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# Budget 2015-2016

**Speech of**

Arun Jaitley

*Minister of Finance*

**February 28, 2015**

**Madam Speaker**,

I rise to present the Budget of the Union for the year 2015-16.

**2.** I present this Budget in an economic environment which is far more positive than in the recent past. When other economies are facing serious challenges, India is about to take-off on a faster growth trajectory once again. The International Monetary Fund (IMF) has downgraded its earlier forecast of global economic growth by 0.3%, and the World Trade Organization has revised its forecast of world trade growth from 5.3% to 4%. Forecasts for India, however, have either been upgraded, or remained the same, without downgrades. Madam Speaker, we have also embraced the States as equal partners in the process of economic growth. States have been economically empowered more than ever before and it is my belief that every rupee of public expenditure, whether undertaken by the Centre or the States, will contribute to the betterment of people's lives through job creation, poverty elimination and economic growth.

**3.** In the last nine months, the NDA Government headed by Prime Minister Shri Narendra Modi, has undertaken several significant steps to energise the economy. The credibility of the Indian economy has been re-established. The world is predicting that it is India's chance to fly.

Kuch to phool khilaye humne, aur kuch phool khilane hai

Mushkil yeh hai bag me ab tak, kaante kai purane hai

**4.** Though the Union Budget is essentially a Statement of Account of public finances, it has historically become a significant opportunity to indicate the direction and the pace of India's economic policy. My proposals, therefore, lay out the roadmap for accelerating growth, enhancing investment and passing on the benefit of the growth process to the common man, woman, youth and child: those, whose quality of life needs to be improved. This is the path which we will

doggedly and relentlessly pursue. As the Prime Minister has often said, we are a round-the-clock, round-the-year Government.

**5.** Madam, allow me to describe the changes in the Indian economy since we first took office. In November, 2012, CPI inflation, stood at 11.2%, the current account deficit by the first quarter of 2013-14 had reached 4.6% of GDP, and normal foreign inflows until March 2014 were $15 billion. We inherited a sentiment of, if I may say so, doom and gloom, and the investor community had almost written us off.

**6.** We have come a long way since then. The latest CPI inflation rate is 5.1%, and the wholesale price inflation is negative; the current account deficit for this year is expected to be below 1.3% of GDP; based on the new series, real GDP growth is expected to accelerate to 7.4%, making India the fastest growing large economy in the world; foreign inflows since April 2014 have been about $55 billion, so that our foreign exchange reserves have increased to a record $340 billion; the rupee has become stronger by 6.4% against a broad basket of currencies; and ours was the second-best performing stock market amongst the major economies. In short, Madam Speaker, we have turned around the economy dramatically, restoring macro-economic stability and creating the conditions for sustainable poverty elimination, job creation and durable double-digit economic growth. Domestic and international investors are seeing us with renewed interest and hope.

**7.** While being mindful of the challenges, Madam Speaker, this gives us reason to feel optimistic. With all the humility at my command, I submit that this opportunity has arisen because we have created it. The people of India had voted resoundingly for quick change, faster growth and highest levels of transparency. They wanted the scam, scandal and corruption Raj to end. They wanted a Government in which they can trust. We have lived up to that trust.

**8.** Our actions have not been confined to the core or macro-economic areas alone. Illustratively, action has been taken with regard to allocation of natural resources; financial inclusion; health and hygiene of the common man; girls and their education; employment for the youth; improved and non-adversarial tax administration; effective delivery of benefits; investment and job creation; welfare of labour; agricultural productivity and increasing farm incomes; power; digital connectivity; skilling our youth; efficient and better work culture in Government; ease of doing business; mainstreaming North Eastern States; and, reviving our pride in the nation and culture. I am giving the details in an Annexure to this speech.

**9.** Madam Speaker, of the work that we have done, I would like to talk of three achievements as they demonstrate the quality and conviction of our government. One is the success of the Jan Dhan Yojana. Financial inclusion has

been talked about for decades now. Who would have thought that in a short period of 100 days, over 12.5 crore families could have been brought into the financial mainstream? The other is coal auctions. Earlier, the States only got benefits of royalty. Now, by the transparent auction process that we are carrying out, the coal bearing States will be getting several lakh of crore of rupees which they can use for creation of long awaited community assets and for welfare of their people.

**10.** The third is 'Swachh Bharat' which we have been able to transform into a movement to regenerate India. I can speak of, for example, the 50 lakh toilets already constructed in 2014-15, and I can also assure the Members of this august House that we will indeed attain the target of building six crore toilets. But, Madam, Swachh Bharat is not only a programme of hygiene and cleanliness but, at a deeper level, a programme for preventive health care, and building awareness.

**11.** We are now embarked on two more game changing reforms. GST and what the Economic Survey has called the JAM Trinity – Jan Dhan, Aadhar and Mobile – to implement direct transfer of benefits. GST will put in place a state-of-the-art indirect tax system by 1st April, 2016. The JAM Trinity will allow us to transfer benefits in a leakage-proof, well-targetted and cashless manner.

**12.** Madam Speaker, one of the major achievements of my government has been to conquer inflation. This decline, in my view, represents a structural shift. Going forward, we expect CPI inflation to remain at close to 5% by the end of the year. This will allow for further easing of monetary policy.

**13.** To ensure that our victory over inflation is institutionalized and hence continues, we have concluded a Monetary Policy Framework Agreement with the RBI, as I had promised in my Budget Speech for 2014-15. This Framework clearly states the objective of keeping inflation below 6%. We will move to amend the RBI Act this year, to provide for a Monetary Policy Committee.

**14.** The Central Statistics Office has recently released a new series for GDP, which involves a number of changes relative to the old series. Based on the new series, estimated GDP growth for 2014-15 is 7.4%. Growth in 2015-16 is expected to be between 8 to 8.5%. Aiming for a double-digit rate seems feasible very soon.

**15.** I now come to the task ahead of us. In respect of social and economic indicators, for seven decades now, we have worked in terms of percentages, and numbers of beneficiaries covered. It is quite obvious that incremental change is not going to take us anywhere. We have to think in terms of a quantum jump.

**16.** The year 2022 will be the Amrut Mahotsav, the 75th year, of India's independence. The vision of what the Prime Minister has called 'Team India', led by the States and guided by the Central Government, should include:

**Digital India**

**82.** Madam, Speaker, I would like to inform the House we are making good progress towards making Digital India. The National Optical Fibre Network Programme (NOFNP) of 7.5 lakh kms. networking 2.5 lakh villages is being further speeded up by allowing willing States to undertake its execution, on reimbursement of cost as determined by Department of Telecommunications. Andhra Pradesh is the first State to have opted for this manner of implementation.

**83.** As Members are aware, in making their recommendations, the Finance Commission has not distinguished between special category and other states. Moreover, both Bihar and West Bengal are going to be amongst the biggest beneficiaries of the recommendations of the Finance Commission. Yet, the Eastern States have to be given an opportunity to grow even faster. I, therefore, propose to give similar special assistance to Bihar and West Bengal as has been provided by the Government of India in the case of Government of Andhra Pradesh. As regards Andhra Pradesh and Telengana, the Government is committed to comply with all the legal commitments made to these States at the time of reorganization.

**84.** In spite of the large increase in devolution to states, which implies reduced fiscal space for the Centre in the same proportion we are committed to the welfare of the poor and the neo-middle class. Keeping this in mind, adequate provision is being made for the schemes for the poor and the dis-advantaged. Illustratively, I have allocated ₹ 68,968 crore to the education sector including mid-day meals, ₹ 33,152 crore to the health sector and ₹ 79,526 crore for rural development activities including MGNREGA, ₹ 22,407 crore for housing and urban development, ₹ 10,351 crore for women and child development, ₹ 4,173 crore for Water Resources and Namami Gange. The significant sums that will be spent by the States on these programmes will ensure a quantum leap in expenditures in these areas. I urge states to utilize their enhanced resources effectively in these areas.

