

Budget Highlights 2018-19

DIRECT TAX PROPOSALS

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1.

CHANGES IN INCOME TAX RATES

1- Changes in Income tax rates

i. Income Tax rates:

1) There are following changes in Slab rates of Income tax.

The changes in the **tax rate of Individuals** is as under: - **NO CHANGE**

a) Tax Rates

Type of Assessee	Slab Rate	Old rate	New Rate
Individual below 60 years of age/HUF	Up to 2,50,000	Nil	No Change
	2,50,000 – 5,00,000	5%	
	5,00,000 – 10,00,000	20%	
	Above 10,00,000	30%	
Senior Citizen (60 – 80 yrs)	Up to 3,00,000	Nil	No Change
	3,00,000 – 5,00,000	5%	
	5,00,000 – 10,00,000	20%	
	Above 10,00,000	30%	
Super Senior Citizen	Up to 5,00,000	Nil	No Change
	5,00,000 – 10,00,000	20%	
	Above 10,00,000	30%	

b) Rebate u/s 87A (only applicable to Resident Individuals) **(No Change)**

The amount of rebate is **Rs.2500/-** and available to only individual having **income below Rs.3,50,000/-** (after deduction under Ch-VIA).

c) Surcharge – **No Change**

Taxable Income range	Old rate	New Rate
Up to 50 lakhs	Nil	No Change
50 lakhs – 1 crore	10%	
Above 1 crore	15%	

Note: The surcharge is applicable as per taxable income range.

1- Changes in income tax rates

2) Changes in Tax rates in case of Domestic Companies

Assessee	FY 2017-18	FY 2018-19	Turnover Criteria
Domestic Company	25%	25%	Turnover Below 50 crores in Prev. year i.e. in 2015-16
Domestic Company	30%	25%	Turnover Above 50 crores but Below 250 crores in Prev. year i.e. in 2016-17
Domestic Company	30%	30%	Other Than above

Note: There is no change in rates of surcharge.

3) In case of Partnership Firms, there is no change in rate of tax or surcharge.

4) Education Cess(2%) and Higher Education Cess(1%) totaling to 3% is discontinued and New cess in name of Health & Education cess @ 4% is proposed. So there is increase of 1% in cess effectively from 01.04.2018.

5) Summary of Effective tax rate.

Assessee	Taxable income	Maximum Tax Rate FY 2017-18	Maximum Tax Rate FY 2018-19	Remarks
Individual/HUF	Up to 50 Lakhs	30.90%	31.20%	No SC
	50 lakhs to 1 cr	33.99%	34.32%	SC @ 10%
	Above 1cr	35.535%	35.88%	SC @ 15%
Partnership Firm	Less than 1Crore	30.90%	31.20%	No SC
	More than 1Crore	34.608%	34.944%	SC @ 12%
Domestic Company (Normal Tax)	Turnover below Rs.50 crores in FY 2015-16			
	Upto 1 Cr	25.75%	26%	-
	1 Cr to 10 Crs	27.55%	27.82%	SC @ 7%
	More than 10 Crs	28.84%	29.12%	SC @ 12%
	Turnover between Rs.50-250 crores in FY 2016-17			
	Upto 1 Cr	30.90%	26%	-
	1 Cr to 10 Crs	33.063%	27.82%	SC @ 7%
	More than 10 Crs	34.608%	29.12%	SC @ 12%
	Other than Above			
	Upto 1 Cr	30.90%	31.20%	-
	1 Cr to 10 Crs	33.063%	33.384%	SC @ 7%
	More than 10 Crs	34.608%	34.944%	SC @ 12%
MAT	1 Cr to 10 Crs	20.38885%	20.5868%	
	More than 10 Crs	21.3416%	21.5488%	

2.

CHANGES FOR SALARISED PERSONS

2 - CHANGES FOR SALARISED PERSONS

- i. **Section 16 & 17: Withdrawal of exemption of Transport allowance and Medical Reimbursement and insertion of Standard deduction from Salary Income (W.e.f: FY 2018-19) :**

Proposed Change:

It is proposed that exemption of **Transport allowance of Rs.19,200/-** and **Medical Reimbursement of Rs.15,000/-** shall be withdrawn, totaling to **Rs.34,200/-**.

However it is proposed to allow **standard deduction of Rs.40,000/-** from salary income.

Thus there will be a net benefit of **Rs.5,800/-**.

This amendment will give benefit to Pensioners of Rs.40,000/-.

3.

