MVDCO Advisory Services Pvt. Ltd.

Budget 2018 - Highlights

Income Tax

PERSONAL TAX

Tax Rates:

- The Tax rate for individuals, HUF, AOP, BOI and AJP have remained unchanged.
- Surcharge @ 10% on total income exceeding INR 50 Lacs but not exceeding Rs.1 Crore and @ 15% for total income above INR 1 crore will continue.
- “Education Cess @ 3%” will be abolished and “Health and Education Cess” @ 4% on Tax will be payable.

The final effective rate of tax is as below:

Income levels	Individual/ HUF/ AOP/BOI	Senior Citizens (Age 60 – 80 years)	Very Senior Citizens (Age 80 years and above)
Up to 250,000	Nil	Nil	Nil
250,001 – 300,000	5.20%	Nil	Nil
300,001 – 500,000	5.20%	5.20%	Nil
500,001 – 1,000,000	20.80%	20.80%	20.80%
10,00,001 – 50,00,000	31.20%	31.20%	31.20%
50,00,001 – 10,000,000	34.32%	34.32%	33.32%
Above 10,000,000	**35.88%**	**35.88%**	**35.88%**

- **Deduction for medical expenditure:**

  Deduction in respect of medical expenditure on the health of himself, family members or parents, being senior citizens, the limit of deduction is increased from Rs. 30,000/- to Rs. 50,000/-.

- **Deduction in respect of medical treatment – Sec. 80DDB:**

  Deduction in respect of expenditure incurred on medical treatment of senior citizens is increased from Rs. 60,000/- to Rs. 100,000/-

- **Deduction of Bank interest income – Sec. 80TTA:**

  Senior citizens will now be eligible for enhanced deduction of up to Rs. 50,000/- in respect of their income from bank interest and interest from deposit with Post Office.

  Correspondingly, banks will not deduct tax (TDS) under section 194A on interest earned by senior citizen up to Rs. 50,000/-.

- **Standard Deduction for Salary employees:**

  All the employees drawing salary will be eligible for a Standard Deduction of Rs. 40,000/- per year. They will however not get any deduction in respect of medical allowance of Rs. 15,000/- per year and conveyance allowance of Rs. 1,600/- per month.

- **Stamp duty valuation – Sec. 43CA and 50C:**

  If the stamp duty valuation is higher than the consideration received on transfer of Land and building as per the agreement, by 5% of the consideration value, the consideration as stated in the agreement will be accepted.

Long Term Capital Gains – Section 112A:

All the changes suggested in the Finance Bill, 2018 will take effect from 1st April 2018. Accordingly, any long-term equity shares sold up to 31st March 2018, the erstwhile/old tax provisions would apply.

For the transfer of long term capital asset ie. Equity share in a company (shares), unit of an equity-oriented fund (fund) or unit of business trust on or after 1st April 2018, the following are the salient features of the changes suggested:

- Security Transaction Tax (STT) should have been paid on transfer/sale of shares or funds;

- STT has been paid on acquisition of such shares. The Government may specify the nature of acquisition for which this clause shall not apply.

- The benefit of inflation indexation of cost will not be available

- There will be no tax on LTCG up to Rs. 100,000/-

- In respect of LTCG exceeding Rs. 100,000/-, 10% tax will be chargeable on such gain above Rs. 100,000/-

- No deduction under Chapter VI-A like LIC Premium, PPF, Mediclaim, donation etc. shall be allowed from such LTCG.

- The cost of acquisition for the purpose of computing capital gain shall be deemed to be higher of the following:

  i. Actual cost of acquisition
  ii. Lower of –
     a) Value of such shares as on 31st January 2018 and
     b) Value at which shares are sold

An illustration of three different scenario is produced below:

Description	Case 1	Case 2	Case 3
Sale Price in say May 2018 (A)	500,000	500,000	500,000
Actual cost of acquisition in say 2015 (B)	100,000	200,000	400,000
Price as on 31st January 2018 (C)	200,000	600,000	300,000
Deemed cost (Lower of A and C = D but if B is higher then B)	200,000	500,000	400,000
Capital Gain (A – D)	300,000	NIL	100,000
Basic exemption	100,000	NIL	100,000
Taxable Capital Gain	200,000	NIL	NIL
Tax Payable @ 10%	20,000	NIL	NIL

- **Investment in specified bonds to claim capital gain exemption – Sec. 54EC:**

  Currently, capital gain on sale of any long-term asset is exempt from tax if the consideration is invested in specified bonds within 6 months from the date of transfer. The maximum amount of such investment is Rs. 50 Lakhs and the investment in bond is locked in for a period of 3 years.

  It is proposed to restrict the sale of long term asset to only land and building as long-term asset. The lock in period of investment in specified bonds is also proposed to be increased to 5 years.

