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India Budget 2018

Aiming for the bullseye

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Foreword

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Gautam Mehra

Leader, Tax and Regulatory Services

The Finance Minister presented the Union Budget for the year 2018 amidst the usual fanfare to a populace looking at more reform, and the world at large watching when India will once again become the fastest growing large economy. A few industry pundits speculated that the Union Budget would mirror some of the recent USA tax reforms, others predicted it to bring in tax sops for the masses considering the world's largest democracy goes to the polls in the coming year. The Finance Minister, eschewing all these temptations, focused the budget towards consolidating the gains and furthering the aspirations of a New India.

It is no surprise that, the thrust of the Budget was on the agricultural sector, rural economy, healthcare, MSMEs and infrastructure. The National Healthcare Scheme introduced promises to bring in a transformational change in the arena of healthcare, covering almost one-third of India's population. Additional measures for strengthening the growth and successful operation of Alternative Investment Funds has been promised – though it fell short on providing parity on taxation with listed equity. There is also an assurance that the outbound direct investment guidelines would be reviewed to bring in a coherent and integrated policy.

The Government has continued with its quest for development placing reliance on the technological advancements. The Budget emphasised the use of technology for various sectors, laying down the theme of moving from "black board" to "digital board" in the education sector and blockchain technology to usher in a wider spread of the digital economy, amongst others. The mandatory e-audits by tax authorities is a significant step towards digitisation of Government processes. These reforms are in tandem with the Prime Minister's message at the World Economic Forum in Davos to transform the Indian administration - minimising Government and maximising governance.

The domestic tax provisions for non-resident taxation are proposed to be aligned with BEPS Action Plans of OECD. The concept of "business connection" is proposed to be widened to align the domestic tax laws to BEPS Action Plans and the Multi-Lateral Treaty Instrument, and a concept of Significant Economic Presence has been introduced. The provisions relating to CbCR are proposed to be rationalised. As anticipated, long term capital gains tax @10% has been imposed on listed securities, units of equity oriented fund and units of business trust. The tax rate for companies having turnover of less than INR 2.5 bn has been proposed to be reduced from 30% to 25%. However, a marginal increase in the tax rate is proposed due to replacement of existing 3% of education cess by health and education cess @ 4%. On the indirect taxes side, no changes have been proposed on the GST front while few amendments are proposed with respect to customs law.

With this budget aimed at inclusive economic development, the message is loud and clear - it is time for a forward march with consistency.

Budget Highlights

Budget Highlights

Direct Taxes

Personal tax

- No change in tax slabs or rates for individual taxpayers.
- Education Cess and Secondary and Higher Education Cess to be replaced by Health and Education Cess at the rate of 4% of tax and surcharge
- Standard deduction upto INR 40,000 to be provided from salary income in lieu of reimbursement of medical expenses and transport allowance
- Increased sops for senior citizens

Corporate tax

Business income

- For domestic company, rate of income-tax to be 25% if the total turnover or gross receipts of the FY 2016-17 does not exceed INR 2.5bn
- Retrospective amendments introduced to regularise the compliance with the notified ICDS
- Deemed dividends under section 2(22)(e) of the Act, on account of advancing loans and advances to be subject to DDT @ 30%
- Deduction for additional employment generation rationalised –
  - Benefit allowed to new employee who is employed for less than 240 days during first year but continues to remain employed for 240 days in the subsequent year.
  - Minimum employment period of 150 days extended to footwear and leather industry
- Rationalisation of provisions for companies seeking resolution under IBC, 2016, including relief under MAT, relaxation from rigors of section 79 of the Act, etc.

Capital Gains and IfOS

- The exemption on LTCG on listed securities to be withdrawn, subject to grandfathering
- In respect of section 50C and section 56 of the Act, no adjustment to be made in case variation between stamp duty value and the sale consideration is not more than 5% of the sale consideration

Non-resident taxation

- Scope of “business connection” under the Act widened –
  - Dependent agent to include habitual conclusion of contracts and principal role played in conclusion of contracts
  - Significant economic presence – business models which do not require physical presence
- MAT provisions not to apply to foreign companies opting for presumptive taxation regime

Others

- Plan to be chalked to roll out e-assessment nationwide to impart greater transparency and accountability
- Penal and prosecution provisions made stringent for failure to furnish tax returns / statement of financial transactions
- Time-lines for furnishing CbCR extended to 12 months from the end of reporting accounting year
- Return to be filed within timelines for claiming deductions for computing total income

Indirect Taxes

- Amendments made in Customs Act, 1962 from the perspective of ease of doing business and trade facilitation like revised guidelines for Advance Rulings, electronic ledger, customs automated system for clearances and dispute resolution
- Rates of Basic Customs Duty increased for various goods such as radial tyres; buses, cars, truck and motorcycles in CKD condition; mobile phones; and smart watches
- Rates of Basic Customs Duty decreased for few goods such as inputs or parts for manufacture of PCBA/ moulded plastics of charger/ adapter of cellular mobile phones
- Education Cess and Secondary and Higher Education Cess replaced with Social Welfare Surcharge to be levied on aggregate of duties of Customs except IGST and GST Compensation cess in addition to other duties
- Amendments made in the taxation structure of petrol and high speed diesel by introducing Road and Infrastructure Cess without any change in effective rate of duty

Economic Performance

Economic Performance

Global economy

The world economic output rebounded in 2017 with a growth rate of 3.7% as compared to an eight-year low growth of 3.2% in 2016. As per the IMF, the year 2017 witnessed "the broadest synchronised global growth upsurge since 2010." The pickup in growth has been broad based, with notable surprises in Europe and Asia. While the advanced economies are estimated to grow by 2.3%, the EMDEs are estimated to grow by 4.7% in 2017. China remains the fastest growing major economy in the world growing at 6.8% followed by India at 6.7%.

The forecast for the coming years also appears positive, reflecting the increased global momentum. Global economic output is slated to grow by 3.9% in 2018 and 2019. The recently approved USA tax policy changes are seen as a key contributor to this increased growth rate. In particular, corporate income tax cuts in the USA are expected to stimulate economic activity. Growth rates for many of the Eurozone economies have also been revised upwards, especially for Germany, Italy, and the Netherlands, reflecting the stronger momentum in domestic demand and higher external demand. Growth is expected to pick up in India, moderate gradually in China and remain broadly stable in the Asian economies with India possibly again occupying the fastest growing economy position in FY2018-19.

However, certain risks may threaten the global economy, and consequently, the Indian economy. The build-up of financial vulnerabilities remains a key concern. As noted in the October 2017 Global Financial Stability Report, the share of companies with low investment-grade ratings in advanced economy bond indices has increased significantly in recent years. Non-financial corporate debt has also grown rapidly in some emerging markets, calling for a policy response. Furthermore, an increase in trade barriers and regulatory realignments would weigh on global investment and may pose as an obstacle for increased global output. Along with this, a rise in commodity prices may also adversely impact the non-OPEC countries.

Indian economy

The figures for FY18 show that the Indian economy faced a temporary slowdown on the back of reform measures such as GST and demonetisation. While the economy continues to be the seventh largest in the world (third largest in PPP terms), the growth rates are at a four-year low. Both IMF and World Bank estimate that India's economy will grow by 6.7% in FY 2017-18. Advance estimates by CSO suggest that the economy will grow by 6.5% in this fiscal year.

Subdued domestic demand, especially in the first half of the year, remained the major concern for the economy. The GDP at market prices in Q1 FY 2017-18 was recorded at 5.72%, which was the lowest in 12 quarters. Partially, this was due to sluggish performance by the industry segment. Apart from this, growth in Government expenditure, which was the key driver in the previous year, also fell in this year. In the first half of 2017-18, the Government Final Consumption Expenditure grew by 10.7% as opposed to 16.5% in the same period of the previous year.

However, notably, India is still one of the best performing economies in the world, despite this temporary blip. GDP growth has averaged 7.3% for the period from 2014-15 to 2017-18, which is the highest among the major economies of the world. The growth is around 4% higher than world average of last 3 years and nearly 3% more than the average growth achieved by EMDEs.

The economy has shown signs of recovery in the second half of the year. Industrial production for instance has picked up after bottoming out in June 2017. In November, IIP growth surged to a 25-month high on the back of a manufacturing boost. Similarly, other metrics such as vehicle sales, cement production and bank credit present an optimistic scenario for the economy.

The broad macroeconomic indicators for the economy are as follows:

GDP growth: The GDP is expected to grow at 6.5% this fiscal (2017-18), according to the first advance estimates of the CSO as against 7.1% in the previous year. This is primarily due to a lower growth in agriculture (2.1% v. 4.9% in 2016-17) and industry (4.4% v. 5.6% in 2016-17). Services, on the other hand, are expected to grow faster in this fiscal year (8.3% from 7.8% in 2016-17).

Inflation: Retail inflation fell sharply in the first half of the year, declining to a five-year low of 1.6% in June 2017. This was partly due to a fall in global crude prices, food prices and because of lower domestic demand. Post June 2017, there was a continuous rise in inflation, rising up to 5.21%. However, the average for the year to date (April to December) stood at 3.23%, which was lower than 5.47% during the same period in previous year.

Fiscal deficit: Fiscal deficit as percentage of GDP for FY 2017-18 is revised to 3.5% from 3.2% budgeted. Further, the Government aims to bring down fiscal deficit to 3.3% of GDP in FY 2018-19. This is on account of rising revenue deficit to 2.6%.

Trade deficit: India's trade deficit increased by 33% during April to November 2017, when it stood at $102.1 billion, as opposed to USD67.8 billion in the corresponding period of the previous year. This was primarily due to a 22% increase in imports as against only 11% increase in exports. Both oil and non-oil imports grew in roughly the same proportion.

Currency: The rupee appreciated by 4.14%, as it stood at an average of 64.4 per USD during April 2017 to January 2018 against an average of 67.19 per USD during the same period in the previous year.

Fiscal consolidation

Continuing on fiscal consolidation path, the Government had set the fiscal deficit target of 3.2% for FY 2017-18 down from 3.5% in FY 2016-17. This was aimed to be achieved despite uncertainties arising out of implementation of GST, demonetisation and rising crude oil prices.

There was a slippage in fiscal deficit target by 0.3% in FY 2017-18 as the fiscal deficit was revised to 3.5% of GDP for FY 2017-18. Similarly, revenue deficit is revised upward to 2.6% in FY 2017-18 from budget target of 1.9% of GDP.

One of the reason is the shortfall in non-tax revenue collection and rise in expenditure in this financial year. The non-tax revenue collection during April-November 2017 declined by 39% to INR 1.05 trillion over non-tax revenue collection of INR 1.75 trillion in the corresponding period of the previous year. Total expenditure in the year 2017-18 has increased by 3% over budget estimate.

