Key Features of Budget 2016-17

INFRASTRUCTURE AND INVESTMENT

86. The duty drawback scheme has been widened and deepened to include more products and countries. The Government will continue to take measures to support the export sector.

FINANCIAL SECTOR REFORMS

90. vii. To tackle the problem of stressed assets in the banking sector, Asset Reconstruction Companies (ARCs) have a very important role. I therefore, propose to make necessary 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.

GOVERNANCE AND EASE OF DOING BUSINESS

99. A Task Force has been constituted for rationalisation of human resources in various Ministries. A comprehensive review and rationalisation of autonomous bodies is also underway.

102. To remove the difficulties and impediments to ease of doing business, we will introduce a bill to amend the Companies Act, 2013 in the current Budget Session of the Parliament. The Bill would also improve the enabling environment for start-ups. The registration of companies will also be done in one day.

FISCAL DISCIPLINE

107. While preparing this Budget, I have received conflicting suggestions about the FRBM roadmap. Different schools of thought have argued either in favour of fiscal consolidation and stability or for a less aggressive consolidation and for boosting growth. Consequently, the fiscal deficit in RE 2015-16 and BE 2016-17 have been retained at 3.9% and 3.5% of GDP respectively. While doing so the development agenda has not been compromised.

RELIEF TO SMALL TAX PAYERS

120. Presumptive taxation scheme under section 44AD of the Income Tax Act is available for small and medium enterprises i.e non corporate businesses with turnover or gross receipts not exceeding one crore rupees. At present about 33 lakh small business people avail of this benefit, which frees them from the burden of maintaining detailed books of account and getting audit done. I propose to increase the turnover limit under this scheme to Rupees two crores which will bring big relief to a large number of assesses in the MSME category.

MEASURES TO BOOST GROWTH AND EMPLOYMENT GENERATION

122. Last budget speech mooted the proposal to reduce the rate of Corporate Tax from 30% to 25% over a period, accompanied by rationalization and removal of various tax exemptions and incentives. In any case the effective rate of tax paid by companies comes to an average of 24.67 % because of various exemptions which they are availing of. A phasing out plan of removing these exemptions and tax incentives was placed in public domain and that have received a large number of constructive suggestions. The final plan of phasing out exemptions is given in Annexure.

The highlights are as follows:- (a) The accelerated depreciation provided under IT Act will be limited to maximum 40% from 1.4.2017. (b) The benefit of deductions for Research would be limited to 150% from 1.4.2017 and 100% from 1.4.2020. (c) The benefit of section 10AA to new SEZ units will be available to those units which commence activity before 31.3.2020. (d) The weighted deduction under section 35CCD for skill development will continue up to 1.4.2020.

123. The reduction in corporate tax rate has to be calibrated with additional revenue expected from the incentives being phased out. The benefits from phasing out of exemptions are available to Government only gradually. The first phase, proposes the following two changes in corporate income-tax rates - (a) The new manufacturing companies which are incorporated on or after 1.3.2016 are proposed 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. (b) It is also proposed to lower the corporate income tax rate for the next financial year of relatively small enterprises i.e companies with turnover not exceeding `5 crore (in the financial year ending March 2015), to 29% plus surcharge and cess.

124. Startups generate employment, bring innovation and are expected to be key partners in Make in India programme. It is proposed to assist their propagation through 100% deduction of profits for 3 out of 5 years for startups set up during April 2016 to March 2019. MAT will apply in such cases. Capital gains will not be taxed if invested in regulated/notified Fund of Funds and by individuals in notified startups, in which they hold majority shares.

125. Research is the driver of innovation and innovation provides a thrust to economic growth. A special patent regime has been proposed with 10% rate of tax on income from worldwide exploitation of patents developed and registered in India.

INCENTIVISING DOMESTIC VALUE ADDITION TO HELP MAKE IN INDIA

136. Customs and excise duty structure plays an important role in incentivizing domestic value addition towards Make in India campaign of our Government. In line with that, it is proposed to make suitable changes in customs and excise duty rates on certain inputs, raw materials, intermediaries and components and certain other goods and simplify procedures, so as 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 etc. Details of such changes are given in the Annexure to Budget Speech.

