KPMG

Union Budget 2018-19

February 2018

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Foreword

The Union Budget 2018-19 holds special significance being the first Budget post the implementation of GST in July 2017. After a long journey of economic reforms, amid subdued economic growth, challenging fiscal situation and farm distress, the Budget endeavours to continue its focus on poverty, rural economy, healthcare, education, infrastructure and digitalisation towards a modern, strong and confident India.

The year witnessed remarkable policy and structural reforms. The announcement of recapitalisation of public sector banks and proactive steps towards resolution of non-performing loans are few of the key initiatives which endeavour to address weaknesses in India's banking and credit profile.

In the backdrop of various reforms and progress, the international credit rating giant Moody's upgraded India's credit ratings to Baa2 from Baa3 after a gap of around 13 years.

The Economic Survey 2017-18 projects Indian economy to grow to 6.75 per cent during FY2018, with FY2019 growth expected to be in the range of 7 to 7.5 per cent. It highlights rising crude oil prices as one of the key issues for the country. It also talks about the positive impact of GST, as there has been a 50 per cent increase in the number of indirect taxpayers in the economy. According to the survey, job creation and agriculture sector would be among the core focus areas for the economy. Further, it projects exports and private investments to pick up in the country, delivering higher economic growth.

While the Budget did not offer anything special to individuals, domestic companies with turnover upto INR250 crore during FY2017 are extended the benefit of concessional corporate tax rate of 25 per cent. To reduce economic distortions and curb erosion of tax base, taxation of LTCG has been reintroduced at 10 per cent on gains on the equity markets. However, gains until 31 January 2018 have been grandfathered.

As also witnessed in the last year's budget, the Government continues to take steps to align the domestic tax laws with OECD-BEPS Action Plans. Accordingly, the ambit of 'business connection' relevant for taxation of non-residents under domestic income-

tax provisions is widened including aligning it with new provisions in the DTAAs when modified by MLI. The changes therein include incorporation of a concept of 'significant economic presence' in an attempt to widen the tax base for emerging business models such as digitised businesses.

To bring certainty on the applicability of ICDS in the wake of recent judicial pronouncements, several amendments and new sections are introduced in the Act retrospectively from applicability of the ICDS notification to make them fully legitimate and operational. Also a new scheme of scrutiny assessment is being introduced to bring in greater transparency and accountability. It proposes faceless assessment by eliminating an interface between the taxpayer and tax authorities and brings in team-based assessments.

From an indirect tax perspective, changes are restricted to Custom Duty and are primarily to reduce litigation and provide impetus to the Government's 'Make in India' initiative. The proposal to levy a SWS at the rate of 10 per cent on BCD, will increase the cost of import of goods even though the Education Cesses have been abolished. As a trade facilitation measure, the proposal to introduce a first ever programme of pre-consultation before issuance of show cause notices is a welcome move. The failure of revenue officers to adjudicate notices within 6 to 12 months will make the demand invalid, is a bold move. It is expected that these measures will improve the taxpayers' experience.

In a nutshell, the Budget has continued its primary focus on growth, revitalising rural and fiscal economy with strong sector focus on agricultural, infrastructure, healthcare and education towards a new and emerging India contributing strongly to the global economy.

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Economic Indicators

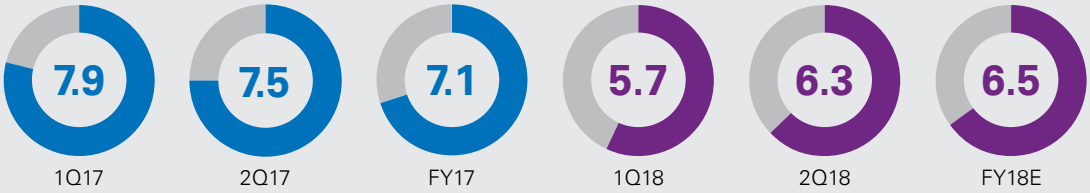
GDP growth

The Indian economy registered a growth rate of over 7 per cent in FY 2017. However, it is projected that the growth rate will reduce to 6.5–6.75 per cent in FY 2018.

The economy is projected to grow at 7 7.5 per cent in FY 2019, as the impact of GST implementation and demonetisation dissipates and export growth picks up.[1]

The Industrial sector grew at 5.8 per cent in 2Q of FY 2018 compared to 1.6 per cent in 1Q of FY 2018. This was on account of a healthy growth of 7 per cent in the Manufacturing sector in 2Q of FY 2018. The Service sector is expected to grow at 8.3 per cent in FY 2018 as compared to the growth rate of 7.7 per cent in FY 2017.

GDP growth (2011-12 base) (YoY, %)



Source: Press Note on Estimates of GDP for the second quarter of 2017-18, MOSPI, 30 November 2017 Press Note on First Advance Estimates of National Income, MOSPI, 5 January 2018 **Note:** Latest Q3 & Q4 GDP data is not available

Moody's Investors Service upgraded India's sovereign rating from Baa3 to Baa2, and changed the outlook from stable to positive thus endorsing the Government's reform policy.

India achieved a record production of food grains, estimated at 27.57 crore tonne. The agricultural sector grew at a healthy rate of 4.9 per cent in FY 2017 due to a favourable monsoon season.

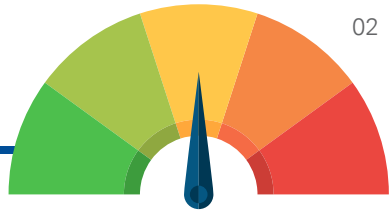
CPI and IIP

The CPI inflation has been volatile throughout FY 2017 with the average rate of ~3.4 per cent (until November 2017).