Further, fiscal deficit is pegged at 3.3% for FY 2018-19. This looks achievable, given the upward trajectory in growth, buoyant direct taxes and stabilisation in the GST.

The Government has proposed to accept the recommendations of the Fiscal Reform and Budget Management Committee relating to adopting debt rule and to bring down the centre's debt-to-GDP ratio to 40%. Currently, the debt-to-GDP ratio for the centre alone is approximately 48%. An announcement with regard to timelines of achieving this target may be done in future. Further, the Government has also accepted the recommendation to use the fiscal deficit target as the key operational parameter.

Impact of demonetisation

The Government withdrew the status of legal tender of INR 500 and 1000 currency notes on 8 November, 2016, thereby, withdrawing 86% of the currency in circulation. There are various opinions on the probable impacts of demonetisation on the economy, both on its short-term and long-term impacts. Economic survey suggests that the negative impact of demonetisation has receded as the cash-to-GDP ratio has stabilised and has forecasted growth to be between 7% and 7.5% in FY 2018-19. Some of the impacts can be noted as follows:

- The withdrawal of high value currency notes led to a liquidity shock, thereby, affected demand and production, especially in informal cash driven sectors. This might have contributed to the slow growth rate realised in first half of FY18.
- Economic Survey 2017-18 finds demonetisation-cum-GST has increased tax base by 1.8 million additional taxpayers, though these new filers did not contribute any taxes as they were close to thresholds of 0.25 million. However, in the long run, with income growth, this may increase revenue of the Government.
- Demonetisation, along with various measures taken by Government to promote digital payment, boosted transactions through systems such as NEFT, debit and credit cards, cheques, prepaid wallets, UPI and mobile banking, etc. As per the RBI's Annual Report, in the month of December 2016, transactions of 957 million were made, as compared to 671 million in the preceding month, but the volume has since come down to 862 million transactions in July 2017, indicating moderation of the initial rapid growth.

Key reforms in 2017-18

In the current fiscal year, the Government continued with its reform agenda. Some of the most notable reform measures are as follows:

Goods & Services Tax

On 1 July, 2017 the Government launched the GST, which has replaced the complex multiple indirect tax structure. The act transformed India into one market with one tax rate.

PSU bank recapitalisation

In October 2017, the Finance ministry announced INR 2.11 trillion recapitalisation plan for PSU banks over the next two years. Of the total amount, INR 1.35 trillion would come from recapitalisation bonds, INR 181.39 billion from the centre's budgetary funds and the remaining INR 580 billion would be mopped up from capital market by diluting the Government's equity. Capital infusion was a long-standing demand of state-owned banks, as the asset qualities of these banks have grossly worsened due to increasing non-performing assets. The Government's announcement also led to improvements in the country's sovereign rating.

Disinvestment

With objectives to efficiently manage its investment in CPSEs and exit from the non-strategic business, Government launched DIPAM scheme in 2016. The proceeds from disinvestment in FY 2017-18 stood INR 1 trillion as against budgeted INR 725 billion for 2017-18. The Government took various measures with regard to disinvestment, which require mention here. In February 2017, the Government launched procedure for time bound listing of CPSEs on stock exchanges. The Government also approved listing of 14 CPSEs (including two insurance companies) on the stock exchanges. During the current financial year, four IPO issues of HUDCO, Cochin Shipyard Ltd. (CSL), General Insurance Corporation and New India Assurance Company, Ltd. have been successfully listed on the stock exchange. Further, the Government sold its entire stake in HPCL to ONGC, which would fetch INR 369.15 billion for the Government. In November 2017, the Government launched Bharat 22 ETF comprising shares of 22 CPSEs to raise money from the market, which received an overwhelming across all classes of investors. In June 2017, the Government formally approved the privatisation of national airline Air India Ltd. and five of its subsidiaries and allowed foreign airlines to own up to 49% stake in national carrier.

Dynamic fuel pricing

In June 2017, India joined the league of select countries such as the USA and Australia where fuel prices are revised on a daily basis. The three state-owned oil marketing companies -- Indian Oil, Bharat Petroleum Corporation and Hindustan Petroleum Corporation -- are since rolling-out the daily dynamic pricing mechanism for petrol and diesel. Under the dynamic pricing scheme, petrol and diesel prices are revised on a daily basis in sync with global crude oil prices.

Banking Regulation (Amendment) Bill, 2017

In August 2017, the Government passed the Banking Regulation (Amendment) Bill, 2017, which empowers the Reserve Bank of India (RBI) to give directions to banks to act against loan defaulters. The bill came after an ordinance was promulgated in May, as immediate action was required to combat the unacceptably high levels of stressed assets in the banking system.

Liberalisation of FDI policy

The Government of India, in continuity with its motto of attracting foreign investment and ease of doing business in India, has made changes to the FDI policy across sectors in single brand retail trading, 100% FDI is permitted under the automatic route. For real estate broking services, it is clarified that such services do not amount to real estate business and 100% FDI is permitted under the automatic route.

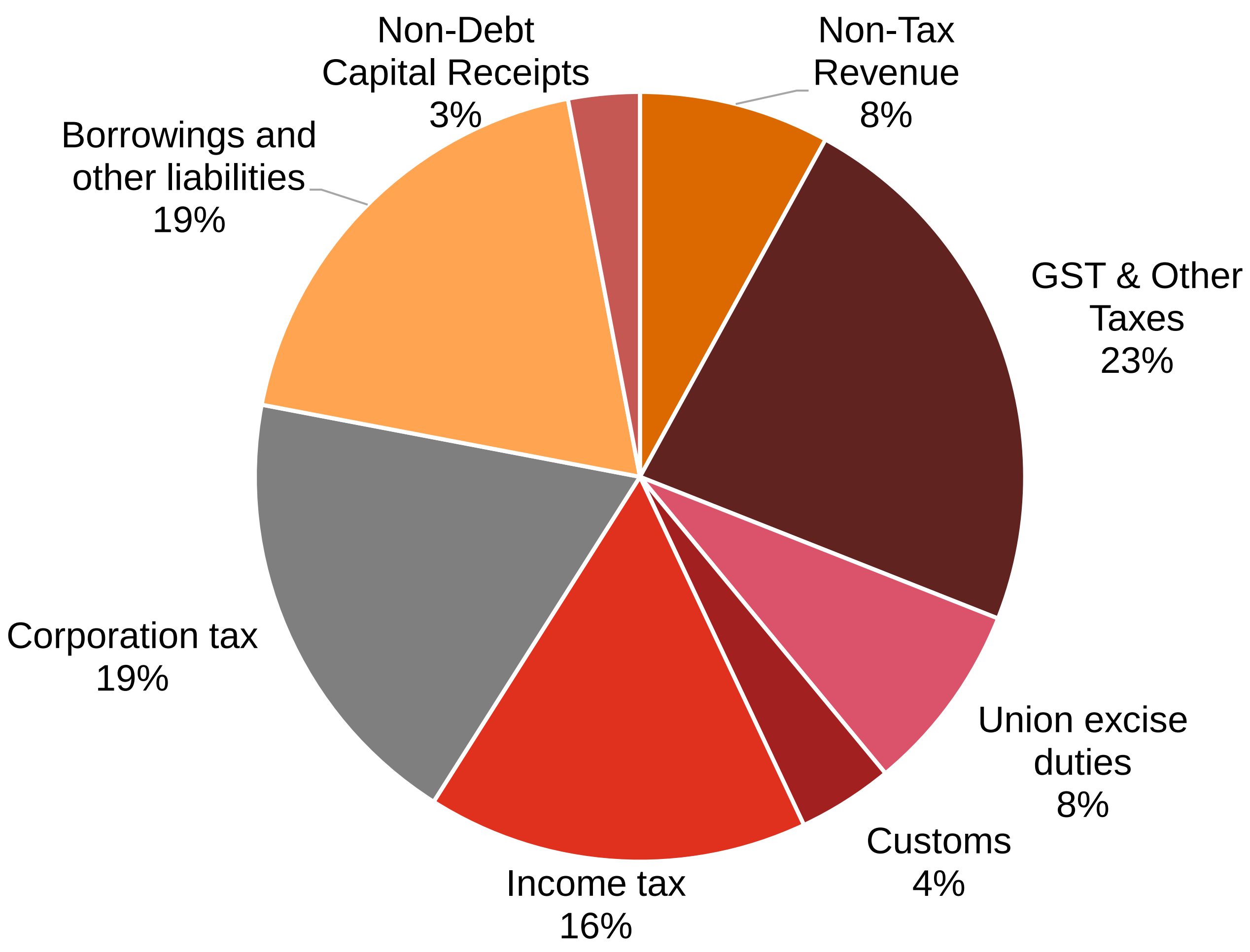
Outlook

- For the current fiscal year (2017-18), the CSO estimates the GDP to grow by 6.5%. The estimates by the Economic Survey on the other hand as well as by multilateral agencies such as the IMF and World Bank suggest that growth may be somewhere in the range of 6.7-6.75%.
- The growth is expected to further increase in the next fiscal year, with the Economic Survey forecasting a growth rate in the range of 7-7.5%. This is in line with the predictions by IMF (7.4%) and World Bank (7.3%). These figures would mean that India would overtake China as the fastest growing major economy in the world.
- The growth projections seem achievable given the recent signs of revival in investment activity as well as a spike in bank credit. More importantly, the Government's intention to go ahead with gritty reforms may boost growth rates. Bank recapitalisation and implementation of the IBC 2016 is likely to boost credit growth and investments. The smoothening of the GST processes along with further liberalisation of FDI will also help in spurring growth.
- A spike in oil prices in the next fiscal year could pose as a downside risk for the economy. Oil prices have risen by around 14% in the current fiscal and are projected to further rise by roughly 12% in 2018-19 (IMF). As per the CEA, GDP may be impacted by 0.2-0.3%, inflation will be higher by 0.2-0.3% and current account deficit will widen if oil prices were to rise by USD 10 per barrel.
- From a macro perspective, India will need to deal with two vulnerabilities: fiscal and current accounts. Both of these tend to deteriorate when oil prices pick up rapidly. On the fiscal front, the increased tax base post demonetisation and GST should result in a more comfortable position in the medium term. As far as the current account is concerned, raising the growth trajectory of exports will be crucial in order to avoid further deterioration. The economic survey highlights that reviving manufacturing and making the sector internationally competitive have been the twin goals of the Make in India program. Hence, this shift in policy is expected to boost exports and reduce the deficit in the current account.
- Favourable global conditions are further expected to help the Indian economy meet its growth ambitions. As per the IMF, world output is expected to grow by 3.9% in 2019 and 2020. This forecast reflects the expectation that favourable global financial conditions and strong sentiment will help maintain the recent acceleration in export demand.

