





Union Budget 2018 - 19



A faint, dotted world map is visible in the background of the slide, centered behind the text.

Information in the following slides is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. K Vijayaraghavan & Associates LLP accepts no responsibility for loss arising from any action taken or not taken by anyone using these slides.

Contents

- 
- A faint, dotted world map is visible in the background of the page, centered behind the text.
- Foreword
 - Direct Tax Proposals and Reforms
 - Indirect taxes
 - Agricultural Sector
 - Health Care and Education Reforms
 - Rural Development
 - Infrastructure Reforms
 - Miscellaneous Reforms

Foreword

The budget presented by the Hon'ble finance minister on 1st February, 2018 focused upon “ease of living” coupled with “ease of business” as two most important key factors to focus upon during next one year.

The budget focused predominantly upon improving farm income which has been a major worrying factor for the Government and to bring in more equitable distribution of income and wealth.

The sops provided for ease of living and some good and progressive sops for ease of doing business coupled with accelerating the start-up eco system seemed to dominate the budget highlights.

While there are other announcements that may matter to individual enterprises and common man, we have captured some of the important highlights of the budget for your ease of understanding.

Direct Tax Reform: Standard Deduction to salaried employees



Before

Deduction allowed for:

1) Transport Allowance: Rs.1600 per month
(or)
Actual amount

2) Medical reimbursement: Rs.15,000
(or)
Amount Spent

Lower

Lower

After

Standard deduction
allowed of Rs.40,000

Effective from AY 19-20

Apart from reducing paper work and compliance, this will help middle class employees even more in terms of reduction in their tax liability, also allowing significant benefit to pensioners who normally didn't enjoy any allowance on account of transport or medical allowance

Direct Tax Reform -Compliances



Chapter VI A deductions are not allowed if:

Effective from AY 18-19

Before

Returns are not filed
on or before due date
- For only Sec.80IA-IE

After

Return not filed on or before due
date - Deductions under
heading- "C-Deductions in
respect of certain income"

To avail benefit of available deductions such as 80C, 80D etc. , one has to now file return of income in time, otherwise shell out more money in terms of higher taxes.

Direct Tax Reform: Increase in Education Cess

Before

EC - 2%
SHEC- 1%

After

Health and
Education Cess @4%



Effective from AY 19-20

Due to increase in the rate of Cess, the tax liability of highest tax bracket shall approximately go up by Rs. 2,625 and that of middle class shall go up by Rs.125

Direct Tax Reform: Additional Benefits to Senior Citizens



Section 80- D

Maximum deduction that can be claimed in respect of health insurance premium and health check-up is:

Before

Rs.30,000

After

Rs.50,000

Section 80- DDB

Amount paid for medical treatment of any disease or ailment can be claimed as a deduction while computing total income subjected to

Before

Senior Citizen - Rs. 60,000
Super Senior Citizen - Rs. 80,000

After

Senior & Super senior citizen - Rs. 100,000

Section 80- TTB

Senior citizen - assessee can claim deduction of interest income through savings deposit with maximum deduction of :

Before

Rs.10,000

After

Rs.50,000



Effective from AY 19-20

Direct Tax Reform: Perquisites



Expenditure actually incurred on medical treatment or treatment of any member of his family < Rs.15000/-

