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BUDGET 2015
REFORMS & PROGRESS THE WAY FORWARD

Infrastructure

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Policy Updates



Road

Budget announcement

- Vision of 'Team India' will include connection of each of the 178,000 unconnected habitations by all-weather roads. This will require completing 100,000 km of roads currently under construction plus sanctioning and building another 100,000 km of roads.
- Issuance of tax free infrastructure bonds for the projects in the rail, road and irrigation sectors proposed.
- Public Private Partnerships (PPP) mode of infrastructure development to be revisited and revitalized.
- National Investment Infrastructure Fund to be established with an annual flow of ₹20,000 crore.
- A new procurement law will be debated in the Parliament.
- Government proposed to introduce a Public Contracts (Resolution of Disputes) Bill to streamline the institutional arrangements for resolution of disputes.

Other recent policy updates

- Ministry of Road Transport & Highways proposed a new "hybrid annuity model" for highway development. Under the new model, the developer will have to contribute just 60% of the total project cost during construction period while the balance will be invested by the government. The government will collect the toll and pay bi-annual annuity to the developer during operations.



Railways

Union and Rail Budget announcement

- Increased gross budgetary support to the railway sector of ₹14,031 crore.
- ₹2,000 crore has been allocated for Coastal Connectivity Program and to commission 1,200 km fresh lines this year.
- Transport Logistics Corporation of India (TRANSLOC), to be set up for developing common user facilities with handling and value added services to provide end-to-end logistic solution at select railway terminals through PPP.
- Projects for rail connectivity to many ports and mines being developed under participative model. PPP Cell to be revamped to make it result-oriented.
- Policy for Private Freight Terminals (PFT) to be revised.
- "Foreign Rail Technology Corporation Scheme" to be launched.
- Projects worth ₹2,500 crore through Build Operate Transfer (BOT)/Annuity route of PPP.

Other recent policy updates

- Department of Industrial Policy and Promotion (DIPP) permitted 100% FDI in railway infrastructure sector under automatic route subject to conditions. Accordingly, it has been decided to permit FDI in construction, operation and maintenance of specified activities of the Railway Transport sector.
- Union Cabinet approved setting up of a Special Purpose Vehicle under the Ministry of Railways for execution of Dedicated Freight Corridor Projects.



Water & sanitation

Budget announcement

- An allocation of ₹4,173 crore has been made for Water Resources and Namami Gange.

Other recent policy updates

- Union Minister of Road Transport and Highways announced that the Centre would introduce the Inland Waterways Bill to convert 110 Indian rivers into transport channels.
- The Swachh Bharat Abhiyan, launched on 2 October 2014, marks the beginning of the largest programme on sanitation by the Government in India till date.



Aviation

Budget announcement

- Government will consider plug-and-play projects in infrastructure projects such as airports, roads, ports, rail lines, etc.

Other recent policy updates

- Government has approved the construction of 5 budget airports to improve the regional connectivity and work on them will start in Financial Year 2015.



Ports & Shipping

Budget announcement

- Ports in public sector will be encouraged to corporatize and become companies under the Companies Act to attract investment and leverage the huge land resources.

Other recent policy updates

- Government will develop 10 coastal economic regions as a part of plans to revive the country's Sagarmala (String of Ports) project.



Urban Infrastructure

Budget announcement

- Vision of 'Team India' will include, housing for all – 2 crore houses in urban areas by 2022.

Other recent policy updates

- Smart City project to be developed under PPP model.
- RBI relaxed norms for issue of long-term bonds by banks for financing affordable housing.
- Government proposed changes in investment norms for non-government provident funds as well as superannuation and gratuity funds to boost funds in infrastructure and affordable housing.



Social Infrastructure

Budget announcement

- Proposal to launch National Skills Mission through the Skill Development and Entrepreneurship Ministry to boost jobs.
- By 2022, schools within 5 kms of each child – upgrade over 80,000 secondary schools and add/upgrade 75,000 junior/middle schools to the senior secondary.
- Proposal to set up AIIMS, IITs, IIMs, etc. in various states such as J&K, Punjab, Tamil Nadu, Himachal Pradesh, Bihar, Andhra Pradesh, Kerala, etc.
- Swachh Bharat initiative intended to improve quality of life and public health – 50 lakh toilets already constructed as against target of 6 crores.

Other recent policy updates

- "Padhe Bharat Badhe Bharat" initiative launched which focus on creating base of reading, writing and math fluency.
- Formation of "Ministry of Skill Development and Entrepreneurship" to augment a dedicated approach towards skill development and entrepreneurship.
- To achieve "health for all", the government proposed a "free drug service" and a "free diagnosis service".
- Government released draft National Health Policy 2015 which aims to address urgent need to improve the performance of health systems, leverage economic growth to achieve health outcomes and an explicit acknowledgement that better health contributes immensely to improved productivity as well as to equity.
- High level committee constituted to suggest measures for improved monitoring of CSR policy implementation.

