



Gateway

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President's Message



Dear Members,
As this is my first message in 2017, let me wish you a Very Successful and Happy New Year! The new year augurs well for IJCCI as the two Prime Ministers have declared 2017 as 'The Year of Japan-India Friendly Exchanges'.

Japan and India plan to work together not only in areas such as energy, human resources, technology, investments but also on strategic areas like counter-terrorism and coordination on regional issues. As the Indo-Pacific region becomes a key driver for the prosperity of the global economy, it is gratifying to note Prime Minister Abe's appreciation of our Prime Minister's (Modi's) steps under the 'Act East Policy'.

The 2017 Budget has come and gone without much ado on a new date. However, the important notification was the scrapping of the Foreign Investment Promotion Board which, I believe, will improve the inflow of FDI into the country.

IJCCI has many ambitious projects and programmes during the year and with the participation of all of you members, they will be surely successful. One project which we have taken up is 'Understanding Indian Industry expectations from Japanese Companies in Tamil Nadu'. This unique project is nearing completion and IJCCI believes that this will play a catalytic role in furthering cooperation between Japan and Tamil Nadu and also among all the States of India.

I once again take the opportunity of wishing our Members a successful 2017.

Warm regards,

N. Kumar

New Dimensions in India-Japan Relations



Mr. B.S. Raghavan, Former Chief Secretary to Government of West Bengal - Tripura, addressing the gathering.



Dr. Sridhar Krishnaswami, Head Department of Journalism & Mass Commn. & Special Asst. to Vice Chancellor SRM University, addressing the gathering.



A cross-section of the audience.

India Budget 2017 – Roses and Thorns

The Indian Government proposed India Budget 2017 in the first week of February unlike in the past when it was presented at end of February. This budget is a first in a number of ways. For instance, the date of the budget presentation has been advanced by a month to ensure that annual spending plans are finalised before the start of a new financial year. Scrapping of classification of 'Plan' and 'Non-Plan' expenditure has also been done to bring in line with more universally recognised capital and revenue spending.

The year gone by has witnessed major policy initiatives and saw many transformational reforms like demonetisation of high denomination bank notes, passage of the Constitution Amendment Bill for GST, enactment of the Insolvency and Bankruptcy Code to name a few.

On the fiscal front, the government has done well. This is evident from the following facts:

- The GDP growth is expected to increase to 6.75-7.50% in FY18. However, there are three downside risks to this outlook
 1. demonetisation-related uncertainty lasts longer;
 2. higher oil prices, and
 3. eruption of trade tensions with increasing protectionism.
- Capital expenditure has been stepped up by 25.4% over the previous year. This is despite the fact that the government has decided to stick to fiscal deficit of 3.2% of GDP. Higher capital expenditure with continued fiscal consolidation means an improvement in quality of budget.

Key Budget Proposals of 2017

Thrust on infrastructure sector spending

- The government increased the allocation towards infrastructure spending. Total spending on transport infrastructure (roads, railways, airports) is pegged at around 1.5% of GDP in FY18 and on overall infrastructure at around 2.5% of GDP.

Abolition of FIPB would ease up the foreign investment process

- Over a period of time, the government found that very few investment proposals need to be referred to FIPB. Accordingly, the government has decided to phase out the FIPB to remove any discretionary power in the hands of regulatory bodies. This is perceived as a very positive measure towards ease of doing business in India.

Several policy initiatives for promotion of digital mode of transactions

- Various tax provisions (discussed in direct tax proposal) have been introduced to incentivise digital payments and discourage use of cash. The government is targeting 2,500 crore digital transactions for 2017-18. Further, the government is evaluating bringing all government receipts through digital means.

