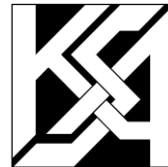


BUDGET

An Overview

2018



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1. INTRODUCTION

The Indian Union Budget 2018, as a process has been ranked 2 percent higher than global average in terms of transparency, with a rank of 53 out of 115 countries. To place that in perspective New Zealand ranks #1, USA is at #8, and Saudi Arabia is at the bottom. Presentation of a mid-year review and a pre-budget statement one month in advance, would push up India's rank. The Government by advancing the presentation of the budget by a month since last year has ensured that the full budget gets enacted before the start of the new financial year bringing in better accountability. This Union Budget is the last full budget of the BJP government before the next Lok Sabha Election in 2019. This Budget is a relatively special event, being released, as it is, after GST Implementation and after a full year of demonetization.

The government has taken significant steps to provide a mega boost that encourages urban and rural **SMEs**. Introducing incentives in the form of capital support of 3000 crores, corporate tax reduction to 25% for companies with turnover under INR250 crore, increased target for MUDRA Yojana refinancing to disbursing Rs.3 lakh crore - a step towards inclusive funding and, focus on improving digital infrastructure with push for internet penetration to a rural population of 5 crores. Leaving the countries 55 million SME units with a higher investible surplus, will create much-needed jobs.

The Union Budget has made **Education** a very key area full of amazing new and original initiatives. Education will be treated holistically from pre-nursery to Class12. Quality of teachers is to be improved with training to 13 lakh persons embellished with the objective of "black board to digital board". Every block with more than 50 percent Scheduled Tribe and 20,000 population, will see their children receive by year 2022, in their own environment, an Ekalavya Model Residential School, which would be on par with Navodaya Vidyalayas, preserving local arts and culture besides sports and skill development. INR 100,000 crore of investment will be funded through HEFA – Higher Education Financing Agency - towards RISE – Revitalizing Infrastructure and Systems in Education – by 2022. There are plans for Railway University in Vadodara, two new schools of Planning and Architecture and 18 such new autonomous schools within IITs and NITs. Under PMRF – Prime Minister's Research Fellows – 1000 best B.Tech per annum would be given facilities to do PhD with a handsome fellowship.



A slew of Measures have been Announced For **Transforming Agriculture**: Minimum Support Price for Kharif crops will be 1.5x cost of production. If prices are lower than MSP then the government will ensure that farmers receive MSP or an apt price, working with NITI Aayog to develop system of optimal farm price realisation and develop the existing 22,000 GRAMS - Gramin Agri Centres - to help direct sales as well as 470 APMCs connected to eNAM for farmers who are mostly small and marginal. Operation Green for which a sum of INR 500 Cr. is allocated, will help farmers generate produce and to address price fluctuations in potato, tomato and onion for benefit of farmers and consumers. The government plans to set up an agricultural market fund with a corpus of INR 2,000 Crore. Allocation to the food processing sector has been doubled to INR 1,400 Cr in 2018-19. Allocation is being doubled to boost food processing; specialised agro-processing and financial institutions to be promoted by the government. A cluster-model approach is to be adopted for agricultural production. Agri exports have the potential to touch \$100 Bn and therefore, a state-of-the-art facility will be set up in 42 food parks for agri exports. INR 10,000 Crore has been allocated for fisheries and aquaculture, animal husbandry funds. Proposal to launch a restructured national bamboo mission with INR 1,200 Cr allocation. Under the unique Prime Minister Krishi Sinchai Yojna Har Khet Ko Pani programme, 96 deprived irrigation districts will be taken up with an allocation of INR 2,600 Cr. Farmer producer companies with turnover of INR 100 Cr or more would get 100% reduction under I-T Act for the next five years.

The Union Budget introduces the **world's largest insurance and health** care programme benefitting up to half of the country population with a blessing of Rs.5 lakh per poor family per year.

The economic survey has indicated that the real GDP growth is predicted to hover between 7 to 7.5% for FY 2018-19, which is very promising. Needless to say, the leadership and vision of the Hon'ble PM of India Shri Narendra Modi is innate and has driven this Union Budget even as he is engaged in changing the country's plight and direction, to bring in a golden-age in India.



