Navigating growth amidst challenges

Union Budget 2013

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Introduction

In the run-up to the Budget, the Finance Minister faced the following key challenges: reviving growth, increasing savings and investments and macroeconomic stabilisation–reining in inflation, controlling the fiscal and current account deficits–in the face of strong external head winds.

His promise of delivering a responsible Budget was met with some scepticism given that this is the last one before the general elections. In the main, despite severe constraints, he has done a balancing act and announced a pragmatic and a responsible Budget. It focuses on inclusive growth and sustainable development.

He has announced a number of tax and non-tax incentives to stimulate domestic and foreign investment in a wide range of sectors. The infrastructure sector is critical not only for growth but also for employment generation. There are number of proposals to facilitate investment in agriculture, coal, power, roads, ports and rural and urban housing development. Investment in infrastructure requires long-term funds and the Budget has three important proposals: encouraging infrastructure debt funds, allowing the India Infrastructure Finance Corporation Ltd to offer credit enhancement to infrastructure companies to access the bond market, and allowing companies to raise infrastructure tax-free bonds up-to 500 billion INR.

To encourage capital formation in the manufacturing sector, he has introduced a tax deduction of 15% on investment exceeding INR 1 billion INR in new plant and machinery. This will be in addition to depreciation that is otherwise allowable on such plant & machinery. These measures are supported by other proposals for deepening the debt market that would allow the stock exchanges to have dedicated debt and mutual fund segments.

With these announcements, the government is hopeful of achieving growth rate of 6.2% in the next year.

The government had accepted the recommendations of the Kelkar Committee and announced a new consolidated fiscal plan in October 2012. It has been able to cap the fiscal deficit at 5.2% this year with the target of reducing it to 4.8% in the next year.

The Finance Minister admitted that the situation on the current account deficit is more serious due to an inelastic demand for imported crude oil, high volumes of coal and gold imports and the slowdown in exports. There is an admission that foreign investment is an imperative and needs to be encouraged in order to finance the current account deficit. However, there were no specific policy announcements to promote FDI other than setting up a committee that will lay down the rules to distinguish the FII from the FDI.

On the direct tax front, one of the eagerly awaited proposals to resolve the myriad issues arising out of tax on “indirect transfers” and retrospective provisions, were conspicuously absent.

There was reiteration of the promise to usher in GST regime with overwhelming majority of states in favour. There was also re-assurance of tabling the DTC bill in the budget session after considering recommendations of the standing committee.

The Budget re-emphasises the government’s commitment towards an inclusive growth as all its flagship schemes are fully funded. The three promises made to key constituencies include, the promise to set up a 10 billion INR Nirbhaya Fund to fund schemes to empower women and provide for their safety, the proposal to set up the first ever woman’s bank in the public sector, an incentive for the youth to join skill development programmes and a nation-wide roll-out of the direct benefit transfer scheme for the poor. This is an excellent example of how populism can be dovetailed with sound economic theory—*aapka paisa aapke haath*.

A detailed analysis of the Union Budget 2013 follows with particular focus on proposals related to taxes.

We trust that you will find this useful. As always, we look forward to your feedback.

Economic performance 2012-13

Data categories	Units	Financial year 2011-12	Financial year 2012-13
GDP (factor cost 2004-05 prices)	INR	52,435.82 billion (first revised estimates)	55,034.76 billion (advanced estimates)
Growth rate	%	6.2	5.0
Savings rate	% of GDP	30.8 (first revised estimates)	31.8 (Planning Commission)
Investment rate	% of GDP	35 (first revised estimates)	35.4 (Planning Commission)
Index of Industrial Production (growth) (The IIP has been revised since 2005-06 on base (2004-05=100))	%	2.9	0.7 (April-December 2012)
Average WPI inflation	% change	8.9%	7.6% (April-January 2012-13)
Inflation (CPI – IW) (average)	% change	8.4%	10% (April-January 2012-13)
Export growth (USD)	% change	21.3%	-4.9% (April-January 2012-13)
Import growth (USD)	% change	32.3%	0.0% (April-January 2012-13)
Current account balance / GDP	%	-4.2%	-4.6% (April-September 2012)
Gross fiscal deficit (as % of GDP)	%	5.7% (fiscal indicators for 2011-12 are based on the provisional actuals (unaudited)	5.1% (budget estimates)

Summary

The Economic Survey 2012-13, released on 27 March 2013, is a performance review of the economy and is tabled in the Parliament by the Finance Minister before the Union Budget. This year's survey expects a recovery in the global economy in 2013, which would supplement measures to revive growth in 2013-14. The survey forecasts the economy to grow by more than 6% in the next fiscal year. While pointing out the present dynamics of the economy, the survey suggests focus areas for the government.

This year the survey focusses on jobs through a special chapter. The document states that the country can seize its 'demographic dividend' by thinking of ways to create formal jobs in manufacturing and services, which typically are high-productivity sectors.

Sharp slowdown from post financial crisis growth rates

The year 2008-09 witnessed global financial crisis and consequent stimulus measures, which also continued into 2009-10. In 2011-12, growth slowed to 6.2%. According to the advanced estimates of the government, growth in 2012-13 is expected to register 5%. These rates are far below the almost double-digit post financial crisis growth rates of 9.3% in 2010-11 and 8.6% in 2009-10. The slowdown is a sharp contrast to the high compound annual growth rate for GDP at factor cost of 7.9% for the decade ending 2012-13.

Reasons for contracting growth

- The financial crisis necessitated large fiscal and monetary stimulus. The stimulus measures boosted demand; final consumption saw an average growth rate of over 8% between 2009-10 and 2012. However, it also fuelled inflation. The central bank's monetary response to control the rise in inflation, which started in March 2010, slowed consumption demand in the coming years.
- The tighter monetary policy along with investment bottlenecks stymied corporate infrastructure investment from the beginning of 2011-12.

Performance of the three sectors– industry, agriculture and services	2011-12	2012-13
Industry	3.5%	3.1%
Manufacturing	2.7%	1.9%
Electricity, gas and water supply	6.5%	4.9%
Mining and quarrying	-0.6%	0.4%
Construction	5.6%	5.9%
Agriculture	3.6%	1.8%
Services sector	8.2%	6.6%
Trade, hotels, and restaurants, transport and communications	7%	5.2%
Financing, insurance, real estate and business services	11.7%	8.6%
Community, social and personal services	6%	6.8%

- The euro crisis and the uncertainties about the fiscal situation in the US along with a weak monsoon in India further added to growth woes, as well as CAD.

Decline in aggregate demand and savings

- Private final consumption expenditure accounts for about three-fifths of the GDP at market prices and it slowed considerably from 8% in 2011-12 to 4.1% in 2012-13.
- Gross capital formation or investment declined to 35% in 2011-12 from 36.8% in 2010-11 and 36.5% in 2009-10.
- Domestic savings (gross domestic savings as percentage of gross domestic product at market prices) have been above 30%, since 2004-05. It peaked in 2007-08 at 36.8% and reached an eight-year low of 30.8% in 2011-12.

