Daily Economic News Summary: 9 June 2017

1. India, 66 other nations sign multilateral BEPS convention
Source: Financial Express (Link)

India, along with 66 other countries, on Thursday adopted the OECD-anchored base erosion and profit shifting (BEPS) framework in Paris, which will help them crack down on abuse of bilateral tax treaties and treaty shopping. The BEPS strategy consists of 15 action points which pertain to several cross-border tax practices and domestic taxation, in addition to double taxation avoidance agreements. With finance minister Arun Jaitley signing the relevant multilateral convention (MLI), India's tax treaties will be modified to curb revenue loss through treaty abuse, by ensuring that profits are taxed where substantive economic activities generating the profits are carried out and where value is created. In all, around 2,360 tax treaties could be modified under the BEPS agenda worldwide. The MLI has been signed at a time when several countries like India are autonomously including the relevant aspects into their tax laws with a view to formulating stronger anti-abuse provisions and bringing more transparency in exchange of information between countries. Several tax experts had pointed out that the principal purpose test (as in UK-India treaty) and limitation of benefit (LOB) clause in some 40 Indian bilateral treaties including the one with the US would address issues of treaty abuse…Apart from conventional mechanisms for dispute resolution like the Authority of Advance Ruling and Settlement Commission, newer means like advance pricing agreements (APAs) and mutual agreement procedure (MAP) are being used to avoid/settle tax disputes. Under the mechanism of MAP, several tax disputes involving US-based and Japanese companies have been resolved amicably across the table, with the tax authorities of both countries participating.

2. HSBC sees India growth unchanged at 7.1% this fiscal
Source: The Economic Times (Link)

India's growth is likely to remain unchanged at 7.1 per cent this fiscal, as investments are low and government spending may not remain high given the fiscal consolidation path the country is treading, says a report. "Growth numbers were marked down marginally but still remain higher than ours," HSBC said in a research note. It further said, "we have a below-consensus view that growth will be flat at 7.1 per cent in 2017-18". According to the global financial services major HSBC, output gap in the country is likely to remain negative for longer period of time. In its policy review meet yesterday, the central bank also lowered its growth forecast to 7.3 per cent, from 7.4 per cent earlier. The report said that investment still remained low in the country, while urban wages are growing but at multi-year lows. Moreover, government spending may not remain as high given the fiscal consolidation path, and the rise in exports over the last few months are showing some signs of moderation.

3. India's Q2 economy will be better than Q1: Nomura
Source: The Economic Times (Link)

India's second quarter growth will be better than its first quarter of 6.1 per cent and may settle in the range of around 6.5 to 7 per cent, Japanese financial services major Nomura has forecast here today. The financial major said that the short-term impact of Goods and Services Tax (GST) disruption will help India see better growth in the second quarter. "I think 6.1 per cent GDP growth should be the bottom of the growth front and we should see a gradual pickup in the growth numbers," said Sonal Varma, Managing Director and India Chief Economist at Nomura Singapore Pte Ltd. "More gradual (recovery) in the second quarter, may be around 6.5 to 7 per cent - in that range, but more stronger post-June," said Varma during Nomura's economic briefing held in Singapore. But disruption is expected as GST is implemented from July 1…Overall, Nomura expects 7 per cent GDP growth this year and 7.8 per cent in 2018, citing improving fundamentals backed by business-oriented reforms.

4. UN cites Indian start-up fund for government policies on developing digital sector
Source: The Economic Times (Link)

A fund launched in India for boosting start-ups and entrepreneurship in the country has been cited by the United Nations on how government policies can support investment in services and in development of the digital sector. The World Investment Report 2017: Investment and the Digital Economy, released by the UN Conference on Trade and Development (UNCTAD) cited the 'India Aspiration Fund' to say that government policies can actively support investment in local content and services and in the development of the digital sector through several interventions. The report said that "India has created the India Aspiration Fund, a so-called 'fund of funds' with $306 million to invest in private venture capital funds in order to expand the pool of, and boost, Indian entrepreneurs." The India Aspiration Fund, part of StartUp India initiative, was launched with a corpus of Rs 2,000 crore by Finance Minister Arun Jaitley in August 2015 to enhance the equity availability to Micro, Small and Medium Enterprises.

