or both, for filing the appeal at the second stage before the Tribunal. The amount of pre-deposit payable would be subject to a ceiling of Rs. 10 Crs All pending appeals/stay applications would be governed by the statutory provisions prevailing at the time of filing such stay applications/appeals. When the amended section 35F in the Central Excise Act comes into force, it would, mutatis mutandis, apply to Service tax by virtue of section 83 of the Finance Act, 1994.

### **Goods & Service Tax**

GST is proposed to be implemented by the end of this year. As per the FM Arun Jaitley they are hopeful to find a solution in the course of this year and approve the legislative scheme which enables the introduction of GST in the country.

## KEY POLICY CHANGES IN FY 2013-14

### A. Overseas Direct Investment

- i) An Indian Party can invest upto 400% from earlier 100% of its net-worth in Overseas entity  
*[A.P. (DIR Series) Circular No. 1 dated July 3, 2014].*
- ii) LLP registered under the LLP Act, 2008 is allowed to invest in Joint Venture and Wholly Owned Subsidiaries abroad.  
*[A.P. (DIR Series) Circular No. 131 dated May 19, 2014]*
- iii) Indian party **directly holding** 51% or more in the overseas subsidiary now allowed to give guarantee on behalf of second generation or subsequent level step down operating subsidiaries under the Automatic Route. However, in the case of **indirect holding** of 51% or more in overseas subsidiary, the same shall continue to be considered under the RBI approval route.  
*(A.P. (DIR Series) Circular No. 41 dated 10th September, 2013)*
- iv) Definition of group company explained:-  
“Group Company” means two or more enterprises which, directly or indirectly, are in a position to:
  1. Exercise 26% or more voting rights in other enterprise; or
  2. Appoint more than 50%, of members of the board of directors in the other enterprise.  
*(Press note 2 (2013 series) D/o IPP F. No. 5/3/2005 – FC.I Dated June 03’ 2013.)*
- v) **Liberalized Remittance Scheme**  
Remittance by resident individual under Liberalized Remittance Scheme increased to USD 1,25,000 from USD 75,000 per financial year for any permitted capital and current account transaction or a combination of both  
*(A.P. (DIR Series) circular No. 64 dated 4th February, 2004 updated upto July 4, 2014)*

### B. Foreign Direct Investment

- i) Foreign Direct Investment in LLP operating in sectors / activities where 100% FDI is allowed under the Automatic Route of the FDI scheme, without any FDI linked performance related conditions, is permitted under the Approval Route  
*(A.P. (DIR Series) circular No. 123 dated 16th April, 2014)*

- ii) The State of Karnataka has given its consent to implement the policy on multi brand retailing trading. With this the name of States / Union Territories that have given their consent inverted to 12 (namely AP, Assam, Delhi, Haryana, HP, J&K, Karnataka, Maharashtra, Manipur, Rajasthan, Uttarakhand, Daman & Diu and Dadara & Nagar Haveli)  
*Press note 3 (2013 series) – D/o IPP F. No. 5/3/2005-FC.I dated June 03, 2013*
- iii) Union Budget-2104 proposed to increase FDI in Insurance & Defence Sector from present 26% to 49% under the Approval route.
- iv) Prior permission of RBI is required to be obtained by entities from Pakistan, Bangladesh, Sri Lanka, Afghanistan, Iran, China, Hong Kong & Macau to set up, in India a liaison / branch / project office or any other place of business by whatever name.  
*(A.P. (DIR Series) circular No. 93 dated 15th January, 2014)*

