throwing light

Finance Bill 2010 – the fine print

The Finance Bill 2010 was tabled in the Parliament this afternoon by the Finance Minister.

How the Finance Bill 2010 affects you:
(Figures in brackets indicate the earlier rates)

AS ALL TAX PAYERS

• Tax slabs liberalized further for individuals as under **SIGNIFICANT**:-

Taxable Income	Tax Rate
Between Rs. 160,000 – 500,000 (earlier upto Rs. 300,000)	10%
Between Rs. 500,001 – 800,000 (earlier upto Rs. 500,000)	20%
Above Rs. 800,001 (earlier above Rs. 500,001)	30%

For a tax payer having an income of Rs. 800,000 and above, the annual tax saved will be Rs. 50,000.

• An additional deduction of Rs. 20,000 will be available u/s 80CCF for investment in notified long term infrastructure bonds.

• For immoveable property which is acquired after 1st October 2009 at a value lower than its stamp duty valuation - the difference between consideration and stamp duty valuation will **not** be taxed any longer as deemed income of the Buyer. The tax on the seller at stamp duty rates as per Section 50C however will continue. **SIGNIFICANT**

• The provisions relating to deemed income for gifts received will also apply to receipt of bullion but will now exclude stock in trade.

• If a firm or an unlisted company receives any shares of another unlisted company after 1st June 2010 either as a gift or for a consideration lower than its fair market value, the difference will be deemed to be the income of the recipient. **SIGNIFICANT**

AS A CORPORATE TAX PAYER

• Surcharge on Domestic Companies having an income exceeding Rs. 1 crore reduced from 10% to 7.5%. **SIGNIFICANT**

Effective Tax rate reduced by .77% to 33.2175%.

• Dividend Distribution Tax stands reduced by 0.38% to 16.61%.

• Minimum Alternate Tax Rate increased from 15% to 18%. Effective rate therefore increased by 2.94%. **SIGNIFICANT**

AS A BUSINESSMAN

• Companies having an in house approved Research and Development facility will be given a weighted deduction of 200% (earlier 150%) on all expenses incurred on this facility including capital expenditure (other than on land and buildings). **SIGNIFICANT**

• For contributions to approved research associations, the weighted deduction u/s 35(1)(ii) or to a National Laboratory or an IIT u/s 35(2AA) is being increased to 175% (earlier 125%).

• A Businessman need not get his accounts Tax Audited u/s 44AB if the annual receipts or turnover from business do not exceed Rs. 60 lakhs (earlier Rs. 40 lakhs) or if receipts from profession do not exceed Rs. 15 lakhs (Rs. 10 lakhs). The penalty for not getting accounts Tax Audited will now be capped at Rs. 1.50 lakhs (Rs. 1 lakhs).

• Tax benefits available for construction of low cost housing u/s 80IB(10) – projects approved after 1.4.2005 need to be completed within 5 years (earlier 4 years) and the built up area of commercial establishments therein would not exceed 3% of total built up area or 5000 sq.ft. whichever is higher.

AS A LIMITED LIABILITY PARTNERSHIP

• A Capital Gains Tax exemption is now being provided for conversion of small private companies or unlisted public companies (not having an annual turnover of more than Rs. 60 lakhs in the preceding 3 years) to LLPs subject to certain conditions. The benefit of carried forward losses as well as unabsorbed depreciation etc. available to the erstwhile company will be available to the LLP. There will be a restriction however on withdrawal of accumulated profits of the company for a period of 3 years by the partners of the LLP.

AS AN EXPORTER

● For undertakings eligible for a deduction under 10AA, the deduction will be computed by pro-rating the export turnover of the undertaking and the total turnover of the 10AA undertaking (and not the assessee as a whole).This amendment which was done by the last Finance Bill has now been made effective retrospectively from 1.4.2006 onwards.

AS A NON-RESIDENT

● It has been clarified that Interest, Royalties or Fees for technical services will be deemed to accrue in India and will be taxable in India if the payer is an Indian Resident notwithstanding that the services are rendered outside India and notwithstanding that the Recipient does not have a Permanent Establishment or a business connection in India. This will affect all Non resident who get no protection under a Double Tax Treaty for such items of Income.

AS A DEDUCTOR OF TDS

● If any sum is incurred during the year without deduction of appropriate TDS, the sum is not allowed as an expenses u/s 40a(ia). It is now provided that the sum will be allowed so long as TDS has been deducted and paid before the due date of filing the tax return. Earlier this concessional treatment was available only for deductions done in the last month of the year.

● The minimum exemption thresholds for deduction of TDS have been increased as under for deductions after 1st July 2010:- **SIGNIFICANT**
- Contractor payments – value of a contract exceeding Rs. 30,000 (20,000) or aggregate payments during the year of Rs. 75,000 (50,000).
- Commission / Brokerage Rs. 5,000 (2,500)
- Rent Rs. 180,000 (120,000)
- Professional Fees Rs. 30,000 (20,000)

● The interest for late payment of TDS will now be 1% per month for the delay in deduction and 1.5% per month for the delay in payment after deduction. **SIGNIFICANT**

AS A PROVIDER / RECEIVER OF SERVICES

● No change in Service Tax Rates.

● Services included in Service Tax ~ all commercial and training institutions (other than vocational training); Receipts by a Builder for construction of complexes or new Buildings unless all proceeds are received after obtaining a Completion Certificate or towards provision of amenities other than parking space or for a preferential location; renting of vacant land where there is an agreement to undertake construction of buildings on such land for furtherance of business during such lease; health check up by Medical Establishments for employees of a business entity; payment for use of copyrights. **SIGNIFICANT**

●Penalties will not be levied if service tax and interest is paid before issue of a show cause notice.

OTHER SALIENT ISSUES SIGNIFICANT

●The Government has expressed a commitment to move to a Goods and Services Tax (GST) from 1st April 2011.

●The Government has also committed that the Direct Tax Code (DTC) will be introduced from 1st April 2011.

●The Companies Bill 2009 is already on the floor of the Parliament and is expected to be legislated soon.

CAVEAT

The changes proposed by the Finance Bill 2010 will become binding law only after the Bill receives the President's assent.
Most changes will apply to the accounting year which will commence on 1st April 2010 except for amendments which are procedural in nature or which are specifically applied retrospectively.

The above is merely a gist of the amendments proposed. We recommend that you seek professional advice before implementing them.