

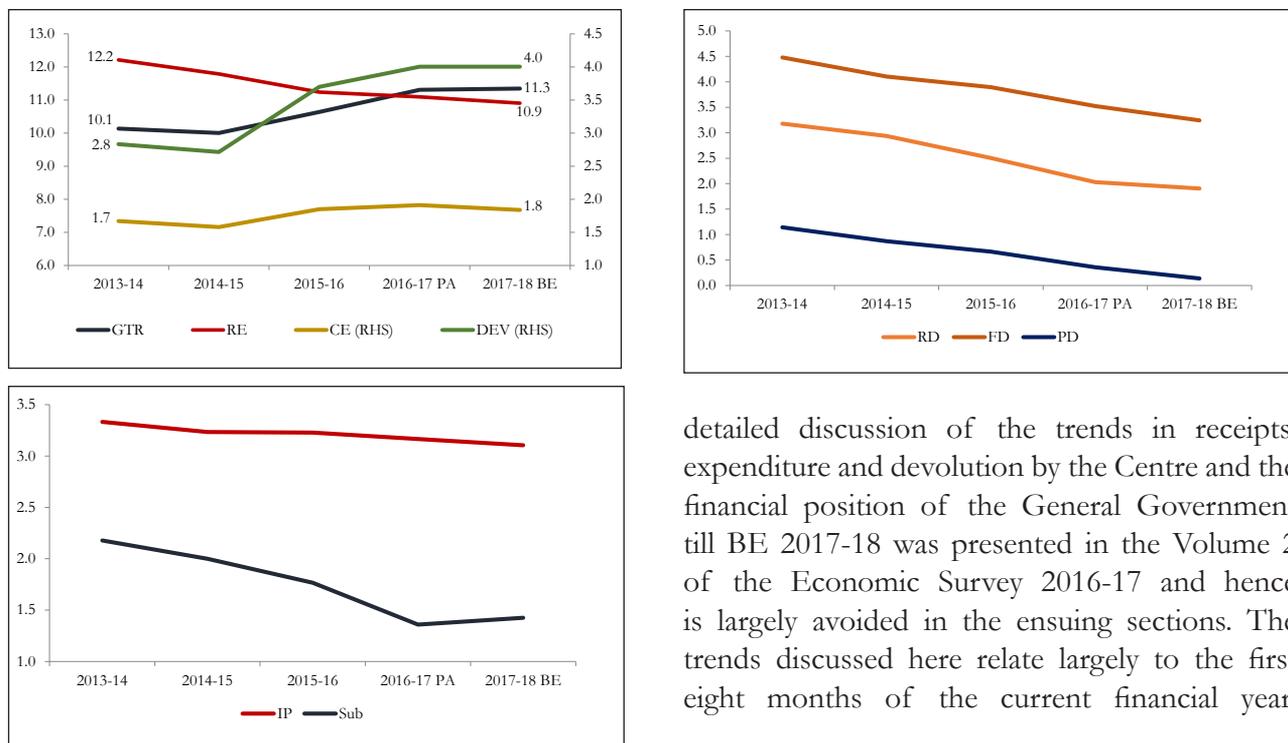
## Review of Fiscal Developments

*Sound public financial management has been one of the pillars of India's macro-economic stability in the last three years. Based on this firm footing, the Government, in partnership with the States, ushered in the long-awaited GST era. The GST was unveiled after comprehensive preparations, calculations and multi-stage consultations, yet the sheer magnitude of change meant that it needed to be carefully managed. The Government is navigating the change and challenges, including the possibility that a substantial portion of the last-month GST collections may spill over to the next year. Meanwhile, direct tax collections are expected to meet targets. And spending plans are broadly on track.*

2.1 The firm footing afforded by the Government to unleash tax reforms in the current year could be perused from the Charts

below. Most fiscal indicators—revenue buoyancy, expenditure quality, devolution and deficits—improved discernibly in the last three years. A

**Figure 1 (a to c) : Fiscal indicators as percentage of GDP**



Source: Controller General of Accounts (CGA), Government of India

Note: GTR=gross tax revenue; RE=revenue expenditure; CE=capital expenditure; DEV=tax devolution to States; IP=interest payments; Sub=subsidies; RD=revenue deficit; FD=fiscal deficit; PD=primary deficit; PA=provisional actuals; BE=budget estimates

detailed discussion of the trends in receipts, expenditure and devolution by the Centre and the financial position of the General Government till BE 2017-18 was presented in the Volume 2 of the Economic Survey 2016-17 and hence is largely avoided in the ensuing sections. The trends discussed here relate largely to the first eight months of the current financial year.

## RECEIPTS AND EXPENDITURE OF THE CENTRAL GOVERNMENT

### A. Receipts

2.2 The data on Central Government finances are available till November 2017 from the Controller General of Accounts (CGA). There are three distinct patterns on the revenue front till November 2017 (Table 1), the confluence of which is reflected in the trends in non-debt receipts of the Centre. First, the gross tax collections are reasonably on track. Second, the non-tax revenues have visibly under-performed. Third, non-debt capital receipts, mainly proceeds from disinvestment, are doing well. As against last year's achievement of Rs. 46,247 crore realized from 16 transactions of disinvestment, the budget estimate for 2017-18 was set at Rs. 72,500 crore,

taken for investment management in CPSEs are at Appendix 1.

2.3 The trends indicated in Table 1 are confirmed in Table 2. The difference between the gross tax revenue and net tax revenue is mainly the tax devolution to the States. The share of States in taxes grew by 25.2 per cent during April-November 2017, much higher than the growth in net tax revenue (to centre), which is what the Centre has at its disposal to spend from its own taxes. Disinvestment proceeds and non-tax revenues have shown contrasting growth patterns, the former reinforcing the revenue position and the latter dampening it.

2.4 The growth in direct tax collections of the Centre kept pace with the previous year (Figure 3).

**Table 1 : Central Government's Receipts during April-November**

	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
	(Rs. in lakh crore)			Per cent of BE (for full year)		
Gross tax revenue	7.68	9.33	10.87	53.0	57.2	56.9
Net tax revenue (to centre)	4.65	6.21	6.99	50.5	58.9	57.0
Non-tax revenue	1.73	1.75	1.05	78.1	54.2	36.5
Revenue receipts	6.38	7.96	8.05	55.9	57.8	53.1
Non-debt capital receipts	0.21	0.33	0.62	25.8	48.5	73.3
Non debt receipts	6.59	8.29	8.67	53.9	57.4	54.2