Direct Tax Proposals of 2017

Corporate Tax Rate and MAT

- Tax rate of all domestic companies with turnover up to US\$ 8 mn (approx) as per the audited accounts of FY 2015-16 stands reduced to 25%. This is in line with the Government promise to reduce the corporate tax rate to 25% by FY 2018-19
- No change in tax rate of 40% applicable for foreign companies. This indicates the government push on companies formed in India to be eligible for reduced tax rate.
- The period for carry forward of minimum alternate tax ('MAT') credit extended from 10 years to 15 years.
- MAT adjustments proposed for companies following India Accounting Standards. This proposal is likely to have significant impact on the companies paying under MAT due to transition to new accounting standard and will require careful consideration to evaluate the impact areas.

Taxability

- Tax holiday for units in Special Economic Zone ('SEZ') is limited to total income of taxpayer. This will have significant impact on overall taxability of the taxpayer having SEZ and non-SEZ units. Further, this proposal will significantly impact MAT credit and its utilisation.
- Concessional 10% gross basis tax rate introduced for transfer of carbon credits. This has been proposed in light of the judicial ruling whereby transfer of carbon credit is held as capital receipt and hence not taxable.

Tax Withholding

- Lower tax withholding rate of 5% for interest on foreign debt extended till July 1, 2020. Benefit is now also available for interest on (rupee denominated) Masala bonds. Masala bonds are now a preferred mode of fund raising from overseas.

Capital Gains

- Capital gains exemption has been introduced for transfer of Masala bonds between non-residents. This budget proposal provides great opportunity for MNCs to restructure their funding of Indian businesses.
- Transfer of any asset at less than fair value will be subjected to tax in the hands of the recipient. Deemed consideration concept based on Fair value for capital gains on transfer of unquoted shares. Rules to compute fair value of such unquoted shares will be introduced, which will have a significant bearing on all internal reorganisations.
- Category I & II Foreign Portfolio Investors (FPIs), are exempted from indirect transfer provisions retrospectively. This proposal reiterates government commitment not to provide adverse tax regime applicable retrospectively.
- Exemption of long term capital gains from transfer of listed equity shares can be availed on shares acquired on or after October 1, 2004, only if Securities Transaction Tax (STT) has been paid at the time of acquisition. Government will notify specific instances where the above proposal is not applicable.
- Tax neutrality extended to conversion of preference shares to equity shares which was earlier only available to conversion of debenture to equity shares. Further, the period of holding of preference shares is also considered to be considered in case of converted equity share.
- Concessional 10% tax rate on long-term capital gains arising to non-residents from transfer of unlisted securities retrospectively from 1 April, 2013. This is a welcome move and provides non-resident taxpayer certainty on transfer of unlisted securities.

Assessment

- To improve ease of doing business, time limits for assessments have been substantially reduced. Timelines have been prescribed for faster processing of refunds and interest payable to deductor on claim of refund of withholding tax.

Other key direct tax developments ahead of Budget

- General anti-avoidance rules (GAAR) effective from 1 April, 2017. GAAR allows the Indian taxman to look through any arrangement entered to obtain a tax benefit. Clarificatory circular was issued prior to Budget. GAAR can be invoked even where limitation of benefit (LoB) clause present in tax treaty, if tax avoidance not sufficiently addressed by LoB.
- Guiding principles for determining of Place of Effective Management (PoEM) were notified prior to budget, which is effective from April 1, 2017. Criteria have also been prescribed for active and passive business tests.

The above developments will have significant impact on MNCs doing business.

Transfer Pricing Proposals of 2017

- Proposal to reduce the burden of compliance for the assessee by limiting the scope of specified domestic transactions to those undertaken by entities availing profit-linked deductions. This is a welcome relief, to avoid compliance cost and time on domestic transactions.
- Proposal to introduce secondary adjustment by mandating adjustment in the books of account of the taxpayer and the Associate Enterprise (AE) where a transfer pricing adjustment is made under prescribed circumstances. The above proposal requires the taxpayer to bring the funds equivalent to adjustment from AE, and if this is not done then the amount not brought in India will be considered as loan to AE. This will have significant impact on the tax liability on account of transfer pricing adjustment going forward.
- Thin capitalisation rules proposed to cap interest expenses to 30% of earnings before interest, taxes, depreciation and amortisation (EBITDA) in a year where payment is made to Associated Enterprises (AEs). This is in line with BEPS Action Plan 4, where India is committed to implement BEPS action plan by 2020. The interest so disallowed can be carried forward for 8 years and adjusted in future if the EBITDA margin allows such adjustment.

