Deloitte.

# BUDGET ANALYSIS 2017

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February 2017

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# The Indian Economy – Towards a new path

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# Introduction

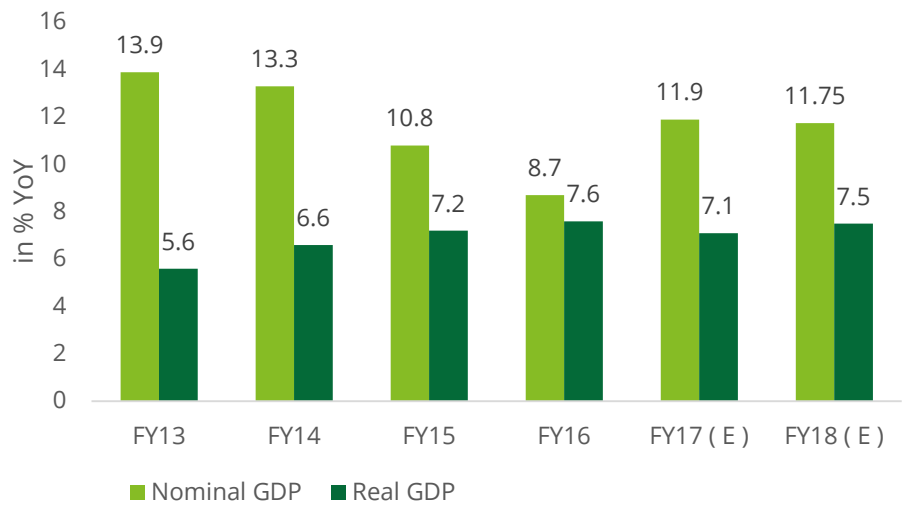
The Indian economy ended the last fiscal on a high with growth for the full year touching 7.6% amidst a struggling global economy and a worsening investment climate. In the current fiscal, the domestic economy has continued to show resilience even in the wake of deteriorating global conditions and increased protectionist measures. The ongoing fiscal can be seen as the year where a number of game changing initiatives were agreed upon such as the passage of the constitutional amendment bill for GST and Bankruptcy code bill. Notwithstanding demonetization, the economy stands at the cusp of noteworthy changes with a move towards GST and an unified tax regime along with a thrust on greater cash accountability and digitization across payment channels. As is the case with any big change, it comes with short term adjustment costs for longer term gains. However, these gains are not a given and can only be realized if there is continuous push towards achieving stated goals.

The narrative across the world is also changing fast with uncertainty rising on the back of protectionist rhetoric gaining ground. Most multilateral agencies expect global growth to recover in the current year, which should help the Indian economy. But, it is unlikely to be a smooth ride with major events waiting to unfold. Negotiations between Britain and the EU on BREXIT, fiscal and monetary policy shifts within the US, evolving political scenario in the Eurozone and China managing its growth slowdown are just some of the many unknowns that policymakers and market participants have to contend with.

As we move ahead, there are new challenges as some of the gains enjoyed last year may not be there in the next year. Inflation can be one such challenge as oil and broader commodity prices have started to move up in a meaningful way after a gap of more than two years. Domestic agricultural growth assumes a greater significance in such a scenario, as policy makers will need to keep a vigilant eye on any spike in prices. A major overhaul of the taxation regime with introduction of the Goods and Services Tax (GST) and the General Anti-Avoidance Rule (GAAR) could also mean some disruption over the near term. That said, there are positives that brighten the outlook such as financial inclusion, focus on affordable housing and infrastructure and stable macro indicators that demonstrate the strength of the economy. Safe to say that a new path will have new challenges and India seems adequately equipped to face such a situation confidently.

# GDP growth sustained

GDP growth




Source: MOSPI, Economic Survey & Budget

Indian growth over the past one year can be looked at as a story of two halves. During the first half it was clearly the fastest growing large economy in the world with 7.2% in H1FY17. The second half was expected to see a pickup in growth levels aided by increased consumption levels. However, the government's decision to demonetize high value notes has potentially caused some slowdown in the near term. The slowdown can essentially be traced to attenuation of demand in the economy as there was insufficient cash in the economy to carry out necessary transactions.

That said the Indian statistical machinery, Central Statistics Office (CSO), came out with a growth estimate of 7.1% as it released its advanced estimates. Important to note that these estimates did not capture the effects of demonetization and were essentially created on data till October end. However in the Economic Survey, it has been estimated that the growth rate in FY16 could print in the region of 6%-6.75%.

# GDP growth sustained

## Demonetization

We view demonetization as a step in the right direction with initial adjustment costs that would push down GDP in the near term and the benefits will accrue over the longer term. The benefits however are not automatic and will depend on the subsequent policies and initiatives.

**Benefits**

- Fillip to the organized sector
- Lower cost of funding for banks
- Push to digital transactions
- Structurally lower inflation
- Improved perception in the international markets
- Fiscal gain
- Improvement in tax buoyancy

**Costs**

- Disruption in daily life as households are unable to get liquidity
- Activity levels in the informal economy take a hit
- Short term impact on growth
- Increased demand for gold as a store of wealth

Impact on growth will essentially be felt on the back of lower growth as consumer expenditure and behaviour are both likely to undergo some change. Important to note that bulk of cash finds its way to the informal sector in India and that some estimates suggest that the informal sector accounts for around 45% of GDP and 80-85% of employment. As such, any disruption of this liquidity would have its negative effects on consumption.

Two broad effects can be singled out.

- Postponement of expenditure on account of uncertainty and lack of cash; and
- Investment decisions to get delayed as consumption drops in the near term.

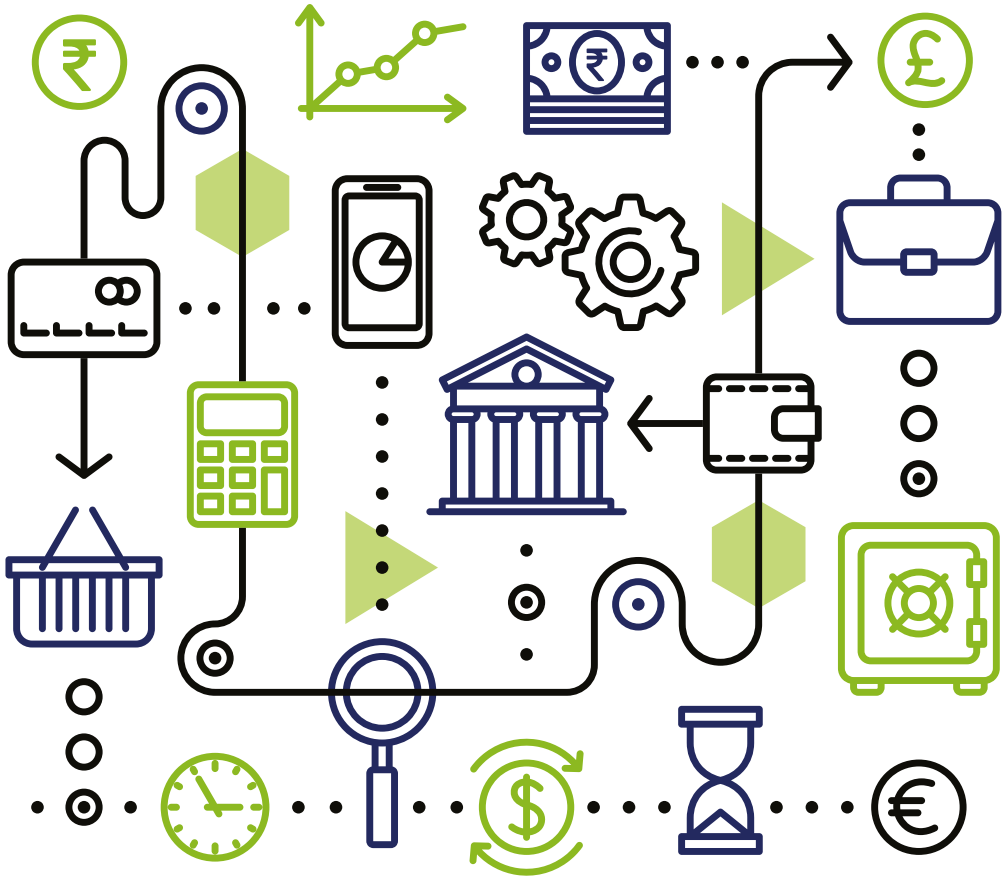
As per IMF estimates, the decline in growth due to demonetisation could be as much as 1%. As the liquidity crunch has more severely affected the informal sector, the precise impact of the slowdown may not be captured in the GDP estimates. Having said this, we expect the slowdown to be limited to FY 2017 and not spill over to FY2018. This is because we expect the consumption to be postponed and not permanently decline. Apart from this, demonetisation has given a huge filip to financial firms including banks and fintech companies. The inflow of funds, even if temporary, with the banks have enabled them to initiate some amount of monetary transmission with the lowering of interest rates. We can expect more reductions in interest rate if the cash deposits are majorly retained with the financial system even after cash withdrawal limits are removed. We do not expect new currency to be printed at the same level as prior to demonetisation. This may not be a constraining factor. There was a significant increase in cashless transactions in November and December. Some of these gains can be expected to more permanent and therefore

# GDP growth sustained

counteracting negative impact on demand arising from a lower money supply. The objective is to achieve maximum digitisation in payments through increasing the use of all cashless means- BHIM app, USSD transactions, Aadhar pay etc.

Apart from the impact on consumption, anecdotal evidence suggested that demonetisation had also led to a breakdown in the production trajectory for many small manufacturing companies. Even relatively larger manufacturing companies had to experience transitional production outages because of changes required in economic dealings with the contract labour. Here also, as remonetisation levels increase and as demand recovers, it can be expected that the manufacturing activity will come back on track within this financial year. There is relatively lesser clarity on the impact on agriculture specially on the sowing activity in the Rabi season as the increase in acreage as reported is only marginal and could be because of better monsoons.

In summary, demonetization could be seen as a successful reform if enabling infrastructure is put in place to reduce cash-GDP ratios and channelize savings into the banking system. Ultimately greater financial inclusion will help us move closer to realizing the growth potential.



# GDP growth sustained

## Sectoral Review

Growth rates in the agricultural sector finally experienced a turnaround in FY17 after two consecutive years of drought. This increase was supported by normal monsoons. Growth rate was 1.8% in Q1 FY17 and 3.34% in Q2 FY17 as compared to 1.6% and 2% in Q1 FY16 and Q2 FY16 respectively. Within the agricultural sector there was an expansion of acreage under Rabi crops due to improved performance of agriculture favored by increase in minimum support prices (MSPs) and normal monsoons. This improvement is likely to continue into the next fiscal. Sowing area under wheat has increased by 11.5% while that of pulses increased by 10% in the current year. However, acreage under paddy and coarse cereals have declined compared to last year. The lack of cash with farmers has possibly led to a dip in fertilizer and pesticide sales which is important for production of crops.

Nevertheless, measures have been taken by the government to increase agricultural output. To solve the irrigation problems in agriculture the Pradhan Mantri Krishi Sinchai Yojana had been launched in the FY16 budget. To boost irrigation further, a long term irrigation fund has been set up in National bank for agricultural and rural development with a corpus of INR 400 billion.

To increase productivity, the current budget has talked about introducing a model contract law and further increase coverage under Fasal Bima Yojana (crop insurance) from 30% of cropped area in 2016-17 to 40% in 2017-18.

The story in the industrial sector has been somewhat different as growth rates have moderated in the current fiscal as compared to the last fiscal. The sector achieved growth of 7.4% in terms of value add in FY16 and since then the growth in mining & quarrying, manufacturing, electricity, gas & water supply, and construction sectors have moderated. This is in line with the moderation observed in manufacturing due to a steep contraction in capital goods and consumer non-durable segments of the index of industrial production (IIP).

However, the issue that needs to be resolved at the earliest is the fall in investment levels. Growth in fixed investment in real terms has declined from 3.9% in FY16 to (-) 0.2% in FY17. Fixed investments have been declining since FY12 and this trend needs to reverse for balanced and sustainable medium term growth.

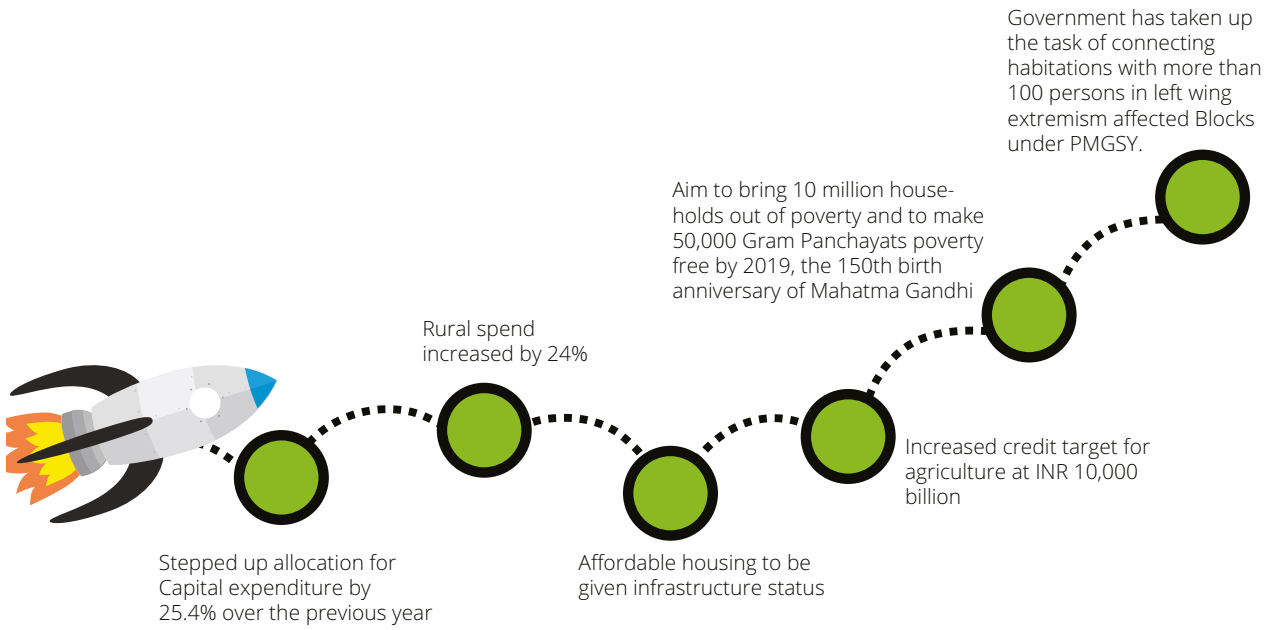
# GDP growth sustained

Coming to the all-important services sector, growth has remained broadly stable as it grew by 9.58% in Q1 FY17 and 8.85% in Q2 FY17. In H1 FY17 its growth rate was 9.2% as compared to a growth rate of 8.8% in FY16. The most significant contributor to the growth rate of the services sector was public administration which grew by 12.4% in H1 of FY17 compared to a growth rate of 6.4% in FY16. This happened on account of higher investment by the government. In contrast the financing, insurance, real estate and business services sector experienced an increase in the growth rate to 8.7% in FY17 from 8.3% in FY16. Conversely, the transport and storage sectors were adversely affected due to loss in growth momentum in commodity producing sectors over the last two years. The services sector received 24.5% of FDI inflow in FY17, the largest amount received by any of the sectors.

On the expenditure side, private final consumption expenditure growth rate decreased in the first quarter of FY17 to 6.72% from 6.94% in FY16. It increased in Q2 to 7.55% from 6.29% in FY16 i.e. an expansion of demand in Q2 of FY17 partially supported by seventh central pay commission and one rank one pension scheme. Government final consumption expenditure initially increased in Q1 to 18.8% but declined to 15.2% in Q2 FY17. The government has already spent to 58.18% of its budget estimates in the first seven months of the year, higher than the level in the same period of the previous year. Given the possible spillover from the decision to demonetize, consumption is likely to take some more time to recover. On the government's part, it needs to ensure an environment wherein consumers have the confidence to spend and there are no currency shortages.

According to the latest economic survey, growth can come in the range of 6%-6.75% for FY17 and the chief economic advisor has estimated the next fiscal's growth to possibly come in the range of 6.75%-7.5%. We largely agree and expect growth to print in the range of 6.5%-6.8% in FY17 and move up to around the 7% mark in FY18.

