2 India

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I. Introduction

India (Bharat), also called the Republic of India, is a country in South Asia. The name India is derived from the word Indus, which originates from the Old Persian word Hindu. The latter term stems from the Sanskrit word Sindhu, which was the historical local appellation for the Indus River. The ancient Greeks referred to the Indians as Indoi, which translates as "The people of the Indus".

The geographical term Bharat, which is recognised by the Constitution of India as an official name for the country, is used by many Indian languages in its variations. It is a modernisation of the historical name “Bharatavarsha”, which traditionally referred to the Indian subcontinent and gained increasing currency from the mid-19th century as a native name for India.

Hindustan is another Persian name for India dating back to the 3rd century BCE. It was introduced into India by the Mughals and widely used since then. Its meaning varied, referring to a region that encompassed northern India and Pakistan or India in its entirety. Currently, the name may refer to either the northern part of India or the entire country.

It is the seventh-largest country by area, the second-most populous country (with over 1.3 billion people), and the most populous democracy in the world. It is bounded by the Indian Ocean on the south, the Arabian Sea on the southwest, and the Bay of Bengal on the southeast. It shares land borders with Pakistan to the west; China, Nepal, and Bhutan to the northeast; and Bangladesh and Myanmar to the east. In the Indian Ocean, India is in the vicinity of Sri Lanka and the Maldives. India's Andaman and Nicobar Islands share a maritime border with Thailand and Indonesia.

Following market-based economic reforms in 1991, India became one of the fastest-growing major economies and is considered a newly industrialised country. In 2017, the Indian economy was the world's sixth largest by nominal GDP and third largest by purchasing power parity. However, it continues to face the challenges of poverty, corruption, malnutrition, and inadequate public healthcare. A nuclear weapons state and regional power, it has the second largest standing army in the world and ranks fifth in military expenditure among nations.

It is a pluralistic, multilingual and multi-ethnic society and is also home to a diversity of wildlife in a variety of protected habitats.

I.1 History and Culture

India's history and culture is dynamic, spanning back to the beginning of human civilization. It begins with a mysterious culture along the Indus River and in farming communities in the southern lands of India. The history of India is punctuated by constant integration of migrating people with the diverse cultures that surround India. Available evidence suggests that the use of iron, copper and other metals was widely prevalent in the Indian sub-continent at a fairly early period, which is indicative of the progress that this part of the world had made.

The Indian subcontinent was home to the urban Indus Valley Civilisation of the 3rd millennium BCE. In the following millennium, the oldest scriptures associated with Hinduism began to be composed. Social stratification, based on caste, emerged in the first millennium BC, and Buddhism and Jainism arose. Early political consolidations took place under the Maurya and Gupta empires;

the later peninsular middle kingdoms influenced cultures as far as southeast Asia.

In the medieval era, Judaism, Zoroastrianism, Christianity, and Islam arrived, and Sikhism emerged, all adding to the region's diverse culture. Much of the north fell to the Delhi sultanate; the south was united under the Vijayanagara Empire. The economy expanded in the 17th century in the Mughal Empire. In the mid-18th century, the subcontinent came under British East India Company rule, and in the mid-19th under British crown rule. A nationalist movement emerged in the late 19th century, which later, under Mahatma Gandhi, was noted for nonviolent resistance and led to India's independence in 1947.

Indian cultural history spans more than 4,500 years. During the Vedic period (c. 1700 – 500 BCE), the foundations of Hindu philosophy, mythology, theology and literature were laid, and many beliefs and practices which still exist today, such as dharma, karma, yoga, and mokṣa, were established. India is noted for its religious diversity, with Hinduism, Buddhism, Sikhism, Islam, Christianity, and Jainism among the nation's major religions.

I.2 Geography and Climate

India comprises the bulk of the Indian subcontinent, lying atop the Indian tectonic plate, and part of the Indo-Australian Plate. India's defining geological processes began 75 million years ago when the Indian plate, then part of the southern supercontinent Gondwana, began a north-eastward drift caused by seafloor spreading to its south-west and, later, south and south-east. Simultaneously, the vast Tethynoceanic crust, to its northeast, began to subduct under the Eurasian plate. These dual processes, driven by convection in the Earth's mantle, both created the Indian Ocean and caused the Indian continental crust eventually to under-thrust Eurasia and to uplift the Himalayas. Immediately south of the emerging Himalayas, plate movement created a vast trough that rapidly filled with river-borne sediment and now constitutes the Indo-Gangetic Plain. Cut off from the plain by the ancient Aravalli Range lies the Thar Desert.

The original Indian plate survives as peninsular India, the oldest and geologically most stable part of India. It extends as far north as the Satpura and Vindhya ranges in central India. These parallel chains run from the Arabian Sea coast in Gujarat in the west to the coal-rich Chota Nagpur Plateau in Jharkhand in the east. To the south, the remaining peninsular landmass, the Deccan Plateau, is flanked on the west and east by coastal ranges known as the Western and Eastern Ghats; the plateau contains the country's oldest rock formations, some over one billion years old. Constituted in such fashion, India lies to the north of the equator between 6° 44' and 35° 30' north latitude and 68° 7' and 97° 25' east longitude.

India's coastline measures 7,517 kilometres (4,700 mi) in length; of this distance, 5,423 kilometres (3,400 mi) belong to peninsular India and 2,094 kilometres (1,300 mi) to the Andaman, Nicobar, and Lakshadweep island chains. According to the Indian naval hydrographic charts, the mainland coastline consists of the following: 43% sandy beaches; 11% rocky shores, including cliffs; and 46% mudflats or marshy shores.

Major Himalayan-origin rivers that substantially flow through India include the Ganges and the Brahmaputra, both of which drain into the Bay of Bengal. Important tributaries of the Ganges include the Yamuna and the Kosi; the latter's extremely low gradient often leads to severe floods and course changes. Major peninsular rivers, whose steeper gradients prevent their waters from flooding, include the Godavari, the Mahanadi, the Kaveri, and the Krishna, which also drain into the Bay of Bengal; and the Narmada and the Tapti, which drain into the Arabian Sea. Coastal features include the marshy Rann of Kutch of western India and the alluvial Sundarbans delta of eastern India; the latter is shared with Bangladesh. India has two archipelagos: the Lakshadweep, coral atolls off India's south-western coast; and the Andaman and Nicobar Islands, a volcanic chain in the Andaman Sea.

The climate of India may be broadly described as tropical monsoon type. The Indian

Meteorological Department (IMD) designates four official seasons: (i) Winter, from December to early April. The year's coldest months are December and January, when temperatures average around 10-15 °C (50- 59°F) in the north-west; temperatures rise as one proceeds towards the equator, peaking around 20 25°C (68-77 °F) in mainland India's south-east, (ii) Summer or pre-monsoon season, lasting from April to June (April to July in north-western India). In western and southern regions, the hottest month is April; for northern regions, May is the hottest month. Temperatures average around 32-40 °C (90-104 °F) in most of the interior, (iii) Monsoon or rainy season, lasting from June to September. The season is dominated by the humid south-west summer monsoon, which slowly sweeps across the country beginning in late May or early June. Monsoon rains begin to recede from North India at the beginning of October. South India typically receives more rainfall, and (iv) Post-monsoon season, lasting from October to December. In north-western India, October and November are usually cloudless. The Himalayan states, being more temperate, experience two additional seasons: autumn and spring. Traditionally, Indians note six seasons, each about two months long. These are the spring, summer, monsoon, early autumn, late autumn and winter. These are based on the astronomical division of the 12 months into six parts. The ancient Hindu calendar also reflects these seasons in its arrangement of months. India's climate is affected by two seasonal winds—the north-east monsoon and the south-west monsoon. The north-east monsoon commonly known as winter monsoon blows from land to sea whereas south-west monsoon known as summer monsoon blows from sea to land after crossing the Indian ocean, the Arabian sea and the Bay of Bengal. The south-west monsoon brings most of the rainfall during the year in the country.

I.3 Government and Political Situation

India, a union of states, is a Sovereign Socialist Secular Democratic Republic with a parliamentary of government. The Republic is governed in terms of the Constitution, which was adopted by Constituent Assembly on November 26, 1949 and came into force on January 26, 1950. The Constitution which envisages parliamentary form of government is federal in structure with unitary features. The President of India is the constitutional head of executive of the union. Article 74(1) of the Constitution provides that there shall be a Council of Ministers with the Prime Minister as its head to aid and advise the President who shall in exercise of his functions, act in accordance with such advice. The real executive power thus vests in the Council of Ministers with the Prime Minister as its head. The Council of Ministers is collectively responsible to the House of the People (Lok Sabha). Similarly, in states, the Governor is the head of executive, but it is the Council of Ministers with the Chief Minister as its head in whom real executive power vests. The Council of Ministers of a state is collectively responsible to the Legislative Assembly of the state. The Constitution distributes legislative power between Parliament and State Legislatures and provides for vesting of residual powers in Parliament. The power to amend the Constitution also vests in Parliament. The Constitution has provision for independence of Judiciary, Comptroller and Auditor-General, Public Service Commissions and Chief Election Commission.

I.3.1 Union and its Territories

India comprises 29 states and seven union territories. The states are: Andhra Pradesh, Assam, Arunachal Pradesh, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Odisha, Punjab, Rajasthan, Sikkim, Tamil Nadu, Telangana, Tripura, Uttarakhand, Uttar Pradesh and West Bengal.

Union territories are: Andaman and Nicobar Islands, Chandigarh, Dadra and Nagar Haveli, Daman and Diu, National Capital Territory of Delhi, Lakshadweep and Puducherry.

I.3.2 Citizenship

The Constitution of India provides for a single citizenship for the whole of India. Every person who was at the commencement of the Constitution (January 26, 1950) domiciled in the territory of India and: (a) who was born in India; or (b) either of whose parents were born in India; or (c) who has been ordinarily resident in India for not less than five years became a citizen of India. The Citizenship Act, 1955, deals with matters relating to acquisition, determination and termination of Indian citizenship after the commencement of the Constitution.

I.4 Demography

India is the second most populated country in the world with nearly a fifth of the world's population. According to the 2017 revision of the World Population Prospects, the population stood at 1,324,171,354.

During 1975–2010 the population doubled to 1.2 billion. The Indian population reached the billion mark in 1998. India is projected to be the world's most populous country by 2024, surpassing the population of China. It is expected to become the first political entity in history to be home to more than 1.5 billion people by 2030, and its population is set to reach 1.7 billion by 2050.

India has more than 50% of its population below the age of 25 and more than 65% below the age of 35. It is expected that, in 2020, the average age of an Indian will be 29 years, compared to 37 for China and 48 for Japan; and, by 2030, India's dependency ratio should be just over 0.4.

India has more than two thousand ethnic groups, and every major religion is represented, as are four major families of languages (Indo-European, Dravidian, Austroasiatic and Sino-Tibetan languages) as well as two language isolates (the Nihali languages spoken in parts of Maharashtra and the Burushaski language spoken in parts of Jammu and Kashmir (Kashmir).

Further complexity is lent by the great variation that occurs across this population on social parameters such as income and education. Only the continent of Africa exceeds the linguistic, genetic and cultural diversity of the nation of India.

The sex ratio is 944 females for 1000 males for 2016 (940 per 1000 in 2011). This ratio has been showing an upwards trend for the last two decades after a continuous decline in the last century.

II Overview of Macroeconomic activity and Fiscal Position

II.1 Macroeconomic Activity and policy response

The Central Government in FY 2016-17 achieved budgeted target of fiscal Deficit of 3.5 per cent of GDP. Prudent economic policies, manifested in a combined focus on reducing government spending and increasing revenue receipts ensured that the Government stayed its course. This achievement ensured that the government is on track to achieve its fiscal deficit targets as outlined in the Fiscal Responsibility and Budgetary Management Act (FRBM).

FY 2017-18 started on this positive back drop. Fiscal policy 2017-18 of the Government apart from the major macro parameters, has also built on landmark budgetary and fiscal reforms undertaken in 2017-18. At least two major fiscal reforms which need mention due to their impact on fiscal policy outcomes are advancement of budget cycle and roll out of Goods and Services Tax from July 1, 2017. A single value-added tax for the country - the Goods and Services Tax (GST), which is a destination-based tax replaced the numerous indirect taxes pervading the country. Cross-country evidence pointed to the challenges that an introduction of a VAT regime imposed on any country.

By frontloading the proportion of expenditure during the current FY, it has been possible for the government to initiate expenditure during the first half of the financial year itself. The fiscal targets set for the FY 2017-18 seemed to be at risk especially in the first quarter as the expenditure was far greater than the receipts of the Government. This, however, does not give an accurate picture of the Government's fiscal stance as certain receipts, especially the Non-Tax Revenue start accruing during the latter half of the year.

The trend of the government expenditure from April to November 2017 point out to an increase in expenditure as a per cent of BE over the corresponding period of the previous year. The April-November 2017 total expenditure was 68.9 per cent of BE compared to 65 per cent of BE during the previous FY. The increase was seen in both capital and revenue expenditures. While revenue expenditure showed an increase to the tune of 4.4 percentage points, capital expenditure showed an increase of 1.8 percentage points. These points are clearly visible from the graph extracted and placed below. The jump in total expenditure as a per cent of GDP that was clearly visible as a sharp upturn in Q1 has moderated to a great extent. However, this compared to the previous year's seems to have subsided a bit and there is also a positive turn that total revenue receipts have taken.

If we look at the trend of receipts, we see a different picture. The total receipts were only 54.2 per cent of budgeted receipts during the current financial year compared to the figure of 57.1 percentage during corresponding period of the previous year. The Gross Tax Revenues also saw a similar trend with the per cent compared to Budgetary Estimates (BE) remaining at 9 per cent as opposed to 57.2 per cent during corresponding period of the previous year. The higher revenue accruals during the previous years was buoyed by the Disclosure of Income Scheme and the robust growth that was witnessed during the first 8 months of the previous financial year. The fall in receipts has been on account of the uncertainties regarding the streamlining of the GST processes on the indirect tax side. The initial hiccups notwithstanding the latter-day collections have shown a robust firming up after the GST revenues have shown an increase on the back of reviving growth in the economy and the removal of the teething issues related to the introduction of GST.

The revised estimates (RE) 2017-18 for the total Expenditure has been pegged at Rs. 2217750 crores compared to the BE 2017-18 of Rs. 2146735 crores. This implies an increase of Rs. 71015 crore or 3.3 per cent over the Budget estimates. The main reasons for the increase over BE estimates is the increase of Rs. 61331 crore that have been provided in the demand of the Department of Revenue, on account of GST compensation cess. As a percentage of GDP, the total expenditure works out to 13.2 per cent which implies a growth rate of 12.0 per cent above the actuals of 2016-

17. The other increases were mainly on account of the need to provide for salaries to grantee bodies, subsequent to the decision for implementing 7th CPC recommendations to autonomous bodies as well.

The transfer of GST compensation cess to states is fiscal neutral as the above amounts have been levied as a cess over the peak rate of 28 per cent on certain specified luxury and demerit goods, like tobacco and tobacco products, pan masala, aerated waters, motor vehicles. This is proposed to be introduced for a period of five years to compensate States for any revenue loss on account of implementation of GST. The amounts are transferred to a non-lapsable fund in the public account called the GST Compensation Fund as per the Section 10 of the GST (Compensation to States) Act, 2017.

In terms of overall expenditures, there has been an increase in revenue expenditures from Rs. 1836934 crores to Rs. 1944305 crores. This implies an increase to the tune of Rs. 1,07,371 crore or 5.8 per cent over the BE. The increase in Revenue Expenditure was offset by the reduction in capital expenditure that was financed through the budgetary resources. The reduction was to the tune of Rs. 36,356 crores, which represented a reduction of 11.7 per cent compared to Budgetary estimates. The main reasons for reduction is a rationalisation of the support provided to railways and the rationalisation of the mechanism for transferring externally aided projects (EAP) loans to State Governments.

There has been an increase in revised estimates of gross tax revenue. It has been estimated to increase from Rs. 1911579 crores in BE 2017-18 to Rs. 1946119 crores in RE 2017-18. This increase is, however, mainly on account of GST compensation cess to the tune of Rs. 1331 crore in RE 2017-18 which did not feature in Budget Estimates of 2017-18. In addition to above, direct taxes have been estimated with an increase of Rs. 25,000 crores over BE. However, on the revenue receipts side especially those impacting the resources that the Central Government can use by way of its Net to Centre amount the total revenue receipts fell by Rs. 71674 crores from a BE of Rs. 1515771 crores to a RE of Rs. 1444097 crores. The above reduction is mainly because of a fall in indirect tax collections to the tune of Rs. 51856 crores from the BE of Rs. 926900 crores to the RE of Rs. 875044 crores. One of the main reasons for the reduction can be attributed to the spill over impact of the tax filing dates for the last month of the current fiscal year. The last date for filing GST returns for the month of March 2018 is 20th April and, therefore, the revenues that the Centre can use during this fiscal year is lower to that extent. On the Non-tax revenue front as well there has been a decrease to the tune of Rs. 52783 crores from a budgeted figure of Rs. 2,88,757 crores to 2,35,974 crores.

On the capital receipts side, the non-debt capital receipts have shown an increase of Rs. 33041 crores, from a BE of Rs. 84432 crores to Rs. 117473 crores in RE. This jump was mainly contributed by the increase in disinvestment receipts by Rs. 27500 crores from a BE of Rs. 72500 crores to Rs. 100000 crores in RE 2017-18.

In view of reform measures initiated by Government as mentioned above, and the requirements of challenging times, the fiscal consolidation as mandated by the FRBM Act has been recalibrated by the Government. Accordingly, fiscal deficit target in revised estimates 2017-18 has been recalibrated at 5 per cent of GDP as against 3.2 per cent of GDP envisaged in budgetary estimates. This leeway is but the natural concomitant of a wide-ranging reform initiative that has been introduced in the Government, namely introduction of the Goods and Services Tax.

A further rise in households' inflation expectations in the June 2018 round of the Reserve Bank's survey warrants caution, especially to prevent wage-cost spirals from developing. On the whole, headline inflation is projected at 4.6 per cent in Q2:2018-19; 4.8 per cent in H2 and 5.0 per cent in Q1:2019-20, including the House Rent Allowance (HRA) impact for central government employees, with risks evenly balanced. Excluding the impact of HRA revisions, headline inflation is projected at 4.4 per cent in Q2:2018- 19; 4.7-4.8 per cent in H2 and 5.0 per cent in Q1:2019-20. The Reserve Bank of India raised the policy repo rate by 25 bps in June 2018 and again in August, keeping in view the hardening of inflation and inflation expectations, while continuing with the neutral stance. The conduct of monetary policy will continue to be guided by the objective of achieving the medium-term target for CPI inflation of 4 per cent within a tolerance band of +/- 2 per cent, while supporting growth.

With regard to the fiscal position of states, budget estimates for 2018-19 have envisaged a revenue surplus and a lower fiscal deficit. During the year, however, fiscal risks may emanate from many states going for elections, the additional burden of farm loan waivers announced outside budgeted outlays, and the implementation of pay/pension/allowances revisions. Revenue mobilisation remains the key to attaining the budgeted targets. The cushion provided by compensation cess by the centre for any interim shortfall in GST revenue could help smooth state finances on the revenue front. Against this backdrop, the combined gross fiscal deficit of the centre and states is budgeted to be brought down to 5.9 per cent of GDP in 2018-19 from 6.6 per cent in the revised estimates for 2017-18.

