This document summarises the important provisions of the Budget 2016 proposals as placed before the Parliament. Topics presented are grouped into chapters and sections to facilitate an understanding of the proposals. These are, however, not mutually exclusive.

Unless otherwise stated, Direct Tax Proposals will be applicable from A.Y. 2017-2018.

The proposals are subject to amendment as the Finance Bill passes through the Parliament.

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Various proposals in the Budget outline clear focus of the government on the nine distinct pillars having manifesto and long term objective of facilitating growth, promoting investment and ease of doing business in India under a non-adversarial tax regime.

A series of positive key steps have been proposed, to bring about certainty, viz. deferral of provisions related to determination of residential status based on POEM, improvised tax dispute resolution mechanism, commitment to not to make amendments in future with retrospective effect.

Considering the growth potential of Start-ups and the employment opportunities it is likely to generate, various relaxations/ benefits have been proposed to make it an easy walk for them, such as registration of companies in a single day, profit linked deduction and exemption from capital gains for investment in Start-ups.

Bold proposals are made in order to meet the commitments towards implementation of BEPS, such as, country-by-country reporting in relation to transfer pricing documentation, presumptive tax regime to tax royalty from worldwide exploitation of patents.
developed and registered in India and equalization levy on payments of consideration to non-residents for online advertisement in B2B transactions.

The Finance Minister has been very focused towards creating a non-adversarial tax environment in India, by proposing mandatory stay of demand on part payment, measures to ensure timely processing of refunds, settlement of disputes pending before first appellate authority, introduction of compliance window for domestic taxpayers to declare undisclosed income.

The tax proposals also seek to rationalize various provisions, such as, tax withholding on payments to non-residents not having Permanent Account Number (PAN) in India and taxability of REITs. In this digital world, when almost every transaction takes place in an electronic mode, the proposals also lay down the foundation of electronic and paperless assessments for the sake of ease and convenience of the taxpayers.

In nutshell, the Budget seems to have accepted most of the recommendations made by Justice R.V Easwar Committee to simplify the provisions of Income-tax. Also, as promised by the government, recommendations made by the Justice A.P. Shah Committee on applicability of MAT provisions on foreign companies have been incorporated in the proposals.

The Budget also takes steps towards implementation of road-map for phasing out the deductions and exemptions gradually over a period of 4 years, with corresponding reductions in the corporate tax rate, as mentioned by the Union finance minister last year.

Overall, it is a balanced Budget prepared with a pragmatic approach, keeping in mind the sentiments of the investors, expectations of the taxpayers and to match with the condition of Indian economy.

Nangia &Co

“Bold proposals are made in order to meet the commitments towards implementation of BEPS...”
Executive Summary
DIRECT TAX

Tax Rates

- There is no change in slab rates for personal taxation.
- Corporate tax rates to remain unchanged except in case of -
  * Domestic companies with a turnover up to INR 50 million wherein the tax rate has been marginally reduced to 29%.
  * Domestic manufacturing companies registered after March 1, 2016 not claiming any tax incentives have the option of availing a reduced tax rate of 25%.

- Surcharge has been increased from 12% to 15% for income exceeding INR 10 million for individual, HUF, AOP, BOI or artificial judicial persons.
- Threshold limits for tax to be deducted at source increased for payments under section 192A, 194BB, 194C, 194LA, 194D, 194G and 194H. Rates for deduction of tax at source for payments under section 194DA, 194EE, 194D, 194G and 194H revised.

International Tax

- An equalisation levy of 6% to be levied to address the challenges of the ‘digital economy’ on consideration for specified services received by a non-resident.
- Applicability of place of effective management based residence test deferred for one year.
- Non-resident individuals and foreign companies not required to furnish PAN in respect of certain incomes, subject to prescribed conditions.
- MAT shall not be applicable to foreign companies having no PE in India or having no registration requirement under any other law in India retrospectively from the assessment year 2001-02.
- Exemption of income of a foreign company from sale of crude oil, stored in a facility in India, to a resident in India.
- Lower withholding tax rate for non-resident investors on income from funds regulated by the SEBI.

Tax proposals – Business

- GAAR to be effective from April 1, 2017.
- POEM has been deferred by one year and will now apply from April 1, 2017
- Royalty from patents developed and registered in India by residents in India shall be taxable on a gross basis at the rate of 10%.
- Initial additional depreciation now available to the business of transmission of power.
- Three year tax holiday for eligible start-ups.
- TCS at 1% by seller on sale of motor vehicle having value more than INR 1 million, on sale of goods or services more than INR 200,000 in cash; no tax is collected at source where withholding tax is deducted by payer.
- Tax incentives for investment allowance rationalised.
- 100% deduction of profits from the business of developing and building approved affordable housing projects.
- Spectrum fee deductible over the period of the right to use.
• Profit linked deductions, weighted deductions and accelerated depreciation to be phased out.

• Long term capital gain exempted on investment of proceeds in Government start-up Fund of Funds.

• Sunset clause under section 10AA for SEZ units commencing business after April 1, 2020.

Tax proposals - Individual Taxpayers

• Deduction under section 80GG on account of rent paid by an individual increased from INR 2,000 per month to INR 5,000 per month.

• Exemption on funds withdrawn from Recognised Provident Funds and Superannuation Funds restricted to 40% of such contributions made on or after April 1, 2016. Exemption limit of employer’s contribution to Recognised Provident Funds on behalf of employee to equal 12% of employee’s salary or INR 150,000 whichever is less. Exemption limit of employer’s contribution to an approved superannuation fund increased from INR 100,000 to INR 150,000.

• Transfer of balance from Recognised Provident Fund or a Superannuation Fund to National Pension Scheme exempt from tax. Up to 40% of the amount withdrawn from National Pension Scheme upon closure of account or opting out of the scheme is exempt from tax.

• Dividend in excess of INR 1 million from domestic companies received by resident individuals, HUFs and Firms to be taxed at the rate of 10%.

Assessment Procedures

• Income Declaration Scheme, 2016 introduced for disclosing unreported income upto the financial year 2015-16 to be taxed at a consolidated rate of 45% including surcharge and penalty.

• Direct Tax Dispute Resolution Scheme introduced to reduce the burden of pending cases. In cases pending before the Commissioner of Income Tax (Appeals) where the disputed tax is less than 1 million no penalty will be levied and where tax in dispute exceeds INR 1 million or appeal is against penalty order, 25% of penalty shall have be paid along with tax and interest up to the date of assessment pursuant to which the appeal shall stand withdrawn with no further consequences. In cases where the tax dispute is due to retrospective tax amendments, the declarant under the scheme shall get immunity from imposition of penalty and interest upon payment of tax. The scheme also provides for immunity from prosecution.

• Time limit for completing assessment reduced to 21 months from 24 months.

• Interest on refund to be allowed on self-assessment tax. Additional interest to be granted for delays beyond prescribed limits.

• Related returns can also be revised.

• Returns filed without payment of tax/interest shall not be treated as defective.

• Return to be filed within due date for carry forward of loss of specified businesses.

• Processing of return before passing of assessment order made mandatory. Scope of adjustments while processing of return widened.

• No appeal by the Assessing Officer against order of the Dispute Resolution Panel.

• Penalty under section 271(1)(c) to be phased out. New section to be introduced for levy of penalty for ‘under-reported and misreported’ income.

• Assessing Officer to grant stay of demand once the assessee pays 15% of the demand while the appeal is
pending before the Appellate Commissioner.

**INDIRECT TAXES**

**Goods And Service Tax**

- The Government shall endeavour to continue with the ongoing reform programme and ensure the passage of the Constitutional amendments to enable the implementation of the Goods and Service Tax in India.

**Central Sales Tax**

- Section 3 of the CST Act provides when is a sale or purchase of goods said to take place in the course of inter-state trade or commerce. Section 3 has been amended so as to insert an explanation.

**Customs Duty**

- Rate of BCD remains at 10%.

- The definition of the term ‘warehouse’ under Section 2(43) of the Act has been amended so as to add a new class of warehouses for enabling storage of specific goods under physical control of the department, as control over the other types of warehouses would be only record based.

- Section 28 of the Customs Act has been reworded as ‘Recovery of duties not levied or not paid or short levied or short paid or erroneously refunded’. Further Sections 28, 47, 51 and 156 have been amended to:
  * increase the period of limitation from one year to two years in cases not involving fraud, suppression of facts, willful mis-statement, etc.
  * provide for deferred payment of customs duties for importers and exporters to certain class of importers and exporters.

- Sections 57 and 58 amended to provide for licensing of public and private warehouses by the Principal Commissioner or Commissioner, in place of Deputy/Assistant Commissioner, subject to such conditions as may be prescribed. Further Section 58A has been introduced to provide for a new class of warehouses which require continued physical control and will be licensed for storing goods, as may be specified. In addition section 58B has been inserted so as to regulate the process of cancellation of licences which is a necessary concomitant of licencing.

- Section 60 has been substituted to define the date of removal of goods from a customs station and deposit thereof in a warehouse.

- The existing Customs (Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 1996 have been substituted with the Customs (Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 2016 with a view to simplify the rules, including allowing duty exemptions to importer/manufacturer based on self-declaration instead of obtaining permissions from the Central Excise authorities. Need for additional registration has also being done away with.

- The existing Baggage Rules, 1998 have been substituted with the Baggage Rules, 2016, so as to simplify and rationalize multiple slabs of duty free allowance for various categories of passengers.

- Interest rates on delayed payment of Customs duty under section 28AA have been rationalized at 15%.
It has been clarified that as the imports under notification No.51/96-Customs, dated 23 July 1996 are ab initio exempt from SAD, there is no requirement to make a provision for refund of SAD in notification No.102/2007-Customs dated 14 September 2007.

**Excise Duty**

- Standard ad valorem rate of duty of Excise remains unchanged at 12.5%
- Infrastructure Cess has been levied on motor vehicles under chapter heading 8703, as under:
  - Petrol/LPG/CNG driven motor vehicles of length not exceeding 4m and engine capacity not exceeding 1200cc – 1%
  - Diesel driven motor vehicles of length not exceeding 4m and engine capacity not exceeding 1500cc – 2.5%
  - 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, Motor vehicles which after clearance have been registered for use solely as taxi, Cars for physically handicapped persons and Motor vehicles cleared as ambulances or registered for use solely as ambulance will be exempt from this Cess.

No credit of this Cess will be available, and credit of no other duty can be utilized for payment of this Infrastructure Cess.

- Interest rates on delayed payment of Excise duty under section 11AA have been rationalized at 15%.

- Section 11A of the CEA Act amended so as to increase the period of limitation from one year to two years in cases not involving fraud, suppression of facts, willful mis-statement, etc.

- Highlighting Government's priority reducing litigation, an Indirect tax Dispute Resolution Scheme, 2016, has been introduced whereby in respect of cases pending before Commissioner (Appeals), the assessee, after paying the duty, interest and penalty equivalent to 25% of penalty imposed, can file a declaration which would enable the proceedings against the assessee being closed and the assessee would also get immunity from prosecution.

**Service Tax**

- The general rate of tax of 14 percent remains unchanged.
- 'Krishi Kalyan Cess' proposed to be levied at the rate of 0.5 percent on value of taxable services
- Interest rate revised to 18 percent (in case where service tax collected by not deposited) and 15 percent (in all other cases)
- Limitation period for recovery of service tax in bonafide cases extended from 18 months to 30 months
- Exemption introduced in relation to information technology software recorded on a media subject to prescribed conditions
- Benefit of quarterly payment of service tax extended to HUF and one person company
- Unless otherwise exempted, every assessee...
required to submit annual return by 30 November of the succeeding financial year in the prescribed form and manner

• Point of time with respect of rate of service tax to be determined in terms of POT Rules

• Legal service provided by senior advocate to business entity excluded from reverse charge mechanism

• Penalty proceedings for offences by director deemed to be concluded in case where main demand and penalty proceedings are closed

• For the purpose of abatement in relation to renting of motor-cab, gross amount charged would include fair market value of all goods including fuel and services supplied by the service recipient

Cenvat Credit

• Rule 6 of Cenvat credit simplified and rationalized
  * Credit payable on percentage basis not to exceed available cenvat credit
  * No credit on exempted operations, full credit on taxable operations and balance credit is common credit (hybrid method allowed)

• ISD allowed to distribute credit to an outsourced manufacturing unit. Outsourced manufacturing unit defined

• Banks, financial institutions including NBFC now allowed to reverse cenvat credit on actual basis (50% or actual)

• Cenvat credit on services provided by Government or any other person by way of assignment of a natural resource and on its further assignment (excluding the user charges) to be allowed in the prescribed manner

• No credit of capital good allowed where the capital good are used exclusively in relation to exempted goods/ service for a period of 2 years from the date of commencement of production/ service

• Definition of exempted service amended to exclude service of transportation of goods by a vessel from customs station of clearance in India to a place outside India

• A manufacturer having multiple manufacturing units can take credit on inputs received by its own registered warehouse

• FIFO method in wrong availedment under Rule 14(2) deleted.

• Timelines for filing application for refund of Cenvat credit under Rule 5 of the Credit Rules in case of export of services prescribed

• Infrastructure cess would not be admissible as Cenvat credit. Further credit of no other duty can be used for payment of Infrastructure cess
WHERE THE RUPEE WILL COME FROM

- **Borrowing and other liabilities**: 14%
- **Corporate Tax**: 19%
- **Income Tax**: 21%
- **Excise**: 13%
- **Non-tax revenues**: 9%
- **Customs**: 12%
- **Service tax and other taxes**: 9%
- **Non-debt capital receipts**: 13%

Legend:
- Green: Borrowing and other liabilities
- Brown: Corporate Tax
- Yellow: Income Tax
- Orange: Excise
- Red: Non-tax revenues
- Maroon: Customs
- Pink: Service tax and other taxes
- White: Non-debt capital receipts
WHERE THE RUPEE WILL GO

- State Share of Taxes & duties: 23%
- Interest: 19%
- Other Non plan expenditure: 12%
- Defence: 12%
- Subsidies: 10%
- Plan Assistance to State & UT Governments: 10%
- Non Plan Assistance to State & UT Governments: 9%
- Central Plan: 5%
- Interest: 10%
- Other Non plan expenditure: 12%
- Defence: 10%
- Subsidies: 10%
## Budget Financials

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue Receipts (2+3)</strong></td>
<td>11,015</td>
<td>11,416</td>
<td>12,061</td>
<td>13,770</td>
</tr>
<tr>
<td><strong>Tax Revenue (net to centre)</strong></td>
<td>9,036</td>
<td>9,198</td>
<td>9,475</td>
<td>10,541</td>
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<tr>
<td><strong>Non-Tax Revenue</strong></td>
<td>1,979</td>
<td>2,217</td>
<td>2,586</td>
<td>3,229</td>
</tr>
<tr>
<td><strong>Capital Receipts (5+6+7)</strong></td>
<td>5,622</td>
<td>6,359</td>
<td>5,793</td>
<td>6,010</td>
</tr>
<tr>
<td><strong>Recoveries of Loans</strong></td>
<td>137</td>
<td>108</td>
<td>189</td>
<td>106</td>
</tr>
<tr>
<td><strong>Other Receipts</strong></td>
<td>377</td>
<td>695</td>
<td>253</td>
<td>565</td>
</tr>
<tr>
<td><strong>Borrowings and other liabilities</strong></td>
<td>5,107</td>
<td>5,556</td>
<td>5,351</td>
<td>5,339</td>
</tr>
<tr>
<td><strong>Total Receipts (1+4)</strong></td>
<td>16,637</td>
<td>17,775</td>
<td>17,854</td>
<td>19,781</td>
</tr>
<tr>
<td><strong>Non-Plan Expenditure</strong></td>
<td>12,010</td>
<td>13,122</td>
<td>13,082</td>
<td>14,281</td>
</tr>
<tr>
<td>On Revenue Account, of which,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On Revenue Account</td>
<td>11,094</td>
<td>12,060</td>
<td>12,127</td>
<td>13,274</td>
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<tr>
<td>Interest Payments</td>
<td>4,024</td>
<td>4,561</td>
<td>4,426</td>
<td>4,927</td>
</tr>
<tr>
<td>On Capital Account</td>
<td>916</td>
<td>1,062</td>
<td>955</td>
<td>1,006</td>
</tr>
<tr>
<td><strong>Plan Expenditure</strong></td>
<td>4,626</td>
<td>4,653</td>
<td>4,772</td>
<td>5,500</td>
</tr>
<tr>
<td>On Revenue Account</td>
<td>3,576</td>
<td>3,300</td>
<td>3,350</td>
<td>4,036</td>
</tr>
<tr>
<td>On Capital Account</td>
<td>1,050</td>
<td>1,353</td>
<td>1,422</td>
<td>1,464</td>
</tr>
<tr>
<td><strong>Total Expenditure (9+13)</strong></td>
<td>16,637</td>
<td>17,775</td>
<td>17,854</td>
<td>19,781</td>
</tr>
<tr>
<td>Revenue Expenditure (10+14)</td>
<td>14,670</td>
<td>15,360</td>
<td>15,477</td>
<td>17,310</td>
</tr>
<tr>
<td>Of Which, Grants for creation of Capital Assets</td>
<td>1,308</td>
<td>1,325</td>
<td>1,320</td>
<td>1,668</td>
</tr>
<tr>
<td>Capital Expenditure (12+15)</td>
<td>1,967</td>
<td>2,414</td>
<td>2,377</td>
<td>2,470</td>
</tr>
<tr>
<td><strong>Revenue Deficit (17-1)</strong></td>
<td>3,655</td>
<td>3,945</td>
<td>3,416</td>
<td>3,540</td>
</tr>
<tr>
<td>Effective Revenue Deficit (20-18)</td>
<td>2,348</td>
<td>2,680</td>
<td>2,096</td>
<td>1,872</td>
</tr>
<tr>
<td>Fiscal Deficit {16-(1+5+6)}</td>
<td>5,107</td>
<td>5,556</td>
<td>5,351</td>
<td>5,339</td>
</tr>
<tr>
<td>Primary Deficit (22-11)</td>
<td>1,083</td>
<td>995</td>
<td>925</td>
<td>412</td>
</tr>
</tbody>
</table>

**Notes:**
- Capital Receipt = (Recoveries of loans + Disinvestment Receipts + Borrowings & Other Liabilities)
- Revenue Deficit = (Revenue Receipt - Revenue Expenditure)
- Primary Deficit = (Fiscal Deficit - Interest Payments)
- Fiscal Deficit = (Total Receipts - Borrowings & Other Liabilities - Total Expenditure)
- BE = Budget Estimates
- RE = Revised Estimates
INTRODUCTION

The Economic Survey for 2015-16 highlights the unusual volatility in the international economic environment: global recovery expected to be faltering and the risks of extreme risks unfolding, ever increasing. Amidst the global headwinds faced by the Indian economy, the Survey calls India to be not only a haven for stability but an outpost of opportunity too. Despite decline in exports due to weak global demand and weak private investment, the survey terms the Indian economy to be robust and expected it to be the fastest growing major economy in 2016.

Mr. Arvind Subramanian, the Chief Economic Advisor, attributes the performance of the Indian Economy to the implementation of the reforms undertaken by the Government: The creation of perception that corruption has been addressed by way of transparent auctions of public assets; liberalizing FDI; efforts to increase ease of doing business; restoring stability and predictability in tax decisions; strengthening infrastructure; crop insurance program; reforming the power sector with UDAY scheme; advancing the JAM Trinity – Jan Dhan Yojna (‘J’), Aadhar (‘A’) and Mobile numbers (‘M’); and avoiding policy reversals.

While appreciating the incremental efforts by the Government, the Survey has highlighted a few dissatisfactions: GST bill has not been passed; disinvestment program has not met the targets; rationalization of subsidies remains incomplete; and the twin balance sheet challenge i.e. stressed balance sheets of the banks and the private companies, remains.

The Survey addresses the apprehension and the anxiety of the Indian economy not realizing its full potential, says that it is undeniable that India still oozes potential. The Survey goes ahead with estimating India’s long-run potential growth rate at around 8-10%.

