



Confederation of Indian Industry



# UNION BUDGET 2016-17

## ANALYSIS





*Union Budget 2016-17*  
*An Analysis*

29 February, 2016



Confederation of Indian Industry

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Published by Confederation of Indian Industry (CII), The Mantosh Sondhi Centre; 23, Institutional Area, Lodi Road, New Delhi 110003, India, Tel: +91-11-24629994-7, Fax: +91-11-24626149; Email: [info@cii.in](mailto:info@cii.in);  
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## **FOREWORD**

### **A growth and development-oriented Budget**

The Finance Minister presented a well-rounded package of reforms and growth-oriented measures in the Union Budget 2016-17. The Budget proposals addressed issues in nine critical areas ranging from agriculture and the rural sector to financial sector and banking. Given the current global context of slowing growth and threat of financial turbulence, the Budget needs to be commended for giving a boost to growth and investment without disturbing the path for fiscal consolidation.

In line with recommendations made by CII, the Budget has announced critical interventions in areas such as agriculture, infrastructure, education and skills. Financial sector reforms have been taken forward including a plan for revitalising public sector banks. A lot of emphasis has been given to accelerated implementation of direct benefits transfer through the widespread use of JAM trinity, so that subsidies reach the intended beneficiaries.

Budget 2016-17 has undertaken several key initiatives for job creation in the formal sector, which have been taken up consistently by CII. Contribution of EPF for new employees for three years, entrepreneurship development courses, changes in the transport sector, and so on would encourage job generation. Low-cost housing will be a huge demand multiplier, and CII welcomes the many initiatives on this. CII also welcomes the measures to revive infrastructure investment such as the new credit rating system and the commitment to issue guidelines for renegotiation of PPPs.

Budget 2016-17 has many tax and spending measures that will go a long way in promoting investment and growth. The well-thought out interventions presented in the Budget make it a growth and development oriented Budget.

**Chandrajit Banerjee**  
Director General  
Confederation of Indian Industry





**Chapter 1**  
**Key Features of the**  
**Union Budget 2016-17**



# Chapter 1

## Key Features of the Union Budget 2016-17

### Introduction

- Growth of Economy accelerated to 7.6% in 2015-16.
- Robust growth achieved despite unfavorable global conditions and two consecutive years of shortfall in monsoon.
- Despite increased devolution to States by 55% as a result of the 14<sup>th</sup> Finance Commission award, plan expenditure increased in 2015-16.

### Challenges in 2016-17

- Risks of further global slowdown and turbulence.
- Additional fiscal burden due to 7<sup>th</sup> Central Pay Commission recommendations and OROP.

### Roadmap & Priorities

- Government to focus on –
  - Ensuring macro-economic stability and prudent fiscal management.
  - Boosting on domestic demand
  - Continuing with the pace of economic reforms and policy initiatives to change the lives of our people for the better.
- Focus on enhancing expenditure in priority areas of - farm and rural sector, social sector, infrastructure sector employment generation and recapitalization of the banks.
- Focus on Vulnerable sections through:
  - Pradhan Mantri Fasal Bima Yojana
  - New health insurance scheme to protect against hospitalization expenditure
  - facility of cooking gas connection for BPL families
- Continue with the ongoing reform programme and ensure passage of the GST bill and Insolvency and Bankruptcy law
- Undertake important reforms by:
  - giving a statutory backing to AADHAR platform
  - freeing the transport sector from constraints and restrictions
  - incentivizing gas discovery and exploration

- enactment of a comprehensive law to deal with resolution of financial firms
- provide legal framework for dispute resolution and re-negotiations in PPP projects and public utility contracts
- undertake important banking sector reforms public listing of general insurance companies

## **Fiscal Discipline**

- Fiscal deficit in RE 2015-16 and BE 2016-17 retained at 3.9% and 3.5% respectively.
- Revenue Deficit target reduced from 2.8% to 2.5% in RE 2015-16
- Total expenditure projected at Rs. 19.78 lakh crore
- Plan expenditure pegged at Rs. 5.50 lakh crore
- Non-Plan expenditure kept at Rs. 14.28 lakh crore
- Mobilisation of additional finances to the extent of Rs. 31,300 crore by NHAI, PFC, REC, IREDA, NABARD and Inland Water Authority by raising Bonds.
- Plan / Non-Plan classification to be done away with from 2017-18.
- Every new scheme sanctioned will have a sunset date and outcome review.
- Rationalised and restructured more than 1500 Central Plan Schemes into about 300 Central Sector and 30 Centrally Sponsored Schemes.
- Committee to review the implementation of the FRBM Act.

## **Agriculture and Farmers' Welfare**

- Allocation for Agriculture and Farmers' welfare is Rs. 35,984 crore
- 'Pradhan Mantri Krishi Sinchai Yojana' to be implemented in mission mode. 28.5 lakh hectares will be brought under irrigation.
- Implementation of 89 irrigation projects under AIBP
- A dedicated Long Term Irrigation Fund will be created in NABARD with an initial corpus of about Rs. 20,000 crore
- Programme for sustainable management of ground water resources with an estimated cost of Rs. 6,000 crore will be implemented through multilateral funding
- 5 lakh farm ponds and dug wells in rain fed areas and 10 lakh compost pits for production of organic manure will be taken up under MGNREGA
- Soil Health Card scheme will cover all 14 crore farm holdings by March 2017.
- 2,000 model retail outlets of Fertilizer companies will be provided with soil and seed testing facilities during the next three years
- Promote organic farming through 'Parmparagat Krishi Vikas Yojana' and 'Organic Value Chain Development in North East Region'.
- Unified Agricultural Marketing e-Platform to provide a common e- market platform for wholesale markets

- Allocation under Pradhan Mantri Gram Sadak Yojana increased to Rs.19,000 crore. Will connect remaining 65,000 eligible habitations by 2019.
- To reduce the burden of loan repayment on farmers, a provision of Rs. 15,000 crore has been made in the BE 2016-17 towards interest subvention
- Allocation of Rs. 5,500 crore under Prime Minister Fasal Bima Yojana.
- Rs. 850 crore for four dairying projects - 'Pashudhan Sanjivani', 'Nakul Swasthya Patra', 'E-Pashudhan Haat' and National Genomic Centre for indigenous breeds

## **Rural Sector**

- Allocation for rural sector – Rs. 87,765 crore.
- Rs. 2.87 lakh crore will be given as Grant in Aid to Gram Panchayats and Municipalities as per the recommendations of the 14th Finance Commission
- Every block under drought and rural distress will be taken up as an intensive Block under the Deen Dayal Antyodaya Mission
- A sum of Rs. 38,500 crore allocated for MGNREGS.
- 300 Rurban Clusters will be developed under the Shyama Prasad Mukherjee Rurban Mission
- 100% village electrification by 1st May, 2018.
- District Level Committees under Chairmanship of senior most Lok Sabha MP from the district for monitoring and implementation of designated Central Sector and Centrally Sponsored Schemes.
- Priority allocation from Centrally Sponsored Schemes to be made to reward villages that have become free from open defecation.
- A new Digital Literacy Mission Scheme for rural India to cover around 6 crore additional household within the next 3 years.
- National Land Record Modernisation Programme has been revamped.
- New scheme Rashtriya Gram Swaraj Abhiyan proposed with allocation of Rs. 655 crore.

## **Social Sector Including Health Care**

- Allocation for social sector including education and health care – Rs.1,51,581 crore.
- Rs. 2,000 crore allocated for initial cost of providing LPG connections to BPL families.
- New health protection scheme will provide health cover up to Rs. One lakh per family. For senior citizens an additional top-up package up to Rs. 30,000 will be provided.
- 3,000 Stores under Prime Minister's Jan Aushadhi Yojana will be opened during 2016-17.
- 'National Dialysis Services Programme' to be started under National Health Mission through PPP mode
- "Stand Up India Scheme" to facilitate at least two projects per bank branch. This will benefit at least 2.5 lakh entrepreneurs.
- National Scheduled Caste and Scheduled Tribe Hub to be set up in partnership with industry associations

## **Education, Skills and Job Creation**

- 62 new Navodaya Vidyalayas will be opened
- Sarva Shiksha Abhiyan for increasing focus on quality of education
- Regulatory architecture to be provided to ten public and ten private institutions to emerge as world-class Teaching and Research Institutions
- Higher Education Financing Agency to be set-up with initial capital base of Rs. 1000 Crores
- Digital Depository for School Leaving Certificates, College Degrees, Academic Awards and Mark sheets to be set-up.

## **Skill Development**

- Allocation for skill development – Rs. 1804 crore.
- 1500 Multi Skill Training Institutes to be set-up.
- National Board for Skill Development Certification to be setup in partnership with the industry and academia
- Entrepreneurship Education and Training through Massive Open Online Courses

## **Job Creation**

- Govt will pay contribution of 8.33% for of all new employees enrolling in EPFO for the first three years of their employment. Budget provision of Rs. 1000 crore for this scheme.
- Deduction under Section 80JJAA of the Income Tax Act will be available to all assesses who are subject to statutory audit under the Act
- 100 Model Career Centres to be operational by the end of 2016-17 under National Career Service.
- Model Shops and Establishments Bill to be circulated to States.

## **Infrastructure and Investment**

- Total investment in the road sector, including PMGSY allocation, would be Rs. 97,000 crore during 2016-17.
- India's highest ever kilometres of new highways were awarded in 2015. Nearly 10,000 kms of National Highways to be approved in 2016-17.
- Allocation of Rs. 55,000 crore in the Budget for Roads. Additional Rs. 15,000 crore to be raised by NHAI through bonds.
- Total outlay for infrastructure – Rs. 2,21,246 crore.
- Amendments to be made in Motor Vehicles Act and open up the road transport sector in the passenger segment
- Action plan for revival of unserved and underserved airports to be drawn up in partnership with State Governments.

- To provide calibrated marketing freedom in order to incentivise gas production from deep-water, ultra deep-water and high pressure-high temperature areas
- Comprehensive plan, spanning next 15 to 20 years, to augment the investment in nuclear power generation to be drawn up.
- Steps to re-vitalize PPPs:
  - Public Utility (Resolution of Disputes) Bill will be introduced during 2016-17
  - Guidelines for renegotiation of PPP Concession Agreements will be issued
  - New credit rating system for infrastructure projects to be introduced
- Reforms in FDI policy in the areas of Insurance and Pension, Asset Reconstruction Companies, Stock Exchanges.
- 100% FDI to be allowed through FIPB route in marketing of food products produced and manufactured in India.
- A new policy for management of Government investment in Public Sector Enterprises, including disinvestment and strategic sale, approved.

## **Financial Sector Reforms**

- A comprehensive Code on Resolution of Financial Firms for insolvency and bankruptcy issues to be introduced.
- Statutory basis for a Monetary Policy framework and a Monetary Policy Committee through the Finance Bill 2016 to be introduced under committee based approach for monetary policy.
- A Financial Data Management Centre to be set up.
- RBI to facilitate retail participation in Government securities.
- New derivative products will be developed by SEBI in the Commodity Derivatives 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 to deal with the menace of illicit deposit taking schemes.
- Increasing members and benches of the Securities Appellate Tribunal.
- Allocation of Rs. 25,000 crore towards recapitalisation of Public Sector Banks.
- Target of amount sanctioned under Pradhan Mantri Mudra Yojana increased to Rs. 1,80,000 crore.
- General Insurance Companies owned by the Government to be listed in the stock exchanges.

## **Governance and Ease of Doing Business**

- A Task Force has been constituted for rationalisation of human resources in various Ministries.
- Comprehensive review and rationalisation of Autonomous Bodies.
- Bill for Targeted Delivery of Financial and Other Subsidies, Benefits and Services by using the Aadhar framework to be introduced.

- To introduce DBT on pilot basis for fertilizer.
- Automation facilities will be provided in 3 lakh fair price shops by March 2017.
- Amendments in Companies Act to improve enabling environment for start-ups.
- Price Stabilisation Fund with a corpus of Rs. 900 crore to help maintain stable prices of Pulses.
- “Ek Bharat Shreshtha Bharat” programme will be launched to link States and Districts in an annual programme that connects people through exchanges in areas of language, trade, culture, travel and tourism.

## **Relief to Small Tax Payers**

- Raise the ceiling of tax rebate under section 87A from Rs. 2000 to Rs. 5000 to lessen tax burden on individuals with income upto Rs. 5 lakhs.
- Increase the limit of deduction of rent paid under section 80GG from Rs. 24,000 per annum to Rs. 60,000, to provide relief to those who live in rented houses.

## **Boost Employment and Growth**

- Increase the turnover limit under Presumptive taxation scheme under section 44AD of the Income Tax Act to Rs. 2 crore to bring big relief to a large number of assesseees in the MSME category.
- Extend the presumptive taxation scheme with profit deemed to be 50%, to professionals with gross receipts up to Rs. 50 lakh.
- Phasing out deduction under Income Tax:
  - Accelerated depreciation wherever provided in IT Act will be limited to maximum 40% from 1.4.2017
  - Benefit of deductions for Research would be limited to 150% from 1.4.2017 and 100% from 1.4.2020
  - Benefit of section 10AA to new SEZ units will be available to those units which commence activity before 31.3.2020.
  - The weighted deduction under section 35CCD for skill development will continue up to 1.4.2020
- Corporate Tax rate proposals:
  - New manufacturing companies incorporated on or after 1.3.2016 to be given an option to be taxed at 25% + surcharge and cess provided they do not claim profit linked or investment linked deductions and do not avail of investment allowance and accelerated depreciation.
  - Lower the corporate tax rate for the next financial year for relatively small enterprises i.e companies with turnover not exceeding Rs. 5 crore (in the financial year ending March 2015), to 29% plus surcharge and cess.
- 100% deduction of profits for 3 out of 5 years for startups setup during April, 2016 to March, 2019. MAT will apply in such cases.
- 10% rate of tax on income from worldwide exploitation of patents developed and registered in India by a resident.



- Complete pass through of income-tax to securitization trusts including trusts of ARCs. Securitization trusts required to deduct tax at source.
- Period for getting benefit of long term capital gain regime in case of unlisted companies is proposed to be reduced from three to two years.
- Non-banking financial companies shall be eligible for deduction to the extent of 5% of its income in respect of provision for bad and doubtful debts.
- Determination of residency of foreign company on the basis of Place of Effective Management (POEM) is proposed to be deferred by one year.
- Commitment to implement General Anti Avoidance Rules (GAAR) from 1.4.2017.
- Exemption of service tax on services provided under Deen Dayal Upadhyay Grameen Kaushalya Yojana and services provided by Assessing Bodies empanelled by Ministry of Skill Development & Entrepreneurship.
- Exemption of Service tax on general insurance services provided under 'Niramaya' Health Insurance Scheme launched by National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disability.
- Basic custom and excise duty on refrigerated containers reduced to 5% and 6% respectively.

## **Make In India**

- Changes in customs and excise duty rates on certain inputs to reduce costs and improve competitiveness of domestic industry in sectors like Information technology hardware, capital goods, defence production, textiles, mineral fuels & mineral oils, chemicals & petrochemicals, paper, paperboard & newsprint, Maintenance repair and overhauling [MRO] of aircrafts and ship repair.

## **Moving Towards A Pensioned Society**

- Withdrawal up to 40% of the corpus at the time of retirement to be tax exempt in the case of National Pension Scheme (NPS). Annuity fund which goes to legal heir will not be taxable.
- In case of superannuation funds and recognized provident funds, including EPF, the same norm of 40% of corpus to be tax free will apply in respect of corpus created out of contributions made on or from 1.4.2016.
- Limit for contribution of employer in recognized Provident and Superannuation Fund of Rs. 1.5 lakh per annum for taking tax benefit. Exemption from service tax for Annuity services provided by NPS and Services provided by EPFO to employees.
- Reduce service tax on Single premium Annuity (Insurance) Policies from 3.5% to 1.4% of the premium paid in certain cases.

## **Promoting Affordable Housing**

- 100% deduction for profits to an undertaking in housing project for flats upto 30 sq. metres in four metro cities and 60 sq. metres in other cities, approved during June 2016 to March 2019 and completed in three years. MAT to apply.

- Deduction for additional interest of Rs. 50,000 per annum for loans up to Rs.35 lakh sanctioned in 2016-17 for first time home buyers, where house cost does not exceed Rs. 50 lakh.
- Distribution made out of income of SPV to the REITs and INVITs having specified shareholding will not be subjected to Dividend Distribution Tax, in respect of dividend distributed after the specified date.
- Exemption from service tax on construction of affordable houses up to 60 square metres under any scheme of the Central or State Government including PPP Schemes.
- Extend excise duty exemption, presently available to Concrete Mix manufactured at site for use in construction work, to Ready Mix Concrete.

## **Resource Mobilization for Agriculture, Rural Economy and Clean Environment**

- Additional tax at the rate of 10% of gross amount of dividend will be payable by the recipients receiving dividend in excess of Rs. 10 lakh per annum.
- Surcharge to be raised from 12% to 15% on persons, other than companies, firms and cooperative societies having income above Rs. 1 crore.
- Tax to be deducted at source at the rate of 1% on purchase of luxury cars exceeding value of ` ten lakh and purchase of goods and services in cash exceeding Rs. two lakh.
- Securities Transaction tax in case of 'Options' is proposed to be increased from .017% to .05%.
- Equalization levy of 6% of gross amount for payment made to non- residents exceeding Rs. 1 lakh a year in case of B2B transactions.
- Krishi Kalyan Cess, @ 0.5% on all taxable services, w.e.f. 1 June 2016. Proceeds would be exclusively used for financing initiatives for improvement of agriculture and welfare of farmers. Input tax credit of this cess will be available for payment of this cess.
- Infrastructure cess, of 1% on small petrol, LPG, CNG cars, 2.5% on diesel cars of certain capacity and 4% on other higher engine capacity vehicles and SUVs. No credit of this cess will be available nor credit of any other tax or duty be utilized for paying this cess.
- Excise duty of 1% without input tax credit or 12.5% with input tax credit' on articles of jewellery [excluding silver jewellery, other than studded with diamonds and some other precious stones], with a higher exemption and eligibility limits of Rs. 6 crores and Rs. 12 crores respectively.
- Excise on readymade garments with retail price of Rs. 1000 or more raised to 2% without input tax credit or 12.5% with input tax credit.
- 'Clean Energy Cess' levied on coal, lignite and peat renamed to 'Clean Environment Cess' and rate increased from Rs. 200 per tonne to Rs. 400 per tonne.
- Excise duties on various tobacco products other than beedi raised by about 10 to 15%.
- Assignment of right to use the spectrum and its transfers has been deducted as a service leviable to service tax and not sale of intangible goods.

## **Providing Certainty in Taxation**

- Committed to providing a stable and predictable taxation regime and reduce black money.

- Domestic taxpayers can declare undisclosed income or such income represented in the form of any asset by paying tax at 30%, and surcharge at 7.5% and penalty at 7.5%, which is a total of 45% of the undisclosed income. Declarants will have immunity from prosecution.
- Surcharge levied at 7.5% of undisclosed income will be called Krishi Kalyan surcharge to be used for agriculture and rural economy.
- New Dispute Resolution Scheme to be introduced. No penalty in respect of cases with disputed tax up to Rs. 10 lakh. Cases with disputed tax exceeding Rs. 10 lakh to be subjected to 25% of the minimum of the imposable penalty. Any pending appeal against a penalty order can also be settled by paying 25% of the minimum of the imposable penalty and tax interest on quantum addition.
- High Level Committee chaired by Revenue Secretary to oversee fresh cases where assessing officer applies the retrospective amendment.
- One-time scheme of Dispute Resolution for ongoing cases under retrospective amendment.
- Penalty rates to be 50% of tax in case of underreporting of income and 200% of tax where there is misreporting of facts.
- Disallowance will be limited to 1% of the average monthly value of investments yielding exempt income, but not exceeding the actual expenditure claimed under rule 8D of Section 14A of Income Tax Act.
- Time limit of one year for disposing petitions of the tax payers seeking waiver of interest and penalty.
- Mandatory for the assessing officer to grant stay of demand once the assessee pays 15% of the disputed demand, while the appeal is pending before Commissioner of Income-tax (Appeals).
- Monetary limit for deciding an appeal by a single member Bench of ITAT enhanced from Rs. 15 lakhs to Rs. 50 lakhs.
- 11 new benches of Customs, Excise and Service Tax Appellate Tribunal (CESTAT).

## **Simplification and Rationalization of Taxes**

- 13 cesses, levied by various Ministries in which revenue collection is less than Rs. 50 crore in a year, to be abolished.
- For non-residents providing alternative documents to PAN card, higher TDS not to apply.
- Revision of return extended to Central Excise assesses.
- Additional options to banking companies and financial institutions, including NBFCs, for reversal of input tax credits with respect to non- taxable services.
- Customs Act to provide for deferred payment of customs duties for importers and exporters with proven track record.
- Customs Single Window Project to be implemented at major ports and airports starting from beginning of next financial year.
- Increase in free baggage allowance for international passengers. Filing of baggage only for those carrying dutiable goods.

## Technology for Accountability

- Expansion in the scope of e-assessments to all assesseees in 7 mega cities in the coming years.
- Interest at the rate of 9% p.a against normal rate of 6% p.a for delay in giving effect to Appellate order beyond ninety days.
- 'e-Sahyog' to be expanded to reduce compliance cost, especially for small taxpayers.

## Summary – Direct Taxes

- Deduction under Section 80JJAA of the Income Tax Act will be available to all assesseees who are subject to statutory audit under the Act.
- Raise the ceiling of tax rebate under section 87A from Rs.2000 to Rs.5000 to lessen tax burden on individuals with income upto Rs.5 lakhs.
- Increase the limit of deduction of rent paid under section 80GG from Rs.24000 per annum to Rs.60000, to provide relief to those who live in rented houses.
- Increase the turnover limit under Presumptive taxation scheme under section 44AD of the Income Tax Act to Rs.2 crores to bring big relief to a large number of assesseees in the MSME category.
- Extend the presumptive taxation scheme with profit deemed to be 50%, to professionals with gross receipts up to Rs.50 lakh.
- Accelerated depreciation wherever provided in IT Act will be limited to maximum 40% from 1.4.2017.
- Benefit of deductions for Research would be limited to 150% from 1.4.2017 and 100% from 1.4.2020.
- Benefit of section 10AA to new SEZ units will be available to those units which commence activity before 31.3.2020.
- The weighted deduction under section 35CCD for skill development will continue up to 1.4.2020.
- New manufacturing companies incorporated on or after 1.3.2016 to be given an option to be taxed at 25% + surcharge and cess provided they do not claim profit linked or investment linked deductions and do not avail of investment allowance and accelerated depreciation.
- Lower the corporate tax rate for the next financial year for relatively small enterprises i.e, companies with turnover not exceeding Rs.5 crores (in the financial year ending March 2015), to 29% plus surcharge and cess.
- 100% deduction of profits for 3 out of 5 years for start-ups setup during April, 2016 to March, 2019. MAT will apply in such cases.
- 10% rate of tax on income from worldwide exploitation of patents developed and registered in India by a resident.
- Complete pass through of income-tax to securitization trusts including trusts of ARCs. Securitisation trusts required to deduct tax at source.
- Period for getting benefit of long term capital gain regime in case of unlisted companies is proposed to be reduced from three to two years.
- Non-banking financial companies shall be eligible for deduction to the extent of 5% of its income in respect of provision for bad and doubtful debts.

- Determination of residency of foreign company on the basis of Place of Effective Management (POEM) is proposed to be deferred by one year.
- Commitment to implement General Anti Avoidance Rules (GAAR) from 1.4.2017.
- Withdrawal up to 40% of the corpus at the time of retirement to be tax exempt in the case of National Pension Scheme (NPS). Annuity fund which goes to legal heir will not be taxable.
- In case of superannuation funds and recognized provident funds, including EPF, the same norm of 40% of corpus to be tax free will apply in respect of corpus created out of contributions made on or from 1.4.2016.
- Limit for contribution of employer in recognized Provident and Superannuation Fund of Rs.1.5 lakh per annum for taking tax benefit.
- 100% deduction for profits to an undertaking in housing project for flats upto 30 sq. metres in four metro cities and 60 sq. metres in other cities approved during June 2016 to March 2019 and completed in three years. MAT to apply.
- Deduction for additional interest of Rs.50,000 per annum for loans up to Rs.35 lakh sanctioned in 2016-17 for first time home buyers, where house cost does not exceed Rs.50 lakh.
- Distribution made out of income of SPV to the REITs and INVITs having specified shareholding will not be subjected to Dividend Distribution Tax, in respect of dividend distributed after the specified date.
- Additional tax at the rate of 10% of gross amount of dividend will be payable by the recipients receiving dividend in excess of Rs.10 lakh per annum.
- Surcharge to be raised from 12% to 15% on persons, other than companies, firms and cooperative societies having income above Rs.1 crore.
- Tax to be deducted at source at the rate of 1 % on purchase of luxury cars exceeding value of Rs.10 lakh and purchase of goods and services in cash exceeding Rs.2 lakh.
- Securities Transaction tax in case of 'Options' is proposed to be increased from .017% to .05%.
- Committed to providing a stable and predictable taxation regime and reduce black money.
- Domestic taxpayers can declare undisclosed income or such income represented in the form of any asset by paying tax at 30%, and surcharge at 7.5% and penalty at 7.5%, which is a total of 45% of the undisclosed income. Declarants will have immunity from prosecution.
- Surcharge levied at 7.5% of undisclosed income will be called Krishi Kalyan surcharge to be used for agriculture and rural economy.
- New Dispute Resolution Scheme to be introduced. No penalty in respect of cases with disputed tax up to Rs.10 lakh. Cases with disputed tax exceeding Rs.10 lakh to be subjected to 25% of the minimum of the imposable penalty. Any pending appeal against a penalty order can also be settled by paying 25% of the minimum of the imposable penalty and tax interest on quantum addition.
- High Level Committee chaired by Revenue Secretary to oversee fresh cases where assessing officer applies the retrospective amendment.
- One-time scheme of Dispute Resolution for ongoing cases under retrospective amendment.
- Penalty rates to be 50% of tax in case of underreporting of income and 200% of tax where there is misreporting of facts.