5. India calls for middle-income country coalition to revive globalization
Source: The Economic Times ([Link])

India called on Thursday for a coalition of middle-income countries to drum up support for globalisation as a political backlash in the United States and parts of Europe against free trade and investment imperils its growth aspirations. Arvind Subramanian, the finance ministry's chief economic adviser, suggested Indian could lead a coalition of countries with open economies to promote free trade. "We, in India, now have a much bigger growing stake in ensuring that the world markets remain open, that we continue to see globalisation," Subramanian told a conference on the world's 20 biggest economies (G20). "A coalition of middle-income countries led by India or at least where India is taking charge, would be something we should seriously explore." The proposal comes as frustration with persistently low growth, stagnant wages and diminishing job security has sparked opposition in Europe and the United States to free movement of capital, goods and services, which critics blame for eroding incomes and worsening inequality. Those worries prompted US President Donald Trump last week to pull the United States out of the landmark 2015 global agreement to fight climate change…Free trade and investment in the 1990s and 2000s triggered an unprecedented boom in the global economy, leading to rapid increases in per capita income and reductions in poverty. India, for example, saw average annual gross domestic product growth of 8.2 percent between 2003-2011, buoyed by 20-25 percent annual growth in exports. A slump in export markets since then has brought average growth down below 7 percent. Asia's third-largest economy needs to expand by at least 8 percent a year for the next decade to create jobs for its burgeoning workforce.

6. Government rationalizes 'safe habour' rates for MNCs
Source: Financial Express (Link)

The income tax department today rationalised 'safe harbour' rates as it wants more foreign companies to make use of the mechanism and reduce transfer pricing disputes. Generally, 'safe harbour' refers to circumstances in which the income-tax authorities accept the transfer price declared by the assessee. Transfer pricing implies the prices at which various overseas divisions of a company transact with each other. The new rates would be effective from April 1, 2017 and shall continue to remain in force for two years — up to assessment year 2019-2020. As per the revised 'safe harbour rules', for transactions involving provision of software development and IT-enabled services, safe harbour margins have been reduced to peak rate of 18 per cent from 22 per cent in the previous regime. The new regime would be available for transactions up to Rs 200 crore in relation to IT services, knowledge process outsourcing services, contract research and development services wholly or partly relating to software development or generic pharmaceutical drugs. The "safe harbour rules" were introduced by Finance Act 2009 to reduce the transfer pricing disputes and also to provide compliance relief, administrative simplicity and certainty to the taxpayers. The tax department then came out with final "safe harbour rules" in September 2013. So far, the rules have evoked tepid response due to high margins running up to 30 per cent.

7. Implement GST in select sectors to test it first: Arvind P Datar
Source: Financial Express (Link)

The Goods and Services Tax (GST) system should first be implemented in select industries and service sectors to test it before rolling it out on a full scale across the nation, a top tax lawyer said on Thursday. "It is not known whether the software has been tested. In order to avoid chaos, the GST regime should be implemented in phases. It should be first implemented for select industries and then expanded further," Arvind P. Datar, a noted tax and corporate lawyer, told IANS. According to him, there should be an extensive trial run so that glitches could be sorted out. Datar said it is not known whether the GST server can take the load as a huge number of returns will be filed on a single day across the nation by various business entities. He said he has no issues with the GST if there is 'one nation, one tax rate' but adding up various rates and calling it GST is not actually GST. Terming the GST in the current form a terrible thing waiting to happen to the country, Datar said: "The world over GST is VAT (value-Added Tax). But in India GST is not real GST." He said State GST law in various states may or may not be uniform. According to him, Article 246A of the Constitution permits states to levy taxes on goods and services, and hence there is nothing to prevent the states from levying additional GST. Citing the example of Singapore, Datar said, a flat seven per cent rate is charged on all products.

8. GST's impact will be disruptive, but positive: World Gold Council
Source: The Economic Times (Link)

With the Goods and Service Tax (GST) Council deciding to put gold under three per cent tax bracket, World Gold Council (WGC) sees the impact to be "disruptive" with change in consumer behaviour in the coming days. But the net impact is expected to be positive, it said. "We see consumer behaviour changing in response to GST. Our econometric analysis spanning 26 years of data illustrates that higher taxes act as a headwind to gold demand. But the tax should also change the industry to the benefit of the consumer," WGC said here in a report on Thursday. The report -- GST's impact on India's gold market -- said while gold consumers will face a slightly higher tax rate, the industry will go through a period of adjustment. "We believe GST may be disruptive in the short term as the industry adjusts to the new tax regime. Manufacturers' and retailers' working capital could be tied up because of inter-state gold stock transfers," it said.

