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INDIA BUDGET – 2013

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Engineering Growth

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FOREWORD

In the backdrop of current fiscal situation and forthcoming election year, Budget 2013 is a balanced attempt to revive growth without significant policy surprises. Focus on social sector reforms, with increased outlay on planned expenditure, will pave way for the overall and inclusive growth.

The FM made ambitious rise in the total plan and budgetary allocation of ₹ 16.65 lac Crs for 2013-14, up by almost 16% from the last year's revised estimate. The FM expressed the link between the policy and welfare as: opportunities, education, skills, jobs and income. He clearly established this link by making allocations to various schemes targeted at women, children, SC and ST, minorities, disabled persons, health, education, rural development, agriculture credit, food security among others.

Accepting the main recommendations of the Kelkar Committee, the FM has not sprung any surprises and aims to continue on the path of fiscal consolidation with a fiscal deficit target of 4.8% of GDP for 2013-14. The increased expenditure is proposed to be financed by a combination of higher tax revenues, increased capital receipts and borrowings. However, it would be imperative to rein in subsidies, other slippages and at the same time stimulate growth to achieve this target.

The GDP growth in 2013-14 is estimated to be in range of 6.1% to 6.7%. The FM acknowledged the fact that the GDP growth is constrained because of high fiscal deficit, increased reliance on foreign inflows, lower savings, lower investment and a tight monetary policy to rein in inflation.

The tax proposals aim to increase, in the near term, the tax-to-GDP ratio to the peak of 11.9% attained in 2007-08. The increased tax buoyancy would be attained by higher tax collections nominally supported by a higher surcharge imposed on the rich and companies above a certain threshold. The tax slabs as well as the rates have been maintained except in case of indirect taxes on specific luxury items and cigarettes which have been increased. TDS at the rate of 1% on the value of transfer of immovable properties, where consideration exceeds ₹ 50 lacs has been introduced. This will bring large number of potential tax payers in the tax net. On long pending issue of GST, while the FM talked about reaching consensus with States on the GST implementation, earmarking ₹ 9,000 Crs towards the first instalment of compensation from the centre to the States, provides hope for early implementation of GST.

To encourage corporate investments the FM proposed a 15% investment allowance (deduction) over and above the current depreciation rates for investment in plant and machinery in excess of ₹ 100 Crs during the period from 1-Apr-2013 to 31-Mar-2015, which is a welcome move. SIDBI's refinancing facility to MSMEs is proposed to be doubled to ₹ 10,000 Crs, which will help enhance liquidity for MSMEs.

Similarly, pro financial savings measures are proposed. RGESS is proposed to be liberalised to allow first time investor to invest in mutual funds and equity for 3 years. The threshold limit for investment in RGESS is proposed to be increased to ₹ 12 lacs from existing ₹ 10 lacs. The introduction of inflation linked bonds is an effort in the right direction and will ensure that the real returns accrue to the investors opting for financial savings rather than gold or real estate.

Knowing well that the spends on infrastructure and strengthening of banking sector will provide the biggest opportunity to spur growth, the FM has announced some encouraging measures for these sectors.

In a boost for infrastructure sector, four Infrastructure debt funds have been registered with SEBI of which two have been launched. Certain institutions would be allowed to raise tax free bonds up to ₹ 50,000 Crs in 2013-14 based on the need and capacity to raise funds from the market. The FM proposed to accelerate growth in the power sector through well devised PPP policy framework to increase production of coal. Announcements were made with respect to certain infrastructure projects especially in the roads, development of industrial corridors, ports and inland waterways. He has proposed a corpus of ₹ 14,000 Crs to be infused in Public Sector Banks to help them meet the Basel III capitalisation norms.

On the capital market front, reduction in STT on equity futures transactions and introduction of CTT on non-agriculture commodity futures transactions would create a level playing field. Allowing small and medium companies to get listed on MSME exchange without making an IPO might reduce the time & efforts required to tap capital markets for upcoming companies.

Considering the fact that this is the last fiscal budget by the current UPA Government, the normal expectation would have been of a largely populist in nature, which fears were completely allayed in the end. Overall, with fiscal consolidation and social sector expenditures being planned the FM has done a great balancing act. The Budget clearly was not a game changer but the overall construct shows lot of emphasis on fiscal discipline besides being realistic. However, what needs to be seen is how much of this gets actually implemented individually and that will determine whether the growth would be at 5.5% or 6% or it was merely the budget speech. A tight rope to traverse…

We do hope that the reader finds this compilation insightful and we would welcome your feedback. Please do write to us.

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BUDGET HIGHLIGHTS

Economy

- GDP growth rate has been 5% in 2012-13 as against the target of 7.6%
- GDP estimated for 2013-14 is likely to be well below the potential growth rate of 8%
- The CSO and RBI have estimated GDP growth at 5% and 5.5% respectively during 2013-14
- Exports and Imports amounts to 43% of GDP and two-way external sector transactions have risen to 108% of GDP
- Fiscal deficit recorded at 5.3% for 2012-13 (compared to 5.9% in 2011-12); while target for 2013-14 set at 4.8%
- CAD continues to be high and requires at least USD75 billion to balance CAD
- Thrust on FDI, FII and ECBs to reduce CAD

Budgetary Allocations

- Allocation for defence increased to ₹ 203,672 Crs for 2013-14 as against ₹ 193,407 Crs in 2012-13
- Greater emphasis for welfare of women and children, particularly of SC, ST and OBC categories
- Higher allocations of ₹ 97,134 Crs and ₹ 77,236 Crs made for the gender and child budgets respectively
- Allocation for education increased by 17% to ₹ 65,867 Crs
- ₹ 37,330 Crs allocated for Health and Family welfare; 57% of this earmarked for new National Health Mission in rural and urban areas
- Allocation of ₹ 17,700 Crs in 2013-14 for ICDS, representing an increase of 11.7% over last year allocation
- ₹ 15,260 Crs allocated for Drinking Water and Sanitation
- Allocation for rural development programs has been significantly increased by 46% to ₹ 80,194 Crs in 2013-14
- Of these, flagship program NREGS will get ₹ 33,000 Crs; PMGSY ₹ 21,700 Crs and IAY ₹ 15,184 Crs
- Mid-Day Meal Scheme will be provided with ₹ 13,215 Crs
- To further improve urban transportation, ₹ 14873 allocated to

JNNURM; 10,000 buses to be purchased especially by the hill states

- Higher growth of agriculture & allied sector and agricultural exports attracted an 22% increased allocation of ₹ 27,049 Crs
- Agriculture credit target for 2013-14 rise to ₹ 7,00,000 Crs as compared to ₹ 5,75,000 Crs in 2012-13
- Interest subvention scheme for short term crop loans continued (4% per annum) for farmers making repayments on time
- Fund allocation of ₹ 10,000 Crs has been set apart over and above the normal provision for food subsidy towards the incremental cost
- Certain institutions to issue tax free bonds in 2013-14 for infrastructure upto a total sum of ₹ 50,000 Crs
- Corpus fund of RIDF being operated by NABARD raised to ₹ 20,000 Crs
- 3,000 kilometers of road projects in 5 large states will be awarded in the first half of 2013-14
- Two new major ports will be established in West Bengal and Andhra Pradesh to add 100 million tonnes of capacity
- To boost capital investment, an investment allowance (deduction) of 15% (apart from current depreciation) will be allowed to any Company investing ₹ 100 Crs or more in plant and machinery during the period 2013 - 2015
- Refinance capability of SIDBI doubled from ₹ 5,000 Crs to ₹ 10,000 Crs per year
- Non-tax benefits to an MSME unit continue for three years after it graduates to a higher category
- Clear distinction between FDI i.e. investor's stake > 10% and FII i.e. stake 10% or less in a company
- ₹ 2,400 Crs allocated to TUFS for textile sector
- Working capital and term loans will be provided to handloom sector at a concessional rate of interest at 6%
- Additional amount of ₹ 14,000 Crs in 2013-14 will be infused for capital to public sector banks
- India's first Women's Bank as a public sector bank to be set up with an initial capital outlay of ₹ 1,000 Crs
- 'Generation-based incentive' reintroduced for wind energy projects

Direct Tax

- Current personal income tax rates remain same
- Tax credit of upto ₹ 2,000 to every person who has a total income upto ₹ 5,00,000
- For 2013-14, surcharge of 10% on persons (other than companies) whose taxable income exceeds ₹ 1 Crs
- For 2013-14, surcharge increased from 5% to 10% on domestic companies whose taxable income exceeds ₹ 10 Crs
- Additional deduction of interest of ₹ 1,00,000 allowed to first time home buyers for loan amount upto ₹ 25 lacs
- Concessional rate of tax of 15% on dividend received by an Indian Company from its specified foreign subsidiary extended for one more year
- 'Eligible date' for power projects to avail of the benefit under Sec 80-IA has been extended upto 31-Mar-2014
- TDS @ 1% has been introduced on value of transfer of immovable property exceeding sales consideration ₹ 50 lacs
- Deduction from the taxable income for investments made in RGESS extended to assessees having total income upto ₹ 12 lacs for 3 years
- Rate of taxes on payments by way of royalty and fees for technical services to non-residents increased from 10% to 25%
- Immovable properties being stock-in-trade subject to deeming provision akin to Sec 50C
- 20% income tax in hands of company on distributed income in buyback of unlisted shares but exempt in hands of shareholders
- STT rates have been reduced, for equity futures, MF/ETF redemptions, MF/ETF purchase and sales transactions
- CTT has been introduced on non-agricultural commodities futures contracts at 0.01% of transaction value
- The modified provisions under GAAR would come into effect from 01-Apr-2016
- The Bill for Revised DTC is proposed for discussion before the end of Budget session

