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Demystifying Complexities

Union Budget 2018

February 2018

Union Budget 2018

Hon'ble Finance Minister Arun Jaitley on February 1, 2018, presented the Union Budget for the financial year 2018-19. As Prime Minister Narendra Modi hinted World Economic Forum in Davos, it was a non-populist Budget which circumvented perks before the general elections of 2019.

The Budget particularly focused on MSME, strengthen agriculture and rural economy, provision of good health care to less privileged, taking care of senior citizens, infrastructure creation and working with the States to provide more resources for improving the quality of education in the country.

Most remarkable announcements of this Budget include rolling out of health care social scheme for weaker section of the society, revision in Minimum Support Price to farmers, tax relief to senior citizens and reduction in tax rates for companies with turnover less than Rs. 250 crore in financial year 2016-17.

However, the Budget marred investors by imposing long term capital gains tax, increase in cess by 1% and higher customs duties for urban consumers. A modest standard deduction was provided to the salaried taxpayers in lieu of transport and medical deductions.

These reforms are in tandem with the Prime Minister's pledge to the people of India to give the nation an honest, clean and transparent Government. By taking difficult decisions and restoring strong performance of Indian economy, India stands out among the fastest growing economies of the world.

Economic Indicators

- GDP growth @ 6.5%
- Retail inflation @ 3.23%
- Agriculture growth @ 2.1%
- Industry growth @ 4.4%
- Services Sector 8.3%
- Fiscal deficit @ 3.5%
- Revenue Deficit 2.6%
- Rupee appreciated by 4.14% with an average of Rs 64.4 / $ during April 2017 to January 2018

Budget: At a Glance

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Farmers: Double farmers' income by 2022 when India celebrates its 75th year of independence

Agriculture: Fool-proof mechanism so that farmers will get adequate Minimum Support Price (MSP) for their produce

Air Pollution: Special Scheme to support the Governments of Haryana, Punjab, Uttar Pradesh and the NCT of Delhi to combat air pollution and to subsidize machinery required for management of crop residue

Swachh Bharat: Positive effect on the dignity of ladies and the overall health of family. Proposed to construct around 2 crore more toilets

Education: Increase the digital intensity in education. Moving from "black board" to "digital board"

Health Protection Scheme: World's largest government funded health care programme launched to cover over 10 crore poor and vulnerable families, providing coverage upto Rs. 5 lakh per family per year

Job Creation: Introducing system of fixed term employment for apparel and footwear sector, paid maternity leaves, contribution to EPF for new employees for 3 years etc.

Tourism: To develop 10 prominent tourist sites into iconic tourism destinations. Tourist amenities at 100 "Adarsh" monuments of the Archaeological Survey of India to be upgraded to enhance visitor experience

Railway: Optimal electrification of railway network, increasing use of technology like "Fog Safe" and "Train Protection and Warning System"

Key Policy Announcements

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Agriculture and Rural Economy

- Upgrading existing 22,000 rural haats into Gramin Agricultural Markets (GrAMs)
- Promotion of cluster based development of agri-commodities and regions
- ‘Operation Greens’’ launched to promote Farmer Producers Organizations (FPOs), agri-logistics, processing facilities and professional management
- State of the art testing facilities in all the 42 Mega Food Parks
- Re-structured National Bamboo Mission to promote bamboo sector in a holistic manner
- Setting up a Fisheries and Aquaculture Infrastructure Development Fund (FAIDF) for fisheries sector and an Animal Husbandry Infrastructure Development Fund (AHIDF) for financing infrastructure requirement of animal husbandry sector
- 51 lakh houses in years 2017-18 and 2018-19 each to be constructed exclusively in rural areas under Prime Minister Awas Scheme, Gramin
- Establishment of a dedicated Affordable Housing Fund (AHF) in National Housing Bank
- Increase in allocation of National Rural Livelihood Mission
- Ground water irrigation scheme under Prime Minister Krishi Sinchai Yojna- Har Khet ko Pani to be taken up in 96 deprived irrigation districts where less than 30% of the land holdings gets assured irrigation
- State Governments to suggest mechanism for distribution companies to purchase surplus solar power from farmers at reasonably remunerative rates

Health, Education and Social Protection

- Technology to upgrade the skills of teachers through the recently launched digital portal ‘‘DIKSHA’’
- Ekalavya Model Residential School will be at par with Navodaya Vidyalayas, with special facilities for preserving local art and culture besides providing training in sports and skill development
- Revitalizing Infrastructure and Systems in Education (RISE) to step up investments in research and related infrastructure in premier educational institutions, including health institutions
- Prime Minister’s Research Fellows (PMRF) Scheme to identify 1,000 best B.Tech students each year from premier institutions and provide them facilities to do Ph.D in IITs and IISc
- Ayushman Bharat programme to address health holistically, in primary, secondary and tertiary care system covering both prevention and health promotion
- National Health Policy, 2017 to get private sector participation, through Corporate Social Responsibility initiatives for adopting health and wellness centers
- National Health Protection Scheme launched to cover over 10 crore poor and vulnerable families (approximately 50 crore beneficiaries) providing coverage upto Rs. 5 lakh per family per year for secondary and tertiary care hospitalization
- Nutritional support to all TB patients @ Rs. 500 per month for the duration of their treatment
- Galvanizing Organic Bio-Agro Resources Dhan (GOBAR-DHAN) for management and conversion of cattle dung and solid waste in farms to compost, fertilizer, bio-gas and bio-CNG

