THE UNION BUDGET 2014-15

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FORUM
OF FREE ENTERPRISE

> *"Free Enterprise was born with man and shall survive as long as man survives".*
>
> \- A. D. **Shroff**
> Founder-President
> Forum of Free Enterprise

SHAILESH KAPADIA

(24-12-1949 – 19-10-1988)

Late Mr. Shailesh Kapadia, FCA, was a Chartered Accountant by profession and was a partner of M/s G.M. Kapadia & Co. and M/s Kapadia Associates, Chartered Accountants, Mumbai.

Shailesh qualified as a Chartered Accountant in 1974 after completing his Articles with M/s Dalal & Shah and M/s G.M. Kapadia & Co., Chartered Accountants, Mumbai. Shailesh had done his schooling at Scindia School, Gwalior and he graduated in Commerce from the Sydenham College of Commerce & Economics, Mumbai, in 1970.

Shailesh enjoyed the confidence of clients, colleagues and friends. He had a charming personality and was able to achieve almost every task allotted to him. In his short but dynamic professional career, spanning over fourteen years, Shailesh held important positions in various professional and public institutions.

Shailesh's leadership qualities came to the fore when he was the President of the Bombay Chartered Accountants' Society in the year 1982-83. During his tenure he successfully organized the Third Regional Conference at Mumbai.

Shailesh was member, Institute of Fiscal Studies. U.K.; member of the Law Committee and Vice-Chairman of the Direct Taxation Committee, Indian Merchants' Chamber. He was also a Director of several public companies in India and Trustee of various public Charitable Trusts.

He regularly contributed papers on diverse subjects of professional interest at refresher courses, seminars and conferences organised by professional bodies.

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I

Encouraging but Halting Debut of the New Finance Minister

Minoo R. Shroff*

The last three months have been epoch-making for India. The first was the general elections which resulted in a decisive mandate for the BJP and saw the end of a shaky coalition Government at the Centre. Most importantly a decisive leader was elected as the Prime Minister with an assertive personality and a fine track record of governance. The manifesto of the BJP raised heightened expectations for major economic reforms and good governance, the need for which was eminent.

The Union Budget which followed was widely expected to give concrete shape to the expectations raised. It has incorporated many of the concepts adumbrated by the PM earlier but has been found halting in some key areas. As the Economist observed "among the weeds of an overlong speech lurked some bold, potentially transformative ideas". Nevertheless it has been an earnest attempt to

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change course given the handicap of ideological and socialist hang-ups which still linger among leaders in all parties. Let us touch upon some critical areas.

One of the most burning issues before the public at large is the unacceptable level of consumer inflation. Neither the budget nor the government appears to have grasped the severity of the problem and taken bold steps to tackle it. The problem has been exacerbated by the poor monsoon as the overall agricultural production will be lower and prices of agricultural produce will escalate further.

A fine effort has been made to try and retain the fiscal deficit at 4.1% of the GDP but this will depend largely on the disinvestment target being met or acceded and an all out effort made to prune non-planned expenditure and rationalize subsidies. Unfortunately there is aversion within the ruling party to tackle these issues with urgency on ideological and political grounds.

Goods and Services Tax has been on the political chess-board for over five years now. It is widely believed to be a game changer and which can expand GDP growth by 1.5% to 2%. The FM made a positive statement that "he will be able to find a solution during this year". There are still lurking apprehensions as far as some of the States are concerned for surrendering their fiscal autonomy and obtaining adequate compensation for taxes

lost. This feeling is corroborated by a recent announcement that the Group of State Ministers concerned, are likely to visit China and Russia shortly, to study the intricacies. It is baffling as to what these two countries, which have authoritarian governments, have to offer to a democratic society like ours in the matter.

One of the salutary features of the Budget is to give fillip to the manufacturing sector so urgently required to boost industrial production and create jobs. The proposal to establish a Rs.10,000 Crore fund for micro/small/medium enterprises to help attract private capital by providing equity, soft loans for start-up companies is a very welcome step. The capital ceiling for macro/small/medium enterprises is also proposed to be reviewed which will also give a boost. Although start-up finance is a critical input in spurring development of new industries, what can really go a long way is giving full thrust to setting up of the Delhi-Mumbai Industrial Corridor (DMIC) to start with to be followed by several other industrial corridors with active Japanese technical and financial collaboration. This will juxtapose well with the plan of creating hundred smart cities which can change the urban and industrial landscape of India. As rightly observed by the FM in his speech, these cities can come up as satellite towns of larger cities and help create modern infra-structure, improving the quality of life and promote sustained

urban development. The **DMIC** project so critical for rejuvenating India has been unfortunately moving at a snail's pace.

The non-removal of retrospective tax amendment from the statutes has been a great disappointment, especially among foreign investors, at a time when the country badly needs foreign direct investments. The FM has however, made it clear that despite these amendments being on the statutes the tax measures will not be applied retrospectively.

