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Discussion on budget highlights

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Celebrating 26 Years

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Celebrating 26 Years

Transmittal

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Dear Reader,

We are pleased to present you with a discussion on the Union Budget for the financial year 2014 – 2015 ('Budget 2014') presented by the Honorable Finance Minister, Mr. Arun Jaitley at the Lok Sabha on July 10, 2014.

The run up to the election was an exciting time, with the stock market posting record gains in anticipation of a blockbuster budget. It was perhaps, too much to expect of the new Finance Minister to do justice to the country's expectations in just the 45 days he has been in office. While announcements on the Government's commitment to the introduction of GST and generous sops for individual tax payers were welcome, key demands of the corporate world such as dropping of MAT on SEZs and the revival of the STPI scheme were conspicuous by their absence.

Through this issue of 'Tax News' as a part of GJA Learning series, we hope to provide you a snap-shot of some of the key takeaways from the budget speech. While further clarity to many of the amendments will unravel during the coming days, we believe that you will benefit from the early insights from the Budget which may affect your business and personal wealth.

Should you require any further clarifications or details on the budget proposals or any assistance in the analysis of the impact of the proposals on your business, please do feel free to get in touch with us. Further, we always look forward to your valuable suggestions.

Yours faithfully

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Executive summary

Macro economic outlook	▶ GDP is expected to grow in the range of 5.4% to 5.9% in 2014 – 15 overcoming the sub 5% GDP growth in the past two years. ▶ According to the Economic Survery of India, the poor monsoon and external environment remains a cause of concern. ▶ Inflation has declined in 2014 – 15, but is still above comfort levels on account of the high food inflation
Direct taxation Key areas include : ▪ The Government has promised to 'review' the Direct Taxes Code ▪ Benefits to individual tax payers ▪ No changes in the corporate tax structure ▪ Relaxation in disallowances for non and short deduction of taxes ▪ CSR activities not eligible for tax benefits. ▪ Several changes with respect to trusts and charitable institutions. ▪ No mention of dropping the levy of MAT on SEZ units.	▶ Individual tax payers have been extended an increase in the basic exemption limit from Rs. 2 lakhs to Rs. 2.50 lakhs. ▶ Deduction available under Section 80C has been increased from Rs. 1 lakh to Rs. 1.50 lakhs. ▶ Interest on self occupied house properties can be claimed as a deduction to the extent of Rs. 2 lakhs, up from the present Rs. 1.50 lakhs. ▶ Maximum investment in PPF has been increased to Rs. 1.50 lakhs per annum. ▶ No changes in the tax structure for companies, firms and LLPs. ▶ Concessional rate of withholding tax @ 5% will be applicable for interest on overseas borrowings. ▶ It has been clarified that expenditure on CSR activities will not be eligible for tax deductions. ▶ Disallowances in the case of non deduction of TDS on expenditure will be restricted to 30% of the expenditure as against the present 100%. ▶ Non deduction or short deduction of TDS on salaries will attract disallowance of 30% of the expenditure. ▶ Trading in commodity derivatives will no longer be treated as speculative transactions. ▶ Loopholes with respect to claiming of deductions and exemptions by trusts and charitable institutions have been plugged. ▶ Powers given to Commissioners of Income Tax to cancel registrations of trusts and charitable institutions.

Indirect taxation
Key areas include :

- No changes in the general rates of excise duty, customs duty and service tax.
- Cigarettes are costlier, but footwear, LED lights, LED panels and computers are expected to be cheaper.
- CENVAT credit must be availed within a period of six months from the date of invoice.
- Significant increase in interest on delayed remittance of service tax.
- Appeals before the Commissioner (Appeals) and the Tribunal will require standard percentages of pre-deposit of duty and penalty demanded.
- Provision for waiver of penalties in the case of suppression of taxable services removed.

- Effective rates of excise duty and service tax have been retained at 12.36%.
- Peak rate of basic customs duty has been left unchanged at 10.0%.
- As expected, excise duty on cigarettes has been increased by as much as 72%.
- Exemptions from excise duty for the renewable energy sector such as bio gas plants, solar energy and other non – conventional energy generation.
- LED lights and footwear have been given sops in the form of lower excise duties.
- Customs duty on LED and LCD panels, parts of computers and tablets has been reduced.
- Baggage rules have been modified to increase the duty free baggage allowance to Rs. 45,000.
- All forms of advertisement other than in the print media will now be subject to service tax along with radio taxis.
- List of exempted services received by educational institutions have been pruned and clearly laid down.
- Works contract services for finishing services will attract marginally higher rates.
- Time limit for availing CENVAT credit has been capped at six months. Earlier, there was no time limit specified.
- Interest on delayed remittance of service tax has been increased to as much as 30% in the case of delays exceeding one year.
- Cascading effect of taxation in the case of tour operator services and rent – a – cab services has been partially dealt with.
- Commission paid to non resident commission agents and brokers who act as intermediaries for import and export of goods will not be subject to service tax.
- Services of reconditioning, repair and re-engineering of imported goods for re-export will not be subject to service tax.
- Modus operandi for claiming exemption from service tax for SEZ units and developers have been clearly laid down.

