

Pre-budget corporate expectations survey- 2014

What India Inc. wants?

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Foreword

The responses to this pre-budget survey resonate the high expectations, India Inc. has from the new government. India Inc. expects the new government to usher in an investor-friendly and growth-oriented regime.

When the Finance Minister will rise to present his maiden budget on 10 July 2014, he would have a big task of balancing people's expectation with economic limitations.

One thing is sure that businesses have sent a clear message that they are waiting for the new government to deliver on its 'acche din' (good days) promise.

Pallavi J Bakhru

Director - Grant Thornton Advisory Private Limited



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About the survey

To gauge the expectations of dynamic businesses, Grant Thornton in India launched the Pre-Budget Corporate Expectations Survey – 2014. The survey aimed to capture the hopes and aspirations of Indian businesses with respect to regulations, key government policies and taxation.

This report has been developed by deriving the responses to an online questionnaire circulated to individuals representing some of India's leading public and private sector enterprises. The survey was administered to participants from over **250** corporate houses which includes CEOs, CFOs, CXOs and business owners/ promoters across various sectors to gauge the pulse of India Inc on the expectations from the ensuing budget.

The respondents also shared their views on the industry specific issues. We would like to thank all those who spared their precious time to contribute to this study.

The industry-wise classification and the number of respondents for each, in percentage terms, has been tabulated as follows:

Industry	Percentage of industry specific respondents
Healthcare & Pharmaceuticals	15%
Technology	43%
Real Estate & Infrastructure	20%
Financial services	12%
Others	10%



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Survey synopsis

One thing which came out clearly from the Pre-Budget Corporate Expectations Survey – 2014 is the expectation of an investor-friendly regime. Almost 90% of the surveyed population hopes to see an investor-friendly budget. This is up from 48% in the last year's budget survey.

Individual tax benefits: 78% people expect an increase in deduction allowed under Section 80C. Similarly, 60% of the respondents support an increase in deductions available to salaried employees, such as medical reimbursements, conveyance allowance and housing loan interest. This is a notch higher than last year.

Tax rates: On expected change in tax rates, most of the respondents believe that tax rates would largely remain unchanged. The only exception was income tax rates for individuals, where 45% of the survey participants believe that there would be a reduction. This is up from 26% in the last year's survey.

Growth-oriented regime: The industry has high expectations that the Goods and Service Tax ("GST") would be rolled out in this budget. The industry also anticipates that the government would extend lower tax rate of 15% on dividend received by Indian companies from their foreign subsidiaries. Also, tax incentives for infrastructure sector are high on the list of expectations.

Reducing Transfer Pricing litigation: Aggressive transfer pricing litigation in India has been an area of concern. India Inc. expects more thrust on Advance Pricing Arrangements ('APAs') and Safe Harbour Rules.

Focus area: It is expected that maximum thrust would be given to the infrastructure and manufacturing sectors, followed by agriculture and education sectors. Further, the top three expectations from this year's budget are reduction in personal tax rates and simplification of tax law, introduction of GST and boost to manufacturing and infrastructure sectors.

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Survey synopsis – Sector-specific

Technology

The industry expects tax incentive for cloud computing services on the direct tax front.

From an indirect tax perspective, exemption from levy of service tax on transfer of funds by the head office in India to its branch office outside India for meeting the administrative and related expenditure is expected. Also, clarity on dual levy of service tax and VAT on software is much awaited.

Real estate and infrastructure

The sector demands Section 80-IA tax holiday to be extended to integrated township projects and special residential zones (mass housing/ residential townships). The industry also expects the government to promote eco-friendly projects by providing tax benefits.

From indirect taxes perspective, there appears to be a need for clarity of levy of service tax on Joint Development Agreements.

Financial services

Financial services sector expects provisions of Section 115AD (currently applicable to FIIs) to be extended to FPIs. Besides, there is a demand for extending the benefit of lower deduction of tax under Section 194LD to debentures and other debt securities.

On indirect tax front, there are various demands such as amendment to ad-hoc provision applicable to banks and Non-Banking Finance Corporations requiring reversal of 50 % of eligible CENVAT credits, etc.

Healthcare and pharma

The industry has high expectation that it will be given the “infrastructure” status to enable them to avail tax holiday under section 80-IA of the Income Tax Act and borrow at preferred rates.

From indirect taxes perspective, exemption to the right to use trademarks/ patents of a foreign company from Service Tax levy seems to be high on the agenda of the respondents.

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Market expectations: General

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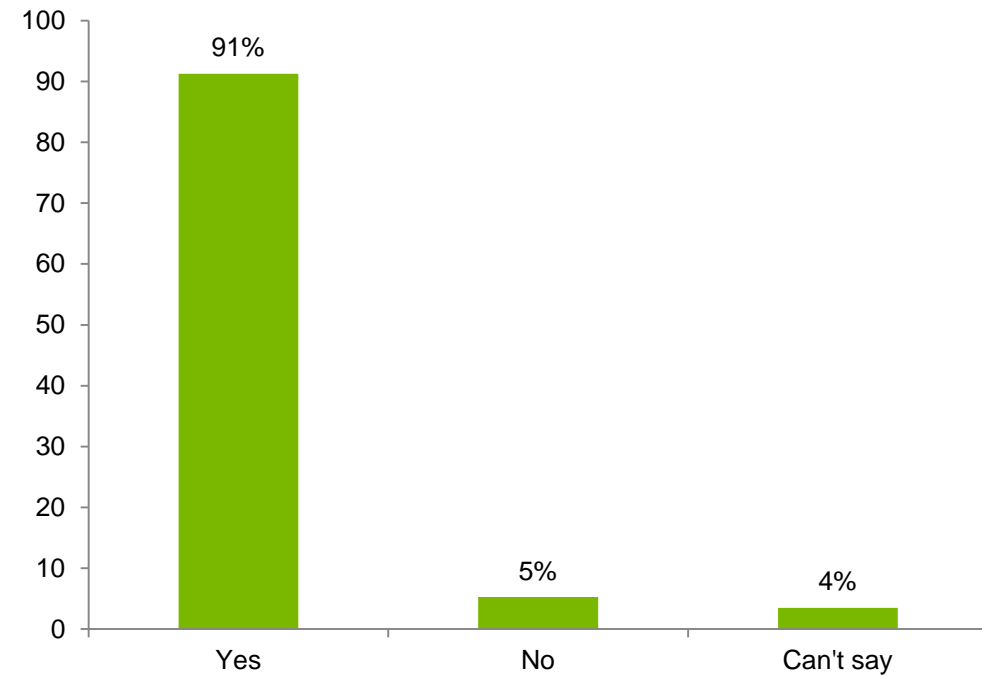
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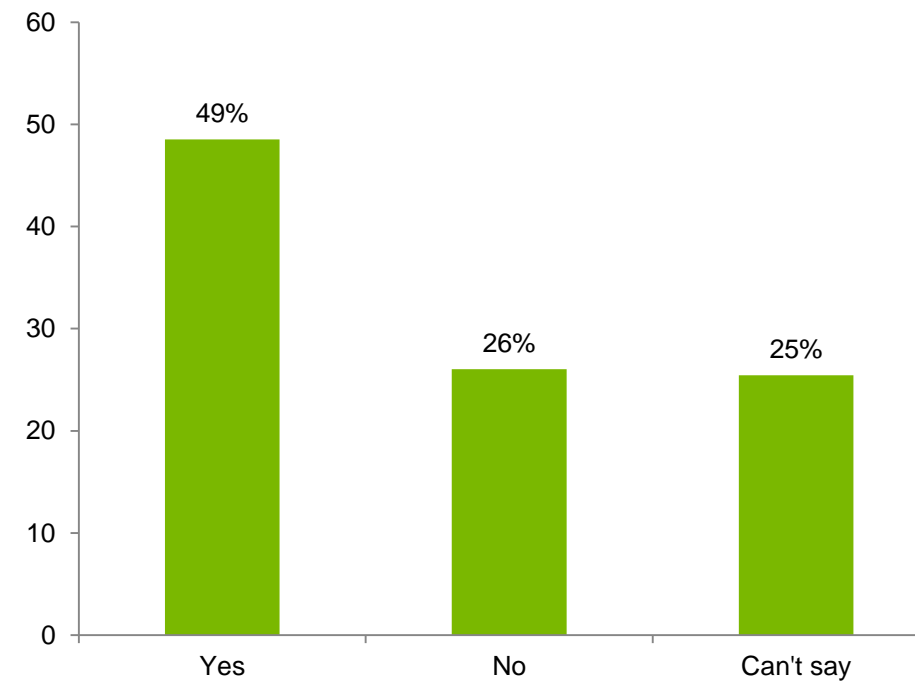


General

Do you expect Budget 2014 to be investor-friendly?



Do you expect that Budget 2014 will extend the special rate of 15% on dividends received from foreign companies beyond 31 March 2014?



The message: 91% respondents anticipate the Budget 2014 to be investor-friendly. Almost half of the respondents (49%) are also expecting the special rate of 15% on dividends received from foreign companies to be extended beyond 31 March 2014.

