Grant Thornton

IACC
The only bi-lateral Chamber for Indo-US business
INDO-AMERICAN CHAMBER OF COMMERCE

Symbiosis for success

India-U.S. bilateral trade and economics

2011

Contents

Foreword

Indo-US business and trade is increasing, with the US looking at India in segments ranging from Infrastructure to Defence. Indian companies are investing heavily in the US both in greenfield projects as well as by way of acquisitions.

There is expanding bilateral trade, investment, increasing business dialogue across industry, including small and mid-sized enterprises. SUITE 2011 is designed to expand and consolidate cooperation between enterprises in both countries.

SUITE 2011 will showcase India's capabilities as an investor apart being a lucrative investment destination. It is our hope that leveraged by the launch of IACC's subsidiary chapter in the US, there will be a significant growth in two-way investment, trade and cooperation.

We reckon that sectors like real estate, legal outsourcing, agriculture and food processing, education and finance need to be pushed to the centre stage so that their performances are pegged along with segments like IT, technology sourcing, aerospace and defense etc.

Equally significant is to enhance the space that have been given to small and medium enterprises in the overall architecture of Indo-US economic partnership and to facilitate business to business dialogue through a well structured match-making process and networking among the stakeholders.

IACC is investing in the US India business and trade dialogue by starting a US membership Chapter to be inaugurated on the 25th May, 2011.

We are happy that Grant Thornton – one of our important members – has brought out a compendium, 'Symbiosis for Success: India-U.S. Bilateral Trade and Economics', which will be a great enabler and facilitator for forging tie-ups.

We are confident that the publication, prepared after considerable research and in-depth analysis will be useful for the 2011 SUITE Summit attendees.

Gautam Mahajan
IACC President

S.K.Mitra
Chairman, SUITE 2011 and
Executive Vice President, IACC

Foreword

The bilateral relationship between India and the United States (U.S.) has fast evolved from being transactional and opportunistic, to being strategic and partnership focussed. The political and economic scenario emerging out of the recent military operations by the U.S. and the crisis in Japan makes the India-U.S. partnership all the more important for the global economy.

Being the two largest democracies, the success stories of India and the U.S. represents the underlying success of millions of people. However, both countries have their own set of challenges, and their complementary strengths can help ease these challenges - the U.S. needs India to emerge from the recession more strongly and efficiently, and India needs the U.S. to keep fuelling its economy.

Over the last decade, Indian companies have proved beyond doubt that they have what it takes to succeed in the global market, including in the U.S. Owing to their unrelenting entrepreneurial spirit, Indian companies are respected across the world and their potential was repeatedly acknowledged by U.S. President Barack Obama, and business legends like Bill Gates and Warren Buffet during their recent visits to India.

Indian multinationals including the Aditya Birla Group, Dr. Reddy's, Essar, Essel-Propack, HCL, Hindalco, Infosys, Mahindra, Ranbaxy, Reliance, Tata, Thermax, Wipro, Wockhardt and several 'mid-market companies' have invested hundreds of millions of dollars in the U.S.—acquiring companies, generating jobs and participating in what is referred to as 'the American Dream'.

The positive impact of these investments goes deep down to millions of Americans. U.S. based companies, on the other hand, have been creating tremendous value for India, and have become an integral part of India's growth story.

This report discusses significant aspects of entering and doing business in arguably two of the most business-friendly and lucrative markets of the world—India and the U.S.—and the numerous possible ways through which you can fulfill your ambitions.

Vishesh Chandiok
National Managing Partner
Grant Thornton India

Executive summary

A strong India-US partnership is good for the entire world. Undoubtedly, foreign investment in the country has blazed a new path of fast growth and development, but on the flip side, India's growing contribution to the world's economy has been bringing a remarkably positive change to millions of people.

For America, it is vital to witness a sustained period of job creation, sans which the economic recovery cannot be fully established. For Indian companies, at the same time, it is imperative to step beyond the national arena and achieve global scale for long-term growth. This is very much possible now, a reality, *per se*.

U.S. President Obama, during his visit to India, was joined by the largest ever U.S. business executive mission to India, and the consequent deals exceeding US$14.9 billion are estimated to generate more than 53,000 jobs in the U.S.

Both the countries have reached an agreement facilitating movement of students, tourists and professionals. Export controls are also likely to be aligned as India-friendly, relatively free from country-specific restrictions.

The investment trends between India and the U.S. underlines how interdependent our economies have become of late. With its favourable demographics, India is home to a fast-growing middle class population, which is equal to the entire population of the U.S.

The rise in income is leading to consumerism, thus creating a huge market offering sustained growth to multinational companies for the next several years.

Meanwhile the winds of change in America would further open up its economy, rationalise tax and regulatory structures and embrace Indian companies more candidly, more positively.

The dire need of investment in sectors such as infrastructure, healthcare and education would essentially invite participation from private companies and the time is apt for both U.S. and Indian companies to make the most of these opportunities early on.

The inorganic route of entering these markets i.e. through acquisitions shall also be on the radar. The past two years of financial crisis have taken a toll on a number of businesses, leaving them in a state of distress, and identifying the right acquisition targets can help achieve competitive advantages, harness synergies and establish a strong market presence.

The Indo-US bilateral trade increased from US$34.4 billion in 2009 to US$45.01 billion in 2010, registering an impressive growth of 30% and this underpins the ongoing success of the strategic partnership between these two leading economies of the world.

India-U.S. trade statistics

2010: U.S. trade in goods with India (in US$ million)

Month	Exports	Imports	Balance
January	1,295.5	2,079.4	-783.9
February	1,235.2	1,958.1	-722.9
March	1,454.8	2,472.4	-1,017.6
April	1,671.2	2,650.0	-978.8
May	1,852.9	2,672.6	-819.7
June	1,690.6	2,532.6	-841.9
July	1,800.2	2,591.4	-791.2
August	1,716.8	2,773.5	-1,056.7
September	1,447.2	2,415.0	-967.8
October	1,921.2	2,898.7	-977.5
November	1,527.0	2,354.6	-827.6
December	1,610.2	2,133.0	-522.8
TOTAL	**19,222.7**	**29,531.2**	**-10,308.4**

2011: U.S. trade in goods with India (in US$ million)

Month	Exports	Imports	Balance
January	1,391.9	2,532.3	-1,140.4
February	1,458.4	2,229.8	-771.4
March	1,714.4	3,164.1	-1,449.7
TOTAL	**4,564.7**	**7,926.2**	**-3,361.5**

Trade and commerce form a crucial component of the rapidly expanding and multi-faceted relations between India and US. From modest US$5.6 billion in 1990, the bilateral trade in merchandise goods has increased to US$48.75 billion in 2010 representing an impressive 771% growth in a span of 20 years.

