# [Significant Budget Highlights 2016-17- Direct Taxes](http://taxguru.in/income-tax/significant-budget-highlights-20161-7-direct-taxes.html" \o "Significant Budget Highlights 2016-17- Direct Taxes)

**1. Relief to small tax payers**

(a) **Rebate under Sec 87A**: With the objective of providing relief to resident individuals in the lower income slab i.e. total income not exceeding Rs. 5,00,000, section 87A is proposed to be amended so as to increase the maximum amount of rebate available from existing limit of Rs.2,000 to Rs.5,000.

(b) **Maximum limit of deduction under section 80GG increased:** The maximum limit of deduction under section 80GG, in respect of rent paid by individuals who do not get any house rent allowance from the employer and who do not own any house, proposed to be increased from Rs. 2,000 p.m to Rs. 5,000 p.m.

(c) **Increase in threshold limit for persons other than companies /LLP having income from business opting presumptive taxation under Section 44AD:**In order to reduce the compliance burden of the small tax payers and facilitate the ease of doing business, the threshold limit for availing the benefit of presumptive taxation scheme proposed to be increased from Rs. 1 crore to Rs. 2 crore, in respect of eligible businesses. The threshold limit proposed to be increased to bring relief to large number of assesses in the Micro Small and Medium Enterprises (MSME) category.

(d)**Presumptive taxation scheme extended to professionals:** In order to rationalize the presumptive taxation scheme and to reduce the compliance burden of the small tax payers having income from profession and to facilitate the ease of doing business, the presumptive taxation regime proposed to be extended to professionals having gross receipts not exceeding Rs. 50 lakhs in the previous year at a sum equal to 50% of such gross receipts.

(e) **Threshold limit increased for tax audit for persons having professional Income:** The threshold limit for tax audit under section 44AB, for getting accounts audited proposed to be increased from Rs. 25 lakhs to Rs. 50 lakhs, in case of persons carrying on profession.

**2. Measures to boost growth and employment generation**

**(a) Corporate Tax proposals:**

(i) The Corporate Tax rate was proposed to be reduced from 30% to 25% over a period, accompanied by rationalization and removal of various tax exemptions and incentives. The following are some of the tax exemptions and incentives which are proposed to be withdrawn in phased manner:

• The accelerated depreciation under Income-tax Act will be limited to 40% from 01.04.2017

• The benefits of deductions for Research would be limited to 150% from 01.04.2017 and 100% from 01.04.2020

• The benefits of Section 10AA to new SEZ units will be available to those units which commence activity before 31.03.2020.

• Weighted Deduction under section 35CCD for skill development will continue up to 01.04.2020

(ii) Manufacturing companies incorporated on or after 1.03.2016 are proposed to be given an option to be taxed at 25% plus surcharge and cess provided they do not claim profit linked or investment linked deductions and do not avail of investment allowance and accelerated depreciation.

(iii) For relatively small enterprises i.e., companies with turnover not exceeding Rs 5 crore (in the financial year ending March 2015), the rate of corporate tax reduced from 30% to 29% plus surcharge and cess, for the next financial year.

**(iv) Tax Incentives to start ups:** With a view to providing an impetus to start-ups and facilitate their growth in the initial phase of their business, a deduction of 100% of the profits and gains derived by an eligible start-up from a business involving innovation development, deployment or commercialization of new products, processes or services driven by technology or intellectual property proposed to be provided. Such benefit would be available to an eligible start-up which is setup before 01 .04.2019.

The deduction may, at the option of the assessee, be claimed by him for any three consecutive assessment years out of five years beginning from the year in which the eligible start-up is incorporated. MAT will apply in such cases and Capital Gains will not be taxed if invested in regulated/notified Fund of Funds by individuals in notified startups, in which they hold majority shares.

(b)**Concessional Tax Regime for income from patents:** In order to encourage indigenous research & development activities and to make India a global R & D hub, the Government has decided to put in place a concessional taxation regime for income from patents is proposed. A concessional rate of 10% proposed for taxing income from world exploitation of patents developed and registered in India.