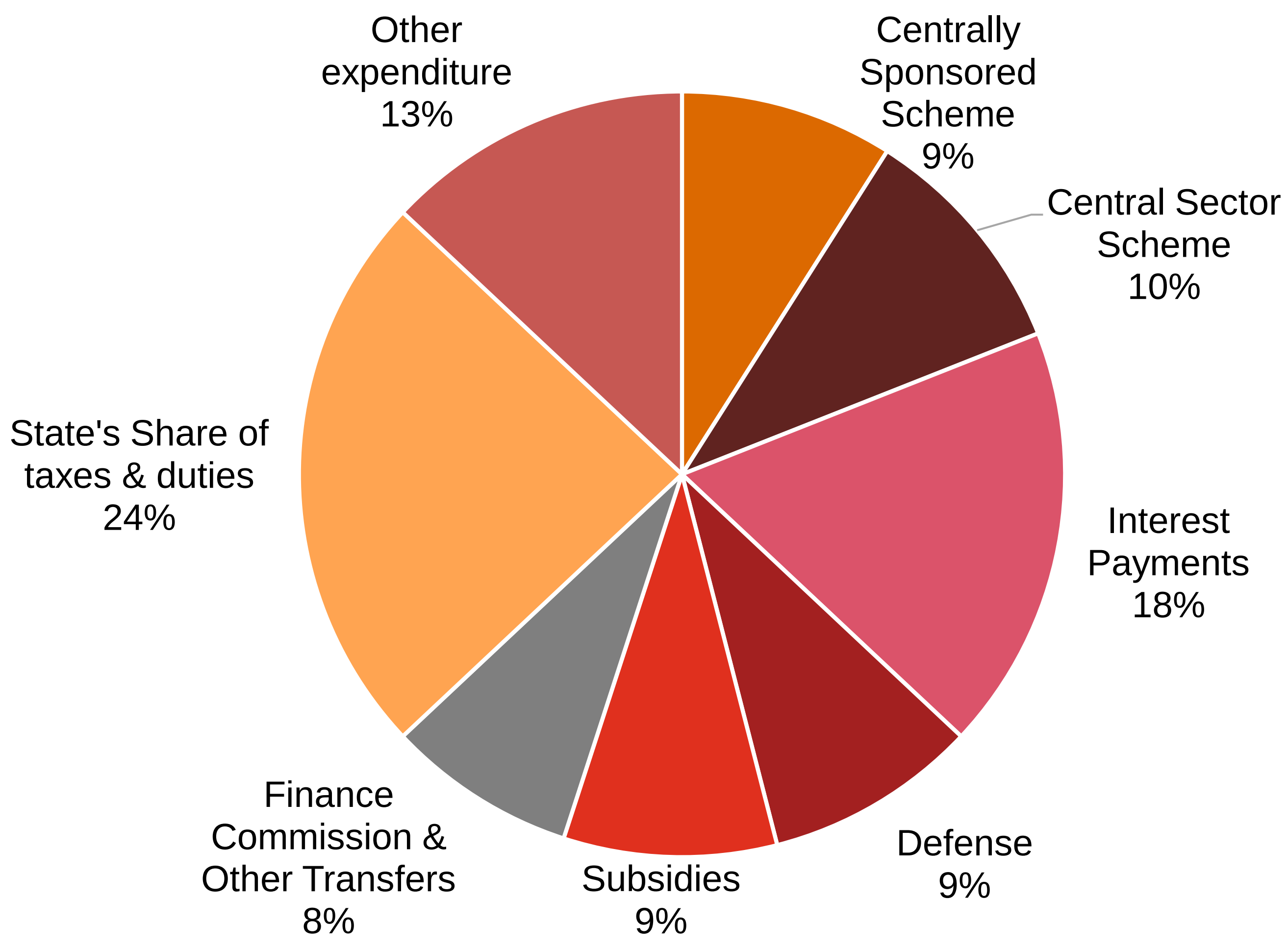
Budget financials 2017-18

	FY 2016-17 (Actuals) (Billion INR)	FY 2017-18 (Budget) (Billion INR)	FY 2017-18 (Revised) (Billion INR)	FY 2018-19 (Budget) (Billion INR)
Revenue receipts (1)	13742.03	15157.71	15054.28	17257.38
Capital receipts (2)	6009.91	6309.64	7123.22	7164.75
Total receipts (1+2) = (3)	19751.94	21467.35	22177.50	24422.13
Total expenditure (4)	19751.94	21467.35	22177.50	24422.13
Revenue account (5)	16905.84	18369.34	19443.05	21417.72
Revenue receipts (6)	13742.03	15157.71	15054.28	17257.38
Revenue deficit (5–6) = (7)	3163.81	3211.63	4388.77	4160.34
As a percentage of GDP (8)	2.1%	1.9%	2.6%	2.2%
Fiscal deficit [4- (1+ recoveries of loans + other receipts)] = (9)	5356.18	5465.32	5948.49	6242.76
As a percentage of GDP (10)	3.5%	3.2%	3.5%	3.3%
Primary deficit (8-interest payments) = (11)	549.04	234.54	640.06	484.81
As a percentage of GDP (12)	0.4%	0.1%	0.4%	0.3%

Where the Rupee will come from: 2018-19



Where the Rupee will go: 2018-19



Key Policy Announcements

Key Policy Announcements

The Union Budget 2018 focuses on strengthening agriculture and rural economy, better health care to economically weaker sections of society, providing benefits to senior citizens, infrastructure development and improving quality of education in the country.

Agriculture and rural economy

- Government to develop and upgrade rural markets into GrAMs. These e-NAM linked GrAMs exempted from APMC regulations will allow farmers to sell directly to consumers.
- With a view to realise better prices for farmers, the NITI Aayog, in discussion with the Central Government and State Governments will implement an appropriate mechanism.
- The Government will promote cluster-based development of agricultural commodities and regions.
- State Governments to put in place a mechanism under which distribution companies could purchase surplus solar power from farmers at reasonably remunerative rates.

Health, education and social protection

- “Revitalising Infrastructure and Systems in Education by 2022” to be launched to increase investment in research and related infrastructure in educational and health institutions.
- To improve the quality of education, the Government proposes to introduce digital means for imparting education and training teachers.
- Private sector participation, through Corporate Social Responsibility initiatives, is to be encouraged towards adopting health and wellness centres set up under the National Health Policy, 2017.
- National Health Protection Scheme to be launched for providing coverage of up to INR 500,000 per poor family per year for secondary and tertiary care.

MSMEs and employment

- The Government proposes to promulgate a framework to help MSMEs address issues of non-performing assets and stressed accounts.
- It is proposed to review the refinancing policy and eligibility criteria set up under MUDRA Yojana to help refinancing of Non-Banking Finance Companies.
- The Ministry of Finance is considering a policy framework, along with other institutional development measures, to facilitate the growth of Fintech companies in India.
- Policy announcements are expected for strengthening the regulatory framework to enable investments by AIFs in India.
- To give impetus to employment generation in the country, the following measures have been proposed:
    i. The Government to contribute 12% in Employee Provident Fund for new employees in all sectors for a period of 3 years;
    ii. EPF contribution for women employees to be lowered to 8% for the first 3 years without any change in employer’s contribution; and
    iii. Fixed term employment facility to be extended to all sectors.

Infrastructure and financial sector development

- Ten prominent tourist attractions to be developed further as iconic tourism destinations, with special focus on infrastructure and skill development, development of technology, attracting private investment, branding and marketing.
- Investment in seaplane activities to be encouraged with a view to promote tourism and emergency medical care.
- Proposal by SEBI to mandate large corporates to meet one-fourth of their funding needs through the bond market.
- Stamp duty regime on financial securities transactions to be reformed.
- Government to establish a unified authority for regulating all financial services in International Financial Service Centres to ensure a coherent and integrated regulatory framework for them.
- Continuing focus on the fast changing digital world, the NITI Aayog to initiate a national program on artificial intelligence, including research and development of its applications.
- For further investment in the digital ecosystem, the Department of Science & Technology to launch a Mission on Cyber Physical Systems to establish Centres of Excellence.
- Government to take measures to eliminate the use of cryptocurrencies in financing illegal activities or as part of payment systems.
- Government to introduce a policy for toll systems on “pay as you use” basis to promote electronic payments further.

Building institutions and improving public service delivery

- In the defence sector, the Government is proposing two defence industrial production corridors and a Defence Production Policy, 2018 to promote Make in India by public/ private sectors and MSMEs.
- National Logistics Portal to be developed by the Department of Commerce to bring together all stakeholders through a single window online marketplace.
- RBI Act to be amended to institutionalise an uncollateralised deposit facility, which would help the RBI manage excess liquidity.
- Government to review existing guidelines and introduce a coherent and integrated Outward Direct Investment Policy.
- Government to introduce a separate policy for hybrid instruments to help attract foreign investment in niche areas.
- REIT, InvITs and AIFs to be brought within the ambit of penalty provisions for non-compliance of listing/ de-listing conditions. In addition, investment advisors to be covered for non-compliance with SEBI regulations.

Tax Proposals

Tax Proposals

Direct Tax

Tax rates

Foreign company

Corporate tax rates remain unchanged at 40% (plus applicable surcharge and cess). It has been proposed to replace Education cess of 3% by Health & Education cess of 4%. Effective tax rates shall be as under.

Particulars	Taxable income <= INR 10mn	INR 10 million < taxable income <= INR 100mn	Taxable income > INR 100mn
Corporate tax	40.00%	40.00%	40.00%
Surcharge	-	2.00%	5.00%
Corporate tax + Surcharge	40.00%	40.80%	42.00%
Health and Education cess thereon	4.00%	4.00%	4.00%
Effective tax rate	41.60%	42.43%	43.68%

Domestic company

Corporate tax rate reduced to 25% (plus applicable surcharge and cess) for domestic companies having total turnover/ gross receipts not exceeding INR 2.5bn in the FY 2016-17. In other cases, the tax rates remain unchanged at 30% (plus applicable surcharge and cess). It has been proposed to replace Education cess of 3% by Health & Education cess of 4%. Effective tax rates are as under.

For a domestic company having total turnover/ gross receipts not exceeding INR 2.5bn in the FY 2016-17

Particulars	Taxable income <= INR 10mn	INR 10 million < taxable income <= INR 100mn	Taxable income > INR 100mn
Corporate tax	25.00%	25.00%	25.00%
Surcharge	-	7.00%	12.00%
Corporate tax + Surcharge	25.00%	26.75%	28.00%
Health and Education cess thereon	4.00%	4.00%	4.00%
Effective tax rate	26.00%	27.82%	29.12%

For other domestic companies

Particulars	Taxable income <= INR 10 mn	INR 10 million < taxable income <= INR 100 mn	Taxable income > INR 100 mn
Corporate tax	30.00%	30.00%	30.00%
Surcharge	-	7.00%	12.00%
Corporate tax + Surcharge	30.00%	32.10%	33.60%
Health and Education cess thereon	4.00%	4.00%	4.00%
Effective tax rate	31.20%	33.38%	34.94%

Partnership firm/ LLP

Tax rates remain unchanged except for “Health and Education cess”. Effective tax rate of 31.2% if taxable income is less than INR 10 million and 34.94% if taxable income exceeds INR 10 million.