India's merchandise exports to the U.S. grew by 18% from US$4.04 billion during the period Jan-Feb 2010, to US$4.76 billion during the period Jan-Feb. 2011. US exports of merchandise to India also grew by 12.6% from US$2.53 billion during the period Jan-Feb 2010 to US$2.85 billion during the period Jan-Feb 2011. Total India-U.S. Bilateral Merchandise Trade accounts for US$7.61billion.

India-U.S. trade statistics

India's exports to US

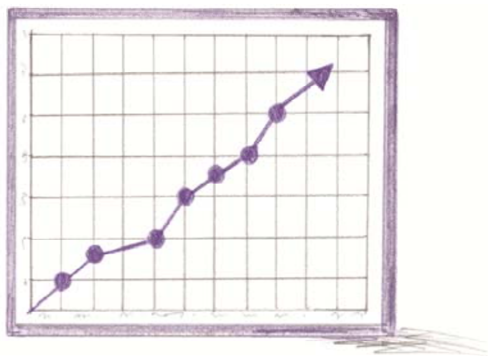
- cut and polished diamonds and jewellery is a major item of India's exports to the US, accounting for 23.2%. Exports of this item increased from US$4.56 billion in 2009 to US$6.85 billion in 2010, an increase of 50.3%
- textiles exports accounted for 19.3% of India's exports to the US in 2010. Textile exports grew from US$4.86 billion in 2009 to reach US$5.69 billion in 2010, an increase of 17.1%
- exports of pharmaceutical products grew from US$1.66 billion in 2009 to US$2.39 billion in 2010, an increase of 43.8%
- exports of mineral fuel, oil grew from US$0.43 billion in 2009 to US$2.32 billion in 2010, an increase of 437%
- exports of organic chemicals grew by 5.6% from US$1.31 billion in 2009 to US$1.72 billion in 2010

US exports to India

- exports of precious stones and metals which accounted for 21.9% of exports from US to India grew by 80% to reach US$4.21 billion in 2010 from US$2.34 billion in 2009
- machinery exports grew by 14.9% from US$2.32 billion in 2009 to US$2.67 billion in 2010
- exports of electrical machinery grew by 5.23% from US$1.3 billion in 2009 to US$1.37 billion in 2010
- exports of aircraft, aviation machinery and parts, fell by 43.3% to US$1.28 billion in 2010 from US$2.25 billion in 2009

Major items of export from India to US	Major items of export from US to India
Textiles (20.8%)	Precious stones & metals (21%)
Precious stones & metals (24.3%)	Machinery (11.8%)
Mineral fuel, oils (5.1%)	Electrical machinery (8.7%)
Pharmaceutical products (9.1%)	Mineral fuel, Oil, etc. (11.9%)
Organic chemicals (5.6%)	Optical instruments & equipment (6.2%)
Machinery (5.2%)	Aircraft, spacecraft (4.4%)
Electrical machinery (4.6%)	Organic chemicals (5.4%)
Vehicles, not railway (3.2%)	Miscellaneous chemical products (3.3%)

During the year 2007, the basket of U.S. imports to India included exceptionally large imports of aircraft /parts, which resulted in a leap in the growth rate of US exports to 54.7%. With this component excluded, the growth rates of U.S. exports in 2007 and 2008 are 37.5% and 39.9% respectively.



India-U.S.: top investment destinations

India and the U.S. are undisputedly the top investment destinations. As per United Nation's World Investment Prospects Survey 2010-12, the U.S. is the second most attractive economy for Foreign Direct Investment (FDI), followed by India. All the BRIC economies make it to the list of top five FDI destinations with China as the most preferred one.

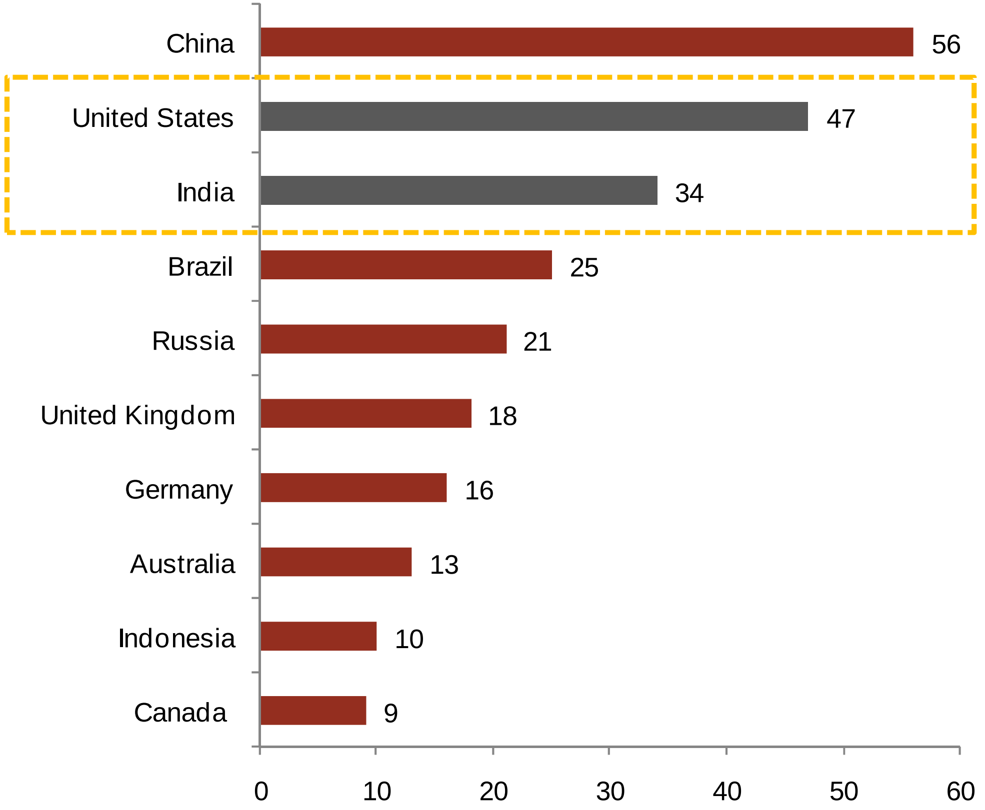
The U.S. is the only developed economy sharing the top-five slot with the emerging economies. As regards the business prospects, the services sector is less sensitive to the trough of the business cycle. Utilities, telecoms and consumer services, including education and healthcare, are few such industries offering sustainable growth in investment.

It has been estimated that China's economy, which surpassed Japan's economy in the second quarter of 2010 and became the second largest economy, will overtake U.S. and become the world's largest economy by 2030. However, with a substantial lead over other emerging markets, in terms of per capita income, the U.S. is all likely to remain the largest economy in the world over this decade.

