

The background of the slide features a hand pointing towards a digital screen. The screen displays several overlapping line graphs in various colors (red, blue, green, cyan) with different markers (diamonds, squares, circles). The graphs are set against a grid of vertical and horizontal lines. The overall scene is brightly lit, suggesting a modern office or data center environment.

# Union Budget 2018 - Sector highlights

### Policy

- ▶ 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.

### Direct tax

- ▶ Marginal relief proposed in determining full value of consideration on transfer of immovable property (i.e. where land or building is held as stock in trade or as capital asset). Relief to be provided to an assessee where consideration received on transfer of land or building or both is less than stamp duty value but within the range of 5% of consideration.
- ▶ Corresponding amendment has also been proposed in case of receipt of immovable property for inadequate consideration
- ▶ New provision introduced to provide that profits and gains arising from construction contracts or contracts for providing services shall be determined on the basis of percentage of completion method in line with provisions of ICDS

- ▶ Provisions proposed to be introduced to provide for taxability on conversion of inventory into a capital asset as follows:
  - ▶ FMV of inventory as on the date on which it is converted into a capital asset will be taxable as business income
  - ▶ Cost of acquisition of such capital asset shall be the FMV which has been taken into account
  - ▶ Period of holding of capital asset shall be reckoned from the date of such conversion
- ▶ Section 112A proposed to be inserted to provide for taxability of long term capital gains @10% on gains exceeding INR 0.1 million arising on sale of listed equity shares of a company or unit of an equity oriented fund or units of a Real Estate Investment Trust. Such capital gains to be computed without giving benefit of indexation and foreign exchange currency fluctuation:
  - ▶ In respect of such shares or units acquired by the assessee before 1 February 2018, cost of acquisition shall be deemed to be higher of:
    - ▶ Actual cost of acquisition of such asset; and
    - ▶ Lower of (i) FMV of such asset; and (ii) Full value of consideration received or accruing as a result of transfer
- ▶ FMV in case of a capital asset listed on any recognised stock exchange shall be the highest price of capital asset quoted on such exchange on 31 January 2018

## Policy

- ▶ All-time high allocation to rail and road sectors announced
  - ▶ Focus on Railway sector - capacity creation, passenger safety, procurement of rolling stock and locomotives, railway station redevelopment, bullet train project
  - ▶ Focus on developing connectivity infrastructure in border areas to secure country's defences
  - ▶ NHAI to raise equity from the market for its mature road assets, and use innovative monetizing structures like TOT and InvITs
  - ▶ Ministry of Finance to leverage IIFCL to help finance major infrastructure projects
  - ▶ Proposal to boost airport capacity with NABH Nirman scheme (a new initiative)
  - ▶ Government to make framework for encouraging investment in sea plane activities, for promoting tourism and emergency medical care

## Direct tax

- ▶ MAT provisions not to apply in case of foreign companies offering income to tax based on specified deeming provisions under Act:
  - ▶ Foreign companies engaged in shipping business, operation of aircrafts, and civil construction, etc. in certain turnkey power projects.
  - ▶ Amendment to be introduced retrospectively from FY 1999-2000.

## Indirect tax

- ▶ Import of all goods have been exempted from levy of EC and SHEC.
- ▶ Introduction of Social welfare surcharge at the rate of 10% on import of goods.
  - ▶ Certain products exempted from social welfare surcharge or subject to surcharge at reduced rates.
- ▶ Retrospective effect to the notification providing for exemption from integrated tax on import of aircrafts, aircraft engines and aircraft parts imported under lease (subject to prescribed conditions)

## Policy

- ▶ No new policies for the sector in Budget 2018, probably as some critical policies were introduced over last two years (HELP, Open Acreage Licensing Policy, Discovered Small Fields Development Policy)
- ▶ Government proposes to increase the target of providing free LPG connections from 40 million to 80 million poor households under the PM's Ujjwala scheme

