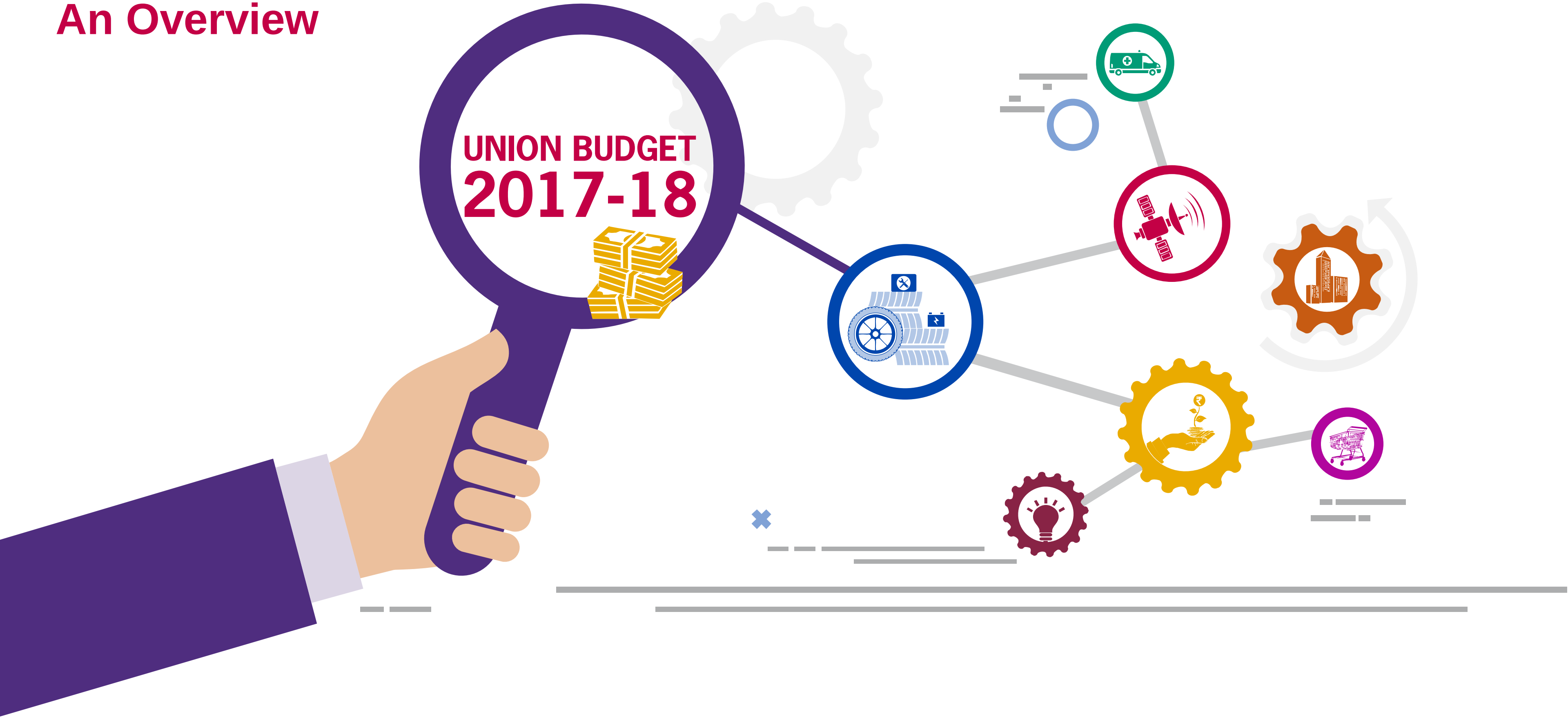
Union Budget 2017-18

An Overview



Content

Foreword

Vikas Vasal

Partner, Grant Thornton India LLP

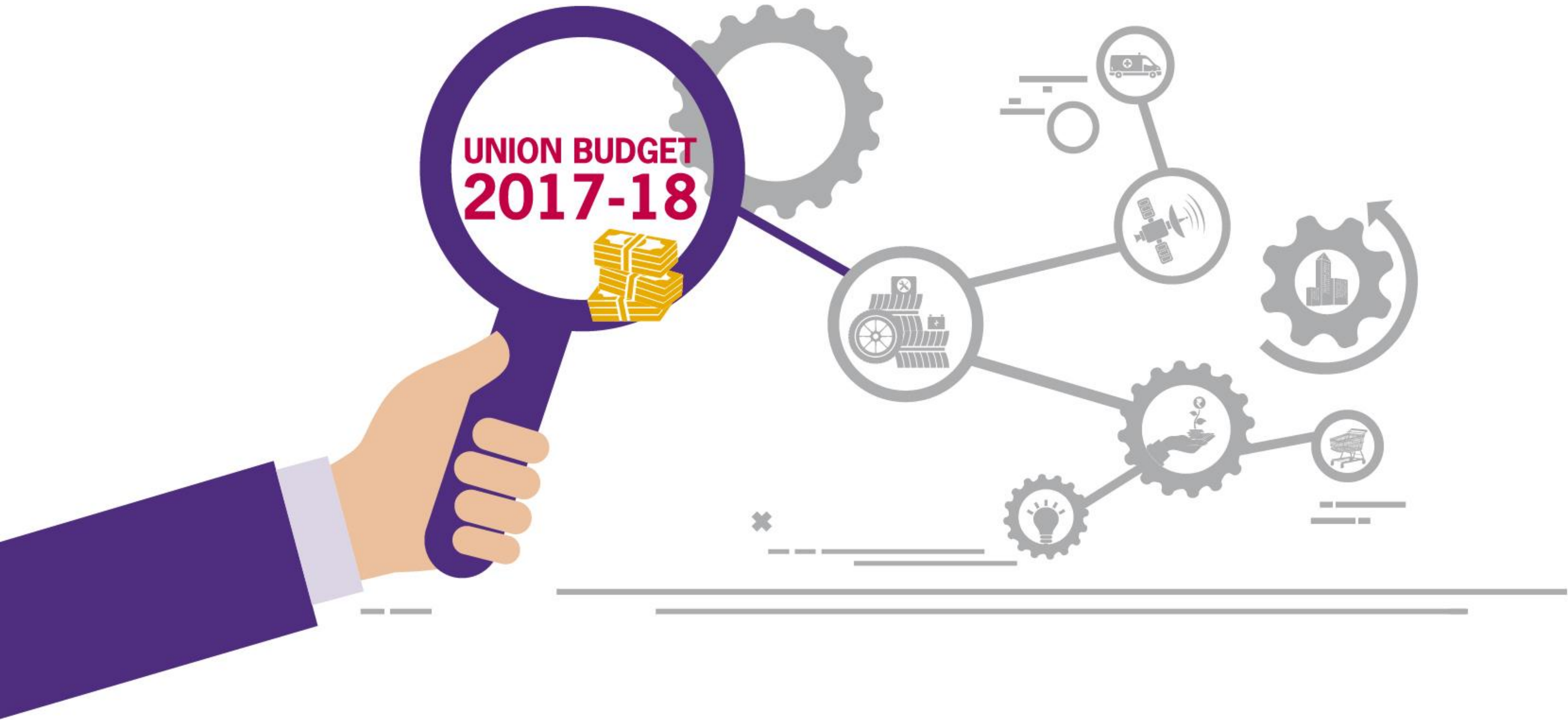
A pragmatic approach has been adopted to boost consumption and growth in the economy with focus on rural development, affordable housing, infrastructure and digitisation.

On tax front, the underlying theme has been certainty and consistency. There has been lot of thrust on tax transparency, compliance and widening the tax base, in continuation with the government's recent demonetisation drive.

The reduction in corporate tax for small companies is a welcome move, in continuation with the roadmap laid by the government to reduce the corporate tax rate and phase out the tax concessions.

It is re-assuring that GST is on-track, albeit a slight delay and that most of the background work has been done and issues resolved.

Snapshots of Tax Proposals



Snapshot of Direct Tax Proposals

01	Corporate tax rate for small companies reduced to 25%
02	Reduction in tax rate from 10% to 5% on the first income slab applicable for individuals
03	Taxation of capital gains from property transferred under joint development agreements for individuals/HUFs deferred to the year of completion of project
04	Immovable property held for more than 24 months to be treated as long term capital asset
05	Lower rate of TDS on foreign debt extended till 1st July 2020. Benefit also available to Masala bonds
06	Indirect transfer provisions not to apply to category I & II Foreign Portfolio Investors

Snapshot of Direct Tax Proposals (Contd.)

