For Private Circulation Only

INDIA BUDGET – 2015

SGCO & Co.
Chartered Accountants

Ladderup
Engineering Growth

INDEX

FOREWORD

The Union Budget 2015 is not a Budget for one year, rather it sets direction for a medium to long term if not for a very long term. Away from juggling of numbers, the FM has focused on issues related to not only tax collections and fiscal management but also on a number of issues, having long term impact for the country's sustainable growth. This include pension, insurance, employment, health, higher education, agriculture, manufacturing, infrastructure, clean power among others. While these measures will lay strong foundation for the desired growth, it will also bring in social harmony and equity.

There is a definite theme of the Budget and the announcements made by the FM could be classified in either of the below:

a. Enablers for Investments with Good Governance
b. Inclusive Growth with Overall Social Wellbeing
c. Infrastructure Development
d. Curb Black Money and Dismantle the Parallel Economy
e. Fiscal Discipline

The Fiscal deficit, aimed at 3.9% for the FY 15-16, is more realistic and will help RBI formulate right monetary policy bringing balance between the growth and inflation. Medium term target of 3% fiscal deficit in FY 17-18 shows Government's resolve for effective utilization of resources with a disciplined approach.

Significant step in enabling and encouraging entrepreneurship has been envisaged by way of setting up of MUDRA Bank with an initial corpus of ` 20,000 crore which can be leveraged further. The Make in India and Skill India programs are promoted to encourage entrepreneurship and create more jobs.

There is an intent to simplify tax regime and a few steps has been announced in these direction. Simplified and fast registration & permitting processes, rationalization of penalty provisions in indirect taxes are proposed to encourage compliance and early dispute resolution. Recommendations of the Tax Administration Reform Committee are aimed to be implemented during the year. Proposed reduction in corporate tax rate by 5% over a 4 year period while removing certain exemptions is intended to do away with ambiguity and reduction of potential disputes in the assessment process. The FM has also proposed deferring GAAR by two years. GST is to be implemented from 01-Apr-2016 which will go a long way in rationalising the indirect tax structure. We hope that this deadline will be adhered to which has been long impending.

Increase in Service Tax rates from 12.36% to 14% will make every one unhappy and that's the calculated risk FM has taken to cuff up resources.

Lot of thrust has been laid on ensuring housing, electricity, sanitation, education, healthcare and communication for all the citizens of India. Jan-Dhan, Aadhar and Mobile (JAM) Scheme has been announced for direct benefits transfer to plug the leakages in subsidy disbursements.

Several key announcements have been made to improve the irrigation facilities, enhance the area under irrigation and improve soil efficiency for the agricultural purpose. This will help bring relief from excessive reliance on monsoon and at the same time boost the agri output which has been subdued in FY 14-15.

The FM announced a sharp increase in outlay of roads and railways and an overall increase of ` 70,000 crore in investment in infrastructure over last year. Considering the massive requirements of funding for the infrastructure projects the FM has announced setting up of National Investment and Infrastructure Fund (NIIF) with an annual inflow commitment of ` 20,000 crore. NIIF will then be utilised to raise further funds from local and overseas markets which money will then be channelized through various funding agencies like India Infrastructure Finance Company Limited and other financial institutions. To encourage domestic savings into infrastructure, especially for rail, road and irrigation projects, the FM announced issuance of tax savings bonds. The Government has set a target to build almost 2 lakh KMS of road infrastructure by 2022.

He also announced 5 new Ultra Mega Power Projects totalling 20 GW with a plug and play mode. The Budget also set a new ambitious target for renewable energy power generation to 175 GW, across various technologies by 2022. This will entail capital expenditure of ` 12,00,000 crore over a period of seven years giving a solid boost to the GDP.

In an attempt to monetize gold as an asset class, the FM introduced Gold Monetization Scheme to allow the depositors to earn interest in their metal account and jewellers can also obtain loans on their metal account.

Key proposal for the BFSI sector include RBI registered NBFC with a book size of over ` 500 crore shall be treated at par with other financial institutions for recovery provisions under SARFESI Act. The FM provided further clarity on REITs by allowing pass through facility for rental income from the properties owned by REITs and also rationalisation of capital gains regime for the sponsors exiting at the time of listing of REITs. AIF falling under Category I & II are also going to have pass-through status. The Budget also allowed foreign investments in the AIF which is also a big boost for mobilisation of private capital, much needed funding source for capital formation.

The intent to fulfil the election promise on curbing 'Black Money' was evident in several measures that the FM announced in the Budget. A comprehensive bill for the new law to deal with black money and Benami Transactions (Prohibition) Bill is proposed to be introduced.

All these are well intended steps, however, one needs to see when and how most of these would be actually implemented. The intent if realised and are converted to concrete tactical realities, than the path is set for India to have a long term sustainable growth in access of 8-8.5% with lower inflation, fiscal discipline and encompass housing, power and water for all by the 75th year of India's Independence in 2022.

BUDGET HIGHLIGHTS

Economy

- Fiscal deficit maintained at 4.1% irrespective of huge drop in Gross Tax collections from ` 13,64,524 crore to ` 12,51,391 crore
- Fiscal deficit targeted at 3.9% for FY 15-16 is enough to keep the life going as Government has increased the share of the States to 62%
- Huge rise in Excise target of ` 2,29,808 crore from ` 1,85,480 crore (23.89%) suggests robust economy.
- States share in revenue has been increased to ` 5,23,968 crore from ` 3,37,808 crore (55%). Rise clearly endorse Government's policy to allow all round growth starting from the States.
- Miscellaneous capital receipts estimated at ` 69,500 crore as against ` 31,350 crore which endorse higher disinvestment proceeds if markets remain buoyant.
- Market borrowings for FY 15-16 is estimated at ` 4,56,405 crore which is marginally up & seems achievable.
- Government is stepping in the right direction by reducing subsidies. Subsidy has been lowered to ` 2,43,811 crore from ` 2,66,892 crore.
- Grants to States has been raised from ` 80,258 crore to ` 1,08,552 crore and with States prospering "MAKE IN INDIA" is also possible.
- Legislation with imprisonment for holding undisclosed foreign assets (black money) will lift India's weightage among foreign investors.
- NBFC's above ` 500 crore net worth will be at par in terms of SARFAESI.
- Forming MUDRA Bank to help SME & MSME and provide credit to MICRO finance is huge positive.
- Accident insurance cover for ` 12 per annum is the first step to provide health cover to all citizens of this country.

Budgetary Allocation

- Total expenditure proposed in the Budget estimates is ` 17,77,477 crore;
- ` 2,46,727 crore for Defence;
- ` 850,000 crore for Farm credit;
- ` 25,000 crore allocated to Rural Infrastructure Development Fund (RIDF);

- ` 45,000 crore allocated for Re-finance funds;
- ` 15,000 crore for Regional Rural Banks (RRB's);
- ` 34,699 crore for MGNREGA;
- ` 20,000 crore for MUDRA bank which will re-finance micro finance institutions;
- ` 79,258 crore for Welfare schemes for girl & women;
- ` 68,968 crore allocated to the Education sector;
- ` 33,152 crore for the Health sector;
- ` 4,173 crore for Water resources and Namami Gange;

Direct Tax

- No change in tax slabs.
- Proposal to reduce corporate tax rate from 30% to 25% over the next four years.
- Wealth-tax abolished with additional surcharge of 2% on super rich with taxable income above ` 1 crore.
- Investment allowance @15% u/s. 32AD and additional depreciation @35% u/s. 32(1)(iia) for setting up manufacturing units in notified backward areas of Andhra Pradesh & Telangana
- Additional deduction of ` 25,000 u/s. 80DD & 80U-for disabled persons.
- Investment in "Sukanya Samriddhi Scheme" eligible for deduction u/s. 80C and interest received thereon to be fully exempt.
- Limit on deduction on account of contribution to a pension fund and the new pension scheme increased from ` 1 lakh to ` 1.5 lakh.
- Additional deduction upto ` 50,000 for contribution to the new pension scheme u/s. 80CCD.
- Limit of deduction of health insurance premium u/s. 80D increased from ` 15,000 to ` 25,000 and for senior citizens limit increased from ` 20,000 to ` 30,000. Senior citizens above the age of 80 years, who are not covered by health insurance, to be allowed deduction of ` 30,000 towards medical expenditures.
- Deduction limit of ` 60,000 enhanced to ` 80,000 in respect of treatment of very senior citizens with specified disease.
- Benefit of deduction u/s. 80JJA extended eligibility reduced from 100 workmen to 50 workmen.
- MAT computation to exclude exempt income and related expenses from AOP/BOI
- Limit for Domestic Transfer Pricing increased from ` 5 crore to ` 20 crore.
- Section 153C widened to cover a person even on the basis of documents pertaining, though not belonging to him.

- Scope of cases to approach Settlement Commission extended even where notice u/s. 148 could be issued
- GAAR deferred by two years to AY 2018-19
- Employer shall obtain requisite documents (to be prescribed) in relation to claims made (including carry forward losses) by the employee for computing TDS on salary.
- TDS exemption on transport contractor restricted to contractors owning 10 or less goods carriages at any time during the year.
- Penal provisions in relation to acceptance or re-payment of an advance of ` 20,000 or more in cash for purchase of immovable property
- TDS @10% (reduced from existing 25%) on Royalties and Fees for Technical Services in case of payments to non-residents.
- Company would be considered as resident in India if place of effective management is in India at any time during the year.
- TDS returns to include details of all payments to non-residents whether taxable or not – ` 1 Lakh penalty on failure to furnish complete information.
- 'Yoga' included in the ambit of charitable purpose.
- PAN being made mandatory for any purchase or sale exceeding ` 1 lakh.
- Permanent Establishment norm to be modified to encourage fund managers to relocate to India.

Goods and Service Tax

- Finance Minister reiterated to implement GST by 1-Apr-2016;
- Government has taken efforts on various fronts for GST implementation.

Customs

- EC & SHEC to be continued on BCD.
- Road Cess on import of petrol & diesel increased from ` 2 to ` 6 per litre
- Export Duty on Ilmenite, upgraded is being reduced from 5% to 2.5%. No other changes made in export tariff.
- SAD on few goods has been exempted subject to actual user condition and on few other items reduced from 4% to 2%.
- BCD, CVD and SAD exempted on parts & components of tablet computers.
- To give a further boost to domestic manufacturing, exemptions or concessions are given to imports of parts & inputs to be used in finished goods.
- Rates of BCD enhanced on motor vehicles other than

electronically operated, for passengers as well as for transport of goods. Concession given when such motor vehicles are imported in Complete Knock Down condition.

- Option has been given to pay duty & interest within 30 days from the date of show cause notice and thus to escape the penalty.
- Penalties u/s. 112 & 114 has been reduced on improper importation / exportation of goods and further concession given for penalty if duty & interest is paid within 30 days.
- 'Resident firm' notified to apply for Advance Ruling.

