



Pre-budget survey analysis report



Budget 2017: Increased reforms, increased expectations

On Wednesday, 1 February 2017, the Finance Minister, Mr. Arun Jaitley will present the Union Budget 2017-18 (Budget 2017-18). This year will not only witness the advancement of the Budget 2017-18 by one month, but also the consolidation of Railway Budget with Budget 2017-18.

India's Gross Domestic Product (GDP) growth picked up from 7.2% in the fiscal year 2014-15 to 7.6% in the fiscal year 2015-16¹. It would be interesting to see the final GDP growth for the fiscal year 2016-17 in light of demonetisation. All eyes are now set on Budget 2017-18 with heightened expectations from the citizens as well as India Inc.

Taxation is an instrument of social and economic engineering. The Finance Minister clearly spelled out certain areas around which his tax policies were centered in his previous two Budget presentations. These included measures to curb black money, minimum government and maximum governance, ease of doing business in India, measures to boost growth and employment generation, incentivising domestic value addition to help 'Make in India', reducing litigation and providing certainty in taxation etc.

KPMG in India through its survey, has tried to capture the expectations of individuals and India Inc. on various parameters such as policy reforms, India centre staging Base Erosion and Profit Sharing (BEPS) action plans, rationalisation of tax rates etc.

Approximately 750 senior professionals across sectors participated in the online survey held in January 2017.

Key pre-budget expectations have been listed below:

Policy reform expectations:

Given the current economic outlook, it will be interesting to see what constitutes top priority areas in the government's agenda to formulate the tax policies and alter/amend the existing ones for fiscal year 2017.

General Anti Avoidance Rules (GAAR) provisions were first introduced in Budget 2012. However, in absence of proper guidelines on the same, its implementation has been repeatedly postponed. While the government is eager to kick in GAAR provisions from 1 April 2017, the survey shows a clear divide in the opinion of survey respondents, half of whom expect the GAAR provisions to be further postponed.

Further, 60% of the respondents expect the deferment of Income Computation and Disclosure Standards (ICDS).

Being one of the first countries to introduce equalisation levy in response to BEPS action plan on dealing with digital economy, India has proved that in terms of adoption of the principles of BEPS they are leading at an accelerated pace. Nearly 37% of the respondents expect that India to be faster in adopting the principles under action plan of OECD on BEPS.

Government's focus has been on increased compliance, reduced litigation and increased transparency in the tax regime. Around 76% of respondents however, still believe that that government needs to take further actions in providing certainty around tax liabilities.

Impact of demonetisation:

Demonetisation has been one of the most, if not the most radical reform, Independent India has witnessed. It came with the multiple objectives of curbing black money, widening the tax net and counterfeit currency management. In wake of demonetisation, certain amendments were made under the Income-tax Act to ensure that defaulting tax payers are subjected to higher tax rate and more stringent penalty provisions.

Majority of the respondents have stated that demonetisation will not impact their business in the near term. Around 82% of the survey respondents feel that demonetisation will lead to increased income tax collections.

Corporate tax expectations:

The ICDS, initially notified on 31 March 2015, have resulted in a greater administrative burden on the business groups and complexity in maintaining multiple set of accounts, defeating the very purpose of ICDS. In this background, 60% of the respondents expect that government would defer the implementation of ICDS further.

Whereas a large majority of survey respondents (75%) are expecting implementation of next phase of reduction in corporate tax rates, a majority expects the Minimum Alternate Tax (MAT).

¹ FICCI Pre Budget Memorandum 2017-18

Securities Transaction Tax and Dividend Distribution Tax to remain unchanged.

The government introduced Place of Effective Management (POEM) in Budget 2015-16 and deferred them by a year in Budget 2016-17. There is still a level of uncertainty around its implementation. Around 40% of the respondents feel that the global business aspirations would be partly affected whereas 32% agree with the difficulties being faced by their global business.

International stage:

As high as 91% of the respondents feel that the recent amendments to India's bilateral tax treaties with Mauritius, Singapore and Cyprus have been fair. It is a welcome result considering government's agenda to curb tax avoidance and in view of being BEPS ready from the treaty abuse perspective.

India has been actively involved in effective implementation of the BEPS recommendations. Around 83% of the respondents expect that the Budget 2017-18 is going to enhance the scope of equalisation levy.

Indirect tax expectations:

Goods and Services Tax (GST) is one of the most awaited tax reforms and Finance Minister recently cited 1 July as a more 'realistic' date for implementation. Nearly 49% of the survey respondents hold the same opinion as FM, since GST is transactional tax and it can be introduced any time. However, significant 43% believe it could be later than 1 July 2017.

Considering the progress made by GST Council in the past few weeks, 68% of the survey respondents feel that the draft GST model law is likely to be passed in this year's Budget session. Majority of the respondents (82%) also expect the Budget to curtail the exemptions/ concessions and rationalise the CENVAT Credit regime to bring in line with the proposed GST regime.

While the government is trying to iron out all the issues for a smooth implementation, 95% of the respondents think that GST will have a positive impact on the economy which could be on account of various factors such as ease of doing business due to simplified indirect tax structure, elimination of

cascading effect of taxes, liberal credit regime etc.

Foreign investor expectations:

Implementation of indirect transfer provisions has caused a lot of uncertainty in the minds of investors, both from technical as well as practical stand point. The CBDT issued a circular² in December 2016 clarifying its stance on several issues regarding indirect transfer which has now been kept in abeyance post representations made by several groups of investors. As per the survey, 30% of the respondents are expecting clarity/relief in the Budget 2017-18. However, given the prevailing uncertainty, 51% respondents have chosen to not have a view on government's next move in this regard.