**85.** Madam, Speaker, I am delighted to report good progress for DMIC corridors: the Ahmedabad-Dhaulera Investment Region in Gujarat, and the Shendra–Bidkin Industrial Park near Aurangabad, in Maharashtra, are now in a position to start work on basic infrastructure. In the current year, I have earmarked an initial sum of ₹ 1,200 crore. However, as the pace of expenditure picks up, I will provide them additional funds.

**86.** Defence of every square inch of our mother land comes before anything else. So far, we have been over dependent on imports, with its attendant unwelcome spin-offs. Our Government has already permitted FDI in defence so that the Indian-controlled entities also become manufacturers of defence equipments, not only for us, but for export. We are thus pursuing the Make in India policy to achieve greater self-sufficiency in the area of defence equipment,

including aircraft. Members of this august House would have noted that we have been both transparent and quick in making defence equipment related purchase decisions, thus keeping our defence forces ready for any eventuality. This year too, I have provided adequately for the needs of the armed forces. As against likely expenditure of this year of ₹2,22,370 crore the budget allocation for 2015-16 is ₹2,46,727 crore.

**87.** While India produces some of the finest financial minds, including in international finance, they have few avenues in India to fully exhibit and exploit their strength to the country's advantage. GIFT in Gujarat was envisaged as International Finance Centre that would actually become as good an International Finance Centre as Singapore or Dubai, which, incidentally, are largely manned by Indians. The proposal has languished for years. I am glad to announce that the first phase of GIFT will soon become a reality. Appropriate regulations will be issued in March.

**88.** For the quick resolution of commercial disputes, the Government proposes to set up exclusive commercial divisions in various courts in India based on the recommendations of the 253rd Report of the Law Commission. The Government proposes to introduce a Bill in the parliament after consulting stakeholders in this regard.

**89.** Madam Speaker, the Government will, during this session, also place before the Parliament the required Bills, to convert Ordinances issued by the Government into Acts of Parliament.

## BUDGET ESTIMATES

**90.** I now turn to the Budget Estimates for Budget 2015-16.

**91.** Non-Plan expenditure estimates for the Financial Year are estimated at ₹13,12,200 crore. Plan expenditure is estimated to be ₹4,65,277 crore, which is very near to the R.E. of 2014-15. Total Expenditure has accordingly been estimated at ₹17,77,477 crore. The requirements for expenditure on Defence, Internal Security and other necessary expenditures are adequately provided.

**92.** Gross Tax receipts are estimated to be ₹14,49,490 crore. Devolution to the States is estimated to be ₹5,23,958 crore. Share of Central Government will be ₹9,19,842 crore. Non Tax Revenues for the next fiscal are estimated to be ₹2,21,733 crore.

**93.** With the above estimates, fiscal deficit will be 3.9 per cent of GDP and Revenue Deficit will be 2.8 per cent of GDP.

## PART B

**Madam Speaker,**

**94.** I now turn to my tax proposals.

**95.** Taxation is an instrument of social and economic engineering. Tax collections help the Government to provide education, healthcare, housing and other basic facilities to the people to improve their quality of life and to address the problems of poverty, unemployment and slow development. To achieve these objectives, it has been our endeavour in the last nine months to foster a stable taxation policy and non-adversarial tax administration. A very important dimension to our tax administration is the fight against the scourge of black money. A number of measures have already been taken in this direction. I propose to do much more.

**96.** We need to revive growth and investment to ensure that more jobs are created for our youth and benefits of development reach millions of our poor. We need an enabling tax policy for this. I have already introduced the Bill to amend the Constitution of India for Goods and Services Tax (GST) in the last Session of this august House. GST is expected to play a transformative role in the way our economy functions. It will add buoyancy to our economy by developing a common Indian market and reducing the cascading effect on the cost of goods and services. We are moving in various fronts to implement GST from the next year.

**97.** We need to match this transformative piece of legislation in indirect taxation with transformative measures in direct taxation. The basic rate of Corporate Tax in India at 30% is higher than the rates prevalent in the other major Asian economies, making our domestic industry uncompetitive. Moreover, the effective collection of Corporate Tax is about 23%. We lose out on both counts, i.e. we are considered as having a high Corporate Tax regime but we do not get that tax due to excessive exemptions. A regime of exemptions has led to pressure groups, litigation and loss of revenue. It also gives room for avoidable discretion. I, therefore, propose to reduce the rate of Corporate Tax from 30% to 25% over the next 4 years. This will lead to higher level of investment, higher growth and more jobs. This process of reduction has to be necessarily accompanied by rationalisation and removal of various kinds of tax exemptions and incentives for corporate taxpayers, which incidentally account for a large number of tax disputes.

**98.** I wanted to start the phased reduction of corporate tax rate and phased elimination of exemptions right away; but I thought it would be appropriate to give advance notice that these changes will start from the next financial year.

Our stated policy is to avoid sudden surprises and instability in tax policy. Exemptions to individual taxpayers will, however, continue since they facilitate savings which get transferred to investment and economic growth.

**99.** While finalising my tax proposals, I have adopted certain broad themes, which include:

A. Measures to curb black money;

B. Job creation through revival of growth and investment and promotion of domestic manufacturing and 'Make in India';

C. Minimum government and maximum governance to improve the ease of doing business;

D. Benefits to middle class taxpayers;

E. Improving the quality of life and public health through Swachch Bharat initiatives; and

F. Stand alone proposals to maximise benefits to the economy.

**100.** Madam Speaker, the first and foremost pillar of my tax proposals is to effectively deal with the problem of black money which eats into the vitals of our economy and society. The problems of poverty and inequity cannot be eliminated unless generation of black money and its concealment is dealt with effectively and forcefully.

**101.** In the last 9 months several measures have been initiated in this direction. A major breakthrough was achieved in October, 2014 when a delegation from the Revenue Department visited Switzerland and the Swiss authorities agreed to (a) provide information in respect of cases independently investigated by the Income-tax Department; (b) confirm genuineness of bank accounts and provide non-banking information; (c) provide such information in a time bound manner; and (d) commence talks with India for Automatic Exchange of Information between the two countries at the earliest. Investigation into cases of undisclosed foreign assets has been accorded the highest priority, resulting in detection of substantial amounts of unreported income. For strengthening collection of information from various sources domestically, a new structure is being put in place which includes electronic filing of statements by reporting entities. This will ensure seamless integration of data and more effective enforcement.

**102.** Tracking down and bringing back the wealth which legitimately belongs to the country is our abiding commitment to the country. Recognising the limitations under the existing legislation, we have taken a considered decision to enact a comprehensive new law on black money to specifically deal with such money stashed away abroad. To this end, I propose to introduce a Bill in the current Session of the Parliament.

**103.** With your permission, Madam Speaker, I would like to highlight some of the key features of the proposed new law on black money.

(1) Concealment of income and assets and evasion of tax in relation to foreign assets will be prosecutable with punishment of rigorous imprisonment upto 10 years. Further,

- this offence will be made non-compoundable;
- the offenders will not be permitted to approach the Settlement Commission; and
- penalty for such concealment of income and assets at the rate of 300% of tax shall be levied.

(2) Non filing of return or filing of return with inadequate disclosure of foreign assets will be liable for prosecution with punishment of rigorous imprisonment up to 7 years.

(3) Income in relation to any undisclosed foreign asset or undisclosed income from any foreign asset will be taxable at the maximum marginal rate. Exemptions or deductions which may otherwise be applicable in such cases, shall not be allowed.

(4) Beneficial owner or beneficiary of foreign assets will be mandatorily required to file return, even if there is no taxable income.

(5) Abettors of the above offences, whether individuals, entities, banks or financial institutions will be liable for prosecution and penalty.

(6) Date of Opening of foreign account would be mandatorily required to be specified by the assessee in the return of income.

(7) The offence of concealment of income or evasion of tax in relation to a foreign asset will be made a predicate offence under the Prevention of Money-laundering Act, 2002 (PMLA). This provision would enable the enforcement agencies to attach and confiscate unaccounted assets held abroad and launch prosecution against persons indulging in laundering of black money.

(8) The definition of 'proceeds of crime' under PMLA is being amended to enable attachment and confiscation of equivalent asset in India where the asset located abroad cannot be forfeited.