BUSINESS AND PROFESSION

3 - BUSINESS & PROFESSION

i. **Section 28 Insertion of clause to tax any capital receipt towards compensation on termination of business agreement. (W.e.f. FY 2018-19)**

Currently such compensation is not taxable being capital in nature.

It is proposed to tax the amount received as **capital receipt** towards compensation on termination of **business agreement** under Business & Profession.

ii. **Section 44AE- Presumptive Taxation of Goods Carriage - Limit on capacity of Goods Carriage (W.e.f.: FY 2018-19)**

It is proposed to change the calculation of Presumptive Income as under:

Gross Vehicle Weight	Old	New
Upto 12 MT	Rs.7500 per vehicle	Rs.7500 per vehicle
Above 12MT	Rs.7500 per vehicle	Rs.1000 per tonne per vehicle

iii. **Section 2(24) & 28: Conversion of Stock in trade to Capital asset (W.e.f: FY 2018-19)**

Current:

Conversion of stock in trade to capital asset is done **at cost** and hence there was no tax liability in such case.

Proposed:

It is proposed that the conversion of stock in trade to capital assets has to be done **at fair market value** as on date. The whole amount of stock will be treated as income and will be taxable as Business Income on date of conversion.

For Example, if you have shares of Rs.500 in stock in trade and you convert the same into Investment and its Fair Market Value as on date of conversion is say Rs.1000/- then Rs.1000 will be treated as if it is a sale and will be considered as Business Income.

3 - BUSINESS & PROFESSION

iv. ICDS related amendment (W.e.f.: FY 2016-17)

ICDS were introduced in FY 2016-17 but due to recent judgement of Delhi HC, ICDS has been said to be Ultra-vires to Income Tax Act and thus slashed down.

In order to bring certainty in the wake of recent judicial pronouncements on the issue of applicability of ICDS, it is proposed to amend following sections:

(i) amend section 36 of the Act to provide that marked to market loss or other expected loss as computed in the manner provided in income computation and disclosure standards notified under sub-section (2) of section 145, shall be allowed deduction.

(ii) amend 40A of the Act to provide that no deduction or allowance in respect of marked to market loss or other expected loss shall be allowed except as allowable under newly inserted clause (xviii) of sub-section(1) of section 36.

(iii) insert a new section 43AA in the Act to provide that, subject to the provisions of section 43A, any gain or loss arising on account of effects of changes in foreign exchange rates in respect of specified foreign currency transactions shall be treated as income or loss, which shall be computed in the manner provided in ICDS as notified under sub-section (2) of section 145.

(iv) insert a new section 43CB in the Act to provide that profits arising from a construction contract or a contract for providing services shall be determined on the basis of percentage of completion method except for certain service contracts, and that the contract revenue shall include retention money, and contract cost shall not be reduced by incidental interest, dividend and capital gains.

(v) amend section 145A of the Act to provide that, for the purpose of determining the income chargeable under the head “Profits and gains of business or profession,—

(a) the valuation of inventory shall be made at lower of actual cost or net realizable value computed in the manner provided in income computation and disclosure standards notified under (2) of section 145.

3 - BUSINESS & PROFESSION

(b) the valuation of purchase and sale of goods or services and of inventory shall be adjusted to include the amount of any tax, duty, cess or fee actually paid or incurred by the assessee to bring the goods or services to the place of its location and condition as on the date of valuation.

(c) inventory being securities not listed, or listed but not quoted, on a recognised stock exchange, shall be valued at actual cost initially recognised in the manner provided in income computation and disclosure standards notified under (2) of section 145.

(d) inventory being listed securities, shall be valued at lower of actual cost or net realisable value in the manner provided in income computation and disclosure standards notified under (2) of section 145 and for this purpose the comparison of actual cost and net realisable value shall be done category-wise.

(vi) insert a new section 145B in the Act to provide that

a. interest received by an assessee on compensation or on enhanced compensation, shall be deemed to be the income of the year in which it is received.

b. the claim for escalation of price in a contract or export incentives shall be deemed to be the income of the previous year in which reasonable certainty of its realisation is achieved.

c. income referred to in sub-clause (xviii) of clause (24) of section 2 shall be deemed to be the income of the previous year in which it is received, if not charged to income tax for any earlier previous year.

v. Section 43(5) – Agriculture Commodity derivative

It is proposed that the transactions of Agriculture Commodity Derivative on which CTT is not levied and transacted on specified commodity exchange, will not be treated as speculative transactions.

So to say it will be treated as **regular business transaction**.

