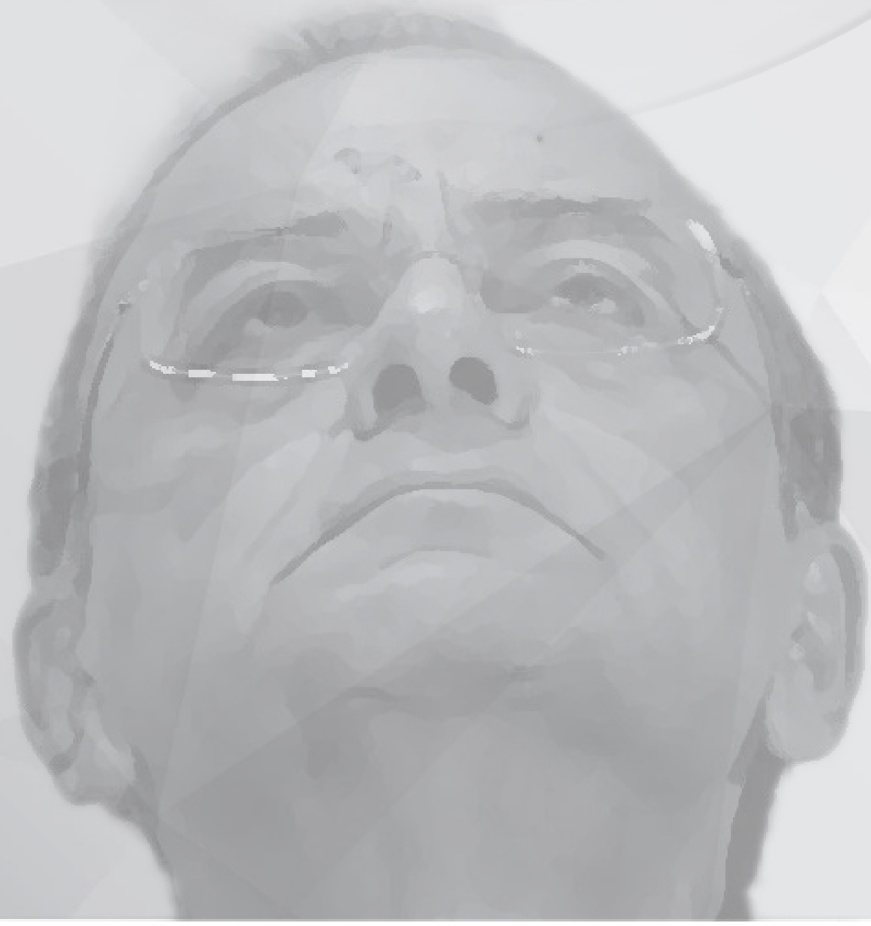
AN INSIGHT



Foreword

On February 1, 2018, the Union Minister for Finance and Corporate Affairs ("FM") presented the General Budget 2018-19, the fifth and final edition of the incumbent Government's financial plan ahead of General Elections due in 2019. The budget speech came amidst subdued economic growth, farm distress and challenging fiscal situation while the economy was still recovering from the implementation of Goods and Services Tax (GST) and Demonetisation, two major structural reforms undertaken by the Government to ensure a simpler taxation framework and enable a cashless digital economy. The Finance Minister mentioned that the Indian polity, society and economy had shown remarkable resilience in adjusting with the structural reforms brought in by the current Government.

The FM declared that India has emerged from being a member of a fragile, corrupt and policy paralysed 5 nation group to having become one of the fastest growing economies of the world, citing the 6.3% GDP growth in 2Q 2017-18, coupled with the 7.4% growth forecast by the IMF next year.

The budget appears to be an attempt to balance populist measures with development reforms, aimed to support economic growth and technological upgradations across sectors. Key focus areas include structural reforms to strengthen agriculture, rural development, health, education, employment, MSME and infrastructure sectors of Indian economy.

The FM, while concluding his budget speech, aptly quoted Swami Vivekanand's vision for India decades ago in his "Memoirs of European Travel".

"You merge yourselves in the void and disappear, and let new India arise in your place. Let her arise - out of the peasants' cottage, grasping the plough; out of the huts of the fisherman. Let her spring from the grocer's shop, from beside the oven of the fritterseller. Let her emanate from the factory, from marts, and from markets.

Let her emerge from groves and forests, from hills and mountains".

TAX REFORMS in this budget

- 100% Deduction for Farm Producer Companies having Turnover upto Rs. 100 Crore
- Capital gains tax on Long Term Capital Gains from listed equity shares/units
- Standard deduction of Rs. 40,000 for salaried class.
- Tax relief for companies facing insolvency.
- Increased deductions for senior citizens.

DIRECT TAX PROPOSALS

The introduction part of Finance Bill, 2018 underlines the intent of amendments to Income Tax Act, as under:

"To continue to provide momentum to the buoyancy in direct taxes through deepening and widening of the tax base, reducing the corporate tax rate for micro, small and medium enterprises, promoting horizontal equity in personal income-tax and enhancing the effectiveness, transparency and accountability of the tax administration."

A. INDIVIDUAL TAXATION

1. TAX RATE

No change in the tax slabs or tax rates for assessees other than Corporates. Below mentioned slab continues to be operative for FY 2018-19:

Individual/HUF/AOP/BOI	Senior Citizens	Super Senior Citizens	Rates
Up to 2,50,000	Up to 3,00,000	Up to 5,00,000	0
2,50,001 to 5,00,000	3,00,001 to 5,00,000	-	5%
5,00,001 to 10,00,000	5,00,000 to 10,00,000	5,00,001 to 10,00,000	20%
Above 10,00,000	Above 10,00,000	Above 10,00,000	30%

Surcharge

No change from the previous year, continues to be applicable at 10% if income exceeds Rs. 50 Lakhs and at 15% if income exceeds Rs. 1 Crore for Individuals, HUF, AOP & BOI.

Education Cess

Education Cess and Secondary and Higher Education Cess is proposed to be replaced by Health and Education Cess at the rate of 4% of tax and surcharge as against the currently levied rate of 3%.

2. PROVISIONS IMPACTING SALARIED CLASS

Standard Deduction - Section 16, Section 17

A standard deduction of Rs. 40,000 or amount of salary, whichever is lower, has been proposed.

The present exemption of transport allowance amounting up to Rs. 19,200 p.a. and reimbursement of medical expenses amounting up to Rs. 15,000 p.a. is proposed to be withdrawn instead, providing only a marginal relief to the salaried class on a net basis.

This amendment will be applicable from Assessment Year 2019-20 onwards.

Tax free withdrawal from NPS - Section 10(12A)

At present, Section 10(12A) entitles an employee contributing to NPS an exemption of 40% in respect of total amount payable on closure of account or opting out. It is proposed to amend the section to provide this benefit to all subscribers, including non-employees presently not covered.

This amendment will be applicable from Assessment Year 2019-20 onwards.

