VERENDRA KALRA & CO

CHARTERED ACCOUNTANTS

INDIA

budget statement 2018

INDIA BUDGET STATEMENT 2018

Foreword

Budget 2018 was the last full budget for the present Government and hence, there was a bit of apprehension on the eve of this budget that the Government may not be able to resist the temptation to come up with a populist budget before the elections looming ahead in 2019.

By eschewing generous freebies and pegging the fiscal deficit to 3.3% of the GDP for 2018-19, and thereby largely treading the fiscal consolidation path, the FM has given a welcome signal that the economic health of the country remains above bipartisan politics. This also reinforces the nascent but increasingly accepted notion that good governance can be good politics too. The critics, though, will cite the overdue slippages in the FRBM Act, which aimed at reducing the fiscal deficit to 3% by 2008.

Post the twin radical interventions of demonetization and GST, it is heartening to note that the economy has slowly but surely found its feet back, with GDP growth pegged at 6.3% in the second quarter of 2017 and expected to rise further between 7 to 7.5% in the second half, thereby setting the path back for 8% growth in 2018-19.

Taking a cue from the FM's speech, this year's budget priorities were clearly cut out as under:

- Consolidate on past gains,
- focus on strengthening agriculture and rural economy,
- provision of good health care to economically less privileged,
- taking care of senior citizens,
- infrastructure creation,
- and working with the States to provide more resources for improving the quality of education in the country

The budget was expectedly and significantly focused on the agricultural Sector. MSP for the all unannounced crops of kharif has been fixed at least at 1.5 times of their production cost. Measures have been announced to encourage organic farming by Farmer Producer Organizations (FPOs) and

Village Producers' Organizations (VPOs) in large clusters. The FM announced launch of "Operation Greens" to promote Farmer Producers Organizations (FPOs), agri-logistics, processing facilities and professional management. Other measures include those to liberalize export of agri-commodities and setting up state-of-the-art testing facilities in all the forty two Mega Food Parks.

A novel initiative in this budget is that NITI Aayog, in consultation with State Governments, will evolve a suitable mechanism to enable access of lessee cultivators to credit without compromising the rights of the land owners.

For the social sector, key initiatives include provision of free LPG connections to about 8 crore poor women and free electricity connection free of

charge to four crores poor households have been announced. Under Prime Minister Awas Scheme Rural, 51 lac houses in year 2017-18 and 51 lac houses during 2018-19, which is more than one crore houses, will be constructed exclusively in rural areas. In urban areas the assistance will cover construct 37 lac houses.

The rural sector benefits hugely too, by way of major jump in allocation of budgetary resources towards creation of livelihood and infrastructure in rural areas, to the tune of INR 14.34 lac crore. it is projected that this expenditure will create employment of 321 crore person days, 3.17 lac kilometers of rural roads, 51 lac new rural houses, 1.88 crore toilets, and provide 1.75 crore new household electric connections besides boosting agricultural growth.

The health sector focus comes through The National Health Policy, 2017 which envisions Health and Wellness Centre's as the foundation of India's health system. These 1.5 lac centres will bring health care system closer to the homes of people. A very salutary and sorely needed measure announced by the FM is the setting up of a flagship National Health Protection Scheme, to cover over 10 crore poor and vulnerable families (approximately 50 crore beneficiaries) wherein coverage up to INR 5 lac per family per year for secondary and tertiary care hospitalization. This will be the world's largest government funded health care program.

Credit access to the marginal sections remains a key concern area for our country. MUDRA Yojana launched in April, 2015 has already led to sanction of INR 4.6 lac crore in credit from INR 10.38 crore MUDRA loans. It is heartwarming to note that 76% of these loan accounts were to women and more than 50% to SCs, STs and OBCs. It is proposed to set a target of INR 3 lac crore for lending under MUDRA for 2018-19.

Government's estimated schematic budgetary expenditure on health, education and social protection for 2018-19 is INR 1.38 lac crore against estimated expenditure of INR 1.22 lac crore in BE 2017-18.

Financial sector reforms measures include the Reserve Bank of India's recent guidelines to nudge corporates to access bond market. SEBI will also consider mandating, beginning with large corporates, to meet about one-fourth of their financing needs from the bond market. Bank recapitalization program has been launched with bonds of INR 80,000 crore being issued this year. This recapitalization is expected to pave the way for the public sector banks to lend additional credit of INR 5 lac crore. However, doubts remain that the huge NPA's of the banks will continue to cast their shadow on the rebounding economy.

Infrastructure focus comes through the proposal to setup five lac wi-fi hotspots which will provide broadband access to five crore rural citizens. INR 10,000 crore have been allocated in 2018-19 for creation and augmentation of Telecom infrastructure. 35000 km of roads are proposed to be built under phase -1 of Bharatmala project. Massive outlay has been done for rail projects at Mumbai and Bengaluru. It is proposed to increase airport capacity by 5 times. Total outlay for infrastructure for 2018-19 is proposed to be increased to INR 5.97 lac crore against estimated expenditure of INR 4.94 lac crore in 2017-18.

International trade remains a key priority, keeping in view that India Inc is increasingly and confidently venturing out as an investor on the global stage. The Government hence proposes to review existing guidelines and processes and bring out a coherent and integrated Outward Direct Investment (ODI) policy.

On the direct tax front, the benefit of reduced corporate tax rate of 25% has been unexpectedly extended to companies whose turnover was up to INR 250 crore in the financial year 2016-17.

The benefit of much awaited standard deduction of INR 40,000 to salaried class stands diluted through withdrawal of present exemption in respect of transport allowance and reimbursement of miscellaneous medical expenses, leaving the middle class disappointed with this budget.

Senior citizens should though feel taken care, by way of increased exemption of interest income on deposits with banks and post offices from INR 10,000 to INR 50,000 and increased limits for deduction of health insurance premiums and expenditures. The 10% tax on long term capital gains exceeding INR 1 lac was in the air, and should not prove a big dampener for the market investors.

On the indirect front, with GST gradually settling down, custom duty and excise duty changes were announced to rationalize the existing provisions. To boost Make in India, Social Welfare Surcharge, at the rate of 10% of the aggregate duties of Customs, on imported goods, has been levied with the additional benefit to provide funds for social welfare schemes of the Government. The flipside is that India is returning to import substitution, which goes against the call for globalization.

The budget has banked upon the announced allocation outlays to stimulate investment by creating a favorable sentiment as a whole, in absence of specific measures through corporate investment. With impending elections, it is critical that while implementing the budgetary proposals, fiscal consolidation is not allowed to be compromised, as in the past. No budget ever can cater to the demand of all strata's and sections of the society, but a macro economically sound budget, at a fundamental level, serves the unbiased interest of Bharat as well as India.

Verendra Kalra & Co.

Budget at a glance

Where the money comes from

Borrowing and other liabilities	19%
Corporate Tax	19%
Income Tax	16%
GST and other taxes	23%
Non-tax revenues	8%
Excise	8%
Customs	4%
Non-debt capital receipts	3%

Where the money goes

States' share of taxes & duties	24%
Interest Payments	18%
Central Sector Scheme	10%
Centrally Sponsored Scheme	9%
Subsidies	9%
Defence	9%
Other expenditure	8%
Finance Commission & Other Transfers	8%
Pensions	5%

Budget Financials

(Amount in INR billion)

	Particulars	2016-17 Actuals	2017-18 BE	2017-18 RE	2018-19 BE
1	**Revenue Receipts (2+3)**	**13,742**	**15,158**	**15,054**	**17,257**
2	Tax Revenue(Net to Centre)	11,014	12,270	12,695	14,806
3	Non-tax revenue	2,728	2,888	2,360	2,451
4	**Capital Receipts(5+6+7)**	**6,010**	**6,310**	**7,123**	**7,165**
5	Recoveries of loans	176	119	175	122
6	Other receipts	477	725	1,000	800
7	Borrowings & other liabilities	5,356	5,465	5,948	6,243
8	**Total Receipts (1+4)**	**19,752**	**21,467**	**22,178**	**24,422**
9	**Scheme Expenditure (10+13)**	**19,752**	**21,467**	**22,178**	**24,422**
10	On Revenue account	16,906	18,369	19,443	21,418
11	Interest Payments	4,807	5,231	5,308	5,758
12	Grants in aid for creation of capital assets	1,657	1,954	1,892	1,953
13	On Capital account	2,846	3,098	2,734	3,004
14	**Revenue deficit (10-1)**	**3,164**	**3,212**	**4,389**	**4,160**
		(2.10)	**(1.90)**	**(2.60)**	**(2.20)**
15	**Effective Revenue deficit (14-12)**	**1,506**	**1,258**	**2,496**	**2,207**
		(1.00)	**(0.70)**	**(1.50)**	**(1.20)**
16	**Fiscal deficit {9-(1+5+6)}**	**5,356**	**5,465**	**5,948**	**6,243**
		(3.50)	**(3.20)**	**(3.50)**	**(3.30)**
17	**Primary deficit (16-11)**	**549**	**235**	**640**	**485**
		(0.40)	**(0.10)**	**(0.40)**	**(0.30)**

Capital receipts = (Recoveries of loans + Disinvestment Receipts + Borrowings and other liabilities)

Revenue Deficit = (Revenue Receipts – Revenue Expenditure)

Effective Revenue Deficit = (Capital Expnediture – Grants of creation of capital assets)

Fiscal deficit = (Total Receipts – Borrowings and other liabilities – Total Expenditure)

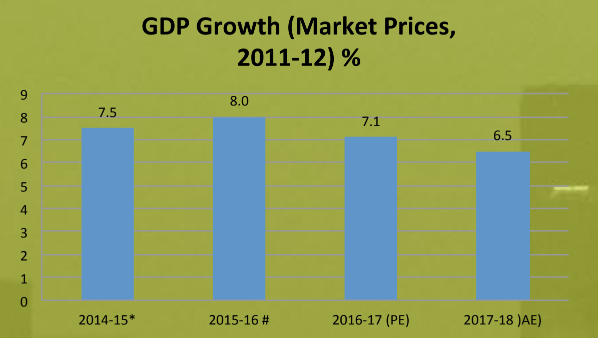
Primary Deficit = (Fiscal Deficit – Interest Payments)

BE = Budget Estimates RE= Revised Estimates

Economic Indicators

GDP Growth

(Market prices, 2011-12 as base year)

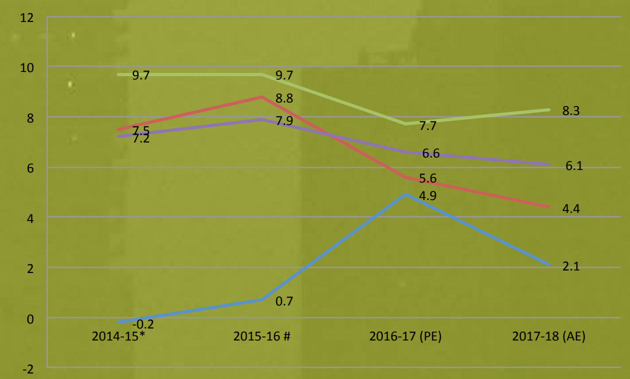


Year	%
*2014-15**	*7.5*
2015-16 #	*8.0*
2016-17 (PE)	*7.1*
2017-18)AE)	*6.5*

**2nd revised Estimate | # 1st revised Estimate | **Advance Estimate*

Growth in GVA

(Market prices, 2011-12 as base year)

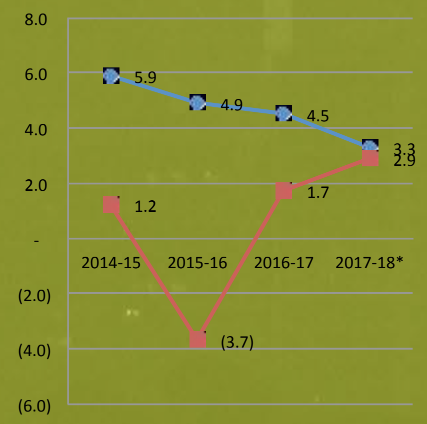


Year	*Agriculture & Allied*	*Industry*	*Services*	*GVA*
*2014-15**	*-0.2*	*7.5*	*9.7*	*7.2*
2015-16 #	*0.7*	*8.8*	*9.7*	*7.9*
2016-17 (PE)	*4.9*	*5.6*	*7.7*	*6.6*
2017-18)AE)	*2.1*	*4.4*	*8.3*	*6.1*

**2nd revised Estimate | # 1st revised Estimate | **Advance Estimate*

Inflation CPI and WPI

[Average] %

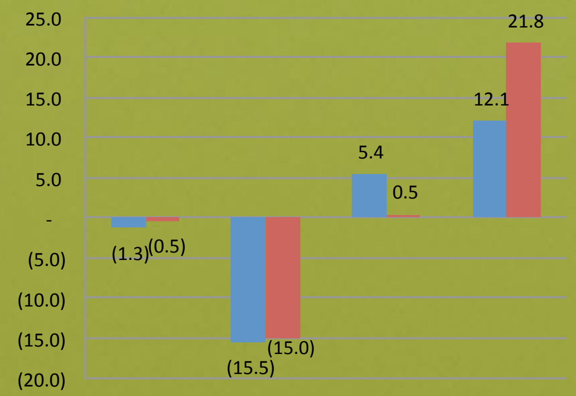


Year	*Inflation CPI [Average]*	*Inflation (WPI) [Average]*
2014-15	*5.9*	*1.2*
2015-16	*4.9*	*(3.7)*
2016-17	*4.5*	*1.7*
*2017-18**	*3.3*	*2.9*

