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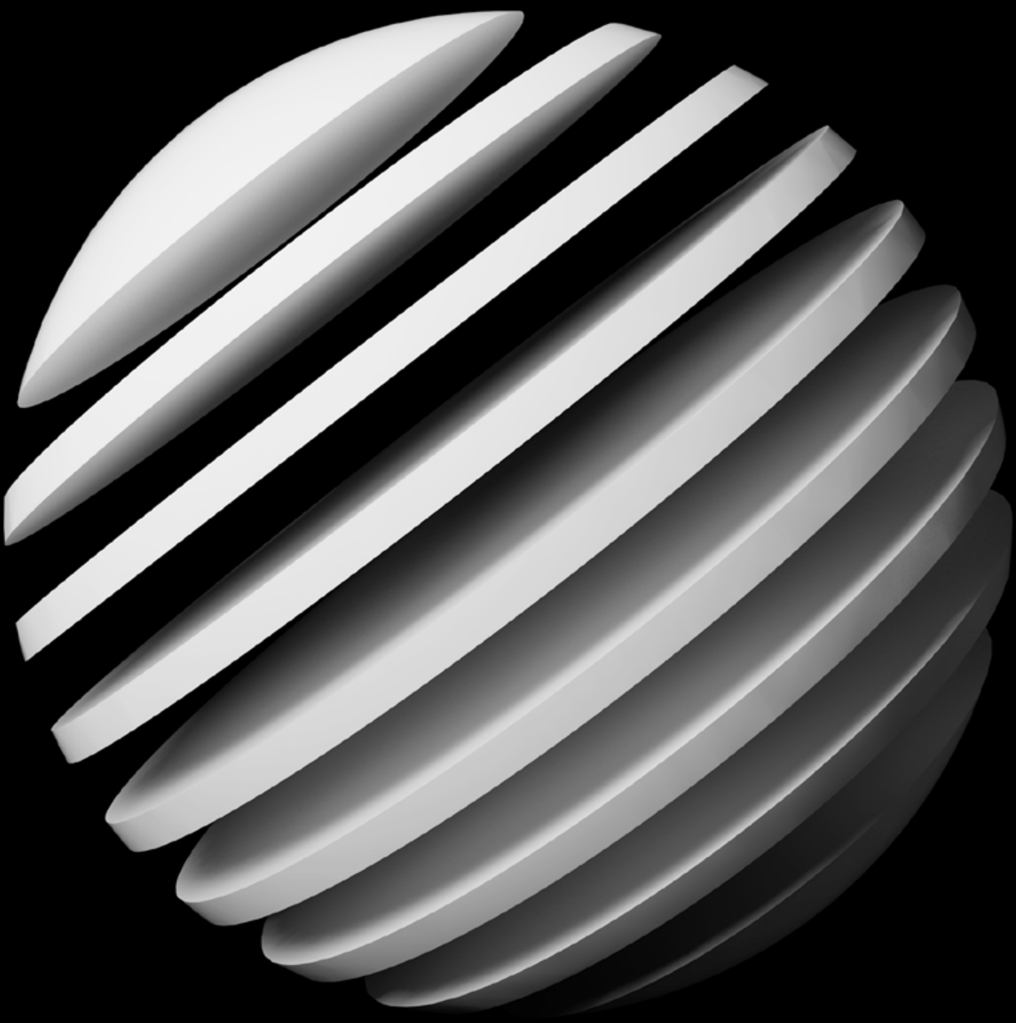

Budget expectations

January 2022

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Economy

Dr Rumki Majumdar, Economist

Current Environment

We expect GDP to grow at historic high rates for two or more years, thereby, healing some of the scarring that the pandemic has left behind. GDP growth is expected to range between 8.7% and 9.4% this FY 2021-22. Growth will continue to remain stronger in the following years as well, with the possibility of the economy growing at as high as 9% in FY 2022-23 and 7.6% in the following year. There are several reasons for the optimistic outlook.

The pace of vaccination has been impressive, which has given consumers the confidence to come out of their homes and spend. The rapidly rising demand for goods is an example of the pent-up demand that we have been waiting for to unleash. The upper-middle or higher-income households that have been relatively less affected and are sitting on excess savings are urging to get back to normal times. Rising demand will kick in the virtuous cycle of capital expenditure and investment. As businesses ramp up production, hiring and job opportunities will boost employment and income in the hands of consumers. Improved job prospects will prompt migrated labours to return from their natives in search of a better income.

However, the recovery is likely to be uneven, with some sectors facing structural challenges. Uncertainty will weigh on the rebound of the services industry (hospitality, leisure, travel, and entertainment sectors) because of calibrated intermittent regionalised lockdowns. Similarly, low and semi-skilled labourers will likely struggle to get jobs. The pandemic has increased the pace of digitisation because of which, there has been a structural shift in the job market and opportunities. Some jobs are high in demand and the talent required to fill these positions are commanding higher wages. On the other hand, several low-skilled jobs are not coming back leaving many out of the recovery.

Expectations

Top three asks:

Expectation #1: Focus on infrastructure and asset monetisation

There is an expectation that the government will focus on implementing the policies announced so far and expedite the projects underway. To begin with, the government will likely focus on increasing the share of capital investment, including infrastructure, and frontload spending in the coming quarters. This is something the finance minister has already reinforced in her statements earlier. The other expectation would be that on raising capital for investments through asset monetisation. Efforts to meet the disinvestment target for FY 2021-22, as well as to raise more capital from various sources, are underway. Raising capital at the earliest, and bringing forward the process of monetisation pipeline will be key, so that resources can be deployed to accelerate infrastructure investments.

Expectation #2: Demand and employment by stimulating MSMEs

The other focus must be to enable the ecosystem around job, income, and demand creation. India is a domestic-demand-driven economy, and a strong recovery will require a sustainable pickup in demand. That will require more jobs and employment opportunities to fatten consumers' wallets.

Since micro, small, and medium scale enterprises (MSMEs) are the biggest job creators of India, the government will have to emphasise reviving the sector by enabling the ecosystem that supports these enterprises. Identifying their pain areas and devising a solution to help them become a part of 'Atmanirbhar Bharat' will aid in their recovery. In addition, access to credit is critical, and providing targeted credit support to these enterprises should be considered. The government may choose fewer segments to start with and revive opportunities for those selected MSMEs.

Expectation #3: Support to the disproportionately impacted sectors

The government will have to support the sectors that have been disproportionately impacted by the pandemic and where recovery is likely to be gradual as uncertainties linger. Support to the travel and hospitality sector should be considered as they significantly contribute to GDP. The government must try a few out-of-the-box ideas or experiment with initiatives followed in the other parts of the world. One such experiment could be of tourism "sandboxes" (followed in Thailand and Indonesia), and invite fully vaccinated foreign tourists to travel a limited area. Improvised service offerings could boost the hospitality sector. The government must look into short-term revival plans as well as long-term plans to address the structural changes these industries are going through and have contingency plans to deal with uncertainties.

Expectation #4: Boost to exports

Exports have done well, and we expect the government to emphasise cross-border trade and investments. With several FTAs queued up in the near term, the focus must be on short-term as well as long-term measures to boost exports from and encourage FDI in sectors <refer to our latest report "India's FDI opportunity"> where India has a competitive advantage. Competitiveness will require efficient import and export regulations, and the government must address issues that hinder trade growth.

