Budget 2014
Highlights and Impact Analysis
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Foreword

The Union Budget for 2014-15 was presented by the Finance Minister in the Parliament today.

After achieving unprecedented growth of over 9% for three successive years between 2005-06 and 2007-08 and recovering swiftly from the global financial crisis of 2008-09, the Indian economy has been going through challenging times that culminated in lower than 5% GDP growth for two consecutive years i.e. 2012-13 and 2013-14. In addition to growth slowdown, inflation continued to pose significant challenges. The external sector did witness a turnaround after the first quarter of 2013-14 with an improved CAD. Persistent uncertainty in the global outlook, compounded by domestic structural constraints and inflationary pressures, resulted in a protracted slowdown. This indicated the importance of addressing the domestic structural constraints that have engendered an undulating and gradual recovery. The agenda for the new government was well laid out – reviving investment which is essential for growth of jobs and income, putting in place a framework for monetary policy and fiscal consolidation to ensure low inflation, and putting public finances on a sustainable path through tax and expenditure reforms.

It was in the above economic backdrop that the Finance Minister had to present the Union Budget 2014-15.

Investment clearly has been the underlying theme in this budget. Realizing that growth rate of the economy is correlated with the investment rate, the budget contains proposals for development of industrial and economic corridors, with smart cities linked to transport connectivity, as the cornerstone of the strategy to drive India's growth in manufacturing. The budget has some significant proposals for the real estate and infrastructure sector such as grant of a pass through tax status for REIT and Invit that would raise capital by way of issue of units to be listed on a recognized stock exchange.

Finance Minister's commitment to provide a stable and predictable tax regime that would be investor friendly and spur growth is welcome.

After causing consternation in the international business community in the 2012-13 budget by way of a retrospective amendment to tax indirect transfers, the government has now
proposed that all fresh cases of indirect transfer taxation arising will be scrutinized by a high level committee. Unfortunately, contrary to expectations, the budget does not contain any proposal that would provide relief to taxpayers who are already in litigation on this matter.

The Finance Minister has recognized that one immediate imperative on the agenda of the new government is the need to find a faster and better way to resolve tax disputes. The proposals to extend the scope of advance rulings to cover residents, enlarging the scope of Income-tax Settlement Commission and enabling roll back of APAs would seek to minimize the scope for disputes and improve taxpayer’s experience in dealing with the tax administration.

The descent into the present phase of sub - 5% growth has been rather sharp. The interplay of structural constraints alongside delays in project implementation, subdued domestic sentiments and an uncertain global milieu led to growth slowdown while rendering macroeconomic stabilization particularly challenging. The budget proposals presented by the Finance Minister would go a long way in addressing these concerns. The steps announced in the budget are only the beginning of a journey towards a sustained growth of 7-8% along with macro-economic stabilization.
At a glance

Income-tax

- Income-tax rates for individuals remain unchanged, however, exemption limit increased by INR 50,000 from INR 200,000 to INR 250,000.
- Income-tax exemption limit also increased by INR 50,000 for senior citizens from INR 250,000 to INR 300,000.
- Surcharge of 10% on personal income-tax applicable on income exceeding INR 10 million and education cess of 3% retained.
- Rates of corporate tax remain unchanged for both domestic and foreign companies.
- Deduction under section 80C on account of savings and investments increased by INR 50,000 from INR 100,000 to INR 150,000.
- Deduction for interest on housing loan for self-occupied house property increased by INR 50,000 from INR 150,000 to INR 200,000.
- DDT to be paid after grossing up net profits distributed by the company or income distributed by mutual fund as the case may be.
- Applicability of concessional tax of 15% on gross dividend received by an Indian company from specified foreign company has been extended to all future assessment years without any sunset clause.
- Concessional rate of withholding tax on interest on overseas borrowings extended to all LTBs (including LTIB). Further, the time line for obtaining overseas borrowing has been extended for three years up to 1 July 2017.
- Securities held by FIIs in accordance with SEBI regulations to be treated capital asset.
- Unlisted securities and mutual funds (other than equity oriented funds) to be treated as long term capital assets, where the same are held for a period of more than 36 months.
► Specified payments to a non-resident to be allowed as deduction if tax is deducted during the financial year and deposited on or before the due date of filing the return of income.

► Disallowance on account of non-deduction/late deduction and deposition of tax at source extended to cover all payments to a resident on which tax is deductible. Amount of disallowance to be restricted to 30% of the amount of expenditure.

► Expenditure incurred on activities related to Corporate Social Responsibility not to be allowed as deductible expenditure.

► To provide further impetus to the manufacturing sector, a new investment based deduction scheme introduced for allowing 15% of the investment made for acquisition and installation of new plant and machinery from 1 April 2014 to 31 March 2017.

► Sunset clause for commencement of business for claiming tax holiday in power sector extended from 31 March 2014 to 31 March 2017.

► Investment linked tax deduction extended to taxpayers engaged in laying and operating a slurry pipeline for the transportation of iron ore or setting up and operating a notified semiconductor wafer fabrication manufacturing unit. Certain amendments made in the scheme of claiming investment linked deduction.

► Capital gain exemption on investment in a residential house property available only if the investment is made in one residential house situated in India.

► Sum of money received as an advance for transfer of a capital asset will be chargeable to tax as income from other sources if such advance is forfeited.

► Transactions with a resident also deemed as international transaction in certain situations.

► Roll back provisions introduced for APAs.

► Multiple year data to be permitted for comparability analysis.

► Range concept for determination of arm’s length price.
Powers given to transfer pricing officer to levy penalty for failure to furnish transfer pricing documentation.

The concessional tax rate of 10% on long term capital gains would now not be available to units of MF (ie units of non-equity oriented schemes).

MF, ST and VCC/VCF shall now be required to file a tax return instead of existing requirement for filing of the prescribed statement.

Effective 1 October 2014, specific tax regime introduced for REITs and Invits.

Any trust or institution registered under section 12AA, can no longer claim exemption under section 10.

Registration under section 12AA can be used for claiming tax exemption in earlier years.

Computation of tax on anonymous donation rationalized.

Power to survey specifically to include verification of tax deducted and collected at source. Further, the period of retention of books of accounts has been increased from 10 to 15 days.

Power of Income-tax authorities specifically to include issuance of notice to any person to verify any information in their possession.

Government to notify income computation and disclosure standards to be followed for computation of income.

Assessment of income of a person other than the person in whose case search has been carried out will be done only if the Assessing Officer is satisfied that the seized material will have a bearing on the determination of the total income of the other person.

The mode of acceptance or repayment of loan or deposit (in addition to account payee cheque or bank draft) has been extended to use of electronic clearing system through a bank account (if other conditions are satisfied).

Time limit for provisional attachment of property extended.

“Annual Information Return” will now be called “Statement of financial transaction or reportable account”. “Prescribed reporting financial institution” included in the list of prescribed persons to enable compliance with FATCA.
Further, new penalty has been introduced for furnishing inaccurate statement of financial transaction or reportable account by a prescribed reporting financial institution.

**Customs duty**

- Peak rate of BCD remains unchanged at 10%.
- Mandatory pre-deposit prescribed as 7.5%/10% depending on the stage of appeal.
- Advance ruling option made available to resident private limited companies.
- BCD and CVD rates rationalised on various types of coal at 2.5% and 2%, respectively.
- Free baggage allowance increased from INR 35,000 to INR 45,000.

**Excise duty**

- No change in the basic Excise duty rate of 12.36%.
- Advance ruling option made available to resident private limited companies.
- Mandatory pre-deposit prescribed as 7.5%/10% depending on the stage of appeal.
- Excise Valuation Rules have been amended to prescribe that the sale price shall be deemed to be the transaction value even if goods are being sold below cost (if no additional consideration flows from the buyer), provides relief from the decision of the Supreme Court in case of Fiat India Private Limited.

**Service tax**

- No change in effective Service tax rate of 12.36%.
- Advance ruling option available to resident private limited companies.
- Amendments in scope of negative list and list of exempt service.
► Reverse charge mechanism made applicable for two more services.

► Mandatory pre-deposit prescribed as 7.5%/10% depending on the stage of appeal.

► Location of service provider to be the place of supply for an intermediary of goods.

► Powers granted to revenue officers to undertake search and seizure.

► Graded increase in interest rates for delay beyond six months (ranging from 24% to 30%).

CENVAT Credit

► Credit of inputs and input services now required to be availed within six months from the date of invoice.

► LTUs no longer eligible to transfer credit availed on or after 11 July 2014.

CST

► No change in CST rate.

GST

► No GST implementation date announced, however commitment to introduce GST affirmed.
Key performance indicators

In 2014-15, the Indian economy is poised to grow in the range of 5.5 - 5.9% overcoming under 5% growth of GDP witnessed over the last two years. The broad based slowdown has affected in particular the industry sector. Inflation declined during this period though continued to be above the comfort zone owing primarily to high food inflation. There was an improvement in the economic situation with the decline in CAD and fiscal deficit as a proportion of GDP. The economy is poised for a better growth prospects in 2014-15 and beyond aided by the anticipated recovery in global economy.

Agriculture and allied sector: The agriculture and allied sector is estimated to have grown at 4.7% in 2013-14 compared to 1.4% in 2012-13 and its long run average of 3% (between 1999-2000 and 2012-13) assisted by a good monsoon.

Industry and infrastructure: Growth in the industrial sector comprising manufacturing, mining, electricity and construction sectors slowed to 0.4% in 2013-14 as against 1.0% in 2012-13. The key reason for poor performance was contraction in mining and deceleration in manufacturing. Manufacturing and mining sector GDP declined by 0.7% and 1.4% respectively in 2013-14. Electricity generation increased by 6.1% in 2013-14 as compared to 4% in the previous year.

Slowdown in construction resulted in capacity under-utilization in the steel and cement sectors. Steel and cement consumption increased by modest 0.6% and 3.0% respectively in 2013-14. The capital goods manufacturing sector remained amongst the weakest with a decline of 3.6% in 2013-14.

Industrial growth is expected to revive in the next financial year on the back of improved global cues, buoyant investor sentiment and renewed business confidence.

Services: The services sector has emerged as the fastest growing sector of the economy with a CAGR of 9% during the period from 2001 to 2012. Services have also contributed substantially to foreign investment flows, exports and employment.
Like industry, services also slowed during the last two years. The deceleration in growth was particularly sharp in the combined category of trade, hotels & restaurants and transport, storage, and communications. Robust growth continued in financing, insurance, real estate, and business services. In 2013-14, the growth rate of the services sector at 6.8% is marginally lower than 7% in 2012-13.

Economy continued to be sluggish with marginal increase in GDP at 4.7% in 2013-14 as against 4.5% in 2012-13, primarily on account of the following:

► Uncertainty in the global outlook, caused by the crisis in the Euro area;
► General slowdown in the global economy; and
► Domestic structural constraints and inflationary pressures.

Other key economic indicators are summarized as under:

► The annual average rate of inflation (in WPI terms) declined from 7.4% in 2012-13 to 6.0% in 2013-14, though remains above the comfort levels.
► Net capital inflows moderated sharply from USD 92.0 billion in 2012-13 to USD 47.9 billion in 2013-14. The decline reflects slowdown in portfolio investment and net outflow in ‘short-term credit’ and ‘other capital’.
Foreign exchange reserves have increased from USD 292.0 billion as on 31 March 2013 to USD 304.2 billion as on 31 March 2014.

Export growth increased to 4.1% in 2013-14 as compared to a negative 1.8% during 2012-13. The value of imports declined by 8.3% in 2013-14 as compared to a growth of 0.3% in 2012-13, owing to a 12.8% fall in non-oil imports. The sharp decline in imports and a moderate growth in exports in 2013-14 resulted in a decline in India's trade deficit to USD 137.5 billion from USD 190.3 billion during 2012-13.

Foreign investment (net) on account of FDI has increased from USD 19,819 million in 2012-13 to USD 21,564 million in 2013-14. However, foreign portfolio investment has reduced from USD 26,891 million in 2012-13 to USD 4,822 million in 2013-14.
CAD declined sharply from a record high of USD 88.2 billion (4.7% of GDP) in 2012-13 to USD 32.4 billion (1.7% of GDP) in 2013-14.

Gross fiscal deficit decreased to 4.5% of GDP in 2013-14 as against 4.9% in 2012-13. Primary deficit also decreased to 1.2% of GDP in 2013-14 as against 1.8% in 2012-13. Revenue deficit has also decreased to 3.2% of GDP in 2013-14 as against 3.6% in 2012-13.

Challenges and outlook of the Economic Survey 2013-14

The key challenges and outlook of different sectors and key recommended policy initiatives as per the Economic Survey 2013-14 are outlined as follows:

**Agriculture**: India is one of the world’s top producers of rice, wheat, milk, fruits, and vegetables. However, increasing the efficiency of the farm-to-fork value chain is crucial for eliminating poverty and malnutrition.

Major challenges in context of food security amongst others include low productivity levels; soil degradation due to declining fertilizer-use efficiency; market distortions that prevent the creation of a national common market; changing role of government in production and distribution
and phased shifting to direct transfer of fertilizer and food subsidies.

Given the high food inflation, a paradigm shift in the role of the government in all aspects of foodgrain production and distribution is necessary.

► **Industry:** The near-term industrial upturn is dependent on improvements in the policy environment and a return to high investments. Industry is expected to revive and growth can accelerate gradually over the next two years with the improvement in overall macroeconomic environment.

In the short term, the policy focus needs to target key growth drivers such as private corporate sector investment. Reforms such as allowing FDI in defence, removing constraints in the existing SEZs and proposed National Investment and Manufacturing Zones, promotion of industrial clusters for different sectors in different regions could attract large-scale investment and latest technology.

From the infrastructure-sector perspective, augmenting coal production, permitting commercial coal mining, restructuring power distribution, upgrading road and rail networks, reducing delay in regulatory approvals, land acquisition and rehabilitation and solving financing constraints are some of the issues that require urgent attention.

The informal segment of manufacturing lacks adequate and low cost financing and technology and is constrained with rising input costs and competition from imports. Industrial policy need to focus on labor intensive and resource based manufacturing.

To improve ease of conducting business in the country, there is need to build a consensus on best practices to be applicable to all states and to promote self-certification, e-filing and e-returns.

The medium-term challenge for Indian manufacturing is to move from lower to higher-tech sectors, value added sectors and productivity sectors.

► **Services:** Revival in growth is the immediate challenge in the sector which would require reforms and speeding up of the policy decision making. In addition to further focus on
software and telecom, a targeted focus on services such as tourism and hospitality, port services, shipping, ship building and ship repairs and railways could lead to a rebounding of services-sector which has a high manufacturing-sector and employment linkages.

**Energy, infrastructure and communication:** Amongst others, stepping up infrastructure investment, improving productivity and quality of infrastructure spending, removing procedural bottlenecks, improving governance and maintaining consistency in government’s infrastructure policies need to be urgently addressed. Some sector specific issues are discussed below:

**Energy sector (Power and Coal):** Against the capacity addition target of 88,537 MW in the Twelfth Plan period, there has been an addition of 38,583 MW. However, power generation from this additional capacity depends on ensuring fuel supply (coal as well as gas), improving financial health of the state electricity boards and making PPAs of IPPs economically viable.

Further, the following are the challenges in the Coal sector requiring priority attention:

- Building critical feeder routes for coal;
- Clearing pending environment and forest clearances and rehabilitation issues; and
- Permitting commercial coal mining by the private sector;
- Restructuring of Coal India Limited.

**Road sector:** The road sector requires easing of exit conditions to enable use of equity released for new projects. The toll should have correlation with user’s capacity to pay as well as reasonable payback for the financing entities.

- International concepts like ‘traffic trigger’ and ‘re-equilibrium discount’ require evaluation to address some of the problems of the Indian road sector.

**Telecommunications:** To reduce the cost of spectrum, policy for better spectrum management through trading and sharing of spectrum needs requires a relook. This would pave the way for a liberal merger and acquisition
policy. There is a need to consider separation of telecom networking from services to lower entry and exit barrier. Local manufacturing, research and entrepreneurship needs to be promoted with government assistance. Other issues requiring attention include strengthening a national fibre optic network, nationwide mobile number portability and rural telephony.

► **Infra Financing:** Economic slowdown, lower demand for services and a sharp rise in input costs has resulted in failure of contracting parties to meet their obligations as stipulated in the PPP agreements. Long-term finance for infrastructure projects needs to be addressed in the context of the limitation of banks to finance such projects.

A robust and transparent issuance and trading process, uniform stamp duty across states, a well-devised credit enhancement mechanism, an integrated trading and settlement mechanism are some of the issues which need to be addressed for the development of the corporate bond market in India to meet the funding requirements of the corporate sector. Infrastructure development funds are expected to provide long term low cost debt for infrastructure projects.

► **Finance:** The Financial Sector Legislative Reforms Commission has proposed the Indian Financial Code which addresses the problems of Indian finance and sets the course for a modern financial system.

Key challenges that plague the finance sector which need to be addressed include:

► Lack of liquidity in the financial markets;
► Developing the bond-currency derivative nexus to equity market quality levels;
► Integration of large section of households to the financial system; and
► Developing a robust bond market.

► **Taxes:** Direct taxes constitute 55.9% of the total tax revenue in financial year 2013-14 as against 53.4% in 2012-13. The indirect tax collections decreased to 43.8% in 2013-14 from 45.7% in 2012-13 of the total tax revenue. As a proportion of GDP, total gross tax revenue
decreased to 10% (as against 10.2% in 2012-13) comprising of direct taxes at 5.6% and indirect taxes at 4.4%.

► **FDI policy reforms:** FDI net inflows continued to be buoyant with steady inflows into India backed by low outgo of outward FDI. In order to stabilize the depreciating rupee and to revive the investor sentiment, FDI policy was further liberalized in 2013-14.