Key Policy Announcements

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Infrastructure and Financial Sector Development

- Smart Cities Mission and the AMRUT programs launched. Smart Cities Mission aims at building 100 Smart Cities with state-of-the-art amenities. AMRUT focuses on providing water supply to all households in 500 cities
- National Heritage City Development and Augmentation Yojana (HRIDAY) taken up in a major way to preserve and revitalize soul of the heritage cities in India
- Tourist amenities at 100 Adarsh monuments of the Archaeological Survey of India to be upgraded to enhance visitor experience
- Ambitious Bharatmala Pariyojana approved for providing seamless connectivity of interior and backward areas and borders of the country
- ‘Safety First’ policy, with allocation of adequate funds under Rashtriya Rail Sanraksha Kosh
- Regional connectivity scheme of UDAN (Ude Desh ka Aam Nagrik) shall connect 56 unserved airports and 31 unserved helipads across the country
- Crypto-currencies not considered as legal tender or coin. Measures to be taken to eliminate use of these crypto-assets in financing illegitimate activities or as part of the payment system
- A new Scheme to be evolved to assign every individual enterprise in India a unique ID
- Policy for toll systems on “pay as you use” basis to promote electronic payments
- The Government to formulate a comprehensive Gold Policy to develop gold as an asset class. A system of consumer friendly and trade efficient system of regulated gold exchanges to be established

Medium, Small and Micro Enterprises (MSMEs) and Employment

- Massive increase in MSMEs after demonetization and introduction of GST
- Develop framework to help MSMEs address issues of non-performing assets and stressed accounts
- Review the refinancing policy and eligibility criteria set up under MUDRA Yojana to help refinancing of Non-Banking Finance Companies
- A group in the Ministry of Finance is examining the policy and institutional development measures needed for creating right environment for Fintech companies to grow in India
- Online loan sanctioning facility for MSMEs will be revamped for prompt decision making by the banks
- Additional measures to strengthen the environment for Venture Capital Funds and the angel investors for their growth and successful operation of alternative investment funds in India.
- facilitating generation of employment in the country, the following measures have been proposed:
  - Contribution of 8.33% of Employee Provident Fund (EPF) for new employees for 3 years
  - Contribution of 12% to EPF for new employees for 3 years large sectors like textile, leather and footwear
  - Additional deduction of 30% of the wages paid for new employees under the Income Tax Act
  - Launch of National Apprenticeship Scheme to give training to 50 lakh youth by 2020
  - Introducing system of fixed term employment for apparel and footwear sector
  - Increasing paid maternity leave from 12 weeks to 26 weeks, along with provision of crèches

Sectoral Announcements

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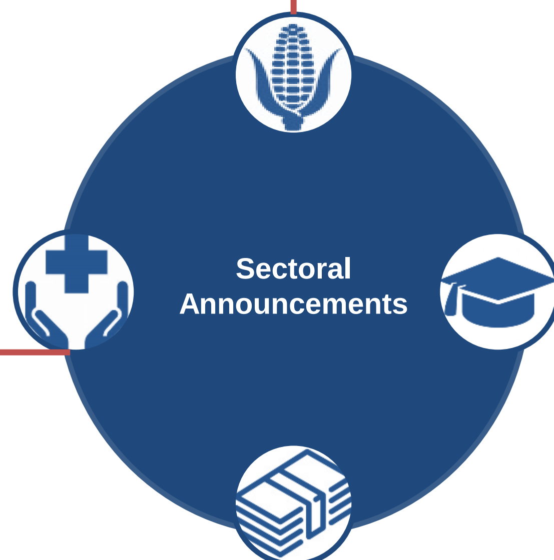


Agriculture

- New projects as well as enhanced support for existing schemes
- Paradigm shift from decades old production centric policies to double farmer's Income by 2022
- Low-cost farming and higher MSP
- Significant allocation for promoting and boosting agriculture, organic farming, animal husbandry and fisheries
- Export of agri-commodities shall be liberalized to realize its complete potentials

Education

- Education to be treated holistically without segmentation
- Increasing digital intensity for gradual movement from ‘‘black board'' to ‘‘digital board''
- Integrated B.Ed. programme and launch of digital portal "DIKSHA" for teachers
- Revitalizing infrastructure and systems in education by 2022 for school infrastructure
- Ekalavya schools for tribal population
- Creation of additional post graduate seats & new framework of medical education

Health

- Swasth Bharat Samriddha Bharat
- Two new initiatives under the Ayushman Bharat Programme
- 1.5 Lakh Health & Wellness Centers to bring healthcare closer to homes
- National Health Protection scheme - world's largest government-funded health care programme, covering 10 crore poor and vulnerable families providing coverage up to INR 5 lakhs
- Nutritional support to TB patients

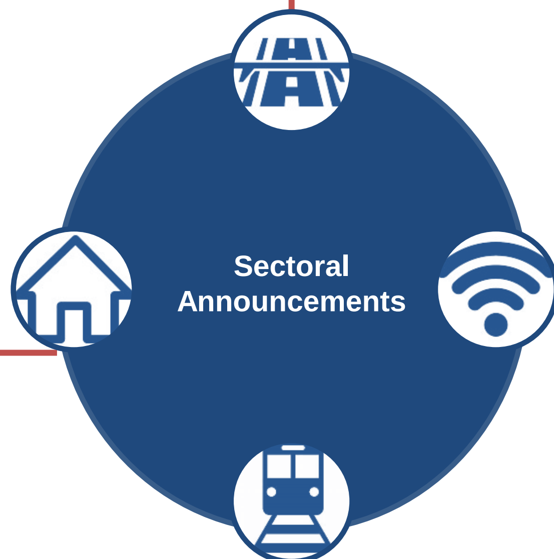
Financial Sector

- Mandate from SEBI to raise one-fourth of the finance form the bond market
- Allowable provisions for Non-Performing Assets stepped up to 8.5%
- Additional allocation for recapitalization of Banks
- Integration of Commodities and securities Derivative Market
- Substantive reforms facilitating FDI through automatic Route
- Computer Emergency Response Team with respect to cyber security to be established