(9) The Foreign Exchange Management Act, 1999 (FEMA) is also being amended to the effect that if any foreign exchange, foreign security or any immovable property situated outside India is held in contravention of the provisions of this Act, then action may be taken

for seizure and eventual confiscation of assets of equivalent value situated in India. These contraventions are also being made liable for levy of penalty and prosecution with punishment of imprisonment up to five years.

**104.** As regards curbing domestic black money, a new and more comprehensive Benami Transactions (Prohibition) Bill will be introduced in the current session of the Parliament. This law will enable confiscation of benami property and provide for prosecution, thus blocking a major avenue for generation and holding of black money in the form of benami property, especially in real estate.

**105.** A few other measures are also proposed in the Budget for curbing black money within the country. The Finance Bill includes a proposal to amend the Income-tax Act to prohibit acceptance or payment of an advance of ₹20,000 or more in cash for purchase of immovable property. Quoting of PAN is being made mandatory for any purchase or sale exceeding the value of ₹1 lakh. The third party reporting entities would be required to furnish information about foreign currency sales and cross border transactions. Provision is also being made to tackle splitting of reportable transactions. To improve enforcement, CBDT and CBEC will leverage technology and have access to information in each other's database.

**106.** Madam Speaker, the second pillar of my taxation proposals this year is job creation through revival of growth and investment and promotion of domestic manufacturing and 'Make in India'. I propose to undertake a series of steps in this direction to attract capital, both domestic and foreign. Tax 'pass through' is proposed to be allowed to both Category-I and Category-II Alternative Investment Funds, so that tax is levied on the investors in these Funds and not on the Funds per se. This will step up the ability of these Funds to mobilise higher resources and make higher investments in small and medium enterprises, infrastructure and social projects and provide the much required private equity to new ventures and start-ups.

**107.** A step was taken in the last Budget to encourage Real Estate Investment Trusts (REITs) and Infrastructure Investments Trusts (InvITs) by providing partial pass through to them. These collective investment vehicles have an important role to revive construction activity. A large quantum of funds is locked up in various completed projects which need to be released to facilitate new infrastructure projects to take off. I therefore propose to rationalise the capital gains regime for the sponsors exiting at the time of listing of the units of REITs and InvITs, subject to payment of Securities Transaction Tax (STT). The rental income of REITs from their own assets will have pass through facility.

**108.** The present taxation structure has an inbuilt incentive for fund managers to operate from offshore locations. To encourage such offshore fund managers to relocate to India, I propose to modify the Permanent Establishment (PE) norms to the effect that mere presence of a fund manager in India would not constitute PE of the offshore funds resulting in adverse tax consequences.

**109.** Implementation of the General Anti Avoidance Rule (GAAR) has been a matter of public debate. The investment sentiment in the country has now turned positive and we need to accelerate this momentum. There are also certain contentious issues relating to GAAR which need to be resolved. It has therefore been decided to defer the applicability of GAAR by two years. Further, it has also been decided that when implemented, GAAR would apply prospectively to investments made on or after 01.04.2017.

**110.** Today I see a lot of young entrepreneurs running business ventures or wanting to start new ones. They need latest technology. Therefore, to facilitate technology inflow to small businesses at low costs, I propose to reduce the rate of income tax on royalty and fees for technical services from 25% to 10%.

**111.** To generate greater employment opportunities, it is proposed to extend the benefit of deduction for employment of new regular workmen to all business entities. The eligibility threshold of minimum 100 regular workmen is being reduced to fifty.

**112.** The role of indirect taxes is also very important in the context of promotion of domestic manufacturing and Make in India. In indirect taxes, therefore, I propose to reduce the rates of basic customs duty on certain inputs, raw materials, intermediates and components (in all 22 items) so as to minimise the impact of duty inversion and reduce the manufacturing cost in several sectors. Some other changes address the problem of CENVAT credit accumulation due to the levy of SAD. I propose to fully exempt all goods, except populated printed circuit boards for use in manufacture of ITA bound items from SAD and reduce the SAD on imports of certain other inputs and raw materials subject to actual user condition. These changes are detailed in the Annexure to the Budget Speech.

**113.** My next proposal is regarding minimum government and maximum governance with focus on ease of doing business and simplification of Tax Procedures without compromising on tax revenues. The total wealth tax collection in the country was ₹1,008 crore in 2013-14. Should a tax which leads to high cost of collection and a low yield be continued or should it be replaced with a low cost and higher yield tax? The rich and wealthy must pay more tax than the less affluent ones. I have therefore decided to abolish the wealth tax and replace it with an additional surcharge of 2% on the super-rich with a taxable income of over ₹1 crore. This will lead to tax simplification and enable the Department to

focus more on ensuring tax compliance and widening the tax base. As against a tax sacrifice of ₹1,008 crore, through these measures the Department would be collecting about ₹9,000 crore from the 2% additional surcharge. Further, to track the wealth held by individuals and entities, the information regarding the assets which are currently required to be furnished in wealth-tax return will be captured in the income tax returns. This will ensure that the abolition of wealth tax does not lead to escape of any income from the tax net.

**114.** The provision relating to indirect transfers in the Income-tax Act which is a legacy from the previous government contains several ambiguities. This provision is being suitably cleaned up. Further, concerns regarding applicability of indirect transfer provisions to dividends paid by foreign companies to their shareholders will be addressed by the Central Board of Direct Taxes through a clarificatory circular. These changes would eliminate the scope for discretionary exercise of power and provide a hassle free structure to the taxpayers. I reiterate what I had said in the last Budget that ordinarily retrospective tax provisions adversely impact the stability and predictability of the taxation regime and resort to such provisions shall be avoided.

**115.** Further, to reduce the associated hassles to smaller taxpayers and the compliance costs in domestic transfer pricing, I propose to increase the threshold limit from ₹5 crore to ₹20 crore.

**116.** In order to rationalise the MAT provisions for FIIs, profits corresponding to their income from capital gains on transactions in securities which are liable to tax at a lower rate, shall not be subject to MAT.

**117.** The Tax Administration Reform Commission (TARC) has given a number of recommendations to improve the administration in the Tax Departments. These recommendations are in advanced stage of examination and will be appropriately implemented during the course of this year.

**118.** As part of the movement towards GST, I propose to subsume the Education Cess and the Secondary and Higher Education Cess in Central Excise duty. In effect, the general rate of Central Excise Duty of 12.36% including the cesses is being rounded off to 12.5%. I also propose to revise the specific rates of Central Excise duty in certain other commodities, as detailed in the Annexure. However, in the case of petrol and diesel such specific rates are being revised only to the extent of subsuming the quantum of education cess presently levied on them, keeping the total incidence of excise duties unchanged. The ad-valorem rates of excise duty lower than 12% and those higher than 12% with a few exceptions are not being increased. Some changes are also being made to excise levy on cigarettes and the compounded levy scheme applicable to pan masala, gutkha and certain other tobacco products.

**119.** To give a boost to domestic leather footwear industry, the excise duty on footwear with leather uppers and having retail price of more than ₹1000 per pair is being reduced to 6%.

**120.** To further facilitate the ease of doing business, online central excise and service tax registration will be done in two working days. The assessees under these taxes will be allowed to issue digitally signed invoices and maintain electronic records. These measures will cut down lot of paper work and red tape. Time limit for taking CENVAT credit on inputs and input services is being increased from six months to one year as a measure of business facilitation.

**121.** Introduction of GST is eagerly awaited by Trade and Industry. To facilitate a smooth transition to levy of tax on services by both the Centre and the States, it is proposed to increase the present rate of service tax plus education cesses from 12.36% to a consolidated rate of 14%.

**122.** Madam Speaker, cleanliness of households and clean environment are very important social causes. The fourth pillar of my taxation proposals this year therefore relates to initiatives for the Swachh Bharat Abhiyan. In my direct tax proposals, I have proposed 100% deduction for contributions, other than by way of CSR contributions, to the Swachh Bharat Kosh. A similar tax treatment is also proposed for the Clean Ganga Fund.