"It is interesting to see that not only the investment from U.S. to India has increased manyfold in recent years, investment from India to the U.S. is also increasing at a very fast rate. The new Consolidated FDI Policy issued by the Indian Government is a tremendous effort to boost investor confidence. It aims to improve transparency and is a very positive step towards simplification of foreign investment related procedures."

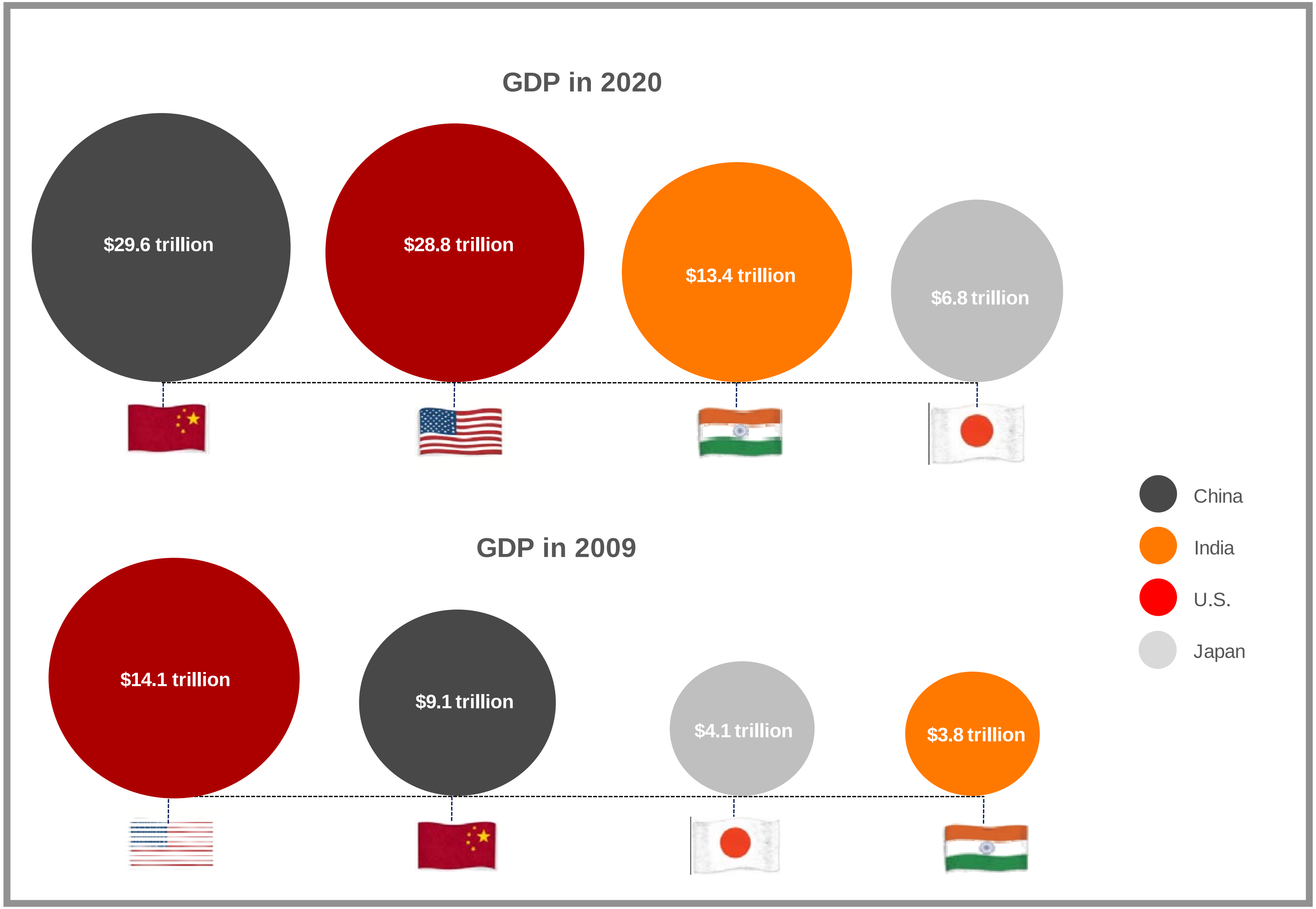
Harish HV
Partner, Grant Thornton India

Top 10 FDI destinations
(% of respondents)



Source: United Nations Conference on Trade and Development. World Investment Prospects Survey 2009-11

2020: the global landscape



Source: The World Bank forecasts

Overview of the economic and business environment

U.S. | Country profile

Geography and population

The U.S. borders both the North Atlantic Ocean and the North Pacific Ocean, between Canada and Mexico. The U.S., which includes 50 states and one district, comprises an area of 9.6 million sq km.

This is about one-half the size of Russia, three-tenths the size of Africa, one-half the size of South America (or just a little larger than Brazil), slightly larger than China, or two and one-half times the size of Western Europe. As of June 2009, the estimated population of the U.S. was 30.6 crore.

Political and legal system

The U.S. government, a federal republic based on democracy, is centered in Washington D.C. and combines federal, state, and local laws, bodies, and agencies. The power in the U.S. national government is decentralised, divided, disbursed and limited by the limitations imposed on the government since the enactment of the U.S. constitution in 1789.

The U.S. government works on a system of checks and balances among the three branches of government; the executive, judicial, and legislative. Each branch has its own independent institutional base and its own enumerated and implied powers. The president of the U.S. is the head of the executive branch.

Business hours/ time zone

Normal business hours start from 9.00 a.m. to 5.30 p.m. from Monday to Friday. Banks are generally open from 9.30 a.m. to 3.30 p.m. from Monday to Friday. Some retail banks are open on Saturday mornings.

There are four time zones in the continental United States: Pacific (Coordinated Universal Time ("C.U.T.") - 7 hours); Mountain (C.U.T. 6 hours); Central (C.U.T. -5 hours); and Eastern (C.U.T. - 4 hours).

The U.S. (except for Arizona, Hawaii, and most of Indiana) observes Daylight Saving Time and turns the clocks forward one hour in the spring and one hour back in the fall. Starting in 2007, Daylight Saving Time begins in the U.S. at 2 a.m. on the second Sunday in March. Time reverts to standard time at 2 a.m. on the first Sunday in November.