# GDP growth sustained



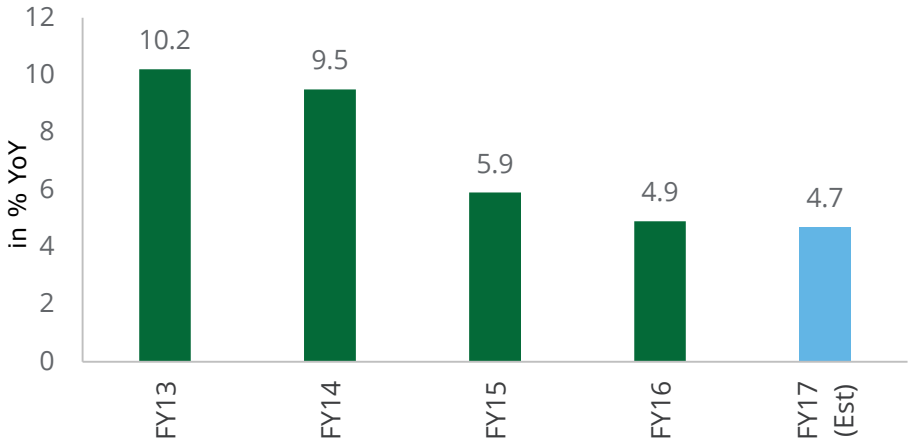

## Global Growth

Global growth has been estimated to slow down to 3.1% in 2016 before rising to 3.4% in 2017 according to the International Monetary Fund (IMF). The forces shaping the global outlook include new shocks, such as BREXIT; ongoing realignments in China and among commodity exporters as well as geopolitical uncertainties. Growth prospects for advanced economies have been marked up. Furthermore, the expansion in 2017 is likely to take place on the back of recoveries in major emerging market nations, including Russia and Brazil.

The broad theme for the current year in developed markets seems to be one of fiscal expansion, however, there are emerging challenges as populist policy measures could lead to a change in the ongoing narrative. Emerging market economies (EMEs) are expected to experience an acceleration in their growth rates to 4.2%. China's economy may face a slowdown in the short run and some rebalancing in its economy is imminent in the medium term. Given the still weak and precarious nature of the global recovery, and the threats it faces, the IMF has highlighted the urgent need for a comprehensive, consistent and coordinated policy approach to stimulate growth and ensure it is distributed more evenly to avoid future issues.

# Inflation

Consumer Priced Index




Source: RBI & Deloitte.

Inflation for the first nine months of FY17 has averaged at 4.8% at the retail level. Consumer price inflation (CPI) increased continuously in Q1 FY17 due to rising food prices and unfavorable base effects. It began declining in Q2 August onwards led by fall in food prices and fuel index. Food prices declined on the back of increase in agricultural output due to normal monsoons and possibly on account of demonetization.

It fell to 3.4% in December due to weak demand conditions following the demonetization move which led to cash shortages. With the effects of demonetization still unfolding and three months of FY17 still remaining, yearly inflation is expected to fall further to 4.7% in FY17.

That said, there are some elements in the CPI wherein structural constraints have meant relatively higher levels of inflation. The services part of the index has consistently remained in the range of 4.5%-5% over the last year even as the broader index reached all-time lows. This clearly shows the presence of supply side constraints in the economy.

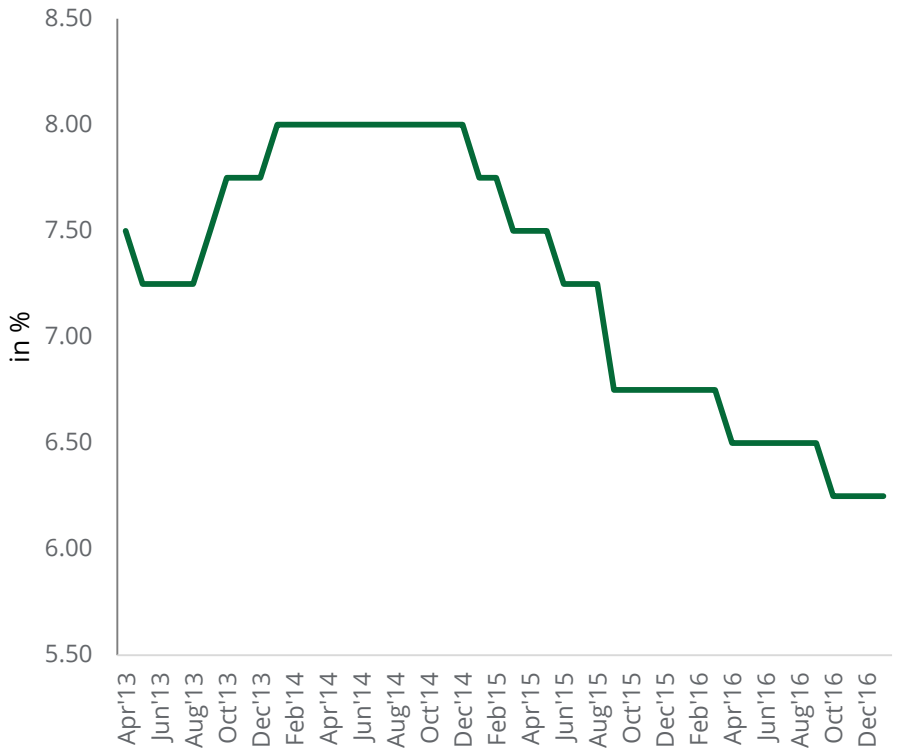
Overall, global commodity prices are likely to move up in line with improving growth prospects in the developed markets. A closer look at the energy sector suggests that oil prices could move up and average in the range of USD 60-65 per barrel and could put pressure on domestic fuel prices. Furthermore, the implementation of the GST also needs to be watched as it could lead to some increase as more services come into the ambit of taxation. We are likely to see higher inflation levels going forward.

**Budget proposals**

- CPI has been trending downwards following the demonetization announcement, which has had the largest effect on food prices.
- Market reforms will be undertaken and the States would be urged to de-notify perishables from APMC. This will give opportunity to farmers to sell their produce and get better prices.
- Area under crop insurance (Fasal Bima Yojana) to be increased to 40% of cropped area in FY18 from 30% in FY17

# Monetary Policy remains accommodative

Repo Rate




Source: RBI

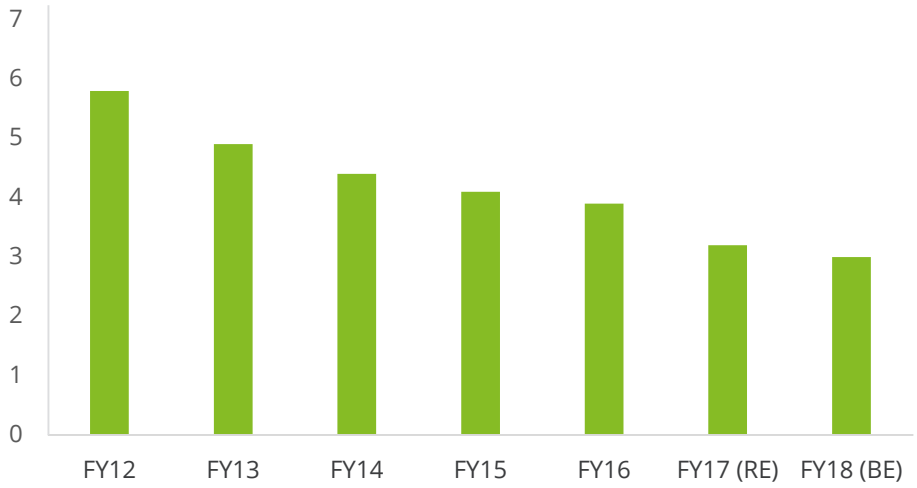
This year saw a change in the inflation targets under two RBI governors with an accommodative monetary stance throughout FY17. In the first bi-monthly policy of FY17, the previous governor cut repo rate by 25 basis points to 6.5%. This was done to strengthen growth given weak private investment in the face of low capacity utilization. However, a change at the helm of the central bank mid year in addition to the formation of a monetary policy committee resulted in a further change in stance.

The committee gave its first review in October wherein the repo rate was further reduced by 25 basis points to 6.25% in accordance with an accommodative policy stance to attain CPI of 5% by Q4 of FY17. Under the new regime, inflation targeting seems to have been somewhat relaxed from a strict target of 4% inflation by end of FY18 to 4% with a variance of +/- 2%. This gives the RBI more flexibility in deciding rates and keeps room open to adjust of potential upside risks.

Given the mandate of the RBI to target inflation, we are likely to achieve the target of 5% CPI by March end. However, inflation is expected to rise over the coming months and we could also witness the US central bank go in for more rate hikes. As such, we believe that the RBI does not have much room for cutting rates and we do not see the repo rate going below the 6% mark over the next year.

# Delicate fiscal balancing

Trend in fiscal deficit (% of GDP)




Source: RBI

India aims to achieve a fiscal deficit target of 3.5% of gross domestic product (GDP) for FY17, after achieving the 3.9% of GDP target in FY16. However, the fiscal deficit in Q1 of FY17 reached 61.1% of the full financial year's target of INR 5.34 trillion.

India's fiscal deficit in the first eight months of FY17 was 85.8% of its total Budget estimate in FY17 as against 87% of the Budget target last year. Tax revenue stood at 59% of the full year Budget estimate. The government's plan expenditure during the period was 66.2% of the full-year Budget estimate. The non-plan expenditure during April-November of FY17 was 64.6% of the whole-year estimate. The numbers show that the government has continued with its stance of front loading expenditure to give a boost to growth.

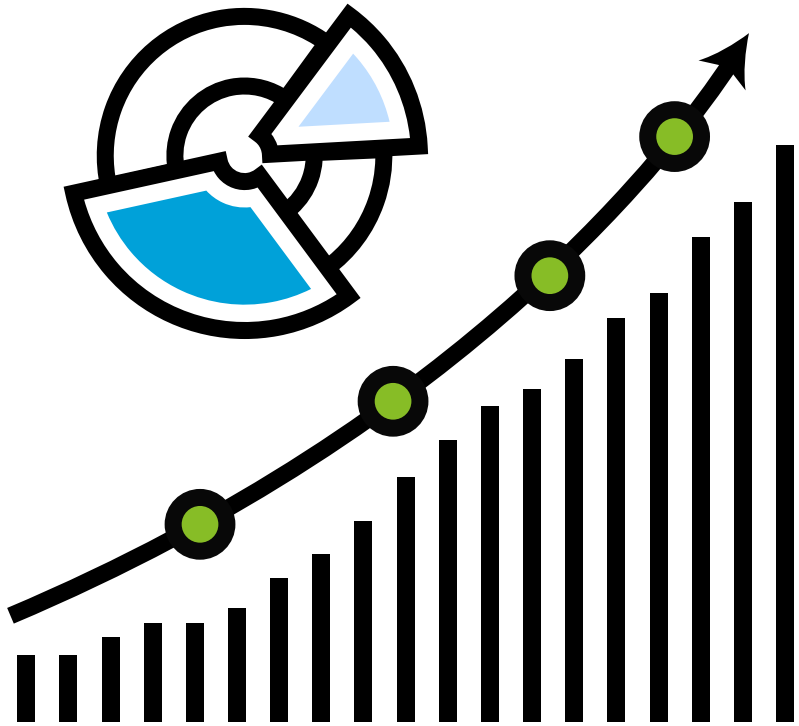
Furthermore, the government is now trying to target an overall sustainable debt level, which is more in line with its peer countries. The Fiscal Responsibility and Budget Management (FRBM) committee has recommended 60% as a combined debt to GDP with the central government accounting for 40% and state governments accounting for 20%. The government has adopted this approach and has assured of planning its expenditures accordingly.

The government has committed to achieve the 3.5% target and furthermore has aimed for further consolidation to 3.2% of GDP in the next fiscal. Important to note under the new regime, the government can go in for expansion up till 3.5% of GDP.

# Delicate fiscal balancing

**Budget proposals**

- FRBM Committee has recommended 3% fiscal deficit for the next three years, keeping in mind the sustainable debt target and need for public investment, fiscal deficit for 2017-18 is targeted at 3.2% of GDP and Government remains committed to achieve 3% in the following year
- Net market borrowing of Government restricted to INR 3.48 trillion after buyback in 2017-18, much lower than INR 4.25 trillion of the previous year
- The quantum of major subsidies as a proportion to GDP has been gradually moving down over the past years.
- There have been significant savings made through direct cash transfer in the past fiscal, with the government saving INR 360 billion by digitising economic activities in the fiscal year (as of November)
- Budget proposed enactment of the Aadhar bill for disbursement of financial subsidies and benefits



# Delicate fiscal balancing

## Trends in capital markets

The capital market plays a crucial role in capturing the macroeconomic sentiment in the economy and acts as an important link between the savers and investors communities. The government has shown an increased amount of impetus in pushing business-friendly reforms in order to improve India's perception in international circles, which has had a visible impact on global rankings, foreign direct investment, and India's overall attractiveness to foreign and domestic investors. Factors such as a healthy current account deficit (CAD), improving growth prospects, and a somewhat stable INR (as compared to other major currencies) have further contributed to the positive sentiment. However, domestic and global economic shocks this year such as BREXIT, the US presidential elections, and demonetization have led to the INR market and stock markets witnessing fluctuations over the past year.

The Sensex has remained ranged over the past year, depicting an overall upwards trend for the majority of the year up till October 2016. The index witnessed a fall of 604 points on the day after the UK voted to leave the EU, as markets priced in the shock and uncertainty of the BREXIT vote domestically and globally. Further, on 09 November 2016 following the US presidential elections results and the demonetization announcement, Sensex opened with a loss of 1300 points. The index then saw a fluctuating trend over the next two weeks, reflecting the uncertainty in the markets regarding the US economy and the demonetization move, and has since been depicting an upwards trend.

Movement of SENSEX (Jan'15-Jan'17)

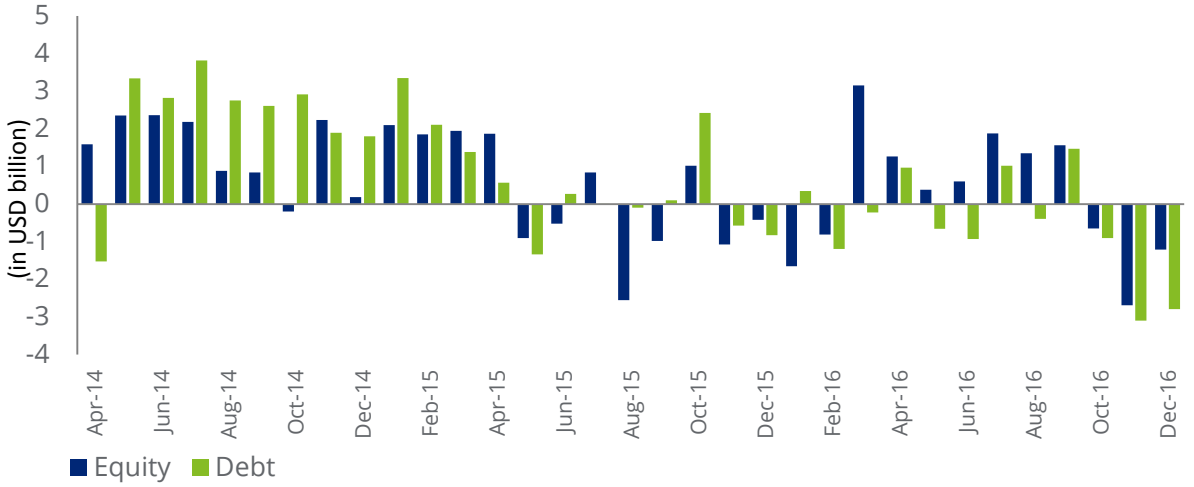

Source: BSE

# Delicate fiscal balancing

Meanwhile, the government has done its fair share to push confidence and optimism in the domestic economy amid the weak global sentiment during the year. Further liberalization of FDI norms in June 2016 have given a boost to business sentiments. More importantly, according to information revealed in the budget, 90% of FDI is coming in through the automatic approval route showing the increased levels of confidence amongst long term investors.

Following the positive streak in FY15, foreign portfolio investors (FPI) inflows have been volatile in FY16 and in this financial year FY17, replicating the overall sentiment of uncertainty in the domestic as well as global market, following the demonetization move and the US presidential elections. The quantum of FPI inflows so far this year has been volatile, as we have witnessed and outflow of USD 2.8 billion in FY17 (Apr-Dec). Within the inflows through FPIs, there was an addition in the category of equities while the bond markets experienced an outflow. Equity inflows stood at USD 2.5 billion and debt saw an outflow of USD 5.3 billion in FY17 (Apr-Dec). The months of November and December saw a particularly large quantum of outflows, with equity and debt markets reacting negatively as an effect of the demonetization move. Further, expectations of a Fed rate hike, followed by a rate hike of 25 bps in mid-December also led to some rebalancing of portfolios and debt outflows. Going forward, we expect the push for business friendly reforms to continue, in order to regain investors' confidence in the Indian economy.

