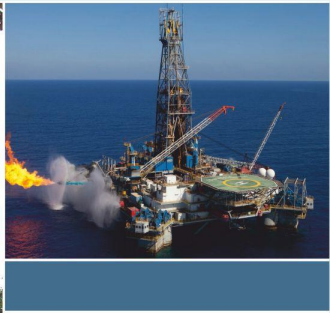


B U D G E T



2018



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M/s. Shankarlal Jain & Associates LLP

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Foreword

The past year has been marked by some major reforms. The transformational Goods and Services Tax (GST) was launched in July 2017. With a policy change of such scale, scope, and complexity, the transition unsurprisingly encountered challenges of policy, law, and information technology systems, which especially affected the informal sector. Expedient responses followed to rationalize and reduce rates, and simplify compliance burdens.

The new Indian Bankruptcy Code (IBC) has provided a resolution framework that will help corporates clean up their balance sheets and reduce their debts. It will also help banks to deal with NPA menace. The government also announced a large recapitalization package (about 1.2 percent of GDP) to strengthen the balance sheets of the public sector banks (PSBs). These twin reforms take hold, these sick firms should finally be able to resume spending and banks to lend especially to the critical, but-currently-stressed sectors of infrastructure and manufacturing. Macroeconomic developments this year have been marked by swings.

In the first half, India's economy temporarily "decoupled," decelerating as the rest of the world accelerated – even as it remained the second-best performer amongst major countries, with strong macroeconomic fundamentals. The reason lay in the series of actions and developments that buffeted the economy: demonetization, teething difficulties in the new GST, high and rising real interest rates, and sharp falls in certain food prices that impacted agricultural incomes.

In the second half of the year, the economy witnessed robust signs of revival. Economic growth improved as the shocks began to fade, corrective actions were taken, and the synchronous global economic recovery boosted exports. Reflecting the cumulative actions to improve the business climate, India jumped 30 spots on the World Bank's Ease of Doing Business rankings, while similar actions to liberalize the foreign direct investment (FDI) regime helped increase flows by 20 percent. And the cumulative policy record combined with brightening medium-term growth prospects received validation in the form of a sovereign ratings upgrade, the first in 14 years.

The Government also relaxed foreign direct Investment (FDI) policy for medical devices. Foreign airlines were permitted to invest upto 49% in debt ridden Air India, and eased norms for investment in single brand retail, construction, power exchanges and stock exchanges by allowing up to 49% under automatic route & beyond that through FIPB.

India achieved an average growth of 7.5% in past three years and Indian economy is now 2.5 trillion dollar economy – seventh largest in the world. India is expected to become the fifth largest economy very soon. On Purchasing Power Parity (PPP) basis, we are already the third largest economy. Indian society, polity and economy had shown remarkable resilience in adjusting with the structural reforms. GDP growth at 6.3% in the second quarter signaled turnaround of the economy. IMF, in its latest Update, has forecast that India will grow at 7.4% next year.

Fiscal Deficit was brought down to 4.1% in 2014-15 to 3.9% in 2015-16, and to 3.5% in 2016-17. Revised Fiscal Deficit estimates for 2017-18 are ₹ 5.95 lakh crore at 3.5% of GDP and the projected Fiscal Deficit for the year 2018-19 is 3.3% of GDP.

The Hon'Finance Minister reiterated the commitment to reduce tax litigation by proposing to amend section 143 of Income tax Act. Other Tax related proposals include new regime for taxation of long term capital gains on sale of equity shares, Dividend distribution tax on dividend payments to unit holders in an equity oriented fund, incentive for employment generation, relief from liability of minimum alternate tax (MAT) etc. The decision to levy LTCG on equity at the rate of 10% is not surprising and still equities will remain the most attractive asset class.

The Budget has given big boost to rural economic activities apart from agriculture with major initiatives for dairies, food processing, horticulture, aquaculture and animal husbandry, which the government hopes will contribute to its plan to double farmer income by 2022. The budgetary allocation for Ministry of Agriculture and Farmers Welfare, was ₹ 51,576 crore for the year 2017-18 which has been increased to ₹ 58,080 crore for this year. Institutional credit for agriculture sector has been raised to ₹ 11 lakh crore. Also, increasing MSP's by 1.5 times of production cost will give a boost to farm sector. To provide hospitalization benefits to 50 crore citizens is a bold, positive step.

The Finance minister has delivered a Jai Kisan, Jai Swasthya, Jai Bharat Budget. The holistic approach to address critical sectors including agriculture, food processing, Infrastructure, healthcare and human capital, which follows a slew of transformative reforms like GST undertaken earlier, will go a long way in fostering inclusive growth and strengthening the competitiveness of the Indian economy.

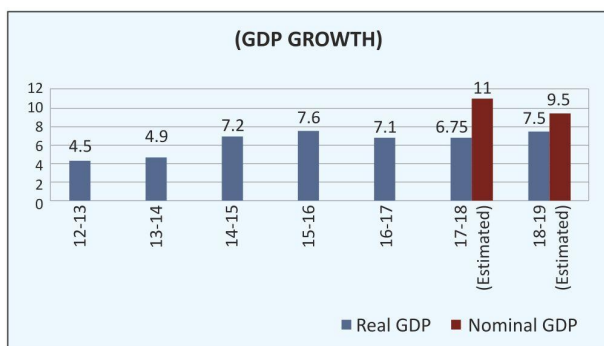
Regards

S. L. Jain
(S. L. Jain)

Economic Survey 2017-18

Major reforms were undertaken over the past year. The Goods and Services Tax (GST) was launched at the stroke of midnight on July 1, 2017. Financial stress of Public Sector Banks was decisively addressed by sending the major stressed companies for resolution under the new Indian Bankruptcy Code and implementing a major recapitalization package. As a result of these measures, the dissipating effects of earlier policy actions, coupled with export uplift from the global recovery, the economy began to accelerate in the second half of the year. This should allow real GDP growth to reach 6.75 percent for the year as a whole, rising to 7-7.5 percent in 2018-19, thereby reinstating India as the world's fastest growing major economy. Against emerging macroeconomic concerns, policy vigilance will be necessary in the coming year, especially if high international oil prices persist or elevated stock prices correct sharply, provoking a “sudden stall” in capital flows. The agenda for the next year consequently remains full: stabilizing the GST, privatizing Air India, and staving off threats to macro-economic stability. Over the medium term, three areas of policy focus stand out: Employment: finding good jobs for the young and burgeoning workforce, especially for women. Education: creating an educated and healthy labour force. Agriculture: raising farm productivity while strengthening agricultural resilience. Above all, India must continue improving the climate for rapid economic growth on the strength of the only two truly sustainable engines—private investment and exports.

GDP Annual Growth Rate



The Survey's 6.75% growth for 2017-18 is based on 7.5% for half of the year. Hence, despite the downside, 2018-19 should show growth towards the higher end of the band, more like 7.5%. One of the aims of Demonetisation and the Goods and Services Tax (GST) was to increase the formalization of the economy and bring more Indians into the Income tax net, which includes only about 59.3 million individual taxpayers, equivalent to 24.7% of the estimated non-agricultural workforce. After November 2016, 10.1 million filers were added compared with an average of 6.2 million in the preceding six years. Further analysis suggests that new filers reported an average income, in many cases, close to income tax threshold of ₹ 2.5 lakh, limiting the revenue impact.

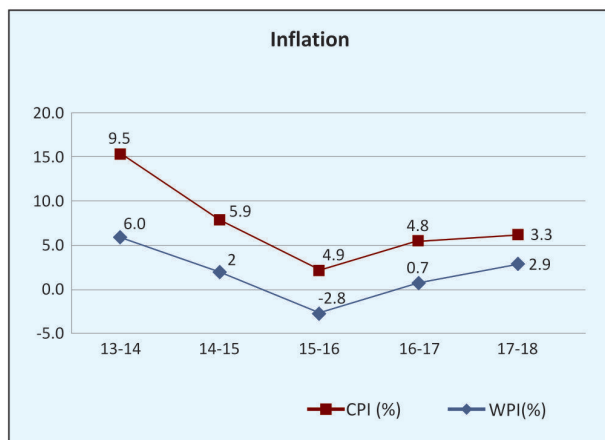
The Survey says measures to curb black money and encourage tax for formalisation, including demonetisation and GST, have increased personal income tax collections substantially. From about 2% of GDP between 2013-14 and 2015-16, they are likely to rise to 2.3% of GDP in 2017-18, a historic high. An economic exercise yields an estimate of ₹ 40,000 crore over the two fiscal years of 2016-17 and 2017-18. Another based on comparing the difference in actual tax buoyancy in 2016-17 and 2017-18 over the previous seven years average buoyancy, yields and estimate of about ₹ 65,000 crore. Both assessments exclude the ₹ 25,000 crore collected under the IDS and Pradhan Mantri Garib Kalyaan Yojana. Thus, the sum of all Government efforts increased I-T collections, thus far, between ₹ 65,000 and ₹ 90,000 crore. These numbers imply a substantial increase in reported incomes (and hence in formalisation) of about 1.5% to 2.3% of GDP. Separately, the Survey points to a substantial increase in the number of new taxpayers following demonetisation.

In addition to the introduction of GST, the year also witnessed significant steps being undertaken towards resolution of problems associated with non-performing assets of the banks. After remaining in negative territory for a couple of years, growth of exports rebounded into positive one during 2016-17

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and strengthened further in 2017-18. The momentum of reforms further accelerated by FDI liberalization.