Sectoral Announcements

Infrastructure

- All time high allocation; focus on railways and roads
- PPP model for operation and maintenance of select airports in Tier 2 cities
- Expansion of airport capacity and initiatives to civil aviation sector
- New Metro Rail Policy – focus on innovative models of implementation and financing
- Infrastructure status and associated benefits given to affordable housing
- Proposed Trade Infrastructure for Export Scheme (TIES) to focus on Export Infrastructure



Technology & Start-ups

- Development of cutting edge technologies in Digital Space
- Connection of one lakh Gram Panchayat through high speed optical fiber network
- “Start-Up India’’ program as a robust alternative investment regime
- Extend sunset period for profit linked deduction available to start-ups
- Encouraging & streamlining Digital Payment

Real Estate

- Focus on affordable housing – “Housing for all by 2022”
- 10 million houses by 2019 to provide homes to houseless and those living in kutcha houses
- Reduction in lending rates of Housing Finance

Railways

- Strengthening & optimal electrification of Railways network
- Rashtriya Rail Sanraksha Yojna
- Railway Station redevelopment projects; ~ 600 stations targeted in 2018-19 & promotion of Solar Power
- Specialized Railways University at Vadodara
- Modernization and upgradation of identified railway corridors
- New Metro Rail Act – greater private participation and investment in construction & operation

Sectoral Announcements

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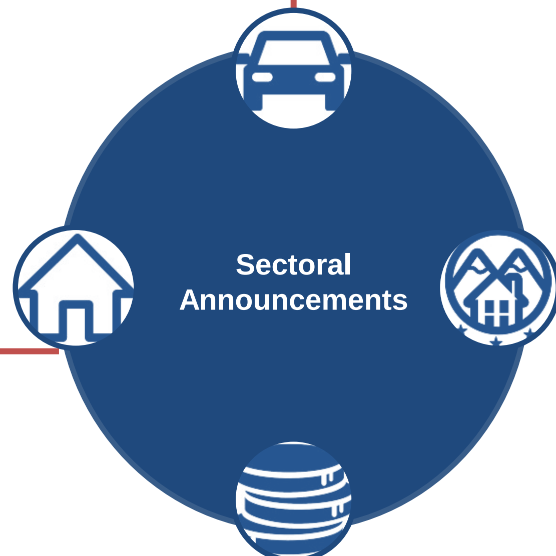
Automobile Sector

- Customs Duty rates have been increased on automobile parts to promote "Make in India"
- Increased allocation for rural economy & infrastructure promises well for automotive industry

Rural Population

- Mission Antyodya – to curb poverty
- AMRUT – water supply to households in 500 cities
- Mason Training in Rural Areas
- Stepped up allocation for BharatNet Project
- Conducive labor environment for higher productivity
- Houses to be constructed exclusively in rural areas under Prime Minister Awas Scheme, Gramin
- Increase in allocation of National Rural Livelihood Mission

