



India Tax Insights

Issue 16

July 2019

**Budget
2019
Edition**

Will Budget 2019 bear fruits in the coming years?

Faceless assessment will be a game changer

Indirect tax and GST: A celebration of cooperative federalism

Towards a US\$5 trillion economy

Implications on key sectors and way forward recommendations

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Foreword



Sudhir Kapadia

Sudhir Kapadia
*Partner and National Tax Leader,
EY India*

We are pleased to present the sixteenth edition of our magazine India Tax Insights, focusing on the 2019-20 Union Budget.

The Union Budget 2019-20 was presented at a time of a slowdown in the global economy with the growth of world output falling from 3.8% in 2017 to 3.6% in 2018. Growth of the Indian economy also moderated in 2018-19 to 6.8%, lower than 7.2% in 2017-18. Yet, India continued to be the fastest growing major economy in the world. The year 2019-20 delivered a political mandate for the government which augurs well for the prospects of a high economic growth. The GDP growth for the year 2019-20 is projected to be at 7%, reflecting a recovery in the economy after a deceleration in the growth momentum throughout 2018-19. Macroeconomic conditions continue to be stable and structural reforms initiated in the last few years continue to be on course. However, both downside risks and upside prospects continue to persist. In this backdrop, the government has set an ambitious target of making India a US\$5 trillion economy by 2025. This calls for some bold and radical reforms.

As with the government's previous budgets, the 2019-20 Union Budget continues to focus on some fundamental aspects. The government has been steadily working towards widening the tax base, addressing the dangers of the parallel economy, improving the ease of doing business and strengthening anti-abuse provisions. At the same time, it has stepped up its spending on the infrastructure, rural and agriculture sectors and on achieving inclusive growth – all this, while maintaining fiscal discipline.

The Budget proposal to reduce the corporate tax rate to 25% for companies with turnover less than INR 400 crore (approximately US\$50 million) is a welcome move that may provide considerable relief to number of companies and enable them to make new investments. Globally, the tax rates are already moving lower towards 20%. As against this, in India, along with the dividend distribution tax, the overall tax burden on corporates can be higher than 40%. There is a need for the government to consider a more comprehensive and broad-based corporate tax rate reduction plan in the near future as

well as address some of the distortions in the tax rate structure that currently exists.

Overall, the Budget continues in the direction of the earlier budgets of the NDA government. The business community now eagerly awaits the Direct Tax Code and expects that the draft would be put out soon for public consultation before the same is finalized.

This edition of our magazine contains insightful articles based on the budget proposals covering corporate tax, indirect tax, regulatory and policy as well as impact on key industries.

In this shifting tax environment, keeping abreast of changes is essential. We hope this publication helps you monitor the issues and understand the drivers behind key tax and regulatory developments and changes happening in India and around the globe.

We look forward to your feedback and suggestions.



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The articles highlight the key implications on the following sectors along with the way forward recommendations:

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Faceless assessments *A game changer*





Ganesh Raj
*Partner and National Leader,
Business Tax Services, EY India*

One of the most distinctive announcements in the Budget was the move towards implementing anonymized, faceless scrutiny assessments. The present government is inclined to fostering a non-adversarial and conducive tax environment, with elimination of undesirable practices and digitization being high on the agenda. In keeping

with these objectives, the Ministry of Finance has been making relentless efforts towards the simplification and rationalization of tax laws.

Indian revenue authorities are increasingly leveraging technology for simplification of procedures, widening of the tax base and combating tax evasion. Technology is being used to detect non-filers, analyze data/

information, validate the information filed with various statutory authorities and identify withholding tax defaults, among other aspects. Technology is also being deployed for better taxpayer services, for instance, to ensure faster processing of refunds and rationalized selection of case for detailed scrutiny.

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While the notification to implement the scheme for faceless assessments is awaited, from the new announcements it appears that going forward, assessments will not only be faceless but anonymous as well. Assessments may be carried out by a team of tax officers which may include specialists/subject matter experts. It is expected that both the taxpayer and the tax officer drafting the assessment order will have no knowledge of each other's identities.

E-assessments are a welcome measure

Taxpayers have been experiencing many hardships in dealing with assessment matters. A personal visit to the tax office to file routine information/replies not only results in a waste of precious time and resources but is also susceptible to undesirable practices. Thus, the introduction of e-assessments comes as a long-awaited reform. The scheme was first introduced as a pilot project in October 2015 whereby 500 cases were selected for verification of certain specified transactions or discrepancies (as being now planned for faceless assessment). In 2017, a digital platform- Income Tax Business Application (ITBA) was launched for conducting e-scrutiny. Currently, most of the assessment proceedings (with some exceptions) are done through e-proceedings thus limiting the interface between the tax officer and tax payer. With the announcement by the Finance Minister, the exceptions are expected to be fewer in the current cycle, making way for the new scheme of faceless assessment.

Faceless Assessments 2.0

The Finance Act, 2018 introduced certain amendments in the assessments process to impart greater, efficiency transparency and accountability. These amendments were unique and with perhaps no international precedence of a similar kind. The amendments not only aimed at eliminating the interface between tax officer and tax payer but also provided for a team based assessment with dynamic jurisdiction. The tax payers as well as the consultants who are used to dealing with one jurisdictional tax officer were perplexed by the concept of team based assessment and dynamic jurisdiction. However, the Budget speech of 2019 explained the underlying objective of this concept, which is to eliminate the high level of personal interaction between the tax payer and the department that may lead to undesirable practices on the part of tax officials.

Going forward, such e-assessment shall be carried out in cases requiring verification of certain specified transactions or discrepancies. Cases selected for scrutiny shall be allocated to assessment units in a random manner and notices shall be issued electronically by a central cell, without disclosing the name, designation or location of the Assessing Officer. The central cell shall be the single point of contact between tax payer and the department.

Task Force on new direct tax law to firm up modalities

The government has entrusted the task of firming up the modalities for faceless assessment and scrutiny to the Task Force responsible for drafting new tax legislation. The Terms of Reference of the Task Force have been recently expanded to include: (i) the faceless and anonymized verification/scrutiny/assessment, (ii) the mechanism for system based cross verification of the financial transactions.

Visualising the future of assessments

While the notification to implement the scheme for faceless assessments is awaited, from the new announcements it appears that going forward, assessments will not only be faceless but anonymous as well. Assessments may be carried out by a team of tax officers which may include specialists/subject matter experts. It is expected that both the taxpayer and the tax officer drafting the assessment order will have no knowledge of each other's identities. All communication will be through a Central Unit, thereby maintaining complete anonymity of the concerned tax payer and tax officer.

Why the scheme is a game changer

If the faceless assessments scheme is successfully implemented, the process will bring substantial ease to the tax payer. The undesirable practices will be minimized considerably. Small businessmen/individual tax payers may not need the help of consultants to represent routine enquiries, which will help bring down their costs. Since all interactions between the taxpayer and tax officers will be recorded and have a trail, the officers will be conscious of not making any frivolous enquiries. The team of assessment officers, with the specialists included, shall ensure that queries raised are not based on imagination or understanding of one officer alone but are guided by rational collective reasoning. The whole process is expected to become more transparent and focused. A rational assessment order may encourage the taxpayer to pay taxes and help bring down litigation as well.

Are we ready?

Though the new assessment scheme seems to be a masterstroke to reduce wrong practices, the taxpayers too need to prepare themselves in advance. Given the absence of human interface, the response to the tax officers will need to be much crisper and focused, easy to understand and not subject to misinterpretation. The practice of filing voluminous data and dumping of ledgers would need to stop. The larger focus would be on presenting data/ information in an easy-to-understand manner and relying on the relevant and to-the-point case laws.

On the other hand, the tax department itself will need to ensure certain prerequisites for the new assessments scheme to succeed. A robust IT infrastructure must be in place to enable e-assessments. Considering the success of GST infrastructure, this may be easy to achieve. The current system allows for uploading a limited number of annexures, that too with size limitation. Due to this, some large taxpayers face problem while uploading their details. Although anonymity is part of the scheme, a system needs to be put in place where taxpayers get an opportunity to explain their case. The department may also need to guard against the possibility of high pitched assessments and increased litigation in view of the voluminous details, lack of time with the officers and absence of personal interaction.

CONCLUSION

Government has unveiled many taxpayer friendly measures and is continuously working on ways to cut down the compliance burden of taxpayers and reducing litigation. Faceless assessments can be a game changer in curbing undesirable practices. The measure of success of the scheme shall be whether it is instrumental in reducing litigation. With its successful implementation, India can set an example for the rest of the world in leveraging technology for curbing undesirable practices and offering better services to its tax paying citizens.

***Indirect tax
trends to be
distilled from
Budget 2019***





Uday Pimprikar
*Partner and National Leader,
Indirect Tax, EY India*



Smita Bhandari
*Tax Partner,
EY India*

Every union budget for indirect taxes (and of course the state budgets), can be viewed as a celebration of the cooperative federalism that India has achieved - the action on indirect tax related policy making is now also shared with the collective decision making of the GST council.

The new reality is therefore that union budgets, now and in the future, may be limited to primarily dictating the basic customs tariff structure and act as important avenues for the execution of the collective decisions taken by the GST council. The present budget, however expands this ambit and pushes for an appealing dispute settlement scheme in relation to central levies that were subsumed within the GST.

This article seeks to highlight the key trends that should be distilled from the union budget.

Customs

Prominent themes dictating the amendments to the customs tariff structure include incentivizing the increase in value addition within the country for products consumed in India, driving the reduction of basic customs duty on some of the raw materials and increase in the duty on finished products. Basic customs duties (BCD) were reduced by 2-5% on various raw materials and capital goods required for the manufacture of specified electronics. BCD on several products of paper, electronic goods, marble slabs and machines as well as automobiles and parts was increased ostensibly with an aim to provide a level playing field. Duty rates on gold, silver and other precious metals have been increased to discourage non-essential imports.

The non-tariff proposals for customs focused on legislative changes

granting incremental powers to the revenue for dealing with fraudulent evasion of taxes. Notably, customs authorities are proposed to be empowered to penalize and arrest persons who have obtained duty scrips fraudulently and where these scrips have been utilized for claiming customs duty exemptions. Hitherto, it was the sole Commerce Ministry's domain to deal with fraudulent activities related to the issuance of duty scrips. This is a marked departure from the historical ecosystem and uncharted territory. The conflicting agendas of the two ministries - Commerce Ministry's agenda being to promote and regulate international trade and the Finance Ministry's revenue agenda need to be balanced. At its end, the industries need to now demonstrate their intentions to the customs authorities related to the obtaining of the duty scrips.

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The new reality is therefore that union budgets, now and in the future, may be limited to primarily dictating the basic customs tariff structure and act as important avenues for the execution of the collective decisions taken by the GST council. The present budget, however expands this ambit and pushes for an appealing dispute settlement scheme in relation to central levies that were subsumed within the GST.

Sabka Vishwas (Legacy Dispute Resolution) Scheme, 2019 (SVS)

There is reportedly about INR 3.75 lakh crore (around US\$50 billion) stuck in litigation related to central taxes that have been subsumed within the GST. With the intention of resolving these disputes, the government has announced a very attractive Legacy Dispute Resolution Scheme - the SVS. The SVS allows substantial waiver ranging from 40-70% of the disputed taxes, as well as a full waiver from interest, penalty and prosecution. These are substantial waivers (typically penalties equal to the disputed taxes were sought to be imposed and the pre-GST interest rates were ranging from 18-30%). At a broad level, active litigation proceedings (where final hearings have not been completed till 30 June 2019) and quantified proposed demands as on the said date are proposed to be typically eligible to be offered for settlement under the SVS subject to prescribed conditions. The SVS should be launched in the next couple of months.