Global headwinds are likely to confront India's external sector in 2018-19. Even though exports have gathered momentum in Q1 of 2018- 19, the worsening global trade environment as a result of protectionist policies may impinge upon external demand. Elevated crude oil prices and the strengthening of domestic demand may push up the import bill. With India being a net energy importer, the changing demand-supply dynamics in the international crude oil market may impact heavily on India's trade deficit. With domestic information technology (IT) companies gradually adapting to the global business environment, software exports are expected to remain strong. The increase in limits for foreign portfolio investment in both government and corporate bonds augurs well for the prospects for external financial flows adjusted for downside risks. The current account deficit is expected to be largely financed by FDI flows.

II.1.1 International Environment

During the past year, global growth maintained pace, but asynchronously across regions. World trade growth has slowed down in recent months due to ongoing trade tensions clouding the overall outlook. Inflation pressures are building up in advanced economies (AEs) and emerging market economies (EMEs) on rising energy prices. Financial markets, particularly in EMEs, remained volatile given the ongoing normalisation of US monetary policy, crude price volatility and geopolitical tensions.

In the paste one year, many uncertainties have clouded the near-term outlook for the global economy on several fronts. First, world trade is showing signs of slowdown with the intensification of trade wars. Second, crude prices are experiencing high volatility at elevated levels and risks of supply disruptions have been slanted to the upside by geopolitical tensions. Third, inflation pressures are building up in some AEs as well as in many EMEs, mainly on elevated energy prices. Consequently, even as global growth has maintained pace, it has diverged amongst regions/ economies – strong activity in North America and in several parts of Asia and Africa, but a weaker profile in Europe, China, Latin America and sub-Saharan Africa.

Global financial markets have been unsettled by bouts of high turbulence and volatility, and swings in investor sentiment have become more pronounced in the recent period. A brewing cocktail of the ongoing monetary policy normalisation in the US, escalating trade conflicts and geopolitical tensions, persisting fears of crude price volatility and crisis conditions in some EMEs are intermittently triggering waves of risk aversion with respect to EMEs as an asset class and flight to safety. Equity markets have reflected these swings, scaling new highs in the US but with sharp selloffs in EMEs. Bond yields spiked in major AEs in April, but softened subsequently on safe haven demand, while they remained elevated in EMEs, impacted by global spill overs, including technical contagion. The US dollar's persistent appreciation right up to mid- August has translated into currency depreciations in other AEs and EMEs.

Thus, global economic activity has so far remained resilient to ongoing trade conflicts, geopolitical tensions and tightening financial conditions. However, financial market volatility has increased as investors continuously reassess the impact of unfolding events. More ominously, global trade growth has begun to slow down. The inflation outlook has deteriorated in many AEs and EMEs. These developments taken together will pose a major challenge to global growth prospects in the coming quarters and years.

II.1.2 India's Trade Performance

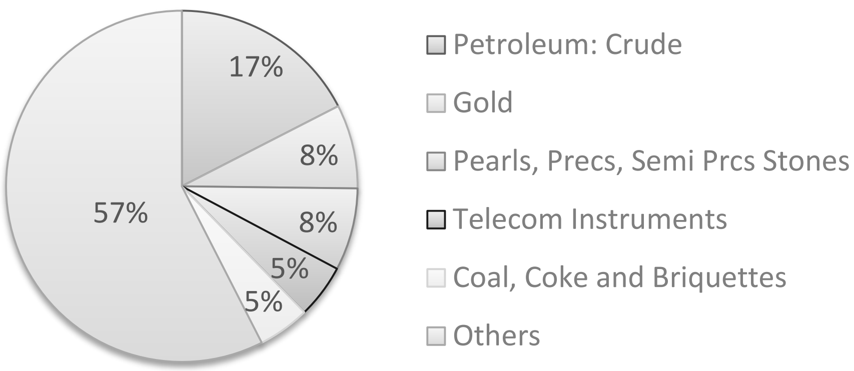
India's merchandise exports reached a level of US$ 275.85 billion during April-March 2016-17 registering a positive growth of 5.17 percent as compared to a negative growth of 15.48 percent during the previous year. Despite the setback faced by India's export sector due to global slowdown, merchandise exports recorded a Compound Annual Growth Rate (CAGR) of 6.01 percent from April-March 2007-08 to April-March 2016-17.

II.1.2.1 Exports

Exports recorded a positive growth of 11.15 per cent during Apr-Nov 2017-18 over the corresponding period of the previous year in US$ terms. The merchandise exports have reached US$ 194.97 billion in Apr-Nov 2017-18. Exports of the top five commodities during the period Apr-Oct 2017-18 registered a share of 32.97 per cent mainly due to significant contribution in the exports of Petroleum Products; Pearl, precious, semi-precious Stones; Gold and other Precious Metal Jewellery; Drug Formulations Biological; and Iron and Steel.

Cumulative value of exports for the period April-July 2018-19 was US$108.24 Billion (Rs 7,29,823.08crore) as against US $94.76 Billion (Rs 6,10,780.14crore) registering a positive growth of 14.23per cent in Dollar terms and 19.49 per cent in Rupee terms over the same period last year.

Figure 1: Share of Top 5 Commodities in India's Exports (April to June, 2017)

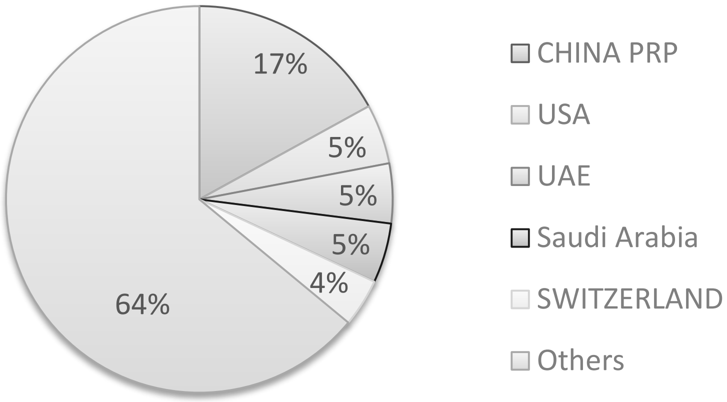


Source: Ministry of Commerce and Industry, Government of India

II.1.2.2 Export Destinations

The share of Asia comprising of East Asia, ASEAN, West Asia, Other West Asia, North East Asia and South Asia accounted for 49.39 per cent of India's total exports. The share of America and Europe in India's exports stood at 21.09 per cent and 19.24 per cent respectively of which EU countries (27) comprises 17.07 per cent. During the period, USA (16.06 per cent) has been the most important country of export destination followed by UAE (10.14 per cent), Hong Kong (5.22 per cent), China P REPUBLIC (3.98 per cent) and Singapore (3.72 per cent).

Figure 2: Top 5 Countries of Exports Share % (April to June, 2017)

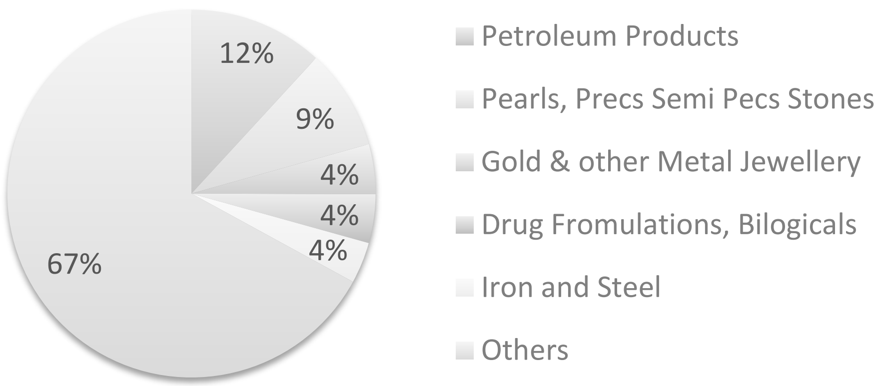


Source: Ministry of Commerce and Industry, Government of India

II.1.2.3 Imports

Cumulative value of import during Apr-Nov 2017-18 (P) was US$ 297.82 billion as against US$ 243.30 billion during the corresponding period of the previous year registering a positive growth of 22.41 per cent in US$ terms. Oil imports were valued at US$ 52.66 billion during Apr-Nov 2017-18 (P) which was 21.51 per cent higher than oil import valued at US$ 43.34 billion in the corresponding period of previous year. Non-oil imports were valued at US$ 245.16 billion during Apr- Nov 2017-18 (P) which was 22.61 per cent higher than non-oil import of US$ 199.96 billion in previous year. Import of the top five commodities during the period Apr-Oct 2017-18 (P) registered a share of 42.49 per cent mainly due to significant import of Petroleum Crude; Gold; Pearls, precious and semi-precious stones; Telecom Instruments; and Coal, Coke and Briquettes etc.

Figure 3: Share of Top 5 Commodities in India's Imports (April to June, 2017)

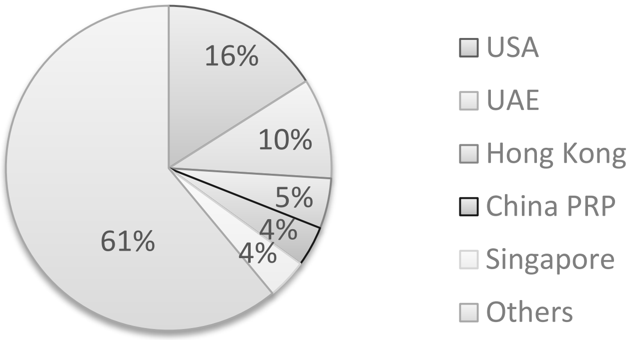


Source: Ministry of Commerce and Industry, Government of India

II.1.2.4 Import Destinations

Asia accounted for 60.49 per cent of India's total import during the period 2017-18 (Apr-Oct) (P), followed by Europe (14.78 per cent) and America (11.81 per cent). Among individual countries the share of China (16.86 per cent) stood highest followed by USA (5.47 per cent), UAE (5.01 per cent), Saudi Arabia (4.65 per cent) and Switzerland (4.38 per cent).

Figure 4: Top 5 Countries of Imports Share % (April to June, 2017)



Source: Ministry of Commerce and Industry, Government of India

II.1.3 Trade Balance

The trade deficit in Apr-Nov 2017-18 (P) was estimated at US$ 102.85 billion which was higher than the deficit of US$ 67.89 billion during the corresponding period of the previous year. Performance of Exports, Import and Balance of Trade in Dollar terms during 2014-15 to 2017-18 is given in the table below:

Table 1 India's Foreign Trade (in Million $)

Year	Exports			Imports			Trade Balance		
	Oil	Non-Oil	Total	Oil	Non-Oil	Total	Oil	Non-Oil	Total
2014-15	56794.1	253557.9	310352.0	138325.5	309707.9	448033.4	-81531.4	-56150.0	-137681.4
2015-16	30582.6	231708.4	262291.1	82944.5	298063.3	381007.8	-52361.8	-66354.8	-118716.7
2016-17	31545.3	244307.2	275852.4	86963.8	297393.2	384357.0	-55418.6	-53086.0	-108504.6
2017-18	37456.6	265919.6	303376.2	108658.6	356919.7	465578.3	-71202.0	-91000.1	-162202.1

Source: Reserve Bank of India

II.1.4 Balance of Payments

India's external account continued to remain comfortable in FY18 notwithstanding an increase in the current account deficit to 1.9% of GDP from 0.6% in FY17. The current account deficit has been under control for the last five years and has been less than 2%. In FY12 and FY13, which was the time when the crude oil price had peaked in global markets, the deficit was at 4.2% and 4.8% respectively. Low crude oil prices have kept the current deficit in check as the invisibles account was largely stable. Between FY14 and FY17, there was a continuous decline in the current account deficit which had gotten reversed in FY18. With strong support coming from the capital account the forex reserves too have been increasing at a steady pace.

The capital account as can be seen in the table has become stronger in FY18 with $ 91.4 bn coming in net terms. More than half has come from foreign investment (58%) and around 18% each from loans and banks (which cover NRIs). The FDI story is interesting as there are two sides to it which comes out from the net numbers which rose till FY16 and then declined in the subsequent two years. Gross inflows have been buoyant in the region of $ 60 bn in the last two years which is remarkable as it had risen from $ 36 bn in FY14 to $ 44 bn in FY15 and $ 55 bn in FY16.

Table 2 India's Balance of Payments (in Billion $)

Years	2013-14	2014-15	2015-16	2016-17	2017-18
A. CURRENT ACCOUNT					
I. MERCHANDISE	-147.6	-144.2	-130.1	-112.4	-160
II. INVISIBLES (a+b+c)	115.2	116.2	107.9	97.1	111.3
a) Services	73	75.7	69.7	67.5	77.6
Of which :					
Software Services	67	70.4	71.5	70.1	72.2
b) Transfers	65.3	65.5	62.6	56	62.4
c) Income	-23	-25	-24.4	-26.3	-28.7
Total Current Account (I+II)	-32.4	-27.9	-22.2	-15.3	-48.7
B. CAPITAL ACCOUNT					
1. Foreign Investment (a+b)	26.4	73.6	31.9	43.2	52.4
a) Foreign Direct Investment (i+ii)	21.6	32.6	36	35.6	30.3
b) Portfolio Investment	4.8	40.9	-4.1	7.6	22.1
2.Loans (a+b+c)	7.8	3.4	-4.6	2.4	16.7
a) External Assistance	1	1.6	1.5	2	2.9
b) Commercial Borrowings(MT&LT)	11.8	2.7	-4.5	-6.1	-0.2
c) Short Term To India	-5	-0.9	-1.6	6.5	13.9
3. Banking Capital (a+b)	25.4	11.6	10.6	-16.6	16.2
of which: Non-Resident Deposits	38.9	14.1	16.1	-12.4	9.7
4. Rupee Debt Service	-0.1	-0.1	-0.1	-0.1	-0.1
5. Other Capital	-10.8	1.4	3.3	7.6	6.2
Total Capital Account (1 to 5)	48.8	90	41.1	36.5	91.4
C. Errors & Omissions	-0.9	-0.6	-1.1	0.4	0.9
D. Overall Balance (A+B+C)	15.5	61.4	17.9	21.6	43.6

Source: Reserve Bank of India

II.1.5 Foreign Direct Investment

Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment.

The Indian government's favourable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others. According to Department of Industrial Policy and Promotion (DIPP), the total FDI investments in India April-June 2018 stood at US$ 12.75 billion, indicating that government's effort to improve ease of doing business and relaxation in FDI norms is yielding results.

Data for April-June 2018 indicates that the services sector attracted the highest FDI equity inflow of US$ 2.43 billion, followed by trading – US$ 1.63 billion, telecommunications – US$ 1.59 billion and computer software and hardware – US$ 1.41 billion. Most recently, the total FDI equity inflows for the month of June 2018 touched US$ 2.89 billion. During April-June 2018, India received the maximum FDI equity inflows from Singapore (US$ 6.52 billion), followed by Mauritius (US$ 1.49 billion), Japan (US$ 0.87 billion), Netherlands (US$ 0.84 billion), and United Kingdom (US$ 0.65 billion).

India emerged as the top recipient of greenfield FDI Inflows from the Commonwealth, as per a trade review released by The Commonwealth in 2018.

Government of India is planning to consider 100 per cent FDI in Insurance intermediaries in India to give a boost to the sector and attracting more funds. In January 2018, Government of India allowed foreign airlines to invest in Air India up to 49 per cent with government approval. The investment cannot exceed 49 per cent directly or indirectly. No government approval will be required for FDI up to an extent of 100 per cent in Real Estate Broking Services. In September 2017, the Government of India asked the states to focus on strengthening single window clearance system for fast-tracking approval processes, in order to increase Japanese investments in India.

The Ministry of Commerce and Industry, Government of India has eased the approval mechanism for foreign direct investment (FDI) proposals by doing away with the approval of Department of Revenue and mandating clearance of all proposals requiring approval within 10 weeks after the receipt of application. The Government of India is in talks with stakeholders to further ease foreign direct investment (FDI) in defence under the automatic route to 51 per cent from the current 49 per cent, in order to give a boost to the Make in India initiative and to generate employment. In January 2018, Government of India allowed 100 per cent FDI in single brand retail through automatic route.

India has become the most attractive emerging market for global partners (GP) investment for the coming 12 months, as per a recent market attractiveness survey conducted by Emerging Market Private Equity Association (EMPEA).

Table 3 FDI Inflows (in Billion $)

Year	2013-14	2014-15	2015-16	2016-17	2017-18
FDI Inflows	36.5	45.15	55.56	60.22	61.96

Source: Ministry of Commerce and Industry, Government of India

II.1.6 Foreign Exchange Reserves

India’s foreign exchange reserves comprise foreign currency assets (FCAs), gold, SDRs and reserve tranche position (RTP) in the IMF. Accretion to foreign exchange reserves is the outcome of absorption of excess of capital flows balance over the current account financing needs and valuation gain/loss. In the recent past, trade deficit witnessed moderation, reflecting the impact of lower crude oil prices, among others. In the fiscal 2016-17, foreign exchange reserves remained in the range of US$ 359.0 billion to US$ 372.0 billion. Foreign exchange reserves stood at US$ 400.05 billion at the end of September, 2018. Country’s foreign exchange reserves are at a comfortable position to buffer any external shocks.

II.1.7 Exchange Rate of Rupee

In the fiscal 2016-17, the average monthly exchange rate of rupee (RBI’s reference rate) was in the range of Rs. 65-68 per US dollar (Rs. 65.87 per US dollar in March 2017 and Rs. 68.08 per US dollar in January 2017). The annual average exchange rate of rupee for 2016-17 was Rs. 67.07 per US dollar, showing a depreciation of 2.4 per cent over Rs. 65.46 per US dollar in 2015-16. During 2017-18 (April-August), the average monthly exchange rate of rupee appreciated by 4.0 percent to Rs. 64.36 per US dollar as compared to yearly average of Rs. 66.96 per US dollar in 2016-17.

However, the Indian rupee proved to be one of the world's worst performing currencies of 2018, losing more than 13% of its value against the US dollar. Several emerging markets have been hit hard this year by global trade tensions and rising US interest rates, which make the dollar more attractive.

Although, India's economy is in much better shape, posting growth of 8.2% in the most recent quarter. But the sharp fall in the rupee threatens to stoke inflation as imported goods become more expensive as India is a major energy importer and the weakness in the currency has coincided with rising global oil prices, compounding the pain.

II.1.8 External Debt

India’s debt-to-GDP ratio is high at around 70 percent of GDP. Over the medium-term debt is projected to decline to around 63 percent of GDP driven by favourable debt dynamics. Nominal GDP growth is projected to increase from 10 percent to around 12 percent over the medium term and effective interest rates are projected to remain close to 8 percent. Inflation over the medium term is forecast to be stable around 4 percent. India’s debt-stabilizing primary deficit is calculated at 2.5 percent of GDP, and the primary deficit in the baseline assumptions is nearly one percent of GDP lower than that over the medium term.