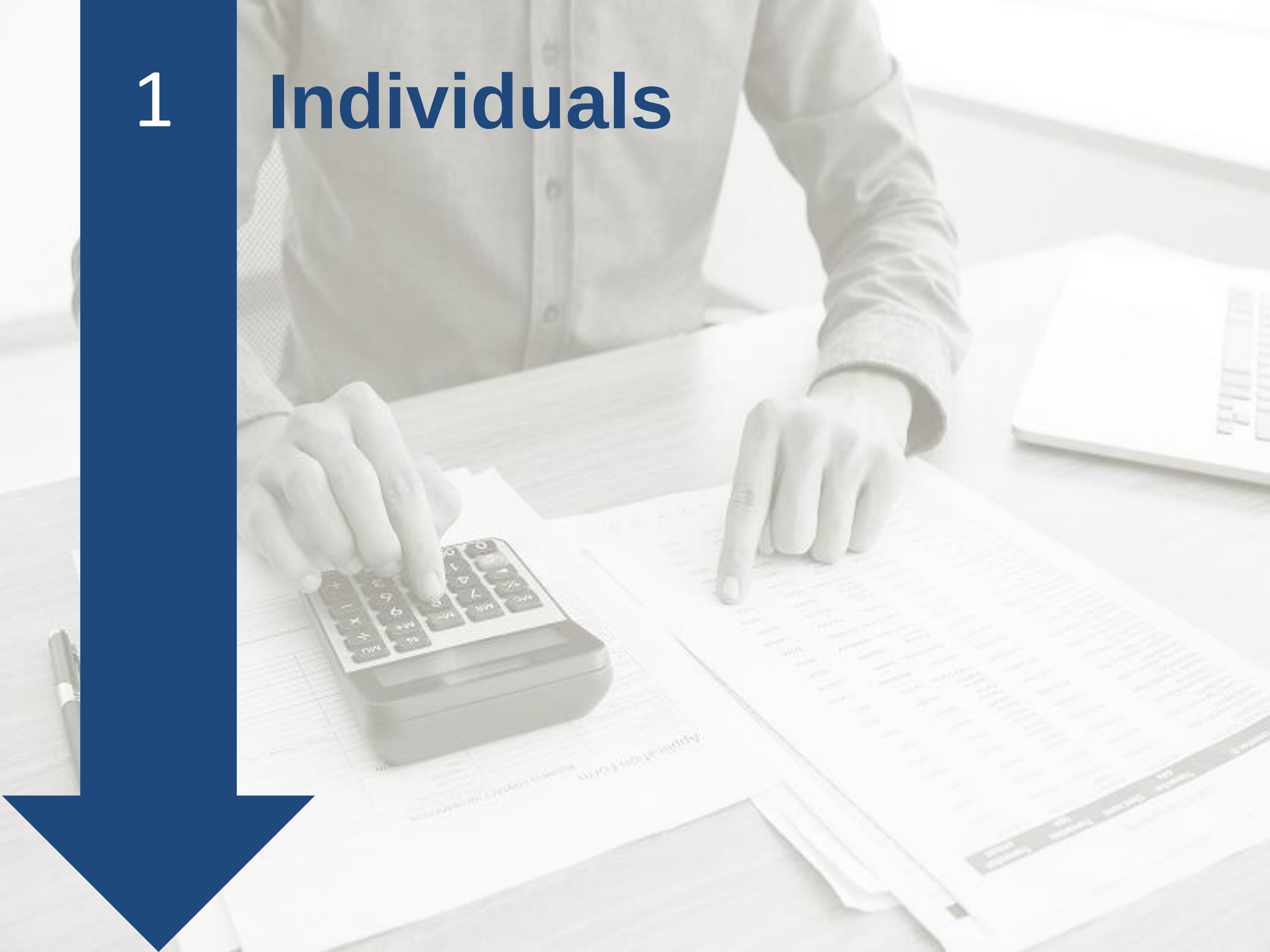


MSME

- Reduction of income tax to 25% for companies having turnover up to Rs 250 crore
- Funds allocation to MSMEs for giving credit support, capital and interest subsidy and innovations
- Increased Digital Transaction leading to easier accessibility of credit
- Stepping up of allocation for Pradhan Mantri Mudra Yojna
- Trade Electronic Receivable Discount System (TReDS) with GSTN

Miscellaneous

- Toll Plazas digitized with Fast Tags & other electronic payment systems
- Increased outlay for the textile sector in 2018-19.
- Development of iconic tourist destinations anchors on SPVs
- Eliminating use of crypto-currencies
- Scheme of assured pension to Senior Citizens and smart card based Aadhar with health details



1 Individuals

Personal Tax Rates

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No change in tax slabs or rates for individual taxpayers except for effective increase in the rate of cess by 1% as “Health and Education cess”

(Amount in Rs.)

	< 60 years		Senior Citizens (60 – 80 years)		Super Senior Citizens (> 80 years)	
Particulars	**Existing**	**Proposed**	**Existing**	**Proposed**	**Existing**	**Proposed**
• Upto 2.5 lakhs	NIL	NIL	NIL	NIL	NIL	NIL
• > 2.5 lakhs upto 3 lakhs	5.15%	5.20%	NIL	NIL	NIL	NIL
• > 3 lakhs upto 5 lakhs	5.15%	5.20%	5.15%	5.20%	NIL	NIL
• > 5 lakhs upto 10 lakhs	20.6%	20.8%	20.6%	20.8%	20.6%	20.8%
• > 10 lakhs upto 50 lakhs	30.9%	31.2%	30.9%	31.2%	30.9%	31.2%
• > 50 lakhs upto 1 crore	33.99%	34.32%	33.99%	34.32%	33.99%	34.32%
• > 1 crore	35.535%	35.88%	35.535%	35.88%	35.535%	35.88%

Budget Proposals

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Budget Proposal	Existing Provision	Proposed Amendment
Standard Deduction for Salaried Taxpayers	No standard deduction separately for salaried taxpayers Conveyance allowance of Rs.19,200 p.a. & reimbursement of medical expense upto Rs.15000/- p.a. exempt u/s 10	Standard deduction up to Rs.40,000/- for salaried taxpayers Consequently, existing conveyance allowance & medical reimbursement benefits to be withdrawn
Deductions available to senior citizens on health insurance premium and medical treatment	Deduction allowed up to Rs.30,000/- p.a. u / s 80D	Existing deduction limit to be increased to Rs.50,000/-
Enhanced deduction to senior citizens for medical treatment of specified diseases	Deduction allowed up to Rs.60,000/- for senior citizens & Rs.80,000/- for super senior citizens u/s 80DDB	Existing deduction limit increased to Rs.1,00,000/- for both senior & super senior citizens
Deduction of interest income from deposits held by senior citizens	Section 80TTA allows deduction up to Rs 10,000/- in respect of interest income from savings account to all taxpayers	Proposed section 80TTB to allow deduction up to Rs 50,000/- for interest income from deposits held by senior citizens Consequently section 194A to be amended to raise limit of deduction of tax at source (TDS) on such interest income to Rs 50,000/-
New Pension Scheme (NPS) tax free withdrawal limit	As per section 10(12A), an employee contributing to NPS is allowed an exemption in respect of 40% of the total amount payable to him on closure / opting out of his account	It is proposed to extend the said tax-free withdrawal benefit to all subscribers of NPS