Goods and Services Tax (GST)

As mentioned before, the union budget has proposed a number of amendments to the GST legislations as per recommendations of the GST Council. The notable ones are imposition of a penalty of 10% proposed on the profiteered amounts demanded vide order of the National Anti-Profitteering Authority in line with penalties for bonafide misconduct (whether penalties can be imposed in relation NAA orders in the present construct of the law is debatable). Further, the National Appellate Authority of Advance Ruling (NAAAR) has been instituted to deal with inconsistent advance rulings. Expansion of the jurisdiction of the NAAAR should be expected in the future. Other amendments included recommended relaxations such as allowing interoperability of individual tax balances for a registration.

The Finance Minister also announced that the government is progressing towards adopting the new GST compliance framework through the next couple of quarters as also will mandate obtaining an electronic reference number for invoices issued.

Contributor: Chandni Vora, Senior Manager, EY India

CONCLUSION

GST implementation has significantly reduced the unilateral tariff related powers of the central government to drive agendas related to industrial activity. However, the union budget should now be viewed as a bellwether for the policy thinking. For the policy drive of the central government to be effective - it would now require a more concerted collaborative thinking and action between the Finance and Commerce ministries. Announcements from the Commerce Ministry should be looked at more keenly henceforth.

For the industry there are the following key messages:

- ▶ *Unfortunately, the punitive measures for non-compliances will harden before being rationalized. A new normal for compliance correctness is being expected by the government and organizations need to accept and drive internal change management to deal with this.*
- ▶ *The government has again announced its intention to proceed with critical GST changes to the compliance regime. These changes if not handled adequately, would lead to business disruption as also have financial impact. Organizations need to educate themselves and quickly implement the same.*
- ▶ *There is merit in aggressively opting for the settlement schemes announced by the central government in the union budget or for that matters also schemes announced or to be announced by state governments.*



Towards a USD 5 trillion economy



D.K. Srivastava
Chief Policy Advisor, EY India

The Union Budget for FY20 forecasts the size of the Indian economy to be at US\$5 trillion in the “next few years”. The Economic Survey indicated FY25 as the timeline for achieving this target. In FY19, the size of the Indian economy was US\$2.7 trillion. Three variables, namely real GDP growth, inflation rate and exchange rate depreciation may determine the size of the economy in the ensuing years. The Economic Survey as well as the RBI projected a real growth rate of 7% for FY20. From here on, for the remaining five-years up to FY25, assuming an inflation rate of 4%, the required real annual growth rate would be close to 9% for achieving a size of US\$5 trillion. This implies a nominal growth rate of 13%. The average annual depreciation of the INR vis-à-vis the US\$ may be kept at 2%. The trajectories of these three variables are detailed in Table 1.

Year	Nominal GDP (INR lakh crores)	Real growth rate (%)	Derived nominal growth* (%)	Exchange rate (INR/US\$)	Nominal GDP (US\$ trillion)
FY19	190.1	6.8	11.1	70.2	2.7
FY20	211.5	7.0	11.3	71.6	3.0
FY21	239.8	9.0	13.4	73.0	3.3
FY22	271.8	9.0	13.4	74.5	3.6
FY23	308.2	9.0	13.4	76.0	4.1
FY24	349.3	9.0	13.4	77.5	4.5
FY25	396.0	9.0	13.4	79.1	5.0

Source (basic data): IMF, Union Budget FY20

Note: nominal growth rate is calculated as real growth rate plus inflation rate plus interaction term.

*on the assumption of an inflation rate of 4% per annum

Scope of increasing investment rate

In FY19, India's gross investment rate at 31.3% delivered a real growth of 6.8%. The implicit incremental capital-output ratio (ICOR) was 4.6. growth rate to 9% from FY21 onwards would require uplifting the investment rate to about 37.8%, India's average ICOR during the three-year period from FY17 to FY19 has averaged 4.2. Raising the real that is an increase of 6.5% points of GDP. In this endeavor, all the three major channels of investment namely the public sector, the household sector and the private corporate sector, will need to participate. As per CSO data, the private corporate sector's investment rate has been in the range of 11.4-11.6% in recent years. At its peak, it was 12.7% in FY16. The household sector's investment rate was in the range of 10-10.7% in the

last three years. At its peak, it was 16.8% in FY12. The investment of the public sector is estimated at 7% of GDP in FY19. The lead in uplifting the investment is best taken by the central government and the central public-sector enterprises (CPSEs). Together if they increase their investment rate by close to 2% points of GDP from their current level of 4% in FY19, it may then be possible, through multiplier effects, to get the balance of the additional investment requirement of 4% points of GDP from the private sector. Apart from center's direct investment, a number of budgetary policy initiatives may facilitate this additional investment.

Growth-promoting budget initiatives

The Budget has introduced a number of growth-promoting policy initiatives. The government proposes to access

global investors by floating sovereign bonds denominated in external currency. Since global interest rates are much lower than that in India and exchange rate depreciation is also limited to about 2% per annum in recent years, the central government can borrow abroad at about 3-4% per annum considered in equivalent rupee terms. This seems feasible, since the government borrows in the domestic economy at about 7%. The amount however, may need to be kept small since there is an associated exchange rate risk. If India maintains an average inflation rate of 4%, which is about 2% points higher than that in some of the developed countries with whom India has relatively large magnitude of trade, it may be possible to maintain an exchange rate depreciation of 2% per annum on average over a longer period. However, exchange rate

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In FY19, the size of the Indian economy was US\$2.7 trillion. Three variables, namely real GDP growth, inflation rate and exchange rate depreciation may determine the size of the economy in the ensuing years. The Economic Survey as well as the RBI projected a real growth rate of 7% for FY20. From here on, for the remaining five-years up to FY25, assuming an inflation rate of 4%, the required real annual growth rate would be close to 9% for achieving a size of US\$5 trillion.

movements also depend on various other factors including magnitudes of exports and imports of goods and services, capital inflows and outflows through different channels and level of foreign exchange reserves, etc.

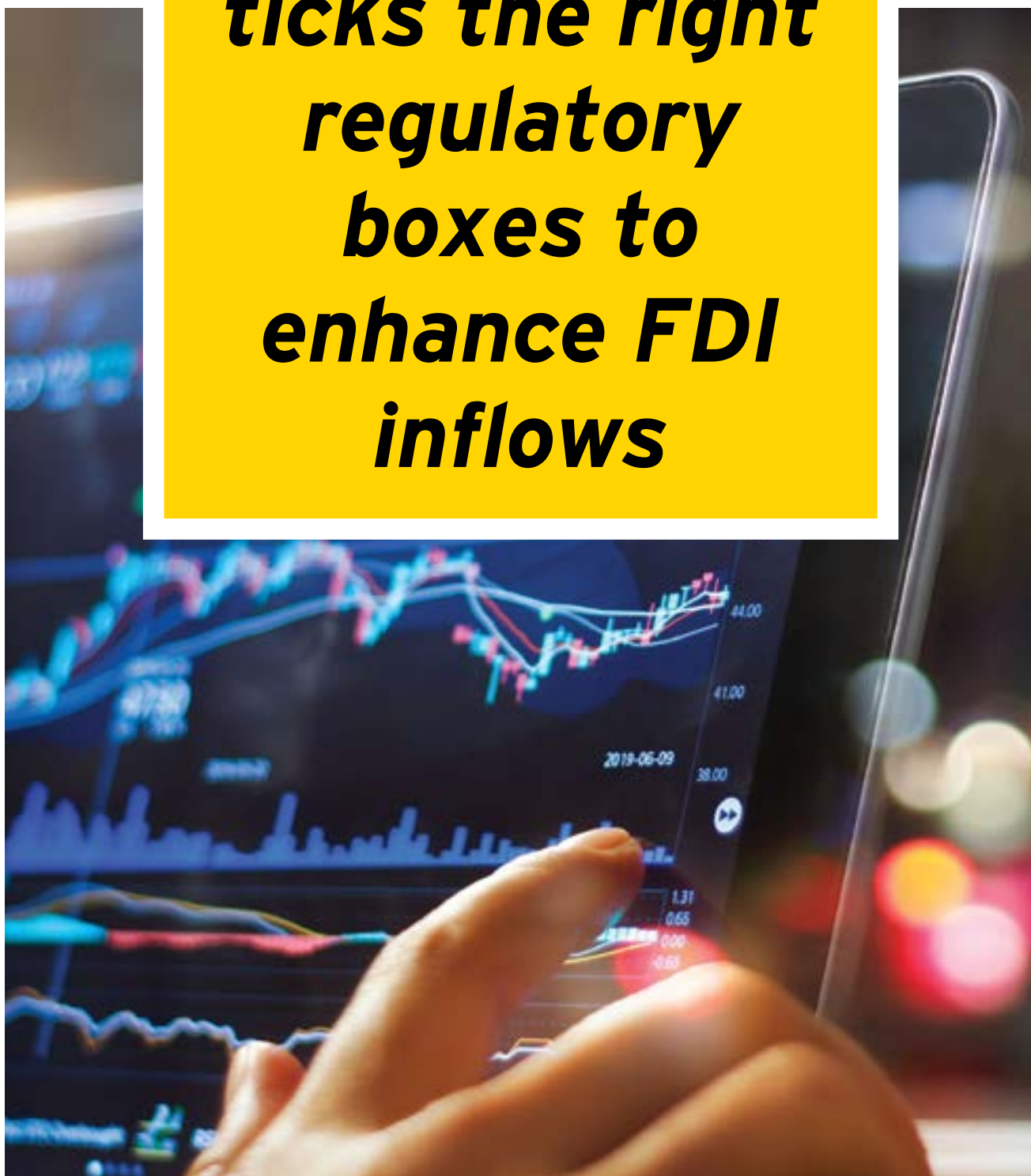
To the extent investment in India is financed by external savings in this manner, the pressure on domestic savings and interest rates might ease. This would give a boost to private investment in India. This would also

facilitate financing government's ambitious infrastructure expansion plans through the PPP route and otherwise. Investment activities may be stimulated through initiatives such as attracting global investors for setting up mega-manufacturing plants to bring in advanced technology in electric vehicles, electronics and other related areas. The sharper focus of Make in India to select sectors such as MSMEs, Start-ups, defence manufacturing,

automobiles and electronics might also help. Further relaxation of the FDI norms introduced in this budget may also augment FDI inflows into the economy. With effective implementation of these policies, achieving a real growth of over 8.5% and a size of US\$5 trillion for the Indian economy may be feasible by the middle of the coming decade.



***Budget 2019
ticks the right
regulatory
boxes to
enhance FDI
inflows***





Rajiv Chugh
*Partner & National Leader,
Policy Advisory & Speciality Services,
EY India*

The cricket fever has seeped into the budget proposals and the key six intended proposals by the government to achieve its vision of creating a US\$5 trillion economy by improving foreign inflows including Foreign Direct Investment (FDI) inflows are enumerated below. While it would be interesting to read the fine print of the press notes/notifications to be released, rationalization of conditions should positively impact the various

sector owing to higher FDI inflows and would further strengthen the capital markets.

I. 100% FDI to be permitted for insurance intermediaries and further opening of sector

Currently foreign investment in insurance sector (including insurance intermediaries) is allowed up to 49% under the automatic route. Considering the several

representation and proposals made by various market participants, the government has taken cognizance of the fact that pure insurance/reinsurance and insurance intermediaries are different on account their core business activities, thereby cannot be treated at parity with the insurance companies.

