ANALYSIS OF UNION BUDGET 2018

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Dear Sir / Madam,

We are pleased to forward herewith the highlights of the budget presented by the *Hon'ble Finance Minister Mr. Arun Jaitley* on *1st February, 2018.*

This is an initial review of the budget which would be approved and finalized after discussions. However, certain provisions relating to indirect taxes are made applicable immediately.

We value your feedback which will improve our presentation.

Regards,

M/s Patki & Soman
Chartered Accountants

Date: 5th February, 2018

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1 INTRODUCTION

Union Finance Minister Arun Jaitley presented the Union Budget 2018-19 in Parliament on 1st February 2018, Thursday. This budget, Jaitley's fifth, is the last full budget of this NDA government before India goes to polls for the General Elections due to be held in 2019. This is the first budget after big-ticket economic reforms such as GST, dynamic fuel pricing, mega PSU bank recapitalisation and more.

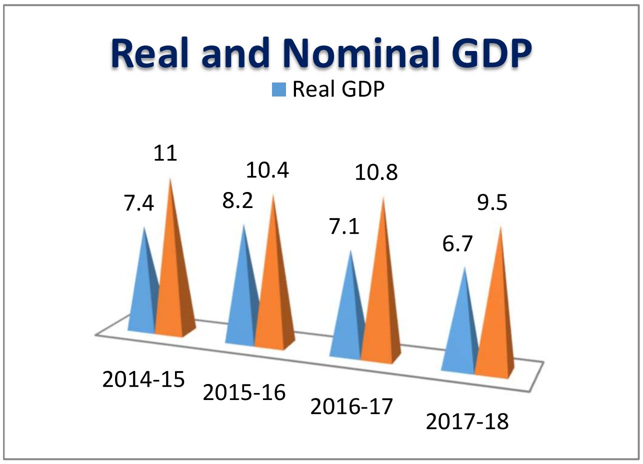
Agriculture got prime attention in the Union Budget 2018. Mr Jaitley outlined schemes to promote agriculture, organic farming, animal husbandry and fisheries, ensuring that he is concerned about the people living in rural areas. "Prime Minister Narendra Modi has given a clarion call to double farmers' income by 2022, the 75th year of India's independence," Mr Jaitley said in parliament. The minimum support price of all crops will be increased to at least 1.5 times of production cost.

A healthcare scheme was announced to cover 10 crore poor families, 50 crore beneficiaries will get Rs. 5 lakh per family per year. The scheme is the world's largest government-funded healthcare program.

To make the country digitally enabled, the finance minister announced further broadband access to villages. The government proposed to set up five lakh wi-fi hotspots to provide net connectivity to five crore rural citizens. This is one of the steps to fulfill the dream of Digital India.

Overall, the budget continued its prime focus on growth revitalizing rural and fiscal economy. With farmers, rural India, healthcare and reforms for specific sectors being the main focus, the budget 2018 is definitely Pro poor and Pro farmer.

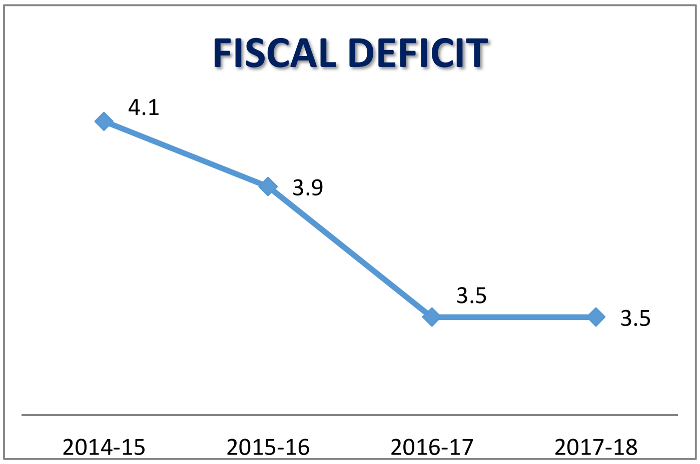
GDP Growth:



India is expected to register a growth rate of 7.2-7.5 % in the second half of the current fiscal and is on way to becoming the 5th largest economy of the world. While unveiling the Budget 2018-19, FM said, India has grown on an average of 7.5 % in the first three years of the current government and has become a $2.5 trillion economy.

Fiscal Deficit

Finance minister Arun Jaitley has set the fiscal deficit target for 2018-19 at 3.3% of the GDP to accommodate higher demand for expenditure against the earlier target of 3%. The government also revised the deficit target for the year ending March 2018 to 3.5% of GDP from the targeted 3.2%.

