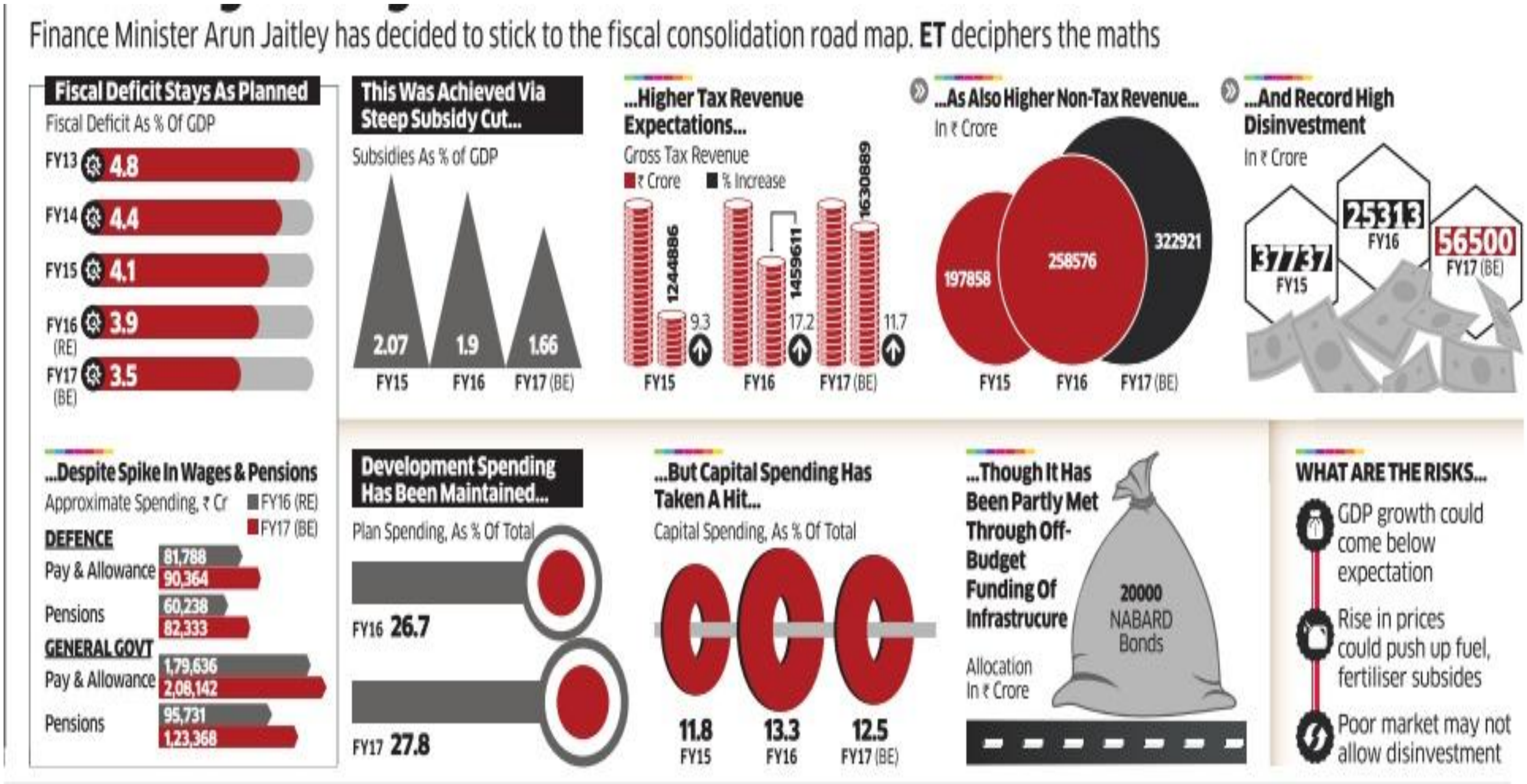
Finance Minister Arun Jaitley has decided to stick to the fiscal consolidation road map. ET deciphers the maths
Fiscal Deficit Stays As Planned
Fiscal Deficit As % Of GDP
FY13 4.8
FY14 4.4
FY15 4.1
FY16 (RE) 3.9
FY17 (BE) 3.5
This Was Achieved Via Steep Subsidy Cut...
Subsidies As % of GDP
2.07 1.9 1.66
FY15 FY16 FY17 (BE)
...Higher Tax Revenue Expectations...
Gross Tax Revenue
₹ Crore
% Increase
1244886 9.3
1459611 17.2
1630889 11.7
FY15 FY16 FY17 (BE)
...As Also Higher Non-Tax Revenue...
In ₹ Crore
197858 258576 322921
FY15 FY16 FY17 (BE)
...And Record High Disinvestment
In ₹ Crore
37737 FY15
25313 FY16
56500 FY17 (BE)
...Despite Spike In Wages & Pensions
Approximate Spending, ₹ Cr
FY16 (RE)
FY17 (BE)
DEFENCE
Pay & Allowance 81,788 90,364
Pensions 60,238 82,333
GENERAL GOVT
Pay & Allowance 1,79,636 2,08,142
Pensions 95,731 1,23,368
Development Spending Has Been Maintained...
Plan Spending, As % Of Total
FY16 26.7
FY17 27.8
...But Capital Spending Has Taken A Hit...
Capital Spending, As % Of Total
11.8 FY15
13.3 FY16
12.5 FY17 (BE)
...Though It Has Been Partly Met Through Off-Budget Funding Of Infrastrucure
Allocation In ₹ Crore
20000 NABARD Bonds
WHAT ARE THE RISKS...
GDP growth could come below expectation
Rise in prices could push up fuel, fertiliser subsides
Poor market may not allow disinvestment

