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BUDGET 2018

(Presented by Honorable Finance Minister Sri Arun Jaitley on Feb 01, 2018; This is his fifth budget in a row)

Introduction

The dictionary meaning of budget is a systematic plan for the expenditure of a usually fixed resource during a given period.

Thus, Union Budget, which is a yearly affair, is a comprehensive display of the Government's finances. It is the most significant economic and financial event in India. The Finance Minister puts down a report that contains Government of India's revenue and expenditure for one fiscal year. The fiscal year runs from April 01 to March 31.

The Budget is the most extensive account of the Government`s finances, in which revenues from all sources and expenses of all activities undertaken are aggregated.

Barring a few exceptions -- like elections – Finance Minister presents the annual Union Budget in the Parliament on February. The budget has to be passed by the Lok Sabha before it can come into effect.

By this document, we hereby present the tax proposals provided in the budget in a simple language.

❖ Budget Impact – Direct Taxes

➢ Income Tax Slab Rates

- No change in slab rates.
- Exemption for Long term Capital Gain is withdrawn in case of on sale of equity shares or an unit of equity oriented fund or an unit of business trust [u/s 10(38)]. Long Term Capital Gain more than Rs 1 lacs on sale of such asset shall now be taxable at the rate of 10%.
- Education cess is being increased from 3 to 4% to be known as "Education and Health cess".
- Corporate tax is restricted to 25% in case of all the companies having turnover upto Rs 250 crore.

➢ Deductions, Rebates & Reliefs

- For salaried people, in lieu of Transport and Medical allowance, standard deduction of Rs 40,000 has been proposed. Hence, some relief to salaried employees as well as employer.
- Deduction u/s 80D in respect of annual premium on health insurance policy, preventive health check up of senior citizen and very senior citizen has been increased from Rs 30,000 to Rs 50,000/-.
- Deduction us/ 80DDB has been increased to Rs 1,00,000/- for both senior citizen and very senior citizen.
- New Section 80TTB has been inserted to provide deduction Rs 50,000/- in respect of income from deposits held by senior citizen.
- The sunset period for deduction to start up extended for the companies incorporated after 1st day of April 2019 but before 1st day of April 2021.

➢ Companies under Insolvency and Bankruptcy Code – Relief Provided

- Relief is provided in the MAT calculating provisions.
- Carry forward and set off of losses in a closely held company shall be allowed even if there is non continuity in the beneficial owner of the shares carrying not less than 51 percent of the voting power, on the last day of the year or years in which the loss was incurred.

➢ ICDS

- Marked to market loss computed as per ICDS to be allowed under section 36.
- Gain or loss in Foreign Exchange as per ICDS to be allowed under new section 43AA.
- Construction Contract income to be computed on percentage completion method as per ICDS.

➢ Miscellaneous

- PAN is now mandatory for financial transaction of amount aggregating 2.5 lacs in a financial year – non individual entities.
- Taxation of Deemed Dividend [u/s 2(22)(e) – i.e loan and advances to directors,etc.] shifted from dividend recipient to company under the Dividend Distribution Tax mechanism (DDT) and shall be taxable at the rate of 30%.
- Provisions of section 40(A)(3) (i.e. no cash payment for transaction exceeding Rs 10,000) made applicable on Charitable Trust.
- Provisions of section 40(a)(ia) (i.e. disallowance of expense due to non deduction of TDS) made applicable on Charitable Trust.
- All kind of Compensation (revenue or capital nature or both) are taxable now.

- Exemption of 40% of total amount contributed by a person on closure of his New Pension Scheme (NPS) account is now available to non-employee subscriber as well.

- No adjustment shall be made in case where the variation between stamp duty value and the sale consideration is not more than five percent of the sale consideration [u/s 50C, 43CA, 56].

- Conversion of stock-in-trade to capital asset to be charged as business income in the year of conversion at the rate Fair Market value on the date of conversion.

- 54EC benefit of investment in Bonds to be restricted to Capital gain on land and building only. Further, period of holding of bonds is increased from 3 years to 5 years.

- Penalty for non filing financial return as required under section 285BA is increased to Rs 500 per day.

- Provisions related to Permanent Establishment concept has been inserted in Income Tax [refer section 9(1)(1)]

❖ Budget Impact – Indirect Taxes

➢ Change in Rates – Import Duty

Import duty increase

Items	Rates
Imitation Jewellery	15% to 20%
Cellular mobiles	15% to 20%
Footwear	10% to 20%
LCD/LED Panels and other related parts	7/5%/10% to 15%
Watches and clocks	10% to 20%
Toys and Games	10% to 20%
Silk Fabrics	10% to 20%

Import duty decrease

Items	Rates
Cashew nuts	5% to 2.5%
Solar Tempered Glass	5% to NIL

❖ Budget – Other Miscellaneous Proposals

- 22,000 rural haats to be developed and upgraded into Gramin Agricultural Markets to protect the interests of 86% small and marginal farmers.
- “Operation Greens” launched to address price fluctuations in potato, tomato and onion for benefit of farmers and consumers.
- Two New Funds of Rs 10,000 crore announced for Fisheries and Animal Husbandry sectors; Re-structured National Bamboo Mission gets Rs.1290 crore.
- Loans to Women Self Help Groups will increase to Rs.75,000 crore in 2019 from 42,500 crore last year.
- Higher targets for Ujjwala, Saubhagya and Swachh Mission to cater to lower and middle class in providing free LPG connections, electricity and toilets.
- Outlay on health, education and social protection will be 1.38 lakh crore. Tribal students to get Ekalavya Residential School in each tribal block by 2022. Welfare fund for SCs gets a boost.
- World’s largest Health Protection Scheme covering over 10 crore poor and vulnerable families launched with a family limit upto 5 lakh rupees for secondary and tertiary treatment.
- Fiscal Deficit pegged at 3.5 %, projected at 3.3 % for 2018-19.

