Union Budget

On 5th July 2019, Union Minister of Finance Ms Nirmala Sitharaman presented the Union Budget 2019. This is the first budget of the present Union Government after coming to power for the second consecutive term. The Budget 2019 has aimed to boost infrastructure and foreign investment in India. It aims to change gears and put India on a fast forward mode to spur growth and development. The world economy is slowing down however, India continues to take giant strides forward and has also managed to become the sixth largest economy by sustaining growth and also one of the fastest growing economy in the world.

2. The Economic Survey of India has forecasted that India would have a positive GDP growth rate of 7 per cent for Financial Year 2019-20 while expecting general fiscal deficit to be at 5.8%. India aims to accelerate and to sustain a real GDP growth rate of 8% to become a USD 5 trillion economy by 2025. Salient features of the Indian Union Budget 2019 which will positively impact economic and trade relations of India have been discussed in this newsletter.

For further detail, please see https://www.indiabudget.gov.in/
PUSH TO INVESTMENT: INDUSTRIAL DEVELOPMENT

- Empowering MSMEs and social enterprises
  - Interest subvention scheme for MSMEs: 360 crore allocated for 2019-20
  - Payment platform for bill filing for MSMEs to be created: to address delays
  - Social stock exchange for listing social enterprises and voluntary organisations

- Make in India
  - Changes in customs duties to promote Make in India

- Startups promotion
  - Exclusive TV channel for startups
  - E-verification for establishing investor identity and source of funds to resolve tax issues relating to fund raising

- Push to E-vehicles
  - FAME Scheme Phase-2 commenced
  - Customs duty exemption on certain e-vehicle parts
  - Income tax deduction of interest on loans for e-vehicle purchase

PUSH TO INVESTMENT: INFRASTRUCTURE DEVELOPMENT

- Road
  - Bharatmala phase 2 to be launched. State road networks will be developed

- Air
  - World's third largest domestic aviation market
  - UDAAN: Number of Operational Airports crossed 100

- Shipping and inland waterways
  - Jal Marg Vikas project and Sagarmala initiatives: improving logistics, reducing transportation cost and increasing competitiveness.

- Rail
  - PPP in railways infra development

- Operating Ratio Improving
Investment

3. It is estimated that India requires investments averaging USD 300 billion a year. A number of measures have been proposed in the budget to enhance the sources of capital for infrastructure financing:
   - A Credit Guarantee Enhancement Corporation for which regulations have been notified by the Reserve Bank of India, will be set up in 2019-20.
   - An action plan to deepen the market for long term bonds including for deepening markets for corporate bond repos, credit default swaps etc., with specific focus on infrastructure sector, will be put in place.
   - It is proposed to permit investments made by FIIs/FPIs in debt securities issued by Infrastructure Debt Fund – Non-Bank Finance Companies (IDF-NBFCs) to be transferred/sold to any domestic investor within the specified lock-in period.

Mega Investment in Sunrise and Advanced Technology Areas

4. In order to boost economic growth and Make in India, the government will launch a scheme to invite global companies through a transparent competitive bidding to set up mega-manufacturing plants in sunrise and advanced technology areas such as Semi-conductor Fabrication (FAB), Solar Photo Voltaic cells, Lithium storage batteries, Solar electric charging infrastructure, Computer Servers, Laptops, etc. and provide them investment linked income tax exemptions and other indirect tax benefits.

Corporate Taxation

5. In the Union Budget, it has been proposed that all companies with annual turnover of Rs 4 billion will now be under the 25% tax bracket. This may be very useful for medium scale companies who are making investment in India.

Foreign Direct Investments (FDI)

5. FDI inflows into India have remained robust despite global headwinds. Global Foreign Direct Investment (FDI) flows slid by 13% in 2018, to US$ 1.3 trillion from US$ 1.5 trillion the previous year – the third consecutive annual decline, according to UNCTAD’s World Investment Report 2019. However, India’s FDI inflows in 2018-19 remained strong at US$ 64.375 billion marking a 6% growth over the previous year. Following measures have been proposed to make India a more attractive FDI destination:
   - The Government will examine suggestions of further opening up of FDI in aviation, media (animation, AVGC) and insurance sectors in consultation with all stakeholders.
   - 100% Foreign Direct Investment (FDI) will be permitted for insurance intermediaries.
   - Local sourcing norms will be eased for FDI in Single Brand Retail sector.

