

# BUDGET PANORAMA 2018



# About Advith Consulting

Advith Consulting is a multi-disciplinary consulting Firm providing professional services in the areas of book keeping, taxation, corporate law, transaction advisory, process consulting and the like. Our client base spans over various industry verticals such as hospitality, manufacturing, trading, information technology, automobile, pharma, to name a few.

As our logo signifies, we are a fluidic organisation helping clients achieve their business goals by providing solutions to various requirements by seamlessly integrating all professional services.

We believe in upholding the highest standards of business ethics with a total commitment to quality.

We are adequately backed by a committed team of employees, talent and expertise in multiple areas, which is the key for timely deliverables.



# Contents

Foreword	1
Budgetary highlights 2018	2
Direct Tax Related Proposals	3
Proposals specifically related to Individual/HUF tax payers	
Proposals relating to Business Income	4
Capital Gains related proposals	5
Proposals relating to Trust, Education Institutions and Hospitals	6
Proposals relating to Deductions from total income	6
Anti-avoidance measures	7
Income tax proposals to facilitate Insolvency proceedings	8
Assessment, appeal and advance ruling	8
Proposals relating to International Tax and Non-residents	9
Proposals to protect Income Computation and Disclosure Standards (applicable retrospectively from 01st April 2017)	9
Indirect Tax Related Proposals	12

# Foreword

Indian Union Finance Minister Sri Arun Jaitley presented his 4th budget and the last full budget before the country goes in for elections in 2019. It is undoubtedly being called as a very bold and popular budget. No efforts were made to be populist at the cost of fiscal discipline, which is a very welcome approach and the Finance Minister must be congratulated for this 'not so politically' correct step. India has seen a history of budgets being used as political weapon just before elections and Indian economy would not have been able to withstand if that were to have been done.

Economy was trying to recover from the effect of demonetisation of high value currency that was carried out in 2016 and in that brim, Goods & Services Tax (GST) was announced. This resulted in the growth in the economy to plunge badly in the quarter ending June 2017. A sign of recovery came back by the end of 2017. Despite a sense of recovery, rural economy is still a matter of grave concern. Some of the measures announced in this budget like improving Minimum Support Price (MSP) for agricultural produce, increased outlay on health, building house and sanitation should bring in the much-needed support to rural economy. The government also announced the world's largest Health insurance scheme in this year's budget. While the operational details of this and the source of funding of this needs to be announced. If the Government is able to bring in this scheme in its full force, it should change the health landscape of the country having world's largest youth population.

Steps taken to clean up the banking system by Reserve Bank of India and operationalization of Insolvency and Bankruptcy Code are extremely important to strengthen the monetary situation in the country. A huge cause of concern that exists today, which hopefully Government would look into is the way compliance under the GST law is progressing. It is nobody's argument that there needs to be stringency in the way compliance are dealt with but if the technology platform lets down the Government's intention, there is a chance that more and more MSMEs would rather be discouraged to comply than to comply with the law.

Speaking about the tax related proposals in the Budget 2018, the reduction in corporate tax rate for entities having turnover less than INR 2.5 billion is an extremely welcome decision and the Finance Minister has kept up his promise made in the budget, 2 years ago of reducing the corporate tax rate. Some amendments like protecting the Income Computation and Disclosure Standards (ICDS) after the Delhi High court ruling holding a large part of it as unconstitutional, does not seem to gain any major tax revenue to the Government but instead would most likely increase the amount of litigation and could have been well avoided. Taxing the gains from listed equity share sale does not seem to have gone well with the markets and the markets showed a decline once it was announced. However, it would be a temporary phenomenon and should get stabilized soon.

The amendments proposed in the definition of 'business connection' to include Digital PE and fragmented agency relationship as taxable business connection, clearly displays the seriousness with which India is hoping to influence the decisions to be taken in its negotiations of Multi-Lateral Instrument sign offs.