Compensation on termination or modification of employment - Section 2(24)(xvi-ib), Section 56(2)(xi), Section 28

In the current direct tax regime, certain components of employment related compensation are not taxable, triggering ingenious structuring of compensation resulting in reduced tax revenue and a diminished tax base.

It is proposed that any compensation or other payments due to or received, whether revenue or capital in nature, by any person in connection with the termination or the modification of the terms and conditions of any contract relating to employment shall be taxable under the Head “Income from other sources” u/s 56.

Additionally, it is proposed that Section 28 be amended to tax any compensation received or receivable, whether revenue or capital, in connection with the termination or the modification of terms and conditions of any contract relating to business as business income.

3. PROVISIONS IMPACTING SENIOR / VERY SENIOR CITIZENS

Health Insurance Premium/Medical Insurance Premium - Section 80D

A higher deduction limit of Rs. 50,000, vis-à-vis Rs. 30,000 at present, shall be provided to individuals / HUF assessees in respect of annual premiums on health insurance policies or preventive health check-ups of a senior citizen or medical expenditure in respect of very senior citizen. From now, even senior citizens without an insurance policy can avail deduction of up to Rs. 50,000 for medical expenditure.

In case of single premium health insurance policy, having cover of more than one year period, the deduction shall be allowed on proportionate basis for the number of years for which the insurance cover is provided.

Medical treatment of specified diseases - Section 80DDB

It is proposed to amend the provisions of Section 80DDB so as to raise the monetary limit of deduction with regard to amount paid for medical treatment of specified diseases in respect senior and very senior citizens to Rs. 1,00,000 from Rs. 60,000 and Rs. 80,000 for senior citizens and very senior citizens respectively.

This amendment will be applicable from assessment year 2019-20 and onwards.

Interest income on deposits - Section 80TTB

Currently, Section 80TTA provides deduction of up to Rs. 10,000 to an assessee in respect of interest income from savings account.

It is proposed to insert a new section 80TTB so as to allow a deduction of up to Rs. 50,000 in respect of interest income from deposits held by senior citizens.

However, 80TTA & 80TTB are mutually exclusive deductions. The proposed amendment is applicable from Assessment Year 2019-20.

It is also proposed to amend section 194A so as to raise the threshold for deduction of TDS on interest income for senior citizens from Rs. 10,000 to Rs. 50,000.

B. CORPORATE TAXATION

Tax Rate

In a major boost to the Micro, Small and Medium Enterprises (MSME) sector, it has been proposed to extend the reduced corporate taxation rate of 25% to companies who have reported turnover of up to Rs. 250 crores in the financial year 2016-17. Previous budget had provided similar benefit for companies whose turnover was less than Rs. 50 crores in the financial year 2015-16.

The FM announced that this measure will benefit 99% of the companies filing tax returns. The relief will allow companies to have higher investible surplus which in turn will create more jobs.

Tax rate for other companies have been kept unchanged from previous tax regime.

Following is the snapshot of effective tax rate post-Budget 2018:

Type	Upto Rs. 1 Crore	Above Rs. 1 Crore and upto Rs. 10 Crores	Above Rs. 10 Crores
Domestic Companies with total turnover in FY 2016-17 not exceeding Rs. 250 Crores	26%	27.82%	29.12%
Other Domestic Companies	31.2%	33.384%	34.944%
Foreign Company	41.6%	42.432%	43.68%

Health and education cess of 4% (previously 3%) has marginally increased the otherwise undisturbed tax rates.

Transactions between holding and subsidiary company - Section 47, Section 56

Section 47 provides for certain tax neutral transfers between Holding company and its wholly owned subsidiaries and vice versa. It is proposed to amend section 56 so as to exclude such transfers from its scope and to facilitate transaction of money or property between a wholly owned subsidiary and its holding company.

This amendment will apply in case of transactions made on or after 1st April, 2018.

Incentive for employment generation - Section 80JJAA

Currently, under section 80-JJAA, a deduction of 30% is allowed in addition to normal deduction of 100% in respect of emoluments paid to eligible new employees who have been employed for a minimum period of 240 days during the year. This minimum period of employment is relaxed to 150 days in the case of apparel industry.

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

It is also proposed to rationalize this deduction of 30% by allowing the benefit for a new employee who is employed for less than the minimum period during the first year but continues to remain employed for the minimum period in subsequent year.

This amendment will apply in relation to the assessment year 2019-20 and onwards.

Rationalisation of provision of section 115BA relating to certain Domestic Companies

Currently, Section 115BA provides that the total income of a newly set up domestic company engaged in business of manufacture or production of any article or thing and research in relation thereto, or distribution of such article or thing manufactured or produced by it, shall, at its option, be taxed at the rate of 25 per cent, subject to conditions specified therein. This benefit is available from assessment year 2017-18.

However, certain incomes are subject to a scheduler tax at a different rate, subjecting tax payers to unintended hardship or unwarranted relief.

It is therefore proposed to amend section 115BA so as to clarify that the provisions of section 115BA are restricted to the income from the business of manufacturing, production, research or distribution referred to therein and income which are at present taxed at a scheduler rate will continue to be so taxed.

The amendment will take effect retrospectively from the 1st April, 2017 and will apply in relation to the assessment year 2017-18 and onwards.

C. CAPITAL GAINS

Taxation of Long Term Capital Gains (LTCG) on sale of equity shares/units

In the current tax regime, LTCG arising from transfer of long term capital assets in the nature of equity shares of a company or an unit of equity oriented fund or an unit of business trusts is exempt from income-tax under section 10(38) of the Act. However, transactions in such long term capital assets carried out on a recognized stock exchange are liable to securities transaction tax (STT).

It is proposed to withdraw the exemption under section 10(38) and to introduce a new section 112A in the Act to provide that LTCG arising from transfer of a long term capital asset in the nature of an equity share in a company or a unit of an equity oriented fund or a unit of a business trust shall be taxed at 10 percent (without indexation) of such capital gains exceeding Rs. 1 Lakh.

This concessional rate of 10 percent will be applicable to such long term capital gains, if—

- in a case of an equity share in a company - STT has been paid on both acquisition and transfer of such capital asset; and
- in a case of a unit of an equity oriented fund or a unit of a business trust - STT has been paid on transfer of such capital asset.

Additionally, STT is not applicable if transfer is undertaken on a recognised stock exchange located in IFSC and consideration of such transfer is received in foreign currency.

Further, sub-section (4) of the new section 112A empowers the Central Government to specify, by notification, the nature of acquisitions in respect of which the requirement of payment of STT shall not apply in the case of equity share in a company.

The cost of acquisitions in respect of the above mentioned long term capital asset acquired by the assessee before 1st February, 2018 shall be deemed to be the higher of –

a) the actual cost of acquisition of such asset; and
b) the lower of –

    (i) the fair market value of such asset; and

    (ii) the full value of consideration received or accruing as a result of the transfer of the capital asset.

Further, it must be noted that the benefit of deduction under Chapter VIA shall be allowed from gross total income as reduced by such capital gains. Similarly, rebate u/s 87A shall be allowed from income tax as reduced by such 10% capital gains tax.

All gains up to 31st January, 2018 will be grandfathered.

This amendment will apply in relation to assessment year 2019-20 and onwards.

Additionally, section 115AD is also suitably amended so that Foreign Institutional Investors (FII's) will also be liable to tax on such LTCG only in respect of amount of such gains exceeding Rs. 1 Lakh.

Fair Market value has been defined to mean as following:

Circumstance	Fair Market Value
Capital Asset is listed on Recognised Stock Exchange	Highest Price of capital asset quoted on 31st January, 2018
In case no trading in such asset on such exchange on 31st January, 2018	Highest price on a date immediately preceding 31st January, 2018, when asset was traded.
Unit is not listed on recognised stock exchange	Net asset value of such asset on 31st January, 2018.

Following illustration throws light on the nuances of newly introduced provision:

Particulars	Case 1	Case 2	Case 3	Case 4
Purchase Price as on 1st April 2016 - **A**	100	100	100	100
Quoted Price on 31st January, 2018 - **B**	180	120	80	80
Sale Price on 13th May, 2018 - **C**	200	110	90	70
Cost of acquisition u/s 112**A - D** (Higher of **A** and (lower of **B & C**))	180	110	100	100
LTCG - **E** (**C** minus **D**)	20	Nil	(10)	(30)

Investment of long term capital gains in specified bonds - Section 54EC

Currently, section 54EC provides that capital gains arising from transfer of any long-term capital asset, if the same is invested in specified or notified bonds which are redeemable after 3 years, are exempt subject to specified conditions.

In order to rationalise the provisions of section 54EC of the Act and to restrict the scope of the section only to capital gains arising from long-term capital assets, being land or building or both and to make available funds at the disposal of eligible bond issuing company for more than three years, it is proposed to amend the section so as to provide that capital gains arising from transfer of a long-term capital asset, being land or building or both, invested in the long-term specified asset, being a bond which is redeemable after 5 years and issued on or after 1st April, 2018 by NHAI or RECL, or any other notified bond at any time, within a period of six months after the date of such transfer, the capital gain shall not be charged to tax subject to certain conditions specified in this section.

D. INCOME COMPUTATION AND DISCLOSURE STANDARDS (ICDS) - SECTION 145

Central Government had notified ten ICDS u/s 145 and made it applicable to all assesses (other than an individual or a HUF who are not subject to tax audit u/s 44AB of the Act) for computation of income chargeable to income tax under the head "Profits and Gains of Business or Profession" or "Income from other sources".

Consequent to recent judicial pronouncements casting doubts on the legitimacy of the notified ICDS, it is proposed to bring below mentioned amendments retrospectively with effect from 1st April, 2017 in order to regularise the compliance with the notified ICDS by larger number of taxpayers:

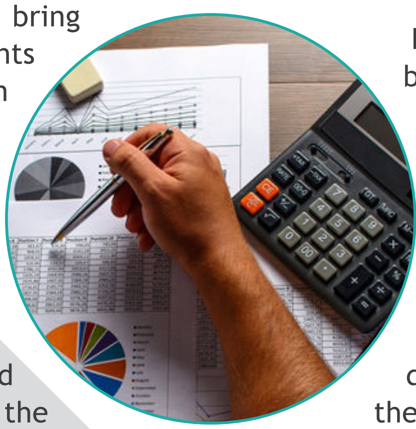
1. Amend section 36 and 40A of the Act to provide marked to market loss or other expected loss as computed only in the manner provided in ICDS shall be allowed as deduction.

2. Insert a new section 43AA in the Act, to provide that any gain or loss arising on account of effect of changes in foreign exchange rates in respect of specified foreign currency transactions shall be treated as income or loss, which shall be computed in the manner provided in ICDS.

3. Insert a new section 43CB in the Act to provide that the profits arising from a construction contract or contract for providing services shall be determined on the basis of percentage of completion method. In case of certain contract for providing services, the profits and gains shall be determined on project completion method, in case the contract duration is less than 90 days and on straight line method in case the contract involves indeterminate number of acts over a specified period of time.

   It is also proposed that contract revenue shall include retention money and the contract cost shall not be reduced by any incidental interest, dividend and capital gains.

4. Amend Section 145A of the Act, to provide that the valuation of inventory shall be made at lower of actual cost or NRV computed in the manner provided in the ICDS notified.



   It is proposed that inventories being securities not listed, or listed but not quoted, on a recognised stock exchange, shall be valued at actual cost initially recognised in the manner provided in ICDS. In case of inventories being listed securities, valuation shall be done at lower of cost or NRV, in the manner provided in the ICDS and for this purpose, comparison of actual cost and NRV shall be done category wise. It is also proposed that the valuation of inventory shall be adjusted to include amount of any tax, duty, cess actually paid or incurred by taxpayer to bring the goods or services to the place of its location and condition as on the date of valuation.

5. Insert a new section 145B, to provide that in ICDS IV, pertaining to revenue recognition, claim for escalation of price in a contractor export incentives shall be deemed to be the income of the previous year in which reasonable certainty of its realisation is achieved, and income from subsidy, grant, cash incentive or duty drawback, in line with ICDS VII shall be deemed to be the income of the previous year in which it is received, if not charged to tax in any previous year. Also, interest on enhanced compensation shall be deemed to be the income of the year in which it is received.

E. MEASURES TO PROMOTE AGRICULTURE, INFRASTRUCTURE AND ENTREPRENEURSHIP

Farm Producer Companies (FPC) - Section 80PA

Currently, section 80P provides for 100 percent deduction in respect of co-operative societies which provide assistance to its members engaged in primary agricultural activities. It is proposed to extend similar benefits to FPC carrying on eligible businesses and having a total turnover up to Rs. 100 crores. Eligible businesses includes marketing of agricultural produce, purchase of seeds, livestock etc, processing of agricultural produce etc. This amendment will apply in relation to assessment year 2019-20 and onwards.

Trading in agricultural commodity derivatives - Section 43(5)

Currently, section 43(5) provides that trading in commodity derivatives carried out in a recognised stock exchange, chargeable to Commodity Transaction Tax (CTT) is a non-speculative transaction. Since, agricultural commodity derivatives do not attract levy of CTT, it is considered as speculative transaction as of now.

In order to encourage participation in trading of agricultural commodity derivatives, it is proposed to amend the section to provide that a transaction in respect of trading in agricultural commodity derivatives, which is not chargeable to CTT, in a recognised stock exchange, will be treated as non-speculative transaction.

This amendment will apply in relation to assessment year 2019-20 and onwards.