**December 2017*

Economic Indicators

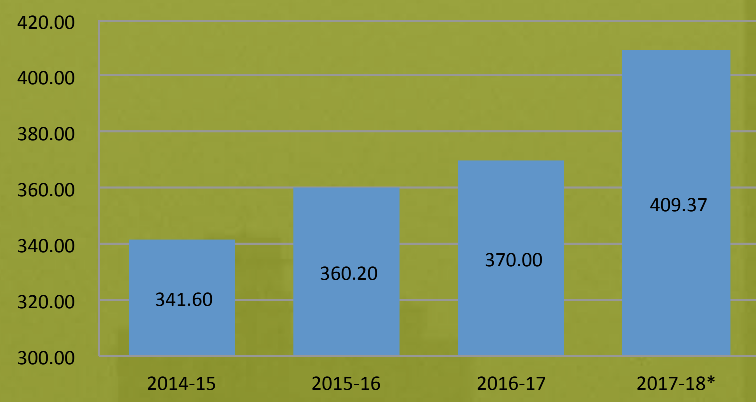
Growth in Foreign Trade [Average] %



Year	*Exports Growth*	*Imports Growth*
2014-15	*(1.3)*	*(0.5)*
2015-16	*(15.5)*	*(15.0)*
2016-17	*5.4*	*0.5*
*2017-18**	*12.1*	*21.8*

** April-December 2017*

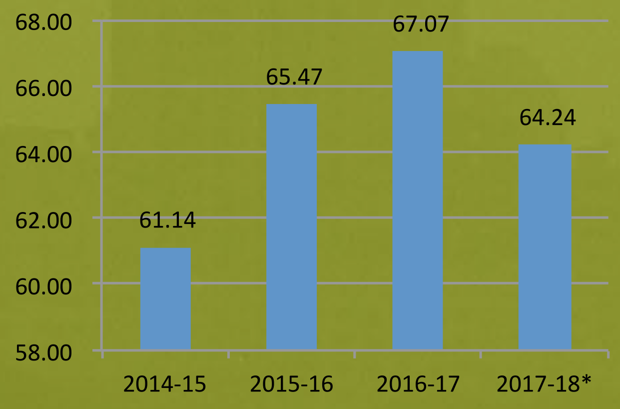
Forex Reserves
In USD billion



Year	*In USD billion*
2014-15	*341.60*
2015-16	*360.20*
2016-17	*370.00*
*2017-18**	*409.37*

** December 2017*

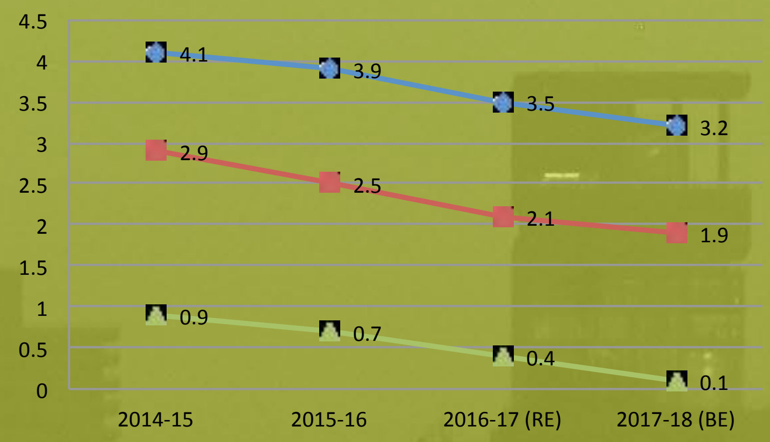
Exchange Rate
(INR per USD)



Year	*Exchange Rate (INR per USD)*
2014-15	*61.14*
2015-16	*65.47*
2016-17	*67.07*
*2017-18**	*64.24*

**December 2017*

Deficit Trends (% of GDP)



Year	*Gross Fiscal Deficit*	*Revenue Deficit*	*Primary Deficit*
2014-15	*4.1*	*2.9*	*0.9*
2015-16	*3.9*	*2.5*	*0.7*
2016-17 (RE)	*3.5*	*2.1*	*0.4*
2017-18 (BE)	*3.2*	*1.9*	*0.1*

Provisional Actuals* * Budget Estimates*

Foreign Investment

Year	*FDI (Inflows) in USD billion*	*Net FII in USD billion*
2014-15	*44.5*	*40.9*
2015-16	*55.6*	*(4.0)*
2016-17	*60.1*	*7.7*
*2017-18**	*28.0*	*17.4*

**Reflects only the equity component from April-Oct 2017*

Economic Indicators

GDP GROWTH

After registering GDP growth of over 7% for the third year in succession in 2016-17, the Indian economy is headed for somewhat slower growth, estimated to be 6.5% in 2017-18, as per first Advance Estimates released by CSO.

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. That this growth has been achieved in a milieu of lower inflation, improved current account balance and notable reduction in the fiscal deficit to GDP ratio makes it all the more creditable.

In addition to the introduction of GST, the year also witnessed significant steps being undertaken towards resolution of problems associated with non-performing assets of the banks, further liberalization of FDI, etc., thus strengthening the momentum of reforms. After remaining in negative territory for a couple of years, growth of exports rebounded into positive one during 2016-17 and strengthened further in 2017-18

AGRICULTURE AND ALLIED SECTOR

The agriculture sector registered significantly higher growth in 2016-17 than the previous two years on the back of normal monsoon. Economic Survey suggests that climate change, whose imprint on Indian agriculture is already visible might reduce farm incomes by up to 20-25% in 2017-18.

The process of development, inter-alia, generally results in decline in share of agriculture in GVA, which is being witnessed in India too. The share of agriculture and allied sectors in GVA declined from 18.2% in 2012-13 to 16.4% in 2017-18 (1st AE). However, the declining share does not undermine the significance of the sector for employment, livelihood and food security.

INDUSTRY AND INFRASTRUCTURE

IIP growth (April-November 2017 over same period in the previous year) is 3.2%, real credit growth to industry is still in negative territory, and the growth in world trade remains less than half its level of a decade ago. Moreover, even though the cost of equity has fallen to low levels, corporates have not raised commensurate amounts of capital, suggesting that their investment plans remain modest. In other words, the twin engines that propelled the economy's take-off in the mid-2000s – exports and investment – are continuing to run below take-off speed.

SERVICES

With a share of 55.2% in India's GVA, the services sector continued to be the key driver of India's economic growth, and is expected to contribute almost 72.5% of GVA growth in 2017-18. The growth of this sector in 2017-18 is expected to be at 8.3%.

INFLATION

Average CPI inflation for the first nine months has averaged 3.2% and is projected to reach 3.7% for the year as a whole. After 13 months of continuously under-shooting the inflation target by an average of 130 basis points, headline inflation for the first time crossed the RBI's 4% in November, posting a rate of 5.2% in December 2017.

The recent upswing in inflation stems from rising global oil prices (not all of which has been passed on to consumers), unseasonal increases in the prices of fruits and vegetables, and the 7th Pay Commission housing rent allowances, which mechanically increase inflation. Stripped of all these factors, underlying inflation has been increasing at a more modest pace, reaching 4.3 percent at end-December—in part because firms are passing the incidence of GST on to final consumers only gradually.

FOREIGN TRADE AND FOREX RESERVES

India's external sector has continued to be resilient and strong in 2017-18 so far and the balance of payments (BoP) situation continued to be comfortable. The year 2016-17 was characterized by positive growth in merchandise exports after two years of negative growth. Similarly, merchandise imports also printed positive growth in 2016-17 after three years of negative growth. This was mainly due to a reduction in value of imports of crude oil and petroleum products along with reduction of gold and silver imports.

India's foreign exchange reserves reached USD 409.4 billion on December 29, 2017, with a growth of 14.1% on a YoY basis from end-December 2016 and growth of 10.7% from end-March 2017.

Growth in Gross Value Added at constant (2011-12) Basic Prices (%):

Industry	2013-14	2014-15	2015-16	2016-17 (PE)	2017-18 (1st AE)
Agricultural & Allied	5.6	-0.2	0.7	4.9	2.1
Industry	3.8	7.5	8.8	5.6	4.4
Mining & Quarrying	0.2	11.7	10.5	1.8	2.9
Manufacturing	5.0	8.3	10.8	7.9	4.6
Electricity, gas & water supply & other utility services	4.2	7.1	5.0	7.2	7.5
Construction	2.7	4.7	5.0	1.7	3.6
Services	7.7	9.7	9.7	7.7	8.3
GVA at Basic Prices	6.1	7.2	7.9	6.6	6.1

Source: Central Statistics Office

Economic Indicators

EXCHANGE RATE

During 2017-18 (up to December 2017), the rupee generally traded with an appreciating bias against the US dollar, barring intermittent depreciation in September and October 2017. The rupee strengthened by 2.5% to a level of INR 64.24 per US dollar during December 2017 from the level of INR 65.88 per US dollar during March 2017 on the back of significant capital flows. During 2017-18 (April-December), on an average, the rupee has also appreciated against other major currencies besides the US dollar. The appreciation of the rupee indicates that India's exports may have become slightly less competitive.

FISCAL AND REVENUE DEFICIT

The current account deficit has also widened in 2017-18 and is expected to average about 1.5-2% of GDP for the year as a whole. The current account deficit can be split into a manufacturing trade deficit, an oil and gold deficit, a services deficit, and a remittances deficit. In the first half of 2017-18, the oil and gold balance has improved (smaller deficit of 47 USD billion) but this has been offset by a higher trade deficit (18 USD billion) and a reduced services surplus (37 USD billion), the latter two reflecting a deterioration in the economy's competitiveness.

Despite these developments, the overall external position remains solid. The current account deficit is well below the 3% of GDP threshold beyond which vulnerability emerges. Meanwhile, foreign exchange reserves have reached a record level of about 432 USD billion (spot and forward) at end-December 2017, well above prudent norms.

PRIMARY AND SECONDARY MARKET

The year 2017-18 (April-November) witnessed a steady increase in resource mobilization in the primary market segment as compared to the corresponding period in the last financial year.

S&P BSE Sensex, the benchmark index of BSE, closed at 34,433 points as on January 10, 2018, witnessing a gain of 16.5% from its closing of 29,621 points on March 31, 2017.

During this period, S&P BSE Sensex touched its highest level of 34,443 points on January 9, 2018 and its lowest of 29,319 points on April 18, 2017. Nifty 50, the benchmark index of NSE, closed at 10,632 points on January 10, 2018, witnessing a gain of 15.9% from its closing of 9,174 points as on March 31, 2017. During this period, Nifty 50 touched its highest level of 10,637 points on January 9, 2018 and its lowest of 9,105 points on April 19, 2017.

ECONOMIC SURVEY 2017

Major reforms were undertaken over the past year. The transformational Goods and Services Tax (GST) was launched at the stroke of midnight on July 1, 2017. And the long-festering Twin Balance Sheet (TBS) problem was decisively addressed by sending the major stressed companies for resolution under the new Indian Bankruptcy Code and implementing a major recapitalization package to strengthen the public sector banks. As a result of these measures, the dissipating effects of earlier policy actions, and the export uplift from the global recovery, the economy began to accelerate in the second half of the year. This should allow real GDP growth to reach 6¾ percent for the year as a whole, rising to 7-7½ percent in 2018-19, thereby re-instating India as the world's fastest growing major economy. Against emerging macroeconomic concerns, policy vigilance will be necessary in the coming year, especially if high international oil prices persist or elevated stock prices correct sharply, provoking a "sudden stall" in capital flows.

