# UNION BUDGET
# 2018 – 2019

“

*The budget has devoted attention to all sectors, ranging from agriculture to infrastructure and is “farmer- friendly, common citizen- friendly, business environment- friendly and development- friendly.*

”

*-PM MODI*

Dewan P.N. Chopra & Co.

# FOREWORD

The Finance Minister of India tabled the Union Budget for FY 2018-19 on 1st February 2018 with a precarious task of balancing good economics with good politics. This may be even more relevant given the Lok Sabha Elections are tentatively scheduled for May 2019.

In this light, the budget presented was an astutely crafted proposal that on one hand focused on building the fundamentals for Growth – Agriculture, Infrastructure, Health, Education, Investment, Employment and MSMEs, while on the other hand, these aspects were addressed from the perspective of elevating the lives of the socially backward and of underprivileged India which also happens to be India's largest vote bank.

Having said that, the focus was on "Connecting India" to build a socially and economically stronger and sustainable eco-system to drive the people and the nation forward, towards a GDP growth rate of 8% per annum, to prospectively becoming the 5$^{th}$ largest economy in the world.

This budget further lays emphasis on "Ease of Living" in addition to "Ease of Doing Business", recognizing the plight of citizens and their need to have access to quality of life with clean air and water, access to sanitation, transport and security.

It was highlighted that there is now a "Premium on Honesty" within the operating structure of the government, with continuing focus on 'maximum governance with minimum government.' The past year has had numerous changes in the structural regime with the above objective including Digitization, Demonetization and GST, all disrupting the Indian economy, positive effects from which are expected but yet to be recognized.

Bringing capital into banks under Demonetization and creating records of all transactions under the GST regime have led to 'Big Data' collation and analysis which is supporting the government with a better understanding of the Indian tax payer and assisting them in taking critical decisions to help widen the tax net, increase revenue and achieve their objective of fiscal consolidation, as deficit is currently above budgeted estimates.

From a tax perspective, introduction of Long term Capital Gains at 10% on transfer of long-term equity shares was a significant introduction but expected by the market. Extending the tax rate of 25% for all MSMEs having a turnover of INR 250 crore against INR 50 crore as introduced in the previous budget will have a positive impact on 99% of the Companies operating in India. Further introduction of an additional 1% as Education and Health Cess may be utilized to support the largest Medical Healthcare Insurance Scheme in the world covering 500 million beneficiaries, the first of its kind in India. However, with countries including USA and UK reducing corporate tax rates, will India be a globally competitive destination for "Make in India" under this tax regime, is to be seen.

With introduction of GST from 1st July 2017 and a continuous barrage of amendments since, the changes to rates of tax under this Budget were with the objective of promoting "Make in India" as certain goods would become costlier on account of increasing custom duties.

With an outlay of INR 24.42 Trillion, the government has addressed a significant number of our voting population. However, the question remains, whether focus on volume is enough to drive value by attracting and promoting Investments into the country, generating employment at the required rate to capitalize on the Demographic Dividend and supporting Fiscal Consolidation with this huge Budgeted Outlay.

In essence, "Connecting India" for Ease of Doing Business and Ease of Living may be perceived as the underlying theme of this Budget. If one could add a "Premium on Implementation" to drive this forward, the budget could have a meaningful impact on the long-term development of our nation.

Dhruv Chopra
Joint Managing Partner,
Dewan P.N. Chopra & Co.

# INDEX

# Economic Performance 2017-18

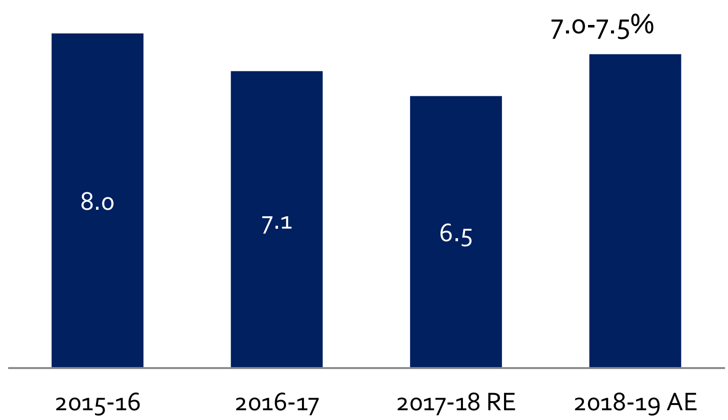
*"Budget 2018-19 is a pragmatic effort, fine balancing the requirement of fiscal rectitude while keeping in focus the need to connect the missing links in infrastructure and farm sector development. ."*

*- S.N. Subrahmanyan*
*(MD & CEO) L&T*

## Gross Domestic Product

Source: Economic Survey 2017-18

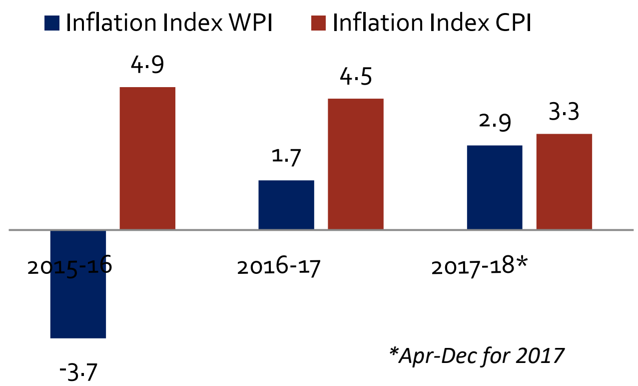
Growth in GDP (%)




- For 2018-19, the GDP growth rate is expected to range between 7% and 7.5%. This is on account of various reforms, resolution of long term Twin Balance Sheet problem by sending the stressed companies under the under the new Indian Bankruptcy Code, implementation of a major recapitalization package to strengthen the public sector and further liberalization of FDI.
- Gross Value Added (GVA) at constant basic process is expected to grow at the rate of 6.1% in 2017-18 as compared to 6.6% in 2016-17.

## Inflation

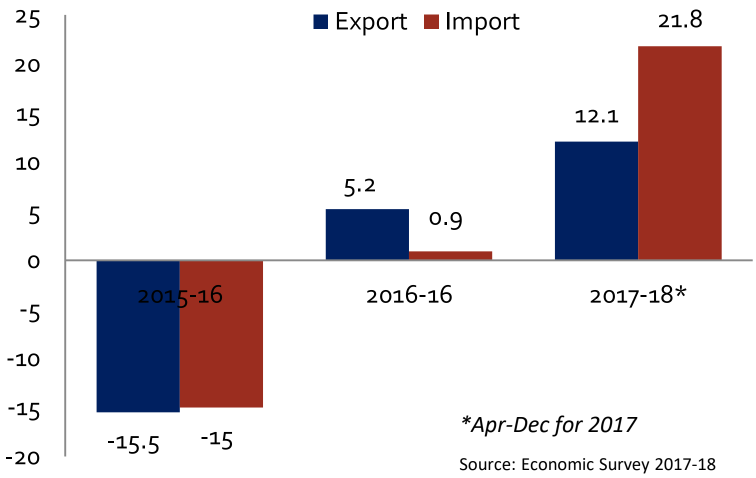
Inflation Index




Source: Economic Survey 2017-18

- The Headline inflation has been below 4 percent for twelve straight months, from November, 2016 to October, 2017 and CPI food inflation averaged around 1% during April-December in the current financial year.
- Consumer Price Index declined to 3.3 per cent in 2017-18 (Apr-Dec) from 4.8 per cent in the corresponding period of 2016- 17. CPI inflation, which was below 3.0 per cent in the first quarter of 2017-18 mainly due to lower food inflation, especially pulses and vegetables, rose marginally and stood at 3.0 per cent in the Q2 of 2017-18.
- Average inflation based on the Wholesale Price Index (WPI) stood at 2.9 per cent in 2017-18 (Apr-Dec) as compared to 0.7 per cent in 2016-17 (Apr-Dec). WPI inflation which remained subdued for several months, surged during February and March 2017 due to sudden spurt in global crude oils prices.