The other highlights of the Survey are as under:

FISCAL DEFICIT

The Budget for 2015-16 sought to contain the fiscal deficit to 3.9% of the GDP as against 4.1% in 2014-15 (RE) and 4.5% in 2013-14. Despite lower than projected nominal GDP growth, based on the patterns of revenue and expenditure in the first nine months of the current financial year, the Survey expects the fiscal target of 3.9% of GDP within reach.

While in the previous years the targets for achieving the fiscal deficit saw reduction in public expenditure, the Survey pointed out the outcome for 2015-16 owing to different factors altogether: improved tax buoyancy and prudent expenditure management with assistance from decline in oil prices.

The Survey mentions, the reason for spectacular growth in gross taxable revenue to be huge increase in indirect taxes (3.48%), with union excise duties growing about 68%. The increase in excise duties was in turn on account of improved dynamics of economic activity coupled with increase in excise duty on petrol and diesel.

GDP GROWTH

The Survey reported that despite global headwinds and a truant monsoon, the recent Indian growth story appears to be particularly bright. Recently, the CSO released the Advance Estimates of GDP wherein, the growth rate of GDP at constant market prices is projected to increase to 7.6% in 2015-16 from 7.2% in 2014-15. The Survey mentions the reason for the growth rate to acceleration in private final consumption expenditure.

The Survey also points out that India’s share in world GDP has increased from an average of 4.8 percent during 2001-07 to 6.1% during 2008-13 and further to an average of 7.0% during 2014 to 2015 in current PPP...
terms. Thus, India’s contribution to the global growth has also increased in the last decade.

The Survey mentioned that the correlation between global economy and the Indian economy has seen dramatic growth and thus, cautioned that if the global economy lurches into crisis or slides in further weakness, the Indian economy is certain to face considerable headwinds.

On the domestic side, two factors could boost consumption: increased spending from higher wages of Government employees if Seventh Pay Commission is implemented and a healthy monsoon. Against this, the disappearance of last year’s oil windfall would result in reduction of the consumption growth.

The Survey enumerates three significant downside risks affecting the growth: turmoil in global economy worsening the outlook for exports; raise in oil prices more than the anticipation; and the most serious, a combination of the two.

The Survey gives a wide range of the expected real GDP growth rate to be in the 7% to 7 3/4% range. The reason for a wider range this time reflects the range of possibilities from a rebound in agriculture to full-fledged international crisis.

AGRICULTURAL AND ALLIED SECTOR

The Survey noted that the share of the agriculture and the allied sector to the GVA has been falling – the growth rates in agriculture hovering around 1.5% in 2012-12, 4.2% in 2013-14, (-)0.2% in 2014-15 and expected growth of 1.1% in 2015-16. The Survey attributed the uncertainties in growth in agriculture to lack of proper irrigation and 60% of the agriculture in India dependent on rainfall.

The Survey emphasized need of significantly different approach to cope with diverse issues and challenges faced by the agriculture sector. To step up productivity in the agriculture sector, the Survey advocated a slew of measures: scale up investment to expand efficient irrigation; effective use of fertilizers, quality seeds and pesticides; diversification, like dairy, to be emulated by other allied sectors; and reduction in wastage in post-harvest value chain.

INDUSTRIAL, CORPORATE, AND INFRASTRUCTURE PERFORMANCE

The Survey praised the reform measures undertaken by the Government which has led to better performance by the industrial sector. As per the data on RE of national income, the growth of the industrial sector comprising mining and quarrying, manufacturing, electricity, gas, water supply and other utility services, and construction is 5.9% during 2014-15, as against 5.0% during 2013-14. The growth is expected to strengthen further to 7.3% for 2015-16 as per the AE released by the CSO recently.

In the first nine months of 2015-16, the growth rate in terms of the IIP was 3.1% as compared to 2.6% in the corresponding period of 2014-15.

As per the Survey, the eight core infrastructure-supportive industries--coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity—that have a total weight of nearly 38% in the IIP registered a cumulative growth of 1.9% during April-December 2015-16 as compared to 5.7% during April-December, 2014-15.

The Survey furthermore appreciated the Government’s initiatives like simplification and rationalization of procedures and processes to attract more FDI. The Survey noted that post launch of the initiatives in September 2014, there was nearly 40% increase in FDI inflows during October 2014 to June 2015 over corresponding period of the previous year.

The reforms by the Government in the development of the infrastructure sector has also been lauded by the Survey. The Survey further noted that major infrastructure sectors - namely power, road, railways, civil aviation, ports and telecommunication - performed better during 2014-15 as compared to 2013-14.
The freight carried by the Indian Railways also showed an increase of 9.0 million tonnes during April-November 2015, over freight traffic of 2014-15, translating into growth of 1.3%.

SERVICES SECTOR

The Survey acknowledged the services sector as the most dynamic sector globally and remains a key driver of India's economic growth.

The Survey noticed that the growth of the services sector in India accelerated to 10.3% in 2014-15 from 7.8% in the previous year. The growth was attributed to higher growth in sub-sectors like trade, repair, hotels & restaurants (10.7%), financial services (7.9%), public administration and defence (9.8%), and other services (11.4%). In 2015-16, as per the AE, the services sector registered a growth of 9.2% (constant prices), mainly due to the lower growth of 6.9% in public administration, defence and other services vis-à-vis 10.7% growth achieved in 2014-15.

The Survey furthermore observed that, despite slowdown the growth prospects of the services sector are promising. The same is indicated by some other estimates like the Nikkei/Market Services PMI for India, which rose to 54.3 in January 2016 from 53.6 in December 2015, the highest reading since June 2014.

The Survey called for the need of a targeted policy of speedily addressal of the issues, as that can lead the economy to higher growth.

STOCK MARKETS

Primary Sector

During April-December 2015, resource mobilization through the public and right issues has surged rapidly as compared to the last financial year. Resources mobilization by mutual funds during April-December 2015 also increased substantially.

Comparatives in resource mobilization are reflected below:

<table>
<thead>
<tr>
<th>Item</th>
<th>2013-14</th>
<th>2014-15#</th>
<th>2015-16#</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>423.83</td>
<td>73.48</td>
<td>304.21</td>
</tr>
<tr>
<td>Equity</td>
<td>132.69</td>
<td>42.33</td>
<td>208.90</td>
</tr>
<tr>
<td>of which IPOs</td>
<td>12.36</td>
<td>14.20</td>
<td>122.59</td>
</tr>
<tr>
<td>Private Placement of corporate bonds</td>
<td>2760.54</td>
<td>2692.45</td>
<td>3414.20</td>
</tr>
</tbody>
</table>

(Amount in billion INR)

#Indicates period from April to December of the respective year
Secondary Sector

BSE Sensex and Nifty, the benchmark indices, remained subdued during 2015-16. The BSE Sensex declined by 8.5% (upto January 5, 2016) over end- March 2015, predominantly on account of turmoil in global equity arena in August 2015 following slowdown in China and its currency devaluation and slump in stocks.

The Survey enumerated the reasons for the downward trend in the Indian stock market as: mixed corporate earnings for first and second quarter of 2015-16; FPI's concern over MAT; weakening of rupee against the US dollar; investor concern in delay in passage of GST; unnecessary interest rate hike by US Fed and selling by FPIs.

INFLATION

The year 2015-16 continued to see weakening of global commodity prices: prices of crude oil, metals and even cereals saw downward movement globally and a few stray price rebounds could not make the prices increasing. This resulted in decline in general inflation, for the second consecutive year.

The headline inflation declined from 5.9% in 2014-15 to 4.8% in April-December 2015-16. However, lately it has seen heading north and has touched 5.6% in December on account of build up in food group inflation and base effect.

The Survey pointed out that with continued uncertainty over the outlook for China, expected spurt in Iranian crude supply, and moderation in global demand is expected to keep the crude prices subdued in near future and shall help in keeping India's inflation range bound. Having said that, the Survey proceeded to point out low sown area of rabi crops and the prices being highly sensitive to supply shock, it advocated deft supply management in near future.

FOREIGN EXCHANGE RESERVES

India's foreign exchange reserves at USD 351.5 billion as on 5 February 2016 mainly comprised foreign currency assets amounting to USD 328.4 billion, accounting for about 93.4% of the total. With an increase in reserves in 2015-16, all traditional reserve-based external sector vulnerability indicators, namely foreign exchange cover for imports and short-term debt, have improved.

FOREIGN CURRENCY INFLOW/OUTFLOWS


EXCHANGE RATE

During April-January 2015-16, the average exchange rate of the rupee depreciated to INR 65.04 per US dollar as compared to INR 60.92 per US dollar in the same period in the previous year.

The Survey attributed the depreciation in the rupee to the fact that the dollar strengthened against all the major currencies because of stronger growth in the USA as well as the fact that China's growth and currency developments this year deteriorated, impacting the outlook on other emerging and developing economies owing to risk-aversion perceptions of global investors. It is, however, instructive to note that in 2015-16 so far, the rupee has performed better than the currencies of most of other emerging and developing economies (except the Chinese yuan).
EXTERNAL TRADE

While on one hand the year 2015 saw pickup in the growth of some of the advance economies, on the other hand, growth in emerging market and developing economies declined for the fifth consecutive year. This resulted in overall global economic activity subdued in 2015.

The Survey cautioned that the slowdown and rebalancing of the Chinese economy, lower commodity prices, and strains in some large Emerging Market and Developing economies (EMDE) are likely to continue to weigh on their growth prospects in 2016–17.

During the current financial year (April-January 2015-16), India’s exports declined year-on-year by 17.6% to US$ 217.7 billion and this decline was broad-based. The decline in India’s exports owed to sluggish global demand and low global commodity prices, particularly petroleum.

ECONOMIC SURVEY - ISSUES AND PRIORITY

A year ago, the Economic Survey for 2014-15 mentioned that India had reached a position, a sweet spot and was in a position to launch the economy into double-digit growth trajectory. This year, in the backdrop of an unusual volatile external environment, the Survey advised recalibration of expectation.

In the World Bank’s Ease of Doing Business report 2016, India’s position has improved to 130 in 2016 from 142 in 2015. The Survey also reports India to be an outpost of opportunity. Having said that it faces a number of challenges to overcome.

The Survey termed infrastructure as sine qua non for achieving robust economic growth. The Survey appreciated the slew of measures and initiatives of the Government - Make in India, Ease of Doing Business, Start Up India, Digital India, and Smart Cities, etc. This would provide further impetus to industries and the industrial sector is expected to be the key driver of economic growth in the country going forward. The measures undertaken by the Government have started to show impact on the increased FDI inflow and better performance of the infrastructure sector.

The Survey also notes that over the course of six decades, the Indian economy has moved from socialism with limited entry to marketism without exit. It also observed that India has a large share of inefficient firms with low productivity and without any exit route. Impeded exit has substantial fiscal, economic, and political costs.

It called for better laws like Insolvency and Bankruptcy Code to make exit for inefficient firms possible.

The Survey also covered a short-term, though important challenge faced by the Indian economy - the twin balance sheet challenge i.e. stressed balance sheets of the banks and the private companies. The Survey observed that this challenge is a major impediment to private investment and as a consequence, to the full-fledged economic recovery.

With the Government’s performance in the last two years and the commitment to reforms, the growth rate projected by the Survey seems well within its reach.
Direct Tax

**TAX RATES**

**Personal tax rates**

- The personal tax rates for the financial year 2016-17 (assessment year 2017-18) remain unchanged and are as follows -

  * Personal tax rates (for all Individuals, HUF, AOP and BOI)

<table>
<thead>
<tr>
<th>Income (INR)</th>
<th>Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 250,000</td>
<td>NIL</td>
</tr>
<tr>
<td>250,001 to 500,000</td>
<td>10</td>
</tr>
<tr>
<td>500,001 to 1,000,000</td>
<td>20</td>
</tr>
<tr>
<td>Above 1,000,000</td>
<td>30</td>
</tr>
</tbody>
</table>

* Personal tax rates (for all Individuals who are at least sixty years of age but less than eighty years of age at any time during the previous year)

<table>
<thead>
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<tr>
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<td>30</td>
</tr>
</tbody>
</table>

**Corporate tax rates**

In case of a domestic company, if the total turnover or gross receipts of the company in the previous year 2014-15 do not exceed 50 million the rate of Income-tax shall be 29% of the total income.

It is proposed that for newly setup domestic companies engaged solely in the business of manufacture or production of article or thing, the income-tax payable in respect of the total income shall be computed @ 25% at the option of the company, subject to compliance with the prescribed conditions. These rates are proposed to be made effective from the assessment years beginning on or after April 1, 2017.

There are no changes in the tax rates for domestic companies other than those mentioned above as well as companies other than domestic companies.

**Cooperative Societies / Firms / Local Authorities**

There are no changes in the tax rates.

**Dividend Distribution Tax/ Income Distribution Tax**

There are no changes in the tax rates.

**Securities Transaction Tax**

Presently the securities transaction tax on sale of an option in securities where option is not exercised is 0.017% of the option premium. It is proposed to increase the rate from 0.017% to 0.05%.

This amendment will take effect from June 1, 2016.
Commodities Transaction Tax

There are no changes in the tax rates.

Surcharge

- **In the case of an Individual, Hindu undivided family, association of persons, body of individuals**
  Surcharge shall be levied at 15% where the income exceeds a sum of INR 10 million.

- **In the case of co-operative societies, firms and local authorities**
  Surcharge shall be levied at 12% where the income exceeds a sum of INR 10 million.

- **In case of a domestic company**
  Surcharge at the rate of 7% shall be levied if the total income exceeds INR 10 million but does not exceed INR 100 million. The surcharge at the rate of 12% shall be levied if the total income of the domestic company exceeds INR 100 million.

- **In case of companies other than domestic companies**
  The existing surcharge of 2% shall continue to be levied if the total income exceeds INR 10 million but does not exceed INR 100 million. The surcharge at the rate of 5% shall continue to be levied if the total income of the company other than domestic company exceeds INR 100 million.

- **On withholding tax rates**
  In the case of a non-resident person (other than company), the withholding tax rate is to be increased by a surcharge at the rate of 15% in the case of individual, Hindu undivided family, association of person, body of individual or artificial juridical person and 12% in the case of a cooperative society or firm, where the income or the aggregate of such incomes paid or likely to
be paid and subject to the deduction exceeds INR 10 million.

In case of a company other than a domestic company, the withholding tax rate is proposed to be increased by a surcharge of 2% where the income or the aggregate of such incomes paid or likely to be paid and subject to the deduction exceeds INR 10 million but does not exceed INR 100 million; and by 5% where the income or the aggregate of such incomes paid or likely to be paid and subject to the deduction exceeds INR 100 million.

This amendment will take effect from the financial year 2016-17.

**Education Cess**

“Education Cess on Income-tax” and “Secondary and Higher Education Cess on Income-tax” shall continue to be levied at 2% and 1% respectively.

**CORPORATE & BUSINESS TAXATION**

- **Tax incentives for start-ups**

  With a view to providing an impetus to start-ups and facilitate their growth in the initial phase of their business, it is proposed to provide a deduction of 100% of the profits and gains derived by an eligible start-up from a business involving innovation development, deployment or commercialization of new products, processes or services driven by technology or intellectual property to be available to an eligible start-up which is setup before April 1, 2019.

  It is proposed to insert a new Section 54EE to provide exemption from capital gains tax if the long term capital gains proceeds are invested by an assessee in units of a fund, as may be notified by the Central Government in this behalf, subject to the condition that the amount remains invested for three years failing which the exemption shall be withdrawn. The investment in the units of the specified fund shall be allowed up to INR 5 million.

  It is proposed to amend section 54GB so as to provide that long term capital gains arising on account of transfer of a residential property shall not be charged to tax if such capital gains are invested in subscription of shares of a company which qualifies to be an eligible start-up subject to the condition that the individual or HUF holds more than 50% shares of the company and such company utilises the amount invested in shares to purchase new asset before due date of filing of return by the investor.

  The existing provision of section 54GB requires that the company should invest the proceeds in the purchase of new asset being new plant and machinery but does not include, inter-alia, computers or computer software. With a view to avoid the incidence of the aforesaid condition on start-ups where computers or computer software form the core asset base owing to nature of business activity, it is proposed to amend section 54GB so as to provide that the expression “new asset” includes computers or computer software in case of technology driven start-ups so certified by the Inter-Ministerial Board of Certification notified by the Central Government in the official Gazette.

  These amendments will take effect from April 1, 2017.

- **Dividend Distribution Tax**

  With a view to rationalize the tax treatment provided to income by way of dividend, it is proposed that any income by way of dividend in excess of INR 1 million shall be chargeable to tax in the case of an individual, Hindu undivided family or a firm who is resident in India, at the rate of 10% whereas dividend income in excess of INR 1 million shall be taxed on gross basis.

  This amendment will take effect from April 1, 2016.

- **Tax on distributed income to shareholder**

  It is proposed to amend section 115QA to provide that
the provisions of this section shall apply to any buy back of unlisted shares undertaken by the company in accordance with the provisions of the law relating to the Companies and not necessarily restricted to section 77A of the Companies Act, 1956. It is further proposed to provide that for the purpose of computing distributed income, the amount received by the Company in respect of the shares being bought back shall be determined in the prescribed manner. The rules would thereafter be framed to provide for manner of determination of the amount in various circumstances including shares being issued under tax neutral reorganisations and in different tranches.

This amendment will take effect from June 1, 2016.

• **Phasing out of deductions and incentives**

The following incentives under the Act are proposed to be phased out –

**PHASE I**

* Special provision in respect of newly established units in Special economic zones [Section 10AA] - No deduction shall be available to units commencing manufacture or production of article or thing or start providing services on or after April 1, 2020.

* Expenditure on eligible projects or schemes [Section 35AC] - No deduction shall be available with effect from April 1, 2017.

* Expenditure on skill development project [Section 35CCD] - Deduction shall be restricted to 100% from April 1, 2020.

* Deduction in respect of profits derived from a) development, operation and maintenance of an infrastructure facility (b) development of special economic zone; and (c) production of mineral oil and natural gas [Section 80IA, 80IAB & 80IB] - No deduction shall be available if the specified activity commences on or after April 1, 2017.

* Accelerated Depreciation [Section 32 read with rule 5] - The highest rate of depreciation shall be restricted to 40% with effect from April 1, 2017.

These amendments shall take effect from April 1, 2017 (Assessment year 2017-18 and subsequent years)

**PHASE II**

* Expenditure on scientific research [Section 35(1)(ii)] - Weighted deduction shall be restricted to 150% from April 1, 2017 to March 31, 2020.

* Expenditure on scientific research [Section 35(1) (iiia)] - Deduction shall be restricted to 100% with effect from April 1, 2017.

* Expenditure on scientific research [Section 35(1) (iii)] - Deduction shall be restricted to 100% with effect from April 1, 2017.

* Expenditure on scientific research [Section 35(2AA)& 35 92AB] - Weighted deduction shall be restricted to 150% with effect from April 1, 2017 to March 31, 2020. Further, Deduction shall be restricted to 100% from April 1, 2020.

* Deduction in respect of specified business [Section 35AD] - In case of a cold chain facility, warehousing facility for storage of agricultural produce, hospital, an affordable housing project, production of fertilizer, deduction shall be restricted to 100% of capital expenditure w.e.f. April 1, 2017.

* Expenditure on notified agricultural extension project [Section 35CCC] - Deduction shall be restricted to 100% from April 1, 2017.

These amendments shall take effect from April 1, 2018 (Assessment year 2018-19 and subsequent years).
• **Extending the benefit of initial additional depreciation under section 32(1)(iia) for power sector**

Under the existing provisions, the benefit of additional depreciation is not available on the new machinery or plant installed by an assessee engaged in the business of transmission of power. It is proposed to provide that an assessee engaged in the business of transmission of power shall also be allowed additional depreciation at the rate of 20% of actual cost of new machinery or plant acquired and installed in a previous year.

This amendment will take effect from April 1, 2017.

• **Taxation of Income from ‘Patents’**

It is proposed to insert new section 115BBF to provide that where the total income of the eligible assessee income includes any income by way of royalty in respect of a patent developed and registered in India, then such royalty shall be taxable at the rate of 10% (plus applicable surcharge and cess) on the gross amount of royalty. No expenditure or allowance in respect of such royalty income shall be allowed under the Act.

