Union Budget 2012

Some of the important tax proposals in the Budget are given below:

1. Tax Slabs:

- The basic exemption limit for individuals has been raised to Rs.2 lakhs from Rs.1.80 lakhs. The 20% slab has been widened.

- The tax slab for individuals is revised as under:

Upto Rs.2 lakhs	Nil
Rs.2 lakhs to Rs.5 lakhs	10%
Rs.5 lakhs to Rs.10 lakhs	20%
Above Rs.10 lakhs	30%

- There is no separate basic exemption limit for ladies

- Basic exemption limit for senior citizens is given as under:

Aged 60 to 80 years	Rs.2.50 lakhs
Aged 80 years & above	Rs.5.00 lakhs

- Tax rate on partnership firms and co-operative societies unchanged

- Corporate tax rates have not been tinkered with.

2. Retrospective Amendments: Supreme Court decision in Vodafone case

Within two months of the Supreme Court ruling in favour of Vodafone (& against the Tax Department), the Government has turned the tables, by introducing a 'retrospective' amendment in the Finance Bill. This amendment changes the rules retrospectively from 1962!!

As a result British telecom major Vodafone will have to pay over Rs.11,000 crore tax, once the amendment to change the Income Tax Act is approved by Parliament. The government intends to issue a new tax demand after Parliament passes retroactive legislation allowing authorities to tax capital gains by foreign companies on Indian assets.

This move would revive uncertainty about India's regulatory climate when the nation badly needs foreign investment to upgrade its dilapidated infrastructure and spur slowing growth.

The Supreme Court rejected in January the tax imposed by the government over Vodafone's $10.7-billion takeover of Hong- Kong-based Hutchison Whampoa's Indian cellular subsidiary in 2007.

The court said the Vodafone transaction fell outside India's tax jurisdiction as it was concluded outside the country between two foreign firms — even though it involved an Indian asset.

Under the planned legislative change, domestic and foreign companies will have to deduct capital gains tax on any deals involving an Indian asset, even if the transaction is completed offshore.

Earlier this week, the Supreme Court rejected a Government plea asking it to reconsider its Vodafone judgment.

Indian tax officials contend Vodafone should have withheld the amount the seller, Hutchison, would have owed in capital gains when it bought the Indian mobile unit.

The tax change would be retroactive to 1962, although the government has said it only plans to reopen cases going back six years.

Besides the above amendment, there are several other “retrospective” amendments, which have been introduced in the Finance Bill.

3. Alternate Minimum Tax (AMT)

- A variant of MAT (Minimum Alternate Tax) has been introduced for partnership firms. It is also applicable to individuals having business income and whose taxable income exceeds Rs.20 lakhs.

- This is a system where first tax as per the normal Tax provisions is calculated. In case deductions like insurance premium, deduction for export or SEZ turnover etc. has been claimed to arrive at the taxable income, tax at 18.50% will be calculated on the income before deducting the above payments.

- The higher of the two taxes will have to be paid (ie. normal tax or AMT)

- Tax credit for excess AMT paid over regular income tax shall be allowed to carry forward for 10 years.

4. TDS on Real Estate transactions & Gold purchase

- Recognising that Real Estate transactions as well as Gold & jewellery purchases have a large amount of unaccounted money, the Finance Minister has introduced TDS on transactions in these sectors.

- TDS will now apply on property transactions exceeding Rs.20 lakhs. In such cases, the buyer has to deduct 1% of the sale consideration and remit this to the Government. A new challan is being introduced with provision to write the buyer’s and seller’s PAN. The buyer need not take a separate TAN for this purpose. The property will not be registered unless tax is remitted and counterfoil produced at the time of registration.

- Cash sale of bullion and jewellery in excess of Rs.2 lakhs will attract 1% Tax Collection at Source by the seller.

5. **TDS on remuneration to a Director**

- Any remuneration paid to a Director, other than in the nature of salary will attract TDS at the rate of 10% on such remuneration.

6. **Higher tax on unexplained credits**

- Any unexplained cash credits/ money/ Investment / expenditure etc. found in the books of account at the time of scrutiny assessment will be taxed at a flat rate of 30% plus 3% cess.

7. **Turnover limits for Tax Audits raised**

- The limit for compulsory audit has been raised from Rs.60 lakhs to Rs.1 crore and for professionals from Rs.15 lakhs to Rs.20 lakhs.