## Export/Import




Source: Economic Survey 2017-18

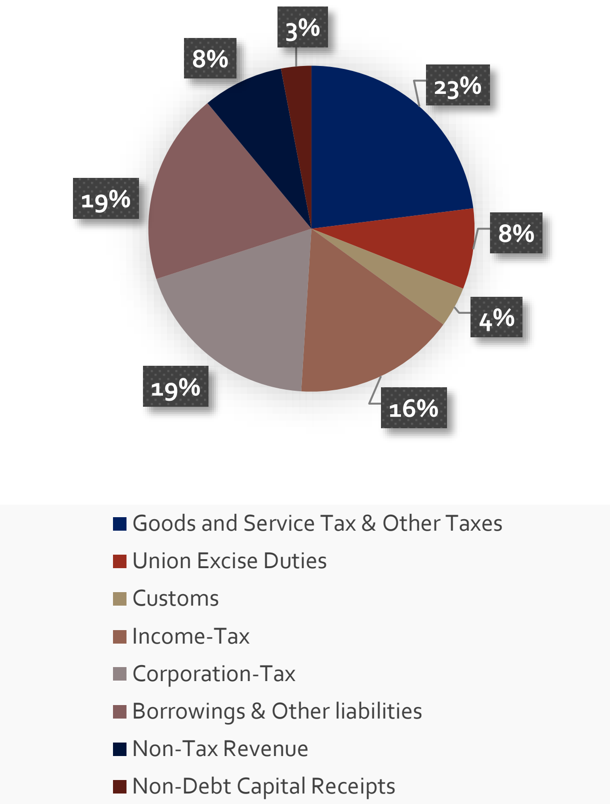
- The year 2016-17 was characterized by positive growth in merchandise exports after two years of negative growth.
- Imports declined by around US $107 billion from US$ 491 billion in 2012-13 to US$ 384 billion in 2016-17. This was mainly due to a reduction in value of import of crude oil and petroleum products to the tune of US $77 billion along with reduction of gold and silver imports worth US$ 26.4 billion during this period.
- A larger reduction in value of imports vis-à-vis that of exports helped in significant improvement in the merchandise trade balance, from US$ 190 billion in 2012-13 to US$ 108.5 billion in 2016-17. The reduction in trade deficit in this period has been the major contributor to bring about an improvement in the current account deficit that declined from 4.8 per cent of GDP in 2012-13 to around 0.7 per cent of GDP in 2016-17.

# Budget Allocation and Fiscal Summary 2018-19

*"One of the key themes of the government's reforms in the recent past has been greater formalisation of the economy. The budget suggests that these measures have started yielding results, in terms of widening of the tax net and buoyancy in direct tax revenues — enabling the government to use this fiscal dividend for larger social and infrastructure spend"*

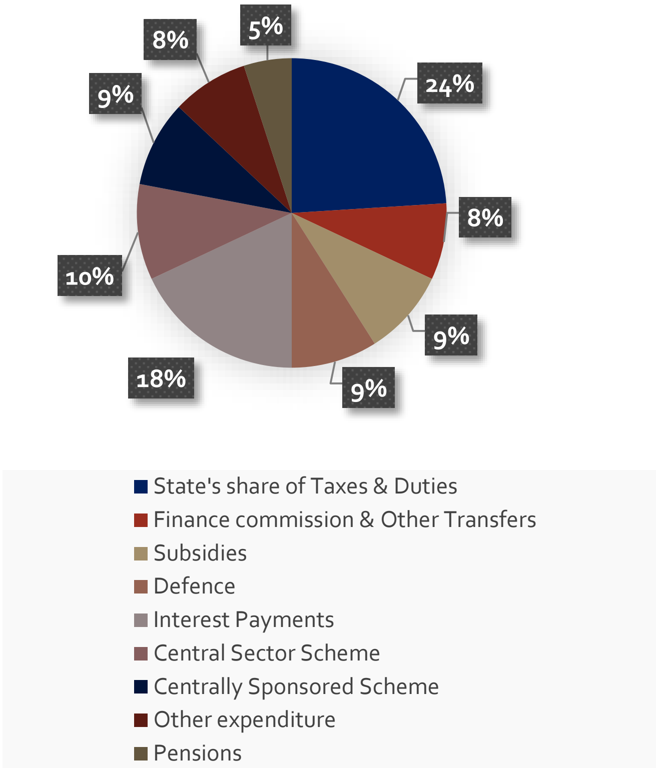
*- Kumar Manglam Birla (Chairmam)*
*Aditya Birla Group*

**Rupee Comes From**
(Budget 2018-19)



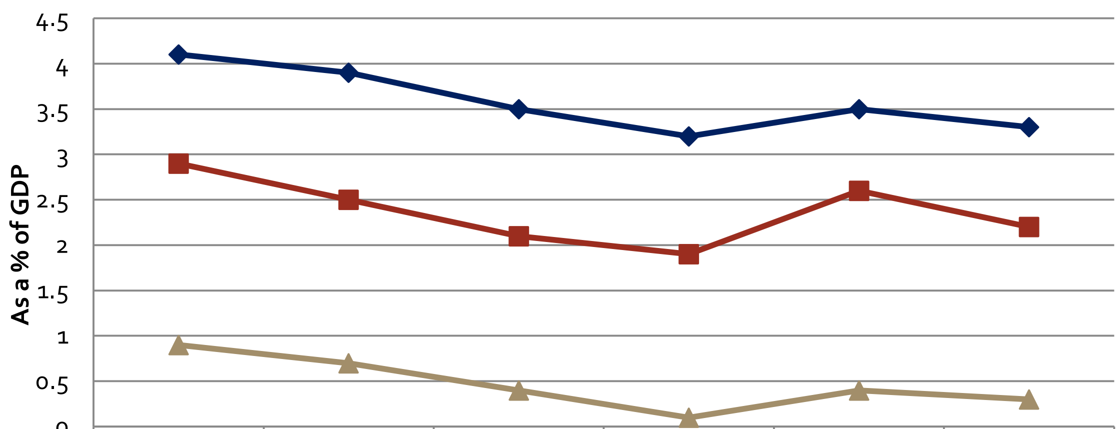

Source: Budget At A Glance 2018-19

**Rupee Goes To**
(Budget 2018-19)




Source: Budget At A Glance 2018-19

**Deficit Trends**




| | 2014-15 | 2015-16 | 2016-17 | 2017-18(BE) | 2017-18 (RE) | 2018-19(BE) |
|---|---|---|---|---|---|---|
| Gross Fiscal Deficit | 4.1 | 3.9 | 3.5 | 3.2 | 3.5 | 3.3 |
| Revenue Deficit | 2.9 | 2.5 | 2.1 | 1.9 | 2.6 | 2.2 |
| Primary Deficit | 0.9 | 0.7 | 0.4 | 0.1 | 0.4 | 0.3 |