Individuals/ HUF/ BOI

Tax rates remain unchanged except for effective increase in the rate of cess by 1% as “Health and Education cess”.

MAT/ AMT

Tax rates of both MAT and AMT remain unchanged at 18.5% (plus applicable surcharge) except for effective increase in the rate of cess by 1% as “Health and Education cess”.

Tax on dividends

Rate of DDT remains unchanged at 15% (plus applicable surcharge of 12%) except for effective increase in the rate of cess by 1% as “Health and Education cess”.

Further, scope of DDT expanded to include deemed dividend under section 2(22)(e) and the rate prescribed thereto is 30% (plus applicable surcharge and cess).

Personal Tax

No change in tax slabs or rates for individual taxpayers.

Standard deduction from salary income

It is proposed to introduce a standard deduction from salary income up to INR 40,000 in lieu of reimbursement of medical expenses and transport allowance.

Currently, reimbursement of medical expenses is not taxable up to INR 15,000 and transport allowance is exempt up to INR 19,200.

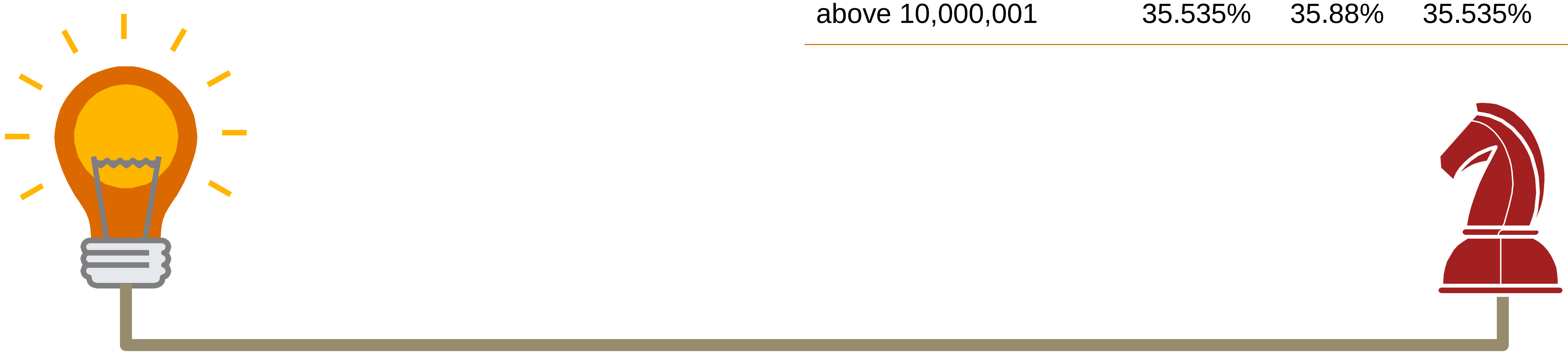
The proposed amendment shall be effective from 01 April, 2019, and will apply in relation to AY 2019-20 onwards.

Cess

It is proposed to replace the existing 3% Education Cess by a 4% Health and Education Cess. This Cess like Education Cess would be applicable on income tax including surcharge and shall be effective from 01 April, 2018.

Comparative chart of effective tax rate due to additional cess

Taxable income (INR)	Individual < 60 years		Senior citizens (60 to 80 years)		Very senior citizens (above 80 years)	
	Pre Budget	Post Budget	Pre Budget	Post Budget	Pre Budget	Post Budget
0 to 250,000	NIL	NIL	NIL	NIL	NIL	NIL
250,001 to 300,000	5.15%	5.20%	NIL	NIL	NIL	NIL
300,001 to 500,000	5.15%	5.20%	5.15%	5.20%	NIL	NIL
500,001 to 1,000,000	20.60%	20.80%	20.60%	20.80%	20.60%	20.80%
1,000,001 to 5,000,000	30.90%	31.20%	30.90%	31.20%	30.90%	31.20%
5,000,001 to 10,000,000	33.99%	34.32%	33.99%	34.32%	33.99%	34.32%
above 10,000,001	35.535%	35.88%	35.535%	35.88%	35.535%	35.88%



Sops for senior citizens

It has been proposed to increase the deductions available to senior citizens towards interest, health insurance and medical expenses as outlined below.

Section	Description	Existing (INR)	Proposed (INR)
Section 80 D	Health insurance and medical treatment	30,000	50,000
Section 80 DDB*	Medical treatment for specified ailments	60,000/80,000	100,000
Section 80 TTB **	Interest from banks/ post office (including FD interest)	10,000 (under section 80TTA)	50,000

The above proposals will effectively increase the deduction available for senior citizens by up to INR 100,000.

**For the purpose of section 80 DDB, the distinction between senior citizen and very senior citizen has been removed.*

*** The scope of deduction has been widened to include interest earned on fixed deposits and post office deposits under the proposed insertion of section 80TTB for senior citizens.*

Tax deduction at source in respect of interest income to senior citizen

Section 194A of the Act is proposed to be amended so as to raise the threshold for deduction of tax at source on interest income for senior citizens from existing INR 10,000 to INR 50,000.

The proposed amendment shall be applicable with effect from 01 April, 2018.

National Pension Scheme (NPS)

It is proposed to extend the exemption available in respect of withdrawal (on closure or opting out) from the NPS scheme to all subscribers.

Currently, exemption of 40% of the amount payable was allowed to employees.

The proposed amendment shall be effective from 01 April, 2018.

Business income

Amendments in relation to ICDS

The Central Government had notified 10 ICDS under section 145(2), effective from 01 April, 2016, for the purpose of computation of income chargeable under the head business income or IFOS. In order to provide statutory backing to ICDS, it is proposed to amend / introduce certain provisions to provide for computation of income in line with ICDS provisions.

It is proposed to:

- Allow deduction for marked to market loss or other expected loss, as computed in the manner provided in ICDS under section 36 of the Act.
- Provide that any gain or loss arising due to changes in foreign exchange rates in respect of all foreign currency transactions shall be treated as income or loss, which shall be computed in the manner provided in ICDS. The proposed amendment is subject to the provisions of section 43A of the Act, which deals with treatment of foreign exchange fluctuations in specified cases.
- Provide that:
  - profits arising from a construction contract or a contract for providing services shall be determined on the basis of percentage of completion method, except for certain service contracts, and
  - the contract revenue shall include retention money, and
  - the contract cost shall not be reduced by incidental interest, dividend and capital gains.
- Amend section 145A of the Act to provide that:
  - Valuation of inventory shall be made at lower of actual cost or NRV, computed in the manner provided in ICDS;
  - Valuation of purchase and sale of goods or services and of inventory shall include the amount of any tax, duty, cess or fee actually paid or incurred by the taxpayer to bring the goods or services to the place of its location and condition as on the date of valuation;
  - Inventory, being unlisted securities, or listed but not quoted regularly on a recognised stock exchange, shall be valued at actual cost initially recognised in the manner provided in ICDS;
  - Inventory, being listed securities (other than referred above), shall be valued at lower of actual cost or NRV in the manner provided in ICDS and for this purpose the comparison of actual cost and NRV shall be done category wise.
- Insert a new section 145B in the Act to provide that:
  - Interest received by a taxpayer on compensation or on enhanced compensation, shall be deemed to be the income of the year in which it is received;
  - The claim for escalation of price in a contract or export incentives shall be deemed to be the income of the tax year in which reasonable certainty of its realisation is achieved;
  - Specified subsidy, grant, etc. shall be deemed to be the income of the tax year in which it is received, if not charged to income tax for any earlier tax year.

These amendments are proposed to bring certainty in the wake of a recent judicial pronouncement in relation to the applicability of ICDS. These provisions will take effect retrospectively from 01 April, 2017 and, accordingly, will apply from AY 2017-18 onwards.

Rationalisation of applicability of 25% tax rate to certain domestic companies

Section 115BA of the Act provides that the total income of a newly set up domestic company engaged in the business of manufacture or production of any article or thing and research in relation thereto, shall, at its option, be taxed at the rate of 25%, subject to fulfillment of conditions specified therein. The existing provision is only subject to provisions relating to taxation of capital gains under section 111A and 112 of the Act.

It has been proposed to amend the provisions of section 115BA of the Act to provide that these provisions shall be subject to other provisions of Chapter XII of the Act, which provides for special rates for specified incomes.

The proposed amendment will take effect from 01 April, 2017 and, accordingly, will apply from AY 2017-18 onwards.

Taxability of compensation in connection with termination of contract

It is proposed to amend section 28 of the Act to provide that any compensation or other payment due or received, 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.

This amendment has been proposed in order to widen the scope of taxation concerning compensation and reduce base erosion and revenue loss.

The proposed amendment will take effect from 01 April, 2019 and, accordingly, will apply from AY 2019-20 onwards.

Taxation on conversion of inventory into capital asset

It is proposed that any profit or gains arising from conversion of inventory into, or treatment as, a capital asset shall be charged to tax as business income based on the FMV (determined in a prescribed manner) of the inventory on the date of such conversion or treatment.

It is further proposed that for computing capital gains arising on the transfer of such converted capital assets, the aforesaid FMV shall be the cost of acquisition thereof and the period of holding shall be reckoned from the date of such conversion or treatment.

Currently, the Act does not provide for the tax treatment in case where the inventory is converted into, or treated as, a capital asset.

This amendment is proposed in order to provide symmetrical treatment in a reverse transaction and discourage the practice of deferring tax payment by converting the inventory into a capital asset.

The proposed amendment will take effect from 01 April, 2019 and, accordingly, will apply from AY 2019-20 onwards.

Rationalisation of provisions for companies seeking resolution under IBC 2016

Currently, section 79 of the Act provides that carry forward and set off of losses in a closely held company shall be allowed only if there is a continuity in the beneficial holding of the shares carrying not less than 51 percent of the voting power, on the last day of the year or years in which the loss was incurred.

It is proposed to relax the rigors of section 79 of the Act in case of companies whose 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 has been proposed to remove the hurdle in restructuring and rehabilitation of such companies.

The proposed amendment will take effect from 01 April, 2018 and, accordingly, will apply from AY 2018-19 onwards.

Relief under MAT for Companies under Insolvency Resolution Process

It has been proposed to amend section 115JB of the Act to allow the reduction of aggregate amount of unabsorbed depreciation and brought forward loss (excluding unabsorbed depreciation) while computing book profit of companies for which application for corporate insolvency resolution process has been admitted under IBC 2016. This amendment has been proposed to remove the barrier for rehabilitating companies seeking such insolvency resolution.