Central Excise

- BED is being increased from 12.36% (including EC and SHEC) to 12.5% (EC and SHEC to be subsumed)
- Conversion of existing excise duty on petrol and diesel to the extent of ` 4 per litre into Road Cess to fund investment
- Excise duty on chassis for ambulance reduced from 24% to 12.5%
- Excise levy on cigarettes and the compounded levy scheme applicable to pan masala, gutkha and other tobacco products changed
- Excise Duty on footwear with leather uppers and having retail price of more than ` 1,000 per pair reduced to 6%
- Clean Energy Cess increased from ` 100 to ` 200 per tonne of coal to finance clean environment initiatives
- Excise duty on sacks and bags of polymers of ethylene other than for industrial use increased from 12% to 15%
- Excise duty on rails for manufacture of railway or tram way track construction material exempted retrospectively from 17-Mar-2012 to 02-Feb-2014, if no CENVAT credit of duty paid on such rails is availed.
- Concessions on custom and excise duty available to electronically operated vehicles and hybrid vehicles extended up to 31-Mar-2016
- Central Excise assessee to be allowed to use digitally signed invoices and maintain record electronically.
- Online Central Excise registration to be done in two working days

Service Tax

- Service-tax plus education cess increased from 12.36% (including EC and SHEC) to 14% (EC and SHEC subsumed) to facilitate transition to GST;

- Swachh Bharat Cess of 2% on all or any taxable services provided for (date to be notified)
- Extending the scope of advance rulings to resident firms
- New exemptions provided for including:-
  - Precondition, pre-cooling, ripening, waxing, retail packing, labeling of fruits and vegetables
  - Service by a Common Effluent Treatment Plant operator
  - Service provided by exhibitor of movie to a distributor or an AOP consisting of exhibitor as one of its member
- A uniform abatement of 70% of the value is now being prescribed for transport by rail, road and vessel subject to a uniform condition of non-availment of CENVAT Credit on inputs, capital goods and input services
- Service tax imposed on construction and other activities provided to government in relation to civil works, structure meant for education, clinical or cultural use, specified residential complex

CENVAT

- Time limit extended from six months to one year for availment of CENVAT Credit of inputs or input services;
- Job work provisions amendment to include input or capital goods to be sent directly to job workers premises; Capital goods sent to job worker premises to be returned back within 2 years.
- Reversal of proportionate CENVAT credit extended to a manufacturer of non-excisable goods.

ECONOMIC OUTLOOK

An Overview:

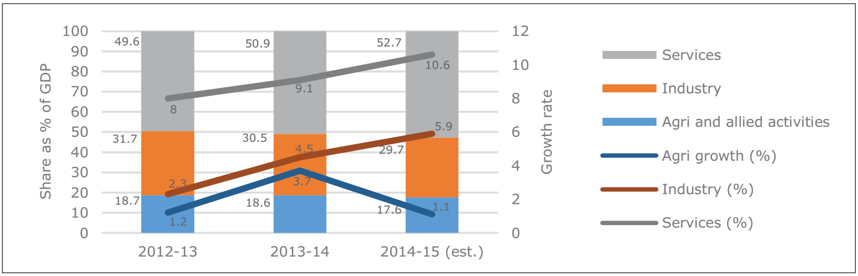
With a political mandate last May as historic as it could be, the new NDA Government is directing towards decisive shifts in policies that could finally launch India on a double digit medium term growth trajectory. With a benign external environment and reforms being launched, the economy now appears to be recovering, though challenges endure, but it can be overcome and India seems poised for propulsion.

Looking back, Indian economy faced severe headwinds in 2011-12 and 2012-13 on account of persistent inflation, high fiscal deficit, volatile currency and a paralytic government. This is behind us now and the growth revived in 2013-14 which has further improved in 2014-15. In the current year, Indian economy has maintained a stable and stronger health, amongst the volatile scenario across the globe which has impacted many a developed and emerging economies. Some of the main reasons being steep decline in oil prices, potential impact of the reforms initiated by the new Government at the Centre which has also kept in mind strict fiscal discipline resulting in positive business sentiment and a resultant flow of money from overseas investors expecting benefits to accrue going forward. Institutions like IMF and World Bank have presented an optimistic outlook for the Indian economy for the foreseeable future. However, one has to keep in mind that there are certain factors like slowdown in European and Japanese economy and sensitive geo-political issues in certain regions in the World and on the domestic front, the challenges relating to the massive requirements of skill creation and infrastructural upgradation, which might resist the smooth ride of the Indian economy going ahead. But overall, the growth momentum looks strong and with the push through government reforms, the economy should grow stronger by the day.

Before we look at the macroeconomic trends, it is important to note that the Central Statistics Office has recently revised the national accounts aggregates by shifting to new base year of 2011-12 from earlier base of 2004-05. The below mentioned information hence should be read keeping the above in mind (and also there is a limitation of trend data usable viz. from 2011-12 onwards).

Economic growth rate:

Economic growth, measured by growth in GDP (at constant market prices), estimated at 5.1% and 6.9% respectively during 2012-13 and 2013-14, is estimated at 7.4% in 2014-15. Break-up of GDP growth is as follows:



The pick-up in GDP in 2013-14 and current year is because of robust growth in services sector – this year the financing, insurance, real estate and business services sectors have done very well and is driving this year's growth whereas the industry growth, driven by utilities and manufacturing but pulled down by tentativeness in mining activities. The agri and allied sectors which did well in 2013-14 was under pressure in 2014-15 and could clock only 1.1% growth v/s 3.7% a year before.

To look at GDP from the demand side, as the growth firmed up in 2013-14, the final consumption expenditure also got strengthened. Though there was steep decline in rate of capital formation, but robust growth in exports and downslide in imports, enabled the economy to achieve close to 7% growth rate. The current year 2014-15 is showing mixed signals from the demand side – the private as well as government consumption has shown strength and the gross fixed capital formation has picked up steam but there is hardly any support from exports, though the imports have reduced drastically and that's because of dramatic fall in global crude prices. Hence the ongoing revival in demand is predominantly domestic consumption driven.

Growth rate of	**2012-13**	**2013-14**	**2014-15 (est)**
Total Consumption Expenditure	4.9%	6.5%	7.6%
Gross Capital Formation	2.6%	-4%	NA
Exports	6.7%	7.3%	0.9%
Imports	6.0%	-8.4%	-0.5%
GDP Growth rate	5.1%	6.9%	7.4%

Note: NA – not available

From a trend perspective, Gross fixed capital formation as component of GDP has been on the downward trend and when it is juxtaposed against the growth rate-though increasing, the Incremental Capital-Output Ratio (ICOR) is showing a downward trend – India has the lowest ICOR amongst BRICS countries. The savings rate as % of GDP is decreasing and savings-investment gap is filled by the capital inflows. Hence it is important to focus on increasing savings leading to higher gross capital formation.

Investment to GDP ratio	2011-12	2012-13	2013-14
Gross Capital Formation	38.2%	36.6%	32.3%
Gross Savings	33.9%	31.8%	30.6%
Saving Investment gap	-4.3%	-4.8%	-1.6%
Net Capital inflows	4.3%	4.8%	1.6%

Per Capita Income:

Per Capita Income	2012-13	2013-14	2014-15 (est.)
At Constant (2011-12) (`)	66,344	69,959	74,193
Growth %	3.2%	5.4%	6.1%

Public Finance:

As per provisional accounts, fiscal deficit for 2013-14 worked out at 4.5% of GDP. Current year estimate is fiscal deficit of 4.1% of GDP and revenue deficit of 2.9%. For the current year, the Apr-Dec 2014 data released by Comptroller General of Accounts shows that the gross tax revenue increased by 7% compared to corresponding period last year and is at 58.3% of budgetary estimate. The non-tax revenue registered an increase of 27.3% over corresponding period last year. The non-debt capital receipts showed significant shortfall vis-à-vis budgetary estimate on account of lower number of disinvestment proposals executed and many are still on the anvil. On the expenditure side, the same period shows a shortfall in growth of Plan and Non-Plan expenditure vis-à-vis previous corresponding period. However, a major positive outcome in 2014-15 is decline in petroleum subsidy over 2013-14 due to fall in global oil prices.

Fiscal deficit is already at 100.2% (Apr-Dec 2014) of the total budgetary estimate for 2014-15 which is much higher than average of 77.7% (for similar period) in last 5 years. Similarly, the revenue deficit is estimated at 106.2% of budgetary estimate and is significantly higher than 5 year average of 81.4%.

Price and Monetary Management:

WPI (Wholesale Price Index) inflation has been reducing consistently and has moderated to average of 3.4% in 2014-15 (Apr-Dec 2014) on the back of lower food and fuel prices as compared to the period of 2011-13 when it had remained persistently high at around 6-9%. As fuel has larger weight in the WPI, the decline in fuel prices led to a sharper reduction in the WPI as compared to the Consumer Price Index (CPI). Inflation in manufactured products has remained within a narrow range since 2013-14.

Retail inflation, as measured by CPI (Consumer Price Index) has also moderated significantly since second quarter of 2014-15 with moderation in inflation observed in all three major sub-groups: (a) food and beverages, and tobacco; (b) fuel and light; and (c) others. CPI had remained stubbornly sticky around 9-10% during 2012-13 and 2013-14. As per revised CPI (base year 2012), headline CPI inflation stood at 5.1% in January 2015.

The decline in inflation was quite faster than was anticipated in the initial months of the year. Global factors like drop in commodity prices including oil and coal helped moderate it. The tight monetary policy was also helpful in keeping the demand pressure contained. The currency also remained relatively stable vis-à-vis other currencies which too had sobering effect on inflation.

The RBI kept policy rates unchanged till Jan-2015. As the inflationary conditions eased, RBI signalled softer rate regime by cutting policy Repo rate to 7.75% (25 bps cut) in Jan-2015. Subsequently, RBI also reduced Statutory Liquditity Ratio (SLR) by 50 bps to 21.5% of net demand and time liabilities. The liquidity conditions remained broadly balanced during 2014-15 so far.

External Sector

Trade deficit:

In 2014-15 (Apr-Jan), trade deficit increased marginally by 1.6% to USD 118.4 bn as against USD 116.5 bn in 2013-14 (Apr-Jan). Lower growth of exports (2.4%) and imports (2.2%) in 2014-15 (Apr-Jan) has resulted in a marginal increase of USD 1.9 bn in the trade deficit.

Balance of Payment:

The Current Account Deficit (CAD) as % of GDP has declined from 3.1% in first half 2013-14 to 1.9% in first half 2014-15. This external sector position in first half of 2014-15 was benign and comfortable on account of two important developments – lower trade deficit along with moderate growth in invisibles and surge in capital inflows enabled by higher portfolio investment, FDI and ECBs. With net capital inflows higher than CAD, there was net accretion to Forex reserves. Amongst the major economies with CAD, India has second largest Forex reserve after Brazil at USD 330.2 bn as on 06-Feb-2015.