Proposal:

New manufacturing companies incorporated on or after March 1, 2016 have been provided an option either to adopt a reduced corporate tax of 27.55% (where the income exceeds Rs 1crore but does not exceed Rs 10 crore) or 28.84% (where income exceeds Rs 10 crore) provided such companies do not claim profit-linked investment-linked deduction or do not avail of investment allowance and accelerated depreciation.

Impact:

Whereas this move is intended to provide the much needed boost to the manufacturing sector and the `Make in India' initiative of the government, considering the capital-incentive nature of the manufacturing industries, the benefit of reduced rate may be of little help in the initial years. Thus, the companies may prefer to claim the deductions and incentives which may result in reduced effective tax rate rather than opting for lower rate of tax.

P: New start ups, involving innovation development, set up before April 1, 2019 proposed to be provided with 100% deduction of profits for a period of 3 years out of 5 years (subject to satisfaction of certain conditions). However, the MAT would be applicable on such start ups. I: This move will incentivise development of new technology in India. The new startups would also generate employment and bring innovation in India.

P: Effective corporate tax rate for small companies having turnover less than Rs 5 crore reduced to 31.96%.I: This move will encourage entrepreneurship in India. MSMEs and SMEs are major job creators and the reduced corporate tax rate will boost growth.

P: Introduction of reduced rate of tax of 10% on income by way of royalty in respect of a patent developed and registered in India.I: This would encourage innovation among Indian residents. For example, a large company would have paid a tax rate of 34.61% but income from royalty on patents developed would attract a lower tax rate of 10%.P: Provisions of Taxes Deducted at Source (TDS) rationalized. Threshold limits for TDS on various payments increased. Further, withholding tax rates have been lowered in respect of certain payments. I: The move is aimed at rationalizing TDS provisions and reduce tax outflow in the hands of small tax payers.

P: Taxes to be collected 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.I: This proposal would help the tax department to monitor and curb use of black money. At the same time, this would increase the compliance burden of the vendors.

P: The income-tax department cannot file appeal against the directions issued by the Dispute Resolution Panel .I: This proposal would reduce long drawn litigation. At the same time, it may discourage the DRP from deciding even slightly debatable issues in the taxpayer's favour.