The increase in the limit for FDI in defence and insurance industries is a good portent to restore confidence among investors, both domestic and foreign. Though, this is only partial as there is the caveat that control and management will only be in the hands of Indian nationals.

Though India has a fine infrastructure of banks and specialized financial institutions among the emerging countries, the financial health of many public sector banks is not in good shape. Their non-performing assets have been growing at an alarming pace. Banking is yet to reach half our population despite the thrust on inclusiveness. The approach to bank recapitalization is very halting and tardy. There is an obsession to retain 51% control on PSU banks and political interference in their functioning is rampant. Control on strategic direction can still be maintained by retaining a golden share.

What is imperative is to rejuvenate their functioning through professionalization. We have the example here of a few highly successful private banks, totally managed by Indian professionals. Why cannot we emulate this example for **PSUs?**

While the total governmental expenditure has been proliferating from year to year there has been perceptible decline in quality of public service. There is urgent need for critically evaluating the efficiency of public expenditure at all levels. The **FM's** proposal for appointing an Expenditure Management Commission is a laudable one with its interim report expected in the current fiscal year. However, what is critical is the composition of the Commission. It is hoped that it does not comprise only of bureaucrats as usual but will be a mix of experts from various fields which can make a truly independent assessment, particularly of overhauling the subsidy regime.

"The proof of the pudding is in the eating" as the old saying goes. So far the general reaction to the budget of the public at large is positive. There was great expectation of a departure from the past. A more daring approach was anticipated instead of an incremental one adopted so far. What we require is a strong dose of "bitter pills" as indicated by the PM, and not mere homeopathy treatment, which could at best provide cure over a prolonged period. As Keynes observed, "In the long run we are all dead".

II

Directional Reforms for Economic Resurgence!

Sunil S. Bhandare*

This budget is "only the beginning of a journey towards a sustained growth of 7-8 per cent or above within the next 3-4 years along with macro-economic stabilization..." "It would not be wise to expect everything that can be done or must be done to be in the first Budget presented within forty five days of the formation of this Government" – Finance Minister in his budget speech.

The maiden budget of the Finance Minister, Mr. Arun Jaitley, has generally been well received. But several vehement critics have sought to argue that (a) it lacks overarching strategic statement or the long-term economic road-map; (b) it has no bold initiatives – an agenda of "big bang reforms"; (c) it is short on vision and long on detailing many initiatives – gaining him sobriquet of "the Rs.100 crore FM"; (d) it is little bit of everything and lots of nothing; and (e) it is too much of work-in-progress, including sorting out complexities of some of the tax proposals.

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There may be some substance in all such observations, but the Budget 2014-15 envisaging well over Rs.17948 billion expenditure, representing ~14% of India's GDP, surely calls for a closer evaluation of its rationale, substance and economic implications.

The Rationale

Apart from considerations of inadequate time factor, the essential point is about intrinsic limitations imposed by our socio-political and fiscal system on the FM (whichever Political Party or a coalition combination he may be!). Also, the FM has to recognize the limits of fiscal space as well as of likely adverse implications of proximate disturbing global and domestic economic trends. Witness: [a] our well-entrenched and constitutionally sanctified socio-economic structure and center-states relations; [b] after "big bang reforms" of early nineties, despite oft-repeated promises of so-called "second generation or structural reforms", most efforts thereafter have been incremental – and not transformational in nature; [c] the global economic uncertainty – the ongoing concerns about oil prices thanks to the turbulent geo-political scenario - the Russian-Ukraine, Iraq and Middle-East crises;

fears of deflation in the EU; the slow US recovery; growth deceleration of China; and the lack-lustre world trade growth trends; and [d] near home, the domestic economy in the grip of widespread monsoon failure [drought conditions? and its likely adverse impact on growth and inflation.

Against this challenging backdrop, the budgetary strategy provides an eloquent testimony of the fact that the basic framework of India's fiscal and economic policy cannot be changed dramatically or viciously. Therefore, it must be said to the credit of the FM that he has sought to offer a "broad policy indicator of the direction in which we wish to take this country". The budget pursues a proverbial middle-path approach and what in recent times has come to be described as inclusive development strategy. While so doing, it has caused no disruption to the prevailing tenets of economic policy profile, and at the same time, responded to the interest of virtually all stakeholders of the economy.

Limitations of the Fiscal Space

While evaluating the rationale of the budget, it is imperative to reflect briefly on the limitations of our fiscal space. It may be recalled that while in the opposition, many prominent leaders of the new government were critical of the UPA II government's Interim Budget, as it was based on "window dressing1 creative accounting" – hiding

in its revised estimates of 2013-14, the true state of economy's fiscal health. Yet, while presenting the final budgetary arithmetic, the new FM has not made or perhaps could not make any corrections in all such fiscal distortions. As some commentators have pointed out that he has missed the opportunity to come clean on the budgetary arithmetic.