CORPORATE TAX:

There will be no change in the Corporate Tax structure. The same is as below:

Total Turnover	Domestic Companies	Foreign Companies
Does not exceed 50 Crore in F.Y 2015-16	25%	40%
Other than above	30%	40%

Surcharge.

Total Income	Domestic Companies	Foreign Companies
Exceeding 1 Cr upto 10 Cr	7%	2%
Exceeding 10 Cr	12%	5%

- "Education Cess @ 3%" will be abolished and "Health and Education Cess" @ 4% on Tax & Surcharge will be payable.

Expansion of scope of income deemed to accrue or arise in India – Sec. 9

The defination of "Business Connection" in India is substantially expanded to include certain activities of their agents of non-residents in India. If the non-resident is significantly assisted by an agent in India in either negotiating and concluding contracts in the name of the non-resident or if the contract entered into relates to services provided by the non-resident, or relates to the transfer of property (including intellectual property), or permits the use of property, that would now result in the creation of a business connection, thereby forming the requisite nexus under the domestic Income Tax Act and such income will be subject to tax in India.

Currently, huge number of digital transactions that takes place in India goes tax free in India because of lack of physical presence of such non-resident entities in India. A new concept of Significant Economic Presence – SEP) has been introduced in the finance bill to expand the scope of business connection in India. The non-resident will now be deemed to have SEP in India if he carries out any of the following activity:

- transaction in respect of any goods in India above a specified value, including digital goods; or
- transaction in respect of any services in India above a specified value, including digital services; or
- transaction in respect of any property in India above a specified value, including download of data or software; or
- systematic and continuous solicitation of business from India from prescribed number of users through digital means; or
- systematic and continuous engagement with prescribed number of users through digital means.

It is further clarified that whether the non-resident has a resident or place of business in India or whether the services are rendered in India is not relevant.

- **Construction and Service contracts – Sec. 43CB:**

  - Income from long term construction and service contracts will necessarily have to be computed on the basis of percentage completion method in accordance with ICDS notified under section 145(2).
  - However, contract for services with duration of not more than 90 days shall be determined on the basis of project completion method;
  - Contract for services involving indeterminate number of acts over a specific period of time shall be determined on the basis of straight line method.
  - For the purpose of calculation of income, contract revenue shall include retention money and
  - Contract cost shall not be reduced by any incidental income in the nature of interest, dividend, capital gains etc.

- **Deductions allowed only if Return is filed within time:**

It is proposed that no deduction shall be allowable in respect of certain income ie. Deduction available from Section 80HH and onwards, unless Return of income is furnished within the time limit prescribed under section 139(1).

- **Changes in Dividend Distribution Tax (DDT) on dividend declared by mutual funds – Sec. 115R:**

  - Section 115R is proposed to be amended to add that whenever any Equity Oriented Mutual funds declare dividend to its unitholders, such Mutual fund shall be liable to pay additional income tax of 10% on such distributed income.
  - Equity oriented fund would generally mean when a minimum of 65% of the total proceeds of such fund is invested in the equity shares of domestic companies listed on recorgnised stock exchange.

- **Dividend Distribution Tax on deemed dividend:**

  In case of deemed dividend as mentioned under section 2(22)(e), the rate of Dividend Distribution Tax is increased from current 15% to 30%.

- **Obtaining Permanent Account Number – Sec. 139A:**

  It is proposed that following class of persons shall also obtain Permanent Account Number. They are:

  1) Every person, not being individual, which enters into financial transactions of an amount aggregating to Rs. 250,000/- or more in a financial year or

  2) Every person, who is Managing Director, Director, Partner, Trustee, Author, Founder, Karta, Chief Executive Officer, Principal Officer or Office bearer of the person referred to in para 1 above or any person competent to act on behalf of such person.

- **Assessment - Sec. 143**

  As a welcome move, it is proposed that no adjustment should be made on difference between income disclosed in the computation of total income and income reflected in Form 26AS or Form 16A while processing the tax return under section 143(1). This will be applicable for assessment years 2018 – 19 and onwards.

  As a measure to impart greater efficiency, transparency and accountability, it is further proposed that a scheme will be formed so as to carry out scrutiny assessments under section 143) in a way that interface between Assessing Officer and Assessee is eliminated by use of technology and introducing dynamic jurisdiction.

- **Valuation of Assets – Sec. 145A:**

  Valuation of certain assets and Income has to be computed in accordance with Income Computation and disclosure Standards (ICDS) as notified under section 145(2). They are:

  1) Valuation of inventory shall be made at lower of actual cost or net realisable value computed in accordance with ICDS;

  2) Valuation of purchase and sale of goods or services and of inventory shall be adjusted to include any tax, duty, cess or fee actually paid or incurred to bring the goods or services to the place of its location;

3) Inventory, being securities not listed on recognised stock exchange, shall be valued at actual cost;

4) Inventory, being securities listed on recognised stock exchange, shall be valued at lower of actual cost or net realisable value.

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