Budget 2015 - Highlights

Income Tax

Personal Taxation:

Taxation slabs:

For Individuals, HUF, AOP and Artificial Jurisdiction Person:

- There is no change in the basic exemption limit and tax slabs including education cess.
- It is proposed to increase surcharge on income above Rs. 1 crore, from 10% to 12%.
- The basic exemption limit remained same for senior citizens at Rs. 3,00,000/- and for Very Senior Citizens is of Rs. 500,000/-.

The effective rate of income tax for the Financial Year 2015 – 16 will be as per below chart:

Income levels	Individual / HUF / AOP / BOI	Senior Citizens (Age 60 – 80 years)	Very Senior Citizens (Age 80 years and above)
Up to 250,000	Nil	Nil	Nil
250,001 – 300,000	10.30%	Nil	Nil
300,001 – 500,000	10.30%	10.30%	Nil
500,001 – 1,000,000	20.60%	20.60%	20.60%
10,00,001 – 10,000,000	30.90%	30.90%	30.90%
Above 10,000,000	34.608%	34.608%	34.608%

Conveyance Allowance:

The exemption limit of conveyance allowance is increased from Rs. 800/- per month to Rs. 1,600/- per month.

Flexibility in saving schemes and enhanced deduction:

The overall ceiling of deductions available under section 80C, 80CCC and 80CCD is Rs. 150,000/-. Amendments are made in these sections to allow certain flexibility in investments made in these saving schemes.

Deposit in Sukanya Samriddhi Scheme:

Currently, investment made in Sukanya Samriddhi Scheme is available for deduction under section 80C subject to over all limit of Rs. 150,000/-.

It is proposed that such subscription can also be made in the name of girl child of the tax payer. It is further proposed that the income derived from such account will be exempt from tax.

Contribution to certain Pension Fund:

It is proposed to increase the limit of contribution to certain Pension funds under section 80CCC from Rs. 100,000/- to Rs. 150,000/-.

Contribution to Pension Scheme:

Currently, deduction under section 80CCD in respect of contribution to notified Pension Scheme is available up to 10% of the Salary or 10% of the Gross Total Income subject to limit of Rs. 100,000/-.

Such limit is now proposed to be removed. It is further proposed that an additional Rs. 50,000/- be available for deduction under this scheme. Accordingly, the limit of investment made under section 80CCD is increased to Rs. 150,000/-.

Health Insurance Premium:

The deduction under section 80D of health insurance premium paid for self and family is enhanced from Rs. 15,000/- to Rs. 25,000/-.

Further, for senior citizens, this limit is proposed to be enhanced from Rs. 20,000/- to Rs. 30,000/-.

It is further proposed to allow deduction of Rs. 30,000/- for amount spent on medical expenditure of very senior citizen for whom no health premium is paid.

Deduction for dependent person with disability – Section 80DD:

Currently, deduction is allowed for medical expenditure, training and rehabilitation of a dependent person with disability of Rs. 50,000/- and severe disability of Rs. 100,000/-. The said limits are proposed to be increased to Rs. 75,000/- and Rs. 125,000/- respectively.

Deduction in respect of medical treatment – Section 80DDB:

Currently, if expenditure is incurred towards medical treatment of self or dependent, a deduction of up to Rs. 40,000/- was allowed (For senior citizens, the limit is Rs. 60,000/-) subject to a certificate being obtained from a specialist and attached with the Return of Income.

Though the above limits are kept same, the limit in respect of expenditure incurred for very senior citizen is increased to Rs. 80,000/-. It is further proposed to do away with certificate and prescription to be obtained from specialist.

Introduction of new schemes for Donation under section 80G:

A deduction of 100% will be allowed if donations are made in the following schemes:

1. National Fund for control of drug abuse;
2. Swachh Bharat Kosh except for funds spent in pursuance of CSR under The Companies Act 2013;
3. Clean Ganga Fund except for funds spent in pursuance of CSR under The Companies Act 2013.

Collation of Proof by the employer while calculating TDS on Salary:

While calculating the TDS on Salary, there is no uniformity regarding documents to be collated from employees for allowing deductions, exemptions, set-off of losses etc.

It is now proposed that the employer will have to obtain documents in specified format before allowing any deduction, exemption and set-off of losses.

TDS on pre-mature withdrawal of money from Employees Provident Fund Scheme.

If an employee makes premature withdrawal before continuous service of 5 years, the amount withdrawn is to be treated as taxable income and tax has to be deducted by re-computing the tax liability of the years for which the contribution to the RPF was made.