Nearly 95 percent of debt has a long and medium-term maturity, and debt is largely held by residents. Foreign currency-denominated debt is negligible. The composition of debt is set to remain the same over the projection period with the bulk of financing needs met by the issuance of medium and long-term debt denominated in domestic currency and held by residents. The interest bill is substantial with gross financing needs equivalent to nearly 12 percent of GDP. As fiscal consolidation resumes, these needs will decline by around 3 percent of GDP over the medium term. The statutory liquidity requirement creates a captive domestic market for debt which limits the interest cost of debt.

II.1.9 External Debt Stock

India’s total external debt stock at end-December 2017 was at US$ 513.4 billion, recording an increase of US$ 41.6 billion (8.8 per cent) over its level at end-March 2017. Long-term external debt increased by 8.4 per cent to US$ 415.8 billion, while short-term debt registered a rise of 10.8 per cent to US$ 97.6 billion. The maturity profile of India’s external debt continues to be dominated by long-term loans.

II.1.10 External Debt Indicators

The key external debt indicators show a mixed trend in December 2017. The share of short-term debt in total external debt increased to 19.0 per cent at end-December 2017 from 18.6 per cent at end-March 2017. India’s foreign exchange reserves provided a cover of 79.7 per cent to the total external debt stock at end-December 2017 vis-à-vis 78.4 per cent at end-March 2017.The ratio of short-term external debt to foreign exchange reserves was at 23.8 per cent at end-December 2017 which was the same as at end-March 2017. The ratio of concessional debt to total external debt was lower at 8.6 per cent at end-December 2017 than 9.3 per cent at end-March 2017. Key external debt indicators are given below.

Table 4 India's Key Financial Debt Indicators (per cent)

Year	External Debt (US $ billion)	External Debt to GDP	Debt Service Ratio	Concessional Debt to Total Debt	Foreign Exchange Reserves to Total Debt	Short-Term External Debt# to Foreign Exchange Reserves	Short-Term External Debt to Total Debt
2012-13	409.4	22.4	5.9	11.1	71.3	33.1	23.6
2013-14	446.2	23.9	5.9	10.4	68.2	30.1	20.5
2014-15	474.7	23.9	7.6	8.8	72	25	18
2015-16 PR	485.1	23.5	8.8	9	74.3	23.1	17.2
2016-17 PR	471.8	20.2	8.3	9.3	78.4	23.8	18.7
End-Dec 2017 QE	513.4	*	*	8.6	79.7	23.8	19

PR: Partially Revised; QE: Quick Estimates. # Short Term External Debt is based on Original Maturity.

Source: Department of Economic Affairs, Ministry of Finance

India's external debt has remained within manageable limits as indicated by the external debt indicators. The prudent external debt management policy of the Government of India has helped in containing rise in external debt and maintaining a comfortable external debt position. The policy continues to focus on monitoring long and short-term debt, raising sovereign loans on concessional terms with longer maturities, regulating external commercial borrowings and rationalizing interest rates on Non-Resident Indian deposits.

II.2 Domestic Environment

II.2.1 Economic Growth

The year 2017-18 was marked with strong macro-economic fundamentals. However, the growth of gross domestic product (GDP) moderated in 2017-vis-à-vis 2016-17. There was an improvement in export growth, fiscal trends remained attuned to the consolidation plans and inflation remained within the limits. The year also witnessed an increase in global confidence in Indian economy as well as improvement in ease of doing business ranking.

The economy is expected to grow by 6.5 per cent in 2017-18 in terms of GDP at constant (2011-12) market prices. The gross value added (GVA) at constant (2011-12) basic prices is expected to grow by 6.1 per cent in 2017-18, as compared to the growth of 7.1 per cent achieved in 2016-17. The growth in agriculture, industry and services is estimated at 2.1 per cent, 4.4 per cent and 8.3 per cent respectively in 2017-18, as compared to 4.9 per cent, 5.6 per cent and 7.7 per cent in 2016-17. Growth rate of industry sector declined in 2017-18, mainly on account of moderate growth in manufacturing sector. It was the services sector that contributed to more than half of the overall GVA growth rate of 6.1 per cent in 2017-18. From the demand side, the final consumption expenditure has been the major driver of GDP growth. The growth of fixed investment at constant prices increased from 2.4 per cent in 2016-17 to 4.5 per cent in 2017-18. As per CSO, the exports of goods and services are estimated to grow by 4.5 per cent in real terms in 2017-18 as was the case in 2016-17, whereas the imports are estimated to grow by 10.0 per cent in 2017- 18 as against 2.3 per cent in 2016-17.

In an environment in which global growth gained traction and broadened across geographies with international trade outpacing it, the Indian economy rounded a turning point during Q2 of 2017-18 as it emerged out of a five-quarter slowdown. Aggregate demand picked up, with the four-quarter phase of consumption-led activity giving way to a much awaited upturn in investment. Fiscal support in the form of government final consumption expenditure (GFCE) on the demand side, and public administration, defence and other services (PADO), on the supply side, continued to cushion aggregate economic activity, but waned somewhat in 2017-18 in relation to the immediately preceding year.

In the second half of the year, these impulses strengthened as manufacturing started recovering from sluggishness, accompanied by strong corporate sales growth, an uptick in capacity utilisation and drawdown of inventories of finished goods, an incipient starting up of the capital expenditure (capex) cycle and slow return of pricing power. In the services sector, construction exhibited remarkable improvement accelerating to its fastest pace in recent years. The still unravelling picture of the performance of agriculture and allied activities brightens up the outlook considerably. While growth rates for 2017-18 will inevitably be obscured by a high base, advance estimates point to another record food grains output in 2017-18 and buffer stocks well above norms.

These developments carry risks as well. First, firming of salient commodity prices are translating into worsening terms of trade for net importers like India and higher input costs. Consequently, the economy has to contend with the drag on aggregate demand from net exports and cost-push risks to inflation at the same time. In this context, it is worthwhile to note that India is not able to reap the healing effects of strengthening global trade by expanding exports commensurately, mainly due to constraints on domestic supply conditions and productivity. Second, muted as they are at this stage, risks to macroeconomic stability have edged up. The current account deficit is widening as imports increasingly replace domestic production in several items, besides the elevation in international crude prices. In this context, aggregate demand pressures emanating from a deviation from the budgeted fiscal deficit of the general government may spill over into higher external imbalances, contributing to a ‘twin deficit’ challenge. Equally worrisome is the emergence of hysteretic pressure patterns in recent inflation outcomes under the camouflage of a delayed winter season softening of vegetable prices that has started to reverse from May 2018. Third, financing conditions are tightening just as the nascent shoots of growth are taking root. Liquidity is gradually rebalancing while gilt and corporate bond yields are hardening and banks have begun raising their interest rates. Watchfulness is warranted in the context of the tentative pickup in credit growth that is gradually finding purchase. Fourth, global spillovers from markets repricing monetary policy normalisation by systemic central banks as well as geo-political and idiosyncratic risks remain contingent threats to macroeconomic and financial stability as well as to growth prospects.

The economic activities which registered growth of over 7 percent in Q1 of 2018-19 over Q1 of 2017-18 are ‘manufacturing, ‘electricity, gas, water supply & other utility services’ ‘construction’ and ‘public administration, defence and other services. The growth in the ‘agriculture, forestry and fishing’, ‘mining and quarrying’, ‘Trade, hotels, transport, communication and services related to broadcasting’ and financial, real estate and professional services is estimated to be 5.3 percent, 0.1 percent, 6.7 percent, and 6.5 percent respectively during this period.

GDP is derived by adding taxes on products net of subsidies on products to GVA at basic prices. GDP at current prices in Q1 of 2018-19 is estimated at Rs. 44.33 lakh crore, as against Rs. 38.97 lakh crore in Q1 of 2017-18, showing a growth rate of 13.8 percent. GVA at Basic Price at current prices in Q1 of 2018-19, is estimated at Rs. 41.02 lakh crore, as against Rs. 36.34 lakh crore in Q1, 2017-18, showing an increase of 12.9 percent. Growth rates in various sectors are as follows: ‘agriculture, forestry and fishing’ (7.0 percent), ‘mining and quarrying’ (18.0 percent), ‘manufacturing’ (17.7 percent), ‘electricity, gas, water supply and other utility services’ (13.2 percent) ‘construction’ (13.8 percent), 'trade, hotels, transport and communication' (11.7 percent), 'financial, real estate and professional services' (12.1 percent), and ‘Public administration, defence and other Services' (15.4 percent).

The prolonged slowdown in global growth, subdued investments and stressed balance sheets of the banking and corporate sectors have impacted India’s efforts to achieve its growth potential. Despite these challenges, growth has accelerated. The economy grew at 7.7 per cent in Q4 of 2017-18 – the fastest pace in the last seven quarters. Gross fixed capital formation (GFCF) growth has accelerated for three consecutive quarters up to Q4 of 2017-18 and capacity utilization by manufacturing firms increased significantly of late. Credit growth has been accelerating and has reached 12.8 per cent year-on-year as on June 22, 2018 as against 5.6 per cent a year ago. Total flow of resources, including those from non-bank sources, had increased to 27.4 per cent in 2017-18.

Overall, despite higher oil prices, India's GDP growth outlook for 2018-19 remains positive and growth is expected to be broadly in line with the IMF's projection of 7.3 per cent.

II.2.2 GDP GROWTH IN 2017-18

With Gross Domestic Product (GDP) growth averaging 7.5 per cent between 2014-15 and 2016-17, India can be rated as among the best performing economies in the world on this parameter. Although growth is expected to decline to 6.5 per cent in 2017-18, bringing the 4-year average to 7.3 per cent, the broad story of India's GDP growth to be significantly higher than most economies of the world does not alter. The growth is around 4 percentage points higher than global growth average of last 3 years and nearly 3 percentage points more than the average growth achieved by emerging market & developing economies (EMDE).

As per the first Advance Estimates (1st AE), released by Central Statistics Office (CSO), growth rate of Gross Value of Added (GVA) at constant basic prices is estimated at 6.1 per cent in 2017-18, as compared to 6.6 per cent in 2016-17. This is on account of lower growth in 'Agriculture allied', and 'Industry' sector, which are expected to grow at 2.1 per cent and 4.4 per cent respectively. In 2017-18, service sector is expected to grow at 8.3 per cent, as compared to 7.7 per cent in 2016-17. Within the services sector, only the growth of 'Public administration, defence & other services' sector is expected to decline in 2017-18.

From a low of 5.5 per cent in 2012-13, growth in GDP steadily improved for 3 years and peaked in 2015-16, particularly in fourth quarter (Q4) when it printed 9.1 per cent (GVA growth also peaked in Q4 of 2015-16). However, growth started slowing down from first quarter (Q1) of 2016-17. GDP and GVA growth slowed to 61 per cent and 5.6 per cent respectively in Q4 of 2016-17.

GDP growth further declined to 5.7 per cent in Q1 of 2017-18. However, the second quarter (Q2) of 2017-18 witnessed reversal of declining trend of GDP growth, with growth increasing to 6.3 per cent. The nominal GDP and GVA growth also picked up to 9.4 per cent and 8.6 per cent respectively in Q2 of 2017-18. As per the 1st AE, the real GDP growth is expected to be 6.5 per cent in 2017-18, while the real GVA at basic prices is expected to register a growth of 6.1 per cent. With GDP and GVA growth of 6.0 per cent and 5.8 per cent respectively in the first half (H1) of the current financial year, the implicit growth for the second half (H2) of the year works out to be 7.0 per cent and 6.4 per cent respectively, indicating further recovery of the economy that began in the Q2 of 2017-18. Major macro indicators viz. gross fixed investment and exports are also expected to grow at a faster pace in H2 vis-à-vis H1 of 2017-18.

In the recent years, the wedge between the real and nominal GDP growth has narrowed significantly. While real GDP growth averaged 6.4 per cent between 2012-13 and 2014-15, the nominal growth was 12.5 per cent in this period. In comparison, during the three-year period from 2015-16 to 2017-18, the real and nominal GDP average growth is estimated to be 7.2 per cent and 10.1 per cent respectively, pointing to higher differences in the former period than latter. This is not surprising given that the fact that inflation in the earlier period (particularly in 2012-13 and 2013-14) was significantly higher than the latter.

The growth in nominal GDP in 2016-17 is estimated to be 11 per cent and it is expected at 9.5 per cent in 2017-18 on account of both lower real growth as well as lower value of deflator in 2017-18. The growth of nominal GVA in these two years is estimated to the 9.7 per cent and 9.0 per cent respectively. The differences in the nominal growth between GVA and GDP have also increased in the last few years. This is indicative of an increase in the share of net indirect taxes in GDP.

II.2.3 Gross Value Added by Various Sectors

As expected, the agriculture sector registered significantly higher growth in 2016-17 than the previous two years on the back of normal monsoon. As per the fourth advance estimates of food grains production, it was estimated that the output of food grains would be of the order of 275.7 million tonnes in 2016-17, with both cereals and pulses achieving record levels of production. Most other crops and non-crop agriculture sector also showed significant growth. 'Public administration, defence & other services' sector also registered double-digit growth in 2016-17 that largely owed to higher payouts in salaries and arrears on account of implementation of the recommendations of the Seventh Pay Commission. However, growth of industry sector declined by over 3 percentage points in the last financial year.

GVA growth in H1 of 2017-18 was 5.8 per cent, with the two quarters depicting different picture. The declining trend seen in the previous few quarters in GVA growth was arrested in Q1 of 2017-18, which registered the same rate of growth as in Q4 of 2016-17. There was a reversal of this declining trend in Q2 of 2017-18 with GVA growth of 6.1 per cent, an improvement of 0.5 percentage points vis-à-vis Q1. This was basically led by the industry sector. The growth of manufacturing sector, in particular, showed an improvement from 1.2 per cent in Q1 to 7.0 per cent in Q2 of 2017-18. The implicit growth of GVA for H2 of 2017-18 is estimated to be 6.4 per cent. The implicit growth in H2 of all three major sectors of the economy viz. agriculture & allied, industries, and services sectors being 2.2 per cent, 5.1 per cent and 8.7 per cent respectively is better than H1 of 2017-18 (Figure 3). The growth of manufacturing sector is expected to improve from 4.0 per cent in H1 to 5.1 per cent in H2 of 2017-18. 'Trade, transport, hotels, storage, communications and services relating to broadcasting', which is a part of services sector is the only sector that is likely to register a decline in growth in H2 vis-à-vis H1 of 2017-18.

One of the salient features of GVA growth in 2016-17 has been that two sectors viz. 'Agriculture & allied', and 'Public administration, defence & other services1, contributed nearly one-third of the total growth of the economy. These sectors on an average contributed to about one-sixth of the GVA growth in the period 2012-13 to 2015-16 (Figure 4). The higher contribution of these sectors in 2016-17, mainly owed to higher growth in both of these sectors. Services (excluding public administration, defence, etc.) accounted for nearly 57 per cent of the total GVA growth between 2012-13 and 2015-16. It declined to 41 per cent in 2016-17, mainly on account of lower growth in 'Financial, real estate & professional services' sector. The contribution of 'Public administration, defence & other services' to total growth during 2016-17 was nearly twice its average contribution to growth between 2012-13 and 2015-16. On the other hand, the contribution of 'Financial services, real estate and professional services' to GVA growth progressively declined since 2013-14. It declined from an average of 32.7 per cent of GVA growth during 2012-13 to 2015-16 to 18.8 per cent in 2016-17.

In 2017-18, the contribution of agriculture sector to GVA growth reverted to the mean of the period between 2011-12 to 2015-16. Contribution of 'Public administration, defence & other services' declined somewhat in 2017-18 as the growth of this sector decelerated. The contribution of industry sector to GVA growth declined in 2017-18, primarily on account of lower growth in this sector in H1 and particularly in Q1.

II.2.4 GDP AND ITS COMPONENTS

Consumption expenditure has been the major driver, accounting for nearly sixty per cent of the total GDP growth between 2012-13 and 2015-16. This contribution increased to over 95 per cent in 2016-17, which is attributed to higher growth of both Private Final Consumption Expenditure (PFCE) and Government Final Consumption Expenditure (GFCE), particularly the latter. Growth of GFCE was nearly 21 per cent in 2016-17, against an average growth of 3.5 per cent during 2012-13 to 2015-16. This owed mainly to the payment of higher wages and salaries to the government staff that followed the implementation of the recommendations of the Seventh Pay Commission. The growth of both PFCE and GFCE is expected to be lower in 2017-18 as compared to 2016-17. The share of investment, and in particular that of fixed investment in the GDP continuously declined between 2011-12 and 2016-17. While fixed investment was 34.3 per cent of GDP in 2011-12, it declined to 27.1 per cent in 2016-17. Although fixed investment is expected to grow at a faster rate in 2017-18 than in 2016-17 (thus pointing to some recovery in investment), it is still not high enough to prevent a further reduction in the share of fixed investment in GDP. After nearly stagnating in 2014-15 and declining in 2015-16, exports of goods and services began to pick up in 2016-17. Imports also increased but at a slower pace, thus helping in narrowing the current account deficit in 2016-17. Exports are expected to grow at 4.5 per cent in 2017-18, while imports are expected to grow at a faster rate. As a result, the share of net exports of goods and services (as reflected in National Accounts Statistics) in GDP is expected to decline from (-) 0.7 per cent in 2016-17 to (-) 1.8 per cent in 2017-18.

II.2.5 Per-capita Income

The real per capita income measured in terms of per capita net national income at constant (2011-12) prices is one of the important indicators representing the welfare of people of a country. It is expected to increase from Rs. 77,803 in 2015-16 to Rs. 86,660 in 2017-18, growing at an annual average rate of 5.5 per cent. In nominal terms it increased by an average of 9.0 per cent per annum from Rs. 94,130 in 2015-16 to Rs. 111,782 in 2017-18.

II.2.6 Savings

Savings in an economy originate from households, private corporate sector and public sector (including general government). In line with overall savings of the economy, the savings of household sector as a ratio of GDP have declined from 23.6 per cent in 2011-12 to 19.2 per cent in 2015-16, while that of private corporate sector have increased. With the general government savings showing an improvement, (although it continued to be in negative territory), the reduction in the public savings up to 2014-15 can be ascribed to lower level of savings of public sector undertakings.

Table 5 Savings, Investment rate (per cent)

Years	2011-12	2012-13	2013-14	2014-15	2015-16
Investment rate	39	38.7	33.8	34.4	33.3
Savings rate	34.6	33.9	32.1	33.1	32.3
Saving Investment gap	-4.3	-4.8	-1.7	-1.3	-1

Source: Office of Economic Advisor, Government of India (http://eaindustry.nic.in)

Household sector accounts for the bulk of the savings. However, the share of household savings in total savings declined from around 68 per cent in 2011-12 to 59 per cent in 2015-16. Within the households' savings, there has been a substitution away from physical to financial assets, with the share of former declining by over 10 percentage points. Public savings that declined from 1.5 per cent of GDP in 2011-12 to 0.9 per cent in 2014-15, however, increased again in 2015-16. This could be partly explained by higher collection of union excise duties, particularly from petroleum products and reduced level of petroleum subsidy bill of the central government. The share of private corporate sector in the total savings increased from 9.5 per cent of GDP in 2011-12 to about 12 per cent of GDP in 2015-16.