Direct taxation

Key highlights

- Keeping in mind the governments aim of boosting tax savings from households, incentives have been given to individual tax payers.
- Deduction available under Sec. 80C has been increased by Rs. 50,000.
- Deduction for interest on self – occupied house property has been increased by Rs. 50,000.

Benefits to individual tax payers

- Increasing deduction available under section 80C of the Act from Rs. 1 lakh to Rs. 1.5 lakhs
- Increasing deduction available with respect to interest on housing loans for self occupied house properties from Rs. 1.5 lakhs to Rs. 2 lakhs
- The additional benefit of Rs. 2,000 for individual tax payers with gross total income up to Rs. 5 lakhs has been continued. Effectively, individuals with total income up to Rs. 2.70 lakhs will not have to pay any income tax.

Change in taxation slabs

- Budget 2014 has revised the income tax slabs for individual assessees, as illustrated below:

A. In case of senior citizens, i.e., individuals who are more than 60 years, but less than 80 years

FY 2013 – 14		FY 2014 - 15	
Slab	**Tax rate**	**Slab**	**Tax rate**
Below Rs. 2.5 lakhs	NIL	Below Rs. 3 lakhs	NIL
Rs. 2.5 lakhs to Rs. 5.0 lakhs	10.0%	Rs. 3 lakhs to Rs. 5.0 lakhs	10.0%
Rs. 5.0 lakhs to Rs. 10.0 lakhs	20.0%	Rs. 5.0 lakhs to Rs. 10.0 lakhs	20.0%
Above Rs. 10.0 lakhs	30.0%	Above Rs. 10.0 lakhs	30.0%

B. In case of very senior citizens, i.e., individuals who are more than 80 years

FY 2013 – 14		FY 2014 - 15	
Slab	**Tax rate**	**Slab**	**Tax rate**
Below INR 5.0 lakhs	NIL	Below INR 5.0 lakhs	NIL
INR 5.0 lakhs to INR 10.0 lakhs	20.0%	INR 5.0 lakhs to INR 10.0 lakhs	20.0%
Above INR 10.0 lakhs	30.0%	Above INR 10.0 lakhs	30.0%

Key highlights

- In the case of an individual with an income of Rs. 15 lakhs, with housing loan interest and deduction under Sec. 80C, Budget 2014 promises benefits of up to Rs. 36,050.

C. In case of other individuals

FY 2013 – 14		FY 2014 - 15	
Slab	**Tax rate**	**Slab**	**Tax rate**
Below INR 2.0 lakhs	NIL	Below INR 2.5 lakhs	NIL
INR 2.0 lakhs to INR 5.00 lakhs	10.0%	INR 2.5 lakhs to INR 5.00 lakhs	10.0%
INR 5.0 lakhs to INR 10.0 lakhs	20.0%	INR 5.0 lakhs to INR 10.0 lakhs	20.0%
Above INR 10.0 lakhs	30.0%	Above INR 10.0 lakhs	30.0%

- In the following table we have illustrated the tax savings for an individual assessee having a gross income of Rs. 1,500,000 paying interest on housing loan of Rs. 2 lakhs.

Particulars	Tax Structure (New)	Tax structure (old)
Income	1,500,000	1,500,000
Loss on income from house property - Interest on house property	(200,000)	(150,000)
Gross Total Income	1,300,000	1,350,000
Deduction under Chapter VIA - under section 80C	(150,000)	(100,000)
Total Income	1,150,000	1,250,000
Tax on Total Income: Upto 2 lacs 2 lacs – 2.5 lacs 2.5 lacs – 5 lacs 5 lacs – 10 lacs > 10 lacs	 - - 25,000 100,000 45,000	 - 5,000 25,000 100,000 75,000
Total tax liability (including education cess of 3%)	175,100	211,150
Tax Saving	**Rs. 36,050 (17.07%)**	

Key highlights

- Tax rates for corporates / firms / LLPs remain unchanged
- DDT to be calculated by grossing up the tax to the dividend distributed
- Changes to the definition of long term capital asset for mutual fund units not being equity oriented units of mutual funds
- Withholding tax, i.e., TDS on interest payable on overseas borrowings will be only 5% till July 2017.

Tax rates for companies and firms

- Income tax rates for domestic companies and foreign companies continues at 30% and 40% respectively.
- Income tax rates for firms / LLPs remains unchanged at 30%.
- Surcharge for domestic companies continues to be at 5% of income tax where the total income exceeds INR 1.0 crore, but does not exceed INR 10.0 crores. Domestic companies with total income exceeding Rs. 10.0 crores will now be subject to surcharge of 10%.
- Surcharge for foreign companies continues to be at 2% of income tax where the total income exceeds INR 1.0 crore, but does not exceed INR 10.0 crores. Foreign companies with total income exceeding INR 10.0 crores will now be subject to surcharge of 5%.
- Surcharge of 10% will be imposed on dividend distribution tax irrespective of the amount of dividend declared.

Change in computation of Dividend Distribution Tax ('DDT')

- Presently, DDT is payable @ 16.995% of the dividends distributed by a Company after reduction of DDT. Budget 2014 seeks to gross up the taxes paid on distribution of dividend.

