

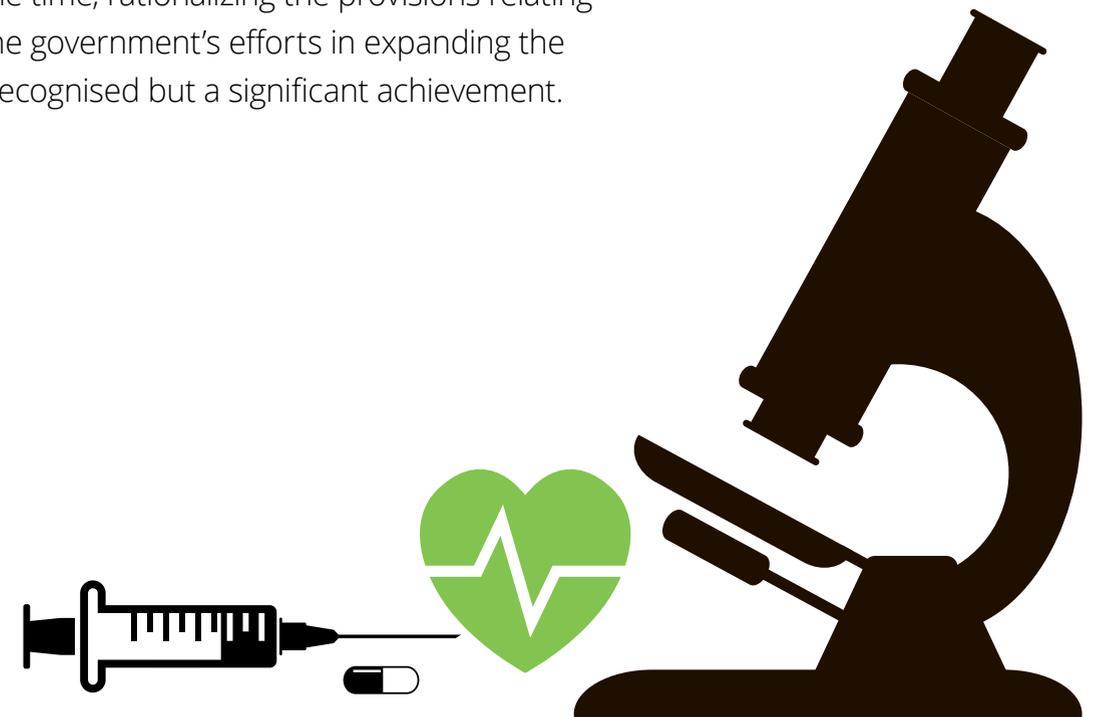




# Foreword

The Indian Union Budget 2017 was tabled in Parliament on 1 February 2017. At the outset, the Government has acknowledged the need to amend the Drugs and Cosmetics Rules to get drugs at reasonable prices and promote use of generic medicines. The Government also proposes to formulate new rules for regulating medical devices which will attract investments and reduce the cost of such devices.

In the much awaited budget post demonetization, the focus has been to de-incentivize cash transactions through tax provisions. Further, the Finance minister has tried to lure the corporates towards better compliance by reducing the corporate tax rates for small and medium sized industries and at the same time, rationalizing the provisions relating to processing of tax returns. The government's efforts in expanding the tax base is probably the least recognised but a significant achievement.





## Summary

In order to facilitate ease of doing business and to promote start-ups in India, amendments are proposed with regard to carry forward and set-off of tax losses and time period for claim of deduction. Further, amendments are proposed to move towards digital economy.

