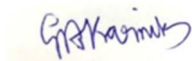


Focus on Make in India – Boost to domestic manufacturers



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The automotive industry being one of the prime drivers of the Indian economy accounts for around 7% of the country's GDP, comprising approx. 23.9 million vehicles, which includes passenger vehicles, two-wheelers, commercial vehicles and three-wheelers. The automotive industry also provides direct and indirect employment to over 29 million people in India.

Budget 2018 has continued to deliver on the Government's stated development agenda of enhancing rural economy, increasing the farmer's income, supporting the poor and underprivileged, developing infrastructure, promoting digital economy and prudent fiscal management. From an automobile sector, the Government in the Budget 2018 has continued to focus on the Make in India initiative through reduction in corporate tax rates along with increase in customs duty rate. The sector could have done with extension of the R&D incentive and other incentives both direct and indirect tax for electric vehicles.

How Budget 2018 impacts the automobile sector?

Key policy takeaways

- ▶ Automotive sector should benefit from the Government's strong focus on rural economy and the infrastructure sector.
- ▶ Increased spending on infrastructure should help increase demand for commercial vehicles.
- ▶ Magnified allocation of funds for rural sector and boosting of farmers income should help augment demand for passenger vehicles and scooters/ motorcycles.
- ▶ Electric vehicles did not receive any concessions nor were there any incentives for giving up used vehicles.

Key tax takeaways

- ▶ Reduction in corporate tax rate to 25% for companies having turnover up to INR 2,500 million in FY 2017.
- ▶ Rationalisation of the tax incentive for hiring new workers.
- ▶ Levy of 3% Education cess replaced by a 'Social welfare surcharge' at the rate of 10% on import of goods to fulfil the Government's commitment to provide and finance education, health and social security. The said Social welfare surcharge shall only be levied on the basic customs duty on imports, and not on other duty components.

Impact analysis

The overall budget from an auto-sector appears to be centred on 'Make in India' initiative of the Government. The strong focus on developing the rural economy and improving farmer's income coupled with increased spending on the infrastructure sector augurs well for the automobile sector.

However, some of the announcements that the industry was looking forward, are missing in the budget such as:

- ▶ Tax incentives for enhanced weighted deduction of 200% under the Act, to augment R&D expenditure in order to upgrade BS VI emission norms.
- ▶ Accelerated depreciation on capital goods to 25% under the Act.
- ▶ Concessions for the electric vehicle industry.

That apart, from an indirect tax point of view, marking a clear departure from the usual practice of reducing import duties, the indirect tax proposals in this Budget seek to increase investments in the domestic auto component industry by making imports dearer, including engines and certain categories of tyres.

Please read further for a more detailed summary of the key policy announcements and significant tax proposals in Budget 2018.

Budget Connect 2018

Key policy announcements and tax proposals

Growth Outlook

- ▶ The Budget 2018 is predicated on a real growth assumption of about 7.3% and underlying inflation assumption of 4%. These assumptions appear to be realistic in the light of recent growth forecasts by the International Monetary Fund and the World Bank at 7.4% and 7.3% respectively. Budgetary priorities support agriculture and rural sectors, health and education as well as infrastructure. These priorities would also support overall growth in the economy.

Fiscal Status

- ▶ The fiscal deficit target of 3.2% of GDP for FY18 and 3% of GDP for FY19 have been postponed. The revised fiscal deficit estimate for FY18 (RE) is 3.5% of GDP. This slippage is due largely to the excess of revenue expenditure over the corresponding budgeted amount of about 60 basis points of GDP. Half of this slippage is made up by a cut in capital expenditure and increases in net tax revenues and disinvestment proceeds. This has also led to a slippage of 30 basis points for FY19 for which the targeted fiscal deficit is 3.3% of GDP. The point of concern is that the slippage in revenue deficit to GDP ratio of 1% point in FY18 (RE) is more than the slippage in the fiscal deficit.
- ▶ The Budget 2018 has accepted the recommendations of the Fiscal Responsibility and Budget Management Committee whereby the main policy target would be Centre's debt-GDP ratio, which is to be brought down to 40% from its current level of about 50%.