Amendment to classification as long term capital asset

- Under the existing provisions, any shares or any other security listed in a recognized stock exchange in India or units of a mutual fund are treated as a long term capital asset if it is held for a period of more than 12 months.
- Based on the amendments proposed, any unlisted securities or units of a mutual fund (not being equity oriented mutual funds) would be treated as long term capital assets only on completion of 36 months of holding.
- *Those investing in non-equity oriented mutual funds are advised to exercise caution with respect to the change in period of holding while planning sale of units.*

Concessional rate of tax on overseas borrowings

- For those Indian Companies with access to loans from abroad, the availability of concessional withholding rate of 5% on interest has been extended up to July 2017. This provision would prove to be especially useful to those assessees who have access to funds from abroad at lower rates, even in a scenario where the TDS has to be borne by the Indian Company.
- The provision of section 206AA have also been adequately amended to provide that the increased rate of 20% in the absence of PAN would not apply in the case of interest on foreign borrowings covered under section 194LC of the Act.

Key highlights

- Expenditure on CSR activities will not qualify for tax deduction.
- In cases of non or short deduction of TDS, only 30% of the expenditure will be disallowed as against the current 100%.
- Short or non-deduction of TDS on salaries will now attract disallowance of 30% of the expenditure on salaries.
- As a relief to commodity traders, trading in commodity derivatives will no longer be considered as speculative transactions.

Expenditure on Corporate Social Responsibility ('CSR') Activities

- The recently implemented Companies Act 2013 had brought certain companies (net worth > 500 crores or turnover > 1,000 crores or net profit > 5 crores in any year) under the ambit of CSR. Such companies are required to spend a certain percentage of their profits on activities relating to CSR.
- As per the provisions of section 37(1), deduction for expenditures not covered in other sections are allowed provided such expenses have been incurred wholly and exclusively for the purposes of carrying out business. Previously there was a certain sense of ambiguity as to whether CSR activities which were mandatorily required under the Companies Act, 2013 constituted an expenditure incurred wholly and exclusively for the business.
- Budget 2014 seeks to put a rest to this uncertainty by clarifying that such expenditures would not qualify for tax deduction.

Deduction of taxes at source

- **Reduction of quantum of disallowance** – Under the existing provisions, any instance of non-deduction of tax on specified expenditures would result in a disallowance of the entire amount of expenditure while computing taxable income.
- Giving consideration to the financial hardships faced by assessees on account of disallowance of the entire amount of expenditure, the Government has sought to reduce the quantum of this disallowance to 30% of the amount of expenditure.
- **Larger bucket for disallowances u/s 40(a)(ia)** – Previously, certain expenditures such as salary to employees, directors fees, etc. were allowed to be claimed as expenditure even if taxes were not withheld on them as they were not covered under the provisions of Section 40(a)(ia). As a tool for improving TDS compliance, Budget 2014 has extended the coverage of Section 40(a)(ia) to all expenses on which taxes are deductible, including salaries.
- Preparing precise computations for employees in connection with tax deductions and collection of documents in support of tax deductions assumes more importance in light of the amendments to Section 40(a)(ia).
- **Powers of survey extended** – Powers of survey of an income tax officer have been extended to now include even survey for the purpose of verifying whether taxes have been correctly collected / deducted and paid in accordance with the rules. They would have the powers to enter any premise during the day for this verification.

Speculative transactions – commodity derivatives

- Proviso to Section 43(5) has been amended to provide that transactions for trading in commodity derivatives carried out in a recognized stock exchange and chargeable to commodities transaction tax shall not be considered as a speculative transaction.

Key highlights

- The provisions relating to AMT have been suitably amended to remove difficulties with respect to claiming credit of AMT.
- Sweeping changes with respect to trusts and charitable institutions in order to plug loopholes.
- Powers of Commissioners of Income Tax to cancel registrations enhanced.

Credit for Alternate Minimum Tax ('AMT')

- Under the existing provisions, AMT is payable by an assessee not being a company, whose tax on adjusted income @18.5% is greater than tax under the normal provisions of the Act. Credit for the AMT paid was also available in a manner identical to that under the MAT provisions of section 115JB of the Act. However, the existing provisions also provided that the entire chapter on AMT would not apply to an assessee whose adjusted income was less than Rs. 20 lakhs. This posed a problem for those assessees seeking to claim credit for AMT in the subsequent years.
- Budget 2014 has amended the provisions to remove this difficulty and credit for AMT is available irrespective of the fact that adjusted income in the subsequent year in which credit is to be availed may be less than Rs. 20 lakhs.

Key provisions for Trusts / Charitable Institutions – sec 11 / 10(23C)

- **Exemption under section 11 / 10(23C)** – One of the primary conditions for grant of exemption u/s 11 / 10 (23C) is that the income derived from property under the trust would be applied for charitable purposes. Instances were observed wherein people would circumvent this provision and not claim exemption u/s 11 / 10(23C) but claim exemption under any other section of the Act, such as exemption for sale of long term listed securities. Such income would then be applied for non-charitable purposes without affecting the Trust's overall tax cost.
- Accordingly, it is now proposed that any institution claiming benefit u/s 11 or 10(23C), and the registration for the same is in force – then such institution cannot claim any other benefit under section 10 (other than agricultural income)
- **Exemption on acquiring capital asset** – The existing provisions provide exemption with respect to income when applied for acquiring a capital asset. A further deduction is available in the form of depreciation on the same asset resulting in a double deduction. To rectify this double deduction, Budget 2014 proposes to amend the law to provide that deduction as depreciation will no longer be available in respect of assets purchased which have been claimed as deductions. It is important to note that this amendment seeks to cover even additions made in previous years.