Under current provisions, the lower of brought forward loss and unabsorbed depreciation, as per books of account, is allowed to be reduced while computing book profits under section 115JB of the Act. Hence, where the brought forward loss or unabsorbed depreciation is Nil, no deduction is allowed.

The proposed amendment will take effect from 01 April, 2018 and, accordingly, will apply from AY 2018-19 onwards.

Verification of return in case of corporate insolvency

It is proposed to amend section 140 of the Act to provide that during the resolution process under the IBC 2016, the return of income of a company shall be verified by an insolvency professional appointed by the Adjudicating Authority under the IBC 2016.

The proposed amendment will take effect from 01 April, 2018 and will apply to the returns to be filed on or after the said date.

Capital Gains and IfOS

New Regime for taxation of LTCG on sale of equity shares

Currently, LTCG arising from transfer of long term capital assets, being equity shares of a company or a unit of equity oriented fund or a unit of business trusts, on which STT has been paid is exempt from income-tax under section 10 (38) of the Act.

It is proposed to withdraw the above exemption. Correspondingly, it is also proposed to tax such LTCG exceeding INR 0.1mn at the rate of 10%, without giving effect to inflation indexation benefit and exchange currency benefit.

The above rate of 10% will be applicable, if—

- in case of equity share in a company, STT has been paid at the time of both acquisition and transfer, (however, Central Government may, by notification, provide relaxation); and
- in case of unit of equity oriented fund or unit of business trusts, STT has been paid at the time of transfer.

The above requirement of payment of STT will not be applicable if the transfer is undertaken on a stock exchange located in IFSC and the consideration of such transfer is receivable in foreign currency.

The increase in valuation of assets acquired by taxpayer before 01 February, 2018 to be protected from LTCG to the extent of FMV, as on 31 January, 2018. The manner for computing FMV has also been prescribed.

A consequential amendment has been proposed in section 115AD of the Act to tax such LTCG in the hands of Foreign Institutional Investors.

The proposed amendment will take effect from 01 April, 2019 and, accordingly, will apply from AY 2019-20 onwards.

Capital gains exemption on investment in long-term specified assets

It is proposed to amend section 54EC of the Act to provide exemption in respect of capital gains arising from the transfer of a long-term capital asset, being land or building or both, if the same is invested in long-term specified assets, being bond which is redeemable after five years and issued on or after 01 April, 2018 by NHAI or RECL, or any other bond notified by the Central Government in this behalf.

Currently, section 54EC of the Act provides that capital gains, arising from the transfer of any long-term capital asset, if the same is invested in specified or notified bonds which are redeemable after three years, is exempt, subject to specified conditions.

This amendment is proposed to restrict the scope of the exemption to long term capital assets, being land or building or both, and to make available funds for a longer duration to bond-issuing companies.

The proposed amendment will take effect from 01 April, 2019 and will accordingly apply from AY 2019-20 onwards.

Rationalisation of provision in respect of transaction between holding company and its wholly owned subsidiary

It is proposed to amend section 56 to provide an exclusion from tax to the transferee in a transaction of property between a wholly owned subsidiary company and its holding company or vice versa.

The proposed amendment will take effect from 01 April, 2018 and, accordingly, will apply in relation to the transactions made on or after the said date.

Rationalisation of provisions with regard to transaction in immovable property

Currently income from capital gains (section 50C), business profits (section 43CA) and other sources (section 56) arising out of transactions in an immovable property, is taxed on the basis of the sale consideration or stamp duty value, whichever is higher. Where the consideration is less than the stamp duty, the differential is taxed as income, both in the hands of the purchaser and the seller.

It is proposed that no adjustments shall be made in a case where the variation between stamp duty value and the sale consideration is not more than 5% of the sale consideration.

This amendment is proposed in order to minimise hardship in case of genuine transactions in the real estate sector, where the variation can occur in respect of similar properties in the same area because of a variety of factors.

The proposed amendment will take effect from 01 April, 2019 and will accordingly apply from AY 2019-20 onwards.

Deemed dividend

At present, dividend distributed by a domestic company is subject to DDT payable by such company. However, advances or loans to specified persons are considered as deemed dividend under section 2(22)(e) the Act and taxed in the hands of the recipient at the applicable marginal rate.

It is proposed to levy DDT on such deemed dividend at the rate of 30% plus applicable surcharge and cess (though without grossing up).

The amendment has been proposed as the taxability of deemed dividend in the hands of recipient has been the subject matter of extensive litigation and will bring necessary clarity and certainty.

The proposed amendment will apply to the transactions undertaken on or after 01 April, 2018.

Widening the scope of accumulated profits for Dividend

It is proposed 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 shall be increased by the accumulated profits of an amalgamating company (whether capitalised or not) on the date of amalgamation.

Currently, Explanation (2) to section 2(22) of the Act, provides that 'accumulated profits' includes all profits of the company up to the date of distribution/payment/liquidation, as the case may be.

This amendment is proposed as an anti-abuse provision. The proposed amendment will take effect from 01 April, 2018 and will accordingly apply from AY 2018-19 onwards.

Taxability of compensation in connection with termination of employment

It is proposed to amend section 56 of the Act to provide that any compensation or other payment due or received in connection with the termination of his employment or the modification of the terms and conditions relating thereto.

This amendment has been proposed in order to widen the scope of taxation concerning compensation and reduce base erosion and revenue loss.

The proposed amendment will take effect from 01 April, 2019 and will accordingly apply from AY 2019-20 onwards.

Non-resident taxation

Concept of 'business connection' widened

It is proposed to widen the definition of 'business connection' to also include cases where an agent habitually conclude contracts or habitually plays the principal role leading to conclusion of contracts, following the recommendations under BEPS Action 7 of OECD.

The amendment is being proposed to widen the provisions of section 9(1)(i) of the Act and to align the same with the expanded Dependent Agent provisions of the tax treaties post modifications by the MLI, signed by various countries last year, and to which India is also a signatory.

It is further proposed that 'Significant Economic Presence' of a non-resident shall constitute a business connection in India. For this purpose, Significant Economic Presence' shall mean:

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

(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

The intended objective appears to be of taxation based on a 'New Nexus Rule' of economic location or economic allegiance in the virtual world wherein new and innovative business models are emerging and, primarily driven by digital platforms, the requirement of presence of the seller/service provider in the source country (where customer exists) is diminishing in various businesses. It has also been clarified that the revenue factor would be used in combination with the above factors to determine the 'Significant Economic Presence' and government will come up with the prescribed thresholds like transaction amounts, and number of users in the source country for discussion with the stakeholders, to bring certainty and the desired clarity in application of these critical principles.

The proposed amendment will take effect from 01 April, 2019 and will accordingly apply from AY 2019-20 onwards.

Relief under MAT for Foreign Companies

It has been proposed to clarify retrospectively that provisions of section 115JB of the Act shall not apply, and never have been deemed to apply, to foreign companies opting for presumptive taxation under section 44B or section 44BB or section 44BBA or section 44BBB of the Act.

The proposed amendment shall take effect retrospectively from 01 April, 2001 and will accordingly apply from AY 2001-02 onwards.

Exemption of income of foreign company from sale of leftover stock of crude oil on termination of agreement or arrangement

Currently, income of foreign company from sale of leftover stock of crude oil on termination of agreement or arrangement entered into, or approved by the Central Government, is exempt, subject to certain conditions.

It is proposed to amend section 10(48B) of the Act to provide that the benefit of tax exemption in respect of income from left over stock will also be available if the agreement or the arrangement is terminated in accordance with the terms mentioned therein.

The amendment has been proposed in view of the strategic nature of the project and to benefit India by augmenting its strategic petroleum reserves.

The proposed amendment will take effect from 01 April, 2019 and will accordingly apply from AY 2019-20 onwards.

Measures to promote IFSC

It is proposed to amend section 47 of the Act to provide that transactions in the following assets, by a non-resident on a recognised 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 section 115AC(1) of the Act; or

(ii) Rupee denominated bond of an Indian company; or

(iii) Derivative.

It is further proposed to amend the section 115JC of the Act to provide that in case of a unit located in an IFSC, the alternate minimum tax under the aforesaid section shall be charged at the reduced rate of 9% for a non-corporate taxpayer.

This amendment has been proposed in order to promote the development of world class financial infrastructure in India.

The proposed amendment will take effect from 01 April, 2019 and will accordingly apply from AY 2019-20 onwards.

Tax incentives

Certain deductions not to be allowed unless return of income is filed within the due date

Currently, the deductions under section 80-IA or section 80-IAB or section 80-IB or section 80-IC or section 80-ID or section 80-IE of the Act are allowable subject to filing of the return of income within the prescribed due date.

It is proposed to substitute section 80AC of the Act to extend the condition of filing of return of income within the prescribed due date, in respect of deduction under Chapter VIA of the Act, under the heading '"C – Deductions in respect of certain incomes"'.

The proposed amendment will take effect from 01 April, 2018 and will accordingly apply from AY 2018-19 onwards.

Rationalisation of profit-linked deduction by eligible start-ups

It is proposed to amend section 80-IAC of the Act dealing with profit linked deduction for start-ups. Amendments proposed are:

- The definition of 'Eligible business' has been enlarged to cover a business carried out by eligible start- up 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
- The requirement of total turnover up to INR 250mn for the eligible business shall apply for seven tax years, beginning from the year in which the start-up is incorporated.
- The sunset date has been extended. It is proposed that eligible start-up incorporated before 01 April, 2021 shall be eligible for the deduction.

The proposed amendment will take effect from 01 April, 2018 and will accordingly apply from AY 2018-19 onwards.

Employment generation- related incentive

Currently, section 80JJAA of the Act provides for an additional deduction of 30% of emoluments paid to new employees for a period of three years, subject to fulfillment of certain conditions. In order to claim the deduction, the new employee must be employed for more than 150 days in case of the apparel industry and 240 days in other cases.

It is proposed that:

- The minimum period of employment of 150 days currently available to apparel industry is proposed to be extended to the footwear and leather industry.
- Deduction shall be available from the second year onwards for an employee employed during the first year for a period less than the minimum period (i.e., 240 days or 150 days, as the case may be) who continues to remain employed for the minimum period in the second year.

The proposed amendment will take effect from 01 April, 2019 and will accordingly apply from AY 2019-20 onwards.

Tax incentive for Farm Producer Companies

New section 80PA has been proposed to be inserted in the Act to provide for 100% deduction of profits from 'eligible business' to Farm Producer Company having a total turnover up to INR 1bn.

'Eligible business' has been defined to mean

- marketing of agricultural produce grown by the members; or
- the purchase of agricultural implements, seeds, livestock or other articles intended for agriculture for the purpose of supplying them to the members; or
- the processing of the agricultural produce of the members,

The proposed deduction shall be available from tax year starting 01 April, 2018 till 31 March, 2024.