II.2.7 Fiscal Position

The central government's finances have achieved substantial consolidation since 2013-14, helped by buoyancy in tax revenues and rationalization of subsidies. The gross fiscal deficit (GFD) was brought down to 3.5 per cent in 2016-17 without sacrificing public investment needs and social sector spending. Though 3.2 percent GFD was budgeted for FY 2017-18, this has been revised upwards to 3.5 percent. The government has budgeted a lower order of GFD of 3.3 percent for FY 2018-19. Further, the government has resolved to achieve a target of 3 percent GFD by 2020-21.

Table 6 India Budget Financials 2018 (in Billion Rupees)

Years	2016-2017	2017-2018	2017-2018	2018-2019
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
1 Revenue Receipts	13742.03	15157.71	15054.28	17257.38
2 Tax Revenue (Net to Centre)	11013.72	12270.14	12694.54	14806.49
3 Non-Tax Revenue	2728.31	2887.57	2359.74	2450.89
4 Capital Receipts	6009.91	6309.64	7123.22	7164.75
5 Total Receipts	19751.94	21467.35	22177.5	24422.13
6 Total Expenditure	19751.94	21467.35	22177.5	24422.13
7 Revenue Deficit	3163.81	3211.63	4388.77	4160.34
8 Effective Revenue Deficit	1506.48	1258.13	2496.32	2206.89
	(-1)	(-0.7)	(-1.5)	(-1.2)
9 Fiscal Deficit	5356.18	5465.31	5948.49	6242.76
	(-3.5)	(-3.2)	(-3.5)	(-3.3)
10 Primary Deficit	549.04	234.53	640.06	484.81
	(-0.4)	(-0.1)	(-0.4)	(-0.3)

Notes: Figures in parenthesis are as a percentage of GDP
Source: Ministry of Finance, https://indiabudget.gov.in

II.2.8 Budget Deficit Trends

In tune with the requirement of the changing times and the need to re-focus on the issue of fiscal prudence along parameters that are acceptable internationally, the government has enacted Fiscal Responsibility and Budgetary Management Act (FRBM Act) to target simultaneously on fiscal deficit and debt and to target fiscal deficit as an operational target and to ensure that the FD of 3.0 per cent of GDP is reached by the Government by FY 2020-21.

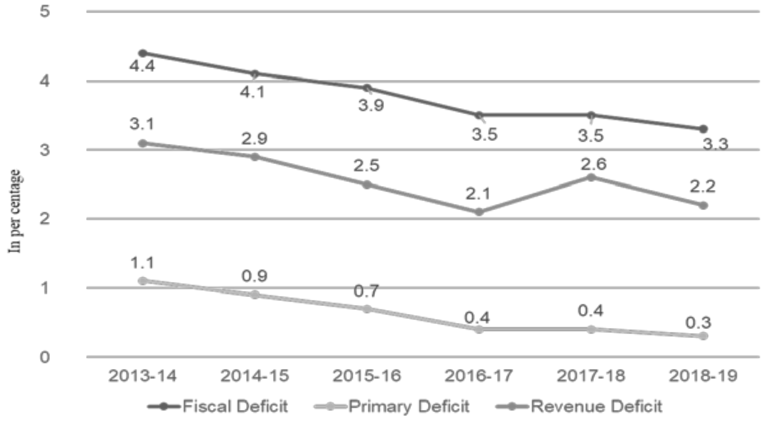
The Central Government shall endeavour to follow a declining debt trajectory and the Central Government reach a debt target of 40 per cent of GDP as also to keep the general government debt at 60 per cent of GDP by FY 2024-25.

Inserting adequately defined escape and buoyancy clauses to determine when the targets defined by the FRBM Act may be relaxed or tightened as the case maybe.

FY 2017-18 fiscal was buffeted by one tail wind and one headwind. These two winds of change were reform measures on the revenue front which will have a positive impact in the long-run on the economy. The tail wind was demonetisation and its impact on the governmental revenues. The withdrawal of high denomination 500- and 1000-rupee notes would hasten the pace of formalisation in the economy. The increase in formalisation would bring more tax-payers into the net increasing the tax base of the economy. The headwind that impacted the fiscal calculus in the economy was the introduction of a nation-wide destination based value-added tax, called Goods and Services tax from the beginning of the second quarter. This discontinuity in the taxation regime of the country was but the step towards removing inter-state barriers of trade and commerce in the country, thereby giving a push to economic growth in the country and the economic unification of the nation.

The introduction of the new taxation regime has impacted the revenue position of the government also because of structural issues. Under the new GST regime, the last date for filing of GST returns remains the of the succeeding month even on the last day of the financial year. This means that the tax receipts during the current year was only for 11 months, excluding the indirect tax receipts for March. This spill over, will result an estimated loss to the Central Government's tax kitty to the tune of between Rs. 35-36,000 crore. This one-time impact on the Central Government's fiscal will lead to a temporary and one-time spike in the fiscal deficit over and above the estimated fiscal deficit during the previous budget.

Figure 5: Budgetary Deficit Trends (% of GDP)



Source: Ministry of Finance, https://indiabudget.gov.in

II.2.9 Inflation

India has seen a sharp improvement in its inflation dynamic after the Reserve Bank of India (RBI) adopted the flexible inflation-targeting framework. Consumer price index (CPI) inflation has halved in the last four years. Recent concerns related to upside inflation risks arising from high oil prices, rupee depreciation, potentially larger increase in minimum support price (MSP) are justified, but even then, the CPI inflation is expected to be around 3.7% average for the fiscal year 2017-18. There is a sharp decrease in the inflationary trends over the past 5 years and it is hovering around 3.5%-5% and has been contained within this bracket. These statistics speak volumes about the ongoing change in inflation and inflation expectations dynamics in the country.

Consumer Price Index (Combined) inflation (Base 2012=100) for 2016-17 declined to 4.5 per cent from 4.9 per cent in 2015-16. It averaged 3.3 per cent in April-December 2017 and stood at 5.2 per cent in December 2017. Food inflation based on Consumer Food Price Index (CFPI) declined to 4.2 per cent in 2016-17 from 4.9 per cent in 2015-16. It averaged 1.2 per cent in April-December 2017and stood at 5.0 per cent in December 2017.

Inflation measured in terms of Wholesale Price Index (WPI), increased to 1.7 per cent in 2016-17 from (-)3.7 per cent in 2015-16 and 1.2 per cent in 2014-15. It averaged 2.9 per cent in April-December 2017 and stood at 3.6 per cent in December 2017.

Astute food management and price monitoring by the Government helped to contain inflation, especially food inflation. A number of measures have been taken by the Government to control inflation and restore price stability. The steps taken, inter alia, include, (i) a scheme titled Price Stabilization Fund (PSF) is being implemented to control price volatility of agricultural commodities like pulses, onions, etc.; a dynamic buffer stock of pulses of up to 20 lakh tonnes has been built under the PSF Scheme, through both domestic procurement as well as imports.; (iii) announced higher Minimum Support Prices so as to incentivize production; (iv) States/ UTs have been advised to impose stock limit on onions. States were requested to indicate their requirement of onions so that import of requisite quantity may be undertaken to improve availability and help moderate the prevailing high prices; (v) Government imposed 20 per cent duty on export of sugar for promoting domestic availability and moderating price rise; and (vi) Export of edible oils was allowed only in branded consumer packs of up to 5 kg. with a minimum export price of USD 900 per MT. With a view to incentivizing domestic production, this restriction has been removed on edible oils except for palm oil, mustard oil and sunflower oil. Apart from the above, the Government, in consultation with RBI has fixed the inflation target of 4 per cent with tolerance level of +/- 2 per cent for the period beginning from 5th August 2016 to 31st March 2021.

Table 7 Consumer Price Inflation (Industrial Workers)

Year	2013	2014	2015	2016	2017	May-18	Jun-18	Jul-18	Aug-18
CPI-Inflation	10.9	6.4	5.9	4.9	4.5	3.96	3.93	5.61	5.61

Source: Office of Economic Advisor, Government of India (http://eaindustry.nic.in)

II.3 Guidelines for Export Import in India

The Foreign Trade (Development & Regulation) Act, 1992 and India's Export Import (EXIM) Policy govern the import and exports in India. The new guidelines on Foreign Trade Policy (2015-2020) were released in April 2015. The new government made efforts to support its initiative of ease of doing business in India.

The office of the Director General of Foreign Trade mandates registration for all importers before engaging in EXIM activities. Each importer receives an Importer Exporter Code Number (IEC) issued against their Permanent Account Number (PAN).

II.3.1 Tariff Rates

The structure of India's customs tariff and fees system is complex and characterized by a lack of transparency in determining net effective rates of customs tariffs, excise duties, and other duties and charges. The tariff structure of general application is composed of a basic customs duty, an "additional duty," a "special additional duty," and an education assessment ("cess"). The additional duty, which is applied to all imports except for wine, spirits, and other alcoholic beverages, is applied on top of the basic customs duty, and is intended to correspond to the excise duties imposed on similar domestic products. The special additional duty is a four percent ad valorem duty that applies to all imports, including alcoholic beverages, except those imports exempted from the duty pursuant to an official customs notification. The special additional duty is calculated on top of the basic customs duty and the additional duty. In addition, there is a three percent education cess (surcharge) applied to most imports, except those exempted from the cess pursuant to an official customs notification. India charges the cess on the total of the basic customs duty and additional duty (not on the customs value of the imported product). A landing fee of one percent is included in the valuation of all imported products unless exempted through separate notification. While India publishes applied tariff and other customs duty rates applicable to imports, there is no single official publication publicly available that includes all relevant information on tariffs, fees, and tax rates on imports. However, as part of its computerization and electronic services drive, in 2009 India initiated a web-based Indian Customs Electronic Commerce/Electronic Data Interchange Gateway, known as ICEGATE (http://icegate.gov.in). It provides options for calculating duty rates, electronic filing of entry documents (import goods declarations) and shipping bills (export goods declarations), electronic payment, and online verification of import and export licenses. In addition to being announced with the annual budget, India's customs rates are modified on an ad hoc and arbitrary basis through notifications in the Gazette of India and contain numerous exemptions that vary according to the product, user, or specific export promotion program, rendering India's customs system complex to administer and open to administrative discretion.

India's tariff regime is also characterized by pronounced disparities between bound rates (i.e., the rates that under WTO rules generally cannot be exceeded) and the most favoured nation (MFN) applied rates charged at the border. According to the latest WTO data, India's average bound tariff rate was 48.5 percent, while its simple MFN average applied tariff for 2015 was 13.4 percent. Given this large disparity between bound and applied rates, U.S. exporters face tremendous uncertainty because India has considerable flexibility to change tariff rates at any time. India's average WTO-bound tariff for agricultural products is 113.5 percent. Applied rates are also relatively high since the average applied agricultural tariff is 3232.7 percent. On a trade-weighted basis, the average agricultural tariff is 47.2 percent. In addition, while India has bound all agricultural tariff lines in the WTO, over 25 percent of India's non-agricultural tariffs remain unbound (i.e., there is no WTO ceiling on the rate).

Despite its goal of moving toward Association of Southeast Asian Nations (ASEAN) tariff rates (approximately 5 percent on average), India has not systematically reduced the basic customs duty in the past six years. India also maintains very high tariff peaks on a number of goods, including flowers (60 percent), natural rubber (70 percent), automobiles and motorcycles (60 percent to 75 percent), raisins and coffee (100 percent), alcoholic beverages (150 percent), and textiles (some ad valorem equivalent rates exceed 300 percent). Rather than liberalizing its customs duties, India instead operates a number of complicated duty drawback, duty exemption, and duty remission schemes for imports. Eligibility to participate in these schemes is usually subject to a number of conditions. In 2016, India increased tariffs on certain categories of telecommunications equipment. U.S. companies have raised significant concerns with this action. India maintains very high basic customs duties, in some cases exceeding 20 percent, on drug formulations, including life-saving drugs and finished medicines listed on the World Health Organization's list of essential medicines.

India also imposes a 7.5 percent basic customs duty, 12.5 percent additional duty, and a 4 percent special additional duty for medical equipment and devices, such as pacemakers, coronary stents and stent grafts, and surgical instruments; and for parts of medical devices, such as medical grade polyvinyl chloride sheeting for the manufacture of sterile Continuous Ambulatory Peritoneal Dialysis bags for home dialysis Essentially impeding some of India's climate goals, customs tariffs on some products were increased in March 2016 to include Industrial solar water heaters - from 7.5 percent to 10 percent and solar tempered glass/solar tempered (anti-reflective coated) glass for use in manufacture of solar cells/modules/panels - from nil to 5 percent. Additionally, India raised tariffs on specified telecommunication equipment - from nil to 7.5/10 percent, and on E-readers - from nil to 7.5 percent.

Many of India's bound tariff rates on agricultural products are among the highest in the world, ranging from 100 percent to 300 percent. While many Indian applied tariff rates are lower (averaging 32.7 percent on agricultural goods in 2015), they still present a significant barrier to trade in agricultural goods and processed foods (e.g., potatoes, apples, grapes, canned peaches, chocolate, cookies, and frozen French fries and other prepared foods used in quick-service restaurants). The large gap between bound and applied tariff rates in the agriculture sector allows India to use tariff policy to make frequent adjustments to the level of protection provided to domestic producers, creating uncertainty for importers and exporters. For example, in January 2013, India issued a customs notification announcing an immediate doubling of the tariff on imports of crude edible oils.

Imports are subject to state level value-added or sales taxes and the Central Sales Tax as well as various local taxes and charges. India allows importers to apply for a refund of the special additional duty paid on imports subsequently sold within India and for which the importer has paid state level value-added taxes. Importers report that the refund procedures are cumbersome and time consuming. In addition, U.S. stakeholders have identified various state-level taxes and other charges on imported alcohol that appear to be higher than those imposed on domestic alcohol.

II.3.2 Classification

As there are thousands of goods that are imported into India, it is not possible to prescribe rates of duty for each type of merchandise. The basic applicable legislation is the Indian Customs Act of 1962, and the Customs Tariff Act of 1975. The Customs Act of 1962 was created to control imports and prevent Illegal imports and exports of goods. The Customs Tariff Act specifies the tariffs rates and provides for the imposition of anti-dumping and countervailing duties.

The Indian customs classification on tariff items follows the Harmonized Commodity Description and Coding System (Harmonized System or HS). Customs uses six-digit HS codes, the Directorate-General of Commercial Intelligence and Statistics (DGCI&S) uses eight-digit codes for statistical purposes, and the Directorate General of Foreign Trade (DGFT) has broadly extended the eight-digit DGCI&S codes up to 10 digits.

III Tax Structure

III.1 Historical Background

Taxation system in India traces its roots to the ancient texts like Manusmriti and Arthashastra. As prescribed by these texts, artisans, farmers and traders hundreds of years ago would pay taxes in the form of silver, gold and agricultural produces. Taking clues from these texts and with some added tweaks, the basis for the modern tax system in India was laid by the British when Sir James Wilson introduced income tax for the first time in 1860. At the time of independence, the newly-formed Indian Government cemented the system to catalyse the economic progress of the country and also to eradicate income and wealth disparity. Since then, the tax structure in the country has undergone revival with abolitions and amendments as well as additions of new reforms.

III.2 Present Structure

India offers a well-structured tax system for its population. Taxes are the largest source of income for the government. This money is deployed for various purposes and projects for the development of the nation. The Indian taxation system in India has witnessed several modifications over the years. There has been standardization of income tax rates with simpler governing laws enabling common people to understand the same. This has resulted in ease of paying taxes, improved compliance, and enhanced enforcement of the laws.

The tax system in India is mainly a three-tier system which is based between the Central, State Governments and the local government organizations. In most cases, these local bodies include the local councils and the municipalities. According to the Constitution of India, the government has the right to levy taxes on individuals and organizations. However, the constitution states that no one has the right to levy or charge taxes except the authority of law. Whatever tax is being charged has to be backed by the law passed by the legislature or the parliament. Article 246 (SEVENTH SCHEDULE) of the Indian Constitution, distributes legislative powers including taxation, between the Parliament and the State Legislature.

Schedule VII enumerates these subject matters with the use of three lists:

- List - I entailing the areas on which only the parliament is competent to makes laws
- List - II entailing the areas on which only the state legislature can make laws, and
- List - III listing the areas on which both the Parliament and the State Legislature can make laws upon concurrently.

Separate heads of taxation are provided under lists I and II of Seventh Schedule of Indian Constitution. Any tax levied by the government which is not backed by law or is beyond the powers of the legislating authority may be struck down as unconstitutional.

III.3 Tax Specific Analysis

III.3.1 Direct Taxes

A Direct tax is a kind of charge, which is imposed directly on the taxpayer and paid directly to the government by the persons (juristic or natural) on whom it is imposed. A direct tax is one that cannot be shifted by the taxpayer to someone else.

III.3.2 Central Board of Direct Taxes

The Central Board of Direct Taxes (CBDT), created by the Central Boards of Revenue Act 1963, is the apex body entrusted with the responsibility of administering direct tax laws in India. It is the cadre controlling authority for the Income Tax Department (ITD). With modern information technology as a key driver, the CBDT has implemented a comprehensive computerization programme in the Income Tax Department. The programme is aimed to establish a taxpayer friendly regime, increase the tax-base, improve supervision and generate more revenue for the Government. The endeavour is to promote voluntary compliance by taxpayers and create a non-intrusive and non-adversarial tax administration.

III.4 Indirect Taxes

An indirect tax is a tax collected by an intermediary (such as a retail store) from the person who bears the ultimate economic burden of the tax (such as the customer). An indirect tax is one that can be shifted by the taxpayer to someone else. An indirect tax may increase the price of a good so that consumers are actually paying the tax by paying more for the products.

III.4.1 Central Board of Indirect Taxes and Customs

The Central Board of Indirect Taxes and Customs (CBIC) is also a part of the Department of Revenue under the Ministry of Finance. It is the nodal national agency responsible for administering customs, GST, central excise duty and service tax in India. Central Board of Indirect Taxes and Customs (CBIC) deals with formulation of policy concerning levy and collection of Customs, Central Excise duties and Service Tax, prevention of smuggling and evasion of duties and all administrative matters relating to Customs, Central Excise and Service Tax formations. The main objectives of CBIC are to collect indirect tax revenues, improve tax payer services, to improve compliance for fair trade and enforcement of border controls and promote efficiency and transparency and develop human resources for such purposes. The CBIC consists of a Chairman and 6 members.

III.5 Revenue collection

Revenue collection from direct taxes has been growing consistently. As a result of improved tax administration and better tax compliance, direct tax collection has been showing a positive trend over a period of time. An amount of Rs. 8,49,818 crore (Provisional) was collected during FY 2016-17 at a growth rate of around 14.54 per cent over previous year's collection of Rs. 7,41,945 crores. During the financial year 2017-18, up to September, 2017, the net collection of direct taxes was Rs. 3,86,274 crores as against Rs. 3,33,686 crores collected in the previous year. The number of taxpayers has increased significantly over the last five years from 4.72 crore for Assessment Year 2012-13 to 6.43 crores (provisional) for Assessment Year 2016-17.