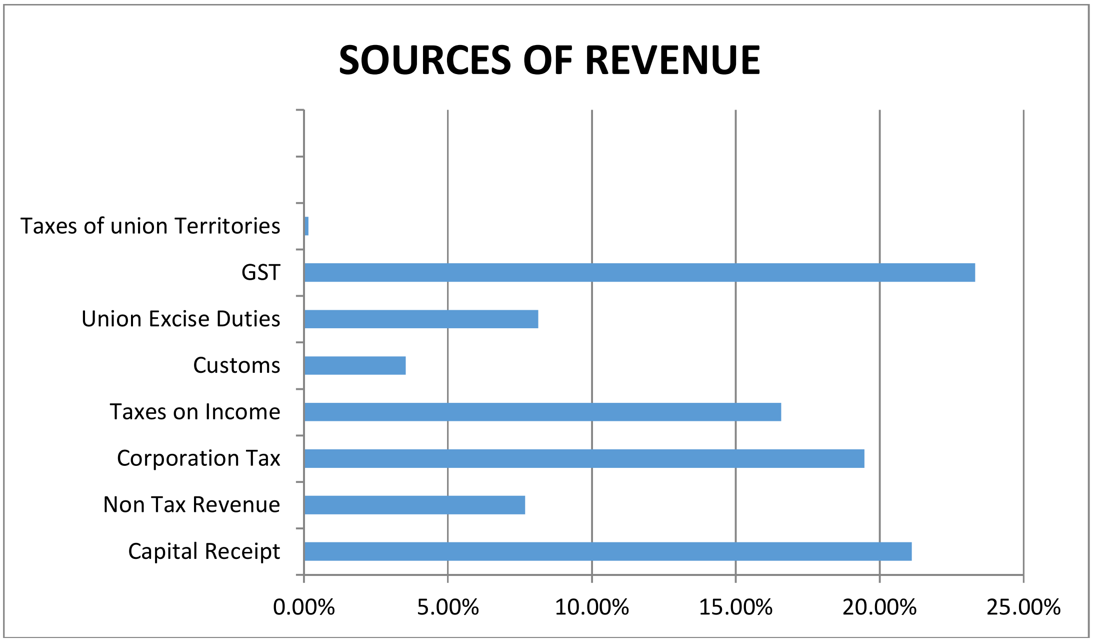


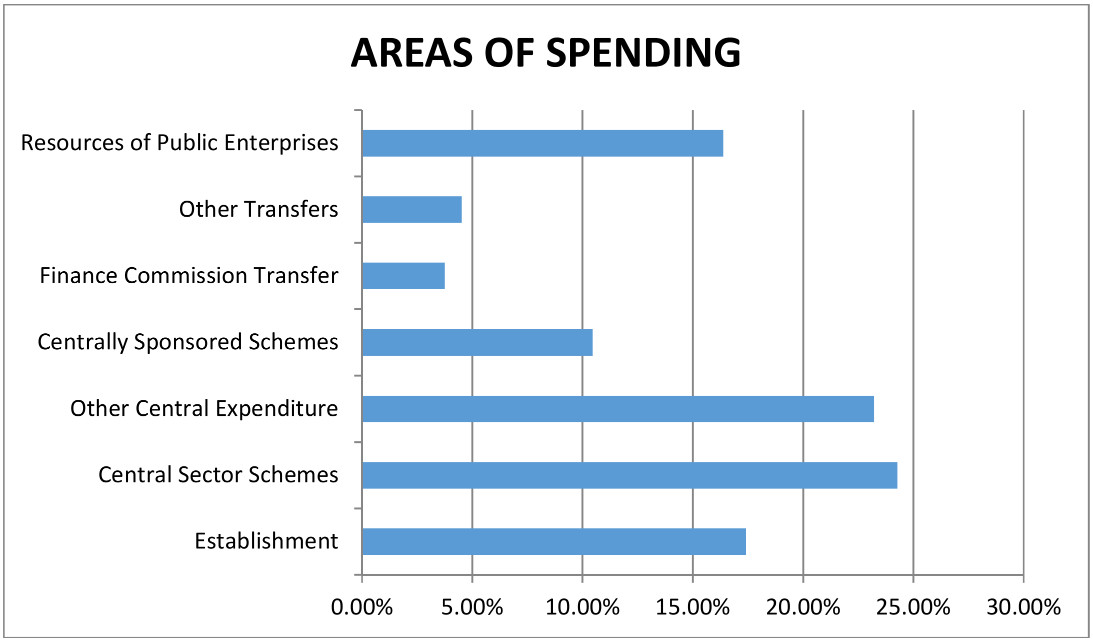
The Economic Survey indicated that the average retail inflation has declined to a six-year low of 3.3 % in 2017-18, with the economy moving towards a more stable price regime.

India has achieved a record production of food grains, estimated at 27.57crore tons. The agricultural sector grew at health rate of 4.9% in FY 2017.

The industrial sector grew at 5.8% in 2Q of FY 2018. The service sector is expected to grow at 8.3% in FY 2018 as compared to 7.7% in FY 2017.

The rupee appreciated by 4.14%, as it stood at an average of 64.4 per USD during April 2017 to January 2018 against an average of 67.19 per USD during the same period in the previous year.


SOURCES OF REVENUE
Taxes of union Territories
GST
Union Excise Duties
Customs
Taxes on Income
Corporation Tax
Non Tax Revenue
Capital Receipt
0.00%
5.00%
10.00%
15.00%
20.00%
25.00%


AREAS OF SPENDING
Resources of Public Enterprises
Other Transfers
Finance Commission Transfer
Centrally Sponsored Schemes
Other Central Expenditure
Central Sector Schemes
Establishment
0.00%
5.00%
10.00%
15.00%
20.00%
25.00%
30.00%

Individual Taxation:

- No change in personal income tax. However, Education cess is increased from 3% to 4 %, to be known as Education and Health cess.
- Standard Deduction of Rs 40,000 for salaried employees. But, benefits of transport allowance of Rs 1600 pm and Medical Reimbursement of Rs 15,000 are withdrawn.
- Rs 50,000 benefit to senior citizens for investment in mediclaim premium u/s 80D.
- Deduction u/s 80DDB being expenditure for medical treatment for senior citizens increased to Rs 100,000.
- Deduction u/s 80TTB up to Rs 50,000 for interest on deposits with bank.
- Benefit of tax free withdrawal from NPS extended to non-employee subscribers.

Capital Gains Taxation:

- LTCG exemption u/s 10(38) in respect of listed STT paid equity shares is being withdrawn. LTCG in excess of Rs 100,000 arising on transfer of equity shares/ units of equity oriented mutual fund will be chargeable to tax @10%.
- However, capital gain up to 31/01/2018 shall not be taxed as cost of acquisition will be taken as Fair Market Value as on 31/01/2018.
- A consequential amendment has been proposed in section 115AD of the Act to tax such LTCG @10% in the hands of Foreign Institutional Investors.
- Provision of Section 43CA, 50C and 56(2)(x) being amended to allow variation of 5% of sale consideration vis a vis stamp duty value on account of location, disadvantage etc.
- 54EC benefit of investment in Bonds to be restricted to Capital gain on land and building only. Further period of holding being increased from 3 years to 5 years.

Corporate Taxation:

- Domestic Companies having total turnover or gross receipts not exceeding Rs 250 crores in financial year 2016-17 shall pay tax at 25% instead of 30%.
- PAN to be obtained by all entities including HUF other than individuals in case aggregate of financial transaction in a year is Rs 2,50,000 or more. All directors, partners, members of such entities also to obtain PAN.

- The scope of accumulated profit for the purpose of deemed dividend to be widened in the case of the amalgamated company. It will include the accumulated profits or losses of the amalgamating company on the date of amalgamation.
- Dividend Distribution tax @ 30% will be levied on deemed dividend u/s 2(22)(e).
- Tax at the rate of 10% to be levied on income distributed by equity oriented mutual funds.
- All companies irrespective of income, to file return mandatorily and in case it is not filed, such companies will be liable for prosecution irrespective of the fact whether it has meagre tax liability.
- 100% tax exemption for the first five years, commencing from FY 2018-19, to companies registered as farmer producer companies with a turnover up to Rs. 100 crore where such FPC is-
  - engaged in undertaking eligible business of marketing of agricultural produce grown by the members, or
  - purchase of agricultural seeds, implements, livestock and other eligible items for supplying to the members; or
  - processing of agricultural produce of the members
- Taxation regime of start-ups to be modified as under:
  - The sunset date of incorporation for eligible start-ups to be extended from 31st March 2019 to 31st March 2021;
  - The requirement of total turnover not to exceed RS. 25 crore would apply to seven previous years commencing from the date of incorporation as against the earlier period ending on 31st March 2021; and
  - The definition of eligible business to be amended to mean innovation, development or improvement of products or processes or services or a scalable business model with a high potential of employment generation or wealth creation.
  - The requirement of new products and services driven by technology or intellectual property is done away with.
- In case of a unit of a Partnership firm or LLP located in IFSC, AMT to be charged at the rate of 9%
- Conversion of stock in trade to capital asset to be charged as business income in the year of conversion on Fair Market value on the date of conversion.
- Section 80JJA to be amended to rationalize the deduction of 30% by allowing the benefit for a new employee who is employed for less than the minimum period

(150 days) during the first year but continues to remain employed for the minimum period in subsequent years.