07	Minimum Alternate Tax provisions amended to provide the framework for computation of book profit for Ind AS compliant companies
08	Receipts of Rs 3 lacs or more in cash prohibited - 100% penalty can be levied
09	Tax holiday window for start-ups extended from 5 to 7 years. Terms for carry forward of loss in case of change on shareholding relaxed
10	PAN to be furnished for collection of tax at source - Higher rate of TCS to apply in case of non compliance
11	Any asset received for less than fair value consideration – benefit taxable in the hands of the recipient for all category of taxpayers
12	Set-off of loss on rental income restricted to Rs 2 Lacs

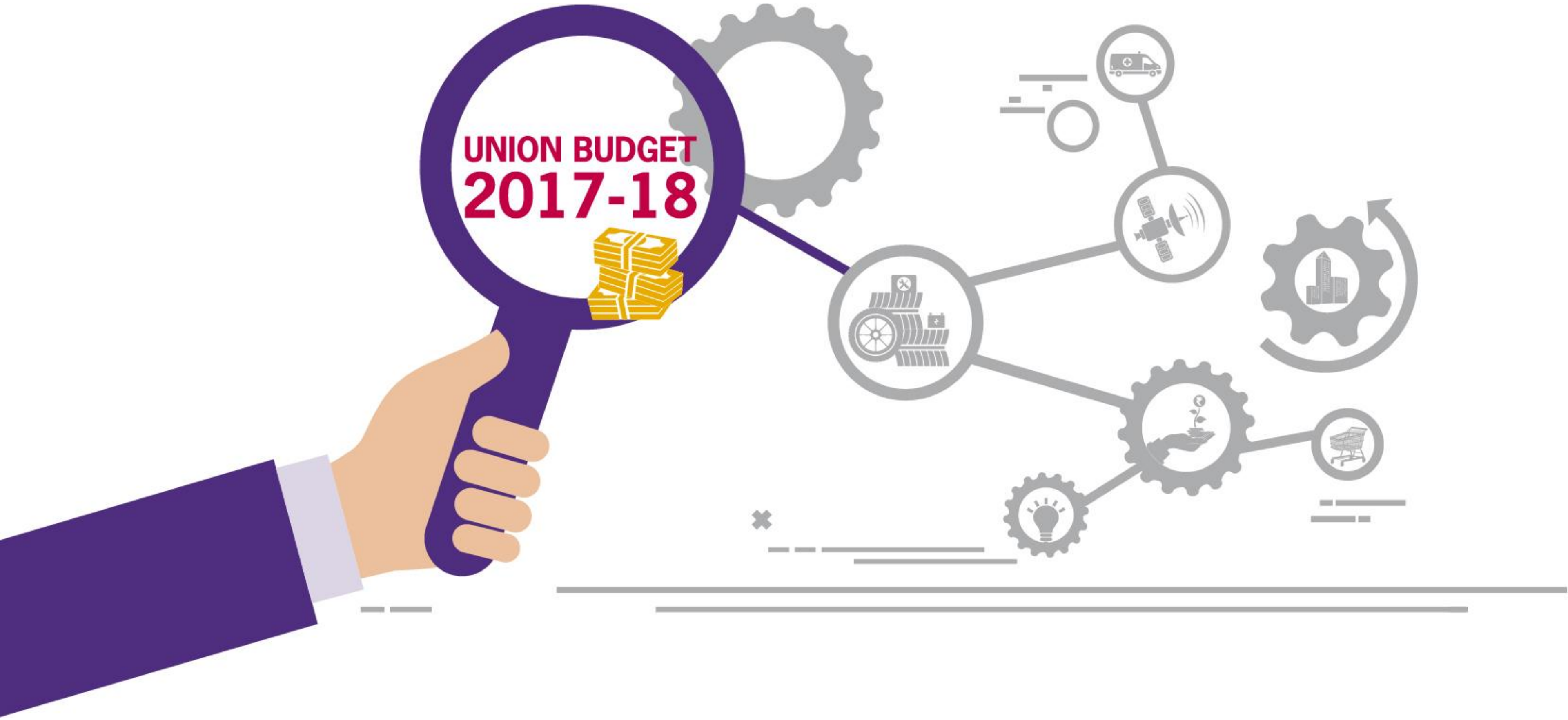
Snapshot of Indirect Tax Proposals

01	Consensus between Centre & States largely on all GST issues, but indicative revised implementation date of 1 July 2017 not re-affirmed
02	No tinkering of base rates for customs duty, central excise duty and service tax, however certain specific changes to correct inverted duty structure
03	Research and Development Cess on import of technology (currently at 5%) to be repealed from 1 April 2017
04	Advance Ruling for all central levies to be adjudicated commonly by Authority established under Income Tax Act, 1961
05	Coverage of importer and exporter to extend to beneficial owners who exercise control over goods under customs law
06	Provisions of Settlement Commission extended to cover non-assessees including co-noticees

Snapshot of Transfer Pricing Proposals

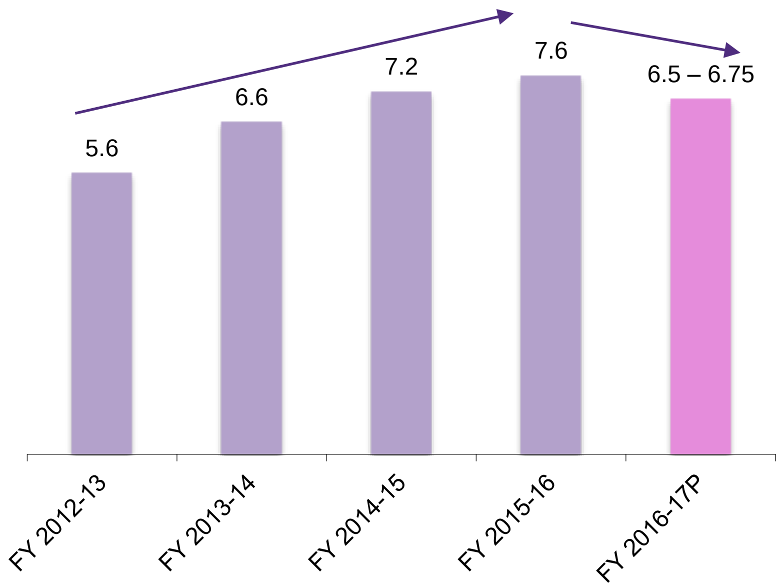
01	Proposal to reduce the burden of compliance for the assessee by limiting the scope of specified domestic transactions to those undertaken by entities availing profit-linked deductions
02	Proposal to introduce secondary adjustment by mandating adjustment in books of account of the taxpayer and the AE, where a transfer pricing adjustment is made under prescribed circumstances
03	Proposal to cap interest expenses to 30% of earnings before interest, taxes, depreciation and amortisation (EBITDA) in a year, where payment is made to Associated Enterprises (AE/s). Threshold applicability of Rs 1 crore prescribed

Fiscal and Economic review



Economic Overview

GDP Growth (% YoY)



- The GDP growth is expected to increase to 6.75-7.50% in FY18.
- The Economic Survey highlights three downside risks to this outlook: (1) demonetisation-related uncertainty lasts longer; (2) higher oil prices, and (3) eruption of trade tensions with increase in protectionism.

Note: P - Projected

Source: Economic Survey

Demonetisation to hurt India's growth in the short term

- The Economic Survey expects demonetisation to hurt growth in the near term.
- It expects demonetisation to shave 0.25-0.5% percentage points (pp) off FY17 GDP from base-line estimate of 7%.
- The cash supply is expected to be replenished by the end of March 2017. As the economy is remonetised, it expects growth to recover. The recovery will be led by a rebound in consumption demand and wealth redistribution including the government.

Multinational and credit rating agencies estimate of GDP growth for India and China

GDP Growth in 2016-17		
International Monetary Fund	6.6	6.7
The World Bank	7.0	6.7
FitchRatings	6.9	6.7

Budget 2017-18

Three new initiatives that in the Budget-making exercise

Scrapping the "Plan" and "Non-Plan" expenditure classification

The Government replaced Plan and non-Plan classifications with more universally recognised capital and revenue spending. Non-Plan expenditure included expenditure on non-productive areas such as salaries, subsidies, loans and interest accounting for 70-75% of the gross expenditure. The Plan expenditure constituted the spending on various government schemes and hence considered productive expenditure. With the scrapping of this classification, the Budget exercise reverts to the clear concept of capital and revenue expenditure.

Merger of the Railway Budget with General Budget

The legacy of a separate railway budget has been done away with. However, the distinct identity of the Indian Railways would be maintained along with the freedom to raise resources via extra-budgetary means. This facilitates for a holistic view of Infrastructure spending.

Advancing the Budget presentation and announcement

With a view ensure that the legislative process for approval of annual spending plans and tax proposals can be completed by 31 March 2017, before the start of a new financial year on 1 April 2017, the government has advanced the Budget announcements and presentation to facilitate rolling out programmes and expenditure immediately at the start of the fiscal year.