**123.** In indirect taxes, I propose to increase the Clean Energy Cess from ₹100 to ₹200 per metric tonne of coal, etc. to finance clean environment initiatives. Excise duty on sacks and bags of polymers of ethylene other than for industrial use is being increased from 12% to 15%. It is also proposed to have an enabling provision to levy Swachh Bharat Cess at a rate of 2% or less on all or certain services if need arises. This Cess will be effective from a date to be notified. Resources generated from this cess will be utilised for financing and promoting initiatives towards Swachh Bharat.

**124.** It is also proposed to exempt services by common affluent treatment plants from service tax. The concessions from customs and excise duties currently available on specified parts for manufacture of electrically operated vehicles and hybrid vehicles are being extended by one more year i.e. up to 31.3.2016.

**125.** Madam Speaker, the fifth pillar of my taxation proposals this year is extension of benefits to middle class tax payers. The proposals in this regard are as follows :

- Increase in the limit of deduction in respect of health insurance premium from ₹15,000 to ₹25,000.
    - For senior citizens the limit will stand increased to ₹30,000 from the existing ₹20,000.

- For very senior citizens of the age of 80 years or more, who are not covered by health insurance, deduction of ₹ 30,000 towards expenditure incurred on their treatment will be allowed.

- The deduction limit of ₹ 60,000 towards expenditure on account of specified diseases of serious nature is proposed to be enhanced to ₹80,000 in case of very senior citizens.

- Additional deduction of ₹ 25,000 will be allowed for differently abled persons under Section 80DD and Section 80U of the Income-tax Act.

- The limit on deduction on account of contribution to a Pension Fund and the New Pension Scheme is proposed to be increased from ₹1 lakh to ₹1.5 lakh.

- To provide social safety net and the facility of pension to individuals, an additional deduction of ₹ 50,000 is proposed to be provided for contribution to the New Pension Scheme under Section 80CCD. This will enable India to become a pensioned society instead of a pensionless society.

- Investments in Sukanya Samriddhi Scheme is already eligible for deduction under Section 80C. All payments to the beneficiaries including interest payment on deposit will also be fully exempt.

- Transport allowance exemption is being increased from ₹800 to ₹1,600 per month.

- For the benefit of senior citizens, service tax exemption will be provided on Varishta Bima Yojana.

**126.** Madam Speaker, I am giving these concessions to individual taxpayers despite inadequate fiscal space. After taking into account the tax concession given to middle class tax payers in my last Budget and this Budget, today an individual tax payer will get tax benefit of ₹4,44,200 as detailed in the annexure. As and when my fiscal capacity improves, individual taxpayers will have a lot to look forward to.

**127.** Madam Speaker, there are several stand-alone proposals relating to taxation. These include conversion of existing excise duty on petrol and diesel to the extent of ₹4 per litre into Road Cess to fund investment in roads and other infrastructure. An additional sum of ₹ 40,000 crore will be made available through this measure for these sectors. In service tax, exemption is being extended to certain pre cold storage services in relation to fruits and vegetables so as to

incentivise value addition in this crucial sector. The Negative List under service tax is being slightly pruned and certain other exemptions are being withdrawn to widen the tax base.

**128.** Yoga is India's well acknowledged gift to the world. It is proposed to include yoga within the ambit of charitable purpose under Section 2(15) of the Income-tax Act. Further, to mitigate the problem being faced by many genuine charitable institutions, it is proposed to modify the ceiling on receipts from activities in the nature of trade, commerce or business to 20% of the total receipts from the existing ceiling of ₹25 lakh. A national database of non profit organisations is also being developed.

**129.** Enactment of a Direct Taxes Code (DTC) has been under discussion for quite some time. Most of the provisions of the DTC have already been included in the Income-tax Act. Among the very few aspects of DTC which were left out, we have addressed some of the issues in the present Budget. Further, the jurisprudence under the Income-tax Act is well evolved. Considering all these aspects, there is no great merit in going ahead with the Direct Tax Code as it exists today.

**130.** Madam Speaker, the details of direct and indirect tax proposals are given in the Annexure to the Budget speech and the other budget documents laid on the Table of the House. My direct tax proposals would result in revenue loss of ₹8,315 crore, whereas the proposals in indirect taxes are expected to yield ₹23,383 crore. Thus, the net impact of all tax proposals would be revenue gain of ₹15,068 crore.

## CONCLUSION

**131.** To conclude, Madam Speaker, it is no secret that expectations of this Budget have been high. People who urge us to undertake Big Bang Reforms, also say that the Indian economy is a giant super tanker, or an elephant. An elephant, Madam Speaker, moves slowly but surely. Even our worst critics would admit that we have moved rapidly. In this speech, I think I have clearly outlined not only what we are going to do immediately, but also a roadmap for the future.

**132.** I think I can genuinely stake, for our Government, a claim of intellectual honesty. We have been consistent in what we have said, and what we are doing. We are committed, Madam Speaker, to achieving what we have been voted to power for: Change, growth, jobs and genuine, effective upliftment of the poor and the under-privileged. Our commitment to the 'Daridra Narayan' is steadfast, as is commitment to the Constitutional principles of Equality and Justice for All,

without concern for caste, creed or religion. This will be in the spirit of the Upanishad-inspired mantra:

*Om Sarve Bhavantu Sukhinah*
*Sarve Santu Nir-Aamayaah*
*Sarve Bhadraanni Pashyantu*
*Maa Kashcid-Duhkha-Bhaag-Bhavet*
*Om Shaantih Shaantih Shaantih*
*(OM! May All Be Happy*
*May All Be Free From Illness*
*May All See What is Beneficial*
*May No One Suffer)*

**133.** With these words, Madam Speaker, I commend the Budget to the House.

## ANNEXURE

- **Allocation of Natural Resources:** Auction of coal, reform in the mining sector to see that resources are used for development of the country and its people;
- **Financial Inclusion:** through the Pradhan Mantri Jan Dhan Yojana-making every Indian a part of the financial system;
- **Health and hygiene of the common man:** Launched a successful campaign of Swachh Bharat to ensure cleanliness, leading to better productivity and well being of the poor;
- **Girl Child & their Education:** Started a drive for constructing toilets in the remaining elementary schools and also Launched the Beti Bachao-Beti padhao campaign;
- **Creation of Employment for the Youth:** Launched the 'Make in India' campaign and combined it with a detailed process and policy re-engineering to make India a Global Manufacturing Hub for creation of job opportunities for millions of youth;
- **Hassle Free Business Environment:** Created a non-adversarial tax regime, ending tax terrorism; Secured the political agreement on the goods and services tax (GST), that will allow legislative passage of the constitutional amendment bill;

- **Delivery of benefits to the poor made efficient:** Started direct transfer of cooking gas subsidy on a national scale by use of technology;

- **Attracting Investment to create Jobs:** Increased FDI caps in defence, Insurance and Railway Infrastructure; rationalised the conditions for FDI in construction and medical devices sectors;

- **Expanding the job market and ensuring welfare of the labour:** Facilitated Sates which work to improve its Labour Laws and brought systemic changes in the area through the umbrella programme of 'Shrameva Jayate';

- **Better agri-productivity; more income to farmers:** Launched the programme for Soil Health cards for better productivity in agriculture;

- **Energising the country:** Brought rapid growth in power sector inspite of uncertainty on the coal front and launched ambitious programmes for new and renewable energy;

- **Technology-from grass root to the Space:** Launched the Digital India programme to make India a knowledge & innovation based society with Broadband connectivity being taken to all villages, Success of Mars Orbiter Mission;

- **Skill India programme:** Created a separate Ministry for skill development which is about to launch a massive programme;

- **Efficiency & better work culture in Government:** Brought a culture of responsibility without fear, and with efficiency and transparency; created an environment of trusting the citizens-encouraging self-certification in a number of areas;

- **Red tape to Red carpet:** Ending the red tape, created the 'Ease of Doing Business' in India by reforming and rationalising a large number of procedures, rules and regulations;

- **North-eastern part of the country brought in the mainstream:** North East given special priority in the development process by two visits of PM and launch of important infrastructure projects;

- **Pride in the Nation and its culture:** Brought out India's cultural and spiritual strength through UNO's recognition for Yoga, Namami Gange, Ghat and heritage city development programmes.