- Provision of section 40(ia) and 40A(3) and 40A(3A) are being made applicable to Charitable Trust. Hence expenditure incurred without deduction of tax and in cash will not be eligible as application of income u/s 10(23C) and section 11(1)(a).
- Companies set up and registered on or after 1st March 2016 engaged solely in the business of manufacture or production of article or the thing may at their option be taxable at 25 % provided they do not claim specified benefits or deductions.
- Deduction specified under Heading C of chapter VIA shall be allowed from gross total income only if the return of income is filed before due date.
- Tax neutral transfers- the transfer of money or property between a wholly owned subsidiary company and its holding company to be excluded from the scope of taxation of the recipient as income from other sources.
- Presumptive taxation- 44AE- Incase of heavy goods vehicle income would be deemed to be Rs 1000 per ton

Assessments:

- New scheme for scrutiny amendment shall be introduced.
- No adjustment u/s 143(1) while processing on account of mismatch with 26AS, form 16 and 16A.
- The scope of appealable orders before the ITAT to be expanded to include penalty orders imposing penalty on the accountant, merchant banker or registered valuer for furnishing incorrect information in any report or certificate. This provision to take effect from AY 2018-19.

Other Provisions:

- The ambit of ‘business connection’ for business activities carried on in India by a non-resident through dependent agents who habitually conclude contracts on their behalf has been expanded to include the activity of habitually playing a principal role leading to conclusion of contracts by the non-residents.
- The ambit of ‘business connection’ has been further expanded to include ‘significant economic presence’ in India

- Any compensation received on termination/ modification of the terms and conditions of any contract relating to a taxpayer's business to be taxable as business income.
- Income Computation and Disclosure Standards (ICDS):
  - i. ICDS being given statutory backing in view of decision of Delhi High Court.
  - ii. Marked to market loss computed as per ICDS to be allowed u/s 36.
  - iii. Gain or loss in Foreign Exchange as per ICDS to be allowed under new section 43AA.
  - iv. Construction Contract income to be computed on percentage completion method as per ICDS.
  - v. Valuation of Inventory including Securities to be done as per provisions of ICDS.
- Agriculture Commodity Derivatives income /loss which is not chargeable to CTT and traded on recognized stock exchange, not to be considered as speculative u/s 43(5).
- Definition of 'taxable commodities transaction' to include 'options in commodity futures' for levying CTT.
- Penalty for non-filing of statement of financial transaction as required u/s 285BA being increased to Rs 500 per day.
- National Technical Research Organization (NTRO) will not be required to deduct TDS u/s 195 on royalty and FTS payments.
- Section 115JB to be amended to provide that the aggregate amount of unabsorbed depreciation and loss brought forward (excluding unabsorbed depreciation) 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.
- Carry forward and set-off of losses to be allowed irrespective of change in shareholding beyond the permissible limit in case of closely held companies whose resolution plan has been approved by Adjudicating Authority after giving a reasonable opportunity of being heard to the jurisdictional Principal Commissioner or Commissioner. The provision is applicable from AY 2018-19.
- 8% Savings (Taxable) Bonds, 2003 are discontinued and new 7.75% GOI Savings (Taxable) Bonds, 2018 are introduced. TDS to be deducted for interest payment above Rs 10,000.
- Income of a foreign company from sale of leftover stock of crude oil on expiry of the agreement or arrangement entered into by/ approved by the Central

Government was tax exempt. This benefit to be extend to cases of termination of such arrangements or agreements.

- Transfer Pricing-
  - The time limit for filing CbCR by a Parent or an ARE resident in India has been revised.
  - CbCR to be filed in India in case the overseas Parent has no obligation to file CbCR and the Parent has not nominated an ARE.
- Structure of AAR- In view of the proposed amendments in the Customs Act creating a new Customs Authority for Advance Ruling, it is proposed to provide that the AAR constituted under the Act shall act as an appellate authority in respect of the rulings given by the customs authority for Advance Ruling. The proposed amendment shall be applicable from 1st April, 2018.

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Personal Taxation:

Rates of Personal Taxation for F.Y. 2018-19

Up to 60 Years	Tax Rate	Above 60 years but below 80 years	Tax Rate	Above 80 years	Tax Rate
Up to Rs. 2,50,000	Nil	Up to Rs. 3,00,000	Nil	Up to Rs. 5,00,000	Nil
Rs. 2,50,001 to Rs. 5,00,000	5%	Rs. 3,00,001 to Rs. 5,00,000	5%	--	--
Rs. 5,00,001 to Rs. 10,00,000	20%	Rs. 5,00,001 to Rs. 10,00,000	20%	Rs. 5,00,001 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%	Above Rs. 10,00,000	30%	Above Rs. 10,00,000	30%

Notes:

i) The above-mentioned rates are applicable for Individuals, HUF, association of persons, body of individuals and artificial juridical person.

ii) The tax rates for Individuals are unchanged for FY 2018-19.

iii) **"Health and Education Cess"** shall be levied at the rate of **4%** of income tax including surcharge wherever applicable. "Education Cess" and "Secondary and Higher Education Cess" shall be discontinued.

iv) A surcharge of 10% on tax payable is unchanged for individuals having an income of Rs 50 lakhs to Rs 1 crore and for Income exceeding Rs. 1 Crores, surcharge remains unchanged at 15%.

v) Surcharge will also be levied at the rate of 12% in cases where these persons are liable to AMT u/s 115JC of the Act.

Enhanced deduction to senior citizens in respect of health insurance premium and medical treatment

Section 80D, inter-alia, provides that a deduction upto Rs 30,000/- shall be allowed to an assessee, being an individual or a HUF, in respect of payments towards annual premium on health insurance policy, or preventive health check-up, of a senior citizen, or medical expenditure in respect of very senior citizen.

It is proposed to amend section 80D so as to increase deduction limit from Rs.30,000 per annum to Rs. 50,000 per annum.

For single premium policies where coverage exceeds one year, deduction for premium shall be allowed on a proportionate basis for the number of years for which health insurance cover is provided.

These amendments will take effect, from 1st April, 2019.

Enhanced deduction to senior citizens for medical treatment of specified diseases

Section 80DDB to be amended to increase deduction limits for medical expenditure in respect of specified critical illnesses from Rs. 60,000 per annum for senior citizens and Rs. 80,000 per annum for very senior citizens to **Rs. 100,000 per annum**

This amendment will take effect, from 1st April, 2019.

Deduction in respect of interest income to senior citizen

At present, a deduction upto Rs 10,000/- is allowed u/s 80TTA to an assessee in respect of interest income from savings account.