U.S. | Country profile

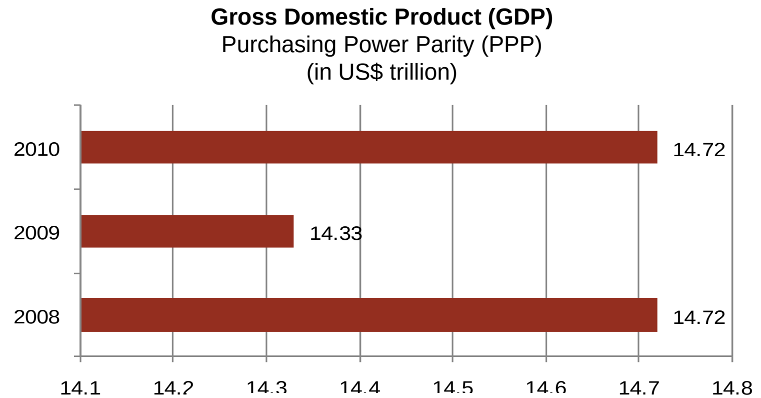
The U.S. is a market-oriented economy where private businesses act as economic engines, and government acts as an enabler. For the most part, U.S. businesses enjoy greater flexibility than their counterparts in Western Europe and Japan in decisions to expand capital plant, lay off surplus workers, and develop new products. However, they face higher barriers to enter their rivals' home markets than foreign firms face when entering the U.S. market. The onrush of technology largely explains the development of a "two-tier labour market" in which those at the bottom lack the education and skills of those at the top and, increasingly, fail to get comparable pay raises, health insurance coverage and other benefits.

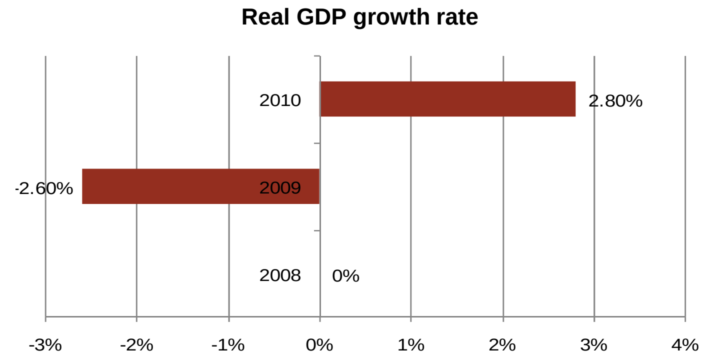
Economic growth

Since 1975, practically all the gains in household income have gone to the top 20% of households. The years 1994-2000 witnessed solid increases in real output, low inflation rates, and a drop in unemployment to below 5%. The year 2001 saw the end of boom psychology and performance, with output increasing only 0.3% and unemployment and business failures rising substantially. The response to the terrorist attacks of 11 September 2001 showed the remarkable resilience of the economy.

Moderate recovery took place in 2002, with the GDP growth rate rising to 2.45%. A major short-term problem in first half 2002 was a sharp decline in the stock market, fueled in part by the exposure of dubious accounting practices in some major corporations. The March/April 2003, the U.S.-led coalition in Iraq shifted resources to military industries and introduced uncertainties about investment and employment in other sectors of the economy. The rise in GDP in 2004-07 was undergirded by substantial gains in labour productivity. Hurricane Katrina caused extensive damage in the Gulf Coast region in late summer 2005, but had a small impact on overall GDP growth for the year.

Soaring oil prices in 2005-2007 threatened inflation and unemployment; the economy continued to grow through year-end 2007. The U.S. trade deficit was nearly US$847 billion in 2007, but declined to US$810 billion in 2008, as a depreciating exchange rate for the dollar against most major currencies discouraged U.S. imports and made U.S. exports more competitive abroad. The global economic downturn, the sub-prime mortgage crisis, investment bank failures, falling home prices and tight credit pushed the U.S. into a recession by mid-2008, and the signs of recovery have been witnessed from the last quarter of 2010.



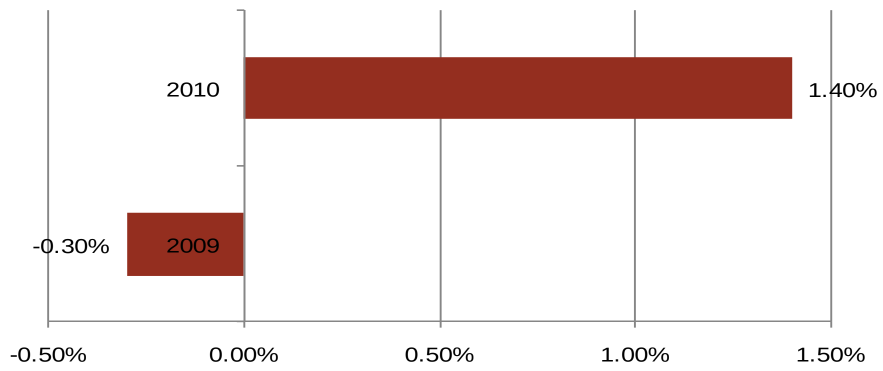


Source: CIA

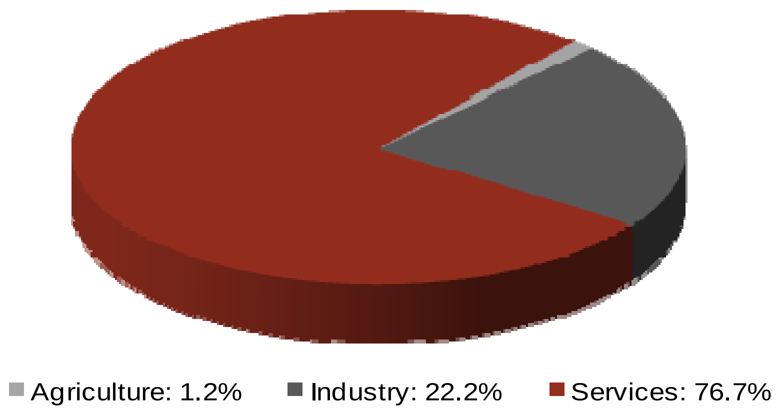
Key economic indicators at a glance

Fast facts	
GDP – per capita (PPP)	US$47,400 (2010 est.)
Labour force	154.9 million
Population below poverty line	12% (2004 est.)
Investment (gross fixed)	12.8% of GDP (2009 est.)
Public debt	59% of GDP (2010 est.)
Stock of domestic credit	US$32.61 trillion (2009 est.)
Industrial production growth rate	3.3% (2009 est.)

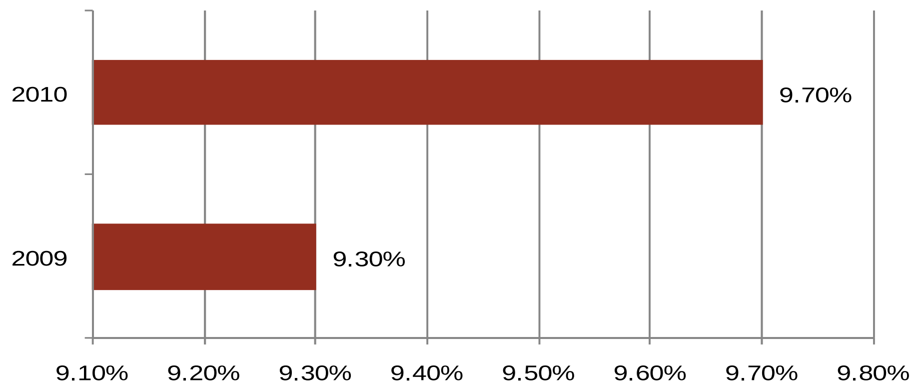
Inflation rate



GDP composition by sector (2009)



Unemployment rate



Sources: CIA, World Bank

Tax and regulatory environment

Tax and regulatory environment

The laws, regulations and cases governing taxation in the U.S. (including the 50 states and the thousands of localities) are complex and ever changing. Potential investors in the U.S. should obtain tax advice as to the affects of all relevant authorities.

