

UNION BUDGET 2010

DIRECT & INDIRECT TAX PROPOSALS HIGHLIGHTS

KORAH & KORAH
CHARTERED ACCOUNTANTS
COCHIN

1st March 2010

Budget 2010 -Highlights

- Direct Tax Proposals
 - * Personal Tax
 - * Corporate Tax
 - * Hotel Industry
 - * Non Resident
 - * Charitable Institutions
 - * TDS
 - * Tax Audit

Budget 2010 -Highlights

- Indirect Tax Proposals
 - * Excise Duty & Customs
 - * Service Tax
- Administrative Proposals

DIRECT TAX PROPOSALS

PERSONAL TAX

Tax Slabs enhanced for Financial Year 2010-11

RATES	Resident woman assessee (Below 65 yrs)	Resident senior citizen	Other individuals
Nil	Upto Rs. 1,90,000	Upto Rs. 2,40,000	Upto Rs. 1,60,000
10%	Rs. 1,90,001 – Rs. 5,00,000	Rs. 2,40,001 – Rs. 5,00,000	Rs. 1,60,001 – Rs. 5,00,000
20%	Rs. 5,00,001 – Rs. 8,00,000	Rs. 5,00,001 – Rs. 8,00,000	Rs. 5,00,001 – Rs. 8,00,000
30%	Above Rs. 8,00,000	Above Rs. 8,00,000	Above Rs. 8,00,000

Existing Tax Slabs for Financial Year 2009-10

RATES	Resident woman assessee (Below 65 yrs)	Resident senior citizen	Other individuals
Nil	Upto Rs. 1,90,000	Upto Rs. 2,40,000	Upto Rs. 1,60,000
10%	Rs. 1,90,001 – Rs. 3,00,000	Rs. 2,40,001 – Rs. 3,00,000	Rs. 1,60,001 – Rs. 3,00,000
20%	Rs. 3,00,001 – Rs. 5,00,000	Rs.3,00,001 – Rs. 5,00,000	Rs. 3,00,001 – Rs. 5,00,000
30%	Above Rs. 5,00,000	Above Rs. 5,00,000	Above Rs. 5,00,000

Resulting in Tax Savings (assuming tax saving investment of Rs 120,000 in 2010-11)

Annual income	Rs. 5,00,000			Rs. 10,00,000			
	Assessee/ Tax Payable	Now	Post Budget	Saving	Now	Post Budget	Saving
Individuals		34000	22000	12000	174000	118000	56000
Women (Below 65yrs)		31000	19000	12000	171000	115000	56000
Senior Citizen		26000	14000	12000	166000	110000	56000

Additional Tax Saving Avenue

- Investment in Infrastructure Bonds to the extent of Rs 20,000 per year allowed to be reduced from Taxable Income as per new section 80CCF.
- This is in addition to the existing Rs.1,00,000 of tax saving investments under section 80C

CORPORATE TAX

- o No change in Corporate income tax rate.
- o Corporate surcharge on domestic companies reduced to 7.5% from 10%.
- o Minimum Alternate Tax hiked from 15% to 18% of book profits. Effective rate including surcharge & cess will be 19.93%
- o Deduction for Scientific Research enhanced.
- o Conversion to LLPs not to attract Capital Gains Tax.

Investment Linked Deduction For Hotel Industry

- A new section 35AD was introduced in last Finance Bill to allow capital expenditure incurred as a deduction for ‘Specified Business’.
- Scope of “Specified Business” is expanded during the year to include building and operating new hotels of two-star or above category anywhere in India
- Hotel should start functioning on or after 1st April 2010.
- However if deduction under section 35 AD is availed, no further deduction can be claimed under Chapter VI A

Income of Non Residents- Retrospective Amendment

- Income of Non Residents, by way of interest, royalty and fee for technical services will be taxed in India, if
 - (a) the services are utilized in India
 - (b) if the payer is located in India.
- The Finance Bill 2010 has introduced stringent provisions with retrospective effect from 1st June 1976 relating to the above incomes received by a non resident. Even if the services are rendered abroad it will still become taxable in India if the above conditions are met.
- Presence or absence of Permanent Establishment or business connection of the Non Resident, is also irrelevant. Even an isolated transaction of a Non-Resident can now attract tax in India, if it is in the nature of interest, royalty or fee for technical service

Charitable Institutions/Trusts

- Finance Act, 2008 amended section 2(15) w.e.f. 1-4-2009 to take away from the ambit of ‘charitable purpose’ if charitable institutions involved in activities of ‘general public utility’ carried on any activity in the nature of trade, commerce or business for a fee or consideration.
- The FM has now waived this disability condition, if receipts by way of such activities do not exceed a sum of Rs. 10 lakhs in a year. This amendment is with retrospective effect from 1st April 2009 and will benefit small charitable organisations.