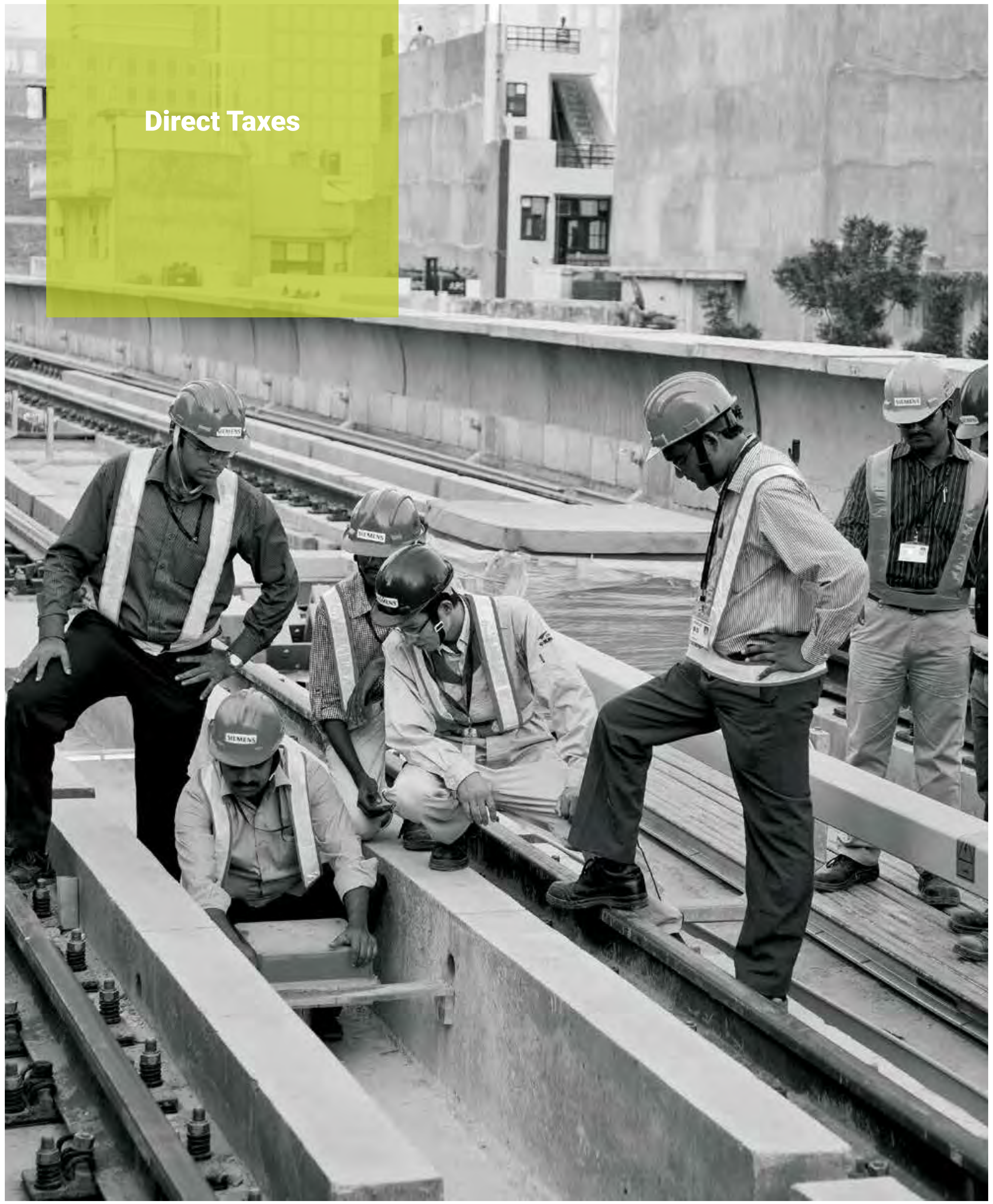
The agenda for the next year consequently remains full: stabilizing the GST, completing the TBS actions, privatizing Air India, and staving off threats to macro-economic stability. The TBS actions, noteworthy for cracking the long-standing "exit" problem, need complementary reforms to shrink unviable banks and allow greater private sector participation. The GST Council offers a model "technology" of cooperative federalism to apply to many other policy reforms.

Over the medium term, three areas of policy focus stand out:

Employment: finding good jobs for the young and burgeoning workforce, especially for women. Education: creating an educated and healthy labor force.

Agriculture: raising farm productivity while strengthening agricultural resilience.

Above all, India must continue improving the climate for rapid economic growth on the strength of the only two truly sustainable engines—private investment and exports.



Direct Taxes

RATES OF INCOME TAX

Individual – Taxes & Surcharge

There are no changes in the tax rate. All persons including Individuals, HUF, Firms and Companies have to pay the same tax as paid in last years. The only change is that the Education cess is being increased from 3 to 4%, to be known as Education and Health Cess.

Comparative chart of tax rates as applicable to individual are as follows:

Total Income	Tax rate (AY 2019-20)	Existing tax rate (AY 2018-19)
Up to INR 2,50,000 (INR 0.25 million)	Nil	Nil
INR 2,50,000 to INR 5,00,000 (INR 0.25 million to INR 0.50 million)	05%	05%
INR 5,00,000 to INR 10,00,000 (INR 0.50 million to INR 1 million)	20%	20%
Above INR 10,00,000 (INR 1 million)	30%	30%

Education cess and surcharge as applicable

Basic exemption limit for resident individuals above 60 years but less than 80 years of age at any time during the FY is INR 300,000 (INR 0.30 million) and for resident individuals 80 years of age or more is INR 500,000 (INR 0.50 million), remains unchanged.

Domestic company

There are no changes in the tax rate. The only change is that in the previous year the slab rate of 25% was available only to those domestic companies having total turnover/ gross receipts in the previous year 2015-16 not exceeding INR 50 crores (INR 500 million), which has now been proposed to INR 250 crores (INR 2500 million) turnover in 2016-17. In other cases, the tax rates remain unchanged at 30% (excluding applicable surcharge and cess).

For financial year 2018-19, additional surcharge called the "Health and Education Cess on income-tax" shall be levied at the rate of 4% on the amount of tax computed, inclusive of surcharge (wherever applicable), in all cases. No marginal relief shall be available in respect of such cess.

Effective tax rates are as under.

Particulars	Taxable income < INR 10 million	INR 10 million < taxable income < INR 100 million	Taxable income > INR 100 million
	Proposed Rates	Proposed Rates	Proposed Rates
Domestic Company (Turnover not exceeding INR 250 crores (INR 2.5 billion)	26.00%	27.82%	29.12%
Domestic Company (Compliant with conditions of section 115BA)	26.00%	27.82%	29.12%
Domestic Company (Others)	31.20%	33.38%	34.94%
Foreign Company	41.60%	42.43%	43.68%

WIDENING OF TAX BASE

Entities to apply for PAN in certain cases

In order to use PAN as Unique Entity Number (UEN) for non-individual entities, it is proposed to amend section 139A to provide that every person, not being an individual, which enters into a financial transaction of an amount aggregating to INR 2.50 lacs (INR 0.25 million) or more in a financial year shall be required to apply to the Assessing Officer for allotment of PAN. In order to link the financial transactions with the natural persons, it is also proposed that the managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer or any person competent to act on behalf of such entities shall also apply to the Assessing Officer for allotment of PAN.

Widening of scope of accumulated profits for the purpose of dividend

To prevent abusive arrangements to escape liability of paying tax on dividend (as defined u/s 2(22)), it is proposed to insert a new Explanation 2A in clause (22) of section 2 of the Act to widen the scope of the term 'accumulated profits' so as to provide that in the case of an amalgamated company, accumulated profits, whether capitalized or not, or losses as the case may be, shall be increased by the accumulated profits of the amalgamating company, whether capitalized or not, on the date of amalgamation. This amendment will take effect from April 1, 2018 and will accordingly apply in relation to assessment year 2018-19 and subsequent assessment years.

Application of Dividend Distribution Tax to Deemed Dividend

With a view to bringing clarity and certainty in the taxation of deemed dividends, it is proposed to delete the Explanation to Chapter XII-D occurring after section 115Q of the Act (which excludes applicability to deemed

dividend as defined u/s 2(22)(e)) so as to bring deemed dividends also under the scope of dividend distribution tax under section 115-O. Further, such deemed dividend is proposed to be taxed at the rate of 30% (without grossing up) in order to prevent camouflaging dividend in various ways such as loans and advances. This amendment relating to imposition of dividend distribution tax on deemed dividend will apply to transactions referred to in sub-clause (e) of clause (22) of section 2 of the Act undertaken on or after April 1, 2018.

Long term capital gains exceeding INR 1 lac (INR 0.10 million) to be taxed @10% without indexing

Under the existing regime, long term capital gains arising from transfer of long term capital assets, being equity shares of a company or an unit of equity oriented fund or an unit of business trusts, are exempt from income-tax under clause (38) of section 10 of the Act.

It is proposed to withdraw the exemption under clause (38) of section 10 and to introduce a new section 112A in the Act to provide that long term capital gains arising from transfer of a long term capital asset being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust shall be taxed at 10 per cent of such capital gains exceeding INR 1 lac (INR 0.10 million).

This concessional rate of 10 per cent will be applicable to such long term capital gains, if

- in a case where long term capital asset is in the nature of an equity share in a company , securities transaction tax has been paid on both acquisition and transfer of such capital asset; and
- in a case where long term capital asset is in the nature of a unit of an equity oriented fund or a unit of a business trust, securities transaction tax has been paid on transfer of such capital asset.

Further, sub-section (4) of the new section 112A empowers the Central Government to specify by notification the nature of acquisitions in respect of which the requirement of payment of securities transaction tax shall not apply in the case of equity share in a company. Similarly, the requirement of payment of STT at the time of transfer of long term capital asset, being a unit of equity oriented fund or a unit of business trust, shall not apply if the transfer is undertaken on recognized stock exchange located in any International Financial Services Centre (IFSC) and the consideration of such transfer is received or receivable in foreign currency.

Further, the new provision of section 112A also proposes to provide the following:

- The long term capital gains will be computed without giving effect to the first and second provisos to section 48, i.e. inflation indexation in respect of cost of acquisitions and cost of improvement, if any, and the benefit of computation of capital gains in foreign currency in the case of a non-resident, will not be allowed.
- The cost of acquisitions in respect of the long term capital asset acquired by the assessee before February 1, 2018, shall be deemed to be the higher of :
    * the actual cost of acquisition of such asset; and
    * the lower of :
        » the fair market value of such asset; and
        » the full value of consideration received or accruing as a result of the transfer of the capital asset
- Fair market value has been defined to mean :
    * in a case where the capital asset is listed on any recognized stock exchange, the highest price of the capital asset quoted on such exchange on the January 31, 2018. However, where there is no trading in such asset on such exchange on the January 31, 2018 , the highest price of such asset on such exchange on a date immediately preceding the January 31, 2018 when such asset was traded on such exchange shall be the fair market value; and
    * in a case where the capital asset is a unit and is not listed on recognized stock exchange, the net asset value of such asset as on the January 31, 2018.
- The benefit of deduction under chapter VIA shall be allowed from the gross total income as reduced by such capital gains. Similarly, the rebate under section 87A shall be allowed from the income tax on the total income as reduced by tax payable on such capital gains.

VKC Insight:

Going by the amendment made above, long term capital gain exemption u/s 10(38) in respect of listed STT paid shares now stands withdrawn, becoming taxable @10% u/s 112A. Corresponding provisions for deduction of tax at source on this income have **also** been introduced.

Dividend distribution tax on dividend payouts to unit holders in an equity oriented fund

As per existing provisions of section 115R, any amount of income distributed by the specified company or a Mutual Fund to its unit holders shall be chargeable to tax and such specified company or Mutual Fund shall be liable to pay additional income-tax on such distributed income at the rate specified in the section. However, in respect of any income distributed to a unit holder of equity oriented funds is not chargeable to tax under the said section.

It is now proposed to amend the said section 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 the rate of 10% on income so distributed. For this purpose, equity oriented fund will have the same meaning assigned to it in the new section 112A of the Act.

Taxation of long term capital gains in case of Foreign Institutional Investor

Consequent to the proposal for withdrawal of exemption under clause (38) of section 10 of the Act, long term capital gain will become taxable in the hands of FIIs also, only in respect of amount of such gains exceeding INR 1 lac (INR 0.10 million).

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

The third proviso to clause (23C) of section 10 of the Act provides for exemption in respect of income of the entities referred to in sub-clause (iv) or sub-clause (v) or sub-clause (vi) or sub-clause (via) of said clause in a case where such income is applied or accumulated during the previous year for certain purposes in accordance with the relevant provisions. Section 11 of the Act also contains provisions relating to income from property held for charitable or religious purposes.

At present, there are no restrictions on payments made in cash and no checks whether provisions of TDS under chapter XVII-B of the Act are complied by such charitable or religious trusts or institutions.

In order to encourage a less cash economy and to reduce the generation and circulation of black money, it is proposed to insert a new explanation to the section 11 to provide that for the purposes of determining the application of income under the provisions of sub-section (1) of the said section, the provisions of sub-clause (ia) of clause (a) of section 40, and of sub-sections (3) and (3A) of section 40A, shall, mutatis mutandis, apply as they apply in computing the income chargeable under the head "Profits and Gains of Business or Profession".

It is also proposed to insert a similar proviso in clause (23C) of section 10 so as to provide similar restriction as above on the entities exempt under sub-clauses (iv), (v), (vi) or (via) of said clause in respect of application of income.

VKC Insight:

Provision of section 40(ia) and 40A (3) and 40A (3A) are being made applicable to Charitable Trust. Expenditure incurred without deduction of tax at source on the same or that in cash will now consequently not be eligible as application of income under section 10(23C) and section 11(1)(a). This is an important amendment which will affect charitable organizations in the next financial year. Pertinent to note that the amendment comes into effect from the FY 2018-19 onwards, prospectively.

Aligning the scope of "business connection" with modified PE Rule as per Multilateral Instrument (MLI)

It is proposed to amend the provision of section 9 of the Act so as to align them with the provisions in the DTAA as modified by MLI so as to make the provisions in the treaty effective. Accordingly, clause (i) of sub-section (1) of section 9 is being proposed to be amended to provide that "business connection" shall also include any business activities carried through a person who, acting on behalf of the non-resident, habitually concludes contracts or habitually plays the principal role leading to conclusion of contracts by the non-resident. It is further proposed that the contracts should be-

- in the name of the non-resident; or
- for the transfer of the ownership of, or for the granting of the right to use, property owned by that non-resident or that the non-resident has the right to use; or
- for the provision of services by that non-resident.

