

## **ETW 30th Nov to 5th Dec 2018**

### ➤ **Corporate Tax cut (LM 5/12/18)**

- The government is unlikely to cut the corporate tax for the larger companies to 25% as promised in the budget for FY16 (government had announced that the subsidies/concessions that are given will be phased out and the corporate tax rates will be cut). The government is worried about the revenue that will be foregone in case the tax rate is cut. Moreover, the tax exemptions / concessions that are given to companies are given over a period of 7 to 10 years whereas a tax cut will affect the revenue of the government from the same fiscal
- US has cut its corporate tax to 21% and the EU is thinking of cutting the tax rates (in UK the rate is 19% which is to be lowered further. In china it is 25%, Germany 30% and the global average is 23%)
- The government has set up a panel to propose a new direct tax code. The report of which is expected to be submitted early next year
- Presently, for corporates with revenue up to ₹ 250 Cr the corporate tax rate is 25% and for others (i.e. with revenue over ₹ 250 Cr) it is 30%
- As per the officials, the tax cut must be followed by anti-avoidance measures. In case of US, it has BEAT (Base Erosion and Abuse Tax), which discourages Indian companies from serving their US clients through the offshore centres such as India. In India such law is yet to be introduced which can reduce the abuse of tax cuts

### ➤ **New Direct Tax code (LM 3/12/18)**

- Government has set up a task force in November 2017, report of which is expected early next year
- The code is going to focus more on stability and certainty rather than any shift in the structural shift
- The code is expected to propose simplification and less prone to litigation (could be done by reducing the scope of interpretations) rather than proposing slab revisions or tax rate changes
- Any changes to the direct tax rates will be done through the annual finance acts (during the union budget)

### ➤ **International UDAN (BS 4/12/18)**

- International Air Connectivity Scheme UDAN (IACS UDAN)
- It seeks to provide air connectivity at affordable prices to select overseas destinations
- As per the draft, the scheme will be implemented in only those states which will show commitment to the implementation and support for the required operations

- Last year, Assam state government had offered a VGF (Viability Gap Funding) of ₹ 1 Cr towards the extension of the UDAN for international air connectivity from the state capital - Guwahati
- An International Air Connectivity Fund (IACF) for providing the financial support to the airlines which are participating in the scheme will be set up

➤ **Import cover decreases (TH 1/12/18)**

- as per the RBI report (period from end of April to June 2018)
  - The forex reserves have declined from \$425 bn to \$ 405 bn (as per the latest data it has further declined to \$393 bn)
  - The import cover reduced from 10.9 months to 10.1 months
  - The short term debt to reserves has increased from 24.1% to 24.3%

➤ **Baba Kalyani report on SEZs (BS 3/12/18)**

- Committee was set up in June by the commerce ministry to ensure that SEZs were compatible with WTO rules
- The committee has given some recommendations
  - SEZs to be renamed as Employment Economic Conclaves (EECs)
  - The incentives to them to be given based on the employment generated (the focus has shifted from exports to employment)
  - The sunset clause for tax exemptions to be looked into. The manufacturing units set up in these zones after 2020 will not receive tax benefits
  - Services other than IT and ITeS must be promoted (healthcare, financial services, legal services etc) under this model
  - The incentives must be given for both manufacturing units and service sector units which will be addressing the concerns of WTO

➤ **India and China iron out tax differences (BS 3/12/18)**

- In October and November, Chinese companies have concluded 12 tax related cases with India under MAP (Mutual Agreement Procedure)
- Companies working overseas use MAP as an out of court settlement to ensure that they do not have to pay double tax
- India apart from US and UK have Japan and Sweden as natural MAP partners
- Earlier, China had announced that it would be removing non-tariff restrictions to provide more market access to Indian exports such as fish products and rice
- On the other hand, India and China are also amending their DTAAs