Source: Budget Documents and media reports

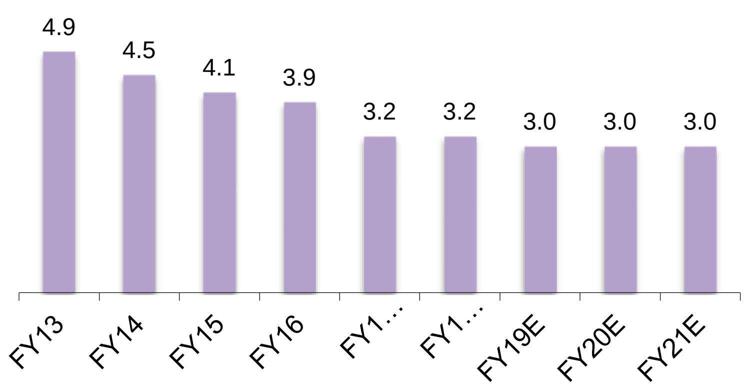
Budget 2017-18

Fiscal Deficit as % of GDP

Government maintained fiscal consolidation

- The government's decision to stick to fiscal consolidation – despite slowing growth due to demonetisation and important upcoming state elections is remarkable.
- Fiscal deficit for FY17 was revised to 3.2% of GDP from 3.5% budgeted due to higher nominal GDP.
- The fiscal deficit for next year is budgeted at 3.2% of GDP. This is slightly higher than pre-announced 3% of GDP due to higher capital expenditure.

Medium Term Fiscal Consolidation Roadmap



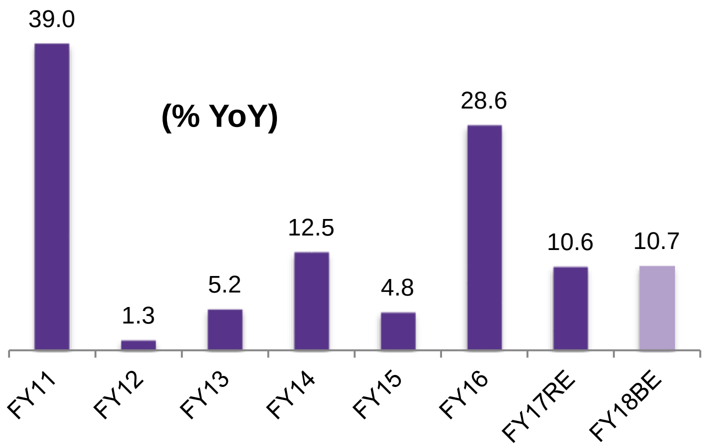
Note: BE- Budgeted Estimate, RE – Revised Estimate, E- Estimate
Source: Budget Documents

The new FRBM targets a fiscal deficit of 3%

- On the medium-term fiscal roadmap, the government would accept the recommendations of the new Fiscal Responsibility and Budget Management (FRBM) committee.
- The general government debt-to-GDP ratio would be lowered to 60% by 2023 (40% for the centre; 20% for the states) from around 66% in FY16.
- Central government fiscal deficit target to be lowered to 3% of GDP in the next three years.
- The new fiscal roadmap also gives the government an escape clause (allowing a deviation of up to 0.5% of the GDP) in case of far reaching structural reforms with unanticipated fiscal implications.

Budget 2017-18

Capital Expenditure Growth

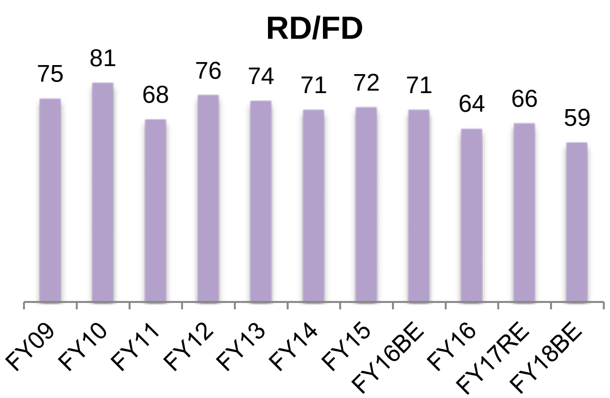


Increase in capital expenditure

The government increased capital expenditure in FY17 from budgeted 3.9% year-on-year to 10.6% in the revised estimate.

- The capital expenditure announced for 2017-18 is also lateral at 10.7%. Taking into account other off-budget expenditure, total capital expenditure is expected to step up by 25.4% over the previous year.
- Higher capital expenditure with continued fiscal consolidation means an improvement in quality of budget. It could create an avenue for a further rate cut by RBI resulting in lower lending rates.

Ratio of Revenue Deficit to Fiscal Deficit



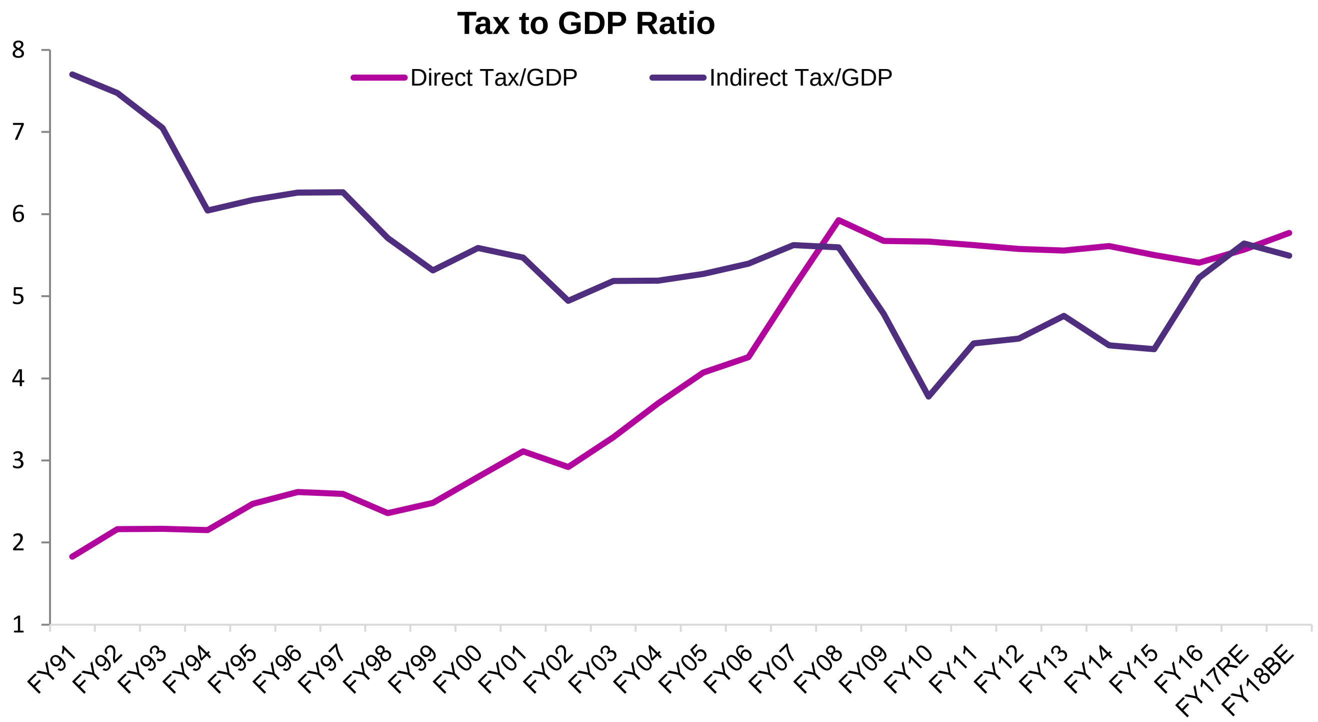
Note: BE- Budgeted Estimate, RE – Revised Estimate
Source: Budget Documents

Revenue/Fiscal Deficit ratio

The ratio of Revenue Deficit (RD) to Fiscal Deficit (FD) indicates the extent to which market borrowings are used to meet current expenditure (unproductive spending like interest expense, salary etc). In FY18, it is budgeted to come down to 59% from 66% in F17RE.

Budget 2017-18 – Tax Revenues

Trend in Direct and Indirect Tax (as % of GDP)



- After growing steadily since 1991, Direct tax as % of GDP surpassed Indirect taxes in FY 2007-08 and then remained steady.
- The Indirect tax started rising since FY 2014-15 and is now almost at the same level as Direct taxes.