## ANNEXURE TO PART-B OF THE BUDGET SPEECH

The Finance Bill, 2015 proposes to make amendments in the Income-tax Act, 1961, Wealth-tax Act, 1957, Excise Tariff Act, Customs Act, Finance Act, 1994 and Finance (No.2) Act, 2004. A gist of the main amendments is given below:-

**Direct Taxes**

**2. Rates of tax**

2.1 It is proposed that there will be no change in the rate of personal income-tax and the rate of tax for companies in respect of income earned in the financial year 2015-16, assessable in the assessment year 2016-17.

2.2 It is further proposed to levy a surcharge @12% on individuals, HUFs, AOPs, BOIs, artificial juridical persons, firms, cooperative societies and local authorities having income exceeding ₹ 1 crore. Surcharge in the case of domestic companies having income exceeding ₹ 1 crore and upto ₹ 10 crore is proposed to be levied @ 7% and surcharge @ 12% is proposed to be levied on domestic companies having income exceeding ₹ 10 crore.

2.3 It is further proposed that in the case of foreign companies the surcharge will continue to be levied @2% if the income exceeds ₹ 1 crore and is upto ₹ 10 crore, and @5% if the income exceeds ₹ 10 crore.

2.4 It is also proposed to levy a surcharge @12% as against current rate of 10% on additional income-tax payable by companies on distribution of dividends and buyback of shares, or by mutual funds and securitisation trusts on distribution of income.

2.5 The education cess on income-tax @ 2% for fulfilment of the commitment of the Government to provide and finance universalised quality based education and 1% of additional surcharge called 'Secondary and Higher Education Cess' on tax and surcharge is proposed to be continued for the financial year 2015-16 for all taxpayers.

**3. A. Measures to curb black money**

3.1 With a view to curbing the generation of black money in real estate, it is proposed to amend the provisions of section 269SS and 269T of the Income-tax Act so as to prohibit acceptance or re-payment of advance in cash of ₹ 20,000 or more for any transaction in immovable property. It is also proposed to provide a penalty of an equal amount in case of contravention of such provisions.

3.2 Offence of making false declaration/documents in the transaction of any business relating to Customs (section 132 of the Customs Act) to be predicate offence under PMLA to curb trade based money laundering.

**4. B. <u>Job creation through revival of growth and investment and promotion of domestic 'manufacturing' and 'Make in India'.</u>**

4.1 Taking into account the representations received from various stakeholders and international developments in this regard, it is proposed to defer applicability of General Anti Avoidance Rule (GAAR) by 2 years. Accordingly, it is proposed to be applicable for income of the financial year 2017-18 (A.Y. 2018-19) and subsequent years. It is also proposed that the investments made upto 31.03.2017 shall not be subjected to GAAR.

4.2 With a view to streamline the taxation regime of Alternative Investment Funds (AIFs), it is proposed to provide pass through status to all the sub-categories of category-I and also to category-II AIFs governed by the regulations of Securities and Exchange Board of India (SEBI).

4.3 With a view to facilitate relocation of fund managers of offshore funds in India, it is proposed to modify the permanent establishment (PE) norms.

4.4 With a view to give effect to the provisions of section 94 of the Andhra Pradesh Reorganisation Act, 2014, it is proposed to provide an additional investment allowance (@15%) and additional depreciation (@15%) to new manufacturing units set-up during the period 01.04.2015 to 31.03.2020 in notified areas of Andhra Pradesh and Telangana.

4.5 In respect of Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (INViTs), it is proposed to provide that the sponsor will be given the same treatment on offloading of units at the time of listing as would have been available to him if he had offloaded his shareholding of special purpose vehicle (SPV) at the stage of direct listing. Further, the rental income arising from real estate assets directly held by the REIT is also proposed to be allowed to pass through and to be taxed in the hands of the unit holders of the REIT.

4.6 It is proposed to amend the provisions of section 194LD of the Income-tax Act so as to extend the period of applicability of reduced rate of tax at 5% in respect of income of foreign investors (FIIs and QFIs) from corporate bonds and government securities, from 31.5.2015 to 30.06.2017.

4.7 With a view to obviate the problems faced by small companies and to facilitate the inflow of technology, it is proposed to amend the provisions of section 115A of the Income-tax Act so as to reduce the rate of tax on royalty and fees for technical services from 25% to 10%.

4.8 With a view to facilitating generation of employment, it is proposed to amend the provisions of section 80JJAA of the Income-tax Act so as to provide that tax benefit under the said section shall be available to a 'person' deriving profits from manufacture of goods in a factory and paying wages to new regular workmen. The eligibility threshold of minimum 100 workmen is proposed is to reduced to fifty.

4.9 Additional depreciation @ 20% is allowed on new plant and machinery installed by a manufacturing unit or a unit engaged in generation and distribution of power. However, if the asset is installed after 30th September of the previous year only 10% of the additional depreciation is allowed. It is proposed to allow the remaining 10% of the additional depreciation in the subsequent previous year.

**5. C. <u>Minimum government and maximum goverance to improve the ease of doing business</u>**

5.1 Section 9 of the Income-tax Act was amended by Finance Act, 2012 to clarify that if an asset, being a share of, or interest, in a company or an entity derives its value, directly or indirectly, substantially from an asset situated in India, the gain arising from transfer of such share or interest shall be taxable in India. After the clarificatory amendment, a large number of representations were received from various quarters seeking clarification on certain terms used in the amended provisions. An Expert Committee was also constituted to look into the concerns. Taking into account the recommendations made by the Expert Committee and the concerns raised by the various stakeholders, it is proposed to amend the provisions of the Income-tax Act so as to provide that:-

- the share or interest shall be deemed to derive its value substantially from the assets located in India, if on the specified date, the value of such assets represents at least fifty per cent of the fair market value of all the assets owned by the company or entity. However, the indirect transfer provisions would not apply if the value of Indian assets does not exceed ₹ 10 crore. Further, the principle of proportionality will apply to the taxation of gains arising from indirect transfer of Indian assets.

- the Indian entity shall be obligated to furnish information relating to the offshore transactions having the effect of directly or indirectly modifying the ownership structure or control of the Indian company or entity. In case of non-compliance, a penalty is also proposed.

- the indirect transfer provisions shall not apply in a case where the transferor of share or interest in a foreign entity, along with his associated enterprises, neither holds the right of control or

management nor holds voting power or share capital or interest exceeding five percent. of the total voting power or total share capital in the foreign company or entity, directly or indirectly, holding the Indian assets.

- the capital gains shall be exempt in respect of transfer of share of a foreign company deriving its value, directly or indirectly, substantially from the shares of an Indian company, under a scheme of amalgamation or demerger.

5.2 It is proposed to amend the provisions of section 92BA of the Income-tax Act so as to increase the threshold limit for applicability of transfer pricing regulations to specified domestic transactions from ₹5 crore to ₹20 crore.

5.3 It is proposed to amend the provisions of section 2(15) of the Income-tax Act so as to include 'yoga' as a specific category of activity in the definition of 'charitable purpose' and also to provide relief for activities in the nature of business undertaken by genuine charitable organizations subject to the condition that aggregate receipts from such activity is less than 20% of the total receipts.

5.4 It is proposed to exempt the income of Core Settlement Guarantee Fund established by Clearing Corporations as per mandate of SEBI.

5.5 It is proposed to amend the provisions of section 255 of the Income-tax Act so as to increase the monetary limit from ₹ 5 lakh to ₹ 15 lakh, for a case to be heard by a Single Member Bench of the ITAT.

5.6 It is proposed to amend the provisions of the Income-tax Act so as to provide tax neutrality on transfer of units of a scheme of a Mutual Fund under the process of consolidation of schemes of Mutual Funds as per SEBI Regulations, 1996.

5.7 It is proposed to amend the provisions of the Income-tax Act so as to provide a mechanism to pre-empt the repetitive appeals by the revenue in the same assessee's case on the same question of law year after year.