Inflation



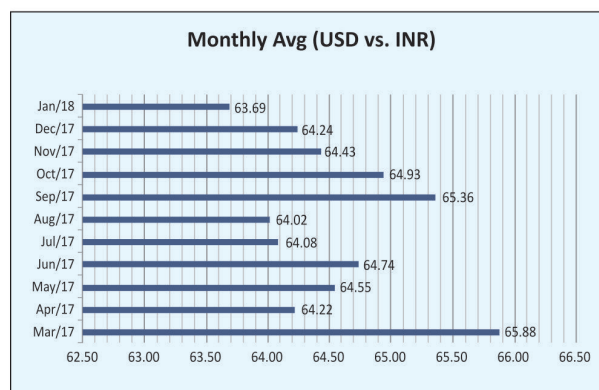
Inflation in the country continued to moderate during 2017-18. Headline inflation as per Consumer Price Index – Combined (CPI-C) declined to 3.3 per cent in 2017-18 (Apr-Dec) from 4.8 per cent in the corresponding period of 2016-17. CPI inflation, which was below 3.0 per cent in the first quarter of 2017-18 mainly due to lower food inflation, especially pulses and vegetables, rose marginally and stood at 3.0 per cent in the Q2 of 2017-18. Food inflation in terms of the Consumer Food Price Index (CFPI) declined to 1.2 per cent during 2017-18 (Apr-Dec) from 5.1 per cent in 2016-17 (Apr-Dec). CPI-based core (non-food, non-fuel) inflation also declined to 4.5 per cent in 2017-18 (Apr-Dec) from 4.8 per cent in 2016-17 (Apr-Dec). Inflation for all the major subgroups of CPI-C, except housing and fuel & light groups, declined in 2017-18 (Apr-Dec) over 2016-17 (Apr-Dec). The decline was sharpest for food & beverages.

Average inflation based on the Wholesale Price Index (WPI) stood at 2.9 per cent in 2017-18 (Apr-Dec) as compared to 0.7 per cent in 2016-17 (Apr-Dec). WPI inflation which remained subdued for several months surged during February and March 2017 due to sudden spurt in global crude oils prices. Thereafter, with the moderation in the global crude prices, inflation also moderated in the next four months till July, reaching a

low of 0.9 per cent in June 2017. As oil prices bounced back and moved upwards in the successive months, coupled with rising food prices, inflation too rose and reached the level of 3.6 per cent in December 2017. Increasing Oil prices resulting in higher inflation impacting consumption downward resulting in lower GDP.

Currency

During 2017-18 (up to December 2017), the rupee generally traded with an appreciating bias against the US dollar, barring intermittent depreciation in September & October 2017. The rupee strengthened by 2.5 per cent to a level of ₹ 64.24 per US dollar during December 2017 from the level of ₹ 65.88 per US dollar during March 2017 on the back of significant capital flows. The appreciating trend vis-à-vis US\$ has continued in January so far. During 2017 - 2018 (April-December), on an average, the rupee has also appreciated against other major currencies besides the US dollar. The appreciation of the rupee (in real effective exchange rate (REER) terms) indicates that India's exports may have become slightly less competitive.



In the last few years, the value of Rupee has been relatively stable vis-à-vis US\$. The rupee depreciated by much higher levels between 2011-12 and 2013-14 than between 2014-15 and 2016-17. Not only have this, within year fluctuations been much less.

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Foreign Exchange Reserve

India's foreign exchange reserves reached US\$ 409.4 billion on December 29, 2017, with a growth of 14.1 per cent on a YoY basis from end-December 2016 and



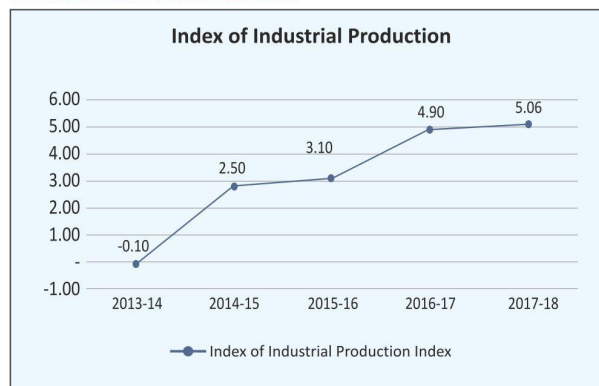
growth of 10.7 per cent from end-March 2017. The foreign exchange reserves were US\$ 413.8 billion on 12th January 2018. The foreign exchange reserves in nominal terms (including the valuation effects) increased by US\$ 30.3 billion during H1 of 2017 as compared to an increase of US\$ 11.8 billion during the same period of preceding year. The import cover of India's foreign exchange reserves increased to 11.1 months at end-September 2017 as compared with 11.3 months at end-March 2017. Within the major economies running current account deficit, India is among the largest foreign exchange reserve holder and sixth largest among all countries of the world.

The Indian Stock Market (BSE Sensex)



Over the past two fiscal years, the Indian stock market has soared, outperforming many other major markets. Indian stock markets (BSE) recorded increased by 21.42% for the January 2018 as compared to over end of March 2017. Global and domestic factors had a sizable impact on the performance of the Indian markets. Some of the closely watched developments were the introduction of GST, developments in sectors of Education, Employment and Agriculture as well as policy announcements by the US Federal Reserve and the demonetization announcement. In addition, other factors which weighed on market sentiment included the policy decisions taken by the OPEC regarding oil production. The government has done its fair share to push confidence and optimism in the domestic economy amid the weak global sentiment during the year.

Industrial Performance



As per the Index of Industrial Production (IIP), which is a volume index with base year 2011-12, the industrial output increased by 3.2 per cent during April-November 2017-18 vis-à-vis the corresponding period of previous year. This was a composite effect of growth in electricity generation at 5.2 per cent and growth in mining and manufacturing sectors at 3.0 per cent and 3.1 per cent respectively. In November 2017, the IIP registered a growth of 8.4 per cent to take the April-November growth to 3.2 per cent over the corresponding period of previous year. The eight Core infrastructure supportive industries, viz. coal, crude oil, natural gas, petroleum refinery products,

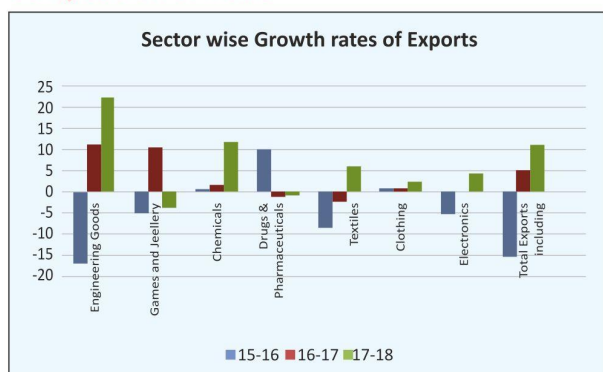
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fertilizers, steel, cement and electricity that have a total weight of nearly 40 per cent in the IIP attained a cumulative growth of 3.9 per cent during April-November 2017-18 over the corresponding period of previous year. The production growth of coal, natural gas, refinery products, steel, cement and electricity were positive. The steel production increased substantially, while the production of crude oil and fertilizers fell marginally during the period.

Nominal outstanding credit growth to industry at end November 2017 was 1 per cent higher as compared to end November 2016 as per the latest RBI data. Demand for funds by Indian firms, in the wake of the credit slowdown, has been somewhat met by alternative sources such as corporate bonds, external commercial borrowings and commercial paper.

India has leapt 30 ranks over its previous rank of 130 in the World Bank's latest Doing Business Report 2018. Moody's Investors Service has also raised India's rating from the lowest investment grade of Baa3 to Baa2. This has been made possible due to a host of measures undertaken by the Government including implementation of GST, Insolvency and Bankruptcy Code, and announcement of bank recapitalization. A number of reforms were undertaken to boost industrial growth including Make in India programme, Start-up India and Intellectual Rights Policy.

Composition of Trade

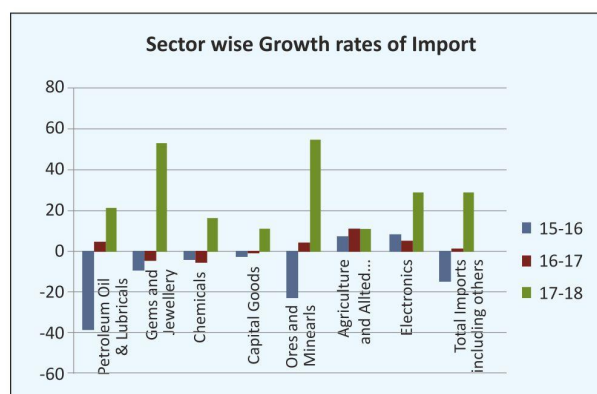


Export growth in 2016-17 was fairly broad based with positive growth in major categories except textiles & allied products, and leather & leather manufactures. In

2017-18 (April - November) among the major sectors, there was good export growth in engineering goods and Petroleum crude and products; moderate growth in chemicals & related products, and textiles & allied products; but negative growth in gems and jewellery.