Key policy takeaways

- ▶ NITI Aayog to initiate a national program on Artificial Intelligence to promote research and development of its applications.
- ▶ Government to explore proactive use of blockchain technology for ushering in Digital economy.
- ▶ Department of Science & Technology to launch a 'Mission on Cyber Physical Systems' to support establishment of centers of excellence.
- ▶ Doubled allocation of INR 30,730 million in 2018-19 on Digital India programme and establishment of centres of excellence on quantum communication and internet of things.
- ▶ Allocation of INR 100,000 million for creation and augmentation of telecom infrastructure, including proposal to set up INR 500,000 wi-fi hotspots to provide broadband access to rural citizens.
- ▶ The Department of Telecom will support establishment of an indigenous 5G Technologies Test Bed at IIT, Chennai to harness the benefit of emerging new technologies and its adaptation.
- ▶ It has been proposed to set up a dedicated Affordable Housing Fund in National Housing Bank.
- ▶ To meet the objective of Housing for all by 2022, more than 10 million houses are proposed to be constructed exclusively in rural areas and assistance has been sanctioned to construct 3.7 million houses in urban areas.
- ▶ Announcement of development of online National Logistics portal to provide a single window clearance for all major issues faced by the logistics industry.
- ▶ 150,000 Health and Wellness Centres set-up last year would now provide comprehensive healthcare, free essential drugs and diagnostic services with a budget allocation of INR 12,000 million. Contribution of Private Sector and Philanthropic institutions through CSR invited.
- ▶ National Health Protection Scheme to be launched to cover 100 million poor and vulnerable families (approx. 500 million beneficiaries) providing coverage up to INR 150,000 per family per year for secondary and tertiary care hospitalization. This scheme also aimed at generating jobs, particularly for women.
- ▶ Several policies announced to boost agriculture, double farmers income and food processing industry, such as:
 - ▶ INR 1,400 crores allocated to the Prime Minister Krishi Sampada Yojana (nearly double of the previous allocation of INR 715 crores).
 - ▶ INR 10,000 crores allocated for infrastructure development in the fisheries, aquaculture and animal husbandry sectors in India.
 - ▶ MSP of Kharif crops to 1.5 times the cost of their produce.
- ▶ Ministry of Finance to leverage IIFCL to help finance major infrastructure projects.
- ▶ Proposal to boost airport capacity with Nabh Nirman scheme (a new initiative).

- ▶ Additional measures to be introduced to strengthen the environment for growth and successful operation of AIFs in India.
- ▶ SEBI to consider mandating corporates to meet one-fourth of their financing needs from bond market.
- ▶ Government to reform stamp duty regime on financial securities transactions in consideration with States and amend the Indian Stamp Act.
- ▶ A unified authority to be established for regulating all financial services in IFSC.
- ▶ Separate policy to be formulated for hybrid instruments for attracting foreign investments especially start-ups and venture capital firms.
- ▶ Bank recapitalization programme to pave way for public sector banks to lend additional credit of Rs 5 lakh crore.
- ▶ A new proposal for allowing strong Regional Rural Banks to raise capital from the market to enable them increase their credit to rural economy is under consideration.
- ▶ Measures for effectively addressing NPAs and stressed assets of MSMEs to be announced shortly.
- ▶ Refinancing policy and eligibility criteria set by MUDRA to be reviewed for better refinancing of NBFCs.
- ▶ A new policy to be developed by the MOF for the growth of Fintech companies in India.
- ▶ To provide the RBI an instrument to manage excess liquidity, RBI Act to be amended to institutionalize an Uncollateralized Deposit Facility.
- ▶ Measures to be taken to eliminate use of crypto-assets in financing illegitimate activities or as part of the payment system.
- ▶ A coherent and integrated ODI policy to be introduced after reviewing the existing guidelines and processes.
- ▶ Amendment of Securities and Exchange Board of India, Act 1992, Securities Contracts (Regulation) Act 1956, and Depositories Act 1996 to streamline adjudication procedures and to provide for penalties for certain infractions.
- ▶ Disinvestment target for FY 18-19 set at INR 800,000 million.