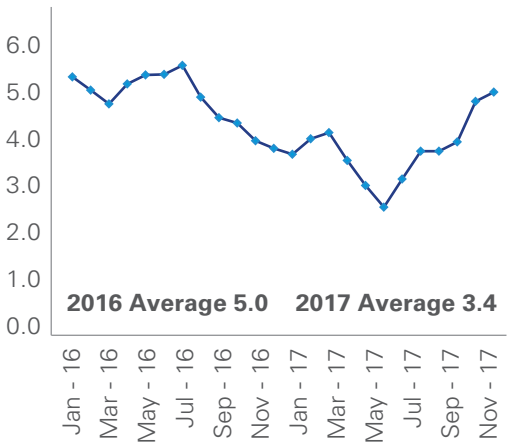
The CPI based inflation declined to 3.3 per cent in FY 2018 (April-December) from 4.8 per cent in the corresponding period of FY 2017.

Inflation declined to a low of 1.5 per cent during June 2017. Since then it has been on a consistent upward trajectory.

1. Economic Survey Sees Pick-Up In GDP Growth But Fiscal Target Under Cloud, NDTV, 29 January 2018



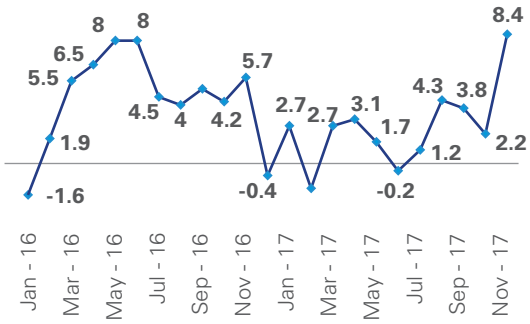
CPI growth (YoY, %)



Source: Monthly Economic Report-January 2017, DEA, accessed on 31 January 2018; Monthly Economic Report-November 2017, DEA, accessed on 31 January 2018

In FY 2018 (April-November 2017), IIP grew 3.2 per cent as against 4.6 per cent in FY 2017. However, the index demonstrated strong performance during 3Q of FY 2018, registering a 25 month high growth rate of 8.4 per cent in November 2017.

IIP growth (YoY, %)



Source: 'Monthly Economic Report', Department of Economic Affairs, November 2017; Economic Survey 2017-18, India Budget, 29 January 2018

Government expenditure

In FY 2018, GFCE and PFCE are likely to grow at a slower pace, reflecting a slowdown in both GVA and GDP growth figures.

In FY 2018, GFCE is likely to grow at 8.5 per cent as against 20.7 per cent in FY 2017 due to reduced spending by the Government which was aimed at meeting its fiscal deficit target of 3.2 per cent in the current FY.[2,3]

In FY 2018, the Government estimates the PFCE to grow at 6.3 per cent as against 6.9 per cent in FY 2017. The slowdown in growth could be attributed to the transitionary impact of implementation of GST, tepid rise in salaries, rural distress and slow growth in employment.[4]

2. Meeting fiscal deficit target for FY17 a challenge, says government, The Business Standard, 13 August 2016
3. Demonetisation, GST effects: GDP growth seen at 4-year low of 6.5%, Business Standard, 6 January 2018
4. Taking stock of the Indian Economy: Consumption key to GDP growth, Live Mint, 4 September 2017

Foreign investments

India has emerged as a favourable market for FIIs owing to interest differential, stronger economic growth amongst other emerging nations, better government policies and opening of capital markets.

In 2017, India received USD30.8 billion in FII flows compared to USD3.2 billion in 2016. Nearly three-fourth of the total FIIs were invested in the debt market due to a favourable interest rate differential in India vis-à-vis developed nations. Further, RBI's decision to make an upward revision in FPIs' holding limit in government securities also aided the capital flow into the debt market.

The equity market also received inflows of over USD7.8 billion in 2017 fuelled by the Government's push to drive economic reforms along with positive investor sentiment. Aided by significant institutional investments, the Sensex gained over 27 per cent in 2017.[5,6]

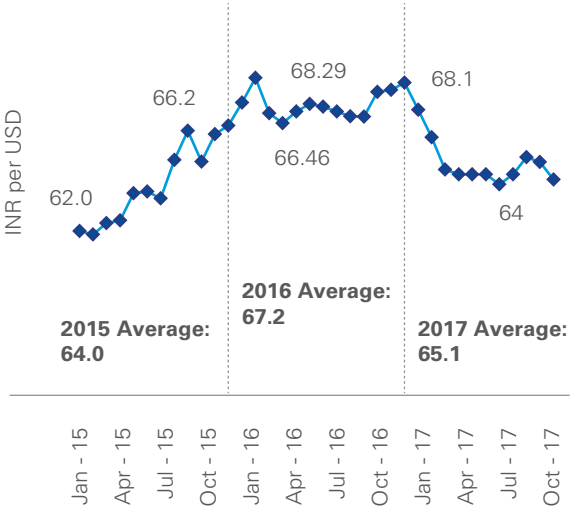
Net FII flow (USD billion)

Source: FII Investments, Central Depository Services, accessed on 31 January 2018

Exchange rate (INR/USD)

On the back of significant capital flows into the country in 2017, the Indian Rupee witnessed appreciation. The Indian Rupee has also appreciated against other major currencies.[7,8]

Exchange rate movement (INR/USD)



Source: X-Rates website, accessed on 1 February 2017

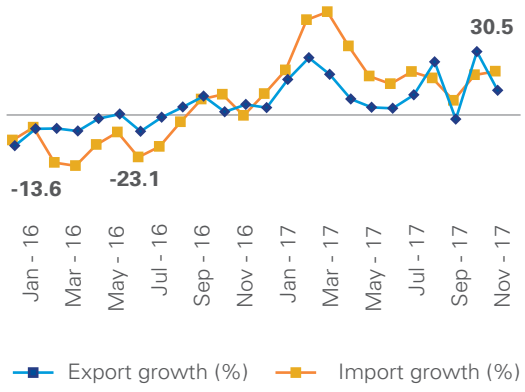
5. Foreign Investment rise in 2017: Liquidity surge in markets invites cautious trading in new year, The Indian Express, 2 January 2018
6. At INR30,906 cr, FII equity-buy in March is highest ever, The Hindu Business Line, 15 January 2018
7. A strong rupee is not bad news, The Hindu Business Line, 27 January 2018
8. Economic Survey 2017-18, India Budget, 29 January 2018

Indian trade

While India's merchandise exports witnessed an increase during the year, the imports outpaced the exports, thereby widening India's trade deficit.