Other provisions

E-assessment

With a view to roll out e-assessment across the country so as to impart greater transparency and accountability, it is proposed to amend the Act to empower the Central Government to notify a new scheme for scrutiny assessments to achieve the desired purpose. The proposed amendment would enable the assessment to be carried out without any personal interface between the Taxpayer and the Revenue Authorities.

Rationalisation of *prima-facie* adjustments during processing of return of income

Currently, section 143 of the Act provides for processing of return of income with certain adjustments, including the addition of income appearing in Form 26AS which has not been included while computing the total income in the return.

It is now proposed that no such adjustments in respect of difference in income reported in the return and form 26AS shall be made in respect of any return furnished on or after 01 April, 2018.

Requirement to obtain PAN in certain cases

It is proposed to amend section 139A of the Act to provide that entities, other than individuals, which enter into a financial transaction amounting to INR 0.25mn or more would be required to obtain a PAN.

Further, in order to link the financial transactions undertaken by such entities with natural persons, it is proposed that managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of such entity or any person competent to act on behalf of such entity shall also be required to obtain PAN.

The proposed amendment will take effect from 01 April, 2018.

Prosecution for failure to furnish return of income

Section 276CC of the Act is proposed to be amended, to provide that prosecution shall lie against companies for non-filing of return, whether or not any tax is payable.

The aforementioned proposal has been made in order to prevent abuse of the existing provision by shell companies or by companies holding benami properties, etc. The proposed amendment will take effect from 01 April, 2018.

Tax deduction at source and manner of payment in respect of certain exempt entities

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 amendment has been proposed to encourage a less cash-dependent economy and to reduce the generation and circulation of black money.

The proposed amendment shall be effective from 01 April, 2019 and will accordingly apply from AY 2019-20 onwards.

DDT on dividend payouts to unit holders in an equity- oriented fund

Section 115R of the Act provides for tax on income distributed by a specified company or Mutual Fund to its unit holders. It is proposed to amend section 115R to provide that where any income is distributed by a Mutual Fund, being an equity-oriented fund, the Mutual Fund shall be liable to pay additional income tax at 10% on the income so distributed.

Under the existing provision, no additional income tax is payable by the Mutual Fund.

This amendment is proposed with a view to provide a level playing field between growth-oriented funds and dividend-paying funds, in view of new capital gain tax regime for unit holders of equity-oriented funds.

The proposed amendment shall take effect from 01 April, 2018

Tax deduction at source on 7.75% Savings (Taxable) Bonds, 2018

Currently, tax is deducted at source at the time of payment or credit of interest in excess of INR 10,000 to a resident on 8% Savings (Taxable) Bonds, 2003. The existing 8% Savings (Taxable) Bonds, 2003 under section 193 of the Act, have been replaced with new 7.75% Savings (Taxable) Bonds, 2018.

It is proposed that the payer would undertake TDS at the time of making payment of interest in excess of INR 10,000 to residents on 7.75% Savings (Taxable) Bonds, 2018.

The proposed amendment shall be applicable from 01 April, 2018

Structure of AAR

In view of the proposed amendments in the Customs Act creating a new Customs Authority for Advance Ruling, it is proposed to provide that the AAR constituted under the Act shall act as an appellate authority in respect of the rulings given by the customs authority for Advance Ruling.

The proposed amendment shall be applicable from 01 April, 2018.

Increase in penalty under section 271FA of the Act

It is proposed to enhance the penalty leviable under section 271FA of the Act for failure to furnish statement of financial transaction or reportable account, as required under section 285BA of the Act, within the prescribed time from INR 100 to INR 500 for each day of continuing default.

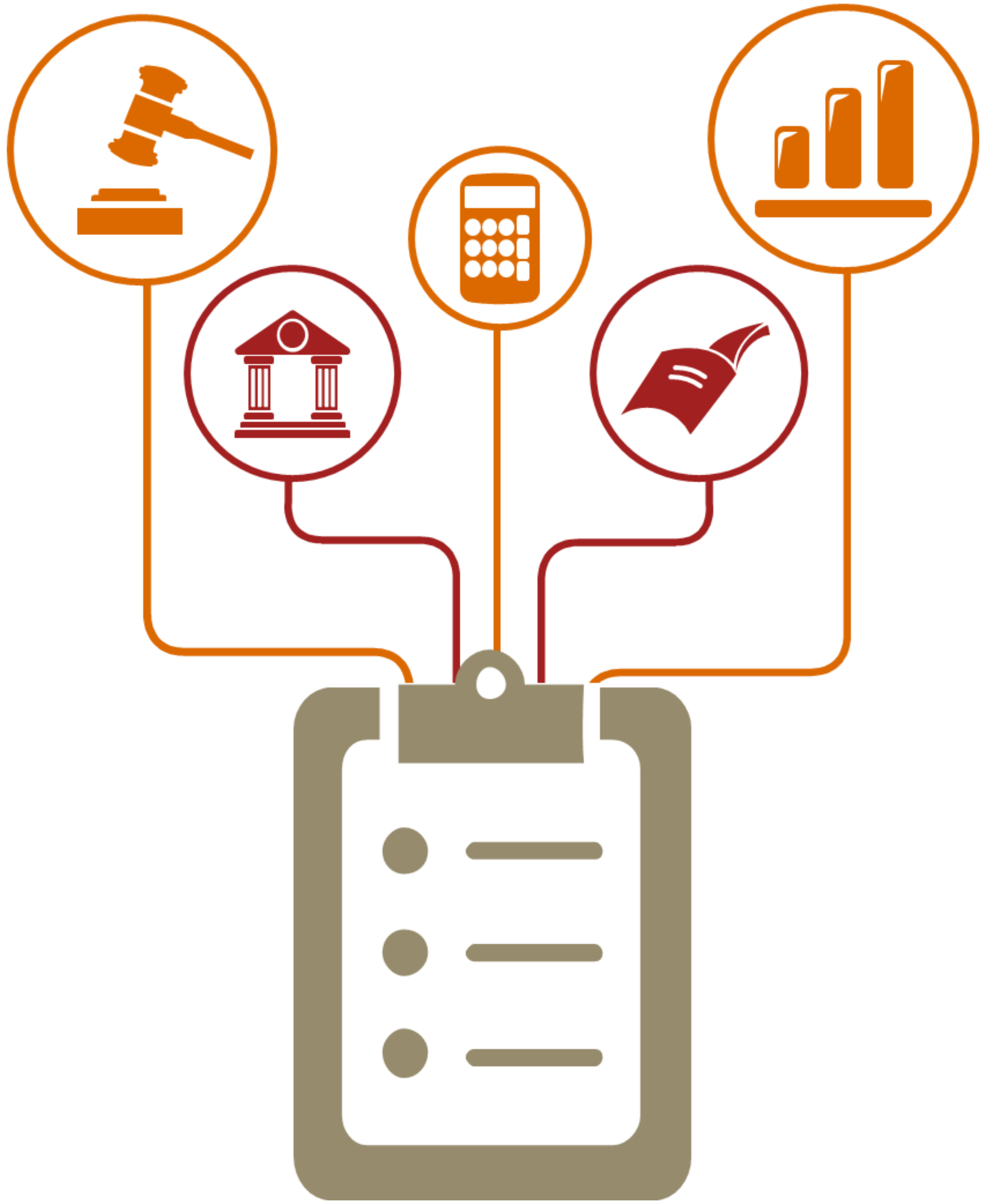
It is further proposed to enhance the penalty from existing INR 500 to INR 1,000 for each day of continuing default in case of failure to furnish statement of financial transaction or reportable account within the period specified in the notice issued by the revenue authority.

The proposed amendment shall be applicable from 01 April, 2018.

Transfer Pricing

As part of the implementation of the BEPS Action Plan 13 regarding Three Tier TP Documentation, India had introduced Country by Country Report (CbCR) requirements effective from AY 2017-18. This required certain Indian headquartered MNEs, and in some cases Indian affiliates of foreign headquartered MNEs, to file CbCR in India reporting country-wise details of revenue, profits, taxes, number of employees, etc. It is proposed to amend these provisions to align with OECD's recommendations as follows:

- The time limit for furnishing the CbCR shall be 12 months from the end of the reporting accounting year, as compared to the earlier time limit of return filing date; and
- CbCR shall also be required to be filed in India by Indian affiliates of foreign headquartered MNEs, if there is no obligation to file CbCR in the home jurisdiction and the parent has not designated any Alternate Reporting Entity outside India.
- The above amendments are clarificatory in nature and are applicable from AY 2017-18.



Indirect Taxes

Customs duty

Being the first budget after the implementation of GST, the changes were primarily limited to customs only. While there was no change in the merit rate of basic customs duty, to further encourage "Make in India," basic customs duty on specified goods of food processing, electronics, auto sector, etc. was increased. Apart from that, the focus was to align the customs law to ensure ease of doing business and meeting the commitments of the Trade Facilitation Agreement.

Rate of duty

Median rate of basic customs duty retained at 10%

Changes in Customs Act, 1962

- Scope of the Customs Act, 1962 expanded to cover any offence or contravention committed outside India by any person.
- "Assessment" to now include specific aspects such as classification, duty, valuation, exemption or concession of duty etc..
- "Indian customs waters" expanded to exclusive economic zones.
- Expansion in scope of provisional assessment to include exports as well.
- Process of pre-notice consultation by the authorities before issuance of demand notice for recovery of duty or refund in cases other than collusion, suppression, etc.
- Supplementary show cause notice to be issued in specified cases and subject to conditions.
- Definite time frame provided for adjudication of demand notices including their extension. In the event the demand notice is not adjudicated within the specified time period including extension, it would be deemed that no notice was issued.
- In cases where the extended period due to collusion, suppression of facts, etc. is set aside by the appellate authority, the demand pertaining to normal period of 2 years will sustain and a proceeding will be undertaken on that basis.
- Revised guidelines for Advance Ruling in terms of:
  - Expansion of the term "applicant" to include any import or exporter, or any other person with justiciable cause to the satisfaction of the authority.
  - Empowering the Central Government to include any matter on which Advance Ruling can be sought.
  - Reducing time limit for pronouncement of ruling from 6 months to 3 months.
  - Permitting appeal to the appellate authority against ruling by the applicant or the customs authorities.
- Facility of electronic ledger for payment of duty, interest, penalty, fee, etc., automated system-based clearance and audit notified.
- Requirement to pay redemption fine dispensed with in cases of voluntary payment of all dues. Further, the option to pay redemption fine to be void, if not paid within 120 days from the date such option was extended.
- Commissioner Appeals empowered to remand cases to original adjudicating authority in specific cases or circumstances.

