BUDGET 2018

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HIGHLIGHTS

Finance Minister Arun Jaitley presented the Union Budget 2018, his fifth annual budget on 1st February 2018, starting with positive comments on the achievements of the Govt. :-

- The budget is largely focused on uplift of agricultural sector, along with major push to healthcare and education sectors in the country, as well as in the case of infrastructure.
- The Finance Minister mentioned that India is now a **2.3 trillion economy** with a GDP of 6.3% growth and an expected growth of up to **7.3 %** in the second half.
- Also, Exports have risen by **17%** in 2017-18. There have been a series of Structured Fundamental reforms.
- Fiscal Deficit for FY. 2017-18 was **3.5%** of GDP and has been pegged at **3.3%** for FY. 2018-19.

- Ujwala Yojana Gas Connection has offered free gas connection to about 8 crore families. Also, prices of 800+ medicines will also be subsidized.

HIGHLIGHTS

- As per the "Pradhanmantri Saubhagya Yojana", Free electricity in rural areas will be made available for which 16,000 Crores have been allocated.

- National Health policy - 1.5 Lac comprehensive health centers for free drugs & medical procedures have also been promised for which 1,200 Crores have been allocated

- Rastriya Swasthya Beema Yojana - The introduction of a flagship National Health Protection Scheme for 50 crore beneficiaries is a major change cited whereby, 10 Crore families **to get Rs. 5 Lacs per family per year insurance** cover for hospitalization.

- PM Suraksha Yojana – 13.25 Crore people to be covered with premium of Rs. 12 p.a.

- The FM also mentioned the recently launched digital portal called "Diksha" to emphasize increased digital intensity in education system.

- 3 Lac Crores allocated for lending loans under Mudra – helpful to micro-entrepreneurs. The FM also proposes to bring banks on TREDS, and link it with GSTN.

HIGHLIGHTS

- 99 cities selected for development into “Smart cities” for which 2.40 Lac Crores have been allocated to provide smart roads, solar roofs & intelligent systems.

- National Highways to stretch upto 9,000 Kms by the end of FY. 2018-19

- Airport capacity to be hiked to handle 1 billion trips every year

- 5 Lac Wi-Fi hotspots will be set up in rural areas for easy internet access to 5 Crore people, CCTV facility inside trains as well as at stations.

- Affordable housing for the poor for which 51 Lacs in rural & 37 Lacs in urban areas have been proposed under the “Awaas Yojana” so that by 2020 every poor citizen should have his own residence.

- **Crypto-currency is not legal tender** & transactions involving such currency to be curbed.

- FDI in defense system has been liberalized.

RATES OF INCOME-TAX

Assessee	Changes	Conditions
Individuals & HUF	No change in the slab rate	
Companies	25%	if the total turnover of the FY 2016-17 does not exceed Rs 250 crore.

- **Cess for all assessees**

- "Education Cess on income-tax" and "Secondary and Higher Education Cess on income-tax" shall be discontinued. However, a new cess, by the name of **"Health and Education Cess"** shall be levied **@ 4%**. of income tax including surcharge is levied

Dividend

- A new Explanation u/s 2(22)(2A) of the Act is inserted to widen the scope of the term 'accumulated profits' so as to provide that in the case of an amalgamated company, accumulated profits, whether capitalised 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.

- It is proposed to levy Dividend Distribution tax (DDT) on deemed dividend u/s 2(22)(e) of the Act @30 per cent. (without grossing up) on the company in order to prevent conceal dividend in various ways such as loans and advances.

- It is proposed to amend 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 @ 10 per cent on income so distributed.

Long Term Capital Gain Tax

- It is proposed to withdraw the exemption u/s 10(38) of the Act and 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 shall be taxed @ **10% on gains exceeding Rs 1 lacs.**

- The cost of acquisitions of the Equity or units acquired by the assessee before the 1st day of February, 2018 , shall be deemed to be the higher of –

  a) the actual cost of acquisition of such asset **or**

  b) lower of the FMV of such Equity share or units or sale realization of such Equity share or units which ever is applicable .

- No allowance of indexation and benefit of computation of capital gains in foreign currency in the case of a non-resident, will not be allowed.

- **The amendment will take effect for AY 2019-20**

International Taxation

- The scope of Dependent Agent Permanent Establishment is extended to also include not only a agent who habitually concludes contracts on behalf of the non-resident, but also a person who habitually plays a principal role leading to the conclusion of contracts.

- Further, the scope of business connection as per section 9 of Income tax act is also widen to include Significant Economic Presence . Eg: **download of data or software in India,** soliciting of business activities through **digital means**.

