

INDIA FISCAL BUDGET 2011

organiser

Industrie- und Handelskammer
Indo-German Chamber of Commerce

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presented by

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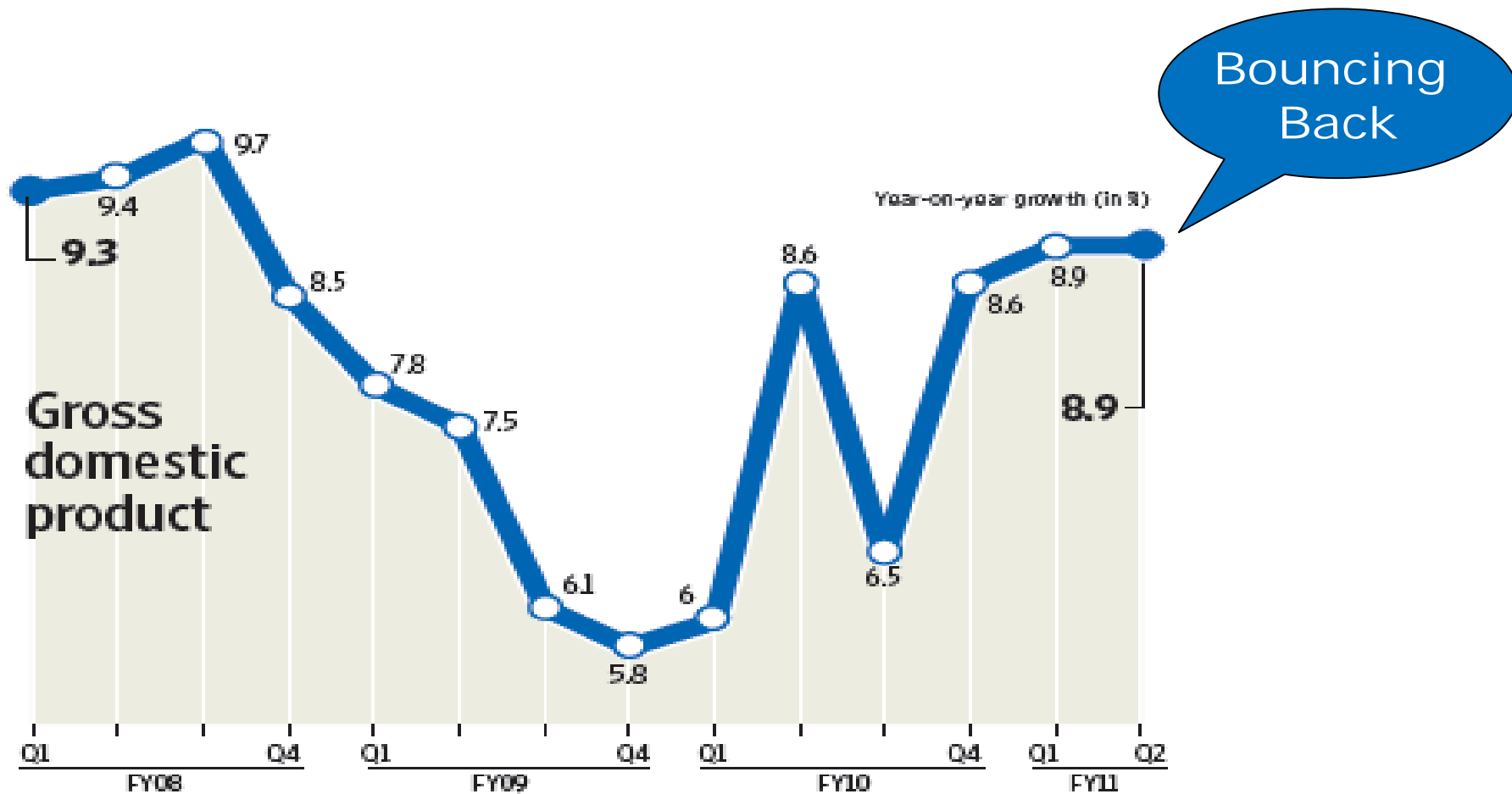
Corporate Catalyst India www.cci.in

PRESENTATION OUTLINE

- ❑ India Tour
- ❑ Revisiting Past Budgets
- ❑ India Fiscal Budget 2011 – *Key Take Away*
- ❑ Realigned Regulatory Environment
- ❑ Key Macro Trends

INDIA TOUR

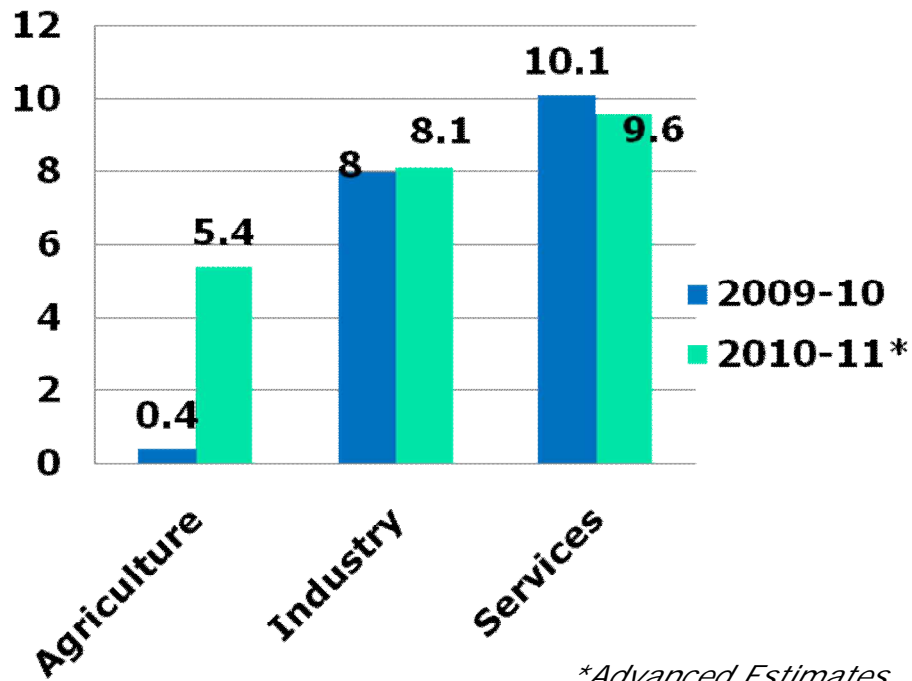
REGAINING ECONOMY...



**Advanced Estimates*

... BECAUSE OF ...

All Three Sectors Grew Well



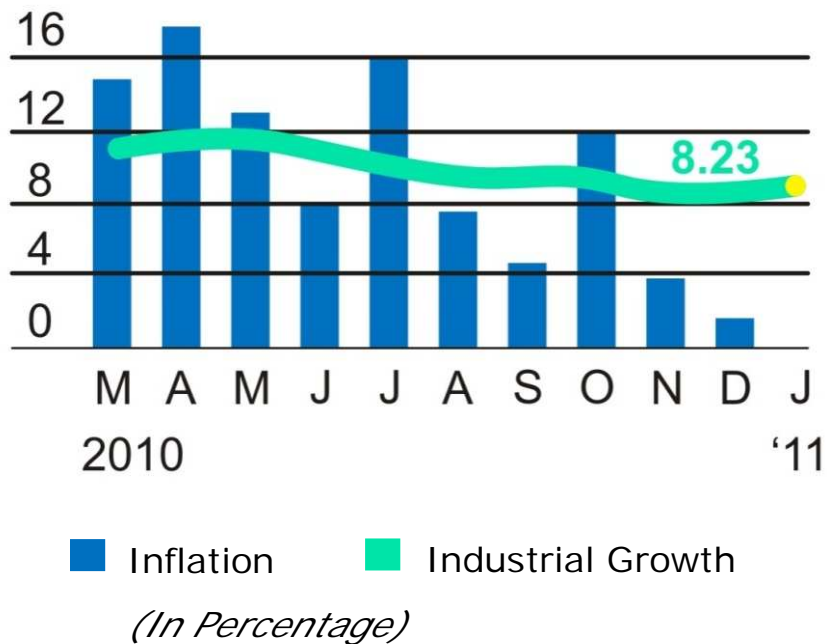
And Global Recovery Helped Too

Real GDP Growth (%)	2009	2010*
USA	-2.6	2.6
UK	-4.9	1.7
Germany	-4.7	3.3
China	9.0	10.4
Japan	-5.2	2.8
Brazil	-0.1	7.5

*IMF Estimates

... AND THE RISK IS

High Inflation and Slack in Industrial Growth



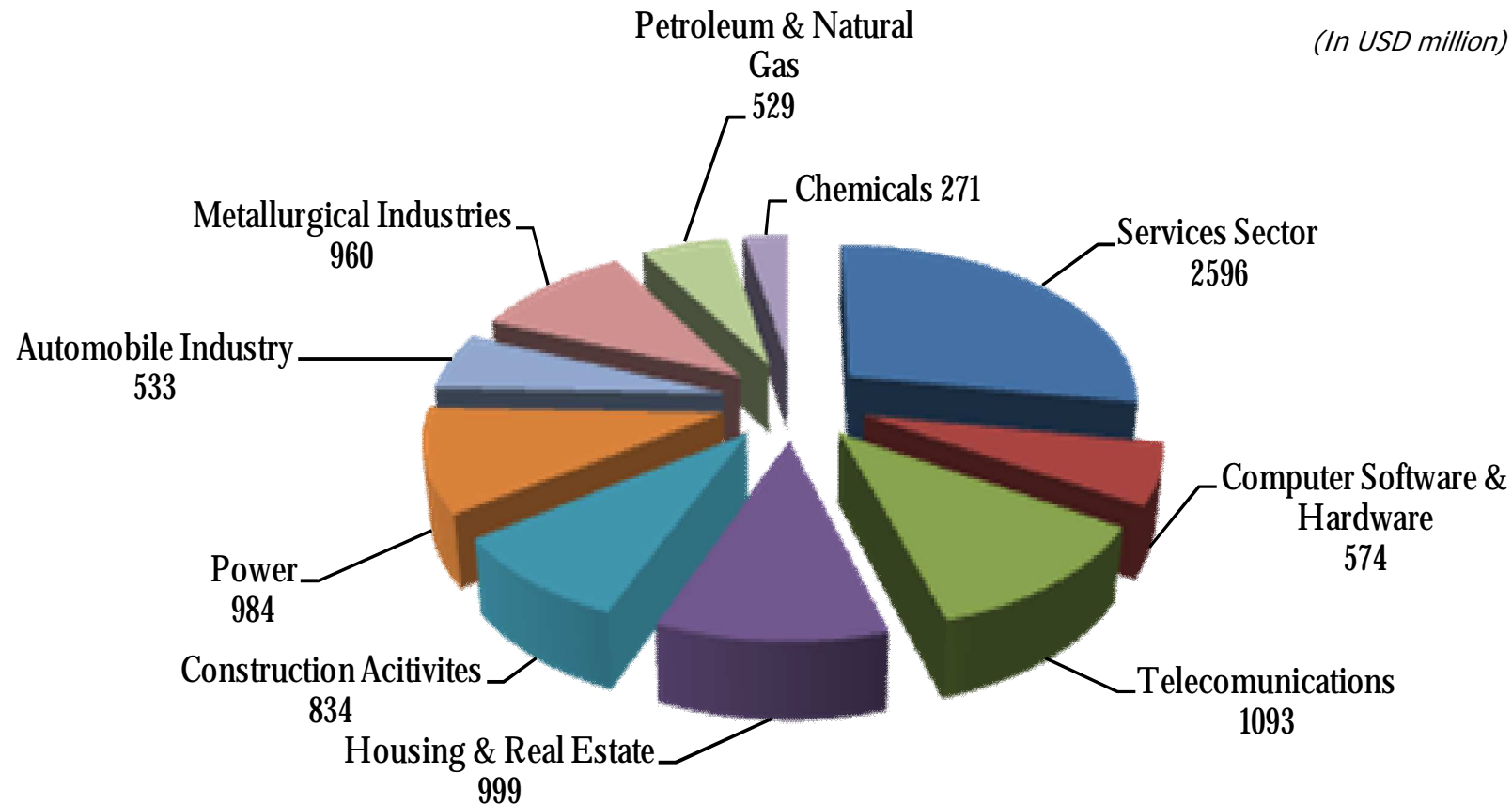
pose new challenges because:

- Interest rates will have to rise to curb inflation, which will further impact industrial growth
- Current account deficit may not fall as is expected in the Survey
- Quality and quantity of government expenditure is still a worry
- Critical policy reforms are still stuck in political logjam

FOREIGN DIRECT INVESTMENT – COUNTRY WISE

FDI INFLOWS (Top ten countries) <i>(in USD million)</i>					
Rank	Country	2009-2010	2010-11 (April' 10 to November' 10)	Cumulative Inflows (April' 00 to November' 10)	% of total Inflows
1	Mauritius	10376	5158	52398	42
2	Singapore	2379	1367	11557	9
3	USA	1943	926	9204	7
4	UK	657	385	6269	5
5	Netherlands	899	802	5289	4
6	Japan	1183	917	4631	4
7	Cyprus	1627	598	4498	4
8	Germany	626	104	2903	2
9	France	303	340	1870	2
10	UAE	629	278	1828	1

FOREIGN DIRECT INVESTMENT - SECTOR WISE



REVISITING PAST BUDGETS

YEARS 1991-1996

NEED OF THE HOUR – THINK OUT OF THE BOX

- ❑ Impetus on Foreign Direct Investment
- ❑ Industrial licensing abolished (but for certain industries)
- ❑ Government owned and other dominant companies subject to Monopolies & Restrictive Trade Practices Act
- ❑ Private players allowed to enter into infrastructure sectors
- ❑ Introduction of tax on services at 5 per cent
- ❑ Tax sops offered on inflow of foreign exchange. Import duties slashed to almost 1/6th and tax incentives offered on export of services