It is proposed to amend clause (i) of sub-section (1) of section 9 of the Act to provide that significant economic presence' in India shall also constitute 'business connection'. Further, "significant economic presence" for this purpose shall mean-

- 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 previous year exceeds the amount as may be prescribed; or
- 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.

It is further proposed to provide that only so much of income as is attributable to such transactions or activities shall be deemed to accrue or arise in India. It is further proposed to provide that the transactions or activities shall constitute significant economic presence in India, whether or not the non-resident has a residence or place of business in India or renders services in India. The proposed amendment in the domestic law will enable India to negotiate for inclusion of the new nexus rule in the form of 'significant economic presence' in the Double Taxation Avoidance Agreements. It may be clarified that the aforesaid conditions stated above are mutually exclusive. The threshold of "revenue" and the "users" in India will be decided after consultation with the stakeholders. Further, it is also clarified that unless corresponding modifications to PE rules are made in the DTAAs, the cross border business profits will continue to be taxed as per the existing treaty rules.

Taxability of compensation in connection to business or employment

It is proposed to amend section 28 of the Act to provide that any compensation received or receivable, whether revenue or capital, in connection with the termination or the modification of the terms and conditions of any contract relating to its business shall be taxable as business income. It is further proposed that any compensation received or receivable, whether in the nature of revenue or capital, in connection with the termination or the modification of the terms and conditions of any contract relating to its employment shall be taxable under section 56 of the Act.

Presumptive income under section 44AE in case of goods carriage

As per the existing provision of the ITAct, Section 44AE, inter alia provides that, the profits and gains shall be deemed to be an amount equal to INR 7,500 (INR 0.0075 million) per month or part of a month for each goods carriage or the amount claimed to be actually earned by the assessee, whichever is higher, provided the assessee should not own more than 10 goods carriages at any time during the previous year. The current presumptive income scheme is applicable uniformly to all classes of goods carriages irrespective of their tonnage capacity.

In view of the above, it is proposed to amend the section 44AE of the Act to provide that, in the case of heavy goods vehicle (more than 12MT gross vehicle weight), the income would deemed to be an amount equal to INR 1,000 (INR 0.001 million) per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of a month for each goods vehicle or the amount claimed to be actually earned by the assessee, whichever is higher. The vehicles other than heavy goods vehicle will continue to be taxed as per the existing rates.

MEASURE FOR PROMOTING EQUITY

Deductions available to senior citizens in respect of health insurance premium and medical treatment

As per the existing provision of section 80D, deduction upto INR 30,000 (INR 0.03 million) shall be allowed to an assessee, being an individual or a HUF, in respect of payments towards annual premium on health insurance policy, or preventive health check-up, of a senior citizen, or medical expenditure in respect of very senior citizen.

It is now proposed to increase the monetary limit of deduction to INR 50,000 (INR 0.05 million).

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

Enhanced deduction to senior citizens for medical treatment of specified diseases

As per the existing provision of section 80DDB, deduction upto INR 60,000 (INR 0.06 million)in case of senior citizen and INR 80,000 (INR 0.08 million) in case of very senior citizen shall be allowed to an assessee, being an individual and Hindu undivided family with regard to amount paid for medical treatment of specified diseases.

It is now proposed to raise the monetary limit of deduction to INR 1 lac (INR 0.10 million) for both senior citizens and very senior citizens.

Deduction in respect of interest income to senior citizen

At present, a deduction upto INR 10,000 is allowed under section 80TTA to an assessee in respect of interest income from savings account. It is proposed to insert a new section 80TTB so as to allow a deduction upto INR 50,000 in respect of interest income from deposits held by senior citizens. However, no deduction under section 80TTA shall be allowed in these cases.

It is also proposed to amend section 194A so as to raise the threshold for deduction of tax at source on interest income for senior citizens from INR 10,000 to INR 50,000

VKC Insight:

Though the amendment provides higher relief to the senior citizens, it is pertinent to note that benefit under section 80TTA was available against 'interest earned on savings account' benefit under section , 80TTB is available against 'income earned on deposits', Whether income from 'deposits' held, as mentioned in the proposed amendment, include savings account, will require a clarification.

Standard deduction on salary income

Section 16, inter-alia, provides for certain deduction in computing income chargeable under the head "Salaries". It is proposed to allow a standard deduction upto INR 40,000 (INR 0.04 million) or the amount of salary received, whichever is less. Consequently the present exemption in respect of Transport Allowance (except in case of differently abled persons) and reimbursement of medical expenses is proposed to be withdrawn.

TAX INCENTIVES

Deduction in respect of income of Farm Producer Companies

Section 80P provides for 100% deduction in respect of profit of cooperative society which provide assistance to its members engaged in primary agricultural activities. It is proposed to extend similar benefit to Farm Producer Companies (FPC), having a total turnover upto INR 100 Crores (INR 1 billion), whose gross total income includes any income from-

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

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

VKC Insight:

A farm producer company is a hybrid between cooperative societies and private limited companies. Owned and governed by farmers, the key objectives are to improve bargaining strength of farmers, undertake agricultural activities and to organize farmers into a collective union. Since agricultural income is exempt from tax, to provide exemption to FPCs is a welcome move. However, since there is no cap on exemption related to agricultural income, the limit of 1 billion, although on the higher side, need not have been provided.

Measures to promote start-ups - expanding horizon of deduction u/s 80-IAC

In order to improve the effectiveness of the scheme for promoting startups in India, it is proposed to amend section 80-IAC, to make following changes in the taxation regime for the startups:—

- The benefit would also be available to start ups incorporated on or after the April 1 2019 but before the April 1, 2021;
- The requirement of the turnover not exceeding INR 25 Crore (INR 250 million) would apply to seven previous years commencing from the date of incorporation;
- The definition of eligible business has been expanded to provide that the benefit

would be available if it is engaged in innovation, development or improvement of products or processes or services, or a scalable business model with a high potential of employment generation or wealth creation.

The amendment will take effect from April 1, 2018 and will, accordingly, apply in relation to the assessment year 2018-19 and subsequent assessment years.

Measures to promote International Financial Services Centre (IFSC)

Section 47 of the Act provides for tax neutrality relating to certain transfer. In order to promote the development of world class financial infrastructure in India, it is proposed to amend the section 47 of the Act so as to provide that transactions in the following assets, by a non-resident on a recognized stock exchange located in any International Financial Services Centre shall not be regarded as transfer, if the consideration is paid or payable in foreign currency:—

- bond or Global Depository Receipt, as referred to in sub-section (1) of section 115AC; or
- rupee denominated bond of an Indian company; or
- derivative.

Section 115JC of the Act provides for alternate minimum tax at the rate of 18.50% of adjusted total income in the case of a non-corporate person. In order to promote the development of world class financial infrastructure in India, it is further proposed to amend the section 115JC so as to provide that in case of a unit located in an International Financial Service Center, the alternate minimum tax under section 115JC shall be charged at the rate of 9%. Consequential amendment in section 115JF is also proposed to be made. This amendment will take effect, from April 1, 2019.

Incentive for employment generation - Amendment in section 80JJAA to employers

At present, under section 80-JJAA of the Act, a deduction of 30% is allowed in addition to normal deduction of 100% in respect of emoluments paid to eligible new employees who have been employed for a minimum period of 240 days during the year. However, the minimum period of employment is relaxed to 150 days in the case of apparel industry. In order to encourage creation of new employment, it is proposed to extend this relaxation to footwear and leather industry. Further, it is also proposed to rationalize this deduction of 30% by allowing the benefit for a new employee who is employed for less than the minimum period during the first year but continues to remain employed for the minimum period in subsequent year. This amendment will take effect, from April 1, 2019.

VKC Insight:

To tackle the problems related to unemployment, section 80JJAA was inserted vide FA 1998, expanded vide FA 2016 to extend to all assessee's to whom section 44AB applies. One ambiguity which had crept into the section, regarding taking into account eligible period of employment in continuity across financial years to be able to take benefit under the section, has now been clarified in this budget. The other challenges, like subsequent increase in salary to employee, coverage of the term 'employee', whether the deduction extends to assessee's engaged in professions employing new personnel, remain unanswered.

Tax treatment of transactions in respect of trading in agricultural commodity derivatives

In order to encourage participation in trading of agricultural commodity derivatives, it is proposed to amend the provisions of clause (5) of section 43 to provide that a transaction in respect of trading of agricultural commodity derivatives, which is not chargeable to CTT, in a registered stock exchange or registered association, will be treated as non-speculative transaction. These amendments will take effect from April 1, 2019.

Exemption of income of Foreign Company from sale of leftover stock of crude oil on termination of agreement or arrangement

Clause (48A) of section 10 provides that any income accruing or arising to a foreign company on account of storage of crude oil in a facility in India and sale of crude oil therefrom to any person resident in India shall be exempt, if-

- storage and sale is pursuant to an agreement or an arrangement entered into or approved, by the Central Government; and
- having regard to the national interest, the foreign company and the agreement or arrangement are notified by the Central Government.

Further clause (48B) of section 10 provides that any income accruing or arising to a foreign company on account of sale of leftover stock of crude oil after the expiry of the agreement or arrangement shall be exempt subject to such conditions as may be notified by the Central Government. The benefit of exemption is presently not available on sale out of the leftover stock of crude in case of termination of the said agreement or the arrangement. Given the strategic nature of the project benefitting India to augment its strategic petroleum reserves, it is proposed to amend clause (48B) of section 10 to provide that the benefit of tax exemption in respect of income from left over stock will be available even if the agreement or the arrangement is terminated in accordance with the terms mentioned therein. This amendment will take effect from April 1, 2019.

Royalty and FTS payment by NTRO to a non-resident to be tax-exempt

Section 195 requires a person to deduct tax at the time of payment or credit to a non-resident. Given the business exigencies of the National Technical Research Organisation (NTRO), it is proposed to amend section 10 so as to provide that the income arising to non-resident, not being a company, or a foreign company, by way of royalty from, or fees for technical services rendered in or outside India to, the NTRO will be exempt from income tax. Consequently, NTRO will not be required to deduct tax at source on such payments. This amendment will take effect from April 01, 2018 and will, accordingly, apply in relation to the assessment year 2018-19 and subsequent assessment years.

FACILITATING INSOLVENCY RESOLUTION

Relief from liability of Minimum Alternate Tax (MAT) to Companies seeking insolvency resolution.

Section 115JB of the Act, in computing the book profit, it provides, for a deduction in respect of the amount of loss brought forward or unabsorbed depreciation, whichever is less as per books of account. Consequently, where the loss brought forward or unabsorbed depreciation is Nil, no deduction is allowed. This non-deduction is a barrier to rehabilitating companies seeking insolvency resolution.

In view of the above, it is proposed to amend section 115JB to provide that the aggregate amount of unabsorbed depreciation and loss brought forward (excluding unabsorbed depreciation) shall be allowed to be reduced from the book profit, if a company's application for corporate insolvency resolution process under the Insolvency and Bankruptcy Code, 2016 has been admitted by the Adjudicating Authority. Consequently, a company whose application has been admitted would henceforth be entitled to reduce the loss brought forward (excluding unabsorbed depreciation) and unabsorbed depreciation for the purposes of computing book profit under section 115JB. This amendment will take effect from April 1, 2018 and will, accordingly, apply in relation to the assessment year 2018-19 and subsequent assessment years.

Relief from liability of Minimum Alternate Tax (MAT) retrospectively to Companies offering incomes under sections 44B, 44BB, 44BBA & 44BBB

A clarificatory amendment is also proposed in section 115JB of the Act to provide that the provisions of section 115JB of the Act shall not be applicable and shall be deemed never to have been applicable to an assessee, being a foreign company, if its total income comprises solely of profits and gains from business referred to in section 44B or section 44BB or section 44BBA or section 44BBB and such income has been offered to tax at the rates specified in the said sections. This amendment will take effect, retrospectively from April 1, 2001 and will, accordingly, apply in relation to the assessment year 2001-02 and subsequent assessment years.

Benefit of carry forward and set off of losses

In order to address this problem, it is proposed to relax the rigors of section 79 (which 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 owner of the shares carrying not less than 51% of the voting power, on the last day of the year or years in which the loss was incurred) in case of such companies, whose resolution plan has been approved under the Insolvency and Bankruptcy Code, 2016, after affording a reasonable opportunity of being heard to the jurisdictional Principal Commissioner or Commissioner. This amendment will take effect from April 1, 2018 and will, accordingly, apply in relation to assessment year 2018-19 and subsequent assessment years.

It is also proposed to amend section 140 of the Act so as to provide that during the resolution process under the Insolvency and Bankruptcy Code, 2016, the return shall be verified by an insolvency professional appointed by the Adjudicating Authority under the Insolvency and Bankruptcy Code, 2016. This amendment will take effect from April 1, 2018 and will, accordingly apply to return filed on or after the said date.

IMPROVING EFFECTIVENESS OF TAX ADMINISTRATION

New scheme for scrutiny assessment

It is proposed to prescribe a new scheme for the purpose of making assessments so as to impart greater transparency and accountability, by eliminating the interface between the Assessing Officer and the assessee, optimal utilization of the resources, and introduction of team-based assessment. Therefore, it is proposed to amend the section 143, by inserting a new sub-section (3A), after sub-section (3), enabling the Central Government to prescribe the aforementioned new scheme for scrutiny assessments, by way of notification in the Official Gazette.