Expectation #5: Focus on social sectors (education and health)

Finally, there has to be more allocation towards building the health infrastructure and preparing the workforce for the future through training and skill developments. COVID-19 has certainly highlighted the gaps in health infrastructure that need to be filled. Similarly, students from underprivileged families have been impacted by several education institutes closing down. The government must plan a way forward to bring these impacted kids back into the education system.

Direct Tax

Rohinton Sidhwa

Current Environment

- In the recent past, the Government of India has rolled out several policy measures on the direct tax front to encourage private investments and provide tax certainty to investors and businesses. To recall a few, these policy decisions entailed reduction in corporate tax rates to 15 percent for manufacturing, abolishment of dividend distribution tax, withdrawal of "retrospective" capital gains tax on indirect transfer, dispensation from tax return filing in select cases, etc.
- Certain other measures viz., reduction of withholding tax rates, exemption of ex-gratia payments to families of employees on death, etc., were also introduced to alleviate economic hardship and provide respite to taxpayers affected by the pandemic.
- Above said, there are a number of aspects—some historic and others on account of evolving new business models—that warrant further calibration/clarifications on existing provisions of tax law, such as lack of clarity on deductibility of expenses incurred towards COVID-19 relief measures, absence of the taxation framework of cryptocurrency, etc. Besides, select tax policy changes introduced by the government recently (such as denial of depreciation on goodwill) may be impacting M&A / deal flows.
- Therefore, the government should consider introducing necessary steps to address concerns of the investors/taxpayers in the forthcoming budget.

Expectations

Top four asks:

Expectation #1: Allow the deduction for CSR expenses and other expenditure incurred on account of the pandemic

- During COVID-19, companies have incurred expenditure towards helping the society in creating health infrastructure, awareness campaigns, etc., qualifying as CSR expense, and on employee welfare in the form of vaccination of employees and families, provision of medical equipment, etc.
- Presently, CSR expense is not allowed as business expenditure and there is lack of clarity on tax deductibility of expenses incurred on employee welfare.
- It is recommended that the entire amount, or an appropriate proportion of expenditure incurred for helping the society and employee welfare during COVID-19, be allowed as deductible expenditure while computing taxable income.

Expectation #2: Withdraw/recalibrate the amendment denying tax depreciation on goodwill; alternatively, the amendment be made prospective and grandfathering be allowed for pre-existing goodwill

- It is not entirely correct to say that goodwill is not a depreciable asset; internationally, many countries allow tax break on goodwill.
- The denial of tax depreciation on goodwill for a buyer is against the principle of tax neutrality, as the seller pays tax thereon in cases such as slump sale and sale of goodwill simpliciter.
- Retroactive amendment has an adverse impact on investment climate. Denial of depreciation on goodwill relating to past transactions would cause hardship to taxpayers.
- Therefore, it is recommended that the amendment be withdrawn, or specific kind of goodwill (arising on slump sale/ amalgamation) be allowed to be amortised over 4-5 years. Alternatively, the amendment may be made prospective and pre-existing goodwill in the block of assets as on 1 April 2020 be grandfathered.

Expectation #3: Recalibrate nexus rule for foreign taxpayers:

- Amend Significant Economic Presence (SEP) to restrict applicability to digital transactions
- Bring clarity on interplay of SEP, equalisation levy (EQL), and withholding tax provisions
  - The present definition of SEP may prima facie seem to cover activities carried out by non-residents in India through digital as well as physical modes, which is not in line with the stated intent of legislature at the time of SEP introduction that sought to cover only digital transactions, in alignment with BEPS Action Plan 1.
  - It is therefore recommended that the erstwhile definition restricting the applicability of SEP to only digital transactions be reinstated. Such policy calibration will also be in line with the recent global consensus reached by OECD Inclusive Framework with respect to the Pillar 1 Solution to deal with the challenges of economic digitalisation.
  - Further, due to the overlap between the SEP and EQL regimes, it is recommended that clarity is brought in the interplay between SEP, EQL, and withholding tax provisions, and exclusions be carved out for taxability under EQL or levy of withholding tax when SEP provisions are attracted.

Expectation #4: Lay out tax policy framework for taxation of cryptocurrencies

- Investments in cryptocurrencies have witnessed a sharp growth in India; however, a specific regulatory framework dealing with cryptocurrencies is still under deliberation
- In the absence of specific provisions governing taxability of cryptocurrency in Indian tax laws, there are several open issues (also dealt in OECD report published in October 2020) triggering uncertainty such as whether such transactions need to be disclosed and offered to tax, method of computing the fair market value, costs, taxable income, and reporting requirements.
- Therefore, it is recommended that a specialised regime for taxation of cryptocurrency be introduced covering, inter-alia, provisions dealing with classification of crypto currencies (capital asset vs. financial instrument vs. commodity), situations in which crypto currencies are taxable in India, head of income for taxation, expenses that can be claimed, income tax rate, and reporting requirements.

Indirect Tax

Mahesh Jaising

Current Environment

- The focus of this year's budget is likely to be on the recovery of the economy, reassurance to the industry, and an indication that they are aligned to the trends in the market.
- While the pandemic has proved challenging, the government has used this opportunity to bring about economic revival through export facilitation measures.
- In November 2020, the government announced the second edition of Production Linked Incentives (PLI) across sectors. The first three PLI schemes were approved earlier in March 2020, followed by 10 new schemes in November 2020. The PLI schemes for IT hardware, mobile phones, drugs and medical devices attracted investments of over US$30 billion. The expanded list of products covered in this edition of pharmaceutical drugs and in-vitro medical devices was expanded to cover a range of products. Amidst global concerns over the rapidly spreading Omicron variant of COVID-19, the upcoming budget will prove critical, as the government tries to shield the economy from any unanticipated volatility. Ahead of preparations, the PM has been meeting with private equity and venture capital players to seek suggestions on making India a more attractive investment destination. The PLI scheme is critical to this story.

- From a customs standpoint, in the FY21 budget, 80 exemptions related to customs duty were withdrawn. In the upcoming budget, it is proposed that more than 400 old exemptions would be reviewed. The government has been engaged in extensive consultations with the industry since October, the outcome of which will be critical to look out for.
- The recent 46th GST Council meeting held on 31 December 2021 was expected to be a pre-budget session on several policy issues, including the extension of the compensation cess tenure. However, the meeting only addressed the need for deferral of the rate change for textiles. The hope is for the budget to address some key policy decisions, aligned with the trend of implementing key decisions taken at the GST Council meetings in the budget.

Expectations

Top three asks:

Expectation #1 Roadmap of incentives/programmes for a wide range of sectors

- The cabinet recently announced an additional INR 76,000 crores aimed at addressing the shortage of microchips in the Indian market. This will usher in a new era in electronics manufacturing and contribute significantly to India's dream of a US$5 trillion economy.
- However, the industry will be keen to see if there are allocations in this budget for the expansion of the PLI scheme for sectors such as leather and laminates.
- Additional incentive schemes, such as SPECS and EMC 2.0, will also lure companies into setting up additional manufacturing in sectors that were not the focus in previous budgets and help reverse the impact of the pandemic.