5.8 It is proposed to empower the Board to prescribe rules for grant of relief in respect of taxes paid in foreign jurisdictions.

5.9 It is proposed to abolish the levy of Wealth-tax with effect from 2016-17 (Assessment Year) for reducing the compliance burden on the tax payers. The revenue loss on account of such abolition is proposed to be compensated by increase in the existing surcharge by 2% in case of domestic companies and all non corporate taxpayers.

5.10 With a view to rationalise the dispute resolution mechanism available to taxpayer in the form of Settlement Commission, it is proposed to provide that while making an application to the Settlement Commission for an assessment year which has been re-opened by the Assessing Officer, the assessee can make an application for other assessment years in which the proceedings could be re-opened provided the return of income for such assessment years has been furnished by the assessee.

**6. D. <u>Improving the quality of life and public health through Swachh Bharat Initiatives</u>**

6.1 It is proposed to provide that the donations (other than the CSR contributions made in accordance with section 135 of the Companies Act, 2013) made to Swachch Bharat Kosh (by both resident and non-resident) and Clean Ganga Fund (by resident) shall be eligible for 100% deduction under section 80G of the Income-tax Act.

**7. E. <u>Benefits to middle class taxpayers</u>**

With a view to encourage savings and to promote health care among individual taxpayers, a number of measures are proposed to be taken by way of incentives under the Income-tax Act. The same are enumerated below:-

7.1 It is proposed to provide that investment in Sukanya Samriddhi Scheme will be eligible for deduction u/s 80C and any payment from the scheme shall not be liable to tax.

7.2 It is proposed to increase the limit of deduction u/s 80D of the Income-tax Act from ₹ 15,000 to ₹ 25,000 on health insurance premium (in case of senior citizen from ₹ 20,000 to ₹ 30,000). It is also proposed to allow deduction of expenditure of similar amount in case of a very senior citizen not eligible to take health insurance.

7.3 It is proposed to increase the limit of deduction in case of very senior citizens u/s 80DDB of the Income-tax Act on expenditure on account of specified diseases from ₹ 60,000 to ₹ 80,000.

7.4 It is proposed to increase the limit of deduction u/s 80DD of the Income-tax Act in respect of maintenance, including medical treatment of a dependant who is a person with disability, from ₹ 50,000 to ₹75,000. It is also proposed to increase the limit of deduction from ₹ 1 lakh to ₹1.25 lakh in case of severe disability.

7.5 It is proposed to increase the limit of deduction u/s 80U of the Income-tax Act in case of a person with disability, from ₹ 50,000 to ₹ 75,000. It is also proposed to increase the limit of deduction from ₹ 1 lakh to ₹1.25 lakh in case of severe disability.

7.6 It is proposed to increase the limit of deduction u/s 80CCC of the Income-tax Act on account of contribution to a pension fund of LIC or IRDA approved insurer from ₹ 1 lakh to ₹ 1.5 lakh.

7.7 It is proposed to increase the limit of deduction u/s 80CCD of the Income-tax Act on account of contribution by the employee to National Pension Scheme (NPS) from ₹ 1 lakh to ₹ 1.50 lakh. It is also proposed to provide a deduction of upto ₹ 50,000 over and above the limit of ₹ 1.50 lakh in respect of contributions made to NPS.

7.8 It is proposed to amend the provisions of section 197A of the Income-tax Act so as to provide the facility of filing self-declaration of non-deduction of tax by the recipients of taxable maturity proceeds of life insurance policy.

7.9 Under the existing provisions of the Income-tax Act, an individual buying an immovable property from a resident is required to deduct tax but is not required to obtain TAN for depositing the tax so deducted. With a view to extend the same facility to an individual or HUF purchasing an immovable property from a non-resident, it is proposed to relax the requirement of obtaining TAN by the individual or HUF who is required to deduct tax on acquisition of immovable property from a non-resident.

7.10 It is proposed to provide that donation made to National Fund for Control of Drug Abuse (NFCDA) shall be eligible for 100% deduction under section 80G of the Income-tax Act.

7.11 Details of tax deductions referred to in para 99.

| | |
|---|---|
| • Deduction u/s 80C | ₹1,50,000 |
| • Deduction u/s 80CCD | ₹50,000 |
| • Deduction on account of interest on house property loan (Self occupied property) | ₹2,00,000 |
| • Deduction u/s 80D on health insurance premium | ₹25,000 |
| • Exemption of transport allowance | ₹19,200 |
| **Total** | **₹4,44,200** |

## 8. F. <u>Stand alone proposals to maximise benefits to the economy</u>

8.1 It is proposed to provide for chargeability of interest paid by a permanent establishment (PE) or a branch of foreign bank to its Head Office (HO) and other overseas branches under the source rule of taxation and for treating the PE or branch as a taxable entity for computation of income and for purpose of levy of TDS.

8.2 With a view to providing a uniform method of computation of period of stay in Indian for the purposes of determination of 'resident' status in the case of a India seafarer, whether working on a Indian-ship or foreign-ship, it is proposed to provide an enabling power to CBDT to prescribe the same in the rules.

8.3 In search cases, it is proposed to allow seized cash to be adjusted towards the assessee's tax liability under his settlement application.

8.4 With a view to ensuring proper deduction of tax on payments made to non-residents, it is proposed to amend the provisions of section 195 of the Income-tax Act so as to provide for enabling power to the CBDT for capturing information about prescribed foreign remittances which are claimed to be not chargeable to tax.

## INDIRECT TAXES

### A. <u>Job creation through revival of growth and investment and promotion of domestic manufacturing and 'Make in India'</u>.

### CUSTOMS

**I. Reduction in duty on certain inputs to address the problem of duty inversion**:

1) 'Metal parts' for use in the manufacture of electrical insulators.

2) Ethylene-Propylene-non-conjugated-Diene Rubber (EPDM), Water blocking tape and Mica glass tape for use in the manufacture of insulated wires and cables.

3) Magnetron upto 1 KW for use in the manufacture of microwave ovens.

4) C- Block for Compressor, Over Load Protector (OLP) & Positive thermal co-efficient and Crank Shaft for compressor, for use in the manufacture of Refrigerator compressors.

5) Zeolite, ceria zirconia compounds and cerium compounds for use in the manufacture of washcoats, which are further used in manufacture of catalytic converters.

6) Anthraquinone for manufacture of hydrogen peroxide.

7) Sulphuric acid for use in the manufacture of fertilizers.

8) Parts and components of Digital Still Image Video Camera capable of recording video with minimum resolution of 800x600 pixels, at minimum 23 frames per second, for at least 30 minutes in a single sequence, using the maximum storage (including the expanded) capacity.

**II. Reduction in Basic Customs Duty to reduce the cost of raw materials**:

1) Ethylene dichloride (EDC), vinyl chloride monomer (VCM) and styrene monomer (SM) from 2.5% to 2%.

2) Isoprene and Liquefied butanes from 5% to 2.5%.

3) Butyl acrylate from 7.5% to 5%.

4) Ulexite ore from 2.5% to Nil.

5) Antimony metal, antimony waste and scrap from 5% to 2.5%.

6) Specified components for use in the manufacture of specified CNC lathe machines and machining centres from 7.5% to 2.5%.

7) Certain specified inputs for use in the manufacture of flexible medical video endoscopes from 5% to 2.5%.

8) HDPE for use in the manufacture of telecommunication grade optical fibre cables from 7.5% to Nil.

9) Black Light Unit Module for use in the manufacture of LCD/ LED TV panels from 10% to Nil.

10) Organic LED (OLED) TV panels from 10% to Nil.

11) CVD and SAD are being fully exempted on specified raw materials [battery, titanium, palladium wire, eutectic wire, silicone resins and rubbers, solder paste, reed switch, diodes, transistors, capacitors, controllers, coils (steel), tubing (silicone)] for use in the manufacture of pacemakers.

12) Evacuated Tubes with three layers of solar selective coating for use in the manufacture of solar water heater and system to Nil.

