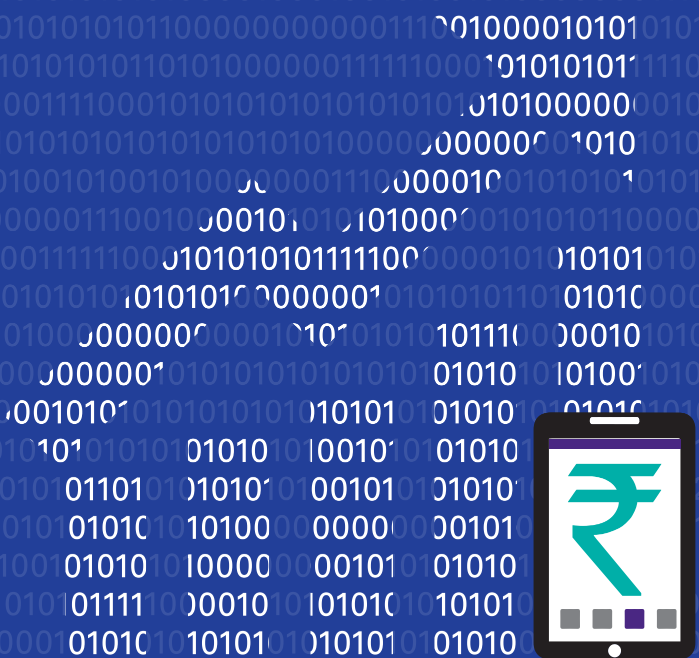
Union Budget 2017-18

KPMG in India



#Budget2017 | #KPMGIndiaBudget

www.kpmg.com/in/budget2017

Foreword

Presentation of the Union Budget 2017-18 (Budget 2017-18) not only subsumed the Railway Budget but was also advanced to 1 February to enable Ministries to operationalise all activities from commencement of the FY on 1 April.

The Budget 2017-18 has been marked by historic economic policy developments. On the domestic side, initiating structural reforms notably, the passage of Bankruptcy and Insolvency Act and the Constitutional amendment paving the way for implementing the GST while demonetising large denomination currency notes signals a regime shift to punitively raise the costs of illicit activities. Globally, the economic climate is grappling with the uncertainty created by Brexit and the waves of protectionism engulfing many developed countries which threatens world trade.

The Economic Survey conducted by the GoI states that despite global sluggishness, the domestic economy has sustained a macro-economic environment of relatively lower inflation, fiscal discipline and a moderate current account deficit coupled with broadly stable rupee-dollar exchange rate. At the same time, there is a need to overcome the three ‘meta challenges’ viz., inefficient redistribution, ambivalence about the private sector and property rights and the improving but still challenged state capacity. The fiscal deficit for FY2017-18 is targeted at 3.2 per cent of GDP and government remains committed to achieve 3 per cent in the following year. The country’s economic growth is facing challenges such as subdued manufacturing, lower exports of services and lower capital expenditure.

Demonetisation has adversely impacted the informal and cash-intensive sectors. At the same time it has the potential to generate long-term benefits in terms of reduced corruption, greater digitalisation of the economy, increased flows of financial savings, and greater formalisation of the economy, all of which could eventually lead to higher GDP growth, better tax compliances and greater tax revenues. The Survey has proposed a Universal Basic Income that helps ensure every citizen has a right to a minimum income to cover their basic needs, as a long-term solution to reduce poverty in the country.

The agenda set for FY2017-18 is ‘transform, energise and clean India’. To boost FDI in India, FIPB is proposed to be abolished and further liberalisation of the FDI policy is under consideration. Amending the Reserve Bank of India Act to enable issuance of electoral bonds for political funding, subject to conditions is a welcome first step to combat opaqueness in financing elections in the world’s most populous democracy.

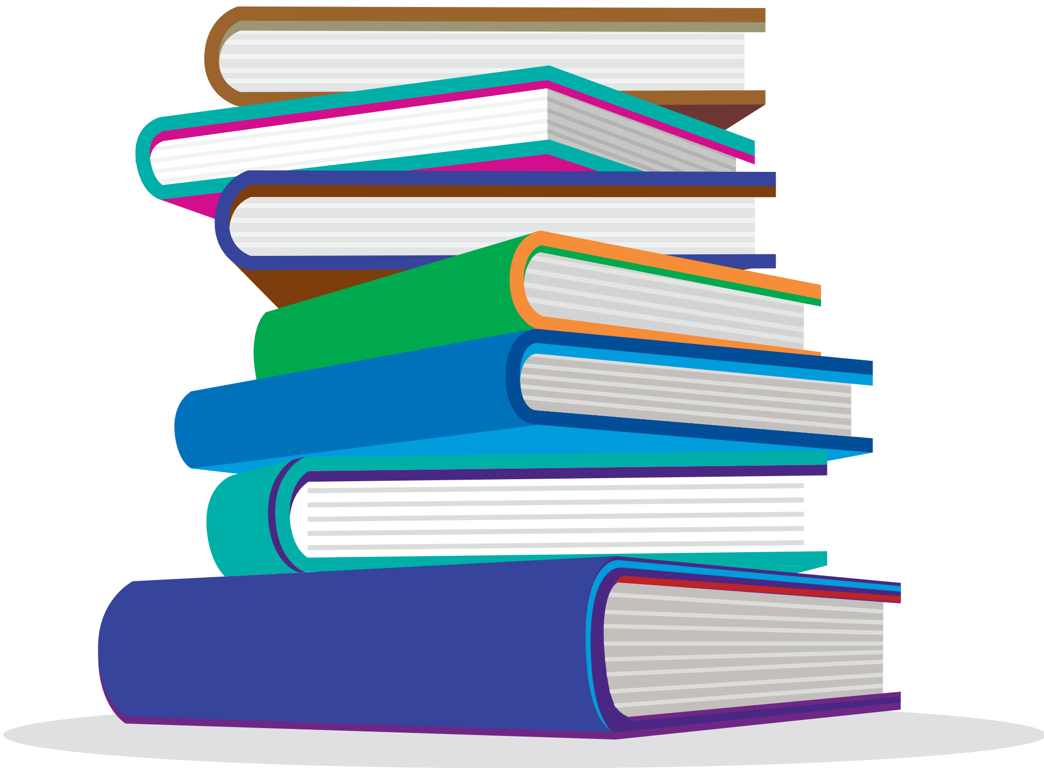
Start-ups get a longer period within which to claim tax holiday. On rates of tax, for companies whose annual turnover for March 2016 is upto INR50 crore, the headline tax rate reduces to 25 per cent even as the reduction in the general corporate tax rate has been deferred. However there are sops to lower income earners and the benign Capital Gains Tax regime remains unchanged. In addition, there is a reduction in the holding period for computing long-term capital gains from transfer of immovable property from 3 years to 2 years. The base year of indexation for long-term capital gains is proposed to be shifted to 1 April 2001 for all classes of assets. DTP provisions have been correctly curtailed to only apply in case one of the entities involved in related party transactions enjoys specified profit linked deductions. However introduction of secondary adjustment provisions could add to the complexity and compliance burden.

In line with the recommendations of OECD BEPS project, thin capitalisation provisions have been introduced. As a measure of rationalisation, MAT provisions are proposed to be amended to provide a framework for computation of book profit for IND AS compliant companies in the year of adoption and thereafter. Greater accountability for revenue officers for specific acts of commission and omission has also been noted.

On the indirect tax front, the Finance Minister re-affirmed the commitment to implement GST within the stipulated timeline and highlighted that the progress, including IT preparedness, is well on track. Further, the Finance Minister announced that post 1 April 2017, extensive reach-out efforts would be made to trade and industry to make them aware of the forthcoming GST regime. On expected lines, no major changes have been introduced in the existing regime with introduction of GST in the backdrop. Peak duty rates remain unchanged. The limited tax proposals introduced appear to be focussed on moving towards ‘cashless economy’ by introducing duty exemptions on technology products. Proposal to abolish R&D cess was highly overdue and should make import of technology cheaper.

Overall, Budget 2017-18 strives hard to keep India on a growth track and is well intended to encourage greater compliance and strict enforcement. One hopes that the provisions are administered in an even handed manner in a business friendly spirit of mutual trust. In the aftermath of demonetisation, and the gathering gloom around globalisation, this is critical to ensure that India’s current sweet growth spot endures in a sustainable manner.

Table of contents



Economic indicators

The Indian economy's high growth trajectory is likely to taper down in the FY 2016–17 (ending March 2017), affected by lower consumption, weaker manufacturing and cash crisis. According to the first advanced estimates released by the government, the GDP growth for FY17 is projected to be at 7.1 per cent, a y-o-y decrease of 50 basis point.[1]

In FY16, India surpassed China to become the fastest growing large economy with a GDP growth rate of 7.6 per cent.[2] However, in H1FY17, the growth rate diminished to 7.2 per cent and is expected to go down further in the second half of the year.[3] Despite the expected slowdown in growth and forecast cuts by several rating agencies, India is expected to remain one of the fastest growing large economies in FY17.[4]

As per the first advanced estimates released by the government, the GDP growth rate in FY17 is projected to be 7.1 per cent, recording the lowest GDP growth rate since 2014–15.[1] The slowdown in manufacturing, mining and construction, and decline in budgetary capital expenditure are some of the factors responsible for lower growth estimates.[5]

The impact of demonetisation has not been factored into the estimates released by the government, implying that the actual growth rate might be lower than 7.1 per cent.[3] The IMF and the World Bank forecast India's GDP to grow at 6.6 per cent and 7 per cent, respectively, in FY17.[6]

The impact of demonetisation is expected to be transitory. The Indian economy is expected to rebound in the second half of 2017 and continue as a bright spot in the global economic map — GDP growth rate is forecast to be 6.75–7.5 per cent in FY18.[3] The demonetisation exercise is also expected to further drive India's GDP growth, owing to increased tax collections.[7]

Further, to push the economic growth and maintain GDP growth rate over 7 per cent, it is imperative for the government to increase the share of industrial sector in the country's GDP along with a strong focus on improving the regulatory environment; the increase in the government capital expenditure and strengthening of the MSMEs segment would augur the confidence of the private sector.

The decline in consumption due to demonetisation along with slowdown in the industrial sector has resulted in diminished growth rate towards the end of FY17. However, the agriculture sector showcased enhanced performance, owing to a favourable monsoon after two consecutive years of drought.

Contrary to FY16, the agriculture sector witnessed an increase in growth rate, while the industrial and services sector observed a subdued growth. In the backdrop of lower growth in the industrial and services sector, the employment levels across these sectors also witnessed a decline.[8]

As per advanced estimates of 2016–17, the Indian agricultural sector is expected to register a growth of 4.1 per cent in FY17 against the previous year's growth rate of 1.2 per cent .This is due to a highest-ever kharif crop production and increased aggregate sowing of rabi crops, boosted by a favourable monsoon.[9,1,3]

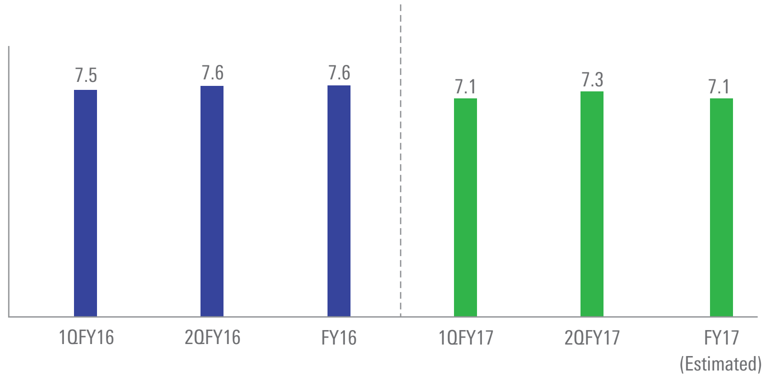
The industrial sector is estimated to grow at 7.4 per cent in FY17 compared with 9.3 per cent in FY16[1], owing to a steep decline in the demand of capital goods and consumer non-durable segments.[10]

The services sector is expected to grow at 8.8 per cent in FY17 compared with 8.9 per cent in FY16.[3] The slight slowdown is attributed to a deceleration in growth of trade, hotels, transport and storage from 9 per cent in FY16 to 6 per cent in FY17.[3] However, public administration, defence and other services sectors are estimated to grow at a faster pace at 12.8 per cent in FY17 as against 6.6 per cent in FY16, offsetting the deceleration in other services sub-sectors.[3]

---

1. "First Advanced Estimates on National Income 2016-17", Government of India, 6 January 2017
2. "Good news for Modi govt: FY16 GDP growth at 7.6%; India now fastest-growing economy in the world", Zee News website, 1 June 2016
3. "Economic Survey 2016-17", Government of India, 31 January 2017
4. "UN puts India's GDP growth at 7.7% for 2016-17" Live Mint, 17 January 2017
5. "Even as budgetary capex by Centre plunges, some big spenders hold it afloat", The Financial Express, 27 January 2017
6. "Demonetisation leaves world economists confused; IMF, World Bank, UN project different growth figures for India", India.com, 18 January 2017
7. "Positive effects of cash ban, GST to help GDP grow by 8%: KPMG", Money control, 27 January 2017
8. "Quarterly employment survey: Construction, manufacturing witness highest job losses", Indian Express, 29 January 2017
9. "Kharif foodgrain harvest to break past records, show first advance estimates" Live Mint, 23 September 2016
10. "India's industrial output contracts 0.7 per cent in Aug as mining, manufacturing slows", Indian Express, 11 October 2016

GDP growth (2011-12 base) (Y-o-Y, %)



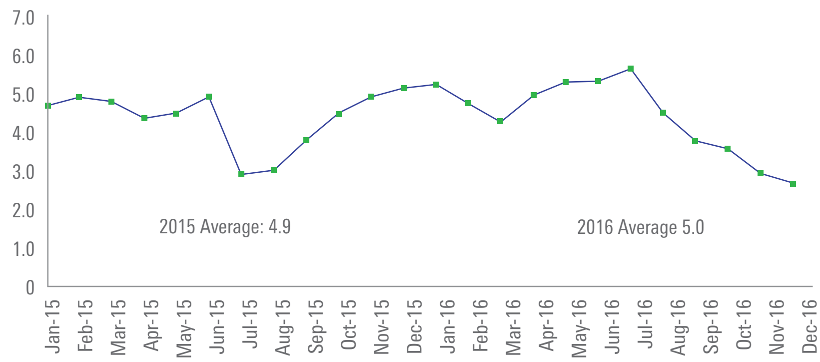
Source: "Press Note on First Advanced Estimates of Annual National Income, 2016-17 and Quarterly Estimates of GDP for the second quarter, 2016-17," Ministry of Statistics and Programme Implementation, GOI, accessed as on 27 January 2017

Note: Latest Q3 & Q4 GDP data is not available

CPI inflation has remained largely steady throughout FY16 and FY17 with the average rate being about 5 per cent.