For the purpose of this concessional tax regime an eligible assessee means a person resident in India, who is the true and first inventor of the invention and whose name is entered on the patent register as the patentee in accordance with Patents Act, 1970 and includes every such person, being the true and the first inventor of the invention, where more than one person is registered as patentee under Patents Act, 1970 in respect of that patent.

This amendment will take effect from April 1, 2017.

• **Incentives for Housing projects**

It is proposed to amend to provide for 100% deduction of the profits of an assessee developing and building affordable housing projects if the housing project is approved by the competent authority before March 31, 2019 subject to prescribed conditions.

This amendment will take effect from April 1, 2017.

• **The Income Declaration Scheme, 2016**

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. The scheme is proposed to be made applicable in respect of undisclosed income of any financial year up to 2015-16. Tax is proposed to be charged at the rate of 30% on the declared income as increased by surcharge at the rate of 25% of tax payable. A penalty at the rate of 25% of tax payable is also proposed to be levied on undisclosed income declared under the scheme. The salient features of the scheme are as follows:

* The scheme will not be applicable to cases where notices have been issued under section 142(1) or 143(2) or 148 or 153A or 153C; where a search or survey has been conducted and the time for issuance of notice under the relevant provisions of the Act has not expired; where information is received under an agreement with foreign countries regarding such income; cases covered under the Black Money Act, 2015; persons notified under Special Court Act, 1992; and 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.

* It is also proposed that nothing contained in the Scheme shall be construed as conferring any benefit, concession or immunity on any person other than the person making the declaration under this Scheme. In cases where any declaration has been made but no tax and penalty referred to the scheme has been paid within the time specified, the undisclosed income shall be chargeable to tax under the Income-tax Act in the previous year in which such declaration is made.

The scheme is proposed to be brought into effect from June 1, 2016 and will remain open up to the date to be notified by the Central Government in the official gazette.

- **Incentives for employment generation**

The existing provisions of Section 80JJAA provide for a deduction of 30% of additional wages paid to new regular workmen in a factory for three years. The provisions apply to the business of manufacture of goods in a factory where ‘workmen’ are employed for not less than three hundred days in a previous year. Further, benefits are allowed only if there is an increase of at least 10% in total number of workmen employed on the last day of the preceding year.

With a view to extend this employment generation incentive to all sectors, it is proposed to provide that the deduction under the said provisions shall be available in respect of cost incurred on any employee whose total emoluments are less than or equal to INR 25,000 per month. No deduction, however, shall be allowed in respect of cost incurred on those employees, for whom the entire contribution under Employees’ Pension Scheme notified in accordance with Employees’ Provident Fund and Miscellaneous Provisions Act, 1952, is paid by the Government. It is further proposed to relax the norms for minimum number of days of employment in a financial year from 300 days to 24 days and also the condition of 10% increase in number of employees every year is proposed to be done away with so that any increase in the number of employees will be eligible for deduction under the provision. It is also proposed to provide that in the first year of a new business, 30% of all emoluments paid or payable to the employees employed during the previous year shall be allowed as deduction.

This amendment will take effect from April 1, 2017.

- **Deduction in respect of provision for bad and doubtful debts in the case of Non-Banking Financial companies**

It is proposed to provide deduction from total income (computed before making any deduction under this clause and Chapter-VIA) on account of provision for bad and doubtful debts to the extent of 5% of the total income in the case of Non-Banking Financial Companies.

This amendment will take effect from April 1, 2017.

- **Rationalisation of scope of tax incentive under section 32AC**

The existing provision of section 32AC of the Act provides for investment allowance at the rate of 15% on investment made in new assets (plant and machinery) exceeding INR 250 million in a previous year by a company engaged in manufacturing or production of any article or thing subject to the condition that the acquisition and installation has to be done in the same previous year. This tax incentive is available up to March
It is proposed to amend section 32AC so as to provide that the acquisition of the plant & machinery of the specified value has to be made in the previous year. However, installation may be made by March 31, 2017 in order to avail the benefit of investment allowance of 15%. It is further proposed to provide that where the installation of the new asset is in a year other than the year of acquisition, the deduction under this sub-section shall be allowed in the year in which the new asset is installed.

These amendments will take effect retrospectively from April 1, 2016.

- **Taxation of Non-compete fees and exclusivity rights in case of Profession**

It is proposed to bring the non-compete fee received/receivable (which is recurring in nature) in relation to not carrying out any profession, within the scope of section 28 of the Act i.e. the charging section of profits and gains of business or profession. Further, it is also proposed to amend the proviso to clarify that receipts for transfer of right to carry on any profession, which are chargeable to tax under the head “Capital gains”, would not be taxable as profits and gains of business or profession. It is also proposed to amend section 55 so as to provide that the ‘cost of acquisition’ and ‘cost of improvement’ for working out “Capital gains” on capital receipts arising out of transfer of right to carry on any profession shall also be taken as ‘nil’.

These amendments will take effect from April 1, 2017.

- **Time limit for carry forward and set off of such loss under section 73A of the Income-tax Act**

It is proposed to amend section 80 so as to provide that the loss determined as per section 73A of the Act shall not be allowed to be carried forward and set off if such loss has not been determined in pursuance of a return filed in accordance with the provisions of section 139(3). It is also proposed to amend the said section 139(3) so as to give reference of section 73A(2) in the said sub-section.

This amendment will take effect retrospectively from April 1, 2016.

- **Amortisation of spectrum fee for purchase of spectrum**

It is proposed to insert a new section 35ABA in the Act to provide for tax treatment of spectrum fee. The section seeks to provide -

- Any capital expenditure incurred and actually paid by an assessee on the acquisition of any right to use spectrum for telecommunication services by paying spectrum fee will be allowed as a deduction in equal instalments over the period for which the right to use spectrum remains in force.

- Where the spectrum is transferred and proceeds of the transfer are less than the expenditure remaining un-allowed, a deduction equal to the expenditure remaining un-allowed as reduced by the proceeds of transfer, shall be allowed in the previous year in which the spectrum has been transferred.

- If the spectrum is transferred and proceeds of the transfer exceed the amount of expenditure remaining un-allowed, the excess amount shall be chargeable to tax as profits and gains of business in the previous year in which the spectrum has been transferred.

- Un-allowed expenses in a case where a part of the spectrum is transferred would be amortised.

- Under the scheme of amalgamation, if the amalgamating company sells or transfer the spectrum to an amalgamated company, being an Indian company, then the provisions of this
These amendments will take effect from April 1, 2017.

INTERNATIONAL TAX

• Equalisation Levy

In order to address the challenges posed by the new digital economy and the rapidly evolving nature of its transactions, it is proposed to insert a new Chapter titled “Equalisation Levy” in the Finance Bill, to provide for an equalisation levy of 6% of the amount of consideration for specified services received or receivable by a non-resident not having a permanent establishment in India, from a resident in India who carries out business or profession, or from a non-resident having permanent establishment in India.

Further, in order to reduce burden of small players in the digital domain, it is also provided that no such levy shall be made if the aggregate amount of consideration for specified services received or receivable by a non-resident from a person resident in India or from a non-resident having a permanent establishment in India does not exceed INR 100,000 in any previous year.

To provide certainty and to avoid interpretational issues, it is also proposed to define certain terms and expressions used therein. Further it also proposes to provide for the procedure to be adopted for collection and recovery of equalisation levy. In order to provide for the administrative mechanism of the equalisation levy, it also proposes to provide for statutory authorities and also prescribes the duties and powers of the authorities to administer the equalisation levy. In order to ensure effective compliance, it also proposes to provide for interest; penalty and prosecution in case of defaults with sufficient safeguards. Further, it also proposes to confer the power on the Central Government to make rules for the purposes of carrying out the provisions of the Chapter and further provides that every rule made under the Chapter shall be laid before each House of Parliament. In order to avoid double taxation, it is proposed to provide exemption under section 10 of the Act for any income arising from providing specified services on which equalisation levy is chargeable.

It is further proposed to provide that the expenses incurred by the assessee towards specified services chargeable under this Chapter shall not be allowed as deduction in case of failure of the assessee to deduct and deposit the equalisation levy to the credit of Central government.

These amendments will take effect from the date appointed in a notification by the Central Government.

• Exemption of income of a foreign company from storage and sale of crude oil stored as part of strategic reserves

In order to achieve neutrality in terms of taxation to encourage foreign national oil companies & multinational companies to store their crude oil in India and to build up strategic oil reserves, it is proposed to amend the provisions of section 10 of the Act to provide that any income accruing or arising to a foreign company on account of storage of crude oil in a facility in India and sale of crude oil therefrom to any person resident in India shall not be included in the total income, if such storage and sale by the foreign company on account of storage of crude oil in a facility in India and sale of crude oil therefrom to any person resident in India shall not be included in the total income, if such storage and sale by the foreign company is pursuant to an agreement or an arrangement entered into by the Central Government or approved by the Central Government; and having regard to the national interest, the foreign company and the agreement or arrangement are notified by the Central Government in this behalf.

This amendment will take effect retrospectively from April 1, 2016.
• **Modification in conditions of special taxation regime for offshore funds**

Section 9A of the Act provides for a special 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 in India of the said fund. Further, an eligible investment fund shall not be said to be resident in India merely because the eligible fund manager undertaking fund management activities on its behalf is located in India. The benefit under section 9A is available subject to the conditions provided. It is proposed to modify these conditions to provide that the eligible investment fund for purposes of section 9A, 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.

This amendment will take effect from April 1, 2017.

• **Enabling provision for implementation of various provisions of the Act in case of a foreign company held to be resident in India**

Prior to amendments by the Finance Act 2015, a company was said to be resident in India in any previous year if it was an Indian company or during that year the control and management of its affairs was situated wholly in India. The Finance Act, 2015 amended the above provision so as to provide that a company would be resident in India in any previous year if it is an Indian company or its Place of Effective Management (‘POEM’) in that year is in India. The POEM was defined to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are in substance made. In order to provide clarity in respect of implementation of POEM based rule of residence and also to address concerns of the stakeholders, it is proposed to:

- Defer the applicability of POEM based residence test by one year and the determination of residence based on POEM shall be applicable from April 1, 2017.
- Provide a transition mechanism for a company which is incorporated outside India and has not earlier been assessed to tax in India. The Central Government is proposed to be empowered to notify exception, modification and adaptation subject to which, the provisions of the Act relating to computation of income, treatment of unabsorbed depreciation, setoff or carry forward and setoff of losses, special provision relating to avoidance of tax and the collection and recovery of taxes shall apply in a case where a foreign company is said to be resident in India due to its POEM being in India for the first time and the said company has never been resident in India before.
- Provide that these transition provisions would also cover any subsequent previous year up to the date of determination of POEM in an assessment proceedings. However, once the transition is complete, the normal provisions of the Act would apply.
- Provide that in the notification, certain conditions including procedural conditions subject to which these adaptations shall apply can be provided for and in case of failure to comply with the conditions, the benefit of such notification would not be available to the foreign company.
- Provide that every notification issued in exercise of this power by the Central Government shall be laid before each house of the Parliament.

These amendments will take effect from April 1, 2017.
Exemption in respect of certain activity related to diamond trading in “Special Notified Zone”

A “Special Notified Zone” had been created to facilitate shifting of operations by foreign mining companies to India and to permit the trading of rough diamonds in India by the leading diamond mining companies of the world. In order to facilitate the foreign mining companies to undertake activity of display of uncut diamond (without any sorting or sale) in the special notified zone, it is proposed to amend section 9 of the Act to provide that in the case of a foreign company engaged in the business of mining of diamonds, no income shall be deemed to accrue or arise in India to it through or from the activities which are confined to display of uncut and un-assorted diamonds in a Special Zone notified by the Central Government in the Official Gazette in this behalf.

This amendment will take effect retrospectively from April 1, 2016.

Exemption from requirement of furnishing PAN under section 206AA to certain non-resident

The existing provision of section 206AA, inter alia, provides that any person who is entitled to receive any sum or income or amount on which tax is deductible under Chapter XVIIB of the Act shall furnish his Permanent Account Number to the person responsible for deducting such tax, failing which tax shall be deducted at the rate mentioned in the relevant provisions of the Act or at the rate in force or at the rate of 20%, whichever is higher. 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. It is proposed to amend the said section 206AA so as to provide that the provisions of this section shall also not apply to a non-resident, not being a company, or to a foreign company, in respect of any other payment, other than interest on bonds, subject to such conditions as may be prescribed.

This amendment will take effect from June 1, 2016.

Applicability of Minimum Alternate Tax on foreign companies for the period prior to April 1, 2015

With a view to provide certainty in taxation of foreign companies, it is proposed to amend the Income-tax Act so as to provide that with effect from April 1, 2001, the provisions of section 115J B shall not be applicable to a foreign company if -

* The assessee is a resident of a country or a specified territory with which India has an agreement referred to in sub-section (1) of section 90 or the Central Government has adopted any agreement under sub-section (1) of section 90A and the assessee does not have a permanent establishment in India in accordance with the provisions of such Agreement; or

* The assessee is a resident of a country with which India does not have an agreement of the nature referred to in clause (i) above and the assessee is not required to seek registration under any law for the time being in force relating to companies.

This amendment is proposed to be made effective retrospectively from the April 1, 2001.

Tax Incentives to International Financial Services Centre

It is proposed to amend the section 10 so as to provide for exemption from tax on capital gains to the income arising from transaction undertaken in foreign currency on a recognised stock exchange located in an International Financial Services Centre even when securities transaction tax is not paid in respect of such transactions.

It is also proposed to amend section 115J B so as to provide that in case of a company, being a unit located in International Financial Services Centre and deriving
its income solely in convertible foreign exchange, the Minimum Alternate Tax shall be chargeable at the rate of 9%.

Further, it is proposed to amend section 115-O so as to provide that no tax on distributed profits shall be chargeable in respect of the total income of a company being a unit located in International Financial Services Centre, deriving income solely in convertible foreign exchange, for any assessment year on any amount declared, distributed or paid by such company, by way of dividends (whether interim or otherwise) on or after April 1, 2017 out of its current income, either in the hands of the company or the person receiving such dividend.

These amendments will take effect from April 1, 2017.

The existing provisions relating to securities transaction tax and commodities transaction tax provide for levy of tax on transactions in taxable securities and commodities respectively. It is proposed to amend section 113A of the Finance (No.2) Act, 2004 so as to provide that the provisions of Chapter VII shall not apply to taxable securities transactions entered into by any person on a recognized stock exchange located in International Financial Services Centre where the consideration for such transaction is paid or payable in foreign currency, thereby exempting such transaction from securities transaction tax. Further, it is proposed to insert section 132A in Chapter VII of the Finance Act, 2013 so as to provide that the provisions of chapter VII shall also not apply to taxable commodities transactions entered into by any person on a recognized association located in unit of International Financial Services Centre where the consideration for such transaction is paid or payable in foreign currency, thereby exempting such transaction from commodities transaction tax.

This amendment will take effect from June 1, 2016.

TRANSFER PRICING

- **Introduction by country by country reporting requirements**

The OECD report on Action 13 of Base Erosion and Profit Shifting (“BEPS”) Action plan provides for revised standards for transfer pricing documentation and a template for country-by-country reporting of income, earnings, taxes paid and certain measure of economic activity. India has been one of the active members of BEPS initiative and part of international consensus. It is recommended in the BEPS report that the countries should adopt a standardised approach to transfer pricing documentation and Country By Country ("CbC") Reporting Template. In line with India’s commitment for adoption of global standards of reporting as well as exchange of information and international consensus to adopt BEPS recommendations, the budget 2016 provided for recognition and adoption of CbC Reporting, as part of the existing transfer pricing documentation requirements.

Respective amendments for introduction of CbC Reporting are proposed to be made in the Act and the Rules thereunder. The Finance Bill does not contain detailed proposals with respect to introduction of CbC Reporting, however the memorandum to the finance bill provides a detailed overview of the manner and mechanism of introduction of CbC Reporting. The elements relating to CbC reporting requirement and matters related to it proposed to be included through amendment of the Act, by virtue of introduction of Section 286 of the Act, are as below—

- **Entities to which CbC Reporting would apply**

  - The reporting provision shall apply in respect of an international group having consolidated
revenue above a threshold to be prescribed, which has been presently proposed at Euros 750 million of consolidated group revenues [approx. INR 53.95 billion];

» The parent entity for a group shall be an entity which is required to prepare consolidated financial statement under the applicable laws or would have been required to prepare such consolidated financial statements, had equity share of any entity of the group been listed on a recognized stock exchange in India;

» The parent entity of an international group, being resident in India, shall be required to furnish the report in respect of the group to the prescribed authority on or before the due date of furnishing of return of income for the Assessment Year relevant to the Financial Year (previous year) for which the report is being furnished (which at present is November 30 for the tax year ended on March 31);

» In case of an international group whose parent entity is not situated in India, the “constituent entity” of the said international group, shall provide information regarding the country or territory of residence of the parent of the international group to which it belongs.

* Contents of the CbC Report

» The CbC report shall be in the format prescribed by OECD under BEPS Action Plan 13. It shall contain details of aggregate information in respect of revenue, profit & loss before Income-tax, amount of Income-tax paid and accrued, details of capital, accumulated earnings, number of employees, tangible assets other than cash or cash equivalent in respect of each country or territory along with details of each constituent’s residential status, nature and detail of main business activity and any other information as may be prescribed.

» The prescribed authority has been empowered to call for such document and information from the entity furnishing the report for the purpose of verifying the accuracy of the CbC report. A time period of 30 days has been laid down for fulfillment of such request.

* Filing of the CbC Report by specified entities

» An entity in India belonging to an international group shall be required to furnish 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

› Such country is not exchanging information with India even though there is an agreement; and

› This fact has been intimated to the entity by the prescribed authority.

» Sufficient safeguards have been provided to avoid duplication and multiplicity with respect of furnishing the CbC Reports with the prescribed authority.

* Penal provisions in case of failure to furnish the CbC report.
## Default Penalty

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| For non-furnishing of the report by an entity which is obligated to furnish it | Default of upto one month  
| Default is beyond one month  
| INR 5,000 per day  
| INR 15000 per day for the period exceeding one month                     |
| For non-furnishing of the report by an entity which has been served a penalty order, as per (1) above | Default for days beyond serving of penalty order  
| INR 50,000 per day                                                        |
| For non-submission of requested information before prescribed authority | Till the days the default continues  
| If default continues even after service of penalty order  
| INR 5,000 per day  
| INR 50,000 per day                                                        |
| Penalty for provision of any inaccurate information in the CbC report    | - Knowingly furnishes inaccurate information; or  
| - Is aware of any inaccuracy post furnishing the report and fails to inform the prescribed authority and furnish correct report within a period of fifteen days of such discovery; or  
| - The entity furnishes inaccurate information or document in response to notice of the prescribed authority  
| INR 500,000                                                              |

- The entity can offer reasonable cause defence for non-levy of penalties mentioned above.

- The amendment will be effective from April 1, 2016 and shall apply for the previous year 2016-17 and subsequent assessment years. Therefore, CbC reporting for an international group having Indian parent, for the previous year 2016-17, shall apply only if the consolidated revenue of the international group in previous year 2015-16 exceeds INR 53.95 billion

- Extension of time limit for passing transfer Pricing Orders in certain cases

As per the existing provisions, the Transfer Pricing Officer (“TPO”) has to pass his order sixty days prior to the date on which the limitation for making assessment expires. It is noted that at times seeking information from foreign jurisdictions becomes necessary for determination of arm’s length price by the TPO and at times proceedings before the TPO may also be stayed by a court order.

In view of the aforesaid impediment with respect to passing the transfer pricing orders, it is proposed to amend sub-section (3A) of section 92CA where a reference for exchange of information is made by the competent authority, the time available to the TPO for completing the assessment, after excluding such time for which assessment proceedings were stayed or the time taken for receipt of such information, is less than sixty days, then such remaining period shall be extended to sixty days.