FPI inflows

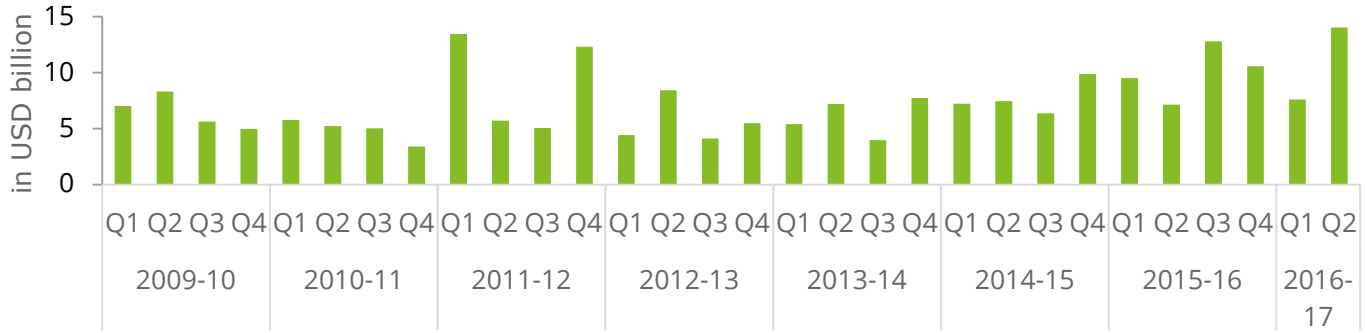



Data Source: SEBI

# Delicate fiscal balancing

A comprehensive set of measures was announced by the RBI in August 2016, in order to modify the bond market in India, as well as provide momentum to the INR market. These measures were taken to allow listed corporations to lend money, and longer tenure money to banks using repo market mechanism. This can have an effect on interest rates, bond markets, and liquidity in the banking system. The policy makers brought about changes to let banks raise capital through INR bonds in the overseas market and liberalize the currency market by allowing customers, those residing in and outside of India, to maintain large open positions. Further, legal amendments were put into play to allow banks to borrow from the RBI by mortgaging corporate bonds, in order to boost demand for rated corporate paper and allow secondary trade. Allowing foreign portfolio investors to directly access bond trading platforms the government and corporate paper will increase the investor base, and also likely push foreign portfolio investment inflows.

Quarterly FDI Inflows




Source: DIPP

# Delicate fiscal balancing

Foreign direct investment (FDI) has picked up this year, hitting an all-time high in Q2 FY17 with inflows to the tune of USD 14.03 billion. In contrast, funds worth USD 7.6 billion came in in the first quarter of FY17. This was after reaching a figure of USD 40.02 billion in FY16, the highest level of inflows recorded in one year. In terms of sector specific flow, the services sector has shown strong performance in the first two quarters of FY17. Services attracted the largest portion of FDI inflows at 24.5% in FY17 (Apr-Sep), as well as the highest quantum of investment at USD 5.3 billion. This was followed by the telecom sector attracting investment worth USD 2.8 billion and a share of 12.9% in FY17 (Apr-Sep), possibly an effect of the Make in India and Digital India flagship schemes. The improvement in FDI inflows seems to be on account of an advance in the perception of the prevailing business climate from an international viewpoint, and the government's willingness to bring in more business friendly reforms amid a gloomy world economy. Further, the government has brought in a number of positive initiatives such as quicker approval process of FDI with less conditionality under the PRAGATI initiative, and the opening up of various sectors, with most of them now open to FDI under automatic approval route. Some of the key changes announced in June 2016 include up to 100% FDI in the defense sector, 100% FDI in brownfield airport projects under automatic route, up to 74% FDI in brownfield pharmaceuticals under automatic route, and 100% FDI in civil aviation with up to 49% under automatic route. All these reforms have boosted investor sentiment and given FDI in recent quarters an upwards push. FDI is likely to remain stable in the coming months as the government continues its efforts to streamline procedures while also initiating reforms.

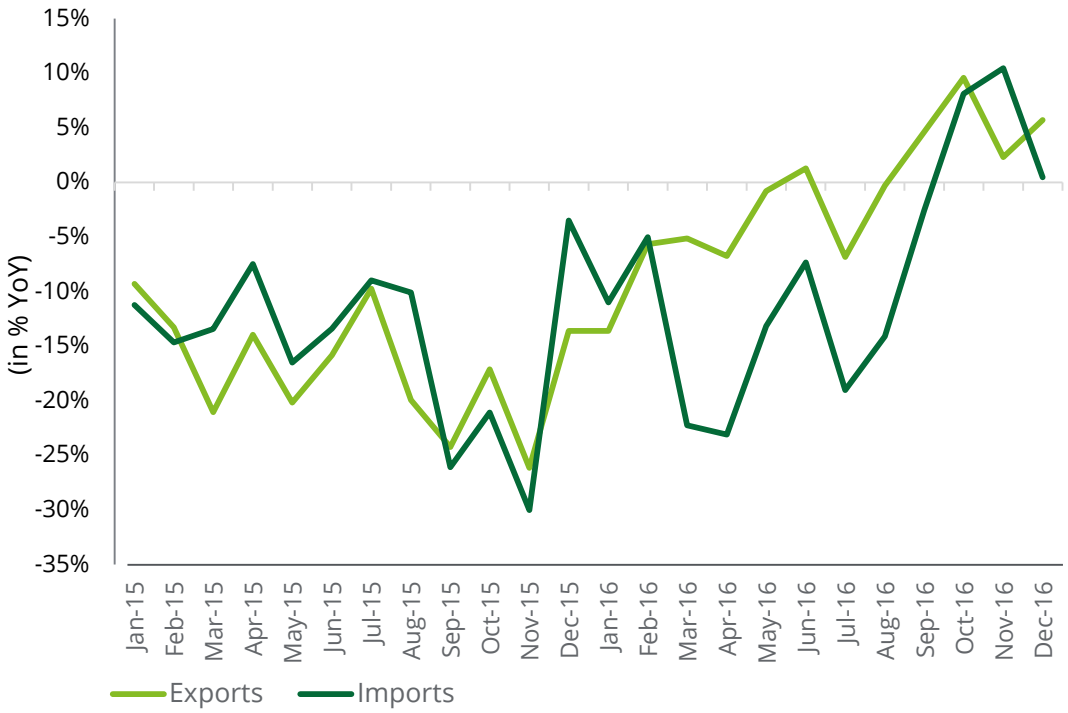
**Budget proposals**

- Foreign Portfolio Investor (FPI) Category I & II exempted from indirect transfer provision. Indirect transfer provision shall not apply in case of redemption of shares or interests outside India as a result of or arising out of redemption or sale of investment in India which is chargeable to tax in India
- Foreign Investment Promotion Board to be abolished in 2017-18
- Further liberalisation of FDI policy is under consideration

# Delicate fiscal balancing

## External sector

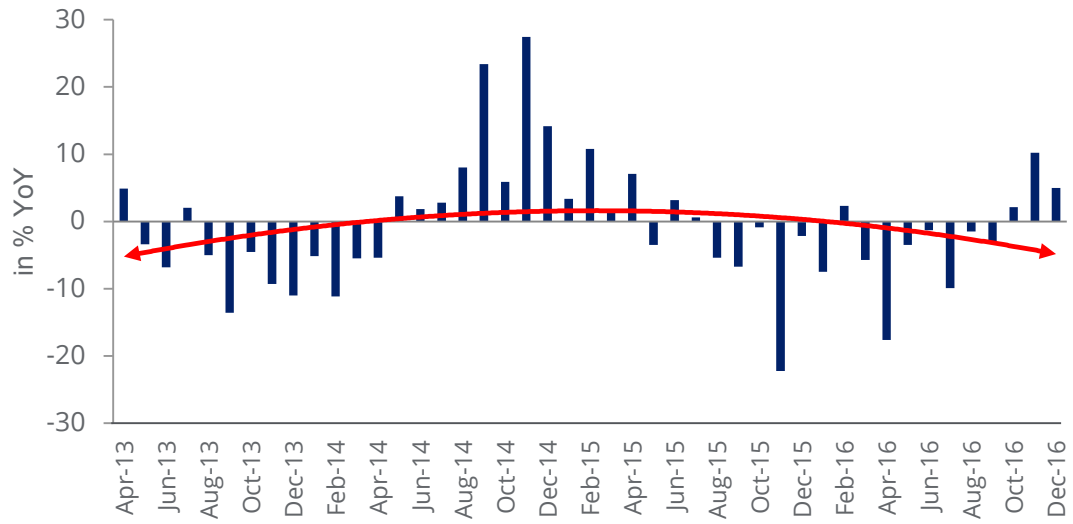
India's Foreign Trade




The past quarters have seen some weakness in India's foreign trade, with exports registering negative growth for the past seven quarters. This weakness in the overall trade activity reflects the subdued state of global and domestic demand which has been besieged by low commodity prices. In comparison, FY17 has shown a marked improvement with India's exports registering positive growth towards the end of the year, as compared to the overall contraction of 15.9% in FY16. Exports growth has remained in the positive region since September 2016. It seems that the revival of India's exports can be accredited to improved confidence in the Indian economy amidst the fragile world economy, as well as the numerous government initiatives and reforms which have helped boost the domestic economy and its perception amongst international circles. Further, the growth of imports has been in the negative territory for the majority of the current fiscal, with Q1 and Q2 of FY17 registering growth rates of -14.5% and -12.2% respectively. Imports moved back into positive region in October 2016 and have maintained positive growth ever since. A closer look at the figures shows that the value of non-oil ex-gold imports fell by 7.5% in Q1 and 5% in Q2, however have entered back into the positive growth region since October 2016. While the value of oil imports has remained more or less steady in FY17, with year-on-year growth moving upwards towards the end of the fiscal, the value of gold imports has been volatile with most months depicting a visible increase.

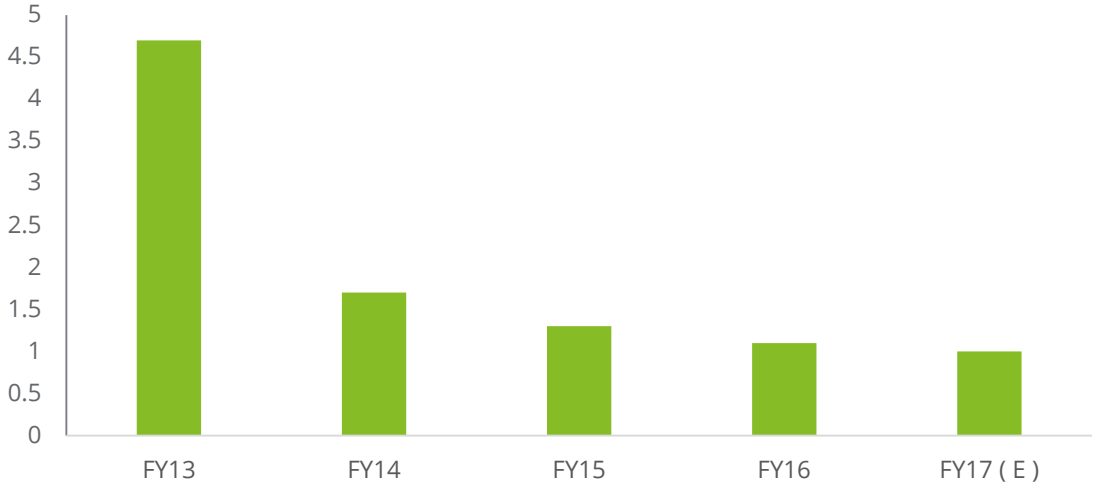
# Delicate fiscal balancing

Non-oil non gold imports




Source: Ministry of Commerce

CAD/GDP Ratio (%)




Source: RBI

A combination of a moderation in the trade deficit of merchandise, increased foreign portfolio investment inflows, and improvement in services exports have all led to a healthy CAD in FY17. CAD shrank to USD 0.3 billion or 0.1% of GDP in Q1 FY17, primarily on account of a lower trade deficit due to weakened global demand and lower commodity prices. In Q2 of FY17 this figure moved up to 0.6%, still relatively narrower than Q2 last year, but higher than Q1. Going forward, we expect CAD to likely remain subdued in the coming quarters, possibly at around 1% of GDP in FY17. However, crude oil prices are expected to rise which may put some degree of pressure on the trade deficit which may negatively impact the CAD over the next year.

# Delicate fiscal balancing

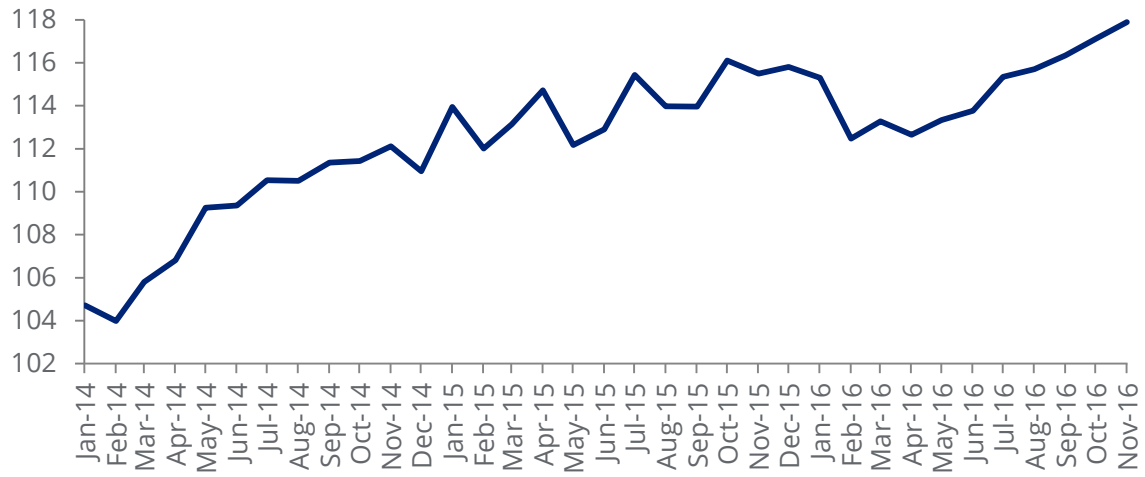
USD/INR


Source: RBI

Amid the somewhat improving domestic fundamentals, the INR has remained relatively stable, trading between the 66 and the 69 mark throughout FY17 against the USD. Some global economic shocks this year such as Brexit did lead to some unwanted volatility. The INR saw some weakness towards the end of November 2016, following the US presidential election and a pricing in of a Fed rate hike in mid-December.

The INR has appreciated against some other major currencies such as the Pound and the Renminbi, as well as the Lira, since the beginning of the year. Further, the real effect exchange rate has shown an upwards trend through FY17, indicating

Real Effective Exchange Rate (Export based weight)




Source: RBI

that the INR is somewhat overvalued. Going forward, we expect the INR to continue to trade around current levels in the short run, primarily responding to changing sentiments in global markets.

Given the outlook on commodity prices and global growth, we are likely to witness growth in both exports and imports. However, we can expect imports to grow faster than exports as energy prices recover. More importantly, healthy growth in the US could mean a stronger USD. As such, expect the INR to move towards the 70 mark over the next year.

# Delicate fiscal balancing

Amid the somewhat improving domestic fundamentals, the INR has remained relatively stable, trading between the 66 and the 69 mark throughout FY17 against the USD. Some global economic shocks this year such as Brexit did lead to some unwanted volatility. The INR saw some weakness towards the end of November 2016, following the US presidential election and a pricing in of a Fed rate hike in mid-December.

The INR has appreciated against some other major currencies such as the Pound and the Renminbi, as well as the Lira, since the beginning of the year. Further, the real effect exchange rate has shown an upwards trend through FY17, indicating that the INR is somewhat overvalued. Going forward, we expect the INR to continue to trade around current levels in the short run, primarily responding to changing sentiments in global markets.

Given the outlook on commodity prices and global growth, we are likely to witness growth in both exports and imports. However, we can expect imports to grow faster than exports as energy prices recover. More importantly, healthy growth in the US could mean a stronger USD. As such, expect the INR to move towards the 70 mark over the next year.

**Budget proposals**

- A new and restructured Central scheme with a focus on export infrastructure, namely, Trade Infrastructure for Export Scheme (TIES) will be launched in 2017-18
- Concessional withholding rate of 5% charged on interest earned by foreign entities in external commercial borrowings or in bonds and Government securities is extended to 30.6.2020. This benefit is also extended to Rupee Denominated (Masala) Bonds
- Plans for job creation in textiles and leather & footwear

# Digital India

Digital India is an initiative launched by Prime Minister Narendra Modi on 01 July 2015 with a view to empower the people of India digitally, and bridge the gap between rural and digital India. It seeks to transform the country into a connected economy, attract investment in electronics manufacturing, and create millions of jobs and support trade. The wider goal of Digital India is to bring broadband connectivity in all panyachats, wifi in all schools and universities, and public wifi hotspots in all major cities in India by 2019. The program will also contribute in the delivery of digital services in the health, education, agriculture, and banking industries.