Direct tax proposals

(All proposals will be effective from FY 2018-19 unless otherwise specified)

Personal taxation

- ▶ No changes proposed in tax rates, however, education cess and secondary and higher education cess aggregating to 3% replaced with health and education cess at the rate of 4%.

Introduction of standard deduction

- ▶ Standard deduction of INR 40,000 will now be introduced in lieu of transport allowance of INR 19,200 and medical reimbursement of INR 15,000.
- ▶ The standard deduction would be provided to the taxpayer without a requirement to furnish any evidence for claiming such a deduction.
- ▶ Transport allowance for taxpayers who have specified disability would continue to be exempt.

Enhancement of limits for Senior Citizen taxpayers

- ▶ Deduction towards premium paid for medical insurance and expenses for senior citizen taxpayers increased from INR 30,000 to INR 50,000. In case of single premium medical insurance policies, the deduction of premium paid will be allowed over the period of the policy, subject to aforesaid limit.
- ▶ In case of Senior Citizens and taxpayers above the age of 80 years, the deduction limit for expenses incurred on specified diseases/critical illness to be enhanced to INR 100,000.
- ▶ Exemption on interest income increased from INR 10,000 to INR 50,000 in case of taxpayers above the age of 60 years.

Tax free withdrawal from National Pension System extended to non-employee subscriber

- ▶ Exemption in respect of 40% of the total amount payable to the taxpayer on closure or opting out by an employee contributing to National Pension System extended to non-employee subscribers.

Corporate taxation

► Tax rates

Description	Existing rate (%)	Proposed rate (%)	Difference
A) Domestic company			
Regular tax:			
Companies having turnover <= INR 2,500 million in FY 2016-17			
<ul style="list-style-type: none"> • Companies having turnover <= INR 500 million in FY 2015-16 • Other companies 	25 30	25 25	No change -5%
Manufacturing companies set up and registered after 1 March 2016 (optional) (Refer note 1)	25	25	No change
Other companies	30	30	No change
DDT on deemed dividend by way of loan or advance paid by closely held company (Refer note 2)	NA	30	30%
DDT on other dividend (Refer note 2)	15%	15%	No change
B) Foreign company			
Regular tax	40	40	No change
C) MAT (Refer note 3)			
Regular	18.5	18.5	No change
IFSC	9	9	No change

Notes:

1. In case of manufacturing companies set up and registered after 1 March 2016, 25% tax rate shall not apply to incomes chargeable to tax at special rates.
2. DDT does not apply on (a) distribution of income by the SPVs to REITs or Business trusts registered with SEBI and (b) the companies being units located in IFSC in a SEZ.
3. No MAT on foreign companies having no PE in India or having no registration requirement under any other law in India. Further, through a clarificatory retrospective amendment applicable from FY 2000-2001, MAT shall also not apply to foreign companies whose total income comprises solely of profits and gains from business or profession which are subject to presumptive basis of taxation under normal computation (shipping, aircraft, oil and gas, civil construction and turnkey power projects).
4. Unless specified otherwise, the above rates are exclusive of applicable surcharge and cess.
5. There is no change in the rate of surcharge. However, education cess at the rate of 3% will now be replaced by health and education cess to be levied at the rate of 4%.

6. The applicable surcharge and education cess rates shall be as under:

Total income	Surcharge		Cess ¹
	Domestic company	Foreign company	
Less than INR 10 million	Nil	Nil	4%
INR 10 million to INR 100 million	7%	2%	4%
More than INR 100 million	12%	5%	4%

