



Transport and Logistics

Union Budget 2017-18

**Post-Budget sectoral
point of view**

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Setting the context

Where are we

The 2016–17 Union Budget laid an emphasis on infrastructure growth with plans to develop highways, railways and rural roads, and revive unused airstrips and airports. The government also announced the revival of the Sagarmala project for port modernisation and port automation, development of multimodal logistics parks, smart cities project and dedicated freight corridors, such as the Delhi Mumbai Industrial Corridor. The successful and timely completion of these proposed projects can help ensure cost effectiveness and operational efficiencies in the transport and logistics sector.

It was expected that the government might take initiatives to resolve pending issues on Goods and Services Tax (GST), land acquisition, environmental clearances, development of digitalisation, etc., which could help reduce the delays in the transport and logistics infrastructure development. The Budget was also expected to include incentives and schemes to increase private sector participation in the transport and logistics sector.

Overall, the Union Budget was expected to resolve pending issues in the sector, simplify tax procedures and rationalise the overall tax regime, and drive growth in the sector.

Key issues/challenges

The transport and logistics sector in India is fragmented; with a need for improvement in infrastructure as well as information technology penetration to help tackle operational inefficiencies

- Infrastructure projects are beset by time and cost overruns emanating from delay in execution, resulting in disputes between private partners and government agencies. Characteristically, these disputes involve large amounts of invested capital and have a sluggish redressal
- The delay in the implementation of GST has been impacting the readiness of logistics service providers and end users. The draft GST law stipulates a rate of 18 per cent for most services with no reference to any abatement, which is currently available for transporting goods via road, rail and sea. In the absence of any abatements, the logistics cost for users is expected to increase significantly
- The current modal mix for cargo transportation is skewed towards roads with under utilisation of low cost modes – rail, coastal shipping and inland waterways
- There is a need for a focussed plan for skill development in the wider Indian logistics landscape
- There are bottlenecks in hinterland connectivity resulting in higher lead times in cargo movement and lower turnaround time in supply chain

Government's stance

- Enhance government spending on infrastructure to stimulate economic growth
- Focus on building roads, highways and rural infrastructure
- Focus on the maritime sector as an important economical route for bulk transport with initiatives, such as Sagarmala, promotion of dedicated coastal cargo facilities and procedural improvements
- Focus on the development of inland waterways for passenger and freight transport to decongest existing road traffic
- Expedite development of existing projects in transport infrastructure especially highways, railways while earmarking new initiatives
- Revive government and private investments to complement the policy measures announced for developing the transport infrastructure including initiatives such as Bharatmala, Sagarmala, inland waterway development, schemes for incentivising coastal shipping besides other initiative and policy measures

Expectations

- **Infrastructure development:** There are expectations for the introduction of new financing schemes for highways and road construction projects, development of air as well as seaport infrastructure and port automation, in addition to improving hinterland connectivity. The creation of integrated-check-posts infrastructure with simultaneous checks by all departments at a single point can help minimise on-route delays. It is important for the government to facilitate development of waterways and logistics parks for faster and efficient cargo movement
- **GST implementation:** The process for introduction of GST has been initiated by the government. With the current deadline of 1 July for the implementation of GST, abatements need to be made available for various transport services as provided under the current service tax regime
- **Warehouse consolidation:** The introduction of GST is likely to lead companies to consolidate their warehouses. New policies could be brought in to facilitate this and set up base infrastructure for strategic transport and warehousing hubs in India, in addition to cold chain logistics infrastructure to propel growth in the sector
- **Technological developments:** It is important to have schemes for investment in technology for information and data sharing for efficient data collection, management and analysis
- **Payments infrastructure:** With the push for cashless transactions, the sector is also expected to witness a fillip to develop payment infrastructure at tolls and fuel retail outlets
- **Skilled workforce:** It is pivotal to chart out a clear time-based road map by identifying the output and financial outlays for skill development projects, focussing on transportation, warehousing and cold chain sectors. This would include setting up of aeronautical and maritime universities to focus on providing sector-specific knowledge and exposure to individuals
- **Private investments:** Policy-driven promotion of the Public-Private Partnership (PPP) model is vital for infrastructure development in the transportation sector, along with plug-and-play projects
- **Taxation:** The government was expected to provide clarity on the various tax issues, such as:
 - Service tax exemption for the activity of Maintenance, Repairs and Operation (MRO) services for aircrafts
 - Whether abatement (as applicable on transportation of goods by vessel on import of goods) will also be available to a cargo handling agency on recovery of freight cost from importers as reimbursement
 - The 2016 Budget granted a benefit of reduced tax rate of 29 per cent to certain categories of corporate tax payers. The rate be further reduced and the benefit of reduced corporate tax be extended to all corporate taxpayers
 - Exclude service tax portion to levy presumptive tax on income earned by foreign shipping companies
 - Provide clarity on applicability of sunset clause for section 80-IA to enterprise engaging in developing, operation and maintenance of infrastructure facility on or after the 1st day of April, 2017
 - Provide clarity on activity/ activities performed by enterprises which can substantiate start of the development or operation and maintenance of the infrastructure facility for purpose of section 80-IA and section 35AD
 - Provide clarity on tax holidays to CFS/ ICDs located in ports
 - Provide clarity on eligibility of tax holidays for LNG facilities located at Ports
 - Provide clarity on eligibility of tax holidays for upgradation and extension of existing airports
 - Provide clarity on eligibility of tax holidays for MRO, ground handling, cargo and ATF infrastructure co-located at an airport (the draft National Civil Aviation Policy 2015 issued by Ministry of Civil Aviation, Government of India has also supported tax holidays for MRO, ground handling, cargo and ATF infrastructure co-located at an airport).

