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UNION BUDGET 2018-19

A Comprehensive Analysis

Content

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Foreword

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The Union Budget 2018-19 marked the last full budget of the current government before 2019 general elections. Overall, the government has balanced achieving fiscal prudence without losing sight of infrastructure development while laying emphasis on the social sector. This year's budget consolidates the gains of previous programmes with a focus on strengthening core sectors like agriculture, infrastructure and rural development. This should boost growth and employment. The budget is also meticulously aligned around flagship schemes of the government like Digital India, Make in India, Clean Ganga, Healthcare to Underprivileged, among others. The plan is to contain fiscal deficit to 3.3% of GDP for 2018-19.

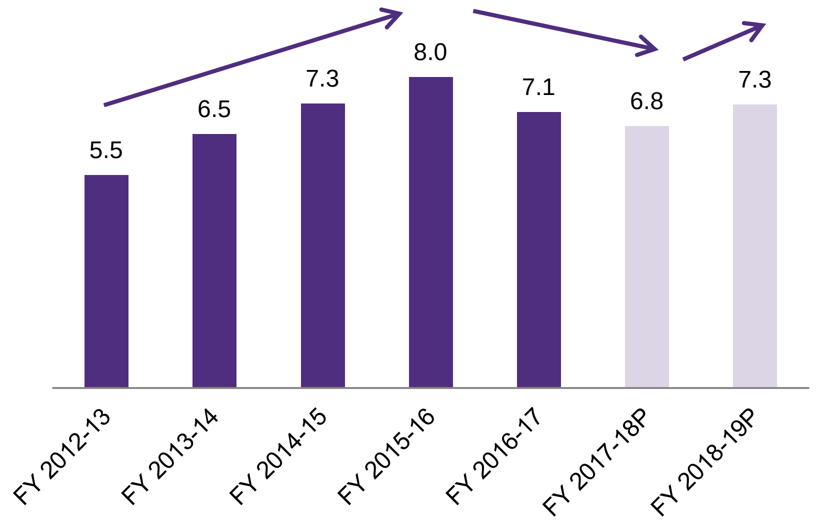
On the direct tax front, the buoyancy in personal income tax for the last two financial years, on account of strong anti-evasion measures, has allowed the government to provide some tax relief to salaried tax payers, senior citizens, and small & medium enterprises (SMEs). Tax buoyancy is expected to continue on account of measures to contain black money thus rewarding honest tax payers. By doing this, the government has taken a bold decision of introducing long-term capital gains on listed securities. This should garner significant revenue for the government while going against the popular demand of maintaining the status quo.

On the indirect tax front, not much was expected since Goods & Services Tax (GST) has ensured that decision-making is carried out in consultation with the GST Council. There is a marked departure in policy by increasing customs duty rates in footwear, food processing, electronics, auto components and furniture. This is expected to give a thrust to efforts directed towards Make in India.

Economic backdrop

Economic overview

Real GDP Growth (%YoY)



- The Economic Survey predicts a real GDP growth rate of 6.75% for FY 2017-18. The growth is expected to improve to 7-7.5% in FY 2018-19
- However, according to Central Statistics Office's (CSO) advance estimate, India is expected to grow at 6.5% in FY 2018-19

Growth likely to pick up

India's growth is expected to improve next year due to:

- Dissipating effects of earlier disruptive policy actions
- Positive effect of GST
- Bank recapitalisation and Bankruptcy Code decisively addressing the legacy Twin Balance Sheet problem
- Boost in exports due to global recovery

Improving Indian economy's global image

Moody's: Upgraded India's rating from Baa3 to Baa2, changed outlook from stable to positive, first upgrade in 14 years

Expects India to grow by 7.4% and 7.8% in 2018 and 2019, making it the world's fastest-growing economy

India jumped 30 positions to become the top 100th country in The World Bank's Ease of Doing Business list

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What's unique about Union Budget 2018-19

Fiscal goal post shifts

Fiscal consolidation has been the hallmark of this government from the beginning. However, the government deviated marginally from the fiscal deficit (FD) target of FY 2018 and also the glide path going forward. An aggressive fiscal consolidation was avoided (as suggested in Economic Survey) to give support to the nascent recovery in growth.

Focus on rural, agriculture and infrastructure

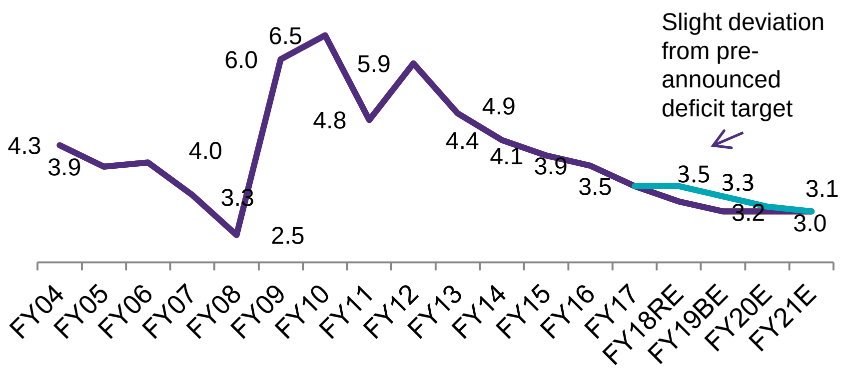
As expected, the budget focus remained on rural sector and agriculture given this is an election-heavy year. Higher expenditure allocations have been made to agriculture, healthcare and education sectors. Increase in minimum support price (MSP) to 1.5 times the input cost for all summer (kharif) crops will enhance rural incomes. Allocation to both roads and railways increased.