Companies: Liability to tax

Income taxes are imposed by the Federal government, by most States, and by some cities. Federal income tax is the most significant tax, although state and local taxes are increasingly important. The Federal income tax is administered by the Internal Revenue Service (IRS). Special taxes or rates on corporations include the alternative minimum tax, the accumulated earnings tax, and the personal holding company tax. For tax years ending on or after 31 December 2006, certain corporation with total assets of US$10 million or more at the end of the corporation's tax year must electronically file Form 1120.

Tax base (differences between book and taxable profits)

While financial statement income ("book income") provides the starting point for computing taxable income, the U.S. tax code and income tax regulations contain numerous tax accounting methods that differ from those used for financial reporting purposes. Tax accounting methods are generally adopted on a taxpayer's tax return for its first taxable year and can generally be changed in subsequent years only with the approval of the IRS.

Typical tax accounting methods that may be elected include:

- cash or accrual method
- inventory valuation methods
- revenue recognition methods
- timing of tax deduction for expenses
- depreciation and amortisation methods

Corporate income tax rates for 2010

Taxable income	Tax rate
US$0 - 50,000	15%
US$50,001 - 75,000	US$7,500 + 25% of the excess amount
US$75,001 - 100,000	US$13,750 + 34% of the excess amount
US$100,001 - 335,000	US$22,250 + 39% of the excess amount
US$335,001 - 10,000,000	US$113,900 +34% of the excess amount
US$10,000,001 - 15,000,000	US$3,400,000 + 35% of the excess amount
US$15,000,001 - 18,333,333	US$5,150,000 + 38% of the excess amount
US$18,333,333 and above	35%

(Note: Taxable income of certain Personal Service Corporations is taxed at 35% flat rate.)

Some of the more common differences between book income and taxable income relate to the following items:

- **amortisation:** For tax purposes, amortisation is allowed for the cost of most acquired intangible assets such as patents, franchises, and goodwill over a 15-year useful life regardless of the actual useful life of the asset.
- **depletion:** For tax purposes, depletion is allowed for exhaustible resources such as oil, gas, timber and minerals.
- **interest:** For tax purposes, deductibility of interest owed by a U.S. subsidiary of a foreign parent is subject to certain thin capitalisation restrictions.

Tax and regulatory environment

- **start up expenditures:** For tax purposes, a newly organised corporation may elect to amortise its organisational and start-up costs over a period of not less than 180 months.

- **bad debt expenses:** For tax purposes, most taxpayers may not deduct an estimate of bad debt. Instead, a bad debt deduction is allowable only when an item is actually charged off.

In addition to the items on the above list, many items reserved and expensed for book income purposes are not deductible for tax purposes until the actual payment occurs.

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Taxable year

Generally, a corporation may choose as its taxable year any twelve-month period that ends on the last day of a given month. Alternatively, a taxpayer may elect to use a 52-53-week taxable year as defined in the U.S. Tax Code and income tax regulations. Once chosen, a taxable year can generally only be changed with the consent of the IRS.

Groups

Domestic corporations forming an affiliated group may elect to file a consolidated return for federal income tax purposes. The broad effect of consolidation is that the group is taxed as a single corporation, filing one return, with offset of profits and losses, and tax-free transfers of assets, within the group. Special rules apply to losses incurred by a corporation before joining the consolidated group.

Tax depreciation methods in general:

	Period	Method
Autos, Trucks	5 years	Accelerated or Straight Line
Furniture & Fixtures	7 years	Accelerated or Straight Line
Equipment	3,5,7,10 or 15 years	Various
Real Property	27.5 or 39.0	Straight Line

If an election is made, all eligible corporations must join in the election. A foreign corporation (except for certain Canadian and Mexican corporations) may not be included in a consolidated group.

Unlike federal income tax reporting, states differ in determining what filing methods are required or allowed for an affiliated group of companies.

Some states require or allow entities to report on a separate basis, while others require or allow an affiliated group to file a combined report (which may be substantially different than a federal consolidated group). Still other states allow consolidated filing groups (but again, such group may be different than the federal consolidated group).

Payment dates and tax returns

- a domestic corporation must file a federal tax return (Form 1120) within two and a half months of its year-end.

Tax and regulatory environment

- a foreign corporation with a U.S. office or place of business is required to file a Form 1120F within two and a half months of its year-end.
- a foreign corporation with no U.S. office or place of business must file Form 1120F within five and a half months of its year-end.
- an extension of time to file may be granted for up to six months.
- the balance of tax due must be paid by the original due date of the return.
- the corporation may be required to make estimated tax payments during the taxable year.
- various penalties and interest may be assessed for non-compliance.

Similar rules apply for state and local tax purposes. Taxpayers should consult applicable state authorities.

Use of losses

For federal income tax purposes, a net operating loss generally may be carried back two years and carried forward for 20 years. Special rules provide a longer carry back period for losses attributable to certain activities or liabilities.

Losses incurred from the disposition of a capital asset may only be offset by capital gains. Net capital losses may be carried back three years or forward for five years. Similar rules apply for state and local tax purposes. Taxpayers should consult applicable state authorities regarding conformity to federal law in this area.

U.S. tax regime for foreign persons

Foreign persons include nonresident alien individuals and foreign corporations, and certain trusts, estates and foreign governments. Special rules apply to determine whether an individual is a nonresident alien or whether a corporation is a foreign corporation. Two distinct regimes apply under U.S. domestic federal tax law for taxing foreign persons:

- certain types of passive income are subject to a flat 30% withholding tax at the source of payment; and
- foreign persons who are deemed to be engaged in the conduct of a trade or business within the U.S. may be taxed similarly to U.S. persons on income they earn which is effectively connected with such trade or business within as defined by the applicable U.S. domestic tax laws

Certain tax treaties entered into by the U.S. with other taxing jurisdictions may reduce or eliminate the U.S.'s ability to tax certain items of income described above.

Passive income

Certain types of income including interest, dividends, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, and other fixed or determinable annual or periodical gains, profits, and income, as well as certain other types of income, may be subject to U.S. taxation at a rate of 30% if the income is from U.S. sources (as defined by applicable U.S. domestic tax law) and is not otherwise treated as income effectively connected with the conduct of a trade or business within the U.S.

