
INCOME TAX - READY REFERENCER FOR CHANGES FY 2017-18 (AY 2018-19)

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1. Income Tax Rates – Individuals – Comparative table

Total Income	Existing Rates	Proposed Rates (AY 18-19)
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< 2.5 lakhs	Nil	Nil
2.5 lakhs to 5 lakhs	10%	5%
5 lakhs to 10 lakhs	20%	20%
Rs. 10 lakhs and above	30%	30%

Salient changes made in AY 2018-19

Rebate u/s 87A

The Tax rebate which was available for all assesses with total income upto Rs. 5 lacs, were eligible for rebate u/s 87A upto Rs.5000 on the tax payable.

However, **from AY 2018-19 (FY 2017-18)**, the rebate is restricted to people having **total income upto Rs.3.5 lacs only**. And the rebate u/s 87A has been **reduced to Rs.2500**.

Surcharge on Total Income

In FY 2016-17 (AY 17-18), the surcharge for individuals is applicable for those who have Total income over Rs. 1 crore at the rate of 15% of the total taxes payable.

From FY 2017-18 (AY 18-19), the surcharge for individuals is applicable as follows:

- Total Income Upto Rs. 50 lacs – No surcharge
- Total Income from Rs. 50 lacs to Rs.1 crore – 10% of tax payable
- Total Income of Rs.1 crore and above – 15% of tax payable

Senior and Super Senior Citizens

Senior Citizens (60 years to 80 years) and Super Senior Citizens (80 years and above) have not received any additional benefits other than beneficial 5% slab rate reduction upto Rs.5 lacs

2. Income Tax Rates – Partnership firms

For both AY 2017-18 and AY 2018-19

Regular Tax:

- a) Rate of tax @ **30% of Total Income**

- b) Remuneration to partners maybe paid out of Total Income with maximum ceiling as follows, before calculating tax @ 30% in step (a)

On the first Rs. 3,00,000/- of the Book Profits or in case of Loss	Rs. 1,50,000/- or @ 90 % of Book Profits, whichever is Higher
On the balance	@60% of book profits

- c) Interest upto 12% on capital allowed

Surcharge as follows:

Total Income up to Rs.1 crore – Nil

Total income > Rs. 1 crore – 12%

No changes made in Finance Act, 2017 for Rates for Partnership Firms

3. Income Tax Rates – Corporates/Companies

(I) INCOME TAX RATES

Domestic Companies

a) Regular rates

Total Income	Existing Rates (AY 17-18)	Proposed Rates (AY 18-19)
Turnover upto Rs. 50 crores <i>(Turnover in FY 15-16)</i>	30%	25%
Turnover greater than Rs.50 crores	30%	30%

b) Surcharge

Total income upto Rs. 1 crore – Nil

Total income from Rs. 1 crore to Rs.10 crores – 7%

Total income greater than Rs.10 crores – 12%

Foreign Companies**a) Regular Rates**

Tax at the rate of 40% of Total Income

- However, where Royalties of FTS received from services rendered to the Govt., that will be taxed @ 50%

b) Surcharge

Total income upto Rs. 1 crore – Nil

Total income from Rs. 1 crore to Rs.10 crores – 2%

Total income greater than Rs.10 crores – 5%

(II) MAT u/s 115 JB

MAT rate is 18.5% of book profits of the company

Period of **carry forward of MAT Credit** was allowed for upto 10 years. This has now been **increased to 15 years** in Finance Act, 2017

4. Income from Salaries

No significant changes other than the following important points:

a) House Rent Allowance

If Rent paid > INR 1,00,000 per year (>INR 8333 per month) - **Landlord Name and PAN is mandatory in submission to employer.**

b) Interest paid on house property loan

If interest paid on house property loan is to be claimed by an employee, he/she must **submit Lender Name and PAN of Lender to the employer**– includes Banks, NBFCs, Housing Finance Cos.

c) TDS on Rent Paid

If Rent paid is greater than Rs.50,000/- per month – **TDS to be deducted by tenant @ 5%** and paid to the Government. TAN not required.