First budget post GST implementation

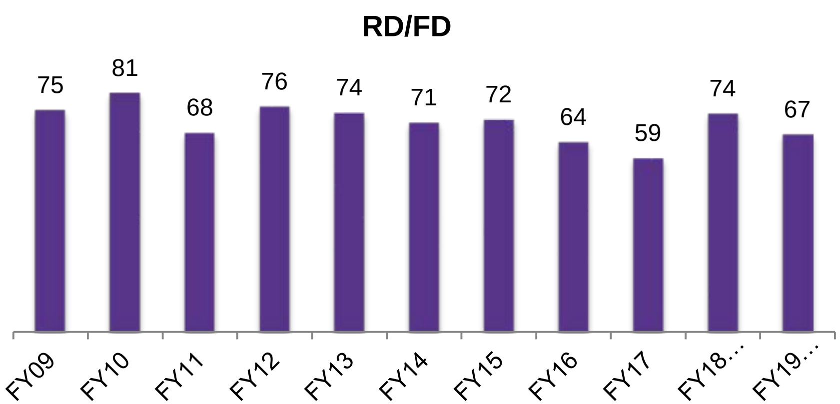
In 2017-18, the government received GST revenues for only 11 months. This, along with some teething trouble in implementation resulted in lower than expected indirect tax collection. The GST collection is projected to be buoyant in FY 2018-19. The GST Council under the principle of collective federalism is the empowered body to amend GST rates and procedures and the budget ceases to address GST matters other than changes in the law.

Fiscal deficit glide path

Fiscal deficit as % of GDP



Medium term fiscal consolidation roadmap



Goal post for FY19 changed a tad, but the glide path on fiscal consolidation remains

- The FD target for FY 2018 is higher at 3.5% from budgeted 3.2% of GDP due to lower than budgeted indirect tax collection following the roll out of GST, shortfall in non-tax collection, revenue lost from excise duty cut on petro-products and slower growth rate
- FD for next year is budgeted at 3.3% of GDP, higher than pre-announced 3%. The 3% FD target will be met by FY 2021
- The ratio of revenue deficit (RD) to fiscal deficit (FD) indicates the extent to which market borrowings are used for unproductive spending like interest expense, salary, etc. This unfortunately went up in FY18 due to rationalisation of expenditure under capital expenditure. In FY19, it is budgeted to come down. This means that market borrowings will be increasingly used for capital spending. Going forward, RD targets will not be announced

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Budget 2018-19: Major initiatives

Focus on alleviating rural distress

- The MSP for all crops of kharif to be 1.5 times of production cost to improve farmers income. Plans to develop Grameen Agricultural Markets (GrAMs)
- Allocation for Ministry of Food Processing is being doubled to Rs 1,400 crore in FY 2018-19. A new fund of Rs 10,000 crore announced for Fisheries and Animal Husbandry
- Operation Greens launched to promote Farmer Producers Organisations (FPOs), agri-logistics, processing facilities and professional management. Export of agri-commodities will be liberalised to realise full potential

A move towards the goal of universal health coverage

- Touted as the world's largest government funded health care programme, National Health Protection Scheme (NHPS) to target 10 crore poor families, providing coverage up to Rs 5 lakh per family per year

Job creation

- Reduction of corporate tax rate to 25% for companies with turnover less than Rs 250 crore. This will benefit 99% of Micro Small & Medium Enterprises (MSME). Higher allocation for credit support, capital and interest subsidy
- Government to establish skill centres in every district of the country
- Focus on infrastructure spending with higher allocation to rail and road, border connectivity, Urbanisation and Smart Cities Mission, developing tourist sites and large low-cost housing programme

Executive summary

Union Budget 2018-19: Executive summary

Direct tax

It is proposed to reduce the corporate tax rate to 25% for companies whose turnover does not exceed Rs 250 crore during FY 2016-17.

Long Term Capital Gains (LTCG) from sale of listed equity shares/units of equity oriented mutual funds/units of business trusts in excess of R 100,000 is now proposed to be taxed at 10%.

Standard deduction of Rs 40,000 is proposed. Exemptions with respect of Transport allowance of INR 19,600 per annum and medical expense reimbursement to Rs 15,000 per annum are proposed to be withdrawn.

The definition of “business connection” widened to include proposals of OECD BEPS Action Plans.

Companies undergoing insolvency proceedings permitted to carry forward tax losses, even in case of a change in substantial shareholding. Further, entire brought forward loss (including unabsorbed depreciation) allowed to be set-off in computing book profit for MAT purpose.

Union Budget 2018-19: Executive summary

Indirect tax

Increase in customs duty rates on automobile parts, footwear, jewellery, cellular phones and specified parts, etc. to provide impetus to domestic industry.	Proposal to amend Customs Act 1962 to ease adjudication and procedural aspects to promote ease of doing business.
Proposal to impose social welfare surcharge computed on customs duty to fulfill the government's commitment towards education, health and social security.	Proposal to levy road infrastructure cess for funding infrastructure.