Sector Wise Growth rate of Imports

Sector-wise, import of Petroleum, Oil and Lubricants (POL) increased by 4.8 per cent in 2016-17 and 24.2 per cent in 2017-18 (Apr-December), mainly due to an increase in international crude oil price (Indian Basket)



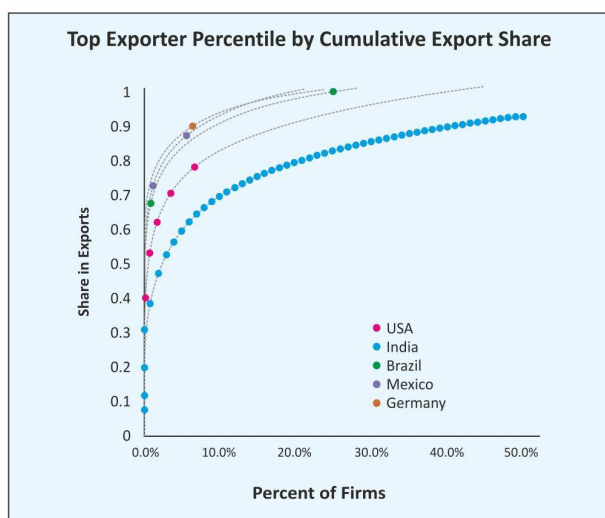
from US\$ 46.2 /bbl in 2015-16 to US\$ 47.6 /bbl in 2016-17 and to US\$ 53.6 /bbl in 2017-18 (April-December). Among the other important import items, low or negative growth was registered in most of them in 2016-17, except electronic goods; ores & minerals and agriculture and allied products. Capital goods imports grew marginally, though the transport equipments sub-category registered high growth. In 2017-18 (April- November) all major sectors registered positive growth with the capital goods imports, which are needed for industrial activity, registering a 11.3 per cent growth.

Indian Export Egalitarian Exceptionalism

Export concentration by firms is much lower in India than in the US, Germany, Brazil, or Mexico.

- The top 1 % of firms accounted for 72, 68, 67 and 55 percent of exports in Brazil, Germany, Mexico and USA respectively but only 38 percent in the case of India.

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- The top 5 percent accounted for 91, 86, 91, and 74 percent in those countries, compared with 59 percent in India; and
- The top 25 percent of firms accounted for 99, 98, 99, and 93 percent in those countries, as opposed to 82 percent in India.

Until now, no such analysis has been possible for India because firm level export data are difficult to construct. However, with the new GST data is possible to construct firm- level exports. The implications of such an “egalitarian” Indian export structure are unclear. The evidence cited earlier argues in favour of superstars, because they are dynamic and their expansion can have spill over effects on other firms. But concentration can have disadvantages, including impeding competition.

Outlook for 2018-19

The outlook for 2018-19 will be determined by economic policy in the run-up to the next national election. If macro-economic stability is kept under control, the ongoing reforms are stabilized, and the world economy remains buoyant as today, growth could start recovering towards its medium term economic potential of at least 8 percent. Consider the components of demand that will influence the growth

outlook. The acceleration of global growth should in principle provide a solid boost to export demand. Certainly, it has done so in the past, particularly in the mid-2000s when the booming global economy allowed India to increase its exports by more than 26 percent per annum. This time, the export response to world growth has been in line with the long-term average, but below the response in the mid-2000s. Perhaps it is only a matter of time until exports start to grow at a healthy rate. Remittances are already perking up, and may revive further due to higher oil prices.

Private investment seems poised to rebound, as many of the factors exerting a drag on growth over the past year finally ease off. Translating this potential into an actual investment rebound will depend on the resolution and recapitalization process. If this process moves ahead expeditiously, stressed firms will be put in the hands of stronger ownership, allowing them to resume spending. But if resolution is delayed, so too will the return of the private capex cycle. And if this occurs public investment will not be able to step into the breach, since it will be constrained by the need to maintain a modicum of fiscal consolidation to head off market anxieties. Consumption demand, meanwhile, will encounter different tugs. On the positive side it will be helped by the likely reduction in real interest rates in 2018-19 compared to the 2017-18 average. At the same time, average oil prices are forecast by the IMF to be about 12 percent higher in 2018-19, which will crimp real incomes and spending—assuming the increase is passed on into higher prices, rather than absorbed by the budget through excise tax reductions or by the oil marketing companies. And if higher oil prices requires tighter monetary policy to meet the inflation target, real interest rates could exert a drag on consumption.

Putting all these factors together, a pick-up in growth to between 7 and 7.5 percent in 2018-19 can be forecasted, re-instating India as the world's fastest growing major economy. This forecast is subject to

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upside potential and downside risks. The biggest source of upside potential will be exports. If the relationship between India's exports and world growth returns to that in the boom phase, and if world growth in 2018 is as projected by the IMF, then that could add another ½ percentage point to growth. Another key determinant of growth will be the implementation of the IBC process. Here timeliness in resolution and acceptance of the IBC solutions must be a priority to kick-start private investment. The greater the delays in the early cases, the greater the risk that uncertainty will soon shroud the entire IBC process. It is also possible that expeditious resolution may require the government to provide more resources to PSBs, especially if the haircuts required are greater than previously expected, the ongoing process of asset quality recognition uncovers more stressed assets, and if new accounting standards are implemented.

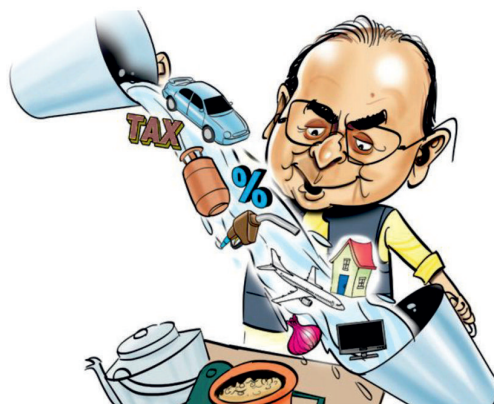
Persistently high oil prices (at current levels) remain a key risk. They would affect inflation, the current account, the fiscal position and growth, and force macroeconomic policies to be tighter than otherwise. One eventuality to guard against is a classic emerging market “sudden stall” induced by sharp corrections to elevated stock prices. Savers, already smarting from reduced opportunities in the wake of demonetization, from depressed gold prices, and from lower nominal interest rates, would feel aggrieved, leading to calls for action. Stock price corrections could also trigger

capital outflows, especially if monetary policy unwinds less hesitantly in advanced countries and if oil prices remain high. Policy might then have to respond with higher interest rates, which could choke off the nascent recovery. The classic emerging market dilemma of reconciling the trade-off between macro-stability and growth could then play itself out.





Conclusion

A key policy question will be the fiscal path for the coming year. Given the imperative of establishing credibility after this year, given the improved outlook for growth (and hence narrowing of the output gap), and given the resurgence of price pressures, fiscal policy should ideally have targeted a reasonable fiscal consolidation. However, setting overly ambitious targets for consolidation - especially in a pre-election year—based on optimistic forecasts that carry a high risk of not being realized will not garner credibility either. Pragmatically steering between these extremes would suggest the following: a modest consolidation that credibly signals a return to the path of gradual but steady fiscal deficit reductions.



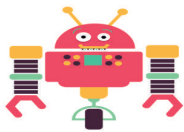

Against this overall economic and political background, economic management will be challenging in the coming year. If the obvious pitfalls (such as fiscal expansion) are avoided and the looming risks are averted that would be no mean achievement.








Overall Sectoral Impact

| Sector | Policy | Impact | Effect |
|---|---|--|--------|
| Automobiles  | <ul style="list-style-type: none"> ◆ Increase in customs duty from 10% to 15% for CKD imports of motor vehicle, motor cars, motor cycles, of key auto ancillary and tyre products. ◆ Higher allocation towards infrastructure (from ₹ 4.94 lakh crore to ₹ 5.97 lakh crore). | <ul style="list-style-type: none"> ◆ Positive for domestic automobile companies as it will create a for domestic automobiles companies. ◆ Demand for Commercial vehicles is expected to pick up on account of infra push by the government | F |
| Banking & Finance   | <ul style="list-style-type: none"> ◆ Exemption of interest income on deposits with banks and post offices to be increased from ₹10, 000/- to ₹ 50,000/- for senior citizens. ◆ Bank recapitalization program has been launched with bonds of ₹ 80,000 crore being issued in the year. This coupled with reforms agenda named Enhanced Access & Service Excellence (EASE) program ◆ Dedicated Affordable Housing Fund (AHF) in NHB to be funded from priority sector lending shortfall and fully serviced bonds authorised by government. | <ul style="list-style-type: none"> ◆ Positive for banks as it will attract more deposits from senior citizens. ◆ Public sectors banks will improve their governance standards, efficiency and meet capital requirements through this Recapitalization and EASE program. ◆ The fund will provide NHB with additional resources to refinance housing finance companies to provide credit to affordable housing customers thereby meeting the government target by 2022. | F |
| Capital Goods & Utilities  | <ul style="list-style-type: none"> ◆ Increased allocation to National Rural Drinking Water Mission (₹ 7,000 crore) and Swachh Bharat Mission for toilets (₹ 15,340 crore). ◆ Railways Capex for the year 2018-19 has been pegged at ₹ 1.49 lakh crore. ◆ Allocating ₹ 29,660 crore for road constructions target. ◆ Custom duty on solar tempered glass for manufacture of solar cells/panels/ modules reduced from 5% to Nil. | <ul style="list-style-type: none"> ◆ Positive for companies manufacturing, laying pipes and other EPC business. ◆ Revival in railway dependent companies. ◆ Positive for Road constructions companies. ◆ Positive for solar modules manufacturers. | F |