The INR-USD exchange rate has remained quite stable in 2014-15 due to huge inflow of FDI and FII in equity and bond markets. Though some of the global currencies weakened against USD viz. Euro and Yen, as the ` was stable, ` held its own against Yen and Euro. The Rupee touched a low of ` 63.75 per USD on 30-Dec-2014 and a peak of ` 58.43 per USD on 19-May-2014.

External Debt

India's external debt stock increased by USD 13.7 bn (3.1%) to USD 455.9 bn at end-September 2014 over the end-Mar-2014 level. The maturity profile of India's external debt indicates the dominance of long-term borrowings. India's external debt has remained within manageable limits as indicated by the external debt to GDP ratio of 23.5% and debt service ratio of 5.9% in 2013-14 which is due to prudent external debt management policy of the Government.

Sectoral Developments

Agriculture

During the Tenth Plan, the contribution of agriculture and allied sectors to the GDP (at 2004-05 prices) of the country was 19% and it declined to 15.2% during the Eleventh Plan. In 2013-14, the production of foodgrains was higher by 3.2% over previous year and as per second advance estimates for current year 2014-15, total production of foodgrains is estimated at 257.1 mn tonnes – which was lower by 8.5% compared to 2014. Government has highlighted some challenges for the Indian agriculture such as requirement of huge investment in R&D, irrigation, warehousing and storage etc., to improve the yields of crops which are much lower compared to global standards, to eliminate distortions from various policies including removal of exemption for user charges for electricity and water. It also has recommendations like strengthening of Forward Markets Commission to regulate the market more effectively, to bring states on board to create a National Common Market for agri commodities, etc.

Industrial, Corporate and Infrastructure Performance

The industrial growth picture as per the Index of Industrial Production (IIP) suggests that industrial production which had slowed down since 2011-12, reversed the trend in 2014-15. Basic goods and capital goods witnessed marked improvement in growth during 2014-15 (Apr-Dec). While the growth in intermediate goods remained sluggish, consumer goods contracted in 2014-15 (Apr-Dec).

Growth in infrastructure, based on an index of eight core industries, has improved slightly to 4.4% during 2014-15 (Apr-Dec) as compared to 4.1% in the same period in 2013-14.

The performance of listed manufacturing companies in the private sector in terms of growth of sales and net profit appeared to turn around in Q1 2014-15. However, the performance in Q2 2014-15 dampened expectations of sustained improvement.

Service Sector

India's services sector remains the major driver of economic growth contributing 72.4% of GDP growth in 2014-15. Services-sector growth has increased from 8.0% in 2012-13 to 9.1% in 2013-14 and further to 10.6% in 2014-15. The services sector is also the dominant sector in most of the states of India with a more than 40% share in the gross state domestic product (GSDP) in 2013-14 for almost all states. This sector has made substantial contribution to FDI inflows, exports, and employment. During the last twelve years, with a CAGR of 8.7%, India had the second fastest growing services sector, just below China's 10.7%.

Economic Outlook

Macroeconomic scenario in India significantly improved during current year and the economy is in much better shape vis-à-vis previous few years – primarily driven by services sector as well as picking up industrial activity. This points to buoyancy in domestic consumption. With this sound footing, now the savings-investment dynamics will be crucial for the growth to strengthen further in the coming years in addition to reversal of the subdued export performance being currently witnessed. The key will be the response of savings to improved price and financial market stability, and of investment, particularly in the crucial infrastructure sector, to reform efforts of the Government that are underway. With the government putting its act together to resolve issues related to mining and construction (read coal block auctions etc.), that will provide much needed impetus to GDP as these two sectors have effect on quite a few industries. Better use of resources is critical to shore up productivity which is currently abysmal as reflected in current Incremental Capital Output Ratio (ICOR).

Globally, while some economies have shown resilience and improvement – Germany and USA, respectively, others like several European countries, Japan as well as China have shown slowing growth. Hence the global scenario is a mixed bag.

Considering the improving domestic macroeconomic parameters supported by benign crude prices and Government's commitment to reforms, the outlook for Indian economy looks positive, though the uncertainties arising from increasing rate scenario in US and situation prevailing in Eurozone could have an impact in the coming year. Given the above and assuming normal monsoons, growth of around 8.5% looks possible in 2015-16.

DIRECT TAX PROPOSALS

(Unless specified, proposals shall take effect from AY 2016-17)

Thresh-hold Limit / Rates of Tax

a. Individual, HUF, AOP or BOI

- No change in basic tax rate and cess
- Surcharge for income above ` 1 crore increased by 2%
- Effective tax rate shall be as under (subject to AMT)

Taxable Income Slab (`)	Tax Rates		
	General	Senior Citizen	Very Senior Citizen
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	34.608%	34.608%	34.608%

b. Firm / LLP / Corporates

- No change in basic tax rate and cess
- Surcharge for income above ` 1 crore increased by 2 %
- Effective tax rate shall be as under (Subject to AMT/MAT):

Taxable Income Slab (`)	Firm / LLP	Domestic Company	Foreign Company
Upto 1 Crore	30.90%	30.90%	41.20%
1 Crore to 10 Crore	34.608%	33.06%	42.02%
Above 10 Crore	34.608%	34.608%	43.26%

c. Dividend Distribution Tax (DDT)

- No change in basic tax rate and cess
- Surcharge increased by 2 %

d. Tax deduction under Chapter XVII-B including surcharge in certain cases & Tax Collected at Source

- Increase in surcharge by 2% in case of Non-resident person
- Accordingly, the amount of tax deducted under Chapter XVII-B shall be increased by a surcharge in the following cases:

Taxable Income Slab (`)	Non-resident person (other than a company)	Foreign Company
Upto 1 Crore	No surcharge	No surcharge
1 Crore to 10 Crore	Surcharge @12%	Surcharge @2%
Above 10 Crore	Surcharge @12%	Surcharge @5%

e. Advance Tax

Surcharge (as below) is payable at the time of payment of Advance Tax

Taxable Income Slab (`)	All Persons Other than Company	Domestic Company	Foreign Company
Upto 1 Crore	Nil	Nil	Nil
1 Crore to 10 Crore	12%	7%	2%
Above 10 Crore	12%	12%	5%

f. TDS Rates

No major change in TDS rates except on payment of Royalty and Fees for Technical Services to a non-resident on which TDS rate is proposed to be reduced from 25% to 10%.

Business Income

a. Incentive to boost Make in India

Investment allowance @ 15% u/s. 32AD and additional depreciation @ 35% u/s. 32(1)(iia) are proposed for setting up of a manufacturing undertaking during 01-Apr-2015 to 31-Mar-2020 in the notified backward areas of Andhra Pradesh & Telangana subject to certain conditions. Withdrawal of benefit of the allowance is also proposed in case of transfer of the said assets within a period of 5 years.

b. Increased benefit of additional depreciation

As per the existing provisions, there was no clarity on allowance of additional depreciation in case of additions to plant & machinery and if the same is used for less than 180 days. It is now proposed to specifically provide to allow the claim of balance 50% of the additional depreciation in the immediately succeeding previous year.

Capital Gains

a. Transactions not regarded as transfer

It is proposed that any transfer of a capital asset being a share of a foreign company, in a scheme of amalgamation/demerger, as per Explanation 5 of section 9(1), which derives its value, directly or indirectly, from shares of an Indian company would not be regarded as transfer.

b. Cost of acquisition and effect of consolidation of schemes of mutual funds

Capital gains would not apply to any transfer by a unit holder of a capital asset held by him in a consolidating scheme of a mutual fund, if the transfer is made in consideration of the allotment of any units in the consolidated scheme of the mutual fund under SEBI (Mutual Funds) Regulations, 1996.

c. It is also proposed that in such cases, the cost of acquisition would be the cost at the time of acquiring of units in consolidating scheme of the mutual fund.

d. Tax on short term capital gains

It is proposed that any income arising from transfer of units of a business trust held for less than 36 months, which were acquired in exchange of shares of a special purpose vehicle would be eligible for benefit of concessional rate of 15%.

Deductions under Chapter VI-A

a. Sukanya Samriddhi Account Scheme u/s. 80C

- Investment made in this Scheme in the name of individual, any girl child of individual or any girl child for whom such individual is legal guardian is proposed to be eligible for deduction u/s. 80C w.r.e.f. A.Y. 2015-16.
- Interest accruing on such deposits and withdrawals made from the said Scheme is also proposed to be exempt u/s. 10(11A).

b. Limit of deduction u/s. 80CCC enhanced

In order to promote social security, deduction u/s. 80CCC in respect of contribution in any specified annuity plan of a pension fund is proposed to be increased from ` 1 lakh to ` 1.5 lakh.

c. Additional deduction u/s. 80CCD

Additional deduction upto ` 50,000 is proposed to an individual for the contribution made to National Pension Scheme of the Central Government

d. Enhancement of deduction for health insurance premium u/s. 80D

Persons Eligible	Existing Limit (`)	Proposed Limit (`)
Individuals	15,000	25,000
Parents : Not Senior Citizens	**15,000**	**30,000***
Parents : Senior Citizens	20,000	

*Includes deduction as medical expenditure for very senior citizen parents (80 years or above age).

e. Limit of deduction enhanced u/s. 80DD and 80U for persons with disability and severe disability

Section	Description / eligibility	Disabilities	Existing limit (`)	Proposed Limit (`)
80U	For Disabled (Individuals)	Disability	50,000	75,000
		Severe disability	100,000	125,000
80DD	For Treatment of disabled	Disability	50,000	75,000
	(Individuals, HUF)	Severe disability	100,000	125,000

f. Limit of deduction enhanced u/s. 80DDB

Certificate to be obtained from		Age Limit (Yrs.)	Existing Limit (`)	Proposed Limit (`)
Existing	**Proposed**	Below 60	40,000	40,000
Specialist working in government department	Any specialist doctor	> 60 - < 80	60,000	60,000
		80 or above	60,000	80,000

g. Tax benefit for Swachh Bharat Kosh, Clean Ganga Fund & National Fund for Control of Drug Abuse u/s. 80G

i. 100% of deduction towards contribution to Swachh Bharat Kosh & Clean Ganga Fund other than by way of corporate social responsibility is proposed u/s. 80G w.r.e.f. A.Y. 2015-16. It is also proposed to amend section 10(23C) so as to exempt the income arising to such Funds.

ii. 100% deduction in respect of donation made to National Fund for Control of Drug Abuse (NFCDA) is proposed u/s. 80G.

h. Section 80JJAA

Benefit of deduction equal to 30% of additional wages paid to new regular workmen to all business entities and eligibility threshold reduced from 100 workmen to 50 workmen.

