

UNION BUDGET

2016-2017

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- CA Abhishek Nagori

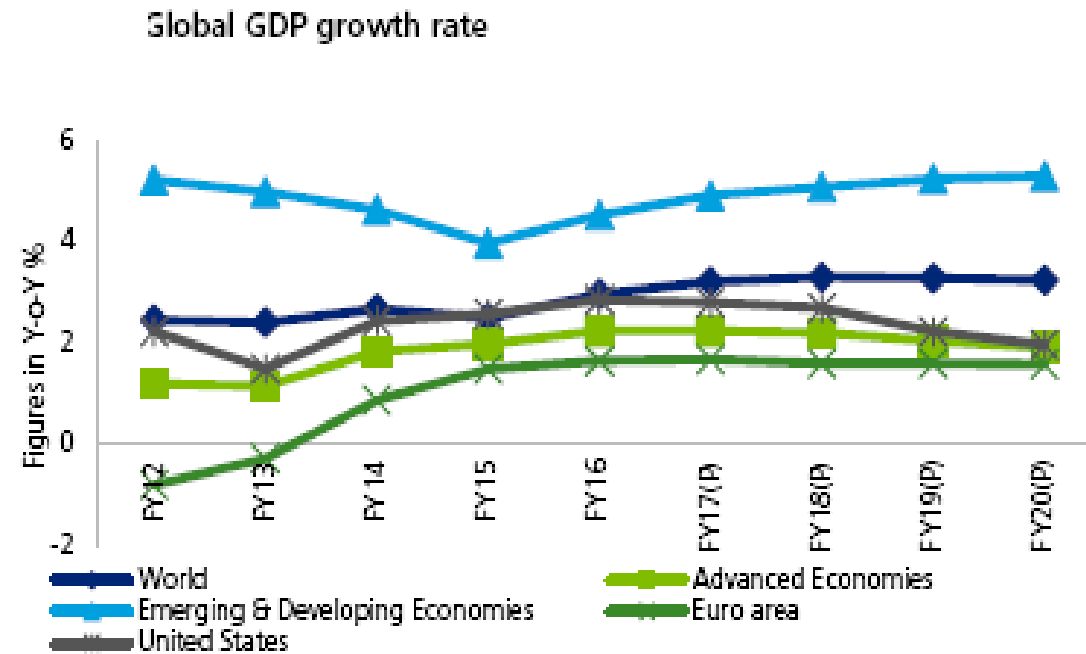
How is this budget challenging ?

- Stakeholders
- Mixed feelings
- Diversified segments and sectors
- Initial reading → fine reading



Socio-Economic Background

- GDP Growth Rate – 7.6%
(Global Rate 3.1%)
- Fiscal Deficit – 3.9%
- CPI Index- (5-4% as compared to 9.4% in last three years).



We are more privatized than developed economies



- **'Family system' is privatization of social security**
- **Savings ratio of Indians is high**

10 Year \$ Vs INR

INR per 1 USD

23 Feb 2006 00:00 UTC - 20 Feb 2016 11:00 UTC

USD/INR close:68.72900 low:39.11000 high:68.85654



5 YEAR GOLD IN INR

5 Year Gold Price in INR/g

Last Close: 2665.94

High: 3146.97 Low: 2020.11 ▲634.72 31.25%



goldprice.org

Monday, February 22, 2016

CRUDE OIL PRICE

Crude Oil Price

34.38 USD/bbl

23 Feb '16



InfoMine.com

SENSEX 5 YEAR TREND

SENSEX

1M

Multiple

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Chart

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SENSEX : BSE

etmarkets.com



28677.00
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26939.00
26070.00
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23410.18
22594.00
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20856.00
19987.00
19118.00
18249.00
17380.00
16511.00
15642.00



CHARTIQ

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2011 2012 2013 2014 2015 2016

1D 5D 1M 3M 6M YTD 1Y 2Y 3Y 5Y 10Y

Personal Taxation

- Rates unchanged



- Surcharge on income above Rs. 1 crores increased to 15%



- Tax Rebate Section 87A- increased from Rs. 2,000 to Rs, 5000 for certain assesseees



