

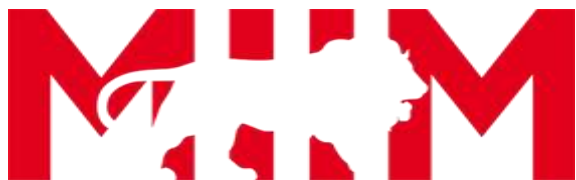
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India Budget 2016
Analysis of Tax Changes and Impact on Business

March 7, 2016



Contents

1.	Foreword.....	2
2.	Budget Preview.....	3
3.	Budget Impact.....	7
3.1.	Income Tax.....	8
3.1.1.	Income Tax Rates.....	8
3.1.2.	Key proposals relating to Personal Tax.....	8
3.1.3.	Key proposals relating to International Tax.....	10
3.1.4.	Key proposals relating to Domestic Tax.....	13
3.1.5.	Key proposals relating to Transfer Pricing.....	17
3.1.6.	Key proposals relating to Procedures.....	19
3.1.7.	Other important changes.....	26
3.2.	Indirect Tax.....	28
3.2.1.	Service Tax.....	28
3.2.2.	CENVAT Credit.....	34
3.2.3.	Excise Duty.....	37
3.2.4.	Customs Duty.....	39
3.2.5.	Common amendments under Customs, Excise and Service Tax.....	41
3.2.6.	Central Sales Tax.....	41
4.	Annexure.....	42
4.1.	Annexure A: Rates of Income Tax.....	42
4.2.	Annexure B: Changes in rates of Excise Duty.....	43
4.3.	Annexure C: Changes in rates of Customs Duty.....	47

1. FOREWORD

The Union Budget 2016 presented on 29 February 2016, comes at a time of unstable global macro-economic environment. The last 12 months have witnessed drastic decline in prices of commodities, major economies of the world like China have gone into a financial turmoil, and exchange rates remain buoyant. These are indications of unfavorable financial conditions within the global economy in the near future. Global investor sentiment is affected to a great extent thus drying up new capital entering the economies. However India still remained the most preferred destination in terms of investor preference. The investor sentiment on India for the next few 12 months doesn't seem to change drastically.

India provides a stable macro-economic environment, due to the government's commitment to control inflation, investor friendly attitude and higher spends on public infrastructure. The Indian economy also was a major beneficiary of sharp reduction in crude oil prices, a strong domestic consumption and controlled inflation. The target now is to sustain this growth rate and investor interest in the long run.

The Union Budget presented on 29 February 2016 is built on the theme of "Transform India". This theme has nine distinct pillars i.e. agriculture welfare, rural sector, social sector, education, skills and job creation, infrastructure and investment, financial sector reforms, governance and ease of doing business, fiscal discipline and tax reforms.

The reforms announced in the union budget are clearly oriented to foster the "Make in India" campaign announced by the Government earlier with the aim of making India a manufacturing hub. The announcement of reduced Income Tax rate for new manufacturing companies is an example of this. The budget also aims at encouraging entrepreneurship, employability and social development among the population in the lower strata of society. The funds allocated to SC/ST and women entrepreneurs support this aim of the budget. The budget proposals also have provided a signal that the government is serious about improving infrastructure within the country. The tax reforms that have been announced are an indication that the government is working to improve the ease of doing business in India.

Overall the budget aims at a stable growth over the next 12 months also seeks to embeds the economy with the roots of sustainability for the future.

2. BUDGET PREVIEW

Income Tax

Corporates

Important Amendments

- Tax rates for corporates and foreign companies (including Permanent Establishments of non-resident entities in India) remain unchanged except the following:
 - **The Income Tax rate for domestic companies engaged in manufacture or production and set up (registered) on or after 1 March 2016 is proposed to be reduced from 30% to 25%.** However, this only applies to companies who decide not to claim certain defined deductions / tax incentives. The companies have to opt for either enjoying the lower tax rate or the deductions / tax incentives upon filing their Income Tax returns.
 - The Income Tax rate for domestic companies whose total turnover or gross receipts in the previous year 2014-15 does not exceed INR 50 million is proposed to be slightly reduced from 30% to 29%.
- Rates of Surcharge & Cess remain unchanged for domestic and foreign companies.
- Rates for Minimum Alternate Tax (“MAT”) and Dividend Distribution Tax remain unchanged.
- Relaxation in requirement to furnish **Permanent Account Number by non-residents** in respect of certain income, subject to prescribed conditions.
- Applicability of the test of **Place of Effective Management** for determining residence of a company deferred by one year, to be applicable from 1 April 2016 (i.e. Indian Assessment Year 2017-18). The Government will meanwhile provide a transition mechanism for foreign companies who have not earlier been assessed to tax in India under such POEM based residency rule.
- MAT provisions will not apply to foreign companies having no Permanent Establishment in India or having no registration requirement under any other law in India retrospectively from Financial Year 2000-01.
- Introduction of a **Patent Box** under which royalty income earned by an Indian resident from a patent developed and registered in India to be taxed on a gross basis at the rate of 10%.
- Introduction of a so called “**Equalization Levy**” at the rate of 6% on the amount of consideration received by non-residents for certain specified services (digital advertising).

- Introduction of a comprehensive Transfer Pricing **Country by Country Reporting and Master File concept** in line with Action Plan 13 of the OECD Base Erosion Profit Shifting (“BEPS”) initiative.

Further Amendments

- Phasing out of various profit linked incentives and deductions as well as accelerated depreciation related provisions.
- Special tax concessions for start-ups, including a three year tax holiday and exemption from long term capital gain.
- In respect of unlisted shares, reducing the holding period from three to two years to get benefits of long term capital gains taxation scheme in case of unlisted companies.
- Long-term capital gains arising from the transfer of a capital asset being shares of a closely held company, shall be chargeable to tax at the rate of 10 per cent.
- Amendments to procedural aspects of filing a tax return, including belated / revised / defective returns.
- Reducing the time limits for assessment or reassessment by three months.
- Penalty provisions for concealment of income revamped, a new code for imposition of penalty on under-reporting, misreporting of income introduced.
- Reducing litigation and backlog of cases, Dispute Tax Resolution Scheme, 2016 proposed to be introduced for appeals pending before Appellate Authorities.
- Income Declaration Scheme, 2016 proposed to be introduced for disclosing undisclosed income by paying tax, surcharge and penalty at a combined rate of 45% of undisclosed income.
- Rationalization of several provisions relating to Tax Deduction at Source, including increase in threshold limits, revision in rates of Tax Deduction at Source and omission of non-operational Sections.

Non-Corporates

Important Amendments

- Income Tax rates for individuals remain unchanged.
- Rate of Surcharge increased from 12% to 15% on income exceeding INR 10 million for non-corporate taxpayers.
- Dividend income from domestic companies received by resident Individuals, HUFs and Firms in excess of INR 1 million taxable at the rate of 10%.

- Withdrawal of accumulated balance from RPF attributable to contributions made on or after 1 April 2016 by an employee would be exempt in the hands of the employee up to 40% of such accumulated balance and the balance 60% would be taxable. As a corollary, amount withdrawn from NPS to the extent of 40% will be exempt from tax.

Further Amendments

- Rebate of Income Tax for resident individuals with total income not exceeding INR 500,000 enhanced from INR 2,000 to INR 5,000.
- The period within which the construction or acquisition of a self-occupied house property is to be completed, to claim a deduction of interest on housing loan, increased from 3 years to 5 years reckoned from the year in which the loan is borrowed. The permissible deduction limit continues to be ₹200,000.
- Rationalize advance tax payment schedule for assesseees (other than companies) and bring it in consonance with the existing advance tax payment schedule applicable for a company.
- Additional benefits granted to promote housing in the form of enhanced interest deductions, increase in time threshold for completion of construction etc.

Service Tax

- Enabling provisions introduced to levy “**Krishi Kalyan Cess**” (“KKC”) on the value of all taxable services at a rate of 0.5% from 1 June 2016. This would increase the effective rate of Service Tax from 14.50% to 15.00%.
- Broadening of Service Tax base by pruning down the list of services entitled for exemptions. Major changes include:
 - **Services provided by shipping lines** by way of transportation of goods by a vessel from a place outside India to an Indian port. This will lead to double taxation as both Service Tax and Customs Duty would apply on inward ship freight.
 - License fee paid to the Government for transfer of right to use telecommunication spectrum has been included in the list of Declared Services (taxability on any services received by a business entity from Government or local authorities also notified effective 1 April 2016)
- Provisions relating to arrest have been rationalized by increasing the threshold limit to INR 20 million. It has been further clarified that proceedings initiated against Directors/ employees shall be deemed to be closed in case the assessee discharges the applicable dues.
- Annual return under the Service Tax laws made applicable for service providers.

CENVAT Credit

- CENVAT Credit availability on KKC announced without corresponding changes under CENVAT Credit Rules. CENVAT Credit to be available only in the hands of service providers and would be a cost to manufacturers in absence of output KKC liability.
- Time limits for filing the claim for refund of CENVAT Credit under Rule 5 of CENVAT Credit Rules for exporters of service rationalized.
- Rule 6 of CENVAT Credit Rules which prescribed the mechanism for availment and reversal of CENVAT Credit in case of assesses engaged in both taxable and exempted operations amended to fully allow CENVAT Credit on inputs/ input services used exclusively for taxable operations.
- Infrastructure Cess applicable on motor vehicles kept outside of CENVAT Credit provisions.
- Interest provisions in case of utilization of inadmissible CENVAT Credit on FIFO basis introduced in the earlier budget has been removed.

Central Excise

- Infrastructure Cess ranging from 1% to 4% introduced on certain motor vehicles.
- Revision of excise returns allowed along with introduction of single annual return.
- Increase in Clean Energy Cess (Clean Environment Cess) from INR 200/tonne to INR 400/tonne.

Customs

- Rules for deferred payment of Customs Duty for importer/exporters with proven track record to be framed.
- Provisions relating to bond value for warehousing goods and period of warehousing for EOU/ STP units amended.
- Various limits prescribed under the Customs Baggage Rules for allowing Duty Free Allowance rationalized. No declaration required for passengers other than persons carrying dutiable/ prohibited goods.

Common Indirect Tax Changes

- Indirect tax provisions on Information Technology Software recorded on a media have been rationalized to avoid double taxation. Accordingly, IT software on a media bearing Retail Sale Price (“RSP”) would attract Countervailing Duty (“CVD”) (on import) and Excise Duty (on local manufacture). Consequently, Service Tax on such software has been exempted subject to

fulfilment of prescribed conditions. IT software recorded on media not bearing the RSP would attract Service Tax and accordingly, has been granted exemption from CVD/ Excise Duty.

- Interest rates on Customs and Excise Duty reduced from 18% p.a. to 15%. Interest on Service Tax rationalized at 15% p.a. Higher rate of interest at the rate of 24% p.a. shall be applicable on Service Tax collected but not paid.
- Period of limitation increased from 1 year to 2 year in Excise and Customs Duty in cases not involving fraud, etc. In case of Service Tax, the said limit is enhanced from 18 months to 30 months.
- Indirect Tax Dispute Resolution Scheme, 2016 introduced to reduce existing litigations.

3. BUDGET IMPACT

The majority of the tax proposals presented by the Finance Minister are in line with the overall objectives of the Government of providing an impetus to start ups and thrust to “Make in India”. A number of changes have been announced for simplification and rationalization of the taxation regime as well as to reduce litigation and provide certainty in taxation. The focus of this year’s budget is to “Transform India” with special emphasis on small tax payers and promoting the agriculture and rural sector.

An interesting feature of this year’s budget is that the Finance Minister has categorized tax reforms around a “9 Point Plan” and measures have been accordingly proposed centric these 9 points as under:

- 1) Relief to small tax payers
- 2) Measures to boost growth and employment generation.
- 3) Incentivizing domestic value addition to help Make in India.
- 4) Measures for moving towards a pensioned society.
- 5) Measures for promoting affordable housing.
- 6) Additional resource mobilization for agriculture, rural economy and clean environment.
- 7) Reducing litigation and providing certainty in taxation.
- 8) Simplification and rationalization of taxation.
- 9) Use of Technology for creating accountability.

