Deloitte.

Union Budget 2018
Highlights

1 February, 2018

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Economy snapshot

Economy snapshot

GDP likely to move up

GDP growth budgeted at 7.2% FY19

CAD to remain under control

CAD at 2% of GDP in FY19

Monetary policy in neutral mode

RBI likely to go in for a long pause on rates

Foreign fund inflows have improved

FDI inflow of USD~43.5 billion in FY17, added USD 25.4 bn as of 2QFY18

Fiscal consolidation paused

New roadmap, deficit budgeted at 3.3% of GDP in FY19

Inflation pressures to remain

CPI at 5.2% in Dec'17, likely to remain above 5% in the near term

INR expected to weaken through the year

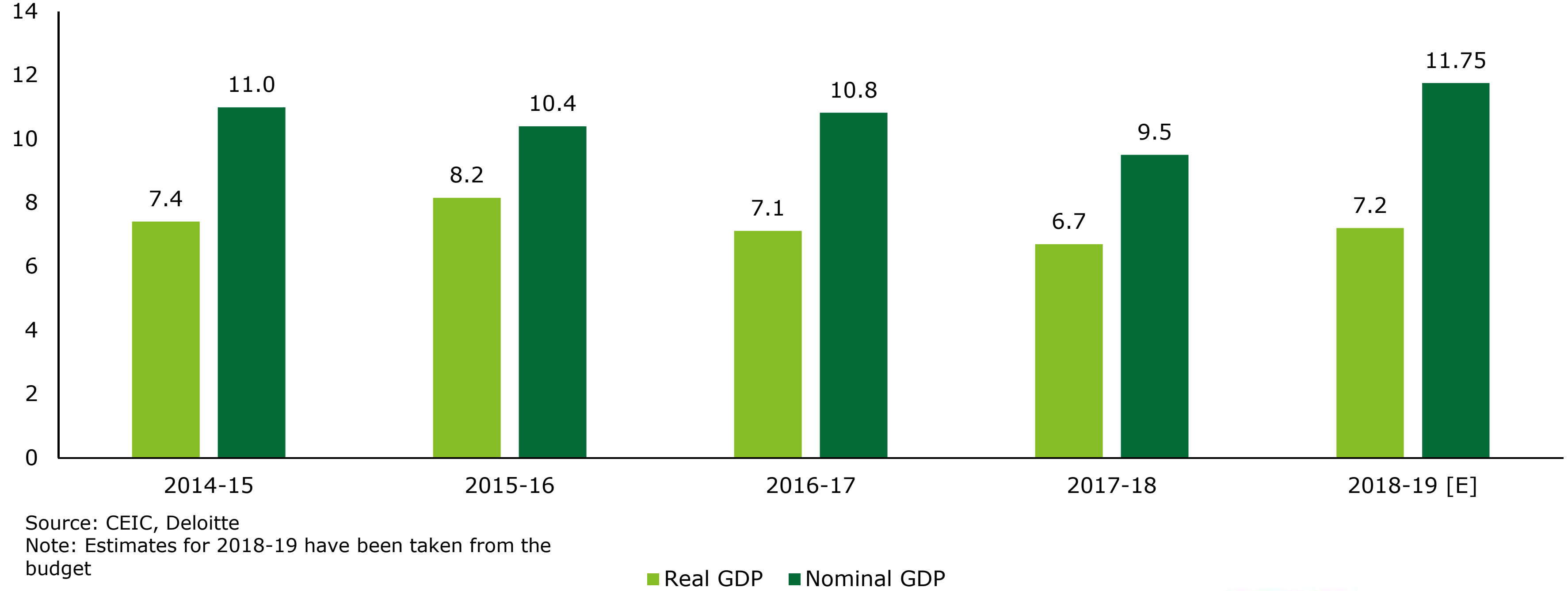
At 63.61, likely to move towards 66 per US$

Exports likely to move up as global growth gathers pace

Exports rose by 12.4% in Dec'17

GDP growth likely on an upturn
Government pushing structural factors

Real and Nominal GDP (YoY%)