Tax and regulatory environment

When applicable, this tax is withheld at the source of the payment by the payer. The payer generally must remit the tax withheld to the IRS and file certain tax returns as required by detailed rules based on the nature of the payment and applicable withholding regime.

If the applicable withholding tax is eligible for reduction or elimination by an applicable U.S. tax treaty, the recipient generally must provide certification to the payer that the recipient is eligible for benefits under a treaty. The type of certification that must be provided depends on the nature of the payment and type of benefit the recipient is claiming.

See below, however, for general requirements imposed on foreign persons seeking to assert treaty benefits.

Effectively connected income

Foreign persons who earn taxable income effectively connected with the conduct of a trade or business within the U.S. are subject to U.S. federal tax on such income at graduated rates in a manner similar to that of U.S. persons. Such income generally includes any income from U.S. sources that is not subject to the 30% withholding tax described above, and, in some cases, certain income from foreign sources if connected with the foreign person s U.S. trade or business.

If a foreign person is engaged in business activities in the U.S., the foreign person generally must file an annual income tax return with the IRS. For instance, a nonresident alien individual must file Form 1040NR, U.S. Nonresident Alien Income Tax Return, and a foreign corporation generally must file Form 1120-F, U.S. Income Tax Return of a Foreign Corporation. In some cases, nonresident alien individuals can be subject to employee wage withholding rules similar to those imposed on U.S. citizens and resident aliens.

Certain activities of foreign persons may be eligible for reduced rates of tax, or exemption, based on a tax treaty entered into by the U.S. See below, however, for general requirements imposed on foreign persons seeking to assert treaty benefits.

Foreign investment in U.S. real property

Gain or loss from the disposition of a U.S. real property interest, as defined under applicable U.S. domestic tax law, by a nonresident alien or foreign corporation generally is subject to tax in the U.S. as though the foreign person were engaged in a trade or business in the U.S. and the gain or loss was effectively connected with such trade or business. Certain direct and indirect interests in U.S. real property are included in the definition of U.S. real property interests for this purpose. Persons acquiring certain U.S. real property interests from foreign persons generally must remit a withholding tax to the IRS. Tax treaties typically do not limit the ability of the U.S. to impose tax on dispositions of U.S. real property interests by foreign persons.

Branch profits and excess interest tax

In addition to the tax on effectively connected income described above, foreign corporations are also generally required to pay tax at a rate of 30% on U.S. earnings that are deemed to be disinvested from the U.S. during the year. Special rules also may apply in the case of branch level interest expense. The branch profits tax and excess interest tax can be reduced or eliminated under certain tax treaties entered into by the U.S. with certain taxing jurisdictions. If tax treaty benefits exist, U.S. domestic law may impose qualifications on foreign corporations in order to obtain such benefits in addition to those described in the applicable tax treaty.

Tax and regulatory environment

Applicability of tax treaties

The U.S. has entered into tax treaties with various foreign taxing jurisdictions to reduce the incidence of double taxation, as well as double non-taxation, of certain income deemed to be from U.S. sources under U.S. domestic law. The following considerations are among those that must be taken into account by foreign persons seeking to obtain benefits under a tax treaty that the U.S. has entered into.

- tax treaties may reduce the applicable tax rates on certain types of income, and exempt certain items of income from taxation.
- tax treaties may limit the types of activities of foreign persons that can be subjected to U.S. taxation.
- in order to qualify for benefits under most U.S. tax treaties, foreign persons must qualify as "residents" of the country with which the treaty applies. In the case of many treaties, this entails meeting certain "limitation of benefits" provisions intended to curtail so-called "treaty-shopping".
- U.S. payers are generally not permitted to apply reduced rates of withholding unless proper certification is presented by the foreign person recipient.
- certain treaty positions taken by foreign persons to reduce or eliminate the imposition of U.S. taxation must be disclosed to the IRS with the foreign person s tax return. Penalties can be imposed if such disclosures are not properly made.

Residency of corporation

The residency of corporations is generally determined for U.S. federal tax purposes based on the place of organisation of the corporation, subject to certain limited exceptions.

Individuals: Residency of individuals

U.S. citizens are taxed in the U.S. on their worldwide income. U.S. taxation of an individual who is not a U.S. citizen depends upon whether the individual is considered a resident or nonresident of the U.S.

Resident alien individuals are taxed in the U.S., just as U.S. citizens, on their worldwide income. Nonresident aliens are taxed on certain types of passive or effectively connected income as described above. An individual is a nonresident alien for U.S. federal tax purposes unless the individual is a U.S. citizen or a resident alien.

An individual is generally considered to be a resident alien for U.S. federal tax purposes in the following cases:

- the individual is a lawful permanent resident of the U.S. (i.e., the individual holds a green card); or
- the individual meets the substantial presence test under the applicable U.S. domestic tax laws.

Personal income tax rates

The tax burden on individuals is low in the U.S. compared with that of other industrialised nations. For higher-income individuals, the U.S. tax code phases out personal exemptions and imposes a ceiling on itemised deductions.

There are six tax rate brackets for individual income tax purposes: 10%, 15%, 25%, 28%, 33% and 35%. The brackets are applied at different levels of income to each of the four categories of taxpayers (married filing jointly, married filing separately, single and head of household). Brackets are indexed annually to reflect inflation. An alternative minimum tax may apply.

Tax and regulatory environment

The states also actively collect income tax from nonresidents as well as individuals who reside in their territory. Nonresidents must have gross income sourced from that state (for example, nonresident partners and S-corporation shareholders or nonresidents performing services in the state).

Payment dates

U.S. citizens and residents must file Form 1040 within three and a half months after the end of their taxable year (usually the calendar year) and pay the balance of tax due at that time. A limited extension of time to file is available; however, the time for payment may not be extended. It may be necessary for the individual to make quarterly estimated tax payments.

Penalties apply to underpaid estimated tax, and penalties and interest may be assessed for non-compliance. Employers must withhold Federal income tax from wages, in accordance with published wage withholding tables and information supplied by the employee. There are strict time limits and reporting requirements for payment of withheld taxes to the government. In most states there is a similar requirement to withhold state income taxes.

Other taxes

Property taxes

Property taxes are levied by most states and localities and can include a tax for both real estate and personal property.

Estate taxes

Estate taxes are imposed on all global movable and immovable estates of a deceased US citizen. Repealed in 2010, this tax has been introduced again and is levied on inheritance before it is passed on from one generation to next. The basic exclusion amount is US$5,000,000. The maximum estate tax rate for 2011 is 35%.

The basic exclusion amount is portable which means that a surviving spouse can use that portion of the exclusion that was left unused by a deceased spouse.

Similar rules apply for state and local tax purposes. Taxpayers should consult applicable state authorities regarding conformity to federal law in this area.

Gift taxes

Gift taxes are imposed on gifts in excess of US$13,000 (US$26,000 in case of married filing jointly) per donee per year for 2011.

