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## NEWSLETTER – FEBRUARY 2018

### IMPORTANT AMENDMENTS PROPOSED IN INCOME TAX ACT IN UNION BUDGET 2018

Except where specifically provided for, all following amendments shall be applicable from financial year 2018-19 (ie AY 2019-20).

1. No change in personal income tax slabs. Tax for domestic companies having turnover/ gross receipts upto Rs 250 crore (in FY 16-17) reduced to 25%.
2. Education cess and SHEC of 3% replaced with Health and Education Cess and its rate increased to 4%.
3. Sec 16: Standard deduction for salaried employees reintroduced. It will be Rs 40,000/-. However, deduction of transport allowance of Rs 1600 pm and medical reimbursement of Rs 15,000 withdrawn.
4. For the purposes of Sec 43CA, Sec 50C, Sec 56(2), difference in stamp duty valuation to the extent of 5% to be ignored.
5. Provisions of Sec 40(a)(ia) and 40A(3)/ (3A) shall be applicable for determining the amount of application of income u/s 11 or few clauses of Sec 10(23C).
6. Sec 10(12A): Benefit of tax-free withdrawal (40% of the amount payable) from NPS extended to non-employee subscribers.
7. Sec 10(38): Exemption of long term capital gain on sale of equity shares of equity oriented mutual funds is withdrawn. Such LTCG in excess of Rs 1 lac shall now be taxable @ 10% as per newly inserted sec 112A without benefit of indexation.
8. Sec 28:
  - Amount received on modification or termination of terms of business contract shall be treated as business income.
  - If stock in trade/ inventory is converted into capital asset, then its fair market value on date of conversion shall be treated as conversion value. Accordingly, u/s 49(9), such conversion value shall be treated as cost of acquisition of such capital asset so converted.
9. Sec 43(5) amended to provide that transaction in respect of trading of agricultural commodity derivatives, which is not chargeable to CTT, in a recognized stock exchange or registered association, will be treated as non-speculative transaction.
10. New Sec 43CB: Profit from construction contract shall be determined on percentage of completion method.
11. Sec 44AE: Deemed income in case of heavy goods vehicles (gross weight exceeding 12,000 kg) changed to Rs 1,000 per ton of weight per month.
12. **Sec 54EC:** Till now, deduction under this section was available for any long term capital asset. But, now it would be restricted to long term capital asset being land or building or both. Further, holding period of investments in bonds increased from 3 years to 5 years.



13. Sec 56(2)(xi): Compensation due or received by an employee in connection with modification or cancellation of term of employment shall be treated as other income.
14. Sec 80AC: Deductions under Chapter VI-C (ie Sec 80H to Sec 80TT) would not be admissible if return is not filed within due date. For our practical purposes, it includes only one Sec 80P. Therefore, co-operative societies claiming deduction u/s 80P shall have to file their returns in time to claim deduction u/s 80P.
15. Sec 80D: Structure of Medclaim/ medical expenditure allowable under this section can be tabulated as below:

Sl No	Particulars	Existing (upto FY 17-18) limit (Rs)	New (from FY 18-19) limit (Rs)
<b>A</b>	<b>In case of individual</b>		
1	Insurance on health of self or family	25,000 (including max of Rs 5,000 on preventive health check up)  Or  30,000 (including max of Rs 5,000 on preventive health check up) if paid for senior or very senior citizen.	25,000 (including max of Rs 5,000 on preventive health check up)  Or  50,000 (including max of Rs 5,000 on preventive health check up) if paid for senior citizen.
2	Insurance on health of parent or parents	25,000 (including max of Rs 5,000 on preventive health check up)  Or  30,000 (including max of Rs 5,000 on preventive health check up) if paid for senior or very senior citizen.	25,000 (including max of Rs 5,000 on preventive health check up).  Or  50,000 (including max of Rs 5,000 on preventive health check up) if paid for senior citizen.
3	Expenditure on health of self or family	30,000 (if payment is made for very senior citizen)	50,000 (if payment is made for senior citizen)
4	Expenditure on health of parent or parents	30,000 (if payment is made for very senior citizen)	50,000 (if payment is made for senior citizen)
5	Other limit	Total of 1 and 3 above cannot exceed Rs 30,000/-  And  Total of 2 and 4 above cannot exceed Rs 30,000/-.	Total of 1 and 3 above cannot exceed Rs 50,000/-.  And  Total of 2 and 4 above cannot exceed Rs 50,000/-.