2 Business Income

Corporate Tax Rates

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- For domestic company, rate of income-tax reduced to 25% if the total turnover / gross receipts of the FY 2016-17 does not exceed Rs. 250 crores
- No change in tax slabs or rates for other non-individual taxpayers including foreign companies

Particulars	Existing			Proposed		
Total Income	Upto Rs. 1 cr	> Rs. 1 cr <=10 cr	> Rs. 10 cr	Upto Rs. 1 cr	> Rs. 1cr <=10 cr	> Rs. 10 cr
Domestic Companies						
Turnover < Rs. 250 crores	25.75%	27.55%	28.84%	26.00%	27.82%	29.12%
Turnover > Rs. 250 crores	30.90%	33.06%	34.61%	31.2%	33.38%	34.94%
LLPs, Firms	30.90%	34.61%	34.61%	31.20%	34.94%	34.94%
Foreign Companies	41.20%	42.02%	43.26%	41.60%	42.43%	43.68%

Incentives to newly set-up entities

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Budget Proposal	Existing provision	Proposed Amendment	Comments
Rationalization of income of a newly set up domestic manufacturing company Applicable from: AY 2017-18 onwards	• Section 115BA provides that total income of a newly set up domestic company engaged in manufacture shall be taxed @ 25% subject to conditions • Certain incomes are subject to a scheduler tax rate which may be lower or higher than 25%	• It is clarified that section 115BA is restricted to the income from the business of manufacturing, production, research or distribution • Income which are at present taxed at a scheduler rate will continue to be so taxed	• Clarification provided to remove unintended hardship or unwarranted relief
Tax benefit to start-ups modified Applicable from AY 2018-19	• Section 80-IAC provides deduction to an eligible start-up for 3 consecutive years out of 7 years if- – it is incorporated on or after 01.04.2016 before 01.04.2019 – total turnover does not exceed Rs 25 crore in any of the years beginning 01.04.2016 and 31.03.2021; and – it is engaged in the eligible business activities	• The benefit would also be available to start ups incorporated on or after the 01.04.2019 but before 01.04.2021 • The requirement of the turnover not exceeding Rs 25 Crore would apply to seven years commencing from the date of incorporation; • The definition of eligible business expanded	• Extend sunset period for promoting start-ups in India

Dividend Distribution

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Budget Proposal	Existing provision	Proposed Amendment	Comments
Dividend Distribution Tax (DDT) on dividend payouts in equity oriented funds	• Section 115R provides that income distributed by the specified company or a Mutual Fund shall be chargeable to tax including additional income-tax on such distributed income • However, in respect of any income distributed to a unit holder of equity oriented funds is not chargeable to tax under the said section	• Any income distributed by a equity oriented mutual fund shall be liable to pay additional income tax @10% on income so distributed	A level playing field between growth oriented funds and dividend paying funds in the wake of new capital gains tax regime
Application of DDT to Deemed Dividend	• Dividend distributed by a domestic company is subject to DDT under section 115-O • However, deemed dividend under 2(22)(e) is taxed in the hands of the recipient at applicable rates	• Deemed dividend under section 2(22)(e) shall also be liable to DDT @ 30%(without grossing up)	This amendment aims to prevent camouflaging dividend in various ways such as loans and advances
Widening of scope of accumulated profits for the purposes of Dividend	• Definition of 'accumulated profits' included all profits of the company up to the date of distribution or payment or liquidation, subject to certain conditions	• Scope of 'accumulated profits' widened to provide that in the case of an amalgamated company, accumulated profits shall be increased by the accumulated profits of the amalgamating company on the date of amalgamation	Such amendment prevents abusive arrangements wherein companies with large accumulated profits adopt the amalgamation route to reduce capital and circumvent the provisions of section 2(22)(d)

Deductions

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Budget Proposal	Existing provision	Proposed Amendment	Comments
Incentive for employment generation	• Sec 80JJAA provides for an additional deduction of 30% in respect of emoluments paid to eligible new employees, in employment for a 150 days during the year in case of apparel industry (240 days in case of other industry)	• Now footwear and leather industry are also eligible to claim 80JJAA benefit similar to apparel industry • Further, benefit also provided in a case new employee is employed for 150 / 240 days and the said employment period condition gets fulfilled in two consecutive financial years	• To promote employment generation
Deduction in respect of income of Farm Producer Companies (FPC)	• Sec 80P provides for 100% deduction in respect of profit of cooperative society which provide assistance to its members engaged in primary agricultural activities	• It is proposed to extend similar benefit to FPCs having a total turnover up to Rs 100 Crore • The benefit shall be available for a period of 5 years from FY 2018-19 onwards	• To promote FPC engaged in marketing of agricultural produce, purchase of agricultural livestock or other articles, processing of the agricultural produce of its members
Deduction of certain incomes not allowed if return filed beyond due date	• Existing provisions of section 80AC provides no deduction of certain incomes u/s 80IA, 80IB, 80IC, 80ID, 80IE shall be available unless return is filed by the due date	• It is proposed to extend the scope of section 80AC to entire chapter of deductions in Chapter VIA	• To encourage filing of tax return with the prescribed due dates