- **Cancellation of registration** – Budget 2014 seeks to enhance the powers of a Commissioner to cancel the registration afforded to a Trust or Charitable Institution either u/s 12AA or 10(23C) by including the following circumstances:
    i. Its income does not endure for the benefit of general public
    ii. It is for the benefit of any particular religious community / caste
    iii. Any income or property is applied for the benefit of trustee etc
    iv. Funds are invested / utilized in prohibited modes

Key highlights

- Exemptions for trusts can be claimed for the year immediately preceding the year of registration as well.
- Advances retained against agreements for transfer of capital assets which were subsequently cancelled will now be taxed under the head income from other sources.
- The uncertainty regarding claiming exemption from captial gains through investment in multiple houses has now been set to rest by confirming that the exemption is limited to a single house.
- The limit for investment in PPF has been raised to Rs. 1.5 lakhs.

- **Applicability to earlier years** – The existing provisions of the Act provide that exemptions under section 11 and 12 can be claimed only after obtaining registration under Section 12A, i.e., the claim for exemption is available prospectively.
- The amendment seeks to provide benefits to Trusts by making available the exemption u/s 11 and 12 in any assessment year preceding for an earlier assessment year which is pending before the Assessing Officer as on the date of registration. It is important to note that this benefit would not be available to a trust which was refused registration under Section 12AA or registration once granted was cancelled.

Other key amendments

- **Taxability of advance for transfer of capital asset** – The definition of income has been amended to include an amount of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset.
- As per the amended provisions, on receipt of an advance for transfer of an asset – the same would be taxed under the head income from other sources if the transaction does not conclude. Additionally, the provisions of section 51 have also been amended to exclude to provide that the sum received as advance and already included in the total income in the previous year as income from other sources need not be reduced from the cost of acquisition on subsequent completion of the transaction.

- **Capital gains exemption of investment in residential house property** – Under the existing provisions of section 54 and 54F of the Act, there was uncertainty concerning the intention of the legislature as both sections mentioned investment in **'a'** residential house property. The term 'a' residential house was interpreted by various courts to include more than one house.
- Through Budget 2014, the government has sought to clarify the intention of the legislature was to cover investment in only **one** residential house property. This amendment has been given effect in both section 54 and section 54F of the Act.

- **Investment in Public Provident Fund** – The limit for investment in PPF has been raised from Rs. 1 lakh to Rs. 1.5 lakh to coincide with the increase in limit of section 80C.

Key highlights

- Extension of deduction u/s 32AC and even covering investments made by companies exceeding Rs.25 crores
- Increase in limits of presumptive taxation on plying of goods carriages
- Transfer of government securities between non residents not to be taxed as capital gains
- Dividends from overseas subsidiaries to be taxed @ 15%

Other amendments

- **Extension of deduction available to manufacturing companies** – Finance Act 2013 had introduced a deduction of 15% of the cost of investment made by Company's investing more than Rs. 100 crores. Budget 2014 seeks to extend this benefit by even extending this deduction by even including companies making an investment of over Rs. 25 crores within its ambit
- **Presumptive taxation limits hiked** – The limit of presumptive income in the case of assessees engaged in the business of plying, hiring or leasing goods carriages have been increased from Rs. 5,000 / 4,500 (as the case may be) every month to Rs. 7,500 every month regardless of the category of vehicle. This amendment is proposed considering the inflation.
- **Transfer of government securities by NR to NR** – With a view to encourage listing and trading of government securities outside India it is now proposed to exclude all transfers of government securities carrying periodic interest payments between non residents from the purview of capital gains tax
- **Dividends repatriated from overseas subsidiaries** – Dividends repatriated from overseas subsidiaries of Indian companies would be taxed at a lower rate of 15%.

Indirect taxation

Indirect taxation: Excise Duty

Key highlights

- Effective rate of duty has been retained at 12.36%
- Sops for the renewable energy sector provided through various exemptions to solar, bio-gas and other non-conventional sources.
- Benefits to the footwear industry through the reduction of excise duties on footwear costing less than Rs. 1,000.
- Once again, excise duty on cigarettes has been increased.
- To encourage LED lights in place of the incandescent bulb, excise duty on LED light and fixtures have has been reduced.

Effective rates of duty unchanged

- Once again, the effective rate of excise duty has been retained at 12.36% on non – petroleum products.

The impact of Budget 2014 on key sectors are as follows:

Cigarettes

- Excise duty on cigarettes is being increased by 72% for cigarettes of length up to 65mm and by 11% to 21% for other lengths.

Automobiles

- Excise duty is being exempted on parts of tractors removed from one or more factories of a tractor manufacturer to another factory of the same manufacturer for manufacture of tractors.

Textiles

- Excise duty at the rate of 2% (without CENVAT) or 6% (with CENVAT) is being imposed on polyester staple fiber and polyester filament yarn manufactured from plastic waste or scrap.

Health

- Full exemption from excise duty is being provided for HIV / AIDS drugs and diagnostic kits supplied under National AIDS Control Programme (NACP).