Overall Sectoral Impact

| Sector | Policy | Impact | Effect |
|--|---|--|--------|
| Education  | <ul style="list-style-type: none"> Budgetary Allocation increased from ₹ 250 crore in 2017-18 to ₹ 2,750 crore in 2018-19 towards Higher Education Financing Agency (HEFA) Initiating B. Ed. programmes for teachers in order to improve quality of education. | <ul style="list-style-type: none"> To benefit premier educational institutions offering higher education courses. The same will induce higher educational institutions to commence integrated B.Ed. courses in their institutes thus providing an additional revenue stream. | F |
| Infrastructure &  | <ul style="list-style-type: none"> Budgetary Allocation increased from ₹ 4.94 lakh crore to ₹ 5.97 lakh crore for construction sector. Allocation of ₹ 27,505 crore under PMAY (gramin and urban) for construction of total of 100 lakh houses in rural and 37 lakh houses in urban areas. AMRUT initiative is taken forward with ₹ 6,000 crore allocations. | <ul style="list-style-type: none"> EPC Projects Companies, Road & Toll operators, Capital Goods, cement are expected to benefit. Positive for the sector | F |
| Digital Initiatives and Start-up Boost  | <ul style="list-style-type: none"> Allocation on Digital India program has been doubled to ₹ 3,073 crore in FY 2018-19. 5 Lakh WiFi spots to provide Broadband access to 5 crore rural citizens at the cost of ₹ 10,000 crore. | <ul style="list-style-type: none"> Step towards digitalizing India. Positive for broadband service providers and hardware suppliers. | F |
| Irrigation & Fertilizers  | <ul style="list-style-type: none"> The fertilizer industry has received ₹ 70,079.85 crore subsidies (₹ 44.989.50 crore for urea subsidy and balance ₹ 25,090.35 crore for nutrient based subsidy). Introduction of Re-structured National Bamboo Mission with an outlay of ₹ 1,290 crore to promote bamboo sector in a holistic manner. MSP for all unannounced kharif crops will be 1.5 times of their production cost like majority of rabi crops. | <ul style="list-style-type: none"> Help augment further production of decontrolled fertilizers. Production of indigenous urea to increase. This will help in doubling the farmers income which will encourage the farmers to increase the output of food crops in the land holding which will in turn lead to more usage of fertilizers and that will help augment the production of fertilizers. | F |

Overall Sectoral Impact

| Sector | Policy | Impact | Effect |
|--|--|--|--------|
| Metal & Mining  | <ul style="list-style-type: none"> ◆ Tariff rate of BCD on Lithium-ion batteries increased to 20% from 10%. ◆ Import duty on refractory items rationalized. | <ul style="list-style-type: none"> ◆ The effective rate of import duty on Lithium-ion batteries (except those for cellular mobile phones will, however, remain unchanged 10%. ◆ Positive for metals, construction and Engineering companies. | N |
| Oil & Gas  | <ul style="list-style-type: none"> ◆ Target of providing free LPG connections to rural women increased from 5 crore to 8 crore under Pradhan Mantri Ujjawala Yojana. ◆ The Oil and Gas industry is allocated ₹ 24,932.80 crore as subsidies (₹ 20,377.80 crore for LPG subsidy and balance ₹ 4,555.00 crore for kerosene subsidy). | <ul style="list-style-type: none"> ◆ Increase in consumption of LPG, to benefit Oil making Companies (OMC's). ◆ This will provide an increase in the consumption and production of LPG. | F |
| Pharmaceuticals  | <ul style="list-style-type: none"> ◆ ₹ 12,000 crore allocated to “National Health Policy” ◆ Health and education cess of 4% to be levied on income tax payable (vs. 3% Education cess currently). ◆ Hospitalization facilities to 50 crore citizens. | <ul style="list-style-type: none"> ◆ Positive for domestic Pharma companies and Hospitals. ◆ Will enable Government an estimated collections of ₹ 11,000 crore. | U |
| Real Estate  | <ul style="list-style-type: none"> ◆ PM launched Rural Awas Scheme where 51 lakhs houses during 2018-19 will be constructed exclusively in rural areas. | <ul style="list-style-type: none"> ◆ Infrastructural status to affordable housing will increase the private participation to this segment and also lending for banks. | F |
| Retail / FMCG  | <ul style="list-style-type: none"> ◆ Custom duty on Beauty, perfumes and toiletry products increased to 20% from 10%. ◆ Import duty on edible oil (crude and refined) increased from 12.5% /20% to 30%. ◆ Increase in customs duty on imports of food products from 10% to 20%. | <ul style="list-style-type: none"> ◆ The prices for imported products will increase. | U |
| F – Favorable. U – Unfavorable. N – Neutral | | | |

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❖ Rate of Income Tax

- Rate of Income tax has remained unchanged in case of Individual, HUF, Firms, LLP, domestic companies, foreign companies and all other categories of assesses, except certain category of specified domestic companies.

◆ Specified Domestic Company

A domestic company having total turnover/gross receipt not exceeding ₹ 250,00,00,000 in financial year 2016-2017, tax rate be 25% instead of 30% in case of other domestic companies.

◆ Surcharge

Surcharge to continue at the rates as prescribed last year.

◆ Cess

At present education cess/secondary & higher education cess is imposed at 3%. The cess will be replaced by health and education cess and be levied at 4% of Income Tax and surcharge in case of all category of tax payers.

❖ Foreign Taxation

Business Connection with modified PE Rule as per Multilateral Instrument (MLI).

Under the present law if any person acting on behalf of the non-resident is habitually authorized

to conclude contracts for the non-resident, such agent would constitute a permanent establishment (PE) in the source country for non-resident. However, in many cases, with a view to avoid establishing a permanent establishment (PE) under Article 5(5) of the DTAA, the person acting on the behalf of the non-resident, negotiates the contract but does not conclude the contract. Further, a (PE) is deemed not to exist when a place of business is engaged solely in certain activities such as maintenance of stocks of goods for storage, display, delivery or processing, purchasing of goods or merchandise, collection of information. This exclusion applies only when these activities are preparatory or auxiliary in relation to the business as a whole.



The OECD prepared action plan reviewing under BEPS for preventing avoidance of payment of tax by circumventing the existing PE definition by way of arrangements or fragmentation of business activities. In order to tackle such tax avoidance scheme, the BEPS Action plan 7 recommended modifications to paragraph (5) of Article 5 to provide that an agent would include not only a person who habitually concludes contracts on behalf of the non-resident, but also a person who habitually plays a principal role leading to the conclusion of contracts. Similarly Action Plan 7 also recommends the introduction of an anti fragmentation rule as per paragraph 4.1 of Article 5 of OECD Model tax conventions, 2017 so as to prevent the tax payer from resorting to fragmentation of functions which are otherwise a whole activity in order to avail the benefit of exemption under paragraph 4 of Article 5 of



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DTAAs. **India entered into Multilateral Convention** to Implement Tax Treaty Related Measures (herein referred to as 'MLI') consequently, these provisions will automatically modify India's bilateral tax treaties covered by MLI, where treaty partner has also opted for Article 12.

Now it is proposed to amend the provision of section 9 of the Act so as to align them with the provisions in the DTAA as modified by MLI so as to make the provisions in the treaty effective. Accordingly, clause (i) of sub-section (1) of section 9 is being proposed to be amended to provide that “ **business connection**” shall also include any business activities carried through a person who, acting on behalf of the non-resident, habitually concludes contracts or habitually plays the principal role leading to conclusion of contracts by the non-resident . It is further proposed that the contracts should be-



- (i) in the name of the non-resident; or
- (ii) for the transfer of the ownership of, or for the granting of the right to use, property owned by that non-resident or that the non-resident has the right to use; or
- (iii) for the provision of services by that non-resident.

“Business connection” to include “Significant Economic presence”

As per present law if Foreign enterprises carry on business in India through an PE is taxable in India to the extent profit earned through activities of such PE provided that business activity are not of preparatory or auxiliary in nature. However, with

the advancement in information and communication technology in the last few decades, new business models **operating remotely through digital medium** have emerged. Under these new business models, the non-resident enterprises interact with customers in



another country without having any physical presence in that country resulting in avoidance of taxation in the source country. Therefore, the existing nexus rule based on physical presence do not hold

good anymore for taxation of business profits in source country. As a result, the rights of the source country to tax business profits that are derived from its economy is unreasonably eroded.

OECD under its **BEPS Action plan 1** consider such issues. One such option is a new nexus rule based on “significant economic presence”. As per the Action Plan 1 Report, a non-resident enterprise would create a taxable presence in a country if it has a significance economic presence in that country on the basis of factors that have a purposeful and sustained interaction with the economy by the aid of technology and other automated tools. It further recommended that revenue factor may be used in combination with the aforesaid factors to determine 'significance economic presence'.

In view of the above, it is proposed to amend clause (i) of sub-section (1) of section 9 of the Act to provide that '**significant economic presence**' in India shall constitute 'business connection'. Further, “significant economic presence” for this purpose, shall mean-

- (I) any transaction in respect of any goods, services or property carried out by a non-

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resident in India including provision of download of data or software in India if the aggregate of payments arising from such transaction or transactions during the previous year exceeds the amount as may be prescribed; or

- (ii) systematic and continuous soliciting of its business activities or engaging in interaction with such number of users as may be prescribed, in India through digital means.

It is further proposed to provide that only so much of income as is attributable to such transactions or activities shall be deemed to accrue or arise in India. The proposed amendment in the domestic law will enable India to negotiate for inclusion of the new nexus rule in the form of 'significant economic presence' in the Double Taxation Avoidance Agreements. Further, it is also clarified that unless corresponding modifications to PE rules are made in the DTAA's, the cross border business profits will continue to be taxed as per the existing treaty rules.