2. EXECUTIVE SUMMARY

DIRECT TAXES

- No changes in the personal Income tax or tax rate for HUF, Firm, LLP etc. except that cess is increased from 3% to 4%
- 25% Corporate tax rate extended to Companies having turnover of less than 250 Crores
- Tax Reliefs for Senior Citizens by way of bank interest income exempt up to Rs.50,000; Health insurance cover up to Rs. 50,000 and raising critical illness medical expenditure to Rs. 1,00,000
- 5 % variation allowed for difference between the Stamp duty value and transaction value as per document
- Levy of 10% Long Term Capital Gain tax on sale of STT paid listed Equity Shares and Units of equity oriented mutual funds
- DDT on dividend payouts by equity oriented funds
- Standard deduction of Rs. 40,000 to salaried persons in lieu of withdrawal of transport allowance and reimbursement of medical expenses
- Implementation of Income Computation and Disclosure Standards through amendments to Method of Accounting under Income Tax Act
- Increase in Lock in Period on investments from 3 years to 5 years on select Bonds U/S 54 EC. The Exemption is limited now only to Land and Buildings
- No deduction shall be allowed under section 80H to 80TT if the return of income is filed after the due date specified u/s 139(I) of the Income Tax Act.
- Jurisdiction free e-assessment procedure to be implemented

INDIRECT TAXES

- Abolition of Education Cess and Secondary and Higher Education Cess on all imported goods.
- Introduction of Social Welfare surcharge on imported goods to finance education, housing and security.
- Abolition of Additional duty of customs and Additional duty of excise on petrol and diesel.
- Road and infrastructure cess on petrol and diesel manufactured in and cleared from four specified refineries located in the north-east introduced at the rate of Rs. 4 per litre.
- Trade facilitation measures relating to advance rulings and other procedural areas.
- Customs Act to extend to contravention under the Act by any person outside India



3. DIRECT TAX PROPOSALS

3.1 TAX RATES:-

There is no change in the Personal Income tax rates

There is no change in the tax rates of Firms, HUF, AOP, BOI

However Education Cess and Secondary and Higher Education Cess which were charged at the rate of 2% and 1% respectively shall be substituted by Health and Education Cess at the Rate of 4%. , an increase of 1 %

It is proposed to extend the reduced corporate tax @ 25% for domestic companies having turnover up to Rs. 250 Crores as against Rs. 50 Crores

3.2 NEW TAX INCENTIVES AND RELIEFS

Standard Deduction under income from salary

The finance bill proposes to reintroduce a standard deduction of Rs. 40,000 for salaried class under section 16 in lieu of transport allowance and medical reimbursement

Value Adoption for Real Estate Transaction

The finance bills proposes to amend section 43CA in respect of sale of Land and Buildings by Builders and real estate developers so as to allow a variation of 5% in case of difference in transaction value adopted and stamp duty value.

The Finance bill also proposes to make payments under section 43CA only by a way of account payee cheque or bank draft or ECS from the earlier provision of making payment by any mode other than cash.

Deemed Consideration under Capital Gains & Other Sources

The finance bill proposes to amend section 50C & 56 (2)(x) in respect of sale of Land and Buildings or transactions covered u/s 56(2)(x) so as to allow a variation of 5% in case of difference in transaction value adopted and stamp duty value.

Benefits for start ups

The finance bills proposes to extend the sunset clause under section 80-IAC from 31st March, 2019 to 31st March, 2021 for availing profit linked deduction of one-hundred percent of profits from first erstwhile 5 years to 7 years.



Other Changes in Chapter VI-A

The finance bill proposes to extend the benefit under section 80JJA from manufacturing of apparel to footwear and leather industry.

Section 80PA

The finance bill proposes to insert a new section 80PA regarding the deduction of Income of Producer Companies whereby deduction is available to the tune of 100% of profits from business from 1st April 2019 to 1st April 2025. To avail this benefit the following conditions have to be complied with:-

The turnover of the company has to be less than Rs 100 crores in any of the previous years.

The Income has to be derived from:-

- a) Marketing of agriculture produce grown by its members.
- b) Purchase of agriculture implements, seeds, livestock or any other articles involved for agriculture for supplying to its members.

Senior Citizen Benefits

It is proposed to provide following benefits for the senior citizen:-

- a. A new section 80TTB is being inserted whereby senior citizens can avail the deduction from their total Income upto the tune of Rs 50,000/- in respect of Interest Income earned from :-
 - i. Deposits in Banks (Including Fixed Deposits)
 - ii. Post office Deposits
 - iii. Deposits in co-operative society engaged in carrying banking business.

And consequently TDS shall not be deducted for interest income below Rs.50,000/-

- b. The Section 80D is being amended to increase the deduction for Health Insurance and Medical Expenditure in respect of senior citizens from current Rs 30,000/- to 50,000/-.
- c. The section 80DDB is being amendment to increase the deduction for medical expenses for specified diseases from existing Rs 60,000/- to Rs 1,00,000/-.