India's merchandise exports have been on a positive trajectory from August 2016 to December 2017, except for a decline of 1.1 per cent in the month of October 2017. During April-December 2017, the exports growth rate stood at 12.1 per cent, propelled by increased exports of engineering goods and petroleum products.[9]

Merchandise trade growth %



Source: Monthly Economic Reports, DEA, accessed on 31 January 2018

During the year, India's imports outpaced exports, owing to the increased inbound shipments of gold and other precious stones along with increased crude oil prices. In April-December 2017, imports grew at a YoY rate of 21.8 per cent. As a result, India's trade deficit widened to USD74.5 billion in 1H of FY 2018 as against USD43.4 billion in 1H of FY 2017.[10]

Overview of economic measures undertaken in India during FY 2018

The Government undertook several reforms during FY 2018 to drive structural changes in the economy and address underlying issues.

With the aim of creating a unified market in the economy, GST was rolled out in 2017.

In the medium to long-term, GST roll out is likely to help in curbing the menace of black money, expand existing tax base, decrease logistics cost, and establish a transparent and simplified indirect tax regime.

To revitalise infrastructure development and increase private investments, the Government announced an 83,677km road construction programme with an investment outlay of INR6.9 lakh crore.[11]

The RBI's Monetary Policy Committee has cut the repo rate by 0.25 per cent to bring it down to 6 per cent[12] to boost economic growth of the country. The RBI along with the Government is constantly working towards addressing the challenge of rising NPAs in India's banking system.

9. Exports up 12.3% in December but imports jumped 21%; trade deficit at its widest in 3 years, The Hindu Business Line,
10. Economic Survey 2017-18, India Budget, 29 January 2018
11. Cabinet approves Rs7 trillion road construction plan, including Bharatmala, Live Mint, 24 October 2017
12. RBI Cuts Repo Rate To 7-Year Low Of 6%, Loans Could Get Cheaper, NDTV, 2 August 2017

In the medium-term, various NPA accounts identified by the RBI are expected to undergo redressal proceedings, with the IBC and NCLT playing key roles. Further, the Government also announced INR2.1 lakh crore bank recapitalisation scheme to facilitate credit growth. These measures are expected to help banks improve their lending capacities and their balance sheets.

Going forward, the Government's focus on infrastructure, job creation and agriculture sector could provide the necessary thrust to the economy.

As FY 2019 approaches, the Government is expected to undertake several reforms such as streamlining GST, revamping labour laws and overhauling the direct tax system.

Fiscal deficit as % of GDP

Source: Union Budget 2018: FY19 Fiscal Deficit Set At 3.3 Percent, Bloomberg, 1 February 2018
Note: * denotes revised estimates and ** denotes budgeted estimates

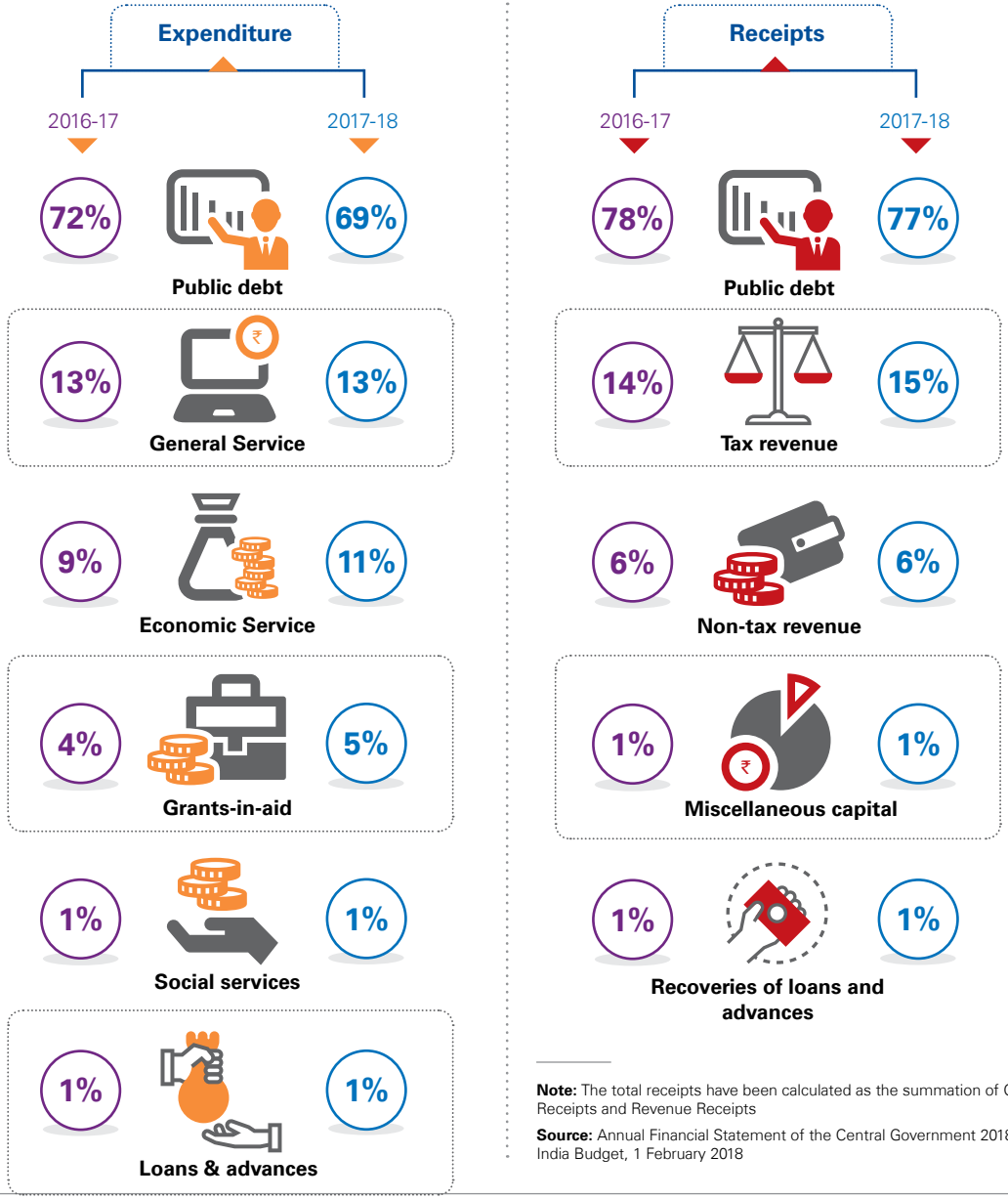
India's improving regulatory framework received wide-spread international acclaim, as it jumped 30 places to the hundredth rank in the World Bank's Ease of Doing Business 2018 report.[14]