An array of milestones have been achieved since the launch of the Digital India program, and significant progress has been made in taking forward the vision of a digitally empowered India. A number of digital schemes, products, and services have been introduced to promote e-governance. The program received an additional push from the demonetization announcement on 08 November 2016, which banned high-value notes and provided an impetus to digital payments and e-governance.

In an effort to provide basic digital infrastructure, 1,12,871 kms of optical fibre cable have been laid to provide high speed connectivity across the country. Further, citizen engagement platforms such as MyGov have been developed wherein 1.93 million registered users provide inputs for improving governance and participating in other activities. In addition, 166,000 Common Services Centres providing Government and private e-Services to citizens have been set up in order to enable penetration of digital services in the localities. These centres provide skill development, digital literacy and financial services to rural India, among other things. Furthermore, over 9.8 million citizens have been enrolled under Digital Saksharta Abhiyan (DISHA); an initiative to make at least one person in every Indian household digitally literate.

**Budget proposals**

- 12.5 million people have adopted the BHIM app so far.
- The Government will launch two new schemes to promote the usage of BHIM
- Target of 25 billion digital transactions for FY18 through UPI, USSD, Aadhar Pay, IMPS and debit cards
- Proposal to mandate all Government receipts through digital means, beyond a prescribed limit
- Additional 1 million new POS terminals by March 2017, and encouraged to introduce 2 million Aadhar based POS by September 2017
- Introduction of Payments Regulatory Board in the RBI
- No transaction above INR 300,000 permitted in cash subject to certain exceptions
- Numerous digital payments machinery and their components for manufacture to be exempt from BCD, Excise/CV duty and SAD

# Skill India

Launched along with the Make in India flagship scheme on 15 July 2015, Skill India seeks to transform India into a prospering industrial economy, with an able and skilled workforce is of paramount importance. With a primary focus on the 2.4 million youth who lack formal certification and the means to get it, Skill India aims to train over 400 million people in India in various skills by 2022, which will boost the employability of the population.

Since the program's initiation, the government has initiated several programs under Skill India such as setting up a student Financial Aid Authority to monitor scholarships and Educational Loan Schemes, and setting up various institutes including a new IIT, AIIMS, and Horticulture, Pharmaceuticals, and Science and Education Research institutes across different states in India to name a few. It was announced that more than 10.4 million youth have been trained under the Skill India Mission in the year 2015-16 which reflects growth of 36.8% versus the previous year's data. Further, the Pradhan Mantri Kaushal Vikas Yojana (PMKVY), which was also launched on 15 July 2015, alone has witnessed more than 2 million people undergo training in their choice of skills, out of which 40% are women candidates. Below is a table summarizing the key policy initiatives and recent developments with regards to Skill India.

**Budget proposals**

- Innovation Fund for Secondary Education proposed to encourage local innovation for ensuring universal access, gender parity and quality improvement to be introduced in 3479 educationally backward districts.
- National Testing Agency to be set-up as an autonomous and self-sustained premier testing organisation
- Skill Acquisition and Knowledge Awareness for Livelihood Promotion programme (SANKALP) to be launched at a cost of INR 40 billion. SANKALP will provide market relevant training to 35 million youth
- Next phase of Skill Strengthening for Industrial Value Enhancement (STRIVE) to be launched in FY18 at a cost of INR 22 billion
- Next phase of Skill Strengthening for Indust Pradhan Mantri Kaushal Kendras to be extended to more than 600 districts across the country. 100 India International Skills Centres will be established across the country real Value Enhancement (STRIVE) to be launched in FY18 at a cost of INR 22 billion

# Conclusion

Given the recent turbulence in the domestic economic environment and fast changing global economy, the macroeconomic fundamentals of the economy remain robust and augur well for the future. Latest data points suggest that demand is recovering in the economy and the Reserve Bank of India has also started to increase withdrawal limits. Growth is expected to move up over the course of the next year and is likely to cross the 7% mark again.

The government on its part has shown confidence in its existing approach and schemes and increased allocations in a number of programs. The next step would clearly be the effective implementation of these schemes, which can potentially help the economy from a structural perspective. Schemes to alleviate skill shortages are likely to also lead to a healthier job market that is in tune with the changing times while increased rural spend is likely to bring about changes at the supply side of the economy.

While there remain challenges on domestic front such as inflation and on the international front due to geo-political concerns, the stage seems to be set for a more sustainable growth process to take hold.

# Direct Tax

- Individual Taxation
- Corporate Tax
- Non-resident taxation
- Transfer Pricing
- Capital Gains
- Anti-Abuse Provisions
- Withholding Requirements
- Procedural
- Miscellaneous

## Rates of Income Tax

### Individuals/HUFs

There is no change in the basic exemption limit for individuals/HUFs. It is proposed to reduce the existing rate of taxation for income between INR 250,000 and INR 500,000 to 5%. It is also proposed to introduce surcharge at 10% for individuals having taxable income above INR 5,000,000 but not exceeding INR 10,000,000.

Currently, under section 87A rebate (deduction from income tax) of up to INR 5,000 is available to resident individuals whose total income does not does exceed INR 500,000. It is proposed to reduce the rebate to INR 2,500 and the threshold limit to INR 350,000.

### Tax Rates

| Income slabs (in INR) | Rate of Tax (%) |
|---|---|
| Upto 250,000 | NIL |
| 250,000 to 500,000 | 5 |
| 500,001 to 1,000,000 | 20 |
| Above 1,000,000 | 30 |

### Notes

- For resident senior citizens (60 years and above but less than 80 years) and very senior citizens (80 years or more), the basic exemption limit remains unchanged at INR 300,000 and INR 500,000 respectively.
- Surcharge of 10% for individuals / HUFs having taxable income above INR 5,000,000 but not exceeding INR 10,000,000
- Surcharge will continue to be levied at 15% for individuals/HUFs having total income above INR 10,000,000.
- Education cess will continue to be levied at the rate of 3% of income tax (including surcharge)
- The maximum marginal rate remains at 35.535% where taxable income is above INR 10,000,000.
- These rates also apply to association of persons and body of individuals.

# Individual Taxation

**Increase in the rate of deduction for contributions by self-employed individuals to NPS [Section 80CCD]**

Currently, an individual who is an employee avails upto 20% of salary as a deduction for contribution to NPS comprising of contribution of 10% by employer and 10% by self. However, a self-employed individual can claim deduction only upto 10% of the gross total income in the absence of employer's share.

It is now proposed to enhance the deduction for self-employed individuals to 20% of the gross total income. However, this comes within the overall cap for deduction that remains at INR 150,000.

**Tax exemption to partial withdrawal from NPS [Section 10(12A)]**

Under the existing provisions, 40% of amount payable to the employee can be claimed as exempt at time of closing of account or opting out of NPS. It is now proposed to exempt partial withdrawal from NPS, not exceeding 25% of the contribution made by an employee in accordance with the terms and conditions prescribed under the Pension Fund Regulatory and Development Authority Act, 2013.

**Phase out of deduction under Rajiv Gandhi Equity Savings Scheme [Section 80CCG]**

Resident individuals who have invested in listed equity shares or units in equity oriented funds can claim deduction of 50% of amount invested to the extent such deduction does not exceed INR 25,000 for three consecutive years (subject to certain conditions). It is proposed not to allow any fresh deduction under the scheme effective assessment year 2018-19. Nevertheless, those who have invested and claimed deduction earlier can continue to claim the deduction for the balance period.

# Individual Taxation

**Beneficial presumptive income in case of digital receipts [Section 44AD]**

The provisions of section 44AD provides for a presumptive income scheme in case of eligible assessees carrying out eligible businesses, and having total turnover or gross receipts not exceeding INR 20 million in a previous year. In case of such eligible assessees, a sum of 8% of the total turnover or gross receipts, or a higher sum declared by the assessee, is deemed to be the profits and gains of such business.

In order to promote digital transactions, it is proposed to reduce the presumptive rate of deemed total income of 8% to 6% of total turnover or gross receipts, in case the amount is received by an account payee cheque or account payee bank draft or use of electronic clearing system through a bank account before the due date for filing return of income for the year. This amendment is proposed to be effective retrospectively from assessment year 2017-18.

**Deduction of tax at source on rental payments [Section 194-IB]**

Currently, individuals and HUF not liable to tax audit are outside the purview of deducting tax at source on payment of rent for the use of any land or building or both.

It is proposed to introduce tax withholding at 5% by individuals / HUF (other than those liable for tax audit) on rent payable to a resident for an amount exceeding INR 50,000 per month or part of a month. The proposed tax deduction shall be carried out when the tenant pays the rent for the last month of the previous year or the last month of tenancy. Thus tax shall be deducted only once in the year. There is no requirement to obtain a TAN for this purpose.

**Restricting cash donations [Section 80G]**

Currently, deduction is not allowed in respect of donations made in cash of an amount exceeding INR 10,000.

It is proposed to reduce the limit of INR 10,000 to INR 2,000.

**Restriction on set-off of loss from House property [Section 71]**

It is proposed that the set-off of losses from house property against any other income shall be restricted upto INR 0.2 million for any assessment year.

## Tax rate for companies

| Types of companies | Income up to INR 10 million | | Above INR 10 million up to INR 100 million | | Above INR 100 million | |
|---|---|---|---|---|---|---|
| | Surcharge rate | Effective tax rate | Surcharge rate | Effective tax rate | Surcharge rate | Effective tax rate |
| Domestic with turnover not exceeding INR 500 million in FY 2015-16 | Nil (Nil) | 25.75% (30.90%) | 7% (7%) | 27.55% (33.06%) | 12% (12%) | 28.84% (34.61%) |
| New domestic manufacturing* | Nil (Nil) | 25.75% (25.75%) | 7% (7%) | 27.55% (27.55%) | 12% (12%) | 28.84% (28.84%) |
| Other domestic | Nil (Nil) | 30.90% (30.90%) | 7% (7%) | 33.06% (33.06%) | 12% (12%) | 34.61% (34.61%) |
| Foreign | (Nil (Nil) | 41.20% (41.20%) | 2% (2%) | 42.02% (42.02%) | 5% (5%) | 43.26% (43.26%) |

*Compliant with prescribed conditions under section 115BA

Note:

Education cess of 3% has been considered for determining the tax rates above

Figures in bracket represent existing tax rates

## MAT provisions proposed to be modified in line with Ind AS [Section 115JB]

Pursuant to applicability of Indian Accounting Standards [Ind AS] to specified companies from financial year 2016-17, the Minimum Alternate Tax [MAT] provisions are proposed to be amended retrospectively from assessment year 2017-18.

The broad framework for aligning Ind AS compliant financial statements with MAT which is computed on book profits is as under:

- Net profits before other comprehensive income [OCI] to be considered as the broad starting point for MAT
- Normal adjustments in computation of MAT as prescribed to be done
- Prescribed adjustments to be made in relation to demergers
- OCI items that will permanently be recorded in reserves (i.e. never be reclassified to statement of profit and loss) to be included in book profits for MAT as under:

| Items | Point of time of inclusion (annual) | Point of time of inclusion (transition) |
|---|---|---|
| Changes in revaluation surplus of assets | Realisation/disposal/ retirement/transfer | Realisation/disposal/ retirement/transfer |
| Gains and losses from investments in equity instruments designated at fair value through OCI | Realisation/disposal/ retirement/transfer | Realisation/disposal/ retirement transfer |
| Remeasurements of defined benefit plans | Every year, as the gains and losses arise | Equally over a period of five years starting from the year of first time adoption of Ind AS |
| Any other item | Every year, as the gains and losses arise | Equally over a period of five years starting from the year of first time adoption of Ind AS |

# Corporate Tax

- Adjustments on account of transitional provisions that are recorded in OCI and would subsequently be reclassified to the statement of profit and loss, would be included in book profits in the year of reclassification
- Transitional adjustments recorded in Reserves and Surplus, excluding Capital Reserve and Securities Premium Reserve, (i.e. never be reclassified to statement of profit and loss) to be included in book profits for MAT as under:

| Items | Point of time of inclusion (annual) |
|---|---|
| Assets at fair value as deemed cost | Revaluation impact and all corresponding adjustments to be ignored – appropriate adjustments to be made in year of retirement/ disposal/realisation/transfer |
| Investments in subsidiaries, JVs and associates at fair value as deemed cost | Realisation of investment |
| Cumulative translation differences | Disposal of foreign operations |
| Any other item | Equally over a period of five years starting from the year of first time adoption of Ind AS |

- It has been clarified in the Memorandum to the Finance Bill, 2017 that deferred tax adjustments recorded in Reserves and Surplus on account of transition to be ignored

**Computation of tax deduction for SEZ units [Section 10AA]**

Under the existing provisions of section 10AA, deduction is allowed, in respect of profits and gains of an SEZ unit, subject to fulfilment of certain conditions. In the context of section 10A (which contains similar provisions), Courts have taken a view that the deduction is to be allowed from the total income of the undertaking and not from the total income of the assessee.

It is proposed that, the amount of deduction under section 10AA be allowed from the total income of the assessee computed in accordance with the provisions of the Act, before giving effect to the provisions of section 10AA, and the deduction under section 10AA shall not exceed the said total income.

**No notional income for house property held as stock-in-trade [Section 23]**

In case of real estate developers, it is proposed that annual value of the house property (being building or land appurtenant thereto) or part of such property, held as stock-in-trade, shall be taken to be nil in case such property or part thereof is not let during the whole or any part of the previous year. This benefit is proposed to be available for a period up to one year from the end of the financial year in which the construction completion certificate for such property is obtained from the competent authority.

**Disallowance in relation to capital expenditure incurred in cash [section 43(1) and section 35AD]**

Currently, unlike provisions for disallowance of revenue expenditure incurred in cash, there is no specific provision for disallowance in relation to capital expenditure incurred in cash.

In order to discourage cash transactions for capital expenditure, it is proposed that any payment for acquisition of an asset, otherwise than by an account payee cheque drawn on a bank or account payee bank draft or use of electronic clearing system through a bank account, exceeding INR 10,000 to a person in a day, shall not be considered as part of the actual cost of the asset and consequently no depreciation will be available in relation to such asset. Moreover, such capital expenditure will also not be considered for any investment linked deduction, available for specified businesses, under section 35AD.

**Actual cost of asset in case of withdrawal of investment linked deduction [Section 43(1), Explanation 13]**

Currently, if any asset on which investment linked deduction under section 35AD is claimed and allowed, is used for a purpose other than specified business, then the benefit of deduction already granted under section 35AD is deemed to be the income of the assessee, net of normal depreciation as would be available on such asset. However, there is no clarity on determination of actual cost for the purposes of allowance of depreciation on such asset going forward.

It is therefore proposed that in case of such an asset, the actual cost shall be the actual cost to the assessee, as reduced by the depreciation calculated at appropriate rates, since the date of its acquisition.

**Increase in deduction limit in respect of provision for bad and doubtful debts [Section 36(1)(viia)]**

As per the existing provisions, specified Indian banks can claim deduction in respect of provision for bad and doubtful debts to the extent of 7.5% of the total income (computed before making any deduction of such amount and deductions under Chapter VIA) and an amount not exceeding 10% of the aggregate average advances made by the rural branches of such bank computed in the prescribed manner at the end of the previous year, subject to other prescribed conditions.

It is now proposed to enhance deduction of 7.5% to 8.5%. There is no change proposed in the other conditions.

**Disallowance in relation to revenue expenditure [Section 40A(3)]**

Under the existing provision of section 40A(3), any expenditure, in respect of which payment is made, otherwise than by an account payee cheque drawn on a bank or account payee bank draft, to a person in a day in excess of INR 20,000, is not allowed as deduction.

It is proposed to reduce the threshold of payment, made otherwise than by an account payee cheque drawn on a bank or account payee bank draft, to a person in a day to INR 10,000 for the purpose of disallowance of expenditure. It is further proposed to include use of electronic clearing system through a bank account as a permitted mode of payment.

Similarly, the threshold in section 40A(3A) is also reduced from INR 20,000 to INR 10,000.

**Extension of scope of sections 43B and 43D to co-operative banks**

Under the existing provisions of section 43D, interest income in relation to certain categories of bad or doubtful debts received by specified institutions or banks or corporations or companies, is chargeable to tax in the previous year in which it is credited to its profit and loss account for that year or actually received, whichever is earlier.

It is proposed to extend the above benefit to co-operative banks other than a primary agricultural credit society or a primary co-operative agricultural and rural development banks.

Moreover, it is also proposed to amend section 43B to include interest payment on any loan or advances from a co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank. Such interest will now be tax deductible to the borrower on payment basis.

**Rationalisation of provisions to promote affordable housing [Section 80-IBA]**

The existing provisions of section 80-IBA provide for 100% deduction in respect of profits and gains derived from developing and building certain housing projects, subject to specified conditions.