❖ **Transfer Pricing**

Country-by-Country Report

Under the existing provision of section 286 provides for filing country-by-country report (CbCR), in respect of international group, following amendments are proposed:

- (I) the time allowed for furnishing the Country-by-Country Report (CbCR), in the case of parent entity or Alternative Reporting Entity (ARE), resident in India, is proposed to be extended to twelve months from the end of reporting accounting year;

- (ii) constituent entity resident in India, having a non-resident parent, shall also furnish CbCR in case its parent entity outside India has no obligation to file the report of the nature referred to in sub-section (2) in the latter's country or territory;
- (iii) the time allowed for furnishing the CbCR, in the case of constituent entity resident in India, having a non-resident parent, shall be twelve months from the end of reporting accounting year;
- (iv) the due date for furnishing of CbCR by the the ARE of an international group, the parent entity of which is outside India, with the tax authority of the country or territory of which it is resident, will be the due date specified by that country or territory;
- (v) Agreement would mean an agreement referred to in sub-section (1) of section 90 or sub-section (1) of section 90A, and also an agreement for exchange of the report referred to in sub-section (2) and sub-section (4) as may be notified by the Central Government;
- (vi) "reporting accounting year" has been defined to mean the accounting year in respect of which the financial and operational results are required to be reflected in the report referred to in sub-section (2) & sub-section (4)



The above provisions are applicable from A.Y. 2017-18.

❖ **Salary**

In case of salaried employees a standard deduction of ₹ 40,000/- is proposed to be allowed,

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irrespective of amount of salary earned by the employee. However deduction as available at present for medical expense reimbursement to the extent of ₹ 15,000/-, based on proof of actual expense incurred and transport allowance of ₹ 1600 p.m. be discontinued.

❖ Business Income

Contract modification / termination compensation

- i) Under the existing law u/s 28(ii) certain compensation received in connection with termination or modification of terms of business agreement is taxable as business income. However the courts have taken view, in certain judicial pronouncements that compensation for loss of source of income, being, a capital receipt is not covered under these provisions. It is, now, proposed to introduce sub clause **(e) to sec. 28(ii)** to provide that compensation received by any person in connection with or the modification of the terms and condition of any contract relating to business be taxable as business income. It is proposed to tax all type of compensation received on termination or modification of any terms of business contract under this clause. Similar provisions are proposed to be made in **case of employees**, for compensation received for **termination or variance in terms of employment**, in such cases, compensation be taxable under the head 'other source'.



ii) Presumptive income for goods transport vehicles u/s 44AE:

Under the existing provisions of the law an amount equal to ₹ 7500/- p.m. for each goods transport vehicle or a higher amount as declared by the assessee is taxable on presumptive basis, without regard to tonnage capacity of transport vehicle. The provisions are applicable if a assessee owns upto ten transport vehicles. Now, it is proposed to provide that in case of heavy goods transport vehicle (more than 12 empty gross vehicle weight) income will be deemed to be an amount equal to ₹ 1000/- per ton of gross vehicle weight or unladen vehicle weight per month or part of the month for each goods transport vehicle as income of the assessee on presumptive basis or such higher income as declared.



iii) Agricultural commodity derivatives:

The existing provisions of the law sec. 43(5)(e) provides that a transaction of trading in commodity derivatives carried out in a recognise association which is charged to commodity transaction tax, be not treated as speculative transaction. Now, it is proposed to provide that derivatives in agricultural commodity which is not charged to CTT in a registered stock exchange or register association will be a non-speculative transaction.

iv) Conversion of stock-in-trade to capital assets:

Under the existing provisions of law, there is

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no, specific provision to tax a gain arising on conversion of stock-in-trade into capital assets. It is argued that such gain is not taxable, as no one can deal with itself and earn profit. Now it is proposed to provide by inserting clause (via) to sec 28 that in case of such conversion, fair market value of stock-in-trade, so converted be assessed as business income. It is further provided that periods of holding of such capital assets will be date of such conversion and cost for calculation capital gain, be fair market value of stock-in-trade, at which converted.



❖ Income Computation & Disclosure Standards (ICDS)

Under the provisions of sec. 145(2) of Income tax act, the central government notified income tax standard for computation of income. The CBDT issued circular to clarify application of the standard. It was provided that without regard to method used to determine profit in books of accounts, returned income be computed as per standards prescribed. The validity of standard was challenged by way of writ petition before high court of Delhi and said high court held certain portion of the standard beyond competence. Now it is proposed to validate the provisions of standard by amending various provisions of the Act.

- i) Amendment to sec.36 provides that **marked to market loss** or other expected loss in any contract be allowable as computed as per the provisions to standard. To that affect sec.40A, is also amended to provide that such loss be not allowable.

- ii) By inserting a new sec.43AA it is provided that **foreign exchange loss** arising on account of change in foreign exchange rate be computed and allowed as per said standard.
- iii) The proposed new sec.43CB provides that profit arising from a **construction contract or service contract** shall be determine on the basis of percentage completion method as provided in said standard.
- iv) By amend to sec.145A it is provided that **valuation of inventories**, valuation of purchase and sales and inventories of securities be made as per the provisions of said standard.
- v) A new sec.145B is proposed to be **inserted to provide that interest received on compensation** or enhance compensation shall be income taxable in the year of receipt.
- vi) Any **escalation of price** in a contract or export incentives be income of the year in which receipt of such amount become reasonably certain.
- vii) **Subsidy received** and taxable under sub clause (xviii) of clause (24) of section 2 shall be taxable in the year of receipt.

This provision has been amended with retrospective effect from 1 April, 2017 that is **A. Y. 2017-2018.**



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❖ **Capital gain**

1) **Long term capital gain on transfer of equity shares/units of equity oriented mutual fund or units of business trusts:**

Under the existing provisions, such long term capital gain (LTCG) is exempt from tax under sec.10 (38) of the act. It is proposed to withdraw the exemption on all transactions of sales or encashment of units, **w.e.f. 1st April, 2018**. A new section 112A be inserted to provide taxation of such LTCG **at 10%**, on amount of LTCG exceeding ₹ 1,00,000/- in a year. Rate of 10% be applicable only when STT is being paid in case of shares at the time of acquisition as well transfer and in case of units of equity oriented funds or business trust, STT, is paid at the time of transfer, unless payment of STT, in case of equity shares, at the time of acquisition is exempted under the rules prescribed.



It is provided further that benefit of inflation indexation and foreign currency rate change under provisions to sec 48 be not available.

The cost of acquisition in case of asset acquired prior to 1st February, 2018 be actual cost of acquisition and lower of

- (i) Market value as on 31st January, 2018
- (ii) Consideration received

Thus LTCG is **grandfathered till 31st Jan 2018**.

It, can be advantageous certain times, to claim indexation and escalation in cost on account

of foreign exchange rate change under proviso to sec 48, in such case capital gain be taxable at the rates provided u/s112 of the act at 20% and in case of loss loss be allowed to be set off or carry forward . Certain quarters can take a different legal view that such gains are taxable as per method prescribed and at rate of tax as given in sec 112A.



Taxation of long term capital gain in case of FIIS:

As, a consequence of deletion of sec 10(38), LTCG on such capital assets be taxable at 10% on capital gain exceeding ₹ 1,00,000/- under the provisions of sec 115AD. It is clarified by Finance Secretary that benefit of grandfathering of capital gain be also available to non resident FIIS, hence all above referred observation be applicable.

2) **No capital gain on transfer of certain assets- International financial services centre(IFSC):**

By inserting clause (viiab) to sec 47 it is provided that a transfer of any of following assets:-

- i) Bonds or global depository receipts.
- ii) Rupee denominated bond of an Indian co.
- iii) Derivatives

Made by a non-resident, on a recognised stock exchange located in IFSC, consideration being payable in foreign exchange, be not considered as transfer w.e.f. 1st April, 2018 and hence not liable to any tax.

3) **Investment in certain bonds u/s 54EC:**

The existing provisions of sec 54EC provides that LTCG arising on transfer of any type of capital asset be not taxable if investment is

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made in specified bonds within 6 months of transfer to the extent of ₹ 50,00,000/- for a period 3 years. The law is proposed to amend to, provide that such exemption be available gain **on capital arising on transfer of land or building or both** if investment is made in the prescribed bonds for 5 years.



4) **Presumed capital gain on difference between stamp duty value and sale consideration:**

Under the provisions of **sec.50C** in case of transfer of an immovable property and **u/s 43CA** in case of immovable property held as stock-in-trade, if consideration realised is lower to value as per stamp duty authorities, such difference is taxable as capital gain/business income. In case of purchaser such difference is taxable as income **u/s 56** of the act. It is proposed to provide that no such adjustment be made if such difference in only **5%** of declared consideration.

5) **Transfers between wholly owned subsidiary and its holding co.:**

Transfer by holding company to subsidiary company or vice-versa is exempt from capital gain tax u/s 47 (iv)/(v). It is provided that in case of such transfers, no addition be made to income u/s 56 on account of consideration declared being lower to value placed by stamp duty authorities for purpose of registration.

❖ **Dividend Distribution tax on Dividend payments by equity oriented funds**

Under the existing provisions of sec 115R income distributed, to unit holder of equity oriented funds is not liable to pay dividend distribution tax now it is proposed to provide, that, even in case of distribution to unit holder of equity oriented funds, dividend distribution tax be payable at **10%** of such income distributed. It will be effective from 1st April, 2018.

Deemed Dividend

i) **Accumulate profit:**

Sec.2(22) defines 'dividend' to include distribution of accumulated profit by a company in the manner provided therein. 'Accumulated profit' is defined in explanation 2 to said section as profit of the company up to date of distribution, payment, liquidation etc.