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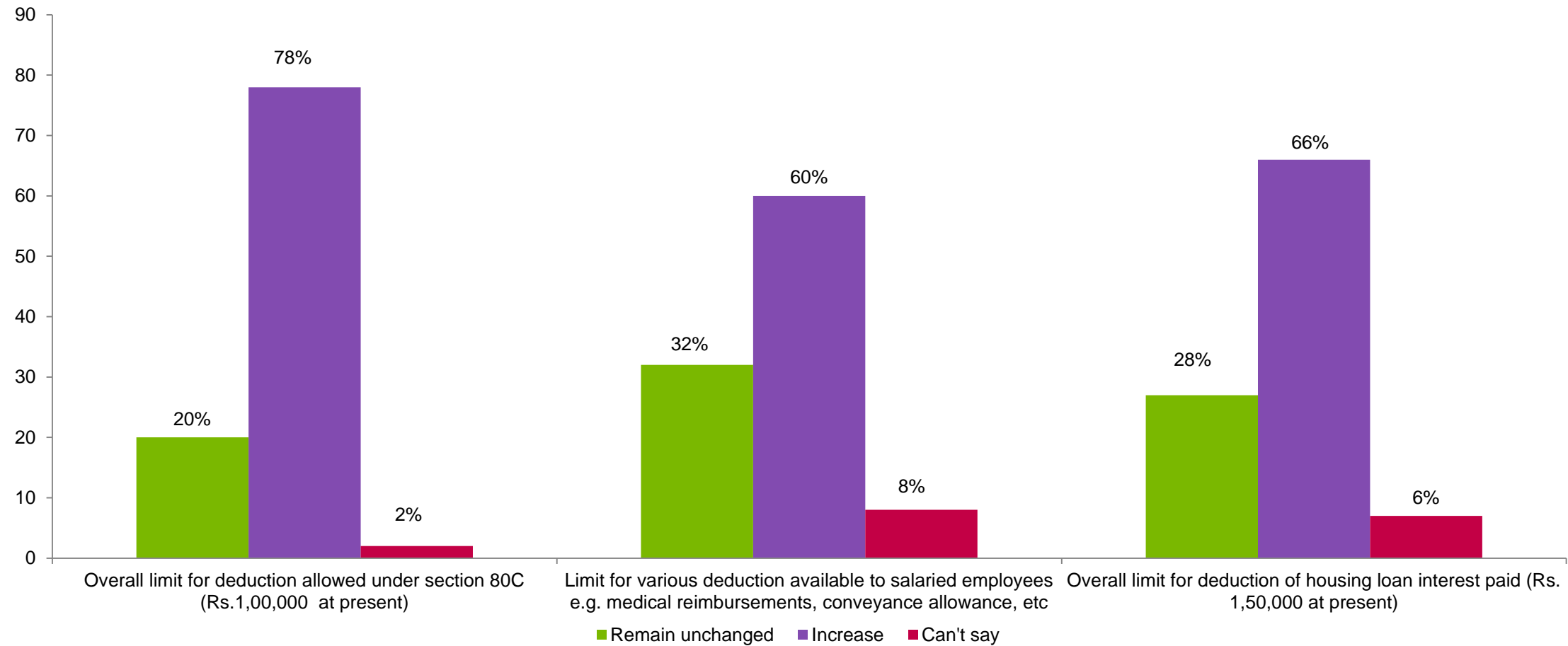
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General

What changes do you expect in the following from Budget 2014?



The message: Positive expectation on increasing the tax incentives for individuals in all the cases of deduction allowed under Section 80C, deductions for medical reimbursements, conveyance allowance and housing loan interest.

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Market expectations: Tax policy

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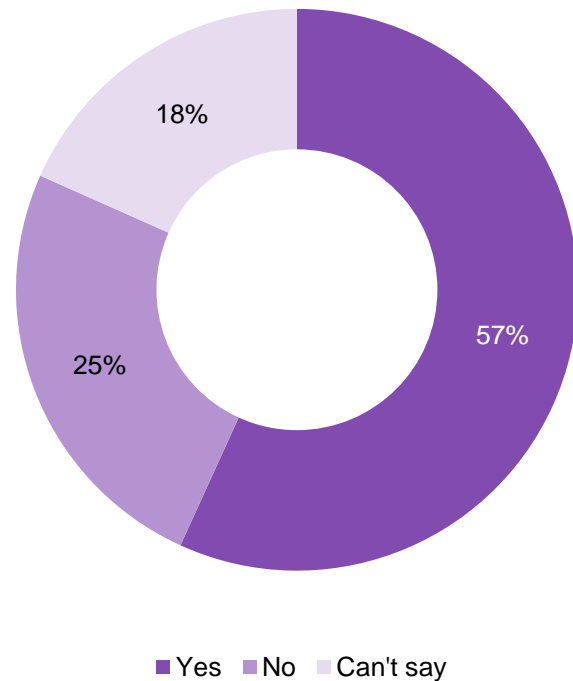
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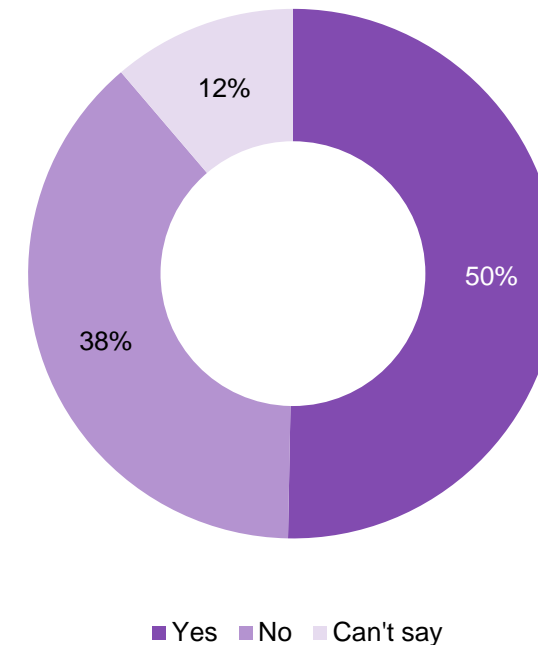


Tax policy

Do you think that the government will remove retrospective tax introduced earlier on indirect transfer of assets, which affected companies such as Vodafone?



Do you expect the government to delay the implementation of General Anti-Avoidance Rules ('GAAR') from the proposed implementation date of April 2015?



The message: 57% respondents anticipate that the government will remove retrospective tax introduced earlier on indirect transfer of assets. Further, 50% respondents expect the government to delay the implementation of GAAR from the proposed implementation date of April 2015.

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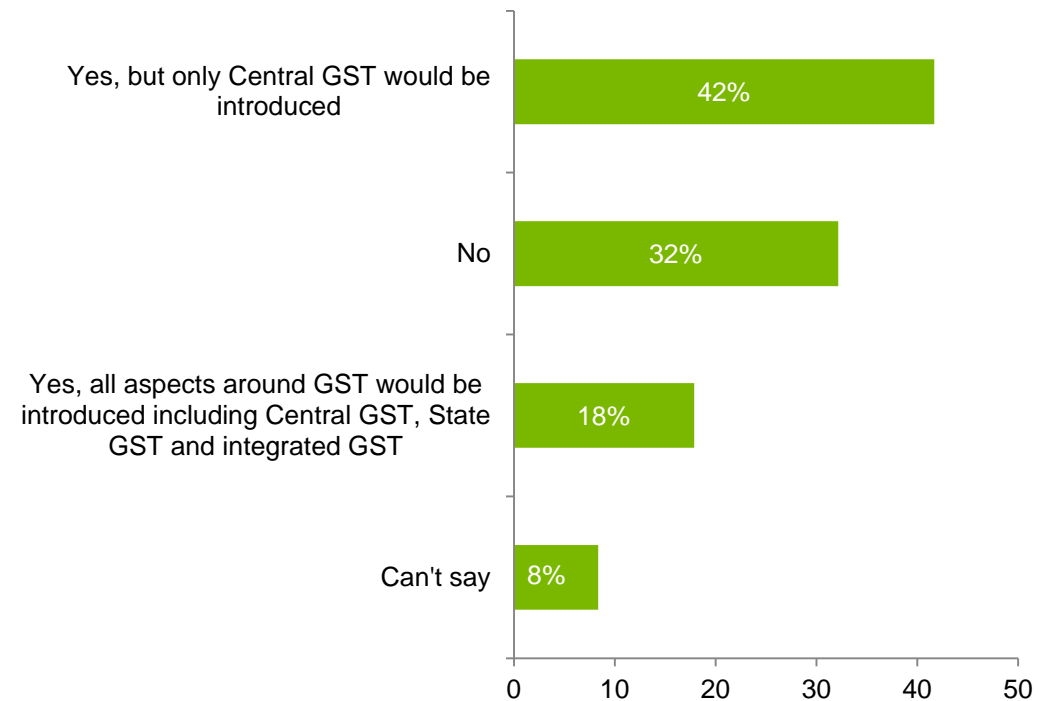
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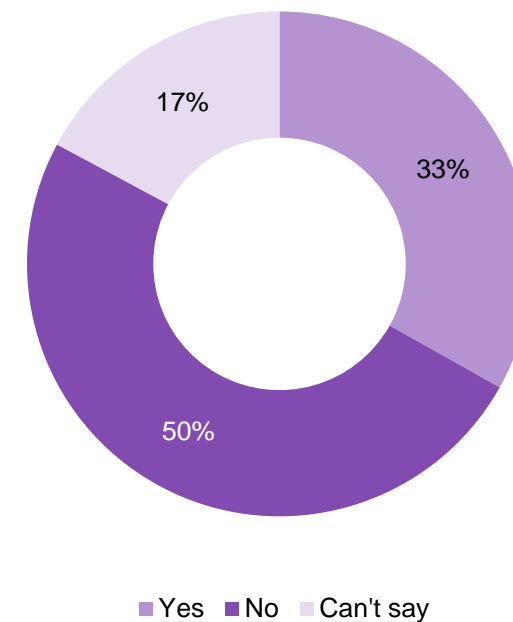


Tax policy

Do you expect that GST would be introduced in Budget 2014?



Do you expect that Budget 2014 will remove MAT, which was levied on units in Special Economic Zones ('SEZs')?