Accordingly, it is proposed in the union budget to permit 100% FDI for insurance intermediaries (insurance

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The retail trading sector has attracted US\$1.65 billion FDI between April 2000 and March 2019. In terms of budget announcement, the existing local sourcing norms are now proposed to be eased which may enable entry of companies into India who earlier found it difficult to ensure compliance with these local sourcing norms.

brokers, surveyor, loss assessors, etc.), which may enhance additional foreign inflows in this sector. This decision was based on the role the entities play, wherein insurers (including reinsurers) play a major role towards maintaining financial stability of the India market, requiring them to maintain a minimum amount financial solvency. Unlike insurers, the insurance intermediaries are not entrusted with the management of public wealth and are privately set up entities with usually minimum statutorily prescribed capital. Therefore, this liberalization though long due appears to be a justified change.

The change in FDI might indeed attract significant investment in the sector and enable adoption of global best practices and lead to significant job creation both directly and indirectly.

II. Local sourcing norms to be eased in Single Brand Retail Sector (SBRT)

As per current guidelines, where FDI exceeds 51% in SBRT, sourcing of 30% of the value of goods purchased by the SBRT entity is required to be done from India, preferably from micro and small-scale industries, village and cottage industries, artisans and craftsmen (MSME) in all sectors. SBRT entities are permitted to set off their incremental sourcing of goods from India for global operations during the initial five years, beginning 1 April of the year of the opening of first store, against the mandatory sourcing requirement of 30% of purchases from India. After completion of the five year period, the SBRT entities are required to meet the 30% sourcing norms directly towards India operations on an annual basis. Said sourcing norms will not be applicable up to three years

from commencement of the business, i.e., opening of the first store for entities undertaking single brand retail trading of products having "state-of-art" and "cutting-edge" technology and where local sourcing is not possible.

The retail trading sector has attracted US\$1.65 billion FDI between April 2000 and March 2019. In terms of budget announcement, the existing local sourcing norms are now proposed to be eased which may enable entry of companies into India who earlier found it difficult to ensure compliance with these local sourcing norms.

III. FDI in aviation

In terms of the extant FDI Policy, civil aviation sector includes airports, scheduled and non-scheduled domestic passenger



airlines, helicopter services/seaplane services, ground handling services, maintenance and repair organizations, flying training institutes, technical training institutions and in other than scheduled air transport service/ domestic scheduled passenger airline and regional air transport service, wherein FDI is allowed up to 49% under automatic route and up to 100% under automatic route (for NRIs and OCIs), FDI up to 100% is permitted under the automatic route in all the other segments under the sector civil aviation.

It is proposed to further increase the existing sectoral limit of 49% in scheduled air transport service/ domestic scheduled passenger airline and regional air transport service. Encouraging foreign investment in this cash starved sector would serve as crucial source bringing in funds for

overhauling its infrastructure to boost growth.

In the past when government allowed 100% FDI in civil aviation sector, airlines were allowed 100% FDI without any caveat except a government nod after the FDI limit crossed 49%. Despite such bold steps by the government, no substantial FDI was made in India's airlines except the investment made by Etihad in Jet Airways. This is perhaps due to the subsequent clarification given by then Civil Aviation Minister that where foreign investment is to be increased beyond 49%, approvals would be forthcoming on a case to case basis.

The other impediment, perhaps, for foreign investors investing in India's airlines is the existence of the issue of substantial ownership and effective control (SOEC) clause. According to

this clause, it mandates the majority control, board seats, etc. of any airline wanting to fly in India resting with Indians. Therefore, it needs to be seen if the government would also be changing the substantial ownership and effective control (SOEC) rule while proposing 100% FDI in Domestic Scheduled Passenger Airline in the fine print.

IV. Enhancing of the Foreign Portfolio Investors (FPI) investment limit

The government's aim is to make the domestic market attractive for foreign investment. FPI investors still find the domestic Indian markets to be inaccessible and FPI's have found the Indian markets to be restrictive to park their funds in India. In terms of the extant provisions, presently the FPIs are permitted to invest up

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It is proposed to enhance the statutory Investment limit in a company from 24% to the respective sectoral foreign investment limit, with the prerogative is on the investing company to decide the limit of investment. This increase would provide more room for the FPI investors to invest in the Indian market as well as the Indian company to attract more investment from FPI investors.



to 24% in a listed company which can be enhanced after passing of the board resolution and shareholders' resolution.

The current budget proposal is in accordance with the suggestions given by the panel appointed by the SEBI. The panel suggested that SEBI should have a discussion with the RBI and the government to amend the caps for FPIs. Currently, FPIs are capped at 24%, which can be taken to the sectoral foreign investment limit (FPI+FDI) through board and shareholder approval. The panel observed that the companies were not doing so. To give more room to foreign portfolio investors to invest in Indian stocks, the panel suggested that they can invest up to applicable sectoral limits after adjusting for investments made under the FDI route.

Accordingly, it is proposed to enhance the statutory Investment limit in a company from 24% to the respective sectoral foreign investment limit, with the prerogative is on the investing company to decide the limit of investment. This increase would provide more room for the FPI investors to invest in the Indian market as well as the Indian company to attract more investment from FPI investors.

V. Subscription of debt instruments issued by Real estate investment trust (REITs) and Investment Trusts (InvITs)

FPIs will hence forth be permitted to subscribe to listed debt securities issued by REITs and InvITs. This would give flexibility to REITs and InvITs in raising funds and provide additional funding options and investible stock options to the FPI, in various sectors like real estate sector.

VI. Merging of the Non-Resident Indian (NRI) - Portfolio Investment route with the Foreign Portfolio Investment route

At present, the total holding by an individual NRI and cumulative holdings by NRI shall not exceed 5% or 10% of the total paid-up equity capital respectively. The said limit of 10% could have been further raised to 24% by passing a shareholders' resolution. To give further flexibility to corporate to raise funds from NRI, it is proposed to merge the NRI - Portfolio Investment route with the Foreign Portfolio Investment route, post which cumulative NRI Investment limit in a company shall also be enhanced from 10 % to the respective sectoral cap. This move would usher the single regime for foreign investors and regulate investments and funds brought in by the non-resident Indians and person of Indian origin which was also one of the key recommendations of H R Khan committee. The H R Khan Committee report recommended the entities majorly owned by NRIs/ OCIs could be granted registration under Category II or Category III FPI depending upon their regulatory and broad-based status.

The success of this move would now depend on how the two regulators RBI and SEBI would work in tandem to ensure this smooth transition.

CONCLUSION

Overall, the global retail industry was eagerly awaiting further FDI relaxations in the multi-brand, to make India an even more lucrative investment destination. However, it appears that the government is still evaluating the impact of 100% FDI in single-brand retail on the local sourcing norms and shall continue to test the waters before advocating similar change for multi-brand retail. Further FDI policy changes is a continuous process and do not depend upon the budget and hence we may expect some more changes in the FDI policy in near future. The budget announcements appear to be in line with certain recommendations made under report by the Working Group on FPI Regulations (H.R. Khan Committee) such as streamlining of KYC norms, increasing statutory limit of FPI investments to the sectoral cap, merging of NRI-PIS scheme with the FPI route, which are all extremely welcome steps, which can help boost FPI investments in the Indian capital market.

Nonetheless, the industry would laud the announcement of these relaxations and policy decisions as a step in the right direction. All-in-all, the budget does tick some of the boxes providing something for everyone and strikes a balance between catering to the needs of the farmers, consumers and the middle class while maintaining the fiscal deficit. It appears that the above regulatory changes may ensure robust, continued investment flows and drive the virtual cycle of investment to make India the sixth largest economy.





Sectors



***Budget 2019
gives a major
boost to banking
and financial
sector***



Sameer Gupta
*Tax Partner, Financial Services,
EY India*

The NDA Budget 2.0 for 2019 has been a multifocal effort of the government to steer growth and development from a financial services perspective. There were a number of key changes which include:

- ▶ Further incentivizing investment by Foreign Portfolio Investors (FPIs) through regulatory reforms
- ▶ Strengthening the banking and Non-Banking Financial Companies (NBFC) sectors to ensure credit flows
- ▶ Providing an impetus to the insurance sector and the International Financial Services Centre (IFSC)
- ▶ Continued focus on development of the bond market

During the speech, the Finance Minister recognized the key role that NBFCs play in sustaining consumption demand as well as in capital formation in small and medium enterprises. A slew of tax and regulatory measures have been proposed to revive the NBFC sector which is reeling under the pressure because of deterioration

in asset quality and lack of funding from the banking sector. By providing a one-time six-month partial credit guarantee, eliminating the need to maintain Debenture Redemption Reserve in case of public placement of funds, enhancing the powers of the Reserve Bank of India to regulate NBFCs (removal/ appointment of directors from the board, power to restructure, etc.), the government has aimed to pave a way for the development and sustenance of the NBFC sector. Additionally, taxing the income on interest on sticky loans and advances on a cash basis will provide the needed tax benefit to the NBFC sector. The above measures should ultimately result in an increase in the flow of funds to NBFCs, who can then on lend it further to customers and sectors where banks do not have the ability to reach or do not want to go.

Another prominent area which was the focus of Budget 2019 was the IFSC. To promote its development, the Budget has proposed additional tax and regulatory incentives for the IFSC. These primarily include providing 100% profit-linked deduction in any 10-year block within a 15-year period, exempting mutual funds from levy of

income distribution tax, exemption from the levy of dividend distribution tax from current and accumulated income to companies, exemptions to Category-III Alternative Investment Funds (AIF) on capital gains arising from trading in IFSC and to non-residents on interest payment on loans taken. There is also a proposal to reduce the net-owned fund requirement from INR 50 billion to INR 10 billion for foreign re-insurers. The above should provide a further momentum to activities in the IFSC and bring India IFSCs at par with similar IFSCs in other countries.

Besides the above, the Budget has sought to address some long-standing demands of the financial services sector, like the ability of investors in the Category I/ II AIFs to claim losses incurred by the AIF on a see-through basis, extension of exemption to Category II AIFs from the provisions of the Angel Tax, rationalization of the provisions relating to onshore fund management and enabling the carry forward of past tax losses and availability of minimum alternate tax benefits to distressed companies undergoing resolution outside of the Indian Bankruptcy Code.

From a policy standpoint, the announcement to implement some of the recommendations of the Working Group on FPI Regulations (H.R. Khan Committee) such as streamlining of KYC norms, increasing statutory limit of FPI investments to the sectoral cap and the merging of Non-Resident Indian-Portfolio Investment Scheme with the FPI route are all welcome steps, which can help boost FPI investments in the Indian capital markets. The measures to encourage aircraft financing and leasing activities from Indian shores and making India a hub for such activities, rationalize Foreign Direct Investment (FDI) in the insurance sector and permit 100% FDI in insurance intermediaries might also have a positive impact on the sector.

However, the proposal to levy tax on the buyback of listed shares and increase in the surcharge for certain categories of taxpayers organized as non-corporate entities (other than firms), resulting in an increase in the effective tax rate on capital gains on sale of securities for FPIs and Category III AIFs - by about 3.5% for short-term capital gains (from 17.94% to 21.37%) and by about 2.3% for long-term capital gains (from 11.96%

to 14.25%), looks to negatively impact the capital flows from FPIs and AIFs. Also, some measures that still need to be dealt with include removal of the requirements of being a “connected person” and determining the residency of indirect investors in an investment fund from onshore fund management perspective, providing parity to NBFCs with banks for deductibility for provision for doubtful debts and an exemption from the applicability of thin capitalization rules and clarity on reinsurance branch taxation.

On an overall basis, Budget 2019 has rightly provided a strong focus on the financial services sector. The sector had many asks which have not been addressed, however, given the five-year term of the NDA government, it is expected that many of the unanswered requests would find place in the budget and policy measures to be announced in due course.

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***Impact on FPIs
and offshore
funds***



Tejas Desai
Tax Partner, EY India



Anahita Kodia,
Tax Associate Partner, EY India

The first budget of NDA 2.0 set the building blocks towards the vision of making India a US\$5 trillion economy over the next few years.