*Source: CGA, Government of India*

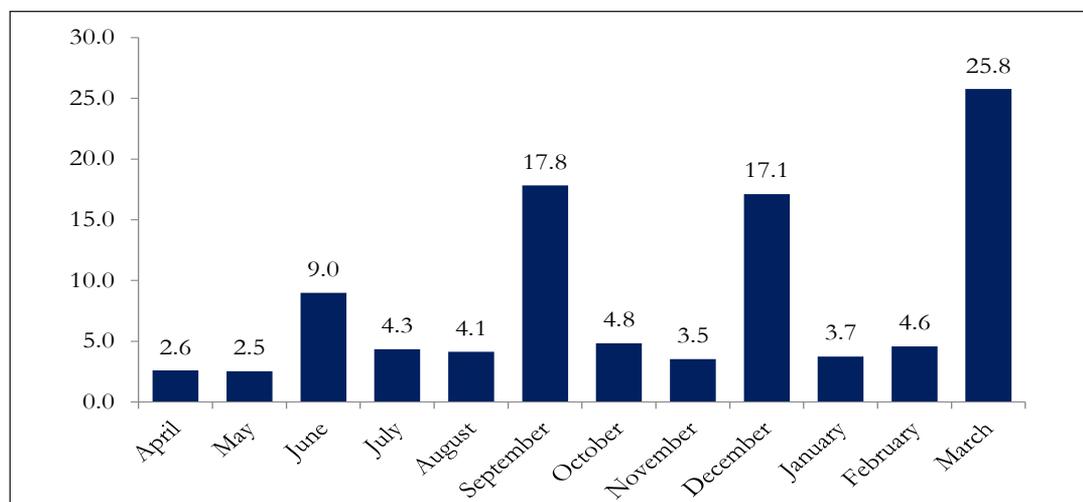
split into Rs. 46,500 crore from disinvestment of Central Public Sector Enterprises (CPSEs), Rs. 15,000 crore from strategic disinvestment and Rs. 11,000 crore from listing of insurance companies. An amount of about Rs. 52,378.2 crore has been realized during April-November 2017, that includes Rs.30,867.0 crore through minority stake sale in CPSEs, Rs. 4,153.6 crore through disinvestment of strategic holdings in SUUTI and Rs.17,357.5 crore through listing of insurance companies. This realization generates optimism regarding disinvestment proceeds vis-à-vis the ambitious budgetary targets. Measures

Considering that more than half of the direct tax collections are normally realized during the last four months of the financial year (Figure 2), the budget targets for the current year are still not out of sight (Figure 3). The indirect tax collections in the previous two years were buoyed by mobilization of additional resources (ARM), prudently apportioning the petroleum price advantage into pass-through to the consumers and raising of development funds. Considering that there are no significant ARM measures in the current year, the pace of growth in indirect taxes

**Table 2 : Growth in Items of Receipts (per cent)**

	2014-15	2015-16	2016-17	2017-18
	<b>April-November</b>			
Gross Tax Revenue	6.5	20.8	21.5	16.5
Net tax revenue	4.3	12.5	33.6	12.6
Non-tax revenue	20.5	34.9	1.0	-39.7
Total revenue receipts	7.8	17.8	24.8	1.1
Non-debt capital receipts	-17.3	180.3	57.1	89.9
Non debt receipts	7.3	20	25.8	4.6

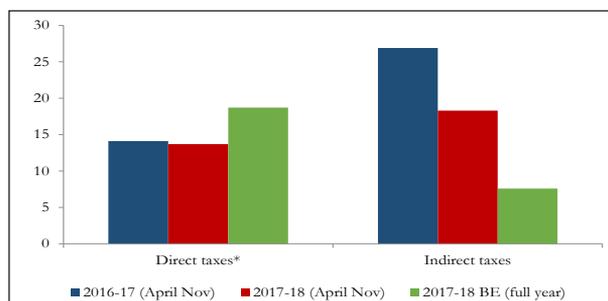
Source: CGA, Government of India

**Figure 2 : Monthly share in collection of direct taxes\* (in per cent): average 2014-15 to 2016-17**

Source: CGA, Government of India

\* Note: Direct taxes discussed here include only personal income tax and corporate income taxes

during the first eight months is comforting. The budgeted growth for indirect taxes for the full year of 2017-18 is only 7.6 per cent; the growth so far is 18.3 per cent. The eventual outcome in indirect taxes during this year will depend on the final settlement of GST accounts between the Centre and the States and the likelihood that only taxes for eleven months (excluding IGST on imports) will be realized.

**Figure 3 : Growth in Central taxes (per cent)**

Source: CGA, Government of India

\* Note: Direct taxes discussed here include only personal income tax and corporate income taxes

## B. Expenditure and Deficits

2.5 Central Government expenditure progressed at a robust pace during April-November 2017 (Tables 3 & 4). One of the major fiscal reforms in the current year was the advancing of the budget cycle and processes by almost a month. This gave considerable leeway to the spending agencies to plan in advance and start implementation early in the financial year. In this sense, the expenditure trends in the current year at any midpoint—both as percentage of budget estimates and in terms of their growth rates—become not comparable with those of previous years (Tables 3 & 4). This has also partly contributed to greater deficits in the current year so far, compared to corresponding periods in the

previous years (Table 5).

2.6 The trends in fiscal and revenue deficits, seen in table 5, are the combined effect of the patterns in non-debt receipts (shown in table 1 and 2) and expenditure. Apart from the early progression of expenditure, the fiscal deficit overshooting the budgetary target during April-November 2017 has also been due to the front-loading of some expenditure, undertaken as part of prudent expenditure management. Notwithstanding this, what table 5 suggests is that there was pressure on both revenue and fiscal deficits during the first eight months of the current year and that marked efforts will be required to meet the budgeted targets for the full year.

**Table 3 : Central Government's Expenditure during April-November**

	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
	(Rs. in lakh crore)			Per cent of BE		
Total Expenditure	11.42	12.87	14.79	64.3	65.0	68.9
Revenue Expenditure	9.83	11.44	12.95	64.0	66.1	70.5
Capital Expenditure	1.59	1.42	1.84	65.8	57.7	59.5

*Source: CGA, Government of India*

**Table 4 : Growth in Items of Expenditure (per cent)**

	2014-15	2015-16	2016-17	2017-18
	April-November			
Total expenditure	5.2	6.3	12.6	14.9
Revenue expenditure	6.4	3.2	16.4	13.1
Capital expenditure	-3.2	30.8	-10.4	29.3

*Source: CGA, Government of India*

**Table 5 : Central Government's Deficit Indicators during April-November**

	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
	(Rs. in lakh crore)			Per cent of BE		
Revenue Deficit	3.45	3.48	4.90	87.5	98.6	152.2
Fiscal Deficit	4.84	4.58	6.12	87.0	85.8	112.0

*Source: CGA, Government of India*

2.7 Movements in revenue expenditure can be majorly explained by changes in interest payment liabilities and subsidy payments (Table 6). Interest payment liabilities have firmed up moderately during April-November 2017, possibly due to outgo on account of servicing the market stabilization bonds issued to reduce excess liquidity, post demonetization. With the loss of price advantage in petroleum products in the international market, the petroleum subsidy has firmed up. On the whole subsidies seem to be

## STATE AND GENERAL GOVERNMENT

2.8 Figure 4 and table 7 show that States targeted to consolidate in the current year, after the UDAY-led aberration in their fiscal balances for the previous two years. UDAY bonds had an impact of 0.5 and 0.6 percentage points of GDP on the deficits of the 26 States under consideration in 2015-16 and 2016-17 respectively.