This amendment to section 92CA(3A) of the Act is effective from June 1, 2016.
CAPITAL GAINS

- **Sovereign Gold Bond Scheme and Rupee Denominated Bonds**

With a view to providing parity in tax treatment between physical gold and Sovereign Gold Bond, it is proposed to provide that any redemption of Sovereign Gold Bond under the Scheme, by an individual shall not be treated as transfer and therefore shall be exempt from tax on capital gains. It is also proposed to amend section 48 of the Income-tax Act, so as to provide indexation benefits to long term capital gains arising on transfer of Sovereign Gold Bond to all cases of assesses.

With a view to provide relief to non-resident investor who bears the risk of currency fluctuation, it is proposed to amend section 48 of the Act so as to provide that the capital gains, arising in case of appreciation of rupee between the date of issue and the date of redemption against the foreign currency in which the investment is made shall be exempt from tax on capital gains.

These amendments will take effect from April 1, 2017.

- **Consolidation of ‘plans’ within a ‘scheme’ of mutual fund**

It is proposed to amend Section 47 so as to provide that any transfer by a unit holder of a capital asset, being a unit or units, held by him in the consolidating plan of a mutual fund scheme, made in consideration of the allotment to him of a capital asset, being a unit or units, in the consolidated plan of that scheme of the mutual fund shall not be considered transfer for capital gain tax purposes and thereby shall not be chargeable to tax.

This amendment will take effect from April 1, 2017.

- **Clarification regarding the definition of the term ‘unlisted securities’ for the purpose of Section 112 (1) (c)**

It is proposed to amend the provisions of section 112(1)(c) so as to provide 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, shall be chargeable to tax at the rate of 10%.

This amendment will take effect from April 1, 2017.

- **Rationalization of Section 50C in case sale consideration is fixed under agreement executed prior to the date of registration of immovable property**

It is proposed to amend the provisions of section 50C so as to provide that where the date of the agreement fixing the amount of consideration for the transfer of immovable property and the date of registration are not the same, the stamp duty value on the date of the agreement may be taken for the purposes of computing the full value of consideration.

It is further proposed to provide that this provision shall apply only in a case where the amount of consideration referred to therein, or a part thereof, has been paid by way of an account payee cheque or account payee bank draft or use of electronic clearing system through a bank account, on or before the date of the agreement for the transfer of such immovable property.

These amendments are proposed to be made effective from the April 1, 2017.

- **Rationalization of conversion of a company into Limited Liability Partnership**

The existing provisions of Section 47(xiiib) provides that conversion of a private limited or unlisted public
company into Limited Liability Partnership shall not be regarded as transfer, if certain conditions are fulfilled, which, inter alia, include 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.

It is proposed to amend the said section so as to provide that, for availing tax-neutral conversion, in addition to the existing conditions, the value of the total assets in the books of accounts of the company in any of the three previous years preceding the previous year in which the conversion takes place, should not exceed INR 50 million.

This amendment is proposed to be made effective from April 1, 2017.

**PERSONAL TAX**

- **Housing Loan tax incentives**

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 a residential house property. This benefit is available for the two assessment years beginning on the April 1, 2014 and on the April 1, 2015.

It is proposed to incentivise 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. This incentive is proposed to be extended to a house property of a value less than INR 5 million in respect of which a loan of an amount not exceeding INR 3.5 million has been sanctioned during the period from April 1, 2016 to the March 31, 2017. It is also proposed to extend the benefit of deduction till the repayment of loan continues. The deduction under the proposed section is over and above the limit of INR 200,000 provided for a self-occupied property under section 24 of the Act.

These amendments will take effect from April 1, 2017.
• **Rationalization of limit of deduction allowable in respect of rents paid under Section 80GG**

The existing provisions of Section 80GG provide for a deduction of any expenditure incurred by an individual in excess of 10% of his total income towards payment of rent in respect of any furnished or unfurnished accommodation occupied by him for the purposes of his own residence if he is not granted house rent allowance by his employer, to the extent such excess expenditure does not exceed INR 2000 per month or 25% of his total income for the year, whichever is less, subject to other conditions as prescribed therein. In order to provide relief to the individual tax payers, it is proposed to amend section 80GG so as to increase the maximum limit of deduction from existing INR 2000 per month to INR 5000 per month.

This amendment will take effect from April 1, 2017.

• **Rationalization of section 56 of the Income-tax Act**

The existing provisions of the Act provide for chargeability of income from other sources in case any money, immovable property or other property with or without consideration in excess of INR 50,000 is received by an assessee being an individual or a Hindu undivided family. The provisions also apply where shares of a company are received as a consequence of demerger or amalgamation of a company. Such a transaction is not regarded as transfer where the recipient is a firm or a company. It is proposed to amend the Act so as to provide that any shares received by an individual or HUF as a consequence of demerger or amalgamation of a company shall not attract the provisions of clause (vii) of sub-section (2) of section 56.

This amendment will take effect from April 1, 2017.

• **Increase in time period for acquisition or construction of self-occupied house property for claiming deduction of interest**

In view of the fact that housing projects often take longer time for completion, it is proposed to provide that the deduction on account of interest paid on capital borrowed for acquisition or construction of a self-occupied house property shall be available if the acquisition or construction is completed within five years from the end of the financial year in which capital was borrowed as against the present limit of three years.

This amendment will take effect from April 1, 2017.

• **Taxation of unrealised rent and arrears of rent**

It is proposed to provide that the amount of rent received in arrears or the amount of unrealised rent realised subsequently by an assessee shall be charged to income-tax in the financial year in which such rent is received or realised, whether the assessee is the owner of the property or not in that financial year. It is also proposed that 30% of the arrears of rent or the unrealised rent realised subsequently by the assessee shall be allowed as deduction.

This amendment will take effect from April 1, 2017.
• **Introduction of Presumptive taxation scheme for persons having income from profession**

It is proposed to insert a new section 44ADA to provide for estimating the income of an assessee who is engaged in any profession referred to in section 44AA(1) such as legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or any other profession as is notified by the Board in the Official Gazette and whose total gross receipts does not exceed INR 5 million in a previous year, at a sum equal to 50% of the total gross receipts, or, as the case may be, a sum higher than the aforesaid sum earned by the assessee. The scheme will apply to such resident assessee who is an individual, Hindu undivided family or partnership firm but not Limited Liability partnership firm.

Under the scheme, the assessee will be deemed to have been allowed the deductions under section 30 to 38. Accordingly, the written down value of any asset used for the purpose of the profession of the assessee will be deemed to have been calculated as if the assessee had claimed and had actually been allowed the deduction in respect of depreciation for the relevant assessment years. It is also proposed that the assessee will not be required to maintain books of account under section 44AA(1) and get the accounts audited under section 44AB in respect of such income unless the assessee claims that the profits and gains from the aforesaid profession are lower than the profits and gains deemed to be his income under section 44ADA(1) and his income exceeds the maximum amount which is not chargeable to income-tax.

This amendment will take effect from April 1, 2017.

• **Increase in threshold limit for presumptive taxation scheme for persons having income from business**

The existing provisions of section 44AD provide for a presumptive taxation scheme for an eligible business. Where in case of an eligible assessee engaged in eligible business having total turnover or gross receipts not exceeding INR 10 million, a sum equal to 8% of the total turnover or gross receipts, or as the case may be. It is proposed to increase the threshold limit of INR 10 million specified in the definition of “eligible business” to INR 20 million.

It is also proposed that the expenditure in the nature of salary, remuneration, interest etc. paid to the partner as per clause (b) of section 40 shall not be deductible while computing the income under section 44AD as the said section 40 does not mandate for allowance of any expenditure but puts restriction on deduction of amounts, otherwise allowable under section 30 to 38.

It is also proposed that where an eligible assessee declares profit for any previous year in accordance with the provisions of this section and he declares profit for any of the five consecutive assessment years relevant to the previous year succeeding such previous year not in accordance with the provisions of sub-section (1), he shall not be eligible to claim the benefit of the provisions of this section for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance with the provisions of sub-section (1).

Further as the turnover limit of presumptive taxation scheme has been enhanced to INR 20 million, it is proposed to provide that eligible assessee shall require to pay advance tax. However, in order to keep the compliance minimum in his case, it is proposed that he may pay advance tax by March 15 of the financial year.
These amendments will take effect from April 1, 2017.

- **Rationalisation of tax treatment of Recognised Provident Funds, Pension Funds and National Pension Scheme**

It is proposed to amend section 10 so as to provide that in respect of the contributions made on or after the of April 1, 2016 by an employee participating in a recognised provident fund and superannuation fund, up to 40% of the accumulated balance attributable to such contributions on withdrawal shall be exempt from tax.

It is proposed to amend the provisions wherein any payment from an approved superannuation fund made to an employee in lieu of or in commutation of an annuity on his retirement at or after a specified age or on his becoming incapacitated prior to such retirement is exempt from tax, so as to provide that any payment in commutation of an annuity purchased out of contributions made on or after the April 1, 2016, which exceeds 40% of the annuity, shall be chargeable to tax.

It is proposed to provide that any payment from National Pension System Trust to an employee on account of closure or his opting out of the pension scheme referred to in Section 80CCD, to the extent it does not exceed 40% of the total amount payable to him at the time of closure or his opting out of the scheme, shall be exempt from tax. However, the whole amount received by the nominee, on death of the assessee shall be exempt from tax.

It is further proposed to amend the said section and said schedule so as to provide the limit of employer’s contribution to INR 150,000 without attracting tax.

These amendments are proposed to be made effective from April 1, 2017.

**BUSINESS AND CHARITABLE TRUSTS**

- **Levy of tax where the charitable institution ceases to exist or converts into a non-charitable organization**

It is proposed to amend the provisions of the Act and introduce a new Chapter to provide for levy of additional income tax in case of conversion into, or merger with, any non-charitable form or on transfer of assets of a charitable organisation on its dissolution to a non-charitable institution. The elements of the regime are -

* The accretion in income (accreted income) of the trust or institution shall be taxable on conversion of trust or institution into a form not eligible for registration under section 12AA or on merger into an entity not having similar objects and registered under section 12AA or on non-distribution of assets on dissolution to any charitable institution registered under section 12AA or approved under section 10(23C) within a period twelve months from dissolution.

* Accreted income shall be amount of aggregate of total assets as reduced by the liability as on the specified date. The method of valuation is proposed to be prescribed in rules. The asset and the liability of the charitable organisation which have been transferred to another charitable organisation within specified time will be excluded while calculating accreted income.

* The taxation of accreted income shall be at the maximum marginal rate.

* This levy shall be in addition to any income chargeable to tax in the hands of the entity.

* This tax shall be final tax for which no credit can be taken by the trust or institution or any other person, and like any other additional tax, it shall be leviable even if the trust or institution does
not have any other income chargeable to tax in the relevant previous year.

* In case of failure of payment of tax within the prescribed time, a simple interest @ 1% per month or part of it shall be applicable for the period of non-payment.

* For the purpose of recovery of tax and interest, the principal officer or the trustee and the trust or the institution shall be deemed to be assessee in default and all provisions related to the recovery of taxes shall apply. Further, the recipient of assets of the trust, which is not a charitable organisation, shall also be liable to be held as assessee in default in case of non-payment of tax and interest. However, the recipient’s liability shall be limited to the extent of the assets received.

These amendments will take effect from June 1, 2016.

**New Taxation Regime for securitisation trust and its investors**

It is proposed to amend the provisions of the Act to substitute the existing special regime for securitisation trusts by a new regime having the following elements -

* The new regime shall apply to securitisation trust being an SPV defined under SEBI (Public Offer and Listing of Securitised Debt Instrument) Regulations, 2008 or SPV as defined in the guidelines on securitisation of standard assets issued by RBI or being setup by a securitisation company or a reconstruction company in accordance with the SARFAESI Act;

* The income of securitisation trust shall continue to be exempt. However, exemption in respect of income of investor from securitisation trust would not be available and any income from securitisation trust would be taxable in the hands of investors;

* The income accrued or received from the securitisation trust shall be taxable in the hands of investor in the same manner and to the same extent as it would have happened had investor made investment directly in the underlying assets and not through the trust;

* Tax deduction at source shall be effected by the securitisation trust at the rate of 25% in case of payment to resident investors which are individual or HUF and @ 30% in case of others. In case of payments to non-resident investors, the deduction shall be at rates in force;

* The facility for the investors to obtain low or nil deduction of tax certificate would be available; and

* The trust shall provide breakup regarding nature and proportion of its income to the investors and also to the prescribed income-tax authority.

Further, it is proposed to provide that the current regime of distribution tax shall cease to apply in case of distribution made by securitisation trusts with effect from June 1, 2016.

These amendments will take effect from June 1, 2016.

**Exemption from Dividend Distribution Tax on distribution made by an SPV to Business Trust**

In order to further rationalise the taxation regime for business trusts (Real Estate Investment Trusts and Infrastructure Investment Trusts) and their investors, it is proposed to provide a special dispensation and exemption from levy of dividend distribution tax. The salient features of the proposed dispensation are —

* Exemption from levy of DDT in respect of distributions made by SPV to the business trust;

* Such dividend received by the business trust and its investor shall not be taxable in the hands of trust or investors;

* The exemption from levy of DDT would only be
in the cases where the business trust either holds 100% of the share capital of the SPV or holds all of the share capital other than that which is required to be held by any other entity as part of any direction of any Government or specific requirement of any law to this effect or which is held by Government or Government bodies; and

* The exemption from the levy of DDT would only be in respect of dividends paid out of current income after the date when

* The business trust acquires the shareholding referred in (c) above in the SPV. The dividends paid out of accumulated and current profits upto this date shall be liable for levy of DDT as and when any dividend out of these profits is distributed by the company either to the business trust or any other shareholder.

The amendment will take effect from June 1, 2016.

**WITHHOLDING TAX**

- **Tax Collected at source on sale of vehicles, goods and services**

It is proposed to amend section 206C of the income-tax Act to provide that the seller shall collect the tax at the rate of 1% from the purchaser on sale of motor vehicle of the value exceeding INR 1.2 million and sale in cash of any goods (other than bullion and jewellery), or providing of any services (other than payments on which tax is deducted at source under Chapter XVII-B) exceeding INR 200,000. It is also proposed to provide that the sub-section (1D) relating to TCS in relation to sale of any goods (other than bullion and jewellery) or services shall not apply to certain class of buyers who fulfil such conditions as may be prescribed.

This amendment will take effect from June 1, 2016.

- **Rationalization of tax deduction at source provisions relating to payments by Category-I and Category-II Alternate Investment Funds to its investors**

It is proposed to amend section 194LBB to provide that the person responsible for making the payment to the investor shall deduct income-tax under section 194LBB at the rate of 10% where the payee is a resident and at the rates in force where the payee is a non-resident (not being a company) or a foreign company. Further, it is proposed to amend section 197 to include section 194LBB in the list of sections for which a certificate for deduction of tax at lower rate or no deduction of tax can be obtained. Consequential changes are also proposed to be made to the definition of “rates in force” so as to include section 194LBB in it.

This amendment will take effect from June 1, 2016.

- **Rationalization of tax deduction at Source provisions**

The existing threshold limit for deduction of tax at source are proposed to be revised as under -

* Payment of accumulated balance due to an employee [Section 192A] - INR 50,000 (Existing INR 30,000)
* Winnings from Horse Race [Section 194BB] -INR 10,000 (Existing INR 5,000)
* Payments to Contractors [Section 194C] -INR 100,000 annual (Existing INR 75,000 - annual)
* Payment of Compensation on acquisition of certain Immovable Property [Section 194LA] -INR 250,000 (Existing INR 200,000)
* Insurance commission [Section 194D] - INR 15,000 (Existing INR 20,000)
The rates of deduction of tax at source are proposed to be revised as under –

- Payment in respect of Life Insurance Policy [Section 194DA] - 1% (Existing 2%)
- Payments in respect of NSS Deposits [Section 194EE] - 10% (Existing 20%)
- Insurance commission [Section 194D] - 5% (Existing 10%)
- Commission on sale of lottery tickets [Section 194G] - 5% (Existing 10%)
- Commission or brokerage [Section 194H] - 5% (Existing 10%)

Provisions for deduction of tax at source on income in respect of units [Section 194K] and Payment of compensation on acquisition of capital asset [Section 194L] are proposed to be omitted.

These amendments will take effect from June 1, 2016.

**Enabling of Filing of Form 15G/15H for rental payments**

It is proposed to amend the provisions of section 197A for making the recipients of payments referred to in section 194-I also eligible for filing self-declaration in Form no 15G/15H for non-deduction of tax at source in accordance with the provisions of section 197A.

This amendment will take effect from June 1, 2016.

**ASSESSMENT PROCEDURES**

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

It is proposed to bring the Direct Tax Dispute Resolution Scheme, 2016 in relation to tax arrear and specified tax. The salient features of the proposed scheme are as under -

- The scheme be applicable to “tax arrear” 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 February 29, 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.
- However, in case of disputed tax exceeding INR 1 million, 25% 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.

A person shall not be eligible for the scheme -

- Where prosecution has been initiated before February 29, 2016;
- Search or survey cases where the declaration is in respect of tax arrears;
- In cases relating to undisclosed foreign income and assets; cases based on information received
under Double Taxation Avoidance Agreement under section 90 or 90A of the Income-tax Act where the declaration is in respect of tax arrears;


In addition to the above, the scheme proposes that person may also make a declaration in respect of any tax determined in consequence of or is validated by an amendment made with retrospective effect in the Income-tax Act or Wealth-tax Act, as the case may be, for a period prior to the date of enactment of such amendment and a dispute in respect of which is pending as on February 29, 2016 (referred to as specified tax). For availing the benefit of the Scheme, such declarant shall be required to withdraw any writ petition or any appeal filed against such specified tax before the Commissioner (Appeals) or the Tribunal or High Court or Supreme Court, before making the declaration and shall also be required to furnish a proof of such withdrawal. Further if any proceeding for arbitration conciliation or mediation has been initiated by the declarant or he has given any notice under any law or agreement entered into by India, whether for protection of investment or otherwise, he shall be required to withdraw such notice or claim for availing benefit under this Scheme.

It is proposed that person making declaration in respect of specified tax shall be required to furnish an undertaking in the prescribed form and verified in the prescribed manner, waiving the right, whether direct or indirect, to seek or pursue any remedy or claim in relation to the specified tax which otherwise be available to them under any law, in equity, by statute or under an agreement, whether for protection of investment or otherwise, entered into by India with a country or territory outside India. It is proposed that no appellate authority or Arbitrator or Conciliator or Mediator shall proceed to decide an issue relating to the specified tax in the declaration in respect of which an order is made by the designated authority or in respect of the payment of the sum determined to be payable.

It is proposed that where 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 the 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.

The declarant under the scheme shall get immunity from institution of any proceeding for prosecution for any of offence under the Income-tax Act or Wealth-tax Act. In case of specified tax the declarant shall also get immunity from imposition of penalty under the Income-tax Act or the Wealth-tax Act. However, in case of tax arrears immunity from penalty is proposed to be of the amount that exceeds the penalty payable as per the scheme. The scheme provides waiver of interest under the Income-tax Act or the Wealth-tax Act in respect of specified tax. However, waiver of interest in respect of tax arrears is to the extent the interest exceeds the amount of interest referred in the scheme.

A declaration under the scheme may be made to the designated authority not below the rank of Commissioner in such form and verified in such manner as may be prescribed. The designated authority shall within sixty days from the date of receipt of the declaration, determine the amount payable by the declarant. The declarant shall pay such sum within thirty days of the passing such order and furnish proof of payment of such sum. Any amount paid in pursuance of a declaration shall not be refundable under any circumstances.

No matter covered by order of designated authority shall be reopened in any other proceeding under the Income-tax Act, 1961 or Wealth-tax Act, 1957. The designated authority shall subject to the conditions provided in the scheme grant immunity from instituting any proceeding for prosecution for any of offence under
the two Acts in respect of matters covered in the declaration.