Table 8 Revenue Receipts of the Government of India (in Billion rupees)

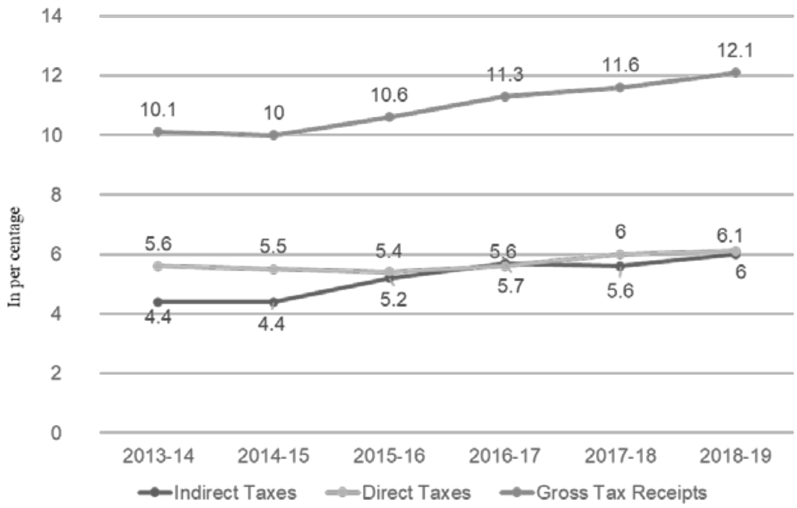
Years	2016-17	2017-18	2017-18	2018-19
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
Gross Tax Revenue	17158.22	19115.79	19461.19	22712.42
Corporation Tax	4849.24	5387.45	5637.45	6210
Taxes on Income	3646.04	4412.55	4412.55	5290
Wealth Tax*	1.85	...	...	...
Customs	2253.7	2450	1352.42	1125
Union Excise Duties	3820.94	4069	2769.95	2596
Service Tax	2544.99	2750	795.07	...
GST**	...	...	4446.31	7439
- *CGST*	...	...	*2214*	*6039*
- *IGST*	...	...	1619	500
- *GST Compensation Cess*	...	...	*613.31*	*900*
Taxes on Union Territories	41.46	46.79	47.44	52.42
Less - NCCD transferred to NCCF/NDRF	64.5	100	36.6	25
Less - State’s share	6080	6745.65	6730.05	7880.93
Centre’s Net Tax Revenue	11013.72	12270.14	12694.54	14806.49

*Wealth Tax has been abolished in India from FY 2017-18.
** GST has been introduced from 01.07.2017.
Source: Ministry of Finance, https://indiabudget.gov.in

III.6 Tax-GDP Ratio

The Tax-GDP ratio of India is on a steady rise since 2014-15. The total tax revenue is expected to reach 12.1% of the GDP in the FY 2018-19 compared to 10.6% in FY 2015-16. The rise is continuous although the pace of growth is slow. The share of Direct Taxes and Indirect Taxes is almost equal in the total tax revenues with the Direct Taxes having a little higher contribution in the total tax collections.

Figure 6: Tax-GDP ratio



Source: Ministry of Finance, https://indiabudget.gov.in

III.7 Income Tax

Income Tax Act, 1961 imposes tax on the income of the individuals or Hindu undivided families or firms or co-operative societies (other than companies) and trusts (identified as bodies of individuals associations of persons) or every artificial juridical person. The inclusion of a particular income in the total incomes of a person for income-tax in India is based on his residential status. There are three residential status, viz.,

a) Resident & Ordinarily Residents (Residents)
b) Resident but not Ordinarily Residents and
c) Non-Residents

There are several steps involved in determining the residential status of a person. All residents are taxable for all their income, including income outside India. Non-residents are taxable only for the income received in India or Income accrued in India. Not ordinarily residents are taxable in relation to income received in India or income accrued in India and income from business or profession controlled from India. In a country like India, the range of income among its citizens is diverse. So, it isn't fair to levy a single tax rate for every individual. Therefore, the government has categorized the taxpayers into different groups based on their income. These groups are referred to as Tax Slabs. Each group is charged tax at varying rates. Each year, the income tax slab rates are revised during the budget session. The provisions for income tax in India is governed by the laws of the Income Tax Act 1961. However, the budget proposals are required to be approved by the Parliament and requires presidential assent before becoming the law.

III.7.1 Income Tax Slabs for FY 2018-19

In India, income tax is levied on individual taxpayers on the basis of a slab system where different tax rates have been prescribed for different slabs and such tax rates keep increasing with an increase in the income slab. Such tax slabs tend to undergo a change during every budget.

There are three categories of individual taxpayers:

a) Individuals (below the age of 60 years) which includes residents as well as non-residents.
b) Resident Senior citizens (60 years and above but below 80 years of age).
c) Resident Super senior citizens (above 80 years of age).

Table 9 Income Tax Slabs

Income Tax Slabs for Individual Tax Payers & HUF (Less Than 60 Years Old)		
Income Tax Slabs	Tax Rate	Health and Education Cess
Income up to Rs 2,50,000*	No tax	
Income from Rs 2,50,000 – Rs 5,00,000	5%	4% of Income Tax
Income from Rs 5,00,000 – 10,00,000	20%	4% of Income Tax
Income more than Rs 10,00,000	30%	4% of Income Tax
Income Tax Slabs for Senior Citizens (60 Years Old or More but Less than 80 Years Old)		
Income up to Rs 3,00,000*	No tax	
Income from Rs 3,00,000 – Rs 5,00,000	5%	4% of Income Tax
Income from Rs 5,00,000 – 10,00,000	20%	4% of Income Tax
Income more than Rs 10,00,000	30%	4% of Income Tax
Income Tax Slabs for Senior Citizens (80 Years Old or More)		
Income up to Rs 3,00,000*	No tax	
Income from Rs 3,00,000 – Rs 5,00,000	5%	4% of Income Tax
Income from Rs 5,00,000 – 10,00,000	20%	4% of Income Tax
Income more than Rs 10,00,000	30%	4% of Income Tax

Surcharge: 10% of income tax, where total income exceeds Rs.50 lakh up to Rs.1 crore.
Surcharge: 15% of income tax, where the total income exceeds Rs.1 crore.
The tax rates are for the FY 2018-19.
Source: http://www.incometaxindia.gov.in

III.7.2 Deductions available for Personal Income Tax

Standard deduction for the salaried class has recently been introduced from the Budget of 2018 and is currently at lesser of INR 40,000 or the amount of salary received.

Permitted deductions include contributions to life insurance; recognized provident funds; national savings certificates; the national savings scheme; subscriptions to certain mutual funds; deposits made under the Senior Citizen Savings Scheme Rules (2004); five-year time deposits under the Post Office Time Deposit Rules (1981); certain education expenses up to INR 150,000; interest on loans for higher education (self, spouse and children), without limit; mortgage interest up to INR 200,000 annually on home loans obtained on or after 1 April 1999, if the borrower resides in the home or otherwise (though in the latter case the surplus can be carried forward for future set off); royalties received by authors of any book being a work of literary, artistic or scientific nature; and income from the exploitation of patents of up to INR 300,000. An additional deduction of INR 50,000 is allowed for investment in the National Pension Scheme (NPS). A deduction up to INR 25,000 is allowed for health insurance premiums (INR 50,000 for senior citizens). Additionally, INR 25,000 (INR 30,000 for senior citizens) is allowed for health insurance premiums paid for dependent parents.

III.7.3 Income Tax for Expatriates

Remuneration received by foreign expatriates working in India generally is assessable as salary and is deemed to be earned in India. Income payable for a leave period that is preceded and followed by services rendered in India and that forms part of the service contract also is regarded as income earned in India. Thus, irrespective of the residence status of an expatriate employee, the salary paid for services rendered in India is liable to tax in India.

There are no special exemptions or deductions available to foreign nationals working in India. However, a foreign national who comes to India on short-term business visits can claim an exemption under the domestic tax law or a relevant tax treaty. Non-resident individuals wishing to claim treaty benefits must obtain a tax residency certificate from the country where they are tax resident and generally must furnish this certificate along with a form (Form No. 10F) to obtain treaty benefits.

Where salary is payable in foreign currency, the salary income must be converted to Indian rupees. The conversion rate is the telegraphic transfer-buying rate as adopted by the State Bank of India on the last day of the month immediately preceding the month in which the salary is due or paid.

However, any tax to be withheld on such an amount is calculated after converting the salary payable into Indian currency at the rate applicable on the date tax was required to be withheld, i.e. the date of payment.

III.7.4 Withholding of Taxes

Withholding of taxes is known as Tax Deducted at Source (TDS) in India. As the name suggests, it is a collection of tax at the source of income. TDS is a method of collecting income tax in India as per the Income Tax Act, 1961. It is an indirect method of tax collection with concepts such as ’pay as you earn’ and ‘collect as it is earned.’ According to TDS rules, the employer/deductor is supposed to deduct a specified amount of tax before making payments to the receiver/deductee. The tax is deducted from a person’s income either on a periodical or on an occasional basis. And, then the deducted amount is deposited with the central government.

III.7.5 TDS Deduction

In case the TDS deduction exceeds the liable tax amount then, the deductee can file a claim for a refund of the excess amount. A portion of the overall payment is withheld by the deductor while making payment to a person. Here, the person or the organization that deducts TDS is called the ‘deductor’ and the person, whose payment is being deducted is known as the 'deductee.'

Various types of TDS deductions in India are:

a) Interest Income
Interest paid to a non-resident on a foreign currency borrowing or debt generally is subject to a 20% withholding tax, plus the applicable surcharge and cess. A 5% withholding tax, plus the applicable surcharge and cess, applies to some types of interest paid to a non-resident.

b) Dividends
India does not levy withholding tax on dividends. However, the company paying the dividends is subject to DDT at a rate of 15% (plus a surcharge of 12% and a cess of 3%). DDT payable must be grossed up and calculated as 15% of the aggregate dividend declared, distributed or paid, including the DDT.

c) Royalties
The withholding tax on royalties and fees for technical services paid to a non-resident is 10%, plus the applicable surcharge and cess, unless reduced by a treaty. Thus, the effective withholding rate is 10.3% (where total income is less than or equal to INR 10 million), 10.506% (where total income exceeds INR 10 million but is less than or equal to INR 100 million) or 10.815% (where total income exceeds INR 100 million).

If a treaty applies, but the non-resident does not have a PAN, tax must be withheld at the higher of the applicable tax treaty rate or 20%; however, this does not apply if the payments are in the nature of royalties and the foreign taxpayer furnishes the prescribed documents to the payer.

d) Contractor's tax
Payers must withhold tax at a rate of 40%, plus a surcharge of either 2% (if payment exceeds INR 10 million but is less than or equal to INR 100 million) or 5% (if payment exceeds 100 million) and a cess of 3% from payments to non-resident contractor companies.

Payers must withhold tax at a rate of 30%, plus a surcharge of either 10% (where total income paid or likely to be paid exceeds INR 5 million but does not exceed INR 10 million) or 15% (where total income paid or likely to be paid exceeds INR 10 million) and a cess of 3% from payments to non-resident individuals. For payments to non-resident, noncorporate entities, the applicable surcharge is 12% (where total income paid or likely to be paid exceeds INR 10 million).

e) Rental payments
Individual/HUF payers must withhold tax at a rate of 5% on rent payable to a resident in an amount exceeding INR 50,000 per month or part of a month. Persons other than individuals and HUFs must withhold tax at a rate of 2%/10% (depending on the type of property) on rent payable to a resident in an amount exceeding INR 180,000 for a financial year.

III.7.6 Tax collected at source

A seller is required to collect tax at source (TCS) at specified rates ranging from 1% to 5% at the time of sale of specified items exceeding prescribed limits. For example, TCS at 1% is applicable to sales of motor vehicles with a value exceeding INR 1 million.

III.8 Corporate Income Tax

The companies and business organizations in India are taxed on the income from their worldwide transactions under the provision of Income Tax Act, 1961. A corporation is deemed to be resident in India if it is incorporated in India or if it's control and management is situated entirely in India. In case of non-resident corporations, tax is levied on the income which is earned from their business transactions in India or any other Indian sources depending on bilateral agreement of that country.

III.8.1 Residence

A company is considered resident in India if it is incorporated in India or if its place of effective management, in that year, is in India.

A partnership firm, LLP or other non-individual entity is considered resident in India if any part of the control and management of its affairs takes place in India.

III.8.2 Taxable income and rates

Corporate entities liable for income tax include Indian companies and corporate entities incorporated abroad. A resident company is liable for income tax on its worldwide income, including capital gains, less allowable deductions (essentially, outlays incurred exclusively for business purposes). A resident partnership firm, LLP or other non-individual entity also is liable for income tax on its worldwide income.

A non-resident entity is liable for income tax on income arising in or received in India, or that is deemed to arise or accrue in India or deemed to be received in India.

Income that is deemed to arise or accrue in India includes the following:

a) Income arising through or from a "business connection," property, asset or source of income in India;
b) Capital gains from the transfer of capital assets situated in India. This includes capital gains derived from a transfer of a capital asset representing any share or interest in a company or entity registered or incorporated outside India, if such share or interest directly or indirectly derives its substantial value from assets located in India (except for capital gains derived by a non-resident in respect of an investment held directly or indirectly in a foreign institutional investor (FII) registered as Category I or Category II under the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014); and
c) Interest, royalties and technical service fees paid by the Indian government or an Indian resident or non-resident. Payments made to a non-resident for the provision of services are taxable in India even if the services are rendered outside the country, unless the services are used in a business or profession carried on by such person outside India or for the purpose of making or earning income from a source outside India.

III.8.3 Current Tax Rates

Different rates apply to resident and non-resident companies. The standard corporate tax rate for domestic companies is 30%, in addition to the surcharge. A 2% education cess and a 1% secondary and higher education cess (collectively referred to as "cess") also are levied on the amount of income tax, including the surcharge. Accordingly, the effective tax rate for domestic companies is 30.9% (where income is less than or equal to INR 10 million), 33.063% (where income exceeds INR 10 million but is less than or equal to INR 100 million) or 34.608% (where income exceeds INR 100 million).

The 2018 budget has reduced the corporate tax rate to 25% (plus the applicable surcharge and cess) for domestic companies with total turnover or gross receipts during financial year 2016-17 did not exceed INR 2.5 billion, and has replaced the current 3% cess with a health and education cess of 4%.

A 25% rate, plus the surcharge and cess, may be elected by certain domestic companies engaged in the manufacture or production of any article or thing and research in relation to, or distribution of, such article or thing. The rate is available to companies incorporated and registered on or after 1

March 2016 that make an election in the year of incorporation and that do not claim certain specified deductions, incentives, etc. A 25% rate, plus the applicable surcharge and cess, also is applicable for financial year 2017-18 for domestic companies having a total turnover or gross receipts of up to INR 500 million in financial year 2015-16.

Under a special provision, dividend income received by a domestic company from a foreign company in which the domestic company has a shareholding of 26% or more is taxable at a concessional rate of 15%, plus the surcharge and cess, on a gross basis. Any dividend declared, distributed or paid by such domestic company in the same year in which it receives a dividend from the foreign company will not be subject to DDT (limited to the extent of the dividend repatriated by the foreign company).

Non-resident companies and branches of foreign companies are taxed at a rate of 40%, plus the surcharge. The amount of tax is further increased by the 3% cess, bringing the effective tax rate to 41.2% (where income is less than or equal to INR 10 million), 42.024% (where income exceeds INR 10 million but is less than or equal to INR 100 million) or 43.26% (where income exceeds INR 100 million).

The taxable income of non-resident companies engaged in certain businesses (i.e. prospecting for, extracting or producing mineral oils; and civil construction, testing or commissioning of plants and machinery in connection with turnkey power projects) is deemed to be 10% of amounts specified in the Income Tax Act. Similarly, for non-residents in the business of operating ships and aircraft, profits and gains from the operations are deemed to be 7.5% and 5%, respectively, of amounts specified in the Income Tax Act.

III.8.4 Deductions

Various deductions are available for computing taxable income, and each head of income has its own special rules. Allowable deductions include wages and salaries, reasonable bonuses and commissions, rent, repairs, insurance, royalty payments, interest, lease payments, certain taxes (sales, municipal, road, property and expenditure taxes and customs duties), depreciation, expenditure for materials, expenditure for scientific research and contributions to scientific research associations and professional fees for tax services.

Specific deductions allowed as follows:

a) A 100% deduction is allowed for interest payments on funds borrowed for business purposes. However, if the funds are borrowed for the acquisition of an asset for the expansion of an existing business or profession, interest paid for any period beginning from the date on which the funds were borrowed up to the date the asset was first put into use is not allowable as a deduction; instead, it must be capitalized with the cost of the asset and is eligible for depreciation.
b) A 100% deduction from profits arising from the business of developing and building housing projects is available, subject to certain conditions. The housing project must be duly approved by the competent authority on or before 31 March 2019.
c) A deduction of up to 150% as from financial year 2017-18 (limited to 100% as from financial year 2020-21) is available in respect of capital and revenue expenditure on scientific research conducted in-house by specified industries, and for payments made to specified organizations for scientific research. A 100% deduction is allowed for the sum paid to a company registered in India that is carrying on scientific research activities, to a research association or to a university, college or other institution engaged in research in social science or statistical research.
d) Incentives involving a deduction of 100% of profits for a specified period are available, subject to certain conditions, for certain business activities (e.g. those relating to generation or distribution of power; development of a SEZ; manufacture or production of eligible articles; and collection and processing or treatment of biodegradable waste, among others). No deduction will be available if the specified activity commences after 31 March 2017.

e) Indian tax law does not permit companies to take a deduction for a general bad debt reserve, although specific bad debts may be deducted when written off. Expenses incurred for raising share capital are not deductible, as the expenditure is considered capital in nature. No deduction is allowed for expenditure incurred on income that is not taxable, or for payments incurred for purposes that are an offense or prohibited by law.

f) No deduction is allowed for expenses incurred for CSR, except in certain cases. Amounts contributed to a charitable organization are deductible to the extent of 50% of the contribution, or 100% of the contribution if the company has positive taxable income.

III.8.5 Depreciation

Asset depreciation usually is calculated according to the declining-balance method (except for assets of an undertaking engaged in the generation or generation and distribution of power, for which the straight-line method is optional). The depreciable base is based on actual cost, i.e. the purchase price plus capital additions, including certain installation expenses. If an asset is sold, discarded, demolished or destroyed, depreciation expense is reduced to the extent of the amount realized upon the sale, if any.