Approximately 60% of the survey respondents are expecting extension of the concessional rate of 5% on interest to continue to provide boost to the capital markets

Personal taxation expectations:

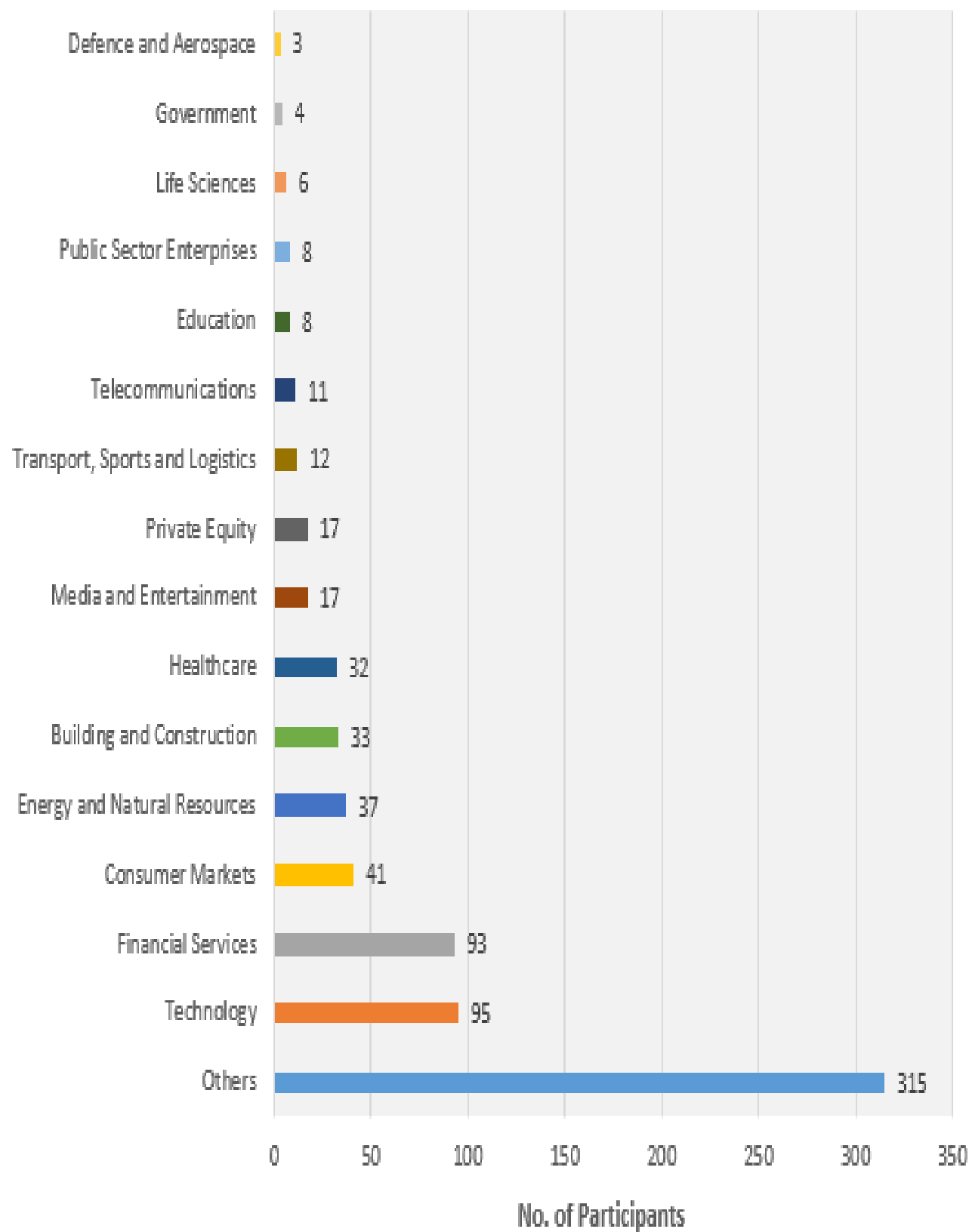
The wishful sentiment of reduction in personal tax rate has become even stronger with the recent demonetisation. In the survey also, the majority of respondents (more than 85%) are expecting reduction in personal tax. With no alteration in the personal tax rates in Budget 2016-17, all hopes are pinned to Budget 2017-18 announcements for some relief. Around 94.13% of the survey respondents opine that relief will be provided to individual taxpayers.

Approximately 59% of the survey respondents believe that an increase in income tax slab limits would be most beneficial. However, 25% expect increase in the tax exemption limit to be better and 16% believe that reintroduction of standard deduction for salaried employees could be more beneficial.