► **External trade:** Mirroring the global trend, India’s exports (merchandise and services) which had robust growth of 30.1% in the five pre-crisis years (2003-2007) decelerated to 16% in the five post crisis years (2009-2013). Though the outlook is now better, the situation is still fragile for both world and Indian trade.

India’s exports should grow consistently by around 30% annually to reach a 4% share in world exports in the next five years. Achieving the target requires some basic steps like product diversification, building export infrastructure, focusing on useful FTA/RTA/CECA, addressing the inverted duty structure, rationalizing export promotion schemes and taking steps for trade facilitation.

► **Inflation:** In comparison with previous years, inflation showed signs of receding with average WPI inflation falling to a three-year low of 5.98% during 2013-14. Consumer price inflation, though higher than the WPI, has exhibited signs of moderation with CPI (new-series) inflation declining from 10.21% during 2012-13 to about 9.49% in 2013-14. The RBI has targeted bringing down CPI inflation to around 8% by January 2015 and 6% by January 2016.

Going forward, both wholesale and consumer price inflation in India are expected fall paving the way for monetary easing. The fall in inflation would however be impacted from a possible below normal monsoon during 2014-15 as predicted by the IMD, possible step up in the pass through of international crude oil prices owing to the middle east crisis and exchange rate volatility.

**Note:** All data and figures are as per the Economic Survey 2013-14

PE: Provisional estimates
PA: Provisional actuals
P: Preliminary
The annual financial statements of the Government for 2013-14 reflect a fiscal deficit of 4.6% of GDP, a marginal improvement over the budget estimate of 4.8%. The target fiscal deficit for 2014-15 is 4.1%. Revenue deficit for 2014-15 is estimated at 2.9% as against the estimate of 3.3% for 2013-14.

Market borrowings expected to finance the Government’s fiscal deficit in 2013-14 reduced to 86.53% as against the budget estimate of 89.22% and the figure is estimated at 86.83% for 2014-15. As per the revised estimates, the interest outgo as a percentage of the revenue receipts has marginally increased from 35.62% in 2012-13 to 36.93% in 2013-14 and is estimated to reduce to 35.89% in 2014-15.

The Union Budget 2014-15 has estimated:

- Gross tax revenues at INR 13,645.24 billion representing an increase of 17.74% over the revised estimates of INR 11,589.06 billion for 2013-14.
tax revenue is estimated at INR 2,125.05 billion representing an increase of 9.98% over revised estimates of INR 1,932.26 billion for 2013-14. Capital receipts are estimated at INR 5,879.69 billion against revised estimate of INR 5,461.82 billion for 2013-14, showing an increase of 7.65%.

Plan expenditure at INR 5,750 billion representing an increase of 20.92% over the revised estimates of INR 4,755.32 billion for 2013-14. As a proportion of the total expenditure, plan expenditure is estimated at 32.04%. Non plan expenditure is estimated to increase to INR 12,198.92 billion representing an increase of 9.42% over the revised estimates for 2013-14.
The country was keenly waiting for the new government to unveil its economic recovery strategy in the Budget 2014. Clearly, the fiscal stress that the country is going through has constrained the government to undertake bold reforms. The budget has been limited to small but directional changes. It sticks to the fiscal deficit target of 4.1% of GDP considering it a challenge and improves only marginally the revenue deficit target to 2.9%. Given the sluggish tax-GDP ratio, it necessarily constrains the room for boosting government expenditure and stimulating growth. Without a growth push, maintaining the fiscal deficit target would prove to be unrealistic. It is already known that in the first two months of the financial year, 45% of the full year fiscal deficit target and 53% of the revenue deficit target have already been crossed.

We had anticipated that the government would push capital expenditures substantially as it boosts both demand and productive capacity. But the budget increases only marginally the central government capital expenditure from FY14RE at 1.68% of GDP to 1.76%. With revenue expenditure slightly pruned, the total expenditure of FY14 RE has remained almost unchanged at 14% of GDP. This implies a complete absence of fiscal stimulus to growth making even the nominal growth assumption of 13.4% unrealistic. With WPI inflation coming down to less than 6% and even assuming 5.5% as real growth, we may not be able to get a nominal growth of more than 12%.

The assumed tax buoyancy for overall tax revenues is 1.32 against a realized tax buoyancy of less than 1 in FY2014. The only additional inflow of resources is through disinvestment that has been increased from INR 25,841 crore FY14 RE to INR 63,425 crore. The expenditure and revenue positions considered together highlight the vicious circle in which the economy is caught up. Unless growth is stimulated, tax buoyancy will not improve. Unless the tax-GDP ratio increases, fiscal deficit will remain above target, limiting the scope for increasing expenditure relative to GDP and therefore dampening growth prospects. Bolder steps were required to break through this vicious circle. For example, if subsidies were pruned more aggressively creating room for uplifting capital expenditure and taking support from the public sector.
enterprises, state governments, and FDI to stimulate investment uplifting both capacity and demand, it would have been possible to accelerate growth speedily.

But the Finance Minister chose to remain in a slow gear. There are important initiatives that will directionally support growth such as stimulus to household consumption through increase in income tax exemption limit, steps to push the household financial saving rate through Kisan Vikas Patras and increase in the limit of investment eligible for deduction, initiatives for REIT and for infrastructure investment, and uplifting FDI limits on defence equipment and insurance. The growth effect of these initiatives will, however, be subdued. One hopes that the government will become bolder and feels the urgency to accelerate growth to come out with a fuller basket of policy initiatives in the Budget 2015 to boost growth and emerge out of the shadows of the past economic policies.

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Budget proposals

This section summarises significant proposals and direct and indirect taxes and policy initiatives announced in the Union Budget 2014. Most direct tax proposals in the Finance Bill are effective from the financial year commencing on 1 April 2014, unless otherwise specified. Most indirect tax proposals are effective immediately. Further, policy initiatives are expected to be implemented by the Government through the legislative announcements over the ensuing months.

The Finance Bill is discussed in the Parliament before enactment, and is subject to amendment resulting from these discussions.

Direct tax

Income-tax

Rates of tax

The personal income-tax rates remain unchanged although the exemption limit for individuals (other than resident individuals of the age of 80 years or above) has been increased by INR 50,000.

The personal income-tax rates have been summarized below:

<table>
<thead>
<tr>
<th>Income (INR)</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-250,000*</td>
<td>Nil</td>
</tr>
<tr>
<td>250,001-500,000</td>
<td>10</td>
</tr>
<tr>
<td>500,001-1,000,000</td>
<td>20</td>
</tr>
<tr>
<td>1,000,001 and above</td>
<td>30</td>
</tr>
</tbody>
</table>

© Surcharge @10% of the total tax liability where the total income exceeds INR 10 million remains.

Education cess of 3% leviable on the amount of income-tax and surcharge, if any also remains.
The exemption limit in case of resident individuals of the age of 60 years or more but less than 80 years has also increased from INR 250,000 to INR 300,000.

In case of resident individuals of the age of 80 years or above, the exemption limit remains at INR 500,000.

Tax rates for cooperative societies, partnership firms and local authorities

Rates of tax for cooperative societies, partnership firms and local authorities remain unchanged. Surcharge of 10% if income exceeds INR 10 million also remains.

Corporate tax rates

Rates of corporate tax remain unchanged for both domestic and foreign companies.

Presently, a surcharge of 5% and 2% is levied on domestic and foreign companies respectively, if their income exceeds INR 10 million. Where the income derived by the domestic and foreign company exceeds INR 100 million, the surcharge is levied at an increased rate of 10% and 5% respectively.

Education cess shall continue to be levied at the rate of 3% on the amount of tax computed, inclusive of surcharge, in all cases.

The corporate tax rates (including surcharge and education cess) have been summarized below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Domestic company</td>
<td></td>
</tr>
<tr>
<td>Regular tax</td>
<td>33.99@</td>
</tr>
<tr>
<td>MAT</td>
<td>20.96*</td>
</tr>
<tr>
<td>DDT</td>
<td>16.995</td>
</tr>
<tr>
<td>B) Foreign company</td>
<td></td>
</tr>
<tr>
<td>Regular tax</td>
<td>43.26#</td>
</tr>
</tbody>
</table>

MAT is chargeable at 18.5% of book profits (plus applicable surcharge and cess).

@ 32.445% where the total income is more than INR 10 million and up to INR 100 million.
@ 30.9% where the total income is equal to or less than INR 10 million.
* 20.008% where the total income is more than INR 10 million and up to INR 100 million.
* 19.055% where the total income is equal to or less than INR 10 million.
# 42.024% where the total income is more than INR 10 million and up to INR 100 million.
# 41.2% where the total income is equal to or less than INR 10 million.

Surcharge on profits distributed to shareholders and income distributed to unit holders continue to be 10%.

Rebate under Chapter VIII

Rebate for resident individuals in lower income bracket
► Finance Act 2013 had introduced a new provision to provide rebate of INR 2,000 or actual tax payable whichever is less for resident individuals with total income up to INR 500,000. This provision is still applicable.

Income from house property
► The limit of deduction of interest paid on borrowed capital for acquisition/construction of self-occupied house property where the acquisition or construction of the property is completed within three years from the end of financial year in which capital is borrowed, has been increased from INR 150,000 to INR 200,000.

Deductions under Chapter VIA
► The limit of deduction from income in respect of sums paid or deposited towards investment instruments such as contribution to provident fund, schemes for deferred annuities under section 80C has been increased from INR 100,000 to INR 150,000.
► Consequentially, the cumulative limit provided in section 80CCE for deductions under section 80C, 80CC and 80CCD has been increased from INR 100,000 to INR 150,000.
► Under the existing provisions of section 80CCD, if an individual employed by the Central Government or any other employer on or after 1 January 2004 has paid or
deposited any amount in the New Pension Scheme, a deduction is allowed. Now, the condition of being employed on or after 1 January 2004 for private sector employees has been removed. Further, a limit of INR 100,000 under section 80CCD has been introduced within the overall limit of INR 150,000 under section 80CCE.

Exempt income

Clarification in respect of educational institutions, universities and hospitals substantially financed by the Government

► Presently, Income-tax Act provides for exemption in respect of the income of certain educational institutions, universities and hospitals which are wholly or substantially financed by the Government. The meaning of the term “wholly or substantially financed by the Government” has been clarified to cover cases where Government grant to such university or other educational institution, hospital or other institution, exceeds a specified percentage of its total receipts (including any voluntary contributions), during the relevant financial year.

► Presently, section 10(23C) provides for exemption in respect of income when it is applied to acquire a capital asset. Subsequently, notional deduction by way of depreciation is also claimed, thereby resulting in double benefit being claimed by the trusts and institutions under the present law.

► It has been clarified that income for the purposes of application shall be determined without any deduction or allowance by way of depreciation or otherwise in respect of any asset, acquisition of which has been claimed as an application of income under these sections in the same or any other previous year.

Exemption for charitable trusts or institutions

► Any trust or institution registered under section 12AA, can no longer claim exemption under section 10.

► In case where an acquisition of a capital asset is to be considered as application of income of trust, depreciation claim on the same capital assets acquired needs to be excluded for the purpose of income computation.
Registration of trusts or institutions

- Registration under section 12AA once granted by CIT can be used for availing tax exemption even for prior years provided the objects or activities of trusts or institutions in those years is same as those on the basis of which registration has been granted.

- Wider power to the principal CIT or CIT to cancel the registration of trusts or institutions under section 12AA.

These amendments will take effect from 1 October 2014.

Business income

Extension of time limit for depositing withheld taxes to claim deduction of expenditure pertaining to non-residents

- Presently, payments to a non-resident are not allowed as a deductible expenditure in case applicable tax is not deducted or after deduction at source, not deposited within the prescribed timelines. However, in respect of payments made to a resident, deduction is allowed even if the applicable tax is deposited on or before the due date of filing the income-tax return.

- Now, payments to a non-resident will also be allowed as a deduction if the tax deducted at source during the year is deposited on or before the due date of filing the income-tax return.

Disallowance of business expenditure for non-deduction/late deduction and deposit of tax on payment to residents

- Disallowance on account of non-deduction/late deduction and deposit of tax at source has now been extended to cover all payments to a resident on which tax is deductible at source.

- Amount of disallowance of expenditure will now be restricted to 30% of the expenditure as against the existing disallowance of 100% of expenditure.

Expenditure on Corporate Social Responsibility activities

- Expenditure incurred by a taxpayer on Corporate Social Responsibility activities prescribed under the Companies Act 2013 will not be allowed as a deductible residual expenditure.
The same will be allowed as a deduction if it is covered under a specific deduction provision.

Trading in commodity derivatives

Presently, transaction of trading in commodity derivatives is not considered to be a speculative transaction if carried out on a recognized association.

It is now additionally provided that CTT should be paid on such a transaction.

This amendment will take retrospective effect from 1 April 2014.

Rationalisation of presumptive income from the business of plying/hiring or leasing goods carriages

Presumptive income from the business of plying/hiring or leasing goods carriages has been rationalized to INR 7,500 for every month or part of the month during which the goods carriage is owned by the taxpayer.

New investment based deduction on acquisition and installation of new plant and machinery

Presently, investment based deduction is allowed to a taxpayer subject to meeting prescribed threshold of investment in new plant and machinery during the period 1 April 2013 to 31 March 2015.

To provide additional impetus to the manufacturing industry, a new investment deduction has now been prescribed.

The salient features of this new investment based deduction are as follows:

- The company is engaged in the manufacture of any article or thing.
- The investment is in new plant and machinery acquired and installed during the eligible period i.e. between 1 April 2014 and 31 March 2017.
- The amount of investment in the relevant financial year exceeds INR 250 million.
- Deduction would be allowed at the rate of 15% of the amount of investment in the relevant financial year.
► This deduction would be in addition to the depreciation allowable in accordance with the existing provisions of the Income-tax Act.

► Existing investment based deduction will continue till 31 March 2015. Taxpayers eligible to claim a deduction under the existing scheme can continue with the same even if the conditions under the new scheme are not satisfied during the financial year 2014-15. Deduction will not be allowed under both the schemes for the same financial year.

► No change on sale or transfer of new plant and machinery as prescribed under the existing scheme will also apply under the new scheme.

Investment linked deduction for specified businesses

► Presently, deduction is allowed for capital expenditure incurred by a taxpayer for certain specified businesses.

► Now, this deduction will also be allowed to taxpayers engaged in:

► Laying and operating a slurry pipeline for the transportation of iron ore; or

► Setting up and operating a semiconductor wafer fabrication manufacturing unit, if such unit is notified by the CBDT in accordance with the prescribed guidelines.

► The businesses specified above should commence on or after 1 April 2014.

► An asset, in respect of which investment linked deduction is claimed and allowed, shall be used only for the specified business for a period of eight years beginning with the year in which such asset is acquired or constructed.

► Where any asset, in respect of which such deduction is claimed and allowed, is used for a purpose other than the specified business during the specified period of eight years, the total amount of deduction claimed and allowed (as reduced by the amount of depreciation otherwise allowable for income-tax purposes) shall be taxable as business income of the taxpayer in the year of such use of the asset.
► This provision shall not apply to a company which becomes a sick industrial company during the specified period of eight years.

► Where a taxpayer claims an investment linked deduction, the same taxpayer, being a unit in a SEZ, will not be allowed a profit linked deduction in respect of the same business and vice-versa.

► Sunset clause for commencement of business for claiming tax holiday in power sector extended.

► Sunset clause for commencement of business (to claim tax holiday) extended from 31 March 2014 to 31 March 2017 for undertakings which are set up for generation and/or distribution, transmission or distribution of power or which undertake substantial renovation and modernization of the existing transmission or distribution lines.

Tax on distributed income

Tax on certain dividends received from foreign companies

► Currently, where the income of Indian company includes income by way of dividend from foreign company in which it holds more than 26% or more nominal value of equity share capital, such dividend income is taxable at the rate of 15%. However, such benefit was available only up to 31 March 2014.

► Now, benefit would be available for all future assessment years without any sunset clause.

Tax payable after grossing up net profits to be distributed

► Presently, DDT is paid at the rate of 15% of amount declared, distributed or paid by way of dividends to its shareholders. Similarly, additional income tax is required to be paid by Mutual fund in respect of its income distributed to its investors at specified rates.

► Now, section 115-O and 115-R have been amended to provide that tax would be paid after grossing up the net profits distributed by the company or income distributed by mutual fund as the case may be.

► The effective tax rates for DDT shall now stand increased. This amendment will take effect from 1 October 2014.
Capital gains

Capital gains arising from transfer of an asset by way of compulsory acquisition

► Presently, there is uncertainty regarding the “year” of taxation of enhanced compensation.

► It has been clarified that the enhanced compensation will be taxed as capital gains in the financial year in which the final order is made.

Capital gains exemption in case of investment in a residential house property

► The existing provisions exempt capital gains arising from sale of a long term capital asset, being a residential property if the gains are utilised for purchasing/constructing another residential property within the specified period.

► Further, the capital gains arising from transfer of a long term capital asset, other than a residential house are exempt if the gains are utilised in the manner mentioned above.

► Now, both the sections are amended to provide the rollover relief only if the investment is made in one residential house situated in India.

Capital gains exemption in case of investment in long term specified assets

► The existing provisions exempt proportionate capital gains arising from transfer of a long-term capital asset, if the same is invested in specified long-term assets within a period of six months.

► Further, the investment in such specified long-term assets during any financial year should not exceed five million rupees.

► The existing provisions are ambiguous due to the window of six months being spread in two years in certain cases (transfers post September) which has resulted in claim of relief of ten million rupees instead of the intended relief of five million rupees.

► Now, the investment made by a tax payer during the financial year in which the assets are transferred and in the
subsequent financial year should not exceed INR 5,000,000.

