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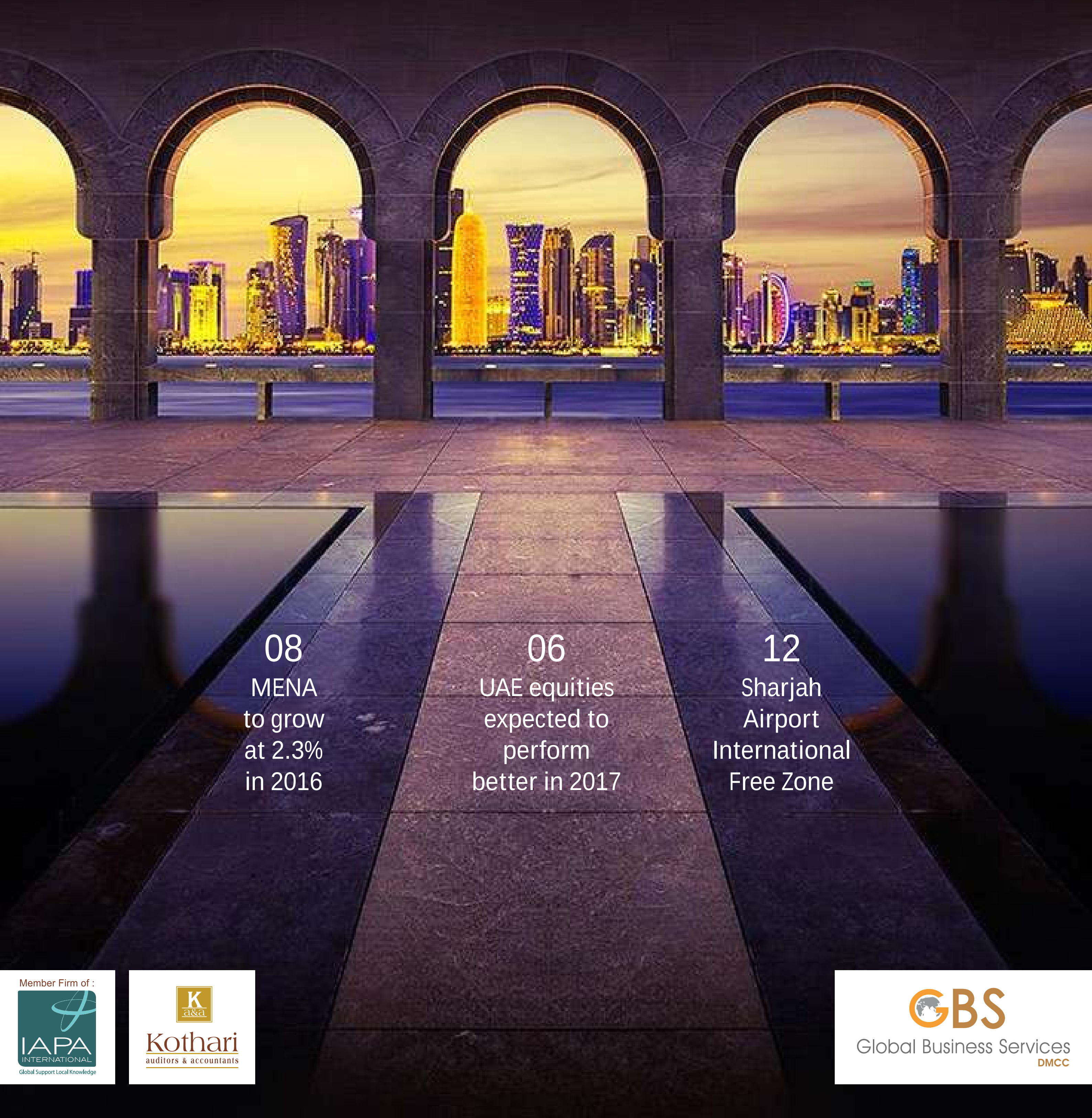