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

The above changes are effective from the date of enactment of Finance Bill.

Changes in Customs Tariff Act, 1975

- Valuation methodology for computation of IGST and Compensation Cess for warehoused goods sold prior to clearance for home consumption or export prescribed.

The above change is effective from the date of enactment of Finance Bill.

Changes in Customs duty rates

- To provide a boost to the local value addition and encourage "Make in India" in specified sectors, exemption was withdrawn or Basic Customs Duty rates were enhanced for specified goods, as illustrated below.

Goods	Existing Rate (%)	New Rate (%)
Orange fruit juice	30%	35%
New pneumatic tyres of rubber – radials	10%	15%
Buses, cars, truck and motorcycles in CKD condition	10%	15%
Specified parts or sub-parts or accessories of cellular mobile phones	7.5%/ 10%	15%
Trucks and buses in CBU	20%	25%
Spark and compression ignition engines for automobiles	7.5%	15%

Goods	Existing Rate (%)	New Rate (%)
Crank shaft for specified engines	7.5%	15%
Static converters except dip bridge rectifier	10%	15%
Primary cells and primary batteries except parts	10%	15%
Telephones for cellular networks or for other wireless networks	15%	20%
PCBA of charger/ adapter and moulded plastics of charger/ adapter of cellular mobile phones	Nil	10%
Specified parts and accessories of cellular mobile phones	7.5%/ 10%	15%
Smart watches	10%	20%
LCD/ LED/ OLED panels and other parts of television	7.5%/ 10%	15%
Specified parts of LCD and LED TV panels	Nil	10%
Parts and accessories of automobiles	10%	15%
All watches and clocks	10%	20%

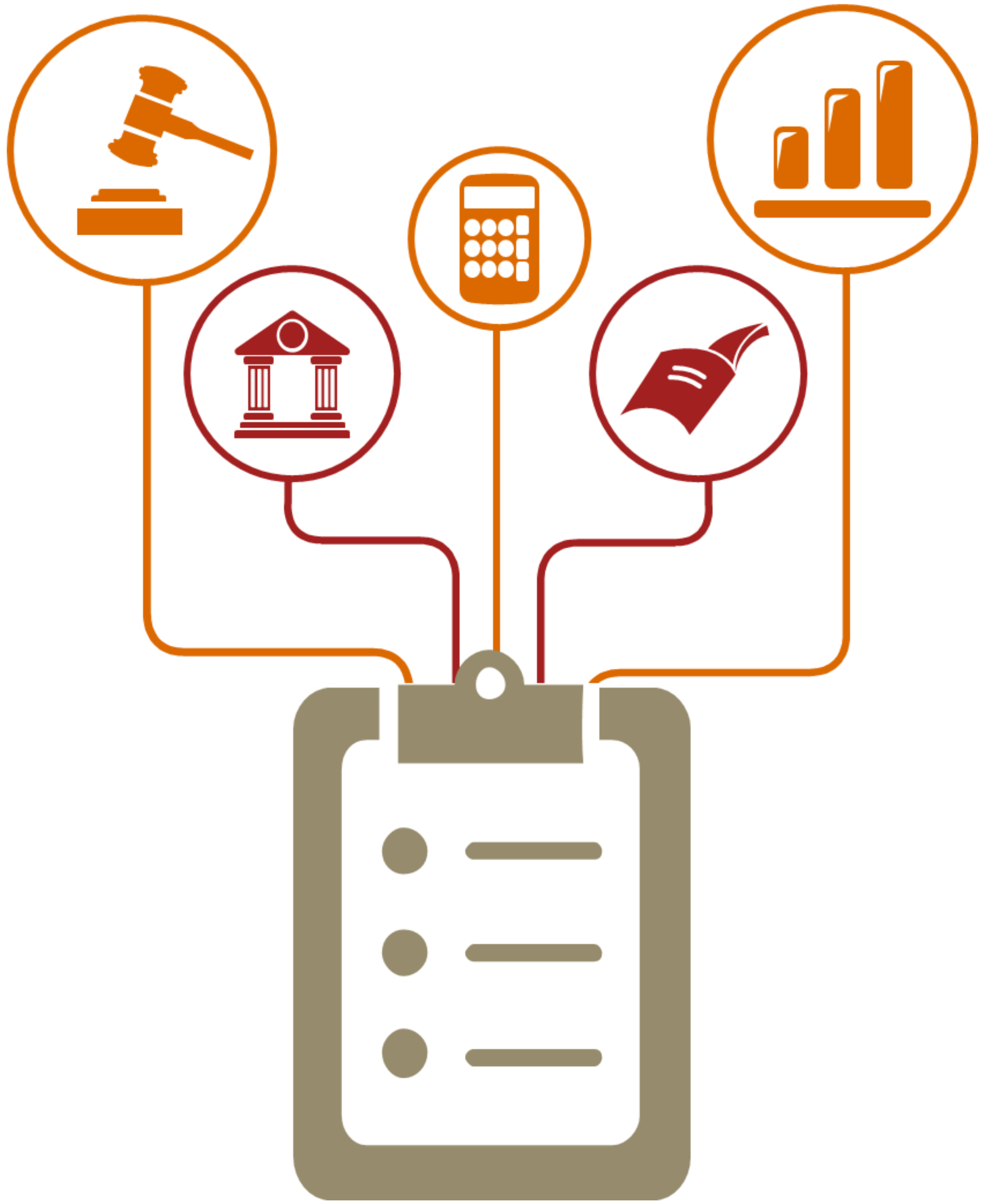
- To provide a boost to the local value addition and encourage "Make in India" in specified sectors, exemption from concessional Basic Customs Duty rate accorded, as illustrated below.

Goods	Existing Rate (%)	New Rate (%)
Inputs or parts for manufacture of PCBA/ moulded plastics of charger/ adapter of cellular mobile phones	Applicable Rate	Nil
Solar tempered glass or solar tempered anti-reflective coated glass for manufacture of solar cells/ panels/ modules	5%	Nil

The above changes are effective from 02 February, 2018.

Miscellaneous

- Education Cess and Secondary and Higher Education Cess replaced with Social Welfare Surcharge of 10% to be levied on aggregate of customs duty except IGST and GST Compensation Cess in addition to other duties. Goods earlier exempted from Education Cess and Secondary and Higher Education Cess continue to be exempted from this levy. Further, a concessional rate of 3% notified for specified goods like petrol, high speed diesel gold etc.
- Levy of concessional rate of Additional Duty of Customs at INR 6 per litre on petrol and high-speed diesel replaced with levy of Road and Infrastructure Cess at INR 8 per litre. Further, CVD in lieu of Road and Infrastructure Cess being exempted.



Central Excise

Amendments have been made in the taxation structure of petrol (motor spirit) and high-speed diesel but the effective rate of duty on these products will remain unchanged.

Excise duty on petrol and diesel (effective from 02 February, 2018)

- Road and Infrastructure Cess levied on petrol and high-speed diesel at INR 8 per litre.
- Additional excise duty of INR 6 per litre previously levied on petrol (vide Finance (No. 2) Act, 1998) and high-speed diesel (vide Finance Act, 1999) abolished.
- Basic excise duty on petrol and high-speed diesel reduced by INR 2 per litre.
- No change in the rate of Special Additional Excise Duty.

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

Other exemptions (effective from 02 February, 2018)

In line with the excise duty exemptions accorded previously, the following exemptions are also accorded:

- Road and Infrastructure cess levied for the following products are exempt subject to payment of appropriate excise duties on petrol and diesel and GST on ethanol or bio-diesel used for making such blends.

  (i) 5% ethanol blended petrol.

  (ii) 10% ethanol blended petrol.

  (iii) Bio-diesel, up to 20% volume.

- Fifty percent exemption from excise euty (i.e. Basic Excise Duty, Road and Infrastructure Cess and Special Additional Excise Duty) on petrol and diesel manufactured and cleared from four oil refineries in north-east India.

Service Tax

Retrospective exemption has been accorded to certain services from levy of service tax.

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

Refund can be claimed within 6 months from enactment of the Finance Bill, 2018.

Expert's Speak

Expert's Speak

Overall

Shyamal Mukherjee, Chairman, PwC India

This year's budget clearly illustrates the Government's intent to look at development holistically. The thrust on fueling the rural economy through measures around agriculture and creating an enabling eco-system through investments in infrastructure is commendable. These, in addition to incentives planned for MSMEs, will help create additional jobs. The healthcare sector was in dire need for attention and it is good to see the Government address some of its concerns with bold and aspirational initiatives. The efforts towards strengthening India's position as a digital economy through investments around new age technologies like AI and Fintech is a timely and welcome move

Economy

Ranen Banerjee, Partner and Leader - Public Finance and Economics, PwC India

A cautiously populist budget in a pre-election year. Fiscal deficit target of 3.2% has been breached for 2017-18 and is pegged at 3.5%. The fiscal glide path has also been reset with next year target at 3.3%. However, it is still within comfort zone. The recommendations of the FRBM committee to limit debt to 40% of GDP has also been accepted. It has a focus on the farm sector, which was under distress and forms a larger part of the electorate while biting the bullet on the long term capital gains in equities that affects a smaller size electorate. The farm sector push is likely to revive demand and hopefully will create private sector led growth.

Tax

Gautam Mehra, Leader - Tax & Regulatory Services, PwC India

The Finance Ministers speech on the tax proposals refers to a few key tax changes. The proposal to extend the lower 25% corporate tax rate to entities having a turnover of upto INR 2.5 bn is welcome and should reduce the cost of doing business. Besides, it should motivate more taxpayers to fully comply with the law, and is a timely with the rollout of the GST.

The announcement to tax long term capital gains on listed stocks at 10% without indexation and the levy of a 10% tax on income distributed by Equity Oriented Mutual funds will dampen returns from the stock markets, but the grandfathering provisions should minimise immediate volatility in this transition. However, it appears that the capital gains arising on the increase in value between now and March 31 2018 would not be taxable if the stocks are sold by that date.

The benefit of the standard deduction of INR 40,000/- to salaried taxpayers appears to be partly offset by the announcement of removal of medical and other reimbursements.

Abhishek Goenka, Partner & Leader, Partner, Corporate & International Tax, PwC India

Finance minister- propose to tax long term capital gains exceeding INR 0.1 mn @ rate of 10% without allowing benefit of indexation. All gains upto 31 January, 2018 will be grandfathered.

Corporate tax rate of 25 percent will now be available to companies with turnover of upto INR 2.5 bn. Disappointed with no across board reduction and this kind of patch work is unhelpful.

Rahul Garg, Senior Partner, Tax & Regulatory, PwC India

The Budget 2018 seems to be an overall balancing act with something for all sections of the society, particularly the farmers and poor households. Measures such as introduction of National Healthcare Scheme, increasing agricultural exports to USD 100 bn, providing pan India access of electricity and LPG connections should auger well and improve "ease of living" across sections.