5. Income from House Property

a) Restriction on set-off of loss from House Property against other heads of income

Currently	Excess of loss from house property after adjusting interest paid against rental incomes is allowed to be set-off against any other head of income without limits. Any remaining house property loss, after setting off current year, maybe carried forward and set-off against only income from house property in the following years.
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<p>From 1st April, 2018 i.e AY 2019-20</p>	<p>The excess can still be set-off against other heads of income in that year, however, it is limited to a ceiling of Rs.2,00,000 only</p> <p>If there is still any loss from house property beyond Rs.2,00,000; it may be carried forward to the next year. However, it can only be set-off against income from house property in the subsequent years.</p> <p>It may be carried forward for 8 subsequent years before it lapses, if not set-off.</p>
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Carry forward and set-off provisions remain the same

b) Benefit for Real Estate Companies or House Developers

No notional rent to be taxed on house property inventory which is less than 12 months old, from the end of the year in which the property is completed.

Therefore, if property is completed on 1st July, 2017, then no notional rent is taxable for 12 months from end of FY in which property is completed.

End of FY – 31st March, 2018. Therefore, 12 months from end of FY is 31st March, 2019.

6. Profit and gains from Business and Profession

a) Tax Audit Limits

Tax audit is applicable to the following classes of Assessee's if the turnover exceeds the limits as specified below:

Category	Limit of turnover/gross receipts
Professionals	Exceeding Rs. 50 Lakhs during the year
Business Assesses	Exceeding Rs. 1 Crore during the year

If profits are lesser than the presumptive taxation prescribed rates, tax audit will be required.

b) Presumptive Taxation

i) Small tax payers/small businesses (Sec 44AD)

For businesses and non-professionals, the following rates are applicable

Turnover upto Rs. 200 Lakhs – Deemed Profit is as follows:

Tax as % of revenue	When the rate is applicable
6% of gross receipts	Received by cheque or electronic or banking channels or net banking
8% of gross receipts	Other than those covered by above

ii) Small Professionals (44ADA)

Gross Receipt upto Rs. 50 Lakhs - Deemed Profit is **50% of Gross Receipts**

Why is Presumptive Taxation is beneficial?

- a) Exemption from the need to maintain books of account
- b) Exempted from advance tax and allowed to pay their entire tax before due date of filing his return of income

POINTS TO REMEMBER

1. The Partnership Firms were previously eligible to claim deduction of Partners Remuneration and Interest paid to partners out of the Deemed Profit declared under this section, however w.e.f. A.Y. 2017-18, this has been omitted
2. Where an Assessee takes the benefit of the presumptive taxation provisions, he must do the same for the next 5 Assessment Years also. If, in any of the 5 next AYs, the Assessee fails to use these provisions, he will be denied the benefit of these provisions for a period of 5 years, from the year he fails to use these provisions as mandated.

7. Capital Gains

TAX ON CAPITAL GAIN FROM SALE OF EQUITIES

(i) Short Term Capital Gain on Sale of Equities & Equity Oriented Mutual Funds:

Tax @ 15 % on a Recognised Stock Exchange in India

(ii) Long Term Capital Gain on Sale of of Equities & Equity Oriented Mutual Funds:

NIL (No tax) – If traded on a Recognised Stock Exchange in India

NOTE:

To claim exemption u/s 10 (38) for shares acquired after 01-10-2004, it will be mandatory that the STT must have been paid at the time of Purchase. Private placements and purchase of shares out of the index/market will be affected by this.

HOLDING PERIOD OF A LONG TERM CAPITAL ASSET

Shares of Unlisted companies if sold after 2 years, shall be treated as Long Term

Capital Gain

This has been changed from what was earlier 36 months i.e. 3 years. Now the holding period has been reduced to 2 years for it to become a Long Term Capital Asset

BASE PERIOD FOR INDEXATION HAS BEEN CHANGED FROM 1981 TO 2001

The existing provisions of section 55 provide that for computation of capital gains, assessee shall be allowed deduction for cost of acquisition. However, for computing capital gains in respect of an asset acquired before 01.04.1981, the assessee has been allowed an option of either to take the fair market value of the asset as on 01.04.1981 or the actual cost of the asset as cost of acquisition.

As the base year for computation of capital gains has become more than three decades old, there have been substantial challenges in implementing the same. A significant number of tax disputes regarding capital gains arise from the valuation of the Fair Market Value as on 01.04.1981. Therefore, due to the large availability of guideline values in 2001, the Base year has now been changed.

01.04.2001 shall be allowed to be taken as fair market value as on 1st April, 2001 and the cost of improvement shall include only those capital expenses which are incurred after 01.04.2001. Consequential amendment is also proposed in section 48 so as to align the provisions relating to cost inflation index to the proposed base year.

