

# BUDGET

2015-16

ANALYSIS

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## Part A

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# Macro Overview

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***Union Budget 2015-16: Roadmap to take growth to double digit level***

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This budget has laid down the roadmap for taking India to double digit growth. We not only see a clear direction in which the economy is going to be steered but also the key milestones that we need to cross on the way. There are several positives not just for the industry but for every section of society. FICCI compliments the Finance Minister for his foresight and for presenting a highly progressive and visionary budget anchored on reforms in an array of areas.

The budget was presented in the backdrop of an improving macro-economic situation. However, as the Economic Survey pointed out Indian economy is recovering but yet not soaring and it was essential to bring the focus back on investments to lend strength to the recovery process. This budget has done just that by stepping up the outlay for the infrastructure sector without compromising on fiscal discipline. The additional Rs. 70,000 crore spend on infrastructure sector in the coming year will provide a huge impetus to overall growth and should help in crowding in private sector investment in due course.

With this budget we also see after a long time clear national targets being set for the year 2022 that would mark 75 years of India's independence. The announcements made by the government both in the budget as well as outside of it provide for a concerted effort to move towards these socio-economic targets.

Government has also made efforts to move towards a more simplified tax structure by announcing a plan to rationalise direct tax regime for corporates involving both a reduction in the corporate tax rate from 30 per cent to 25 per cent over the next four years as well as elimination of exemptions. This should help align our corporate tax structure in line with that of our ASEAN neighbours.

The budget has also given a huge boost to the Make in India program by correcting the inverted duty structure in 22 thrust sectors and by allowing complete tax pass through for both category 1 and category 2 Alternative Investment Funds. The latter action, a long standing demand of FICCI, will help mobilise higher resources for investments in manufacturing sector. We also welcome the clarification on tax related matters on REITs and InvITs, which are the key instruments announced in the last budget for channelling funds into the real estate and infrastructure sectors.

FICCI is also happy to note the Finance Ministers decision to defer GAAR by two years and its prospective applicability. Along with this the statement on increasing the threshold for Transfer Pricing and reducing the discretionary powers of the tax authorities should boost investor confidence further.

***Moving towards fiscal prudence***

The fiscal deficit target for the year 2014-15 has been maintained and the fiscal deficit to GDP ratio for 2015-16 has been pegged at 3.9%. The government is committed towards moving back on the path of fiscal consolidation. Even though the target of achieving 3.0% deficit to GDP ratio has been rolled over by another year – now to be achieved by 2017-18; the additional fiscal space created is being utilized to give a thrust to public investments in the infrastructure sector. In fact, FICCI had been reiterating the need to curtail consumptive expenditure to enable greater allocation to productive capital expenditure like infrastructure, which will have a positive effect on economic growth and development.

Trends in Revenue and Expenditure						(Rs crore)	
	2011-12 (Actual)	2012-13 (Actual)	2013-14 (Actual)	2014-15 (RE)	2015-16 (BE)	Growth (%): 2015-16 BE over 2014-15 RE	Growth (%): 2014-15 RE over 2013-14 RE
<b>REVENUE RECEIPTS</b>	<b>751437</b>	<b>879232</b>	<b>1014724</b>	<b>1126294</b>	<b>1141575</b>	<b>1.4</b>	<b>9.4</b>
Tax Revenue (Net)	629765	741877	815854	908463	919842	1.3	8.7
Non-Tax Revenue	121672	137355	198870	217831	221733	1.8	12.7
<b>CAPITAL RECEIPTS</b>	<b>568918</b>	<b>582152</b>	<b>563894</b>	<b>570535</b>	<b>623861</b>	<b>9.3</b>	<b>4.5</b>
Internal Debt-Market Borrowings (Net)	436211	467356	453550	446922	456405	2.1	-1.5
External Assistance(Net)	12448	7201	7292	9705	11173	15.1	78.4
Recovery of Loans	18850	15060	12497	10886	10753	-1.2	0.8
Small Savings(Net)	-10302	8626	12357	33276	22408	-32.7	186.7
State Provident Funds(Net)	10804	10920	9753	10000	10000	0.0	0.0
Disinvestment	18088	25890	29368	31350	69500	121.7	21.3
<b>TOTAL- RECEIPTS</b>	<b>1320355</b>	<b>1461384</b>	<b>1578618</b>	<b>1696829</b>	<b>1765436</b>	<b>4.0</b>	<b>7.7</b>
<b>Non Plan Expenditure</b>	<b>891990</b>	<b>996742</b>	<b>1106120</b>	<b>1213224</b>	<b>1312200</b>	<b>8.2</b>	<b>8.8</b>
Interest payments	273150	313170	374254	411354	456145	10.9	8.2
Defence Expenditure	170913	181776	203499	222370	246727	11.0	9.2
Subsidies	217941	257079	254632	266692	243811	-8.6	4.4
Plan expenditure	<b>412375</b>	<b>413625</b>	<b>453327</b>	<b>467934</b>	<b>465277</b>	<b>-0.6</b>	<b>-1.6</b>
Revenue Account	333736	329208	352732	366883	330020	-10.0	-1.3
Capital Account	78639	84417	100595	101051	135257	33.9	-2.5
<b>Total Expenditure</b>	<b>1304365</b>	<b>1410372</b>	<b>1559447</b>	<b>1681158</b>	<b>1777477</b>	<b>5.7</b>	<b>5.7</b>
<b>Deficit on Revenue Account</b>	<b>394348</b>	<b>364282</b>	<b>357048</b>	<b>362486</b>	<b>394472</b>		
<b>Fiscal deficit</b>	<b>515990</b>	<b>490190</b>	<b>502858</b>	<b>512628</b>	<b>555649</b>		
<b>Fiscal Deficit to GDP Ratio</b>	<b>5.7%</b>	<b>4.8%</b>	<b>4.4%</b>	<b>4.1%</b>	<b>3.9%</b>		

Source: Union Budget 2015-16

On the revenue side, the gross tax receipts are budgeted to grow by 15.8% in the year 2015-16, from 8.0% growth in 2014-15 RE. The increase in service tax rate, increase in excise duty, and higher surcharge on direct taxes is likely to support the buoyancy anticipated in the gross tax revenue.

The levy of 2.0% surcharge on the super rich with a taxable income of over Rs 1 crore is expected to garner Rs 9000 crore. This is much higher than the tax collection of Rs 1008 crore foregone with the withdrawal of wealth tax, where the yields have not been commensurate with the administrative costs. Further, the measures to curb black money are also likely to facilitate improvement in tax collections.

However, the net tax receipts are budgeted to increase by only 1.3% in the year 2015-16. This is primarily on account of greater devolution of finances in favor of States as per the recommendations of the Fourteenth Finance Commission.

Further, the disinvestments receipts have been targeted at Rs 69,500 crore in the next fiscal year. Though the government's intention towards undertaking strategic disinvestments is very progressive; nonetheless

it may be noted that the government was able to meet just 50% of the budgeted amount for disinvestment in the year 2014-15. We hope the government will be able to meet the set target in the fiscal year 2015-16.

With regard to expenditure, the total expenditure is estimated to rise by 5.7% in 2015-16 BE, with an 8.2% increase in non-plan expenditure and 0.6% decline in planned expenditure. While the planned expenditure on revenue account is budgeted to decline by 10%, on capital account it is budgeted to increase by 33.9% in 2015-16.

The subsidy bill is expected at 2.4 lakh crore (1.7% of GDP) in 2015-16, which is a decline by 8.6% over the revised estimates for 2014-15. The decline in subsidies comes primarily on account of lower oil bill, which is estimated to decline by 50% in 2015-16 BE. The food and fertilizer subsidy are expected to increase marginally. There has been a clear commitment towards better targeting of subsidies and the Finance Minister has indicated further scaling up of the Direct Benefits Transfer scheme. With this we hope the government will be able to plug in serious leakages in dissemination of subsidies.

Government is clearly trying to undertake prudence on the expenditure side. Further, the acceptance of the Finance Commission's recommendations goes on to show the commitment of the government towards strengthening co-operative federalism and ensure better Centre-State financial relations. Giving the flexibility to the States to undertake projects tailored to their needs would enable them to contribute more meaningfully to the overall growth of the country.

The overall growth conditions are conducive. GDP growth numbers have improved, inflation is benign and our current account position is also comfortable. Given this backdrop, the announcements made in the Budget, if implemented earnestly, will augur really well to achieve the big picture envisioned by the government.

### ***Key Highlights of the Union Budget 2015-16***

The broad highlights of the Union Budget 2015-16 are as under-

- **Unified National Agriculture Market:** The Government has announced creation of a Unified National Agriculture Market. FICCI too has been advocating this for long as the agriculture sector is one of the most fragmented sectors in the economy. Move towards a single national market for agri-produce will help rein in the inflationary pressure in case of food commodities as well as provide better prices to farmers for their produce.
- **Make in India:** There has been a reduction in rates of basic customs duty on certain inputs, raw materials, intermediates and components (in all 22 items) to minimize the impact of duty inversion and reduce manufacturing cost in several sectors. Government has allowed complete tax pass through for both category 1 and category 2 Alternative Investment Funds. The latter action, a long standing demand of FICCI, will help mobilize higher resources for investments in manufacturing sector.
- **Infrastructure:** The Government announced an additional Rs. 70,000 crore spend on the infrastructure sector. This is expected to provide a huge impetus to overall growth and should help encourage private sector investments in due course. The setting of the National Investment and Infrastructure Fund in the form of a trust to raise debt funding in various forms and in turn invest as equity in infrastructure finance companies is a welcome move. This would be an additional avenue to support infrastructure financing and

hopefully lessen some of the pressure on the public sector banking system. Further, the clarification on tax related matters on REITs and InvITs, which are the key instruments announced in the last budget for channeling funds into the real estate and infrastructure sectors, is also welcome.

In addition to the above, tax-free infrastructure bonds for rail, road and irrigation projects were reintroduced. Government has also indicated adoption of 'Plug and play' approach in case of UMPPs, plan for corporatization of ports and steps towards revitalizing Public Private Partnerships.

- **Micro Small and Medium Enterprise (MSMEs):** An electronic trade receivables discounting system (TReDS) has been established to tackle the problem of long receivables realization cycle of the MSMEs. The related move of setting up of the Micro Units Development Refinance Agency (MUDRA) bank will help meet the funding requirements of micro enterprises in the informal sector and provide a boost to entrepreneurship.

In addition, establishment of a Self Employment and Talent Utilization (SETU) mechanism was announced to support start up businesses and other self employment activities.

- **Gold Monetization:** The Budget for the first time has announced several measures to monetize gold. FICCI had recently submitted a report on this subject and we are happy to note that some of the suggestions contained therein such as developing an Indian Gold Coin, having a Sovereign Gold Bond and revamping the Gold Deposit and Gold Metal Loans scheme have been taken up by the government. These measures should help in more effective utilization of domestic gold reserves through recycling and thus help reduce the imports of gold that have put pressure on the current account in the past.

- **Black Money:** The Government announced introduction of a new comprehensive law on black money held abroad in the current session of the Parliament along with a new and more comprehensive benami transactions (prohibition) bill to curb domestic black money. The issue of black money has been a grave concern for the Indian economy. The existing legal and administrative framework has been ineffective in dealing with this issue and thus there is an urgent need to put in place an efficient legal framework.

- **Corporate Bond market:** The Government announced to set up a Public Debt Management Agency. This is important in the context of deepening the Indian bond market. FICCI has been consistently urging that there is a need to strengthen the corporate debt market to reduce over dependence on banks for long term funding as this leads to asset liability mismatch.

- **Bank Board Bureau:** The Government plans to set up a Bank Board Bureau with the objective of improving governance of Public Sector Banks. The Bureau will pick heads of Public Sector banks and help them devise differentiated strategies and capital raising plans through innovative financial methods and instruments.

- **Monetary Policy Framework:** The Budget announced that the RBI Act will be amended this year to provide for a Monetary Policy Committee. The Monetary Policy Committee will be set up to reinforce the partnership between the government and the Central Bank with the objective of managing inflation dynamics.



- **'Act East' policy:** The Budget announced setting up of a Project Development Company, which through separate Special Purpose Vehicles (SPVs) will facilitate establishment of manufacturing hubs in CLMV countries -Cambodia, Laos, Myanmar, and Vietnam. This is to drive the interest of Indian private sector to undertake investments in these countries and deepen economic and strategic relations with the South East Asian region.

- **Ease of Doing Business:** Assuring ease of doing business has been a key priority for the Government. Some of the announcements in the Budget towards improving the business environment included –

- **Setting up commercial divisions in various courts** - The Government has proposed to set up exclusive commercial divisions in various courts in India based on the recommendations of the 253rd Report of the Law Commission. In this regard, the Government has proposed to introduce a Bill in the Parliament after consulting stakeholders. This would help curtail the overstretched litigation and ensure speedy disposal of monetary suits at reasonable cost to the litigant. This is definitely a stepping-stone to reform the civil justice system in India.
- **Bankruptcy Code:** The budget announced introduction of the much needed comprehensive bankruptcy code in the fiscal year 2015-16. This will bring about legal certainty and speed and is an important measure in improving the ease of doing business in India.
- **Procurement Law:** Malfeasance in public procurement can be contained by having a procurement law and an institutional structure consistent with the UNCITRAL model. This would help contain possible avenues of B2G corruption and along with an effective Prevention of Corruption Act, act as a deterrent. We hope that the Parliament will soon take a view on it.
- **Expert Committee on regulatory mechanism:** The government indicated that it intends to appoint an Expert Committee to examine the possibility and prepare draft legislation where the need for multiple prior permissions can be replaced with a pre-existing regulatory mechanism.

Implementation of such a mechanism would cut down time and cost spent for seeking regulatory approvals and will be a big boost to ease of doing business in India and establishing India as an Investment Destination.

- **National targets for the year 2022:** The government reiterated its resolve to provide for basic amenities to all Indian citizens especially the underprivileged by the year 2022, which marks 75 years of India's independence. These include housing for all, assured water and power supply, substantial reduction in poverty, provision of medical services and education facilities.