8. **TDS non-compliance turns costlier**

- The fee for delay in filing TDS returns has been raised from Rs.100/- per day to Rs.200/- per day.

- Penalty ranging from Rs.10,000/- to Rs.1,00,000/- introduced for delay in filing TDS returns.

- Penalty ranging from Rs.10,000/- to Rs.1,00,000/- introduced for furnishing inaccurate particulars in TDS returns.

9. **Investment-linked incentives have been enhanced**

- Deduction of capital expenditure incurred in businesses like cold chain facility, hospitals, fertilizers production, affordable housing schemes, warehousing for storage of food grains is proposed to be provided at the enhanced rate of 150%, as against the previous rate of 100%.

- Along with this, to promote investment in research and development, weighted deduction of 200% for R&D expenditure in an in-house facility beyond March 31, 2012 has been extended for a further period of five years.

- Weighted deduction at the rate of 150% of expenditure incurred on skill development in manufacturing sector and for agri-extension services is also proposed to be provided.

10. **New Capital Gains exemption**

- The long-term capital gains tax arising to an individual or an HUF on sale of a residential property (house or a plot of land) would be exempt if he re-invests the sale consideration in the equity of a new start-up SME company in the manufacturing sector and the said company utilizes the purchase of new plant and machinery within a stipulated period and in the prescribed manner.

11. Encouraging Equity Investment

- The Rajiv Gandhi Equity Saving Scheme has been introduced to allow for income tax deduction of 50% to new retail investors, who invest upto Rs.50,000/- directly in equities and whose annual income is below Rs.10 lakh. The scheme will have a lock-in period of 3 years.

12. Transfer Pricing for international transactions strengthened

- Reporting of cross-border transaction mandatory even if not affecting profitability or assets.

- Non-reporting of international transaction can result in reassessment at a later date.

13. Transactions between related domestic entities subject to Transfer Pricing Norms

- Domestic transactions between related parties exceeding Rs.5 crores annually treated at par with cross-border transactions and would require assessee to substantiate arm's length price.

14. Funding of closely held companies under the scanner

- Closely held companies to explain source of funds of shareholders to avoid taxability of share capital, share premium, etc. as unexplained income.

- Share premium in excess of the fair market value received by a private company from a resident shall be treated as income except in case of share consideration received by a venture capital undertaking from a venture capital company or a venture capital fund.

15.Tracking of Foreign Assets

- To unearth undisclosed assets & income, the Budget has a proposal for compulsory filing of income tax return by every resident in relation to:
    - any assets located outside India;
    - signing authority in any account located outside India

16. Penalty on search cases

- Undisclosed income found during the course of search proceedings attracts penalty ranging from 10% to 90% of undisclosed income.

17.Time limit for re-opening assessments extended in certain cases

- Time limit for reopening assessments in case of income from assets located outside India escaping assessment, increased from 6 years to 16 years

18. Other changes in direct taxes

- **Donations** exceeding Rs.10,000/- made to charitable institutions will qualify for deduction under Section 80G only if it is made by cheque/DD.

- **Securities Transaction Tax** (on shares and securities) reduced from 0.125% to 0.1% from 1-7-2012.

- Amount paid upto Rs.5,000/- for **preventive health care** check-up for self and family is eligible for deduction u/s. 80D along with mediclaim premium. This deduction is in addition to the existing limit of Rs 15,000/- per annum available.

- **Interest on savings bank account** up to Rs.10,000/- is exempt for individuals or a HUF under section 80TTA.

- **Senior citizens** (who are aged 60 years and above) who do not have any business income need not pay any **advance tax**.

- **Insurance premium paid in excess of 10**% of the sum assured of the policy will not qualify for deduction under Section 80C (for new insurance policies taken after 1-4-2012).

19. Major changes in Indirect Tax

- Service tax rate raised from 10% to 12% to bring in Rs.18,660 crores

- <u>**Slab based to Ad valorem on Flights**</u>

  - Earlier service tax on flight tickets was restricted to Rs.100/- for domestic and Rs.500/- for international travel.

  - The Finance Bill proposes to levy 4.8% service tax on the cost of the flight ticket without any upper cap.

- The services tax net has also been widened with introduction of a **"negative list"** with limited exemptions. One of the exemptions relate to funeral, burial, crematorium or mortuary services including transportation of the deceased!!

- Excise duty has been raised from 10% to 12%.

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