Key tax proposals

Personal tax

Tax rates

- No change in existing slab and surcharge rates
- Education cess of 3% proposed to be substituted with health and education cess of 4%

Exemption from long-term capital gains

- Currently, capital gains arising from the transfer of any long term capital asset, is not taxable if such gains are re-invested in notified bonds at any time within a period of 6 months after the date of transfer, subject to the satisfaction of certain conditions
- This exemption is proposed to be restricted to capital gains arising from transfer of land and/or building
- The holding period of the specified bonds is extended from 3 years to 5 years

Reintroduction of standard deduction

- Standard deduction of Rs 40,000 is proposed for salaried tax payers
- Exemptions with respect to transport allowance of Rs 19,200 per annum and medical expense reimbursement of Rs 15,000 per annum are proposed to be withdrawn. Differently-abled people would continue to get benefit of transport allowance

Personal tax

Health insurance and medical treatment for senior and very senior citizens

- Deduction of health insurance premium or preventive health check-up for senior citizen or medical expenditure for very senior citizens is proposed to be increased from Rs 30,000 to Rs 50,000
- Deduction of medical treatment of specified diseases for senior and very senior citizens is proposed to be increased from Rs 60,000 and Rs 80,000 respectively to Rs 100,000

Benefits for senior citizens

- Deduction up to Rs 50,000 of interest income from deposits with bank, co-operative society or post office held by senior citizens is proposed
- Current deduction of Rs 10,000 for interest on savings bank account shall not be separately available
- Threshold for TDS on such interest income is also raised to Rs 50,000

Withdrawal of NPS

- Under the existing regime, only an employee contributing to the National Pension Scheme (NPS) is allowed an exemption of 40% at the time of withdrawal or closure of the account. It is proposed to extend the said benefit to non-employee subscribers as well

Widening and deepening of tax base

Long-term capital gains on sale of equity based listed securities

- Long-term capital gains from sale of listed equity shares/units of equity oriented mutual funds/units of business trusts in excess of Rs 100,000 is now proposed to be taxed at 10%
- Capital gains will be computed without indexation and cost of acquisition shall be higher of:
  - actual cost or
  - lower of fair market value as on 31 January 2018 and full value of consideration

Illustration:

Actual cost of Purchase on 1 April 2017	: Rs 10,00,000
Highest quoted price on 31 January 2018	: Rs 12,00,000
Full value of consideration on 16 April 2018	: Rs 15,00,000
Cost of acquisition for capital gains	: Rs 12,00,000
LTCG (Rs 300,000-100,000)	: Rs 2,00,000
Tax at 10%	: Rs 20,000

Tax rate

Reduction in corporate tax rate

- The government in past has promised to bring down corporate tax rate to 25% to make India a competitive market
- However, it has only provided lower rate for specified companies i.e. 29% for new manufacturing companies and 25% corporate tax rate for domestic companies whose turnover does not exceed Rs 50 crore during FY 2015-16
- It is proposed to reduce the corporate tax rate to 25% for companies whose turnover does not exceed Rs 250 crore during FY 2016-17

While it is estimated that the proposal would benefit 99% of existing corporate tax payer, the linkage to turnover in FY 2016-17 would pose challenge for corporate entities incorporated after 31 March 2017 to be able to claim this lower rate.

Widening and deepening of tax base

Compensation on termination or modification of contracts

- Compensation on termination or modification of any contract relating to business or employment is proposed to be taxed as 'business income' or 'other income', respectively

Application of income by funds, trusts or institutions

- For funds, trusts and institutions, the following shall be excluded from qualifying as application of income
  - 30% of expenses on which tax is not deducted and
  - Cash payment in excess of Rs 10,000

Widening and deepening of tax base

Definition of “business connection” widened

- The definition of “business connection” is proposed to include any business activity carried on by non-residents through dependent agents who habitually conclude or play a principle role leading to conclusion of contracts
- The term business connection has been widened to include ‘significant economic presence’ in its ambit. ‘Significant economic presence’ shall be established in India if a non-resident :
  - Transacts in India beyond a specified monetary threshold; or
  - Undertakes a systematic and continuous soliciting of business through digital means with customers beyond a threshold as may be specified

The proposed changes are in conformity with OECD BEPS Action Plan 1 (Digital Economy) and Action Plan 7 (preventing the artificial avoidance of PE status)

Widening and deepening of tax base

Dividend Distribution Tax (DDT) on distribution by equity oriented fund

- Distribution of dividend by equity oriented mutual funds to be subject to DDT at the rate of 10%

Taxation of dividends

- Deemed dividend on loans and advances to shareholders and related partners shall be subject to DDT at the rate of 30% without grossing up. Consequently, requirement of TDS on such dividends is withdrawn
- In case of amalgamation, accumulated profits for the purpose of dividend distribution to include accumulated profits (whether capitalised or not) of amalgamating company

Requirement of obtaining PAN

- It is mandatory for non-individual entities entering into a financial transaction of Rs 250,000 or more in a year to obtain PAN
- Requirement of PAN is extended to director, partner, CEO, karta, trustee, etc. or a person competent to act on behalf of the above entities

Tax incentives

Measure to promote start-ups

- The scheme of benefits for start-ups introduced last year has been revamped. It is now proposed that:
  - Tax concession is available for a start-up engaged in the eligible business of innovation, development or improvement of products, processes or services or is a scalable business model with a high potential of employment generation or wealth creation
  - The deduction is available for a period of 3 out of the first 7 years from incorporation, provided turnover does not exceed Rs 25 crore
  - Benefit is available to start-ups incorporated up till 31 March 2021