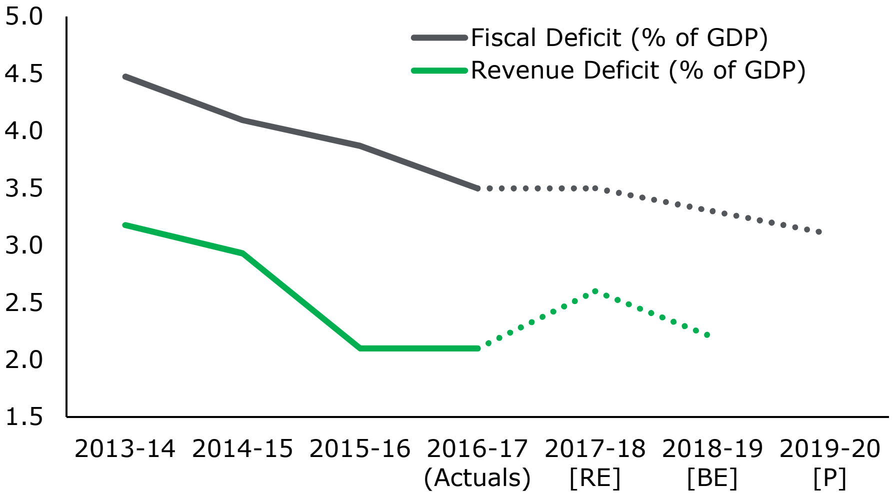
Source: CEIC, Deloitte
Note: Estimates for 2018-19 have been taken from the budget

Budget proposals to boost growth

- Higher fiscal deficit to support growth over the next one year
- Increase from INR 4940 billion for FY18 in infrastructure spend to INR 5970 billion in FY19
- Corporate tax rate for companies with up to INR 250 billion turnover has been reduced to 25% from 30%
- Increased credit target for agriculture at INR 11,000 billion

Fiscal Deficit
A new roadmap

Fiscal Deficit and Revenue Deficit (% of GDP)



Source: CEIC, Deloitte

Expenditure on Subsidies (INR billion)

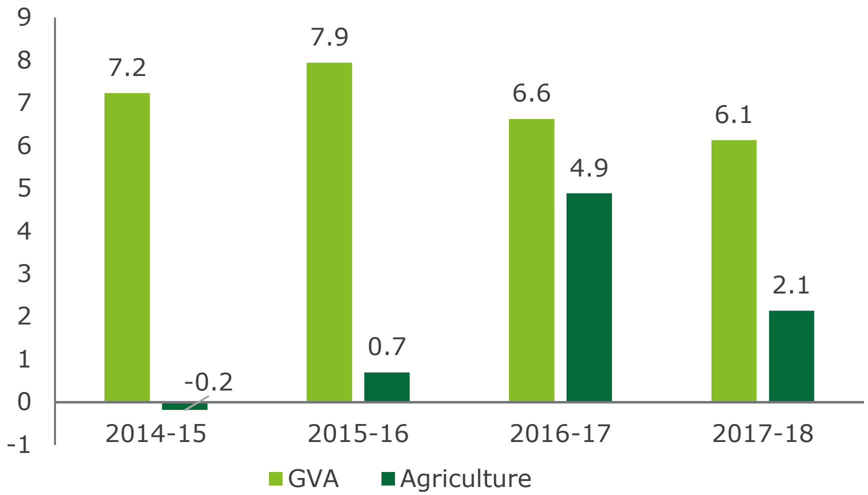
Year	Food Subsidy	Fertilizer Subsidy	Petroleum Subsidy	Crude Prices (USD/Barrel)
2015-16	854	603	300	47.3
2016-17 (Actual)	1102	663	275	48.5
2017-18 (RE)	1403	650	245	55.5
2018-19 (BE)	1693	701	249	~75

Data Source: CEIC, Deloitte

- New fiscal roadmap, government to achieve 3% deficit by FY21 rather than FY19
- Tax revenues budgeted to grow at a healthy 16.6% in FY19, up from 15.3% in FY18
- Current year slippage at 0.3% of GDP, while target for FY19 kept at a realistic 3.3%
- Disinvestment target kept at INR 800 billion despite achieving INR 1000 billion in FY18
- Subsidies to remain broadly stable despite increase in crude oil prices.

