MGI Asia Tax update India

April 2014

Tax Rates

India levies a wide range of taxes including income taxes, Value added taxes, custom duties, commodity transaction tax, wealth tax, service tax, dividend distribution tax and excise duty.

We are listing below the main taxes levied and the related tax rates:

Tax	Rate	Tax	Rate
Corporate Income Tax	30%	Land Appreciation Tax	N.A
Individual Income Tax	10% - 30%	Real Estate Tax	N.A
Value Added Tax	2% - 12.36%	Stamp Duty	2% - 12.5%
Business Tax	N.A	Deed Tax	N.A
Consumption Tax	N.A	Urban Construction and Maintenance Tax	N.A
Custom Duty	10%-100%	Service Tax	12.36%
Commodities Transaction Tax	0.01% of value of taxable commodity transaction	Dividend Distribution Tax	15%
Wealth Tax	1% on the amount by which the net wealth exceeds Rs. 30,00,000/-	Excise Duty	10%-18%

Highlights

As an alternate to the corporate income tax mentioned above, "minimum alternate tax (MAT)" has been introduced at a lower rate of 18.5% on book profits.

The Indian tax regime adopts industry-oriented, limited geography based incentive policy. The tax incentive policies include deductions from profits, exemptions, reduced tax rate etc.

A few undertakings/areas which enjoy profit linked deductions have been illustrated as under:

Industries	% of profit deductible	Applicability
Eligible infrastructure facilities	100% for 10 consecutive years	For facilities set up after 1st April, 1995
Development of Special Economic Zones (SEZs)	100% for 10 years consecutive years	SEZ notified on or after 1st April, 2005
Power generation units	100% for 10 years	Operations commencing / set up of new transmission/ distribution lines by 31st March, 2014.
Undertakings in North-Eastern States to manufacture eligible article / carry on eligible business	100% for 10 consecutive years	For undertakings set up during the period 1st April, 2007 to 1st April, 2017.
Business of collecting and processing bio-degradable waste	100% for 5 consecutive years	-

Permanent Account Number (PAN) is the process of getting registered with Income Tax Department, every person, company, association assessable to tax in India must have PAN No. There has been a change in the procedure for PAN allotment w.e.f 03.02.2014. Every PAN applicant has to submit the self-attested copies of proof of identity, address and date of birth documents and also produce the original documents of the same for verification at the counter of PAN facilitation centers.

The Central Board of Direct Taxes (CBDT) is a part of Department of Revenue in the Ministry of Finance, the CBDT issues instructions dated 26.02.2014 on Tax deducted at source or Withholding tax (TDS) obligation under section 195 of the Income Tax Act, 1961 on payment to Non residents or foreign parties.

Safe harbour Rules have been notified by the CBDT specifying the arm's length price of international transactions in different industries, the rules are applicable from F.Y (Financial year) 2012-13.

The Finance Act 2012 has extended the scope of transfer pricing (TP) provisions to cover specified domestic transactions (SDT). The provisions apply from the financial year 2012–13 onwards if the aggregate value of the specified domestic transactions exceeds INR 50 million in the relevant financial year.

SDT include payments to related parties, inter-unit transfer of goods or services of profit linked tax holiday eligible units, transactions of profit-linked tax holiday eligible units with other parties and any other transaction that may be notified by Central Board of Direct Taxes (CBDT).

Since the introduction of TP provisions in India in 2002, the provisions have only applied to international transactions.

[1] The rate is only applicable in case of a domestic (Indian) company. In case of a foreign company, the tax rate is 40% of the total taxable income.
[2] Rates differ from state to state.
[3] Rates differ from state to state.
[4] Rates differ from product to product imported
[5] Rates differ from product to product manufactured.

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India

Recent Tax reform

Direct Taxes

The Government of the Republic of India has recenlty signed Double Taxation Avoidance Agreements (DTAA) with:

- Government of Republic of Fiji
- Government of Latvia
- Republic of Macedonia
- Socialist Republic of Romania
- Republic of Albania

Section 115AD of the Income tax act provides the tax on Income of foreign institutional investors from securities or capital gains, The Income tax department vide Notification No. 9/2014 dated 22.01.2014 has now clarified that the tax procedures for Foreign Portfolio Investors (FPI) will be similar to that for Foreign Institutional Investors (FIIs) as provided in section 115AD of the IT Act, 1961.

