UNION BUDGET 2018-19
HIGHLIGHTS
1ST FEBRUARY 2018

Gopal Chopra & Associates
Chartered Accountants
www.gca-associates.com

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1. Foreword

In the backdrop of Demonetization, GST and other measures taken by the present government the Finance Minister presented his last Full Budget before the general elections due in 2019.

The Economic Survey,2018 had suggested putting a pause to the fiscal deficit from an estimated 3.2% this year to 3.3% in 2018-19, this should help the Economy to achieve the projected full-year GDP growth in the range of 7.00 - 7.50 % in the next fiscal year. These figures broadly are in line with the estimates provided by the World Bank and the IMF.

The government has been consistently making efforts to ensure that our macroeconomic fundamentals remain strong. In view of the same, there have been transformative reforms like implementation of GST, the introduction of the Bankruptcy code, the liberalization of FDI and export uplift policy and improving the ease of doing business in India which are steps in the right direction and would help India in becoming as one of the most preferred Investment destinations. The economic survey shows that there has been a significant increase in Tax coverage and collections on the Direct taxes as well as the Indirect taxes which is attributable to demonetization and introduction of GST. However, the Tax department's petition rate is high whereas its success rate in litigation is very low thereby resulting in substantial avoidable litigation. Further, it also puts emphasis on raising investment as compared to augmenting savings to achieve growth in the economy.

With this scenario in mind and the fear of rising global oil prices, the Hon'ble Finance Minister Mr. Arun Jaitley presented his Fifth Budget on Thursday 1st February 2018.

From the ease of doing business to Ease of living the Finance Minister has provided a Budget with a focus on strengthening rural economy, the health of the citizens, education and job creation and MSME Sector. He has provided various incentives to the farmers and introduced various schemes in Education, Housing and infrastructure Sectors with special emphasis on Healthcare

The budget allocation of INR 0.5 Million per family per year for medical reimbursement to 100 Million poor and vulnerable families under National Health Protection Scheme is going to benefit 500 Million Indian Citizens and will be the world's largest health protection scheme.

In Direct Tax, there have been no changes in the Tax Rate except reduction of the Corporate tax rate to 25% for MSME Companies. On the Individual Taxation front there are Tax Incentive for Senior Citizens and, Introduction of Standard deduction for Salaried employees which would replace Medical and Transport Allowance. However, the Cess on Taxes has increased by 1% to 4%, the other changes include rationalization of Presumptive Taxation scheme, and withdrawal of exemptions of Long-Term Capital gains in respect of Listed STT paid shares.

To ensure better compliance Finance Minister has introduced various measures which include: -

- PAN has been made mandatory for all entities (other than individuals) including its directors, partners or members in case aggregate of financial transactions in a year of these entities is Rs. 2.50 lakhs or more.
- All companies will be liable for prosecution if they do not file the Income Tax Returns irrespective of the income levels.
- Introduction of E-Assessments
- Changes in adjudication procedures under various financial acts to help in ease of doing business in India
- Definition of Business connection under Income Tax Act for cross-bordertaxation has been widened by bringing it in line with Permanent Establishment Rule as per Multilateral Instrument. Business connection would also now include Significant Economic Presence thus increasing scope of Income which is deemed to accrue or arise in India

The Indirect taxes regime has seen changes in the Customs tariff rates. To Control offenses committed by persons outside India under the Customs Act, the government has expanded the scope of Customs Act and has also brought these persons under its ambit.

The Budget makes a mention that Cryptocurrencies shall not be deemed as legal tender and strict actions might be taken against investors in Cryptocurrencies. However, Government is exploring ways of using the block chain technology for digital transactions.

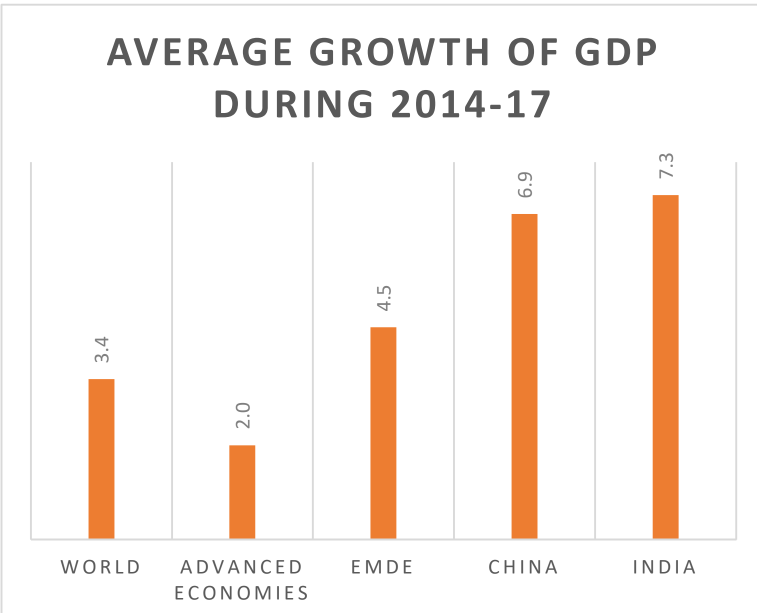
2. Budget Financial

(in Crores)

Particulars	2016-17 Actual	2017-18 Budget Estimates	2017-18 Revised Estimates	2018-19 Budget Estimates
1. Revenue Receipts (1+2)	1374203	1515771	1505428	1725738
2. Tax Revenue (net to centre)	1101372	1227014	1269454	1480649
3. Non-Tax Revenue	272831	288757	235974	245089
4. Capital Receipts (5+6+7)	600991	630964	712322	716475
5. Recoveries of Loans	17630	11933	17473	12199
6. Other Receipts	47743	72500	100000	80000
7. Borrowings and Other Liabilities	535618	546531	594849	624276
8. Total Receipts (1+4)	1975194	2146735	2217750	2442213
9. Total Expenditure	1975194	2146735	2217750	2442213
10.On Revenue Account	1690584	1836934	1944305	2141772
11.of which, Interest Payments	480714	523078	530843	575795
12.Of which, Grants in Aid for Creation of Capital Assets	165733	195350	189245	195345
13.On Capital Account	284610	309801	273445	300441
14. Revenue Deficit (10-1)	316381	321163	438877	416034
	(2.1)	(1.9)	(2.6)	(2.2)
15. Effective Revenue Deficit (14-12)	150648	125813	249632	220689
	(1.0)	(0.7)	(1.5)	(1.2)
16. Fiscal Deficit {9-(1+5+6)}	535618	546531	594849	624276
	(3.5)	(3.2)	(3.5)	(3.3)
17. Primary Deficit (16-11)	54904	23453	64006	48481
	(0.4)	(0.1)	(0.4)	(0.3)

3. KEY PERFORMANCE INDICATORS

GDP Growth Rate



India can be rated as among the best performing economies in the world based on the fact that Gross Domestic Product (GDP) growth is averaging 7.5 % between 2014-15 and 2016-17. Although growth percentage is expected to decline to 6.5 % in 2017-18, bringing the 4-year average to 7.3 %, but still it is significantly higher than most economies of the world. The growth is around 4 percentage points higher than global growth average of last 3 years and nearly 3 percentage points more than the average growth achieved by emerging market & developing economies (EMDE).