The message: 60% respondents anticipate that GST would be introduced fully/ partially in Budget 2014. However, half of the respondents expect that Budget 2014 will not remove MAT levied on units in SEZs.

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Market expectations: Tax rates

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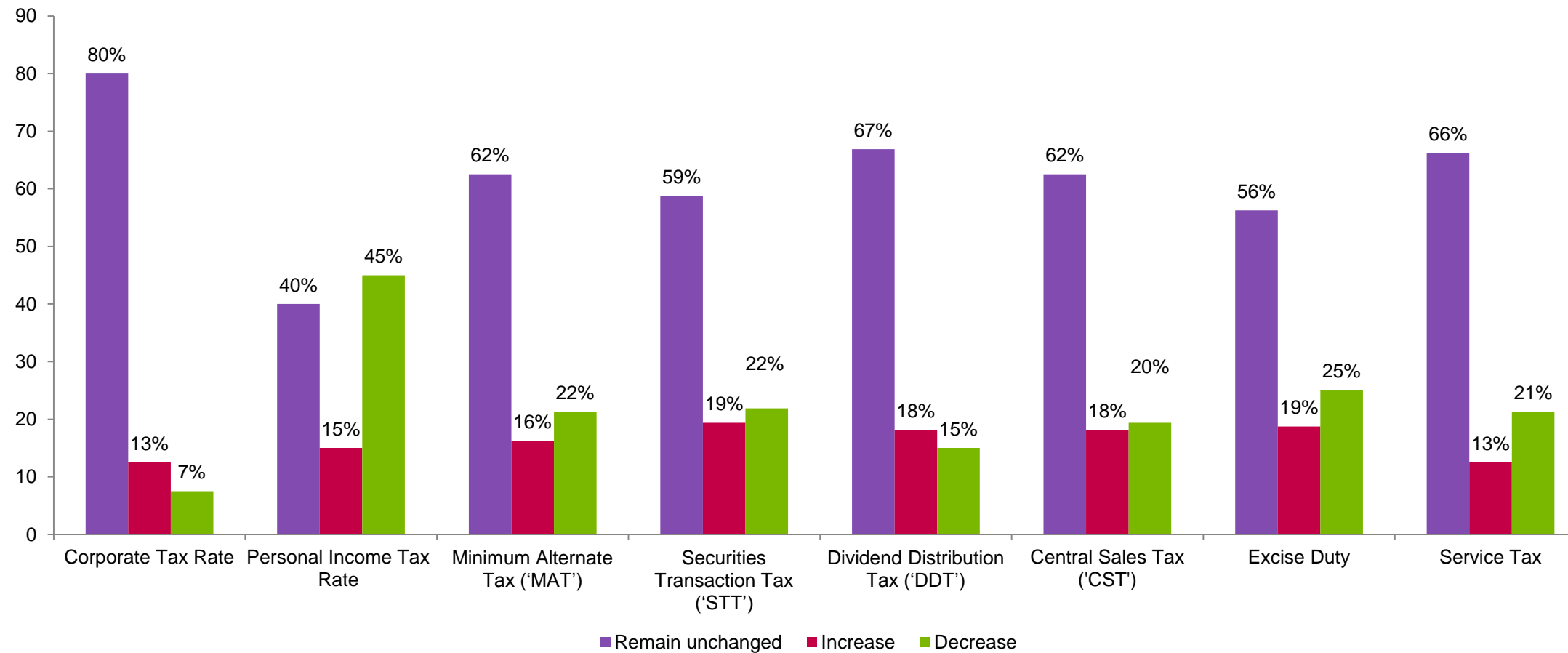
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Tax rates

What changes do you expect in the following rates?



The message: Majority of the respondents anticipate that the Corporate Tax, STT, DDT, CST, Excise Duty, MAT and Service Tax rates will remain unchanged. However, the only exception is the Personal Income Tax rate, where 45% respondents expect a reduction.

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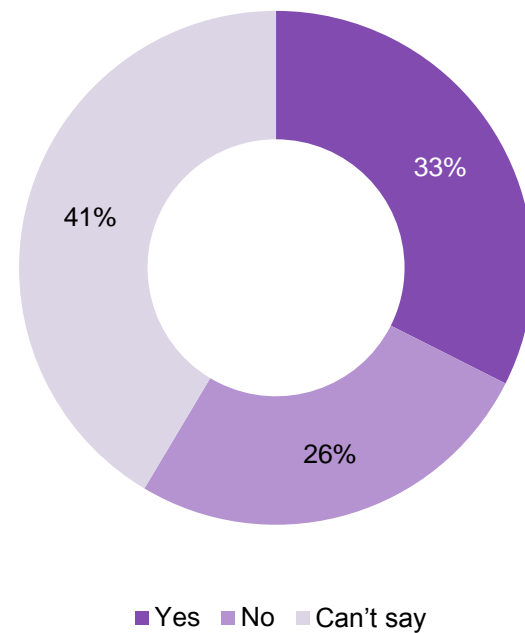
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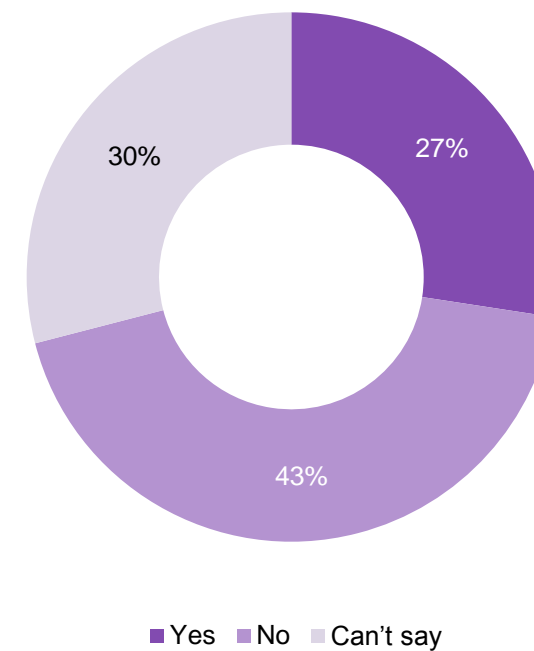


New proposals

Do you expect introduction of certain provisions in the APA regulations to enable rollback of APA terms, once agreed?



Do you expect that the “domestic reverse charge” would be extended to other services under Service Tax Law?



The message: 41% respondents are not sure that 'roll back' of APA agreement for past years would be allowed. Maximum respondents (43%) are not expecting that the “domestic reverse charge” would be extended to other services under the Service Tax Law.

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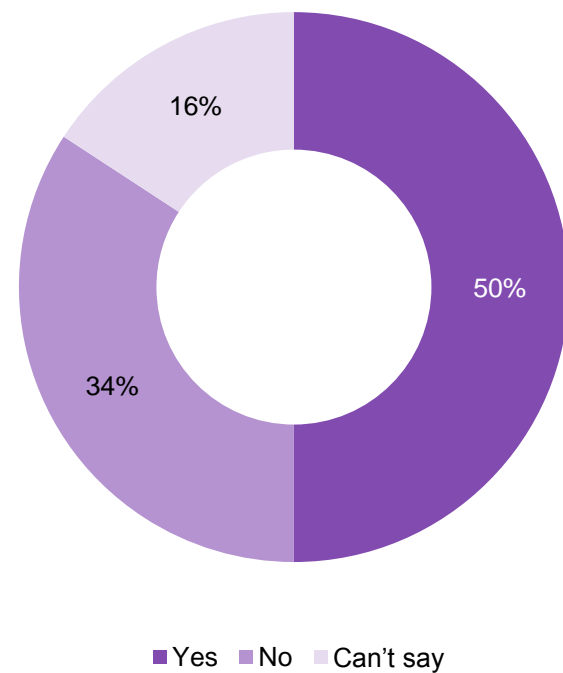
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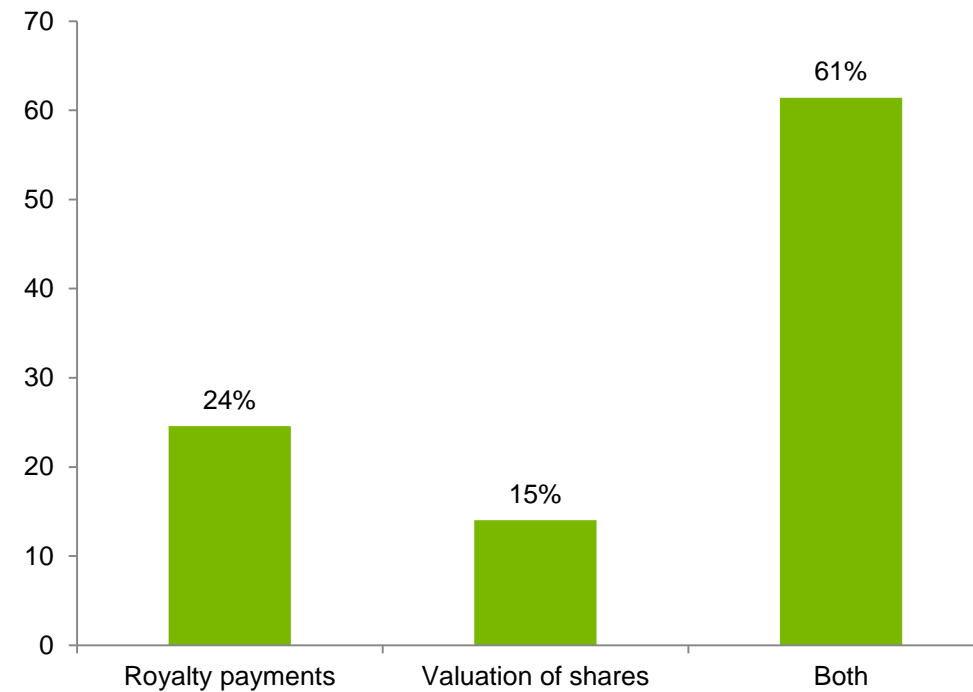


New proposals

Do you expect that further categories of transactions will be included within the safe harbour provisions?