Corporate tax highlights

- Corporate tax rate for financial year 2015-16 remains unchanged @ 30%. However, surcharge increased by 2% for Indian companies. The proposed effective maximum marginal rate for Indian companies is 34.61% and for foreign companies is 43.26%
- Corporate tax rate proposed to be reduced from 30% to 25% over a period of next 4 years
- Wealth Tax proposed to be abolished
- General Anti-Avoidance Rules (GAAR) deferred and proposed to be applicable from financial year 2017-18. GAAR proposed to apply prospectively for investments made on or after 1 April 2017
- It is proposed that a company would now be resident in India if it is an Indian company or its 'place of effective management' (POEM) is situated in India. POEM would mean a place where key management and commercial decisions necessary for conduct of business of an entity are made
- Section 9 is proposed to be amended to specify that transfer of an asset (e.g. shares of a foreign company) will be deemed to derive its value from India (and hence taxable in India) if such value exceeds ₹10 crore and further represents at least 50% of value of all assets owned by the company owning the Indian assets. Further, such taxable income is proposed to be computed on principle of 'proportionality' based on value of assets located in India versus outside India
- TDS rate on royalties and fees for technical service payable by Indian concerns to foreign companies is proposed to be reduced from 25% to 10% (plus applicable surcharge and cess)
- Enabling provision is proposed to be inserted for Central Board of Direct Taxes to prescribe mechanism for granting relief or deduction of foreign taxes paid
- Provision for additional deduction (@ 30% of salary cost) available under section 80JJAA for hiring of new workmen proposed to be amended. The existing requirement to employ minimum 100 regular workmen has now been reduced to 50, thereby extending the incentive to smaller units
- Cost of acquisition of capital asset transferred pursuant to demerger by demerged company to resulting company proposed to be the cost (including cost of improvement) of such assets in the hands of demerged company. Period of holding of such capital asset in hands of resulting company to include the period for which such capital asset was held by demerged company
- Specified domestic transaction threshold proposed to be increased from ₹5 crore to ₹20 crore
- In case of **Real Estate Investment Trust (REIT) / Infrastructure Investment Trust**, it is now proposed to provide concessional capital gains tax regime to the Sponsor of a business trust, in case of transfer of units which were acquired in exchange of its shareholding in the SPV i.e. concessional tax of 15% on short-term capital gains and exemption of tax in case of long term capital gains provided securities transaction tax (STT) is paid
- Pass through status on rental income earned by **REIT** is proposed to be granted and tax withholding is proposed to be levied at the time of distribution of such income to unit holders
- Share of members, being a company, in an association of person which is exempt from income-tax has now been exempted from MAT as well. This will help **consortium members**
- 100% deduction available for donations to **Swachh Bharat Kosh** and **Clean Ganga Fund** (other than **CSR** contributions)
- 'Yoga' included as a specific category in the definition of '**charitable purpose**' on the lines of education
- To fall within the ambit of '**charitable purpose**', the ceiling on receipts from business / commercial activity substituted from ₹25 lakhs to 20% of total receipts of the charitable organization



Indirect tax highlights

Goods and Services Tax

- Commitment to introduce nation-wide Goods and Services Tax (GST) from 1 April 2016 re-affirmed

Customs Duty

- Standard ad-valorem rate of Counter Veiling Duty (CVD) proposed to be increased from the existing rate of 12% to 12.5%
- Education cess and Secondary & Higher Education cess to be applicable on Basic Custom Duty (BCD)

Central Excise Duty

- Standard ad-valorem rate of excise duty proposed to be increased from the existing effective rate of 12.36% to 12.5%. Education cess and Secondary & Higher Education cess proposed to be subsumed in the ad valorem rate w.e.f. 1 March 2015
- Rate of excise duty applicable to goods covered by Medicinal and Toilet Preparations Act, 1955 is increased from 12% to 12.5% ad valorem w.e.f. 1 March 2015
- Direct dispatch of goods to premises of customers of a registered dealer/registered importer without bringing the goods to the registered premises allowed subject to conditions
- Time-limit for availing CENVAT credit on inputs and input services is being extended from six months to one year, from the date of invoice
- Time-limit for return of capital goods from job workers' premises extended from six months to two years
- Reversal of proportionate CENVAT credit extended to a manufacturer of non-excisable goods
- Exemption to **railway or tramway track** construction material of iron and steel given retrospectively from 17 March 2012 to 2 February 2014
- Increase in excise duty on portland cement (other than white cement) from Rs. 900 per tonne to Rs. 1,000 per tonne (w.e.f 1 March 2015)

Service Tax

- Effective rate of Service Tax to be increased from the existing effective rate of 12.36% to 14%. Education cess and Secondary & Higher Education cess proposed to be subsumed in the said rate from a date to be notified

- Manpower supply and security services when provided by an individual, HUF, or partnership firm to a body corporate are being brought to full reverse charge (w.e.f 1 April 2015)
- Abatement rate for transport of goods by **road, rail and vessel** rationalized at 30% on value of services (w.e.f 1 April 2015)
- **Swachh Bharat** Cess to be levied at the rate of 2% on the value of service (W.e.f a date to be notified after the enactment of the Finance Bill, 2015)
- Withdrawal of exemption of construction, repair, maintenance services provided to **Government** in relation to structures meant for non-commercial, educational, clinical, or Cultural, residential purposes (w.e.f 1 April 2015)
- Withdrawal of exemption of construction, erection, commissioning or installation of original works pertaining to **airport and port** (w.e.f 1 April 2015)
- Exemption to transportation of food stuff by **rail or vessels or road** will be limited to food grains including rice and pulses, flour, milk and salt (w.e.f 1 April 2015)

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

- In case of Customs Duty, Central Excise Duty and Service Tax law, penalty provisions are being rationalized to encourage compliance and early dispute resolution and facility of obtaining advance rulings has been extended to resident firms
- Central Excise and Service Tax registration process simplified by prescribing documents, time limit and procedure for registration. Single premises registration shall be granted within two working days of filing the application
- In case of Central Excise Duty and Service Tax, issuance of digitally signed invoices and maintenance of electronic records permissible

Clean Energy cess

- Clean energy cess to be increased from ₹100 per tonne to ₹200 per tonne on all goods covered under Tenth Schedule of the Finance Act, 2010

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