Effective from AY 19-20

Before

After

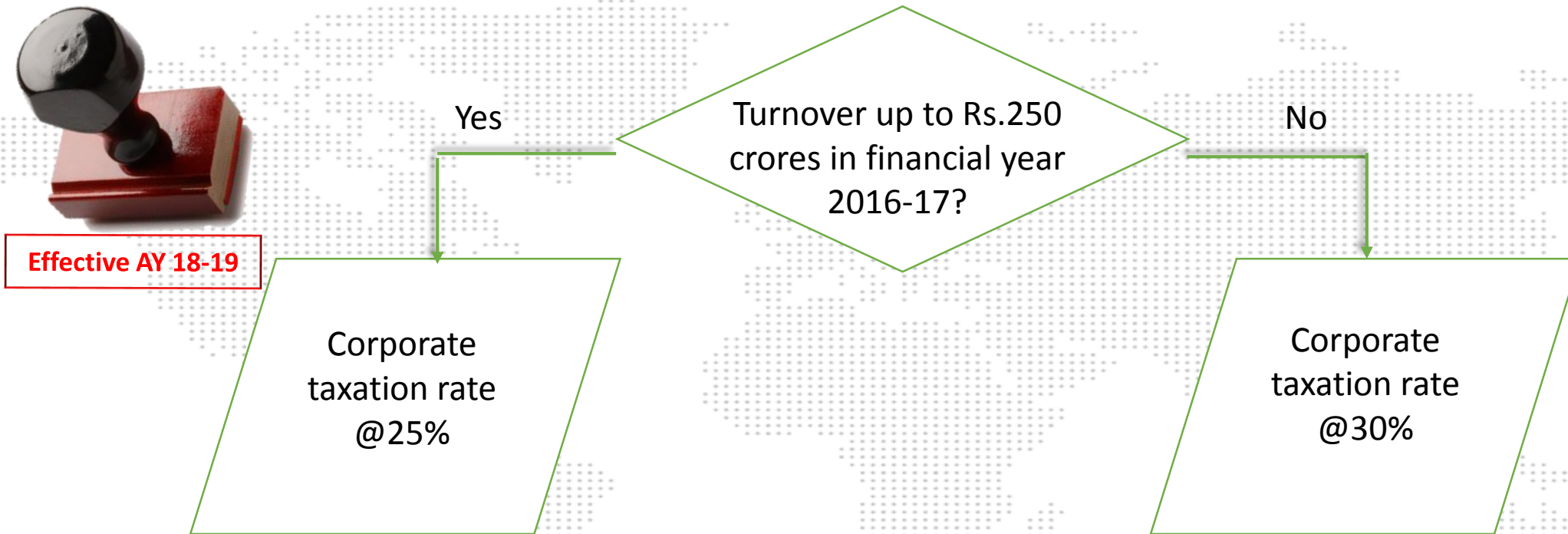


Not a Perquisite



Perquisite

Direct Tax Reform: Corporate Tax Rate



Further increase in threshold is a welcome relief for corporates in MSME segment, which is likely to benefit **99%** of the companies filing return.

Direct Tax proposal: Widening scope of business connection



Effective from AY 19-20

Business connection which includes any business activity carried by an authority to conclude contracts on behalf of the non-resident.

Before

Business connection includes only those activities carried through dependent agents by Non-resident

After

Business connection scope widened to include person who habitually plays principal role leading to conclusion of contracts. Also, it now includes significant economic presence which includes digital PE

Introduction of digital PE concept to tackle tax challenges in digital economy thereby shifting nexus from physical presence to digital presence

Direct Tax: Presumptive income for goods carriage



Effective from AY19-20

Estimated Income under 44AE

Before

Rs.7500 for every month or part per vehicle or actual amount , whichever is higher.

After

Heavy goods vehicle(12 MT Gross Vehicle)- Rs.1000/ton of gross vehicle weight for every month/part per vehicle or actual amount , whichever is higher.

For Principle of tax equity.

Direct Tax Reform: To promote start-ups

Section 80- IAC

100% deduction of profits derived from eligible business provided the following conditions are satisfied:

Before

Incorporated: On or after April 01, 2016, before April 01, 2019

Eligible Business: Means a business which involves innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property.

After

On or after April 01, 2016, before April 01, 2021

Means a business engaged in innovation, development or improvement of products or processes or services or a scalable business model with a **high potential employment creation and wealth generation.**

In order to encourage start-ups the definition of eligible business aligned with that notified by DIPP, further extending the benefit by three more years.

Direct Tax Reform: Agriculture Commodity Derivatives



Trading in Agricultural commodity derivatives

Before

Not a speculative transaction **only** if commodity transaction tax is charged.

After

Not a speculative transaction if the same is traded through a registered association.