Price moderation

- The headline wholesale price inflation (WPI) was at 7.55% in the April-December 2012-13 period, which is lower than the average of 8.94% in 2011-12.

- Food prices have been contributing an average of about one-third to the total inflation.
- Deceleration in prices of non-food manufactured products, however, moderated the overall wholesale price inflation.
- In addition, inflation pressures have eased globally due to benign global commodity prices. This has created downward pressure on inflation levels in India.
- On the other hand, the new series of CPI or consumer price inflation has remained near double-digits in the current year. Rise in food prices, largely due to supply constraints, have pushed up CPI and created a higher gap between CPI and WPI.

Glimmer of hope in government's fiscal map

The fiscal deficit for 2011-12 (unaudited provisional actual) was at 5.7%, while the fiscal deficit target for 2012-13 for the government is at 5.1% (Budget estimates).

- Through the first half of the current year, growth slowdown, high crude oil prices and uncertain financial market conditions influenced the disinvestment programme.
- The survey also notes that an increasing subsidy bill, particularly those on petroleum products, increased the risk of fiscal target being breached. Lack of commensurate increase in retail prices of diesel and LPG has been worsening the fiscal deficit.
- In the second half of the year, the government announced fiscal consolidation plan on the recommendations of the Kelkar Committee. The progress of the budget of Indian states has been noteworthy with overall fiscal deficit constrained at only 2.1% of the GDP.

As a proportion of Budget estimates of 2012-13, fiscal deficit is 78.8% in April-December 2012, which is significantly below the five-year average of 85.9% and last year's level of 92.3%. The revenue deficit in the same period was 85.1%, which is also below the level achieved in the recent past.

The survey suggests that a widening of the tax base and prioritisation of expenditure will be the key to a credible medium-term fiscal consolidation plan.

Concerns around increasing current account deficit

- India's balance of payments has come under pressure as the country's export has been declining.
- In April-December 2012, exports declined by 5.5% year-on-year (YoY), while imports fell marginally by 0.7% pushing up the trade deficit by 7.2% to 147.2 billion USD as compared to 137.3 billion USD in the previous year.

- Increase in oil and gold imports have been driving the current account deficit.
- Increase in trade deficit has pushed up current account deficit from 4% of GDP in the first half of 2011-12 to 4.6% during the same period in 2012-13.
- In the backdrop of an increasing current account deficit, capital inflows are crucial for the balance of payments. In the first six months of the current financial year, net capital flows declined to 40 billion USD from 43.5 billion USD during the same period in 2011-12.
- Though FDI to India decreased, the net portfolio flows increased. In the first half of 2012-13, net FDI declined to 12.8 billion USD as compared to 15.7 billion USD during the same period last year. However, the net portfolio (including FIIs) investment increased from 1.3 billion USD to 5.8 billion USD.

Sector focus

The survey identifies a few strengths and concerns in certain sectors in the economy and suggests crucial roadmaps for them.

Agriculture

- The aim is to achieve sustainable growth through reforms facilitating greater efficiency and productivity.
- Private investment in infrastructure needs to increase.
- The public distribution system needs to be revamped.
- An efficient supply chain will establish an important link between retail and farmers.
- Agricultural incentives and strong food price management needs to be justified.
- Greater interest in skill development and research and development is on the agenda.
- A sustainable and climate-resilient practice is ensured through better delivery of seeds, risk management tools and credit.
- A better food management system needs to be maintained.

Industry and infrastructure

- Decline in new projects, deceleration in investment and import competition led to a contraction of production of capital goods.
- Consumer durables suffered because of high interest rates and slower growth in household or retail credit.
- Project implementation has been stymied due to delay in land acquisition, municipal permission, and supply of materials and award of work. A large number of major central-sector projects costing 150 crore INR and more are delayed.

Service sector

- The much needed image change of Indian tourism could be brought about by higher investment in the tourism infrastructure including through the PPP model.
- Retaining and expanding our competitive advantage in those services where we presently have an advantage should be the focus, since the present advantage might not continue forever. New competitors are already emerging in areas where we had the initial advantage as in the case of software services.
- Removing or easing the myriad domestic restrictions and regulations could lead to dynamic gains for the economy.

Financial sector

- The survey talks about the high levels of gross non-performing assets (NPAs) of the banking sector. It increased from 2.36% of the total credit advanced in March 2011 to 3.57% in September 2012.
- A well-developed corporate bond market is essential to supplement banking credit and the equity market. It also helps in facilitating long-term funding requirement of the corporate sector.
- A plan to shift the financial structure from a bank-dominated system to a more diverse financial system is recommended in the survey.
- The survey also indentifies the need for strengthening the legal framework for regulation of corporate debt by necessary amendments in rules or regulations, and relaxation of investment guidelines for pension, provident and insurance funds.
- Insurance funds should be made an effective means of channelising savings to investments.

Human development

- Efforts to secure the rights of people have been ensured through legislations such as the Right to Information Act, the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), the Forest Rights Act, and the Right to Education (RTE).
- Governance issues such as programme leakages and funds not reaching the targeted beneficiaries need to be addressed.
- Direct benefit transfer through the use of the unique identification number can help check some of these leakages.

Sustainable development and climate change

- To make the key enablers of growth (e.g., infrastructure, transportation, housing, or agriculture) grow sustainably remains a challenge.
- Raising additional resources for meeting the need for economic growth with greater environmental sustainability is also a vital issue.
- India can benefit if new and additional finance and technology were made available through the multilateral processes.

Outlook and future direction

- Support from the advanced economies is expected to be slow in the near future, especially in the backdrop of the changes in institutional framework in Europe. However, healthy growth in the other emerging economies could be a relief since the direction of Indian exports is tilting towards them.
- The influence of global economy on India is exposed to the following two downside risks:
  - Capital flows in India is subject to risk aversion sentiments of global investors.
  - India's import bill is determined by the price of oil, which is highly dependent on global market dynamics.
- In India, fiscal consolidation, firming up of demand and increase in agricultural production could lead to lower inflation. This will give the RBI the headroom to reduce policy rates. Low rates could enhance investment in industry and services.
- Given that all the three major sectors of the economy-agriculture, industry and services, perform better in 2013-14 as compared to 2012-13, the overall economy is expected to grow in the range of 6.1% to 6.7% in 2013-14.
- The projections for growth, however, assume normal monsoon, moderate inflation and recovery of global growth.