Direct Tax: Income Tax and Corporate Tax
Indirect Tax: Excise duty, Customs duty and Services Tax
Source: Budget Documents

Budget 2017-18 – Agriculture and Rural Focus Continues

Allocation for Major Schemes

Schemes (Rs Crore)`	FY2016	FY2017BE	FY2017RE	FY2018BE
MNREGA	37,341	38,500	47,499	48,000
Pradhan Mantri Fasal Bima Yojana	2,983	5,500	13,240	9,000
Pradhan Mantri Gram Sadak Yojna	18,290	19,000	19,000	19,000
Pradhan Mantri Awas Yojna	11,603	20,075	20,936	29,043
Rural	10,116	15,000	16,000	23,000
Urban	1,487	5,075	4,936	6,043
Swachh Bharat Mission (SBM)	7,469	11,300	12,800	16,248

- The Finance Minister announced that the government aims to bring a crore households out of poverty and make 50,000 Gram Panchayats poverty free by 2019.
- Allocation for rural and agriculture schemes remained high. The spending on MNREGA was increased to Rs 47,499 crore in FY17 as against budgeted Rs 38,500 crore. This has been enhanced to a record high of Rs 48,000 crore for FY18.
- Similarly, expenditure on Pradhan Mantri Fasal Bima Yojana at Rs 13,240 crore in the revised estimate for FY17 is more than double of the budgeted outlay of Rs 5,500 crore.
- Low cost housing in both urban and rural area as well as Swachh Bharat Mission also have higher allocations compared to the previous years. Pradhan Mantri Awaas Yojana (PMAY) has a targeted completion of a crore dwelling units by 2019 for the houseless and those living in "kutcha" houses.

Note: BE- Budgeted Estimate, RE – Revised Estimate

Source: Budget Documents

Budget 2017-18 – Major Initiatives

A prudent Budget that met several expectations

- With slower growth post demonetisation, it was expected that the Budget will promote growth through tax incentives, tax reforms, increased capital expenditure and continued reforms to curb black money. As rural and informal sectors were impacted the most, higher allocations were expected in these sectors along with various employment generation measures.
- The budget, by and large, lived up to the expectation to maintain fiscal prudence.

Promoting employment generation

- Skill Acquisition and Knowledge Awareness for Livelihood Promotion programme (SANKALP) to be launched with an outlay of Rs 4000 crore. The programme is expected to provide market relevant training to 3.5 crore youth.
- A scheme for creating employment in the leather and footwear industries along the lines of the Textiles Sector to be launched.
- Incentives for electronics manufacturing and MSME sector was announced. Low cost housing has increased budget allocation in addition to getting the infrastructure status.

Push for Infrastructure

- The government increased its allocation towards infrastructure spending. According to the finance minister, total spending on transport infrastructure (roads, railways, airports) is pegged at around 1.5% of GDP in FY18 and on overall infrastructure at around 2.5% of GDP.
- In the road sector, Budget allocation for highways increased from Rs 57,976 crore in BE 2016-17 to Rs 64,900 crore in 2017-18. 2,000 km of coastal connectivity through roads have been identified for construction and development.
- Select airports in tier 2 cities will be taken up for operation and maintenance in the PPP mode.
- A new and restructured central scheme with a focus on export infrastructure, namely, Trade Infrastructure for Export Scheme (TIES) will be launched in 2017-18.

Source: Budget Documents

Budget 2017-18 – Major Initiatives

Financial sector reforms

- It was announced that Foreign Investment Promotion Board (FIPB) would be abolished in 2017-18 with further liberalisation of the FDI policy.
- A law to curtail the menace of illicit deposit schemes (Ponzi schemes) will be introduced. A bill relating to resolution of financial firms will be introduced in the current Budget Session of the Parliament.
- A mechanism to streamline institutional arrangements for resolution of disputes in infrastructure related construction contracts, PPP and public utility contracts will be introduced as an amendment to the Arbitration and Conciliation Act 1996.

Push towards Digitisation

- Incentivise digital payments and discourage use of cash, including a ban on cash transactions above Rs 300,000.
- A Mission will be set up with a target of 2,500 crore digital transactions for 2017-18 through UPI, USSD, Aadhar Pay, IMPS and debit cards.
- A proposal to mandate all government receipts through digital means, beyond a prescribed limit, is under consideration.
- Web based interactive Pension Disbursement System for Defence Pensioners will be established.

Transparency in funding to political parties

- A political party can receive a maximum amount of cash donation of Rs 2,000 from one person. Political parties will be entitled to receive donations by cheque or digital mode from their donors.
- Amendment to the Reserve Bank of India Act will be undertaken to enable the issuance of electoral bonds in accordance with a scheme that Government of India would frame in this regard.
- Every political party would have to file its return within the time prescribed. Existing exemption to the political parties from payment of income tax would be available and will subject to the fulfilment of these conditions.

Source: Budget Documents

Budget 2017-18 – Major Initiatives

Bank recapitalisation

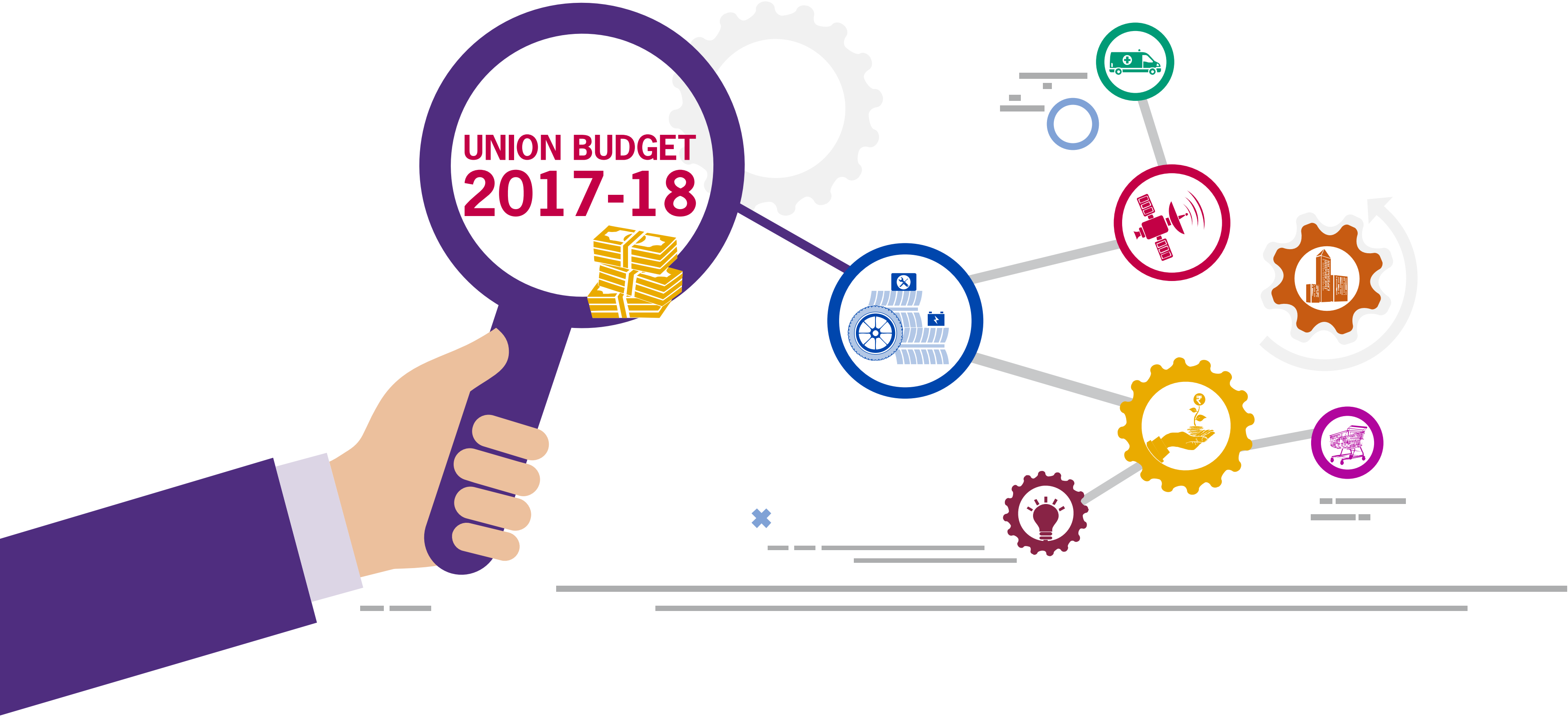
- In line with the 'Indradhanush' roadmap, the Budget allocates Rs 10,000 crore for recapitalisation of banks in 2017-18. This allocation may, however, be inadequate given the quantum of NPAs.
- The Economic Survey underscores the problem of Twin Balance Sheet in India which is taking a toll on investment – as stressed companies reduce their new investments to conserve cash flow, the stressed banks are unable to assume new lending risks. NPAs in Indian banks have continued to increase, reaching to 9% of total advances by September, 2016. This was double the level seen in the year ago period. Moreover, more than four-fifth of the NPAs are in the public sector banks, where the NPA ratio had reached almost 12%.

Unlocking value in public sector units

- The government plans to create an integrated public sector 'oil major' which will be able to match the performance of international and domestic private sector oil and gas companies. Economies of scale will increase the performance of the public sector oil companies.
- Government will put in place a revised mechanism and procedure to ensure time bound listing of identified Central Public Sector Enterprises (CPSE) on stock exchanges. The shares of Railway PSEs such as IRCTC, IRFC and IRCON will be listed in stock exchanges.
- A new Exchange Traded Fund (ETF) with diversified CPSE stocks and other government holdings will be launched in 2017-18.

Source: Budget Documents

Sectoral Analysis



Real Estate & Construction

2017-18

Union Budget 2017-18 | Real Estate & Construction

Housing for all or "Affordable Housing", as it is commonly understood is one of the most significant reforms initiated in recent years. With government's backing, this reform has the ability to provide much needed fillip to revive the overall real estate in India. There is a significant demand-supply gap in the affordable category and creating 1 crore dwelling units by 2019 is the mission of this reform. Big push for the housing sector, particularly this segment is the key highlight of the budget, which clearly demonstrates government's intention to move infra on the path of growth.

Neeraj Sharma

Director

Grant Thornton Advisory Private Limited

Sector overview

- Real estate sector contributes close to 15% to India's GDP with backward and forward linkages to 200+ ancillary sectors, this sector is a key driver in the overall infra in the country.
- Government has initiated several policy measures such as Housing for all, eased FDI norms, interest subvention, smart cities, RERA etc. to provide support for sector.
- While, the sector faces double whammy currently, due to lack of demand and negative sentiments post DeMo, but has the ability to bounce back strongly.

Key challenges for the sector

- Lack of demand
- Increased cost of funds
- Rising input costs
- Reduced sector incentives-fast approaching sunsets
- Multi-layered approval system.
- Perception of "Lack of Governance"

Growth drivers

- Incentivising "Affordable Housing"
- Rationalisation of indirect taxes
- Low interest rate regimes
- Single window clearance regime
- Monetisation of land parcels
- More disposable incomes in the hands of customers
- Real Estate Regulation Act (RERA) 2016

Union Budget 2017-18 | Real Estate & Construction

Policy initiatives

- Infrastructure status to "Affordable Housing" - a much awaited ask of the sector announced in this budget. Granting of industry status to affordable housing has been aimed at easing access of funds and more relaxed financing norms.
- Foreign Direct Investment (FDI) liberalisation including phasing out of Foreign Investment Promotion Board (FIPB) would encourage enhanced foreign investment into the sector.
- Rs 29,043 crore allocated to Pradhan Mantri Awaas Yojana.
- One crore rural houses will be created by 2019 to provide housing to homeless and people dwelling in temporary houses.
- National Housing Bank to refinance individual housing loans of Rs 20,000 crore.

Tax proposals

Direct Tax

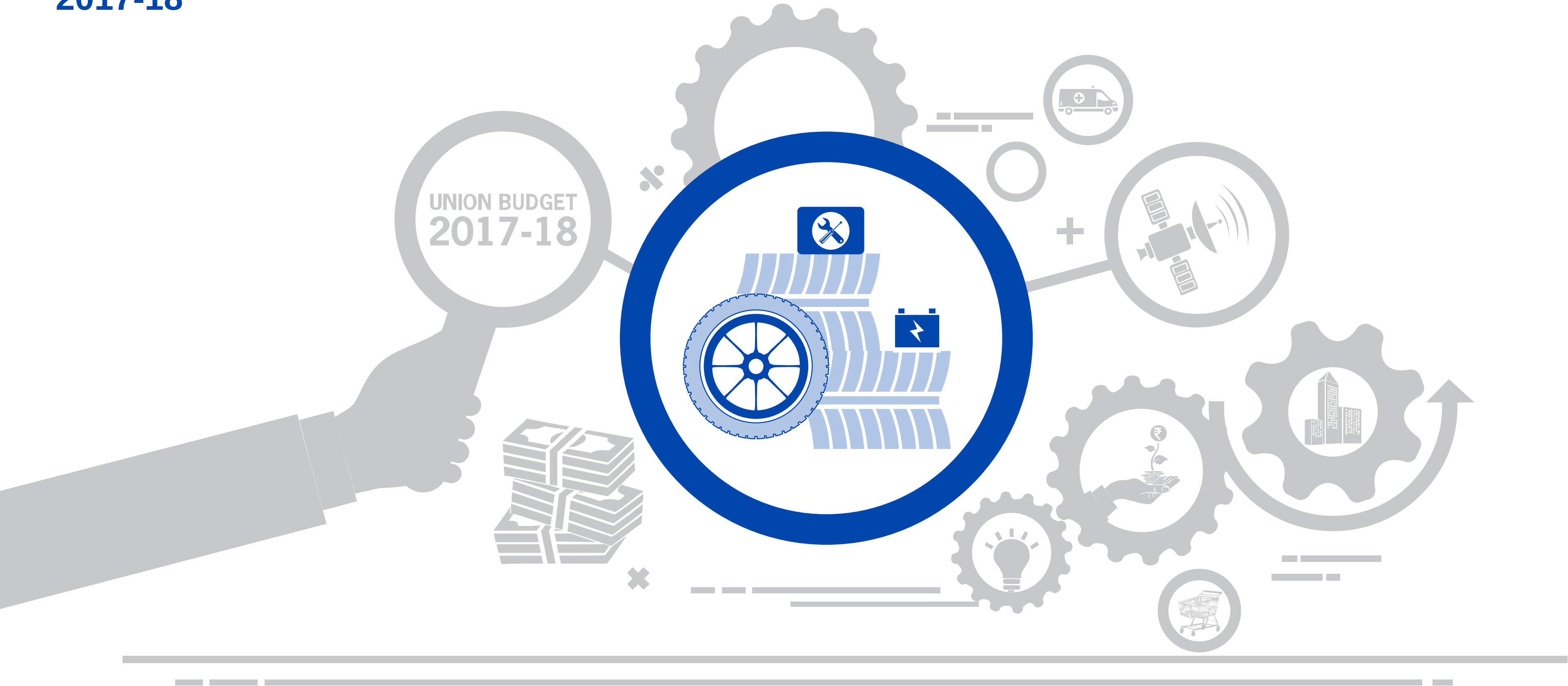
- Holding period for immovable property reduced to 24 months to qualify as long term capital asset.
- Shifting of the base year to compute capital gains tax has been moved forward from 01.04.1981 to 01.04.2001 for all capital assets. This should provide higher cost base and consequently lower tax on sale of immovable property.
- Rationalisation of income tax deduction for affordable housing schemes to enhance deduction.
- Capital gains tax in the cases of Joint Development Agreements (JDAs), deferred to the year in which the project acquires the certificate of completion.
- The deemed rental income incidence on the built up unsold inventory of developers shall apply only one year after the end of the financial year in which the completion certificate is attained.
- Set off of loss from house property which is let out, against income under any other head has been restricted to Rs 2 lakhs.

Indirect Tax

- Retrospective amendment to remove service tax incidence on the portion of land for construction contracts.

Automotive

2017-18



Union Budget 2017-18 | Automotive

Increase in outlay for the road infrastructure, development of coastal roads to connect ports to remote areas and a programme for multimodal network facility is a positive for the sector. The income tax concessions in the lower band up to Rs 5 lakh, will hopefully leave some amount in the hands for discretionary spend. Two wheelers and passenger vehicles could benefit on this account. Scrappage policy, inducement for R&D covering safety aspects and mitigating environmental issues, thereby encouraging make in India could have added excitement to the industry.

Sridhar V
Partner
Grant Thornton India LLP

Sector overview

- The Indian automotive sector which contributes approx. 7.1% to the country's GDP is one of the largest in the world. The sector's two wheeler segment alone has 81% share of the entire market.
- The sector has witnessed a double digit growth during the pre-demonetisation period (Q1 and Q2) in FY17. However, in the following period, till the end of the third quarter, it witnessed a decline in double digits. This slowed down the growth to approx. 9.4% for the year.
- Commercial vehicles' segment was less impacted by demonetisation as they are predominantly dependent on financing options.

Key challenges for the sector

- R&D incentives for domestic development
- Quality road infrastructure
- Short term play out of demonetisation effect
- Availability of skilled labour and technology
- Rising fuel price globally
- Rising input commodity prices

Growth drivers

- Scrappage policy
- GST with less complication on rates
- Incentives, allowances and perquisites in Income Tax
- Quality road infrastructure

Union Budget 2017-18 | Automotive

Policy initiatives

While there have been no specific policy measures, some of the indirect measures which will aid the sector are:

- Pradhan Mantri Kaushal Kendras to be extended to 600 districts from the current level of 60 districts. 100 international level skill centers will also be established. Skilling will ensure availability of resources to meet the needs of the sector.
- SANKALP to be launched at a cost of Rs 4000 crore imparting market relevant training to 3.5 crore youth
- STRIVE at Rs 2,200 crore to impart apprenticeship training through industry cluster approach.
- Incremental budget allocation of Rs 6000 crore, amounting to Rs 64,900 crore in the development of highways. 2000 km of coastal connectivity through roads identified to provide better network between ports and remote villages.