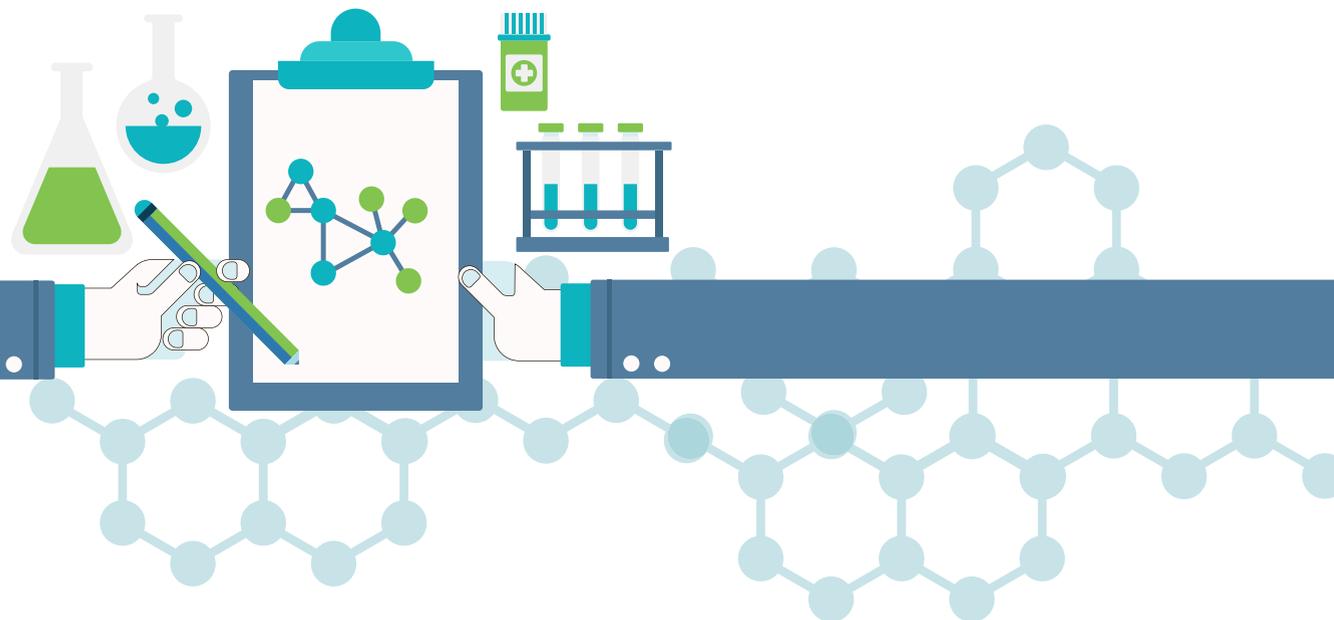
## Key highlights

- Reduction in corporate tax rate to 25% for domestic companies with less than Rs.50 Crores turnover.
- Start-ups will be eligible for deduction at 100% of the profits for three consecutive years out of seven years.
- Clarity on MAT provisions which are aligned with the Ind-AS.
- No assessee shall receive payment exceeding Rs.3 lacs in cash subject to certain exceptions.
- No Research and Development Cess on import of technology.



# Policy Updates

- Two new AIIMS to be set up in Jharkhand and Gujarat.
- Introduction of Aadhar based smart cards for senior citizens containing health details through a pilot project in 15 districts during 2017-18.
- To amend the Drugs and Cosmetics Rules to get drugs at reasonable prices and promote use of generic medicines.
- To formulate new rules for regulating medical devices which will attract investments and reduce the cost of such devices.
- To create additional 5,000 seats p.a. to ensure availability of specialist doctors to strengthen Secondary and Tertiary levels of health care.
- Prepared an action plan to eliminate Kala-Azar and Filariasis by 2017, Leprosy by 2018 and Measles by 2020. Elimination of tuberculosis by 2025 is also targeted.
- Prepared an action plan to reduce IMR to 28 by 2019 and MMR to 100 by 2018-2020.
- Transformation of 1.5 lakh Health Sub Centres into Health and Wellness Centres.



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Budget allocation for Ministry of Health and Family Welfare increased from Rs.38,206 Crores to Rs.48,853 Crores

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Budget allocation for Education and Health increased from Rs.112,138 Crores to Rs.130,215 Crores

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Budget allocation for National Health Mission increased from Rs.20,762 Crores to Rs.27,131 Crores

# Direct Tax

## Tax rates:

- Corporate tax rate for domestic companies is reduced to 25% plus surcharge and cess if turnover is less than Rs.50 Crores in FY 2015-16. In all other cases, tax rate remains unchanged.

## Start-ups:

- Start-ups will be eligible for deduction at 100% of the profits for three consecutive years out of seven years at the option of the assessee and subject to fulfilment of the specified conditions.
- For the purpose of carry forward of losses incurred by start-ups in the first seven years, the condition of continuous holding of 51% of voting rights has been relaxed subject to the condition that the original promoter/promoters do not transfer their shares.