Alignment with Insolvency Law

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Budget Proposal	Existing provision	Proposed Amendment	Comments
Benefit of carry forward and set off of losses to facilitate insolvency resolution Applicable from: AY 2018-19 onwards	• Section 79 provides that carry forward and set off of losses in a closely held company shall be allowed only if there is a continuity in the beneficial owner of the shares carrying not less than 51% of the voting power, on the last day of the year or years in which the loss was incurred	• Companies whose corporate insolvency resolution plan has been approved under the Insolvency and Bankruptcy Code, 2016 is now relaxed from the rigors of Section 79	• To remove the hurdle for restructuring and rehabilitation of companies seeking insolvency resolution
Relief from liability of Minimum Alternate Tax (MAT) Applicable from: AY 2018-19 onwards	• In computing book profits for the purpose of calculating MAT under section 115JB, deduction in respect loss brought forward or unabsorbed depreciation, whichever is less as per books of account is allowed as deduction • Consequently, where the loss brought forward or unabsorbed depreciation is Nil, no deduction is allowed	• Aggregate amount of unabsorbed depreciation and loss brought forward shall be allowed to be reduced from the book profit, if a company's application for corporate insolvency resolution process under the Insolvency and Bankruptcy Code, 2016 has been admitted by the Adjudicating Authority	• This non-deduction was a barrier to rehabilitating companies seeking insolvency resolution

Other key announcements

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Budget Proposal	Existing provision	Proposed Amendment	Comments
Rationalization of provision relating to conversion of stock-in-trade (SIT) into Capital Asset	• Section 45 provides that capital gains arising from a conversion of capital asset into stock-in-trade shall be chargeable to tax • However, the existing law does not provide for taxability where the stock in trade is converted into capital asset	• If any SIT is converted into capital asset, then profit or gains from such conversion shall be charged to tax as business income on the date of conversion • Fair Market Value on the date of conversion shall be deemed to be the full value of the consideration	• The amendment seeks to discourage the practice of deferring the tax payment by converting the inventory into capital asset
Taxability of compensation in connection to business or employment	• Compensation receipts are taxable as business income under section 28	• Any compensation (capital or revenue) for termination or modification of a contract relating to business to be taxable as business income • Any compensation relating to employment to be taxable as income from other sources	• A large segment of compensation receipts is out of the purview of taxation leading to base erosion and revenue loss

Other key announcements

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Budget Proposal	Existing provision	Proposed Amendment	Comments
Presumptive income in case of goods carriage	• As per section 44AE, profits @ Rs. 7500/- per month shall be considered as deemed profits for each goods carriage or actual claim, whichever is higher • The current presumptive income scheme is applicable uniformly to all classes of goods carriages irrespective of their tonnage capacity. The only condition is that the taxpayer should not have owned more than 10 goods carriages at any time during the financial year	• In the case of heavy goods vehicle (more than 12 MT gross vehicle weight), deemed income would Rs. 1000/- per ton of gross vehicle weight or unladed weight per month or the actual claim, whichever is higher • Accordingly, the transporters who owns less than 10 large capacity / size goods carriages shall not be eligible for presumptive tax benefits	• The legislative intent of introducing this provision was to give benefit to small transporters only in order to reduce their compliance burden.

Amendments in relation to ICDS

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Following changes have been proposed under Income-tax Act in line with **Income Computation and Disclosure Standards ('ICDS')** provisions. These provisions is applicable retrospectively from 1 April 2017 i.e. AY 2017-18 onwards

- Allow deduction for marked to market (MTM) loss or other expected loss, as provided in ICDS
- Any gain or loss arising due to changes in foreign exchange rates in respect of specified foreign currency transactions shall be treated as income or loss, which shall be computed as per ICDS
- Profits arising from a construction contract shall be determined on the basis of percentage of completion method
    - The contract revenue shall include retention money
    - The contract cost shall not be reduced by incidental interest, dividend and capital gains
- Valuation of inventory shall be made at lower of actual cost or NRV, computed as per ICDS
- Valuation of purchase and sale of goods or services and of inventory shall include the amount of any tax, duty, cess or fee actually paid or incurred to bring the goods or services to the place of its location and condition as on the date of valuation
- Interest received by a taxpayer on compensation or on enhanced compensation, shall be deemed to be the income of the year in which it is received
- The claim for escalation of price in a contract or export incentives shall be deemed to be the income of the tax year in which reasonable certainty of its realization is achieved
- Specified subsidy, grant, etc. shall be deemed to be the income of the tax year in which it is received, if not charged to income tax for any earlier tax year

3 Capital Gains

Capital Gains

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Budget Proposal	Existing provision	Proposed Amendment	Comments
Long Term Capital Gains (LTCG) tax in the case of Foreign Institutional Investors (FII)	• Section 115AD provides that LTCG arising from transfer of long term capital asset is taxable @ 10% in the hands of FII • However, LTCG arising from transfer of long term capital asset being equity shares / equity oriented mutual fund / unit of business trusts is exempt under section 10(38)	• Consequent to the withdrawal of exemption under section 10(38), LTCG exceeding Rs.1 lakh shall be chargeable to tax in the hands of FII	• Consequent to amendment in Section 10(38) of Income-tax Act
LTCG on sale of equity shares	• LTCG arising from transfer of long term capital assets, being equity shares of a company / unit of equity oriented fund / unit of business trusts, is exempt from income-tax under section 10(38) • Further, such transactions carried out on a recognized stock exchange is liable to securities transaction tax (STT)	• Section 112A proposes to tax such LTCG @10% on amount exceeding Rs. 1 lakh • LTCG will be computed without giving effect to: – cost inflation indexation – and the benefit of computation of capital gains in foreign currency in the case of a non-resident • All gains up to 31 January, 2018 will be grandfathered	• The existing regime was biased against manufacturing and has encouraged diversion of investment in financial assets • Grandfathering of LTCG accrued will limit the adverse impact • Interest of small investors having LTCG below Rs. 1 lakh has been protected