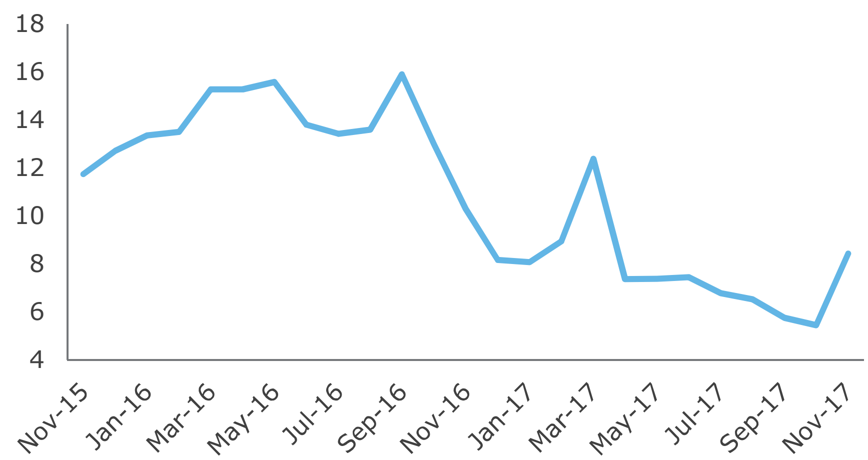
Focus on Agriculture
Measures to alleviate stress

Trends in Agricultural Growth (%, y-o-y)



Source: CEIC, Deloitte 2017-18* is as per Advance Estimates

Credit Growth to Agriculture (%, y-o-y)



Source: CEIC, Deloitte

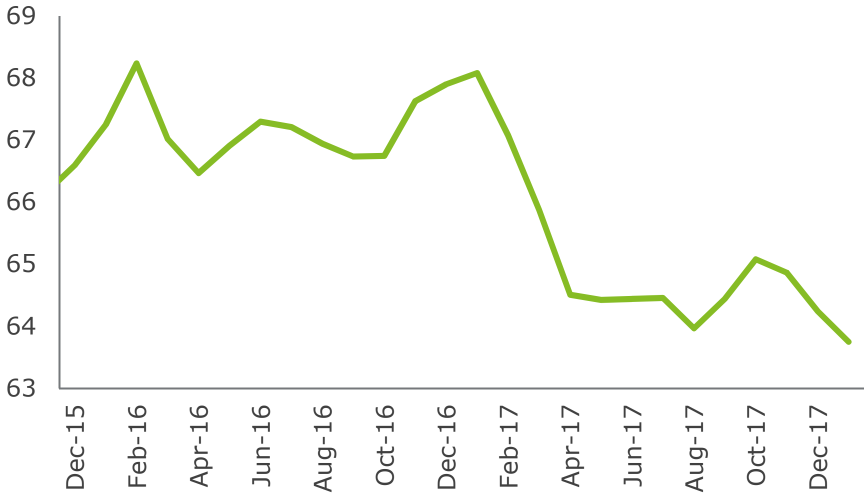
Budget proposals

- MSPs to increase by 1.5 times of production cost; give a boost to the farm sector
- Irrigation to get INR 260 billion while the government will set up Long term Irrigation Fund in NABARD for funding requirements of irrigation
- Institutional credit raised from INR 1000 billion in FY18 crore to 1100 billion in FY19
- Budgeted MGNREGA spend raised to INR 5500 billion in FY19 from 4800 billion in FY18
- Develop and upgrade existing 22,000 rural haats into Gramin Agricultural Markets. Physical infrastructure to be provided using MGNREGA and other Government Schemes

External sector

Exports likely to perform better; INR likely to weaken

Exchange Rate Movement (INR/USD)



Source: CEIC, Deloitte

*Jan value is as of 30 Jan'18

Trade Flows (%, y-o-y)

Source: CEIC, Deloitte

2017-18* is only until Dec'17

Budget proposals

- In a move to boost local value addition in domestic electronics manufacturing, customs duty on mobile phones have been raised from 15% to 20%
- Budget outlines 372 point plan for states for promoting the ease of doing business
- The central government will evaluate the performance of states supported by feedback from industry. Looking ahead, the government is targeting to be among top-50 countries in the overall ease of doing business rankings.