Taxation of advance for transfer of a capital asset

► Where any sum of money is received as an advance or otherwise in the course of negotiations for transfer of a capital asset and such sum is forfeited on failure of the negotiations, the sum is proposed to be chargeable to tax under the head income from other sources.

► Correspondingly, where tax is paid on the forfeited advance, the same is proposed not to be reduced from the cost of acquisition of the asset while computing the capital gains on its transfer.

Concessional tax rate of 10% on long term capital gains

► Presently, the concessional tax rate of 10% is applicable on long term capital gains arising from transfer of listed securities, units of mutual funds and zero coupon bonds.

► Now, the said tax rate shall be applicable only on long term capital gains arising from the transfer of listed securities (other than units) and zero coupon bonds.

Others

► Definition of the term “Capital Asset” has been amended to provide that securities held by FIIs in accordance with the SEBI regulations will be regarded as Capital Asset and not as stock in trade.

► Section 2(42A) has been amended to provide that securities (other than a listed security) and units of mutual funds (other than equity oriented) funds shall be regarded as short term capital asset where the same are held for a period of less than 36 months.

Transfer Pricing

Definition of international transaction

► Presently, transactions entered with an unrelated person is deemed as a transaction between associated enterprises if there exists a prior agreement in relation to such transaction between such unrelated person and an associated enterprise or the terms of the relevant transaction are determined in substance between such unrelated person and the associated enterprise The
present provisions do not provide whether or not such unrelated person should also be a non-resident.

With the proposed amendment, such transaction shall be deemed to be an international transaction irrespective of whether such unrelated person is a resident or non-resident, as long as either the enterprise or the associated enterprise is a non-resident.

**APA roll back provisions**

Government in 2012 introduced the APA scheme to provide certainty to taxpayers for determining the arm’s length price in relation to international transactions. APA is an agreement between the taxpayer and the income-tax authorities on an appropriate TP methodology for a set of international transactions over a fixed time period in future. It is proposed to now introduce roll back provisions in the APA scheme. Salient features of the roll back provisions are as follows:

- Roll back refers to the applicability of the TP methodology agreed in an APA to international transactions entered prior to the period covered under the APA.
- Roll back period not to exceed four years preceding the first financial year for which APA is applicable.
- Procedure, conditions and manner in respect of roll back of APAs to be prescribed.

This amendment will be effective from 1 October 2014.

**Use of multiple year data for comparability analysis**

Presently, the Indian transfer pricing regulations allow the use of single year data for comparability analysis and multiple year data in exceptional cases.

It is proposed to amend the regulations to allow use of multiple year data for comparability analysis. Rules to be issued on this aspect.

**Computation of arm’s length price**

- Range concept to be introduced for determination of arm’s length price.
- Concept of arithmetic mean to continue where number of comparables is inadequate.
Appropriate rules will be prescribed in due course.

Penalty for failure to furnish transfer pricing documentation

Presently, for failure to furnish transfer pricing documentation, a penalty of 2% of value of international transaction or specified domestic transaction is leviable by assessing Officer or the commissioner (appeals).

It is proposed to include the transfer pricing officer as an authority to levy such penalty.

This amendment will be effective from 1 October 2014.

Return of income

Filing of the tax return by MFs and STs

Presently, MFs and STs are required to furnish to the prescribed income-tax authority, a statement in the prescribed form and verified in the prescribed manner, giving details of the amount of income distributed to unit holders/investors during the previous year, the tax paid thereon and such other prescribed details.

Now, the MFs and the STs shall not be required to furnish such a statement but would be required to file their annual tax return with the income-tax authorities where their total income before giving effect to the provisions of the Income-tax Act under which they are exempt, exceeds the maximum amount which is not chargeable to tax.

Assessment procedures

Introduction of New Income-tax Authorities

Now Income-tax authorities will include new income-tax authorities namely “Principal Chief Commissioner of Income-tax”, “Principal Commissioner of Income-tax”, “Principal Director General of Income-tax” and “Principal Director of Income-tax” as persons appointed as Income-tax authority.

This amendment will take effect retrospectively from 1 June 2013.

Signing and verification of return of income

The existing provisions under section 140 of the Income-tax Act provide that the return under section 139 of the Income-tax Act shall be signed and verified in the manner
specified therein. With a view to enable the verification of returns either by a sign in manuscript or by any electronic mode, it is proposed that the return shall be verified by the persons specified therein (section 140 of the Income-tax Act).

This amendment will be effective from 1 October 2014.

Estimation of value of assets by Valuation Officer

- Assessing Officer may during the assessment/reassessment proceeding refer valuation of any asset, property or investment to a Valuation Officer who shall give his report within six months from the end of month in which reference is made to him.
- The Assessing Officer may make a reference whether or not he is satisfied about the correctness or completeness of the accounts of the assessee.
- Time taken by the Valuation Officer will be excluded for computing the period of limitation for passing assessment/reassessment order.

This amendment will be effective from 1 October 2014.

Income computation and disclosure standards (Accounting Standards)

- Presently, Assessing Officer can do a best judgment assessment where he is not satisfied that notified Accounting Standards are not regularly followed.
- It is proposed to provide that Central Government may notify income computation and disclosure standards to be followed in specified situations.
- Further, it has been clarified that such Accounting Standards are to be followed only for computation of income and not for maintenance of books of account.

Assessment of income of a person other than the person who has been searched

- Presently, if Assessing Officer is satisfied that any money, bullion, jewellery or other valuable article or thing or books of account or documents seized or requisitioned belongs or belong to a person, other than the assessee, then the books of account or documents or assets seized or requisitioned are handed over to the other Assessing Officer having jurisdiction over such other person and that Assessing Officer is required to proceed against such
other person and assess or reassess income of such other
person.

► Now, it has been provided the other Assessing Officer
shall assess or reassess the income of such other person
only if he is satisfied that the seized material will have a
bearing on the determination of the total income of such
other person.

This amendment will be effective from 1 October 2014.

Power to survey

► A new provision has been inserted to specifically provide
that tax authority may conduct survey for verification of
tax deduction or collection at source.

► Further, the period for retaining the documents in the
custody has been increased from 10 days to 15 days
(exclusive of holidays) without obtaining the approval of
higher income-tax authorities.

This amendment will be effective from 1 October 2014.

Power to call for information

► To enable the Income-tax authority to verify the
information in its possession relating to any person, a
new provision has been introduced to grant power to the
Income-tax authority to issue notice to such person
seeking necessary documents or information which may
be useful for making any enquiry or proceeding under the
Income-tax Act.

This amendment will be effective from 1 October 2014.

Penalty

Penalty for failure to furnish any document or information
under transfer pricing provisions

► Presently, penalty for failure of filing or furnishing
inaccurate tax withholding/tax collection range from INR
10,000 to INR 100,000. However, there is no mention as
to who will levy such penalty.

► Now, it has been provided that the Assessing Officer may
direct a taxpayer to pay such penalty.

This amendment will be effective from 1 October 2014.
Failure to produce accounts and documents

Presently, where a taxpayer wilfully fails to produce books of accounts and any other documents as required by the Assessing Officer or wilfully fails to comply with a direction issued under special audit proceedings, such taxpayer shall be punishable with an imprisonment which may extend up to one year or be levied a fine ranging between INR 4-10 for each day of default or both.

Now, it has been provided that such taxpayer shall be punishable with both imprisonment, which may extend up to one year, and fine. The quantum of fine has not been prescribed.

This amendment will be effective from 1 October 2014.

Withholding tax

Provisions relating to withholding tax on overseas borrowing

Presently, a lower withholding tax rate of 5% applies on interest in respect of monies borrowed by an Indian company in foreign currency or by issue of LTIBs at any time on or after 1 July 2012 but before 1 July 2015 subject to certain conditions.

Now, the benefit of concessional rate of withholding tax has been extended to all LTBs including LTIBs.

Further, this benefit of lower withholding tax rate has been extended for overseas borrowing made up to 1 July 2017.

Consequential amendment is also proposed in section 206AA to ensure that this benefit of lower withholding tax is extended to payment of interest on any LTBs referred to in section 194LC.

The above amendment will be effective from 1 October 2014.

Provisions relating to withholding tax from non-exempt payments made under life insurance policy introduced

As per section 194-DA, any sum received under a life insurance policy, which does not satisfy conditions laid down in section 10(10D) will now be subject to withholding tax at the rate of 2%.
However, withholding tax would not be attracted in case the sum paid during the year is less than INR 0.1 million.

The above amendment will be effective from 1 October 2014.

**Correction of TDS statement**

Presently, deductor is allowed to file correction statement for rectification of the information earlier furnished in the original TDS statement as per the prescribed Centralised Processing of Statements of Tax Deducted at Source Scheme, 2013. However, no express provision has been stated in the Act for furnishing of correction statement.

Now, section 200 has been amended to enable deductor to file correction statement.

Further, section 200A has been amended for enabling processing of such correction statements submitted by deductor.

This amendment will take effect from 1 October 2014.

**Time limit for passing order deeming deductor as assessee in default**

Time limit for passing order under section 201(1) for all cases has been increased from six to seven years.

This amendment will take effect from 1 October 2014.

**MAT/AMT**

**Provisions relating to Credit of AMT**

Presently, provisions of section 115-JEE relating to AMT are applicable to any person who has claimed a deduction under part C of Chapter VI-A or under section 10AA. Further, section 115-JEE does not apply to individuals or HUF or an association of persons or a body of individuals (whether incorporated or not) or an artificial juridical person if the adjusted total income does not exceed INR 2 million.

However, there was difficulty in claiming AMT credit in subsequent years, where income of specified persons is less than INR 2 million or no deduction under part C of Chapter VI-A or under section 10AA has been claimed.
Now, credit of AMT shall be allowed in subsequent assessment years whether or not the conditions mentioned above are satisfied or not.

**AMT on investment linked deduction claimed under section 35AD**

- Presently, adjusted total income for computing AMT is required to be increased by deductions claimed under Part C of Chapter VI-A and under section 10AA.
- Now, total income shall be increased by deduction claimed under section 35AD for computing the adjusted income.

**Taxation regime for REIT and Invit**

- SEBI has proposed draft regulations relating to two new categories of investment vehicles namely, REIT and Invit.
- Provisions have been announced to provide specific taxation regime for REITs/Invits (referred as business trusts). Business Trust means a trust registered as an REIT/Invit, the units of which are required to be listed on a recognised stock exchange in accordance with SEBI Regulations.
- The listed units of a business trust would be subject to STT and would be accorded same tax benefits in respect of taxability of capital gains as equity shares of a company i.e. long term capital gains, would be exempt and short term capital gains would be taxable at the rate of 15%. However, the period of holding of units would be reckoned as long term only where the units have been held for more than 36 months.
- Sponsor will not be liable to capital gains tax arising at the time of exchange of shares in SPVs with units of the business trust. However, sponsor shall be liable to tax at the time of disposal of such units and no preferential capital gains tax regime (consequential to levy of STT) will be available to sponsor in respect of units of business trust. For the purpose of computing capital gain, the cost of units shall be the original cost of shares to the sponsor. The holding period of shares shall also be included in the holding period of such units for the sponsor.
- Income by way of interest received by the business trust from SPV is not taxable in the hands of the trust when the SPV makes an interest payment to the trust. However,
withholding tax at the rate of 5% (non-resident unit holders) and 10% (resident unit holders) shall be applicable in case of payment of interest component of income distributed to unit holders.

- In case of ECBs availed by the business trust, the benefit of reduced rate of 5% tax on interest payments to non-resident lenders shall be available for a prescribed period subject to conditions.

- The dividend received by the trust will be subject to DDT at the level of SPV but will be exempt in the hands of the trust, and the dividend component of income distributed by the trust to unit holders will also be exempt in the hands of unit holders.

- Income by way of capital gains on disposal of assets by the trust shall be taxable in the hands of the trust.

- Any other income of the trust shall be taxable at the maximum marginal rate.

- The business trust is required to furnish its return of income.

- The necessary forms to be filed and other reporting requirements to be met by the trust shall be prescribed to implement the above scheme.

This amendment will be effective from 1 October 2014.

Others

Mode of acceptance or repayment of loans and deposits

- Presently, acceptance or repayment of any loan or deposit should be through an account payee cheque or account payee bank draft.

- Now, it has been proposed that acceptance or repayment of loan or deposit by use of electronic clearing system through a bank account shall also be allowed.

Provisions related to provisional attachment of property

- Presently, provisional attachment of property during the pendency of any assessment or reassessment proceedings was possible for a period of six months, which could further be extended to two years. However, to compute the above limit, the time taken by Settlement Commission for acceptance or rejection and the time for
which the proceedings of assessment or reassessment was stayed by any Court was to be excluded.

Now, the period of provisional attachment has been specified up to two years from the date of attachment or up to sixty days after the date of assessment or reassessment order, whichever is later. The earlier exclusion of time period due to Settlement Commission and stay by Court has been removed.

This amendment will be effective from 1 October 2014.

Obligation to furnish statement of financial transaction or reportable account

Presently, specified persons are required to report specified financial transactions.

A new category of person has been inserted in the list of specified persons, namely; “a prescribed reporting financial institution”.

It has also been provided that if a person who has filed a “statement of financial transaction or reportable account” discovers any inaccuracy in the data furnished then he shall inform the prescribed authority within a period of 10 days and shall also furnish the correct information.

Further, Central Government may notify rules specifying:

- The persons liable for reporting are to be registered with tax authority;
- Nature of information and the manner in which such information shall be maintained; and
- Due diligence to be carried out by such person to identify any reportable account.

The amendment seems to be proposed to enable compliance with FATCA.

Penalty of INR 50,000 may be levied, where “a prescribed reporting financial institution” provides any inaccurate statement and also fulfils any of the conditions below mentioned:

- Such inaccuracy is on account of failure to comply with the due diligence requirement for identification of any reportable account which is required to be
reported or deliberate on part of such financial institution.

► Such financial institution is aware of any discrepancy while filing such prescribed statement and does not inform the prescribed authority.

► After filing of prescribed statement, discovers such inaccuracy and fails to inform the prescribed authority and furnish the correct information within 10 days.
Indirect tax

Customs duty

Policy changes

- Peak rate of BCD remains unchanged at 10%.

Following key changes will be effective on enactment of the Finance Bill:

- Discretionary powers of CESTAT and commissioner (appeals) for grant of stay of pre-deposit has been replaced with a mandatory deposit of 7.5% for first appeal/10% for second appeal of the duty demanded or penalty imposed or both. The pre-deposit is subject to upper ceiling limit of INR 100,000,000. The amendment is prospective and not applicable to appeals and stay applications pending for decision prior to enactment of Finance Bill.

- Discretionary power of CESTAT to refuse admission of appeal has been increased from the existing limit of INR 50,000 to INR 200,000.

- Application for settlement of a case can be made by a person who has made a baggage declaration or label or declaration accompanying goods imported or exported through courier or post, provided a show cause notice has been issued.

- CBEC has been vested with powers to condone delay in review of orders by Committee of Chief Commissioners and Commissioner of Customs by a further period of 30 days.

- Benefit of advance ruling extended to resident private limited company. Definition of “private limited company” linked to Companies Act, 2013 and “resident” linked to Income-tax Act.

- Importers bringing goods in a vehicle by land can file a bill of entry prior to import of goods in the same manner as imports by air or sea.
Other changes

Following key changes will be effective from 11 July 2014:

► Exemption from Customs duty on HIV/AIDS drugs and diagnostic kits imported under NACP funded by GFATM.

► 5% BCD on forged steel rings and nil SAD on parts and components required for manufacture of wind operated electricity generators.

► 5% BCD on machinery, equipment required for setting up of solar energy production projects and compressed biogas plants (bio-CNG).

► BCD exempt on specified goods used in manufacture of solar backsheet and EVA sheet or solar PV cells/modules.

► BCD and CVD rates rationalised on various types of coal at 2.5% and 2%, respectively, to avoid ambiguity.

► Export duty on bauxite increased from 10% to 20%.

► Education cess and secondary and higher education cess levied on specified imported electronic products.

► SAD exempt on import of:
  ► PVC sheet and ribbon used in the manufacture of smart cards.
  ► Inputs/components used in the manufacture of personal computers (laptops/desktops) and tablet computers.
  ► All machinery and equipment for setting up solar energy production plant.

► Safeguard duty made applicable on inputs imported by an EOU or SEZ unit which are cleared into DTA as such or are used in the manufacture of final products which are cleared into DTA.

► Duty free baggage allowance of passengers increased as follows:
  ► Passengers above 10 years and returning after three days: INR 35,000 to INR 45,000.
  ► Passengers above 10 years and returning within three days or less: INR 15,000 to INR 17,500.
Passengers up to 10 years and returning after three days: INR 15,000 to INR 17,500.

Clarification that aircraft engines and parts thereof are eligible for duty exemption when imported for servicing, repair or maintenance of aircrafts used for scheduled operations.

Clarification that road construction machinery imported duty free can be sold within five years of importation subject to payment of customs duty on depreciated value. Also clarified that individual constituent of consortium whose name appears in contract can also import goods and avail exemption.

Customs duties on mineral oils including petroleum and natural gas extracted or produced in the continental shelf of India or the exclusive economic zone of India and imported prior to 7 February 2002 exempt. No refund of customs duties paid earlier.