As the fastest growing major economy in the world, India has become a very important participant in global investment flows. Central to achieving the vision of US\$5 trillion may be the attractiveness of India's capital markets to foreign investors, without whom the economy lacks the ability to mobilize the financial resources for investment activity. What did the Finance Minister's (FM) maiden budget have for Foreign Portfolio Investors (FPIs) who have so far invested more than US\$400 billion in Indian capital markets?

The FM emphasized the importance of a harmonized and hassle-free investment experience for FPIs and proposed to streamline the existing KYC norms for FPIs to make them more investor friendly. This follows the report of the Working Group on FPI Regulations (H R Khan Committee) which made certain very important recommendations such as eliminating the duplicity in the KYC process by permitting local custodians to place reliance on KYC carried out by its global custodian, fast track on-boarding process for

select Category II FPIs, easing the KYC process by reducing collection of multiple documents containing the same information, etc. The constant feedback from market participants has been that the on-boarding process for FPIs is difficult and time consuming. The implementation of these recommendations might be an important step in making market entry easier for FPIs.

The proposal to increase the statutory limits for FPI investment in an investee company from 24% to the relevant sectoral cap (with an option being given to the investee company to regulate the investment limit) will increase the availability of investible stock to FPIs which is an important determinant of attracting cross border investments. This issue assumes greater significance in view of the gradual shift, from stock targeted investments, towards passive investment whereby funds track global indices, the composition of which depends up on available floating stock.

Similarly, while the proposal to raise the current threshold of public shareholding in listed companies from 25% to 35% has resulted in fear of excess supply of stocks, this may ultimately ensure wider ownership, more market depth and better

corporate governance. This might also increase India's weight in key global indices and ultimately bring in higher capital flows.

Presently, Non-Resident Indians (NRIs) are permitted to invest in Indian capital markets through the Portfolio Investment Scheme (PIS) administered by designated Category 1 AD banks. This scheme has been subject to restrictions which are otherwise not applicable to FPIs and has seen a tepid response. Assets under custody of NRIs under the PIS are only around INR 30 billion as per SEBI data. The Budget proposal to merge the FPI and NRI-PIS routes may provide a single route for all types of portfolio investments into India resulting in simplification and ease of doing business for NRIs/ OCIs (Overseas Citizenship of India). If implemented, this could pave the way for majority NRI/ OCI owned entities or funds to access the Indian markets.

Efforts for onshoring international financial services transactions continued in the Budget with additional tax incentives being provided to participants in the Gujarat International Finance Tec-City (Gift City). Additional business opportunities and job creation in Gift City will contribute to the larger goal

of achieving the US\$5 trillion goal for the economy.

The growth of the Indian capital markets has seen the rise of Indian fund managers, who now have the expertise to manage foreign capital. They have been constrained by the tax rules which treat the foreign fund as having a business connection or a POEM (place of effective management) in India if the fund is managed by a local fund manager. Section 9A was introduced into the Income-tax Act, 1961 to provide a safe harbor to foreign funds from these risks and seek a pre-approval from the CBDT. However, the number of conditions under section 9A that are required to be satisfied to be eligible for the safe harbor have made it difficult for Indian fund managers to avail of this regime, though some approvals were granted by the CBDT a few months ago. The government has taken industry feedback and given some relief in the Budget by relaxing two conditions. However, some of the more important conditions need a re-look for this benign yet potentially powerful policy change to be impactful from a Make in India, employment and tax collection standpoint.

The proposal to increase the surcharge rate for super-rich individuals has had collateral damage for FPIs. As per the Budget's fine print, the increased surcharge is also applicable to most non-corporate FPIs resulting in an increase in their effective tax rates on capital gains - from 17.94% to 21.37% (on short term capital gains on listed equity) and from 11.96% to 14.25% (on similar long-term capital gains). This increase might impact a large number of foreign mutual funds, state and private pension funds, university endowments, who are generally organized in a non-corporate form. Such an action, without a formal consultative process, resulting in a significant arbitrage in effective tax rates for FPIs (purely driven by their legal status) does not reflect a sound and stable tax regime for FPIs.

The Budget proposals have directionally set the tone for attracting more foreign capital into Indian markets, recognizing its importance to catalyze the economy. The government's decision to increase the surcharge on FPIs may impact the attractiveness of the returns from Indian capital markets, as India is an outlier amongst major global peers as far as taxing foreign portfolio investment is concerned.



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***Angel Tax
relief for
Start-ups***



Gaurav Chadha
Tax Partner, EY India

The Finance Minister, in her Budget speech reiterated the government's commitment towards providing a fertile environment for start-ups. Key areas of focus include the need for promoting start-ups, attending to the issues affecting the growth of the sector, facilitating matchmaking between start-up ideas and funding pockets and providing conducive business/compliance environment to increase the ease of doing business.

To achieve the stated intent, some important changes were proposed in the Finance Bill 2019 and favorable announcements were made in the budget speech.

Angel Tax

Angel Tax has been a concern for the start-up industry. In the midst of expectations listed by start-ups, the government has taken some measures to address the issues surrounding the Angel Tax. The sector is optimistic that these steps may provide relief from the heat of the Angel Tax issue.

Investments made by Category II - Alternative Investments Funds (AIF) in eligible start-ups have been exempted from the rigors of Angel Tax.

To ease the tax scrutiny burden (in relation to Angel Tax issue) on the start-up sector, it has been announced that government will put in an e-verification mechanism through which identification of the investor and source of investment will be verified. Thereby, the start-ups and investors who file the requisite declarations and provide information in their tax returns will not be subjected to any kind of scrutiny in respect of valuations of share premiums. Also, to address the concerns regarding pending assessments and grievances, it is announced that special administrative arrangements shall be made by the Central Board of Direct Taxes (CBDT) so that no inquiry or verification in cases (involving the Angel Tax) is carried out by the tax officer without obtaining approval of their supervisory officer. These steps once put in place,



might provide relief to the start-up sector.

It is critical that all these announcements are implemented both in letter and in spirit by the CBDT and tax officers to ease the unwarranted litigation and / or compliance burden on the start-up sector.

While the start-ups were anticipating a blanket exemption from the Angel Tax, it was not announced in the Budget. There was no relief for cases where assessments have been concluded and tax demands served on start-ups. In addition, the proposed amendment where if an eligible start-up fails to comply with any of the conditions notified by the Department for Promotion of Industry and Internal Trade (DPIIT), then consideration received by the start-up for issue of shares in excess of the fair market value (FMV) of shares shall be deemed as income and

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taxed in the year in which the failure takes place. Further, deemed income (calculated as above) shall also be liable to penalty.

Carry forward and set off of losses

To provide relief to eligible start-ups in relation to carry forward and set off of losses, the related condition is relaxed. Earlier to carry forward losses to subsequent year, all the shareholders who beneficially held shares as on the last date of the relevant Financial Year in which the loss was incurred were required to continue holding the shares even in such subsequent year. Now, continuation of 51% beneficial shareholders (carrying voting power) would be sufficient for carry forward and set off losses.

Relaxation of conditions for re-investment of long term capital gains

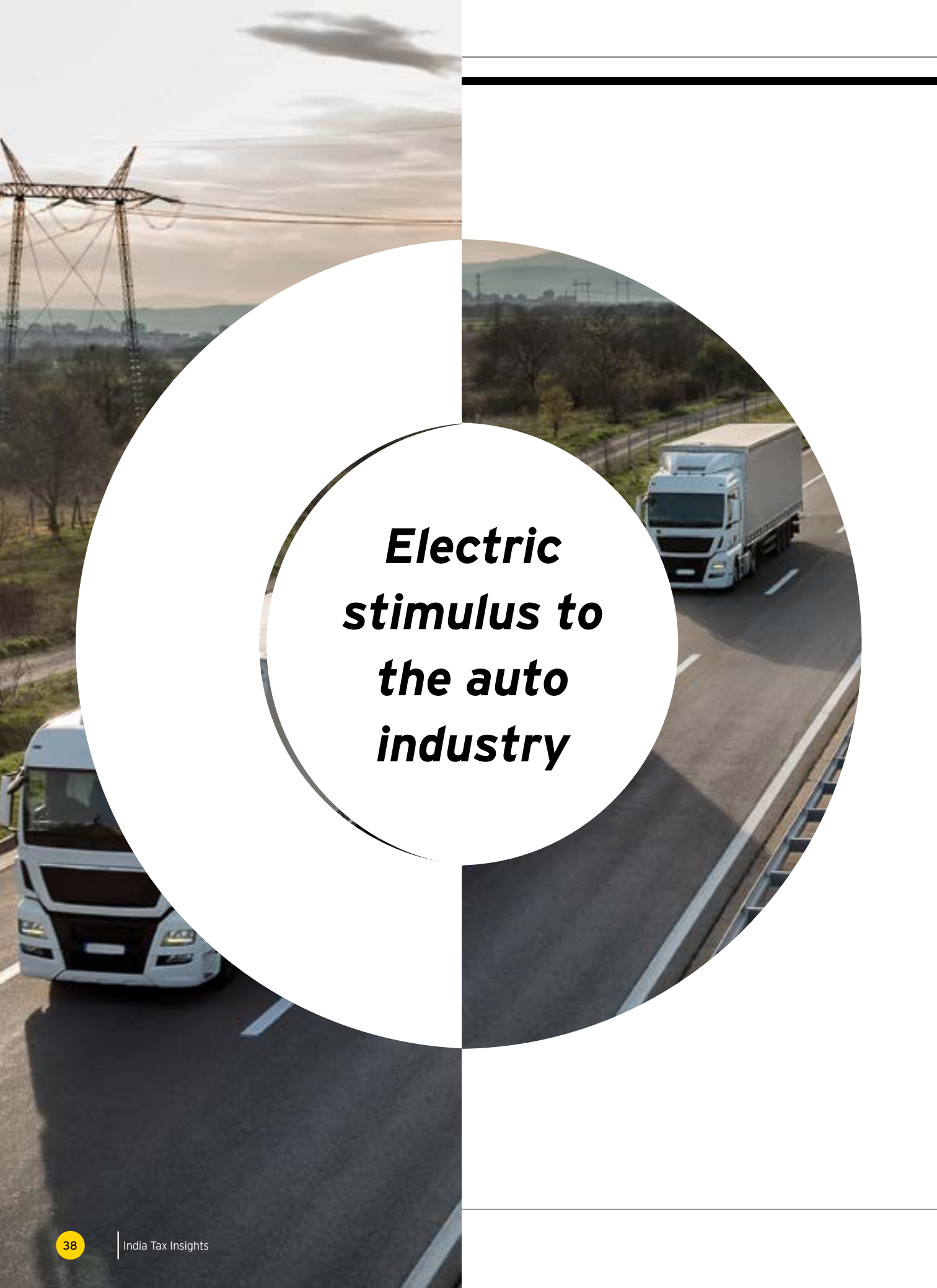
To continue the investment inflow in start-ups, the period (provided

under section 54GB of the Act) for availing exemption in relation to re-investment of capital gains (earned from sale of residential property) in eligible start-ups has been extended from 31 March 2019 to 31 March 2021. The provision has been made less stringent, as now an investor is required to subscribe to only 25% shareholding in an eligible start-up, as against 50% shareholding provided earlier. Also, in relation to computers or computer software (keeping in view the obsolescence rate) acquired by eligible start-up, the condition requiring holding of new assets for a period of five years has been relaxed to three years.

Moreover, other announcements like faceless tax audits in electronic mode, allocation of tax audits in a random manner and issuance of notices by central cell are positives as these may save man hours and reduce compliance and / or cost burden on the start-up sector.