² Circular 41/2016

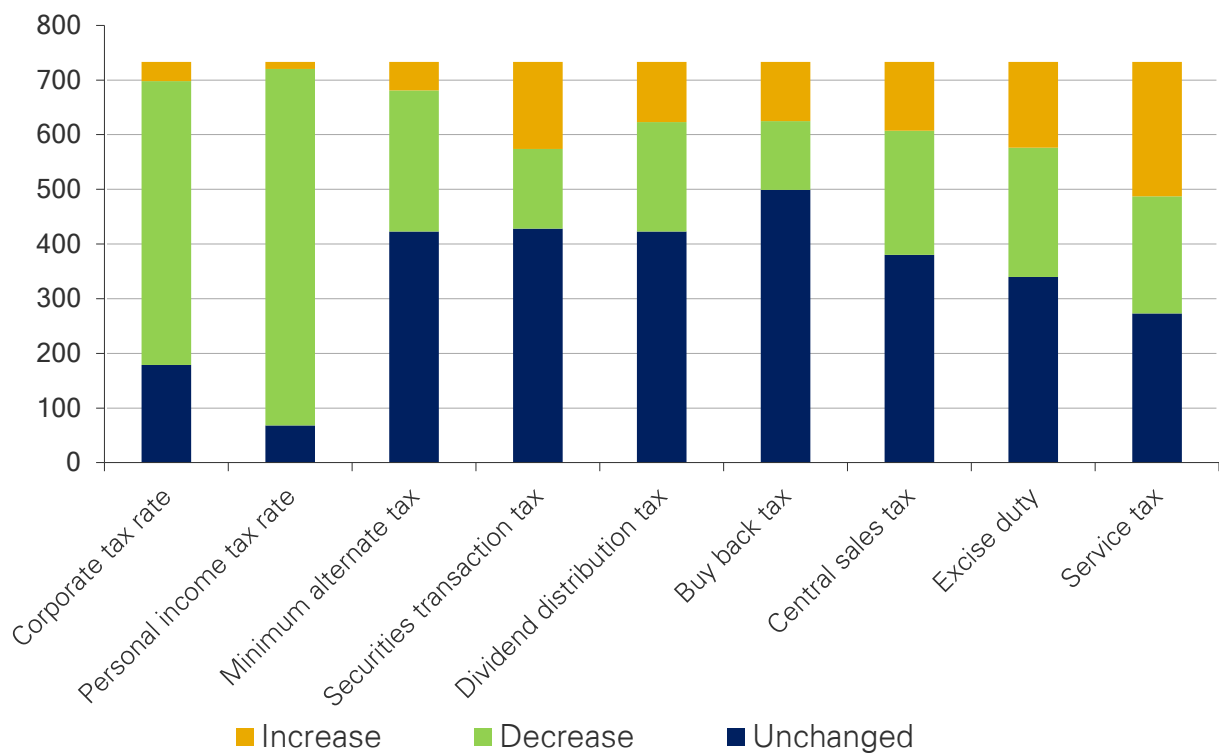
Industry participants

Answered: 733 Skipped: 0



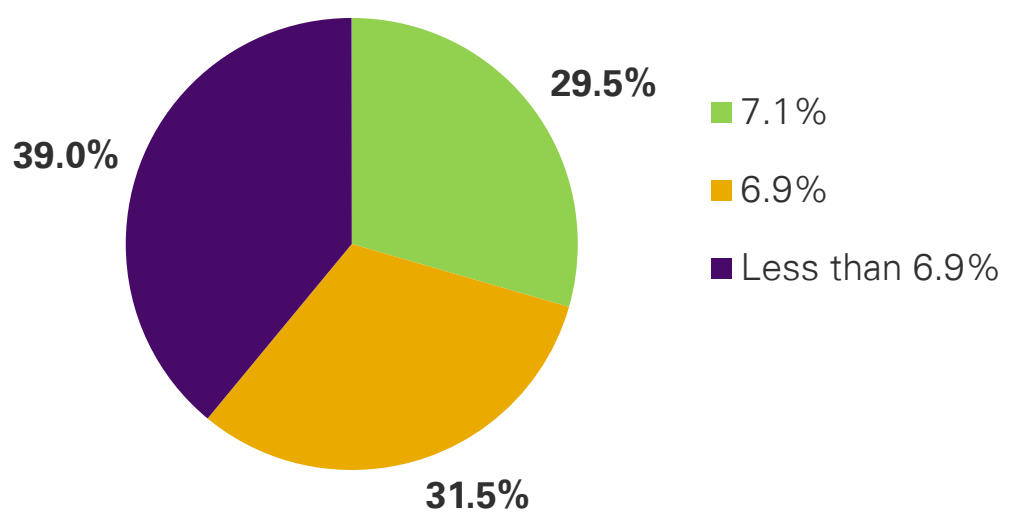
Do you expect following tax rates to increase/decrease or remain unchanged?

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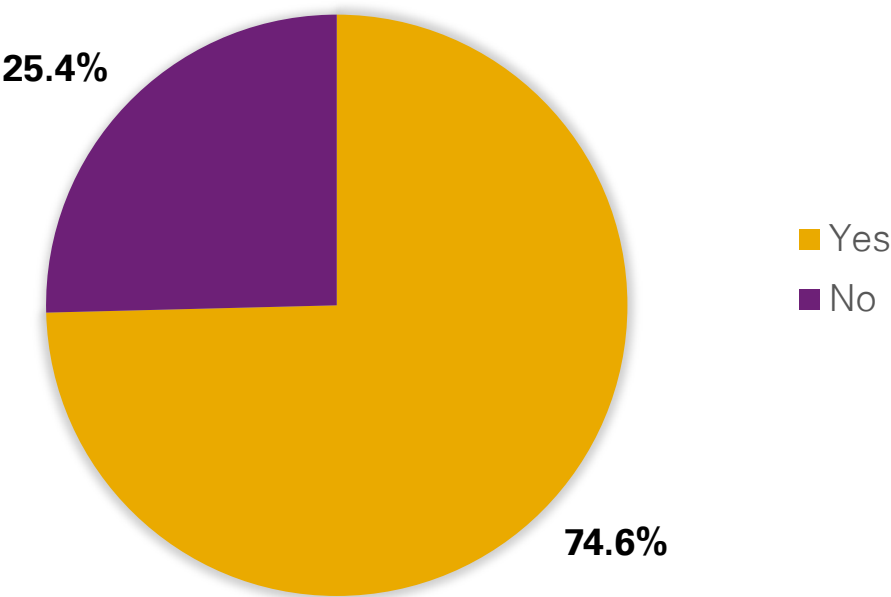
What do you think will be the approximate GDP growth rate this year?

Answered: 733 Skipped: 0



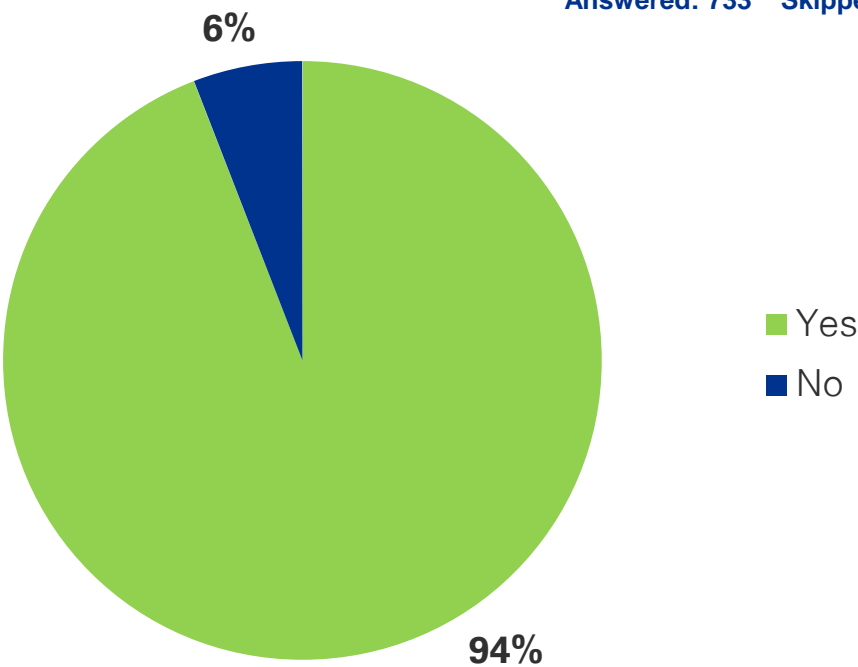
Do you expect the decision to reduce the rate of corporate tax will be implemented?