Central Excise

- No change in peak rate of Basic Excise Duty
- Zero excise duty route is restored on readymade garments and made ups in addition to CENVAT route

- Specific excise duty on cigarettes, cigars, cheroots & cigarillos increased by up to 18%
- Excise duty on SUVs increased from 27% to 30%. Increase not applicable for SUVs registered as taxies
- Excise duty on marble increased from ₹ 30 per sq mtr to ₹ 60 per sq mtr
- Proposal to levy 4% excise duty on silver manufactured in smelting process of zinc or lead
- Duty on mobile phones with MRP above ₹ 2,000 increased from 1% to 6%

Customs

- No change in peak rates of Basic Custom Duty
- Duty on specified machinery for manufacture of leather & leather goods including footwear reduced from 7.5% to 5%
- Duty on pre-forms of precious and semi-precious stones reduced from 10% to 2%
- Duty on set top boxes increased from 5% to 10%
- Duties on steam coal and bituminous coal equalized, with levy of 2% custom duty and 2% CVD
- Duty on raw silk increased from 5% to 15%
- Duty levied on export of unprocessed ilmenite and export on ungraded ilmenite at 10% and 5% respectively
- Duty on imported luxury goods such as high end motor vehicles, motor cycles, yachts and similar vessels increased
- Baggage limit for gold jewellery raised to ₹ 50,000 / ₹ 100,000 for male / female passenger, subject to certain conditions
- Period of concession available for specified part of electric and hybrid vehicles extended up to 31-Mar-2015

Service Tax

- No change in Service Tax rate
- Vocational courses offered by institutes affiliated to the State Council of Vocational Training and testing activities in relation to agricultural produce included in negative list
- Exemption of Service Tax on copyright on cinematography made limited to films exhibited in cinema halls

- Proposals to levy service tax on all air conditioned restaurants
- Abatement rate reduced from 75% to 70% in case of high-end residential apartments i.e. carpet area of 2,000 sq. ft. or more; or of a value of ₹ 1 Crs or more
- Onetime 'Voluntary Compliance Encouragement Scheme' introduced for Service Tax defaulters, enabling them to pay dues in installments and avoid panalties & interest

Good And Services Tax (GST)

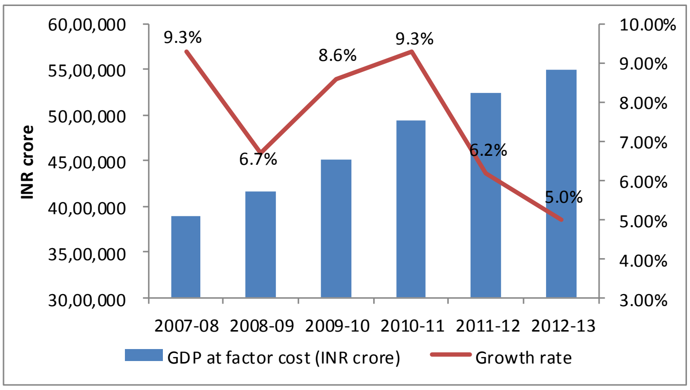
- Efforts are being rolled out to reach at a consensus between State and Central Government to bring the Bill on constitutional amendment and proposed Goods and Service Tax (GST)
- A sum of ₹ 9,000 Crs has been set apart for the first installment of CST Compensation to States

ECONOMIC OUTLOOK

Economic Survey

After the strong GDP growth in 2009-10 (8.6%) and 2010-11 (9.3%), the growth rate slowed to 6.2% in 2011-12 and is estimated to be 5.0% in 2012-13. The slowdown has been a result of several factors. Primary reasons being higher consumption due to monetary and fiscal stimulus, resulting in higher inflation, resulting in lower real growth. Other reasons being lower investment by corporates in new capital expenditure and policy paralysis resulting in stalled infrastructure projects, tighter monetary policy and overall slowdown in the Global economy.

The moderation in growth is attributable to weakness in industry which registered a growth rate of only 3.1% in 2012-13 and also weak growth in agriculture, following lower-than-normal rainfall, especially in the initial phase of south-west monsoon. The service sector growth weakened to 6.6% in 2012-13 from 8.2% in 2011-12.



Private Final Consumption Expenditure

Private final consumption expenditure accounts for about three-fifth of GDP at market prices. In the current year, private final consumption expenditure slowed considerably, from 8.0% in 2011-12 to 4.1% in 2012-13. Production rate of large number of consumer durables declined significantly. 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 is estimated to be 35.0% in 2011-12 as against 36.8% in 2010-11. Both public and private investment declined as a share of GDP.

Net Exports

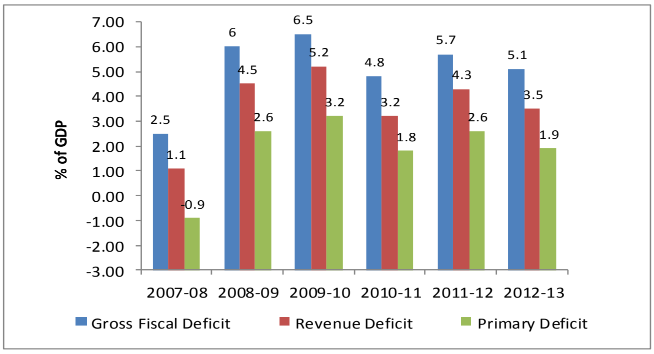
Net exports growth also declined in the current period. Trade deficit increased to 10.8% of GDP in H1 2012-13 vis-à-vis 9.9% of GDP in H1 of 2011-12. Net invisibles balance also declined in dollar terms in H1 of 2012-13 compared to same period in the previous year. As a result, CAD worsened to 4.6% of GDP during H1 of 2012-13 as compared to 4.0% of GDP in H1 of 2011-12.

Government Expenditure

Government spending was constrained due to high fiscal deficit. As a result, investment, consumption, net exports as well as government spending all are slowing down and the economy slow down in 2012-13.

Public Finance

Fiscal stimuli injected in 2008-09 and 2009-10 resulted in higher fiscal deficit of 6.5% of GDP in 2009-10. Fiscal consolidation resumed in 2010-11. It was 5.8% in 2011-12. Government laid out a fiscal consolidation roadmap in October 2012 under which it has targeted a fiscal deficit of 4.8% in 2013-14 and a correction of 0.6% each year thereafter, achieving a fiscal deficit of 3.0% of GDP in 2016-17. Current year estimate of fiscal deficit is 5.2%.



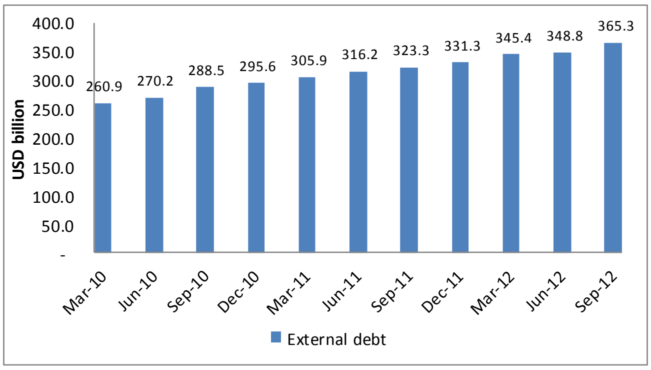
Prices and Monetary Management

Headline WPI inflation remained relatively stable around 7% to 8% in the current financial year. Concern was the elevated food inflation as it inched upto double digits in December 2012. This resulted in widening gap between WPI and CPI and monetary tools play a very limited role in influencing certain aspects like food prices. RBI kept the Repo rates stable during the period April 2012 to December 2012 with 25 basis points cut announced in January 2013 in view of moderating WPI. Also, as per World Bank estimates, the global commodity prices, except metals, are expected to decline further in 2013 and 2014 positively impacting the domestic prices.

Balance of Payments and External Position

With net exports declining, India's BoP has come under pressure. Net capital flows declined to USD 40.0 billion (4.8% of GDP) in H1 of 2012-13 as against USD 43.5 billion (4.8% of GDP) in H1 of 2011-12. Net FDI to India decreased but net portfolio flows including FII increased, with early estimates suggesting an even larger inflow of USD 9.9 billion in the third quarter as compared to USD 5.8 billion in the second quarter. NRI deposits remained robust as did net flows of trade credit. Despite the large CAD, there was net accretion to reserves (on BoP basis) during H1 of 2012-13 at USD 0.4 billion. This was; however, lower than the USD 5.7 billion accretions in H1 of the previous year.

