



UNION BUDGET 2017-18



B - 304, New India Chambers
Off Mahakali Caves Road,
Andheri East, Mumbai 93

Overview

Direct Tax

- ✓ Selective change in tax rates
- ✓ Emphasis on promoting digital economy
- ✓ Steps to curb cash payments
- ✓ Promote affordable housing
- ✓ Rationalisation and anti-abuse measures introduced

Overview

Indirect Tax

- ✓ Implementation of GST on schedule
- ✓ No change in peak Customs, Excise and Service tax rates
- ✓ Research and Development cess proposed to be repealed
- ✓ Certain duty concessions for 'Make in India' impetus

DIRECT TAX

Direct Tax

Effective from April 1, 2017

- ✓ For eligible businesses under Section 44AD, threshold limit for Tax Audit under Section 44AB increased from Rs 1 Crore to Rs. 2 Crore
- ✓ In case of Joint development agreement for immovable property, capital gain on transfer of such immovable property chargeable to tax in the year in which certificate of completion is issued. TDS @ 10% chargeable on consideration for transfer of such immovable property
- ✓ Expenditure in respect of which payment made by an assessee to a person referred in Section 40A(2)(b) excluded from the scope of Specified Domestic Transaction under Section 92BA

Direct Tax

Effective from April 1, 2017

- ✓ In respect of Income from other sources, scope of Section 56(2) which deals with taxation of sums of money/property/shares received without inadequate consideration widened by inserting clause (x) to cover specified trusts or institutions
- ✓ Rationalisation of Section 115JB in line with Indian Accounting Standard (Ind-AS)
- ✓ CBDT empowered to issue directions/instructions in respect of levy of penalty for failure to deduct or collect tax at source
- ✓ Rationalisation of time limits for completion of assessments:
 - For AY 2018-19 – assessment on or before September 30, 2020;
 - Thereafter within 12 months from relevant AY

Direct Tax

Effective from April 1, 2017

- ✓ Time limit for completion of re-assessment rationalised to 12 months for the notices issued on or after April 1, 2019
- ✓ TDS on payments made to call centres reduced from 10% to 2%
- ✓ No TDS on compensation exempt from income tax under Section 96 of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013
- ✓ Provision for TCS @ 1% on cash sale of jewellery exceeding Rs. 5 Lakhs omitted in light of insertion of provision prohibiting cash payments in excess of Rs. 3 Lakhs

Direct Tax

Effective from April 1, 2017

- ✓ TCS @ 1% on motor vehicles exceeding Rs. 10 Lakhs not applicable on sale to Central Government/State Government, an Embassy, High Commission etc., local authority, a public sector company engaged in carrying of passengers
- ✓ Furnishing of PAN mandatory for all transactions on which TCS is applicable, in absence of which tax collectible at twice the applicable rate
- ✓ Professionals under presumptive taxation regime to pay advance tax in one instalment on or before March 15th of the relevant financial year. Interest on shortfall on such advance tax to be levied, if advance tax paid is less than returned income

Direct Tax

Effective from April 1, 2017

- ✓ Refund in scrutiny cases not to be delayed till completion of assessment except when AO is of the opinion that grant of refund may affect recovery of revenue
- ✓ Assessee entitled to receive simple interest @ 0.5% p.m. from the date on which claim of refund is made up to the date of grant of refund
- ✓ AAR for Income tax, Central Excise, Customs duty and Service tax merged into one Authority
- ✓ Cash transactions in excess of Rs. 3 Lakhs (*per person in a day against a single transaction*) permissible only in case of payments made to Government / Banks / Post Office. Penalty of equivalent amount to be levied in case of default

Direct Tax

Effective from April 1, 2017

- ✓ On furnishing incorrect information in a report / certificate, penalty of Rs. 10,000/- per certificate / report payable by Accountant/merchant banker or a registered valuer
- ✓ Penalty u/s 271J not to be imposed if the person proves that there was reasonable cause for failure referred to in the said section
- ✓ Framework for computation of book profit for Ind-AS compliant companies proposed under Section 115 JB
- ✓ Person responsible for paying sums to non residents defined to mean payer himself or if the payer is a company, the company itself including the principal officer