It is further proposed to insert sub-section (3B) in the said section, enabling the Central Government to direct, by notification in the Official Gazette, that any of the provisions of this Act relating to assessment shall not apply, or shall apply with such exceptions, modifications and adaptations as may be specified therein. However, no such direction shall be issued after the March 31, 2020. It is also proposed to insert sub-section (3C) in the said section, to provide that every notification issued under the sub-section (3A) and sub-section (3B), shall be laid before each House of Parliament, as soon as may be. These amendments will take effect from April 1, 2018.

RATIONALISATION MEASURES

Rationalization of the provisions relating to Commodity Transaction Tax

In order to propose rates for option on commodity derivative, it is proposed to amend the provisions of section 117 so as to prescribe the rate at which sale of an option on commodity derivative shall be chargeable and such tax shall be payable by the seller. It is further proposed to amend the provisions of section 117 so as to prescribe the rate at which sale of an option on commodity derivative, where option is exercised, shall be chargeable and such tax shall be payable by the purchaser. The existing section 118 of the Finance Act, 2013 provides the value of taxable commodities transactions, being commodity derivative and chargeable under section 117 of the Finance Act, 2013.

It is proposed to amend the provisions of section 118 so as to include the value of taxable commodities transaction, being option on commodities, chargeable under section 117 of the Finance Act, 2013, in the said section.

These amendments will take effect from April 1, 2018 and will, accordingly, apply in relation to the assessment year 2018-19 and subsequent assessment years.

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

Section 276CC of the Act provides that if a person willfully fails to furnish in due time the return of income which he is required to furnish, he shall be punishable with imprisonment for a term, as specified

therein, with fine. The sub-clause (b) of clause (ii) of proviso to the section 276CC further provides that a person shall not be proceeded against under the said section for failure to furnish return for any assessment year commencing on or after the April 1, 1975, if the tax payable by him on the total income determined on regular assessment as reduced by the advance tax, if any, paid and any tax deducted at source, does not exceed INR 3,000.

In order to prevent abuse of the said proviso by shell companies or by companies holding Benami properties, it is proposed to amend the provisions of the said sub-clause so as to provide that the said sub-clause shall not apply in respect of a company.

This amendment will take effect from April 1, 2018.

Rationalization of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015

It is proposed to amend Section 46 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, which provides for the procedure for imposing penalty, so as to provide that the Joint Director shall also be vested with the power to approve an order imposing a penalty. It is also proposed to amend clause (b) of the said sub-section so as to include reference to the Assistant Director and Deputy Director therein. It is proposed to amend Section 55 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, which provides for institution of proceedings for an offence under that Act, so as to empower the Principal Director General or the Director General also to issue instructions or directions to the tax authorities under the said sub-section. It is also proposed to amend the marginal heading of the said section accordingly so as to include the reference of Principal Director General or Director General.

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

Sub-section (1) of the section 143 provides for processing of return of income made under section 139, or in response to a notice under sub-section (1) of section 142. Clause (a) of the said sub-section provides that at the time of processing of return, the total income or loss shall be computed after making the adjustments specified in sub-clauses (i) to (vi) thereof. Sub-clause (vi) of the said clause provides for adjustment in respect of addition of income appearing in Form 26AS or Form 16A or Form 16 which has not been included in computing the total income in the return.

With a view to restrict the scope of adjustments, it is proposed to insert a new proviso to the said clause to provide that no adjustment under sub-clause (vi) of the said clause shall be made in respect of any return furnished on or after the assessment year commencing on the first day of April, 2018. This amendment will take effect from April 1, 2018 and will, accordingly, apply in relation to the assessment year 2018-19 and subsequent assessment years.

Rationalisation of provisions relating to Country-by-Country Report

Section 286 of the Act contains provisions relating to specific reporting regime in the form of Country-by-Country Report (CbCR) in respect of an international group. Based on model legislation of Action Plan 13 of Base Erosion and Profit Shifting (BEPS) of the Organisation for Economic Co-operation and Development (OECD) and others, following amendments are proposed to be made so as to improve the effectiveness and reduce the compliance burden of such reporting:—

- the time allowed for furnishing the Country-by-Country Report (CbCR), in the case of parent entity or Alternative Reporting Entity (ARE), resident in India, is proposed to be extended to twelve months from the end of reporting accounting year;
- constituent entity resident in India, having a non-resident parent, shall also furnish CbCR in case its parent entity outside India has no obligation to file the report of the nature referred to in sub-section (2) in the latter's country or territory;
- the time allowed for furnishing the CbCR, in the case of constituent entity resident in India, having a non-resident parent, shall be twelve months from the end of reporting accounting year;
- the due date for furnishing of CbCR by the the ARE of an international group, the parent entity of which is outside India, with the tax authority of the country or territory of which it is resident, will be the due date specified by that country or territory;
- Agreement would mean an agreement referred to in sub-section (1) of section 90 or sub-section (1) of section 90A, and also an agreement for exchange of the report referred to in sub-section (2) and sub-section (4) as may be notified by the Central Government;

- "reporting accounting year" has been defined to mean the accounting year in respect of which the financial and operational results are required to be reflected in the report referred to in sub-section (2) and sub-section (4).

These amendments will take effect retrospectively from the April 1, 2017 and will, accordingly, apply in relation to the assessment year 2017-18 and subsequent years.

Rationalisation of provision of section 115BA relating to certain domestic companies

Section 115BA of the Act provides that the total income of a newly set up domestic company engaged in business of manufacture or production of any article or thing and research in relation thereto, or distribution of such article or thing manufactured or produced by it, shall, at its option, be taxed at the rate of 25% subject to conditions specified therein. This benefit is available from assessment year 2017-18. However, there are certain incomes which are subject to a scheduler tax at a rate which is lower or higher than 25%. Consequently tax payers have been subjected to unintended hardship or unwarranted relief. Accordingly it is proposed to amend section 115BA so as to clarify that the provisions of section 115BA is restricted to the income from the business of manufacturing, production, research or distribution referred to therein; and income which are at present taxed at a scheduler rate will continue to be so taxed. The amendment will take effect retrospectively from the April 1, 2017 and will, accordingly, apply in relation to the assessment year 2017-18 and subsequent years.

Extending the benefit of tax-free withdrawal from NPS to non-employee subscribers

Under the existing provisions of the clause (12A) of section 10 of the Act, an employee contributing to the NPS is allowed an exemption in respect of 40% of the total amount payable to him on closure of his account or on his opting out. This exemption is not available to non-employee subscribers. In order to provide a level playing field, it is proposed to amend clause (12A) of section 10 of the Act to extend the said benefit to all subscribers. This amendment will take effect, from April 1, 2019.

Deductions in respect of certain incomes not to be allowed unless return is filed by the due date

The existing provisions contained in the section 80AC of the Act provide that no deduction would be admissible under section 80-IA or section 80-IAB or section 80-IB or section 80-IC or section 80-ID or section 80-IE, unless the return of income by the assessee is furnished on or before the due date specified under sub-section (1) of section 139 of the Act. This burden is not cast upon assesses claiming deductions under several other similar provisions.

In view of the above, it is proposed to extend the scope of section 80AC to provide that the benefit of deduction under the entire class of deductions under the heading "C.—Deductions in respect of certain incomes" in Chapter VIA shall not be allowed unless the return of income is filed by the due date. This amendment will take effect, from April 1, 2018 and will, accordingly, apply in relation to the assessment year 2018-19 and subsequent assessment years.

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

At present, while taxing income from capital gains (section 50C), business profits (section 43CA) and other sources (section 56) arising out of transactions in immovable property, the sale consideration or stamp duty value, whichever is higher is adopted. The difference is taxed as income both in the hands of the purchaser and the seller.

It has been pointed out that this variation can occur in respect of similar properties in the same area because of a variety of factors, including shape of the plot or location. In order to minimize hardship in case of genuine transactions in the real estate sector, it is proposed to provide that no adjustments shall be made in a case where the variation between stamp duty value and the sale consideration is not more than five% of the sale consideration.

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

Section 45 of the Act, inter alia, provides that capital gains arising from a conversion of capital asset into stock-in-trade shall be chargeable to tax. However, in cases where the stock in trade is converted into, or treated as, capital asset, the existing law does not provide for its taxability.

In order to provide symmetrical treatment and discourage the practice of deferring the tax payment by converting the inventory into capital asset, it is proposed to amend the provisions of —

- section 28 so as to provide that any profit or gains arising from conversion of inventory into capital asset or its treatment as capital asset shall be charged to tax as business income. It is also proposed to provide that the fair market value of the inventory on the date of conversion or treatment determined in the prescribed manner, shall be deemed to be the full value of the consideration received or accruing as a result of such conversion or treatment;
- clause (24) of section 2 so as to include such fair market value in the definition of income;
- section 49 so as to provide that for the purposes of computation of capital gains arising on transfer of such capital assets, the fair market value on the date of conversion shall be the cost of acquisition;
- clause (42A) of section 2 so as to provide that the period of holding of such capital asset shall be reckoned from the date of conversion or treatment.

Tax neutral transfers

Section 47 provides for certain tax neutral transfers. Section 56 also excludes income arising out of certain tax neutral transfers from its ambit. However, the transfers referred to in clause (iv) and clause (v) of section 47 have not been excluded from the scope of section 56.

In order to further facilitate the transaction of money or property between a wholly owned subsidiary company and its holding company, it is proposed to amend the section 56 so as to exclude such transfer from its scope.

This amendment will take effect, from April 1, 2018 and will, accordingly, apply in relation to the assessment year 2018-19 and subsequent assessment years.

Rationalization of the provisions of section 54EC

Section 54EC of the Act provides that capital gain, arising from the transfer of a long-term capital asset, invested in the long-term specified asset at any time within a period of six months after the date of such transfer, shall not be charged to tax subject to certain conditions specified in the said section.

In order to rationalize the provisions of section 54EC of the

Act and to restrict the scope of the section only to capital gains arising from long-term capital assets, being land or building or both, and to make available funds at the disposal of eligible bond issuing company for more than three years, it is proposed to amend the section 54EC so as to provide that capital gain arising from the transfer of a long-term capital asset, being land or building or both, invested in the long-term specified asset at any time within a period of six months after the date of such transfer, the capital gain shall not be charged to tax subject to certain conditions specified in this section.

The section also provides that "long-term specified asset" for making any investment under the section on or after the April 1, 2007 means any bond, redeemable after three years and issued on or after the April 1, 2007 by the National Highways Authority of India or by the Rural Electrification Corporation Limited; or any other bond notified by the Central Government in this behalf.

It is also proposed that long-term specified asset, for making any investment under the section on or after the April 1, 2018, shall mean any bond, redeemable after five years and issued on or after April 1, 2018 by the National Highways Authority of India or by the Rural Electrification Corporation Limited or any other bond notified by the Central Government in this behalf.

This amendment will take effect, from April 1, 2019.

Rationalisation of the provisions of section 115BBE

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

In order to rationalize the provisions of section 115BBE, it is proposed to amend the said sub-section (2) so as to also include income referred to in clause (b) of sub-section (1). This amendment will take effect retrospectively from April 1, 2017 and will, accordingly, apply in relation to the assessment year 2017-2018 and subsequent years.

Amendments in relation to notified Income Computation and Disclosure Standards.

At present, section 145 of the Act empowers the Central government to notify Income Computation and Disclosure Standards (ICDS). In pursuance the central government has notified ten such standards effective from April 1 2017 relating to Assessment year 2017-18. These are applicable to all assesses (other than an individual or a Hindu undivided family who are not subject to tax audit under section 44AB of the said Act) for the purposes of computation of income chargeable to income-tax under the head "Profits and Gains of Business or Profession" or "Income from other sources".

In order to bring certainty in the wake of recent judicial pronouncements on the issue of applicability of ICDS, it is proposed to —

- amend section 36 of the Act to provide that marked to market loss or other expected loss as computed in the manner provided in income computation and disclosure standards notified under sub-section (2) of section 145, shall be allowed deduction.
- amend 40A of the Act to provide that no deduction or allowance in respect of marked to market loss or other expected loss shall be allowed except as allowable under newly inserted clause (xviii) of sub-section(1) of section 36.
- insert a new section 43AA in the Act to provide that, subject to the provisions of section 43A, any gain or loss arising on account of effects of changes in foreign exchange rates in respect of specified foreign currency transactions shall be treated as income or loss, which shall be computed in the manner provided in ICDS as notified under sub-section (2) of section 145.
- insert a new section 43CB in the Act to 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 that the contract revenue shall include retention money, and contract cost shall not be reduced by incidental interest, dividend and capital gains.

- amend section 145A of the Act to provide that, for the purpose of determining the income chargeable under the head "Profits and gains of business or profession,—
    * the valuation of inventory shall be made at lower of actual cost or net realizable value computed in the manner provided in income computation and disclosure standards notified under (2) of section 145.
    * the valuation of purchase and sale of goods or services and of inventory shall be adjusted to include the amount of any tax, duty, cess or fee actually paid or incurred by the assessee to bring the goods or services to the place of its location and condition as on the date of valuation.
    * inventory being securities not listed, or listed but not quoted, on a recognised stock exchange, shall be valued at actual cost initially recognised in the manner provided in income computation and disclosure standards notified under (2) of section 145.
    * inventory being listed securities, shall be valued at lower of actual cost or net realisable value in the manner provided in income computation and disclosure standards notified under (2) of section 145 and for this purpose the comparison of actual cost and net realisable value shall be done category-wise.
- insert a new section 145B in the Act to provide that-
    * interest received by an assessee on compensation or on enhanced compensation, shall be deemed to be the income of the year in which it is received.
    * the claim for escalation of price in a contract or export incentives shall be deemed to be the income of the previous year in which reasonable certainty of its realisation is achieved.
    * income referred to in sub-clause (xviii) of clause (24) of section 2 shall be deemed to be the income of the previous year in which it is received, if not charged to income tax for any earlier previous year.