Rate movement

Changes in the basic rates of customs duty on some key items are set out below:

<table>
<thead>
<tr>
<th>Items</th>
<th>Rate movement (%)</th>
<th>Movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>De-oiled soya extract, ground nut oil cake/oil cake meal, sunflower oil cake/oil cake meal, canola oil cake/oil cake meal/mustard oil cake/oil cake meal/rice bran/rice bran oil cake and palm kernel cake (exemption up to 31 December 2014)</td>
<td>15% to Nil</td>
<td>↓</td>
</tr>
<tr>
<td>Reformate</td>
<td>10% to 2.5%</td>
<td>↓</td>
</tr>
<tr>
<td>Propane, Ethane, Ethylene, Propylene, Butadiene and Ortho-Xylene</td>
<td>5% to 2.5%</td>
<td>↓</td>
</tr>
<tr>
<td>Denatured Ethyl Alcohol and Methyl Alcohol</td>
<td>7.5% to 5%</td>
<td>↓</td>
</tr>
<tr>
<td>Items</td>
<td>Rate movement (%)</td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------</td>
<td></td>
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<tr>
<td></td>
<td>Basic duty</td>
<td></td>
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<tr>
<td></td>
<td>From</td>
<td>To</td>
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<tr>
<td>Crude Naphthalene</td>
<td>10%</td>
<td>5%</td>
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<tr>
<td>Fatty acids, crude palm stearin, RBD and other palm stearin</td>
<td>7.5%</td>
<td>Nil</td>
</tr>
<tr>
<td>and specified industrial grade crude oils</td>
<td></td>
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<td></td>
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<tr>
<td>Crude Glycerine</td>
<td>12.5%</td>
<td>7.5%</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Crude Glycerine (in case used for manufacture of soaps)</td>
<td>12.5%</td>
<td>Nil</td>
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<td></td>
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<td></td>
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<tr>
<td>Coking Coal</td>
<td>Nil</td>
<td>2.5%</td>
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<tr>
<td>Steam and bituminous Coal</td>
<td>2%</td>
<td>2.5%</td>
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<tr>
<td>Anthracite and other coal</td>
<td>5%</td>
<td>2.5%</td>
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<tr>
<td>Metallurgical coal</td>
<td>Nil</td>
<td>2.5%</td>
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<td></td>
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<tr>
<td>LNG (for export to Pakistan)</td>
<td>5%</td>
<td>Nil</td>
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<tr>
<td>Stainless steel flat products</td>
<td>5%</td>
<td>7.5%</td>
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<tr>
<td>Ships imported for breaking up</td>
<td>5%</td>
<td>2.5%</td>
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<tr>
<td>Coal tar pitch</td>
<td>10%</td>
<td>5%</td>
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<td></td>
</tr>
<tr>
<td>Battery waste and Battery scrap</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Steel Grade limestone and steel grade dolomite</td>
<td>5%</td>
<td>2.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Half-cut or broken diamonds</td>
<td>Nil</td>
<td>2.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cut and polished diamonds and coloured gemstones</td>
<td>2%</td>
<td>2.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-forms of precious and semi-precious stones</td>
<td>2%</td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LCD and LED TV panels of below 19 inches</td>
<td>10%</td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colour picture tubes for manufacture of cathode ray TV</td>
<td>10%</td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specified parts of LCD and LED TV (including open cell,</td>
<td>10%/7.5</td>
<td>Nil</td>
</tr>
<tr>
<td>Items</td>
<td>Rate movement (%)</td>
<td></td>
</tr>
<tr>
<td>-------</td>
<td>-------------------</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Basic duty</td>
<td>Movement</td>
</tr>
<tr>
<td></td>
<td>From</td>
<td>To</td>
</tr>
<tr>
<td>plate diffuser, film diffuser)</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>Telecommunication equipments not covered under ITA</td>
<td>Nil</td>
<td>10%</td>
</tr>
<tr>
<td>E-book readers</td>
<td>7.5%</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**Excise duty**

**Policy changes**

- No change in the basic Excise duty rate of 12.36%.

- Discretionary powers of CESTAT and commissioner (appeals) for grant of stay of pre-deposit has been replaced with a mandatory deposit of 7.5% for first appeal/10% for second appeal of the duty demanded or penalty imposed or both. The pre-deposit is subject to upper ceiling limit of INR 100,000,000. The amendment is prospective and not applicable to appeals and stay applications pending for decision prior to enactment of Finance Bill.

- Government is now empowered to prescribe an authority or agency to which an information return shall be furnished by specified authorities such as Income tax authorities, Registrar of Companies and State Electricity Boards, to identify tax evaders.

- Discretionary power of CESTAT to refuse admission of appeal has been increased from the existing limit of INR 50,000 to INR 200,000.

- Packing, repacking, labelling or relabeling on specified goods such as wireless data modem cards with PCMCIA or USB or PCI express ports, packaged or canned software, cellular phones and radio trunking terminals would be considered as deemed manufacture.

- Applicants can approach Settlement Commission even if they have not filed returns.
The amendments mentioned above would be effective from the date of enactment of the Finance Bill.

► Clean energy cess on coal increased from INR 50 per tonne to INR 100 per tonne. This amendment would be effective from 11 July 2014.

► Benefit of advance ruling extended to resident private limited company. Definition of ‘private limited company’ linked to Companies Act, 2013 and ‘resident’ linked to Income-tax Act.

► Excise Valuation Rules have been amended to prescribe that the sale price shall be deemed to be the transaction value even if goods are being sold below cost (if no additional consideration flows from the buyer), effectively nullifying the decision of the Supreme Court in case of Fiat India Private Limited effective from 11 July 2014.

► Penalty of 1% per month to be levied in case duty declared as per return is not paid within one month from the due date (effective from 1 October 2014).

► Clarified that exemption available for supplies against International Competitive Bidding also extends to sub-contractors for manufacture and supply of goods for or on behalf of the main contractor.

**Exemptions**

► Exemption extended to machine/components required for initial setting up of compressed bio gas plant.

► Exemption from Education Cess and Secondary Higher Education Cess on all goods manufactured in EOU/EHTP/STP and cleared in DTA.

► Machines/parts related to manufacture of solar voltaic cells and setting up of solar energy production, projects have been exempted.

► Parts consumed within the factory of production for the manufacture of goods to be used for generating solar/wind energy have been exempted.

The above mentioned exemptions would be effective from 11 July 2014.
# Rate movement

- Changes in the basic Excise duty rates on some key items are set out below:

<table>
<thead>
<tr>
<th>Description</th>
<th>From</th>
<th>To</th>
<th>Movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branded petrol</td>
<td>7.5 per litre</td>
<td>2.35 per litre</td>
<td>↓</td>
</tr>
<tr>
<td>Footwear of retail sale price exceeding INR 500 but not exceeding INR 1,000 per pair</td>
<td>12%</td>
<td>6%</td>
<td>↓</td>
</tr>
<tr>
<td>Forged steel rings to manufacture bearings of wind operated electricity generators</td>
<td>12%</td>
<td>Nil</td>
<td>↓</td>
</tr>
<tr>
<td>Gloves specifically designed for use in sports</td>
<td>12%</td>
<td>2% without CENVAT and 6% with CENVAT</td>
<td>↓</td>
</tr>
<tr>
<td>LED (Light Emitting Diode) driver and MCPCB (Metal Core Printed Circuit Board) for use in manufacture of LED lights and fixtures or LED lamp</td>
<td>12%/10%</td>
<td>6%</td>
<td>↓</td>
</tr>
<tr>
<td>Pan masala</td>
<td>12%</td>
<td>16%</td>
<td>↑</td>
</tr>
<tr>
<td>Recorded smart cards</td>
<td>2% without CENVAT and 6% with CENVAT</td>
<td>12%</td>
<td>↑</td>
</tr>
<tr>
<td>Reverse Osmosis membrane element for household type filters</td>
<td>12%</td>
<td>6%</td>
<td>↓</td>
</tr>
<tr>
<td>Reverse Osmosis membrane element for water filtration or purification equipment (other than household type filters) based on reverse osmosis technology using thin film composite membrane</td>
<td>12%</td>
<td>Nil</td>
<td>↓</td>
</tr>
</tbody>
</table>
The rate of duty applicable on cigarettes is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>BED INR per 1,000 sticks From</th>
<th>BED INR per 1,000 sticks To</th>
<th>Movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non filter not exceeding 65</td>
<td>509</td>
<td>990</td>
<td>↑</td>
</tr>
<tr>
<td>Non filter exceeding 65 but not exceeding 70</td>
<td>1,772</td>
<td>1,995</td>
<td>↑</td>
</tr>
<tr>
<td>Filter not exceeding 65</td>
<td>509</td>
<td>990</td>
<td>↑</td>
</tr>
<tr>
<td>Filter exceeding 65 but not exceeding 70</td>
<td>1,249</td>
<td>1,490</td>
<td>↑</td>
</tr>
<tr>
<td>Filter exceeding 70 but not exceeding 75</td>
<td>1,772</td>
<td>1,995</td>
<td>↑</td>
</tr>
<tr>
<td>Filter exceeding 75 but not exceeding 85</td>
<td>2,390</td>
<td>2,875</td>
<td>↑</td>
</tr>
<tr>
<td>Other</td>
<td>2,875</td>
<td>2,875</td>
<td>-</td>
</tr>
</tbody>
</table>

5% of Additional Excise Duty of Excise imposed on aerated waters containing added sugar. This amendment will be effective from 11 July 2014.

Service tax

No change in effective Service tax rate of 12.36%.

The following key changes will be effective from 11 July 2014:

Exemption extended to following services:

- Services provided by Common Bio-medical Waste Treatment Facility operators by way of treatment or disposal of bio-medical waste or processes incidental thereto, to a clinical establishment.

- Services provided under all life micro-insurance schemes approved by IRDA, where sum assured does not exceed INR 50,000.

- Services provided by way of transport of organic manure by vessel, rail or road.

- Services provided by way of loading, unloading, packing, storage or warehousing, transport by vessel, rail or road, of cotton, ginned or bale.
► Services provided by Indian tour operators to foreign tourists for a tour outside India.

► Services received by RBI from outside India, in relation to management of foreign exchange reserves.

► Exemption will be withdrawn on the following services:

► Technical testing or analysis of newly developed drugs, including vaccines and herbal remedies on human participants by a clinical research organization approved to conduct clinical trials by the Drug Controller General of India.

► Passenger transportation by air conditioned contract carriage.

► Renting of immovable property to educational institutions.

► Service tax exemption on services received by educational institutes restricted only to specified services as opposed to all auxiliary education services.

► Exemption on services provided to government or local authority or governmental authority restricted only to water supply, public health, sanitation conservancy, solid waste management or slum improvement and upgradation.

► Benefit of advance ruling extended to resident private limited company. Definition of ‘private limited company’ linked to Companies Act and ‘resident’ linked to Income Tax Act provisions.

► Domestic reverse charge provisions on two more services:
   ► Service provided by a director to a body corporate.
   ► Services provided by recovery agents to Banks, Financial Institutions and NBFC.

► Rationalisation of procedures for claiming exemption/refund of Service tax on input services for SEZ units and developers.

The following key changes will be effective on enactment of the Finance Bill:

► Following services to be removed from the negative list of services:
► Services such as advertisements in internet websites, out-of-home media, on film screen in theatres, billboards, conveyances, buildings, cell phones, automated teller machines, tickets, commercial publications, aerial advertising.

► Radio taxis or radio cabs, whether or not air-conditioned.

► Discretionary powers of CESTAT and commissioner (appeals) for grant of stay of pre-deposit has been replaced with a mandatory deposit of 7.5% for first appeal/10% for second appeal of the duty demanded or penalty imposed or both. The pre-deposit is subject to upper ceiling limit of INR 100,000,000. The amendment is prospective and not applicable to appeals and stay applications pending for decision prior to enactment of Finance Bill.

► Time limits recommended for completion of adjudication, within six months or one year from the date of issuance of show cause notice to the extent possible.

► 50% penalty imposable in cases where Service tax has not been levied, not paid or short levied or short paid on account of suppression of facts or wilful misstatement even if the assessee proves that there was reasonable cause for such failure by way of details of such transactions being available in specified records.

► Providing power to Joint Commissioner or Additional Commissioner or any other officer notified by CBEC to authorize any Central Excise Officer to undertake search and seizure.

► Introduction of powers to recover dues of a predecessor from the assets of a successor which are purchased from the predecessor.

► Government to prescribe rules to determine rate of exchange for calculation of taxable value in respect of certain services to delink the present practice of using conversion rates notified for Customs purpose.

► Providing powers to the Government to make rules for specified activities such as book keeping, restriction of CENVAT credit, issuance of supplemental instructions.

The following key changes will be effective from 1 October 2014:
► Change in rate of interest on delayed payment of service tax with effect from 1 October 2014:

<table>
<thead>
<tr>
<th>Extent of delay</th>
<th>Simple interest rate per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto six months</td>
<td>18%</td>
</tr>
<tr>
<td>More than six months and upto one year</td>
<td>18% for first six months, and 24% for the period of delay beyond six months</td>
</tr>
<tr>
<td>More than one year</td>
<td>18% for first six months, 24% for the next six months, and 30% for the period of delay beyond one year</td>
</tr>
</tbody>
</table>

► E-payment of Service tax made mandatory except with permissions from Deputy Commissioner/Assistant Commissioner.

► In case of Intermediary of goods, place of provision of service shall be the location of service provider.

► Place of provision in case of services of hiring of vessels, or aircraft, irrespective of whether short term or long term shall be the place of the service recipient.

► Value of service portion for works contracts other than ‘original works’ rationalized to 70%.

► Point of taxation for reverse charge payments rationalised (for invoices issued after 1 October 2014):
  ► Date of payment; or
  ► First day after three months from the date of invoice (i.e. where the payment has not been made).

► Decrease in effective Service tax rate on transport of goods by vessel from 6.18% to 4.94% due to increased abatement.
CENVAT Credit

The following key changes will be effective from 1 September 2014:

► Significant limitation introduced on time for claiming credits on input and input services - to be availed within six months from date of invoice/challan.

The following key changes will be effective from 11 July 2014:

► Credit under reverse charge can be claimed immediately on payment of service tax irrespective of payment of invoice value (except partial reverse charge).

► Re-credit of exports related credit reversals permitted only if proceeds are collected within the time period allowed by RBI plus an additional one year.

► LTUs no longer eligible to transfer credit availed on or after 11 July 2014.

► Input Service Distributor mechanism clarified.

► Restriction on availment of credit in relation to GTA service amended to clarify that such restriction is applicable only to a service provider.

CST

► No change in CST rate.

GST

► No GST implementation date announced, however commitment to introduce GST re-affirmed.

FM hopes to resolve pending matters so as to be able to approve the legislative scheme paving way for early introduction of GST.
Other key policy initiatives

Some of the key policy initiatives proposed by the Government in Budget 2014 are:

Infrastructure

Public Private Partnership (PPP)

► An institution to provide support to mainstreaming PPPs called 3P India will be set up.

Shipping

► A policy for encouraging the growth of Indian controlled tonnage will be formulated to ensure increase in employment of the Indian seafarers.

► Sixteen new port projects are proposed to be awarded during FY 2014-15 with a focus on port connectivity.

► A comprehensive policy will be announced to promote Indian ship building industry during FY 2014-15.

Inland navigation

► A project on the river Ganga called ‘Jal Marg Vikas’ (National Waterways-I) will be developed between Allahabad and Haldia to cover a distance of 1620 kms, which will enable commercial navigation of at least 1500 tonne vessels.

Airports

► Scheme for development of new airports in Tier I and Tier II will be launched for implementation through Airport Authority of India or PPPs.

Roads

► During FY 2014-15, a target of National Highway construction of 8,500 km will be achieved and for this necessary funds have been allocated.

► Work will be initiated on select expressways in parallel to the development of the Industrial Corridors to improve the supply chain in transporting goods across cities.
Power

- Budget allocations have been made for new scheme for “Ultra-Modern Super Critical Coal Based Thermal Power Technology” to promote cleaner and more efficient thermal power.

- Adequate quantity of coal will be provided to power plants which are already commissioned or would be commissioned by March 2015, to unlock dead investments.

- Budget allocations have been made to take up Ultra Mega Solar Power Projects in Rajasthan, Gujarat, Tamil Nadu, and Ladakh in Jammu & Kashmir.

Industry

Defence

- Foreign investment in defence manufacturing sector has been raised from the existing 26% to 49% with full Indian management and control under the Government approval route.

- The Government has allocated a sum of INR 2,290 Billion towards defence expenditure.

Real estate

- With an aim to develop Smart Cities, the existing requirement of a minimum built-up area of 50,000 square meters under the construction development sector has been reduced to 20,000 square meters and minimum capitalisation requirement has been reduced from existing USD 10 million to USD 5 million. The condition for minimum lock-in period has been retained.

- To further encourage investment in construction development sector, projects which will commit at least 30% of their project cost for low cost affordable housing will be exempted from the minimum built up area and capitalisation requirements.

Manufacturing

- The manufacturing units will be allowed to sell their products through retail including e-commerce platform without any additional approval.
Oil and gas
► It is proposed to develop additional 15,000 km of pipelines using appropriate PPP models in order to complete the gas grid across the country.

Life Sciences
► It is proposed to set up two National Institutes in New Delhi and Madras for early diagnosis and treatment of Tuberculosis.
► Funds have been allocated for setting up of four more All India Institute of Medical Sciences like institution at Andhra Pradesh, West Bengal, Vidarbha and Poorvanchal.
► It is also proposed to add twelve more government medical colleges.
► Central Government to provide assistance to States’ Drug Regulatory and Food Regulatory Systems by creating new drug testing laboratories and strengthening existing thirteen State laboratories.
► It is proposed to set up fifteen Model Rural Health Research facilities in various states to undertake research on local health issues concerning rural population.
► It is proposed to strengthen at least five research centres of the Department of Science & Technology to make them more effective in the innovation space through PPPs.

Mining
► It is proposed that the current impasse in mining sector, including, iron ore mining, will be resolved expeditiously. It is also proposed that changes, if necessary, in the MMDR Act, 1957 would be introduced to facilitate this.

