

# INDIA BUDGET SYNOPSIS 2018



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We have taken all steps to ensure that the information contained herein has been obtained from reliable sources and that this publication is accurate. However, this publication is not intended to give legal, tax, accounting or other professional advice. We recommend appropriate advice be taken prior to initiating action on specific issues.



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# **The Union Budget 2018-19**

## **Key Highlights**

### **(Data Source: Union Budget 2018-19)**

#### **The Government's Account Statement:**

- Budgeted Expenditure for FY19: Rs 24.42 lakh crore.
- Fiscal Deficit: 3.5% of GDP for FY18 with a target of 3.3% of GDP in FY2019
- Revenue Deficit: 2.2% of GDP for FY2019
- Divestment Target: Rs 800 bn. In FY19, Target for FY18 increased to Rs 1 trn
- Net Market Borrowing: Rs 4.07 trn

## Taxation:

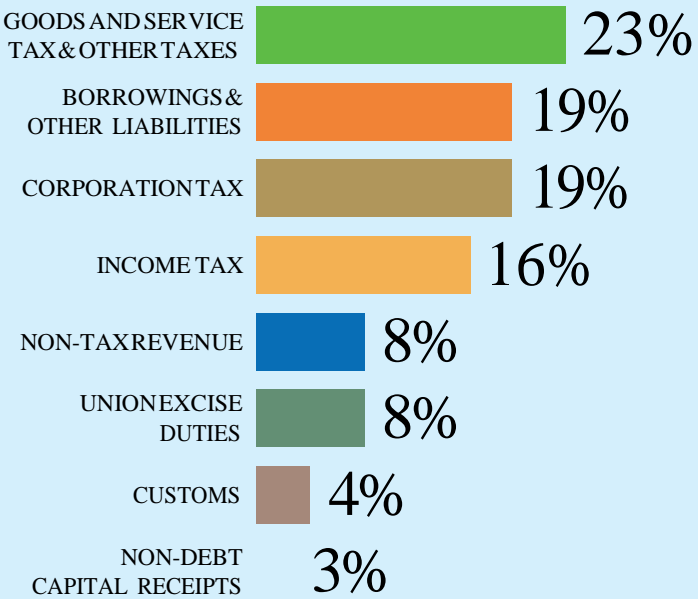
- MSMEs: Extends reduced income tax rate of 25% to companies with an annual turnover of up to Rs 250 crore.
- Salaried tax payers: Standard deduction of Rs 40,000 in lieu of transport and medical expenses.
- Long Term Capital Gains (LTCG) exceeding Rs 1lakh on investments in equity and equity-oriented funds to be taxed @ 10% without benefit of indexation.

All gains till Jan 31, 2018 will be grandfathered.

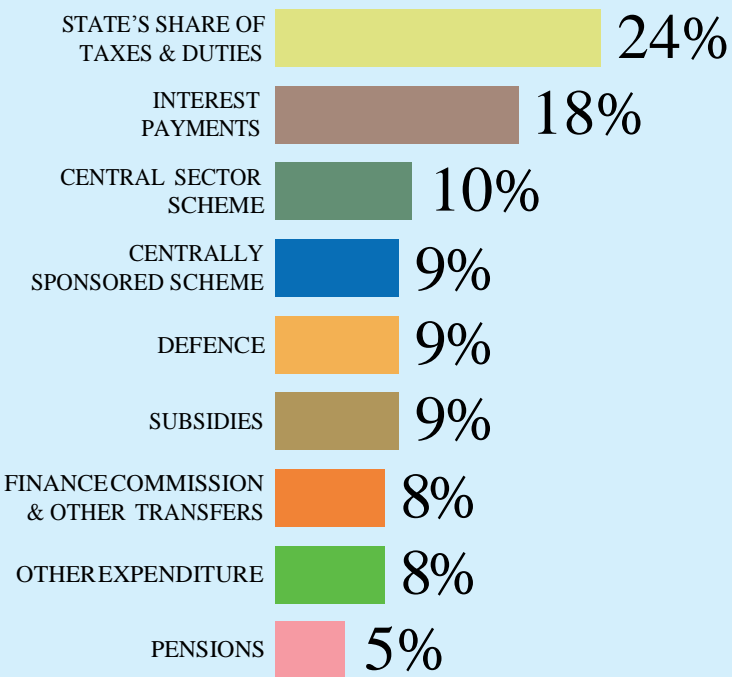
For example: If an equity share is purchased before Jan 31, 2018 at Rs. 100 and the price on Jan 31, 2018 is Rs 120/-, there will be no tax on gains of Rs 20 if the share is sold after one year of purchase. However, any long-term capital gain more than Rs 20 earned after Jan 31, 2018 will be taxed at 10% (applicable on long term capital gains exceeding Rs 1lakh).