Proposals impacting the computation of total income

- ▶ Clarification on applicability of special tax rate to newly-set-up manufacturing companies
 - ▶ At present, newly set-up domestic companies engaged in the business of manufacturing or production of article or thing and research or distribution in relation thereof have an option of availing a concessional tax rate of 25% without claiming specified incentives or deductions (except in the case of capital gains which are taxable at the applicable rate).
 - ▶ The amendment now clarifies that where such domestic company earns any income which is taxable at a special rate (which may be lower or higher than 25%), such special rate of tax shall apply and not the concessional rate of 25%. This amendment is applicable with retrospective effect from the FY 2016-17.
- ▶ Taxability of compensation on termination or modification of business or employment contract
 - ▶ Any compensation, whether revenue or capital received in connection with termination or modification of terms and condition of any business contract or employment contract shall now be taxable as business income or other source income respectively.
- ▶ Incentive for employment generation
 - ▶ Section 80JJAA of the Act provides for a 30% deduction (for 3 years) of emoluments paid to new employees employed for a minimum of 240 days. While this period was already relaxed to 150 days for apparel manufacturers, it is proposed to extend similar relaxations for companies engaged in the manufacture of leather and footwear as well.
 - ▶ Further, where the minimum period of employment is not met in the first year, the deduction under this section shall be allowed where the criteria is met in the immediately succeeding year.
- ▶ Presumptive taxation for carriage vehicles
 - ▶ The presumptive income in case of heavy goods carriage vehicles, i.e. having more than 12MT gross vehicle weight, will now be computed at the rate of INR 1,000 per ton of gross vehicle weight/unladen weight per month or part of a month as compared to the present INR 7,500 per month per vehicle.
- ▶ Tax concessions for companies undergoing Insolvency Resolution Process
 - ▶ While computing the book profits for MAT liability in case of companies undergoing IRP, total amount of loss brought forward including unabsorbed depreciation will be allowed to be reduced, instead of the lower of the two amounts as applicable to other companies.
 - ▶ Presently, the restriction of carrying forward and setting-off of losses applicable to closely held companies in a case where there is change in shareholding of more than 51% of the voting power. This restriction will now not apply to companies undergoing the IRP if the resolution plan is approved after affording a reasonable opportunity of being heard to the jurisdictional Tax Authority.

¹ The education cess rate is proposed to be increased from 3% to 4%

- ▶ Instead of Managing Director or Director, the insolvency professional who is appointed by Adjudicating Authority will verify ROI filed on or after 1 April 2018 by companies undergoing IRP.
- ▶ DDT applicable on loans and advances qualifying as deemed dividend
 - ▶ Loans and advances granted by companies which qualify as deemed dividend will be subject to DDT in the hands of the company (instead of the shareholder/concern) at the rate of 30% (without grossing up).
- ▶ Income distribution tax levy extended to equity oriented mutual funds
 - ▶ Consequent to introduction of 10% tax on LTCG (exceeding INR 100,000) on listed equity shares and equity oriented mutual funds and in order to provide level playing field between growth oriented funds and dividend paying funds, IDT levy has been extended to income distribution by equity oriented mutual funds which were hitherto not liable to IDT.
- ▶ Scope of accumulated profits for deemed dividend expanded in case of amalgamated company
 - ▶ With a view to prevent abusive arrangements whereby companies with large accumulated profits adopt amalgamation route to circumvent DDT levy on capital reduction, the scope of 'accumulated profits' for the purposes of DDT levy in case of an amalgamated company will be increased by the accumulated profits of the amalgamating company as on the date of the amalgamation.
 - ▶ This amendment is applicable with effect from FY 2017-18.
- ▶ Transfer of capital asset between wholly owned subsidiary and its holding company without or for inadequate consideration
 - ▶ Any transfer of a capital asset without or for inadequate consideration by a holding company to its wholly owned Indian subsidiary as well as by a wholly owned subsidiary to its Indian holding company, will not be taxable in the hands of the recipient. This amendment will apply for all transfers which are made on or after 1 April 2018.
- ▶ Capital gains on conversion of stock-in-trade into capital asset
 - ▶ Gains arising from conversion of stock-in-trade into capital asset will be taxable as business income in the year of conversion. Business income to be computed with reference to FMV of the stock-in-trade as on the date of conversion and consequently FMV to be regarded as cost of acquisition of the converted capital asset. Period of holding of such capital asset will be reckoned from the date of conversion.
 - ▶ FMV will be determined in the manner to be prescribed.
- ▶ Exemption on LTCG available on investment in specific bonds is restricted to gains arising on transfer of land or building
 - ▶ Presently, there is an exemption for LTCG arising from the transfer of any capital asset where such gains are reinvested in bonds issued by specified entities within a period of six months after the date of such transfer. This exemption shall be now restricted to LTCG arising from land or building or both. Further, the bonds issued on or after 1 April 2018 shall be required to be held for a period of five years instead of the currently applicable three years.
- ▶ Deduction in respect of profits and gains derived by Farm Producer Companies
 - ▶ 100% income-tax deduction for 5 years (effective FY 2018-19) has been introduced for Farm Producer Companies with turnover up to INR 1,000 million, where they are engaged in the purchase, supply, marketing and processing of agricultural produce from their members.
 - ▶ The deduction can be availed for a period of six years applicable from the FY 2018-19.