Thus, the commitment to fiscal consolidation remains intact in the budget 2014-15. As prescribed in the Interim Budget, the FM has stuck to revenue and fiscal deficit targets, respectively at 2.9% and 4.1% of GDP. Moreover, most of the other key budgetary transactions have largely remained at the same level; the notable exceptions being increases in (a) mobilization of non-tax revenues and other capital receipts [predominantly driven by disinvestment targets]; and (b) plan expenditure and its sub-sectoral allocations [for roads, inland navigation, Rural Infrastructure Development Fund, urban renewal, development of smart cities, various Rs.100 crores new proposals, etc.].

For the past many years, the basic structure and sources of financing of budgetary expenditure has, by and large, remained unchanged [Please see table below]. In 2013-14, the then FM generated noticeably larger share of financing from non-tax revenues [drawing heavily upon PSUs' dividends, including a large transfer of surplus from the RBI]

and saved on spending through rollover of dues to Oil Companies [for their under-recoveries] and Fertilizers Companies [subsidies]. Such system of budgetary management goes against the basic tenets of fiscal prudence – good money gets diverted to promote fiscal profligacy!

Central Budget (Rs. Crores)	2012-13 (Actuals)	2013-14 (R E)	2014-15* (BE)
Total Expenditure	1410.372	1590.434	1794.892
Financed From	62.3	64.7	66.3
(I) Revenue Receipts			
A. Tax Revenue			
B. Non-Tax Rev			
(II) Capital Receipts	37.6	35.3	33.7

Besides, there is inherent vulnerability of budget estimates of 2014-15, especially on account of rather unrealistic assumptions about tax revenues. Even after accounting for "net" reduction in tax mobilization [revenue loss of **Rs.22,200** crores in direct tax concessions offset by gains from indirect tax efforts of **Rs.7,525** crores], the budget envisages 17.7% growth in tax revenues in 2014-15 as against 11.8% growth achieved in the previous year. Such tax buoyancy is most unlikely, if industrial1 manufacturing and services sectors fail to gather growth momentum in the remaining part of the current financial year. So

much also depends on the success of accelerated disinvestment program! The FM would also need to have a fall back option to cover likely increases in public spending to deal with the severity of drought conditions.

Thus, the susceptibility of fiscal space, once again, underlines how the FM has been acutely constrained in bringing about any radical changes in the budgetary system or tax reforms having revenue implications. Therefore, hopes will now have to be squarely pinned on the proposed Expenditure Management Commission [EMC] "to review the allocative and operational efficiencies of Government expenditure" and recommend the necessary reforms within the current financial year. Also, the FM promises to "overhaul the subsidy regime, including food and petroleum subsidies and make it more targeted". Surely, there are short-term constraints in restoring tax buoyancy – the tax to GDP ratio of the Central Governmen has, indeed, declined from 11.9% in 2007-08 to **10.3%** in 2013-14. Hence, efforts must be focused on reducing and rationalising non-plan expenditure. For example, the burden of subsidies, according to the latest Economic Survey was as much as **Rs.247,596** crores in 2013-14 – and its ratio to GDP has risen to 2.26% in 2013-14 from 1.42% in 2007-08.

Substantive Framework of the Budget

While the budget is perceived to be lacking in so-called grand strategy, there are several discernible building blocks of economic policy and institutional reforms, which would usher in sustainable growth revival over the medium-term. Quite apart from what the EMC can be expected to do in facilitating fiscal consolidation, the FM seems to have taken clues from the latest Economic Survey's forthright evaluation of The State of the Economy, prescribing well-meaning priorities for reviving growth. Its thrust is on wide-ranging structural reforms with sector specific incentives aimed at easing supply-side constraints.

Summary of Economic Survey's Prescription: Structural Reforms

- Acceleration of project clearances, streamlining of implementation procedures and sector-specific investment policies.
- Structural reforms that boost productivity.
- Rejuvenating manufacturing growth – simplification of tax policy and administration, repeal of archaic laws that govern market access, revamping of dispute resolution mechanism, etc. – greater predictability, certainty, continuity and transparency of policy.
- Strengthening macroeconomic stability: fiscal deficit in check without compromising capital expenditure; limits on CAD at 2-2.5%; inflation control, etc.

- Harnessing demographic dividend – non-agricultural sector must generate employment – emphasis on manufacturing and services sectors.
- Physical and social infrastructure – both urban and rural
- Sustained and high economic growth requires farming sector growing at 4% p.a. Boosting investment and productivity, fresh look at policies of procurement, marketing, transport, storage and processing.