## **Part B**

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# **Taxation**

## Direct Tax Proposals

### 1. Tax Rates

- There has been no change proposed in basic rate of corporate tax, Minimum Alternate Tax (MAT) and Alternate Minimum Tax (AMT).
- No change in basic exemption limit and slab rates for individuals. Surcharge has been increased from 10% to 12% on income-tax for income exceeding Rs. 1 crore.
- No change in basic rate of Dividend Distribution tax (DDT) and Tax on buy-back of shares (BBT).
- In case of domestic companies, the rate of surcharge has been increased by 2%. {now to be levied at 7% if the total income exceeds Rs. 1 crore but does not exceed Rs. 10 crore} and at 12% if the total income exceeds Rs. 10 crore}
- In case of foreign company, surcharge continues to remain the same.
- Surcharge increased by 2% and to be levied at 12% on additional income tax payable by companies on distribution of dividends and buy-back of shares, by mutual funds and securitisation trusts on distribution of income.
- Education cess continues at 3% on the amount of income-tax and surcharge, if any.
- Corporate tax proposed to be reduced from 30% to 25% together with phasing out of the tax incentives and exemption over the next four years starting from next financial year.

### 2. General Anti Avoidance Rule (GAAR)

- Applicability of GAAR has been deferred by two years and hence, GAAR to be applied from AY 2018-2019.
- GAAR to apply to investments made on or after April 1, 2017, when GAAR implemented.

### 3. Rate of tax on royalty/fees for technical services (FTS)

- The basic rate of taxing income of non-residents in the nature of royalty and FTS has been proposed to be reduced from 25% on gross basis to 10% on gross basis.

### 4. Tax Residency provision for companies – Place of Effective Management Concept introduced

- Amendment has been proposed to provide that apart from an Indian company, any company whose place of effective management at any time during the year is in India, it shall be considered to be resident of India.
- Place of Effective Management (POEM) has been defined to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance, made.

### 5. Indirect transfer of assets

- To bring clarity relating to taxation of non-residents in cases of indirect transfers (i.e. transfer of shares of foreign company deriving substantial value from shares of an Indian company/assets located in India), the following key amendments are proposed;
  - The share or interest of foreign company/foreign entity is deemed to derive its value substantially from Indian assets, if on the specified date (*date of transfer or last day of accounting year as stipulated*), the value of such Indian assets exceeds Rs. 10 crore and it represents at least 50% of the value of all assets owned by the foreign company or entity.

- The value of the assets to be its Fair Market Value (without reduction of corresponding liabilities) and the underlying aggregate gains to be apportioned proportionately to Indian assets as per methods to be prescribed;
- Indirect transfer provisions would not apply to the transferor shareholder of the foreign company holding the Indian assets directly and whose shares/interest are getting transferred if the transferor (along with the AEs) has neither the right to control or manage the foreign company nor holds voting power or share capital or interest exceeding five per cent therein.
- Indirect transfer provisions would not apply to the transferor shareholder of the foreign company holding the Indian assets indirectly and whose shares / interest are getting transferred if the transferor (alongwith AEs) has neither the right to control or manage the foreign company or the direct holding company nor holds voting power or share capital or interest exceeding five per cent in the direct holding company by virtue of holding in the foreign company.
- Reporting obligation imposed on Indian concern, through or in which the Indian assets, are held by the foreign company or the foreign entity and any non-compliances to attract penal consequences.

#### **6. Tax Incentives for backward areas**

Additional investment allowance (15%) and additional depreciation (35%) proposed for new manufacturing units set up during the period April 1 2015 to March 31 2020 in notified backward areas of Andhra Pradesh and Telangana.

#### **7. Abolition of wealth-tax**

Levy of wealth tax has been proposed to be abolished. The information regarding the assets which are currently required to be furnished in wealth-tax return will be captured in the income tax return.

#### **8. Taxation of Real Estate Investment Trusts (REITs) and Infrastructure Investment trusts (Invits)**

##### **- Capital gains on transfer of units of Invits and REITs by sponsor**

At the time of disposal (under an IPO listing or sale thereafter) of the units of the REIT/Invit (i.e. business trust), the sponsor of REITs/Invit would be eligible for concessional Security transaction tax (STT) based capital gains tax regime on par with other investors (i.e. Long term capital gain on transfer of units would be exempt and Short term capital gain would be taxable @ 15%, provided STT @ 0.2% is paid on the sale of such units).

##### **- Tax treatment of the rental income arising to REIT from real estate property directly held by REIT**

It has been proposed to provide that the rental income arising to REIT from the real estate property directly held by REIT eligible for pass through status. Accordingly, such income will be exempt for the REIT and chargeable to tax in the hands of the REIT unit holders on distribution. The tenant or lessee is not required to withhold tax on payment of rent to REIT, but the REIT in turn would withhold tax at 10% on distribution of such income to the resident unit holders and at applicable rates on the distribution to the non-resident unit holders.

#### **9. Donation towards Clean and Drug Abuse Initiatives**

Donation (other than sum expended in CSR) to Swachh Bharat Kosh, Clean Ganga Fund and National fund for Drug Abuse would be eligible for 100% deduction. The deduction for donation to first two categories to have retrospective effect from April 1, 2015.

**10. Relief from MAT to FIIs**

Income from transactions in securities {other than Short term capital gains arising on which Securities transaction tax (STT) is not chargeable} arising to FII excluded from the ambit of MAT by excluding both income and corresponding expenses in the computation.

**11. Safe harbour - for offshore funds with an Indian fund manager**

To facilitate location of fund managers in India of offshore funds, it is proposed that fund management activity undertaken in India by an eligible fund manager on behalf of an eligible offshore fund will not constitute a business connection for the offshore fund in India. The key qualifying criteria for an eligible fund has also been provided.

**12. Measures to curb black money**

- Amendment has been proposed in the Act to prohibit acceptance or repayment of an advance of Rs. 20,000 or more in cash for purchase of immovable property;
- Bill for a comprehensive new law to deal with black money stashed abroad will be introduced in the current session of Parliament.
- Benami Transactions (Prohibition) Bill to curb domestic black money to be introduced in the current session of Parliament.
- In line with the amendments to Prevention of Money Laundering Act, 2002, FEMA is amended to provide that if any foreign exchange, foreign security or any immovable property situated outside India is held in contravention of provisions of FEMA, then action may be taken for seizure and eventual confiscation of equivalent value of assets in India. Such contraventions will also be liable for penalty and prosecution.
- It has been proposed to mandate to quote PAN for any purchase or sale exceeding Rs. 1 lakh.
- Third party reporting entities to furnish information about foreign currency sales and cross border transactions.
- Leverage of technology by CBDT and CBEC to access information from either's database to improve enforcement.

**13. Concessional withholding rate for FII and QFI**

The eligible period of concessional tax rate of 5% on interest income earned by FII and/or QFI on Government securities and rupee denominated corporate bonds has been proposed to be extended by two years i.e. from June 30, 2015 to June 30, 2017.

**Other Proposals**

- Threshold for applicability of domestic transfer pricing has been proposed to be increased from Rs. 5 crores to Rs. 20 crores.
- Understatement of income under MAT/AMT provisions also made liable for concealment penalty.
- Foreign tax credit rules and procedures for granting credit for any income-tax paid in any country or specified territory outside India to be notified.
- Tax pass through has been proposed to SEBI registered Category I and Category II AIF, subject to certain conditions.
- 'Yoga' included as a specific category in the definition of 'charitable purpose'

- Investment in Sukanya Samriddhi Account Scheme (SSAS) in the name of any girl child of the individual shall be eligible for deduction under Section 80C of the Income tax Act. Interest accruing on deposits in SSAS and withdrawals from SSAS proposed to be exempt from tax.
- Contribution to National Pension Scheme (NPS) and notified pension schemes to be increased from Rs.1 lakh per annum to Rs. 1.5 lakhs, subject to conditions and overall limits towards specified investments. It has also been proposed to provide additional deduction of Rs. 50,000 per annum to be available in respect of individual's contribution to NPS.
- Exemption from transport allowance to be increased from Rs. 800 per month to Rs. 1600 per month.
- Deduction in relation to health insurance premium under section 80D of the Act has been proposed to be increased from Rs. 15,000 to Rs. 25,000. In case of senior citizens, the limit has been raised to Rs. 30,000.

## Indirect Tax Proposals

### Central Excise

- Standard rate of excise duty proposed to be changed from 12 percent to 12.5 percent; education cess and secondary and higher education cess subsumed into excise duty.
- Increase in excise duty on cigarettes, cigar, cheroots and cigarillos.
- Increase in clean energy cess on coal from INR 100 per tonne to INR 200 per tonne.
- Rate of excise duty on mineral water, aerated water, etc. increased from 12 percent to 18 percent. Additional excise duty of 5 percent abolished on such goods.
- To encourage domestic manufacture of tablet computers and mobiles:
  - Rate of excise duty on tablet computers and mobiles restructured to 2 percent (with no CENVAT credit) or 12.5 percent (with CENVAT credit); and
  - Parts, components or accessories and sub-parts used in the manufacture of tablet computers exempted from excise duty.
- Goods supplied against International Competitive Bidding (“ICB”) are exempt from excise duty if the import of goods attracts ‘nil’ customs duty. For claiming excise duty exemption, conditions for availing customs duty exemption need to be cumulatively satisfied.
- As an important trade facilitation measure, first stage dealers, second stage dealers and registered importers permitted to send the goods to the buyers’ premises directly from the manufacturer’s / importer’s premises, without receiving such goods in its premises.

*[Amendments to be effective from March 1, 2015]*

### Service Tax

#### *Rate of Service tax*

- Service tax rate to be increased to 14 percent; education cesses to be withdrawn. Rate to be effective from date to be notified post enactment of bill.
- Swachh Bharat cess at the rate of 2 percent on value of taxable services proposed; effective rate of service tax would increase to 16 percent. No clarity on the CENVAT credit eligibility of cess paid; absence of credit may lead to cascading effect.

#### *Expansion in scope of levy of service tax*

- All services provided by Government or local authority to a business entity would henceforth be subject to tax, except few services in negative list.
- Service tax to be levied on contract manufacturing / job work for production of alcoholic beverages.
- Access to amusement facility like rides, gaming, amusement parks, water parks, etc. to be subjected to tax.

*[Amendments to be effective from the date to be notified after enactment of the bill]*

*Withdrawal / restriction of exemptions*

- Exemptions have been withdrawn for the following services:
  - Services by way of construction, erection, commissioning etc. to Government;
  - Services by way of construction, erection, commissioning, etc. of airports or ports; and
  - Services provided by a mutual fund agent or distributor to a mutual fund or assets management company;
- Exemption to transportation of foodstuff by rail, road or vessel has been restricted to milk, salt, food grains including flours, pulses and rice.

*[Amendments to be effective from April 1, 2015]*

*Valuation*

- Taxability of reimbursable expenses and costs incurred by the service provider in course of providing the services reiterated [effective from date of enactment of bill].
- Uniform abatement of 70 percent has been prescribed for service of transportation of goods by road, rail and sea. Service tax is payable on 30 percent of the value without CENVAT credit on inputs, capital goods and input services.
- Service tax on service of transportation of passengers by air, in any class other than economy class, to be levied on 60 percent of value as against 40 percent of the value for economy class.

*[Abatement amendments to be effective from April 1, 2015]*

*Reverse charge*

- Specific provisions have been made for taxation of services involving aggregator using a web based software application and communication device and under the brand name of aggregator
  - Definitions of aggregator and brand name provided
  - Liability to tax is required to be discharged by the aggregator / agent
  - Aggregators located outside India are required to appoint an agent in India
- Reverse charge liability has been extended to services provided by mutual fund agents and distributors.
- Services of supply of manpower or security service have been converted from partial reverse charge to full reverse charge mechanism.

**CENVAT Credit Rules**

- Agreeing to the industry demand, the time period for taking credit on inputs and input services has been enhanced from six months to one year.
- The expression 'export goods' defined as goods sent outside India for the purpose of refund of unutilised credit. As a result, refund would not be available for supplies to SEZ units, Deemed Exports transactions (like Export Oriented Units).



- In a move to rationalise levy of multiple taxes, Education Cess has been subsumed into effective rate of excise duty / service tax. No clarity on the ability of the taxpayer to utilise, unutilised credit balance of Education Cess.
- As a trade facilitation measure, credit to a taxpayer extended in following job-work situations:
  - Where the inputs are sent directly to a job-worker's premises. Credit would be admissible even if the goods are sent by one job worker to another for further processing and the taxpayer receives back the processed goods.
  - Where the capital goods are sent directly to a job-worker's premises. The time limit for receiving back the capital goods from job-worker enhanced from 180 days to two years.
- Credit of services tax paid under partial reverse charge now available on payment of service tax. Going forward, the availability of credit not linked with the payment of value of service to vendor [to be effective from April 1, 2015].
- CBEC circular has been issued to clarify 'place of removal' for export goods for claiming credit on transportation service.

*[CENVAT amendments to be effective from March 1, 2015 unless specified specifically]*

## Customs

- Median rate of Basic Customs Duty ("BCD") retained at 10 percent.
- Effective customs duty rate increased on account of increase in Countervailing Duty ("CVD") rate of 12.5 percent.
- An offence related to false declaration / false documents, etc. under the customs law would now be considered an offence under the Money Laundering Act [effective from date of enactment of bill].
- Customs duty reductions with actual user condition, with an aim to:
  - Address inverted duty structure on account of BCD on finished product being lower than BCD on raw material or intermediate goods;
  - Reduce cost of raw materials for manufacturing in India; and
  - Reduce CENVAT credit accumulation especially on account of Special Additional Duty of Customs ("SAD").
- Reductions of customs duty have been done for certain organic chemical, products required under Digital India, specific healthcare products, and for specific renewable energy products.
- Exemption to High Density Polyethylene for manufacture of telecommunication grade optical fibres or optical fibre cables to promote National Optical Fibre Network Programme of 7.5 lakh kms for connecting 2.5 lakh villages, under the Digital India programme.
- Specific digital video cameras and parts and accessories of these digital video cameras would now attract nil rate of BCD.
- Increase in CVD rate on import of tablet computers and mobile phones from 6 to 12.5 percent on account of corresponding change in excise rate.
- BCD on commercial vehicles increased to 40 percent; however, exemption provided:
  - For Completely Knocked Down imports containing all the necessary components, parts or sub-assemblies, for assembling a complete vehicle with engine, gearbox and transmission mechanism not in a pre-assembled condition, leading to effective BCD of 10 percent.