Which is the most important transaction that you would like to be covered within the safe harbour provisions?



The message: 50% respondents anticipate introduction of further categories of transactions within the safe harbour provisions. Maximum respondents (61%) would like to see Budget 2014 cover both royalty payments and valuation of shares within the safe harbour provisions.

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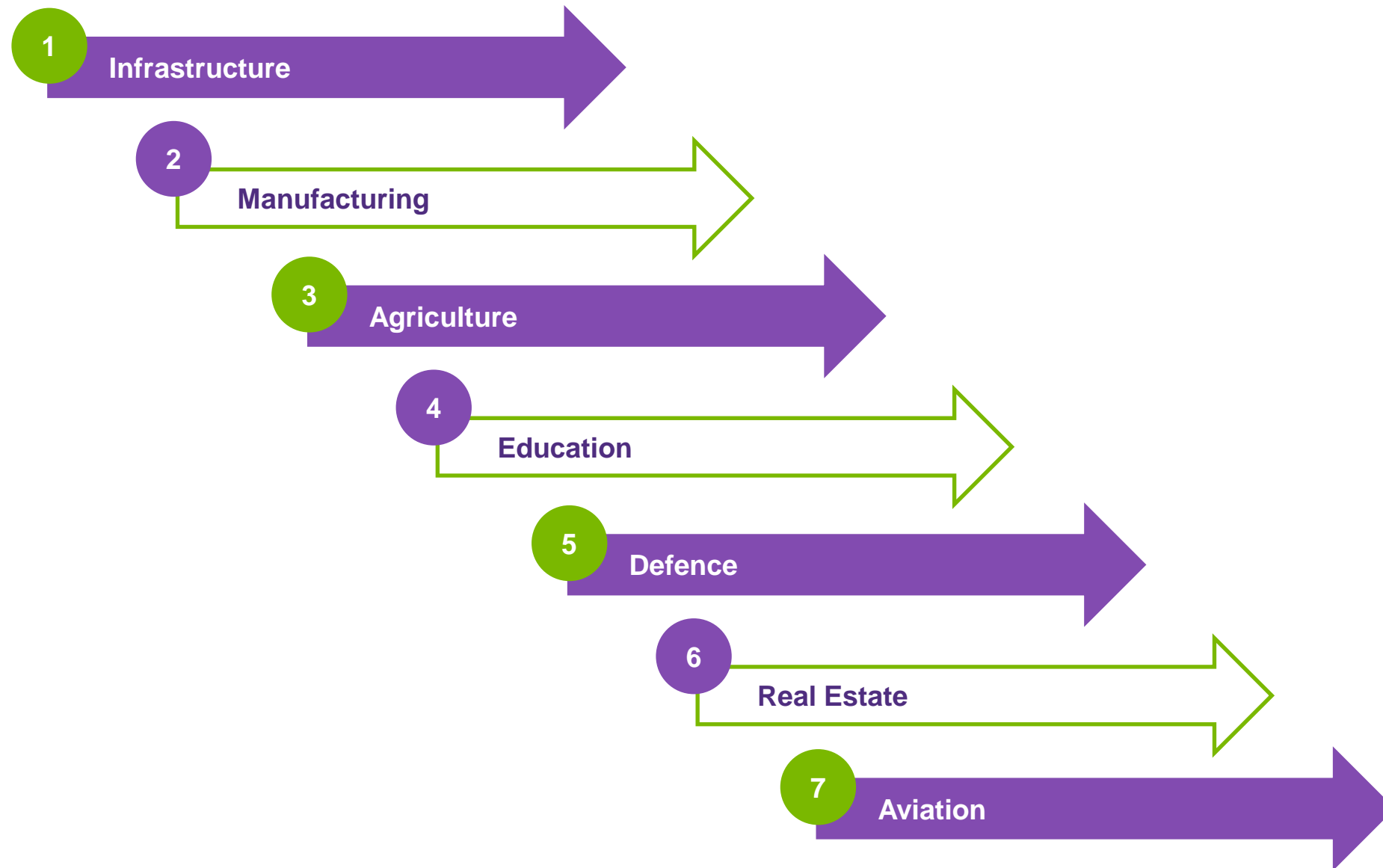
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Your expectations

Rank in the order of preference the sector(s) which will receive the major thrust in Budget 2014



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Your expectations

Please list down your top 3 expectations from Budget 2014

1

Reduction in personal tax rates and simplification of tax law

2

Introduction of GST

3

Boost to the manufacturing and infrastructure sectors



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Healthcare and pharma industry

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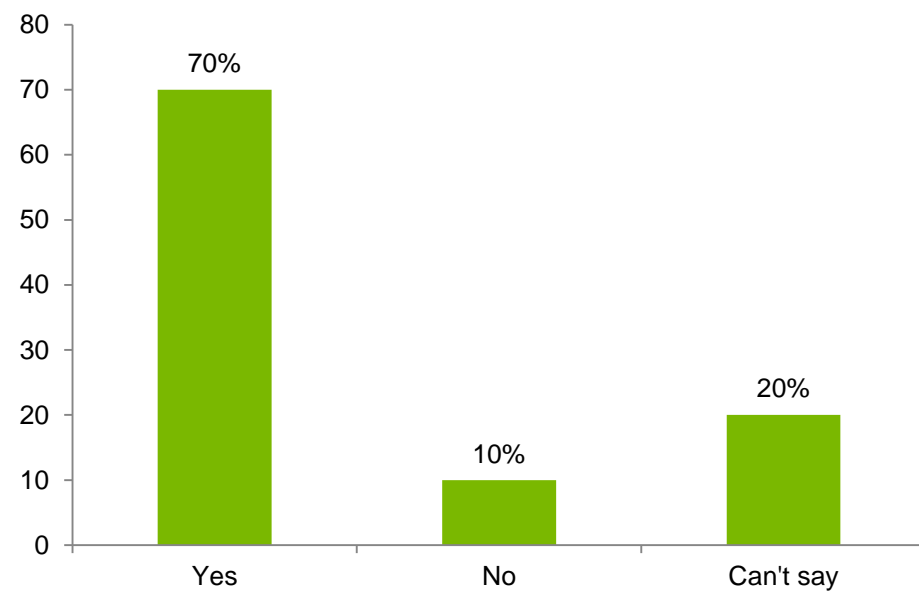
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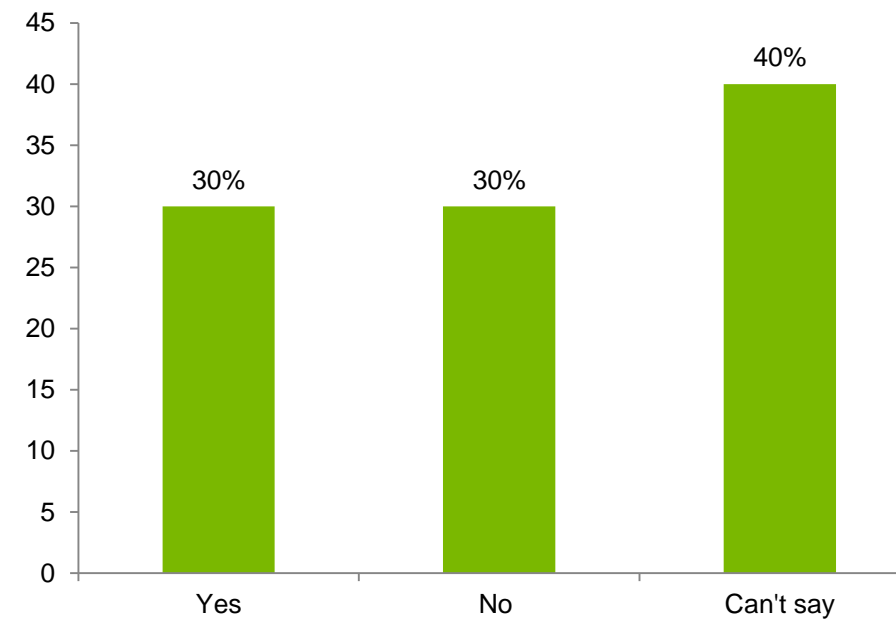


Healthcare and pharma industry

Do you expect that the hospitals will be awarded 'infrastructure' status which would enable them to avail tax holiday under Section 80-IA of the Act, and borrow at preferred rates?



Do you expect the government to exempt, from the levy of Service Tax, the right to use trademarks or patents usually granted by a foreign entity to an Indian entity?



The message: While majority of the respondents expect the grant of "infrastructure" status to the industry, the highest proportion is unsure of whether the government will exempt, from the levy of Service Tax, the right to use trademarks or patents usually granted by a foreign entity to an Indian entity.