P: Increase in threshold limit for presumptive taxation from Rs 1crore to Rs 2 crore for persons having income from business. I: Currently, 8% of the turnover (of up to Rs 1 crore) is presumed to be income against which a tax levy is imposed at the applicable rate. With increase in threshold limit it will reduce the compliance burden for small businessmen.

P: Long-term capital gains arising from transfer of unlisted shares of a company in which the public are not substantially interested (eg, private companies) taxable at a reduced rate of 10% in the hands of non-residents.I: This would bring certainty in respect of taxability of gains arising from transfer of shares of unlisted companies and is likely to incentivise corporate reorganization in India.

P: Provision relating to place of effective management (POEM) comes into effect from April 1, 2016.I: POEM provisions were introduced last budget and applied to the current financial year (201516). However, draft guidelines were issued only in December. Thus the delay in introduction of POEM to April 2016 will help Indian companies having overseas subsidiaries.

P: A person resident in India or a non-resident having a permanent establishment in India, making payment exceeding in aggregate Rs 1lakh in a year towards online advertisement to a non-resident, who does not have a permanent establishment in India would have to withhold tax at 6% of gross amount paid, as an equalization levy which is to be discharged by way of withholding. I: This provision is aimed at alignment of domestic tax law with the OECD recommendations on BEPS action plan on the digital economy. This provision would impact the income of non-resident e-commerce giants providing online advertising services (such as, Google, Yahoo, etc) or other services to the companies in India.

P: The Income Declaration Scheme, 2016 is proposed to be introduced with effect from June 1, 2016 for disclosure of undisclosed income subject to certain conditions. Tax is proposed to be charged on the undisclosed income at the rate of 30% on the declared income plus surcharge at the rate of 7.5% and a penalty at the rate of 7.5%, thus, making effective tax rate to 45% of the undisclosed income. Immunity from prosecution and prosecution under the Benami Transaction (Prohibition) Act, 1988 is also proposed subject to fulfilment of certain conditions. Further, no scrutiny assessment enquiry is to be initiated in such cases. I: Considering the immunity from prosecution and scrutiny assessment enquiry, the proposed scheme could be a good opportunity for some errant taxpayers for disclosure of their undisclosed income. P: Introduction of `The Direct Tax Dispute Resolution Scheme, 2016'. Under the scheme, the cases pending before the Commissioner (Appeals) for certain category of persons, would be deemed to be withdrawn upon payment of tax plus interest (up to date of assessment) and penalty of 25%.I: This is a welcome move to enable government to expeditiously collect tax arrears and to reduce the huge backlog of pending cases before the Commissioner (Appeals). This would also benefit tax payers as it would help reducing litigation.

P: Securities Transaction Tax on sale of options has increased from 0.017% to 0.05% of the option premium. I: The increased rate will increase the costs of option transactions which may adversely impact transaction volumes.

P: Existing penalty provisions levying penalty on account of concealment or furnishing inaccurate particulars of income from 100% to 300% at the discretion of the tax official, to be scrapped from April 1, 2017. According to the new provisions, penalty shall be levied @ 50% on the tax payable on under reported income and @ 200% in case of misreported income.I: These rationalized provisions are aimed at bringing objectivity, certainty and clarity in the penalty provisions and reduce arbitrary action by the tax authorities.

P: The revision of belated return has been allowed within one year from the end of the relevant assessment year. I: The proposal should ensure timely compliance. At the same time, the genuine tax payers who would miss the return filing deadline due to unforeseen circumstances should be able to revise their belated return of income.

P: Processing of return is made mandatory before completing assessment proceedings. I: This is a welcome move which would require tax authorities to mandatorily process the return and release timely refunds to tax payers, if any.

P: The time limit for passing rectification order by the Appellate Tribunal is reduced from 4 years to 6 months.I: This will lead to faster resolution of rectification applications against the orders passed by the Appellate Tribunal.

P: Exemption from dividend distribution tax on distribution made by special purpose vehicles to Real Estate Investment Trusts (REITS) and Infrastructure Investment Trusts (Invits). I: This would facilitate the income to flow to the investors i.e REIT Invits without any tax leakage.