Many of the budget proposals and initiatives [from among the numerous ones], which seem to reflect on Survey's policy prescriptions and priorities, can be classified and summarized under various separate silos, some of which are illustratively set out below:

- Policy Reforms: Tax Policy [a] GST – finding solution for States' concerns and approving legislative scheme in the current financial year; [b] stable, predictable and investor friendly taxation regime – for example, setting out clear policy stance on "retrospective" tax changes, and in particular, assuring that such measures would not ordinarily be brought about; [c] extending the facility of "advance ruling" about tax liability to resident taxpayers; [d] setting up High Level

Committee to interact regularly with trade and industry for ensuring clarity on tax laws; and [e] changes in Transfer Pricing regulations.

Besides tax policy reforms, the budget has several other welcome measures: illustratively, (i) sizeable reduction in customs duties to encourage new investment and capacity addition in the chemicals and petro-chemicals sector; and (ii) enlarging the scope of investment allowance of 15% of the actual cost of new plant and machinery to cover investment of more than Rs.25 crores in a year for a period of three years.

FDI Liberalization: [a] investment limit on defence manufacturing and insurance sectors raised from 26% to 49%; [b] reducing requirement of built-up area and capital conditions in promote development of Smart Cities and affordable housing; and [c] manufacturing units allowed to sell products through retail, including E-commerce.

- **Infrastructure Development:** Major thrust areas of budget proposals are in [a] urban renewal and urban transportation – urban metro projects, "housing for all"- affordable housing, etc; [b] developing smart cities – the PM's vision 100 Smart Cities (Rs.7,060 crores); [c] road sector – a large step up-of investment in NHAI and State Roads (Rs.37,880 crores); [d] strengthening rural infrastructure with some new schemes like 24X7 uninterrupted power supply to all homes and urbanization of rural areas (Rurban development model) and expanding allocations for existing schemes like Pradhan Mantri Gram Sadak Yojana, rural housing, etc.; [e] and several other policy measures and plan allocations for key areas like shipping, inland navigation, new airports, energy sector (power, coal, renewable energy, gas pipeline expansion, etc.).

  The budget speech points out that "infrastructure and construction sectors have a signficant role in the economy. Growth in these sectors is necessary to revive the economy and generate jobs for millions of our young boys and girls". But the moot point is about overcoming various stumbling blocks, be it in the area of land acquisition, envirnmental clearances, center-states and inter-States coordination or in terms of faultlines in structuring and implementation of PPP models of development.

- **Industrial1 Manufacturing Resurgence:** Apart from its emphasis on ease of doing business (e.g. eBiz platform/ a 24X7 single portal for investor friendly ecosystem), the budget contains several major initiatives [a] setting up of a National Industrial Corridor Authority to coordinate development of industrial corridors;

[b] completion of master planning of several corridors – Amritsar-Kolkata Industrial, Chennai-Bengaluru Industrial, Chennai- Bengaluru-Mumbai Economic and Vizag-Chennai; [c] revival of the Special Economic Zones (SEZs); and [d] several initiatives to accelerate MSME sector, including establishment of Rs.10,000 crore (venture capital) to act as catalyst to attract private capital in this sector. Once again, all these proposals sound impressive on paper, but sceptics are concerned with their effective implementation!

Besides, the budget offers a whole host of proposals for strengthening banking and financial sector (including regulatory framework for commodity markets) – some of which are new initiatives; for example, creating long-term sources of financing by exempting banks from their CRR, SLR and Priority Sector Lending

for infrastructure financing. Equally important are strengthening of the existing support system for agricultural sector, including expansion of credit limit to Rs.8 lakh crores and several new initiatives, especially [a] for promotions of agro-technology and agri-business infrastructure; [b] establishing two agricultural research instituions of excellence; [c] establishing new separate agriculture and horticulture 'universities; [d] accelerating the process of setting up National

Market by reorienting the APMC legislations in consultation with the State Governments; etc.

The Likely Economic Impact

In summing up, from a longer-term perspective, the budget 2014-15 is essentially driven by conviction [or is it an act of faith?] about "creating a vibrant and strong India". But from a short-term perspective of the current financial year, what truly matters are its five takeaways:

- First, given the current state of the economy, especially its fiscal health, the new government could not be emboldened to undertake radical economic reforms having substantial implications either on government revenues or expenditure. The FM prefers to give rather excessive credence to the prospects of revenue buoyancy [both tax and non-tax] and on Expenditure Management Commission to wriggle the budget out of prevailing fiscal vulnerability!
- Second, the incremental reforms is found to be the best strategy to pursue at this stage – creating some key building blocks – be it tax policy and administration reforms; infrastructural development initiatives; strengthening of the financial sector, institutional reforms; capacity building – entrepreneurship and skills development; some sector specific measures or

promise of off-budget initiatives [e.g. relook at land acquisition legislation].