India's external debt stock stood at USD 365.3 billion at end of September 2012, recording an increase of about USD 20.0 billion (5.8%) over the end of March 2012 level. This increase has been primarily on account of higher NRI deposits, short-term debt, and ECBs. These three components together contributed 94.7% of the total increase in the country's external debt. India's external debt has remained within manageable limits as indicated by the external debt-GDP ratio of 19.7% and debt service ratio of 6.0% in 2011-12.



Aspects Of Indian Economy

Agriculture and Food Management

Although agriculture and allied activities accounted for only 14.1% of GDP in 2011-12, its share in employment is as high as 58.2% and plays a very important role in the economy. Current year estimate of growth in agriculture is 1.8%.

Industry and Infrastructure

The capital goods sector remained weak for the second consecutive year. The production of key capital goods such as machinery and equipment, electrical machinery, and transport segments contracted owing to deceleration in investment, a decline in new projects, and import competition. High interest rates and slower growth in household or retail credit resulted in slower growth in consumer durables.

Sluggish industrial performance also affected corporate performance. The rate of growth of sales of the listed manufacturing companies in the private sector declined from an average of 28.8% in the first quarter of 2010-11 to 11.4% in the second quarter of 2012-13. Interest expenditure increased significantly. Together with a deceleration in the rate of growth of sales, the ratio of net profit to sales also declined.

The eight core infrastructure industries registered a growth of 3.3% during April- December 2012 compared to 4.8% during the same period of the previous year. The decline in growth in the current year so far is mainly on account of negative growth witnessed in the production of coal, natural gas and fertilizers. Among infrastructure services, freight traffic by railways has been comparatively higher during the first eight months of the current year. In the road sector the NHAI achieved 17.3% growth in widening and strengthening of highways during April-November 2012.

Services Sector

Slowdown in services sector growth rate has clearly affected the overall GDP growth because of its highest share in country's GDP. Services sector has the lion's share in GDP of the developed economies as well as some of the developing economies like India.

Economic Outlook

Government of India is totally committed to reviving the growth engine of the country which is evident from the fact that it is pulling out all stops to contain the fiscal deficit as well as by taking up several reformist measures such as opening up of FDI in multi-brand retail, allowing higher foreign ownership in airlines, among others. Also positive steps towards introducing GST and finally implementation of it would lead to improving efficiencies as well as revenues adding substantially to the growth and helping improve government finances.

Economy is expected to grow at 6.1% to 6.7% in 2013-14 and Government is cognizant of the fact that it cannot depend of external environment and has to move quickly to restore domestic balance–fiscal consolidation along with demand compression and augmented agricultural production should lead to lower inflation giving RBI enough room to cut key rates which would spur growth by encouraging investment activity for industry and services. Also working on reducing impediments to investment such as delays in getting permissions, clarifying difficult and non-transparent processes for land acquisition and increasing access to good infrastructure such as power and roads would significantly improve the rate of growth over the next few years.

For the coming year, controlling subsidy as well as curbing gold imports and oil imports will be necessary to keep CAD in check. Though Government is committed to fiscal consolidation, there are concerns that food security bill may push up subsidy. There are mixed signals that growth has bottomed out as IIP growth may remain sluggish but further moderation of inflation would lead to easing of monetary policy which would drive investments. Though these are difficult times but India has navigated such times before and with good policies, it can go ahead.

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DIRECT TAX PROPOSALS

(Unless specified, proposals shall take effect from AY 2014-15)

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

a. Individual, HUF, AOP or BOI:

— No change in threshold-limits or slabs

— Surcharge proposed to be levied @ 10% where total income exceeds ₹ 1 Crs

— No change in Education Cess of 2% and Secondary & Higher Education Cess of 1%

— Effective tax rates shall be as under (subject to Alternate Minimum Tax):

Taxable Income Slab (₹)	Tax Rates		
	General	Senior Citizen	Very Senior Citizens
Up to 2,00,000	NIL	NIL	NIL
2,00,001 to 2,50,000	10.30%	NIL	NIL
2,50,001 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%

— It is proposed to insert a new Sec 87A to provide rebate upto ₹ 2,000/- from tax payable by a resident individual having total income upto ₹ 5 lacs.

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

— No change in basic tax rate

— For firm / LLP - Surcharge proposed to be levied @ 10% where total income exceeds ₹ 1 Crs

— For domestic company - Surcharge proposed to be increased from 5% to 10% where total income exceeds ₹ 10 Crs

— For foreign company - Surcharge proposed to be increased from 2% to 5% where total income exceeds ₹ 10 Crs

— No change in Education Cess of 2% and Secondary & Higher Education Cess of 1%

— The effective tax rates shall be as under:

Assessee	Total Income < = ₹ 1 Crs	Total Income > ₹ 1 Crs but < = ₹ 10 Crs	Total Income > ₹ 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%

— No change in AMT / MAT chargeable on book profit except for increase in surcharge as above.

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

The amount of tax deducted under Chapter XVII-B shall be increased by a surcharge in the following cases:

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

No surcharge will be levied on deduction in other cases.

d. Rationalisation of tax on income distributed by Mutual Fund

In order to provide uniform taxation for all types of funds, other than equity oriented fund, it is proposed to increase the additional income tax payable by Mutual Funds u/s. 115R for individuals and HUFs from 12.5% to 25%. Mutual Funds in the nature of Infrastructure Debt Funds to pay tax @ 5% on payments made to non-residents. (w.e.f. 01-Jun-2013)

e. STT

— STT on delivery based purchase of units of an equity oriented fund is proposed to be reduced from 0.1% to NIL.

— STT on delivery based sale of units of an equity oriented fund is proposed to be reduced from 0.1% to 0.001%.

— STT on sale of futures in securities is proposed to be reduced from 0.017% to 0.01%.

— STT on sale of units of an equity oriented fund to the mutual fund is proposed to be reduced from 0.25% to 0.001%.
(w.e.f. 01-Jun-2013)

f. CTT

It is proposed to levy Commodities Transaction Tax (CTT) @ 0.01% on sale of commodity derivatives other than agricultural commodities traded in a recognized association.

• Business Income

a. Incentive for new plant and machinery

In order to encourage substantial investment in plant & machinery, it is proposed to insert a new Sec 32AC to provide for 15% deduction, in addition to depreciation, of aggregate actual cost of new plant & machinery acquired and installed subject to certain conditions.

This deduction applies to a company assessee who invests more than ₹ 100 Crs in new plant & machinery during 01-Apr-2013 to 31-Mar-2015.

b. Extension of sunset clause for power sector u/s 80IA

The end date of sunset clause for undertakings engaged in the generation and / or distribution or transmission of Power, is proposed to be extended by 1 year i.e. upto AY 2014-15.

c. Deduction u/s 80JJAA for additional wages

It is proposed to amend provisions of Sec 80JJAA to clearly provide that deduction in respect of additional wages paid shall be available only in respect of new workmen employed by the assessee in factory.

d. Deduction of bad debts in case of banks

It is proposed to clarify, by insertion of explanation in Sec 36(1)(vii), that there shall be only one account in respect of provision for bad and doubtful debts and such account relates to all types of advances, including advances made by rural branches of bank. Thus the deduction in respect of bad debts actually written off shall be limited to the amount by which such bad debts exceeds the credit balance in provision account without differentiating between rural advances and other advances.

e. Profit on transfer of immovable property being stock-in-trade

Existing provision u/s 50C is applicable only to capital assets, being immovable property. A new Sec 43CA is proposed to be introduced on similar lines for immovable property held as stock-in-trade. It provides that where the sale consideration for transfer of land or building, being stock-in-trade, is less than the value adopted for stamp duty purpose, then such value shall be deemed to be the full value of the sale consideration. Provision for safeguarding the transactions where the date of agreement and the date of registration are different has also been proposed.

f. Keyman Insurance Policy

It is proposed that a keyman insurance policy assigned to any person during its tenure, with or without consideration, shall continue to be treated as a Keyman Insurance Policy. However maturity proceeds of such policy will not be exempt u/s 10(10D).

g. Tax on distributed income for buy-back of shares

It is proposed to levy 20% additional income tax on companies buying back their shares which are not listed on a recognized stock exchange. Tax will be levied on the distributed income which means consideration paid on buyback of shares as reduced by the amount received for issue of such shares. It is also proposed to exempt the said proceeds in the hands of recipient shareholders u/s 10(34A). (w.e.f. 01-Jun-2013).

h. Pass through status for certain Alternative Investment Funds

It is proposed to align the provisions of Sec 10(23FB) with the SEBI (Alternative Investment Fund) Regulation, 2012 (effective from 21-May-2012). It is proposed to extend the benefit of pass through entities to similar venture capital funds registered under the new regulations.