International Financial Services Centre (IFSC)

In order to foster the development of world class financial infrastructure in India, it is proposed to amend section 47 so as to provide that transactions in the following asset by a non-resident on a recognised stock exchange located in any IFSC shall not be regarded as transfer, provided the consideration is paid or payable in foreign currency:-

- Bond/GDR
- Rupee denominated bond of an Indian Company
- Derivative

Additionally, it is proposed to amend section 115JC so as to provide that in case of a unit located in IFSC, the alternate minimum tax will be charged at the rate of 9 percent instead of current levy of 18.5 percent of adjusted total income in case of non-corporate person.

These amendments will apply in relation to assessment year 2019-20 onwards.

Promoting Start-Up Ecosystem

Currently, section 80IAC, provides 100% deduction of the profit and gains derived from eligible business to a start-up for any 3 consecutive assessment years out of 7 years beginning from the year in which the eligible start-up is incorporated, if:

(i) it is incorporated on or after the 1st day of April, 2016 but before the 1st day of April, 2019;

(ii) the total turnover of its business does not exceed Rs. 25 crore in any of the previous years beginning on or after the 1st day of April, 2016 and ending on the 31st day of March, 2021; and

(iii) it is engaged in eligible businesses which involve innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property.

In order to improve the effectiveness of the scheme for promoting start ups in India, it is proposed to make following changes in the taxation regime for the start ups:—

- The benefit would also be available to start ups incorporated on or after the 1st day of April 2019 but before the 1st day of April, 2021;
- Maximum turnover threshold of Rs. 25 Crores would apply to 7 previous years commencing from the date of incorporation;
- The definition of eligible businesses has been expanded to provide that the benefit would be available if it is engaged in innovation, development or improvement of products or processes or services, or a scalable business model with a high potential of employment generation or wealth creation.

The amendment will apply in relation to the assessment year 2018-19 and onwards.

F. MEASURES FOR WIDENING TAX BASE/BOOSTING TAX REVENUE

TDS and manner of payment in respect of certain exempted entities - Section 10(23C), Section 11

Currently, under section 10(23C), exemption is provided to income of charitable trusts, educational and medical institutions if it applies its income, or accumulates it for application, wholly and exclusively to the objects for which it is established.

Section 11 of the Act also contains provisions relating to income from property held for charitable or religious purposes.

At present, there are no restrictions on payments made in cash by charitable or religious trusts or institutions. There are also no checks on whether such trusts or institutions follow the provisions of deduction of tax at source under Chapter XVII-B of the Act. This has led to lack of an audit trail for verification of application of income.

In order to encourage a cashless economy and to reduce the generation and circulation of black money, it is proposed to insert a new Explanation to the section 11 to provide that for the purposes of determining the application of income under said section, the provisions of section 40(a)(ia), and section 40A(3) and section 40A(3A), shall, mutatis mutandis, apply as they apply in computing the income chargeable under the head "Profits and gains of business or profession". This is intended to bring in restrictive provisions on cash payments and ensuring non-deductibility of certain expenses on non-deduction/non payment of TDS.

It is also proposed to insert a similar proviso in section 10(23C).

Enlarging the scope of accumulated profits for the purposes of dividend - Anti Abuse Provision

Currently, section 2(22) defines dividend to include distribution of accumulated profits (whether capitalized or not) to its shareholders by a company. Further, explanation to the said clause defines accumulated profits as all profits of the company up to the date of distribution or payment or liquidation, subject to certain conditions. Instances have come

to light whereby companies are resorting to abusive arrangements in order to escape liability of paying tax on distributed profits. Under such arrangements, companies with large accumulated profits adopt the amalgamation route to reduce capital and circumvent the provisions of section 2(22). With a view to preventing such abusive arrangements, it is proposed to insert a new Explanation 2A in section 2(22) to widen the scope of the term 'accumulated profits' so as to provide that in the case of an amalgamated company, accumulated profits, whether capitalised or not, or losses as the case may be, shall be increased by the accumulated profits of the amalgamating company, whether capitalized or not, on the date of amalgamation.

This amendment will apply in relation to assessment year 2018-19 and onwards.

PAN Card for non-individual entities - Section 139A

Section 139A inter-alia provides that every person specified therein and who has not been allotted a permanent account number shall apply to the Assessing Officer for allotment of a Permanent Account Number (PAN).

In order to use PAN as Unique Entity Number (UEN) for non-individual entities, it is proposed that every person, not being an individual, which enters into a financial transaction of an amount aggregating to Rs. 2,50,000 or more in a financial year shall be required to apply to the Assessing Officer for allotment of PAN.

In order to link the financial transactions with the natural persons, it is also proposed that the managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer or any person competent to act on behalf of such entities shall also apply to the Assessing Officer for allotment of PAN.

This amendment will take effect from 1st April, 2018.

Presumptive taxation - section 44AE

The current tax regime provides for presumptive income of Rs. 7,500 per month or part thereof or the actual amount claimed to be earned by the assessee whichever is higher, for the carriage of the goods. The current scheme is applicable to all classes of goods carriages irrespective of their tonnage capacity. However, the intent of introducing this provision was to give benefit to small transporters in order to reduce their compliance burden and also promote principle of tax equity.

It is proposed to amend section 44AE to provide that, in case of heavy goods vehicle (more than 12 MT gross vehicle weight), presumptive income would be deemed to be Rs. 1,000 per ton of gross vehicle weight or unladen weight per month or part of month for each goods vehicle. For vehicles other than heavy goods vehicle, existing presumptive taxation would continue.

Conversion of stock-in-trade into capital asset

Currently, section 45 provides for taxability of capital gain arising from conversion of capital asset into stock-in-trade (SIT), however there is no legislative provision for taxing the transaction in the reverse scenario.

In order to provide symmetrical treatment and discourage the practice of deferring tax payment by converting inventory into capital asset, it is proposed to amend the provisions so as to treat conversion of SIT into capital asset as business income u/s 28 at the fair market value as on the date of conversion as determined in the prescribed manner.

Further, amendment is proposed to consider period of holding on transfer of such converted capital asset from the date of such conversion and to consider the cost of acquisition as the fair market value on the date of conversion. This amendment will apply in relation to assessment year 2019-20 and onwards.

G. DIVIDEND DISTRIBUTION TAX (DDT)

Equity Oriented Funds - Section 115R

In the existing tax regime, section 115R provides that any amount of income distributed by a specified company or a mutual fund to its unit holders shall be chargeable to tax and the specified company/mutual fund is liable to pay additional income tax on such distributed income.

This taxability does not arise in respect of equity oriented funds. Hence, to provide a level playing field between growth-oriented funds and equity oriented funds, it is proposed to amend the said section so as to provide that on any income distributed by equity oriented mutual fund, the mutual fund shall be liable to pay additional income tax at the rate of 10 percent on income so distributed.

This amendment will take effect from 1st April, 2018.

Deemed Dividend

Currently, deemed dividend u/s 2(22)(e) are taxed in the hands of the recipient at applicable marginal rate and dividend distributed by domestic company is subject to DDT u/s 115-O, payable by such company.