The Government revised its fiscal deficit target for FY 2018, on account of volatility in tax revenues post GST implementation. The Government expects only 11 months worth of GST revenues to accrue in its account during FY 2018.

13. The whys and hows of PSU bank recapitalisation, Live Mint, 10 January 2018

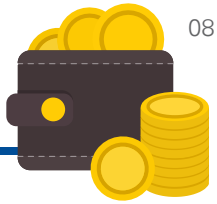
14. World Bank endorses Modi government's reform credentials, Live Mint, 1 November 2017

Budget Financials



Note: The total receipts have been calculated as the summation of Capital Receipts and Revenue Receipts

Source: Annual Financial Statement of the Central Government 2018-19, India Budget, 1 February 2018



Expenditure

	Capital	Revenue	TOTAL
2016-17	59,88,306	19,33,018	79,21,324
2017-18E	61,97,826	22,17,534	84,15,360

Receipts

	Capital	Revenue	TOTAL
2016-17	62,22,850	16,15,988	78,38,838
2017-18E	66,47,627	17,77,962	84,25,589

GDP Growth rate

2016-17 (INR cr.)	2017-18E (INR cr.)
7.1%	6.5%

Fiscal Deficit*

2016-17 (INR cr.)	2017-18E (INR cr.)
3.5%	3.2%

The fiscal deficit is computed by the government based on adjusted capital and revenue receipts less adjusted capital and revenue expenditure.

Note: The total receipts have been calculated as the summation of Capital Receipts and Revenue Receipts
Source: Annual Financial Statement of the Central Government 2018-19, India Budget, 1 February 2018

Budget Proposals

DIRECT TAX

Corporate Tax

- Domestic companies having total turnover/ gross receipts not exceeding INR250 crore to be taxable at the concessional corporate tax rate of 25 per cent.
- The concessional corporate tax rate of 25 per cent eligible to certain domestic companies carrying out specific business activities to apply only to income earned from those activities and not to any other income.
- Taxability of deemed dividend in case of loans and advances shifted from recipients to the distributing domestic company and made subject to DDT at the rate of 30 per cent (without grossing up).
- The transfer of money or property between a wholly owned subsidiary company and its holding company to be excluded from the scope of taxation of the recepient as income from other sources.
- Existing Education Cess and Higher Education Cess (aggregating 3 per cent) to be replaced by a new Health and Education Cess at 4 per cent.

Capital Gains

- The LTCG from land and/or building only to be eligible for exemption upon investment in eligible bonds for LTCG exemption. The eligible bonds to be redeemable after five years instead of three years and to be issued by NHAI or RECL or any other bond notified by the Government.
- Sale of bond, GDR, Rupee denominated bond of an Indian Company or a derivative, by a non-resident on a recognised stock exchange located in IFSC not to be regarded as transfer provided the consideration is paid or payable in foreign currency.
- LTCG exceeding INR1 lakh arising from transfer of equity shares in a company or units of an equity oriented mutual fund or units of a business trust to be taxed at the rate of 10 per cent without indexation benefit for resident and without foreign currency fluctuation benefit for non-resident.
- The rate of 10 per cent is applicable only where STT has been paid on acquisition and transfer of equity shares and on the transaction for transfer of units of equity oriented mutual fund or of a business trust. The STT payment condition is not applicable for transfer on a recognised stock exchange located in IFSC and the consideration for transfer is in foreign currency and in cases of other notified acquisitions.

  For the purposes of computing the capital gains, the cost of acquisition to be deemed to be higher of:
  a. actual cost of acquisition; and
  b. the lower of:
     - FMV as of 31 January 2018; and
     - the full value of consideration arising on transfer.
- LTCG exceeding INR1 lakh arising to FPIs from transfer of equity shares in a company or units of an equity oriented mutual fund or units of a business trust (REITs/InVITs)to be taxed at the rate of 10 per cent.
- Inventory converted into a capital asset to be taxed as business income basis the FMV to be determined in the prescribed manner prevailing on the date of conversion. In this

case, the period of holding for the purposes of classification into a short-term or long-term capital asset to be calculated from the date of conversion.

Start-ups

- Taxation regime of start-ups to be modified as under:
  - The sunset date of incorporation for eligible start-ups to be extended from 31 March 2019 to 31 March 2021;
  - The requirement of total turnover to not exceed INR25 crore would apply to seven previous years commencing from the date of incorporation as against the earlier period ending on 31 March 2021; and
  - The definition of eligible business to be amended to mean 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 requirement of new products and services driven by technology or intellectual property is done away with.

Non-resident taxation

The following amendments have been introduced to align with the modified PE Rule as per the MLI as well as OECD BEPS Action Plans. The amendments are subject to applicable treaty relief.