Transfers between spouses are exempt if the donee spouse is a U.S. citizen. If the spouse is not a U.S. citizen, an annual exclusion of US$134,000 for 2010 is allowed. Inflation adjustments will apply for 2011.

For 2011 U.S. citizens and domiciled aliens are allowed a lifetime exemption of US$5,000,000 from gift tax. Non-U.S. domiciled aliens are limited to US$13,000 per year.

Similar rules apply for state and local tax purposes. Taxpayers should consult applicable state authorities regarding conformity to federal law in this area.

Types of business entities

Business entities

Corporations

Formation

Corporations are created under state law rather than federal law. Certain states are more often selected as the sites for incorporation because their statutes governing corporations are well defined and are considered more flexible than others. A corporation organised in one state (or in a foreign country) may conduct business in other states but may be required to register to do business in such other states and to file tax returns in such other jurisdictions.

Forming a corporation is generally a very simple procedure. In most states, the law requires an application, usually known as Articles of Incorporation, to be filed with the appropriate state agency for the privilege of operating as a corporation. Most states typically impose a fee of less than US$1,000 for the incorporation.

Minimum capital/ capital maintenance

There is generally no minimum capital requirement imposed, and companies are commonly formed with a share capital of US$1 or US$2, although each state may vary in requirements. Some states may impose restrictions on the issuance of shares and the type of business conducted.

Management and officers

A company is generally managed by its officers who are appointed by the shareholders or the board of directors. The board of directors is elected by the shareholders. Most states require at least one corporate officer and director.

Filing requirements

Every company incorporated or registered in a state is normally required to file an annual report stating the corporate officers and company address. Most states generally impose an annual fee for the right to do business in the state.

Failure to file the annual report may result in the state revoking the corporation's right to do business in the state or to dissolution of the corporation.

Dissolution

A solvent company can generally be dissolved by the shareholders of the corporation. The process usually requires notification to, and tax clearance from, the state via a formal request that the company be dissolved. A dissolution can also occur due to a merger of the corporation into another company. An insolvent or distressed corporation may file for bankruptcy protection.

Bankruptcy law is federal statutory law. States may not regulate bankruptcy though they may pass laws that govern other aspects of the debtor-creditor relationship. Bankruptcy proceedings are supervised by and litigated in the United States Bankruptcy Courts. These courts are a part of the District Courts of the U.S.

There are two basic types of Bankruptcy proceedings: liquidation and reorganisation. A filing under Chapter 7 is a liquidation. It is the most common type of bankruptcy proceeding.

Liquidation involves the appointment of a trustee who collects the non-exempt property of the debtor, sells it and distributes the proceeds to the creditors.

Bankruptcy proceedings under Chapters 11, 12, and 13 involve the rehabilitation or reorganisation of the debtor to allow him or her to use future earnings to repay creditors.

Assets may generally be transferred tax-free to a controlled corporation, but special rules apply if the transferee is a foreign corporation.

Under certain circumstances, corporations may be merged or divided tax free, and a subsidiary may be liquidated into its parent tax free, but special rules apply if assets are transferred to a foreign corporation.

Other entities commonly used by foreign investors

Branch

A foreign company that carries on business in the U.S. through a branch must generally register with the state where the branch is conducting business.

Other entities

Partnerships

A partnership is formed by private agreement, generally in writing, by two or more persons. The partnership's organisation and activities are governed primarily by statutory law.

Most states have adopted the Uniform Partnership Act; consequently, partnership law is generally standard throughout the U.S. There is generally no limit to the number of partners. There are various types of partnerships, the most common being the general partnership and the limited partnership. A limited partnership is one in which one or more partners, but not all, have limited liability.

In a general partnership, unless specifically stated otherwise in the partnership agreement, each partner has unlimited liability for debts of the partnership.

Some states allow general and limited partnerships to apply for "limited liability partnership" status, which, in some states, provides for limited liability to partners in various areas of the law.

Generally a partnership is not considered an entity separate from its partners for federal or state income tax purposes. Each individual partner (or corporate partner) reports his respective share of the partnership's yearly profits or losses on his personal (or corporate) tax return.

With the recent adoption of the "check-the-box" approach, an entity other than a corporation can simply elect to be taxed as a partnership rather than as a corporation, regardless of its structure.

Limited liability companies

The limited liability company is a hybrid business organisation that generally is taxed as a partnership for federal and state income tax purposes but provides corporate liability protection for its owners or members.

To a far greater extent than a corporation, a limited liability company may be organised in accordance with the agreement of its members. Accordingly, limited liability companies are viewed as flexible vehicles for conducting business.

There are two types of limited liability companies: member managed, in which the members have statutorily granted agency authority to make management decisions, and manager managed, in which the managers exercise statutorily granted agency authority and the members generally have the authority to make only major decisions.

Trusts

A business trust is an unincorporated entity under which title to business property is turned over to a person (trustee) who manages the property for the benefit of the owners (beneficiaries) who hold transferable shares in the trust.

Trust arrangements are commonly used by individuals in structuring their personal estates. A trust created during one s lifetime is referred to as an inter vivos trust. One created upon death is referred to as a testamentary trust. Under both arrangements legal title to property is transferred to a trustee, who controls and maintains the property for the designated beneficiaries.

Income from a trust will be taxable to the trust, the beneficiary or the creator of the trust, depending mainly on the terms of the trust. Additionally, a determining factor in taxability may be whether
distributions are made to the beneficiaries.

Certain types of trusts in which the creator of the trust retains control are ignored for income tax purposes and all income is taxed to the creator of the trust.

Trusts are commonly used for estate planning purposes and offer non-tax advantages as a vehicle for holding property.

In certain situations, formation of a trust by a nonresident alien prior to achieving U.S. residency status can be advantageous from a tax point of view. The choice of entity is an important decision and should not be made without the input of qualified professionals.

Insights on focus industries

Infrastructure, M&E, Healthcare and Education

Insights: U.S. infrastructure sector

The ailing state of infrastructure in the U.S. presents a treasure of opportunities for private sector companies. The U.S., being recently overtaken by China, is the second largest infrastructure market in the world.

However, the 2009 report card issued by the American Society of Civil Engineers (ASCE) rated U.S. infrastructure at grade D (please refer to the illustration alongside).

It has been estimated that the ageing U.S. infrastructure sector will require an investment of US$2.2 trillion over the next five years. Roads and bridges will require the highest amount of investment at US$930 billion, followed by transit, and drinking water and waste water management at US$265 billion and US$255 billion respectively.

Boost to investments in the clean energy sector opens doors of opportunities for the Indian players operating in the renewable energy sector, especially wind and solar power.

The two-year American Recovery and Reinvestment Act provides a stimulus of US$71.76 billion and the U.S. government plans to invest another US$903 billion in the forthcoming five years. Although there will still be a considerable gap of US$1.176 trillion, which private sector can bridge.