As per the first Advance Estimates (1st AE), released by Central Statistics Office (CSO), the growth rate of Gross Value of Added (GVA) at constant basic prices is estimated at 6.1 % in 2017-18, as compared to 6.6 % in 2016-17. This is on account of lower growth in ‘Agriculture & allied’ sector, and ‘Industry’ sector, which are expected to grow at 2.1 % and 4.4 %respectively. In 2017-18, the service sector is expected to grow at 8.3 %, as compared to 7.7 % in 2016-17.

From a low of 5.5 % in 2012-13, growth in GDP steadily improved for 3 years and peaked in 2015-16, particularly in the fourth quarter (Q4) when it reached9.1 % (GVA growth also peaked in Q4 of 2015-16). However, growth started slowing down from the first quarter (Q1) of 2016-17. GDP and GVA growth slowed to 6.1 % and 5.6 % respectively in Q4 of 2016-17. GDP growth further declined to 5.7 % in Q1 of 2017-18. However, the second quarter (Q2) of 2017-18 witnessed a reversal of declining trend of GDP growth, with growth increasing to 6.3 %.

WPI and CPI Inflation

Table 1: General Inflation based on different price indices						
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (Apr-Dec)
WPI	6.9	5.2	1.2	-3.7	1.7	2.9 (P)
CPI (combined)	10.2	9.5	5.9	4.9	4.5	3.3 (P)
CPI (IW)	10.4	9.7	6.3	5.6	4.3	2.3#
CPI (AL)	10.0	11.6	6.6	4.4	4.2	2.0#
CPI (RL)	10.2	11.5	6.9	4.6	4.2	2.1#

(P) -Provisional

-For 2017-18 (April-November)

The economy witnessed a gradual transition from a period of high and variable inflation to more stable prices in the last four years. Headline inflation measured by the Consumer Price Index (CPI) has remained under control for the fourth successive year. Financial year (FY) 2017-18 began with an annual inflation rate of 3.0 %. In the first two quarters of FY 2017-18, there was a moderate increase in prices, resulting in a low level of inflation of 2.2% in quarter one and 3.0 % in quarter two. Headline inflation rate reached its series low of 1.5 % in the month of June 2017. Average inflation for FY 2017-18 (Apr-Dec) stood at 3.3 %, below the threshold of 4 %. The decline in the inflation in the first half of the current fiscal year was indicative of a benign food inflation which ranged between (-)2.1 to 1.5 %. The moderate inflation rate of less than 4 % was maintained for straight 12 months up to the end of October 2017 (Figure 1). The CPI-C inflation for the month of December, 2017 stood at 5.2 % as compared to 4.9 % in November, 2017 and 3.4 % in December, 2016.WPI based inflation for FY 2017-18 (Apr-Dec)stood at 2.9 %.

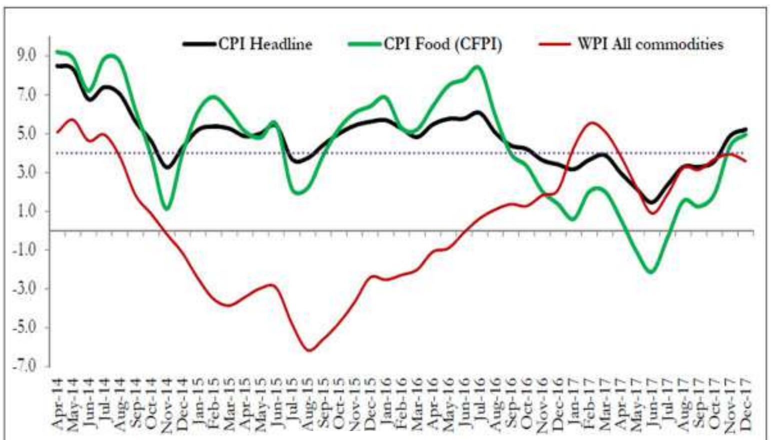


Figure-1

Inflation based on the major series of the price indices for the last six years is given in Table 1 and the movement of WPI and CPI inflation since April 2014 is at Figure 1.

Deficit Percentage of GDP

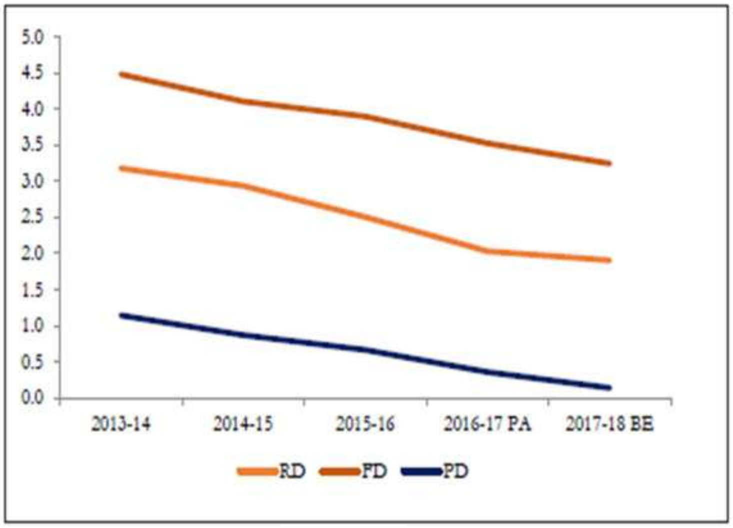


Figure-2

The various Tax and other policy reforms made by the Government in the past three years have brought macroeconomic stability to a great extent and provided a Firm footing to the Indian economy. This can be perused from this Chart (Figure 2). All the fiscal indicators namely-

Revenue Deficit (RD), Fiscal Deficit (FD) and Primary Deficit (PD) have improved discernibly in the last 3 years.