The Finance Minister had also made an announcement in the last year’s budget of reducing the rates of Corporate Tax in a phased manner with simultaneous removal of exemptions and incentives for corporate tax payers to make up for the loss of revenue. As a one step forward in this direction, this year’s budget contains several measures for rationalizing existing incentives and deductions.

This segment discusses significant direct and indirect tax amendments and reforms announced in the Union Budget 2016. Most direct tax proposals contained in the Finance Bill are effective from 1 April 2017, i.e. for the Financial Year 2016-17, unless otherwise specified in the respective amendments.

However, in case of indirect taxes, the changes in the rates of Excise and Customs Duties would be effective from 1 March 2016 itself while the rate of Service Tax due to levy of Krishi Kalyan Cess would change from 1 June 2016. Other legislative changes would be effective from the date of enactment of the Finance Bill 2015 unless otherwise prescribed in the Notifications.

The First Draft of the Finance Bill is discussed in both the houses of the Parliament (Rajya Sabha and Lok Sabha) and could be amended based on these discussions. The Finance Bill is enacted when it receives the Presidential assent.

3.1. Income Tax

3.1.1. Income Tax Rates

Personal tax rates

- No change has been proposed in personal Income Tax slabs / rates and the existing slabs / rates will continue.
- The rate of surcharge has been enhanced from 12% to 15% on income-tax in case the total income of non-corporate taxpayers exceeds INR 10 million.
- An additional Income Tax of 10% is proposed to be levied in the hands of shareholders, being individuals, Hindu undivided families (HUFs) or firms, being residents in India, in case amount of dividend received during the year exceeds INR 1 million on gross basis. Until now, dividends were exempt in the hands of recipients subject to a Dividend Distribution Tax being paid.

Corporate Tax Rates

- There is no change in the basic corporate tax rate for domestic as well as for foreign companies except for the following :
 - Tax rates for newly setup domestic companies, i.e. companies set up and registered on or after 1 March 2016 and engaged in manufacture or production of any article or thing proposed to be reduced to 25%, at the option of the company, subject to not claiming deductions/incentives.
 - Tax rate proposed to be reduced to 29% for domestic companies whose total turnover or gross receipts in the previous year 2014-15 does not exceed INR 50 million.
- Rate of Surcharge remains same in case of domestic and foreign companies.
- Rates for Minimum Alternate Tax and Dividend Distribution Tax remain unchanged.

3.1.2. Key proposals relating to Personal Tax

- **Measures to promote housing**
 - Presently, a deduction on account of interest of housing loan of INR 200,000 is available in respect of self-occupied property and such acquisition or construction is complete within 3 years from the end of financial year in which the capital is borrowed. This time period

within which the construction or acquisition of a self-occupied house property is to be completed, has been increased from 3 years to 5 years.

- Deduction on account of rent paid by an individual provided he is not paid a House Rent Allowance by his employer has been increased from the present limit of INR 2,000 per month to INR 5,000 per month.
- The existing provisions of Section 80EE provide a deduction of up to INR 100,000 in respect of interest paid on loan by an individual for acquisition of residential house property. It is proposed to incentivize first home buyers availing home loans by providing additional deduction in respect of interest on loan taken for residential house property from any financial institution up to INR 50,000. The deduction shall be available for the financial year 2016-17 and subsequent years. This deduction shall be allowed subject to the following conditions:
 - The loan is sanctioned by the financial institution during the period from 1 April 2016 to 31 March 2017.
 - The amount of loan sanctioned for acquisition of the residential house property does not exceed INR 3.5 million.
 - The value of residential house property does not exceed INR 5 million.
 - The taxpayer does not own any residential house property on the date of sanction of loan.
 - The deduction cannot be claimed under any other provision of the Income Tax Act.
- Provisions relating to taxability of recovery of unrealized / arrears of rent have been rationalized; to be taxable in the financial year in which such rent is received or realized, whether the taxpayer is the owner of the property or not; 30% of arrears of rent or unrealized rent realized subsequently will be allowed as a deduction.
- **Capital Gains**
 - Presently, to qualify as long term capital asset, period of holding is three years for shares of unlisted companies. It is now proposed to reduce holding period from three to two years to get benefit of long term capital gain regime in case of unlisted companies.
 - It is proposed that long-term capital gains arising from the transfer of a capital asset being shares of a company not being a company in which the public are substantially interested (private company), shall be chargeable to tax at the rate of 10 per cent.
- **Retirement Benefits**
 - Presently, the tax treatment for the National Pension System (“NPS”) is “Exempt, Exempt and Tax” (“EET”) whereas for the Recognized Provident Fund (“RPF”) it is “Exempt,

Exempt and Exempt” (“EEE”). In order to bring the NPS and RPF at par, it is proposed to extend the Exempt, Exempt and Tax (EET) scheme of taxation to RPF. It is therefore proposed that the withdrawal of accumulated balance from RPF attributable to contributions made on or after 1 April 2016 by an employee would be exempt in the hands of the employee up to 40% of such accumulated balance and the balance 60% would be taxable.

As a corollary, the amount withdrawn from NPS to the extent of 40% will be exempt from tax.

➤ **Monetary ceiling for contributions by employer to RPF**

Currently, contributions made by the employer to RPF up to 12% of employee’s salary are exempt in the hands of the employee. It is proposed that contribution made by the employer to RPF in excess of 12% of employee’s salary or in excess of INR 150,000, whichever is less would be liable to tax in the hands of the employee.

3.1.3. Key proposals relating to International Tax

➤ **Place of Effective Management Test deferred by one year**

The Finance Act, 2015 amended the concept of determining the residential status of a company (effective from 1 April 2015). It was proposed that a company will be deemed to be resident in India if its “Place of Effective Management” in that year is in India.

It is proposed to defer the effective date of implementing this provision to 1 April 2016 (corresponding to Indian Assessment Year 2017-18) to provide clarity with respect to implementation of place of effective management based rule of residence for a foreign companies not assessed earlier to tax in India as well to provide for a suitable transitional mechanism for such companies. The Central Board of Direct Taxes (“CBDT”) has already issued Draft Guidelines in the context of determination of POEM and the Final Guidelines are expected soon.

➤ **Exemption from furnishing of PAN to certain non-residents**

The existing Section 206AA, inter alia, provides that any person who is entitled to receive any sum on which tax is deductible under the Income Tax Act shall be liable to furnish the Permanent Account Number to the person responsible for deducting tax at source. Non-furnishing of PAN will attract a higher rate of tax deduction at the rate of 20%.

The provisions of Section 206AA also apply to non-residents (with an exception in respect of payment of interest on long-term bonds as referred to in Section 194LC of the Income Tax Act).

In order to reduce compliance burden, it is proposed that Section 206AA shall not be applicable to a non-resident (other than a company) or a foreign company in respect of any other payments, other than interest on bonds, subject to such conditions as may be prescribed.

This amendment shall be applicable from 1 June 2016.

The impact of this provision currently is not clear. It will depend on the conditions still to be disclosed.

➤ **Applicability of Minimum Alternate Tax (“MAT”) on foreign companies**

With a view to provide certainty in taxation of foreign companies, it is proposed that the provisions of Minimum Alternate Tax as per Section 115JB of the Income Tax Act shall not be applicable to a foreign company with effect from 1 April 2001 if:

- the foreign company is a resident of a country or a specified territory with which India has Double Taxation Avoidance Agreement (“DTAA”) and does not have a Permanent Establishment in India in accordance with the provisions of such Agreement; or if
- the foreign company is a resident of a country with which India does not have a DTAA and is not required to seek registration under any law for the time being in force relating to companies.

The amendment made effective retrospectively from the April 1, 2001

➤ **Equalization Levy**

In line with the recommendations of the OECD and the Base Erosion Profit Shifting initiative (“BEPS”), it is proposed to impose an “Equalization Levy” of 6% on the amount of consideration for specified services received by a non-resident not having a Permanent Establishment in India by way of insertion of a new Chapter.

“Specified services” has been defined to mean online advertising or any provision for digital advertising space or any other facility or service for the purpose of online advertisement, or any other service as may be notified by the Central Government.

The Equalization Levy will not to apply if the consideration does not exceed INR 100,000 in a year.

In order to avoid double taxation, it is proposed that an exemption will be provided in respect of income arising from specified services on which Equalization Levy is chargeable.

It is also proposed to define certain terms and expressions to provide certainty and avoid interpretational issues. Procedure for collection and recovery of Equalization Levy will also be provided for.

The new Chapter will be effective from the date as notified by the Government.

➤ **Fund Manager’s presence in India not to constitute Business Connection**

Finance Act, 2015 had introduced a special taxation regime in respect of offshore funds. It provides that, in the case of an eligible investment fund, the fund management activity carried out through an eligible fund manager acting on behalf of such fund shall not constitute business connection (taxable presence) of the fund in India.

Furthermore, an eligible investment fund shall not be said to be resident in India merely because the eligible fund manager, that undertakes fund management activities on its behalf, is located in India.

In order to qualify as an eligible fund, the fund has to be resident of a country or territory with which India has entered into a tax treaty or Tax Information Exchange Agreement (“TIEA”). In respect of activities of the fund, there is a restriction that the fund shall not carry on or control and manage, directly or indirectly, any business in India or “from India” and shall not engage in any activity which constitutes a business connection in India.

Thus, in many instances, a fund may not qualify as a tax resident of a particular jurisdiction because of the domestic tax laws or legal framework of that country making it ineligible for the special taxation regime.

In order to rationalize the special taxation regime for offshore funds, it is proposed to provide that the eligible investment fund shall also mean a fund established or incorporated or registered outside India in a country or a specified territory notified by the Central Government in this behalf.

It is also proposed to provide that the condition of fund not controlling and managing any business in India or from India shall be restricted only in the context of activities in India.

➤ **International Financial Services Centre (“IFSC”)**

Presently, certain income linked incentives are provided to units of an IFSC. With a view to facilitate and incentivize the growth of IFSC into a world class hub, the following tax benefits are proposed:

- No Dividend Distribution Tax is required to be paid on distributions made on or after 1 April 2016 where the total income of a company comprises of income from a unit located in an IFSC in convertible foreign exchange. This exemption is available both to the payer and recipient of dividends.
- Minimum Alternate Tax will be levied at 9% (instead of 18.5% applicable to companies).

3.1.4. Key proposals relating to Domestic Tax

➤ Measures to phase out deductions and incentives

The Finance Minister in his Budget Speech, 2015 had indicated that corporate tax rates will be reduced significantly with corresponding phasing out of various profit linked deductions, accelerated depreciation on assets and weighted deductions over a period of time.

Section and Incentive available	Proposed Phase out effective from financial year
Section 10AA – Profit linked deduction for SEZ units	FY 2020-21
Section 35AC – Expenditure on eligible projects	FY 2017-18
Section 35CCD - Expenditure on skill development project	FY 2020-21
Section 80IA, 80IAB and 80IB – Profit linked deduction for specified period on specified businesses	FY 2017-18

Section / Accelerated or Weighted Depreciation	Proposed Phase out Plan
Section 32 – 100% depreciation for certain Industrial sectors	Restricted to 40% effective FY 2017-18
Section 35 – Contributions for scientific / statistical research	Several Phase out measures introduced
Section 35AD – Weighted deduction of 150% of capital expenditure by specified businesses	Deduction restricted to 100% effective 2017-18
Section 35CCC – Weighted deduction of 150% on expenditure incurred on Notified Agricultural projects	Deduction restricted to 100% effective 2017-18

➤ Taxation of income from patents

In order to encourage indigenous Research and Development activities, a concessional taxation regime is proposed for Income from Patents. It is proposed that a concessional tax rate of 10% (plus applicable Surcharge and Cess) on gross basis will apply on royalty income of an eligible tax payer from patents developed and registered in India.

Eligible taxpayer is inter-alia, defined as the person resident in India who is true and first inventor of the invention and whose name is entered on patent register as the patentee under Patents Act, 1970.

➤ Taxation of non-compete fees and exclusivity rights in profession

Presently, non-compete fee received/ receivable by a tax payer for not carrying out any activity in relation to any business is taxed as business income. It is proposed that non-compete fee received/ receivable by taxpayer in relation to any profession will also be taxed as business

income. Further it is also provided that any receipts for transfer of right to carry on any profession, which are chargeable to tax as capital gains will not be taxed as business income and in computing such capital gains, the cost of acquisition and cost of improvement will be taken as Nil.