- In all other case rate of BCD would be 20 percent.

*[Amendment to be effective from March 1, 2015 except mentioned otherwise]*

## Other key amendments

- Penalty provisions for defaults in payment of duties / taxes revamped :

Conditions for payment of duty / tax	Cases involving <i>bona fide</i> non-payment of tax	Cases involving <i>mala fide</i> non-payment of tax
Duty / tax paid before issuance of SCN or within 30 days of SCN	NIL	15 percent of duty/tax
Duty/ tax paid within 30 days of order	25 percent of penalty in the order	25 percent of duty / tax in the order
Other cases	Not exceeding 10 percent of duty/ tax	100 percent of duty/ tax

- Further rationalisation of penalties under customs for cases where dutiable goods have been found liable to confiscation, by reducing the cap of penalty to 10 percent (from the current norm of 100 percent) of duty sought to be evaded.

*[Penalty provisions to be effective from the date of enactment of Finance Bill]*

## Ease of Doing Business

- Excise / Service tax invoices and other specified records can be maintained electronically subject to authentication by digital signature.
- Amendment in procedure for obtaining excise and service tax registration:
  - New taxpayers to be granted registration within two days from the date of filing application.
  - New excise applicants to provide details of registrations under other statutes like Company Identification Number, VAT Registration Number. Existing taxpayers to furnish these details before June 1, 2015.
- Advance ruling provisions extended to partnership firms, sole proprietorship firms and one person company.

*[Above amendments are effective from March 1, 2015]*

## Goods and Services Tax (GST)

- In the Budget speech the Finance Minister has reaffirmed Government's commitment to introduce GST from April 1, 2016. The first steps towards the transition have also been taken by (a) increasing the rate of service tax; and (b) merging various cesses with the main levies of Central Excise and Service tax.

## **Part C**

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# **Sectoral Expectations**

## ***Agriculture and Food Processing***

### **A. FICCI's Wish List**

- Develop Supply Chain and Warehousing with active engagement of private sector in procurement, logistics and distribution of food grain management
- Incentivise and catalyse extensive spread of micro irrigation
- Strengthening agri equipment sector by developing and scaling custom hiring model
- Creation of a national common agriculture market
- Concept of farmer producer organizations be strengthened
- New weather based insurance system be extended to all the states and crops as this can be more effective in mitigating farmers' risk
- Restructuring of the agriculture extension system at centre and state, which would lead towards better utilization of resources and funds
- Leverage the private sector in transferring best practices from high productivity states to states with lower productivity and commercialize agro-technologies, as well as foster innovation

### **B. Budget Announcements**

- Allocation of Rs. 5300 crore to support micro-irrigation schemes, watershed development, organic farming scheme (Paramparagat Krishi Vikas Yojana) and the Pradhan Mantri Krishi Sinchai Yojana. Water conservation and effective use are to be accorded high priority through Pradhan Mantri Krishi Sinchai Yojana.
- Allocation of Rs. 25,000 crore to the corpus of Rural Infrastructure Development Fund (RIDF) set up in NABARD; Rs. 15,000 crore for Long Term Rural Credit Fund; Rs. 45,000 crore for Short Term Cooperative Rural Credit Refinance Fund; and Rs. 15,000 crore for Short Term RRB Refinance Fund.
- To extend Rs. 8.5 lakh crore of farm credit during 2015-16.
- Creation of a Unified National Agriculture Market.
- Service Tax Exemption extended to pre-cold storage warehousing services (Pre-cooling services) for fruits and vegetables so as to incentivize value addition in this crucial sector.
- Proposal to set up a Post Graduate Institute of Horticulture Research and Education in Amritsar.

### **C. Implications of Announcements**

- Allocation of funds and renewed focus on micro irrigation is a positive move. Watershed development will augment irrigation facilities.
- Availability and access to adequate, timely and low cost credit from institutional sources would especially benefit small and marginal farmers, also leading to establishment of sustainable and profitable farming systems.
- Fund allocation for soil health management would have positive impact on farming and food production.
- Creation of a Unified National Agriculture Market would help farmers to get better prices for their produce through competitive agri-marketing system and reduction in unfair trade practices.

- Exemption from service tax would support efficiency in perishable Fruits & Vegetable (F&V) supply chain, which is prone to maximum wastage.
- Support to research and education in Horticulture would give a boost to agro-technologies and foster innovation.

## **D. Unmet Demands**

- New weather based insurance system should be extended to all the states and crops as this can be more effective in mitigating farmers' risk.
- Restructuring of the agriculture extension system at centre and state that would lead the way towards better utilization of resources and funds.
- Leveraging the private sector in transferring best practices from high productivity states to states with lower productivity in all crops and commercialize agro-technologies.

## **Banking and NBFCs**

### **A. FICCI's Wish List**

- Clarity on tax treatment on conversion of Indian branch of a foreign bank into a subsidiary company with respect to the value at which closing 'block of assets' are to be transferred and allowability of expenses in the hands of the branch.
- Restoration of deduction under Section 80P of IT Act for co-operative banks.
- Exemption to NBFCs from Section 194A of the Act and allowing tax collections by way of advance tax.
- NBFCs to be allowed deduction for provisions for NPAs made under Section 36(1)(vii) of the Act, akin to Banks.

### **B. Budget Announcements**

- JAM (Jan Dhan, Aadhar, Mobile) Trinity to implement direct transfer of benefits. Further push to financial inclusion to come through vast Postal network with 1,54,000 points of presence spread across the country.
- Registered NBFCs having asset size of Rs. 500 crore and above will be considered for notifications as 'Financial Institution' in terms of the SARFAESI Act, 2002.
- Creation of a Micro Units Development Refinance Agency (MUDRA Bank) with a corpus of Rs. 20,000 crore, and credit guarantee corpus of 3,000 crore. MUDRA Bank will refinance Micro-Finance Institutions through Pradhan Mantri Mudra Yojana.
- Setting up of an Autonomous Board Bureau to improve the Governance of Public Sector Banks. The Bureau would search and select heads of Public Sector banks and help them in developing differentiated strategies and capital raising plans through innovative financial methods and instruments. This would be an interim step towards establishing a holding and investment Company for Banks.

### **C. Implications of Announcements**

- JAM (Jan Dhan, Aadhar, Mobile) Trinity, would allow transfer of benefits in a leakage-proof, well-targeted and cashless manner; and increase usage of bank accounts opened under the Jan Dhan Yojana.
- Treating NBFCs at par with Financial Institutions under SARFAESI Act will help NBFCs lend with greater confidence due to strengthening of their recovery capabilities.
- MUDRA Bank will refinance loans of microfinance companies at a lower rate, making more funds available with MFIs for onward lending.
- A move targeted to address talent crisis, governance issues, management of NPAs and going forward capitalisation of Banks by leveraging the capital base of all banks to raise funds which can then be invested in PSBs.

## **D. Unmet Demand**

- Setting up of a National Asset Management Company (NAMCO) as a new special purpose vehicle to take over stressed assets from the banking system for effective recovery and rehabilitation and address the challenges arising out of build-up of Non-Performing Assets. The specialized entity would acquire large scale stressed assets especially in Infrastructure, Power, Steel and Telecom sectors and focus on rehabilitation rather than liquidation. Such entity would need Governmental & Regulatory support in its functioning including support for encouraging banks to transfer assets, forbearance in amortizing over longer term the losses incurred by banks upon transfer of stressed assets and to provide additional working capital financing.

## Capital Markets

### A. FICCI's Wish List

- Deepening of corporate bond market
- Allowing tax 'pass through' for Category I and II of Alternative Investment Funds (AIFs)
- Withholding tax on Royalties/Fee for technical services and interest paid to non-resident should be reduced from 25% (under Sec 115A of Finance Act) to 10%, to make it in line with DTAA's India has signed with other countries
- Withholding tax rate on interest payment should be lowered to 5% for debentures and trade finance, similar to ECBs / infrastructure bonds (under Sec 194LC of Finance Act)
- Extension of benefits (under Sec 194LD of Finance Act) for availing the concessional withholding tax rate of 5% to FII / QFI on rupee denominated bonds of an Indian company or Government security beyond 31 May 2015
- To have a level playing field with insurance companies and similarity in taxation of investment in mutual fund schemes and ULIPs, switching of investment under various plans of a mutual fund scheme or inter-scheme should be exempted from capital gains tax.

### B. Budget Announcements

- Setting up a Public Debt Management Agency (PDMA) which will bring both India's external borrowings and domestic debt under one roof.
- Creation of a Task Force to establish a sector-neutral Financial Redressal Agency that will address grievances against all financial service providers.
- Allowing foreign investments in Alternate Investment Funds (AIFs) and allowing tax 'pass through' to both Category-I and Category-II AIFs, so that tax is levied on the investors in these Funds and not on the Funds per se.
- Rationalising the capital gains regime for the sponsors exiting at the time of listing of the units of REITs and InvITs, subject to payment of Securities Transaction Tax (STT). The rental income of REITs from their own assets will have pass through facility.
- Modification of the Permanent Establishment (PE) norms to the effect that mere presence of a fund manager in India would no longer constitute PE of the offshore funds in India.
- Removing the distinction between different types of foreign investments, especially between foreign portfolio investments (FPIs) and foreign direct investments, and replace them with composite caps.
- Tax-free infrastructure bonds for road, railways & infrastructure projects
- Establishment of a National Investment and Infrastructure Fund (NIIF) with an annual inflow of Rs 20,000 crore. The Fund would raise debt, and also invest equity in infrastructure finance companies such as the IRFC and NHB, which in turn can then leverage this extra equity manifold.



**C. Implications of Announcements**

- The setting up of PDMA is a step towards deepening of the Indian Bond market, which will help to promote investments in India, including in the infrastructure sector. It will also help to grow the Indian bond market and reduce the burden on bank for financing of long-term investment and going forward, play an equally important role in developing the economy as the equity market does.
- Steps such as setting up of a Financial Redressal Agency will enhance consumer protection and go a long way in aiding proper functioning of capital markets and increasing retail participation.
- Allowing foreign investments in Alternate Investment Funds (AIF) and allowing tax 'pass through' for Categories I and II of AIFs will enable these Funds to mobilise higher resources and make higher investments in small and medium enterprises, infrastructure and social projects and provide the much required private equity to new ventures and start-ups.
- Rationalising the capital gains regime for REITs and InvITs will help in releasing a large quantum of funds currently locked up in various completed projects and facilitate new infrastructure projects to take off.
- Modification of Permanent Establishment (PE) norms will remove the (current) inbuilt incentive for fund managers to operate from offshore locations and facilitate relocation of fund managers of offshore funds in India.
- Doing with the distinction between FPIs and FDI will simplify the procedures for Indian companies to attract foreign investments.
- Tax-free infrastructure bonds for road, railways & infrastructure projects will deepen the debt market and enhance the much needed investment in these sectors while reducing the burden on bank financing for infrastructure.
- The Establishment of a National Investment and Infrastructure Fund (NIIF) with an annual inflow of Rs 20,000 crore is a welcome move and will boost financing of infrastructure.
- A combined effect of these announcements would capital formation and deepening of Indian capital markets.

**D. Unmet Demands**

- Withholding tax rate on interest payment should be lowered to 5% for debentures and trade finance, similar to ECBs / infrastructure bonds
- Extension of benefits for availing the concessional withholding tax rate of 5% to FII / QFI on rupee denominated bonds of an Indian company or Government security beyond 31 May 2015
- Switching of investment under various plans of a mutual fund scheme or inter-scheme should be exempted from capital gains tax

## Commodities and Gold

### A. FICCI's Wish List

- Abolition of Commodities Transaction Tax (CTT)
  - CTT has resulted in approximately 40% drop in trading volumes of commodity markets
  - Need to abolish/ reduce it for greater liquidity and improved market participation
  - If not abolished, a share of CTT revenue should be diverted to improve warehousing and infrastructure facilities
  - Exemption of CTT for processed agricultural commodities to boost the productivity of agri-industry
- Allowing FII's and Mutual Funds to participate:
  - Open the participation for the FII's and mutual funds to boost growth, depth and liquidity in Indian commodity markets
- Wish list on Gold
  - Standard India Gold Coin Import duty cut in Gold on account of CAD being contained at 1.7% of GDP in 2013-14. While RBI has allowed import of gold coin, a cut on import duty would boost manufacture and export of gems and jewelry
  - Allowing Gold metal loan facility by bullion banks – acts a natural hedge against both currency and commodity price fluctuation
  - Encourage development of gold backed investment and saving products
  - Establish Gold Exchange to ensure pricing standardization, increase transparency and improve supply and demand analysis
  - Gold Monetization Scheme
  - Gold Sovereign Bonds
- Spot market reforms – Need for centralized virtual mandi / Interlinking mandis or APMC
- Providing irrigation facilities and electricity at cheap rates to farmers.
- Enactment of the FCRA Amendment Bill for empowering the FMC and introduction of more pertinent derivative instruments and participation of players who have thus far been restricted from the commodities markets.
- Streamlining forward market segment - Forward market contracts are traded over-the-counter segment and thus are exposed to huge risks of counter-party defaults.

### B. Budget Announcements

- Forward Markets Commission (FMC) merger with Securities and Exchange Board of India (SEBI)
- Gold Monetization Scheme- Gold Monetization Scheme will replace the existing Gold Deposit and Gold Metal Loan Schemes. The new scheme will allow the depositors of gold to earn interest in their gold (metal) accounts and the jewellers to obtain loans in their gold metal account. Banks/other dealers would also be able to monetize this gold. In addition, Indian Gold Coin, which will carry the 'Ashok Chakra' on its face has been announced.