The different Revenue sources & Expenditure Budget for 2018-19

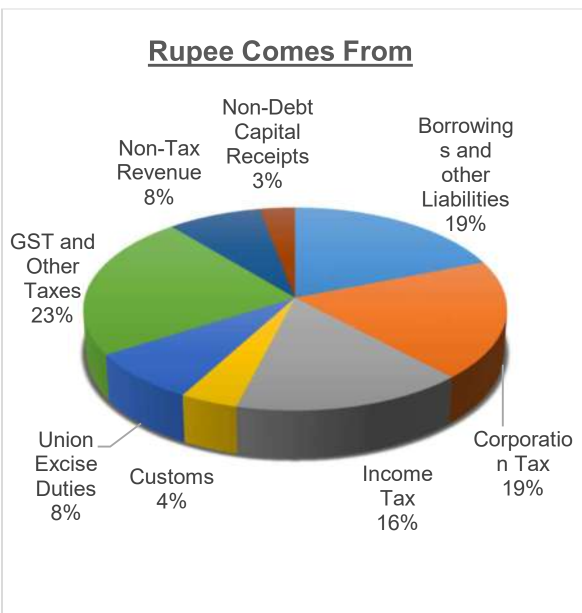


Figure-3

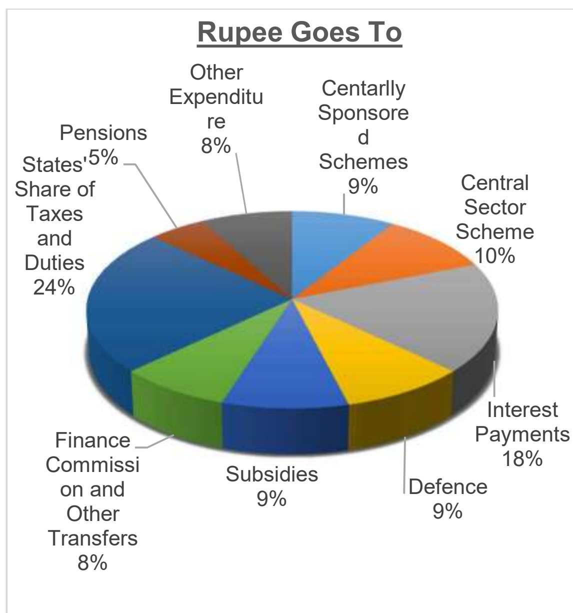


Figure-4

4. STATEMENT OF BUDGETED REVENUE

(in Crores)

Particulars	2016-17 Actual	2017-18 Budget Estimates	2017-18 Revised Estimates	2018-19 Budget Estimates
1. Tax Revenue				
Gross Tax Revenue	1715822	1911579	1946119	2271242
Corporation Tax	484924	538745	563745	621000
Taxes on Income	364604	441255	441255	529000
Wealth Tax	185	-	-	-
Customs	225370	245000	135242	112500
Union Excise Duties	382094	406900	276995	259600
Service Tax	254499	275000	79507	-
GST	-	-	444631	743900
CGST	-	-	221400	603900
IGST	-	-	161900	50000
GST Compensation Cess	-	-	61331	90000
Taxes on Union Territories	4146	4679	4744	5242
Less: NCCD transferred to the National Calamity Contingency Fund/National Disaster Response Fund	6450	10000	3660	2500
Less: State's share	608000	674565	673005	788093
1(a) Centre's Net Tax Revenue	1101372	1227014	1269454	1480649
2. Non-Tax Revenue	272831	288757	235974	245089
Interest receipts	16229	19021	13551	15162
Dividend and Profits	123017	142430	106433	107312
External Grants	1300	3060	3681	2667
Other Non-Tax Revenue	130481	122728	110433	117886
Receipts of Union Territories	1804	1518	1876	2062
Total Revenue Receipts(1a + 2)	1374203	1515771	1505428	1725738
3. Capital Receipts				
A. Non-debt Receipts	65372	84433	117473	92199
1. Recoveries of loans and advances**	17630	11933	17473	12199
2. Disinvestment Receipts	47742	72500	100000	80000
Total				
B. Debt Receipts	535618	546531	594849	624276
Total Capital Receipts (A+B)	600990	630964	712322	716475
Total Receipts (1a+2+3)	1975193	2146735	2217750	2442213
4. DRAW-DOWN OF CASH BALANCE	(-)8895	12844	(-)39379	43066
Receipts under MSS (Net)	-	-	-	-

** The receipts are net of payment

5. DIRECT TAXES

Personal Taxes

➢ **Extending the benefit of tax-free withdrawal from NPS to non-employee subscribers**

Under the existing provisions of the clause (12A) of section 10 of the Act, an employee contributing to the NPS is allowed an exemption in respect of 40% of the total amount payable to him on the closure of his account or on his opting out. It is proposed to extend the said benefit to non-employee subscribers as well w.e.f 1st April 2019.

➢ **Compensation in connection with business or employment**

Any compensation received or receivable, whether revenue or capital, in connection with the termination or the modification of the terms and conditions of any contract relating to its business, shall be taxable as business income.

Any compensation received or receivable, whether in the nature of revenue or capital, in connection with the termination or the modification of the terms and conditions of any contract relating to its employment shall be taxable under section 56 of the Act.

➢ **Presumptive taxation**

The current provision of presumptive taxation deems Rs 7500 as income per month or part of a month in case of goods carriage for each vehicle irrespective of carrying capacity of the vehicle. However, presumptive taxation regime is amended for heavy goods vehicle. In case of heavy goods vehicle (more than 12MT), Rs 1000 per ton of gross weight or un laden weight per month or part of a month for each good vehicle shall be deemed as the income of the assessee.

Corporate Taxation

- **Basic Tax Rate**

Corporate Tax Rate @ 25% - Domestic Companies having turnover Less than 250 Crores in the Financial year 2016-17, as compared to 50 crores in the previous year.

- **Tax rate for companies engaged in manufacture or production of articles/things**

Section 115BA provides Tax at the lower rate of 25% on total income of the companies engaged in manufacture or production of articles/things. To rationalize benefits under this section, budget provides that tax on income which is chargeable at a lower rate than 25% (i.e., capital gains etc.,) shall continue to be chargeable at such lower rates.