- **Providing Time limit for disposing applications made by assessee under section 273A, 273AA or 220(2A)**

It is proposed to amend section 220 to provide that an order accepting or rejecting application of an assessee shall be passed by the concerned Principal Chief Commissioner, Chief Commissioner, Principal Commissioner or Commissioner within a period of twelve months from the end of the month in which such application is received. It is further proposed to amend section 273A and section 273AA to provide that an order accepting or rejecting the application of an assessee shall be passed by the Principal Commissioner or Commissioner within a period of twelve months from the end of the month in which such application is received. It is also proposed to provide that no order rejecting the application of the assessee under section 220 or 273A, 273AA shall be passed without giving the assessee an opportunity of being heard. However, in respect of applications pending as on June 1, 2016, the order under said sections shall be passed on or before May 31, 2017.

These amendments will take effect from June 1, 2016.

- **Providing legal framework for automation of various processes and paperless assessment**

It is proposed to amend section 282A(1) so as to provide that notices and documents required to be issued by income-tax authority under the Act shall be issued by such authority either in paper form or in electronic form in accordance with such procedure as may be prescribed.

In order to ensure timely service of notice issued under section 143(2), it is proposed to provide that notice under the said sub-section may be served on the assessee by the Assessing Officer or the prescribed income-tax authority, either to attend the office of the Assessing Officer or to produce, or cause to be produced before the Assessing Officer any evidence on which the assessee may rely in support of the return.

It is also proposed to amend the existing provision of section 2 by inserting new clause (23C) to define the term “hearing” to include communication of data and documents through electronic mode.

These amendments will take effect from the June 1, 2016.

- **Filing of return of Income**

It is proposed to amend the sixth proviso to section 139(1) to include that if a person during the previous year earns income which is exempt under clause (38) of section 10 and income of such person without giving effect to the said clause of section 10 exceeds the maximum amount which is not chargeable to tax, shall also be liable to file return of income for the previous year within the due date.

It is also proposed to substitute sub-section (4) of section 139 to provide that any person who has not furnished a return within the time allowed to him under sub-section (1), may furnish the return for any previous year at any time before the end of the relevant assessment year or before the completion of the assessment, whichever is earlier.

It is also proposed to substitute sub-section (5) of section 139 so as to provide that if any person, having furnished a return under sub-section (1) or under sub-section (4), or in a return furnished in response to notice issued under sub-section (1) of section 142, 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.

It is also proposed to omit clause (aa) of the Explanation section 139(9) to provide that a return which is
otherwise valid would not be treated defective merely because self-assessment tax and interest payable in accordance with the provisions of section 140A has not been paid on or before the date of furnishing of the return.

These amendments will take effect from April 1, 2017.

• **Processing under section 143(1) be mandated before assessment**

Under the existing provision of sub-section (1D) of section 143, processing of a return is not necessary where a notice has been issued to the assessee under sub-section (2) of the said section. It is proposed to amend sub-section (1D) of the aforesaid section to provide that before making an assessment under sub-section (3) of section 143, a return shall be processed under sub-section (1) of section 143.

The amendment will take effect from the April 1, 2017.

• **Rationalisation of time limit for assessment, reassessment and recomputation**

Section 153 is proposed to be substituted with the following changes in time limit from the existing time limits -

» The period, for completion of assessment under section 143 or section 144 to be changed from existing two years to twenty-one months from the end of the assessment year in which the income was first assessable;

» The period for completion of assessment under section 147 be changed from existing one year to nine months from the end of the financial year in which the notice under section 148 was served;

» The period for completion of fresh assessment in pursuance of an order under section 254 or section 263 or section 264, setting aside or cancelling an assessment be changed from existing one year to nine months from the end of the financial year in which the order under section 254 is received by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner, or the order under section 263 or section 264 is passed by the Principal Commissioner or Commissioner.

It is further proposed to provide that the period for giving effect to an order, under sections 250 or 254 or 260 or 262 or 263 or 264 or an order of the Settlement Commission under sub-section (4) of section 245D, where effect can be given wholly or partly otherwise than by making a fresh assessment or reassessment shall be three months from the end of the month in which order is received or passed, as the case may be, by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner. It is also proposed that in a case where it is not possible for the Assessing Officer to give effect to such order within the aforesaid period, for reasons beyond his control, the Principal Commissioner or Commissioner on receipt of such reasons in writing from the Assessing Officer, if satisfied, may allow additional time of six months to give effect to the said order. However, in respect of cases pending as on June 1, 2016, the time limit for passing such order is proposed to be extended to March 31, 2017.

It is also proposed that where the assessment, reassessment or recomputation is made on the assessee or any person in consequence of or to give effect to any finding or direction contained in an order under section 250, 254, 260, 262, 263, or section 264 or in an order of any court in a proceeding otherwise than by way of appeal or reference under the Income-tax Act, then such assessment, reassessment or recomputation shall be made on or before the expiry of twelve months from the end of the month in which such order is received by the Principal Commissioner or Commissioner. However, for cases pending as on June 1, 2016, the time limit for taking requisite action is proposed to be March 31, 2017 or twelve months from the end of the month in which such order is received, whichever is later.
It is also proposed that where an assessment is made on a partner of the firm in consequence of an assessment made on the firm under section 147, such assessment be made on or before the expiry of twelve months from the end of the month in which the assessment order in the case of the firm is passed. However, for cases pending as on June 1, 2016, the time limit for taking requisite action is proposed to be March 31, 2017 or twelve months from the end of the month in which order in case of firm is passed, whichever is later.

It is also proposed to make consequential changes in time limit for completion of assessment or reassessment by the Assessing Officer in accordance with the extension of time limit provided to the Transfer Pricing Officer in certain cases by amendment in sub-section (3A) to section 92CA.

These amendments will take effect from June 1, 2016.

- **Rationalisation of time limit for assessment in search cases**

  It is proposed to amend the time limit for completion of assessments made under section 153A or section 153C cases to bring it in sync with the new time limits provided for other cases. In order to simplify the provisions of existing section 153B by retaining only those provisions that are relevant to the current provisions of the Act, section 153B is proposed to be substituted with the following changes in time limit from the existing time limits as under -

  » The limitation for completion of assessment under section 153A, in respect of each assessment year falling within six assessment years referred to in clause (b) of sub-section (1) of section 153A and in respect of the assessment year relevant to the previous year in which search is conducted under section 132 or requisition is made under section 132A be changed from existing two years to twenty-one months from the end of the financial year in which the last of the authorisations for search under section 132 or for requisition under section 132A was executed.

  » The limitation for completion of assessment in case of other person referred to in section 153C shall be changed from existing two years to twenty-one months from the end of the financial year in which the last of the authorisation for search under Section 132 or requisition under section 132A was executed or nine months (changed from the existing one year) from the end of the financial year in which the books of account or documents or assets seized or requisition are handed over under section 153C to the Assessing Officer having jurisdiction over such other person, whichever is later.

  The amendment will take effect from June 1, 2016.

- **Rationalisation of advance tax payment schedule under section 211 and charging of interest under section 234C**

  It is proposed to rationalise the schedule for advance tax payment and prescribe the same advance tax schedule for all assessees other than an eligible assessee in respect of eligible business as referred to in section 44AD.

  It is further proposed that an eligible assessee 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 March 15 of the financial year.

  Consequential amendments are also proposed to be made to section 234C which provides for chargeability of interest for deferment of advance tax to bring it in sync with the amendments proposed in section 211. It is also proposed that interest under section 234C shall not be chargeable in case of an assessee having income under the head “Profits and gains of business or profession” for the first time, subject to fulfillment of conditions specified therein.
These amendments will take effect from June 1, 2016.

- **Payment of interest on refund**

  In order to ensure filing of return within the due date it is proposed to amend section 244A to provide that in cases where the return is filed after the due date, the period for grant of interest on refund may begin from the date of filing of return.

  It is further proposed to provide that an assessee shall be eligible to interest on refund of self-assessment tax for the period beginning from the date of payment of tax or filing of return, whichever is later, to the date on which the refund is granted. For the purpose of determining the order of adjustment of payments received against the taxes due, the prepaid taxes i.e. the TDS, TCS and advance tax shall be adjusted first.

  It is also proposed to provide that where a refund arises out of appeal against the directions of DRP under sub-section (2A) of the section 253 (as it stood before the amendment of the Finance Act, 2016), no fee shall be payable. This amendment will take effect retrospectively from July 1, 2012.

  It is proposed to amend sub-section (2) of section 254 to provide that the Appellate Tribunal may rectify any mistake apparent from the record in its order at any time within six months from the end of the month in which the order was passed. It is proposed to amend the said sub-section (3) so as to provide that a single member bench may dispose of a case where the total income as computed by the Assessing Officer does not exceed INR 5 million. These amendments will take effect from June 1, 2016.

- **Rationalisation of penalty provisions**

  It is proposed that section 271 shall not apply to and in relation to any assessment for the assessment year commencing on or after the April 1, 2017 and subsequent assessment years and penalty be levied under the newly inserted section 270A with effect from April 1, 2017 which provides for levy of penalty in cases of under reporting and misreporting of income.

  Sub-section (1) of the proposed new section 270A seeks to provide that the Assessing Officer, Commissioner (Appeals) or the Principal Commissioner or Commissioner may levy penalty if a person has under reported his income. It is proposed that a person shall be considered to have under reported his income if:

  - The income assessed is greater than the income determined in the return processed under clause (a) of sub-section (1) of section 143;
  - The income assessed is greater than the maximum amount not chargeable to tax, where no return of income has been furnished;
The income reassessed is greater than the income assessed or reassessed immediately before such re-assessment;

The amount of deemed total income assessed or reassessed as per the provisions of section 115JB or 115JC, as the case may be, is greater than the deemed total income determined in the return processed under clause (a) of sub-section (1) of section 143;

The amount of deemed total income assessed as per the provisions of section 115JB or 115JC is greater than the maximum amount not chargeable to tax, where no return of income has been filed;

The income assessed or reassessed has the effect of reducing the loss or converting such loss into income.

The amount of under-reported income is proposed to be calculated based on the different scenarios.

It is also proposed that the under-reported income under this section shall not include the following cases:

Where the assessee offers an explanation and the income-tax authority is satisfied that the explanation is bona fide and all the material facts have been disclosed;

Where such under-reported income is determined on the basis of an estimate, if the accounts are correct and complete but the method employed is such that the income cannot properly be deducted therefrom;

Where the assessee has, on his own, estimated a lower amount of addition or disallowance on the issue and has included such amount in the computation of his income and disclosed all the facts material to the addition or disallowance;

Where the assessee had maintained information and documents as prescribed under section 92D, declared the international transaction under Chapter X and disclosed all the material facts relating to the transaction;

Where the undisclosed income is on account of a search operation and penalty is leviable under section 271AAB.

It is proposed that the rate of penalty shall be 50% of the tax payable on under-reported income. However in a case where under reporting of income results from misreporting of income by the assessee, the person shall be liable for penalty at the rate of 200% of the tax payable on such misreported income.

The cases of misreporting of income have been specified as under:

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 under Chapter X.
It is also proposed that in case of company, firm or local authority, the tax payable on under-reported income shall be calculated as if the under-reported income is the total income. In any other case the tax payable shall be 30% of the under-reported income. It is also proposed that no addition or disallowance of an amount shall form the basis for imposition of penalty, if such addition or disallowance has formed the basis of imposition of penalty in the case of the person for the same or any other assessment year.

These amendments will take effect from April 1, 2017.

- **Amendment of section 271AAB**

Existing provision of clause (c) of sub-section (1) of section 271AAB provides that in a case not covered under the provisions of clauses (a) and (b) of the said sub-section of section 271 AAB, a penalty of a sum which shall not be less than 30% but which shall not exceed 90% of the undisclosed income of the specified previous year shall be levied in case where search has been initiated under section 132 on or after the July 1, 2012. In order to rationalise the rate of penalty and to reduce discretion it is proposed to amend that clause (c) of sub-section (1) of section 271AAB to provide for levy of penalty on such undisclosed income at a flat rate of 60% of such income.

- **Amendment of Section 272A**

It is proposed to amend sub-section (1) of section 272A to further include levy of penalty of INR 10,000 for each default or failure to comply with a notice issued under sub-section (1) of section 142 or sub-section (2) of section 143 or failure to comply with a direction issued under sub-section (2A) of section 142.

It is further proposed to amend sub-section (3) of section 272A to provide that penalty in case of failure referred above shall be levied by the income tax authority issuing such notice or direction.

It is also proposed to make consequential amendment to section 288 by insertion of a new clause (d) in sub-section (1) of section 272A in the Income-tax Act relating to penalty for failure to comply with the notices and directions specified therein.

These amendments will take effect from the April 1, 2017.

- **Provision for bank guarantee under section 281B**

Under the existing provisions of section 281B the Assessing Officer may provisionally attach any property of the assessee during the pendency of assessment or reassessment proceedings, for a period of six months with the prior approval of the income-tax authorities specified therein, if he is of the opinion that it is necessary to do so for the purpose of protecting the interests of the revenue. Such attachment of property is extendable to a maximum period of two years or sixty days after the date of assessment order, whichever is later.

It is proposed that the Assessing Officer shall revoke provisional attachment of property made under sub-section (1) of the aforesaid section in a case where the assessee furnishes a bank guarantee from a scheduled
bank, for an amount not less than the fair market value of such provisionally attached property or for an amount which is sufficient to protect the interests of the revenue.

It is proposed to provide that an order revoking the attachment be made by the Assessing Officer within fifteen days of receipt of such guarantee, and in a case where a reference is made to the Valuation Officer, within forty-five days from the date of receipt of such guarantee.

It is further proposed that where a notice of demand specifying a sum payable is served upon the assessee and the assessee fails to pay such sum within the time specified in the notice, the Assessing Officer may invoke the bank guarantee, wholly or partly, to recover the said amount.

In a case where the assessee fails to renew the bank guarantee or fails to furnish a new guarantee from a scheduled bank for an equal amount fifteen days before the expiry of such guarantee, the Assessing Officer may invoke the bank guarantee. The amount realised by invoking the bank guarantee shall be adjusted against the existing demand which is payable and the balance amount, if any, be deposited in the Personal Deposit Account of the Principal Commissioner or Commissioner in the branch of Reserve Bank of India or the State Bank of India or of its subsidiaries or an bank as may be appointed by the Reserve Bank of India as its agent under the provisions of sub-section (1) of section 45 of the Reserve Bank of India Act, 1934 at the place where the office of the Principal Commissioner or Commissioner is situated.

It is proposed that in a case where the Assessing Officer is satisfied that the bank guarantee is not required anymore to protect the interests of the revenue, he shall release that guarantee forthwith.

These amendments will take effect from June 1, 2016.

• **Assumption of jurisdiction of Assessing Officer**

It is proposed to amend sub-section (3) of section 124 to specifically provide that cases where search is initiated under section 132 or books of accounts, other documents or any assets are requisitioned under section 132A, no person shall be entitled to call into question the jurisdiction of an Assessing Officer after the expiry of one month from the date on which he was served with a notice under sub-section (1) of section 153A or sub-section (2) of section 153C or after the completion of the assessment, whichever is earlier.

This amendment will take effect from June 1, 2016.

• **Legislative framework to enable and expand the scope of electronic processing of information**

It is proposed to amend section 133C to provide adequate legislative backing for processing of information and documents so obtained and making the outcome thereof available to the Assessing Officer for necessary action, if any. It is also proposed to amend Explanation 2 to section 147 to provide for reopening of cases by the Assessing Officer on the basis of the information so received.

It is proposed to expand the scope of adjustments that can be made at the time of processing of returns under sub-section (1) of section 143. It is proposed that such adjustments can be made based on the data available with the Department in the form of audit report filed by the assessee, returns of earlier years of the assessee, 26AS statement, Form 16, and Form 16A. However, before making any such adjustments, in the interest of natural justice, intimation shall be given to the assessee either in writing or through electronic mode requiring him to respond to such adjustments. The response received, if any, will be duly considered before making any adjustment. However, if no response is received within thirty days of issue of such intimation, the processing shall be carried out incorporating the adjustments.

These amendments will take effect from June 1, 2016.
• **Immunity from penalty and prosecution in certain cases by inserting new section 270AA**

It is proposed that the Assessing Officer shall, on fulfilment of the above conditions and after the expiry of period of filing appeal as specified in sub-section (2) of section 249, grant immunity from initiation of penalty and proceeding under section 276C if the penalty proceedings under section 270A has not been initiated on account of the following, namely —

  » Misrepresentation or suppression of facts;
  » Failure to record investments in the books of account;
  » Claim of expenditure not substantiated by any evidence;
  » Recording of any false entry in the books of account;
  » Failure to record any receipt in books of account having a bearing on total income; or
  » Failure to report any international transaction or any transaction deemed to be an international transaction or any specified domestic transaction to which the provisions of Chapter X apply.

It is proposed that the Assessing Officer shall pass an order accepting or rejecting such application within a period of one month from the end of the month in which such application is received. However, in the interest of natural justice, no order rejecting the application shall be passed by the Assessing Officer unless the assessee has been given an opportunity of being heard. It is proposed that order of Assessing Officer under the said section shall be final. It is proposed that no appeal under section 246A or an application for revision under section 264 shall be admissible against the order of assessment or reassessment referred to in clause (a) of sub-section (1), in a case where an order under section 270AA has been made accepting the application.

It is proposed to provide that in a case where the assessee makes an application under section 270AA of the Income-tax Act seeking immunity from penalty and prosecution, then, the period beginning from the date on which such application is made to the date on which the order rejecting the application is served on the assessee shall be excluded for calculation of the aforesaid thirty days period. The proposed amendment is consequential to the insertion of section 270AA.

These amendments will take effect from the April 1, 2017.

**MISCELLANEOUS PROVISIONS**

• **Exemption of Central Government subsidy or grant or cash assistance, etc. towards corpus of fund established for specific purposes from the definition of income**

It is proposed to amend section 2(24) to provide that subsidy or grant by the Central Government for the purpose of the corpus of a trust or institution established by the Central Government or State government shall not form part of income.

This amendment will take effect from April 1, 2017.

• **Extension of scope of section 43B to include certain payments made to Railways**

With a view to ensure the prompt payment of dues to Railways for use of the Railway assets, it is proposed to amend section 43B so as to expand its scope to include payments made to Indian Railways for use of Railway assets within its ambit.

This amendment will take effect from April 1, 2017.

• **Clarification regarding set off losses against deemed undisclosed income**

It is proposed to amend the provisions of the sub-section (2) of section 115BBE to expressly provide that no set off of any loss shall be allowable in respect of income under the sections 68 or section 69 or section 69A or section 69B or section 69C or section 69D.

This amendment will take effect from April 1, 2017.
Indirect Tax Proposals
GOODS AND SERVICE TAX

The Government shall endeavour to continue with the ongoing reform programme and ensure the passage of the Constitutional amendments to enable the implementation of the Goods and Service Tax in India.

CENTRAL SALES TAX

Section 3 of the CST Act provides when is a sale or purchase of goods said to take place in the course of inter-state trade or commerce. Section 3 has been amended so as to insert the following explanation:

“Where the gas sold or purchased and transported through a common carrier pipeline or any other common transport distribution systems 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”.

CUSTOMS

1 Rate of BCD remains at 10 percent

2 AMENDMENTS IN THE FIRST SCHEDULE TO THE CUSTOMS TARIFF ACT, 1975 - The amendments involving increase in the duty rates will come into effect immediately.