It is proposed to insert a new section 80TTB so as to allow a deduction up to Rs 50,000/- in respect of interest income from deposits held by senior citizens. However, no deduction u/s 80TTA shall be allowed in these cases. This amendment will be effective from 1st April, 2019.

Consequently, threshold for TDS u/s 194A on such interest income also to be increased to Rs. 50,000 per annum.

This amendment in respect of TDS will take effect, from 1st April, 2018.

Relief to salaried employees

It is proposed to introduce a standard deduction from salary income u/s 16 up to Rs. 40,000.

Consequently, the present exemption in respect of Transport Allowance (except in case of differently abled persons) of Rs. 19200 and reimbursement of medical expenses Rs. 15000 is proposed to be withdrawn.

These amendments will take effect from 1st April, 2019.

Firms Taxation:

i) A firm is taxable at the rate of 30% for the AY 2017-18 and 2018-19.
ii) Surcharge is 12% of the income tax if the net income exceeds Rs. 1 crore. It is subject to marginal relief.
iii) Health and Education Cess is 4% of income tax and surcharge.
iv) AMT payable by firm is 18.5% (+cess) of "adjusted total income" as per section 115JC

Co-operative Societies' Taxation:

Net Income Range	Rate of Income Tax
Up to Rs. 10,000	10 %
Rs. 10,000 – Rs. 20,000	20 %
Above Rs. 20,000	30 %

i) Surcharge is 12% of the income tax if the net income exceeds Rs. 1 crore. It is subject to marginal relief.
ii) Health and Education Cess is 4% of income tax and surcharge.
iii) AMT payable by co-operative society is 18.5% (+cess) of "adjusted total income" as per section 115JC.

Local Authorities' Taxation:

i) Local authorities are taxable at the rate of 30%
ii) Surcharge is 12% of the income tax if the net income exceeds Rs. 1 crore. It is subject to marginal relief.
iii) Health and Education Cess is 4% of income tax and surcharge.
iv) AMT payable by local authority is 18.5% (+Cess) of adjusted total income" as per section 115JC.

Corporate Taxation:

Effective Rate Chart for Corporates:

Income Slabs	Domestic Companies (post budget effective rate)			Foreign Companies (post budget effective rate)	
	Turnover not Exceeding Rs. 250 Crore in FY. 2016-17	Normal Provision (Others)	MAT Provision	Normal Provision	MAT Provision
Up to Rs. 1 Crore	26.00%	31.20%	19.24%	41.60%	19.24%
Exceeding Rs. 1 Crore and up to Rs. 10 Crores	27.82%	33.38%	20.59%	42.43%	19.62%
Exceeding Rs. 10 Crores	29.12%	34.94%	21.55%	43.68%	20.20%

Notes:

i) For domestic companies having total turnover/ gross receipts in the previous year (2016-17) not exceeding Rs. 250 Crores, basic tax rate shall be reduced to 25%.

ii) **"Health and Education Cess"** to be levied at the rate of **4%** of income tax including surcharge wherever applicable. "Education Cess" and "Secondary and Higher Education Cess" shall be discontinued.

iii) In other cases, the tax rates remain unchanged at 30%

iv) A surcharge of 7% on tax payable is unchanged for domestic companies having an income of Rs 1 crore to Rs.10 Crores and for Income exceeding Rs. 10 Crores, surcharge remains unchanged at 12%.

v) Surcharge will also be levied at the rate of 12% in cases where company is liable to Minimum Alternate Tax u/s 115JB of the Act.

vi) A surcharge of 2% on tax payable is unchanged for foreign companies having an income of Rs 1 crore to Rs.10 Crores and for Income exceeding Rs. 10 Crores, surcharge remains unchanged at 5%.

vii) Tax rates of both MAT and AMT remain unchanged.

viii) Tax Rate for DDT remains unchanged at 15% (plus applicable surcharge and education cess).

Application of Dividend Distribution Tax to Deemed Dividend

Presently, dividend distributed by a domestic company is subject to DDT. However, deemed dividend u/s 2(22)(e) the Act is taxed in the hands of the recipient at the applicable marginal rate. The taxability of deemed dividend in the hands of recipient has posed serious problem of the collection of the tax liability and has also been the subject matter of extensive litigation.

In order to bringing clarity and certainty in the taxation and to prevent camouflaging dividend in various ways such as loans and advances, Taxability of deemed dividend has been shifted from recipients to the distributing domestic company and made subject to DDT at the rate of 30 % (without grossing up) w.e.f 1st April, 2018.

Tax neutral transfers

Section 47 provides for certain tax neutral transfers. Section 56 also excludes income arising out of certain tax neutral transfers from its ambit. However, the transfers referred to in clause (iv) and clause (v) of section 47 have not been excluded from the scope of section 56.

The transfer of money or property between a wholly owned subsidiary company and its holding company to be excluded from the scope of income from other sources u/s 56.

This amendment will take effect, from 1st April, 2018.

Entities to apply for PAN in certain cases

Section 139A provides that every specified person therein shall apply for allotment of a PAN.

It is provided that Every person other than an individual entering into financial transactions exceeding Rs. 2.5 lakh in a financial year and its specified officers (i.e, Managing Director, Director, CEO, Partner, Trustee, Karta, Author, Founder, Principal Officer, etc.) should obtain PAN.

This amendment will take effect from 1st April, 2018.

Widening of scope of Accumulated profits for the purposes of Dividend

Presently, Section 2(22), provides that 'accumulated profits' includes all profits of the company up to the date of distribution/payment/liquidation, as the case may be.

The scope of accumulated profit for the purpose of dividend is proposed to be widened in the case of the amalgamated company. It will include the accumulated profits or losses of the amalgamating company on the date of amalgamation.

This amendment will take effect from 1st April, 2018.

Taxability of long-term capital gains on sale of listed equity shares etc.

Presently, Section 10 (38) exempts LTCG arising from transfer of long-term capital assets, being equity shares of a company or a unit of equity oriented fund or a unit of business trusts, on which STT has been paid.

It is proposed to withdraw section 10(38) and introduce Section 112A to charge tax at the rate of 10% on such LTCG exceeding Rs. 1 Lakhs (without giving effect to inflation indexation benefit and exchange currency benefit).

The above rate of 10% will be applicable, if—

a) in case of equity share in a company, STT has been paid at the time of both acquisition and transfer, and
b) in case of unit of equity oriented fund or unit of business trusts, STT has been paid at the time of transfer.

The requirement of payment of STT will not be applicable if the transfer is undertaken on a stock exchange located in IFSC and the consideration of such transfer is receivable in foreign currency.

The increase in valuation of equity shares acquired by taxpayer before 1st February, 2018 to be protected from LTCG to the extent of FMV, as on 31st January, 2018.