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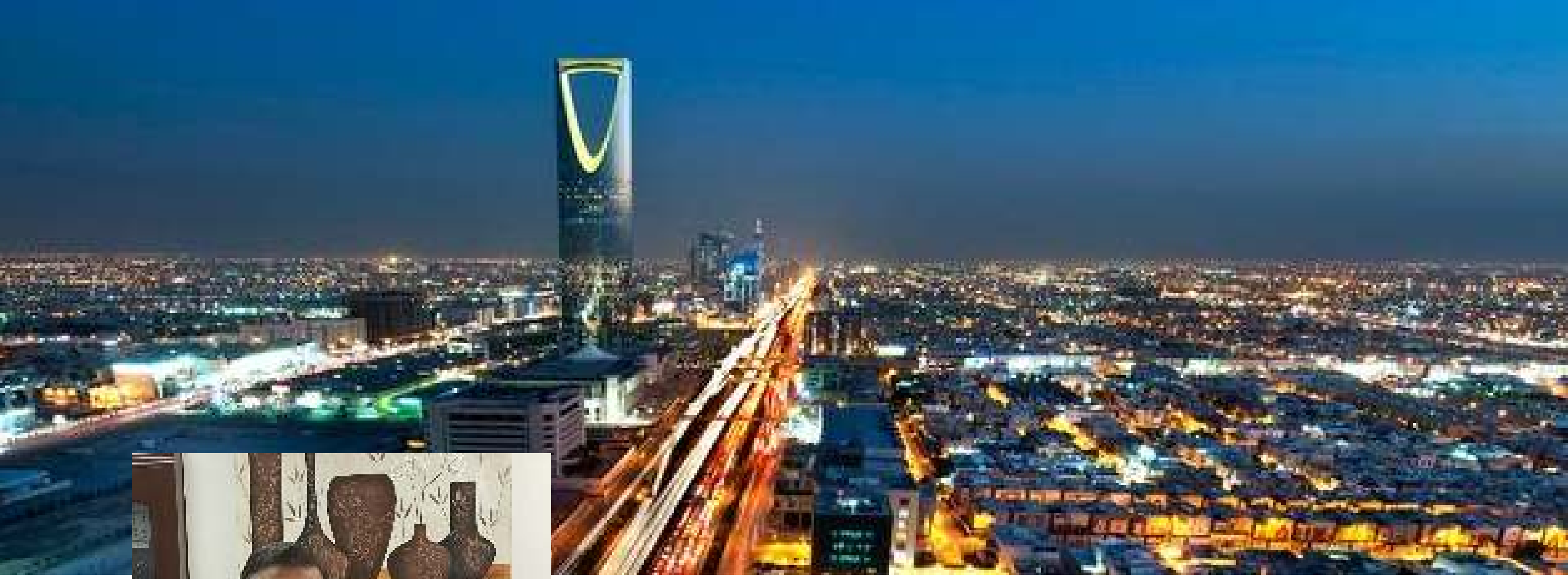

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Director's Note

Economic growth in the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) and the Caucasus and Central Asia (CCA) regions continues to be bogged down with escalating conflicts, low oil prices, and spillovers from the slowdowns in Russia and China.

The Middle East and North African economies have slowed down sharply this year and growth is likely to be much weaker than the consensus expects in 2017-18. With the continuation of adjustment to low oil prices, growth in the Gulf also remains sluggish.

Dollar pegs will stay, and in spite of arguments in favour of an oil output freeze having strengthened, a shift in oil policy is unlikely.

The overall outlook in the region is somber. Though IMF financing agreements should help to shore up fragile balance of payments positions, currencies will generally weaken and fiscal policy will tighten, leading to languid growth.

Geopolitical tensions, domestic armed strife, and terrorism are also taking a heavy toll on the outlook in several economies, especially in the Middle East, with further cross-border ramifications.

After four years of stagnation, economic activity in MENAP oil importers is beginning to gain strength, albeit gradually and unevenly. 2015 witnessed growth increase to 3¾% from 3% in 2011–14 and is projected to remain around that level in 2016–17. Lower oil prices, less fiscal drag and improved confidence owing to progress with recent reforms are supporting this recovery.

Reforms of generalized energy subsidies have helped stabilize public debt and preserve macroeconomic stability whereas on the other hand, improved targeted safety nets have helped protect the vulnerable.

However, additional fiscal consolidation is still needed to put public debt firmly on a sustainable path and rebuild policy buffers.

In some cases, greater exchange rate flexibility would also help reduce vulnerabilities and improve competitiveness. Stepped-up structural reforms in business, labor and financial markets, and trade are critical for boosting economic prospects, improving living standards, and creating much-needed jobs.

With the election of the new American President, it is a little early to comment on the impact of the new government on regional and global economies. However, locally and globally, the coming year will be challenging especially from growth & liquidity perspective.

Our advice is to consolidate operations and monitor cash flow / liquidity position on a regular basis.

Diversification- vital for economic prosperity of UAE

A vital factor that will propel the economic prosperity of UAE shall be diversification.

Sharjah is one of the Emirates that have identified diversification quite early as a key pillar for its growth and success. It has also identified several important sectors in attracting foreign investment that shall aid future diversification.

Sharjah is known for its manufacturing sector which contributes 13% to UAE's manufacturing industry. However, it needs to shift its focus from manufacturing to tourism as the latter is suffering from a huge gap in demand and supply. Moreover, for good returns, investors need to concentrate on eco-tourism, archaeological tourism as well as in attracting visitors with various festival offers.

Apart from this, significant emphasis is being laid on healthcare, transportation and environmental sectors. As part of the medical sector, Sharjah plans to concentrate on providing specialized medical care and services that are not available in other medical zones. With three seaports, transportation sector is poised to play an important role in the future expansion plans too. Opportunities that will allow Sharjah to play a bigger role in becoming the gateway to the Middle East shall be explored. Besides this, the environmental sector is another area which shall receive a sharpened focus. Sharjah has the biggest waste segregation plant in the Middle East and has a facility that recycles waste into energy. Avenues shall also be explored to improve energy efficiency and for better food waste management.