A new Section 192A is proposed to be introduced that provides for TDS of 10% on such premature withdrawal provided the amount withdrawn exceeds Rs. 30,000/-. However, if

PAN is not furnished, the tax will be deducted at maximum marginal rate of 34.608%. The deductee can however furnish Form 15G/15H for non-deduction of TDS. The amendment will be effective from 1st June 2015.

Abolition of Wealth Tax:

It is proposed to abolish Wealth Tax Act, 1957.

Corporate Tax

- There will be phased reduction of Corporate Tax from 30% to 25% over next four years starting from the next year. However, in the current year, no change in the Effective Rate of Tax for Companies.
- For Domestic companies and Partnership Firms, surcharge, wherever applicable, is proposed to be increased by 2%. No such increase is proposed for foreign Companies.

The effective rate of income tax for the Financial Year 2015 – 16 will be as per below chart:

Income levels	Partnership Firm	Domestic companies		Foreign Companies	
		Normal provision	MAT provision	Normal provision	MAT provision
Up to 1 crore	30.90%	30.90%	19.05%	41.20%	19.05%
1 crore – 10 crores	34.608%	33.063%	20.39%	42.024%	19.44%
Above 10 crores	34.608%	34.608%	21.34%	43.26%	20.01%

Deferment of General Anti Avoidance Rule (GAAR):

It is proposed that the GAAR provisions be deferred till 1st April 2018. It is further provided that the provisions of GAAR would be applicable only prospectively. This implies that the investments made before 31.03.2017 would get protection against GAAR provisions.

More relief in Additional Depreciation:

When an eligible assessee acquires and installs a new plant and machinery, additional depreciation is allowed @ 20% in that year. However, if such new asset is put to use for less than 180 days, only 10% is allowed as additional depreciation.

It is now proposed that the remaining 10% of additional depreciation will be available in the next year.

Deduction for employment of new workman – Sec. 80JJAA:

An additional deduction of 30% of the wages paid to new workman is available to resident Companies in case it employs more than 100 new workers in its manufacturing facility.

It is proposed to extend this benefit to non corporate assessees as well. The benefit is enhanced by allowing this deduction if the new workers employed are 50 instead of 100.

Rationalisation of MAT provisions:

It is proposed that the share of income of a Company from AOP on which no tax is payable and if it is credited to the Profit and Loss account, the same needs to be excluded for the purpose of calculating book profit as per MAT. The corresponding expenditure, if any, debited to the Profit and Loss account shall also be added back.

Formula for computing 'amount of tax sought to be evaded' introduced for the purpose of levy of penalty:

Presently, the amount of tax sought to be evaded has been defined to mean the difference between the tax due on income assessed and the tax due as per Return filed.

It is proposed that the amount of tax sought to be evaded shall be the summation of tax sought to be evaded as per normal provisions of the Act and/or tax sought to be evaded as per MAT provisions.

It is further proposed that where due to assessment, the loss is reduced, or converted into profit, the tax on such difference shall be treated as tax sought to be avoided.

Mode of accepting and repayment of certain loans and deposits and specified sums:

In order to curb generation of black money while dealing in cash in immovable property, it is proposed that no person shall accept or repay from or to any person any loan or deposit or any sum of money in relation to transfer of immovable property otherwise than by an account payee cheque or draft of electronic clearing system, if such amount exceeds Rs. 20,000/-.

International Taxation:

"Place of Effective Management" (POEM) as test of residence for foreign Companies:

POEM is defined to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are taken.

It is proposed that a foreign Company will be treated as a Company resident in India if its POEM is located in India at any time of the year. This will have adverse impact on foreign Companies that undertake key management decisions in India.

Clarity on Indirect Transfers:

Currently, transfer of share/interest in a foreign Company is deemed to be taxable in India if the shares/interest derives its “substantial value” from underlying assets located in India. However, what constitutes “substantial value” was not clear.

The “substantial value” is now clarified to mean value of Rs. 10 crores and represents at least 50% of the value of assets owned by the foreign entity on the specified date.

It is further defined/clarified that:

- method of determining value of assets will be prescribed. However, liabilities in respect of such assets will not be reduced.

- Specified date of valuation would mean the date on which the accounting period of the foreign Company ends preceding the date on which such transfer takes place;

It is also proposed that only that part of income arising from indirect transfers as is reasonably attributable to assets located in India will be deemed to accrue or arise in India.