### C. Others

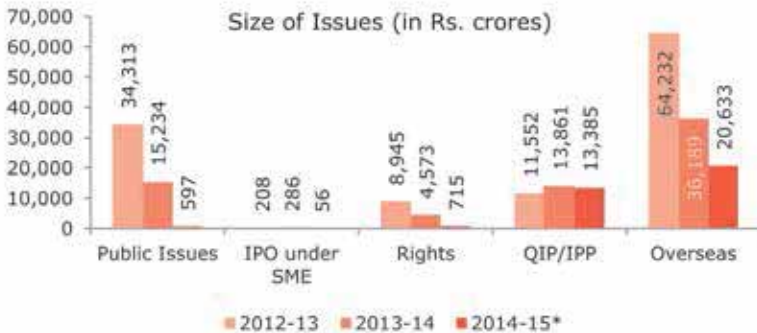
- i) Non-residents can pledge the equity shares of an Indian listed company to an NBFC
  - No RBI approval required by a non-resident shareholder of an Indian listed company to pledge its equity shares in favor of an NBFC to avail loans for the said Indian listed company subject to the credit concentration norms applicable to the NBFC.
  - Disclosure requirements under the Takeover Code have to be fulfilled at the time of creation and invocation of pledge.
  - Requirement for an open offer under the Takeover Code may also trigger on invocation of pledge.
- ii) RBI permits “write-off” a certain percentage of un-realized export bills without its prior approval. Amount of “Write-off” has to be calculated based on % of total export proceeds realized during the previous calendar year subject to certain conditions (i.e. 5% of total export proceeds realized by exporter other than Status Holder Exporter, 10% by Status Holder Exporter and 10% with the approval of AD bank)  
*(Circular no.88 of RBI dated 12’ March 2013)*

## CAPITAL MARKET

### Primary Equity Markets

The declining trend of fund raising that began in FY 2012 and witnessed in FY 2013 saw a continuing downtrend during FY 2014. In value terms, Indian companies raised a significantly lesser amount in FY 2014 than FY 2013. The SME platform witnessed a few IPOs in FY 2014 and we hope that the activity on this platform will increase in the future.

The victory of the BJP led NDA and the installation of the Modi Government has brought 'Achhe Din' in the capital markets, taking indices to new highs and the investor sentiments has improved; 8 Large Cap companies came out with QIP/ IPP issues raising funds almost equivalent to entire FY 2014 in the 1st quarter of FY 2015 itself.



\* Upto June 30, 2014

Source: Prime Database



## Secondary Market Equity

Indian equity markets have seen FII investment of Rs. 79,709 Crs in FY 2014 as compared to Rs. 140,033 Crs in FY 2013. However the FII inflows skyrocketed during the 1st quarter of FY 2015, with the investment totaling to Rs. 37,802 Crs

At the end of the last Budget the Sensex was at 18,919 (March 01, 2013 opening) and at this Budget closed at 25,373 (July 10, 2014 closing), up 34.1% in line with global capital markets. In addition, the markets have been volatile, during the last one year with the Sensex at a high of 26,190 (July 8, 2014) and at a low of 17,449 (Aug 28, 2013).

We have seen a broad rally in Infrastructure, Capital Goods, Power, Mining and Oil & Gas in anticipation of macro reforms from the new Government.

The mutual fund industry has registered an increase of 10.6% in the market value of AUM during the FY 2013-14 with the AUM approx at Rs. 9,10,795 Crs as on March 31, 2014 as against Rs. 8,23,195 Crs as on March 31, 2013. The AUM reached Rs. 9,93,232 Crs as on June 30, 2014, an increase of another 9.1% over FY 2014

## M&A and PE Activity

Both M&A and PE deals saw a dip in CY 2013 vis-à-vis CY 2012

M&A deals saw a dip of 23.7% in terms of deal value in CY 2013 (Rs. 1,74,117 Crs in CY 2013 as against Rs. 2,28,223 Crs in CY 2012) with the number of deals declining by 16.4% (500 in CY 2013 as against 598 in CY 2012).