3 - BUSINESS & PROFESSION

vi. Section 9(1)(i) – Business Connection

Currently a non-resident is said to have Permanent Establishment (P.E.) in India if there is a dependent agent in India who concludes the contract for Non-Resident.

Now it is proposed that even if there is a dependent agent in India who does not conclude the contract but plays an important role in conclusion, then it can be said that the Non-resident has P.E. in India.

Thus now for Form 15CA/CB, the no P.E. certificate has to include that the Non-Resident does not have any agent in India or the agent has not played any role in conclusion of contract.

Further Section 9(1)(i) is proposed to be amended to include the business connection through information technology. Thus, from now **any download of data or software or engaging with users in India, as may be prescribed**, will be considered as business connection for Non-Resident and will be taxable in India.

vii. Insolvency and Bankruptcy Code 2016 related amendments (w.e.f. 2017-18)

In order to facilitate the smooth working of Insolvency and Bankruptcy code the following sections are proposed to be amended:

- 1) **Section 79** : It is proposed that the carried forward of losses will be allowed to the company even if the beneficial owners holding of 51% of shares changes.
- 2) **Section 115JB** : It is proposed to provide aggregate amount of unabsorbed depreciation **AND** loss brought forward as reduction from book profit if the company has applied for Insolvency process and its application is admitted by the adjudicating authorities.

4.

CAPITAL GAINS

4 - CAPITAL GAINS

- i. **Section 10(38) & 112A Withdrawal of Exemption on long term capital gains arising from sale of listed equity shares, Equity oriented Mutual Fund or Unit of business trust (W.e.f: 01-04-2018) :**

Present:

Whole amount of capital gain is exempt if STT is levied on sale of shares, subject to certain conditions.

Proposed:

It is proposed that capital gain will be taxable **@ 10% without benefit of indexation**, if following conditions are fulfilled:

- 1) Shares are sold after 31.03.2018 i.e. for FY 2018-19
- 2) STT is paid on purchase and sales transactions subject to certain exceptions on purchase
- 3) Total such Long term Capital gains is more than Rs.1 lac
- 4) Benefit of Chapter-VIA deduction and rebate u/s 87A will **NOT** be available.
- 5) Benefit of **basic exemption limit will be available**.
- 6) Fair Market value of shares which are listed after 01.04.2018 will be the value as on 31.01.2018 as per rule 11U & UA.

Question is what will happen in case of long term capital gains arising out of shares/units acquired before 01.02.2018?

Example:

Sr. No.	Particulars	Date	Example-1		Example-2	
1	Purchase Price	15.04.2016	100		100	
2	High rate	31.01.2018	120		80	
3	Sale price	30.04.2018	200		200	
4	Cost of Acquisition for capital gain					
	Higher of	i) Purchase Cost	100		100	
		ii) Lower of				
		a) Rate on 31.01.2018	120	120	80	80
		b) Sale Price on 30.04.2018	200		200	
	So the Purchase cost will be higher of i & ii			120		100
5	Capital Gain (3 – 4)		80 (200-120)		100 (200-100)	

4 - CAPITAL GAINS

ii. Section 43CA, 50C & 56- Difference in Valuation of Immovable Property (W.e.f.: FY 2018-19)

At Present

For taxation on sale of immovable property, full value of consideration will be sale consideration or stamp duty value whichever is higher and if there is any difference, it will be taxable in the hands of both buyer and seller.

Proposed

It is proposed that if such difference between sale consideration and stamp duty value is up to 5 per cent, then there will not be any addition.

This 5 per cent variation is allowed on amount of sale consideration and not on Jantri value. If the variation is more than 5 per cent then the whole amount of variation is added as taxable income.

iii. Section 54EC- Exemption on investment in Capital Gain Bond – Change in assets and holding period. (W.e.f.: FY 2018-19)

Particulars	Old	New
Long-term Gain on Capital assets covered	Any capital asset	Only Land and Building or both
Bond acquired on	Between 01.04.2007 to 31.03.2018	After 31.03.2018
Investment Lock-in period	3 years	5 years

iv. Section 2(24) & 28: Conversion of Stock in trade to Capital asset (W.e.f: FY 2018-19)

For calculation of capital gain, period of holding of stock converted into capital assets shall be the date of such conversion and Fair Market Value of stock on date of conversion will be considered as cost.

5.

INCOME FROM OTHER SOURCES

5 - Income from Other Sources

i. **Deemed dividend for companies under Amalgamation Scheme (Section 2(22)) (W.e.f: FY 2018-19) :**

Current:

There is no provision to tax amount of reserves standing in amalgamating company while in process of amalgamation.