❖ Budget Impact – Share Market

- No significant effect of budget was recognized in sensex on day 1. Sensex closed 58 point down at the end of the day.
- However, sensex reacted sharply to negative side on day 2. Sensex closed down by 839 points to 35066, and Nifty is down by 256 points to 10760.

❖ Budget Impact – Shares and Mutual Funds

Here's how the new long-term capital gains (LTCG) tax regime will work for individuals selling equity or equity mutual fund (MF) units or even units of a business trust.

The Budget 2018 proposes to change how LTCG on equity shares and units of equity-oriented MFs are taxed in your (an individual's hands). But there are two escape windows and one mitigating factor.

Escape window 1: If you sell your equity or equity MF units (held for more than one year) before 31.3.2018, you can still claim tax exemption on long term capital gains from these. The new tax regime for LTCG is effective for transactions done from April 1, 2018, says Pinky Khanna, Tax Director, EY.

Escape window 2: LTCG on these instruments realised after 31.3.2018 by an individual will remain tax exempt up to Rs 1 lakh per annum i.e. the new LTCG tax of 10% would be levied only on LTCG of an individual exceeding Rs 1 lakh in one fiscal. For example, if your LTCG is Rs 1,30,000 in FY2018-19 from these two instruments then only Rs 30,000 will face the new LTCG tax, she explains.

If you sell after 31.3.2018 the LTCG will be taxed as follows: *(Also refer to tables at the bottom)*
1. The cost of acquisition of the share or unit bought before Feb 1, 2018, will be the higher of :
a) the actual cost of acquisition of the asset
b) The lower of : (i) The fair market value of this asset(highest price of share on stock exchange on 31.1.2018 or when share was last traded. NAV of unit in case of a mutual fund unit) and (ii) The sale value received/accrued when the share/unit is sold.

Source: The Economic Time: Feb 2, 2018;
//economictimes.indiatimes.com/articleshow/62743875.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

The introduction of a 10% tax on income distributed by equity funds will pinch investors used to earning tax-free dividend. However, systematic withdrawal plans may be a suitable alternative.

Many fund houses had pushed the dividend option of equity-oriented balanced funds to investors as a safe way of earning assured monthly income.

This nudge to rely on dividend income put investors on the wrong path, experts said. The worry was that such dividend payments would be unsustainable if market conditions soured, leaving investors in a tight spot. However, with the introduction of the tax, funds are unlikely to resort to such gimmicks anymore.

"This will put an end to the blatant mis-selling as these products were not being sold for the purpose for which they were created," said Vidya Bala, head of mutual fund research at FundsIndia.

Apart from balanced funds, the tax on dividend will also affect arbitrage funds, which had already started generating lower income.

Experts said the systematic withdrawal plan (SWP) route now becomes more relevant for earning regular income from equity funds.

Initiating an SWP after a year of purchasing the fund will allow investors to earn a guaranteed monthly income.

Besides, a small investor may be able to avoid tax altogether if the long-term capital gains accrued on the amount withdrawn under SWP is less than the Rs 1 lakh threshold.

"SWP is a superior option than dividend, even without the tax levy on the latter," said Swarup Mohanty, CEO of Mirae Asset Global Investments (India).

Source: The Economic Time: Feb 1, 2018; //economictimes.indiatimes.com/articleshow/62747174.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

❖ Budget Impact – Senior Citizens

Budget 2018 proposes several tax benefits for the senior citizens. These include: increase in tax exemption limit for interest income from banks and post offices from Rs 10,000 to Rs 50,000 and increase in tax break on health insurance and medical expenditure under sections 80D and 80DDB. Both these would give a big relief to this category of tax payers as most senior citizens derive most of their income from bank FDs and post office schemes.

Relief to Senior Citizens proposed:-

- Exemption of interest income on deposits with banks and post offices to be increased from Rs. 10,000 to Rs. 50,000.
- TDS not required to be deducted under section 194A. Benefit also available for interest from all fixed deposit schemes and recurring deposit schemes.
- Hike in deduction limit for health insurance premium and/ or medical expenditure from Rs. 30,000 to Rs. 50,000 under section 80D.
- Increase in deduction limit for medical expenditure for certain critical illness from Rs. 60,000 (in case of senior citizens) and from Rs. 80,000 (in case of very senior citizens) to Rs. 1 lakh for all senior citizens, under section 80DDB.
- Proposed to extend Pradhan Mantri Vaya Vandana Yojana up to March, 2020. Current investment limit proposed to be increased to Rs. 15 lakh from the existing limit of Rs. 7.5 lakh per senior citizen.
- Standard dedcution of Rs 40,000 for pensioners..

Source: The Economic Time: Feb 2, 2018; //economictimes.indiatimes.com/articleshow/62458343.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst