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Union Budget 2014-15

Impact on the Aviation sector



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Overview

Civil aviation is one of the most important industry for the Nation. It connects India's vast geography more time-efficiently than any other mode of transport.

In sync with achieving the vision of India becoming the third largest aviation market by 2020, India's aviation sector is witnessing a steady growth where domestic passenger traffic handled at Indian airports stood at 122.43 million in 2013-14 as compared to 116.37 million in 2012-13. The growth in international passenger traffic at Indian airports increased to 46.62 million in 2013-14 as compared to 43.03 million, witnessing a growth of 8.34%.

Air transport in India today supports 56.6 million jobs and produces over US\$ 2.2 trillion of the global gross domestic product (GDP). Most of the aviation players in India are still in red however, the fundamentals of the sector are very strong which is demonstrated by new foreign and domestic players coming into the fray for the Indian skies!

Pricing and tax structure of Aviation Turbine Fuel (ATF) continues to be the single biggest factor for the strain on the resources of most carriers. Fuel for other modes of public transport are subsidised, whereas ATF is subject to excessive taxation. Shrinking profitability, high airport charges and shortage of technical manpower are some of the other challenges faced by the sector. Most of these would require policy review, however, on the tax front there were certain expectations which are still languishing:

Overview

- Tax breaks for development of maintenance, repair and overhaul ('MRO') facilities in India to save operating cost of carriers and also help India save foreign exchange outflow
- Extension of benefits of additional depreciation and investment allowance to the purchase of aircrafts
- Reintroduction of section 10(15A) of the ITA whereby payments made to Non-residents aircraft / aircraft engines lessors is not taxable in India

The Budget however has something to cheer, with the proposal for general impetus on infrastructural development lot of it being accentuated towards tier II cities, and the proposal to set up new airports in particular. Further the clarification on import duties on spares and engines is a great relief and would ease out the avoidable stand off and litigation.

Also, the proposed extension of 24x7 customs clearance facility to additional airports should specifically help Indian MRO players as well as Airline carriers in reducing the overall lead time for exporting repaired goods/ parts as well goods/ parts requiring maintenance or repair , which would further help in achieving operational efficiencies.

We share herein some of the key policy initiatives for this sector in the Budget and the tax proposals.

Key policy initiatives

Development of new airports

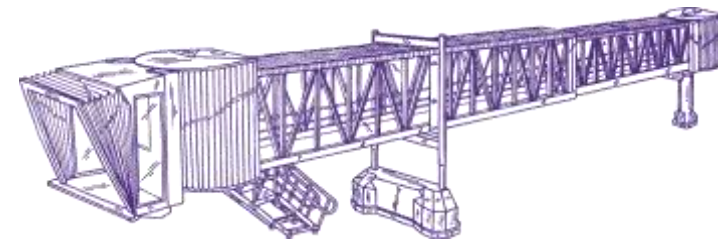
- A scheme for development of new airports in Tier I and Tier II cities is proposed. This will be implemented through the Airport Authority of India or PPPs. This will add to the current infrastructure for the air travel business, and consequently augment the overall management, easing the burden on the existing airports

Introduction of Electronic Travel Authorisation

- It has been proposed to introduce Electronic Travel Authorisation (e-Visa) facility at 9 airports to facilitate visa on arrival. The initiative will boost the current air traffic in the country, thereby promising a more gainful environment for the aviation industry

Others

- Thrust on introduction of GST
- Convergence with International Financial Reporting Standard (IFRS) by adoption of the new Indian Accounting Standards by Indian companies



Direct tax proposals

Corporate tax rates

- There is no change in the corporate tax rates, surcharge, education cess and secondary and higher education cess

Tax deduction of expenditure on CSR

- Expenditure on CSR activities has been mandated by the Companies Act 2013. However, there was no clarity on the allowability of such expenditure under the existing provisions of the Income Tax Act (the Act)
- The Budget proposes to specifically disallow the expenditure in respect of CSR under Section 37 as business expenditure

Tax withholding on interest income earned by non-resident

- Under existing provisions, apart from foreign currency loan, the reduced withholding tax rate of 5% applies only to interest on long-term infrastructure bonds. This benefit is now proposed for all long-term bonds (i.e. whether infrastructure bonds or not)
- This provision will be effective from 1 October 2014



Indirect tax proposals

General

- No change in peak rates of Customs, Central Excise and Service tax

GST

- No concrete announcement on GST implementation timeline and roadmap
- Government hopes to find a solution during this fiscal and approve the legislative scheme in discussion with the States after giving due consideration to their apprehensions

Customs duty

- Currently, exemption has been provided to 'parts' of specific aircrafts imported for servicing, repair or maintenance of aircrafts that are used for scheduled operations
- Eligibility of the said exemption to import 'aircraft engines and parts', which has been a subject of debate/ dispute since long, has now been put to rest by way of specific clarification
- Extension of 24x7 customs clearance facility to 13 additional airports

Service tax

- No change in peak Service tax rates
- Change in place of provision of service criteria of aircraft hiring on the basis of 'location of service recipient' rather than 'location of service provider'

Excise duty

- No change in peak Excise duty rates



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