The next big expectation would be to see how tax administration could become less adversarial and more conducive to incentivize the honest and penalize the dishonest. If such an environment is created, the individual salaried tax payers (who contribute a significant direct tax revenue), who were hoping for a reduction in tax incidence to them should be convinced that the amount they are paying is really going for nation building.

**Team Advith**

# Budgetary Highlights 2018

- Budget 2018-19 reflects the Government's firm commitment to substantially boost investment in Agriculture, Social Sector, Digital Payments, Infrastructure and Employment Generation on the one hand and simultaneously stick to the path of fiscal rectitude by aiming for a reduction of Fiscal Deficit by 0.2% of GDP over Revised Estimate(RE) 2017-18. This is substantiated by increase in expenditure of INR 2,24,463 crores over RE (2017-18) while simultaneously keeping the fiscal deficit at 3.3% of GDP in 2018-19.
- Total Revised Estimates for expenditure in 2017-18 are INR 21.57 lakh crore (net of GST compensation transfers to the States) as against the Budget Estimates of INR 21.47 lakh crore.
- The total expenditure in Budget for 2018-19 has been placed at Rs.24.42 lakh crores
- The actual net tax revenue of 2016-17 was INR 11.01 lakh crores. As per the revised estimate for 2017-18 it is INR 12.69 lakh crores and for 2018-19 it is budgeted at INR 14.81 lakh crores.

Agriculture market and infra fund of INR 2,000 crore fund is proposed to set up to strengthen the market connectivity.

- A sum of INR 500 crore is proposed to be allocated for Operation Green to be launched for promoting Farmer Producers Organizations (FPOs), agri-logistics, processing facilities and professional management.
- Finance Minister mentioned Bamboo as "green gold" and proposed to launch a Restructured Bamboo Mission with a fund of INR 1,290 crore.

Proposed to set up a Fisheries and Aquaculture Infrastructure Development Fund (FAIDF) for fisheries sector and an Animal Husbandry Infrastructure Development Fund (AHIDF) for financing infrastructure requirement of animal husbandry sector by allocating a corpus of INR 10,000 crore.

- Government targets to construct houses for all the people by 2022.
- Proposed to provide an outlay of INR 7,148 crore for the textile sector in 2018-19.
- Government to provide INR 9,975 crore for social security and protection programme for the next fiscal year.
- Government to start Ekalavya Model Residential Schools at par with Navodaya Vidyalayas.
- Proposed to launch National Apprenticeship Scheme with stipend support and sharing of the cost of basic training by the Government to give training to 50 lakh youth by 2020.
- To launch World's largest government funded health care programme 'The National Health Protection Scheme', with approximately 50 crore beneficiaries providing coverage up to INR 5 lakh per family per year for secondary and tertiary care hospitalization.
- Government to eliminate unmanned level railway crossing in the broad-gauge network in the next two years.
- The Government to evolve a scheme to assign every individual enterprise in India a unique ID like Aadhar.

# Direct Tax Related Proposals

## 1. Proposals specifically related to Individual/HUF tax payers

- There is no change in tax slabs or tax rate for Individuals and HUF. However, education cess proposed to be increased to 4%.

The tax slab and tax rates are as under:

Up to INR 2,50,000*	Nil
INR 2,50,001 to INR 5,00,000	5%
INR 5,00,001 to INR 10,00,000	20%
Above INR 10,00,000	30%

Note (\*): in the case of resident individual who is of the age 60 years or more, but less than 80 years is INR 3,00,000 and the next slab shall start from INR 3,00,001 and so on.

In the case of resident individual who is of the age 80 years or more total income up to INR 5,00,000 is exempt.