Recent judicial pronouncements have raised doubts on the legitimacy of the notified ICDS. However, a large number of taxpayers have already complied with the provisions of ICDS for computing income for assessment year 2017-18. In order to regularize the compliance with the notified ICDS by a large number taxpayers so as to prevent any further inconvenience to them, it is proposed to bring the amendments retrospectively with effect from April 1, 2017 i.e. the date on which the ICDS was made effective and will, accordingly, apply in relation to assessment year 2017-18 and subsequent assessment years

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

Government has decided to discontinue the existing 8% Savings (Taxable) Bonds, 2003 with a new 7.75% GOI Savings (Taxable) Bonds, 2018. The interest received under the new bonds will continue to be taxed as in the case of the earlier ones. The provisions of section 193 are proposed to be amended to allow for deduction of tax at source at the time of making payment of interest on such bonds to residents. However, no TDS will be deducted if the amount of interest is less than or equal to INR 10,000 (INR 0.01 Million) during the financial year.

MISCELLANEOUS

Several amendments to the Act have been proposed with a view to rationalizing the provisions. These amendments have been explained in the following paragraphs.

Exemption to specified income of class of body, authority, Board, Trust or Commission in certain cases

It is proposed to amend the clause 46 of section 10 so as to enable the Central Government to also exempt, by notification, a class of such body or authority or Board or Trust or Commission (by whatever name called), with effect from April 1, 2018.

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

In order to ensure compliance of the reporting obligations under section 285BA, it is proposed to amend the section 271FA so as to increase the penalty leviable from INR 100 to INR 500 and from `500 to `1,000, for each day of continuing default, with effect from April 1, 2018.

Amendments to the structure of Authority for Advance Rulings

In view of the proposed constitution of new Customs Authority for Advance Ruling under section 28EA of the Customs Act, it is proposed to amend the provisions of section 245-O so as to provide that the Authority for Advance Rulings shall cease to act as such Authority, and shall act as an Appellate Authority for the purpose of Chapter V of the Customs Act, 1962 from the date of appointment of Customs Authority for Advance Rulings under section 28EA of the Customs Act, 1962. It is further proposed that such Authority shall not admit any appeal against any ruling or order passed earlier by it in the capacity of Authority for Advance ruling after the date of appointment of Customs Authority for Advance Rulings under section 28EA of the Customs Act, 1962. In order to avoid overlapping, it is also proposed that where the Authority is dealing with an application seeking advance ruling in the matters of the Act, the Revenue Member shall be the Member referred to in sub-clause (i) of clause (c) of sub-section (3). These amendments will take effect from April 1, 2018.

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

It is proposed to amend clause (a) of the section 253 so as to also make an order passed by a Commissioner (Appeals) under section 271J appealable before the Appellate Tribunal, with effect from April 1, 2018.

CUSTOMS

Amendments in Customs Act, 1962

(The following changes will be come into effect on the date of the enactment of the Finance Bill, 2018 when it receives assent from the President, unless otherwise specified.)

- Section 1 is being amended so as to expand the scope of the Customs Act to any offence or contravention committed thereunder outside India by any person.
- Section 2 of The Customs Act, 1962 has been amended to
  - substitute the definition of assessment in sub-section (2);
  - to extend the limit of 'Indian Customs Waters' into the sea from the existing 'Contiguous zone of India' to the 'Exclusive Economic Zone (EEZ)' of India in subsection (28);
  - provide that 'notification' would mean a 'notification published in the Official Gazette 'and the word 'notify' would be construed accordingly (new sub-section 30AA refers).
- Section 11 is being amended so as to insert sub-section (3) providing that prohibition or restriction or obligation relating to import or export of any goods or class of goods or clearance thereof provided in any other law for the time being in force, or any rule or regulation made or any order or notification thereunder shall be executed only if such prohibition or restriction or obligation is notified under the provisions of Customs Act subject to such exceptions, modifications or adaptations as the Central Government may deem fit.

This change would come into force from a date to be notified.

- Section 17 is being amended so as to:
  - expand the scope of verification beyond self-assessment to all the entries made under section 46 or section 50 by amending sub-section (2) along with consequential changes in sub-section (3);
  - insert a new sub-section (2A) to provide legal backing for the risk-based selection of self-assessed Bill of Entry or Shipping Bill through appropriate selection criteria;
  - extend the scope of re-assessment by omitting specific reference to valuation, classification and exemption or concessions of duty availed consequent to any notification issued therefor under this Act from sub-section (5);
  - omit sub-section (6), in view of the new dedicated Chapter for Audit;
- Section 18 is being amended so as to:
  - cover export consignments under provisional assessment of duty by amending subsection (1);
  - insert a new sub-section (1A) to empower the Board to issue regulation for providing time-limit for the importer or exporter to submit the documents and information, if required, for finalization of provisional assessments and for the proper officer to finalize the provisional assessment;

* substitute the reference to section 28AB [which does not exist] with the reference to section 28AA retrospectively;

- A new section 25A is being inserted, so as to empower the Central Government to exempt goods imported for repair, further processing or manufacture ['Inward Processing of Goods'] from payment of whole or any part of duty of customs, leviable thereon subject to certain conditions.
- A new section 25B is being inserted so as to empower Central Government to exempt goods re-imported after export for repair, further processing or manufacture ['Outward Processing of Goods'] from payment of whole or any part of duty of customs, leviable thereon subject to certain conditions.
- Section 28 is being amended so as to:
  * insert a proviso in clause (a) of sub-section (1) to provide pre-notice consultation in cases not involving collusion, willful mis-statement, suppression before issue of demand notice. The manner of pre-notice consultation shall be provided in the regulations;
  * insert a new sub-section (7A) to provide for issuance of supplementary show cause notice in circumstances and in such manner as may be prescribed through regulations within the existing time period;
  * amend the existing sub-section (9) to:
    » provide a definite time frame of six months and one year for adjudication of demand notices depending upon whether charges of collusion, willful misstatement, suppression have been invoked. These time periods shall be extendable by the officer senior to adjudicating authority for a further period of six months and one year respectively.

    » provide that if the demand notice is not adjudicated even within the extended period, it would be deemed as if no demand had been issued.
  * insert a new sub-section (9A) to provide certain grounds on account of which the time limit of six months or one year shall remain suspended and that the proper officer shall inform the person concerned the reasons for non-determination of duty or interest under sub-section (8) and in such cases the time specified in sub-section (9) shall apply not from the date of notice, but from the date when such reasons cease to exist.
  * insert a new sub-section (10A) to provide that where an order for refund is modified in appeal and the amount of refund so determined is less than the amount refunded, the excess amount so refunded shall be recovered along with interest thereon at the applicable rate, from the date of refund up to the date of recovery, as a sum due to the Government.
  * insert a new sub-section (10B) to provide a safeguard whereby if a demand notice issued under sub-section (4) is held not sustainable in any proceeding, including at any stage of appeal for the reason that the charges of collusion, willful mis-statement etc. have not been established against the person to whom the demand notice has been issued, then the said notice shall be deemed to have been issued under subsection (1).
  * insert an explanation that a notice issued for non-levy, non-payment, short-levy or short payment of duty or erroneous refund after 14th May, 2015 but before the date on which the Finance Bill, 2018 receives the assent of the President, shall continue to be governed by the provisions of section 28 as it stood immediately before the date on which such assent is received.;
- A new section 28EA relating to 'Customs Authority for Advance Rulings' is being inserted, which empowers the Board to appoint officers of the rank of Principal Commissioner of Customs or Commissioner of Customs as Customs Authority for Advance Rulings by way of notification. Till such appointment by the Board, existing Authority shall continue to pronounce Advance Rulings.
- Section 28F is being amended so as to substitute the word "Authority" with the words "Appellate Authority" and to provide that on appointment of Customs Authority for Advance Rulings, the applications and proceedings pending before the erstwhile Authority shall stand transferred to Customs Authority for Advance Rulings.
- Sub-section (6) of section 28-I is being amended to reduce the time from six months to three months within which the authority shall pronounce its advance ruling.
- Section 30 is being amended so as to:
  » include export goods in addition to imported goods as part of the information provided in the manifest;

  » provide for prescribing the manner of delivery of manifest through regulations.
- Section 41 is being amended so as to:
  * include imported goods in addition to export goods as part of the information provided in the manifest;
  * provide penalty provisions for late filing of manifest;
  * provide for prescribing the manner of delivery of manifest through regulations.
- To insert Chapter VIIA on payments through electronic cash ledger with governing provisions in Section 51A to have a provision for advance deposit which would enable payment of duties, taxes, fee, interest, and penalty through electronic cash ledger. It is also proposed to issue regulations in this regard.
- Section 83 is being amended so as to include reference to goods imported or exported by courier through the authorized courier. The extant provisions in the section relate to goods imported or exported by post only. Similarly, Section 84 is being amended so as to include a reference to goods imported or exported by courier and to empower the Board to make regulations in this regard. The extant provisions in the section relate to goods imported or exported by post only.
- A new section 109A relating to 'Controlled Delivery' is being inserted, which seeks to authorize the proper officer, or any other officer authorized by him to undertake Controlled Delivery of any consignment of goods to any destination in India or a foreign country. The section

also provides, through an explanation, definition of controlled delivery. It also seeks to provide that controlled delivery shall be applicable on such consignment of goods and in such manner as may be prescribed in the regulations.

- Section 125 of the Customs Act is being amended so as to:
    * insert a proviso to sub-section (1) to provide that where the demand proceedings against a noticee / co-noticees have been closed on grounds of having paid the dues mentioned in section 28, then the provisions of this section shall not be applicable if the goods are not prohibited or restricted;
    * insert sub-section (3) to provide that where redemption fine has not been paid within a period of one hundred and twenty days from the date of option given under subsection (1), then such option shall become void, except in cases where any appeal against such order is pending.;
    * insert an explanation that for an order passed under sub-section (1) before the date on which the Finance Bill, 2018 receives the assent of the President, and no appeal against such order is pending, such option may be exercised within one hundred and twenty days from the date on which such assent is received.;
- A new section 143AA is being inserted to empower the Board to prescribe through regulations trade facilitation measures or separate procedure or documentation for a class of importers or exporters or for categories of goods or on the basis of the modes of transport of goods
- Section 153 is being substituted so as to align it with the provisions of the section 169 of the CGST Act to include Speed Post, Courier, and registered email as valid modes of delivery and in case of non-service by such means, to also provide for affixing it at some conspicuous place at the last known place of business or residence in addition to affixing it on the notice board of the Customs House etc.

Amendment in the Customs Tariff Act, 1975

- Section 3 is being amended so as to:
    * Amend sub-section (7) to include reference to sub-section (8A)
    * insert a new sub-section (8A) to provide for value of goods when they are sold within the warehousing period for calculation of integrated tax
    * Amend sub-section (9) to include reference to sub-section (10A)
    * insert a new sub-section (8A) to provide for value of goods when they are sold within the warehousing period for calculation of goods and services tax compensation cess.