Electronics / hardware

- Excise duty on recorded smart cards is being increased to 12%.
- Excise duty on metal core PCB and LED driver for use in the manufacture of LED lights and fixtures and LED lamps is being reduced to 6%.

Renewable energy

- Full exemption from excise duty is being granted in respect of machinery, equipment, etc. required for setting up of solar energy production projects.
- Parts consumed within the factory of production for the manufacture of non – conventional energy devices is being extended full exemption from excise duty.
- Machinery, equipment, etc. required for setting up of compressed biogas plant will no longer be subject to excise duty.

Consumer goods

- Excise duty is being reduced from 12% to 6% on footwear of retail price exceeding Rs. 500 per pair but not exceeding Rs. 1,000 per pair. Footwear of retail price up to Rs. 500 per pair will continue to remain exempted.

Indirect taxation: Customs Duty

Key highlights

- No changes have been proposed on the peak rates for customs duty.
- Reduction in customs duties in several cases such as e-book readers and inputs and components required for manufacture of computers.
- LCD and LED panels below 19 inches and soaps are expected to be cheaper on account of the reduction in excise duties.
- Baggage allowance has been increased to Rs. 45,000.

Peak rate of duty maintained

- The peak rate of Basic Customs Duty ('BCD') has been left unchanged at 10.0%. CVD also remains unchanged given that the rates of excise duty remained unchanged
- Following are the changes to BCD rates proposed in the Budget

Increase in BCD		
Category	**Existing**	**Proposed**
Stainless steel products	5%	7.5%

Decrease in BCD		
Category	**Existing**	**Proposed**
e-book readers	7.5%	Nil
Parts of LCD and LED panels below 19 inches	10%	Nil
Denatured alcohol	7.5%	5%
Fatty acids, crude palm stearin, RBD, etc. used in manufacture of soaps	7.5%	Nil
Machinery and equipment required for initial setting up of solar energy production projects	10%	5%

- Export duty on bauxite is being increased from 10% to 20%.
- Baggage Rules are being amended to raise the free baggage allowance from Rs. 35,000 to Rs. 45,000 and also reduce the duty free allowance of cigarettes from 200 to 100.
- Special additional duty on all inputs / components used in the manufacture of personal computers and tablet computers is being exempted.

Key highlights

- Service tax rate remains constant at 12.36%
- Online, mobile, and other forms of advertisements other than the print media will now be subject to service tax.
- Radio taxis will be subject to service tax
- Exemption list of services provided to educational institutions has been pruned and clearly laid down.

Service tax rate unchanged

- The effective service tax rate has remained unchanged at 12.36%.

Pruning of the negative list

- The Finance Minister announced his intention to reduce the number of entries in the negative list, i.e., the list of services which are not subject to service tax.
- Sale of space or time for advertisements in segments such as online, mobile, buildings, theatres, bill boards, etc. were earlier not subject to service tax. Such services will now be subject to service tax along with advertisements in the broadcast media, i.e., radio or television which were taxed earlier. Advertisements in the print media, will however continue to be exempt from service tax.
- Services of radio taxis / cabs were earlier exempted through the negative list. Their services will now be subject to service tax along with rent – a – cab services.

Rationalization / Removal of exemptions

- Services of point to point passenger transportation (i.e., other than for the purposes of tourism, conducted tour, charter or hire) were earlier exempt from service tax. Budget 2014 proposes to subject point to point transportation in air conditioned contract carriages to service tax @ 4.944%.
- Services of clinical trials of newly developed drugs or vaccines on human participants will now be subject to service tax.
- The position of service tax with respect to educational institutions is given in the table below:

What is exempt	What is subject to service tax
All services **provided by** educational institutions	Specifically, services of renting of immovable property to educational institutions
Services **received by** educational institutions for ▶ Transportation of students, faculty and staff ▶ Catering services ▶ Security, cleaning and housekeeping services ▶ Services in connection with admission and conduct of examinations	Generally, all other services, other than those mentioned in the column on the left.

Indirect taxation: Service Tax

Key highlights

- Any entity providing accommodation services will now be required to pay service tax, including ashrams.
- Works contracts in the nature of finishing services such as painting, wall tiling, plastering, etc. will be marginally costlier.
- Steep increase in interest rates applicable on delayed remittance of service tax, going up to 30% per annum for delays exceeding one year.

- It has been clarified that services of boarding and lodging provided by dharmashalas, ashrams or any other entity which offer accommodation will be subject to service tax, irrespective of whether their objects are commercial in nature.
- Works contracts were subject to different rates of service tax depending on the type of service provided. The categories of works contracts have been rationalised as follows

Old category	Service tax rate	New category	Service tax rate
Original works	4.944%	Original works	4.944%
Maintenance, repair, reconditioning, restoration or servicing of any goods	8.652%	All other works contract services	8.652%
Other types of works contract services such as glazing, plastering, floor and wall tiling, etc. of an immovable property	7.416%		

Interest on delayed remittance of service tax

- To encourage service tax assessees to promptly remit their service tax dues, the interest rates applicable for delayed remittances have been increased significantly. Currently, the interest rate applicable is 18% per annum. The new interest rates are as follows:

Extent of delay	Interest rate per annum
Up to six months	18%
More than six months and up to one year	18% for the first six months and 24% for the period of delay beyond six months
More than one year	18% for the first six months, 24% for the second six months and 30% for the period of delay beyond one year

- It may be noted that a concession of 3% is available to small service providers whose value of taxable services in a financial year is less than Rs. 60 lakhs.