Key policy announcements

Investments and capital markets

- A Standing Council of Experts in the Ministry of Finance is proposed to be set up to assess India's financial sector competitiveness in the international market, examine costs of doing business in India and give its recommendations to the government for appropriate action.
- To increase penetration of life and general insurance in the country, the following are proposed:
  - Insurance companies will be allowed to set up branches in Tier II cities and below without prior approval of the IRDA.
  - Banks will be allowed to act as insurance brokers.
  - KYC compliance by banks will be sufficient to acquire insurance policies.
  - Banking correspondents will be allowed to sell micro insurance products.
- The SEBI is in the process of simplifying the norms for the entry of foreign portfolio investors from multi-fold KYC norms to adopting a risk-based approach.
- To bring about clarity between foreign direct investment and portfolio investment schemes, it is proposed that investments more than 10% by an investor will be taken as foreign direct investment, else portfolio investment.
- The SEBI will introduce requirements pursuant to which investments made out of angel investor pools can be recognised as Category-1 AIF venture capital funds.
- SEBI authorised depository participants will be allowed to register different classes of portfolio investors based on KYC guidelines.
- An additional window is proposed whereby small and medium enterprises will be allowed to list on the SME exchange without triggering the initial public offer requirement, with the issue being restricted to informed investors.
- The scope of end-use for pension and provident fund investments will be increased to include exchange traded funds, debt mutual funds and asset backed securities.
- FIIs will be allowed to participate in the exchange traded currency derivative segment and to also invest in corporate bonds and government securities as collateral.
- To incentivise greater savings by households in financial instruments, the government in consultation with the RBI, will introduce instruments protecting savings from inflation.
- To enhance liquidity and depth in the debt market, it is proposed to allow stock exchanges to introduce a dedicated debt segment on the exchange.

Manufacturing and infrastructure

- To achieve the 12th Plan projection of an investment of 1 trillion USD in the infrastructure sector, the government proposes the following measures:
  - Infrastructure debt funds to be encouraged for providing long-term low cost debt
  - India Infrastructure Finance Corporation Limited with the Asian Development Bank, to give credit enhancement to infrastructure companies wishing to access long-term bond markets
- A regulatory authority is proposed for the road sector to address issues such as financial stress, enhanced construction risk and contract management issues.
- High-value investments in excess of 1 billion INR in plant and machinery will enjoy an additional investment allowance deduction of 15% over and above the depreciation allowance.
- With the view to encourage the growth of micro small and medium enterprises, it is proposed that the non-tax benefits received by such enterprises will continue for three years even after such enterprises become large enterprises.
- The National Electronics Policy was announced to promote the manufacturing of electronic goods in India.
- The scheme for integrated textile parks announced earlier with respect to setting up textile parks, will now also be allowed to house apparel manufacturing units.
- With a view to reduce farm-to-fork wastages, financing facilities by NABARD will be available for the construction of warehouses, godowns and cold storage units.
- Funds provided to technology incubators within academic institutions and approved by the Ministry of Science and Technology or the Ministry of MSME will qualify towards meeting the CSR expenditure.

Energy

- The oil and gas exploration policy will be reviewed to move from profit-sharing to revenue-sharing contracts and the natural gas pricing policy be amended to remove the uncertainty regarding pricing.
- A policy to encourage the exploration and production of shale gas is on the anvil.
- A PPP framework is being considered, as medium- to long-term strategy, to increase the production of coal, thereby reducing dependence on coal imports. Coal India Limited will be one of the partners in this PPP initiative.

Broadcasting

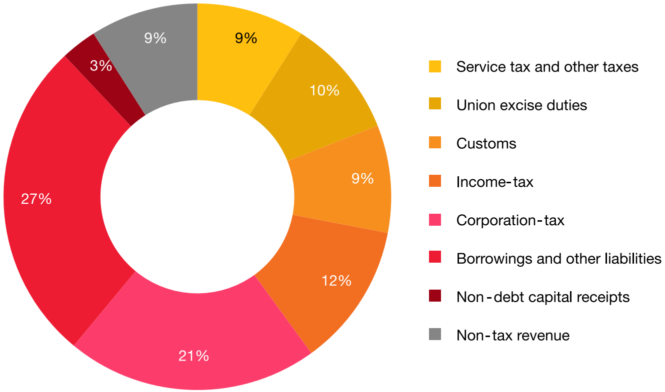
- The government is proposing to auction 839 new FM radio channels in the year 2013-14, pursuant to the FM-Phase III Policy expansion.

Budget financials

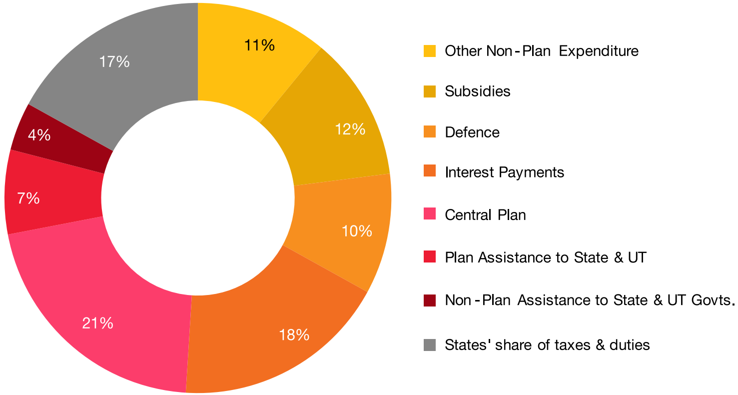
	Billion INR	FY 2011-12	FY 2012-13	FY 2012-13	FY 2013-14
		Actuals	Budget Estimates	Revised Estimates	Budget Estimates
1	Revenue Receipts	7514.37	9356.85	8718.28	10563.31
2	Capital Receipts	5529.28	5552.41	5589.98	6089.67
3	**Total Receipts (1 + 2)**	13043.65	14909.26	14308.26	16652.98
4	Non Plan Expenditure	8919.9	9699	10016.38	11099.75
5	Plan Expenditure	4123.75	5210.25	4291.87	5553.22
6	**Total Expenditure (4 + 5)**	13043.65	14909.25	14308.25	16652.97
7	Revenue Expenditure	11457.85	12861.09	12630.72	14361.69
8	Capital Expenditure	1585.8	2048.16	1677.53	2291.29
9	**Revenue Deficit (7 - 1)**	3943.48	3504.24	3912.44	3798.38
	As a percentage of GDP	4.40%	3.40%	3.90%	3.30%
10	**Fiscal Deficit [6 - (1+Recoveries of Loans + Other Receipts)]**	5159.9	5135.9	5209.25	5424.99
	As a percentage of GDP	5.70%	5.10%	5.20%	4.80%
11	**Primary Deficit (10 - Interest Payments)**	2428.4	1938.31	2042.51	1718.14
	As a % of GDP	2.70%	1.90%	2.00%	1.50%

GDP for BE 2013-14 has been projected at 113718.86 billion INR assuming 13.4% growth over the Advance Estimates of 2012-13 (100281.18 billion INR) released by CSO.

Where the Rupee comes from



Where the Rupee goes to



Direct Tax Proposals

While presenting the tax proposals in the Budget 2013-14, the Finance Minister set the context by stating that the underlying theme of his proposals is to bring clarity in tax laws, stability in tax regime, provide a non-adversarial tax administration and a fair dispute resolution mechanism.

Against this backdrop, the Finance Minister tabled the direct tax proposals that seek to keep the tax rates stable, provide boost to the manufacturing sector, rationalize certain tax provisions and provide for widening of the tax base. However, it fell short of taxpayers exceptations neither in resolving issues arising from tax on indirect transfers, retrospective amendments, nor in accepting majority of Shome's recommendations.