Mineral
► Upon receiving requests from several State Governments to revise rate of Royalty on minerals, the Government has proposed that the revision will be undertaken to ensure greater revenue to the State Governments
Micro, Small and Medium Enterprises Sector (MSME)

► It is proposed to appoint a committee with representatives from the Finance Ministry, Ministry of MSME and RBI to give concrete suggestions in three months to examine the financial architecture for the MSME sector.

► In order to create a conducive eco-system for the venture capital in the MSME sector it is proposed to establish a fund of INR 100 Billion fund to act as a catalyst to attract private Capital by way of providing equity, quasi equity, soft loans and other risk capital for start-up companies.

Financial sector and capital markets

► Measures shall be undertaken to complete the ongoing process of consultation with all the stakeholders on the recommendations of the Financial Sector Legislative Reforms Commission like the enactment of the Indian Financial Code, which is considered necessary for better governance and accountability.

► Financial sector regulators shall be advised to take early steps for a vibrant, deep and liquid corporate bond market and deepen the currency derivatives market by eliminating unnecessary restrictions.

► The regime for ADRs/GDRs shall be liberalised by allowing issuance of depository receipts on all permissible securities including debt instruments.

► International settlement of Indian debt securities shall be permitted.

► IDR shall be replaced by a much more liberal Bharat Depository Receipt.

► Uniform KYC norms shall be introduced and inter-usability of the KYC records across the entire financial sector shall be made possible.

► To enable Indian financial sector consumers to access and transact all financial assets, one single operating demat account concept shall be introduced.
Banking

► A modern monetary policy framework shall be put in place after close consultation with the RBI.

► Divestment of Government stake in banks proposed in a phased manner with the Government continuing to have majority shareholding.

► A time bound programme to be launched as Financial Inclusion Mission on 15 August 2014 to provide all households in the country with banking services.

► To permit long term financing for infrastructure, banks will be encouraged to extend long term loans to the infrastructure sector with flexible structuring to absorb potential adverse contingencies.

► Further, banks will also be permitted to raise long term funds for lending to the infrastructure sector with minimum regulatory pre-emption such as Cash Reserve Ratio, Statutory Liquidity Ratio and Priority Sector Lending.

► A structure shall be put in place for continuous authorization of universal banks in the private sector in the current financial year. RBI will also create a framework for licensing small banks and differentiated banks.

► To set up 6 new Debt Recovery Tribunals for effective means of revival of other stressed assets.

Insurance

► FDI in the insurance sector shall be increased from 26% to 49% (under the approval route), with full Indian management and control.

► The Insurance Laws (Amendment) Bill, 2008 to be taken up for consideration of the Parliament.

Others

► The Finance Minister has made key in-principle announcements to effectively manage the growing tax litigation in India which would include extending the facility of obtaining advance ruling to resident taxpayers, constitution of additional benches of the Authority for Advance Rulings and expanding the scope of Income-tax
Settlement Commission. It has been stated in the budget speech that the exact detail of these proposals would be announced during the course of current session in the Parliament.

► As a part of administrative measures, it has been proposed to setup a High Level Committee to interact with trade and industry bodies on a regular basis and identify tax issues requiring clarity. CBDT/CBEC, being the tax administrative bodies, shall issue appropriate clarifications on issues recommended by the Committee within a period of two months.

► Though the existing retrospective amendments have not been tinkered with, it has been mentioned that the Government will not ordinarily bring about any retrospective changes which creates any fresh tax liability for taxpayers.

► With respect to the introduction of Direct Tax Code, comments received on the revised draft placed in public domain in March 2014 shall be considered by the Government along with a holistic review of its present shape. No specific time lime for its introduction has been announced.

► The Government has notified a minimum pension of INR 1,000 per month for all members subscribing to the Employee’s Pension Scheme, 1995.

► Further, the wage limit for mandatory participation in the Employee’s Pension Scheme, 1995 has been increased from INR 6,500 per month to INR 15,000 per month.

► Employees Provident Fund Organisation will launch the Uniform Account Number Service for contributing members to facilitate portability of Provident Fund accounts.

► Limit for contribution to the Public Provident Fund Scheme has been increased from INR 100,000 to INR 150,000.
Recent policy changes

Significant policy initiatives during the period 16 February 2013 to 30 June 2014 have been summarized in the following paragraphs. Some of these initiatives may be impacted by the proposals announced in the Budget speech of the Finance Minister.

Foreign investment policy

The Government has issued consolidated FDI policy vide Circular 1 of 2014. The important changes are as follows:

► Definition of group company has been introduced under the FDI policy. A group company means two or more enterprises which, directly or indirectly, are in a position to:
  ► exercise 26% or more of voting rights in other enterprise; or
  ► appoint more than 50% of members of board of directors in the other enterprise.

► The definition of “control” has been amended to include control exercisable through management and policy decisions, management rights, shareholder agreements or voting agreements to align it with the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 2011 and Companies Act, 2013.

► In Defence sector, investment from FPI/FII continues to be under prohibited list. However, the investments made by FPI/FII in the company on or before 22 August 2013 have been grandfathered.

► For transfer of shares from resident to non-resident where the investee company is in the financial sector, an NOC was required to be obtained from the respective financial sector regulators of the investee company as well as transferor and transferee entities. Now, instead of NOC, it needs to be ensured that any fit and proper due diligence requirements
for non-resident investor as stipulated by the respective financial sector regulator, have been complied with.

In addition, during the year, the Government has liberalized the FDI policy through the press notes:

- **Relaxation in MBRT:** The following amendments have been approved in MBRT:
  - 50% investment in backend infrastructure to be considered only for the first tranche of USD 100 million;
  - Sourcing from micro and medium industries allowed in addition to existing small industries;
  - Sourcing from agricultural co-operatives and farmers co-operatives would also be considered in this category;
  - Investment in plant and machinery criteria for ascertaining Indian micro, small and medium industries enhanced from the existing limit of USD 1 million to USD 2 million;
  - Investment limit of USD 2 million to be reckoned at the time of first engagement with the retailer; and
  - Retail sale outlets to be set up in cities other than with a population of more than one million as per the 2011 census to include any other cities as per the decisions of the respective state governments.

- **SBRT:** The following changes have been made in the SBRT:
  - Allowing more than one non-resident entity/investor to invest in a company engaged in SBRT; and
  - Investments up to 49% allowed under the automatic route. Investments beyond 49% require Government approval.

- **Test marketing:** As this activity has lost its relevance due to liberalization of trading sector, it has been deleted from the FDI policy.

- **Tea sector including tea plantations:** There is no change in the approval requirement. However, the condition related to divestment of 26% to Indian Partner within 5 years has been removed.
The other FDI amendments announced are as follows:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Existing Sectoral Cap and Route</th>
<th>Revised Sectoral Cap and Route</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum &amp; Natural Gas (Refining)</td>
<td>49% - Approval Route</td>
<td>49% - Automatic Route</td>
</tr>
<tr>
<td>Commodity Exchanges</td>
<td>49% (FDI + FII) - Approval Route</td>
<td>49% (FDI + FII/FPI) - Automatic Route</td>
</tr>
<tr>
<td>Power Exchanges</td>
<td>49% (FDI + FII) - Approval Route</td>
<td>49% (FDI + FII) - Automatic Route</td>
</tr>
<tr>
<td>ARC</td>
<td>74% of paid-up capital of ARC (FDI + FII) (Approval Route)</td>
<td>100% of paid-up capital of ARC (FDI + FII/FPI) Up to 49% Automatic Route Beyond 49% - Approval Route</td>
</tr>
<tr>
<td>Credit Information Companies</td>
<td>49% (FDI + FII) - Approval Route</td>
<td>74% (FDI + FII/FPI) - Automatic Route</td>
</tr>
<tr>
<td>Stock Exchanges and Clearing corporations</td>
<td>49% (FDI + FII) - Approval Route</td>
<td>49% (FDI + FII/FPI) - Automatic Route</td>
</tr>
<tr>
<td>Telecom (Basic and Cellular Services etc.)</td>
<td>74% - Approval Route</td>
<td>100%; Up to 49% - Automatic Route Beyond 49% - Approval Route</td>
</tr>
<tr>
<td>Courier Services</td>
<td>100% - Approval Route</td>
<td>100% - Automatic Route</td>
</tr>
<tr>
<td>Defence</td>
<td>26% - Approval Route</td>
<td>Cabinet Committee on Security may approve proposals on case to case basis beyond 26% which are likely to result in access to modern and state of the art technology in the country.</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>a) Greenfield - 100% Automatic Route b) Brownfield - 100% Approval Route</td>
<td>a) Greenfield - 100% Automatic Route b) Brownfield - 100% Approval Route</td>
</tr>
<tr>
<td>Sector</td>
<td>Existing Sectoral Cap and Route</td>
<td>Revised Sectoral Cap and Route</td>
</tr>
<tr>
<td>-------------------------</td>
<td>--------------------------------</td>
<td>--------------------------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&quot;Non-compete&quot; clause is not allowed except with the prior Government approval.</td>
</tr>
<tr>
<td>Insurance</td>
<td>Up to 26% under Automatic Route</td>
<td>26% (FDI + FII/FPI + NRI) - Automatic Route</td>
</tr>
</tbody>
</table>

- **List of defence items requiring industrial license**: The Government has notified the items which require Industrial License. Any defence item which does not require Industrial License would not fall under the Defence sector for FDI purpose and hence, restrictions thereto will not be applicable. Also, in case of dual use items, having military as well as civilian applications, but not requiring Industrial License would also not be considered as Defence sector.

**Foreign exchange regulations**

**Mayaram Committee’s recommendations**

- With the aim of removing ambiguity between the FDI and FPI investment and to bring them in line with international practices a committee was appointed under the chairmanship of Dr. Arvind Mayaram. The recommendations of the Committee have been accepted by the Government but are yet to be notified to become effective.

**Inbound investments**

- Unlisted Indian companies are now permitted to raise capital abroad without prior or subsequent listing in India, subject to certain conditions. This scheme has been introduced in October 2013 on a pilot basis and is valid for a period of two years.

- Indian companies have been allowed by RBI to issue non-convertible/redeemable preference shares or debentures.
to non-resident shareholders, including the depositories that act as trustees for the ADR/GDR holders, by way of distribution as bonus from its general reserves under a Scheme of Arrangement approved by a Court in India under the provisions of the Companies Act, 2013, subject to no-objection from the income-tax authorities.

- The RBI has allowed optionality clauses in the agreement for exit of non-residents, subject to specified conditions.
- Government has increased the period of validity of Industrial License from two years to three years as a measure for ease of doing business.

Outbound investments

- RBI has rationalized/liberalized provisions relating to outbound investments as follows:
  - During the year, investment limit under ODI Regulations was reduced to 100% of Indian party’s net worth which has now been restored to 400% of net worth with an exception that overseas investment beyond USD 1 billion shall require prior RBI approval though it may be covered under the 400% net worth limit.
  - The RBI has reduced the existing limit under Liberalized Remittance Scheme of USD 200,000 for each financial year to USD 125,000 for each financial year. Further, the scheme shall no longer be used for acquisition of immovable property directly or indirectly outside India.
  - Resident Individuals have now been allowed to set up JV/WOS outside India for any bona-fide business activities within the limit of USD 125,000 subject to compliances in relation to ODI guidelines. However, the individual investor can only make investment in an operating JV/WOS engaged in a bona-fide business and no step-down subsidiary is permitted by JV/WOS.
  - The RBI has decided not to treat/reckon the renewal/rollover of an existing/original guarantee, which is part of the total financial commitment of the Indian party, as a fresh financial commitment subject to certain conditions.
  - LLPs incorporated under the LLP Act 2008 have been included in the definition of an "Indian Party" for the purpose of ODI. Now, an LLP would be considered at
par with an Indian company for the purposes of setting up a JV/WOS abroad in terms of the provisions of ODI regulations.

**ECB**

- Import of services, technical knowhow and payment of license fees have been included as permissible end use of ECB under the automatic/approval route for companies in the manufacturing and infrastructure sectors.

- NBFC-AFC have been permitted by RBI to avail ECB subject to certain conditions under the automatic route from all recognised lenders with minimum average maturity period of 5 years in order to finance the import of infrastructure equipment for leasing to infrastructure projects.

- End use restrictions under the ECB policy have been liberalised by permitting companies engaged in manufacturing, infrastructure, hotels, hospitals and software sectors to avail ECB for general corporate purpose under automatic route subject to the condition that it is availed from direct equity holder.

- As a measure of simplification, RBI has decided to put the following cases under the automatic route:
  - Proposals for raising ECB by companies engaged in the activities of manufacturing, infrastructure, hotels, hospitals and software sectors from indirect equity holders/group companies.
  - Proposals for raising ECB by companies engaged in miscellaneous services, as defined, from direct/indirect equity holders/group companies.
  - Proposals involving change of lender when the ECB is from foreign equity holders and group companies.
  - AD Banks have been delegated the powers to allow rescheduling of ECB due to changes in the draw-dawn and/or repayment schedule (including elongation/rollover) subject to specified conditions by the RBI.
  - The RBI has discontinued the facility of allowing eligible borrowers to raise ECB at a higher all-in-cost to refinance/reschedule an existing ECB.
  - An Indian company will not be permitted to raise ECB from overseas branches/subsidiaries of Indian banks for
refinance/repayment of rupee loan raised from the domestic banks in the following instances:

► Scheme of take-out financing;
► Repayment of existing rupee loans for companies in infrastructure sector;
► Spectrum allocation; and
► Repayment of rupee loans.

Export

► The period of realization and repatriation of the amount representing the full value of export of goods or software has been reduced from twelve months to nine months from the date of export.

Units located in SEZs shall realize and repatriate full value of goods/software/services to India within a period of 12 months from the date of export. Any extension of time beyond the above stipulated period may be granted by RBI on case to case basis.

► AD Banks have been permitted by the RBI to allow exporters with three year satisfactory track record to receive long term export advances for maximum tenor of 10 years subject to specific conditions.

Miscellaneous

► RBI has delegated the powers of compounding to Regional Offices of the RBI where the registered office of the company is situated, in the following contraventions:

► Delay in reporting inward remittance received for issue of shares.
► Delay in filing form FC-GPR after issue of shares.
► Delay in issue of shares/refund of share application money beyond 180 days, mode of receipt of funds.
► Violation of pricing guidelines for issue of shares.
► Issue of ineligible instruments such as non-convertible debentures, partly paid shares, shares with optionality clause.
► Issue of shares without approval of RBI or Government, wherever required.

► AD banks have been delegated the power to allow pledge of shares held by non-resident investors, in favour of NBFCs – whether listed or not, to secure credit facilities extended to resident investee company for bona-fide business purposes/operations, subject to compliance with certain conditions.

► With a view to reduce the timeline for closure of LO/BO/PO, AD Category-I banks have been delegated the powers relating to transfer of assets of LO/BO/PO to any other entity at the time of closure subject to compliance with certain conditions.

► Residents travelling abroad as well as non-residents visiting India (except citizens of Pakistan and Bangladesh and also other travellers coming from and going to Pakistan and Bangladesh) India have been permitted to take out Indian currency notes up to INR 25,000 while leaving the country.

Securities law and regulations

Corporate governance norms

► Companies Act, 2013 specifies the minimum governance standards applicable to all companies. With this perspective, SEBI has also announced amendments to the listing agreement for corporate governance. Amendments are essentially towards aligning requirement for listed companies with that of the Companies Act, 2013 and raising the bar for certain governance areas, which require higher disclosures, given the public shareholding. The amendments shall be made applicable to all listed companies with effect from 1 October 2014.

► SEBI has indicated a move towards increased transparency and certain restrictions in the following key areas:

► Board constitution, roles and responsibilities as also conducting Board Matters.

► Independent directors.

► Approval and disclosure of related party transactions.
Formation of committees such as nomination and remuneration committee and stakeholders relationship committee.

**Options and pre-emptive rights permitted**

SEBI has now permitted pre-emption rights (including right of first refusal, tag along, drag along rights, put-call options) for purchase of securities of a public company, through an amendment to SCRA. Similar rights have also been given legal sanctity under corporate laws by Companies Act, 2013.

The arrangements mentioned above have been permitted in SCRA subject to certain conditions, including:

- Actual delivery of securities.
- One year holding period.
- Compliance with applicable regulations for pricing.

**Delisting regulations**

In May 2014, SEBI released a discussion paper to review the existing delisting regulations in India. The key aspects mentioned in the discussion paper include:

- Shareholding threshold to be fixed at 90% for all companies.
- Simplifying and correcting certain inherent weaknesses in the reverse book building process which make delisting difficult.
- Reducing timelines by removing certain approval processes.
- Enhancing participation by allowing Depository Receipt holders to tender their shares.
- Restricting trading during last phase of reverse book building.
Crowdfunding

► In June 2014, SEBI has come up with a consultation paper proposing norms for ‘crowdfunding’ or collection funds through web-based platforms and social networking sites – a move that would help start-up companies raise capital.


► The draft SEBI REIT guidelines were released by SEBI in October 2013 and invited public comments. A REIT is an investment vehicle that puts money into real estate assets to generate income (Discussed under the heading Real Estate).

Financial services

FPIs

► With an aim to rationalise foreign investments made into India by portfolio investors such as FIIs and QFIs, SEBI has notified the FPI Regulations to be effective from 1 June 2014. With the notification of the FPI Regulations, the SEBI (FII) Regulations, 1995 stand repealed. The key features of the FPI Regulations are as follows:

► Registration as a FPI can be obtained in one of the three categories specified by the SEBI.

► Existing QFIs may continue to buy, sell or deal in securities till 6 January 2015 or until they obtain a certificate of registration, whichever is earlier.

► An existing FII shall be deemed to be a FPI till the expiry of three years for which fees have been paid under the FII Regulations, subsequent to which it shall seek registration as a FPI.