6	Other condition	Expenditure at 3 or 4 above would be allowed only if there is no Medclaim expenditure.	Expenditure at 3 or 4 above would be allowed only if there is no Medclaim expenditure.
<b>B In case of HUF</b>			
7	Insurance on health of any member	25,000 (preventive health check up not allowed)  Or  30,000 (preventive health check up not allowed) if paid for senior or very senior citizen.	25,000 (preventive health check up not allowed)  Or  50,000 (preventive health check up not allowed) if paid for senior citizen.
8	Expenditure on health of any member	30,000 (if payment is made for very senior citizen).  This exp would be allowed only if there is no amount paid for medical insurance.	50,000 (if payment is made for senior citizen).  This exp would be allowed only if there is no amount paid for medical insurance.
9	Other limit	Total of 7 and 8 above cannot exceed Rs 30,000/-.	Total of 7 and 8 above cannot exceed Rs 50,000/-.
<b>C Another beneficial change</b>			
10	If insurance payment is made for more than one year	Expenditure allowed in the year of payment within overall limits as specified above.	Expenditure allowed proportionately in the years for which above payment is made. Above limit would be applicable for yearly allowance.

Payment of above should be made other than in cash. However, payment for preventive check up can be made in cash also.

16. Sec 80DDB: Deduction in respect of expenditure on specified diseases or ailments increased from Rs 60,000 to Rs 1,00,000 in case of senior citizens.
17. Sec 80IAC: in order to encourage startups, definition of 'eligible business' for a start-up is proposed to be aligned with the modified definition notified by DIPP.
18. Sec 80JJAA: Deduction in respect of employment of new employees. Benefit of reduced no of days of employment extended to manufacture of footwear and leather products. Also, period of employment in successive year shall also be considered.
19. New Sec 80PA: 100% of profit of producer company to be deductible from FY 18-19 to FY 23-24.



20. New Sec 80TTB: Deduction upto Rs 50,000 in respect of interest income from deposits with banks, co-op societies or post office. This deduction is available in respect of interest from fixed deposits also.
21. New Sec 112A:
- Tax on LTCG on sale of shares/ mutual funds in excess of Rs 1 lac to be taxed @ 10%.
  - Benefit of indexation not allowed.
  - In case of shares, STT should have been paid both on purchase and sale.
  - For determining cost of acquisition, first lower of FMV as on Jan 31, 2018 and full value of consideration is to be calculated. Then higher of this amount and actual cost of acquisition shall be considered as cost of acquisition.
  - Deduction u/ch VI-A and benefit of rebate u/s 87A shall not be available in respect of such LTCG.
  - However, benefit of basic exemption limit shall be available.
22. Sec 115O: Dividend distribution tax @ 30% shall be levied on deemed dividend u/s 2(22)(e).
23. Sec 139A: Any person, other than an individual, who enters into a financial transaction of an amount aggregating to Rs 250,000 or more in a financial year or any person competent to act on behalf of such person (viz, MD, director, partner, karta, trustee, CEO etc) shall have to compulsorily obtain PAN.
24. Sec 143(1): No adjustments u/s 143(1)(vi) (ie addition of income appearing in 26AS or Form 16/ 16A which is not included in total income) would be done for the returns filed for **FY 17-18** and onwards.
25. New Sec 143(3A): Government may notify scheme of assessment eliminating interface between AO and assessee. Also, functional specialization may be utilized and team-based assessment may be introduced.
26. Sec 145A: Amended retrospectively wef 1-4-2017 to regularize the compliance with the notified ICDS by a large number of taxpayers.
27. New Sec 145B: Following shall be treated as income:
- Interest received on compensation or enhanced compensation (in the year of receipt).
  - Export incentive or escalation of price in a contract (in the year in which certainty of realization is achieved).
  - Income referred to in sec 2(24)(xviii) (ie subsidy, grant, cash incentive, duty drawback, waiver, concession, reimbursement etc from government) to be treated as income in which it is received.
28. Sec 194A: TDS not to be deducted if interest upto Rs 50,000 is paid by bank/ co-operative society/ post office to a senior citizen.
29. Sec 271FA: Penalty for late filing of statement of financial transactions or reportable account as per Sec 285BA (ie annual information return) increased from Rs 100 per day to Rs 500 per day. Further, such penalty in consequence of notice issued increased from Rs 500 per day to Rs 1000 per day.



30. Sec 276CC: Punishment in the form of imprisonment for failure to furnish return of income made more strict in case of companies. Now, imprisonment provisions shall be applicable to companies even there is no tax payable after deducting advance tax and TDS.

*Disclaimer:*

*All efforts have been made to ensure completeness of data. However, readers are advised to confirm from their own sources also. Further, interpretations given above are our personal opinions at M/s Umesh Agrawal and Associates. We are not responsible for any loss arising due to the above information.*