PERSONAL INCOME TAX RATES OF MAJOR ECONOMIES

List of Countries by Personal Income Tax Rate

	Last ↓↑		Previous	Highest	Lowest				
United States	39.60	Dec/15	39.6	39.6	35	%	Yearly		
Euro area	42.30	Dec/14	▼	44.5	49	40.8	%	Yearly	
China	45.00	Dec/14	45	45	45	%	Yearly		
Japan	50.84	Dec/14	50.84	50.84	50	%	Yearly		
Germany	47.50	Dec/14	47.5	57	44.3	%	Yearly		
United Kingdom	45.00	Dec/14	45	50	40	%	Yearly		
France	50.30	Dec/14	50.3	59.6	45.8	%	Yearly		
Brazil	27.50	Dec/14	27.5	27.5	27.5	%	Yearly		
Italy	47.90	Dec/14	▲	47.3	51	44.1	%	Yearly	
India	33.99	Dec/14	33.99	33.99	30	%	Yearly		
Russia	13.00	Dec/15	13	13	13	%	Yearly		
Canada	29.00	Dec/14	29	29	29	%	Yearly		
Australia	47.00	Dec/16	▲	45	47	45	%	Yearly	
South Korea	38.00	Dec/14	38	38	35	%	Yearly		
Spain	52.00	Dec/14	52	56	43	%	Yearly		
Mexico	30.00	Dec/14	30	33	28	%	Yearly		
Indonesia	30.00	Dec/14	30	35	30	%	Yearly		
Netherlands	52.00	Dec/14	52	60	52	%	Yearly		

Tax incentives to Gold Monetization Scheme- 2015

- Deposit Certificates will be exempt from Capital Gains
- Interest on Deposit Certificates will be exempt from Income Tax

Investors



- Private Limited company shares also are “securities” for concessional LTCG Rate



- Consolidation of ‘plans’ within ‘scheme’ of mutual fund

Investors



-
- Requirement to file Income Tax Return within due date for assessee claiming exempt LTCG income on sale of shares
 - Dividend Income above Rs. 10 lacs
(Individuals and HUF) – additional tax- 10%

How Budget will impact your Provident Fund ?



- RPF /EPF (EET)
- NPS (EET)
- PPF (EEE)
- GPF (EEE)

Affordable housing

- **Section 80GG-** Deduction for rent paid (limit increased from Rs. 2000 p.m. to **Rs. 5,000 p.m.**)
- **Section 80 EE** – additional interest of **Rs. 50,000** ('first –home buyers)
- **Section 24** – construction can now be completed in **5 years**
- **Benefit to developers** – **100% deduction on certain projects**



Immovable property – Valuation on sale

- Section 50C- Stamp Duty valuation as base for value of property sold for calculating LTCG
- Cases covered where agreement entered into at earlier date
- Value as on date of agreement can be taken
- Certain conditions

Tax Collected AT Source- TCS Scope expanded



- Purchasing luxury cars can drive you to doors of taxmann
- Cash purchases- of goods and services

Rationalization in TDS provisions

- Some tinkering done
- Payment to contractors- no TDS up-to Rs. 1 lacs
- Payment of brokerage or commission- Rs. 15,000 and rate reduced to 5%



Corporate Tax regime



- Rates unchanged, except -
- **SME** – 29% (domestic companies having a total turnover or gross receipts up to **Rs. 5 crore.**) -
- **Newly set-up domestic manufacturing companies** incorporated on or after 1 March 2016 can opt to be taxed at 25%, provided they do not claim any profit-linked incentives, investment-linked incentives, accelerated depreciation, investment allowance, expenditure on scientific research and certain deductions covered under Chapter VI-A. (**all income of entity taxed at reduced rates**)

20 HIGHEST CORPORATE TAX LEVYING COUNTRIES

Table 1. Twenty Highest Top Marginal Corporate Tax Rates in the World

Country	Top Rate	Region
United Arab Emirates	55.0%	Asia
Chad	40.0%	Africa
Puerto Rico	39.0%	North America
United States	39.0%	North America
Argentina	35.0%	South America
Congo, The Democratic Republic Of The	35.0%	Africa
Equatorial Guinea	35.0%	Africa
Malta	35.0%	Europe
Sudan	35.0%	Africa
Virgin Islands, U.S.	35.0%	North America
Zambia	35.0%	Africa
India	34.6%	Asia
Sint Maarten	34.5%	North America
Suriname	34.5%	South America
France	34.4%	Europe
Brazil	34.0%	South America
Venezuela	34.0%	South America
Belgium	34.0%	Europe
Saint Lucia	33.3%	North America
Cameroon	33.0%	Africa
Worldwide Average	22.9%	N/A

Phasing out plan – for tax exemptions and tax incentives

- Profit linked, investment linked, area based deductions will be phased out
- Provisions already having sunset clause, will not be extended
- Sunset clauses inserted in some Sections
- Next few slides contains summary of those provisions

Phasing out plan – for tax exemptions and tax incentives

Phasing out of tax holidays

Currently, tax holiday to the extent of 100% of profits derived by industrial undertakings/ enterprises engaged in:

- development, operation and maintenance of an infrastructure facility (section 80-IA);
- development of SEZ (section 80-IAB); and
- production of mineral oil and natural gas [section 80-IB(9)].