Key policy proposals

Key announcements

The FY18 Union Budget laid focus on infrastructure development as one of the key themes, including the following proposals around the transport and logistics sector.

Sector view

Roads and rail

- The government allocated INR 64,900 crore towards the development of national highways
- The Budget announced a sum of INR 27,000 crore to the Pradhan Mantri Gram Sadak Yojna (PMGSY), of which INR 19,000 crore would be contributed by the central government and the rest would come from the state governments. The pace of construction of rural roads has increased to 130 km per day from 73 km per day in 2016–17
- The government allocated INR 131,000 crore towards the capital expenditure for the railways, of which INR 55,000 crore would be contributed by the central government, while the rest is expected to come from market borrowings, internal generation and PPP
- Including the capital expenditure for the railways, the total outlay on roads and rails would be INR 2.22 lakh crore for 2016–17. The total outlay for transport sector would be INR 2.41 lakh crore
- The government plans to commission 3,500 kms of railway lines during 2017–18, up from 2,800km in 2016–17, along with dedicated trains to be launched for tourism and pilgrimage
- The Railways continue to focus on improving safety, cleanliness and comfort for passengers:
 - The government announced the institution of a passenger safety fund – the Rashtriya Rail Sanraksha Kosh with a corpus of INR 100,000 crore over a period of 5 years
 - Further, the government aims to eliminate unmanned level crossings on broad gauge lines by 2020 and also seek international assistance to improve safety preparedness and maintenance practices
 - The government has proposed to power 7,000 railway stations with solar energy in the medium term, along with fitted bio-toilets in all coaches of the Indian Railways by 2019
 - At least 25 stations are expected to be awarded for station redevelopment in 2017–18, along with providing access for differently-abled people by providing elevators and escalators at 500 stations
- The railways shall also take measures to increase competitiveness and regain modal share:
 - The railways is to implement end-to-end integrated commodity transport solutions for freight customers through partnership with logistics players
 - Rolling stocks and practices to be customised to transport perishable goods, especially the agricultural products
 - The railways is to eliminate service charges for tickets booked online through the Indian Railways Catering and Tourism Corporation (IRCTC) website
 - The railways is to list Indian Railways Construction Company Ltd, IRCTC, and Indian Railways Finance Corporation to raise more funds, enhance accountability and professionalism in these entities
 - The railways is to introduce accounting reforms through introduction of accrual based financial accounting system by March 2019
- The government would continue to focus on developing metro rails as mode of urban transportation. The government has proposed to enact a new Metro Rail Act by rationalising the existing laws to facilitate greater private participation and investment in construction and operation.

Ports

- The government allocated INR 600 crore for the Sagarmala project
- Further, the government has identified 2,000 km of coastal roads to be developed to facilitate hinterland connectivity with ports and remote villages and accelerate the development of Coastal Economic Zones under the Sagarmala project.

Civil aviation

- Select airports in tier-II cities would be taken up for operations and maintenance in the PPP mode
- The government announced plans to amend the Airport Authority of India Act to enable effective modernisation of land assets. The revenue so generated shall be utilised for airport upgrades, development of new regional airports and to reduce aeronautical charges.

Others

- The government plans to introduce specific programmes for the development of multi-modal logistics parks and multi-modal transport facilities
- The government plans to institutionalise a dispute resolution framework for infrastructure projects under the PPP model and public utility contracts.

