



# TOPIC OF THE WEEK

FEB'18 (08 to 14)

## Topic: Budget 2018: Highlights

The 2018 Union budget of India was the annual financial statement (AFS), demand for grants, appropriation bill and finance bill of India for the financial year 2018-19. The Union budget was presented to the Parliament on 1 February 2018 by Finance Minister Arun Jaitley.

Expectations from this Union Budget are really high as this is seen as the last full-fledged budget before 2019 elections. Besides the continued stress among farmers and farming community, especially in rural areas, is an area which is expected to receive priority from the finance minister. This is where the insurance-crop insurance scheme can fit in.

Many states have implemented the agriculture insurance schemes for farmers which have met with different degrees of success. We believe that the government will focus more on creating awareness among farmers through training about the benefit of the scheme at Krishi Vikas Kendra and rural NGOs.

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Provision should be made to improve the infrastructure of all rural banks with internet connectivity which will help farmers to enroll under the scheme. This will help government to achieve target penetration of crop insurance to 50 percent in three years.

There can be special courses offered under the Prime Minister's Skill Development program to develop resources to support this program for loss assessment, conduct crop cutting experiment and educate farmers about good practices.

Apart from this, government should also address the following issues to support farmers income:

- 1) Farmer credit target to be increased to Rs 11 lakh crore from Rs 10 lakh crore last fiscal
- 2) Change in minimum support price to entire cost of production plus 50 percent profit
- 3) Special focus on rural infrastructure

With Budget 2018 being the last full Budget before the general elections in 2019, expect Minister of Finance Arun Jaitley to announce a slew of sops and major relief to taxpayers.

Here are a few banking, finance and insurance industries are hoping for:

**1. Exclusive tax exemption on term insurance:** Currently, section 80C allows for a maximum exemption of Rs 1.5 lakh for premium paid towards a life cover. We expect that the Budget 2018 will provide for an exclusive tax exemption of up to Rs. 20,000 for premiums paid towards a term insurance in addition to the current 1.5 lakh available for life.

**2. Revised GST for insurance:** As a result of GST, the price of insurance has gone up by anywhere between 3 percent to 18 percent.

**3. Increased and deferential exemption under 80D:** According to the statement released by NATHEALTH in the lead up to the Budget, only 4 percent of India's

population has health coverage. We expect the government to increase the tax exemption limit under section 80D to allow for higher premiums required for adequate coverage today

**4. Increased subsidies on housing loan:** At present rate subsidy for middle income households on home loan stands at 4 percent for households earning Rs 8 lakh to Rs 12 lakh on a loan of upto Rs 9 lakh, and 3 percent for Rs 12 lakh to Rs 18 lakh on a loan of upto Rs 12 lakh. We expect that these limits to be increased.

**5. Higher TDS limit on bank interest:** The current limit for deducting tax at the source on bank interest is set at Rs 10,000. We expect this to be revised in the Budget 2018 as this is long due and will effectively ensure more interests for bank customers.

**6. Promote UPI:** With smartphone penetration already high and increasing across the nation, a switch from the current POS systems to UPI will be effective for all parties involved. We hope that the government will find ways to promote UPI aggressively

**7. Push for e-KYC:** Given the government's commitment to go paperless, we expect a greater push for e-KYC and e-Sign across the board. This will not only simplify processes and documentation across industries but will also have cost benefits for all parties involved.

**8. Change taxation on FD:** We hope that the Minister of Finance would bring the taxation on FD on par with mutual funds. That is, they will only be taxed on redemption and the interest will be treated as long term capital gains if the redemption is at least three years after the purchase. This will significantly reduce the tax outlay for the investor.

## **Major Highlights**

### **For Individuals and salaried class**

- Personal income tax slab rates remains the same.
- Introduction of Standard deduction of Rs 40,000 for the salaried class (replacing the transport allowance and the miscellaneous medical Reimbursement).

- Education cess now to be called as Health and Education cess effective rate increased to 4% from 3%.
- Introduction of tax on long term capital gains above Rs 1 lakh on sale of equity shares @ 10% without giving the benefit of indexation. Capital gains tax for until 31 January 2018 will be grandfathered.

**For senior citizens:**

- No TDS on interest from FD upto Rs 50,000.
- Exemption under Section 80D upto Rs 50,000 for medical insurance for senior citizens.
- Exemption limit for medical expenditure for certain critical illness from raised from Rs 60,000/- in case of senior citizens and from Rs 80,000 in case of very senior citizens, to Rs 1 lakh in respect of all senior citizens, under section 80DDB.
- Current investment limit proposed to be increased to Rs 15 lakh from the existing limit of Rs 7.5 lakh per senior citizen.

**Others**

- Reduction in corporate tax rate to 25% for companies having a turnover of Rs 250 crores and less.
- Equity Oriented Mutual funds to face a Dividend Distribution Tax @ 10%.
- Short term capital gains to continue to be taxed @ 15%.
- Cryptocurrencies continued to be considered as not “legal tender”. Government to consider exploring the Blockchain technology.
- Introduction of e-assessments to reduce interface between income tax department and taxpayers.
- Budget guided by mission to strengthen agriculture, rural development, health, education, employment, MSME and infrastructure sectors
- Two New Funds of Rs 10,000 crore announced for Fisheries and Animal Husbandary sectors, Re-structured National Bamboo Mission gets Rs 1290 crore.
- Proposal to introduce tax on distributed income by equity oriented mutual funds at the rate of 10%.



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- Proposal to increase cess on personal income tax and corporation tax to 4% from present 3%.
- Proposal to roll out E-assessment across the country to almost eliminate person to person contact leading to greater efficiency and transparency in direct tax collection.
- Proposed changes in customs duty to promote creation of more jobs in the country and also to incentivise domestic value addition and 'Make in India' in sectors such as food processing, electronics, auto components, footwear and furniture.

In effect, the real challenge will be in effectively managing any short-term disruptions whilst making well-planned and effectively administered policy decisions to guide the recovery process. The right short-term decisions must be taken keeping in mind the composition of fiscal expenditure so as to ensure that short-term successes do not have long-term costs.

Ultimately, as much as the vigorous public investment in infrastructure remains a factor for propelling overall

growth, addressing existing inequalities and institutional obstacles to development while implementing policy reforms in an effective and time-bound manner, remains key.

**Suggested Reading:**

- ✓ <http://www.firstpost.com/business/budget-2018-eight-measures-arun-jaitley-should-look-into-to-provide-relief-to-taxpayers-4329677.html>
- ✓ <http://www.firstpost.com/business/budget-2018-low-interest-rates-single-window-clearance-among-key-expectations-of-realty-4320809.html>
- ✓ [http://www.firstpost.com/budget-2018/?gclid=EAlaIQobChMIysioqZ-T2QIVQhyPCh0v2AW7EAAYASAAEgJZtvD\\_BwE](http://www.firstpost.com/budget-2018/?gclid=EAlaIQobChMIysioqZ-T2QIVQhyPCh0v2AW7EAAYASAAEgJZtvD_BwE)