AMENDMENTS AFFECTING RATES OF DUTY

<table>
<thead>
<tr>
<th>Goods</th>
<th>BCD From</th>
<th>BCD To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Articles of rubber</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Natural latex rubber made balloons falling under specified headings</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Metals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary aluminium</td>
<td>5%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Zinc alloys</td>
<td>5%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Jewellery</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imitation jewellery</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>Renewable Energy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial solar water heater</td>
<td>7.5%</td>
<td>10%</td>
</tr>
<tr>
<td>Capital goods and parts thereof</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase the tariff rate of BCD for 211 specified tariff lines in Chapters 84, 85 and 90</td>
<td>7.5%</td>
<td>10%</td>
</tr>
<tr>
<td>a) The effective rates for 96 specified tariff lines will increase</td>
<td>7.5%</td>
<td>10%</td>
</tr>
<tr>
<td>b) The effective rate for the remaining tariff lines will be maintained</td>
<td>7.5%</td>
<td>7.5%</td>
</tr>
</tbody>
</table>
### OTHER PROPOSALS INVOLVING CHANGES IN BCD, CVD, SAD AND EXPORT DUTY RATES

<table>
<thead>
<tr>
<th>Goods</th>
<th>BCD/CVD/SAD/ExportDuty</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>From</td>
</tr>
<tr>
<td><strong>Export duty</strong></td>
<td></td>
</tr>
<tr>
<td>Ores and concentrates</td>
<td></td>
</tr>
<tr>
<td>Iron ore fines with Fe content below 58%</td>
<td>10%</td>
</tr>
<tr>
<td>Iron ore lumps with Fe content below 58%</td>
<td>30%</td>
</tr>
<tr>
<td>Chromium ores and concentrates, all sorts</td>
<td>30%</td>
</tr>
<tr>
<td>Bauxite (natural), not calcined or calcined</td>
<td></td>
</tr>
<tr>
<td><strong>Basic Customs Duty</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>20%</td>
</tr>
<tr>
<td><strong>Food Processing</strong></td>
<td></td>
</tr>
<tr>
<td>Cashew nuts in shell</td>
<td>Nil</td>
</tr>
<tr>
<td>Cold chain including pre-cooling unit, packhouses, sorting and grading lines and ripening chambers</td>
<td>10%</td>
</tr>
<tr>
<td>Refrigerated containers</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Mineral fuels and Mineral oils</strong></td>
<td></td>
</tr>
<tr>
<td>Coal; briquettes, ovoids and similar solid fuels manufactured from coal</td>
<td>2.5% / 10%</td>
</tr>
<tr>
<td>Lignite, whether or not agglomerated, excluding jet</td>
<td>10%</td>
</tr>
<tr>
<td>Peat (including peat litter), whether or not agglomerated</td>
<td>10%</td>
</tr>
<tr>
<td>Coke and semi-coke of coal, of lignite or of peat, whether or not agglomerated; retort carbon</td>
<td>5% / 10%</td>
</tr>
<tr>
<td>Coal gas, water gas, producer gas and similar gases, other than petroleum gases and other gaseous hydrocarbons</td>
<td>10%</td>
</tr>
<tr>
<td>Tar distilled from coal, from lignite or from peat and other mineral tars, whether or not dehydrated or partially distilled, including reconstituted tars</td>
<td>10%</td>
</tr>
<tr>
<td>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</td>
<td>2.5% / 5% / 5%</td>
</tr>
<tr>
<td>Pitch and pitch coke, obtained from coal tar or from other mineral tars</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Petroleum exploration and production</strong></td>
<td></td>
</tr>
<tr>
<td>Goods required for exploration &amp; production of hydrocarbon activities undertaken under Petroleum Exploration Licenses (PEL) or Mining Leases (ML) issued or renewed before 1st April 1999</td>
<td>Applicable BCD and CVD</td>
</tr>
<tr>
<td><strong>Chemicals &amp; Petrochemicals</strong></td>
<td></td>
</tr>
<tr>
<td>All acyclic hydrocarbons and all cyclic hydrocarbons [other than para-xylene which attracts Nil BCD and styrene which attracts 2% BCD]</td>
<td>5% / 2.5%</td>
</tr>
<tr>
<td>Denatured ethyl alcohol (Ethanol) subject to actual user condition</td>
<td>5%</td>
</tr>
<tr>
<td>Orthoxylene for the manufacture of phthalic anhydride subject to actual user condition</td>
<td>SAD – 4%</td>
</tr>
</tbody>
</table>
Electrolysers, membranes and their parts required by caustic soda / potash unit using membrane cell technology | 2.5% | SAD - 2%

**Paper, Paperboard and newsprint**
- Wood in chips or particles for manufacture of paper, paperboard and news print | 5% | Nil
- Plans, drawings and designs | Nil | 5%

**Textiles**
- Specified fibres and yarns | 5% | 2.5%
- 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. The entitlement for the month of March 2016 shall be one twelfth of one per cent. of the FOB value of exports in the financial year 2014-15.

**Electronics / Hardware**
- Polypropylene granules / resins for the manufacture of capacitor grade plastic films | 7.5% | Nil
- E-Readers | Nil | 7.5%
- Parts of E-readers | Applicable BCD | 5%
- Magnetron of capacity of 1 KW to 1.5 KW for use in manufacture of domestic microwave ovens subject to actual user condition. | 10% | Nil
- Machinery, electrical equipment and instrument and parts thereof (except populated PCBs) for semiconductor wafer fabrication / LCD fabrication units | Applicable BCD | Nil BCD
- 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 BCD
- The exemption from basic customs duty, CV duty, SAD on charger / adapter, battery and wired headsets / speakers for manufacture of mobile phone being withdrawn | BCD-Nil CVD - Nil SAD | Applicable BCD, CVD SAD
- 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 SAD
- 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 SAD
- 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
To exclude 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 Packet Optical Transport Product/Switch (POTP/POTS), Optical Transport Network (OTN) products, and IP Radios, Carrier Ethernet Switch, Packet Transport Node (PTN) products, Multiprotocol Label Switching-Transport Profile (MPLS-TP) products, Multiple Input / Multiple Output (MIMO) and Long Term Evolution (LTE) Products on which 10% BCD was imposed in 2014-15 Budget being non-ITA | bound] from the purview of the other exemption.

<table>
<thead>
<tr>
<th>Description</th>
<th>BCD</th>
<th>SAD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preform of silica for manufacture of telecom grade optical fibre/cables</td>
<td>Nil</td>
<td>10%</td>
</tr>
<tr>
<td>Specified capital goods and inputs for use in manufacture of Micro fuses, Subminiature fuses, Resettable fuses, and Thermal fuses</td>
<td>Applicable BCD</td>
<td>Nil</td>
</tr>
<tr>
<td>Neodymium Magnet (before Magnetization) and Magnet Resin (Strontium Ferrite compound/before formed, before magnetization) for manufacture of BLDC motors, subject to actual user condition</td>
<td>Applicable BCD</td>
<td>2.5%</td>
</tr>
<tr>
<td>Populated PCBs for manufacture of personal computers (laptop or desktop)</td>
<td>Nil SAD</td>
<td>4% SAD</td>
</tr>
<tr>
<td>Populated PCBs for manufacture of mobile phone/tablet computer</td>
<td>Nil SAD</td>
<td>2% SAD</td>
</tr>
</tbody>
</table>

**Metals, glass and ceramics**

<table>
<thead>
<tr>
<th>Description</th>
<th>BCD</th>
<th>SAD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Silica sand</td>
<td>5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Brass scrap</td>
<td>5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Other aluminium products</td>
<td>7.5%</td>
<td>10%</td>
</tr>
</tbody>
</table>

**Jewellery**

<table>
<thead>
<tr>
<th>Description</th>
<th>BCD</th>
<th>SAD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold dore bars.</td>
<td>8% CVD</td>
<td>8.75% CVD</td>
</tr>
<tr>
<td>Silver dore.</td>
<td>7% CVD</td>
<td>7.75% CVD</td>
</tr>
</tbody>
</table>

**Automobiles**

<table>
<thead>
<tr>
<th>Description</th>
<th>BCD</th>
<th>SAD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Golf cars</td>
<td>10%</td>
<td>60%</td>
</tr>
<tr>
<td>Specified parts of electric and hybrid vehicles</td>
<td>BCD-Nil CVD - 6%</td>
<td>BCD-Nil CVD - 6%</td>
</tr>
<tr>
<td></td>
<td>Upto 31.03.2016</td>
<td>Without time limit</td>
</tr>
<tr>
<td>Aluminium Oxide for use in the manufacture of Wash Coat, which is used in the manufacture of catalytic converters, subject to actual user condition</td>
<td>7.5%</td>
<td>5%</td>
</tr>
<tr>
<td>Engine for xEV (hybrid electric vehicle)</td>
<td>Applicable BCD and CVD</td>
<td>Nil BCD</td>
</tr>
</tbody>
</table>

**Capital Goods**

<table>
<thead>
<tr>
<th>Description</th>
<th>BCD</th>
<th>SAD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specified machinery required for construction of roads</td>
<td>CVD - Nil</td>
<td>CVD - 12.5%</td>
</tr>
</tbody>
</table>

**Defence Production**
<table>
<thead>
<tr>
<th>Description</th>
<th>Basic Customs Duty (BCD)</th>
<th>CVD</th>
<th>SAD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct imports of specified goods by Government of India or State Governments, with effect from 01.4.2016</td>
<td>Nil</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Imports of specified goods for defence purposes by contractors of the Government of India, PSUs or sub-contractors of PSUs, with effect from 01.4.2016</td>
<td>Nil</td>
<td>Applicable CVD and SAD</td>
<td>Applicable BCD, CVD and SAD</td>
</tr>
</tbody>
</table>

**Maintenance, repair and overhaul [MRO] of aircrafts**

<table>
<thead>
<tr>
<th>Description</th>
<th>BCD</th>
<th>CVD</th>
<th>SAD</th>
</tr>
</thead>
<tbody>
<tr>
<td>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</td>
<td>Nil BCD Nil CVD Nil SAD</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Ship Repair Units**

<table>
<thead>
<tr>
<th>Description</th>
<th>Nil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital goods and spare thereof, raw materials, parts, material handling equipment and consumable for repairs of ocean-going vessels by a ship repair unit subject to actual user condition.</td>
<td>Applicable excise duty</td>
</tr>
</tbody>
</table>

**Miscellaneous**

<table>
<thead>
<tr>
<th>Description</th>
<th>BCD</th>
<th>CVD</th>
<th>SAD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Braille paper</td>
<td>10%</td>
<td>Nil</td>
<td></td>
</tr>
<tr>
<td>Disposable sterilized dialyzer and micro barrier of artificial kidney</td>
<td>Applicable BCD, CVD, SAD</td>
<td>Nil BCD Nil CVD Nil SAD</td>
<td></td>
</tr>
<tr>
<td>Solar tempered glass / solar tempered (anti-reflective coated) glass, subject to actual user condition</td>
<td>Nil</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Medical Use Fission Molybdenum-99 imported by Board of Radiation and Isotope Technology (BRIT) for manufacture of radio pharmaceuticals</td>
<td>7.5%</td>
<td>Nil</td>
<td></td>
</tr>
<tr>
<td>Pulp of wood for manufacture of sanitary pads, napkins &amp; tampons</td>
<td>5%</td>
<td>2.5%</td>
<td></td>
</tr>
<tr>
<td>Super Absorbent Polymer when used for the manufacture of sanitary pads, napkins &amp; tampons</td>
<td>7.5%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Merge the exemptions from customs duties on specified goods imported for petroleum exploration under various types of licenses or mining leases, pre-NELP contracts, NELP contracts, Marginal Fields Policy and the Coal Bed Methane Policy into a single exemption with a unified list of specified goods and conditions</td>
<td>Nil BCD Nil CVD Nil SAD</td>
<td>Nil BCD Nil CVD Nil SAD</td>
<td></td>
</tr>
</tbody>
</table>
Specified goods required for exploration & production of hydrocarbon activities undertaken under Petroleum Exploration Licenses (PEL) or Mining Leases (ML) issued or renewed before 1st April 1999

<table>
<thead>
<tr>
<th>Applicable</th>
<th>Nil BCD Nil CVD Nil SAD</th>
</tr>
</thead>
</table>

Prescribe actual user condition for the imports of Phosphoric Acid and Anhydrous Ammonia at concessional BCD/CVD for manufacture of Fertilizers

- -

Prescribe actual user condition for imports of LCD/LED/OLED Panels imported at Nil BCD for manufacture of LCD/LED/OLED TVs

- -

“Foreign Satellite data” on storage media when imported by National Remote Sensing Centre (NRSC), Hyderabad

| Applicable | Nil BCD Nil CVD Nil SAD |

Further in case of power generation project based on municipal and urban waste, valid agreement between producer of power with urban local body for processing of municipal solid waste for not less than ten years from the date of commissioning of project has been prescribed for availing customs and excise duty concessions as an alternative to the existing condition of “production of valid power purchase agreement between the importer/producer of power and the purchaser, for the sale and purchase of electricity generated using non-conventional materials”.

**LEGISLATIVE CHANGES IN THE CUSTOMS ACT 1962**

Some of the key legislative changes are as under:

* The definition of the term ‘warehouse’ under Section 2(43) of the Act has been amended so as to add a new class of warehouses for enabling storage of specific goods under physical control of the department, as control over the other types of warehouses would be only record based.

* Section 9 of the Act providing the power to declare places to be a warehousing station has been omitted.

* Section 28 of the Customs Act has been reworded as ‘Recovery of duties not levied or not paid or short levied or short paid or erroneously refunded’. Further Sections 28, 47, 51 and 156 have been amended to:
  
  » increase the period of limitation from one year to two years in cases not involving fraud, suppression of facts, willful mis-statement, etc.
  
  » provide for deferred payment of customs duties for importers and exporters to certain class of importers and exporters.

* Section 53 amended in order to enable the CBEC to frame regulations for allowing transit of certain goods and conveyance without payment of duty.

* Sections 57 and 58 amended to provide for licensing of public and private warehouses by the Principal Commissioner or Commissioner, in place of Deputy/Assistant Commissioner, subject to such conditions as may be prescribed. Further Section 58A has been introduced to provide for a new class of warehouses which require continued physical control and will be licensed for storing goods, as may be specified. In addition section 58B has been inserted so as to regulate the process of cancellation of licences which is a necessary concomitant of licencing.

* Section 59 governing warehousing bonds submitted by importers availing duty deferred
warehousing has been substituted so as to fix the bond amount at thrice the duty involved and to furnish security as prescribed.

* Section 60 has been substituted to define the date of removal of goods from a customs station and deposit thereof in a warehouse.

* Sections 61 has been substituted to extend the period of warehousing to all goods used by Export Oriented Undertakings, Units under Electronic Hardware Technology Parks, Software Technology Parks, Ship Building Yards and other units manufacturing under bond; empower Principal Commissioners and Commissioners to extend the warehousing period upto one year at a time.

* Section 62 has been omitted since relating to physical control over warehoused goods is being omitted since the conditions for licensing different categories of warehouses and exercising control over the same are being provided under sections 57, 58 and 58A.

* Section 63 relating to payment of rent and warehouse charges has been omitted in view of the privatization of services, and free market determination of rates, including those by facilities in the public sector.

* Section 73A has been inserted so as to provide for custody of warehoused goods and responsibilities including the liabilities of warehouse keepers.

* The existing Customs (Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 1996 have been substituted with the Customs (Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 2016 with a view to simplify and rationalize multiple slabs of duty free allowance for various categories of passengers.

* The Customs Baggage Declaration Regulations, 2013 is being amended so as to prescribe filing of Customs declaration only for those passengers who carry dutiable or prohibited goods.

* Interest rates on delayed payment of Customs duty under section 28AA have been rationalized at 15%.

* Highlighting Government’s priority reducing litigation, an Indirect tax Dispute Resolution Scheme, 2016, has been introduced whereby in respect of cases pending before Commissioner (Appeals), the assessee, after paying the duty, interest and penalty equivalent to 25% of penalty imposed, can file a declaration which would enable the proceedings against the assessee being closed and the assessee would also get immunity from prosecution.

* Duty drawback has been widened to include products and countries under the Act.

**MISCELLANEOUS PROVISIONS**

* It has been clarified that as the imports under notification No.51/96-Customs, dated 23 July 1996 are ab initio exempt from SAD, there is no requirement to make a provision for refund of SAD in notification No.102/2007-Customs dated 14 September 2007.
It has been clarified that a project which is listed in List 32A of S. No. 507 of Notification No. 12/2012-Customs, which exempts goods for such project from BCD and CVD, as a corollary, will also be exempted from Excise duty under S.No. 336 of Notification No. 12/2012-CE subject to following conditions:

» if said project has been awarded based on International Competitive Bidding (ICB); and

» the conditions mentioned in S. No. 507 of Notification No 12/2012-Customs are fulfilled,

even if such power project is included in List 10 [S. No 337] or List 11 [S. No 338] of notification No 12/2012-CE.

It has been clarified that aircraft engines and parts thereof are eligible for customs duty exemption under S.No. 448 and 456 of notification No. 12/2012-Customs dated 17 March 2012, subject to fulfilment of conditions mentioned therein.

## EXCISE DUTY

### CHANGES IN RATES

* Standard ad valorem rate of duty of excise remains unchanged at 12.5%

* Changes in rate of Excise duty on some key items are set below:

<table>
<thead>
<tr>
<th>Items</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured</td>
<td>18%</td>
<td>21%</td>
</tr>
<tr>
<td><strong>Tobacco and Tobacco Products</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cigar and cheroots</td>
<td>12.5% or</td>
<td>12.5% or</td>
</tr>
<tr>
<td></td>
<td>Rs.3375 per thousand, whichever is higher</td>
<td>Rs.3755 per thousand, whichever is higher</td>
</tr>
<tr>
<td>Cigarillos</td>
<td>12.5% or</td>
<td>12.5% or</td>
</tr>
<tr>
<td></td>
<td>Rs.3375 per thousand, whichever is higher</td>
<td>Rs.3755 per thousand, whichever is higher</td>
</tr>
<tr>
<td>Cigarettes of tobacco substitutes</td>
<td>Rs.3375 per thousand</td>
<td>Rs.3755 per thousand</td>
</tr>
<tr>
<td>Cigarillos of tobacco substitutes</td>
<td>12.5% or</td>
<td>12.5% or</td>
</tr>
<tr>
<td></td>
<td>Rs.3375 per thousand, whichever is higher</td>
<td>Rs.3755 per thousand, whichever is higher</td>
</tr>
</tbody>
</table>
### Others of tobacco substitutes

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gutkha, chewing tobacco (including filter khaini) and jarda scented tobacco</td>
<td>12.5% or Rs.3375 per thousand, whichever is higher</td>
<td>12.5% or Rs.3755 per thousand, whichever is higher</td>
</tr>
<tr>
<td>Unmanufactured tobacco</td>
<td>70%</td>
<td>81%</td>
</tr>
<tr>
<td>Paper rolled biris [whether handmade or machine made] and other biris [other than handmade biris]</td>
<td>Rs.30 per thousand</td>
<td>Rs.80 per thousand</td>
</tr>
</tbody>
</table>

However, the effective rate of basic excise duty of Rs.21 per thousand shall remain unchanged.

