



BUDGET 2016

Understanding the Business Impact

Infrastructure & Public Sector

February 2016

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Policy Updates

Infrastructure investment and development forms part of the main set of priorities of the Government. The total outlay for infrastructure in Budgeted Expenditure for Financial Year (FY) 2016-17 is ₹221,246 crores.

In addition to providing high budgetary allocations to the infrastructure sector, the Budget has also tried to address the financing issues being faced by the sector by announcing deepening of the corporate bond market and allocation of ₹25,000 crores towards recapitalisation of Public Sector Banks. However,

given the scale of the problem being faced, this may only partially address the need of the hour.

Three initiatives were announced to give an impetus to Infrastructure / Public-Private Partnership (PPP) projects namely:

- The enactment of a 'Public Utility (Resolution of Disputes) Bill';
- Development of 'Guidelines for Re-Negotiation of PPP Concession Agreements'; and
- A new credit rating system for infrastructure projects.



Road

Budget announcement

- Allocation of ₹55,000 crores to roads and highways, topped up by ₹15,000 crores to be raised by National Highways Authority of India (NHAI) through bonds.
- Total investment in the road sector, including Pradhan Mantri Gram Sadak Yojana allocation is ₹97,000 crores during (FY) 2016-17.
- An approval of nearly 10,000 kms of National Highways in FY 2016-17 is expected. 50,000 kms of State Highways to be taken up for upgradation as National Highways.
- Road transport in passenger segment to be opened up to private sector by amending Motor Vehicles Act to remove/reduce permit raj and allow more private participation.

Other recent policy updates

- Concessionaires have been permitted to divest 100% equity after two years of construction completion for all Build Operate Transfer (BOT) National Highway Projects, irrespective of the year of award.
- The NHAI may provide one Time fund infusion to revive and physically complete languishing BOT projects. The fund infusion will be applicable to projects which have achieved 50% physical completion and moderate infusion of funding could enable quick completion.
- NHAI has been authorised to compensate concessionaires for BOT projects that are languishing during the construction period due to reasons not attributable to the concessionaire.



Railways

Union and Rail Budget announcement

- The Union Railway Budget 2016-17 announced higher capex spending for the coming year, which includes investment in new freight corridors, continuing emphasis on new lines and electrification, and new projects in logistics and cold storage, indicating focus on infrastructure. The direction in this budget

towards capex is on expected lines (₹1.21 lakh crores in FY 2016-17) to achieve the five-year goal stated last year.

- The financing plan for creation of infrastructure remains unchanged from last year in terms of sources of financing. Getting LIC line of credit of ₹1.5 lakh crores was a major achievement for the current year as also were some Joint



Ventures with state governments and agreements with major users like Coal India. Concerns still remain about time period and quantum of such easy lending in the future.

- The need to earn more from non-fare box revenue through advertising, monetisation of assets, etc has been emphasized.
- Policy for rationalization of freight tariff has been proposed in the budget. Clarity in terms of setting / rationalizing the freight tariff potentially including rate stability over a period of time, system of reward and penalty mechanism built in for transit guarantees, reduction of freight tariff overtime, different tariffs for non-congested routes, and long-term contracts, etc. is desired.
- No increase in passenger fares has been proposed. A slew of service improvement measures have been introduced. Against stated service improvements, and having achieved some last year, this was perhaps a good opportunity to increase fares across the board.



Aviation

Budget announcement

- Government to partner with State government to revive unserved and underserved airports, in order to boost regional connectivity.
- 10 of the 25 non-functional air strips with the Airport Authority of India also to be developed.