Reduction in AMT rate for specified assessees

It is proposed to reduce the alternate minimum tax rate from 18.5 percent to 9 percent for units located in an International Financial Services Centre and which derives its income solely in convertible foreign exchange.



3.3 ADDITIONAL TAX BURDEN

Permanent Establishment – Business Connection

It is Proposed amend clause (i) of sub-section (1) of section 9 whereby business activity carried through a person who either regularly concludes a contract or plays principal role in concluding the contract for a non-resident shall be treated as Business connection for the purpose of identifying the PE in India subject to certain other conditions in respect of the contract.

This amendment is in the line with OECD and the Action Plan 7 of the BEPS.

Introduction of new method of accounting in certain cases

It is proposed to introduce methods of accounting prescribed under Income Computation and Disclosure Standards (ICDS) in certain cases as under:

- a. Inventories shall be valued at cost or net realisable value
- b. Unlisted securities or listed securities but not quoted on recognized stock exchange, shall be valued at actual cost.
- c. Securities other than those mentioned above, shall be valued at lower of cost or net realisable value.
- d. Any claim for escalation of price in a contract or export incentives shall be deemed to be income of previous year in which reasonable certainty of its realisation is achieved
- e. Incomes such as duty draw back, cash incentives, subsidies etc. under section 2(24)(xviii) shall be taxable in the year of receipt.
- f. Mark to market losses or other expected losses would be allowed as expense
- g. A new section 43AA is being inserted stating that any gain or loss arising on account of change in foreign exchange rates including those related to:-
 - 1) Monetary or non-monetary items
 - 2) Translation of financial statements of foreign operations
 - 3) Forward exchange contracts
 - 4) Foreign currency translation reserves.

shall be treated as income or loss.



- h. A new section 43CB is being inserted stating that profits from construction contracts or a contract of providing services shall be determined on the basis of percentage completion method

These provisions are applicable on all contracts except

- 1) The services for which the duration is less than ninety days shall be determined and the income shall be as per the project completion method.
- 2) The services involving indeterminate number of acts over a specific period of time shall be determined as per the straight line method (Time Value basis).

These amendments are applicable from AY 2017-18.

Conversion of Stock in trade into Capital Asset

The Finance Bill proposes to charge the conversion of stock in trade into capital asset by treating the difference between fair market value of the stock in trade and the book value as business income.

Preemptive tax

The Finance bill proposes the following amendments in section 44AE as hereunder:-

Nature of Trucks	Presumptive Revenue under Section 44AE
1) Heavy Goods Vehicle (Gross vehicle weight exceeding 12000 kilograms)	Rupees One Thousand per ton of gross vehicle weight or unladen weight for every month or part of a month.
2) Other than Heavy Goods Vehicle	Rs 7,500/- for every month or part of month

Investment in Bond u/s 54 EC

The finance bill proposes to amend the section 54EC:-

The Deduction for investment under 54EC has been restricted to the gains from Land and Building and the lock in period has been increased to 5 years.

Deduction only if Return filed on time

It is proposed to allow deduction from section 80H to 80 TT only if assessee files return of income within the time prescribed u/s139(l)



Long Term Capital gains tax on transfer of equity share or unit of equity oriented mutual fund or unit of a business trust

It is proposed to levy a long-term capital gains tax on the transfer of STT paid equity share or unit of equity oriented mutual fund or unit of a business trust at the rate of 10 percent on such long-term capital gains exceeding Rs. 1 lakh.

It is also proposed that there will be no indexation benefit in calculating the long-term capital gain.

In respect of shares acquired up to 31st January 2018, cost of acquisition will be treated as higher of cost or fair market value as on 31st January 2018.

Dividend distribution tax on deemed dividends

It is proposed that the company has to pay 30 percent dividend distribution tax on the deemed dividend under section 2(22)(e) without grossing up as required under actual dividend distribution.

It is further proposed to treat the principal officer of a company who defaults in complying with the above provision of paying dividend distribution tax as defaulter

Tax on distributed income to unit holders

It is proposed to levy tax @ 10 percent on dividends distributed on unit of an equity oriented mutual fund.

Increase in penalty for failure to file certain statements

It is proposed to increase the penalty for failure to furnish statement of financial transaction under section 285BA (1) from Rs. 100 to Rs. 1,000. It is further proposed to increase the penalty for failure to furnish the statement of financial transaction under section 285BA(5) from Rs. 500 to Rs. 1,000.



