Conclusion

Considering the tax incentives are provided globally toward Infrastructure and Energy sectors, the tax incentives are still the need of the hour in India. More importantly, the tax incentives play a significant role as they can improve the IRR of the project and thereby boosts private investments in the sector. Though in the Budget 2016, the Government has set the phase-out date of profit-linked incentives at 31 March 2017, the industry could represent before the Government to continue or further extend the timeline.

Secondly, if we take the phase-out of tax incentives as fait accompli, it calls for the developers to relook into their strategy and recompute the IRR based on tax impact on their projects, especially in cases where projects are not envisaged to commence before the April 2017.

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Economic outlook vis-à-vis development of Infrastructure

A well-developed infrastructure is one of the key elements that drive the economic growth of any country. An established infrastructure would be the first port of call when economies talk about the efficiency in production and consumption of goods. For instance, how efficiently a road could map the advantages of natural resources presence in the country if there is no adequate energy source to extract such resources as well as to facilitate the movement of goods.

Considering the need for development in Infrastructure, the Indian Government has been increasing the targeted spend on infrastructure and energy in its Five Year Plans (FYP). The current 12th FYP defined the infrastructure investment target of USD 1.2 Trillion which is more than double the target set-out in 11th FYP and also, 50% of the required investment is targeted to come from private sector.

The tax incentives could be in various forms such as holiday, investments allowances, tax credits, reduction in corporate income rate, tax holidays, etc. While tax incentives may not be the only point of discussion while adopting the investment options, tax cost is one of the key drivers of any investment decision. Hence, the list of different tax incentives could be a great deciding factor in investments in many projects.

Global tax incentives in Infrastructure and Energy sector

The Indian government has been offering tax incentives to Infrastructure and Energy projects, especially, under the Economic Reforms of 1991. The sector-wise gist of incentive scenarios prior to Budget 2016 (for key infrastructure and energy sectors) is as under:

### Tax incentives scenario in India

The Indian government has announced slashing out various tax incentives on the grounds that it would bring clarity to investors and curb the administrative and implementation concerns. As at all times, the government is eyeing at reducing corporate tax rate of 25% (which is in line with the present effective tax rate of 30%) and phasing out the incentives to either situation.

Accordingly, many variations are made in phasing out tax incentives and tax shifting from profit-linked tax incentive to investment-linked tax incentive in certain cases. In regard to the Indian Government has announced phasing out profit-linked tax incentive for 2.02 developers and mineral & metal new natural gas producers. For developers of infrastructure facility, the tax rate has shifted from profit-linked tax incentive to investment-linked tax incentive. Further, phasing out tax incentive is proposed (which will affect renewable power project) but there is no word from the government on the tax of profit-linked tax incentive to power projects for which the sunset date is 31 March 2017.

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### Power generation, distribution, or transmission

#### Development or operation or maintenance or development of power generation, distribution or transmission projects, wind power projects, grid or solar parks

<table>
<thead>
<tr>
<th>Country</th>
<th>Sector</th>
<th>Incentive</th>
<th>Sunset clause</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>Renewable Energy</td>
<td>Profit-linked 100% tax holiday for 15 years</td>
<td>31.03.2017</td>
</tr>
<tr>
<td>South Africa</td>
<td>Special Economic Zones</td>
<td>Profit-linked 100% tax holiday for 15 years</td>
<td>No sunset date</td>
</tr>
<tr>
<td>Australia</td>
<td>Infrastructure</td>
<td>Profit-linked 100% tax holiday for 15 years</td>
<td>No sunset date</td>
</tr>
<tr>
<td>Philippines</td>
<td>Renewable Energy</td>
<td>Profit-linked 100% tax holiday for 15 years</td>
<td>No sunset date</td>
</tr>
</tbody>
</table>

As it can be seen from the above illustration, the RRF of the project becomes negative in the third year if profit-linked tax incentive to power projects for which the sunset date is 31 March 2017.

### Investment-linked tax incentives

The above illustration is similar to the financial model for renewable power projects which have comparatively low capital requirements and shorter gestation period. However, for high capital intensive projects with longer gestation period such as ports, airports, convention power projects, etc, the variation in RR may increase in the above three scenarios.