The depreciation rate on general plant and machinery is 15%. Subject to certain conditions, additional depreciation on new plant and machinery acquired on or after 1 April 2005 may be available at 20% of actual cost; this has been extended to new plant and machinery acquired on or after 1 April 2016 for taxpayers engaged in the business of transmission of power. Factory buildings may be depreciated at 10%; furniture and fittings at 10%; computers and software at 60%; specified energy-saving devices at 80%; and specified environmental protection equipment at 100%. Depreciation is allowed at 100% for buildings acquired after 1 September 2002 for the installation of a plant or machinery, but only for water supply projects or water treatment systems put to use as infrastructure facilities. The maximum accelerated depreciation will be restricted to 40% of the block of assets (for both old and new assets) as from financial year 2017-18. Amortization is allowed at 25% on certain types of intangible assets such as know-how, patents, copyrights, trademarks, licenses, franchises or any business or commercial rights of a similar nature. Goodwill acquired in the course of an amalgamation also is treated as an intangible asset eligible for amortization, based on a ruling of the Indian Supreme Court.

Depreciation is calculated at 50% of the normal rates if an asset is used for less than 180 days in the first year. Depreciation allowances on buildings, machinery, factories and factory equipment or furniture are available on assets partially owned by a taxpayer. Unabsorbed depreciation may be carried forward indefinitely.

Capital assets purchased for scientific research may be written off in the year the expenditure is incurred. Preliminary outlays for project or feasibility reports (limited to 5% of the cost of the project or capital employed) may be amortized over five years from the commencement of business.

Capital expenditure incurred either prior or post commencement of business and actually paid (irrespective of the year in which the liability for the expenditure was incurred) for acquiring the right to use spectrum for telecommunication services (spectrum fees for auction of airwaves) will be allowed as a deduction over the period of the right to use the spectrum.

For succession in businesses and amalgamation of companies, depreciation is allowed to the predecessor and the successor, or the amalgamating and amalgamated company, based on the number of days each used the assets.

If an asset has been sold and leased back, the actual cost for computing the depreciation allowance is the written-down value to the seller at the time of transfer.

No depreciation will be available in relation to an asset if payment is made to a person in a day in excess of INR 10,000, unless paid by an account payee check drawn on a bank or an account payee bank draft, or use of the electronic clearing system through a bank account.

III.8.6 Losses

Losses arising from business operations in an assessment year may be set off against income from any source in that year. A business loss may be carried forward and set off against future business profits in the next eight assessment years. Closely held companies must satisfy a 51% “continuity of ownership” test to qualify for a business loss carry forward.

III.8.9 Capital gains taxation

Gains derived from the disposition of capital assets are subject to capital gains tax, with the tax treatment depending on whether the gains are long-term or short-term. Gains are considered long- term if the assets are held for more than 36 months. This period may be reduced to more than 12 months in the case of listed shares, specified securities/bonds and units of mutual funds, and to more than 24 months for shares of a company that is not listed on a recognized stock exchange and immovable property (land, buildings or both).

Short-term capital gains on listed shares and units of an equity-oriented mutual fund where Securities Transaction Tax (STT) is paid are taxed at a rate of 15% (plus the applicable surcharge and cess).

Long-term capital gains on listed shares and units of equity-oriented mutual funds where STT is paid are exempt. The exemption generally is not available if the equity shares were acquired on or after 1 October 2004 and the acquisition was not chargeable to STT; however, the CBDT has clarified that the exemption is available in specified cases (such as acquisitions under preferential allotment, off market acquisitions, acquisitions during a delisted period, etc.). The 2018 budget has eliminated the exemption to the extent the gains exceed INR 100,000, and to impose a 10% tax (plus the applicable surcharge and cess), subject to a “grandfathering” provision. In conjunction with this change, an equity-oriented mutual fund would be liable to pay a DDT of 10% on profits distributed to its unit holders. An exemption is available for long-term capital gains in respect of transactions undertaken in foreign currency on a recognized stock exchange located in an IFSC, as well as a concessional rate of 15% on short-term capital gains, even though no STT is payable in respect of such transactions.

Listed units of a business trust traded on a stock exchange are liable to STT and subject to the same capital gains treatment as that of equity shares, i.e. long-term capital gains are exempt and short- term capital gains are taxable at the rate of 15% (plus the applicable surcharge and cess). If such units are traded outside a stock exchange (no STT paid), long-term capital gains will be taxable at 10% (plus the applicable surcharge and cess), and short-term capital gains at 30% (plus the applicable surcharge and cess).

Non-residents pay capital gains tax on the sale of securities in an Indian company, based on the value of the securities in the foreign currency in which they were purchased. The capital gains are reconverted into rupees and taxed; no cost inflation index is applied.

Long-term capital gains of FIIs on listed shares and units of equity-oriented mutual funds where STT is paid are exempt, and short-term capital gains on such assets where STT is paid are taxed at 15% (plus the applicable surcharge and cess). Other long-term capital gains derived by FIIs (i.e. gains not arising from listed securities that are exempt as discussed above) are taxed at 10% (plus the applicable surcharge and cess). Other short-term capital gains derived by FIIs (i.e. gains not arising from listed securities) are taxed at 30% (plus the applicable surcharge and cess).

Other long-term capital gains derived by residents and non-residents (i.e. gains not arising from listed securities that are exempt) are taxed at 20% (plus the applicable surcharge and cess). In calculating long-term gains, the costs of acquiring and improving the capital asset are linked to a cost inflation index published by the government. The holder of an asset purchased before the base year starting from 1 April 1981 may use the fair market value of the asset on that date as the cost basis for computing the capital gain. The base year has been shifted to 1 April 2001, allowing the taxpayer to substitute the fair market value of the capital asset on 1 April 2001 as the cost of acquisition. This generally reduces tax liability. Long-term capital gains of non-residents on unlisted securities or shares of a closely held company are taxed at 10% (plus the applicable surcharge and cess). The capital gains are computed without foreign currency conversion or cost indexation.

Other short-term capital gains derived by residents and non-residents (i.e. gains not arising from listed securities) are taxed at normal rates (plus the applicable surcharge and cess). Gains from the sale of long-term capital assets are exempt from capital gains tax if they are reinvested in certain securities or notified units (to promote start-ups) within six months from the date of transfer and the investment (subject to an investment cap of INR 5 million) is "locked in" for three years.

Capital gains derived by a Special Purpose Vehicle (SPV) sponsor on an exchange of shares in an SPV for units in a business trust are deferred until the disposal of the units in the business trust. On the disposal, the cost of the shares in the SPV to the sponsor is treated as the cost of the units, and the sponsor's holding period in the shares is included in calculating the holding period for the units in the business trust.

Capital gains are computed by considering the amount of the full value of consideration received or accrued on a transfer of a capital asset. As from 1 April 2017, where the consideration for a transfer of shares of a company (other than quoted shares) is less than the fair market value of such shares (determined in accordance with the prescribed manner), the fair market value will be deemed to be the full value of the consideration.

Losses incurred on the transfer of short-term capital assets during an assessment year may be set off against long-term or short-term capital gains arising during the assessment year. The balance of losses, if any, may be carried forward to offset capital gains in the subsequent eight years. Long-term capital losses may be set off only against long-term capital gains during the year. The balance of losses, if any, may be carried forward for the subsequent eight assessment years to offset against long-term capital gains. Losses may be carried forward only if the tax return is filed by the due date.

III.9 Securities Transaction Tax (STT):

STT is a tax being levied on all transactions done on the stock exchanges. STT is applicable on purchase or sale of equity shares, derivatives, equity-oriented funds and equity oriented Mutual Funds. Current STT on purchase or sell of an equity share is 0.075%. A person becomes investor after payment of STT at the time of selling securities (shares). Selling the shares after 12 months comes under long term capital gains and one need not have to pay any tax on that gain. In the case of selling the shares before 12 months, one has to pay short term capital gains @10% flat on the gain. However, for a trader, all his gains will be treated as trading (Business) and he has to pay tax as per tax sables. In this case the transaction tax paid by him can be claimed back/adjusted in tax to be paid.

III.10 Minimum alternate tax

A minimum alternate tax (MAT) is imposed at 18.5% (plus the surcharge and cess) on the adjusted book profits of corporations (including units in an SEZ and developers of SEZs) whose tax liability is less than 18.5% of their book profits.

MAT does not apply to certain income of foreign companies, namely, capital gains on transactions involving securities, certain specified interest, royalties and fees for technical services. MAT also is not applicable on gains arising in the hands of the sponsor on a transfer of shares of an SPV to a business trust in exchange for units of the trust, or on the share of income earned from an association of persons/body of individuals. Royalty income and corresponding expenditure incurred by a taxpayer that opts for the patent box regime is ignored for purposes of the MAT.

MAT is not applicable to a foreign company that is a resident of a country with which India has entered into a tax treaty if the foreign company does not have a permanent establishment (PE) in India, or if the foreign company is a resident of a country with which India has not entered into a tax treaty and the foreign company is not required to seek registration under any law in force relating to foreign companies. In addition, the 2018 budget clarified that MAT is deemed never to have been applicable to the taxable income of non-resident companies from certain businesses (i.e. prospecting for, extracting or producing mineral oils; civil construction, testing or commissioning of plants and machinery in connection with turnkey power projects; or operating ships or aircraft) where the taxable income from such businesses is deemed to be a percentage of amounts specified in the Income Tax Act.

Where the income tax payable on the total income by a company is less than 18.5% of its book profits, the book profits are deemed to be the total income of the company, on which tax is payable at a rate of 18.5%, further increased by the applicable surcharge and cess for both domestic and foreign companies. Thus, the effective MAT rate for a domestic company is 19.06% (where total income is less than or equal to INR 10 million), 20.39% (where total income exceeds INR 10 million but is less than or equal to INR 100 million) or 21.34% (where total income exceeds INR 100 million). For non-resident companies, if MAT applies, the effective rate is 19.06% (where total income is less than or equal to INR 10 million), 19.44% (where total income exceeds INR 10 million but is less than or equal to INR 100 million) or 20.01% (where total income exceeds INR 100 million).

For a company that is a unit located in an IFSC and that derives its income in convertible foreign exchange, the MAT rate is 9% (plus the applicable surcharge and cess).

As from 1 April 2017, tax paid under the MAT provisions may be carried forward for set off against income tax payable in the next 15 years, subject to certain conditions; however, the tax credit in respect of the MAT cannot be carried forward to a subsequent year to the extent of the difference between the amount of the foreign tax credit allowed against the MAT and the foreign tax credit allowable in computing tax under the normal provisions.

MAT is not payable on the profits of a “sick” industrial company, starting from the year in which the company becomes a sick industrial company and ending in the year during which its entire net worth becomes equal to or exceeds the accumulated losses.

III.11 Equalization levy

An equalization levy of 6% on the amount of consideration for specified services received by a non-resident without a PE in India must be withheld by a resident or a non-resident with a PE in India. “Specified services” means online advertising, any provision for digital advertising space, any other facility or service for the purpose of online advertisement or any other service that may be notified by the central government. The levy will not apply if the consideration does not exceed INR 10,000 in a year. The income subject to levy will not be taxed in the hands of the recipient. The corresponding expenses in the nature of consideration will be deductible only if the levy is deducted and deposited with the government on or before the due date of filing the tax return for that year. Payment on a subsequent date will enable the payer to claim the deduction for the year of payment.

III.12 Tonnage tax scheme

The tonnage tax scheme, a presumptive tax provision, can be chosen by a non-resident company that has a place of effective management (PoEM) in India, owns at least one qualifying ship, and whose main objective is to carry on the business of operating 'qualifying ships'. The tonnage tax scheme is in place of Corporate Income Tax and is levied on the basis of tonnage of vessels owned, operated, or chartered by it instead of on net income generated by commercial operations. Under a presumptive tax system, taxpayers can opt to be taxed at a pre-designated tax rate on its revenues.

Under this scheme, deemed income shall be assessed at 7.5% of the amount paid or payable (whether in or out of India) for carriage of passengers, livestock, mail, or goods shipped from any port in India, and the amount received or deemed to be received in India on account of carriage of passengers, livestock, mail, or goods shipped to any port outside India shall be treated as profits and gains of business.

Treaty rates will apply to non-resident shipping companies if they are lower than the rates under the tonnage tax scheme.

III.13 Tax year

The tax year in India, known as the "previous year" (fiscal year), is the year beginning 1 April and ending 31 March. Income tax is levied for a previous year at the rates prescribed for that year. Income of a fiscal year is assessed to tax in the next fiscal year (the assessment year).

III.14 Filing and payment

Taxes on income of an assessment year usually are paid in instalments by way of advance tax. A company must make a prepayment of its income tax liabilities by 15 June (15% of the total tax payable), 15 September (45%), 15 December (75%) and 15 March (100%). Any overpaid amount is refunded after submission of the final tax return.

A company must file a final tax return, reporting income of the previous year, by 30 September immediately following the end of the fiscal year, stating income, expenses, taxes paid and taxes due for the preceding tax year. A noncorporate taxpayer that is required to have its accounts audited also must file a return by 30 September. The due date for filing returns and transfer pricing accountants' reports is extended to 30 November for taxpayers with international and specified domestic transactions during the year. All other taxpayers must submit a return by 31 July.

III.15 Property Tax

Property tax or 'house tax' is a local tax on buildings, along with appurtenant land, and imposed on owners. The tax power is vested in the states and it is delegated by law to the local bodies, specifying the valuation method, rate band, and collection procedures. The tax base is the annual rateable value (ARV) or area-based rating. Owner-occupied and other properties not producing rent are assessed on cost and then converted into ARV by applying a percentage of cost, usually six percent. Vacant land is generally exempted from the assessment. The properties lying under control of Central are exempted from the taxation. Instead a 'service charge' is permissible under executive order. Properties of foreign missions also enjoy tax exemption without an insistence for reciprocity.

III.16 Inheritance (Estate) Tax

An inheritance tax (also known as an estate tax or death duty) is a tax which arises on the death of an individual. It is a tax on the estate, or total value of the money and property, of a person who has died. India enforced estate duty from 1953 to 1985. Estate Duty Act, 1953 came into existence w.e.f. 15th October, 1953 and was repealed in the year 1985.

III.17 Gift Tax

Gift tax in India is regulated by the Gift Tax Act which was constituted on 1st April, 1958. It came into effect in all parts of the country except Jammu and Kashmir. As per the Gift Act 1958, all gifts in excess of Rs. 25,000, in the form of cash, draft, check or others, received from one who doesn't have blood relations with the recipient, were taxable. However, with effect from 1st October, 1998, gift tax got demolished and all the gifts made on or after the date were free from tax. But in 2004, the act was again revived partially. A new provision was introduced in the Income Tax Act 1961 under section 56 (2). According to it, the gifts received by any individual or Hindu Undivided Family (HUF) in excess of Rs. 50,000 in a year would be taxable. Accordingly, total gift value, if it is more than stipulated limit of Rs. 50000/-, is clubbed with the gross total income of the recipient of Gift (under the head "Income from Other Source"). However, the following categories of gifts are still not taxable.

The receiver will be exempt from applicable gift tax if:

a) The gift being given by a blood relative, irrespective of the gift value.
b) Immovable properties located outside the country.
c) Gifts received from relatives on the occasion of marriage (including gifts received by daughter-in-law from parents-in-law; but excluding gifts received by son-in-law from parents-in-law)
d) Gifts received by way of a will and inheritance.

III.18 Stamp duty

Stamp duty is levied on instruments recording certain transactions, at rates depending on the nature of instrument and whether the instrument is to be stamped under the Indian Stamp Act, 1899 or under a state stamp law. Stamp duty rates for an instrument vary from state to state.

III.19 Foreign Tax Credit

The Income tax Rules 1962 provide for a separate segment on Foreign Tax Credit Rules, 2016 (“Rules”). The Rules provide clarity on the mechanism of obtaining foreign tax credit in India, of foreign taxes paid. The intended beneficiaries of the Rules are Indian residents that earn foreign sourced income.

The ability for a resident to obtain foreign tax credit has been provided under s. 91 of the Indian Income Tax Act, 1961 (“ITA”), which is in the nature of unilateral relief where a tax treaty is not in place, or typically Article 23 of the relevant tax treaty, if applicable. The need for obtaining a tax credit arises where there is an unintended double taxation due to principles of residence based and source-based taxation in different jurisdictions.

The Rules aim to provide a computation mechanism, operational clarity and procedural requirements associated with availing foreign tax credit in India.

The resident taxpayer can claim a credit for foreign taxes paid in (a) a treaty jurisdiction i.e. a country/ specified territory with which India has a double taxation avoidance agreement or an exchange of information agreement, and (b) in any other country where income tax includes excess profits tax or business profits tax charged by the central or local authority in that country.

To claim a credit, two requirements envisaged are (i) the foreign tax must have been paid, and (ii) credit may be claimed for the year in which the corresponding income is offered to tax in India

The Rules also attempt to address timing mismatch issues which arise due to the difference in the tax year systems between the source country and resident country (India) – for e.g. in the US, taxes could be paid on a calendar year basis (Jan- Dec), as opposed to India where taxes are paid on a financial year basis (Apr – March). In such cases, the Rules provide that where income is taxable across two years, credit shall be proportionately distributed across those years based on when income is offered to tax in India.

The Rules also specify that the credit shall be available against the amount of income tax, surcharge and cess payable under the Act but not against interest, fee or penalty in respect of the tax payable. This is in line with judicial precedents in the context of tax treaties, which have held tax relief to be available in respect of surcharge and education cess, in addition to regular income taxes on the basis that these taxes are “substantially similar” to income taxes. This reduces the ambiguity amongst taxpayers on the eligible taxes, and should reduce long drawn litigation on this subject.

The Rules provide that no credit shall be available for any amount of foreign tax which is disputed in any manner by the taxpayer. Therefore, a tax credit is not applicable in a situation where foreign tax was paid by the taxpayer on demand during scrutiny by the foreign tax authorities, but such taxes have been disputed by the taxpayer, under appeal proceedings.

Further, credit in India shall be available to an amount which is the lower of the taxes paid in India or foreign taxes paid.

Foreign tax credit shall be allowed on the taxpayer furnishing a statement of income offered for tax for the previous year in the foreign jurisdiction, and of foreign taxes deducted or paid in the foreign jurisdiction in a prescribed form (Form No. 67).