- Tax on distributed income by equity oriented mutual funds levied at 10%.
- Senior Citizen Incentives: Exemption on interest income on FDs/Post office deposit increased from Rs 10,000 to Rs 50,000. Raising tax deduction limit for health insurance from Rs 30,000 to Rs 50,000.
- Corporate tax rate comes to the promised 25 per cent level. Tax on long term gains on share sale is back. Companies finding innovative ways to distribute income rather than as dividend (to circumvent the dividend distribution tax of 18 per cent) will cough out that at 30 per cent if caught! Companies failing to file a tax return will face prosecution. "Loss carry forward" benefit to buyers of insolvent companies has been clarified in their favor.
- Footwear, perfumery. Electronics, hardware, food processing, automotive, furniture see a rise, even doubling, of import duty.

# RUPEE COMES FROM



# RUPEE GOES TO



# **BUDGET PROPOSALS**

Direct Taxes

Indirect Taxes



This section summarizes the significant proposals on Direct and Indirect taxes made by the Finance Minister on February 1, 2018. The direct tax provisions in the Finance Bill, 2018 would ordinarily apply to the Financial Year commencing on April 1, 2018 (Assessment Year 2019-20) whereas the indirect tax provisions would apply with immediate effect, unless otherwise specified. Finance Minister is likely to propose further amendments through separate Bills.

The proposals contained in the Finance Bill are subject to ratification by the Parliament.

# DIRECT TAXES

## INCOME TAX

- The basic tax slabs for individual & HUF remains unchanged i.e.

INCOME RANGE (₹)	RATE (%)
Upto 250,000 <sup>1</sup>	Nil
250,001 – 500,000	5
500,001 – 1,000,000	20
1,000,001 and above <sup>2</sup>	30

<sup>1</sup>Exemption limit for individuals reaching 60 and 80 years remains at ₹300,000 and ₹500,000 respectively

<sup>2</sup>Surcharge remains at 10 per cent on income exceeding ₹5 million; remains at 15 per cent on income exceeding ₹10 million

- Tax rates on partnership firms and co-operative societies remain unchanged. Surcharge at 12 per cent where income exceeds ₹10 million.
- Corporate tax rate remains unchanged i.e.

COMPANY	RATE (%)
Domestic <sup>1</sup>	
□ □ MSME / New enterprise	25 <sup>2</sup>
□ □ Others	30
Foreign	40 <sup>3</sup>

<sup>1</sup>Surcharge remains at 7 per cent and 12 per cent where income exceeds ₹10 million and ₹100 million respectively

<sup>2</sup>The benefit of lower rate of tax now applicable to companies with turnover up to ₹2.5 billion during financial year 2016-17

<sup>3</sup>Surcharge remains at 2 per cent and 5 per cent where income exceeds ₹10 million and ₹100 million respectively



- Education cess and Secondary and Higher Education cess at 3 per cent replaced by Health and Education cess at 4 per cent.

## **SALARY**

- A standard deduction introduced at ₹ 40,000 in lieu of transport allowance and medical expense reimbursement.

## **INCOME FROM BUSINESS AND PROFESSION**

- Trading in agriculture commodity derivatives on a recognised stock exchange or registered associations will be treated as non-speculative transaction.
- The fair market value of the inventory, when converted into a capital asset, is taxable as business income in the year of conversion.
- Commodities Transaction Tax to apply on “Options in Commodity Futures” at 0.05 per cent and 0.0001 per cent for seller and buyer respectively.
- Income tax provisions aligned with Income Computation and Disclosure Standards (‘ICDS’) including
  - □ Marked to market loss computed as per ICDS is now allowed under section 36.
  - □ Gain or loss on account of foreign exchange fluctuation as per ICDS be allowed.
  - □ Income from construction contract or contract for providing services to be computed on basis of “Percentage of Completion Method”.

## **MINIMUM ALTERNATE TAX (‘MAT’)**

- Rate reduced from 18.5 to 9 per cent for non-corporate units located in the International Financial Services Center (‘IFSC’) and earning income in convertible foreign exchange.
- Where a corporate insolvency application has been admitted by the adjudicating authority, the aggregate of brought forward losses and depreciation to be reduced in computing book profits.
- MAT regime not to be applicable to foreign companies engaged solely in specified businesses involving shipping, mineral oils exploration, aircraft operation and turnkey power projects where income is offered on special rates of tax.