Effective from AY 19-20

Provisions rationalized for trading in agricultural commodity derivatives.

Direct Tax Reform: To boost Employment

Standard deduction of **30%** shall be allowed u/s **80-JJAA** w.r.t. to emoluments paid to eligible **new** employees who have been employed for



Effective from AY 19-20

Before

240 days in general/ 150 days for apparel industry

After

240 days in general/150 days for apparel, **footwear** and **leather** industry.*

* **Days- Benefit available even if a new employee is employed for less than the minimum period during the first year but continues to remain employed for the minimum period in subsequent year.**

In order to encourage creation of new employment, it is proposed to extend this relaxation to footwear and leather industry.

Direct Tax Proposal: Exempt Entities

Disallowance for cash payments exceeding Rs.10,000 and 30% on payments on non deduction of TDS by trust



Effective from AY 19-20

Before



After



To encourage a less cash economy and to reduce the generation and circulation of black money

Direct Tax Reform: Deduction for Farm Producer Companies



100% deduction of profit of Co-operative society which provides assistance to its members

Effective from AY 19-20

Same is **proposed** to extend to **Farm Producer Companies (FPC)**, having a total **turnover** upto Rs.100 Crore, whose gross total income includes any income from-

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

Keeping in mind the agenda to double farmers income by 2022.

Direct Tax Proposal: To increase Tax Base

Compensation or other payment due to or received by any person in connection with termination or modifications of terms and conditions of Business, employment is :



Effective from AY 19-20

Before

After

Largely Un-Taxed

Irrespective of receipts being revenue or capital, same brought into the taxation.

Taxing a large segment of compensation receipts which previously went untaxed in connection with business and employment will now reduce base erosion and revenue loss.

Direct Tax Reform : Alternate minimum tax



A unit in International Financial Services center deriving its income solely from convertible foreign exchange is liable to:

Effective from AY19-20

Before

The adjusted total income is deemed to be the total income and tax is payable at 18.5%

After

Liable to pay tax at 9%

Promote the development of world class financial infrastructure in India.

Direct Tax Reform: Benefit of set off and carry forward of losses



Effective from AY19-20

Set off and carry forward of losses in case of Company seeking insolvency resolution under Insolvency and Bankruptcy Code, 2016.