- **Widening of scope of the expression "Accumulated profits"**

It is proposed to widen the scope of the term 'accumulated profits' for the purpose of defining dividend, so as to provide that in the case of an amalgamated company, accumulated profits shall be increased by the accumulated profits of an amalgamating company (whether capitalized or not) on the date of amalgamation.

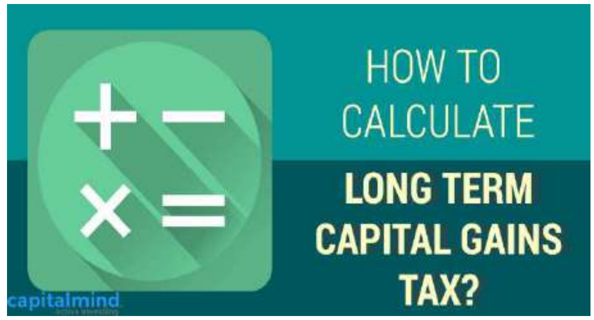
- **Application of Dividend Distribution Tax to deemed dividend**

Deemed dividends under section 2(22)(e) of the Act, on account of advancing loans and advances to be subject to Dividend Distribution Tax @ 30%

- **Dividend distribution tax on dividend payouts to unitholders in an equity oriented funds**

Section 115R is amended to provide that where any income is distributed by a Mutual Fund being, an equity oriented fund, the mutual fund shall be liable to pay additional income tax at the rate of 10% on income so distributed.

Capital Gain



➢ **Conversion of stock-in-trade into Capital Asset**

In order to include the Conversion of stock-in-trade into Capital Asset within tax ambit w.e.f. 1st April 2019 it is proposed to amend the following —

1. Any profit or gains arising from the conversion of inventory into a capital asset or its treatment as capital asset shall be charged to tax as business income. Business Income to be calculated as difference of FMV on date of conversion and Cost of acquisition

2. For the purposes of computation of capital gains arising on transfer of such capital assets, the fair market value on the date of conversion shall be the cost of acquisition. The period of holding of such capital asset shall be reckoned from the date of conversion or treatment.

➢ **Tax neutral transfer**

Transfer of money or property by a holding company to its wholly owned subsidiary company and vice versa are now excluded from the scope of other income under Section 56 provided the transferee company is an Indian company.

➢ **New Regime for taxation of Capital Gains**

Long-Term Capital Gain arising from transfer of equity shares or unit of equity oriented mutual fund or units of business trust shall no longer be exempt and be taxed at the rate of 10% of capital gains exceeding 1Lakh without providing for any indexation of cost and the benefit of computation of capital gains in case of Non-resident in foreign currency.

The cost of acquisition of Long-Term Capital Asset acquired before 1stFebruary2018 shall be higher of:

1. The actual cost of acquisition of such asset; or
2. FMV or full value of consideration received or accruing as a result of transfer of capital asset whichever is lower

Here, FMV shall be:

In case of Listed Shares	• Highest price quoted on 31st January 2018 • Where there is no trading on 31stJanuary2018 the highest price on the date immediately preceding such date
In case of Unit and not listed on recognized stock exchange	the net assets value on 31January 2018

The above regime shall also be applicable to Foreign Institutional Investor.

- **Measures to Promote International Financial Services Centre (IFSC)**

Transfer of following assets by Non-resident on are cognized stock exchange located in IFSC shall not be regarded (w.e.f A.Y. 2019-20) as a transfer for computation of capital gains:

1. bond or Global Depository Receipt,
2. rupee denominated bond of an Indian company
3. derivative.

- **Rationalization of capital gains (section 50C), business profits (section 43CA) and other sources (section 56) in case of Immovable Property**

No Adjustment to be made in case where the variation between stamp duty value and sale consideration does not exceed 5% of the sales consideration w.e.f. AY 2019-20.

International Taxation

- **Amendment in Provisions relating to Country-by-Country Report (CbCR)**

Retrospective amendment has been made w.e.f the 1st April, 2017 in Section 286 of the Act which contains provisions relating to specific reporting regime in the form of Country-by-Country Report in respect of an international group. In line with BEPS, following amendments are made:

1. the time allowed for furnishing the CbCR, in the case of parent entity or Alternative Reporting Entity (ARE), resident in India, is extended to 12 months from the end of reporting accounting year;

2. 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;

3. the time allowed for furnishing the CbCR, in the case of constituent entity resident in India, having a non-resident parent, shall be 12 months from the end of reporting accounting year. However, the due date for furnishing CbCR by the ARE of an International Group, the parent entity of which is outside India with the Tax authority of the country or the territory of which is resident, will be the due date specified by that country or territory.

- **Aligning the scope of Business Connection with modified PE as per MLI**

The Definition of the Term "Business Connections" has been widened. The Proposed amendment would now furthermore include a person acting on the behalf of Non-Resident and habitually plays the principal role leading toconclusion of the contract by the Non-Resident. The contract should be:

1. In the name of Non-Resident or,
2. for the transfer of the ownership of, or for the granting of the right to use, property owned by that non-resident or that the non-resident has the right to use; or
3. for the provision of services by that non-resident.

- **<u>Business Connection to include Significant Economic Presence</u>**

Physical Presence for Establishing Business Connection does not hold much of merit in today's time of Digital Economy. In view of this, it is proposed to amend clause (i) of sub section (1) of section 9 of the Act to provide that significant economic presence in India shall also constitute 'Business Connection'. Further, significant economic presence for this purpose shall mean:

1. 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 previous year exceeds such amount as may be prescribed; or
2. systematic and continuous soliciting of business activities or engaging in interaction with such number of users as may be prescribed, in India through digital means:

On Fulfillment of above conditions, only such Income as attributable to such activities or transactions shall be deemed or accrue to arise in India.

- **<u>Royalty and FTS payment by National Technical Research Organization</u>**

Royalty and FTS payment by National Technical Research Organization to Non-resident not being a company, or a foreign company shall be exempt from tax. Accordingly, no TDS shall be required under section 195.

- **<u>Relief from applicability of MAT</u>**

Provisions of MAT u/s 115JB shall not be applicable and shall be deemed never to have been applicable to a foreign company retrospectively from 1st April, 2001 if its total income comprises solely of profits and gains from business referred to in section 44B/44BB/44BBA/44BBB and such income has been offered to tax at the rates specified in the said sections.