Other recent policy updates

- The Government issued draft National Civil Aviation Policy 2015 which deals with a number of aspects such as Safety, Bilateral Traffic Rights, Regional Air Connectivity, Aeronautical 'Make in India', 5/20 Rule, etc. to create an ecosystem with a mission to provide safe, secure, affordable and sustainable air travel with

Other recent policy updates

- Ministry of Railways has come out with a concept note on Rail Development Authority. The note lays down the guiding principles, roles and powers for the Authority. Once established, this Authority will have the role of determination of tariff, ensuring fair play and level playing field for private investments in Railways, setting efficiency and performance standards. The note has been currently put out to seek inputs from the stakeholders.
- Ministry of Railways has entered into joint-venture with some of the state governments for development of infrastructure in respective states.
- The Ministry of railways has also come out with guidelines for redevelopment of A-1 and A category stations by inviting open bids from interested parties. 400 railway stations have been identified for redevelopment under this route.

access to various parts of India and the world. The policy is currently under finalization by The Ministry of Civil Aviation.

- The Government eased Foreign Direct Investment (FDI) norms in certain segments in the civil aviation sector and raised investment limits to 100% from 74%, thus allowing foreign general aviation charter operators and large ground handling companies to set up their own bases in India. The sector was earlier allowed up to 49% FDI under the automatic route and above 49% and up to 74% under the government approval route.
- The Government also allowed 49% FDI for regional air transport services, in an attempt to give a push to its government's regional connectivity plan.



Ports & Shipping

Budget announcement

- Measures are being undertaken to modernize ports and increase their efficiency. To this effect, Sagarmala project has been rolled out and Greenfield ports are proposed to be developed in Eastern and Western parts of the country.

Other recent policy updates

- The Government announced a policy for relaxation in cabotage

for special category of vessels (like ro-ro vessels and their variants).

- The Government announced an incentive scheme for development of infrastructure for inland waterways and coastal shipping in the country. In addition, the Central Government has announced an incentive scheme for development of shipyards.
- The Government issued draft revised legislations for regulation of major ports and ship breaking activities.



Water & Sanitation

Budget announcement

- There are no specific announcements.

Other recent policy updates

- Recent key policies/missions include Smart City Mission, Atal

Mission for Rejuvenation and Urban Transformation (AMRUT), Swachh Bharat Mission, Prime Minister's Awas Yojana (Urban) signifying the investment opportunity potential in urban infrastructure to the tune of USD 1,123 billion.



Urban Infrastructure

Budget announcement

- There are no specific announcements.

Other recent policy updates

- Smart City Mission, a Centrally Sponsored Scheme (CSS), envisages developing 100 smart cities in India with a thrust on integrated urban planning and sharper focus on infrastructure, land use planning, transport, design and architecture. The list of 20 smart cities out of the 98 shortlisted cities under the mission has been announced in January 2016. These 20 cities will be the first to receive funds, thus kick-starting the process of developing them into 'smart cities'.

- AMRUT (Atal Mission for Rejuvenation and Urban Transformation) and Prime Minister's Awas Yojana (Urban)/Housing for All were launched in June 2015. Under the AMRUT programme, 500 cities will be rejuvenated over five years while the 'Housing for All' scheme will involve construction of two crore affordable houses for urban poor by 2022.
- Shyama Prasad Mukherji Rurban (rural-urban) Mission (SPMRM) announced last year has now been launched in February 2016. The SPMRM, with an outlay of ₹5142.08 crores, aims to create 300 Rurban growth clusters over the next 3 years, across the country



Social Infrastructure

Budget announcement

Healthcare

- In order to address the need for quality dialysis centers in the country, 'National Dialysis Services Programme' shall be started. This shall be funded via the PPP mode under the National Health Mission. Education:
- 1500 Multi Skill Training Institutes are proposed to be set-up across the country, for which an amount of ₹1,700 crores has been allocated

Skill Development

- Allocation of ₹1,804 crores for skill development.
- National Board for Skill Development Certification to be setup in partnership with the industry and academia.

Other recent policy updates

Education

- The Ministry of Human Resource Development (MHRD) has proposed a New Education Policy and has initiated the consultation process for developing the Policy.
- Global Initiative for Academics Network (GIAN), was launched as an initiative to attract the best foreign academics to Indian Universities and to facilitate the partnerships between Indian higher education institutions and foreign universities.
- MHRD has rolled out an India-specific National Institution Ranking Framework (NIRF) covering higher educational institutes. The ranking framework will be across disciplines and will take into account the perception of an institute, outreach, research activity and inclusivity through reservations.
- Six new Indian Institutes of Technology (IITs) have been approved by the Union Government to be set up in the states of Andhra

Pradesh, Chhattisgarh, Goa, Jammu & Kashmir, Kerala and Karnataka. These are in addition to the 16 IITs already in operation.