• Other Tax Incentives and Reliefs

a. Deduction in respect of interest on home loans

A new Sec 80EE is proposed to be inserted with a view to provide additional benefit to first home buyers by allowing them a deduction of interest on loan of upto ₹ 25 lacs for purchasing a residential house property of upto ₹ 40 lacs, subject to the condition that the buyer does not own any residential house property on the date of sanction of loan. This deduction is available for AY 2014-15 and AY 2015-16 subject to total deduction of ₹ 1,00,000/- in both the years.

b. Scope of deduction u/s 80CCG expanded

Finance Act, 2012 had introduced RGESS u/s 80CCG to provide one time 50% deduction of investment made in equity shares by new retail investor subject to certain other conditions. It is now proposed to extend this benefit on investment made in listed units of an equity oriented fund. This deduction was available to the assessees whose gross total income did not exceed ₹ 10 lacs. This limit now has been proposed to be increased to ₹ 12 lacs. Also the deduction is proposed to be extended for 3 consecutive years.

c. Deduction u/s 80G

Since the donation to National Children's Fund is of national importance, it is proposed to allow 100% deduction for any sum paid towards the said fund.

d. Life Insurance Policy of persons with disability

It is proposed to liberalise the exemption criteria u/s 10(10D) for persons with disability or diseases, as referred to in Sec 80U and 80DDB by raising the premium limit from 10% to 15% of the capital sum assured. Similar amendments have been proposed for claiming deduction u/s 80C so as to make premium paid on such policies eligible for deduction.

e. Deduction for mediclaim premium

It is proposed to extend the benefit of deduction u/s 80D on medical premium paid for certain health schemes of Central and State Government as may be notified.

- **Other Anti-tax avoidance measures**

a. Immovable property received for inadequate consideration

The existing provision u/s 56(2)(vii) covers a situation where the immovable property is received without consideration by Individual or HUF. It does not cover the situation where the immovable property is received for inadequate consideration. It is now proposed to provide that where any immovable property is received for a consideration which is less than the stamp duty value of the property by an amount exceeding ₹ 50,000/-, the stamp duty value of such property in excess of such consideration, shall be chargeable to tax in the hands of the individual or HUF as income from other sources.

b. TDS on transfer of certain immovable properties

It is proposed to insert a new Sec 194-IA, enforcing deduction of tax at source by transferee, @ 1% of sale consideration, on purchase of an immovable property from a resident transferor where the consideration is not less than ₹ 50 lacs. However, agricultural lands are proposed to be excluded from the ambit of this provision. [w.e.f. 01-Jun-2013]

c. General Anti - Avoidance Rules (GAAR)

GAAR was originally introduced by Finance Act, 2012. A number of representations were received against the provisions relating to GAAR. An expert committee was constituted for finalizing the GAAR guidelines and a roadmap for its implementation.

Major recommendations of the expert committee have been accepted with some modification and accordingly the GAAR provisions have been proposed to be amended. In line with its earlier announcement, GAAR has been deferred to 01-Apr-2016 and would now be applicable from AY 2016-17 onwards.

d. Contributions to polictical party / electoral trust

It is proposed that no deduction shall be allowed u/s 80GGB & 80GGC in respect of any sum contributed to any political party or an electoral trust by way of cash.

- **International Taxation/ Taxation of Non Resident**

a. Tax on royalty & fees for technical services

Non-resident tax payers, not effectively connected with permanent establishment in India, receiving income by way of royalty and fees for technical services were liable to be taxed @ 10%. However, majority of the tax treaties entered by India prescribe tax on such income at rates ranging from 10% to 25%. It is now proposed to increase the tax rate u/s 115A from 10% to 25% and beneficial provisions of tax treaties shall continue to apply.

b. Dividend from Foreign Company

It is proposed to extend the benefit of lower rate of tax @ 15% u/s 115BBD in respect of dividend received by an Indian company from a specified foreign company for one more year i.e. upto AY 2014-15.

It is now proposed to remove the cascading effect of DDT in case of dividend received from foreign subsidiary companies w.e.f. 01-Jun-2013, if tax is payable by the holding domestic company on such dividend u/s 115BBD.

c. Tax Residency Certificate

Finance Act, 2012 has made submission of Tax Residency Certificate containing prescribed particulars, as a mandatory condition for availing benefits of the agreements referred to in Sec 90 & 90A.

It is now proposed to clarify that submission of Tax Residency Certificate is necessary but not a sufficient condition for claiming benefits under these sections.

• Other Proposals

a. Consequences of return filing without payment of SA Tax

It is proposed to treat a return filed without payment of Self-Assessment tax along with applicable interests as a defective return. [w.e.f. 01-Jun-2013]

b. Special audit u/s 142(2A)

It is proposed that high volume of accounts, doubt about correctness of accounts, multiplicity of transactions and specialized nature of business of the assessee will also be sufficient reasons for referring a case for special audit u/s 142(2A). [w.e.f. 01-Jun-2013]

c. Penalty for non-filing of AIR

It is proposed to enhance the penalty u/s 271FA from ₹ 100/- day to ₹ 500/- day in case of failure to furnish Annual Information Return u/s 285BA.

d. Agricultural Land

It is proposed to exclude the following areas from ambit of agricultural land, measured aerially:

— Land within 2 km from limits of a municipality or cantonment board and having a population of more than 10,000 but upto 1,00,000.

— Land within 6 km from limits of a municipality or cantonment board and having a population of more than 1,00,000 but upto 10,00,000.

— Land within 8 km from limits of a municipality or cantonment board and having a population of more than 10,00,000.

Similar amendment in respect of urban land has also been proposed for Wealth Tax purpose.

- **Wealth Tax**

a. Wealth tax returns to be annexure less

In line with annexure less filing process for income tax returns, it is now proposed to amend Wealth Tax Act to enable filing of annexure less wealth tax returns. (w.e.f. 01-Jun-2013)

INDIRECT TAX PROPOSALS

Central Excise

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

There is no change in the base rate of excise duty and the rate of excise duty shall continue to be 12%.

a. Health

Branded medicaments which are exclusively used in Ayurvedic, Unani, Sidha, Homeopathic or Bio-chemic systems are covered under MRP based assessment. Excise duty is payable on MRP less 35% abatement.

b. Readymade garment, made-up articles and textiles

All ready-made garments, made-up articles and textiles covered under chapter 61, 62 and 63 are exempted from excise duty subject to the condition that no CENVAT credit on inputs has been availed by the manufacturer. Hence the manufacturer of readymade garments has two options available, either he can remove the goods without payment of excise duty or he can remove the goods on payment of excise duty after claiming CENVAT credit.

Full exemption from excise duty is being provided on handmade carpets and carpets and other textile floor coverings of coir or jute, whether or not handmade.

c. Marble slabs and tiles

The excise duty on marble slabs and tiles has been increased to ₹ 60 per sq mtr from ₹ 30 per sq mtr

d. Precious metal

Excise duty has been imposed @ 4% on silver manufactured during the process of zinc or lead smelting.

e. Automobiles

- Concessional rate of excise duty (6%) on specified hybrid and electrical vehicles has been extended from 31-Mar-2013 to 31-Mar-2015.
- Excise duty rate on chassis of diesel motor vehicles for transport of goods is reduced to 13% from 14%.

- Excise duty rate on motor vehicles of engine capacity exceeding 1,500 cc (known as sports utility vehicles) including utility vehicles is increased to 30% from 27%.

f. Cigarettes

Basic excise duty on cigarettes, cigar, cheroots and cigarillos falling under tariff heading 2402 is increased. However there is no change in NCCD and Health Cess rates.

Withdrawal of Exemptions/Concessions

- Excise duty rate on mobile handsets with MRP exceeding ₹ 2,000 has been increased from 1% to 6%.
- The compounded duty rate on stainless steel "patta-patti" is being increased from ₹ 30,000 per month per machine to ₹ 40,000 per month per machine.

Other Relief Measures

- Ships, tugs and pusar crafts, dredgers and other vessels falling under tariff heading 8901, 8904, 8905, 8906 9000 has been exempted from excise duty.
- Full exemption from excise duty is provided to intermediate goods manufactured and consumed captively by units covered under Area Based Exemption scheme in Himachal Pradesh and Uttarakhand.
- Tapioca Starch manufactured and captively consumed in the manufacture of tapioca sago [sabudana] is exempted from payment of excise duty. Further the product tapioga saga is also exempted from excise duty.
- The sulphur recovered as a by-product of crude oil which is used to manufacture bentonite sulphur shall be exempt from excise.

Central Excise Act, 1944

- Sec 9 provides that an offence case involving evasion in which the duty leviable exceeds ₹ 30 lacs shall be punishable with a term of imprisonment extending to 7 years with fine. This section is being amended to substitute the amount of ₹ 30 lacs with ₹ 50 lacs.
- Sec 9A is being amended to make an offence cognizable and non-bailable where the duty liability exceeds ₹ 50 lacs and punishable under clause (b) or clause (bbbb) of sub-section (1) of Sec 9.
- Sec 11(1) is amended to empower the excise officer to require other excise officers and officer referred u/s 142 of Customs Act,

1962 to deduct the amount due to the person whose amount is outstanding before him.