Section 115AD has also been amended to tax such LTCG in the hands of Foreign Institutional Investors.

Further, the new provision of section 112A also proposes to provide the following:—

The cost of acquisitions in respect of the long term capital asset acquired by the assessee before the 1st February, 2018 , shall be deemed to be the higher of –

a) the actual cost of acquisition of such asset; and

b) the lower of –

(i) the fair market value of such asset; and

(ii) the full value of consideration received or accruing as a result of the transfer of the capital asset.

Fair market value has been defined to mean –

a) in a case where the capital asset is listed, the highest price quoted on stock exchange on the 31st January, 2018.

However, where there is no trading in such asset on stock on the 31st January, 2018 , the highest price of such asset on a date immediately preceding the 31st January, 2018 when such asset was traded shall be the fair market value; and

b) in a case where the capital asset is a unlisted, the net asset value of such asset as on 31st January, 2018.

The benefit of deduction under chapter VIA shall be allowed from the gross total income as reduced by such capital gains.

Similarly, the rebate u/s 87A shall be allowed from the income tax on the total income as reduced by tax payable on such capital gains.

These amendments will take effect from 1st April, 2019.

Dividend distribution tax on dividend payouts to unit holders in an equity oriented fund

Presently Section 115R provide taxability of any income distributed by the specified company or a Mutual Fund to its unit holders. However, any income distributed to a unit holder of equity oriented funds is not chargeable to tax under the said section.

It is proposed to amend Section 115R to provide that any income distributed by an equity oriented fund, shall be liable to pay additional income- tax at the rate of 10% in the hands of mutual fund.

This amendment will take effect from 1st April, 2018.

Tax deduction at source and manner of payment in respect of certain exempt entities

Presently, there are no restrictions on cash payments by charitable or religious trusts or institutions. There are also no checks on whether these entities follow TDS provisions. This has led to lack of an audit trail for verification of application of income.

In order to encourage less cash economy, it is proposed that in the case of charitable or religious trusts or institutions as per section 11 or other institutions registered u/s 10(23C), cash expenditure exceeding Rs. 10,000 in a day shall be disallowed as per section 40A(3) and section 40A(3A).

Also, in case of failure to deduct tax at source at the time of payment to a resident, 30% of the sum payable, shall be disallowed as per section 40(a)(ia).

These amendments will take effect from 1st April, 2019.

Aligning the scope of "business connection" with modified PE Rule as per Multilateral Instrument (MLI).

The scope of 'business connection' has been expanded for business activities carried on in India by a non-resident through dependent agents who habitually conclude contracts on their behalf to include the activity of habitually playing a principal role leading to conclusion of contracts by the non-resident.

The contracts covered should be :

(i) in the name of the non-resident; or
(ii) for transfer of ownership of or for granting of rights to use property owned by that non resident or that the non-resident has the right to use; or
(iii) for the provision of services by the non-resident.

This amendment will take effect from 1st April, 2019.

"Business connection" to include "Significant Economic presence"

It is proposed that "Significant Economic Presence" of a non-resident u/s 9(1)(i) shall also constitute a "business connection" in India. For this purpose, Significant Economic Presence' shall mean:

(i) any transaction in respect of any goods, services or property carried out by a non-resident in India including provision of download of data or software in India if the aggregate of payments arising from such transaction or transactions during the tax year exceeds the amount as may be prescribed; or

(ii) systematic and continuous soliciting of its business activities or engaging in interaction with such number of users, as may be prescribed, in India through digital means

It is provided that only so much of income as is attributable to such transactions or activities shall be deemed to accrue or arise in India.

It is provided that the transactions or activities shall constitute significant economic presence in India, whether or not the non-resident has a residence or place of business in India or renders services in India.

This amendment will take effect from 1st April, 2019.

Taxability of compensation in connection to business or employment

Any compensation received or receivable by any person (whether in nature of revenue or capital),

- in connection with the termination of his/her employment or the modification of its terms and conditions shall be taxable as "other income" u/s 56.

- in connection with termination/modification of the terms and conditions of any contract relating to a taxpayer's business shall be taxable as "business income" u/s 28.

Sections 28 and 56 are hereby amended in order to widen the scope of taxation concerning compensation and reduce base erosion and revenue loss.

These amendments will take effect from 1st April, 2019.

Incentive for employment generation

Presently, Section 80JJAA, provides for additional deduction of 30% in respect of emoluments paid to eligible new employees for a period of 3 assessment years subject to fulfilment of specified conditions.

However, the new employee must be employed for more than 240 days (150 days in case of apparel industry, footwear and leather industry).

It is also proposed to rationalize this deduction of 30% by allowing the benefit for a new employee who is employed for less than the minimum period during the first year but continues to remain employed for the minimum period in subsequent year.

This amendment will take effect, from 1st April, 2019.

New scheme for scrutiny assessment (E-Assessments)

It is proposed to amend Section 143 to empower government to prescribe new scheme of e-assessment to impart greater transparency and accountability. The proposed amendment would eliminate personal interface between the assessee and the assessing officer.

These amendments will take effect from 1st April, 2018.

Prosecution for failure to furnish return under section 276CC

Section 276CC provides that if a person willfully fails to furnish return of income within due date, he shall be punishable with imprisonment and fine. Section 276CC(ii)(b) provides that a person shall not be proceeded against under the said section if the tax payable by him does not exceed Rs. 3000.

In order to prevent abuse of the Section 276CC(ii)(b) by shell companies or by companies holding Benami properties, it is proposed to amend the said sub-clause to provide that the said sub-clause shall not apply in respect of a company.

This amendment will take effect from 1st April, 2018.

Rationalisation of prima-facie adjustments during processing of return of income

Presently, Section 143 of the Act provides for processing of return of income with certain adjustments, including the addition of income appearing in Form 26AS or Form 16A or Form 16 which has not been included while computing the total income in the return.

With a view to restrict the scope of adjustments, it is now proposed that 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 1st April, 2018.

This amendment will take effect from 1st April, 2018.

Rationalisation of provisions relating to Country-by-Country Reporting

As part of the implementation of the BEPS Action Plan 13 Documentation, India had introduced CbCR requirements effective from AY 2017-18. This required certain Indian headquartered MNEs, and in some cases Indian affiliates of foreign headquartered MNEs, to file CbCR in India reporting country-wise details of revenue, profits, taxes, number of employees, etc. It is proposed to amend these provisions to align with OECD's recommendations as follows:

A) The time limit for furnishing the CbCR shall be 12 months from the end of the reporting accounting year, as compared to the earlier time limit of return filing date; and
B) CbCR shall be required to be filed in India in case the overseas Parent has no obligation to file CbCR and the Parent has not designated an Alternate Reporting Entity.

These amendments are clarificatory in nature and will take effect retrospectively from the 1st April, 2017.