## Direct tax

- ▶ MAT (@18.5% on books profits) will not be applicable to foreign companies in below scenarios:
  - ▶ Total income comprises solely of profits and gains from business covered under section 44BB of the Act; and
  - ▶ Such income offered to tax at rates specified under section 44BB of the Act
  - ▶ This amendment will take effect retrospectively from 1 April 2001
- ▶ 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

## Indirect tax

- ▶ Increase in median Customs duty rate from 30.15% to 30.98%
- ▶ Effective rate of Excise duty and corresponding Customs duty on petroleum remains unchanged
- ▶ Cess increased with corresponding reduction in Excise duty
- ▶ Service Tax exempted retrospectively on share of petroleum profit paid to Government for grant of license or lease to explore or mine petroleum crude and/ or natural gas (effective from 1 April 2016 to 30 June 2017)

## Policy

- ▶ Two major initiatives introduced as part of 'Ayushman Bharat' programme aimed to address health covering both prevention and health promotion
- ▶ 0.15 million 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 0.5 million per family per year for secondary and tertiary care hospitalization. This scheme also aimed at generating jobs, particularly for women. Government progressing towards Universal Health Coverage
- ▶ To allocate additional INR 6,000 million to provide nutritional support to all Tuberculosis patients at the rate of INR 500 per month for the duration of their treatment
- ▶ Setting up 24 new Government Medical Colleges and Hospitals by upgrading existing district hospitals in the country to ensure that there is at least 1 Medical College for every 3 Parliamentary Constituencies and at least 1 Government Medical College in each State of the country

### Direct tax

- ▶ Monetary limit of deductions for medical treatment of specified diseases increased from INR 60,000 (for senior citizen) and INR 80,000 (for very senior citizen) to INR 0.1 million for both senior and very senior citizens
- ▶ Monetary limit of deduction available to senior citizens in respect of health insurance premium and medical treatment increased from INR 30,000 to INR 50,000

### Indirect tax

- ▶ BCD rate for medical devices falling under HSN 9018, 9019, 9020, 9021 or 9022 increased from 7.5% to 10% by increasing the Customs Tariff rate. However, no change in the effective rates of BCD on medical devices for the said HSNs
- ▶ No change in Customs duty rates for Pharma formulations
- ▶ BCD on raw materials, parts & accessories for manufacture of Cochlear Implants (falling under any Chapter) reduced from 2.5% to Nil, subject to actual user condition
- ▶ The effective BCD rate on medical devices covered under:
- ▶ Notified HSNs such as 9018 32 30, 9018 50 20 etc under Notification No. 50/2017-Cus dated 30 June 2017 remains 5%
- ▶ Other than goods under HSN mentioned in (i) would be 7.5%

## Policy

- ▶ Announcement of development of online National Logistics portal to provide a single window clearance for all major issues faced by the logistics industry
- ▶ Inclusion of logistics parks in the harmonized list of infrastructure
- ▶ Rationalisation of customs duty provisions and assessment, to align with trade facilitation commitments and reduce litigation

## Direct tax

- ▶ The presumptive income of heavy goods vehicles (more than 12 MT GVW) increased from the current INR 7,500 per month (or part of the month) for each goods carriage to INR 1,000 per ton of GVW or unladen weight, as the case may be, for each such heavy goods vehicle or the amount claimed to be earned, whichever is higher

### Indirect tax

- ▶ Increase in the median rate of customs duty - levy of Social Welfare Surcharge (of 10%) on the aggregate customs duties/ taxes/ cesses on import of all goods in the First Schedule (excluding IGST and GST Compensation Cess) and abolition of Education cesses (of 3%)
- ▶ 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
- ▶ The rate on motor vehicles if imported as a CKD kit has increased from 10% to 15%, whereas the rate on motor vehicles imported as CBU has increased from 20% to 25%
- ▶ Valuation provisions introduced, for computing IGST on the sale of goods deposited within a warehouse prior to clearance for home consumption or exports. In case the warehoused goods are sold more than once, the transaction value of the last such transaction is to be considered for valuation purposes
- ▶ 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