Tax rates

Though, the basic corporate tax rate has remained unchanged at 30%, however, the Finance Minister has proposed an increase in applicable surcharge for income beyond a certain threshold. A comparison between existing and proposed effective tax rates (for domestic as well as foreign companies) is as under:

Foreign Company

	Existing	Proposed	
Particulars	Taxable income > 10 Million INR	Taxable income > 10 Million INR, but < 100 Million INR	Taxable income > 100 Million INR
Corporate tax	40.00%	40.00%	40.00%
Surcharge	2.00%	2.00%	5.00%
Corporate tax + Surcharge	40.80%	40.80%	42.00%
Education Cess thereon	3.00%	3.00%	3.00%
Effective tax rate	42.024%	42.024%	43.26%

Note: No change is proposed in effective tax rate for income up-to INR 10 Million and it remains at 41.2%.

Domestic Company

	Existing	Proposed	
Particulars	Taxable income > 10 Million INR	Taxable income > 10 Million INR, but < 100 Million INR	Taxable income > 100 Million INR
Corporate tax	30.00%	30.00%	30.00%
Surcharge	5.00%	5.00%	10.00%
Corporate tax + Surcharge	31.50%	31.50%	33.00%
Education Cess thereon	3.00%	3.00%	3.00%
Effective tax rate	32.445%	32.445%	33.99%

Note: No change is proposed in effective tax rate for income up-to 10 Million INR and it remains at 30.9%.

Basic rate for MAT remains unchanged at 18.5%. However, where the total income exceeds INR 100 Million, the applicable surcharge would be 10% (5% for FY 2012-13). Therefore, in such cases the effective tax rate would be 20.96% (20.01% for FY 2012-13).

The applicable rate for DDT is proposed to be increased to 16.995% from the existing rate of 16.22%.

Partnership Firms

A comparision of existing and proposed effective tax rates is as under

	Existing	Proposed	
Particulars		Taxable income < 10 Million INR	Taxable income >10 Million INR
Corporate tax	30.00%	30.00%	30.00%
Surcharge			10.00%
Corporate tax + Surcharge	30.00%	30.00%	33.00%
Education Cess thereon	3.00%	3.00%	3.00%
Effective tax rate	30.9%	30.9%	33.99%

Basic rate for AMT remains unchanged. However, where the adjusted total income exceeds INR 10 Million, the applicable surcharge would be 10% (Nil for FY 2012-13). Therefore, in such cases the effective tax rate would be 20.9605% (19.055% for FY 2012-13).

Individuals/ HUF

No change in the slabs/ tax rates. A surcharge at 10% on the tax amount will be levied on individuals whose total income is more than 10 Million INR. Thus, the marginal tax rate for such individuals would increase from 30.9% to 33.99%.

As per the Finance Minister, the increased surcharge is applicable only for FY 2013-14.

Incentives for growth/ Relief to taxpayers

For Corporate Taxpayers

Incentive for the manufacturing sector

- Companies engaged in manufacturing or production of any article or thing, have been incentivised to acquire and install new plant and machinery during the period 1 April 2013 to 31 March 2015. Such companies would be eligible to claim an additional deduction of 15% of the cost of such new plant and machinery, if the investment exceeds 1 billion INR. In case the threshold of 1 billion INR is not achieved in FY 2013-14, then in order to be eligible, the minimum threshold would need to be achieved in FY 2014-15.
- A lock-in-period of five years has been proposed for the transfer of such plant and machinery failing which the deduction availed would be taxable as business income. There is an exception to this rule in the case of transfer of new asset under an amalgamation or demerger.

Reduced tax rate on dividend received from foreign companies to continue; further relief from cascading effect of DDT

- Concessional tax rate of 15% on dividends received by an Indian company from specified foreign companies has been extended for one more year i.e. till FY 2013-14.
- The existing provisions provide for the removal of a cascading effect of DDT in a multi-tier corporate structure in respect of dividends received from the domestic subsidiary company. It is proposed to introduce similar provisions for dividends received from the foreign subsidiaries as well. This is explained ahead:

	Existing (INR)	Proposed (INR)
F. Co. declares dividend*	100.00	100.00
Tax payable by I. Co. on such dividend (A)	16.22	16.995
I. Co. declares dividend to its shareholders	300.00	300.00
Less: Dividend received by I. Co. from F. Co.	-	(100.00)
Amount on which DDT is payable	300.00	200.00
DDT payable (B)	48.660	33.990
Dividend tax cost of I Co (A+B)	64.880	50.985

** I Co (Indian parent) holds more than 50% shares in F Co (foreign subsidiary)*

Incentives for the power sector

- The sunset clause for commencing eligible activity for claiming profit-linked incentive by power companies has been extended by one year i.e. up-to 31 March 2014 (presently up-to 31 March 2013).

For Individuals

Tax rebate

Income-tax slab rates for individuals remain unchanged. However, a resident individual whose total income is less than 500,000 INR, a tax rebate of up-to 2,000 INR is proposed to be given. Consequently, resident individuals with taxable income up to 220,000 INR will not have any tax liability.

Life insurance premium

The Budget proposes to raise the permissible premium rate to 15% of the sum assured (existing 10%) in the case of persons suffering from disability or specified diseases for claiming deduction under the overall cap of 100,000 INR for investments and for claiming exemption for amounts received from life insurance policies. This will be applicable for policies to be issued on or after 1 April 2013.

Deduction for contribution to health schemes

Under the existing provisions, a deduction of up-to 15,000 INR per annum is available for health insurance payment made by an individual for any contribution made towards the Central Government Health Scheme. It is proposed that this deduction would be extended to other health schemes of the Central and the State governments that are similar to the Central Government Health Scheme.

Deduction for investment in equity savings scheme

Under the existing provisions, a one-time deduction of up-to 50% of the amount invested (subject to a limit of 25,000 INR) in notified equity shares savings scheme is provided, if the individual's gross total income does not exceed 1 Million INR.

The scope of these provisions is proposed to be widened to cover investment in units of equity-oriented mutual funds also by a new retail investor whose gross total income does not exceed 1.2 Million INR. The deduction is proposed to be allowed for three consecutive years.

Additional deduction for interest paid on loan for residential property

Deduction of up-to 100,000 INR is proposed for interest on loan payable for the first residential property. The deduction is provided on fulfilment of the following conditions:

- Loan is taken from a financial institution (banking company or housing finance company).
- Loan is sanctioned during the period beginning on 1 April 2013 and ending on 31 March 2014.
- The amount of loan sanctioned does not exceed 2.5 Million INR.
- The value of the residential property does not exceed 4 Million INR.

Where the interest payable for the FY 2013-14 is less than 100,000 INR, then the balance amount may be claimed in FY 2014-15.

It is also provided that where a deduction under this section is claimed, a further deduction will not be allowed with respect to such interest under any other provisions of the Act.