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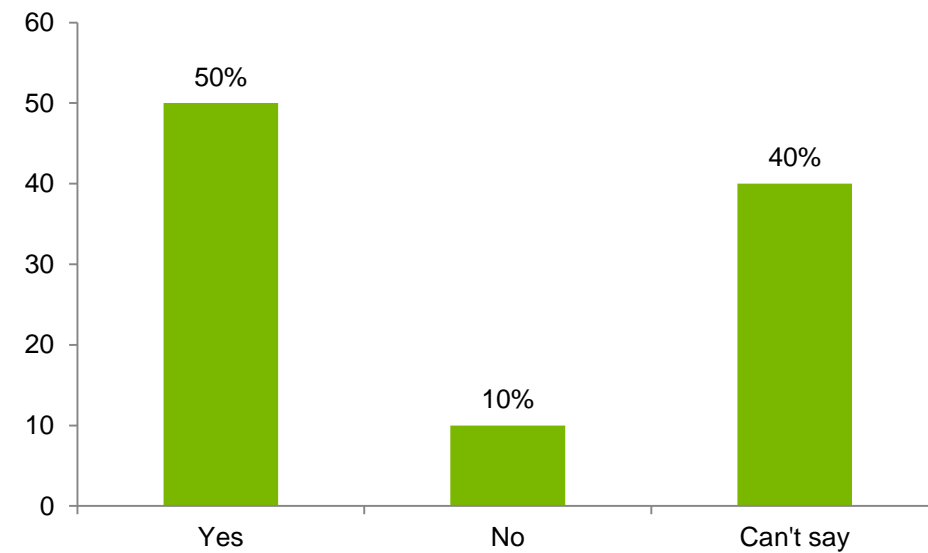
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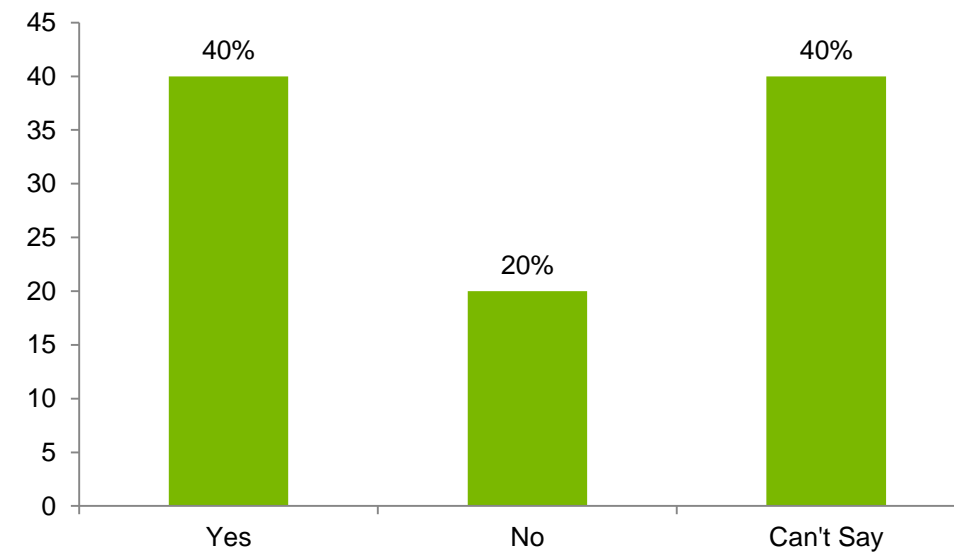


Healthcare and pharma industry

Do you expect that clarity would be provided regarding the determination of the place of provision of services in relation to R&D and testing services (example: Clinical trials) for which the goods are physically made available in India by the service receiver located outside India?



In case of brand owner and job worker scenario, do you expect a new mechanism would be introduced by way of which CENVAT credit of the Service Tax charged to the brand owner on input services could be passed on to the job worker?



The message: While opinion is divided on the new mechanism to grant CENVAT credit of the Service Tax charged to the brand owner on input services to the job worker, majority of the respondents expect clarity to be provided regarding the determination of the place of provision of services in relation to R&D and testing services.

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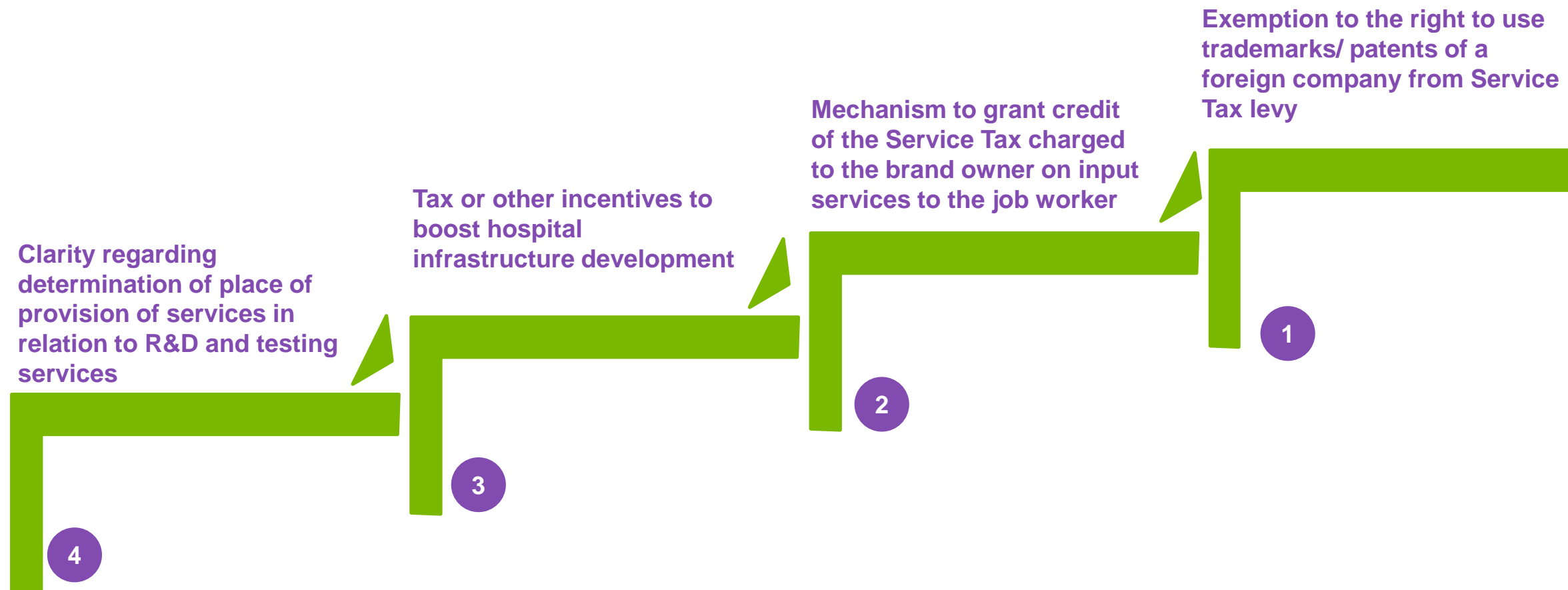
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Healthcare and pharma industry

Rank in the order of preference, the most desired expectation from Budget 2014.



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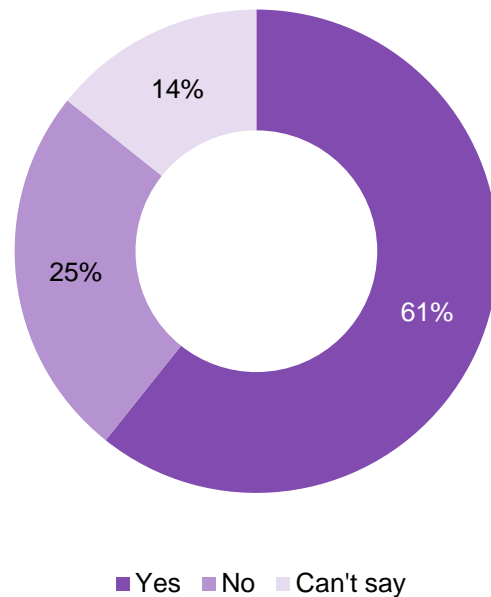
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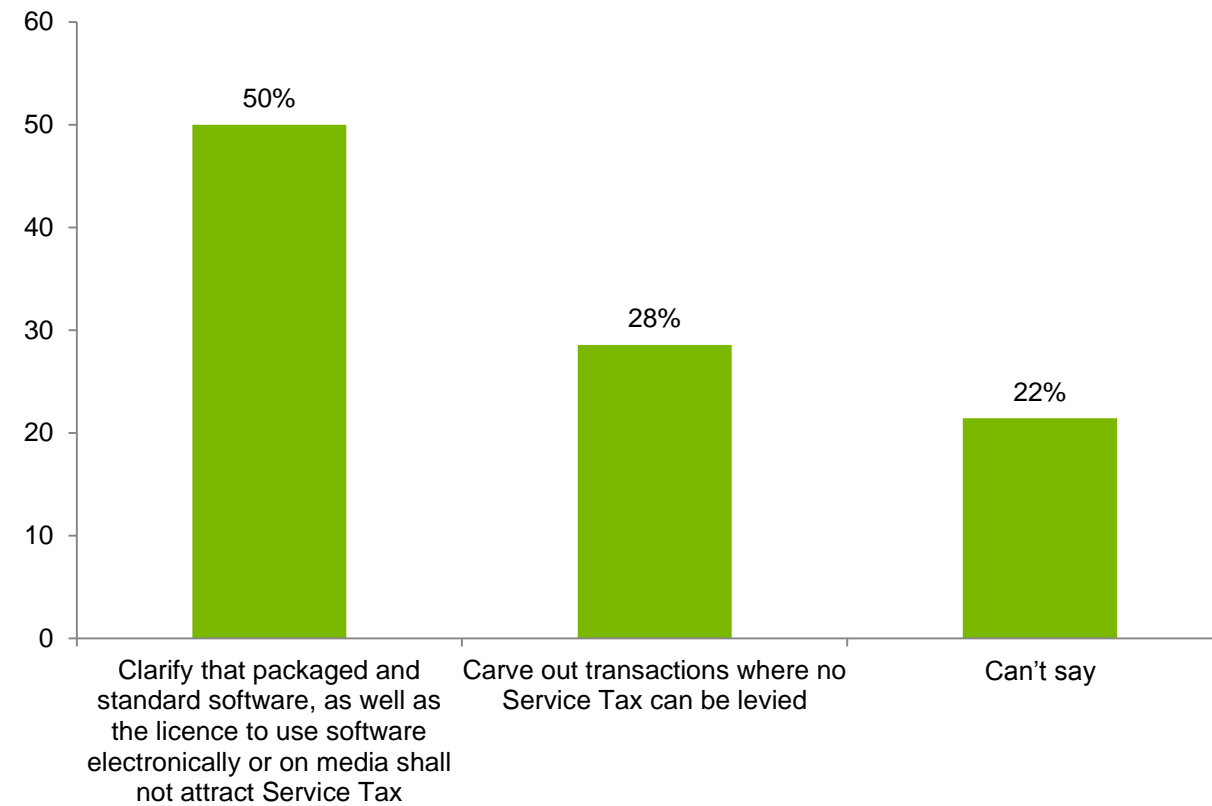


Technology industry

Will the Government incentivise the Indian information technology ('IT') industry to promote "cloud computing" by introducing capital-linked incentives?



