

FINANCE BILL, 2016

PROVISIONS RELATING TO DIRECT TAXES

Introduction

The provisions of Finance Bill, 2016 relating to direct taxes seeks to amend the Income-tax Act, 1961 ('the Act'), the Finance (No.2) Act, 2004, Finance Act, 2013 and Finance Act 2015, in order to provide for –

- A. Rates of Income-tax
- B. Additional Resource Mobilisation
- C. Widening of Tax Base and Anti-Abuse Measures
- D. Measures to Phase Out Deductions
- E. Measures to Promote Socio-economic Growth
- F. Relief and Welfare Measures
- G. Ease of doing Business & Dispute Resolution
- H. Rationalisation Measures

2. The Finance Bill, 2016 seeks to prescribe the rates of income-tax on income liable to tax for the assessment year 2016-17; the rates at which tax will be deductible at source during the financial year 2016-17 from interest (including interest on securities), winnings from lotteries or crossword puzzles, winning from horse races, card games and other categories of income liable to deduction or collection of tax at source under the Act ; rates for computation of "Advance Tax", deduction of income-tax from, or payment of tax on 'Salaries' and charging of income-tax on current incomes in certain cases for the financial year 2016-17.

DIRECT TAXES

A. RATES OF INCOME-TAX

I. Rates of income-tax in respect of income liable to tax for the assessment year 2016-2017.

In respect of income of all categories of assessee liable to tax for the assessment year 2016-2017, the rates of income-tax have been specified in Part I of the First Schedule to the Bill. These are the same as those laid down in Part III of the First Schedule to the Finance Act, 2015, for the purposes of computation of "advance tax", deduction of tax at source from "Salaries" and charging of tax payable in certain cases.

(1) Surcharge on income-tax

Surcharge shall be levied in respect of income liable to tax for the assessment year 2016-2017, in the following cases:-

- (a) in the case of every individual or Hindu undivided family or every association of persons or body of individuals, whether incorporated or not, or every artificial juridical person referred to in sub-clause (vii) of clause (31) of section 2 of Act, cooperative societies, firms or local authorities, the amount of income-tax shall be increased by a surcharge for the purposes of the Union at the rate of twelve percent. of such income-tax in case of a person having a total income exceeding one crore rupees.

However, marginal relief shall be allowed in all these cases to ensure that the total amount payable as income-tax and surcharge on total income exceeding one crore rupees shall not exceed the total amount payable as income-tax on a total income of one crore rupees by more than the amount of income that exceeds one crore rupees.

Also, in the case of persons mentioned in (a) above having total income chargeable to tax under section 115JC of the Act and where such income exceeds one crore rupees, surcharge at the rate mentioned above shall be levied and marginal relief shall also be provided.

- (b) in the case of a domestic company-

- (i) having total income exceeding one crore rupees but not exceeding ten crore rupees, the amount of income-tax computed shall be increased by a surcharge for the purposes of the Union calculated at the rate of seven per cent. of such income tax;

(ii) Rupee Denominated Bond

The Reserve Bank of India has recently permitted Indian corporates to issue rupee denominated bonds outside India as a measure to enable the Indian corporates to raise funds from outside India.

Accordingly, 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.

This amendment is 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.

[Clause 29]

Consolidation of 'plans' within a 'scheme' of mutual fund

Under the existing provisions of section 47(xviii), any transfer by a unit holder of a capital asset, being a unit or units, held by him in the consolidating scheme of a mutual fund, made in consideration of the allotment to him of a capital asset, being a unit or units, in the consolidated scheme of the mutual fund is not chargeable to tax.

Security Exchange Board of India (SEBI) has issued guidelines for consolidation of mutual fund plans within a scheme. In view of this, 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 1st April, 2017 and will accordingly apply in relation to assessment year 2017-18 and subsequent assessment years.