To promote the development of affordable housing, it is proposed to relax certain specified conditions as under:

| Existing condition | Proposed condition |
|---|---|
| Size of residential unit or shop or commercial establishment is measured by taking into account the "built-up-area" | Size of residential unit or shop or commercial establishment is proposed to be measured by taking into account the "carpet area" as defined in the Real Estate (Regulation and Development) Act, 2016 |
| For the projects located within the cities of Chennai, Delhi, Kolkata or Mumbai or within the distance of 25 kms (measured aerially) from the municipal limits of these cities, following conditions are prescribed:<br>• Minimum size of plot of land to be 1000 square metres;<br>• Maximum size of residential unit to be 30 square metres; and<br>• At least 90% utilization of permissible floor area ratio. | The said conditions are proposed to be restricted to the projects located within the cities of Chennai, Delhi, Kolkata or Mumbai only.<br>The benefit of 60 square metres, being the maximum size of residential unit, will now be available to the projects located within the distance of 25 kms (measured aerially) from the municipal limits of these cities. |
| Time period for completion of the project is three years | Time period for completion of the project is proposed to be extended to five years |

# Corporate Tax

**Taxation of dividend income [Section 115BBDA]**

Under the existing provisions of section 115BBDA, income by way of dividend in excess of INR 1 million is chargeable to tax at the rate of 10% on gross basis in case of a resident individual, HUF or firm.

It is proposed to extend the scope of this provision to all resident assessees, except domestic companies and specified funds, trusts, institutions.

**Income from transfer of carbon credits [Section 115BBG]**

Currently, there are no specific provisions in relation to taxability of income received or receivable on transfer of carbon credits.

It is proposed to insert a new provision to provide that any income from transfer of carbon credit, will be taxable at a concessional rate of 10% (plus applicable surcharge and cess). No expenditure or allowance in respect of such income shall be allowed under the Act.

**Carry forward of MAT credit and AMT credit [Section 115JAA and section 115JD]**

Currently, the tax credit for Minimum Alternate Tax ('MAT') and Alternate Minimum Tax ('AMT') can be carried forward and set off for a period of ten assessment years.

It is proposed that the tax credit for MAT and AMT can be carried forward for a period of fifteen assessment years.

It is further proposed to amend sections 115JAA and 115JD so as to provide that the amount of tax credit in respect of MAT/ AMT shall not be allowed to be carried forward to subsequent year to the extent such credit relates to the difference between the amount of foreign tax credit allowed against MAT/ AMT and foreign tax credit allowable against the tax computed under regular provisions of Act.

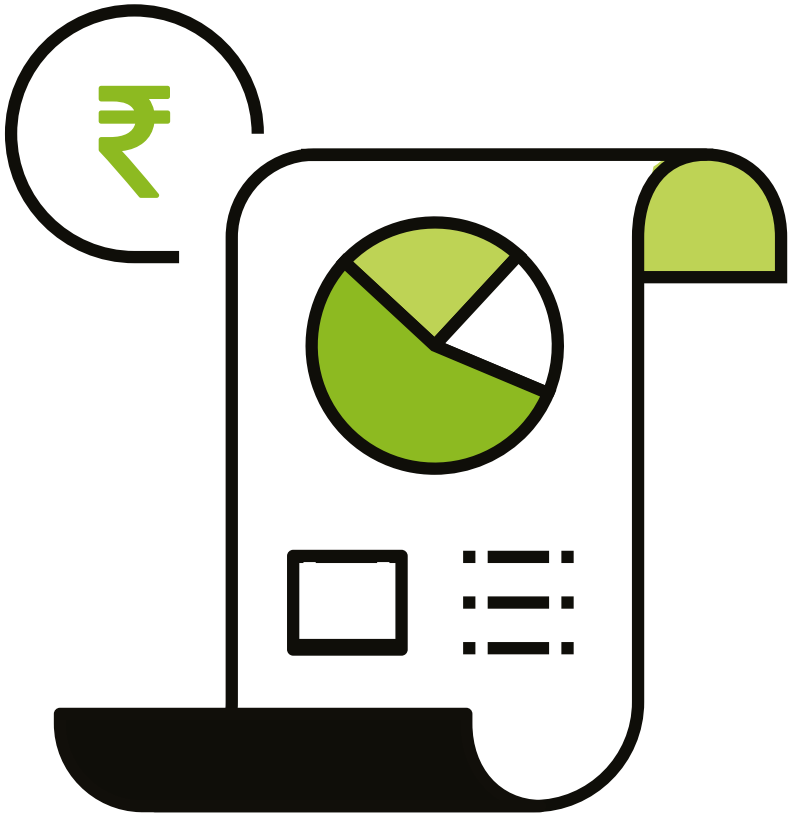
**Carry forward and set off of losses in case of eligible start-up [Section 79]**

- Currently, change in shareholding of more than 49% results in denial of benefit of carry forward and set off of losses.
- It is proposed to exclude a company which is an eligible start-up carrying on eligible business and which is not a company in which the public are substantially interested from section 79, 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:
  - continue to hold those share on the last day of such previous year; and
  - such loss has been incurred during the period of seven years beginning for the year in which such company is incorporated.

# Corporate Tax

**Extension of claim period for start-ups [Section 80IAC]**

- Currently, it is provided that an eligible start-up shall be allowed a deduction of an amount equal to one hundred per cent of the profits and gains derived from eligible business for three consecutive assessment years out of five years beginning from the year in which such eligible start-up is incorporated.
- It is proposed to provide that deduction can be claimed by an eligible start-up for any three consecutive assessment years out of seven years beginning from the year in which such eligible start-up is incorporated.



# Non-resident taxation

**Clarity on applicability of indirect transfer provisions [Section 9]**

- The indirect transfer provisions are proposed to be amended to clarify that they shall not apply to any asset or capital asset being investment held by non-resident, directly or indirectly, in a Foreign Institutional Investor registered as Category-I or Category II under the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014 made under the Securities and Exchange Board of India Act, 1992.
- The proposed amendment is clarificatory in nature and is applicable retrospectively with effect from assessment year 2012-13.

**Relaxation to eligible investment fund [Section 9A]**

- Currently, one of the prescribed conditions for availing benefit of section 9A is that monthly average of the corpus of the fund shall not be less than INR 1000 million except where the fund has been established or incorporated in the previous year.
- It is proposed to provide that in the previous year in which the fund is being wound up, the condition that the monthly average of the corpus of the fund shall not be less INR 1000 million shall not apply.
- The proposed amendment is applicable retrospectively with effect from assessment year 2016-17.

**Concessional tax rate on interest in certain cases [Section 194LC and Section 194LD]**

***ECB***

Currently, beneficial TDS rate of 5% is available on interest payable by an Indian company or a business trust to a non-resident in respect of the following borrowings in foreign currency from sources outside India:

(a) on or after 1 July 2012 but before 1 July 2017 under a loan agreement; or

(b) by way of issue of any long-term bond including long-term infrastructure bond on or after 1 October 2014 but before 1 July 2017.

It is proposed to extend the concessional TDS rate for aforesaid borrowings made before 1 July 2020.

***Rupee Denominated Bonds***

Concessional TDS rate of 5% will be also applicable to rupee denominated bonds issued outside India (commonly known as Masala Bonds) before 1 July 2020.

This amendment is proposed with retrospective effect from assessment year 2016-17.

***Certain bonds and Government securities***

Beneficial TDS rate of 5% on interest payable to FIIs and QFIs in respect of investments in rupee denominated bonds of an Indian company or Government securities is also proposed to be extended to interest payable before 1 July 2020.

# Non-resident taxation

**Clarification on interpretation of 'term' used in agreement [Section 90, Section 90A]**

It is proposed to clarify that where any 'term' used in any agreement entered into with foreign countries or specified association in the specified territories for double taxation relief, is defined under the agreement, such term shall be assigned the meaning as provided in the said agreement. It is further clarified that where such term is not defined in the said agreement, but defined in the Act, then it shall be assigned the meaning as defined in the Act and any explanation issued by the Central Government.

# Transfer Pricing

**Rationalization of transfer pricing regulations for domestic transaction [Section 92BA]**

- Definition of specified domestic transaction is proposed to be relaxed to exclude expenditure in respect of which payment has been made or to be made to the persons referred to in section 40A(2)(b).
- Hence, such transactions will not be subject to transfer pricing provisions which are applicable to the domestic transactions and this will reduce the compliance burden of the taxpayers.

**Introduction of secondary adjustment in transfer pricing regulations [Section 92CE]**

- To align the transfer pricing provisions with the OECD guidelines and international best practices, concept of secondary adjustment is proposed to be introduced. Thereby, the new law removes the imbalance between the actual profit allocation (consistent with the arm's length principle) vis-à-vis the cash account of the taxpayer.
- Taxpayer shall be required to carry out a secondary adjustment in case a primary adjustment to transfer price has been made:
  - By the taxpayer in its return of income (suo motu adjustment)
  - By the Assessing Officer and subsequently accepted by the taxpayer
  - Pursuant to an agreement reached in an Advance Pricing Agreement
  - In conformity to the margins/ rates prescribed by the Safe Harbour Rules
  - Pursuant to a Mutual Agreement Procedure resolution
- The excess money available with the associated enterprise consequent to the primary adjustment, if not repatriated to India within the prescribed time, shall be deemed to be an advance made by the taxpayer, requiring imputation of interest income.
- These provisions, however, would not apply in case
  - The amount of primary adjustment does not exceed INR 10 million; and
  - The primary adjustment is for transactions of financial year 2015-16 or before.

# Capital Gains

**Holding period in case of immovable property [Section 2(42A)]**

- Currently, in order to qualify as a long term capital asset, an immovable property being land or building or both is required to be held for a period of more than thirty six months.
- It is proposed to reduce the aforesaid period of holding to more than twenty four months.

**Computation of capital gains in case of joint development agreements and withholding tax obligation [Section 45(5A) and section 194-IC]**

- Capital gains is chargeable in the year in which transfer takes place. This results into hardship to the owner of the immovable property in case of joint development agreements.
- It is now proposed that the income from the said transaction will arise in the hands of the owner of immovable property (being an individual or Hindu undivided family) in the previous year in which certificate of completion is issued for whole or part of the project by the competent authority.
- It is further proposed that while computing capital gains in the hands of the owner, the aggregate of the stamp duty value of the owners share as on the date of issue of such certificate of completion and cash consideration, if any, received by him will be regarded as the full value of consideration received or accrued to him as a result of transfer of such capital asset.
- Consequentially, it is further proposed that in case the owner is liable to tax in the aforesaid manner, the full value of consideration will be available as cost in the hands of such owner.
- Further, the benefit of the proposed provision will not be available to owner of the immovable property who transfers his share in the project before date of issue of certificate of completion.
- It is also proposed that any person making payment of cash consideration referred above will be liable to withhold tax @ 10% at the time of crediting the amount to the account or making payment to the payee, whichever is earlier.

# Capital Gains

**Extension of capital gains exemption to Rupee Denominated Bonds [Section 47 and Section 48]**

- Currently, gains arising on account of appreciation of rupee against foreign currency at the time of redemption of Rupee Denominated Bond of an Indian company is to be excluded from full value of consideration only in those instances where the bonds were initially subscribed by the non-resident.
- It is proposed to extend the benefit even to those non-residents who are not the initial subscribers and have acquired such bonds subsequently.
- Further, with a view to facilitate transfer of Rupee Denominated Bonds issued by an Indian company outside India from a non-resident to another non-resident, it is also proposed that such transfer will not be regarded as a taxable transfer.

**Cost of acquisition in tax neutral demerger of a foreign company [Section 49(1)]**

- Currently, transfer of shares of an Indian company by a demerged foreign company to a resulting foreign company is not regarded as transfer.
- It is proposed to provide that cost of acquisition of the shares of Indian company in the hands of the resulting foreign company shall be the same as it was in the hands of demerged foreign company.

**Insertion of a new clause with respect to the period of holding and cost for units in a mutual fund scheme [Section 49(2AF)]**

- It is proposed, for the purpose of computing capital gains, period of holding as well as the cost of acquisition in respect of unit or units received on account of the consolidation of mutual fund scheme(s), there shall be included the period for which the unit(s) of consolidating mutual fund scheme(s) were held by assesse.
- Similarly, cost of acquisition in the consolidating mutual fund scheme(s) shall be deemed to be the cost of acquisition for consolidated mutual fund scheme(s).

**Tax neutral conversion of preference shares to equity shares [Section 49(2AE) and 47(xb)]**

- Currently, conversion of securities from one form to another is regarded as taxable transfer.
- Tax neutrality on conversion of bond or debenture into shares of a company is provided, however no neutrality is provided for conversion of preference share into equity share of that company.
- It is proposed that the conversion of preference share into equity share will not be regarded as a taxable transfer.
- Consequential amendments are also proposed in respect of cost of acquisition and period of holding

# Capital Gains

**Investment in long term bonds for long term capital gains [Section 54EC]**

- Currently, gains arising on transfer of a long-term capital asset shall be exempt to the extent of INR 5 million if the assessee invests the whole or any part of capital gains in certain specified bonds, within the specified time.
- At present, investment in bond issued by the National Highways Authority of India or by the Rural Electrification Corporation Limited is eligible for exemption under this section.
- It is now proposed to provide that investment in any bond, redeemable after three years which has been notified by the Central Government in this behalf, shall also be eligible for exemption.

**Shifting of base year for the purpose of computing capital gains [Section 55 and Section 48]**

- Currently, in computing capital gains arising on transfer of capital assets acquired before 01 April 1981, the assessee has been allowed an option to adopt the fair value of the property as on 01 April 1981 or actual cost as the cost of acquisition of such asset.
- However, practical challenges were faced by assessee due to non-availability of fair market value as on 01 April 1981. Accordingly, it is proposed to shift this base year from 01 April 1981 to 01 April 2001 thereby allowing the assessee to substitute fair market value of the capital asset as on 01 April 2001 as the cost of acquisition.
- Consequentially, the provisions governing the cost of acquisition and cost of improvement are also proposed to be amended.

**Retrospective amendment to extend the concessional rate for long term capital gains [Section 112(1)(c)]**

- Finance Act 2016 provided for concessional rate of taxation of 10% for long-term capital gains arising from the transfer of shares of a company, other than the company in which public are substantially interested to non-residents, with effect from 01 April 2017.
- However, the said concessional rate of 10% was initially provided by Finance Act 2012 with effect from 01 April 2013. Accordingly, there was an uncertainty about the applicability of the concessional rate for transfer made during the intervening period (i.e. 01 April 2012 to 31 March 2016).
- In order to provide the benefit of concessional rate of 10% to non-residents on transfer made after 01 April 2012, it is proposed to retrospectively amend the Finance Act 2016.

# Capital Gains

**Tax incentive for the development of Amaravati, Andhra Pradesh [Section 10(37A)]**

- A new provision is proposed to be inserted to provide exemption from the capital gains arising on transfer, pursuant to land pooling scheme, by an individual(s) or a Hindu undivided family, who was the owner of certain specified capital asset as on 02 June 2014.

# Anti-Abuse Provisions

**Extension of anti-abuse provisions to tax receipt of sum of money or property without consideration or for inadequate consideration [Section – 56(2)(x)]**

- Currently, anti-abuse provisions to tax receipt of sum of money or immovable property or specified movable property without consideration or for inadequate consideration, where the value of such receipt exceeds INR 50,000, as income from other sources are attracted only in instances where the recipients are individuals or Hindu undivided family.
- Further, these anti-abuse provisions also provide for taxability of receipt of shares of a closely held companies by firm or a company without consideration or for inadequate consideration, where the fair market value of shares exceeds INR 50,000.
- It is now proposed to extend the aforesaid anti-abuse provisions to all the categories of assesses. However, in this regard, certain exceptions have also been specifically provided.
- Consequentially, it is further proposed that once the recipient is liable to tax in the aforesaid manner, the value which has been subjected to tax will be available as cost in the hands of such recipient.

# Anti-Abuse Provisions

**Limitation of interest deduction in certain cases [Section 94B]**

In line with the recommendations of OECD's BEPS Action Plan 4, it is proposed to restrict the deduction of excess interest claimed by an entity on debt from its associated enterprise.