To garner additional resources for these welfare measures, the Finance Minister has had to resort to re-introducing the long term capital gains tax on equities and increase cess by 1%. At the same time, the Finance Minister has done well to strengthen the manufacturing sector by rationalising the deduction for new employment generation and reducing the overall corporate tax rate to 25% for companies with turnover less than INR 2.5 bn."

Kuldip Kumar, Leader Personal Tax, PwC India

Reintroduced standard deduction of INR. 40,000 to benefit salaried class but the tax benefit is greatly offset due to increase in cess by 1% and withdrawal of present tax exemption of medical reimbursement and transport allowance. However, senior citizen tax payers to cheer as their long standing expectation of deduction for interest on fixed deposits and also for medical expenditure has been met.

Taxing of long term capital gains on listed shares and also levy of DDT on equity oriented mutual funds is likely to temper the return for high net worth individuals. But grandfathering of gains accrued until 31 January, 2018 will limit the adverse impact. Small investors having LTCG below INR 0.1 mn too have been protected.

Kunj Vaidya, Partner and Leader Transfer Pricing, PwC

It has been a great move extending the due date for CbCR compliance to 12 months from the end of the reporting accounting year. Certainly warranted and brings the legislation in line with global best practices. However, the requirement to have filing in India even when not required in parent entity country, seems rather onerous.

Master File filing deadline should have also been delinked with the return filing due date and instead been extended just like the CbCR compliance deadline.

To make the APA process more productive and encourage use of that route for proactive dispute resolution, the secondary adjustment certainly needs a relook and has to be aligned with global best practices of "one-time dividend" instead of "recurring interest.

Pratik Jain, Partner & Leader, Indirect Tax - PwC India

From an indirect tax standpoint, as expected, focus has been on customs duty. There is a clear policy shift in increasing customs duty to incentivise domestic manufacturing on many items including cell phones, smart watches, perfumes, juices and so on. Message is loud & clear 'manufacture in India if you want to access Indian market'. Also there are some tangible steps proposed to reduce litigation by having pre consultation before issuance of notice and timelines for closure of cases. GST law related proposals are expected in second half of the budget session.

Agricultural

Ajay Kakra, Leader - Food and Agriculture, PwC India

The continued focus on agricultural sector reform is appreciated, especially the Government's effort to integrate rural haats to the eNam and increasing the purview of MSP for comprehensive coverage of agri commodities .The farmers can look forward to better price realisation now.

BFSI

Akash Gupt, Partner and Leader Regulatory, PwC India

Simplification drive in economic regulations continue. Appointment of a single financial services regulator in IFSCs is a significant step in this direction. The list is growing larger with the Stamp Duty Act, ODI policy, hybrid instruments and 350+ state level reforms.

Vivek Belgavi, Partner & Leader - Fintech, PwC India

There are huge market and regulatory risks associated with cryptocurrency trading and till measures such as having research information available and investor protection norms are established, the budget has provided a welcome direction.

Cyber-security

Sivarama Krishnan, Partner and Leader Cyber Security, PwC India

It is heartening to notice that the Budget 2018 has put spotlight on cyber technologies and focused on creating CoEs (Center of Excellences) for emerging technologies such as Artificial Intelligence, Machine Learning, IoT, Big Data and Blockchain, etc. The CoEs will be a key step in building solutions which embed security by design and privacy by design. In addition, the move to dispel the ambiguity around the use of cryptocurrencies in India will help to contain cybercrime and cyber terrorism

Government & Public

Rakesh Kaul, Partner, Government and Public Sector, PwC India

The budget continues to reiterate the structural reforms journey with a renewed focus on social inclusion through health insurance for 100 mn families, creation of infrastructure for education, health and wellness centres, free gas connections for 80 mn women. Dealing with challenges of urbanisation continues through Smart City and Amrut. At the same time, it further strengthens the opportunity for India to gain from digital economy through initiatives around Artificial Intelligence, Cyberspace, Fintech, etc.

GRID

Ashok Varma, Partner and Leader - Social Sector, PwC India

Nearly four time increase in allocation for health insurance through National Health Protection Scheme is one of the biggest highlights of the budget. Most of the social sector schemes have seen a marginal increase in allocation keeping with trend of actual expenditure. There is no major surprises or radical policy changes in the announcements made.

Infrastructure & Real Estate

Manish Agarwal, Partner and Leader- Infrastructure, PwC India

The investment earmarked for infrastructure is welcome is as it reaffirms continued funding of various initiatives in Roads, Railways and Urban Infrastructure. Quantum leap in airport capacity is key requirement to keep pace with the rapid growth in aviation. Other initiatives, outside the budget, to revive private sector play in these sectors, will complement and further the impact of the budget allocations

Bhairav Dalal, Partner - Real Estate Tax, PwC India

Affordable Housing continues to get preferential treatment given the 'Housing for all' agenda. Creation of the Affordable Housing Fund will certainly ease the funding gap. While providing a safe harbour is a welcome move for property transactions, the margin of 5% may not serve the purpose. REIT investors would have to now factor LTCG tax while evaluating investment opportunities which would increase their return expectations.

Insurance

Joydeep K Roy, Partner & Leader - Insurance, PwC India

India is clearly moving towards a framework of National Universal Health Insurance scheme. This would be a precursor, and an experiment, and therefore it looks like this would need to be a Public-Private partnership between the Government and the Insurance companies. The most appropriate thing to do would be for the Government to partly subsidise the premium payment and leave the operationalisation and risk-carrying to Insurance companies which today are well-established both from the point of view of risk capitalisation and also on operational maturity. The only weak link here would be the health provider network (hospitals and clinics), which needs to fall in line to offer suitable services on a single protocol and IT system network. The next big step in health Insurance in India, would be to bring the health provider network under regulations and discipline which will enable the actual service delivery under one National Standard.

Pharma

Sujay Shetty, Partner & Leader - Life Sciences, PwC India

We see the move towards the massive health care coverage proposed in the National Healthcare Programme as a big boost to the pharma industry.

Dr. Rana Mehta, Partner & Leader - Healthcare, PwC India

On the health coverage of INR 0.5 mn per family:

The Government's move to provide a coverage of up to INR 0.5 mn per family of 100 mn poor families is the biggest scheme of its kind in the world and is in continuation with the trend of the Government being a payer rather than a provider in the secondary and tertiary care space. This will provide much needed protection to the most vulnerable section of our population.

Smart Cities

NSN Murty, Partner and Leader- Smart Cities, PwC India.

Government expenditure on thousands of projects initiated under Smart Cities Mission across India going has already created a large marketplace for private sector and is going to further translate into jobs at all level, better and efficient infrastructure and liveable cities for everyone

Glossary

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AAR - Authority for Advanced Rulings
Act – Income-tax Act 1961
AIF – Alternative Investment Funds
APMC - Agricultural Produce Market Committee
AY – Assessment Year
BEPS – Base Erosion & Profit Shifting
CbCR – Country by Country Reporting
CEA – Chief Economic Adviser
CKD – Complete Knock Down
CPSE - Central Public Sector Enterprises
CSL – Cochin Shipyard Limited
CSO - Central Statistics Office
CVD – Countervailing Duty
DAPE - Dependent Agent Permanent Establishment
DDT – Dividend Distribution Tax
DIPAM – Dept. of Disinvestment & Public Asset Magmt.
DTAA - Double Taxation Avoidance Agreement
EMDE - Emerging Markets and Developing Economies
e-NAM – Electronic National Agriculture Market
ETF – Exchange Traded Fund
FD – Fixed Deposit
FDI – Foreign Direct Investment
FMV - Fair Market Value
Financial Year - Tax Year
FY – Financial Year
GDP – Gross Domestic Product
GST – Goods and Service tax
GrAMs – Gramin Agricultural Markets
HPCL – Hindustan Petroleum Corporation Limited
HUDCO – Housing & Urban Development Corporation
IBC - Insolvency and Bankruptcy Code
ICDS - Income Computation and Disclosure Standards
IfOS – Income from Other Sources
IFSC - International Financial Services Centre
IGST - Integrated Goods and Services Tax
IIP – Index of Industrial Production
IMF – International Monetary Fund
INR – Indian Rupee
InvITs - Infrastructure Investment Trusts
LTCG - -Long Term Capital Gains
MAT – Minimum Alternate Tax
MLI - Multilateral Instruments
MNEs – Multi National Enterprises
MSME – Medium, Small and Micro Enterprises
NEFT - National Electronic Funds Transfer
NHAI - National Highways Authority of India
NPS – National Pension Scheme
NRV - Net Realisable Value
OECD - Organisation of Economic Cooperation and Development
OMC - Oil Marketing Companies
ONGC – Oil and Natural Gas Corporation Limited
OPEC - Organisation of the Petroleum Exporting Countries
PAN - Permanent Account Number
PF - Permanent Establishment
PPP – Purchasing Power Parity
Profits and gains from business and profession – Business income
PSU – Public Sector Undertaking
RBI - Reserve Bank of India
RECL - Rural Electrification Corporation Limited
REIT - Real Estate Investment Trust
SEBI – Security and Exchange Board of India
STT - Security Transaction Tax
UPI – Unified Payments Interface
USA – United States of America
USD – US Dollar

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Our Offices

Ahmedabad

1701, 17th Floor, Shapath V,
Opp. Karnavati Club,
S G Highway,
Ahmedabad – 380051
Gujarat
+91-79 3091 7000

Bengaluru

6th Floor
Millenia Tower 'D'
1 & 2, Murphy Road, Ulsoor,
Bengaluru – 560 008
Karnataka
+91-80 4079 7000

Chennai

8th Floor
Prestige Palladium Bayan
129-140 Greams Road
Chennai – 600 006
Tamil Nadu
+91 44 4228 5000

Gurgaon

Building No. 10, Tower - C
17th & 18th Floor,
DLF Cyber City,
Gurgaon – 122002
Haryana
+91-124 330 6000

Hyderabad

Plot no. 77/A, 8-2-624/A/1, 4th Floor, Road No. 10, Banjara Hills,
Hyderabad – 500034,
Telangana
+91-40 44246000

Kolkata

56 & 57, Block DN.
Ground Floor, A- Wing
Sector - V, Salt Lake
Kolkata – 700 091,
West Bengal
+91-033 2357 9101/ 4400 1111

Mumbai

PwC House
Plot No. 18A,
Guru Nanak Road(Station Road),
Bandra (West), Mumbai – 400 050
Maharashtra
+91-22 6689 1000

Pune

7th Floor, Tower A - Wing 1,
Business Bay, Airport Road, Yerwada, Pune – 411 006
Maharashtra
+91-20 4100 4444

For more information

Contact us at pwctrs.knowledgemanagement@in.pwc.com