Source: Budget At A Glance 2018-19

In order to impart unquestionable creditability to their commitment for the revised fiscal glide path, the government has accepted the key recommendation of the Fiscal Reform and Budget Management Committee relating to adoption of the Debt Rule and to bring down Central Government Debt's to GDP ratio to 40%. They have also accepted the recommendations to use Fiscal Deficit target as the key operational parameter.

# Budget Theme and Allocation 2018-19

*“The Union Budget 2018-19 has done a commendable job in holistically addressing the various priorities of the Indian economy. It has addressed social sector priorities and charted out a clear plan to boost infrastructure, while maintaining fiscal discipline. The wide ranging measures announced for various segments of the rural economy will boost income levels and create gainful & sustainable employment…”*

*- Ms.Chanda Kochhar,*
*MD & CEO, ICICI Bank*

# Investment expenditure and Policy Initiative

## Agriculture and rural economy

- The Finance Minister (FM) has considered agriculture as an enterprise and will strive to help farmers produce more from the same land parcel at lesser cost and simultaneously realise higher prices for their produce.
- As per their party manifesto, the farmers were to realise at least 50% more than the cost of their produce. Keeping this in mind the Minimum Support Price (MSP) for all crops has been declared at at least one and a half times the cost involved. This historic decision is expected to be an important step towards doubling the income of the farmers.
- For implementation and governance of MSP for benefit of the farmers, Niti Ayog in consultation with Central and State Governments shall put in place a full proof mechanism.
- To enable small farmers to interact and transact with whole sale markets and Agricultural Produce Market Committees (APMCs), 22,000 rural haats will be upgraded into Gramin Agricultural Markets (GrAMs). These markets will be provided requisite physical infrastructure and shall be electronically linked to E-NAM to permit farmers to sell directly to consumers and bulk purchasers. An Agri-Market Infrastructure fund with a corpus of INR 2,000 crore is being set up for the above purpose.
- Target date for connecting all eligible habitations with an all-weather road has been preponed from March 2022 to March 2019 with substantial work being completed. Prime Minister Gram Sadak Yojana Phase –III will help widen the ambit for developing other major link routes to connect habitations, higher secondary schools, hospital, GrAMs.
- The FM has promoted the concept of development of cluster based model in a scientific manner for identified agriculture produce across districts. These cluster will bring the advantage of scale of operations, supply chain, marketing and recognitions of district for specific crops.
- Organic farming by Farm Producer Organisation (FPOs) and Village Producers Organisation (VPOs).
- Food Processing Sector is growing at an average of 8% per annum to boost investment. In food processing allocation is being doubled to INR 1,400 crore in budget estimate 2018-19. Further, government will promote establishment of specialised agro processing financial institution in this sector.
- Proposal to launch "Operation Green" with an allocation of INR 500 crore to promote farmer producer organisation (FPOs), Agri logistics, process facilities and professional management.
- The FM proposes to extend the facility of Kisan Credit Cards to fisheries and animal husbandry farmers to support them with their working capital needs. Further, setting up of Fisheries and Aquaculture Infrastructure Development Fund (FAIDF) and Animal Husbandry Infrastructure Development Fund for supporting these sectors with a corpus of INR 10,000 crore.
- Proposal to launch restructured Bamboo National Mission with an outlay of INR 1,290 crore to promote Bamboo Sector in a holistic manner.
- Government of India to take necessary measures and encourage State Governments to put in place a mechanism to purchase surplus solar power by distribution companies at reasonable remunerative rates.
- Institutional credit for agriculture sector is raised to INR 11 lakh crore for 2018-19 vs. INR 10 lakh crore in 2017-18.

*"The focus on rural economy is clearly the standout feature of this year's Budget. The initiatives and the increased allocation were much-needed and much-anticipated moves, and will help fuel demand in the hinterland."*

*Amit Burman*

*(Vice Chairmam) Dabur Group*

- To promote 'ease of living' a special scheme to be implemented to support efforts of Governments of Haryana, Punjab, Uttar Pradesh and the NCT of Delhi to address air pollution.
- Prime Minister's Ujjwala Scheme to make poor women free from the smoke of wood, free LPG connection to 8 crore poor women to be provided.

- To provide electricity to all households of the country under Prime Minister Suabhagaya Yojana INR 16,000 crore are being spent for 4 crore poor households across India.
- Under the 'Swatch Bharat Mission' the government is planning to construct approximately 2 crore toilets in addition to the 6 crore toilets that have been constructed.
- Under Prime Minister Awas Scheme, with the objective of providing every poor of this country his own house by 2022, 51 lakh houses were constructed in 2017-18 and the same number will be constructed in 2018-19. Further, 37 lakh houses will be constructed in urban area.
- Ground water irrigation scheme under Prime Minister Krishi Sinchai Yojana –"Har Khet Ko Pani" INR 2,600 crore have been allocated to support 96 deprived irrigation districts.

## Health Education and Social Protection

### Education

- Government's focus is on improving the equality of education focus on quality of education. Accordingly, the Government has proposed to amend the Right to Education Act to enable more than 13 lakh untrained teachers to be trained.
- To move gradually from 'Black Board' to 'Digital Board' the focus is also to increase digital intensity in education to improve quality of education and upgrade skills of teachers.
- To step up investments in research and related infrastructure in educational institution it is proposed to launch a major initiative – "Revitalising Infrastructure and Systems in Education (RISE) by 2022" with a total investment of INR 1 lakh crore over the next four years.