Along with the above, there are various new areas for diversification and innovation which are underway in the UAE. For example, the UAE space programme has announced the launching of a drone to planet Mars in the near future. This is indeed a remarkable venture which requires a dedicated Space Centre that shall be keenly tuned in to advancing the economic prospects of UAE. Also, the global shift towards renewable energy provides a significant opportunity for the UAE to become the first global financing hub for clean energy. This can be complemented with development of a knowledge –based economy, aggressive digital innovations, the use of nanotechnology and financial technology. Introduction of rigorous STEM curriculum for the nation's youth at the primary level shall notably catalyze UAE's diversification plans.

The Emirates needs to ponder about increasing the investment on R&D programmes and establishing incubators and accelerators. The UAE should position and establish itself as the intellectual property hub of the Arab world. There seems to be a need to liberalize the telecom and insurance sectors so that they are more conducive and productive for future FDIs. The economy shall further prosper with a new modern insolvency law that will help business person to restructure their business. On the social sector front, pension and social security programs should also be started to complement the economic development plans for a holistic advancement and growth of the UAE.

IMF calls for immediate action to reverse slowdown in global trade

Spurred by the alarm sounded by the World Trade Organization (WTO) over declining volumes of global trade, the International Monetary Fund (IMF) has called for instant action to turn around a slowdown in trade and end the low inflation from activating a downward spiral of weak growth amid job cuts and higher debt.

IMF reasons that the remarkable slowdown in trade growth was largely the outcome of the declining economic growth. It was observed that the trade growth is increasing considerably slower than the world Gross Domestic Product (GDP) for the past few years, whereas earlier the pace of growth was appreciable. WTO predicts that the trade growth would be the weakest in 2016 given the financial crisis. Its growth is pegged only up to 1.7% contrary to the earlier estimation of 2.8%. The weakest since 2009, this has been a 'wake-up' call for the policymakers. Analysts note that a further move away from trade liberalization is likely to hold back international trade in goods, harm economic development and prolong the global slowdown. Warning that trade barriers such as anti-dumping duties had increased since 2008, IMF observed that three-quarters of the slowdown in trade was due to weaker global activity. It thus urged countries to "resist protectionism".

Furthermore, in view of the diminishing faith in the ability of central banks to fight low inflation in economies where interest rates were already close to zero, IMF has urged for an extensive plan to enhance the global economic recovery with structural and fiscal policies. According to IMF, the declining commodity prices and subdued tradable goods prices have been the main reasons for the current situation of low inflation. It pointed out that the economies in which low inflation expectations risked becoming deep-rooted, required more forceful action, which includes a credible and transparent commitment by central bankers to intentionally go beyond the targets in order to elevate inflation more rapidly.

Even if a deflation trap is steered clear of, situation of subdued but positive inflation could carry significant economic costs. IMF points out that "eventually, persistent disinflation can lead to costly deflationary cycles where weak demand and deflation reinforce each other, and end up increasing debt burdens and hindering economic activity and job creation."

Reminding that Beijing's previous policy errors from the past summer's stock market rout to opaque yuan exchange-rate tweaks had agitated global markets, the global funder pointed out that China needs to refurbish its financial command to diminish its possible 'spillovers' upon the rest of the countries. A transparent mechanism for signaling policy changes and a scheme to oppose susceptibility are all of advantage for China, IMF notes. The superior status for the yuan means higher global responsibility for Beijing. IMF has cautioned that the spillovers from the yuan's exchange rate would have a huge impact on commodity and equity prices and on other emerging market's currencies.

UAE equities expected to perform better in 2017

UAE equities are expected to perform better over the next 12 months. The critical triggers for this forecast are the bullish real estate outlook, an impending tourism boom driven by new branded theme parks and a widely anticipated pick-up in business activity. This prediction is further supported by a favorable outlook on oil prices and expected stability in earnings.

Three important triggers are expected to stimulate the positive economic performance and boost investor sentiment. Firstly, the bullish outlook for Dubai real estate forecasts a modest recovery in 2017 with gradual acceleration in 2018-19. Secondly, significant growth in tourism buoyed by the launch of new attractions, in particular with the major branded theme parks. Moreover, as preparations for the Expo 2020 gather momentum there can be jump in business activity and port volumes.

Investors are recommended to stay selective, being positive on the UAE-particularly Dubai and Oman and cautiously optimistic on Kuwait. Saudi Arabia, Qatar and Bahrain might face further downside risks.

The upcoming third quarter results may provoke renewed buying interest, especially if consumer spending is restored and banking sector fundamentals remain stable. However, the highs observed in 2014 could be constrained by the issuance of the GCC sovereign bond issuances, which could redirect liquidity away from equities and into fixed income.

The GCC region has lagged behind globally and not participated in the strong emerging market recovery mainly due to two factors. First, oil prices remain well below levels needed for a fiscal budget breakeven. Secondly, the subsidy reform has weighed significantly on growth. Weak trading activity has led to poor investor sentiment. Trading activity is averaging about $1.5 billion daily, which is less than half the level seen in first half of 2014 when oil prices were supportive.

Despite this, two encouraging developments are observed for the GCC bourses.

Stabilization of the reported earnings which fell sharply over second half of 2014 and through 2015 as the collapse in oil prices fed through the real economy. This improvement is largely driven by a recovery in revenues. Despite this marked improvement; earnings still remain a downside risk mainly because of further subsidy reform, which could weigh on both corporate profitability and consumer spending.

