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News Alert on Union Budget of Central Government for the financial year 2017-2018

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Introduction

In the history of republic India it's the first time "The Union Budget" for the Financial Year 2017-18 has announced on the 1st day of February, 2017 by Finance Minster **Mr. Arun Jaitley.** The budget announced certainly is a concrete step to take Indian economy in the right direction.

In the speech Finance Minister had mainly focused on –

- The agriculture sector
- The youth
- The lower section of society
- The people below the poverty line and underprivileged health care,
- The infrastructure,
- The financial sector for stronger institutions,
- Abolishment of FIBP policy,
- The merger of railway budget with general budget
- The prudent fiscal management.

The Demonetisation of high denomination bank notes is a bold and future prospects step taken on November 8, 2016 by the Government to gear the economy of the Country to eliminate corruption, black money, counterfeit currency and terror funding and tax evasion. The priority of Government is clearly to provide additional resources for agriculture sections, rural areas and social and physical infrastructure creation.

Key Highlights

1. The growth of **GDP** has projected from **7.2%** to **7.7**%.
2. **Foreign exchange reserves** touched highest ever level of about **361 billion US dollars.**
3. **FDI grew 36%** in first quarter of 2016-17 over 2015-16, despite of that 5% reduction in global FDI inflows.
4. Transparency in **Electoral Funding**.
5. Implementation of **GST** is likely to bring more taxes both to Central and State Governments because of widening of tax net.

Key Enactments and changes in existing laws

- Enactment of the **Insolvency and Bankruptcy Code** and amendments to the **SARFAESI and Debt Recovery Tribunal Acts**;
- Amendment to the **RBI Act for inflation targeting**;
- **Enactment of the *Aadhar* bill** for disbursement of financial subsidies and benefits
- Significant reforms in FDI policy.

Road Map – Transform India

For next year 'Transform India' is the agenda. Roadmap to achieve the same was enumerated as under by Finance Minister.

1. Financial Sector Reforms

- India had FDI inflows of more than **90%** though the automatic route.

- Foreign Investment Promotion Board has successfully implemented e-filing and online processing of FDI application and therefore decided to **abolish the FIPB** in 2017-18.

- The finance firms will contribute the stability and resilience after the introduction of bill relating to resolution of finance firms. It will also protect the consumers of various financial institutions.

- To protect the financial sector form any cyber crime activity, the **Computer Emergency Response Team** for our Financial Sector (CERT-Fin) will be established in this regard in close coordination with all financial sector regulators and other stakeholders.

- To more foster and greater public accountability, the government will introduced **listing of public sector enterprises** to ensure time bound listing of identified CPSEs on stock exchanges.

- The shares of Railway PSEs like **IRCTC, IRFC and IRCON** will be listed in stock exchanges.

- Through consolidation, mergers and acquisitions of CPSEs like **oil and gas sector** for availing economies of scale and higher investment opportunities.

- To enhance capital flows into the securitization industry and will particularly be helpful to deal with bank NPAs, the government have introduced the listing and trading of Security Receipts issued by a securitization company or a reconstruction company under the **SARFAESI** Act will be permitted in SEBI registered stock exchanges.

2. **<u>Governance and Ease of Doing Business</u>**

In order to reduce the compliance burden of **<u>domestic transfer pricing</u>** provisions, the government restrict the scope of domestic transfer pricing only if one of the entities involved in related party transaction enjoys specified profit-linked deduction.

- Increase in the threshold limit for **<u>audit of business entities</u>** that have opt for presumptive income scheme from Rs. 1 Crore to Rs. 2 crores. Similarly, the threshold for maintenance of books for individuals and HUF is being increased from turnover of Rs. 10 lakhs to Rs. 25 lakhs or income from Rs. 1.2 lakhs to Rs. 2.5 lakhs.

- Income-tax Act was amended to provide for taxation of those transactions of transfer of shares or interest in a foreign entity deriving its value substantially from Indian assets.

- A new scheme for **<u>presumptive taxation for professionals</u>** with receipt upto Rs. 50 lakhs p.a. In respect of such assesses, they are being given further benefit in terms of paying advance tax in **one installment instead of four**.