Pending demands of Start-up sector

The Budget did not address other long-standing demands of start-ups, namely, shares allotted to start-up employees under Employee Stock Option (ESOP) Scheme to be taxed at the time of sale instead of at the time of exercise of such options, providing an equitable investment environment vis-à-vis investments in listed shares by lowering the capital gains tax rate on the sale of start-up shares to 10% (as they are illiquid and riskier than their listed counterparts), easing working capital crunch by providing lower withholding tax rate to start-ups on a self-declaration basis until start-ups become profitable, simple tax system, easier tax compliances, lower corporate tax rate, etc. From a long-term perspective, to ensure that start-ups with an exponential growth potential do not shift to other jurisdictions, government might need to make more changes in line with the tax incentives offered and practices adopted by other tax jurisdictions.



***Electric
stimulus to
the auto
industry***



Pramod Achuthan
Tax Partner, EY India

Budget 2019 gives a large emphasis to encouraging investments. Several measures have been announced in this context, for instance, to address the liquidity crunch, spur consumer demand and to put in place the right infrastructure. In keeping with the vision of a Green India, Electric vehicles (EVs) have been given a push by granting many tax incentives.

With a contribution of 7% plus to the country's gross domestic product (GDP), auto industry is one of the major pillars of the Indian economy and a major source of employment. However, the industry is witnessing severe growth challenges. As of May 2019 (y-o-y)¹, the auto sales declined 8.62% across segments, with passenger car sales declining by 26%. Given this background, the industry was looking at the Budget for an additional fiscal boost to consumption.

The key Budget elements relevant to the auto sector are captured below:

1. Mega investments in sunrise and advanced technology areas

The objective of the Make in India initiative is to raise the contribution

of the manufacturing sector to 25% of the GDP by 2025. One of the major contributors to this initiative is the automobile sector which finds specific mention in the Budget 2019 as part of the government's 10-point vision for the decade.

To incentivize the domestic industry, Basic Customs Duty (BCD) is proposed to be increased on certain imported automobile parts. Further, BCD is proposed to be increased for certain Completely Built Unit (CBU) vehicles from 25% to 30%.

Investment linked incentives under income tax as well as other indirect tax benefits have been proposed to invite global companies under a competitive bidding process to set up mega manufacturing plants in the sunrise and advanced technology areas including lithium storage batteries and solar electric charging infrastructure. While the incentive was announced by the Finance Minister (FM), it does not feature in the Finance Bill. It is hoped that section 35AD of Income-tax Act, 1961 is suitably amended. This might encourage some of the large manufacturing companies consider moving their plants from China to India. Also, the incentives will help

1 As per Society of Indian Automobile Manufacturers (SIAM) data

develop the right ecosystem by motivating the suppliers of these manufacturers to also set up base in India.

2. Better liquidity to help auto sector

Availability of sufficient credit in the market is an enabler for consumer demand for automobiles. As stated by the CEO, Niti Aayog, the Budget provides a boost to the financial sector as credit is close to 70% of India's GDP and reducing disbursement bottlenecks will provide the fuel to the wheels of growth.² Considering this, the proposal to provide INR 70,000 crore will enable PSBs to fill the credit void. Further, for purchase of high-rated pooled assets of financially sound NBFCs, the government will provide a one-time six months partial credit guarantee to PSBs for loss of up to 10%. These are good macro incentives and will hopefully lead to better liquidity and improved consumer demand for the auto sector, among others.

3. Infrastructure investment

Good road connectivity is one of the fundamental factors driving the growth of automobile industry. The Budget focuses on spurring growth through increased investment in infrastructure. As such, the government has announced its intention to invest INR 100 lakh crore on infrastructure over the next five years. Under Bharatmala 1, 134,800 km of national highways have been approved for development. Bharatmala 2 will

focus on helping states develop road networks (including upgradation of 125,000 km of rural roads). To facilitate such investment, the road and infrastructure cess on petrol and diesel has been increased by INR 1 per liter (this is addition to the special Additional Excise duty on petrol and diesel of INR 1 per liter).

4. Push for EVs

With the intention of a greener India, the government is pushing the auto industry for the faster adoption of EVs. The aim is to have EVs make up 30% of all total vehicles in India by 2030, while the Niti Aayog is pushing for 2023 deadline for three-wheelers and 2025 for two-wheelers up to 150 cc engine to convert to electric mode. While the government think tank feels that a ban on internal combustion engines might put India on the fast track for EV adoption, the industry feels that it would force India to import lithium ion batteries.

To address industry concerns on adoption of EVs, the government has announced an outlay of INR 10,000 crore for the Faster Adoption and Manufacturing of Hybrid and Electric Vehicles Scheme II (FAME II). FAME II provides incentives for charging infrastructure, specified electric commercial vehicles and plug-in hybrids. The Economic Survey also highlights the importance of having good charging infrastructure as being the key to mass adoption of EVs.

To trigger the demand for EVs, deduction of interest payable on loan taken from any financial institution

(sanctioned between 1 April 2019 and 31 March 2023) for purchase of EVs subject to maximum of INR 1.5 lakh per year for individual taxpayers has been announced. Here, the definition of EVs doesn't seem to cover hybrids and whether these incentives will nudge customers to shift to EVs remains to be seen.

On the indirect tax side, government has recommended to the GST Council the lowering of the GST rate on EVs from 12% to 5%. Also, Customs Duty exemption has been proposed on EV parts like e-drive assembly, on-board charger, e-compressor and charging gun.

5. Ease of doing business

Given the government's focus to improve India's rank in the World Bank's Doing Business Report, various initiatives like the introduction of faceless e-assessment, electronic application for determination of withholding tax rate on payment to a non-resident and push for digital payments have been proposed.

On the GST front, proposals include a fully automated GST refund module being announced to reduce the blockage of working capital and reduce the consequential interest burden. Also, an electronic invoice system is proposed that may eliminate the need for a separate e-way bill. These are positive changes from auto industry perspective. Apart from this, anti-profiteering provisions are being amended to levy a penalty of 10% of the profiteered amount in certain cases. The government's clear

² Economic Times story on 6 July 2019

message is that all benefits of GST cuts should be passed on to the final customer by auto companies.

A resolution cum amnesty scheme “Sabka Vishwas (Legal Dispute Resolution) Scheme” to resolve and settle pending litigation under the Central Excise and Service Tax laws has been proposed and this is a welcome step to get rid of old litigation matters and contingent liabilities in the balance sheets.

Overall, the Budget proposals for a push to adoption of EVs, supplemented by tax incentives for mega manufacturing units are forward looking. It is hoped the GST Council will rationalize the GST rates for all vehicles so as to encourage consumption. Putting in place the right charging infrastructure will be important to ensure that the ecosystem for EVs develops as envisioned.

Contribution: Anuj Deshmukh, Senior Manager, EY India



We welcome the Government’s vision of achieving a 3 trillion dollar economy and becoming the 6th largest economy in the world by end of this fiscal year. The Union Budget 2019 has positive aspects that we are sure, is going to benefit the economy as a whole. The government’s decision to infuse 70,000 crores to boost credit for PSU banks, the continued focus on infrastructural development, restructuring of National Highway Programme, focusing on Bharat Mala II et al is going to give a boost to road connectivity, indirectly benefitting the auto sector. The budget also lays a strong push for green mobility. Given the lack of charging infrastructure at this stage, Plug-in-hybrids (PIH) could have been the best solution in the transition from Internal Combustion Engine and the EVs. Therefore, we honestly expected the inclusion of Plug-in-hybrids (PIH) in the duty cut for green vehicles. Duty exemption for the PIH, in the same spirit as announced for EVs, would’ve made these vehicles affordable and encouraged more consumers to adopt them. Also the decision to increase the custom duty on automotive parts was unexpected and this coupled with increased input costs due to fuel price hike, could lead to an increase in the price of our model range. We feel the Union Budget is pro-development but the automotive sector does have its share of hits and misses.

Martin Schwenk,
Managing Director & CEO, Mercedes-Benz India



***NDA 2.0
Budget policy
announcements
to propel
Infrastructure
sector***



Samir Kanabar
Tax Partner, EY India

Key policy announcements:

Infrastructure continues to be backbone which goes a long way in nation building, growth, employment generation and building a better world.

Funding/ Monetization

In order to give much needed impetus to the infrastructure sector in India, the government plans to invest INR 100 lakh crore approximately in infrastructure sector over the next five years. While there is a vision and clear purpose, given the tax collections and financial distress, funding will be a real challenge.

To ensure participation of private sector and to attract investment (domestic and foreign), government has taken the following measures:

- a) Liberalized regulations and given tax concessions for the success of real estate investment trusts (REITs) and infrastructure investment trusts (InvITs)
- b) To keep up the ante and boost private investments, the government has now permitted

FPIs to subscribe to listed debt securities issued by REITs and InvITs. Inbound investment by FPI would foster FDI and bolster the foreign exchange reserves of India

- c) Introduction of Toll-Operate-Transfer (TOT) and hybrid annuity model to modernize and monetize road assets
- d) Set up of National Investment and Infrastructure Fund

Government has indicated that it will not stop here and has announced to raise funds through external borrowings which may (to an extent) bridge the funding gap. Having said that Government will have to keep pace with reforms and introduce innovative models to ensure viability of projects and sustainable funding.

By introduction of public-private partnership (PPP) model in Railways, the government has paved path for privatization with the aim to unleash faster development and delivery of passenger freight services. This would upgrade the maintenance abilities of railways and increase efficiency in implementing the projects. On the other hand, privatization may also pose certain challenges due to lack of experience in Railways.

Aviation

In respect of aviation sector, the government has indicated its willingness to look into increasing FDI. Further, the government's aims to make India a hub for aircraft financing and leasing activities by utilizing existing International Financial Service Centres and SEZs is quite innovative and appears to be attractive basis several tax concessions granted to IFSCs. There would be a need for government to come up with a regulatory road map to implement the same and ensure that such framework could attract global players.

Government has indicated a refreshed outlook in respect of maintenance, repair and overhaul (MRO) sector to leverage India's engineering advantage. This potential for attaining self-reliance in this vital segment can be achieved by adopting suitable policy interventions for the development of the industry. The ask of MRO sector in terms of tax leakages resulting into higher cost needs to be attended to and addressed.

Consolidation

With a vision of "Har Ghar Jal" in rural areas under the "Jal Jeevan Mission", the government took a positive step by consolidating the Ministries of Water Resources, River Development and Ganga Rejuvenation and Drinking Water and Sanitation into a new ministry - "Jal Shakti". The intention is to further converge with other central and state government schemes. The consolidated efforts would bring in efficiency as well as effectiveness and speed up the process of minimizing water crisis and provide safe drinking water.

The government had attempted to have a common minister for the portfolio (for example Ministry of Power and Ministry of Coal) and basis success/learnings, this is an attempt to bring more synergy by merging the ministries.

Missed out!

New investment linked deductions for mega investments in sunrise and advanced technology areas was announced during the Budget speech 2019. However, the same does not find mention in Finance (No. 2) Bill, 2019. In line with the intention of the government to boost economic grow and promote Make in India, suitable amendments should be introduced to provide necessary impetus to the industry.

From GST perspective, the ask of Infrastructure sector to provide pass through status or remove tax blockage still needs to be attended. Similarly, to promote MRO business in India, streamlining of GST and customs duty will be paramount.

Recommendations

Fiscal Consolidation

A heavy debt burden has put a lot of infrastructure companies under considerable financial stress. Government should introduce a frame work for fiscal consolidation for the companies operating in the infrastructure sector. This may enable infrastructure companies with multiple horizontal SPVs to be able to set off the losses incurred in one SPV against the profits earned by other SPVs. The fiscal consolidation would ease the pressure of the industry players by lowering their tax costs given the long gestation periods that these projects have to endure.