There was a notable reversal in cross border M&A activity in terms of value with the focus shifting from outbound to inbound acquisitions in CY 2013. A brief summary is as follows:

Rs. Crs

Deal Summary	Volume		Value		Avg. Deal Size	
	CY 2012	CY 2013	CY 2012	CY 2013	CY 2012	CY 2013
Domestic	234	220	33,240	35,514	142	161
Cross Border						
Inbound	140	139	38,703	53,385	276	384
Outbound	122	82	75,345	57,135	618	697
Mergers & Internal Restructuring	102	59	80,934	28,083	793	476
<b>Total M &amp; A</b>	<b>598</b>	<b>500</b>	<b>228,223</b>	<b>174,117</b>		

The increase in inbound deal activity was mainly due to several MNCs increasing their holdings in Indian units through the market route or indirect restructuring. Pharma, Healthcare & Biotech; Real Estate and Cement were the top sectors which saw maximum activity in Domestic M&A whereas Inbound M&A saw maximum activity in Pharma, Healthcare & Biotech; Telecom and Manufacturing. Outbound M&A was largely focused on the Oil & Gas sector.

PE activity saw a drop of 12.5% in terms of number of deals, however there was an increase of over 25% in terms of value.

Rs. Crs

Deal Summary	Volume		Value		Avg. Deal Size	
Year	CY 2012	CY 2013	CY 2012	CY 2013	CY 2012	CY 2013
Angel / Seed	214	205	476	692	2	3
Venture Capital	189	163	5,294	7,555	28	46
Private Equity	351	292	46,141	56,635	131	194
<b>Total</b>	<b>754</b>	<b>660</b>	<b>51,911</b>	<b>64,882</b>		

Following is a chart showing PE deals by sector: Financials, Consumer segments and Healthcare dominate the PE deals collectively representing 58% of the total deal value in CY 2013



Source: VCCEdge

Debt Capital Markets

The benchmark 5 year and 10 year treasury yields have increased in FY 2013-14 and the Fixed Income Money Market and Derivatives Association of India (FIMMDA) credit spreads also widened. As of

March 31, 2014, the G Sec – 5 year and 10 year yields increased by 91 basis points and 85 basis points respectively from March 30, 2013.

Particulars	5 year		10 year	
	Mar-13	Mar-14	Mar-13	Mar-14
G sec	7.96%	8.87%	7.96%	8.81%
AAA Spread (bps)	90	68	84	64
AA+ Spread (bps)	97	74	97	75
AA Spread (bps)	110	95	115	94

Source: FIMMDA and Investing.com

The Government's efforts to increase the depth of the bond markets in India bore fruit with an increase of almost 150% in the value of money raised by corporates, FIs and DFIs through public issue of Corporate bonds and NCDs. However, the private debt market saw a decline with the private placement of bonds and NCDs falling a significant 24% in comparison to FY 2012-13.

Particulars	FY 2012-13		FY 2013-14	
	No.	Value	No.	Value
Public Issues	20	16,982	35	42,383
Private Placement	2,489	361,462	1,924	276,054
Commercial Paper	5,341	411,816	4,539	416,804
<b>Total</b>	<b>7,850</b>	<b>790,260</b>	<b>6,498</b>	<b>735,241</b>

Source: SEBI

## Budget Proposals

*"The Indian capital markets have been a source of risk capital for growing India" – Shri Arun Jaitley*

The following measures would be taken to energize the Capital markets:

1. Fund with a corpus of Rs. 10,000 crore for providing equity through venture capital funds, quasi equity, soft loans and other risk capital specially to encourage new startups by youth.
2. Advise regulators for liquid corporate bond market, eliminate unnecessary restrictions
3. Extend a liberalized facility of 5% withholding tax to all bonds issued by Indian corporate abroad for all sectors and extend the validity of the scheme to 30.06.2017

4. Liberalize the ADR/GDR regime to allow issuance of depository receipts on all permissible securities
5. Completely revamp the Indian Depository Receipt (IDR) and introduce a much more liberal and ambitious Bharat Depository Receipt (BhDR)
6. Clarify the tax treatment on income of foreign funds whose fund managers are located in India.
7. Introduction of uniform KYC norms and inter-usability of the KYC records across the entire financial sector
8. Introduce one single operating demat account
9. Uniform tax treatment for pension fund and mutual fund linked retirement plan

Also the ongoing process of consultations with all the stakeholders on the enactment of the Indian Financial Code and reports of the Financial Sector Legislative Reforms Commission (FSLRC) to be completed and the Government in close consultation with the RBI to put in place a modern monetary policy framework.