Amendments proposed relating to TDS provisions

a. Proof required from employees for TDS u/s. 192 (w.e.f. 01-Jun-2015)

The employer, for the purposes of estimating income of the employee or computing tax deductible, shall obtain the evidence or proof or particulars of prescribed claims (including claim for set-off of loss).

b. Tax to be deducted on premature withdrawal of EPF (w.e.f. 01-Jun-2015)

Deduction of tax @10% on premature withdrawal of EPF exceeding ` 30,000 on furnishing of PAN to the deductor failing which tax shall be deducted at maximum marginal rate. The facility of filing self declaration for non deduction of tax u/s. 197A shall be extended to this clause.

c. TDS on interest other than "Interest on securities" (w.e.f. 01-Jun-2015)

- In respect of a banking company or the co-operative bank or the public company which has adopted core banking solutions, the computation of interest income for the purpose of TDS should be made with reference to the total income credited or paid by such person irrespective of its branches.
- Income credited or paid by a co-operative bank to a member or any other co-operative society would be subject to TDS.
- TDS is proposed to be deducted on interest on recurring deposit as well.
- No TDS would be applicable on income paid by way of interest on the compensation amount awarded by the Motor Accidents Claims Tribunal where the amount does not exceed ` 50,000.

d. TDS during the course of hiring or leasing of goods carriages (w.e.f. 01-Jun-2015)

It is proposed that no TDS be deducted specifically, where the transport contractor owns 10 or less goods carriages at any time during the previous year and furnishes a declaration to that effect along with his PAN.

e. TDS not to be deducted on rent paid to a REIT

No deduction shall be made where income by way of rent is credited or paid to a business trust being a REIT.

f. Provisions of TDS in relation to filing of statements, rectifications and filing of appeals, recovery of demand, levy of penalty are already in place. Similar provisions are now proposed for TCS.

Assessment & Re-assessment Proceedings (w.e.f. 01-Jun-2015)

a. Scope of Section 132B widened

It is proposed to include the amount of liability arising on an application made before the Settlement Commission for the purpose of recovery out of assets seized u/s. 132 or requisitioned u/s. 133A.

b. Scope of Section 153C extended

It is proposed to amend the provisions of section 153C to cover a person other than the person who is searched on the basis of any information contained in any books of account or documents, seized or requisitioned pertaining to that other person and it would not be necessary that such material should belong to such other person.

c. Section 151 on sanction for issue of notice revamped

- It is proposed to provide that in order to issue a notice u/s. 148 beyond 4 years from the end of the relevant assessment year, satisfaction of the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner on the reasons recorded by the Assessing Officer, that it is a fit case for reopening/reassessment, is mandatory
- In a case where such notice is to be issued within 4 years from the end of the relevant assessment year, satisfaction of the officer not below the rank of Joint Commissioner is mandatory.
- It is further proposed to provide that the respective approving officer recording the satisfaction need not issue the notice u/s. 148 himself.

Appellate Proceedings (w.e.f. 01-Jun-2015)

a. Filing an appeal before ITAT

It is proposed that an appeal before ITAT can be filed against an order passed by the prescribed authority denying approval to any university or other educational institution or any hospital covered in sub section (vi) and (via) of section 10(23C).

b. Limit of total income enhanced for disposal by Single Bench of ITAT

It is proposed to increase the limit of total assessed income to ` 15 lakhs in order to dispose the case singly by the President or any other member of the ITAT.

c. Special provision for avoiding repetitive appeal

In order to avoid repetitive appeals, it is proposed to insert a new section 158AA whereby the department may not file the appeal before the ITAT till the outcome of the decision of the Supreme Court subject to prior acceptance from the assessee to the effect that the issue is identical.

Settlement Commission (w.e.f. 01-Jun-2015)

a. Scope of pending proceedings for filing applications before Settlement Commission

It is proposed to encompass a proceeding to have commenced u/s. 147, where the return of income is filed by the assessee u/s. 139 or 142 and notice u/s. 148 could have been issued on the date of issuance of notice u/s. 148 for another AY

b. Rectification by Settlement Commission

It is proposed to increase the time limit for rectification of any apparent mistake in the order of the Settlement Commission up to six months from the end of the month in which the order was passed or the rectification application has been made by the Principal Commissioner or the Commissioner or the applicant, as the case may be.

c. Interest payable by assesse u/s.234B

It is proposed to insert a new sub-section (2A) u/s. 234B so as to charge interest as under:

It is proposed to amend 234B(3) to provide that the period for which the interest is to be computed on the total income as increased on reassessment u/s. 147 or section 153A @ 1% for the period commencing from the ***01-April next following the financial year*** and end on the date of determination of total income u/s. 147 or u/s. 153A.

Sec.	Particulars	Interest u/s. 234B Chargeble on	Period of chargebility
245C	Application for Settlement Commission under sub section (1)	The additional amount of income tax offered	Simple interest @ 1% for every month or part of a month comprised in the period commencing from **01-April of such AY till the *date of application***
245D	Order of Settlement Commission under sub-section (4)	The Tax on total income determined on the basis of order exceeding the tax on total income disclosed in the application filed u/s 245C	Simple interest @ 1% for every month or part of a month comprised in the period commencing from **01-April of such AY till the *date of Order.***

d. Abatement of proceedings

It is proposed that settlement proceedings shall abate on the date of the order u/s. 245D(4) which is passed without providing for the terms of settlement.

e. Subsequent settlement application

It is proposed that the applicant or any related person to him cannot file any subsequent application for settlement in relation to any other matter if the case of applicant falls under the conditions specified in section 245K.

Penalty Provisions

a. Immovable property transactions (w.e.f. 01-Jun-2015)

It is proposed to include the transactions in relation to an immovable property within the ambit of section 269SS and 269T. Therefore, money received or repaid of ` 20,000/- or above in the nature of advance in relation to an immovable property otherwise than by an account payee cheque/draft or by electronic clearing system through bank account shall attract penalty u/s. 271D and 271E.

b. Penalty u/s. 271GA

If any Indian concern fails to furnish the information/documents as required u/s. 285A relating to disclosure of foreign assets, it is proposed to invite penalty at 2% of transaction value, if such transaction leads to transfer of management or control directly or indirectly and ` 5 lakh in any other case.

c. Penalty u/s. 271I [w.e.f. 01-Jun-2015]

Amendment in provision of section 195(6) is proposed to furnish information in relation to payment to a non-resident whether or not chargeable under the Income Tax Act. Failure in compliance to this provision is proposed to invite penalty of ` 1 lakh.

Others Proposals

a. Rationalization of provisions relating to Trust

Exemption benefit relating to 85% of the Accumulated Income shall be provided subject to filing of Form 10 along with Return of Income u/s. 139. Period of accumulation reduced to 5 years from 10 years.

b. Rationalization of MAT provisions for AOP & FII's

- Insertions of new provisions for adjustment in the book profits of any expenditure related to share/income of AOP's (other than STCG on which STT is not paid) and corresponding reduction of income there from.

- Insertions of new provisions for adjustment in the book profits of any expenditure related to share/income of FII's (other than STCG on which STT is not paid) and corresponding reduction of income there from.

c. **Special tax regime with respect to Business Trusts (REITs/ InviT)**

Tax "pass through" to be allowed to both category I and category II AIF. Rationalization of capital gains regime for the sponsors exiting at the time of listing of the units of REITs and InviT. Rental income of REITs from their own assets to have pass through facility.

International Taxation/ Taxation of Non Resident

a. **Increase in threshold limit for applicability of Domestic Transfer Pricing u/s. 92BA**

The aggregate threshold value for transactions to fall within the meaning of Specified Domestic Transactions u/s. 92BA has been enhanced from existing ` 5 crore to ` 20 crore.

b. **Amendment in provisions relating residency of persons in India**

- A new Explanation 2 to Section 6(1) is proposed to be inserted, which provides that in case of an individual, being a citizen of India and a member of the crew of a foreign bound ship leaving India, the period/s of stay in India in respect of such voyage, for the purpose of determining his residency in India, shall be determined in the manner and subject to such conditions as may be prescribed (w.r.e.f. 01-Apr-2014; AY 2015-16).
- As per the proposed amended Section 6(3), inter alia, a company is said to be resident in India if its place of effective management, at any time in that previous year, is in India. Place of effective management means a place where key management and commercial decisions necessary for the conduct of the business as a whole are, in substance made.

c. **Amendment in income deemed to accrue or arise in India u/s. 9**

- Explanation 5 of section 9(1)(i), inter alia, provides that ownership in an entity incorporated outside India, shall be deemed to be situated in India, if it derives, directly or indirectly, its value substantially from the assets located in India.
- **Clarity on value substantially derived from assets located in India**

The proposed explanation 6 provides that the value substantially derived from assets located in India shall mean if, on the 'specified date' the 'value of assets' is above ` 10 crore and at least 50% of the total value of all the assets owned by the entity are located in India;

- **Clarity on taxability of transfer of ownership in an entity outside India by non-resident**

  The proposed explanation 7 to section 9(1)(i) provides that the income of a non-resident from overseas transfer of ownership as referred to in explanation 5 to section 9(1)(i) shall not be deemed to accrue or arise in India subject to the conditions prescribed in this regards.

- **Clarity on source rule in respect of interest received by the non-resident banking companies**

  An explanation is proposed to be inserted to section 9(1)(v) to provide that in the case of a non-resident engaged in the business of banking, any interest payable by the permanent establishment in India of such non-resident to its head office or any permanent establishment or any of its other part outside India shall be deemed to accrue or arise in India and shall be chargeable to tax in addition to any income attributable to the permanent establishment in India and, the permanent establishment in India shall be deemed to be a person separate and independent of the non-resident person and, accordingly provisions relating to computation of total income, determination of tax and collection and recovery shall apply.

d. Insertion of section 9A – Fund Managers' presence not to constitute business connection of offshore funds

In case of an 'eligible investment fund', the fund management activity carried out through an 'eligible fund manager' acting on behalf of such fund should not constitute business connection in India and such fund shall also not be regarded as a resident in India. The conditions to be fulfilled for qualifying as an 'eligible investment fund' and 'eligible fund manager' have been provided in the said section.

e. Insertion of section 271FAB – Penalty for failure to furnish information by an eligible investment fund u/s. 9A

A new section 271FAB is proposed to be inserted to provide that if any 'eligible investment fund' fails to furnish a statement or any information and document as required u/s. 9A(5) within the specified time period, the income-tax authority may direct such fund to pay, by way of penalty, a sum equal to ` 5 Lakh.

f. Amendment in the definition of 'Global Depository Receipts' u/s. 115ACA

It is proposed to amend the definition of 'Global Depository Receipts' to mean, inter alia, a depository receipt / certificate issued to investors (resident/non-resident) against the issue of shares listed on a recognized stock exchange in India.

g. Insertion of sec. 194LBB – TDS on income from units of investment fund.

