

NASSCOM shares Pre-budget recommendations for IT-BPM Industry

- *Recommends support and facilitation of exports and conducive business environment in the country, in the backdrop of rising protectionist trends globally*
- *R&D Incentives for the Software sector, as software products are developed in India*
- *Address Transfer Pricing issues both International and Domestic*

New Delhi, 07th January, 2016: Keeping the overall business environment, growth, development and ease of doing business, in focus, **the National Association of Software and Services Companies (NASSCOM)**, shared its budget recommendations to the finance ministry.

While talking about the recommendations, **Mr. R Chandrashekhar, President, NASSCOM** said *“The Government should commit towards offering a friction-less business environment and support to the IT-BPM industry, which is on the threshold of \$100 billion exports this year. Being the sector that has put India on the global economic map, the Government should leverage the expertise and talent from this industry to meet national development goals and to set milestones for the Indian economy.”*

Against the backdrop of the rising protectionism, the need for a conducive domestic environment is all the more critical. Retrospective amendments and ambiguous provisions are a serious detriment and should be avoided. For certainty in tax regime, a clear roadmap for Rationalization of corporate tax rate to 25%, abolishing MAT or rationalizing the rate to 1/3rd the corporate tax rate and associated road map for utilizing MAT credit, rationalization of education cess and surcharge to bring down effective corporate tax rate should be made available.

With respect to taxation on software products NASSCOM emphasized the long pending issue of dual levies. While the Goods and Services Tax (GST) will hopefully address the dual levy issue, there is the need for intervention even under the current regime. NASSCOM has raised these issues with the High Level Committee and hopes that the proposed interim resolution is available till such time that GST is implemented

- To correct the anomaly in the meanwhile the industry body suggests that goods subject to levy of VAT whether delivered on media or other modes including electronic download
- TDS exemptions do not work for the software industry as the exemption is granted on a customer name basis and companies cannot provide this list in advance, a condition more pronounced for software products. With the government notifying lower TDS rates for certain payments TDS rates for software companies should also be reduced to 2%

The IT Industry is the front runner in developing innovative products and solutions today. Therefore, NASSCOM stressed the need for R&D incentives, and suggested that the current scope of incentives be expanded to explicitly include IT and if the current 200% deduction is reduced it should be at least 150% to support software product development efforts in the country

To facilitate ease of business, it was suggested that matters clarified in the Board Circular issued following Rangachary Committee recommendations should not be litigated further by the Department. Further,

- *There should be uniform Foreign Exchange rate for computation of direct and indirect tax liabilities – service tax, customs duty, income tax.*
- *Aligning Companies act provision on Indian Accounting Standards and reporting therein be harmonized with SEBI regulations that grant exemption for companies adopting International Financial reporting Standards for consolidated filings.*
- Government should benchmark plans to phase out exemptions, against prevalent norms in competing economies e.g. Philippines, Malaysia etc. which continue to offer various incentives,

and introduce suitable measures to ensure India does not lose out in the global competitiveness.

- Foreign Trade policies should include benefits of SEIS for STPI units. Currently, without such benefits, STPI units are at a disadvantage as compared to SEZ units for the same services
- *The IT Industry arguably is the most impacted by transfer pricing related issues, and advocates recommendations to address them -*
 - o *Safe harbor margins should reflect business realities and the prevailing high rates between 20-30% should be revised to more realistic rates,*
 - o *Clarifications on the Domestic Transfer Pricing provisions should include the definition of 'Closely connected' parties, guidelines for benchmarking of Director's remuneration be provided*
- POEM provisions indicated in the draft rules circulated need comprehensive review as in the current form then could adversely impact global expansion of the IT Industry. NASSCOM has assured the government that it would send specific detailed suggestions on the various provisions of POEM to mitigate any adverse impact and address any perceived ambiguities.

Lastly, on the upcoming indirect tax regime, NASSCOM maintains that the GST holds the promise of setting to rest the dual levy issues that plagues the software sector, and eagerly looks forward to the advent of GST with the hope that these ambiguities are laid to rest thereafter. NASSCOM also recommends that pending introduction of GST, suitable steps be taken to address incidence of dual levies in the interim.

About NASSCOM

NASSCOM® is the premier trade body and the chamber of commerce of the IT-BPM industry in India. NASSCOM is a global trade body with more than 1800 members, which include both Indian and multinational companies that have a presence in India. NASSCOM's member and associate member companies are broadly in the business of software development, software services, software products, consulting services, BPM, e-commerce and web services, engineering services and animation and gaming. NASSCOM's membership base constitutes over 95% of the industry revenues in India and employs about 3.5 million professionals.

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