### Policy

- ▶ 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 citizen
- ▶ 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
- ▶ Customs duty on mobile phones, parts and accessories thereof would discourage imports and boost domestic manufacturing

### Direct tax

- ▶ Loans and advances made by companies to shareholders, which qualify as “deemed dividend”, to be liable to dividend distribution tax at rate of 30% (without grossing up). Such dividend income to be exempt in the hands of recipient

- ▶ Provisions introduced to provide foreign exchange gains and losses (other than for procurement of assets from outside India) to be treated to be on the revenue account. This would encourage foreign borrowings for domestic purchases including spectrum financing and refinancing by the telecom operators

### Indirect tax

- ▶ Increase in effective duty on majority of the products except mobile phones and IT software due to introduction of Social welfare surcharge
- ▶ Increase in Basic Customs Duty on following specific products:
  - ▶ Parts and accessories including charger and battery to 15%
  - ▶ Preform of Silica for use in the manufacture of the telecommunication grade optical fibre cables from NIL to 5%
  - ▶ Wrist wearable devices (smart watches) from 10% to 20%
  - ▶ PCBA used in manufacture of charger/ adaptor of cellular mobile phones from NIL rate to 10% with exemptions on parts used in manufacture of such PCBA's

## Policy

- ▶ 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 there were any incentives for giving up used vehicles

## Direct tax

- ▶ Reduction in corporate tax rate to 25% for companies having turnover up to INR 250 crore in FY 2017
- ▶ Rationalisation of the tax incentive for hiring new workers

## Indirect tax

- ▶ 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

## Policy

- ▶ **Several policies announced to boost agriculture, food processing industry and double farmers income, such as:**
  - ▶ INR 14,000 million allocated to the Prime Minister Krishi Sampada Yojana (nearly double of the previous allocation of INR 7,150 million)
  - ▶ INR 100,000 million allocated for infrastructure development in the fisheries, aquaculture and animal husbandry sectors in India
  - ▶ MSP of Kharif crops to be 1.5 times the cost of their produce
- ▶ **With a view to boost India's agricultural exports, which are anticipated to exceed USD 100,000 million (presently USD 30,000 million), export of agri-commodities will be liberalized and "state of the art" testing facilities will be set up in all the 42 Mega Food Parks**
- ▶ **INR 71,480 million has been allocated as the comprehensive textile package (an increase from INR 60,000 million allocated in the previous budget). A similar scheme has also been proposed to be introduced for the leather and footwear industries**
- ▶ **Focus on creating strong rural infrastructure with the total allocation of INR 14,340 billion**
- ▶ **Focus of the Government on providing maximum opportunities in the rural areas by spending more on livelihood, agriculture and allied activities and construction of rural infrastructure will give a boost to FMCG sector by virtue of the demand generated by the rural market**

## Tax

- ▶ 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
- ▶ 100% income-tax deduction for 5 years (effective FY 2018-19) has been introduced for FPCs with turnover up to INR 100 crores, where they are engaged in the purchase, supply and marketing and processing of agricultural produce from their members
- ▶ Increase in customs duty rates for several products in the food processing, electronics, footwear and furniture sectors, perfumes, toiletries, sun glasses, etc. (in addition to the social welfare surcharge of 10% that has also been introduced in lieu of the 3% education cess), with a view to curb imports and promote manufacturing in the country

## Policy

- ▶ NITI Aayog to initiate a national program on Artificial Intelligence to promote research and development of its applications
- ▶ Proposed digitization in Education Sector through use of digital portals like 'Diksha'
- ▶ Government has not recognized Crypto-Currencies as a legal tender or coin and will take measures to eliminate the same
- ▶ 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
  - ▶ Objective to invest in research, training and skilling in robotics, artificial intelligence, digital manufacturing, big data analytics, quantum communication and Internet of Things
  - ▶ Proposal to double allocation on Digital India program
- ▶ Proposal to set up 500,000 wi-fi hotspots in rural areas to facilitate broadband access
- ▶ Government to evolve a separate policy for the hybrid instruments for attracting foreign investment in start-ups

