Union Budget 2018-19

Income tax Proposal

Tax incentive for promoting post-harvest activities of agriculture

- At present, hundred per cent deduction is allowed in respect of profit of co-operative societies which provide assistance to its members engaged in primary agricultural activities.
- Proposal is to allow hundred per cent deduction to these companies registered as Farmer Producer Companies and having annual turnover up to `100 crores in respect of their profit derived from such activities for a period of five years from financial year 2018-19.

Employment generation

- Currently, a deduction of 30% is allowed (subject to certain conditions) 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 under section 80-JJAA of the Income-tax Act.
- 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 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.

Incentive for real estate

- In order to minimize hardship in real estate transaction, proposal to provide that, no adjustment shall be made in a case where the circle rate (Stamp duty) value does not exceed 5% of the consideration.

Incentivizing micro, small and medium entrepreneurs

- In the Union Budget, 2017, FM had announced the reduction of corporate tax rate to 25% for companies whose turnover was less than ` **50 crore** in financial year 2015-16.
- Ii is now proposed to extend the benefit of this reduced rate of 25% also to companies who have reported **turnover up to `250 crore** in the financial year 2016-17.

Relief to salaried taxpayers

- In order to provide relief to salaried taxpayers, it is proposed to allow a standard deduction of `INR 40,000/- ***in lieu*** of the present exemption in respect of transport allowance and reimbursement of miscellaneous medical expenses.
- The transport allowance at enhanced rate shall continue to be available to differently-abled persons.
- Also other medical reimbursement benefits in case of hospitalization etc., for all employees shall continue.
- This decision to allow standard deduction shall significantly benefit the pensioners also, who normally do not enjoy any allowance on account of transport and medical expenses.

Relief to senior citizen

- Exemption of interest income on deposits with banks and post offices u/s 80TTA of the Income Tax Act,1961 to be increased from **`10,000/- to `50,000/-** and TDS shall not be required to be deducted on such income, under section 194A.
- Raising the limit of deduction for health insurance premium and/ or medical expenditure from **`30,000/- to `50,000/-**, under section 80D.
- In respect of any health insurance premium and/or any general medical expenditure incurred.
- Raising the limit of deduction for medical expenditure in respect of certain critical illness from, `60,000/- in case of senior citizens and from `80,000/- in case of very senior citizens, to **`1 lakh** in respect of all senior citizens, under section 80DDB.

Tax incentive for International Financial Services Centre (IFSC)

- The Government had endeavored to develop a world class international financial services centre in India.
- In order to promote trade in stock exchanges located in IFSC, it is proposed to exempt transfer of derivatives and certain securities by non-residents from capital gains tax.
- Non-corporate taxpayers operating in IFSC shall be charged Alternate Minimum Tax (AMT) at concessional rate of 9% at par with Minimum Alternate Tax (MAT) applicable for corporates.

Further Measures to control cash economy:

- Currently, the income of trusts and institutions is exempt if they utilize their income towards their objects in accordance with the relevant provisions of the Income-tax Act.
- In order to have audit trail of the expenses incurred by these entities, it is proposed that payments exceeding `10,000/- in cash made by such entities shall be disallowed and the same shall be subject to tax.
- In order to improve TDS compliance by these entities, it is proposed to provide that in case of non-deduction of tax, 30% of the amount shall be disallowed and the same shall be taxed.

Rationalization of Long Term Capital Gains (LTCG)

- Long term capital gains arising from transfer of listed equity shares, units of equity oriented fund and unit of a business trust are exempt from tax.
- The equity market has become buoyant.
- Bringing long term capital gains from listed equities in the tax net.
- it is proposed to tax such long term capital gains **exceeding `1 lakh** at the rate of **10%** without allowing the benefit of any indexation.
- All **gains up to 31st January, 2018 will be grandfathered**. For example, if an equity share is purchased six months before 31st January, 2018 at `100/- and the highest price quoted on 31st January, 2018 in respect of this share is `120/-, there will be no tax on the gain of `20/- if this share is sold after one year from the date of purchase.
- Any gain in excess of `20/- earned after 31st January, 2018 will be taxed at 10% if this share is sold after 31st July, 2018.
- The gains from equity share held up to one year will remain short term capital gain and will continue to be taxed at the rate of 15%.
- To introduce a tax on distributed income by equity oriented mutual fund at the rate of 10%.