➤ **Tax incentives for start-ups**

In order to provide an impetus to start ups and facilitate their growth, the following measures have been announced:

➤ **Tax Holiday for Eligible Start Ups**

100% deduction of profits and gains derived by an eligible start-up business engaged in innovation development, commercialization of new products, processes driven by technology or intellectual property. 100% tax holiday for 3 consecutive years for business set-up on or after 1 April 2016 and before 1 April 2019.

➤ **Exemption from Long Term Gains on Investment in Start-up Fund of funds**

A specified fund will be created by the Central Government to promote the start-up ecosystem. It is proposed to provide an exemption from long term capital gains in case proceeds from sale of shares of eligible start-ups are invested in units of the Notified Start-up Fund. Investment will be allowed upto the maximum limit of INR 5 million in the year of transfer and the subsequent year with the condition that the amount should stay invested for a period of three years.

➤ **Exemption from Long Term Gains on sale of property to invest in shares of start-up**

It is proposed to provide an exemption from long term capital gains on sale of residential property to an individual/ HUF, willing to set up a start-up company provided such proceeds are invested in shares of an eligible start-ups (i.e. technology driven start-ups so certified by the Inter-Ministerial Board of Certification) subject to the condition that the individual or HUF holds more than 50% shares of the company and such company utilizes such amount to purchase new assets before the due date of filing return.

➤ **Rationalization of tax incentive for new machinery**

Presently, an Investment Allowance is provided to a company on investment in new plant or machinery acquired and installed during the period from 1 April 2014 to 31 March 2017 for an amount exceeding INR 250 million at the rate of 15%. This allowance is subject to the condition that acquisition and installation of the plant or machinery is done in the same financial year.

To reduce hardship to taxpayers, it is proposed that the Investment Allowance will be allowed even if new plant or machinery is acquired and installed in different financial years provided installation is complete before 31 March 2017. In these cases, the investment allowance will be allowed in the year of installation.

The amendment will be applicable retrospectively from financial year 2015-16 and will also apply to financial year 2016-17.

➤ **Expenditure on railways to be allowed on payment basis**

As per Section 43B of the Income Tax Act, certain statutory dues and payments are allowed only if they are deposited or paid before the due date of furnishing the return of income. It is proposed that expenditure on railways for use of railway assets will now be allowable only on payment basis.

➤ **Additional depreciation for power sector**

At present, additional depreciation of 20% is allowed on cost of new plant or machinery acquired and installed by taxpayers engaged in the business of generation and distribution of power, over and above the general depreciation allowance.

In order to rationalize the incentives for power sector, the benefit of additional depreciation is extended the taxpayers engaged in the business of transmission of power from financial year 2016-17.

➤ **Tax Incentives for employment generation**

It is proposed to extend the deduction of 30% of additional wages in respect of cost incurred on employees whose total emoluments are less than or equal to INR 25,000 per month. For availing the deduction, employees in employment of the tax payer for minimum period of 240 days will be considered.

➤ **Rationalization of provisions relating to receipt of shares as a consequence of demerger or amalgamation**

Presently, receipt of money, immovable property or other property without or inadequate consideration in excess of INR 50,000 by an individual or Hindu undivided family (HUF) is taxable as Income from other sources. It is proposed that any shares received by an individual or HUF as a consequence of demerger or amalgamation of a company shall not attract the rigors of this provision.

➤ **Increase in Tax Audit limit for persons with Income from Profession**

In order to reduce the compliance burden, it is proposed to increase the threshold limit of total gross receipts for getting accounts audited, from the present INR 2.5 million to INR 5 million in case of persons carrying on a Profession.

➤ **Presumptive Taxation Scheme**

➤ Income from Profession

It is proposed to provide an option of presumptive taxation to taxpayers engaged in profession (medical, legal, medical, engineering, architectural, accountancy, technical consultancy, interior decoration or any may be notified by the Central Government) having total receipts less than INR 5 million in a year. Deduction will be allowed at 50% of the total gross receipts. Such professionals will not be required to maintain accounts or get the accounts audited if the presumptive taxation scheme is being availed.

➤ Income from Business

With a view to reduce the compliance burden of small tax payers engaged in eligible business, the existing threshold turnover limit of INR 10 million to qualify for presumptive taxation is proposed to be increased to INR 20 million.

➤ Rationalization of Advance Tax Payment for presumptive business

It is proposed that an eligible taxpayer in respect of eligible business referred to in Section 44AD opting for computation of profits or gains of business on presumptive basis, shall be required to pay advance tax of the whole amount in one instalment on or before the 15th March of the financial year. Consequential amendments have been made in Section 234C relating to interest on deferment of advance tax.

➤ **Conversion of company into Limited Liability Partnership (LLP)**

Existing provisions provide that conversion of a private limited or unlisted public company into a LLP shall not be regarded as transfer, if certain conditions are fulfilled, which, inter alia, includes a condition that the company's gross receipts, turnover or total sales in any of the preceding three years did not exceed INR 6 million.

Additional condition i.e. value of total assets in the books of company in any of the three preceding years should not exceed INR 50 million is proposed to be introduced for claiming tax neutrality in case of conversion of a company into LLP.

➤ **Buy-back of shares**

- Existing buyback tax provisions provide for levy of additional Income Tax at the rate of 20% of distributed income on account of buy back of unlisted shares by a company. Presently, Buyback has been defined as purchase by a company of its own shares in accordance with provisions of Section 77A of Companies Act, 1956. It is proposed to amend the provision to provide that buy-back tax shall apply to any buyback of unlisted shares undertaken by the company in accordance with provisions of law relating to the Companies and not necessarily restricted to Section 77A of Companies Act, 1956.

- Further, presently, Distributed Income has been defined to mean consideration paid by the company on buy back of shares as reduced by the amount which was received by the company for issue of such shares. There are various circumstances where shares may have been issued by the company in tranches, for different considerations, at different points of time; or may have been issued in lieu of existing shares of another company under tax neutral corporate reorganization. It is proposed to provide that for the purpose of computing “Distributed Income”, amount received by the company should be determined in prescribed manner and appropriate Rules would be framed to provide the manner of determination of amount in various circumstances.

These amendments will take effect from 1 June 2016.

3.1.5. Key proposals relating to Transfer Pricing

- **Base Erosion Profit Shifting (BEPS) Action Plan – Country by Country (CbC) Report and Master File**

India being the one of the active members of the BEPS initiative, through this Finance Bill has introduced in its Transfer Pricing (“TP”) Regime, revised standards for transfer pricing documentation in line with BEPS Action Plan 13. The reporting provisions for CbC report, shall apply only in respect of an international group having consolidated revenue in the preceding year above a threshold limit, which will be prescribed in due course (EUR 750 million threshold as per International Consensus also discussed in the Memorandum to the Finance Bill 2016).

The provisions are effective from 1st April, 2017 i.e. for FY 2016-17 and shall apply for the Assessment year 2017-18.

So for instance in case of Indian Company, if the Consolidated International Group Revenue exceeds EUR 750 million in FY 2015-16, then For FY 2016-17 the new CbC reporting requirement provisions would be applicable.

The matters to be covered under the CbC report are as prescribed in the Annex 3 to Chapter V of BEPS Action Plan 13, which covers details of revenue, profit before tax, taxes paid, taxes accrued, stated capital, accumulated losses, tangible assets except cash or cash equivalents, with regard to each country or territory in which group operates. Further details of each entity based on country of incorporation, country of residence have to be given along with the main business activities carried out by such entities.

The requirements of maintaining Master File would be prescribed in due course.

If the parent entity of an international group is resident in India, it is required to furnish the CbC report in respect of the group by the due date of furnishing of return of income for the relevant Financial Year. Accordingly, an Indian parent company will need to furnish the first CbC report by 30 November 2017 for the Financial Year 2016-17.

An entity in India of an international group having an overseas resident parent is required to provide the details of the country of residence of the parent by the prescribed date to the prescribed Indian tax authority.

An Indian entity belonging to an international group with an overseas parent shall be required to furnish the CbC report to the prescribed authority if the parent entity of the group is resident:

- in a country with which India does not have an arrangement for exchange of the CbC report; or
 - there is a systematic failure of the country in exchanging the said information with India even though there is an agreement; and
 - this fact has been intimated to the entity by the prescribed authority.
- **Penal provisions have been introduced in relation to CbC Report and Master File,**
- For non-furnishing of the CbC report by a reporting entity, a day wise graded penalty structure would apply (INR 5,000 to 50,000 per day).
 - In case of non-submission of information in relation to filled CbC report, penalty calculated on day wise basis will apply (INR 5,000 to 50,000 per day).
 - If the reporting entity has provided any inaccurate information in relation to CbC report, then a lump sum amount of penalty INR 500,000 may be imposed.
 - Non maintenance of Master File will attract a penalty INR 500,000 may be imposed.
- **Penalty for Failure to Report a Transaction**

New Penalty has been proposed for under-reporting or misreporting of Income by a tax payer. Penalty for failure to report an International Transaction or Deemed International Transaction or Specified Domestic Transaction will not attract a penalty of 200% or 50% of the tax amount as the case may be.

It is proposed that penalty shall be levied at 50% of tax payable on under-reported income. However, in cases of misreporting of income, a penalty of 200% of the tax amount will be levied. Misreporting of income will include “failure to report any international transaction or deemed international transaction or specified domestic transaction, which are covered under transfer pricing provisions”.

However, it has been specifically provided that any transfer pricing addition will not attract penalty, if the following conditions were satisfied:

- Proper documents and information was maintained;
- International Transaction was declared; and
- Material facts relating to the transaction were disclosed.

3.1.6. Key proposals relating to Procedures

➤ **Filing of Return of Income**

➤ Return of Income by specified persons

- It is proposed that if a person during the financial year earns exempt income in the nature of long term capital gains from the transfer of equity shares and equity oriented funds and income of such person without giving effect to the said exemption exceeds the maximum amount which is not chargeable to tax, he shall also be liable to file return of income for the financial year within the due date.
- The return of income is required to be filed within the due date for the purpose of carry forward of loss of specified businesses like cold storage, warehousing, hotels etc for claiming deduction of the Income Tax Act.

➤ Belated Return of Income

It is proposed that any person who has not furnished a return within the time allowed to him, may furnish the return for any financial year at any time before the end of the relevant Assessment Year or before the completion of the assessment, whichever is earlier.

➤ Revised Return of Income

It is proposed to provide that if any person, having furnished a return within the time allowed/ due date for furnishing date or a belated return, or in a return furnished in response to notice discovers any omission or any wrong statement therein, he may furnish a revised return at any time before the expiry of one year from the end of the relevant assessment year or before the completion of the assessment, whichever is earlier.

➤ Defective Return of Income

It is also proposed that a return which is otherwise valid would not be treated defective merely because self-assessment tax and interest payable has not been paid on or before the date of furnishing of the return.

➤ **Use of technology for paperless assessments**

In order to enhance efficiency and reduce the burden of compliance, it is proposed to amend the relevant provisions of the Income Tax Act so as to provide adequate legal framework for paperless assessment. A series of changes are proposed to achieve this end.

It is proposed that notices and documents may be issued by the Income Tax authorities either in paper form or in electronic form in accordance with prescribed procedures. It has been proposed to define the term “hearing” to include communication of data and documents through electronic mode.