- Gold Sovereign Bonds, as an alternate financial asset, which will be an alternative to purchasing metal gold. The bond will carry a fixed rate of interest, and also be redeemable in cash in terms of the face value of the gold, at the time of redemption.
- Creation of a Unified National Agriculture Market- To increase the incomes of farmers, imperative to create a National agricultural market, which will have the incidental benefit of moderating price rises.

### **C. Implications of Announcements**

- Following the FMC-SEBI merger, commodity futures markets would strengthen the regulatory environment in commodity markets. This also means that the commodity market will now align with the way the securities markets function. This will pave the way for deepening of the commodity markets through participation of banks, FIIs and MFs.
- Gold Monetization Scheme would reduce demand for overseas gold. The Indian Gold Coin will help recycle local gold and cut overseas gold demand (foreign minted coins). Gold depositors will earn an interest on their metal account, while jewellers can obtain loans in it. Banks and other dealers will be able to monetize this gold. The Indian gold coin would help reduce the demand for coins minted outside India and also help to recycle the gold available in the country.
- Gold Sovereign Bonds would be an alternative to purchasing gold. The bonds will carry a fixed rate of interest and holders will be able to redeem them in cash on the current face value of gold.
- Unified National Agriculture Market would help remove market distortions, bring in transparency, create a level playing field for stakeholders and promote efficiency. It will debottleneck the supply side concerns and help farmers realized increased returns.

### **D. Unmet Demands**

- Exemption of CTT for processed agricultural commodities
- Allowing FIIs and Mutual Funds to participate in Indian commodity markets
- Import duty cut on gold
- Setting up of a Gold Exchange
- Allocation of funds for developing warehousing infrastructure

## Manufacturing

### Capital Goods

#### A. FICCI's Wish List

- Increased outlay on infrastructure would spur demand for capital goods.
- Faster implementation of infrastructure projects.
- Address inverted duty structure in various capital goods items like:
  - Machines for preparing textile fibres – e.g. Cotton Carding Machine
  - PCB Drills /PCB Routers made from Solid Tungsten Carbide Blanks / Rods
  - Pressure Vessels
  - Boilers
- Ensure a level playing field between domestic manufacturers and imports.

#### B. Budget Announcements

- Investments in infrastructure to go up by Rs. 70000 crore in 2015-16.

#### C. Implications of Announcements

- Increased outlay on infrastructure would spur demand for capital goods.

#### D. Unmet Demands

- Issue of inverted duty structure in various capital goods items as mentioned above remains unaddressed and also a level playing field between the domestic and imported goods has not been ensured.

### Defence

#### A. FICCI's Wish List

- **Level Playing between FOEMs, DPSUs and Indian Private Industry**
  - Exchange Risk Variation (ERV) risk cover is being provided by the MoD only to Defence Public Sector Undertakings (DPSUs) and OEMs. Protection to Indian private industry from exchange rate variation is needed to enhance private sector's participation in defence manufacturing.
  - Removal of taxation related anomaly
  - Grant deemed export status to defence manufacturing
  - Customs and Excise Duty Exemption Certificates to be issued to Indian private sector just like DPSUs

- Provide adequate Tax and Infrastructure Benefits to Defence R&D (Extension of 35-2AB R&D tax benefits to MAT Companies) and Production (Extension of 80-IA benefits to Defence Industry) through budgetary measures.

## B. Budget Announcements

- Allocation for defence manufacturing increased from Rs. 2,22,370 crore to Rs. 2,46,727 crore (USD 40 Billion) for the FY 2015-16.

## C. Implications of Announcements

- Make in India policy is being carefully pursued to achieve greater self-sufficiency in the area of defence equipment including air-craft.
- Special Additional duty is exempted on all goods while there is no change in duty structure for Printed Circuit Boards (PCBs) is an indication of government's commitment to boost manufacturing, skill development and greater investment in high technological plant setting.

## D. Unmet Demands

- Exchange Risk Variation (ERV) risk cover has not been provided to the Private Sector. As a result the cost of working capital for the private sector will continue to remain high due to long gestation period of Defence Projects.
- Provide level playing field by removing tax anomalies between Defence Public Sector Undertakings (DPSUs) and Original Equipment Manufacturing (OEMs).
- Grant deemed export status to defence manufacturing
- Provide adequate Tax and Infrastructure Benefits to Defence R&D (Extension of 35-2AB R&D tax benefits to MAT Companies) and Production (Extension of 80-IA benefits to Defence Industry) through budgetary measures.

**Note:** The surrender of Rs. 6630 crore (over USD 1 billion) as unspent money from the 2014-15 defence budget is disappointing. This amount could have been used for capital procurement.

## Electronics and White Goods

### A. FICCI's Wish List

- In products like LED Lights / LED Lamps, total duty on final product is 6 percentage points less than some of the key components for the product which is discouraging domestic value addition.
- Customs Duty on Magnetron & other inputs used for Microwave Ovens production should be reduced to 0%, without IGCR (Import of Goods at Concessional Rate) condition which will result in more companies manufacturing Microwaves in the country and will be able to tap export potentials.
- The manufacturers of Refrigerators are undergoing a difficult phase as the parts for the compressors are currently attract a peak customs duty of 7.5% whereas the refrigerator

compressors have import duty of 5% under FTAs (Notfn 102/97). The inverted duty structure arising due to FTAs is making Indian manufacturing uncompetitive and therefore manufacturing of these products in the country may become unviable comparing to imports under FTAs.

- The major parts which have a Customs Duty of 7.5% are listed below:-

S.No.	Description	HSN	Present Duty Structure
1.	C- Block for Compressor	84149011	7.50%
2.	Over Load Protector ( OLP), Positive thermal co efficient	8536 2090	7.50%
3.	Crank Shaft for compressor	84149011	7.50%

- Custom duty on the parts of the compressors should be brought to 0%.

## B. Budget Announcements

- Reduction in duty on certain inputs to address the problem of duty inversion:
  - Magnetron upto 1 KW for use in the manufacture of microwave ovens.
  - C- Block for Compressor, Over Load Protector (OLP) & Positive thermal co-efficient and Crank Shaft for compressor, for use in the manufacture of Refrigerator compressors.
- Reduction in Basic Customs Duty to reduce the cost of raw materials:
  - Black Light Unit Module for use in the manufacture of LCD/LED TV panels from 10% to Nil.
  - Organic LED (OLED) TV panels from 10% to Nil.
- Reduction in SAD to address the problem of CENVAT credit accumulation:
  - All goods except populated PCBs, falling under any Chapter of the Customs Tariff, for use in manufacture of ITA bound goods from 4% to Nil.

## C. Impact of announcements

- Rationalisation of duty structures in above cases would spur domestic manufacturing and value addition, by making it more competitive.

## D. Unmet Demands

- 100% CENVAT Credit on capital goods in the year of purchase to address problems in the cash flow and maintaining elaborate accounts.

**Textiles****A. FICCI's Wish List**

- An Intermediate Excise Duty regime i.e. Excise Duty rate of 2-6% with entire textiles chain in CENVAT. The present duty of 12% to be reduced to 6% on MMF and its raw materials.
- Government had launched "Interest Subvention Scheme" which was discontinued in 2014. This scheme needs to be continued for next 3 to 5 years.
- Provide benefits for the units which applied during the blackout period under Technology Upgradation Fund Scheme (TUFS).
- Modify TUFS to encourage industry to move up the value chain; make adequate provision also under the scheme.

**B. Budget Announcements**

- No change in the existing excise duty structures of Man mad fibre.
- Allocation of Rs. 1520.79 crore made under TUFS for 2015-16 as against the RE of Rs 1864.02 crore for 2014-15.

**C. Impact of Announcements**

- Rationalization of excise duty for synthetic fibre chain was expected to stimulate investments, which has not been announced in the budget.
- There is already a backlog of cases under the TUFS of last year and also for the blackout period. Lower allocation under the TUFS for this year would act as a disincentive for fresh or further investments.

**D. Unmet Demands**

- Excise Duty structure for the synthetic fibre has not been rationalized.
- Issue with regard to adequate allocation under the TUFS has not been addressed, including the issue of blackout period.
- We hope the Government would restore the Interest Subvention Scheme for textiles in the forthcoming foreign trade policy.

## Education

### Higher Education

#### A. FICCI's Wish List

- Expedite the launch of National Mission for Faculty Development and provide a tax relief to the tune of 50% to Universities / Higher Educational Institutions that spend on the capacity development and training of their staff.
- To promote Skill Development,
  - Any person enrolling for a Skills Certification course be eligible for a 20% tax rebate (only applicable for the tuition fee amount)
  - Any Educational Service Provider opening a Skills Centre in a backward area should be given an exemption from income tax for the first 3 years.
- All donations (and not just restricted only to research funding) to qualified Higher Educational Institutions should be eligible for 200% tax deduction
- New or existing educational institutions making a fresh investment of Rs. 75 crores or above should be eligible for a preferred and long term Loan facility with interest rates at par with Base Rates or Prime Lending Rates of the commercial banks or financial institutions and for a tenor of up to 15 years with step up repayment plan
- Higher Educational Institutions should be free to set up campuses overseas freely and a line of credit of at least USD 500 million should be set up by the Exim Bank, as a part of India's diplomatic efforts and use of soft power
- Tax break to corporates which nominate their employees for higher education either through the continuing education model or a full time program. The fees paid by corporate for employees' education should qualify for investment in human resources and hence exempted for tax purposes.
- Income taxpayers should be allowed a deduction against gross total income up to a minimum of Rs. 1,00,000 per child for fees paid to a Government recognised higher educational institution.
- Services of renting of premises, development of course content, ICT and outsourced manpower should be included in the list of services provided to educational institutions which are exempt from service tax.

#### B. Budget Announcements & Implications

- An IIT to be set up in Karnataka and Indian School of Mines, Dhanbad to be upgraded into a full-fledged IIT
- New All India Institute of Medical Science (AIIMS) to be set up in J&K, Punjab, Tamil Nadu, Himachal Pradesh and Assam
- Another AIIMS like institutions to be set up in Bihar
- A post graduate institute of Horticulture Research & Education to be set up in Amritsar
- Three new National Institute of Pharmaceuticals Education and Research in Maharashtra, Rajasthan & Chhattisgarh and one institute of Science and Education Research to be set up in Nagaland & Orissa each. ***This will help in creating more access, equity and remove regional***



***imbalances of institutions across the country. However, there should be emphasis in ensuring that the quality of the new institutions is maintained without any brand dilution.***

- Education cess and the Secondary and Higher education cess to be subsumed in Central Excise Duty
- Service-tax plus education cesses increased from 12.36% to 14% to facilitate transition to GST. ***It is an attempt to streamline the education cess and make the transition smooth during GST adoption.***
- A student Financial Aid Authority to administer and monitor the front-end all scholarship as well Educational Loan Schemes, through the Pradhan Mantri Vidya Lakshmi Karyakram. ***It is a positive step forward that would help the meritorious students from the marginalized sections of the society to avail quality education in life and move up the ladder.***

## School Education

### A. FICCI's Wish List

- Use central funds strategically to spur policy reform in states. The Centre can create a Rs. 1000 crore 'State Policy Reform Fund' to incentivise states that implement measures such as merit-based headmaster selection, transparent process for teacher recruitment, allotment and transfers and merit-based teacher promotions.
- Invest heavily in setting up new specialized research and training institutions focused on education quality and capacity building of existing institutions on areas such as standardized assessments, school leadership, early literacy & numeracy, pedagogy etc. A corpus of Rs. 200 crore can be allocated for this purpose.
- Substantially increase spending on strategic initiatives such as Assessments, ICT and teacher/headmaster development from the current Rs. 12 crore to Rs. 100 crore so that states have sufficient funds for implementation, dissemination and use.
- Service tax exemption for services pertaining to Outsourcing of ICT and development of course content; Outsourced services of staff training and development; Renting of premises and other Services critical to provision of educational services.

### B. Budget Announcements & Implications

- Upgradation of 80,000 secondary schools and addition or upgradation of 75,000 junior/middle and secondary schools to ensure that at least one Senior Secondary School is there within 5 km reach of every child. ***This is a welcome step and will further create opportunities for students and curtail the drop-out rates. However, it is important that equal emphasis is given to improving learning outcomes as mentioned by Finance Minister.***
- Proposal to launch Nai Manzil scheme to enable minority youth to obtain school leaving certificate and gain better employment. ***This is a positive step forward to facilitate gainful employment for the minority youth.***
- Allocation of Rs. 68,968 crore to the education sector (school and higher education including mid-day meals) is 17% lower compared with the actual outlay in the 2014-15 fiscal with thrust being on higher education.

- The need for a monitoring mechanism to ensure quality upgradation and judicious utilization of funds cannot be ignored.

### **C. Unmet Demands for Higher and School Education**

- Expedite the launch of National Mission for Faculty Development and provide a tax relief to the tune of 50% to Universities / Higher Educational Institutions that spend on the capacity development and training of their staff.
- To promote Skill development, following incentives to be provided:
  - Any person enrolling for a Skills Certification course be eligible for a 20% tax rebate (only applicable for the tuition fee amount)
  - Any Educational Service Provider opening a Skills Centre in a backward area should be given an exemption from income tax for the first 3 years.
- All donations (and not just restricted only to research funding) to qualified Higher Educational Institutions should be eligible for 200% tax deduction.
- Create a Rs. 1000 crore 'State Policy Reform Fund' to incentivise states that implement measures such as merit-based headmaster selection, transparent process for teacher recruitment, allotment and transfers and merit-based teacher promotions.
- Invest heavily in setting up new specialized research and training institutions focused on education quality and capacity building of existing institutions on areas such as standardized assessments, school leadership, early literacy & numeracy, pedagogy etc. A corpus of Rs. 200 crore can be allocated for this purpose.