- It is proposed to amend **section 16** to allow a **standard deduction from salary** of amount up to **INR 40,000** or the actual salary received. With this it is also proposed to omit the provision of exemption towards **medical reimbursement up to INR 15,000**. Further, the Finance Minister also mentioned the removal of exemption of transport allowance of INR 1,600 p.m. which is currently in the Income Tax Rules and an amendment to this effect may be expected.
- It is proposed to amend **section 80D** so as to raise the monetary limit of deduction for payments towards annual premium on health insurance policy or preventive health check-up or medical expenditure of senior citizens from **INR 30,000/- to INR 50,000/-**.
- 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 number of years for which health insurance cover is provided, subject to the specified monetary limit.
- It has been proposed to increase the amount of **deduction u/s 80DD** for the amount paid for medical treatment of specified disease from INR 60,000 in respect of senior citizens, INR 80,000 in respect of very senior citizens to **INR 1,00,000** for both senior citizens and very senior citizens.
- It is proposed to insert a **new section 80TTB** to provide a deduction up to INR 50,000/- in respect of interest income from deposits held by senior citizens with a banking company or a co-operative society engaged in carrying on the business of banking company or a post office. 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/-.
- There is an exemption to the extent of 40% of the amount received as closure proceeds from National Pension System Trust or on their opting out of the pension scheme, **which was restricted only to employees, now it is proposed to extend the benefit of this exemption to non-employees also** by way of amendment to section 10(12A) of the Act.

## 2. Proposals relating to Business Income

- Tax rate for Domestic companies proposed to be changed as under for FY 2018-19 and onwards:

Conditions*	Tax Rate
Total turnover or gross receipts in FY 2016-17 < INR 250 crores	25%
All other cases	30%

-Surcharge of 7% additionally applicable for domestic companies having total income of INR 1 crore and above and for those having total income in excess of INR 10 crores, the surcharge is 12%.

-Education cess proposed at 4%.

- Presumptive income determination for eligible tax payers engaged in the business of plying, hiring or leasing of goods carriage is proposed to be amended, wherein the profits and gains from each **heavy goods vehicle** shall be presumed at higher of amount actually earned or **INR 1,000 per ton of gross vehicle weight or unladen weight** for every month or part of a month during which the heavy goods vehicle is owned by the tax payer.
- In the case of goods carriage other than heavy goods vehicle, the provisions remain the same as earlier and income shall be higher of amount actually earned or INR 7,500 for every month or part of a month during which the goods carriage is owned by the tax payer.
- It has been proposed to amend section 28 & 56 to add compensation received or receivable in connection with the termination or modification of the terms and conditions of any contract, relating to its business as **business income** and relating to its employment as **income from other sources respectively**.
- Earlier, trading in Commodity derivatives were considered as non-speculative transaction u/s 43 of the Act only if CTT was paid. However, since there was no CTT on agricultural commodity derivatives, this benefit was not extended to such trade. It is now proposed to **amend section 43 to provide that trading in agricultural commodity derivate is not speculative in nature even if CTT is not paid**.
- It is proposed to amend the section 115JC to provide that in case of a unit located in an International Financial Service Centre (IFSC), the alternate minimum tax under section 115JC shall be charged at the 9% instead of 18.5%.
- **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 was available from AY 2017-18.
- However, there are certain incomes which are subject to a scheduler tax at a rate which is lower or higher than 25%. it is proposed to amend section 115BA which will take retrospective effect from 01.04.2017 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

### 3. Capital Gains related proposals

#### 3.1 Conversion of stock in trade into capital asset and its proposed tax treatment:

- Currently, section 45 provides that the 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. It is proposed to amend the provision of section 28 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 that the **fair market value** of the inventory on date of conversion shall be deemed to be the full value of the consideration received or accruing as a result of such conversion or treatment and is proposed to be taxed as business income.
- For the purpose of computation of capital gains, the **period of holding** of such capital asset shall be reckoned **from the date of its conversion/treatment** and the fair market value on the date of conversion shall be the **cost of acquisition** of such capital asset.
- Consequent amendment to include Fair Market Value of the inventory as income u/s 2(24) of the Act has also been proposed.