- **<u>Exemption of income of foreign company from sale of leftover stock of crude oil on termination of agreement or arrangement</u>**

Exemption of Income u/s 10 of foreign company from sale of left over stock of crude oil will be available even if agreement or arrangement is terminated having regard to importance of augmenting strategic petroleum reserves in India.

TDS

- **TDS on Government Bonds**
  8% Savings (Taxable) Bonds, 2003 of Government are now replaced with new 7.75% GOI Saving (Taxable) Bonds, 2018. The payer is liable to deduct tax at source under section 193 on interest on such bonds at the time of paymentor credit of such interest in excess of Rs. 10,000/- to a resident.

- **TDS on Long Term Capital gains**
  Tax shall now be deducted at source at the rate of 10% on Long term capital gain on sale of Equity shares or unit of equity oriented funds or units of Business Trust

- **TDS in Interest Income for Senior Citizens**
  No TDS on interest income in case of senior citizen upto Rs 50,000 as the said amount is exempt.

- **TDS on Royalty and Fees for Technical Services**
  Royalty and FTS payment by National Technical Research Organization to Non-resident not being a company, or a foreign company shall be exempt from tax. Accordingly, no TDS shall be required under section 195

Deductions/ Exemptions

- **Available to senior citizens**

1. The monetary limit for exemption under Section 80D in respect medical insurance for senior citizens is increased from Rs 30,000 to Rs 50,000.
   In case of single premium policy, the deduction shall be allowed on proportionate basis for the year's health insurance cover is provided.
2. Senior citizens and super senior citizens to get the enhanced deduction of Rs 1,00,000 for medical treatment of specified diseases under Section 80DDB.
3. Exemption of interest income on Deposit for senior citizens is increased to Rs 50,000 from the present limit of 10,000.

- **Available to salaried class employees**

Standard deduction upto Rs 40,000 for salaried employees shall be allowed. Accordingly, no specific exemption shall be allowed in respect of Transport allowance and reimbursement of medical expenses (w.e.f. 1stApril 2019).

- **Available to Companies**

100% Deduction in respect of income of Farm Producer Companies having a total turnover uptoRs.100 Cr. shall be allowed (w.e.f. 1stApril2019) whose GTI includes income from-

1. the marketing of agricultural produce grown by its members, or
2. the purchase of agricultural implements, seeds, livestock or other articles intended for agriculture for the purpose ofsupplying them to its members, or
3. the processing of the agricultural produce of its members.

This benefit shall be available for a period of five years from the F.Y. 2018-19.

- **Other Deductions**

1. Section 80JJAA

   Deduction under Section 80JJAA at the rate of 30% shall be allowed to the Employer, in case of a new employee who is employed for less than the minimum period of

150/240 days during the first year but continues to be employed for the minimum period in subsequent year.

Section 80JJAA to be amended to extend the relaxation of 150 days presently available to apparel industry, to footwear and leather industry also.

2. Section 54EC

Section 54EC is being amended to restrict the benefit of exemption under this section to a long-term capital asset being land or building or both only. Earlier it was available to any long term capital asset. Also w.e.f. 1st April 2018 investment in such bonds shall stay invested for 5 years instead of 3 years earlier.

3. Section 80IAC-Start Ups

- Benefits of profit linked deductions will be extended to start ups incorporated on or after 1st April ,2019 but before 1st April 2018 whose turnover does not exceeds Rs. 25 Cr. in 7 previous years commencing from date of its incorporation.

- The definition of eligible business has been expanded to provide that the benefit would be available if it is engaged in innovation, development or improvement of products or processes or services, or services, or a scalable business model with a high potential of employment generation or wealth creation.

Income Computation and Disclosure Standards

➢ **Amendments in relation to notified Income Computation and Disclosure Standards**

Retrospective amendments w.e.f the 1st April, 2017 the following amendments are proposed:

1. Marked to market loss or other expected loss as computed in the manner provided in ICDS shall be allowed deduction only under Section 36.

2. Any gain or loss arising on account of effects of changes in foreign exchange rates in respect of specified foreign currency transactions shall be treated as income or loss as computed in the manner provided in ICDS.

3. Profits arising from a construction contract or a contract for providing services shall be determined on the basis of %age of completion method except for certain service contracts, and that the contract revenue shall include retention money, and contract cost shall not be reduced by incidental interest, dividend, and capital gains.

4. Further, for the purpose of determining the income chargeable under the head "Profits and gains of business or profession, the valuation of inventory shall be made at lower of actual cost or net realizable value computed in the manner provided in ICDS.

5. 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.

6. Inventory being securities not listed or listed but not quoted on a recognized stock exchange shall be valued at actual cost initially recognized in the manner provided in ICDS.

7. Inventory being listed securities shall be valued at lower of actual cost or net realizable value in the manner providedin ICDS and for this purpose the Comparison of actual cost and net realizable value shall be done category-wise.

8. 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.

9. 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 realization is achieved.

10. Income referred to in sub-clause (xviii) of clause (24) of section 2 [assistance in the form of a subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement] 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.

Facilitating Insolvency Resolutions

- **Computation of Book Profit**

A company whose application has been accepted under Insolvency and Bankruptcy Code, 2016 shall be allowed to reduce the aggregate of loss brought forward and unabsorbed depreciation from the book profit under Section 115JB for A.Y.2018-19.

- **Set off and carry forward of Losses**

For the companies whose resolution plan has been approved under Insolvency and Bankruptcy Code, 2016 shall be allowed to carry forward losses even when the 51% of the beneficial owner are not same in the year in which loss occurred and the year loss is set off.

- **Verification of Return**

During resolution process return shall be verified by Insolvency Professional appointed by the Adjudicating authority under IBC 2016.

Return and Assessment

- **New Scheme for scrutiny assessment**

  A new scheme for e-assessment shall be rolled out to restrict the interface between AO and the assessee leading to greater efficiency and transparency in direct tax collection.

- **Processing of Return of incomeunder Section 143(1)**

  No adjustment on account of income appearing in Form 26AS or Form 16A or Form 16 which has not been included in computing the total income will be made while processing of return u/s 143(1) w.e.f A. Y 2018-19

- **"Deductions in respect of certain incomes" in Chapter VIA not to be allowed unless return is filed by the due date**

  The benefit of deduction under the entire class of deductions under the heading "C Deductions in respect of certain incomes" in Chapter VIA shall not be allowed unlessthe return of income is filed within the due date of filing of Return. Earlier Section 80AC was applicable only to deductions u/s 80-IA /80-IAB /80-IB/80-IC/80-ID or 80-IE

- **Appeal against penalty imposed by Commissioner (Appeals) under section 271J**

  An appeal can be filed against the penalty imposed by Commissioner (Appeals) under section 271J for furnishing incorrect information in reports or certificate to Appellate Tribunal.