- ▶ Deduction, allowance, set off loss against undisclosed income
 - ▶ No deduction for any expenditure or allowance or set off of any loss will be permitted against undisclosed income (post demonetization) if it is determined by the tax authority during assessment proceedings.

- ▶ LTCG on transfer of equity shares or units of equity oriented funds or business trust
 - ▶ Exemption under section 10(38) of the Act on LTCG on transfer of listed equity shares or units of an equity oriented mutual fund or unit of business trust is proposed to be withdrawn.
 - ▶ LTCG arising from sale of equity shares of a company or a unit of an equity oriented fund or unit of business trust on or after 1 April 2018, in excess of INR 0.1 million will be taxable in the following cases:
 - ▶ In case of equity shares, where STT has been paid on acquisition and transfer of such equity share
 - ▶ In case of unit of an equity oriented fund or unit of a business trust, where STT has been paid on transfer of such unit
 - ▶ Tax will be levied at the rate of 10% without benefit of indexation or foreign currency fluctuation.
 - ▶ Rebate under section 87A of the Act shall be allowed from the income-tax on the total income as reduced by the tax payable on LTCG.
 - ▶ The tax shall be levied on long-term capital gains exceeding INR 100,000. However, with a view to grandfather gains notionally realised by investors' upto 31 January 2018, it has been provided that taxable gains will be determined using the higher of:
 - ▶ actual cost of acquisition; or
 - ▶ lower of sale price and FMV on 31 January 2018 (being the highest price quoted on the stock exchange in case of listed securities or net asset value in case of a unit which is unlisted).
 - ▶ LTCG on sale of shares or units before 31 March 2018 will continue to be exempt under existing Act provisions.
 - ▶ The Government is empowered to notify transactions on which payment of STT is not required and which will be eligible for 10% tax on LTCG.
 - ▶ Consequent to the proposal for withdrawal of exemption under section 10(38) of the Act, such LTCG exceeding INR 100,000 will become taxable in the hands of FPIs as well.

- ▶ Amendments to clarify ambiguities on the statutory legitimacy of the Income Computation and Disclosure Standards
 - ▶ As a delegated legislation, the Central Government had notified ICDS applicable from FY 2016-17, to taxpayers² following mercantile method of accounting for the computation of business income and income from other sources. Since, doubts were raised on the legitimacy of certain ICDS provisions in conflict with settled judicial precedents, following amendments are proposed with retrospective effect from the FY 2016-17:
 - ▶ Marked to market loss/ expected loss will be allowed as deduction only to the extent permissible under the ICDS.
 - ▶ Foreign exchange fluctuation gain or loss in respect of specified foreign currency transactions shall be computed as per ICDS (except exchange fluctuation gain or loss arising in case of imported assets).
 - ▶ Profit arising from construction contracts and service contracts shall be computed as per Percentage of Completion Method in accordance with ICDS.
 - ▶ Inventory valuation
 - ▶ Inventory shall be valued at lower of actual cost or NRV as computed under the ICDS and further adjusted to include the amount of any tax, duty, cess etc.
 - ▶ Inventory being unlisted securities, or listed but not quoted with regularity, shall be valued at actual cost initially recognised as per ICDS.
 - ▶ Other listed securities shall be valued at lower of actual cost or NRV as computed under the ICDS with comparison of actual cost and NRV of securities on a category-wise basis.