Expectation #2 Need for favourable changes to the SEZ scheme

- In a recent public event, the Commerce Secretary, B V R Subrahmanyam, hinted at a major rehaul of the SEZ scheme, perhaps even a simplification.
- A recent issue that has emerged is with regard to SEZ units selling to DTAs. There is a need for the Commerce and Finance Ministries to recognise the need for this and clarify that INR billing to DTA is permissible so long as the NFE criteria is met.
- Another issue that needs to be addressed is the permissibility of Work From Home (WFH). As we emerge from the pandemic, many companies are exploring hybrid models, wherein employees will work both onsite and remotely. There is a need to explicitly recognise this model for SEZ units without any impact on indirect tax benefits claimed by the companies.

Expectation #3 Positive progress on Free Trade Agreements (FTA) and other customs changes

- The India-UK FTA talks will help Indian exporters increase trade with the UK. Negotiations are also on with GCC countries, while the negotiation with Canada is expected to kick-off sometime in March next year. These FTAs need to be actively pursued to boost manufacturing and offset some of the impact that the pandemic has caused.
- The CBIC is also in the process of reviewing 400 exemptions (as announced in the previous budget), expected to be proposed as part of the 2022 budget. It should be ensured that there is no adverse impact on trade as a result of this exercise.
- Extension of customs duty exemption on goods imported for testing, simplification of SVB procedures, and setting up of a customs dispute resolution forum are some other long pending asks that the industry hopes will be addressed in the upcoming budget.

Expectation #4 Key GST policy changes

- While no policy changes from a GST perspective can be expected out of the budget exercise, it is not uncommon to see announcements linked to the implementation of key decisions taken at the GST Council meetings in the budget.
- Given the robust mechanism of e-invoicing and its active role in curbing fake invoices and ineligible credit, the government should utilise it to effectively address the issue of credit accumulation, which has become a large problem for many taxpayers. The government could adopt novel measures such as possible credit transfer within group companies and trading in credit.
- The correction of an inverted duty structure is another key area being examined and will be critical to look out for. There is also an urgent need to allow the refund of input services in case of an inverted duty structure.

Personal Tax

Current Environment

- With the Indian economy looking forward to recovering from the pandemic, the coming year is expected to bring back stability for which, the budget is considered to be a key growth driver
- Expecting the economy to rebound sharply and continue on a speedy recovery will require major reforms in the economy
- The government, in its journey to enhance the ease of doing business, had taken up the task to consolidate various labour regulations. Twenty-nine labour-related regulations have been consolidated into four labour codes, viz., the code on wages, the code on social security, the code on industrial relations, and the code on occupational safety, health, and working conditions.
- Consolidation of various central labour regulations will aid in ensuring that the following objectives are met -
  - Realignment to reflect current business requirements and technology changes being adopted;
  - Minimisation of litigation; and
  - Simplification of varied statutes prevalent today to help companies comply better and enable its enforcement in a more simplified and transparent manner

Expectations

Top three asks:

Expectation #1: Revision of tax slab rates:

- Per the current income-tax provisions, an **individual** is required to pay taxes based on the slab rates. The highest slab rate (after including surcharge and cess) for income exceeding INR 5 crore in India is currently at 42.744 percent
- There has been reduction in corporate tax rates over the past few years. Hence, to align individual tax rates with corporate tax rate, it is advisable to reduce the highest tax rate of 30 percent to 25 percent and also increase the threshold limit for the highest tax rate from INR 10 lakh to INR 20 lakh. Therefore, the proposed highest slab rate (including surcharge and cess) can be reduced to 35.62 percent from 42.744 percent

Expectation #2: Introduction of additional deduction towards "work from home"

- Considering the current situation, employees are working from home across businesses
- Employees are likely to incur additional "work from home"-related expenditure, such as internet charges, rent, electricity, furniture, etc., and therefore, employers would need to provide allowances to meet these expenditures
- In the UK, the government has provided a flat rate of GBP 6 per week of tax relief for additional household costs, if one has to work from home
- It is recommended that an additional deduction of "work from home" allowance of INR 50,000 be given to employees who are working from home

Expectation #3: Exemption with respect to taxed PF contribution

- Budget 2020 provided that employer contribution to Recognised Provident Fund (RPF), superannuation, and National Pension System (NPS) exceeding INR 750,000 will be taxable in the year of the contribution
- Section 17(3) of the Income-tax Act, 1961 (the Act) provides for taxability of funds received from Provident Fund, if certain conditions outlined in the Fourth Schedule (i.e., not rendering continuous service of five years etc.) are not complied with
- In case of contributions by employer in excess of limits specified, the excess contribution and the accretions thereon is taxable in the hands of the employee
- The same PF balance, when withdrawn, would be subject to tax withholding, if the conditions for exemption (for e.g., five years of continuous service) are not complied with and there is no specific exemption provided for excluding the income already taxed mentioned above. Hence, there could be double taxation, at the withdrawal stage to the extent the contribution/accretion has already been taxed
- It is recommended that there should be a specific provision in the Act, providing exemption with respect to contributions/accretions that are already taxed under section 17(2)(vii) at the time of PF withdrawal

Mergers and Acquisations Tax

Amrish Shah

Current Environment

- M&A activity is expected to boost the rather lull environment that businesses are trying to overcome
- While the government has been providing certain relaxations to uplift this scenario and provide much-needed relief, certain relaxations in the mergers and acquisitions arena are the need of the hour
- We have discussed below key expectations and their rationale in this regard

Expectations

Top four asks:

Expectation #1: Ensuring outbound mergers to be practical aka tax neutral:

- The Companies Act, 2013, permits the merger of an Indian company into a foreign company, subject to certain conditions
- The merger of an Indian company with another Indian company is tax neutral if the prescribed conditions are satisfied. However, there is no specific exemption provided under the Income-tax Act, 1961 for the merger of an Indian company with a foreign company

- It is recommended that tax exemption be provided on the merger of an Indian company with a foreign company by way of the specific clause in Section 47

Expectation #2: Extending transition of losses from amalgamating a "non-industrial undertaking" company to an amalgamated company

- Under the existing provisions contained in Section 72A, the benefit of carry forward of losses and unabsorbed depreciation is, inter-alia, allowed in cases of amalgamation of a company owning an "industrial undertaking"
- The provision was inserted when India was a capital-intensive country. Currently, the country is moving from a capital-intensive to a capital-light model and the services industry is equally growing and contributing to the economy
- To encourage rapid consolidation and growth and to make India a competitive country in the services sectors, the benefit under Section 72A (to carry forward of loss and depreciation on amalgamation) should be extended to service industries, amongst others

Expectation #3: Rationalisation of taxation of contingent consideration

- India is an attractive market by international investors. With a focus on balancing profitable exits and correct valuations, most private equity players are increasingly introducing a combination of clauses in the shareholders agreement, including consideration payable in a contingent manner based on certain performance milestones being achieved by promoters
- In essence, such clauses incentivise promoters for good performance
- There is no clarity on whether such contingent consideration is to be taxed in the year of transfer or in the year of receipt, once the consideration crystallises
- It may be clarified by way of an explanation or clarificatory provision to Section 45 that in case of a contingent consideration, the contingent portion should be chargeable to tax as capital gains in the year in which the same is crystalised, irrespective of the year in which the transfer takes place (in line with the accrual concept – refer section 5 of the Act)

Expectation #4: Providing exemption to foreign shareholders in case of mergers and demergers

- Section 47(via) provides that transfer of shares of an Indian company transferred in a foreign amalgamation would not be regarded as a transfer, provided certain conditions are satisfied
- Similarly, Section 47(via) provides that transfer of shares of a foreign company that derive value substantially from assets located in India, in an amalgamation, would not be regarded as a transfer provided certain conditions are satisfied
- These sections seem to indicate that the exemption is provided only to the amalgamating foreign company and not to its shareholders
- It is suggested that specific provisions be incorporated in the Act to provide relief to the shareholders of the amalgamating foreign company, similar to Section 47(vii), which exempts shareholders in a domestic amalgamation
- A similar issue crops up for demergers - In the absence of exclusion from compliance with the Indian company law requirements in Section 47(vid), the benefit of shareholder exemption is not available to shareholders of the foreign demerging company in an overseas demerger. This has the effect of imposing a tax liability on the shareholders of the foreign demerging company and hence, against the principle of enabling tax neutrality for overseas demergers
- It is suggested that a proviso [as provided in section 47(vid) and 47(vid)] be incorporated in section 47(vid) to provide exemption to the shareholders of the foreign demerged company in spite of the demerger not complying with the relevant Indian company law provisions.