Before

At least 51% of share-holding should remain same

After

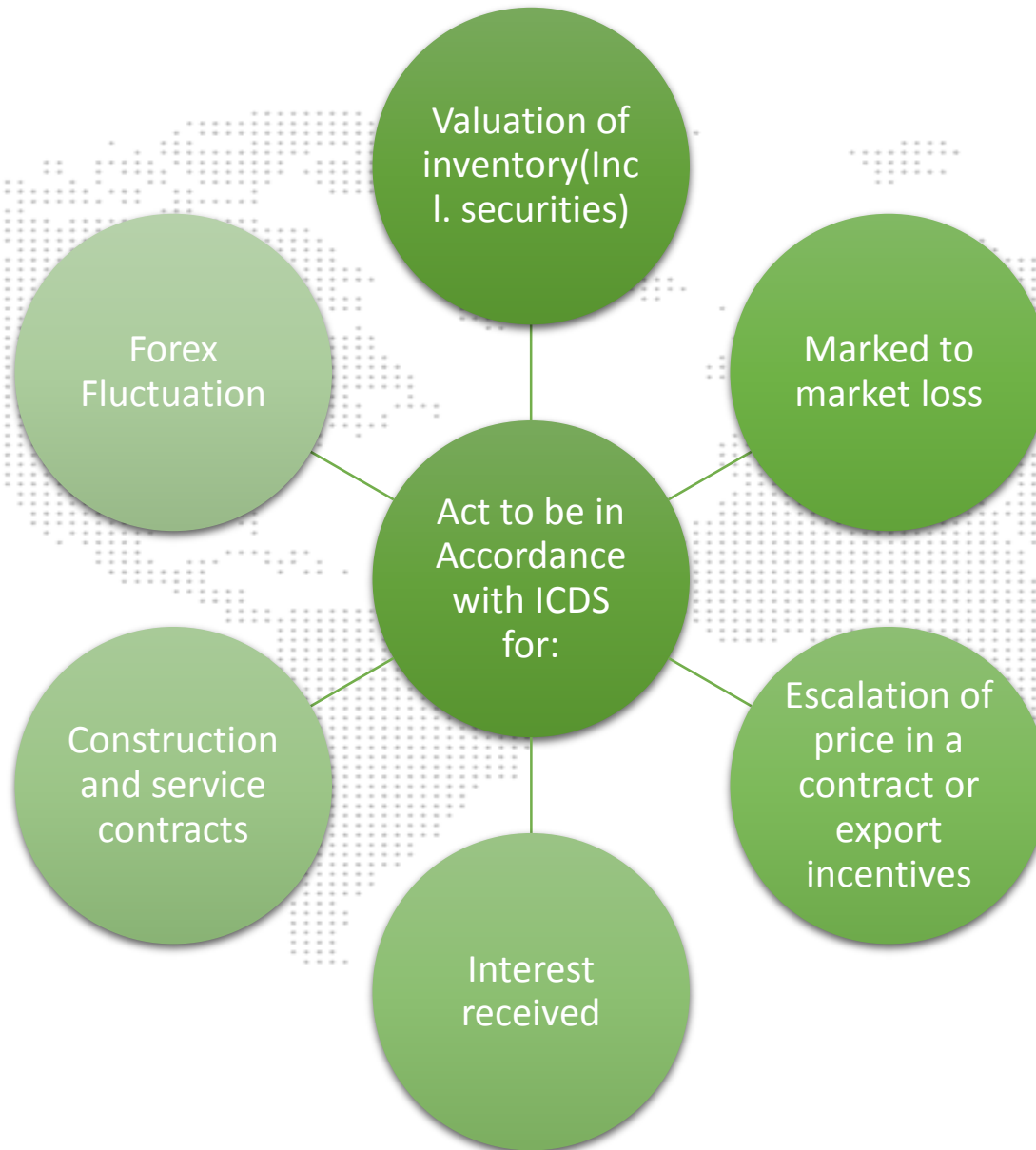
Continuity in 51% of share-holding is not required

Companies would be allowed to carry forward and set off losses for a longer period.

Direct Tax Proposal – Syncing Act & ICDS



Effective from AY 17-18



In order to bring certainty and regularize ICDS in the wake of recent judicial pronouncements on the issue of its applicability and legitimacy, plethora of amendments introduced retrospectively with effect from April 01, 2017 of ICDS

Direct Tax Proposal: Exemption under Capital Gains

Deduction under Sec 54EC can be availed for the investment made in NHAI and REC bonds (maximum 50 lakhs), where the lock-in period for the investment is,

Before

3 Years



Any long term capital asset

After

5 Years



Now : Restricted to Immovable Property (Land and Building)

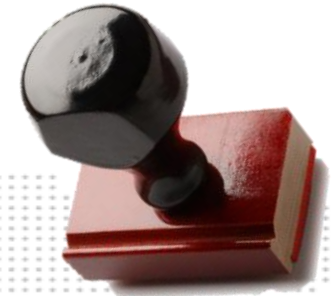


Effective from AY 19-20

Provisions rationalized and scope restricted, increasing the lock-in period by 2 years.

Direct Taxes Reform: Long Term Capital Gain

LTCG(Long term capital Gain) on sale of equity shares on which STT is paid



Effective immediately

Before

Exempt under 10(38)

After

Taxed @ 10% if the capital gain exceeds Rs.100,000 *

*** Capital gains accruing till January 31, 2018 shall be grandfathered and will not be taxable.**

The much anticipated introduction of LTCG is based on the theory that one who earns should pay tax. The government has displayed its confidence in the Indian Equity Markets as it no longer needs tax incentives to provide fillip this sector, the impact of tax alleviated by introducing grandfathering

Direct Tax Reforms: Stamp Duty Value



While taxing income from capital gains, business profits and other sources arising out of transactions in immovable property,

Before

Consideration < Stamp duty value(SDV)
Then, Stamp duty value = Consideration

After

SDV = Consideration,
Only if SDV > 105% of Actual consideration

Effective from AY 19-20

In order to minimize hardship in real estate transaction, a welcome incentive where variation can occur in respect of different properties in the same area because of a variety of factors including shape of the plot and location.