Digital India
Continuing focus on digital economy

Budget proposals

- Allocation to Digital India scheme doubled to INR 307.3 billion
- Budgetary allocation for the Department of Science and Technology (DST) increased. Additional funds have been allocated to boost the adoption of new technologies like AI and robotics
- With an aim to boost research, training and skilling in new technologies, DST will launch a mission on cyber space to support the establishment of centre of excellence and in this regard, the allocation on the Digital India program has been doubled to INR 30.7 billion for FY19
- 5 lakh WiFi HotSpots to provide Broadband access to 5 crore rural citizens, at the cost of INR 100 billion
- Government to take measures to stop cryptocurrency circulation, as it is not considered legal tender
- Government to explore the usage of Blockchain technology
- Government to look into evolving a scheme to assign a unique ID for companies

Broader policy initiatives

Preparing the ground for sustainable growth

Budget proposals

- Proposed a unified regulator for the International Financial Services Centre (IFSC) at GIFT City in Gujarat for better regulation and supervision of the financial entities. The GIFT (Gujarat International Finance Tec-City) has been set up by the state government as India's first IFSC which brings together world class infrastructure, connectivity, people and technology on a single platform for businesses across the world

- Aim to move from black boards to digital board schools by 2022. INR 1000 billion allocated to revitalization and upgradation of the education sector

- New flagship national health protection scheme slated to provide health insurance cover of INR 0.5 million per family per year. The scheme will cover about 100 million vulnerable families with close to 500 million beneficiaries.

- Possible boost to services as the government intends to convert 10 popular tourist destinations into iconic model destinations. Broader adoption can give a number of associated services a boost

Indirect Tax

Indirect Tax Budget Proposals
Changes in Customs Rates & Cess

- Customs Duty on various products increased
- EC and SHEC on imported goods abolished
- Social Welfare Surcharge (SWS) introduced, as Customs duty, on all imported goods:
  - 3% on import of Petrol, HSD, Silver and Gold
  - 10% on all other imported goods (except goods which were hitherto exempt from EC and SHEC)
- Ad-valorem rate of SWS will be on aggregate of Customs Duty (excluding IGST, GST compensation cess, Anti Dumping Duty, Safeguard Duty, etc.)- essentially on BCD

Indirect Tax Budget Proposals
Customs – Changes in Rates

Capital Goods and Electronics

Description	BCD rate (Current)	BCD rate (Proposed)
PCBA for chargers of Mobile Phones	Nil	10%
Silica (used for Telcom/ optical fibre cables)	Nil	5%
Specified Parts for Mfg of Panels of LCD/LED TV	Nil	10%
Solar tempered glass for Mfg of solar cells	5%	Nil
Inputs for manufacture of PCBA or moulded plastics for chargers of Mobile Phones	Appl. rate	Nil
Specified Inputs for Manufacture of CNC Machine Tools	7.5%	2.5%

Indirect Tax Budget Proposals
Customs – Changes in Rates

Automobiles

Description	BCD rate (Current)	BCD rate (Proposed)
Specified Radial tyres (Bus and Truck)	10%	15%
Specified parts of motor vehicles	7.5%-10%	15%
CKD parts of motorized four and two wheelers	10%	15%
CBU Import of Motor vehicle	20%	25%

Diamond and Precious Stones

Description	BCD rate (Current)	BCD rate (Proposed)
Specified Diamond	2.5%	5%
Colored gemstones	2.5%	5%

Indirect Tax Budget Proposals

Customs – Changes in Rates

Electronic products

Description	BCD rate (Current)	BCD rate (Proposed)
Cellular mobile phones	15%	20%
Specified parts and accessories of cellular mobile phones	7.5%-10%	15%
Smart watches	10%	20%
LCD/LED/OLED panels and their parts	7.5%/10%	15%
Video games	10%	20%

Watches and Clocks

Description	BCD rate (Current)	BCD rate (Proposed)
Watches and clocks including stop watches and alarm clocks	10%	20%

Indirect Tax Budget Proposals

Customs – Changes in Rates

Footwear

Description	BCD rate (Current)	BCD rate (Proposed)
Specified footwear	10%	20%
Specified parts of footwear	10%	15%

Miscellaneous Items

Description	BCD rate (Current)	BCD rate (Proposed)
Specified Parts of Furniture	10%	20%
Sunglasses	10%	20%
Imitation jewellery	15%	20%

Indirect Tax Budget Proposals
Customs- Changes in Rates

Key Proposals

BCD rationalization at 7.5% for various Refractory items

- BCD on other articles of stone containing magnesite, dolomite or chromite reduced from 10% to 7.5%
- BCD on bricks, blocks, tiles and other ceramic goods of siliceous fossil meals reduced from 10% to 7.5%
- BCD on Refractory bricks, blocks, tiles and similar refractory ceramic, constructional goods, other than those of siliceous fossil meals increased from 5% to 7.5%
- BCD on other refractory ceramic goods increased from 5% to 7.5%

