
Union Budget 2017 – Key Proposals

1st February 2017



Agenda

1. Budget Basics
2. Personal Taxation
3. Business Income
4. Capital Gains
5. TDS/TCS/Advance Tax
6. Direct Tax Administration
7. Other Direct Tax Provisions
8. Service Tax
9. Financial Services
10. Promoting Less Cash Economy

Budget Basics

- GDP growth at ~6.75% in FY17 with Consumer Price Inflation down to 3.4%
- Fiscal deficit at 3.5% of GDP during FY17; Plan to contain at 3.2% for FY18
- More focus on Rural Economy, Youth Empowerment, Infrastructure and Digital Economy while optimising available resources
- Benefits to Real Estate Industry with rationalisation of tax provisions; affordable housing to be given status of infrastructure project
- Boost to Financial Services Industry through various measures
- Increasing effectiveness in Tax Administration through technology means
- Goods & Service Tax on its course; 1st July 2017 looks to be certain
- Strengthening PSUs by way of consolidation, mergers, acquisitions and divestment through listing
- Transparency in political funding by reducing cash donation limits; introduction of Electoral Bonds to safeguard identity to Donors while removing cash out of the system
- Abolition of Foreign Investment Promotion Board (“FIPB”)

Personal Taxation

- Personal income tax rate reduced to 5% from 10% for income between ₹2.5 Lakhs and ₹5 Lakhs
- Surcharge on Individual/HUF
 - Income > ₹50 Lakhs <= ₹100 Lakhs – 10% - “New Category introduced”
 - Income > ₹100 Lakhs – 15%
- 25% surcharge on income from unexplained investment, credit, etc. assessed u/s 68, 69, 69A
- Income Tax Rebate u/s 87A rationalized for taxable income upto ₹300,000
- Partial withdrawal of upto 25% of contribution from National Pension System Trust to be exempt
- Deduction for contribution to notified pension scheme increased to 20% of total income for non-employed individuals

Business Income...

- Lower tax rate of 25% for SME Companies having turnover upto ₹50 Crores during financial year 2015-16
- Provision for doubtful debts by bank increased to 8.5% for NPA accounts
- Deemed income from house property held as stock in trade after one year of receipt of completion certificate
- Allowable cash expenditure limit reduced to ₹10,000
- Capital expenditure in cash above ₹10,000 disallowable
- Deduction of interest expense on payment basis to include interest payable to co-operative banks
- Limit for maintenance of books of accounts for individual/HUF having business income increased to ₹2.5 Lakhs (total income) and ₹25 Lakhs (gross receipt)
- Tax audit limit increased to ₹2 Crores for presumptive tax case

...Business Income...

- Beneficial presumptive tax rate of 6% to apply in case of non-cash receipts for cases u/s 44AD
- Tax exemption for affordable housing projects liberalized
 - Instead of built-up area, carpet area specified
 - Time limit for completion of project increased to 5 years (3 years presently)
- Domestic transfer pricing provisions not to apply for related party payments covered u/s 40A (2) (b)
- Primary transfer pricing adjustments above ₹1 Crores in returned or assessed income to be followed by
 - Secondary adjustments in books of accounts to reflect such adjustments
 - If amount of adjustment results in 'increase of income'/ 'reduction of loss', is not realized, interest shall be provided on such amount
- Excess interest (more than 30% of adjusted earnings) paid to associated enterprises to be disallowed – disallowed amount may be carried forward for 8 assessment year to be set off within 30% limit

...Business Income

- Losses incurred by start-up in seven initial years allowed only if promoter-shareholders continue as shareholders
- Tax exemption to start-up allowed in 3 out of 7 (earlier 5) initial years
- 10% gross tax on income from carbon credits
- MAT credit allowed to be carried forward and set off for 15 years
- MAT provisions modified to provide additional adjustments if profit and loss drawn as per Ind AS
- Maximum cash receipt limit set at ₹3 Lakhs
 - In aggregate for a person in a day; or
 - In respect of a single transaction; or
 - From a person in respect of an event/occasion

Penalty @100% of amount if contravened

Capital Gains...

- Immovable properties - holding period for qualifying long term capital asset reduced to 2 years
- Conversion of preference shares into equity shares considered as exempt transfer
 - Holding period of preference shares to be considered for equity shares
 - Cost of equity shares to be cost of converted preference shares
- Holding period of existing mutual fund units to be considered in case of new units received on consolidation of plans
 - Cost of units in consolidated plan to be cost of units in consolidating plan of mutual fund
- LTCG exemption for listed securities restricted unless purchase subject to STT – unless covered under notified category (to be prescribed)
- Base year shifted to 2001 for computing indexed cost of acquisition for all capital assets

...Capital Gains

- In case of development agreement, Individual/HUF to pay capital gains tax in year of receipt of completion certificate on value of that date – quantum and time both crystallized
 - TDS @10% applicable on consideration (other than in kind) on such transaction
- Cost of shares in resulting Company to be same as in demerged Company in event of demerger
- Sale consideration of unquoted shares shall be fair market value in prescribed manner