2.9 The position of 21 State Governments that account for about 86 per cent of the

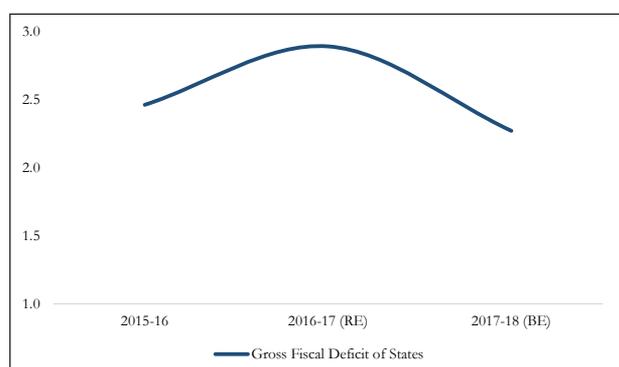
**Table 6 : Some Major Components of Revenue Expenditure**

	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
	April-November (per cent of BE)			April-November (percentage growth)		
Interest payment	55.4	54.1	59.2	8.6	5.6	16.2
Food subsidy	81.4	91.3	93.1	11.1	21.6	9.9
Fertilizer subsidy	85.4	79.7	70.5	7.6	-10.5	-11.5
Petroleum subsidy	82.6	65.2	85.7	-46.6	-23.8	13.3
Major subsidies	82.9	85.3	85.7	-3.6	5.0	4.2
Salaries and pensions	52.9	52.5	61.6	3.2	28.5	22.5

*Source: CGA, Government of India*

within control and target. The outgo on pensions grew strongly during the first eight months reflecting enhanced payments under the Seventh Pay Commission.

**Figure 4 : Fiscal deficits of States (\*) as per cent of GDP**



*Source: Reserve Bank of India*

\* *Note:* Data relating to deficit pertain to only 26 States; RE=Revised Estimate; BE=Budget Estimate

total GSDP of all states and for which comparable data are available shows that their revenue receipts have kept pace with the previous year in terms of growth and in relation to the corresponding budget estimates for the full year (Figure 5). Further, data on 23 States shows that both revenue and fiscal deficits as percentage of the corresponding budget estimates (Figure 6) is lower in the current year, compared to the previous year.

2.10 The net market borrowings by the State Governments, as reported by the Reserve Bank of India (RBI), during April-December of the current and previous years stood at Rs. 2493.0 billion and Rs. 2351.6 billion respectively. As per the RBI (Press Release dated January 5, 2018), the quantum of total market borrowings by the

**Table 7 : Receipts and Disbursements of State Governments (as percent of GDP)**

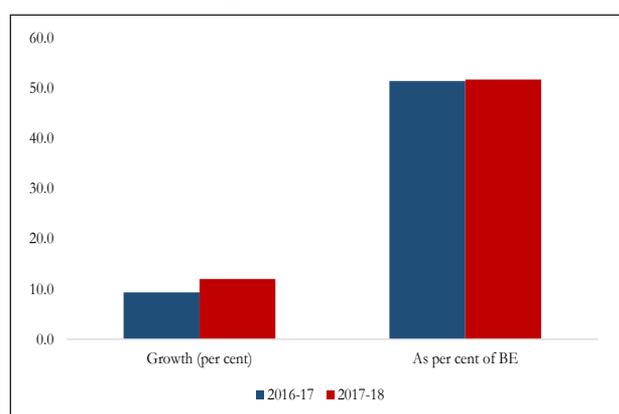
Item	2015-16	2016-17 (RE)	2017-18 (BE)
Tax Receipts	8.3	8.6	8.9
States' Own Tax Revenue	5.3	5.5	5.6
Non Tax Receipts	2.9	3.7	3.7
Total Disbursements	14.3	15.9	16.0
Revenue	11.3	12.6	12.5
Capital (*)	3.0	3.3	3.5

*Source:* Reserve Bank of India and Union Budget 2017-18

*Note:* RE : Revised Estimates BE : Budget Estimates; Data are provisional and pertain to budgets of 26 states; (\*) Capital disbursements are exclusive of public accounts, but inclusive of loans and advances.

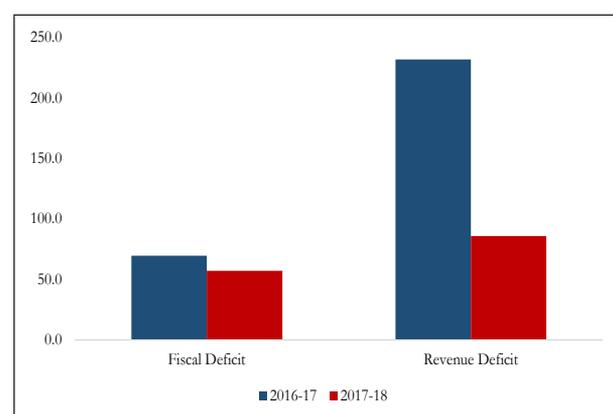
State Governments and the Union Territory of Puducherry for the fourth quarter is expected to be in the range of Rs. 1,26,2.0 billion to Rs. 1,38,2.0 billion. This, combined with the advance estimates of GDP for 2017-18, means that all the States taken together would possibly be able to meet their targeted level of fiscal deficit (Figure 4), if the borrowing plan for the fourth quarter is adhered to and if no other significant means of financing is resorted to.

2.11 Coupled with the Central Government's target for reducing fiscal deficit by 0.3 percentage points of GDP, the State fiscal targets for 2017-18 (Figure 4) meant that the General Government targeted to achieve an overall improvement in their fiscal position in the current year, boosted by a compression in revenue expenditure and a modest improvement in capital expenditure (Figure 7 and Table 8).

**Figure 5 : Revenue receipts of States during April-November**

*Source:* CAG

*Note:* Information pertains to 21 States.

**Figure 6 : Deficit of States during April November as % of BE**

*Source:* CAG

*Note:* Information pertains to 23 States.