The next reform is implementation of VAT, aimed for 2018. Although, there is significant concern over downside risks to banking sector earnings. Slackened loan growth and peak in provisioning slowed its growth materially to 1 % year on year in the second quarter of 2016 (compared to 18% at peak in second quarter of 2014).

Another encouraging trend is that the Gulf equities have broken out of the downtrend that began when oil prices peaked in mid-2014. Although not an outright positive trigger, it is an important milestone, nevertheless suggestive of a positive future outlook.

SMEs seek growth avenues by being part of the supply chain in Expo 2020

Small and medium enterprises (SMEs) shall be bidding for various tenders floated as part of the preparations and management for the Expo 2020 at Dubai. A memorandum of understanding (MoU) has been entered into by Expo 2020 Dubai and Dubai SME, which is the agency of the Department of Economic Development (DED). The net value of these tenders is estimated at Dh25 billion.

SMEs were provided with information on how to apply and register for the tenders and avail the various opportunities offered at Expo 2020 at 'BusinessConnect' seminar organized by Expo 2020 Dubai, Dubai SME. More than 300 SME owners and senior managers were briefed about Expo 2020 and related projects. In order to participate and pre qualify for these tenders; Dubai SME members can register through a unified system on the website - www.sme.ae

SMEs benefit immensely through projects such as the Expo, as they encourage diversification, stimulate local business, drive trade and tourism, and create jobs. Since tenders of about Dh5 billion are already allocated as part of Expo 2020 to support SMEs, national SMEs are attracted with an aim to participate in contracts and purchases related to Expo 2020 Dubai.

The latest edition of BusinessConnect reflects Expo 2020 Dubai's efforts to enhance SME community integration into the Expo supply chain. SMEs, being a part of the diversified UAE economy, play an important role in the rising growth and employment. SMEs are allocated 20% of direct and indirect spend of Expo 2020. The main significance of the seminar was on the strategic focus of Dubai on innovation and investment in creating a knowledge economy.

By providing a platform to SMEs and promoting their growth, the Expo 2020 will support the important SME sector to play its desired role in overall economic development by connecting them with the public and private sector partners across Dubai and the UAE. This will also aid them to advance their entrepreneurial growth.

MENA to grow at 2.3% in 2016

Economy of the oil-exporting countries in the Middle East North Africa (MENA) region is projected to grow at 2.3% in 2016. Lower than the 2.4% hike in 2015, this is attributed largely to the subdued oil price growth. While this is the weakest growth since 2009, it is expected to be slightly stronger at 2.8% in 2017, riding on the expected slight rise in oil prices and stable global economic dynamics.

A notable result of the decline in oil prices has been the sharp fall in the aggregate fiscal and current account balances of the MENA economies. In the past decade, the region enjoyed an enviable current account surplus due to the massive capital inflows from oil revenues. This changed in 2014 as region had the first aggregate current account deficit in nearly two decades.

The largest oil export–driven economy of MENA, Saudi Arabia, experienced high current surplus from 2010 to 2013, about 20% of GDP. It declined to 9.8% of GDP in 2014, further collapsing to 8.3% in 2015. It is reported to increase to 8.6% in 2016, gradually increasing each year until reaching a surplus in 2020.

The oil prices will remain low to the end of year before rising upward due to series of factors, one being the persisting divergence in the supply and demand in the coming years. Brent crude oil prices and WTI crude prices are expected to average $51.2 per barrel and $50.3 per barrel respectively in fourth quarter 2016, before rising further to $60.9 per barrel and $59.6 per barrel in fourth quarter 2017.

The increased oil output and weaker global growth widens the difference between supply and demand thereby influencing the prices. The negative balance in 2015 is estimated to reach 2.1 million barrel a day causing a severe decline in oil prices in early 2016.

The oil prices are not expected to return to $100 per barrel prices for next few years. It will remain at relatively low levels with persistent difference between supply and demand. In fact, it is estimated to hover around $70 per barrel by 2020.

Non-oil private sector in UAE posts impressive growth in August

The non-oil private sector in UAE has registered sturdy performance in the month of August. With a 10-month high of 55.3 accomplished in July, the Purchasing Managers' Index (PMI) - a composite indicator designed to give an accurate overview of operating conditions in the non-oil private sector economy – for August was pegged at 54.7. Although comparatively lower than the previous month, it is higher than the overall series average of 54.5. Moreover, this is sturdier than the first half of 2016.

Two factors have predominantly contributed to the strong numbers- sharp expansion of output and employment.

The output has been escalating at a reasonably fast pace with growth in new orders. Sharp developments of output and new work lead to the well-supported growth of the non-oil private sector. After July, the rate of increase slowed down, but remained quicker than respective trends throughout 2016. Higher output was supported by booming marketing and improved fulfilling of client demands. The latest data shows that the increase in total new work was centered on the domestic market, although there was a modest fall in new export business.

In the meantime, job creation witnessed for the consecutive fourth month in August. Having slowed from July's high, the rate of hiring was less and inadequate to avoid an upsurge of backlogs of work, especially with new orders rising at a noticeable rate.