Tax proposals

Key tax proposals which may impact the automotive industry are:

- Reducing the tax to 5% for individuals earning between Rs 2.5 lakh to Rs 5 lakh, leaving some amount to individuals for their discretionary spend.
- Reduced tax rate of 25% for MSME's with a turnover of less than Rs 50 crore will impact Auto Component players.
- No tinkering of base rates for customs duty, central excise duty and service tax.
- Research & Development cess on import of technology (presently at 5%) to be repealed from 1 April 2017.
- Basic customs duty on import of Clay 2 Powder (Alumax) for use in ceramic substrate for catalytic convertors (used for emission control) reduced from 7.5% to 5%.
- Implementation of GST keenly availed.

Healthcare

2017-18

Union Budget 2017-18 | Healthcare

Vrinda Mathur
Partner
Grant Thornton India LLP

With an open ended view of revisiting regulation for Drugs & Cosmetics and Medical Devices, the healthcare sector has little to cheer in the current budget. Both Pharma and Medical Devices are expected to witness the unpredictable effects of a new regulation, and price control in a mass market like India. A well thought out price control strategy is critical for a continued positive outlook for these two sectors without impairing their growth.

Abolition of Foreign Investment Promotion Board (FIPB) is expected to smoothen the flow of FDI into the Pharma sector, assuming new guidelines continue to boost the sector with ease of implementation.

Selective institutional and scheme based recommendations have found place in this year's budget. However, concerns to increase the healthcare spending and insurance penetration remain.

Sector overview

- Funded largely by out of pocket spend owner's capital and the private sector, healthcare reforms still remain unmet against wider expectations of the industry.
- Pharma industry in India has seen a spate of consolidation/ expansion and is expected to move in line with the global generics market.
- Hospitals continue to face a large demand supply gap with access and affordability being the primary concerns.
- Medical devices segment is dealing with nascent issues around regulation and price control and has a long road ahead.

Key challenges for the sector

- Global move towards generics and consequent pricing pressures
- Local price control regulations and highly stringent regulatory dynamics
- Multi-dimensional repercussions - based on the pharma view by the newly elected U.S. Government
- Medical devices: Long wait for regulation, an unclear linkage between quality of a device and its price
- Low levels of access, affordability and insurance penetration

Growth drivers

- Making healthcare (hospitals, medicines and devices) affordable and accessible through:
  - Quality and technology
  - Increased insurance penetration (positive & preferred) vs price control (negative and growth inhibitive)
  - Infrastructure and local manufacturing
- Qualified doctor pool availability
- Tax incentives - for 'payer' as well as 'provider'
- Exploring Tele – medicine opportunities

Union Budget 2017-18 | Healthcare

Policy initiatives

Pharma

- Possible revisions in the Drugs and Cosmetics Act (aimed towards prescription of generics).
- Phasing out the FIPB process could boost prospects for foreign Direct Investment.
- Selective schemes in the Budget aimed at mass market specific disease eradication & reduction of mortalities. While role of technology in improving access is expected, the larger issues of increased healthcare remain.
- 5000 post graduate seat additions, introduction of DNB courses besides streamlining the regulatory framework for medical education and practice.
- Higher allocation for women and child oriented schemes
- Pilot programme for Aadhar based healthcare smart cards for senior citizens.
- Bhim app to ensure digitalised options for healthcare payments.

Medical Devices

- Internationally harmonised guidelines through the finalisation of a separate Act for Medical Devices with an indication of providing low-cost devices.

Tax proposals

Direct tax

- Any capital expenditure exceeding Rs 10,000 incurred in cash, would not qualify for a deduction under section 35AD.
- Corporate tax rates for companies having turnover/ gross receipt up to Rs 50 crore (in FY 2015-16) has been reduced to 25%.
- Carry forward of MAT credit extended to 15 years.
- Limitation of interest deduction (beyond Rs 1 crore) up to 30% of the EBITDA on debt directly or indirectly from Associated Enterprises. Such disallowances can be set-off in future.

Indirect tax

- No Research & Development Cess on import of technology w.e.f. 1 April 2017.
- No change in base rates for customs duty, central excise duty and service tax.
- Consensus between Centre & States largely on all issues relating to GST Law. However, indicative revised implementation date of 1 July 2017 not re-affirmed.
- Work on IT system and finalisation of legislations on track.
- Extensive awareness drives for trade and industry to commence from 1st April 2017.

Financial Services

2017-18

Union Budget 2017-18 | Financial Services

Khushroo Panthaky

Director

Grant Thornton Advisory
Private Limited

The Union Budget has particularly focussed on the financial services sector. It announced a slew of inclusive measures to improve asset quality of banks and financial institutions and tax rationalisation measures to improve the market sentiment. In addition, there is a proposal to abolish or reconstitute Investment Boards, offer recapitalisation to banks under the “Indradhanush” scheme and provide increased lending capacity to special classes under Pradhan Mantri Mudra Yojana. The promotion of digital applications to be used for banking transactions and operations has gained adequate thrust in this Budget. Enhanced deduction of provision for NPAs of banks (including non-scheduled cooperative banks) and exclusion of specified FPIs on applicability of indirect share transfer provisions are welcome tax amendments.

Sector overview

India remains an attractive destination for StartUps, strategic foreign investments on account of stable domestic consumption and lucrative investment returns in capital markets. This encourages competitive pricing and improved service quality by private players in the BFSI sector. Government monetary policy initiatives to rationalise interest, licence to foreign reinsurance, monetisation alternates in infra and realty sectors through ReITs/INViTs, and focus on micro and SME finance in rural markets are likely to have a positive impact in the BFSI sector.

Union Budget 2017-18 | Financial Services

Key challenges for the sector

Banks and NBFCs

- Significant levels of NPAs
- Relatively high cost of borrowings
- Impact on employment by automating the process
- High cost of technology investment
- Potential competition from payment/digital bank licence

Insurance

- Clarity on operational regulation for foreign reinsurance
- Relatively high illiteracy rate and low disposable income
- Over regulations and restrictive investment options

Fund industry

- Regulatory restrictions
- Short supply of skilled talent pool
- Volatility of currency risk

Growth drivers

Banks and NBFCs

- Rate cuts to boost borrowings
- Structural economic stability through credible monetary policy
- Potential to penetrate in rural areas
- Revolution in Fin-tech activities through digitised banking
- Retail credit lending
- Growth of micro finance

Insurance

- FDI from 26% to 49%
- Alternate fund raising through IPOs
- Digitised distribution of insurance policies and pensions
- Penetration of insurance sector for weaker sections of the society

Fund industry

- Innovation and product differentiation
- Investible criteria widened for FPIs in corporate debt securities
- Innovative products promoting investment opportunities
- Ease in FDI norms

Union Budget 2017-18 | Financial Services

Policy initiatives

Banks and NBFCs

- Recapitalisation of banks under "Indradhanush" with a capital outlay of Rs 10000 crore.
- Enhanced lending under "Pradhan Mantri Mudra Yojana".
- Thrust on affordable housing to boost housing finance.
- National Housing Bank to refinance home loans up to Rs 20,000 crore.

Insurance

- LIC to introduce scheme for senior citizens guaranteeing 8% return for a period of 10 years.
- Increased allocation to "Fasal Bima Yojana" scheme for crop insurance.

Fund industry

- Abolishing FIPB to reduce foreign investment hurdle.
- Formation of an expert committee to promote derivatives market investment.

Tax proposals

Banks and NBFC

- Enhanced deduction for provision (NPAs) from 7.5% to 8.5% of the amount of total income.
- Taxability of interest income on receipt basis on bad and doubtful debts extended to co-operative banks.
- Deduction towards provision for bad and doubtful debts extended to co-operative banks.
- Interest or discount earned on loans, deposits and advances extended to be included while computing reversal of CENVAT Credit. The existing option of reversing 50% of the CENVAT Credit availed, continues.