Direct Tax

Effective from April 1, 2018

- ✓ Income tax rate reduced to 5% from 10% in case of income ranging between Rs. 2.5 lakhs to Rs 5 lakhs in case of all Individual/HUF/AOP/BOI/AJP
- ✓ Revision in Surcharge for Individual/HUF/AOP/BOI/AJP

Income threshold	Surcharge rate
Rs 50 Lakhs to Rs. 1 Crore	10%
Above Rs. 1 Crore	15%

- ✓ Income tax rate reduced to 25% in case of domestic company having turnover/gross receipts upto Rs. 50 Crore in the previous year 2015-16

Direct Tax

Effective from April 1, 2018

- ✓ Provisions of Section 115BBDA which deal with tax ability of dividend income in the hands of recipients widened to include all resident assessee's other than domestic companies, trust and institutions
- ✓ Partial withdrawal from National Pension Scheme as referred under Section 80CCD, not taxable, if the withdrawal does not exceed 25% of contributions
- ✓ Upper limit of deduction under Section 80CCD increased from 10% to 20% only in case of individual other than employee
- ✓ Period of holding a long term capital asset shortened to 24 months from 36 months for the purpose of calculating Capital gains respect of immovable property

Direct Tax

Effective from April 1, 2018

- ✓ Provisions of Section 80-IBA amended to provide relaxation in building affordable residential units in metro cities
- ✓ Capital gain arising from transfer of land under land pooling scheme notified by Andhra Pradesh Capital Region Development Authority Act, 2014, not chargeable to tax
- ✓ Base year for Capital gain indexation changed from 1981 to 2001
- ✓ Scope of investment eligible for exemption under Section 54EC widened to include bond as notified by the Central government

Direct Tax

Effective from April 1, 2018

- ✓ Annual value of the property held as stock-in-trade for a period of one year from the end of the FY in which certificate of completion of construction is obtained, to be Nil.
- ✓ Start-ups under Section 80IAC allowed a deduction of 100% of profits in three consecutive years out of any seven years from the year of incorporation.
- ✓ MAT/AMT credit carried forward period extended from 10 AY's to 15 AY's.
- ✓ Deduction under Section 36(1)(viiia) to specified banks in respect of provision for bad and doubtful debts increased from 7.5% to 8.5% of total income

Direct Tax

Effective from April 1, 2018

- ✓ Deduction under Section 80G not allowed, if donation paid in cash exceeds Rs 2000
- ✓ Any capital expenditure under Section 43 in excess of Rs 10,000/- paid in cash to a person in a day for acquisition of asset, to be ignored for determining the cost of such asset
- ✓ No deduction for capital expenditure under Section 35AD in excess of Rs 10,000/- paid in cash to a person in a day in respect of specified business
- ✓ Cash payment threshold limit reduced from Rs 20,000/- to Rs. 10,000/- under Section 40A (3) and (3A)

Direct Tax

Effective from April 1, 2018

- ✓ Presumptive income under Section 44AD reduced from 8% to 6% to promote digital transaction and encourage small unorganised business
- ✓ Cash donation in excess of Rs 2000/- to political parties not eligible for exemption under Section 13A. Also, political parties required to furnish return of income under Section 139(4B)
- ✓ Exemption to income of foreign company from sale of leftover stock of crude oil from the facility in India post the expiry of agreement
- ✓ Income and turnover limit for maintenance of books under Section 44AA increased from Rs. 1.20 Lakhs to Rs. 2.50 Lakhs and Rs. 10 Lakhs to Rs. 25 Lakhs

Direct Tax

Effective from April 1, 2018

- ✓ Conversion of Preference shares into Equity shares (*Section 47*) not to be regarded as transfer in order to provide tax neutrality
- ✓ Cost of acquisition of Shares to remain same for the resulting company as applicable for the Demerged Company
- ✓ Section 115BBG introduced to tax the Income from transfer of carbon credits at a concessional rate of 10%
- ✓ Section 10(38) amended to provide exemption only if the acquisition of share is chargeable to Securities transaction tax

Direct Tax

Effective from April 1, 2018

- ✓ Section 50CA introduced where the consideration for transfer of share is less than the Fair Market value (FMV) of shares, consideration deemed to be the FMV
- ✓ Disallowance provisions under Section 40(a)(ia) for non-deduction of tax from payment to residents extended for computing income chargeable under the head 'Income from other sources'
- ✓ Rebate of Rs 5000/- out of tax liability under Section 87A reduced to Rs 2500/- subject to the total income does not exceed Rs. 3,50,000/-
- ✓ Deduction under Section 80 CCG pertaining to investment made in listed equity shares or listed units of an equity oriented fund phased out