➤ Penalty provisions revamped

Present penalty provisions for concealment or furnishing inaccurate particulars of income have been revamped by the Finance Bill 2016 and shall cease to apply to assessments initiated in FY 2016-17 and subsequent years and penalty would be levied under the proposed new Section – Section 270A. Its salient features are as follows-

➤ Penalty for under-reporting or misreporting of income:

Sec. 270A provides for levy of penalty in case of under-reporting of income by taxpayers in following cases:

Particulars	Amount of under assessed income
<p><u>Scenario 1 : Regular Assessment</u></p> <p>In a case where return has been furnished and income has been assessed for the first time and assessed income is greater than income processed vide Intimation</p>	Assessed income less income processed vide Intimation
<p>No return is filed and assessment happened for the first time:</p> <p>Assessed income is greater than maximum amount not chargeable to tax</p>	<p>For company/firm/local authority : Entire assessed income would be treated as unreported income</p> <p>For other taxpayers : Assessed income less maximum amount not chargeable to tax</p>
<p><u>Scenario 2 : In case of reassessment:</u></p> <p>Income reassessed is greater than income assessed or reassessed immediately before such reassessment</p>	Reassessed or recomputed in the current order less the amount of income assessed, reassessed or recomputed in a preceding order
<p><u>Scenario 3 : Minimum Alternate Tax Applicable</u></p> <p>Assessed or reassessed deemed total income as determined under Minimum Alternate Tax provisions is greater than the total income determined as under the normal provisions (when a return is filed) or maximum amount not chargeable to tax (when no return is filed)</p>	A comprehensive formula prescribed for computing under assessed income
<p><u>Scenario 4 : Loss converted into Income</u></p> <p>Assessment or reassessment results in reduction of loss or conversion of loss into income</p>	Difference between loss claimed and income or loss, as the case may be, assessed/reassessed.

➤ It is proposed that the under-reported income shall not include the following cases:

- Explanation offered found to be bonafide and all material facts are disclosed;
- Under-reported income determined based on estimate and the accounts are correct and complete, however the method employed is such that income cannot be properly determined;
- Taxpayer voluntarily has estimated a lower amount of disallowance/addition and included the same in computation of income and has disclosed all material facts;
- Tax Payer reports international transaction and maintains all documents and information in respect of international transactions and disclose all material facts related thereto;
- A person shall be considered to have misreported his income inter-alia under the following situations:
 - Misrepresentation or suppression of facts;
 - Non- recording of investments in books of account;
 - Claiming of expenditure not substantiated by evidence;
 - Recording of false entry in books of account;
 - Failure to record any receipt in books of account having a bearing on total income;
 - Failure to report any international transaction or deemed international transaction
- Tax payable on under-reported income would be calculated as under:

Type of assessee	Tax payable on under reported income
Company, firm or local authority	Tax payable on under reported income as if under reported income is the total income
Other taxpayers	30% of under reported income

- Rate of penalty:

Income	Penalty
Under-reported Income	50% of tax payable as calculated above
Misreporting of Income	200% of the tax payable on such misreported income

The amendment takes effect from Financial Year 2016-17.

➤ **Immunity from Penalty and Prosecution [Sec 270AA]**

It is proposed to provide that a taxpayer may make an application to the assessing officer for grant of immunity from imposition of penalty and initiation of prosecution proceedings, subject to the following conditions:

- Tax and interest is paid within the period specified in notice of demand;
- Does not prefer an appeal against such assessment order.

Application for immunity is required to be made within one month from the end of the month in which assessment order is received. AO shall decide the application on merits and his order shall be final.

➤ Rationalization of provisions of Tax Deduction at Source (“TDS”)

- Increase in threshold limit of tax deduction at source on various payments

Present Section	Heads	Existing Threshold Limit	Proposed Threshold Limit
194BB	Winnings from Horse Race	5,000	10,000
194C	Payments to Contractors	Aggregate annual limit of 75,000	Aggregate annual limit of 100,000
194LA	Payment of Compensation on acquisitions of certain immovable property	2,00,000	2,50,000
194D	Insurance Commission	20,000	15,000
194G	Commission of sale of lottery tickets	1,000	15,000
194H	Commission or brokerage	5,000	15,000

- Amendment in rate of tax deduction at source on various payments

Present Section	Heads	Existing Rate of TDS (%)	Proposed Rate of TDS (%)
194DA	Payment in respect of Life Insurance Policy	2%	1%
194EE	Payment in respect of NSS Deposits	20%	10%
194D	Insurance Commission	Rate in force (10%)	5%
194G	Commission on sale of lottery tickets	10%	5%
194H	Commission on brokerage	10%	5%

- Non-operational provisions to be omitted

Present Section	Heads
194K	Income in respect of Units
194L	Payment for acquisition of Capital Asset

- Presently, TDS under Section 194I is deducted even in cases where the recipient's total income (including rental income) is Nil. Section 197A provides for no TDS (in certain cases) if recipient furnishes a declaration (in Form 15G/15H) to payer declaring Nil taxability. Benefit of Section 197A to be extended to recipients earning rental income.
- **Tax Collection at Source ("TCS")**
 - Going forward, sellers are required to collect tax at source at the rate of 1% from purchaser on sale of motor vehicle of value exceeding INR 1 million.
 - TCS is also required to be collected in case of sale of goods in cash (other than bullion and jewelry) and in case of services of value exceeding INR 200,000 provided no tax has been withheld at source by buyer.

- **Rationalization of provisions of Interest on refund**

In order to ensure the filing of return within due date, it is proposed that in cases where return is filed after due date, the period of grant of interest on refund will begin from date of filing of return till date of grant of refund instead of 1 April of the relevant Assessment Year. It is also proposed that the tax payer is entitled to interest on refund arising due to self-assessment tax paid from date of payment of tax or filing of return, whichever is later.

Further, it is proposed that an additional interest at the rate of 3% will be granted to the taxpayer in cases where refunds arise out of the order of Appellate authorities, i.e. Commissioner (Appeals)/ Tribunal/ High Court/ Supreme Court or revision order passed by CIT, in case refunds are not granted within three months from the end of the month from receipt of order or further extended time by six months after approval from Principal Commissioner or Commissioner of Income Tax.

- **Rationalization of time-limits for completion of assessment or reassessments**

Time limit for completion of assessments or reassessments have been curtailed by 3 months.

Present Section	Present time line	Proposed time line
Scrutiny Assessment (Section 143 / 144)	Two years from the end of the Assessment Year	21 months from the end of the Assessment Year
Reassessment (Section 147)	One Year from the end of the year in which notice is served	9 months from the end of the year in which notice is served

➤ Income Declaration Scheme, 2016

This is an additional measure to curb black money practices in India. Vide the Income Declaration Scheme, an opportunity is proposed to be provided to persons who have not paid full taxes in the past to come forward and declare the undisclosed income and pay tax, surcharge and penalty totaling in all to 45% of undisclosed income declared. (Tax of 30%, surcharge of 7.5% and penalty of 7.5%). The salient features of the scheme are:

- The scheme is to be brought into effect from 1 June 2016 and will remain open up to the date to be notified by the Central Government in the official gazette and will apply in respect of undisclosed income of any financial year upto 2015-16.
- Tax is proposed to be charged at 30% on the declared income as increased by surcharge at the rate of 25% of tax payable (to be called the Krishi Kalyan Cess). A penalty at the rate of 25% of tax payable is also proposed to be levied on undisclosed income declared under the scheme.
- Following cases shall not be eligible for the scheme:
 - where notices have been issued for assessment or reassessment,
 - where a search or survey has been conducted and the time for issuance of notice under the relevant provisions of Income Tax Act has not expired, or
 - where information is received under an agreement with foreign countries regarding such income,
 - cases covered under the Black Money Act, 2015, or persons notified under Special Court Act, 1992, or cases covered under Indian Penal Code, the Narcotic Drugs and Psychotropic Substances Act, 1985, the Unlawful Activities (Prevention) Act, 1967, the Prevention of Corruption Act, 1988.
- It is proposed that payment of tax, surcharge and penalty may be made on or before a date to be notified by the Central Government in the Official Gazette and non-payment up to the date so notified shall render the declaration made under the scheme void.
- It is proposed to provide that declarations made under the scheme shall be exempt from wealth-tax in respect of assets specified in declaration.

- It is also proposed that no scrutiny and enquiry under the Income Tax Act and Wealth-tax Act be undertaken in respect of such declarations and immunity from prosecution under such Acts be provided. Immunity from the Benami Transactions (Prohibition) Act, 1988 is also proposed for such declarations subject to certain conditions.

➤ **Direct Tax Dispute Resolution Scheme, 2016**

In order to reduce the huge backlog of cases and to enable the Government to realize its dues expeditiously, it is proposed to introduce the Direct Tax Dispute Resolution Scheme, 2016 in respect of appeals pending before Commissioner of Income Tax (Appeals) or the Commissioner of Wealth-tax (Appeals). The salient features are:

Scenario 1: Tax Arrears

- The scheme is applicable to 'tax arrears' which is defined as the amount of tax, interest or penalty determined under the Income Tax Act or the Wealth-tax Act, 1957 in respect of which appeal is pending before the Commissioner of Income Tax (Appeals) or the Commissioner of Wealth-tax (Appeals) as on the 29th day of February, 2016.
- The pending appeal could be against an assessment order or a penalty order.
- The declarant under the scheme be required to pay tax at the applicable rate plus interest upto the date of assessment.
- In case disputed tax is less than INR 1 million, no penalty is leviable. However, in case of disputed tax exceeding INR 1 million, 25% percent of the minimum penalty leviable shall also be required to be paid.
- In case of pending appeal against a penalty order, 25% of minimum penalty leviable shall be payable along with the tax and interest payable on account of assessment or reassessment.
- Consequent to such declaration, appeal in respect of the disputed income and disputed wealth pending before the Commissioner (Appeals) shall be deemed to be withdrawn.

Scenario 2: Specified Tax

- The scheme also seeks to cover 'specified tax' i.e. where tax liability arose due to retrospective tax amendments.
- The declarant has to withdraw any writ petition or any appeal if filed and submit the proof of the same.
- The declarant under this scheme will be required to furnish an undertaking in the specified manner so as to waive the right to seek or pursue any remedy under any law, by statute or under an agreement, whether for protection of investment or otherwise.
- The declarant under the scheme shall get immunity from imposition of penalty and waiver of interest.

Other features

- If the declarant violates any of the conditions referred to in the scheme or any material particular furnished in the declaration is found to be false at any stage, it shall be presumed as if the declaration was never made under this Scheme and all consequences under the Income Tax Act or Wealth-tax Act under which the proceedings against declarant were or are pending, shall be deemed to have been revived.
- In the following cases a person shall not be eligible for the scheme -
 - Cases where prosecution has been initiated before 29.02.2016
 - Search or survey cases where the declaration is in respect of tax arrears
 - Cases relating to undisclosed foreign income and assets
 - Cases based on information received under Double Taxation Avoidance Agreement where the declaration is in respect of tax arrears
 - Person notified under Special Courts Act, 1992
 - Cases covered under Narcotic Drugs and Psychotropic Substances Act, Indian Penal Code, Prevention of Corruption Act or Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974.

3.1.7. Other important changes

➤ **Gold Monetization Scheme, 2015**

The definition of “capital assets” has been amended to exclude deposit certificates issued under Gold Monetization Scheme, 2015. Accordingly, any gains arising on transfer of such deposit certificates to be exempt from tax.

Interest from deposit certificates issued under Gold Monetization Scheme, 2015 would be exempt from tax.

➤ **Securitization Trust**

Under the present scheme of taxation of Securitization Trusts, income distributed by securitization trusts to its investors is subject to an additional levy of tax to be paid by the securitization trust on the distribution of income.

In order to rationalize the tax regime for securitization trusts and its investors and to provide a pass through treatment, it is proposed to amend the provisions and include a new special regime as under:

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- The new regime shall apply to securitization trust being an ‘Special Purpose Vehicle’ (SPV) defined under SEBI (Public Offer and Listing of Securitized Debt Instrument) Regulations, 2008 or as defined in the guidelines on securitization of standard assets issued by Reserve Bank of India (‘RBI’) or being setup by a securitization company or a reconstruction company or in pursuance of any guidelines or directions issued for the said purposes by the RBI.
- The income of securitization trust shall continue to be exempt but income would be taxable in the hands of investors.
- The securitization trust shall deduct tax at source at the following rates:
 - 25% in case of payment to individuals and HUFs,
 - 30% in case of others;
- Rates in force (rate under the Income Tax Act or under the applicable DTAA, whichever is beneficial), in case of payments to non-resident investors.
- The facility for the investors to obtain certificate for deduction of tax at a lower/ NIL rate would be available.