13) Active Energy Controller (AEC) for use in the manufacture of Renewable Power System (RPS) Inverters to 5%, subject to certification by MNRE.

14) Parts, components and accessories (falling under any Chapter) for use in the manufacture of tablet computers and their sub-parts for use in manufacture of parts, components and accessories are being fully exempted from BCD, CVD and SAD.

**III. Reduction in SAD to address the problem of CENVAT credit accumulation:**

1) All goods except populated PCBs, falling under any Chapter of the Customs Tariff, for use in manufacture of ITA bound goods from 4% to Nil.

2) Naphtha, ethylene dichloride (EDC), vinyl chloride monomer (VCM) and styrene monomer (SM) for manufacture of excisable goods from 4% to 2%.

3) Metal scrap of iron & steel, copper, brass and aluminium from 4% to 2%.

4) Inputs for use in the manufacture of LED drivers and MCPCB for LED lights, fixtures and LED lamps from 4% to Nil.

**IV. Increase in Basic Customs Duty:**

1) Metallurgical coke from 2.5% to 5%.

2) Tariff rate on iron & steel and articles of iron or steel, falling under Chapters 72 and 73 of the Customs Tariff, from 10% to 15%. However, there is no change in the existing effective rates of basic customs duty on these goods.

3) Tariff rate on Commercial Vehicles from 10% to 40% and effective rate from 10% to 20%. However, customs duty on commercial vehicles in Completely Knocked Down (CKD) kits and electrically operated vehicles including those in CKD condition will continue to be at 10%.

**V. Miscellaneous:**

1) Export duty on upgraded ilmenite is being reduced from 5% to 2.5%.

2) Excise duty structure for mobiles handsets including cellular phones is being changed from 1% without CENVAT credit or 6% with CENVAT credit to 1% without CENVAT credit or 12.5% with CENVAT credit.

3) Excise duty structure of 2% without CENVAT credit or 12.5% with CENVAT credit is being prescribed for tablet computers.

4) Basic Customs Duty on Digital Still Image Video Camera capable of recording video with minimum resolution of 800x600 pixels, at minimum 23 frames per second, for at least 30 minutes in a single sequence, using the maximum storage (including the expanded) capacity is being reduced to Nil. Basic Customs Duty on parts and components of these cameras is also being reduced from 5% to Nil.

5) Concessional customs duty structure of Nil Basic Customs Duty, 6% CVD and Nil SAD on specified parts of electrically operated vehicles and hybrid vehicles, presently available upto 31.03.2015, is being extended upto 31.03.2016.

## EXCISE

**I. Excise duty structure on certain goods is being restructured as follows:**

1) Wafers for use in the manufacture of integrated circuit (IC) modules for smart cards from 12% to 6%.

2) Inputs for use in the manufacture of LED drivers and MCPCB for LED lights, fixtures and LED lamps from 12% to 6%.

3) Mobiles handsets, including cellular phones from 1% without CENVAT credit or 6% with CENVAT credit to 1% without CENVAT credit or 12.5% with CENVAT credit. NCCD of 1% on mobile handsets including cellular phones remains unchanged.

4) Tablet computers from 12% to 2% without CENVAT credit or 12.5% with CENVAT credit.

5) Specified raw materials [battery, titanium, palladium wire, eutectic wire, silicone resins and rubbers, solder paste, reed switch, diodes, transistors, capacitors, controllers, coils (steel), tubing (silicone)] for use in the manufacture of pacemakers to Nil.

6) Pig iron SG grade and Ferro-silicon-magnesium for use in the manufacture of cast components of wind operated electricity generators to Nil, subject to certification by MNRE.

7) Solar water heater and system from 12% to Nil without CENVAT credit or 12.5% with CENVAT credit.

8) Round copper wire and tin alloys for use in the manufacture of Solar PV ribbon for manufacture of solar PV cells to Nil subject to certification by Department of Electronics and Information Technology (DeitY).

**II. Miscellaneous:**

1) Excise duty on leather footwear (footwear with uppers made of leather of heading 4107 or 4112 to 4114) of Retail Sale Price of more than ₹ 1000 per pair from 12% to 6%.

2) Excise duty levied on the value of duty paid on rails for manufacture of railway or tramway track construction material is being exempted retrospectively for the period from 17.03.2012 to 02.02.2014, if no CENVAT credit of duty paid on such rails is availed.

**B. <u>Mimimum government and maximum governance to improve the ease of design business</u>**

**I. Reduction in number of levies:**

**EXCISE**

1) Education Cess and Secondary & Higher Education Cess leviable on excisable goods are being subsumed in Basic Excise duty. Consequently, Education Cess and Secondary & Higher Education Cess leviable on excisable goods are being fully exempted. The standard ad valorem rate of Basic Excise Duty is being increased from 12% to 12.5% and specific rates of Basic Excise Duty on petrol, diesel, cement, cigarettes & other tobacco products (other than biris) are being suitably changed. However, the total incidence of various duties of excise on petrol and diesel remains unchanged. Other Basic Excise Duty rates (ad valorem as well as specific) with a few exceptions are not being changed. Customs Education Cesses will continue to be levied on imported goods.

**II. Ensure certainty and uniformity in valuation of the goods for the purposes of levy of excise duty:**

1) All goods falling under Chapter sub-heading 2101 20, including iced tea, are being notified under section 4A of the Central Excise Act for the purpose of assessment of Central Excise duty with reference to the Retail Sale Price with an abatement of 30%. Such goods are also being included in the Third Schedule to the Central Excise Act, 1944.

2) Goods, such as lemonade and other beverages, are being notified under section 4A of the Central Excise Act for the purpose of assessment of Central Excise duty with reference to the Retail Sale Price with an abatement of 35%. Such goods are also being included in the Third Schedule to the Central Excise Act, 1944.

**III. Compliance Facilitation:**

1) Online Central Excise/Service Tax Registration within two working days.

2) Time limit for taking CENVAT Credit on inputs and input services is being increased from six months to one year.

3) Facility of direct dispatch of goods by registered, dealer from seller to customer's premises is being provided. Similar facility is also being allowed in respect of job-workers. Registered importer can also send goods directly to customer from the port of importation.

4) Penalty provisions in Customs, Central Excise & Service Tax are being rationalized to encourage compliance and early dispute resolution.

5) Central Excise/Service Tax assessees are being allowed to issue digitally signed invoices and maintain other records electronically.

**IV. Miscellaneous**:

1) The entry "waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured" in the Seventh Schedule to the Finance Act, 2005 related to levy of additional duty of excise @ 5% is being omitted. Till the enactment of the Finance Bill, 2015, the said additional duty of excise of 5% leviable on such goods is being exempted. Simultaneously, the Basic Excise Duty on these goods is being increased from 12% to 18%.

2) Excise duty on chassis for ambulances is being reduced from 24% to 12.5%.

**C. <u>Improving the quality of life and public health through Swachh Bharat Initiatives.</u>**

**CUSTOMS & EXCISE**

1) The Scheduled rate of Clean Energy Cess levied on coal, lignite and peat is being increased from ₹100 per tonne to ₹300 per tonne. The effective rate of Clean Energy Cess is being increased from ₹100 per tonne to ₹200 per tonne.

2) Concessional customs and excise duty rates on specified parts of Electrically Operated Vehicles and Hybrid Vehicles, presently available upto 31.03.2015, is being extended upto 31.03.2016.

3) Excise duty on sacks and bags of polymers of ethylene other than for industrial use is being increased from 12% to 15%.

**SERVICE TAX**

1) An enabling provision is being made to empower the Central Government to impose a Swachh Bharat Cess on all or certain taxable services at a rate of 2% on the value of such taxable services. The proceeds from this Cess would be utilized for Swachh Bharat initiatives. This Cess will be effective from a date to be notified.

2) Service provided by a Common Effluent Treatment Plant operator for treatment of effluent is being exempted.

**D. <u>Stand alone proposals to maximise benefits to the economy</u>**

**D.I Broadening the Tax Base:**

**EXCISE**

1) Excise duty of 2% without CENVAT credit or 6% with CENVAT credit is being levied on condensed milk put up in unit containers. It is also being notified under section 4A of the Central Excise Act for the purpose of valuation with reference to the Retail Sale Price with an abatement of 30%.