Key highlights

- No more manual payment of service tax across bank counters.
- Services of non resident brokers and commission agents with respect to import and export of goods will not be subject to service tax.
- Time limit of six months fixed for availing CENVAT credit.
- Mechanism to avoid cascading effect of taxes introduced in the case of tour operators and rent – cab services.

E-payment of service tax

- E-payment of service tax has now been made mandatory with effect from October 1, 2014.

Changes in the Place of Provision of Services Rules, 2012

- The Place of Provision of Services Rules, 2012 ('POPS Rules') determines the location where services have actually been performed and therefore its taxability.
- The POPS Rules have been amended to confirm that goods which have been imported for repairs, reconditioning or re-engineering for re-export will not be subject to service tax in India.
- Services of intermediaries of goods, i.e., brokers, commission agents or consignment agents will be subject to service tax in India only if the said agents are located in India. Thus, import or export commission paid to non-resident agents will no longer be subject to service tax.
- Hiring of vessels or aircraft from non-residents will now be subject to service tax if the service recipient is located in India.

Payment of service tax under the reverse charge mechanism

- Budget 2014 requires that service tax under the reverse charge mechanism be paid in the month / quarter following the month / quarter when the payment was made to the service provider or three months from the date of invoice, whichever is earlier.

Changes in the CENVAT Credit Rules, 2004

- Under the existing CENVAT Credit Rules, 2004, there was no time limit for a manufacturer or a service provider availing credit of inputs and input services. Budget 2014 proposes to curtail this benefit and impose a maximum time limit of six months for the availment of CENVAT credit.
- In cases of service tax paid under the reverse charge mechanism, there is no longer any requirement of full payment of invoice value before credit can be availed.

Credit of input services for rent – a – cab services and tour operator services

- Service providers who are providing rent – a – cab services and tour operator services are currently not permitted to avail CENVAT credit of input services while opting for abatement. To avoid cascading effect of taxation, they will now be permitted to avail CENVAT credit of input services provided by their sub-contractors, i.e., other service providers providing rent – a – cab services and other tour operators. However, credit is limited to 40% of the service tax on the said input services.

Key highlights

- Litigation can be reduced for private limited companies as they are now eligible to approach the Authority for Advance Rulings.
- *Ab initio* exemptions for SEZ units and developers clarified and rationalised.
- Indian tour operators can be more competitive in the international market as they need not charge service tax on foreign tourists for foreign tours.

Advance ruling

- Resident private limited companies will now be eligible to approach the Authority for Advance Rulings on questions of law or fact regarding the liability to pay service tax in relation to a service proposed to be provided. This facility was restricted to non-residents, wholly owned subsidiaries of foreign companies. This amendment is expected to reduce litigation to a great deal.

Modus operandi for exemption to SEZ units and developers

- SEZ units and developers can claim *ab initio* exemption from service tax based on authorisation in Form A2 which has been issued by the Central Excise authorities. Central Excise authorities issue authorisation Form A2 based on verification of Form A1 by the SEZ authorities.
- It has now been clarified that the authorisation will have validity from the date of verification of Form A1 by the SEZ authorities, provided the said Form A1 is furnished to the Central Excise authorities within a period of 15 days.
- In the event Form A1 is not furnished within a period of 15 days to the Central Excise authorities, the authorisation will have validity from the date of furnishing Form A1 to the Central Excise authorities.
- Pending issue of Form A2, SEZ units or developers will be entitled to avail *ab initio* exemption based on Form A1. In such cases, SEZ units will be required to furnish Form A2 within 3 months from the date of receipt of services, failing which the service provider should remit service tax on the services provided.
- The process of *ab initio* exemption in the case of services under full reverse charge mechanism has been further simplified by doing away with the requirement of furnishing service tax registration numbers of the service providers. This is especially useful as the whole purpose of the reverse charge mechanism was to exempt service providers from complying with service tax formalities.
- Budget 2014 provides that services shall be treated as exclusively used for SEZ operations, if the recipient of service is a an SEZ unit or developer, the invoice is in the name of the said unit or developer and the service is used exclusively for furtherance of authorised operations in SEZ.

Tour operator services for foreign tourists

- Budget 2014 may make Indian tour operators more competitive on the international scene as they will not be required to charge service tax on services provided to organise foreign tours for foreign tours.
- It may be noted that this exemption is available only cases when tours are organised for foreign tourists wholly outside India, e.g., services provided to a Sri Lankan for a tour conducted in Bhutan. Services provided in relation to inbound or outbound tours continue to be liable to service tax.

Key highlights

- Pre-deposit of duties and penalties demanded have been fixed
- Possibility for waiver of penalties in the case of suppression of value of taxable services is no longer available.

Appeals

- As in the case of Central Excise, no first stage appeal can be filed before the Commissioner (Appeals) or the Tribunal unless 7.50% of the duty demanded or penalty imposed or both has been deposited.
- Similarly, no second stage appeal can be filed before the Tribunal unless 10% of the duty demanded or penalty imposed or both has been deposited.