► Registration to FPIs shall be granted by DDPs and not the SEBI.

► Investment in equity shares of a company by a single FPI or investor group to be below 10% of the issued capital of the company.

► FPIs are permitted to issue, subscribe or deal in ODIs where the same is issued to persons regulated outside
India. However, Category III FPIs and unregulated broad based funds (classified as Category II FPIs by virtue of their investment manager being appropriately regulated) are not permitted to issue, subscribe or deal in ODIs.

► FPIs have been permitted to invest in the currency derivatives segment of stock exchanges (subject to certain terms and conditions) and non-convertible/redeemable preference shares or debentures issued by an Indian company which are listed on a recognized stock exchange in India. Further, a condition of minimum residual maturity of one year in respect of investments made by FPIs in government securities has been introduced.

► The debt limits for investments to be made by certain foreign investors including FIIs and QFIs (now to be collectively read as FPIs) have been rationalized as follows:

► The sub-limits for investment in Government Securities (including treasury bills) and Government Dated Securities have been merged into a single broad category of Government Debt with an overall limit of USD 30 billion. However, investment limit for FIIs other than Sovereign Wealth Funds, Multilateral Agencies, Endowment Funds, Insurance Funds, Pension Funds and Foreign Central Banks is capped at USD 20 billion.

► FIIs/QFIs shall no longer be permitted to invest in treasury bills. Existing investments in treasury bills shall be allowed to taper off on maturity/sale.

► The sub-limits for investment in various corporate debt instruments (such as listed NCDs, bonds, commercial paper, units of debt schemes of mutual funds, units/bonds of IDF) by various investors have been merged into a single broad category of “Corporate Debt” with an overall limit of USD 51 billion. However, investment in commercial papers is restricted upto USD 2 billion within the overall limit of USD 51 billion.

► The auction mechanism prevailing for allocating debt limit has been replaced by the ‘on the tap system’ that applied for infrastructure bonds.

► FIIs can invest in corporate and government debt without purchasing debt limits till the overall investment reaches 90%, subsequent to which the
auction mechanism would be initiated for allocating the remaining limits.

► Reinvestment facility and restrictions on reinvestment do not apply in respect of limits held/investments made in the corporate and government debt category, till the limits are available on tap.

Banking

► With the intent of improving access to banking services and extending the geographic coverage of banks, the RBI has issued guidelines on ‘Licensing of New Banks in the Private Sector’ and invited applications from entities in private sector, public sector and NBFCs for setting up of new banks. The guidelines, inter alia, provide for the procedure to obtain approval, eligibility criteria, capital structure, minimum capital requirements and corporate governance. Till date, the RBI has granted two preliminary licenses to set-up new banks in India.

► The RBI has released the framework for setting up of a WOS by foreign banks in India. The key features of the guidelines are as follows:

► Banks with complex structures, banks that do not provide adequate disclosures in their home jurisdiction, banks that are not widely held, banks from jurisdictions having a legislation giving a preferential claim to deposits of home country in winding up proceedings, etc. would be mandated entry into India in WOS mode.

► Existing foreign banks that have set-up operations in India after August 2010 or new foreign banks planning to enter the India market will have to convert/operate under the WOS mode where any of the above conditions are met.

► A foreign bank opting for a branch form of presence shall convert into a WOS as and when the above conditions become applicable to it or it becomes systemically important on account of its balance sheet size in India.

► WOS may, at its option, dilute the stake to 74% or less in accordance with the existing FDI policy. In the event of dilution, they will have to list themselves on a stock exchange.
The RBI has indicated in the bi-monthly monetary policy statement of financial year 2014-15 that an overhaul of the extant regulatory framework for NBFCs is underway to align it with several important developments which have taken place in the financial sector. Further, the RBI has indicated that issuance of a Certificate of Registration for conducting NBFC business, except in the public interest, will be kept in abeyance till an appropriate regulatory framework is put in place for the NBFC sector.

To enable the RBI to ensure that the “fit and proper” character of the management of NBFCs (deposit or non-deposit accepting), is continuously maintained, it has been prescribed that any change in control/ownership/management of an NBFC will require prior approval of the RBI. Further, the RBI has indicated a timeline of 30 days for approving/rejecting any change in control/ownership/management of a NBFC.

While guidelines existed for NBFCs to venture into the insurance business, the RBI has issued a separate set of guidelines for entry of CICs into the insurance business wherein it is clarified that CICs cannot undertake insurance agency business.

The RBI has prescribed the following prudential measures for NBFC’s lending against gold:

- Maintain a “Loan-to-Value” ratio not exceeding 75% for loans granted against gold jewellery.
- Ownership of the gold jewellery to be verified and adequate steps to be taken to ensure that KYC guidelines stipulated by RBI are followed to verify due diligence of the customer; appropriate documents to be kept as evidence.
- Methodology has been prescribed for arriving at the value of gold jewellery accepted as collateral.
- Auction process laid down for auctioning of pledged gold jewellery which includes manner of determining reserve price, place of conducting the auction, disclosure in the annual reports, the details of the auctions conducted.
No new branches will be allowed to be opened without suitable facilities for storage and security of pledged gold jewellery.

A NBFC is required to obtain prior approval of the RBI to open more than 1,000 branches. Where a NBFC already has more than 1,000 branches, prior approval of the RBI is required for further expansion.

**Mutual funds**

The SEBI has amended the SEBI (Mutual Funds) Regulations, 1996 with respect to the following:

- FPIs having a long-term view such as foreign central banks, government agencies, sovereign wealth funds, international/multilateral organisations, insurance funds, pension funds and systematically important NBFCs registered with the RBI are included within the meaning of the term “strategic investors” i.e. investors who provide a firm commitment of INR 0.25 billion before the allotment of units of the scheme are marketed to other potential investors.

- IDF schemes may be offered through private placement to less than 50 persons, subject to filing of the private placement memorandum with the SEBI and payment of prescribed fees.

- Where the permissible investments for an IDF are not available, it may invest its funds in bonds of Public Financial Institutions and Infrastructure Finance Companies.

- An IDF scheme is permitted to invest in any asset or securities owned by the sponsor or the asset management company or their associates upto 30% of the net assets of the scheme subject to fulfillment of certain conditions.

In order to ensure adequate corpus in debt oriented schemes, in the interest of investors, the SEBI has prescribed the following:

- Minimum subscription amount of debt oriented and balanced schemes at the time of a New Fund Offer shall be at least INR 0.20 billion and for other schemes shall be INR 0.10 billion.
► An average Asset under Management of INR 0.20 billion is to be maintained in all open ended debt funds on a half yearly rolling basis. Existing funds have been given a timeline of one year to comply with the requirement mentioned above.

► The SEBI has framed a long term policy for mutual funds in India which, inter alia, includes enhancing the reach of mutual fund products, promoting financial inclusion and increasing transparency.

Others

► The SEBI has amended the AIF Regulations to provide for granting of registration to angel fund as Category I AIFs. Further, the amended AIF Regulations prescribe conditions with respect to investment in/by Angel Funds, obligations of Sponsors and Managers of an Angel Fund, etc.

► The SEBI has amended the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992, to provide for granting registration to a trading member or proprietary trading member or clearing member or self-clearing member of a debt segment of a stock exchange. The amendment provides for the procedure for obtaining registration, conditions to be met prior to seeking registration (i.e. necessary infrastructure facilities, net worth requirements, etc), code of conduct and other requirements.

Insurance

► In addition to the existing IRDA (Protection of Policyholders’ Interest) Regulations, 2002, IRDA issued the IRDA (Standard Proposal Form for Life Insurance) Regulations, 2013 (effective from 1 April 2014) with an objective of prescribing a framework where insurers and intermediaries employ reasonable measures to undertake a suitability analysis prior to recommending a product to the customer.

► The IRDA issued the IRDA (Health Insurance) Regulations, 2013 (effective from 16 February 2013) which seek to address issues like lifelong renewals, special provisions for senior citizens, transparency in premium and claims based loading as well as excluding the role of third party administrators for claims settlement and rejections.
The IRDA issued the IRDA (Non-Linked Insurance Products) Regulations, 2013 and the IRDA (Linked Insurance Products) Regulations, 2013 made effective from 1 July 2013 and 1 October 2013 for group and individual products respectively and necessitated insurers to refile several existing products. The regulations have, inter-alia, provided that non-linked variable insurance products (index-linked products) are to be treated at par with unit linked products.

The IRDA has prescribed guidelines for opening of foreign insurance companies (including branch office) outside India by an Indian insurance company registered with IRDA.

The IRDA has permitted insurers to invest in Category I and Category II AIFs. Investment in Category I AIFs should be restricted to infrastructure, SME, venture capital and social venture funds as defined under the AIF Regulations. Further, insurers may invest in Category II AIF where at least 51% of the funds of such AIF shall be invested in either infrastructure entities, SME, venture capital and social venture funds.

Consequent to a committee formed by the IRDA to review the existing insurance broker regulations, existing practice, remuneration and other matters relating to insurance brokers, IRDA issued the IRDA (Insurance Brokers) Regulations, 2013, effective from 3 December 2013 which replaces the IRDA (Insurance Brokers) Regulations, 2002. The IRDA has introduced the concept of distance marketing, solicitation, telecaller and telemarketer in the scope of these Regulations which requires selling of insurance online over the portals.

The IRDA (Web Aggregator) Regulations, 2013 simultaneously issued in this regard, prescribe the eligibility criteria, capital requirements, duties and functions, etc. for web aggregators who shall assimilate information on insurance products and display them to customers through their websites.
Information technology

Update on M-SIPS in ESDM sector

► To promote large scale manufacturing and attract domestic and global investments in the ESDM sector in India, the Government introduced the M-SIPS vide Notification no. 175 dated 27 July 2012.

Pursuant to the notification, DEITY came out with guidelines for notifying Brownfield clusters under M-SIPS scheme vide notification dated 14 January 2013. Thereafter 7 notifications were issued between 21 March 2013 and 19 June 2014 by DEITY notifying a total of 15 states (divided into 51 clusters) in India namely Andhra Pradesh, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Puducherry, Punjab, Rajasthan, Tamil Nadu, Uttarakhand, Uttar Pradesh and West Bengal.

National Cyber Security Policy 2013

► DEITY has approved the National Cyber Security Policy for protection of information infrastructure and preservation of integrity of cyber space. The policy provides an overview of what it takes to effectively protect information, information systems and networks. The following strategies have been formulated:

► Establishment of secured cyber eco-system, by designating a National Nodal Agency to co-ordinate on all matters and establishing an assurance framework to promote adoption of global best practices.

► Encouraging open standards to facilitate interoperability and data exchange among different products or services by creating mechanisms for security threat and vulnerability management.

► Ensuring secured e-governance services by ensuring wider usage of Public Key Infrastructure and creating a 24x7 National Level Computer Emergency Response Team.
Promoting effective PPPs by creating collaborations and engagement with all relevant stakeholder.

National policy on Universal Electronic Accessibility

The Government approved the National policy on Universal Electronic Accessibility to eliminate discrimination on the basis of disabilities as well as to facilitate equal access to electronics and ICTs.

Terms and Conditions governing Grant-in-aid for funding R&D Projects

DEITY has issued guidelines which apply to the institutions who receive grant-in-aid from DEITY for undertaking R&D projects.

The terms specify the general restrictions on utilization of funds including monitoring of project by DEITY and conditions have been laid down on acquisition and management of assets related to the project. The guidelines also specify the conditions for managing IPRs and related technology transfer and licensing of IPRs.

Further, the institutions are permitted to retain the benefits and earnings received from such licensing/technology transfer to pursue research in related areas. The aforesaid guidelines for managing IPRs and technology transfer are not applicable for R&D projects of strategic application or projects jointly funded by/for strategic departments like defence, space and atomic research.

Telecommunications

FDI limits in companies engaged in various telecommunication services were revised in August 2013. The same have been discussed under the heading on Foreign Investment Policy.

DoT has drawn up a plan to boost investor confidence in the country’s telecom sector, comprising of the following:
► Take decision on inter-circle MNP to enable mobile users to retain their number even if they move to another operating area.

► Prepare roadmap for auction of spectrum in the 700 MHz, 800MHz, 900MHz and 1800MHz bands and review spectrum sharing.

► In June 2014, a high-powered panel was set up by TRAI to recommend allowing more than two operators to pool in and share both 2G as well as 3G airwaves in a circle.

► DoT is expected to finalise a National Broadband Policy that would treat high-speed Internet access as a basic right.

► In May 2014, TRAI issued its recommendations on the “Definition of AGR in License Agreements for provision of Internet Services and minimum presumptive AGR”. Key features are as follows:

► Uniform license fee of 8% of AGR for all ISP licenses.

► Minimum presumptive AGR for the purpose of license fee, shall be applicable on the existing ISPs holding BWA spectrum.

► In January 2014, TRAI finalized its recommendations on “Working Guidelines on Spectrum Trading”. The salient features include:

► Only outright transfer of spectrum permitted; spectrum leasing not permitted.

► Spectrum trading not to alter the original validity period of spectrum assignment.

► Spectrum trading permitted only on a pan-LSA basis.

► No permission required from Licensor/Government for spectrum trading; only intimation required 6 weeks prior to the effective date of trade.

► All spectrum bands earmarked for Access Services by the Licensor to be treated as tradable. Only CMTS, UASL, UL (AS) and UL licenses to be eligible to participate in spectrum trading.

► TSP not permitted to trade any spectrum in the spectrum band in which it has acquired any spectrum through trading (or auction) for a period of 2 years.
from the effective date of transfer of spectrum/assignment.

► M&A guidelines for the telecom sector were cleared on 3 December 2013 and are awaiting Union Cabinet approval. Key features of the guidelines are as follows:

► Market share of a merged entity not to exceed 50% in each circle. If it does, firms will have to bring it down to below 50% in a year.

► If an acquired firm has got spectrum at an administrative price, its acquirer will pay for its spectrum. Price to be the gap between market and administrative prices.

► The three year period for which transfer of equity is barred to continue.

► On 2 August 2013, DoT notified the Guidelines for UL regime in India. Key features are as follows:

► Spectrum has been de-linked from licenses.

► No cross holdings permitted in the same telecom circle.

► Minimum paid up equity capital and net worth to be maintained.

► Annual License Fee of 8% of AGR, subject to a minimum of 10% of the Entry Fee from second year.

► New UL will be valid for 20 years; can be renewed for another 10 years.

► The initial UL regime mandated operators to migrate all their telecom licenses to the new regime on expiry of any one of their license. Accepting the industry demand, DoT has removed this condition.

► According to the green telecom policy, the DoT plans that mobile operators should migrate all cell towers to hybrid power (i.e. mix of grid and renewable energy supplies) by 2015.
Real estate

REIT

SEBI has issued draft REIT Regulations. The salient features of draft regulations are as follows:

► REIT will be set up as a trust.

► REIT should invest its 90% of the assets in completed revenue generating properties and remaining 10% in other specified assets.

► REIT units will now be mandatorily listed on the stock exchange. A REIT must hold assets not less than INR 1,000 crore.

► The income source for REITs mainly comprises regular lease rentals and asset sale proceeds.

► REITs are mandatorily required to distribute 90% of their net income to investors every year.

► REITs are required to publish the fair value of assets and net present values of schemes in accordance with prescribed norms and at prescribed intervals.

Real Estate Regulation and Development Bill, 2013

► The Real Estate Regulation and Development Bill, 2013 has its objective as ensuring consumer protection and standardization in business practices and transactions in the real estate sector.

► Developers will have to register their projects with a real estate regulatory authority, without which sale, booking or even offer to sell is not permissible. Promoters will have to disclose standard details of the project, along with names of brokers who would represent the project. Developers will sell the project only after all necessary approvals are in place and the project has been registered with the authority.
Land acquisition, Rehabilitation and Resettlement Act, 2013

- Land acquisition, Rehabilitation and Resettlement Act, 2013 has replaced the Land Acquisition Act, 1894.
- It tries to lay down a transparent process for land acquisition for industrialization, development of essential infrastructural facilities and urbanization by giving adequate financial compensation to the affected people.
- It also provides for leasing of land to developers, instead of sale, so that the ownership will remain with the original land holders and they can also have a regular income by way of lease rent; the terms of lease to be laid down by the State Government according to type of land, location, market rates, etc.
- It enunciates the issues relating to acquisition, award, compensation and rehabilitation and also curtails the discretionary powers of the District Magistrates.
- It calls for taking the consent of 80% of land owners for acquiring land for private projects and of 70% landowners for public-private projects.

Retail and consumer products

- The DIPP has issued Press Note 5 (2013 Series) and 6 (2013 Series) dated 22 August 2013 liberalizing the conditions regulating FDI in MBRT and SBRT respectively. (Discussed under the heading on Foreign Investment Policy.)

Media

Broadcasting

Digitization of TV broadcasting

- In Phase 1 and Phase 2 of the cable TV digitization process, the 4 metro cities and 38 other key cities got digitized by March 2013.
The Government has set the deadline for Phase 3 of digitization by 30 September 2014 and Phase 4 by 31 December 2014 to achieve pan India digitization of TV broadcasting.

Telecommunication (Broadcasting and Cable Services) Interconnection (Seventh Amendment) Regulation, 2014

This regulation streamlines the distribution of TV channels. Now only broadcasters can publish RIO and execute interconnection agreements with DPO.

Where an aggregator will be deployed for executing contracts with DPO, the aggregator will now be required to act as an agent of the broadcaster.

The broadcaster is obligated to ensure that the aggregator does not alter the channel bouquet offered in the RIO. Also, the aggregator cannot bundle the bouquet of channels of a broadcaster unless they belong to the same group.

While there is no clarity on the definition of “group”, more than 50% direct/indirect ownership is being widely followed.