#### 3.2 Long term Capital gain on sale of listed shares:

- Any long term capital gain arising out of sale of listed equity shares or units of equity-oriented fund was exempt from tax u/s 10(38) of the Act. It is proposed to remove **this exemption for sale of such equity shares or equity oriented mutual funds post 01st April 2018**.
- Consequent to the removing of the exemption, it is also proposed to introduce a new section 112A 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% (without indexation benefit). Such tax is proposed to be levied only on gains in excess of INR 1,00,000.
- The cost of acquisition for assets acquired before the 1st day of February 2018, shall be deemed to be the higher of
  - a. the actual cost of acquisition; and
  - b. the lower of:
    - the fair market value; and
    - the full value of consideration received or accruing as a result of the transfer.
- Fair Market Value shall mean:
  - if such asset is listed on any recognised stock exchange, the highest price of the capital asset quoted on the stock exchange on 31.01.2018
  - if there is no trading on 31.01.2018, the highest price of such asset on such exchange on a date immediately preceding 31.01.2018 when such asset was traded on such exchange,
  - if it is not listed on recognised stock exchange, the net asset value (NAV) on 31.01.2018.
- No deductions are proposed to be allowed under Chapter VI A on such long term capital gains and no rebate u/s 87A shall be allowed from the tax payable on such long term capital



### 3.3 Sale or Transfer of immovable properties:

- 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, higher of the sale consideration or stamp duty value is adapted. The difference is taxed as income both in the hands of the purchaser and the seller.
- Amendments have been proposed to all the section noted above to provide that in case the difference between stamp duty value and the actual consideration is 5%, such difference shall be ignored and actual sale consideration itself will be considered.

### 3.4 Capital assets transferred between holding and subsidiary company:

- Section 47 provides for certain tax neutral transfers for the purpose of capital gains. Section 56 also excludes income to the recipient, arising out of certain tax neutral transfers from its ambit. It is proposed to exclude from the scope of section 56, any capital asset received by way of transfer by a company to its subsidiary as mentioned u/s 47(iv) and transfer by a subsidiary company to the holding company as mentioned u/s 47(v).

*3.5 Section 54EC provides for exemption from long term capital gains when investments are made in specified bonds. It is now proposed to restrict the exemption under this section only if long term capital gains are arising from transfer of land or building or both.*

*3.6 It is also proposed that bond under this section refers to bonds redeemable after 5 years issued on or after 01.04.2018 by National Highways Authority of India (NHAI) or by the Rural Electrification Corporation (REC) Limited or any other bond notified in the Official Gazette by the Central Government in this behalf.*

## 4. Proposals relating to Trust, Education Institutions and Hospitals

- Charitable trusts claiming exemptions u/s 11 and institutions claiming exemptions u/s 10(23C) are exempt from payment of tax if they spend at least 85% of their receipts, towards the objects of the trust or institution. It is now proposed to provide that in case where there are defaults in either deduction of tax at sources on payments referred to **section 40(a)(ia) or in case of payment in cash in excess of INR 10,000** towards expenses or payment of creditors, such expenses/payments **will not be considered for the purpose of application of income.**

## 5. Proposals relating to Deductions from total income

- It is proposed to amend **section 80-IAC** which provide a 100% deduction of profits and gains derived from such business by an eligible start-up for three consecutive assessment years out of seven years at the option of the assessee, as under:
  - The benefit would also be available to start ups incorporated on or after the 1st day of April 2016 but before the 1st day of April 2021;
  - The requirement of the turnover not exceeding INR 25 crore 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.

- **Section 8JJAA** provides for additional deduction of 30% for 3 assessment years 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 was relaxed to 150 days in the case of apparel industry earlier. It is now proposed to extend this relaxation to footwear and leather industry also.
- Further it is also proposed to allow 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.
- It is proposed to insert a **new section 80PA** to provide 100% deduction from profits and gains derived by a Producer company having a turnover of less than INR 100 crore, from marketing of agricultural produce grown by the members or purchase of agricultural implements, seeds, livestock or other articles intended for agriculture for the purpose of supplying them to the members or processing of the agricultural produce of the members. The benefit shall be available for a period of five years from FY 2018-19.
- **Section 80AC** is proposed to be substituted not to allow the deductions in respect of certain income linked deductions covered under Part-C of Chapter VI A (only section 80H to 80S), if the return is not filed on or before the due date specified u/s 139(1).