Rationalisation of provision of section 115BA relating to certain domestic companies

Companies set up and registered on or after 1 March 2016 engaged solely in the business of manufacture or production of article or thing may at their option be taxable at 25 % provided they do not claim specified benefits or deductions.

Section 115BA of the Act provides that the total income of a newly set up domestic company engaged in the business of manufacture or production of any article or thing and research in relation thereto, shall, at its option, be taxed at the rate of 25%, subject to fulfilment of conditions specified therein w.e.f. AY 2017-18. The existing provision is only subject to provisions relating to taxation of capital gains u/s 111A and 112 of the Act.

However, there are certain incomes, which are subject to a scheduler tax at a rate, which is lower or higher than 25 %. Consequently, taxpayers have been subjected to unintended hardship or unwarranted relief.

It is proposed to restrict the provisions of section 115BA to the income from the business of manufacturing, production, research or distribution referred to therein; and income, which are at present taxed at a scheduler rate, will continue to be so taxed.

The amendment will take effect retrospectively from the 1st April, 2017.

Mandatory filing of return to claim deduction under the heading C in Chapter VIA

Presently, the deductions u/s 80 IA/80 IAB/80 IB /80 IC /80 ID /80 IE of the Act are allowable subject to filing of the return of income within the prescribed due date.

It is proposed to amend section 80AC of the Act to extend the condition of filing of return of income within the prescribed due date, in respect of deduction under Chapter VIA of the Act, under the "Heading C – Deductions in respect of certain incomes" (Section 80H to 80 RRB).

The proposed amendment will take effect from 1st April, 2018.

Rationalization of section 43CA, section 50C and section 56 relating to transfer of immovable property.

Presently, while taxing income from capital gains (section 50C), business profits (section 43CA) and other sources (section 56) arising out of transactions in an immovable property, the sale consideration or stamp duty value, whichever is higher is considered. If the consideration is less than the stamp duty, the differential amount is taxed as income both in the hands of the purchaser and the seller.

It is proposed to provide that no adjustments shall be made in a case where the variation between stamp duty value and the sale consideration is not exceeding 5% of the sale consideration.

These amendments will take effect from 1st April, 2019.

Conversion of stock-in-trade 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, existing law does not provide for taxability in cases where the stock in trade is converted into capital asset.

In order to provide symmetrical treatment and discourage the practice of deferring the tax payment by converting the inventory into capital asset, it is proposed to amend the provisions of —

(i) section 28 so as to provide that any profit or gains arising from conversion of inventory into capital asset shall be charged to tax as business income based on FMV of the inventory on the date of conversion or transfer.

(ii) section 49 so as to provide that the fair market value on the date of conversion shall be the cost of acquisition for the purposes of computation of capital gains arising on transfer of such capital assets.

(iv) section 2(42A) so as to provide that the period of holding of such capital asset shall be reckoned from the date of conversion or treatment.

These amendments will take effect, from 1st April, 2019.

Deduction under section 54EC

Presently, Section 54EC provides that capital gain, arising from the transfer of a long-term capital asset, invested in the NHAI, REC or other notified bonds for the period of 3 years, shall not be charged to tax subject to specified conditions.

It is proposed to amend Section 54EC-

- to restrict the scope of the section only to capital gains arising from long-term capital assets, being land or building or both
- if the same is invested in NHAI or REC bonds redeemable after five years issued on or after 1st April, 2018 This amendment will take effect, from 1st April, 2019.

Amendments in relation to notified Income Computation and Disclosure Standards

The Central Government notified ten ICDS u/s 145, effective from AY 2017-18, for the purpose of computation of income chargeable under the head "Profits and Gains of business or profession" or "income from other sources".

These are applicable to all assesses (other than individual or HUF not subject to tax audit)

In order to bring certainty in the wake of recent judicial pronouncements on the issue of applicability of ICDS, it is proposed to —

(i) Amend section 36 of the Act to allow deduction of MTM loss or other expected loss as computed in the manner provided in ICDS.

(ii) Amend 40A to provide that no deduction or allowance in respect of MTM loss or other expected loss shall be allowed except as allowable under newly inserted section 36(1)(xviii).

(iii) Insert a new section 43AA to provide that, subject to the provisions of section 43A, any foreign exchange gain or loss in respect of specified foreign currency transactions shall be treated as income or loss, which shall be computed in the manner provided in ICDS.

(iv) insert a new section 43CB to provide that,

  a) profits arising from a construction contract or a contract for providing services shall be determined on the basis of percentage of completion method except for certain service contracts, and

  b) that the contract revenue shall include retention money, and

  c) contract cost shall not be reduced by incidental interest, dividend and capital gains.

(v) amend section 145A of the Act to provide that,

  (a) the valuation of inventory shall be made at lower of actual cost or NRV computed in the manner provided in ICDS.

  (b) the valuation of purchase and sale of goods or services and of inventory shall be adjusted to include the amount of any tax, duty, cess or fee actually paid or incurred by the assessee to bring the goods or services to the place of its location and condition as on the date of valuation.

  (c) inventory being securities unlisted, or listed but not quoted, on a recognised stock exchange, shall be valued at actual cost initially recognised in the manner provided in ICDS.

  (d) inventory being listed securities, shall be valued at lower of actual cost or NRV in the manner provided in ICDS and for this purpose the comparison of actual cost and NRV shall be done category-wise.

(vi) insert a new section 145B in the Act to provide that-

  (a) interest received by an assessee on compensation or on enhanced compensation, shall be deemed to be the income of the year in which it is received.

(b) the claim for escalation of price in a contract or export incentives shall be deemed to be the income of the previous year in which reasonable certainty of its realisation is achieved.

(c) Subsidy or grant u/s 2(24)(xviii) shall be deemed to be the income of the previous year in which it is received, if not charged to income tax for any earlier previous year.

It is proposed to bring the amendments retrospectively with effect from 1st April, 2017.

Increased Penalty for failure to furnish statement of financial transaction or reportable account

It is proposed to enhance the penalty levied u/s 271FA of the Act for failure to furnish statement of financial transaction or reportable account within the prescribed time limit from Rs. 100 to Rs. 500 for every day of continuing default.

It is further proposed to enhance the penalty from existing Rs. 500 to Rs. 1,000 for each day of continuing default in case of failure to furnish statement of financial transaction or reportable account within the period specified in the notice issued by the department.

These amendments will take effect from 1st April, 2018.