Energy, Resources & Industrials

Current Environment

Monetisation of various assets by the government, including the railways and roads, airports, oil and gas sector, was the highlight of FY21. It is expected that during the next year as well the government will continue to focus on these areas and include more industries from the Energy, Resource & Industrials (ERI) sector in this monetisation list, which will provide money for other key infrastructure development projects. Last year the government had also introduced production linked incentive (PLI) schemes to incentivise manufacturing in India. Introduction of PLI incentives for other ERI sectors such as the railways, airports, etc., manufacturers and exporters would promote Make-in-India initiative and accelerate the infrastructure growth.

Expectations

Top three asks:

Expectation #1 Provide a consolidated or group taxation regime for the infrastructure sector:

Either of the below approaches should be adopted to boost the infrastructure sector and to address inefficiencies, administrative challenges, and compliance burden:

- Consolidated Group Tax filing approach – The Group of wholly-owned or majority-owned companies, treated as a single entity for taxation purposes and intra-group transactions, is ignored for return filing purpose.
- Group taxation approach - The offsetting of losses incurred by one or more group companies should be allowed against the profits of other companies in the group.

Expectation #2: Inclusion of power sector, railway redevelopment or airport redevelopment as specified business for the purpose of section 35AD

- Power sector is currently excluded from specified businesses u/s 35AD and there is no clarity on redevelopment projects for railways and airports, to be considered as new infrastructure facility.
- Power projects, railway redevelopment projects, and airport redevelopment projects have always been capital intensive. Inclusion, setting-up and operating renewable power plants, and redevelopment of railways and airports under the concession agreement, should be included under the definition of the term "specified business" for the purpose of section 35AD.
- Assessee engaged in developing or operating and maintaining or developing, operating and maintaining any power generation facility or railway redevelopment or airport redevelopment project should be covered either as a specified business or within the meaning of infrastructure facility.

Expectation #3: Increase wage limit for new employee deduction (section 80JJAA) for employees in manufacturing and mining sector

- Currently, 80JJAA deduction is available for new employees with monthly salary of less than INR 25,000.
- Per the Code on Wages 2019, there is an increase in the minimum wages payable. Further, the definition of an employee includes managerial and administrative persons. Therefore, as managerial persons are included under the ambit of employees, the limit of INR 25,000 per month may not be in line with the industry standards.
- In view of the above, the cap with respect to salary, i.e., INR 25,000 prescribed u/s 80JJAA for claiming deduction will limit the company's ability to claim deductions in respect of additional employees that have been added.
- Any increment in the aforesaid ceiling will enable the enterprise to claim weighted deduction, thereby, enabling incremental cash flow and boost in employment generation.

Infrastructure Financing

Arindam Guha

Current Environment

- With a likely GDP multiplier effect of 2-2.5, the National Infrastructure Pipeline (NIP)[1] of INR 111 lakh crore is expected to be one of the key pillars for sustained growth of the Indian economy over the next decade. Over 20% of the NIP is expected to require private financing[2] with a preference for long term investors, given the long gestation period of infrastructure projects.[3]
- The government has identified asset recycling as a key mechanism for resource mobilisation for infrastructure development. Accordingly, the National Monetisation Pipeline (NMP) of operating infrastructure assets aggregating to around INR 6 lakh crore was announced in October 2020.

[1] National Infrastructure Pipeline, 2020
[2] National Infrastructure Pipeline, Volume II, 2020
[3] National Monetisation Pipeline, July 2021

- From the perspective of the Union Budget 2022-23 and the overall policy/regulatory framework, the following issues need to be addressed:
  - While there has been increasing interest from overseas long-term infrastructure investors like sovereign wealth funds, pension funds, private equity funds, etc., a large part of infrastructure financing is still provided by banks and NBFCs which have a shorter liability profile. This leads to an asset liability mismatch and creates stress on the system.
  - Despite having a domestic pension fund corpus of around INR 7 lakh crore[4] as of September 2021, the extent of investment in infrastructure assets is quite limited partly due to existing investment guidelines and partly due to limited capacity of pension fund managers to invest in core infrastructure assets. The situation is similar in case of other long-term investors like life insurance companies. Indian pension fund investments are predominantly in government securities (50%), followed by corporate debt (30%), with investments in equity being only around 20%. This is quite unlike the largest pension markets like the US, UK, Canada, Australia, Netherlands, Switzerland and Japan, etc., where investments in equity or equity linked instruments were around 43%, 29% in bonds and around 26% in alternate assets[5].
  - Additionally, pension penetration in India is extremely low with the pension corpus being only around 14% of GDP compared with over 50% in the US and over 100% in countries like Canada and Australia. This also has an added implication of inadequate resources for public social security coverage – given the impending change in India's demographic profile by 2027 with the higher than working age population exceeding the working age population, this is likely to have adverse implications. The primary reasons include (a) exclusion of micro, small & medium enterprises (MSMEs) from Pillar II (as per the widely accepted World Bank 5 Pillar framework) i.e., occupational pension and (b) limited coverage of Pillar III i.e., personal pension, primarily due to inadequate awareness/financial literacy as well as limited penetration of most financial intermediaries beyond Tier 1 urban centres.

Expectations

Top three asks:

Expectation #1: Policy and regulatory initiatives

The following measures may be considered to make available increased long-term financing of infrastructure projects by pension funds:

- Expand the coverage of Pillar II, i.e., occupational pension to contractual workers, micro enterprises, ASHA & Anganwadi workers, construction sector workers, enterprises with less than 20 employees, through an auto-enrolment facility, backed by (a) flexible contribution mechanisms; (b) provision for premature withdrawal for major life events like construction of dwelling units, marriage, etc., and (c) matching contribution by the government.

- For specific NPS schemes which are targeted at the relatively financially literate section of the population including Tier II schemes, remove the existing limit of up to 5% investment in alternate assets with the discretion of deciding on the portfolio being left to the trustees, with corresponding strengthening of governance, disclosure and risk-based supervision mechanisms, with the end objective of providing investors comprehensive information to take informed decisions.

