

BUDGET HIGHLIGHTS 2018

The provisions of Finance Bill, 2018 relating to direct taxes seek to amend the Income-tax Act, 1961 to continue to provide strength to the resistance in direct taxes through deepening and widening of the tax base, reducing the corporate tax rate for micro, small and medium enterprises, promoting horizontal equity in personal income-tax and enhancing the effectiveness, transparency and accountability of the tax administration. With a view to achieving the above, the various proposals for amendments are ordered under the heads Rates of income-tax, Widening and deepening of tax base, Measures for promoting equity, Tax incentives, Facilitating insolvency resolution, Improving effectiveness of tax administration, Rationalization Measures.

A QUICK GLANCE AT KEY TAKEAWAYS OF BUDGET 2018:

- ☞ Government to contribute 12% of Wages of the new employees in the EPF for all Sectors for next three years, Also, the facility of fixed term employment will be extended to all Sectors.
- ☞ Change in in the Employees Provident Fund and Miscellaneous Provisions Act, 1952 to reduce women employees' contribution to 8% for first three years of their employment against existing rate of 12% or 10% with no change in employers' contribution.
- ☞ The Government does not consider crypto-currencies legal tender or coin and will take all measures to eliminate use of these crypto-assets in financing illegitimate activities or as part of the payment system. The Government will explore use of block chain technology proactively for ushering in digital economy.
- ☞ 100 per cent deduction to the Companies registered as Farm Producer Companies and having annual turnover up to Rs.100 crores in respect of their profit derived from such activities for a period of five years from financial year 2018-19.
- ☞ There is no change in Personal Income Tax Slab Rates.
- ☞ The reduced rate of benefit of corporate tax of 25 percent has been extended to the companies who have reported turnover up to Rs.250 crores in the financial year 2016-17.
- ☞ Increase in cess by one per cent. The existing three per cent education cess will be replaced by a four per cent 'Health and Education Cess' to be levied on the tax payable.
- ☞ Deductions in respect of certain incomes not to be allowed unless return is filed by the due date. 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.

- ☞ Section 43CA, Section 50C and Section 56C Real Estate: Provide no adjustment when circle rate does not exceed 5% of actual consideration.
- ☞ At present, while taxing income from capital gains (section 50C), business profits (section 43CA) and other sources (section 56) arising out of transactions in immovable property, the sale consideration or stamp duty value, whichever is higher is adopted. 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.
- ☞ Section 80JJAA – 30 per cent deduction to emoluments to new employees extended to footwear and leather industries.
- ☞ Relief to salary tax payers by allowing a standard deduction upto Rs 40,000/- or the amount of salary received, whichever is less. Consequently, the present exemption in respect of Transport Allowance (except in case of differently abled persons) and reimbursement of medical expenses is proposed to be withdrawn.
- ☞ Relief to Senior Citizens - It is proposed to insert a new section 80TTB so as to allow a deduction up to Rs.50,000/- in respect of interest income from deposits held by senior citizens. However, no deduction under section 80TTA shall be allowed in these cases. Also to amend section 194A so as to raise the threshold for deduction of tax at source on interest income for senior citizens from Rs.10,000/- to Rs.50,000/-.
- ☞ Section 80D – Deductions available to senior citizens in respect of health insurance premium and medical treatment increased from existing Rs.30,000/- to Rs.50,000/- p.a.
- ☞ Section 80DDB - Critical Illness – Increase in deduction limit for medical expenditure for certain critical illness from Rs.60,000 (in case of senior citizens) and from Rs.80,000 (in case of very senior citizens) to Rs.1 lakh for all senior citizens.
- ☞ In order to minimize economic distortions and curb erosion of tax base, it is proposed to withdraw the exemption under clause (38) of section 10 and to introduce a new section 112A in the Act to provide that long term capital gains arising from transfer of a long term capital asset being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust shall be taxed at 10 per cent of such capital gains exceeding one lakh rupees without giving effect to the first and second provisos to section 48, i.e. inflation indexation in respect of cost of acquisitions and cost of improvement, if any will not be allowed, However, all such tax up to 31-01-2018 grandfathered.
- ☞ Consequent to the proposal for withdrawal of exemption under clause (38) of section 10 of the Act, such long term capital gain will become taxable in the hands of FIIs also.