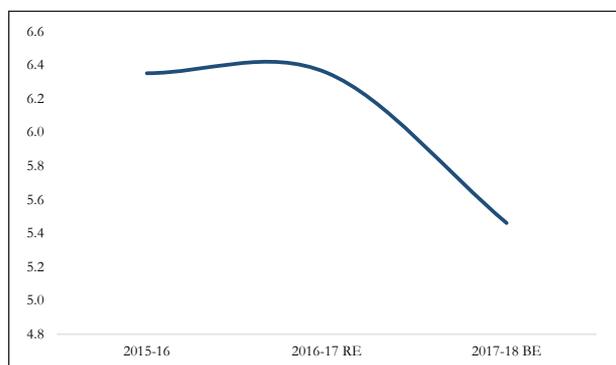
**Table 8 : Combined receipts and disbursements of Central and State Governments  
(per cent of GDP)**

Item	2015-16	2016-17 (RE)	2017-18 (BE)
Total non-debt receipts	18.3	20.5	20.6
Tax Revenue	15.2	15.9	16.1
Non Tax Revenue	2.7	4.3	3.8
Non debt Capital receipts	0.4	0.4	0.7
Total Disbursements	24.7	26.9	26.1
Revenue	20.5	22.5	21.7
Capital (*)	4.2	4.4	4.3

*Source:* Reserve Bank of India and Union Budget 2017-18

*Note:* RE : Revised Estimates BE : Budget Estimates; Data are provisional and pertain to budgets of 26 states; (\*) Capital disbursements are exclusive of public accounts, but inclusive of loans and advances.

**Figure 7 : Gross Fiscal Deficit of the general government (\*) as per cent of GDP**



*Source:* Reserve Bank of India;

\* *Note:* Data relating to deficit pertain to only 26 States: RE=Revised Estimate; BE=Budget Estimate

2.12 For the general government as a whole, with the expected revenues from GST becoming increasingly clearer, the fiscal balance vis-à-vis budget estimates will depend on the emerging patterns of revenue expenditure in the fourth quarter. Considering the complexities involved in rolling out the GST, the preliminary assessment should be that the general government is navigating the initial phases of this momentous change reasonably. The difficulties faced by various sections of tax payers are being addressed through various rationalisation measures, including substantive revision in tax rates, which are discussed in Annexure 1.

## ANNEXURE 1\*

### 1. SALIENT MEASURES UNDER INDIRECT TAXES DURING 2017-18

#### A. Customs duty changes to incentivize 'Make in India'

- Basic Customs Duty was reduced on inputs and raw materials like liquefied natural gas, o-Xylene, vegetable tanning extracts, nickel, medium quality terephthalic acid and qualified terephthalic acid, hot rolled coils for use in certain manufacturing processes, Vinyl Polyethylene Glycol for manufacture of Poly Carboxylate Ether, inputs or raw materials for manufacture of specified printers, ink cartridges, ink spray nozzle, cellular mobile phones and base stations, solar tempered glass for the manufacture of solar cells/panels/modules, resin and catalyst for specified manufacturing processes, all parts for manufacture of LED lights or fixtures including LED lamps, etc.
- Basic Customs Duty was increased on specified goods manufactured indigenously in significant quantity, including: ad-valorem Component on 298 items of fabrics on manmade fibres, co-polymer coated MS steel tape / stainless steel tape for manufacture of specified telecommunication grade optical fibre cables, specified printers, ink cartridges, ink spray nozzle, cellular mobile phones and their specified parts, base stations, microwave ovens, televisions, LED lamps, specified lamps and lighting fittings, video recording or reproducing apparatus, electricity meters, television cameras, digital cameras and video camera recorders, LCD, LED or OLED panels for manufacture of television, RO membrane element for household type filters, cashew nut, etc.
- Export Duty of 15% was imposed on other aluminium ores, including laterite.
- Basic Customs Duty was increased on crude and refined palm oil of edible grade, crude sunflower oil, refined sunflower oil of edible grade, crude and refined soya bean oil, crude and refined rapeseed oil including canola oil, mustard oil and colza oil to protect the interest of farmers and local producers of agricultural product.

#### B. Rollout of GST

In a historic tax reform, the goods and services tax was rolled out on 1<sup>st</sup> July, 2017, subsuming almost all major indirect taxes like Central Excise Duty, Service Tax, VAT, CST, entertainment tax, Octroi, luxury tax, a large number of cesses/surcharges and various other state and central levies on goods and services.

##### a. Addressing concerns under GST

The concerns raised by the stakeholders related to business processes (like migration, registration, return filing and refunds on the portal), GST rates, difficulties faced by MSME sector in compliance and cash flow issues of exporters on account of delays in refunds. The GST Council had several meetings and took specific measures to address concerns expeditiously. To address the IT issues, a GOM (Group of Ministers) was constituted which has taken a number of measures. Another GOM looked into the issues of MSMEs. A Committee on exports was constituted to address the concerns of exporters. The GST Council also recommended significant rationalization in rates. Extensive exercises were undertaken for streamlining tax administration, ensuring that taxpayer has single interface (with either Central or State tax authority). Committees of officers examined issues relating to law and processes and sectoral issues like handicrafts. A number of procedural changes have been made to simplify processes. Extensive efforts were made for taxpayer education and facilitation by way of knowledge sharing, dissemination of information and replies to frequently asked questions. These efforts have smoothed the GST implementation and further efforts at simplification are on.

##### b. Facilitation measures taken in GST

###### i. Ease of doing business for small traders

GST has significantly raised turnover thresholds of Rs 20 lakh for an entity to be taxable in GST. Threshold for composition was increased in general to Rs. 1 crore (Rs 75 lakh for special category states except Jammu & Kashmir and Uttarakhand). Other measures for MSME sector include:

- Service providers whose annual aggregate turnover is less than Rs. 20 lacs (Rs. 10 lacs in special category states except J & K) were exempted from obtaining registration even if they are making inter-State taxable supplies of services. This measure will significantly reduce the compliance cost of small service providers.
- Small and medium businesses with annual aggregate turnover up to Rs. 1.5 crores would be required to file quarterly return (monthly for other taxpayers)

\* The tax measures and rate changes given in this Annexure are only meant for general readers and will not serve as reference points for tax payers.

- The reverse charge mechanism under sub-section (4) of section 9 of the CGST Act, 2017 and under sub-section (4) of section 5 of the IGST Act, 2017 has been suspended till 31.03.2018.
- The requirement to pay GST on advances received was proving to be burdensome for small dealers and manufacturers. In order to mitigate their inconvenience on this account, it was been decided that taxpayers having annual aggregate turnover up to Rs. 1.5 crores shall not be required to pay GST at the time of receipt of advances on account of supply of goods.

## ii. Rationalization of GST rate structure for goods

After implementation of GST, rates were rationalized to address concerns of trade and consumers. The major decisions taken by the GSTSC Council in its meeting on 10<sup>th</sup> November, 2017 are given below.

