Income Tax

Individual Taxation

Individuals/HUFs

There is no change in the tax slabs and tax rates for individuals/HUFs. The levy of surcharge continues. It is proposed to substitute education, secondary and higher education cess currently levied @ 3% with a 4% health and education cess from Financial Year 2018-19 onwards.

Income slabs (in INR)	**Rate of Tax (%)**
Up to 250,000	NIL
250,000 to 500,000	5
500,000 to 1,000,000	20
Above 1,000,000	30

Notes

- For resident senior citizens (60 years and above but less than 80 years) and very senior citizens (80 years or more), the basic exemption limit remains unchanged at INR 300,000 and INR 500,000 respectively.
- Surcharge levy continues at 10% for individuals / HUFs having taxable income above INR 5,000,000 but not exceeding INR10,000,000
- Surcharge will continue to be levied at 15% for individuals/HUFs having total Income above INR 10,000,000.
- Health and education cess is proposed @ 4% on income tax (including surcharge if any)
- The maximum marginal rate increases by 0.345% i.e. from 35.535% to 35.88% where taxable income is above INR 10,000,000.
- These rates also apply to association of persons and body of individuals Individuals/HUFs
- There is no change in the tax slabs and tax rates for individuals/HUFs. The levy of surcharge continues. It is proposed to substitute education, secondary and higher education cess currently levied @ 3% with a 4% health and education cess from Financial Year 2018-19 onwards.

Extending the benefit of tax-free withdrawal from NPS to non-employee subscribers [Section 10(12A)]

- Currently, an employee contributing to the NPS is allowed an exemption in respect of 40% of the total amount payable to him on closure of his account or on his opting out. This exemption was not available to non-employee subscribers.
- It is now proposed to extend the said benefit to all NPS subscribers.
- The proposed amendment is applicable from Assessment Year 2019-20.

Exemption from taxation of long term capital gains invested in specified bonds [Section 54EC]

- Currently, exemption from capital gain tax is available if the assessee invests the gains within 6 months of transfer of capital asset in specified bonds redeemable after 3 years.
- It is proposed to allow benefit when the redeemable period of specified bonds is 5 years. Further it is also proposed to restrict the above benefit only to capital gains arising from the transfer of land or building or both.

Deduction in respect of interest earned by senior citizen [Section 80TTA, 80TTB, 194A]

- Currently, a deduction up to INR10,000 is allowed to all individuals in respect of interest income from deposit accounts(not being time deposits) held with any bank, co-operative society and post office.
- It is proposed to allow a deduction up to INR50,000 in respect of interest income from deposits held with banks, co-operative society and post office by senior citizens. No separate deduction will be available under section 80TTA for interest income from savings account for senior citizens.
- The proposed amendment is applicable from Assessment Year 2019-20.
- Consequently, it is also proposed to raise the threshold for deduction of tax at source on interest income for senior citizens from INR10,000 to INR50,000.
- This is proposed to be applicable from 1 April, 2018.

Re-introduction of standard deduction and withdrawal of exemption for transport allowance and reimbursement of medical expenses [Section 16 and 17]

- Currently there is no standard deduction available for salaried employees. However, exemption is respect of transport allowance (INR 19,200 per annum) and reimbursement of medical expenses (INR15,000 per annum) is available.
- It is now proposed to provide standard deduction of INR 40,000 or the amount of salary, whichever is lower. However, the present exemption in respect of transport

allowance (except in case of differently abled persons) and reimbursement of medical expenses is proposed to be withdrawn.

Enhanced deduction with respect to medical treatment of senior citizens and very senior citizens for specified diseases [Section 80DDB]

- Under the existing provisions, deduction is available to resident individuals and Hindu Undivided Family (HUF) for any amount incurred for the medical treatment of specified diseases (i.e. specific neurological diseases, malignant cancers, AIDS, etc). The deduction is limited to INR 60,000 for expenses relating to senior citizens and INR 80,000 with respect to very senior citizens.
- It is now proposed, to enhance the above deduction limit to INR 100,000 uniformly for both categories.

Enhanced deduction for health insurance and medical expenditure related to senior citizens [Section 80D]

- Under the existing provisions, a maximum deduction of INR 30,000 is allowed to an individual or Hindu undivided family for payment towards health insurance premium including INR 5,000 towards preventive health check-up for resident senior citizens. Alternatively a deduction of INR 30,000 is allowed for payment towards medical expenses relating to very senior citizens where there is no insurance.
- It is now proposed to enhance the maximum deduction in respect of the above to INR 50,000. The deduction for medical expenditure is now extended to expenses relating to senior citizens.
- It is also proposed that in case of a single premium health insurance policy, which has an insurance cover for more than one year, deduction for premium payment shall be allowed on a proportionate basis for the number of years for which the insurance cover is provided.