## 6. Anti-avoidance measures

- **Section 115BBE** provides for tax at a higher rate of 60% on income referred to in section 68 or section 69 or section 69A or section 69B or section 69C or section 69D and amount determined by Assessing officer as income under aforesaid sections.
- Earlier no deduction in respect of any expenditure or allowance or set-off of any loss was allowed to the tax payer under any provision of the Act, if such amounts were declared in the return by the tax payer. However, such restriction was not there if such income was determined by tax officer. Now, it is proposed to amend the section to restrict the deduction even when the amount is determined by the tax officer.
- **Quoting of PAN** - It is proposed to amend section 139A of the Act to provide that every non-individual, who enters into a financial transaction of an amount aggregating to INR 2,50,000 or more in a financial year shall be required to apply to the Assessing Officer for allotment of PAN.
- It is also proposed that the managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of the above mentioned non individual or any person competent to act on behalf of such non individual shall also be required to apply to the Assessing Officer for allotment of PAN.
- It is proposed to increase the penalty leviable for not furnishing the statement of financial transaction or reportable account by persons referred to u/s 285BA(1) within the prescribed time from INR 100 to INR 500 for every day during which the failure continues.
- The provision to the said section further provides that in case such person fails to furnish the required statement within the period specified in the notice issued u/s 285BA(5), he shall be liable to pay penalty of INR 500 for every day of default which is proposed to be increased to INR 1,000.

## 7. Income tax proposals to facilitate Insolvency proceedings

- Section 79 of Act provides that carry forward and set off of losses in a closely held company shall be allowed only if there is a continuity in the beneficial 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.
- It is proposed to relax the provisions of section 79 if the share holding changes pursuant to a resolution plan approved under the Insolvency and Bankruptcy Code 2016, after affording a reasonable opportunity of being heard to the PCIT or CIT.
- Where in respect of a company, an application for corporate insolvency resolution process has been admitted by the Adjudicating Authority under the provisions of Insolvency and Bankruptcy Code, 2016, it is proposed that the return shall be verified by the insolvency professional appointed by such Adjudicating Authority (**section 140**).
- Section 115JB provides for levy of a minimum alternate tax (MAT) on the “book profits” of a company and while 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. It is proposed to amend 115JB to provide that in case where a company’s application for corporate insolvency resolution process under the Insolvency and Bankruptcy Code, 2016 has been admitted by the Adjudicating Authority then, the aggregate amount of unabsorbed depreciation and loss brought forward (excluding unabsorbed depreciation) shall be allowed to be reduced from the book profits.

## 8. Assessment, appeal and advance ruling

- It is proposed to insert a new proviso to section 143(1)(a) to provide that no adjustment shall be made towards any income appearing in Form 26AS or Form 16A or Form 16 which has not been included in computing the total income in the return furnished for the AY 2018-19 and onwards.
- It is proposed insert a new section 143(3A) to prescribe a new scheme for the purpose of making electronic 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 with dynamic jurisdiction.
- 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 of the Act so as to provide that such Authority shall cease to act as an Authority for Advance Rulings, 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 the relevant provisions of the Customs Act, 1962.
- Section 271J provides for penalty to be levied on Chartered Accountants, Merchant Bankers or registered valuer for having furnished incorrect information in any report or certificate issued by them. There was no appeal route available if such a penalty was levied. It is proposed to amend the section 253 so as to provide an opportunity to appeal to Appellate Tribunal against order/notice for penalty passed/issued u/s 271J by the Commissioner(Appeals).

## 9. Proposals relating to International Tax and Non-residents

- Corporate tax rate for foreign companies retained at 40%. Surcharge retained at 2% for companies having total income in excess of INR 1 crore and 5% for companies having total income in excess of INR 10 crores.