- The ambit of 'business connection' for business activities carried on in India by a non-resident through dependent agents who habitually conclude contracts on their behalf has been expanded to include the activity of habitually playing a principal role leading to conclusion of contracts by the non resident. The contracts covered are:
  - in the name of the non-resident; or
  - for transfer of ownership or for granting of rights to use property owned by that non resident or property that the non-resident has the right to use; or
  - for the provision of services by the non-resident.
- The ambit of 'business connection' has been further expanded to include 'significant economic presence' in India as under:
  - any transaction carried out by a non-resident in India exceeding the prescribed monetary threshold in respect of any goods, services or property including provision of download of data or software in India; or
  - systematic and continuous soliciting of business activities or engaging in interaction with prescribed number of users through digital means.

The taxable income in respect of the above would be as attributable to such transactions or activities in India.

- MAT provisions to not apply to foreign companies whose total income comprises solely of profits and gains from specified businesses (such as shipping, exploration of mineral oils, operation of aircraft, civil construction in certain turnkey power projects) provided such income has been offered to tax at the specified rates. The provision is applicable retrospectively from AY 2001-02.

- Royalty/FTS earned by non-residents from rendering services in/outside India to National Technical Research Organisation to be tax exempt.
- Income of a foreign company from sale of leftover stock of crude oil on expiry of the agreement or arrangement entered into by/approved by the Central Government was tax exempt. This benefit to be extended to cases of termination of such agreements or arrangements.

Transfer Pricing

- The time limit for filing CbCR by a Parent or an ARE resident in India has been revised.
- CbCR to be filed in India in case the overseas Parent has no obligation to file CbCR and the Parent has not nominated an ARE.

ICDS related amendments

- In light of various judicial pronouncements, ICDS related amendments are as under (and with retrospective effect from 1 April 2017):
  - Deduction of marked to market or other expected loss to be restricted to that computed as per ICDS
  - Foreign currency gain or loss to be treated as income or loss only if computed as per ICDS
  - Profits arising from construction contracts or service contracts to be computed only on the basis of percentage completion method in accordance with ICDS except for certain service contracts. Contract revenue to include retention money and contract costs not to be reduced by any incidental interest, dividend or capital gains.
- PGBP to be computed using ICDS provisions as under:
  - The valuation of inventory to be at lower of cost or NRV (as prescribed in ICDS) irrespective of the method of accounting employed
  - In line with the valuation of purchase and sale of goods and inventory, income from services also to be adjusted to include taxes, duties, cess or fees paid or incurred
  - Valuation of inventory being securities not listed on a recognised stock exchange or listed but not quoted on a recognised stock exchange, to be at actual cost initially recognised in the manner provided in ICDS.
  - Valuation of any other securities to be at lower of cost or NRV in the manner provided in ICDS and the comparison of securities to be done category-wise.
- Interest received on compensation or on enhanced compensation to be regarded as income of the year in which it is received.
- The claim for escalation of price in a contract or export incentive to be regarded as income in the year in which reasonable certainty of its realisation is achieved.
- Government subsidy/incentive to be taxed on receipt basis if it has not been charged to tax in an earlier year.

IBC

- To facilitate resolution of stress assets under IBC, 2016, the following amendments are proposed:

- Where the company's application for corporate insolvency resolution process has been admitted by the Adjudicating Authority, the aggregate amount of unabsorbed depreciation and brought forward loss to be reduced from book profit for determination of MAT
- Carry forward and set-off of losses to be allowed irrespective of change in shareholding beyond the permissible limit in case of closely held companies whose resolution plan has been approved by the Adjudicating Authority after giving a reasonable opportunity of being heard to the jurisdictional Principal Commissioner or Commissioner. The provision is applicable from AY 2018-19.
- The return of income to be verified by the Insolvency Professional in respect of a company where an application for corporate insolvency resolution process has been admitted by the Adjudicating Authority.

Charitable trust

- Charitable trust and other institutions not complying with TDS obligations to face disallowance and relief on lines applicable to general taxpayers.
- No deduction allowed to charitable trust and other institutions in respect of any transaction undertaken in cash for an amount exceeding INR20,000 per person per day.

Return and assessment

- The Government to notify, a new scheme where the assessment will be done in an electronic mode with a view to introduce a specialised team based assessments and eliminate an interface between the Assessee and the AO. The provision to take effect from AY 2018-19.
- Every person other than an individual entering into financial transactions aggregating to INR2.5 lakh or more in a financial year and its specified officers (e.g. Managing Director, Director, Partner, Principal Officer, etc.) to obtain PAN. This provision to take effect from AY 2018-19.

Administrative procedures

- The scope of appealable orders before the ITAT to be expanded to include penalty orders imposing penalty on the accountant, merchant banker or registered valuer for furnishing incorrect information in any report or certificate. This provision to take effect from AY 2018-19.
- All companies including shell companies and companies holding 'benami' properties to be liable for prosecution for willful failure to furnish a return of income even if the tax payable does not exceed the prescribed threshold. This provision to take effect from AY 2018-19.

Penalty

- The penalty for failure to furnish the SFT to be enhanced as under:
  - From INR100 per day to INR500 per day during which the failure continues
  - From INR500 per day to INR1000 per day during which the failure continues post issue of relevant notice.

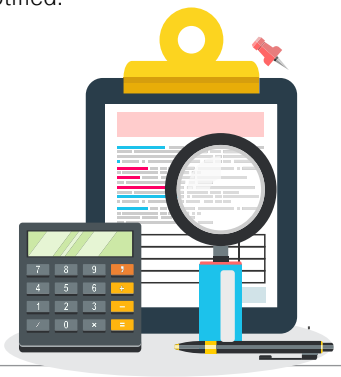
This amendment to take effect from AY 2018-19.