Penalty and Prosecution

- **Penalty for failure to furnish Statement of financial transaction or reportable account (SFTRA)**

Conditions	Existing Penalty	Proposed Penalty
Fails to furnish statement of Financial transaction or reportable account within the prescribed time	Rs. 100/- for each day during which such default continues	Rs. 500/- for each day during which such default continues
Fails to furnish statement of Financial transaction or reportable account within the period specified in the Notice	Rs. 500/- for each day during which such default continues	Rs. 100/- for each day during which such default continues

- **<u>Prosecution for failure to furnish return</u>**

Companies shall mandatory file its Income Tax Return, even if the tax liability is Nil, in order to avoid prosecution under section 276CC.

- **<u>Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015</u>**

1. Now the Assistant Director or the Deputy Director, investigating a case of undisclosed foreign income or asset can also be assigned the concurrent jurisdiction of the Assessing Officer and can also initiate penalty after the approval of Joint Director or Additional Director.

2. The Principal Director-General or the Director-General has also been empowered to issue instructions or directions to the Principal Commissioner or Commissioner or the Commissioner (Appeals) so as to sanction institution of proceedings for an offense under this Act.

Miscellaneous

- **TDS and Manner of payment in respect of charitable trusts**

  Expenditure incurred without deduction of TDS and payment made in cash exceeding Rs10,000 will not be eligible as application of income under section 11 and Section 10(23C) for a charitable trust.

- **Rationalization of Provisions of section 115BBE**

  No deduction in respect of any expenditure or allowance or set-off of any loss shall be allowed in computing the income as referred to in section 68 (Unexplained cash credits), section 69 (Unexplained investments), section 69A (Unexplained money etc.), section 69B(Amount of Investments etc. not fully disclosed in books of account), section 69C (Unexplained Expenditure) or section 69D (Amount borrowed or repaid on hundi) as determined by the Assessing Officer.

- **Entities required to apply for Permanent Account Number (PAN) under Section 139A**

  Non-individual entities making any financial transaction of Rs. 2,50,000/- and more shall be required to apply for PAN. The following natural persons are also required to apply for PAN: -

  1. Managing Director
  2. Director
  3. Partner
  4. Trustee
  5. Author
  6. Founder
  7. Karta
  8. Chief Executive Officer
  9. Principal Officer or Office Bearer or any per person competent to act on behalf of such entities

- Trading of an agricultural commodity in a recognized stock exchange will be treated as non-speculative transactions.

➢ <u>Commodity Transaction Tax</u>

Definition of "taxable commodity transaction" will include "options in commodity futures" within its ambit. Commodity Transaction tax to be levied at the following rates

S.No.	Taxable Commodities Transaction	Rate	Payable by
1	Sale of Commodity Derivative	0.01%	Seller
2	Sale of an option on commodity derivative	0.05%	Seller
3	Sale of man option on commodity derivative, where option is exercised	0.0001%	Purchaser

6. Indirect Taxes

Customs

General

1. Basic Custom Duty remains unchanged.

2. A new Cess in form of Social welfare surcharge has been introduced in place of Education Cess at the rate of 10% on aggregate of customs duties on imported goods (3% in case of Gold, Silver and Motor Spirit commonly known as petrol and high speed diesel oil) whereas specialized goods are exempted from the same.

3. The name of the Central Board of Excise and Customs is renamed to the Central Board of Indirect Taxes and Customs.

Amendments in the Custom Act,1962

1. The scope of The Custom act,1962 expanded to cover any offense or contravention committed outside India by any person.

2. The limit of "Indian Customs Water" in extended to Exclusive Economic Zone from Contiguous Zone of India.

3. Section 18(1) is amended to cover export consignments under provisional assessment of duty.

4. A new proviso in section 28(1)(a) inserted to provide a process of pre-notice consultation by the authorities before issuance of demand notice for recovery of duty or refund in cases other than collusion, suppression, etc.

   A new sub-section (7A) to provide for the issuance of supplementary show cause notice in circumstances and in such manner as may be prescribed through regulations within the existing time period.

   Amendment in existing sub-section (9) to Define time frame provided for adjudication of demand notices including their extension. In the event the demand notice is not adjudicated within the specified time period including extension, it would be deemed that no notice was issued.

5. Revised guidelines for Advance Ruling in terms of:

   - The definition of the term “applicant” amended to include any import or exporter, or any other person with justifiable cause to the satisfaction of the authority.
   - The Central Government is now empowered to notify any matter on which Advance Ruling can be sought by an applicant.
   - Time limit for pronouncement of ruling is reduced from 6 months to 3 months.
   - Permitting appeal to the appellate authority against ruling by the applicant or the customs authorities.

6. A new facility of Electronic Cash Ledger has been introduced for payment of taxes, duties, fees, interest, and penalty.

7. Section 153 is being substituted to as to align it with provisions of Section 169 of CGST Act which provide Speed Post, Courier and Registered Mail as valid modes of delivery.

8. Commissioner (Appeals) is now authorized to remand back the matters to original adjudicating authority in specified categories of cases.

9. Central Government is now authorised to enter into an agreement or arrangement for exchange of information with any country for facilitation of trade and enforcement of the Customs Act, 1962.

10. Education Cess and Secondary & Higher Education Cess on imported goods has been abolished.

- **Amendments to the structure of Authority for Advance Rulings**

Consequent to the appointment of new custom authority for Advance Ruling:

1. The Authority for Advance Rulings as constituted earlier u/s 254-O shall cease to act as an Authority for Advance Rulings and shall act as an Appellate Authority for the purpose of the Customs Act, 1962.

2. Such Authority shall not admit any appeal against any ruling or order passed earlier by it in the capacity of Authority for Advance ruling

- **Additional Duty of Customs In lieu of Basic Excise Duty**

S. No.	Category	Current Rate	Proposed Rate
1	Motor SpritCommonly known as petrol	Rs. 6.48 per litre	Rs. 4.48 per litre
2	High speed diesel oil	Rs. 8.33 per litre	Rs. 6.33 per litre

Cess on Customs In lieu of Basic Excise Duty

Motor SpritCommonly known as petrol and high speed diesel oil

S. No.	Category	Current Rate	Proposed Rate
1	Levy of Road & Infrastructure Cess	-	Rs. 8 per litre
2	Abolition of Additional Duty of Excise(Road Cess)	Rs. 6 per litre	-

- **Amendments in Custom Tariff Act, 1975**

Section 3 is being amended so as to provide valuation method for calculation of IGST and GST Compensation Cess when they are sold within warehousing period.