Compensation on termination or modification of employment [Section 2(24)(xviib), Section 56(2)(xi)]

- Currently, certain compensation in connection with employment is out of the purview of taxation leading to base erosion and revenue loss.
- It is proposed that any compensation or other payments due to or received by any person in connection with the termination or the modification of the terms and conditions of any contract relating to his employment shall be taxable under the head ‘income from other sources’.

Corporate Tax Rates:

Type of Companies	Income upto INR 10 Million		Above INR 10 Million upto 100 Million		Above INR 100 Million	
	Surcharge	ETR %	Surcharge	ETR %	Surcharge	ETR %
Domestic with turnover (or gross receipts) not exceeding INR 2,500 million in the FY 2016-17	Nil Nil	26.00 (30.90)	7 7	27.82 (33.06)	12 12	29.12 (34.61)
New Domestic Manufacturing *	Nil Nil	26.00 (25.75)	7 7	27.82 (27.55)	12 12	29.12 (28.84)
Other Domestic Companies	Nil Nil	31.20 (30.90)	7 7	33.38 (33.06)	12 12	34.94 (34.61)
Foreign Companies	Nil Nil	41.60 (41.20)	2 2	42.43 (42.02)	5 5	43.68 (43.26)

*Compliant with prescribed conditions under section 115BA

Note:

Health and education cess of 4% has been considered for determining the tax rates above.

For existing tax rates: Education cess and Secondary and higher education cess of 3% has been considered. Figures in bracket represent existing tax rates .

Agriculture Related :

Introduction of deduction in respect of certain income of Producer Companies [Section 80PA]

It is proposed to provide 100% deduction of profits and gains derived from eligible business to Producer Companies having a total turnover upto INR 1,000 million.

"Eligible business" is proposed to mean:-

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

The proposed deduction shall be allowed from the gross total income as reduced by deductions under other provisions of Chapter VIA.

Other :

Taxation of compensation in connection to business [Section 28(ii)]

As per the existing provisions, certain types of compensation receipts are taxable as business income.

It is now proposed to tax any compensation or other payment due to or received by any person, in connection with the termination or the modification of the terms and conditions of any contract relating to its business as business income.

Certain relaxations and rationalization:

Tax on transfer of immovable property [Section 43CA, Section 50C and Section 56(2)(x)]

- Currently, while taxing income from capital gains (section 50C), business profits (section 43CA) and other sources (section 56) arising out of transactions in immovable property, the sale consideration or stamp duty value, whichever is higher is adopted. The difference is taxed as income both in the hands of the purchaser and the seller.
- In order to minimize hardship in case of genuine transactions in the real estate sector, it is proposed to provide that no adjustments shall be made in a case where the variation between stamp duty value and the sale consideration is not more than five percent of the sale consideration. These amendments are proposed

Rationalisation of tax incentive scheme for employment generation [Section 80JJAA]

- Currently, a deduction of 30% is allowed for three years in addition to normal deduction of 100% in respect of emoluments paid to eligible new employees who have been employed for a minimum period of 240 days during the year.
- The minimum period of employment was relaxed to 150 days in the case of apparel industry. It is now proposed to extend this relaxation to footwear and leather industry.
- It is further proposed to rationalize this deduction of 30% by allowing the benefit for a new employee who is employed for less than the minimum period of 240 days or 150 days, as the case may be, during the first year but continues to remain employed for the said minimum period in subsequent year.

Rationalisation of provisions relating to certain domestic companies [Section 115BA]

Currently, section 115BA provides concessional tax rate of 25% (for income other than certain types of capital gains) to a newly set up domestic company engaged in business of manufacturing, production, research or distribution referred to therein, subject to fulfillment of certain conditions.

- There are certain incomes which are subject to a scheduler tax at a rate which is lower or higher than 25%.
- It is proposed to amend section 115BA so as to clarify that certain income which are at present taxed at scheduled rate will continue to be so taxed.
- This amendment is proposed with retrospective effect from the assessment year 2017- 18

Capital Gains :

Tax on Long Term Capital Gains [Section 112A]

- Under the existing provisions, long term capital gains arising from transfer of equity shares of a listed company, an unit of equity oriented fund or a business trust is exempt from Income Tax under Section 10(38) subject to satisfaction of certain conditions i.e. payment of STT at the time of sale and acquisition except few acquisitions covered by notification.
- It is now proposed to withdraw such exemption and introduce a new Section 112A to provide that long term capital gains (in excess of INR 0.1 million) arising on transfer of equity shares of a listed company, an unit of equity oriented fund or an unit of a business trust shall be taxed at 10% (without indexation). This is applicable for all taxpayers including FII.