In 2016, the months of June and July witnessed an upward spike in inflation largely due to an increase in food inflation; which in turn was driven by food grain and vegetable prices.[11] Post July 2016, the CPI inflation witnessed a downward trend due to bountiful production of pulses (leading to low prices). Further, in December 2016, OPEC announced a decision to reduce crude oil output from January 2017 onwards.[12] With India significantly dependent on crude oil imports, the production cut could lead to a rise in inflation and increase the current account deficit. In order to keep inflation under check, the RBI maintained the policy rate of 6.25 per cent in its fifth monthly policy review.[13]

CPI growth (Y-o-Y, %)



Source: 'MoSPI Report', various issues, January 2015 to December 2016

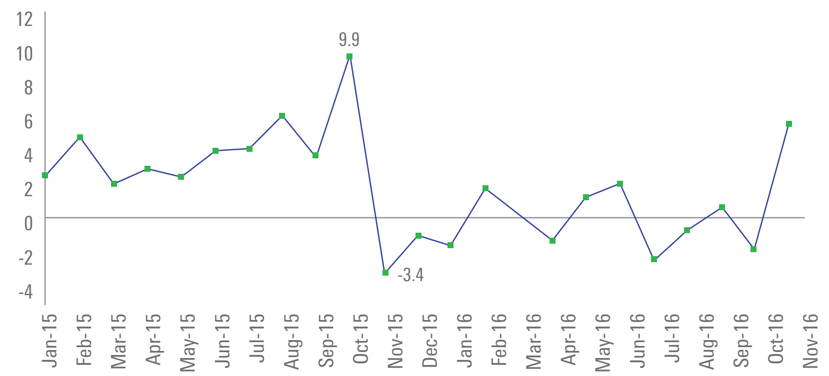
IIP was volatile within a narrow range for most part of FY17. IIP was largely subdued during the fiscal due to weakness in the capital goods segment.

In March 2016, capital goods production witnessed a decline of 2.9 per cent, as compared to growth of 6.3 per cent in the corresponding month in the previous year due to a weakness in private sector investment.[14] Between April and September 2016, the IIP witnessed a marginal growth boosted by better consumer durables output.[15] The overall IIP growth in FY17 (until November 2016) remained subdued owing to contraction in capital goods and consumer non-durables.

In November 2016, the IIP witnessed a healthy growth, largely driven by electricity generation, which grew 8.9 per cent. Also during the same period, the year-on-year (Y-o-Y) growth in capital goods was 15 per cent.[16]

11. "Retail inflation hits 21-month high in May on rising food prices", The Indian Express, 14 June 2016
12. "Economic Survey 2016-17", India Budget, 31 January 2017
13. "Three reasons why RBI went against the wind and kept repo rate unchanged", The Economic Times, 7 December 2016
14. "Uncertainty's bleeding the economy", The Hindu Business Line, 30 May 2016
15. "Industrial production expands 1.2% in May", The Indian Express, 12 July 2016
16. "India's factory output grows 5.7% in November despite note ban concerns", The Economic Times, 13 January 2017

IIP growth (Y-o-Y, %)

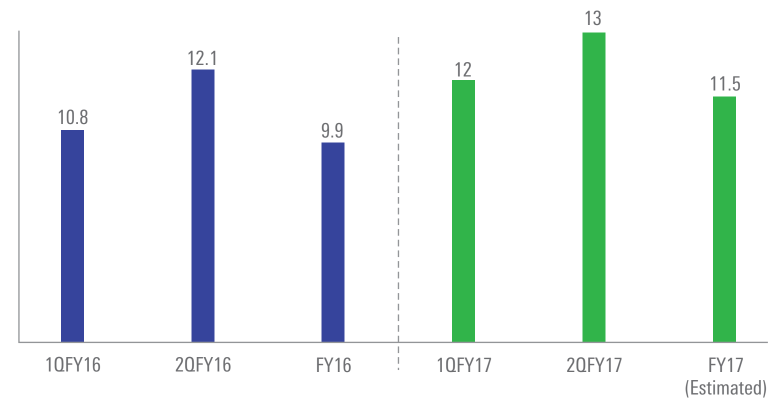


Source: 'Monthly Economic Report', Ministry of Finance, various issues, January 2015 to November 2016

GFCE as a percentage of GDP was higher in FY17 as compared with that of in FY16, largely due to an increase in wages as per the Seventh Pay Commission and OROP.

In the previous Budget released in February 2016, the government had planned to reduce the fiscal deficit from 3.9 per cent of GDP in FY16 to 3.5 per cent in FY17 by curtailing the expenditure growth. However, GFCE witnessed a rise in FY17 due to additional spending as a result of the Seventh Pay Commission and OROP, indicating that the 3.5 per cent fiscal deficit target could prove to be a challenge.[17]

Government Final Consumption Expenditure (GFCE, % of GDP)



Source: "Advance Estimates of National Income 2016–17 and Quarterly Estimates of Gross Domestic Product for the Second Quarter (2Q) of 2016–17", MoSPI, accessed as on 27 January 2017

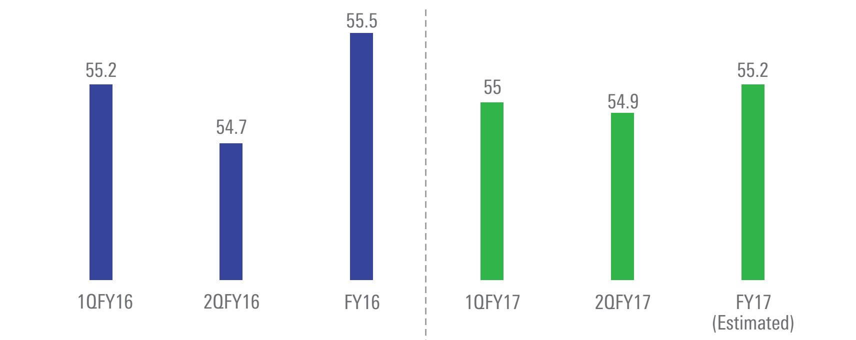
Note: Latest 3Q and 4Q figures not available

17. "Meeting fiscal deficit target for FY17 a challenge, says government", The Business Standard, 13 August 2016

PFCE quarter-on-quarter performance was stagnant in FY16 and FY17, as a result of two consecutive years of drought in 2014 and 2015.

The PFCE in 2017 was also subdued due to the sluggishness in the private sector investment.[18] The drought conditions experienced in 2015 affected the agriculture output in FY16 and rural consumption as well.[19] The GFCE grew marginally in 2Q17 as compared to that in the corresponding period, the previous year. Higher salaries expected on account of the Seventh Pay Commission and a near normal monsoon were key positive factors.[20] The effect of demonetisation announced in November 2016 is likely to reflect on the consumer expenditure in the third and fourth quarters of FY17.

Private Final Consumption Expenditure (PFCE, % of GDP)



Source: "Advance Estimates of National Income 2016–17 and Quarterly Estimates of Gross Domestic Product for the Second Quarter (2Q) of 2016–17", MoSPI, accessed as on 27 January 2017

Note: Latest 3Q and 4Q figures not available

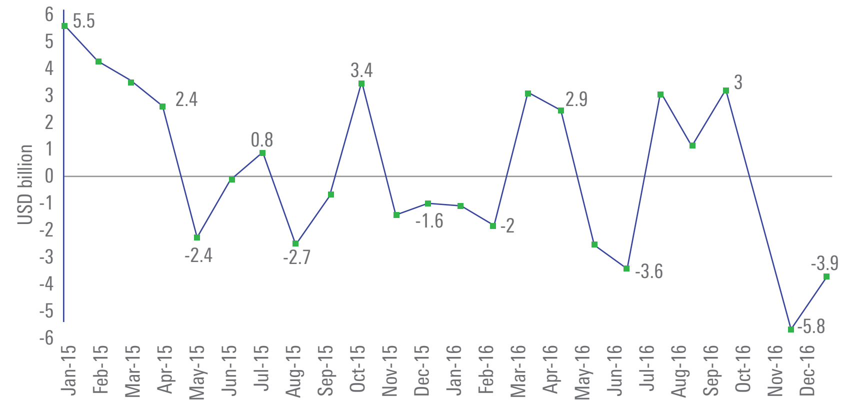
The FII inflows in the first half of FY2016 was positively influenced by the uncertainty over Brexit and stagnation in the European economy; the second half witnessed low FII inflows following unfavourable signals as a result of the U.S. elections. The Indian rupee hit an average record low against the rising U.S. dollar in 2016.[21,22]

The Indian equity market became one of the most favoured investment destinations for foreign investors during July–September 2016, as uncertainty prevailed due to Brexit and stagnation in the European economy. Approximately INR46,000 crore was invested into the capital market in the mentioned quarter as the Indian economy promised better returns over other economies.[23]

The period of high FII inflows came to an end in October 2016, as a stronger U.S. economy encouraged investors to move funds to the country. The withdrawal accelerated further in November 2016, as the incoming U.S. government hinted at tax cuts and more infrastructure spending. Large outflows were witnessed in the debt market as U.S. Federal Reserve announced a rate hike in the late 2016.[24,25] Over INR49,700 crore of outflow from the capital markets was observed during October–November 2016 as investors turned towards developed economies again.[23]

18. "GDP grows 7.3% in Q2, but slowdown looms over India', Rediff, 1 December 2016
19. "The swing factor in GDP growth", The Hindu Business Line, 1 May 2016
20. "How India spends", Live Mint, 8 December 2016
21. "Foreign Institutional Investors", IBEF report, September 2016
22. "FIIs go shopping again, lift market sentiment", Economic Times, 9 December, 2016
23. "FPIs pull out from capital markets", Business Line, 25 December, 2016
24. "FPIs in exit mode; pull out $4 billion in December", Business Line, 1 January, 2017
25. "FPIs pull out over Rs. 5,100 cr from capital market", Business Line, 22 January, 2017

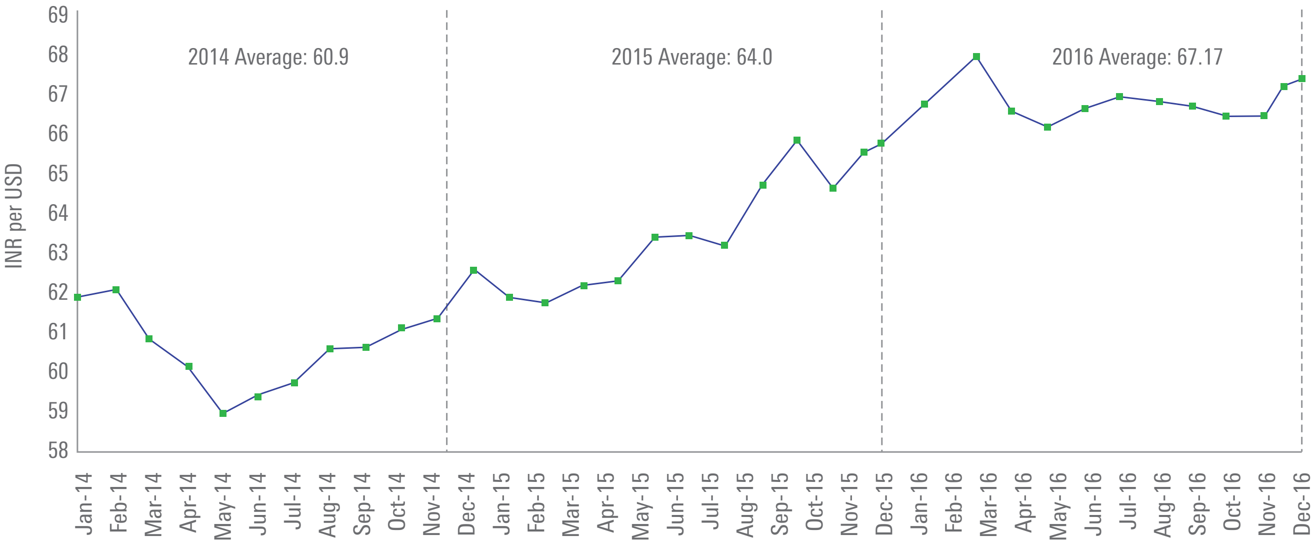
Net FII inflow (USD billion)



