Broadening Horizons Services Pvt Ltd

2018 Mobility Budget Alert

Introduction

The Finance Minister ('FM') presented the 2018 budget proposals before the Parliament on February 1, 2018.

The budget presentation emphasised the Government's continued focus on structural reforms as well as planned expediture in the primary and social sectors.

Healthcare coverage to 100 million underprevidged and poor families, expenditure allocation towards setting up more Government medical colleges and hospitals, expanded coverage and reforms in the agricultural sector, focus on railways and airport capacity as well as expediture allocation to fisheries, aquaculture and animal husbandry sectors were some of the key proposals presented by the FM.

There were very few direct tax related proposals presented in the budget speech and this was resonated in the 2018 Finance Bill submitted immediately thereafter. On an overall basis, and considering the industry response, it appears that the budget proposals were designed keeping in mind the upcoming 2019 National elections.

In the following paragraphs, we have summarised the key direct tax proposals that would impact the global mobility space, ie employers that have employees with cross-border movement as well as expatriate individuals.

The amendments are proposed effective tax year 2018-19 onwards, unless specified otherwise, and will be ratified only after both the Houses of Parliament and the President give their ascent.

Key budget proposals

- Tax slabs and rates

  The FM has not proposed any changes to the tax slabs and rates for individuals. The levy of surcharge also continues. However, there is a proposal to replace the existing secondary and higher education cess of 3 percent with a consolidated healthcare and education cess of 4 percent.

  Based on this, the maximum marginal rate of the tax for individuals would marginally increase from 35.535 percent to 35.88 percent.

  The FM has also proposed that the base tax rate for corporates (those having an annual turnover of less than Rs 2.5 billion in fiscal year 2016-17) be reduced from 30 percent to 25 percent. This proposal would provide relief to the SME corporate sector.

- Salary structure changes and standard deduction relief

  Presently, salaried individuals can claim an annual exemption of Rs 19,200 towards conveyance allowance for travel from home to office and vice-versa as well as reimbursement of annual medical expenses upto Rs 15,000 against their taxable salary income.

  The FM has proposed to replace these annual relief measures with an annual standard deduction of Rs 40,000. This proposal would provide some administrative relief to employers from maintaining employee claim documentation as well as a marginal income exemption relief of Rs 5,800 to employees.

- Tax on specified long-term capital gains

  Presently, long-term capital gains arising from transfer of equity shares of a listed company or units of an equity-oriented mutual fund where Securities Transaction Tax has been paid are exempt from tax.

  The FM has proposed to now impose a tax of 10 percent on such capital gains. The taxable capital gains will be computed keeping in mind the following points:

  - The taxpayer would have the option to consider the Fair Market Value of the shares/units as on January 31, 2018 as the cost of acquisition. In such a case, indexation benefit would not be available. *This option would not be available to compute or carry forward any capital loss.*

  - Tax would be levied only for taxpayers who have capital gains exceeding Rs 100,000 per annum.

  This proposal would increase the tax costs of taxpayers having investments in the Indian stock and Mutual Funds markets.

- Assessment proceedings

  In 2016, on a pilot project basis, the Government had introduced an e-assessment facility for conducting tax audits. This was expanded to 102 cities in the year 2017. Based on the success of the pilot project, the FM has proposed to expand the e-assessment facility to all jurisdiction and taxpayers and accordingly amend the provisions relating to tax assessments.

  The FM has also proposed that at the summary (prima-facie) assessment stage, the tax department would not be permitted to make any income additions on the basis of a Form 26AS or Forms 16 and 16A issued to the taxpayer.

  These proposals would improve the overall transparency and efficiency in Government tax administration and would bring much needed relief to taxpayers, specially those that have cross-border movement from India.

- Miscellaneous tax proposals

  Relief for non-employee subscribers to the National Pension Scheme

  Employee subscribers to the National Pension Scheme enjoy an exemption of 40 percent of the amount payable to them at the time of closure of their account. The FM has proposed to extend this exemption relief even to non-employee subscribers.

  Beneficial proposals for senior citizens

  The FM has proposed the following beneficial provisions for senior and very senior citizens:

  - Increase in existing tax deduction towards annual health insurance premium from Rs 25,000 to Rs 50,000 per annum.

  - Inclusion of senior citizens to the tax deduction of Rs 30,000 per annum towards payment of medical expenses where no insurance exists.

- Increase in existing tax deduction towards medical treatment of specified diseases from the current limits to Rs 100,000 per annum.

- Introduce a new tax deduction of upto Rs 50,000 per annum in respect of interest income from bank deposits with consequencial relief from tax withholding.

These measures would bring tax relief to senior and very senior citizens.

Widening the scope of a 'business connection'

The scope of a business connection (taxable presence) has been proposed to be expanded to include specified agency relationships as well as 'significant economic' presence.

With these proposals, the FM seeks to also include virtual presence in India for the purpose of determining a taxable presence. While these could have far-reaching implications, they should not affect taxpayers that take shelter under the PE clause of tax treaties.

Amendment to certain capital gains exemption provisions

Presently, an exemption is available against long-term capital gains where the taxpayer invests the gains in specified 3-year redeemable debenture bonds.

The FM has proposed to restrict the exemption only to long-term capital gains arising from the transfer of land or building and to change the specified bonds from 3-year bonds to 5-year bonds.

About us

Broadening Horizons is a specialty services company providing expatriate tax, social security, immigration and exchange control advisory and compliance services.

It has specially designed service packages for employers with cross-border employee population as well as individuals.

Broadening Horizons partners with international expatriate tax firms for delivering mobility services and therefore, can provide cross-border services and solutions.

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