ADDITIONAL RESOURCE MOBILIZATION FOR AGRICULTURE, RURAL ECONOMY AND CLEAN ENVIRONMENT

152. it is proposed to impose a Cess, called the **Krishi Kalyan Cess**, @ 0.5% on all taxable services, proceeds of which would be exclusively used for financing initiatives relating to improvement of agriculture and welfare of farmers. The Cess will come into force with effect from 1st June 2016. Input Tax credit of this cess will be available for payment of this cess.

155. It is proposed to change the excise duty on branded readymade garments and made up articles of textiles with a retail sale price of Rs. 1,000 and above from 'Nil without input tax credit or 6%/12.5% with input tax credit' to '2% without input tax credit or 12.5% with input tax credit'.

REDUCING LITIGATION AND PROVIDING CERTAINTY IN TAXATION

160. It is proposed that a limited period Compliance Window for domestic taxpayers to declare undisclosed income or income represented in the form of any asset and clear up their past tax transgressions 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. There will be no scrutiny or enquiry regarding income declared in these declarations under the Income Tax Act or the Wealth Tax Act and the declarants will have immunity from prosecution. Immunity from Benami Transaction (Prohibition) Act, 1988 is also proposed subject to certain conditions. The surcharge levied at 7.5% of undisclosed income will be called Krishi Kalyan surcharge to be used for agriculture and rural economy. We plan to open the window under this Income Disclosure Scheme from 1st June to 30th September, 2016 with an option to pay amount due within two months of declaration.

163. A taxpayer who has an appeal pending as of today before the Commissioner (Appeals) can settle his case by paying the disputed tax and interest up to the date of assessment. No penalty in respect of Income-tax cases with disputed tax up to Rs. 10 lakh will be levied. Cases with disputed tax exceeding Rs. 10 lakh will be subjected to only 25% of the minimum of the imposable penalty for both direct and indirect taxes. Any pending appeal against a penalty order can also be settled by paying 25% of the minimum of the imposable penalty. Certain categories of persons including those who are charged with criminal offences under specific Acts are proposed to be barred from availing this scheme.

165. In order to give an opportunity to the past cases which are ongoing under the retrospective amendment, a one-time scheme of Dispute Resolution has been proposed for them, in which, subject to their agreeing to withdraw any pending case lying in any Court or Tribunal or any proceeding for arbitration, mediation etc. under BIPA, they can settle the case by paying only the tax arrears in which case liability of the interest and penalty shall be waived.

166. Levy of heavy penalty for concealment of income has over the years resulted in large number of disputes despite a number of decisions of the Apex court on interpretation of statutory provisions and principles guiding imposition of penalty. At present the Income-tax Officer has discretion to levy penalty at the rate of 100% to 300% of tax sought to be evaded. It is proposed to modify the entire scheme of penalty by providing different categories of misdemeanor with graded penalty and thereby substantially reducing the discretionary power of the tax officers. The penalty rates will now be 50% of tax in case of underreporting of income and 200% of tax where there is misreporting of

facts. Remission of penalty is also proposed in certain circumstances where taxes are paid and appeal is not filed.

167. Another issue which has led to considerable number of disputes is quantification of disallowance of expenditure relatable to exempt income in terms of Section 14A of the Income Tax Act. It is proposed to rationalize the formula in Rule 8D governing such quantification. The said Rule is being amended to provide that disallowance will be limited to 1% of the average monthly value of investments yielding exempt income, but not exceeding the actual expenditure claimed.

168. As another tax payer friendly measure, it is proposed to provide a time limit of one year for disposing petitions of the tax payers seeking waiver of interest and penalty.

169. The Income-tax Department is also issuing instruction making it mandatory for the assessing officer to grant stay of demand once the assesse pays 15% of the disputed demand, while the appeal is pending before Commissioner of Income-tax (Appeals). In case of deviation, assessing officer has to get orders of his superiors. The tax payer also has an option to go to superior officer in case he does not agree with conditions of stay order passed by the subordinate officer.

170. In order to remove backlog of cases we are creating 11 new benches of Customs, Excise and Service Tax Appellate Tribunal (CESTAT).

171. The monetary limit for deciding an appeal by a single member Bench of ITAT is proposed to be enhanced from Rs.15 lakhs to Rs.50 lakhs.

