

E-Circular Dated 2nd Feb 2018

Union Budget 2018

Dear Friends,

Welcomes your !

Trying to present about our Indian Union Budget 2018 with bless of goddess Maa Vaishno Devi.

Highlights

1. Indian economy is **now US 2.5 Trillion Dollar economy** in the world and expected to become the 5th largest economy very soon.
2. Bit Coins and other Crypto Currencies, were always illegal and illegitimate. And will continue to be so. And Govt will take every step to "Ban" them.

Income Tax Rates : Individuals

This year the tax rates will continue as it is. They were reduced last year to just 5% at the lowest slab. For Individuals (Normal Slab)

Upto Rs. 2,50,000	Nil
Rs. 2,50,001 to Rs. 5,00,000	5%
Rs. 5,00,001 to Rs. 10,00,000	20%
Rs. 10,00,001 onwards	30%

So, Now Indian tax rates at lower levels are amongst the lowest in the world, at **just 5%**.

Thus, Last year, Everyone with an income from 5 lakhs to 50 lakhs got a benefit of this tax reduction in the lowest slab – (2,50,000 x 5% reduction = Rs. 12,500 tax saved for all)... means Rs 50,000 for a family of four tax payers.

Further, we all know that there are many deductions like LIC, PPF, School Fees, Housing Loan payments, HRA exemptions etc. That makes incomes upto Rs 5 lakhs "almost" tax free.

Senior Citizen over 60 years, full clear exemption limit is Rs 3 lakhs.

Super Senior Citizen over 60 years, full clear exemption limit is Rs 5 lakhs.

Effective Average Tax Rate : is about 8% at Rs 10 lakh income . And just 20% at 20 lakh level after the 80C-Housing loan rebates etc.

So, higher income has higher respect in banking parlance.

So, enjoy your higher income. Pay advance tax accordingly.

Standard Deduction – for Salaried only

For Individuals

- Standard deduction of Rs 40,000 for salaried employees
- And they have removed the transport and medical expenses reimbursement reliefs. (Now, no need of arranging and keeping safely the Medical Bills...,no need of quarreling with your Accounts on these two grounds).
- Now it is your Birthright, if you are the lucky Salaried person.
- This is available for Retired people too.

Senior Citizen

- Standard Deduction of Rs 40,000 (as above) (Bonanza !!! .. since they did not have Conveyance allowance & Medical Reimbursements anyway)
- For senior citizens, exemption of interest income on bank & post office deposits raised to Rs 50,000
- Senior citizens to get Rs 50,000 per annum exemption for medical insurance under Sec 80D.
- Can invest into assured return Bonds upto Rs 15 lakhs with a high rate of interest. !!!

Long Term Capital Gains Tax – Equity Shares

- Long-term capital gains exceeding Rs. 1 lakh to be taxed at the rate of 10%.
- No Indexation allowed in LTCG
- Cost tagged to the Market rate on 31-1-2018
- Short term capital tax remains at 15%

Surcharge on Income tax “Individuals”

For Individuals

Slab	Rate	Effective marginal tax at highest slab Including cess
Income upto 50 lakhs	Nil	30% + 0% SC+ 4% cess = 31.2%
Rs. 50 lakhs to Rs. 1 Crore	10%	30% + 10% SC+ 4% cess = 34.32 %
Rs 1 Cr onwards	15%	30% + 15% SC+ 4% cess = 35.88 %

Slight increase since, Education and Health cess --- Increased from 3% to 4%

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Next : Partnership Firms

Slab	Rate	Effective marginal tax at highest slab Including cess
Income upto 1 Cr	30%	31.20% only
Rs 1 Cr onwards	30%+12%+cess4%	34.944%

SOMETHING
WONDERFUL

Companies : Tax Rates

Lowest ever, in last 50 years

Slab	Base Rate
Turnover below Rs 250 Crores	25%
Turnover above Rs 250 Crores	30%

Education and Health cess --- Increased to 4%

Surcharge 7% after Rs 1 crore income

Surcharge 12% after Rs 10 crore income

So, in effect a bonanza for all MSME and Medium companies.



If your turnover was Rs 100 crores, and profit was 5 Cr,
Your **Tax has comes down by around a big Rs 29.12 lakhs per year**

For all practical purposes, 99% of Companies in India shall pay only 25% Corporate Taxes in future

Next : ICDS – Service Contracts
Very Important provision for Service providers

Changes , for ICDS

- a) Contract businesses, **Services Businesses**, Construction Businesses, have to follow the Percent Completion method only.....
- b) so, mere billing is not Sale anymore.
- c) And Not billing, just getting advance is also not “postponement of Income” anymore

Next : ICDS – uniformity created -

Changes , for ICDS

- d) Marked to Market Losses = Allowed (Compulsory , both ways)
- e) Forex Gain / Losses = Allowed (Compulsory , both ways)
- f) **Inventory** – value as per LCM method as per ICDS in future

Some Important Tit-bits

- 54EC Bonds,
 - a. now lock in for 5 years instead of 3
- Convert Stock into Capital asset ?
 - a. Pay tax as business income
- Difference between Stamp Duty Circle Rates and Transaction Rates ?
 - a. Relief given upto 5% across all related sections
- Compensation for any Business Contract
 - a. Whether capital receipt or revenue
 - b. Tax as business income
- Compensation for any employment Contract
 - a. Whether capital receipt or revenue
 - b. Tax as IFOS income from other sources
- Deemed Dividend
 - a. Earlier tax in hands of recipient, but difficult to tax since year was gone beyond usual rights of the ITO
 - b. Now, to bring deemed dividends also under the scope of dividend distribution tax under section 115-O. Further, such deemed dividend is proposed to be taxed at the rate of 30 per cent (without grossing up) in order to prevent camouflaging dividend in various ways such as loans and advances.

**Important for Foreign MNC in India
Or
You having FDI abroad**

- Business Connection for Permanent Establishments
 - a. if any person acting on behalf of the non- resident, is habitually authorised to conclude contracts for the non-resident, then such agent would constitute a PE in the source country.
 - b. The OECD the World's top countries Economic Laws body, under BEPS Action Plan 7 reviewed the definition of 'PE'
 - c. Same change now incorporated by India too
 - d. with a view to preventing base erosion and profit shifting, the recommendations under BEPS Action Plan 7 have now been included in Article 12 of Multilateral Convention to Implement Tax Treaty Related Measures
- In view of the above, it is proposed to amend the provision of section 9 of the Act so as to align them with the provisions in the DTAA as modified by MLI so as to make the provisions in the treaty effective. Accordingly, clause (i) of sub- section (1) of section 9 is being proposed to be amended to provide that “ business connection” shall also include any business activities carried through a person who, acting on behalf of the non-resident, habitually concludes contracts or habitually plays the principal role leading to conclusion of contracts by the non-resident .

Second point

**Important for Foreign MNC in India
Or**

**You having FDI abroad in Dubai , Hong Kong, Singapore, US or Europe,
Or Africa**

In view of the above, it is proposed to amend clause (i) of sub-section (1) of section 9 of the Act to provide that 'significant economic presence' in India shall also constitute 'business connection'. Further, “significant economic presence” for this purpose, shall mean-

- . (i) transaction in respect of any goods, services or property carried out by a non-resident in India including provision of download of data or software in India if the aggregate of payments arising from such transaction or transactions during the previous year exceeds the amount as may be prescribed; or
- . (ii) **systematic and continuous soliciting of its business activities** or engaging in interaction with such number of users as may be prescribed, in India through digital means.

It is further proposed to provide that only so much of income as is attributable to such transactions or activities shall be deemed to accrue or arise in India. It is further proposed to provide that **the transactions or activities shall constitute significant economic presence in India, whether or not the non-resident has a residence or place of business in India or renders services in India.**

The proposed amendment in the domestic law will enable India to negotiate for inclusion of the **new nexus rule** in the form of 'significant economic presence' in the Double Taxation Avoidance Agreements.

It may be clarified that the aforesaid conditions stated above are mutually exclusive. The threshold of "revenue" and the "users" in India will be decided after consultation with the stakeholders. Further, it is also clarified that unless corresponding modifications to PE rules are made in the DTAAs, the cross border business profits will continue to be taxed as per the existing treaty rules.

Section 80 JJAA

Allows you to take benefit of Lakhs and Crores
If you employ more and more people

Do you know, that you can **Employ More people:** And Get 30% Extra Deduction

- If you hire, additional employees, You get the EXTRA Deduction in Income Tax. Section 80JJAA.
- So, If you pay Extra Wages of Rs 1 Crores, you get extra Deduction : Rs 30 Lakhs extra for next 3 years.
- To whom ? Manufacturing, of course, and Anybody in Business, and covered in Tax Audit. Any Business, what so ever .



Example 1 : New Company

- New company formed in April 2016.
- Employed 20 persons in FY 16-17
- Salary per worker = Rs 12500, for 12 months.
- Salary paid to these new workers : Rs 30 lakh in the whole year (20 men x 12500 x 12 months)
- So, he will get 80JJAA deduction as follows
 - for FY 16-17 = 9 lakhs as extra deduction
 - for FY 17-18 = 9 lakhs as extra deduction
 - for FY 18-19 = 9 lakhs as extra deduction

Example 2 : Existing Company

- Case of an Old existing company formed in 1995
- Employed 100 persons as on 31.3.2016
- Employed 120 persons as on 31.3.2017
- No of the additional workers = 20
- Salary per worker = Rs 12500, for 12 months.
- Salary paid to these new workers : Rs 30 lakh in the whole year (20 men x 12500 x 12 months)
- So, he will get 80JJAA deduction as follows
 - for FY 16-17 = Rs 9 lakhs as extra deduction
 - for FY 17-18 = Rs 9 lakhs as extra deduction
 - for FY 18-19 = Rs 9 lakhs as extra deduction

For details see the past E Circulars , contact the Association or see the detailed 8 page circular and Excel Spreadsheets / formula files at the link below

http://www.mlgassociates.in/80jjaa_income_tax_benefit

Now the Change

Making it more Liberal

- ✓ where a new employee is employed during the previous year for a period of less than 240 days or 150 days, as the case may be,
- ✓ but is employed for a period of 240 days or 150 days, as the case may be, in the immediately succeeding year,
- ✓ he shall be deemed to have been employed in the succeeding year and the provisions of this section shall apply accordingly

Income Tax Scrutinies

They will be with a Faceless ITO in future

No face to face interaction

The Questions will come on portal

And you have to reply to the portal

No Handshakes, no embraces

Only Data

Only Evidences

“Intellect” and “Correct Evidence” will get more important than “Relationships”.

Return not filed In time ?

Lose some deductions, BUT not all.

The existing provisions say, if you don't file return in time, you lose the special deductions like 80IC, 80ID for backward area benefit etc

Now, they have increased the disallowance to some other incomes like Royalty, Agricultural companies etc. (Section 80H to 80 TT)

However note : **There is no change in any other sections** as reported in some sections of Media and in some Whatsapp groups--- like LIC, PPF etc of 80C and Mediclaim in section 80D etc.

AIR Returns not filed In time ? (Annual Information Returns)

Earlier penalty of Rs 100 per day

Now raised to Rs 500 per day in some case

And Rs 1000 per day for some other cases.

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THANK YOU



For queries, suggestions and feedback , you can e-mail us

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