- Third, to propagate aggressively (also, desperately!) PPP format to trigger growth impulses through a host of infrastructure development activities. Unfortunately, the track record of this framework has been far from satisfactory. Indeed, it is crying out for resolution of widespread problems in contracting and execution of such projects.
- Fourth, to actualize the slogan "minimum government and maximum governance" – impending expenditure and subsidy reforms; investor-friendly tax policy and administration; Indian Customs Single Window Project to facilitate trade; etc. Some of these initiatives would help in "improving the ease of doing business" in the country.
- Last, unveil some directional shift towards more liberal economic environment within the limitations of fiscal space: for example, FDI liberalisation, thrust on PSU disinvestments, banking sector and capital market policy measures, reforming agricultural marketing infrastructure – promotion of National Markets, private markets and yards; improving ease of doing business, etc.

Will this budget change the economic outlook for 2014-15 significantly? Surely, the budget

per se has its severe constraints. But the new government has certainly generated distinctive positive sentiments. If the FM completes **all** the work-in-progress and implements many of the key budget proposals, there would be a moderate growth recovery in 2014-15 [but at the lower end of his expectations of 5.4 to 5.9% real GDP growth rate], thereby creating better underpinnings for some accelerated growth in the following **year/s.** [Please see table below]

(% annual growth)	2012-13	2013-14	2014-15 [our estimates]
Real GDP	14.5	14.7	15.4
Agri & Allied	1.4	4.7	0.0/ -ve*
Industry	1.0	0.4	6 - 6.5
Services	7.0	6.8	7.0 – 7.2
Inflation: WPI (average)	7.4	6.0	5.7 – 6.0
CPI (average)	10.4	9.7	8.0 – 8.5
FD/GDP ratio (%)	14.8	4.6	4.3 – 4.5**
CAD/GDP ratio (%)	- 4.7	- 1.7	- 2.0 – 2.5

* *In 2002-03, agriculture sector suffered the worst monsoon conditions, leading to contraction of its GDP by over 8%. There is a strong probability of its occurance this year.* ** *Bwdaet Estimates 4.1%*

At the same time, inflationary scenario is unlikely to soften much from its current level. Needless

to say, these are our tentative estimates of key macro parameters, many of which need to be reviewed around early October 2014 [i.e. around closing stages of the current South-West monsoon season].

III

Domestic Taxation

Prof. Kanu H. Doshi*

DIRECT TAX PROPOSALS

I. RATES **OF TAX**

(i) The personal tax exemption limit has been raised by INR 50,0001-,

- In case of Resident **Individuai/HUF** below 60 years of **age,tax** exemption limit has been increased to INR **2,50,000/from** INR **2,00,000/-.**
- In case of Resident **Individuai/HUF** above 60 years of age & below 80 years of age, tax exemption limit has been increased to INR **3,00,000/-** from INR **2,50,000/-.**

(ii) There is no change in the personal tax exemption limit of Resident **Individuai/HUF** above 80 years of age.

(iii) There is no change in the rate of surcharge either for the corporate or the individuals, **HUFs, Firms,etc.** Education cess to continue at 3%

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(iv) Education **Cess'@** 2% and 'Secondary and Higher Education **Cess'@** 1% on the amount of income-tax and surcharge (where applicable) will continue.

The **Proposed** change in the Income Tax Slab Rate of the **Individual/HUF** are as under:-

➢ RESIDENT INDIVIDUALS/ HUF WHO ARE OF AGE OF LESS THAN 60 YRS

Existing Income tax Slab Rate (AY 2014-15)		Proposed Income tax Slab Rate (AY 2015-16)	
TOTAL INCOME	**TAX RATE**	**TOTAL INCOME**	**TAX RATE**
Where the total income does not exceed INR **2,00,000**	NIL	where the total income does not exceed INR **2,50,000**	NIL
Where the total income exceeds INR **2,00,000 but** does **not** exceed INR **5,00,000**	10% of the amount by which the total income exceeds INR **2,00,000**	where the total income exceeds INR **2,50,000** but does not exceed INR 5,00,000	10% of the amount by which the total income exceeds INR **2,50,000**
Where the total income exceeds INR **5,00,000 but** does not exceed INR **10,00,000**	INR **30,000** plus 20% of the amount by which the total income exceeds INR **5,00,000**	Where the total income exceeds INR **5,00,000** but does not exceed INR **10,00,000**	INR 25,000 plus 20% of the amount by which the total income exceeds INR **5,00,000**
Where the total income exceeds INR **10,00,000**	INR **1,30,000** plus 30% of the amount by which the total income exceeds INR **10,00,000**	Where the total income exceeds INR **10,00,000**	INR **1,25,000** plus 30% of the amount by which the total income exceeds INR **10,00,000**

