



# Union Budget 2018-19

Vikram Naik

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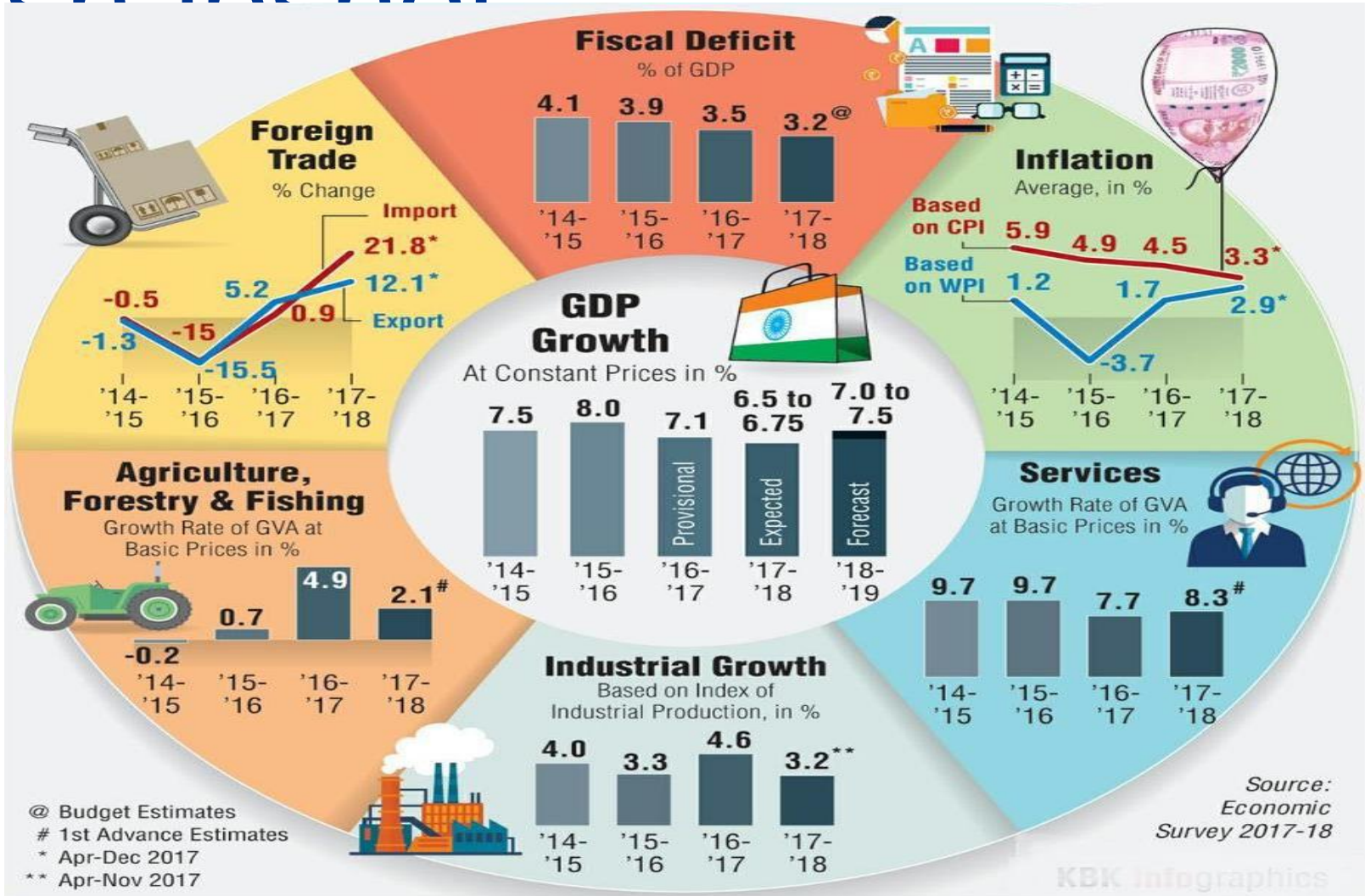




# Macroeconomic Overview



# Indian economy: A snapshot



# Highlights of the Economic Survey

Demonetisation and GST have supported in **increasing the tax base**

**Job creation** will remain a pressing medium-term challenge

**Exports & investment** need to pick up

**Tax litigation** could be cut significantly

**Fiscal deficit** might be wider than 3.2 percent

**Climate change** impact and need to focus on agriculture and irrigation



# Legal / regulatory reforms in recent years

Companies Act  
(Amended) 2015

Land acquisition  
law & RERA

Labour law  
changes



Environment  
protection

Goods & Service  
Tax (GST)