- ☞ Tax on distributed income by equity-oriented mutual fund at the rate of 10%.
- ☞ Section 40(a)(ia), Section 40A(3) and Section 40A(3A) are being made applicable to Charitable Trust . Hence, expenditure incurred without deduction of tax and in cash will not be eligible as application of income under section 10(23C) and section 11(1)(a),
- ☞ In order to encourage a less cash economy and to reduce the generation and circulation of black money, it is proposed to insert a new Explanation to the section 11 to provide that for the purposes of determining the application of income under the provisions of sub-section (1) of the said section, the provisions of sub-clause (ia) of clause (a) of section 40, and of sub-sections (3) and (3A) of section 40A, shall, mutatis mutandis, apply as they apply in computing the income chargeable under the head “Profits and gains of business or profession”. It is also proposed to insert a similar proviso in clause (23C) of section 10 so as to provide similar restriction as above on the entities exempt under sub-clauses (iv), (v), (vi) or (via) of said clause in respect of application of income.
- ☞ In order to encourage participation in trading of agricultural commodity derivatives, it is proposed to amend the provisions of clause (5) of section 43 to provide that a transaction in respect of trading of agricultural commodity derivatives, which is not chargeable to CTT, in a registered stock exchange or registered association, will be treated as non-speculative transaction.
- ☞ It is proposed to amend the section 56 so as to exclude the transaction of transfer of money or property between a wholly owned subsidiary company and its holding company from its scope.
- ☞ It is proposed to amend sub-section (2) of Section 115BBE so as to also include income referred to in clause (b) of sub-section (1) of Section 115BBE, regarding 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.
- ☞ Government has decided to discontinue the existing 8% Savings (Taxable) Bonds, 2003 with a new 7.75% GOI Savings (Taxable) Bonds, 2018. The interest received under the new bonds will continue to be taxed as in the case of the earlier once. The provisions of section 193 are proposed to be amended to allow for deduction of tax at source at the time of making payment of interest on such bonds to residents. However, no TDS will be deducted if the amount of interest is less than or equal to ten thousand rupees during the financial year.
- ☞ Appeal against penalty imposed by Commissioner (Appeals) under section 271J - Section 253 of the Act inter-alia provides that any Assessee aggrieved by any of the orders mentioned in sub-section (1) of the said section may appeal to the Appellate Tribunal against such order. It is

proposed to amend clause (a) of the said sub-section so as to also make an order passed by a Commissioner (Appeals) under section 271J appealable before the Appellate Tribunal.

- ☞ In order to align the definition of 'taxable commodities transaction' with instruments allowed for transaction in commodity derivatives, it is proposed to amend the clause (7) of section 116 so as to include 'options in commodity futures' in the definition of 'taxable commodities transactions'
- ☞ It is proposed to amend the provisions of section 117 so as to prescribe the rate at which sale of an option on commodity derivative shall be chargeable and such tax shall be payable by the seller.
- ☞ It is proposed to amend the provisions of section 117 so as to prescribe the rate at which sale of an option on commodity derivative, where option is exercised, shall be chargeable and such tax shall be payable by the purchaser.
- ☞ It is proposed to amend the provisions of section 118 so as to include the value of taxable commodities transaction, being option on commodities, chargeable under section 117 of the Finance Act, 2013, in the said section.
- ☞ Income Computation and Disclosure Standards(ICDS) being given statutory backing in view of decision of Delhi High Court decision.
- ☞ Marked to market loss computed as per ICDS to be allowed under Section 36.
- ☞ Gain or loss in Foreign Exchange as per ICDS to be allowed under new Section 43AA.
- ☞ Construction Contract income to be computed on percentage completion method as per ICDS.
- ☞ Valuation of Inventory including Securities to be as per ICDS,
- ☞ 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 as per the new section 145B of the Act.
- ☞ Amendment proposed in 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 or treatment determined in the prescribed manner, shall be deemed to be the full value of the consideration received or accruing as a result of such conversion or treatment.
- ☞ The scope of Section 54EC is restricted to capital gains arising from the transfer of long term capital asset being land or building or both, invested in the long-term specified asset at any time within a period of six months after the date of such transfer, It is also proposed to provide that long-term specified asset, for making any investment under the section on or after the 1st day of April, 2018, shall mean any bond, redeemable after five years and issued on or after 1st day of

April, 2018 by the NHAJ or by the RECL or any other bond notified by the Central Government in this behalf.