It is proposed to bring deemed dividend also under the scope of DDT u/s 115-O and tax it at the rate of 30 percent (without grossing up) in order to prevent camouflaging dividend in various ways such as loans and advances. This amendment will apply to transactions undertaken on or after 1st April, 2018.

H. FACILITATING INSOLVENCY RESOLUTION PROCESS - TAX RELIEFS/RELAXATIONS

Relief from Minimum Alternate Tax (MAT) - Section 115JB

Currently, section 115JB provides for levy of MAT on book profits, the computation of which includes deduction in respect of amount of brought forward loss or unabsorbed depreciation, whichever is lower. Consequently, in cases where either of the two is Nil, no deduction is allowed. This non-deduction is a barrier to rehabilitating companies seeking insolvency resolution.

In view of the above, it is proposed to amend section 115JB, to provide that the aggregate amount of brought forward loss and unabsorbed depreciation shall be reduced from the book profits, if the company's application for corporate insolvency resolution process (CIRP) under the Insolvency and Bankruptcy Code, 2016 (IBC,2016) is admitted by the Adjudicating Authority.

This amendment will apply in relation to assessment year 2018-19 and onwards.

Benefit of carry forward and set off of losses - Section 79

Currently, section 79 of the Act provides that carry forward and set off of losses in a closely held company shall be allowed only if there is continuity in the beneficial owner of the shares carrying not less than 51 percent of voting power on the last day of the year or years in which the loss was incurred.

This provision becomes a hurdle for restructuring and rehabilitation of companies seeking insolvency resolution under IBC, 2016 since the resolution plans generally will involve change in beneficial owner of shares beyond the restriction imposed under section 79.

In order to address this problem, it is proposed to relax the rigors of section 79 in case of such companies, whose resolution plan has been approved under the IBC, 2016 after affording reasonable opportunity of being heard to the jurisdictional principal commissioner.

This amendment will apply in relation to assessment year 2018-19 and onwards.

Additionally, it is proposed to amend section 140 of the Income Tax Act, 1961 so as to provide that during the resolution process under the IBC, 2016, the return shall be verified by insolvency professional appointed by the Adjudicating Authority.

I. RATIONALIZATION OF PROVISIONS

Transactions in Immovable Property - Section 43CA, section 50C and section 56

In the current tax regime, in case of transactions in immovable property pertaining to section 43CA, 50C and 56, the sale consideration or stamp duty value, whichever is higher, is adopted. The difference is taxed as income both in the hands of purchaser and seller.

In order to minimize hardship in case of genuine transactions in the real estate sector, it is proposed to provide that no adjustment shall be made where variation between stamp duty value and sale consideration is not more than 5 percent of sale consideration.

This amendment will apply in relation to assessment year 2019-20 and onwards.

Cash Credits - Section 115BBE

Section 115BBE provides for tax on income referred to in section 68 to section 69D at a higher rate of 60 percent, whether reflected in return of income or determined by the Assessing Officer (AO).

Section 115BBE(2) provides 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 in computing his income in case such income is reflected in the return of income.

In order to rationalize the provisions of section 115BBE, it is proposed to amend the said sub-section (2) so as to also include income determined by AO and to provide 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.

This amendment will take effect retrospectively from 1st April, 2017 and will, accordingly, apply in relation to the assessment year 2017-2018 and thereafter.

Prima-facie adjustments during processing of return of income - Section 143

Currently, section 143, pertaining to processing of return of income, specifies that total income or loss shall be computed after making adjustments in respect of addition of income appearing in Form 26AS or Form 16A or Form 16 which has not been included in computing the total income in the return.

With a view to restrict the scope of adjustments, it is proposed to delete the adjustments. This amendment will apply in relation to assessment year 2018-19 and onwards.

Rationalising provision pertaining to deductions in respect of certain incomes - 80AC

Currently, section 80AC provides that no deduction would be admissible under section 80-IA / section 80-IAB / section 80-IB / section

80-IC / section 80-ID / section 80-IE, unless the return of income by the assessee is furnished on or before the due date specified under section 139(1). This burden is not cast upon assessees claiming similar deductions under several other provisions.

In view of the above, it is proposed to extend the scope of section 80AC to provide that the benefit of deduction under the entire class of deductions under the heading "C.—Deductions in respect of certain incomes" in Chapter VIA shall not be allowed unless the return of income is filed by the due date.

This amendment will apply in relation to the assessment year 2018-19 and onwards.

Rationalisation of prosecution provision to reign in shell companies- Section 276CC.

Currently, Section 276CC of the Act provides that if a person wilfully fails to furnish in due time the return of income which he is required to furnish, he shall be punishable with imprisonment for a term, as specified therein, with fine.

Section 276CC further provides that a person shall not be proceeded against under the said section for failure to furnish return for any assessment year commencing on or after the 1st day of April, 1975, if the tax payable by him on the total income determined on regular assessment as reduced by the advance tax, if any, paid and any tax deducted at source, does not exceed Rs. 3,000.

In order to prevent abuse of the said provision by shell companies or by companies holding Benami properties, it is proposed to amend the provisions so as to provide that the said threshold for prosecution shall not apply in respect of a company.

This amendment will take effect from 1st April, 2018.

J. MEASURES TO IMPROVE TAX ADMINISTRATION/TAX COMPLIANCE

Penalty for failure to furnish statement of financial transaction- Section 271FA

Currently, Section 271FA provides that if a person who is required to furnish the statement of financial transaction or reportable account under section 285BA(1), fails to furnish such statement within the prescribed time, he shall be liable to pay penalty of Rs. 100 for every day of default.

The proviso to the said section further provides that in case such person fails to furnish the statement of financial transaction or reportable account within the period specified in the notice issued under section 285BA(5), he shall be liable to pay penalty of Rs.500 for every day of default.

In order to ensure compliance of the reporting obligations under section 285BA, it is proposed to amend the section 271FA so as to increase the penalty leviable from Rs. 100 to Rs. 500 and from Rs. 500 to Rs. 1000, for each day of continuing default.

These amendments will take effect from 1st April, 2018.

New Scheme for scrutiny assessment - Section 143

Section 143 of the Act provides for the procedure for assessment. Section 143(3) empowers the Assessing Officer to make, by an order in writing, an assessment of total income or loss of the assessee, and determine the sum payable by him or refund of any amount due to him on the basis of such assessment.

It is proposed to prescribe a new scheme for the purpose of making assessments so as to impart greater transparency and accountability, by eliminating the interface between the Assessing Officer and the assessee, optimal utilization of the resources, and introduction of team-based assessment.

Therefore, it is proposed to amend the section 143, by inserting a new sub-section (3A), enabling the Central Government to prescribe the aforementioned new scheme for scrutiny assessments by way of notification in the Official Gazette.

Further, it is proposed to amend the section 143, by inserting a new sub-section (3B) enabling the Central Government to direct, by notification in the Official Gazette, that any of the provisions of this Act relating to assessment shall not apply, or shall apply with such exceptions, modifications and adaptations as may be specified therein.