3.2. Indirect Tax

3.2.1. Service Tax

Rate of Tax

- Enabling provisions have been introduced under Chapter VI of the Finance Act, 2016 to levy Krishi Kalyan Cess (KKC) at a rate of 0.5% with effect from 1 June 2016, on the value of all taxable services. This would in effect, increase the tax applicable on provision of services from 14.50% to 15.00%. Apart from Service Tax and Swachh Bharat Cess (introduced last year), KKC would also have to be disclosed separately on the invoice. Other provisions as applicable to Service Tax (levy, collection, exemption, interest and penalty) shall equally apply in respect of KKC thereby increasing the compliance requirements to this effect.
- It was announced that CENVAT Credit of KKC paid on input services shall be allowed to be used for payment of the proposed Cess on the output services. However, no provisions to allow such credit have been provided under the CENVAT Credit Rules. Even in cases where credit is allowed, the same would be available only to Service Providers and would become a cost in the hands of manufacturers as they do not have the said liability on their output operations.

Broadening of Service Tax base

- With effect from 1 April 2016, a new entry has been inserted to the list of Declared Services to include assignment of right to use radio frequency spectrum by Government and subsequent transfers thereof. This is in line with recent change made by the Government where all services provided by the Government or any local authority to any business entity have been liable to Service Tax under the reverse charge mechanism. While the said change is expected to raise doubts over taxability of Service Tax on consideration such as license fee, statutory levies, approval fee etc received by the Government while performing its sovereign functions, it is clear that the companies paying licensing fee for 2G/3G/4G spectrums to the Government would be liable to Service Tax on such fees under the reverse charge mechanism. It now remains to be seen whether the state VAT authorities also try to treat such assignments/ transfers as goods for levy of VAT.
- Specifically with respect to the amount charged for assignment of the right to use any natural resource such as radio-frequency spectrum, mines etc., it has been provided that the CENVAT credit of Service Tax paid shall be spread over the period of time for which the rights have been assigned. It is also being provided that CENVAT credit of annual or monthly user charges payable in respect of such assignment shall be allowed in the same financial year.
- Further, in view of levy of Service Tax on the services provided by Government and local authorities to business entities, services provided by the following Governmental Institutions have been exempted from Service Tax:

- Employee's Provident Fund Organization (EPFO) to employees
 - Insurance Regulatory and Development Authority (IRDA)
 - Securities and Exchange Board of India (SEBI)
 - National Centre for Cold Chain Development by way of cold chain knowledge dissemination
 - Services of assessing bodies empaneled by Directorate General of Training by way of Skill Development Initiative (SDI) scheme
- Goods transport services provided by shipping lines by a vessel from a place outside India upto the customs station of clearance in India has been brought under Service Tax with effect from 1st June 2016. Indian companies importing goods in India and receiving services from foreign shipping lines would have to discharge Service Tax under reverse charge mechanism. Transport of goods by aircraft will continue to enjoy exemption under the Service Tax provisions creating disparity between treatment of sea freight and air freight.
- The above levy would result in double taxation as the Indian importers would have to pay Service Tax on such services while the said amount would also be included in the assessable value for calculation of customs duties. It has also been clarified that **Service Tax** levied on such freight services shall not be part of value for Custom Duty purposes. However, no consequential amendment has been brought under the Customs Valuation Rules to affect exclusion of such amount paid.
- Impact of the above provision can be analyzed under as:

Sl. No.	Service Provider	Service	Liability to pay Service Tax	Availability of CENVAT Credit
1.	Indian Shipping line	Goods transport from outside India to Indian customs station	Indian Shipping line	CENVAT Credit can be utilized for payment of Service Tax
2.	Foreign Shipping line	Goods transport from outside India to Indian customs station	Service receiver under RCM	CENVAT Credit available after payment of Service Tax to service receiver
3.	Foreign Shipping line/ Indian Shipping line	Goods transport from Indian customs station outside India	Not taxable	Not Applicable

- Legal services provided by a Senior Advocate have been brought under the Service Tax regime with effect from 1 April 2016 under forward charge. However, the services by Senior Advocate provided to person other than a person ordinarily carrying out any activity related to industry, commerce or any business or profession shall continue to be exempted from Service Tax. Senior Advocate means an Advocate which has been designated by the Supreme Court of India or High Courts of respective state. Legal services provided by other lawyers would continue to be taxable under the reverse charge mechanism.

- Exemption to services provided by any person appointed as an arbitrator on an arbitral tribunal has also been withdrawn with effect from 1 April 2016. Arbitrator services shall now be liable to Service Tax under forward charge.
- Exemption to construction, erection, commissioning or installation of original works pertaining to monorail or metro, in respect of contracts entered into on or after 1 March 2016 has been withdrawn.
- Services provided by mutual fund agents/distributors to a mutual fund or asset management company are being shifted from reverse charge to forward charge with effect from 1 April 2016. Accordingly, mutual fund agents/distributors shall be liable to pay Service Tax.
- Exemption to passenger transport services by ropeway, cable car or aerial tramway has been withdrawn with effect from 1st April 2016.
- Passenger transport services by air-conditioned stage carriage shall be taxable after taking abatement of 60% of the taxable value with effect from 1st June 2016.
- Option to pay Service Tax at composite rate has been reduced from 3.5% to 1.4% for life insurance service providers in case of single premium annuity policy where the amount of allocated investment is not intimated to policy holder at the time of providing service.
- Explanation is provided in the definition of service to clarify that any activity carried out by a lottery distributor, or selling agent in relation to promoting, marketing, organizing, selling of lottery or facilitating in organizing lottery of any kind, in any manner, of the State Government is leviable to Service Tax and the same would not qualify as a “transaction in money”.
- Explanation is provided to mandate inclusion of cost of goods and services (such as fuel) provided by the service recipient in the consideration charged for taking abatement in rent-a-cab services with effect from 1 April 2016.

New Exemptions and extension in the scope of existing exemptions under Service Tax

- IT software services which are recorded on media bearing Retail Sales Price (RSP) in accordance with Legal Metrology Act or any other law, has been exempted from Service Tax with effect from 1 March 2016 putting to rest, a long standing dispute. Therefore, levy of Central Excise Duty/ CVD and Service Tax will now be mutually exclusive in respect of IT software. The exemption is subject to the following conditions:
 - In case of imported goods, Additional Customs Duty (Countervailing Duty / “CVD”) has been paid on RSP basis.
 - In case of indigenous goods, Excise Duty has been paid on RSP basis.
 - Declaration contained in the invoice that no additional consideration is recovered from the buyer apart from the value of the invoice.

- Following services have also been fully exempted from payment of Service Tax:
 - Services provided by Technology Business Incubator (TBI) or a Science and Technology Entrepreneurship Park (STEP) recognized by Bio-Incubators recognized by the Biotechnology Industry Research Assistance Council.
 - Services by the Indian Institute of Management to students by way of certain management educational programs.
 - Training services provided under Deen Dayal Upadhyaya Grameen Kaushalya Yojana by way of offering skill or vocational training courses.
 - Services by way of construction, erection, commissioning, etc of any civil structure or original works in respect of:
 - Beneficiary led individual house construction component of Housing projects under Housing For All (HFA) Mission/ Pradhan Mantri Awas Yojana (PMAY).
 - In-situ Rehabilitation of existing slum dwellers using land as a resource through private participation” component of HFA (Urban) Mission / PMAY.
 - Low cost houses upto a carpet area of 60 sq. meter in a housing project under Affordable Housing in Partnership component of PMAY and any housing scheme of a State Government.
 - General insurance services provided under Nirmaya health insurance scheme
 - Life insurance services provided by way of annuity under National Pension System
 - Threshold exemption to services provided by a performing artist in folk, classical art forms of music, dance or theatre is being enhanced from INR 0.1 million to INR 0.15 million per performance.

Exemptions provided to certain services retrospectively

Sl. No.	Description	Retrospective Exemption Period	Remarks
1.	Services provided by way of construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation , alteration of:		
	<ul style="list-style-type: none"> ▪ canal, dam or other irrigation works provided to Municipality subject to other conditions 	1 July 2012 to 29 January 2014	If tax collected, exemption shall be provided by way of refund to be filed within 6 months from the commencement of Finance Bill
	<ul style="list-style-type: none"> ▪ civil structure predominantly meant for education institutions, hospitals, 	1 April 2015 to 31 March	-Do-

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	residential complex, etc.	2020	
2.	Services provided by way of construction, erection, commissioning or installation of airport or port subject to other conditions	1 April 2015 to 31 March 2020	-Do-
3.	Rebate of Service Tax to exporters of goods for specified services used beyond factory, etc.	1 July 2012 to 2 February 2016	Claim shall be filed within 1 month from commencement of Finance Bill, 2016

Change in the rates of prescribed abatements with effect from 1 April 2016

➤ The rates of abatement on following services have been amended:

SN	Services	Existing		Proposed		Availment of CENVAT Credit on input services
		Abatement	Taxable	Abatement	Taxable	
1.	Transportation of Goods by rail by any person other than Indian Railways	70%	30%	60%	40%	Allowed
2.	Transportation of used household goods	70%	30%	60%	40%	Not allowed
3.	Services provided by a foreman of chit fund	-	100%	30%	70%	Not allowed
4.	Passenger transport by stage carrier (w.e.f. 01.06.2016)	Not Taxable	Not Taxable	60%	40%	Not allowed
5.	Tour operator services					
	- Only for arranging/ booking accommodation	90%	10%	90%	10%	Not allowed
	- Package tour	65%	35%	70%	30%	Not allowed
	- Others	60%	40%	70%	30%	Not allowed
6.	Construction of a complex, building or civil structure except where entire consideration is received after issuance of completion certificate					
	- Residential unit	75%	25%	70%	30%	Already available
	- Others	70%	30%	70%	30%	Already available
7.	Passenger transport by rail	70%	30%	70%	30%	Allowed
8.	Goods transport by road	70%	30%	70%	30%	Allowed
9.	Goods transport through vessel	70%	30%	70%	30%	Allowed

Due date of Service Tax payment

- Quarterly payment (6th of following month immediately following the quarter) for following service providers is widened to cover the following service providers:
 - One Person Company (OPC) having taxable turnover upto INR 5 million in preceding financial year
 - Hindu Undivided Family (HUF)
- Option to pay Service Tax on receipt basis (having taxable turnover upto INR 500,000 in the preceding financial year) has been extended to One Person Company (OPC).

Annual Service Tax Return

- Annual return to be filed by all Service Tax assesseees by 30th November of the succeeding financial year in the form as would be specified by a notification by the Board. Exemption from filing annual return to certain class may be provided.
- Annual return filed within the due date as above may be revised within a period of 1 month from the date of submission of annual return.
- Delay in filing annual return shall attract late filing fee of INR 100 per day subject to maximum of INR 20,000.

Other relevant amendments

- Power to arrest in Service Tax is being restricted only to situations where tax payer has collected tax but not paid subject to a threshold of INR 20 million.
- Closure of proceedings against co-noticee such as employees, directors, etc. shall be deemed to be completed, once the proceedings against the main noticee have been closed.
- Provisions are made to enable allowing of rebate of Service Tax by way of notifications as well as rules. This could be huge relief for service exporters having old unutilized CENVAT credits which can now be claimed back in the form of rebate.
- Enabling provisions are introduced to amend POT Rules in order to grant powers to provide the point in taxation for determining the time of provision of service. Clarification for non-taxability of new levy (Krishi Kalyan Cess) in certain conditions to avoid disputes which rose during last year budget on levy of Swachh Bharat Cess.