Rationalization of tax provisions

Transfer of immovable property held as stock-in-trade

- Currently, where sales consideration on the transfer of immovable property (being capital asset) is less than the value taken for stamp duty purposes, then such stamp duty value is taken as the full value of consideration for computing capital gains.
- A similar provision is proposed to be inserted in case of the transfer of immovable property (held as stock-in-trade), whereby the stamp duty value can be taken as consideration for the purposes of computing the business income.

Deduction for additional wages

- Currently, deduction of 30% of additional wages is allowed to an Indian company with respect to new regular workmen employed in its industrial undertaking. To restrict the claim of such deduction for employment only in the manufacturing sector, it is proposed that the deduction will be available to an Indian company deriving profits from the manufacture of goods in a factory. The deduction will continue to be available for a period of three years (including the year in which workmen are hired).
- No deduction will be available if the factory is hived off or transferred from another existing entity or acquired by the taxpayer as a result of an amalgamation with another company.

Transfer of immovable property for inadequate consideration

It is proposed to tax all transactions where any individual or HUF receives any immovable property for inadequate consideration (i.e. for a consideration less than the stamp duty value of the property by an amount exceeding 50,000 INR) from any person and not only to a case where no consideration is received.

Further, where there is a time gap between the date of agreement fixing the amount of consideration and date of registration and the amount of consideration and part payment has been made by any mode other than cash on or before the date of agreement, then stamp duty value on the date of agreement may be considered for this purpose.

Keyman insurance policy

Under the existing provisions, if Keyman insurance policy is assigned to the concerned employee, the receipt on maturity is not taxed in his hands. It is proposed that going forward any amount received on the maturity of Keyman insurance policy (even when it is assigned to the employee) will be taxable.

Policy Statements

- Setting up of a Tax Administrative Reform Commission to review the application of tax policies and laws. It will submit periodic reports that can be implemented to strengthen the capacity of tax system.
- Circular to be issued regarding Safe Harbour rules for IT/ development Centres by 31 March 2013.
- Expanding the scope of AIR, expanding payment facility through more banks, extending refund banker systems to refunds exceeding INR 50,000 and making e-filing compulsory for more categories of taxpayers.

GAAR

GAAR provisions were introduced in the Act vide Finance Act, 2012 to be effective from FY 2013-14. These were to be applied in accordance with prescribed guidelines. The draft guidelines were released in June 2012. After receiving a number of representations against such provisions, an expert committee was set up under the chairmanship of Dr Parthasarathi Shome. The committee submitted its report in September 2012. The Finance Minister released a statement in January 2013 stating that the government has accepted major recommendations of the committee although with modifications.

However, barring the deferral of GAAR by two years, other proposals introduced by the Finance Minister in the Budget relating to GAAR do not allude at all to the acceptance of the Shome Committee recommendations.

The recommendations of the committee like grandfathering of investments, providing monetary threshold for the applicability of GAAR, precedence of SAAR over GAAR, tax mitigation factors that would not attract GAAR, non-double taxation, etc find no mention in the Budget proposals.

The key amending features of the proposals relating to GAAR as introduced in Budget 2013 are as under:

Substantive provisions

- It is proposed to defer GAAR by two years. Accordingly, GAAR provisions will apply from FY 2015-16 onwards.
- The bill seeks to amend the scope of an IAA. Presently, an arrangement is treated as an IAA if the main purpose or one of the main purposes of the arrangement is to obtain tax benefit. It is proposed to modify the definition of IAA to provide that an arrangement whose

- main purpose is to obtain tax benefit will be treated as an IAA.
- It is proposed that if the main purpose of a step-in or a part of, the arrangement is to obtain tax benefit, then it shall be presumed that the arrangement has been entered into with the main purpose of obtaining tax benefits, unless proved contrary by the taxpayer. Therefore, the onus to prove that the transaction is not IAA is on the taxpayer (which is contrary to the existing provisions).
- The bill seeks to add an additional scenario wherein an arrangement will be deemed to lack commercial substance.
- It is proposed that an arrangement will also be deemed to lack commercial substance if it does not have a significant effect upon the business risks or net cash flows of any party to the arrangement apart from any effect attributable to the tax benefit that will be obtained from the arrangement.
- Under the existing provisions, the period of existence of arrangement, payment of taxes and provision of exit route are not taken into account while determining the 'lack of commercial substance' of an arrangement. The bill seeks to clarify that these factors will be relevant but not sufficient to determine whether an arrangement lacks commercial substance or not.
- It is proposed to combine the definition of 'connected person' and 'associated person' into one inclusive definition of 'connected person'.
- The bill seeks to make the definition of 'tax benefit' and 'party' inclusive as against an exhaustive definition in the present law.

Procedural provisions

- The bill seeks to make the approving panel more independent. The approving panel will consist of the following:
  - The chairperson, being a person who is or has been a judge of a high court;
  - A member of the Indian Revenue Service of the rank of CIT and above;
  - An academic or a scholar with special knowledge of matters, such as direct taxes, business accounts and international trade practices
- The directions of the approving panel will have a binding effect on both the taxpayer and the tax authorities as against the present provisions wherein, the directions are binding only on the tax authorities. Furthermore, the directions of the approving panel are not appealable under the Act.
- The term of the approving panel will be one year which may be extended up to three years.
- The approving panel will have the additional powers of a civil court as provided for the AAR under the Act.
- The approving panel will dispose the reference received from the CIT within six months from the end of the month in which the reference is received. The following time period will be excluded from the six months:
  - The period commencing from the date on which the first direction is issued by the approving panel for conducting enquiries till the receipt of information by the approving panel or one year, whichever is less;
  - The period during which the proceedings are stayed by an order or injunction of any court

Widening of the tax base

Tax rate for royalty and FTS increased

- The domestic tax rate for royalties and FTS is proposed to be increased to 25% (plus applicable surcharge and cess) from 10% (plus applicable surcharge and cess). This is subject to reduced rate, if any, as per the relevant tax treaty provisions.

Provisions relating to TRC: Eligibility for treaty benefits

- The bill proposes that submission of the TRC is a necessary but not sufficient condition for claiming benefits under tax treaties. The proposed amendment seeks to clarify the intention of the government and will take effect retrospectively from 1 April 2012.

Taxation on buyback of unlisted shares

- Under the existing provisions, consideration received by shareholders on the buyback of shares by the company u/s 77A of the Companies Act, 1956, is not treated as dividend but is taxable as capital gains. A non-resident shareholder is eligible to claim treaty protection if available.
- The bill proposes to introduce additional income tax at the rate of 22.66% (inclusive of surcharge and cess) on net consideration (consideration paid at the time of buyback as reduced by the amount received for subscription of shares) paid by a domestic company for the purchase of its own unlisted shares. This tax is on the lines of DDT. It is paid by the company over and above the normal tax liability and cannot be claimed as a credit.
- Income received by the shareholder with respect to such buyback will be exempt from tax.
- The amendment is proposed to be effective from 1 June 2013.
- A comparison of tax cost in hands of a Company as DDT and that on buy back of shares is depicted ahead:

Particulars	Amount (INR Million)
Share Capital	100
Free Reserves	400
Shareholder Funds	500

Option A: Dividend	
Dividend to be declared	125
DDT @ 16.995%*	21.24

Option B: Buy back of shares	
Maximum permissible buy back (25% of paid up capital & free reserves)	125.00
Less: Amount received at time of issue of shares**	-25.00
Distributed income	100.00
Tax on buy back of shares u/s 115QA @ 22.66%***	22.66

* 15% DDT + Surcharge @ 10% + 3% Cess thereon
** Assuming shares were issued at face value
*** 20% tax + Surcharge @ 10% + 3% Cess thereon

Scope of Special Audit widened

- It is proposed to amend provisions relating to the special audit under the directions of the tax officer with a view to overrule certain judgements that have interpreted the expression 'nature and complexity of the accounts' in a restrictive way.
- As per the proposals, the tax officer may refer case to special audit by looking at 'nature and complexity of the accounts, volume of the accounts, doubts about the correctness of the accounts, multiplicity of the transactions in the accounts or the specialised nature of business activity of the taxpayer'. This gives wide and sweeping powers to the tax officer to order a special audit of accounts of an assessee.

Financial Sector

Securities transaction tax

STT has a stabilizing effect on transactions though it adds to the transaction cost. It is proposed to reduce the STT rates as under:

S no	Nature of taxable securities transaction	Payable by	Existing rates (in per cent)	Proposed rates (in per cent)
1	Delivery based purchase of units of an equity oriented fund entered into in a recognised stock exchange	Purchaser	0.1	Nil
2	Delivery based sale of units of an equity oriented fund entered into in a recognised stock exchange	Seller	0.1	0.001
3	Sale of a futures in securities	Seller	0.017	0.01
4	Sale of a unit of an equity oriented fund to the mutual fund	Seller	0.25	0.001

Venture capital fund, undertaking or company

Tax exemption (pass through status) has been extended to VCFs that are registered as category I AIF. Exemption is available from FY 2012-13 onwards.

Additional conditions to avail tax exemption -

- No investments in associated enterprises
- VCF units to not be listed.

No express pass through status provided for other AIFs.

Taxation of income of securitisation trusts and their distribution

- A special tax regime is proposed to be created for the facilitation of the securitisation process.
- It is proposed that any distribution of income by a securitisation trust (set up under SEBI regulations) to its investors shall be liable to additional income tax at the rate of:
  - 25%, if the income is distributed to an individual or HUF;
  - 30% in other cases.

These provisions are on the lines of distribution tax levied in the case of mutual funds.

- The additional tax will not be levied if the income is distributed to a person whose income is exempt under the provisions of the Act.
- Consequent to the levy of additional income tax, income will be exempt in the hands of the investor.
- The income of the securitisation trust from the activity of securitisation will be exempt from tax.
- The securitisation trust is required to furnish a statement on or before 15 September in the prescribed form containing the details of income distributed to investors, tax paid and other details as may be prescribed.
- Failure to deposit the additional tax within the prescribed time limit will attract a penal interest of 1% every month or part of month of delay.
- This amendment will take effect from 1 June 2013.

Bad debt deduction for banks

- It is proposed that deduction for write-off of bad debts that are in excess of the provisions for non performing assets should be calculated on an aggregate of provisions for all debts, including rural advances.

Tax on distributed income by mutual funds

- Tax rate of 12.5% is proposed to be increased to 25% in the case of distributed income for all funds, other than equity-oriented funds, where distribution is made to an individual or an HUF.
- A concessional tax rate of 5% will apply on income distributed by infrastructure debt funds. This amendment has been proposed to bring parity in taxation of income from investment made by a non-resident in an Infrastructure debt funds, whether set up as a mutual fund or an NBFC.
- The amendment is proposed to be effective from 1 June 1, 2013.

New tax

Commodities Transaction Tax

- CTT is a new tax that is proposed to be levied on non-agricultural commodities future contracts, entered into a recognised association.
- CTT will be levied at the rate of 0.01% and will be payable by the seller.
- CTT will be allowed as deduction while computing the business income of the taxpayer (FY 2013-14).
- Detailed procedural guidelines have been provided regarding the collection and recovery of CTT, furnishing of returns, power of tax authorities, levy of interest, penalties, etc. This tax will be levied from the date to be notified.

Tax withholding provisions

- The Finance Act 2012 had reduced the TDS rate on interest payments from 20 to 5% for approved foreign currency loans taken from non-residents or a foreign company (for funding specified infrastructure sectors) between 1 July 2012 and 1 July 2015.
- It has been proposed to extend this benefit to the investment made by non-residents or a foreign company in long-term infrastructure bonds issued by the specified Indian company. This investment should be out of the special designated account in which money is initially deposited in foreign currency. Thereafter the same is converted into INR. This amendment will take effect from 1 June 2013.
- TDS at the rate of 1% is to be levied on the consideration payable for the transfer of immovable property (other than compulsory acquisition which is already subject to TDS at the rate of 10% and agricultural land) to a resident transferor, if the consideration for transfer of property is 5 million INR or more. This amendment will take effect from 1 June 2013

Others

Penalty for non-furnishing of AIR

- Under the existing provisions, there is levy of penalty of 100 INR for each day of default in case of failure to file AIR within the prescribed time limit.
- It has now been proposed that in case an income tax authority issues a notice to a person for furnishing AIR and such person fails to furnish it within the period prescribed under the notice, then the amount of penalty will be 500 INR per day. This amendment shall take effect from 1 April 2013.

Contribution to political parties

- Contribution made by taxpayers to any political party or electoral trust is allowed as deduction in computing total income. To discourage cash contributions, the bill provides that no deduction shall be allowed with respect to any sum contributed by way of cash.

Deduction in respect of donations

- It is proposed to provide a deduction to the extent of 100% of the donation (which is currently 50%) made to the National Children's Fund.

Extension of time limits for assessments

For the computation of the time limit for the completion of assessment, the bill seeks to exclude the following time periods:

- In case audit direction is challenged before a court, the time period till the order setting aside such directions is received by the CIT
- In case a reference or first of the references for exchange of information is made, the time period till the information required is last received by the CIT or the period of one year, whichever is less

Direct Taxes Code

- The Finance Minister stated that the amendments proposed in DTC Bill by the standing committee would be finalised and placed the before the parliament in the budget session.

Note: The proposed amendments are effective from FY 2013-14 unless specified otherwise

Goods and Services Tax (GST)

One of the key industry expectation from the Budget was that the Finance Minister will lay down a clear roadmap for implementing GST. The Budget, however, has dashed the hopes of the industry to the extent that there was no announcement either on the likely date of introduction or a roadmap for its introduction. Nonetheless, the Finance Minister made significant comments highlighting the government's commitment to expeditious implementation of the GST. He announced that majority of the states have agreed that there is a need for amending the Constitution and the introduction of a draft GST law that will be jointly drafted by the states' finance ministers and the GST Council. The Finance Minister was optimistic that the draft bill on constitutional amendment and on GST shall be introduced in the Parliament in a few months time.