As a result of new business expansion and elevated output requirements, purchasing activity got a boost in August, reflective of new business gains. Since the rate of increase accelerated to a nine-month high, it led to a rise in stocks of inputs.

This also resulted in increased salaries and purchasing costs, which touched the greatest extent in 22 months. Elevated costs were however, barely sensed by clients. Charges fell for the tenth consecutive month, which limited the impact of rising input prices.

New FDI law is proposed for cabinet's approval

The UAE will soon bring out a Foreign Direct Investment (FDI) law that will allow up to 100% foreign ownership in a selected sectors. The draft law, which will soon be sent for Cabinet approval, was finalized by the UAE Ministry of Economy after consulting all local entities related with FDI. It will subsequently be sent to the Federal National Council for discussion.

A high level committee will decide the sectors that shall attract the enhanced FDI. The percentage of ownership for foreign investors will be raised from 49% to 100% under the new law. Priority will be accorded to the sectors that have the potential to attract investment where value addition is necessary such as education, water, healthcare, renewable energy, etc.

The new FDI law is planned to support the country against depressed oil prices, regional instability and economic shocks like Brexit. This forms part of UAE's larger economic plans to increase its diversification programme aimed to permanently reduce dependency on oil as it is not expected to rise in next few years. The government targets to reduce its oil related GDP from 30% to 20%, as well as plans on FDI being 5% of its GDP by 2021.

A knowledge-based economy that is underpinned by an increase in FDI and a greater number of free trade agreements is in the offing.

Bankruptcy law: vital for UAE's business environment

UAE Cabinet has adopted the final draft of the Federal Bankruptcy law which shall provide a vital push to UAE's business environment by making it more investor-friendly. The law aims to boost the investment attractiveness of the UAE's economy and facilitate the work of commercial companies. It will help both the listed and privately-owned companies to restructure debt than to flee the country to avoid criminal proceedings and arrests. In short, it will help the owners of SME overcome the challenges posed by a slowing economy and rising bad debts.

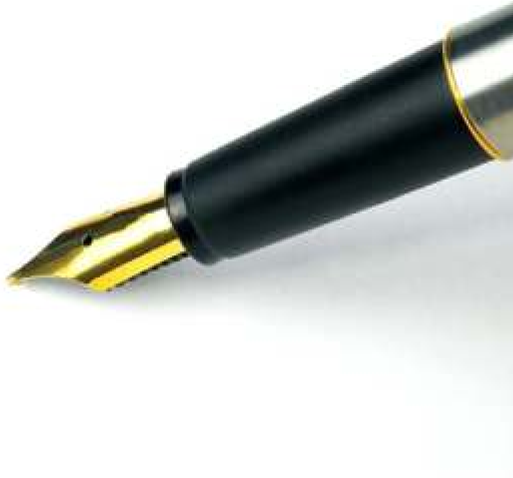
Two federal laws were issued by the Cabinet - one regarding the use of digital technology in criminal procedures and the other for establishment of a committee to organize the work of the insurance sector.

The International Monetary Fund and several other government and financial bodies, including Dubai SME and the UAE Banks Federation (UBF - a professional body representing 49 banks) campaigned for the insolvency legislation. This will decriminalize bounced cheques and facilitate corporate bankruptcies, providing a much needed lifeline to businesses in distress. This law will enable businesses to adapt to changes and to achieve maximum performance. An overall positive impact on nation's economic growth is expected from the new law.

Legal action against cash-strapped SMEs accounted for more than 60% of the nation's GDP. Banks in the UAE pledged not to take legal action against them soon after the implementation of the law. The UBF announced a new mechanism (mini insolvency law) targeted to prevent rise in defaults and to help genuine customers with time and space. It will be applicable to companies that have borrowed Dh 50 billion or more from several banks and have financial stress that might not enable them to service their debts.

With sharp decline in oil prices, UAE has been saddled by a large number of defaults. A few months ago, UAE banks faced bad loans between Dh 5 billion and Dh 6 billion approximately. The lack of bankruptcy law was one of the reasons that might have forced the owners to flee to other countries than to find agreeable solutions with creditors.

UAE signs tax treaty and protocol with UK and Singapore respectively



On 12 April 2016, the UAE and UK governments signed a double tax treaty at the Ministry of Finance in Dubai. The agreement is aimed to increase economic and trade relations between the two countries as well as to protect the companies and individuals from direct or indirect double taxation. This will bridge a vital gap in the system for commercial cooperation between the UK and the UAE, removing one area of possible uncertainty for many UK businesses operating in the UAE and for more than 1 lakh British nationals living and working in the UAE. UAE companies have also invested in UK's multiple key sectors.

Under a Federal Decree No. 26 in 1999, the UAE had signed an agreement on the promotion and protection of investments in the UK. The Joint Economic Committee further joins the two countries.

The tax treaty between Singapore and the UAE witnessed an amendment with a Second Protocol that came into force on 16 March, thus increasing the threshold periods for a permanent establishment from 9 months to 12 months and lowering the withholding tax rates on dividends and interest.

If the recipient is the beneficial owner of the dividends, withholding tax on dividends is reduced from the current 5% to 0%. At present, no withholding tax rate is imposed on dividends paid by companies resident in Singapore. Hence, under the treaty, the 5% withholding tax rate on dividends would not apply in Singapore.