These amendments will take effect from 1st April, 2018 and will, accordingly, apply in relation to the assessment year 2018-19 and subsequent years.

CAPITAL GAINS FROM JOINT DEVELOPMENT AGREEMENTS (JDA) PROJECTS

Under the existing provisions of section 45, capital gain is chargeable to tax in the year in which transfer takes place except in certain cases. The definition of 'transfer', includes any arrangement or transaction where any rights are handed over in execution of part performance of contract, even though the legal title has not been transferred. JDA would fall in the above category, however in reality, the assessee would have not received any monetary consideration on the date of transfer. This made it significantly challenging for the assessee to pay capital gains tax on a transfer where no monetary consideration was available.

Though the Act itself caused genuine hardship to the Assessee, relief was found through courts, which allowed the tax payer the benefit of the doubt and capital gains was taxed in the year of receipt of consideration.

However, now the Act has been amended to make JDAs taxable only in the year of issue of the completion certificate by the competent authority.

Further, a new section called 194 IC is proposed to be introduced to levy a 10% TDS on the issue of any payment or consideration in such transfers/agreements.

8. Income from Other Sources

Dividend income Taxation

Under the existing provisions of section 115BBDA, income by way of **dividend in excess of Rs. 10 lakh is chargeable to tax at the rate of 10%** on gross basis in case of a **resident individual, Hindu undivided family or firm.**

With a view to ensure horizontal equity among all categories of tax payers deriving income from dividend, it is proposed to amend section 115BBDA so as to provide that the provisions of said section shall be applicable to all resident assessee except domestic company and certain funds, trusts, institutions, etc. Now expanded to all persons except companies, certain funds and trusts.

Scope of income from other sources widened

Receipt of cash or property by any person from any other person without consideration or inadequate consideration in excess of INR 50,000 to be taxed. Existing exceptions continue

9. Restriction on Cash Transactions

Nature of Expenditure	Existing Limit	New Limit	If Violated - implication
CAPITAL – Purchase of Fixed Assets	No Limit	Rs.10,000/- per day per asset	The expenditure shall not be included in the cost of asset. No Depreciation benefit.
REVENUE – Expenditure on Specified Business	No Limit	Rs.10,000/- per day per asset	No deduction shall be allowed in respect of such expenditure.
REVENUE – General Expenditure	Rs. 20,000/- per day to a person	Rs.10,000/- per day per asset	No deduction shall be allowed in respect of such expenditure.
Any Payment received: (a) in aggregate from a person in a day; (b) in respect of a single transaction; or (c) in respect of transactions relating to one event or occasion from a person	No Limit	Rs.2,00,000/- (Revised from Rs.300,000/- while finalising the Act)	Penalty u/s 271DA equal to the amount of such payment received by a person.

10. Key Notes for Individual Tax Planning

Section	Nature of tax planning	Limit	Notes
24(b)	Interest on Housing Loan (Self Occupied)	Upto Rs. 2 lacs	No change
80C	Investments in Life Insurance Premium, PF, PPF, NSC, ULIP, housing loan repayment, Tax benefit mutual funds	Rs.1.50 lacs	No change
80CCD	Investment in pension scheme	Upto Rs.0.50 lacs	For individuals other than employee - limit of investment in NPS increased to 20% of GTI
80D	Mediclaime Insurance	Very Senior Citizen: Rs.30,000 Sr. Citizen : Rs. 30,000/- Others : Rs. 25,000/-	New limit for Very senior citizen introduced. No other changes
80EE	Continued Deduction from previous year - for Interest on Loan taken for Residential House Property	Rs.50,000/-	Conditions:- 1. First time House Purchase 2. Home Loan sanctioned in 2016-2017 3. House Cost upto Rs. 50 Lakhs or Less 4. Loan Amount upto 35 Lakhs or Less 5. When the deduction is allowed for Interest under this section, deduction shall not be allowed in respect of such interest under any other provision of this act.
80GG	Rent Paid	Lower of Following: 1. Rs. 60,000 p.a. 2. 25% of Total Income; 3. Rent Paid – 10%	Lower Limit increased from Rs. 24,000/- p.a. to Rs. 60,000/- p.a.

		of Total Income	
80JJA	Deduction in respect of Employment of new employees	30% of Additional Employee Cost (Conditions of Additional Employee Cost are separately discussed)	Conditions:- 1. Section 44AB should be applicable; 2. Gross Total Income includes Profits & Gains of Business; 3. Accountant Report is submitted in Prescribed Format. No Deduction in Following cases:- 1. The business is formed by splitting up, or the reconstruction, of an existing business; 2. The business is acquired by the assessee by way of transfer from any other person or as a result of any business reorganization;

11. Key Notes for Companies and Business/Profession

DEPRECIATION

The Finance Act 2017 is silent on Depreciation, however vide CBDT Notification issued on 7th March, 2017 a cap was placed on depreciation.