TDS/TCS/Advance tax

- Individual/HUF paying rent exceeding ₹50,000 per month liable to TDS @5%
- Reduced rate of TDS @2% on payments to entities engaged only in call center business
- Sunset for reduced rate of TDS @5% on interest payment to non-resident extended to 30th June 2020
- TCS applicable on sale of jewellery above ₹2 lakhs (earlier ₹5 Lakhs)
- TCS applicable at higher rate (minimum being 5%) if PAN not furnished
- Advance tax in single and last installment for professionals covered under presumptive tax

Direct Tax Administration

- In case of search and seizure:
 - Tax authorities not to disclose reason to believe or suspect to any person including appellate tribunal
 - Provisional attachment of assets for a period of six months
- Search and seizure operations may cover period upto 10 years if incriminating tangible evidence reveals undisclosed income above ₹50 Lakhs
- Revised return can be filed on or before end of assessment year
- Time limit for completing regular assessment rationalized
 - For AY 2018-19 – 18 months from end of assessment year i.e. 30th Sep 2020
 - For AY 2019-20 onwards – 12 months from end of assessment year i.e. 31st March 2021
- Reassessment time limit increased to 12 months for notices issued after 1st April 2019
- Express and discretionary provision to hold refund if case selected for scrutiny

Other Direct Tax Provisions...

- House Property loss upto ₹2 lakhs to be set off in current year against income under other heads – balance to be carried forward for 8 years
- Section 56 (gift provisions – receipt of assets below FMV) amended to include all types of persons and all assets
 - Except received from relatives, on marriage etc.
 - Receipt by HUF from members not exempt
 - Excluded transactions or entities which are otherwise exempt from tax
- Rich dividend tax made applicable to all assessee except domestic company and specified exempt institutions, trust, etc.
- Late filing fee introduced for delayed filing of return
 - ₹5,000 if filed before 31st December
 - ₹10,000 if filed thereafter
 - ₹1,000 in case total income is upto ₹5 Lakhs
- 0.5% interest on claim of refund by tax deductor

...Other Direct Tax Provisions

- Penalty @ ₹10,000 on accountant, merchant banker and registered valuer for each report or certificate, in case of furnishing incorrect information
- Sunset for new small retail investors for ₹25,000 deduction available on specified investment
- Corpus Contribution not to be treated as applied unless applied for specified purposes
- Cash donation limit reduced to ₹2,000 from ₹10,000
- Cash donation limit of ₹2000 to political parties
- Filing of return of income mandatory for political parties

Service Tax

- No change in rate of service tax and applicable cess in light of proposed GST
- Removal of job work services for manufacture or production of goods (excluding liquor for human consumption) from negative list; however, the same shall form part of exempted services
- Cenvat credit rules applicable to banking services aligned with other assesseees (wef 02/02/2017)
- Exemption from Service Tax net
 - Services provided by Army, Naval and Air Force Group Insurance Funds under Group Insurance Schemes (wef 02/02/2017)
 - One time upfront amount payable for long-term lease of industrial plots (30 years or more) by State Government industrial development undertakings to industrial units during 01/06/2007 to 21/09/2016; Tax already paid can be claimed as refund within 6 months from date of president's assent to Finance Bill 2017

Financial Services

- Listing and trading of Security Receipts issued by securitization or reconstruction company under SARFAESI Act to be permitted
- Registration Process of financial market intermediaries to be made fully online
- Common application form for registration, opening of bank and demat accounts, and issue of PAN for Foreign Portfolio Investors (FPIs)
- Linking of individual demat accounts with Aadhar
- Systemically important NBFCs regulated by RBI and above a certain net worth, to be categorized as QIBs
- Commodities and Securities Derivative markets to be further integrated by integrating participants, brokers, and operational frameworks
- Provision of ₹10,000 crores for recapitalisation of Banks in 2017-18

Promoting Less Cash Economy

- Aadhar Pay, merchant version of Aadhar Enabled Payment System, to be launched shortly; target to introduce 20 lakhs Aadhar based PoS by Sep 2017
- Referral Bonus Scheme for individuals and Cashback Scheme for merchants to promote usage of BHIM
- SIDBI to refinance unsecured loans, at reasonable rates, given to borrowers based on their transaction history
- Digital payment infrastructure and grievance handling mechanism to be strengthened
- Limit of ₹10,000 per day for cash payments to single vendor
- Limit of ₹2,000 for cash donation to be accepted by political parties from single donor; parties can use digital payment means or electoral bonds for higher amounts
- Exemption from Basic Custom Duty, Excise/CVD and SAD for various types of PoS Machines and Scanners
- Blanket ban on receipt of more than ₹ 3Lakhs in cash for any transaction

Thank you



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