Earlier, a zero withholding tax was only applicable to interest received by the government of the other contracting state. However, now if the recipient is the beneficial owner of the interest, withholding tax on interests is also down to 0% from the present 7%. Furthermore, the Protocol removes payments for "the use of, or the right to use, industrial, commercial or scientific equipment" from the definition of royalties.

Ajman Free Zone(AFZ) Offshore Company

The Emirate of Ajman situated on the coast of the Arabian Gulf and extending over a distance of 16 kms between Sharjah & Umm Al Quwain is located on the western coast of United Arab Emirates. It covers an area of 259 sq km and was formed by the Al Nuaimi tribe, well known for its bravery, courage and wisdom, which migrated to this region from Oman around 1775.

Ajman Free Zone, established in 1988, was granted autonomous status under the Amiri decree no. 3 of 1996 issued by H.H. Sheik Humaid Bin Rashid Al Nuaimi, Ruler of Ajman. Ajman Free Zone Authority has been named as the sole regulatory agency for Free Zone in the Emirate.

The free zone authority introduced the registration & formation of offshore companies under Ajman Offshore Free Zone Offshore Companies Regulations of 2014.

Characteristics of an offshore company registered in the AFZA are as follows:

Shareholders:
Minimum of one shareholder is required. Corporate shareholders are permitted. Shareholders to decide the capital structure of the company. Only single class of shares permitted and bearer shares are not permitted.

Directors:
A minimum of two directors are required and corporate directors are not permitted. An individual shareholder can be a director as well.

Secretary:
Every company must have a secretary.
A director can be a secretary as well.

Restrictions on Name & Activity:
Company names must end with "Limited"

Local Requirements:
The company must appoint an approved registered agent. A registered agent's office in the UAE can be used as the registered office of the offshore company.

Timescale: Registration of the AFZ Offshore will take approximately 3 days. Shareholders or their authorized attorneys need to visit in person to sign in the presence of the AFZA officials for incorporation of the company.

Annual Reporting:
Every company is required to keep financial books and prepare auditor's reports within 3 months, by the end of every financial year. These must be approved by the shareholders. The accounts / audit report however, do not need to be filed with the Authority.

Taxation:
AFZA Offshore pays no taxes in UAE.

Confidentiality:
Details of shareholders & directors need to be filed with the authorities but are not available for public record.

Limitations:
Ajman offshore cannot:

a. Engage in any activities outside the Fee Zone or carry out business with persons outside the Free Zone and within UAE (however there is permission to deal with companies in Ajman Free Zone)
b. Have a physical office in UAE
c. Sponsor UAE residence visas for employees / directors / shareholders
d. Obtain a tax residency certificate
e. Own more than 3 properties

Company Renewal:
Renewals for AFZA Offshore companies falls on every anniversary date of the incorporation. Failure to do so will result in penalties. In the event the company is not renewed within 6 months of the renewal due date, the company will be struck off from the registrar of the companies.

Documents Required:
Individual's KYC Docs:

1. Passport Copy
(clear copy with clear photo)
2. UAE Visa Copy, if applicable
3. UAE Entry Stamp, if applicable
4. N.O.C. from UAE Sponsor, if applicable
5. Address Proof (original recent utility bill for residence)
6. Bank Reference letter (original)
7. CV / Profile

Corporate Shareholder's KYC to be attested by UAE Ministry:

1. Certificate of Incorporation
2. Memorandum / Articles of Association
3. Board Resolution
4. Power of Attorney
5. Certificate of Incumbency

Sharjah Airport International Free Zone

Sharjah is the third largest city after Dubai and Abu Dhabi in the U.A.E. Sharjah is bordered by the cities of Dubai and Ajman and is about 170 kms away from the capital city Abu Dhabi. It is with the intention to promote free trade & industry, that the Sharjah Airport International Free Zone was set up in 1995, and today is the center piece of the Sharjah governments' commitment to free trade.

The Sharjah Airport International Free Zone's one-stop and one door policy helps any entrepreneur or business owner to set up operations in the SAIF-Zone quickly and easily. Strategically located next to Sharjah International Airport (also the Air Cargo hub of Lufthansa) at the cross roads of major trade routes linking the east & west, SAIF-Zone is a business hub that offers access to more than two billion consumers across the GCC, CIS, Indian sub-continent, Africa & The Mediterranean. Today SAIF-Zone services over 5,500 companies from 91 countries.

Location:
Near Sharjah Airport, Sharjah, (U.A.E.)