Derivative trading in agricultural commodity

- Trading in agricultural commodity derivatives is proposed to be treated as non-speculative transaction even though no commodity transaction tax is paid

Tax incentives

Measures to promote employment generation

- A deduction of 30% of additional employee cost is allowed for 3 assessment years provided such new employees are employed for a period of 240 days
- A lower threshold of 150 days available to apparel industry is proposed to be extended to manufacturing of footwear/ leather products
- The benefit is also extended to cover employees employed for less than the prescribed threshold provided that minimum prescribed period is met in the subsequent year

Deduction for Farm Producer Companies

- Deduction of 100% of profits attributable to cooperative society is extended to the farmer producer companies with a total turnover of up to Rs 100 crore engaged in specified business activities for its members for a period of 5 years

Incentive for International Financial Services Centre (IFSC)

- To promote India as a preferred jurisdiction for foreign currency trading in derivatives, rupee denominated corporate bonds or global depository receipts, such trading on exchanges located in IFSC is proposed to be exempt from capital gains tax
- Alternate minimum tax rate for non-corporates units located in IFSC to be reduced to 9% from existing 18.5%

Facilitating insolvency resolution

Set-off of losses and MAT relief

- It is proposed to permit carry forward of tax losses even in case of a change in substantial shareholding pursuant to a resolution plan approved under Insolvency and Bankruptcy Code (IBC). This enables such companies to set-off past tax losses, despite change in substantial shareholding
- It is proposed to allow adjustment of entire brought forward loss (including unabsorbed depreciation) to arrive at the book profit for MAT purpose

This proposal does not directly address the issue of debt write-off impacting MAT liability, but it does ease the burden to the extent of the additional loss available for set-off

Rationalisation measures

Taxation on transfer of immovable property

- In case of immovable property transferred for a consideration less than the Stamp Duty value, then such value is deemed to be the full value of consideration
- It is proposed that no adjustment shall be made to full value of consideration in case the variation between the stamp duty value and sale consideration is not more than 5% of the sale consideration
- In the above situation, the buyer is also not taxed on deemed gains

Tax holidays

- Under the existing provisions, certain tax holidays can only be claimed if the income-tax return is filed on or before the prescribed due date. It is proposed to extend this requirement to all tax holidays claimed under heading C in Chapter VIA deductions

Country-by-Country Report (CBCR)

- CBCR filing proposed to be made applicable even to subsidiary of overseas parent which is not obligated to file CBCR in its home country
- The due dates for filing CBCR is proposed to be rationalised to 12 months from the end of the accounting year in conformity with model legislation of BEPS Action Plan 13

Rationalisation measures

Tax neutral transfers

- Transfer of capital asset by holding company to its wholly owned subsidiary and vise versa is tax exempt in the hands of the transferor. However, there was no specific exclusion from tax in the hands of the transferee. It is now proposed to extend the benefit to the transferee

Commodity Transaction Tax (CTT)

- Options in commodity futures are proposed to be included in the definition of taxable commodity futures
- CTT will be levied on such options at the time of sale or at the time of exercise

Capital gains on conversion of stock-in-trade into capital asset

- In cases of conversion of stock-in-trade into capital asset the fair market value shall be treated as the consideration and the gain arising therefrom as business income
- Sale of the capital asset at a future date would be taxed as capital gains

Income Computation Disclosure Standards (ICDS)

- Delhi High Court struck down various clauses of several ICDS on the grounds that they were inconsistent with the provisions of the Act
- It is proposed to introduce the following provisions with retrospective effect from 1 April 2017, specifically in the Act to remove inconsistencies
  - Mark to market/expected loss is proposed to be allowed as eligible deduction only in accordance with the ICDS
  - Any foreign exchange gains or losses arising on account of any change in foreign exchange rates is proposed to be computed in accordance with the ICDS
  - Profit arising from a construction contract/contract for providing services shall be determined on the basis of percentage of completion method with no deduction for incidental interest, dividend and capital gains
  - Valuation of inventory proposed to be in line with the ICDS
  - Amendments introduced to align Revenue Recognition in respect of compensation, interest, etc. with ICDS

The proposals will provide certainty to some extent but controversy will continue in respect of ICDS, not specifically provided for in the amendments.

Key indirect tax amendments

Highlights

- Education cess (EC) and secondary and higher education cess (SHEC) on import of goods abolished*
- Social Welfare Surcharge (SWS)* introduced at 10% on the aggregate of duties, taxes and cesses of customs on import of goods and the same shall be non-creditable
- SWS restricted at 3% on motor spirit, high speed diesel, silver and gold
- SWS exempted on integrated goods and services tax (IGST) and compensation cess (if any)
- Specified goods exempted from EC and SHEC would also be exempt from SWS
- Road and Infrastructure cess (RIC)* imposed on specified imported goods/excisable goods and the same shall be non-creditable
- IGST and compensation cess (if any) on sale of warehoused goods, prior to clearance for export or home consumption, to be calculated on transaction value or custom valuation norms whichever is higher
- Coverage of customs law extended to a person who commits any offence or any contravention outside India
- Central Board of Excise and Customs (CBEC) to be renamed as Central Board of Indirect Tax and Customs (CBIC)