9. Delhi Petroleum Association bats for automation in daily revision of fuel prices
Source: Financial Express (Link)

Expressing his concern over a daily revision in retail selling prices of petrol and diesel across the country from June 16, President of the Delhi Petroleum Dealers Association Nischal Singhaniya on Friday stated that he welcomed the move, but the rates should change automatically and not in any manual intervention. "The automation has been placed in all the 400 petrol pumps in Delhi. It is not as robust as it should be. The rates don't change automatically at all the machines because at midnight we receive SMS from the oil company and check the rates manually. There have been delays in the past when we had the fortnight revision so if it happens daily there might be a situation when a customer has to wait every day for more than an hour for the rates to change. We welcome the move and all that we ask for is – the rates should change automatically and there should not be any manual intervention," Singhaniya told ANI. Singhaniya further stated that this should be done on a daily basis as it would cause hassle to the customers. "Although it is an international norm and if you go to see in other foreign countries the rates are changed every day. In India, there is a control regime, although it's an open market, the rates are controlled by the oil companies and we see no point that this should be done on a daily basis as it can be continued on a fortnight basis. We only request the oil companies to take care of the capital erosion, which is needed to be taken under control. We also want that customers should not be in any inconvenience because of all this," Singhaniya said. State-run oil marketing companies (OMCs) yesterday decided to roll out the daily revision of fuel prices nationally from June 16.

10. In low-key visit, Modi is likely to meet Trump on June 27
Source: The Hindu: Business Line (Link)

Prime Minister Narendra Modi is set to hold his first meeting with US President Donald Trump on June 27, even as the government is still firming up the agenda covering visas, trade and security issues. However, unlike earlier, Modi's visit this time will be a low-key affair, devoid of any 'rock-concert type' shows, such as the September 2014 Madison Square event or the much-hyped address to a joint meeting of the US Congress in June 2016. "The Prime Minister will only be visiting Washington to meet President Trump, which is slated for June 27 as of now, as the programme is still evolving. Besides this, the Prime Minister will be addressing a couple of business meetings by USIBC (US-India Business Council) and CEOs' forum," a senior official involved in the arrangements told *BusinessLine*. Sources said the decision to keep the visit minimalist has been taken keeping in mind the growing bitterness in ties — with the US coming down heavily on India on issues ranging from high import duty on the iconic American Harley-Davidson bikes to rising trade deficit and garnering funds for India's climate change initiatives. With frequent visits by top officials to the US, New Delhi too has kept up pressure on Washington to not take drastic steps that might dent trade and economic ties. This is particularly due to the Trump administration's repeated threats to tighten H1B visa norms. Earlier this week, External Affairs Minister Sushma Swaraj said India is concerned over the rhetoric that's going on in the US over H1B visas. "But any amendments (on H1B visa regime) need Congressional approval, and I want to assure you that we are carefully following the developments," she had said. Modi has spoken to Trump over the phone thrice, while Swaraj has spoken to US Secretary of State Rex W Tillerson. Apart from this, National Security Adviser Ajit Doval, Foreign Secretary S Jaishankar and Commerce Secretary Rita Teaotia have visited the US to understand its policy stance towards

India. The US, on the other side, will be raising the issue of strengthening defence ties with India. The Trump administration had been pushing India to procure more armaments from America.

11. Digitisation can pave the way for Internet of Things in India
Source: Live Mint (Link)

Businesses across sectors have realized that they must use digital channels to engage with their key stakeholders to remain relevant and drive the conversation forward. The challenges for them include the loss of control over customer relationships, increased competition, threat of commoditization, and the need to engage digitally with suppliers, partners and employees in addition to customers. In fact, India is set for a "digitization revolution" which, in turn, would fuel the growth of the Internet of Things (IoT). IoT is bridging the physical, digital, cyber and virtual worlds and this requires extensive information processing capabilities. IoT applications are gradually moving from vertical, single-purpose solutions to multipurpose and collaborative applications interacting across organizations in different industry verticals. IoT itself, fuelled by the advancement of digital technologies, is dramatically changing the way companies engage in business activities and how people interact with their environment. The disruptive nature of IoT means we need to assess the requirements for its future deployment across the digital value chain in various industries and application areas.Reinventing IoT to cater to digitization requires far-reaching changes—from talent sourcing to building appropriate "high speed" broadband infrastructure. Fortunately, companies can adopt an approach that delivers results quickly while still reshaping IoT for the long term. This approach will also require focusing on business areas such as online commerce and customer relationship management.