## ***Environment***

### **A. FICCI's Wish List**

- Exemption of VAT on purchase of environmental monitoring equipment
- Service tax exemption for the following services:
  - Environmental studies conducted by consultancy firm before and after start of the project
  - Environmental sample analyses by Environmental laboratories
  - Services by foreign consultants on technical issues leading to prevention of pollution
  - Services provided for maintenance of equipment for pollution prevention

### **B. Budget Announcements**

- Donations to Swachh Bharat Kosh or the Clean Ganga Fund, other than contributions u/s 135 of the Companies Act, 2013 (by both residents and non-residents) shall be eligible for 100% deduction under section 80G of the Income Tax Act.
- Service provided by a Common Effluent Treatment Plant (CETP) operator for treatment of effluent is being exempted from service tax net.
- Excise duty on sacks and bags of polymers of ethylene other than for industrial use increased from 12% to 15%.
- Possibility of imposition of Swachh Bharat Cess on all or certain taxable services at a rate of 2% on the value of such taxable services. The proceeds from this Cess would be utilized for Swachh Bharat initiatives. This Cess will be effective from a date to be notified.

### **C. Implications of Announcements**

- 100% deduction might motivate more contributions to the Swachh Bharat Kosh and the Clean Ganga Fund and encourage natural resources conservation and maintaining the quality of water.
- Exemption from service tax on CETPs is a welcome measure and will facilitate more CETPs.
- Increase in excise duty on polymers would give another push to discourage use of polymer bags by making them more expensive.

## Healthcare

### A. FICCI's Wish List

- Increased budgetary allocation to healthcare sector through greater provision for NRHM & NURM
- All input services in cancer treatment should be exempted from service tax
- All Healthcare Education and Training services, especially life-saving ones, should be exempted from service tax
- Increase in Tax holiday from current five year to ten year time frame under section 80-IB for private healthcare providers in non-metros for minimum of 50 bedded hospitals instead of current 100 beds
- To promote voluntary organ donation, provide a lifetime health coverage to the donor through insurance benefits
- Provide Income Tax / MAT exemption for at least 15 years for domestically manufactured medical technology products
- To incentivise hospitals and diagnostic laboratories to undergo accreditation, there should be 100% deduction on approved expenditure incurred for securing accreditation from NABH and NABL respectively
- Provide financial incentives / grants to willing institutions to encourage move to Electronic Health Records. Extend 250% deduction on investment made for implementation of Electronic Health Records
- Extend 250% deduction for approved expenditure incurred on operating technology enabled healthcare services like telemedicine, remote radiology etc.
- Healthcare sector should be exempted from Minimum Alternative Tax

### Health Insurance

- Mandate that organizations insure every employee for a minimum amount of Rs.1 Lakh. Employer should be allowed tax deduction on the premium paid.
- Subsidize medical insurance premium for senior citizens for insurance up to Rs.5 lakhs. Alternatively, raise the tax deductible limit for premium for senior citizen to Rs 50,000 healthcare
- Withdraw service tax on Mediclaim / health insurance premiums
- Amount of tax deduction provided for preventive health check-ups should be made over and above the provision of Rs. 15,000 towards the health insurance premium paid currently under section 80D of the Act

### Life sciences

- Service Tax on Clinical Trials of Drugs should be continued on newly developed drugs. Alternatively, appropriate amendments should be made in the POPS Rules so that clinical trials conducted for foreign service recipients should qualify as export of service thereby not attracting Service tax in India for the Clinical Research Organisations (CROs) and also enable refund of Service tax on input services availed by the CROs.

- Weighted deduction under Section 35(2AB) for computing book profits in order to promote in-house R&D in India.
- ‘Safe Harbour Rule for Contract Manufacturing’ for pharma companies that are manufacturing and exporting the product as contract manufacturer.
- Clinical Trials - Weighted Deduction u/s 35(2AB) should be enhanced from existing 200% to 250% for a period of next 10 years i.e. up to 31st March, 2024.

## Medical Electronics, Medical Devices & IVD sector

- **In order to encourage Complete or Partial in-house Manufacturing:-**
  - 150% depreciation on infrastructure investment u/s 35 of IT Act
  - No Excise Duty on equipment manufactured in India or assembled in India, wherein the imported raw material content is limited up to 50% of complete equipment cost. It is recommended that the excise duty on medical equipment be reduced significantly and may be prescribed at the lowest slab to enable the domestic industry to find a foothold.
  - Zero custom duty on all imported raw materials by manufacturers, wherein the imported raw material content is limited up to 50% of complete equipment cost
  - R&D Cess CENVAT-able with Excise duty
- **Other tax incentives:-**
  - 100% Deduction of approved expenditure incurred on securing accreditation for hospitals and diagnostics labs from NABH and NABL respectively be provided under the Act.
  - Any new capital expenditure towards replacement of old machinery/equipment in hospitals, at any time, be entitled to 100% deduction.
  - Manufacturers of indigenous medical technological products be granted complete tax exemption/exemption from MAT.
  - 250% deduction of approved expenditure incurred on R&D activities related to indigenous development of medical technology should be provided.
- **Exemption/ Reduction on select Medical / Dental / Surgical Equipment**
  - All medical devices used in critical care, consumables used with devices in the specific critical care treatment procedure and their spare parts should be exempted from Customs Duty. (list of such medical devices is enclosed in detailed pre-budget submission)
- **Service Tax Recommendations**
  - It is requested that the service tax on Service and Maintenance Contracts for medical equipment be either exempted fully or a minimal rate of tax prescribed for this sector.
  - There is a pressing need to increase the safety net of health insurance in India. One measure that could help is withdrawal of service tax on health insurance premiums, thereby leading to a lowering of cost/premium for the consumer.
- **In-Vitro Diagnostics (IVD) Sector: Duty Exemption for Antigens / Antibodies used in Diagnostic Kits**
  - The import of raw materials such as antigens/antibodies or any other ingredient corresponding to the manufacture of diagnostic test kits specified in list 4 put the local manufacturer at disadvantage in comparison to imported finished diagnostic test kit specified in list 4 which is imported at nil duty. The notification should therefore include: “Bulk drugs / antigens/antibodies (monoclonal / polyclonal) / raw materials / components

used in the manufacture of critical care drugs / medicines including their salts and esters and diagnostic test kits”

## B. Budget Announcements and Implications

### Common announcements for the Health Sector

- **Budget Allocation:**
  - The healthcare sector has been allocated Rs 33,150 crore for 2015-16, which is 1.6% lower than last year’s allocation of Rs 33,700 crore.
- **Tax exemption:**
  - Yoga to be included within the ambit of charitable purpose under Section 2(15) of the Income-tax Act
- **Medical Education:**
  - New All India Institute of Medical Science (AIIMS) to be set up in J&K, Punjab, Tamil Nadu, Himachal Pradesh and Assam. Another AIIMS like institutions to be set up in Bihar
  - A national skill mission to consolidate skill initiatives spread across several ministries to be launched.

**Impact:** Expansion of AIIMS will increase the access to quality medical education and treatment in states that do not have these facilities currently. Further it will help in addressing the regional imbalance of medical colleges. It will also create a pipeline of doctors that will enable strengthening of healthcare workforce in rural areas.
- **Innovation and Entrepreneurship:**
  - Atal Innovation Mission (AIM) to be established in NITI to provide Innovation Promotion Platform involving academicians, and drawing upon national and international experiences to foster a culture of innovation, research and development. A sum of Rs 150 crore will be earmarked.
  - Self-Employment and Talent Utilization (SETU) to be established as Techno-financial, incubation and facilitation programme to support all aspects of start-up business. Rs 1000 crore to be set aside as initial amount in NITI.

**Impact:** This is an encouraging step towards promoting self-employment through start-ups and will encourage research and innovation in the healthcare space
- **Excise duty** on chassis for ambulance reduced from 24% to 12.5%.
- Artificial heart exempt from **basic custom duty** of 5% and CVD.
 

**Impact:** There has been a long standing demand of the industry for removing the service tax levy, which has been ignored. The increase in service tax to 14%, though marginal, will certainly impact the consumer specifically the low-income consumers of healthcare schemes.
- **Public Health:**
  - A new scheme for providing Physical Aids and Assisted Living Devices for senior citizens, living below the poverty line.
  - Providing medical services in each village and city – Under Vision for Team India for 2022

**Impact:** With the declaration that medical facilities would be available in each village and city, the long cherished goal of “SWASTH BHARAT” seems closer to reality. This will herald in new

opportunities in preventive and early diagnostics, reducing healthcare burden in Cancer care, Cardiovascular/ Nephrological / Diabetic/Biliary and Stress related diseases. Additionally it will be of relief to millions of the affected to get a chance of life and better living and disease management. More than all it will promote a HEALTHIER NATION.

## Health Insurance

- **Tax exemption:**

- Limit of deduction of health insurance premium increased from Rs 15,000 to Rs 25,000, for senior citizens limit increased from Rs 20,000 to Rs 30,000.
- Senior citizens above the age of 80 years, who are not covered by health insurance, to be allowed deduction of Rs 30,000 towards medical expenditures.
- Deduction limit of Rs 60,000 with respect to specified deceases of serious nature enhanced to Rs. 80000 in case of senior citizen.
- Additional deduction of Rs. 25000 allowed for differently abled persons

**Impact:** It is estimated that households with elderly members incur a monthly per capita health expense that is 3.8 times that of households with no elderly members. Elderly households hence spend a disproportionate amount of their total monthly consumption on healthcare needs when compared to other households. The current announcements will provide the much needed impetus for health insurance for elderly hence reducing the out of pocket spending. It will also encourage people to invest appropriately in their health insurance thus increasing affordability of healthcare

- Employees will now have option of choosing either ESI or any Health Insurance product, recognized by the Insurance Regulatory Development Authority (IRDA).

**Impact:** This will offer more flexibility and informed decision making by weighing both options.

## Lifesciences

- To make India, the manufacturing hub of the World through Skill India and the Make in India Programmes.
- 3 new National Institute of Pharmaceuticals Education and Research in Maharashtra, Rajasthan & Chhattisgarh
- One institute of Science and Education Research is to be set up in Nagaland & Orissa each.

**Impact:** It will enhance research and innovation and capacity building of entire pharmaceutical ecosystem.

## Medical Devices and Medical Electronics

- Reduction of the basic customs duty of flexible medical video endoscopes from 5% to 2.5%.

- CVD and SAD are fully exempted on specified raw materials for manufacture of pacemakers viz. Titanium etc.
- Excise Duty reduction on Wafers used in manufacture of Integrated Circuits (IC) modules for smart cards from 12% - 6%.
- Excise Duty has become nil for specific raw materials viz. battery, titanium, coils, tubing and most other key items used in manufacturing of pacemakers.

**Impact:** This would lead to a spur in manufacturing aligned with the 'Make in India' campaign.



## Housing and Real Estate

### A. FICCI's Wish List

- Exemption limit of interest paid on borrowed capital (loan taken for acquisition/ construction of self-occupied house property) should increase to at least Rs 3,00,000 per annum.
- Revise tax treatment of Real Estate Investment Trusts (REITs) by:
  - Doing away with Dividend Distribution Tax (DDT) on distribution of dividends by Special Purpose Vehicle (SPV) to REITs;
  - Under the REITs regime, distribution of income of business trust to non-residents is subject to TDS @ 5% under Section 194LBA of the Act. Accordingly, in Section 195(1) of the Act, after the word “not being interest referred to in Section 194LD”, the words “or Section194LBA” should be inserted, with effect from the 1<sup>st</sup> October, 2014.
  - Under the REITs regime, long term capital gains on the disposal of units by the sponsor is taxable which is unfair keeping in view that such long term capital gains are exempt under Section 10(38) of the Act in the hands of other unit holders. It is suggested that such disparity between Sponsor and other unit holders be dealt with to provide a level playing field.
  - Providing a one-time exemption on stamp duty in states laws for transfer of assets by sponsor to the REIT;
  - Update the regulations announced by SEBI on REITs in line with the 2014-15 budget announcement of a complete pass through status for REITs.
- Raise the limit for deduction for principal repayment of home loans.
- Grant infrastructure status to development of integrated townships and provide for deductions under Section 80-IA in respect of such infrastructural developments.
- Provide separate Deduction for Ground Rent over and above the statutory deduction of 30% under Section 24.
- Exemption from MAT & DDT for SEZ developers

### B. Budget Announcements

- Real Estate Investment Trusts (REITs) have been provided with partial pass through. The budget has proposed to rationalise the capital gains regime for the sponsors exiting at the time of listing of the units of REITs and InvITs, subject to payment of Securities Transaction Tax (STT). The rental income of REITs from their own assets will have pass through facility.
- Rs. 22,407 crore for housing and urban development has been allocated in this fiscal to achieve the target of completing 2 crore houses in urban areas and 4 crore houses in rural areas under ‘Housing for all’ by 2022.

**Delhi Mumbai Industrial Corridor (DMIC):** The Ahmedabad-Dhule Investment Region in Gujarat, and the Shendra–Bidkin Industrial Park near Aurangabad, in Maharashtra, is now in a position to start work on basic infrastructure. In the current year, Rs. 1,200 crore has been earmarked as an initial sum. However, as the pace of expenditure picks up, additional funds will be provided.

### C. Implications of Announcements

- The announcement in budget regarding REITs is a welcome step which was recommended by industry. However, other suggestions made by FICCI on REITs given in the section below have not been implemented.
- The meeting of the housing targets (2 crore houses in urban areas and 4 crore houses in rural areas) set under the budget would help address the housing shortage to some extent.
- The progress in these regions of Delhi Mumbai Industrial Corridor (DMIC) would give a boost to the development of smart cities planned in these regions.