III.20 Customs Duty

The Customs Act was formulated in 1962 to prevent illegal imports and exports of goods. Besides, all imports are sought to be subject to a duty with a view to affording protection to indigenous industries as well as to keep the imports to the minimum in the interests of securing the exchange rate of Indian currency. Duties of customs are levied on goods imported or exported from India at the rate specified under the customs Tariff Act, 1975 as amended from time to time or any other law for the time being in force. Under the custom laws, the various types of duties are leviable.

a) Basic Duty: This duty is levied on imported goods under the Customs Act, 1962.
b) Additional Duty (Countervailing Duty) (CVD): This is levied under section 3 (1) of the Custom Tariff Act and is equal to excise duty levied on a like product manufactured or produced in India. If a like product is not manufactured or produced in India, the excise duty that would be leviable on that product had it been manufactured or produced in India is the duty payable. If the product is leviable at different rates, the highest rate among those rates is the rate applicable. Such duty is leviable on the value of goods plus basic custom duty payable.
c) Additional Duty to compensate duty on inputs used by Indian manufacturers: This is levied under section 3(3) of the Customs Act.
d) Anti-dumping Duty: Sometimes, foreign sellers abroad may export into India goods at prices below the amounts charged by them in their domestic markets in order to capture Indian markets to the detriment of Indian industry. This is known as dumping. In order to prevent dumping, the Central Government may levy additional duty equal to the margin of dumping on such articles. There are however certain restrictions on imposing dumping duties in case of countries which are signatories to the GATT or on countries given "Most Favoured Nation Status" under agreement.
e) Protective Duty: If the Tariff Commission set up by law recommends that in order to protect the interests of Indian industry, the Central Government may levy protective anti-dumping duties at the rate recommended on specified goods.
f) Duty on 73 Bounty Fed Articles: In case a foreign country subsidises its exporters for exporting goods to India, the Central Government may impose additional import duty equal to the amount of such subsidy or bounty. If the amount of subsidy or bounty cannot be clearly determined immediately, additional duty may be collected on a provisional basis and after final determination, difference may be collected or refunded, as the case may be.
g) Export Duty: Such duty is levied on export of goods. At present very, few articles such as skins and leather are subject to export duty. The main purpose of this duty is to restrict exports of certain goods.
h) Cess on Export: Under sub-section (1) of section 3 of the Agricultural & Processed Food Products Export Cess Act, 1985 (3 of 1986), 0.5% ad valorem as the rate of duty of customs be levied and collected as cess on export of all scheduled products.
i) National Calamity Contingent Duty: This duty was imposed under Section 134 of the Finance Act, 2003 on imported petroleum crude oil. This tax was also leviable on motor cars, imported

multi-utility vehicles, two wheelers and mobile phones.

j) Education Cess: Education Cess is leviable @ 2% on the aggregate of duties of Customs (except safeguard duty under Section 8B and 8C, CVD under Section 9 and anti-dumping duty under Section 9A of the Customs Tariff Act, 1985). Items attracting Customs Duty at bound rates under international commitments are exempted from this Cess.

k) Secondary and Higher Education Cess: Leviable @1% on the aggregate of duties of Customs.

l) Road Cess: Additional Duty of Customs on Motor Spirit is leviable and Additional Duty of Customs on High Speed Diesel Oil is leviable by the Finance Act (No.2), 1998. and the Finance Act, 1999 respectively.

m) Surcharge on Motor Spirit: Special Additional Duty of Customs (Surcharge) on Motor Spirit is leviable by the Finance Act, 2002.

III.21 Central Excise Duty

The Central Government levies excise duty under the Central Excise Act, 1944 and the Central Excise Tariff Act, 1985. Central excise duty is tax which is charged on such excisable goods that are manufactured in India and are meant for domestic consumption. The term "excisable goods" means the goods which are specified in the First Schedule and the Second Schedule to the Central Excise Tariff Act 1985. It is mandatory to pay Central Excise duty payable on the goods manufactured, unless exempted eg; duty is not payable on the goods exported out of India. Further various other exemptions are also notified by the Government from the payment of duty by the manufacturers.

However, after the introduction of Goods and Services Tax from 01.07.2017, the central excised duty has been restricted to very items like petroleum products i.e. petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel. These products are out of GST at present and may be brought under GST later. Tobacco products are subject to excise duty plus GST. Alcoholic liquor is subject to State duty only and it is out of the purview of GST.

III.22 Indirect Tax Regime before GST

In the earlier indirect tax regime, there were many indirect taxes levied by both state and centre. States mainly collected taxes in the form of Value Added Tax (VAT). Every state had a different set of rules and regulations.

Interstate sale of goods was taxed by the Centre. CST (Central State Tax) was applicable in case of interstate sale of goods. Other than above there were many indirect taxes like entertainment tax, octroi and local tax that was levied by state and centre.

This lead to a lot of overlapping of taxes levied by both state and centre. For example, when goods were manufactured and sold Excise Duty was charged by the centre. Over and above Excise Duty, VAT was also charged by the State. This also lead to the problem of tax on tax also known as cascading effect of taxes.

The following is the list of indirect taxes in the pre-GST regime:

a) Central Excise Duty
b) Duties of Excise
c) Additional Duties of Excise
d) Additional Duties of Customs
e) Special Additional Duty of Customs
f) Cess
g) State VAT
h) Central Sales Tax
i) Purchase Tax
j) Luxury Tax

k) Entertainment Tax
l) Entry Tax
m) Taxes on advertisements
n) Taxes on lotteries, betting, and gambling

Goods and Services Tax introduced from 01.07.2017 has replaced all the above taxes.

III.23 Goods and Service Tax (GST)

As a significant step towards the reform of indirect taxation in India, the Central Government has introduced the Goods and Service Tax (GST). It is a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India and has subsumed many indirect taxes levied by the Central and State Governments. GST is implemented through Central GST (CGST), Integrated GST (IGST) and State GST (SGST).

The GST Council (Goods and Services Tax Council) is an apex Constitutional body which has been established to determine policies of GST. Goods and Services Tax (GST) is levied on 'supply' of goods or services or both, in India w.e.f. 1-7-2017. The area up to 200 nautical miles inside sea is treated as 'India' for the purposes of GST. Area up to 12 nautical miles inside sea is part of State or Union Territory which is nearest.

For supplies within the State or Union Territory - (a) Central tax (Central GST i.e. CGST) is payable to Central Government and (b) State tax (State GST - SGST) or Union Territory Tax (UTGST - Union Territory GST) is payable to the respective State Government or Union Territory (as applicable). For inter-state supplies (supply from one State or Union Territory to another State or Union Territory), Integrated tax (Integrated GST-IGST) is payable to Central Government. IGST is payable if supply is beyond 12 nautical miles but up to 200 nautical miles.

In addition, GST Compensation Cess is payable on pan masala, tobacco products, coal, aerated waters, motor cars etc. Basic customs duty, Education Cess of customs and Secondary and Higher Education Cess of Customs, IGST and GST Compensation Cess (on goods where Compensation Cess is applicable) is payable on import of goods.

Distinction between goods and services has been done away with to eliminate the problem of dual taxation presently faced by construction industry, works contract, food related services like restaurant and outdoor catering, leasing and hire services and software services.

It is based on VAT concept of allowing input tax credit of tax paid on inputs, input services and capital goods, for payment of output tax to avoid cascading effect of taxes. It is a consumption-based tax i.e. tax is payable in the State where goods or services or both are finally consumed.

III.23.1 Tax Rates in GST

The rates of GST are - Nil, 5%, 12%, 18% and 28%. In case of supply within State, CGST is 50% of GST Rates and SGST/UTGST 50% of GST rates. Though tax is payable to both Central Government and State Government/ Union Territory Administration, control is exercised either by State Government/Union Territory Authorities or Central Government Authorities as determined by the GST Council.

III.23.2 GST on Exports

A duty drawback was provided under the previous indirect tax laws for the tax paid on inputs for the export of exempted goods. Under GST, the duty drawback would only be available for the customs duty paid on imported inputs or central excise paid on certain petroleum or tobacco products used as inputs or fuel for captive power generation.

An exporter dealing in zero-rated goods under GST can claim a refund for zero-rated supplies as per the following options:

Option 1: Supply goods or services, or both, under bond or Letter of Undertaking, subject to such conditions, safeguards and procedure as may be prescribed, without payment of integrated tax, and then claim a refund of unutilized input tax credit. The exporter needs to file an application for refund on the common portal either directly or through the facilitation center notified by the GST commissioner. An export manifest or report has to be filed under the Customs Act prior to filing an application for refund.

Option 2: Any exporter or United Nations or Embassy or other agencies/bodies as specified in section 55 of the GST Act, who supplies goods or services, or both, after fulfilling certain conditions, safeguards and procedures as may be prescribed; and paying the IGST, can claim refund of such tax paid on the supplied goods or services, or both. The applicant has to apply for the refund as per the conditions specified under section 54 of the CGST Act.

An exporter is required to file a shipping bill for the goods being exported out of India. In this case, the shipping bill is considered as a deemed application for refund for the IGST paid. It would be deemed to have been filed only when the person in charge of the shipment files the export manifest or report, mentioning the number and date of the shipping bills.

Electronic as well as manual shipping bill formats are amended by the department to include GSTIN and IGST. The modified forms are available on the official department website. The Department is also in the process of relaxing the factory stuffing procedure and necessary permissions, to give a boost to the Indian export industry under GST.

III.23.2.1 Deemed Exports

The supply of goods or services to the following would be treated as exports under GST:

a) Supply of goods by a registered person against Advance Authorisation.
b) Supply made to an Export oriented undertaking (EOU) or Hardware Technology Park unit, Software Technology Park unit, Biotechnology Park unit.
c) Supply of capital goods by a registered person against Export Promotion Capital Goods Authorisation.
d) Supply of gold by a bank or Public Sector Undertaking against Advance Authorisation as per Customs law.
e) Filing of returns under GST for the deemed export is to be done as per the general procedures provided for export under GST.

III.23.3 GST on Imports

As per provisions of the Integrated GST law import of goods into India shall be deemed to be a supply in the course of inter-State trade or commerce. It has also been provided that Integrated Tax on goods imported into India shall be levied and collected in accordance with the provisions of Section 3 of the Customs Tariff Act, 1975 at the point when duties of Customs are levied on the said goods under the Customs Act, 1962, on a value as determined under the Customs Tariff Act, 1975

The Taxation Laws (Amendment) Act, 2017 provides that IGST on imports will be levied at value of imported article as determined under the Customs Act plus duty of customs and any other sum chargeable in addition to customs duty (excluding GST and GST Cess). This in effect makes levy of IGST at par with present levy of CVD which is on basic value plus customs duty.

As per the definition of 'supply' under CGST law, import of services for a consideration whether or not in the course or furtherance of business is deemed to be supply and as per the IGST law, supply of services in the course of import into the territory of India, shall be deemed as supply of services in the course of inter- State trade or commerce. Accordingly, Integrated Tax would be levied on import of services. Although the provisions are yet to be notified, the Integrated Tax on import of services would be payable by the recipient under reverse charge.

Further, there would be no change in applicability of countervailing duty levied under section 9BB of the Customs Tariff Act, 1975, anti-dumping or safeguard duties, where ever imposed by the Government.

III.24 Tax incentives

India’s investment incentives are designed to channel investments to specific industries, promote the development of economically lagging regions and encourage exports of goods and services. The country offers a number of benefits, including tax and non-tax incentives for establishing new industrial undertakings; incentives for specific industries such as power, ports, highways, electronics and software; incentives for units in less-developed regions; and incentives for units exporting or in special economic zones (SEZs).

Incentives include the following:

a) Tax holidays, depending on the industry and region;
b) Weighted deductions at 150%/100% for in-house research and development (R&D) expenses, including capital outlays (other than those for land) in the year incurred. Companies also may claim a deduction for expenses incurred in the three years immediately preceding the year in which the company commenced business;
c) Accelerated depreciation for certain categories of property, such as energy-saving, environmental protection and pollution control equipment; and
d) An additional deduction for new investment made in plant and machinery. The above incentives are being phased out.
e) The central government’s development banks and the state industrial development banks extend medium- and long-term loans, and sometimes take equity in new projects. Some Indian states provide additional incentives.

III.24.1 Benefits under foreign trade policy

Various tax and other incentives are granted on exports of goods and services, as well as on imports of inputs and capital goods for use in exports of goods and services. The incentives are granted under various schemes. Some popular schemes include the following:

a) Export promotion of capital goods scheme;
b) Advance authorization scheme for import of inputs;
c) Drawback/rebate scheme for duty on inputs used in exports;
d) Merchandise export from India scheme;
e) Service export from India scheme; and
f) Export oriented unit scheme.

III.24.2 Benefits under state industrial policy

Depending on the scale of investment and the need for economic development of specific regions or industries, various incentives are granted to qualifying units.

These benefits generally are available for specified periods and are subject to compliance with prescribed conditions, including employment of local people of the specified region.

III.24.3 Benefits to SEZ units

India was one of the first in Asia to recognise the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965. To overcome the shortcomings on account of multiplicity of controls and clearances, absence of world-class infrastructure and an unstable fiscal regime and with a view to attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in April 2000. This policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the state level, with minimum possible regulations. SEZs in India functioned from 2000 to 2006 under the provisions of the Foreign Trade Policy and fiscal incentives were made effective through the provisions of relevant statutes.

The SEZ Act, 2005, supported by SEZ Rules, came into effect in 2006, providing simplification of procedures and single window clearance on matters relating to central and state governments. The main objectives of the SEZ Act are: generation of additional economic activity; promotion of exports of goods and services; promotion of investment from domestic and foreign sources; creation of employment opportunities; and Development of infrastructure facilities.

Units set up in the areas designated as SEZs are granted various tax benefits. Indirect tax benefits include an exemption from customs duty on the import of capital goods and inputs. The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs, including foreign investment include:

a) Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units.
b) 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years. (Sunset Clause for Units will become effective from 01.04.2020).
c) Exemption from Minimum Alternate Tax (MAT) under section 115JB of the Income Tax Act. (withdrawn w.e.f. 1.4.2012).
d) Exemption from Central Sales Tax, Exemption from Service Tax and Exemption from State sales tax. These have now subsumed into GST and supplies to SEZs are zero rated under IGST Act, 2017.
e) Other levies as imposed by the respective State Governments.
f) Single window clearance for Central and State level approvals.

III.25 E Governance Initiatives undertaken in Taxation matters

(a) Permanent Account Number (PAN)

PAN is a 10-digit alpha-numeric number allotted by the Income Tax Department to taxpayers and to the persons who apply for it under the Income Tax Act, 1961. PAN enables the department to link all transactions of the "person" with the department. The transactions linked through PAN include tax payments, TDS/TCS credits, returns of income/wealth, specified transactions, correspondence, and so on. PAN, thus, acts as an identifier for the "person" with the Income tax department.

(b) Common Business Identification Number (CBIN or BIN)

PAN has now taken on the role of "identifier" beyond the Income tax department as it is now required for various activities like opening of bank account, opening of demat accounts, obtaining registration for Service Tax, Sales Tax / VAT, Excise registration etc. PAN is leveraged to become Common Business Identification Number (CBIN) or simply Business Identification Number (BIN) for providing registration to a number of government departments and services.

(c) One Person One PAN

The Income Tax Act permits one person to have only one PAN. To avoid issuance of duplicate PAN, the data is checked for duplication by using the software having phonetic matching algorithm. In order to leverage the biometric data collected through Aadhaar enrolment it was decided to include Aadhaar Card as a valid Proof of Identity (POI), Proof of Date of Birth (PDOB) and Proof of Address (POA) document for allotment of PAN under Income Tax Rules, 1962. In order to further strengthen the de-duplication, process the PAN database is being seeded with Aadhaar number for Individuals and Company Identification Number (CIN) for Corporate Entities.

(d) PAN Service Providers

The services related to PAN such as receiving PAN application forms, verification of the documents submitted, digitizing the PAN application form, uploading the data on the NCC (National Computer Centre), printing PAN cards and dispatching of PAN cards have been outsourced to the PAN Service Providers, M/s UTIITSL and M/s NSDL eGov. The Service Providers through their network of more than 20,000 front offices (PAN centres), receive and process the PAN application submitted by applicants. However, the PAN is generated centrally in the department's database through robust software at National Computer Centre (NCC) of the Income Tax Department and thereafter printed and dispatched through service providers.

(e) PAN Verification Facility

PAN verification facility is provided through CBDT's e-filing server to Government departments through the Internet. One by one PAN verification or Bulk verification of 1,000 PANs in one go through file processing can be done by the users. PAN can also be verified through "Know Your PAN" facility on Income-tax official web site www.incometaxindia.gov.in where Name, Father's Name and Date of Birth (DOB) /Date of Incorporation (DOI) are known. Service for PAN verification is also provided by income tax PAN Service Providers (UTITSL and NSDL eGov) to agencies such as (i) financial institutions (RBI/Banks) (ii) government agencies (iii) persons required to file Annual Information Return (iv)any other entity required to file Annual Information Return (v) credit card companies/institutions etc.,

(f) Grievances Redressal Machinery

Grievance Redressal Machinery related to PAN is well defined. Whenever a grievance is received related to PAN, appropriate action is taken including forwarding the grievance to field formations with guidance and existing instructions. Grievances are also received through Centralised Public Grievance Redressal and Monitoring System (CPGRAMS). All grievances related to PAN are downloaded from the website of CPGRAMS and after examination, appropriate action is taken by the Directorate and information about redressal action taken in such cases, is uploaded on the website. Further a new mechanism to lodge grievances has been made available to PAN holders and new PAN applicants through eNivaran facility on eFiling portal. Here the complainant can pick specifics of complaint and the authority responsible to redress the matter. The entire process is online and besides functionaries of the department PAN Service Providers M/s UTIITSL and M/s NSDL eGov have been integrated to eNivaran mechanism for resolving the grievances of public.

(g) Customs

The Indian customs EDI system (ICES) is an EDI based work flow application which enables (i) electronic filing and processing of import and export declarations/manifests (ii) system appraisal of select goods (iii) messaging with custodians and other agencies concerned with cargo clearance. Implemented at 214 locations, ICES cover more than 98 per cent of the country's international trade consignment wise and 90 per cent value wise. With more than 200 crore hits annually, the ecommerce web portal, Indian Customs EDI Gateway (ICEGATE), is the single point of interaction between ICES and Partners in the Customs community and provides such services as registration, efiling, e-payment, document status and helpdesk as well as data exchange between customs and various regulatory and licensing authorities and facilitation of compliant trade (with concomitant reduction in transaction costs and cargo dwell time) and targeting of non-compliant or risky transactions is achieved through the risk management system. In 2016, CBIC launched single window interface for facilitating trade (SWIFT) at all customs EDI locations with six major participating government agencies (PGAs), as a single point interface for clearance of imported goods. SWIFT enables importers to file common electronic 'Integrated Declaration' which compiles the information requirements of customs, FSSAI, plant quarantine, animal quarantine, drug controller, wild life control bureau and textile committee and replaces nine separate forms earlier required by these agencies.

(h) CBIC-GST Application

GST business processes, namely, Registration, Return, Payment and Refund are provided from the common portal www.gst.gov.in which is managed by GSTN. The CBIC-GST Application is designed, developed and being deployed in a phased manner for providing the corresponding backend processes. In addition, supplementary business processed like Assessment, Audit, Adjudication etc. are also being hosted on the CBIC-GST Application with user interface available to both trade and departmental users, as the need be. For this, CBIC-GST Server is equipped for high end activities like receipt, storage, processing of API data, presentation of data to the departmental user, report-generation, MIS and Analysis Tools.

III.26 Anti-avoidance rules

III.26.1 Transfer pricing

India has comprehensive transfer pricing regulations that are broadly based on the OECD guidelines, with some differences (and more stringent penalties). The regulations explicitly define the relations and the types of transactions that are covered. In addition to cross-border related party transactions, the regulations have been extended to cover domestic transactions involving transfers of goods or services from a unit claiming a tax holiday to another unit or to any other closely connected person that may not be eligible for the tax holiday, and vice versa.

The regulations also contain deeming provisions that may cover transactions with unrelated parties, whether resident or non-resident, in certain circumstances.