[Clause 28]

Rationalization of limit of deduction allowable in respect of rents paid under Section 80GG

The existing provisions of Section 80GG provide for a deduction of any expenditure incurred by an individual in excess of ten per cent of his total income towards payment of rent in respect of any furnished or unfurnished accommodation occupied by him for the purposes of his own residence if he is not granted house rent allowance by his employer, to the extent such excess expenditure does not exceed two thousand rupees per month or twenty-five per cent of his total income for the year, whichever is less, subject to other conditions as prescribed therein.

In order to provide relief to the individual tax payers, it is proposed to amend section 80GG so as to increase the maximum limit of deduction from existing Rs. 2000 per month to Rs. 5000 per month.

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.

[Clause 38]

Tax Treatment of Gold Monetization Scheme, 2015

Under the existing provisions of section 10, interest on Gold Deposit Bonds issued under Gold Deposit Scheme, 1999 is exempt. Further, these bonds are excluded from the definition of capital asset and therefore exempt from tax on capital gains.

The Gold Monetization Scheme, 2015 has since been introduced by the Government of India. With a view to extend the same tax benefits to the scheme as were available to the Gold Deposit Scheme, 1999 it is proposed to amend Clause (14) of section 2, so as to exclude Deposit Certificates issued under Gold Monetisation 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 1st day of April, 2016 and shall accordingly apply in relation to assessment year 2016-17 and subsequent years.

[Clause 3 & 7]

Rationalization of section 56 of the Income-tax Act

The existing provisions of clause(vii) of sub-section 2 of section 56 of the Act provide for chargeability of income from other sources in case any money, immovable property or other property with or without consideration in excess of Rs 50,000 is received by an assessee being an individual or an Hindu undivided family (HUF). The provisions also apply where shares of a company

		From	To
	Precious metals & Jewellery		
10	Refined gold bars manufactured from gold dore bar, silver dore bar, gold ore or concentrate, silver ore or concentrate, copper ore or concentrate. Prospectively, the excise duty exemption under the existing area based exemptions on refined gold is being withdrawn.	9%	9.5%
11	Refined silver manufactured from silver ore or concentrate, silver dore bar, or gold dore bar. Prospectively, the excise duty exemption under the existing area based exemptions on refined silver is being withdrawn.	8%	8.5%
12	Articles of Jewellery [excluding silver jewellery, other than studded with diamonds or other precious stones namely, ruby, emerald and sapphire] with a higher threshold exemption upto Rs. 6 crore in a year and eligibility limit of Rs.12 crore, along with simplified compliance procedure.	Nil	1% [without CENVAT credit] or 12.5% [with CENVAT credit]
	Renewable Energy		
13	Unsaturated Polyester Resin (polyester based infusion resin and hand layup resin), Hardeners/Hardener for adhesive resin, Vinyl Ester Adhesive (VEA) and Epoxy Resin used for manufacture of rotor blades and intermediates, parts and sub parts of rotor blades for wind operated electricity generators	Nil	6%
14	Carbon pultrusion used for manufacture of rotor blades and intermediates, parts and sub-parts of rotor blades for wind operated electricity generators	12.5%	6%
15	Solar lamp	12.5%	Nil
16	To prescribe "valid agreement between importer / producer of power with urban local body for processing of municipal solid waste for not less than ten years from the date of commissioning of project" as an alternative to the condition of "production of valid power purchase agreement between the importer/producer of power and the purchaser, for the sale and purchase of electricity generated using non-conventional materials" for availing concessional customs/excise duty benefits in case of power generation project based on municipal and urban waste	-	-
	Civil Aviation		
17	Aviation Turbine Fuel [ATF] other than for supply to Scheduled Commuter Airlines (SCA) from the Regional Connectivity Scheme airports	8%	14%
	Maintenance, repair and overhaul [MRO] of aircrafts		
18	Tools and tool kits when procured by MROs for maintenance, repair, and overhauling [MRO] of aircraft subject to a certification by the Directorate General of Civil Aviation	Applicable excise duty	Nil
19	To simplify the procedure for availment of exemption from excise duty on parts, testing equipment, tools and tool-kits for maintenance, repair and overhaul of aircraft based on records	-	-
20	To remove the restriction of one year for utilization of duty free parts for maintenance, repair and overhaul of aircraft	-	-