Power sector was hitherto eligible for tax holiday under Section 80-IA of the Act. Section 35AD was introduced to provide for investment linked deduction for capital expenditure on "infrastructure facility" in lieu of tax holiday, which however does not include power sector. Thus, it is recommended that benefit of investment linked deduction be extended to power sector which may provide much needed impetus.

(Ankit Kochar and Seema Choudhary, Senior tax professionals EY, have also contributed to the Article)



The Finance Minister in her maiden budget has laid down several commendable proposals that I believe are going to transform India's logistics sector. While initiatives such as - enhancing port connectivity, modernization and port-linked industrialization- under Sagarmala will create the necessary infrastructure for external trade, the Jal Marg Vikas project will help grow internal trade, through India's vast inland waterways network. The proposed Public-Private Partnerships in development and completion of tracks, rolling stock manufacturing and delivery of passenger freight services will expedite railway development projects. These initiatives will ensure that India is not dependant on its roadways and cost-effective modes of transport like the waterways and railways are given the right impetus to grow. In my view, not only will these initiatives lower the overall cost of transportation, it will also enhance the global competitiveness of Indian goods, ensure that the logistics sector is more streamlined and efficient as well as help create regional logistic hubs all over the country. With Rs 100 trillion set to be allocated over the next 5 years for infrastructure projects, I believe this budget firmly puts India on a high growth trajectory.

Devang Mankodi,
Director - Finance, DP World



***Realty
strikes!***



Gaurav Karnik
*Tax Partner and National Leader,
Real Estate practice, EY India*

The real estate sector has been witnessing a slowdown over the past few years, which is continuing, especially in the residential segment. Lack of sales coupled with the liquidity crisis in the Non-Banking Finance Company (NBFC) sector has resulted in the drying up of funds for developers. Accordingly, the sector was expecting measures from the Budget to help alleviate the sector's conditions. In the interim budget, the government had announced several measures such as the extension of the tax holiday period for affordable housing, capital gains tax rollover for two houses for capital gains up to INR 2 crores, exemption from notional income on second self-occupied house, taxation on notional income from unsold inventory being deferred by one year, etc. Continuing its focus on the real estate sector, the finance minister has announced policy as well as tax measures which should help the sector in its recovery as well as meet the overarching objective of Housing for All by 2022.

On the policy side, the government announced that it shall soon be releasing a Model Tenancy Law which shall be rolled out to the states, to replace the existing archaic laws, which should help

boost rental housing as a product. A modern tenancy law coupled with a reduction in the interest rates in the economy, especially in the housing segment, should make this product commercially viable for developers in the short to medium term and at the same time help in achieving the goal of providing shelter to every person in India. The government also announced its intention of utilizing a joint development and concession mechanism to release land from the central government (including public sector enterprises) for undertaking affordable housing projects. From a liquidity perspective, the window provided for recapitalization of banks and NBFCs is a positive move for the real estate sector. Foreign Portfolio Investments (FPIs) have been permitted to invest in debt instruments issued by real estate investment trusts (REITs) which should help in further boosting growth of this product which shall in turn help recycling capital and at the same time enable the repayment of exiting bank debts.

On the tax front, the government has continued its objective of incentivizing affordable housing by introducing additional deduction amounting to INR 1.5 lakh of interest on loan taken

by individuals for acquiring affordable housing having stamp value of up to INR 45 lakhs, rationalizing tax holiday provisions for affordable housing through alignment of meaning of affordable housing with that provided in GST- thereby removing ambiguities as well as providing an increase in unit as well as plot size, which is eligible for the tax holiday.

Although the above measures are welcomed by the sector, there were number of expectations which were not met by the government in this year's budget. This included further rationalization of the tax provisions relating to REITs relating to dividend exemption in a two-tier structure, holding period for long term capital gains being aligned with listed equity, carry forward of losses due to change in ownership on acquisition by REITs, etc. Removal of provisions around

notional income, bringing clarity in relation to timing of taxability of capital gains in the hands of land owner (other than individual and an Hindu Undivided Family (HUF) under a Joint Development Agreement (JDA) arrangement, removal of cap of INR 200,000 on set-off of loss from house property against other income and lastly, the eligibility to claim input credit of GST paid in respect of goods/ services availed for construction of the immovable property against the output GST payable. It is hoped that the government addresses these expectations in the near future to amplify growth and stability in the sector.

The government has taken positive measures to improve the health of the sector and it is hoped that these measures help revive growth as well as boost investments in the sector.

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***Progressive
move for the
retail industry***



Paresh Parekh

*Tax Leader for Consumer Products
and Retail, EY India*

In the backdrop of a sluggish growth of the Indian economy, the Finance Minister (FM) was entrusted with the difficult task of catering to widespread expectations of addressing consumption slow-down and inertia-gripped foreign investments.

The retail industry was hopeful of further relaxation in Foreign Direct Investment (FDI) in the multi-brand retail space, to make India a lucrative investment destination. However, as welcome move, the FM has proposed to relax the local sourcing norms for FDI in Single Brand Retail Trade (SBRT) - detailed guidelines will follow. Currently, the FDI regulations for SBRT provide for 30% local sourcing- preferably from MSMEs, village and cottage industries, artisans and craftsmen where the FDI exceeds 51%. The move is expected to positively impact the sector owing to higher FDI inflows as the existing foreign players as well as new foreign players reluctant to enter the sector in India revisit their investment plans.

While the Union Budget 2019 did not shed light on relaxing the stringent

conditions in the multi-brand retail sector, the move to relax sourcing norms is being lauded by the industry as a step in a right direction, as per media reports.

Addressing one of the long pending demands of The Confederation of All India Traders (CAIT), the budget proposes to introduce a new scheme called the Pradhan Mantri Karam Yogi Maandhan Scheme (PMKYMS) to extend the pension benefits to approximately 30 million retail traders and small shopkeepers, assuring them a minimum monthly pension of INR 3,000 per month after attaining the age of 60 years. Further, the government has proposed to make a matching contribution to the subscriber's account. This should boost the retail traders and shopkeeper's sentiment while assuring financial security.

Recognizing the pivotal role of MSMEs in the growth of rural India and to address the liquidity issue faced by MSMEs, the FM has proposed to provide easy access to credit facilities wherein "quick loans" up to INR 10 million shall be granted via a

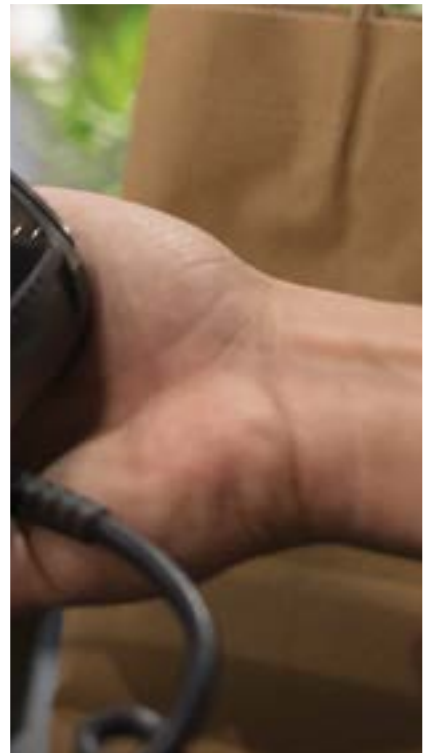
dedicated portal within 59 minutes. Further, the FM has also proposed the introduction of an Interest Subvention Scheme for MSMEs wherein 2% interest subvention would be provided to all GST registered MSMEs.

In an endeavor to make India attractive to start-ups, the government has proposed several measures incentivizing start-ups which include relaxations around carry forward and set-off of losses, conditions for claiming capital gain exemptions on transfer of residential property for investment in start-ups, etc. Efforts of the government to incentivize start-ups is regarded to be a welcome move- lifting the entrepreneurship spirits, especially in the e-commerce space.

While the FM might not have ticked all the boxes, striking the balance between catering to the needs of the farmers, consumers and the middle class while maintaining the fiscal deficit has got the industry upbeat about the journey that the government has planned for new India.

**Contributor: Ankush Mehta,
Director, EY India**





A woman with dark hair, wearing a green sweater, is looking towards a green chalkboard. The chalkboard has several mathematical symbols drawn on it, including a large 'X', a plus sign '+', and a less-than sign '<'. The woman's hand is visible, holding a piece of chalk and appearing to be in the process of writing or erasing on the board. The scene is set in a classroom or lecture hall.

***Budget to
create
'world class
institutions'***



Mithun D'Souza
Tax Partner, EY India

The Union Budget 2019 presented by NDA 2.0 displayed an increased focus on the education sector, with specific mention in the budget speech on initiatives concerning policy reforms. The Finance Minister, reiterated the NDA Government's commitment of bringing in a new National Education Policy (NEP) to transform India's higher education system to one that is best in class. A welcome announcement for a sector where reforms are far overdue.

Aligned with the objective of revamping the existing education framework, the draft NEP 2019 is already in the public domain for stakeholder comments. The draft NEP has been formulated to address the challenges of access, equity, quality, affordability and accountability faced by the present education system. It acknowledges the challenges in the existing regulatory system (especially in higher education) and seems to suggest an overhaul of the regulatory ecosystem. Some of the suggestions in the draft NEP such as gradually providing greater autonomy to higher education institutions (HEI) and enabling non-university HEIs to grant degrees, repurposing the

vast number of professional bodies to solely focus on setting standards in higher education and moving towards an accreditation based regulatory system are notable. Given the emphasis on the NEP in the budget, one hopes that the tasks outlined in the policy blueprint are broken down into micro plans and support from various stakeholders is garnered, for a timely and effective implementation.

The Budget expresses the need to establish the National Research Foundation to assimilate provision of grants from various government sources to promote the research ecosystem, increased fund allocation for creating a set of "World Class Institutions" in the country and promises introduction of initiatives such as "Study in India" to encourage foreign students to pick India as a destination to pursue their studies.

On the tax side, the government continued its focus on tightening the anti-abuse provisions applicable to charitable institutions (CI) claiming income-tax exemptions registered under section 12AA of the IT Act. Educational institutions, offering recognized courses (degrees, diplomas, K-12 education, etc.) are

required to be organized as not-for-profit organizations ('NPO'), under education regulations and are entitled to income-tax exemptions, subject to conditions. The IT law currently enables the tax authority to review genuineness of a CI's activities to grant or cancel its exemption registration. Tax authorities are now empowered to consider compliance with any other laws which are material for the purpose of achieving the objects of the CI and cancelling the registration where an order / direction / decree confirming the violation of law is passed and attains finality or remains undisputed.

The provision may be well intentioned to ensure that a CI which is non-compliant with laws which are material for its objects is not granted an exemption. However, the impact on NPOs may be far reaching, as cancellation of the tax exemption exposes a CI to a strict tax levy on its "accreted income", (computed by reducing value of liabilities from the fair market value of assets) at the maximum marginal rate.

In the education sector, the multiplicity of regulators and overlapping / conflicting regulation creates several regulatory uncertainties for educational institutions. For instance, on matters relating to fees chargeable by private schools, some states have brought in legislation which has been the subject matter of litigation. The proposed amendment in the tax law is likely to bring in fresh challenges to educational institutions if a narrow view is adopted by the tax department on what constitutes non-compliance with laws which are material to a CI's objects. While this re-emphasizes the need for a more balanced regulatory environment for private education players, educational institutions may now need to bear in mind the interplay of regulations with taxation, in managing their affairs in the future.