Insolvency  
Bankruptcy Code

# Big picture reforms

Abolition of FIPB	Further liberalization of FDI	Bill to curtail menace of illicit deposit schemes	Time bound listing of identified CPSEs (IRCTC, IRFC, IRCON)
Creation of integrated public sector oil major	New ETF with diversified CPSE stock	Recapitalisation of public sector banks	Launch of Adhar pay
Amendment of drugs and cosmetics rules	New Metro Rail Act	Airport in Tier II cities under PPP mode	Digigaon initiative
	Second phase of Solar Park Development (20,000 MW)	Promotion of Swatch Bharat initiative	

# Global events

## Harmful tax practices

- Release of 'Paradise Papers' naming major global corporations, politicians, celebrities and High Net worth Individuals (HNIs)
- The European Commission's investigation into loopholes in the U.K.'s Controlled Foreign Company (CFC) rules and Netherland's Ikea ruling
- The European Commission's ruling on Amazon

## Action by governments

- Tax Information Exchange Agreements
- Base Erosion Profit Sharing (BEPS)
- Multi-Lateral Instruments (MLIs)

## OECD updates

- Final Country-by-Country reporting guidelines
- 2017 update to Model Tax Convention

## U.S. tax reforms

- Reduction in corporate tax rate from 35% to 21%
- Introduction of Base Erosion Avoidance Tax (BEAT)

# Key thrust areas/ policy initiatives

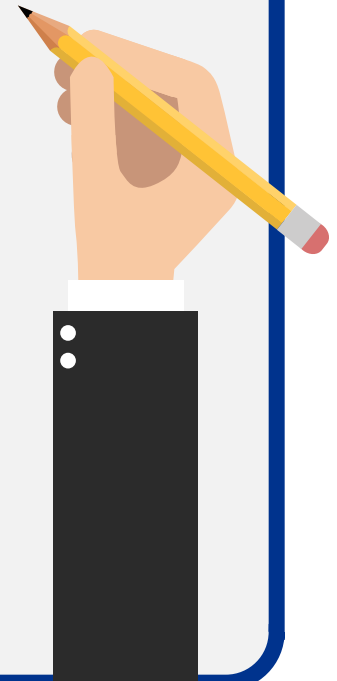
- Increased rural outlays (MSP)
- Increase in outlays for social-economic initiatives
- Focus on MSMEs
- Increased outlays for financial sector
- Monetising CPSEs using InvITS
- SEBI mandating corporates to meet 1/4th financing needs from bond market
- Reform measures to revamp stamp duty regime
- Impetus to IFSC
- Strategic divestment of 24 CPSEs (including Air India)
- Bank recapitalisation and Disinvestment
- Comprehensive Gold policy
- Policy hybrid instruments for start-ups and venture capitals
- Fiscal deficit slippage to 3.5%, budget of 3.3%





# Budget 2018-19

- Increased outlays for socio-economic spending, rural, infrastructure sectors
- Reduction in corporate tax rates
- Standard deduction relief
- Calibrated introduction of long term capital gains tax
- No surprise element (inheritance tax, CFC etc.)
- Fiscal slippage as anticipated but within controllable limits
- Budget along expected lines – growth v fiscal prudence





# Key Direct Tax proposals



# Capital Gains Tax and Dividend Distribution Tax

- Long-Term Capital Gains Tax levied at 10 per cent - All taxpayers (incl. FIIs) on gains exceeding 1 lakh provided Securities Transaction Tax (STT) is paid
  - Equity shares of a listed company
  - Units of an equity oriented mutual fund
  - Units of a business Trust
- Capital Gains upto Fair Value of consideration - Grandfathered until 31 January 2018 – No indexation
- Tax treaties vs. Capital Gains tax regime
- STT and Capital Gains Tax - Double whammy
- 10 per cent DDT on income distribution by equity oriented mutual fund