Proposed:

It is proposed that if companies are under **Amalgamation Scheme** then the reserves of Amalgamating Company shall form part of reserves of Amalgamated Company. Thus any withdrawal from reserves of Amalgamating Company will be treated as **taxable Dividend in the hands of Share Holder**.

ii. **Section 56 Insertion of clause to tax any capital receipt towards compensation on termination of employment agreement. (W.e.f. FY 2018-19)**

Currently such compensation is not taxable being capital in nature.

It is proposed to tax the amount received as **capital receipt** towards compensation on termination of **employment agreement** under Other Sources

6.

DEDUCTION UNDER CHAPTER-VIA

6 – Deductions under Chapter-VIA

i. Section 80D- Deduction of Medical Insurance premium (w.e.f. FY 2018-19)

Particulars	Old	New
Limit of Deduction		
Sr. Citizen & Very Sr. Citizen	30,000	50,000
Others	30,000	No Change

Medical treatment expense incurred by Sr. Citizen is also allowed as deduction besides premium paid.

Also Where premium is paid for more than 1 years than the amount can be claimed in subsequent years on proportionate basis as per policy period.

E.g. If premium is paid of Rs.75000/- for 3 year policy then you can claim deduction of Rs.25000/- in each year.

ii. Section 80DDB- Deduction of medical expense in case of severe diseases (w.e.f.: FY 2018-19)

It is proposed that limit of Rs.60,000/- shall be increased to Rs.1,00,000/- for all persons including Sr. Citizen and Very Sr. Citizen.

iii. Section 80TTB- Deduction of interest income on deposits in case of Sr. Citizen (w.e.f.: FY 2018-19)

It is proposed that a deduction will be granted to Sr. Citizen from Income on interest from deposits (including savings account) with banks or post office of Rs.50,000/- or amount of interest received whichever is lower.

Deduction u/s 80TTA shall not be available to Sr. Citizen.

No TDS will be deducted by bank on such incomes below Rs.50,000/- u/s 194A.

7.

OTHER IMPORTANT CHANGES

7 – Other Important Changes

i. Section 10(23C) & 11 – Disallowance of funds applied for charitable purpose (w.e.f. FY 2018-19)

Currently there are no restriction on payment made in cash by charitable or religious trust and also no checks whether TDS has been deducted or not.

It is proposed that the provisions of **Section 40(a)(ia) (TDS deduction) and 40A(3) (Cash payment)** shall also apply to trusts. This means that in case of cash payment above limit or failure to deduct TDS the amount of expense will be **disallowed and not treated as applied for charitable purpose and thus will become taxable.**

ii. Section 115O- Dividend Distribution Tax (W.e.f.: FY 2018-19)

Currently there is no dividend distribution tax on deemed dividend u/s 2(22)(e) but the same is taxable in hands of recipient at applicable rates. Also there is a requirement of deduction of TDS on such dividends.

It is proposed that dividend distribution tax @ 30% will be levied on deemed dividend u/s 2(22)(e) in the hands of company and there will not be any tax in the hands of recipients.

iii. Section 139A – Permanent Account Number (PAN) (w.e.f.: FY 2018-19)

It is proposed that non-Individual entities, entering into financial transaction of Rs.250000/- or more in a financial year has to hold PAN compulsorily.

Even the directors, partners, trustee, karta, CEO, etc of such entities has to hold PAN compulsorily.

So now NRI directors or partners or trustees are required to hold PAN compulsorily.

7 – Other Important Changes

iv. Section 271FA- Penalty for failure to furnish statement of financial transactions (AIR) (W.e.f. : FY 2018-19)

It is proposed that penalty will be increased to Rs.500/- per day from Rs.100/- per day for the duration during which failure continues.

And in case if such return is required to be filed against notice then penalty is increased to Rs.1000/- per day from Rs.500/- per day.

v. Section 276CC- Prosecution for failure to furnish return of income (W.e.f. : FY 2018-19)

Section 276CC of the Act provides that if a person fails to furnish in due time the return of income which he is required to furnish and tax payable by him is more than Rs.3000/-, he shall be punishable with imprisonment for a term, as specified therein, with fine.

It is proposed that the limit of Rs.3000/- tax payable shall not apply to companies. This means in case of companies even if no tax payable, then also it is required to file return of income within prescribed time.

vi. There are no change TDS provisions except increase in limit of TDS on interest paid to Sr. Citizen u/s 194A by banks or post office.