YEARS 1996-2006

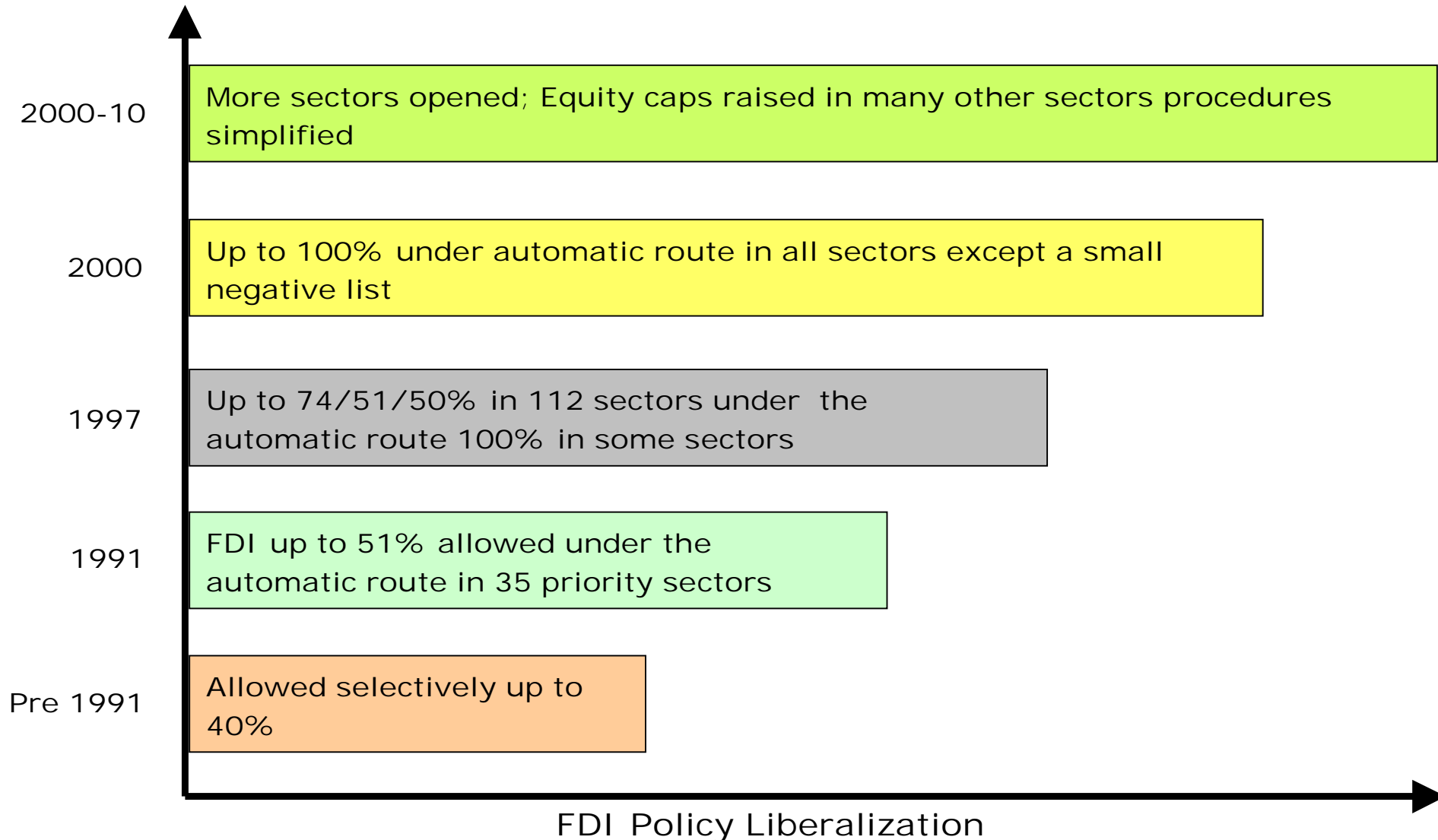
KEEP IT GROWING

- ❑ Foreign Direct Investment norms further liberalised
- ❑ Prime focus on growth of infrastructure. Major tax sops offered and compliance simplified
- ❑ Higher focus on service sector; scope widened and rate increased to 10 per cent
- ❑ Direct tax rates lowered and compliance simplified
- ❑ Special Economic Zone (*SEZ*) Act notified
- ❑ Tax incentives for export of goods withdrawn in a phased manner

AIMING FOR INCLUSIVE GROWTH

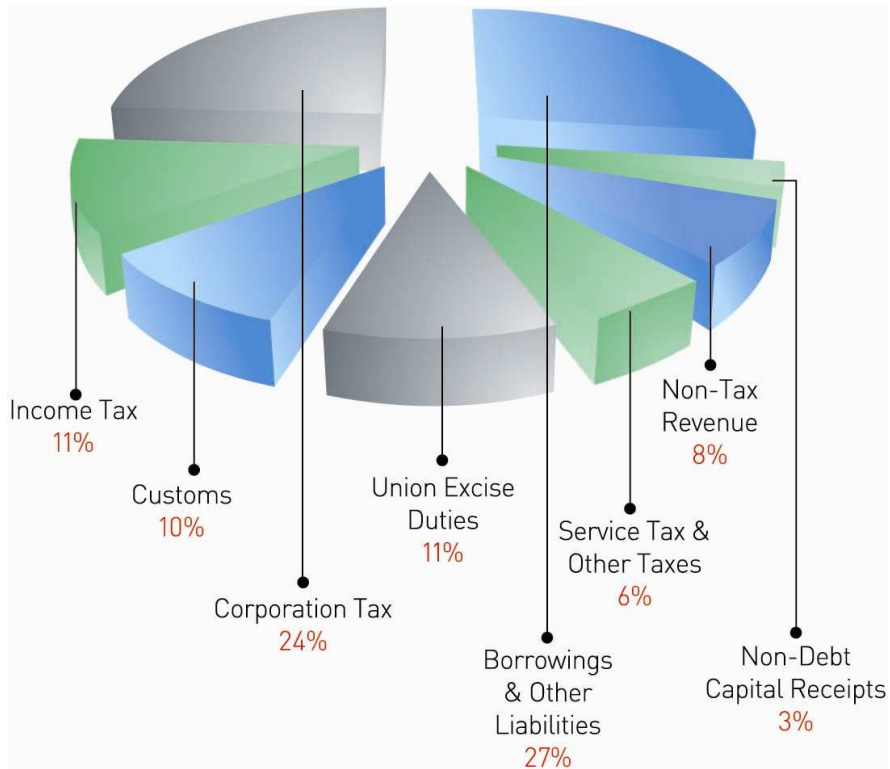
- ❑ Social focus becomes high priority
- ❑ Infrastructure becomes prime focus with guided government expenditure e.g. *Delhi Mumbai Industrial Corridor*
- ❑ Streamlining archives laws vis
 - ❑ Items reserved for Small Scale Industries (*abolished*)
 - ❑ Fringe Benefit Tax (*abolished*)
 - ❑ Goods and Services Tax (*concept laid*)
 - ❑ Direct Tax Code (*placed for public opinion*)
 - ❑ New Companies Bill (*set in motion*)
- ❑ **Look East Policy** set in motion through Free Trade Agreement ('FTA') with Korea, Thailand, etc
- ❑ Stronger Corporate Governance – E-governance project of the Ministry of Corporate Affairs