Standards of Quality of Service (Duration of Advertisements in Television Channels) (Amendment) Regulations, 2013

This regulation imposed a ceiling limit of 12 minutes per clock hour on advertisements in a broadcast in March 2013.

The News Broadcast Authority resented and appealed against this regulation to the Delhi High Court. In March 2014, the Delhi High Court passed an interim order to continue the stay on this regulation.

Radio

Phase III of FM radio expansion

The deadline for migration of existing private FM radio operators to Phase III through the Grant of Permission Agreement has been extended till 31 March 2015.

MIB’s permission is anticipated for broadcast of news by private FM radio operators based on the in-principle
approval given by the Information and Broadcast Minister in July 2014.

Filmed entertainment

► India and Canada have executed an Audiovisual Coproduction Agreement on 24 February 2014.

Gaming and Animation

► The Government of Andhra Pradesh has issued a Gaming, Animation, Media and Entertainment policy for the period 2014 to 2019.

► The policy aims to promote this business vertical by providing infrastructure, fiscal and talent development incentives.

Health sciences

Drugs

► The Department of Pharmaceuticals notified the Drug (Prices Control) Order 2013 which empowers the National Pharmaceutical Pricing Authority to regulate prices of 348 essential drugs listed in the National List of Essential Medicines. Further, the Government has formed a panel to consider adding more drugs to the list of Essential Medicines.

► The Government introduced the Drugs and Cosmetics (Amendment) Bill, 2013 that provides for setting up of Central Drugs Authority for regulation of drugs and cosmetics, seeks to bring 17 critical drugs under central licensing, provide regulatory provisions for medical devices and for regulating clinical trials and export of drugs and cosmetics.

► The Government introduced new Schedule H1 which covers list of 46 drugs. The packaging of Schedule H1 drugs shall be labelled with symbol Rx in red, conspicuously displayed on the left top corner of the label and shall carry a warning with a red border. The supply of drugs shall be recorded in a separate register with prescribed details which shall be maintained for a period of three years.

► On 30 October 2013, the Government renewed the Pharmaceuticals Purchase Policy in 103 medicines for a period of 5 years which would govern drug purchases by
Central Government departments, entities including Public Sector Undertakings and State Governments under the Central-funded health schemes.

► The Government has notified draft rules on phyto-pharmaceuticals that will form the basis for a regulatory system to evaluate and get approvals of plant based drugs. The norms provide details to be submitted along with the application to conduct a clinical trial or import or manufacture of a phyto-pharmaceutical drug.

► The Government has issued a notification to regulate and restrict the manufacture, sale and distribution of oxytocin to prevent its misuse in public interest.

► The Government has issued a guidance document for regulatory approvals of stem cell and cell based products. The rules and regulations will apply to all organizations such as hospitals, private clinics, institutes, universities, tissue banks and companies who wish to obtain a license for the use of stem cell and cell based products for therapeutic purposes in India.

► The Narcotic Drugs and Psychotropic Substances (Amendment) Act, 2014 has been notified to simplify the licensing for storage of pain relief medicines such as morphine.

Clinical trials

► The Government has amended the Drugs and Cosmetics Act to include new norms for regulation and ethical supervision of clinical trials. Three committees (New Drug Advisory Committee, Technical committee and Apex committee) have been constituted to clear clinical trials.

► The Drug Controller General (India) has made it mandatory for organizations conducting drug trials to carry out intensive audio and video recording of the informed consent process of each trial subject.

Others

► The Government has issued notification to ban testing of cosmetics on animals. In June 2014, the Government also issued a draft proposal to ban import of cosmetics tested on animals which is open for comments from stakeholders for a period of 45 days.
The Government has allocated INR 100 crore for surveillance monitoring of drugs, blood, blood products, biologicals and medical devices.

The Department of Pharmaceutical seeks to implement Cluster Development Program for the pharma sector which will enhance quality, productivity and innovative capabilities of SME.

Infrastructure and transportation

Railways

Proposal for allowing FDI in Indian Rail sector to foster creation of world class rail infrastructure is under consideration.

Investment in Railways is being stepped up by partnership with the private sector. PPP projects are being promoted in relation to rolling stock manufacturing units, modernisation of railway stations, multi-functional complexes, logistics parks, private freight terminal, freight train operations, liberalised wagon investment schemes, and Dedicated Freight Corridors.

Approval has been granted for setting up of a Rail Tariff Authority, as an advisory body, for institutionalizing a regulatory mechanism at arm’s length for pricing of passenger and freight services.

In relation to development of High Speed Rail corridors, India and Japan have signed a memorandum of understanding to undertake joint feasibility study of High Speed Railway system on the Mumbai-Ahmedabad route with speed of 300-350 kmph.

Roadways

The Government is consistently making efforts with the stakeholders and financial institutions to infuse greater fund flow in the highway projects. In this regard, the RBI has given dispensation to treat the debt due to lenders, to the extent assured by project authorities in terms of concession agreement, as secured loan.
The CCEA approved the proposal to facilitate substitution of Concessionaire in ongoing and completed National Highway Projects. Existing Concessionaires both in case of completed and on-going projects are now permitted to divest their equity in totality which would bring flexibility for existing Concessionaires in terms of exit options.

In order to expand the NH network, the Ministry for Road Transport and Highways will consider proposals for declaration of State roads as National Highways. Once a stretch is declared as NH, development is carried as per the NH specification stipulated by Indian Roads Congress. For the same, Ministry has devised an eleven point criterion laying down the parameters for declaration of State roads as NH (based on comments of Planning Commission).

NHAI had approved deferment of premium in connection with certain selected projects which would give comfort to the lenders in terms of debt obligation being given priority over the premium payable to NHAI. NHAI would recover the deferred premium with interest in the latter period of the concession.

The nodal agency for road sector, NHAI has proposed to place all information relating to projects taken up by them under PPP in the public domain to bring transparency. Details are given about all stages of the project development like construction, operation and maintenance. Information for the each project will include name of the Concessionaire, Independent Engineer and Safety Consultant, Project location details and location of toll plaza.

Civil aviation

The Ministry of Civil Aviation has formulated a draft Civil Aviation Authority Bill in February 2013. The Bill provides for setting up of a CAA to replace DGCA as the civil aviation safety regulator in India. CAA shall be responsible for administration and regulation of civil aviation safety, environmental regulation, licensing, international coordination, advising the government and industry development. It will also be responsible for protection of consumer interests and training of civil aviation personnel including its own staff. The Bill is yet to be passed by both houses of Parliament.
Airline companies in India were permitted to avail ECB for working capital purposes and refinancing of outstanding working capital rupee loans availed from domestic banks under the approval route vide AP DIR no. 113 dated 24 April 2012. The scheme was first extended till 31 December 2013. Thereafter, RBI has issued a circular, further extending the said scheme upto 31 March 2015.

In January 2014, RBI revised the ECB policy to include MRO operations as part of airport infrastructure. Prior to this, MRO being a service sector was not allowed to raise foreign borrowings except with specific approval from the RBI.

**Power**

The Ministry of Power has formulated Model State Electricity Distribution Management Responsibility Bill, 2013 to provide for responsibilities of the State Government to ensure financial and operational turn around and long term sustainability of the state owned distribution licensee.

The CCEA has approved the following amendments in the Mega Power Policy 2009 for Provisional Mega Power Projects:

- To avail the benefits under this policy, the developer must tie up at least 65% of installed capacity/net capacity through competitive bidding and up to 35% of installed capacity/net capacity under regulated tariff as per specific host State policy, as the case may be, approved by the respective Regulators under long term PPAs with Discos/State designated Agency. This dispensation would be one time and limited for specified projects which are located in the States having mandatory host State power tie up policy of PPAs under regulated tariff.

- Extend the maximum time period to 60 months instead of 36 months from the date of import for provisional Mega projects (for specified projects), for furnishing final mega certificates to tax authorities.

The Union Cabinet has approved the proposal of the Ministry of Power for operationalization of PSDF and the scheme formulated for utilization of funds deposited therein based on the procedure laid down in the CERC
Power System Development Fund Regulations. The PSDF will be utilized for specified purposes.

The Ministry of Power has formulated draft guidelines for LADF in respect of Central Sector Hydroelectric Projects.

Shipping

Government awarded 30 port projects for enhancing capacity by 217.57 mtpa with an investment of INR 200 billion in 2013-14. Five key projects approved under PPP included - four container terminals - one each in the major ports of Kandla, Jawaharlal Nehru Port Trust, Ennore and Kolkata and one multi-purpose cargo berth project in Mumbai Port, entailing investment of INR 17.6 billion. The container projects will double the container handling capacity to 11.6 million TEU.

Government sanctioned new policy guidelines for land use at major ports that would help in expediting the port development projects that involve leasing or licensing of land. The policy aims to optimize the land value through a “tender-cum-auction” and is expected to give a fillip to major ports by helping them attract more business and make optimum use of their land resources.

Government introduced new guidelines for determination of tariff for major port projects which is expected to increase investment flow in the port sector.

To boost inland shipping, Ministry of Shipping in May 2014 relaxed the baseline for inland vessels that now allows them to move deeper into the sea.

The DGoS amended the guidelines which dictate the conditions for exercising the RoFR when chartering vessels through the tender process. Under the amended guidelines, a new category “Indian built Indian flag vessels” has been introduced and granted the highest priority in exercising RoFR.

Government approved the development of major ports at Dugarajapatnam in Andhra Pradesh (to be completed by 2018 with an investment cost of INR 4 billion in the first phase) and Sagar Island in West Bengal (to be completed by 2020 with an approximate investment of INR 7.8 billion in the first phase) through PPP mode. It is also mulling establishing a Greenfield port at Tadadi in Karnataka.
Special Economic Zones

In order to revive investors interest in SEZ, pursuant to the announcements made by the Commerce and Industry Minister, the SEZ Rules, 2006 have been amended vide notification dated 12 August 2013.

► **Definition of "sector" expanded:** The definition of sector has been expanded to include products or services similar or compatible with each other including related ancillary services and R&D services of the sector and additional combination of products and services of a similar or compatible nature as approved by the Board of Approvals.

► **Permitting more than one sector to be added to existing SEZs in a graded manner:** Existing SEZs have been permitted to add an additional sector for every contiguous 50 hectare land.

► **Reduction in land area requirement for multi-product and sector specific SEZs:** Area required to develop SEZ in various sectors have been reduced as follows:

  ► Multi Product SEZ - 500 Hectares (reduced from existing 1,000 Hectares).

  ► Sector specific SEZ - 50 Hectares (reduced from existing 100 Hectares).

  ► Electronic Hardware and Software (including ITeS) - 10 hectares along with requirement for minimum built-up area as applicable for IT/ITeS SEZs.

  ► IT/ITeS SEZ - No minimum land area requirement (reduced from existing 10 Hectares). However requirement of minimum built up area of 100,000 sq. mt in Class A cities, 50,000 sq mt for Class B cities 25,000 sq mt for other cities applicable.

► **Addition of vacant structure to existing SEZs:** Additions of pre-existing vacant structures allowed to be made to existing SEZs; however fiscal benefits would only be available for new infrastructure created in the SEZ. Authorised operations being carried out in such infrastructure shall be eligible for benefits as provided for under the SEZ Legislation.

► **Exit of Units - Transfer of Assets:** Sale of SEZ Unit (by way of transfer of ownership including transfer of assets and
liabilities) allowed, subject to specified conditions on transferor/transferee SEZ Unit as follows:

► Transferor has held valid Letter of Authority and Registered lease deed of land for not less than a period of 5 years on date of transfer.

► SEZ Unit has been operational for at least 2 years (after commencement of operations) as on date of transfer.

► Sale is subject to approval of Unit Approval Committee.

► Transferee fulfils all eligibility criteria as applicable to a unit.

► Export obligations and applicable duties and liabilities under Rule 74 (computed on exit of SEZ Unit) shall stand transferred to the transferee unit which shall be liable to discharge the same.

TARC

► Government set up TARC in August 2013 under the chairmanship of Dr. Parthasarthi Shome to study Indian tax administration operations and revenue collection functions, identify key improvement areas and provide recommendations on tax administration reforms.

The Committee presented its first report dated 30 May 2014 to the Finance Minister. Committee’s recommendations were centred on designing a framework to enhance “customer focus”, lower compliance costs, effective use of information and communication technology and strengthening dispute resolution processes.

Direct Taxes Code

► DTC was introduced as a discussion draft on 12 August 2009 to present the income tax laws of India in a simplified manner replacing the ancient Income-tax Act and Wealth-tax Act. In August 2010, revised DTC 2010 was tabled in the Lok Sabha and was referred to the SCF for its review and comments. Comments of SCF were submitted to Parliament in a report dated 9 March 2012.

The Finance Minister in his interim budget speech in February 2014 announced the introduction of revised DTC
2013 for public comments. Keeping up with the promise, Government released DTC 2013 on 31 March 2014.

Indirect tax

Customs duty

- Notifications issued to further deepen/amend the tariff concessions in respect of specified goods imported under SAFTA, India - ASEAN FTA and from certain least developed countries.

  Similar notifications issued for amending tariff concessions on import of specified goods under trade agreements with Malaysia, Singapore, Korea, Japan and Myanmar.

- Pursuant to Afghanistan becoming a member nation of SAARC in 2007, Afghanistan has been included in the Rules of origin under SAFTA w.e.f. 1 March 2013.

- Relaxation for transfer of imported goods for oil exploration from one eligible project to another under essentiality certificate.

- Customs Brokers Licensing Regulations, 2013 have been introduced in place of erstwhile Customs House Agents Licensing Regulations, 2004 to rationalize the licensing norms for customs brokers.

Excise duty

- Clarification by the CBEC on certain aspects (including limitation and investigation) regarding the implementation of the Supreme Court decision in the case of FIAT India.

- Valuation mechanism prescribed under the Central Excise Valuation Rules, 2004 for captive consumption/related parties/inter-connected undertakings to be applied irrespective of whether whole or part of the clearance of manufactured goods is for captive consumption or to such party/undertaking.

- Excise duty on mobile handsets amended to 6% with CENVAT credit or 1% without CENVAT credit.

- Relief provided to automobile sector, capital and consumer goods by reduction in rate of Basic Excise duty till 31 December 2014.
Clarification that Education Cess and Secondary and Higher Education Cess to be levied only on such duties which are both levied and collected by the Department of Revenue. Education cess cannot be levied on duty/cess levied by any other Ministry/authority.

CENVAT Credit

- Changes in registration requirements for importers supplying goods to domestic manufacturers and passing on CENVAT credit of duty. Importers now required to be registered as “Importer” and issue CENVATable invoices.
- Reinstatement of previous provision (in existence prior to March 2012) that manufacturer required to pay amount equal to duty on “transaction value” (instead of “depreciated value”) on clearance of capital goods as waste or scrap.
- Mechanism for distribution of credit of input services by Input Service Distributor has been amended including amendment in the formula for pro rata distribution based on proportionate taxable turnover of a unit to the total turnover of all units.
- Refund mechanism introduced for claiming refund of unutilized CENVAT credit taken on inputs and input services by provider of services notified under the partial reverse charge mechanism.

Service tax

- Exemption from Service tax extended to services in relation to serving of food or beverages by a canteen maintained in a factory having facility of air conditioning or air heating.
- Change in policy and procedure to claim Service tax exemption for specified services received by SEZ units or developers and used for authorized operations (earlier condition for exemption based on consumption of the service within the SEZ now removed).
- Mandatory e-payment of Service tax where Service tax in excess of INR 100,000 is paid/payable, with effect from 22 November 2013.
Service tax exemption on services provided by cord blood banks by way of preservation of stem cells and other services in relation to such preservation.

Service tax exemption on activities of loading, unloading, packing and warehousing of rice.

Foreign trade policy

Various amendments under the EPCG schemes, including:

- Dual rate EPCG schemes (0%/3%) based on sectors and products eliminated and replaced by a single zero duty EPCG scheme covering all sectors, wherein export obligation would be six times the duty saved amount and would need to be fulfilled in six years.

- Spare parts are now allowed to be imported over and above the permissible limit (10% of imported capital goods) with a condition of fulfilling 100% of normal export obligation.

- Additional time of 3 years for fulfilment of export obligation may be allowed to the concerned EPCG Authorization holder, if such holder receives relief under Corporate Debt Restructuring mechanism.

- Extension in time limit up to 18 months for installation of the capital goods may be considered by the authorities.

- Duty credit scrips issued under FPS, Focus Market Scheme and Vishesh Krishi Gramin Udyog Yojana allowed to be used for payment of service tax on procurement of services.

- Entitlement under SFIS will now be computed at 10% of the net free foreign exchange earned, i.e., total free foreign exchange earned less foreign exchange spent. Earlier, entitlement was calculated based on free foreign exchange earnings only.

- 126 new products from engineering, electronics, chemicals, pharmaceuticals and textile sector added to FPS

- No authorization will be required for import of electrical energy or for sale of waste or scrap from SEZ to DTA

- Goods imported/procured against SFIS scrip can be alienated on completion of 3 years from the date of import/procurement.
► Status Holder Incentive Scheme, SFIS and Agri-Infrastructure Incentive Scrip scrips cannot be used for payment of customs duty for shortfall in export obligation in Advance Authorisation or Duty Free Import Authorization.

► Benefit under Market Linked Focus Product Scheme for export of apparel and clothing accessories to USA extended for exports from 1 April 2014.

► Online complaint resolution system relating to EDI issues established with effect from 4 June 2014.
Global tax update

When it comes to tax, businesses have negotiated steep terrain and encountered difficult footing over the last five to six years in particular, and companies have endured increasingly rapid changes to both tax policy and enforcement around the world. Tax administration without borders has evolved since 2009 as governments began taking a more global and collaborative approach to enforcement amid a fiscal environment that swung from stimulus to austerity before landing somewhere in between. Convergence of trends has created the ripest environment for tax controversy in years.