172. It is also proposed to amend the CENVAT Credit Rules, 2004, so as to improve credit flow, reduce the compliance burden and associated litigation, particularly those relating to apportionment of credit between exempted and non exempted final products/services. The amendments in these rules will also enable manufacturers with multiple manufacturing units to maintain a common warehouse for inputs and distribute inputs with credits to the individual manufacturing units.

SIMPLIFICATION AND RATIONALIZATION OF TAXATION

174. To reduce multiplicity of taxes, associated cascading and to reduce cost of collection, it is proposed to abolish 13 cesses, levied by various Ministries in which revenue collection is less than Rs.50 crore in a year.

179. Our Government has taken a number of steps to reduce the cargo release time and the transaction costs of EXIM trade. It is proposed to amend the Customs Act to provide for deferred payment of customs duties for importers and exporters with proven track record.

USE OF TECHNOLOGY FOR CREATING ACCOUNTABILITY

183. A pilot was run in 2015-16 for e-assessment to obviate the requirement for tax payers to visit the Income-tax offices. It is proposed to expand the scope of e-assessments to all assessees in 7 mega cities in the coming years. The cases selected for scrutiny will be scrutinized in e-environment whereby unless the assessee himself wants to be heard, or for special reasons to be recorded, the assessing officer wants to hear the party, there will be no face to face contact of IT Department with assessee.

185. It is proposed that in matters pertaining to Income-tax Act, Government will pay interest at the rate of 9% p.a against normal rate of 6% p.a in case there is delay in giving effect to Appellate order beyond ninety days. The officers who delay it, will be accountable for this loss to Government.

186. It is also proposed to change the procedure to provide for a shift from physical control to record based control for customs bonded warehouses, supported by sophisticated IT systems.

Annex No. I to Part A

(vii) With a view to promote Make in India and following the practices in advanced countries, foreign investors will be accorded Residency Status subject to certain conditions. Currently, these investors are granted business visa only up to 5 years at a time.

(viii) In order to ensure effective implementation of Bilateral Investment Treaties signed by India with other countries, it is proposed to introduce a Centre State Investment Agreement. This will ensure fulfilment of the obligations of the State Governments under these Treaties. States which opt to sign these Agreements will be seen as more attractive destinations by foreign investors.

Annex No. III-B to Part A

ALLOCATIONS OF IMPORTANT SCHEMES

Rs. In crore

Sl No	Name of the Scheme	BE 2016-17
21	Make in India: Scheme for Investment Promotion and Amended Technology Upgradation Fund Scheme	1804

ANNEXURE TO PART-B OF THE BUDGET SPEECH

DIRECT TAX

1. Measures to boost the Financial Sector

1.6 The determination of residency of foreign company on the basis of Place of Effective Management is proposed to be deferred by one year. It shall now apply with effect from 1.04.2017. It is also proposed to make necessary provision for adaptation, modification and exception in the provisions of the Act for determination of income and applicability of other provisions in case a foreign company becomes resident in India for the first time.

4. Measures to Phase Out Deductions

4.1 It proposed to phase out the following deductions available in the Income-tax Act:

(i) Section 10AA of the Income-tax Act : Deduction for units established in SEZ

It is proposed to amend section 10AA of the Income-tax Act to provide for a sunset date of 31.03.2020 for commencement of activity of manufacture or production of any article or thing or providing services by a unit located in a Special Economic Zone for availing the deduction under said section.

(ii) Depreciation

It is proposed to amend Rule 5 of Income-tax Rules, 1962 to restrict the highest rate of depreciation under the Income-tax Act to 40% for all the assets (whether old or new) falling in the relevant block of assets with effect from 01.4.2017.

(iii) Section 35 of the Income-tax Act : Deduction for Expenditure on Scientific Research

It is proposed to amend section 35 of the Income-tax Act so as to reduce the weighted deduction under section 35(1)(ii), 35 (2AA) and 35 (2AB) to 150% from the financial year 2017-18 to financial year 2019-20 and from the financial year 2020-21 onwards the deduction shall be restricted to 100%. It is also proposed that deduction under section 35(1) (iia) and (iii) of the Income-tax Act shall be reduced from 125% to 100% with effect from 01.04.2017.

(iv) Section 35AD of the Income-tax Act : Investment linked deduction for specified business

It is proposed to amend section 35AD of the Income-tax Act so as to reduce the deduction from 150% to 100% in the case of a cold chain facility, warehousing facility for storage of agricultural produce, an affordable housing project, production of fertilizer and building and operating hospitals with effect from 01.04.2017.