In case of reduction of capital, any distribution to shareholders to the extent of accumulated profits of such company effecting reduction in capital, is taxable as dividend. It is now proposed to provide

that in case of amalgamation of a company in another company, accumulated profits of amalgamating Company on date of - amalgamation be increased to accumulated profit of amalgamated Company. It is effective from 01.04.2018.

ii) **Dividend distribution tax on deemed dividend:**

Under the existing provisions of law dividend distribution tax u/s 115-0 is not applicable to deemed dividend as defined u/s2(22)(e), now it is propose to provide by deleting

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explanation to sec 115Q that dividend distribution tax u/s 115-0 be also payable by the company paying such deemed dividend at the **rate of 30%**, without grossing up.



❖ **Charitable trusts and exempt institutions u/s 10(23C)**

It is proposed to provide that any payment exceeding ₹ 10,000/- made in cash, be not treated as application of income. Similarly, if either tax is not deducted or after deduction not paid as provided u/s 40 (a) (ia) of the Act, such payment will not be treated as application of income. Thus **provisions of sec 40A and sec 40 (a) (ia) are made applicable** to exempt institutions/trusts.

❖ **Senior citizens**

Certain reliefs available to senior citizens are further relaxed. Deduction **u/s 80D** available till now at ₹ 30,000/- is enhanced to ₹ **50,000/-** and deduction available for treatment of certain specified diseases allowable **u/s 80DDB** is increase to ₹ **1,00,000/-** from ₹ 60,000/.

Interest from Banks and post office:

At present u/s 80 TTA interest income from saving account with a bank and post office is exempt to the extent of ₹ 10,000/- in case of any individual and H.U.F, it is proposed to insert a new **section 80TTB** to allow deduction to senior citizens to the extent of ₹ **50,000/-** in respect of interest from deposits with banks and post office and no

separable deduction of ₹ 10,000/- u/s 80TTA be allowable.

❖ **Procedure**

E - Scrutiny 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. For the purpose it is proposed to amend Section 143 by inserting sub-section (3A) to enable the government to prescribed E assessment scheme for scrutiny assessment by way of notification in Official Gazette. Sub-section (3B) proposed to be inserted, to enable the government to amend or modify any procedure of assessment and under Sub-section(3C) to provide that such notification in Official Gazette will be placed before House of Parliament and no such direction will be issued after 31st March, 2020. It has given effect from 1st April, 2018.

Premia-facie adjustments u/s.143(1)(a)

Under existing provisions of the law, sub-clause (vi) provides adjustment in respect of income appearing under Form 26AS or Form 16A or Form 16 which is not included in computation of income by the assessee in its return. It is proposed to provide that under said sub-clause (vi), no



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adjustment will be made in the return of income while processing return u/s.143(1)(a) from A.Y. 2018-19.

Permanent Account No.(PAN)

It is proposed to amend Sec 139A to provide that any entity which has not been allotted PAN, executing financial transaction of amount aggregating to ₹ 2,50,000 or more in a financial year shall apply for allotment of PAN. Any managing director, director, partner, trustee or author of trust, karta of HUF or any office bearer of such entity will, also apply for allotment of PAN with effect from 1st April, 2018.

**Certain deductions not to be allowed in case of belated returns**

The present provisions of sec 80AC provides that no deduction u/s 80-IA or sec. 80-IAB or section 80-IB or section 80-IC or section 80-ID or section 80-IE, be allowed unless the return of income by the assessee is furnished on or before the due date specified under sub-section (1) of section 139 of the Act. Now it is proposed to amend section 80AC so as to provide that no deduction under the heading "C. - Deductions in respect of certain incomes" in Chapter VIA shall be allowed unless the return of income is filed by the due date. The amendment will be effective from 1st April, 2018

Tax deduction at source on 7.75% GOI Savings (Taxable) Bonds, 2018

By amendment to section 193, it is provided that interest received on these bonds will be required to be made at the time of making payment of

interest on such bonds, however, no TDS will be deducted if amount of interest does not exceed ₹ 10,000/- during the financial year.

❖ TAX INCENTIVES**Incentives and deduction****Tax-free withdrawal from NPS to non-employee subscribers**

Under the existing provision of section 10(12A), an employee, in case of employees contributing to NPS is allowed an exemption in respect of 40% of total income payable to him on closure of his account or on his opting out of the scheme. Now this exemption is proposed to be extended to non-employees assessee subscribers.

Deduction in respect of income of Farm Producer Companies

A new section **80PA** is propose to be inserted to provide 100% deduction in respect of profit of Farm Producer Companies (FPC), having a total turnover up to ₹ 100 Crore, whole gross total income which includes any income from-



- (i) the marketing of agricultural produce grown by its members, or
- (ii) the purchase of agricultural implements, seeds, livestock or other articles intended for agriculture for the purpose of supplying them to its members, or
- (iii) the processing of the agricultural produce of its members

Measures to promote start-ups

Section **80-IAC** is proposed to be amended to extend further eligibility to start-ups. It is now provided that a start-up incorporated after 1st

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April, 2016 but before 1st April, 2019 be entitled to necessary tax relief, if turnover does not exceed 25 crore in first 5 years of incorporation and it is engaged in eligible activities. It is proposed to provide that all start-ups incorporated after 1st April 2019 but before 1st April, 2021 not having turnover exceeding 25 crore, for a period of 7 years from the date of incorporation and engaged in eligible business be eligible for necessary deduction. The definition of eligible business 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.

This amendment will be effective from assessment year **2018-2019**.



Incentive for employment generation

Under the existing provision of section 80-JJAA on 100% remuneration payable to eligible new employees employed for period of 240 days during a year is granted further deduction of 30% if such employees are subject to Provident Fund. In case new employee employed for minimum 150 days in apparel industry, deduction is allowed. It is now proposed to amend section to provide relaxed 150 days employment for leather, footwear and apparel industry. Further it is proposed to allow 30% deduction to new employee who is employed for less than prescribed period for 1st year but continue for prescribed period in subsequent year.

Exemption of income of Foreign Company from sale of leftover stock of crude oil on termination of agreement or arrangement

The existing provision of section 10 clause (48A) provides exemption to foreign company on profit arising in storage of crude oil in India. Now, by inserting a new clause **(48B) to section 10** to provide that such benefit to foreign company on account of sale of leftover stock of crude oil, even after termination of agreement or arrangement be exempt from tax.

Royalty and FTS payment by NTRO to a non-resident

Under provision of section 195 taxes are deductible on any payment of royalty or FTS to any non-resident, it is proposed to insert a clause in sec 10 to provide that on payment of any royalty or FTS by National Technical Research Organization (NTRO) to a Non-resident, tax will not be deductible under section 195.

This amendment will be effective from assessment year 2018-2019.

❖ **INSOLVENCY RESOLUTION**

Relief from liability of Minimum Alternate Tax (MAT)

Section 115JB of the Act, provides for levy of a minimum alternate tax (MAT) on the "book profits" of a company. In computing the book profit, it provides, inter alia, for a deduction in respect of the amount of loss brought forward or unabsorbed depreciation,

whichever is less as per books of account. Consequently, a deduction is allowable for the loss brought forward or unabsorbed depreciation which ever lower. Now with a view to **provide relief to rehabilitating companies seeking insolvency resolution**, who's application has been admitted under provision of Insolvency and



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Bankruptcy Code, 2016, it is proposed to provide that whole of business loss (excluding unabsorbed depreciation) and unabsorbed depreciation be allowed as deduction while computing income for MAT.

This amendment will be effective from assessment year **2018-2019**.

Benefit of carry forward and set off of losses

Section 79 of Act provides that carry forward and set off of losses in a closely held company shall be allowed only if 51% of shareholder who were shareholders in the year of loss are shareholder in the year in which set off of loss is claimed. In view to provide relief to company seeking insolvency resolution under Insolvency and Bankruptcy Code, 2016, which involves a change in the beneficial owners of shares beyond the permissible limit under section 79, it is now proposed to provide sec 79 be not applicable to such companies.



This amendment will be effective from assessment year **2018-2019**.

❖ Signing of Return of Income

In case of such company returns can be signed by Insolvency professional appointed by authority under provision of the code.

Appeal against penalty imposed by Commissioner (Appeals) under section 271J

By amendment to Section 253, it is proposed to provide that an appeal can be filed before Income Tax Appellate Tribunal against any penalty imposed by Commissioner of Appeal u/s.271J. The amendment will be effective from 1st April, 2018

❖ Penalty & Prosecution

Penalty for failure to furnish statement of financial transaction or reportable account

The existing provision of Section 271FA provides that if a person requires to furnish a statement of financial transactions or reportable account u/s. 285BA fails to furnish such statement within the prescribed time, he shall be eligible for penalty of ₹100/- for every day of default. Now it is proposed to enhance the penalty payable to ₹500/- for every day of default. It will be applicable with effect from 1st April, 2018.



The provisions for non-furnishing of return u/s.276CC

The existing provisions of the law provides that if a person will fully fails to furnish its return of income within the time allowed, it shall be punishable with imprisonment for such term as specified. It also provides that no proceedings be initiated under this section for failure to furnish the return of income if tax payable by the assessee on total income determined at regular assessment as reduced by advance tax and tax deducted at source does not exceed ₹ 3000/-. It is now proposed to provide that in case of companies, prosecution can be filed even if tax payable does not exceed ₹3000/-. Provisions are effective from 1st April, 2018.



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Penalty under the provisions of black money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015

The existing provisions of section 46(4) of the said Act provides for imposition of penalty with approval of Joint Commissioner. Now it is proposed to provide that Assistant Director or Deputy Director can impose penalty, subject to approval of Joint Director or Additional Director. Under the present provisions of the law u/s 55,

prosecution proceeding can be filled for any, offence committed u/s 49 to section 53 by Principle Commissioner or Commissioner or Commission of Appeals with the sanction of Principal Chief Commissioner or Chief Commissioner. Now it is proposed to provide that Principal Director General or Director General can also provide such approval. These provisions will be effective from 1st April, 2018.