Any person responsible for making payment of income other than that proportion of income which is of the same nature as income referred to in section 10(23FBB) to the holder of units of an investment fund (VCC/VCF) specified in clause (a) of the explanation 1 to section 115UB, shall deduct income-tax thereon @ 10%. (w.e.f. 01-Jun-2015).

h. Extension of time limit of interest payment eligible for concessional tax rate u/s. 194 LD

It is proposed to amend section 194(2) to provide that the concessional rate of 5% withholding tax on interest in respect of investments in Government securities and rupee denominated corporate bonds payable to FII or QFI, extended till 30-Jun-2017. (w.e.f. 01-Jun-2015)

i. Clarification on recipient of payment u/s. 195

The proposed amended section 195(6) seeks to clarify that recipient of payment u/s. 195 being non-resident (incl. foreign company), in respect of which the payer shall be liable to furnish information regarding such payments in prescribed manner. (w.e.f. 01-Jun-2015).

j. Insertion of sec. 285A – Furnishing of information by an Indian concern

It is proposed that where ownership in an entity incorporated outside India derives its value substantially from assets located in India as specified, and such entity holds such assets in India through or in an Indian concern, then, any such Indian concern shall, for the purposes of determination of income accruing or arising in India, u/s. 9(1)(i) shall furnish within the specified period to income-tax authority, the relevant information or document, in manner prescribed.

k. Insertion of new sec. 271GA – Penalty for failure to furnish information u/s. 285A

It is proposed that if any Indian concern fails to furnish information under the proposed section 285A, the Income-tax authority, may levy penalty of a sum equal to 2% of the value of the transaction – on failure to provide prescribed information which had the effect of transferring the right of management or control in relation to the Indian concern or ` 5 lakh in any other case.

❑❑

INDIRECT TAX PROPOSALS

(Changes to come into effect immediately unless otherwise specified)

Custom Duty

A. Tariff:

Education Cess and Secondary & Higher Education Cess

- EC & SHEC shall continue to be levied on BCD
- Exemption notification of EC & SHEC on CVD – now rescinded to align with Central Excise provisions where EC & SHEC are being exempted now

Effective BCD remains same though change in schduled BCD

Description of Goods	Scheduled BCD	Effective BCD
Motor Vehicles		
Electronically operated motor vehicles for carrying 10 or more passengers (CTH 8702)	40%	10%
Other motor vehicles (CTH 8702) or all motor vehicles (CTH 8704) imported in Completely Knocked Down form	40%	10%
Other motor vehicles of CTH 8702 or all motor vehicles of CTH 8704 imported in other than Completely Knocked Down form	40%	20%
Iron & Steel and Articles thereof		
Chapter 72 and 73 of Iron and Steel and Articles thereof	15%	10%
Bituminuous Coal (Present BCD 55%)	10%	2.5%

(Note: scheduled rate empowers government to vary by issuing notification in case of need arises)

- Effective BCD on refrigerated motor vehicles (CTH 8704) remains Nil
- Exemption extended upto 31-Mar-2016 on imports of specified goods used in manufacture of hybrid and electrically operated vehicles.
- BCD reduced from 10% to 7.5% on metal parts under CTH 7325 if used in manufacture of electrical insulators (CTH 8546), subject to procedures followed under Concessional Duty Rules

Change in Effective Rate (Notification No. 12 / 2012 – Cus):

Chapter / CTH	Description of Goods	Duty	Existing Rate	Amended Rate
2528	Ulexite Ore	BCD	2.50%	Nil
85258020	Digital Still Image Video Cameras of specific capacity	BCD	10%	Nil
Any Chapter	Parts and Components of aforesaid Digital Cameras	BCD	5%	Nil
8529	Organic LED TV Panels	BCD	10%	Nil
8529	Black Light Unit Module used for manufacturing LCD / LED TV Panels	BCD	7.5% / 10%	Nil **
85407100	Magnetron used for manufacturing microwave ovens	BCD	5%	Nil **
Any Chapter	Parts, components or accessories or sub-parts for use in the manufacture of tablet Computer *	BCD and CVD	Various Rates	Nil **
847340	Parts and components of Cash dispenser and bank note dispensers (Classification clarified)	BCD	Nil	Nil
90	Artificial Hearts	BCD and CVD	Basic 5%	Nil
Any Chapters	Specified Inputs used in manufacturing of pacemakers *	CVD	Various Rates	Nil **
8419	Evacuated tubes with three layers of solar selective coating for use in the manufacture of solar water heater and system	BCD	7.50%	Exempted
29025000	Styrene #	BCD	2.50%	2%
29031500	Ethylene Dichloride #	BCD	2.50%	2%
29032100	Vinyl Chloride Monomer #	BCD	2.50%	2%

Chapter / CTH	Description of Goods	Duty	Existing Rate	Amended Rate
27111300	Butanes	BCD	5%	2.50%
29012400	Isoprene (organic chemical)	BCD	5%	2.50%
29146100	Anthraquinone	BCD	7.50%	2.50%
81101000	Antimony Metal	BCD	5%	2.50%
81102000	Antimony Waste	BCD	5%	2.50%
84834000 84669390 85371000	Ball screws, Linear Motion Guides and CNC Systems for use in the manufacture of CNC Lathes or Machining Centers	BCD	7.50%	2.5% **
Any Chapter	Specified goods used in manufacture of Flexible Medical Video Endoscope	BCD	5%	2.5% **
2704 00	Metallurgical Coke	BCD	2.50%	5%
28070010	Sulphuric acid for the manufacture of fertilizers	BCD	7.50%	5%
28256020 28461090 38249090	Ceria zirconia compounds, Cerium compounds and Zeolite for use in the manufacture of washcoat for catalytic converters	BCD	7.50%	5% **
29161210	Butyl acrylate	BCD	7.50%	5%
84149011 85362090	C – Block Compressor & Crankshafts and Over load protector & positive thermal coefficient imported for manufacturing refrigerator compressor	BCD	7.50%	5%
8504	Active Energy Controller for use in manufacture of renewable power systems invertors (Certification of Ministry of New & Renewable Energy)	BCD	7.5% / 10%	5%

Chapter / CTH	Description of Goods	Duty	Existing Rate	Amended Rate
39199090 40027000 68149090	Water blocking tape, Ethylene-propylene-non conjugated diene rubber (EPDM) and Mica glass tape imported for use in manufacture of insulated wires and cables	BCD	10%	7.5% **
84	Specified plant & machinery imported - Security Printing & Mining Corporation of India *	CVD	Nil	Equivalent to Excise duty

Other Changes made in SAD (Notification No. 11/2015-Cus)

Chapter or CTH	Description of Goods	Existing Rate	Amended Rate
Various Chapters	All goods except populated PCB required for manufacture of specified goods on which BCD is exempted vide Notification No. 25/98-Cus, 24/2005-Cus and 25/2005-Cus as amended from time to time (ITA bound goods)	4%	Nil **
Any Chapter	All inputs for use in the manufacture of LED driver and MCPCB for LED lights and Fixtures & LED Lamps	4%	Nil **
2710	Naphtha used in manufacture of excisable goods	4%	2% **
7204	Melting scrap of iron or steel and Stainless steel scrap, for the purpose of melting	4%	2%
7404	Copper scrap and Brass scrap	4%	2%
7602	Aluminium scrap	4%	2%

**Goods are also exempted from levy of SAD by amending Notification No. 21/2012 – Cus*

 # SAD on goods has been reduced from 4% to 2% by amending Notification No. 21/2012 – Cus

*** Benefits available only when Customs (Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 1996 are being followed*

Diesel & Petrol (Notification No. 6/2015 & 7/2015 – Cus):

- Additional Custom Duty known as Road Cess on high speed diesel oil and motor spirit or petrol (CTH 2710) increased from ` 2 per litre to ` 6 per litre.

Personal Health:

- Life saving drugs and medicines for personal use allowed to be imported duty free on production of a certificate issued by specified authorities valid only for one year.

Mega Power Projects:

- In case of setting up or expansion of Mega Power Project subject to specified approval, period of BG or FD increased from 36 months to 66 months or more.

Telecom optical fibers:

- BCD on import of HDPE for manufacturing of telecommunication grade optical fibers is fully exempted

Export Duty on Ilmenite:

- Export Duty on Ilmenite, upgraded is being reduced from 5% to 2.5%

B. Non-Tariff

Penalty provision rationalized and quantum of penalty reduced:

- Cases not involving fraud, collusion, willful-misstatement etc.
    - o For SCN's issued after enactment of the Finance Bill - No penalty is payable, if the duty alongwith interest is paid within 30 days from the date of receipt of notice;
    - o For SCN's issued and pending for adjudication on the date of enactment of the Finance Bill - No penalty is payable, if the duty alongwith interest is paid within 30 days from the date of enactment of the Finance Bill 2015
- Cases involving fraud, collusion, willful-misstatement etc.
    - o Penalty payable is reduced to 15% (presently 25%) of the duty, if the duty, interest and reduced penalty is paid within 30 days from the date of enactment of the Finance Bill and no order is passed determining duty
- Penalty of 10% of the duty evaded or ` 5,000/- whichever is higher to be imposed for improper importation of goods-

- o Penalty to be reduced to 25% of the penalty determined if the duty, interest and reduced penalty is paid within 30 days from the date of communication of the order

- Penalty of 10% of the duty evaded or ` 5,000/- whichever is higher to be imposed for improper exportation of goods
  - o Penalty to be reduced to 25% of the penalty determined if the duty, interest and reduced penalty is paid within 30 days from the date of communication of the order

'Resident Firm' notified as eligible to obtain an Advance Ruling:

- Resident Firm (include sole-proprietorship, partnership firms, LLP's and one person companies) to be considered as eligible person for Advance Ruling

Service Tax

Change in Service Tax Rate

- Service Tax rate is proposed to be increased from 12.36% (including EC and SHEC) to 14% (EC and SHEC to be subsumed)
- New Service Tax rate of 14% to be made effective from a date to be notified after the enactment of the Finance Bill, 2015.

New Levy - Swachh Bharat Cess

- Swachh Bharat Cess is proposed at 2% as Service Tax on all or any of the taxable services with the objective of financing and promoting Swachh Bharat initiatives. Detailed coverage will be notified in due course.
- Finance Minister has stated that Swachh Bharat Cess will be made applicable only if need arises.
- Swachh Bharat Cess to be levied from a date to be notified by the Central Government after the enactment of the Finance Bill, 2015.