- Additional incentives as below may be considered for expanding coverage and attracting additional contribution to pension funds with specific focus on infrastructure financing and higher investment limits in alternate assets:
  - Weighted tax deduction of 150% to 200% of personal contribution
  - Increased exemption on final withdrawal / maturity of funds

Expectation #2: Rationalising tax benefits for Sovereign Wealth Funds (SWF) and Foreign Pension Funds (FPF)

To encourage more investment in Indian infrastructure from SWF and FPF, ensuring clarity in tax incentives is essential. Section 10(23FE) of the Act provides an exemption in respect of dividend, interest income and long-term capital gains, arising from various infrastructure investments made by a prescribed SWF, FPF and wholly owned subsidiary of the Abu Dhabi Investment Authority (ADIA) in the form of debt or share capital or units. The government may consider issuing the following clarifications to ensure tax clarity, avoid litigations and encourage infrastructure investments via the said route:

[4] www.npstrust.org.in
[5] NPS Annual Report 2021-21

- In case of ADIA, exemption is granted specifically to a wholly owned subsidiary of ADIA. However, there is no such specific mention in respect of a special purpose vehicle (SPV), held directly or indirectly, by an eligible SWF or FPF, to be eligible for notification and exemption under section 10(23FE) of the Act. It is recommended that a clarification be issued to confirm that SPV held directly or indirectly, by an eligible SWF or FPF are also eligible to be notified for the income-tax exemption under section 10(23FE) of the Act.
- It is recommended that suitable amendments be made to include interest in non-corporate entities such as LLPs, partnerships, etc., as an eligible mode for investment under section 10(23FE) of the Act.
- It is recommended that, for avoidance of doubt and in line with the stated intent and objective, the benefit of exemption under section 10(23FE) of the Act is extended to LTCG arising from indirect transfers [as envisaged in section 9(1)(i) of the Act] of assets located in India.
- In order to encourage capital flows to affordable housing projects and smart city initiatives and in line with the stated intent and objective of the exemption, it is recommended to expand the scope of the exemption contained in section 10(23FE) of the Act to other categories of non-resident investors such as real estate funds especially those that invest in affordable housing projects and smart city initiatives of the Indian government.

Expectation #3: Easing tax burden in relation to debt financing for infrastructure projects

The infrastructure sector is debt intensive, with higher interest cost compared with other sectors. Generally, low-cost foreign borrowings are raised from outside India. Due to Public Private Partnership (PPP) requirements, individual projects are typically set-up as separate Special Purpose Vehicles (SPVs) by the promoter. However, lenders insist on joint guarantee by parent and SPV for the project. In this regard, current reading of section 94B of the Act provides that debt issued by non-resident lender [non associated enterprise (AE)] to a resident subsidiary under guarantee of resident parent (being an AE) would be covered under the provision. Hence, limit on interest deduction leads to additional tax cost in the hands of subsidiary even when the transaction is entered with non-AE, thereby discouraging funding to such sector from outside India and does not appear to be in line with government's policy of attracting foreign funds for key debt intensive sectors. Hence, it is recommended that such restriction be applicable only in case of borrowing from AEs.

Further, as per section 94B of the Act, interest in excess of 30% of EBDITA of the borrowing entity cannot be claimed as a tax deduction. In other words, interest deduction of the Indian borrowing entity is restricted to 30% of its EBDITA. In this regard, there usually exists a particularly high capital requirement in the infrastructure sector, especially in the initial years. Hence, it is recommended that considering the practical/sector requirement, a higher limit, i.e., a higher percentage of EBDITA ought to apply in case of infrastructure companies, at least in the initial 8-10 years.

Expectation #4: Introducing consolidated or group taxation

As indicated above, infrastructure projects are usually domiciled in separate SPVs due to various reasons such as regulatory compulsion, banker's comfort, need to segregate cashflows, etc. Having multiple SPVs for a single line of business results into inefficiencies and increased compliance burden. Further, the losses of one SPV cannot be set-off against profits of another SPV. Hence, the following measures may be considered to streamline tax provisions and make more proceeds available in the hand of investors.

- Consolidated group tax filing approach – A group of wholly owned or majority-owned companies be treated as a single entity for tax purposes and intra-group transactions are ignored for return filing purposes.
- Group taxation approach - Allowing the offsetting of losses incurred by one or more group company against the profits of other companies in the group.

Similar approaches have been adopted by a number of countries such as the US, France, Australia, etc. These relaxations would also be beneficial in case of asset monetisation where the infrastructure investment trust (InvIT) or real estate investment trust (ReIT) invests in a holding company with multiple subsidiaries in the form of SPVs.

Education

Kamlesh Vyas

Current Environment

The most significant development in the education sector in the past year was the announcement of the National Education Policy (NEP) 2020, which has the potential to transform the education system in the country.

Some of the key highlights of NEP 2020 include:

- Increasing government spending on education to 6% of GDP across the centre and states from the current levels of just over 4.43 % [1]
- Formal integration of vocational education/skill building with schools and higher education through various mechanisms like inclusion of vocational courses as part of curriculum, using credit-based system covering both traditional and vocational courses for award of certificates/degrees/diplomas, offering of vocational courses by schools and higher education institutions (HEIs), etc.

[1] National Education Policy 2020

- Segregating the regulatory and service delivery roles of the government through structural changes
- Focus on early childhood care and education, foundational literacy and numeracy, and vocational education
- Setting up of several education sector bodies, including National Education Technology Forum (NETF), National Higher Education Commission and National Research Foundation for leveraging new technologies in learning
- Increasing focus on research and development
- Introducing four-year degree programmes in science, commerce, and arts, with multiple entry and exit points
- Transforming HEIs into large multidisciplinary universities, higher education clusters, and autonomous degree awarding colleges
- Internationalisation of education

From the perspective of Budget 2022-23, the key imperative is to augment public and private financing for undertaking the systemic infrastructure upgrade and transformation envisaged in NEP 2020. This would require:

- **Enhancing the level of government funding** both in terms of capex and opex, especially in technology upgradation, research facilities, physical infrastructure, and asset maintenance
- **Addressing constraints faced by private universities to attract investments/funding**, given that education is not a for profit sector/industry
- Further, foreign educational institutions have not set up centres/institutes in the country and it is estimated that annually, over 450,000 students pursue higher education abroad, leading to a foreign exchange outflow of over US$13 billion or INR 98,000 crore[2]. **An effective strategy for attracting renowned foreign educational institutes to set up in-country campuses** could help reduce this outflow and further augment education infrastructure.
- Enabling economically disadvantaged students to pursue higher education through financial support
- Providing additional impetus for public private partnerships to augment educational infrastructure and reach and provide additional financing to the sector

Expectations

Expectation #1: Facilitate increased allocation to the education sector to assist implementation of NEP

- As far as government spending is concerned, there is a need for increased budgetary spending (as % of GDP) by the central government, which can be linked to:
  - Matching allocations by the states as well as
  - States implementing a minimum set of reforms as envisaged by the NEP 2020 within a defined timeline
- For private education institutions, additional lending by banks and financial intermediaries can be encouraged by modifying the guidelines under priority sector Lending to:
  - Increase the cap of INR 5 crore currently allowed under priority sector lending for construction of schools
  - Bringing “higher education institutions” under priority sector lending
- Endowments, both from domestic and foreign alumni, represent the other major source of financing which is yet to be tapped fully unlike in other countries such as the US and the UK. While the Ministry of Education has already made a beginning by notifying the Centrally Funded Technical Institution Endowment Fund initiative in 2020, the guidelines for endowment funds can be further strengthened in areas such as the following:
  - Appointment of professional fund managers to enable higher returns on corpus through diversification of investment portfolio beyond fixed deposits and government securities
  - Streamlining regulations for channelising foreign endowments into the country, including in the form of stocks/shares, etc.
- At the level of students, while the cap for student Loans has already been increased from INR 10 lakh to INR 20 lakh, the problem of non-performing assets needs to be addressed through expanded coverage and linkage to credit registries as well as credit enhancement through tie-ups with employing corporates, etc.