**28% to 18%:** The list of 28% GST rated goods was pruned substantially from 228 tariff headings [about 18.5% of total tariff headings at 4-digit] to only 50 tariff headings including 4 headings which were partially reduced to 18% [about 4% of total tariff headings at 4-digit]. The major items whose duty was reduced are; wire, cables, insulated conductors, electrical insulators, electrical plugs, switches, sockets, fuses, relays, electrical connectors; electrical boards, panels, consoles, cabinets etc for electric control or distribution; particle/fibre boards and ply wood. Article of wood, wooden frame, paving block; furniture, mattress, bedding and similar furnishing; trunk, suitcase, vanity cases, brief cases, travelling bags and other hand bags, cases; detergents, washing and cleaning preparations; liquid or cream for washing the skin; shampoos; hair cream, hair dyes (natural, herbal or synthetic) and similar other goods; henna powder or paste, not mixed with any other ingredient; pre-shave, shaving or after-shave preparations, personal deodorants, bath preparations, perfumery, cosmetic or toilet preparations, room deodorisers; perfumes and toilet waters; beauty or make-up preparations; fans, pumps, compressors; lamp and light fitting; primary cell and primary batteries; sanitary ware and parts thereof of all kinds; articles of plastic, floor covering, baths, shower, sinks, washbasins, seats, sanitary ware of plastic; slabs of marbles and granite; goods of marble and granite such as tiles; ceramic tiles of all kinds; chocolates, chewing gum / bubble gum

**18% to 12%:** GST rates were rationalised to minimise classification disputes, on the following goods: Condensed milk; refined sugar and sugar cubes; pasta; curry paste, mayonnaise and salad dressings, mixed condiments and mixed seasoning; diabetic food; medicinal grade oxygen; printing ink; hand bags and shopping bags of jute and cotton; hats (knitted or crocheted); parts of specified agricultural, horticultural, forestry, harvesting or threshing machinery; specified parts of sewing machine; spectacles frames; furniture wholly made of bamboo or cane

**18% to 5%:** Puffed rice chikki, peanut chikki, sesame chikki, revdi, tilrevdi, khaza, kazuali, groundnut sweets gatta, kuliya; flour of potatoes put up in unit container bearing a brand name; chutney powder; fly ash; sulphur recovered in refining of crude; fly ash aggregate with 90% or more fly ash content

**12% to 5%:** Desiccated coconut; narrow woven fabric including cotton newar [with no refund of unutilised input tax credit]; idli, dosa batter; finished leather, chamois and composition leather; coir cordage and ropes, jute twine, coir products; fishing net and fishing hooks; worn clothing; fly ash brick

**5% to nil:** Guar meal; hop cone (other than grounded, powdered or in pellet form); certain dried vegetables such as sweet potatoes; unworked coconut shell; fish frozen or dried (not put up in unit container bearing a brand name); khandsari sugar

**Other significant rationalisation measures in GST rates:** reduction of GST rate on dhoopbatti, dhoop, sambhrani and other similar items from 12% to 5%; reduction of GST rate on Khadi fabric, sold through Khadi and Village Industries Commission's outlets and other similar items from 5% to Nil; reduction of GST rate on handicrafts from 28% to 12%; reduction of GST rate on synthetic yarns from 18% to 12%; reduction of GST rate on plastic, glass, paper or rubber scrap from 18% to 5%; reduction of GST rate on E-waste from 18% to 5%.

## iii. Rationalization of GST rate structure for services

### Reduction from 18% to 12%:

- Composite supply of works contract services:
  - (a) supplied to the Central Government, State Government, Union territory, a local authority, a Governmental Authority or a Government Entity by way of construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, or alteration of;
  - (b) a historical monument, archaeological site or remains of national importance, archaeological excavation, or antiquity specified under the Ancient Monuments and Archaeological Sites and Remains Act, 1958 (24 of 1958);
  - (c) canal, dam or other irrigation works;
  - (d) pipeline, conduit or plant for (i) water supply (ii) water treatment, or (iii) sewerage treatment or disposal;
  - (e) a civil structure or any other original works meant predominantly for use other than for commerce, industry, or any other business or profession;
  - (f) a structure

meant predominantly for use as an educational, clinical, or art or cultural establishment; (g) involving predominantly earth work (that is, constituting more than 75per centof the value of the works contract)

Supplied by way of construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, or alteration of: (a) a road, bridge, tunnel, or terminal for road transportation for use by general public; (b) a pollution control or effluent treatment plant, except located as a part of a factory; or (c) a structure meant for funeral, burial or cremation of deceased

Supplied by way of construction, erection, commissioning, or installation of original works pertaining to: (a) railways, excluding monorail and metro; (b) post-harvest storage infrastructure for agricultural produce including a cold storage for such purposes;(c) mechanised food grain handling system, machinery or equipment for units processing agricultural produce as food stuff excluding alcoholic beverages.

Associated services, in respect of offshore works contract relating to oil and gas exploration and production (E&P) in the offshore area beyond 12 nautical miles from the nearest point of the appropriate base line.

- Services by way of job work in relation to manufacture of umbrella; printing of all goods falling under Chapter 48 or 49, which attract CGST @ 6%
- Transport of passengers by any motor vehicle designed to carry passengers where the cost of fuel is included in the consideration charged from the service recipient.
- Renting of any motor vehicle designed to carry passengers where the cost of fuel is included in the consideration charged from the service recipient.
- Transportation of natural gas through pipeline.
- Services by goods transport agency (GTA) in relation to transportation of goods[those GTAs opting for forward charge].

#### **Reduction from effective rate of 12% to 8%**

- *Composite supply of works contract services involving transfer of property in land or undivided share of land*

Supplied by way of construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, or alteration of: (a) a civil structure or any other original works pertaining to a scheme under Jawaharlal Nehru National Urban Renewal Mission or Rajiv AwaasYojana; (b) a civil structure or any other original works pertaining to the “In-situ rehabilitation of existing slum dwellers using land as a resource through private participation” under the Housing for All (Urban) Mission/PradhanMantriAwasYojana, only for existing slum dwellers; (c) a civil structure or any other original works pertaining to the “Beneficiary led individual house construction / enhancement” under the Housing for All (Urban) Mission/PradhanMantriAwasYojana;

Supplied by way of construction, erection, commissioning, or installation of original works pertaining to: (a) a single residential unit otherwise than as a part of a residential complex; (b) low-cost houses up to a carpet area of 60 square metres per house in a housing project approved by competent authority empowered under the 'Scheme of Affordable Housing in Partnership' framed by the Ministry of Housing and Urban Poverty Alleviation, Government of India; (c) low cost houses up to a carpet area of 60 square metres per house in a housing project approved by the competent authority under- (1) the “Affordable Housing in Partnership” component of the Housing for All (Urban) Mission/ PradhanMantriAwasYojana; (2) any housing scheme of a State Government;

To the Central Government, State Government, Union Territory, a local authority, a Governmental Authority or a Government Entity by way of construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, or alteration of residential complex predominantly meant for self-use or the use of their employees or other persons specified in paragraph 3 of the Schedule III of the Central Goods and Services Tax Act, 2017.