- Sec 11(2) is introduced which provides for:

  (1) Recovery of money due to the government from other person from whom money is due after giving a notice

  (2) The person is bound to comply the notice

  (3) If the other person fails, he shall face the consequences

- Sec 11A (7A) empowers the Central Excise Officer to serve a statement containing details of duty not paid or short paid or erroneously refunded and such statement shall be deemed to be a notice u/s 11A.

- Sec 21 is amended so as to make the provisions regarding release of accused only when the offence is non-cognizable.

- Scope of advance ruling:

  (1) Clause (a) of Sec 23A is being amended to expand the definition of the term "activity" to include any new business of production or manufacture proposed to be undertaken by the existing producer or manufacturer.

  (2) Sub-section (2) of Sec 23C has been amended to expand scope of Advance Ruling provisions to include credit of Service Tax paid or deemed to have been paid on input services.

  (3) "Resident Public Limited Companies" are notified as applicant, vide powers given u/s 23A(c)(ii).

- A new proviso is being inserted in sub-section (2A) of sec 35C so as to provide that in cases where delay in disposing of the appeal is not attributable to the appellant, the Tribunal may extend the period of stay by a period not exceeding 185 days subject to the condition that if the appeal is not disposed of within the total period of 365 days from the date of order, the stay shall stand vacated.

- Sec 35D is being amended to enhance the monetary limit of the Single Bench of the Tribunal to hear and dispose of appeals from ₹ 10 lacs to ₹ 50 lacs.

- Sec 37C is being amended to specify additional modes of delivery of specified documents i.e. by speed post with proof of delivery or through courier approved by the Central Board of Excise & Customs.

Amendments in Central Excise Rules, 2002

- Rule 7 (5) is amended and now time period for calculating interest on refund shall be as prescribed under 11BB of the Central Excise Act, 1944.

Amendments in CENVAT Credit Rules, 2004

- The provisions of sec 11A and 11AA shall apply to the manufacturer of goods or the provider of output service who fails to pay amount payable under sub-rules (5), (5A), and (5B) of rule 3 of the CENVAT Credit Rules, 2004.

Customs

Amendments in Customs Act, 1962

- Sec 11 of the Customs Act, 1962 provides powers to Central Government for prohibiting import or export of any goods based on 22 reasons mentioned therein. The Clause (n) has been amended to empower Central Government to prohibit any goods for protection of any copyrights, designs and geographical indications.
- Sec 27 & 28 has been amended to the effect that neither refund of duties paid shall be allowed nor show cause notices shall be issued if amount involved is less than ₹ 100/-.
- Sec 28BA has been amended to the effect that properties of the assessee may be attached provisionally in case show cause notice is issued u/s 28 (4) i.e. where duty has not been paid or short paid due to fraud, collusion etc.
- Sec 29 is being amended to empower the CBEC to permit landing of vessels and aircrafts at any place other than customs port or customs airport.
- Sec 30 is being amended to provide for mandatory electronic filing of import manifest and also to provide that the where it is not feasible to file the import manifest electronically, the Commissioner of Customs may allow the same to be filed in any other manner. Similar amendment has been made in Sec 41 to provide for electronic filing of Export Manifest.
- Sec 47 provides for interest @ 15% on delay in payment of custom duty after filing of bill of entry beyond 5 days. The free period has been reduced to 2 days.
- Sec 49 provides that imported goods may be stored in warehouse pending clearance at the request of importer so that heavy port charges etc. can be saved. The provision has been amended to provide for a period of maximum 30 days for such

warehousing. The Commissioner may extend it for further 30 days on request.

- Sec 69 has been amended to provide that warehoused goods may be exported by post also without payment of import duties payable thereon.
- Sec 135 has been amended to provide for increasing the threshold amount from ₹ 30 Lacs to ₹ 50 Lacs for extended imprisonment up to 7 years.
- Sec 104 has been amended to provide for few offences [including an offence where amount involved is more than ₹ 50 Lacs] being non-bailable.
- Sec 129B has been amended to provide that stay granted by CESTAT shall be vacated after a period of 180 days. Further extension may be provided by the CESTAT for 185 days i.e. stay shall vacate after a period of 365 days.
- Sec 129C is being amended to enhance the monetary limit of the Single Bench of the Tribunal to hear and dispose of appeals from ₹ 10 lacs to ₹ 50 lacs.
- Garnishee proceedings i.e. recovery of government dues from debtors of the defaulter assessee has been introduced in Customs on the lines of Service Tax vide amendment of Sec 142.
- Duty deferment scheme provided in Sec 143A on the lines of erstwhile Imports & Exports (Control) Act has been omitted.
- Sec 146 relating to CHA has been amended to provide that CBEC may frame regulations regarding examination of CHAs
- Sec 147 has been amended to clarify that liability of the agents of the owner; importer or exporter shall be same as of their principal.

Amendments in Baggage Rules, 1988

- The duty free allowance in respect of jewellery for an Indian passenger who has been residing abroad for over one year or a person who is transferring his residence to India has been increased from ₹ 10,000/- to ₹ 50,000/- in case of a male passenger and from ₹ 20,000/- to ₹ 1,00,000/- in case of a female passenger.

Service Tax

Negative List

- Vocational courses offered by institutes affiliated to the State council of Vocational Training are included in the negative list, whereas vocational courses provided by an institute affiliated to the National Skill Development Corporation set up by the Government of India is out of the negative list & now liable to service tax.
- Process amounting to manufacture is expanded to include process under Medicinal and Toilet Preparations (Excise Duties) Act, 1955 consequently not liable for service tax.
- Testing activities in relation to agriculture produce are included in the negative list of services.

Exemptions

- Services provided by a goods transport agency by way of transportation of agricultural produce, newspapers or magazines registered with Registrar of Newspapers, chemical fertilizers and oilcakes, defence or military equipment and relief materials meant for victims of natural or man-made disasters, calamities, accidents or mishaps will now be able to avail the benefit of an exemption.

Retrospective Exemption

(After enactment of Finance Bill, 2013):

- Sec 99 has been introduced to grant retrospective exemption to the Indian Railways on the service tax leviable on various taxable services provided by them during the period prior to the 1-Jul-2012, to the extent show cause notices have been issued up to the 28-Feb-2013.

Withdrawal of Exemption (From 01-Apr-2013):

- Service provided by an educational institution by way of renting of immovable property.
- Temporary transfer or permitting the use or enjoyment of a copyright relating to cinematographic film was fully exempt so far, now this exemption will be restricted to exhibition of cinematograph films in a cinema hall or a cinema theatre.
- Services by way of vehicle parking to general public.
- Services provided to Government, a local authority or a governmental authority, by way of repair or maintenance of aircraft.

- Exemption provided on services by way of transportation by rail or a vessel from one place in India to another is no longer available for following goods:
  1. Petroleum and petroleum products
  2. Postal mail or mail bags
  3. Household effects

Rationalization of Exemption (From 01-Apr-2013):

- Exemption limit prescribed for charitable organizations, providing service towards any other object of general public utility has been rationalized. So far the limit was ₹ 25 Lacs per annum. Now they will be covered by the threshold exemption.
- Exemption provided to restaurants other than those having (i) air-conditioning and (ii) license to serve liquor, is being rationalized; condition regarding 'license to serve liquor' is being omitted. Therefore, with effect from 01-Apr-2013, service tax will be leviable on taxable service provided in restaurants with air-conditioning or central air heating in any part of the establishment at any time during the year.

Rationalization of Abatement (From 01-Mar-2013):

- The abatement available for construction of a complex, building, civil structures etc. is reduced from 75% to 70% for:
  a. Residential property above 2,000 Sq ft in carpet area or of a value above ₹ 1 Crs
  b. Other than Residential properties

Amnesty Scheme For Non-Filers & Stop Filers

(After enactment of Finance Bill, 2013)

- To encourage voluntary compliance and broaden tax base, it is proposed to provide one time amnesty by way of (i) waiver of interest and penalty; and (ii) immunity from prosecution, to the stop filers, non-filers or non-registrants or service providers (who have not disclosed true liability in the returns filed by them during the period from October 2007 to December 2012) who pay the "tax dues".
- The scheme can be availed of by non-filers or stop-filers or persons who have not made a truthful declaration in their return. However it will not be applicable to persons against whom any inquiry or investigation is pending by the issue of search warrant or summon or by way of audit on or before 01-Mar-2013.

Assessment

(After enactment of Finance Bill, 2013):

- Where any appellate authority or tribunal or court concludes that the notice issued under the extended period i.e. proviso to sub-section (1) of Sec 73 is not sustainable, then the Central Excise Officer shall determine the demand for the shorter period of 18 months.