Source: Central Depository Services https://www.cdslindia.com/publications/FIITrends.aspx, accessed as on 1 February 2017

The withdrawal of FIIs during November–December 2016 alone accounted for 92 per cent of the total outflow in the calendar year. This further weakened the Indian rupee in December 2016, to an average of INR67.81 per U.S. dollar. The anticipation of a further rate hike by the U.S. Federal Reserve could depreciate the value of Indian rupee more. The demonetisation process in November 2016 too played part in the rupee depreciating towards the end of the calendar year 2016.[26,27]

Exchange rate (INR/USD)



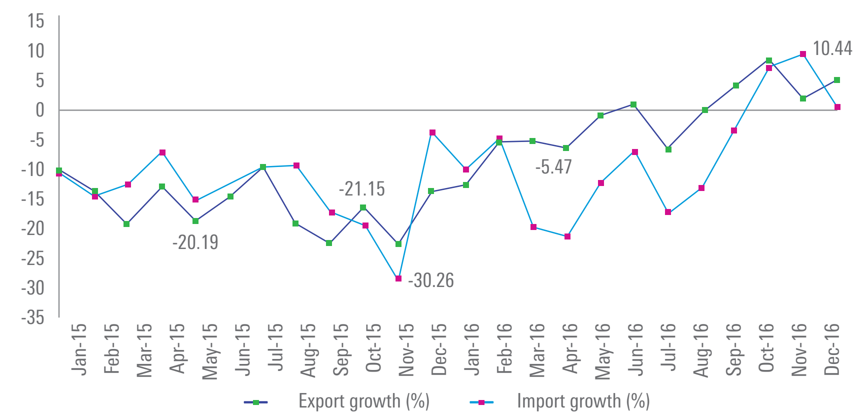
Source: X-Rates website, accessed on 1 February 2017

26. "India losing its sheen", Business Standard, 15 December, 2016
27. "Rupee erases losses to close higher against US dollar", Live Mint, 27 January, 2017

India's merchandise exports witnessed an increase for the first time in 19 months in June 2016.[28] The exports during September–December 2016 largely maintained an upward trajectory, while the import figures grew steadily before declining in December 2016. In the first full month after the demonetisation exercise conducted by the government (December 2016), merchandise exports increased 7.8 per cent (in rupee terms) and 5.7 per cent (in U.S. dollar terms) to INR162,179.9 crore (USD23.88 billion) y-o-y, the imports remained steady at INR2,32,588.2 crore (USD34.25 billion). This led to a significant decline in the country's trade deficit, which stood at USD10.37 billion, down from USD11.50 billion in December 2015, and USD13 billion in November 2016.[29] Among the 30 export categories, 19 have registered moderate to significant rise, y-o-y, in December 2016. The gems and jewellery sector registered the fastest growth with a 27.9 per cent increase to USD3.15 billion[30] y-o-y in December 2016.

The imports also displayed an increase for most part of 2016, largely on the back of strengthening crude oil prices vis-a-vis 2015. Further, the increase in the value of crude oil imports, which rose 14.6 per cent to USD7.64 billion in December 2016 (on the back of oil production body, OPEC's decision to cut production) could offset the decline in imports towards the end of 2016. This could adversely impact India's trade deficit in the future.[30]

Merchandise trade growth (Y-o-Y, %)



Source: 'India's Foreign Trade, Ministry of Commerce and Industry, monthly press releases from January 2015 to December 2016

Overview of the economic measures undertaken in India during FY17

Flagship initiatives: The government opted to focus on fine-tuning and further incentivising its ongoing flagship initiatives, such as 'Make in India', 'Smart Cities Mission', 'Power for All', 'Start-Up India' and 'Skill India'. Several initiatives were undertaken and incentives were granted by the government in FY17 in a bid to provide boost to the aforementioned initiatives.

Some of these measures include setting-up of a fund of funds under 'Start-Up India' in June 2016[31], launching of the 'Make in India Action Plan' dashboard in April 2016[32] and granting approvals for the construction of 1.1 million houses under the 'Pradhan Mantri Aawas Yojana'.[33]

The move towards a digital economy has been one of the key focus areas for the government during FY17. It was one of the stated objectives of the demonetisation exercise undertaken in November 2016. Some of the major initiatives under this are:

- Proposal for rolling out 'Aadhaar Pay' service, that would enable citizens to make and receive payments using their Aadhaar card number and biometrics[34]
- Launch of the BHIM digital payment application in the current fiscal year. The government has additionally proposed the launch of two schemes towards promoting the use of BHIM application as a part of the Union Budget 2017. These include a referral bonus and a cashback scheme for merchants.[35]

Economic reforms: The government undertook several significant reforms with far reaching results for the economy in FY17. The Rajya Sabha passed the long anticipated GST Constitutional Amendment Bill in August 2016, paving way for a uniform taxation structure across India. Other key

28. "India's exports rise in June for the first time in 19 months", Livemint, 16 July 2016
29. 'India's Foreign Trade, Ministry of Commerce and Industry, monthly press releases from January 2015 to December 2016
30. "India's exports rise 6% in December; trade deficit shrinks sharply", International Business Times, 13 January 2017
31. "Cabinet okays Rs 10k-crore startup fund", The Times of India, 23 June 2016
32. "Inauguration of Dash Boards for 'Make in India Action Plan' by Commerce Minister", PIB, 8 April 2016
33. "Narendra Modi's 'housing for all' scheme doesn't interest governments led by Arvind Kejriwal, Akhilesh Yadav", Financial Express, 1 November 2016
34. "Cashless transactions: Govt to roll out Aadhaar Pay, 14 banks already on board", Zee News, 27 January 2017
35. "Aadhaar Pay to be launched soon, says Arun Jaitley", The Times of India, 1 February 2017

reforms undertaken included the passing of the Insolvency and Bankruptcy Code 2016; Real Estate (Regulation and Development) Act, 2016; the Mines and Minerals (Development and Regulation) Amendment Act; and, the Aadhaar Act 2016.[36]

Social security measures: The Government of India has given its clearance to the 'Varishtha Pension Bima Yojana' to be launched in 2017. The scheme aims to provide social security during old age and insulate senior citizens against a fall in their interest income owing to uncertain market conditions.[37] The government has also announced two housing schemes for the economically weaker sections under the 'Pradhan Mantri Aawas Yojana' with provisions for interest subvention for loans up to INR12 lakh.[38] Several additional measures include an assured return of 8 per cent to senior citizens on bank deposits as well as a monetary allocation to pregnant women that is aimed at reducing maternal deaths during childbirth.[41] **Reforms in the pipeline:** Subsequent to the passing of the GST Bill in the Parliament, the newly constituted GST Council will be responsible for taking necessary measures for the nation-wide implementation of GST in 2017.[40] In addition, the government intends to introduce the Wage Code Bill and the Small Factory Bill, aimed at bringing labour reforms within the economy, which would help further improve the 'Ease of Doing Business'.

Monetary policy: In September 2016, the government set up a six-member MPC, thereby establishing a new structure for determining interest rate in India, replacing RBI as the sole arbiter.[41]

The MPC cut down the policy rate by 25 basis points in October 2016; however, it opted to keep the policy rate unchanged at 6.25 per cent in its latest bimonthly policy review held in December 2016 (after conducting due assessment of the impact of demonetisation carried out in the month of November). The central bank opted to keep the CRR unchanged at 4 per cent.[42]

The RBI expects the Consumer Price Inflation index to decline by 10 basis points in the short-term, and has cut its GVA forecast to 7.1 per cent for FY17 from its previous projection of 7.6 per cent due to the government's recent demonetisation move.[42]

Investments: GoI has continued on the path of reforms across various sectors, in an attempt to ensure continued inflow of investment into India. As part of the changes to investment regulations, the government has allowed foreign-owned single-brand retailers a three-year grace period to comply with local sourcing norms. The additional measures include foreign companies being permitted to own up to 74 per cent in brownfield pharmaceutical projects, foreign investors being allowed ownership of up to 100 per cent in domestic airlines and FVCIs registered with the SEBI being permitted to invest in Indian start-ups, without prior government permission.[43]

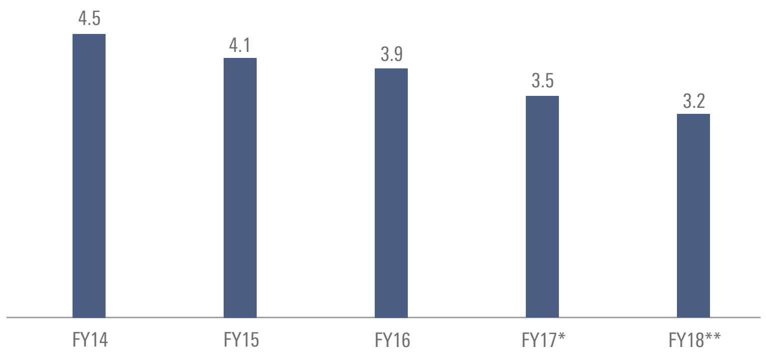
Regulatory framework: India is currently ranked 130 in the World Bank's 'Ease of Doing Business' rankings. The government has undertaken several measures towards achieving its stated aim of attaining a rank amongst the top-50 nations. Some of the major decisions taken to improve India's ranking are in the domain of obtaining credit, enforcing contracts, implementation of bankruptcy code and formation of single-window platforms for accessing services offered by multiple government departments.[44]

The Indian government is expected to meet its fiscal deficit target of 3.5 per cent of GDP in FY17, as tax revenues are anticipated to increase post the launch of income disclosure schemes in FY17.[45]

India's fiscal deficit reached 93.9 per cent of the budgeted FY17 target, during April–December 2016 vis-à-vis 87.9 per cent of the target during the corresponding period in 2015.[46]

36. "Was 2016 the year of government reforms?", DNA, 23 December 2016
37. Govt launches Varishtha Pension Bima Yojana", The Hindu, 24 January 2017
38. "PM Modi announces two housing schemes for poor, middle class: Key announcements from speech", The Indian Express, 31 December 2016
39. "Schemes announced by PM Modi on New Year's eve", The New Indian Express, 31 December 2016
40. "The road ahead for the GST council", Livemint, 14 September 2016
41. "Government appoints monetary policy committee to help RBI set interest rates", The Economic Times, 23 September 2016
42. "Key takeaways of RBI money policy", The Economic Times, 7 December 2016
43. India Relaxes Foreign Direct Investment Rules", The Wall Street Journal, 20 June 2016
44. "How govt plans to take India's ranking in 'Ease of Doing Business' to top 50 in the world", Yourstory, 20 December 2016
45. "Fiscal deficit target: Narendra Modi govt set to achieve 3.54% target easily over buoyant tax receipts", Financial Express, 16 January 2017
46. "India's fiscal deficit reaches 94% of the budget estimate in December", The Economic Times, 1 February 2017

Fiscal deficit as % of GDP



Source: "Economic Survey 2016-17", India Budget, 31 January 2017
*Budgeted estimate by the government
** Target set by the government

The government revised its fiscal deficit target to 3.2 per cent of GDP for FY18 from 3 per cent previously. The revision was a result of the need to increase the government spending towards infrastructure and other schemes to boost demand.[47]

During FY17, the country made significant strides towards strengthening its economic fundamentals — fiscal deficit was contained, CAD was reduced, inflation was abated and trade deficit was reduced. The RBI cut repo rates during FY16 and introduced the MCLR methodology to ensure the benefits of rate cuts are passed on to retail consumers rapidly, spurring the demand in the country.

Going forward, certain domestic and global developments could potentially pose challenges for the Indian economy. An uncertain global economic and political environment — with respect to trade, economic and migration policies — could have ramifications for India's capital markets, exports, manufacturing and monetary policy, amongst others.

A change in the U.S. fiscal and monetary policy and increasingly protectionist policies of several countries, could hamper India's growth prospects. While the former could result in increased capital outflows from the country, the latter could hamper export growth.

On the domestic front, the country is expected to face a significant decline in demand owing to the lingering liquidity shortage, post demonetisation. Moreover, stressed balance sheets of Indian corporates and high level of NPAs in the banking system could act as deterrents for the private sector investments in the country.

However, global growth is expected to pick up pace, as IMF in its January 2017 World Economic Outlook estimated the world GDP to grow at 3.4 and 3.6 per cent in 2017 and 2018, respectively. Also, India continues to be one of the fastest growing major economies, as per \ IMF. [48]

According to the Economic Survey 2016–17, India's real GDP growth is projected at 7.1 per cent for FY17, and could reach 6.75–7.5 per cent in FY18. This further projects India as one of the fastest growing countries in the backdrop of a subdued and uncertain global economy.[49]

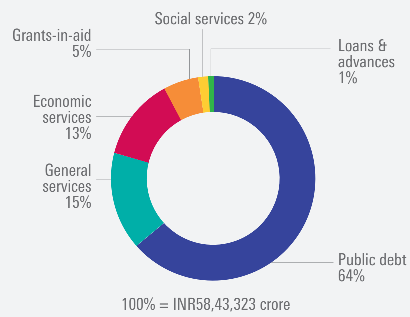
India's growth momentum could get a boost from higher spending by the government and private players towards infrastructure development and capacity expansion, to revitalise demand. Further, to reduce dependency on global trade and economic policies, a rise in domestic consumption can be beneficial. Moving towards FY18, the implementation of GST Bill, policy reforms towards EoDB, rate cuts, migration towards a cashless society and social sector reforms are anticipated to provide an impetus to the Indian economy.