3.4 PROCEDURAL CHANGES

Non-applicability of MAT to specified business

It is proposed to insert a new explanation 4A under section 115JB(1) to exclude specified businesses under section 44B, 44BB, 44BBA and 44BBB from the applicability of the provisions of Minimum Alternate Tax.

This is retrospectively effective from Assessment Year 2001-02.

Mandatory application and obtaining of Permanent Account Number

It is proposed to insert new clause (v) under section 139A(1) to include any person, not being an individual, who enters into a financial transaction exceeding Rs. 2.50 lakhs in a financial year, to obtain a Permanent Account Number.

It is further proposed to make mandatory the obtaining of a PAN for every managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of the person mentioned in clause (v).

Introduction of Scheme for E-Assessments

It is proposed to further develop and give incentive and boost to the procedure of E-Assessment by amending section 143.



4. INDIRECT TAX PROPOSALS

CUSTOM DUTY

AMENDMENTS IN THE FIRST SCHEDULE TO THE CUSTOMS TARIFF ACT, 1975

AMENDMENTS			
Rate of Duty			
S. No.	Commodity	From	To
1	Food Processing	30%	50%
2	Automobile parts	7.5%/10%	15%
3	Footwear	10%	15%/20%
4	Jewelry	15%	20%
5	Electronics / Hardware	7.5% to 15%	15%/20%
6	Furniture	10%	20%
7	Watches and Clocks	10%	20%
8	Toys and Games	10%	20%

- Extent of the Customs Act increased to also include any offence/contravention under the Act committed by any person outside India.
- Scope of the term 'assessment' widened to bring clarity and certainty to the meaning of the term.
- As a trade facilitation measure, a provision for pre-notice consultation before issuance of demand notice is being introduced. Similarly, the time frame for adjudication of demand notice is being set at 6 months. In case of non-adjudication within such time, it shall be deemed that no demand notice has been issued.
- Trade friendly provisions enabling interested persons to seek advance ruling in respect of goods prior to importation/exportation have been put into place by making changes such as significantly expanding the scope of the terms 'advance ruling' and 'applicant' and reducing the time limit for pronouncing the ruling to three months from the date of application.
- Changes proposed in Customs procedures relating to filing of bill of entry / shipping bill
- Provisions for deposit of advance with the Government to be used for payment of duties have been put in place. This would replace the present system of payment of transaction wise duties.
- Chapter XI dealing with import or export by post is made applicable to import/export by Courier.



- The Provision of Audit of Assessment of Imported goods or Export of goods is being introduced. This audit shall be carried out at the office or premises of Auditee.
- Mode of Service of notice/order under the Act has been enhanced to include publishing the same in a newspaper widely circulated in the locality in which person to whom to issue is last known to have resided or carried on business.
- Retrospective exemption has been granted from integrated goods and service tax on import of aircraft, aircraft engines and aircraft parts under cross border lease during the period from 1st July 2017 to 7th July 2017. An application or refund of Integrated tax so paid can be made within period of six months from the date on which Finance Bill 2018 received assent of the president.
- New provisions for computation of integrated tax for goods warehoused have been introduced. The Integrated Tax will be levied on transaction value of such goods or value determined Under sub section 8. The transaction value means amount paid or payable for consideration of such goods . Where goods are sold more than once before clearance for home consumption, the transaction value for such transaction shall be considered as Transaction value.



5. OTHER MAJOR POLICY INITIATIVES

- It is proposed to connect Public sector banks and corporates on Trade Electronic Receivable Discounting System (TReDS) platform and further linking the same to GSTN. This will facilitate online loan sanctioning facility for MSMEs.
- To inceltivize employment of more women in the formal sector and to enable higher take home wages, it is proposed to make amendments in the Employees Provident Fund and Miscellaneous Provisions Act, 1952 to reduce women employees' contribution to 8% for first three years of their employment against existing rate of 12% or 10% with no change in employers' contribution.
- SEBI to mandate large corporates to meet at least 25% of their financing needs from bond market.
- On the lines of Aadhar, it is proposed to allot Unique Entity Number (UEN) based on Income Tax PAN to every (small or large) business entity in India.
- Government of India has identified 372 specific business reform actions in order to carry on business reforms for ease of doing business.
- Government to formulate comprehensive gold policy to develop gold as an asset class. It is proposed to establish consumer friendly and trade efficient system of regulated gold exchanges in the country.
- Considering large Outward Direct Investment (ODI), government is reviewing existing guidelines and processes to bring out coherent and integrated ODI policy.
- To attract foreign investments in niche areas such as start ups and venture capital firms, hybrid instrument policy to be announced soon.



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