* Effective 2 February 2018

Key indirect tax amendments

Trade facilitation measures under customs

- Scope of assessment of import and export of goods has been widened by introducing a risk based selection criteria for verification of self-assessed clearances
- Full/partial duty exemptions allowed on goods imported, (including re-imports) for repair, manufacture and further processing in India, subject to specific conditions
- Electronic cash ledger mechanism similar to GST, to replace transaction-wise payment of all duties (including interest, fee, penalty)
- Purview of advance rulings widened with corresponding appellate remedy; time limit to pronounce the ruling reduced to 3 months from 6 months
- Provision for conducting audit of imported/export goods introduced

Measures to simplify customs litigation

- Provision for pre-notice consultation before issuance of demand notice introduced, in cases where malafide intention is absent
- Adjudication of demand notices to be done within prescribed time frame (up to 6 month/1 year)
- Refunds erroneously granted to be recovered as government dues without issuance of demand notice on successful appeal by authorities

Miscellaneous

PF Contribution for new employment

- To boost employment generation in the country and to encourage new workforce, the government currently contributes to the Employees Provident Fund (EPF) /Pension of new employees for a period of 3 years at the rates of:
  - 12% in case of textile, leather and footwear industries
  - 8.33% for all other sectors

  It is now proposed to extend the 12% contribution across all sectors for next 3 years
- To enable higher take home wages for women employees, it has been proposed that women employees contribute only 8% for first 3 years of their employment without any corresponding change in employers' contribution

Industry-wise report

- Consumer
- Industrial
- Technology & Financial Services

UNION BUDGET 2018-19

CONSUMER

Healthcare, Agriculture & FMCG

Sector overview

Healthcare

- Healthcare is among the largest sectors in India, both in terms of revenue as well as employment
- Industry size (including pharma) is expected to touch US$ 160 bn by 2017 and US$ 280 bn by 2020 (CAGR: ~20%)
- Under the National Health Policy, 2017 almost 1.5 lakh Heath and Wellness centres will bring healthcare closer to people
- Health insurance coverage to go up from 15% to 50 % by 2025 through government schemes such as Rashtriya Swasthya Bima Yojana (RSBY) and Aarogyasri
- Lack of basic healthcare infrastructure (e.g. shortage of hospital beds, far below WHO recommended levels) and staffing (e.g. low doctor density) seen as key challenges in Indian healthcare growth
- Low public sector investment in healthcare (~1.5% of GDP) and rising population with inadequate resources and increasing rural-urban disparity, low insurance penetration and availability of affordable medicine and equipment seen as other major areas of concern
- 100% FDI allowed in brownfield pharmaceutical projects - 74% under automatic route and beyond through approval
- 100% FDI permitted in the manufacturing of medical devices

Sector overview

UNION BUDGET 2018-19
CONSUMER

Agriculture

- Agriculture in India is the principal means of livelihood for more than 58% of rural households
- Share of agriculture/allied sectors is estimated to be ~17% of the Gross Value Added (GVA) in FY17 at FY12 prices
- Agriculture GVA is expected to grow at 4.9%; agricultural export constitutes US$ 30 bn and has the potential to grow to US$ 100 bn
- India is on the path of doubling its farm income by 2022 on account of increased investments in agricultural infrastructure along with growing use of genetically modified crops
- GoI's AGRI-UDAAN initiative is mentoring start-ups and connecting them with potential investors. On the other hand, schemes related to development of irrigation sources and drought mitigation are witnessing steep investments to the tune of Rs 50,000 crore
- Food processing sector to triple in capacity; government has committed Rs 6,000 crore as investments for mega food parks as a part of the Scheme For Agro-Marine Processing And Development Of Agro-Processing Clusters (SAMPADA)
- Various reform initiatives by NITI Aayog to bolster the sector through liberal contract farming, direct purchase and sale by farmers from vendors/consumers, and single trader license. This initiative to double rural income in the next five years
- In respect of food products manufactured or produced in India, 100% FDI allowed under government route for retail trading including e-commerce

Sector overview

UNION BUDGET 2018-19
CONSUMER

FMCG

- India’s consumer market, currently 12th largest globally and primarily driven by a favourable demographic composition and rising disposable incomes, is viewed as the key to future growth
- Consumer spending is expected to increase to US$ 4 tn by 2025, primarily on the account of food, housing, consumer durables, transport and communication sectors (Source: IBEF)
- FDI in electronics goods between April 2000 and September 2017 was ~US$ 1.80 bn (Source: DIPP)
- FMCG sector is expected to grow from US$ 49 bn in 2016 to US$ 104 bn by 2020 (CAGR: 20.6%) (Source: IBEF)
- Indian retail sector accounts for ~10% of India's GDP (PPP), with an expected CAGR of 10%. It currently stands at ~US$ 641 bn and is expected to rise to US$ 1.6 tn by 2026, with organised retail (currently ~9%) registering the fastest growth (Source: IBEF)
- FDI up to 100% allowed under automatic route for Single Brand Retail Trading (SBRT)
  - 30% local sourcing requirement for SBRT entities has now been relaxed. Incremental sourcing for the first 5 years from first store can be set off against global purchases from India by group entities of the SBRT entity. Post 5-year period, the SBRT entity shall be required to meet 30% sourcing requirements directly from its India operations
- While the erstwhile FDI Policy prohibited an e-commerce entity from permitting over 25% of sales through its marketplace from one vendor/group companies, however, the New FDI Policy clarifies that this is to be computed on a financial year basis