Effective from AY 18-19

Direct Tax Reform: Tax Neutral Transfers

Any person receiving money for any movable property transfer of capital asset :

Before

- Without Consideration and Fair Market Value(FMV) > Rs.50,000/- Taxed under IFOS
- Consideration < FMV – Difference > Rs.50,000/- Taxed under IFOS

After

- Not applicable where transfer of capital asset by company
- To WOS* where holding company is Indian company
 - To Holding company where WOS is Indian company

*WOS – Wholly owned subsidiary

To rationalize transactions between a parent company and its subsidiary.

Direct Tax Proposal: Streamlining Capital Gains



Conversion of inventory from stock in trade to capital asset taxed on :

Effective from 19-20

Before

- Actual sale of asset

After

Taxed immediately under PGBP
; Consideration = *FMV as on date of conversion
; Subsequent sale - Cost of acquisition = FMV

**FMV – Fair Market Value*

Symmetrical treatment and discourage the practice of deferring the tax payment by converting the inventory into capital asset.

Direct Tax Reform: Transactions not transfer



Effective from AY19-20

Any transfer of capital asset:

- a. Bond or GDR
- b. Rupee denominated bond of Indian Company
- c. Derivative

By a non-resident in foreign currency on a recognized stock exchange in any IFSC

Before

Transfer

After

Not a transfer

Promote the development of world class financial infrastructure in India

Direct Tax Proposal – DDT

Sec.115R – Dividend Payouts

Amount of income distributed to any person by an equity oriented fund



Now : DDT – 10% Tax



Before: No DDT

Sec.115O – Deemed Dividend

Deemed dividend under sub-clause (e) of clause (22) of section of 2 the Act



Now : Not a Deemed dividend – 30 % Tax (Without grossing up)



Before: Taxed in the hands of the recipient at applicable marginal rate



Effective from AY 18-19

DDT will reduce the in-hand return to investor, if the dividend option is opted for.
Stringent provision to collect up-front taxes brought in to reduce camouflaging of taxes

Direct Tax Proposal - Compliances



Effective from AY 17-18

Particulars	Existing - Due date	Proposed - Due date
CbCR Reporting	As per 139(1) - 30th Nov	12 Months from the end of the accounting year

To improve the effectiveness and reduce the compliance burden of such reporting.

Direct Tax Proposal: Penalties



Penalties 139(1)

Effective Date AY19-20

Before

Whose tax liability was less than Rs.3000 were exempted from the prosecution and other penal provisions

After

Now the same has been removed

Penalties u/s 276 CC made more stringent for companies

Direct Tax Proposal: Assessment



Under Sec.143(1), addition of income in form 26AS/16A/16 not included in total income in return:

Effective from AY 19-20

Before

- Shall be adjusted after intimation to assessee

After

shall be not adjusted in return



New scheme proposed for scrutiny assessments

Effective Date AY 18-19

- Scope of adjustments shall be restricted.
- Eliminating interface between AO and assessee and increase transparency and accountability.

Indirect Tax



Abolition of education cess and higher education cess on imported goods



Central Board of Excise and Customs-henceforth called Central Board of Indirect Taxes.



Levy of Social Welfare Surcharge on imported goods at 10% of aggregate of custom duties. (Exception: Motor spirit (Petrol & Diesel), Silver & Gold, rate is 3%)



Road and Infrastructure cess is to be levied on the goods manufactured/ produced/ imported into India, at the rates specified in **Schedule VI** for the purpose of financing infrastructure projects



Section 25A/25B have been inserted in Customs Act, to exempt the goods imported/ exported for repair, further processing or manufacture from payment of duties.