- Disallowance will be limited to 1% of the average monthly value of investments yielding exempt income, but not exceeding the actual expenditure claimed under rule 8D of Section 14A of Income Tax Act.
- Time limit of one year for disposing petitions of the tax payers seeking waiver of interest and penalty.
- Mandatory for the assessing officer to grant stay of demand once the assessee pays 15% of the disputed demand, while the appeal is pending before Commissioner of Income-tax (Appeals).
- Monetary limit for deciding an appeal by a single member Bench of ITAT enhanced from Rs.15 lakhs to Rs.50 lakhs.
- For non-residents providing alternative documents to PAN card, higher TDS not to apply.
- Expansion in the scope of e-assessments to all assessees in 7 mega cities in the coming years.
- Interest at the rate of 9% p.a against normal rate of 6% p.a for delay in giving effect to Appellate order beyond ninety days.
- 'e-Sahyog' to be expanded to reduce compliance cost, especially for small taxpayers.

## **Summary – Indirect Taxes**

- Exemption of service tax on services provided under Deen Dayal Upadhyay Grameen Kaushalya Yojana and services provided by Assessing Bodies empanelled by Ministry of Skill Development & Entrepreneurship.
- Exemption of Service tax on general insurance services provided under 'Niramaya' Health Insurance Scheme launched by National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disability.
- Basic custom and excise duty on refrigerated containers reduced to 5% and 6%.
- Changes in customs and excise duty rates on certain inputs to reduce costs and improve competitiveness of domestic industry in sectors like Information technology hardware, capital goods, defence production, textiles, mineral fuels & mineral oils, chemicals & petrochemicals, paper, paperboard & newsprint, Maintenance repair and overhauling [MRO] of aircrafts and ship repair.
- Exemption from service tax for Annuity services provided by NPS and Services provided by EPFO to employees.
- Reduce service tax on Single premium Annuity (Insurance) Policies from 3.5% to 1.4% of the premium paid in certain cases.
- Exemption from service tax on construction of affordable houses up to 60 square metres under any scheme of the Central or State Government including PPP Schemes.
- Extend excise duty exemption, presently available to Concrete Mix manufactured at site for use in construction work to Ready Mix Concrete.
- Krishi Kalyan Cess, @ 0.5% on all taxable services, w.e.f. 1 June 2016. Proceeds would be exclusively used for financing initiatives for improvement of agriculture and welfare of farmers. Input tax credit of this cess will be available for payment of this cess.
- Infrastructure cess, of 1% on small petrol, LPG, CNG cars, 2.5% on diesel cars of certain capacity and 4% on other higher engine capacity vehicles and SUVs. No credit of this cess will be available nor credit of any other tax or duty be utilized for paying this cess.

- Excise duty of '1% without input tax credit or 12.5% with input tax credit' on articles of jewellery [excluding silver jewellery, other than studded with diamonds and some other precious stones], with a higher exemption and eligibility limits of Rs.6 crores and Rs.12 crores respectively.
- Excise on readymade garments with retail price of Rs.1000 or more raised to 2% without input tax credit, or 12.5% with input tax credit.
- 'Clean Energy Cess' levied on coal, lignite and peat renamed to 'Clean Environment Cess' and rate increased from Rs.200 per tonne to Rs.400 per tonne.
- Excise duties on various tobacco products other than beedi raised by about 10 to 15%.
- Assignment of right to use the spectrum and its transfers has been deducted as a service leviable to service tax and not sale of intangible goods.
- 11 new benches of Customs, Excise and Service Tax Appellate Tribunal (CESTAT).
- Revision of return extended to Central Excise assesses.
- Additional options to banking companies and financial institutions, including NBFCs, for reversal of input tax credits with respect to non- taxable services.
- Customs Act to provide for deferred payment of customs duties for importers and exporters with proven track record.
- Customs Single Window Project to be implemented at major ports and airports starting from beginning of next financial year.
- Increase in free baggage allowance for international passengers. Filing of baggage only for those carrying dutiable goods.





**Chapter 2**  
**Analysis of the**  
**Budgetary Proposals**



## Chapter 2

# Analysis of the Budgetary Proposals

### Prelude

The Finance Minister has presented a bold, pragmatic and growth-driven Budget which has attempted a credible balancing act of scripting a blueprint for sustaining the growth momentum in the Indian economy in the coming year on the one hand while taking up issues of social inclusion on the other.

At the current growth pivot point, addressing the fiscal deficit was top of the macroeconomic agenda and the Budget has addressed this with customary sagacity and vision. Fiscal prudence has been a cornerstone of the budget strategy with the deficit pegged at 3.9% and 3.5% of GDP for FY16 and FY17 respectively without compromising the developmental agenda. The adherence to the fiscal deficit target would help open up access to funds for other sectors to spend, maintain a level of confidence in macroeconomic management and contain inflation within the desired band. Besides, closer adherence to the path of fiscal rectitude would meet the expectations of rating agencies.

The Budget has done much to reignite the investment cycle by enhancing allocations for the infrastructure sector. Reducing the infrastructure gap is critical to accelerate manufacturing growth and attract foreign investment. While augmenting the allocation on roads, railways, ports and airports is significant, the Budget has rightly announced measures to revitalise public-private partnership (PPP) through the introduction of Public Utility (Resolution of Disputes) Bill, formulating guidelines for renegotiation of PPP Concession Agreements and introducing a new credit rating system for infrastructure projects.

What is being seen as a bright spot in the Budget is the sincere effort to bring stability and predictability in the tax system and simplify tax administration. Many of the reform initiatives such as those pertaining to the financial sector, including deepening of corporate markets, incentives for start-ups and MSMEs, initiatives for affordable housing, encouraging Make in India, e-governance initiatives to improve ease of doing business etc are well-conceived and have lifted market sentiment.

It is also heartening to note that the Budget has a plan for social inclusion. A package of measures including a broad agriculture thrust and social security measures, which seek to address rural stress on account of two consecutive droughts, is timely. The Budget has come out with a package of measures to boost farm productivity, reduce costs, facilitate greater access to credit, reform agriculture marketing and, most importantly, generate more employment in the rural economy. An impetus to health and education is notable.

The Finance Minister has attempted a transformative Budget with a far-reaching vision aimed at strengthening the underpinnings of the Indian economy. With suitable provisions announced for flagship campaigns such as 'Make in India' 'Startup India', 'Digital India' and 'Skill India' among others, the Budget would go a long way to boost manufacturing, foster innovation, attract investment, nurture entrepreneurship and create jobs.

In the following sections, CII analyses the major provisions of the Budget and their implications across sectors.

## 1. Agriculture

It is recognized that addressing the constraints prevailing in the agriculture sector is crucial for achieving inclusive growth for our country at a time when 60% of our population depends on agriculture for its livelihood. With a view to provide a boost to agriculture production, bridge infrastructure gaps in the rural area and promote inclusive growth, the Budget has proposed a comprehensive set of initiatives.

### Overall

#### **Allocation of Rs 35,984 crores for agriculture and farmer welfare**

The total allocation for agriculture has gone up substantially. This would contribute to alleviating farmer distress on account of two successive years of drought as well as infuse demand into the rural economy.

### Focus on Irrigation

**The Budget has announced that 28.5 lakh ha is to be brought under irrigation under the Pradhan Mantri Krishi Sinchai Yojana. Besides, 89 Irrigation projects under AIBP will be fast-tracked and it will be ensured that 23 projects are completed before 31st March 2017. The proposal is to spend Rs 86,500 crore over five years on irrigation. A dedicated long term irrigation fund will be created with NABARD with an initial corpus of Rs 20,000 crore.**

**Furthermore, the Budget has announced a programme for sustainable management of ground water resources. 5 lakh farm ponds and wells in the rainfed areas and 10 lakh compost pits for production of organic manure would be taken up by making productive use of allocations under MGNREGA.**

Investment in the irrigation sector is largely driven by the private sector. Enhanced governmental expenditure on irrigation is welcome. It is also likely to increase demand for water conserving irrigation technologies at farm level and further catalyze private investment.

### Conserving soil fertility

**Soil health card scheme will cover all 14 crore farm holdings by March 2017. An allocation of Rs 368 crore for the national project for soil health and fertility has been made.**

**2000 model retail outlets of fertilizer companies are to be provided with soil and seed testing facilities during the next 3 years. Fertilizer companies would co-market city compost.**

**Policy for conversion of city waste into compost under the Swachh Bharat Abhiyan has been introduced.**

With better access to reliable soil analysis services, the demand for quality seeds, fertilizers, plant protection, chemicals and other inputs will surge.

Further focus on organic farming with a value chain approach will help India carve out a niche for its branded organic products in the global market.

## Agri Marketing

**Unified Agricultural Marketing Scheme will be operationalized on 14th April 2016.**

An efficient marketing system with high levels of transparency will encourage healthy competition. It will also create ease of doing business and will increase investments in the agri value chain.

## Credit & Crop Insurance

**(a) Target of agriculture credit is at an all time high at Rs 9 lakh crore**

**Rs 15,000 crore allocated towards interest subvention**

### **Allocation of Rs 5,500 crores for effective implementation of PM Fasal Bima Yojna**

De-risking farmers from weather related aberrations will help build an ecosystem for improved businesses and markets.

- (b) Taking benefits of MSP to farmers by encouraging remaining states to take up decentralized procurement; online procurement system under FCI; and effective arrangement for pulses procurement**

This will create opportunities for private sector to participate in the procurement of pulses and bring in efficiency in the procurement operations.

### **Dairy**

**Allocation of Rs 850 crores for 4 new projects in the dairy sector, namely animal health management under Pashu Dhan Sanjeevni and Nakul Swastha Patra, advanced breeding technology, creation of e-pashudhan hut ( e- marketing portal for connecting breeders and farmers) and National Genomic Center for developing indigenous breeds**

Dairy development with focus on animal health and breeding will attract investments as well as technology in the area of breed improvement.

### **Food Processing**

- (a) 100% FDI to be allowed through FIPB route in food products produced and marketed in India.**

This is a major move for the perishable industry as farmers will find the right market for their produce at better prices. The large investment in retail will make the market more competitive and thus will tame inflation as well. This will give impetus to the growth of the sector and would result in creating more jobs while also boosting Make in India.

- (b) Services provided by National Centre for Cold Chain Development under Department of Agriculture, Cooperation and Farmer's Welfare by way of knowledge dissemination are being exempted from service tax. (New entry at S. No. 52 of notification No. 25/2012-ST refers)**

This measure will help in skill development by the industry.

## **2. Manufacturing**

The manufacturing sector is best suited to provide an impetus to employment generation thereby making our growth more inclusive. And the only way to reap the demographic advantage and catapult the Indian economy to a higher growth trajectory is by providing a thrust to manufacturing. In view of the above, the Budget takes the following initiatives to promote growth in the manufacturing sector.

### **Overall Manufacturing**

The policy announcements covering a spectrum of areas like the rural economy, infrastructure, Make in India, banking sector, financial markets, exports, taxation, emphasis on the importance of foreign direct investments and ease of doing business are positive for the sector.

Other announcements like simplification in tax rules for start-ups and small businesses are likely to encourage entrepreneurship and boost much required job creation in the sector. Measures to boost rural incomes will support rural demand for manufactured goods especially consumer durables.

The proposal for new manufacturing companies which are incorporated on or after 1.3.2016 to give an option to be taxed at 25% + surcharge and cess provided they do not claim profit linked or investment linked deductions and do not avail of investment allowance and accelerated depreciation can be expected to attract investments in manufacturing.

Another important milestone is the emphasis on the increased use of technology to increase accountability of the government, authorities, and courts and will provide the right fillip to fast track procedures and will become the growth engine of the country. The move towards Ease of Doing business especially for the SMEs is noticeable.

## **Automobiles**

The announcement of waiving of excise duty on electric and hybrid vehicles is positive and would encourage investment in hybrid and green technologies. Presently a nil Basic Customs Duty (BCD) and 6% excise/CVD is available on parts of electric vehicles and hybrid vehicles. This has been extended beyond 31 March 2016. The move will incentivize and promote the development and manufacturing of hybrids and electric vehicles and promote development of greener transportation platform.

The Indian automobile industry sees the allocation of Rs 97,000 crore on infrastructure for roads & highways and various announcements boosting agriculture sector and incomes. This is a positive move and is likely to enhance rural demand for 2 wheelers, 4 wheelers, tractors and commercial vehicles.

However, at the same time the proposal to levy tax at source at the rate of 1% on purchase of luxury cars exceeding value of Rs 10 lakhs and further, an Infrastructure cess of 1% on small petrol, LPG, CNG cars, and 2.5% on diesel cars of certain capacity and 4% on other higher engine capacity vehicles and SUVs will have an impact on the price of the cars and may also impact overall demand.

## **Cement**

The budget has been quite encouraging in terms of boosting the real demand for cement. Increase in the investment towards infrastructure sector including roads, rural infrastructure, affordable housing will provide impetus to cement demand. The increase in the total outlay for infrastructure (at Rs 2,21,246 crore) by approximately 13% compared to the previous year will act as a demand driver for the cement sector.

However, at the same time, an increase in the clean environment cess and introduction of Krishi Kalyan cess will impact profitability for the cement industry and so will packing excise on HDPE bags and decrease in sale commission (from 10% to 05%).

## **Capital Goods**

The focus on infrastructure development through massive investments and a targeted completion schedule of roads, of bridges, of rail, of aviation, of oil & gas, etc will open up huge potential for Core sector Industries and thus Capital Goods/Process Plants and equipments segment can be expected to attain higher capacity utilisation.

The government's thrust towards increasing investment in infrastructure will go a long way in boosting the capital goods segment.

## **Information Communication Technology & Electronics Hardware (ICTE)**

The announcements in the Budget have brought a lot of hope to the domestic electronics industry. Various tax sops and duty cuts like changes in BCD, SAD and Excise Duty on several products have been announced to encourage domestic value added manufacturing and development of domestic supply chain in line with the Make in India initiative.

In line with the recommendations of CII National Committee on ICTE Manufacturing the modus of Differential Excise Duty Structure has been widened - 2% & 12.5% without and with CENVAT credit for domestically manufactured charger/adaptor, battery and wired headsets/speakers for supply to mobile phone manufactures and 4% & 12.5 % without and with CENVAT credit to cover number of additional products like Consumer Premise Equipment (CPEs); (i) Routers (ii) Broadband Modems (iii) Set-top boxes for gaining access to internet [tariff item 8517 69 60] (iv) Reception apparatus for television but not designed to incorporate a video display(v) Digital Video Recorder (DVR)/Network Video Recorder (NVR) (vi) CCTV Camera/IP Camera (vii) Lithium-ion batteries, other than those for mobile handsets including cellular phones.

Industry hopes that the differential excise duty structure would be retained in the GST regime.

## **Leather and Footwear**

In the direction of the CII recommendation, the footwear sector has been provided an increase in abatement from retail sale price (RSP) from 25% to 30% for the purposes of excise duty assessment for all categories of footwear. CII had proposed for a higher rate of abatement of 35%.

## **Transmission line and tower**

The various announcements for the infrastructure and rural sector along with announcement such as electrification of the balance 13,000 villages by May 01, 2018, provision of Rs. 8,500 crore for Deendayal Upadhyaya Gram Jyoti Yojana and Integrated Power Development Schemes are positive for the sector. However, an increase in the Basic Customs Duty on Primary aluminum from 5% to 7.5% would push up the Input costs of materials like aluminum conductors and cables used in transmission line tower Industry.

Initiatives like the providing legal framework for dispute resolution in PPP projects and public utility contracts, guidelines for renegotiation of PPP concession agreements and new credit rating system for infrastructure projects also are progressive steps for the industry.

## **Textiles and Apparel Industry**

The Budget's focus on the employment opportunities and skill development is a welcome step for textiles sector. The textile industry being a labor intensive sector welcomes the new initiatives for job creation where Government will absorb 8.33% of EPF amount for a period of 3 years for incremental workers who are on the rolls of company.

While for the textile industry, the present regime of optional Excise Duty for Spinning, Weaving and Processing remains unchanged and is in line with industry recommendation to integrate textile value chain on introduction of GST, the industry is of the view that the levy of Excise Duty on branded garments seems to be a bit premature, especially when GST introduction is on the horizon.

Reduction in Customs Duty from 5% to 2% on specified fibres and yarns is a welcome step and should succeed in reduction in cost of such fibres and yarns for spinners and weavers which would further strengthen the spinning and weaving industry. Also the customs duty reduction will further increase the competitiveness of Indian technical textiles.

1% Duty free import of fabrics for garments is a very positive step to help produce garments which need special fabrics for embellishments and performance enhancement.

## **Valves**

The move towards incentivizing gas production from deep sea sources will act as a boost to the valves industry.

### **3. Infrastructure: Roads / Maritime / Civil Aviation / Real Estate & Housing**

Infrastructure and power sector reforms are a priority to boost investments and provide a fillip to growth. While infrastructure investment has gained significant momentum over the last few years, the deficit continues to be large. The Finance Minister has given a big push to infrastructure and proposed a number of welcome measures. Some of the key initiatives are mentioned below

#### **Overall Infrastructure**

- (a) Allocation of major share to infrastructure that includes Rs 2.21 lakh crore outlay. For highways sector, an allocation of Rs 55,000 crore has been made while National Highways Authority of India (NHAI) can raise tax-free bonds of Rs 15,000 crore.**

Enhanced allocations coupled with reforms will accelerate sector's growth. 10, 000 Kms of New Road Projects are to be awarded in 2016- 17.

#### **(b) Announcement of**

- i. Public Utility (Resolution of Dispute) Bill**
- ii. Guidelines for Renegotiation of PPP Contracts**
- iii. New Credit Rating System for Infra Cos**
- iv. Foreign Investment up to 100% in Asset Reconstruction Companies under automatic route. Foreign Portfolio Investors will be allowed up to 100% of each tranche in securities receipts issued by ARCs.**
- v. Empowerment of Debt Recovery Tribunal**

These steps will help in fast track settlement of disputes and improve liquidity in the market. This has been a long awaited reform and will boost projects under PPP framework while elevating investor sentiments.

## **Roads**

**85% of the 70 stuck road projects have been put back on track.**

These projects entailed an investment to the tune of Rs one lakh crore involving 8,003 km of Road Projects.

## **Housing and Real Estate**

- (a) Dividend Distribution Tax Exempted for REITs & InvITs**

This will kick-start investment in the Real Estate & Infrastructure Projects in a big way.



- (b) **Affordable housing- 100% Deduction for 30 sqm house in 4 metros and 60 sqm in other cities; Exemption of Rs 50,000 for loan up to 35 lakhs; Exemption of service tax on houses upto 60 sqm.**

This will help in meeting the objectives of Housing for All and create demand down the line for core sector products.

## **Airports**

**Revival of 160 airports and airstrips at a cost of Rs 50 -100 cr each**

This step will help in improving regional connectivity

## **Ports**

**Focus on Greenfield Ports in Eastern & Western Corridor; Rs 8,000 cr for Sagarmala and Rs 800 cr for development of inland waterways**

This would help balance transport modes, revive river routes and substantially reduce the cost of transportation.

## **4. Energy and Climate Change**

The power sector provides one of the most important inputs for the development of a country. The availability of consistent power supply at cost effective rates is critical for sustainable economic development. To sustain GDP growth rate of around 8-9 %, it is imperative that the power sector also grows at the same rate. Considering the importance of power sector to take the economy to a high level of growth, the Budget proposes to undertake the following measures to provide an impetus to the power sector.

### **Overall**

- (a) **The Government will diversify the sources of power generation with a strong focus on augmenting nuclear power. A sum of Rs 3,000 crores per annum along with investments from the public sector companies will be leveraged towards this end**

This is a positive development as it reiterates India's commitment to developing nuclear power stations and will send out the right signals to companies like GE, Hitachi, Toshiba, etc. which supply nuclear power stations. Also, nuclear power can act as the balancing fuel for the renewable power that will come up and is a cleaner fuel.

- (b) **Of the 18,542 unelectrified villages as of 1 April, 2015, 5,542 villages were electrified as of February 2016. The Government is committed to 100 per cent village electrification by 1<sup>st</sup> May, 2018 and has allocated Rs 8,500 crores for the Deen Dayal Upadhyay Gram Jyoti Yojana and Integrated Power Development Schemes**

The availability of affordable and accessible power (24x7) will spur rural economic activity and will provide investment opportunities to the industry in the areas of strengthening the transmission and distribution system and developing innovative decentralized energy solutions.

- (c) **Clean Energy Cess is proposed to be renamed Clean Environment Cess and has been increased to Rs 400 per tonne of coal/lignite utilized**

Given that coal will continue to be the mainstay in India's electricity fuel mix, this will adversely impact the power companies and may translate into higher tariffs for the consumers.

## New and Renewable Energy

**(a) Benefits of Accelerated Depreciation limited to 40 per cent from 1<sup>st</sup> April 2017.**

The continuation of accelerated depreciation beyond April 2017 is a positive development as this incentive was expected to be phased out from 2017.

**(b) Proposal for manufacturing companies which are set up on or after March 2016 to be taxed at 25 per cent including surcharge and cess provided they do not avail of accelerated depreciation and other benefits**

This will incentivize companies planning to set up solar manufacturing units to capitalize on the huge domestic demand of equipment that will arise as the Government moves towards achieving the 100 GW of the installed solar capacity target.

**(c) Clean Energy Cess is proposed to be renamed Clean Environment Cess and has been increased to Rs 400 per tonne of coal utilized**

This is a positive development for renewables as the sector will have access to more funds and greater stakeholder support. However, clarity is required in the allocation of funds from this cess in light of the proposed change in the name of the cess (from Energy to Environment).

## Hydrocarbons

India is blessed with strong resources in the oil and gas sector. However, their discovery and exploitation has not been capitalized upon and has led to a situation of increasing demand, stagnation in domestic production and rising imports

**(a) Incentivising gas discovery and production from deep sea, ultra deep sea and HPHT areas which are unutilized by providing calibrated marketing freedom at a predetermined ceiling price linked to landed price of alternate fuels.**

This is clearly a positive development and will incentivize the development of the geographically challenging areas leading to considerable augmentation in domestic gas production and a consequent reduction in imports. This has been a long standing demand of the industry and will incentivize investments in the sector.

**(b) Proposal to embark upon a massive programme of providing LPG connections in rural areas. Rs 2,000 crores has been allocated to meet the initial cost of this scheme which is likely to benefit 1.5 crore households below the poverty line in the initial phase. This scheme which will be spread over a period of 2 years will cover a total of 5 crore households below poverty line.**

This will help reduce liquid fuel consumption and will play a key role in ensuring better health for women in rural areas. Moreover, it will provide employment opportunities to youth across the LPG supply chain.

This will also be a step towards a cleaner environment as it will help reduce pollution caused by the burning of bio- and agri-waste.

## Climate Change

### **Proposal to impose a 1 per cent cess on small petrol cars; 2.5 per cent cess on small diesel cars and 4 per cent cess on high capacity cars and SUVs**

This will help curb the escalating pollution levels in urban areas by disincentivising the purchase of cars, in particular, diesel and luxury cars (SuVs).

## 5. Financial Sector

The Budget addresses the key challenges of the financial sector including banking, bond market and insurance sectors to improve the efficacy of the financial markets. Some of the measures proposed in the Budget are as under:

### **Overall Financial Sector**

#### **A comprehensive Code on Resolution of Financial Firms will be introduced as a Bill in the Parliament during 2016-17.**

This Code will provide a specialised resolution mechanism to deal with bankruptcy situations in banks, insurance companies and financial sector entities. This Code, together with the Insolvency and Bankruptcy Code 2015, when enacted, will provide a comprehensive resolution mechanism for addressing the insolvency issues of the entire financial sector.

## Banking

- (a) To support the banks it has been proposed to allocate Rs 25,000 crore in BE 2016-17 towards recapitalization of PSBs. The Government has assured further support if additional capital resources are required for the Public Sector Banks.**

More action is required towards meeting this end of recapitalization of banks.

- (b) To tackle the problem of stressed assets in the banking sector, Asset Reconstruction Companies (ARCs) have a very important role hence 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.**

At present, sponsors of any ARC, typically banks or financial services companies, cannot hold more than 50% stake in the company. The remaining stake has to be held by individuals. This would help in effective functioning of ARCs.

- (c) In addition to the above, the government also proposes to allow complete pass-through of income-tax to securitization trusts, including trusts of ARCs**

When an ARC purchases a bad asset from a bank, it is held under a trust, where the ARC is the trustee as well as the manager of the asset. As recovery happens, there is some interest income that is generated from these assets. So far, there has been confusion regarding who is liable to pay tax on this income.