Foreign Portfolio Investors (FIIs)

7.1 An important determinant of attracting cross-border investments is availability of investible stock to the Foreign Portfolio Investors (FPIs). It has been proposed to increase the statutory limit for FPI investment in a company
from 24% to sectoral foreign investment limit with option given to the concerned corporates to limit it to a lower threshold.

7.2 FPIs will be permitted to subscribe to listed debt securities issued by ReITs and InvITs.

7.3 As a key source of capital to the Indian economy, it is important to ensure a harmonized and hassle free investment experience for FPIs. Hence, it has been proposed to rationalize and streamline the existing Know Your Customer (KYC) norms for FPIs to make it more investor friendly without compromising the integrity of cross-border capital flows.

Electric Vehicles

8.1 India has set a target of 30% EV on Indian roads by 2030. Several steps have been initiated to encourage this transformation. “Faster Adoption and Manufacturing of Electric Vehicles in India Phase II (FAME India Phase II)” is being implemented in India for promotion of Electric Mobility in the country. This scheme with total outlay of Rs 10,000 Crores will be implemented over the period of three years with effect from 1st April 2019.

8.2 The main objective of the scheme is to encourage faster adoption of electric and hybrid vehicle by way of offering upfront incentive on purchase of electric vehicles and also by way of establishing a necessary charging infrastructure for electric vehicles. The scheme will help in addressing the issue of environmental pollution and fuel security.

8.3 Emphasis is on electrification of the public transportation that includes shared transport. To encourage advance technologies, the benefits of incentives, will be extended to only those vehicles which are fitted with advance battery like a Lithium Ion battery and other new technology batteries.

8.4 The scheme proposes for establishment of charging infrastructure, whereby about 2700 charging stations will be established in metros, other million plus cities, smart cities and cities of Hilly states across the country so that there will be availability of at least one charging station in a grid of 3 km x 3 km. Establishment of Charging stations are also proposed on major highways connecting major city clusters.

8.5 In the latest Union Budget presented on 5 July, following important announcements have been made:

- Additional income-tax deduction of Rs 150,000 to individuals on EV purchase. The loan is required to be taken on or before 31st March, 2023.
- Custom duty exemption on certain parts of EVs

Incentives to International Financial Services Center (IFSC)

9.1 Gujarat International Finance Tec-City (GIFT City) is the Gujarat government project for developing India’s first global financial hub. It is India’s first multi-service special economic zone with IFSC status which is catering to the nation’s large financial services market by offering global firms, world-class infrastructure and facilities.

9.2 The Government of India is providing several incentives to units established in IFSC. In
the budget, following proposals have been made in this regard:

- 100 per cent profit-linked deduction under section 80-LA of the Income-tax Act in any ten-year block within a fifteen-year period,
- Exemption from dividend distribution tax from current and accumulated income to companies and mutual funds,
- Tax exemptions for interest received by a non-resident in respect of monies lent to a unit located in IFSC.
- A non-resident is currently not required to pay capital gains tax on the transfer of specified securities made on a recognised stock exchange in the IFSC. This benefit is proposed to be extended to a Category-III Alternative Investment Fund (AIF) in IFSC of which all the unit holders are non-residents, subject to certain other conditions.
- Notifying other securities which shall be eligible for capital gains exemptions if traded on a recognised stock exchange in IFSC by a specified person.
- Presently, dividend distribution tax (DDT) is not levied on the distribution of dividend by a company located in IFSC if the same is distributed out of current income. It is proposed to extend this benefit of exemption to distribution out of accumulated profit which has been accumulated by the unit after 1st April, 2017 from operations in IFSC.
- In order to facilitate setting up of mutual funds in the IFSC, it is proposed that there would be no additional tax on distribution of any amount, on or after 1st September, 2019, by a specified Mutual Fund out of its income derived from transactions made on a recognised stock exchange located in any IFSC.
- Deduction under section 80LA of the Income-tax Act to a non-resident for the purpose of computing tax liability in respect of income of the nature of interest, dividend etc. referred to in section 115A.
- In order to facilitate on-shoring of international insurance transactions and to enable opening of branches by foreign re-insurers in the IFSC, it has been proposed to reduce Net Owned Fund requirement from ₹5,000 crore to ₹1,000 crore.