K. TRANSFER PRICING

Rationalisation of provisions relating to Country-by-Country Report

Section 286 contains provisions relating to specific reporting regime in the form of "country by country report" (CBC Report) in respect of an international group. Based on model legislation of Action Plan 13 of Base Erosion and Profit Shifting (BEPS) of the Organisation for Economic Co-operation and Development (OECD) and others, clarificatory amendments have been proposed to align section 286 with OECD BEPS Action 13 recommendations.

Additionally, a parent entity resident in India will be required to file the CBC Report in India by the extended due date of 12 months from the end of the reporting accounting year, as against the due date of filing of return of income.

These amendments are effective from 1st April, 2017.

L. MISCELLANEOUS PROVISIONS

Commodities Transaction Tax - Options in Commodities - Section 116(7)

Currently, section 116(7) defines "taxable commodities transaction" as a transaction of "sale of commodity derivatives" in respect of commodities, other than agricultural commodities, traded in recognised association.

In order to align the definition of "taxable commodities transaction" with instruments allowed for transaction in commodity derivatives, it is proposed to amend the section so as to include "options in commodity futures" in the definition of "taxable commodities transactions".

In order to propose rates for option on commodity derivative, it is proposed to amend the provisions of section 117 so as to prescribe the rate at which sale of an option on commodity derivative shall be chargeable and such tax shall be payable by the seller.

It is further proposed to amend the provisions of section 117 so as to prescribe the rate at which sale of an option on commodity derivative, where such option is exercised, shall be chargeable and such tax shall be payable by the purchaser.

It is proposed to amend the provisions of section 118 so as to include the value of taxable commodities transaction, being option on commodities, chargeable under section 117 of the Finance Act, 2013, in the said section.

These amendments will apply in relation to assessment year 2018-19 and onwards.

RUPEE WILL COME FROM: 2018-19

1	GST & Other Taxes	23%
2	Corporation Tax	19%
3	Borrowings & Other Liabilities	19%
4	Income Tax	16%
5	Non-Tax Revenue	8%
6	Union Excise Duties	8%
7	Customs	4%
8	Non-Debt Capital Receipts	3%

RUPEE WILL GO TO: 2018-19

1	States Share of taxes and duties	24%
2	Interest Payment	18%
3	Central Sector Scheme	10%
4	Defence	9%
5	Subsidies	9%
6	Centrally Sponsored Schemes	9%
7	Other Expenditure	8%
8	Finance Commission & other transfers	8%
9	Pensions	5%

MACRO ECONOMIC FRAMEWORK – OVERVIEW

- The Central Statistics Office (CSO) estimates that the Indian economy is expected to grow by 6.5 percent in 2017-18 as against 7.1 percent in the previous year, while IMF and World Bank estimate the growth to be between a range of 6.7 to 6.75 percent.
- The Gross Value Added (GVA) is expected to grow by 6.1 percent in 2017-18 as against 7.1 percent achieved in 2016-17.
- The subdued GDP growth rate is primarily due to the lower growth in agriculture which is estimated at 2.1 percent in 2017-18 as against 4.9 percent in previous year and industry growth of 4.4 percent against 5.6 percent in previous year. Services contributed positively to GDP as the estimate growth in 2017-18 is 8.3 percent as against 7.7 percent in 2016-17.
- As per CSO, the exports of goods and services are to grow by 4.5 percent in real terms in 2017-18 whereas the imports are estimated to grow by 10 percent in 2017-18 as against 2.3 percent in 2016-17.
- The country achieved a record production of food grains estimated at 275.7 million tonnes in 2016-17, which is higher by 10.7 million tonnes than the previous record of food production in 2013-14. The production of rice and wheat is estimated at 110.2 and 98.4 million tonnes respectively, during 2016-17, which is again a record production.
- Agricultural Credit has been growing consistently at above 17 percent annually during the last decade.
- CPI (Combined) inflation for 2016-17 declined to 4.5 percent from 4.9 percent in 2015-16 and averaged 3.3 percent in April-December 2017 and stood at 5.2 percent in December 2017. Food Inflation stood at 5 percent in December 2017. Inflation based on WPI increased to +1.7 percent in 2016-17 from (-)3.7 percent in 2015-16 and stood at 3.6 percent in December 2017.
- Index of Industrial Production (IIP) reveals the industrial sector registered growth of 3.2 percent during April-November 2017 as compared to 5.5 percent during corresponding period of previous year.
- Gross Non-Performing Advances (GNPA) ratio of Scheduled Commercial banks (SCBs) increased from 9.6 percent in March 2017 to 10.2 percent in September 2017
- In April-December 2017, exports increased by 12.1 percent to US$ 223.5 Billion from US $ 199.5 Billion in the corresponding period in previous year.
- In April-December 2017, exports increased by 21.8 percent to US $ 338.4 Billion from US $ 277.9 Billion in the corresponding period in previous year.
- Trade deficit increased to US $ 114.9 Billion during April-December 2017, from US $ 78.4 Billion in corresponding period of the previous year.
- FDI Inflows during 2016-17 was US $ 43.5 Billion as compared to US $ 40 Billion in 2015-16.
- Current Account Deficit has increased from 0.4 percent of GDO in 1H 2016-17 to 1.8 percent of GDP in 1H 2017-18.
- Stock of foreign exchange reserves was US $409.4 Billion as on 29th December, 2017.
- The rupee had appreciated by 2.5 percent against US Dollar during the period March 2017 to December 2017. Reason for appreciation is primary due to a relative weak US Dollar, strong FDI inflows and proactive policy initiatives.
- Fiscal and Revenue Deficit are estimated at 3.5 percent of GDP and 2.6 percent of GDP respectively in 2017-18.

POLICY INITIATIVES IN BUDGET 2018

Agriculture and Rural Economy

- Government has decided to keep MSP for all the unannounced crops of the kharif at atleast 1.5 times of their production cost.
- Government to develop and upgrade existing 22,000 rural haats into Gramin Agricultural Markets (GrAMs), linked to e-NAMs and exempted from APMC Regulations will enable farmers to sell directly to consumers.
- An Agri-Market Infrastructure Fund with a corpus of Rs. 2000 Crore will be set up for developing and upgrading agricultural marketing infrastructure.
- Government will promote cluster based development of agricultural commodities since it brings advantages of scale of operation and spurs entire chain from production to marketing.
- Allocation of Ministry of Food processing is being doubled from Rs. 715 Crore in RE 2017-18 to Rs. 1400 in BE 2018-19.
- Government has proposed to launch "Operation Greens" to promote Farmer Producer Organisations, agri-logistics, processing facilities and professional management and a sum of Rs. 500 Crore has been allocated for the same.
- Government has proposed to extend Kisan Credit Cards to fisheries and animal husbandry farmers to help meet their working capital needs.
- Government has proposed to launch Restructured National Bamboo Mission with an outlay of Rs. 1290 Crore to promote bamboo sector in a holistic manner and capitalise on the true potential of the "green gold".
- Government has proposed to raise institutional credit for the agriculture sector to Rs 11 Lakh Crore in 2018-19 as against Rs. 10 Lakh Crore in 2017-18.
- Government has proposed to raise the target from 5 Crore to 8 Crore Poor Women for providing free LPG connections under Prime Minister's Ujjwala Scheme.