The current proposal, makes it clear that tax can be passed on to the banks who are the eventual beneficiaries of the recovered amount

## **NBFCs**

**Non-banking financial companies shall be eligible for deduction to the extent of 5% of its income in respect of provision for bad and doubtful debts.**

Making NBFCs eligible for deduction of provision for bad and doubtful debts provides the much needed parity on their taxation treatment vis-à-vis the banking sector. This will have a positive impact on the growth of NBFC sector in India while providing them a level playing field with banks.

## **Capital Market**

### **(a) Measures for Deepening of Corporate Bond Market:**

- i) LIC of India will set up a dedicated fund to provide credit enhancement to infrastructure projects. The fund will help in raising the credit rating of bonds floated by infrastructure companies and facilitate investment from long term investors.**
- ii) RBI will issue guidelines to encourage large borrowers to access a certain portion of their financing needs through market mechanism instead of the banks.**
- iii) Investment basket of foreign portfolio investors will be expanded to include unlisted debt securities and pass through securities issued by securitisation SPVs.**
- iv) For developing an enabling ecosystem for the private placement market in corporate bonds, an electronic auction platform will be introduced by SEBI for primary debt offer.**

The reform measures will help in a broad-based development of the Corporate Bond Market in India and help reduce burden on the banking sector. The emphasis laid on credit enhancement for attracting long-term investors, widening the securitisation market for investments by foreign portfolio investors and focus on improvement in market infrastructure and transparency will go a long way in strengthening the growth of the Indian corporate bond market.

### **(b) New derivative products will be developed by SEBI in the Commodity Derivatives market.**

This will help traders to hedge their portfolios especially traders like big farmers. New derivative products will help in strengthening and deepening the Commodities market.

### **(c) Securities Transaction Tax raised to 0.05% from 0.017%**

Though the hike in taxation rate is negligible but it may have a discouraging impact on the growth of hedging market.

## **Insurance**

**Foreign investment will be allowed in the insurance and pension sectors in the automatic route up to 49%.**

In a move towards further liberalizing foreign direct investment (FDI), the government announced that overseas investment up to 49% in the insurance and pension sectors will be allowed under the automatic route.

This means that investors will not have to approach the Foreign Investment Promotion Board (FIPB) for increasing their stakes.

However, the existing guidelines on Indian management and control will have to be verified by the respective regulators, the Insurance Regulatory and Development Authority of India and the Pension Fund Regulatory and Development Authority.

**General Insurance Companies owned by the Government to be listed in the stock exchanges. [The four general insurance companies fully owned by government includes New India Assurance, National Insurance, Oriental Insurance Company and United India Insurance]**

To ensure higher levels of transparency and accountability, it has been proposed to list the general insurance companies to give a boost to the initial public offering market and help them raise funds to meet social sector and investment spending.

As per the regulations laid down by Insurance Regulatory and Development Authority, insurance companies that have completed 10 years of operation could tap the capital market to raise capital

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

This will help traders to hedge their portfolios especially traders like big farmers. New derivative products will help in strengthening and deepening the Commodities market.

## **6. Innovation & Entrepreneurship**

- (a) To promote entrepreneurship among SCs and STs, the MSME Ministry in partnership with industry associations such as the Dalit India Chamber of Commerce proposes to set up a National Scheduled Caste and Scheduled Tribe Hub for SC/ST entrepreneurs. Rs.500 crores has been allocated towards the Stand-Up India scheme, under which at least two projects will be supported by each bank branch, one for each category of entrepreneur. This is set to benefit at least 2.5 lakh entrepreneurs.**

This measure is very promising and a much-needed proposal to promote entrepreneurship among one of the largest but historically the most discriminated against sections of Indian society, the Dalits, tribals and women.

- (b) 1500 multi-skill training centers will be set up under the Pradhan Mantri Kaushal Vikas Yojana. Rs. 1700 crores set aside to skill 1 crore youth over the next three years and connect aspiring entrepreneurs, especially those from the rural areas, to mentors and credit markets.**
- (c) A National Board for Skill Development Certification in partnership with the industry and academia is proposed.**

Skills development and entrepreneurship are organically linked to each other and the strength of the former forms the foundation for self-employment, provides a kickstart for an entrepreneurial journey and an ecosystem for creating jobs of the future. The proposed move to skill 1 crore youth in the next three years looks promising and is desirable given the sheer need for a skills revolution in the country that is geared towards entrepreneurship.

Besides entrepreneurship education beginning from the school-level, it is also crucial to provide critical inputs such as mentorship opportunities and access to the credit system.

**Incentives for Start-ups and new manufacturing and smaller enterprises:**

- 1. 100 per cent tax deductions on profits of start-ups incorporated on or after April 2016 for three years.**
- 2. A special patent regime to power innovation and research**

**3. Entrepreneurship Education and Training will be provided in 2200 colleges, 300 schools, 500 Government ITIs and 50 Vocational Training Centres through Massive Open Online Courses (MOOCs).**

The 100 percent tax deductions on profits of new start-ups would go a long way in ensuring that these new enterprises continue to do business without the threat of tax default and be encouraged to stay afloat in the initial years which are generally characterized by uncertainty and high risks.

Government also needs to keep a check on eventual misuse of this scheme as there could be a tendency to establish start-ups with a single objective of evading tax.

**A bill to amend the Companies Act to be introduced in the current session of Parliament for greater ease of doing business, including for facilitating registration of a new company in a single day**

The amended law would help create an enabling environment for start-ups and make it easier to do business in India by facilitating registration of a new company in one day, for raising funds such as seed fund or capital for business expansion.

However, similar measures need to be taken for ease of exit of businesses, which involve working through other legislations such as the Labour Act.

## **7. Technology and IPR**

**(a) Research is the driver of innovation and innovation provides a thrust to economic growth. The budget proposes a special patent regime with 10% rate of tax on income from worldwide exploitation of patents developed and registered in India**

This provides incentive to commercialize, indigenously developed and registered technologies, beyond Indian borders. This will with time incentivize development of technologies for global market especially the developing world markets in Africa, ASEAN etc. This will also incentivize MNCs to develop technologies in India for the global market.

**(b) Rebate on the investments made in research and development under Sec 35(2AB) of Income tax act is proposed to be reduced from 200% to 150%.**

This will discourage enterprises in investing in in-house R&D.

## **8. Higher Education**

Recognising the role of higher education in enhancing the productivity of human capital and thereby pave the way for inclusive growth, the Budget has made the following announcements to provide an impetus to higher education.

**(a) Enabling regulatory environment to be created for promoting 10 public and 10 private universities to world class level.**

A welcome focus on excellence in higher education is provided. Private institutions have, for the first time, been treated on par with public institutions. The fact that the enabling regulatory environment will be available for them as well means that they will get the level playing field which they have been asking for for a long time. Though this level playing field will be applicable to only 10 select private universities now, it is expected that gradually more institutions will be brought under its ambit on the basis of their performance. This step marks a beginning and augurs well for the future of higher education.

**(b) Higher Education Financing Authority to be set up with a corpus of Rs 1,000 crore to improve infrastructure.**

Institutions will be able to access funds easily to augment their facilities. This will again have a positive effect on the growth of higher education.

**(c) Digital literacy to be enhanced with focus on rural households; digital repository to be created for school and college certificate; entrepreneurship training and mentoring to be provided through schools and colleges and through MOOCs; service tax exemption for organisations registered with Ministry of Skills for providing skill enhancement courses; connecting jobs to skills through National Career Centres**

The Digital India mission is finally taking shape with various threads being properly interwoven. Digitisation of land records and promoting digital literacy in rural areas will have a deep and large impact on skill building efforts. Digitisation of degrees will help employers in authenticating the qualifications of prospective employers. This will bring down cases of fudging of personal data. Service tax exemption for skill building efforts will encourage more companies to venture in this area.

## **9. Information and Communication Technology**

### **Service tax to be levied on spectrum trading deals**

This will induce more spectrum transactions and less litigation. This also clarifies that spectrum is service and not an asset sale

### **Section 10 AA – SEZ tax holiday to be available only to units which commence activity on or before 31.3.2020**

This is good initiative in lieu of tax rate rationalization.

### **Government has decided to accord statutory status to Aadhaar to ensure that benefits of the government subsidies directly reach the needy.**

The statutory status will provide a legal foundation to Aadhaar for expanding its use for a range of developmental purposes, benefiting the ICT sector.





# **Chapter 3**

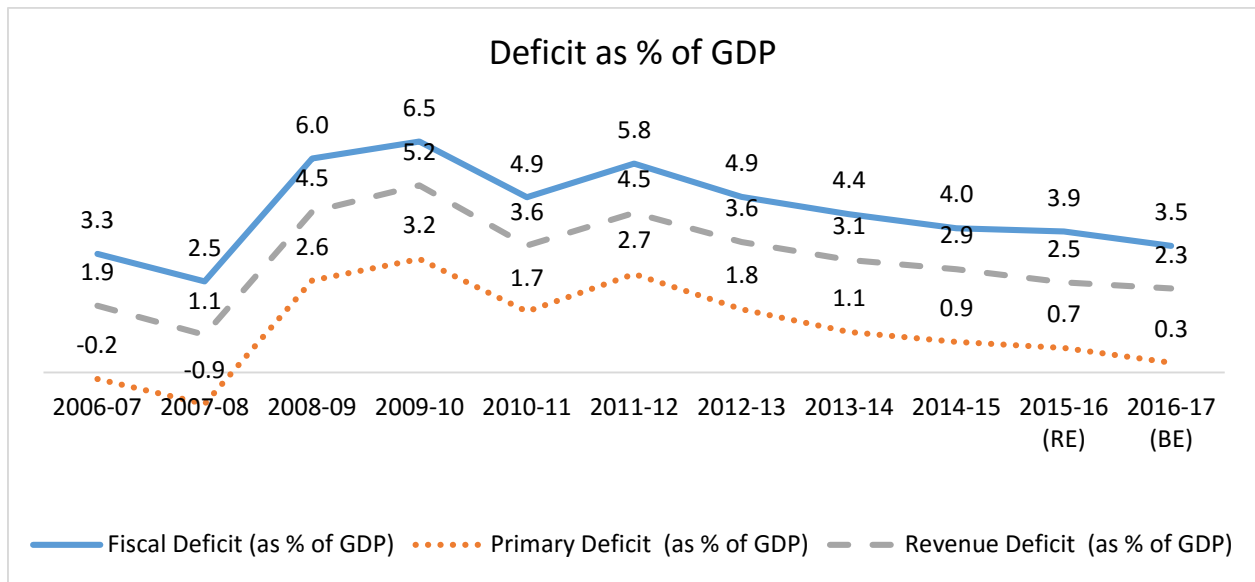
## **Analysis of Fiscal Trends**



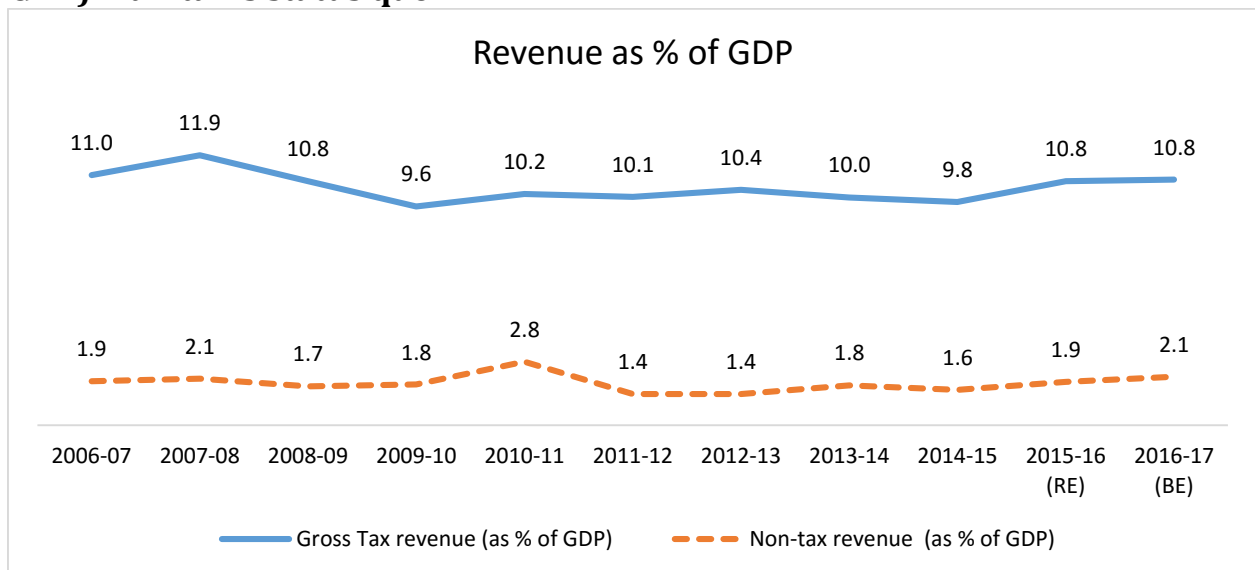
## Chapter 3

# Analysis of Fiscal Trends

### Government adheres to fiscal roadmap, deficits continue to fall



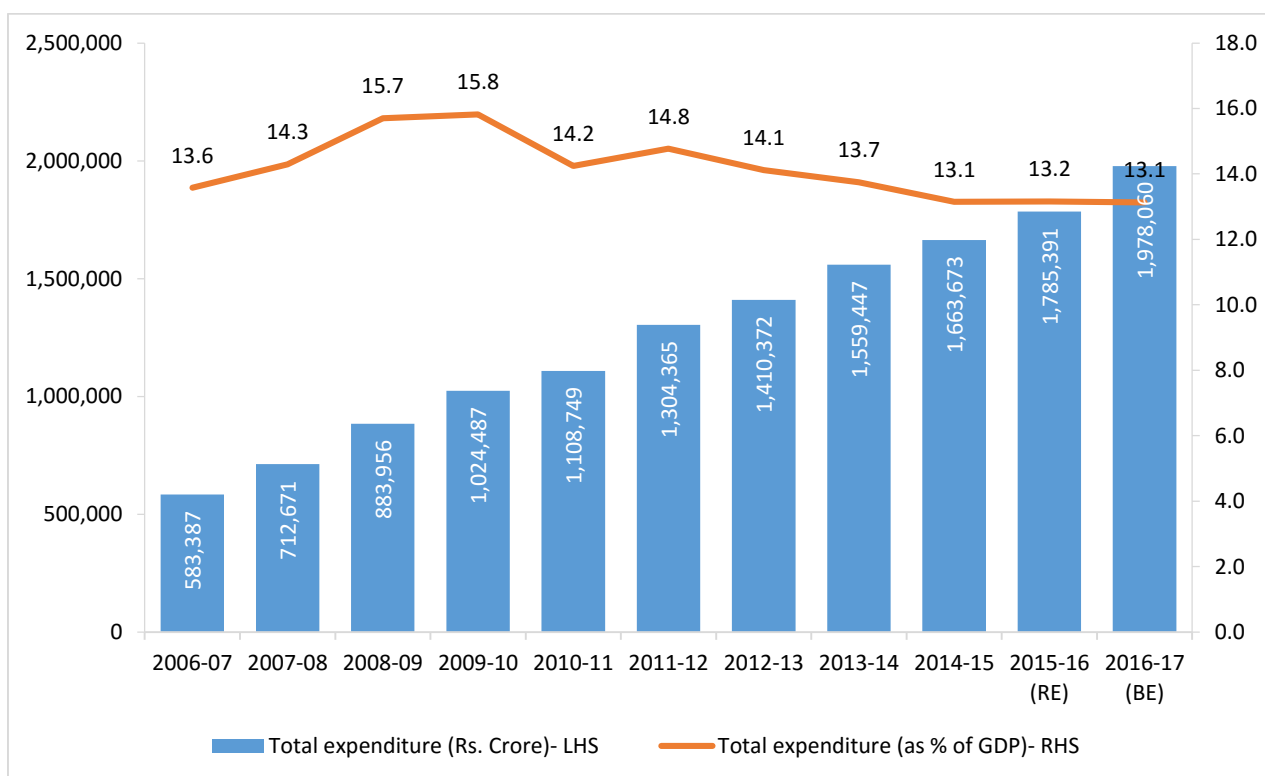
### Non-tax revenue (as % of GDP) expected to pick up while tax revenue (as % of GDP) maintains status quo



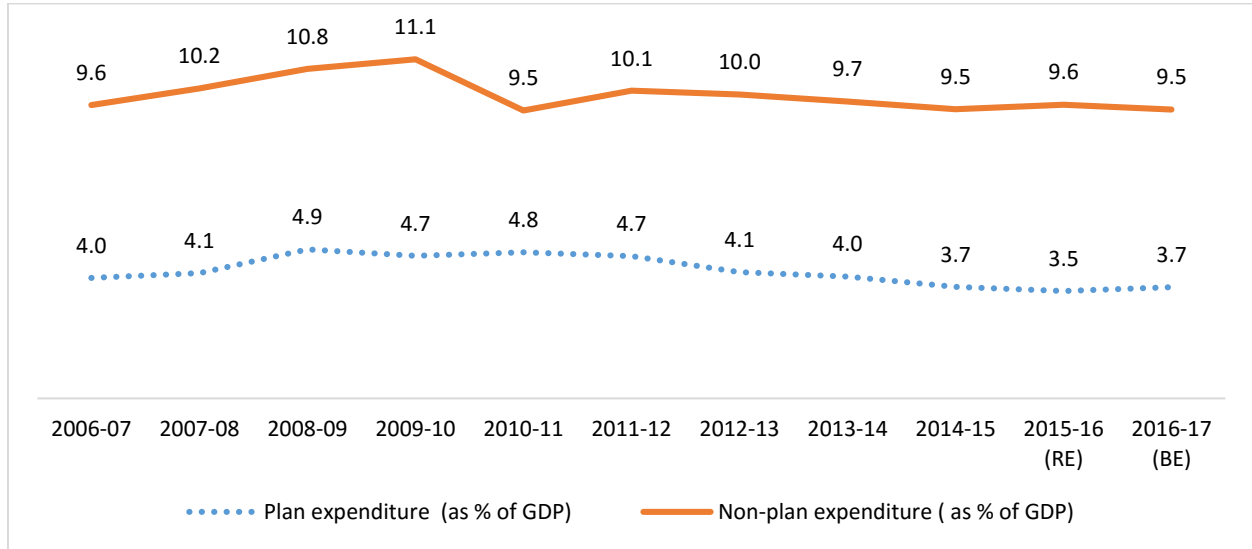
### Revenue Receipts (Rs Crore)

	2014-15 Actuals	2015-16 BE	2015-16 RE	2016-17 BE	Growth 2015-16 (RE) over 2014-15 (%)	Growth 2016-17 (BE) over 2015- 16 (RE) (%)
<b>1. Tax Revenue</b>						
<b>Gross Tax Revenue</b>	<b>1,244,885</b>	<b>1,449,490</b>	<b>1,459,611</b>	<b>1,630,888</b>	<b>17.2</b>	<b>11.7</b>
Corporation Tax	428,925	470,628	452,970	493,923	5.6	9.0
Taxes on Income	265,733	327,367	299,051	353,174	12.5	18.1
Wealth Tax	1,086	...	...	...	...	...
Customs	188,016	208,336	209,500	230,000	11.4	9.8
Union Excise Duties	189,952	229,808	284,142	318,670	49.6	12.2
Service Tax	167,969	209,774	210,000	231,000	25.0	10.0
Taxes on Union Territories	3,204	3,577	3,948	4,121	23.2	4.4
Less - State's share	337,808	523,958	506,193	570,337	49.8	12.7
<b>Centre's Net Tax Revenue</b>	<b>903,615</b>	<b>919,842</b>	<b>947,508</b>	<b>1,054,101</b>	<b>4.9</b>	<b>11.2</b>
<b>2. Non-Tax Revenue</b>	<b>197,857</b>	<b>221,733</b>	<b>258,576</b>	<b>322,921</b>	<b>30.7</b>	<b>24.9</b>
<b>Total Revenue Receipts</b>	<b>1,101,472</b>	<b>1,141,575</b>	<b>1,206,084</b>	<b>1,377,022</b>	<b>9.5</b>	<b>14.2</b>

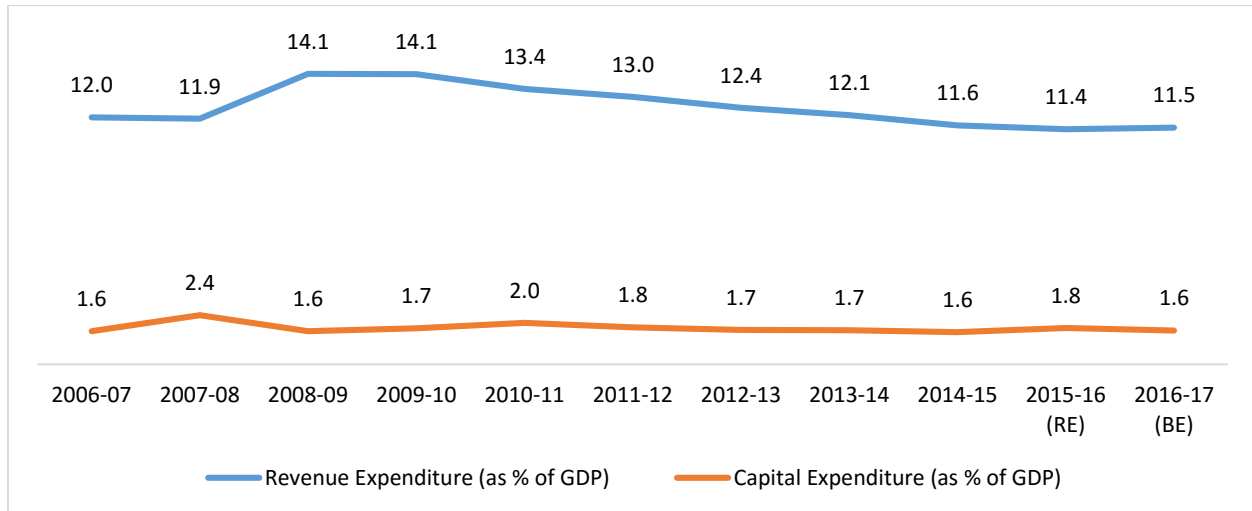
### Expenditure-GDP ratio remains stable



## Non-plan expenditure (as % of GDP) dips marginally while plan expenditure inches up



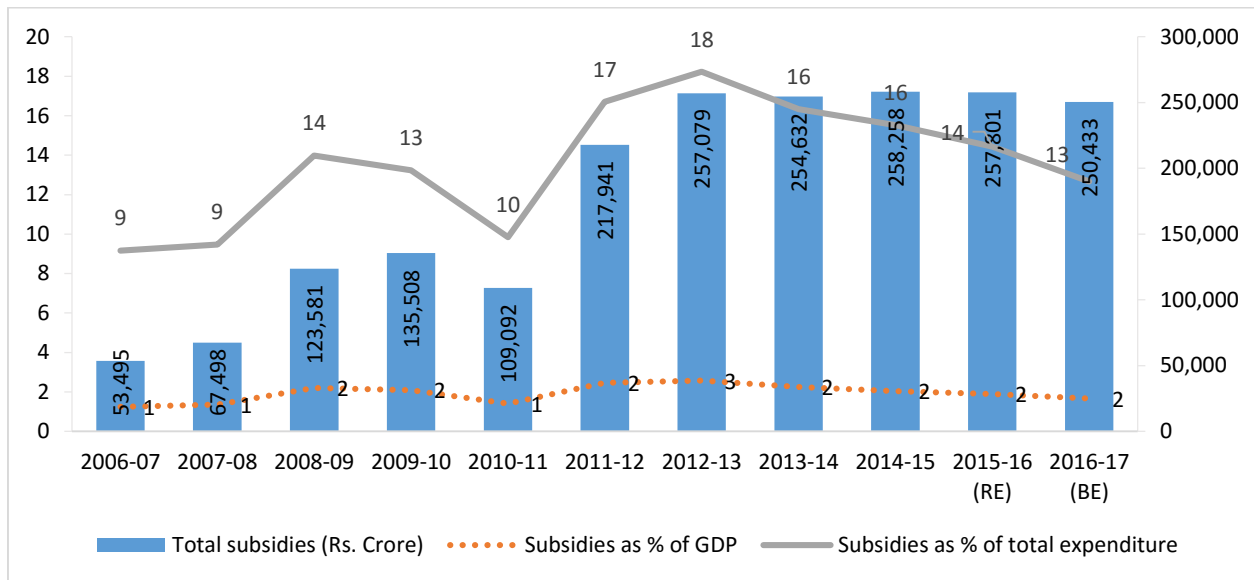
## Capital expenditure (as % of GDP) expected to inch lower