3.2.2. CENVAT Credit

(All changes are effective 1 April 2016 unless otherwise specified)

- Following changes have been made in Rule 2 (a) of CENVAT Credit Rules, 2004 which defines the term “Capital Goods”
 - Wagons falling under heading 8606 92 has been included in the definition to allow CENVAT Credit on such goods.
 - The restriction on availment of CENVAT Credit on any equipment or appliance used in an office located within the factory of the manufacturer has been removed.
 - CENVAT Credit is being allowed on Capital goods installed outside the factory premises which are used for pumping of water for captive use in the factory.
- The definition of the term “inputs” as provided under Rule 2 (k) has been amended as follows:
 - All Capital goods having value up to INR 10 Thousand per piece have been included in the definition to allow 100% CENVAT Credit on such goods in the year of receipt.
 - CENVAT Credit is being allowed on inputs used outside the factory premises for pumping of water for captive use in the factory.
- With respect to utilization of CENVAT Credit, it has been provided that effective 1 March 2016:
 - CENVAT Credit of National Calamity Contingent Duty (NCCD) can only be utilized for payment of NCCD (earlier the restriction applied only on mobile phones). It has been further clarified that prior to 1 March 2016, there was no restriction on discharge of output NCCD liability by utilizing CENVAT credit of any other input duty/ taxes.
 - CENVAT Credit of Infrastructure Cess levied on specified motor vehicles not available and no other duties can be utilized for payment of the said Cess.
- In addition to CENVAT credit on jigs, fixtures, molds & dies, manufacturers are allowed to take CENVAT credit on tools falling under Chapter 82 of the Central Excise Tariff when used in the premises of job-worker. Direct dispatch of such goods to the premises of the job worker without bringing the same to the premises of the manufacturer has been explicitly allowed.
- The validity of permission to be obtained by a manufacturer for clearance of finished goods on payment of duty directly from the premises of job workers has been increased from 1 financial year to 3 financial years.
- The time limit for filing an application for refund in Form A under Rule 5 of CENVAT Credit Rules for exporters has been amended. In case of manufacturers, the same shall continue to be

governed as per Section 11B of the Excise Act. However, for service providers, the time limit shall be one year:

- From the date of receipt of consideration in convertible foreign exchange in case provision of services is complete before receipt of consideration; or
 - From the date of issue of invoice, where the payment has been received in advance before issuance of such invoice.
- Rule 6 of CENVAT Credit Rules which provided for availability of CENVAT Credit in cases where manufacturer or service provider was undertaking both taxable and exempted operations has been redrafted. The outcome is as follows:
- CENVAT Credit on inputs and input services used for manufacture of exempted goods or for provision of exempted services shall not be allowed. It has been further clarified that exempted goods would include non-excisable goods cleared for a consideration while exempted services would include activity, which does not qualify as “service” as defined under Section 65B (44) of the Finance Act, 1994.
 - Manufacturers and Service Providers undertaking exempted operations exclusively required to reverse the entire amount of CENVAT Credit availed on inputs and input services.
 - Option to maintain separate books of accounts for inputs/ input services used for taxable and exempted operations done away with.
 - Accordingly, manufacturers and service providers undertaking both taxable and exempted operations would have only the following two options:
 - Pay amount equal to 6% of the value of exempted goods and 7% of the value of exempted services subject to a maximum of total credit available at the end of the period to which the payment relates; or
 - Pay an amount calculated as per Rule 6 (3A).
 - Rule 6 (3A) has been amended to provide that credit not allowed shall be paid, provisionally for each month. The key steps for calculating the credit required to be paid are:
 - CENVAT Credit of inputs and input services used exclusively in exempted operations shall not be available.
 - CENVAT credit of input and input services used exclusively in taxable operations shall be fully available.
 - Credit left thereafter is common CENVAT credit which shall be attributed towards exempted goods and exempted services by multiplying such common CENVAT credit with the ratio of value of exempted goods manufactured or exempted services provided to the total turnover in the previous financial year;

- Final reconciliation and adjustments are to be undertaken provided after close of financial year by 30th June of the succeeding financial year.
- Intimations for availing option under Rule 6 (3A) and details of annual final adjustment on 30 June need to be made to the jurisdictional Superintendent of Central Excise. However, it has been clarified that the assesses not filing the intimation will not be forced to pay 6%/ 7% of the exempted turnover but will be liable for payment of interest for delay in reversal of CENVAT Credit.
- The existing Rule 6 (3A) to continue to be in operation till 30 June 2016 for the existing financial year.
- Apart from above, banks and other financial institutions provided an additional option to reverse an amount equal to 50% CENVAT Credit availed in any particular month.
- CENVAT Credit on Capital Goods used exclusively for exempted operations for a period of two years from the date of commencement of operations/ date of installation to be disallowed.
- Effective 1 March 2016, shipping lines providing services by way of transportation of goods by a vessel from customs station of clearance in India to a place outside India will be eligible to take CENVAT Credit on inputs/ input services as the said services have been specifically excluded from the definition of “exempted service”. The said services were presently exempted on account of Rule 10 of the Place of Provision of Services Rules, 2012. The credit so available can be utilized by such shipping lines to pay Service Tax on transportation of goods by a vessel from outside India to an Indian Customs port which would become taxable from 1 June 2016.
- The manner of distribution of CENVAT Credit by an Input Service Distributor (ISD) has been completely overhauled. Key changes are as follows:
 - ISD can now distribute CENVAT credit availed after 1 April 2016 to outsourced manufacturing units/ job workers in addition to its own manufacturing units. The Outsourced manufacturing unit shall maintain a separate account of such credit received from the ISD and used the same for payment of duty on goods manufactured for such ISD.
 - It has been clarified that the provisions of Rule 6 of CENVAT Credit Rules relating to reversal of credit in case of taxable and exempt operations would apply only at the Unit level and not at the level of ISD.
 - The manner of distribution of CENVAT Credit shall be as follows:
 - Credit attributable to a particular unit shall be attributed to that unit only.
 - Credit attributable to more than one unit but not all shall be attributed to those units only and not to all units.

- Credit attributable to all units shall be attributed to all the units.
- Credit shall be distributed pro rata on the basis of turnover as is done in the present rules.
- Manufacturers with multiple manufacturing units have been allowed to maintain a common warehouse for storage and distribution of inputs. On following the procedures as applicable to First stage/ Second Stage Dealers, such warehouses can remove the said inputs and the manufacturing units would be allowed to take CENVAT Credit based on the invoice issued by the warehouse.
- Rule 14 (2) of CENVAT Credit Rules which was introduced last year to prescribe a procedure based on FIFO method for determining utilization of CENVAT Credit has been omitted. Now, whether a particular credit has been utilized or not shall be ascertained by examining whether during the period under consideration, the minimum balance of credit in the account of the assessee was equal to or more than the disputed amount of credit.

3.2.3. Excise Duty

Changes in the Income Tax Act / Rules/ Notifications

- With effect from 1 March 2016, a new Cess to be called “Infrastructure Cess” has been levied on motor vehicles falling under Chapter heading 8703 as under:

Sr. No	Type of vehicle	Rate of Cess
1.	Petrol/LPG/CNG driven motor vehicles of length not exceeding 4m and engine capacity not exceeding 1200cc	1%
2.	Diesel driven motor vehicles of length not exceeding 4m and engine capacity not exceeding 1500cc	2.5%
3.	Other higher engine capacity motor vehicles and SUVs and bigger sedans	4%

Three wheeled vehicles, electrically operated vehicles, Hybrid vehicles, Hydrogen vehicles based on fuel cell technology, taxis, ambulances and cars for physically handicapped persons will be exempt from this Cess. Further, as mentioned earlier, CENVAT credit of this Cess will be available and credit of no other duty can be utilized for payment of this Cess.

- National Contingent Calamity Duty also made applicable to other prescribed motor vehicles not covered earlier by amending the Seventh Schedule of Finance Act, 2001.
- With effect from 1 March 2016, Clean Energy Cess has been renamed as Clean Environment Cess and the effective rate of the said Cess has been increased from INR 200 per tonne to INR 400 per tonne.
- Excise Duty of 2% (without CENVAT credit) or 12.5% (with CENVAT credit) has been levied on readymade garments and made up articles of textiles falling under Chapters 61, 62 and 63 of

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the Central Excise Tariff with certain exceptions having retail sale price (RSP) of INR 1000 and above, when they bear or are sold under a brand name.

- Excise Duty payable on Information Technology Software recorded on a media which does not require affixation of Maximum Retail Price has been exempted from such portion of the value which is chargeable to Service Tax subject to procedures prescribed in this regard.
- List of goods under the Third Schedule of Excise Tariff which are considered for provisions relating to “deemed manufacture” has been amended to include certain soaps, aluminum foils, smart watches and accessories of motor vehicles.
- Manufacturers of specified jewelry having centralized billing or accounting system for such goods manufactured in different factories allowed to obtain registration only at one factory/ premises where centralized billing or accounting is carried out, instead of obtaining registrations for all such factories subject to other conditions. This is considered to be the first step towards allowing manufacturers with multiple factories to obtain centralized registrations. Further such manufacturers have been provided exemption from payment of Excise Duty for clearances upto INR 60 million in case the value of clearance in the preceding financial year does not exceed INR 120 million.
- Central Excise Rules have been amended to provide applicability of interest from the due date of payment of duty instead of the date of date of determination of the amount payable under the provisional assessment procedure.
- The facility of revising returns which was earlier available only to service providers has now been extended to manufacturers. Accordingly, the monthly/ quarterly Excise returns filed by the manufacturers can now be revised by end of the calendar month in which the original return was filed.
- Clarificatory changes have been made in the procedure for claiming rebate of Excise Duty paid on exports wherein, it has been provided that the market price referred in the said notification shall be the Indian market price. Further the procedure for claiming rebate of duty paid on excisable goods used in manufacture of exported goods has also been simplified by removing the requirement of determination of ratio of input and output by the authorities and replacing the same with a Chartered Engineer’s certificate. The time limit prescribed under Section 11B of the Excise Act shall also apply to both such rebate claims.
- In major relief to manufacturers, the compliance requirements required to be followed by manufacturers has been reduced. Apart from the monthly Excise returns, the manufacturers would be required to file only one Annual return before 30th November of the succeeding financial year in the form as would be specified by a notification by the Board, which can be revised within a period of 1 month from the date of submission. Consequently, following forms are no longer required to be filed:
 - Annual Financial Information Statement
 - Annual Installed Capacity Statement

- Annual return with respect to principle inputs used for manufacture (under CENVAT Rules)
- Monthly return regarding receipt and consumption of principle inputs (under CENVAT Rules)
- Manufacturers having two or more premises of the same factory (separated by roads, railway lines or canals) where manufacturing process is interlinked and such premises fall within the jurisdiction of the same Range Superintendent can now obtain a single registration for all such premises subject to condition that the units are not availing any area based exemption.
- Central Excise (Removal of Goods at concessional Rate of Duty for Manufacture of Excisable and other Goods) Rules, 2016 have been notified with effect from 1 April 2016 substituting the old rules in order to simplify the procedures by allowing exemptions to manufacturers based on self-declaration instead of obtaining permissions from the Central Excise authorities.
- Certain tariff headings as provided in the Fourth Schedule aligned to HSN code with effect from 1 January 2017.
- Changes in the rates of Excise Duty applicable on various products has been provided in Annexure B.

3.2.4. Customs Duty

Changes in Income Tax Act / Rules/ Notifications

- Sections relating to warehousing of goods have undergone a significant change. The major changes are as follows:
 - A new class of warehouses has been added to the definition for enabling storage of specific goods under physical control of the department, as compared to record based control over the other types of warehouses.
 - Powers to grant/ cancel licenses to warehouses vested with Principal Commissioners/ Commissioner of Customs in place of AC/ DC subject to other conditions prescribed.
 - The value of bond required to be filed for warehousing of goods have been enhanced from twice of the duty involved to three times of the duty involved.
 - Provisions related to payment of rent and warehousing charges have been omitted in view of privatization of warehousing services and free determination of market rates instead of rates fixed by the statute. The person granted a license would now be responsible for recovery of all such dues for the person warehousing the goods.
 - EOU/ EHP/ STP units where carrying out of manufacturing or other operations have been permitted, allowed to warehouse Capital goods for an indefinite period till their clearance

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from the warehouse (earlier the same were permitted to be warehoused for a period of 5 years). Goods other than capital goods can also be warehoused until their consumption or clearance from warehouse as compared to a period of 3 years earlier.