---

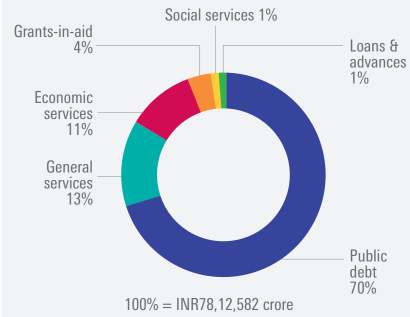
47. "Union Budget 2017: Fiscal Deficit Target For 2017-18 Set At 3.2%", NDTV Profit, 1 February 2017
48. "WORLD ECONOMIC OUTLOOK (WEO) UPDATE", IMF, January 2017
49. "Economic Survey 2016-17", India Budget, 31 January 2017

Indian finances at a glance

Expenditure 2015–16

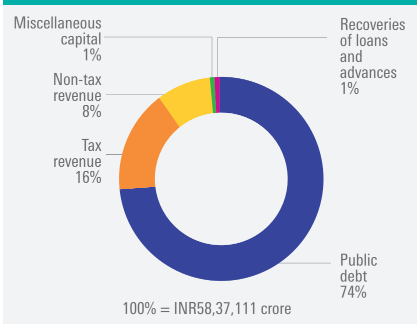


Expenditure 2016–17



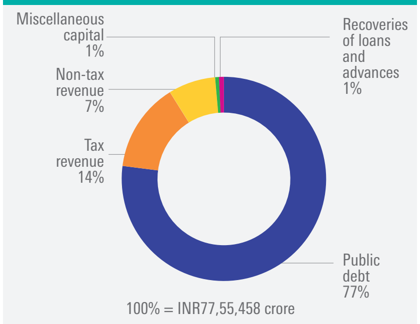
2015-16 (INR cr.)		2016-17E (INR cr.)
7.6%	GDP Growth rate	7.1%
	Expenditure	
40,63,795	Capital	58,23,863
17,79,528	Revenue	19,88,719
58,43,323	**Total**	**78,12,582**
	Receipts	
44,00,951	Capital	60,78,396
14,36,160	Revenue	16,77,062
58,37,111	**Total**	**77,55,458**
3.9%	Fiscal Deficit	3.5%

Receipts 2015–16



Click here to view larger image

Receipts 2016–17



Source: "Consolidated Fund of India – Revenue Account – Receipts", Government of India, accessed on 1 February 2017; "Consolidated Fund of India – Capital Account – Receipts", Government of India, accessed on 1 February 2017; "Consolidated Fund of India – Capital Account – Disbursements", Government of India, accessed on 1 February 2017; "Consolidated Fund of India – Revenue Account – Disbursements", Government of India, accessed on 1 February 2017; "Economic Survey 2016-17", Government of India, 31 January 2017

Budget highlights

Direct tax

Corporate tax

- No change in corporate tax rate except for Domestic Companies with the turnover not exceeding INR500 million in FY 15-16 for whom the rate is reduced to 25 per cent rate to be increased by applicable surcharge incess.

- Taxation at 10 per cent on gross basis for transfer of carbon credits. Rate to be increased by applicable surcharge and cess.

- Special provisions introduced for computing MAT in cases of Ind-AS compliant Companies. MAT / AMT carry forward period extended from ten to fifteen years and to be computed excluding the impact of Foreign Tax Credits on MAT/AMT and normal tax computation.

- LTCG on transfer of equity shares in a listed company, acquired on or after 1 October 2004, to be exempt if the STT has been paid on acquisition of such equity shares or such acquisition has been notified by the Central Government.

- The conversions of preference shares into equity exempted from ambit of transfer and any potential capital gains taxation.

- Taxability on receipt of specified property (e.g. shares, securities, jewellery, immoveable property, etc.) without or for inadequate consideration extended to all taxpayers (including company and firm).

- Tax holiday for SEZ units under section 10AA to be restricted to the total income of the taxpayer.

- Period of holding of immovable property for being regarded as LTCG assets reduced from thirty six months to twenty four months.

- House Property held as stock in trade and not sold within one year from end of the financial year of obtaining completion certificate to be taxed as notional income under the head Income from House Property.

- The base date for CII for capital assets acquired before 1 April 2001 to be taken as 1 April 2001 for CII step up as applicable.

- Eligible startup companies entitled to claim 100 per cent tax holiday for any three out of seven years from its incorporation.

- In case of an eligible start-up company the losses of initial seven years can be carried forward so long as all the shareholders carrying voting power on the last day of year of loss continue to hold such shares on the last day of the year of change in shareholding and the condition of 51 per cent beneficial voting shareholder to remain the same as applicable to closely held companies relaxed.

- The time limit for filing revised return is reduced by one year and it can be filed on or before the assessment year or before the completion of assessment, whichever is earlier.

- The indirect transfer provisions shall not apply to any investment held by a non-resident, directly or indirectly, in a FII registered as category I or Category II FPI under the SEBI (FPIs) regulations, 2014, with effect from 1 April 2012

- The lower withholding tax of 5 per cent on interest paid on ECB to non-residence extended to rupee denominated bonds with effect from 1 April 2016 and borrowings period extended till before 1 July 2020

- The sunset date of withholding tax of 5 per cent on interest payable to FIIs and QFIs on their investments made in government securities or rupee denominated bonds extended to 1 July 2020.

- The concessional rate of tax of 10 per cent (plus surcharge and cess) applicable on long-term capital gains arising to a non-resident from transfer of shares in a company not being a company in which the public is substantially interested is made applicable retrospectively with effect from 1 April 2013.

- The term not defined in the tax treaty, but defined in the Act, to be assigned the meaning given in the Act and any explanation given to it by the central government.

Transfer Pricing

- Total interest deduction for Indian companies and PE of Foreign companies capped at 30 per cent of EBITDA. Any interest paid to AEs representing amounts exceeding such 30 per cent cap to be disallowed. Debt issued or guaranteed (including implicit guarantee) by non-resident AE covered. Any un-allowed interest eligible to be carried forward for eight years and to be deductible in a similar manner.
- Applicability of domestic transfer pricing now restricted to entities with tax holiday units. The requirement of domestic transfer pricing compliance for non-tax holiday entities making payments to domestic related parties done away with.
- Secondary adjustments by way of interest on 'deemed advance' introduced. 'Deemed advance' represents transfer pricing adjustments by way of enhancement of income or reduction of deductible expense for an Indian company (suo moto or otherwise including in APAs / MAPs) for which no amounts have been remitted or repatriated back to India respectively.

Personal tax

- Any individual or HUF entering into a JDA with a developer to be chargeable to capital gains tax only in the year in which the certificate of completion for the project is issued.
- The tax rate reduced from 10 per cent to 5 per cent for the taxpayer having an income of INR250,001 to INR500,000. Hence, the total impact of INR 12,875.
- No set off of interest paid on property loans over INR0.2 million on let-out properties against other income and un-allowed interest to be carried forward for eight subsequent financial years only against house property income on similar basis.

Indirect tax

- Affirmation by FM to rollout GST within the stipulated timeline
- No change in standard rate of service tax, excise and customs duty
- Cashless economy attempted to be promoted through concessional customs and excise duty rates for certain technology products
- Customs and excise duty rates re-visited for certain products to promote 'Make in India'
- R&D cess proposed to be withdrawn from 1 April 2017. Accordingly, service tax payable at applicable rates without claiming any deduction of R&D cess
- Advance ruling machinery for customs, excise and service tax proposed to be merged with income tax.

Budget proposal

Key policy proposals

Reforms in the FDI policy

- With more than 90 per cent of the total FDI inflows under the automatic route and successful implementation of e-filing and online processing of FDI applications by the FIPB, the government has decided to abolish FIPB in FY2017-18 for which a road map is expected to be provided shortly. Further liberalisation of FDI policy is on cards.

Other policy proposals

- The registration process of financial market intermediaries such as mutual funds, brokers, portfolio managers, etc. to be made fully online by SEBI.
- Registration, opening of bank and demat accounts, and issue of PAN for FPIs to be taken care by a common application form and put in place jointly by SEBI, RBI and CBDT.
- Individual demat accounts to be linked with Aadhar.
- An expert committee to be constituted to study and promote creation of an operational and legal framework to integrate spot market and derivatives market for commodities trading. E-National Agricultural Market would be an integral part of such framework.
- The commodities and securities derivative markets to be further integrated by integrating the participants, brokers, and operational frameworks.
- The bill relating to resolution of financial firms to be introduced in the current Budget Session of Parliament.
- The Arbitration and Conciliation Act 1996 to be amended to streamline institutional arrangements for resolution of disputes in infrastructure related construction contracts, PPP and public utility contracts.
- Towards cybersecurity, a Computer Emergency Response Team for Financial Sector (CERT-Fin) to be established to work with all financial sector regulators and other stakeholders towards safeguarding the integrity and stability of financial sector.
- Systemically important NBFCs RBI regulated and above a certain net worth, to be categorised as QIBs and can participate in IPOs with specifically earmarked allocations.
- Listing and trading of security receipts issued by a Securitisation Company or a Reconstruction Company under the SARFAESI Act to be permitted on registered stock exchanges.
- Existing Board for Regulation and Supervision of Payment and Settlement Systems to be replaced by Payments Regulatory Board in the RBI. Further, the government will undertake a comprehensive review of Payment and Settlement Systems Act, 2007 and bring appropriate reform in the digital payment eco system.
- The RBI Act, 1934 amended to permit issuance of electoral bonds by authorised scheduled banks.
- Fund allocation for incentive schemes such as M-SIPS and EDF exponentially increased to INR745 crore in FY2017-18.

Direct tax

Corporate tax

- No change in the corporate tax rate except domestic companies, whose total turnover or gross receipts in the FY2015-16 does not exceed INR500 million are taxable at 25 per cent.
- Income arising from transfer of carbon credits to be taxable at a concessional rate of 10 per cent on gross basis (plus surcharge and cess).
- The deduction with respect to the profit and gains derived from the SEZ Unit to be allowed from the total income of the taxpayer before giving effect to any such deduction.

MAT

Ind AS

- Net P&L before OCI for the year to be adjusted for computing book profits as per existing provisions.
- In the year of Ind AS adoption, OCI items which are to be reclassified to P&L subsequently to be included in book profits in the year in which such reclassification is made.
- Adjustments recorded in OCI which would never be subsequently reclassified to the P&L to be included in book profits as under:

Sr.	Item	Treatment in the year of adoption of Ind AS	Treatment in all subsequent years
1	Changes in revaluation surplus of PPE and intangible assets	To be included in book profits at the time of realisation/disposal/retirement or otherwise transferred	
2	Gains and losses from investments in equity instruments designated at fair value through OCI	To be included in book profits at the time of realisation/disposal/retirement or otherwise transferred	
3	Remeasurements of defined benefit plans and any other item	To be included in book profits equally over a period of five years starting from the year of first time adoption of Ind AS	To be included in book profits every year as and when the gains and losses arises

- All other adjustments recorded in reserves and surplus (excluding capital reserve and securities premium) and which would never be reclassified to P&L to be included in book profits as under:

Sr.	Item	Particulars
1	PPE and intangible assets at fair value as deemed cost	Adjustment to retained earnings on first time adoption to be ignored Depreciation/gain/loss on realisation/disposal/ retirement of such assets shall be computed ignoring the amount of retained earnings adjustment
2	Investment in subsidiaries, joint ventures and associates at fair value as deemed cost	To be included in the book profits at the time of realisation of such investments
3	Cumulative translation differences arising out of foreign operations on the date of transition which have been transferred to retained earnings	To be included in the book profits at the time of disposal of foreign operations

- All other adjustments to retained earnings (e.g. asset retirement obligations, borrowing cost adjustments, etc.) to be included in book profits equally over a period of five years starting from the year of adoption of Ind AS.
- Any deferred tax adjustments recorded in Reserves and Surplus on transition to Ind AS to be ignored.
- In the first year of adoption of Ind AS, companies would prepare Ind AS financial statement with a comparative financial statement for immediately preceding year. For the purposes of computation of book profits of the first year of adoption, the amounts adjusted as of the opening date of the first year of adoption shall be considered.
- Book profits adjustments on distribution of non-cash assets to shareholders (e.g. demerger) to be excluded/ignored as stipulated for both resulting company and demerged company as the case may be.
- This amendment is applicable from FY2016-17 for companies adopting Ind AS.

Other MAT provisions

- MAT/AMT credit carry forward extended from 10 to 15 years
- MAT/AMT credit shall not be allowed to be carried forward to subsequent year to the extent such credit relates to the difference between the amount of FTC allowed against MAT/AMT and FTC allowable against the tax computed under the regular provisions of Act other than MAT/ AMT provisions.

