



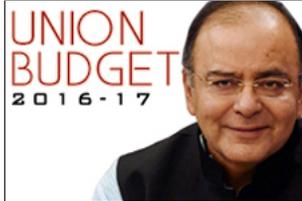
[Click to Print](#)

[Click to Close](#)

BUDGET 2016 - FM Ensures A Balancing Act

MARCH 02, 2016

By Puneet Bansal, Kulraj Ashpni, Lalitendra Gulani, Nitya Tax Associates



"The Government acknowledges the role of taxpayers in nation building. Each rupee of tax contributes towards the Government's efforts to provide better infrastructure, rural revival and social well-being. Taxation is a major tool available to Government for removing poverty and inequality from the society. The posterity will not forgive us if we do not use this opportunity in this perspective"

The Finance Minister in above statement acknowledged the contribution of each taxpayer in economic growth and welfare of the country. Such statements are made in most of the budgets, however, this does not hold true to Budget 2016 which is a sincere attempt to deviate from the expected.

The Budget 2016 needs to be appreciated for its sincere efforts, width and vision to set in place a non-adversarial tax regime with the ease of compliance without compromising the economic growth. From Indirect Tax perspective, this

Budget is formed on two pillars, viz. to achieve ease of doing business and success of Make in India campaign. The Budget has not let the industry down vis-à-vis heap of expectations though some proposals were regressive.

We have set out some key expectations of the industry and how much did Budget score on each of these expectations.

â€¢ Simplified Taxation Regime

The pre-budget expectations included rationalization of taxes and simplification of the tax laws. The Budget considered some, if not all, of these suggestions and has introduced suitable amendments.

First and foremost, to align the current taxes on services with GST, it was expected that the rate of service tax would be enhanced to 16% from 14.5% (applicable currently). Retaining the current rate of service tax has been a positive move. Further, several path-breaking reforms have been made under the Cenvat Credit Rules, 2004 (Credit Rules) to ensure rationalization and higher flow of credits on goods and services particularly when the goods are manufactured from job-workers. There have been several procedural relaxations as well in the Credit Rules.

Canned software has been exempted from service tax and customized software has been exempted from CVD / excise duty. These changes will streamline the taxation of software. Further, the Budget is laudable for its sincere efforts to put an end to certain disputes like excise duty exemption for RMC manufactured at site, utilization of Cenvat credit for NCCD for past period etc. Interest rates on delay in payment of taxes have been reduced and rationalized, much to the expectations of the industry.

The grant of service tax exemption on some services relating to government and infrastructure projects from retrospective effect and allowing refund of service tax already paid is unprecedented and marks paradigm shift in the history of retrospective amendments. Further, to reduce the multiplicity of taxes and their associated cascading effect, the budget seeks to abolish 13 different cess, levied by various Ministries.

On a not so positive note, the introduction of Krishi Kalyan Cess on services, albeit creditable in nature, and non-creditable Infrastructure Cess on cars is a regressive step. Further, the budget also failed to address the woes of industry with respect to ongoing disputes on the admissibility of credit on goods and services owing to unclear definition. Increase in the period of limitation for issuance of show cause notice by 1 year would create higher tax exposures for the industry even in genuine cases involving interpretation of laws.

Thus, many steps have been taken to put a better taxation regime in place, though not all. Industry should be contented with what all has fallen in-place.

â€¢ Administrative Reforms

An appeal normally takes more than 5 years to be heard by the Tribunal from the time of its filing. The pendency of cases in Tribunal not only results in uncertainty but also forms the black hole for the time, energy and resources of the industry. Thus, the reduction of pendency of cases is in the interest of both government as well as the industry. To reduce backlog, a Dispute Resolution Scheme, 2016 has been introduced. The scheme aims to reduce the pendency of matters before the Commissioner (Appeals) by giving opportunity to a taxpayer to pay tax, interest and penalty (25%) and close the proceedings. Moreover, the proposal to create 11 new benches of Tribunals and enhancement of jurisdiction of Single Member bench of Tribunal will significantly reduce the ever increasing burden of pending cases before each Tribunal.

Adding to the above, introduction of deferred payment of customs duty to select importers will not only improve the cash flows of importers but also simplify the compliance process. The streamlining of warehousing provisions including creation of a new class of warehouse (â€”special warehouseâ€”) under the Customs law is again a positive move for the industry.

â€¢ Impetus on sectoral growth

Make in India theme of the Government is sustainable only if there is a wide spread sectoral growth. Key sectors like infrastructure, manufacturing, defense etc. have to participate hand-in-hand in this journey. Budget has realized this moot concern and has taken steps to prominently promote these sectors.

The service tax exemption to construction services relating to low cost houses, housing for all *yojana* etc. will stimulate investment in realty and infrastructure sector. Likewise steps have been taken to promote domestic manufacturing in key sectors such as IT hardware, aircraft, textile, chemicals, paper etc.

â€¢ Goods & Services Tax (GST)

The economy is desperately waiting for swift and early implementation of GST. The silence of the Finance Minister with respect to implementation of GST in the Budget as well as lack of clarity on its passing in the Upper House in near future adds to uncertainty. A significant postponement or alteration (due to political compulsions) will dampen the whole idea of GST. It is thus critical for the Government to constructively reach out to opposition parties and ensure GST arrives quickly without much amends so as to retain its sanctity.

Overall and amidst high expectations, Finance Minister has been able to do a tough job effortlessly. If all these reforms are backed by an efficient tax administration, it is only a matter of time that Make in India and Ease of Doing Business will start yielding bumper results for the economy.

(DISCLAIMER : The views expressed are strictly of the author and Taxindiaonline.com doesn't necessarily subscribe to the same. Taxindiaonline.com Pvt. Ltd. is not responsible or liable for any loss or damage caused to anyone due to any interpretation, error, omission in the articles being hosted on the sites)

[Click to Print](#)

[Click to Close](#)