#### **Reduction from 18% to 5%**

- On services by way of job work in relation to: textiles and textile products falling under Chapter 50 to 63 in the First Schedule to the CTA; all products falling under Chapter 71 in the First Schedule to the CTA; printing of all goods falling under Chapter 48 or 49, which attract CGST @ 2.5% or Nil; all food and food products falling under Chapters 1 to 22 in the First Schedule to the CTA; all products falling under Chapter 23 in the First Schedule to the CTA, except dog and cat food put up for retail sale falling under tariff item 23091000 of the said Chapter; manufacture of clay bricks falling under tariff item 69010010 in the First Schedule to the CTA; manufacture of handicraft goods

- **Reduction from 18% with ITC to 5% without ITC:** supply of services by a restaurant not located in the premises of a hotel having unit of accommodation with declared tariff above Rs 7500; transportation of natural gas through pipeline.

**ITC in the same line of business was allowed to:** transport of passengers by any motor vehicle designed to carry passengers where the cost of fuel is included in the consideration charged from the service recipient; renting of any motor vehicle designed to carry passengers where the cost of fuel is included in the consideration charged from the service recipient.

**Other rationalization of GST Rates:** GST rate on Leasing of motor vehicles purchased and leased prior to 1st July 2017 reduced to 65 per cent. of the rate of central tax as applicable on supply of like goods involving transfer of title in goods.

#### **Exemption from levy of GST**

- Services provided by and to Fédération Internationale de Football Association (FIFA) and its subsidiaries directly or indirectly related to any of the events under FIFA U-17 World Cup 2017 to be hosted in India.
- Supply of services associated with transit cargo to Nepal and Bhutan (landlocked countries).
- Supply of service by a Government Entity to Central Government, State Government, Union territory, local authority or any person specified by Central Government, State Government, Union territory or local authority against consideration received from Central Government, State Government, Union territory or local authority, in the form of grants.
- Service provided by Fair Price Shops to Central Government, State Government or Union territory by way of sale of food grains, kerosene, sugar, edible oil, etc. under Public Distribution System against consideration in the form of commission or margin.
- Services provided by a goods transport agency to an unregistered person, including an unregistered casual taxable person, other than the following recipients, namely: any factory registered under or governed by the Factories Act, 1948(63 of 1948); or any Society registered under the Societies Registration Act, 1860 (21 of 1860) or under any other law for the time being in force in any part of India; or any Co-operative Society established by or under any law for the time being in force; or anybody corporate established, by or under any law for the time being in force; or any partnership firm whether registered or not under any law including association of persons; any casual taxable person registered under the Central Goods and Services Tax Act or the Integrated Goods and Services Tax Act or the State Goods and Services Tax Act or the Union Territory Goods and Services Tax Act.
- Service by way of access to a road or a bridge on payment of annuity.
- Services by way of admission to a protected monument so declared under the Ancient Monuments and Archaeological Sites and Remains Act 1958 (24 of 1958) or any of the State Acts, for the time being in force.
- Services by way of right to admission to the events organised under FIFA U-17 World Cup 2017.

**25th Meeting of the GST Council** held on 18th January 2018 recommended many relief measures regarding GST rates on goods and services and certain clarifications on issues relating to GST rates and taxability of certain goods and services.

Some of the important changes in the rate of goods recommended by the Council include:

- From 28% to 18% on buses exclusively run on bio fuels.
- From 18% to 12% on, drip irrigation system including laterals (HS Code 8424), sprinklers (HS Code 8424), mechanical sprayer (HS Code 8424), 12 specified bio-pesticides (HS Code 3808), bamboo wood building joinery (HS Code 4418), fertilizer grade phosphoric acid (HS Code 2809), bio-diesel, drinking water packed in 20 liters bottles, (HS Code 2201)
- From 3% to 0.25% on diamonds and precious stone. Rough diamonds and precious stones are already at 0.25%.
- From 28% GST plus applicable cess to 12% on used motor vehicles [other than medium and large cars and SUVs] on the margin of the supplier of such vehicles, subject to condition that no input tax credit of central excise duty/Value Added Tax or GST paid on them has been availed.
- From 28% GST plus applicable cess to 18% on used medium and large cars and SUVs on the margin of the supplier of such vehicles, subject to condition that no input tax credit of central excise duty/Value Added Tax or GST paid on them has been availed.
- From 12% to 5% with no refund of unutilised input tax credit on velvet fabrics (HS Code 58013720)

Some of the important changes recommended on the rate of services include;

- Reduce GST rate on construction of metro and monorail projects (construction, erection, commissioning or installation of original works) from 18 per cent to 12 per cent.
- Reduce GST rate on transportation of petroleum crude and petroleum products (MS, HSD, ATF) from 18 per cent to 5 per cent without ITC and 12 per cent with ITC.
- Exempt reinsurance services in respect of insurance schemes exempted under S.Nos. 35 and 36 of notification No. 12/2017-CT (Rate). [It is expected that the premium amount charged from the government/insured in respect of future insurance services is reduced.]
- Reduce GST to 12 per cent in respect of mining or exploration services of petroleum crude and natural gas and for drilling services in respect of the said goods.
- Extend the concessional rate of GST on houses constructed/ acquired under the Credit Linked Subsidy Scheme for Economically Weaker Section/ Lower Income Group/ Middle Income Group-1/ Middle Income Group-2 under the Housing for All (Urban) Mission/Pradhan Mantri Awas Yojana (Urban) and low-cost houses up to a carpet area of 60 square metres per house in a housing project which has been given infrastructure status under the same concessional rate.