Indirect Taxes: BCD Rates

Particulars	Previous rate	Current rate
Fruit & Vegetable Juices including cranberry juice, miscellaneous Food preparations	30%	50%
Furniture, Watches and Clocks, Toys and Games, Perfumes and Toiletry preparations, Sunglasses, Seal and Numbering stamps, Smart Watches, Foot-ware, Silk Fabrics	10%	20%
Imitation Jewelry, Cellular Mobile Phones	15%	20%.
Imitation Jewelry, Cellular Mobile Phones	15%	20%
Truck and bus radical tires	10%	15%
Diamonds and precious stones	2.5%	5%
Re-factory items	10%	7%



Agricultural Reforms

Double farmers income by 2022

Operation green - To promote farmer producer organizations & agri-logistics associations - Rs.500crores

Minimum Support Price for crops hiked by 1.5 times

100% deduction to farmer producer companies, with Rs.100 crore turnover

Rs.200 crores allocated to organic farming sector

Restructured National Bamboo Mission – Allocation of Rs1290 crores

Corpus of Rs.2000 crores for Agri - Market Development Fund

Agricultural Credit-Rs.11 lakh crores.

Food processing Ministry– Allocation of Rs.1400 crores

Fishery and Animal Husbandry Infrastructure Development- Rs.10000 crores

GrAM (Gramin Agricultural Markets) electronically linked to e-NAM and exempted from regulation of APMCs

Favorable taxation treatment- to farm manufacturing sectors.

Health Care and Education Reforms

National Health policy - 1.5 Lakh Health centers set up - Rs.1200 crore allocation

National health care protection scheme - Covering 50 crores beneficiaries, providing Rs.5 Lakh per family per annum for 10 crores families

Nutritional support to TB patients at Rs.500 per month – Rs.600 crores allocation

To improve digitalization in the teaching field

Revitalization of the digital education system

1 Lakh crore allocation to improve education infrastructure – from black board to Digital board

Ekalavya Model Residential schools for ST population

Revitalizing Infrastructure in School Education- Rs.1 Lakh crore over 4 years

18 new schools of planning and architecture

Railway University in Vadodara

One Medical college per every three constituency

24 New government medical colleges and hospitals



Rural Development



Rs. 14.34 crore for providing livelihood to rural India through infrastructure building



5 Lakh Wi-Fi Hotspots to provide internet access to rural areas



Loan to Self Help Groups upto Rs.75,000 crores by March 2019



Pradhan Mantri Saubhagya Yojana - Electricity- Rs.16000 crores



Ujjwala Scheme - Free gas connection for 8 crore women

Infrastructure Reforms



Rs. 5.97 Lakh crores allocated for this sector

Redevelopment of 600 major railway stations

Mumbai Transport system being expanded for Rs.11,000 crores

Capex for Railways pegged at Rs.1.48 Lakh crores

UDAN to connect 56 Unserviced airports and 31 unserved helipads - To expand airport capacity to 1 billion trips/ year