Broadening of Tax Base

Amendments in Negative List

(Effective from the date to be notified after enactment of Finance Bill, 2015)

- Exemption withdrawn on admission to entertainment event and access to amusement facility. Definition of Entertainment event omitted.
- However, above exemption included in Mega Exemption notification with restriction to award function, concerts, pageants,

musical performances, non-recognized sporting events, if the amount charged upto ` 500 per person

- Services on contract manufacturing/job work for production of potable liquor brought in tax net
- Now, any service provided by Government or Local Authority to business entity taxable as compared to existing support services. Definition of Support Service omitted

Amendments in Mega Exemption Notification (w.e.f. 01-Apr-2015)

- Exemption withdrawn for following services provided to the Government, a Local Authority or a Governmental Authority by way of construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, or alteration of-
  - o Civil structure or any other original works meant predominantly for use other than for commerce, industry, or any other business or profession
  - o Structure meant predominantly for use as (i) an educational, (ii) a clinical, or (iii) an art or cultural establishment
  - o Residential complex predominantly meant for self-use or the use of their employees or other persons specified
- Exemption withdrawn for construction, erection, commissioning or installation of original works pertaining to an airport or port;
- Exemption for transportation by rail or a vessel or a goods transport agency now restricted to milk, salt and food grains including flours, pulses and rice. Earlier exemption now stands withdrawn for foodstuff including tea, coffee, jaggery, milk products, sugar and edible oil
- Exemption in case of services of an artist by way of performance in folk or classical art forms of music, dance or theatre restricted to ` 1 lakh
- Exemption extended to goods transport agency service for transport of export goods by road from place of removal to land customs station

New Exemptions in Mega Exemption Notification (w.e.f. 01-Apr-2015)

- Services of transportation of patient in an ambulance
- Services of life insurance business now extended to Varishtha Pension Bima Yojana

- Service provided by a common effluent treatment plant operator for treatment of effluent
- Services by way of pre-conditioning, pre-cooling, ripening, waxing, retail packing, labeling of fruits and vegetables
- Service provided by way of admission to a museum, zoo, national park, wild life sanctuary and a tiger reserve
- Service provided by way of exhibition of movie by the exhibitor to the distributor or an association of persons consisting of such exhibitor as one of its members

Reverse Charge Mechanism (w.e.f. 01-Apr-2015)

- Partial reverse charge now brought to full reverse charge in case of supply of manpower and security services
- Services provided by mutual fund agents, mutual fund distributors and agents of lottery distributor are being brought under reverse charge consequent to withdrawal of the exemption on such services
- In relation to services provided by person of a particular kind under the brand name or trade name of aggregator, the person liable to pay service tax would be aggregator

  Aggregator defined to mean a person who owns or manages a web based software application and by means of the application and communication device enables a potential customer to connect with person providing of a particular kind under the brand name or trade name of the aggregator

Abatements (w.e.f. 01-Apr-2015)

- Abatement rate reduced for transport of goods by road from 75% to 70%
- Abatement increased for transport of goods in a vessel from 60% to 70%
- Abatement rate reduced for transport of passengers by air, with or without accompanied belongings for other than economy class from 60% to 40%
- Abatement withdrawn for services provided in relation to chit funds

Changes in Service Tax Rules:

- Registration for single premises to be granted within 2 days of filing the online application
  - o Documents needs to be submitted within 7 days from the date of application

- Rule 4C and 5 - Assessee will be allowed to maintain electronic records including invoices to be authenticated by digital signature

Changes in the Finance Act, 1994:

(effective from enactment of Finance Bill, 2015)

- Section 67 - Consideration – definition widened to include
  - o reimbursement of expenditure or cost subject to such conditions as may be prescribed
  - o amount retained by lottery distributor or selling agent from gross amount of lottery in addition to fee or commission
- Section 73(1B) inserted to provide recovery of amount, mentioned in self assessed and declared return but not paid, without serving notice
- Section 73(4A) omitted on provision for reduced penalty in case of true and complete details maintained in specified books
- Section 76 amended to rationalize penalty in cases not involving Fraud, collusion, etc.
  - o Penalty not to exceed 10% of service tax amount
  - o If service tax and interest thereon paid within 30 days of receipt of notice, no penalty applicable
  - o If order confirmed and service tax, interest and reduced penalty paid within 30 days of receipt of order, penalty reduced to 25% of penalty so imposed
- Section 78 amended to rationalize penalty in cases involving fraud, collusion, etc.
  - o Penalty shall be 100% of service tax amount
  - o If service tax, interest and reduced penalty paid within 30 days from receipt of notice, penalty to be reduced to 15% of service tax
  - o If order confirmed and service tax, interest and penalty paid within 30 days from receipt of order, penalty to be equal to 25% of service tax
- Section 80 omitted on waiver of penalty if reasonable cause for failure provided
- Section 86 amended to prescribe that remedy against the order passed by Commissioner (Appeal) in matter involving rebate of service tax shall be dealt as per section 35EE of Central Excise Act, 1944

CENVAT Credit Rules

- CENVAT credit allowed on payment of service tax of services where service tax is payable on partial reverse charge mechanism. (Earlier requirement to make payment of services along with service tax now done away with) (w.e.f. 01-Apr-2015)
- Time limit extended from 6 months to 1 year for taking CENVAT credit on inputs and input services (w.e.f. 01-Mar-2015);
- Importer dealers, who issues invoice on which CENVAT Credit can be taken, is now required to maintain accounts indicating that input or capital goods was supplied from stock on which duty was paid by producer or manufacturer of such input or capital goods (w.e.f. 01-Mar-2015)
- 'Export of Goods' defined, which means any goods taken out of India to a place outside India, allowing refund claim of CENVAT credit of taxes paid in case of export of goods (w.e.f. 01-Mar-2015)
- Recovery provisions has been inserted for wrong availment of CENVAT credit (w.e.f. 01-Mar-2015)
- Penalty provisions has been amended for wrong availment and utilization of CENVAT credit (effective from the date on which Finance Bill receives assent)
- Reversal of CENVAT Credit under Rule 6 now required for non – excisable goods as well. An Explanation to Rule 6(1) of the CCR has been inserted to provide that 'exempted goods' would also include 'non excisable' goods sold for a consideration

Job Worker provisions rationalized

- For goods sent to a job worker, invoice should specify manufacturer or service provider as buyer and job worker as consignee
- CENVAT credit, Job Worker (w.e.f. 01-Mar-2015)
  - Provisions amended to send inputs or capital goods directly to job worker's/multiple job worker's premises
  - Time limit increased from 180 days to 2 years for return of capital goods

Central Excise

A. Tariff:

- Standard ad valorem rate of ED is increased from 12.36% (including EC and SHEC) to 12.5% (subsumed EC and SHEC)

Dairy Products

- ED of 2% without CENVAT credit or 6% with CENVAT credit is levied on condensed milk put up in unit containers. MRP based assessment proposed with 30% abatement
- Condensed milk other than put up in unit containers continue to be exempt

Beverages

- ED increased from 12% to 18% on "waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured". Simultaneously, Additional ED of 5% withdrawn
- Goods, such as lemonade and other beverages brought under MRP based assessment with 35% abatement

Cigarettes, Tobacco etc.

- ED on cigarettes increased to 25% of length not exceeding 65mm and by 15% for other lengths including cigars, cheroots and cigarillos
- ED on cut tobacco increased from ` 60 per kg to ` 70 per kg.

Petroleum

- ED on HSD increased from 14% + ` 5 per litre to 14% + ` 15 per litre;
- Scheduled rate for Road Cess levied on Petrol and HSD increased from ` 2 per litre to ` 8 per litre - Effective rate increased from ` 2 per litre to ` 6 per litre

Footwear

- ED reduced from 12% to 6 % on leather footwear with MRP more than ` 1000 per pair.
- Abatement reduced for MRP based assessment from 35% to 25% on all footwear

Automobiles

- ED on chasis for ambulance reduced from 24% to 12.5%
- ED of 6% on specified goods for use in the manufacture of electricity operated vehicles and hybrid vehicles extended upto 31-Mar-2016

Other Chapters

- ED of 2% without CENVAT credit or 6% with CENVAT credit being levied on peanut butter
- Iced Tea notified under MRP based assessment with 30% abatement
- ED of 2% without CENVAT Credit or 12.5% with CENVAT credit extended to tablet computers
- Parts, components and accessories for use in manufacture of tablet computers and their sub-parts for use in manufacture of parts, components and accessories are fully exempted from ED
- ED on cements (CTH 2523 29) increased from ` 900 per tonne to ` 1000 per tonne
- Scheduled ED on sacks and bags (including cones) of plastics (CTH 3923 2100, 3923 29 10 and 3923 29 90) increased from 12% to 18%. Effective ED on sacks and bags [CTH 3923 21 00] other than for industrial use increased from 12% to 15%
- ED on Mobile handset including cellular phone changed from 1% without CENVAT credit or 6% with CENVAT credit to 1% without CENVAT credit or 12.5% with CENVAT credit
- ED NIL without CENVAT credit or 12.5% with CENVAT credit prescribed for solar water heater system

Clean Energy Cess

- Schedule rate of Clean Energy Cess, levied on coal, lignite and peat, is increased from ` 100 per tonne to ` 300 per tonne. Effective rate increased from ` 100 per tonne to ` 200 per tonne

Other Relief Measures

- Full exemption from ED extended to captively consumed intermediate compound coming into existence during the manufacture of Agarbattis;
- ED reduced from 12% to Nil on pig iron SG grade (CTH 7201 1000) and ferro-silicon-magnesium (CTH 7202 2900) for manufacture of cast components of wind operated electricity generators subject to certification by MNRE;
- ED levied on railway or tramway track construction material of iron and steel exempted retrospectively from 17-Mar-2012 to 2- Feb-2014, subject to condition that such rails have suffered ED and no CENVAT credit is availed
- Full exemption from ED extended to round copper wire and tine alloys for use in manufacture of PV ribbon for manufacture of solar PV cells and modules, subject to certification by DEITY
- ED is reduced from 12% to 6% on wafers for use in the manufacture of IC modules for smart cards

- ED reduced from 12% to 6% on all inputs for use in the manufacture of LED driver and MCPCB for LED lights, fixtures & LED Lamps. MRP based assessment prescribed for LED lights or fixtures including LED lamps with abatement of 35%
- ED being exempted on specified raw materials use in manufacture of pacemaker [CTH 9021 50 00].

Amendments in conditions for claiming exemptions

- In case of setting up of Ultra Mega Power Project under provisional certificate, period of BG or FD increased from 36 months to 42 months for the NIL rate of ED
- In case of setting up of Mega Power Project under provisional certificate, period of BG or FD increased from 36 months to 66 months for the NIL rate of ED

B. Non Tariff:

- Amendment to Production Capacity Based Excise Duty - Central Government empowered to specify more than one factor relevant to the production of notified goods where ED charge on basis of capacity of production
- Clarification provided in case of export of goods, the place of removal shall be the place where the property in the goods passes
- General penalty in certain cases has been increased from ` 2,000 to ` 5,000 (effective from the enactment of the Finance Bill, 2015)

Penalty provisions rationalized

(effective from enactment of Finance Bill, 2015)

Amendment in Section 11AC to rationalize the penalty provisions as follows:

o Cases not involving fraud, collusion etc., as under –

Situation	Amount of Penalty
Amount determined by Central Excise Officer u/s 11A(10)	Not exceeding 10% of duty determined or ` 5000/- whichever is higher
Duty and interest is paid before issue of SCN or within 30 days of issue of SCN	No penalty and all the proceedings will be deemed to be concluded

Duty and interest is paid within 30 days of communication of order by Central Excise Officer	25% of penalty determined under the order
Amount of duty gets reduced in appellate proceedings	Reduced amount of penalty as per the appellate order provided such reduced penalty should be paid within 30 days of such appellate order

o Cases involving fraud, collusion etc., as under –

Situation	**Amount of Penalty**
Amount determined by Central Excise Officer u/s 11A(10)	Penalty equal to the amount of duty.
Amount determined by Central Excise Officer u/s 11A(10) relating to the transactions recorded in the specified records for the period between 1 April 2011 up to the date of assent of Finance Bill, 2015	Penalty shall be 50% of the amount determined
Duty and interest is paid within 30 days of communication of SCN	15% of duty demanded and all the proceedings will be deemed to be concluded
Duty and interest is paid within 30 days of communication of order by Central Excise Officer	25% of the duty determined
Amount of duty gets reduced in appellate proceedings	Reduced amount of penalty as per the appellate order provided such reduced penalty should be paid within 30 days of such appellate order