Indirect Taxes

Voluntary Compliance Encouragement Scheme, 2013 (VCES) was announced by the Finance Minister while presenting budget of 2013-14 and introduced on May 10, 2013 to encourage voluntary compliance and broaden the tax base. VCES was announced to allow a service tax defaulter to pay dues without any penalty or late payment charges. Under the scheme, a person was to make a declaration to the designated authority on or before December 31, 2013.

Central Board of Direct Taxes(CBDT) has stated that wherever the service tax component comprised in the amount, payable to a resident is indicated separately, tax shall be deducted at source on the amount paid/payable without including such service tax component.

Under the Customs Baggage Declaration Regulations 2013 all incoming international passengers will be required to declare the content of their baggage in the Indian Customs Declarations Form prescribed in the regulation w.e.f. 01.03.2014.

Full exemption from Customs duty on pulses valid till 31.03.2014 has been extended by another 6 months.

The basic customs duty structure on non-edible grade industrial oils and its fractions, palm stearin, fatty acids and fatty alcohols has been rationalised at 7.5%

Interim Budget Highlights

As the general elections in India are due in April and May 2014, The Current Government in Power has approved an interim budget till the new government assumes power.

- Excise cut on capital goods cut from 12% to 10%
- Excise duty cut on small cars and two wheelers reduced from 12% to 8%
- Excise duty for SUVs cut from 30% to 24%
- Excise duty for large and mid-segment cars cut to 20%
- Excise duty on consumer durables cut from 12% to 10%

Outlook

India Macro outlook on economic & business conditions

The growth in GDP during 2013-14 is estimated at 4.9 per cent as compared to the growth rate of 4.5 per cent in 2012-13

India's economy has developed quickly in the last decade, improving living standards and experiencing strong growth in such critical sectors as ICT (Information and communication technologies). In recent years, however, circumstances have become less conducive to growth: macroeconomic conditions in the developed economies point to a prolonged external slowdown, while domestic constraints such as high inflationary pressures and rising fiscal and current account deficits have emerged.

The fiscal deficit is estimated to be 4.6% and Revenue deficit 3.3% of GDP which is better than expected, but it is probably at the cost of growth friendly measures. The WPI (Wholosale price index) inflation has come down only in January 2014 to 5.05% primarily due to easing of vegetable prices in winter months. The high interest rates continue to deter demand driven growth opportunities.

The 2013-14 budget focuses on the poor as part of the overreaching goal of creating opportunities for young people to acquire the education and skills that will enable them to get jobs or be self-employed. Similarly, the educational focus of the 12th FYP (Five year plan) is on teacher training, evaluation and accountability. It also stresses the need for higher quality in research, infrastructure, teachers and curriculum content.

The Finance Minister has given some reliefs in Indirect taxes to automobile sectors. These are welcome reliefs to a manufacturing sector.

India is currently one of the fastest growing economies of the world with an average growth rate of about 5.5 to 6 percent per annum, over the last two decades. This has ensured that the economy ranks among the top five in the world, in terms of growth performance. Our analysis suggests that maintaining even this growth rate over the next two decades would be an impressive feat.

[6] Infrastructure includes roads, bridges, rail system, highways, water supply projects, irrigation projects, sanitation and sewerage system, solid waste management system, ports, airports and inland water ways.
[7] Eligible article does not include tobacco and manufactured tobacco substitutes, pan masala, specified plastic carry bags specified goods produced by petroleum oil or gas refineries.
[8] Eligible business means business of hotels (above 2 star), adventure and leisure sports including ropeways, specified medical and health services in nursing home, running old age home, operating specified vocational training institute, running information technology related training centre, manufacture of information technology hardware and bio technology.
[9] http://www.oecd.org/site/seao/Pocket%20Edition%20SAEO2014.pdf