Salient features of these provisions are as follows:

| | |
|---|---|
| Applicable to | Interest or similar consideration payable by an Indian company or a permanent establishment of a foreign company in India in respect of any debt:<br>(a) issued by a non-resident associated enterprise; or<br>(b) where associated enterprise<br>• provides an implicit or explicit guarantee to the lender; or<br>• deposits a corresponding and matching amount of funds with the lender.<br>and<br>interest or similar consideration exceeds INR 10 million. |
| Interest expense claim restricted to | (a) 30% of earnings before interest, taxes, depreciation and amortization (EBITDA) in the previous year; or<br>(b) interest paid or payable to the associated enterprise for that previous year, whichever is less. |
| Carry forward of interest disallowed | • Upto eight assessment years immediately succeeding the assessment year for which the disallowance was first made; and<br>• Allowed as deduction against income from business to the extent of interest restriction specified above. |
| Exclusions | Business of banking and insurance. |
| Relevant definitions | (a) Debt – it means any loan, financial instrument, finance lease, financial derivative, or any arrangement that gives rise to interest, discounts or other finance charges that are deductible in the computation of income chargeable under the head profits and gains of business or profession.<br><br>(b) Permanent establishment - it includes a fixed place of business through which the business of the enterprise is wholly or partly carried on. |

# Anti-Abuse Provisions

**No exemption for Long term capital gain of listed equity shares [Section 10(38)]**

- Currently, income arising from transfer of a long term capital asset, being equity shares of a company or a unit of an equity oriented fund is exempt from tax if the transaction of sale is undertaken on or after 01 October 2004 and is chargeable to securities transaction tax.
- It is proposed that the aforesaid exemption will be available to equity shares acquired on or after 01 October 2004 only if on such acquisition securities transaction tax was chargeable.
- Certain exceptions in this regard such as acquisition of shares in IPO, FPO, bonus, right issue, etc., for which condition of chargeability of securities transaction tax on acquisition is not applicable, would be notified.

**Consideration for transfer of shares other than quoted shares [Section 50CA]**

- Currently, income chargeable under the head "Capital gains" is computed by taking into account the amount of full value of consideration received or accrued on transfer of a capital asset. To ensure that the full value of consideration is not understated, there are certain provisions for deeming full value of consideration such as stamp duty value as full value of consideration for transfer of immovable property.
- It is proposed to insert a new section to provide that where consideration for transfer of share of a company (other than quoted share) is less than the fair market value of such share determined in accordance with the prescribed manner, the fair market value shall be deemed to be the full value of consideration under the head "Capital gains".

# Withholding Requirements

**TDS on payments to call center [Section 194J]**

Section 194J provides for TDS @ 10% on payments to a resident towards fees for professional or technical services.

It is proposed that TDS @ 2% will apply in respect of payments to persons engaged only in the business of operation of call center.

**No TDS on compensation received under RFCTLAAR Act, 2013 [Section 194LA]**

Currently, tax is deducted @ 10% on the compensation on account of compulsory acquisition of any immovable property (other than agricultural land).

It is proposed that no tax will be deducted on payments in respect of any award or agreement exempt under section 96 of RFCTLAAR Act, 2013 subject to limitations in section 46 of the said Act.

**Self-declaration for no TDS on insurance commission [Section 197A]**

Currently, section 197A permits nil TDS if recipient of certain payments furnishes a self-declaration in Form 15G / 15H. However, payments towards insurance commission beyond threshold limit as specified is not covered under this section.

It is proposed to extend the benefit of nil TDS on the insurance commission as well, if the recipient furnishes such self-declaration.

### Claim of credit for foreign tax paid in cases of dispute [Section 155(14A)]

It is proposed that where the 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 tax officer shall rectify the assessment order or an intimation, if the taxpayer within six months from the end of the month in which the dispute is settled furnishes the following documents:

- proof of settlement of such dispute;
- evidence that the foreign tax liability has been discharged; and
- an undertaking that credit of such foreign tax paid has not been directly or indirectly claimed or shall not be claimed for any other assessment year.

### Time limit for filing revised return [Section 139]

Currently, a return of income can be revised before the expiry of one year from the end of the relevant assessment year or before the completion of assessment, whichever is earlier.

It is proposed that the time limit for furnishing the revised return will be available only upto the end of the relevant assessment year or before the completion of assessment, whichever is earlier.

### Fee for late filing of return [Sections 140A, Section 234F and Section 271F]

It is proposed to levy a fee where the return is not filed within the due date as prescribed. The proposed fee structure is as under:

| Total Income (in INR) | Date of filing return of income | Fees (in INR) |
|---|---|---|
| Upto 0.5 million | Any time after the due date | 0.001 million |
| Above 0.5 million | On or before 31 December of the assessment year | 0.005 million |
| | On or after 1 January of the assessment year | 0.01 million |

The above fee will be payable before furnishing the return. Further, consequent to the insertion of said section, penalty for failure to furnish return of income will be omitted.

## Amended timelines for assessment, reassessment and re-computation [Sections 153 and 245A]

| Proceedings | Existing TimeLines | Proposed Time Lines |
|---|---|---|
| Assessment / Best judgment assessment | Twenty one months from end of the assessment year | **Assessment Year 2018-19**<br>Eighteen months from the end of the assessment year<br>**Assessment Year 2019-20**<br>Twelve months from the end of the assessment year |
| Re-assessment | Nine months from end of financial year in which notice is served | Within twelve months from the end of the financial year, if notice is served on or after 1 April 2019 |
| Fresh assessment in pursuance of order by ITAT / order under section 263 / 264 (i.e. orders which are prejudicial to the interest of revenue / assessee) | Nine months from the end of financial year in which order of ITAT is received or order under section 263 / 264 is passed by the prescribed authority | Within twelve months from the end of the financial year in which order is received / passed by the prescribed authority in respect of order passed or received on or after 1 April 2019 |
| Effect to CIT/ITAT order or 263 / 264 order which requires verification of any issue by way of submission of any document or where opportunity of being heard is to be provided | | Within twelve months from end of the financial year in which order is received or passed. This timeline will be effective retrospectively from 1 June 2016 |
| Notice for assessment or re-assessment issued prior to 1 June 2016 and assessment or re-assessment not completed by 1 June 2016 | | Two years from end of assessment year in case of scrutiny assessment<br>One year from end of financial year in which notice under section 148 is served in case of re-assessment<br>This timeline will be effective retrospectively from 1 June 2016 |
| Proceedings for settlement of cases to commence from | From the date on which return of income is furnished or in response to notice under section 142 and concluded on the date on which assessment is made; or on the expiry of two years from the end of the relevant assessment year, in case where no assessment is made | In case of time limit of two years it is now proposed that time limit as applicable for assessment / best judgment assessment will be applicable. |

# Procedural

**Restriction on cash transactions [Sections 206C, Section 269ST and Section 271DA]**

Receipt of an amount in excess of INR 0.3 million otherwise than by an account payee cheque or account payee bank draft or use of electronic clearing system through a bank account is not permitted in the following cases:

- received from one person in a single day;
- received in respect of a single transaction; or
- received in respect of transactions relating to one event or occasion from a person

The above restriction will not apply to the amount received from Government or any banking company, post office savings bank or a co-operative bank, transactions referred to in section 269SS or transactions as may be notified.

If the person receives any sum in contravention of the above provision, then penalty of 100% of the amount received will be levied. Penalty will not be imposed if there were good and sufficient reasons for contravention.

Consequent to the aforesaid provision, TCS @ 1% of sale consideration on cash sale of jewellery exceeding INR 0.5 million is proposed to be omitted.

It is further proposed that in respect of sale of a motor vehicle exceeding INR 1 million, TCS @ 1% of the sale consideration may not be required to be collected if the buyer is a Government, an Embassy, a High Commission, legation, commission, consulate and the trade representation of a foreign state, local authority, public sector company engaged in the business of carrying passengers.

**Amendments to the structure of AAR [Section 245N]**

With a view to promote ease of doing business, it is proposed to merge the AAR for income-tax, central excise, customs duty and service tax. It is further proposed that,

- a former Chief Justice of a High Court, or a person who has been a High Court Judge for at least seven years shall also be eligible to be Chairman of the AAR;
- if the Chairman is unable to discharge his functions owing to absence, illness or any other reason, or in the event that the office of the Chairman falls vacant, the senior-most Vice-chairman shall discharge the functions of the Chairman until the new Chairman enters upon his office or until the incumbent Chairman resumes his duties.

This amendment is proposed with retrospective effect from 1 April 2017.

# Procedural

**Clarification of 'person responsible for paying' [Section 204]**

It is clarified that for furnishing of information under section 195(6) relating to payment of any sum to a non-resident, whether or not chargeable under the provisions of the Act, the person responsible for paying shall be the payer himself or in case of a company, the company itself including the principal officer thereof.

This amendment is proposed with retrospective effect from 1 April 2017.

**Interest on refunds to deductor [Section 244A]**

It is proposed to grant interest on refund to the deductor @ 0.5% per month or part of a month from the date on which claim for refund is made till the date on which refund is granted. If refund is granted on giving effect to the appellate orders, interest will be granted from the date of payment of tax till the date on which refund is granted.

Interest will not be granted if the delay in the proceedings resulting in the refund is attributable to the deductor.

**Withholding of refund [Section 241A]**

It is proposed to insert a new section which authorizes the AO to withhold refund due to the assessee upto the date on which the assessment is made, if notice is issued and he is of the opinion that grant of refund may adversely affect the revenue. However, the AO will be required to record reasons in writing and obtain prior approval of the Principal Commissioner or Commissioner for the same.

The above provision will apply from assessment year 2017-18

# Miscellaneous

**Disallowance for non-deduction of tax from payment to resident [Section 58]**

With a view to improve compliance of provision relating to TDS, it is proposed that 30% of any sum payable to a resident, on which tax is deductible at source and such tax has not been deducted or after deduction has not been paid within the specified time, shall not be allowed as deduction while computing income from other sources.

**Transparency in electoral funding [Section 13A]**

In order to discourage the cash transactions and to bring transparency in the source of funding to political parties, the following additional conditions are proposed for availing the benefit of the said section:

i) No donations of INR 0.002 million or more is 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,

ii) Political party furnishes a return of income for the previous year in accordance with the provisions of sub-section (4B) of section 139 on or before the due date under section 139.

Further, in order to address the concern of anonymity of the donors, it is proposed to amend the said section to provide that the political parties shall not be required to furnish the name and address of the donors who contribute by way of electoral bond

**Restriction on exemption in case of corpus donation by exempt entities [Section 11 and Section 10(23C)]**

Currently, voluntary contributions made by a trust to any other trust or institution, except those made out of accumulated income, is considered as application of income.

It is proposed that any amount credited or paid by a trust or institution, being contributions with specific direction that they shall form part of the corpus of another trust or institution shall not be treated as application of income in the hands of the donee trust or institution.

# Miscellaneous

**Modifications of object clause of entities registered under section 12AA [Section 12A]**

It is proposed that where a registered trust or an institution has adopted or undertaken modifications of the objects which do not confirm to the conditions of registration, the said trust or institution is required to obtain fresh registration by making an application within thirty days from the date of such adoption or modifications of the objects.

It is further clarified that the said trust or institution is required to file their return of income within the due date as prescribed for filing the return of income.

# Indirect Tax

- Customs Duty
- Central Excise
- Service Tax
- Advance Ruling under Customs, Central Excise and Service tax
- Goods and Services Tax

# Customs Duty

## Import Duty

### Rate Changes

- Peak rate of BCD maintained at 10%
- Education cess and secondary and higher education cess continue to be levied on Customs duty

### Change in effective rate of duty

Some of the goods on which BCD is reduced:

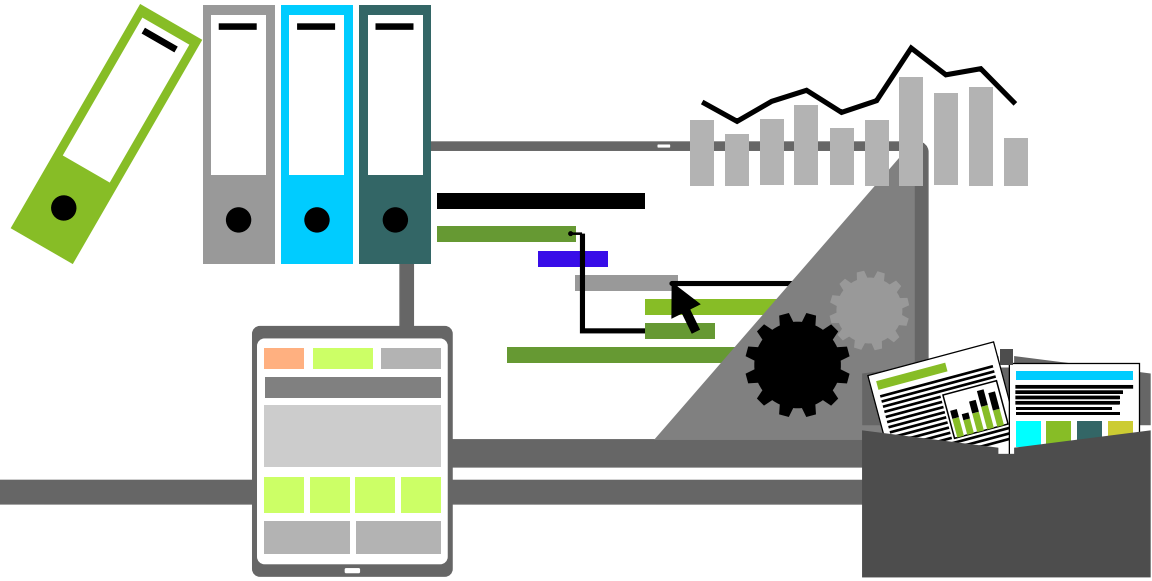
| Description of Goods | Upto 1 February 2017 | From 2 February 2017 |
|---|---|---|
| Liquefied natural gas | 5% | 2.5% |
| 2-Ethyl Anthraquinone,for use in manufacture of Hydrogen Peroxide | 7.5% | 2.5% |
| Catalyst for use in manufacture of cast components of Wind Operated Electricity Generator | 7.5% | 5% |
| Resin for use in manufacture of cast components of Wind Operated Electricity Generator | 7.5% | 5% |
| Monofilament yarn | 7.5% | 5%* |
| Solar tempered glass or solar tempered (anti-reflective coated) glass for use in manufacture of solar cells/panels/modules | 5% | Nil |
| i. Micro ATMs as per standard version 1.5.1<br>ii. Fingerprint reader / scanner<br>iii. Iris scanner<br>iv. Miniaturised POS card reader for mPOS (other than Mobile phone or Tablet Computer)<br>Parts and components for use in the manufacture of goods mentioned at (i) to (iv) above | Applicable Duty | Nil |
| All parts for use in manufacture of LED lights or fixtures including LED Lamps | Applicable Duty | 5% |
| All inputs for use in manufacture of LED driver or Metal Core Printed Circuit Board for LED lights and fixtures or LED Lamps | Applicable Duty | 5% |
| All items of machinery, including, instruments, apparatus and appliances, transmission equipment and auxiliary equipment (including those required for testing and quality control) and components, required for:<br>(a) initial setting up of fuel cell based system for generation of power or for demonstration purposes; or<br>(b) balance of systems operating on bio-gas or bio-methane or by-product hydrogen | 10% / 7.5% | 5% |

* Subject to prescribed conditions

# Customs Duty

**BCD increased on following goods:**

| Description of Goods | Upto 1 February 2017 | From 2 February 2017 |
|---|---|---|
| Anthraquinone not used in manufacture of Hydrogen Peroxide | 2.5% | 10% |
| Co-polymer coated MS tapes / stainless steel tapes for manufacture of specified telecommunication grade optical fibres or optical fibre cables, subject to actual user condition | Nil | 10% |
| Cashew nut, roasted, salted or roasted and salted | 30% | 45% |
| RO membrane element for household type filters | 7.50% | 10% |



# Customs Duty

**CVD decreased on following goods:**

| Description of Goods | Upto 1 February 2017 | From 2 February 2017 to 30 June 2017 |
|---|---|---|
| i. Micro ATMs as per standard version 1.5.1<br>ii. Fingerprint reader / scanner<br>iii. Iris scanner<br>iv. Miniaturised POS card reader for mPOS (other than Mobile phone or Tablet Computer) Parts and components for use in the manufacture of the goods mentioned at (i) to (iv) above | Applicable Duty | Nil |
| All parts for use in the manufacture of LED lights or fixtures including LED Lamps | Applicable Duty | 6% |
| All items of machinery, including, instruments, apparatus and appliances, transmission equipment and auxiliary equipment (including those required for testing and quality control) and components, required for:<br>(a) initial setting up of fuel cell based system for generation of power or for demonstration purposes; or<br>(b) balance of systems operating on bio-gas or bio-methane or by-product hydrogen, | 12.5% | 6% |
| Parts/raw material for use in the manufacture of solar tempered glass, for use in<br>(a) solar photovoltaic cells or modules;<br>(b) solar power generating equipment or systems,<br>(c) flat plate solar collectors, or<br>(d) solar photovoltaic module and panel for water pumping and other applications | 12.5% | 6% |
| Membrane Sheet and Tricot / Spacer for use in the manufacture of RO membrane element for household type filters, subject to actual user condition | 12.5% | 6% |
| Catalyst for use in the manufacture of cast components of Wind Operated Electricity Generator | 12.5% | Nil |