(v) Section 35AC of the Income-tax Act : Deduction for Expenditure on social projects

It is proposed to amend section 35AC of the Income-tax Act so as to provide that no deduction under the said section shall be available from financial year 2017-18 (Assessment Year 2018-19).

(vii) Section 35 CCD of the Income-tax Act : Deduction for expenditure on skill development project

It is proposed to amend section 35CCD of the Income-tax Act so as to provide that the weighted deduction of 150% shall be available upto financial year 2019-20 (assessment year 2020-21). However, the deduction under the said section shall be restricted to 100% from financial year 2020-21 (Assessment Year 2021-22).

(ix) Section 80-IAB of the Income-tax Act : Deduction for development of Special Economic Zone

It is proposed to amend section 80IAB of the Income-tax Act so as to provide that no deduction shall be available under this section where the development of Special Economic Zone begins on or after 1st April, 2017.

5. Measures for TDS / TCS Rationalisation

Present Section	Heads	Existing Threshold Limit (Rs.)	Proposed Threshold Limit (Rs.)
192A	Payment of accumulated balance due to an employee in EPF	30,000	50,000

6. Measures for promoting Economic Growth

6.3 It is proposed to provide that the plant & machinery acquired and installed for transmission activity would also be eligible for additional depreciation under section 32(1)(iia) of the Income-tax Act.

6.4 It is proposed to amend sub-section (1A) of section 32AC of the Income-tax Act 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 additional depreciation of 15%.

INDIRECT TAX

The Table below summarises the changes in Customs, Central Excise and Service Tax rate structures and law and procedure.

Sl.No.	Changes	Existing	Proposed
VI	Incentivizing domestic value addition, 'Make in India'		
5.	Capital Goods		
	Tariff rate of BCD being increased on goods falling under 211 specified tariff lines in Chapter 84, 85 and 90. Out of which:	7.5%	10%
	(i) The effective rate of BCD on goods falling under 115 specified tariff lines in being maintained at 7.5%.	7.5%	7.5%
	(ii) (ii) The effective rate of BCD on goods falling under remaining 96 tariff lines is being increased to 10%.	7.5%	10%
7.	Chemicals & Petrochemicals		
i.	BCD on all acyclic hydrocarbons and all cyclic hydrocarbons [other than para-xylene which attracts Nil BCD and styrene which attracts 2% BCD] being rationalized.	5%/2.5%	2.5%
9	**Textiles**		
i.	**Basic Customs Duty on specified fibres and yarns being reduced.**	5%	2.5%

ii.	**Basic customs duty on import of specified fabrics [for manufacture of textile garments for export] of value equivalent to 1% of FOB value of exports in the preceding financial year being exempted subject to the specified conditions.**	Applicable Rate	Nil
17.	Miscellaneous		
ii.	Concessional BCD on Pulp of wood for manufacture of sanitary pads, napkins & tampons being provided.	5%	2.5%
iii.	Concessional BCD on Super Absorbent Polymer when used for manufacture of sanitary pads, napkins & tampons being extended.	7.5%	5%
19.	**Textiles**		
i.	**Excise duty on branded readymade garments and made up articles of textiles of retail sale price of `1000 or more being changed.**	**Nil (without ITC) or 6%/12.5% (with ITC)**	**2% (without ITC) or 12.5% (with ITC)**
ii.	**The Tariff value for excise /CVD purposes on readymade garments and made up articles of textiles being changed.**	**30% of retail sale price**	**60% of retail sale price**
iii.	**Excise duty on PSF / PFY, manufactured from plastic scrap or plastic waste including waste PET bottles, being changed.**	**2% (without ITC) or 6% (with ITC)**	**2% (without ITC) or 12.5% (with ITC)**
23	**Service tax**		
i.	a) Services provided by Indian Shipping lines by way of transportation of goods by a vessel to outside India being zero rated with effect from 1st March, 2016; and b) Service tax on services provided by them by way of transportation of goods by a vessel from outside India up to the customs station in India being imposed, with effect from 1st June, 2016.	No Credit Nil	Input Tax credit allowed 14%
iii.	Service tax on the services provided by way of skill/vocational training by training partners under Deen Dayal Upadhyay Grameen Kaushalya Yojana being exempted, with effect from 01.04.2016.	14%	Nil
VI	**Ease of Doing Business**		
1.	13 cesses levied by other Ministries/Departments and administered by the Department of Revenue, where the revenue collection from each of them is less than `50 crore in a year being abolished.		
2.	Interest rates on delayed payment of duty/tax across all indirect taxes being	Customs 18% Excise 18% Service tax 18%	Customs Excise Service tax 15%. 24% in case of