Answered: 733 Skipped: 0



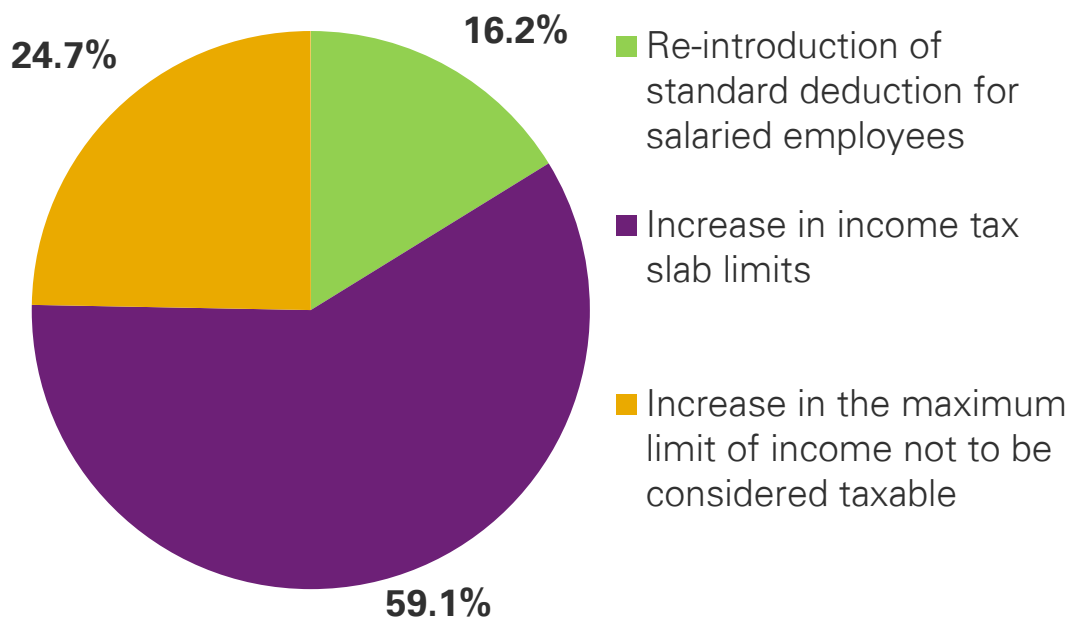
Do you expect relief for individual taxpayers?

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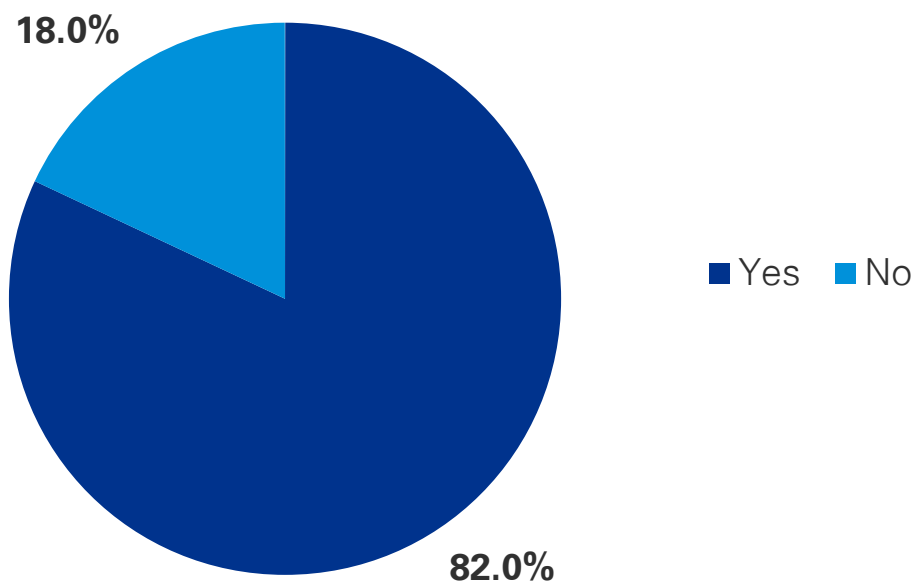
According to you, which of the following changes in relation to individual taxation would be the most beneficial to taxpayers?

Answered: 733 Skipped: 0



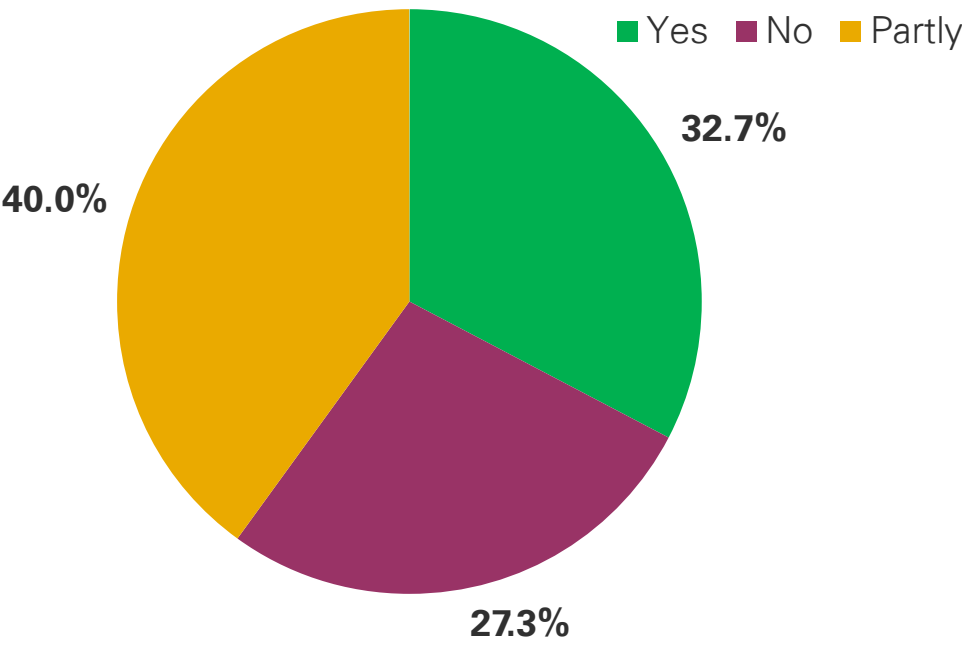
Do you think demonetisation will lead to increased income tax collections?