Non-resident taxation

- The Finance Act, 2016 provided that LTCG arising to a non-resident (not being a company) or a foreign company, from transfer of capital assets being shares of a company not being a company in which the public are substantially interested, to be chargeable to tax at the rate of 10 per cent without indexation. The same has been made applicable retrospectively with effect from 1 April 2013
- The withholding tax rate of 5 per cent on the interest from ECB is extended to borrowing made before 1 July 2020 as against 1 July 2017. With effect from 1 April 2016, the withholding rate of 5 per cent has been made applicable to rupee denominated bonds and to continue to such borrowing made before 1 July 2020.
- The sunset date of withholding tax rate of 5 percent on the interest payable to FII and QFIs on their investments made in government securities or rupee denominated corporate bonds has been extended from 1 July 2017 to 1 July 2020.
- The indirect transfer provisions shall not apply to any investment held by a non-resident, directly or indirectly, in case of a FII registered as Category I or Category II FPI under the SEBI (FPIs) regulations, 2014, with effect from 1 April 2012.
- The fund management activity carried out through an eligible fund manager in India by an eligible investment fund does not constitute business connection in India of the fund, subject to certain conditions. One of the eligibility criteria prescribed for the fund is to maintain monthly average of the corpus of at least INR10 million. With effect from 1 April 2016, this condition shall not apply to a fund which has been wound up during the year.
- The term not defined in the tax treaty, but defined in the Act, to be assigned the meaning given in the Act and any explanation given to it by the central government.
- The taxpayers premitted to claim credit of taxes paid in foreign jurisdictions, if not allowed in the relevant year due to its payment being under dispute, by furnishing to the tax authority the evidence of settlement of dispute and the proof of payment along with an undertaking that no credit in respect of such amount has been claimed or shall be claimed in any other year.

Capital gains

- The conversion of preference shares into equity shares not to be regarded as transfer and not subject to capital gains tax. Cost of acquisition of equity shares deemed to be the cost of acquisition of preference shares. Period of holding of equity shares to include period of holding of the preference shares.
- Transfer of rupee denominated bonds of an Indian company between two non-residents outside India not to be regarded as transfer and not subject to capital gains tax. Non-taxation of gains on appreciation of rupee against foreign currency derived by a non-resident on redemption of rupee denominated bonds extended to secondary holders of such bond.

- Base date for CII shifted from 1 April 1981 to 1 April 2001. For computingcapital gains on transfer of capital asset acquired before 1 April 2001, taxpayer to have an option to either consider the FMV of such asset on 1 April 2001 or the actual cost of such asset as cost of acquisition. Cost of improvement to include capital expenditure incurred after 1 April 2001.

- In case of transfer of shares of an Indian company between two foreign companies pursuant to a tax-neutral demerger, the cost of acquisition of such shares for resulting foreign company shall be the same as it was in the hands for demerged foreign company.

- Cost of acquisition of units in consolidated plan of mutual fund scheme of a taxpayer to be the cost of acquisition of units in consolidating plan of mutual fund scheme. Period of holding of units of consolidated plan of mutual fund scheme to include period of holding of units of consolidating plan of mutual fund scheme.

- Exit tax was levied on accreted income of charitable organisation converted or merged into non charitable organisation or where it does not transfer assets to another charitable organisation. It is clarified that cost of acquisition of such assets for the charitable institution shall be deemed to be FMV of such asset for computation of accreted income and payment of exit tax. This provision shall be applicable retrospectively from 1 June 2016.

- Where the consideration received or accruing to a taxpayer on transfer of unlisted shares is lower than the FMV (to be prescribed) of such shares, such FMV shall be deemed to be the full value of consideration for computing capital gains.

- Benefit of long-term capital gains tax exemption upto INR50 lakh extended to investment in any bonds redeemable after three years and notified by the central government.

- Exemption from capital gains tax arising to individual and HUF on transfer of specified capital asset under the land pooling scheme notified under the APCRDA Act with retrospective effect from the AY 2015-16. No capital gains tax on sale of reconstituted plot or land within two years from the end of financial year in which posession was handed over. For computing capital gains, the cost of acquisition of such reconstituted plot or land shall be the stamp duty value on the last day of second year from the end of the FY in which such reconstituted plot or land was handed over to the taxpayer. The 'Specified Capital Assets' means –
    a. Land or building or both owned by the tax payer as on 2 June 2014 and transferred under the Scheme; or
    b. Land Pooling Ownership Certificate issued under the Scheme in lieu of specified capital asset referred in clause (a) above; or
    c. Reconstituted plot or land received in lieu of specified capital asset referred in clause (a) above and transferred within two years for the end of the FY in which possession was handed over.

- LTCGS on transfer of equity shares in a company, acquired on or after 1 October 2004, is exempt only if the STT has been paid on acquisition of such equity shares or such acquisition has been notified by the Central Government.

Taxation of the Real Estate sector

- The holding period for immovable property being land or building or both, reduced from existing 36 months to 24 months to qualify as long-term capital asset

- Gains arising to an individual or HUF on transfer of land or building or both under a JDA shall be chargeable to tax in the previous year in which the certificate of completion for the whole or part of the Project is issued by the competent authority. Full value of consideration for computing capital gains to be the stamp duty value of the individual or HUF's share in the project on the date of issuance of the completion certificate plus any cash consideration. Monetary consideration to be subject to TDS at 10 per cent. The cost of acquisition of individual's or HUF's share in the project is to be amount which is deemed as full value of consideration.

- The above benifit of deferment of tax under JDA shall not be available to individuals or HUFs who transfer their share on or before the issuance of the completion certificate.

- For house property held as stock-in-trade and not let out, annual value to be considered as 'Nil' up to one year from the end of FY in which completion certificate obtained.

- The following conditions are relaxed to claim profit linked deduction for affordable housing projects:
    - Restriction on residential unit size to be considered in the context of 'carpet area' instead of 'built-up area'.

- The restriction of thirty square meters applicable to area falling within twenty five kilometres of the municipal limits of Chennai, Delhi, Kolkata and Mumbai is done away with.
- Project completion timeline extended from three years to five years.

Start-up companies

- Eligible start-ups are entitled to claim deduction with respect to profit and gains derived from their business for period of three consecutive years out of seven years (instead of five years) from its incorporation.
- In case of an eligible start-up company, the losses of initial 7 years can be carried forward so long as all the shareholders carrying voting power on the last day of year of loss continue to hold such shares on the last day of the year of change in shareholding and the condition of 51 per cent beneficial voting shareholder to remain the same as applicable to closely held companies relaxed.

TDS, TCS, and advance tax provisions

- Individuals and HUF (apart from those subject to tax audit) paying rent to a resident exceeding INR50,000 per month are required to deduct tax at source at 5 per cent at the time of credit of rent for the last month of previous year/tenancy or payment of rent whichever is earlier. No TAN is to be obtained. This amendment will take effect from 1 June 2017.
- The rate of deduction of tax at source reduced to 2 per cent from existing 10 per cent if payee is engaged in the business of operation of only call center. This amendment will take effect from 1 June 2017.
- No taxes required to be withheld from tax exempt compensation received under the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013.
- No tax shall be withheld from insurance commission payable to individual or HUF provided they furnish self-declaration in prescribed form to the payer stating that the tax on their estimated total income for the relevant year is nil. This amendment will take effect from 1 June 2017.
- Sellers receiving consideration for sale of motor vehicle exceeding INR1 million exempted from tax collection at source for the sale to central government, state government, an embassy, a High Commission, legation, commission, consulate and the trade representation of a foreign state, specified local authority, or a public sector company engaged in the business of carrying passengers. Jewellery has been removed from the purview of TCS provisions in view of the restriction on cash transaction above INR0.3 million.
- To strengthen PAN mechanism in TCS regime, the collectee should mandatorily furnish and quote their PAN to the collector failing which TCS to be higher of twice the prescribed rates or 5 per cent. The above provisions shall not be applicable to the non-resident not having PE in India.
- The CBDT to issue directions/ instructions in respect of levy of penalty for failure to deduct / collect tax at source and lay down relief for cases of genuine hardship
- The benefit of paying of advance tax on or before 15 March by one installment is now extended to professionals declaring profits and gains in accordance with presumptive taxation regime (similar to provisions when business income is offered to tax on presumptive basis)

Return and assessment

- The time limit for filing revised return is reduced by one year and it can be filed on or before the assessment year or before the completion of assessment, whichever is earlier.
- The time limit for completion of assessment and re-assessment proceedings revised as under:
  - From 21 months to 18 months from the end of the relevant assessment year for AY2018-19
  - From 18 months to 12 months from the end of the relevant assessment year for AY2019-20 and onwards
  - From 9 months to 12 months from the end of FY in which re-opening notice is issued in the cases where such notice is served on or after 1 April 2019
  - For all of the above, an additional 12 months allowed if reference has been made to TPO. Similar changes in timelines to apply for search and seizure cases
  - For assessments of other persons based on the evidence gathered during search, time limits reduced by 3 months from FY commencing on 1 April 2018 and further 3 months for FY commencing on 1 April 2019.
- The time limit for completion of assessment for order giving effect, etc. revised as under:
  - Time limit increased from 9 months to 12 months from the end of the relevant FY for orders passed on or after 1 April 2019.

- With retrospective effect from 1 June 2016, time limit to pass appeal effect order increased to 12 months (from 3 months) where any issue requires any opportunity of being heard to be given to the assessee.
- For uncompleted proceedings relating to notice for assessment, re-assessment or re-computation issued before 1 June 2016, earlier applicable timelines to continue.

Penalty

- Penalty of a sum equal to the amount of such receipt to be levied on a person who receives without good and sufficient reasons, a sum of INR0.3 million or more as under:
  - in aggregate from a person in a day or
  - in respect of a single transaction or
  - in respect of transactions relating to one event or occasion from a person, otherwise than by an account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account. However, said restriction will not apply to specified persons.
- Penalty of INR10,000 to be imposed for furnishing incorrect information in any report or certificate by an accountant or a merchant banker or a registered valuer to the AO or CIT(A). Penalty not to be imposed, on these persons if there was a reasonable cause for the said failure
- Non-furnishing of return of income within the time prescribed under the Act to attract penalty as under:
  - Penalty of INR5,000 if the return is furnished on or before 31 December of the assessment year;
  - Penalty of INR10,000 in any other case; and
  - However, if the total income of the person does not exceed INR5 lakh, then penalty to be restricted to INR1,000.

Administrative procedures

- In search and seizure, reason to believe or reason to suspect shall not be disclosed to any person or any authority or the Appellate Tribunal. The amendment to take effect retrospectively from the enactment of respective provisions.
- In search or seizure, the authorised officer may
  - Provisionally attach any property for six months after recording reasons and taking prior approval.
  - Make a reference to valuation officer to estimate the fair market value of any property and submit report within 60 days.
- The place at which an activity for charitable purpose is carried on is included within the power to survey by the income tax authority.
- The CBDT to come out with a scheme for centralised issuance of notices to verify any information in its possession, processing such documents and making it available to AO.
- To remove genuine hardship, undisclosed income or asset not disclosed in the IDS would not be treated as income of the year of issue of notice by tax authorities but in cases of search where tangible evidence is found then notice can be issued beyond six years upto ten years for assessment if:
  - The AO has any evidence that income, represented in the form of an asset, which has escaped assessment exceeds or is likely to exceed INR5 million; and
  - Such income has escaped assessment
- The Finance Act, 2016 provided for processing of return of income before issuing a regular assessment order. This provision shall cease to apply in respect of returns furnished for AY2017-18 and onwards. It is now provided that where refund of any amount becomes due to the tax payer after processing of return and if the tax officer is of the opinion that grant of refund may adversely affect the recovery of revenue, he may, with the prior written approval of the Principal Commissioner/ Commissioner, withhold refunds upto the completion of assessment.