Indirect Tax Budget Proposals

Changes in Indirect tax Rates on Motor Spirit and HSD

- Basic Excise duty on manufacture of Motor Spirit and HSD reduced by Rs. 2/- per litre
- Road cess of Rs. 6 per litre on petroleum products abolished
- Road and Infrastructure Cess (R&I Cess) on petroleum products of Rs. 8 per litre introduced
- Additional Duty of Customs levied on import of Motor spirit and HSD abolished

Indirect Tax Budget Proposals
Amendment in Customs Act, 1962

- Scope of Customs Act amended to include any offence or contravention committed thereunder outside India by any person
- Definition of term “assessment” and “re-assessment” expanded significantly to include factors such as classification, valuation, exemption or concession, quantity, weight & measure, origin and any other specific factor which impact the computation of Customs duty
- The limit of ‘Indian Customs Waters’ into the sea from the existing ‘Contiguous zone of India’ has been extended to the ‘Exclusive Economic Zone (EEZ)’ of India
- Verification of self assessed imported goods shall be based on a risk based selection criteria
- Provisional assessment of duty would also cover export consignments
- Provision to exempt goods imported for repair, further processing of manufacture from payment of Customs Duty introduced, similar provisions inserted for re-import of exported goods as well

Indirect Tax Budget Proposals
Amendment in Customs Act, 1962

- Pre-notice consultation to be held with assessees in cases not involving collusion, willful mis-statement, suppression before issue of demand notice
- Provision for issuance of supplementary show cause notice introduced subject to specified timelines and circumstances
- Adjudication of notices to be completed within prescribed timelines
  - 6 months for notices issued under normal limitation period
  - 1 year for cases involving collusion, willful mis-statement, suppression.

  Time limit extendable up to 6 months / 1 year subject to approval from the higher authorities
- Proceedings of a show cause notice shall be deemed to be concluded if adjudication not completed within specified prescribed timelines

Indirect Tax Budget Proposals

Amendment in Customs Act, 1962

- Definition of “Advance Ruling” expanded to cover subjects beyond mere determination of duty
- Advance Ruling can now be obtained in respect of taxes apart from duties either under Customs Act or any other law for the time being in force
- Time limit to pronounce Advance Ruling reduced from 6 months to 3 months
- Customs authorities or applicant authorized to file appeal against a ruling passed by the Advance Ruling authorities within 60 days from the date of communication of the ruling - extendible up to 30 days
- Presentation of Bill of entry/Shipping Bill/Bill of export can also be made through Customs Automated System for import and export of goods
- Provision for advance payment of duty under Electronic Cash Ledger introduced
- Audit provisions introduced under the Customs Act
- New Section inserted regarding reciprocal arrangement for exchange of information between India and any other country in connection with specified Customs matters

Indirect Tax Budget Proposals
Trade Facilitation measures

- A new Section inserted to empower the Board to prescribe regulations to provide trade facilitation measures or separate procedure or documentation for a class of importers or exporters or for categories of goods or on the basis of the modes of transport of goods for:
  - maintenance of transparency in import and export documentation and procedure
  - expeditious clearance or release of goods entered for import or export
  - reduction in the transaction cost of clearance of importing or exporting goods
  - maintenance of balance between customs control and facilitation of legitimate trade

Indirect Tax Budget Proposals
Changes in Service Tax

- Following retrospective exemptions introduced under Service tax
  - Services by Naval Group Insurance Fund by way of life insurance to personnel of Coast Guard, under Group Insurance Schemes of the Central Government (From 10 September, 2004 to 30 June, 2017)
  - Services by GSTN to the Central Government or State Governments or Union territories administration (From 28 March, 2013 to 30 June, 2017)
  - Consideration paid to the Government in the form of Government's share of profit petroleum in respect of services provided or agreed to be provided by the Government by way of grant of license or lease to explore or mine petroleum crude or natural gas or both (1 April, 2016 to 30 June, 2017)

Direct Tax

Corporate Taxation
Corporate tax rate card

Tax rate reduced from 30% to 25% for companies with turnover below INR 2,500 million during financial year 2016-17 (limit increased from existing INR 500 million); Cess increased from 3 percent to 4 percent for all taxpayers