Capital Gains

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Budget Proposal	Existing provision	Proposed Amendment	Comments
Rationalization of transactions in immovable property	• In case of transfer of immoveable property, actual sale consideration or stamp duty value, whichever is higher is adopted • The difference is taxed as income both in the hands of the purchaser and the seller	• No adjustments shall be made in a case where the variation between stamp duty value and the sale consideration is not more than 5% of the sale consideration	• To minimize hardship in case of genuine transactions in the real estate due to variation in similar properties in the same area because of a variety of factors such as shape of the plot or location
Tax neutral transfers	• Transfer of capital assets between holding company and its wholly owned subsidiary was exempt under section 47 but was not excluded from the scope of Income from other sources under section 56	• Section 56 is now amended to exclude such transfer of capital assets between holding company and its wholly owned subsidiary	• In order to facilitate the transaction of money or property between a wholly owned subsidiary company and its holding company.
Rationalization of LTCG on transfer of any asset and investment in notified bonds	• The scheme was available on capital gains arising on transfer of any long term capital asset • Further investment in “long-term specified asset” included notified bonds redeemable after 3 years	• The scheme has been restricted to transfer of long term capital asset being land or building • Further, maturity period for notified bonds increased to 5 years from 3 years	• This amendment is proposed to restrict the scope of the exemption to long term capital assets, being land or building or both • Make available funds to bond-issuing companies for a longer duration

4

Assessment Procedure

Assessment Procedure

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Budget Proposal	Existing provision	Proposed Amendment	Comments
New scheme for scrutiny assessment	Section 143 empowers the Assessing Officer to pass an assessment order determining sum payable or refundable to assessee	It is proposed to prescribe a new scheme for the purpose of making assessments by eliminating the interface between the Assessing Officer and the assessee	Impart greater transparency and accountability, optimal utilization of the resources and introduction of team-based assessment
Processing of Income Tax Returns (ITR) – adjustment of income reported in the Return vis-à-vis Form 26AS Applicable from AY 2018-19 onwards	Section 143(1) provides for processing of return of income with certain adjustments, including addition of income appearing in Form 26AS which has not been included while computing the total income in the tax return	No such adjustments in respect of difference in income reported in the return and form 26AS shall be made in respect of any return furnished on or after 1 April, 2018	Rationalization of adjustments during processing of return of income to restrict scope of adjustments
Prosecution for failure to furnish return	Section 276CC provides that if a person willfully fails to furnish in due time the return of income which he is required to furnish, he shall be punishable with imprisonment / fine if the tax payable exceeds Rs 3000/-	Prosecution shall lie against companies for non-filing of return, whether or not any tax is payable	To prevent abuse by shell companies or companies holding Benami properties

5 Miscellaneous

Miscellaneous

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Budget Proposal	Existing provision	Proposed Amendment	Comments
Person other than individual also required to apply for Permanent Account Number (PAN) mandatorily	Section 139A that every person who has not been allotted a PAN shall apply for the same	Every non-individual entities which enters into a financial transaction exceeding Rs 250,000/- or more in a financial year shall be required to apply for PAN Further, the managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer or any person competent to act on behalf of such entities should also apply for PAN	Widening and deepening of tax base
Restriction on manner of payment in respect of certain exempt entities	• No restrictions on payments made in cash by charitable or religious trusts or institutions • No checks on whether such trusts or institutions follow the provisions of deduction of tax at source	• Cash expenditure exceeding Rs. 10,000 in a day shall not be allowed as tax deduction • Further, there will be a disallowance @ 30% of the sum payable to a resident on TDS non-compliance	• Measures introduced to encourage cashless economy and to reduce the generation and circulation of black money

6 International Taxation

International Taxation

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Budget Proposal	Existing provision	Proposed Amendment	Comments
Aligning "business connection" with Permanent Establishment (PE) Rule as per Multilateral Instrument (MLI)	• Under Section 9, "Business connection" includes business activities carried on by non-resident through dependent agents • If any person acting on behalf of the non-resident is habitually authorised to conclude contracts for the non-resident then such agent would constitute a PE in the source country	"Business connection" shall also include any business activities carried through an agent who is acting on behalf of the non-resident: • habitually concludes contracts; or • habitually plays the principal role leading to conclusion of contracts by the non-resident	In many cases, the person acting on the behalf of the non-resident, negotiates the contract but does not conclude the contract to avoid PE exposure After this amendment, the activities for avoidance from payment of tax by circumventing the existing PE definition by way of commissionaire arrangements or fragmentation of business activities will be prevented
"Business connection" to include "Significant Economic presence"	• Section 9 is restrictive as it covers physical presence based nexus rule for taxation of non-resident in India • Further, "business connection" is also narrow in its scope since it limits the taxability on transactions of non-resident to those carried out through a dependent agent	It is proposed to provide that 'significant economic presence' in India shall also constitute 'business connection' "Significant economic presence" means: • transaction in respect of goods, services or property carried out by a non-resident in India including downloading of data or software in India if payment exceeds certain limit; or • soliciting of business in India through digital means with specified number of users	The proposal aims to cover emerging business models / digitized businesses which do not require physical presence of the non-resident or any agent in India under the tax net