## **2. SALIENT MEASURES TAKEN ON DIRECT TAXES IN THE BUDGET 2017-18 AND THEREAFTER**

- Lowering of tax rate on domestic companies with turnover or gross receipts less than or equal to Rs. 50 Crore in FY 2015-16 to 25 per cent from 30 per cent.
- Lowering of tax rate on individuals between income of Rs. 2.5 lakhs and Rs. 5 lakhs to 5 per cent from 10 per cent.
- Levying of surcharge at 10 per cent on individuals with income between Rs. 50 lakhs and Rs. 1 crore.
- In moving towards a less cash economy and to incentivise small traders/businesses to proactively accept payments by digital means, the existing rate of deemed profit of 8% under section 44AD of the Act was reduced to 6% for amount of total turnover or gross receipts received through banking channel/digital means for the financial year 2016-17 and subsequent years.
- Clarification that provisions for taxation of indirect transfers not to apply in case of certain foreign institutional investor, and those registered as category-I or category II foreign portfolio investor under the SEBI (Foreign Portfolio Investors) Regulations, 2014 made under SEBI Act, 1992.
- Clarification that the condition of maintaining the monthly average of the corpus of the fund at minimum Rs. 100 crore provided in section 9A of the Income-tax Act, 1961 ('the Act') not to apply to the previous year in which the fund is being wound up.
- Exemption provided to Prime Minister's Relief Fund under the Act also extended to Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund.
- Clarification that corpus donations to exempt charitable institutions not to be treated as application of income.
- Exemption from levy of tax extended to income accruing or arising to a foreign company on account of sale of leftover stock of crude oil, if any, from a facility in India after the expiry of an agreement or an arrangement, subject to conditions to be notified.
- Section 12A of the Act amended to make it mandatory for a trust or institution, which has been granted exemption under the Act, to seek fresh registration on adopting or undertaking modifications of the objects such that the modified objects do not conform to the conditions of registration.
- In respect of exempt trusts or institutions, additional condition of furnishing return within due date by the person in receipt of the income chargeable to income-tax provided.
- A new safe harbour regime has been notified for three years with effect from 1<sup>st</sup> April, 2017 to reduce transfer pricing disputes, provide certainty to taxpayers, align safe harbour margins with industry standards and enlarge the scope of safe harbour transactions.

- Rules for maintaining and furnishing of transfer pricing documentation by multinational enterprises in the Master File and Country-by-Country report were notified.
- Fair market value of the asset to be the cost of acquisition for capital gains purpose if the asset taken into account for computation of accreted income and taxes paid thereon.
- Benefit of lower rate of 5 per cent withholding tax, in respect of interest payable to a non-resident by a specified company on borrowings made by it in foreign currency from sources outside India under a loan agreement or by way of issue of any long-term bond including long-term infrastructure bond, extended till 30.06.2020.
- Appreciation of rupee to be ignored for capital gains calculation at the time of redemption of rupee denominated bond of an Indian company in respect of secondary holders as well.
- Transfer of capital asset, being rupee denominated bond of Indian company issued outside India, by a non-resident to another non-resident not to be regarded as transfer.
- Benefit of lower rate of 5 per cent withholding in respect of interest payable to FIIs and QFIs on their investments in Government securities and rupee denominated corporate bonds, at the rate of interest not exceeding the notified rate, extended to 30.06.2020.
- Period of holding for computation of long term capital gains in the case of immovable property reduced from 36 months to 24 months to give fillip to the housing sector.
- 100 per cent deduction of profit has been made available to an assessee developing and building affordable housing projects if the housing project is approved by the competent authority before the 31<sup>st</sup> March, 2019 subject to certain conditions.
- Capital gains exemption provided to an individual or Hindu Undivided Family under the land pooling scheme notified under the provisions of Andhra Pradesh Capital Region Development Authority Act, 2014.
- Categories of bond investments under section 54EC of the Act, for the purpose of availing capital gain exemption, have been expanded.
- To remove complexities in chargeability of tax in the case of Joint Development Agreements, it has been provided that the capital gain shall be chargeable to income tax as income of the previous year in the year of the completion of project.
- Base year for fair market value and cost inflation index has been shifted from 1981 to 2001.
- Period of Tax credit available in respect of Minimum Alternate Tax (MAT) and Alternate Minimum Tax (AMT) has been increased from the existing 10 years to 15 years.
- Tax neutrality has been provided on the conversion of preference shares of a company into equity shares of that company.
- The cost of acquisition of share of an Indian company, received in a tax neutral demerger, shall be taken as the cost of acquisition in the hands of resulting foreign company.
- Period of claim of profit-linked deduction by eligible start-ups has been increased from 3 out of 5 years to 3 out of 7 years and conditions for carry forward of loss of such start-up in case of change in shareholding relaxed.
- Limit of cash donations under Section 80G of the Act reduced to Rs. 2000 from Rs. 10,000.
- Self-employed individual shall be eligible for deduction up to 20 per cent of his gross total income in respect of contribution made to National Pension System Trust. Exemption from taxation has been provided to partial withdrawal made by subscriber of New Pension Scheme.
- Scope of section 56 of the Act has been widened to include any money, immovable property or specified movable property received by any person without consideration or with inadequate consideration, subject to certain conditions and exceptions.
- Section 50CA of the Act has been amended to provided that in case of transfer of unquoted equity shares if the consideration received is less than the fair market value, then the fair market value so determined shall be the deemed value of consideration for the purpose of computation of capital gains.

- The exemption from long term capital gains in case of transfer of listed shares by providing that the exemption has been restricted to such shares where they have been acquired after 1<sup>st</sup> October, 2004, subject to certain conditions.
- In view of the reduction in tax rates for individuals in the income slab up to Rs. 5 lakh, the amount of rebate in income-tax has been reduced from Rs. 5,000/- to Rs. 2,500/- and it has further been provided that rebate shall be available in respect of individuals having income up to Rs. 3.5 lakh.
- Where the amount of foreign tax credit (FTC) allowed against the tax paid under sections 115JB or 115JC of the Act exceeds the amount of FTC admissible against the tax payable by the assessee on his income in accordance with the other provisions of the Act, such excess credit shall be ignored while computing the amount of credit under section 115JAA or section 115JD of the Act.
- The provisions relating to computation of book profit for the purpose of levy of minimum alternate tax (MAT) have been amended so as to align them with the Indian Accounting Standards (Ind-AS).
- The amendment made by the Finance Act, 2016 providing for concessional rate of tax for transfer of share of a private limited company shall be applicable retrospectively from assessment year 2013-14.
- Section 10AA of the Act has been amended to provide that the amount of deduction referred therein shall be allowed from the total income computed in accordance with provisions of the Act before giving effect to provisions of the said section and that the deduction shall not exceed the total income.
- In case of unit in the consolidated plan of a mutual fund scheme received in lieu of unit in the consolidating plan, the actual cost and the period of holding shall be the cost and the period of holding of the unit in the consolidating plan.
- Section 115BBDA of the Act has been amended to widen the scope of taxability of dividends.
- Section 40A of the Act has been amended to provide that the allowable limit for claiming expenditure under the head "Income from Profit & Gains of Business or Profession" on revenue expenditure in cash has been reduced from Rs. 20,000 to Rs.10,000.
- Further, to bring transparency in the source of funding to political parties, the provisions of section 13A of the Act have been amended to provide for the following additional conditions for availing the benefit of the exemption from income-tax: (a) No donations of Rs. 2000/- or more are received otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or through electoral bonds; and (b) Political party furnishes a return of income for the previous year in accordance with the provisions of sub-section (4B) of section 139 of the Act on or before the due date under section 139 of the Act.
- The provisions of sections 32 and 35AD of the Act have been amended to provide that any capital expenditure in cash exceeding rupees ten thousand shall not be eligible for claim of depreciation allowance or investment-linked deduction respectively.
- A new section 94B has been inserted in the Act to provide that interest expenses claimed by an entity to its associated enterprises shall be restricted to 30 per cent of its earnings before interest, taxes, depreciation and amortization (EBITDA) or interest paid or payable to associated enterprise, whichever is less. Carry forward of disallowed interest expense shall be allowed up to eight assessment years immediately succeeding the assessment year for which the disallowance was first made and deduction against the income computed under the head "Income from Profits and Gains of Business or Profession" to the extent of maximum allowable interest expenditure.
- A new section 92CE has been inserted in the Act with effect from 1<sup>st</sup> April, 2018 to provide for secondary adjustment by attributing income to the excess money lying in the hands of the associated enterprise, in order to make the actual allocation of funds consistent with that of the primary transfer pricing adjustment. The provision shall apply to primary adjustments exceeding Rs. 1 Crore made in respect of Assessment Year 2017-18 onwards.
- In order to strengthen the PAN mechanism a new section 206CC was inserted in Act to provide for collection of tax at source (TCS) at higher rate of 20 per cent in case of non-quoting of Permanent Account Number (PAN).
- To widen the scope of tax deduction at source, a new section 194-IB was inserted in the Act to provide that individuals or a Hindu Undivided Family (other than those covered under section 44AB of the Act) responsible for paying to a resident any income by way of rent exceeding Rs. 50,000 for a month or part of month during the previous year, shall deduct an amount equal to 5 per cent of such income as tax thereon.
- Section 143(1D) has been omitted w.e.f. 1.4.2017. However, to address the concern of recovery of revenue in doubtful

