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Budget 2016: Mixed Bag for the technology and services sector

- Clarifications and simplification – boost for business environment, but more needed
- Extensive Technology adoption in governance – step in right direction
- Startup India action plan – caveats could be the dampener, need more boost

New Delhi, February, 29 2016- NASSCOM today welcomed the Union Budget 2016, while terming it as a mixed bag for the sector. The budget reiterates the 7.6% GDP growth rate for the country and provides a slew of incentives for the rural, agricultural sector to enable inclusive growth.

The annual budget proposals set the policy direction for the country and Budget 2016 does articulate the emphasis on accountability, transparency and governance. However, in the backdrop of global economic volatility, there are unmet expectations on policy announcements that enable ease of doing business for our sector.

Mr Mohan Reddy, Chairman, NASSCOM said "Our wish list for Budget 2016 included three key priorities – policy bottlenecks including ease of business; nurturing start-ups, products and ecommerce sector; and clarifications on transfer pricing to enable inward investments in India. Budget 2016 only partially covers these priorities. Extension of Section 10AA for SEZ units till 2020 is a positive outcome though the imposition of MAT on startups will not allow the full impact of the benefits to be realized"

Mr. R. Chandrashekhar, President, NASSCOM said, "The finance minister's speech had a strong emphasis on leveraging technology to transform India. The initiatives announced today combined with swift implementation of Digital India will help to digitize India and provide effective citizen services. We would urge the government to move forward at a swift pace and build an effective PPP model".

NASSCOM will continue to work with the government to address procedural issues that impact the sector.

Key announcements

- Sunset date for Section 10AA of SEZ Act extended till 2020. This will enable technology units to set up and commence operations in SEZs
- Place of Effective Management deferred by 1 year: A key ask to provide an opportunity for deliberations and address concerns on the provisions.
- Section 80 JJAA now applicable to services companies as well, is a boost for BPM companies who have been at the forefront of creating employment
- Extensive emphasis on technology adoption by the government across SMBs, land record modernization, Aadhar adoption, procurement platforms etc
- Startup India announcement of 3 year income tax exemption welcome, though continuing MAT imposition a dampener.
- Holding period for investment in unlisted companies to qualify for long terms capital gains tax reduced from 3 to 2 years. Our recommendation was for 1 year in line with investments in listed shares

- High Level Committee chaired by Revenue Secretary to oversee fresh case where the assessing officer proposes to assess or reassess the income in respect of indirect transfers by applying the retrospective amendment
- Section 206AA amended to ensure TDS shall not be deducted at a higher rate in case of non-residents not having PAN, as per the DTAA provisions
- Interest rates on delayed payment of duty/tax across all indirect taxes being rationalized at 15%, with some exceptions.
- Clarity on full CENVAT credit for input services exclusively used in taxable output streams.
- DTAA benefits of reduced or NIL withholding tax for payments made to non-resident investors by AIF (category I and Category II) restored, and 10% withholding removed.
- BEPS action plan - Country-By-Country Report and Master file applicability from 1st April 2017
- Equalisation levy on consideration for any specified service received or receivable by a person, being a non-resident. Specific service currently includes online and digital advertisement

Key proposals not addressed

- Removal of dual levies on software products not addressed
- Domestic investors continue to face higher tax rates - Angel taxation, higher long term capital gains tax
- Revision of criteria to carry forward losses to allow for capital infusion in business not considered
- Transfer pricing issues related to safe harbor margins, APA roll back rules not notified
- Rationalisation of tax structure awaited. So far announced for new units in manufacturing set up on or after 1 March 2016
- No roadmap on MAT and different cess rationalization
- R&D credits not applicable for technology sector, lowering of deduction rate not conducive to encouraging tech R&D
- Clarifications not provided on place of provision of service rules

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