# Personal taxation

- No change in income-tax slabs or tax rates or surcharge
- Education Cess of 3 per cent substituted with Health and Education Cess of 4 per cent - Top tax rate 35.88 per cent from 35.535 per cent
- Standard deduction of INR40,000 introduced - deductions of transport allowance and reimbursement of medical expenses withdrawn - net reduction in taxable income of INR 5,800 per annum – tax savings ranging from INR302 to INR2,081
- Incentives for senior citizens -
  - Deduction for specified interest income increased to INR50,000 from INR10,000. Fixed and recurring deposits also eligible - No Tax Deducted at Source (TDS) upto INR50,000. However, INR10,000 deduction for interest on Savings Bank Account with bank/Post Office no longer available to senior citizens
  - Deduction for health insurance premium/medical expenses increased to INR50,000 from INR30,000
  - Deduction for medical expenses on specified ailments increased to INR100,000 from INR60,000/80,000
- Lock-in period for specified bonds for investment of Long Term Capital Gains under sec 54EC increased to 5 years; restricted to gains on sale of land and building only
- National Pension Scheme (NPS) withdrawals exemption of 40 per cent extended to all assesses.

# Key Corporate Tax proposals

- Rate reduced to 25 per cent (plus surcharge and Cess) for Cos. with turnover less than INR250 crore for Financial Year (FY) 2016-17
- Losses of companies whose cases are resolved under Insolvency and Bankruptcy Code, 2016 (IBC) will not lapse despite change in shareholding exceeding 49 per cent
- Maximum Alternate Tax (MAT) relief for IBC Cos. unabsorbed losses and depreciation both to be reduced from book profit
- (DDT) of 30 per cent on deemed dividend on loans/advances by closely held Cos.
- Employment generation incentive – Lower number of days for textile, leather & and footwear sectors
- MAT not applicable to foreign companies with business income falling within deemed taxation provisions (44BB, 44BBA, 44BBB)



# Key Corporate Tax proposals

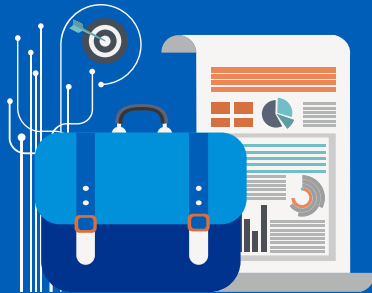
- Incentive to eligible start-ups on income from eligible business (u/s 80-IAC)
  - Deduction of 100 per cent% of profits for 3 consecutive years extended to start-ups incorporated between 1 April 2016 and 1 April 2021
  - Total turnover should not exceed INR25 crore in any of the 7 years from incorporation
  - Definition of eligible business expanded to include innovation, development or improvement of products/processes/services or having a scalable business model with high potential for employment generation or wealth creation
- Income Computation and Disclosures Standards (ICDS):  
Overruling of Delhi HC decision retrospectively from Assessment Year (AY) 2017-18
- Anti-abuse - For deemed dividend, accumulated profits of amalgamating Cos. to be added



# Key Corporate Tax proposals

**Permanent Account Number (PAN) mandated to be obtained by:**

- Non-individual entities having financial transactions  $\geq$  INR2,50,000
- Entities + MD/Partner/Trustee/Karta/office bearer
- Applicable from 1 April 2018



**Other proposals:**

- New Scheme of Scrutiny (e-assessments) to be notified
- Leeway of 5 per cent in Stamp Duty Value and consideration in sale of immovable property



# Other key proposals

- Intimation u/s143(1)
  - No prima facie adjustment for additional income appearing in Form 26AS/Form 16A/Form 16
  - Applicable to ROIs of AY2018-19 onwards
- Deductions under Chapter VIA-C
  - Allowed only if ROI furnished by the “due date”
  - Purview enlarged/applicable AY2018-19 onwards
- Increase in penalties for non-reporting of 'specified financial transactions' w.e.f. 1 April 2018
- Revision of time limit for filing Country-by-Country (CbyC) report by a Parent or Alternative Reporting Entity (ARE) residents in India
- CbyC report to be filed in India even where overseas Parent entity has no obligation to file CbyC report





# Non-Residents (NR)

- Definition of 'business connection' -u/s 9 expanded and aligned to Scope of Agency PE under Base Erosion Profit Sharing (BEPS)/Multilateral Instrument (MLI) provisions
- Business connection u/s 9 will now include 'significant economic presence'
- Aggregate of payments > Prescribed amount
  - Transaction in respect of any goods, services or property carried out by NR in India
  - Provision of download of data or software in India
- Prescribed number of users in India
  - Systematic and continuous soliciting of business activities through digital means
  - Engaging in interaction through digital means
- Existing tax treaties will not be impacted by significant economic presence but attempts will be made to include this concept in future Indian tax treaties





# Thank you





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