### Capital Market Reactions

In his maiden budget, the FM has placed adequate focus on agriculture, manufacturing, power and infrastructure development, rural development and access to venture capital by Indian entrepreneurs which are huge positives.

From an FII perspective, the FM has clarified that there will be no business income; it will be capital gains tax which is good news and FIIs that have relocated from India may now come back. FDI in terms of defence and insurance will also attract more FII inflows in the near future which may keep the capital markets in action.

## SECTORAL ANALYSIS

### Banking, Finance & Insurance

Positive

#### Budget Proposals

- PSU banks to raise Rs. 2,40,000 Crs as equity through public by the year 2018 to meet Basel III norms
- Banks to be permitted to raise long term funds for lending to infrastructure sector with minimum regulatory pre-emption such as CRR, SLR and PSL
- RBI to create a framework for licensing small banks and other differentiated banks.
- To set up six new Debt Recovery Tribunals (DRT)
- The composite cap of FDI in the insurance sector to be increased up to 49% from 26% through the FIPB route with full control to the Indian Partner
- To consider the pending Insurance Laws (Amendment) Bill

#### Impact

- PSU bank to raise the amount from the public markets
- Lending to Infrastructure Sector will enable banks to increase their exposure
- Widening the reach of banking system and looking for inclusion of unbanked masses
- DRT would expedite the resolution of NPA's and recover money
- Increasing FDI Cap would attract additional investments in the Insurance sector

### Real Estate

Positive

#### Budget Proposals

- Rs. 7,060 Crs for developing "100 Smart Cities"
- For encouraging FDI in smart cities the requirement of the built-up area and capital conditions has been relaxed from 50,000 to 20,000 square meter and from US \$ 10 million to US \$ 5 million, respectively
- Incentives for Real Estate Investment Trusts (REIT's) to have complete pass through for the purpose of taxation
- Extended additional tax incentive to home loan borrowers
- To provide a sum of Rs. 4,000 Crs to NHB to increase the flow of cheaper credit for affordable housing.

- Projects which commit at least 30% of the total project cost for affordable housing will be exempted from the minimum built up area and capitalization requirements
- Slum development to be included in the list of CSR

### Impact

- Boost the overall demand for real estate sector, especially affordable housing
- Investor can avail tax benefits from the proposed REIT structure and will attract additional investment in the sector
- Provide much required financial assistance in the hands of home buyers

### Infrastructure

### Positive

#### Budget Proposals

- Infrastructure Investment Trust being set up to finance infra projects and reduce the burden on banks
- Banks will be encouraged to extend long term loans to infrastructure sector with flexible structuring to absorb potential adverse contingencies
- Budget allocation for various infrastructure projects are mentioned below
  - a) Ports
    - 16 new port projects to be awarded this year, over Rs 11,000 Crs for Tuticorin, Kandla and other ports
  - b) Airports
    - To develop new airports through PPP in tier-II and tier-III cities
    - Plans to build 200 low-cost airports in the next 20 years to connect tier-II and tier-III cities
  - c) Roads
    - Investment in NHAI and state highways to the tune of Rs 37,887 Crs
    - To build 8,500 kms in current financial year
  - d). Waterways
    - Rs 4200 Crs for the Jal Marg Vikas project on river Ganga connecting Allahabad to Haldia, over 1620 kms
  - e). Railways
    - Rs 1000 Crs will be provided for rail connectivity in North-East Region
- Other Projects
  - Rs 500 Crs for developing five tourist circuits around specific themes
  - Rs 200 Crs for power and Rs 500 Crs for water reforms in Delhi

## Impact

- Proposed relief in regulation to raise and lend money for infrastructure projects would give much required liquidity to the sector and will facilitate its growth
- Proposed "Infrastructure Investment Trust" would broaden the investor base to raise funds for the Infrastructure Projects