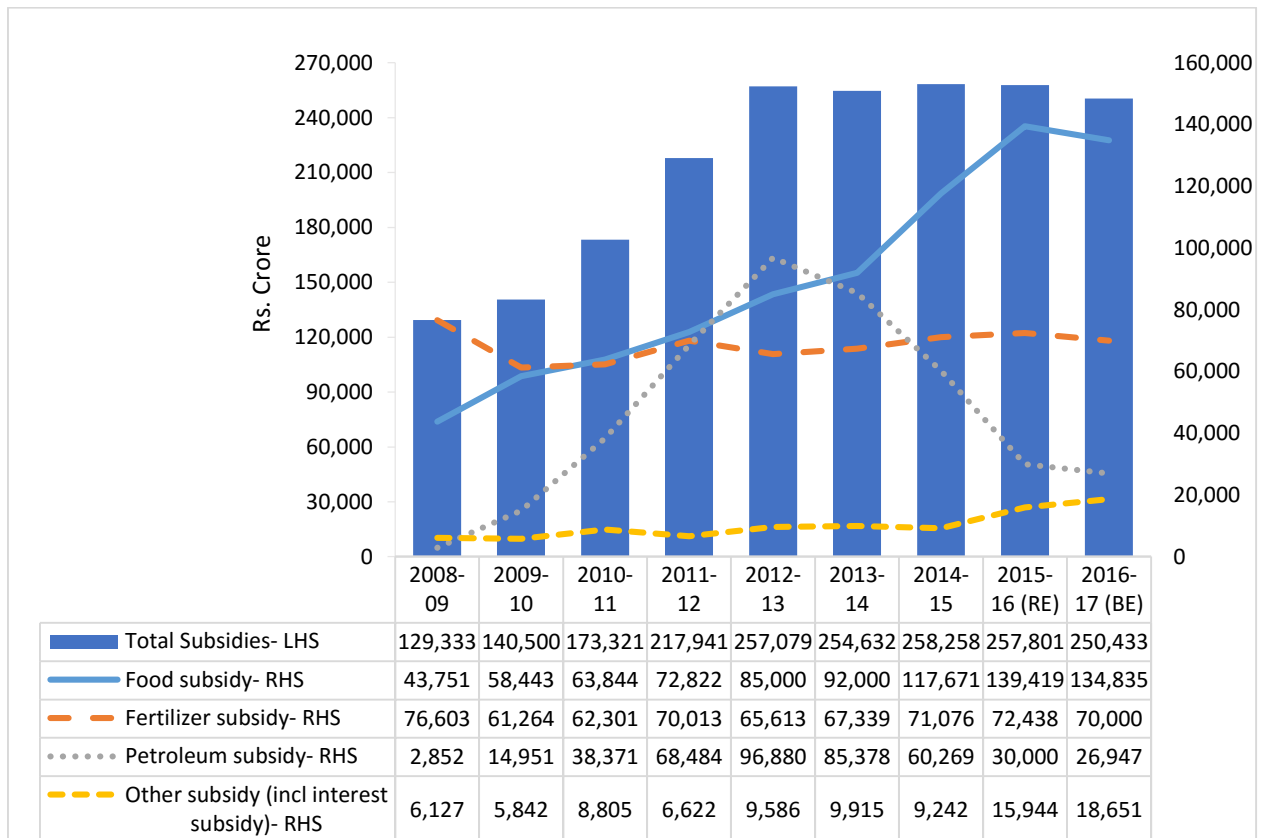
## Compositional Shift in Resources Transferred to States (Rs Crore)

	2014-15 Actuals	2015-16 Revised	2016-17 Budget
Devolution of state share of taxes & duties	337,808	506,193	570,337
Non-plan grants and loans to states	76,286	105,353	115,655
Central Assistance to states	264,725	208,587	234,366
<b>Total</b>	<b>678,819</b>	<b>820,133</b>	<b>920,358</b>

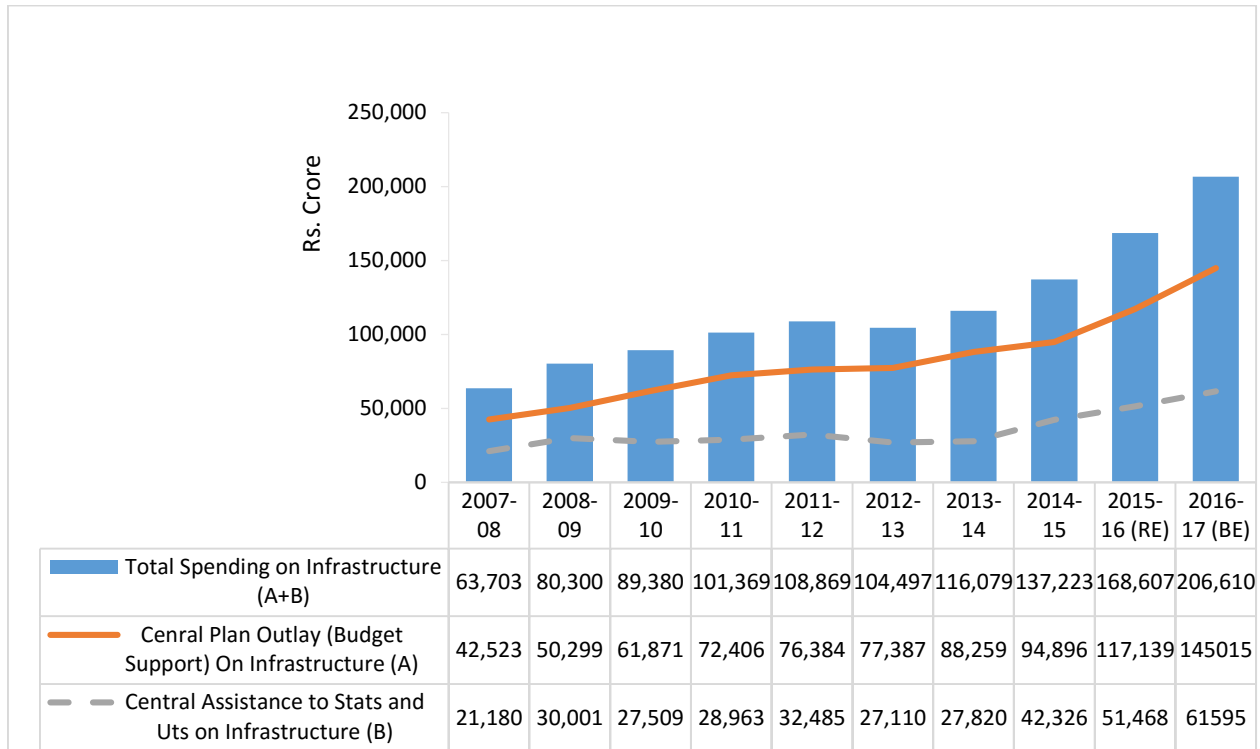
## Government continues to lower its subsidy burden



## Food, fertilizer and petroleum subsidies are expected to decline in FY17



**Government maintains its infrastructure focus, spending to increase by ~23% in FY17**



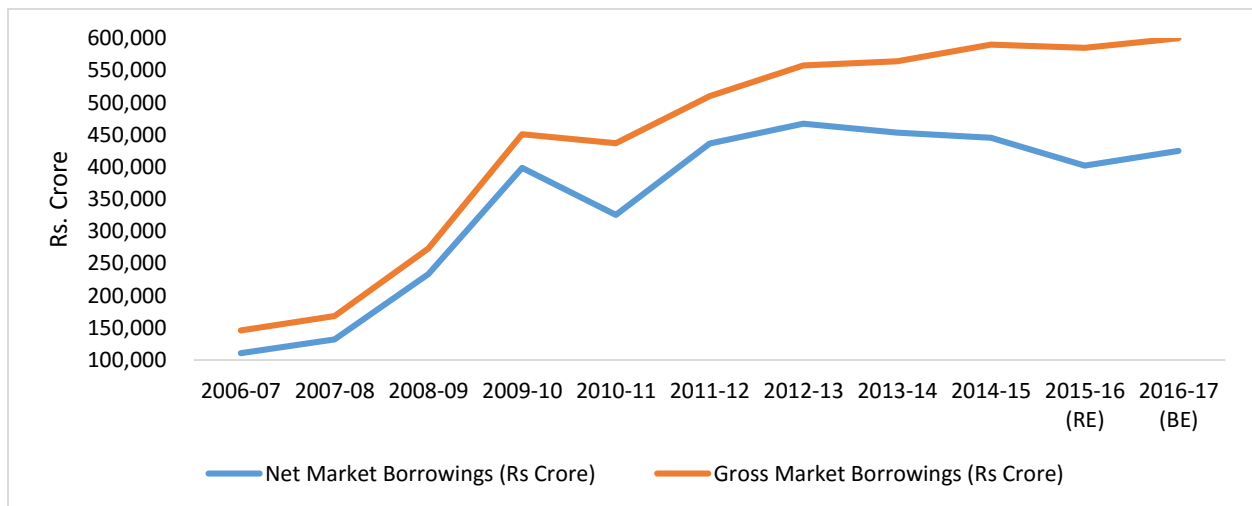
**Medium-term Fiscal Policy Statement- Rolling Targets (as % of GDP)**

	Revised Estimates	Budget Estimates	Target for	
	2015-16	2016-17	2017-18	2018-19
<b>1. Effective Revenue Deficit</b>	1.5	1.2	0.6	0
<b>2. Revenue Deficit</b>	2.5	2.3	1.8	1.3
<b>3. Fiscal Deficit</b>	3.9	3.5	3.0	3.0
<b>4. Gross Tax Revenue</b>	10.8	10.8	10.9	11.1
<b>5. Total Outstanding Liabilities at the end of the year</b>	47.6	47.1	46.8	44.4

### Budget at a Glance 2016-17 (Rs Crore)

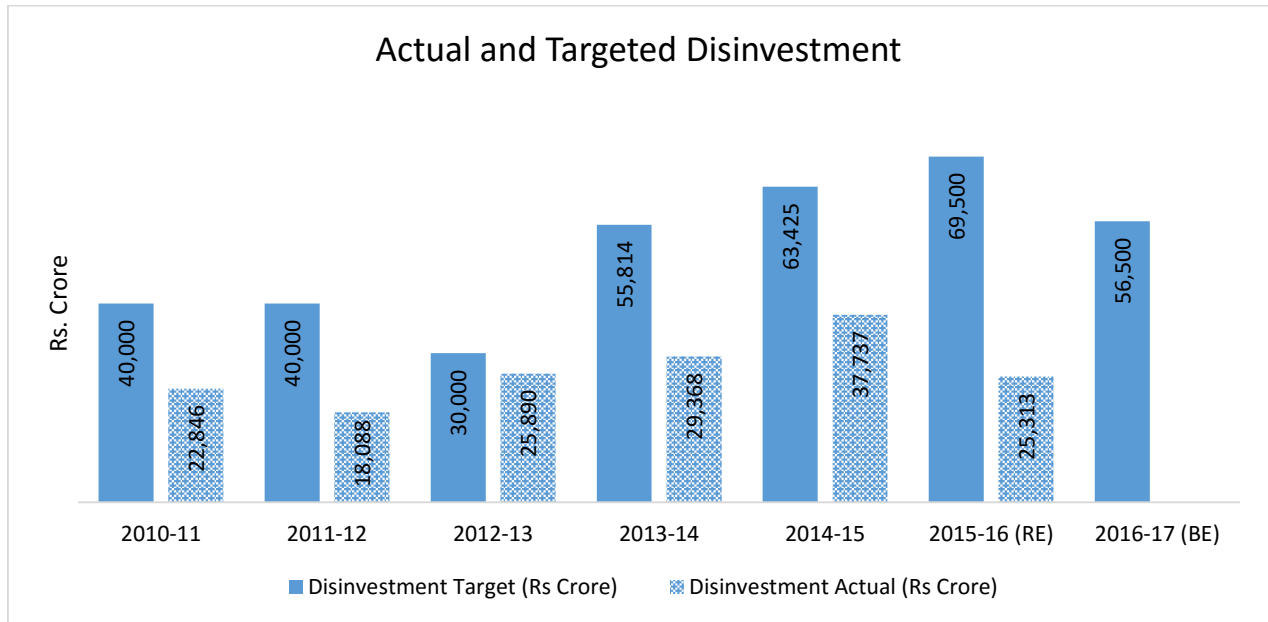
	2014-15 Actuals	2015-16 BE	2015-16 RE	2016-17 BE
<b>1. Revenue Receipts</b>	<b>1,101,472</b>	<b>1,141,575</b>	<b>1,206,084</b>	<b>1,377,022</b>
2. Tax Revenue (net to center)	903,615	919,842	947,508	1,054,101
3. Non-Tax Revenue	197,857	221,733	258,576	322,921
<b>4. Capital Receipts (5+6+7)</b>	<b>562,201</b>	<b>635,902</b>	<b>579,307</b>	<b>601,038</b>
5. Recoveries of Loans	13,738	10,753	18,905	10,634
6. Other Receipts	37,737	69,500	25,312	56,500
7. Borrowings & Other Liabilities	510,725	555,649	535,090	533,904
<b>8. Total Receipts (1+4)</b>	<b>1,663,673</b>	<b>1,777,477</b>	<b>1,785,391</b>	<b>1,978,060</b>
<b>9. Non- Plan Expenditure</b>	<b>1,201,029</b>	<b>1,312,200</b>	<b>1,308,194</b>	<b>1,428,050</b>
10. On Revenue Account, of which	1,109,394	1,206,027	1,212,669	1,327,408
11. Interest Payments	402,444	456,145	442,620	492,670
12. On Capital Account	91,635	106,173	95,525	100,642
<b>13. Plan Expenditure</b>	<b>462,644</b>	<b>465,277</b>	<b>477,197</b>	<b>550,010</b>
14. On Revenue Account	357,597	330,020	335,004	403,628
15. On Capital Account	105,047	135,257	142,193	146,382
<b>16. Total Expenditure (9+13)</b>	<b>1,663,673</b>	<b>1,777,477</b>	<b>1,785,391</b>	<b>1,978,060</b>
17. Revenue Expenditure (10+14)	1,466,992	1,536,047	1,547,673	1,731,037
18. Capital Expenditure (12+15)	196,681	241,430	237,718	247,023
<b>19. Revenue Deficit</b>	<b>365,519</b>	<b>394,472</b>	<b>341,589</b>	<b>354,015</b>
<b>As a percentage of GDP</b>	<b>2.9</b>	<b>2.8</b>	<b>2.5</b>	<b>2.3</b>
<b>20. Fiscal Deficit</b>	<b>510,725</b>	<b>555,649</b>	<b>535,090</b>	<b>533,904</b>
<b>As a percentage of GDP</b>	<b>4.1</b>	<b>3.9</b>	<b>3.9</b>	<b>3.5</b>
<b>21. Primary Deficit</b>	<b>108,281</b>	<b>99,504</b>	<b>92,469</b>	<b>41,234</b>
<b>As a percentage of GDP</b>	<b>0.9</b>	<b>0.7</b>	<b>0.7</b>	<b>0.3</b>

### Market Borrowings expected to increase in FY17

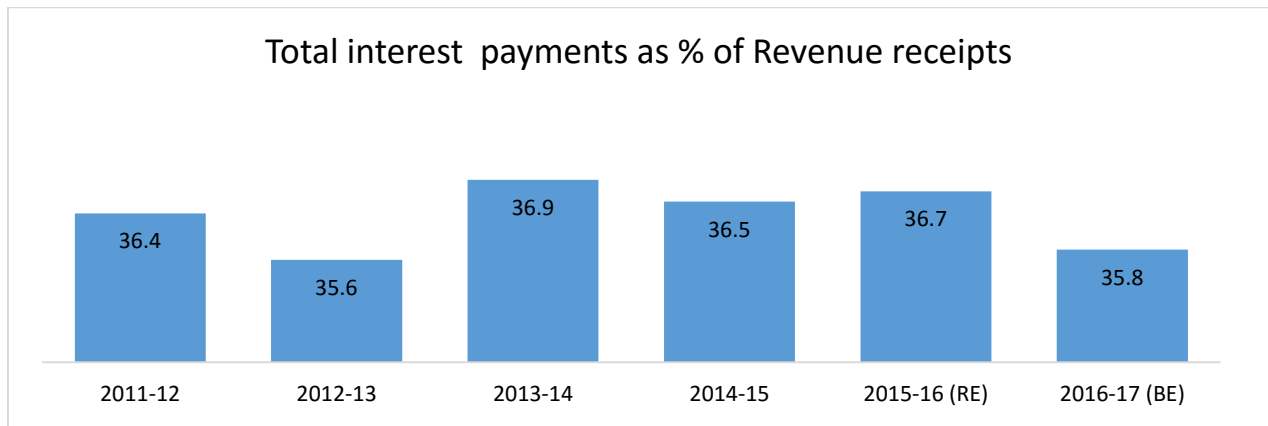




## Government lowers the disinvestment target for FY17



## Debt-servicing expected to moderate in the upcoming fiscal year



### Allocation of Important Sectors (Rs Crore)

Sector Totals	2014-15 Actuals	2015-16 RE	2016-17 BE	IEBR	2016-17 Total
<b>Agriculture and Irrigation</b>	31497	25988	47912	6300	54212.33
<b>Social Sectors including Education and Health</b>	136431	139619	151581	...	151581
<b>Rural Development and Drinking Water</b>	81908	90185	101775	...	101775
<b>Infrastructure &amp; Energy</b>	185139	180610	221246	25000	246246.39



# **Chapter 4**

## **Direct Taxes**



# Chapter 4

## Direct Taxes

### 1. Personal Income Tax

#### A. No change in Tax Slabs/Rate

- No revision of income tax rates/slabs. However, there is an increase in surcharge by 3% for assessee having taxable income in excess of INR 1 crore i.e., the surcharge is now 15% in case where taxable income is in excess of INR 1 crore.
- For Individuals below 60 years of age

Income	Rate
Upto Rs.2,50,000	NIL
Rs. 2,50,001 to Rs. 5,00,000	10%
Rs. 5,00,001 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

- For Senior citizens 60 or more years of age and below 80 years of age

Income	Rate
Upto Rs.3,00,000	NIL
Rs. 3,00,001 to Rs. 5,00,000	10%
Rs. 5,00,001 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

- For Senior citizens 80 or more years of age

Income	Rate
Upto Rs.5,00,000	NIL
Rs. 5,00,001 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

- For assessment year 2017-2018, additional surcharge called the “Education Cess on income-tax” and “Secondary and Higher Education Cess on income-tax” shall continue to be levied at the rate of two per cent and one per cent respectively, on the amount

of tax computed, inclusive of surcharge, in all cases. No marginal relief shall be available in respect of such Cess.

**B. Taxation of DDT in the hands of shareholder**

- With a view to rationalise the tax treatment provided to income by way of dividend, it is proposed to amend the Income-tax Act so as to provide that any income by way of dividend in excess of Rs. 10 lakh shall be chargeable to tax in the case of an individual, Hindu undivided family (HUF) or a firm who is resident in India, at the rate of ten percent. The taxation of dividend income in excess of ten lakh rupees shall be on gross basis.

**C. Tax incentive on start-ups**

- With an objective to provide relief to an individual or HUF willing to setup a start-up company by selling a residential property to invest in the shares of such company, 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 fifty per cent shares of the company and such company utilizes the amount invested in shares to purchase new asset before due date of filing of return by the investor.
- Further, 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.

**D. Amendment in section 80EE relating to deduction in respect of interest paid on housing loan**

- 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 Rs. 50,000. This incentive is proposed to be extended to a house property of a value less than fifty lakhs rupees in respect of which a loan of an amount not exceeding thirty five lakh rupees has been sanctioned during the period from the 1<sup>st</sup> day of April, 2016 to the 31<sup>st</sup> day of March, 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 Rs. 2,00,000 provided for a self-occupied property under section 24 of the Act.
- These amendments will take effect from 1<sup>st</sup> April, 2017.

**E. Tax benefits to Sovereign Gold Bond Scheme, 2015 and Rupee Denominated Bonds**

Sovereign Gold Bond Scheme, 2015

- It is proposed to amend Section 47 of the Income-tax Act, so as 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 terms capital gains arising on transfer of Sovereign Gold Bond to all cases of assessee.
- This amendment to be made effective from the 1<sup>st</sup> day of April, 2017.

### Rupee Denominated Bond

- 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.

### **F. Tax exemption on merger or consolidation of mutual fund plans within a scheme.**

- It is proposed to extend the tax exemption, available on merger or consolidation of mutual fund schemes, to the merger or consolidation of different plans in a mutual fund scheme.
- For this purpose, 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 1<sup>st</sup> April, 2017

### **G. Amendment in Section 80GG to increase the limit of deduction allowable in respect of rents paid.**

- 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 Rs. 2000 per month to Rs. 5000 per month.
- This amendment will take effect from 1<sup>st</sup> April, 2017

### **H. Tax benefit under Gold Monetization Scheme, 2015**

- It is proposed to amend Clause (14) of section 2, so as to exclude Deposit Certificates issued under Gold Monetization Scheme, 2015 notified by the Central Government, from the definition of capital asset and thereby to exempt it from capital gains tax.
- It is also proposed to amend clause (15) of section 10 so as to provide that the interest on Deposit Certificates issued under the Scheme, shall be exempt from income-tax.
- These amendments are proposed to be made effective retrospectively from the 1<sup>st</sup> day of April, 2016.

### **I. Rationalization of Section 56 of the Act to provide tax benefit under the said section**

- With a view to bring uniformity in tax treatment, 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.

### **J. Relief in the limit of rebate in income tax allowable under section 87A**

- With the objective to provide relief to resident individuals in the lower income slab, it is proposed to amend section 87A so as to increase the maximum amount of rebate available under this provision from existing Rs.2,000 to Rs.5,000, to lessen tax burden on individuals with income upto five lakh rupees.

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

- It is proposed that the 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.

**L. Simplification and rationalisation of provisions relating to taxation of unrealised rent and arrears of rent**

- To bring uniformity in tax treatment of arrears of rent and unrealised 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 thirty per cent of the arrears of rent or the unrealised rent realised subsequently by the assessee shall be allowed as deduction.

**M. Introduction of Presumptive taxation scheme for persons having income from profession**

- New section 44ADA is proposed to be inserted in the Act to provide for estimating the income of an assessee who is engaged in any profession referred to in sub-section (1) of section 44AA 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 fifty lakh rupees in a previous year, at a sum equal to fifty per cent 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.
- It is also proposed that the assessee will not be required to maintain books of account under sub-section (1) of section 44AA 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 sub-section (1) of section 44ADA and his income exceeds the maximum amount which is not chargeable to income-tax.

**N. Increase in threshold limit for audit for persons having income from profession**

- In order to reduce the compliance burden, it is proposed to increase the threshold limit of total gross receipts, specified under section 44AB for getting accounts audited, from twenty five lakh rupees to fifty lakh rupees in the case of persons carrying on profession.

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

- In order to reduce the compliance burden of the small tax payers and facilitate the ease of doing business, it is proposed to increase the threshold limit of one crore rupees specified in the definition of "eligible business" to two crore rupees.
- Further as the turnover limit of presumptive taxation scheme has been enhanced to rupees two crore, it is proposed to provide that eligible assessee shall be required 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 15th March of the financial year.



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

- In order to reduce compliance burden, 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 1<sup>st</sup> June, 2016.

## **2. Corporate Tax**

### **A. Tax Rate**

- In case of domestic company, the rate of Income-tax shall be twenty nine percent of the total income if the total turnover or gross receipts of the company in the previous year 2014-15 does not exceed five crore rupees and in all other cases the rate of Income-tax shall be thirty percent of the total income.
- In order to provide relief to newly setup domestic companies engaged solely in the business of manufacture or production of article or thing, it is proposed to amend the Act by way of insertion of new section 115BA, to provide that the income-tax payable in respect of the total income of a domestic company for any previous year relevant to the assessment year beginning on or after the 1<sup>st</sup> day of April, 2017 shall be computed @ 25% at the option of the company, if, -
  - the company has been setup and registered on or after 1<sup>st</sup> day of March, 2016;
  - the company is engaged in the business of manufacture or production of any article or thing and is not engaged in any other business;
  - the company while computing its total income has not claimed any benefit under section 10AA, benefit of accelerated depreciation, benefit of additional depreciation, investment allowance, expenditure on scientific research and any deduction in respect of certain income under Part-C of Chapter-VI-A other than the provisions of section 80JJAA; and
  - the option is furnished in the prescribed manner before the due date of furnishing of income.
- In the case of a company other than a domestic company, the rates of tax are the same as those specified for the financial year 2015-16.
- Further, there is no change in the levy of surcharge. Surcharge in the case of domestic companies having income exceeding Rs. 1 crore and upto Rs 10 crores is to be levied @ 7% and surcharge @ 12% is to be levied on domestic companies having income exceeding Rs 10 crores.
- It is further proposed that in the case of foreign companies the surcharge will continue to be levied @2% if the income exceeds Rs 1 crore and is upto Rs 10 crores, and @5% if the income exceeds Rs 10 crores.
- The education cess on income-tax @ 2% for fulfilment of the commitment of the Government to provide and finance universalized 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.

#### **B. Equalisation levy**

- Considering the potential of new digital economy and the rapidly evolving nature of business operations 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 permanent establishment ('PE') in India, from a resident in India who carries out business or profession, or from a non-resident having permanent establishment in India where the aggregate amount of consideration exceeds one lakh rupees in any previous year.
- 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.
- In order to ensure compliance with the provisions it is further proposed that the expenses incurred by the assessee towards specified services chargeable 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.
- The provisions will take effect from the date appointed in the notification to be issued by the Central Government.

#### **C. Tax Collection at Source (TCS) on sale of vehicles, goods or services**

- In order to reduce the quantum of cash transaction in sale of any goods and services and for curbing the flow of unaccounted money in the trading system and to bring high value transactions within the tax net, it is proposed to amend the section 206C of the Act to provide that the seller shall collect the tax at the rate of one percent from the purchaser on sale of motor vehicle of the value exceeding ten lakh rupees 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 two lakh rupees.
- This amendment will take effect from 1<sup>st</sup> June, 2016.