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

Amendments affecting rates of BCD [to be affected from 02.02.2018]			
S.No	**Commodities**	**Rate of Duty**	
		Current Rate	**Proposed Rate**
1.	**Food Processing**		
	Fruit juices and vegetable juices including cranberry juice	30%	50%
2.	**Perfumes and Toiletry preparations**		
	Perfumes and toilet waters	10%	20%
	Beauty or make-up preparations and preparations for the care of the skin (other than medicaments), including sunscreen or suntan preparations; manicure or pedicure preparations	10%	20%
	Preparations for the use on the hair	10%	20%
	Preparations for oral or dental hygiene, including denture fixative pastes and powders; yarn used to clean between the teeth (dental floss), in individual retail packages	10%	20%
	Pre-shave, shaving or after-shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations, not elsewhere specified or included, prepared room deodorizers, whether or not perfumed or having disinfectant properties.	10%	20%
3.	**Automobile Parts**		
	Truck and Bus radial tyres	10%	15%
	Specified parts/accessories of motor vehicles, motor cars, motor cycles	7.5/10 %	15%
4.	**Footwear**		
	Footwear	10%	20%
	Parts of Footwear	10%	15%
5.	**Jewellery**		
	Imitation Jewellery	15%	20%
6.	**Imitation Jewellery**		
	Cellular mobile phones	15%	20%
	Specified parts and accessories including lithium-ion battery of cellular mobile phones	7.5/10 %	15%
	Smart watches/wearable devices	10%	20%
	LCD/LED/OLED panels and other parts of LCD/LED/OLED TVs	7.5/10 %	15%
7.	**Furniture**		
	Seats and parts of seats [other than aircraft seats and their parts]	10%	20%
	Other furniture and parts	10%	20%

	Mattresses supports; articles of bedding and similar furnishing	10%	20%
	Lamps and lighting fitting, illuminated signs, illuminated name plates and the like [except solar lanterns or solar lamps]	10%	20%
8.	**Watches and Clocks**		
	Wrist watches, pocket watches and other watches, including stop watches	10%	20%
	Clocks with watch movements	10%	20%
	Other clocks, including alarm clocks	10%	20%
9.	**Toys and Games**		
	Tricycles, scooters, pedal cars and similar wheeled toys; dolls' carriages; dolls; other toys; puzzles of all kinds	10%	20%
	Video game consoles and machines, articles for funfair, table or parlor games and automatic bowling alley equipment	10%	20%
	Festive, carnival or other entertainment articles	10%	20%
	Articles and equipment for sports or outdoor games, swimming pools and paddling pools [other than articles and equipment for general physical exercise, gymnastics or athletics]	10%	20%
	Fishing rods, fishing-hooks and other line fishing tackle; fish landing nets, butter fly nets and similar nets; decoy birds and similar hunting or shooting requisites	10%	20%
	Roundabouts, swings, shooting galleries and other fairground amusements; travelling circuses, traveling menageries and travelling theatres	10%	20%
10.	**Miscellaneous items**		
	Candles, tapers and the like	10%	20%
	Kites	10%	20%
	Sunglasses	10%	20%
	Date, sealing or numbering stamps, and the like	10%	20%
	Cigarette lighters and other lighters, whether or not mechanical or electrical, and parts thereof other than flints and wicks.	10%	20%
	Scent sprays and similar toilet sprays, and mounts and heads therefor; powder-puffs and pads for the application of cosmetic or toilet preparations.	10%	20%
	Amendments not affecting rates of duty [to be effective from 02.02.2018]		
1.	Tariff rate of BCD on Lithium-ion batteries [The effective rate of import duty on Lithium-ion batteries [except for cellular mobile phones that will, however, remain unchanged at 10%.]	10%	20%
2.	Tariff rate of BCD on medical devices [The effective rates of BCD on such medical devices will ,remain unchanged.]	7.5%	10%

➢ AMENDMENT IN THE SECOND SCHEDULE TO THE CUSTOMS TARIFF ACT, 1975

Amendment			
	Amendment not affecting rates of Export duty	**Rate of Duty**	
		Current Rate	*Proposed Rate*
1.	Electrodes of a kind used for furnaces [Clause 102 (b) of the Finance Bill, 2018] * [Introduction of 20% Tariff rate of Export Duty on Electrodes of a kind used for furnaces (8545 11 00). The effective rate of Export duty on such electrodes will, however, remain Nil]	–	20%

➢ OTHER PROPOSALS INVOLVING CHANGES IN BASIC CUSTOMS DUTY RATES

S.No.	Commodities	Current Rate	Proposed Rate
1.	**Food Processing**		
	Cashew nuts in shell [Raw cashew]	5%	2.5%
	Orange fruit juice	30%	35%
	Cranberry Juice	10%	50%
	Miscellaneous Food preparations (other than soya protein)	30%	50%
2.	**Textiles**		
	Silk Fabrics	10%	20%
	Capital goods and Electronics		
	Printed Circuit Board Assembly (PCBA) of charger/adapter and moulded plastics of charger/adapter of cellular mobile phones	Nil	10%
	Inputs or parts for manufacture of: a) PCBA, or b) moulded plastics of charger/adapter of cellular mobile phones of cellular mobile phones	Applicable Rate	Nil
	Ball screws, linear motion guides, CNC systems for manufacture of all types of CNC machine tools falling under headings 8456 to 8463	7.5%	2.5%
	Solar tempered glass or solar tempered [anti-reflective coated] glass for manufacture of solar cells /panels/modules	5%	Nil
	Preform of silica for use in the manufacture of telecommunication grade opticalfibres or optical fibre cables	Nil	5%
	12 specified parts for manufacture of LCD/LED TV panels	Nil	10%
	Automobile and automobile parts		