RE-VISITING PAST BUDGETS ~ FDI POLICY

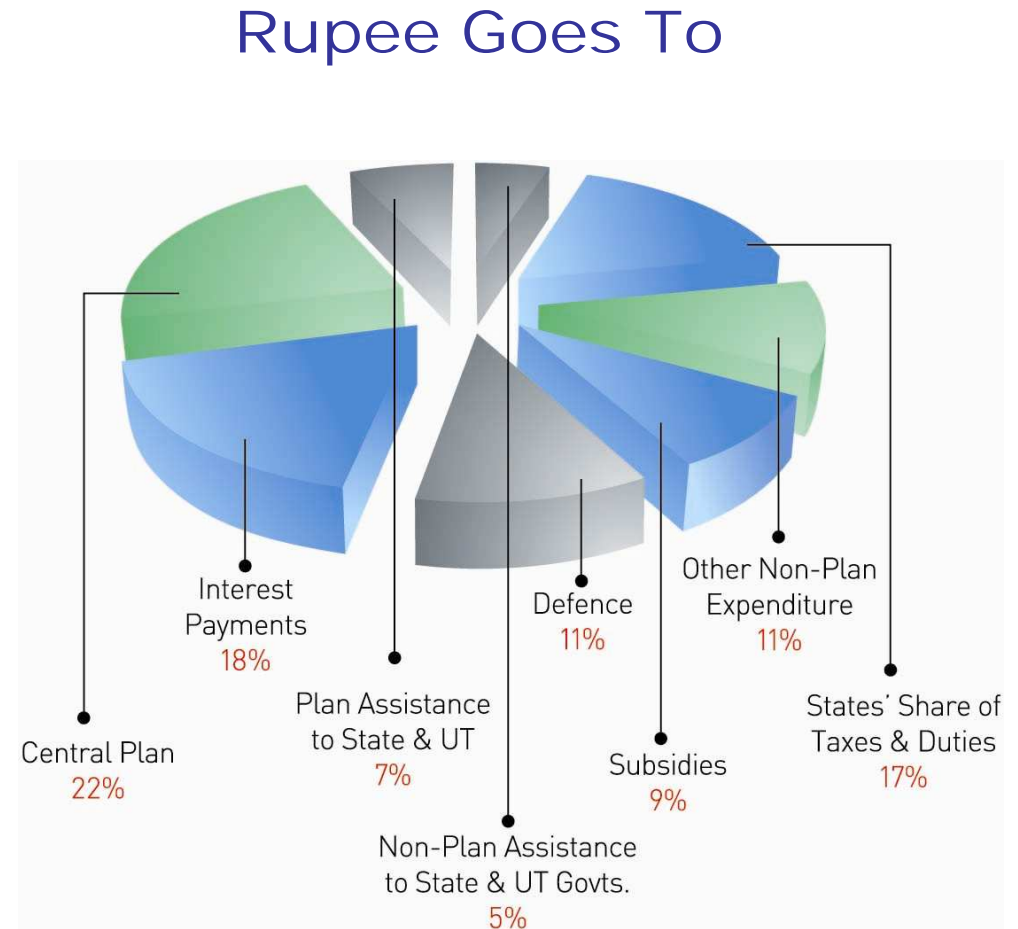


INDIA FISCAL BUDGET 2011 – *KEY TAKE AWAY*

AT A GLANCE



Rupee Comes From



DIRECT TAXES

- ❑ Surcharge on domestic and foreign companies reduced to 5 per cent and 2 per cent respectively
- ❑ Minimum Alternate Tax enhanced - 18 to 18.5 per cent
- ❑ Dividend from foreign subsidiary of an Indian corporate taxable at special rate of 15 per cent

INDIRECT TAXES

- ❑ Overall customs, excise duty and service tax rates unchanged
- ❑ Existing basic customs duty unified at 2.5 per cent
- ❑ Point of Taxation Rules on services from April 1, 2011