Concessional rate of 10% shall be applicable to such long term capital gains if:

- In case of equity shares –where STT has been paid at the time of acquisition and transfer; and
- In case of a unit of equity oriented fund and business trust -STT has been paid at the time of transfer (Requirement of payment of STT not applicable if transfer is

undertaken on recognized stock exchange located in IFSC and consideration of such transfer is received in foreign currency).

- Central government to notify nature of acquisition to which the condition of STT being paid at the time of acquisition does not apply.
- Further, it is provided that cost of acquisition in respect of long term capital asset being equity share of a company, unit of a equity oriented fund or business trust acquired by assessee prior to 1st February 2018, shall be higher of the following ;

Actual cost of acquisition and

Lower of

Fair market value : and

Full value of consideration received or accruing as a result of transfer.

Circumstances	Fair market value
In case where the capital asset is listed on recognized Stock exchange	Highest price of capital asset quoted on such Exchange on 31st Jan 2018
In case there is no trading in such asset on such exchange on 31 January 2018	Highest price of such asset on such exchange on a date immediately preceding 31 January 2018 when such asset was traded
In case where a unit is not listed on recognized stock exchange	Net asset value of such asset as on 31st January 2018

•Benefit of deduction under Chapter VIA shall be allowed from gross total income as reduced by such capital gains. Similarly, rebate under Section 87A shall be allowed from income tax as reduced by such 10% capital gains tax.

•This amendment will take effect from 01 April 2019 and will accordingly apply in relation to assessment year 2019-20 and subsequent assessment years.

Procedural Changes :

Rationalization of prima-facie adjustments during processing of return of income [Section 143]

- Currently, while processing of income tax return, prima-facie addition is to be made for the income appearing in Form 26AS or Form 16A or Form 16 which has not been included in the total income.
- With a view to restrict the scope of adjustments, it is proposed to delete this adjustment.
- The above amendment will apply from assessment year 2018-19.

New scheme for scrutiny assessment [Section 143]

- New scheme is proposed to be introduce to eliminate the interface between the Income tax department and the tax payer.
- The Central Government may direct that any provisions of the Act relating to assessment shall not or shall apply with such exceptions, modifications and adaptations as may be specified.
- It is also proposed that every notification issued in respect of the aforesaid scheme shall be laid down before each house of the Parliament as soon as may be.
- The above provision will take effect from 1 April 2018.

Application for Permanent Account Number in certain cases [Section 139A]

- It is proposed that every person not being an individual, which enters into a financial transaction of an amount aggregating INR 250,000 or more in a financial year shall be required to apply for Permanent Account Number.
- It is further proposed that the managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer or any person competent to act on behalf of such entities shall also apply for Permanent Account Number.
- The above amendment will apply from 1 April 2018.

Deductions in respect of certain incomes not to be allowed unless return is filed by the due date [Section 80AC]

- Currently no deduction is admissible under specified provisions unless the return of income is furnished on or before the due date for filing the return of income.
- It is now proposed that any deduction under the heading “C.—Deductions in respect of certain incomes” in Chapter VIA shall be available only if the return of income is filed by the due date.
- The proposed amendment is applicable from assessment year 2018-19

Miscellanous :

Rationalisation of prosecution provisions for failure to furnish return [276CC]

Currently prosecution provisions for failure to furnish return of income do not apply to a person where the tax payable by him on the total income determined on regular assessment as reduced by the advance tax and TDS, does not exceed INR 3,000.

In order to prevent abuse of this provision by shell companies or by companies holding Benami properties, it is proposed that the above threshold for prosecution shall not apply in respect of a company.

The proposed amendment is applicable from 1 April 2018.

Customs Duty:

Import Duty

Rate Changes (effective from 2 February 2018)

- Peak rate of BCD maintained at 10%.
- Education cess and secondary and higher education cess levied at 2% and 1% respectively have been abolished.
- Social Welfare Surcharge (SWS) @10% to be levied on import of goods, except notified items, on aggregate customs duties excluding IGST and Compensation cess.