² Other than individual and Hindu Undivided Family taxpayers not liable to tax audit

- ▶ Export incentives or claims for price escalation shall be taxable in the year in which reasonable certainty of its realisation is achieved.
- ▶ Subsidy/ grants received from Government shall be taxed on receipt, if not offered to tax in any earlier tax year.
- ▶ The Explanatory Memorandum to the Finance Bill clarifies that retrospective amendments from FY 2016-17 are to regularize compliance and to prevent any inconvenience to large number of taxpayers who made compliance as per notified ICDS without reckoning judicial pronouncement which raised doubts on legitimacy of notified ICDS.
- ▶ Trading in agriculture commodity derivatives
 - ▶ Trading in agricultural commodity derivatives (not subject to CTT) on a registered stock exchange or registered association, to be treated as non-speculative transaction.
 - ▶ The definition of 'taxable commodities transaction' to be amended to include 'options in commodity futures'. This provision is effective retrospectively from FY 2017-18.
- ▶ Trading on IFSC
 - ▶ Capital gains earned by a non-resident from the transfer of any bond, GDR, rupee denominated bond of an Indian company or a derivative on a recognized stock exchange located in any IFSC and transacted in a foreign currency to be exempt from tax in India.
 - ▶ Non-payment of STT on transfer of securities listed on a recognized stock exchange in the IFSC will not disentitle a taxpayer from being taxable at the LTCG tax at the rate of 10%.
 - ▶ A lower alternate minimum tax at the rate of 9% to be applicable to a non-corporate unit located in an IFSC earning income solely in convertible foreign exchange.
- ▶ Exemption of income of foreign company from sale of left over stock of crude oil on termination of agreement or arrangement
 - ▶ Exemption is presently available for income from sale of left over stock of crude oil from strategic reserve facility in India on expiry of agreement/ arrangement. This will now be extended to such income even where the agreement/ arrangement is terminated in accordance with the terms mentioned therein.

Proposals impacting cross border transactions (transfer pricing/ international taxation)

- ▶ The following amendments have been proposed to clarify the Indian CbC reporting regulations in line with OECD model legislation, to improve the effectiveness and reduce the compliance burden of such reporting:
 - ▶ The Indian constituent entity (having a non-resident parent), will now be required to furnish CbC report in India if the parent entity has no obligation to file such report in the home jurisdiction.
 - ▶ The time limit allowed for furnishing the CbC report in India, in the case of (A) UPE resident in India or (B) an Indian constituent entity which is obligated to file CbC report in India, will now be 12 months from the end of reporting accounting year of the UPE.
 - ▶ Where the UPE is resident in India, the reporting accounting year would be the financial year starting from 1 April and ending on 31 March of the following year; and where the UPE is not a resident in India, the reporting accounting year would be the year for which UPE prepares its financial statements as per the laws of its jurisdiction.
 - ▶ Further, in case where ARE is appointed for filing CbC report by the UPE outside India, the due date for CbC report filing by the ARE of the multi-national enterprise group with the tax authority of the country or territory of which it is resident, is now proposed to be the due date as specified by that country.
 - ▶ The definition of the term 'agreement' under clause (b) of sub-section (9) of section 286 is now proposed to be amended to mean a combination of the following:
 - ▶ the agreement entered into under sub-section (1) of section 90 or sub-section (1) of section 90A of the Act; and

- ▶ the agreement notified by the Central Government specifically for the exchange of CbC report.

The aforesaid amendments, being clarificatory in nature, will take effect retrospectively from FY 2016-17.

- ▶ Scope of dependent agents constituting 'business connection' has been widened to align it with recommendations of Action Plan 7 of the BEPS project and also with India's DTAA's as they would be modified pursuant to the signing of the MLI.

The provisions now include, within the ambit of business connection, activities carried out through a person who habitually plays the principal role leading to conclusion of contracts by a non-resident. As per the amendments proposed, the contracts should be:

- ▶ In the name of the non-resident; or
 - ▶ 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
 - ▶ For the provision of services by that non-resident.
- ▶ Further, in light of emerging business models in the digital economy, where no physical presence is required in India, the scope of 'business connection' is increased to tax such business models that operate remotely through digital means. To achieve this objective, as per the proposed amendment, 'significant economic presence' would also constitute business connection. As per the Finance Bill, 'significant economic presence' means:
 - ▶ Any transaction in respect of any goods, services or property carried out by a non-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
 - ▶ 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.
 - ▶ Income earned by a non-resident by way of royalty and fee for technical services rendered to NTRCO would be exempt from tax in India. Accordingly, NTRCO would not be liable to deduct TDS on payments made to such non-residents.