### Refrigerated containers

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>12.5%</td>
<td>6%</td>
</tr>
</tbody>
</table>

### Fertilizers

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micronutrients which are 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</td>
<td>12.5%</td>
<td>6%</td>
</tr>
<tr>
<td>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</td>
<td>1% [without CENVAT credit] or 6% [with CENVAT credit]</td>
<td>Nil</td>
</tr>
</tbody>
</table>

### Textiles

<table>
<thead>
<tr>
<th>Description</th>
<th>30% of retail sale price</th>
<th>60% of retail sale price</th>
</tr>
</thead>
<tbody>
<tr>
<td>To increase Tariff Value of readymade garments and made up articles of textiles</td>
<td>Nil [without CENVAT credit] or 6%/12.5% [with CENVAT credit]</td>
<td>2% [without CENVAT credit] or 12.5% [with CENVAT credit]</td>
</tr>
<tr>
<td>Branded readymade garments and made up articles of textiles of retail sale price of Rs.1000 or more</td>
<td>Nil [without CENVAT credit] or 6%/12.5% [with CENVAT credit]</td>
<td>2% [without CENVAT credit] or 12.5% [with CENVAT credit]</td>
</tr>
<tr>
<td>PSF / PFY, manufactured from plastic scrap or plastic waste including waste PET bottles</td>
<td>2% [without CENVAT credit] or 6% [with CENVAT credit]</td>
<td>2% [without CENVAT credit] or 12.5% [with CENVAT credit]</td>
</tr>
</tbody>
</table>

### Footwear

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rubber sheets &amp; resin rubber sheets for soles and heels</td>
<td>12.5%</td>
<td>6%</td>
</tr>
<tr>
<td>Increase the abatement from retail sale price (RSP) for the purposes of excise duty assessment for all categories of footwear</td>
<td>25%</td>
<td>30%</td>
</tr>
</tbody>
</table>

### Metals
To change excise duty structure on disposable containers made of aluminium foils. 2% [without CENVAT credit] or 6% [with CENVAT credit]

<table>
<thead>
<tr>
<th>Precious metals &amp; Jewellery</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
</tr>
<tr>
<td>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.</td>
</tr>
<tr>
<td>Articles of Jewellery [excluding silver jewellery, other than studded with diamonds or other precious stones namely, ruby, emerald and sapphire] with a higher threshold exemption upto Rs. 6 crore in a year and eligibility limit of Rs.12 crore, along with simplified compliance procedure.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Renewable Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unsaturated Polyester Resin (polyester based infusion resin and hand layup resin), Hardeners/Hardener for adhesive resin, Vinyl Easter 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</td>
</tr>
<tr>
<td>Carbon pultrusion used for manufacture of rotor blades and intermediates, parts and sub-parts of rotor blades for wind operated electricity generators</td>
</tr>
<tr>
<td>Solar lamp</td>
</tr>
<tr>
<td>To prescribe “valid agreement between importer / producer of power with urban local body for processing of municipal solid waste for not less than ten years from the date of commissioning of project” as an alternative to the condition of “production of valid power purchase agreement between the importer/producer of power and the purchaser, for the sale and purchase of electricity generated using non-conventional materials” for availing concessional customs/excise duty benefits in case of power generation project based on municipal and urban waste.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Civil Aviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aviation Turbine Fuel [ATF] other than for supply to Scheduled Commuter Airlines (SCA) from the Regional Connectivity Scheme airports</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Maintenance, repair and overhaul [MRO] of aircrafts</th>
</tr>
</thead>
<tbody>
<tr>
<td>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</td>
</tr>
<tr>
<td>To simplify the procedure for availing of exemption from excise duty on parts, testing equipment, tools and tool-kits for maintenance, repair and overhaul of aircraft based on records</td>
</tr>
</tbody>
</table>
To remove the restriction of one year for utilization of duty free parts for maintenance, repair and overhaul of aircraft

**Electronics & IT hardware**

<table>
<thead>
<tr>
<th>Description</th>
<th>Duty 1</th>
<th>Duty 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charger / adapter, battery and wired headsets / speakers for supply to mobile phone manufacturers as original equipment manufacturer</td>
<td>Nil</td>
<td>2% [without CENVAT credit] or 12.5% [with CENVAT credit]</td>
</tr>
<tr>
<td>Inputs, parts and components, subparts for manufacture of charger / adapter, battery and wired headsets / speakers of mobile phone, subject to actual user condition.</td>
<td>12.5% / Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>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]</td>
<td>12.5%</td>
<td>4% [without CENVAT credit] or 12.5% [with CENVAT credit]</td>
</tr>
<tr>
<td>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]</td>
<td>12.5%</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**Machinery**

<table>
<thead>
<tr>
<th>Description</th>
<th>Duty 1</th>
<th>Duty 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric motor, shafts, sleeve, chamber, impeller, washer required for the manufacture of centrifugal pump</td>
<td>12.5%</td>
<td>6%</td>
</tr>
<tr>
<td>Automobiles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specif ed parts of Electric Vehicles and Hybrid Vehicles</td>
<td>6% Upto 31.03.2016</td>
<td>6% Without time limit</td>
</tr>
<tr>
<td>Engine for xEV (hybrid electric vehicle)</td>
<td>12.5%</td>
<td>6%</td>
</tr>
</tbody>
</table>

**Miscellaneous**

<table>
<thead>
<tr>
<th>Description</th>
<th>Duty 1</th>
<th>Duty 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excise duty on sacks and bags of all plastics is being rationalized at 15%.</td>
<td>12.5%/15%</td>
<td>15%</td>
</tr>
<tr>
<td>Unconditionally exempt improved cook stoves including smokeless chulhas for burning wood, agrowaste, cow dung, briquettes, and coal</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Disposable sterilized dialyzer and micro barrier of artificial kidney</td>
<td>12.5%</td>
<td>Nil</td>
</tr>
<tr>
<td>Ready Mix Concrete manufactured at the site of construction for use in construction work at such site</td>
<td>2% [without CENVAT credit] / 6% [with CENVAT credit]</td>
<td>Nil</td>
</tr>
<tr>
<td>Parts of railway or tramway locomotives or rolling stock and railway or tramway track fixtures and fittings, railway safety or traffic control equipment, etc.</td>
<td>12.5%</td>
<td>6%</td>
</tr>
<tr>
<td>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.</td>
<td>14%</td>
<td>Nil</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Description</th>
<th>From (Rs. Per 1000 sticks)</th>
<th>To (Rs. Per 1000 sticks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clean Energy Cess / Clean Environment Cess</td>
<td>Rs.200 per tonne</td>
<td>Nil</td>
</tr>
</tbody>
</table>

To extend Retail Sale Price [RSP] based assessment of excise duty to:

a) all goods falling under heading 3401 and 3402 [with abatement rate of 30%],

b) aluminium foils of a thickness not exceeding 0.2 mm [with abatement rate of 25%],

c) wrist wearable devices (commonly known as ‘smart watches’) [with abatement rate of 35%],

Capital goods and spares thereof, raw material, parts, material handling equipment and consumables for repairs of ocean going vessels by a ship repair unit, subject to actual user condition

The additional duty of Excise levied under the Seventh Schedule to the Finance Act, 2005 is increased across all lengths of non-fiter and fiter cigarettes as under:

<table>
<thead>
<tr>
<th>Cigarettes</th>
<th>From (Rs. Per 1000 sticks)</th>
<th>To (Rs. Per 1000 sticks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non fiter not exceeding 65 mm</td>
<td>70</td>
<td>215</td>
</tr>
<tr>
<td>Non-fiter exceeding 65 mm but not exceeding 70 mm</td>
<td>110</td>
<td>370</td>
</tr>
<tr>
<td>Filter not exceeding 65 mm</td>
<td>70</td>
<td>215</td>
</tr>
<tr>
<td>Filter exceeding 65 mm but not exceeding 70 mm</td>
<td>70</td>
<td>260</td>
</tr>
<tr>
<td>Filter exceeding 70 mm but not exceeding 75 mm</td>
<td>110</td>
<td>370</td>
</tr>
<tr>
<td>Other</td>
<td>180</td>
<td>560</td>
</tr>
</tbody>
</table>

Other Changes in Rates/ Amendments

* The rate of Oil Industries Development Cess, on domestically produced crude oil, has been reduced from Rs. 4500 PMT to 20% ad valorem - effective from enactment of the finance bill 2016

* The Clean Energy Cess has been renamed as Clean Environment Cess. The Schedule Rate of Clean Energy Cess is being increased from Rs.300 per tonne to Rs.400 per tonne. The ef c tive rate of Clean Energy Cess is being increased from Rs.200 per tonne to Rs.400 per tonne - ef c tive from enactment of the finance bill 2016

* Infrastructure Cess has been levied on motor vehicles under chapter heading 8703, as under:

  » Petrol/LPG/CNG driven motor vehicles of length not exceeding 4m and engine capacity not exceeding 1200cc - 1%

  » Diesel driven motor vehicles of length not exceeding 4m and engine capacity not exceeding 1500cc – 2.5%

  » 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, Motor vehicles which after clearance have been registered for use solely as taxi, Cars for physically handicapped persons and Motor vehicles cleared as ambulances or registered for use solely as ambulance will be exempt from this Cess.

* No credit of this Cess will be available, and credit of no other duty can be utilized for payment of this Infrastructure Cess.

* Interest rates on delayed payment of Excise duty under section 11AA have been rationalized at 15%.

* Highlighting Government’s priority reducing litigation, an Indirect tax Dispute Resolution Scheme, 2016, has been introduced whereby in respect of cases pending before Commissioner (Appeals), the assessee, after paying the duty, interest and penalty equivalent to 25% of penalty imposed, can file a declaration which would enable the proceedings against the assessee being closed and the assessee would also get immunity from prosecution.

* It has been clarified that the area based excise duty exemption presently available to the North Eastern States including Sikkim vide notification No.20/2007-CE dated 25 April 2007 [for which the sunset clause is 31.03.2017] will be available to an existing unit on second substantial expansion as well, provided that the concerned unit commences commercial production from such expanded capacity not later than 31 March 2017.

* It has been clarified that the exemption from excise duty, under notification No.108/95-CE dated 28 August 1995 is also available to subcontractors for manufacture and supply of goods for or on behalf of the main contractor (who has won the contract for the supply of goods to the projects financed by the United Nations or an international organization and approved by the Government of India) for execution of the said project, subject to compliance of other specified conditions, if any.

**POLICY CHANGES**

* Omission of requirement for publishing and offering for sale of notification where a notification comes into force on a date later than the date of its issue.

* Section 5A of the CEA Act amended to omit the requirement of publishing and offering for sale any notification issued, by the Directorate of Publicity and Public Relations of CBEC.

* Period of limitation increased from one year to two years for issuance of SCN, in cases not involving fraud, suppression of facts, willful mis-statement, etc.

* Section 11A of the CEA amended so as to increase the period of limitation from one year to two years in cases not involving fraud, suppression of facts, willful mis-statement, etc.

**AMENDMENT IN CENTRAL EXCISE RULES**

* The Central Excise Rules, 2002 have been amended so as to:

  * reduce the number of returns to be filed by a central excise assessee above a certain threshold from 27 to 13, that is, one annual and 12 monthly returns. Both the Monthly returns and the annual returns would be e-filed.

  * extend the facility for revision of return.
manufacturers also.

* provide that in cases where invoices are digitally signed, the manual attestation of copy of invoice, meant for transporter, is done away with.

* provide that in case of finalization of provisional assessment, the interest will be chargeable from the original date of payment of duty.

* Instructions have been issued to Chief Commissioners of Central Excise to file application to Courts to withdraw prosecution in cases involving duty of less than rupees five lakh and pending for more than fifteen years.

* The existing Central Excise (Removal of Goods at Concessional Rate of Duty for Manufacture of Excisable and Other Goods) Rules, 2001 have been substituted with the Central Excise (Removal of Goods at Concessional Rate of Duty for Manufacture of Excisable and Other Goods) Rules, 2016, so as to simplify the rules, including allowing duty exemptions to importer/manufacturer based on self-declaration instead of obtaining permissions from the Central Excise authorities.

APPENDICES

EFFECTIVE DATES IN GENERAL

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>DATE FROM WHICH CHANGES WILL BE EFFECTIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislative changes in Customs</td>
<td>Date of enactment of the Finance Bill, 2016</td>
</tr>
<tr>
<td>and Excise</td>
<td></td>
</tr>
<tr>
<td>New rates of Customs Duty</td>
<td>Midnight of February 29, 2016/ March 1, 2016</td>
</tr>
<tr>
<td>New rates of Excise Duty</td>
<td>Midnight of February 29, 2016/ March 1, 2016</td>
</tr>
</tbody>
</table>

SERVICE TAX

- **CHANGES IN RATES**
  
  * The general rate of tax of 14 percent remains unchanged
  
  * Enabling provision introduced for imposition of new cess called ‘Krishi Kalyan Cess’ from 1 June 2016, at the rate of 0.5 percent on the value of taxable services
  
  * From the date the Finance Bill, 2016 receives assent of The President, rate of interest for delayed payment of service tax would be revised as follows:
    
    » For service tax collected but not deposited
    
    » Any other case
    
    15 percent
  
  * Effective 1 April 2016, in respect of insurance companies carrying on life insurance business, for specified single premium annuity policies, alternative (composition) rate at 1.4 percent of single premium charged prescribed

PROPOSED EXCLUSIONS FROM THE NEGATIVE LIST

Unless otherwise specified, effective 1 June 2016:

* Specified educational services from the date the Finance Bill, 2016 receives assent of the President

* Service of transportation of passengers by a stage carriage

* Services by way of transportation of goods by an aircraft or a vessel from a place outside India up to the customs station of clearance in India
• **INCLUSION IN DECLARED SERVICES**

Assignment by the Government of right to use radio frequency spectrum and subsequent transfer thereof, from the date the Finance Bill, 2016 receives assent of the President.

• **INCLUSION/ EXCLUSION IN EXEMPTIONS**

  * Exemption Introduced

Unless otherwise specified, effective 1 March 2016:

  * Services provided by IIM to their students by way of the specified educational programmes
  * Construction, installation, repair, maintenance and related services in relation to civil structure/other original works pertaining to-
    » In-site rehabilitation of existing slum dwellers using land as a resources through private participations under the HFAU Mission/PMA Yojana, only for existing slum dwellers
    » Beneficiary-led individual house construction/enhancement under the HFAU Mission/PMA Yojana
  * Construction, erection etc of original works pertaining to low cost houses up to a carpet area of 60 Square meters per house in a approved housing project under specified scheme of Central and State Government
  * Specified educational services provided from the enactment of Finance Bill, 2016
  * Services in relation to information technology software recorded on a media subject to prescribed conditions

Effective from 1 April 2016

  * Legal services provided by a senior advocate to a person other than a person carrying out any activity relating to industry, commerce or any other business or profession

  * Services of assessing bodies empanelled centrally by DGT of Ministry of Skills Development and Entrepreneurship by way of assessment under SDI scheme
  * Services provided by way of skill/vocational training by DDUGK Yojna training partners
  * Services of general insurance business provided under Niramaya Health insurance scheme
  * Service of life insurance business provided by way of annuity under National Pension Scheme regulated by PFRDA
  * Services provided by Employees Provident Fund Organisation to employees
  * Services provided by Insurance Regulatory and Development Authority to insurers
  * Services provided by SEBI by way of protecting the interest of investors in securities and to promote the development and regulate the security market
  * Services provided by National Centre for Cold Chain Development by way of cold chain knowledge dissemination
  * Services provided by BIRAC approved biotechnology incubators to the incubatees

Effective from June 1, 2016

  * Services by way of transportation of goods by an aircraft from a place outside India up to the custom station of clearance in India
  * Transport of passengers by a non air-conditioned stage carriage
• **Exemption Withdrawn**

Unless otherwise specified, effective from 1 April 2016

* Legal Services provided by a senior advocate to an advocate or partnership firm of advocates
* Services provided by a person represented on an arbitral tribunal to an arbitral tribunal
* Effective 1 March 2016, construction, erection etc of original work pertaining to the monorail and metro except where contract were entered prior to 1 March 2016
* Transport of passenger by ropeway, cable car or aerial tramway

• **Restoration of certain Exemption**

Effective 1 March 2016, exemption reintroduced for following services provided in terms of the contract entered prior to 1 March 2015 in a manner prescribed:

* Construction, installation, repair, maintenance and related services provided to the Government or a local/governmental authority, in relation to –
  » Civil structure meant for use of non-commercial/business purposes
  » Structure meant for use as an educational, clinical or an art or cultural establishment
  » Residential complex for self-use or the use of their employees
* Construction, erection, commissioning or installation of original works pertaining to an airport or port

The aforesaid exemptions would be valid till 31 March 2020.

• **Rationalization of Exemptions**

Effective from 1 March 2016

» Threshold exemption limit for services provided by an artist by way of performance in folk or classical art forms of music, dance or theater increased from 1 Lakh to 1.5 lakh

• **POLICY CHANGES**

* **Point of Taxation**
  » Section 67A of the Service Tax Law confers power to POT Rules to make rules regarding point in time of rate of service tax. Provision to be effective from the date the Finance Bill, 2016 receives assent of the President
  » Explanation inserted clarifying applicability of Rule 5 in case of new levy on services
  » New levy or tax payable on all cases other than cases specified under Rule 5
* **Exclusion of services from Reverse Charge Mechanism**

Effective 1 April 2016:

» Services provided by mutual fund agent or distributor to a mutual fund asset management company
  » Legal service provided by a senior advocate to a business entity.

* **Others Procedural Changes**

Effective 1 April 2016

» Benefit of (a) quarterly payment of service tax; and (b) payment of service tax on receipt basis extended to one person Company, whose value of
taxable services in preceding financial year does not exceed 50 Lakhs

» Benefit of quarterly payment of service tax extended to HUF

» Unless otherwise exempted, every assessee required to submit annual return by 30 November of the succeeding financial year, in the prescribed form and manner

» Provision for revision of annual return and penalty for delay in filing of the same introduced

• ABATEMENT

Unless otherwise specified, effective 1 April 2016

* Benefit of credit on input services made available to following services:

  » Transport of goods by rail
  » Transport of goods in containers by rail, other than Indian Railways
  » Transport of passengers by rail
  » Transport of goods in a vessel

* Abatement reduced from 70 percent to 60 percent in relation to transport of goods in containers by rail, other than Indian Railways

* Abatement reduced from 70 percent to 60 percent for GTA services in respect of transportation of used household goods

* Effective 1 June 2016, abatement of 60 percent available in relation to transport of passengers by a stage carriage

* Abatement of 30 percent introduced in respect of services provided by a foreman of chit fund in relation to chit, subject to condition of non-availment of cenvat credit

* Abatement available in relation to package and non-package tour rationalized from 75 percent and 60 percent to 70 percent. Definition of package tour omitted

* Abatement of 90 percent in relation to service of arranging hotel accommodation maintained

* A uniform abatement of 70 percent available in relation to Construction Services irrespective of nature or carpet area or value

* For the purpose of abatement in relation to renting of motorcab, gross amount charged would include fair market value of all goods including fuel and services supplied by the service recipient

• PROPOSED LEGISLATIVE CHANGES

Effective from the date the Finance Bill, 2016 receives assent of the President-

* Point of time with respect to rate of service tax to be determined in terms of POT Rules

* Limitation period for recovery of service tax in bonafide cases extended from 18 months to 30 months

* Higher rate of interest applicable on the amounts collected but not deposited with the Central Government

* Penalty proceedings for offences by director deemed to be concluded in case main demand and penalty proceedings are closed

* Monetary limit for filing complaint for punishable offences increased from 50 Lakh to 200 Lakh

* Power to arrest restricted to a situation where the amount of tax exceeding 200 lakh collected but not deposited by the tax payer

* Provision introduced to allow rebate by way of rules
• RETROSPECTIVE EXEMPTION AND REFUND PROVISION FOR FOLLOWING SERVICES

Effective from the date the Finance Bill, 2016 receives assent of the President-

* Services provided by way of construction, erection, maintenance and related services of canal, dam or other irrigation work provided to the entities set up by the Government during 1 July 2012 to 29 January 2014

* Services provided, during 1 April 2015 to 29 February 2016, to the Government or a local/ Governmental Authority, in terms of the contract entered prior to 1 March 2015 in a manner prescribed, by way of construction, installation, repair, maintenance and related services provided in relation to:

  » Civil structure meant for use of non-commercial/ business purposes

  » Structure meant for use as an educational, clinical or an art or cultural establishment

  » Residential complex for self-use or the use of their employees

Services provided, during the period 1 April 2015 to 29 February 2016, by way of construction, erection, commissioning or installation of original works pertaining to an airport or port.

Refund of service tax allowed on services used beyond the factory or any other place or premises of production or manufacture of the excisable goods, for export of the said goods during 1 July 2012 to 2 February 2016.

CENVAT CREDIT

Effective from 1 April 2016

* Equipment and appliance used in an office located within factory

* Specified goods used outside the factory for pumping water for captive use within the factory

* Definition of input amended to include the following goods:

  » Goods used for pumping of water for captive use even installed outside the factory

  » All capital goods which have a value up to ten thousand rupees per piece

* ISD allowed to distribute credit to an outsourced manufacturing unit. Outsourced manufacturing unit defined.

* Provision of credit reversal made applicable to units availing cenvat credit distributed by ISD and not to the ISD

* Manufacturer allowed to avail Cenvat credit on specified tools and jigs, fixtures, moulds and dies sent by him to another manufacturer or job worker for production of goods as per his specification. The credit to be allowed even in case the said goods are directly sent to another manufacturer/ job worker.

* Validity of order issued by AC/DC of central excise, allowing sending of inputs or partially processed final goods by a manufacturer to job worker and clearance of final goods from job-worker premises, increased from one to three financial years

* Cenvat credit on services provided by Government or any other person by way of assignment of a natural resource and on its further assignment (excluding the user charges) to be allowed in the prescribed manner

* Provision of credit reversal applicable in the case of manufacturer and service provider providing taxable as well as exempted goods/ services redrafted as follows, with the objective of simplification:
Exempted services for the purpose of reversal of Cenvat credit to include an activity which is not a service

Provision related to option of maintaining separate accounts for receipt, consumption/ use of input or input services omitted

Credit reversed, under the option of payment of specified percentage of value of exempted goods/ services, shall be subject to maximum of total credit taken

In case proportionate reversal method is adopted, description of input and input services used exclusively for taxable and exempted goods/ services to be intimated to the Authorities

Under proportionate reversal method, full credit is admissible on input and input services used exclusively for taxable services/ goods and proportionate credit on common input and input services used for taxable and exempted goods/ services

Interest rate reduced from 24 percent to 15 percent in case credit is not reversed by 30th June of the succeeding financial year

Options stipulated for reversal of credit by banking or non-banking company and financial institution

No credit of capital good allowed where the capital good are used exclusively in relation to exempted goods/ service for a period of 2 years from the date of commencement of production/ service. Similar provisions made for capital goods installed after the date of commencement of commercial production or provision of service.

Enabling provision introduced to allow manufacturer with multiple manufacturing units to maintain common warehouse for inputs and distribute inputs with credits to individual manufacturing units. Credit to be allowed based on invoice issued by such warehouse.

Invoice issued by a service provider for clearance of inputs or capital goods has been prescribed as a valid document for availing credit

Provision introduced for submission of annual return by manufacturer/ services provider by 30th November of succeeding year

Existing provision that prescribes for procedure based on FIFO method for determining whether credit has been utilized or not, omitted. Post the amendment, whether a particular credit has been utilised or not shall be ascertained by examining whether during the period under consideration, minimum balance of credit was equal to or more than the disputed amount of credit.

Effective from 1 March 2016

Definition of exempted service amended to exclude service of transportation of goods by a vessel from customs station of clearance in India to a place outside India

Cenvat credit of specified duties except NCCD would not be allowed for payment of NCCD on any product

Infrastructure cess would not be admissible as Cenvat credit. Further, credit of no other duty can be used for payment of Infrastructure cess.

Provision of credit reversal are not applicable to service of transportation of goods by a vessel from customs station of clearance in India to a place outside India

Timelines for filing application for refund of Cenvat credit under Rule 5 of the Credit Rules prescribed as 1 year from the date of:

Receipt of convertible foreign exchange, where provision of service has been completed prior to receipt of such payment; or

Date of issue of invoice, where payment for the service has been received in advance prior to the date of issue of invoice
AGRICULTURAL SECTOR

- In order to boost agriculture and the welfare of farmers INR 359.84 billion has been allocated.

Irrigation

- To augment irrigation, Pradhan Mantri Krishi Sinchai Yojana to be implemented within which 2.85 million hectares have been proposed to be brought under irrigation.

- Proposal to fast track already suffering irrigation projects by implementing 89 irrigation projects under AIBP, out of which 23 of these projects are projected to be completed before March 31, 2017.

- It has been proposed to create a dedicated Long Term Irrigation Fund in NABARD with an initial corpus of about INR 200 billion.

- For sustainable management of ground water resources, a major programme with an estimated cost of INR 60 billion has been prepared and will be implemented through multilateral funding.

- Funds allocated under MGNREGA to be used to set up at least 0.5 million farm ponds and dug wells in rain fed areas and 1 million compost pits for production of organic manure.

- All 140 million farm holdings are proposed to be covered under the Soil Health Card Scheme by March 2017.

- INR 3.68 billion has been provided for National Project on Soil Health and Fertility. Additionally, 2,000 model retail outlets of fertilizer companies will be provided with soil and seed testing facilities in the next three years.

Agricultural credit and others

- Agricultural credit to the farmers has been targeted to an all time high of INR 9,000 billion. Further, to reduce the burden of loan repayment on farmers, provision
of INR 150 billion has been made towards interest subvention.

- In order to promote organic farming, Government has launched “Parmparagat Krishi Vikas Yojana” and a value chain based organic farming scheme namely “Organic Value Chain Development in North East Region”.

- To augment pulses production, INR 5 billion has been assigned under National Food Security Mission.

- Common e-market platform to be provided in selected 585 regulated wholesale markets under the Unified Agriculture Marketing Scheme.

- Allocation of INR 190 billion in 2016-17 towards Pradhan Mantri Gram Sadak Yojana (PMGSY).

- To gear with natural calamities, norms relating to assistance under the National Disaster Response Fund have been revised.

- INR 55 billion to be provided for effective implementation of Prime Minister Fasal Bima Yojana.

- Four dairy projects viz Pashudhan Sanjivani, an advanced breeding technology, creation of e-Pashudhan Haat and National Genomic Centre for indigenous breeds to be implemented at a cost of INR 8.50 billion.

**RURAL SECTOR**

- Allocation of INR 877.65 billion for development of rural sector.

- INR 2,870 billion to be provided as grant in Aid to Gram Panchayats and Municipalities in terms of the recommendations of the 14th Finance Commission.

- Each Block in drought and rural distress areas to be taken up as an intensive Block under the Deen Dayal Antyodaya Mission.

- To focus on improving the quality and effectiveness of activities under MGNREGA, a sum of INR 385 billion has been allocated.
• To incubate rural growth, 300 Rurban Clusters will be developed under the Shyama Prasad Mukherjee Rurban Mission.

• With a view to achieve 100% village electrification by May 1, 2018, INR 85 billion has been provided for Deendayal Upadhayaya Gram Jyoti Yojna and Integrated Power Development Schemes.

• As a part of the Swachh Bharat Abhiyan, priority allocation from Centrally Sponsored Schemes will be made to reward villages that have become free from open defecation.

• Launch of a new Digital Literacy Mission Scheme for rural India to cover around 60 million additional households within the next 3 years.

• In order to build an integrated land information management system, INR 1.5 billion allocated towards National Land Record Modernisation Programme.

• In order to develop governance capabilities of the Panchayat Raj Institutions, INR 6.55 billion to be allocated for the launch a new restructured scheme, namely, Rashtriya Gram Swaraj Abhiyan.

**SOCIAL & HEALTHCARE**

• To provide additional resources for venerable sections, creation of social and physical infrastructure INR 1,515.81 billion for social sector (including education and health care) has been allocated.

• Implementation of Pradhan Mantri Fasal Bima Yojana to protect farmers against nature’s adverse effects.

• Provision of LPG connections to BPL families by allocating INR 20 billion.

• Initiation of “Stand Up India Scheme” to promote entrepreneurship among SC/ST and women. This will facilitate at least two projects (one for each category) per bank branch, thereby benefiting at least 250 thousand entrepreneurs.

• Setting up of National Scheduled Caste and Scheduled Tribe Hub in partnership with industry associations to provide professional support to SC/
ST entrepreneurs to adopt best practices and leverage Stand-Up India initiative.

- Effective implementation of schemes for welfare and skill development for Minorities such as Multi-sectoral Development Programme and USTAAD is proposed to be implemented.

- Allocation of INR 1 billion each for celebrating the Birth Centenary of Pandit Deen Dayal Upadhyay and 350th Birth Anniversary of Guru Gobind Singh.

- Introduction of new health insurance scheme to protect one-third of India's population against hospitalization expenditure.

- Health cover of up to INR 100 thousand per family through introduction of new health protection scheme. Additional top-up package of up to INR 30 thousand for senior citizens will be provided.

- Opening of 3,000 stores under Prime Minister's Jan Aushadhi Yojana during 2016-17 for supply of generic drugs.

- Initiation of ‘National Dialysis Services Programme’ under National Health Mission through PPP mode under which dialysis services will be provided in all district hospitals.

**EDUCATION, SKILL DEVELOPMENT & JOB CREATION**

**Education**

- “Sarva Shiksha Abhiyan” to increase focus on quality of education which will be achieved by setting up of 62 new Navodaya Vidyalayas in the remaining uncovered districts in the country.

- In order to empower higher educational institutions to emerge as world-class teaching and research institutions, enabling regulatory architecture will be provided to ten public and ten private institutions.

- To improve infrastructure in top institutions, a non-profit organization “Higher Education Financing Agency” to be set-up with initial capital base of INR 10 billion.
To ensure ease of access of the certificates by students, higher education institutions and employers; a Digital Depository, on the lines of a Securities Depository, to be set-up.

Skill Development

- Allocation of INR 18.04 billion for skill development under "Skill India" mission.
- Pradhan Mantri Kaushal Vikas Yojana to bring entrepreneurship to the doorsteps of the youth. For this purpose, 1500 Multi Skill Training Institutes will be set-up.
- National Board for Skill Development Certification to be setup in partnership with the industry and academia.
- Entrepreneurship Education and Training will be provided in 2200 colleges, 300 schools, 500 government ITIs and 50 Vocational Training Centers through Massive Open Online Courses.

Job Creation

- In order to stimulate job creation in formal sector, Government of India will pay contribution of 8.33% for all new employees enrolling in EPFO for the first three years of their employment. Scheme will be applicable to the semi-skilled and unskilled workers with salary of upto INR 15 thousand per month for which INR 10 billion has been allocated.
- 100 Model Career Centers to be operational by the end of 2016-17 under National Career Service which was launched in 2015.
- With an aim to simplify the regulations for creation of jobs in the retail trade sector, Model Shops and Establishments Bill will be circulated to various states which will protect the interest of workers employed in small and medium shops.

INFRASTRUCTURE AND INVESTMENT

- The reforms in the infrastructure sector and the investment therein are in accordance with achieving the objective of “Transform India”.
- Total investment in the road sector, including PMGSY allocation, would be INR 970 billion during 2016-17.
- India's highest ever kms of new highways were awarded in 2015. To keep-up the pace of growth in infrastructure sector, the government aims to approve nearly 10,000 kms of National Highways in 2016-17.
- Allocation of INR 550 billion has been made in the Budget for Roads. Additional INR 150 billion to be raised by NHAI through bonds.
- Together with the capital expenditure of the Railways, the total outlay on roads and railways will be INR 2,180 billion in 2016-17. The aggregate expenditure for the infrastructure would be INR 2,212.46 billion.
- To provide more efficient public transport facilities, greater public convenience etc., amendments to be made in Motor Vehicles Act to open up the road transport sector in the passenger segment.
- Unserved and underserved airports to be revived in partnership with State Governments.
- To provide calibrated marketing freedom in order to incentivize gas production from deep-water, ultra-deep-water and high pressure-high temperature areas.
- To augment the investment in nuclear power generation; comprehensive plan, spanning over next 15 to 20 years, to be drawn up for which budgetary allocation of upto INR 30 billion per annum has been made.
- To reinvigorate the development of infrastructure implemented under PPP mode, following initiatives have been proposed to be undertaken:
  - Public Utility (Resolution of Disputes) Bill will be introduced during 2016-17 for resolution of disputes in infrastructure related construction
contracts, PPP and public utility contracts;

* Guidelines for renegotiation of PPP Concession Agreements will be issued;

* New credit rating system for infrastructure projects to be introduced which will lay emphasis on in-built credit enhancement structures instead of existing standard perception of risk which often results in mispriced loans.

- FDI policy in the areas of Insurance and Pension, Asset Reconstruction Companies, Stock Exchanges to be reformed.

- 100% FDI to be allowed through FIPB route in marketing of food products produced and manufactured in India for the benefit of farmers and food processing industry.

- A new policy for management of Government investment in Public Sector Enterprises, including disinvestment and strategic sale, has been approved. Assets, like land, manufacturing units etc., of the CPSEs will be leveraged for making investments in new projects.

**FINANCIAL SECTOR**

- To deal with the bankruptcy situations in banks, insurance companies and financial sector entities, a comprehensive Code on Resolution of Financial Firms to be introduced as a bill in the Parliament during FY 2016-17.

- Allocation of INR 250 billion towards recapitalization of Public Sector Banks.

- RBI Act, 1934 to be amended to provide statutory basis for a Monetary Policy framework and a Monetary Policy Committee through the Finance Bill 2016.

- A Financial Data Management Centre to be set up under the aegis of the Financial Stability Development Council (FSDC) to facilitate integrated data aggregation and analysis in the financial sector.

- RBI to facilitate retail participation in Government securities through stock exchanges and NDS-OM trading platform.

- New derivative products will be developed by SEBI in the Commodity Derivatives market.

- Enactment of Insolvency and Bankruptcy Code would provide a major boost to the development of the corporate bond market.

- Amendments in the SARFAESI Act 2002 to enable the sponsor of an ARC to hold up to 100% stake in the ARC and permit non institutional investors to invest in Securitization Receipts.

- Comprehensive Central Legislation to be brought up to deal with the menace of illicit deposit taking schemes.

- Amendments in the SEBI Act, 1992 to provide for increase in members and benches of the Securities Appellate Tribunal.

- Target of the amount sanctioned for lending under Pradhan Mantri Mudra Yojana, launched for the benefit of bottom of the pyramid entrepreneurs, has been increased to INR 1800 billion.

- General Insurance Companies owned by the Government to be listed in the stock exchanges.

- To provide better access to financial services, especially in rural areas, a massive nationwide rollout of ATMs and Micro ATMs in Post Offices will be undertaken over the next three years.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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</thead>
<tbody>
<tr>
<td>AC/DC</td>
<td>Additional Commissioner/Deputy Commissioner</td>
</tr>
<tr>
<td>AIBP</td>
<td>Accelerated Irrigation Benefits Programme</td>
</tr>
<tr>
<td>AOP</td>
<td>Association of Persons</td>
</tr>
<tr>
<td>ARC</td>
<td>Assets Reconstruction Company</td>
</tr>
<tr>
<td>ATM</td>
<td>Automatic Teller Machine</td>
</tr>
<tr>
<td>BCD</td>
<td>Basic Customs Duty</td>
</tr>
<tr>
<td>BED</td>
<td>Basic Excise Duty</td>
</tr>
<tr>
<td>BEPS</td>
<td>Base Erosion &amp; Profit Shifting</td>
</tr>
<tr>
<td>BIRAC</td>
<td>Biotechnology Industry Research assistance council</td>
</tr>
<tr>
<td>BOI</td>
<td>Body of Individuals</td>
</tr>
<tr>
<td>BPL</td>
<td>Below Poverty Line</td>
</tr>
<tr>
<td>CAD</td>
<td>Current Account Deficit</td>
</tr>
<tr>
<td>CbC</td>
<td>Country by Country</td>
</tr>
<tr>
<td>CBEC</td>
<td>Central Board of Excise and Custom</td>
</tr>
<tr>
<td>CEA</td>
<td>Central Excise Act 1944</td>
</tr>
<tr>
<td>Cenvat</td>
<td>Duty of excise and service tax</td>
</tr>
<tr>
<td>CGA</td>
<td>Comptroller General of Accounts</td>
</tr>
<tr>
<td>CSE</td>
<td>Central Statistics Office</td>
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<tr>
<td>Customs Act</td>
<td>Customs Act, 1962</td>
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<tr>
<td>CVD</td>
<td>Countervailing Duty</td>
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<tr>
<td>DDT</td>
<td>Dividend Distribution Tax</td>
</tr>
<tr>
<td>DDUUGK</td>
<td>Deen Dayal Upadhyaya Grameen Kaushalya</td>
</tr>
<tr>
<td>DGT</td>
<td>Director General of Training</td>
</tr>
<tr>
<td>EC</td>
<td>Education Cess</td>
</tr>
<tr>
<td>EPF</td>
<td>Employees Provident Fund</td>
</tr>
<tr>
<td>EPFO</td>
<td>Employees, Provident Fund Organisation</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FIFO</td>
<td>First In First Out</td>
</tr>
<tr>
<td>FII</td>
<td>Foreign Institutional Investor</td>
</tr>
<tr>
<td>FIPB</td>
<td>Foreign Investment Promotion Board</td>
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<tr>
<td>FY</td>
<td>Financial Year</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GST</td>
<td>Goods and Service tax</td>
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<tr>
<td>GTA</td>
<td>Good Transport Agency</td>
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<tr>
<td>GTR</td>
<td>Gross Tax Revenue</td>
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<tr>
<td>GVA</td>
<td>Gross Value Added</td>
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<td>HEFA</td>
<td>Higher Education Financing Agency</td>
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<tr>
<td>HFAU Mission</td>
<td>Housing for All (Urban) Mission</td>
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<td>HUF</td>
<td>Hindu Undivided Family</td>
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<tr>
<td>ICB</td>
<td>International Competitive Bidding</td>
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<tr>
<td>IIM</td>
<td>Indian Institute of Management</td>
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<tr>
<td>INR</td>
<td>Indian Rupee</td>
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<tr>
<td>INVIT</td>
<td>Infrastructure Trust</td>
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<tr>
<td>ISD</td>
<td>Input Service Distributor</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>IT Act</td>
<td>Income-tax Act, 1961</td>
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<tr>
<td>KMS</td>
<td>Kilometers</td>
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<tr>
<td>LLP</td>
<td>Limited Liability Partnership</td>
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<tr>
<td>LPG</td>
<td>Liquefied Petroleum Gas</td>
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<tr>
<td>MAT</td>
<td>Minimum Alternate Tax</td>
</tr>
<tr>
<td>MGNREGA</td>
<td>Mahatma Gandhi National Rural Employment Guarantee Act</td>
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<tr>
<td>NABARD</td>
<td>National Bank for Agriculture and Rural Development</td>
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<td>NCCCJD</td>
<td>National Centre for Cold Chain Development</td>
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<tr>
<td>NCCD</td>
<td>National Calamity Contingent Duty</td>
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<tr>
<td>NCVT</td>
<td>National Council for Vocational Training</td>
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<tr>
<td>NDS-OM</td>
<td>Negotiated Dealing System-Order Matching System</td>
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<tr>
<td>NHAI</td>
<td>National Highways Authority of India</td>
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<tr>
<td>NPS</td>
<td>National Pension System</td>
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<tr>
<td>PFRDA</td>
<td>Pension Fund Regulatory and Development Authority</td>
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<tr>
<td>PMA Yojana</td>
<td>Pradhan Mantri Awas Yojana</td>
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<td>PMGSY</td>
<td>Pradhan Mantri Gram Sadak Yojana</td>
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<tr>
<td>PMT</td>
<td>Per Metric Tonne</td>
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<tr>
<td>POEM</td>
<td>Place of Effective Management</td>
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<tr>
<td>POT Rules</td>
<td>Point of Taxation Rules, 2011</td>
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<td>PPP</td>
<td>Public Private Partnership</td>
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<tr>
<td>PPP</td>
<td>Purchasing Power Parity</td>
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<td>RBI</td>
<td>Reserve Bank of India</td>
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<tr>
<td>RE</td>
<td>Revised Estimate</td>
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<tr>
<td>REIT</td>
<td>Real Estate Investment Trust</td>
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<tr>
<td>RSP</td>
<td>Retail Sale Price</td>
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<tr>
<td>SAD</td>
<td>Special Additional Duties of Customs</td>
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<tr>
<td>SARFAESI</td>
<td>Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests (India)</td>
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<tr>
<td>SC</td>
<td>Scheduled Caste</td>
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<td>SCN</td>
<td>Show Cause Notice</td>
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<tr>
<td>SDI</td>
<td>Skill Development Initiative</td>
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<td>SEBI</td>
<td>Securities and Exchange Board of India</td>
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<td>Service Tax Law</td>
<td>The Finance Act, 1994</td>
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<td>SHEC</td>
<td>Secondary and Higher Education Cess</td>
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<tr>
<td>SPV</td>
<td>Special Purpose Vehicle</td>
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<td>ST</td>
<td>Scheduled Tribe</td>
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<td>STT</td>
<td>Securities Transaction Tax</td>
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<tr>
<td>TCS</td>
<td>Tax Collected at Source</td>
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<td>TDS</td>
<td>Tax Deducted at Source</td>
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<td>TPO</td>
<td>Transfer Pricing Officer</td>
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<tr>
<td>USTAAD</td>
<td>Upgrading the Skills and Training in Traditional Arts/Crafts for Development</td>
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<tr>
<td>Wef</td>
<td>With effect from</td>
</tr>
<tr>
<td>WPI</td>
<td>Wholesale Price Index</td>
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