*"it is a progressive budget with the right emphasis on training of teachers, use of technology and funding for research..."*

*Vijay Thadani*
*(Vice Chairman and MD)*
*NIIT Ltd*

### Health

- With the guiding principle of "Swasth Bharat Samriddha Bharat", Indian citizens must be healthy to realize their demographic dividend.
- With this in mind, the Government has announced two major initiatives under the "Ayushman Bharat" programme to address health holistically through a system covering both prevention and health promotion.
- The first initiative, National Health Policy 2017 shall undertake development of 1.5 lakh Health and Wellness Centres across India to provide comprehensive health care and bring these services closure to the homes of people. INR 1,200 crore has been allocated to this flagship programme.
- The second initiative being launched is the National Health Protection Scheme to cover over 10 crore poor and vulnerable families (approximately 50 crore beneficiaries) providing coverage upto INR 0.05 crore per family per year for secondary and territory care hospitalization. This will be the world's largest Government funded health care programme.
- The Government's objective of these two initiatives is to steadily but surely progress towards the goal of universal health coverage. However, it will be critical to assess and allocate adequate funds for smooth implementation of such programme.
- To ensure one Government Medical College in each state and at least one medical college for every 3 Parliamentary Constituencies, the Government will set up 24 new Government Medical Colleges and Hospitals by upgrading existing district hospitals in the country.
- A scheme called Galvanizing Organic Bio-Agro Resources Dhan (GOBAR-DHAN) for management and conversion of cattle dung and solid waste in farms to compose fertilizer, bio-gas and bio-CNG.
- Under PM Jan Dhan Yojana, the Government will bring all 60 crore basic accounts within its fold and undertake measures to provide services of micro-insurance and unorganized sector pension schemes through these accounts .
- Sukanya Samriddhi Account Scheme has more than 1.26 crore accounts across the country in the name of girl-child securing an amount of INR 19,183 crore.

- For economic and social advancement of Scheduled Castes and Scheduled Tribes, INR 56,619 crore for SCs and INR 39,135 crore for STs has been allocated in 2018-19.
- The estimated schematic budgetary expenditure on health, education and social protection will increase by INR 15,000 crore in 2018-19 vs. 2017-18.

*"The announcement of Ayushman Bharat program for governments focus for healthcare is a game changer and the coverage of 10 crore people under National health protection scheme is commendable…"*

*- Satish Reddy, (Chairman)*
*Dr. Reddy Laboratories*

## Medium, Small and Micro Enterprises (MSMEs) and Employment

- MSMEs constitute over 95% of the entities operating in India and are a major engine of growth and employment.
- To support the MSME sector, the Government has allocated INR 3,794 crore to give credit support, capital and interest subsidy and innovation.
- Post demonetization and introduction of GST, significant data is being collected on MSMEs to help improve financing schemes to support their growth and also to track the size and scale of their business. This will bring transparency and support in compliance including to identify evasion of tax.
- The MUDRA Yojana will lend approximately INR 3 lakh crore in 2018-19 after having successfully exceeded targets for the previous year. Further, for refinancing of NBFCs the refinancing policy and eligibility criteria set by Mudra will be reviewed.
- The Government will contribute 12% of the wages of new employees in the EPF for all sectors for the next three years to create sustainable employment.
- The Government has adopted various such measures in the past three years to boost employment including contribution to EPF for specific sectors. An independent study recently reflects creation of 70 lakh formal jobs.
- Model aspiration skill centres are proposed to be set up in every district of the country under Pradhan Mantri Kaushal Kendra Programme. 306 such kendras have been established for imparting skill training.
- Textile being a significant sector in the country to generate employment have been allocated an outlay of INR 7,148 crore for 2018-19.

## Infrastructure and Financial Sector Development

- It is estimated that India needs over INR 50 lakh crore of investment in infrastructure to increase growth of GDP and to connect and integrate the nation to provide ease of doing business and ease of living in the country.
- An all-time high allocation has been made to Rail and Road Sector.
- Using the online monitoring system of PRAGATI Infrastructure project worth 9.46 lakh crore have been facilitated and fast tracked in India
- Urbanization is an opportunity and a priority for the Government for which they have launched two inter-linked programmes – the Smart Cities Mission and Atal Mission for Rejuvenation and Urban Transformation (AMRUT).
- With the aim of building 100 smart cities, 99 cities have been selected and allocated an outlay of INR 2.04 lakh crore. These cities have started implementation of various project including Smart Roads, Solar Rooftops, Intelligent Transport System and Smart Parks. Projects worth INR 2,350 crore have been completed and works of INR 20,852 crore are under progress.
- To provide requisite infrastructure to support Indian tourism it is proposed to develop 10 prominent tourist sites into "Iconic Tourism Destination". This will be done with a holistic approach involving infrastructure and skills development, development of technology, attracting private investment, branding and marketing.
- The AMRUT programme shall focus on providing water supply to all households in 500 cities. State level plans of INR 77,640 crore for 500 cities have been approved.
- Over 9,000 kms long national highways will be completed during 2017-18.

- Schemes have been approved to provide seamless connectivity of interiors, backward areas and borders of the country of approximately 35,000 kms in Phase-I at an estimated cost of INR 5,35,000 crore
- To raise equity capital from markets for major road assets NHAI will adopt SPVs, infrastructure investment funds and other innovative monetizing structures
- Railways are the life-line of Indian connectivity for Ease of Business and Ease of Living. Capex on Railways for 2018-19 is pegged at INR 1,48,528 crore (approx.). A large part of Capex is devoted to capacity creation.
- With the objective of optimal electrification of the railway network, over 4,000 kms targeted for commissioning during 2017-18.

*"While the finance minister has presented a moderate budget, he continues to lay emphasis on overall infrastructure development and strengthening of the rural economy. The increased focus on healthcare augurs well for citizens of the country. On the corporate side there are no significant changes or announcements, which was expected."*

*-Glenn Saldanha (Chairman and MD)*
*Glenmark Pharmaceuticals Ltd*

- The Government proposes to redevelop 600 major railway stations across India. Stations to have escalators, Wi-Fi, CCTVs for security and other amenities progressively.
- Modern train sets with state of the art amenities are being designed at the coach factory at Peramboor and the first such train set will be commissioned in F.Y. 2018-19.
- The Government proposes to expand the Mumbai Transport System by adding 90 Kms of double line tracks at cost of INR 11,000 crore and similarly augment the sub-urban network by 150 kms at the cost of INR 40,000 crore. Further, an additional 160 Kms will be added to Bangalore sub-urban network at an estimated cost of INR 17,000 crore.
- The foundation of the first high speed rail project the Mumbai – Ahmedabad bullet train project has been laid on Sept. 14, 2017.
- With domestic air passenger traffic growing at 18% pa for the past three years, the Government under its scheme of UDAN shall connect 56 unserved airports and 31 unserved helipads across the country.
- Airport Authority of India has 124 airports and the Government proposes to expand the airport capacity to more than 5 times to handle a one billion trips a year under their new initiative – NABH Nirman.
- Development of commercial land around railway stations has been included by the Government within the scope of infrastructure.
- RBI has issued guidelines to nudge corporates to access the bond market and SEBI too will mandate large corporate to meet 25% of their financing needs from the bond market.
- The Government and relevant regulators shall take requisite action to permit bonds with A grade rating to be classified as investment grade as distinct from AA rating bonds in the past.
- The Government will establish a unified authority for regulating financial services in the newly operational International Financial Service Centre (IFSC) at Gift City in Gujarat.
- With the surge in machine learning artificial intelligence, internet of things and other tech driven disruptive concepts, NITI Aayog will initiate a national programme to direct the country's efforts in the area of artificial intelligence including research and development of its application.
- The Department of Science and Technology will launch a Mission on Cyber Physical system to support establishment of centre of excellence for which sum of INR 3,073 crore has been allocated for 2018-19.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- Under the Bharatnet Project, one lakh gram panchayat have been connected through optical fibre network providing broadband access to over 20 crore rural Indians in 2.5 lakh villages. A further sum of INR 10,000 crore have been allocated for 2018-19 for creation and augmentation of telecom infrastructure.
- The Government has clearly announced that they do not consider Crypto currencies as legal tender and will take all measures to eliminate use of these crypto assets as a payment system.
- Fastags have quickly replaced payment by cash at toll plazas and number of tags have increased from 60,000 in December 2016 to more than 10 lakhs now. Further, the Government shall introduce a policy supporting a toll system on "pay as you use" basis.
- In order to create employment and support growth the Government has budgeted INR 5.97 lakh crore in 2018-19 vs. INR 4.94 lakh crore in 2017-18.