Others amendments

- The capital expenditure incurred in cash by assessees engaged in specified businesses to be disallowed under the investment linked deduction scheme if it exceeds INR10,000 to a person in a day
- The ceiling for claiming expenditure paid in cash reduced from INR20,000 to INR10,000 to a person in a day. Similar ceiling to apply for determining actual cost of assets
- The deemed income (under presumptive tax regime) in case of eligible assesses having turnover of less than INR20 million reduced from 8 per cent to 6 per cent in respect of the turnover received in non-cash mode in the previous year or before the due date of filing the income-tax return

- Interest on deferment of advance tax not to be attracted if the shortfall in payment of advance tax is on account of under-estimation or failure in estimation of dividend income from Indian companies which exceeds INR1 million and appropriate tax is paid in the balance installment and where no such installments are due then it is paid by 31 March of FY.
- The limit for deduction in respect of provision for bad and doubtful debts claimed by Banks increased from 7.5 per cent to 8.5 per cent of the amount of total income
- In case of a capital asset acquired for which the investment linked deduction is claimed, but later withdrawn, then the cost of such asset shall be actual cost to the assessee as reduced by the notional depreciation which would have been allowed since the date of its acquisition
- Deduction for interest on loan from scheduled bank linked to payment, now expanded to include interest to cooperative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank
- Taxability of interest income on certain specified bad and doubtful debts in the hands of certain prescribed banks and public financial institutions in the year in which it is credited to profit and loss account or on receipt basis extended to co-operative banks other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank.
- To reduce compliance burden in case of individuals and HUFs, the threshold limit of income and sales turnover for maintenance of books of accounts to be increased, respectively, from INR0.12 million to INR0.25 million and from INR1 million to INR2.5 million.
- In case of eligible assessee having turnover of less than INR20 million, declaring income under presumptive taxation scheme, the requirement of getting the books of account audited done away
- Taxability of receipt of specified property (e.g. shares, securities, jewellery, immoveable property, etc.) without or for inadequate consideration now extended to all taxpayers (including company and firm). The cost of acquisition of such property in the hands of the recipient to be computed accordingly
- The provisions pertaining to disallowance of expenditure in cases of default in withholding of tax on payments made to residents as applicable to computation of business income are extended to computation of the income under the head ‘Income from other sources’
- Income received by the Chief Minister’s/Lt Governor’s Relief fund to be exempt from tax with retrospective effect from 1 April 1998
- Charitable institutions contributing to the corpus of other charitable institutions out of their income shall not be treated as an application of income
- Charitable institutions which amend/modify their objects not conforming to registration conditions will be required to re-obtain such charitable registration
- Charitable institutions and political parties are required to file their return of income within the specified due dates in order to claim tax exemptions
- Political parties are not permitted to receive donations exceeding INR2,000 in any form other than through banking channels or electoral bonds
- Political parties are permitted to receive anonymous contributions (exceeding INR20,000) only through electoral bonds.
- Dividend income in excess of INR1 million, taxable at the rate of 10 per cent on gross basis in case of resident individuals, HUFs or firms has been extended to all resident taxpayers, except domestic companies and certain exempt funds, trusts, institutions, etc.
- A tax deductor shall be entitled to receive simple interest on refund due at the rate of one-half per cent for every month (or part thereof) commencing from the date on which claim for refund is made, or in case of an order passed in the appeal, from the date on which tax is paid, to the date on which refund is granted

- The Research and Development Cess Act, 1986 to be repealed with effect from 1 April 2017
- Partial withdrawal by an employee from NPS Trust, to the extent of 25 per cent of his contribution to such Trust, in accordance with the terms and conditions specified in PFRDA Act to be exempt from tax.
- Income of a foreign company from sale of leftover stock of crude oil from a storage facility in India, after the expiry of an agreement or an arrangement for storage of crude oil in a facility in India, to be exempt from tax, subject to the conditions notified by the Central Government.
- The AAR for income tax, central excise, custom duty and service tax to be merged. Former Chief Justice of a High Court or a person who has been a Judge of a High Court for seven years shall also be eligible to be Chairman of AAR.

Transfer Pricing

- The payments made to the 'specified persons' are excluded from the ambit of domestic transfer pricing provisions. This amendment will be applicable from FY2016-17 onwards
- As a result of primary adjustment to the ALP as per transfer pricing regulations, if there is an increase in the total income or reduction in the loss, the excess money which is available with its AE, if not repatriated to India within the time as may be prescribed, shall be deemed to be an advance made by the assessee to such AE and the interest on such advance, shall be computed as the income of the assessee, in the manner as may be prescribed
- Secondary adjustment should be made pursuant to the primary adjustment, in the following situations:-
  - Suo motu adjustment made by the assessee in the return of income
  - Adjustment made by the Assessing Officer has been accepted by the assessee
  - Adjustment determined by an APA entered into by the assessee
  - Adjustment made as per the Safe Harbour Rules framed or
  - Adjustment arising as a result of resolution of an assessment by way of the MAP under an agreement entered for avoidance of double taxation.
- The above provisions shall not be applicable in the following situations:-
  - The primary adjustment made is less than INR1 crore and
  - The primary adjustment relates to FY2015-16 or prior years.
- In line with the recommendations contained in the BEPS Action plan 4, under new provisions, where an Indian company, or a PE of a foreign company in India, being the borrower, pays interest exceeding one crore rupees in respect of any debt issued / guaranteed by a non-resident AE, then the interest shall not be deductible to the extent, it qualifies as excess interest. Further:
  - The excess interest as above shall mean an amount of total interest paid or payable in excess of thirty per cent of earnings before interest, taxes, depreciation and amortisation or interest paid or payable to AEs for that previous year, whichever is less.
  - Any 'excess interest' disallowed by virtue of aforesaid provisions, shall be allowed to be carried forward for a period of eight years and allowed as deduction to the extent of maximum allowable interest expenditure as aforesaid.
  - These provisions shall not be applicable to the taxpayer engaged in the business of banking or insurance.
  - The above provisions will be applicable for FY 2017-18 and subsequent years.

Personal tax

- Tax rate for individuals, HUF, AOP, BOI and artificial juridical persons, reduced from 10 per cent to 5 per cent, for the first taxable income slab i.e. income above INR250,000 up to INR500,000.
- Surcharge of 10 per cent to be levied for individuals, HUF, AOP, BOI and artificial juridical persons where taxable income is above INR5 million and up to INR10 million.
- Rebate from tax for resident individuals reduced from INR5,000 to INR2,500 and income ceiling for rebate eligibility reduced from INR500,000 to INR350,000.

- Set off of loss from house property against other heads of income restricted to INR200,000 and unadjusted loss to be carried forward for set off for eight subsequent FYs only against house property income on similar basis.
- The deduction available to resident individual on account of investment made in listed equity shares or listed units of an equity oriented fund is phased out from AY2018-19.
- The limit of cash donations eligible for deduction reduced from INR10000 to INR2000.
- Deduction for contributions by self-employed individuals to NPS increased from 10 per cent to 20 per cent of gross total income within the overall cap of INR150,000.
- Partial withdrawal from NPS up to 25 per cent of the employee' contribution exempt from tax
- Correct referencing to FEMA instead of FERA for Person Resident Outside India carried out in respect of tax exemption on interest from Non-Resident (External) Account and to be effective retrospectively from AY 2013-14.

Indirect tax

Goods and Services Tax

The Finance Minister re-affirmed the government's commitment to implement GST and highlighted the following progress made during recent times:

- The GST Council has finalised its recommendations on all major issues during last nine meetings including rate structure, threshold for levy, draft GST law, draft IGST law, compensation law and administrative mechanism for GST.
- Preparation of IT infrastructure is on track for smooth functioning of GST.

Further, the Finance Minister announced that with effect from 1 April 2017, extensive reach-out efforts would be made to trade and industry to make them aware of the new taxation regime.

Service tax

Rate changes

- No change in rate of service tax

Amendments in the negative list (effective from the enactment of the Finance Bill, 2017)

- Services by way of carrying out any process amounting to manufacture or production of goods other than alcoholic liquor for human consumption removed from negative list but specifically included in mega exemption notification and continues to be not liable to service tax.

Amendments in mega exemption notification (effective from 2 February 2017)

- Exemptions expanded to include:
  - Life insurance services provided by Army, Naval and Air Force Group Insurance Funds to its members under the Group Insurance Schemes.
  - Services provided by IIM by way of two year full time PGP in Management, for non-residential programmes as well, to which admissions are made on the basis of the common admission test.
  - Services provided by airline operators to government in relation to transport of passengers by air, embarking from or terminating in a RCS airport for which consideration is received by way of viability gap funding, for a period of one year from the date of commencement of operations of RCS.

Other amendments (effective from the enactment of the Finance Bill, 2017)

- Advance Ruling machinery for service tax merged with income tax. Consequently, the pending applications to be transferred to such authority.
- Time limit for adjudicating the application for Advance Ruling extended from 90 days to six months.
- Retrospective exemption (i.e. from 10 September 2004 to 1 February 2016) from service tax on services by the army, naval and air force group insurance funds by way of life insurance to its members under the group insurance schemes (refund claim to be filed in six months of enactment of the Finance Bill, 2017 of the service tax paid for the prior period).
- Retrospective exemption (i.e. from 1 June 2007 to 21 September 2016), on one time upfront amount payable for grant of long-term lease of industrial plots (30 years or more) by the state government's industrial development corporations/ undertakings to industrial units (refund claim to be filed in six months of enactment of the Finance Bill, 2017 of the service tax paid for the prior period).
- Retrospective amendment with effect from 1 July 2010 to exclude value of land/undivided share of land, in addition to the value of goods, for computing service portion in execution of works contract (involving transfer of goods and land/ undivided share of land).

CENVAT credit

Applicable from date to be notified

- Consideration in the form of interest and discounts to be included as exempt services for computation of CENVAT credit liable for reversal in case of banks, financial institutions and NBFCs.
- Tax authorities required to grant permission in three months from filing of application by assessee, allowing transfer of CENVAT credit in case of transfer of factory, transfer of business of manufacturer or service provider by sale, merger etc., further extendable by six months only on sufficient cause to be recorded by the tax authorities.

Excise duty

General

- No change in basic rate of excise duty.

Rate changes (effective from 2 February 2017 and valid till 30 June 2017)

- Existing exemption from excise duty on point of sale devices and all goods used in manufacturing of such devices extended till 30 June 2017.
- Excise duty increased to 6 per cent on solar tempered glass for use in manufacture of:
  - Solar photovoltaic cells or modules
  - Solar power generating equipment or systems
  - Flat plate solar collectors.
- Excise duty reduced to 6 per cent on parts/raw material for use in the manufacture of solar tempered glass for use in manufacture of aforesaid goods.
- Excise duty reduced to 6 per cent on solar tempered glass used in manufacture of solar photovoltaic module and panel for water pumping and other applications and parts/raw material for use in the manufacture of these goods.
- Exemption from excise duty on micro ATMs) as per standard version 1.5.1, finger print readers/scanners, iris scanner, miniaturised POS card reader for m-POS (other than mobile phone or tablet computer) including parts and components used in manufacture of these goods.
- Excise duty reduced to 6 per cent on all parts used in manufacture of LED lights or fixtures including LED lamps.
- Excise duty on all items of machinery, including instruments, apparatus and appliances, transmission equipment and auxiliary equipment required for initial setting up of fuel cell based system for generation of power or for demonstration purposes or balance of systems operating on bio-gas or bio-methane or by-product hydrogen reduced to 6 per cent.

Amendments (effective from the date of enactment of the Finance Bill, 2017)

- Advance ruling machinery for excise duty merged with income tax. Consequently, the pending applications to be transferred to such authority.
- Time limit for adjudicating the application for Advance Ruling extended from 90 days to 6 months.
- Scope of Settlement Commission enlarged to cover persons other than the assessee as well, subject to conditions.

Miscellaneous

- Tax authorities required to grant remission of excise duty (in cases such as goods lost or destroyed by natural causes) in 3 months from filing of application by assessee, further extendable by 6 months only on sufficient cause for delay (effective from the date to be notified).

Customs duty

General

- Standard BCD rates remain unchanged. Thus, the effective customs duty rate continues to be 26.43 per cent (specific capital goods)/29.44 per cent (other goods).

Rate changes (effective from 2 February 2017)

- BCD on LNG reduced from five per cent to 2.5 per cent.
- BCD on catalyst and resin used in manufacture of cast components of wind operated electricity generator reduced from 7.5 per cent to five per cent.
- BCD exempted on solar tempered glass/solar tempered (anti-reflective coated) glass for use in the manufacture solar cells/ modules/panels.
- BCD increased from 7.5 per cent to ten per cent on RO membrane element for household type filters.
- Exemption from customs duty on micro ATMs as per standards version 1.5.1, finger print readers/ scanners, iris Scanner, miniaturized POS card reader for m-POS (other than mobile phone or tablet computer) and parts and components for use in the manufacture of said goods.
- Concessional BCD of five per cent extended to all parts for use in manufacture of LED lights or fixtures including LED lamps.
- Concessional BCD of five per cent extended to all inputs for use in manufacture of LED drivers or metal core printed circuit board for LED lights and fixtures or LED lamps.
- BCD on all items of machinery, including instruments, apparatus and appliances, transmission equipment and auxiliary equipment required for initial setting up of fuel cell based system for generation of power or for demonstration purposes or balance of systems operating on bio-gas or bio-methane or by-product hydrogen reduced to five per cent.

Rate changes (effective from 2 February 2017 and valid till 30 June 2017)

- SAD exempted on catalyst and resin for use in manufacture of cast components of wind operated electricity generator.
- SAD of two per cent imposed on populated printed circuit boards for use in manufacture of mobile phones.

Amendments (effective from enactment of Finance Bill, 2017)

- Documentation requirement relaxed for verification of self-assessment by the Customs authorities.
- Refund of excess customs duty paid before clearance of goods to be available without test of unjust enrichment, subject to conditions.
- Advance ruling machinery for excise duty merged with income tax. Consequently, the pending applications to be transferred to such authority.
- Time limit for pronouncement of advance ruling extended from 90 days to six months.
- Bills of Entry to be submitted before end of next day following the day of arrival of goods at the port of import. In case of default, importer needs to pay late presentation charges as may be prescribed.
- Scope of Settlement Commission enlarged to cover persons other than the assessee as well, subject to conditions.

Miscellaneous

- Goods imported for petroleum or coal bed methane operations availing customs duty benefit allowed to be disposed on payment of customs duty on depreciated value (subject to maximum depreciation of 70 per cent and specified conditions).

Research and Development Cess (R&D Cess) (effective from 1 April 2017)

- R&D Cess proposed to be withdrawn from 1 April 2017. Accordingly, service tax to be paid at the applicable rates without claiming any deduction of R&D Cess.

Tax rates

These rates are subject to enactment of the Finance Bill 2017. The rates are for the Financial Year 2017-18.