The serious intent of the government to implement the GST has been emphasised by the fact that a sum of 90 billion INR has been set apart towards the first installment of the balance central sales tax compensation to states, which has been a major stumbling block in moving to a GST regime. It now needs to be seen, to what extent the states move forward and work with the government for introducing this transformation in the country's indirect tax regime.

Customs duty

Rate of duty

- The peak rate of BCD has been retained at 10% for non-agricultural goods, with a few exceptions.

Changes in the Customs Act

- The central government has been empowered to prohibit import or export of goods for protection of 'designs and geographical indications'.
- The central government has provided for the provisional attachment of properties to protect the interest of the revenue department in cases where duty has not been paid due to collusion, wilful misstatement or suppression of facts.
- The recovery provisions have been amended to provide recovery of money from a person other than the defaulter like post office, banking company or an insurer, by giving that person a written notice.
- The scope of advance ruling has been extended to enable existing importer or exporter to seek advance ruling for a proposed new line of business.
- Interest is sought to be levied in case duty has not been paid within two days post the return of bill of entry for home consumption by the custom authorities. Earlier this period was five days.
- Goods pending clearance for home consumption can be stored in public warehouses for a period of 30 days, which can be further extended by 30 days. Earlier there was no specified limit for keeping such goods in public warehouses.

- In case an appeal is not disposed of by the Tribunal within a stipulated period of 180 days, the Tribunal on an application made by the party can extend the period for a further 185 days. In case the appeal is not decided in that extended period the stay order will stand vacated.

The above changes will be effective from the date of enactment of the Finance Bill.

- Duty-free allowance has been raised in respect of jewellery for an Indian passenger who has been residing abroad for more than one year or a person who is transferring his or her residence to India. This is as follows:

Particulars	Till 28 February, 2013 (INR)	From 1 March 2013 (INR)
Gentleman passenger	10,000	50,000
Lady passenger	20,000	1,00,000

Changes in the Customs Tariff Act

- The education cess and the secondary and higher education cess have been withdrawn on specified goods including aircraft and parts thereof.
- The central government has clarified that LCD and LED TV panels and LCD and LED TV modules are one and the same thing for the purpose of notification providing exemption to LCD and LED TV panels of 19 inches and above.
- The central government has clarified that BCD exemption is available to all goods including chemicals and electronic parts required for the manufacture of solar cells whether or not assembled in modules or panels.
- Exemption from BCD on specified parts for electric and hybrid motor vehicles have been extended from 1 April 2013 to 31 March 2015. Further, BCD has been exempted on lithium-ion automotive battery for manufacture of lithium-ion battery packs for supply to manufacturers of hybrid and electric vehicles.
- The time period for consumption of parts or installation of testing equipment imported for MRO of aircraft by units engaged in such activities is extended from three months to a year.
- The custom duty exemption was earlier available to parts and testing equipment for MRO of aircraft alone. This exemption has been extended to parts of aircraft as well. Further, exemption from custom duty for MRO activities has been extended to private aircraft as well. It has been clarified that the benefit of exemption available to scheduled air cargo service and scheduled airline service shall be available to foreign airlines as well.

The above changes will be effective 1 March 2013.

Goods on which BCD is increased		
Goods	Existing rate (%)	New rate (%)
Steam coal	Nil	2
Raw silk	5	15
Set top box	5	10
Old motor vehicles	100	125
Motor cycles imported in CBU form with engine capacity of 800 cc or more	60	75
Yachts and other vessels for pleasure or sports, rowing boats and canoes	10	25

Goods on which BCD is reduced		
Goods	Existing rate (%)	New rate (%)
Hazel nuts	30	10
De-hulled oat grain	30	15
Bituminous coal	5	2
Specified machinery for textile industry	7.5	5
Specified machinery for leather and footwear industry	7.5	5
Pre-forms of precious and semi-precious stones	10	2

The above changes will be effective 1 March 2013.

Changes in BCD for motor vehicles		
Period	Description	Rate (%)
Till 28 February 2013	New motor cars imported in CBU form with FOB value of more than 40,000 USD and with engine capacity more than 3,000 cc for petrol-run vehicles and more than 2,500 cc for diesel-run vehicles	75
From 1 March 2013	New motor cars imported in CBU form with CIF value of more than 40,000 USD	100
	New motor cars imported with engine capacity of more than 3,000 cc for petrol-run vehicles and more than 2500 cc for diesel-run vehicles	100
	New motor cars imported in CBU form with CIF value of more than 40,000 USD and with engine capacity more than 3,000 cc for petrol-run vehicles and more than 2,500 cc for diesel-run vehicles	100

Central excise duty

Rate of duty

- The general excise duty rate has been retained at 12%.

Changes in the Central Excise Act

- As in the Customs Act, the recovery provisions have been amended and time period has been provided post which stay will stand vacated under the Central Excise Act.
- The scope of advance ruling has been extended to enable existing manufacturers to seek advance ruling for a proposed new line of business. Further, advance ruling can now be sought on the issue of admissibility of credit of service tax paid or deemed to have been paid on input services used in or in relation to manufacture of excisable goods.
- Additional modes, i.e. speed post and courier approved by the Central Board of Excise and Customs, for delivery of specified documents have been provided for.
- The monetary limit to hear and dispose appeals for the Single Bench of the Tribunal has been enhanced from 1 million to 5 million INR.

The above changes will be effective from the date of enactment of the Finance Bill.

- The benefit of the Advance Ruling Authority has also been extended to resident public limited companies, effective 1 March 2013.
- The provisions relating to reversal or payment of cenvat credit on removal or writing off of capital goods and inputs has been amended to provide for recovery of amount in terms of Rule 14 of the Cenvat Credit Rules, effective 1 March 2013.

Changes in the Central Excise Tariff Act

- The duty rate on SUVs with engine capacity exceeding 1,500 cc (including utility vehicle falling under chapter heading 8703) has been increased from 27% to 30%. SUVs have been defined to mean motor vehicles of length exceeding 4,000 mm and having ground clearance of 170 mm and above.
- Branded ayurvedic medicaments have been brought under MRP based assessment with abatement of 35% on MRP.
- Ships and vessels have been exempted from duty.
- Zero excise duty has been restored on branded readymade garments and made-ups. The zero excise duty option will be in addition to the cenvat route now available under which manufacturers can pay duty on the final product and avail credit of duty paid on inputs
- Specific duty has been increased on cigarettes, cigars and cigarillos.
- Benefit of exemption extended to manufacture of intermediate goods (covered under the negative list) used captivity for manufacture of final products specified under area based exemption Notification for Uttarakhand and Himachal.

The above changes will be effective 1 March 2013.

