

Budget Connect 2018

Pre-Budget Survey



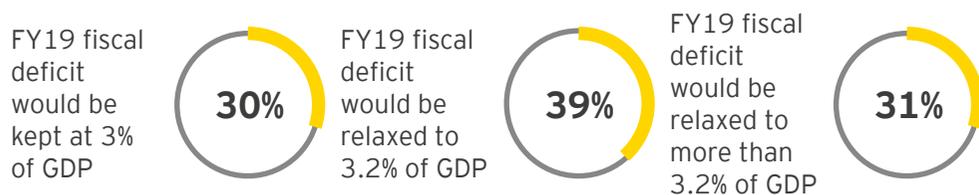
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Economic Policy

Q1

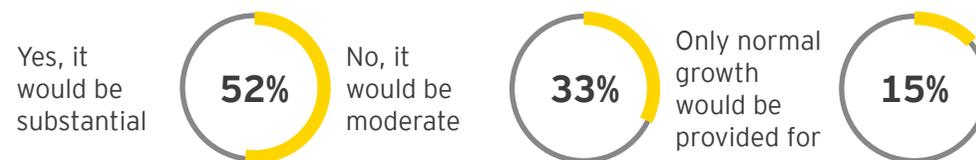
According to the fiscal consolidation path given in the FY18 Union Budget, the FY19 fiscal deficit-GDP ratio should be 3%. Do you think that the Government will relax this limit and if so, to what extent?



Majority of the respondents consider a relaxation of the fiscal deficit target in FY19 as a strong possibility. However, they expect the margin of slippage to be limited to 20 basis points.

Q2

Given the weakness of the rural economy, do you expect a significant increase in allocation in the Budget to MNREGA to support rural incomes? Would this increase be substantial?



Majority of the respondents agree that India's rural economy has weakened considerably and the FY19 Union Budget would provide substantial support to the rural economy through increased allocation to MNREGA.

Q3

For accelerating the pace of job creation, will the Government come up with increased allocations in the Budget aimed at supporting the manufacturing, construction and infrastructure sectors, given that these sectors create jobs for both skilled and unskilled workers? Would such an increased allocation be substantial or moderate?

Yes, there would be a substantial increase in the allocations for these sectors



Yes, but the increase in the allocations would be moderate



No, status quo would be maintained



The predominant view of the respondents is that the FY19 Union Budget would focus on increased allocations to the manufacturing, construction and infrastructure sectors especially because of their impact on job creation and related multiplier effects.

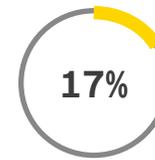
Q4

In addition to the recently announced bank recapitalization program, do you expect the Government to announce additional policy measures to propel private investment? If so, would these measures be general or sector-specific?

Yes, there would be both general and sector-specific measures



Yes, there would only be general measures



Yes, there would only be sector-specific measures



No, no additional investment promoting programs would be announced



Majority of the respondents expect the FY19 Union Budget to provide measures for uplifting private investment by way of both general and sector-specific measures. If a choice is to be made between general and sector-specific measures, respondents prefer sector-specific measures.

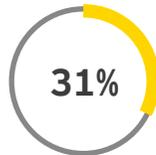
Q5

With a view to providing assured minimum income, is the Government likely to undertake any program to ensure basic minimum incomes? If yes, would it take the form of the universal basic income program or would it be limited to certain segments of the economy such as farmers?

Yes, it will take the form of the universal basic income program



Yes, but it will be limited to only farmers



No, such a program would not be undertaken



Opinion is almost equally divided between the Government coming out with an income support program vis-à-vis no such program. Within the group expecting an income support program, the feasibility of a directed approach toward farmers' income seems to be favored, implying that the fiscally less costly option would be taken up by the Government.



EY viewpoint:

In the view of the respondents, there is a broad agreement that the Budget priorities would favor agriculture and other job-creating sectors such as manufacturing and construction so as to give a fillip to the growth impulse of the economy. This would be complemented by policy support to investors.

As revenues in FY18 may fall short of their corresponding budgeted magnitudes, a fiscal slippage in FY18 is on the cards. This would also affect the FY19 revenue estimates and deficit targets. To continue supporting economic recovery, the Government may rely on additional borrowing but would keep the slippage in the fiscal deficit target to a minimum so that the fiscal deficit target of 3% of GDP can be reached in the following year.



Personal Tax

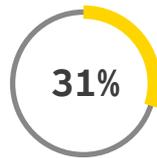
Q1

Given the reduction in the personal tax slab rates in Budget 2017, do you expect a further revision in the threshold limits for taxation to put further disposable income in the hands of the people?

Yes, the threshold limits would be further enhanced



No, status quo would be maintained



Majority of the respondents feel that the threshold limits for taxation would increase further in order to increase disposable income in the hands of the people.