Types of companies	Turnover less than INR 2,500 million	Turnover more than INR 2,500 million
Corporate tax		
Domestic companies	25%* Effective maximum rate of 29.12%* (existing 28.84%)	30% Effective maximum rate of 34.94%* (existing 34.61%)
Foreign companies	Tax rates continue at 40% Effective maximum rate of 43.68%* (existing 43.26%)	
Limited liability partnership	Tax rates continue at 30% Effective maximum rate of 34.94%* (existing 34.61%)	

- Surcharge of 12% and health and education cess of 4% has been considered for determining the tax rates above

Corporate Taxation

Measures to widen tax base – Taxation of long term capital gain

- Long term capital gains tax exemption on transaction of sale of listed equity shares and units of equity oriented fund and units of business trust undertaken on stock exchange and subject to STT is withdrawn
- Now taxable at 10% of capital gains exceeding INR 100,000 without indexation benefit and benefit of computation of capital gains in foreign currency in case of a non-resident.
- Capital gains upto 31 January 2018 proposed to be grandfathered.
- No change in period of holding to qualify for long term.
- Foreign Portfolio Investors also to be taxed on long term capital gains at 10%.

Long term capital gains tax rate of equity shares

Nature of shares	Rate of Tax (%)	
	Resident investor	Non-resident investor
Unlisted shares	20%	10%
Listed shares (sold off the market)	10% / 20%*	10%
Listed shares (STT paid# on sale and purchase)	10% (exceeding INR one lakh)	10% (exceeding INR one lakh)

**After applying indexation*

#Central Government empowered to notify acquisitions in respect of which STT shall not apply

Corporate Taxation

Measures to widen tax base - Dividend

1

Dividend Distribution Tax on deemed dividend at 30% (without grossing up)

- Applicable on loans / advances to shareholder / entity in which shareholder owns substantial interest etc
- Earlier, such deemed dividend taxable in the hands of recipient at applicable rates and not subject to DDT

2

Dividend Distribution tax on dividend payout by equity oriented mutual fund at the rate of 10%.

3

Widening the meaning of accumulated profits

The accumulated profits / losses shall be increased by the accumulated profits (whether capitalized or not) of the amalgamating company on the date of amalgamation.

Corporate Taxation

Measures to widen tax base – Non-residents

Definition of business connection widened to align with BEPS Action Plan 7 and MLI. Also concurs with Indian Revenue's reservation to the OECD commentary on Agency PE

Significant economic presence of a non-resident in India to constitute 'business connection' in India irrespective of non-resident having a residence or place of business in India

Significant economic presence to mean:

a) transaction in respect of goods, services or property carried out by a non-resident in India including provision of download of data or software in India, if the aggregate of payments arising from such transactions during the previous year exceeds prescribed threshold; or

(b) systematic and continuous soliciting of business activities or engaging in interaction with prescribed number of users in India through digital means

Interplay with equalization levy to be seen; EL currently applies only to online ad payments and in cases where non-resident does not have a permanent establishment in India

BEPS Action Plan 1 identified 'significant economic nexus test' and 'equalization levy' as alternative measures that countries may adopt

Rationalization measures
Key proposals

Insolvency transaction resolution

- Companies whose insolvency resolution application accepted under IBC allowed to set-off brought forward losses as well as unabsorbed depreciation for computing book profit as against lower of the two

- Benefit of brought forward business loss to be made available to the companies whose resolution has been approved under IBC after giving opportunity of being heard to the tax authorities disregarding the change in shareholding

Measures to promote International Financial Service Centre (IFSC)

- Capital gains exemption extended to foreign currency transaction undertaken by a non-resident on a stock exchange situated in any IFSC in relation to bonds, global depository receipts and derivatives.

- Proposed to reduce the alternate minimum tax in case of units located in IFSC from 18.5% to 9%

Measures impacting start-ups

- No relaxation for angel investors
- Proposed to extend the eligibility to companies incorporated before 1 April 2021;
- Period prescribed under the eligibility criteria for annual turnover restriction of INR 250 million proposed to be amended to initial seven years of incorporation. Eligible businesses criteria to now include businesses with high potential of employment generation and wealth creation.
- Section 115BA proposed to be amended to clarify that the provisions are applicable only to income from the business of manufacturing, production, research or distribution referred to therein; any other income to be taxed at rates prescribed in the respective provisions as applicable.