## CAPITAL GAINS

- Transfer of certain assets by non-residents through recognized stock exchanges located in an IFSC, not subjected to capital gains, if the consideration is in foreign currency.
- Long term Capital Gains ('LTCG'), arising only from transfer of land or building or both, are eligible for capital gains tax exemption, upon reinvestment for five years into specified infra bonds.
- LTCG on transfer of listed securities, exceeding ₹ 100,000 without allowing indexation and foreign currency fluctuation, taxable at 10 per cent. Grandfathering, based on valuations as at January 31, 2018, available in respect of transfers made after March 31, 2018.

## INCOME FROM OTHER SOURCES

- Transfer of capital assets between a company and its wholly owned Indian subsidiary does not result in taxable income.

## REBATES AND DEDUCTIONS

### *INTRODUCED*

- 100 per cent deduction of profits of eligible business undertaken by Farm Producer Companies with total turnover up to ₹ 1 billion.
- Deduction under section 80TTB of ₹ 50,000 on interest income from deposits from banks/co-operative society/post office held by senior citizens.

### *ENHANCED*

- Deduction under section 80D from ₹ 30,000 to 50,000 on health insurance premium/preventive health checkup/medical expenditure of a senior citizen.
- Deduction under section 80DDB from its existing ₹ 60,000/80,000 to 100,000 for medical treatment of specified diseases for senior citizens.

### *RESTRICTED*

- To avail specific area and sector-based tax holidays, it is mandatory to submit tax return by the due date.

## TAX WITHHOLDING

- Threshold for tax withholding on interest income from banks/ co-operative society/post office enhanced from ₹10,000 to 50,000 for senior citizens.

## DIVIDEND DISTRIBUTION TAX

- Loans & Advances in the nature of 'deemed dividend' to substantial shareholders, by a closely held company shall be taxed in the hands of the company as dividend distribution tax at the rate of 30 per cent.

## INTERNATIONAL TAXATION

- Based on recommendations of the Organization for Economic Co-operation and Development under the Base Erosion and Profit Shifting project, the term 'Business Connection'
  - has been amended in line with the modified Dependent Agent Permanent Establishment rule under the Multilateral Instrument signed by the Indian Government
  - to include significant economic presence of a non-resident, based on a prescribed threshold of 'revenue' and 'number of users' in India, within its ambit.

## TRANSFER PRICING

- Due date for submitting Country-by-Country Report by India headquartered groups and designated entities of foreign groups, extended to twelve months from the end of relevant reporting accounting year.

## START-UP TAX REGIME

Eligibility criteria to avail tax holiday amended

- Start-ups incorporated up to March 31, 2021 are now eligible.
- The turnover threshold of ₹250 million, is to be met for seven years from incorporation.
- Scope of eligible start-ups expanded to include businesses engaged in innovation, improvement of processes or services and those scalable business models, with high potential for employment or wealth creation whether driven by technology or not.

## **OTHERS**

- Benefit of carry forward business losses can be availed despite the change in shareholding, where a corporate insolvency plan has been approved after affording a reasonable opportunity to the jurisdictional Principal Commissioner or Commissioner.
- No adjustment to sales consideration for transfer of immovable property, if stamp duty valuation is within 5 per cent radian.
- Willful omission by companies in submitting tax return within specified timelines, would invite prosecution.
- Non-individual entities and any persons competent to act on their behalf are required to obtain PAN, in the event of them entering into financial transactions aggregating `250,000 or more in a financial year.
- Compensation in respect of termination or modification of business contract or employment contract, now taxable.

# INDIRECT TAXES

## CUSTOMS DUTY

Basic Customs Duty ('BCD') maintained at 10 per cent.

### HIGHLIGHTS

- Amendments

- □ Education Cess and Secondary & Higher Education Cess on imported goods abolished.
- □ Social Welfare Surcharge of 10 per cent introduced on imported goods.
- □ Central Board of Excise and Customs rechristened to Central Board of Indirect Taxes and Customs.
- □ Scope of Customs Act, 1962 enhanced to include any offence or contravention committed outside India by any person.
- □ Indian Custom waters have been extended from 24 to 200 nautical miles up to Exclusive Economic Zone of India.
- □ Central Government empowered to exempt Customs Duty on exported goods imported, or goods re-imported after export, for repair, processing or manufacture, subject to conditions.
- □ Time limit for pronouncement of Advance Ruling reduced from 6 to 3 months.
- □ Electronic clearance of goods also permitted through Customs Automated System.
- □ Provisions introduced for reciprocal arrangement for exchange of information with other countries for:
  - Trade enhancement and facilitation
  - Combating and investigation of offences.
- □ Provisions for audit of assessment of imported or exported goods introduced.
- □ Additional Duty of Customs (Road Cess) on petrol and high-speed diesel oil abolished. Change in BCD rates of certain industries