# Customs Duty

## CVD increased on following goods:

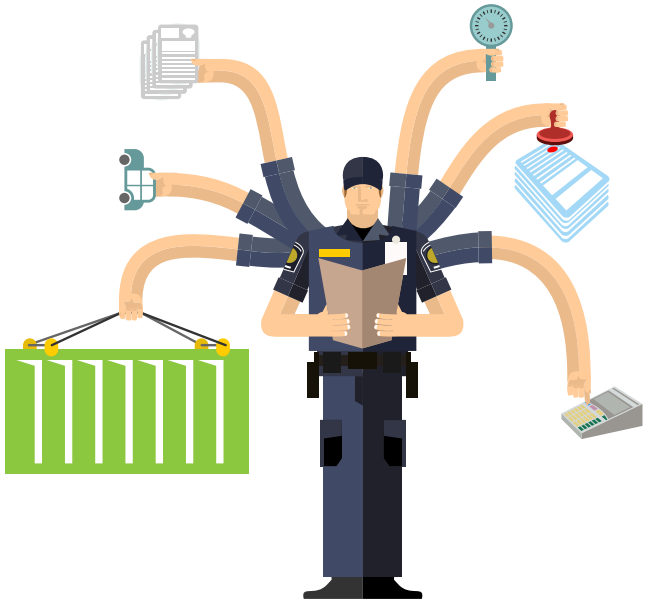
| Description of Goods | Upto 1 February 2017 | From 2 February 2017 |
|---|---|---|
| Medallions and silver coins having silver content not below 99.9% or semi-manufactured forms of silver falling under sub-heading 7106 92 | Nil | 12.5% |

## SAD decreased on following goods:

| Description of Goods | Upto 1 February 2017 | From 2 February 2017 |
|---|---|---|
| Catalyst for use in manufacture of cast components of Wind Operated Electricity Generator | 4% | Nil (upto 30 June 2017) |
| Resin for use in manufacture of cast components of Wind Operated Electricity Generator | 4% | Nil (upto 30 June 2017) |
| i. Micro ATMs as per standard version 1.5.1<br>ii. Fingerprint reader / scanner<br>iii. Iris scanner<br>iv. Miniaturised POS card reader for mPOS (other than Mobile phone or Tablet Computer)<br>Parts and components for use in the manufacture of the goods mentioned at (i) to (iv) above | Applicable Duty | Nil |

## SAD increased on following goods:

| Description of Goods | Upto 1 February 2017 | From 2 February 2017 |
|---|---|---|
| Populated Printed Circuit Boards for use in the manufacture of mobile phones : | Nil | 2% (upto 30 June 2017) |



# Customs Duty

## Export Duty

**Export duty levied on following goods:**

| Description of Goods | Upto 1 February 2017 | From 2 February 2017 |
|---|---|---|
| Other aluminium ores including laterite | Not Applicable | 15% |

**Miscellaneous Changes**

Following changes shall be effective from 2 February 2017

- Goods imported through postal parcels, packets and letters exempt from customs duty where their CIF value is upto INR 1,000.
- Total value of goods allowed to be imported duty free has been increased from 3% to 5% of the FOB value of leather footwear or synthetic footwear or other leather products, exported during the preceding financial-year in respect of import of specified items such as buckles, shoe laces, adhesives, sewing thread, etc.
- Goods imported against EC for petroleum and coal bed methane operations can be disposed of on payment of duty on depreciated value of goods not less than 30% of original value and furnishing certificate obtained from DGH that such goods are not required for petroleum operations. Further, the given exemption is also extended to domestically manufactured goods supplied against ICB.
- All dutiable articles intended for personal use, except motor vehicle, alcoholic beverages, tobacco and manufactured products can be imported. Restriction on import through courier service withdrawn.

**Changes in Customs Act, 1962**

Following changes will be effective from the date of enactment of the Finance Bill 2017

**Definitions**

- Concept of 'beneficial owner' introduced to cover any person on whose behalf goods are imported or exported or who exercises effective control over imported or exported goods
- Definition of 'exporter' and 'importer' amended to include 'beneficial owner'
- Customs station to include international courier terminal and foreign post office in addition to existing customs port, customs airport or land customs station
- Definition of 'entry' excludes goods imported or exported by post
- Foreign post office means any post office appointed by Board by notification in Official Gazette

# Customs Duty

- Concept of 'passenger name record information' introduced to mean records prepared by an operator of any aircraft or vessel or vehicle or his authorized agent for each journey booked by or on behalf of any passenger

### Refund of Excess Duty

- Refund of excess duty paid to be granted without passing test of unjust enrichment where duty paid is before passing the order for clearance, based on:
  - Evidence of excess duty paid in the self-assessed bill of entry;
  - Actual duty paid in case of re-assessed bill of entry

## Others

### Time limit for presentation of BOE and payment of Customs Duty

| Particulars | Prior to Budget 2017 | From enactment of Finance Bill, 2017 |
|---|---|---|
| Presentation of BOE | No time limit was prescribed | To be presented by end of the next working day |
| Payment of customs duty | Within two days from the date on which BOE is returned | **i. Self-assessment**: On the date of presentation of BOE<br>**ii. Assessment / Provisional / Re-assessment**: Within one working day from the date on which the BOE is returned to importer |

- Person in charge of conveyance of imported or exported goods to also declare passenger and crew arrival / departure manifest within the prescribed time limit; any delay to attract penal charges upto INR 50,000
- Dutiable goods may be stored in public warehouse upto maximum thirty days without following warehousing procedures
- Co noticee also permitted to make application before the Settlement Commission subject to prescribed conditions
- The Settlement Commission empowered to amend the order to rectify any apparent error within three months from the date of passing of such order.

### Changes in Customs Tariff Act, 1975

- Countervailing duty on subsidized articles was not applicable where subsidy pertained to:
  - Research activities;
  - Assistance to disadvantaged regions within territory of export country; or
  - Adaption of existing facility to new environmental requirements.

The aforesaid benefit stands withdrawn

# Central Excise

**Changes in the Central Excise Act, 1944**

The following changes will be effective from the date of enactment of the Finance Bill 2017:

Settlement Commission

- Settlement Commission empowered to amend the order to rectify any apparent error within three months from the date of passing of such order
- Co-noticee also permitted to make application before the Settlement Commission subject to prescribed conditions

**Change in Central Excise Rules, 2002**

- With effect from 2 February 2017, order for remission of duty shall be passed within three months from the date of receipt of application by Central Excise authority

**Changes in CENVAT Credit Rules, 2004**

The following changes will be effective from 2 February 2017:

- Banking companies and financial institutions including non-banking financial companies are required to include value of services by way of extending deposits, loans or advances for computation of ineligible CENVAT credit under Rule 6 of CCR, 2004
- Transfer of CENVAT credit to be allowed within three months from the date of receipt of application by the respective authority in the event of change in ownership or shifting of factory

**Changes in Central Excise Tariff Act, 1985**

- Peak rate of excise duty remains unchanged at 12.5%

**Increase in effective rate of excise duty on key products:**

| Tariff description | Effective rate upto 1 February 2017 | Effective rate from 2 February 2017 till 30 June 2017 |
|---|---|---|
| Solar tempered glass for use in manufacture of solar photovoltaic cells or modules and specified solar related products | NIL | 6% |

# Central Excise

**Decrease in effective rate of excise duty on key products:**

| Tariff description | Effective rate upto 1 February 2017 | Effective rate from 2 February 2017 till 30 June 2017 |
|---|---|---|
| Catalyst and resin for use in manufacture of cast components of Wind Operated Electricity Generator | 12.5% | NIL |
| Micro ATMs, Finger print reader/ scanner, Iris scanner, Miniaturised POS Card reader for mPOS and parts and components for use in the manufacture of such goods | Applicable Duty | NIL |
| Machinery for initial setting up of fuel cell based system for generation of power or for demonstration purposes and balance of systems operating on bio-gas or bio-methane or by-product hydrogen | 12.5% | 6% |
| Parts for use in the manufacture of LED lights or fixtures including LED lamps | Applicable Duty | 6% |
| Parts or raw material of Solar tempered glass for use in manufacture of solar photovoltaic cells or modules, solar power generation equipment and specified solar related products | 12.5% | 6% |
| Membrane Sheet and Tricot/ spacer for use in the manufacture of Reverse Osmosis (RO) membrane for household type filters | 12.5% | 6% |

# Central Excise

**Miscellaneous changes**

- Exemption on Point of Sale devices and goods used in manufacture thereof has been extended till 30 June 2017
- Following change shall be effective from the date of enactment of the Finance Bill 2017:
  - Tariff rate on certain specified electrically operated motor vehicles for transport of more than thirteen persons will be reduced from 27% to 12.5% retrospectively from 1 January 2017
- Duty structure applicable to pan masala and tobacco related products amended with effect from 2 February 2017
- Presently, unless specifically provided, no exemption under any notification applies to excisable goods which are produced or manufactured by an EOU and cleared to DTA. However, it has been clarified that non-applicability of exemptions is only in respect of excisable goods produced or manufactured by an EOU and cleared to DTA and not in respect of inputs/ raw materials procured by EOU domestically and utilized for production/ manufacture of goods which are cleared by EOU to DTA.
- Benefit of exemption on waste and scrap arising out of manufacture of precious metal, silver, silver jewellery and silver coins has been subjected to the condition of non-availment of CENVAT credit on input, input services and capital goods.

# Service Tax

There is no change in the Service Tax rate. There is also no change in the rate of Swachh Bharat Cess and Krishi Kalyan Cess.

**Changes in Negative list**

The following change will be effective from the date of enactment of the Finance Bill 2017:

- Services by way of carrying out any process amounting to manufacture or production of goods excluding alcoholic liquor for human consumption are omitted and inserted in the mega exemption notification

**Changes in exemptions**

The following changes will be effective from 2 February 2017:

- Exemption for services provided by the Indian Institute of Management to their residential students undergoing two year full time Post Graduate Programmes in Management for the Post Graduate Diploma in Management, to which admissions are made on the basis of CAT, has also been extended to other than residential students
- Exemption from Service Tax is being provided in respect of the amount of viability gap funding payable to the selected airline operator for service of transport of passengers by air, embarking from or terminating in RCS airports. This exemption is for a period of one year from the date of commencement of operations of RCS airports as notified by Ministry of Civil Aviation
- Services provided by the Army, Naval and Air Force Group Insurance Funds by way of life insurance to members of the Army, Navy and Air Force respectively under the Group Insurance Schemes of the Central Government are exempted

# Service Tax

The following changes will be effective from the date of enactment of the Finance Bill 2017:

- The words 'not amounting to manufacture or production' have been inserted to bring clarity on exemption granted for services by way of carrying out specified intermediate production process as job work
- Services provided by the Army, Naval and Air Force Group Insurance Funds by way of life insurance to members of the Army, Navy and Air Force respectively under the Group Insurance Schemes of the Central Government are exempted retrospectively with effect from 10 September 2004
- Retrospective exemption has been provided with effect from 1 June 2007 in respect of services provided by a State government industrial development corporation or undertaking to industrial units by way of grant of long term lease of thirty years or more of industrial plots. This exemption is applicable on one time upfront amount collected

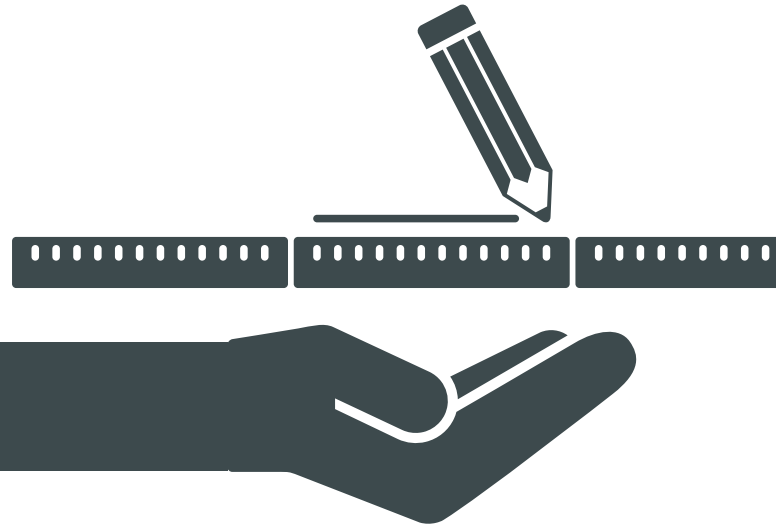
**Changes in Valuation Rules**

The following change will be effective from the date of enactment of the Finance Bill 2017:

- For works contract services, service tax would be payable at normal rate if the value of land or undivided share of land is not included. In case the value of land or undivided share of land is included in the total contract value, service tax would be payable at reduced value as provided from 1 July 2010

# Advance Ruling under Customs, Central Excise and Service tax

- AAR under Income-tax Act, 1961 to henceforth adjudicate Customs, Central Excise and Service tax advance ruling matters
- Pending applications before the AAR (Central Excise, Customs and Service Tax) to be transferred to AAR under Income-tax Act, 1961
- Application fee increased from INR 2,500 to INR 10,000
- The time-limit for pronouncement of ruling increased from ninety days to six months



# Goods and Services Tax

- Hon'ble Finance Minister emphasized that post the enactment of the Constitution (One Hundred and First Amendment) Act, 2016, the preparatory work for this path-breaking reform has been a top priority for the Government
- Hon'ble Finance Minister has also informed that the GST Council has finalized its recommendations on almost all the issues based on consensus, debate and discussions. The preparation of IT system for GST is also on schedule and extensive reach-out efforts will start from 1 April 2017, to create awareness about the new taxation system (GST) within the trade and industry

# Regulatory Landscape

- New rules of the game for corporate restructuring, amalgamation etc. under NCLT
- Real Estate (Regulation and Development) Act, 2016
- Insolvency and Bankruptcy Code 2016
- Foreign Direct Investment

# New rules of the game for corporate restructuring, amalgamation etc. under NCLT

Government of India has recently notified provisions of the Companies Act, 2013 (the 2013 Act) relating to merger, amalgamation, winding-up etc., which will now be exercised by National Company Law Tribunal (NCLT), a quasi-judicial authority. NCLT is envisioned as a fast track dedicated quasi-judicial forum for handling matters arising under the 2013 Act, Insolvency and Bankruptcy Code 2016 and other legislations.

Persons who can represent a case before NCLT now includes professionals like Chartered Accountants, Company Secretaries and Cost and Management Accountants in addition to legal practitioners.

11 benches of NCLT have been constituted which will have jurisdiction over various States / Union Territories of India.

**Illustrative matters requiring NCLT approval**

- Scheme of arrangement, merger, demerger
- Reduction of capital including securities premium
- Conversion of public company into private company
- Re-opening of books of account and recasting of financial statements
- Consolidation or division of share capital resulting in change in voting percentage of shareholders
- Change in financial year of company (other than April-March)
- Voluntary revision of financial statements or Board's Report
- Compounding of offences
- Approval of revival plan of delinquent corporate debtor
- Winding-up of companies / LLPs

# New rules of the game for corporate restructuring, amalgamation etc. under NCLT

**Highlights of changes having implications on corporate restructuring such as amalgamation, de-merger etc.**

- Certificate from statutory auditor to be filed with NCLT that the accounting treatment in the Scheme is in accordance with Accounting Standards;
- Valuation to be done by a registered valuer. Till registered valuer provisions are notified, valuation by independent merchant banker registered with SEBI or independent practicing chartered accountant having minimum experience of 10 years
- Joint application for sanction of the Scheme can be filed
- Meeting of creditors may be dispensed with if 90% in value agree and confirm to the Scheme through an affidavit
- Purchase of equity shares of minority shareholders by 90% shareholder (acquirer and person acting in concert or any person or group of persons)
- Notice of shareholders' / creditors' meeting should also be filed with Income tax authorities, RBI, SEBI, CCI, stock exchanges and other sectoral regulators/ authorities which are likely to be affected.
- Objection to the scheme can be made only by persons holding at least 10% of shareholding or having outstanding debt of at least 5% of total debt

NCLT is expected to ease the burden on the judiciary and speed-up the process relating to reorganization of companies.

# Real Estate (Regulation and Development) Act, 2016

Ministry of Law and Justice has notified the Real Estate (Regulation and Development) Act, 2016 ('RERA') which has come into force effective 1 May 2016.