Answered: 733 Skipped: 0



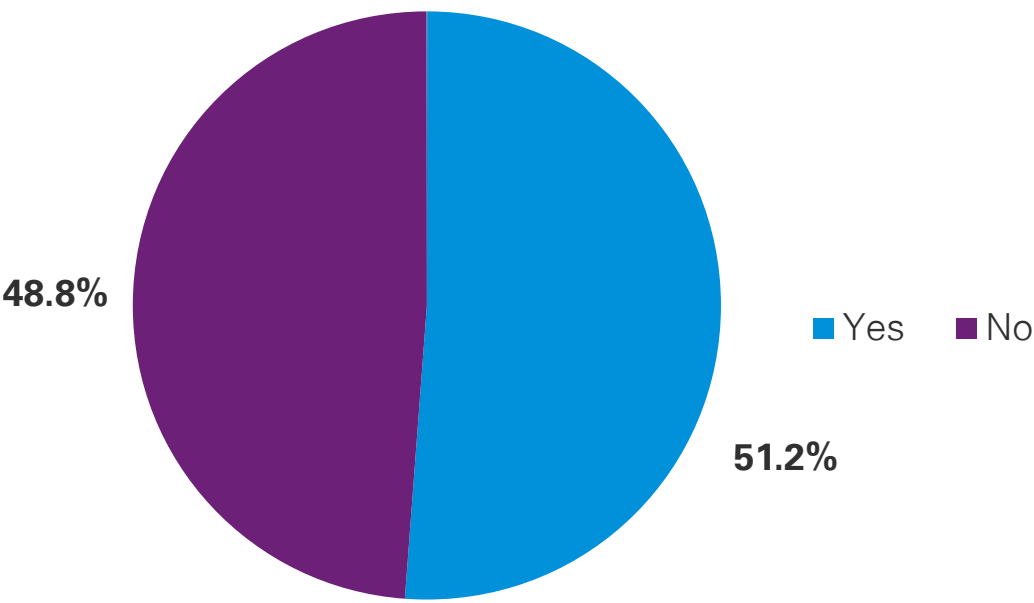
Do you believe the provisions of Place of Effective Management (POEM) cause difficulties to your global business aspirations?

Answered: 682 Skipped: 51



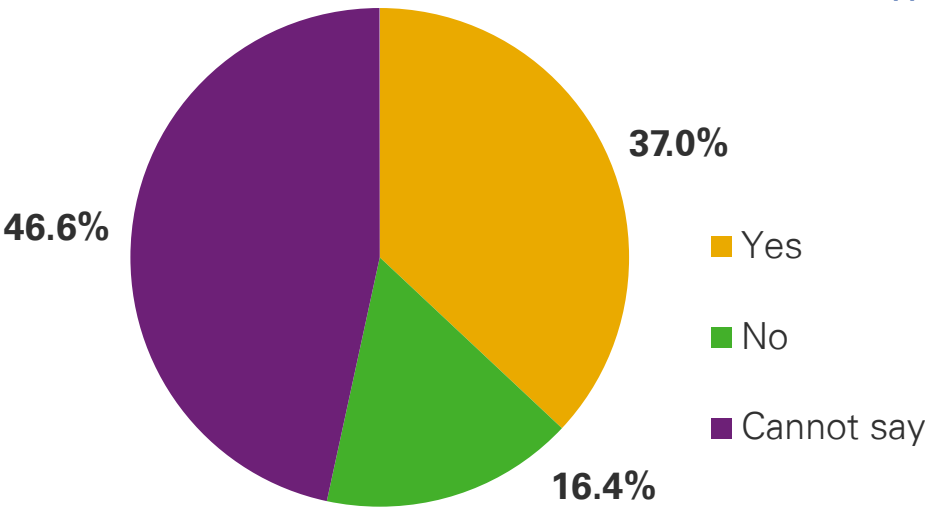
Do you expect the General Anti-Avoidance Rules (GAAR) will be implemented from 1 April 2017?

Answered: 682 Skipped: 51



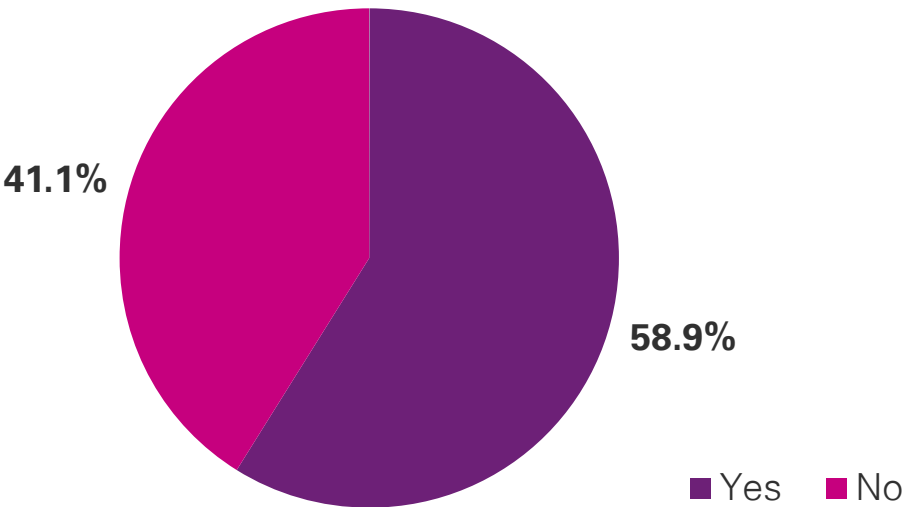
Do you expect India to be faster in adopting the principles under action plan of the Organisation for Economic Cooperation and Development (OECD) on Base Erosion and Profit Shifting (BEPS), compared to other countries?

Answered: 682 Skipped: 51



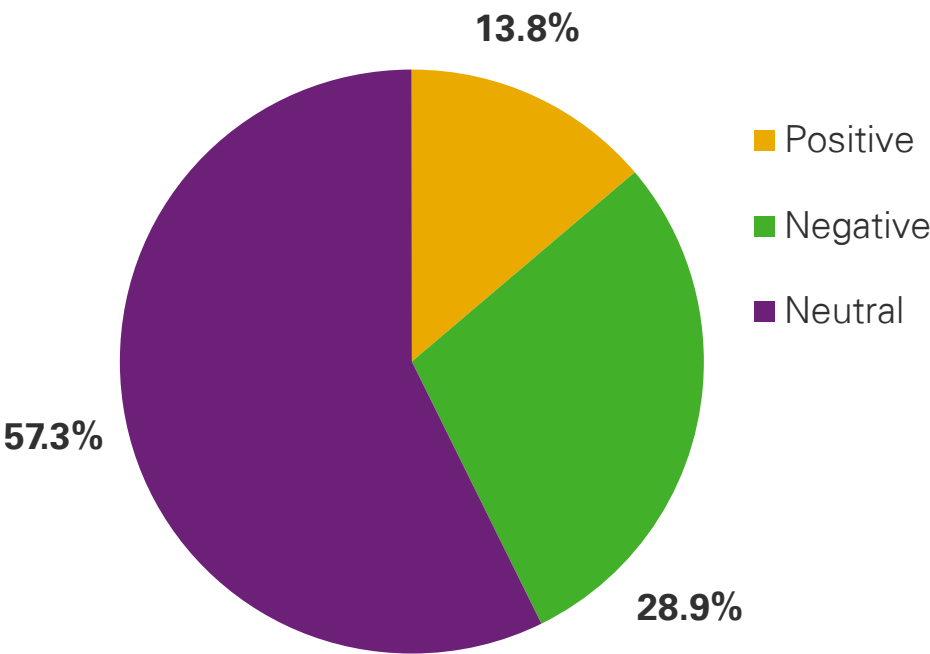
Do you expect the implementation of Income Computation Disclosure Standards (ICDS) will be deferred further in this Budget?