## Tax

- ▶ **For Start-ups, the following changes have been proposed:**
  - ▶ Scope of eligible business expanded to cover “improvements of products or processes or services or a scalable business model with a high potential of employment generation or wealth creation”
  - ▶ Benefit extended to entities incorporated before 1 April 2021 as against 1 April 2019 provided earlier
  - ▶ Turnover limit of INR 250 million to be seen in any of the seven previous years beginning from the year in which such entity is incorporated as against the period of 1 April 2016 to 31 March 2021, provided earlier
  
- ▶ **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
  
- ▶ **Income arising to non-resident through royalty and fees for technical services rendered to National Technical Research Organisation would be exempt from tax and consequently not be subject to withholding tax**
  
- ▶ **Business connection to cover non-residents having “significant economic presence” in India through digitized businesses and includes:**
  - ▶ Provision of download of data or software in India
  - ▶ Systematic and continuous soliciting of business activities or engaging in interaction with user base in India
  - ▶ Revenue’ and ‘Users’ threshold to be notified

- ▶ **“Business connection” will now also include any business activities carried through a person who, acting on behalf of the non-resident, habitually concludes contracts or habitually plays the principal role leading to conclusion of contracts by the non-resident. This amendment is aimed at aligning the domestic law definition with the tax treaties which will stand modified by MLI so that the domestic law’s narrow definition does not render the tax treaties ineffective**
- ▶ **The scope of nexus based business presence rules have been amended to provide that 'significant economic presence' in India (irrespective of the physical activities of the non-resident in India) will also constitute “business connection”**
  - ▶ **Significant economic presence shall mean to include:**
    - ▶ Transactions of goods, services or property (including downloading of data or software) by a non-resident in India
    - ▶ Non-residents involved in systematic and continuous soliciting of business activities or engaging with users in India
    - ▶ Threshold for the number of transactions and number of users shall be prescribed in the due course
    - ▶ Attribution shall be restricted to such aforesaid transactions and / or business activities / users in India
- ▶ **The list of services subjected to Equalisation levy provisions remains unchanged**
- ▶ **Exemption granted from the new introduced SWS on import of -**
  - ▶ prepared unrecorded media for sound recording or similar recording (excluding cards incorporating a magnetic stripe)
  - ▶ recorded media for reproducing phenomena other than sound or image

## Policy

- ▶ 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 the 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 INR 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
- ▶ 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

## Tax

- ▶ Withdrawal of long-term capital gains tax exemption under section 10(38) of the Act on transfer of equity shares, units of equity oriented mutual fund and units of business trust
  - ▶ Long-term capital gains exceeding INR 100,000 to be taxed at 10% (subject to payment of STT as per the prescribed conditions).
  - ▶ No benefits of indexation/ computation of gains in foreign currency available.
  - ▶ 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)

- ▶ Distribution tax at the rate of 10% proposed to be levied on income distributed by an equity oriented mutual fund
- ▶ Transactions in (a) Bond or GDRs; (b) Rupee denominated bond of an Indian company; and (c) Derivatives, executed by a non-resident in foreign currency, on the recognised stock exchange located in an IFSC, to be exempt from tax
- ▶ AMT for the non-corporate units located in an IFSC to be reduced to 9% in line with the corporate units located in IFSC
- ▶ In order to remove the barrier to rehabilitating companies seeking insolvency resolution under the IBC, 2016, the following amendments have been proposed:
  - ▶ For the purpose of computation of book profits under MAT, a deduction of the aggregate amount of unabsorbed depreciation and brought forward losses shall be permitted where an application under the IBC, 2016 has been admitted; and
  - ▶ Change in shareholding of a company pursuant to resolution plan approved under IBC, 2016 not to result in lapse of carried forward business loss of such company
- ▶ 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'

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