## Building Institution and Improving Delivery of Public Service

- The government shall introduce a defence production policy 2018 to promote domestic production by public sector, private sector and MSMEs.
- As Aadhaar has provided an identity to every Indian the government proposed to evolve a scheme to assign every individual enterprise in India a unique ID.
- The government has approved 14 Central Public Sector Enterprises (CPSEs) including two insurance companies for listing on the stock exchange. Further, the government has initiated strategic disinvestment in 24 CPSEs including privatization of Air India.
- The government exceeded their budget estimate for disinvestment, budgeted at INR 72,500 crore whereas realised at INR 1 lakh crore. The target for 2018-19 is set at INR 80,000 crore.
- Recapitalisation of banks to create liquidity and once again kick start lending to MSMEs is a key focus. Accordingly, a recapitalisation programme has been launched with bonds of INR 80,000 crore being issued this year.
- The government is formulating a comprehensive gold policy to develop gold as an asset class in addition to establishing a consumer friendly and trade efficient system of regulated gold exchanges .
- Outward Direct Investment from India has grown to USD 15 billion per annum. The government will review existing guidelines to introduce a more coherent and integrated policy.
- The government will evolve a separate policy for Hybrid instruments which have been used to attract foreign investments especially in start-up and venture capital firms.

*"We welcome the focus on airport infrastructure capacity announced in the Budget. In our 20 year passenger forecasts, IATA anticipates India will become the 3rd largest aviation market by 2024. But this is by no means guaranteed. To make this a reality, airport capacity in India needs to be augmented and expanded quickly."*

*-Amitabh Khosla,*
*India head of International Air Transport Association*

# Direct Taxation

*"In a populous, agrarian country, a Populist, Pre-election budget can be Pro-growth! I'm biased, since it ignites growth in our key rural markets. So instead, I'll laud the budget for health insurance for 10cr people. That's a REAL step towards becoming a developed society."*

*-Anand Mahindra*
*Chairman (Mahindra Group)*

# INDIVIDUAL TAXATION

## No change in slab rate

- There is no change in slab rate for Individual/ HUF. Further, no change in surcharge as compared to last year.

## Increase in Cess

- Education Cess of 3% has been substituted with Health and Education Cess of 4%.

## Standard deduction on salary income

- It is proposed to allow standard deduction of INR 40,000 or the amount of salary received, whichever is less. However, deduction of transport allowance of INR 1,600 p.m. and Medical reimbursement of INR 15,000 per year shall not be allowed. Applicable w.e.f AY 2019-20.

- This amendment has resulted in effective benefit of INR 5,800 only as the benefit of standard deduction given is offset by deductions of transport allowance and Medical reimbursement being taken away.

## Benefits to Senior citizen

**Increase in deduction of health insurance premium and medical treatment for senior citizen:**

- Deduction u/s 80D relating to health insurance premium or preventive health checkup has been proposed to be increased for senior citizen from INR 30,000 to INR 50,000.

- In case of single premium health insurance policies having cover of more than one year, it is proposed that deduction shall be allowed on proportionate basis for the number of years for which health insurance cover is provided, subject to specified monetary limit. Applicable w.e.f. AY 2019-20.

**Enhanced deduction to senior citizens for medical treatment of specified diseases**

- Deduction u/s 80DDB in respect of amounts paid for medical treatment of specified diseases for senior citizen and very senior citizen has been proposed to be increased from INR 60,000 and INR 80,000 respectively to INR 1,00,000. Applicable w.e.f. AY 2019-20.

**Increased deduction in respect of interest income to senior citizen**

- Section 80TTB is proposed to be inserted as per which interest income from deposits held in banks, cooperative society carrying banking business and Post office earned by senior citizens shall not be taxable upto INR 50,000. However, deduction u/s 80TTA in respect of interest in saving bank account upto INR 10,000 shall not be allowed to senior citizen. Applicable w.e.f. AY 2019-20.

## 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 closure of his account or on his opting out. This exemption is not available to non-employee subscribers Now it is proposed to amend section 10(12A) to extend this benefit to all assesses including non -employee subscribers. Applicable w.e.f from AY 2019-20.

*"On an average, senior citizens pay around Rs10,000 as premiums but the health insurance cover is insufficient given the rising healthcare costs and their increased medical attention. Increasing the deduction limit in that sense will encourage senior citizens to buy a higher health insurance policy, which is the need of the hour."*

*-K.G. Krishnamoorthy Rao*
*MD & CEO. (Future Generali India Insurance Co. Ltd.)*

# CAPITAL GAINS AND DIVIDEND

## Exemption on STT Paid Long term capital gain u/s 10(38) removed

- LTCG exceeding INR 1 lakh arising on transfer of listed equity shares/ units of equity oriented fund or units of business trusts, is proposed to be taxed @ 10% w.e.f AY 2019-20. Following benefits/ deductions shall not be allowed against such LTCG:

  i. Benefit of Indexation under 2nd proviso to Section 48;

  ii. Benefit of calculation of capital gains in foreign currency in case of Non Residents under 1st proviso to Section 48;

  iii. VI-A deduction;

  iv. Section 87A rebate.

Further, LTCG on assets acquired before 1st day of February 2018 is grandfathered by providing that cost of acquisition for such assets shall be higher of following:

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

b) The lower of:

- The fair market value of such asset as on 31st January 2018 or earlier date on which it was traded; and
- The full value of consideration received or accruing as a result of transfer of capital asset

In case of Foreign Institutional investor also, LTCG exceeding INR 1 lakhs on securities mentioned above is proposed to be taxed @10% w.e.f AY 2019-20. Consequential amendments is proposed to be made in Section 115AD.

- As per proposed amendments, tax shall not be charged on any value appreciation till 31st January 2018 on assets acquired before such date. This has come as a relief for the investors holding assets with significant value appreciation till date.

## DDT on Deemed dividend u/s 2(22)(e)

- Presently deemed dividend u/s 2(22)(e) is taxable in the hands of shareholder which causes certain issues and problems in collection of tax. Accordingly, amendment is proposed in Section 115-O and Section 115Q, whereby, tax on deemed dividend u/s 2(22)(e) will be paid by company at the rate of 30% without grossing up. Consequently such deemed dividend will be exempt in the hands of shareholder as per section 10(34). Applicable w.e.f from AY 2019-20.