### D. Unmet Demands

- Revise tax treatment of Real Estate Investment Trusts (REITs) by:
  - Doing away with Dividend Distribution Tax (DDT) on distribution of dividends by Special Purpose Vehicle (SPV) to REITs;
  - Under the REITs regime, distribution of income of business trust to non-residents is subject to TDS @ 5% under Section 194LBA of the Act. Accordingly, in Section 195(1) of the Act, after the word “not being interest referred to in Section 194LD”, the words “or Section 194LBA” should be inserted, with effect from the 1<sup>st</sup> October, 2014.
  - Under the REITs regime, long term capital gains on the disposal of units by the sponsor is taxable which is unfair keeping in view that such long term capital gains are exempt under Section 10(38) of the Act in the hands of other unit holders. It is suggested that such disparity between Sponsor and other unit holders be dealt with to provide a level playing field.
  - Providing a one-time exemption on stamp duty in states laws for transfer of assets by sponsor to the REIT;
  - Update the regulations announced by SEBI on REITs in line with the 2014-15 budget announcement of a complete pass through status for REITs.
- Increase in exemption limit of interest paid on borrowed capital to at least Rs. 3,00,000 per annum.
- Rise in the limit for deduction for principal repayment of home loans.
- Infrastructure status to development of integrated townships and providing for deductions under Section 80-IA in respect of such infrastructural developments.
- Provision of separate Deduction for Ground Rent over and above the statutory deduction of 30% under Section 24.
- Exemption from MAT & DDT for SEZs
- No specific sops have been provided to end users to boost demand for housing sector. This would have improved business sentiments in a sluggish growth scenario in the real estate sector.

## ***Insurance and Pension***

### **A. FICCI Wish list**

- Remove discrimination in taxation of pension products vis-à-vis non-pension products. Any amount received from the pension fund is entirely taxable whereas it is not the case with life insurance and ULIP.
- Insurance premium paid for personal accident policy, home insurance and travel policy should be allowed as deduction.
- No MAT to be levied on General Insurance Industry, treating it at par with life insurance business
- Tax policy should actively encourage long term savings and allow deduction u/s 80CCE in respect of amount paid under pension/annuity plans.
- Social welfare schemes of the Central Government should be exempt from service tax, for example health & personal insurance schemes for handicrafts, handloom & weavers under Ministry of Textiles should be exempt from service tax.

### **B. Budget Announcements**

- **3 Social Schemes announced for the underprivileged and senior citizens**
  - Pradhan Mantri Suraksha Bima Yojna: to provide accidental death risk cover of Rs 2 lakh for a premium of just Rs 12 per year for the account holders under the Jan Dhan Yojana scheme.
  - Launch of Atal Pension Yojana: In the new accounts opened before 31st December, 2015, the Government will continue contributing 50% of the beneficiaries' premium limited to Rs 1,000 each year, for five years.
  - Pradhan Mantri Jeevan Jyoti Bima Yojana: This would cover natural and accidental death risk of Rs 2 lakh at a premium of Rs 330 per year.
- Creation of a Senior Citizen Welfare Fund through appropriation of unclaimed deposits of Rs 3,000 crore in the PPF, and Rs 6,000 crore in the EPF corpus. These funds would be used to subsidize the premiums of vulnerable groups such as old age pensioners, BPL card-holders, small and marginal farmers and others.
- Employees to be given an option to choose from EPF and National Pension Scheme
- Contribution to EPF to be made optional, without affecting or reducing the employer's contribution for employees below a certain threshold of monthly income.
- Employees covered under ESI Scheme to have the option of choosing either ESI or a Health Insurance product (recognised by IRDA)
- Increase in deduction allowed on account of health insurance premium to Rs 25,000; Rs 30,000 for senior citizens.
- Increase in deduction allowed on account of contribution to a Pension Fund and the New Pension Scheme from Rs 1 lakh to Rs 1.5 lakh.
- Deduction limit of Rs 50,000 for contribution to the New Pension Scheme under Section 80CCD.

## **C. Implications of Announcements**

- Boost to insurance penetration amidst the most vulnerable sections of the society and creating social security schemes.
- Tax benefits for insurance products would give a boost to the sector.
- Allowing workers to choose between ESI or a health care product would offer greater benefit to the workers.

## ***Mines and Metals***

### **A. FICCI's Wish List**

- Exemption from the levy of import duty on Copper Concentrate
- Increase in Customs Duty on Copper products from 5% to 10%
- Imposition of Export Duty @ 5% on Alumina
- Increase in Basic Customs Duty on Aluminium Products from 5% to 10%
- Exemption of CVD on steel products being supplied to Grain Silos
- Reinstatement of concession for short lead in charging freight for traffic booked up to 90kms
- Bringing Customs duty on Aluminium Scrap at par with the duty on the metal products
- Increase in import duty on Lead Ingots from 5% to 7.5%
- Increasing Customs Duty on Stainless Steel Products from 7.5% to 10%
- Reduction in import duty on manganese & chrome ore from 2.5% to NIL
- Bringing Customs Duty on Coking Coal to NIL
- Import duty on steel grade limestone and dolomite to be reduced from 2.5% to NIL
- Reduction in Customs Duty on Ferro Nickel, Pure Nickel and Ferro Moly
- Excise Duty on Unorganized Sector of Stainless Steel
- Inclusion of Aluminium Ingots under Interest Subvention Scheme

### **B. Budget Announcements**

- CVD and SAD are being fully exempted on coils (steel)
- SAD on Metal scrap of iron & steel, copper, brass and aluminum has been reduced from 4% to 2%
- Tariff rate on iron & steel and articles of iron or steel, falling under Chapters 72 and 73 of the Customs Tariff, has been increased from 10% to 15%. However, there is no change in the existing effective rates of basic customs duty on these goods
- Excise duty on steel coils used in the manufacture of pacemakers has been reduced to NIL
- Basic Customs Duty on Metallurgical Coke has been increased from 2.5% to 5%

### **C. Implications of Announcements**

- Exemption of SAD on coils (steel) would bring a marginal relief to the steel industry.
- Reduction of SAD on Metal scrap of iron & steel, copper, brass and aluminium would further assist steel production through scrap route, which is gaining importance in the country.
- There has been an increase in the tariff rate on iron & steel products from 10% to 15%. This is mentioned in the budget document although there was no announcement on the basic customs duty (BCD) in the budget per se. So, there is a need for the Government now to avail this window and increase the BCD to 15% on iron & steel imported into India. This would provide the much needed boost to the domestic steel industry and would also support the Make In India campaign of the government
- Increase in BCD of metallurgical coke will put additional pressures on the Indian steel industry

**D. Unmet Demands**

- Exemption from the levy of import duty on Copper Concentrate
- Increase in Customs Duty on Copper products from 5% to 10%
- Imposition of Export Duty @ 5% on Alumina
- Increase in Basic Customs Duty on Aluminium Products from 5% to 10%
- Reinstatement of concession for short lead in charging freight for traffic booked up to 90kms
- Bringing Customs duty on Aluminium Scrap at par with the duty on the metal products
- Increase in import duty on Lead Ingots from 5% to 7.5%
- Increasing Customs Duty on Stainless Steel Products from 7.5% to 10%
- Reduction in import duty on manganese & chrome ore from 2.5% to NIL
- Bringing Customs Duty on Coking Coal to NIL
- Import duty on steel grade limestone and dolomite to be reduced from 2.5% to NIL
- Reduction in Customs Duty on Ferro Nickel, Pure Nickel and Ferro Moly
- Excise Duty on Unorganized Sector of Stainless Steel
- Inclusion of Aluminium Ingots under Interest Subvention Scheme

## Media and Entertainment

### A. FICCI's Wish List

- Deduction of tax at source under Section 194H on the "15% agency commission" which is not recognized as revenue or expense neither by the broadcaster nor the advertisement agency.
- Reduce withholding tax of 25% on royalty/ fees for technical services (FTS) payable to non-residents.
- The tax benefits under Section 72A of the Income-tax Act, 1961 in respect of amalgamation or demerger (Carry forward and set off of accumulated loss and unabsorbed depreciation allowances) currently limited to industrial undertakings or a ship, hotel, aircraft or banking should be widened to include service industry, broadcasters and content production companies.
- Rationalize the tax regime for the entertainment sector subsuming the Entertainment Taxes applied by State Governments under one comprehensive GST levy, as originally proposed.
- For Radio Broadcasting Services, provide tax holiday on new capital investment, reduce customs duty on capital equipment to 4% and service tax exemption for billings to service recipients covered in the negative list.
- Withdrawal of service tax on services of performing artists in films.
- Provide exemption from service tax on Digital Cinema services.
- Reduce withholding tax on Royalty and fee for technical services for transactions which do not originate from treaty nations to bring it at par with the transactions with entities in nations having treaties.
- Make service tax export benefits available to post production services at par with the Place of Provision Rules for services provided in respect of goods which are temporarily imported in India for repairs etc.
- Reversal of Cenvat credit under Rule 6(3) for any film content distributor be applicable only on common input services used for providing both taxable and exempted service.
- Reversal of CENVAT Credit for non-realisation of export proceeds should be limited to 6% of the export value not so received and a 6% reversal of such unrealized monies should suffice compliance.
- Extension of benefit under section 80-IB be extended to multiplexes set-up after March 2005.
- Reduction of prescribed time limit under Rule 9A and 9B from the existing limit of 90 days to grant relief to assesses whose feature films have incurred losses and have been released for exhibition in the last quarter of the financial year.
- Requirement of filing Form 52A before release of the movie be limited to cover only cash payments above a certain threshold limit (similar to provisions under Section 40A(3) of the Act). All payments made through proper banking channels be excluded from the purview of this Section to reduce the compliance requirements to be adhered by the producers of cinematographic films.
- For Animation, Gaming & VFX Industry
  - 10 Years Tax Holiday be granted
  - Service tax on studios developing original content be removed

- Removal of withholding tax on revenues accruing from sales of mobile games in non-India markets as well as on the development contracts given to mobile game developers outside India.
- Allow 50% reimbursable MDA (Market Development Assistance) for travel and registration fees to international market events.
- Excise Duty on local manufacture should be brought down to nil (similar to film and music industry).
- Reduced tax rates/incentives for exploitation of self-developed content in overseas markets.
- Withdraw Minimum Alternate Tax for units undertaking Animation work in SEZ.

## **B. Budget Announcements and Implications**

- FICCI welcomes the announcement of reduction of tax on Royalty and Fee for Technical Services (FTS) from the existing 25% to 10% in the Union Budget 2015-16. FICCI has been lobbying hard for this reduction for the last two years when it was introduced through the Finance Bill of 2013.
- Reduction of this tax from 25% to 10% will reduce cost to Indian business/ consumer and would benefit Broadcasting, DTH & HITS, and film sectors that pay royalty on technology services like satellite services and contents from abroad. Companies distributing foreign films in India and Indian films outside India will be benefitted with this reduction in tax rate. This would also benefit DTH & HITS companies in India who use commercial satellite communication services primarily for television and radio broadcasting, mobile telephony, landline telephony, Internet services, IT services & business process services.
- Setting up of Film and animation institute in Arunachal Pradesh will boost the talent available in the rich cultural heritage of the north eastern states of India and ultimately contribute positively to the ecosystem of content production and creation of intellectual property.



**MSME****A. FICCI's Wish List**

- **Rejuvenate the MSME definition:** either by increasing the current limits or explore other viable options of defining MSMEs like turnover or employment or in combination.
- **Implementation of Procurement Targets for MSME sector.** Public sector enterprises should buy 20% of their procurement from MSMEs, even at the state level.
- **Funding for Infrastructure: Budgetary allocations** can be made for development of industrial estate for MSMEs.
- **Investments in Green Technology: To promote more investments** in Green Technology by MSMEs, schemes like Technology Up-gradation Fund (TUF) / Credit Linked Capital Subsidy Scheme (CLCSS) may be introduced for renewable energy, energy efficiency, waste management, and other clean technology areas.
- **Rehabilitation of sick units:** Financial allocation can be made for revival of sick MSME units based on strict criteria and further infusion of capital by promoters. Central funds can be allocated for interest waivers etc from nationalized banks.
- **Addressing the issue of Delayed Payment.** An agency could be set up or facilitation councils could be used which will specifically work towards resolving the issue of delayed payment.
- **Interest Subvention to increase** credit flow to MSMEs. Funds generated from the MSME sector itself can be used to create interest subvention.
- **Tax free Bond:** Allow either the Small Industries Development Bank of India (SIDBI) or the National Small Industries Corporation (NSIC) to float tax free bonds to help raise money at a lower cost than lending rates charged by commercial banks.
- **Tax Holidays for MSMEs: MSMEs** should be given 3 years Tax Holiday with a stipulation that this money should be used (the tax amount that works out for the unit) for investment in the plant & machinery or new land for the purpose of the expansion of the current line of business.
- **Priority Sector Lending:** A separate sublimit in the priority sector lending norms should be introduced for MSEs as well as there is a sublimit for 18% target for agriculture in the existing PSL norms.
- **Mandatory Entrepreneur Memorandum (EM) Registration for all categories of MSMEs.**

**B. Budget Announcements**

- Micro Units Development Refinance Agency (MUDRA) Bank, with a corpus of Rs. 20,000 crore, and credit guarantee corpus of Rs. 3,000 crore to be created. In lending, priority will be given to SC/ST enterprises. MUDRA Bank will be responsible for refinancing all Micro-finance Institutions which are in the business of lending to such small entities of business through a Pradhan Mantri Mudra Yojana.
- A Trade Receivables discounting System (TReDS) which will be an electronic platform for facilitating financing of trade receivables of MSMEs to be established.
- NBFCs registered with RBI and having asset size of Rs. 500 crore and above may be considered for notifications as 'Financial Institution' in terms of the SARFAESI Act, 2002.

- (SETU) Self-Employment and Talent Utilization to be established as Techno-financial, incubation and facilitation programme to support all aspects of start-up business. Rs. 1000 crore to be set aside as initial amount in NITI.
- Proposal to reduce corporate tax from 30% to 25% over the next four years, starting from next financial year.
- Excise duty on footwear with leather uppers and having retail price of more than Rs. 1000 per pair reduced to 6%.
- Online central excise and service tax registration to be done in two working days.
- Rate of Income-tax on royalty and fees for technical services reduced from 25% to 10% to facilitate technology inflow.
- Basic Custom duty on certain inputs, raw materials, intermediates and components in 22 items, reduced to minimise the impact of duty inversion.
- SAD reduced on import of certain inputs and raw materials.
- Increase in the present rate of service tax plus education cess from 12.36% to a consolidated rate of 14%.