Answered: 682 Skipped: 51



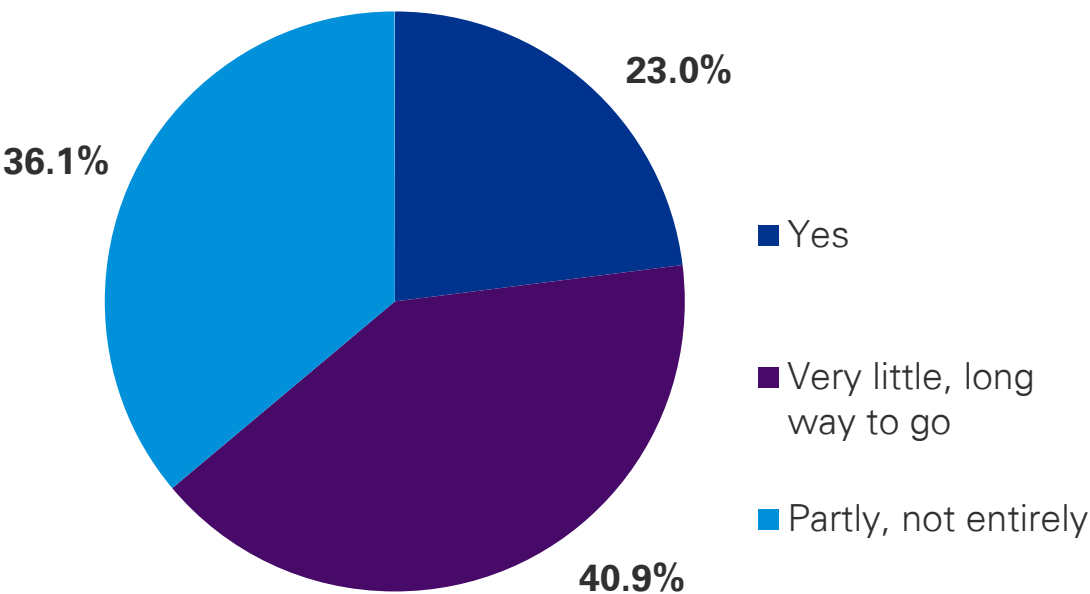
How has demonetisation impacted your business in the near term?

Answered: 682 Skipped: 51

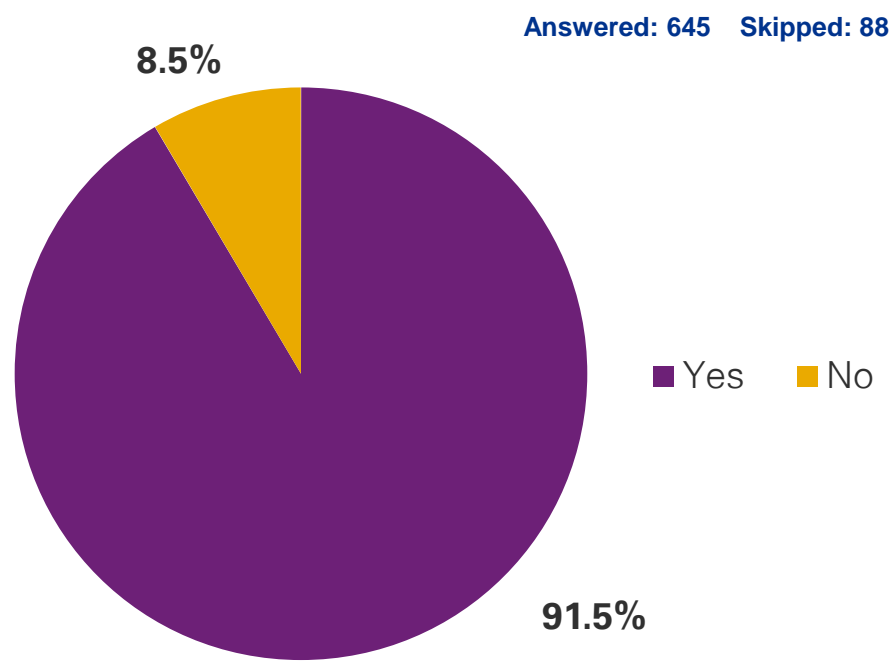


Do you think the government has taken adequate measures to provide certainty on tax liability?

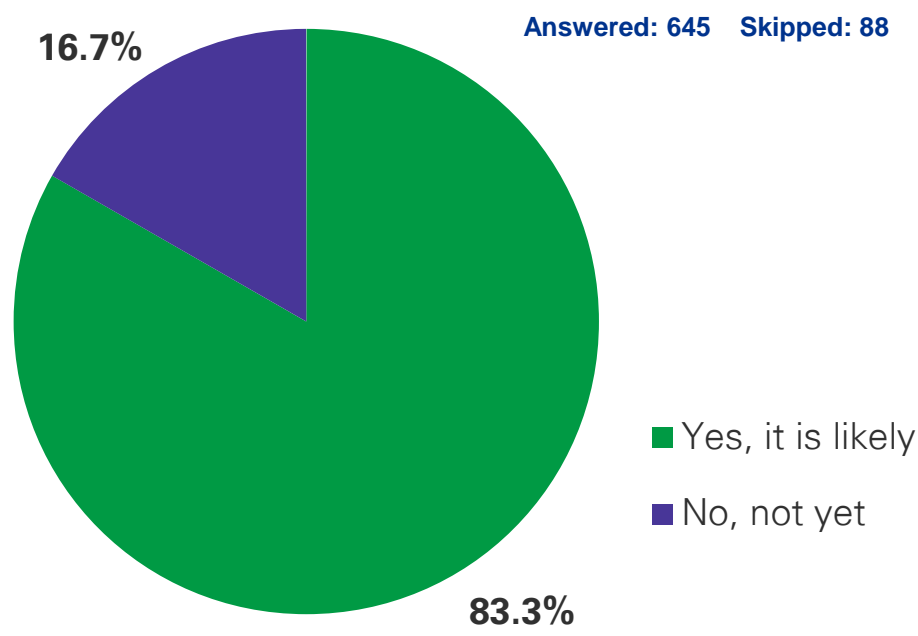
Answered: 682 Skipped: 51



Do you think the recent amendments to tax treaties such as India-Mauritius, India-Singapore and India-Cyprus have been fair?