## DDT levied on equity oriented Mutual funds

- As per amendment proposed in Section 115R, Dividend distribution tax of 10% shall be levied on income distributed to any person by an equity oriented mutual fund w.e.f 01.04.2018. Earlier, these funds were specifically excluded and no DDT was levied on such amount.

*"I don't think it's going to change the course of the markets. They will learn to live in this new reality. I don't think this in any way will impact incremental investment."*

*-Nilesh Shah,(CEO)*
*Envision Capital*

## Restrictions on provisions of section 54EC providing exemption of LTCG

- Section 54EC provides for exemption of LTCG arising on any capital asset if the same is invested in NHAI/REC Bonds having lock in of 3 years. Now, it is proposed to restrict the scope of this section only to capital gains arising from long-term capital assets, being land or building or both as against any Long Term Capital Gain. It is also proposed to increase the lock in period of such bonds to 5 years from existing 3 years. Applicable from AY 2019-20.

## Scope of Accumulated profit enhanced

- As per amendment in definition of accumulated profits in Section 2(22), the scope of accumulated profit for the purpose of deemed dividend is widened in the case of the amalgamated company to include accumulated profits or losses of amalgamating company on the date of amalgamation.
- This provision will take effect from AY 2018-19 and subsequent AYs.

# CORPORATE TAXATION

## Tax rate reduced to 25%

- Corporate tax rate reduced to 25% for domestic companies with turnover or gross receipts not exceeding INR 250 crore for FY 2016-17. However, no change in rates for Firms/LLPs/Co-operative Societies/AOP/BOI.

## Increase in cess

- Education Cess of 3% removed and replaced by Health and Education Cess of 4%.

## Rationalization of deduction u/s 80JJAA for employment generation

- At present, u/s 80JJAA a deduction of 30% is allowed in addition to normal deduction of 100% in respect of emoluments paid to eligible new employees who have been employed for a minimum period of 240 days during the year. However, the minimum period of employment applicable to apparel industry was 150 days. In order to encourage creation of new employment, it is proposed to extend this relaxation of 150 days to footwear and leather industry also.

- Further, 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. Applicable w.e.f AY 2019-20.

## Taxability of compensation in connection to business or employment

- As per amendments proposed in Section 28 and Section 56, any compensation received or receivable, whether, capital or revenue, in connection with termination or modification of terms and condition of any contract relating to business shall be taxable under the head PGBP and relating to employment shall be taxable under the head Income from other source. Applicable w.e.f AY 2019-20.

## Deduction in respect of income of Farm Producer companies

- Section 80P provides for 100% deduction in respect of profit of cooperative society which provide assistance to its member engaged in primary agricultural activities.

- A new section 80PA is proposed to be inserted to extend similar benefit to Farm Producer companies, having a total turnover upto INR 100 crore, whose gross total income includes any income from:

  i. The marketing of agricultural produce grown by its members;

  ii. The purchase of agricultural implements, seeds, livestock or other articles intended for agriculture for the purpose of supplying them to its members;

  iii. The processing of the agricultural produce of its members;

  The benefit shall be available for a period of five years from the financial year 2018-19.

*"The agricultural-based industry has hailed various sops announced for Farmer Producer Organizations (FPOs). "Having strong FPOs will make it easy for the input companies to sell their products to farmers...*

*-Anil Jain, (MD) Jain Irrigations*

## Rationalization of provisions of deduction u/s 80IAC to Startups

- Section 80IAC provides for 100% deduction of profits to eligible startups. In order to improve the effectiveness of the scheme for promoting startups in India, it is proposed to make following changes in Section 80IAC:

  I. The sunset date of incorporation for eligible startups extended from 1st April,2019 to 1st April, 2021.

  II. Requirement of turnover not exceeding INR 25 crore would apply to 7 previous years commencing from date of incorporation;

  III. Definition of eligible business is expanded to provide that the benefit would be available if startup is engaged in 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 requirement of new product and services driven by technology or intellectual property is done away with.

  This amendment is effective from AY 2018-19 and subsequent AY.

## Amendments related to ICDS

In order to harmonize the provisions of Act with ICDS, following amendments are proposed:

1. Amendment in Section 36 (allowability of expenses from PGBP income) to provide that MTM loss or other expected loss as computed as per ICDS shall be allowed;

2. Amendment in Section 40A (expenses not allowed as deduction from PGBP) to provide that no deduction or allowance in respect of MTM loss or other expected loss shall be allowed except as allowance u/s 36;

3. Section 43AA is inserted to provide that subject to provisions of Section 43A (Special provision relating to change in Forex rate), any gain or loss arising on account of changes in forex rates in respect of specified foreign currency transaction shall be treated as income or loss as computed as per ICDS;

4. Section 43CB is inserted to provide that profits arising from construction contract or contract for providing services shall be determined on percentage of completion method except for certain service contract and the contract revenue shall include retention money and contract cost shall not be reduced by incidental interest, dividend or capital gain.

5. Amendment in Section 145A to provide that for purpose of determining the income chargeable under the head PGBP:
   a) The valuation of inventory shall be made at lower of cost or NRV computed in accordance with ICDS;
   b) Valuation of purchase and sale of goods or services and of inventory shall be adjusted to include the amount of 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 on the date of valuation;
   c) Inventory being securities not listed, or listed but not quoted, on a recognized stock exchange, shall be valued at actual cost initially recognized in manner provided in ICDS;
   d) Inventory being listed securities shall be valued at lower of actual cost or NRV in manner provided in ICDS;

6. Section 145B is inserted to provide:
   a) Interest received on compensation or enhanced compensation shall be deemed to be income of the year in which it is received;
   b) Claim for escalation of price in contract or export incentive shall be deemed to be income of previous year in which reasonable uncertainty of its realization is achieved;
   c) Income in the form of subsidy or grant or cash incentive etc. by Central Government or State Government or any authority shall be deemed to be income of previous year in which it is received, if not charged to income tax for any earlier previous year.

All these amendments are inserted retrospectively with effect from AY 2017-18 and subsequent AY.

# INTERNATIONAL TAXATION AND TRANSFER PRICING

## Expansion of Scope of business connection under section 9(1)(i)

### Expansion of Agency PE

- Scope of business connection u/s 9(1)(i) w.r.t Dependent Agent Permanent Establishment (DAPE) is proposed to be expanded in sync with modified PE Rule as per Multilateral convention to Implement Tax Treaty Related measures (MLI) to which India is also a signatory which will automatically amend the provisions of PE envisaged in India's tax treaties.

- Under existing provisions, in many cases to avoid establishing a PE under Article 5(5) of the DTAA, the person acting on the behalf of the non-resident, negotiates the contract but does not conclude the contract. To plug in this gap it is proposed that business connection shall now also include any business activities carried through a person/agent who, acting on behalf of the non-resident, habitually concludes contracts or habitually plays the principal role leading to conclusion of contracts by the non-resident.