Permitted activity:
Manufacturing/Trading/Service activities can be carried out

License available:
Industrial/Commercial trading/General trading & Service license can be obtained

Types of entities:
FZE (single shareholder), FZC (2-5 shareholders) & branch office

Shareholder:
Can be individuals or corporate entity

Director:
Individuals only (Minimum one. A shareholder can also be director)

Share capital:
AED 150,000/- in case of FZE/FZC & AED Nil/- in case of branch office

Audit:
Annual audit report to be filed by FZE & FZC. Not required for branch office

Estimated time:
3-5 days for incorporation & setting up of company. Another 10-15 days for immigration & thereafter visa may take approximately 7-10 days on a normal basis

Key benefits:

- Ownership, Taxation, Repatriation Advantage.
- 100% foreign ownership.
- 100% repatriation of capital and profits.
- No personal income tax.
- No corporate tax.
- Free transfer of funds & a stable currency.
- 25 years lease extendable for a similar period.
- License issued in 24 hours (In case of urgency subject to approval).
- A 24-hour hotline for equipment and provision of labor in cargo operations.
- Global & regional communication facilities with excellent transports links.
- Access to ports in the Arabian Gulf and the Indian Ocean.

Renewal:
License of the company has to be renewed on an annual basis. Penalty would be charged by the authority if license is renewed after the expiry date.

The approximate cost for setting up a company in Sharjah Airport International Free Zone is between AED 27,000/- to AED 100,000/- depending upon the type of license and facility selected. Documents required are passport copies of shareholders/directors/manager, project profile, corporate documents, etc depending on the structure of the proposed company.

GBS will be able to help you incorporate your business in SAIF Zone in just 24-48 hours. Our dedicated team will help and support you right from the preparation of the relevant documents to obtaining a license.

India fetches $9.5b under Income Tax Disclosure Scheme

Under the Income Tax Disclosure Scheme, unaccounted wealth amounting to 652.5 billion Indian rupees ($9.5 billion) has been declared by 64,275 people. This scheme was available from June 1 till midnight of September 30. The calculation is still in process hence, some scope of revision is expected on completion of the full list.

The government will benefit by approximately 300 billion rupees as per the tax rate, penalty and surcharge of 45%, which will go into the Consolidated Fund of India and be used for social security purposes.

In this process, approximately one crore rupees (10 million) were declared per declarant. No specific information of tax declarants was given in any case, making it clear that there will be no witch hunt by the authorities.

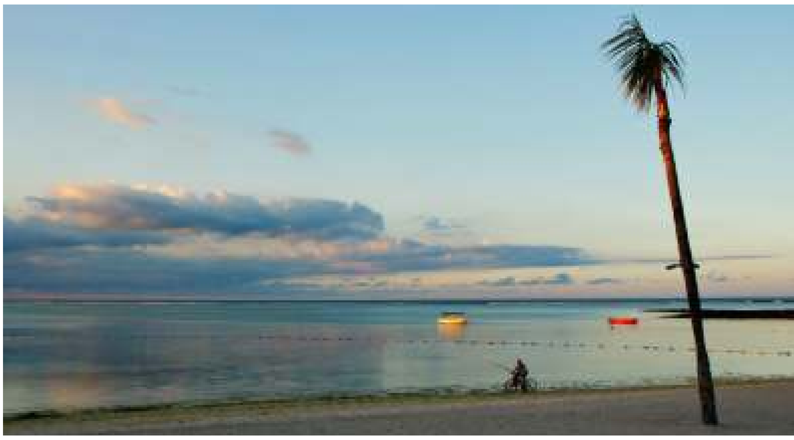
A Specific Investigation team will be established to follow up cases of unaccounted wealth and the Benami Act will be re-worked to help the states to take over such assets. Follow ups on exposes by various agencies on wealth stashed aboard will also have a specific scheme to take the process ahead.

Gradually more number of people are becoming tax compliant as they realize its benefits. This can be considered as a positive development for the nation. Significant amounts are received from other schemes and foreign black money scheme which are over and above this declaration scheme.

The declaration scheme and the 1997 Scheme are two different schemes. In the 1997 scheme, the taxation amount was about 97.6 billion rupees, with average per declarant about 9.7 billion rupees. The effective rate of taxation then was a single digit whereas today it is 45%, 30% tax plus 7.5% penalty plus 7.5% surcharge. At this figure this scheme is definitely not an amnesty.

No vengeful steps will be taken by the department and all declarants will be treated fairly as per the relevant tax laws. The final authority will be the tax department and not individual taxmen.

Mauritius investments subjected to tax in India from April 2017



After repeated efforts since 1996, India and Mauritius finally signed a protocol on 10 May 2016 to renegotiate the provisions of the 1983 India-Mauritius double tax treaty.

The current treaty stated that taxes on capital gains arising from the disposal of shares in an Indian company will be applicable only in the country of residence of the selling shareholder and not in India. Therefore, a company resident in Mauritius without a permanent establishment in India that disposes of its shares in an Indian company is liable to capital gains tax in Mauritius only. The result being that no capital gains tax is levied either in India or Mauritius, since Mauritius does not excise capital gains tax.

The protocol comprises major changes with respect to revision to the taxing rights on capital gains and limitation of benefits. As per the changes to Article 13 of the current treaty, from April 2017 capital gains arising from disposal of shares of a company resident in India will be taxable in India. A provision provided in this protocol will exempt the investments acquired before 1 April 2017 and will be taxable in Mauritius.

Provided the conditions of the Limitations of Benefits (LOB) article are met, between 1 April 2017 to 31 March 2019, any capital gain generated on the sales of investments acquired after 1 April 2017, will be taxed in India at a reduced rate of 50% of domestic tax rate (present taxation is 15% for listed equities and 40% for unlisted ones). Full domestic India tax rate will be applied after 1 April 2019.