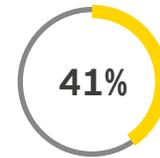
Q2

Do you expect the Budget to bring back standard deduction for salaried employees and instead do away with multiple deductions that are outdated (e.g., children education allowance of INR100 per month per child)?

Yes, this would reduce the tax burden of employees and has been a long-standing expectation of the salaried class



No, status quo would be maintained



About 59% of the respondents are of the view that multiple outdated deductions would be replaced with a standard deduction in order to reduce the tax burden of employees.

Q3

As the acceptability of the National Pension System (NPS) has been low, will the Budget propose an enhanced tax exemption on NPS withdrawals?

Yes, to make NPS a preferred retirement savings option along with Provident Fund, the exemption portion could be enhanced to 60% of the corpus from the present 40% (since NPS allows 60% of the total corpus as a lump sum withdrawal after an employee has attained the age of 60 years)



No, the present 40% exemption would continue

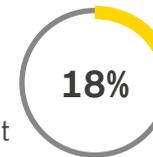


There is not much confidence that the Government would bring about any changes to NPS to make it more attractive.

Q4

Do you expect the Budget to bring about a change in the present provisions for exempting tax on long-term capital gains on equity transactions subject to Securities Transaction Tax (STT)?

Yes, the exemption would be removed to bring equity investments at par with other investment instruments



Yes, the period of holding of listed securities to qualify as a "long-term capital asset" would be changed from 12 months to 24 months, but the exemption would continue



No, status quo would be maintained



48% of our respondents expect status quo to be maintained on the long-term capital gains tax regime for equity transactions that are subject to STT.

Q5

Do you expect the Government to introduce estate tax in this Budget?

Yes, as countries such as the US and the UK have imposed such a tax



No, as the estimated tax revenue is not substantial



85% of our respondents are confident that the Government will not introduce estate tax.



EY viewpoint:

On the personal tax front, it is expected that there would be tweaking in the tax slabs and tax rates to bring down the tax burden on individuals. Most of our respondents expect that the standard deduction would be reintroduced. There is a mixed opinion on whether any changes would be made to the taxation of NPS withdrawals. Currently, there is low acceptability of NPS compared to the Provident Fund among individual taxpayers, hence the Government may bring in enhanced exemption on NPS withdrawals.

The expectation of any changes to the long-term capital gains tax regime for STT-paid equity transactions is also low. While there has been a lot of speculation on whether estate tax, which was abolished long back, would be reintroduced in this Budget, the respondents do not expect the Government to bring it back. Overall, the Budget is expected to bring in some tax sops for individual taxpayers.



Corporate Tax

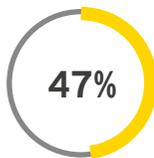
Q1

Do you think the Budget will see the Finance Minister lowering corporate tax rate to 25% as promised in his Budget Speech of 2015? Do you expect the surcharge to continue?

Yes, the corporate tax rate would be lowered to 25% and the surcharge would also be withdrawn



Yes, the corporate tax rate would be lowered to 25% but the surcharge would continue



No, status quo would be maintained



Majority of the respondents are of the view that the Finance Minister will keep his promise of lowering the corporate tax burden. However, given the fiscal pressures on the Government, the respondents feel that the surcharge would continue. As large as one-third of the respondents are of the view that the Government may not lower the corporate tax rate this year.

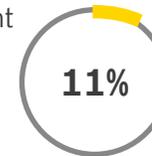
Q2

The present tax burden on dividend distribution tax (DDT) is 20.36% (including surcharge and education cess). Do you think this Budget is likely to see the lowering of the DDT or even shift to the classical system of taxing dividends in the hands of the shareholders?

Yes, DDT is likely to be lowered to 10% but the Government would not yet shift to the classical system of taxing dividends



Yes, the Government would shift the tax burden to the shareholders



No, status quo would be maintained



Most of the respondents do not anticipate a change in the current taxation of dividends at this stage. About one-fourth of the respondents feel that with a view to lowering the overall burden on the corporate sector, the Government may lower the rate to 10%.

Q3

Do you expect this Budget to replace the present Minimum Alternate Tax (MAT) provisions with a simple and low Alternate Minimum Tax (AMT) levy on incentives?

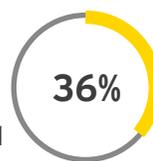
Yes, as this has been a long-standing ask of the corporate sector



No, MAT is likely to stay, but the rate would be lowered



No, status quo would be maintained



Opinion is divided about the treatment of MAT in the Budget, with more than a third of the respondents holding the view that the Government is unlikely to tinker with the MAT provisions. However, 40% of the respondents are optimistic that MAT may be lowered, though it is here to stay.

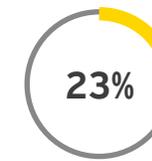
Q4

The last two Budgets have seen the introduction of anti-avoidance measures in line with the BEPS Action Plans. Given India's active involvement in the debate surrounding BEPS, do you expect the Budget to bring in more anti-avoidance provisions in the tax laws, particularly relating to transfer pricing?