➢ RESIDENT INDIVIDUALS/ HUF WHO ARE OF AGE OF MORE THAN 60 YRS BUT LESS THAN 80 YRS

Existing Income tax Slab Rate (AY 2014-15)		Proposed Income tax Slab Rate (AY 2015-16)	
TOTAL INCOME	**TAX RATE**	**TOTAL INCOME**	**TAX RATE**
Where the total income does not exceed INR **2,50,000**	NIL	where the total income does not exceed INR **3,00,000**	NIL
Where the total income exceeds INR **2,50,000** but does not exceed INR 5,00,000	10% of the amount by which the total income exceeds INR **2,50,000**	where the total income exceeds INR **3,00,000** but does not exceed INR 5,00,000	10% of the amount by which the total income exceeds INR **3,00,000**
Where the total income exceeds INR **5,00,000** but does not exceed INR **10,00,000**	INR 25,000 plus 20% of the amount by which the total income exceeds INR **5,00,000**	Where the total income exceeds INR **5,00,000** but does not exceed INR **10,00,000**	INR 20,000 plus 20% of the amount by which the total income exceeds INR **5,00,000**

Where the total income exceeds INR 10,00,000	INR 1,25,000 plus 30% of the amount by which the total income exceeds INR 10,00,000	Where the total income exceeds INR 10,00,000	INR 1,20,000 plus 30% of the amount by which the total income exceeds INR 10,00,000

(w.e.f. *Assessment Year* 201516)

II. INCOME FROM HOUSE PROPERTY

Sec 24(b): The limit of deduction of interest paid on borrowed capital for acquisition/ construction of self-occupied house property where the acquisition or construction of the property is completed within three years from the end of financial year in which capital is borrowed, was INR 150,000.	It is proposed that the limit of deduction of interest paid on borrowed capital for acquisition /construction of self-occupied house property where the acquisition or construction of the property is completed within three years from the end of financial year in which capital is borrowed, has been increased from INR 150,000to INR 200,000. (w.e.f. *Asseessment Year* 2015-16)

III. DEDUCTION UNDER CHAPTER VI A

80C: The limit of deduction from income in respect of sums paid or deposited towards investment instruments such as contribution to provident fund, schemes for deferred annuities under section 80C was restricted to INR 100,000.	It is proposed that the limit of deduction income in respect of sums paid or deposited towards investmen instruments such as contribution to provident fund,schemes for deferred annuities under section 80C has been increased from INR100,000 to INR 150,000. (w.e.f. *Asseessment Year* 201516)

80CCD: If an individual employed by the Central Government or any other employer on or after 1January 2004 has paid or deposited any amount in the New Pension Scheme,a deduction is allowed.	The condition of being employed on or after 1January 2004 for private sector employees has been removed. Further, a limit of INR 100,000 under section 80CCD has been introduced within the overall limit of INR JJ50,000 under section 80CCE. (w.e.f. *Asseessment Year* 201516)
80CCE: The cumulative limit provided in section 80CCE for deductions under section 80C, 80CC and 80CCD was restricted to INR 100,000.	It is proposed that the cumulative limit provided in section 80CCE for deductions under section 80C, 80CC and 80CCD has been increased from INR 100,000 to INR 150,000. (w.e.f. *Asseessment Year* 201516)

80IA: Date of business commencement for power sector undertaking extended

The Bill proposes to extend the existing sunset clause date for commencement of business to avail the tax incentive, from the present date of 31st March, 2014 to 31st March, 2017, for undertakings which are set up for the generation and distribution of power, transmission or distribution of power by laying a network, or which undertakes substantial renovation and modernization of existing network or distribution lines.

(w.e.f. *Assessment Year* 201516)

Existing Provisions	Proposed Provisions
IV. Sec 115BBC: Anonymous Donations	
In case of specified institutions, charitable organizations, the tax is levied at the rate of 30% of anonymous donations in excess of 5% of total donations or Rs 1 lac whichever is higher. Under this scheme of taxation, the amount represented by 5% of total donation or INR 1 Lac whichever is higher escape taxation as the remaining tax is charged on total income after reducing the full amount of anonymous donations.	It is proposed to amend section 115BBC to provide that the income-tax payable shall be the aggregate of:- i) The amount of income-tax calculated on anonymous donations as reduced by 5% of total donations or Rs 1Lac whichever is higher at the rate of 30% and ii) The amount of Income tax payable on Total income less income determined above at normal applicable rates. Thus as per the proposed amendment, only that much of the Anonymous Donations will be eligible for reduction from the total income which has been taxed in the preceding sub section of 115BBC. (w.e.f. *Asseessment Year 201516)*