Health, Education and Social Protection

- Government has proposed to increase digital intensity in education and move gradually from "black board" to "digital board".
- Government has decided, that by year 2022, ever block with more than 50% ST population and atleast 20,000 tribal persons will have an Eklavya Model Residential School which will be on par with Navodaya Vidyalayas and will have special facilities for preserving local art and culture.
- Government has proposed to launch a major initiative named " Revitalising Infrastructure and Systems in Education (RISE) by 2022" with a total investment of Rs. 1,00,000 Crore in next 4 years to step up research and related infrastructure in premier educational institutions.
- Government has announced two major initiatives under "Ayushman Bharat" programme. Firstly, The National Health Policy, 2017, with a commitment of Rs. 1,200 Crore, aimed at bringing health care system closer to the homes of people. Secondly, The National health protection Scheme covering over 10 crore poor and vulnerable families providing coverage of up to Rs. 5 lakh per family per year. This will be the world's largest government funded health care programme.
- Government has proposed launching of GOBAR-DHAN scheme for management and conversion of cattle drug and solid waste in farms to compost, fertilizer.
- Government has increased earmarked allocation for SCs from Rs. 52,719 Crore in RE 2017-18 to Rs. 56,619 Crore in BE 2018-19, and for STs from Rs. 32,508 Crore in RE 2017-18 to Rs. 39,135 Crore in BE 2018-19.

- Governments estimated schematic budgetary expenditure on health, education and social protection for 2018-19 is Rs. 1.38 Lakh Crore against estimated expenditure of Rs. 1.22 Lakh Core in BE 2017-18 and is likely to go up by Rs. 15,000 Crore in 2018-19 due to additional allocations during the year.

Medium, Small and Micro Enterprises (MSMEs) and Employment

- It is proposed to review the refinancing policy and eligibility criteria setup under MUDRA Yojana to help refinancing of NBFC
- The Ministry of Finance is considering a policy framework along with other institutional development measures to facilitate growth of fintech companies in India.
- To give impetus to employment generation, Government has proposed to contribute 12% in EPF for new employees in all sectors for 3 years, EPF contribution for women employees to be lowered to 8% for the first 3 years without any change in employment contribution.

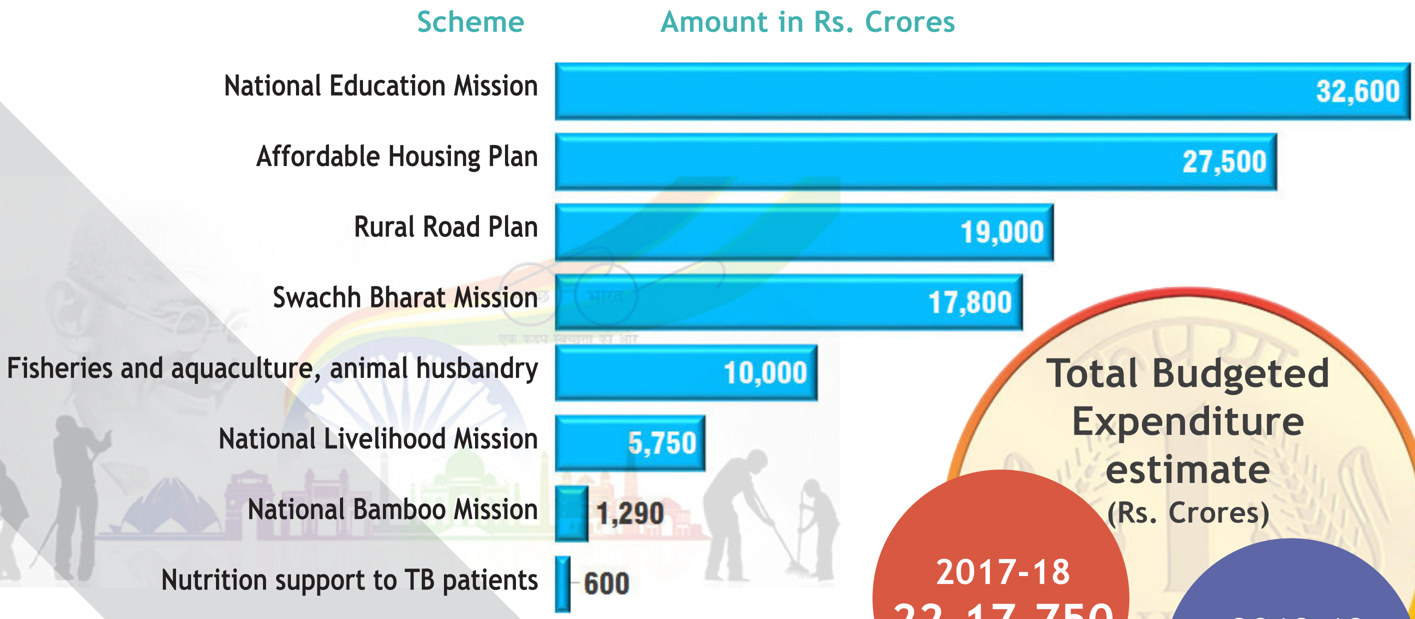
Infrastructure and Financial Sector Development

- It is proposed to develop ten prominent tourist sites into Iconic Tourism destinations by following a holistic approach involving infrastructure and skill development, development of technology, attracting private investment, branding and marketing.
- The Government will establish a unified authority for regulating all financial services in IFSCs in India.
- NITI Aayog will initiate a national program to direct efforts in the area of artificial intelligence, including research and development of its applications.
- Reform measures will be undertaken with respect to stamp duty regime on financial securities transactions
- The Reserve Bank of India has issued guidelines to nudge corporates to access bond market. SEBI will also consider mandating, beginning with large corporates, to meet about one-fourth of their financing needs from the bond market.
- The Government does not consider crypto-currencies legal tender or coin and will take all measures to eliminate use of these crypto-assets in financing illegitimate activities or as part of the payment system.
- The Government will come out with a policy to introduce toll system on "pay as you use" basis.

Building Institutions and improving public service delivery

- The Government will publish an industry friendly Defence Production Policy 2018 to promote domestic production by public sector, private sector and MSMEs.
- Department of Commerce will be developing a National Logistics Portal as a single window online market place to link all stakeholders.
- Three public sector general insurance companies National Insurance Company Ltd., United India Assurance Company Limited and Oriental India Insurance Company Limited will be merged into a single insurance entity and will be subsequently listed.
- The Government has set the disinvestment target of Rs. 80,000 crore for 2018-19.
- The Government will formulate a comprehensive Gold Policy to develop gold as an asset class.
- Hybrid instruments are suitable for attracting foreign investments in several niche areas, especially for the startups and venture capital firms. The Government will evolve a separate policy for the hybrid instruments.