## C. Implications of Announcements

- FICCI-CMSME welcomes the announcement of MUDRA bank with a corpus of Rs. 20,000 crores, and credit guarantee corpus of Rs. 3,000 crores that would cater to the Micro Enterprises.
- Also the announcement of Rs. 1000 crore for establishment of (SETU) Self-Employment and Talent Utilization to support all aspects of start-up business; proposal to reduce corporate tax from 30% to 25% over the next four years; online central excise and service tax registration to be done in two working days; rate of Income-tax on royalty and fees for technical services reduced from 25% to 10% to facilitate technology inflow; etc are welcome move from the Government for easing some of the concerns of MSMEs.
- Trade Receivables discounting System (TReDS) will be an electronic platform for facilitating financing of trade receivables of MSMEs. We need to see over the time its effective implementation for easing the working capital for MSMEs as the other measures that are in place to help the MSMEs like in the MSMED Act 2006, the delayed payment clause etc. have not been to resolve the issue of delayed payment.
- The proposed increase in the present rate of service tax plus education cess from 12.36% to a consolidated rate of 14% would adversely affect MSMEs financially.
- The announcement of NBFCs registered with RBI and having asset size of Rs. 500 crore and above may be considered for notifications as 'Financial Institution' in terms of the SARFAESI Act, 2002 is a positive step from recovery & NPA point of view but would not bring down the interest rates.

## D. Unmet Demands

- **FICCI-CMSME was hopeful that this budget will bring relief in service tax for MSMEs like:**
  - Increase in threshold limit for levy of service tax: The value limit of Rupees Ten Lakhs for exemption to be increased to Rupees Twenty Lakhs.

- Micro & Small Sectors should be exempted from the purview of Service Tax for rental for their office / factory / warehouse premises for their own use
- A special relaxation for payment of service tax for MSMEs may be provided so that they do not have to pay taxes in advance from their resources but the payment is affected on realization of their dues from the buyers
- **Priority Sector Lending:** The government has proposed to define a 7.5% sublimit under the priority sector for only Micro Units only. A separate sublimit in the priority sector lending norms should be introduced for Small Scale Enterprises as well.
- Scope of the provision of investment allowance for new plant and machinery announced in the last Budget needs to be provided to MSEs as well.

## ***Oil and Gas***

### **A. FICCI's Wish List**

- Refund of Service Tax on Services Consumed in Exploration & Production (E&P) of Oil and Gas
- Clarity on the mechanism of calculating service tax on cash calls
- Customs duty exemption for capital goods for hydrocarbon infrastructure projects
- Oil & Gas sector be given the status of Deemed Exporter
- Tax Holiday for Exploration and Production activities relating to Natural Gas including CBM
- Extension of benefit under section 80-IB(9) from 7 years to 10 years
- Section 80-IA be amended to include exploration and refining activities
- Deduction of expenditure covered under section 42
- Extension of period under Section 80 IB (9) for refining projects
- Clarification on depreciation on premium paid to acquire E&P assets abroad
- Allow set off loss under section 35AD against profits of any other business
- Exemption from MAT

### **B. Budget Announcements**

- Conversion of existing excise duty on petrol and diesel to the extent of Rs. 4 per litre into Road Cess to fund investment.
- Rate of Income-tax on royalty and fees for technical services reduced from 25% to 10% to facilitate technology inflow.

### **C. Implications of Announcements**

- The Union Budget did not highlight any specific policy & tax related announcements for the oil and gas sector.
- Reduction in Income Tax rate on fee for technical services and royalty will reduce some overall cost for oil and gas companies

### **D. Unmet Demands**

- Same as the wish list above.

**Power****A. FICCI's Wish List**

- Tax Holiday for Power sector under Section 80IA to be extended by 5 years
- Exemption from Dividend Distribution Tax for SPVs
- **Other Tax benefits** for Power sector:
  - Removal of MAT and DDT for SEZ Units
  - Removal of withholding tax on External Commercial Borrowings of Power companies.
  - Issuance of a clarification whether Electricity can be termed as goods or not for purposes of claiming Additional Depreciation. It is urged that the initial depreciation of 20% be allowed in full in the first year as an incentive for investments irrespective of the number of days of use.
- **Fiscal Incentives for Reduction in Capital Cost of Hydro-Power Projects**
  - Exemption of Excise Duty for Cement, Steel and Equipment (Hydro-mechanical and Electro-mechanical);
  - Exemption of Service Tax for Construction Activities;
  - This could result in an impact of reducing the tariffs by ~ 5%;

**B. Budget Announcements**

- Basic facility of 24x7 power; Electrification of the remaining 20,000 villages including off-grid Solar Power- by 2020
- PPP mode of infrastructure development to be revisited and revitalised
- 5 new Ultra Mega Power Projects (UMPPs), each of 4000 MW, to be set up in the Plug-and-Play mode
- Proposal to introduce a Regulatory Reform Bill that will bring about a cogency of approach across various sectors of infrastructure
- Balance of 50% of additional depreciation @ 20% for new plant and machinery installed and used for less than six months by a manufacturing unit or a unit engaged in generation and distribution of power is to be allowed immediately in the next year.
- Clean energy cess increased from Rs. 100 to Rs. 200 per metric tonne of coal, etc. to finance clean environment initiatives.

**C. Implications of Announcements**

- The Union Budget 2015-16 has focused more on institutional strengthening as far as the power sector is concerned. Measures such as revitalising the PPP mode and setting up of Regulatory Reform Bill are expected to bring in structural corrections in the sector.
- Similarly, the 24x7 power rendered as basic facility is more of a vision and a lot will depend on the action plan devised for the same as well as its implementation in a time-bound manner.
- The announcement of 5 new UMPPs is a welcome development. The capacity addition in the sector has been witnessing a slump with a fall in power demand owing to deteriorating financials of power discoms. If the risk sharing matrix could be balanced between the parties

through the proposed revisit of PPP frameworks, this round of UMPPs may see a revival of investor interest.

- The rise of clean energy cess on coal and increase in the coal freight announced in the Railway Budget could dampen the coal-based power generation.

## **D. Unmet Demands**

- There has not been any major announcement being made for the power sector in the budget except the setting up of UMPPs. Considering the importance given by the government towards providing 24x7 power to all, there was expectation of a roadmap or guidance for converging the same or leveraging upon the Make in India campaign; however this was entirely missing.

## ***Publishing***

### **A. FICCI's Wish List**

- Clarification on definition of software royalty.
- Exclude the payment for the use/access to online databases, reports, journals etc. and any other payments made by the payer from the purview of royalty. Taxation of foreign companies/publishers for providing access to such online database or in the form of CD as royalty and subsequent passing on of the tax cost to Indian industry would entail a significant tax outgo for India Inc. and will especially impact the education system in India.
- Ambiguity as to whether subscription charges paid for download of e-content, access to online database, reports, journals etc. can fall within the purview of "Royalty". It has been held by various Courts that the information that is available in public domain is collated and presented in a proper form by applying the taxpayer's methodology and the payment for the same is not to be construed as royalty. It is in line with the international standards and supported by the OECD commentary, which provides that data retrieval or delivery of exclusive or other high value data cannot be characterized as royalty.

### **B. Budget Announcements and Implications**

No budget announcement pertaining to the publishing sector.

### **C. Unmet Demands**

- Same as the wish list above.

## Renewable Energy

### A. FICCI's Wish List

- Cost of financing must be lowered and renewable energy sector needs to be accorded priority status by the bankers for smooth flow of project and investments.
- Renewable Energy should be made an independent sector (separate from Power Sector) as clubbing it under power sector limits the flow of finance to renewable energy projects.
- Renewable energy projects should be considered under infrastructure projects to allow tapping of long term, low cost debt from insurance, pension funds.
- Creation of green energy corridor and other transmission infrastructure to evacuate power from renewable energy projects.
- There must be a provision to support interstate concessional open access and banking for wind energy as the same is becoming difficult due to lack of suitable compensation mechanism.
- There is a need to rationalize taxes and duties on the solar thermal and solar photovoltaic value chain and to bring down cost of solar power.
  - The solar products manufactured in India still have more than 30% dutiable components that go into production though partially some of those concerns were addressed in the previous budget. The locally made products in the domestic Solar PV sector are not able to compete with the imported products of similar specifications that do not have any duty/levies if imported into India.
  - States have imposed Central Sales Tax, VAT to the tune of 5% against sales of Solar PV cells/Solar PV modules, SPV, Solar Collectors, Solar Water Heating Systems and various other systems running and operating on Solar Energy. While this is not applicable for imports, it makes the domestically manufactured products further uncompetitive.

### B. Budget Announcements

- Revised Renewable energy targets by MNRE: 175 GW by 2022: 100K MW in solar; 60K MW in wind; 10K MW in biomass and 5K MW in small hydro.
- Each house in the country should have basic facilities of 24-hour power supply, clean drinking water, a toilet, and be connected to a road. Electrification, by 2020, of the remaining 20,000 villages in the country, including by off-grid solar power generation.
- Proposed Initial outlay of Rs 75 crore for Faster Adoption and Manufacturing of Electric Vehicle (FAME) scheme in 2015-16 for electric cars production.
- The effective rate of Clean Energy Cess is being increased from Rs 100 per tonne to Rs 200 per tonne of coal.
- Concessional customs and excise duty rates on specified parts of Electrically Operated Vehicles and Hybrid Vehicles, presently available upto 31.03.2015, is being extended upto 31.03.2016.
- No Customs duty on components like Evacuated Tubes with three layers of solar selective coating for use in the manufacture of solar water heater system
- Active Energy Controller (AEC) for use in the manufacture of Renewable Power System (RPS) Inverters to 5%, subject to certification by MNRE.



- Excise duty restructured on solar water heater from 12% to Nil without CENVAT credit or 12.5% with CENVAT credit.
- Round copper wire and tin alloys for use in the manufacture of Solar PV ribbon for manufacture of solar PV cells to Nil subject to certification by DeitY.
- Pig iron SG grade and Ferro-silicon-magnesium for use in the manufacture of cast components of wind operated electricity generators to Nil, subject to certification by MNRE.
- Inputs for use in the manufacture of LED drivers and MCPCB for LED lights, fixtures and LED lamps from 12% to 6%.

### C. Implications of Announcements

- The cost of conventional power generation will increase with the increased coal cess. In this case, renewable energy may achieve grid parity a bit sooner than expected. This is a welcome move for the sector as it is expected to boost clean energy projects in the country. However so far, utilisation of National Clean Energy Fund for renewable energy projects is a key concern. Doubling the coal cess (from Rs 100/ Tonne to Rs 200/Tonne) as announced in this budget may provide up to Rs 10000 crore annually, however, that corpus is not entirely utilised for deployment of renewable energy technologies and associated R&D as envisaged in its guideline. There should be clear accountability linked to the Fund's utilization to ensure its utilization for clean energy projects. A separate window should be created under the Fund to provide a payment security mechanism to project developers against payment defaults or delayed payments from utilities.
- The Government also proposes to set up 5 new Ultra Mega Power Projects, each of 4000 MWs in the plug-and-play mode for which all statutory clearances and linkages will be in place before the project is awarded by a transparent auction system. Setting up such a system for easing up the process of availing clearances (including environmental) is a welcome move.
- Reduction in excise duty on cast components for wind energy generators, solar PV ribbon and solar water heater would promote manufacturing of these products in India. Further reduction in customs duty for active energy controller for inverters and evacuated tubes for solar water heater system will reduce their cost and promote uptake and domestic manufacturing.
- Provision of Rs 75 Cr for faster adoption and manufacturing of electric vehicle has given a boost to this sector.
- Regarding energy access, Government is also focusing on off- grid segment (particularly through solar) to provide energy to 20K electrified villages by 2020, which is a positive move for the sector.

## **D. Unmet Demands**

- Lowering the cost of financing and addressing pertinent issues in manufacturing, transmission infrastructure, power off- take, etc. is critical to realise the modified renewable energy targets. The budget does not have required focus on these aspects though these are absolutely critical to attract investment in the sector.
- Unlike rail and roads, tax-free bonds have not been specifically proposed for renewable energy. Therefore, any funds to the sector from tax-free debt will now have to come out of the general pool of infrastructure bonds.

**Retail****A. FICCI's Wish list***Indirect Taxes*

- Appropriate abatement to be provided from the taxable portion subject to Service tax on the activity of 'renting of immovable property' to account for:
  - The lack of availability of tax credit(s) to the retailer who reimburses/bears the Service tax levied on the activity of 'renting of immovable property'; and
  - The rental value realized which corresponds to and is attributable to the 'value of land and buildings'
- Specific clarification to be provided that reimbursements of electricity charges made by the member retailers to their landlords/lessors will not attract Service tax. Alternatively, exemption may be granted from the applicability of Service tax on electricity charges recovered by the landlords/lessors from the member retailers.
- GST: All the taxes levied by the Centre and the States on goods and services must be subsumed in the proposed GST including stamp duty, purchase tax, APMC fees, royalties, property tax, tax on motor vehicles, tax on goods and passengers, duty on electricity, entry tax, octroi, etc.

*Direct Taxes*

- In order to enable mergers and amalgamations in loss making retail companies, so that the amalgamated entity is able to carry forward the predecessor losses, section 72A of the Income Tax Act 1961, should be extended to retail companies, as currently there is an ambiguity prevailing as to whether retail companies come under the definition of industrial undertaking or not, which is one of the mandatory conditions for carrying forward of losses under section 72A for any M&A.
- 200% weighted deduction which is permissible for in-house approved R&D under section 35 (2AB) for manufacturing organization be extended to retail companies as well.
- Investment linked incentives provided to the specified businesses under section 35AD of the Act should be extended to the retail sector as well.

*Others*

- Industry Status for Retail Sector

**B. Budget Announcements**

- Services of pre-conditioning, pre-cooling, ripening, waxing, retail packing, labelling of fruits and vegetables are being exempted from service tax
- Excise duty on leather footwear (footwear with uppers made of leather of heading 4107 or 4112 to 4114) of Retail Sale Price of more than 1000 per pair reduced from 12% to 6%.
- Proposed to introduce soon several measures that will incentivise credit or debit card transactions, and dis-incentivise cash transactions.