What steps should be taken to address the issue of double taxation of software under VAT and Service tax?



The message: Higher likelihood of IT sector getting boost for "cloud computing". Besides, half of the respondents expect Budget 2014 to clarify the issue on double taxation of software under VAT and Service Tax.

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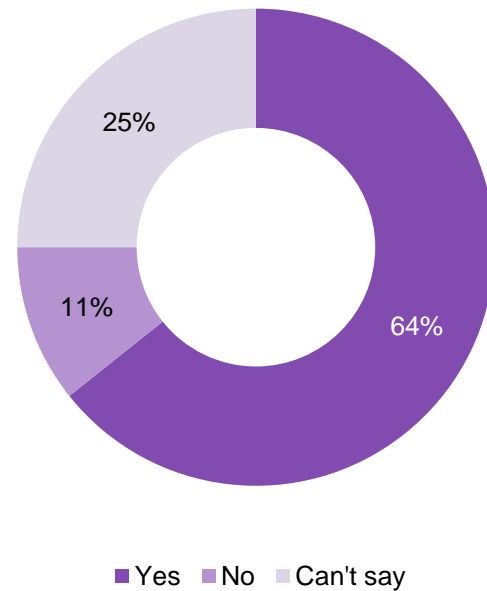
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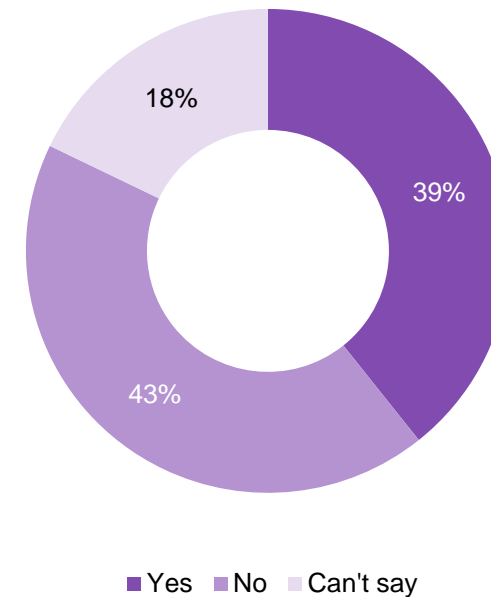


Technology industry

Do you expect a clarification that the transfer of funds by the head office in India to its branch office outside India, for meeting the administrative and related expenditure, is outside the purview of Service Tax?



Do you expect that the levy of Service Tax would be re-introduced on “sale of space or time slots” for advertisement (other than radio and television, which presently attract Service Tax)?



The message: 64% of the respondents feel that there is a need for clarification regarding the transfer of funds by the head office in India to its branch office outside India, for meeting the administrative and related expenditure. Further, 43% of respondents do not expect the levy of Service Tax to be re-introduced on “sale of space or time slots” for advertisement (other than radio and television which presently attract Service Tax).

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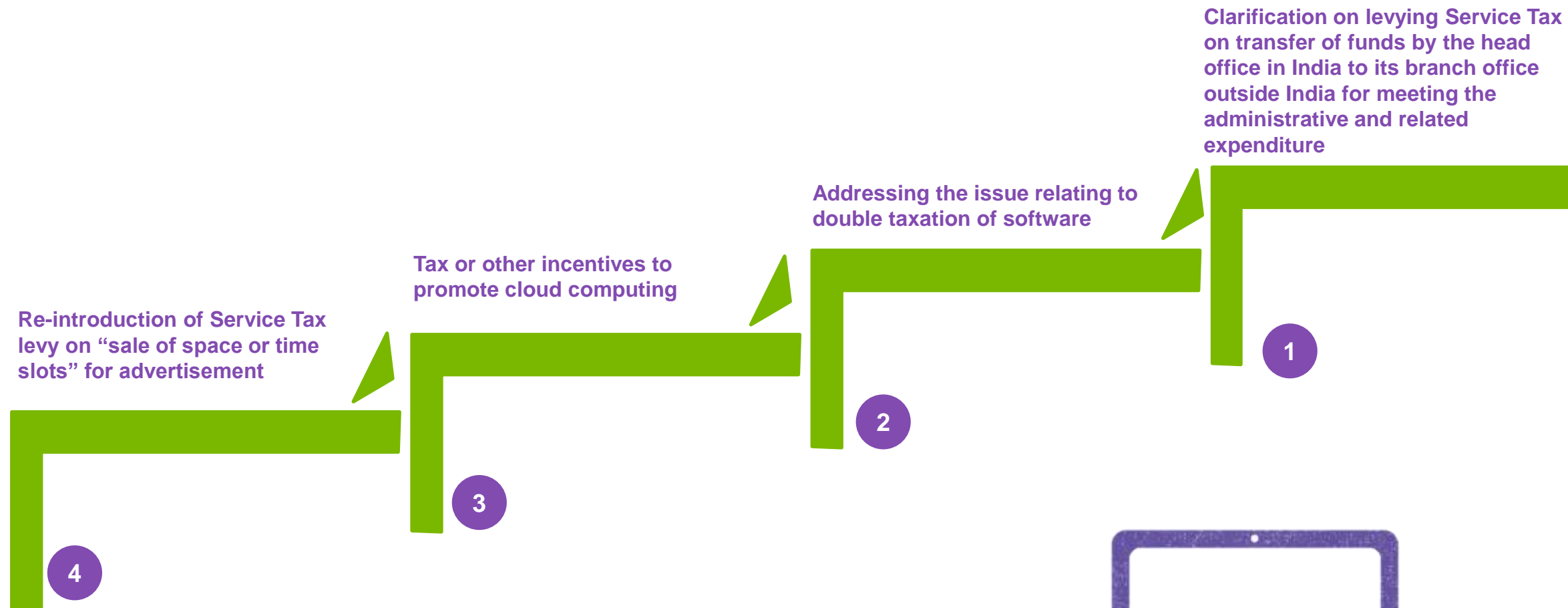
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Technology industry

Rank in the order of preference, the most desired expectation from Budget 2014.



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Real estate and infrastructure industry

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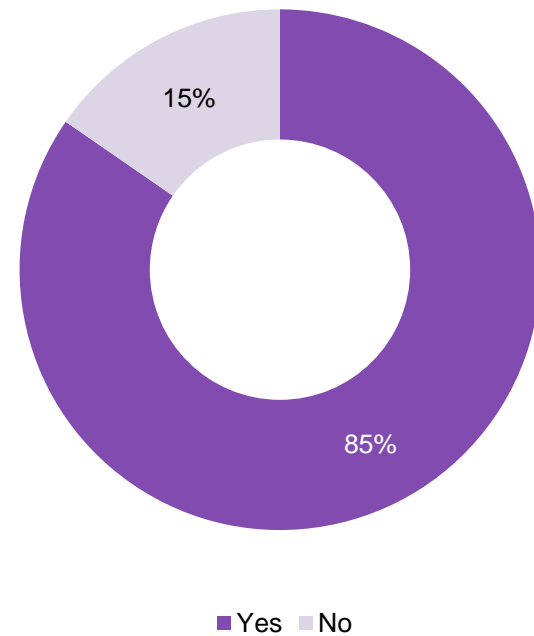
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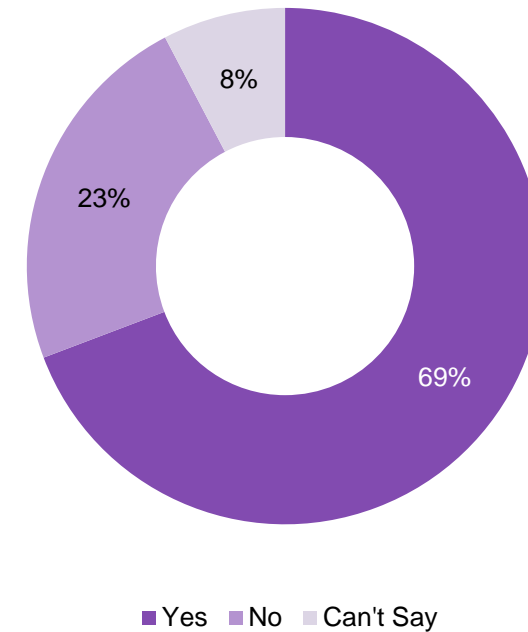


Real estate and infrastructure industry

To provide a boost to the realty sector in India, do you expect that the definition of “infrastructure facility” under Section 80-IA of the Act will be extended to include integrated township projects/ special residential zones (mass housing/ residential townships)?