[2] Reforms in Higher Education - Strategy towards Global Knowledge Hub 2020”, Assocham

Expectation #2: Guidelines for setting-up of International Branch Campuses (IBCs) by foreign universities

At present, there is no operating model in place for opening IBCs in India. Fundamentally, there are two alternate models which have been used globally, namely:

- **Direct investment by the foreign HEI** with a combination of funding options, in terms of (a) self-funded where the foreign institution sets up a branch campus in the country independent of external support; (b) with partial financing support from host country banks and financial institutions for facilities/infrastructure development and (c) partial financing support by private companies and philanthropic institutions in the host country under CSR and other applicable guidelines
- **Collaboration with a domestic HEI** where the investments are shared between the two partners, with additional support from banks and financial institutions

Leveraging the experience of countries like Malaysia, UAE, etc., which have been able to attract reputed global HEIs in setting up local branches/campuses, the Government of India may consider having **International Education Zones (IEZs) where IBCs can be set up with flexible regulations around investment structures, repatriation of surplus, international mobility, etc.** IEZs can have a separate regulatory and oversight mechanism with a provision for light touch regulation for foreign HEIs which set up a direct presence with identical operational and management practices as in their parent campuses, offer an identical academic curriculum, and share a large pool of common faculty with their parent campuses. In case of the Dubai International Academic City, which is one of the more successful global education hubs, there is no difference in the qualification/degree/certificate offered by the IBC and parent campus. For other foreign HEIs which collaborate with domestic institutions, suitable regulatory mechanisms factoring in the uniqueness and strengths of individual institutions can be instituted.

For enabling adequate domestic financing to such IEZs, thereby making it more attractive to foreign HEIs, lending by banks and financial institutions to units in such zones should be construed a part of priority sector lending.

From the tax perspective, the following may be considered:

- Steps may be taken to reduce the tax burden of IBCs, especially during the initial phase, through mechanisms like tax holiday, capex deduction, reduction in tax rates, etc., on the basis of fulfilment of various criteria in terms of extent of progress, enrolment of domestic students, percentage of students offered scholarships, etc.
- Going beyond IEZs, to enable the overall school and HEI eco-system meet increased investment requirements under the NEP 2020. The provisions under section 10(23C) may be reassessed to allow for a higher retention of surplus beyond the current 15% of gross income/revenues, with suitable underlying conditions that the surplus be reinvested in infrastructure augmentation and collaborations with reputed global HEIs in setting up IBCs in India.

Technology, Media & Telecommunications

PN Sudarshan

Current Environment

Global impact of COVID-19 accelerated technology and digital adoption across industries. It also heralded hybrid work environments, heavily reliant on technology led solutions. As per various estimates, India's technology industry (excluding e-commerce and internet services) is expected to record a growth of 2.3% in FY2021 to reach US$ 194 billion, of which exports constitute roughly US$ 150 billion . The Indian e-commerce market is expected to grow to US$ 111.40 billion by 2025 from US$ 46.2 billion as of 2020. By 2030, it is expected to reach US$ 350 billion . Digital continues to drive growth for the industry in domestic as well as export markets.

Key trends and growth areas include electronics manufacturing services, semiconductor technology and manufacturing, 5G and private networks, internet services, including e-commerce and consumer-oriented services like ed-tech, health-tech, OTT media, online gaming, etc.

Expectations

Top three asks:

Expectation #1: Creating advanced manufacturing jobs, the semiconductor solution

- With accelerated digitisation likely to continue in the post-COVID-19 world, the demand for semiconductors will only increase in the coming years, with new 5G telecom networks, cutting-edge smartphones, IoTs, etc., driving the growth.
- India's position as second-largest mobile phone manufacturer worldwide and surge in internet penetration rate has spiked the demand for electronic products and created a strong electronics manufacturing ecosystem across the country.
- India also has demonstrated capabilities and talent ecosystem in semiconductor design services, with several large global semiconductor OEMs establishing their offshore design and engineering base in India.
- The Union Cabinet in December 2021 approved INR 76,000 crore scheme to boost semiconductor and display manufacturing in the country. Also, under the chips to startups programme, India aims to create 85,000 engineers to help India achieve its ambition of becoming a semiconductor powerhouse.
- While this initiative may ameliorate the situation in the medium term, this is even better in the long term as this would spur the semiconductor manufacturing segment, providing opportunities both for import substitution and export propulsion.
- This initiative could also herald an end-to-end presence from fab to box for India in the electronics value chain, and in the long run, we could also have large domestic corporations actively participate in this segment.
- Now, it is imperative that we follow up the budgetary allocations and ease macro factors such as ease of doing business, enhancing the seamless import-export ecosystem for this segment, etc., which will pave the way for a robust semiconductor fabrication ecosystem in the country, and create advanced manufacturing jobs.

Expectation #2: Electronics, Made in India

- India currently accounts for less than 2% of the global electronics production. It is observed that even though India's share of global electronics production is higher than other Asian peers such as Thailand, Malaysia, Vietnam, and Philippines, India accounts for only 0.2% of global share of electronics exports, falling below the aforementioned peers in Asia. This shows that majority of India's production of electronics is serving the domestic demand and not catering to the export market.
- Government policies and investments have created a favourable environment for Electronics Manufacturing Services (EMS), especially schemes like Production Linked Incentive Scheme (PLI), Scheme for Promotion of Manufacturing of Components and Semiconductors (SPECS), and Electronics Manufacturing Cluster Scheme (EMC 2.0) which are supporting the development of infrastructure and common facilities for electronics production.
- Building on the success of large-scale electronics product assembly, it is imperative to extend the value chain and create a robust ecosystem for component design and manufacturing, bringing higher domestic value addition.
- Also, improving the export ecosystem for electronics products, including Free Trade Agreements (FTA) with large economies, improving the ease of doing business parameters, especially related to cross border trade, and supporting domestic R&D and skill development will help make India a global hub for electronic products.

Expectation #3: 5G, and the future of communications

- 5G technology is bringing a disruption and reshaping the communications value chain.
- 5G networks feature lower latency, higher capacity, and increased bandwidth compared with 4G. Key applications include massive IOT, enhanced mobile broadband, smart city solutions, smart factories, etc.
- As of March 2021, 67 markets worldwide have commercial 5G services .
- As more countries move towards 5G technologies, it is imperative for India to support commercial deployment of 5G networks through a combination of budgetary, policy, and regulatory support, helping startups and enterprises create new revenue opportunities through enhanced communication and connectivity mechanisms.

1. https://nasscom.in/knowledge-center/publications/technology-sector-india-2021-new-world-future-virtualstrategic-review
2. https://www.ibef.org/industry/ecommerce.aspx
3. https://www.spglobal.com/marketintelligence/en/news-insights/research/67-markets-worldwide-have-commercial-5g-services

Consumer Industry

Porus Doctor

Current Environment

India is a consumer-driven economy. The retail sector is expected to touch US$1.3 trillion by 2024 compared with the current size of US$883 billion in 2020.[1] The pandemic was extremely disruptive, and each wave brought its own set of challenges. The frequent lockdowns, global and local travel restrictions, and other disruptions have fundamentally changed consumer behaviour across categories, with far reaching impact on manufacturing, retail (both offline and online), distribution, payments, and supply chains. It has defined a "new normal" for businesses and may have altered business dynamics forever. The government can support the growth of consumer industry by improving ease of doing business to accelerate multi-channel or hybrid capabilities, creating policies to support technology development, and building infrastructure to optimise retail supply chain. This will enable the players in the industry to operate efficiently and thrive in a new business landscape.