- ☞ In order to use PAN as Unique Entity Number (UEN) for non-individual entities, it is proposed that every person, not being an individual, which enters into a financial transaction of an amount aggregating to two lakh and fifty thousand rupees or more in a financial year shall be required to apply to the Assessing Officer for allotment of PAN. In order to link the financial transactions with the natural persons, it is also proposed that the managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer.
- ☞ The sub-clause (b) of clause (ii) of proviso to the section 276CC shall not apply in respect of a company.
- ☞ It is proposed to prescribe a new scheme for the purpose of making electronic scrutiny assessments under new section 143(3A) so as to impart greater transparency and accountability, by eliminating the interface between the Assessing Officer and the Assessee, optimal utilization of the resources, and introduction of team-based assessment.
- ☞ No adjustment under sub clause (vi) of clause (a) of section 143(1) of the Act shall be made in respect of of addition 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 furnished on or after the assessment year commencing on the first day of April, 2018.
- ☞ Deemed dividend covered under the scope of dividend distribution tax u/s 1150 and taxed in the hands of the company as DDT @ 30%.
- ☞ It is proposed to insert a new Explanation 2A in clause (22) of section 2 of the Act to widen the scope of the term 'accumulated profits' so as to provide that in the case of an amalgamated company, accumulated profits, whether capitalized or not, or losses as the case may be, shall be increased by the accumulated profits of the amalgamating company, whether capitalized or not, on the date of amalgamation.
- ☞ Penalty for failure to furnish statement of financial transaction or reportable account as required under section 285BA increased from one hundred rupees to five hundred rupees and from five hundred rupees to one thousand rupees, for each day of continuing default as per the provision of section 271FA.
- ☞ Propose to increase custom duty on mobiles phones from 15% to 20%, on some of their parts and accessories to 15% and on certain parts of TVs to 15%.
- ☞ The government proposes to revamp the system of sanctioning of loans to MSMEs. The information required for sanctioning the loan will be linked with GSTN and all required

information can be fetched from GSTN Portal. It will help to grant the loans quickly and will help in reducing processing time.

- ☞ It is proposed to amend section 28 of the Act to provide that 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.
- ☞ It is further proposed that 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.
- ☞ It is proposed to amend the section 44AE of the Act to provide that, in the case of heavy goods vehicle (more than 12MT gross vehicle weight), the income would deemed to be an amount equal to one thousand rupees per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of a month for each goods vehicle or the amount claimed to be actually earned by the Assessee, whichever is higher. The vehicles other than heavy goods vehicle will continue to be taxed as per the existing rates.
- ☞ In order to promote the development of world class financial infrastructure in India, it is proposed to amend the section 115JC so as to provide that in case of a unit located in an International Financial Service Center, the alternate minimum tax under section 115JC shall be charged at the rate of 9 percent.
- ☞ It is proposed to amend clause (48B) of section 10 to provide that the benefit of tax exemption in respect of income from left over stock will be available even if the agreement or the arrangement is terminated in accordance with the terms mentioned therein.
- ☞ It is proposed to amend section 115JB to provide that the aggregate amount of unabsorbed depreciation and loss brought forward (excluding unabsorbed depreciation) shall be allowed to be reduced from the book profit, if a company's application for corporate insolvency resolution process under the Insolvency and Bankruptcy Code, 2016 has been admitted by the Adjudicating Authority.
- ☞ It is proposed to relax the rigors of section 79 in case of companies whose resolution plan has been approved under the Insolvency and Bankruptcy Code, 2016, after affording a reasonable opportunity of being heard to the jurisdictional Principal Commissioner or Commissioner.
- ☞ It is proposed to amend section 10 so as to provide that the income arising to non-resident, not being a company, or a foreign company, by way of royalty from, or fees for technical services rendered in or outside India to, the National Technical Research Organisation (NTRO), will be exempt from income tax.

- ☞ Aligning the scope of “business connection” with modified PE Rule as per Multilateral Instrument (MLI), clause (i) of sub-section (1) of section 9 is being proposed to be amended to provide that ‘business connection’ shall also include any business activities carried through a person 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.
- ☞ Rationalization of provisions relating to Country-by-Country Report so as to improve the effectiveness and reduce the compliance burden of such reporting.
- ☞ It is proposed to amend section 115BA so as to clarify that the provisions of section 115BA is restricted to the income from the business of manufacturing, production, research or distribution referred to therein; and income which are at present taxed at a scheduler rate will continue to be so taxed.

This is only footprint of budget 2018. The detailed study of the same will be analyzed in due course.

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