Direct Tax

Effective from April 1, 2018

- ✓ Section 71 amended to restrict the set-off of loss under house property to Rs 2 Lakhs per AY, however unabsorbed loss allowed to be carried forward for set-off in subsequent years
- ✓ Return of income to be filed mandatorily by Investor Protection Funds, Core Settlement Guarantee Funds and any Board or Authority enjoying exemption under Section 10
- ✓ In addition to interest, penalty ranging from Rs. 1000 to Rs. 10000 for delay in filing of tax return
- ✓ On furnishing proof of settlement and evidence of payment, disallowed foreign tax credit to be allowed within 6 months of settlement of dispute

Direct Tax

Effective from April 1, 2018

- ✓ Interest expenses paid by an Indian company or a PE to their AEs shall be restricted to 30% of their EBITDA
- ✓ Where primary adjustment made to the ALP of an international transaction results in an increase of income/decrease in loss, the excess money available with the AE if not repatriated to India deemed to be advance made by the Assessee to the AE and interest on such advance to be computed and taxed

Direct Tax

Effective from June 1, 2017

- ✓ Individual & HUF not liable for tax audit under Section 44 AB required to deduct TDS @ 5% on rent exceeding Rs 50,000 per month or part of the month.
- ✓ Recipients of insurance commissions also eligible to furnish Form 15G/15H for non-deduction of tax if their estimated total income is not taxable

Effective from April 1, 2016

- ✓ Concessional rate of TDS @5% under Section 194LC (*interest on borrowings from non-resident*) and Section 194LD (*interest payable to FIIs and QFIs*) extended from July 1, 2017 to July 1, 2020

INDIRECT TAX

GOODS & SERVICES TAX

Goods & Services Tax

- ✓ Substantial progress made towards ushering in GST
- ✓ Preparation of IT system for GST on Schedule
- ✓ Reach-out efforts to trade & industry to commence from April 1, 2017
- ✓ GST preparations in last lap

CENTRAL EXCISE

Central Excise

Effective from February 2, 2017

- ✓ ED exempted on Micro ATM's as per standard version 1.5.1, fingerprint reader/scanner and IRIS Scanner. Further, ED exempted on parts and components for manufacture of these devices, subject to actual user conditions*
- ✓ Similarly, ED exempted on miniaturized POS card reader for m-POS (other than mobile phone or tablet computer). Further, ED exempted on parts and components for manufacture of these devices, subject to actual user conditions*
- ✓ Exemption from ED to POS devices and all goods used for manufacture of POS devices extended from March 31,2017 to June 30,2017

**Exemption valid till June 30, 2017*

CENVAT

Cenvat

Effective from February 2, 2017

- ✓ Reversal of input tax credit in case of banks and financial institutions including NBFC's rationalised
- ✓ In case of shifting of factory on account of sale, merger, amalgamation, lease, etc. transfer of Cenvat credit by the jurisdictional AC/DC to be allowed within three months from date of receipt of application

CUSTOMS

Customs

Effective from enactment of Finance Bill, 2017

- ✓ Concept of beneficial owner introduced to mean any person on whose behalf the goods are being imported/exported or who exercises effective control on such goods
- ✓ International courier terminal and foreign post office included under definition of customs station
- ✓ Subject to specified conditions, unjust enrichment will not apply to excess duty paid by importer prior to order permitting clearance of goods for home consumption

Customs

Effective from enactment of Finance Bill, 2017

- ✓ BoE to be filed before the end of the next day following the day (excluding holidays) on which the vessel or aircraft arrives at customs station
- ✓ Importer required to pay customs duty on the date of presentation of BoE in case of self assessment or within one day from the date on which BoE is returned for payment of customs duty in case of assessment / re-assessment or provisional assessment and in case of deferred payment from such specified date

Customs

Effective from February 2, 2017

- ✓ Concessional SAD of 2% levied on populated printed circuit boards for use in the manufacture of mobile phones. This concessional rate valid till June 30, 2017
- ✓ BCD reduced from 10% /7.5% to 5% on all items of machinery, including, instrument apparatus and appliances, transmission equipment and auxiliary equipments (including those required for testing and quality control) and components, required for initial setting up for fuel cell based systems for generation of power or for demonstration purpose or balance of systems operating on bio-methane or by –product hydrogen, subject to specified conditions
- ✓ Goods imported through postal parcels, packets and letter exempt from BCD, CVD and SAD for consignment having CIF value up to Rs. 1,000/-