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Global News

South African tax court upholds exemption from dividend withholding tax under most favored nations clause of a treaty with South Africa¹

The tax treaty between the Netherlands and South Africa (NL-SA Treaty) was amended to apply a 5% withholding tax rate on dividends if the recipient qualifies as the beneficial owner and holds more than 10% of the shares in the entity paying the dividend. In addition, the “most favored nation clause” (MFN clause) was included in this treaty to provide for an automatic application of a lower dividend withholding tax rate if South Africa and a third country conclude a tax treaty which provides for a lower dividend withholding tax rate or an exemption. However, this MFN provision is only applicable if the more beneficial tax treaty is concluded after the date of the NL-SA Treaty, i.e., after the latest amendment by the 2008 Protocol.

The tax treaty between South Africa and Sweden (SA-SW Treaty) was signed in 1995 and amended through a Protocol in 2012. The 2012 Protocol introduced an MFN clause that does not contain any limitation regarding the date on which the more beneficial tax treaty with a third state was concluded.

Further the tax treaty concluded between South Africa and Kuwait (K-SA Treaty), entered into force in 2006, provided for an exemption of dividend withholding tax. Since the Protocol to the SA-SW Treaty did not contain a limitation with respect to the date of conclusion of the referenced treaty with a third state (i.e., the K-SA Treaty in this case), this automatically resulted in a full exemption under the SA-SW Treaty.

Following the position outlined above, the Tax Court of South Africa (the Court) ruled that the Protocol to the SA-SW Treaty was a treaty concluded after the date of the NL-SA Treaty within the meaning of the MFN clause, and dividends would therefore be exempt from dividend withholding tax under NL SA Treaty..

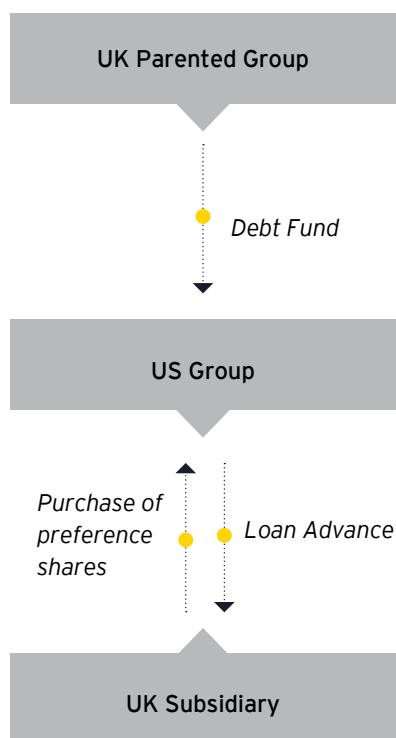
In principle, this judgment should remain valid unless it is overturned on appeal in a higher South African court, and as long as the SA-SW Treaty provides for a dividend withholding tax exemption, which in turn relies on the K-SA Treaty providing for a dividend withholding tax exemption.

¹ Refer EY Global Alert titled ‘South African tax court upholds exemption from dividend withholding tax under most favored nations clause of a treaty with South Africa’ dated 21 June 2019

UK tribunal rules financing structure's main purpose was a tax advantage, thus interest expense deduction disallowed²

A United Kingdom (UK) Parented Group funded its US group entity by way of a debt. The US Group subsequently advanced a loan to its disregarded UK subsidiary against issue of promissory notes for financing the purchase of preference shares in the US group itself.

The intention was to secure a deduction in the US Group in relation to the finance expense paid to the parent, with no incremental tax in the UK (interest expense in the UK subsidiary being relieved against the interest income in the parent and tax exemption available in the UK on receipt of the return on the preference shares).



The First-tier Tribunal (FTT) determined that while the overall purpose of the "Scheme" was to secure a US tax deduction, the UK company issuing the loan had a main purpose of achieving a UK tax advantage and therefore the interest expense arising on this loan was not deductible for UK corporation tax purposes.

The FTT concluded that the final step of the Scheme, being the issue of a promissory note by a UK company and associated subscription for preference shares in the US group, was not required to achieve the US objectives of the Scheme. This final step would not have been implemented if it would not have given rise to the UK tax advantage, i.e., interest expense in the UK subsidiary offset against the interest income arising in the UK from the preceding steps.

² Refer EY Global alert titled 'UK First-tier tribunal rules financing structure's main purpose was a tax advantage; interest expense deduction disallowed' dated 10 May 2019

As such, the FTT concluded that the sole purpose of entering into the final step of the Scheme, the issue of the loan note in exchange for preference shares to the US, was to ensure that the overall Scheme would give rise to no incremental net taxable income in the UK.

The FTT held that the key question was whether the borrower had obtained a tax advantage, and that by having the ability to offset the interest expenditure against other interest income, the UK had obtained such an advantage.

The FTT noted that while the UK borrower obtained a commercial return on the borrowing in the form of return on preference shares which resulted in an economic profit for the UK borrower, this was part of the means for justifying the overall transaction or perhaps part of the mechanism to achieve it and not the purpose for entering into the borrowing.

Taiwan issues guidance on application of the beneficial owner requirement under Taiwan's tax treaties³

On 24 June 2019, Taiwan's Ministry of Finance (the MOF) issued guidance (the Guidance) to clarify the application of the term "beneficial owner" (BO) for tax treaty purposes. The Guidance is intended to provide greater clarity for taxpayers as it specifies the situations where BO status will be granted or denied and aligns Taiwan's position with the OECD Model Tax Convention Commentary.

The Guidance clarifies that a foreign resident deriving Taiwan source income, and seeking to claim treaty benefits, can identify themselves as the BO for treaty purposes simply by providing a BO declaration to the MOF. The Guidance also

confirms that a qualified fund or trust that is a resident of the treaty country and has invested in Taiwan in the capacity of a foreign institutional investor can apply for BO treatment in the same manner.

It also suggests that where a foreign recipient of income is acting in the role of an agent, a nominee, a financial conduit entity, or a similar arrangement, the MOF will deny BO status.

As the Guidance aligns Taiwan's approach with international consensus and practice, taxpayers are expected to benefit from reduced compliance costs, decreased treaty disputes, and a better investment environment.

³ Refer EY Global Alert titled 'Taiwan issues guidance on application of the beneficial owner requirement under Taiwan's tax treaties' dated 28 June 2019



EconoMeter

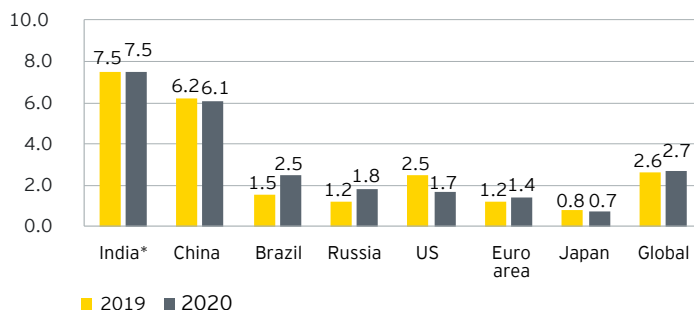
macro-fiscal trends

1

World Bank revised down the global growth forecast by 0.3% points to 2.6% in 2019; India's growth projection at 7.5% in 2019 remained unchanged.

- ▶ According to the World Bank, [Global Economic Prospects, June 2019], global growth is projected at 2.6% for 2019, a downward revision of 0.3% points.
- ▶ India's growth is projected at 7.5% in 2019 (2019-20) and 2020 (2020-21). Private consumption and investment are expected to pick up as credit growth improves supported by a more accommodative monetary policy in the backdrop of low inflation.
- ▶ However, the Economic Survey and the RBI have projected India's real GDP growth at 7% for 2019-20

Chart 1: Real GDP growth projections (% , annual)



Source: World Bank Global Economic Prospects, June 2019

*pertains to fiscal year. For example, 2019 indicates FY2019-20

2

Real GDP growth decelerated to 6.8% in FY19. However, the RBI in its June 2019 Monetary Policy review projected real GDP to grow at 7.0% in FY20.

- ▶ As per the provisional estimates of National Income Accounts released by the Central Statistics Office (CSO) on 31 May 2019, real GDP growth decelerated to a five year low of 6.8% in FY19, its second consecutive fall from a previous peak of 8.2% in FY17.
- ▶ This fall may be attributed to continued negative contribution of net exports to GDP growth in FY19.
- ▶ Real GDP growth was supported by a higher growth in private final consumption expenditure (PFCE), which increased to 8.1% in FY19 from 7.4% in FY18 and was also above its four-year average growth of 7.5%.
- ▶ Growth in both government final consumption expenditure (GFCF), a measure of investment activity in the economy, increased further to 10.0% in FY19 from 9.3% in FY18. Growth in GFCF has been robust since FY17 at an average rate of 9.2% during FY17-FY19 as compared to 3.6% average growth during FY14-FY16.
- ▶ Although contribution from net exports continued to remain negative for the second consecutive year at (-) 1.1% points in FY19, it was lower than (-) 2.8% points in FY18.

Table 1: Real GDP growth (%)

AD component	FY13	FY14	FY15	FY16	FY17	FY18	FY19
PFCE	5.5	7.3	6.4	7.9	8.2	7.4	8.1
GCE	0.6	0.6	7.6	7.5	5.8	15.0	9.2
GFCF	4.9	1.6	2.6	6.5	8.3	9.3	10.0
EXP	6.8	7.8	1.8	-5.6	5.1	4.7	12.5
IMP	6.0	-8.1	0.9	-5.9	4.4	17.6	15.4
GDP	5.5	6.4	7.4	8.0	8.2	7.2	6.8
Net exports contribution to growth (% points)	-0.2	4.5	0.2	0.1	0.1	-2.8	-1.1

Source: CSO, MOSPI, Government of India

AD: Aggregate demand; PFCE: Private final consumption expenditure; GCE: Government final consumption expenditure; GFCF: Gross fixed capital formation; EXP: Exports; IMP: Imports; GDPMP: GDP at market prices

3

Real gross value added (GVA) growth slowed to 6.6%, its lowest performance since FY14.

- ▶ On the output side, growth in gross value added (GVA) fell to a five-year low of 6.6% in FY19 from 6.9% in FY18.
- ▶ Growth in the manufacturing sector improved to 6.9% in FY19 from 5.9% in FY18. However, the FY19 growth was sharply lower when compared to its four-year average growth of 8.7% during FY15-FY18.
- ▶ Despite an improvement in the growth of GVA from financial and real estate sector and trade, transport, hotels and communication sectors at 7.4% and 6.9% respectively in FY19 compared to their levels in FY18, they remained below their four-year average growth of 8.2% and 8.8% respectively.
- ▶ Growth in GVA of construction sector accelerated to 8.7% in FY19, its fastest rate as per the new-series, improving from 5.6% in FY18. It was also higher than 4.9% average growth observed during FY15-FY19.
- ▶ Public administration and defence sector grew at a slower pace of 8.6% in FY19, as compared to 11.9% in FY18. It was however close to 8.8% averaged during FY15 to FY19.
- ▶ Signaling the weakness in rural economy, growth in GVA from agricultural and allied sectors grew at a slower pace of 2.9% in FY19, similar to its average level seen during FY15-FY18, but lower than 5.0% in FY18.