- The time period for **revising a tax return** is being reduced to 12 months from completion of financial year, at par with the time period for filing of return. The time for completion of scrutiny assessments is being compressed from 21 months to 18 months for Assessment Year 2018-19 and 12 months for Assessment Year 2019-20 and thereafter.

3. <u>Promoting Digital Economy</u>

- **No Cash** transaction to be allowed above Rs. 3 Lakh.

- Presumptive income for **small and medium tax payers** increased to Rs. 2 crore with 6 % of their turnover is counted as presumptive income.

- **Cash donation limit to charitable trust is reduced** to Rs. 2,000 from Rs. 10,000 and deduction of Rs. 10,000 on revenue as well as capital expenditure.

- To promote the cashless transaction government propose to **exempt BCD, Excise/CV duty and SAD** on miniaturised POS card reader for m-POS, micro ATM standards version 1.5.1, Finger Print Readers/Scanners and Iris Scanners. Simultaneously, exempt the parts and components for manufacture of such devices, so as to encourage domestic manufacturing of these devices.

4. Tax Reforms

The existing rate of taxation for individual assesses between income of **Rs. 2.5 lakhs to Rs. 5 lakhs to 5%** from the present rate of 10% or 50% of their existing liability. In order to avoid duplication of benefit, the existing benefit of rebate available to the same group of beneficiaries is being reduced to **Rs. 2,500/-** available only to assessees upto income of Rs. 3.5 lakhs. The combined effect of both these measures will mean that there would be zero tax liability for people having income upto Rs. 3 lakhs p.a. and the **tax liability** will only be Rs.2,500/- for people with income between **Rs.3 and Rs.3.5 lakhs.**

- While the taxation liability of people with income of Rs. 5 lakhs is being reduced to half, all the other categories of tax payers in the subsequent slabs will also get a uniform benefit of Rs. 12,500/- per person.

- Applicability of section 56 of the Income-tax Act to provide that any money, immovable property or specified movable property received without consideration or with inadequate consideration having value **exceeds Rs.50,000/-.**

- **Levy of surcharge of 10%** of tax payable on categories of individuals whose annual taxable income is between Rs. 50 lakhs and Rs.1 crore.

- For **Joint Development Agreement** signed for development of property, the liability to pay capital gain tax will arise in the year the project is completed.

- TDS of 5% is being deducted from **commission payable to individual insurance** agents even if the income of some of them may be below taxable limit.

- The Income tax Authority will provide one pager income tax return and there will be levied fees in case of delay in filing the return.

- Section 112 of the Income-tax Act providing for concessional rate of tax in respect of transfer of share of a private limited company shall be applicable retrospectively from assessment year 2013-14.

- It is proposed to provide a sun set clause in respect of deduction allowed to certain persons in respect of investment in listed equity shares and listed units of an equity oriented fund.

5. Changes proposed in Corporate Income Tax rates

Extending of concessional with-holding rate of 5% on interest earned by foreign entities in **external commercial borrowings** or in bonds and Government securities till 30.6.2020.

- The **profit linked deduction available to the start-ups** for 3 years out of 5 years is being changed to 3 years out of 7 years including withholding of 51% of voting rights has been relaxed subject to the condition that the holding of the original promoter/promoters continues.

- Companies are allowed to use **MAT credit** upto a period of 15 years instead of 10 years. Although the plan for phasing out of exemptions will kick in from 1.4.2017.

- **Medium and Small Enterprises** will be charged corporate income tax rate only 25% with annual turnover upto Rs.50 crore to 25%.

- Manufacturing companies who do not avail of any exemption would be charged only 25% income tax.

- To give a boost to banking sector, Government propose to increase allowable provision for **Non-Performing Asset from 7.5% to 8.5%.** This will reduce the tax liability of banks.

- The provisions of section 115BBDA of the Income-tax Act is extended which provides for levy of tax at the rate of ten per cent on dividend income exceeding 10 lakh to all resident persons except domestic companies or trust or institution or fund registered under section 12AA or referred to in section 10(23C).

- In case of transfer of **unquoted equity shares**, where the fair market value, determined in the prescribed manner is less than the consideration received, such fair market value shall be the deemed value of consideration for the purpose of computation of capital gains.