Skill Development

- The Union Government launched the Skill India Initiative that aims to train over 40 crore people in India in different skills by 2022. The initiatives include National Skill Development Mission, National Policy for Skill Development and Entrepreneurship 2015, Pradhan Mantri Kaushal Vikas Yojana (PMKVY) scheme and the Skill Loan scheme.
- The National Policy for Skill Development and Entrepreneurship 2015 was approved by the Union Government, with the Vision "to create an ecosystem of empowerment by Skilling on a large Scale at Speed with high Standards and to promote a culture of innovation based entrepreneurship which can generate wealth and employment so as to ensure sustainable livelihoods for all citizens in the country.
- The 'Pradhan Mantri Kaushal Vikas Yojana' (PMKVY), a flagship outcome-based skill development scheme was launched under the Ministry of Skill Development and Entrepreneurship with an outlay of Rs.1500 crore. The scheme plans to skill over 2.4 million people across the country.
- Under the Skill Loan scheme of the Government of India, loans ranging from Rs. 5,000-1.5 lakh will be made available to 34 lakh youth seeking to attend skill development programmes over the next five years.
- The Prime Minister's Office has directed skills ministry officials to open 7,000 new industrial training institutes (ITIs) within one year. The Government's objective is to double the capacity of 13,105 ITIs, which now collectively train 1.86 million students.

Corporate Tax Highlights

- Corporate tax rate for FY 2016-17 remains unchanged @ 30% plus surcharge and cess (except for some companies stated below). The proposed effective maximum marginal rate for Indian companies is 34.61% and for foreign companies is 43.26%.
- Corporate tax rate for FY 2016-17 proposed to be reduced to 29% plus surcharge and cess for relatively small enterprises, i.e. domestic companies with turnover not exceeding ₹5 crore (in the FY ending March 2015).
- Phase out of 100% profit linked incentives for infrastructure facility. Instead of profit linked incentives, investment based incentives would be available for infrastructure facility.
- Determination of residency of foreign companies on the basis of Place of Effective Management (POEM) proposed to be deferred by one year, i.e. applicable from FY 2016-17.
- General Anti Avoidance Arrangement (GAAR) likely to come into effect from 1 April 2017.
- In accordance with the Base Erosion and Profit Shifting plan, a specific reporting regime has been provided in respect of Country by Country (CbC) reporting, applicable to an international group having consolidated revenue above a threshold limit to be prescribed (likely to be Euro 750 million).
- A one-time opportunity is provided to persons who have not paid full taxes in the past to come forward and declare the undisclosed income and pay tax, surcharge and penalty totaling in all to 45% of such undisclosed income declared.
- Minimum Alternate Tax (MAT) amended to provide that the same shall not be applicable to a foreign company, if the foreign company does not have Permanent Establishment under relevant tax treaty or a place of business in India w.e.f. 1 April 2001.
- Any gains arising on account of appreciation of rupee against a foreign currency at the time of redemption of rupee denominated bond of an Indian company subscribed by a non-resident shall be exempt from capital gains tax.
- Exemption on distribution of income of SPV to the Real Estate Investment Trusts and Infrastructure Investment Trusts having specified shareholding from Dividend Distribution Tax (DDT), in respect of dividend distributed after the specified date.
- Complete pass through to securitization trust is provided and the income is to be taxed in the hands of investor in same manner and to the same extent as it would have been taxed, if the investor had made underlying investments directly and not through trust.
- An additional condition is provided for tax neutral treatment to conversion of a company into Limited Liability Partnership (LLP) i.e. the total value of the assets in the books of account of the company in





any of the three preceding years from the year in which conversion takes place does not exceed ₹5 crore rupees.