V. BUSINESS INCOME	
Sec 40(a)(i): Extension of time limit for depositing withheld taxes to claim deduction of expenditure pertaining to non-residents	
Payments to a non-resident are not allowed as a deductible expenditure in case applicable tax is not deducted or after deduction at source,not deposited within the prescribed timelines.	It is proposed that the payments to a non-resident will also be allowed as a deduction if the tax deducted at source during the year is deposited on or before the due date offiling the income-tax return. (w.e.f. *Asseessment Year 2015-16)*
Sec. 40(a)(ia): Disallowance of business expenditure for non-deduction of tax/ late deduction and deposit of tax on payment to RESIDENTS	
In case of non-deduction or non-payment of TDS on certain specified expenses payable to residents,100% of such amount is disallowed.	In order to reduce the hardship, it is proposed to restrict the amount of disallowance of expenditure to 30% of the amount of expenditure claimed. (w.e.f. *Asseessment Year 2015-16)*

Sec 40(a)(ia): Scope of disallowance for non deduction / Late deduction of TDS extended to cover non-compliance in all cases

Presently certain specified payments such as interest, commission, brokerage, rent, royalty, fees for technical services and contract payment made to a resident are disallowed for non-compliance of TDS Under the existing provisions despite of non-compliance of TDS Provisions in respect of salary and directors be payments, which are currently not specified under section 40(a)(ia), the entire amount of such expenses are claimed as business deduction.	In order to improve the TDS compliance in respect of payments to residents which are currently not specified in section 40(a)(ia), the bill proposes to extend the disallowance under section 40(a)(ia) to all expenditure on which tax is deductible under Chapter XVII-B of the Act. (w.e.f. *Asseessment Year 201516)*

Sec 37: Expenditure on Corporate SocialResponsibility activities

Companies Act, 2013 requires certain companies to spend certain percentage of their profit on activities relating to Corporate Social Responsibility (CSR). Concerns were raised on deductibility of such expenses u/s 37(1) of the Act.

It is proposed that no deduction shall be allowed u/s37(1) of the Act in respect of CSR expenditure as the same is considered as application of income rather than an expenditure.

It is further proposed that the CSR expenditure which is of the nature described in section 30 to 36 of the Act shall be allowed deduction under those sections subject to fulfillment of conditions, if any, specified therein.

(w.e.f. *Asseessment Year 201516*

VI : DIVIDEND DISTRIBUTION TAX

Sec 115BBD: Extension of applicability of concessional rate of tax on dividents received from foreign companies.

Under the existing section 115BBD introduced by Finance Act,2011(and extended by Finance Act,2012 & 2013) gross dividends received by an Indian company from a foreign company in which it has shareholding of 26% or more, is taxable @ 15% (instead of normal tax rate of 30%) if such dividend was included in the total income for the Financial Year 2011-12, 2012-13 & 2013-14. The said section has been introduced to encourage Indian Holding Companies to repatriate the profits of their foreign subsidiaries into India.	The Bill now proposes to delete the restricted applicability of this Section to AY 2012-13, AY 2013-14 & AY 2014-15 and to extend the benefit of this section from AY 2014-15 & for all the subsequent assessment years starting from Assessment Year 2015-16.

Sec 115-O & Sec 115-R: Dividend Distribution Tax payable after grossing up net profits to be distributed

• DDT is paid at the rate of 15% of amount declared, distributed or paid by way of dividends to its shareholders. Similarly, additional income tax is to be paid by Mutual fund in respect of its income distributed to its investors at specified rates. • The effective tax rate for DDT is 16.995%.	• Sectiorli15-0 and 115-R have been amended to provide that tax would be paid after grossing up the net profits distributed by the company or required distributed by mutual fund as the case may be 1 Oct 2014. • The effective tax rates for DDT shall now stand increased from 16.995% to 20.248%.

VII : CAPITAL GAINS

Sec 43(5): Trading in commodity derivatives

The transaction of trading in commodity derivatives is not considered to be a speculative transaction if **carried** out on recognizes association	It is now additionally provided that CTT should be paid on such a transaction. (w.e.f. *Asseessment Year 2015-16)*

Provision	Proposed Provisions

Sec 54 & 54F:Exemption of Capital gains in case of investment in a residentialhouseproperty

The exemption **u/s** 54 & **54F** are available when the investment is made in purchase or construction of a residential house within a period of one year before or **two** years after the date on which the transfer took place purchased, or has within a period of three years after that date constructed.	The Bill proposes to amend the existing section 54 and section 54 F so as to provide that the exemption of capital gains under those section is available, if the investmenl is made in purchase or construction of one residential house situated **in** India.