1. Income tax rates

1.1 For Individuals, HUF, AOP, BOI and Artificial Juridical Persons

Total Income	Tax Rates [f]
Up to INR250,000 [a][b]	NIL
INR250,001 to INR500,000[c]	5%
INR500,001 to INR1,000,000	20%
INR1,000,001 and above[d][e]	30%

a. For a resident individual aged between 60 and 80, the basic exemption limit is INR300,000

b. For a resident individual aged 80 or above, the basic exemption limit is INR500,000

c. Rebate from tax of upto INR2,500 or 100 per cent of the tax whichever is less available for a resident individual whose total income is below INR350,000

d. A 10 per cent surcharge is applicable if the total income exceeds INR5,000,000 but does not exceed INR 10,000,000. Marginal relief available

e. A 15 per cent surcharge is applicable if the total income exceeds INR10,000,000. Marginal relief available

f. A 3 per cent education cess is applicable on income-tax (inclusive of surcharge, if any)

1.2 For Co-operative societies

Total Income	Tax Rates [b]
Up to INR10,000	10%
INR10,001 to INR20,000	20%
INR20,001 and above[a]	30%

a. A 12 per cent surcharge is applicable if the total income exceeds INR10,000,000. Marginal relief available

b. A 3 per cent education cess is applicable on income-tax (inclusive of surcharge, if any)

1.3 For local authorities

- Local authorities are taxable at 30 per cent.
- A 12 per cent surcharge is applicable if the total income exceeds INR10,000,000. Marginal relief available
- A 3 per cent education cess is applicable on income-tax (inclusive of surcharge, if any)

1.4 For firms [including LLP]

- Firms (including LLPs) are taxable at 30 per cent.
- A 12 per cent surcharge is applicable if the total income exceeds INR10,000,000. Marginal relief available
- A 3 per cent education cess applicable on income-tax (inclusive of surcharge, if any)

1.5 For domestic companies

- Domestic companies, whose total turnover or gross receipts in the FY2015-16 does not exceed INR500,000,000 are taxable at 25 per cent
- Companies set up and registered on or after 1 March 2016 engaged solely in the business of manufacture or production of article or thing may at their option be taxable at 25 per cent provided they do not claim specified benefits or deductions.
- Other domestic companies are taxable at 30 per cent
- Special method for computation of total income of insurance companies. The rate of tax on profits from life insurance business is 12.5 per cent
- A 7 per cent surcharge is applicable if the total income exceeds INR10,000,000 but does not exceed INR100,000,000. Marginal relief available
- A 12 per cent surcharge is applicable if the total income exceeds INR100,000,000. Marginal relief available
- A 3 per cent education cess is applicable on income-tax (inclusive of surcharge, if any)

1.6 For foreign companies

- Foreign companies are taxable at 40 per cent
- A 2 per cent surcharge is applicable if the total income exceeds INR10,000,000 but does not exceed INR100,000,000. Marginal relief available
- A 5 per cent surcharge is applicable if the total income exceeds INR100,000,000. Marginal relief available
- A 3 per cent education cess is applicable per cent on income-tax (inclusive of surcharge, if any).

2. Minimum Alternate Tax/Alternate Minimum Tax

Domestic companies

- MAT is levied at 18.5 per cent of the adjusted book profit for companies where income-tax payable on the total income (according to the normal provisions of the Act) is less than 18.5 per cent of the adjusted book profit
- MAT is levied at 9 per cent of adjusted book profit for companies being units located in an International Financial Services Centre which derives income solely in convertible foreign exchange where income-tax payable on the total income (according to the normal provisions of the Act) is less than 9 per cent of the adjusted book profit.
- A 7 per cent surcharge is applicable in case of domestic companies, if the adjusted book profit exceeds INR10,000,000 but does not exceed INR100,000,000. Marginal relief available
- A 12 per cent surcharge is applicable in case of domestic companies, if the adjusted book profit exceeds INR100,000,000. Marginal relief available
- A 3 per cent education cess is applicable on income-tax (inclusive of surcharge, if any)
- MAT credit as computed can be carried forward for fifteen years[Note (a)] to be set-off as stipulated.

Foreign companies

- MAT is levied[Note (b)] at 18.5 per cent of the adjusted book profit for companies where income-tax payable on the total income (according to the normal provisions of the Act) is less than 18.5 per cent of the adjusted book profit
- A 2 per cent surcharge is applicable in case of domestic companies, if the adjusted book profit exceeds INR 10,000,000 but does not exceed INR 100,000,000. Marginal relief available
- A 5 per cent surcharge is applicable in case of domestic companies, if the adjusted book profit exceeds INR 100,000,000. Marginal relief available
- A 3 per cent education cess is applicable on income-tax (inclusive of surcharge, if any)
- MAT credit as computed can be carried forward for fifteen yearsNote (a) to be set-off as stipulated.

Note (a): MAT credit, to the extent such credit relates to the difference between the FTC allowed against MAT and FTC allowable against income-tax computed under the normal provisions of the Act, shall not be carried forward

Note (b): MAT is not applicable, if

i. Such company is resident of a country or a specified territory with which India has a DTAA or Central Government has adopted any agreement and such company does not have a permanent establishment in India; or

ii. Such company is resident of a country with which India does not have DTAA and such company is not required to seek registration in India under the Companies Act.

Persons other than a company

- AMT is applicable to persons other than company
- AMT is levied at 18.5 per cent of the adjusted total Income in case of persons other than a company where income-tax payable on the total income (according to the normal provisions of the Act) is less than 18.5 per cent of the adjusted total Income
- AMT will not apply to an Individual, HUF, AOP, BOI or an Artificial Judicial Person if the adjusted total income of such person does not exceed INR2,000,000
- A 10 per cent surcharge is applicable to Individual, HUF, AOP, BOI or Artificial Juridical person if the adjusted total income exceeds INR5,000,000 but does not exceed INR10,000,000. Marginal relief available.
- A 15 per cent surcharge is applicable if the adjusted total income exceeds INR10,000,000. Marginal relief available
- A 12 per cent surcharge is applicable to Firms (including LLP), cooperative society and local authority if the adjusted total income exceeds INR10,000,000. Marginal relief available

- A 3 per cent education cess is applicable on income-tax (inclusive of surcharge, in any)
- AMT credit as computed can be carried forward for fifteen years[Note (a)] to be set-off as stipulated.

Note (a): AMT credit, to the extent such credit relates to the difference between the FTC allowed against AMT and FTC allowable against income-tax computed under the normal provisions of the Act, shall not be carried forward.

3. Securities Transaction Tax

STT is levied on the value of taxable securities transactions as follows:

Transaction	Rate	Payable by
Purchase/Sale of equity shares (delivery based) or a unit of business trust.	0.1%	Purchaser/ Seller
Purchase of units of equity-oriented mutual fund (delivery based)	Nil	Purchaser
Sale of units of equity-oriented mutual fund (delivery based)	0.001%	Seller
Sale of equity shares, units of business trusts, units of equity-oriented mutual fund (non-delivery based)	0.025%	Seller
Sale of an option in securities	0.05%	Seller
Sale of an option in securities, where option is exercised	0.125%	Purchaser
Sale of a futures in securities	0.01%	Seller
Sale of unit of equity oriented fund to the Mutual Fund	0.001%	Seller
Sale of unlisted equity shares and units of business trust under an initial offer	0.2%	Seller

- STT not applicable to taxable securities transactions entered into by any person–
  - for and on behalf of a New Pension Fund Trust
  - on a recognised stock exchange located in an International Financial Services Centre where the consideration is paid in foreign currency

4. Commodity Transaction Tax

CTT is levied on the value of taxable commodities transactions as follows:

Transaction	Rate	Payable by
Sale of commodity derivative (other than agricultural commodities) entered in a recognised association	0.01%	Seller

CTT not applicable to taxable commodities transactions entered into by any person on a recognised association located in an International Financial Services Centre where the consideration is paid in foreign currency

5. Royalty earned by Indian resident from patents

Royalty income earned from patents developed and registered in India by a person resident in India, being a patentee, is taxable at 10 per cent (plus applicable surcharge and cess) on gross basis

MAT is not applicable on such royalty income

6. Income from transfer of carbon credits

Income earned from transfer of carbon credits is taxable at 10 per cent (plus applicable surcharge and cess) on gross basis

7. Dividends earned by an assessee resident in India other than domestic company and specified funds, trusts, etc.

Dividend income exceeding INR1,000,000 received by a taxpayer resident in India other than a domestic company or specified funds or institutions or trusts are taxable at 10 per cent (plus applicable surcharge and education cess) on gross amount of such dividends in addition to DDT payable by the company.

8. Dividends earned by an Indian company

Dividends earned by an Indian company from a foreign Company in which it holds 26 per cent or more equity shares shall be taxable at the rate of 15 per cent (plus applicable surcharge and education cess) on gross amount of such dividends.

9. Dividend Distribution Tax

- Domestic Company is liable to pay DDT at 15 per cent (plus applicable surcharge and education cess) on dividends distributed.
- For computation of DDT, the amount of dividend declared by the domestic company will be reduced by the following amounts of dividend, if any, received by it during the financial year -
  a. Dividend received from domestic company if -
     - the dividend is received from its subsidiary (i.e. in which it holds more than 50 per cent of equity shares);
     - the subsidiary has paid DDT payable under section 115-O of the Act
  b. Dividend received from foreign company if -
     - the dividend is received from its subsidiary (i.e. in which it holds more than 50 per cent of equity shares);
     - the tax on such dividend is payable by the domestic holding company under section 115BBD of the Act.
  c. Dividends paid to any person for and on behalf of a New Pension System Trust.
- Income received by unit holders from a Mutual Fund is exempt from income tax. The Mutual Fund (other than an equity oriented Mutual Fund) is liable to pay income distribution tax as follows:
  - Twenty five per cent (plus applicable surcharge and education cess) on income distributed to any person being an individual or a HUF by a money market Mutual Fund or a liquid fund
  - Thirty per cent (plus applicable surcharge and education cess) on income distributed to any other person by a money market Mutual Fund or a liquid fund
  - Twenty five per cent (plus applicable surcharge and education cess) on income distributed to any person being an individual or a HUF by a fund other than a money market mutual fund or a liquid fund;
  - Thirty per cent (plus applicable surcharge and education cess) on income distributed to any other person by a fund other than a money market mutual fund or a liquid fund; and
  - Five per cent (plus applicable surcharge and education cess) on income distributed to non-resident or foreign company by Mutual Fund under an Infrastructure Debt Fund Scheme.
- For computation of DDT, the amount of dividend distributed to shareholders shall be increased to such amount as would after reduction of tax on such increased amount be equal to the net distributed profits. Similarly, the amount of income distributed to mutual fund unit holders shall be increased to such amount as would after reduction of tax on such increased amount be equal to the net distributed income
- A 12 per cent surcharge is applicable.
- A 3 per cent education cess is applicable (inclusive of surcharge)
- DDT shall not be levied –
  - where dividend is paid or distributed by a specified domestic company out of its current income to a business trust
  - where dividend is paid or distributed by unit of an International Financial Service Centre deriving income solely in convertible foreign exchange.

10. Tax on distributed income to shareholders

- Any amount of distributed income by a company on buy-back of shares (not being shares listed on recognised stock exchange) from a shareholder shall be charged to tax at the rate of 20 per cent on such distributed income.
- A 12 per cent surcharge is applicable.
- A 3 per cent education cess is applicable (inclusive of surcharge)

11. Special rates for non-residents

- The following incomes in the case of non-residents are taxed at special rates on a gross basis:

Nature of Income	Rate[a][b]
Dividend[c]	20%
Interest received on loans given in foreign currency to Indian concern or Government of India	20%
Interest received on notified Infrastructure debt fund	5%
Income (other than chargeable under the head 'Income from business and profession') received from specified investment fund	at the rates in force
Income from investment in securitisation Trust	at the rates in force
Income of unit holder from business trust • Distributed income in the nature of interest • Other specified income	5% at the rates in force
Interest received from Indian company or business Trust on monies borrowed in foreign currency and approved by the central government • On issue of long-term infrastructure bond from 01 July 2012 to 30 June 2014 • Under a loan agreement from 01 July 2012 to 30 June 2020 • On issue of long-term bond from 01 October 2014 to 30 June 2020 • On issue of rupee denominated bond upto 30 June 2020	5%
Interest income received by FII or QFI on rupee denominated bonds or government securities up to 30 June 2020	5%
Income received in respect of units purchased in foreign currency of specified Mutual Funds/UTI	20%
Royalty For agreements entered into: • On or after 1 April 1961 but before 1 April 1976 • On or after 1 April 1976	 50% 10%
FTS For agreements entered into: • On or after 1 March 1964 but before 1 April 1976 • On or after 1 April 1976	 50% 10%
Interest on FCCB, FCEB /dividends on GDRs[c]	10%

a. For a foreign company, 2 per cent surcharge shall be applicable, where the total income exceeds INR10,000,000 but does not exceed INR100,000,000 and at 5 per cent where the total income exceeds INR100,000,000.

   For individual, HUF, AOP, BOI and Artificial Juridical Person, 10 per cent surcharge shall be applicable where total income exceeds INR5,000,000 but does not exceed INR10,000,000 and 15 per cent surcharge shall be applicable where total income exceeds INR10,000,000.