Do you expect Budget 2014 to provide a separate category for deduction of housing loan repayment (i.e. over INR 100,000 threshold under Section 80C)?



The message: 85% respondents expect 80-IA exemption to include mass housing/ residential township. Further, a separate category for deduction of housing loan repayment (i.e. over INR 100,000 threshold under Section 80C) is expected to be introduced in Budget 2014.

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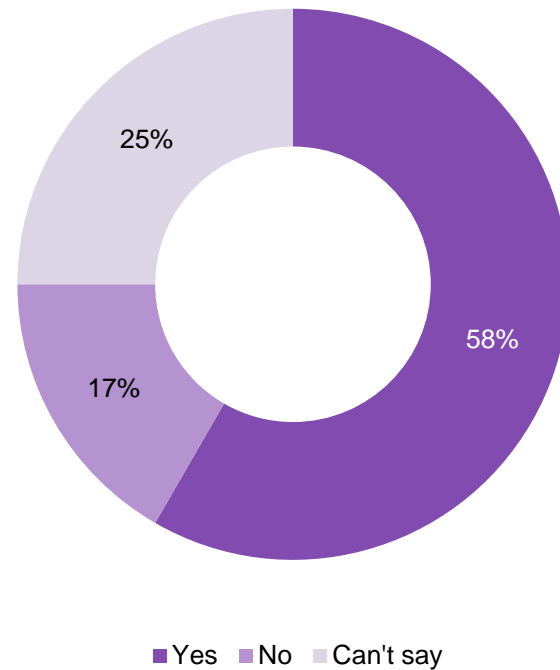
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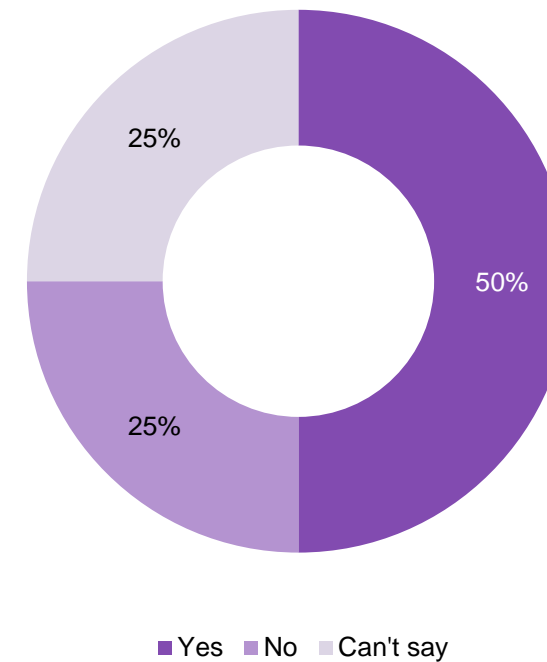


Real estate and infrastructure industry

With environment preservation being the major concern of all developing nations, do you expect that the government would promote eco-friendly projects by providing tax benefits?



Do you expect clarity on the applicability of Service Tax on share of profits arising from JDAs where there is a revenue share (i.e. money) or area share (i.e. built-up area)?



The message: 58% respondents expect Budget 2014 to promote eco-friendly projects by providing tax benefits. In addition, half the respondents anticipate clarity on the applicability of Service Tax on share of profits arising from JDAs where there is a revenue share (i.e. money) or area share (i.e. built-up area).

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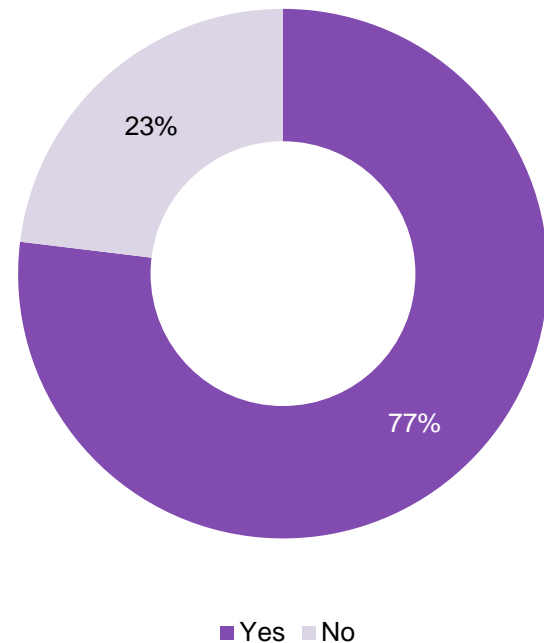
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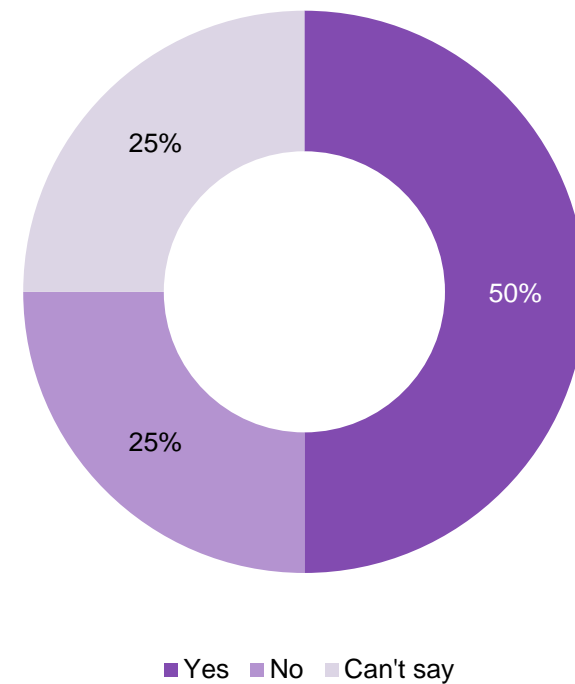
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Real estate and infrastructure industry

Are you expecting clarity in Budget 2014 on whether provisions of tax deduction at the source on transfer of immovable property (Section 194-IA) would be applicable on the transfer of development rights as well?



Do you expect clarity on the applicability of Service Tax on development agreements?



The message: The industry is expecting clarity on the applicability of the provisions of TDS on transfer of immovable property (Section 194-IA), as well as that of Service Tax on development agreements.

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Real estate and infrastructure industry

Rank in the order of preference, the most desired expectation from Budget 2014.

- 1 Additional deduction for housing loan repayment over INR 100,000 under Section 80C
- 2 Clarity on the applicability of Service Tax on share of profits arising from JDA
- 3 Section 80-IA deduction to be extended to integrated township projects, etc.
- 4 Clarity on applicability of Service Tax on development agreements
- 5 Promotion of eco-friendly projects through tax benefits
- 6 Clarity on TDS under Section 194-IA on the transfer of development rights

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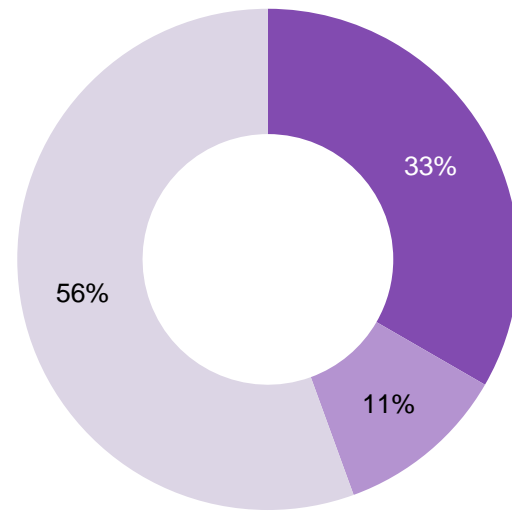
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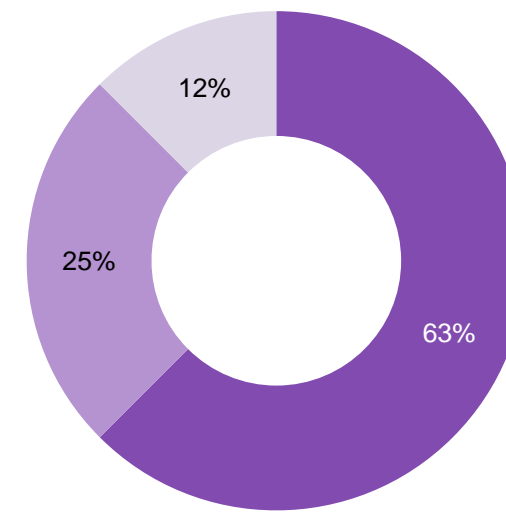
Financial services industry

Do you expect the government to abolish 'short-term capital gains' tax and increase the rate of STT?



■ Yes ■ No ■ Can't say

Do you expect that the scope of Section 194LD would be expanded to include interest from debentures and other debt securities?



■ Yes ■ No ■ Can't say

The message: Majority of the respondents are not sure about the abolishment of 'short-term capital gains' tax and increasing in the rate of STT. Further, the largest proportion of the respondents expect that the scope of Section 194LD would be expanded to include interest from debentures and other debt securities.