Penalty enhanced

- Section 80 of the Finance Act, 1994 provided for the waiver of penalties in certain cases. One such penalty which could be waived under Section 80 was the penalty for suppression of value of taxable services. This penalty has now been removed from the purview of Section 80.

Ready Reckoner

- Key TDS Rates
- Reverse Charge Mechanism

Key TDS Rates

- In the following table we have provided the key rates applicable for tax withholding.

Section	Nature of payment	Cut-off amount (INR)	Rate % (Individual)	Rate % (Others)
194	Deemed dividend	-	10%	10%
194A	Interest other than interest on security (by bank)	10,000	10%	10%
194A	Interest other than interest on securities (by others)	5,000	10%	10%
194C(1)	Contracts	30,000	1%	2%
194C(2)	Sub contracts / advertisements	30,000	1%	2%
194H	Commission or brokerage	5,000	10%	10%
194I	Rent (Land / building / furniture)	180,000	10%	10%
194I	Rent (plant & machinery / equipment)	180,000	2%	2%
194J	Professional / Technical charges / Royalty / Non-compete fee	30,000	10%	10%
194J(1)(ba)	Any remuneration or commission paid to director of the company (other than those covered under Sec. 192)	-	10%	10%

Notes

- 194C - Also where the aggregate of the amounts paid/credited or likely to be paid/credited to Contactor or Sub-contractor exceeds INR 75,000 during the financial year, TDS has to be deducted.
- No PAN for the payee – Tax has to be deducted @ 20% if deductee does not furnish PAN.
- No TDS on goods transport - No deduction shall be made from any sum credited or paid or likely to be credited or paid during the previous year to the account of a contractor during the course of business of plying, hiring or leasing goods carriages on furnishing of his PAN, to the person paying or crediting such sum.

Reverse Charge Mechanism

- The reverse charge mechanism introduced w.e.f. July 2012 for an extended list of services, placed the onus of paying service tax partly on the service provider and partly on the service recipient. The respective liability for the service provider and service receiver are as follows:

Description of service	% of ST payable by the service provider	% of ST payable by the service recipient
Services provided by an insurance agent to any person carrying on insurance business	Nil	100%
Services provided by a goods transport agency in respect of transportation of goods by road	Nil	100%
Sponsorship	Nil	100%
Services provided by an arbitral tribunal	Nil	100%
Legal Services provided by an individual advocate or a firm of advocates	Nil	100%
Support services provided by Govt / local authority in relation to (1) renting of immovable property (2) other specified services (postal service, transportation of goods or passengers, services in relation to aircrafts or vessels)	Nil	100%
Renting of motor vehicles to carry passengers on abated value basis	50%	50%
Renting of motor vehicle to carry passengers on non-abated value basis	60%	40%
Supply of manpower	25%	75%
Execution of works contract	50%	50%
Services provided by a person located in a non-taxable territory to a person located in a taxable territory	Nil	100%

- **Compliances for service provider** – The service provider shall issue an invoice with details indicating the name, address and the registration number of the service provider; the name and address of the person receiving taxable service; the description and value of taxable service provided or agreed to be provided; and the service tax payable thereon.
- **Availability of CENVAT Credit** – Typically, the credit of the entire tax paid on the service received by the service receiver would be available to the service recipient. Based on the new regulations, the credit of tax paid by the service provider would be available on the basis of the invoice while the credit of tax paid by the service recipient would be available on the basis of the tax payment challan.

Compliance Calendar

Compliance Calendar

APRIL

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
		1	2	3	4	5 Payment of excise & ST liability other than e-payment
6 e-payment of excise & ST liability	7	8	9	10 Filing of excise return	11	12
13	14	15 Filing of KVAT Return	16	17	18	19
20 Contribution to Provident Fund & ESI	21	22	23	24	25 ST Return for Oct'13-March 14	26
27	28	29	30 Payment of taxes withheld in Mar'14	Notes:		

MAY

Sunday	**Monday**	**Tuesday**	**Wednesday**	**Thursday**	**Friday**	**Saturday**
				1	**2**	**3**
4 Payment of excise & ST liability other than e-payment	**5**	**6** e-payment of excise & ST liability	**7** Payment of taxes withheld in April'14	**8**	**9**	**10** Filing of excise return
11	**12**	**13**	**14**	**15** Filing of TDS Return (Jan-Mar'14) | Filing of KVAT	**16**	**17**
18	**19**	**20** Contribution to Provident Fund	**21** Contribution to ESI	**22**	**23**	**24**
25	**26**	**27**	**28**	**29**	**30**	**31** Filing of KVAT Annual Return

Compliance Calendar

JUNE

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1	2	3	4	5 Payment of excise & ST liability other than e-payment	6 e-payment of excise & ST liability	7 Payment of taxes withheld in May'14
8	9	10 Filing of excise return	11	12	13	14
15 IT Advance Tax (Q1) | Filing of KVAT Return	16	17	18	19	20 Contribution to Provident Fund	21 Contribution to ESI
22	23	24	25	26	27	28
29	30	Notes:				