Direct tax

- No reduction in the corporate tax rate. However, Micro, Small and Medium Enterprises (MSMEs) (with turnover for FY 2015-16 not exceeding INR 50 crores) entitled to reduced rate of 25 per cent
- MAT/AMT credit now available to be carried forward for 15 years, compared to the existing limit of 10 years
- New framework introduced for computation of book profit for Ind-AS compliant companies in the year of adoption and thereafter
- Base year for indexation shifted to 2001 for Long Term Capital calculation purposes. Cost of an asset acquired prior to 01/04/2001 shall be Fair Market Value (FMV) as on 1 April 2001 and only capital expenses on improvements incurred on or after 1 April 2001 eligible for deduction
- Holding period for immovable property (being land or building or both) to qualify as long term asset reduced to 24 months from 36 months
- Long term capital gains exempt to the extent such gains are invested in bonds to be notified by Central Government (subject to limit of INR 50 Lakhs)
- Receipt of cash exceeding INR 300,000 (per day/per transaction/per event) not permissible, contravention may result in levy of penalty of equivalent sum
- Threshold for disallowance of cash transaction reduced to INR 10,000 from the existing INR 20,000. Further, such provisions also extended to capital expenditure on acquisition of assets. Consequently, no capitalisation allowed resulting in lower depreciation. Further, no investment linked deduction allowed on such cash expenditure
- Sunset clause to be extended till 1 July 2020 for applicability of Tax Deduced at Source (TDS) at a concessional rate of 5 per cent on payment of interest towards Foreign borrowings/External Commercial Borrowings (ECB) and payment of interest to Foreign Institutional Investors (FIIs) and Qualified Foreign Investors (QFIs) on their investment in government securities and Rupee Denominated Bonds (RDB)
- Conversion of preference shares to equity shares not subject to capital gains tax
- Timelines for completion of scrutiny assessment truncated in a phased manner from existing 21 months to 12 months from end of assessment year
- Introduction of thin capitalisation provisions in line with Base Erosion and Profit Shifting (BEPS) Action.

Indirect tax

- The Finance Minister re-affirmed the commitment to implement GST and highlighted the progress:
 - The GST Council has finalised its recommendations on most of the issues during the last nine meetings including rate structure, threshold for levy, compensation to states, examination of draft model GST law, draft integrated GST (IGST) law, GST compensation law and the administrative mechanism for GST, etc.
 - The preparation of an information technology (IT) system for GST is also on schedule
 - Consultations with the trade and industry on GST is scheduled to begin from 1 April 2017
 - Minimal changes have been proposed in view of the GST roll out
- Service tax exempted on viability gap funding (VGF) payable to the selected airline operators by the government for transport of passengers by air, embarking from or terminating in a Regional Connectivity Scheme (RCS) airport, for a period of one year from the date of commencement of operations of the RCS airport as notified by Ministry of Civil Aviation
- New provision inserted in the Customs Act, 1962, creating an obligation on the Person In Charge (PIC) of carrying passengers to India or from outside India, to:
 - Deliver the passenger and crew arrival manifest before arrival/departure (in case of an aircraft or a vessel) and passenger name record information (in case of a vehicle) of arriving/departing passengers to the proper officer
 - In case of a failure/delay to do so, penalty not exceeding fifty thousand rupees may be imposed
- Mandatory filing of bill of entry before the end of the next day following the day (excluding holidays) on which the vessel or aircraft or vehicle carrying the goods arrives at a customs station
- Benefit of Project Import Scheme extended to goods imported through courier service and falling under headings 9803 and 9804
- Goods imported through postal parcels, packets and letters, of Cost, Insurance and Freight (CIF) not more than INR 1,000 per consignment exempt from Basic Customs Duty (BCD), Countervailing Duty (CVD) and Special Additional Duty (SAD)
- Provisions relating to filing of advance ruling under Customs, Excise and Service Tax re-aligned with Income Tax
- Advance ruling machinery merged with Income Tax and time limit for pronouncement extended from 90 days to six months.

Impact

The transport and logistics sector has demonstrated growth in the current year in the backdrop of a challenging global economic situation. Continuing on the reform agenda, the FY18 Union Budget is built on forward-looking themes for holistic growth in the sector.

Policy impact

- An allocation of INR 64,900 crore to expedite the creation and expansion of highways, in addition to an investment of INR 27,000 crore (along with the state governments) on rural roads is aimed at improving first and last mile transport and providing seamless connectivity
- The increased allocation of funds for railways along with a focus on improving service capabilities and offering end-to-end commodity plans is expected to enhance competitiveness of railways vis-à-vis roads and other modes
- The proposed measures for passenger safety, station redevelopment, Swachh Rail and bio-toilets are expected to boost the quality of railway services in the medium and long term
- While there were no major announcements to boost the growth in ports traffic, the continued focus on the Sagarmala project, the development of Coastal Economic Zones and improving hinterland connectivity are expected to boost the maritime sector in the long term
- The proposed measures to enable efficiency in airport operations and enhance non-aeronautical revenue can pave the way for the development of new regional airports and help lower the aeronautical charges, making flying more affordable
- The institutionalised framework for dispute resolution could lead to effective and speedy resolution of infrastructure sector (PPP) disputes, which is a welcome step towards attracting private investment in the sector. Further, the institutionalised framework is expected to witness an increase in the use of technical and financial experts to resolve disputes.