Key budget proposals

UNION BUDGET 2018-19
CONSUMER

Healthcare

- Setting up of National Health Protection Scheme providing health insurance cover of Rs 5 lakh per family covering 10 crore vulnerable families, would be the world's largest healthcare programme
- Allocation of Rs 1200 crore provided to set up health and wellness centres
- Proposal to set up 24 new government medical colleges and hospitals, one for each state

Agriculture

- Continuing the emphasis on doubling farmers' income by 2022, the budget 2018-19 has proposed various schemes and initiatives to boost rural economy
- Agri-market infrastructure fund with a corpus of Rs 2000 crore to be set up for developing and upgrading agricultural marketing infrastructure in 22000 Grameen Agricultural Markets (GrAMs) and 585 Agricultural Produce Market Committees (APMC)
- Target credit of Rs 11 lakh crore to the agri sector, cluster development model for farming and promotion of Farmer Producer Organisations (FPO) to strengthen the rural economy
- Proposal to set up state of the art facilities in 42 food parks to boost agri exports
- Minimum Support Price (MSP) for agri commodities fixed at minimum 150% of input price per farm
- Setting up of two separate funds of Rs 10,000 crore for setting up infrastructure in fishery, aquaculture and animal husbandry

Key budget proposals

UNION BUDGET 2018-19 CONSUMER

Customs duty: Key rate changes effective from 2 February 2018

Description of goods	Pre-budget	Post-budget
Cellular mobile phones	15%	20%
Charger, adapter, battery, microphone, wired headset, USB cable, key pad, GSM antenna of cellular mobile phones	10%	15%
Refined edible vegetable oil (groundnut, cotton seed etc.)	20%	35%
Crude edible vegetable oil (groundnut, cotton seed etc.)	12.5%	30%
Orange fruit juice	30%	35%
Cranberry juice	10%	50%
Medical devices (tariff rate)*	7.5%	10%
Raw material, parts and accessories for manufacture of cochlear implants	2.5%	Nil

*Effective rate unchanged

Key budget proposals

UNION BUDGET 2018-19 CONSUMER

Customs duty: Key rate changes effective from 2 February 2018

Description of goods	Pre-budget	Post-budget
Toys (tricycle, scooter etc.) and festive articles	10%	20%
Cosmetics and perfumery	10%	20%
Silk fabrics	10%	20%
Seats, mattresses supports, lamps and lighting fitting, etc. (except solar lamps)	10%	20%
Imitation jewellery	15%	20%
Footwear	10%	20%
Wrist watch, pocket watch, smart watch, etc.	10%	20%

UNION BUDGET 2018-19

INDUSTRIAL

Auto & Manufacturing, Real Estate, Infra

Sector overview

UNION BUDGET 2018-19
INDUSTRIAL

Automotive & Manufacturing

- India's upgrade in the ranking of Ease of Doing Business report by The World Bank by over 30 points from 2017 to 100th position is commendable
- Indian automotive industry contributed ~7% to India's GDP, ~26% to industry GDP and ~49% to manufacturing GDP in 2017 (Source: IBEF)
- Encouraging hybrid vehicles to achieve the electric-green vehicle adoption target, as visualised in government's 2015 Faster Adoption & Manufacturing of Hybrid & Electric Vehicles (FAME) scheme remains to be addressed in the future
- Government keen to leapfrog to BS VI norms and to enforce the same in Delhi from FY19, in NCR region from FY20 and mandatory implementation across India from FY21
- MSME sector is a major employment generator in our country. Several schemes like the Pradhan Mantri Mudra Yojana, initiated by the government, continue to extend support to the sector
- Make in India initiative to be strengthened with measures to make domestic manufacturing competitive and incentives towards job creation

Sector overview

UNION BUDGET 2018-19
INDUSTRIAL

Real Estate

- The sector has been plagued with reduced launches and muted demand for the last couple of years in the residential space
- Real Estate Regulation and Development Act (RERA) is getting stabilised and is expected to usher transparency in the real estate sector, further protecting the interest of home buyers in the longer run
- FDI in construction development sector between April 2000 to June 2017 was ~US$ 25 bn (Source: DIPP)
- Indian real estate sector received investments of over Rs 16,000 crore (US$ 2.5 bn) as debt and equity in H12017 with majority investments in residential projects (Source: IBEF)
- PE investments in Indian real estate sector estimated to cross US$ 4 bn in 2017, supported by government's regulatory reforms over the past two years (Source: IBEF)
- Government working on initiatives such as Housing for All and Smart Cities Mission to help boost growth in infrastructure; further, the government under the Pradhan Mantri Awas Yojana (PMAY) to push affordable housing in the country and aim to build 50 mn houses by 2022 in both urban and rural India
- Amendments in Real Estate Investment Trusts (REIT) legislation to provide operational efficiency and allow raising funds through debt capital and debt securities
- The Reserve Bank of India (RBI) has proposed to allow banks to invest in InvITs which is expected to benefit both real estate and banking sector in diversifying investor base and investment avenues respectively
- 100% FDI in real-estate broking service under automatic route