#### **D. 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 share 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 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 amendment will take effect from 1<sup>st</sup> June, 2016.

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

- It is proposed to 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: -

- (i) 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 u/s 12 AA 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 u/s 12AA or approved under section 10(23C) within a period twelve months from dissolution.
- (ii) 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.
- (iii) The taxation of accreted income shall be at the maximum marginal rate.
- (iv) This levy shall be in addition to any income chargeable to tax in the hands of the entity.
- (v) 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.
- (vi) 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.
- (vii) 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 1<sup>st</sup> June, 2016.

#### F. Phasing out of deductions and exemptions

- The following incentives under the Act are proposed to be phased out in the manner as tabulated below in Table 1 and Table 2:

**Table 1: Proposed Phase out plan of incentives (Profit linked Deductions/weighted deduction) available under the Act.**

S. No.	Section	Incentive currently available in the Act	Proposed phase out measures/ Amendment
1	10AA- Special provision in respect of newly established units in Special economic zones (SEZ).	10AA- Special provision in respect of newly established units in Special economic zones (SEZ).	No deduction shall be available to units commencing manufacture or production of article or thing or start providing services on or after 1st day April,2020. (From previous year 2020-21 onwards).
2	35AC-Expenditure on eligible projects or schemes.	Deduction for expenditure incurred by way of payment of any sum to a public sector company or a local authority	No deduction shall be available with effect from 1.4.2017 (i.e from

		or to an approved association or institution, etc. on certain eligible social development project or a scheme.	previous year 2017-18 and subsequent years).
3	35CCD-Expenditure on skill development project.	Weighted deduction of 150 per cent on any expenditure incurred (not being expenditure in the nature of cost of any land or building) on any notified skill development project by a company	Deduction shall be restricted to 100 per cent from 01.04.2020 (i.e from previous year 2020-21 onwards).
4	Section 80IA; 80IAB, and 80IB - Deduction in respect of profits derive from a) development, operation and maintenance of and infrastructure facility (80-IA) b) development of special economic zone (80-IAB) c) production of mineral oil and natural gas [80-IB(9)]	100 per cent profit linked deductions for specified period on eligible business carried on by industrial undertakings or enterprises referred in section 80IA; 80IAB, and 80IB.	No deduction shall be available if the specified activity commences on or after 1st day April, 2017 (i.e., from previous year 2017-18 and subsequent years).

**Table 2: Proposed Phase out plan of incentives (Accelerated Depreciation/Weighted Deduction) available under the Act.**

S. No.	Section	Incentive currently available in the Act	Proposed phase out measures/ Amendment
1	32 read with rule 5 of Income-tax Rules, 1962- Accelerated Depreciation.	Accelerated depreciation is provided to certain Industrial sectors in order to give impetus for investment. The depreciation under the Income-tax Act is available up to 100% in respect of certain block of assets.	To amend the new Appendix IA read with rule 5 of Income-tax Rules, 1962 to provide that highest rate of depreciation under the Income-tax Act shall be restricted to 40% w.e.f 01.4.2017. (i.e from previous year 2017-18 and subsequent years).  The new rate is proposed to be made applicable to all the assets (whether old or new) falling in the relevant block of assets.
2	35(1)(ii)- Expenditure on scientific research.	Weighted deduction from the business income to the extent of 175 per cent of any sum paid to an approved scientific research association which has the	Weighted deduction shall be restricted to 150 per cent from 01.04.2017 to 31.03.2020 (i.e. from previous year 2017-18 to

		object of undertaking scientific research. Similar deduction is also available if a sum is paid to an approved university, college or other institution and if such sum is used for scientific research.	previous year 2019-20) and deduction shall be restricted to 100 per cent from 01.04.2020 (i.e. from previous year 2020-21 onwards).
3	35(1)(iia)- Expenditure on scientific research	Weighted deduction from the business income to the extent of 125 per cent of any sum paid as contribution to an approved scientific research company.	Deduction shall be restricted to 100 per cent with effect from 01.04.2017 (i.e. from previous year 2017-18 and subsequent years).
4	35(1)(iii)- Expenditure on scientific research.	Weighted deduction from the business income to the extent of 125 per cent of contribution to an approved research association or university or college or other institution to be used for research in social science or statistical research.	Deduction shall be restricted to 100 per cent with effect from 01.04.2017 (i.e. from previous year 2017-18 and subsequent years).
5	35(2AA)- Expenditure on scientific research.	Weighted deduction from the business income to the extent of 200 per cent of any sum paid to a National Laboratory or a university or an Indian Institute of Technology or a specified person for the purpose of approved scientific research programme.	Weighted deduction shall be restricted to 150 per cent with effect from 01.04.2017 to 31.03.2020 (i.e. from previous year 2017-18 to previous year 2019-20).  Deduction shall be restricted to 100 per cent from 01.04.2020 (i.e. from previous year 2020-21 onwards).
6	35(2AB)- Expenditure on scientific research.	Weighted deduction of 200 per cent of the expenditure (not being expenditure in the nature of cost of any land or building) incurred by a company, engaged in the business of bio-technology or in the business of manufacture or production of any article or thing except some items appearing in the negative list specified in Schedule-XI, on scientific research on approved in-house research and development facility.	Weighted deduction shall be restricted to 150 per cent from 01.04.2017 to 31.03.2020 (i.e. from previous year 2017-18 to previous year 2019-20).  Deduction shall be restricted to 100 per cent from 01.04.2020 (i.e. from previous year 2020-21 onwards).
7	35AD- Deduction in respect of specified business	In case of a cold chain facility, warehousing facility for storage of agricultural produce, an affordable housing project, production of fertilizer and hospital weighted deduction of 150 per cent of capital	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

		expenditure (other than expenditure on land, goodwill and financial assets) is allowed.	100 percent of capital expenditure w.e.f. 01.4.2017 (i.e. from previous year 2017-18 onwards).
8	35CCC- Expenditure on notified agricultural extension project.	Weighted deduction of 150 per cent of expenditure incurred on notified agricultural extension project.	Deduction shall be restricted to 100 per cent from 1.4.2017 (i.e. from previous year 2017-18 onwards).

These amendments mentioned in table 2 will take effect from 1<sup>st</sup> April, 2018.

**G. Exemption of income of Foreign Company from storage and sale of crude oil stored as part of strategic reserves.**

- To encourage storage of 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 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 exemption would be available from the previous year 2015-16, i.e. assessment year 2016-17.

**H. Exemption in respect of certain activity related to diamond trading in "Special Notified Zone"**

- A "Special Notified Zone" (SNZ) had been created to facilitate shifting of operations by foreign mining companies (FMC) to India and to permit the trading of rough diamonds in India by the leading diamond mining companies of the world.
- 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 unassorted diamonds in a Special Zone notified by the Central Government in the Official Gazette in this behalf.
- This amendment will take effect retrospectively from 1<sup>st</sup> April, 2016.

**I. Extending the benefit of initial additional depreciation under section 32(1)(ia) for power sector**

- In order to rationalise the incentive of power sector, it is proposed to amend this section so as 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 1<sup>st</sup> April, 2017.

#### **J. Taxation of income from 'Patents'**

- It is proposed to insert new section 115BBF to provide that where the total income of the eligible assessee 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 ten per cent (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.
- 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.

#### **K. Tax incentives for start-ups**

- It is proposed to provide a deduction of one hundred percent 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.
- The benefit of hundred percent deduction of the profits derived from such business shall be available to an eligible start-up which is setup before 01.04.2019.
- Further, it is also 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 such specified 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 Rs. 50 lakhs.

#### **L. Deduction to the assesses engaged in developing and building affordable housing projects**

- It is proposed to amend the Income-tax Act so as to provide for hundred per cent deduction of the profits of an assessee developing and building affordable housing projects if the housing project is approved by the competent authority before the 31<sup>st</sup> March, 2019 subject to certain conditions which inter alia, include:-
  - a. The project is completed within a period of three years from the date of approval,
  - b. the project is on a plot of land measuring not less than 1000 sq. metres where the project is within 25 km from the municipal limits of four metros namely Delhi, Mumbai, Chennai & Kolkata and in any other area, it is measuring not less than 2000 sq. metres where the size of the residential unit in the said areas is not more than thirty sq. metres and sixty sq. metres, respectively,
  - c. where residential unit is allotted to an individual, no such unit shall be allotted to him or any member of his family, etc.

#### **M. Tax incentive for employment generation**

- With a view to extend employment generation incentive to all sectors, it is proposed to provide that the deduction under the provisions of section 80JJAA shall be available in respect of cost incurred on any employee whose total emoluments are less than or equal to twenty five thousand rupees 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 240 days and also the condition of ten per cent 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, thirty percent 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 1<sup>st</sup> April, 2017.

#### **N. Taxation Regime for Real Estate Investment Trust (REIT) and Infrastructure Investment Trust**

- In order to rationalize the taxation regime for business trusts (REITs and Invits) 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: —
  - a. exemption from levy of DDT in respect of distributions made by SPV to the business trust;
  - b. such dividend received by the business trust and its investor shall not be taxable in the hands of trust or investors;
  - c. 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
  - d. 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 1<sup>st</sup> June, 2016.

#### **O. Modification in condition of special taxation regime for off-shore funds under section 9A**

- Section 9A of the Act provides for a special regime in respect of offshore funds. In order to rationalize the regime and to address the concerns of the industry, it is proposed to modify the 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 1<sup>st</sup> April, 2017.



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

- The Finance Act, 2015 provided 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 the context of implementation of POEM based residence rule, certain issues, relating to the applicability of current provisions of the Act to a company which is incorporated outside India and has not earlier been assessed to tax in India, have arisen.
- 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: -
  - a. defer the applicability of POEM based residence test by one year and the determination of residence based on POEM shall be applicable from 01/04/17.
  - b. provide a transition mechanism for a company which is incorporated outside India and has not earlier been assessed to tax in India.
  - c. provide that these transition provisions would also cover any subsequent previous year upto the date of determination of POEM in an assessment proceedings. However, once the transition is complete, then normal provision of the Act would apply.
  - d. 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.
  - e. provide that every notification issued in exercise of this power by the Central Government shall be laid before each house of the Parliament.
- The amendments will take effect from 1st April, 2017.

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

- Considering the fact that Non-Banking Financial companies (NBFCs) are also engaged in financial lending to different sectors of society, it is proposed to amend the provision of clause (vii) of sub-section (1) of section 36 so as 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 five per cent of the total income in the case of NBFCs.

**R. Rationalisation of scope of tax incentive under section 32AC**

- It is proposed to amend the sub-section (1A) of 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 31.03.2017 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 1<sup>st</sup> April, 2016 and will, accordingly, apply in relation to the assessment year 2016-17 and 2017-18.

**S. Applicability of Minimum Alternate Tax (MAT) on foreign companies for the period prior to 01.04.2015.**

- 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 01.04.2001, the provisions of section 115JB shall not be applicable to a foreign company if -
  - i. 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
  - ii. 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 1<sup>st</sup> day of April, 2001 and shall accordingly apply in relation to assessment year 2001-02 and subsequent years.

**T. Tax Incentives to International Financial Services Centre**

- With a view to provide a competitive tax regime to International Financial Services Centre, it is proposed to amend section 115JB 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 nine per cent.
- 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 the 1<sup>st</sup> day of April, 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 1<sup>st</sup> April, 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.
- Securities Transaction tax in case of 'Options' is proposed to be increased from .017% to .05%.
- 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.

- The above two amendments will take effect from 1<sup>st</sup> June, 2016.

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

- It has been represented that the existing TDS regime has created certain difficulties. The non-resident investor is not able to claim benefit of lower or NIL rate of taxation which is available to him under the relevant Double Taxation Avoidance Agreement (DTAA), and deduction of tax @10% is to be undertaken mandatorily even if under DTAA, the income is not taxable in India. There is no facility for any investor to approach the Assessing Officer for seeking certificate for TDS at a lower or NIL rate in respect of deductions made under section 194LBB.
- In order to rationalise the TDS regime in respect of payments made by the 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 ten per cent 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.
- These amendments will take effect from 1 June, 2016.

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

- It has been represented that under the current regime, the trusts set up by reconstruction companies or the securitisation companies are not covered although such trusts are also engaged in securitisation activity. These companies are established for the purposes of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) and their activities are regulated by the Reserve Bank of India (RBI). It has been represented that the existing regime providing for final levy in the form of distribution tax is tax inefficient for the investors specially the banks and financial institutions. Disallowance of expenditure in respect of income received from securitisation trust increases the effective rate of taxation. Further, the non-resident and resident investors are unable to take benefits of their specific tax status.
- In order to rationalise the tax regime for securitisation trust and its investors, and to provide tax pass through treatment, 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: -
  - (i) 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;
  - (ii) 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;

- (iii) 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;
  - (iv) 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;
  - (v) The facility for the investors to obtain low or nil deduction of tax certificate would be available; and
  - (vi) 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 01.06.2016.
  - These amendments will take effect from 1 June, 2016.

#### **W. BEPS action plan - Country-By-Country Report and Master file**

- In order to implement the international consensus (OECD report on Action 13 of BEPS Action plan), it is proposed to provide a specific reporting regime in respect of CbC reporting and also the master file. It is proposed to include essential elements in the Act while remaining aspects can be detailed in rules. The elements relating to CbC reporting requirement and matters related to it proposed to be included through amendment of the Act are:—
  - (i) the reporting provision shall apply in respect of an international group having consolidated revenue above a threshold to be prescribed;
  - (ii) the parent entity of an international group, if it is 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;
  - (iii) the parent entity shall be an entity which is required to prepare consolidated financial statement under the applicable laws or would have been required to prepare such a statement, had equity share of any entity of the group been listed on a recognized stock exchange in India;
  - (iv) every constituent entity in India, of an international group having parent entity that is not resident in India, shall provide information regarding the country or territory of residence of the parent of the international group to which it belongs. This information shall be furnished to the prescribed authority on or before the prescribed date;
  - (v) the report shall be furnished in prescribed manner and in the prescribed form and would contain 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. This shall be based on the template provided in the OECD BEPS report on Action Plan 13;
  - (vi) 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 ;-

- (a) in a country with which India does not have an arrangement for exchange of the CbC report; or
  - (b) such country is not exchanging information with India even though there is an agreement; and
  - (c) this fact has been intimated to the entity by the prescribed authority;
- (vii) if there are more than one entities of the same group in India, then the group can nominate (under intimation in writing to the prescribed authority) the entity that shall furnish the report on behalf of the group. This entity would then furnish the report;
- (viii) if an international group, having parent entity which is not resident in India, had designated an alternate entity for filing its report with the tax jurisdiction in which the alternate entity is resident, then the entities of such group operating in India would not be obliged to furnish report if the report can be obtained under the agreement of exchange of such reports by Indian tax authorities;
- (ix) the prescribed authority may call for such document and information from the entity furnishing the report for the purpose of verifying the accuracy as it may specify in notice. The entity shall be required to make submission within thirty days of receipt of notice or further period if extended by the prescribed authority, but extension shall not be beyond 30 days;
- (x) for non-furnishing of the report by an entity which is obligated to furnish it, a graded penalty structure would apply:-
- (a) if default is not more than a month, penalty of Rs. 5000/- per day applies;
  - (b) if default is beyond one month, penalty of Rs 15000/- per day for the period exceeding one month applies;
  - (c) for any default that continues even after service of order levying penalty either under (a) or under (b), then the penalty for any continuing default beyond the date of service of order shall be @ Rs. 50,000/- per day;
- (xi) in case of timely non-submission of information before prescribed authority when called for, a penalty of Rs5000/- per day applies. Similar to the above, if default continues even after service of penalty order, then penalty of Rs.50,000/- per day applies for default beyond date of service of penalty order;
- (xii) if the entity has provided any inaccurate information in the report and,-
- (a) the entity knows of the inaccuracy at the time of furnishing the report but does not inform the prescribed authority; or
  - (b) the entity discovers the inaccuracy after the report is furnished and fails to inform the prescribed authority and furnish correct report within a period of fifteen days of such discovery; or
  - (c) the entity furnishes inaccurate information or document in response to notice of the prescribed authority, then penalty of Rs.500,000/- applies;
- (xiii) the entity can offer reasonable cause in defence for non-levy of penalties mentioned above.
- The proposed amendment in the Act in respect of maintenance of master file and furnishing it are: -

- (i) the entities being constituent of an international group shall, in addition to the information related to the international transactions, also maintain such information and document as is prescribed in the rules. The rules shall thereafter prescribe the information and document as mandated for master file under OECD BEPS Action 13 report;
  - (ii) the information and document shall also be furnished to the prescribed authority within such period as may be prescribed and the manner of furnishing may also be provided for in the rules;
  - (iii) for non-furnishing of the information and document to the prescribed authority, a penalty of Rs. 5 lakh shall be leviable. However, reasonable cause defence against levy of penalty shall be available to the entity.
- The amendments will be effective from 1<sup>st</sup> April, 2017 and shall apply for the Assessment year 2017-18 and subsequent assessment years.

**X. 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 1st April, 2017 and will, accordingly, apply in relation to the assessment year 2017-18 and subsequent years.

**Y. 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 1st April, 2017 and will, accordingly, apply in relation to the assessment year 2017-18 and subsequent years.

**Z. Clarification regarding set off losses against deemed undisclosed income**

- Currently, there is uncertainty on the issue of set-off of losses against income referred in section 115BBE of the Act. In order to avoid unnecessary litigation, 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 1st April, 2017 and will, accordingly, apply in relation to the assessment year 2017-18 and subsequent years.

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

- Non-compete fee received/receivable in relation to carrying out of profession are not covered under the existing provisions of clause (va) of section 28/ section 45 of the Act.
- It is proposed to amend clause (va) of section 28 of the Act to bring the non-compete fee received/receivable( which are 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 1st April, 2017 and will, accordingly, apply in relation to the assessment year 2017-18 and subsequent years.

**BB. 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 clause (c) of sub-section (1) of section 112 of the Income- tax Act, 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 per cent.
- These amendments are proposed to be made effective from the 1st day of April, 2017 and shall accordingly apply in relation to assessment year 2017-18 and subsequent years.

**CC. 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 sub-section (3) of section 139.
- It is also proposed to amend the said sub-section (3) of section 139 so as to give reference of sub-section (2) of section 73A in the said sub-section.
- These amendments will take effect retrospectively from 1st April, 2016 and will, accordingly, apply in relation to the assessment year 2016-17 and subsequent years.

**DD. 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,-
  - (i) 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.
  - (ii) where the spectrum is transferred and proceeds of the transfer are less than the expenditure remaining unallowed, a deduction equal to the expenditure remaining unallowed as reduced by the proceeds of transfer, shall be allowed in the previous year in which the spectrum has been transferred.
  - (iii) if the spectrum is transferred and proceeds of the transfer exceed the amount of expenditure remaining unallowed, 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.
  - (iv) unallowed expenses in a case where a part of the spectrum is transferred would be amortised.
  - (v) 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 section will apply to amalgamated company as they would have applied to amalgamating company if later has not transferred the spectrum.

- These amendments will take effect from 1st April, 2017 and will, accordingly, apply in relation to the assessment year 2017-18 and subsequent years.

#### EE. Rationalization of tax deduction at Source (TDS) provisions

- In order to rationalise the rates and base for TDS provisions, the existing threshold limit for deduction of tax at source and the rates of deduction of tax at source are proposed to be revised as mentioned in tables below:
- Increase/ Decrease in threshold limit of deduction of tax at source on various payments mentioned in the relevant sections of the Act

Present Section	Heads	Existing Threshold Limit (Rs.)	Proposed Threshold Limit (Rs.)
192A	Payment of accumulated balance due to an employee	30,000	50,000
194BB	Winnings from Horse Race	5,000	10,000
194C	Payments to Contractors	Aggregate annual limit of	Aggregate annual limit of
194LA	Payment of Compensation on acquisition of certain Immovable Property	2,00,000	2,50,000
194D	Insurance commission	20,000	15,000
194G	Commission on sale of lottery tickets	1,000	15,000
194H	Commission or brokerage	5,000	15,000

- Revision in rates of deduction of tax at source on various payments mentioned in the relevant sections of the Act

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

- Certain non-operational provisions to be omitted

Present Section	Heads	Proposal
194K	Income in respect of Units	To be omitted w.e.f 01.06.2016
194L	Payment of Compensation on acquisition of Capital Asset	To be omitted w.e.f 01.06.2016



### 3. Rationalisation Measures and Other provisions

#### A. 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 totaling in all to forty-five per cent of such undisclosed income declared.
- The scheme is proposed to be brought into effect from 1<sup>st</sup> June 2016. The scheme is proposed to be made applicable in respect of undisclosed income of any financial year upto 2015-16.
- Tax is proposed to be charged at the rate of thirty per cent on the declared income as increased by surcharge at the rate of twenty five per cent of tax payable (to be called the Krishi Kalyan cess). A penalty at the rate of twenty five per cent of tax payable is also proposed to be levied on undisclosed income declared under the scheme.
- It is proposed that following cases shall not be eligible for the scheme:
  - where notices have been issued under section 142(1) or 143(2) or 148 or 153A or 153C, or
  - 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, or
  - where information is received under an agreement with foreign countries regarding such income,
  - cases covered under the Black Money Act, 2015, or
  - persons notified under Special Court Act, 1992, or
  - cases covered under Indian Penal Code, the Narcotic Drugs and Psychotropic Substances Act, 1985, the Unlawful Activities (Prevention) Act, 1967, the Prevention of Corruption Act, 1988.
- It is proposed to provide that where a declaration under the scheme has been made by misrepresentation or suppression of facts, such declaration shall be treated as void.
- 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.
- It is further proposed that if any difficulty arises in giving effect to the provisions of this Scheme, the Central Government may, by order, not inconsistent with the provisions of this Scheme, remove the difficulty by an order not after the expiry of a period of two years from the date on which the provisions of this Scheme come into force and such order be laid before each House of Parliament.

#### B. The Direct Tax Dispute Resolution Scheme, 2016

- The salient features of the proposed scheme are as under:
  - The scheme be applicable to "tax arrears" in respect of which appeal is pending before the Commissioner of Income-tax (Appeals) or the Commissioner of Wealth-tax (Appeals) as on the 29th day of February, 2016.
  - The pending appeal could be against an assessment order or a penalty order.
  - The declarant under the scheme be required to pay tax at the applicable rate plus interest upto the date of assessment. However, in case of disputed tax exceeding

rupees ten lakh, twenty-five percent of the minimum penalty leviable shall also be required to be paid.

- In case of pending appeal against a penalty order, twenty-five percent of minimum penalty leviable shall be payable alongwith 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.
- 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.
- It is proposed that person making declaration in respect of specified tax shall be required to furnish an undertaking 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.
  - The declarant under the scheme shall get immunity from institution of any proceeding for prosecution for any offence under the Income-tax Act or the Wealth-tax Act. However, waiver of interest in respect of tax arrears is to the extent the interest exceeds the amount of interest referred in the scheme.

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

- Under the existing provisions no time limit has been provided regarding the passing of orders either under section 220 or sections 273A or 273AA.
- 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 1<sup>st</sup> day of June, 2016, the order under said sections shall be passed on or before 31<sup>st</sup> May, 2017.
- These amendments will take effect from 1<sup>st</sup> June, 2016.

#### **D. Providing legal framework for automation of various processes and paperless assessment**

- It is proposed to amend sub-section (1) of section 282A 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 sub-section (2) of section 143, it is proposed to amend sub-section (2) of section 143 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 1<sup>st</sup> day of June, 2016.

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

- In order to reduce compliance burden in cases where the tax payable on recipient's total income, including rental payments, will be nil, 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 1 June, 2016.

#### **F. 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.
- To be made effective for the transactions entered from 1 April, 2017 and shall accordingly apply in relation to assessment year 2017-18 and subsequent years.

#### **G. Rationalization of conversion of a company into Limited Liability Partnership (LLP)**

- It is proposed to amend provisions of clause (xiiib) of Section 47 so as to provide that, 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 five crore rupees.

- These amendments are proposed to be made effective from the 1st day of April, 2017 and shall accordingly apply in relation to assessment year 2017-18 and subsequent assessment years.

#### **H. 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 1 April, 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.
- Under the existing provisions, 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.
- It is proposed to amend the said provisions so as to provide that any payment in commutation of an annuity purchased out of contributions made on or after the 1st day of April, 2016, which exceeds forty per cent of the annuity, shall be chargeable to tax.
- It is further 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 forty percent 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.
- Under section 17, perquisite includes the amount of any contribution exceeding one lakh rupees to an approved superannuation fund by the employer in the hands of the assessee.
- Per Part A of Fourth Schedule to the Income-tax Act contributions made by employer to the credit of an employee participating in a recognised provident fund, which are in excess of twelve percent of the salary of the employee, are liable to tax in the hands of the employee.
- The limit of contribution by the employee eligible under section 80C of the Act has been increased from one lakh rupees to one lakh and fifty thousand rupees vide Finance Act(No.2), 2014. Therefore, in order to bring parity in the monetary limit for contribution by the employer and the employee, it is proposed to amend the said section and said schedule so as to provide the limit of employer's contribution to one lakh and fifty thousand rupees, without attracting tax.
- These amendments are proposed to be made effective from the 1 April, 2017 and shall accordingly apply in relation to assessment year 2017-18 and subsequent years.