## **C. Implications of Announcements**

- Increase in service tax would increase the burden on rents and other facility charges for retailers. However exemption on services of pre-conditioning, pre-cooling, ripening, waxing, retail packing,
- Customers to benefit with lower prices for footwear and other leather products and retailers margins to increase
- Indications towards encouraging IT sector and first generation entrepreneurship would certainly pave way for E commerce in the country
- Focus on cash less economy will boost Modern Retail.

## **D. Unmet Demands**

- No change in removal of service tax on immovable property
- No announcement on industry status for retail

## ***Skill Development***

### **A. FICCI's Wish list**

- Budget to provide substantial fiscal and non-fiscal support to skill development to help create jobs. Budgetary support needs to be provided for four kinds of activities in skill development. Particularly for the segment that does not have the ability to pay for skills training, grant-based schemes have to be introduced and continued. Second, for advancement and popularisation of different elements of skills training such as advocacy, certification and assessments. Third, for initial support to create sustainable models of skill development and fourth, to create a first loss default guarantee fund for providing skill loan to trainees.
- To create empowerment, instead of pure grants, a voucher-based model of skill development may be used. The skill voucher programme aims to enhance the access of marginalised youth to quality training institutes and meaningful employment by providing them with financial instruments thereby offering an end-to-end solution to the issue of employability.
- Given the large pool of entrepreneurs created in the skills domain through mechanism of soft loans and to further encourage the activity, Rs 1,500 crore should be allocated to the National Skill Development Fund.
- Rationalization of various skills schemes and their cost norms.

### **B. Budget Announcements and Implications**

- FM has announced launch of National Skills Mission through the Skill Development and Entrepreneurship Ministry. The Mission will consolidate skill initiatives spread across several Ministries. It will allow the Government to standardize procedures and outcomes across 31 Sector Skill Councils. This rationalization and standardization exercise is a very positive step towards achieving convergence. During interim budget last year, FM had announced Skills India programme. Information on Skills India was awaited by the industry, perhaps the announcement of National Skills Mission is more refined version of the skill initiative. Finer details awaited
- No dedicated allocation announced for National Skills Mission, perhaps the funds from existing schemes spread across 20+ ministers will be pooled in under National Skills Mission. Finer information is awaited
- Standardization of procedures and outcomes across Sector Skill Councils under the National Skills Mission will help in coordination of all stakeholders for evolving an appropriate skills development framework, removal of disconnect between demand and supply of skilled manpower, skills upgradation, building new skills, innovative thinking and talents not only for the existing jobs but also the jobs that are to be created.

- A sum of Rs. 1500 crore has been allocated for Deen Dayal Upadhyay Grameen Kaushal Yojana which aims to enhance the employability of Rural Youth which is the key to unlocking India's demographic dividend.
- The Make in India program goes hand in hand with Skill Development agenda of the country. For success of Schemes like Make in India, Digital India, Smart Cities, Clean Ganga and Swachh Bharat, National Skills Mission needs to be aligned.

## ***Sports and Youth Affairs***

### **A. FICCI's Wish List**

- **Budget Allocation**

Increased and separate Budget Allocation for Sports and associated activities for:-

- Development of infrastructure and training in preparation for Olympic Games.
- Development of Sports at grassroots level including establishment of Sports Schools at identified places across India.
- Development of Winter Sports.
- Skills development in Sports, Fitness and Physical Education.

- **Tax Reliefs**

- Rebate or deduction needed under the Income Tax Act on the lines of Section 80IA for entities investing in construction, management and creation of tangible sports assets, playgrounds and the manufacturing of sports, health & fitness equipment & apparel, and intangible assets such as training and capacity building, event management, sports and physical education.
- Expansion of scope of exemption to Sports Goods, Prizes, Medals and Trophies etc. in terms of notification No. 146/94 – Customs dated 13.7.1994 to include the following items:-
  - a. Baseball Bats, Balls and Gloves
  - b. Netball Balls
  - c. Automatic Ball Throwing Machines for Tennis and Football
  - d. Simulation Machines and Equipment (Excluding Video Games) for Football, Tennis and Cricket

- **Concessional Financing**

- Special financing rates needed on par with rates for loans to agriculture sector/exports. It would help generate Public Private Partnership model for the development of Sports Infrastructure across the country especially in rural areas.
- Such financing could be made available for long periods (e.g 20-25 years) as sports infrastructure have longer gestation periods and hence ability to service debt would be that much lower for shorter tenure loans.

- **Regulating Sports Betting and Lotteries in India**

- Blanket ban on sports betting is difficult to control without a proper regulation. Also, India is losing huge taxable revenue (estimated at Rs. 12,000 – Rs. 20,000 crore annually) through black marketing operations in sports betting.
- The greatest advantage of regulating sports betting will be accountability for large amounts of money transferred through illegal channels and reduction in cases of match fixing, money laundering and crimes.
- If gaming and betting is regulated in India, it will benefit exchequer and could potentially fund sports development, social protection or welfare schemes and infrastructure development plans.

- **Sports Broadcasting**

World over, primary monetary source of sports is broadcast revenue. Government could incentivise broadcasters to have sports channel in their offerings with subsidised licensing fee and

providing hassle free licenses and permissions if it is for the promotion of Olympic Games, CWG, Asian Games and National Games.

## **B. Budget Announcements and Implications**

- There has been no announcement for the sports sector in the Union Budget 2015-16 except inclusion of Yoga under charitable activities, which can attract benefits of CSR funding.
- Last year Sports budget was announced as Rs. 1521 crores which was later on revised to Rs. 1011 crores. This year govt. has allocated Rs. 1399 crores to Ministry of youth Affairs and Sports which is much lesser than the requirement to give thrust to the sports.

## **C. Unmet Demands**

- Same as the wish list above.



## Telecom and Information Technology

### A. FICCI's Wish List

- Enable businesses to drive “Digital India” and “Make in India” by taking measures to encourage innovation, especially in SMEs, and adoption of technology
- Encourage further investments in developing robust network infrastructure across India to build the foundation of Digital India.
- Rationalization of taxes in the telecom sector to help the sector improve its financial health and enable faster proliferation of 3G and 4G services in India
- Expedite introduction of Goods and Service Tax (GST)
- Incentivize Indian industries for adoption and implementation of ICT tools.
- The IT industry should be incentivized for investments in R&D in IT / software products through R&D deductions in taxes.
- Clarity on the Rs 10,000-crore startup initiative announced by the Centre in the interim Budget.
- Clarity on transfer pricing norms, in terms of the implementation of the whole system.
- Clarification on the definition of “royalty”
- Abolition of MAT on SEZ units
- Reduce rate of tax on royalty/fees for Technical Services (FTS) payable to non-residents from 25% to 10% and bring the tax rate in line with tax rates on Royalty/ FTS rates in most tax treaties.
- Mobile handset makers should be granted tax holidays and subsidies in the Budget to promote local manufacturing of handsets /smart devices

### B. Budget Announcements

- Strengthening of Digital India program - National Optical Fibre Network (NOFN) of 7.5 lakh kilometers to connect 2.5 lakh villages, is being further speeded up by allowing willing states to undertake its execution on reimbursement of cost determined by the Department of Telecommunications.
- GST will be implemented by April 2016
- “Atal Innovation Mission” for entrepreneurs and researchers announced, to foster a culture of innovation in India. RS. 150 cr has been allotted to this account.
- Rate of tax on royalty/fees for Technical Services (FTS) has been reduced to 10% from 25%.
- Government will look at making India a cashless society by incentivising card transactions.
- Self-Employment and Talent Utilization (SETU), to be established as a mechanism for techno-financial incubation and facilitation programme - Rs. 1,000 crore has been allocated for this.
- Central excise/Service tax assesses to be allowed to use digitally signed invoices and maintain record electronically.

**C. Implications of Announcements**

- Speeding up of National Optical Fibre Network (NOFN) by allowing willing states to undertake its execution on reimbursement of cost determined by the Department of Telecommunications, is a very encouraging step. Faster execution of NOFN will lead to increase in investments towards the Digital India programme, enabling faster realization of the key targets outlined in the programme.
- Announcing a timeframe for implementation of GST is a vital step in boosting ease of doing business in the country. Once implemented, the GST regime shall give a tremendous push to the efforts on creation of manufacturing and R&D ecosystem in India.
- “Atal Innovation Mission” for entrepreneurs and researchers, and allocation of RS. 150 cr to this account, will help foster a culture of innovation in India.
- Reduction of tax rate on royalty/fees for Technical Services (FTS), to 10% from 25% will reduce the tax burden on the India IT industry and increase profitability. The announcement brings the tax rate in line with tax rates on Royalty/ FTS rates in most tax treaties with some countries.
- Establishment of a mechanism for techno-financial incubation and facilitation programme, and allocation of RS. 1000 cr for this, will give a tremendous boost to the efforts in creation of a R&D and innovation ecosystem in India, by encouraging companies, especially the start-ups to put more efforts in R&D and innovation.
- Several announcements made in the Budget, including making India a cashless society by incentivizing card transactions, and allowing use of digitally signed invoices in Central Excise/Service Tax assesses and maintaining of record electronically, provides Indian IT industry with a huge opportunity to redefine itself in the domestic market as well as surges the growth prospect of other sectors.

**D. Unmet Demands**

- Clarification that payments for use of copyrighted software, made to non-residents, will not be covered under the definition of ‘royalty’.
- Abolition of MAT on SEZ units
- Tax holidays to promote local manufacturing of handsets

## ***Transport Infrastructure***

### **A. FICCI's Wish List**

- Amendment of Section 80-IA regarding upgrading existing infrastructure
- Abolish MAT on infrastructure companies
- Adopt 'Annuity Concession' Model for Highway Projects
- Independent regulator for Road & Highways
- Scope of Exemption of Shipping Activity from Service Tax
- Exemption for Services Provided to Ship Owners/Charters
- Market driven tariff regulation of major ports
- Fiscal support to coastal shipping and inland waterways
- Issuance of Tax Free Infrastructure Bonds. Deductibility in respect of subscription to long-term infrastructure bonds – Section 80CCF
- Support services of airport to be termed as infrastructure
- Exemption on services rendered to domestic airline operator
- Classify ATF as 'Declared Goods'
- Provide a 10 year tax holiday to aeronautical manufacturing and MRO sector

### **B. Budget Announcements**

- Investment in infrastructure increased by Rs 70,000 crore. Increase in outlays of roads and railways by Rs 24,000 crore (Rs 14,031 crore for roads and Rs 10,050 crore for railways)
- To prioritise the completion of 1 lakh km of roads currently under construction and building another 1 lakh km of roads
- Capital expenditure of public sector units is expected to be Rs 3,17,889 crore, an increase of approximately Rs. 80,844 crore over RE 2014-15
- National Investment and Infrastructure Fund (NIIF), to be established with an annual flow of Rs 20,000 crores to it
- Tax free infrastructure bonds for the projects in the rail and road sectors
- PPP model of Infrastructure to be revitalized and realigned
- Ports in public sector will be encouraged, to corporatize, and become companies under the Companies Act to attract investment and leverage the huge land resources
- Government proposes to bring in a 'Regulatory Reform Law' for that will bring about a cogency of approach across various sectors of infrastructure

### **C. Implications of Announcements**

- 'National Investment and Infrastructure Fund' will help in raising debt, and in turn it will be invested as equity, in infrastructure finance companies such as IRFC and NHB. The infrastructure finance companies can then leverage this extra equity, manifold.

- Increased allocation to infrastructure sector will be a growth booster, especially in the road sector where multiplier effects are visible quickly.
- Tax-free infra bonds will help in channelizing retail savings for infrastructure projects
- Corporatization of major ports will give them operational flexibility and freedom to fix their tariff rates. It will also lead to substantial autonomy in their functioning and free access to financial markets without recourse to government support.
- Regulatory Reform Law would improve the PPP environment in the country; and Public Contracts (Resolution of Disputes) Bill would help in streamlining the institutional arrangements for resolution of disputes relating to public contracts.

## **D. Unmet Demands**

- Amendment of Section 80-IA regarding upgrading existing infrastructure
- Abolish MAT on infrastructure companies
- Independent regulator for Road & Highways
- Scope of Exemption of Shipping Activity from Service Tax
- Exemption for Services Provided to Ship Owners/Charters
- Fiscal support to coastal shipping and inland waterways
- Support services of airport to be termed as infrastructure
- Exemption on services rendered to domestic airline operator
- Classify ATF as 'Declared Goods'
- Provide a 10 year tax holiday to aeronautical manufacturing and MRO sector

## ***Homeland Security***

### **A. FICCI's Wish List**

- It was recommended that the customs duty on certain security products like CCTV Camera System, Access Control and Biometric Readers, Fire Alarm etc. be reduced

### **B. Budget Announcements**

- The FM made an announcement to allocate Rs. 1000 crores to the Nirbhaya Fund.
- He also said, the requirements for expenditure on Defence, Internal Security and other necessary expenditures are adequately provided.

### **C. Implications of Announcements**

- Safety of women is an issue that needs adequate attention. Despite number of initiatives, the crime against women has been on the rise and the public transport remains insecure for women. Reiterating government's commitment to the safety and security of women, allocation for Nirbhaya fund in this year's budget provides the much needed fillip to the women safety and security. All States and Union Territories have to ensure public transport systems are safe for women. The buses, autos and taxis need to be fitted with intelligent transport systems (ITS) like cameras and tracking devices.
- As on date the funds remain unutilised. The Indian railways may be taking a lead on utilizing the funds. The Hon'ble Minister of Railways Shri Suresh Prabhakar Prabhu said that Indian Railways would utilise resources from the Nirbhaya Fund for augmenting security of women passengers.

### **D. Unmet demands and any further demands relating to the sector**

- It is recommended that the customs duty on CCTV Camera Systems, Access Control and Biometric Readers, Intrusion Detection System, Fire Alarm and Suppression Systems etc. be lowered. Their application (end use) is critical for risk reduction for common man as well as for national security.