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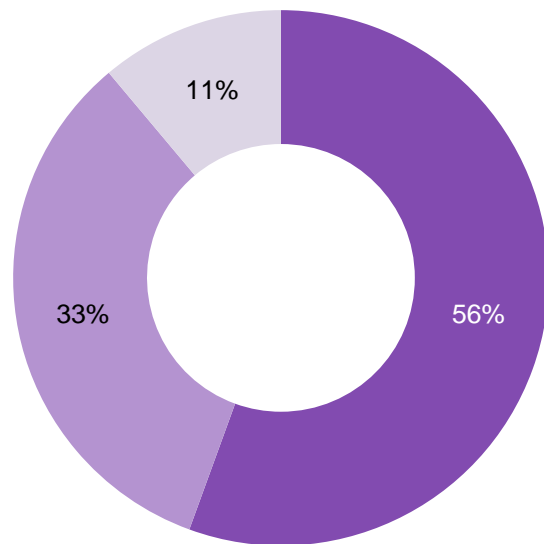
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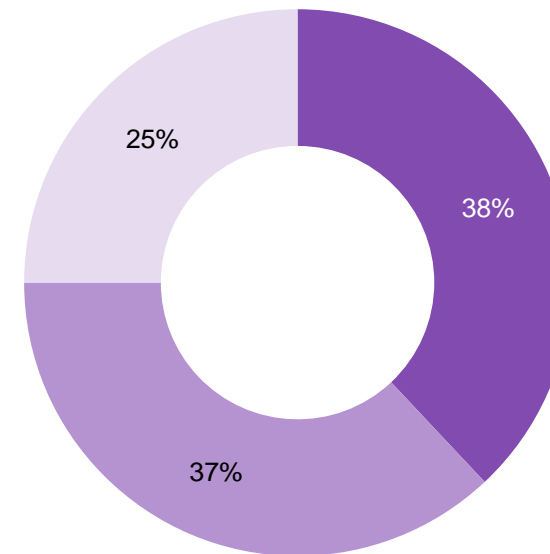
Financial services industry

Do you expect that the provisions of Section 115AD dealing with taxation of Foreign Institutional Investors ('FIIs') will be also made applicable in case of Foreign Portfolio Investors ('FPIs')?



■ Yes ■ No ■ Can't say

Do you expect clarity on taxation of Promissory Notes ('P-Notes') issued by FIIs outside India?



■ Yes ■ No ■ Can't say

The message: Majority of the respondents expect that the provisions of Section 115AD dealing with taxation of FIIs will be made applicable in case of FPIs. Further, the largest proportion of the respondents also anticipate clarity on taxation of Promissory Notes ('P-Notes') issued by FIIs outside India.

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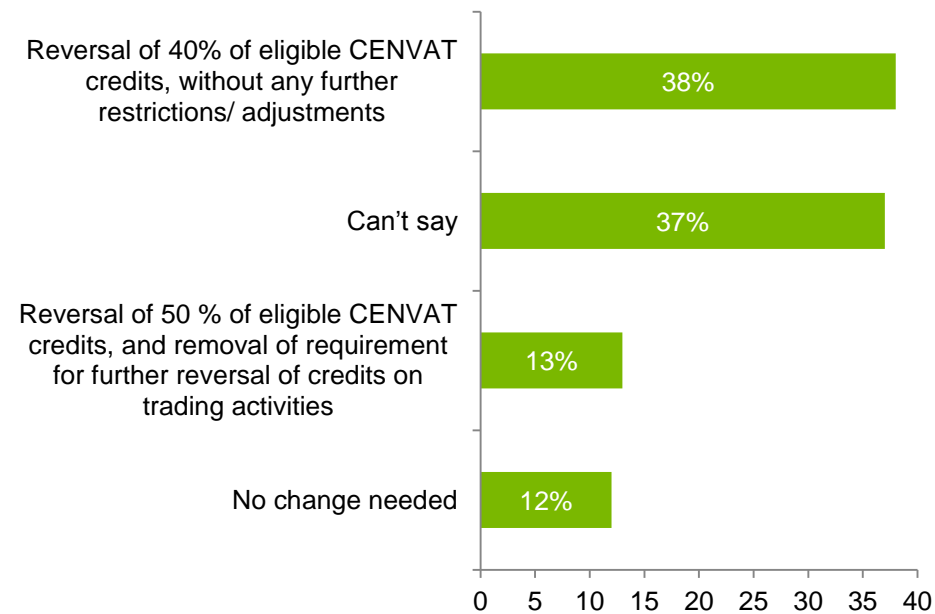
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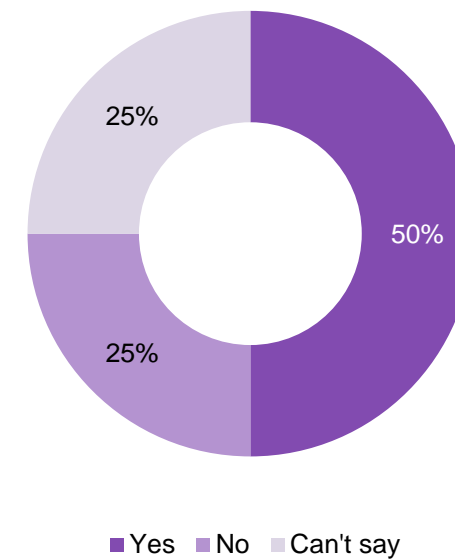
Industry-specific

Financial services industry

Do you think that the ad-hoc provision applicable to banks and NBFCs requiring reversal of 50% of eligible CENVAT credits should be amended as under?



Do you think that Service Tax trigger point should be modified to tax at the location of service recipient (as against service provider) in case of “intermediary services” provided by banks and NBFCs in India in relation to ECB, trade finance and other similar arrangements?



The message: Majority of the respondents anticipate reversal of 40% eligible CENVAT credits, without any further restrictions/ adjustments. Furthermore, the largest percentage of the respondents are also expecting a modification in the Service Tax trigger point.

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Financial services industry

Rank in the order of preference, the most desired expectation from Budget 2014.

- 1 Amendment to reversal of CENVAT credit for banks and NBFCs
- 2 Scope of 194LD for lower deduction of tax to be extended to debentures and other debts
- 3 Service Tax to trigger at the location of the service recipient
- 4 Section 115AD to be made applicable to FPIs
- 5 Clarity on taxation of P-notes issued by FIs outside India
- 6 Abolition of short-term capital gains' tax and increment in STT rate



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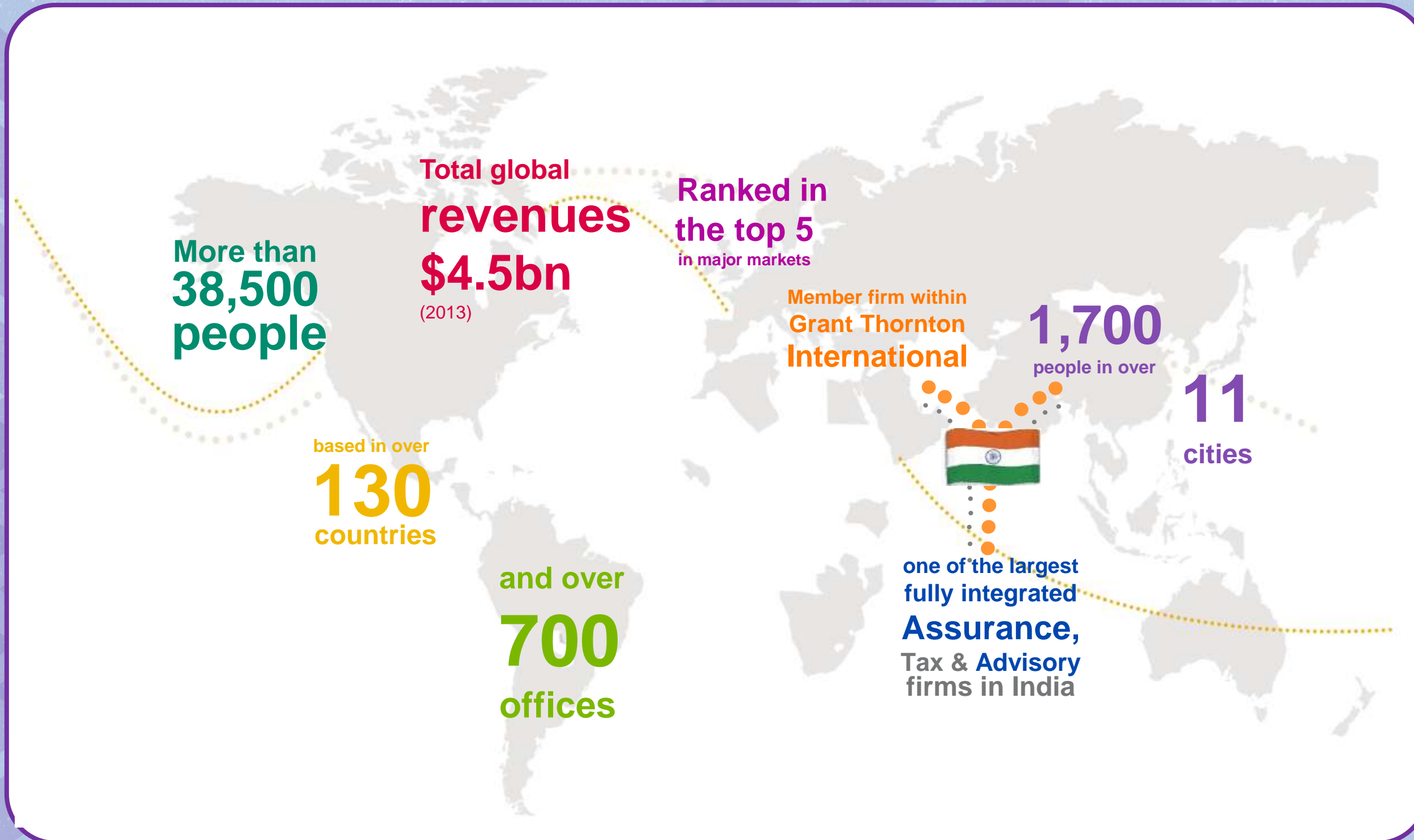
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