This reduced tax rate will benefit Mauritius residents as long as it achieves the main purpose and bona fide business test and is not a shell or conduit company. If a Mauritius company has an annual expenditure threshold of Mauritian Rs 1.5 million (approx US $43,000) in Mauritius over the duration of 12 months immediately preceding the date of gain rise, it will be considered to have substance.

With respect to debt claims or loans made after 31 March 2017, a withholding tax of 7.5% will be added in interest arising in India to Mauritius resident banks, whereas any debt claims or loans existing on or before 31 March 2017 will remain exempted from tax in India.

Article 26 of the current treaty on exchange of information will be modified in order to bring it into line with international standards. A provision for assistance in collection of taxes and source-based taxation of other income is also introduced by the protocol. The current treaty played a vital role in encouraging a large number of foreign portfolio investors and foreign entities to route their investment in India through Mauritius. Mauritius accounted for US $93.66 billion or 33.7% of the total foreign direct investment of US $278 billion between April 2000 and December 2015.

The protocol would also tackle issues of treaty abuse and round tripping of funds attributed to the India-Mauritius treaty, check revenue loss, prevent double non taxation, organize investment flow and stimulate the flow of exchange of information between India and Mauritius.

Since years, Mauritius has accounted for almost a third of the total FDI inflow into India. But with unreliability concerning the Mauritius treaty, over the last few years Singapore has grown as a preferred destination. FDI inflows through Singapore were US $10.98 billion for the 9 month period from April 2015, comparatively higher than the US $6.1 billion that came from Mauritius.

However, it is expected that capital gains for Singapore tax residents will also experience a revised tax structure as it has in Mauritius. The capital gains exemption under the Singapore treaty, according to the article 6 of the protocol dated 18 July 2005 will remain in force only till capital gains exemption under the Mauritius treaty remains intact.

India is also expected to amend the other two treaties that offer a capital gains tax exemption to investors -the Netherlands and Cyprus.

India to define enforcement rules for GST

The key issues on implementing a planned sales tax have been worked out by Union and state officials and the main tax rate will be decided shortly. Through better compliance, the execution of the long-awaited goods and services tax (GST) which is planned for April 2017 is estimated to enhance revenue flows and make it easier for businesses that pay a number of federal and state taxes.

The GST council which comprises of federal and state finance ministers came to a unified decision that all the businesses with annual turnover of 15 million rupees ($225,000) or more will be chiefly governed by central or state tax officials, as per risk factors. While the businesses with annual turnover of less than 15 million rupees would be answerable to only the state authorities.

There are concerns by the industry and tax experts that their demand for single control is not completely fulfilled and the 'dual control' by both federal and state tax inspectors is not in their best interest.

The federal tax authorities will have single control over more than 1.1 million existing service companies, providing important relief for sectors like telecoms and giving regional tax inspectorates time to prepare for the GST. The tax will not be applicable to the firms with annual turnover of less than 10 million rupees ($150,000) in 8 northeastern states and 20 million rupees in other parts of the county.

Though, the federal government suggests 18-19% of average tax rate, many states are expecting the rate to be 22-23%, making this difference a point of bargaining. Moreover before the tax comes into effect, the union and state legislatures need to pass 3 laws setting the rate and scope of the GST. All this is expected to be resolved by November.

“persistence. perfection. patience. power.
prioritize your passion. it keeps you sane.”

criss jami

“there's no luck in business.
there's only drive, determination, and more drive.”

sophie kinsella

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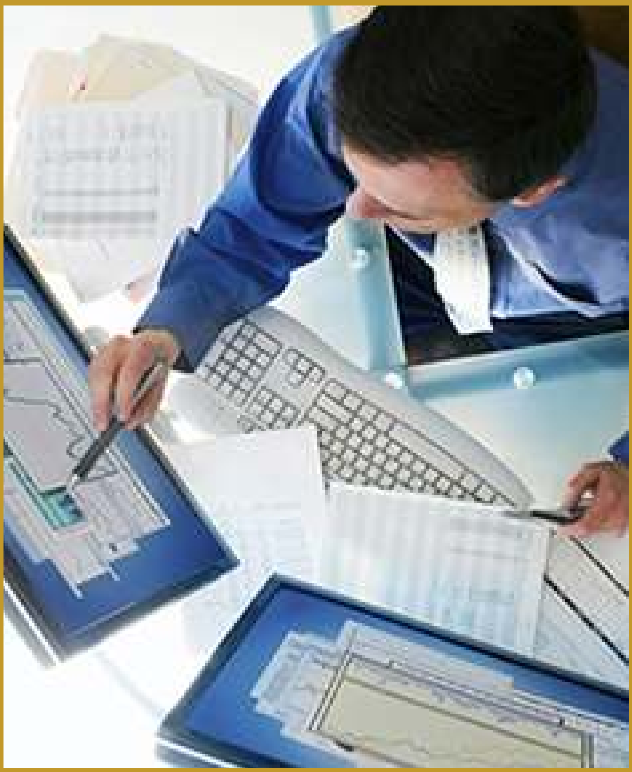

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