RERA aims at ensuring efficiency and transparency in the real estate sector, protecting consumer interest by promoting fair play in the sector and encourages timely delivery of projects. RERA envisages achieving the said objectives by:

- Establishing the Real Estate Regulatory Authority (Authority) for regulation and promotion of the real estate sector:
  - Registration of the real estate project and
  - Registration of the real estate agents
- Ensuring sale of plot, apartment or building in an efficient and transparent manner and to protect the interest of consumers in the real estate sector
- Establishing the Real Estate Appellate Tribunal

**Prior registration of real estate projects**

All real estate projects need to be registered with the RERA before the Promoter advertise, market, book, sell or offer for sale, or invite persons to purchase in any manner any real estate project, or part of it, in any planning area except if :

- The area of land proposed to be developed is <= 500 Sq. m
- The number of apartments proposed to be developed <= 8
- The Promoter has received completion certificate for a real estate project prior to commencement of RERA
- The project is only for the purpose of renovation / repair / re-development which does not involve re-allotment and marketing, advertising, selling or new allotment of any apartments, plot or building in the real estate project.

Further, each 'Phase' is to be treated as standalone real estate project requiring fresh registration.

**On-going real estate projects - Registration requirements**

- Projects completed with the completion certificate issued as on the date of commencement of RERA - Does not require any registration with the RERA
- Project completed, however completion certificate is pending as on the date of commencement of the RERA - Will require registration with the RERA within a period of 3 months[1].
- All on-going projects – will require registration with the RERA within a period of 3 months .

[1] From the date of notification of registration provisions under RERA

# Real Estate (Regulation and Development) Act, 2016

**Monetary consideration**

- 70% of the amounts realized from the allottees shall be deposited in a separate account (to be maintained in a scheduled bank) by the developer / promoter
- Withdrawal of funds from the bank account to be based on certification from an engineer, architect and a chartered accountant in practice certifying the withdrawal is proportionate to the percentage of completion of project
- Utilization of such funds to cover the cost of construction and land cost
- Maximum advance / application fee that can be received by the promoter / developer, prior to executing a written agreement for sale is 10% of the cost of the apartment

**Penalties**

- If any promoter contravenes the provisions of registration - liable to penalty upto 10% of the estimated cost of project as determined by the Authority
- If any promoter does not comply with the orders, decisions or directions issued or violate the provisions of registration - punishable with imprisonment upto 3 years or with fine upto 10% of the estimated cost of the project, or with both
- If any promoter provides false information or contravenes the provisions of registration of real estate projects - penalty upto 5% of the estimated cost of the project
- If any promoter contravenes any other provisions of RERA - penalty upto 5% of the estimated cost of the project as determined by the Authority

**Impact on Real Estate Sector**

- Initial bottleneck - A lot of work is to be done to get the existing and new project registered
- Tight liquidity - Land and approval costs to be borne out of internal accruals as pre-launch concept would end
- Increase in project launch time - The project launch time may increase since a lot of time will be required in finalizing finer details before launching a project
- Consolidation in the real estate sector is envisaged

# Insolvency and Bankruptcy Code 2016

Insolvency and Bankruptcy Code 2016 ("Code") aims at speedy resolution of insolvency proceedings was enacted in May 2016. This is a consolidated law dealing with insolvency and bankruptcy matter on an all India basis. With enactment of the Code:

A. Sick Industrial Companies (Special Provisions) Act 1985 (SICA) is repealed. Consequently, the cases pending before Board for Industrial and Financial Reconstruction (BIFR) stand abated

B. Provisions of the Companies Act 2013 dealing with Revival and Rehabilitation of Sick Companies are omitted

National Company Law Tribunal (NCLT) set up under the Companies Act 2013 for companies and LLPs; and Debt Recovery Tribunal (DRT) set up under the Recovery of Debts Due to Banks and Financial Institutions Act 1993 Act for individuals and partnership firms are the adjudicating authorities under the Code.

**Key features of the Code**

- Single legislation to deal with insolvency of Companies / LLPs (except to entities in financial service sector like banks, insurance, broking, NBFC etc.) and bankruptcy of individuals and partnership firms
- Code contains separate provisions broadly dealing with
  - In case of companies and LLPs – insolvency resolution and liquidation process
  - In case of individual and partnership firms – fresh start, insolvency resolution and bankruptcy process
- **Creditor in control approach:** Creditors can file insolvency application independently against a corporate debtor who has defaulted in repayment of debts as per the agreed terms.
  - Definition of "Creditor" is widened to include any person to whom debt is owed and includes a financial creditor, an operational creditor (trade creditor, unpaid employees etc.), a secured creditor, an unsecured creditor and a decree holder

# Insolvency and Bankruptcy Code 2016

- The Code provides for establishment of an institutional framework viz.:
  - Insolvency and Bankruptcy Board of India (IBBI) – (i) overseeing the function of insolvency intermediaries i.e. insolvency professionals, insolvency professional agencies and information utilities; and (ii) regulating the insolvency process
  - Insolvency Resolution Professionals – CA, CS, CMA, Advocates and others having prescribed qualification to aid in insolvency resolution process
  - Information Utilities – to collect, collate, authenticate and disseminate financial information of debtors in centralised electronic databases for verification
  - Designated Adjudicating Authorities – (i) NCLT and National Company Law Appellate Tribunal (NCLAT) for companies and LLPs; and (ii) DRT and Debt Recovery Appellate Tribunal (DRAT) for individuals and partnership firms
- One of the key objective of the Code is to ensure time bound insolvency resolution process. The Code mandates resolution to be completed in 180 to 270 days. Also, it provides for fast track insolvency resolution process in specified cases where the process is to be completed within 90 to 135 days
- **Moratorium:** relief to corporate debtor from any suits / proceedings till the insolvency resolution process is disposed off by NCLT
- Mandatory liquidation of corporate debtor if insolvency resolution process is rejected by NCLT or not completed within the time limit provided by NCLT
- Code provides for order of priority for payments of dues under liquidation
- Cross border insolvency: Central Government may enter into agreement with any foreign country for enforcing the provisions of the Code in relation to assets of the corporate debtor situated in such foreign country

**Role and Responsibilities of Insolvency Resolution Professionals**

- To conduct the insolvency resolution process
- To take over management of the corporate debtor and manage the affairs of the corporate debtor
- To have access to all the books of accounts, records and other relevant documents of the corporate debtor
- To act as liquidator in case of liquidation of corporate debtor

**Likely impact of the Code**

- Ensure speedy recovery of dues and reduce strain on lender's ability to relend
- Improve investors' confidence and credit flow in the economy
- Expedite revival and rehabilitation of distressed corporates
- Simplify and streamline process of winding up of corporates

# Foreign Direct Investment

Foreign Direct Investment (FDI) in India needs to be undertaken in accordance with the FDI policy formulated by the Government of India. FDI upto 100% is permitted in most sectors. There are sector-specific caps on foreign equity investment in certain sectors like insurance, pension, defense, banking, basic and cellular telecommunications services, civil aviation, retail trading etc.

FDI can be made through two routes viz.

- **Automatic route:** A foreign investor or an Indian company does not need the approval of the government or RBI to make investment in India
- **Approval route:** Proposed investments that do not qualify for the automatic route must be submitted to the Foreign Investment Promotion Board (FIPB)

Investment in certain sectors is prohibited even under approval route for e.g. lotteries, gambling, betting including casinos, manufacturing of cigarettes, construction of farm houses, atomic energy, railway operations (other than "railway infrastructure"), trading in transferable development rights, chit funds and "Nidhi" companies etc.

**Recent changes in FDI**

Government has enhanced / liberalized FDI in various sectors, subject to conditions. Key changes are highlighted below:

- FDI in insurance, pension, asset reconstruction, e-commerce, construction development projects, defence, broadcasting, banking, plantation, civil aviation, credit information, satellites, financial services, food products and, "Other Financial Services" enhanced / liberalized subject to conditions
- FDI in "Other Financial Services" has been permitted under automatic route if such services are regulated by any financial sector regulator like viz. RBI, SEBI, IRDA, PFRDA, NHB etc. Minimum capitalization norms specified for NBFCs has been removed subject to meeting the capitalisation norms specified by the concerned Regulator. FDI in unregulated "Other Financial Services", will be permitted under Government approval route

# Foreign Direct Investment

- FDI is also permitted under the automatic route (as against earlier Government approval route) in LLPs operating in sectors/ activities where 100% FDI is allowed under automatic route and there are no FDI-linked performance conditions
- To simplify the procedures for Indian Companies to attract foreign investments, the distinction between different types of foreign investments i.e. FDI / FPI / FII / QFI / NRI etc., have been done away with and replaced with composite caps
- Investment by NRI in shares / convertible debentures on non-repatriation basis is deemed to be domestic investment at par with the investment made by residents
- Eligible foreign investors have been permitted to make investment under automatic route in units of AIF, REIT, InvIT as against approval route
- Purchase or sale of shares of Indian company between resident and non-resident for payment on deferred basis allowed
- Indian company engaged in a sector covered under automatic route permitted to issue shares to non-resident by way of swap of shares on automatic route
- FPIs allowed to invest in unlisted non-convertible debentures irrespective of the sector in which the issuing company operates

# Other policy updates

- Changes in allied laws
- Other policy measures

# Changes in allied laws

**Permissible investments by a Trust regulated by the Indian Trust Act 1882:**
Trustees permitted to invest the unutilised money as per the provisions of the Trust Deed or in any securities notified by the Central Government in the Official Gazette.
**Impact:** Likely to broaden the investment avenue for private trusts.

**Election Funding:**
Schedule Commercial Banks permitted to issue "Electoral Bonds" under a Scheme to be notified by the Central Government. Such Bonds can be donated to Political Parties. The Political Parties receiving such Bonds as contributions are not required to report the receipts of such Bonds to the Election Commission. Such contributions received by the Political Parties will be eligible for entitlement of tax reliefs under the Income Tax Act 1961.
**Impact:** Measure to boost transparency and accountability in funding of political parties and preventing generation of unaccounted money.

**Oil Industry Development Fund:**
Funds in the Oil Industry Development Fund set up under the Oil Industry (Development) Act 1974 can now be also used for meeting expenditure:

a) To be incurred by the Central Public Sector Undertaking in the Oil and Gas sector on behalf of the Central Government; and

b) On any scheme or activity by the Central Government relating to Oil and Gas sector.

**Impact:** Funding of Oil and Gas PSUs will support various government initiatives in Oil and Gas Sector.

**Payment Regulatory Board:**
Payments Regulatory Board is to be constituted replacing the existing Board for Regulation and Supervision of Payment and Settlement Systems. The proposed Board to have equal representatives from within RBI and the Government of India. The powers and functions of the Payment Regulatory Board to be prescribed.
**Impact:** measure to ensure transparency in regulating the Payment and Settlement Systems.

# Changes in allied laws

**The proposed amendments to the Securities and Exchange Board of India Act, 1992 (SEBI Act) are related to the Securities Appellate Tribunal (SAT) under the SEBI Act.**

| Particulars | Securities and Exchange Board of India Act, 1992 | |
|---|---|---|
| | Existing provisions | Proposed changes under the Finance Bill, 2017 |
| Number of SAT | Possible to have 1 or more SAT | Only 1 SAT |
| Jurisdiction of SAT | No provision to set up jurisdictional Benches | SAT may have 1 or more jurisdictional benches |
| Members of SAT | Presiding Officer and 2 members to be determined by Central Government | Presiding Officer, Judicial Members and Technical Members to be determined by Central Government |

**Impact:** Structural changes in the constitution of SAT by inclusion of judicial members and technical members to ensure that the decisions are balanced from point of view of sector specialties and legal expertise and experience.

# Other policy measures

## Financial Sector

**Foreign Direct investment**

- Foreign Investment Promotion Board (FIPB) proposed to be abolished in 2017-18. Detailed plans will be announced in due course
- Further liberalization of FDI policy is under consideration

**Impact:** Will result in ease of doing business in India

**Commodities exchange**

- Expert committee will be constituted to study and promote creation of an operational and legal framework to integrate spot market and derivatives market in the agricultural sector, for commodities trading. e- NAM to be an integral part of the framework
- Commodities and securities derivative markets will be further integrated by integrating the participants, brokers, and operational frameworks

**Impact:** proposed integration is likely to benefit the farm community, consumers and other stakeholders.

**Securities exchange**

- Process of registration of financial market intermediaries like mutual funds, brokers, portfolio managers, etc. will be made online by SEBI
- Systemically important NBFCs regulated by RBI and above a certain net worth, to be categorised as Qualified Institutional Buyers (QIBs). This will strengthen the IPO market and channelize more investments
- SEBI, RBI and CBDT will jointly put in place necessary common systems and procedures for registration, opening of bank and demat accounts and issue of PAN for Foreign Portfolio Investors (FPIs)
- Individual demat accounts to be linked with Aadhaar

**Impact:** Will result in ease of doing business in India

**Other Measures**

- Security Receipts (SR) issued by a securitisation company or a reconstruction company under the SARFAESI Act will be permitted for listing and trading on stock exchanges

**Impact:** This will provide an exit opportunity to investors in SRs and enhance capital flows

- Bill to curtail menace of illicit deposit schemes, Ponzi schemes etc. will be introduced. A bill relating to resolution of financial firms will be introduced.

**Impact:** This will contribute to stability and resilience of our financial system

# Other policy measures

- A mechanism to streamline institutional arrangements for resolution of disputes in infrastructure related construction contracts, PPP and public utility contracts will be introduced as an amendment to the Arbitration and Conciliation Act 1996

**Impact:** Quick resolution of disputes to boost infra funding and encourage PPP arrangements in infra sector.

- To safeguard integrity, stability of the Financial Sector and enhance cyber security, the Computer Emergency Response Team (CERT-Fin) will be established. CERT – Fin will coordinate its activities with financial sector regulators and other stakeholders

**Impact:** This is to enhance confidence of stakeholders in the government's push for Digital India.

# Other policy measures

**Labor laws**

- Model Shops and Establishment Bill 2016 circulated to all States for consideration will be adopted.
- Legislative reforms to be undertaken to rationalize and amalgamate existing labor laws into 4 codes as under:
  a) Wages
  b) Industrial Relations
  c) Social Security and Welfare
  d) Safety and Working Conditions

**Impact:** These are likely to lead to rationalization of labor laws, protect and harmonize labor relationship leading to higher productivity.

**Trade and Commerce**

- A new and restructured Trade Infrastructure for Export Scheme (TIES) to be launched in 2017-18

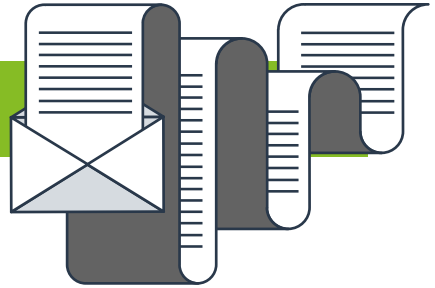
**Impact:** measure to promote export infrastructure in competitive world.

**Pharma Sector**

- Drugs and Cosmetics Rules will be amended to ensure availability of drugs at reasonable prices and promote use of generic medicines
- New rules for regulating medical devices to be formulated and internationally harmonized to reduce cost of such devices

**Impact:** ensuring drugs and medical devices are made available at a reasonable price.

# Glossary



## A

AAR: Authority for Advance Rulings

Act: The Income-tax Act, 1961

AMT: Alternate Minimum Tax

AO: Assessing Officer

AY: Assessment Year

## B

BCD: Basic customs duty

BEPS: Base Erosion and Profit Shifting

BOE: Bill of Entry

## C

CAT: Common Admission Test

CBDT: Central Board of Direct Taxes

CCR, 2004: CENVAT Credit Rules, 2004

CENVAT: Central Value Added Tax

CETA: Central Excise Tariff Act, 1985

CVD: Countervailing duty

## D

DGH: Director General of Hydrocarbon

DTA: Domestic Tariff Area

## E

EC: Essentiality Certificate

ECB: External Commercial Borrowing

EOU: Export Oriented Units

## F

FDI: Foreign Direct Investment

FEMA: Foreign Exchange Management Act

FERA: Foreign Exchange Regulations Act

FII: Foreign Institutional Investor

FIPB: Foreign Investment Promotion Board

FPIs: Foreign Portfolio Investors

## H

HUF: Hindu Undivided Family

## I

IITAT: ncome-tax Appellate Tribunal

## L

LED: Light Emitting Diode

## M

MAT: Minimum Alternate Tax

## N

NPS: National Pension System

NRE: Non-Resident External

## O

OECD: Organisation for Economic Cooperation and Development

## P

PAN: Permanent Account Number

PY: Previous Year

## Q

QFI: Qualified Foreign Investor

QIBs: Qualified Institutional Buyers

## R

RBI: Reserve Bank of India

RCS: Regional Connectivity Scheme

RFCTLAAR: Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013

RO: Reverse Osmosis

## S

SAD: Special additional duty

SARFAESI: The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

SAT: Securities Appellate Tribunal

SC: Settlement Commission

SEBI Act: Securities and Exchange Board of India Act, 1992

SLM: Straight Line Method

SR: Security Receipts

## T

TAN: Tax deduction number

TDS: Tax deducted at source

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