## Promoting Digital Economy

- Income for assessee whose turnover does not exceed Rs.2 Crores shall be deemed at 6% of the turnover for the amounts received by non-cash means.
- Cash expenditure allowable as deduction, both for revenue as well as capital expenditure is limited to Rs.10,000 in a single day.
- No assessee shall receive payment exceeding Rs.3 lacs in cash subject to certain exceptions.

## Non-resident

- Capital gains exempt on transfer of a rupee denominated bond by a non-resident to a non-resident.
- Conversion of preference share of a company into its equity share shall not be regarded as transfer.
- Benefit of reduced withholding tax rate of 5% on interest payable on external commercial borrowings or bonds including Rupee Denominated (Masala) Bonds issued outside India extended to 30 June 2020.
- Interest exceeding Rs.1 Crore paid by an Indian company or PE of a foreign company, in excess of 30% of earnings before interest, taxes, depreciation and amortisation, or interest paid to its associated enterprise, whichever is less, shall not be allowed as deduction in computing its taxable profit. The interest so disallowed can be carried forward and set off for eight assessment years.

Start-ups will be eligible for deduction at 100% of the profits for three consecutive years out of seven years subject to certain conditions



## MAT/ AMT

- MAT provisions amended to align it with the Indian Accounting Standards (Ind-AS).
- MAT/ AMT credit is allowed to be carried forward up to a period of 15 years.

## Limiting the scope of specified domestic transactions

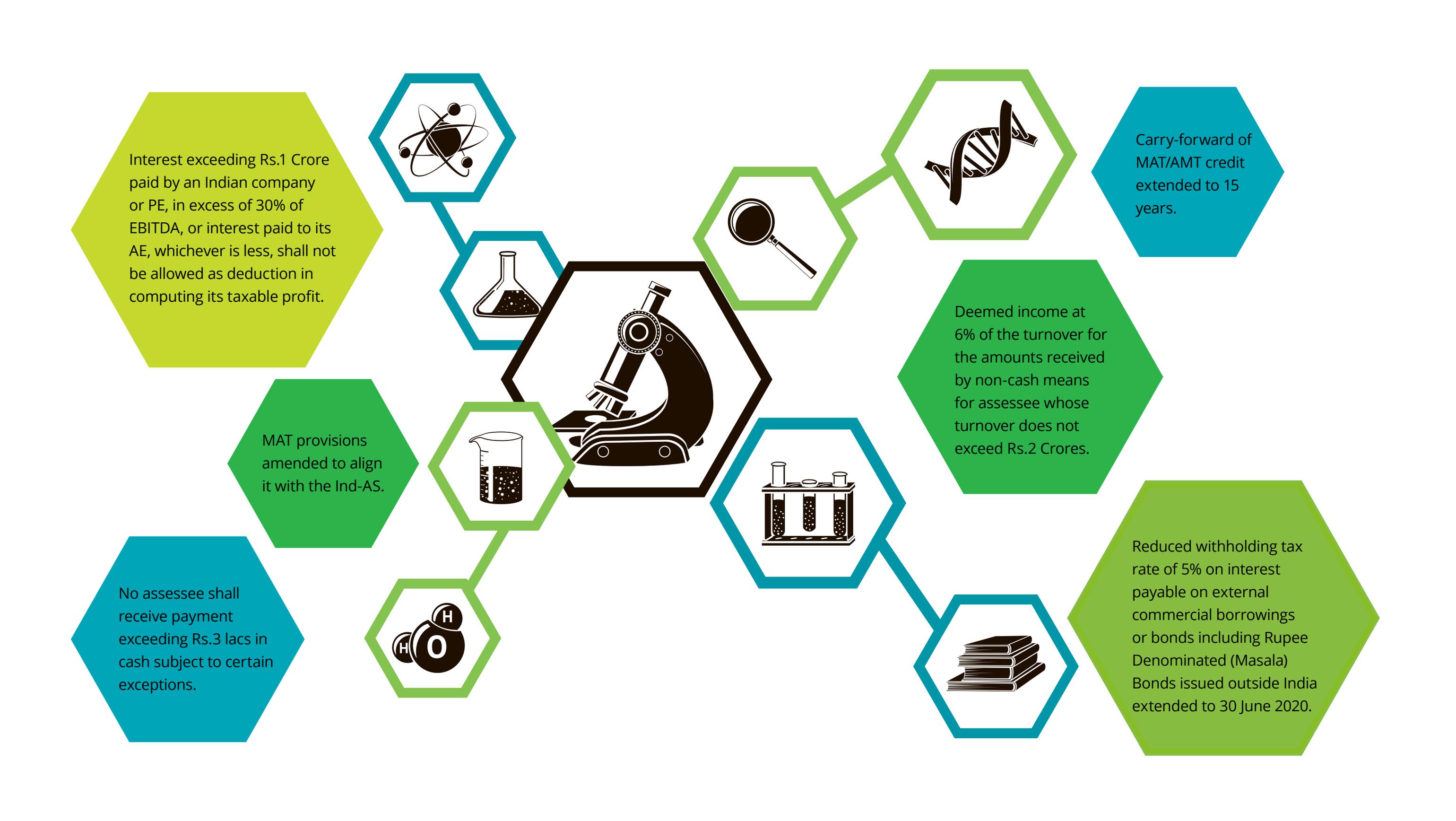
- Exclusion of transactions relating to payment of expenditure made by the assessee to a defined related person, from the scope of specified domestic transaction
- Proposal made in order to reduce the compliance burden of taxpayers