Indirect Tax Proposal

❖ CUSTOM DUTY

✦ Major Changes

- Social Welfare Surcharge (SWS) introduced, as Customs Duty, on all imported goods; - 3% on import of Petrol, HSD, Silver and Gold and 10% on all other imported goods (except goods which were hitherto exempt from EC and SHEC).
- EC and SHEC on imported goods abolished.
- Custom duty on certain products increased.
- Ad- valorem rate of SWS will be on aggregate of Customs Duty (excluding IGST, GST, compensation cess, Anti Dumping Duty, Safeguard Duty. Etc) - essentially on BCD.
- Levy on Road and Infrastructure cess on imported motor spirit commonly known as petrol and high speed diesel oil ₹ 8 per litre.

❖ Amendments in the First Schedule to the Customs Tariff Act, 1975

| S. No. | Category / Product | Rate | |
|--------|--|-------------------|------------|
| | | Present | Proposed |
| I | Automobile parts | | |
| | 1. Truck and Bus Radical tyres 2. Specified parts/ accessories of motor vehicles, motor cars, motor cycles | 10% 7.5% / 10% | 15% 15% |
| II | Electronics / Hardware | | |
| | 1. Cellular mobiles phones | 15% | 20% |
| | 2. LCD/:ED/OLED panels and other parts of LCD/LED/OLED TVs 3. Smart Watches / wearable devices | 7.5% / 10% 10% | 15% 20% |
| III | Watches and Clocks | | |
| | 1. Wrist watches, pocket watches and other watches, including stop watches. Clocks and watch movements. Other clocks, including alarm clocks | 10% | 20% |
| IV | Toys and Games | | |
| | 1. Tricycles, scooters, pedal cars and similar wheeled toys; dolls carriages dolls; other toys; puzzles of all kinds and others | 10% | 20% |
| V | Food Processing | | |
| | 1. Fruit juices and vegetable juices including cranberry juice | 30% | 50% |
| VI | Perfumes and toiletry preparations | | |
| | 1. Perfumes and toilets waters | 10% | 20% |
| | 2. Preparations for use on the hair | 10% | 20% |
| | 3. Preparations for oral and dental hygiene and others , Pre shave, shaving or after shave preparations and others | 10% | 20% |
| VII | Jewellery | | |
| | 1. Imitation Jewellery | 15% | 20% |
| VIII | Footwear | | |
| | 1. Footwear | 10% | 20% |
| | 2. Parts of footwear | 10% | 15% |

Indirect Tax Proposal

| S. No. | Category / Product | Rate | |
|--------|--|---------|----------|
| | | Present | Proposed |
| IX | Furniture | | |
| | 1. Other Furniture and parts | 10% | 20% |
| | 2. Seats and parts of seats (other than aircrafts seats and their parts) | 10% | 20% |
| | 3. Mattresses supports, articles of bedding and similar furnishing | 10% | 20% |
| X | Miscellaneous Items | | |
| | 1. Cigarette lighters and other lighters, whether or not mechanical or electrical, and parts thereof other than flints and wicks | 10% | 20% |
| | 2. Scents sprays, powder - puffs and pads for the application of cosmetic or toilet preparation | 10% | 20% |
| | 3. Sunglasses | 10% | 20% |

❖ Other Proposals involving changes in Basic Customs Duty Rates

| S. No. | Category / Product | Rate | |
|--------|---|---------|----------|
| | | Present | Proposed |
| I | Textiles | | |
| | 1. Silk Fabrics | 10% | 20% |
| II | Capital goods and Electronics | | |
| | 1. Printed Circuit Board Assembly (PCBA) of charger/ adapter and moulder plastics of charger / adapter of cellular mobile phones | Nil | 10% |
| | 2. Solar Tempered glass or solar tempered [anti-effective coated] glass for manufacture of solar cells/ panels/modules | 5% | NIL |
| | 3. Perform of silica for use in the manufacture of telecommunication grade optical fibres or optical fibre cables | NIL | 5% |
| III | Automobiles and automobile parts | | |
| | 1. CKD imports of motor vehicles, motor cars, motor cycles | 10% | 15% |
| | 2. CBU imports of motor vehicles | 20% | 25% |
| IV | Food processing | | |
| | 1. Cashwe nuts in shell (Raw cashew) | 5% | 2.5% |
| | 2. Orange fruit juice | 30% | 35% |
| | 3. Miscellaneous Food preparations (other than soya Protein) | 30% | 50% |
| V | Diamonds and Precious Stones | | |
| | 1. Cut and polished colored gemstones | 2.5% | 5% |
| | 2. Diamonds including lab grown diamonds semi processed, half cut or broken, non industrial diamonds including lab-grown diamonds (other than rough diamonds), including cut and polished diamonds | 2.5% | 5% |




Indirect Tax Proposal

❖ Procedural Changes





- A new section 28EA relating to 'Custom Authority for Advance Rulings' is being inserted, which empowers the Board to appoint officers of the rank of Principal Commissioner of Customs or Commissioner of Customs as Customs Authority for Advance Rulings by way of notification. Till such appointment by the Board, existing Authority shall continue to pronounce Advance Rulings.
- Sub-section (6) of section 28-I is being amended to reduce the time from six months to three months within which the authority shall pronounce its advance rulings.
- Section 153 is being substituted so as to align it with the provisions of the section 169 of the CGST Act to include Speed Post, Courier, and registered email as valid modes of delivery and in case of non- service by such means, to also provide for affixing it at some conspicuous place at the last known place of business or residence in addition to affixing it on the notice board of the Customs House etc.





Key Features of Budget 2018

| | |
|---|---|
|  | <p>INTRODUCTION</p> <ul style="list-style-type: none"> ◆ The finance minister has delivered a balanced Budget that manages both fiscal prudence and the required investment focus on future growth pillars. ◆ It provided significant incentives for new jobs, cutting corporate tax to 25% for companies with sales up to ₹ 250 crore, creating labour flexibility by allowing contract labour in all sectors, and launching largest hospitalization scheme serving 100 million poor households. ◆ Budget spending will focus on three areas: employment, agriculture and health. ◆ It extended the government's provident fund subsidy for new employees to all industries. ◆ Budget includes additional spending on rural housing, roads, sanitation and electrification. ◆ Several new agricultural schemes plus rural infrastructure schemes launched. ◆ Import duties increased on hundreds of items from electronics, toys and auto parts to furniture, processed food, tyres and a long list of consumer items. |
|  | <p>CHALLENGES IN 2018-19</p> <ul style="list-style-type: none"> ◆ Government's commitment towards fiscal prudence to enable the country's fiscal situation and facilitate a sustainable improvement in the Debt to GDP ratio. ◆ To balance between higher minimum support price (MPS) for agriculture and Fiscal deficit. ◆ Introduction of 10% tax on the LTCG, could pose a small hurdle for investment in flow in equity securities. ◆ Although rebounding, global growth is still well below levels reached in the 2000s. ◆ The question of whether inflation (and hence interest rates) is likely to reverse / come under control. |
|  | <p>TRANSFORMATIONAL REFORMS IN LAST YEAR</p> <ul style="list-style-type: none"> ◆ Goods and Service tax (GST) was launched w.e.f. 1st July 2017. ◆ On the 4 R's of the TBS - recognition, resolution , recapitalization and reforms recognition was advanced further, while major measures were taken to address two other R's. |

Key Features of Budget 2018

| | |
|---|--|
|  | <ul style="list-style-type: none"> ◆ Announcement of large recapitalization package to strengthen the balance sheets of Public sector banks (PSB's). ◆ Announcement of National Health Protection Scheme, which proposes to provide a coverage of ₹ 5 Lakh for secondary and tertiary care hospitalization to 100 million families. ◆ Cash to GDP ratio has stabilized, suggesting a return to equilibrium. |
|  | <p>ROADMAP AND PRIORITIES</p> <ul style="list-style-type: none"> ◆ For FY 19, revenues are expected to rise 16.6%, led by 14.4% rise in direct tax collections and indirect tax collections by 19.2%. ◆ GST revenues are expected to rise once matching of invoices and E-way bills comes into force. ◆ Expenditure is slated to grow 10.1%, while receipts could grow 12%, resulting in a narrower fiscal deficit of 3.3% in FY19 vs 3.5% in FY 18. ◆ Thrust in Rural and agri sector, which will bring consumption spending trickle down benefits in the entire economy. |
|  | <p>FARMERS</p> <ul style="list-style-type: none"> ◆ The MSP for crops has been hiked to 1.5 times of production costs with a view to ensure higher realization to farmer for their produce. ◆ Niti Ayog will put in place a mechanism to ensure that farmers get increased realizations. ◆ Fertilizers subsidy unchanged at ₹ 70,000 crore. ◆ A Corpus of ₹2000 crore will be set up for developing and upgrading agricultural marketing infrastructure in the 22000 Grameen Agricultural Markets(GrAMs) and 585 APMCs ◆ A Sum of ₹ 500 crore will be allocated for Operation Green to be launched. |
|  | <p>RURAL POPULATION</p> <ul style="list-style-type: none"> ◆ ₹14.43 Lakh Crore allocated towards creation of Livelihood and Rural Infrastructure. ◆ Increased allocation to road construction through Bharatmala and PMGSY higher allocation to rural housing through PMAY, Swacch Bharat allocation for building toilets, allocation towards smart cities & AMRUT program etc. ◆ Rural Housing Development plans, by establishing a dedicated Affordable Hosuing Fund (AHF) in National Hosuing Bank. ◆ Increased allocation to National Drinking Water Mission (₹ 7,000 crore). |