Penalty & Prosecution

(After enactment of Finance Bill, 2013):

Penalty

- Penalty u/s 77(a) for non-registration is restricted to ₹ 10,000/-
- New Sec 78A introduced to make provisions for imposition of penalty which may extend to ₹ 1 Lac, on director, manager, secretary or other officer of such company who in any manner is knowingly concerned with specified contraventions.

Arrest

- The Commissioner of Central Excise can issue order to authorize any officer not below the rank of Superintendent of Central Excise, to arrest the person who commits offences specified under Sec 89. All such offences shall be subject to Code of Criminal Procedure, 1973.

Imprisonment

- Sec 89 - Any persons who collects service tax but fails to pay service tax to the government beyond a period of six months and amounts exceeds ₹ 50 lacs, shall be punishable for imprisonment up to 7 years. This offence is also made cognizable.
- Apart from the above, all the offences have been made non-cognizable and bailable.

Advance Ruling

(After enactment of Finance Bill, 2013):

- Scope of advance ruling is being extended to cover "Resident Public Limited Companies".

Power to Appellate Tribunal

(After enactment of Finance Bill, 2013):

- The appellate tribunal may admit an appeal or filing of memorandum of cross objection after the expiry of 30 days in respect of order passed u/s 73, 83A and 85 if it is satisfied that there was sufficient cause for not presenting within that period.

KEY POLICY CHANGES 2012-13

A. Overseas Investment

i. Provisions relating to Overseas Investment by Indian Parties liberalized / relaxed as under:

- A charge can be created, under the approval route within the overall limit fixed for the financial commitment, on the immovable /movable property and other financial assets of the Indian parties and their group companies by way of pledge / mortgage / hypothecation. However, NOL needs to be obtained from lenders to the entities on whose assets the charge is being created.
- Resident bank of Indian entity issuing guarantee on behalf of JV/WOS, will be considered if it backed by counter guarantee / collateral from Indian Entity.
- General permission is now granted to indirect resident individual promoters to give personal guarantee on behalf of the overseas JV/ WOS of the Indian Party.
- An Indian Party can undertake financial commitment by way of loan / equity contribution under Approval Route if the laws of the host country permit incorporation of such company without capital contribution.
- The Indian party can submit APR on the basis of unaudited annual accounts of the overseas JV / WOS subject to certain assumptions.
- CCPS will be treated at par with equity shares and the Indian party will be allowed to undertake financial commitments based on their exposure to overseas JV / WOS.

ii. Provision relating to overseas investment by resident individuals has been reanalyzed:

- Remittance by individual resident within prescribed limit under Liberalized Remittance Scheme is now allowed for acquiring qualified shares for holding the post of director.
- Indian resident can acquire share of foreign entity fully / partly paid in lieu of director’s remuneration for professional service granted.

- Indian Resident can accept share of foreign company under ESOP scheme subject to specific guidelines

iii. Opening of foreign currency account for the purpose of making overseas investment is permitted

iv. Repatriation of Forex for current account transactions raised from USD 5000 to USD 25,000

v. RBI has allowed NRIs to transfer funds from NRO to NRE account subject to a ceiling of USD 1 million in a financial year.

B. Foreign Direct Investment (FDI)

i. Single Brand Retail

In line with the decisions taken by Cabinet Committee on Economic Affairs on 14-Sep-2012 brought major policy change in FDI policy in **Single Brand Retail** as under:

- Up to 100% FDI is allowed under approval route in single brand retail
- Product should be sold under Single Brand
- Foreign investor may or may not be the owner of the brand
- If FDI exceeds 51%, sourcing of 30% of value of products should be made from Indian village and cottage industries, artisans and craftsmen, MSME's
- Retail trading by means of e-commerce would not be permissible

[Press notes 4 (2012 series) dated 10/04/2012]

ii. Multi Brand Retail

Major changes in FDI policy for **Multi Brand Retail** trading as under: -

- Upto 51% FDI is allowed under approval route in multi brand retail
- Minimum FDI should be USD 100 million
- Atleast 50% of total FDI to be invested in capital expenditure, manufacturing, processing, distribution termed as "back end expenditure" within three years of first tranche
- Sourcing of 30% of the value of procurements should be made from Indian small industries

- Retail trading by means of e-commerce would not be permissible
- Retail sales outlets to be set up only in cities with a population of more than 10 lakhs

[Press note No. 5 (2012 series) dated 10/04/2012]

iii. Civil Aviation Sector

FDI avenues for foreign airlines are opened to invest in Indian Airlines operating in Indian territories:

- Upto 49% FDI permitted under Approval route in Indian Companies operating scheduled & non- scheduled air transport services

[Press note No. 6 (2012 series) dated 10/04/2012]

iv. Broadcasting Sector

Increased FDI cap in broadcasting sector:

- FDI cap in Teleports (setting up up-linking HUB's Teleports); Direct to Home (DTH); Cable Networks and mobile TV raised from 49% to 74% under approval route. However, FDI up to 49% will continue to be allowed under automatic route in these sectors.

[Press note No. 7 (2012 series) dated 10/04/2012]

v. Power Sector

Reviewed FDI Policy in power Sector (except atomic energy) and allowed FDI in Power Exchanges in India as under:

- FDI up to 100% was allowed under the Automatic route in Power Sector i.e. generation, transmission and distribution of electricity. However FDI policy in Power Sector does not provide any specific guideline for Power Exchanges.
- Foreign investment up to 49% (upto 26% in FDI under approval route and upto 23% in FII under automatic route) is now allowed in Power Exchanges, registered under the Central Electricity Regulatory Commission (Power Market) Regulations, 2010.

[Press note No. 8 (2012 series) dated 10/04/2012]

vi. Commodity Exchanges & NBFC

RBI allowed / relaxed / clarified provision relating to Foreign investment in Commodity Exchanges and NBFC Sector as under:

- Foreign investment up to 49% (upto 26% in FDI under approval route and upto 23% in FII in PIS under automatic route) is now allowed in commodity exchanges
- **100% FDI under the Automatic route is permitted only in case of "financial leases"** (financial leasing activity) and the Automatic route is not available in case of "operating leases"(operating leasing activity)

C. External Commercial Borrowings (ECB)

i. RBI relaxed the ECB guidelines for Companies in Power sector as under:

   - RBI allowed utilization of upto 40% of fresh ECB proceeds for refinancing of rupee loans availed by borrowers from domestic banks.
   - ECBs would also be allowed for capital expenditure under the automatic route for the purpose of maintenance and operations of toll systems for roads and highways provided they form part of the original project.

ii. RBI allowed utilization of ECB proceeds for working capital requirement in Civil Aviation Sector under approval route subject to certain conditions.

iii. RBI permits utilization of ECB proceeds for repayment of rupee loans availed by the borrower from the Indian Banking system and also utilization of fresh rupee capital expenditure in manufacturing and infrastructure sector subject to certain conditions such as foreign exchange earnings and its capability to serve, overall celling of USD 10 billion and 50% of average annual export earnings realized during past three financial years.

D. Double Taxation Avoidance Agreement / Tax Information Exchange Agreement

Double Taxation Avoidance Agreement (DTAA)

During the last year, government has signed / notified DTAA with following countries. The basic tax rates are summarized as under:-

Country	Notified Date	Provisions relating to withholding
Switzerland	01-Apr-2012	Dividend 10% Royalty / Fees for technical services 10%

Country	Notified Date	Provisions relating to withholding
Mozambique	01-Apr-2012	Dividend 7-5% Royalty 10%
Tanzania	01-Apr-2012	Dividend 5% in case beneficiary is Company and has 10% share in Company paying dividend, else 15% Interest 12.5% Royalty 20%
Georgia	01-Apr-2012	Dividend 10% Interest 10% Royalty & Fees for Technical Services 10%
Taiwan	12-Aug-2012	Dividend 12.5% Interest 10% Royalty & Fees for Technical Services 10%
Estonia	01-Apr-2013	Dividend 10% Interest 10% Royalty & Fees for Technical Services 10%
Lithuania	01-Apr-2013	Dividend 5% in case beneficiary is Company and has 10% share in Company paying dividend, else 15% Interest 10% Royalty & Fees for Technical Services 10%
Nepal	01-Apr-2013	Dividend 5% in case beneficiary is Company and has 10% share in Company paying dividend, else 15% Interest 15% Royalty 15%
Malaysia	01-Apr-2013	Dividend 12.5% Interest 10% Royalty & Fees for Technical Services 10%

TIEA for sharing of Information with respect to taxes

Country	Notified Date	Provisions
Norway	01-Apr-2012	The agreement provides for exchange of information on tax matters including banking data
Jersey	08-May-2012	The agreement facilitates the exchange of information and assistance in collection with respect to taxes
Bahrain	01-Jun-2012	Agreement provides for sharing of information including banking information between tax authorities of two countries
Guernsey	11-Jun-2012	The agreement provides Indian Tax Authorities to get information on cases of tax evasion