Sector overview

UNION BUDGET 2018-19
INDUSTRIAL

Infrastructure

- The nine core infrastructure supportive industries, viz. Coal, Crude Oil, Natural Gas, Petroleum, Refinery products, Fertilizers, Steel, Cement and Electricity attained a cumulative growth of 3.9% during April to November 2017-18 (Source: IBEF)
- The National Highways Authority of India (NHAI) launched its first overseas issue of Masala Bond at the London Stock Exchange in May 2017, attracting bids worth over Rs 3,000 crore (US$ 465 mn) (Source: IBEF)
- Government has approved investment of Rs 2,863 crore (US$ 433 MN) in six states under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme for improving basic urban infrastructure over 3 years
- The National Investment and Infrastructure Fund (NIIF) partnered with UAE-based DP World to create a platform that mobilises investments worth US$ 3 bn into ports, terminals, transportation, and logistics businesses in India
- The RBI has proposed to allow banks to invest in InvITs which is expected to benefit both real estate and banking sector in diversifying investor base and investment avenues respectively
- Logistics sector, including cold chain and warehousing has been awarded status of 'infrastructure'

Key budget proposals

UNION BUDGET 2018-19
INDUSTRIAL

Automotive and Manufacturing

- Emphasis on bridging the urban-rural gap and the agri segment to positively impact the tractor segment within the automotive sector
- Consequent to demonitisation and GST massive formalisation of business of MSME taking place in the country. Allocation of Rs 3794 crore for credit support, interest subsidy and innovations proposed
- Additional budget outlay for the textile sector to the extent of Rs 7148 crore in 2018-19
- For Start-Up India, additional measures committed to supplement the existing tax regime for start-up players and investors

Infrastructure

- Railway expenditure allocation provides for Rs 148,528 crore for capex, primarily for capacity creation.18,000 kilometers of track doubling and 5000 kilometers of gauge conversion envisaged
- Additional funds allocated to Mumbai's suburban transport system and for the Bengaluru metropolis
- Total capital outlay for the infrastructure sector increased to Rs 5.97 lakh crore
- Smart Cities Mission receives an allocation of INR 2.04 lakh crore, covering selected 99 cities. Projects worth Rs 2350 crore completed and Rs 20,852 crore in progress

Key budget proposals

UNION BUDGET 2018-19 INDUSTRIAL

Indirect tax

- Retrospective exemption from IGST on aircrafts, aircraft engines and other aircraft parts imported under cross-border lease during the period between 1 July 2017 to 7 July 2017 (with refund of tax earlier paid, if any)
- Retrospective exemption from service tax on government share of profit in relation to grant of license or lease to explore or mine petroleum crude or natural gas or both, from 1 April 2017 to 30 June 2017 (with refund of tax earlier paid, if any)
- Basic excise duty on specified motor spirits reduced to accommodate levy of RIC, with effective rate remaining unchanged

Key budget proposals

UNION BUDGET 2018-19 INDUSTRIAL

Customs duty: Key rate changes effective from 2 February 2018

Description of goods	Pre-budget	Post-budget
Spark and compression ignition engines and parts thereof (including crank shaft) of motor vehicles used for transport	7.5%	15%
Motor vehicle in completely knock down (CKD) form not pre-assembled	10%	15%
Others motor vehicles-completely build unit (CBU)	20%	25%
Motor vehicle used for transport in CKD form with engine not assembled	10%	15%
Parts and accessories of motor vehicles used for transport	10%	15%
Electrical ignition or starting equipment	7.5%	15%
Truck and bus radial tyres	10%	15%
Solar tempered glass used in manufacturing of solar cells and panels	5%	Nil

Key budget proposals

UNION BUDGET 2018-19 INDUSTRIAL

Customs duty: Key rate changes effective from 2 February 2018

Description of goods	Pre-budget	Post-budget
Silica used in manufacturing of telecommunication grade optical fibre	Nil	5%
CNC systems for manufacturing CNC machine tools	7.5%	2.5%
LCD, LED panels of television sets	7.5/10%	15%
Parts of LCD and LED television panels	Nil	10%
Parts of cellular phone terminals	5%	10/15%
Lithium-ion battery of cellular mobile phones	10%	20%
Specified, sub parts or accessories of cellular mobile phones (sticker battery slot, camera lens, sealing gasket, sim socket, etc.)	10%	15%

Key budget proposals

UNION BUDGET 2018-19
INDUSTRIAL

Customs duty: Key rate changes effective from 2 February 2018

Description of goods	Pre-budget	Post-budget
Printed circuit board assembly (PCBA) for manufacture of charger or adapter	Nil	10%
Insulated paper plastic and rubber cables used in telecommunication	7.5%	15%
Refractory bricks, blocks, tiles and other ceramic constructional goods	5/10%	7.5%

