



# throwing light

## Finance Bill 2011 – the fine print

**The Finance Bill 2011 was tabled in the Parliament this afternoon by the Finance Minister.**

**How the Finance Bill 2011 affects you:**  
(Figures in brackets indicate the earlier rates)

### **AS A TAX PAYER**

- Minimum amount exempt from Tax liberalized further for individuals as under:-  
For all individuals (other than resident women and senior citizens) Rs. 180,000 (Rs. 160,000)  
For Senior Citizens: Rs. 250,000 (Rs. 240,000)  
For Senior Citizens who have completed 80 years of age, an income of upto Rs. 500,000 will be exempt from tax and the slabs thereafter will be similar to Senior Citizens. **SIGNIFICANT**
- An individual will be treated a Senior Citizen on completion of 60 year of age (earlier 65 years) **SIGNIFICANT**

### **AS A CORPORATE TAX PAYER**

- Surcharge for companies having a taxable income in excess of Rs. 1 crore reduced **SIGNIFICANT**:-  
Domestic Companies - to 5% (7.5%) Effective Tax Rate for such companies will be 32.445% (33.2175%)  
Foreign Companies – to 2% (2.5%).
- Dividend distribution Tax will now be 16.22% (16.61%)
- Minimum Alternate Tax raised to 18.5%. Effective Tax Rate 20% (19.93%)

### **AS A BUSINESSMAN**

- Contribution to a National Laboratory, University or an IIT to be used for Scientific Research will be eligible for a weighted deduction of 200% (175%).
- Capital Investment linked additional tax incentives will be available u/s 35AD for developing and building affordable housing as well as for capacity creation or expansion for production of fertilizers.
- In respect of International Transactions with Associated Enterprises, the % of variation from Arms length Price i.e. safe harbor provisions will no longer be a fixed 5% but will be notified. **DETAILS AWAITED**

- The Transfer Pricing Officer will now have an independent right to survey the premises of the assessee.

- A company which has international transactions with Associate Enterprises will have to file a Transfer Pricing Report and its tax return by 30<sup>th</sup> November (A tax Audit still needs to be done by 30<sup>th</sup> September though) **SIGNIFICANT**

- If an Indian company receives dividend from a foreign subsidiary, the dividend will be taxed in India at 15% instead of at the regular tax rate of 30%. **SIGNIFICANT**

- Keeping in mind lack of effective exchange of information by certain countries, the Government will notify such countries under Section 94A - thereafter any transaction with a person located in such a notified country will be liable to all transfer pricing provisions. **DETAILS AWAITED**

If a person receives any sum of money from a person located in such a notified country and is unable to offer a satisfactory explanation of the source of the receipt, the receipt will be deemed to be the income of the recipient.

When any sum is paid to a person located in such a notified country, TDS will be done at a rate of 30% at the minimal.

### **AN EMPLOYER**

- A sum of upto 10% of an employee's salary paid as employers contribution to the New Pension Scheme will be allowed as a tax deductible.

### **AS AN EMPLOYEE**

- Employer's contribution to the New Pension Scheme will be allowed as a deduction u/s 80CCD without being clubbed with the Rs. 100000 limit for 80C, 80CCC and 80CCD (Employee's contribution)

### **AS A NON-RESIDENT BUSINESSMAN**

- A Liaison Office will be obligated to file a statement of the work done in India within 60 days of the end of the year but will not be required to file a tax return.

### **AS AN SEZ UNIT**

- The profit of an SEZ unit will be liable to a Minimum Alternate Tax u/s 115JB.

### **AS A LIMITED LIABILITY PARTNERSHIP**

- For an LLP which claims a tax deduction under Chapter VIA (for e.g.80IA / 80IB ) or a deduction u/s 10AA, it will be liable to pay an alternate



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Minimum Tax @ 18.5% on the profit before claiming such deduction and any such tax paid in excess of normal tax will be allowed to be carried forward for 10 years for adjustment against a normal tax liability in the future.

### **AS AN INVESTOR**

- Money Market Mutual Funds or Liquid Funds which declare a dividend will now pay a Dividend Distribution Tax of 30% (earlier 25%) if the investor is other than an individual / HUF.

- Tax free bonds of upto 30000 crores expected to be issued in the next year between IRFC, NHAI, HUDCO and Ports.

### **AS A PROVIDER / RECEIVER OF SERVICES**

- No change in tax rates
- Service Tax to be charged and paid on accrual basis **SIGNIFICANT**
- Services now leviable to a service tax:-
  - Medical units with at least 25 beds and having a centralized AC - for in patients
  - Services provided by clubs and associations to non members
  - Services by a law firm to any person
  - Services by an individual lawyer for appearing before a Court
  - Services of a doctor working through an Institution otherwise than as an employee
  - Restaurants having a liquor license
  - Hotels providing stay for less than 3 months
  - Air travel – domestic and international
- Penalty for failure to file a return increased to Rs. 20,000
- Penalty for failure to take registration or other procedures increased.
- Prosecution for frauds and material compliance mistakes.
- Taxable services less than Rs. 60 lakhs – lower interest rates.

### **OTHER SALIENT ISSUES SIGNIFICANT**

- The Government has committed that the Direct Tax Code (DTC) will be introduced from 1st April 2012.

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### *CAVEAT*

***The changes proposed by the Finance Bill 2011 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 1<sup>st</sup> April 2011 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.***