9.3 In a separate development, the first clearing corporation in GIFT City-IFSC, India International Clearing Corporation (IFSC) Limited, also known as India ICC has been granted recognition by Bank of England as a third-country CCP. This recognition will enable India ICC to provide clearing services and activities to the UK based entities for up to three years from the commencement of the recognition, further extendable by HM Treasury. India ICC is a subsidiary of BSE Limited (BSE). The trading volumes at IFSC have registered a significant growth over the last few months with the daily trade crossing over USD 3 billion.

Dispute Resolution

10. The Union Budget 2019 has also laid emphasis on closure of existing tax litigation. To liquidate past disputes under Central Excise, Service tax and Cesses, “Legacy Dispute Resolution Scheme” is proposed which grants waiver from 40 per cent to 70 per cent of the disputed tax amount. Further, this scheme
provides relief from payment of interest, penalty and protection from prosecution.

Relaxation in conditions of special taxation regime for offshore funds

11.1 In 2015, the Government had enacted a specific concessional regime to facilitate location of fund managers of offshore funds in India. This was subjected to some conditions. Two of these conditions, relating to the remuneration of fund manager and the time limit for building up of corpus, are proposed to be rationalised so as to facilitate setting up of fund management activity in India with respect to such offshore funds.

11.2 Presently, the investment made by Category-I AIF is exempted from the applicability of the provisions of section 56(2)(viiib) of the Income-tax Act. It has been proposed to extend this exemption to Category-II AIF as well.

Changes in Insolvency and liquidation process

12.1 The Insolvency and Bankruptcy Board of India (IBBI) notified the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) (Amendment) Regulations, 2019 and the Insolvency and Bankruptcy Board of India (Liquidation Process) (Amendment) Regulations, 2019.

12.2 The salient amendments affected by the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) (Amendment) Regulations, 2019 are:

(a) The amendments specify the process for withdrawal of applications before constitution of committee of creditors (CoC), after constitution of CoC but before issue of invitation for expression of interest, and after issue of invitation for expression of interest.

(b) The amendments require that while approving a resolution plan or deciding to liquidate the corporate debtor, the CoC may:
   (i) approve a plan providing for contribution for meeting the liquidation costs,
   (ii) recommend sale of the corporate debtor or sale of business of the corporate debtor as a going concern, and
   (iii) fix, in consultation with the RP, the fee payable to the liquidator, if an order for liquidation is passed by the Adjudicating Authority.

12.3 The salient amendments affected by the Insolvency and Bankruptcy Board of India (Liquidation Process) (Amendment) Regulations, 2019 are:

(i) The amendments specify the process for (i) sale of corporate debtor as going concern, and (ii) sale of business of corporate debtor as going concern under liquidation. These also provide that where a corporate debtor is sold as a going concern, the liquidation process shall be closed without dissolution of the corporate debtor.

(ii) The amendments require completion of liquidation process within one year of its commencement, notwithstanding pendency of applications for avoidance transactions. These provide a model timeline for each task in the liquidation process. It also specifies a maximum time of 90 days from the order of liquidation for
completion of compromise or arrangement, if any, proposed by the stakeholders under section 230 of the Companies Act, 2013. These will ensure that liquidation process is closed at the earliest.

(iii) The amendments require the financial creditors, who are financial institutions, to contribute towards the liquidation cost, where the corporate debtor does not have adequate liquid resources to complete liquidation, in proportion to the financial debts owed to them by the corporate debtor, in case the CoC did not approve a plan for such contribution during corporate insolvency resolution process. However, such contribution along with interest at bank rate thereon shall form part of liquidation cost, which is paid in priority.