- There is restriction in exemption from **long term capital gains** in case of transfer of listed shares subject to condition that the security transaction tax has been paid at the time of acquisition of such shares which is acquired on or after 1st October, 2004.

- Interest paid by an Indian company or permanent establishment of a foreign company, in excess of thirty percent of earnings before interest, taxes, depreciation and amortisation (EBITDA), or interest paid to its associated enterprise, whichever is less, shall not be allowed as deduction in computing its taxable profit.

- It is proposed to **provide tax neutrality** in case of conversion of preference shares of a company into equity shares of that company.

- It is proposed to provide that the **cost of acquisition of share** of an Indian company in the hands of demerged foreign company in a tax neutral demerger, shall be taken as the cost of acquisition in the hands of resulting foreign company.

6. INFRASTRUCTURE AND HOUSING AND REAL ESTATE SECTOR

RAILWAY

For transportation sector as a whole, including rail, roads, shipping, provision of 2,41,387crores has been made in2017-18.

The total capital and development expenditure of Railways has been pegged at 1,31,000crores which includes Rs. 55,000 crores provided by the Government.

- For passenger safety, a Rashtriya Rail Sanraksha Kosh will be created with a corpus of 1 lakh crores over a period of 5 years

- The Railways will focus on four major areas i.e., Passenger safety, Capital and development works, Cleanliness and Finance and accounting reforms.

- Steps will be taken to launch dedicated trains for tourism and pilgrimage and Railway lines of 3,500 kms will be commissioned in 2016-17.

- 7,000 stations with solar power in the medium term and all coaches of Indian Railways will be fitted with bio toilets.

- SMS based Clean My Coach Service has been started and also introduced ‘Coach Mitra’ facility, a single window interface, to register all coach related complaints and requirements.

- Service charge on e-tickets booked through IRCTC has been withdrawn

- A new Metro Rail Policy will be announced with focus on innovative models of implementation and financing.

- 2,000 kms of coastal connectivity roads have been identified for construction and development.

AFFORDABLE HOUSING:

Profit-linked income tax exemption for promoters of affordable housing scheme and for effective scheme, 30 Sq.mtr. limit will apply only in case of municipal limits of 4 metropolitan cities while for the rest of the country including in the peripheral areas of metros, limit of 60 Sq.mtr. will apply.

- The **holding period for considering gain** from immovable property to be long term is 2 years now and base year for indexation is proposed to be shifted from 1.4.1981 to 1.4.2001 for all classes of assets including immovable property.

- For builders for whom constructed buildings are stock-in-trade, tax on **notional rental income** will be applicable only after one year of the end of the year in which completion certificate is received.

7. DIGITAL ECONOMY

High **speed broadband connectivity** on optical fibre will be available in more than **1,50,000 *gram panchayats***, with wifi hot spots and access to digital services at low tariffs.

A **DigiGaon initiative will be launched** to provide tele-medicine, education and skills through digital technology.

- The **BHIM APP** has been launched. The Government will launch two new schemes to promote the usage of BHIM; namely **Referral Bonus Scheme for individuals and a Cashback Scheme for merchants**.

- **Aadhar Pay, a merchant version of Aadhar Enabled Payment System, will be launched shortly** which will be specifically beneficial for those who do not have debit cards, mobile wallets and mobile phones. A Mission will be set up with a target of 2,500 crore digital transactions for 2017-18 through UPI, USSD, Aadhar Pay, IMPS and debit cards.

- The Committee on Digital Payments constituted by Department of Economic Affairs has recommended structural reforms in the payment eco system, including amendments to the Payment and Settlement Systems Act, 2007. **It is proposed to create a Payments Regulatory Board in the Reserve Bank of India** by replacing the existing Board for Regulation and Supervision of Payment and Settlement Systems.

CONCLUSION

Government has taken concrete steps towards more transparency and accountability with Union Budget 2017-18. The Government has put more emphasis on **development of Digital India, Ease of Doing Business and development of better infrastructure**.

TEC "Transform, Energise and Clean India" is the new "mantra" given by Finance Minister in its Budget Speech. Now implementation and execution of all these proposals for the benefit of the various sections of the society is to be seen.

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