- This will provide level playing field across growth oriented funds and dividend distributing funds.

Health and Education Cess

- At present there is a three per cent cess on personal income tax and corporation tax consisting of two per cent cess for primary education and one per cent cess for secondary and higher education.
- it is proposed to increase the cess by one per cent.
- The existing three per cent education cess will be replaced by a four per cent "Health and Education Cess" to be levied on the tax payable.

E-assessment

- it is proposed to amend the Income-tax Act to notify a new scheme for assessment where the assessment will be done in electronic mode which will almost eliminate person to person contact leading to greater efficiency and transparency.

<u>Other changes in Direct Taxes:</u>

- It is proposed that the provision of section 79 of the Income-tax Act (the Act) regarding restriction on shareholding for the purpose of carry forward loss shall not apply in case of change of shareholding pursuant to an approved resolution plan under IBC, 2016 where an opportunity of being heard has been given to the Principal Commissioner or Commissioner.
- In respect of companies where an application under Insolvency and Bankruptcy Code (IBC), 2016 has been admitted, it is proposed to provide that for the purpose of computation of Minimum Alternative Tax (MAT) the aggregate amount of unabsorbed depreciation and brought forward loss shall be allowed to be reduced from the book profit.
- It is proposed to provide that the insolvency resolution professional shall verify the return of income in case of a company where an application under IBC, 2016 has been admitted.
- It is proposed to provide that provisions of MAT shall not apply in respect of foreign companies having income solely from businesses referred to in sections 44B, 44BB,

44BBA and 44BBB of the Act provided such income has been offered to tax at the rates specified in these sections.

- It is proposed to extend the benefit of exemption for withdrawal up to 40% from National Pension System Trust (NPS) to all subscribers and not only to employees.
- It is proposed to provide that in a case where premium for health insurance for multiple years has been paid in one year, the deduction shall be allowed proportionately over the years for which the benefit of health insurance is available.
- In order to encourage start-ups, the definition of ‘eligible business’ for a start-up is proposed to be aligned with the modified definition notified by DIPP.
- It is further proposed to extend the incorporation date for a start-up for availing benefit under section 80-IAC of the Act to 31st March, 2021 from 31st March, 2019 and rationalize the condition of turnover for availing the benefit.
- It is proposed to rationalize the provisions of section 56(2)(x) of the Act to provide that the receipt of any property by a wholly-owned Indian subsidiary from its holding company and by an Indian holding company from its subsidiary shall be exempt from tax.
- It is proposed to provide that trading in agricultural commodity derivatives on a recognized stock exchange shall not be treated as a speculative transaction even if no Commodities Transaction Tax (CTT) has been paid in respect of those derivative transactions.
- Considering the strategic nature of the transactions, it is proposed to provide that income arising to a non-resident from royalty or fees for technical services received from National Technical Research Organization shall be exempt from tax.
- It is proposed to provide that the exemption of sale of leftover stock of crude oil shall also apply in respect of termination of the contract or arrangement in respect of a foreign company participating in a strategic oil reserve.
- It is proposed to provide that in addition to notifying any authority, Board, Trust or Commission under section 10(46) of the Act, the Government can also notify any class of such persons.
- It is proposed to provide similar tax regime as available to equity oriented funds to Fund of Funds investing only in exchange traded funds which only invest in listed equity shares of domestic companies.
- It is proposed to provide that no adjustments shall be made under section 143(1) (VI) of the Act while processing the return filed for the assessment year 2018-2019 and subsequent assessment years.
- It is proposed to provide that no expenditure or allowance or set off of any loss shall be allowed in respect of undisclosed income determined by the Assessing Officer under section 115BBE of the Act.