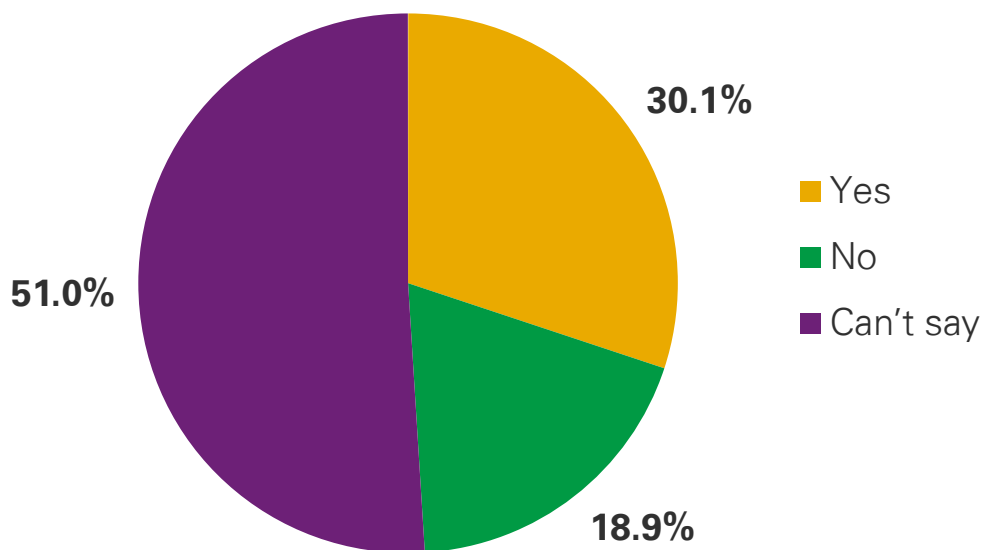


Do you think Union Budget 2017-18 will increase the gamut of equalisation levy to more streams of digital revenues?



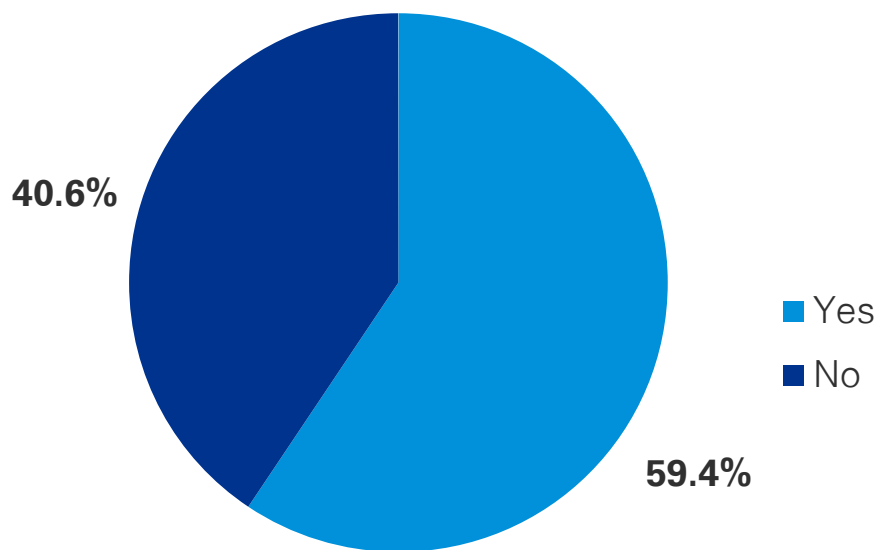
Do you agree relief will be provided in relation to indirect transfer provisions to Foreign Portfolio Investors and Private Equity funds?

Answered: 645 Skipped: 88



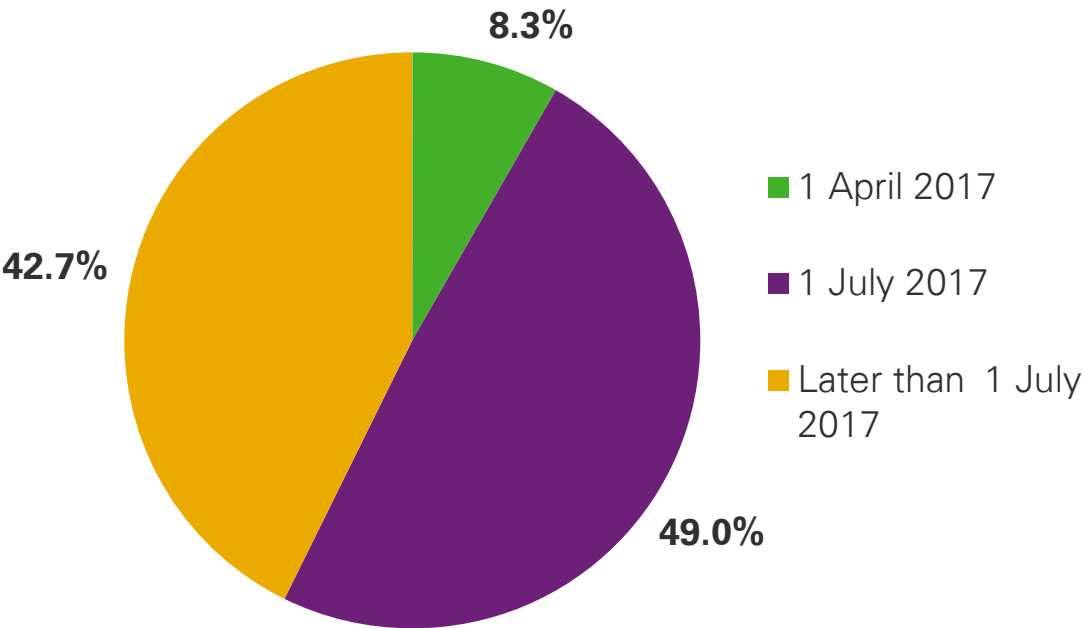
Do you expect the concessional rate of tax of 5% on interest paid to qualified Foreign Institutional Investors/Qualified Foreign Investors on certain bonds/government securities will be extended beyond 30 June 2017?