	rationalized at 15%, except in case of service tax collected but not deposited to the exchequer, in which case the rate of interest will be 24% from the date on which the service tax payment became due. For assesses with taxable value during preceding year/years covered by the notice is less than ` 60 Lakh, the rate of interest on delayed payment of service tax will be 12%. This will come into effect from date of enforcement of Finance Bill, 2016.	24% 30%	tax collected but not deposited
5.	CENVAT Credit Rules, 2004 being amended, to improve credit flow, reduce the compliance cost and litigation, particularly those relating to apportionment of credit between exempted and non- exempted final products / services. Changes are also being made in the provisions relating to input service distributor, including extension of this facility to transfer input services credit to outsourced manufacturers, under certain circumstances. Amendments will also enable manufacturers with multiple manufacturing units to maintain a common warehouse for inputs and distribute inputs with credits to the individual manufacturing units. This will come into effect from 01.04.2016.		
10.	The monetary limit for launching prosecution being increased to Rs. 2 crore of service tax evasion and the power to arrest being restricted only to situations where the tax payer has collected the tax but not deposited it to the exchequer above a certain threshold of Rs. 2 crore. This will come into effect from date of enforcement of Finance Bill, 2016.		
11.	The Customs Act being amended to provide for deferred payment of customs duties for certain class of importers and exporters. In consultations with Ministry of Shipping, the facility of direct port delivery is being extended to more importers.		
12.	In 2014-15 Budget, the intent to implement Indian Customs Single Window Project was announced. Significant progress has been made in that direction to implement this facility at major ports and airports starting from next financial year.		
14.	Chief Commissioners of Central Excise are being instructed to file application for withdrawing prosecution in cases involving duty less than rupees five lakh and pending for more than fifteen years.		
VII	Clean Environment Initiatives		
3.	Credit of input services on transport of goods in containers by rail at a reduced abatement rate of 60% being allowed, with effect from 01.04.2016.	4.2% Without credit	5.6% With input service credit
VIII	Reduce litigation and providing certainty in taxation		
1.	An Indirect tax Dispute Resolution Scheme, 2016, being introduced wherein in respect of cases pending before Commissioner (Appeals), the assesse, after paying the duty, interest and penalty equivalent to 25% of penalty imposed, can file a declaration. The proceedings against the assessee will be closed and he will also get immunity from prosecution. However, this scheme will not apply in certain cases.		
XII	**OTHER LEGISLATIVE AMENDMENTS**		
	THE CUSTOMS ACT, 1962		
	Warehousing provisions are being simplified so as to move from physical control to record based control in most of cases. Several other consequential changes are also being made.		
	Section 25 of the Customs Act, 1962 being amended 80 also omit the requirement of publishing and offering for sale on the date of its issue, by the Directorate of Publicity and Public Relations of CBEC, of notification issued for publication in the official gazette		

	Sections 28, 47, 51 and 156 of the Customs Act, 1962 being amended so as provide for deferred payment of customs duties to certain class of importers and exporters and to increase the limitation period from one year to two year in cases not involving fraud, suppression of facts, wilful mis-statement, etc.
	New section 58A being inserted to provide for a new class of warehouses which require continued physical control and will be licensed for storing revenue sensitive goods. New section 58B being inserted so as to regulate the process of cancellation of licences which is a necessary concomitant of licencing.
	Section 65 being amended to delete the payment of fees to Customs for supervision of manufacturing facilities under Bond; and empower Principal Commissioner or Commissioner of Customs to licence such facilities.
	MISCELLANEOUS
	Various notifications pertaining to Advance Licence and Duty Free Import Authorization Schemes being amended to retrospectively correct the reference to "section 8" of the Customs Tariff Act, 1975 in such notifications to "section 8B" so as to clearly provide that exemption from safeguard duty under section 8B is available under these notifications on imports under Advance Licence and Duty Free Import Authorization Schemes.