W.e.f. FY 2017-18 (AY 18-19), the changed depreciation rates are as follows:

Asset	Depn rate FY 16-17	Depn rate FY 17-18
Computer, Laptops, Software etc.	60%	40%
Renewable energy devices	80%	40%
Air pollution control equipments	1000%	40%

FAIR MARKET VALUE OF SHARES

Sec 50CA is proposed to be introduced to price transfer of unquoted shares at Fair Market Value. The section will be similar to Sec 50C which is used for House Property, where Guideline Value is considered for the value of sale consideration. The Finance Act states that the method of calculation of Fair Market Value will be prescribed.

INTERNATIONAL TAX – THIN CAPITALISATION RULES

Thin Capitalisation Rules – Triggered when interest paid to AE exceeds INR 1 crore. 30% of EBITDA or actual interest, whichever is lower will be disallowed. In case AE gives a corporate guarantee to a loan from non AE, loan will be treated as if AE has given the same.

Excess interest maybe carried forward and set-off for 8 years

TRANSFER PRICING

Proposal of secondary adjustment in books of accounts of tax payer and AE – Significant repercussions on filing with MCA and ROC.

No changes proposed to GAAR – Coming into effect on 1st April, 2017

12. Specified Domestic Transfer Pricing Provisions

The existing provisions of section 92BA of the Act, inter-alia provide that any expenditure in respect of which payment has been made by the assessee to certain "specified persons" under section 40A(2)(b) are covered within the ambit of specified domestic transactions.

As a matter of compliance and reporting, taxpayers need to obtain the chartered accountant's certificate in Form 3CEB providing the details such as list of related parties, nature and value of specified domestic transactions (SDTs), method used to determine the arm's length price for SDTs, positions taken with regard to certain transactions not considered as SDTs, etc. This has considerably increased the compliance burden of the taxpayers.

In order to reduce the compliance burden of taxpayers, it is proposed to provide that expenditure in respect of which payment has been made by the assessee to a person referred to in under section 40A(2)(b) are to be excluded from the scope of section 92BA of the Act. Accordingly, it is also proposed to make a consequential amendment in section 40(A)(2)(b) of the Act.

These amendments will take effect from 1st April, 2017 and will, accordingly, apply in relation to the assessment year 2017-18 and subsequent years.

13. Maintenance of Books of accounts for Individuals and HUF

The existing provisions of clause (i) and clause (ii) of sub-section (2) of section 44AA of the Act cast an obligation on every person carrying on business or profession [other than those mentioned in sub-section (1) such as legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or any other profession as is notified by the Board in the Official Gazette] to maintain such books of accounts and documents in the previous year to enable the Assessing Officer to compute his total income in accordance with the provisions of Act, provided that the income and total sales or turn over or gross receipts, etc specified in said clauses exceeds rupees one lakh twenty thousand and rupees ten lakh, respectively.

In order to reduce the compliance burden, it is proposed to amend the provisions of section 44AA to increase monetary limits of income and total sales or turn over or gross receipts, etc specified in said clauses for maintenance of books of accounts from one lakh twenty thousand rupees to two lakh fifty thousand rupees and from ten lakh rupees to twenty-five lakh rupees, respectively in the case of Individuals and Hindu undivided family carrying on business or profession.

This amendment will take effect from 1st April, 2018 and will, accordingly, apply in relation to the assessment year 2018-19 and subsequent years.

14. Carry Forward and Set-off of Losses for Start Ups

In order to facilitate ease of doing business and to promote start up India, it is proposed to amend section 79 of the Act to provide that where a change in shareholding has taken place in a previous year in the case of a company, not being a company in which the public are substantially interested and being an eligible start-up as referred to in section 80 -IAC of this Act, loss shall be carried forward and set off against the income of the previous year, if all the shareholders of such company which held shares carrying voting power on the last day of the year or years in which the loss was incurred, eing the loss incurred during the period of seven years beginning from the year in which such company is incorporated, continue to hold those shares on the last day of such previous year.