The pandemic also drastically affected the automotive sector, but it is also bouncing back over the last two quarters, and India is expected to be the third largest automotive market by 2026.[2] The government is expected to take initiatives to boost the sector, including product linked incentives, etc., (starting from FY2023 for five years). The sector will be integrating technologies in the future, with electrified, autonomous, shared, and connected cars growing significantly.

[1] https://retail.economictimes.indiatimes.com/news/industry/indian-retail-a-nearly-900-billion-market-dominated-by-mom-and-pop-stores/81626606
[2] http://www.businessworld.in/article/The-Auto-Sector-In-The-Next-Five-Years/27-06-2021-394598/

Expectations

Top three asks:

Expectation #1: •Ease of doing business to accelerate multi-channel or hybrid capabilities:

There was a significant increase in e-commerce activities during the pandemic as consumers shopped, studied, and worked from home and opted for contactless delivery. The future of the retail sector will be defined by an omni-channel approach where online and offline channels will not only compete but be complementary to each other. The way forward for retail will be a blend of brick-and-mortar stores and online selling platforms, with both likely to continue to grow and thrive in India.

For growth in the hybrid capabilities, it is important for the government to make budgetary allocations and implement policies to support retail growth in India, including a common regulatory framework for retail across whole country. It should also push for the single-window clearance portal for all approvals, clearances, and retail licenses, including reduction in the number of licenses that retailers need to apply for to create a "one-stop-shop". This will enable investors, entrepreneurs, and businesses to obtain approvals as well as clearances for expanding brick and mortal retail stores across India. In addition, to promote cross-border ecommerce from India, and to enable SMEs to export their products seamlessly to consumers worldwide through the online platforms, the government should look at easing documentation and other rules for export and return of products. This will encourage global ecommerce from India and allow us to reach US$10 billion in exports and pave the way for a robust multi-channel retail ecosystem in the country.

Expectation #2: Government can create policies to support technology development:

The acceleration of technology adoption across the consumer and retail industries has become a critical aspect for surviving in the new normal. As consumers desire a more personalized experience, most retail businesses are re-thinking their in-store and online customer experience (CX) and engagement. Retailers have to embrace technology and digitise rapidly to make their businesses more agile to cope with massive disruptions. With the shopper journeys becoming non-linear, enabled by technology and connectivity, retailers are learning to proactively respond to consumers' new shopping preferences. COVID-19 also pushed the adoption of digital technology, enabling kirana stores/neighbourhood mom-and-pop shops to adopt technology to expand their businesses. More kirana stores are going online, providing app-based ordering and last mile delivery; offering a variety of payment options and automating their bookkeeping, invoicing, and inventory management processes.

Technology has been a high-priority area for the government. The government can further support this by accelerating digital infrastructure, creating policies to provide an environment for secured transactions and to ensure protection of consumer data, thereby creating a favourable environment for adoption of technology in retail, especially general trade/kiranas. The government can also further incentivise and encourage organised players to help modernise kirana stores by providing grants, low-interest loans, tax incentives, etc., to encourage start-ups to develop innovative solutions to help modernise kirana stores.

Expectation #3: Building infrastructure to optimise retail supply chain:

In the new normal, the retail environment is likely to continue to constantly evolve and it entails that retailers transform their in-store supply chains and operating models to become more flexible, adaptive, and resilient. Retailers will move towards offering real-time visibility of product availability to customers through item level tagging, computer vision and enable in store returns for online purchases. Virtual try-ons for apparels could reduce the cost of reverse logistics. Retailers are moving towards frictionless supply chain to ensure safety and speed of execution and India is among one of the leading nations in developing technology led efficiencies. As more retailers are moving towards building their supply chain capabilities, it is imperative that the industry supports commercial deployment of digital supply chain networks. The government has announced its plans to develop multimodal logistics parks, which would make logistics more efficient, help reduce operating costs for retailer and offer consumers a wider assortment. This will create new cost and revenue opportunities through enhanced connectivity mechanisms. The government can also further push for large scale manufacturing hubs to offer end to end production facilities for packaged foods manufacturing to enable more companies to launch packaged foods – this will not only make it easier for brands/entrepreneurs to bring new products to the market, but more importantly, reduce the massive waste in the food sector that India has to cope with.

Financial Services

Sanjoy Datta

Current Environment

- The Indian economy is recovering from the COVID-19 impact and is gradually picking up amidst these uncertain times and volatile environment, caused by various disruptions, high inflation, and geo-political tensions. The Indian equity markets have scaled new highs in 2021, buoyed by strengthening signs of recovery in economic activity and a strong demand outlook.
- The financial services sector can help define the economy and would need to be its backbone, by playing a pivotal role for strength and stability, while operating in a changing world. From banking and capital markets, to insurance, investment management, and commercial real estate, financial services firms are prioritising digital transformation which could be a big disruptor and create new leaders in the industry.
- With an aim to aid further development and enhance the financial services systems within India and thereby, augment the economic growth, the Union Budget 2022-23 could introduce additional regulatory and tax relaxations to boost spending on innovation and propel growth in the financial services sector.

Expectations

Top three asks:

Expectation #1: Regulatory and tax changes for IFSCs

- IFSC – GIFT City is picking up fast with various stakeholders showing keen interest therein. However, the growth potential is hampered by uncertainties and short sightedness of term benefits.
- To make GIFT City a more attractive proposition, the following regulatory framework and tax-related changes are being expected:
  - Negotiating passporting rights for India-domiciled IFSC Investment Funds with overseas jurisdictions to increase marketability and investment appeal of such funds to a global investor base.
  - Increasing the longevity of the income-tax deduction benefit, complete exemption from Minimum Alternate Tax (MAT) liability, immediate commitment of a stable and predictable tax regime to investors, removing the applicability of domestic transfer pricing requirements and applicability of GAAR to transactions with IFSC units, incentivising companies/individuals through fiscal incentives for enabling smooth movement of skilled personnel to IFSC – GIFT City, etc.

Expectation #2: Relaxation from digital tax/withholding tax for financial services transactions/securities

- Digitisation has become a key component in today's financial services – digital app lending, predicting default trends, preventing security breach in work-from-home, and common data sharing between financial institutions, need significant investment/spending on digital upgradation/innovation.
- Existing equalisation levy (globally referred to as "digital tax") provisions expose transactions involving any online element to potentially trigger an equalisation levy for foreign entities. This creates roadblock and uncertainties for global companies to support, and pass on learnings to Indian companies.
- Hence, some relaxations/clarifications can be expected to make the provisions watertight and clear, to ensure that unwarranted financial services transactions involving a digital element are not caught within the ambit of equalisation levy, especially considering that OCED's Pillar One has also proposed to keep regulated financial services out of scope.

