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India Budget – Proposed amendments to the Finance Bill, 2017 as tabled before the Lok Sabha and approved

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Background

- The Government on 21 March 2017 tabled the Finance Bill, 2017 ('the Bill') in Lok Sabha for approval with certain amendments which was passed by the Lok Sabha.
- The said amendments were also approved by the Rajya Sabha on 30 March 2017.
- The major amendments include the mandatory quoting of Aadhaar Number in return of income and PAN allotment form, deletion of TCS for cash receipts, reduction in the threshold limit for cash transactions, etc.
- Some of the important amendments are discussed below.

Proposed amendment to the Finance Bill 2017

Restricting the applicability of section 56(2)(x)

- The Bill proposed to insert clause (x) to section 56(2) of the Act wherein the anti-abuse provisions to tax sum of money or property received without consideration or for inadequate consideration was made applicable to all categories of persons.
- It is now proposed to provide the exemption from the aforesaid provision in respect of receipt of any sum or property from an individual to the trust created or established solely for the benefit of a relative of the individual.
- Further, consequential amendment has been proposed to include the said section under section 2(24) of the Act (i.e. definition of income).

Limitation of interest deduction on accrual basis [section 94B]

- The Bill had proposed to limit the deduction of interest payable by an Indian Company or a permanent establishment of a foreign company in respect of debt from its associated enterprise.
- In the Finance Bill it was proposed that the said section was applicable on payments of interest or similar consideration. It is now proposed to clarify that the said section will be applicable in case any expenditure by way of interest or similar nature has been incurred.

MAT provisions proposed to be modified in line with Ind AS

- The Bill had proposed the provisions relating to determination of book profits as per Minimum Alternate Tax wherein the guidelines in relation to first time adoption adjustments on account of transition to Ind AS were specified. In the said provisions, the term transition amount was defined to mean any amount or aggregate of the amounts adjusted in the other equity (excluding equity component of compound financial instruments, capital reserve and securities premium reserve) on the convergence date.
- It is now proposed to amend the aforesaid definition of transition amount whereby the equity component of compound financial instruments has been proposed to be deleted.
- Thus, as per the proposed amendment, transition amount shall also include adjustments made to the equity component of compound financial instruments.

Mandatory requirement of quoting Aadhaar Number in the return of income and PAN application

- A new section 139AA is proposed to be inserted which states that any person who is eligible to obtain Aadhaar Number on or after 1 July 2017 shall quote the said Aadhaar Number in the application form for allotment of Permanent Account Number ('PAN') as well as in his/her return of income.

- The section further states that every person who has been allotted PAN as on 1 July 2017 and who is eligible to obtain Aadhaar number shall intimate the same to the prescribed authority in a prescribed form and manner on or before a date to be notified in the Official Gazette.

TCS on cash transactions omitted

- The Bill had proposed to delete tax collected at source ('TCS') on purchase of jewellery in cash for an amount exceeding Rs. 5 lakhs and continue TCS in case of purchase of bullion and other goods in cash for an amount exceeding Rs. 2 lakhs.
- It is now proposed to even delete the applicability of TCS on purchases of bullion and other goods through cash payments thereby entirely deleting the existing provisions (1D) and (1E) of section 206C(1).
- Thus there will be no liability to collet TCS from the buyer.

Threshold limit for cash receipts reduced to Rs.2 lakhs

- The Bill had inserted section 269ST whereby it was proposed that no person shall receive an amount of Rs. 3 lakhs or more from one person in a single day or from a single transaction or in respect of transactions relating to one event or occasion from a person. Further, section 271DA was inserted whereby if a person contravenes the provisions of section 269ST, he shall be liable to pay a penalty of a sum equal to the amount of such receipt.
- It is now proposed to reduce the threshold for cash transactions from Rs. 3 lakhs to Rs. 2 lakhs.

Conclusion

- The relaxation of applicability of section 56(2)(x) to trusts receiving sum or property from an individual for the benefit of the relative is a welcome change as it removes worries on increased taxability on succession planning through family trusts.
- In line with the efforts of the Government to reduce cash transactions, it is now proposed to reduce the threshold for cash receipts from Rs. 3 lakhs to Rs. 2 lakhs.
- The Finance Act, 2017 received the assent of the President on 31 March 2017.

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