Customs

Effective from February 2, 2017

- ✓ BCD , CVD and SAD exempt on the following goods;
 - Micro ATMs as per standards version 1.5.1;
 - Fingerprint reader / scanner;
 - Iris scanner;
 - Miniaturized POS card reader for m-POS (other than Mobile phone or Tablet Computer);
 - Parts and components for use in the manufacture of the goods mentioned at (i) to (iv) above

- ✓ BCD @ 5% prescribed on all parts for use in the manufacture of LED lights or fixtures including LED lamps and on all inputs for use in the manufacture of LED (Light Emitting Diode) driver or MCPCB (Metal Core Printed Circuit Board) for LED lights and fixtures or LED Lamps

SERVICE TAX

Service Tax

Effective from enactment of Finance Bill, 2017

- ✓ Research and Development Cess payable on import of technology proposed to be repealed (w.e.f. April 1, 2017). Consequently corresponding exemption from service tax gets withdrawn
- ✓ Any process amounting to manufacture or production of goods excluding alcoholic liquor from human consumption removed from negative list, however exemption to continue through mega exemption notification
- ✓ AAR merged for income tax, central excise, customs and service tax. Corresponding changes made to application fees and time period for pronouncement of final order

Service Tax

Effective from enactment of Finance Bill, 2017

- ✓ Exemption from service tax on one time upfront amount (premium/ salami/ cost/ development charge) paid during June 1, 2007 to September 21, 2016 towards long term lease (30 years or more) of industrial plots by State government industrial development corporation or undertaking.
 - Refund of such tax paid can be claimed within 6 months from enactment of the Finance Bill

- ✓ Amendment proposed from July 1, 2010 onwards, clarifying inclusion/exclusion of value of land or undivided share in land for levy of service tax under works contract

Service Tax

Effective from February 2, 2017

- ✓ Scope of service tax exemption on services provided by IIM's by way of two year full time post graduate programmes or post graduate diploma in management enhanced by removing the word residential
- ✓ Life insurance services provided by Army, Naval and Air force group insurance funds to its members under Group Insurance Scheme of the Central Government exempted from service tax for the period September 10, 2004 to February 1, 2016.
 - Refund of such tax paid can be claimed within 6 months from enactment of the Finance Bill

Glossary

Abbreviations	
AAR	Authority for Advance Ruling
AE	Associated Enterprise
AO	Assessing Officer
AOP	Association of Persons
AJP	Artificial Judicial Person
ALP	Arms Length Price
AY	Assessment Year
BoE	Bill of Entry
BOI	Body of Individuals
BCD	Basic Custom Duty
CBDT	Central Board of Direct Taxes
CVD	Countervailing Duty

Abbreviations	
CIF	Cost including Insurance & Freight
EBITDA	Earning before interest, tax, depreciation and amortization
ED	Excise Duty
FMV	Fair Market Value
FII	Foreign Institutional Investors
HUF	Hindu Undivided Family
MAT	Minimum Alternate Tax
PE	Permanent Establishment
PAN	Permanent Account Number
QFI	Qualified Foreign Investors
SAD	Special Additional Duty

Glossary

Abbreviations	
SDT	Specified Domestic Transaction
TCS	Tax Collected at Source
TDS	Tax deducted at source

Disclaimer

- ✓ *This publication is intended to provide clients with the details of the budget proposals, it has been prepared for general guidance of interest only, and does not constitute professional advice*
- ✓ *No person shall act upon the information contained in this publication without obtaining specific professional advice*
- ✓ *S M & Associates, its members, employees accept no liability and disclaim all responsibilities for the consequence of any person acting or refraining to act, if reliance is placed on the information contained in this publication or for any decision based on it*
- ✓ *This publication is for private circulation only*



For any queries:

Contact	Call	E-mail
Mr. Sujit Kotian	91-22-66150195	sujitkotian@smandassociates.com

Mumbai

B - 304, New India Chambers
Off Mahakali Caves Rd, MIDC Road,
Andheri East, Mumbai 400093