

UNION BUDGET HIGHLIGHTS 2017

Economic Reforms | Tax Reforms

Presented in a comprehensive Q & A format

Historic Budget

- ♦ Merger of Railway Budget with the Finance Budget
- ♦ Plan and Non-Plan expenditure classification has been done away with
- ♦ Discontinuation of the colonial practice of presenting the budget on the last day of February

Key Highlights

- ♦ Increase in Foreign Direct Investment (FDI) by 36%
- ♦ Foreign Investment Promotion Board (FIPB) abolished
- ♦ No transaction above Rs. 3 Lakh would be permitted in cash
- ♦ SWAYAM platform, leveraging IT, to be launched with at least 350 online courses
- ♦ Restriction on accepting cash donations by political parties, thereby increasing transparency in political funding

Our Rating

6.5/10



Agenda for 2017-18:

Transform, Energise and Clean India

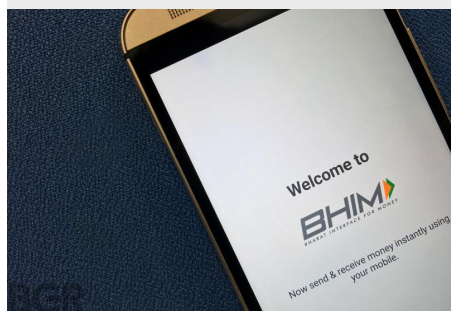
- ♦ **Transform** the quality of governance and quality of life of our people;
- ♦ **Energise** various sections of society, especially the youth and the vulnerable, and enable them to unleash their true potential; and
- ♦ **Clean** the country from the evils of corruption, black money and non-transparent political funding

Themes



Digital Economy

- ♦ Launch of two new schemes to promote BHIM
 - Referral Bonus Scheme
 - Cashback Scheme



- ♦ Aadhar Pay, a merchant version of Aadhar Enabled Payment System, will be launched shortly
- ♦ Proposal to mandate all Government receipts through digital means

Other Reforms

- ♦ Increased efforts for e-assessments in the coming year
- ♦ Model Law on contract farming to be prepared
- ♦ Promotion of affordable housing and real estate

Direct Taxes

What are the tax slabs applicable to an Individual below the age of 60 years/HUF?

Applicable Tax slabs:

Taxable Income	Rate of Tax
upto Rs.2,50,000	Nil
Rs.2,50,001 to Rs.5,00,000	5%
Rs.5,00,001 to Rs.10,00,000	20%
Rs.10,00,001 and above	30%

What is the surcharge applicable to Individual Income/HUF?

Taxable Income	Surcharge %
upto Rs.50,00,000	Nil
Rs.50,00,001 to Rs.1,00,00,000	10%
Rs.1,00,00,001 and above	15%

What is the rebate available to a Resident Individual having Income upto Rs.3,50,000?

The rebate available is lower of Rs. 2,500 and the applicable Tax.

Is there any change in the tax rate for Corporates?

In case of domestic companies, the income-tax rate has been reduced to **twenty-five per cent** of the total income, where the total turnover or gross receipts for previous year does not exceed fifty crore rupees. There is no change in the rate of Surcharge.

How long can Minimum Alternate Tax Credit be carried forward and set off?

Minimum Alternate Tax Credit can be carried forward for a period of 15 years as against the earlier time period of 10 years. **(Sec 115JB)**

What should be the period of holding of immovable property for it to qualify as a Long Term Capital Asset?

Immovable Property in the form of Land or building or both should be held for a minimum period of 24 Months from the date of acquisition to constitute a Long Term Capital Asset [Section 2(42A)]; the period specified under the earlier provisions was 36 months.

What are the Capital Gains implications on conversion of preference shares into equity shares?

There shall not be any Capital Gains on conversion of Preference Shares into Equity Shares. The period of holding of Equity Shares shall be the date from which the Preference Shares are held. Further, the cost of acquisition of Equity Shares shall be the cost of Preference Shares.

What are the benefits extended in case of National Pension Scheme (NPS)?**a. Withdrawal Benefit:**

Partial withdrawal from the NPS is not taxable, so long as the withdrawal does not exceed 25% of the contribution made by the employee.

b. Deduction Benefit:

The cap on deduction under section 80CCD in respect of investment in NPS is increased from 10% to 20% of Gross Total Income for Self-Employed Assesseees.

Are there any changes in the conditions to be fulfilled to claim exemption under Section 11 by a Charitable Trust?

The amended provisions require a Charitable Trust to file tax returns within the prescribed due date to claim exemption under Section 11.

Further, any change/modification of the Objects requires a fresh application and registration within 30 days from the date of change/modification in order to claim exemption under Section 11.

What is the relaxation provided on Notional rent from House Property held as Stock-in-Trade?

At present, notional rent is considered as Income in respect of unoccupied house property held as Stock-in-trade. This has been now relaxed and Notional Rent shall not be considered as Income for a period of one year from the end of financial year in which Completion certificate is obtained.

Is investment in house property a viable Tax Planning option?

In an alarming amendment, a new provision has been introduced restricting the set off of losses under the head of "Income from house property" to a maximum of Rs. 2,00,000/-. This has a significant impact on assesseees who have availed loans to invest in house property which is let out. Earlier, in respect of let out properties the entire interest paid on housing loan was allowed as a deduction against the Income from house property without any limit. This has now been restricted to maximum of Rs. 2,00,000/-.