Amendment in the First Schedule to the Customs Tariff Act, 1975

- Amendments affecting rate of BCD [to be effective from February 2, 2018]* [Clause 101 (a) of the Finance Bill, 2018]

HSN Code	Items	Existing rates	New rates	Increase/ (Decrease)
2009 21 00 to 2009 90 00	Fruit Juices and Vegetable juices including Cranberry juice	30%	50%	20%
3303	Perfumes and toilet waters	10%	20%	10%
3304	Beauty or make-up preparations and preparations for the care of the skin (other than medicaments), including sunscreen or suntan preparations; manicure or pedicure preparations	10%	20%	10%
3305	Preparations for use on the hair	10%	20%	10%
3306	Preparations for oral or dental hygiene, including denture fixative pastes and powders; yarn used to clean between the teeth (dental floss), in individual retail packages	10%	20%	10%
3307	Pre-shave, shaving or after-shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations, not elsewhere specified or included, prepared room deodorizers, whether or not perfumed or having disinfectant properties	10%	20%	10%
4011 20 10	Truck and Bus Radial Tyres	10%	15%	5%
8407, 8408, 8409, 8483 10 91, 8483 10 92, 8511, 8708, 8714 10	Specified parts/accessories of motor vehicles, motor cars, motor Cycles	7.5%/10%	15%	7.5%/5%

HSN Code	Items	Existing rates	New rates	Increase/ (Decrease)
6401, 6402, 6403, 6404, 6405	Footwear	10%	20%	10%
6406	Parts of Footwear	10%	15%	5%
7117	Imitation Jewellery	15%	20%	5%
8517 12	Cellular Mobile Phones	15%	20%	5%
3919 90 90, 3920 99 99, 3926 90 91, 3926 90 99, 4016 99 90, 7318 15 00, 7326 90 99, 8504, 8506, 8507, 8517 70 90, 8518, 8538 90 00, 8544 19, 8544 42, 8544 49	Specified parts and accessories including lithium ion battery of cellular mobile phones	7.5%/10%	15%	7.5%/5%
8517 62 90	Smart watches / wearable devices	10%	20%	10%
8529 10 99 8529 90 90	LCD/LED/OLED panels and other parts of LCD/LED/OLED TVs	7.5%/10%	15%	7.5%/5%
9401	Seats and parts of seats [other than aircraft seats and their parts]	10%	20%	10%
9403	Other furniture and parts	10%	20%	10%
9405	Mattresses supports; articles of bedding and similar furnishing	10%	20%	10%
9406	Lamps and lighting fitting, illuminated signs, illuminated name plates and the like [except solar lanterns or solar lamps]	10%	20%	10%
9101, 9102	Wrist watches, pocket watches and other watches, including stop watches	10%	20%	10%
9103	Clocks with watch movements	10%	20%	10%
9105	Other clocks, including alarm clocks	10%	20%	10%
9503	Tricycles, scooters, pedal cars and similar wheeled toys; dolls' carriages; dolls; other toys; puzzles of all kinds	10%	20%	10%
9504	Video game consoles and machines, articles for funfair, table or parlor games and automatic bowling alley equipment	10%	20%	10%
9505	Festive, carnival or other entertainment articles	10%	20%	10%
9506 [except 9506 91]	Articles and equipment for sports or outdoor games, swimming pools and paddling pools [other than articles and equipment for general physical exercise, gymnastics or athletics]	10%	20%	10%
9507	Fishing rods, fishing-hooks and other line fishing tackle; fish landing nets, butter fly nets and similar nets; decoy birds and similar hunting or shooting requisites	10%	20%	10%
9508	Roundabouts, swings, shooting galleries and other fairground amusements; travelling circuses, traveling menageries and travelling theatres	10%	20%	10%
3406	Candles, tapers and the like	10%	25%	15%
4823 90 90	Kites	10%	20%	10%
9004 10	Sunglasses	10%	20%	10%
9611	Date, sealing or numbering stamps, and the like	10%	20%	10%
9613	Cigarette lighters and other lighters, whether or not mechanical or electrical, and parts thereof other than flints and wicks.	10%	20%	10%
9616	Scent sprays and similar toilet sprays, and mounts and heads therefor; powder-puffs and pads for the application of cosmetic or toilet preparations.	10%	20%	10%

* The amendments involving change in the duty rates will come into effect immediately owing to a declaration under the Provisional Collection of Taxes Act, 1931.

VKC INSIGHT:

The major reason of increasing the tariff of items across the board is to encourage the 'Make-in-India' concept and give the Indian Entrepreneurs a level playing field with the International Suppliers.

Changes in rates of Customs Duty

- Amendment in the Second schedule to the Customs Tariff Act, 1975

HSN Code	Items	Existing rates	New rates	Increase/ (Decrease)
8545 11 00	Electrodes of a kind used for furnaces [Introduction of 20% Tariff rate of Export Duty on Electrodes of a kind used for furnaces.]	Nil	20%	20%

- Other proposals involving changes in Basic Customs Duty Rates

HSN Code	Items	Existing rates	New rates	Increase/ (Decrease)
0801 31 00	Cashew nuts in shell [Raw cashew]	5%	2.5%	(2.5%)
2009 11 00 2009 12 00 2009 19 00	Orange fruit juice	30%	35%	5%
2009 81 00, 2009 90 00	Cranberry Juice	10%	50%	40%
2106 90	Miscellaneous Food preparations (other than soya protein)	30%	50%	20%
5007	Silk Fabrics	10%	20%	10%
8504 90 90/ 3926 90 99	Printed Circuit Board Assembly (PCBA) of charger/adapter and molded plastics of charger/adapter of cellular mobile phones	Nil	10%	10%
Any Chapter	Inputs or parts for manufacture of: a) PCBA, or b) molded plastics of charger/adapter of cellular mobile phones of cellular mobile phones	Applicable Rate	Nil	-
8483 40 00, 8466 93 90, 8537 10 00	Ball screws, linear motion guides, CNC systems for manufacture of all types of CNC machine tools falling under headings 8456 to 8463	7.5%	2.5%	(5%)
70	Solar tempered glass or solar tempered [anti-reflective coated] glass for manufacture of solar cells /panels/modules	5%	Nil	(5%)
70	Preform of silica for use in the manufacture of telecommunication grade optical fibres or optical fibre cables	Nil	5%	5%
8529/4016	12 specified parts for manufacture of LCD/LED TV panels	Nil	10%	10%
8702, 8703, 8704, 8711	CKD imports of motor vehicles, motor cars, motor cycles	10%	15%	5%
8702, 8704	CBU imports of motor vehicles	20%	25%	5%
71	Cut and polished colored gemstones	2.5%	5%	2.5%
71	Diamonds including lab grown diamonds-semi processed, half-cut or broken; non-industrial diamonds including lab-grown diamonds (other than rough diamonds), including cut and polished diamonds	2.5%	5%	2.5%
Any Chapter	Raw materials, parts or accessories for the manufacture of Cochlear Implants	2.5%	Nil	(2.5%)
1508, 1509, 1510,1512, 1513, 1515	Crude edible vegetable oils like Ground nut oil, Olive oil, Cotton seed oil, Safflower seed oil, Saffola oil, Coconut oil, Palm Kernel/Babassu oil, Linseed oil, Maize corn oil, Castor oil, Sesame oil, other fixed vegetable fats and oils.	12.5%	30%	17.5%

HSN Code	Items	Existing rates	New rates	Increase/ (Decrease)
1508, 1509, 1510,1512, 1513, 1515, 1516 20, 1517 10 21, 1517 90 10, 1518 00 11, 1518 00 21, 1518 00 31	Refined edible vegetable oils, like Ground nut oil, Olive oil, Cotton seed oil, Safflower seed oil, Saffola oil, Coconut oil, Palm Kernel/Babassu oil, Linseed oil, Maize corn oil, Castor oil, Sesame oil, other fixed	10%	25%	15%
6815 91 00	Other articles of stone containing magnesite, dolomite or chromite	10%	7.5%	(2.5%)
6901	Bricks, blocks, tiles and other ceramic goods of siliceous fossil meals or of similar siliceous earths	10%	7.5%	(2.5%)
6902	Refractory bricks, blocks, tiles and similar refractory ceramic constructional goods, other than those of siliceous fossil meals or similar siliceous earths	5%	7.5%	2.5%
6903	Other refractory ceramic goods	5%	7.5%	2.5%

- Levy of Social Welfare Surcharge, as a duty of Customs on imported goods [Clause 108 of the Finance Bill, 2018]:

HSN Code	Items	Existing rates	New rates	Increase/ (Decrease)
Any Chapter	Levy of Social Welfare Surcharge on imported goods to finance education, housing and social security [clause 108 of Finance Bill, 2018]	NIL	10% of aggregate duties of customs	10%
Any Chapter	Abolition of Education Cess and Secondary and Higher Education Cess on imported goods [clause 106 of Finance Bill, 2018]	3% of aggregate duties of customs [2% + 1%]	Nil	(3%)
2710	Motor spirit commonly known as petrol and high-speed diesel oil	-	3% Aggregate duties of customs	3%
7106	Silver (including silver plated with gold or platinum), unwrought or in semi-manufactured form, or in powder form	-	3% Aggregate duties of customs	3%

HSN Code	Items	Existing rates	New rates	Increase/ (Decrease)
7108	Gold (including gold plated with platinum), unwrought or in semi-manufactured form, or in powder form	-	3% Aggregate duties of customs	3%
Any Chapter	Specified goods hitherto exempt from Education Cess and Secondary and Higher Education Cess on imported goods	-	Nil	-

- Levy of Road and Infrastructure Cess [Clause 109 of the Finance Bill, 2018]:

HSN Code	Items	Existing rates	New rates	Increase/ (Decrease)
2710	Levy of Road and Infrastructure Cess on imported motor spirit commonly known as petrol and high-speed diesel oil [clause 109 of Finance Bill, 2018]	-	INR 8 per litre	INR 8 per litre
2710	Exemption from additional duty of customs leviable under section 3(1) of the Customs Tariff Act, 1975 in lieu of the proposed Road and Infrastructure cess on domestically produced motor spirit commonly known as petrol and high-speed diesel oil	-	Nil	-
2710	Abolition of Additional Duty of Customs [Road Cess] on imported motor spirit commonly known as petrol and high-speed diesel oil [Clause 106 of Finance Bill, 2018]	INR 6 per litre	Nil	(INR 6 per litre)
2710	Motor spirit commonly known as petrol (Additional duty of customs under sections 3(1) of the Customs Tariff Act, 1975 in lieu of basic excise duty)	INR 6.48 per litre	INR 4.48 per litre	(INR 2 per litre)
2710	High speed diesel oil (Additional duty of customs under sections 3(1) of the Customs Tariff Act, 1975 in lieu of basic excise duty	INR 8.33 per litre	INR 6.33 per litre	(INR 2 per litre)

CENTRAL EXCISE

Amendments in the Fourth Schedule to the Central Excise Act, 1944

- Amendments involving change in the rate of Basic Excise Duty

	Commodity	Existing rates	New rates	Increase/ (Decrease)
	Motor spirit commonly known as petrol and high-speed diesel oil			
1	Levy of Road and Infrastructure Cess on motor spirit commonly known as petrol and high speed diesel oil [clause 110 of Finance Bill, 2018]	INR 6 per	INR 8 per litre	INR 8 per litre
2	Abolition of Additional Duty of Excise [Road Cess] on motor spirit commonly known as petrol and high speed diesel oil [clause 106 of Finance Bill, 2018]	litre	Nil	(INR 6 per litre)
3	Basic excise duty on:			
	(i) Unbranded Petrol	INR 6.48 per litre	INR 4.48 per litre	(INR 2 per litre)
	(ii) Branded petrol	INR 7.66 per litre	INR 5.66 per litre	(INR 2 per litre)
	(iii) Unbranded diesel	INR 8.33 per litre	INR 6.33 per litre	(INR 2 per litre)
	(iv) Branded diesel	INR 10.69 per litre	INR 8.69 per litre	(INR 2 per litre)
4	Road and Infrastructure Cess on (i) 5% ethanol blended petrol, (ii) 10% ethanol blended petrol and (iii) bio-diesel, up to 20% by volume, subject to the condition that appropriate excise duties have been paid on petrol or diesel and appropriate GST has been paid on ethanol or bio-diesel used for making such blends	-	Nil	-
5	Road and Infrastructure Cess on petrol and diesel manufactured in and cleared from 4 specified refineries located in the North-East	-	INR 4 per litre	INR 4 per litre

** The amendments involving change in the duty rates will come into effect immediately from February 2, 2018*

SERVICE TAX

Retrospective Exemptions

- Following exemptions have been introduced retrospectively:
  - * Services provided or agreed to be provided by the Naval Group Insurance Fund by way of life insurance to personnel of Coast Guard, under the Group Insurance Schemes of the Central Govt., are proposed to be exempted from service tax for the period commencing from September 10, 2004 and ending with June 30, 2017.
  - * Services provided or agreed to be provided by the Goods and Services Tax Network (GSTN) to the Central Government or State Government or Union Territories administration, are proposed to be exempted from service tax for the period commencing from March 28, 2013 to June 30, 2017.
  - * Consideration paid to the Government in the form of Government's share of profit in respect of services provided or agreed to be provided by the Government by way of grant of license or lease to explore or mine petroleum crude or natural gas or both, is proposed to be exempted from service tax for the period commencing from April 1, 2016 and ending on June 30, 2017.

(Refunds, for all the above retrospective exemptions, shall be made of all such service tax which has been collected. The application for the claim of refund of service tax shall be made within a period of six months from the date on which the Finance Bill, 2018 receives the assent of the President.)

MISCELLANEOUS

Renaming of Central Board of Excise and Customs as the Central Board of Indirect Taxes and Customs

- Name of the Central Board of Excise and Customs is being changed to Central Board of Indirect Taxes and Customs with consequential amendments in the following Acts: -
  - * The Central Boards of Revenue Act, 1963
  - * The Customs Act, 1962
  - * The Central Goods and Services Tax Act, 2017

Repeal of Certain Enactments

- Additional duty of Customs on Motor Spirit commonly known as Petrol is being abolished by repealing section 103 of the Finance Act (No.2), 1998
- Additional duty of Excise on Motor Spirit commonly known as Petrol is being abolished by repealing section 111 of the Finance Act (No.2), 1998
- Additional duty of Customs on High Speed Diesel oil is being abolished by repealing section 116 of the Finance Act, 1999
- Additional duty of Excise on High Speed Diesel oil is being abolished by repealing section 133 of the Finance Act, 1999
- Education Cess on imported goods is being abolished by omitting Chapter VI of the Finance Act (No.2), 2004
- Secondary and Higher Education Cess on imported goods is being abolished by omitting Chapter VI of the Finance Act, 2007

Amendment in notification No. 50/2017-Customs

- Notification No. 65/2017-Customs dated July 8, 2017 amending notification No. 50/2017-Customs dated June 30, 2017 is proposed to be given retrospective effect so as to exempt integrated tax leviable under section 3(7) of the Customs Tariff Act, 1975 on aircrafts, aircraft engines and other aircraft parts imported under cross-border lease during the period from the July 1, 2017 to the July 7, 2017 subject to the payment of Integrated tax leviable under section 5(1) of the IGST Act, 2017 on the said supply.
- Refunds shall be made of all such service tax which has been collected. The application for the claim of refund of service tax shall be made within a period of six months from the date on which the Finance Bill, 2018 receives the assent of the President.