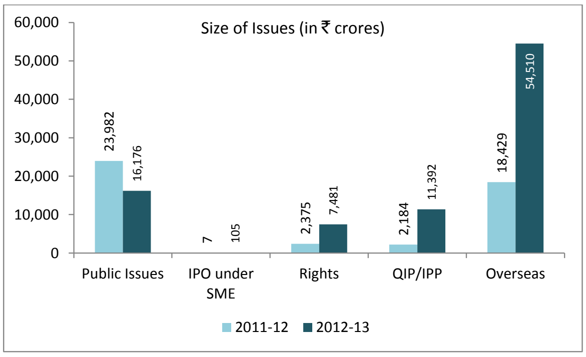
CAPITAL MARKET

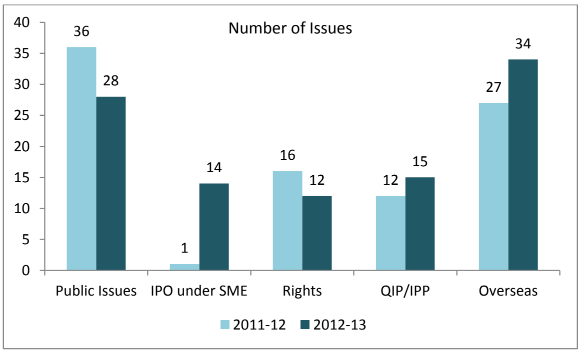
Primary Equity Markets

The declining trend of IPOs that began in 2011-12 continued during 2012-13. However, this year saw the biggest IPO in two years with Bharti Infratel raising over ₹ 4,500 Crs in December 2012. Also a new class of raising funds emerged this year i.e. SME listing. The SME platform also witnessed a few IPOs this year and we hope that the activity on this platform will increase in the future.

The QIP and IPP market witnessed a significant increase of 422% from the previous year.

Also, emerging as the most preferred route for listed companies to maintain minimum public holding of 25%, Offer for Sale mechanism has been used by 22 companies to raise a collective amount of ₹ 39,000 Crs since its launch by SEBI a year ago.





Secondary Market Equity

Since his appointment in August 2012, the FM has already stolen his thunder by announcing a slew of reforms outside the budget including bold policy measures like fuel price decontrol, part clarity on GAAR norms and FDI in retail and aviation sectors. Indian equity markets have seen FII investment of ₹ 1,05,845 Crs until 31-Jan-2013 as compared to ₹ 43,738 Crs in FY 2011-12. It is notable that more than 90% of this investment came post-August 2012.

The Sensex was at 17,430 (02-Apr-2012 opening) and currently trades at 18,861 (28-Feb-2013 closing), up 8.2% in line with global capital markets. In addition, the markets have been volatile, the current financial year saw the Sensex at a high of 20,204 (29-Jan-2013) and at a low of 15,749 (4-June-2012).

The overall secondary market activities were restricted to sector and stock specific large cap companies with the contribution of midcap and smallcap stocks being almost negligible.

The mutual fund industry has registered an increase of 29.4% in the market value of its assets under management (AUM) during the first three quarters of 2012-13 with the AUM approximately at ₹ 7,59,995 Crs as on 31-Dec-2012 as against ₹ 5,87,217 Crs as on 12-Mar-2012.

M&A and PE activity

Both M&A and PE deals saw a dip in 2012 vis-à-vis 2011.

M&A deals saw a dip of 6.5% in terms of deal value in 2012 (₹ 2,28,223 Crs in 2012 as against ₹ 2,43,979 Crs in 2011) with the number of deals declining by 7% (601 in 2012 as against 644 in 2011).

There was a notable reversal in cross border M&A activity in terms of value with the focus shifting from inbound to outbound acquisitions in 2012. A brief summary is as follows:

₹ Crs

Deal Summary	Volume (Nos.)		Value		Average Deal Size	
Year	**CY 2011**	**CY 2012**	**CY 2011**	**CY 2012**	**CY 2011**	**CY 2012**
Domestic	216	234	27,541	33,240	128	142
Cross Border						
Inbound	141	140	157,132	38,703	1,114	276
Outbound	137	125	56,401	75,345	412	603
Mergers and Internal Restructuring	150	102	2,904	80,934	19	793
Total	**644**	**601**	**243,978**	**228,222**		

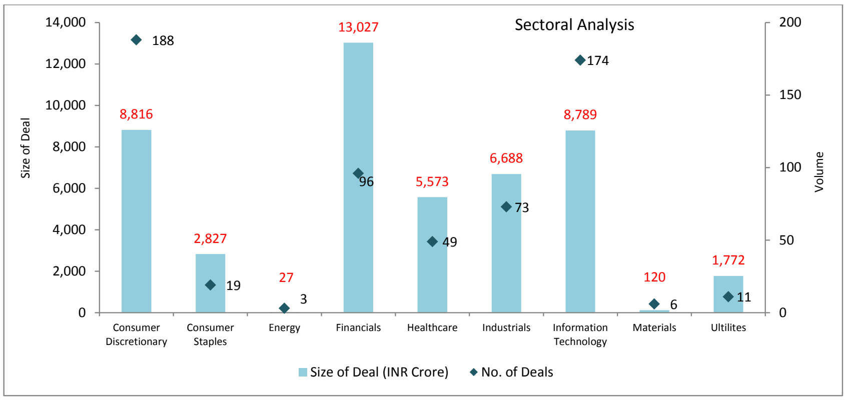
The decline in inbound deal activity was probably due to moderation in the India growth rates, lack of clarity on government reforms and tax regulations coupled with global economic weaknesses. Oil & Gas, Pharma, Healthcare & Biotech, Breweries and Logistics were the top sectors which saw maximum activity.

PE activity continued to show a significant drop of 32% due to issues relating to corporate governance and exit woes. A brief summary of the deals is as follows:

₹ *Crs*

Deal Summary	**Volume**		**Value**		**Average Deal Size**	
Year	**CY 2011**	**CY 2012**	**CY 2011**	**CY 2012**	**CY 2011**	**CY 2012**
Angel/ Seed	79	175	131	388	2	2
Venture Capital	209	158	5,841	4,763	28	30
Private Equity	359	286	64,188	42,488	179	149
Total	**647**	**619**	**70,160**	**47,639**		

Following is a chart showing PE deals by sector: Financials and Consumer segments dominate the PE deals collectively representing 52% of the total deal value in 2012.



Debt Capital Markets

The benchmark 5 year and 10 year treasury yields have decreased in 2012-13 and the FIMMDA (Fixed Income Money Market and Derivatives Association of India) credit spreads also widened. As of 26-Feb-2013, the G-Sec 5 year and 10 year decreased by 76 basis points and 77 basis points respectively from 30-Mar-2011.

Particulars	5 year		10 year	
	Mar-12	Feb-13	Mar-12	Feb-13
G sec	8.45%	7.69%	8.57%	7.80%
AAA Spread (bps)	104	100	102	111
AA+ Spread (bps)	122	116	130	118
AA Spread (bps)	147	127	155	136

Inspite of the government's efforts to increase the depth of the bond markets in India, there was a decline of almost 6% in the value of money raised by corporates, FIs and DFIs through public issue of Corporate bonds and NCDs. However, the private debt market did show signs of growth with the private placement of bonds and NCDs rising a significant 16% in comparison to 2011-12.

₹ Crs

Particulars	FY 2011-12		FY 2012-13*	
	Volume	Value	Volume	Value
Public Issues	20	35,611	11	15,379
Private Placement	1,953	261,282	2,048	302,668
Total	**1,973**	**296,893**	**2,059**	**318,047**

*upto 31-Jan-2013

The markets also raised ₹ 3,51,912 Crs through 4,538 issues in the first 11 months of 2012-13 as against ₹ 2,93,627 Crs in 4,465 issues in the 2011-12 through issuance of Commercial Paper.

Budget Proposals

The FM stated that the Capital Market is the most regulated market in India.

The key proposals in the budget relating to the Capital markets are:

- The scope of RGESS, introduced in last year's Budget, has been expanded, with a hike in the income limit for investors from ₹ 10 lacs to ₹ 12 lacs. First time investors will be allowed to invest in mutual funds and listed shares in three successive years instead of only one year

- To encourage investment in the stock markets, securities transaction tax (STT) on equity futures and mutual funds / exchange traded funds has been reduced.
- Introduction of Commodities Transaction Tax (CTT) on non-agricultural commodities futures contracts at 0.01% on the price of the trade.
- Classification of Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII) into separate categories for removal of ambiguity.
- FIIs allowed to participate in the exchange traded currency derivative segment to the extent of their Indian rupee exposure in India.
- FIIs will also be permitted to use their investment in corporate bonds and Government securities as collateral to meet their margin requirements
- Small and medium enterprises, including start-up companies, to be permitted to list on the SME exchange without being required to make an IPO to the informed investors. This will be in addition to the existing SME platform in which listing can be done through an IPO and with wider investor participation
- Introduction of a dedicated debt segment on stock exchanges in order to develop debt capital markets; insurance companies, provident funds and pension funds to be permitted to trade directly in debt markets with approval of sectorial regulator
- Mutual fund distributors to be allowed to become members in the Mutual Fund segment of stock exchanges to leverage the exchange's network to improve distribution and reach
- List of eligible securities in which Pension Funds and Provident Funds may invest to be enlarged to include exchange traded funds, debt mutual funds and asset backed securities
- SEBI to prescribe requirements for angel investor pools by which they can be recognised as Category I AIF venture capital funds
- Proposal to allow some institutions to issue tax free bonds in 2013-14, strictly based on need and capacity to raise money in the market, upto a total sum of ₹ 50,000 Crs
- Proposal to introduce inflation-indexed bonds or inflation-indexed national certificates to encourage and protect savings of the poor and middle class
- Proposal to provide ₹ 14,000 Crs for capital infusion to 13 public sector banks and also ensure phased implication of Basel III regulations

Capital Market Reactions

The market players had very high expectations from the FM given his past record of being capital market friendly. On the state of equity market nothing substantial was anounced to encourage retail investors to participate in Indian markets except small changes in the RGESS.