### Concept of Significant Economic Presence

- Current Treaties & Indian PE Tax regime are not able to address the challenges posed by the present digital business models where business is carried out without having any physical presence in the source country. This leads to avoidance of Tax in source country. 'Significant

Economic Presence' (SEP) concept is a concept suggested by BEPS to address this challenge.

- 'Business connection' scope is thus proposed to be expanded to include 'Significant Economic presence'. SEP shall mean

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

  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.

Above amendments to take effect from 1st Apr 2019 & will apply AY 2019-20 onwards. The above amendment will enable India to negotiate for inclusion of SEP in Tax Treaties.

### Rationalization of Country-by-Country Reporting (CbCR) provisions

- Based on BEPS - OECD Model legislation, following **clarificatory** amendments, inter alia, in Section 286 are proposed w.r.e.f. AY 2017-18 to improve effectiveness & to reduce compliance burden:

  1. Time for furnishing CbCR, by parent entity or Alternative Reporting Entity (ARE) or Constituent entity (CE), resident in India, proposed to be extended to 12 months from end of reporting accounting year as against due date of filing return of income.

  2. CE resident in India, having non-resident parent, shall also furnish CbCR in case its parent outside India has no obligation to file CbCR in its country of residence.

  3. Due date for furnishing of CbCR by the ARE of an international group having parent outside India, with tax authority of country of which it is resident, will be the due date specified by that country.

### NO TDS on Royalty and FTS payment by National Technical Research Organization (NTRO) to NR

- Considering business exigencies of NTRO, it is proposed to exempt income arising to non-resident (other than company), or a foreign co., by way of royalty or fees for technical services (FTS) for services rendered in or outside India to, NTRO. Consequently, NTRO will not be required to deduct tax at source on such payments u/s 195.

Amendment effective from 1st Apr 2018 i.e. will apply in relation to AY 2018-19 onwards.

### Measures to promote International Financial Services Centre (IFSC)

- It is proposed to amend Section 47 to provide that transaction in the following assets, by a non-resident on a recognized stock exchange located in any IFSC shall not be regarded as transfer, if the consideration is paid or payable in foreign currency:

  i. Bond or Global depository receipt, as referred to in sub-section (1) of Section 115AC;

  ii. Rupee denominated bond of an Indian company;

  iii. Derivatives

- It is further proposed to amend the Section 115JC so as to provide that in case of a unit located in an IFSC, AMT u/s 115JC shall be chargeable at the rate of 9% as against existing rate of 18.5%. Applicable w.e.f AY 2019-20.

## RATIONALISATION MEASURES

### Certain relief to Corporates undergoing insolvency proceedings under Insolvency & Bankruptcy Code (IBC), 2016

#### Relief under MAT

- Under existing provisions of section 115JB brought forward loss (excluding depreciation) or unabsorbed depreciation whichever less as per books of is allowable to be deducted from book profits. To provide benefit/relief to companies undergoing insolvency proceedings under IBC, 2016 it is proposed to amend section 115JB to provide that aggregate amount of unabsorbed depreciation & loss brought forward (excluding unabsorbed depreciation) shall be allowed to be reduced from the book profit. Applicable w.e.f. AY 2018-19.

**Relaxation of conditions of section 79 for carry forward & set off of losses**

- It is proposed to rationalize the provisions of section 79 to provide that conditions of continuity of beneficial ownership of at least 51% to be eligible to claim set off of losses shall not be applicable to a company undergoing insolvency if their resolution plan has been approved under the IBC, 2016 after affording a reasonable opportunity of being heard to the jurisdictional Principal Commissioner or Commissioner. This amendment will take retrospective effect from AY 2018-19.

**Verification of Income tax return of companies under IBC, 2016**

- It is also proposed to amend section 140 of the Act so as to provide that during the resolution process under the Insolvency and IBC, 2016, the Income Tax return shall be verified by an insolvency professional appointed by the Adjudicating Authority under the IBC, 2016. Applicable to returns filed on or after 01.04.2018.

## Rationalization of section 43CA, 50C and 56 w.r.t transfer of immovable property below Circle rate.

- Presently, income under the head capital gains (section 50C), business profits (section 43CA) and other sources (section 56), arising out of transactions in immovable property is taxable considering the circle rate/stamp value as deemed sale consideration if such consideration is less that circle rate. This has lead to hardship in genuine cases where market value is really less than circle rate. In order to minimize hardship in case of genuine transactions in the real estate sector, 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 more than five percent of the sale consideration.

## Taxation of Notional income on conversion of stock-in-trade into Capital Asset

- Section 45 of the Act, inter alia, provides that capital gains arising from a conversion of capital asset into stock-in-trade shall be chargeable to tax. However, in cases where the stock in trade is converted into, or treated as, capital asset, the existing law does not provide for its taxability.
- 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 section 28 so as to provide that any profit or gains arising from conversion of inventory into capital asset or its treatment as capital asset shall be charged to tax as business income. It is also proposed to provide that the fair market value of the inventory on the date of conversion shall be deemed to be the full value of the consideration received or accruing as a result of such conversion. Consequential amendment also proposed in section 2(24) so as to include such fair market value in the definition of income; section 49 so as to provide that 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; and 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.

## 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. In order to further facilitate the transaction of money or property between a wholly owned subsidiary company and its holding company, it is proposed to amend the section 56 so as to exclude such transfer from its scope. Applicable w.e.f AY 2019-20.

## Rationalization of adjustments in processing of return of income [Sec. 143(1)]

- Sub-clause (vi) to section 143(1) provides for adjustment in respect of income appearing in Form 26AS or Form 16A or Form 16 which has not been included in computing the total income in the return. With a view to restrict the scope of such adjustments, it is proposed to insert a new proviso to the said clause to provide that no adjustment under sub-clause (vi) shall be made in respect of any return furnished on or after the AY 2018-19.

## Rationalization of provisions of section 115BA relating to certain domestic companies

- Section 115BA provides that the total income of a newly set up domestic company engaged in business of manufacture or production shall, at its option, be taxed at 25% subject to certain conditions w.e.f. AY 2017-18. However, there were certain concerns/issues regarding taxability of certain incomes which are taxable at special rate which may be lower or higher than 25%. Now, it is proposed to amend section 115BA to clarify that such 25% rate shall apply to income from the business of manufacture or production. Other Incomes which are taxable under the other provisions of the Act at special rate shall continue to be taxed at such special rate and not at 25%. This amendment will take effect retrospectively from AY 2017-18.

## Rationalization of the provisions of section 115BBE

- Section 115BBE(1) provides for higher tax rate of 60% on income referred to in section 68 or section 69 or section 69A or section 69B or section 69C or section 69D included in (a) returned income or (b) assessed income determined by AO. Sub-section (2) of said section provides that no deduction in respect of any expenditure or allowance or set-off of any loss shall be allowed to the assessee under any provision of the Act in computing his income referred to in clause (a) of sub-section (1) i.e. returned income.

- In order to rationalize the provisions of section 115BBE, it is proposed to amend the said sub-section (2) so as to include income referred to in clause (b) of sub-section (1) also i.e. assessed income determined by AO. Applicable w.r.e.f. AY 2017-18.