Rationalization measures
Key proposals

Speculative transaction

- Agricultural commodity derivatives now outside the purview of speculative transaction.

Immovable property (changes applicable from AY 2019-20 onwards)

- At present, while taxing income from transactions in immovable property, the excess of stamp duty value over the transaction value is taxed as income both in the hands of the purchaser and the seller.
- In order to minimize hardship in case of genuine transactions in the real estate sector, it is proposed to provide that no adjustments shall be made in a case where the variation between stamp duty value and the transaction value is not more than five percent of the transaction value.

Rationalization of capital gains provisions

- Transfer of capital assets between a holding company and its wholly owned subsidiary has been proposed to be excluded from the scope of 'Income from Other sources'
- Gains arising on conversion / treatment of stock-in-trade into / as capital asset proposed to be taxed as business income on the basis of fair market value as on the date of conversion. Holding period of such capital asset shall be reckoned form the date of conversion / treatment.
- Scope of section 54EC restricted:
  - Applicable only to capital gains arising from long-term capital assets, being land or building or both.
  - Long-term specified asset, for making any investment under section 54EC on or after the 1st day of April, 2018, shall mean any bond, redeemable after five years and issued on or after 1st day of April, 2018 by NHAI or by RECL or any other bond notified.

Corporate Taxation
Miscellaneous

Extension of incentive under section 80-JJAA

- Beneficial provision of minimum employment of 150 days instead of 240 days for additional 30% deduction in case of emoluments paid to new employees proposed to be extended to footwear and leather industry; and
- Further proposed to rationalize the deduction to cover new employees who satisfy the minimum employment period criteria not in the first year but in the subsequent year.

CTT regime (changes applicable from AY 2018-19 onwards)

- Definition of ‘taxable commodities transaction’ to include ‘options in commodity futures’ for levying CTT
- CTT @ 0.05% to be levied on sale of such options on the option premium payable by seller
- Where such option is exercised, CTT @ 0.001% will be payable by the purchaser on the settlement price

ICDS

- In order to bring certainty in the wake of recent judicial pronouncements on the issue of applicability of ICDS, it is proposed to insert new sections and amend existing sections.
- Considering that a large number of taxpayers have already complied with the provisions of ICDS for computing income for AY 2017-18, it is proposed to bring the amendments retrospectively with effect from 1st April, 2017 ie the date on which the ICDS was made effective.

Black money (changes applicable from AY 2017-18 onwards)

- Section 115BBE provides for tax on income referred to in sections 68 / 69 / 69A / 69B / 69C / 69D at a higher rate of sixty percent. It is proposed that no deduction in respect of any expenditure or allowance or set-off of any loss shall be allowed to the assessee under any provision of the Act by the Assessing Officer while determining income under such sections. Similar treatment currently exists for income declared by the Assessee himself under such sections in the return of income.

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 assessees.

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.

Benefits to Senior citizens

Deduction of INR50,000 against interest income on deposits held by senior citizens introduced. Current exemption of INR 10,000 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

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.

Transfer Pricing

Clarifications in respect of Country by Country Report – Sec 286

Indian headquartered group

- CbC report filing due date extended to twelve months from end of reporting accounting year

Overseas headquartered group

- Indian constituent entity to also file CbC report in India where no obligation for parent to file CBC report – additional condition introduced;
- Definition of "Agreement" amended - Both DTAA **AND** agreement for exchange of CbC report (e.g.: MCAA) required to avoid Indian filing obligation;
- CbC filing due date changed to twelve months from end of reporting accounting year;
- Where ARE is appointed, CBC report to be filed before due date in its jurisdiction, to avoid Indian filing obligation.

These amendments are clarificatory in nature and will take effect retrospectively from 1 April 2017 in relation to the AY 2017-18 onwards

Policy
Key proposals

- On the backdrop of increase in annual Overseas Direct Investment ('ODI'), Government proposed to bring out coherent and integrated ODI policy
- Government to develop separate policy on hybrid instrument to attract foreign investment, especially for start-ups and venture capital funds
- SEBI to come-up with a policy on mandatory requirement for large corporate to access one-fourth of financing requirement through bond market

Questions and answers

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