FIIs tax issue and new surcharge on the corporates left investors disappointed. However reduction in STT is a positive move. Though there are no big-bang or populist announcements, the Budget provisions should go a long way in attracting long term investors.

Overall, the global market conditions and liquidity would drive the capital market with higher significance going forward.

SECTORAL ANALYSIS

Banking & Finance — Positive

Budget Proposals

- ₹ 14,000 Crs capital support to all public sector banks
- Increase of ₹ 1.25 lac Crs in agricultural credit; target to ₹ 7 lacs Crs for 2013-14
- Extending interest subvention of 4% on short term crop loans to private sector scheduled commercial banks
- All public sector bank branches to have an ATM by 31-Mar-2014
- Banks will be permitted to act as insurance brokers
- Provision of ₹ 1,000 Crs initial capital to set up India's first Women's Bank as a public sector bank

Impact

- Capital support will help banks meet Basel III norms
- Level playing field for private sector banks helping them improves competitiveness in rural areas
- Additional fee based income from insurance brokerage

FMCG & Consumer Durables — Neutral

Budget Proposals

- Specific Excise Duty on cigarettes hiked by 18%
- Duty on specified machinery for manufacture of leather & leather goods including footwear reduced from 7.5% to 5%
- Duty on mobile phones having MRP above ₹ 2,000 raised from 1% to 6%

Impact

- Boost for capacity expansion and technology upgradation in leather industry
- Smart phones to become more expensive

Education **Positive**

Budget Proposals

- Allocation for Ministry of Human Resource Development increased by 17% to ₹ 65,867 Crs
- To provide ₹ 27,258 Crs for Sarva Shiksha Abhiyan in 2013-14 as well as ₹ 3,983 Crs for Rashtriya Madhyamik Shiksha Abhiyan, an increase of 26.5% over RE of 2012-13
- Vocational courses offered by institutions affiliated to state council for vocational training will now be in negative list of service tax.

Impact

- Continued government focus on education and increased allocation for the sector.

Gems & Jewellery **Neutral**

Budget Proposals

- Duty on pre-forms of precious and semi-precious stones reduced from 10% to 2%
- 4% Excise Duty imposed on silver manufactured from smelting of zinc or lead; no change in import duty on gold

Impact

- Will help boost diamond and coloured gemstone industry
- Excise duty on par with silver obtained from copper ores and concentrates; to have negligible impact

Pharmaceuticals & Healthcare **Positive**

Budget Proposals

- ₹ 37,330 Crs allocated to Health Ministry with National Health Mission's allocated ₹ 21,239 Crs
- ₹ 4,727 Crs for medical education, training & research
- ₹ 1,650 Crs to the six AIIMS like institutions
- Ayurveda, Unani, Siddha and Homeopathy to be mainstreamed with allocation of ₹ 1,069 Crs

Impact

- Increase in allocation to be positive for the sector

Real Estate — Neutral

Budget Proposals

- To provide ₹ 6,000 Crs provided to the Rural Housing Fund
- Urban Housing Fund allotted to get ₹ 2,000 Crs
- Housing loans (first time loan) upto ₹ 25 lacs will be entitled to additional interest deduction of ₹ 1 lacs
- Houses above 2,000 sq. ft. or above ₹ 1 Crs to have lower abatement of 70% as against 75% towards service tax

Impact

- Impacting reduction of effective interest rate on the home loan for the first time home loan borrower

Textiles — Positive

Budget Proposals

- TUFS to continue in 12th plan with an investment target of ₹ 1,51,000 Crs & and proposed to provide ₹ 2,400 Crs in 2013-14
- Working capital and term loans at a concessional interest of 6% to handloom sector
- Zero excise duty for cotton and fibre, while 12% duty in case of spun yarn in the readymade garment industry
- Basic Customs Duty is being reduced from 7.5% to 5% on textile machinery & parts

Impact

- Continue support for modernization of the power loom sector
- Cheaper source of funding for the handloom sector
- Relief to the readymade garment industry
- Will boost cash flows of textile companies

Infrastructure — Positive

Budget Proposals

- Private sector to share 47% of the 12th plan projected investment

- Measures includes
  - IIFCL in partnership with Asian Development Bank to offer credit enhancement
  - Infrastructure tax-free bond up to ₹ 50,000 Crs in 2013-14
  - Raising corpus of RIDF to ₹ 20,000 Crs
  - ₹ 5,000 Crs to NABARD to finance construction for warehousing
- Road Construction
  - 3,000 kms of road projects in 5 large states
  - Build roads in north eastern states and connect them to Myanmar

Impact

- New and innovative instruments to mobilize funds for investment including accessing bond market to tap long term funds
- Promising long-term debt funds and quick action on new major ports and series of highways

Power — Positive

Budget Proposals

- Rationalization of custom and countervailing duty on steam and bituminous coal to 2%
- Incentives partially restored for Renewable Energy projects
- Restored GBI for wind energy projects
- Introduced low interest bearing funds for renewable capital expenditure for 5 yrs
- 'Eligible date' for projects in the power sector to avail benefit under Sec 80-IA extended by one year to 31-Mar-2014

Impact

- Steps will boost investments in renewable power generation

ABBREVATIONS

ACD	Additional Custom Duty
APR	Annual Performance Report
BoP	Balance of Payments
BCD	Basic Custom Duty
BED	Basic Excise Duty
CBEC	Central Board of Excise & Customs
CST	Central Sales Tax
CSO	Central Statistical Organisation
CENVAT	Central Value Added Tax
CTT	Commodities Transaction Tax
CPI	Consumer Price Index
CCPS	Convertible Cumulative Preference Share
CIF	Cost Insurance Freight
CVD	Countervailing Duty
CAD	Current Account Deficit
CESTAT	Custom Excise & Service Tax Appellate Tribunal
CHA	Custom House Agent
DFI	Development Financial Institutions
DTC	Direct Tax Code
DTAA	Double Tax Avoidance Agreement
ESOP	Employee Stock Option Plan
ETF	Exchange Traded Funds
ECB	External Commercial Borrowing
FM	Finance Minister
FDI	Foreign Direct Investment
FII	Foreign Institutional Investment
GAAR	General Anti Avoidance Rules
GBI	Generation Based Incentive
GST	Goods and Services Tax
GDP	Gross Domestic Product
IIP	Index of Industrial Production
IAY	Indira Awaas Yojana
IDF	Infrastructure Debt Funds

ICDS	Integrated Child Development Scheme
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
LIC	Life Insurance Corporation
MRO	Maintenance, Repair and Overhaul
MRP	Maximum Retail Price
MSME	Micro, Small and Medium Enterprises
MF	Mutual Funds
NABARD	National Bank for Agriculture and Rural Development
NCCD	National Calamity Contingent Duty
NREGS	National Rural Employment Guarantee Scheme
NOL	No Objection Letter
NBFC	Non-Banking Financial Company
NRE	Non-resident External
NRI	Non-resident Indian
NRO	Non-resident Ordinary
OBC	Other Backward Classes
PIS	Portfolio Investment Scheme
PMGSY	Pradhan Mantri Gram Sadak Yojana
PPP	Public Private Partnership
RGESS	Rajiv Gandhi Equity Savings Scheme
RBI	Reserve Bank of India
RIDF	Rural Infrastructure Development Fund
SC / ST	Scheduled Caste / Scheduled Tribes
SITP	Scheme for Integrated Textile Park
SFURTI	Scheme of Fund for Regeneration of Traditional Industries
SHEC	Secondary Higher Education Cess
SEBI	Securities and Exchange Board of India
STT	Securities Transaction Tax
SIDBI	Small Industries Development Bank of India
SAD	Special Additional Duty
SUV	Sport Utility Vehicle
TDS	Tax Deducted at Source
TIEA	Tax Information Exchange Agreement
TUFS	Technology Upgradation Fund Scheme
USD	US Dollar
WPI	Wholesale Price Index
WOS	Wholly Owned Subsidiary

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This document summarizes the proposals of the Union Budget 2013 and recent key policy announcements

Expert guidance may be sought before acting upon the proposals