Proposals impacting tax compliances/ administrative proposals

- ▶ Expansion of scope of persons required to obtain PAN
 - ▶ PAN will be required by every non-individual person (trusts, societies, firms, companies, etc.), which enters into a financial transaction of an amount exceeding INR 0.25 million in a FY.
 - ▶ In order to link the above financial transaction with natural person, scope is expanded to include the managing director, director, partner, trustee, author, karta, chief executive officer, principal officer, officer bearer or any other person competent to act on behalf of non-individual entity covered above.
- ▶ Requirement to file ROI within due date
 - ▶ The requirement to file ROI on or before the due date extended to all taxpayers claiming profit linked tax holiday deductions. For instance, it shall also apply to eligible start-ups, eligible housing projects, companies claiming a deduction for additional employee costs, co-operative societies, producer companies, etc.
- ▶ At the time of processing the ROI, there will be no adjustments made to the ROI filed by the taxpayer if there is discrepancy on the income details furnished by the employer in the withholding tax certificate or the tax credit statement of the taxpayer.
- ▶ In order to impart greater transparency, accountability and elimination of interface between the tax office and the taxpayer, an e-assessment scheme for tax audits has been proposed.

This change will be applicable for ROI filed for FY 2017-18 and onwards.

- ▶ With a view to ensure compliance of reporting obligations, the penalty levied on failure to furnish the statement of financial transaction or reportable account is proposed to be increased from INR 100 to INR 500 for each day of continuing default. Further, the penalty for failure to furnish the report pursuant to a notice issued by the income tax authority is proposed to be increased from INR 500 to INR 1,000, for each day of continuing default.
- ▶ Prosecution on failure to furnish returns in case of companies
 - ▶ Relaxation provided from prosecution on failure to furnish return if the tax payable is less than INR 3,000 (after reducing advance tax and TDS), shall not be applicable in case of companies with effect from 1 April 2018.
 - ▶ This is in order to prevent abuse of the above relaxation by shell companies or companies holding benami properties.
- ▶ Right of appeal against penalty on professionals
 - ▶ Professionals (i.e. accountant, merchant banker or registered valuer) who may be penalised by First Appellate Authority for furnishing any incorrect information in their reports/ certificates shall have right to appeal to the Tribunal with effect from 1 April 2018.

Indirect tax proposals

- ▶ The Central Board of Excise and Customs to be renamed as Central Board of Indirect Taxes and Customs.
- ▶ In lieu of education cess and secondary & higher education cess leviable on import of goods, the Social Welfare Surcharge to be levied with effect from 2 February 2018 at the rate of 10% of the Basic Custom Duty on import of all goods except the following goods where the said levy would be at the rate of 3%:
 - ▶ Petrol and High speed diesel
 - ▶ Gold and silver
- ▶ In lieu of Additional Duty of Excise (Road Cess), the Road and Infrastructure Cess to be levied with immediate effect on import and domestic manufacture of petrol and high speed diesel at the rate of INR 8 per litre.
- ▶ Effective rate of excise duty on petroleum remains unchanged.
- ▶ Provisions of Customs Act, 1962 will be applicable to any offence or contravention committed under Customs by a person even outside India.
- ▶ Limit of "Indian Customs Waters" has been extended from the contiguous zone of India to the Exclusive Economic Zone of India.
- ▶ Exemption from IGST paid on aircrafts, aircraft engines and other aircraft parts imported into India extended retroactively for the period from 1 July 2017 to 8 July 2017. In cases where tax has been deposited on such imports, refund to be availed within 6 months from the date of Presidential assent to the Finance Bill, 2018.
- ▶ Facility of electronic cash ledger has been introduced under Customs Act, 1962 to provide for advance deposit which would enable payment of duties, taxes, interest, penalty etc. through such ledger.
- ▶ Concept of provisional assessment for export consignments introduced under Customs.
- ▶ A definite timeframe provided for adjudication of demand notices.
- ▶ Concept of pre-notice consultation introduced in cases not involving suppression, misstatement etc.
- ▶ Definition of applicant for the purpose of advance ruling has been broad based.
- ▶ Audit allowed to be conducted at the premises of licensee of a warehouse or any other person concerned directly or indirectly in clearing, forwarding, stocking, carrying, selling or purchasing of imported goods or export goods or dutiable goods.
- ▶ Time limit to issue advance ruling reduced from 6 months to 3 months.
- ▶ The provisions have been inserted under the Customs Act, 1962 relating to audit of the assessment of imported or exported goods either in the department or the premises of the importer/ exporter (including person associated with clearing, forwarding, stocking or carrying such goods).
- ▶ Provisions have been introduced authorising the Central Government to enter a reciprocal arrangement for exchange of information, facilitation of trade, enforcing the provisions of Customs Act etc. with the Government of other countries.