Phasing out of accelerated depreciation : As per the existing provisions, accelerated depreciation is provided to certain industrial sectors at the rate of 100%. As a part of the phasing out proposals, it is proposed to restrict such accelerated depreciation to 40% of the block of assets (for both old and new assets).

Phasing out plan – for tax exemptions and tax incentives

Sr. No.	Section	Current Provisions	Proposed amendments
1.	Sum paid to specified research associations [section 35(1)(ii)]	Weighted deduction of 175%	Weighted deduction proposed to be restricted to 150% for financial years 2017-18 to 2019-20 Deduction proposed to be restricted to 100% from financial year 2020-21 onwards
2.	Sum paid to an approved scientific research company [section 35(1)(ia)] Sum paid to approved social science or statistical research association or university or college or other institution [section 35(1)(iii)]	Weighted deduction of 125%	Deduction proposed to be restricted to 100% from financial year 2017-18 onwards

Phasing out plan – for tax exemptions and tax incentives

Sr. No.	Section	Current Provisions	Proposed amendments
3.	<p>Sum paid to National Laboratory, Indian institute of Technology of scientific research or University [section 35(2AA)]</p> <p>Expenditure on scientific research by company engaged in bio-technology or specified article or approved in-house research and development facility [section 35(2AB)]</p>	Weighted deduction of 200%	<p>Weighted deduction proposed to be restricted to 150% for financial years 2017-18 to 2019-20.</p> <p>Deduction proposed to be restricted to 100% from financial year 2020-21 onwards</p>
4.	Expenditure on eligible social development projects or schemes (section 35AC)	Deduction for payment of any sum to a public sector company or a local authority or to an association or institution approved by the National Committee for carrying out any eligible project	Deduction proposed to be removed from the financial year 2017-18

Phasing out plan – for tax exemptions and tax incentives

Sr. No.	Section	Current Provisions	Proposed amendments
5.	Investment linked deduction in case of a cold chain facility, warehousing facility for storage of agricultural produce, an affordable housing project, production of fertilizer and building and operating hospitals (section 35AD)	Weighted deduction of 150% for capital expenditure (other than expenditure on land, goodwill and financial assets)	<p>Deduction proposed to be restricted to 100% of capital expenditure from financial year 2017-18 onwards.</p> <p>It is proposed to extend the deduction to the business of developing or maintaining and operating or developing, maintaining and operating a new infrastructure facility as defined therein (i.e. road, highway project, water supply project, port, etc.) and subject to specified conditions.</p> <p>The proposed amendment will be applicable from financial year 2017-18</p>
6.	Expenditure incurred on notified agricultural extension project. (section 35CCQ)	Weighted deduction of 150% of expenditure	Deduction proposed to be restricted to 100% of expenditure from financial year 2017-18 onwards

Phasing out plan – for tax exemptions and tax incentives

Sr. No.	Section	Current Provisions	Proposed amendments
7.	Expenditure incurred (not being expenditure in the nature of cost of any land or building) by a company on any notified skill development project (section 35CCD)	Weighted deduction of 150% of expenditure	Deduction proposed to be restricted to 100% of expenditure from financial year 2020-21 onwards

Tax incentive for employment generation

- 30% deduction of ‘additional wages’ paid to ‘new employees’
- Scope of benefit available under existing Section 80JJAA widened

Existing provision	Proposed amendment
Benefit available to manufacturing entity	Benefit available to all sectors
“workmen” only	All employees (paid total emoluments up-to Rs. 25,000/- per month)
Employed for minimum 300 days	Employed for minimum 240 days
10% increase in workforce	No such requirement



Measures to Attract Investment

- FDI relaxations
- Friendly and certain tax regime
- POEM postponed for one more year
- GAAR from 01.04.2017



Measures to Attract Investments – Start Ups



- **Tax incentives for ‘start-ups’**
- 100% deduction of profit in 3 out of first 5 years
- Set-up during 01.04.2016 to 31.03.2019
- Certain conditions and restrictions
- Improvement required in scheme

Sale property and start new business



- Sale proceeds of residential property invested in equity shares of new company (SME) – no capital gains (Section 54GB)
- Now investment in start up also eligible
- Eligible “assets” that can be purchased by company now includes computer and software

Special Patent Regime



- Patent developed and registered in India
- Income from exploiting patent
- 10% special rate
- MAT benefits



Equalization levy

- E-commerce – special nature and characteristics
- OECD recommendations (BEPS Action Plan)
- “Virtual Fixed Place of business” PE
- 6% levy on B2B transactions (exceeding Rs. 1 lacs in a year)



Non-PAN cases – non resident payee

- Section 206AA – leading to higher rate of TDS
- Relaxation in cases of payments being made to residents



BEPS Initiatives- CbCR

- OECD Report on Base Erosion and Profit Shifting Action Plan
- Country by Country Reporting - applicable to Multi National Groups having consolidated revenue of more than EUR 750 million
- Master File
- Local File



Income from business or profession

- **Non Compete Fees for not carrying profession Taxable as income form ‘business or profession’**
- **Payments to Railways- to be allowed on actual payment basis**

Schemes – Presumptive Taxation Scheme

- Section 44AD- turnover limit increased from Rs. 1 crores to Rs. 2 crores.
- Extended to professionals (Section 44ADA)– upto turnover Rs. 50 lacs
- Declare profit as prescribed and no need to maintain books and no need to get accounts audited



Schemes – Presumptive Taxation Scheme

- Is it really a relaxation ?
- Rate of profit for professionals 50%
- Rate of profit for business 8%



Measures Reducing litigation and providing certainty in the tax regimes

- Promise to avoid retrospective amendments in Budget 2014 , kept
- In fact, retrospective amendment made- beneficial to assessee



Measures Reducing litigation and providing certainty in the tax regimes

- **Dispute Resolution Scheme- 2016**

- 3 lacs tax litigation cases at first appellate authority [CIT (A)] – Rs 5.5 lacs crores tax arrears are blocked in litigation

“Tax Arrears”

- Pay tax and interest up-to date of assessment – no penalty for tax arrears up-to 10 lacs , then 25% of tax is penalty
- Penalty appeals- pay 25% of penalty amount
- Conditions- withdraw appeals
- Immunity from prosecution
- Certain categories not eligible



Measures Reducing litigation and providing certainty in the tax regimes

- Dispute Resolution Scheme- 2016

- “Specified Tax”

- Arrear due to retrospective amendments
- Pay tax
- no interest and no penalty
- Conditions- withdraw appeals and other proceedings and undertaking
- Immunity from prosecution
- Certain categories not eligible

Compliance window- to come clean

- Income Disclosure Scheme- 2016 (VDIS in new *avatar*)
- Pay 45 % (30% tax, 7.5% Krishi Kalyan Surcharge and 7.5% penalty)
- No scrutiny, no inquiry
- No penalty, no prosecution
- Starting 1-6-16
- Certain categories not eligible
- Pay dues in time else no benefit of scheme



Penalty Provisions- for concealment of income

- Existing Section 271(1)(c) – had discretionary power
- Now new **Section 270A**
- “under reporting of income”- penalty at 50% of tax sought to be evaded
- “misreporting of income” – penalty at 200%

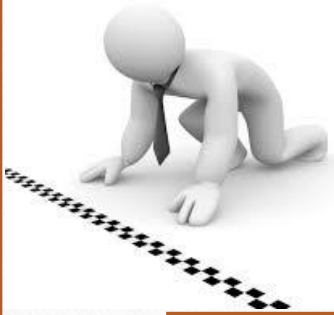
Section 270AA- Immunity from penalty and prosecution

- a welcome provision !

Expenses incurred for earning exempted income

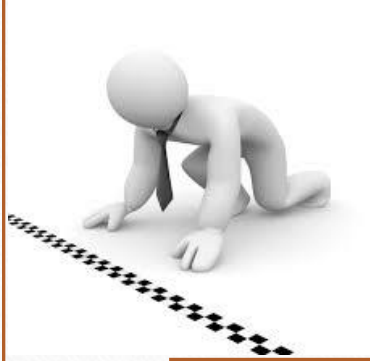
- Section 14A- Rule 8D
- Amendment proposed to limit disallowance
- 1% of avg. monthly value of investments; and
- Not exceeding the actual expenditure claimed





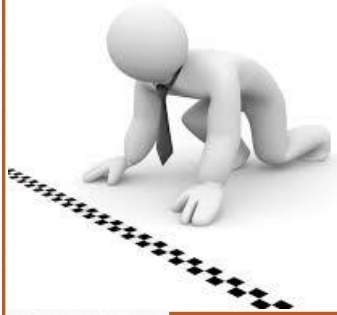
Procedural relaxations

- Belated return can be revised
- **Now belated return can be filed within
Assessment year only**



Administrative Reforms

- Adjustments while processing
- E-notices
- E-Assessment



Administrative Reforms

- Time limits for completing Assessment and re-assessment reduced
- If appeal effect order not passed by AO within 90 days- then additional interest @3%

Any Questions



Thank You

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