Key Features of Budget 2018

| | |
|---|---|
|  | <p>INFRASTRUCTURE</p> <ul style="list-style-type: none"> ◆ Railways capex for the year has been pegged at ₹ 1.49 lakh crore with major portion going into capacity creation through doubling, third and fourth line works and gauge conversions. Up gradation of existing railway station with better facilities and procurement of coaches, locomotives and wagons to gain attraction. ◆ Ambitious road construction targets under Bharatmala (entailing allocation of ₹ 29,660 crore for construction of 34800km long roads and under PMGSY (entailing allocation of ₹ 19,000 crore for construction of 57,000 kms long rural roads. ◆ Total road capex of ₹ 1.33 lakh crore in FY 19 of which is the budgetary support from the central government to NHAI and the balance to be raised as borrowings. ◆ Strong thrust on new capacity building with growth of 29% in new lines, 35% in track renewals and 176% in metropolitan projects. ◆ The capacity outlay for defense sector has seen upstick of about 8.6%. |
|  | <p>FINANCIAL SECTOR</p> <ul style="list-style-type: none"> ◆ FY 19 recapitalization bonds of ₹ 65,000 crore. ◆ Crop Insurance allocation increased to ₹ 13,000 crore versus ₹ 10,700 crore a year ago. ◆ PMAY allocation of ₹ 25,000 crore . ◆ Institution credit for agriculture sector increased to Rs 11 lakh crore for FY 19 from ₹ 10 lakh crore in FY 18. ◆ Loans to SHGs will increase to ₹ 75,000 crore by March 2019. ◆ Target of ₹ 3 lakh crore for lending under MUDRA for FY 19. ◆ Allow strong Regional Rural Banks to raise capital from the market. ◆ Formulate a comprehensive Gold Policy to develop gold as an asset class; Establish regulated gold exchanges in the country. ◆ Divestment target is ₹ 80000 Crores for 2018-19. ◆ Three Public Sector Insurance companies will be merged into a single insurance entity. |

Budget at a Glance

| (In crore of Rupees) | | | | |
|---|------------------------|----------------------------------|-----------------------------------|----------------------------------|
| Particulars | 2016-2017 Actuals | 2017-2018 Budget Estimates | 2017-2018 Revised Estimates | 2018-2019 Budget Estimates |
| 1. Revenue Receipts | 1374203 | 1515771 | 1505428 | 1725738 |
| 2. Tax Revenue (Net to Centre) | 1101372 | 1227014 | 1269454 | 1480649 |
| 3. Non-Tax Revenue | 272831 | 288757 | 235974 | 245089 |
| 4. Capital Receipts | 600991 | 630964 | 712322 | 716475 |
| 5. Recoveries of Loans | 17630 | 11933 | 17473 | 12199 |
| 6. Other Receipts | 47743 | 72500 | 100000 | 80000 |
| 7. Borrowings and other liabilities * | 535618 | 546531 | 594849 | 624276 |
| 8. Total Receipts (1+4) | 1975194 | 2146735 | 2217750 | 2442213 |
| 9. Total Expenditure (10+13) | 1975194 | 2146735 | 2217750 | 2442213 |
| 10. On Revenue Account of which | 1690584 | 1836934 | 1944305 | 2141772 |
| 11. Interest Payments | 480714 | 523078 | 530843 | 575795 |
| 12. Grants in Aid for creation of capital assets | 165733 | 195350 | 189245 | 195345 |
| 13. On Capital Account | 284610 | 309801 | 273445 | 300441 |
| 14. Revenue Deficit (10-1) | 316381 (2.1) | 321163 (1.9) | 438877 (2.6) | 416034 (2.2) |
| 15. Effective Revenue Deficit (14-12) | 150648 (1.0) | 125813 (0.7) | 249632 (1.5) | 220689 (1.2) |
| 16. Fiscal Deficit [9-(1+5+6)] | 535618 (3.5) | 546531 (3.2) | 594849 (3.5) | 624276 (3.3) |
| 17. Primary Deficit (16-11) | 54904 (0.4) | 23453 (0.1) | 64006 (0.4) | 48481 (0.3) |
| Excluding receipts under Market Stabilisation Scheme Includes drawdown of Cash Balance | | | | |

Notes:

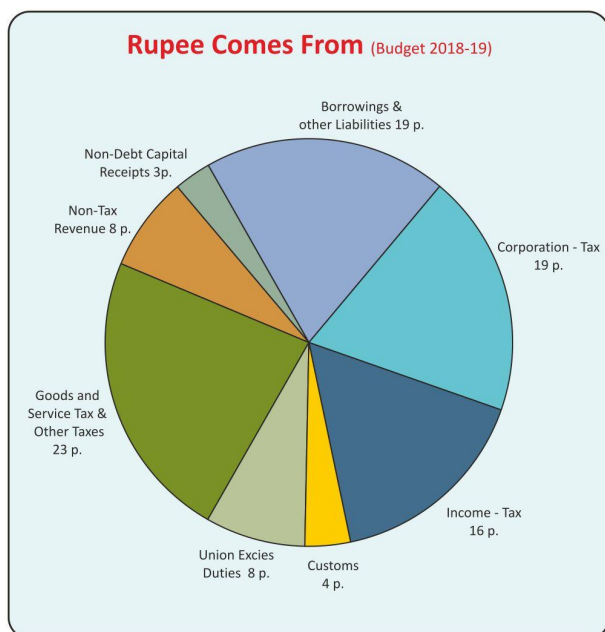
- (i) GDP for BE 2018-2019 has been projected at ₹ 18722302 crore assuming 11.5% growth over the estimated GDP of ₹ 16784679 crore for 2017-18 (RE).
(ii) Individual items in this document may not sum up to the totals due to rounding off
(iii) Figures in parenthesis are as a percentage of GDP

Budget At A Glance 2018 - 2019

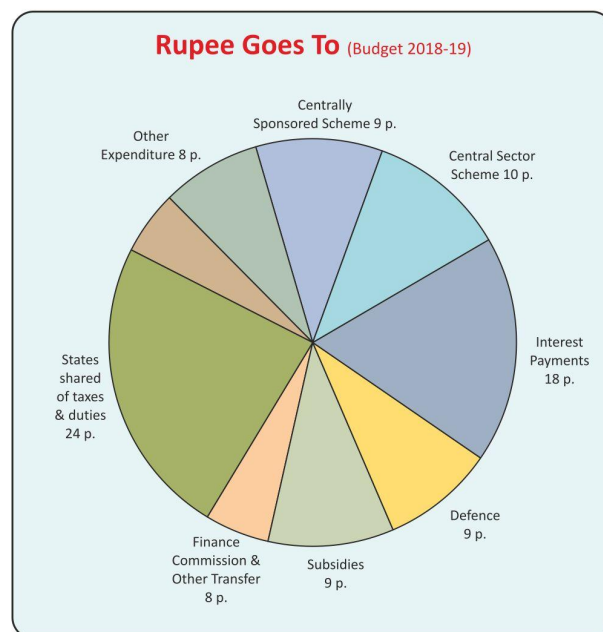
1. Budget at a Glance presents broad aggregates of the Budget in a reader-friendly document. This document shows receipts & expenditure as well as the Fiscal Deficit (FD), Revenue Deficit (RD), Effective Revenue Deficit (ERD), and the Primary Deficit (PD). of the Government of India. Besides, it presents a pictorial account of sources of receipts, their application, the details of debt and deficit indicators, sources of deficit financing and trends and composition of important budgetary variables through charts and graphs.
2. **Fiscal Deficit** is the difference between the Revenue Receipts plus Non-debt Capital Receipts (NDCR) and the total expenditure. FD is reflective of the total borrowing requirements of Government. **Revenue Deficit** refers to the excess of revenue expenditure over revenue receipts. **Effective Revenue Deficit** is the difference between Revenue Deficit and Grants for Creation of Capital Assets. Primary Deficit is measured as Fiscal Deficit less interest payments.
3. Budget 2018-19 reflects the Government's firm commitment to substantially boost investment in Agriculture, Social Sector, Digital Payments,

Infrastructure and Employment Generation on the one hand and simultaneously stick to the path of fiscal rectitude by aiming for a reduction of FD by 0.2% of GDP over RE 2017-18. This is substantiated by increase in expenditure of ₹ 2,24,463 crores over RE (2017-18) while simultaneously keeping the fiscal deficit at 3.3% of GDP.

4. In RE 2017 - 18, the total expenditure has been kept at ₹ 22,17,750 crore & is more than BE 2017-18 by ₹ 71,015 crore. The increase in total expenditure is mainly due to the outgo on account of GST Compensation to States, increased outlays on some important schemes and also to meet the recommendation of 7th CPC with respect to allowances and pensions.
5. The devolution of States' share in taxes witnessed a major jump after the implementation of XIV Finance Commission from 2015-2016 onwards. Continuing with this trend, the total resources going to States including the devolution of State's share in taxes, Grants/Loans, and releases under Centrally Sponsored Schemes in BE (2018-19) is ₹ 12,69,435 crore, with a jump of ₹ 1,53,558 crore over RE (2017-18) and ₹ 2,83,760 crore more than the Actuals (2016-17).



- Notes:**
1. Total receipts are inclusive of States' share of taxes and duties which have been netted in the table on page 1
 2. Figures have been rounded.



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1. Total receipts are inclusive of States' share of taxes and duties which have been netted in the table on page 1
 2. Figures have been rounded.

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