(iv) The amendments provide for constitution of a Stakeholders’ Consultation Committee having representation from secured financial creditors, unsecured financial creditors, workmen and employees, government, other operational creditors, and shareholder/partners to advice the liquidator on matters relating to sale. However, the advice of this committee is not binding on the liquidator.

(v) The amendments require that a stakeholder may submit its claim or update its claim submitted during the corporate insolvency resolution process, as on the liquidation commencement date. Along with submission of claim, a secured creditor shall inform the liquidator of its decision to relinquish its security interest to liquidation estate or to realise its security interest.

(vi) The amendments have introduced a comprehensive compliance certificate to be submitted along with the final report to the Adjudicating Authority.

The amendment Regulations have come into force. These are available at www.mca.gov.in and www.ibbi.gov.in.
Activities during the month

13.1 Ambassador and Federal Minister of Agriculture Ms Julia Klöckner had a fruitful discussion on 3 July 2019.

13.2 Dr Seitz, IHK Hannover & Mr Franz, President German Cricket Federation presented a copy of the book on cricket rules for business travelers to India to Ambassador.

13.3 Ambassador visited the University of Cologne and had a discussion on deepening India-Germany educational cooperation with Professor Alex Freimuth President, University of Cologne.

13.4 The Annual Meeting of Indo-German Chamber of Commerce was held at Duseeldorf. Ambassador of India to Germany Ms Mukta Tomar, while addressing the meeting emphasized that there are immense opportunities for India & Germany to cooperate in frontier technologies.
On 10 July, an interactive workshop was held with LANXESS.

Ambassador met Dr. Andreas Pinkwart, Minister for Economy, Innovation, Digitization and Energy, North Rhine-Westphalia and Dr. Stephan Holthoff-Pförtner (SHP), Minister for Federal, European and International Affairs, North Rhine-Westphalia.

The International Yoga Day was celebrated on 21 June 2019 at Binz.

Yoga Day was also celebrated in other cities across Germany- Frankfurt, Munich, Cologne, Hamburg and Bremen.
13.9 A Bharatnatyam performance was presented by Guru Dr. Saroja Vaidyanathan and her students at the Embassy.

13.10 The Indian and Asian Exhibition was inaugurated at Wasserschloss Neuenheerse in Bad Driburg. A portrait of Mahatma Gandhi was gifted to Stiftung Schröder as part of commemoration of 150th birth anniversary of Mahatma Gandhi.

13.11 Ms. Paramita Tripathi, Deputy Chief of Mission inaugurated the 7th edition of Indo-German Film Week at Babylon Cinema Berlin on 11 July. Films from different regions of India were screened. Workshops on Yoga, Indian classical dances, Bollywood dance and Indian cooking were also held during the film week.
13.12 16th Indian Film Festival in Stuttgart was inaugurated in Stuttgart on 17 July 2019 by Ms. Paramita Tripathi, Deputy Chief of Mission. This film festival has emerged as the largest Indian film festival in Europe.

The film “The Last Chance” by celebrity chef Vikas Khanna won the audience award for best feature film.
Upcoming Events
16.1 The Embassy of India, Berlin is organizing the 3rd Indian Food Festival on Sunday, September 1, 2019 from 1200 to 1600 hrs with cuisines and cultural performances from different regions of India. The first and second Indian Food Festivals were held in October 2017 and June 2018 respectively and saw enthusiastic participation of Germans and Indians alike.

16.2 One can get to know Indian Cuisine beyond Curry and Mango Lassi. Taste Indian delicacies such as Idli, Vada Pav, Masala Dosa, Gol Gappe and Mysuru Pak at the Food Festival. Also enjoy Indian music and dance performances along with the delicious food!

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Indian Vegetarian Food Festival
Sunday, September 1, 2019
1200 - 1600 hrs @ Embassy of India, Berlin

Make In India Mittelstand (MIIM) is a business support programme by the Embassy of India, Berlin since 2015 that supports market entry into India for German Mittelstands (SMEs). MIIM is currently supporting 135 Mittelstand companies with over €1.12 bn. of implemented/declared investments.

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