This amendment will take effect from 1st April, 2018 and will, accordingly, apply in relation to the assessment year 2018-19 and subsequent years.

15. Fees for delayed filing

In view of the non-intrusive information-driven approach for improving tax compliance and effective utilization of information in tax administration, it is important that the returns are filed within the due dates specified in section 139(1).

New section has been introduced to provide for a fee for delayed filing. The proposed fee structure is as follows:-

- (i) a fee of Rs.5000 (five thousand rupees) shall be payable, if the return is furnished after the due date but on or before the 31st day of December of the assessment year;
- (ii) a fee of Rs.10,000 (ten thousand rupees) shall be payable in any other case.

However, if total income does not exceed Rs.5,00,000/-, the proposed fee amount shall not exceed Rs.1000/-.

16. Unexplained Income – Increase in Taxes and Penalties

Increase in rate of tax & surcharge on income from unexplained sources from 30% to 60% + 25% surcharge on income

Assessee is now permitted to disclose the same in the return of income. It was considered the AO's prerogative to invoke this provision in the past. If disclosed by the Assessee, then there will be no penalty levied on the same. However, if it is detected by the AO, then there will be penalty levied.

Therefore, if self-declared then tax will be at 77.25%, including surcharge. However, if it is not declared and is detected by the AO, then the tax will be @ 83.25 including surcharge.

17. Penalty Provisions

Section 270A

Under reporting of Income–Penalty leviable at 50% in the following scenarios

- a) Income assessed > Income declared in returns which are processed u/s 143(1)(a)
- b) Income assessed > Maximum amount not chargeable to tax if no return filed
- c) Income reassessed > Income assessed or reassessed
- d) MAT/AMT Income assessed > Income declared in returns
- e) MAT/AMT Income assessed > Maximum amount not chargeable to tax, if no return filed
- f) MAT Income reassessed > Income assessed or reassessed
- g) Income assessed / reassessed leads to reduction of loss/convertting loss to income

Heavy penalty @ 200% in cases of misreporting of income

Other Penalties

Section	Nature of Default	Penalty Leviable
271AAB	Search has been initiated and undisclosed income found - assessee admits income and specified the manner in which such income is derived	30% of undisclosed income
271AAB	Where search has been initiated and undisclosed income found - assessee does not admit income or specify the manner in which such income is derived	60% of Undisclosed Income
271A	Failure to keep, maintain, or retain books of account, documents, etc., as required under section 44AA	Rs.25,000
271B	Failure to keep, maintain, or retain books of account, documents, etc.	Rs.25,000
271BA	Failure to furnish a report from an accountant as required by section 92E	Rs.1,00,000
271H	Failure to deliver/cause to be delivered a statement within the time prescribed in section 200(3) / 206C(3), or Furnishes incorrect information in the statement	Not less than Rs. 10,000 but not more than Rs. 1,00,000
271 I	As per section 195(6) of the Act, any person responsible for paying to a non-resident or to a foreign company, any sum (whether or not chargeable to tax), -shall furnish the information relating to such payment in Form 15CA and 15CB. -penalty shall be levied in case of any failure	Rs. 1,00,000
272A(1)	Refusal or failure to: answer questions, sign statement, summons & notices u/s 143(2) etc compliance	Rs.10,000 for each failure or default
272AA(1)	Failure to comply with section 133B (collection of information)	Not exceeding Rs.1000
272B	Failure to quote PAN in specified transactions	Rs.10,000
272BB (1) / (1A)	Failure to : -obtain TAN -quote TAN wherever required (as per Sec 203A)	Rs. 10,000 for each failure/default

18. Compulsory Quoting of PAN

Quoting of PAN will be compulsory in the following cases:

- a) Sale or purchase by any person of goods or services of any nature other than immovable properties, shares, motor vehicle in excess of Rs 2 Lacs per transaction, irrespective of mode of payment.
- b) Hotel/Restaurant bills in excess of Rs 50,000/-paid by cash (increased from Rs 25,000/-)
- c) Sale or purchase of immovable property exceeding Rs 10 lacs (increased from Rs 5 Lacs)
- d) Purchase or Sale of unlisted shares Rs 1 Lac (increased from Rs 50000/-)

**Thoughts or Doubts?
Let's discuss!**

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