(c)**Complete Pass through status securitization trust:** In order to encourage more investment in Asset Reconstruction Companies (ARC), it is proposed to provide complete pass through of income to securitization trust. Consequently, the income will be taxed in the hands of investors instead of the trust. However the trust will be liable to deduct tax at source.

(d)**Deferment of POEM:** The determination of residency of foreign company on the basis of place of effective management (POEM) is proposed to be deferred by one year.

**3. Measures for moving towards a pensioned society**

(a) **(i) Recognised provident fund and superannuation fund:** In order to bring greater parity in tax treatment on different types of pension plans, it is proposed to provide in respect of the contributions made on or after 1st April 2016 by an employee participating in a recognised provident fund and superannuation fund, upto 40% of the accumulated balance attributable to such contribution on withdrawal shall be exempt from tax. In effect, the 100% exemption has been reduced to 40%.

**(ii) Annuity Plan:** Any payments in commutation of any annuity purchased out of contributions made on or after 1st day of April, 2016 which exceeds 40% of the annuity, to be chargeable to tax.

**(iii) National Pension System:** It is also proposed to provide any payment from National Pension System Trust to an employee on account of closure or his opting out of the pension scheme referred to in Section 80CCD, to the extent it does not exceed 40% of the total amount payable to him at the time of closure or his opting out of the scheme, to be exempt from the tax.

Also annuity fund which goes to the legal heir after the death of pensioner will not be taxable in all the three cases (i.e., (i), (ii) & (iii) above).

**(iv) Monetary limit for employer contribution to EPF:** Also, a monetary limit for contribution of employer in recognized provident fund and superannuation fund of Rs 1.5 lakh per annum for taking tax benefit is proposed.

**4. Measures for promoting affordable housing**

**(a) 100% deduction of the profits of an assessee developing and building affordable housing projects:** With a view to incentivise affordable housing sector as a part of larger objective of ‘Housing for All’, it is proposed that 100% deduction of the profits would be allowed to an assessee developing and building affordable housing projects, if the housing project is approved by the competent authority before the 31st March, 2019 and completed within 3 years of approval.

**(b) Additional deduction of interest to “first home buyers”:** In furtherance of the goal of the Government of providing ‘housing for all, it is proposed to incentivise first-home buyers availing home loans, by providing additional deduction of Rs. 50,000 in respect of interest on loan taken for residential house property from any financial institution.

This incentive is proposed to be available to a house property of a value less than Rs. 50 lakhs in respect of which a loan of an amount not exceeding Rs. 35 lakh has been sanctioned during the Financial Year 2016-17. Further, this benefit proposed to be extended till the repayment of loan continues.

(c)**SPV would be exempted from Dividend Distribution Tax (DDT) on distribution made to Business Trust:** In order to rationalize the taxation regime for business trusts (REITs and Invits) and their investors, it is proposed to provide a special dispensation and exemption from levy of dividend distribution tax. Accordingly, the SPV would not be liable to pay DDT on the income distributed to business trusts. Such dividend received by the business trust and its investor shall not be taxable in the hands of trust or investors.

5. Additional resource mobilization for agriculture, rural economy and clean environment

**(a) Gross Dividend would be taxable in the hands of recipients:** The income by way of gross dividend, to be chargeable to tax in the case of an individual, Hindu undivided family (HUF) or a firm, who is resident in India @ 10%, if the same is in excess of Rs. 10 lakh

**(b) Rate of surcharge increased from 12% to 15%:** The surcharge rate to be raised from 12% to 15% on persons, other than companies, firms and cooperative societies having income above Rs. 1 crore.

**(c) Scope of Tax Collection at Sources (TCS) expanded to include sale of luxury cars and other goods and services:** In order to reduce the quantum of cash transaction in sale of any goods and services and for curbing the flow of unaccounted money in the trading system and to bring high value transactions within the tax net, it is proposed to provide that the seller shall collect the tax @1% from the purchaser on sale of motor vehicle of the value exceeding Rs. 10 lakhs and sale in cash of any goods (other than bullion and jewellery), or providing of any services (other than payments on which tax is deducted at source under Chapter XVI I-B) exceeding Rs. 2 lakhs.