cases, a new section 241A has been inserted, which inter alia provides that refund shall be withheld only in some cases in the manner provided in said section and with the prior approval of the higher authorities. This shall be applicable to returns furnished for assessment year commencing on or after 1<sup>st</sup> April, 2017.

- An Assessee who declares profits and gains in accordance with presumptive taxation regime provided under section 44ADA of the Act shall now pay advance tax in one instalment on or before the 15<sup>th</sup> of March. Further, interest under section 234C of the Act shall be levied on such assessee, if the advance tax paid on or before the 15<sup>th</sup> March, is less than the tax due on the returned income.
- If shortfall in payment of advance tax is on account of under-estimation or failure in estimation of income of the nature referred to in section 115BBDA of the Act, the interest under section 234C of the Act shall not be levied subject to fulfilment of conditions specified therein.
- Section 244A of the Act was amended to provide that where any refund becomes due to the deductor, he shall be entitled to receive simple interest on such refund.
- Section 155 of the Act was amended to provide that where credit for foreign taxes paid is not given for the relevant assessment year on the grounds that the payment of such foreign tax was in dispute, the Assessing Officer shall rectify the assessment order or an intimation under section 143(1) of the Act, subject to the conditions specified therein.
- Necessary amendments have been made to Chapter XIX-B of the Act to enable merger of the Authority for Advance Ruling (AAR) for income-tax, central excise, customs duty and service tax.
- In order to expand the scope of section 253, orders passed by the prescribed authority under section 10(23C)(iv) or (v) of the Act have also been made appealable before the Appellate Tribunal.
- In order to reduce the genuine hardship which may be faced by a person responsible for deduction and collection of tax at source due to levy of penalty under section 271C or 271CA, a reference of said sections has been provided under section 119(2)(a), so as to empower the Central Board of Direct Taxes to issue directions or instructions in respect of the said sections as well.
- Provisions of section 153 and 153B of the Act were amended to reduce the time limit for completion of assessment, reassessment and re-computation of cases mentioned therein. Similarly, section 139(5) was amended to reduce the time limit for furnishing of revised return. These amendments will take effect from 1<sup>st</sup> April, 2018 and will, apply in relation to assessment year 2018-19 and subsequent years.
- A new section 269ST was inserted in the Act to prohibit cash receipt equal to or exceeding Rs. 2 lakh.
- In order to eliminate bogus/multiple PANs, a new section 139AA was inserted in the Act, which inter alia mandates linking of Aadhaar with PAN database.
- Rule 114 and rule 114A of the Income-tax Rules, 1962 have been amended to enable allotment of PAN and TAN through a common application Form published in Official Gazette.
- Income-tax return (ITR) Forms have been rationalised to make it more objective and taxpayer friendly. viz. a one page ITR-1 (Sahaj) Form has been notified for the assessment year 2017-18 for taxpayers having income upto Rs. 50 Lakh from salary and one house property.

## ANNEXURE 2

### POLICY INITIATIVES ON INVESTMENT MANAGEMENT IN CPSES

- The thrust of the Government is presently directed towards efficient management of its investment in CPSEs, with the overall focus on higher economic growth through consistent long-term policies as well as efficient and effective allocation of resources.
- Based on this philosophy, Budget 2016-17 focused on the need to migrate from the 'disinvestment based approach' to 'investment based approach' for CPSEs. Accordingly, renaming the Department as 'DIPAM' with expanded mandate denotes a paradigm shift in the thinking process of the Government on its strategy to manage its investment in CPSEs.

- As announced, the Department also laid down comprehensive guidelines on “Capital Restructuring of CPSEs:” in May, 2016 for efficient management of Government’s investment in CPSEs by addressing various aspects, such as, payment of dividend, buyback of shares, issues of bonus shares and splitting of shares.
- The commitment for time-bound listing of CPSEs has been taken on-board as an integral part of the reforms initiatives of the Government by making an announcement to this effect in the Budget 2017-18. Pursuant to the announcement, the Government put in place a mechanism/procedure alongwith indicative timeless for listing of CPSEs on 17th February, 2017. All Ministries/Departments have been requested to follow the suggested timeless, aimed at time-bound listing of identified CPSEs as per the extant Act, Rules and Regulations.
- In line with the budget announcement, the Government also approved listing of 14 CPSEs (including 2 insurance companies) on the stock exchanges. During the current financial year, 4 IPO issues of Housing and Urban Development Corporation (HUDCO), Cochin Shipyard Ltd. (CSL), General Insurance Corporation and New India Assurance Company Ltd have been successfully listed on the stock exchange.
- Post listing, while disinvestment of Government’s shareholding through ‘minority stake sale (upto 49%) ‘ in CPSEs are undertaken as per the extant policy, the focus of the strategic disinvestment is on adopting a pragmatic approach for the Government to exit from non-strategic business to optimize economic potential for business enterprises by promoting efficiency and professional management in the company.
- Keeping in view its inherent benefits, beginning January, 2017 the Government started using index based ETF to offer an investment opportunity in CPSEs to pension funds and retail investors in India. And pursuant to the announcement made in the Budget in this regard, a new ETF, namely BHARAT 22 was announced in August, 2017. The New Fund Offer of Bharat 22 launched in the month of November, 2017 received an overwhelming response across all class of investors and the Government retained a portion of the oversubscription by increasing the issue size of the offer.

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