Tax impact

- The service tax exemption on VGF received by the airline operators under the RCS is expected to enhance domestic air connectivity and passenger traffic at under utilised airports
- Reduction in corporate tax rate to 25 per cent for MSMEs, faster administrative mechanism by reduction of time limits for completion of assessment and boost to cashless economy by imposing restrictions as well as offering incentives for companies claiming profit linked deductions, extension of period for claiming set off of MAT/AMT Credit can benefit the sector since the MAT credit may lapse
- The Budget has introduced thin capitalisation provisions adopting the action points of the BEPS Project, which could impact funding and viability of projects
- Considering the practical difficulties in the calculation of book profits of Ind-AS compliant companies, the Budget has introduced a framework for computation of MAT for them

Summary

The total outlay for transport infrastructure has increased by about 10 per cent to INR 2.4 lakh crore in FY18, representing a continuity in the advancing infrastructure investments in the sector. Ensuring full utilisation of the proposed outlay and a selection of high quality projects for investments can help maximise benefit realisation.

Infrastructure development

The current Union Budget has a clear focus on developing highways, railways and rural road infrastructure. The allocation of funds for railways, and initiatives to improve customer safety and experience are expected to help them improve competitiveness and regain modal share. The allocation of funds in infrastructure is thus likely to propel the transport, warehousing and logistics businesses rapidly over the medium term.

Addressing the direct tax regime

Overall the Budget was committed to provide a stable and predictable taxation regime to reduce litigation and thereby provide a boost to the sector. The sector, however, expects more clarity on various direct tax issues, such as procedural tax assessment for regular and occasional shipping business. The expectations of the sector with regard to tax incentives, such as infrastructure status for port support services and extension of tax incentives for all warehouse facilities, would also need to be clarified in the near future.

Unfinished agenda

What remains

Direct tax

- Service tax collected on specified shipping income to be excluded in 'gross freight' for computing deemed taxable income under Section 44B
- Clarity on claiming tax holiday under Section 80-IA by ICD and CFS
- Appropriate guidelines to be provided in respect of 'regular' shipping business
- Extension of benefit of deduction under Section 80-IA in respect of upgradation and extension of existing airports
- Providing tax benefits to Maintenance, Repair and Operation (MRO) companies for setting up facilities in India
- Clarity on activity/ activities performed by the enterprise which can substantiate start of the development or operation and maintenance of the infrastructure facility for purpose of section 80-IA and section 35AD
- Clarification of tax holidays to CFS/ ICDs located in ports
- Clarification on eligibility of tax holidays for LNG facilities located at Ports
- Streamline compliance procedure for non-residents engaged in regular shipping business which opt to be governed by a presumptive taxation scheme

Indirect tax

- Service tax exemption for the activity of Maintenance, Repairs and Operation (MRO) services for aircrafts
- Provide clarity on whether abatement (as applicable on transportation of goods by vessel on import of goods) is also available to a cargo handling agency on recovery of freight cost from importers as reimbursement.

What is expected going forward

The Budget has been recognised for its emphasis on infrastructure and focus on the on-going initiatives of the government. Following are some of the recommendations that could be considered to develop a universal road map for the sector:

- The need to improve the modal mix for by diverting the transportation of bulk commodities from road to increasingly appropriate modes, such as rail and waterways, thereby freeing up capacity for fast-moving goods
- The government could expedite the process of GST implementation to help rationalise the overall tax regime. Provide extension of abatements for various transport services as available in the current service tax regime to ensure that costs for end users do not increase significantly, which can potentially impact the cost competitiveness of Indian businesses

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- With increased emphasis on digitisation and transparency in the economy, the government shall be required to take measures to provide a thrust to the interoperable Electronic Toll Collection system (ETC) for toll roads to ensure seamless movement of traffic and reduction of toll revenue leakages
- The implementation of the Public Procurement Bill, 2012, could help ensure transparency, fair and equitable treatment of bidders, promotion of competition and enhanced efficiency in public procurement in the transportation sector. It could set benchmarks and standards for the sector, to drive uniformity in warehouses, storage, and transportation equipment, and bring them up to high-quality levels
- The government needs to provide clarity on the ongoing issues pertaining to inter-state goods transport, bonded warehouses besides other issues to mitigate litigation and provide a boost to the sector.
- The government needs to speed up the formation of Rail Tariff Authority, which will be responsible for fixing tariffs taking into consideration costs, quality of service, social obligations and competition from other modes of transport.



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