

DIRECT TAX AMENDMENTS – FINANCE BILL 2015

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WITH FULL MAJORITY in more than 30 years, Mr. Modi's Government presented its first full budget by projecting the growth rate for GDP around 8.5% and also aiming for the double digit growth rate in the forthcoming years.

Like last year, the budget had some positive signs like deferring GAAR for two more years, implementation of GST by April 2016, reduction of Corporate Tax Rate from 30% to 25% over the next four years, proposing to introduce a Bill to curb Black Money, removing hindrance for registration of Excise and service tax etc.

The following proposals were made by the Finance Minister in relation to Direct Taxes.

PERSONAL TAXATION

Rate of tax

No Change in the rate of tax for the individual nor increase in the exemption limits. However, it is proposed to increase the rate of surcharge by 2 % if the income is more than Rs. 1 crore. Therefore, the proposed rate of surcharge is 12%.

Under the current scenario, wealth tax is payable at the rate of 1% on assets specified in Wealth Tax Act if the net wealth exceed Rs. 30 lakhs. It is now proposed to abolish the Wealth Tax Act to simplify the governance and tax procedures and this was the reason attributed by the Finance Minister for increase in Surcharge.

Exemption

For salaried person, the exemption for transport allowance is proposed to be increased from Rs 800 per month to Rs. 1,600 per month

Chapter VIA deduction

Investment in Sukanya Samriddhi Scheme is eligible for deduction under section 80C of the Act if the investment is made only in the name of the assessee (individual). It is now proposed that even if the subscription is made in the name of a girl child of the individual the same is eligible for deduction under section 80C. Interest earned on such investment is also proposed to be exempt.

It is proposed to increase the limit to Rs. 1,50,000 from the present limit of Rs. 1,00,000 in case of contribution to pension funds.

In case of health insurance, currently deduction upto Rs. 15,000 is allowed for payment in name of self and family and an additional Rs. 15,000 is allowed for parents. It is proposed to increase the limit to Rs. 25,000 in each case. Further, it is also proposed to increase the limit from Rs. 20,000 to Rs. 30,000 in case of senior Citizens. In addition to that, it is now proposed to provide a deduction of Rs. 30,000 in respect of very senior citizen (80 and above) for payment made towards expenditure if no health insurance premium is paid.

In case of individuals suffering disability or dependents suffering disability, deduction of Rs. 50,000 is allowed and in case of severe disability the limit is Rs. 75,000. It is proposed to increase the limits to Rs.75,000 for normal disability and Rs. 125,000 for severe disability.

Under the current provisions, for claiming deduction for expenditure incurred in respect of treatment of specified diseases a certificate is required from a specialist doctor from Government Hospital. For ease of convenience, it is now proposed the deduction can be claimed by mere prescription obtained from a specialist doctor (not necessarily from a Government hospital) for this purpose. Further, in case of senior citizens the limit has been increased from Rs. 60,000 to Rs. 80,000.

Deduction in respect of notified pension scheme is allowed upto 10% of salary or 10% of the gross total income and subject to limit of Rs.100,000. The limit of Rs. 1,00,000 is now proposed to be removed and a new limit of Rs. 50,000 in addition to the existing combined limit of 1,50,000 is proposed to be brought in. Therefore, the total deduction under section 80CCD will stand to maximum of Rs. 2,00,000

CORPORATE TAXATION

Rates of Tax

The rate of tax for Corporate is proposed to be decreased to 25% from 30% over the next four years. The surcharge has been increased by 2% i.e. the new surcharge is 12%

Residential status of companies

Presently, the residential status of foreign companies is decided based on the control and management. It is proposed to amend and bring the concept of place of effective management to decide the residential status of Foreign Companies to bring in line with Direct Tax Code.

Rationalising MAT provisions

Share of profit of a member in AOP is to be excluded from MAT while the corresponding expenditure would be added back.

Income from Capital gains shall not be subject to MAT for foreign institutional investors except short term capital gains on which STT is not paid.

Penalty for concealment of income shall now be applicable even for MAT provisions

Anti Avoidance rules

The implementation of GAAR has been postponed by two years and to be applicable from 01st April 2017 and it is proposed to be applicable only prospectively.

RATE OF TAX

Tax rate for Royalty and Technical services

Currently, Royalty and Technical services earned by non-residents is taxable at the rate of 25%. It is proposed to reduce the tax rate 10% and restore it to erstwhile provisions.

TDS for transporters

Before Amendment, tax is not required to be deducted on payments made to contractors if they furnish their PAN. Now this benefit is limited to transporters who own ten or less goods carriages at any time during the year and furnish declaration to this effect along with PAN to the payer.

DEPRECIATION

Manufacturing companies - Additional Depreciation

Under the existing provision, the additional depreciation of 20% of cost of new plant or machinery is restricted to 50% of the eligible amount if the new plant or machinery is used for less than 180 days in the previous year. The Act was silent about the balance 50%. It is now proposed to provide that the balance 50% of the additional depreciation can be claimed in the subsequent year.

Benefits for Andhra Pradesh and Telaganna

Additional depreciation is available at the rate of 35% (as against 20% for the rest) is available for new Plant and Machinery installed by Manufacturing companies. Further an incentive of 15% is available is available for manufacturing sectors in Andhra Pradesh and Telaganna.

INTERNATIONAL TAXATION

Clarifications on Indirect Transfer

The amendment brought out by Finance Act 2012 to nullify the Vodafone Judgment was not free from ambiguities. The budget has brought some clarity on the meaning of substantial value to include the following

- a. If the fair market value of Indian assets represent at least 50 per cent and
- b. The minimum value of Indian assets is Rs. 10 crores.

Domestic Transfer pricing

The erstwhile limit for the Domestic Transfer Pricing was Rs. 5 crores which is now proposed to be increased to Rs. 20 crores to give relief to the small companies.

OTHERS

Donation

Section 80G has been amended to include the contributions made to Swachh Bharat Kosh and Clean Ganga Fund eligible for 100% deduction

Curb Black Money

The Finance Minister has proposed introduce a new bill on black money that will prosecute the concealment of income and tax evasion in relation to foreign assets with rigorous imprisonment of up to 10 years without the benefit of compounding. Disclosure of opening of foreign bank accounts has been made compulsory.

- CA. A P Srinath