Insurance

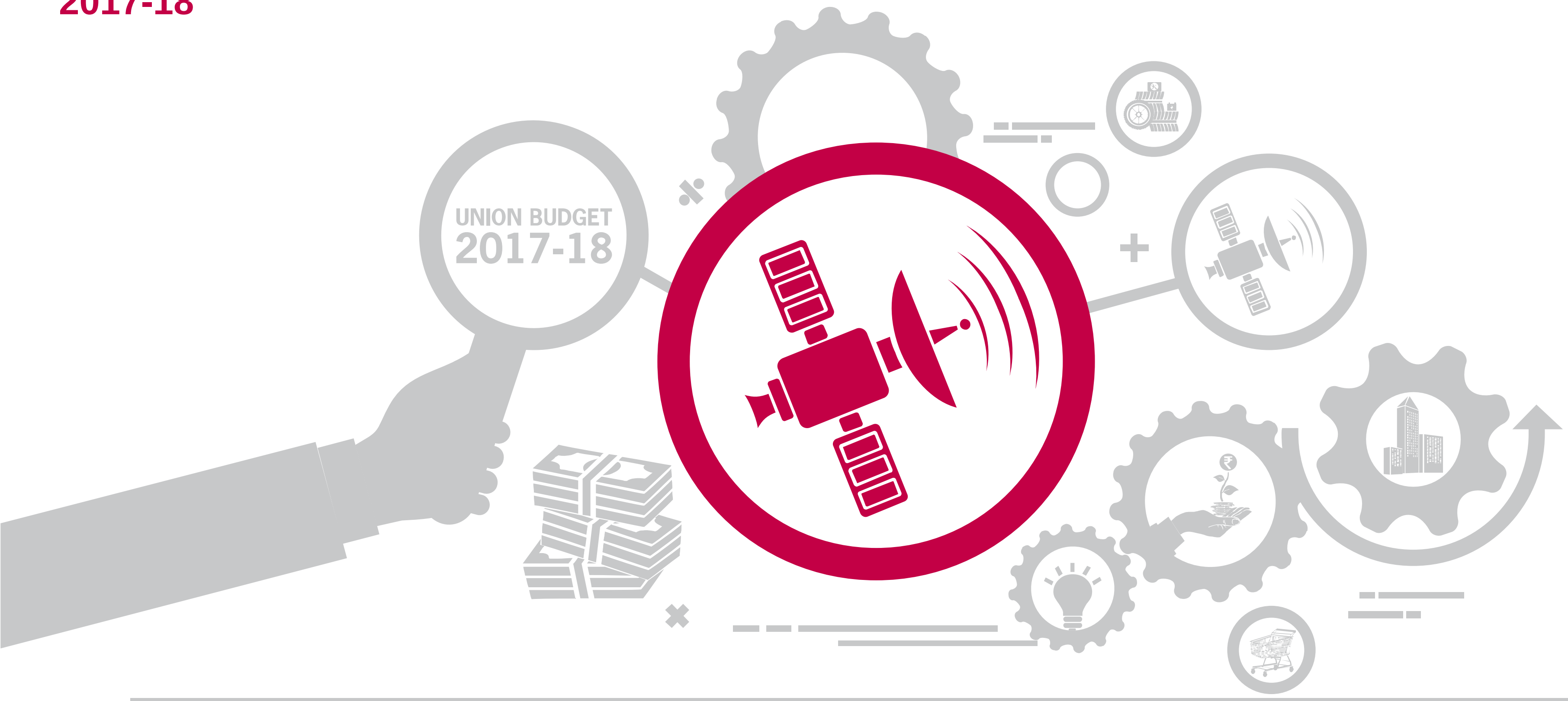
- Relaxation of withholding tax on insurance commission for individuals/HUF with nil taxable income, subject to filing of self declaration as stipulated.
- Exemption granted to life insurance services provided to members of armed forces under the Group Insurance Schemes of the Central Government.

Fund industry

- Exception for specified FPIs registered as Category I and II on applicability of indirect share transfer provisions to avoid multi-layer tax.
- Extension of concessional withholding tax rate of 5% on interest earned by non-residents on ECB or rupee denominated bonds, G-Securities.
- NR to NR transfer of rupee denominated bond of an Indian company ought not to be regarded as transfer.
- Conversion of preference share into equity shares not to be regarded as transfer.
- Limitation of interest deduction restricted to 30% of EBIDTA in related party transactions following OECD BEPS Action Plan 4.

Technology, Media & Entertainment

2017-18



Union Budget 2017-18 | Technology, Media & Entertainment

Raja Lahiri

Partner

Grant Thornton India LLP

The Budget intends to expand the use of technology in India for a robust “digital economy” which would enable speed, accountability and transparency. This envisages expanding the scope of digital payments economy with the launch of government payment applications such as Aadhar pay and BHIM app. This is also visible in government and tax administration. This transformation is clearly a part of the ‘Digital India” and “Ease of doing business” drive.

The Indian IT sector is facing challenges with the global macro-economic situation and the recent H1B issues in the US. The Budget does not provide any specific tax benefits/advantages to the IT sector, except for reduction in corporate tax rates for SMEs. Indian IT companies have already been on the transformation journey to adapt to the changing dynamics of client delivery. They are doing this through Artificial Intelligence (AI), cloud computing and other digital reforms. However, they may need to accelerate this momentum going forward.

Sector overview

- IT sector has been contributing to the economic growth over the last decade and now constitutes almost 9.2% of 2016-17 GDP.
- Globally, India continues to be the leader in IT and business process outsourcing.
- Robotics, AI, Big Data and cloud computing are transforming existing client delivery models with greater focus on "business outcomes".
- Recent demonetisation event is bringing a transformation towards a vibrant Indian digital economy.

Key challenges for the sector

- Macro-economic challenges has led to slow growth in developed markets
- Protectionist policies adopted by the U.S. in recent times
- Phasing out of tax holiday incentives for SEZ units
- Lack of a robust data protection and cyber security laws in the country
- While bandwidth infrastructure is being expanded, this needs further attention

Growth drivers

- AI, robotics, automation, Big data, IoT (Internet of Things) to transform the sector going forward
- Smartphone clearly expected to be the one-stop device in future
- OTT (over the top) content next big thing in media sector
- Social, Mobility, Analytics and Cloud (‘SMAC’)
- Digital payments and fin-tech

Union Budget 2017-18 | Technology, Media & Entertainment

Policy initiatives

- Referral bonus scheme for individuals and a cashback scheme for merchants to be introduced for the promotion of BHIM app.
- New payment mechanism, Aadhar Pay, to be introduced for those who do not have debit cards, mobile wallets and mobile phones.
- Banks encouraged to introduce Aadhar based POS by September 2017.
- Digital payment infrastructure and grievance handling mechanisms to be strengthened with focus on rural and semi urban areas.
- Government to strengthen the Financial Inclusion Fund to augment resources for taking up the above mentioned initiatives.
- Provide for a shift from physical control to record based control for customs bonded warehouses, supported by sophisticated IT systems.

Tax proposals

Direct Tax

- Corporate tax rate reduced to 25% from existing 30% for domestic companies having a turnover not exceeding Rs 50 crore will impact this sector.
- MAT credit allowed to be utilised for 15 years instead of 10.
- Concessional withholding tax rate of 2% instead of 10% on professional fees for persons engaged in the business of operation of call centers.
- Tax holiday under Section 10AA restricted to total income of the assesse.

Indirect Tax Proposals

- Miniaturised POS card reader for m-POS (other than mobile phones or tablet computers), micro ATM standards version 1.5.1, finger print readers/scanners and iris scanners and their parts and components for manufacture of such devices to be exempt from basic custom duty, excise/countervailing duty and special additional duty.
- Duty exemptions extended to POS card reader, finger print readers etc.

Consumer Products

2017-18

Dhanraj Bhagat
Partner
Grant Thornton India LLP

The Union Budget 2017 has provided various policy initiatives to boost rural economy through agriculture productivity and has also initiated measures to give an impetus to digital economy. Both these initiatives have a direct and an indirect impact on the retail sector. Growth in rural economy will result in more disposable income in the hands of the farmer. This will result in an increased consumption of FMCG and consumer durables.

To boost the food processing sector in the country, in June 2016, the Government announced 100% FDI in marketing of multi-brand food products, produced and manufactured in India including e-commerce platforms. Further liberalising FDI norms and other conditions in multi-brand retail would encourage more global players to set up business in India.

Sector overview

The consumer and retail sector mainly includes FMCG and consumer durables. It accounts for over 10% of India's GDP. Currently the retail industry is pegged at US$ 600 bn and is expected to touch US$ 1 tn by 2020. Of this, the organised retail is the fastest growing segment. While today, nearly 95% of the industry is unorganised, its share in retail trade will decline over time. Going forward, e-tailing will form a significant part of the revenue of various stores.

Key challenges for the sector

- Improving customer sentiments post demonetisation
- Shortage of skilled manpower
- Supply chain and logistical issues
- High level of competition to retain customers
- Continuous innovation to provide the relevant experience to the customer and thereby increasing footfalls
- Leveraging technology to provide the customer the best of digital and physical in-store experience

Growth drivers

- Relaxation in FDI norms
- Higher internet penetration resulting in growth of e-commerce
- Efficiencies arising from the upcoming GST
- Increasing financing options
- Higher disposable income and lifestyle changes
- Growing middle-class population

Union Budget 2017-18 | Consumer Products

Policy initiatives

Some of the key policy initiatives for the agricultural sector which will have an impact on the retail sector are as under:

- Target for agricultural credit is fixed at Rs. 10 lakh crore.
- Long Term Irrigation Fund set up by NABARD to be augmented by 100% to take the total corpus of this fund to Rs. 40,000 crore.
- Dedicated Micro Irrigation Fund to be set up in NABARD to achieve 'per drop more crop' with an initial corpus of Rs. 5,000 crore.
- Dairy Processing and Infrastructure Development Fund to be set up in NABARD with a corpus of Rs. 2,000 crore and will be increased to Rs. 8,000 crore in 3 years.

The above will increase rural income thereby giving a boost to the retail sector.