#### **I. Filing of return of Income**

- It is proposed to amend the sixth proviso to sub-section (1) of the section 139 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 the aforesaid section 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 the aforesaid section 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 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.
- These amendments will take effect from 1 April, 2017 and will, accordingly apply in relation to assessment year 2017-2018 and subsequent years.

#### **J. Processing under section 143(1) be mandated before assessment**

- 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 1 April, 2017 and will, accordingly apply in relation to assessment year 2017-2018 and subsequent years.

#### **K. Rationalisation of time limit for assessment, reassessment and recomputation**

- Time limits specified under section 153 is proposed to be substituted with the following changes:
  - the period, for completion of assessment under section 143 or section 144 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 1st June 2016, the time limit for passing such order is proposed to be extended to 31.3.2017.

- 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 1.6.2016, the time limit for taking requisite action is proposed to be 31.3.2017 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 1.6.2016, the time limit for taking requisite action is proposed to be 31.3.2017 or twelve months from the end of 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.
- The provisions of section 153 as they stood immediately before their amendment by the Finance Act, 2016, shall apply to and in relation to any order of assessment, reassessment or recomputation made before the 1st day of June, 2016.
- The amendment will take effect from 1 June, 2016.

#### **L. Rationalisation of time limit for assessment in search cases**

- Section 153B is proposed to be substituted with the following changes in time limit from the existing time limits as under:
  - o 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.

- o 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 provisions of section 153B as they stood immediately before their amendment by the Finance Act, 2016, shall apply to and in relation to any order of assessment, reassessment or recomputation made before the 1st day of June, 2016.
- The amendment will take effect from 1 June, 2016.

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

- It is proposed to rationalise 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. Thus, now the payment schedule for advance tax is same for all assessees.
- 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 15th March of the financial year.
- 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 1 June, 2016.

**N. Payment of interest on refund**

- It is 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 effect being delayed beyond the time prescribed under sub-section (5) of section 153, the assessee shall be entitled to receive, in addition to the interest payable under sub-section of section 244A, an additional interest on such refund amount calculated at the rate of three per cent per annum, for the period beginning from the date following the date of expiry of the time allowed under sub-section (5) of section 153 to the date on which the refund is granted. It is clarified that in cases where extension is granted by the Principal Commissioner or Commissioner by invoking proviso to sub-section (5) of section 153, the period of additional interest, if any, shall begin from the expiry of such extended period.
- These amendments will take effect from 1 June, 2016.

## **O. Rationalisation of the provisions relating to Appellate Tribunal**

- In line with the decision of the Government to minimise litigation, it is proposed to do away with the filing of appeal by the Assessing Officer against the order of the DRP.
- These amendments will take effect from 1st day of June, 2016.
- It is also proposed to provide that in cases where Department is already in 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 1st July, 2012.
- Further, in order to bring certainty to the order of ITAT, 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) of section 255 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 fifty lakh rupees (earlier limit of fifteen lakh rupees).
- These amendments will take effect from 1 June, 2016.

## **P. Rationalisation of penalty provisions**

- In order to rationalize and bring objectivity, certainty and clarity in the 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 1st day of April, 2017 and subsequent assessment years and penalty be levied under the newly inserted section 270A with effect from 1st April, 2017. The new section 270A 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,-
  - a) the income assessed is greater than the income determined in the return processed under clause (a) of sub-section (1) of section 143;
  - b) the income assessed is greater than the maximum amount not chargeable to tax, where no return of income has been furnished;
  - c) the income reassessed is greater than the income assessed or reassessed immediately before such re-assessment;
  - d) 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 of section 143;
  - e) 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;



- f) the income assessed or reassessed has the effect of reducing the loss or converting such loss into income.
- In a case where return is furnished and assessment is made for the first time the amount of under reported income in case of all persons shall be the difference between the assessed income and the income determined under section 143(1)(a). In a case where no return has been furnished and the return is furnished for the first time, the amount of under-reported income is proposed to be:
  - i. for a company, firm or local authority, the assessed income;
  - ii. for a person other than company, firm or local authority, the difference between the assessed income and the maximum amount not chargeable to tax.
- In case of any person, where income is not assessed for the first time, the amount of under reported income shall be the difference between the income assessed or determined in such order and the income assessed or determined in the order immediately preceding such order.
- It is also proposed that the under-reported income under this section shall not include the following cases:
  - i. 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;
  - ii. 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;
  - iii. 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;
  - iv. 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;
  - v. 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 fifty per cent 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 two hundred per cent of the tax payable on such misreported income. The cases of misreporting of income have been specified as under:
  - i. misrepresentation or suppression of facts;
  - ii. non-recording of investments in books of account;
  - iii. claiming of expenditure not substantiated by evidence;
  - iv. recording of false entry in books of account;
  - v. failure to record any receipt in books of account having a bearing on total income;
  - vi. 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 thirty per cent 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 1st day of April, 2017 and will, accordingly apply in relation to assessment year 2017-2018 and subsequent years.
- Consequential amendments have been proposed in sections 119, 253, 271A, 271AA, 271AAB, 273A and 279 to provide reference to newly inserted section 270A.

**Q. Amendment of section 271AAB**

- 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 sixty per cent of such income (vis-à-vis earlier provision of thirty per cent to ninety per cent).

**R. Amendment of Section 272A**

- It is proposed to amend sub-section (1) of section 272A to further include levy of penalty of ten thousand rupees 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 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 1 April, 2017 and will, accordingly, apply in relation to the assessment year 2017 -2018 and subsequent years.

**S. Provision for bank guarantee under section 281B**

- It is proposed that the Assessing Officer shall revoke provisional attachment of property made under sub-section (1) of section 281B 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.
- In order to help the Assessing Officer to determine the fair market value of the property, the Assessing Officer may, make a reference to the Valuation Officer, who may be required to submit the report of the estimate of the property to the Assessing Officer within a period of thirty days from the date of receipt of such reference.
- In order to ensure the revocation of attachment of property in lieu of bank guarantee in a time bound manner, 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 in the interests of the revenue, invoke the bank guarantee.
- 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 1 June, 2016.

**T. Extension of time limit to Transfer Pricing Officer in certain cases**

- It is proposed to amend sub-section (3A) of section 92CA to provide that where assessment proceedings are stayed by any court or where a reference for exchange of information has been made by the competent authority, the time available to the Transfer Pricing Officer for making an order after excluding the time for which assessment proceedings were stayed or the time taken for receipt of information, as the case may be, is less than sixty days, then such remaining period shall be extended to sixty days.
- The amendment will take effect from 1 June, 2016.

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

- In order to expeditiously remove the mismatch between the return and the information available with the Department, 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 the 1 June, 2016.

**V. Immunity from penalty and prosecution in certain cases by inserting new section 270AA**

- It is proposed to provide that an assessee may make an application to the Assessing Officer for grant of immunity from imposition of penalty under section 270A and initiation of proceedings under section 276C, provided he pays the tax and interest payable as per the order of assessment or reassessment within the period specified in such notice of demand and does not prefer an appeal against such assessment order. The assessee can make such application within one month from the end of the month in

which the order of assessment or reassessment is received in the form and manner, as may be prescribed.

- 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, 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:—
  - (a) misrepresentation or suppression of facts;
  - (b) failure to record investments in the books of account;
  - (c) claim of expenditure not substantiated by any evidence;
  - (d) recording of any false entry in the books of account;
  - (e) failure to record any receipt in books of account having a bearing on total income; or
  - (f) 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.
- These amendments will take effect from the 1st day of April, 2017 and will, accordingly, apply in relation to the assessment year 2017 -2018 and subsequent years.

**Chapter 5**  
**Indirect Taxes**  
**Sector & Industry Specific Analysis**



# Air-conditioning & Refrigeration

## Industry Issues

Window/wall type self contained air-conditioners and household compression type refrigerators are included in the list of India-Thailand Agreement and attract NIL customs duty since 1st September 2006. In 2014-15, 53% of imports of air-conditioners and 19% of household refrigerators were from Thailand. However, there is no provisions to import inputs at NIL customs duty.

Parts of air-conditioners falling under tariff heading 8415 90 00 attract customs duty of 10%. This needs to be brought down to 7.5%.

Customs and excise duties are exempted vide customs notification 12/2012-sl.no. 331 and excise notification 12/2012-sl. no. 364 on goods required for the project for substitution of ozone depleting substances (ODS) or projects for setting up of new capacity with non-ODS technology. This needs to be extended to goods imported for setting up R & D, testing and calibration facilities for development of non-ODS products and components.

## What CII Wanted

- Reduce customs duty from 10% to 7.5% on parts of air-conditioners.
- Extend customs and excise duty exemptions to goods required for setting up R&D, testing and calibration facilities for development of non-ODS products and components.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Window / wall type self contained or split air-conditioners (8415 10)	12.5	12.5	12.5	10	10	10
Household refrigerators (8418 21 00, 8418 29 00)	12.5	12.5	12.5	10	10	10
<b>Inputs</b>						
Compressors (8414 30 00, 8414 80 11)	12.5	12.5	12.5	7.5	7.5	7.5
Thermostats (9032 10 10)	12.5	12.5	12.5	7.5	7.5	7.5
Electronic Controls (8537 10 10, 8543 89 99)	12.5	12.5	12.5	7.5	7.5	7.5
Copper/copper alloys tubes and fittings (7411, 7412)	12.5	12.5	12.5	7.5	7.5	7.5
Parts of air-conditioners (8415 90 00)	12.5	12.5	12.5	10	7.5	10
Parts of refrigerators (8418 99 00)	12.5	12.5	12.5	7.5	7.5	7.5

## Impact of Budget 2016-17

- Customs duty has been increased from 7.5% to 10% on aluminium tubes and pipes and their fittings falling under HS Code 7608 and 7609.
- Concessional 5% basic customs duty presently available under project imports for cold storage & cold room has been extended to cold chain including pre-cooling unit, pack houses, sorting and grading lines and ripening chambers.
- Basic customs duty has been reduced from 10% to 5% and excise duty reduced from 12.5% to 6% on refrigerated containers (8609 00 00).

# Alcoholic Beverages

## Industry Issues

The import of distilled spirits is either in the form of bottled in origin (BIO) or in bulk and then bottled in India. Customs duty on both forms of distilled spirits is 150% since long and is equal to the WTO bound rate of duty. Present basic customs duty of 150% is higher than duty rates prevalent in most countries within the Asia – Pacific Region.

Reduction of customs duty on distilled spirits from 150% to 100% needs consideration. There can be a minimum benchmark customs duty payable to ensure some ongoing protection for lower value domestic distilled spirits and wine products.

## What CII Wanted

- Reduce customs duty from 150% to 100% on distilled spirits (BIO and Bulk) and wine.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015–16	What CII wanted	Budget 2016–17	2015–16	What CII wanted	Budget 2016–17
Beer made from malt (2203)	NIL CVD	NIL CVD	NIL CVD	100	100	100
Wine and liquor (2204, 2208)	NIL CVD	NIL CVD	NIL CVD	150	100	150
<b>Inputs</b>						
Cane molasses (1703 10 00)	Rs. 750 per MT	Rs. 750 per MT	Rs. 750 per MT	10	10	10
Glass bottles (7010 90 00)	12.5	12.5	12.5	10	10	10

## Impact of Budget 2016-17

- There is no change in customs and excise duty rates.



# Aluminium

## Industry Issues

In the manufacturing process of aluminium, aluminium ore (bauxite) is first converted into calcined alumina and then to primary aluminium. In addition to alumina, the other inputs used for production of aluminium are calcined petroleum coke, coal tar pitch, aluminium fluoride and caustic soda.

Alumina made from aluminium ore is the primary raw material/concentrate used for production of aluminium and contributes to approximately 40-45% of the total cost of production of primary aluminium. In 2014-15, India imported 7.02 lac tonne of alumina valuing 161,664 lac. Customs duty on calcined alumina (2818 20 10) is 5% which is at par with customs duty on aluminium. Reduction of customs duty on calcined alumina to 2.5% would help aluminium manufacturers.

## What CII Wanted

- Reduce customs duty from 5% to 2.5% on calcined alumina.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Aluminium in various forms (7601, 7603 to 7607)	12.5	12.5	12.5	5	5	7.5
Aluminium products (7608 to 7609)	12.5	12.5	12.5	7.5	7.5	10
<b>Inputs</b>						
Aluminium ore (bauxite) (2606)	NIL	NIL	NIL	2.5	2.5	2.5
Calcined petroleum coke (2713 12 00)	14	14	14	2.5	2.5	2.5
Calcined alumina (2818 20 10)	12.5	12.5	12.5	5	2.5	5
Caustic soda (2815 11 10, 2815 12 00)	12.5	12.5	12.5	7.5	7.5	7.5
Aluminium fluoride (2826 12 00)	12.5	12.5	12.5	7.5	7.5	7.5
Coal tar pitch (2708 10 10)	14	14	14	5	5	5

## Impact of Budget 2016-17

- Customs duty has been increased from 5% to 7.5% on primary aluminium (7601,7603 to 7607) and from 7.5% to 10% on aluminium tubes, pipes and their fittings falling under HS Code 7608 and 7609.
- Export duty has been reduced from 20% to 15% on bauxite (natural) calcined as well as not calcined.
- Excise duty has been changed from 2% without CENVAT Credit or 6% with ITC to 2% without CENVAT Credit or 12.5% with ITC on disposable containers made of aluminium foils.
- Aluminium foils of thickness not exceeding 0.2 mm brought under RSP based assessment with abatement of 25%.

# Auto Components

## Industry Issues

Catalytic converter in a vehicle is an emission control device that converts toxic pollutants in exhaust gas to less toxic pollutants. Catalytic converters attract customs duty of 5%. Parts of catalytic converters and 11 specified inputs for manufacture of catalytic converters are also allowed for import at customs duty of 5%. One more item stainless steel foil (CTH 7219 and 7220) also needs to be included in the list of inputs for catalytic converter.

Wash coat technology is being used for manufacture of catalytic converters to meet the revised emission standards. Wash coat (3824 90 90) is being imported at a concessional customs duty of 5%. In the budget 2015-16, ceria zirconia compounds, cerium compounds and zeolite were allowed for import at customs duty of 5% when imported for manufacture of wash coat. The same concession needs to be extended to two other inputs, aluminium oxide and compounds (2818 20 90) and titanium dioxide (2823 00 10).

## What CII Wanted

- Include stainless steel foil used in manufacture of catalytic converter in sl. No. 371 (b) of customs notification 12/2012 to reduce customs duty to 5%.
- Include aluminium oxide and compounds as well as titanium dioxide used in manufacture of wash coat in sl. No. 371 (b) of customs notification 12/2012 to reduce customs duty on these inputs to 5%.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Catalytic converter (8421)	12.5	12.5	12.5	5	5	5
Wash Coat (3824 90 90)	12.5	12.5	12.5	5	5	5
<b>Inputs</b>						
Stainless steel foil used in manufacture of catalytic convertor (7219, 7220)	12.5	12.5	12.5	7.5	5	7.5
Aluminium oxide for manufacture of wash coat (2818 20 90)	12.5	12.5	12.5	7.5	5	5
Titanium dioxide for manufacture of wash coat (2823 00 10)	12.5	12.5	12.5	10	5	10

## Impact of Budget 2016-17

- Customs duty has been reduced from 7.5% to 5% on aluminium oxide used for manufacture of wash coats.
- Customs duty has been increased from 5% to 7.5% on primary aluminium (7601,7603 to 7607) and from 7.5% to 10% on aluminium tubes, pipes and their fittings falling under HS Code 7608 and 7609.
- RSP based assessment of excise duty has been extended to accessories of certain vehicles falling under HS code 8426 41 00, 8427, 8429 and 8430 10.

# Automobiles

## Industry Issues

60% to 100% customs duty on CBUs of new cars and 60 – 75% on 2 wheelers has provided protection to indigenous industry and this needs to be retained.

With a view to encourage manufacture of electric and hybrid vehicles, basic customs duty on specified inputs has been reduced to NIL and CVD to 6%. However, this concession is valid upto 31 March 2016, which needs to be extended till 2020 i.e entire of National Electric Mobility Mission Plan.

Motor vehicles of engine capacity exceeding 1500 cc (excluding SUVs) attract excise duty of 27%. SUVs including utility vehicles exceeding 1500 cc engine capacity have been defined as motor vehicle of length exceeding 4000 mm and having ground clearance of 170mm and above and these attract higher excise duty of 30%. This distinction between these two categories of motor vehicles falling under tariff heading 8703 needs to be withdrawn and brought under same excise duty of 27%.

1% National Calamity Contingent duty (NCCD) on motor cars, multi-utility vehicles and two-wheelers needs to be withdrawn to reduce the impact of taxation.

## What CII Wanted

- Retain existing customs duty rates on CBUs of cars/MUVs and two-wheelers.
- Extend benefit of NIL customs duty and 6% CVD on specified inputs of electric as well as hybrid vehicles upto 2020.
- Rationalize excise duty at 27% on motor vehicles (excluding electrically operated and three wheeled) of engine capacity exceeding 1500 cc under tariff heading 8703.
- Withdraw 1% NCCD on motor vehicles.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Motor vehicles of engine capacity:						
- not exceeding 1500 cc (8702, 8703)	24	24	24	60	60	60
- exceeding 1500 cc but excluding SUVs (8702, 8703)	27	27	27			
- SUVs including utility vehicles exceeding 1500 cc (8703)	30	27	30			

## Impact of Budget 2016-17

- Customs duty has been increased from 10% to 60% on golf cars.
- NIL customs duty and 6% excise/CVD has been extended without any time limit on specified inputs of electric as well as hybrid vehicles.
- Infrastructure cess has been levied on motor vehicles of heading 8703 at the rate of 1%, 2.5% and 4% on three different specified categories of cars and SUVs. No Credit of this cess will be allowed and this cannot be paid out of CENVAT Credit.
- RSP based assessment of excise duty has been extended to accessories of certain vehicles falling under HS Code 8426 41 00, 8427, 8429 and 8430 10.

# Capital Goods / Projects Imports

## Industry Issues

Presently goods supplied to ultra mega power projects are exempted from excise duty as per sl. no. 337 and 338 of excise notification 12/2012. However, in case of goods supplied to nuclear power projects, excise duty has to be paid and subsequently claimed as refund under deemed export benefits. This results in blockage of funds of the indigenous supplier which adds to the cost whereas CVD is exempted if goods are imported. The excise exemption needs to be extended to nuclear power projects having NIL customs duties as per sl. no. 511 of customs notification 12/2012.

Exemption of 4% SAD includes various types of projects and certain capital goods. This erodes competitiveness of the domestic industry as CST/VAT is applicable on indigenously manufactured goods.

In terms of Notification No. 108/95-C.E excise duty exemption is available to the manufacturer where the goods are supplied to specified International Organisations or the projects financed by these. However, this benefit is available only to the main contractor and not to the sub-contractor.

## What CII Wanted

- Exempt excise duty on nuclear power projects and also include these in Rule 6(6) of CENVAT Credit Rules 2004.
- Impose 4% SAD on all types of projects and others which involve import of capital goods.
- Extend the benefit of NIL excise duty under excise notification 108/95 and 12/2012-338 to sub-contractors.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty +CVD +Spl. CVD (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Nuclear Power specified projects of capacity 440 MW or more (9801)	12.5	NIL	12.5	NIL+NIL+NIL	NIL+NIL+NIL	NIL+NIL+NIL
Project Imports (9801)	12.5	12.5	12.5	5+12.5+4	5+12.5+4	5+12.5+4
General Machinery not covered by any notification (84, 85)	12.5	12.5	12.5	7.5+12.5+4	7.5+12.5+4	7.5+12.5+4

## Impact of Budget 2016-17

- Tariff rate of customs duty has been increased from 7.5% to 10% on 206 specified tariff lines in Chapter 84 and 85. However, effective rate of customs duty have increased from 7.5% to 10% on 96 tariff lines. On the remaining 110 tariff lines, effective customs duty of 7.5% remains unchanged.
- Excise duty reduced from 12.5% to 6% on electric motor, shaft, sleeve, chamber, impeller, washer used for manufacture of centrifugal pump.
- Customs duty has been increased from 5% to 7.5% on primary aluminium (7601, 7603 to 7607) and from 7.5% to 10% on aluminium tubes, pipes and their fittings under HS code 7608 and 7609.

# Cement

## Industry Issues

Packaged cement attracts 12.5% excise duty based on retail sale price with abatement of 30% plus specific excise duty of Rs. 125 per tonne. Excise duty on cement is higher than other inputs used in infrastructure and housing. Therefore, specific duty component on cement needs to be withdrawn.

Import of cement attracts NIL customs duty whereas major inputs required for manufacture of cement such as limestone, gypsum, coal, petroleum coke have customs duty of 2.5 – 5%. NIL customs duty on cement under tariff heading 2523 29 is helping Pakistan and Bangladesh to export surplus cement to India. Cement clinkers are intermediate product in manufacture of cement and have customs duty of 10%. This anomalous situation needs to be corrected.

Due to inadequate supplies of domestic coal, cement manufacturers are trying alternative fuel sources like tyre chips. These attract customs duty of 10% which needs to be reduced to 5%.

Fly ash is a waste product but attract excise duty of 6% if CENVAT credit is availed. Excise duty is 2% if no CENVAT credit is availed. Fly ash was exempted from excise duty upto 28.02.2011. NIL excise duty on fly ash needs to be restored.

## What CII Wanted

- Remove specific component of excise duty of Rs. 125 per tonne on cement.
- Increase customs duty from NIL to 10% on cement falling under CTH 2523 29.
- Reduce customs duty from 10% to 5% on rubber tyre chips.
- Reduce excise duty on fly ash to NIL.

## What the Government Gave

Item	Excise Duty			Customs Duty%		
	2015–16	What CII wanted	Budget 2016–17	2015–16	What CII wanted	Budget 2016–17
Cement manufactured and cleared in packaged form from other than a mini cement plant (2523 29)	12.5%+Rs 125 PMT	12.5%	12.5%+Rs 125 PMT	NIL	10	NIL
Cement cleared in other than packaged form (2523 29)	12.5%	12.5%	12.5%	NIL	10	NIL
<b>Inverted customs duty structure on Inputs</b>						
Tyre chips (4004 00 00)	12.5%	12.5%	12.5%	10	5	10
Steam coal (2701 19 20)	2% CVD	2% CVD	2% CVD	2.5	2.5	2.5
Petroleum Coke (2713 11 00)	14%	14%	14%	2.5	2.5	2.5

## Impact of Budget 2016-17

- *Name of Clean Energy Cess levied on coal changed to “Clean Environment Cess” and its rate has been increased from Rs. 200 to Rs. 400 per MT.*

# Cigarettes

## Industry Issues

The current system of length based specific excise duty for cigarettes introduced in 1987 has avoided valuation disputes and resulted in growth in revenue collection. It needs to be retained for cigarettes.

The mini filter cigarettes of length not exceeding 65mm category with total excise duty of Rs. 669 per thousand cigarettes was introduced in the Budget 2012 to tackle the growing menace of the illegal duty evaded cigarettes. This segment had enabled the legitimate industry to hold on to Rs. 2 per stick price and thus helping partial retention of volumes within its fold, which would have otherwise gone to illicit segment. Excise duty on this segment was increased by 72% in July 2014 budget and again increased by 25% in the Budget 2015-16. Now the total excise including AED and NCCD is Rs. 1440 per thousand on filter cigarettes not exceeding 65mm length. This has forced the industry to vacate the crucial Rs. 2 price point.

There is need for a new segment of less than 60 mm length with excise duty of Rs 200 per thousand cigarettes to combat the menace of illegal cigarettes.

## What CII Wanted

- Continue with the existing length based specific excise duty structure.
- Introduce new segment of 'less than 60 mm length' with excise duty of Rs. 200 per thousand cigarettes.

## What the Government Gave

Item	Excise +AED +NCCD Rs. Per 1000 Cigarettes			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Cigarettes non-filter (<=65mm) (2402 20 10)	1440	1440	1585	30	30	30
Cigarettes non-filter (>65-70mm) (2402 20 20)	2590	2590	2850			
Cigarettes filter (<=65mm) (2402 20 30)	1440	1440	1585			
Cigarettes filter (65-70mm) (2402 20 40)	1900	1900	2090			
Cigarettes filter (70-75mm) (2402 20 50)	2590	2590	2850			
Cigarettes other (2402 20 90)	3790	3790	4170			

## Impact of Budget 2016-17

- Additional excise duty on cigarettes has been increased by Rs. 145 to Rs. 380 per thousand cigarettes.

# Copper & Copper Scrap

## Industry Issues

Customs duty on copper scrap is 5% whereas scrap of steel and aluminium attracts 2.5% duty.

In India, the secondary producer of copper in the organized sector find itself in a disadvantageous position due to the following:

- Customs duty on scrap of copper is 5% which is at par with customs duty on copper.
- Unable to utilize the CENVAT credit of 12.5% CVD and 2% SAD paid on imported scrap due to low value addition in conversion of scrap into metal form.

There is need to encourage recycling of copper by reducing basic customs duty on scrap of copper to 2.5% and completely exempting SAD.

## What CII Wanted

- Reduce customs duty from 5% to 2.5% on copper scrap.
- Exempt 2% Special Addition Duty on copper and brass scrap.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Copper rods, copper wire-bars (7403)	12.5	12.5	12.5	5	5	5
Copper cathodes (7403 11 00)	12.5	12.5	12.5	5	5	5
<b>Inputs</b>						
Copper ores and concentrates (2603)	NIL	NIL	NIL	2.5	2.5	2.5
Copper scrap (7404)	12.5	12.5	12.5	5	2.5	5

## Impact of Budget 2016-17

- Customs duty has been reduced from 5% to 2.5% on brass scrap falling under HS Code 7404 00 22.