## Agriculture

**Positive**

### Budget Proposals

- Finance to 5 lakh landless farmers through NABARD
- Rs. 5,000 Crs for Rural Infrastructure Development Fund
- Rs. 5,000 Crs for Warehouse Infrastructure Fund
- Rs. 5,000 Crs for Short time Rural Credit Refinance Fund
- Agriculture University in Andhra Pradesh and Rajasthan, & Horticulture University in Haryana, Telangana - Rs. 200 Crs
- Kisan Television to provide real time information on various farming and agriculture issues – Rs. 100 Crs
- Development of organic farming in North-East region – Rs. 100 Crs
- 3% incentives for farmers repaying loans on time

## Impact

- To incentivize expansion of processing capacity
- Investment in agro-technology development and creation and modernization of existing agri-business infrastructure would make farming competitive and profitable
- Restructuring FCI, reducing transportation and distribution losses and efficacy of PDS would help reduce the wastage in the supply chain
- 4% growth of agriculture would increase the income at grassroots level and thereby increasing the demand in overall economy

## Power

**Positive**

### Budget Proposals

- 10-year tax holiday for power generation and transmission companies that commission the projects before 31.03.2017
- Coal
  - Resolve existing impasse in the coal sector and ensure supply of coal to power plants which are already commissioned or would be commissioned by March 2015

- Rs 100 Crs for preparatory work for a new scheme “Ultra-Modern Super Critical Coal Based Thermal Power Technology”
- New and Renewable Energy
  - Ultra modern Solar power projects to be taken up in Rajasthan, Tamil Nadu, Ladakh with an outlay of Rs. 500 Crs
  - Rs. 400 Crs for energizing one lakh solar power driven agricultural pump sets and water pumping stations
  - Rs. 100 Crs is set aside for the development of 1 MW Solar Parks on the banks of river canals
  - A concessional basic customs duty of 5% is being extended to machinery and equipment required for setting up of a project for solar energy production
  - Specified inputs for use in the manufacture of EVA sheets and back sheets and flat copper wire for the manufacturing of PV ribbons to be exempted from basic custom duty
  - Implementation of the Green Energy Corridor Project will be accelerated in this financial year to facilitate evacuation of renewable energy across the country
- Petroleum & Natural Gas - 15,000 km gas pipeline to be set up in the country

### Impact

- Tax holiday for power and transmission companies would help improve the power infrastructure in the country
- Availability of Coal will operationalize the closed down assets and would open door for the companies for further expansion
- Basic duty exemption would promote the domestic production of Solar cells and modules

### Pharma, Healthcare & Chemicals

**Neutral**

#### Budget Proposals

- Rs. 500 Crs for four AIIMS like institutions in Andhra Pradesh, West Bengal, Vidarbha in Maharashtra and Poorvanchal in UP
- To set up 15 Model Rural Health Research Centres for research on local health issues concerning rural population
- To scale up nascent agri-biotech cluster in Mohali and to establish two new clusters in Pune and Kolkata
- Reduction of basic customs duty by 2.5% to 7.5% on certain items in chemicals and petrochemicals sector



### Impact

- Boost new investment and capacity addition in chemicals and petrochemicals sector

### Textiles

### Positive

#### Budget Proposals

- Sum of Rs. 500 Crs for developing a Textile mega-cluster at Varanasi and six more at Bareilly, Lucknow, Surat, Kutch, Bhagalpur and Mysore
- Increase duty free entitlement for import of trimmings, embellishments and other specified items from 3% to 5% of the value of their exports
- Exempt PSF and PFY manufactured from plastic waste and scrap including PET bottles from excise duty between 29.06.2010 and 07.05.2012. Nominal duty of 2% without Cenvat benefit and 6% with Cenvat benefit on PSF and PFY

### Impact

- New clusters will benefit the overall development of the sector
- Reduction in basic custom duty will encourage exports