Sec 54EC:Exemption in respect of Capital gains in case of investment in long term specified assets

The proportionate capital gain on transfer of a long term capital asset is exempt if same is invested within a period of six months in the long-term specified asset and such investment during any financial year does not exceed fifty lakh rupees.	The bill proposes to amend the existing provisions so **as** to remove the ambiguity **by** providing that the investment made by the **assessee during** the financial year in which the assets are **transferred** and in the subsequent financial year should not exceed INRSO Lakh. (w.e.f. *Asseessment Year 201516*

The tax payers were **taking** the advantages of spreading the investments in two financial years within the window of six months and have claimed exemption of INR Icrore instead of intended limit of INR 50 Lakh. As such, this section is object of litigation due to ambiguity in the provision. (w.e.f. *Asseessment Year 2015-16)*	

Sec 56(2)(ix): Taxation of advance for non-transfer of a capital asset

As per the provision **of** section 51, advance **money** received for transfer **of** money if forfeited for non transfer of a capital **asset** is required to be reduced from **Cost/WDV/FMV** of such asset and as such is **not** presently chargeable to tax.	The Bill proposes to introduce a new clause (ix) to Section **56(2)** so as to provide that such advance money received in the course of the negotiations for transfer of a capital asset, is forfeited and the negotiations do not result in transfer of such capital asset, then, such sum shall be chargeable to income tax under the head "income from other sources". Consequent to above proposed amendment and in order to avoid double taxation , the bill further proposes to amend Section **51so** as to provide that such advance sum shall not be deducted from the cost of a quisition which computing **capital** gain.

	The bill proposes to amend the existing provisions so as to remove the ambiguity by providing that the investment made by the **assessee** during the financial year in which the assets are transferred and in the subsequent financial year should not exceed **INRSO** Lakh. (w.e.f. *Asseessment Year 201516)*

Concessionaltax rate of 10% on long term capitalgains

The **concessional** tax rate of 10% is applicable on long term capital gains arising from transfer of listed securities, units of mutual funds and zero coupon bonds.	The said tax rate shall be applicable only on long term capital gains arising from the transfer of listed securities (other than units) and zero coupon bonds. (w.e.f. *Asseessment Year 201516)*

Existing Provisions	**Proposed Provisions**

Sec2(14): Definition of the term "Capital Asset" has been amended

S.115AD specifically provides for concessional tax treatment in respect of long term capital gains (Nil or 10% as the case may be) and short term capital gains (30% or 15% as the case may be) arising to Foreign Institutional Investments **(FIls)** from transfer of listed shares and securities.

The issue as to characterization of asset **i.e.** whether shares and other securities are held by the **FII's** as capital asset or as stock in trade and the income arising on transfer can **be** considered as capital gain or business **income,is** ongoing object of much litigation.

With a view to settle the dispute, the bill now proposes to expand the meaning of the term 'capital asset' by including any security held by Foreign Institutional Investors (FIls) which have invested in such security in accordance with the regulations made under Securities & Exchange Board of India Act,1992.

The definition of capital assets after proposed amendment is as under:-

'Capital asset' means:

(a) property of any kind held by an assessee,whether or not connected with his business or profession;

(b) any securities held by a Foreign Insitutional Investor which has invested in such securities in accordance with the regulations made under the Securities and Exchange Board of India Act,1992.

but does not include:

(i) any stock-in-trade [other than the securities referred to in sub-clause (b)]; Further,Explanation 2 to the said sub- section clarifies that for the purpose of this clause:

(a) the expression "Foreign Institutional Investor" shall have the meaning assigned to in clause (a) of the Explanation to section 115AD

(b) the expression "securities" shall have the meaning assigned to it in clause (h) of section 2 of the Securities Contracts (Regulation) Act,1956.

ec 2(42A): Amendment in Definition of "Short term Capital Asset" in relation to holding period of closely held companies & Mutual Fund Debt units	
Under the existing provisions of S.2(42A) a share held in a company whether listed or unlisted or a unit of a Mutual Fund qualify as Short-Term Capital Asset (STCA) if the holding period is less than twelve months.	The bill proposes to amend S.2(42A) so as to provide that an unlisted shares and a unit of debt oriented Mutual Fund shall be qualified as STCA if it is held for less than 36 months.
	Further Bill also proposes to amend the existing proviso to Section 112 so as to remove the benefit of concessional rate of tax of 10% on Long Term Capital Gain arising from transfer of debt oriented units of Mutual Funds.
	Accordingly, the Bill proposes to increase the holding period of Mutual Fund debt oriented units to 36 months from existing 12 months for qualifying as Long Term asset and also to increased tax rate of 20% as against present tax rate of 10%.

* The views expressed in this booklet are not necessarily those of the Forum of Free Enterprise.

*"People **must** come to accept private enterprise not as a necessary evil, but as an affirmative good".*

- Eugene Black
Former President,
World Bank

FORUM
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Published by S S. Bhandare for the Forum of Free Enterprise, Peninsula House, 2nd Floor, 235, Dr. D. N. Road, Mumbai 400001, and Printed by S. V. Limaye at India Printing Works, India Printing House, 42 G. D. Ambekar Marg, Wadala, Mumbai 400 031.

2.5/Aug./2014