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Direct Tax





Personal Taxation



Tax Rates

- No change in income slabs or tax rates or surcharge
- Education cess of 3% substituted with Health and Education cess of 4%

Withdrawals from NPS

• 40% of the withdrawals from National Pension System (NPS) was tax exempt for employees. This has now been extended to all assesses.

Standard Deduction

• Standard deduction of INR40,000 or amount of salary received whichever is less has been introduced. Exemptions currently available for Transport Allowance amounting to INR19,200 per annum and reimbursement of medical expenses amounting to INR15,000 per annum is proposed to be withdrawn. Transport allowance exemption for differently abled persons to continue.

Personal Taxation



Capital Gains

• The period of lock-in for specified bonds for investment of capital gains under section 54EC is increased to 5 years from 3 years. For this purpose, long term capital assets are now limited to Land, Building or both.

Increased deductions for health insurance and treatment relating to senior citizens

- Deductions under Section 80D for health insurance premium, preventive health check up or medical expenditure in respect of senior citizens enhanced to INR50,000 as against current overall limit of INR30,000. In case of a single premium policy having cover for more than one year, the deduction shall be available on a proportionate basis for the period of cover.
- Deduction under section 80DDB in respect of medical treatment of specified diseases relating to senior and very senior citizens has been enhanced to INR100,000 from the existing limits of INR60,000 and INR80,000 respectively.

Benefits to Senior citizens

 Deduction of INR50,000 against interest income on deposits held by senior citizens introduced. Current exemption of INR10,000 available for interest on savings account no longer separately available. The threshold for tax withholding on such interest income is also raised to INR50,000

Personal Taxation



PF contributions for new employment

- As a measure to boost employment generation, currently Government contributes to the PF/Pension of new employees for a period of three years where specified conditions are met at the below rates
 - 12% in case of textile, leather and footwear industries
 - 8.33% for all other sectors.
- The Government has now proposed that 12% contribution by the Government would be applicable to all sectors.
- To incentivize employment of women in formal sector and to enable higher take home wages, women employees contribution for first three years of employment is proposed to be reduced to 8%. Employer contribution to continue at current rates.



Rates of Tax

- Corporate tax rate reduced to 25% (plus applicable surcharge and cess) for domestic companies with total turnover or gross receipts not exceeding INR2,500 million for assessment year 2017-18
- Education cess of 3% removed and replaced by health and education cess of 4%

Anti-abuse provisions

- Scope of accumulated profits widened for purposes of deemed dividend
 - In case of an amalgamated company, accumulated profits (whether capitalized or not) or losses, shall be increased by accumulated profits of the amalgamating company (whether capitalized or not) on the date of amalgamation

Non-resident taxation

- The provisions of section 115JB would not be applicable when the income is computed on presumptive basis in terms of the provisions of section 44B, section 44BB, section 44BBA or section 44BBB.
- Transfer of a capital asset being bond or global depositary receipt under section 115AC of the Act or rupee denominated bond of an Indian company or derivative by a non-resident on a recognized stock exchange located in International Financial Services Center to be exempt where the consideration is paid or payable in foreign currency

Royalty and fees for technical services payment by National Technical Research Organization to a non-resident to be exempt from tax



- Definition of the term "business connection" under section 9 proposed to be expanded and aligned to the scope of agency PE under the BEPS /MLI provisions.
- Business connection to include significant economic presence
 - Significant economic presence shall mean:
 - transaction in respect of goods, services or property carried out by a non-resident in India including provision for download of data or software in India (if payments exceed threshold to be prescribed); or
 - Systematic and continuous soliciting of its business activities or engaging in interaction with number of users (as may be prescribed),
 in India through digital means
 - The existing tax treaties would not be impacted by the concept of significant economic presence, however attempts will be made to include this concept in the future Indian tax treaties.

Facilitating insolvency resolution

- Losses of companies under insolvency now allowed to be carried forward and set-off despite change in shareholding by more than 49%
- For the purpose of computing book profits, aggregate of unabsorbed depreciation and loss brought forward shall be reduced for companies under insolvency (the rule of lower of unabsorbed loss or unabsorbed depreciation relaxed).
- Going forward return of income of company under insolvency to be verified by an insolvency professional appointed by the Adjudication Authority under the Insolvency and Bankruptcy Code 2016



Start ups

- Tax benefit to start-ups modified
 - Benefit available to start-ups incorporated before 1 April 2021
 - Turnover not exceeding INR250 million applicable for 7 years
 - Definition of eligible business expanded to include innovation, development or improvement of products or processes or services or a scalable business model with high potential of employment generation or wealth creation

Incentive for employment generation

- Conditions related to deduction in respect of employment of new employees under section 80JJAA of the Act relaxed
 - Minimum 150 day period threshold also made applicable to footwear and leather industry
 - Deduction allowable for new employee who is employed for less than minimum period during the first year but continues to remain employed for the minimum period in the subsequent year

ICDS and ISFC

- To bring certainty as regards applicability of Income Computation and Disclosure Standards various provisions of the Act are amended. This is in view of the recent judicial precedent.
- Alternate Minimum Tax for a unit located in International Financial Services Center to be 9% (plus applicable surcharge and cess)



Dividend and dividend distribution tax

- Deemed dividend in the nature of loans and advances given by closely held companies shall be subject to Dividend Distribution Tax at 30%.
- Equity Oriented Mutual funds to be liable to pay tax at the rate of 10% on income distributed to unit holders

Tax on transfer of immovable property

• No adjustments to sale consideration, in respect of transfer of immovable property, will be required if the difference between the stamp duty value and sale consideration on transfer of immovable property is not more than 5%

Agriculture related

- Trading of agricultural commodity derivatives which is even not charged to commodity transaction tax shall be treated as non-speculative
- 100% deduction in respect of income of farm producer companies for period of 5 years introduced (having turnover upto INR 1,000 million)