**(d) Equalisation levy of 6% on the non-residents from e-commerce transactions:** In order to tap tax on income accruing from e-commerce transactions to non-residents from India, it is proposed that a person making payment to a non-resident, who does not have a permanent establishment, exceeding in aggregate Rs. 1 lakh in a year, as consideration for online advertisement, will withhold tax at 6% of gross amount paid, as Equalization levy. The levy will only apply to B2B transactions.

**6. Reducing litigation and providing certainty in taxation**

**(a) Limited period Compliance Window to be introduced:** For domestic taxpayers to declare undisclosed income or income represented in the form of any asset and clear up their past tax transgressions, the Income Declaration Scheme, 2016 proposed to be introduced as limited period compliance window for taxing such undisclosed income paying @ 30%, plus surcharge at 7.5% and penalty at 7.5%, which is a total of 45% of the undisclosed income. There will be no scrutiny or enquiry regarding income declared in these declarations under the Income-tax Act, 1961 or the Wealth-tax Act, 1957 and the declarants will have immunity from prosecution.

**(b) The Direct Tax Dispute Resolution Scheme, 2016 :** In order to reduce the huge backlog of cases and to enable the Government to realise its dues expeditiously, the Direct Tax Dispute Resolution Scheme, 2016 proposed to be introduced in relation to tax arrear and specified tax. Under this scheme, the declarant would be required to pay tax at the applicable rate plus interest upto the date of assessment and no penalty would be leviable for disputed tax upto Rs. 10 lakhs. However, in case of disputed tax exceeding Rs. 10 lakhs, 25% of the minimum penalty leviable shall also be required to be paid.

**(c) One time Dispute Resolution scheme for cases ongoing under retrospective amendment:** Under the Direct Tax Dispute Resolution Scheme, 2016, person may also make a declaration in respect of any tax determined in consequence of or is validated by an amendment made with retrospective effect in the Income-tax Act, 1961 or Wealth-tax Act, 1957, as the case may be, for a period prior to the date of enactment of such amendment and a dispute in respect of which is pending as on 29.02.2016, subject to their agreeing to withdraw any pending case lying in any Court or Tribunal or any proceeding for arbitration, mediation etc.. Consequently, they can settle the case by paying only the tax arrears in which case liability of the interest and penalty shall be waived.

**(d) Penalty leviable for concealment of income rationalised:** The entire scheme of penalty proposed to be modified by providing different categories of misdemeanour with graded penalty and thereby substantially reducing the discretionary power of the tax officers. The penalty rates will now be 50% of tax in case of underreporting of income and 200% of tax where there is misreporting of facts.

**7. Simplification and rationalization of taxation**

**(a) Exemption from requirement of furnishing PAN under section 206AA to certain non-resident:** In order to reduce compliance burden, section 206AA proposed to be amended so as to provide that the provisions of this section shall not apply to a non-resident, on furnishing of alternative documents, subject to such conditions as may be prescribed.

**(b) Rationalization of tax deduction at Source (TDS) provisions:** In order to rationalise the rates and base for TDS provisions, the existing threshold limit for deduction of tax at source and the rates of deduction of tax at source are proposed to be revised in the case of Winnings from Horse Race, Payments to Contractors, Insurance commission, Commission on sale of lottery tickets etc. This would improve cash flow of small tax payers.

**8. Use of Technology for creating accountability**

**(a) Scope for e-assessment proposed to be expanded:** Expansion in the scope of e-assessments to all assesses in 7 mega cities in the coming years, reducing face to face contact with the assesses.

**(b) Rate of interest on refunds to be increased:** The rate of interest on the refunds to be increased from 6% p.a. to 9% p.a., in case there is delay in giving effect to Appellate order beyond ninety days.

**(c) E-sahyog project to be expanded:** Income-tax Department (ITD) will fully expand the pilot initiative of ‘e-Sahyog’ with a view to reduce compliance cost, especially for small tax payers. The e-Sahyog’ pilot project is to provide an online mechanism to resolve mismatches in income-tax returns without requiring taxpayers to attend the Income-tax office.

Source Courtesy- Institute of Chartered Accountants of India