# Drugs & Pharmaceuticals

## Industry Issues

Navelbine is a new medicine and is being imported for use in the therapy of treating Non-Small-Cell Lung Cancer (NSCLC). This needs to be included as a life saving drug in list 4 of customs notification 12/2012-sl. no. 148.

Radioisotope TI-201 and Technitium-99M are tracer molecules used in medical imaging appear at sl no. 92 and 111 of customs list 4 and attract NIL customs duty as per sl. no. 148 of customs notification 12/2012. Similar customs duty concession needs to be extended to Radioisotope-FDG 18 mainly used as medical imaging modality Positron Emission Tomography.

In list 3 of customs notification 12/2012, "Interferon alpha-2b/alpha-2a/interferon alpha-2a/Interferon NL (LNS)" appears at sl. no. 37. Likewise, "Interferon beta-1b" is a newly developed life saving drug akin to the medicine at sl. no. 37 and hence should also be allowed for import at concessional customs duty by adding in list 3.

List 3, also includes cancer drugs "Pegulated Liposomal Doxorubicin Hydrochloride injection" and "Doxorubicin" at sl. no. 89 and 128 respectively. Likewise, "Doxorubicin Hydrochloride Liposomal injection" is a medicine meant for treatment of cancer and needs to be included in list 3.

Pharma formulations attract excise duty of 6% whereas inputs active pharmaceutical ingredients (API) have excise duty of 12.5% which has led to accumulation of CENVAT Credit. This situation needs to be corrected by reducing excise duty on API to 6%.

## What CII Wanted

- Include Navelbine and Radioisotope-FDG 18 in list 4 of customs notification 12/2012 to bring down customs duty to NIL.
- Allow import of Interferon beta-1b and Doxorubicin Hydrochloride Liposomal injection at concessional customs duty of 5% by including these in list 3 of customs notification 12/2012.
- Reduce excise duty from 12.5% to 6% on active pharmaceutical ingredients.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Drug formulations (3001, 3003, 3004)	6	6	6	10	10	10
126 specified life saving drugs / medicines including their salts and esters and diagnostic kits – list 4 of customs (28,29,30,38)	NIL	NIL	NIL	NIL	NIL	NIL
181 specified drugs, medicines, diagnostic kits or equipment – list 3 of customs (28,29,30)	NIL	NIL	NIL	5	5	5

## Impact of Budget 2016-17

- On 28.01.2016, 15 items out of 126 life saving drugs in list 4, and 61 items out of 181 drugs in list 3 were deleted. Consequently concessional customs duty and NIL excise duty are no more available on the deleted items.
- On 17.02.2016, following new items have been added.
  - Octreotide and Somatropin in list 3
  - Anti-Haemophilic Factor Concentrate (VIII and IX) in list 4
- Customs duty reduced from 7.5% to NIL on Medical Use Fission Molybdenum-99 for manufacture of radio pharmaceuticals.



# Earthmoving and Construction Equipment

## Industry Issues

16 specified equipment mentioned in list 16 of customs and used for construction of roads are allowed for import at NIL basic customs duty, NIL CVD and NIL additional duty of customs (SAD) as per customs notification 12/2012-sl.no.368 and customs notification 21/2012-sl.no.1. This list needs to be amended as stone crushing (cone type) plants at sl. no. 12 are now manufactured in India

Supplies of goods to projects financed by the World Bank, Asian Development Bank or specified International Organisations are exempted from excise duty under excise notification 108/1995. The earth moving equipment manufactures clear the equipment under this notification on the basis of a certificate from the project implementation authority and the benefit of excise duty exemption is given to the buyer of the equipment.

Excise notification 108/1995 was amended vide notification 11/2014 dated 11.07.2014 providing that goods cleared prior to 01.03.2008 can be transferred to any other user if the goods are no longer required for the existing project on payment of excise duty on the depreciated value by the manufacturer. Manufacturer does not have any control over the equipment buyer after sale and therefore obligation to pay excise duty on depreciated value should be applicable on the buyer and not the manufacturer.

## What CII Wanted

- Delete the equipment – stone crushing (cone type) plants at sl. no. 12 of list 16 of customs which are now made in India.
- Amend the provision to pay excise duty in excise notification 108/1995 on the depreciated value at the time of transfer of the equipment by the owner of the equipment.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Complete equipment such as excavators / dozers / shovel loaders / mechanical shovels etc. (8429, 8430)	12.5	12.5	12.5	7.5	7.5	7.5
16 specified equipment for construction of roads – list 16 of customs (84 or any other chapter)	NIL CVD	NIL CVD	12.5 CVD	NIL	NIL	NIL
Complete Off-highway dumpers (8704 10 10)	12.5	12.5	12.5	20	20	20

## Impact of Budget 2016-17

- CVD has been increased from NIL to 12.5% on 16 specified road construction equipment having NIL basic customs duty.

# Fly Ash, Fly Ash Bricks & Other Fly Ash Products

## Industry Issues

Fly ash was exempt from excise duty upto 28.02.2011 vide excise notification 76/1986. In the budget 2011, this excise exemption was withdrawn. Now it attracts 2% excise duty without CENVAT credit or 6% with credit. This excise duty is also applicable to manufacturers having captive power plants and they have to mention some transaction value even if fly ash is being sent out for dumping. Therefore, excise duty on fly ash needs to be reduced to NIL.

Fly ash bricks are made from 60-70% of fly ash, 10-20% lime, 10% gypsum and 10% sand depending upon quality of inputs. These bricks are substitute for burnt clay bricks which are made from dug out top layer of soil causing soil erosion. Excise duty on burnt clay bricks falling under tariff heading 6901 00 10 is Nil whereas bricks and tiles of fly ash under tariff heading 6815 99 10 have excise duty of 12.5%. In order to encourage use of fly ash bricks, excise duty on these needs to be reduced to NIL.

To encourage use of fly ash, government gave full excise exemption in the year 1991 vide excise notification 60/1991 on goods falling under chapter 68 in which not less than 25% by weight of fly-ash has been used. Subsequently excise duty of 8% was levied on 1.3.2006 which was reduced to 4% on 17.2.2008. Presently applicable excise duty is 12.5% with effect from 1.3.2015. Usage of fly ash for manufacture of asbestos cement products containing not less than 25% fly ash by weight needs to be encouraged by reducing excise duty to 6%.

## What CII Wanted

- Reduce excise duty on fly ash to NIL and also include fly ash in Rule 6(6) of CENVAT Credit Rules 2004.
- Reduce excise duty from 12.5% to NIL on fly ash bricks.
- Reduce excise duty from 12.5% to 6% on other goods falling under chapter 68 in which not less than 25% by weight of fly ash has been used.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Fly ash bricks and tiles (6815 99 10)	12.5	NIL	12.5	10	10	10
Asbestos cement products containing minimum of 25% of fly ash by weight (6811)	12.5	6	12.5	10	10	10
<b>Input</b>						
Fly ash (26 or any other chapter)	6/2*	NIL	6/2*	5	5	5

\*without CENVAT credit

## Impact of Budget 2016-17

- There is no change in customs duty and excise duty rates.

# Food Processing & Agro-Based Products

## Industry Issues

Even though excise duty on number of food products is 6%, option is there to pay 2% excise duty without availment of CENVAT credit. This facility needs to be continued.

Packaged drinking water attracts excise duty of 12.5% which needs to be brought down to 6%.

Biscuits sold at a RSP not exceeding Rs. 100 per Kg is exempted from excise duty since 2007. The increase in RSP limit to Rs. 125 per Kg needs consideration due to increase in input costs.

Though most of food products attract 6% excise duty, there are few items mainly those containing cocoa and instant coffee attracting excise duty of 12.5%. This discrimination needs to be removed.

The high rate of excise duty of 12.5% on packing materials used for processed food adds to the cost resulting in increase in prices. Therefore reduction of excise duty from 12.5% to 6% on packaging materials used in the food industry needs consideration.

Aerated water, containing sugar under tariff heading 2202 10 now attracts increased rate of 18% excise duty and average VAT rate of 15%. There is need to increase the abatement from 40% to 45% on RSP.

## What CII Wanted

- Continue with the existing exemptions either in the form of NIL excise duty or 2% excise duty without CENVAT credit.
- Reduce excise duty from 12.5% to 6% on packaged drinking water and processed food products having excise duty of 12.5%.
- Increase RSP limit for biscuits from Rs. 100 to Rs. 125 per Kg for the purpose of excise exemption.
- Reduce excise duty from 12.5% to 6% on packing materials (printed laminates, pet jars and corrugated cartons) used by the food processing industry.
- Increase abatement on carbonated soft drinks from 40% to 45% on RSP.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Sugar confectionery containing cocoa (1806 90 20) Chocolates & chocolate products (1806 90 10)	12.5	6	12.5	30	30	30
Mineral Water (2201, 2202)	12.5	6	12.5	30	30	30
Water, including aerated water, containing sugar (2202 10)	18	18	21	30	30	30

## Impact of Budget 2016-17

- Excise duty has been increased from 18% to 21% on waters including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured.
- Basic customs duty has been reduced from 10% to 5% and excise duty reduced from 10% to 5% on refrigerated containers (8609 00 00).
- Concessional 5% basic customs duty presently leviable under project imports for cold storage & cold room has been extended to cold chain including pre-cooling unit, pack houses, sorting and grading lines and ripening chambers.

# Footwear

## Industry Issues

In the Budget 2015-16, excise duty was reduced from 12% to 6% on leather footwear with uppers of leather and having retail sale price exceeding Rs. 1000 per pair. This is a welcome step but limited to a small segment of footwear industry.

Non-leather footwear segment has made huge strides in India and at present majority of footwear made in the country fall under this category. Therefore, the reduction of excise duty to 6% on leather footwear needs to be extended to non-leather footwear also.

In the Budget 2015-16, the abatement on retail sale price (RSP) of all types of footwear was reduced from 35% to 25%. In case of footwear, the commission payable to dealers and retailers is higher and consequently post manufacturing costs including taxes are even more than 35% of RSP.

## What CII Wanted

- Reduce excise duty from 12.5% to 6% on all categories of footwear.
- Increase abatement on footwear from 25% to 35% on RSP.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Hawai chappal of material other than leather retail price not exceeding Rs. 500 per pair (64)	NIL	NIL	NIL	10	10	10
Footwear of retail price per pair not exceeding Rs. 500 per pair (64)	NIL	NIL	NIL	10	10	10
Footwear of retail price exceeding Rs. 500 but not exceeding Rs. 1000 per pair (64)	6	6	6	10	10	10
Leather footwear with upper of leather retail price exceeding Rs. 1000 per pair (6403, 6405)	6	6	6	10	10	10
Non-Leather footwear retail price exceeding Rs 1000 per pair (64)	12.5	6	12.5	10	10	10

## Impact of Budget 2016-17

- Excise duty has been reduced from 12.5% to 6% on rubber sheets and resin rubber sheets for soles and heels (4008 29 10)
- Abatement rate on RSP has been increased from 25% to 30% on all categories of footwear.

# Foundry

## Industry Issues

Foundry industry produces castings of grey iron, spheroidal graphite (SG) iron, malleable iron, steel and aluminium. Metal scrap is important input for foundries. Earlier there was NIL customs duty on metal scrap of iron & steel, stainless steel and aluminium which was increased to 2.5% with effect from 8 May 2013. The increase in customs duty on the key input i.e scrap has resulted in erosion of cost competitiveness of industry specially the MSMEs.

In the budget 2015-16, Special Additional Duty (SAD) was reduced from 4% to 2% on melting scrap of iron or steel, stainless steel scrap for melting and aluminium scrap. However, foundries are still facing the problem of excess CENVAT credit due to low value addition of approximately 12% which adds to their cost.

## What CII Wanted

- Exempt 2% special additional duty (SAD) on scrap of iron or steel, stainless steel and aluminium.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Castings of iron or steel (7325)	12.5	12.5	12.5	10	10	10
Castings of aluminium (76)	12.5	12.5	12.5	10	10	10
<b>Inputs</b>						
Melting scrap of iron or steel (7204)	12.5	12.5	12.5	2.5	2.5	2.5
Scrap of stainless steel for melting (7204 21)	12.5	12.5	12.5	2.5	2.5	2.5
Aluminium scrap (7602)	12.5	12.5	12.5	2.5	2.5	2.5
Brass scrap (7404 00 22)	12.5	12.5	12.5	5	2.5	2.5

## Impact of Budget 2016-17

- Customs duty has been reduced from 5% to 2.5% on brass scrap falling under HS Code 7404 00 22.
- Customs duty has been reduced from 5% to 2.5% on silica sand.

# Glass for Solar Photovoltaic Cells or Modules

## Industry Issues

In order to encourage manufacture of vital inputs required for manufacture of solar photovoltaic cells, the government provided the following concession in indirect taxes in the budget 2014-15.

- Customs duty was exempted on 7 specified inputs for use in the manufacture of Ethylene Vinyl Acetate (EVA) sheets and back sheet
- Excise duty was exempted on:
  - EVA sheets or backsheet
  - 7 specified inputs for manufacture of EVA sheets
  - Solar tempered glass coated or uncoated

With the above mentioned changes, the indigenous manufacture of EVA sheets got boost as excise duty was exempted on EVA sheets as well as 7 inputs coupled with customs duty exemption on inputs.

However, in case of solar tempered glass, though excise duty was exempted, its inputs continue to attract excise duty of 12.5%. Similar situation prevails in customs duty structure where in solar tempered glass is exempted from customs duty but the main three inputs disodium carbonate dense, sodium antimonate and anti-reflective coating attract customs duty of 7.5%. These anomalies in excise and customs duties need to be removed to make the indigenous manufacturer competitive.

## What CII Wanted

- Exempt customs and excise duties on sodium carbonate dense, sodium antimonate and anti-reflecting coating when used for manufacture of solar tempered glass coated or uncoated.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Solar Photovoltaic cells whether or not assembled in modules (8541 40 11)	12.5	12.5	12.5	NIL	NIL	NIL
Solar tempered glass coated or uncoated (7007 19 00)	NIL	NIL	NIL	NIL	NIL	5
Main inputs for coated solar tempered glass:						
▪ Disodium carbonate dense (2836 20 10)	12.5	NIL	12.5	7.5	NIL	7.5
▪ Sodium antimonate (2841 90 00)						
▪ Anti reflective coating (3824 90 90)						

## Impact of Budget 2016-17

- Customs duty has been increased from NIL to 5% on solar tempered glass/solar tempered anti-reflective coated glass used in manufacture of solar cells/modules/panels.
- Customs duty has been reduced from 5% to 2.5% on silica sand.

# Hydrocarbons

## Industry Issues

Natural gas, crude oil and coal are collectively known as hydrocarbons. Presently India is importing all the three varieties of hydrocarbons. Customs duty on crude oil is NIL where as natural gas attracts customs duty of 5%. However, natural gas attracts NIL customs duty when imported by electricity generating company or for supply to electricity generating company as per sl. no. 139, 139A and 139B of customs notification 12/2012.

Indigenous production of natural gas is not sufficient to meet the requirement of various users and to meet the shortfall, India imported liquefied natural gas (LNG) worth Rs. 56,340 crores during 2014-15 as per the import data available on the Ministry of Commerce website.

Keeping in view the limited availability of indigenous natural gas, it is suggested that customs duty on natural gas and LNG is made NIL without mentioning any end use condition so that all users can avail the concessional duty benefit.

National Calamity Contingent Duty (NCCD) of Rs. 50 per tonne on crude oil was imposed vide Section 169 of the Finance Act 2003 for one year i.e upto 29.02.2004. Subsequently in the Finance Act 2005, NCCD was extended without any time limit. NCCD on crude oil needs to be withdrawn.

## What CII Wanted

- Reduce customs duty from 5% to NIL on LNG and natural gas without any end use condition.
- Withdraw NCCD on crude oil.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Crude Oil (2709 00 00)	Cess of Rs. 4500 per tonne	Cess of Rs. 4500 per tonne	20% advalorem	NIL	NIL	NIL
Natural Gas (2711 21 00)	NIL	NIL	NIL	5	NIL	5
Liquefied Natural gas (LNG) (2711 11 00)	NIL	NIL	NIL	5	NIL	5
Liquefied natural gas (LNG) and natural gas imported by electricity generating company or by GAIL NTPC JV or Petronet LNG or GAIL for supply to electricity generating company (2711 11 00, 2711 21 00)	NIL	NIL	NIL	NIL	NIL	NIL

## Impact of Budget 2016-17

- Rate of Oil Industries Development Cess has been reduced from Rs. 4500 per MT to 20% advalorem on domestically produced crude oil.
- Customs duty on coal, lignite and peat has been rationalized at 2.5%.
- Name of Clean Energy Cess levied on coal changed to "Clean Environment Cess" and its rate has been increased from Rs. 200 to Rs. 400 per MT.
- Excise duty has been increased from 8% to 14% on ATF. However, present rate of 8% excise duty will continue on ATF supplied to Scheduled Commuter Airlines from the Regional Connectivity Scheme airports.

# Infrastructure Roads

## Industry Issues

To encourage construction of roads, Government has provided tax concessions in customs and excise duties. Presently 16 road construction equipment are exempted from customs duties as per sl. no. 230 of customs notification 12/2012. However, condition 9 of this notification stipulates that a contractor or sub-contractor mentioned in the Concession Agreement with the Project Authority can avail this concession. Generally the concessionaire is unable to finalize all the contractors/sub-contractors at the time of agreement and consequently duty concession is not available. This condition needs to be amended.

As per sl. no. 144 of excise notification 12/2012, concrete mix manufactured at the site of construction for use in construction work is exempted from excise duty. In road construction projects, considering the distance of the construction activity, which may run to kilometers, concrete mix prepared in selected places is transported to the actual place of use. Excise officials have taken a view that such concrete mix is dutiable and subjected to 6% excise duty under tariff heading 3824 50 10 as ready mix concrete. This would result in increase in cost of road construction which needs to be done away with.

## What CII Wanted

- Issue necessary amendment to condition 9 of customs notification 12/2012 to extend the customs duty concession to contractors/sub-contractors intimated to the sponsoring authority before importation of equipment.
- Clarify that excise exemption is available for such concrete mix irrespective of its movement from one place to another in case of road construction.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
16 specified equipment for construction of roads – list 16 of Customs (84 or any other chapter)	NIL CVD	NIL CVD	12.5 CVD	NIL	NIL	NIL
Concrete mix prepared at site (38)	NIL	NIL	NIL	Not Applicable	Not Applicable	Not Applicable
Concrete ready to use known as Ready Mix Concrete (3824 50 10)	6/2*	6/2*	6/2*	10	10	10

\*without CENVAT Credit

## Impact of Budget 2016-17

- CVD has been increased from NIL to 12.5% on 16 specified road construction equipment having NIL basic Customs duty.
- Excise duty exemption presently available on concrete mix prepared at site has been extended to Ready Mix Concrete (RMC) manufactured at site of construction for use in construction work at site. Also the expression “site” has been defined.



# Machine Tools

## Industry Issues

Computer numerically controlled (CNC) machines now constitute considerable percentage of the machine tools produced in the country. The manufacture of CNC machines involves specialized components of high precision, which are manufactured by a select few companies in the world. The Indian machine tool industry, therefore, relies entirely on imports for these critical components. These components contribute around 30 percent of the input cost to the manufacture of CNC machines.

In the budget 2015-16, customs duty was reduced from 7.5% to 2.5% on ball screws and linear motion guides for use in the manufacture of CNC lathes or machining centers. This concession needs to be extended for use in other CNC machine tools also.

## What CII Wanted

- Extend the concessional customs duty of 2.5% on ball screws and linear motion guides for use in all CNC machine tools.
- Reduce customs duty from 7.5% to 2.5% on following component parts not manufactured in India and used for manufacture of CNC machine tools:
  - Servo drives/motors, Precision spindles, Precision bearings, Precision gauging and balancing systems

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Machine Tools (8456 to 8465)	12.5	12.5	12.5	7.5	7.5	7.5
<b>Inputs</b>						
CNC systems for use in manufacture of CNC lathes or machining centers (8537 10 00)	12.5	12.5	12.5	2.5	2.5	2.5
CNC systems (8537 10 00)	12.5	12.5	12.5	7.5	7.5	7.5
<b>Imported Component Parts for CNC Systems</b>						
Inputs for CNC lathes or machining centers <ul style="list-style-type: none"> <li>• Ball screws or (8483 40 00)</li> <li>• Linear motion guides (8466 93 90)</li> </ul>	12.5	12.5	12.5	2.5	2.5	2.5
Servo drives/motors (8501) Precision spindles (8466 93) Ball screws (8483 40 00) Linear motion guide ways (8482 80 00) Precision bearings (8482) Precision gauging and balancing systems (9031 80 00)	12.5	12.5	12.5	7.5	2.5	7.5

## Impact of Budget 2016-17

- Customs duty has been increased from 7.5% to 10% on aluminium tubes, pipes and their fittings falling under HS Code 7608 and 7609.

# Medical Equipments

## Industry Issues

Parts and accessories required for manufacture of medical equipment falling under HS Code 9018 to 9022 are allowed for import at customs duty of 5% as per sl. no. 474 of customs notification 12/2012. However, raw materials required for manufacture of such parts and accessories attract customs duty of 5% to 10% which needs to be reduced to 5%.

Medical equipment falling under tariff headings 9018, 9019 and 9022 attract excise duty of 6%. Parts and accessories required for manufacture of these attract NIL excise duty but raw materials needed for their manufacture have excise duty of 12.5% which needs to be reduced to 6%.

Nasal reconstructive surgery use Polydioxanone (PDS) plates attracting customs duty of 10% which needs to be reduced to NIL.

Continuous ambulatory peritoneal dialysis system falling under tariff heading 9018 attract 5% basic customs duty, 6% CVD and NIL SAD. Medical grade PVC sheeting used for manufacture of this equipment attracts customs duties of 10%+12.5%+4% which needs to be reduced to 2.5%+6%+NIL.

## What CII Wanted

- Reduce customs duty on raw materials required for manufacture of medical equipment, their parts and accessories to 5%.
- Reduce excise duty on raw materials required for manufacture of medical equipment, their parts and accessories to 6%.
- Reduce customs duty from 10% to NIL on PDS plates used for nasal reconstructive surgery.
- Allow import of medical grade PVC sheeting for manufacture of continuous ambulatory peritoneal dialysis system at concessional 2.5% basic customs duty, 6% CVD and NIL SAD.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Medical Equipment (9018, 9019, 9022)	6	6	6	5	5	7.5*
<b>Inputs</b>						
Parts and accessories for manufacture of medical equipment (90 or any other chapter)	NIL/6	NIL/6	NIL/6	5	5	2.5*
Raw materials for manufacture of medical equipment (90 or any other chapter)	12.5	6	12.5	5-10	5	2.5*
Polydioxanone (PDS) plates (3920 69 99)	12.5	12.5	12.5	10	NIL	10
Medical grade PVC sheeting (3921 90 99)	12.5	6	12.5	10	2.5	2.5*

\*With effect from 19.01.2016

## Impact of Budget 2016-17

- Basic customs duty, excise, CVD and SAD has been reduced to NIL on disposable sterilized dialyzer and micro barrier of artificial kidney.
- Tariff rate of customs duty on 5 HS codes at 8 digit level has been increased from 7.5% to 10% but the effective rate will continue at 7.5%.
- Customs duty has been reduced from 7.5% to 5% on Super Absorbent Polymer (SAP) used for manufacture of sanitary towels, tampons, napkins, diapers etc falling under heading 9619.

# Microwave Ovens

## Industry Issues

Magnetron which generates and transmits non-coherent microwaves is a major input for microwave ovens and it is not made in India. Customs duty on magnetron was reduced from 5% to NIL in the budget 2015 - 16 to encourage indigenous manufacture of microwave ovens.

Presently NIL customs duty on magnetron is subject to condition that the manufacturer follows the procedure set in the customs under Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods Rules, 1996 (IGCR). Due to this condition, the manufacturers, who import magnetron and then get microwave ovens made through another equipment manufacture, are not able to avail benefit of duty concession and are liable to pay 10% basic customs duty which make them uncompetitive.

## What CII Wanted

- The facility of availing NIL customs duty on magnetron needs to be allowed without IGCR condition.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Microwave oven (8516 50 00)	12.5	12.5	12.5	10	10	10
<b>Input</b>						
Magnetron of upto 1KW used for the manufacture of domestic microwave ovens (8540 71 00)	12.5	12.5	12.5	NIL	NIL without IGCR	NIL

## Impact of Budget 2016-17

- NIL customs duty at present on magnetron upto 1KW has been extended on magnetron of 1.5 KW capacity.

# Newsprint

## Industry Issues

There is NIL basic customs duty, NIL CVD and NIL SAD on newsprint. On the other hand some of the inputs for newsprint attract customs duty, excise /CVD and SAD. Also there is 7.5% customs duty and 12.5% excise duty/CVD on machinery and spares. Newsprint industry cannot avail CENVAT credit for excise duty as well as CVD and service tax due to NIL excise duty on newsprint. In addition, indigenously produced newsprint suffers 5% VAT / 2% CST. Consequently every tonne of domestic newsprint suffers tax burden of about Rs. 2700 which is 8% of newsprint sale price. This makes the indigenous newsprint industry uncompetitive and therefore, imposition of at least 5% basic customs duty and 4% SAD on imported newsprint needs consideration.