KEY POLICY CHANGES IN FY 2014-15

A. Overseas Direct Investment

a) RBI has permitted, under prescribed conditions, issuance of warrants and partly paid equity shares under the automatic route subject to entry restriction and sectoral cap *(Circular No.3 of RBI dated 14-Jul- 2014)*

b) Remittance by resident individual under **Liberalized Remittance Scheme** proposed to be increased to USD 2,50,000 from USD 1,25,000 per financial year for any permitted capital and current account transaction or a combination of both (Bi-Monthly Monetary Policy Statement, RBI dated 03-Feb-2015)

c) RBI has permitted an Indian AIF, registered with SEBI, to invest overseas in terms of the provisions as are applicable in this respect to domestic Venture Capital Funds registered with SEBI

B. Foreign Direct Investment

a) Department of Industrial Policy & Promotion (DIPP) has reviewed the regulations for FDI in construction development sector by way of notification of Press Note 10 of 2014. Key features of Press Note 10 are as follows:-

- The phrase “serviced housing plot” has been replaced with “serviced plot” to give clarity that commercial plots are also covered;
- Minimum developed area of serviced plot of 10 hectares has been removed. Minimum built up area of 50,000 square meters has been reduced to minimum floor area of 20,000 square meters to encourage development of smaller projects. In case of a combination project, minimum floor area of 20,000 square meters is to be complied with;
- Minimum capitalization requirements have been reduced for Wholly Owned Subsidiary (WOS) to USD 5 million. Subsequent tranches of FDI can be brought upto 10 years of completion of project, whichever is earlier;
- The investor will be permitted to exit on completion of the project or after development of trunk infrastructure i.e roads, water supply, street lighting, drainage and sewerage;
- Repatriation/sale before completion from non-resident to non-resident to be considered by Foreign Investment Promotion Board (FIPB) on a case to case basis;

- The Indian investing company has been made responsible for all approvals. Earlier policy casted an obligation on investor as well;
- Condition of requirement of development of 50% of project within a period of 5 years has been removed;
- Minimum area development requirement and minimum capitalization would not be applicable to a project where 30% of total project cost is for low-cost affordable housing;
- It is clarified that 100% FDI is allowed in completed projects for operation and management of townships, mall/ shopping complexes, and business centres;

b) In defence sector, investment up to 49% under the government approval route has been permitted. This limit is composite and includes all kinds of foreign investments including FDI, FII, FPI, NRI, FVCI and QFI's.

c) FDI in railway infrastructure permitted up to 100% under the automatic route.

d) Other FDI amendments:-

Sector	**Existing Sectoral Cap and Route**	**Revised Sectoral Cap and Route**
Pharmaceuticals	a) Greenfield – 100% automatic b) Brownfield – 100% Government approval	a) Greenfield – 100% automatic; b) Brownfield – 100% Government approval FDI up to 100% permitted under automatic route for manufacturing of medical devices for both greenfield and brownfield projects
Insurance	Up to 26% under the automatic route	26% (FDI + FII/FPI + NRI) – automatic route (an ordinance has been passed to increase the FDI limit in insurance from 26% to 49% but the same needs concurrence from the Parliament

e) The Government has notified items which require industrial license. Any defence item which does not require industrial license would not fall under the defence sector for FDI purpose and hence, restrictions thereto will not be applicable.

C. Others

a) Prohibition on raising ECB's from overseas branches/subsidiaries of Indian banks for the purpose of refinance/repayment of rupee loans *(Circular No.129 of RBI dated 9-May-2014)*

b) AD category- I banks permitted to allow exporters having a minimum of three years' satisfactory track record to receive long term export advance up to a maximum tenor of 10 years to be utilized for execution of long term supply contracts for export of goods subject to conditions *(Circular No.132 of RBI dated 21-May-2014)*

c) AD category banks to permit transfer of assets of liaison office / branch office / project office of a foreign entity to its Wholly Owned Subsidiary / Joint Venture's in India subject to compliance with certain stipulations *(Circular No.142 of RBI dated 12-Jun-2014)*

d) The pricing guidelines with respect to issue/transfer of shares and convertible debentures of an Indian company to non-resident investor and vice-versa has been changed to "any internationally accepted pricing methodology" than erstwhile Discounted Cash Flow (DCF) method; (Circular No. 4 of RBI dated 15-Jul-2014)

e) Units located in SEZs, Status Holder Exporters, EOUs, Units in Electronic Hardware Technology Parks (EHTPs), Software Technology Parks (STPs) & Bio Technology Park (BTPs) shall realize and repatriate full value of goods/software/services within a period of nine months from the date of export *(Circular No.37 of RBI dated 20-Nov-2014)*

f) Capital account transactions with respect of equity (other than involving debt instruments) will now be regulated by the Central Government in consultation with RBI. (Finance Bill, 2015)

g) If any foreign exchange, foreign security, or any immovable property situated outside India is held in contravention of provisions of Foreign Exchange Management Act, 1999, then action may be taken for seizure and eventual confiscation of equivalent value of assets in India. Such contraventions shall also be liable for penalty and prosecution. (Finance Bill, 2015)

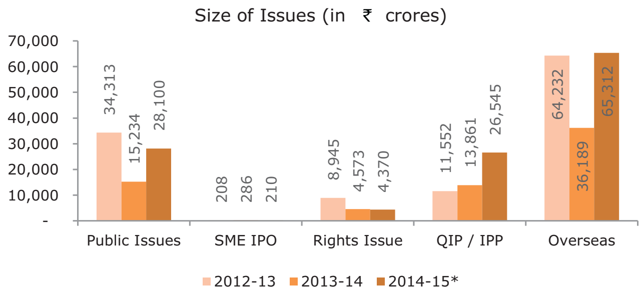
❑❑

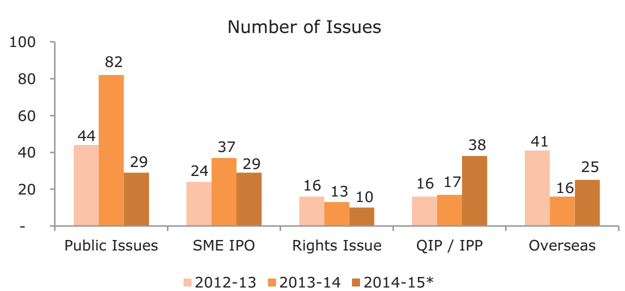
CAPITAL MARKET

Primary Markets

The ten months ended FY2015 has witnessed a revival in the otherwise declining trend of fund raising, which began in FY 2012 and continued till FY 2014. In value terms, although Indian companies raised a significantly lesser amount in FY 2014 vis-à-vis FY 2013, the amount of funds raised in FY 2015 is expected to bounce back to FY 2013 levels. The SME platform witnessed a few Initial Public Offerings (IPOs) in FY 2014 and we hope that the activity on this platform will increase in the coming years.

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 38 Large Cap companies came out with Qualified Institutional Placements (QIP)/Institutional Placement Programme (IPP) issues in the first ten months of FY 2015, raising more funds than entire FY 2013 and FY 2014 put together.





** Upto 31-Jan-2015*
Source: Prime Database

Secondary Markets

The FIIs, rechristened as Foreign Portfolio Investors (FPIs) in June last year by the current NDA government, have pumped in a staggering (net inflows) ` 94,716 crore during the period Apr'14 – Feb'15 as compared to ` 59,377 in the corresponding period of FY 2013-14. The net inflows from FIIs or FPIs have been the main driver of the Indian Equity Markets and have helped the benchmark BSE Sensex push up by 27% in dollar terms and 30% in rupee terms. In addition, the markets have been volatile, the current financial year saw the Sensex reaching all-time high of 29,844 (30-Jan-2015) and a low of 22,197 (07-Apr-2014).

The mutual fund industry has registered an increase of 15% in the market value of its Assets Under Management (AUM) during the nine months ended FY 2014-15 with the AUM approximately at ` 1,051,343 crore as on December 31, 2014 as against ` 9,10,795 crore as on March 31, 2014.

M&A and PE Activity

Both Merger & Acquisition (M&A) and Private Equity (PE) deals that saw a dip in CY 2013 vis-à-vis CY 2012, is expected to revive in CY 2015

The key highlight for domestic and inbound deals in CY 2014 is the increasing confidence of the global players in India's growth story. Domestic M&A deals are mainly driven by the consolidation wave with Sun Pharma acquiring Ranbaxy, ING Vysya merging with Kotak, Flipkart buying Myntra and a few large power sector mergers and acquisitions.

While the value of outbound deals in India witnessed a downfall, there was an increase in the value of inbound deals during nine months ended CY 2014. A brief summary is as follows:

` Crore

Deal Summary Year	**Volume**		**Value**		**Avg. Deal Size**	
	CY 2013	**CY 2014***	**CY 2013**	**CY 2014***	**CY 2013**	**CY 2014***
Domestic	220	194	35,514	58,302	161	301
Cross Border						
Inbound	139	129	53,385	58,188	384	451
Outbound	82	85	57,135	30,534	697	359
Mergers & Internal Restructuring	59	33	28,083	19,878	476	602
Total M & A	**500**	**441**	**174,117**	**1,66,902**		

*Note: * denotes nine months ended September 2014*

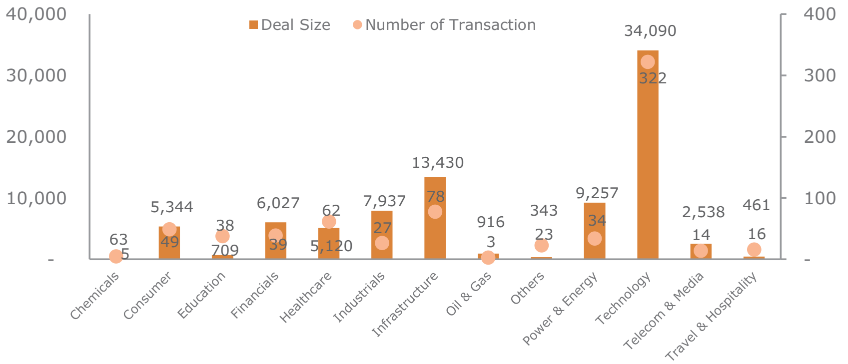
The increase in inbound deal activity was mainly due to several MNCs increasing their holdings in Indian units through the market route or indirect restructuring.

The number of PE deals saw a drop of 10% in terms of number of deals, however there was an increase of 19% in terms of value.