- Certain imports/ exporters with proven track record to be allowed deferred payment of customs duties based on rules to be framed in this regard.
- Certain tariff headings as provided in the Fourth Schedule aligned to HSN code with effect from 1 January 2017.
- Customs (Import of Goods at concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 2016 have been notified with effect from 1 April 2016 substituting the old rules in order to simplify the procedures by allowing duty exemptions to importer/manufacturer based on self-declaration instead of obtaining permissions from the Central Excise authorities. Need for additional registration is also being done away with.
- New Baggage Rules have been notified with effect from 1 April 2016 to simplify and rationalize multiple slabs of duty free allowance for various categories of passengers. While the duty free allowance for passengers coming from countries other than Nepal, Bhutan or Myanmar has been increased to INR 50,000 and passengers above the age of 2 years are entitled to duty free baggage (instead of 10 years earlier), additional condition with respect to weight has been proposed for bringing in Jewelry (20 grams for male and 40 grams for females passengers). The existing Baggage Declaration Regulations also amended to prescribe filing of Customs declaration only for those passengers who carry dutiable or prohibited goods.
- CVD payable on Information Technology Software recorded on a media which does not require affixation of Maximum Retail Price has been exempted from such portion of the value which is chargeable to Service Tax subject to procedures prescribed in this regard.
- The value limit for import of bonafide gifts through post or air freight has been increased from INR 10,000 to INR 20,000.
- Cold Chains including pre-cooling units, packhouses, sorting and grading lines and ripening chambers notified as projects which would qualify for assessment under the Chapter 9801 of the Customs Tariff read with Project Import Regulations, 1986.
- Simplified procedure has been prescribed for availment of exemption from payment of Customs Duty on import of used parts of aircrafts under Standard Exchange Agreement which have been repaired/ overhauled outside India or which are imported in India for repairs/ overhaul subject to actual user condition.
- Changes in the rates of Customs Duty applicable on various products have been provided in Annexure C.

3.2.5. Common amendments under Customs, Excise and Service Tax

Interest rates for delay in payment of taxes reduced

Sr. No	Levy	Old Rate of interest	New Rate of Interest
1.	Customs	18%	15%
2.	Central Excise	18%	15%
3.	Service Tax	18% - Delay below 6 months 24% - Delay between 6 and 12 months 30% - Delay beyond 1 year	24% - In case of Service Tax collected but not paid 15% - In all other cases

Period of Limitation for cases not involving fraud, collusion or mis-statement increased

Sr. No	Levy	Old Period	New Period
1.	Customs	1 year	2 years
2.	Central Excise	1 year	2 years
3.	Service Tax	18 months	30 months

Indirect Tax Dispute Resolution Scheme, 2016 launched

- With a view to reduce pending proceedings before the Commissioner (Appeals) in relation to indirect tax related disputes, it has been proposed to introduce Indirect Tax Dispute Resolution Scheme, 2016 effective 1 June 2016 under which any dispute under Customs, Excise or Service Tax pending before Commissioner (Appeals) shall stand disposed in case the assessee deposits tax along with applicable interest and penalty equivalent to 25% of penalty imposed in the order and files a Declaration to this effect between 1 June 2016 and 31 December 2016 subject to certain exceptions. On complying with the procedure, the assessee shall get immunity from all proceedings (including prosecution) as prescribed under the relevant laws.
- In order to further dispose of pending litigations under Indirect taxes, the Finance Minister has announced setting up of 11 new Customs Excise and Service Tax Appellate Tribunals (CESTAT) benches.

3.2.6. Central Sales Tax

Inter-State Sale explained

- An explanation has been provided to clarify that gas sold or purchased and transported through a common carrier pipeline or any other common transport distribution systems, which becomes co-mingled and fungible with other gas in the pipeline or system and such gas is introduced into the pipeline or system in one State and is taken out from the pipeline in another State, such sale or purchase of gas shall be deemed to be a movement of goods from one state to another.

4. ANNEXURE

4.1. Annexure A: Rates of Income Tax

Personal Income Tax rates

- (i) Resident individuals (other than those mentioned in (i) and (ii) below)

Existing Income Tax rates	
Income Slab (INR)	Tax Rate (%)
0-250,000	Nil
250,001-500,000	10
500,001-1,000,000	20
Above 1,000,000	30

- (ii) Resident individuals of the age of 60 years or more but less than 80 years.

Existing Income Tax rates	
Income Slab (INR)	Tax Rate (%)
0-300,000	Nil
300,001-500,000	10
500,001-1,000,000	20
Above 1,000,000	30

- (iii) Resident individuals above the age of 80 years.

Existing Income Tax rates	
Income Slab (INR)	Tax Rate (%)
0-500,000	Nil
500,001-1,000,000	20
Above 1,000,000	30

- The rate of surcharge at 15% to levied on income-tax in case the total income exceeds INR 10 million.
- Education Cess at the rate of 3% would be levied on the amount of Income Tax.

Corporate Tax Rates

Description	Tax rate (%)	Effective Tax Rate (including surcharge and Education Cess) (depending upon income levels)
<u>Domestic Company:</u>		
Income Tax	30% **	30.9% / 33.06% / 34.61%
Minimum Alternate Tax	18.5%	19.055% / 20.39% / 21.34%
<u>Foreign Company</u>		
Income Tax	40%	41.2% / 42.02% / 43.26%

** with exceptions for newly set up and small companies

4.2. Annexure B: Changes in rates of Excise Duty

Rate Changes in Central Excise Tariff

Item/ Product		Existing	Proposed
Category	Description		
Aerated Beverages	Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavored	18%	21%
Tobacco and Tobacco Products	Cigar and cheroots	12.5% or INR3375/thousand whichever is higher	12.5% or INR3755/thousand whichever is higher
	Cigarillos	- do -	- do -
	Cigarettes of tobacco substitutes	INR3375/thousand	INR3755/thousand
	Cigarillos of tobacco substitutes	12.5% or INR3375/thousand whichever is higher	12.5% or INR3755/thousand whichever is higher
	Others of tobacco substitutes	12.5% or INR3375/thousand whichever is higher	12.5% or INR3755/thousand whichever is higher
	Gutkha, chewing tobacco (including filter khaini) and jarda scented tobacco	70%	81%
	Unmanufactured tobacco	55%	64%
	Paper rolled biris [whether handmade or machine made] and other biris [other than handmade biris] However, the effective rate of basic Excise Duty of INR21 per thousand shall remain unchanged.	INR30/thousand	INR80/thousand

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Rate Changes in Central Excise Duty

Item/ Product		Existing	Proposed
Category	Description		
Food processing	Refrigerated containers	12.5%	6%
Fertilizers	Micronutrients covered under Sr. No. 1(f) of Schedule 1 Part (A) of the Fertilizer Control Order, 1985 and are manufactured by the manufacturers which are registered under FCO, 1985	12.5%	6%
	Physical mixture of fertilizers manufactured by Co-operative Societies, holding certificate of manufacture for mixture of fertilizers under the Fertiliser Control Order 1985, made out of chemical fertilizers on which duty of excise has been paid and no credit of duty paid on such chemical fertilizers has been taken under rule 3 of the CENVAT Credit Rules, 2004 and which are intended for supply to the members of such Co-operative Societies	1% [without CENVAT] Or 6% [with CENVAT]	Nil
Textiles	To increase Tariff Value of readymade garments and made up articles of textiles	30% of retail sale price	60% of retail sale price
	Branded readymade garments and made up articles of textiles of retail sale price of INR1000 or more	Nil [without CENVAT] or 6%/12.5% [with CENVAT]	2% [without CENVAT] or 12.5% [with CENVAT]
	PSF / PFY, manufactured from plastic scrap or plastic waste including waste Permanent Establishment bottles	2% [without CENVAT] or 6% [with CENVAT]	2% [without CENVAT credit] or 12.5% [with CENVAT credit]
Footwear	Rubber sheets & resin rubber sheets for soles and heels	12.5%	6%
	Increase the abatement from retail sale price (RSP) for the purposes of Excise Duty assessment for all categories of footwear	25%	30%
Metals	To change Excise Duty structure on disposable containers made of aluminium foils	2% [without CENVAT] or 6% [with CENVAT]	2% [without CENVAT] or 12.5% [with CENVAT]
Precious metals & jewelry	Refined gold bars manufactured from gold dore bar, silver dore bar, gold ore or concentrate, silver ore or concentrate, copper ore or concentrate. Prospectively, the Excise Duty exemption under the existing area based exemptions on refined gold is being withdrawn	9%	9.5%
	Refined silver manufactured from silver ore or concentrate, silver dore bar, or gold dore bar. Prospectively, the Excise Duty exemption under the existing area based exemptions on refined silver is being withdrawn	8%	8.5%
	Articles of jewelry [excluding silver jewelry, other than studded with diamonds or other	Nil	1% [without CENVAT]

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	precious stones namely, ruby, emerald and sapphire] with a higher threshold exemption upto INR 60 million in a year and eligibility limit of INR120 million, along with simplified compliance procedure		Or 12.5% [with CENVAT]
Renewable Energy	Unsaturated Polyester Resin (polyester based infusion resin and hand layup resin), Hardeners/Hardener for adhesive resin, Vinyl Ester Adhesive (VEA) and Epoxy Resin used for manufacture of rotor blades and intermediates, parts and sub parts of rotor blades for wind operated electricity generators	Nil	6%
	Carbon pultrusion used for manufacture of rotor blades and intermediates, parts and sub-parts of rotor blades for wind operated electricity generators	12.5%	6%
	Solar lamp	12.5%	Nil
Civil Aviation	Aviation Turbine Fuel [ATF] other than for supply to Scheduled Commuter Airlines (SCA) from the Regional Connectivity Scheme airports	8%	14%
Maintenance, repair and overhaul [MRO] of aircrafts	Tools and tool kits when procured by MROs for maintenance, repair, and overhauling [MRO] of aircraft subject to a certification by the Directorate General of Civil Aviation	Applicable Excise Duty	Nil
Electronics & IT hardware	Charger / adapter, battery and wired headsets / speakers for supply to mobile phone manufacturers as original equipment manufacturer	Nil	2% [without CENVAT] Or 12.5% [with CENVAT]
	Inputs, parts and components, subparts for manufacture of charger / adapter, battery and wired headsets / speakers of mobile phone, subject to actual user condition.	12.5% / Nil	Nil
	Routers, broadband Modems, Set-top boxes for gaining access to internet, set top boxes for TV, digital video recorder (DVR) / network video recorder (NVR), CCTV camera / IP camera, lithium ion battery [other than those for mobile handsets]	12.5%	4% [without CENVAT] or 12.5% [with CENVAT]
	Parts and components, subparts for manufacture of Routers, broadband Modems, Set-top boxes for gaining access to internet, set top boxes for TV, digital video recorder (DVR) / network video recorder (NVR), CCTV camera / IP camera, lithium ion battery [other than those for mobile handsets]	12.5%	Nil
Machinery	Electric motor, shafts, sleeve, chamber, impeller, washer required for the manufacture of centrifugal pump	12.5%	6%
Automobile	Specified parts of Electric Vehicles and Hybrid Vehicles	6% Upto 31.03.2016	6% Without time limit
	Engine for xEV (hybrid electric vehicle)	12.5%	6%

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Miscellaneous	Excise Duty on sacks and bags of all plastics is being rationalized at 15%.	12.5%/15%	15%
	Disposable sterilized dialyzer and micro barrier of artificial kidney	12.5%	Nil
	Ready Mix Concrete manufactured at the site of construction for use in construction work at such site	2% [without input tax credit] / 6% [with input tax credit]	Nil
	Parts of railway or tramway locomotives or rolling stock and railway or tramway track fixtures and fittings, railway safety or traffic control equipment, etc.	12.5%	6%
	Remnant kerosene, presently available for manufacture of Linear alkyl Benzene [LAB] and heavy alkylate [HA] to N-paraffin. At present, exemption is restricted to manufacturers of LAB and HA.	14%	Nil
	Clean Energy Cess / Clean Environment Cess on coal, lignite or peat produced or extracted as per traditional and customary rights enjoyed by local tribals without any license or lease in the State of Nagaland	INR200 per tonne	Nil
	Retail Sale Price [RSP] based assessment of Excise Duty extended to: a) all goods falling under heading 3401 and 3402 [with abatement of 30%], b) aluminum foils of a thickness not exceeding 0.2 mm [with abatement of 25%], c) wrist wearable devices (commonly known as 'smart watches') [with abatement of 35%], d) accessories of motor vehicle and certain other specified goods [with abatement of 30%].		