The Government has also given a boost to promote digital economy by encouraging payments through banking channels (like Aadhar Pay) resulting in increased e-commerce transactions.

Tax proposals

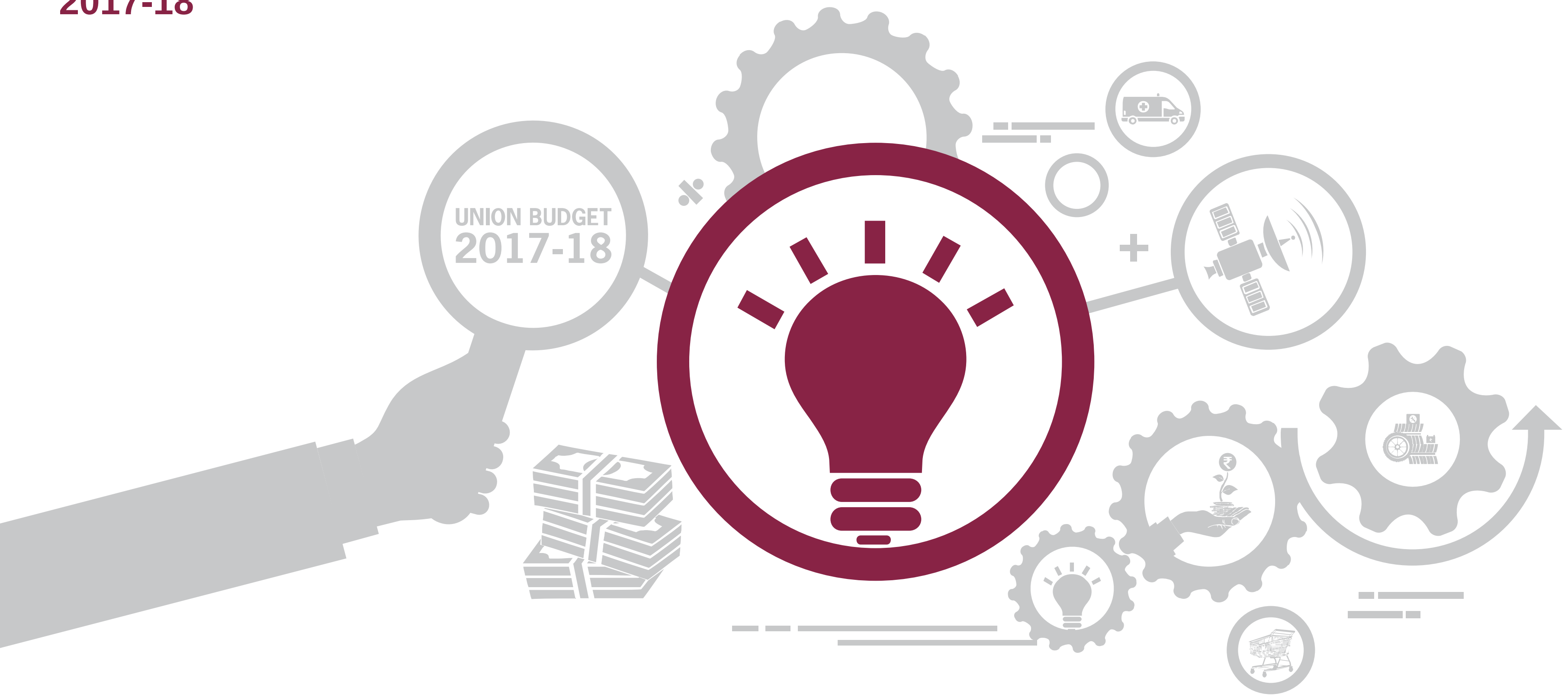
- Rate for determining income under presumptive taxation scheme under section 44AD reduced from 8% to 6% in respect of turnover or gross receipts received through bank account.
- Cash transactions in excess of Rs 3 lakh prohibited. Consequently, TCS abolished on cash sale of jewellery.
- Eligible assessees opting for presumptive taxation scheme having turnover/gross receipts of up to Rs 2 crore excluded from requirement of tax audit.

Goods and Services Tax (GST)

- Consensus between Centre and States largely on all issues. However, indicative revised implementation date of 1 July 2017 not re-affirmed.
- Work on IT system and finalisation of legislations on track.
- Extensive awareness drives for trade and industry to commence from 1st April, 2017.

StartUps

2017-18



Union Budget 2017-18 | StartUps

Vidhya Shankar
Executive Director
Grant Thornton India LLP

Technology driven innovation is a game changer globally and in India – the arrival of Unicorns has brought back the limelight to startups post the 2000 financial meltdown. Now, disruption is the buzzword as Digitisation has become central to success of businesses from any sector. Also, the consumer impact due to cutting edge technological applications is here to stay led by high mobility, pervasive connectivity and cloud based engineering.

The increasing adoption of Artificial Intelligence and Robotics is expected to have a spell binding effect on the digital economy leading to discovery of new industries around, Smart Cities, Sharing Economy and Augmented Reality. The technology boom is concomitant to the rise in private capital with digital waves spreading across the world beyond Silicon Valley to New York, Bangalore, London, Berlin, Shanghai and Singapore.

Sector overview

The StartUps have received more than US$10 bn in funding from 2012 onwards. India ranks as the third largest eco-system with more than 10,000 startups operational from technology as well as non-technology domains. The sector has seen accelerated growth in StartUps, Accelerators, Angel/Seed investors and VCs.

Key challenges for the sector

- Acute paucity of early stage investors
- Disparate taxation, compliance and regulatory system
- Mushrooming of ‘me too’ startups
- Lack of infrastructure in terms of reliable connectivity
- Lack of widespread product development talent

Growth drivers

- Increasingly connected economy
- Skillful talent but restricted to Bangalore mainly
- Digitisation and knowledge led transformation
- Incentivised StartUp programme
- Emergence of the corporate investor
- Arrival of global venture capital

Union Budget 2017-18 | StartUps

Policy initiatives

- **StartUp India Action plan** has provided the much required impetus towards creating a Rs 10,000 crore Fund of Funds through SIDBI to support during early stage investing.
- The Atal Innovation Mission and DST have measures to encourage startup incubators across the country through annual funding.
- The amendment to e-governance has enabled facile procurement opportunities for StartUps that do not have a three year operating track record - relevant from Digital economy public projects as competence resides with high tech startups.
- The setting up of Rs 745 crore M-SIPS and EDF may accelerate the growth of IoT startups.
- Edutech, Fintech, some e-commerce and Healthtech startups stand to gain a lot with clear policy focus on Digital economy.

Tax proposals

- Reduction of corporate income tax rate to 25% for companies with turnover not exceeding 50 crores will also positively impact the sector.
- Eligible StartUps would be entitled to carry forward and set of losses not with standing change in shareholding beyond 49% as long as the promoters and shareholders who hold shares in the year of having incurred a loss continue to be shareholders.
- The tax holiday window of five years now extended to seven years. Accordingly, certified StartUps are eligible for tax holiday in any three years within a period of seven years(changed from five years).

Contact us

To know more, please visit **www.grantthornton.in** or contact any of our offices as mentioned below:

NEW DELHI
National Office
Outer Circle
L 41 Connaught Circus
New Delhi 110 001

AHMEDABAD
BSQUARE Managed Offices, 7th Floor, Shree Krishna Center, Above Crossword, Nr. Mithakali Six Roads,
Navrangpura,
Ahmedabad 380009

BENGALURU
5th Floor, 65/2, Block A, Bagmane Tridib, Bagmane Tech Park, C V Raman Nagar,
Bengaluru - 560093
T +91 80 4243 0700

CHANDIGARH
B-406A, 4th Floor,
L&T Elante office
Industrial area, Phase-I
Chandigarh – 160002

CHENNAI
7th Floor, Prestige PolygonNo.90, 471, Anna Salai,
Teynampet
Chennai - 600 018
Tamil Nadu

GURGAON
21st floor, DLF Square
Jacaranda Marg
DLF Phase II
Gurgaon 122 002

HYDERABAD
7th floor, Block III
White House
Kundan Bagh, Begumpet
Hyderabad 500 016

KOCHI
7th Floor, Modayil Centre point,
Warriam road junction,
M.G.Road,
Kochi 682016

KOLKATA
10C Hungerford Street
5th floor
Kolkata 700 017

MUMBAI
16th floor, Tower II
Indiabulls Finance Centre
SB Marg, Elphinstone (W)
Mumbai 400 013

MUMBAI
9th Floor, Classic Pentagon, Nr Bisleri, Western Express Highway, Andheri (E)
Mumbai 400 099

NOIDA
Plot No. 19A, 7th Floor
Sector – 16A,
Noida – 201301

PUNE
3rd Floor, Unit No 309 to 312
West Wing, Nyati Unitree
Nagar Road, Yerwada
Pune- 411006

For more information or for any queries, write to us at **contact@in.gt.com**

Follow us @GrantThorntonIN