## ABBREVIATIONS

AD	Authorised Dealer
ADR	American Depository Receipts
AMT	Alternate Minimum Tax
AOP	Association of Persons
APA	Advance Pricing Agreement
AUM	Assets under Management
BCD	Basic Custom Duty
BED	Basic Excise Duty
BOI	Body of Individuals
BoP	Balance of Payments
CAD	Current Account Deficit
CAGR	Compound Annual Growth Rate
CENVAT	Central Value Added Tax
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CSR	Corporate Social Responsibility
CVD	Countervailing Duty
CY	Calendar Year ending 31st December
DDT	Dividend Distribution Tax
DFI	Development Financial Institution
DTA	Domestic Tariff Area
EOU	Export Oriented Units
ESIC	Employees State Insurance Corporation
FDI	Foreign Direct Investment
FI	Financial Institution
FII	Foreign Institutional Investor
FM	Finance Minister
FIPB	Foreign Investment Promotion Board
FY	Financial Year ending 31st March
GDP	Gross Domestic Product
GDR	Global Depository Receipt
GTA	Goods Transport Agency
HGV	Heavy Goods Vehicle
HUF	Hindu Undivided Family



IPO	Initial Public Offer
IPP	Institutional Placement Programme
IRDA	Insurance Regulatory Development Authority
KYC	Know Your Client
LLP	Limited Liability Partnership
LTCG	Long Term Capital Gain
M&A	Mergers & Acquisitions
MNC	Multi National Company
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-Banking Financial Company
NCCD	National Calamity Contingent Duty
NCD	Non-Convertible Debentures
NDEC	Non-Domestic Exempted Category
NHAI	National Highways Authority of India
NPA	Non Performing Assets
NTRON	National Technical Research Organization
PDS	Public Distribution System
PE	Private Equity
POTR	Point of Taxation Rules
PPP	Public Private Partnership
PSL	Priority Sector Lending
PSU	Public Sector Undertaking
QIP	Qualified Institutional Placements
RBI	Reserve Bank of India
RCM	Reverse Charge Mechanism
SAD	Special Additional Duty
SEBI	Securities and Exchange Board of India
SEZ	Special Economic Zone
SLR	Statutory Liquidity Ratio
SME	Small or Medium Enterprise
SPV	Special Purpose Vehicle
STCG	Short Term Capital Gain
STT	Securities Transaction Tax
TDS	Tax Deducted at Source
VCC	Venture Capital Company
VCF	Venture Capital Fund
WPI	Wholesale Price Index

## **SGCO & Co.**

Chartered Accountants

### **Mumbai Office**

4A, Kaledonia-HDIL, 2nd Floor, Sahar Road, Near Andheri Station, Andheri (East), Mumbai - 400 069  
Tel.: 91-22-6625 6363 | Fax: 91-22-6625 6364 | E-mail: info@sgco.co.in | Web: www.sgco.co.in

### **Vadodara Office**

102 - 103, Shivani Flats, Near Bank of India, Subhanpura, Ellora Park, Vadodara - 390 023.  
Tel.: 91-265-2387 747/57 | Fax: 91-265-2392 665 | E-mail: vineet.rathi@sgco.co.in

### **Surat Office**

403, Shree Shyam Chambers, Opp. Sub Jail, Ring Road, Surat, Gujarat – 395 002. India  
Tel.: 91-261 2321366 | Fax: 91-261 2369023 | E-mail: vgoyal@sgco.co.in



**Ladderup**  
*Engineering Growth*

### **Ladderup Corporate Advisory Private Limited**

102-A, Hallmark Business Plaza, Near Guru Nanak Hospital, Bandra (East), Mumbai – 400 051  
Tel.: 91-22-4033 6363 | Fax: 91-22-4033 6364 | E-mail: info@ladderup.com | Web: www.ladderup.com

### **Ladderup Wealth Management Private Limited**

A-204, Rajeshri Accord, Tolly Cross Lane, Andheri (East), Mumbai - 400 069  
Tel.: 91-22-4246 6363 | Fax: 91-22-4246 6300 | E-mail: knowmore@ladderup.com | Web: www.ladderupwealth.com

This document summarizes the proposals of the Union Budget 2014 and recent key policy announcements

Expert guidance may be sought before acting upon the proposals