## No deduction in respect of certain income under Chapter VIA-C unless return is filed by the due date.

- Existing provisions of section 80AC provide that no deduction would be admissible under section 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID or section 80-IE, unless the return of income is furnished on or before the due date specified in 139(1). However, other deductions of certain income under chapter VIA-C were not covered by the above condition. Accordingly, it is proposed to extend the scope of section 80AC to provide that 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 unless the return of income is filed by the due date. Applicable w.e.f AY 2018-19.

## Trading in Agricultural commodity derivatives not to be considered as speculative transaction

- It is proposed to amend provisions of Section 43 to provide that a transaction in respect of trading in agricultural commodity derivatives, which is not chargeable to CTT, in a registered stock exchange or registered association, will be treated as non-speculative transaction.

## Rationalization of presumptive taxation u/s 44AE for goods carriage

- It is proposed to increase presumptive income in case of heavy goods vehicles (more than 12MT gross vehicle weight) to an amount equal to INR 1,000 per ton per gross vehicle weight or unladen weight, per month or part of the month as against existing rate of INR 7,500 per month. Vehicle other than heavy goods vehicle will continue to be taxed as per the existing rates of INR 7,500 per month or part of the month. Applicable w.e.f AY 2019-20.

## Rationalization of section 276CC relating to prosecution for failure to furnish Income tax return

- The sub-clause (b) of clause (ii) of proviso to the section 276CC provides that a person shall not be proceeded against under the said section for failure to furnish return for any assessment year commencing on or after the 1st day of April, 1975, if the tax payable by him on the total income determined on regular assessment as reduced by the advance tax, if any, paid and any tax deducted at source, does not exceed three thousand rupees. In order to prevent abuse of the said proviso by shell companies or by companies holding Benami properties, it is proposed to amend the provisions of the said sub-clause so as to provide that the said sub-clause shall not apply in respect of a company. This amendment will take effect from 1st April, 2018.

# MISCELLANEOUS

## Introduction of New scheme for Electronic Assessment

- It is proposed to amend section 143, by inserting a new sub-section (3A) to provide for scheme of E-Assessment for the purpose of bringing greater transparency and accountability in assessment proceedings, by eliminating the interface between the Assessing Officer and the assessee.

## Amendments to the structure of Authority for Advance Rulings

- Section 245-O provides for the constitution of an Authority for Advance Rulings, and constitution of its benches, for giving advance rulings.

- In view of the proposed constitution of new Customs Authority for Advance Ruling under section 28EA of the Customs Act, it is proposed to amend the provisions of section 245-O so as to provide that such Authority shall cease to act as an Authority for Advance Rulings, and shall act as an Appellate Authority.

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

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

- Section 253(1)(a) of the Act is proposed to be amended to provide that order passed by a Commissioner (Appeals) under section 271J is appealable order before the Appellate Tribunal.

## Compulsory PAN for Non Individuals

- PAN is made compulsory for any entity (other than individual), who enters into any financial transaction exceeding INR 2.5 lakhs in a financial year. Further, managing director, director, partner, trustee, author, founder, karta, CEO, principal officer or other person competent to act on behalf of such entities shall also be required to have PAN.

## TDS deduction and Cash less payments by Trust and institutions

- It is proposed that in the case of charitable or religious trusts or institutions as per section 10(23C) or section 11 of the Act, cash expenditure exceeding INR 10,000 in a day [as per section 40A(3) and section 40A(3A)] and 30% of the sum payable to a resident, on which there is default, tax deduction at source [as per section 40(a)(ia)] shall be disallowed.

The proposed amendment shall be effective from AY 2019-20 onwards.

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

- Per day Penalty for non-filing of statement of financial transaction as required under section 285BA has being increased from INR 100 to INR 500 and for non-filing of this statement in response of notice u/s 285BA(5) increased from INR 500 to INR 1000.

# Indirect Taxation

*"A very comprehensive Budget comprising key measures that would have a positive impact on various segments including tenant farmers, 10 crore poor families, senior citizens, among others. Combined with these, the idea of a national gold policy and integration of the TReDS platform with GSTN for the SME are all significant policy changes aimed at transforming the overall economy…"*

*-Rajnish Kumar, (Chairman)*
*State Bank of India*

## Amendment in The Central Goods and Services Tax Act, 2017

- The name of "Central Board of Excise and Customs" has been changed to "Central Board of Indirect Taxes and Customs"

## Amendments under Service Tax (Finance Act, 1994)

- Service tax shall not be levied on services provided by Naval Group Insurance fund by way of life insurance to personnel of coast Guard under the Group Insurance Schemes of the Central Government retrospectively.
- Service tax shall not be levied or collected in respect of taxable services provided or agreed to be provided by the Goods and Services Tax Network to the Central Government or the State Government or the Union territory Administration retrospectively.
- Service tax shall not be levied, on the consideration paid to the Government in the form of Government's share of profit petroleum retrospectively.

## Changes in rates of custom duty

- Social welfare surcharge of 10% imposed on imported goods with immediate effect.
- Basic Custom duty have increased on following items with immediate effect:
  - Beauty products, shampoo , hair oil , tooth paste
  - Fruit Juice
  - Candles
  - Plastic stickers
  - Self-adhesive tapes
  - Truck and Bus radials tyres
  - Silk fabric
  - Rubber Foot wears
  - Jute articles
  - Mobile phone
  - Television sets , LED TV
  - Imitation jewelry
  - Cigarette and lighters
  - Toys, games , sports accessories
  - Wrist watches
  - Diamonds, Cut and polished colored gem stones
- Rates of custom duty have decreased on following items
  - Raw cashew nuts
  - Solar tempered glass
  - Select capital goods and electronics
  - Cochlear implants
- A Road and Infrastructure Cess, as an Additional Duty of Customs, at the rate of INR 8 Per liter, has been imposed on imported motor spirit commonly known as petrol and high speed diesel oil
- Basic excise duty on petrol and high speed diesel oil has been reduced by INR 2 Per liter
- Exemption from custom duty has been provided to goods which are imported for the purpose of repair, further processing or manufacturing (inward processing) provided such goods are re-exported within one year and are identifiable
- Same to hold good for outward processing
- Time has been reduced from 6 months to 3 months in which advance ruling shall be pronounced.
- New section has been inserted relating to appeal provision with respect to advance ruling.
- Manner of service of notice has been amended to include speed post, courier and registered email as valid modes of delivery and in case of non-service affixing at some conspicuous place at last known place of business or residence in addition to affixing it on the notice board of the custom houses etc.
- Provision has been made for clearance of goods by custom automated system in addition to existing clearance by proper officer

*"We welcome the announcement on custom duty increase in mobile phones from 15 percent to 20 percent. This will provide a big boost to the Make in India campaign by the government, and will be instrumental in achieving our country's vision of making India a global hub for mobile phone manufacturing. Local manufacturing will create more job opportunities, benefiting the youth and contributing towards the overall growth of the economy."*

*-Sanjeev Agarwal, (Chief Manufacturing Officer)*
*Lava Internationals*

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