- A clarification is proposed to be issued that section 115JB shall not be applicable and shall be deemed never to have been applicable to a foreign company, where 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 those sections.

Insertion of clause 10(6D) to provide exemption for any income arising to a non-resident, by way of royalty from, or fees for technical services rendered in or outside India to, the National Technical Research Organisation.

- It is proposed to amend clause (a) of Explanation 2 to section 9(1)(i) so as to provide that **“business connection”** shall also include any business activity carried out through a person who, acting on behalf of the non-resident has and habitually exercises in India, an authority to conclude contracts on behalf of the non-resident or habitually concludes contracts or habitually plays the principal role leading to conclusion of contracts by that non-resident and the contracts are,

- 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 non-resident has the right to use; or

- for the provision of services by the non-resident;

- **Digital PE** - Insertion of a new explanation to section 9(1)(i) wherein it is proposed to expand the scope of business connection by including the significant economic presence of a non-resident whether or not such non-resident has a residence or place of business in India or renders services in India. For this purpose, significant economic presence has been defined to mean,

a. 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 such amount as may be prescribed; or

b. systematic and continuous soliciting of business activities or engaging in interaction with such number of users as may be prescribed, in India through digital means.

- Reporting under **Country-by-Country Report (CbC Reporting) regime in respect of international group is proposed to be rationalised** and existing confusions are proposed to be clarified by way of a retrospective amendment applicable from FY 2016-17.

## 10. Proposals to protect Income Computation and Disclosure Standards (applicable retrospectively from 01st April 2017)

- Due to a decision of the Hon'ble Delhi High court, a large part of Income Computation and disclosure Standards were held to be unconstitutional as they had brought out provisions which were exceeding the powers available for notifications. In order to protect the sanctity of ICDS, a number of amendments have been proposed.

- A clause is proposed to be inserted to section 36(1) so as to provide the deduction for marked to market loss or other expected loss as computed in accordance with the income computation and disclosure standards notified u/s 145(2).
- It is also proposed to insert a subsection to section 40A, so as 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 as mentioned above.
- A new section 43AA is proposed to be inserted 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 u/s 145(2).
- A new section 43CB is proposed to be inserted to provide that the profits and gains arising from a construction contract or a contract for providing services shall be determined on the basis of percentage of completion method in accordance with the income computation and disclosure standards notified u/s 145(2).
- It is also proposed to insert a proviso to said section so as to provide that profits and gains arising from a contract for providing services
  - with duration of not more than ninety days shall be determined on the basis of project completion method
  - involving indeterminate number of acts over a specific period of time shall be determined on the basis of straight line method.
- For the purpose of percentage of completion method, percentage of completion method or straight line method, the contract revenue shall include retention money, and contract cost shall not be reduced by incidental interest, dividend and capital gains.
- It is proposed to substitute section 145A, so as 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 realisable value.
  - the valuation of purchase and sale of goods/services and of inventory shall be adjusted to include the amount of any tax, duty, cess or fee (by whatever name called) actually paid or incurred by the assessee to bring the goods/services to the place of its location and condition as on the date of valuation;
  - the inventory being securities not listed on a recognised stock exchange or listed but not quoted on a recognised stock exchange with regularity from time to time, shall be valued at actual cost.
  - the inventory being securities other than those referred to in clause (iii), shall be valued at lower of actual cost or net realisable value
- It is proposed to insert a new section 145B, 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.
  - assistance in the form of a subsidy/grant/cash incentive/duty drawback/ waiver/concession/reimbursement by the Central Government or a State Government or any authority or

body or agency in cash or kind to the assessee other than which is taken into account for determination of the actual cost of the asset or for the purpose of the corpus of a trust or institution established by the Central Government or a State Government, shall be deemed to be the income of the previous year in which it is received, if not charged to income-tax in any earlier previous year.