INDIRECT TAXES

- Renaming of Central Board of Excise and Customs as the Central Board of Indirect Taxes and Customs
- As GST is covered under the jurisdiction of GST Council, the same is not part of this Union Budget.
- Additional duty of Customs on Motor Spirit commonly known as Petrol is being abolished by repealing section 103 of the Finance Act (No.2), 1998
- Additional duty of Excise on Motor Spirit commonly known as Petrol is being abolished by repealing section 111 of the Finance Act (No.2), 1998
- Additional duty of Customs on High Speed Diesel oil is being abolished by repealing section 116 of the Finance Act, 1999 [106]
- Additional duty of Excise on High Speed Diesel oil is being abolished by repealing section 133 of the Finance Act, 1999 [106]
- Education Cess on imported goods is being abolished by omitting Chapter VI of the Finance Act (No.2), 2004 [106]
- Secondary and Higher Education Cess on imported goods is being abolished by omitting Chapter VI of the Finance Act, 2007

EXCISE

PROPOSALS INVOLVING CHANGE IN EXCISE DUTY RATES

Commodity	From	To
Motor spirit commonly known as petrol and high speed diesel oil		
1. Levy of Road and Infrastructure Cess on motor spirit commonly known as petrol and high speed diesel oil	--	Rs. 8 per litre
2. Abolition of Additional Duty of Excise [Road Cess] on motor spirit commonly known as petrol and high speed diesel oil	Rs. 6 per litre	--
1. Basic excise duty on Unbranded Petrol	Rs. 6.48 per litre	Rs. 4.48 per litre
2. Basic excise duty on Branded petrol	Rs. 7.66 per litre	Rs. 5.66 per litre
3. Basic excise duty on Unbranded diesel	Rs. 8.33 per litre	Rs. 6.33 per litre
4. Basic excise duty on Branded diesel	Rs. 10.69 per litre	Rs. 8.69 per litre
Road and Infrastructure Cess on petrol and diesel manufactured in and cleared from 4 specified refineries located in the North-East	--	Rs. 4 per litre

SERVICE TAX

- Services provided or agreed to be provided by the GSTN to the Central Government or State Governments or Union territories administration, are proposed to be exempted from service tax for the period commencing from 28th March, 2013 and ending with the 30th June, 2017.
- Consideration paid to the Government in the form of Government's share of profit petroleum in respect of services provided or agreed to be provided by the Government by way of grant of license or lease to explore or mine petroleum crude or natural gas or both, is proposed to be exempted from service tax for the period commencing from 1st April, 2016 and ending with the 30th June, 2017.

CUSTOMS DUTY

- Reference to import manifest and export manifest, to include Arrival Manifest and Departure Manifest respectively.
- Limit of 'Indian Customs Waters' extended from the existing 'Contiguous zone of India' to the 'Exclusive Economic Zone (EEZ)' of India).
- Scope of assessment and re-assessment enlarged.
- Provisions relating to 'Provisional Assessment' of duty proposed for export cases.
- Provisions relating to pre-notice consultation in cases not involving collusion, willful misstatement, and suppression before issue of demand notice proposed.
- Provisions relating to "Advance Ruling' amended, scope extended and provisions rationalised.
- Provision for advance deposit which would enable payment of duties, taxes, fee, interest, and penalty through electronic cash ledger prescribed.
- A new section 25A is being inserted, so as to empower the Central Government to exempt goods imported for repair, further processing or manufacture ['Inward Processing of Goods'] from payment of whole or any part of duty of customs, leviable thereon subject to certain conditions. A new section 25B is being inserted so as to empower Central Government to exempt goods re-imported after export for repair, further processing or manufacture ['Outward Processing of Goods'] from payment of whole or any part of duty of customs, leviable thereon subject to certain conditions.
- Provisions relating to "Advance Ruling' amended, scope extended and provisions rationalised
- A new Chapter XIIA and section 99A is being inserted relating to Audit. The manner of conducting audit shall be provided in regulations.

- Amendment prescribed in Customs Tariff Act, 1975 to provide for value of goods when they are sold within the warehousing period for calculation of integrated tax (IGST) and GST Compensation Cess. Accordingly, the value would be higher of- Transaction Value of original import +applicable Customs duty: or Transaction value of sale within the warehouse

Important Goods on which BCD rate increased		
Goods	***Existing rate (%)***	***New rate (%)***
Fruit juices and vegetable juices including cranberry juice	30	50
Perfumes and toiletry preparations	10	20
Automobile parts	*10*	*15*
Footwear	*10*	*20*
Imitation Jewellery	*15*	*20*
Cellular Mobile phones	*15*	*20*
LCD/LED TVs	*7.5/10*	*15*
Furniture	*10*	*20*
Watches and clocks	*10*	*20*
Toys and Games	*10*	*20*
Silk Fabrics	*10*	*20*

Levy of Social Welfare Surcharge, as a duty of Customs on imported goods [Clause 108 of the Finance Bill, 2018]:		
Description	***From***	***To***
Levy of Social Welfare Surcharge on imported goods to finance education, housing and social security [clause 108 of Finance Bill, 2018]	--	*10% of aggregate duties of customs*
Abolition of Education Cess and Secondary and Higher Education Cess on imported goods [clause 106 of Finance Bill, 2018]	*3% of aggregate duties of customs*	*NIL*
Motor spirit commonly known as petrol and high speed diesel oil (2710)	--	*3% of aggregate duties of customs*

Silver (including silver plated with gold or platinum), unwrought or in semi-manufactured form, or in powder form (7106)	--	*3% of aggregate duties of customs*
Gold (including gold plated with platinum), unwrought or in semi-manufactured form, or in powder form (7108)	--	*3% of aggregate duties of customs*

Levy of the Road and Infrastructure Cess [Clause 109 of the Finance Bill, 2018]		
Goods	***Existing rate (%)***	***New rate (%)***
Levy of Road and Infrastructure Cess on imported motor spirit commonly known as petrol and high speed diesel oil [2710]	--	*Rs 8 per litre*
Abolition of Additional Duty of Customs [Road Cess] on imported motor spirit commonly known as petrol and high speed diesel oil [2710]	*Rs 6 per litre*	--
Additional duty of customs under sections 3(1) of the Customs Tariff Act, 1975 in lieu of basic excise duty		
Motor spirit commonly known as petrol and	*Rs 6.48 per litre*	*Rs 4.48 per litre*
High speed diesel oil	*Rs 8.33 per litre*	*Rs 6.33 per litre*

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TELECOM

- Government proposes to set up 5 lakh wifi-hotspots that will provide internet to five crore rural citizens in 2018-19.

RAIL BUDGET

- Rs 1,48,528 crore is allocated capital expenditure for the Indian Railways for 2018-19. All trains to be progressively provided with WiFi, CCTV and other state-of-the-art amenities.
- All railways stations with more than 25,000 footfall to have escalators.
- Focus will be on safety, maintenance of railway tracks, increase in use of technology and fog safety devices.
- Redevelopment of 600 major stations has been taken up; Mumbai transport system is being expanded; suburban network of 160 km planned for Bangalore. 36,000-km of rail track renewal targeted in coming year.
- Foundation stone of the bullet train was laid in September 2017.