Expectation #3: Regulatory and tax framework for cryptocurrencies

- Cryptocurrencies are attracting light speed attention in boardroom discussions of most financial services organisations. Cryptocurrency investments grew from approximately US$ 923 million in April 2020 to a whopping US$ 6.6 billion in May 2021, despite no real clarity on its legality and/or acceptability.
- Currently, pending any regulations and absence of any specific provisions in Indian tax laws dealing with the taxability of cryptocurrencies, there are various issues pertaining to whether the investment needs to be disclosed and offered to tax in India by a taxpayer. The method of computing the fair market value, costs, taxable income, reporting requirements, etc., needs to be defined.
- Introduction of a special regulatory and taxation regime for cryptocurrencies and central bank digital currencies to cover various aspects can be expected.

Life Sciences & Health Care

Charu Sehgal

Current Environment

A number of steps taken by the government in the recent past for the healthcare sector have clearly demonstrated the importance that the sector duly deserved. Various policies and packages such as production linked incentive scheme for APIs / KSMs and medical devices, recent scheme for pharmaceuticals, and Promotion of Bulk Drug Parks, were introduced.. The announcement of these schemes, in line with Atma Nirbhar Bharat, encouraged domestic and international players to invest in the sector.

Another welcome step taken by the Department of Pharmaceuticals (Government of India) was issuance of draft research and development policy that aims at creating an ecosystem for innovation by focussing on three areas – first, create a regulatory environment that facilitates innovation and research in product development; second, incentivise private and public investment in innovation through a mix of fiscal and non-fiscal measures, and third, to build an enabling ecosystem designed to support innovation and cross sectoral research as a strong institutional foundation for sustainable growth in the sector.

Besides above, the recent announcement of Ayushman Bharat Digital Mission (ABDM) is certainly a promising initiative in today's digital age where the government plans to allot every citizen a health ID along with the platform to store the medical documents online. This coupled with growing telemedicine norm will surely help in making medical consulting available in remote areas.

Keeping in perspective the holistic approach of prevention, cure and well-being, the increased budgetary allocation during the Union Budget 2021 gave impetus to the sector. However, achieving affordable healthcare for all is the ask of current times.

Expectations

Top three asks:

Expectation #1: Tax holidays and funding for hospitals and skill development:

Reintroducing tax holidays for rural hospitals with a flexibility to select beneficial years and viability gap funding by the government for setting up hospitals in Tier 1 and Tier 2 cities would make this area an attractive space for investment and strengthen country's healthcare infrastructure.

A weighted deduction of expenses incurred on skill development in the healthcare sector would facilitate government to achieve its aims of WHO recommended doctor patient ratio of 1:1000 by 2024.

Expectation #2: GST Reforms

Bring more life-saving drugs at the lowest rate of GST and "zero-rating" of GST for health care services

Health care services are currently exempt from GST except few elements of the services, due to which the procurement taxes (whether for inputs, input services or capital goods) form a significant part of the operational costs. This will achieve the twin objectives of keeping the credit chain intact and will ensure that the tax is not loaded on to the cost of healthcare services. Refunds on this account will enable the service providers to pass on the benefit in terms of affordable health care services.

Increase in time period for closure of sale on approval (SOA) transactions from 6 months to 24 months

Medical device suppliers supply various lifesaving goods such as implants and stents, etc., to hospitals on SOA basis. As these goods come in various sizes/ types and are expensive, the hospitals do not upfront buy the same and get the goods on SOA basis. The invoice is issued by supplier only once the goods are consumed by hospitals. At times, this period may extend upto a couple of years. In view of this, it is recommended that prescribed period of 6 months for closure of SOA transactions be increased to 24 months, especially for implants, stents and other similar goods.

Provide certain relaxations under GST law for expired medicines

Relaxing the time limit under GST law to adjust the tax liability of credit notes, in case of expired medicines, which is currently until September of the next financial year in which the supply was made. Alternatively, it may be clarified that the relevant rule will not require reversal of input tax credit for products consumed by healthcare industry.

Expectation #3: Creating the ecosystem for innovation and research

While the draft R&D policy focusses on creating an ecosystem for innovation and research, certain tax incentives for the investment in 'R&D focused funds', set up for R&D based activities, could be introduced.

Research-linked incentives can provide the impetus to industry for increasing investment in R&D investment and build the much-needed linkages with academia to co-innovate. A research-linked incentive scheme could be introduced where the applicants are incentivised basis the R&D spend, employment, and added incentives based on outcome.

An old ask pending to be addressed is in relation to current patent box regime. The same needs improvement in terms of expanding its coverage to assignees / transferees of the patent instead of restricting it to only the true and first inventor of the invention. Introducing a reduced tax regime on commercialisation of the patents anywhere across the globe will make it implementable.

Global Capability Centres

Gaurav Gupta

In 2020 there were 1300+ Global Capability Centres (GCCs) in India, employing more than 1.3 million people and generating over US$ 33.8 billion in annual revenue that translated to an overall economic contribution of ~ US$100 billion. Currently ~25% of Fortune 500 Companies and ~15% of Forbes Global 2000 have GCCs in India. In the next 5 years, there is a potential for GCC sector to scale up by additional US$ 25-50 billion which would mean a potential gross output of US$ 180-260 billion and employment generation to the tune of 6 to 8 million. However, to realise the potential, the GCCs would need some support in the areas of infrastructure development, increased investment in skill development, consistent taxation policies, and creating an ecosystem that fosters innovation

Expectations

Top four asks:

Expectation #1: Physical and digital infrastructure development

India is currently the most preferred GCC destination, but big cities are getting saturated, infrastructure is not able to keep up the pace and GCCs will need to look beyond the current cities for the growing talent demand. There is a need for infrastructure improvement in big cities and also need to develop other cities as GCC hubs. The government should look at incentivising organisations and state governments to proactively build GCC parks and infrastructure that can be leveraged for GCC setup. They should also look at reducing the setup time which currently runs from 3-9 months currently for space identification, approvals, physical setup, etc.

Expectation #2: Increase Investment in skill development

While the initial stages of GCC setup was mostly around basic skills and cost arbitrage, the GCCs now have a higher focus on digital and over 50% of India-based GCCs are investing in emerging technologies. This has led to an increase in demand for talent with specialised skills in artificial intelligence, analytics, cloud, robotic process automation, machine learning, and internet of things, etc. India's ability to attract GCCs in future will depend on availability of advanced skills in the digital space, hence the government should look at supporting stakeholders to open more institutions and labs that offer training/courses in these areas and also encourage current institutions to keep innovating their curriculum with active industry participation

The government can also run a Returning Expert Programme which will encourage professionals abroad to return to India. This will lead to more leaders sitting out of GCCs, who in turn can drive higher growth in future

Expectation #3: Consistent Taxation policies

Currently there is higher transfer pricing mark up on higher value adding work in GCCs which discourages companies from bringing high value adding activities to India. Infact, higher value adding activities should lead to more economic benefit, hence we should look at having a consistent or lower transfer pricing markup for such activities. Most GCCs are concerned about litigations on classification of activities and what transfer pricing markup should be allowed. A consistent markup will remove that ambiguity and help GCCs bring more value adding activities to India.

Expectation #4: Encourage innovation and startup ecosystem

In today's age, innovation has become a key area of focus for all organisations. GCCs also want to do more innovation out of India. The government can look at setting up incubation hubs for innovation and provide incentives to organisations who innovate and generate intellectual properties in India. Given that startups are at the leading edge of innovation, the government should look at creating an ecosystem to encourage startups to innovate and generate more intellectual properties.

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