Budget Allocation to Major Schemes



Total Budgeted Expenditure estimate (Rs. Crores)

2017-18
22,17,750

2018-19
24,42,213

Budget Allocation to Major Sectors

Sector	In Rs. Crore			
	2017-18 (RE)	% of Total	2018-19 (BE)	% of Total
Defence	2,67,108	12.04	2,82,733	11.58
Education	81,869	3.69	85,010	3.48
Health	53,198	2.40	54,667	2.24
Interest	5,30,843	23.94	5,75,795	23.58
Rural Development	1,35,604	6.11	1,38,097	5.65
Urban Development	40,754	1.84	41,765	1.71
IT & Telecom	17,802	0.80	22,380	0.92
Energy	41,682	1.88	41,104	1.68
Agriculture and Allied Activities	56,589	2.55	63,836	2.61
Finance	29,449	1.33	20,342	0.83
Social Welfare	38,624	1.74	44,220	1.81
Tax Administration	77,747	3.51	1,05,541	4.32
Transport	1,07,092	4.83	1,34,572	5.51

HIGHLIGHTS OF BUDGET ALLOCATION

Most sectors witnessed an increase in terms of absolute numbers. For instance, education, which was allocated Rs 8.18 lakh crores last year, has been allocated Rs 8.5 lakh crores this year - an increase of almost 4% in absolute terms.

However, percentage share allocated in terms of total budget, to education this year (3.48%), is lower than last year (3.69%). This is the case with rural development and defence as well - while in absolute terms the allocated funds have increased, their share in the budget has fallen.

The budgetary allocation has been increased modestly for Agriculture sector as the premise of the current budget focuses primarily on alleviation of distress in agricultural sector. The increased allocation is to factor in the promise of higher MSP to farmers for crops, investment in agricultural markets, and kick starting irrigation and aqua culture projects.

In Healthcare, Government has proposed world's largest Government funded health protection plan, "National Health Policy 2017", aiming to benefit 10 Crore poor families of the nation with medical aid worth Rs. 5 lakh each a year.

The policy aims to double the Government spend on healthcare from existing 1.15% of GDP to 2.5% of GDP by 2025. However, the budgetary allocation on healthcare has seen a very modest increase from last year and hence the implementation of the policy may be hit by lack of planned budgetary support.

Allocation to Defence has decreased in terms of total budgeted expenditure from 12.04 % in 2017-18 to 11.58% for 2018-19, thus creating ambiguity over spending on modernization of military equipments and naval fleets in the time of rising border disputes.

There is a dip in budgetary allocation for education, from 3.69% in 2017-18 to 3.48% in 2018-19. However, Government has emphasised on utilisation of technology to transform education from black board to digital board and has focussed on infrastructure development for educational institutions in order to stimulate R&D activities through a major initiative named RISE. Additionally, emphasise is on improving quality of teachers by bringing in integrated programmes for teachers in service.

Allocation to transport has been increased from 4.83% in 2017-18 to 5.51% in 2018-19 indicating Government's intent to strengthen road and rail network and creating an efficient logistic network.

Allocation to Information Technology has increased as a result of increased focus on technology across sectors including proactive usage evaluation of block chain technology and e-assessment of income tax.

AN EXPERT'S VIEW

Mr. N. Sri Krishna (NSK) is a renowned tax expert at Brahmayya&Co., Chartered Accountants, with over three decades of experience in areas of Taxation including investigations and inquiries, HNI Tax Consultancy and International Taxation.

Interviewer: What did you anticipate from the last Budget of the current Government?

NSK: After undertaking the country's largest tax reform last year by way of GST implementation and the demonetisation exercise, I anticipated the current year's budget to incorporate fundamental and institutional reform measures to build on the momentum gained from structural reforms. Also, it was expected to be a populist budget to keep voters happy.

Interviewer: What is the most positive takeaway from this budget?

NSK: This budget has been aimed at uplifting the weaker and blackballed sections of the society. Significant measures have been promised for the welfare of farmers, senior citizens and the tribal population. Focus has clearly been given to health, education, rural economy and the budget delivered an incessant push to technology, artificial intelligence, startup ecology and infrastructure development.

Interviewer: What was lacking in this budget?

NSK: The budget, somehow, could not bite the bullet in the area of giving across-the-board tax rate reduction for Corporates, or provide any major tax relief for taxpayers other than senior citizens. Additionally, the tax on Long Term Capital Gains on listed stocks at 10 percent without indexation will surely dampen returns from the stock market. However, the grandfathering provision will provide immunity to a certain extent.

Interviewer: Can you please shed some sector wise insight from this budget?

NSK: This budget has been electorate friendly, with populist measures while still emphasising on technological development

"This budget has been aimed at uplifting the weaker and left out section of the society. Significant measures have been promised for the welfare of farmers, senior citizens, tribal population."

and promoting entrepreneurship. This budget has aimed at holistic development of Indian economy keeping in view tax equity and promoting transparency and effective tax administration.

Corporate Taxation: There were moderate relief measures by way of reduced taxation rates for companies with turnover less than Rs. 250 crores in Financial Year 2016-17, tax sops for startups to develop startup ecology and incentivise entrepreneurship. Additionally, the Government has attempted to boost employment generation by way of amendment in Section 80JJAA.

Personal Taxation prima facie evidenced substantial tax relief measures for senior citizens including, inter alia, higher deduction for medical insurance, and interest income on deposits. The salaried class are offered a standard deduction from salary income in lieu of erstwhile transport allowance and reimbursement of medical expenses. Tax on Long Term Capital Gains on listed stocks will widen the tax base.

Health is one area where the Government has crystallised its intention under National Health Policy, 2017 by way of introducing National Health Protection Scheme, projected as one of the world's largest Government sponsored health schemes for citizens, aimed at inclusive healthcare for the population. Lots of initiatives have been promised in this regard and this was a much needed push. The Nation's bright future depends on the health and well being of its citizens.

> Focus has clearly been given to health, education, rural economy and the budget delivered an incessant push to technology, artificial intelligence, startup ecology and infrastructure development.

Agriculture can be said to be the core focal point of the budget. This budget is farmer friendly in so far it provides relief for producer companies, promotes trade in agricultural commodities, widens access to kisan credit cards and promises fair price to farmers for their crops.

Infrastructure, being the key pillar for the success of the Indian economy, has continued to receive record allocation. Highways and Railways have witnessed various initiatives. "Affordable Housing" will also spur economic activity.

Education has received much required attention by way of encouragement in digitising the way of teaching, encouraging Research and Development oriented institutions, improving the quality of teachers through training programmes, and launching of a major initiative under the name "Revitalising Infrastructure and Systems in Education (RISE) by 2022".

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