- ▶ Valuation mechanism has been prescribed under Customs Tariff Act, 1975 to value the goods when sold within the warehousing period (bond to bond sales) for calculation of integrated tax and compensation cess.
- ▶ Transaction data under GST Network to be linked with the Trade Electronic Receivable Discounting System platform for prompt financing for MSMEs.
- ▶ Changes in rate of Basic Custom Duty on certain goods

Description	Rate movement (%)		Movement
	From	To	
Cellular mobile phones	15%	20%	5%
Specified parts, components and accessories of cellular mobile phones	10%	15%	5%
Silk Fabrics	10%	20%	10%
Footwear	10%	20%	10%
Specified parts of footwear	10%	15%	5%
Completely Knocked Down imports of certain motor vehicles	10%	15%	5%
Completely Build Unit imports of certain motor vehicles	20%	25%	5%
Specified parts and accessories of certain motor vehicles and motor cycles	10%	15%	5%
Certain medical devices	7.5%	10%	2.5%
Solar tempered glass for manufacture of solar cells/ panels/ modules	5%	Nil (subject to actual user condition)	-5%
Crude edible vegetable oils	12.5%	30%	17.5%
Refined edible vegetable oils	20%	35%	15%
Specified toiletries, skin care, hair care and cosmetic products	10%	20%	10%

Glossary

Act - Income-tax Act, 1961

AI - Artificial Intelligence

ARE - Alternate Reporting Entity

AIF - Alternative Investment Fund

BS - Bharat Stage

CTT - Commodities Transaction Tax

CbCR - Country -by- Country Report

DDT - Dividend Distribution Tax

FY – Financial Year
FRBM - Fiscal Responsibility and Budget Management
FMV - Fair Market Value
FPI – Foreign Portfolio Investors
FDI – Foreign Direct Investment
FPC – Farmer Producer Companies
GDP – Gross Domestic Product
GDR - Global Depository Receipt
GST – Goods and Services Tax
INR – Indian National Rupees
IMF – International Monetary Fund
IFSC - International Financial Service Centre
IRP - Insolvency Resolution Process
IDT - Income distribution tax
ICDS - Income Computation and Disclosure Standards
IGST - Integrated Goods and Service Tax
IIFCL - Infrastructure Finance Corporation Limited
LTCG - Long term capital gains
MSP - Minimum support price
MSME - Medium, Small and Micro Enterprises
MAT - Minimum Alternate Tax
MOF – Ministry of Finance
MSP – Minimum Selling Price
NRV - Net Realisable Value
NTRO - National Technical Research Organization
NPA – Non-Performing Assets
OECD – Organization of Economic Co-operation and Development
ODI – Offshore Derivatives Instrument
PE – Permanent establishment
PAN – Permanent Account Number
REITs – Real Estate Investment Trusts
ROI – Return of Income
RBI – Reserve Bank of India
R&D – Research and development
SEBI – Securities and Exchange Board of India

SPV – Special Purpose Vehicles

SEZ – Special Economic Zone

TDS – Taxes deducted at source

UPE - Ultimate Parent Entity



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