Table 2: Sectoral real GVA growth (%)

Sector	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Agr.	1.5	5.6	-0.2	0.6	6.3	5.0	2.9
Ming.	0.6	0.2	9.7	10.1	9.5	5.1	1.3
Mfg.	5.5	5.0	7.9	13.1	7.9	5.9	6.9
Elec.	2.7	4.2	7.2	4.7	10.0	8.6	7.0
Cons.	0.3	2.7	4.3	3.6	6.1	5.6	8.7
Trans.	9.8	6.5	9.4	10.2	7.7	7.8	6.9
Fin.	9.7	11.2	11.0	10.7	8.7	6.2	7.4
Publ.	4.3	3.8	8.3	6.1	9.2	11.9	8.6
GVA	5.4	6.1	7.2	8.0	7.9	6.9	6.6

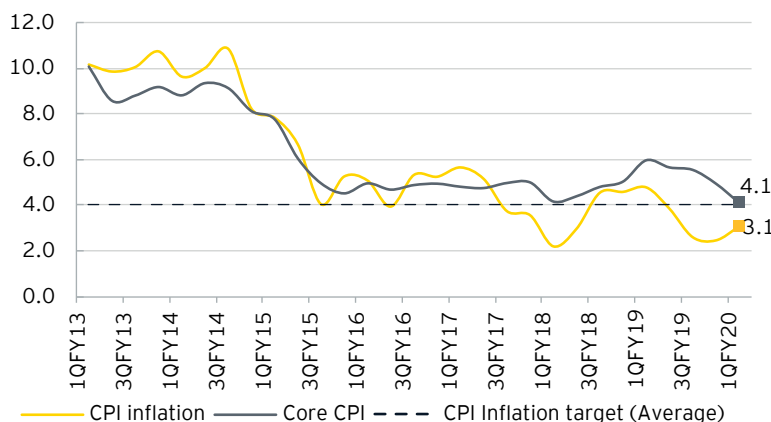
Source (Basic data): MOSPI

4

The Reserve Bank of India (RBI) undertook a third successive 25 basis point reduction in the repo rate bringing it down to 5.75% in its June 2019 monetary policy review.

- ▶ Consumer Price Index (CPI) inflation increased to 3.1% in 1QFY20 from 2.5% in 4QFY19 due to the recent uptick in food prices. It has however fallen from 4.8% in 1QFY19 driven by moderation in inflation in food and housing.
- ▶ Core CPI inflation¹ eased to an all-time low (2011-12 series) of 4.1% in 1QFY20 from 5.0% in 4QFY19.
- ▶ The RBI expects CPI inflation to range between 3.0%-3.1% in 1HFY20 and 3.4-3.7% in 2HFY20.
- ▶ In the RBI's assessment, outlook for headline CPI inflation is likely to be influenced by an expected pickup in food prices, weakening domestic and external demand, moderation in household inflation expectations, and the extent of passthrough of volatile crude prices.

Chart 2: Inflation (y-o-y; %)



Source: MOSPI.

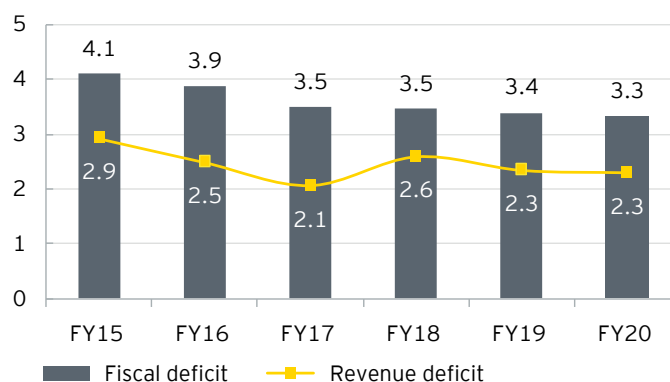
Note: CPI stands for Consumer Price Index

5

Center's fiscal deficit fell to 3.4% of GDP in FY19 and is budgeted at 3.3% of GDP in FY20.

- ▶ The Center achieved its fiscal deficit target of 3.4% of GDP in FY19. However, as indicated by data from Comptroller General of Accounts (CGA), given the underperformance of central taxes, this became possible by undertaking substantial expenditure cuts.
- ▶ Fiscal deficit is budgeted at 3.3% of GDP in FY20. Achieving the fiscal deficit target of 3.3% of GDP for FY20 is contingent upon targets of disinvestment, tax buoyancy assumptions and nominal growth assumption of 11% being met.
- ▶ The center's revenue is expected to remain at 2.3% of GDP in FY20, the same level as that in FY19.

Chart 3: Fiscal and revenue deficit as a % of annual budgeted target



Source: Monthly Accounts, Controller General of Accounts, Government of India; Union Budget documents, various years

1 Core CPI inflation is measured in different ways by different organizations/agencies. Here, it has been calculated by excluding food and fuel and light from the overall index.

6

Assumed growth rates in tax revenues for FY20 are substantially higher than that in FY19.

- ▶ In FY20, both direct and indirect tax growth rates have been assumed at levels that are much higher than the immediately preceding year.
- ▶ Growth in gross taxes fell to 8.4% in FY19 from 11.8% in FY18. The budgeted growth at 18.3% for FY20 is higher than that achieved in the last five years.
- ▶ Among direct taxes, growth in PIT is budgeted to increase to 23.3% in FY20 from a level of 7.2% achieved in FY19.
- ▶ Similarly, growth in indirect taxes (comprising union excise duties, service tax, customs duty, Central Goods & Services Tax (CGST), Union Territory Goods and Service Tax (UTGST), Integrated Goods & Services Tax (IGST) and GST compensation cess) dropped to 2.5% in FY19 while the FY20 assumed growth stands at 19.8%.

Table 3: Gross tax revenue (growth rates, %)

	FY15	FY16	FY17	FY18	FY19 (Actuals)	FY20 (BE)
Gross tax revenue	9.3	16.9	17.9	11.8	8.4	18.3
Direct taxes* of which:	9.0	6.6	14.5	17.9	12.3	18.6
CIT	8.7	5.7	7.0	17.8	16.2	15.4
PIT	9.4	8.2	26.8	18.1	7.2	23.3
Indirect taxes**	9.8	30.0	21.4	5.9	2.5	19.8

Source (Basic Data): Monthly Accounts, Controller General of Accounts, Government of India; Union Budget documents, various years

*Personal income tax and corporation tax

**Union excise duties, service tax, customs duty, and CGST, UTGST, IGST and GST compensation cess

Notes: (1) IGST revenues are subject to final settlement

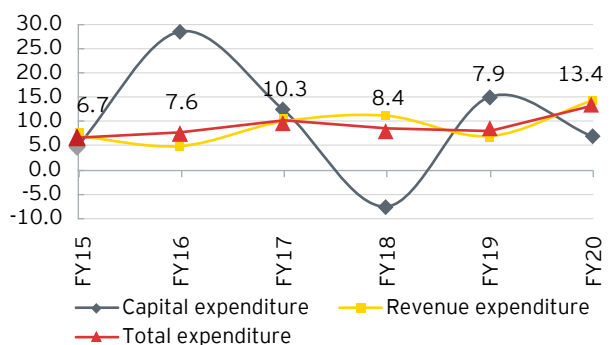
(2) other taxes including from CGA for FY19 are included in gross tax revenues

7

Center's capital expenditure relative to GDP is expected to stagnate at 1.6% in FY20.

- ▶ Growth in center's total expenditure in FY19 was at 7.9%. Total expenditure is budgeted to grow by 13.4% in FY20.
- ▶ Growth in revenue expenditure, almost mirroring the trend in total expenditure, was at 6.9% in FY19 while it is budgeted to grow by 14.3% in FY20.
- ▶ Growth in center's capital expenditure has been volatile across years. It is budgeted to grow by 6.9% in FY20.
- ▶ Capital expenditure relative to GDP was at 1.6% in FY19 and is expected to stagnate at this level in FY20.

Chart 4: Annual Growth in expenditure components (% , y-o-y)



Source: Monthly Accounts, Controller General of Accounts, Government of India, Union Budget documents, various years



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The better the question. The better the answer.
The better the world works.

It's clearly a budget. It's got a lot of numbers in it.

George W. Bush

A budget is just a method of worrying before you spend money,
as well as afterward.

Anonymous

A budget tells us what we can't afford, but it doesn't keep us
from buying it.

William Feather

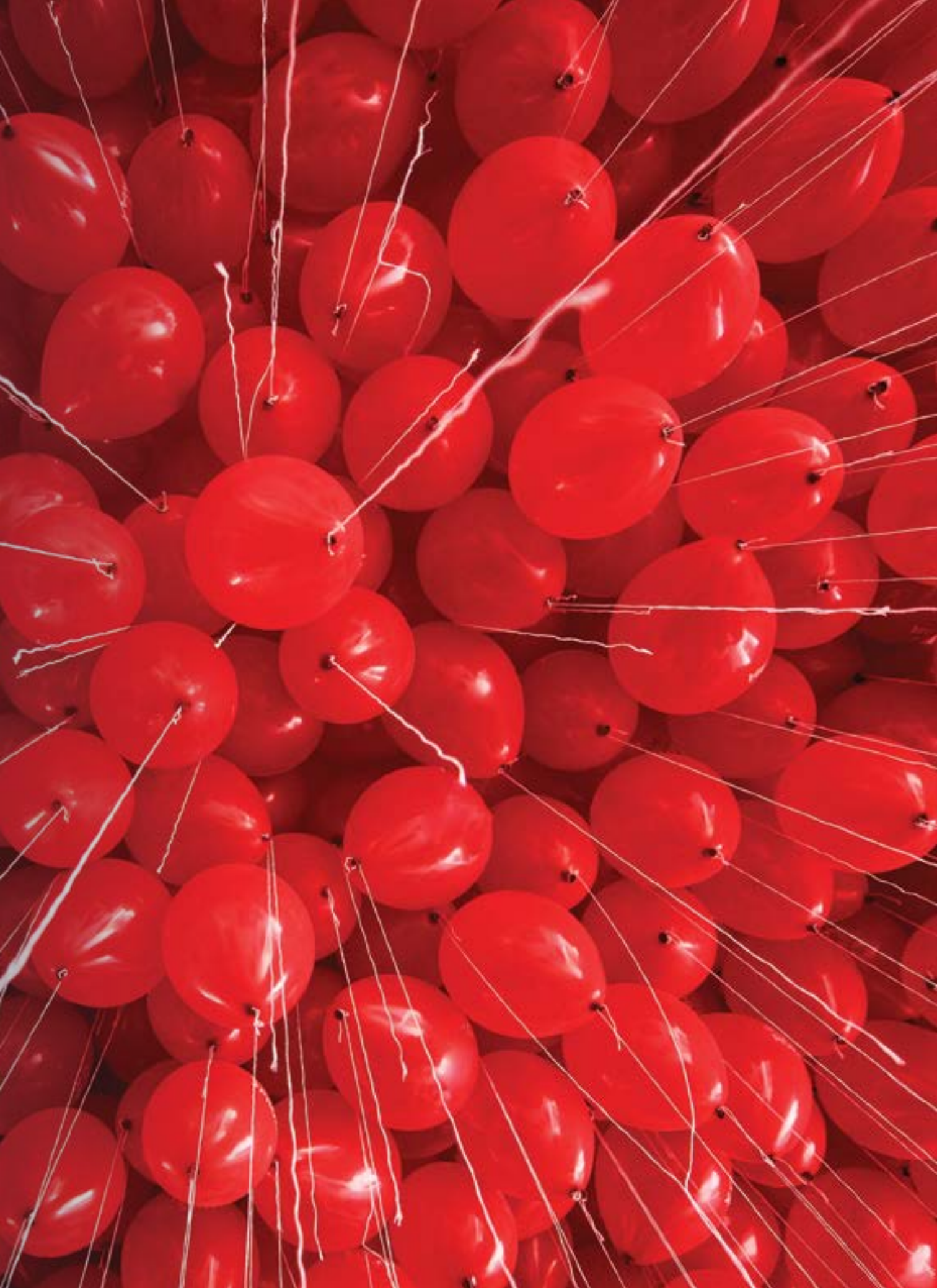
It was as true...as taxes is. And nothing's truer than them.

Charles Dickens

Taxes grow without rain.

Jewish Proverb

“





Building a better
working world



Will the speed of the
digital tax revolution
leave you behind?

EY's advanced technology
solutions are helping reimagine
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The better the question. The better the answer.
The better the world works.