- It is proposed to provide that every entity, not being an individual, which enters into any financial transaction of an amount aggregating to Rs.2.50 Lakh or more in a financial year shall be required to apply for a permanent account number (PAN).
- It is also proposed that directors, partners, principal officers, office bearer or any person competent to act on behalf of such entities shall also apply for PAN.
- In view of the proposed amendment in the Customs Act creating a new custom Authority for Advance Ruling, it is proposed to provide that the Authority for Advance Ruling constituted under the Income-tax Act shall act as an Appellate Authority in respect of the rulings given by the customs Authority for Advance Ruling.
- It is also proposed to provide that when the authority is dealing with an application relating to Income-tax Act, the revenue member shall be from income-tax.
- It is proposed to make the order passed by the Commissioner of Income-tax (Appeals) under section 271J of the Act appealable before Appellate Tribunal.
- It is proposed to enhance the penalty from `100/- to `500/- and from `500/- to `1000/- under section 271FA of the Act.
- It is proposed to provide that prosecution shall lie against companies for non-filing of return irrespective of the fact that whether any tax is payable or not.
- It is proposed to mandate that in order to avail benefit of any deduction under Chapter VIA-C, the persons have to file return within due date specified under section 139(1) of the Act.
- It is proposed to provide that if stock-in-trade is converted into capital asset, the fair market value of the same on the date of conversion shall be taken into account for computing business income.
- It is proposed to rationalize the existing provision relating to investment in capital gain bonds by providing that the exemption shall be available only in respect of long-term capital gains arising out of sale of immoveable property and investment in the bond shall be for a minimum period of 5 year from the existing 3 years.
- It is proposed to amend section 9 of the Act to align the scope of "business connection" with the modified dependent agent permanent establishment rule as per Multilateral Instrument signed by the Government.
- It is proposed to amend section 9 of the Act to provide that significant economic presence of a non-resident shall constitute "business connection" with India.
- It is also proposed to define the phrase ‘significant economic presence’.
- It is proposed to provide that compensation received in connection with termination or modification of business contract and employment contract shall be taxable.

- It is proposed to provide that in respect of heavy goods vehicles (more than 12 tonnes), the presumptive income under section 44AE of the Act shall be computed at the rate of `1000 per tonne per month.
- In order to provide statutory backing and certainty to Income Computation and Disclosure Standards (ICDS), it is proposed to amend the provisions of Chapter IV-D of the Act relating to computation of business income and Chapter XIV of the Act.
- It is proposed to provide that TDS at the applicable rate shall be made in respect of interest exceeding `10,000 from newly introduced 7.75% GOI Savings (Taxable) Bonds, 2018.
- It is proposed to provide that in the case of an amalgamated company, accumulated profits for the purpose of determining dividend shall also include the accumulated profits of the amalgamating company on the date of amalgamation.
- It is proposed to provide that deemed dividend under section 2(22) (e) of the Act shall be subject to dividend distribution tax at the rate of 30% without grossing up.
- It is proposed to provide that the concessional tax rate of 25% for new domestic companies engaged in manufacturing shall be subject to the special rates in respect of specified income provided under Chapter XII of the Act.
- It is proposed to provide that the concessional tax rate of 25% for new domestic companies engaged in manufacturing shall be subject to the special rates in respect of specified income provided under Chapter XII of the Act.
- It is proposed to rationalize the provisions relating to filing of Country-by-Country Report by providing the time-limits and the definition of ‘agreement’.
- It is proposed to amend Finance Act, 2013 to rationalize levy of Commodities Transaction Tax (CTT) on options in commodity futures.
- It is proposed to amend the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 to rationalize the designations of authorities competent to grant approval for penalty and prosecution.
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