Goods on which duty reduced from 6% to NIL		
Goods	Existing rate (%)	New rate(%)
Handmade carpets and textile floor coverings of jute and coir	6	Nil
Henna powder, not mixed with any other ingredient	6	Nil
Ships, tugs, pusher crafts and dredgers	6	Nil

Changes in rate for motor vehicles		
Goods	Existing rate (%)	New rate (%)
SUV of engine capacity exceeding 1,500 cc including utility vehicles	27	30
Truck chassis, other than for petrol driven vehicles	14	13

Changes in rate for mobiles		
Goods	Existing rate (%)	New rate (%)
Mobile handsets having retail sale price more than 2,000 INR	1	6

Miscellaneous		
Goods	Existing rate (INR)	New rate (INR)
Marble slabs and tiles	30 per sq.m	Rs. 60 per sq.m

Changes in rate for cigarettes, cigars, cheroots and cigarillos		
Cigarettes (length in mm)	Existing amount (INR per 1,000 sticks)	New ramount (INR per 1,000 sticks)
Non-filter not exceeding 65	509	No change
Non-filter exceeding 65 but not exceeding 70	1,463	1,772
Filter not exceeding 65	509	No change
Filter exceeding 65 but not exceeding 70	1,034	1,249
Filter exceeding 70 but not exceeding 75	1,463	1,772
Filter exceeding 75 but not exceeding 85	1,974	2,390
Other	2,373	2,875

Cigar, cheroots and cigarillos (length in mm)	Existing rate/amount (INR per 1,000 sticks)	New rate/amount (INR per 1,000 sticks)
Cigar and cheroots	12% or 1,370 INR whichever is higher	12% or 1,781 INR whichever is higher
Cigarillos	12% or 1,370 INR whichever is higher	12% or 1,781 INR whichever is higher
Cigarettes of tobacco substitutes	1,258 INR	1,511 INR
Cigarillos of tobacco substitutes	10% or 1,473 INR whichever is higher	12% or 1,738 INR whichever is higher
Other	10% or 1,473 INR whichever is higher	12% or 1,738 INR whichever is higher

The above changes will be effective 1 March 2013.

Service tax

Rate of tax

- The rate of tax has been retained at 12%.

Negative list based tax regime

- The relevant negative list entries have been expanded to include the following:
    - All testing services in relation to agriculture or agricultural produce
    - Education services of an approved vocational course run by specified institutes or centres affiliated to the state council for vocational training
- The specified definitions have been amended to include the following:
    - The term 'approved vocation course' has been amended to exclude course run by institute affiliated to the National Skill Development Corporation
    - The term 'process amounting to manufacture or production' has been amended to include processes under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955

The above changes will be effective from the date of enactment of the Finance Bill.

- Exemptions have been withdrawn in relation to the following:
    - Renting of immovable property services or auxiliary educational services provided by an educational institution
    - Vehicle parking services provided to general public
    - Repair or maintenance services of aircraft, provided to the government, a local authority or a governmental authority
    - Transportation of petroleum or petroleum products, postal mails and mail bags, household effects, by rail or vessel
    - Services provided by way of charitable activities for advancement of any other object of general public utility
- Existing exemptions have been restricted to the following:
    - Temporary transfer or permitting the use or enjoyment of a copyright of cinematographic films for exhibition in a cinema hall or a cinema theatre
    - Services provided by restaurants, eating joints or a mess not having the facility of air conditioning or central air heating
    - Exemption pertaining to the GTA services has been extended to include transportation of agricultural produce, chemical fertilizers, oil cakes, defence and military equipment, newspapers and magazines

The above changes will be effective 1 April 2013.

Changes to the Finance Act, 1994

- Section 73(2A) has been inserted to the effect that if the Appellate Authority or Tribunal or court concludes that the charge of fraud, collusion, etc. as invoked in SCN is not sustainable, the central excise officer shall determine the service tax payable for the period of eighteen months.
- New section 78A has been introduced to impose penalty for specified offences, on directors and some specified officials of a company who were in charge of and were responsible for the conduct of business of the company and were knowingly concerned with the contravention.
- The penalty for failure to take registration has been restricted to 10,000 INR.
- In an offence of collection of service tax but not deposited with authorities within six months, the maximum term of imprisonment has been increased from three years to seven years.
- Section 90 has been introduced to specify and differentiate cognisable offences from non-cognisable and bailable offences.
- Section 91 has been introduced to empower the commissioner of central excise to arrest a person for specified offences particularly non-payment of collected service tax.

The above changes will be effective from the date of enactment of the Finance Bill.

- The benefit of Advance Ruling Authority has been extended to resident public limited companies, effective 1 March 2013.

Voluntary Compliance Encouragement Scheme, 2013 (VCES)

Chapter VI of the Finance Act has been introduced to propose VCES to encourage voluntary compliance and broaden the tax base. The salient features are as follows:

- It is a one-time amnesty scheme for non-filers or stop-filers or service providers who have not disclosed the true liability in the returns filed;
- This scheme will be available for tax dues for the period 1 October 2007 to 31 December 2012, subject to filing of a declaration;
- Defaulters will have immunity from penalty, interest and other prosecution proceedings, subject to fulfillment of the following conditions:
    - Payment of 50% of tax dues is made on or before 31 December 2013
    - Balance payment is made on or before 30 June 2014

In case, if the balance payment is made after 30 June 2014 but on or before 31 December 2014 interest will be still payable.

- Any amount paid in pursuance of the declaration made would not be refundable; and
- The benefit of this scheme will be rejected in cases where any inquiry, investigation or audit is pending against the defaulters as on 1 March 2013.

The above changes will be effective from the date of enactment of the Finance Bill.

Abatement

- The current abatement of 75% available for construction services has been reduced to 70% in respect of residential units having carpet area of more than 2,000 sq ft or where the amount charged is 10 million INR or more.

The above changes will be effective 1 March 2013

Abbreviations

AAR	Authority for Advance Ruling
Act	Income tax Act, 1961
AIF	Alternative Investment Funds
AIR	Annual Information Return
AMT	Alternate Minimum Tax
BCD	Basic Customs Duty
CBU	Completely Build Units
CGHS	Central Government Health Scheme
CIT	Commissioner of Income Tax
CTT	Commodities Transaction Tax
DDT	Dividend Distribution Tax
FOB	Free on Board
FTS	Fee for Technical Services
FY	Financial Year
GAAR	General Anti Avoidance Rule
GST	Goods and Services Tax
HUF	Hindu Undivided Family
IAA	Impermissible Avoidance Arrangement
INR	Indian Rupees
INR	Indian Rupee
LLP	Limited Liability Partnership
MAT	Minimum Alternate Tax
MRO	Maintenance, Repair and Overhaul
MRP	Maximum Retail Sale Price
SAAR	Specific Anti Avoidance Rules
SCN	Show Cause Notice
SEBI	Securities Exchange Board of India
SUV	Sports Utility Vehicle
Tax treaty	Double taxation Avoidance Agreement
TDS	Tax Deduction at Source
TRC	Tax Residency Certificate
VCES	Voluntary Compliance Encouragement Scheme
VCF	Venture Capital Fund

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