Answered: 645 Skipped: 88



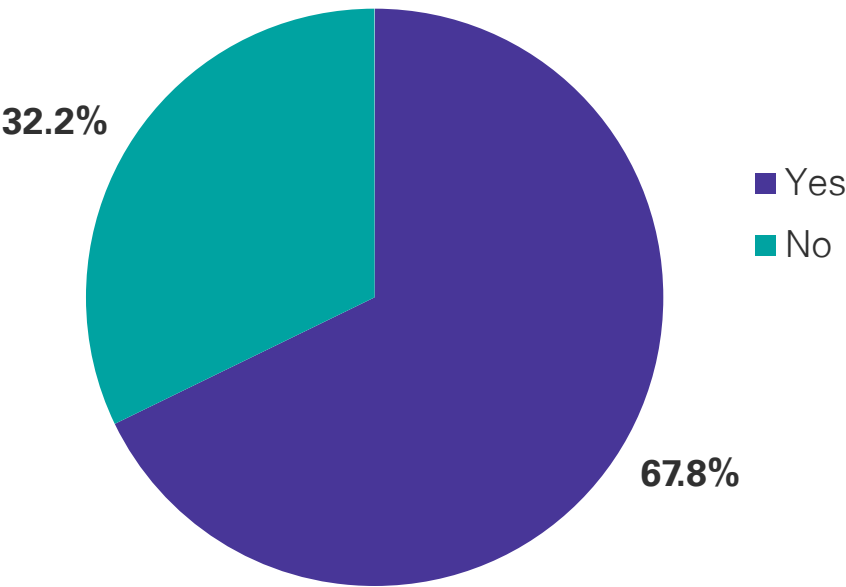
What according to you will be the likely date of implementation of the Goods and Services Tax (GST) law?

Answered: 639 Skipped: 94

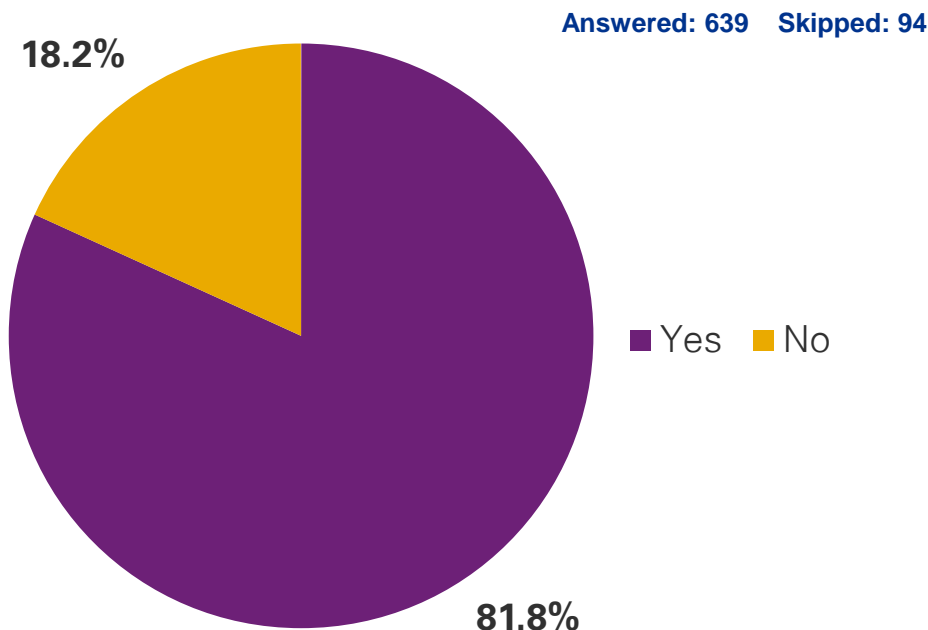


Do you think the draft GST model law will be passed in this year's Budget session?

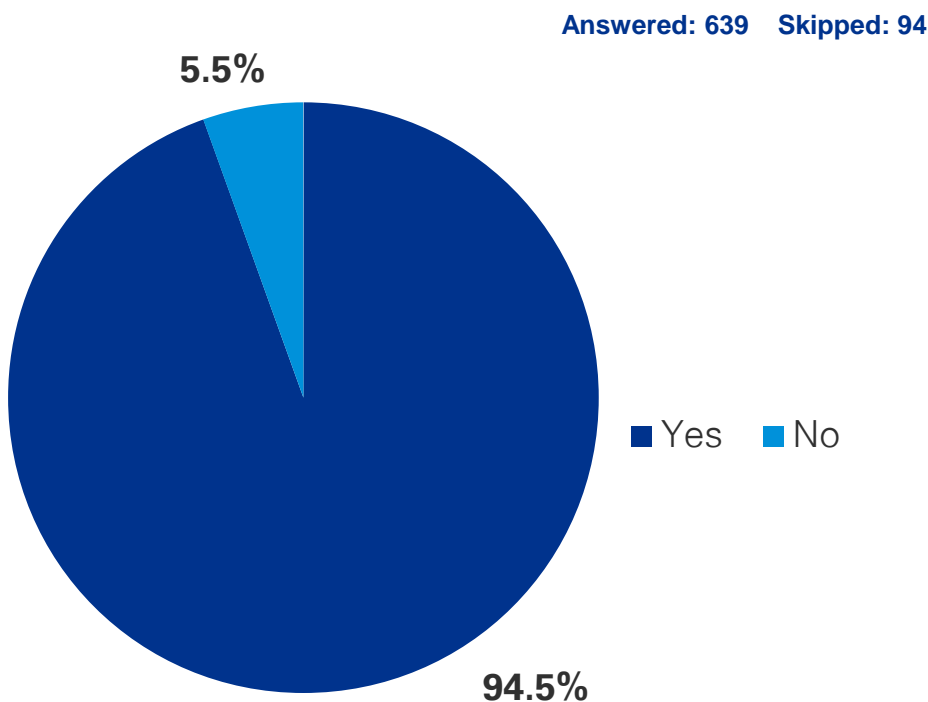
Answered: 639 Skipped: 94



Do you expect the Union Budget 2017-18 to curtail the exemptions/concessions and rationalise the CENVAT Credit regime to align with the proposed GST regime?



Do you think GST will have a positive impact on the economy and GDP?





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