The basic definition of the term "associated enterprise" is similar to that of the OECD model and is based on the generally accepted criterion of participation in control, management or capital. However, its scope is extended by including situations such as complete dependence on intellectual property, substantial participation in debt, extensive sourcing of raw materials by one enterprise from another enterprise, common control by any individual, etc.

Similarly, the definition of "international transaction" is broad, and includes, among others, any transaction that has a bearing on the profits, income, losses or assets of other associated enterprises. Transactions relating to cost contribution and cost allocation also are specifically covered, as are transactions in tangible and intangible property; capital financing, including a guarantee; and business restructurings or reorganizations with an associated enterprise, among others. Transactions between unrelated parties may be deemed to be international transactions under certain circumstances.

The transactions covered under the transfer pricing rules must satisfy the arm's length principle. Taxpayers must maintain contemporaneous documentation and obtain a certificate (in a prescribed format) from a chartered accountant furnishing the details of international transactions with associated enterprises, along with the methods used for benchmarking. The primary onus is on the taxpayer to establish that the price charged or paid in the course of international transactions complies with the arm's length principle. The regulations prescribe detailed documentation requirements, stringent penalty provisions and a procedure for audit of transfer pricing cases by specialized revenue officers (transfer pricing officers). Where the application of the arm's length price would reduce the income chargeable to tax in India or increase the loss, no adjustment is made to the income or loss. If an adjustment is made to a company enjoying a tax holiday, the benefit of the holiday will be denied in relation to the adjustment made.

Finance Act, 2017 inserted a secondary adjustment provision in the Indian transfer pricing regulations requiring cash repatriation of the differential amount arising on account of a transfer pricing adjustment.

It also provides that upon failure to repatriate cash within 90 days, the amount would be deemed as an advance to an associated enterprise and would be subject to interest at a specified percentage.

Transfer pricing audits recently have been more aggressive, leading to controversy and litigation. Several measures have been adopted to curb litigation and provide tax certainty, including the introduction of safe harbour rules that apply in certain specified sectors and provide for automatic acceptance of taxpayer’s transfer price if the price is equal to or above specified amounts and the taxpayer applies in the prescribed form. A validly exercised safe harbour option may remain in force for up to five years, provided certain conditions are met. Recently, the CBDT revised and relaxed safe harbour rates, to encourage more taxpayers to adopt them. The CBDT also has included low value-added service charges within the ambit of the safe harbour provisions.

A taxpayer may enter into an advance pricing agreement (APA) with the CBDT to determine an arm’s length price or the manner of determination of an arm’s length price. An APA is valid for five years and may be “rolled back” to the prior four years. It is legally binding on the taxpayer and on the tax authorities in respect of the international transaction for which it is entered into, except where there is a change in the law having a bearing on the APA or the APA was obtained on the basis of fraud or misrepresentation.

To avoid double taxation, a taxpayer may apply for assistance of the competent authorities under a mutual agreement procedure (MAP). The taxpayer may file a MAP application against a tax dispute raised by the Indian tax authority or the tax authority of an associated enterprise.

Additionally, several other measures, such as the introduction of a dispute resolution panel, risk-based transfer pricing assessments, additional resources to handle transfer pricing audits and an extension of the time to complete the audit have been introduced.

III.26.2 General anti-avoidance rule

The GAAR provisions, which were to be implemented as from 1 April 2015, were deferred and apply to investments made after 1 April 2017. The GAAR empowers the tax authorities to declare an arrangement an impermissible avoidance arrangement if it was entered into with the main purpose of obtaining a tax benefit, and: (1) it creates rights or obligations that normally would not be created between persons dealing at arm’s length; (2) it results, directly or indirectly, in the misuse or abuse of the Income Tax Act; (3) it lacks commercial substance or is deemed to lack commercial substance; and (4) it is carried out in a manner that would not be used for bona fide purposes. The GAAR will apply to arrangements where the tax benefit exceeds INR 30 million. Once the GAAR is invoked, tax treaty benefits also may be denied for the arrangement.

III.26.3 BEPS measures

Base erosion and profit shifting (BEPS) refers to tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations. Over 100 countries are collaborating to implement the BEPS measures suggested by OECD. These measures ensuring that profits are taxed where economic activities generating profits are performed and where the value is created. India has been a sincere supporter of BEPS and has also endorsed some of its recommendations. In the Budget 2016, the three key proposals to prevent BEPS were introduced. These were Patent Tax u/s 115BBF – based on Action Plan 5 'Countering Harmful Tax practices more effectively, considering transparency and substance, Country by Country Reporting (CbC Reporting) u/s 286 – based on Action Plan 'Guidance on Transfer Pricing & Country by Country Reporting and Equalization Levy under chapter VIII of Finance Bill,2106 – based on Action Plan 1 'Addressing Tax challenges of Digital economy.'

Further, the Budget 2017 provide that interest expenses claimed by an entity to its associated enterprise shall be restricted to 30% of EBITDA or interest paid or payable to an associated enterprise, whichever is less in the line of BEPS Action Plan 4 to provide.

Finally, Budget 2018, introduced further provisions of the BEPS action plan in the Indian Taxation Act.

These are relating to BEPS Action Plan 7 on artificial avoidance of Permanent Establishments (PEs) in India. The agency PE rules in the Indian Income Tax Act a non-resident will be regarded as having a business connection in India if any person acting on behalf of the non-resident habitually exercises in India an authority to conclude contracts for the non-resident in India. However, India is a signatory to Article 12 of Multilateral Instrument (MLI) the dependent Agent PE provisions in Article 5(5) of the Indian Tax treaties as modified by MLI has expanded the scope of PE in the Treaties in comparison to the Income Tax Act. Thus, an amendment was made through Budget, 2018 so as to align them with BEPS action 7, and modelled on article 12 of the MLI, a non-resident would also be regarded as having a business connection in India if a person acting on behalf of the non-resident habitually plays the principal role leading to the conclusion of contracts by the non-resident in India, and the contracts are:

In the name of the non-resident; for the transfer of the ownership of, or the granting of the right to use, property owned by the non-resident or that the non-resident has the right to use; or for the provision of services by the non-resident.

Second amendment has been made relating to BEPS Action Plan 1 relating to digital economy: India has already introduced the concept of Equalization levy @ 6% as a separate code by Finance Act, 2016, in order to tax certain digital transactions. As per existing provisions, the term business connection is restrictive as it essentially provides for physical presence-based nexus rule for taxation of business income of the non-resident in India. Taking into consideration the BEPS Action Plan 1 on the digital economy, the budget 2018 amended that a Significant Economic Presence would also constitute a business connection of non-resident in India.

III.27 Tax treaties

India has a comprehensive tax treaty network. The treaties generally provide for relief from double taxation on all types of income, limit the taxation of non-resident companies and protect non-resident companies from discriminatory taxation in the country in which they are non-resident. India's treaties generally contain OECD-compliant exchange of information provisions. In addition, India has entered into agreements with specified associations for relief from double taxation, to limit the taxation of non-resident companies and to allow for the exchange of information and for recovery of income tax. India signed the OECD multilateral instrument (MLI) on 7 June 2017.

These treaties benefit institutions and individuals who earn in countries other than their country of residence, provided such an arrangement exists between their country of residence and the country/countries where their income sources are. The benefits of DTAA are lower withholding tax (tax deducted at source or TDS), exemption from tax, and credits for taxes paid on the doubly-taxed income that can be enchased at a later date. India has DTAA with over 90 countries; it plans to sign such treaties with more countries. The major countries with which it has signed the DTAA are the US, the United Kingdom, the UAE, Canada, Australia, Saudi Arabia, Singapore and New Zealand. Double taxation can be avoided in two ways. One, the resident country exempts income earned in the foreign country. Or, it grants credits for the tax paid in the other country. The rules vary from treaty to treaty. For example, the tax treaty with Mauritius has zero tax for capital gains on equities, but that with the US taxes capital gains. Broadly, under DTAA, the country where the income is generated has the right to tax it according to its laws. The country of residence gives credits for this tax and taxes the income at a lower rate. For example, if India taxes long-term capital gains at 20%, the country of residence where such gains are taxed at 30% will levy only 10% tax on such income. In many cases, if an individual establishes his residency in a country with which India has signed DTAA, then income generated in India will be taxed at the rate mentioned in the treaty. For example, if a person is resident of the US in an assessment year, TDS on interest earned on fixed deposits in India will be 15% instead of the domestic rate of 30%.

The Indian government also has the power to enter into a tax treaty with specified associations in a specified territory. There also are agreements limited to aircraft profits and shipping profits.

A non-resident taxpayer is required to furnish a tax residence certificate from the authorities in its country of residence, along with a form (Form No. 10F), to obtain relief under a treaty. The taxpayer also may be required to furnish such other documents and information as may be prescribed to benefit from the treaty.

Table 10 India's Tax Treaty Network

Albania	Finland	Malta	Slovenia
Armenia	France	Mauritius	South Africa
Australia	Georgia	Mexico	Spain
Austria	Germany	Moldova	Sri Lanka
Azerbaijan	Greece	Mongolia	Sudan
Bangladesh	Hungary	Morocco	Sweden
Belarus	Iceland	Mozambique	Switzerland
Belgium	Indonesia	Myanmar	Syria
Bhutan	Ireland	Namibia	Taiwan
Botswana	Israel	Nepal	Tajikistan
Brazil	Italy	Netherlands	Tanzania
Bulgaria	Japan	New Zealand	Thailand
Canada	Jordan	Norway	Trinidad & Tobago
China	Kazakhstan	Oman	Turkey
Colombia	Kenya	Philippines	Turkmenistan
Croatia	Korea (ROK)	Poland	Uganda
Cyprus	Kuwait	Portugal	Ukraine
Czech Republic	Kyrgyzstan	Qatar	United Arab Emirates
Denmark	Latvia	Romania	United Kingdom
Egypt	Libya	Russia	United States
Estonia	Lithuania	Saudi Arabia	Uruguay
Ethiopia	Luxembourg	Serbia and Montenegro	Uzbekistan
Faroe Islands	Macedonia	Singapore	Vietnam
Fiji	Malaysia	Slovakia	Zambia

Source: http://www.incometaxindia.gov.in

IV India Specific Issues

India has been one of the fastest-growing economies in the world in recent years, reflecting the success of the many structural reforms that have been recently implemented. Among these reforms are the inflation-targeting monetary policy framework, the Insolvency and Bankruptcy code, the goods and services tax (GST), and steps to liberalize foreign direct investment (FDI) flows and the ease of doing business. All these reforms have been undertaken to spur India's position amongst more advanced economies and to improve the living conditions for all citizens.

However, the economy is facing challenges on many fronts. Major risks to the economy may come from oil prices and growing tendency of protectionism around the world, triggered by US's so-called reciprocal taxes. Already, the ill effects of the rising fuel prices are being experienced by way of increasing CAD.

On the fiscal side, apart from low collection of tax revenues, non-tax revenues, including dividends, privatisation and telecom receipts, have also been below budgetary targets. On the spending side, wages and various allowances for government employees are being adjusted up while several states have announced farm loan waivers.

Given the already relatively high deficit and low debt-to-GDP ratios, this leaves little scope for further stimulus in the short term. Still, in the medium term, the GST should spur tax revenue. To support inclusive growth with better social and physical infrastructure such as health and education, measures are required to be taken to raise more revenue from property and personal income taxes.

India introduced GST with multiple objectives. On the revenue mobilization front, the objective was to achieve revenue neutrality so as to ensure that the new tax regime does not lead to revenue loss for the government due to lesser tax collections, nor does it increase the burden on consumers by increasing the tax incidence on products.

However, the major sources of taxes in India i.e. Petroleum products have been kept out from the purview of GST in India. The Government has initiated discussions to notify the date for inclusion of petrol, diesel, natural gas and aviation turbine fuel in the GST base for which the GST Council is empowered to give recommendations.

The inclusion of this sector under the auspices of the GST regime is imperative for sustained growth in the tax collections. Upon inclusion of petroleum and related products, though the government will have to relinquish the input tax credit which the petroleum companies are currently unable to claim, the overall contribution towards GST from the petroleum industry is expected to go up.

Also, at the time of implementation of GST with a four-tier rate structure (5%, 12%, 18% and 28%), the intention of the government was to gradually converge at least the standard rates of 12% and 18%, into a single rate applicable to majority of the products.

However, for a sustained growth in GST collections, the government is trying to ensure that under the new tax regime, the rates are moderate and the tax compliance be increased. GST has to be a facilitator for growth which will ensure a consequent growth in tax revenues.

On the Direct Taxes front, the Government's efforts for increasing the tax compliance has shown positive results. The tax collections for the year 2017-18 has shown an increase of 18% over the last year. Also, the number of income tax return filers have gone up substantially. The Government's sustained efforts in curbing the black money is showing results and is likely to continue in the near future. However, still the Tax-GDP ratio remains abysmally low ad needs to be improved drastically to keep up the current growth levels.

Large corporate investments during the 2000s in key industrial sectors were financed by Public Sector Banks (PSBs), with bank lending to infrastructure and metals now accounting for 14.1 percent and 6.1 percent respectively of gross loans for the commercial banks; and 16.1 percent and 7.3 percent of gross loans for PSBs as of December 2016; and Indian corporates becoming one of the most leveraged among emerging markets.

Deteriorating global and domestic conditions in FY2013-14 took a toll on corporate debt repayment capacity across sectors; this was compounded by bottlenecks in infrastructure project approvals, and oversupply in the steel industry. As a result, the PSBs' stressed assets—the sum of non-performing assets (NPAs) and restructured loans—reached 15.8 percent of gross loans at end-2016. There has been a continuous increase in the ratio of non-performing assets in the Indian Banking sector. The Scheduled Commercial Banks' gross non-performing advances (GNPA) ratio rose from 10.2 per cent in September 2017 to 11.6 per cent in March 2018. However, their net non-performing advances (NNPA) ratio registered only a smaller increase during the period due to increase in provisioning. The GNPA ratio in the industry sector rose from 19.4 per cent to 22.8 per cent during the same period whereas stressed advances ratio7 increased from 23.9 per cent to 24.8 per cent. Within industry, the stressed advances ratio of sub-sectors such as 'gems and jewellery', 'infrastructure', 'paper and paper products', 'cement and cement products' and 'engineering' registered increase in March 2018 from their levels in September 2017. The asset quality of 'food processing', and 'textiles' sub-sectors improved during the same period. The provision coverage ratio increased across all bank groups in March 2018 from its level in September 2017.

Risks to the banking sector remains elevated, and some banks are struggling with deterioration in asset quality and low profitability, while their capital positions may remain insufficient to support higher credit growth.

V Conclusion: Where we stand and where we go?

The global economy expanded at a strong pace in the first half of 2018. In advanced economies (AEs), activity was accompanied by tightening labour markets, firm commodity prices and resilient trade dynamics. Emerging market economies (EMEs) front-ran the AEs in Q1 but fell back somewhat in Q2 as capital flows exited on risk aversion generated by a cocktail of trade wars, rising interest rates in the US, geo-political tensions and the unrelenting hardening of crude oil prices. As per the International Monetary Fund's (IMF's) estimate, global growth is expected to pick up by 0.2 percentage points to 3.9 per cent in 2018 and is projected to sustain at the same level in 2019. The domestic and international repercussions of expansionary fiscal policy in the US and terms of trade gains for commodity exporters are expected to be impulses of propulsion. Headwinds could nonetheless rise from further tightening of financial conditions, escalation of trade tensions and intensification of geopolitical risks. Increasingly, financial markets are emerging as the main conduit for transmission of global spill overs to financial, and eventually, macroeconomic conditions in EMEs, including India.

In this unsettled international environment, incoming data configure favourable conditions for an acceleration of activity in the Indian economy. The initial lull in the progress of the southwest monsoon got reversed, including in the spatial dispersion, and in response, cropping gaps are closing. Overall, agricultural production is likely to remain strong for the third consecutive year. Meanwhile, growth impulses in industry are strengthening, propelled by a sustained pick-up in manufacturing and mining activity, especially coal. Corporates are reporting robust sales growth and improvement in profitability as pricing power returns. Services sector activity is also set to gather pace, as high frequency indicators suggest. Revenue-earning freight traffic of railways has picked up, driven by stepped-up movement in coal, fertiliser and cement. The uptrend in construction is expected to continue going forward, given the government's push for infrastructure – affordable housing, roads, and ports – and the robust expansion in the production of cement. Underlying this reinvigoration is the steady expansion in aggregate demand, fuelled by consumption (both urban and rural), investment and exports. Over the rest of 2018- 19, the acceleration of growth that commenced in 2017-18:H2 is expected to be consolidated and built upon. Keeping in view the evolving economic conditions, real GDP growth for 2018- 19 is expected to increase to 7.4 per cent from 6.7 per cent in the previous year, with risks evenly balanced.

The surge in the number of taxpayers, especially new ones, augurs well for raising the tax-GDP ratio to at least the levels of peers. While the GST may gradually expand revenues as it stabilises and gains traction, terms of trade losses associated with the hardening of international crude prices could restrict fiscal space. Meanwhile, sizable outlays on agriculture and infrastructure could impose a financing constraint. In this milieu, aggressively pursuing disinvestment targets contingent upon market conditions and investor appetite holds scope for fiscal metrics in line with the Fiscal Responsibility and Budgetary Management (FRBM) targets.

Looking ahead, the Indian economy is set to step up its growth trajectory. Two aspects warrant priority if this aspiration is to be realisable and sustainable. First, infrastructure holds the key to unleashing the impulses of faster growth. In particular, the reasonable success achieved in the transportation space is worthy of emulation in other areas. During 2018-19, this aspect of the infrastructure mission is set to accelerate. In the road sector, the key targets are awarding works for around 20,000 km length of national highways; construction of 45 km per day vis-à-vis 27 km per day last year; and developing ring roads around 28 major cities under the Bharatmala project. In railways, upgradation of Bengaluru and Mumbai suburban systems, Mumbai-Ahmedabad high-speed rail construction, installing modern facilities in railway stations as part of station redevelopment, and opening India's First National Rail and Transportation University in Vadodara will be the priorities. In the port sector, more than 576 projects with an estimated cost of Rs. 8,700 billion have been identified for implementation under the Sagarmala project.

Second, even as infrastructure development provides the thrust, sustaining the momentum of growth will hinge around its inclusiveness and, in particular, its employment intensity. The Government is designing a comprehensive strategy to bring employment to the core of the development strategy: (i) promoting industrial activity through the Make in India drive; (ii) enhancing employability through Skill India including Skills Acquisition and Knowledge Awareness for Livelihood Promotion (SANKALP) and Skill Strengthening for Industrial Value Enhancement (STRIVE); and (iii) encouraging innovation and entrepreneurship through Start up India. With regard to reforms in labour laws, codification is in progress and the Code on Wages Bill has been introduced in the Lok Sabha (Upper house of the Parliament of India).

Over the medium-term, the pace and quality of growth will be anchored by progress on the unfinished agenda of structural reforms in, inter alia, resolution of banking and corporate financial stress; taxation; agriculture; liberalisation of the economy’s external interface, especially with FDI; and galvanising the business environment. The hard-earned gains of macroeconomic stability that have defined the recent period as its greatest achievement need to be preserved as an imperative within this endeavour.

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