Others

- Compensation (capital or revenue) for termination or modification of a contract relating to business to be taxable as business income and relating to employment to be taxable as income from other sources
- Disallowance for certain cash payments would be applicable to certain entities claiming benefit of section 10(23C)
- · Conversion of stock-in-trade to capital asset to be taxable as business income at the fair market value ('FMV') as on date of conversion

· New scheme for scrutiny assessments (e-assessments) to be introduced by way of notification

Capital gains



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• Long term capital gains on sale of an equity share of a listed company or a unit of an equity oriented fund or unit of a business trust by all assessees (including FII) in excess of INR 0.1 million shall be taxable at 10% subject to satisfaction of certain conditions

Transfer Pricing



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• Provisions of section 286 relating to reporting regime for Country by Country Report amended to improve effectiveness and reduce compliance burden.

Indirect Taxes





Excise



Changes in Basic Excise Duty on motor spirit (petrol) and high speed diesel oil (effective from February 2, 2018):

Commodity	Existing Rate (per litre)	Revised Rate (per litre)
Unbranded Petrol	6.48	4.48
Branded Petrol	7.66	5.66
Unbranded Diesel	8.33	6.33
Branded Diesel	10.69	8.69

- Additional Duty of Excise (Road Cess) of INR 6 per litre on motor spirit (petrol) and high speed diesel oil will be abolished upon enactment of the Finance Bill, 2018. Till the enactment of Bill, levy of road cess has been exempted on domestically manufactured and produced petrol and high speed diesel.
- Levy of Road and Infrastructure Cess of **INR 8 per litre**, on motor spirit (petrol) and high speed diesel oil effective immediately. Following exemption has been notified:
 - 50% exemption (INR 4 per litre) on petrol and diesel manufactured and cleared from 4 specified refineries in the North-East
 - Full exemption (INR 8 per litre) on specified categories of ethanol blended petrol and bio-diesel provided applicable excise duty and GST has been paid on petrol/diesel and ethanol/bio-diesel respectively

Total excise duty on petrol and high speed diesel remains unchanged

Service tax



Retrospective exemptions granted w.r.t

- Life Insurance services provided to Coast Guard personnel by the Naval Group Insurance Fund (for the period 10 September 2004 to 30 June 2017)
- Services by Goods and Services Tax Network to Central Government, State Government or Union Territories (for the period 28 March 2013 to 30 June 2017) and
- Government's share of profit petroleum on services by Government by way of grant of license or lease to explore / mine petroleum crude or natural gas or both (for the period 1 April 2016 to 30 June 2017)

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Glimpses of Budget 2018

Glimpses of Budget 2018

Customs



- The Customs Act, 1962 will also apply to any offence or contravention committed outside India by any person unless specified otherwise
- Definition of 'Indian Customs Waters' has been amended to extend its limit to 'Exclusive Economic Zone' of India
- Provisions introduced in Customs Act, 1962 to provide legal backing for risk based selection of self-assessment through customs automated system
- Government is now empowered to exempt goods:
 - Imported for repair, further processing or manufacture
 - Re-imported for repair, further processing or manufacture after exports.
- Pre-notice consultation to be made with the person chargeable with duty before the issuance of SCN in cases not involving fraud, mis-representation etc.
- Provision introduced for issuance of supplementary SCN in specified circumstances
- Adjudication proceedings to be completed within the defined time frame except certain exceptions. In case the proceedings are not completed within the time frame, it shall be deemed as if no notice is issued.
- The scope of advance ruling has been broadened to include matters beyond determination of duty and requirement of proposed activity has been done away with
- Application for advance ruling is to be made to Custom Authority for Advance Rulings (CAAR) and appeal against the order of CAAR can be made before Authority for Advance Ruling set under the Income Tax Act.
- Facility of electronic cash ledger has been introduced and the payment of duty, interest and penalty can be made though cash ledger

Customs



- · Education cess and secondary and higher education cess abolished
- A new levy in form of Social welfare surcharge at the standard rate of 10% on aggregate of customs duties (except on IGST and compensation cess) has been introduced effective immediately
- Increase in BCD for cellular mobile phones, its specified parts and accessories (including lithium ion battery), Printed Circuit Board Assembly (PCBA) of charger/adaptor and moulded plastics of charger/adaptor; Reduction in BCD for parts or inputs for manufacture of PCBA or moulded plastics of charger/adaptor of cellular mobile phones
- Increase in BCD for CKD and CBU (except 8703) imports of motor vehicles and specified automobile parts
- Increase in BCD for preform of silica used in manufacture of telecom grade optical fibres or optical fibre cables
- Nil BCD for solar tempered glass used for manufacture of solar cells/panels/modules
- Increase in BCD for goods including edible oils, fruit and vegetable juices, miscellaneous food preparations (2106 90), perfumes and toiletry
 preparations, LCD/LED/OLED panels and other parts of LCD/LED/OLED TVs, specified parts for manufacture of LCD/ LED TV panels, watches
 and clocks, etc.
- Schedule II to Customs Tariff Act, 1975 amended to provide Nil rate of export duty on all other goods which are not specifically mentioned in schedule
- The existing Road Cess (levied at INR 6 per litre) on Petrol and High Speed Diesel has been replaced with the new Road and Infrastructure
 Cess (to be levied at INR 8 per litre). However, the total duty incidence on import of both the products remains the same as the corresponding
 reduction (of INR 2) has been made in CVD levied in lieu of basic excise duty

Others



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- No announcements with respect to Goods and Services Tax ('GST')
- Central Board of Excise and Customs to be renamed as the Central Board of Indirect Taxes and Customs (effective from date of enactment of Finance Bill)

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