▪ Change in BCD rates of certain industries

INDUSTRY	RATE (%)		
	From	□□	To
<b>FOOD PROCESSING</b>			
▮ Raw cashew	5	□	2.5
▮ Orange fruit juice	30	□	35
▮ Cranberry juice	10	□	50
▮ Miscellaneous food preparations	30	□	50
<b>PERFUMES AND TOILETRIES</b>			
▮ Perfumes and toilet waters	10	□	20
▮▮ Preparations for: <ul style="list-style-type: none"> <li>• Beauty/make-up/manicure/pedicure sunscreen or suntan</li> <li>• Hair use</li> <li>• Oral or dental hygiene in individual retail packages</li> <li>• Shaving, other perfumery, cosmetic or toilet</li> </ul>	10	□	20
<b>AUTOMOBILE</b>			
▮▮ Truck and bus radial tyres	10	□	15
▮ Specified parts/accessories of motor vehicles, motor cars, motor cycles	7.5/10	□	15
▮ CKD imports of motor vehicles, motor cars, motor cycles	10	□	15
▮ CBU imports of motor vehicles	20	□	25
<b>FOOTWEAR</b>			
▮▮ Footwear	10	□	20
▮ Parts of footwear	10	□	15
<b>JEWELLERY</b>			
▮▮ Imitation jewellery	15	□	20
	www.tkg.group 11		

INDUSTRY	RATE (%)		
	From	□□	To
<b>TEXTILES</b>			
□ □ Silk fabrics	10	□	20
<b>DIAMONDS AND PRECIOUS STONES</b>			
□ □ Cut and polished colored gemstones	2.5	□	5
□ □ Specified types of diamonds	2.5	□	5
<b>MEDICAL DEVICES</b>			
□ □ Raw materials, parts or accessories for manufacture of cochlear implants	2.5	□	0
<b>EDIBLE OILS OF VEGETABLE ORIGIN</b>			
□ □ Crude edible vegetable oils	12.5	□	30
□ □ Refined edible vegetable oils	20	□	35
<b>WATCHES AND CLOCKS</b>			
□ □ Wrist and other watches including clocks	10	□	20
<b>CAPITAL GOODS AND ELECTRONICS</b>			
□ □ Printed Circuit Board Assembly and moulded plastics for charger/adaptor of cellular mobile phones	0	□	10
□ □ CNC systems for CNC machine tools	7.5	□	2.5
□ □ Solar tempered glass for manufacture of solar cells/panels/modules	5	□	0
□ □ Preform of silica for manufacture of telecommunication grade optical fibre	0	□	5
<b>ELECTRONIC/HARDWARE</b>			
□ □ Cellular mobile phones	15	□	20
□ □ Specified parts and accessories including lithium ion battery of cellular mobile phones	7.5/10	□	15
□ □ Smart watches/wearable devices	10	□	20
□ □ LCD/LED/OLED panels and their parts	7.5/10	□	15

# ECONOMIC INDICATORS

GDP

Inflation

Foreign Trade

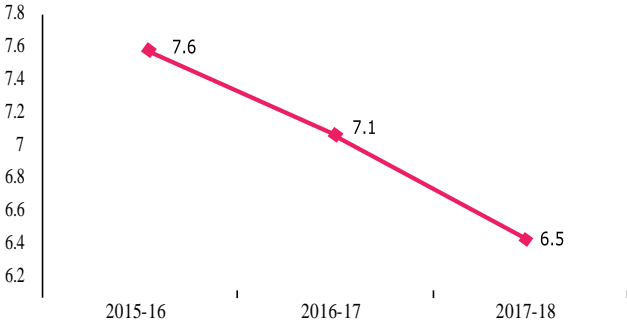
Foreign Exchange Reserves



## GDP

GDP growth for the year 2017-18 estimated at 6.5 per cent compared to 7.1 per cent in 2016-17. It is projected that GDP growth during 2018-19 will be in the range of 7-7.5 per cent.