   For other persons, a 12 per cent surcharge, as the case may be, shall be applicable, where the total income exceeds INR10,000,000. Marginal relief available.

b. A 3 per cent education cess is applicable on income tax (inclusive of surcharge, if any).

c. Other than dividends on which DDT has been paid.

d. If the non-resident has a PE in India and the royalties/FTS paid are effectively connected with such PE, this could be taxed at 40 per cent (plus surcharge and education cess) on net basis

12. Capital Gains

Particulars	Short-term capital gains tax rates[(a)]	Long-term capital gains tax rates[(a)(e)]
Sale transactions of equity shares/unit of an equity oriented fund / unit of business trust which attract STT	15%	Nil[(b)]
Sale transaction other than mentioned above [(d)]		
Individuals (resident and non-residents)	Progressive slab rates	20%[(g)] / 10%[(f)]
Firms including LLP (resident and non-resident)	30%	
Resident companies	30%	
Overseas financial organisations specified in Section 115AB	40% (corporate) 30% (non-corporate)	10%
FIIs	30%	10%
Foreign companies	40%	20% / 10% [(f)]
Local authority	30%	20%[(g)] / 10%[(f)]
Co-operative society	Progressive slab rates	

a. These rates will further increase by the applicable surcharge and 3 per cent education cess on income-tax (inclusive of surcharge, if any)

b. Except long term capital gains on transfer of equity shares acquired or on after 1 October 2004 where the acquisition was not chargeable to STT (other than those notified)

c. Unlisted security and a unit of a mutual fund (other than equity oriented mutual fund) shall be considered as short term capital asset if held for not more than 24 months

d. Immovable property, being land or building or both (other than those on which depreciation is claimed), shall be considered as short term capital asset if held for not more than 24 months

e. Rate of 20 per cent with indexation and 10 per cent without indexation applies in respect of listed securities and zero coupon bonds (other than units)

f. The rate of 10 per cent applies to long term capital gains of non residents/foreign companies from transfer of unlisted securities or shares of a company, not being a company in which the public are substantially interested, without benefit of indexation and foreign currency fluctuation

g. Base year for indexation for computing long term capital gains shall be 1 April 2001

13. Presumptive Taxation

1. In the case of a non-resident taxpayer

Business	Rate at which income is presumed
(i) Shipping[e]	7.5% of gross receipts
(ii) Exploration of mineral oil [e][f]	10% of gross receipts
(iii) Operations of aircraft[e]	5% of gross receipts
(iv) Turnkey power projects [e][f]	10% of gross receipts

2. All resident taxpayers

Business	Rate at which income is presumed
Small business [excluding (ii) and (iii)] [a][e][f][g][h]	8%/6%[d] of turnover/ gross receipts
Specified profession [b][c][e][f]	50% of total gross receipts
Plying, hiring or leasing goods carriages (person should not own over ten goods carriages at any time during the previous year) [e][f]	INR7,500 per month/ part of month for each vehicle

a. The total turnover/gross receipts of the taxpayer do not exceed INR20,000,000.

b. The gross receipts of the taxpayer do not exceed INR5,000,000.

c. Specified professions include legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or profession of authorized representative, film artist (actor, cameraman, director, music director, art director, dance director, editor, singer, lyricist, story writer, screen play writer, dialogue writer and dress designer), company secretary and information technology.

d. The rate of 6 per cent applies to total turnover/ gross receipts received by an account payee cheque or an account payee draft or use of electronic clearing system through a bank account during the previous year or before the specified due date of filing of income-tax return for the previous year

e. All deductions/expenses (including depreciation) shall be deemed to have been allowed.

f. The taxpayer can claim lower profits, if he keeps and maintains specified books of account and obtains a tax audit report.

g. Applicable to Individuals, HUF and firms (excludes LLP, tax payer availing deduction under Section 10AA or Chapter VI-A(C) of the Act)

h. Specifically excludes persons carrying on specified professions, persons earning commission or brokerage income and persons carrying on any agency business.

3. Special code of tonnage tax on income earned by domestic shipping companies

14. Equalisation levy

- Equalisation Levy at 6 per cent is applicable on the amount of consideration for online advertisement, any provision for digital advertising space or any other facility or service for the purpose of online advertisement. The levy is to be deducted from payments to a non-resident by:
  a. A person resident in India or
  b. A non-resident having a permanent establishment in India
- Equalisation Levy is not chargeable where:
  a. Non-resident recipient has a permanent establishment in India and the service is effectively connected with such permanent establishment
  b. The aggregate consideration in a previous year does not exceed INR100,000
  c. The payment is not for the purpose of carrying out business or profession.

15. Personal tax scenarios

Individual (other than covered in other tables)	Income level (INR) *							
	1,000,000		2,000,000		6,000,000		11,000,000	
	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed
Basic tax	125,000	112,500	425,000	412,500	1,625,000	1,612,500	3,125,000	3,112,500
Surcharge	-	-	-	-	-	161,250	468,750	466,875
Education cess	3,750	3,375	12,750	12,375	48,750	53,213	107,813	107,381
Total	128,750	115,875	437,750	424,875	1,673,750	1,826,963	3,701,563	3,686,756
Increase/ (Decrease) in tax	(12,875)		(12,875)		153,213		(14,806)	
Increase/ (Decrease) (%)	(10.00%)		(10.00%)		9.15%		(0.40%)	

Resident senior citizen (aged between 60 and 80 years)	Income level (INR) *							
	1,000,000		2,000,000		6,000,000		11,000,000	
	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed
Basic tax	120,000	110,000	420,000	410,000	1,620,000	1,610,000	3,120,000	3,110,000
Surcharge	-	-	-	-	-	161,000	468,000	466,500
Education cess	3,600	3,300	12,600	12,300	48,600	53,130	107,640	107,295
Total	123,600	113,300	432,600	422,300	1,668,600	1,824,130	3,695,640	3,683,795
Increase/ (Decrease) in tax	(10,300)		(10,300)		155,530		(11,845)	
Increase/ (Decrease) (%)	(8.33%)		(2.38%)		9.32%		(0.32%)	

Resident very senior citizen (aged 80 years or above)	Income level (INR) *							
	1,000,000		2,000,000		6,000,000		11,000,000	
	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed
Basic tax	100,000	100,000	400,000	400,000	1,600,000	1,600,000	3,100,000	3,100,000
Surcharge	-	-	-	-	-	160,000	465,000	465,000
Education cess	3,000	3,000	12,000	12,000	48,000	52,800	106,950	106,950
Total	103,000	103,000	412,000	412,000	1,648,000	1,812,800	3,671,950	3,671,950
Increase/ (Decrease) in tax	No change		No change		164,800		No change	
Increase/ (Decrease) (%)	No change		No change		10.00%		No change	

- *Income level is after considering the deductions and exemptions under the Act
- *The marginal relief specified will be available for income level exceeding INR5,000,000 and INR10,000,000, as the case may be

Glossary

AE	Associated Enterprises
AMT	Alternate Minimum Tax
ALP	Arm's Length Price
AO	Assessing Officer
AOP	Association of Persons
APA	Advance Pricing Agreement
ATM	Automated Teller Machine
AY	Assessment Year
BCD	Basic Customs Duty
BEPS	Base Erosion and Profit Shifting
BHIM	Bharat Interface for Money
BOI	Body of Individuals
CAD	Current Account Deficit
CENVAT	Central Value Added Tax
CBDT	Central Board of Direct Taxes
CII	Cost Inflation Index
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CTT	Commodity Transaction Tax
CIT(A)	Commissioner of Income-tax (Appeals)
DDT	Dividend Distribution Tax
DTP	Domestic Transfer Pricing
DTAA	Double Taxation Avoidance Agreement
EoDB	Ease of Doing Business
EBITDA	Earnings Before Interest Tax Depreciation and Amortisation
ECB	External Commercial Borrowings
EDF	Electronic Development Fund
EoDB	Ease of Doing Business
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act, 1999
FERA	Foreign Exchange Regulation Act
FII	Foreign Institutional Investors
FIPB	Foreign Investment Promotion Board
FMV	Fair Market Value
FPI	Foreign Portfolio Investment
FY	Financial Year
FTS	Fees for Technical Services
FTC	Foreign Tax Credit
FVCI	Foreign Venture Capital Investors
GDP	Gross Domestic Product
GoI	Government of India
GST	Goods and Services Tax
GVA	Gross Value Added
GFCE	Government Final Consumption Expenditure
HUF	Hindu Undivided Family
IIP	Index of Industrial Production
IIM	Indian Institute of Management
IGST	Integrated Goods and Service Tax
IMF	International Monetary Fund
IDS	Income Declaration Scheme, 2016
Ind AS	Indian Accounting Standards
INR	Indian National Rupee
IPO	Initial Public Offer
JDA	Joint Development Agreement
LED	Light Emitting Diode
LLP	Limited Liability Partnership
LNG	Liquified Natural Gas
LTCG	Long-Term Capital Gains
MAT	Minimum Alternate Tax
MCLR	Marginal Cost of Funds based Lending Rate
MAP	Mutual Agreement Procedure
MPC	Monetary Policy Committee
M-SIPS	Modified Special Incentive Package Scheme
MSME	Micro, Small and Medium Enterprises
NBFC	Non-Banking Financial Company
NPS	National Pension System
NPA	Non Performing Assets
OCI	Other Comprehensive Income
OECD	Organisation for Economic Co-operation and Development
OPEC	Oil Producing and Exporting Countries
OROP	One Rank One Pension
PAN	Permanent Account Number
POS	Point of Sale
PE	Permanent Establishment
	Private Final Consumption Expenditure
PFCE	Private Final Consumption Expenditure
P&L	Profit and Loss account
PPE	Property, Plant or Equipment
PFRDA Act	Pension Fund Regulatory and Development Authority Act, 2013
APCRDA Act	Andhra Pradesh Capital Region Development Authority Act, 2014
PGP	Post Graduate Programmes
QFI	Qualified Foreign Investor
RBI	Reserve Bank of India
RCS	Regional Connectivity Scheme
R&D	Research & Development
SAD	Special Additional Duty
SARFAESI Act, 2002	The Securitisation and Reconstruction of Financial
Assets and Enforcement of Security Interest Act,	Sukanya Samriddhi Account Scheme
2002	Short-Term Capital Gains
SEBI	Securities and Exchange Board of India
SEZ	Special Economic Zone
STT	Securities Transaction Tax
The Income-tax Act, 1961	The Act
TCS	Tax Collection at Source
TDS	Tax Deduction at Source
TAN	Tax Deduction Account Number
TPO	Transfer Pricing Officer
USD	United States Dollar
UTI	Unit Trust of India
VCF	Venture Capital Funds

Key contacts:

Nitin Atroley
Partner and Head
Sales and Markets
T: +91 124 307 4887
E: nitinatroley@kpmg.com

Girish Vanvari
Partner and Head
Tax
T: +91 22 3090 1910
E: gvanvari@kpmg.com

KPMG in India:

Ahmedabad
Commerce House V
9th Floor, 902 and 903,
Near Vodafone House,
Corporate Road, Prahlad Nagar
Ahmedabad - 380 051.
Tel: +91 79 4040 2200
Fax: +91 79 4040 2244

Bengaluru
Maruthi Info-Tech Centre
11-12/1, Inner Ring Road
Koramangala, Bengaluru 560 071
Tel: +91 80 3980 6000
Fax: +91 80 3980 6999

Chandigarh
SCO 22-23 (Ist Floor)
Sector 8C, Madhya Marg
Chandigarh 160 009
Tel: +91 172 393 5777/781
Fax: +91 172 393 5780

Chennai
No.10, Mahatma Gandhi Road
Nungambakkam
Chennai 600 034
Tel: +91 44 3914 5000
Fax: +91 44 3914 5999

Gurgaon
Building No.10, 8th Floor
DLF Cyber City, Phase II
Gurgaon, Haryana 122 002
Tel: +91 124 307 4000
Fax: +91 124 254 9101

Hyderabad
8-2-618/2
Reliance Humsafar,
4th Floor, Road No.11,
Banjara Hills
Hyderabad 500 034
Tel: +91 40 3046 5000
Fax: +91 40 3046 5299

Kochi
Syama Business Center
3rd Floor, NH By Pass Road,
Vytilla, Kochi 682 019
Tel: +91 0484 3027000
Fax: +91 0484 3027001

Kolkata
Unit No. 603 – 604, 6th Floor,
Tower – 1, Godrej Waterside, Sector - V,
Salt Lake, Kolkata - 700 091
Tel: +91 33 4403 4000
Fax: +91 33 4403 4199

Mumbai
Lodha Excelus, Apollo Mills
N. M. Joshi Marg
Mahalaxmi, Mumbai 400 011
Tel: +91 22 3989 6000
Fax: +91 22 3983 6000

Noida
6th Floor, Tower A
Advant Navis Business Park
Plot No. 07, Sector 142
Noida Express Way
Noida 201 305
Tel: +91 0120 386 8000
Fax: +91 0120 386 8999

Pune
703, Godrej Castlemaine
Bund Garden
Pune 411 001
Tel: +91 20 3058 5764/65
Fax: +91 20 3058 5775

Vadodara
iPlex India Private Limited,
1st floor office space, No. 1004,
Vadodara Hyper, Dr. V S Marg
Bund Garden
Vadodara 390 007
Tel: +91 0265 235 1085/232 2607/232 2672

Follow us on:
kpmg.com/in/socialmedia

Printed in India. (023_BRA0117)