SECTOR WISE IMPACT

AGRICULTURE SECTOR

- MSP for kharif crops has been set at 1.5 times the produce price. Centre to work with states to ensure that all farmers get a fair price.
- Agricultural market and infra fund of INR 2000 crores (INR 20 billion) fund to be set up to strengthen the market connectivity.
- A sum of INR 500 crores (INR 5 billion) to be allocated for Operation Green to be launched to promote agricultural products.
- Extension of the facility of KCC to fisheries and for animal husbandry
- INR 10000 crores (INR 100 billion) set aside for Fisheries and Aquaculture Development Fund and same amount for Animal Husbandry infra fund.
- Restructured bamboo mission with a fund of INR 1200 crores (INR 12 billion) to be set.
- Agricultural credit target increased from INR 8.5 lac crores (INR 8500 billion) to INR 11 lac crores (INR 11000 billion)
- Special scheme to manage crop residue in Haryana, Punjab and Delhi to reduce pollution

INFRASTRUCTURE SECTOR

- Out of 100 smart cities 99 cities have been selected, with an outlay of INR 2.04 lac crores (INR 2040 billion)
- 10 prominent tourist sites to be made iconic tourist destinations, with an amalgamation of private funding, marketing and branding, Construction of new tunnel in Sera Pass to promote tourism.

- Bharatmala project: To develop 35,000 KM of roads under phase 1 with an outlay of INR 5.35 lac crores (INR 5350 billion)
- Government to introduce pay-as-you-use system for toll payments.
- Railway capex has been pegged at INR 1.48 lac crores (INR 1480 billion), up from INR 1.31 lac crores (INR 1310 billion) last year.
- All stations with footfall of greater than 25,000 to have escalators. Elimination of unmanned railway crossing and more stations and trains progressively to be built with WiFi and CCTV camera.
- Allocation of INR 11,000 crores (INR 110 billion) for Mumbai rail network and INR 17,000 crores (INR 170 billion) for the Bengaluru metro.
- 150 km of additional suburban railway networks to be set up in Bengaluru at the cost of INR 17,000 crores (INR 170 billion)
- AAI has currently 124 airports. It is proposed to increase the number by at least 5 times to target 1 billion trips a year and INR 60 crores (INR 600 million) allocated to kick start the initiative.
- UDAN Scheme to connect 64 unconnected airports across the country.
- Allocation to Digital India scheme doubled to INR 3073 crores (INR 30.73 billion)
- 5 lacs (0.5 million) WiFi HotSpots to provide Broadband access to 5 crores (50 million) rural citizens, at the cost of INR 10000 crores (INR 100 billion)
- Defence outlay raised to INR 2.82 lac crores (INR 2820 billion) in 2018-19 from INR 2.67 lac crores (INR 2670 billion) in current year.

FINANCIAL SECTOR

- Government to take measures to stop cryptocurrency circulation, as it is not considered legal tender. Government to explore the usage of Blockchain technology.
- Government to take additional measures to strengthen environment for venture capitalists and angel investors.
- SEBI to mull asking large companies to meet 25% debt from bond market and RBI norms to nudge companies to access bond market for funds
- Recapitalisation will pave the way for public banks to lend an additional INR 5

lac crores (INR 5000 billion)

- Government to evolve a scheme to assign a Unique ID for companies
- Disinvestment target of INR 80,000 crores (INR 800 billion) for FY19 and revision of divestment target for the current fiscal to INR 10,000 crores (INR 100 billion) for FY 18
- National Insurance Co, Oriental Insurance Co and United Assurance Co to be merged into one entity and subsequently listed.

RURAL SECTOR

- 8 crores (80 million) poor women to free LPG connections.
- PM Saubhagya Yojana: 4 crores (40 million) poor people to get free power connection. The government will spend INR 16,000 crores (INR 160 billion) on this scheme.
- 20 million toilets in next fiscal year under Swach Bharat Mission.
- Government target house for all by 2022. 51 lacs (5.1 million) houses have been constructed in rural and further 50 lacs (5 million) houses in urban areas. 1 crore (10 million) houses to be built under PMAY in rural areas.
- National livelihood scheme to get INR 5,750 crores (INR 57.50 billion) allocation of funds.
- In 2018-19, ministries to spend INR 14.34 lac crores (INR 14,340 billion) for creation of livelihood in rural areas
- INR 9,975 crores (INR 99.75 billion) allocation for social security schemes for the next fiscal year.

SOCIAL SECTOR

- Government to contribute 12% of the wages of new employees in EPF in all sectors for next 3 years while women's contribution to EPF reduced to 8% for first 3 years.
- Expansion of PM Jan Dhan Yojana: 16 crores (160 million) accounts to be included under micro insurance and pension schemes
- 1.26 crores (12.6 million) accounts opened under Sukanya Samriddhi Scheme
- Fund allocation for Social inclusion schemes for Scheduled Castes - INR 52,719 crores (INR 527.19 billion and Social inclusion schemes for Scheduled Tribes- INR 39,139 crores (INR 391.39 billion)
- INR 3 lac crores (INR 3000 billion) target has been set for the Mudra Yojana for 2018-19 and INR 4.6 lac crores (INR 4600 billion) already sanctioned under MUDRA Scheme
- Food subsidy to rise to INR 1.69 lac crores (INR 1690 billion) in 2018-19 from INR 1.4 lac crores (INR 1400 billion) in current year.

EDUCATION SECTOR

- Government to increase digital intensity in education. Technology to be the biggest driver in improving quality of education
- INR 1 lac crore (INR 1000 billion) allocated to revitalisation and upgradation of education sector. Thrust on promoting learning based outcomes and research.
- By 2022, every block with more than 50% ST population to have Ekalvya schools at par with Navodaya Vidyalayas
- Aim to move from black board to digital board schools by 2022.
- PM research fellows: Government to identify 1000 B-tech students each years and provide them to do PHDs in IIT and IISc, while also teaching undergraduate students once a week during that time.

GLOSSARY

AAR	Authority for Advance Ruling
AAI	Airport Authority of India
AE	Associated Enterprise
AIF	Alternative Investment Funds
AIIMS	All India Institute of Medical Sciences
AMT	Alternate Minimum Tax
AO	Assessing Officer
AOP	Association of Persons
APA	Advance Pricing Agreement
AY	Assessment Year
B2B	Business-to-Business
BCD	Basic Custom Duty
BE	Budget Estimate
BEPS	Base Erosion and Profit Shifting
BHIM	Bharat Interface for Money
BOD	Board of Directors
BOI	Body of Individuals
BPL	Below Poverty Line
BSE	Bombay Stock Exchange
CbC	County-By-Country
CBU	Completely Built Unit
CBDT	Central Board of Direct Taxes
CDT	Commodities Transaction Tax
CEA	Central Excise Duty
CENVAT	Central Value Added Tax,1944
CER	Central Excise Rules,1944
CETA	Central Excise Tariff Act
CFS	Consolidated Financial Statements
CGST	Central Goods and Service Tax
CIF	Cost Insurance Freight
CIT	Commissioner of Income Tax
CKD	Completely Knock Down
COA	Cost of Acquisition
COI	Cost of Improvement
CPSE	Central Public Sector Enterprises
CSI	Continental Shelf of India
CST	Central Sales Tax
CVD	Counter Vailing Duty
DAVP	Directorate of Advertising and Visual Publicity
DDT	Dividend Distribution Tax
DEPB	Duty Entitlement Pass Book
DGCA	Directorate General of Civil Aviation
DIN	Document Identification Number
DISCOM	Distribution Company (India)
DOT	Department of Telecommunications
DRI	Differential Rate of Interest
DRP	Dispute Resolution Panel
DTA	Domestic Tariff Area
DTAA	Double Tax Avoidance Agreement
DTC	Direct Tax Code
DTH	Direct to Home
DUGJY	Deendayal Upadhyaya Gram Jyoti Yojana
ECB	External Commercial Borrowings
ECGC	Export Credit and Guarantee Corporation
ECS	Electronic Clearing System
EDF	Electronic Development Fund
EEFC	Exchange Earners' Foreign Currency
EEZ	Exclusive Economic Zones
EHTP	Electronic Hardware Technology Park
EOU	Export Oriented Unit
EPCG	Export Promotion Capital Goods Scheme
EPFS	Employee's Provident Fund Scheme
ESOP	Employee Stock Option Plan
FCCB	Foreign Currency Convertible Bonds
FCEB	Foreign Currency Exchangeable Bonds
FCI	Food Corporation of India
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act
FIF	Financial Inclusion Fund
FII	Foreign Institutional Investor
FIPB	Foreign Investment Promotion Board
FMV	Fair Market Value
FOB	Free on Board
FPO	Follow-on Public Offer
FTP	Foreign Trade Policy
GAAR	General Anti Avoidance Rules
GCF	Gross Capital Formation
GDP	Gross Domestic Product
GDR	Global Depository Receipt
GST	Goods & Services Tax
GSTN	Goods & Services Tax Network
GTA	Goods Transport Agency
HEFA	Higher Education Financing Agency
HSD	High Speed Diesel
HUF	Hindu Undivided Family
ICD	Inland Container Depot
ICDS	Integrated Child Development Services
ICT	Information & Communication Technology
IDR	Indian Depository Receipts
IDS'16	Income Declaration Scheme, 2016
Ind-AS	Indian Accounting Standards
IEO	Independent Evaluation Officer
IFSC	International Financial Services Centre
IIFCL	India Infrastructure Finance Company Limited
IGST	Integrated Goods and Service Tax
IIM	Indian Institute of Management
IIT	Indian Institute of Technology
IISc	Indian Institute of Science
IMR	Infant Mortality Rate
INR	Indian National Rupee
Invit	Infrastructure Investment Fund
IPO	Initial Public Offer
IPTV	Internet Protocol Television
IRDA	Insurance Regulatory and Development Authority
IT	Information Technology
ITAT	Income Tax Appellate Tribunal
JV/ WOS	Joint Venture/Wholly Owned Subsidiary
KCC	Kisan Credit Card
LCD	Liquid Crystal Display
LLP	Limited Liability Partnership
LPG	Liquified Petroleum Gas
LTCG	Long-term Capital Gain
MAT	Minimum Alternate Tax
MCA	Ministery of Corporate affaires
MRP	Maximum Retail Price
MS	Motor Spirit
MSE	Micro and Small Enterprises
MSME	Micro Small and Medium Enterprises
MSP	Maximum Selling Price
MUDRA	Micro Units Development Refinance Agency
NABARD	National Bank for Agriculture and Rural Development
NCD	Non-convertible Debentures
NHAI	National Highways Authority of India
NHB	National Housing Bank
NPS	National Pension Scheme
NRI	Non-Resident Indian
NSE	National Stock Exchange
ONGC	Oil and Natural Gas Corporation
OTS	One Time Settlement
PAN	Permanent Account Number
PDMA	Public Debt Management Agency
PCBA	Printed Circuit Board Assembly
PE	Permanent Establishment
POEM	Place of Effective Management
POS	Point of Sales
PPA	Power Purchase Agreement
PPP	Public Private Partnership
PSU	Public Sector Undertaking
PY	Previous Year
QFI	Qualified Foreign Investors
QIB	Qualified Institutional Buyer
QIP	Qualified institutional Placement
R&D	Research & Development
RBI	Reserve Bank of India
REIT	Real Estate Investment Fund
RHF	Rural Housing Fund
RPF	Recognised Provident Fund
RRB	Regional Rural Bank
RSE	Recognised Stock Exchange
RSP	Retail Sale Price
RTE	Right to Education
SAD	Specific Advaloram Duty
SARFAESI	The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
SC/ST	Scheduled Cast/Scheduled Tribe
SEBI	Securities & Exchange Board of India
SETU	Self-Employment and Talent Utilization
SEZ	Special Economic Zones
SFC	State Finance Corporations
SGST	State Goods and Service Tax
SHB	State Housing Bank
SHG	Self Help Groups
SIDBI	Small Industries and Development Bank of India
SITP	Software Information Technology Park
SLBC	State Level Bankers Committee
SPV	Special Purpose Vehicle
SSI	Small Scale Industry
STT	Securities Transaction Tax
TAN	Tax Collection/ Deduction Account number
TCS	Tax Collected at Source
TDS	Tax Deducted at Source
TIES	Trade Infrastructure for Export Scheme
TP	Tansfer Pricing
TPO	Transfer Pricing Officer
TReDS	Trade Receivables Discounting System
UID	Unique Identification
UIDAI	Unique Identification Authority of India
ULIP	Unit Linked Insurance Plan
UTGST	Union Territory Goods and Service Tax
USD	US Dollar
VAT	Value Added Tax
VCC	Venture Capital Company
VCF	Venture Capital Funds
VCU	Venture Capital Undertaking
VRS	Voluntary Retirement Scheme
WPI	Wholesale Price Index
WTO	World Trade Organization

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