Rate Changes in Central Excise Duty on Cigarettes

Sl. No.	Cigarettes	Existing (INR/thousand)	Proposed (INR/thousand)
1.	Non filter not exceeding 65 mm	70	215
2.	Non-filter exceeding 65 mm but not exceeding 70 mm	110	370
3.	Filter not exceeding 65 mm	70	215
4.	Filter exceeding 65 mm but not exceeding 70 mm	70	260
5.	Filter exceeding 70 mm but not exceeding 75 mm	110	370
6.	Other	180	560

4.3. Annexure C: Changes in rates of Customs Duty

Changes in the Tariff rates of Basic Customs Duty (BCD)

Item/ Product		Existing	Proposed
Category	Description		
Articles of rubber	Natural latex rubber made balloons falling under specified headings	10%	20%
Metals	Primary aluminum	5%	7.5%
	Zinc alloys	5%	7.5%
Jewelry	Imitation jewelry	10%	15%
Renewable Energy	Industrial solar water heater	7.5%	10%
Capital Goods and parts	Increase in the tariff rate of BCD for 211 specified tariff lines in Chapters 84, 85 and 90, (a) On 96 specified tariff lines, the effective rate is being increased from 7.5% to 10% (b) On remaining 115 tariff lines the effective rate will remain unchanged at 7.5%	7.5%	10%

Export Duty

Item/ Product		Existing	Proposed
Category	Description		
Ores and concentrates	Iron ore fines with Fe content below 58%	10%	Nil
	Iron ore lumps with Fe content below 58%	30%	Nil
	Chromium ores and concentrates, all sorts	30%	Nil
	Bauxite (natural), not calcined or calcined	20%	15%

Increase in BCD

Item/ Product		Existing	Proposed
Category	Description		
Food Processing	Cashew nuts in shell	Nil	5%
Miscellaneous	Solar tempered glass / solar tempered (anti-reflective coated) glass, subject to actual user condition	Nil	5%
Electronics / Hardware	E-Readers	Nil	7.5%
Paper, Paperboard and newsprint	Plans, drawings and designs	Nil	10%
Electronics / Hardware	Specified telecommunication equipment [Soft switches and Voice over Internet Protocol (VoIP) equipment namely VoIP phones, media gateways, gateway controllers and session border controllers, Optical Transport equipment; combination of one / more of	Nil	10%

	Packet Optical Transport Product/Switch (POTP/POTS), Optical Transport Network(OTN) products, etc.		
	Preform of silica for manufacture of telecom grade optical fibre /cables	Nil	10%
Metals, glass and ceramics	Other aluminum products	7.5%	10%
Automobile	Golf cars	10%	60%

Decrease in BCD

Item/ Product		Existing	Proposed
Category	Description		
Food Processing	Cold chain including pre-cooling unit, packhouses, sorting and grading lines and ripening chambers	10%	5%
Food Processing	Refrigerated containers	10%	5%
Automobile	Aluminium Oxide for use in the manufacture of Wash Coat, which is used in the manufacture of catalytic converters, subject to actual user condition	7.5%	5%
Mineral fuels and Mineral oils	Coke and semi-coke of coal, of lignite or of peat, whether or not agglomerated; retort carbon	5% / 10%	5%
Mineral fuels and Mineral oils	Coal gas, water gas, producer gas and similar gases, other than petroleum gases and other gaseous hydrocarbons	10%	5%
Mineral fuels and Mineral oils	Tar distilled from coal, from lignite or from peat and other mineral tars, whether or not dehydrated or partially distilled, including reconstituted tars	10%	5%
Mineral fuels and Mineral oils	Pitch and pitch coke, obtained from coal tar or from other mineral tars	5% / 10%	5%
Electronics / Hardware	Parts of E-readers	Applicable BCD	5%
Miscellaneous	Super Absorbent Polymer when used for the manufacture of sanitary pads, napkins & tampons	7.5%	5%
Electronics / Hardware	Neodymium Magnet (before Magnetization) and Magnet Resin (Strontium Ferrite compound/before formed, before magnetization) for manufacture of BLDC motors, subject to actual user condition	Applicable BCD	2.5%
Metals, glass and ceramics	Silica sand	5%	2.5%
Metals, glass and ceramics	Brass scrap	5%	2.5%
Chemicals	Denatured ethyl alcohol (Ethanol) subject to	5%	2.5%

& Petrochemicals	actual user condition		
Textiles	Specified fibres and yarns	5%	2.5%
Miscellaneous	Pulp of wood for manufacture of sanitary pads, napkins & tampons	5%	2.5%
Mineral fuels and Mineral oils	Coal; briquettes, ovoids and similar solid fuels manufactured from coal	2.5% / 10%	2.5%
Mineral fuels and Mineral oils	Lignite, whether or not agglomerated, excluding jet	10%	2.5%
Mineral fuels and Mineral oils	Peat (including peat litter), whether or not agglomerated	10%	2.5%
Mineral fuels and Mineral oils	Oils and other products of the distillation of high temperature coal tar similar products in which the weight of the aromatic constituents exceeds that of the non-aromatic constituents	2.5% / 5% / 10%	2.5%
Chemicals & Petrochemicals	All acyclic hydrocarbons and all cyclic hydrocarbons [other than para-xylene which attracts Nil BCD and styrene which attracts 2% BCD]	5% / 2.5%	2.5%

BCD Exemption withdrawn

Item/ Product		Existing	Proposed
Category	Description		
Electronics / Hardware	Magnetic - Heads (all types), Ceramic / Magnetic cartridges and stylus, Antennas, EHT cables, Level meters/level indicators/ tuning indicators/ peak level meters/ battery meter/VC meters / Tape counters, Tone arms, Electron guns	Nil BCD	Applicable BCD

Fully exempted from BCD

Item/ Product		Existing	Proposed
Category	Description		
Chemicals & Petrochemicals	Electrolysers, membranes and their parts required by caustic soda / potash unit using membrane cell technology	2.5%	Nil
Paper, Paperboard and newsprint	Wood in chips or particles for manufacture of paper, paperboard and news print	5%	Nil
Textiles	Specified fabrics [for manufacture of textile garments for export] of value equivalent to 1% of FOB value of exports in the preceding financial year subject to the specified conditions.	Applicable BCD	Nil
Electronics / Hardware	Polypropylene granules / resins for the manufacture of capacitor grade plastic films	7.5%	Nil
Electronics	Magnetron of capacity of 1 KW to 1.5 KW for use	10%	Nil

/ Hardware	in manufacture of domestic microwave ovens subject to actual user condition		
Electronics / Hardware	Specified capital goods and inputs for use in manufacture of Micro fuses, Sub-miniature fuses, Resettable fuses, and Thermal fuses	Applicable BCD	Nil
Miscellaneous	Medical Use Fission Molybdenum-99 imported by Board of Radiation and Isotope Technology (BRIT) for manufacture of radio pharmaceuticals	7.5%	Nil
Electronics / Hardware	Machinery, electrical equipment and instrument and parts thereof (except populated PCBs) for semiconductor wafer fabrication / LCD fabrication units	Applicable BCD	Nil
Electronics / Hardware	Machinery, electrical equipment and instrument and parts thereof (except populated PCBs) imported for Assembly, Test, Marking and Packaging of semiconductor chips (ATMP)	Applicable BCD	Nil
Automobile	Specified parts of electric and hybrid vehicles	BCD- Nil CVD – 6% Upto 31.03.2016	BCD- Nil CVD – 6% Without time limit

Fully exempted from BCD, CVD and SAD

Item/ Product		Existing	Proposed
Category	Description		
Electronics / Hardware	Inputs, parts and components, subparts for manufacture of charger / adapter, battery and wired headsets / speakers of mobile phones, subject to actual user condition	Applicable BCD, CVD & SAD	Nil BCD Nil CVD Nil SAD
Electronics / Hardware	Parts and components, subparts for manufacture of Routers, broadband Modems, Set-top boxes for gaining access to internet, set top boxes for TV, digital video recorder (DVR) / network video recorder (NVR), CCTV camera / IP camera, lithium ion battery [other than those for mobile handsets]	Applicable BCD, CVD & SAD	Nil BCD Nil CVD Nil SAD
Maintenance, repair and overhaul of aircrafts	Tools and tool kits when imported by MROs for maintenance, repair, and overhauling [MRO] of aircraft subject to a certification by the Directorate General of Civil Aviation	Applicable BCD, CVD and SAD	Nil BCD Nil CVD Nil SAD
Miscellaneous	Disposable sterilized dialyzer and micro barrier of artificial kidney	Applicable BCD, CVD, SAD	Nil BCD Nil CVD Nil SAD
Miscellaneous	Specified goods required for exploration & production of hydrocarbon activities undertaken under Petroleum Exploration Licenses (Permanent Establishment) or Mining Leases (ML) issued or renewed before 1st April 1999	Applicable BCD, CVD, SAD	Nil BCD Nil CVD Nil SAD
Miscellaneous	“Foreign Satellite data” on storage media when imported by National Remote Sensing Centre (NRSC), Hyderabad	Applicable BCD, CVD, SAD	Nil BCD Nil CVD Nil SAD

Increase in CVD

Item/ Product		Existing	Proposed
Category	Description		
Jewelry	Gold dore bars	8% CVD	8.75% CVD
Jewelry	Silver dore	7% CVD	7.75% CVD
Capital Goods	Specified machinery required for construction of roads	CVD – Nil	CVD – 12.5%

Increase in SAD

Item/ Product		Existing	Proposed
Category	Description		
Electronics / Hardware	Populated PCBs for manufacture of personal computers (laptop or desktop)	Nil SAD	4% SAD
Electronics / Hardware	Populated PCBs for manufacture of mobile phone/tablet computer	Nil SAD	2% SAD

Decrease in SAD

Item/ Product		Existing	Proposed
Category	Description		
Chemicals & Petrochemicals	Orthoxylene for the manufacture of phthalic anhydride subject to actual user condition	SAD – 4%	SAD – 2%

Exemption in SAD

Item/ Product		Existing	Proposed
Category	Description		
Electronics / Hardware	Machinery, electrical equipment and instrument and parts thereof (except populated PCBs) for semiconductor wafer fabrication / LCD fabrication units	Applicable SAD	Nil SAD

The publication was prepared with the utmost care possible. Nevertheless, no guarantee can be assumed for its accuracy, completeness and actuality. Legal changes, as well as changes in the implementation practice that have taken place after the editorial deadline (3 March 2016) could not be taken into account. The provided information is of general nature and is not to be treated as individually tailored advice nor as a substitute for it. No responsibility or liability can therefore be assumed for decisions taken by the reader due to the information contained in this publication.



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Rödl & Partner

Rechtsanwalts-gesellschaft Steuerberatungsgesellschaft mbH – Nuremberg/ Germany

Contact persons: Martin Wörlein / Tillmann Ruppert

Äußere Sulzbacher Straße 100

90491 Nuremberg

Phone: +49 (911) 91 93-3125

E-Mail: martin.woerlein@roedl.pro / tillmann.ruppert@roedl.pro

Rödl & Partner India Pvt. Ltd. - Delhi

Contact person: Michael Wekezer

Unit No. 4, German Centre, 12th Floor, Building 9B,
DLF Cyber City, Phase III, Gurgaon-122 002

Phone: +91 (124) 4837550

E-Mail: delhi@roedl.pro

Rödl & Partner India Pvt. Ltd. - Mumbai

Contact person: Rahul Oza

3rd floor, Dev Nibiru, Linking Road
Khar (W), Mumbai-400052,

Phone: +91 (22) 42331818

E-Mail: mumbai@roedl.pro

Rödl & Partner Consulting Pvt. Ltd. - Pune

Contact person: Rahul Oza

307/308, Lunkad Sky Vista,
New Airport Road, Viman Nagar,
Pune-411 014,

Phone: +91 (20) 66257100

E-Mail: pune@roedl.pro

Rödl & Partner Consulting Pvt. Ltd. - Chennai

Contact person: Rahul Oza

MR1, Vatika Business Centre, Prestige Polygon,
3rd Floor, 471 Anna Salai, Teynampet, Mount Road,
Chennai-600018

Phone: +91 (44) 40282555

E-Mail: chennai@roedl.pro