AGRICULTURE:

- Agri-Market Development Fund with a corpus of Rs 2000 crore to be set up for developing agricultural markets.
- Grameen Agricultural Market (GRAM) will provide farmers, means to sell directly to buyers.
- The focus is on low-cost farming, higher MSP. Emphasis is on generating farm and non-farm employment for farmers.
- Minimum support price has been set at 1.5 times the production cost for kharif crops

HEALTH

- About 10 crore poor and vulnerable families will be targeted under healthcare protection scheme, which will offer up to Rs 5 lakh per family. This will be the world largest government-aided programme.
- As per the national health policy 2017, around 1.5 lakh centres will provide free essential drugs, maternal and child services. The finance ministry allocated Rs1200 crore for this flagship programme.
- TB patients will get Rs 500 per month for nutritional support.
- At least 24 new government medical colleges and hospitals will be set up by upgrading existing district hospitals.

EDUCATION

- One medical college will be set up for every three Parliamentary constituencies.
- 1,000 best BTech students to be made PM research fellows — to study PhDs in IITs and IISc. They will spend few hours every week teaching in technical institutions.
- Eighteen new schools of planning and architecture will be set up.
- To launch 'Revitalising Infrastructure and Systems in Education' by 2022.
- Integrated B.Ed programme to be initiated, to improve quality of teachers.

INFRASTRUCTURE:

- To spend 14.34 trillion Indian rupees ($225.50 billion) on rural infrastructure.
- NHAI would transfer the road projects into special purpose vehicles to use innovative structures such as infrastructure trusts for fund mobilization.

7 KEY POLICY PROPOSALS

POOR, BACKWARDS AND VULNERABLE:

- By 2022, every block with more than 50% ST population and at least 20,000 tribal people will have 'Ekalavya' school at par with Navodaya Vidayalas.
- Allocation of Rs. 56,619 crore for SC welfare and Rs. 39,135 crore for ST welfare.

CONNECTING INDIA:

- UDAN will connect 56 unserved airports in India.
- Airports Authority of India now has 124 airports, this will be expanded by 5 times. Aim of 1 billion trips a year.

START-UPS:

- VCFs, angel investors to get new measures for growth and new tax rules to increase funding of start-ups.

OTHER PROPOSALS:

- Total 187 projects sanctioned under the Namami Gange programme.
- Aim that by 2022, all poor people have a house to live in.
- Government plans to construct 2 crore more toilets under Swachh Bharat Mission.
- Proposal to develop 10 prominent tourist destinations as Iconic tourism destinations.
- AMRUT programme will focus on water supply to all households in 500 cities. Water supply contracts for 494 projects worth Rs. 19,428 core awarded.
- Emoluments of the President to be revised to Rs 5 lakh per month & emoluments of the Vice-president to be revised to Rs. 4 lakh per month.
- Government is proposing changes in re-fixing salaries of MPs. Law will provide automatic revision of emoluments of the MPs every 5 years indexed to inflation.

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Act	Income Tax Act 1961
AAR	Authority for Advance Ruling
AMT	Alternate Minimum Tax
AOP	Association of Persons
AY	Assessment Year
BCD	Basic Customs Duty
BEPS	Base erosion and profit shifting
BOI	Body of Individuals
CbCR	Country by Country Report
CTT	Commodities Transaction Tax
DDT	Dividend Distribution Tax
FMV	Fair Market Value
FPC	Farm Producer Company
FY	Financial Year
GDP	Gross Domestic Product
GST	Goods and Services Tax
GSTN	Goods and Services Tax Network
HUF	Hindu Undivided Family
ICDS	Income Computation and Disclosure Standards
IFSC	International Financial Service Centre
ITAT	Income-tax Appellate Tribunal
LLP	Limited Liability Partnership
LTCG	Long Term Capital Gains
MAT	Minimum Alternate Tax
MNE	Multi National Enterprises
MTM	Mark To Market
NHAI	National Highway Authority of India
NPS	New Pension Scheme
OECD	Organization for Economic Co-operation and Development
PAN	Permanent Account Number
PSU	Public Sector Undertaking
REC	Rural Electrification Corporation
STT	Securities Transaction Tax
TDS	Tax Deducted at Source

TDS Rate Chart

TDS Rate chart applicable for Financial Year 2018-19

S.no	Section	Nature of Income	Amout over which TDS to be deducted	Rate of TDS If PAN is available
1	192	Salary	to be seen as per slab	Average Rate
2	192A	Payment of accumulated balance due of Employees' Provident Fund	if accumulated balance is more than 50000	10%
3	193	Interest on securities	10,000	10%
4	194	Dividend other than of 115-O	2,500	10%
5	194A	Interest other than interest on securities		
		- Interest received from Bank	10,000	10%
		- Interest received from Bank (Senior Citizen)	50,000	
		- Interest received from others	5,000	
6	194B	Income by way of winnings from lotteries puzzles	10,000	30%
7	194BB	Income by way of winnings horse race	10,000	30%
8	194C	Payment to contractors/Subcontractors	30000 one time 75000 in whole year	individual/HUF 1% Others 2%
9	194D	Insurance Commision	15,000	5%
10	194DA	payment under Life Insurance Policy	1,00,000	1%
11	194E	Payment to NR Sports Person	No Limit	20%
12	194EE	Payment from National Savings Scheme	2,500	10%
13	194F	Payments on account of repurchase of units by Mutual Fund	No Limit	20%
14	194G	Commission on sale of lottery tickets	15,000	5%
15	194H	Payment of Commision or Brokerage	15,000	5%
16	194-I	Payment of rent		
		- For Land, building or furmiture.	1,80,000	10%
		- For plant and machinery or euipment		2%
17	194 IA	Payment on transfer of certain immovable property other than agricultural land	50,00,000	1%
18	194 IB	Payment of rent by individual/HUF other than those covered under 44AB	50000 p.m	5%
19	194 iC	Payment of Consideration (not being in kind) under Joint Development Agreement	No Limit	10%
20	194J	Fees for professional or technical services		
		- Normally in all cases	30,000	10%
		- person engaged only in the business of operation of call center (w.e.f 01/06/2017)		2%
21	194LA	Payment of compensation on acquisition of certain immovable property	2,50,000	10%
22	194LB	Income by way of interest from infrastructure debt fund to a non resident or Foreign Co.	No Limit	5%
23	194LBA	Certain income from units of a business trust		
		- Payment to resident	No Limit	10%
		- Payment to Non-resident		5%
24	194LBB	Income in respect of units of investment fund		
		- Payment to resident	No Limit	10%
		- Payment to Non-resident		30%
25	194LBC	Income in respect of investment in securitization trust		
		- Payment to individual/HUF	No Limit	25%
		- Payment to Others		30%
26	194LC	Income by way of interest from Indian company	No Limit	5%
27	194LD	Income by way of interest on certain bonds and Government securities	No Limit	5%

"There is a difficult leap between talking about balancing the budget and actually doing it"

Patki & Soman

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