Tax Deducted at Source: Good News-upward revision in threshold limits

TDS LIMITS FROM 01.07.2010			
SECTION	NATURE OF PAYMENT	Threshold Limits (TDS only on payments in excess of)	
		Existing	Proposed
194B	Winnings from lotteries or crossword puzzles	Rs. 5,000 p.a	Rs. 10,000 p.a
194BB	Winnings from Horse races	Rs. 2,500 p.a	Rs. 5,000 p.a
194C	Payment to sub-contractor/Advertisement contracts/ other Contractors	Rs.20,000 per contract or Rs. 50,000 p.a	Rs.30,000 per contract or Rs. 75,000 p.a
194D	Insurance Commission	Rs. 5,000 p.a	Rs. 20,000 p.a
194H	Commission or Brokerage	Rs. 2,500 p.a	Rs. 5,000 p.a
194I	Rent other than Plant, Mach.& Eqp.	Rs. 1,20,000 p.a	Rs. 1,80,000 p.a
194I	Rent of Plant , Machinery & Equipments	Rs. 1,20,000 p.a	Rs. 1,80,000 p.a
194J	Professional/Technical Charges	Rs.20,000 p.a	Rs. 30,000 p.a

TDS: Some more good news: amendment to Sec 40(a)(ia)

- o As per the existing provisions, payments made to residents on account of interest, commission, brokerage, rent, royalty, fee for professional services, fee for technical services, contract or sub-contract on which tax is deductible at source, but was
 - a) either not deducted or
 - b) after deduction was not paid till the end of the previous year,**was not allowed as deduction** while computing the business income of the assessee.

The only exception given was with respect to deductions made during March for which, time was allowed for payment till the due date of filing Tax Returns.

- o This provision **now stands relaxed** so that any deduction of tax at source made during the entire financial year **can be paid on or before the due date of filing your Tax Return** and still be eligible for deduction of such expenditure.

TDS: The not so good news

Interest on TDS enhanced

- o Interest for non remittance hiked from 1% to 1.5% per month..

No PAN-- deduct higher TDS

- o The rate of TDS will be 20 per cent in all cases, if PAN of the payee not available, w.e.f. 1.04.2010

Tax Audit

- Tax Audit under section 44AB-Limits enhanced:-
 - a) For Businesses-total turnover limit of Rs 40 lakhs enhanced to Rs. 60 Lakhs beyond which Tax Audit is compulsory.
 - b) For Professionals- Similarly total gross receipts limit of Rs 10 lakhs enhanced to Rs. 15 lakhs.

**Penalty for not doing Tax Audit increased from
Rs 100,000 to Rs 150,000**

INDIRECT TAX PROPOSALS

Excise Duty & Customs

- Rate of Central Excise duties back to 10% from 8%
- Central Excise duty on SUVs, MUVs and large cars hiked to 22%.
- Excise duty on cement clinker has been increased from Rs.300 per metric tonne to Rs.375 per metric tonne.

INDIRECT TAX PROPOSALS

Excise Duty & Customs

- Clean Energy Cess of Rs 50 per ton is being imposed on coal, lignite and peat produced in India or imported.
- Reduction in Excise Duty & Customs for parts used in Electrical Vehicles
- Excise Duty on LED lights reduced from 8% to 4%
- Customs Duty exempted on Mobile Phone accessories

INDIRECT TAX PROPOSALS

Excise Duty & Customs

- Central Excise duty on petrol and diesel enhanced by Re.1 per litre each
- For small-scale manufacturers,
 - a) Full credit of Excise duty paid on capital goods can be availed in one go.
 - b) Payment of Excise duty on a quarterly basis, rather than monthly basis.

Service Tax

- Rate of tax on services retained at 10%.
- Eight new Services brought under Services Tax net
- Scope of certain taxable Services expanded
- Certain Exempted Services now taxable
- Certain Services made taxable with Retrospective effect

New Services in the Service Tax Net

- Service of permitting commercial use or exploitation of any event organised by a person or organisation.
- IPR on Cinematographic films and sound recording
- Health check ups undertaken by hospitals
 - i) for employees of business entities
 - ii) under health insurance schemes of insurance companies

New Services in the Service Tax Net

- Certain additional services provided by builders
- Maintenance of medical records of employees
- Services provided by Electricity exchanges
- Service of promoting of a 'brand' of goods, services, events, business entity
- Promotion, marketing or organizing of games of chance, including lottery.

Scope of certain existing services expanded

- Economy Air Travel in addition to Business Class Tickets now under Service Tax .
- ‘Sponsorship service’ now to include sponsorship of sports.
- Rent of vacant land given for construction of buildings to attract Service Tax.
- Amendment in the definition of Airport service, Port service to include all services provided entirely within the airport/port premises under the Service Tax net.
- Construction of Residential Complex will come under service tax if any payment is received from the customer before the date of the occupation certificate.

Service Tax- Certain Exempted Services now taxable

- Transport of goods by rail will henceforth be taxable.
- Exemption under commercial training and coaching services now available only for vocational training institutes under the Apprentices Act, 1961.

Service Tax- Services taxable with retrospective effect

- Putting an end to the controversies related to the levy of service tax on **‘Renting of Immovable Property’ services**, the Government is bringing a retrospective amendment holding that ‘Renting’ by itself is a service. **This amendment is effective from June 1, 2007.** This retrospective amendment will nullify the impact arising out of the decision of the Delhi High Court in the Home Solutions case and the appeal which is pending before the Supreme Court. There is also a statutory amendment proposed according to which, all action taken by the Department for collecting service tax on renting of immovable property services from the period June 1, 2007 **cannot be challenged in a court of law.**
- Commercial training or coaching services to include coaching or training for a consideration whether or not on a profit motive – this amendment is with retrospective effect from July 1, 2003

Administrative Proposals

- New Direct Tax Code & GST likely to be introduced from 1st April 2011.
- The income tax department to notify 2 page SARAL-II form for individual salaried taxpayers.

Clarifications/ Questions

- E-mail us: info@korahandkorah.com

Korah & Korah
Chartered Accountants
Cochin
www.korahandkorah.com