It is proposed that the indirect transfers shall not be subject to capital gain tax if following conditions are satisfied:

- Foreign entity that us transferred directly holds Indian assets – Where the transferor of shares/interest in the foreign entity (along with its Associated Enterprise) do not have right of control and management of the Company and do not hold more than 5% of the voting power or shares or interest in the foreign entity.

- Transfer under the scheme of amalgamation or demerger, subject to conditions.

Fund manager in India not to constitute a PE for eligible investment fund:

An eligible investment fund incorporated outside India shall not be regarded as resident in India merely because the eligible fund manager, undertaking fund management activities on its behalf, is situated in India.

Tax on Royalties and Fees for Technical Services:

Currently, income of a non resident from Royalties and Fees for Technical Services, which is not effectively connected with a Permanent Establishment, is taxed at 25%. It is proposed to reduce his rate to 10%.

It may be noted that in view of Section 206AA, if the non-resident payee does not have a PAN card in India then the rate of TDS will continue to be 20%.

Furnishing of information of foreign remittances:

It is proposed to amend Section 195(6) to make it mandatory for the person making foreign remittance to furnish particulars irrespective of whether the same is taxable or not. This will come into force from 1st June 2015.

Threshold limit for Domestic Transfer Pricing audit:

It is proposed to raise threshold limits to carry out Specified Domestic Transfer Pricing audit from Rs. 5 crores to Rs. 20 crores.

Tax Deduction at Source (TDS):

Wider scope of TDS on interest:

Cooperative banks will now have to deduct TDS on interest on term deposits if the interest exceeds Rs. 10,000/- in a year even if the recipient is a member of the bank.

Interest on Recurring Deposit will now be subject to TDS if the interest amount exceeds the threshold limit of Rs. 10,000/- in a year.

Non-deduction of TDS on payment to small transporters – Limiting scope:

Currently, payment made to contractors engaged in the business of plying, hiring and leasing of goods carriages was exempted from TDS provided they furnished their PAN.

With effect from 01.06.2015, an additional clause is provided to restrict the exemption only to those contractors who own ten or less carriages at any time during the year.

Extension of time limit specified under section 194LD:

The benefit of concessional rate of TDS of 5% for interest paid to FII/QFI against rupee denominated bonds issued by Indian Company is proposed to be extended till 30.06.2017.

Real Estate Investment Trust (REIT):

Pass-through status has been awarded to such REITs.

Rental income will be exempt for the Trust and therefore no TDS will have to be deducted if the payment of Rent is made to REIT. Such rental income will be taxable in the hands of individual unit holders.

Gain arising from transfer of units on which STT is paid will be exempt from tax if it is Long Term Capital Gain and will be taxed @ 15% if it is a Short Term Capital Gain.

On distribution of income to unit holders as far as the income corresponds to the pass through status, TDS is required to be deducted @ 10% if the recipient is resident and in case of non-resident at the rates in force.

Alternative Investment Funds (AIF):

Similar on the lines of REIT, “pass-through” status has been awarded to AIFs.

The business income will be taxable for funds and on distribution exempt for the unit holders.

Any income other than business income will be exempt for the AIF and will be proportionately taxable in the hands of unit holders.

Loss of the fund will not be allowed to be passed on to the unit holders and will be available for carry forward and set off against income of the fund in the subsequent years.

Dividend Distribution Tax shall not apply to the income distributed to the unit holders.

Provision of TDS shall not apply with regards to the income received by the fund. However, the fund shall deduct tax @ 10% on the income distributed to the unit holders which is liable to be taxed in the hands of unit holders.

Charitable Trust:

The defination of the term charitable purpose is proposed to be widened by inclusion of “Yoga” as one of the separate category.

It is proposed to provide that carrying on any activity in the nature of trade, commerce or business will not be considered as charitable purpose unless the same is undertaken for such advancement of any other object of general public utility and the receipt from such activity do not exceed 20% of the total receipt of the trust during the year.

It is further proposed that in order to avail benefit of accumulation under section 11, prescribed Form No. 10 and the Return of Income of the Trust must be filed before the due date of filing the return under section 139.

Eligibility of Auditor:

It is proposed that an auditor who is not eligible to be appointed as auditor of the Company under the Companies Act 2013 shall not be eligible to carry out any audit or furnishing any certificate/report under any provision of the Act in respect of that Company.

The above ineligibility however, shall not apply when such person acts as authorised representative on behalf of the assessee.

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