JULY

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
		1	2	3	4	5 Payment of excise & ST liability other than e-payment
6 e-payment of excise & ST liability	7	8 Payment of taxes withheld in June'14	9	10 Filing of excise return	11	12
13	14	15 Filing of TDS Returns (Apr-Jun'14)	16	17	18	19
20	21 Contribution to Provident Fund & ESI	22	23	24	25	26
27	28	29	30	31 File personal tax returns for FY 2013-14	Notes:	

AUGUST

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
					1	2
3	4	5 Payment of excise & ST liability other than e-payment	6 e-payment of excise & ST liability	7 Payment of taxes withheld in July 2014	8	9
10 Filing of excise return	11	12	13	14	15 Filing of KVAT Return	16
17	18	19	20 Contribution to Provident Fund	21 Contribution to ESI	22	23
24	25	26	27	28	29	30
31 Professional tax for Apr-Sep'14	Notes:					

SEPTEMBER

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	1	2	3	4	5 Payment of excise & ST liability other than e-payment	6 e-payment of excise & ST liability
7 Payment of taxes withheld in August'14	8	9	10 Filing of excise return	11	12	13
14	15 IT Advance Tax (Q2) | Filing of KVAT Return	16	17	18	19	20 Contribution to provident fund
21 Contribution to ESI	22	23	24	25	26	27
28	29	30 File tax returns for FY 2013-14(Tax audit assessee)	Notes:			

Compliance Calendar

OCTOBER

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
			1	2	3	4
5 Payment of excise duty & ST liability	6 Payment of excise duty & ST liability (e-payment)	7 Payment of taxes withheld in September'14	8	9	10 Filing of excise return	11
12	13	14	15 TDS Return for July-Sep'14 | KVAT Return	16	17	18
19	21 Contribution to provident fund	21 Contribution to ESI	22	23	24	25 File ST Return for Apr-Sep'14
26	27	28	29	30	31	Notes:

NOVEMBER

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
						1
2	3	4	5 Payment of excise & ST (other than e-payment)	6 Payment of excise & ST (e-payment)	7 Payment of taxes withheld in October'14	8
9 Filing of excise returns	10	11	12	13	14	15 Filing of KVAT Returns
16	17	18	19	20 Contribution to provident fund	21 Contribution to ESI	22
23	24	25	26	27	28	29
30 File corporate tax return (TP Cases) for FY 2013-14	Notes:					

G. Joseph & Associates
Chartered Accountants

Compliance Calendar

DECEMBER

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	1	2	3	4	5 Excise & ST liability (other than e-payment)	6 e-payment of excise & ST liability
7 Payment of taxes withheld in November'14	8	9	10 Filing of excise return	11	12	13
14	15 IT Advance Tax (Q3) | Filing fo KVAT Return	16	17	18	19	20 Contribution to provident fund
21 Contribution to ESI	22	23	24	25	26	27
28	29	30	31	Notes:		

JANUARY

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
				1	2	3
4 Excise & ST liability (other than e-payment)	5	6 e-payment of excise & ST liability	7 Payment of taxes withheld in December'14	8	9	10 File excise returns
11	12	13	14	15 File TDS Returns for Oct-Dec'14 | File KVAT Returns	16	17
18	19	20 Contribution to provident fund	21 Contribution to ESI	22	23	24
25	26	27	28	29	30	31

Compliance Calendar

FEBRUARY

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1	2	3	4	5 Excise & ST liability (other than e-payment)	6 e-payment of excise & ST Liability	7 Payment of taxes withheld in January'15
8	9	10 File excise returns	11	12	13	14
15 File KVAT Returns	16	17	18	19	20 Contribution to provident fund	21 Contribution to ESI
22	23	24	25	26	27	28 Professional tax dues for October-March'15

MARCH

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1	2	3	4	5 Excise & ST liability (other than e-payment)	6 e-payment of excise & ST liabilty	7 Payment of taxes withheld in February'14
8	9	10 Filing of excise returns	11	12	13	14
15 IT Advance Tax (Q4) | Filing of KVAT Returns	16	17	18	19	20 Contribution to provident fund	21 Contribution to ESI
22	23	24	25	26	27	28
29	30	31 Excise & ST Liability (including e-payment) | Last date for paying advance tax	Notes:			

Glossary

AMT	: Alternate Minimum Tax	**IT Act**	: Income Tax Act, 1961
BCD	: Basic Customs Duty	**KVAT**	: Kerala Value Added Tax
Budget 2014	: Union Budget for 2014 - 15	**Lakhs**	: Hundred thousands
CENVAT	: Central Value Added Tax	**LLP**	: Limited Liability Partnership
Crores	: Ten millions	**PAN**	: Permanent Account Number
CSR	: Corporate Social Responsibility	**POPS**	: Place of Provision of Services Rules, 2012
DDT	: Dividend Distribution Tax	**PPF**	: Public Provident Fund
ED	: Excise Duty	**Qx**	: Quarter xx
ESI	: Employee State Insurance	**SEZ**	: Special Economic Zone
FY	: Financial Year	**ST**	: Service Tax
GDP	: Gross Domestic Product	**TDS**	:Tax Deducted at Source
GJA	: G. Joseph & Associates	**USD**	: US Dollar
INR /Rs.	: Indian Rupee	**VAT**	: Value Added Tax

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We have used following sources while preparing this document

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Celebrating 26 Years