	CKD imports of motor vehicles, motor cars, motor cycles	10%	15%
	CBU imports of motor vehicles	20%	25%
3.	**Diamonds and Precious stones**		
	Cut and polished colored gemstones	2.5%	5%
	Diamonds including lab grown diamonds-semi processed, half-cut or broken; non-industrial diamonds including lab-grown diamonds (other than rough diamonds), including cut and polished diamonds	2.5%	5%
4.	**Medical Devices**		
	Raw materials, parts or accessories for the manufacture of Cochlear Implants	2.5%	Nil
	Rationalization in Customs duty rates		
5.	**Edible oils of vegetable origin**		
	Crude edible vegetable oils like Ground nut oil, Olive oil, Cotton seed oil, Safflower seed oil, Saffola oil, Coconut oil, Palm Kernel/Babassu oil, Linseed oil, Maize corn oil, Castor oil, Sesame oil, other fixed vegetable fats and oils.	12.5%	30%
	Refined edible vegetable oils, like Ground nut oil, Olive oil, Cotton seed oil, Safflower seed oil, Saffola oil, Coconut oil, Palm Kernel/Babassu oil, Linseed oil, Maize corn oil, Castor oil, Sesame oil, other fixed vegetable fats and oils, edible margarine of vegetable origin, Sal fat; specified goods of heading 1518	20%	35%
6.	**Refactory Items**		
	Other articles of stone containing magnesite, dolomite or chromite	10%	7.5%
	Bricks, blocks, tiles and other ceramic goods of siliceous fossil meals or of similar siliceous earths	10%	7.5%
	Refractory bricks, blocks, tiles and similar refractory ceramic constructional goods, other than those of siliceous fossil meals or similar siliceous earths	5%	7.5%
	Other refractory ceramic goods	5%	7.5%

Excise

- **Changes in Excise Duty Rates**

Basic Excise Duty

Motor SpritCommonly known as petrol and high speed diesel oil

S. No.	Category	Current Rate	Proposed Rate
1	Unbranded Petrol	Rs. 6.48 per litre	Rs. 4.48 per litre
2	Branded Petrol	Rs. 7.66 per litre	Rs. 5.66 per litre
3	Unbranded Diesel	Rs. 8.33 per litre	Rs. 6.33 per litre
4	Branded Diesel	Rs. 10.69 per litre	Rs. 8.69 per litre

Cess on Basic Excise Duty

S. No.	Category	Current Rate	Proposed Rate
1	Levy of Road & Infrastructure Cess	-	Rs. 8 per litre
2	Abolition of Additional Duty of Excise(Road Cess)	Rs. 6 per litre	-
3	Road & Infrastructure Cess on Petrol & Diesel manufactured in & cleared from 4 specific refineries located in Northeast	-	Rs. 4 per litre

Net impact of duty on petrol and high-speed diesel will remain unchanged.

Service Tax

Retrospective exemption has been accorded to certain services from levy of service tax and refund can be claimed within 6 months from enactment of the Finance Bill, 2018.

1. Life insurance services provided by the Naval Group Insurance Fund to personnel of coast guard under the group insurance schemes of the Central Government exempt from 10 September, 2004.
2. Services provided by the GST network to the Central or State Governments or the Union Territory administration exempt from 28 March, 2013.
3. Grant of license or lease to explore or mine petroleum crude or natural gas by the Government for which the Government receives a share of the profit petroleum exempt from 01 April, 2016.

7. APPENDIX

INCOME TAX RATES IN RESPECT OF INCOME LIABLE TO TAX FOR A.Y.2018-19

➢ **Slab Rate**

1. For Individuals

There is no change in tax slabs rates for individual taxpayers and are as follows:

For Individuals below age of 60 years,HUF,AOI & BOI		Individuals aged between 60years and below 80 years		Individuals aged 80 year and above	
Total Income	Rate	Total Income	Rate	Total Income	Rate
Up to 250,000	Nil	Up to 300,000	Nil	Up to 500,000	Nil
2,50,001 to 5,00,000	5%	300001 to 5,00,00	5%	5,00,001 to 10,00,000	20%
5,00,001 to 10,00,000	20%	5,00,001 to 10,00,000	20%	10,00,001 and above	30%
10,00,001 and above	30%	10,00,001 and above	30%	-	-

2. For Co-operative Societies

There is no change in Income Tax Rates and is as follows:

Total Income	Tax Rates
Up to INR. 10,000	10%
INR. 10,001 to INR. 20,000	20%
INR. 20,001 and above	30%

3. For Local Authorities

There is no change in Income Tax Rates and is as follows:
Local Authorities are taxable at the rate of 30%.

4. For Firms (including LLP)

There is no change in Income Tax Rates and is as follows:
Firms (including LLP) are taxable at the rate of 30%.

5. Domestic Companies

The rates of income tax in case of companies have been specified in Paragraph E of Part III of the First Schedule to the Bill.

Gross Receipts or Total Turnover	Rate of Tax
< INR 250 Cr	25%
> INR 250 Cr	30%

6. For Foreign Companies

There is no change in Income Tax Rates and is as follows:
Foreign companies are taxable @ 40%.

- **Surcharge**

In case of every individual or Hindu undivided family or every association of persons or body of individuals, whether incorporated or not or every artificial juridical person:

There is no change in Surcharge rates and are as follows:

Total Income	Rates
Exceeding INR 50 lakhs to INR 1Cr	10% of Income Tax
Exceeding INR 1 Cr	15% of Income Tax

In case of Cooperative Societies

There is no change in surcharge rates and is as follows:

Total Income	Rates
Exceeds INR 1 Cr	12% of Income Tax

In case of Domestic company:

There is no change in surcharge rates and are as follows:

Total Income	Rates
Exceeding INR 1 Cr to INR 10 Cr	7% of Income Tax
Exceeding INR 10 Cr	12% of Income Tax

In case of company, other than a domestic company:

There is no change in surcharge rates and are as follows:

Total Income	Rates
Exceeding INR 1 Cr to INR 10 Cr	2% of income Tax
Exceeding INR 10 Cr	5% of Income Tax

Surcharge will also be applicable at the appropriate rates for the persons liable to pay tax under section 115JB.`

In other case, the surcharge will be leviable at the rate of 12% of Income Tax.

- **Education Cess**

From the F.Y. 2018-19, Education Cess and Secondary and Higher Education Cess (2%+1%) has been abolished and a new cess at the rate of 4% in the name of "HEALTH AND EDUCATION CESS ON INCOME TAX" shall be leviable on the amount of tax, inclusive of surcharge.

Gopal Chopra & Associates

Chartered Accountants

www.gca-associates.com

34, Babar Lane, Bengali Market, New Delhi-110001, India

Tel.:, +91-11-23350145, +91-11-41526668

E-mail: info@gca-associates.com

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