Transfer Pricing

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Rationalization of provisions relating to Country-by-Country Report (CbCR)

- India had introduced Country by Country Report (CbCR) requirements effective from AY 2017-18
- This required Indian headquartered MNEs to file CbCR in India reporting country-wise details of revenue, profits, taxes, number of employees etc.
- Following amendments are proposed to improve its effectiveness and reduce the compliance burden of such reporting:
  - Time allowed for furnishing the CbCR in the case of parent entity or Alternative Reporting Entity (ARE), resident in India is proposed to be extended to 12 months from the end of reporting accounting year
  - Constituent entity resident in India, having a non-resident parent, shall also furnish CbCR in case its parent entity outside India has no obligation to file the report in the latter's country or territory within 12 months from the end of reporting accounting year.
  - The due date for furnishing of CbCR by the ARE of an international group, the parent entity of which is outside India with the tax authority of the country or territory of which it is resident, will be the due date specified by that country or territory
- These amendments are clarificatory in nature will take effect retrospectively from AY 2017-18

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Indirect Tax Proposals

Customs Duty

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- Being the first budget post implementation of GST, indirect tax proposals majorly limited to customs duty
- No change in the merit rate of basic customs duty
- Education Cess and Secondary & Higher Education Cess on import of goods abolished and replaced with social welfare surcharge of 10% to be levied on aggregate of customs duty except IGST and GST compensation Cess in addition to other duties
- Goods earlier exempted from education cess and secondary and higher education cess continue to be exempted from this levy
- To encourage “Make in India,” basic customs duty on specified goods of food processing, electronics, auto sector etc. increased
- Custom Automated System to be implemented for various clearance under Customs Laws
- Electronic Cash Ledger based on the line of Goods and Services tax to be introduced
- A system of pre-notice consultation before issue of demand notice to be introduced
- Scope of the Customs law expanded to cover any offence or contravention committed outside India
- Expansion in scope of provisional assessment to include exports as well
- Valuation methodology prescribed for computation of IGST and compensation cess for warehoused goods sold prior to clearance for home consumption or export

Central Board of Excise and Customs to be renamed as Central Board of Indirect Taxes and Customs

Central Excise & Service Tax

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Service Tax

- Service tax to be exempted till 30th June 2017 on below services:
  - Services provided by the Naval Group Insurance Fund by way of life insurance to personnel of Coast Guard under the Group Insurance Schemes exempt from 10th September, 2004
  - Services provided by the Goods and Services Tax Network (GSTN) to the Central Government / State Governments / Union territories administration exempt from 28th March, 2013
  - Consideration paid to the Government through
  - Share of profit petroleum in respect of services provided by the Government by way of grant of license or lease to explore or mine petroleum crude or natural gas commencing from 1st April, 2016
- Refund can be claimed within 6 months from enactment of the Finance Bill, 2018

Central Excise

- There gas been change in taxation of petrol (motor spirit) and high-speed diesel:
  - Basic excise duty on petrol and high-speed diesel reduced by Rs. 2 per litre
  - Road and Infrastructure cess levied on petrol and high-speed diesel levied at Rs. 8 per litre
  - Additional excise duty of Rs. 6 per litre abolished
- Road and Infrastructure Cess @ Rs 4 per litre to be levied on petrol and diesel manufactured in and cleared from 4 specified refineries located in the North-East States

Changes in Basic Customs Duty

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Changes in the Rate of Basic Custom Duty on select products

Sr. No.	Commodity	Old Rate	New Rate
1.	Fruit juices and vegetable juices including cranberry juice	30%	50%
2.	Beauty or make-up preparations and preparations for the care of the skin (other than medicaments)	10%	20%
3.	Truck and Bus radial tyres	10%	15%
4.	Footwear	10%	20%
5.	Imitation Jewellery	15%	20%
6.	Cellular mobile phones	15%	20%
7.	Smart watches / wearable devices	10%	20%
8.	LCD/LED/OLED panels and its parts	7.5% / 10%	15%
9.	Silk Fabrics	10%	20%
10.	Raw Cashew Nuts	5%	2.5%
11.	Furniture	10%	20%
12.	Toys & Games	10%	20%

Social Welfare Surcharge

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Levy of Social Welfare Surcharge on import of certain Goods

Sr. No.	Commodity	% of aggregate duties of customs
1.	Goods imported to finance education , housing and social security	10%
2.	Motor spirit commonly known as petrol and high speed diesel oil	3%
3.	Silver (including silver plated with gold or platinum) & Gold (including gold plated with platinum), unwrought or in semi-manufactured form, or in powder form	3%

About KrayMan

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KrayMan is an Accounting and Advisory Firm specializing in Assurance, Tax, Regulatory, Compliance & Outsourcing, Corporate Secretarial, Transaction Advisory and HR Advisory services. We cater to International & Domestic Clients.

We are a team of professionals comprising of Chartered Accountants, Company Secretaries , Cost and Management Accountants, Lawyers and MBAs who are truly committed in providing timely, professional and quality services to our Clients thereby building a long term relationship with them.

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- Cross Border Associates (CBA) – HQ, Germany
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The intention of the newsletter is to cover highlights of major direct & indirect tax proposals introduced in India Union Budget 2018. Attempt has been made to cover most of the tax proposals likely to impact businesses in general. No claim is made to cover each and every proposal introduced in the budget. The newsletter contains information of general nature and is not meant to be a substitute for professional advice in any manner. In case the Reader requires any specific inputs / suggestions / advice from our end, please contact us separately.