- transactions in Bond or Global Depository Receipt, Rupee Denominated bonds and Derivatives, by a non-resident on a recognized stock exchange located in any International Financial Services Centre shall not be regarded as transfer, if the consideration is paid or payable in foreign currency

- Income arising to non-resident by way of royalty from, or Fees for technical Services rendered in or outside India to, the NTRO will be exempt from income tax.

- New Country –by-country reporting procedure are also been proposed.

Deductions

- **Sec 80 D** - It is proposed to amend section 80D so as to raise this monetary limit of deduction from Rs 30,000/- to **Rs 50,000/- in case of senior citizen** towards annual premium on health insurance policy.

- **Sec 80DDB** - It is proposed to amend section 80DDB for amount paid for medical treatment of specified diseases by increasing the monetary limit of deduction to **Rs 1,00,000/-** for both senior citizens and very senior citizens from Rs 60,000/- and Rs 80,000/- respectively.

- **80TTB -** It is proposed to insert a new section 80TTB so as to allow a deduction upto 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.

- **Standard deduction from Salary -** it is proposed to allow a standard deduction up to **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 able persons) and reimbursement of medical expenses is proposed to be withdrawn.

- Provisions of the clause (12A) of section 10 of the Act, an employee contributing to the NPS is also extended to non-employee subscribers.

Amendments pertaining to Insolvency and Bankruptcy Code

- Section 115JB has been amended to provide that the aggregate amount of unabsorbed depreciation and loss brought forward (excluding unabsorbed depreciation) shall be allowed to be reduced from the book profit, if a company's application for corporate insolvency resolution process under the Insolvency and Bankruptcy Code, 2016 has been admitted by the Adjudicating Authority.

- The rigors of section 79 of setoff and carry forward of losses is relaxed for the company seeking insolvency resolution under Insolvency and Bankruptcy Code, 2016, 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 provide that the insolvency resolution professional shall verify the return of income in case of a company where an application under IBC, 2016 has been admitted.

Rationalization of section 43CA, section 50C and section 56.

- 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. The difference is taxed as income both in the hands of the purchaser and the seller.
- 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.
- These amendments will take effect from 1st April, 2019 and will, accordingly, apply in relation to the assessment year 2019-20 and subsequent assessment years.

Rationalization of provision relating to conversion of stock-in-trade into Capital Asset

•Section 28 is amended 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.

•section 49 is amended 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.

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

•These amendments will take effect, from 1st April, 2019 and will, accordingly, apply in relation to the assessment year 2019-20 and subsequent assessment years.

Rationalization of the provisions of section 54EC

- Section 54EC is amended so as to provide that capital gain arising from the transfer of a 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, the capital gain shall not be charged to tax subject to certain conditions specified in this section.

- It is provided 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 National Highways Authority of India or by the Rural Electrification Corporation Limited or any other bond notified by the Central Government in this behalf.

- This amendment will take effect, from 1st April, 2019 and will, accordingly, apply in relation to the assessment year 2019-20 and subsequent assessment years.

Other Amendments

- **194A -** It is also proposed 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/-.

- any compensation received or receivable 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 and in **relating its employment** shall be taxable **under section 56** of the Act as income from other sources.

- In the case of heavy goods vehicle (more than 12MT gross vehicle weight), the income would be deemed to be an amount equal to Rs 1,000 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.

- The section 80IAC of the Act applicable to starts up is now extended to April 2021.

- Additional deduction benefit under section 80-JJAA of the Act of 30% in addition to normal deduction of 100% in respect of emoluments paid to eligible new employees continues to remain employed for the minimum period in subsequent year.

Other Amendments

- 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.
- Relaxation under Section 276CC(b)(ii) shall not apply to shell companies or by companies holding Benami properties, it has been provided that the said sub-clause shall not apply in respect of a company.

- Special Rate of tax @ 25% for assessee following under section 115 BA would apply only to business of manufacture or production of any article or thing and research in relation thereto and not other income.

- Penalty of Rs 100 per day is imposed on assessee who is required to furnish the statement of financial transaction or reportable account under sub-section (1) and Sub section (5) of section 285BA, fails to furnish such statement within the prescribed time, he shall now be liable to pay penalty of five hundred rupees for every day of default instead of the earlier one hundred rupees for every day.

Other Amendments

- In order to regularize the compliance with the notified ICDS by a large number taxpayers so as to prevent any further inconvenience to them, it is proposed to bring the amendments retrospectively with effect from 1st April, 2017 i.e. the date on which the ICDS was made effective and will, accordingly, apply in relation to assessment year 2017-18 and subsequent assessment years.

- No deduction would be allowed against income determined u/s 68 ,69, 69A, 69B, 69C of the Act.