Yes, India would continue to bring in provisions to check erosion of the tax base and further changes in the transfer pricing provisions may be expected



No, further changes are unlikely



A large majority of the respondents feel that the transfer pricing provisions may be further tightened as India will continue to take measures to check base erosion and profit shifting.

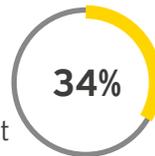
Q5

Do you expect the Budget to expand the scope of the equalization levy, introduced in 2016, to other areas such as the online sale of goods and services, software and digital content?

Yes, given the rapidly evolving nature of digital operations, the Government would want to tax more such digital transactions



No, the Government is not likely to expand the scope of the equalization levy at this stage



Two-thirds of the respondents feel that the Government would want to tax the rapidly evolving digital transactions and thus the Budget may see an expansion in the scope of the equalization levy.

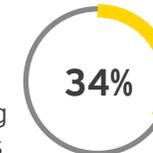
Q6

Do you think that measures such as the Patent Box Regime introduced in 2016, with a concessional 10% tax on royalties on patents developed and registered in India, have been useful in providing a boost to R&D in India?

Yes, the Patent Box Regime has been useful



No, the measure has not really promoted innovation in manufacturing or R&D and its scope should be enhanced



It is too early to say, as these measures take time to show results



About 50% of the respondents feel that measures such as the Patent Box Regime are positive and would take some more time to show results. However, there is a large section of the respondents who feel that there is a need to enhance the scope of such measures to promote R&D.

Q7

Is the Budget likely to remove the cumbersome procedure of obtaining approvals for the purpose of deduction of R&D expenses to reduce compliance costs and uncertainty for taxpayers?

Yes, this has been a long-standing ask of the taxpayers

48%

The Government would retain status quo for the fear of non-genuine claims for R&D deduction

52%

Opinion is almost equally divided about whether the Government would remove the cumbersome procedure of obtaining approvals for the purpose of deduction of R&D expenses to reduce the compliance costs and uncertainty for taxpayers. Majority (52%) of the respondents feel that the fear of non-genuine claims for R&D deduction may restrain the Government from doing so.

Q8

Will the Budget bring in meaningful enhancements to the present tax incentives for employment of new employees?

Yes, the Government would further ease the condition of measuring the minimum period of employment

39%

Yes, the Government would increase the present ceiling of INR25,000 per month on total emoluments to (at least) allow for normal increments

16%

No, status quo would be maintained

45%

Majority of the respondents feel that the Budget would not really focus on providing incentives linked to the employment of new employees. However, 40% of the respondents do feel that the Government would further ease the condition of measuring the minimum period of employment.

Q9

Do you expect that in the interest of providing more certainty to investors and in line with BEPS Action Plan 3, the Government would consider replacing the Place of Effective Management (POEM) provisions with new Controlled Foreign Corporation (CFC) provisions?

Yes, new CFC provisions would find their way in the Budget

34%

No, POEM is likely to stay for some time

66%

A large majority of the respondents expect that the provisions for POEM are likely to continue for some time and would not be replaced by CFC.

Q10

Is the Government likely to bring about strategic changes to the current structure and functioning of the Dispute Resolution Panels (DRPs) to ameliorate their efficiency and reduce the overall volumes of tax disputes?

Yes, the Government would give settlement powers to DRPs

40%

The DRPs have not been very effective and the DRP provisions would be scrapped

26%

No, status quo would be maintained

34%

A majority of the respondents feel that the Government may give settlement powers to DRPs to make them more effective and reduce the overall volumes of tax disputes. However, about one-third of the respondents feel that the Budget may not change the DRP provisions.



EY viewpoint:

Given the global trend of lower corporate tax rate and the earlier assurance given by the Finance Minister, the overall expectation is that the Government would lower the corporate tax rate. However, it is unlikely that the surcharge or the tax on dividends will be lowered as the Government continues to grapple with a delicate fiscal situation. There is some optimism that the MAT provisions may undergo a review to make them less cumbersome.

The respondents feel that in line with the recommendations under the BEPS Action Plans, India is likely to further tighten the transfer pricing provisions. Some more digital transactions may find their way into the equalization levy net. It is expected that the provisions governing the determination of POEM would continue in the current form.

A large number of respondents feel that there is a need to enhance the scope of the measures to promote R&D. Also, the Government should review the cumbersome procedure of obtaining approvals for the purpose of deduction of R&D expenses. The fear of misuse may be misplaced as there are adequate provisions under the current act to handle reassessment, GAAR, penalty, prosecution etc. In case of doubt, the tax authorities can always consult the approving authorities.

These findings are based on EY's survey of 150 CFOs, tax heads and senior finance professionals, conducted in January 2018.



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