## Introduction of Secondary Adjustment

- It is proposed to introduce secondary adjustment in the hands of the assessee, by recharacterising the primary transfer pricing adjustment, as a deemed advance made by the assessee to the associated enterprise in case the excess money is not repatriated to India within the prescribed time, leading to imputation of notional interest.
- No secondary adjustment shall be made prospectively if the amount of primary adjustment does not exceed Rs.1 Crores rupees, or the primary adjustment pertains to assessment year 2016-17 or before.



Corporate tax rate for domestic companies is reduced to 25% plus surcharge and cess if turnover is less than Rs.50 Crores in FY 2015-16



Interest exceeding Rs.1 Crore paid by an Indian company or PE, in excess of 30% of EBITDA, or interest paid to its AE, whichever is less, shall not be allowed as deduction in computing its taxable profit.

MAT provisions amended to align it with the Ind-AS.

No assessee shall receive payment exceeding Rs.3 lacs in cash subject to certain exceptions.

Deemed income at 6% of the turnover for the amounts received by non-cash means for assessee whose turnover does not exceed Rs.2 Crores.

Reduced withholding tax rate of 5% on interest payable on external commercial borrowings or bonds including Rupee Denominated (Masala) Bonds issued outside India extended to 30 June 2020.

Carry-forward of MAT/AMT credit extended to 15 years.

# Indirect Taxes

## Customs

- Basic Customs Duty on 2-Ethyl Anthraquinone for use in manufacture of Hydrogen Peroxide, is being reduced from 7.5% to 2.5%.
- Further, the concessional 2.5% BCD on Anthraquinone [2914 61 00] prescribed in Budget 2015-16, is being restricted for use in manufacture of Hydrogen Peroxide.
- Basic Customs Duty on Purified Terephthalic Acid (PTA), Medium Quality Terephthalic Acid (MTA) and Qualified Terephthalic Acid (QTA), is being rationalized at 5%.
- Basic Customs duty on Nickel and articles thereof is being reduced from 2.5% to Nil.

## Service tax

- Service tax rate continues to be 15% (inclusive of Swachh Bharat Cess and Krishi Kalyan Cess).
- Services by way of carrying out any process amounting to manufacture or production of goods excluding alcoholic liquor for human consumption are proposed to be omitted from the negative list and covered under Mega Exemption Notification.

## R & D Cess

- Research and Development Cess Act, 1986 is proposed to be repealed.
- Currently, Notification No. 14/2012-ST dated 17-03-2012 exempts taxable service involving import of technology from so much of the Service tax leviable thereon as is equivalent to the amount of R & D cess payable on the said import of technology. Such exemption will be discontinued once R & D Cess Act is repealed.





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