UNION BUDGET 2018-19

TECHNOLOGY & FINANCIAL SERVICES

Technology, Media, Telecom & Financial Services

Sector overview

Technology, media & telecom

- Globally, India continues to be the leader in IT and Business Process Management (BPM). Indian IT-BPM sector estimated at ~US$ 155 bn (exports comprising ~75%) in FY17, and projected to be ~US$ 350 bn by 2025 (CAGR: ~11%), and has been contributing at 7-8% of India's GDP (Source: IBEF)
- Robotics, AI based machine learning, big data, blockchain and cloud based technology are expected to be future growth drivers
- Strong push for biometrics linked Aadhaar and digitisation to result in disruptive growth in domestic cyber security market, a part of the government agenda to transform India into a global cyber security solutions provider hub along with initiatives such as Digital India, Make in India, Smart Cities, e-Governance and National Digital Literacy Mission
- Stringent H1-B visa norms in US posing challenges to Indian companies operating in the US
- Media & Entertainment (M&E) industry anticipated to grow at a CAGR of 13.9% during 2016-21 to reach ~US$ 38 bn. M&E provided employment to ~4 mn people, through direct and indirect employment in 2017. With Indian OTT industry growing, OTT video viewers are expected to grow to 355 mn by 2020 with faster penetration of broadband connectivity (Source: IBEF)
- India is the world's second-largest telecom market, with over 1.2 bn subscribers

Sector overview

UNION BUDGET 2018-19 TECHNOLOGY

Technology, media & telecom

- Reliance Jio has disrupted the market with its entry in 2017. The year also witnessed the merger of Vodafone India with Idea Cellular to create the biggest telecom player
- Post abolishment of Foreign Investment Promotion Board (FIPB), proposals for FDI in media and telecom sectors to be sanctioned by the Ministry of Information and Broadcasting & Department of Telecommunications, respectively
- RBI approval not required for establishment of branch office, liaison office or project office engaged in information and broadcasting and telecom business, subject to requisite approvals being obtained from the respective ministries
- Telecom Regulatory Authority of India (TRAI) has halved interconnect usage charges (ICU) from October 2017 and plans to completely abolish it from 2020

Sector overview

UNION BUDGET 2018-19
TECHNOLOGY

Financial services (FS)

- The FS sector contributes significantly to the Indian growth story and is poised for rapid growth in future
- Widespread use of technology is disrupting the FS sector with the emergence of digital payment options (UPI, wallets, payment banks) and blockchain technology
- Persistent government efforts to improve digitised FS experience have enabled sector penetration, especially in rural India
- Financial inclusion agenda of the government getting implemented through the Aadhaar-based biometric authentication methods for electronic payments, P2P lending and crowd funding
- Implementation of the Insolvency and Bankruptcy Code (IBC) is changing the landscape of restructuring of stressed assets
- The re-capitalisation of PSU banks should bolster the sluggish credit growth in the lending activity

Key budget proposals

UNION BUDGET 2018-19 TECHNOLOGY

Technology, media & telecom

- The government continues to focus on Digital India initiative by doubling the allocation to Digital India programme, increasing digital intensity in education and gradually moving from 'blackboard' to 'digital board', etc.
- AI, robotics, among other technologies receive a boost with the launch of a mission on Cyber Physical Systems. Blockchain technology to be encouraged
- Concerted efforts to build wireless 5G technology by the end of 2020

Financial services

- The proposed merger of the three Public sector General Insurance companies into a single entity as announced in Budget 2018, could lead to increased competition, thus leading to further consolidation in this sector going forward
- Proposal to take reform measures of stamp duty on financial securities transactions
- Government to establish a unified authority to regulate all financial services in International Financial Service Centers (IFSC) in India
- Budget 2018 has reiterated RBI's view that crypto-currencies will not be considered as legal tender

Key budget proposals

Indirect tax

Social Welfare Surcharge (SWS) has been levied on import of goods with effect from 2 February 2018. Following key items were exempted from levy of Education Cess (EC). Secondary and Higher Education Cess (SHEC) have also been exempted from levy of SWS.

- Automated Teller Machines (ATM) and printed circuit assemblies (PCAs) for ATMs
- Static converters, other inductors, flat panel displays, etc. for automatic data processing machines and telecommunication apparatus and PCAs for the same
- Microphones, loudspeakers, line telephone handsets and PCAs for the same
- Information technology software
- Digital still image video cameras and parts thereof
- Aerials or antennae used with apparatus for radiotelephony and radiotelegraphy
- Plugs and sockets for coaxial cables and printed circuits
- Parts of indicator panels incorporating Liquid Crystal Devices (LCD) or Light Emitting Diode (LED)
- Electrical machines with translation or dictionary functions

Key budget proposals

Indirect tax

Service tax exemption (retrospectively) on service by Naval Group Insurance Fund

- Life insurance service provided by Naval Group Insurance Fund to personnel of Coast Guard proposed to be exempted from service tax retrospectively from 10 September 2004 to 30 June 2017

Service tax exemption (retrospectively) on service by GSTN to government

- Services provided by the Goods and Services Tax Network (GSTN) to the Central Government or State Governments or Union territories administration are proposed to be exempted from service tax for the period commencing from 28 March 2013 to 30 June 2017

Key budget proposals

Customs duty: Key rate changes effective from 2 February 2018

Description of goods	Pre-budget	Post-budget
Cellular mobile phones	15%	20%
Preform of silica for use in the manufacture of telecommunication grade optical fibres or optical fibre cables	Nil	5%
Specified parts and accessories of cellular mobile phones, panels and other parts of LCD / LED / OLED TVs	7.5% / 10%	15%
Smart watches/wearable devices	10%	20%
Printed Circuit Board Assembly (PCBA) and moulded plastics of charger/ adapter of cellular mobile phones, specified parts for manufacture of LCD/LED TV panels	Nil	10%

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