## 11. Tax on distributed income

- It is proposed to insert a **new explanation in section 2(22)(e) – Deemed dividend** to widen the scope of the term ‘accumulated profits’ so as to provide that in the case of an amalgamated company, accumulated profits, whether capitalised or not, or losses, shall be increased by the accumulated profits of the amalgamating company, whether capitalized or not, on the date of amalgamation.
- Section 115-O provides for payment of Dividend Distribution Tax (DDT). While such DDT is generally 15%. It is proposed to enhance the rate of DDT on deemed dividends u/s 2(22)(e), to be taxable at the rate of **30%** u/s 115-O without any grossing up.
- Section 115Q provides for consequence of non-payment of DDT and contained an explanation for non-application of the provision for DDT on deemed dividend u/s 2(22)(e) of the Act. Such explanation is proposed to be deleted to provide that, on non-payment of DDT **on any dividend including deemed dividend, principal officer of a domestic company and the company shall be deemed to be an assessee in default.**
- It is proposed to amend the **section 115R** so as to provide that where any income is distributed by an Equity oriented mutual fund, the mutual fund shall be liable to pay **additional income tax at the rate of 10% on income so distributed.**

## 12. Other Amendments

- Government of India introduced 8% Savings (Taxable) Bonds, 2003 in 2003. Under the existing law, the interest received by the investor is taxable. Further the payer is liable to deduct tax at source under section 193 of the Act on such interest in excess of INR 10,000. Government has now decided to discontinue the existing 8% Savings (Taxable) Bonds, 2003 with a new 7.75% GOI Savings (Taxable) Bonds, 2018. The provision of section 193 is proposed to be amended to give effect to this change.

# Indirect Tax Related Proposals

## *Central Excise*

- The Central Board of Excise and Customs (CBEC) to be renamed as Central Board of Indirect Taxes and Customs (CBIC).
- Additional Duty of Excise (Road Cess) leviable on Petrol and High-Speed Diesel is proposed to be abolished.

## *Customs Law*

- The Government has proposed to make amendments in rates of basic custom duty (BCD) which would be applicable from February 02, 2018.
- Facility of electronic cash ledger has been introduced under Customs Act, 1962 to provide for advance deposit which would enable payment of duties, taxes, interest, penalty etc. through such ledger.
- It is proposed to apply the provisions of Customs Act, 1962 to any offence or contravention committed under Customs by a person even outside India.
- Advance Ruling Authority for customs is proposed to include the officer in the rank of Principal Commissioner of Customs or Commissioner and it is proposed to provide that representation can be made only by Indian resident before Authority for Advance Ruling and Appellate Authority.
- In lieu of education cess and secondary & higher education cess leviable on import of goods, the Social Welfare Surcharge is proposed to be levied at the rate of 10% of the Basic Custom Duty on import of all the goods except petrol and high-speed diesel, gold and silver where the said levy is proposed to be @ 3%.
- Concept of provisional assessment for export consignments is proposed to be introduced under Customs.
- The provisions have been inserted under the Customs Act, 1962 relating to audit of the assessment of imported or exported goods either in the department or the premises of the importer/ exporter (including person associated with clearing, forwarding, stocking or carrying such goods).
- Provisions have been introduced authorising the Central Government to enter into a reciprocal arrangement for exchange of information, facilitation of trade, enforcing the provisions of Customs Act etc. with the Government of other countries.

# BUDGET PANORAMA 2018

DISCLAIMER: The content of this alert is intended solely for the purpose of information. This should not be treated as technical tax advice to make decisions. You would have to contact your tax advisor to seek specific applicability of the contents of the alert for your case. We bear no responsibility of any loss occasioned to any person acting or refraining from action as a result any material in this alert.



No. 72/1, 1st Floor,  
Jnanodaya School Road  
Shankarapark, Shankarpuram  
Bengaluru- 560 004

 [www.advithconsulting.in](http://www.advithconsulting.in)  [info@advithconsulting.in](mailto:info@advithconsulting.in)  080 22426484