Other amendments

- For the purpose of claiming deduction in respect of additional employment cost for new employees, the minimum period of employment (in the previous year) for an entity engaged in the manufacture of footwear/leather products to be reduced from 240 to 150 days. Employment cost of a new employee who is employed for less than the minimum period in the first year, but continues to remain employed for the minimum period in the subsequent year to qualify for deduction.
- Denial of deduction for expenditure or allowance in computing taxable unexplained cash credit, money and investments, etc. now extended to income determined by AO as well. This provision to take effect from AY 2018-19.
- Any compensation received on termination/ modification of the terms and conditions of any contract relating to a taxpayer's business to be taxable as business income.
- The scope of accumulated profit for the purpose of deemed dividend to be widened in the case of the amalgamated company. It will include the accumulated profits or losses of the amalgamating company on the date of amalgamation. This provision to take effect from AY 2018-19.
- In case of a unit of a Partnership firm or LLP located in IFSC, AMT to be charged at the rate of 9 per cent.
- In respect of sale of immovable property held either as capital asset or stock-in-trade, no adjustment to be made to the sale consideration in case the stamp duty value does not exceed the sale consideration by 5 per cent. Similarly, for the purchaser, no addition to be made to the total income, if the variation between the stamp duty value and the sale consideration does not exceed INR50,000 or 5 per cent of the sale consideration.
- The trading in agricultural commodity derivatives on a recognised stock exchange not to be considered as speculative even when not subject to commodities transaction tax.
- Tax at the rate of 10 per cent to be levied on income distributed by equity oriented mutual funds.
- Specified deductions from gross total income with respect to eligible income of all specified undertakings/businesses would now be available only if the return of income is filed by the due date.
- Benefit of 100 per cent deduction from profits, as available to a co-operative society, to be extended to FPC for a period of five years commencing from FY 2018-19 where such FPC is:
  - engaged in undertaking eligible business of marketing of agricultural produce grown by the members, or purchase of agricultural seeds, implements, livestock and other eligible items for supplying to the members; or processing of agricultural produce of the members; and
  - having total turnover of less than INR100 crore in the previous year.

Personal tax

- Income-tax slabs and Income-tax rates to remain unchanged for individuals.
- Existing Education Cess and Higher Education Cess (aggregating 3 per cent) applicable to an individual to be replaced by a new Health and Education Cess at 4 per cent.
- Exemption of up to 40 per cent on withdrawal of NPS to be extended to non-salaried assessees.
- Standard deduction of INR40,000 per annum to be made available from salary income in lieu of withdrawal of tax free reimbursement of medical expenses (currently INR15,000 per annum) and exemption for transport allowance (currently INR1,600 per month)*.
- Deduction limits for health insurance premium and medical expenditure for senior citizens to be increased from INR30,000 per annum to INR50,000 per annum. For single premium policies where coverage exceeds one year, deduction for premium to be allowed on a specified proportionate basis.
- Deduction limits for medical expenditure in respect of specified critical illnesses to be increased from INR60,000 per annum for senior citizens and INR80,000 per annum for very senior citizens to INR100,000 per annum.
- Deduction of interest earned by senior citizens from savings account with banks/post offices/ co-operative societies to be increased from INR10,000 per annum to INR50,000 per annum and interest on time and recurring deposits also to be made eligible within this limit. Consequently, threshold for TDS on such interest income also to be increased to INR50,000 per annum.
- Any compensation or payment due to or received by any person in connection with the termination of his/her employment or the modification of its terms and conditions expressly to be made taxable.
- Funding by the Government of employer contribution of 12 per cent of wages in relation to new employees to EPF for employers in specified sectors to be extended to all sectors for the next three years under a scheme to be notified.
- Under a new scheme to be notified, employee contribution to EPF by new women employees to be reduced from 10/12 per cent to 8 per cent of wages for the first three years of employment with employer contribution remaining unchanged.
- Government Savings Certificate Act and Public Provident Fund Act to be repealed and specified savings schemes such as Post Office Savings Bank, National Savings Certificate, Kisan Vikas Patra, Public Provident Fund etc. to be amalgamated under a scheme to be notified.



* Basis speech of the Finance Minister; related amendments to the Income Tax Rules to be notified.

INDIRECT TAX

Excise duty

Effective tax incidence on petrol and HSD remains unchanged.

Customs duty

General

- BCD rates remain unchanged.
- Education cess and SHEC of 3 per cent replaced by SWS of 10 per cent (3 per cent on HSD, petrol, gold and silver). Specified goods exempted from SWS.

Amendments (effective from 2 February 2018)

- Effective Customs duty incidence on petrol and HSD remains unchanged
- BCD reduced from 5 per cent to Nil on solar tempered glass or solar tempered (anti-reflective coated) glass for manufacture of solar cells/panels/modules.
- BCD increased from Nil to 5 per cent on preform of silica for use in the manufacture of telecommunication grade optical fibers or optical fiber cable.
- BCD increased from 7.5 per cent to 15 per cent on LCD, LED or organic LED panels for manufacture of television. Further, BCD increased from Nil to 10 per cent on specified parts for manufacture of LCD and LED panels.
- BCD increased from 7.5 per cent to 15 per cent on engines of motor cars, motor vehicle for transport of goods/passengers and motor cycles and their parts including electrical ignition or starting equipment.
- BCD increased from 10 per cent to 15 per cent on motor vehicle for transport of goods/passengers, motor cars and motor cycles in CKD form containing all the necessary components for a vehicle with engine, gearbox and transmission assembly not in a pre assembled condition.
- BCD increased from 20 per cent to 25 per cent on motor vehicle in CBU form which is used for transport of goods or carrying more than 10 passengers.
- BCD increased from 7.5 per cent to 10 per cent on specified medical devices.
- BCD increased from 15 per cent to 20 per cent on imitation jewellery.
- BCD increased from 10 per cent to 20 per cent on sunglasses, smart watches, watches and clocks, toys and games (tricycles, puzzles of all kinds, video game console, fishing rods apart from other specified products), footwear, perfumes, cosmetic and toilet preparations, silk fabrics, lamps and lighting fitting, seats and parts of seats excluding aircraft seats, mattresses, other furniture and parts
- BCD increased from 10 per cent to 15 per cent on radial tyres of bus and truck
- Changes in duty for mobile phones are as follows:
  - BCD increased from 15 per cent to 20 per cent on mobile phones and from 5 per cent to 15 per cent on parts of mobile phones.
  - BCD rate increased from Nil to 10 per cent on PCBA and moulded plastics of mobile charger or adaptor; however parts for manufacture of PCBA and moulded plastics of chargers or adaptors are exempted.