- Additional tax @ 10% of gross amount of dividend receivable by non-corporate recipients, receiving dividend in excess of ₹10 lakhs per annum.
- A tax rate of 10% is proposed on income from worldwide exploitation of patents developed and registered in India by a resident.
- Restriction of the weighted average deduction @ 100%/ 150% of the expenditure incurred on scientific research w.e.f 1 April 2017 (i.e. from previous year 2017-18 and subsequent years).
- Accelerated depreciation shall be restricted to 40%.
- Capital gain arising from transfer of a long term asset being share of a private limited company shall be chargeable to tax at the rate of ten per cent.
- 100% deduction for profits to an undertaking engaged in developing and building affordable housing project for flats upto 30 sq. metres in four metro cities and 60 sq. metres in other cities, approved during June 2016 to March 2019 and subject to fulfillment of prescribed conditions. However, MAT will apply in such cases.
- Deduction of ₹50,000 per annum for additional interest paid on loans up to ₹35 lakh sanctioned in 2016-17 for first-time home buyers, where house cost does not exceed ₹50 lakh.
- Higher TDS @ 20% not to be charged on payments made to non-residents, on submission of alternate documents to PAN card.
- Limitation of disallowance u/s 14A to 1% of the average monthly value of investments yielding exempt income, but not exceeding the actual expenditure claimed under rule 8D of Income Tax Rules, 1962.
- Period for getting benefit of long-term capital gain regime in case of unlisted companies is proposed to be reduced from 3 years to 2 years.

Indirect Taxes

Customs Duty

- New warehousing provisions are proposed to be introduced for new class of warehouses requiring continued physical control of customs authorities.
- Limitation period for recovery of custom duty has been increased from 1 year to 2 years in cases not involving fraud, suppression of facts, willful mis-statement, etc.

Central Excise Duty

- Basic excise duty on solar lamps proposed to be reduced from 12.5% to NIL.
- Facility of filing revised returns extended for central excise returns, which was hitherto available only to service tax assesses.
- Manual attestation of invoices which are digitally signed is proposed to be done away with.
- Period of limitation has been increased from 1 year to 2 years in cases not involving fraud, suppression of facts, willful mis-statement, etc.
- CENVAT Credit Rules have been amended to improve credit flow, reduce the compliance burden and associated litigations, particularly those related to apportionment of credit between exempted and non-exempted final products / services.
- Changes proposed in rule relating to Input Service Distributor (ISD) to transfer credit on input services to outsourced manufacturers under certain circumstances.

Service Tax

- Krishi Kalyan Cess (KKC) is proposed to be levied with effect from 1 June 2016 on any or all the taxable services at the rate of 0.5% on the value of taxable services. Effective rate of service tax with Swachh Bharat Cess (SBC) and KKC shall be 15%.

- Credit of KKC paid on input services shall be allowed to be used for payment of such cess
- 100% exemption from service tax on services by way of construction, erection, etc. of original works pertaining to an airport and port which was withdrawn with effect from 1 April 2015 in respect of contracts entered into before 31 March 2015 has been restored till 31 March 2020.
- 100% exemption to construction, erection, commissioning or installation of original works pertaining to monorail or metro is proposed to be withdrawn in respect of contracts entered into on or after 1 March 2016.
- Abatement rate in respect of services provided by construction of residential complex, building, civil structure, or a part thereof, is proposed to be rationalized at 70% by merging the two existing abatement rates (70% for high-end residential units and 75% for low-end residential units depending on area and value of such unit).
- Limitation period for recovery of service tax has been proposed to be increased from 18 months to 30 months.
- A manufacturer of final products or provider of output services shall be required to file an 'annual return' for each FY by the 30th day of November of the succeeding year.

Common changes under Customs Duty/Central Excise Duty/Service Tax

- Interest rates on delayed payment of duty/tax across all indirect taxes is proposed to be made uniform at 15%.
- Indirect tax Dispute Resolution Scheme, 2016 is proposed in respect of cases pending before Commissioner (Appeals).

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