NHAI to consider taking road assets into SPV

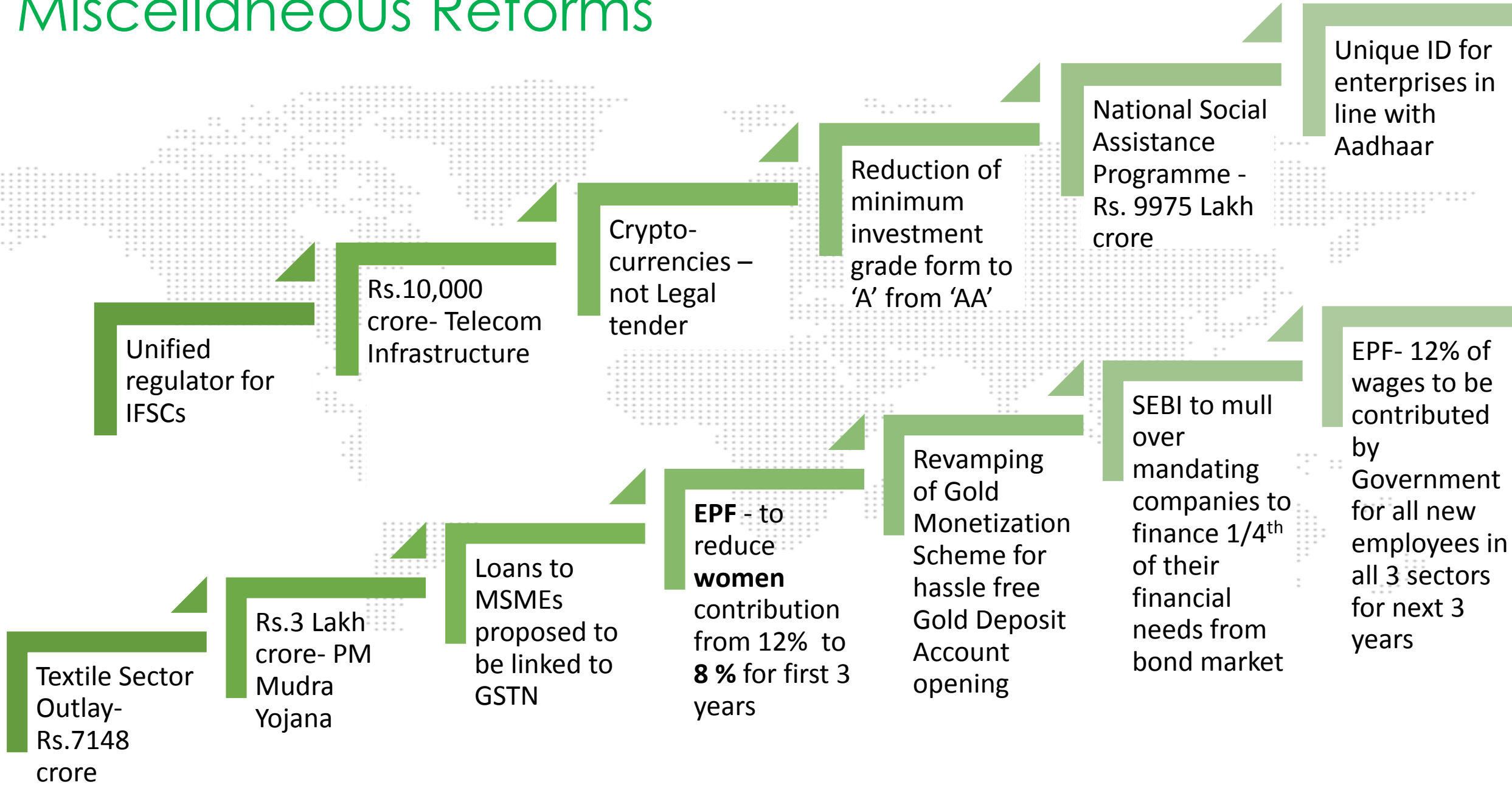
Digital India Program – Rs.3073 crores allocation

NITI Aayog to establish national programs towards Artificial Intelligence

Bharatmala Project – Rs. 5.35 lakh crores for better road connectivity

Mission on Cyber Physical Systems by Department of Science & Technology for robotics and internet of things

Miscellaneous Reforms



Let's Talk...



For a deeper discussion on how this issue might effect your business, please contact

Kannan (Ragu)nathan, Partner

Mobile: +91 98490 34032

[Email: raguk@sathguru.com](mailto:raguk@sathguru.com)

Siddharth Surana, Associate Manager

Mobile: +91 85000 14433

[Email: siddharths@sathguru.com](mailto:siddharths@sathguru.com)

K Vijayaraghavan & Associates LLP

Chartered Accountants

Plot No 54, Sagar Society,

Road No 2, Banjara Hills,

Hyderabad, 500 034

Tel: +91 (0) 40 3016 0333