In the past years, tax has climbed to the top of the corporate agenda, and it is clear that the current focus on tax is here to stay. Every stakeholder – whether it is the public, politicians, media, nongovernmental organizations or corporations – has different viewpoints and concerns. With rapid advances in technology and ever increasing globalization, commercial models are necessarily complex and so too are the cross-border tax rules applicable to modern global businesses. The appropriate taxation of global business is an issue with technical, legal, policy, economic and fairness dimensions. This will be the challenge for all stakeholders as tax policy and laws take shape for the years ahead.

In many respects, 2013 moved toward a new phase in the history of global taxation, as a series of multinational organizations started working to reform a system that has arguably not kept up with the pace of changes in the global economy. While much work and uncertainty lies ahead, it is clear that tomorrow’s tax environment will differ meaningfully from before. What began more than a decade ago as a crackdown on tax havens has evolved into a broad debate about how and where multilateral enterprises report income and pay tax. Numerous countries have expressed concern that cross-border tax systems have simply not kept pace with how companies do business in a global economy. The world’s biggest economies – both developed and developing – have now aligned in their focus on the taxation of cross-border activity and the need for greater transparency with respect to cross-border profits and taxes. In response to G8 and G20 requests, and with inputs from its member countries, the OECD has now issued a report identifying focus areas where it intends to develop proposals to provide more tax transparency and address taxation across borders. The OECD’s Action Plan
on BEPS represents the most fundamental change to the international tax rules since the 1920s.

On 19 July 2013, the OECD issued its highly anticipated BAP. The BAP set forth 15 actions that OECD will focus on during the following two-and-half years, grouped into six target areas:

- Address concerns of the digital economy
- Establish international coherence of corporate income-tax
- Restore the full effects and benefits of international standards
- Assure that transfer pricing outcomes are in line with value creation
- Ensure transparency while promoting increased certainty and predictability
- Address the need for swift implementation

The BAP identifies the form of expected output and the target date for each of the action areas. High-level government interest in the project means that work is being done on an accelerated timetable and recommendations that come out of it will likely have strong endorsement from countries.

All recommendations for action items in the BAP are scheduled to be complete by or before the end of 2015. Significant work at the individual country level will be required to determine whether, when and how to implement any of the recommendations.

The OECD BEPS project is closely linked to international tax reform discussions in individual countries, and the project focuses on the same issues that are subject of hearings and headlines in many countries around the world.

Action 13 of the BEPS project, which addresses new approaches for transfer pricing documentation and a new requirement for CbC reporting, is an important output from the BEPS project. The OECD on 30 January 2014 issued a Discussion Draft on Transfer Pricing and CbC Reporting, which includes a draft CbC reporting template together with parameters for a master file/local file approach to transfer pricing documentation. As proposed by the OECD, the CBC template would require 17 data points on a “per legal entity” basis. The OECD is proposing to mandate a two-tier approach involving a more robust master file and local files. The OECD’s
approach involves specific requirements with respect to the breadth and detail of the global information to be included in the master file and similarly specific requirements with respect to the transactional information to be included in the local files.

OECD's BAP reflects its view of weaknesses in the international tax system. It is a call for action to review tax policies and ensure systems and processes are in place to address additional transparency requirements.

The past year has witnessed a dizzying array of initiatives by multilateral organizations, tax legislation, reforms and stepped up tax enforcement efforts in virtually every jurisdiction around the world. Tax administrators across the globe, including those in emerging market countries, are being asked to adapt their administrative processes to an increasingly complex and dynamic global business landscape in order to protect the revenue base. Key trends – international cooperation among tax authorities, tax legislation playing catch-up and tax transparency – appear to be the most critical elements that will influence tax policy and tax legislation going forward.
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<td>Authority for Advance Ruling</td>
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<td>AD</td>
<td>Authorized Dealer</td>
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<td>ADR</td>
<td>American Depository Receipt</td>
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<td>AFC</td>
<td>Asset Finance Company</td>
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<td>AGR</td>
<td>Adjusted Gross Revenue</td>
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<td>Association of Southeast Asian Nations</td>
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<td>BAP</td>
<td>BEPS Action Plan</td>
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<td>Basic Customs Duty</td>
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<td>BEPS</td>
<td>Base Erosion and Profit Shifting</td>
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<td>BO</td>
<td>Branch Office</td>
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<td>BSE</td>
<td>Bombay Stock Exchange</td>
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<td>BWA</td>
<td>Broadband Wireless Access</td>
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<td>CAA</td>
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<td>CAD</td>
<td>Current Account Deficit</td>
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<td>CAGR</td>
<td>Compounded Annual Growth Rate</td>
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<td>CbC</td>
<td>Country-by-Country</td>
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<td>CBEC</td>
<td>Central Board of Excise and Customs</td>
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<td>CCEA</td>
<td>Cabinet Committee on Economic Affairs</td>
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CECA: Comprehensive Economic Cooperation Agreement
CENVAT: Central Value Added Tax
CERC: Central Electricity Regulatory Commission
CESTAT: Custom Excise and Service Tax Appellate Tribunal
CIC: Core Investment Companies
CIT: Commissioner of Income-tax
CMTS: Cellular Mobile Telephone Services
CPI: Consumer Price Index
CST: Central Sales Tax
CTT: Commodities transaction tax
CVD: Countervailing duty
DDP: Designated Depository Participants
DDT: Dividend distribution tax
DEITY: Department of Electronics and Information Technology
DGCA: Directorate General of Civil Aviation
DGFT: Directorate General of Foreign Trade
DGoS: Directorate General of Shipping
DoT: Department of Telecommunications
DPO: Distribution Platform Operators
DTA: Domestic tariff area
DTC: Direct Taxes Code
ECB: External Commercial Borrowing
EDI: Electronic Data Interchange
EHTP: Electronic Hardware Technology Park
EOU: Export Oriented Unit
EPCG: Export Promotion Capital Goods
ESDM: Electronic System Design and Management
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<td>Foreign Institutional Investor</td>
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<td>FIPB</td>
<td>Foreign Investment Promotion Board</td>
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<td>Frequency modulation</td>
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<td>Focus Product Scheme</td>
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<td>Gross Domestic Product</td>
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<td>GDR</td>
<td>Global Depository Receipt</td>
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<td>GFATM</td>
<td>Global Fund to Fight AIDS, Tuberculosis and Malaria</td>
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<td>GST</td>
<td>Goods and Service Tax</td>
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<td>IDF</td>
<td>Infrastructure Debt Fund</td>
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<td>IMD</td>
<td>Indian Meteorological Department</td>
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<td>Income-tax Act</td>
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<td>Indian National Rupee</td>
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<td>Invit</td>
<td>Infrastructure Investment Trust</td>
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<td>Initial Public Offer</td>
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<td>Independent Power Producer</td>
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<td>IPR</td>
<td>Intellectual property rights</td>
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<td>IRDA</td>
<td>Insurance Regulatory and Development Authority</td>
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<td>ISP</td>
<td>Internet Service Provider</td>
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<td>IT</td>
<td>Information Technology</td>
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<td>Information Technology Agreement</td>
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<td>ITeS</td>
<td>IT Enabled Services</td>
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<td>JV</td>
<td>Joint venture</td>
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<td>KYC</td>
<td>Know Your Customer</td>
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<td>Local Area Development Fund</td>
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<td>LLP</td>
<td>Limited Liability Partnership</td>
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<td>Long Term Infrastructure Bond</td>
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<td>Large Taxpayer Unit</td>
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<td>MHz</td>
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<td>Overseas Direct Investment</td>
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<td>Organisation for Economic Cooperation and Development</td>
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<tr>
<td>SAARC</td>
<td>South Asian Association of Regional Cooperation</td>
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<tr>
<td>SAD</td>
<td>Special Additional Duty</td>
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<td>SAFTA</td>
<td>South Asian Free Trade Area</td>
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<td>SAR</td>
<td>Specific Absorption Rate</td>
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<td>SBRT</td>
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<td>SCF</td>
<td>Standing Committee on Finance</td>
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<td>SCRA</td>
<td>Securities Contracts (Regulation) Act, 1956</td>
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<td>SEBI</td>
<td>Securities and Exchange Board of India</td>
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<td>SFIS</td>
<td>Served From India Scheme</td>
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<td>SME</td>
<td>Small and Medium Enterprise</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>---------</td>
<td>-----------</td>
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<td>SPV</td>
<td>Special Purpose Vehicle</td>
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<td>STP</td>
<td>Software Technology Park</td>
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<td>Securitisation Trust</td>
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<td>STT</td>
<td>Securities Transaction Tax</td>
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<td>TARC</td>
<td>Tax Administration Reforms Commission</td>
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<td>TCS</td>
<td>Tax Collection at Source</td>
</tr>
<tr>
<td>TDS</td>
<td>Tax Deduction at Source</td>
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<tr>
<td>TEU</td>
<td>Twenty-foot Equivalent Unit</td>
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<td>TP</td>
<td>Transfer Pricing</td>
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<td>TRAI</td>
<td>Telecom Regulatory Authority of India</td>
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<tr>
<td>TSP</td>
<td>Telecom Service Provider</td>
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<td>UASL</td>
<td>Unified Access Service License</td>
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<tr>
<td>UL</td>
<td>Unified License</td>
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<tr>
<td>UL(AS)</td>
<td>Unified License (Access Services)</td>
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<tr>
<td>USA</td>
<td>United States of America</td>
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<tr>
<td>USD</td>
<td>United States Dollar</td>
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<td>UT</td>
<td>Union Territory</td>
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<td>VCC</td>
<td>Venture Capital Company</td>
</tr>
<tr>
<td>VCF</td>
<td>Venture Capital Fund</td>
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<tr>
<td>Wealth-tax Act</td>
<td>Wealth-tax Act, 1957</td>
</tr>
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<td>WOS</td>
<td>Wholly owned subsidiary</td>
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<tr>
<td>WPI</td>
<td>Wholesale price index</td>
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</table>
# Compliance calendar for the period
# 1 July 2014 to 31 March 2015

<table>
<thead>
<tr>
<th>Date of compliance</th>
<th>Particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>JULY 2014</strong></td>
<td></td>
</tr>
<tr>
<td>5th</td>
<td>Payment of excise and service tax liability for the month of June 2014 (other than e-payment)</td>
</tr>
<tr>
<td>6th</td>
<td>E-payment of excise and service tax liability for the month of June 2014</td>
</tr>
<tr>
<td>7th</td>
<td>Payment of taxes withheld in June 2014</td>
</tr>
<tr>
<td>10th</td>
<td>Filing of excise return for the month of June 2014</td>
</tr>
<tr>
<td>15th</td>
<td>Electronically file quarterly (April to June) withholding tax returns</td>
</tr>
<tr>
<td>30th</td>
<td>Due date for issue of quarterly (April to June) TDS/TCS certificate in respect of withholding for payments other than salary</td>
</tr>
<tr>
<td>31st</td>
<td>Income tax and wealth tax return for individual and non-corporates (who are not subject to tax audit), for financial year 2013-14</td>
</tr>
<tr>
<td><strong>AUGUST 2014</strong></td>
<td></td>
</tr>
<tr>
<td>5th</td>
<td>Payment of excise and service tax liability for the month of July 2014 (other than e-payment)</td>
</tr>
<tr>
<td>6th</td>
<td>E-payment of excise and service tax liability for the month of July 2014</td>
</tr>
<tr>
<td>7th</td>
<td>Payment of taxes withheld in July 2014</td>
</tr>
<tr>
<td>10th</td>
<td>Filing of excise return for the month of July 2014</td>
</tr>
<tr>
<td><strong>SEPTEMBER 2014</strong></td>
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<tr>
<td>5th</td>
<td>Payment of excise and service tax liability for the month of August 2014 (other than e-payment)</td>
</tr>
<tr>
<td>6th</td>
<td>E-payment of excise and service tax liability for the month of August 2014</td>
</tr>
<tr>
<td>7th</td>
<td>Payment of taxes withheld in August 2014</td>
</tr>
<tr>
<td>10th</td>
<td>Filing of excise return for the month of August 2014</td>
</tr>
<tr>
<td>15th</td>
<td>Payment of advance tax (not less than 45% of the estimated tax for financial year 2014-15)</td>
</tr>
<tr>
<td>30th</td>
<td>Income tax and wealth tax return for non-corporates (who are subject to tax audit), for financial year 2013-14</td>
</tr>
<tr>
<td>30th</td>
<td>Income tax and wealth tax return for corporates (non-transfer pricing cases), for financial year 2013-14</td>
</tr>
<tr>
<td>Date of compliance</td>
<td>Particulars</td>
</tr>
<tr>
<td>--------------------</td>
<td>-------------</td>
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<tr>
<td><strong>OCTOBER 2014</strong></td>
<td></td>
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<tr>
<td>5th</td>
<td>Payment of excise and service tax liability for the month of September 2014 (other than e-payment)</td>
</tr>
<tr>
<td>6th</td>
<td>E-payment of excise and service tax liability for the month of September 2014</td>
</tr>
<tr>
<td>7th</td>
<td>Payment of taxes withheld in September 2014</td>
</tr>
<tr>
<td>10th</td>
<td>Filing of excise return for the month of September 2014</td>
</tr>
<tr>
<td>15th</td>
<td>Electronically file quarterly (July to Sept) withholding tax returns</td>
</tr>
<tr>
<td>25th</td>
<td>Filing of Service tax return for the period 1 April 2014 to 30 September 2014</td>
</tr>
<tr>
<td>30th</td>
<td>Issue of quarterly (July to Sept) TDS/TCS certificate in respect of withholding on payments other than salary in Form 16A/27D</td>
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<tr>
<td><strong>NOVEMBER 2014</strong></td>
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</tr>
<tr>
<td>5th</td>
<td>Payment of excise and service tax liability for the month of October 2014 (other than e-payment)</td>
</tr>
<tr>
<td>6th</td>
<td>E-payment of excise and service tax liability for the month of October 2014</td>
</tr>
<tr>
<td>7th</td>
<td>Payment of taxes withheld in October 2014</td>
</tr>
<tr>
<td>10th</td>
<td>Filing of excise return for the month of October 2014</td>
</tr>
<tr>
<td>30th</td>
<td>Income tax and wealth tax return and other certifications for corporates subject to TP compliance, for financial year 2013-14</td>
</tr>
<tr>
<td>30th</td>
<td>Filing of excise return in Form ER-4 for the year ending 31 March 2014 (by units paying more than 1 crore of duty)</td>
</tr>
<tr>
<td><strong>DECEMBER 2014</strong></td>
<td></td>
</tr>
<tr>
<td>5th</td>
<td>Payment of excise and service tax liability for the month of November 2014 (other than e-payment)</td>
</tr>
<tr>
<td>6th</td>
<td>E-payment of excise and service tax liability for the month of November 2014</td>
</tr>
<tr>
<td>7th</td>
<td>Payment of taxes withheld in November 2014</td>
</tr>
<tr>
<td>10th</td>
<td>Filing of excise return for the month of November 2014</td>
</tr>
<tr>
<td>15th</td>
<td>Payment of advance tax (not less than 75% of the estimated tax for financial year 2014-15)</td>
</tr>
<tr>
<td>Date of compliance</td>
<td>Particulars</td>
</tr>
<tr>
<td>--------------------</td>
<td>-------------</td>
</tr>
<tr>
<td><strong>JANUARY 2015</strong></td>
<td></td>
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<tr>
<td>5th</td>
<td>Payment of excise and service tax liability for the month of December 2014 (other than e-payment)</td>
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<td>6th</td>
<td>E-payment of excise and service tax liability for the month of December 2014</td>
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<tr>
<td>7th</td>
<td>Payment of taxes withheld in December 2014</td>
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<tr>
<td>10th</td>
<td>Filing of excise return for the month of December 2014</td>
</tr>
<tr>
<td>15th</td>
<td>Electronically file quarterly (Oct to Dec 2014) withholding tax returns</td>
</tr>
<tr>
<td>30th</td>
<td>Due date for issue of quarterly (Oct to Dec 2014) TDS/TCS certificate in respect of withholding for payments (other than salary)</td>
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<tr>
<td><strong>FEBRUARY 2015</strong></td>
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<tr>
<td>5th</td>
<td>Payment of excise and service tax liability for the month of January 2015 (other than e-payment)</td>
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<tr>
<td>6th</td>
<td>E-payment of excise and service tax liability for the month of January 2015</td>
</tr>
<tr>
<td>7th</td>
<td>Payment of taxes withheld in January 2015</td>
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<tr>
<td>10th</td>
<td>Filing of excise return for the month of January 2015</td>
</tr>
<tr>
<td><strong>MARCH 2015</strong></td>
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</tr>
<tr>
<td>5th</td>
<td>Payment of excise and service tax liability for the month of February 2015 (other than e-payment)</td>
</tr>
<tr>
<td>6th</td>
<td>E-payment of excise and service tax liability for the month of February 2015</td>
</tr>
<tr>
<td>7th</td>
<td>Payment of taxes withheld in February 2015</td>
</tr>
<tr>
<td>10th</td>
<td>Filing of excise return for the month of February 2015</td>
</tr>
<tr>
<td>15th</td>
<td>Payment of advance tax [100% of the estimated tax (as reduced by tax already paid, if any) for financial year 2014-15]</td>
</tr>
<tr>
<td>31st</td>
<td>Payment of excise and service tax liability for the month of March 2015 (including e-payment)</td>
</tr>
</tbody>
</table>

**Footnotes:**
The calendar captures only key compliance dates of direct and indirect taxes. It does not include dates for filing of revised returns, due dates for filing of refund applications or replies to notices and appeals or any situation specific date.
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