2) Excise duty of 2% without CENVAT credit or 6% with CENVAT credit is being levied on peanut butter.

**SERVICE TAX**

**I. Change in Service Tax rates:**

1) The **service tax rate** is being increased from 12% plus Education Cesses to 14%. The 'Education Cess' and 'Secondary and Higher Education Cess' shall be subsumed in the new service tax rate. The revised rate shall come into effect from a date to be notified.

**II. Review of the Negative List**

1) Service tax to be levied on the service provided by way of access to amusement facility such as rides, bowling alleys, amusement arcades, water parks, theme parks, etc.

2) Service tax to be levied on service by way of admission to entertainment event of concerts, non-recognized sporting events, pageants, music concerts and award functions, if the amount charged for admission is more than Rs 500. Service by way of admission to exhibition of the cinematographic film, circus, dance, or theatrical performances including drama, ballets or recognized sporting events shall continue to be exempt.

3) Service tax to be levied on service by way of carrying out any processes as job work for production or manufacture of alcoholic liquor for human consumption.

4) An enabling provision is being made to exclude all services provided by the Government or local authority to a business entity from the Negative List. Once this amendment is given effect to, all service provided by the Government to business entities, unless specifically exempt, shall become taxable.

## III. Review of General Exemptions

1) Exemption presently available on specified services of construction, repair of civil structures, etc. when provided to Government shall be restricted only to,-

   a) a historical monument, archaeological site

   b) canal, dam or other irrigation work;

   c) pipeline, conduit or plant for (i) water supply (ii) water treatment, or (iii) sewerage treatment or disposal.

2) Exemption to construction, erection, commissioning or installation of original works pertaining to an airport or port is being withdrawn.

3) Exemption to services provided by a performing artist in folk or classical art form of (i) music, or (ii) dance, or (iii) theater, will be limited only to such cases where amount charged is upto Rs 1,00,000 per performance (except brand ambassador).

4) Exemption to transportation of 'food stuff' by rail, or vessels or road will be limited to transportation of food grains including rice and pulses, flours, milk and salt only. Transportation of agricultural produce is separately exempt which would continue.

5) Exemptions are being withdrawn on the following services:

   (a) services provided by a mutual fund agent to a mutual fund or assets management company;

   (b) distributor to a mutual fund or AMC; and

   (c) selling or marketing agent of lottery ticket to a distributor of lottery.

6) Exemption is being withdrawn on the following services,-

   (a) Departmentally run public telephone

   (b) Guaranteed public telephone operating only local calls

   (c) Service by way of making telephone calls from free telephone at airport and hospital where no bill is issued

7) Existing exemption notification for service provided by a commission agent located outside India to an exporter located in India is being rescinded, as this notification has become redundant in view of the amendments made in law in the previous budget, whereby services provided by such agents have been excluded from the tax net.

**D.II Relief Measures:**

**CUSTOMS**

1) Exempt artificial heart (left ventricular assist device) from Basic Customs Duty of 5% and CVD.

**EXCISE**

1) Full exemption from excise duty is being extended to captively consumed intermediate compound coming into existence during the manufacture of Agarbattis. Agarbattis attract Nil excise duty.

**SERVICE TAX**

1) Services of pre-conditioning, pre-cooling, ripening, waxing, retail packing, labeling of fruits and vegetables are being exempted.

2) Life insurance service provided by way of Varishtha Pension Bima Yojna is being exempted.

3) Service provided by way of exhibition of movie by the exhibitor/ theatre owner to the distributor or association of persons consisting of exhibitor as one of it's member is being exempted.

4) All ambulance services provided to patients are being exempted.

5) Service provided by way of admission to a museum, zoo, national park, wild life sanctuary and a tiger reserve is being exempted.

6) Transport of goods for export by road from the factory to a land customs station (LCS) is being exempted.

**D.III Allocation of additional resources for infrastructure:**

**EXCISE & CUSTOMS**

1) The Scheduled rates of Additional Duty of Customs / Excise levied on Petrol and High Speed Diesel Oil [commonly known as Road Cess] are being increased from ₹2 per litre to ₹8 per litre. The effective rates of Additional Duty of Customs / Excise levied on Petrol and High Speed Diesel Oil [commonly known as Road Cess] are being increased from ₹2 per litre to ₹6 per litre. Simultaneously, Basic Excise Duty Rates on Petrol and High Speed Diesel Oil (both branded and unbranded) are being reduced by ₹4 per litre. Basic Excise duty rates on petrol and diesel are also being increased suitably so as to subsume Education Cess and Secondary and Higher Education Cess presently levied on them. Thus, the net decrease in Basic Excise Duty on branded petrol is ₹3.46 per litre, on unbranded petrol is ₹3.49 per litre, on branded diesel is ₹3.63 per litre and on unbranded diesel is ₹3.70 per litre. **However, total incidence of excise duties on petrol and diesel remains unchanged.**

**D.IV Promote public health:**

**EXCISE**

1) Excise duty on cigarettes is being increased by 25% for cigarettes of length not exceeding 65 mm and by 15% for cigarettes of other lengths. Similar increases are proposed on cigars, cheroots and cigarillos.

2) Maximum speed of packing machine is being specified as a factor relevant to production for determining excise duty payable under the Compounded Levy Scheme presently applicable to pan masala, gutkha and chewing tobacco. Accordingly, deemed production and duty payable per machine per month are being notified with reference to the speed range in which the maximum speed of a packing machine falls.

**D.V Other measures relating to Service Tax**

**1. Changes in the Finance Act, 1994**

1. A definition of the term "government" is being incorporated in the Act to resolve interpretational issues as regards the scope of this term in the context of the Negative List and service tax exemptions.

2. To amend the definition of term "service" to specifically state the intention of legislature to levy service tax on:

   i. chit fund foremen by way of conducting a chit; and

   ii. distributor or selling agent of lottery, as appointed or authorized by the organizing state for promoting, marketing, distributing, selling, or assisting the state in any other way for organizing and conducting a lottery.

3. It is being specifically prescribed in the Act that value of a taxable service shall include any reimbursable cost or expenditure incurred and charged by the service provider to make legal position clear and avoid disputes.

4. Section 66F of the Act prescribes that unless otherwise specified, reference to a service shall not include reference to any input service used for providing such service. An illustration is being incorporated in this section to exemplify the scope of this provision.

**2. Rationalization of abatement**

1. A uniform abatement is being prescribed for transport by rail, road and vessel to bring parity in these sectors. Service Tax shall be payable on 30% of the value of such service

subject to a uniform condition of non-availment of Cenvat Credit on inputs, capital goods and input services. Presently, tax is payable on 30% of the value in case of rail transport, 25% in case of road transport and 40% in case of transport by vessels.

2. The abatement for executive (business/first class) air travel, wherein the service element is higher, is being reduced from 60% to 40%. Consequently, service tax would be payable on 60% of the value of fare for business class.

3. Abatement is being withdrawn on chit fund service.

**3. Service Tax Rules**

1. In respect of any service provided under aggregator model, the aggregator is being made liable to pay service tax if the service is provided using the brand name of aggregator in any manner.

2. Consequent to the upward revision in Service Tax rate, the composition rate on specified services, namely, life insurance service, services of air travel agent, money changing service provided by banks or authorized dealers, and service provided by lottery distributor and selling agent, is proposed to be revised proportionately.

**4. Reverse charge mechanism**

1. Manpower supply and security services when provided by individual, HUF, partnership firm to a body corporate are being brought to full reverse charge as a simplification measure. Presently, these are taxed under partial reverse charge mechanism.

2. Services provided by mutual fund agents, mutual fund distributors and lottery agents are being brought to under reverse charge consequent to withdrawal of exemption on such services.

**5. The Cenvat Credit Rules, 2004**

Cenvat Credit Rules are being amended to allow credit of service tax paid under partial reverse charge by the service receiver without linking it to the payments of value of service to service provider as a trade facilitation measure.