Is an Individual or an HUF required to deduct tax at source on payment of rent?

Yes. An Individual or an HUF paying rent in excess of Rs. 50,000/- p.m is required to deduct Tax at source @ 5% on the rent payable. This provision is applicable from 01.06.2017

What are the restrictions imposed on businesses in respect of transactions in cash?

A new section has been introduced whereby no transactions exceeding Rs. 3,00,000/- in value can be carried out in cash.

The limit under Section 40A(3), dealing with permissible limits of cash payments by businesses, is decreased from Rs. 20,000 to Rs. 10,000/-

Depreciation in respect of assets acquired by way of cash payments in excess of Rs. 10,000/- shall not be allowed.

What are the changes in the provisions of Presumptive Taxation?

- a. Under the presumptive scheme of taxation, applicable to Individuals, HUFs and Firms having a turnover not exceeding Rs. 2 Crores, a sum equal to 8% of the turnover was deemed to be the income. This has now been reduced to 6% on so much of the turnover as is received by the way of Account payee cheque/bank draft or electronic clearing system through a Bank account.
- b. Professionals with receipts upto Rs. 50 lakhs p.a. can pay Advance tax in one single instalment as against four instalments. The due date for the single instalment is 15th of March of every year.

When does Capital gain tax arise in the hands of a land owner who has offered his land for Joint development?

The liability to pay the capital gain tax shall arise in the year in which certificate of completion is issued by a Competent Authority in respect of the development and the tax shall be payable on the stamp duty value of the land owner's share of the development and consideration, if any, received in cash.

Who can avail the above benefit?

An assessee being an Individual/HUF who enters into a Joint Development agreement can avail the above benefit.

How is capital gains to be computed in respect of sale of unlisted shares?

A new section has been introduced whereby the consideration for the sale of unlisted shares shall be the sale price or Fair Market Value of the shares as on the date of sale, whichever is higher. This will lead to an increased compliance burden as any transaction in unlisted shares will necessitate a valuation report.

Can Startups carry forward and set off their losses?

Yes. Startups can now carry forward and set off their losses even if there is a change in shareholding beyond 51% so long as the original shareholders continue to remain as shareholders and provided that such losses are incurred within a period of 7 years from the date of incorporation.

What is the change in indexation for computation of Long Term Capital Gain?

The base year has been shifted from 1-4-1981 to 1-4-2001. In respect of properties purchased prior to 01.04.2001, the fair market value of such properties as on 01.04.2001 can be adopted as cost of acquisition.

What are the changes in section 80G donations made to Charities?

Deduction under section 80G is no longer allowed if the donations are made in cash in excess of Rs. 2,000/-.

What are the Tax implications on donations received by political parties?

Political parties will lose tax exemption if any donations are received in cash exceeding Rs. 2,000/- and if they fail to file tax returns within due date.

What are the relaxations introduced to promote affordable housing?

As per the existing provisions of section 80-IBA, 100% deduction is available in respect of the profits and gains derived from developing and building certain housing projects subject to specified conditions. The conditions specified, inter alia, include the limit of 30 square meters for the built-up area of residential unit in respect of project located in the Chennai, Delhi, Kolkata and Mumbai or within 25 kms from the municipal limits of these four cities. Further, it is also provided that in order to be eligible to claim deductions, the project shall be completed within a period of three years.

In order to promote the development of affordable housing sector, the following relaxations are provided:—

- (i) The size of residential unit shall be measured by taking into account the "carpet area" as defined in Real Estate (Regulation and Development) Act, 2016 and not the "built-up area".
- (ii) The restriction of 30 square meters on the size of residential units shall not apply to the place located within a distance of 25 kms from the municipal limits of the Chennai, Delhi, Kolkata or Mumbai.
- (iii) The condition of period of completion of project for claiming deduction under this section is increased from existing three years to five years.

What is the rate of Tax Deducted at Source in respect of interest payments of External Commercial Borrowing and Rupee Denominated Bonds?

The concessional rate of Tax Deducted at Source of 5% was available till June 2017. The same has been extended till June 2020.

Whether there are any changes in the applicability of Domestic Transfer pricing?

Domestic Transfer pricing provisions will not apply to transactions between related parties where such parties are not availing any profit linked deductions under the law.

Is there any change in relation to provision of Tax Collected at Source?

Yes. TCS is required to be collected on purchase of jewellery exceeding Rs. 2,00,000/- as against the earlier limit of Rs. 5,00,000/-. Further, on non-furnishing of PAN on transactions where tax is collectible at source, tax will be collected at the higher of the following rates:

- (i) at twice the rate specified in the relevant provision of this Act; or
- (ii) at the rate of five per cent.

Whether tax is to be deducted at source by the Developer in respect of payments made to a Land Owner pursuant to a Joint Development Agreement?

Yes. Tax is to be deducted at 10% on such payments.

What are the consequences of not filing the Income Tax Returns within the due date?

A fee ranging from Rs. 1,000 to Rs. 10,000, based on period of delay and income, has been introduced in case of delayed filing of returns.

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About Us

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