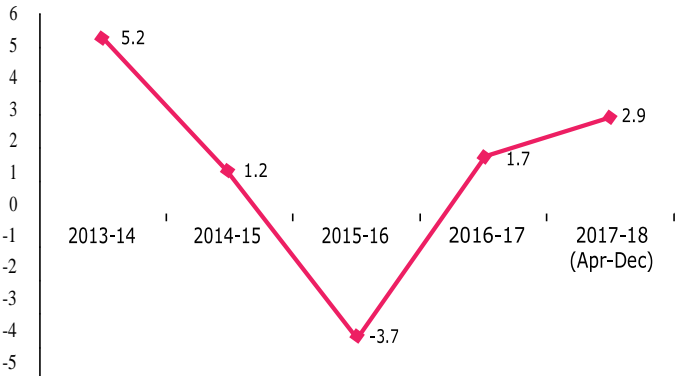
**Overall GDP growth (%)**



## INFLATION

Inflation based on Wholesale Price Index (‘WPI’) increased from 1.7 per cent in 2016-17 to 2.9 per cent in April-December 2017. WPI based food inflation declined to 2.3 per cent in April-December 2017 from 6.3 per cent in the corresponding period of 2016-17. WPI fuel and power inflation increased to 9.7 per cent in April-December 2017 from - 0.2 per cent in 2016-17.

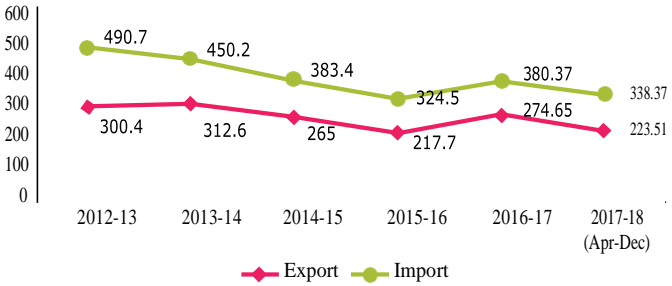
**Inflation based on WPI (%)**



## FOREIGN TRADE

Exports for the period April-December 2017 were `14.41 trillion (US\$223.51 billion) registering a positive growth of 12.05 per cent in dollar terms over the same period last year. Imports for the period April-December 2017 were `21.82 trillion (US\$338.37 billion) registering a positive growth of 21.76 per cent in dollar terms over the same period last year. Trade deficit during April-December 2017 stood at `4.52 trillion (US\$70.06 billion).

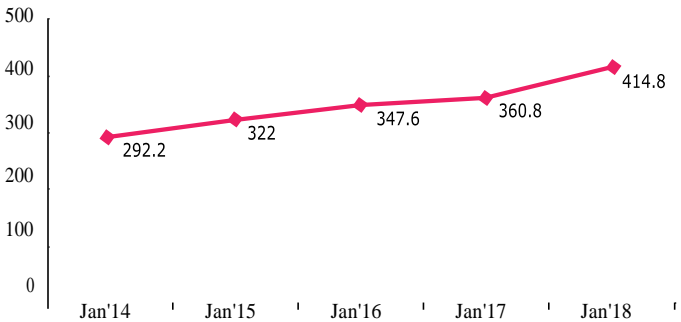
**Exports and Imports**  
(US\$ billion)



## FOREIGN EXCHANGE RESERVES

Foreign exchange reserves increased from `24.5 trillion (US\$360.7 billion) at Jan 20, 2017 to `26.4 trillion (US\$414.8 billion) at Jan 19, 2018.

**Foreign Exchange Reserves**  
(US\$ billion)



## Important Filing dates for the Year 2018-19

*(The dates may be revised as per the notification by the regulators)*

REGULATORY MATTER	DUE DATE
<b>Corporate Law</b>	
Board Meeting	Four meetings every year with a gap not exceeding 120 days between two such meetings
Annual General Meeting ('AGM') (adoption of financials)	Within 6 months of end of the financial year
Annual Return with the ROC	Within 60 days from conclusion of AGM
<b>Tax</b>	
Corporate Tax Return	September 30th & November 30th*
Tax Audit Report	September 30th & November 30th*
Transfer Pricing Report	November 30th
TDS Returns (Tax Withholding)	Quarterly
Individual Tax Return	July 31st
GST Return • GSTR 3B • GSTR 1 - Turnover > 15 million) - Turnover ≤ 15 million)	Monthly**  Monthly** Quarterly/Monthly**
<b>Compliance</b>	
Deposit of TDS	7th of every month
Deposit of GST	20th of every month

\*

In case where the transfer pricing report is required

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As notified till date

*Filing of GSTR 2 and GSTR 3 yet to be notified*