There is NIL CVD and NIL excise duty on newsprint but wood pulp for newsprint attract 6% excise /CVD. This is an anomalous situation and needs to be corrected by exempting excise duty /CVD on wood pulp.

## What CII Wanted

- Increase Customs duty from NIL to 5% on newsprint.
- Impose 4% SAD on newsprint.
- Exempt 6% excise / CVD on wood pulp for newsprint.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Newsprint in specified form and size (4801)	NIL	NIL	NIL	NIL	5	NIL
<b>Inputs</b>						
Wood pulp for newsprint (47)	6	NIL	6	NIL	NIL	NIL
Waste and scrap of paper for use in, or supply to, a unit for manufacture of newsprint (4707)	NIL CVD	NIL CVD	NIL CVD	NIL	NIL	NIL
Hydrogen peroxide (2847 00 00)	12.5	12.5	12.5	7.5	7.5	7.5
Silicon surfactant (3402 11 10)	12.5	12.5	12.5	10	10	10
Starch (1108)	6	6	6	30	30	30

## Impact of Budget 2016-17

- Customs duty has been reduced from 5% to NIL on wood in chips or particles for manufacture of paper, paper board and newsprint. Since there is no CVD on these, this will result in exemption of 4% SAD also.

# Paints

## Industry Issues

Manufacture of paint involves mixing of a wide variety of raw materials in various proportions. On an average raw materials account for 56% of the total expenditure in paint companies.

Titanium dioxide is the vital pigment used in paints. In the budget 2012, customs duty on titanium dioxide under CTH 2823 00 10 was reduced from 10% to 7.5% to bring at par with other inputs vide sl. no. 150 of customs notification 12/2012. However, customs duty on this was again increased to 10% with effect from 08.05.2013. The concessional customs duty of 7.5% needs to be restored to create differential in duty between paints and this vital input.

Pigments and preparations containing 80% or more of titanium dioxide (CTH 3206 11) are also used in paints. Therefore customs duty on these also needs to be reduced from 10% to 7.5%.

## What CII Wanted

- Reduce customs duty from 10% to 7.5% on titanium dioxide as well as pigments and preparations based on titanium dioxide.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Paints (3208, 3209)	12.5	12.5	12.5	10	10	10
<b>Inputs</b>						
Titanium dioxide (2823 00 10)	12.5	12.5	12.5	10	7.5	10
Pigments and preparations based on titanium dioxide containing 80% or more of titanium dioxide (3206 11)	12.5	12.5	12.5	10	7.5	10
Zinc oxide (2817 00 10)	12.5	12.5	12.5	7.5	7.5	7.5
Ethylene glycol (2905 31 00)	12.5	12.5	12.5	7.5	7.5	7.5
Resins (3906, 3907)	12.5	12.5	12.5	7.5	7.5	7.5

## Impact of Budget 2016-17

- There is no change in customs duty and excise duty rates.

# Petrochemicals

## Industry Issues

In order to encourage indigenous petrochemicals sector, a number of positive changes were made in the budget 2014-15 and 2015-16 by reducing customs duty on feedstocks viz reformat, ethane, propane, butane, ethylene, propylene, butadiene to 2.5%. In India, about 60% of the cracking capacity of petrochemicals is based on naphtha attracting customs duty of 5% which is higher than the 2-2.5% customs duty on primary petrochemicals and polymer intermediates made from it. This is an anomalous situation which needs to be corrected by reducing customs duty on the main feedstock naphtha from 5% to 2.5%.

Naphtha, the main input as feedstock, attracts excise duty of 14% and SAD of 2% whereas petrochemicals in chapter 29 and polymers made from it attract excise duty of 12.5%. This inverted excise duty structure is causing accumulation of CENVAT credit in some of the manufacturing companies. This situation can be corrected by reducing excise duty on naphtha from 14% to 12.5%.

## What CII Wanted

- Reduce customs duty from 5% to 2.5% on naphtha.
- Reduce excise duty from 14% to 12.5% on naphtha.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
<b>Feedstocks – Inverted duty structure</b>						
Naphtha (2710)	14	12.5	14	5	2.5	5
Reformat (Aromatic naphtha) (2707 50 00)	14	14	14	2.5	2.5	2.5
Liquefied propane gas (2711 12 00) Liquefied Butanes (2711 13 00)	8	8	8	2.5	2.5	2.5
Saturated acrylic hydrocarbons including Ethane (2901 10 00)	12.5	12.5	12.5	2.5	2.5	2.5
<b>Polymer Building Blocks</b>						
Ethylene (2901 21 00) Propylene (2901 22 00) Butadiene (2901 24 00)	12.5	12.5	12.5	2.5	2.5	2.5
<b>Polymer Intermediates</b>						
Ethylene dichloride (EDC) (2903 15 00) Vinyl chloride monomer (VCM) (2903 21 00)	12.5	12.5	12.5	2	2	2

## Impact of Budget 2016-17

- Customs duty on all acyclic hydrocarbons and all cyclic hydrocarbons falling under 2901 and 2902 (except para-xylene and styrene which attract NIL and 2% customs duty respectively) has been rationalized at 2.5%.

# Polyether Polypols

## Industry Issues

Polyether polypol is mainly used for manufacture of polyurethane foams. These foams are of two types viz flexible foams and rigid foams. Flexible polyurethane foams are primarily used in cushioning applications such as furniture, bedding, car seats and in carpet underlay where as rigid foams are used as insulation and for packaging.

Customs duty on polyether polypols is 7.5% but it is being imported at concessional rate of customs duty of NIL/4.8% under Trade Agreements signed by India with different countries. Propylene oxide is the main input for manufacture of polyether polypols and attracts customs duty of 7.5% which is at par with customs duty on polyether polypols.

Due to import of polyether polypol at NIL/concessional customs duty against FTAs and no differential in customs duty between main input and the product, the growth of polyether polypol production is not taking place. To overcome this situation, it is suggested that customs duty on the propylene oxide be reduced from 7.5% to 2.5%. This will be in line with the Government thrust on "Make in India"

## What CII Wanted

- Reduce customs duty from 7.5% to 2.5% on propylene oxide.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Polyether polyols (3907 20 90)	12.5	12.5	12.5	7.5	7.5	7.5
<b>Inputs</b>						
Propylene oxide (2910 20 00)	12.5	12.5	12.5	7.5	2.5	7.5
Ethylene oxide (2910 10 00)	12.5	12.5	12.5	7.5	7.5	7.5

## Impact of Budget 2016-17

- There is no change in customs and excise duty rates.

# Polymer – Poly Vinyl Chloride(PVC)

## Industry Issues

Among the various types of polymers, poly vinyl chloride (PVC) is the most widely used in many end use sectors, viz agriculture, automobiles, building construction, electrical, electronics and packaging. Currently, PVC demand in India is about 2.7 million metric tonne against domestic production capacity of 1.4 million metric tonne. This is leading to demand supply imbalance resulting in import of 1.36 million metric tonne of PVC resin falling under HS Code 3904 10, 3904 21 and 3904 22 in 2014-15 valuing Rs. 9107 crores as per data available on Ministry of Commerce website. It is thus imperative for India to add domestic PVC manufacturing capacity to nurture growth in downstream sector.

PVC attracts customs duty of 7.5%. However, PVC is being imported at a lesser duty of 2% to 5% under Trade Agreements signed by India with different countries. In order to encourage indigenous manufacture, customs duty on PVC falling under HS Code 3904 10, 3904 21 and 3904 22 needs to be increased from 7.5% to 10%. This will reduce imports from other than Trade Agreements countries.

## What CII Wanted

- Increase customs duty from 7.5% to 10% on poly vinyl polymers HS Code 3904 10, 3904 21 and 3904 22.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Poly vinyl chloride, not mixed with any other substances (3904 10)						
Poly vinyl chloride – non plasticized (3904 21)	12.5	12.5	12.5	7.5	10	7.5
Poly vinyl chloride – plasticized (3904 22)						
<b>Inputs</b>						
Ethylene dichloride (EDC) (2903 15 00)	12.5	12.5	12.5	2	2	2
Vinyl chloride monomer (VCM) (2903 21 00)	12.5	12.5	12.5	2	2	2

## Impact of Budget 2016-17

- There is no change in customs duty rates of poly vinyl chloride and its inputs.
- Customs duty has been reduced from 7.5% to NIL on polypropylene granules/resins (3902) used for manufacture of capacitor grade plastic films.



# Resins & Hardeners for Rotor Blades of Wind Electricity Generators

## Industry Issues

Rotor blades are crucial and elementary part of a wind turbine and advanced raw materials such as epoxy resins, hardeners are used along with glass fibre and articles thereof for their manufacture. Rotor blades and all inputs for manufacture of such blades attract 5% customs duty.

Wind operated electricity generator, its components and parts including rotor blades are exempted from excise duty. Also on 18 specified goods for manufacture of rotor blades and intermediates, parts and sub-parts of rotor blades have been exempted from excise duty.

However indigenous manufacturers supplying epoxy resins and hardeners for manufacture of rotor blades are not able to avail the above concessions on their inputs. Corrective action needs to be taken to enable them to compete with foreign suppliers.

## What CII Wanted

- In sl.no. 362 of customs notification 12/2012 include “intermediates” in the description of 5(b).
- In sl.no. 327 of central excise notification 12/2012, incorporate the following:
  - Add sl. no. 19 in list 9 with description “Raw materials falling under chapter 29 and 38 for manufacture of goods at sl. no. 1 to 18”. Add “chapter 29” in column 2.
  - Include supplies of components parts and intermediates of wind operated electricity generators in Rule 6(6) of CENVAT Credit 2004.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Rotor blades (8503 00 90)	NIL	NIL	NIL	5	5	5
<b>Inputs</b>						
Raw materials for manufacture of blades and parts sub-parts of such blades (84 or any other chapter)	NIL	NIL	NIL	5	5	5
<b>Inverted duty structure on inputs for manufacture of Resins &amp; Hardeners</b>						
Polyether amines (2921 59 90, 2921 29 90) Isophorane diamine (2921 30 10) 1, 4 Butane diol (2905 3910) 1, 6 Hexane diol (2905 39 90) Diethylene triamine (2921 29 90) Amino ethyl piperazine (2921 29 90, 2933 59 90)	12.5	NIL	12.5	7.5	5	7.5

## Impact of Budget 2016-17

- Excise exemption on 5 items in list 9 of excise related to resins, hardners and adhesives has been withdrawn.
- Excise duty of 6% has been levied on 6 additional items of resins, hardners and adhesives by adding a new list 9A in excise notification 12/2012.

# Safety & Security Equipment

## Industry Issues

Tariff heading 8531 covers burglar alarm, fire alarm and other safety equipments. Customs duty on these as well as their parts is 10% whereas most of the goods under chapter 85 attract customs duty of 7.5%. Customs duty on goods falling under HS Code 8531 10, 8531 80 00 and 8531 90 00 needs to be reduced from 10% to 7.5% to make these more affordable.

As per sl. no. 490 of customs notification 12/2012 read with condition 89, X-Ray baggage inspection systems and parts thereof falling under tariff heading 9022 are allowed for import at NIL customs duty by the specified government agencies for the purposes mentioned there in. This concession needs to be extended to the security equipment which are used for bomb detection, explosive deduction etc.

Some of the major airports are now managed under PPP Model by joint venture companies and they are not able to avail the customs duty concession on X-Ray baggage inspection systems and parts thereof.

## What CII Wanted

- Reduce customs duty from 10% to 7.5% on security and safety equipment as well as their parts.
- The existing entry at sl. no. 490 in customs notification 12/2012 may be amended as “X-Ray Baggage Inspection systems and other airport security systems and parts thereof falling under chapter 84, 90 or any other chapter”.
- Condition No. 89 of customs notification 12/2012 may be amended to include imports by airport operators subject to production of certificate from Ministry of Civil Aviation.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Burglar or fire alarms and similar apparatus (8531 10)	12.5	12.5	12.5	10	7.5	10
Other apparatus for security (8531 80 00)	12.5	12.5	12.5	10	7.5	10
<b>Inputs</b>						
Parts (8531 90 00)	12.5	12.5	12.5	10	7.5	10

## Impact of Budget 2016-17

- There is no change in excise and customs duty rates.

# Steel

## Industry Issues

Metallurgical coke produced from coking coal is a vital ingredient for steel making process. Due to inadequate availability of coking coal in India, 60% of metallurgical coal/coke demand is met through imports. In the Union Budget 2014-15, customs duty on coking coal was increased from NIL to 2.5% and metallurgical coke from 2.5% to 5%. This is significantly impacting the competitiveness of steel industry.

India has three gas based steel manufacturing plants having capacity of 10 MTPA but currently operating at about 20% of the installed capacity due to inadequate supply of LNG under APM. Imported liquefied natural gas (LNG) attracts customs duty of 5% which needs to be reduced to NIL.

Manufacturers of cold rolled non grain oriented / grain oriented silicon electrical sheet (CRNGO and CRGO) are not able to offset entire credit of 12.5% CVD and 4% SAD on inputs by 12.5% excise duty on output and consequently there is accumulation of CENVAT credit which can be avoided if SAD is reduced from 4% to 2%.

The process of cutting and slitting of steel coils/sheets needs to be declared as manufacturing activity to avoid procedural problems.

## What CII Wanted

- Reduce customs duty from 2.5% to NIL on coking coal and 5% to 2.5% on metallurgical coke.
- Reduce customs duty from 5% to NIL on LNG when imported by gas based steel plants or for supply to such plants.
- Reduce special additional duty (SAD) from 4% to 2% on hot rolled coils of silicon electrical steel.
- Insert suitable note in chapter 72 of Excise Tariff to provide that cutting and slitting of steel coils/sheets shall amount to manufacture.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
<b>Iron and non-alloy steel</b> Ingots, billets, blooms, slabs, bars, rods, angles, shapes, sections, wires etc. (7206, 72017, 7213 to 7217)	12.5	12.5	12.5	10	10	10
Alloy steel flat rolled silicon electrical steel (7225 11 00, 7226 11 00)	12.5	12.5	12.5	5	5	5
<b>Inputs</b>						
Coking coal (2701 19 10)	2 CVD	2CVD	2 CVD	2.5	NIL	2.5
Metallurgical coke (metcoke) (2704 00)	2*	2*	2*	5	2.5	5
Liquefied natural gas (LNG) (2711 11 00)	NIL	NIL	NIL	5	NIL	5

\*without CENVAT Credit

## Impact of Budget 2016-17

- On 05.02.2016, Director General of Foreign Trade introduced Minimum Import Price (MIP) on steel ranging from \$ 341 to \$ 752 per tonne for a period of six months covering 173 HS codes at 8 digital level.
- Export duty reduced from 10% and 30% to NIL on iron ore fines and lumps with Fe content below 58% respectively.
- Export duty reduced from 30% to NIL on chromium ores and concentrates.

# Synthetic Fibres and Yarns

## Industry Issues

Synthetic fibres attract excise duty of 12.5% while there is no excise duty on cotton fibre. The textile industry beyond the fibre stage has the option of not paying any excise duty if no CENVAT credit is availed as per excise notification 30/2004. The differential in excise duty rates on synthetic fibres and cotton fibre needs to be reduced by reducing excise duty from 12.5% to 8% across the value chain of synthetic fibres to avoid inverted duty structure and CENVAT credit accumulation.

Customs duty on titanium dioxide was increased from 7.5% to 10% w.e.f 08.05.2013. Anatase grade titanium dioxide is used by synthetic fibres and yarn industry as dulling agent and customs duty on it needs to be again reduced from 10% to 7.5%.

Spin finish oil is a vital input in manufacture of synthetic fibres and filament yarns. Spin finish oil attracts customs duty of 7.5%. With customs duty on synthetic fibres at 5%, customs duty on spin finish oil needs to be reduced to 5% to remove the existing anomaly.

## What CII Wanted

- Reduce excise duty from 12.5% to 8% on synthetic fibres and their inputs.
- Reduce customs duty from 10% to 7.5% on titanium dioxide anatase grade.
- Reduce customs duty from 7.5% to 5% on spin finish oil.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
<b>Fibres / Filaments</b>						
Polyester staple fibre (PSF) (5503 20 00, 5506 20 00)	12.5	8	12.5	5	5	5
<b>Yarns</b>						
Polyester filament yarn (PFY) (5402, 5406) Polyester high tenacity yarn (5402 20)	12.5 or NIL*	8 or NIL*	12.5 or NIL*	5	5	5
<b>Inputs</b>						
Spin finish oil (3403 11 00)	12.5	8	12.5	7.5	5	7.5
Titanium dioxide anatase grade (2823 00 10)	12.5	8	12.5	10	7.5	10

\*without CENVAT credit

## Impact of Budget 2016-17

- Customs duty has been reduced from 5% to 2.5% on nylon 66 filament, polyester yarn-anti static filament, aramid flame retardant fibre, para-aramid fibre, nylon stape fibre, nylon anti static staple fibre, modacrylic fibre and flame retardant viscose rayon fibre.
- Excise duty has been increased from 6% to 12.5% with input tax credit on PSF/PFY manufactured from plastic scrap or plastic waste including waste PET bottles. However, option to pay 2% excise without CENVAT Credit continues.

# Tractors

## Industry Issues

Import of tractors from Thailand and Japan have increased after implementation of Trade Agreements which is evident from the data given below:

Country	Imports – Rs. lac					Customs Duty Basic + CVD
	2010-11	2011-12	2012-13	2013-14	2014-15	
Thailand	NIL	302	272	6492	10950	NIL+NIL
Japan	1415	6098	6940	8314	6845	5.5%+NIL

Apart from concessional rate of basic customs duty under FTAs, both Thailand and Japan are enjoying an unintended benefit of NIL CVD on import of tractors due to NIL excise duty on tractors. Indigenous manufacturers source all their inputs on payment of excise duty of 12.5% but cannot avail CENVAT credit due to NIL excise duty on tractors. Consequently excise duty paid on inputs is getting absorbed into their cost, which puts them in a disadvantageous position.

In order to address the above mentioned disparity, levy of excise duty of 8% on tractors needs consideration. This would ensure levy of 8% countervailing duty (CVD) on imported tractors also. Levy of 8% excise duty would not increase the end price of the indigenous tractors to the farmers as the output excise duty would get set off against the input tax credit of 12.5% on goods and 14% on services used by the manufacturers. After levying 8% excise duty, excise exemption given vide sl. no. 340 of excise notification 12/2012 can be replaced by 8% excise duty on tractor parts manufactured in another factory of the same manufacturer.

## What CII Wanted

- Increase excise duty from NIL to 8% on tractors other than road tractors for semi-trailers of engine capacity more than 1800 cc.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Tractors (except road tractors for semi-trailers of engine capacity more than 1800 cc (8701)	NIL	8	NIL	10	10	10
Road tractors for semi-trailers of engine capacity more than 1800 cc (8701)	8	8	8	10	10	10
Tractors from Thailand under Indo-ASEAN FTA (8701)	NIL CVD	8 CVD	NIL CVD	NIL	NIL	NIL
Tractors from Japan under CEPA (8701)	NIL CVD	8 CVD	NIL CVD	5.5	5.5	5.5

## Impact of Budget 2016-17

- There is no change in customs and excise duty rates.

# Water Purification Equipment

## Industry Issues

Sl. no. 239(a) of excise notification 12/2012 grants exemption from excise duty on water treatment equipment which use ultra-filtration technology using polyacrylonite or polysulphone membranes. There is another alternate input “polyvinylidene difluoride (PVDF) membrane” which needs to be included in the notification.

Excise exemption on reverse osmosis (RO) membrane elements given by sl. no. 239 A of excise notification 12/2014 with effect from 11.07.2014 has adversely impacted the domestic manufacturers of RO membrane elements vi-a-vis traders importing such elements. Due to the excise exemption, the domestic manufacturers are unable to avail input credit of excise duty paid on domestic and CVD as well as SAD paid on imported raw materials. Presently traders pay customs duties of 7.5%+NIL+4% and out of this 4% SAD is refundable on payment of VAT. On the other hand indigenous manufacturers pay customs duties of 10%+12.5%+4% on imported raw materials mainly falling under chapter 39 and 59 making domestic manufacturing unviable.

## What CII Wanted

- Include PVDF membranes in sl. no. 239(a) of excise notification 12/2012.
- Exempt excise/CVD and SAD on major raw materials falling under chapter 39 and 59 used in manufacture of RO membrane elements.
- Reduce customs duty from 10% to 7.5% on major raw materials falling under chapter 39 and 59 when imported for manufacture of reverse osmosis (RO) membrane elements.

## What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2015-16	What CII wanted	Budget 2016-17	2015-16	What CII wanted	Budget 2016-17
Water purification equipment based on four specified technologies (8421 21 except 8421 21 20)	NIL	NIL	NIL	7.5	7.5	7.5
Reverse Osmosis (RO) membrane elements for water filtration or purification equipment (other than household type filters) based on RO technology using thin filter composite membranes (TFC) (any chapter)	NIL	NIL	NIL	7.5	7.5	7.5
<b>Inverted duty structure on Inputs</b>						
Thin film composite (39)	12.5	12.5	12.5	10	7.5	10
RO product carrier (59)	12.5	12.5	12.5	10	7.5	10

## Impact of Budget 2016-17

- There is no change in customs and excise duty rates.

# **Annexure**





# Annexure

## Key Indicators: Economic Survey 2015-16

Data Categories & Components	Unit	2012-13	2013-14	2014-15	2015-16
<b>1. GDP &amp; Related Indicators</b>					
1.1 GDP (2011-12 Prices)	Rs. Crore	9226879 <sup>2R</sup>	9839434 <sup>2R</sup>	10552151 <sup>1R</sup>	11350962 <sup>AE</sup>
1.2 Growth Rate	%	5.6	6.6	7.2	7.6
1.3 GVA at Basic Prices (2011-12 prices)	Rs. Crore	8546552 <sup>2R</sup>	9084369 <sup>2R</sup>	9727490 <sup>1R</sup>	10437579 <sup>AE</sup>
1.4 Growth Rate	%	5.4	6.3	7.1	7.3
1.5 Savings Rate	% of GDP	33.8	33	33	n.a.
1.6 Capital Formation Rate	% of GDP	38.6	34.7	34.2	n.a.
1.7 Per Capita Net National Income (At Current Market Prices)	Rs.	71050	79412	86879	93231
<b>2. Production</b>					
2.1 Food grains	Million Tonnes	257.1	265.0	252.0	253.2 <sup>a</sup>
2.2 Index of Industrial Production <sup>b</sup> (Growth)	%	1.1	-0.1	2.8	3.1 <sup>d</sup>
2.3 Electricity Generation (Growth)	%	4.0	6.0	8.4	4.4 <sup>d</sup>
<b>3. Prices</b>					
3.1 Average Inflation (WPI) Growth	%	7.4	6.0	2.0	-2.8 <sup>e</sup>
3.2 Average Inflation (CPI) Growth	%	10.2	9.5	5.9	4.9 <sup>e</sup>
<b>4. External Sector</b>					
4.1 Export Growth (USD terms)	%	-1.8	4.7	-1.3	-17.6 <sup>e</sup>
4.2 Import Growth (USD terms)	%	0.3	-8.3	-0.5	-15.5 <sup>e</sup>
4.3 Current Account Balance	% of GDP	-4.8	-1.7	-1.3	-1.4 <sup>f</sup>
4.4 Foreign Exchange Reserves	USD bn	292.0	304.2	341.6	349.6 <sup>c</sup>
4.5 Average Exchange Rate	Rs/USD	54.40	60.51	61.14	65.03 <sup>e</sup>
<b>5. Money &amp; Credit</b>					
5.1 Broad Money (M3) Supply Growth (Annual)	%	13.6	13.4	10.8	11.0 <sup>g</sup>
5.2 Bank Credit Growth	%	14.1	13.9	9.0	11.3 <sup>g</sup>
<b>6. Fiscal Indicators (Centre)</b>					
6.1 Gross Fiscal Deficit	% of GDP	4.9	4.5	4.0 <sup>i</sup>	3.9 <sup>h</sup>
6.2 Revenue Deficit	% of GDP	3.7	3.2	2.9 <sup>i</sup>	2.8 <sup>h</sup>
6.3 Primary Deficit	% of GDP	1.8	1.1	0.8 <sup>i</sup>	0.7 <sup>h</sup>
<b>Data Categories &amp; Components</b>					
	<b>Unit</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>7. Population</b>					
	Million	1201.9	1213.4	1228.8	1244.0 <sup>p</sup>

Source: Economic Survey 2015-16

Note: n.a.: not available. <sup>1R</sup>: First Revised Estimates, <sup>2R</sup>: Second Revised Estimates, <sup>AE</sup>: Advance Estimate, H1: April-September 2014, <sup>a</sup>: 2<sup>nd</sup> advance estimates, <sup>b</sup>: Base (2004-05=100), <sup>c</sup>: As at end-January 2016, <sup>d</sup>: April-December 2015-16, <sup>e</sup>: April-January 2015-16, <sup>f</sup>: April-September, 2015-16, <sup>g</sup>: y-o-y growth rate as on January 08, 2016, <sup>h</sup>: Budget Estimates, <sup>i</sup>: Provisional Actuals, P: Provisional





## Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has around 8000 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 200,000 enterprises from around 240 national and regional sectoral industry bodies.

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