Also, BCD rate increased from 10 per cent to 15 per cent on specified parts of mobile phones made of plastic, charger or adapter, cell or battery (including battery pack and lithium-ion battery), micro phone, wired headset, receiver and side keys.

Amendments (effective from enactment of Finance Bill, 2018)

- Scope of Indian Customs law expanded to cover any offence or contravention committed thereunder outside India by any person. Also, the limit of 'Indian Customs Waters' extended from 'Contiguous Zone of India' to the 'Exclusive Economic Zone' of India.
- The Government to be empowered to sign agreements with other countries, on reciprocal basis, for exchange of information, trade facilitation, verification of compliance, prevention of offences, etc.
- Customs authorities empowered to examine or test goods on submission of bill of entry and shipping bill.
- Central Government empowered to grant exemption from Custom duty on goods imported for repair, further processing or manufacture and re-export or goods re-imported after repair abroad, subject to conditions.
- Process of pre-consultation introduced before issuance of demand notices. Customs authorities empowered to issue supplementary demand notices.
- Time limit prescribed for completion of adjudication within six months/one year from the date of demand notice or as may be extended. Non-adherence to time limit would make demand notice null and void.
- Scope of advance ruling enlarged to cover all importer or exporter of goods from/to India. Also, time limit of conclusion of Advance ruling reduced from six months to three months.
- Facility of electronic cash ledger, similar to GST law, introduced.
- Central Government empowered to take measures or prescribe separate procedure or documentation for a class of importers/ exporters for trade facilitation.
- Notices under Customs law may be given on e-mail or through newspaper or by affixation as well.
- In case of in-bond sale of goods, IGST would be charged on import value or sale value, whichever is higher.

Service tax

- Exemption from Service tax from 1 April 2016 to 30 June 2017, on consideration paid to the Government in the form of its profit on petroleum share in respect of services provided by the Government by way of grant of licence or lease to explore or mine petroleum crude or natural gas or both.

KEY TAX RATES

These rates are subject to enactment of the Finance Bill 2018. The rates are for the FY 2018-19.

Income-tax rates

1. For Individuals, Hindu Undivided Families, Association of Persons, Body of Individuals and Artificial Juridical Persons

Total Income	Tax Rates[d]
Up to INR250,000 [a][b]	NIL
INR250,001 to INR500,000[c]	5%
INR500,001 to INR1,000,000	20%
INR1,000,001 and above	30%

a. For a resident individual aged between 60 and 80, the basic exemption limit is INR300,000.

b. For a resident individual aged 80 or above, the basic exemption limit is INR500,000.

c. Rebate from tax of upto INR2,500 or 100 per cent of the tax whichever is less available for a resident individual whose total income is below INR350,000.

d. Tax rates further need to be increased by the applicable surcharge and cess.

2. For Domestic companies

- Domestic companies, whose total turnover or gross receipts in the FY 2016-17 does not exceed INR250 crore taxable at 25 per cent.
- Companies set up and registered on or after 1 March 2016 engaged solely in the business of manufacture or production of article or thing may at their option be taxable at 25 per cent provided they do not claim specified benefits or deductions.
- Other domestic companies are taxable at 30 per cent.
- Special method for computation of total income of insurance companies. The rate of tax on profits from life insurance business is 12.5 per cent.
- Special code of tonnage tax on income earned by domestic shipping companies
- Presumptive tax regime applies to certain businesses.
- Tax rates further need to be increased by the applicable surcharge and cess.

3. For Foreign companies

- Foreign companies are taxable at 40 per cent.
- Presumptive tax regime applies to foreign companies engaged in certain sectors/certain activities.
- Tax rates further need to be increased by the applicable surcharge and cess.

MAT

- MAT is levied at 18.5 per cent of the adjusted book profit for companies where income-tax payable on the total income (according to the normal provisions of the Act) is less than 18.5 per cent of the adjusted book profit

- MAT is levied at 9 per cent of adjusted book profit for companies having units located in an IFSC which derives income solely in convertible foreign exchange where income-tax payable on the total income (according to the normal provisions of the Act) is less than 9 per cent of the adjusted book profit.
- Tax rates further need to be increased by the applicable surcharge and cess.

Surcharge and cess

1. For Individuals, Hindu Undivided Families, Association of Persons, Body of Individuals and Artificial Juridical Persons

Total income	Surcharge
More than INR5,000,000 but less than INR10,000,000	10%
Exceeds INR10,000,000	15%

Health and education cess at 4 per cent is applicable on income-tax (inclusive of surcharge, if any)

2. For Companies

Total income	Surcharge	
	Domestic company	Foreign company
More than INR10,000,000 but less than INR100,000,000	7%	2%
Exceeds INR100,000,000	12%	5%

Health and education cess at 4 per cent is applicable on income-tax (inclusive of surcharge, if any)

Dividends earned by an assessee resident in India other than domestic company and specified funds, trusts, etc.

Dividend income exceeding INR1,000,000 received by an assessee resident in India other than a domestic company or specified funds or institutions or trusts are taxable at 10 per cent (plus applicable surcharge and cess) on gross amount of such dividends in addition to DDT payable by the company.

Dividends earned by an Indian company

Dividends earned by an Indian company from a foreign company in which it holds 26 per cent or more equity shares shall be taxable at the rate of 15 per cent (plus applicable surcharge and cess) on gross amount of such dividends.