` *Crore*

Deal Summary	Volume*		Value	
	CY 2013	CY 2014	CY 2013	CY 2014
Venture Capital	421	277	3,308	11,397
Private Equity	367	433	69,005	74,838
Total	**788**	**710**	**72,314**	**86,234**

*Note: * 264 deals and 364 deals reported in CY 2013 and CY 2014 respectively did not have deal sizes reported.* Following is a chart showing PE deals by sector: Technology, Infrastructure, Financials, Consumer and Healthcare dominates the PE deals collectively representing over 74% of the total deal value in CY 2014



Source: Dealcurry

Debt Markets

The benchmark 5 year and 10 year treasury yields have reduced in FY 2014-15 and the FIMMDA (Fixed Income Money Market and Derivatives Association of India) credit spreads also narrowed overall. As of 27-Feb-2015, the G Sec – 5 year and 10 year yields reduced by 109 basis points and 108 basis points respectively from 31-Mar-2014.

Particulars	5 year		10 year	
	Mar-14	Mar-15*	Mar-14	Mar-15*
G sec	8.87%	7.78%	8.81%	7.73%
AAA Spread (bps)	68	52	64	52
AA+ Spread (bps)	74	67	75	63
AA Spread (bps)	95	96	94	104

*Note: * As on 27-Feb-2015*
Source: FIMMDA

There was a dip in the public issue, private placement and commercial paper of debt witnessed in the F.Y. 2014-15 as depicted in the table below.

Particulars	FY 2013-14		FY 2014-15*	
	No.	Value	No.	Value
Public Issues*	35	42,383	20	8,075
Private Placement#	1,475	270,997	1360	324,266
Commercial Paper#	4,546	417,729	3,047	344,922
Total	**6,056**	**731,109**	**4,427**	**677,263**

*Note: * As on 31-Jan-2015;*
 # As on 18-Feb-2015;
Source: Prime Database

Budget Proposals

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

1. Forward Market Commission to be merged with SEBI.
2. Deeper penetration of the Indian Bond Market.
3. National Investment and Infrastructure Fund to aid infrastructure finance companies by means of raising debt.
4. Strategic disinvestments and disinvesting loss making units.
5. Floating of tax free infrastructure bonds for projects in rail, road and irrigation sectors.
6. Contemplation in Parliament on Indian Financial Code.
7. Allowance of “Tax Pass through” to Category I and Category II AIFs. Also, allowance of foreign investments in AIFs.

8. Allowance of "Pass through" facility for rental income from owned assets of REITs. Waiving of capital gains tax for sponsors exiting at the time of listing of REITS / InvITs.

9. To address consumer grievances, a proposal to establish sector-neutral financial redressal agency be considered.

10. IT companies be provided with liberal system for raising global capital.

11. To provide tax neutrality on transfer of a scheme of a mutual fund under the process of consolidation of schemes of mutual funds, amendment is made in the Income Tax Act, 1961.

12. Income of Core Settlement Guarantee Fund established by clearing corporation be exempted.

13. The period of applicability of reduced rate of tax @ 5% in respect of foreign investors (FIIs and QFIs) from corporate bonds and government securities has been extended from 31-May-2015 to 30-Jun-2017 by way of amendment to Sec 194LD of the Income Tax Act, 1961.

❑❑

SECTORAL ANALYSIS

Banking, Finance & Insurance — Positive

Budget Proposals

- SICA and BIFR to be replaced by a comprehensive Bankruptcy Code of Global Standard
- RBI registered NBFCs with an asset size of ` 500 crore and above to be classified as Financial Institution as per SARFAESI Act, 2002
- Creation of MUDRA Bank, with a corpus of ` 20,000 crore, and Credit Guarantee Corpus of ` 3,000 crore. MUDRA to refinance Micro-Finance Institutions (MFIs)
- To launch Pradhan Mantri Suraksha Bima Yojna that will cover accidental death risk of ` 2,00,000 for a premium of just ` 12 per year
- Emphasis on covering every citizen with some form of health insurance

Impact

- Reforms in recovery and quicker dispute resolution mechanism would improve the health of the financial sector
- Big boost to NBFC sector in terms of recovering the bad loans
- Refinancing facility of MFIs would enhance their balance sheet size

Real Estate — Positive

Budget Proposals

- Housing for all by the year 2022, by creating 6 crore additional housing units
- Rationalisation of capital gains regime for the sponsors exiting at the time of listing of the units of REITs
- Rental income of REIT from their own assets will have a pass through facility

Impact

- The move would help to liquidate the investment in the projects
- Favorable tax regime would attract much needed additional investments

Infrastructure Positive

Budget Proposals

- Postponing fiscal deficit target by a year and utilizing the released funds shows seriousness of improving infrastructure developments
- Thrust on infrastructure spending especially roads and railways with increase outlay of ` 14,031 crore and ` 10,050 crore, respectively
- To establish National Investment and Infrastructure Fund (NIIF) of ` 20,000 crore to invest in infrastructure finance companies
- Tax free infrastructure bonds to be issued for the projects in the rail, road and irrigation sectors
- Government to consider plug-and-play projects for infrastructure projects such as road, rail, port, airport etc.
- Increased FDI cap in Railway infrastructure
- Conversion of existing excise duty on Petrol and Diesel of upto ` 4 per litre to Road Cess to fund roads and other infrastructure (approx. ` 40,000 crore)
- Revisit and revitalize Public Private Partnership (PPP) mode of infrastructure development
- Corporatisation of Public Sector Ports

Impact

- Availability of Infrastructure funds will be a big boon to the sector and will accelerate the growth but implementation would be the key
- Conducive environment and availability of funding would attract investments from Private players

Agriculture Positive

Budget Proposals

- Emphasis on improving soil and water productivity
- Creation of Unified National Agriculture Market

- Allocation of ` 5,300 crore to support micro-irrigation, watershed development and the Pradhan Mantri Krishi Sinchai Yojana
- Allocation of ` 25,000 crore to Rural Infrastructure Development Fund, ` 15,000 crore for Long Term Rural Credit Fund, ` 45,000 crore for Short Term Cooperative Rural Credit Refinance Fund and ` 15,000 crore for Short Term RRB Refinance Fund
- Target of ` 8,50,000 crore of agriculture credit during the year
- Service tax exemption on certain pre cold storage services in relation to fruits and vegetables
- Service tax exemption on transportation of 'food stuff' by rail, road or vessels limited to transportation of food grains including rice, milk, pulses, flours and salt only

Impact

- Improved soil fertility will increase the agri output
- Better irrigation facilities and micro irrigation will help improve the crop yields

Power

Positive

Budget Proposals

- Electrification of remaining 20,000 villages by off-grid solar power generation by 2020
- To setup 5 Ultra Mega Power Project of 4,000 MW each on plug and play basis
- Revision of renewable energy capacity target to 1,75,000 MW by 2022
- Reduction in basic custom duty for Active Energy Controller for use in the manufacturing of Renewable Power System Inverters to 5%
- Nil excise duty on Pig iron SG grade and Ferro-silicon-magnesium for use in wind operated electricity generators,
- Increase in Clean Energy Cess on coal from ` 100 to ` 200 per tonne

Impact

- Revised target for renewable energy project will lead to increase in investment in both solar power and wind power generating assets

- Reduction in duties would reduce the capital cost marginally for renewable energy projects
- Increase in cess on coal would marginally increase the input cost on power generation

Other sectors Neutral

Budget Proposals

- **Gems and Jewellery**
  - Introduction of Gold Monetization Scheme to replace Gold Deposit and Gold Metal Loan Scheme
  - Investors to earn interest in metal account and jewellers / jewellery manufacturers to obtain loans in metal account
  - Develop Indian Gold Coin aimed to reduce demand for coins minted outside India and to recycle gold available in country
- **Iron and Steel**
  - Increase in BCD on iron & steel articles from 10% to 15%
  - Reduction in SAD on metal scrap on iron & steel, copper, brass and aluminum from 4% to 2%
- **Telecom**
  - Increase in excise duty on mobile handsets (which costs above ` 2,000/-) from 6% to 12.5% (with CENVAT)
  - Allow States to undertake execution (on reimbursement basis) to speed up National Optical Fibre Network Programme of 7.5 lakh kms networking covering 2.5 lakh villages

Impact

- Encourage investments in Gold through metal account and Indian Gold Coin to improve availability of gold locally
- Increase in custom duty on iron & steel will support the domestic players
- Speed up of NOFMP to improve subscriber base in rural India

ABBREVIATIONS

AD	Authorised Dealer
AIF	Alternate Investment Funds
AMT	Alternative Minimum Tax
AOP	Association of Persons
AUM	Assets Under Management
AY	Assessment Year
BCD	Basic Custom Duty
BED	Basic Excise Duty
BIFR	Board for Industrial and Financial Reconstruction
BOI	Body of Individuals
CAGR	Compounded Annual Growth Rate
CBDT	Central Board of Direct Tax
CCR	CENVAT Credit Rules
CE	Central Excise
CENVAT	Central Value Added Tax
CIT	Commissioner of Income Tax
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CSR	Corporate Social Responsibility
CTH	Customs Tariff Heading
CVD	Countervailing Duty
CY	Calendar Year
DDT	Dividend Distribution Tax
EC	Education Cess
ECB	External Commercial Borrowings
ED	Excise Duty
EOU	Export Oriented Units
EPF	Employee Provident Fund
FDI	Foreign Direct Investment
FII	Foreign Institutional Investors
FM	Finance Minister
FPI	Foreign Portfolio Investors
FY	Financial Year
GAAR	General Anti-Avoidance Rule
GDP	Gross Domestic Product
HDPE	High Density Poly Ethylene

HSD	High Speed Diesel
HUF	Hindu Undivided Family
InviT	Infrastructure Investment Trusts
IPO	Initial Public Offering
ITAT	Income Tax Appellant Tribunal
JV	Joint Venture
LIC	Life Insurance Corporation
LLP	Limited Liability Partnership
M&A	Mergers & Acquisitions
MAT	Minimum Alternate Tax
MUDRA	Micro Units Development Refinance Agency
NBFC	Non Banking Financial Companies
NFCDA	National Fund for Control of Drug Abuse
PCB	Printed Circuit Boards
PE	Private Equity
PF	Provident Fund
QFI	Qualified Financial Institutions
QIP	Qualified Institutional Placement
RBI	Reserve Bank of India
REIT	Real Estate Investment Trusts
SAD	Special Additional Duty
SARFESI	The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act
SEBI	Securities Exchanges Board of India
SHEC	Secondary and Higher Education Cess
SICA	Sick Industrial Companies Act
SME	Small & Medium Enterprises
STCG	Short Term Capital Gain
STT	Securities Transaction Tax
TAN	Tax Deduction Account Number
TCS	Tax Collected at Source
TDS	Tax Deducted at Source
U/s.	Under section
VCC	Venture Capital Company
VCF	Venture Capital Fund
W.e.f.	With effect from
W.r.e.f.	With retrospective effect from
WOS	Wholly Owned Subsidiary
WPI	Wholesale Price Index

NOTES

NOTES

NOTES

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@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, Telly 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