Indirect Tax Proposals of 2017

- As the industry expects the Goods and Service Tax (GST) to be introduced in FY 2017-18, the government did not propose any tinkering of base rates for customs duty, central excise duty and service tax.
- Research and Development cess on import of technology (presently at 5%) is being repealed from 1 April, 2017, to align with GST.
- Minimal changes in existing duties primarily to correct inverted duty structure situations (such as for telecommunication, renewable energy sector, etc) and increase in duty rates for tobacco products.
- One day time limit prescribed for filing of Bill of Entry and duty payment from arrival of goods, under self-assessment. Coverage of importer and exporter to extend to beneficial owners who exercise control over goods under customs law.

Conclusion

Overall, the 2017 budget is a promising budget where the thrust is on transparency and effective delivery of tax compliances and interactions with the tax department. Reduction of corporate tax rate for SMEs and extension of MAT credit period is a welcome move. However, introduction of GAAR, PoEM and thin capitalisation rule are to be closely watched.

SEMAS (Soroban Education for Mental Arithmetic System)



SEMAS – Soroban Education for Mental Arithmetic System conducted its 13th National Competition, 2017 in Guru Nanak College, Velachery, Chennai on 22nd January, 2017. 'SEMAS' has unique Educational Programs for various age groups starting from the age 4 years to any age group. 720 contestants took part in the national competition at various levels. The winners of the contest will participate in the International Competition to be held on 1st October, 2017 at Bangkok, Thailand.



Ms. Hiroko Taniguchi, Dy. Consul-General, Consulate-General of Japan in Chennai inaugurated the competition by lighting the lamp. Dr. Pushpanathan, Chairman, SEMAS Dr. D. Ashalatha, Principal, Alpha Arts & Science College & Ms. Suguna Ramamoorthy in the inaugural function.



Mr. R. Veeramani, Chairman GEM Group of Companies addressed the students at the evening function and distributed Super Champion Prizes to the Winners

JENESYS 2016 INDIA

JENESYS (Japan-East Asia Network of Exchange for Students and Youths) programme, is a project advanced by the Japanese government to provide a sound foundation for strong solidarity within Asia through large-scale youth exchange.

This year, the Indo-Japan Chamber of Commerce and Industry, Chennai had nominated five people as a part of group of twenty-two representing India to take part in the programme from 30th January-7th February.

Ms. V. Amrutha, SAS Partners Corporate Advisors, Mr. C. S. manjunath, Carvalho Associates LLP, Mr. V. Ashwin, Paramount Shipping Services, Mr. J. Arun Kumar, Safire Exports, and Mr. P. J. R. Sri Ganesh who participated in the programme visited Tokyo, Kumamoto and Yatsushiro. The participants found this to be an eye-opening experience.



ISRO – Soaring Greater Heights

The Indian Space Research Organisation (ISRO, as it is widely called) entered a league of its own by becoming the first country in the world to place 104 satellites (from 6 countries) in orbit from a single rocket - the PSLV (Polar Satellite Launch Vehicle) C-37 on February 15, 2017.

ISRO has done India proud on many occasions and has demonstrated that technological prowess can be achieved economically like the the Mars Orbiter Mission (Mangalyaan) which was accomplished on a shoestring budget that was at least 10 times lower than a similar project by the US. The Rs 450-crore project revolved round the Red Planet to collect data on Mars's atmosphere and mineral composition. **IJCCI salutes ISRO!**

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