DDT

- Domestic company is liable to pay DDT at:
  - 15 per cent (plus applicable surcharge and cess) on dividends distributed [other than dividend under section 2(22)(e)]. Amount of dividend distributed shall be increased to such amount as would after reduction of tax on such increased amount be equal to the net distributed profits.
  - 30 per cent (plus applicable surcharge and cess) on amounts deemed as dividends under section 2(22)(e).

- Equity Oriented Fund is liable to pay DDT at 10 per cent on income distributed. Amount of income distributed shall be increased to such amount as would after reduction of tax on such increased amount be equal to the net distributed income.
- Surcharge at 12 per cent is applicable.
- Health and education cess at 4 per cent is applicable on DDT (inclusive of surcharge).

Key rates for non-residents

The following incomes in the case of non-resident are taxed at special rates on a gross basis:

Nature of income	Rate
Interest received on loans given in foreign currency to Indian concern or Government of India	20%
Interest received from an Indian company or Business Trust (REITs/InVITs) on monies borrowed in foreign currency and approved by the Central government: • On issue of long-term infrastructure bond from 01 July 2012 to 30 June 2014 • Under a loan agreement from 01 July 2012 to 30 June 2020 • On issue of long-term bond from 01 October 2014 to 30 June 2020 • On issue of rupee denominated bond upto 30 June 2020	5%
Royalty for agreements entered into on or after 1 April 1976	10%
FTS for agreements entered into on or after 1 April 1976	10%

Tax rates further need to be increased by the applicable surcharge and cess.

Particulars	STCG tax rates[a]	LTCG tax rates[a]
Sale transactions of listed equity shares[b]/unit of an equity oriented fund[c]/unit of business trust[c]	15%	10%[d]
Sale transaction other than mentioned above[e]		
Individuals (resident and non-residents)	Progressive slab rates	20%/ 10%[f]
Resident companies	30%	
Overseas financial organisations specified in section 115AB	40% (corporate) 30% (non-corporate)	10%
FIIs	30%	10%
Foreign companies	40%	20%/ 10%[f]

a. These rates further need to be increased by the applicable surcharge and cess.

b. Provided STT is paid both on acquisition and transfer (other than those notified).

c. Provided STT is paid on transfer.

d. Rate of 10 per cent applies to LTCG exceeding INR100,000 without benefit of indexation and foreign currency fluctuation.

e. Rate of 20 per cent with indexation and 10 per cent without indexation applies in respect of listed securities and zero coupon bonds (other than units).

f. Rate of 10 per cent applies to LTCG of non residents/foreign companies from transfer of unlisted securities or shares of a company, not being a company in which the public are substantially interested, without benefit of indexation and foreign currency fluctuation.

Securities Transaction Tax

STT in the range of 0.05 per cent to 0.125 per cent is payable by purchaser/seller as the case may be on the value of taxable securities transactions.

Equalisation levy

Equalisation levy at 6 per cent is applicable on the amount of consideration for online advertisement, any provision for digital advertising space or any other facility or service for the purpose of online advertisement.

Tax rates further need to be increased by the applicable surcharge and cess.

Glossary

AMT	Alternate Minimum Tax
AO	Assessing Officer
ARE	Alternate Reporting Entity
AY	Assessment Year
BCD	Basic Customs Duty
BEPS	Base Erosion and Profit Shifting
CBCR	Country-by-Country Reporting
CBU	Complete Build-up Unit
CKD	Completely Knocked Down
CPI	Consumer Price Index
DDT	Dividend Distribution Tax
DTAA	Double Tax Avoidance Agreement
EPF	Employees' Provident Fund
FII	Foreign Institutional Investors
FPC	Farm Producer Companies
FPI	Foreign Portfolio Investor
FTS	Fees for Technical Services
FY	Financial Year
GDP	Gross Domestic Product
GDR	Global Depository Receipts
GFCE	Government Final Consumption Expenditure
GST	Goods and Services Tax
GVA	Gross Value Added
HSD	High Speed Diesel
IBC	Insolvency and Bankruptcy Code, 2016
ICDS	Income Computation and Disclosure Standards
IFSC	International Financial Services Centre
IGST	Integrated Goods and Service Tax
IIP	Index of Industrial Production
InvITs	Infrastructure Investment Trusts

ITAT	Income-tax Appellate Tribunal
LCD	Liquid Crystal Display
LED	Light Emitting Diode
LLP	Limited Liability Partnership
LTCG	Long term Capital Gain
MAT	Minimum Alternate Tax
MLI	Multilateral Instrument
MSME	Micro, Small and Medium Enterprises
NCLT	National Company Law Tribunal
NHAI	National Highway Authority of India
NPA	Non-Performing Asset
NPS	National Pension Scheme
NRV	Net Realisable Value
OECD	Organisation for Economic Co-operation and Development
PAN	Permanent Account Number

PCBA	Printed Circuit Board Assembly
PE	Permanent Establishment
PFCE	Private Final Consumption Expenditure
PGBP	Profit and Gains from Business and Profession
PSU	Public Sector Undertakings
RBI	Reserve Bank of India
RECL	Rural Electrification Corporation Limited
REITs	Real Estate Investment Trusts
SFT	Statement of Financial Transaction
SHEC	Secondary and Higher Education Cess
STT	Securities Transaction Tax
SWS	Social Welfare Surcharge
TDS	Tax Deducted at Source
The Act	The Income-tax Act, 1961
YoY	Year on Year

KPMG in India contacts:

Mritunjay Kapur
National Head
Markets and Strategy
Head - Technology, Media and Telecom
T: +91 124 307 4797
E: mritunjay@kpmg.com

Girish Vanvari
Partner and Head
Tax
T: +91 22 3090 1910
E: gvanvari@kpmg.com

Hitesh D. Gajaria
Partner
Tax
T: +91 22 3090 2110
E: hgajaria@kpmg.com

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