COMMERCE & TRADE FOCUS

- ❑ In focus – infrastructure and agriculture
- ❑ Mutual funds permitted to receive foreign investment
- ❑ Financial Sector Legislative Reforms Commission created

SOCIAL FOCUS

- ❑ Allocation for *Education for All Scheme* increased
- ❑ Allocation to *Rural Housing Fund* enhanced to USD 600 million
- ❑ Allocation for rural infrastructure enhanced
- ❑ *National Health Insurance Scheme* to cover unorganized sector

INFRASTRUCTURE SECTOR

- ❑ Core sectors such as telecommunication, civil aviation have witnessed significant growth
- ❑ Total power generation grew from 571.5 to 597.7 billion KWh during April-December 2010
- ❑ The Indian Railways registered a growth of 6.5 per cent
- ❑ The National Highways Authority of India has already awarded projects of 4600 Km in 2010-11 and plans to award remaining 2400 km by March end 2011

REALIGNED REGULATORY ENVIRONMENT

POLICY FRAMEWORK – IN THE HORIZON

- Direct Tax Code *(April 1, 2012)*
- New Companies Bill *(awaited)*
- Indirect Taxes - Goods & Services Tax *(April 1, 2012)*
- International Financial Reporting Standards *(April 1, 2011)*

DIRECT TAX CODE (*DTC*)

- ❑ Tax rates rationalized - corporate to pay a reduced tax of 30 per cent
- ❑ Tax on royalties enhanced - 20 per cent on gross payment
- ❑ Domestic companies to still pay a dividend distribution tax at 15 per cent. Similarly, foreign companies now to pay branch profit tax at 15 per cent on post tax profits
- ❑ Fresh tax exemptions to be 'investment linked' rather than 'profit linked'

DIRECT TAX CODE (*DTC*)

- ❑ Introduction of General Anti Avoidance Rule (*GAAR*) wherein commercial expediency of international transactions can be challenged by the authorities; primarily to check contentious issues viz. check round trip financing, lifting of corporate veil etc
- ❑ Provisions of DTC to have overriding effect over past tax treaties signed by India under specific circumstances

NEW COMPANIES BILL 2009

- ❑ Introduction of One Person Company (*OPC*)
- ❑ OPC can be formed for charitable purpose as well
- ❑ Companies can be struck off if business not commenced within one year of its incorporation
- ❑ One Resident Director mandatory for all companies
- ❑ A Whole-Time Director not to hold office in more than one company unless permitted by the company

INDIRECT TAXES

- Central Sales Tax / VAT & Service Tax – to be merged into a single Goods & Service Tax (*GST*) by April 1, 2012

INTERNATIONAL FINANCIAL REPORTING STANDARDS (*IFRS*)

- India to have two sets of Accounting Standards
 - Indian Accounting Standards (*IAS*)
 - IFRS Converged Indian Accounting Standards (*IFRS-AS*)
- IFRS-AS will become applicable to listed companies in phases beginning from April 1, 2011
- Paradigm shift in the basis of recording transactions
 - Impresses substance over form
 - Detailed disclosures required

KEY MACRO TRENDS

KEY MACRO TRENDS IN INDIA

- Growing Urbanization
 - 325 million urban population, growing to 500 million by 2025
 - Driving expansion in sectors like energy, education, cleantech
- Emphasis on Infrastructure creation
 - Big thrust in the 5 year plans of the central government
 - Driving demand for healthcare, energy, roads, ports, airports, etc
- Growing Consumerism
 - Driving growth in retail chains, apparels, restaurants, cars, etc

KEY MACRO TRENDS IN INDIA

- Corporatization of Services
 - “Unorganised” Mom and Pop business moving to “Organised” corporate chains
 - Driving expansion in education, security services, repairs / refurbishment
- Inclusive Financial Growth
 - “Priority sector lending” by the Reserve Bank of India driving provision of financial services
 - Banks providing expanded Consumer financial products (home loans, education loans)

KEY SECTORS

- ❑ Infrastructure
- ❑ Energy
- ❑ Retail
- ❑ Auto & Auto Components
- ❑ Education
- ❑ Pharmaceuticals / Healthcare

THANK YOU