Hard-pressed by the shortage of funds for infrastructure resurrection, the current economic, business and regulatory environment is apparently receptive of more and more Public Private Partnerships (PPP or P3).

As many as 25 states and one territory of the U.S. have enacted P3 legislation, and this reflects the degree of positive outlook for private sector participation in the infrastructure sector.

America's Infrastructure: 2009 Report Card

Aviation	D
Bridges	C
Dams	D
Drinking Water	D-
Energy	D+
Rail	C-
Roads	D-
Schools	D
Solid waste	C+
Transit	D-

Source: American Society of Civil Engineers

A = Exceptional **B** = Good
C = Mediocre **D** = Poor **F** = Failing

N.B. Each category was evaluated on the basis of capacity, condition, funding, future need, operation and maintenance, public safety and resilience

America's Infrastructure G.P.A

D

Estimated 5 Year Investment Requirement

US$2.2 trillion

Shortfall

US$1.176 trillion

Insights: U.S. infrastructure sector

Estimated five-year investment needs (in US$ billion)

Category	Five-year investment need	Estimated actual spending*	American Recovery & Reinvestment Act (PL III-005)	Five-year investment shortfall
Aviation	87	45	1.3	(40.7)
Dams	12.5	5	0.05	(7.45)
Drinking water & waste water	255	140	6.4	(108.6)
Energy	75	34.5	11	(29.5)
Hazardous & solid waste	77	32.5	1.1	(43.4)
Inland waterways	50	25	4.475	(20.5)
Levees	50	25	1.13	(1.13)
Public parks & recreation	85	36	0.835	(48.17)
Rail	63	42	9.3	(11.7)
Roads & bridges	63	42	9.3	(549.5)
Schools	160	125	0**	(35)
Transit	265	66.5	8.4	(190.1)
Total	**2.122 trillion*** **	**903 billion**	**71.76 billion**	**(1.176 trillion)**

* 5 year spending estimate based on the most recent available spending at all levels of government and not indexed for inflation.

** The American Recovery and Reinvestment Act included US$53.6 billion for a State Fiscal Stabilisation Fund for education, as of press time, it was not known how much would be spent on school infrastructure.

*** Not adjusted for inflation

Source: American Society of Civil Engineers 2009 Report Card

Insights: U.S. media & entertainment (M&E) sector

With a massive consumer spending exceeding US$950 billion, media and entertainment (M&E) is one of the prime sectors in the U.S.

The sector consists of the creation, aggregation and distribution of content and has undergone radical changes in the past decade with the introduction of several breakthrough technologies.

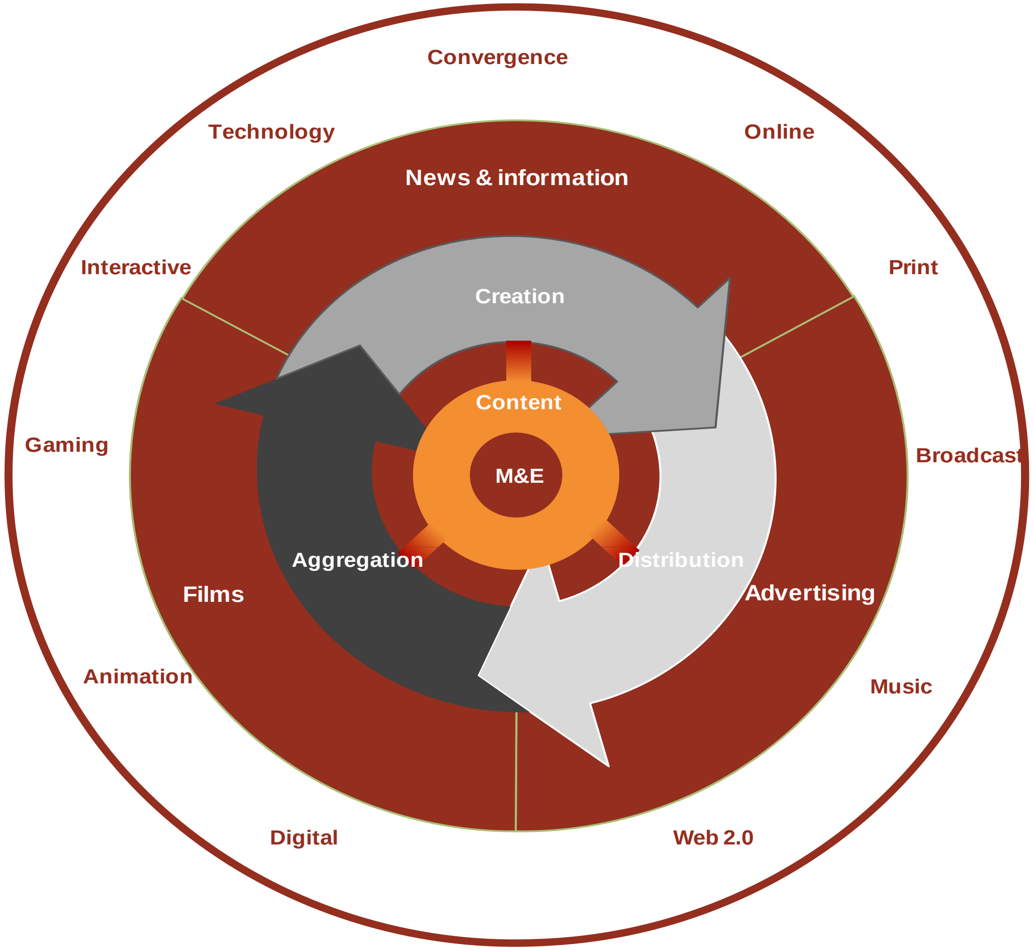
The sector is broadly categorised on the basis of various genres such as advertising, films, news and information and animation. The recent recession, which was one of the worst in America's history, adversely affected the business of M&E like all other sectors of the U.S. economy, however the recovery is underway, and a gradual rise in consumer spending is expected.

As per industry estimates, the sector would enjoy a growth rate of more than 35% and is likely to register aggregate consumer spending of about US$1.3 trillion in the near term.

The current upward trend in the M&E sector and the emerging landscape clearly indicates toward the huge potential, which Indian multinationals can tap.

Nevertheless, Indian M&E companies have proved their capabilities to become global players. Be it news, film production, advertising or animation, the Indian companies have developed prowess to cover the entire value chain.

However, they have to raise their ambitions and enter in the global arena by leveraging existing strengths, building scale and developing strategic outlook to enter an attractive market like U.S.



M&E: The business spectrum

Insights: U.S. healthcare services sector

The U.S. healthcare industry continues to demand substantial financing, including investment in new facilities and technologies, in order to maintain its competitiveness. The House of Representatives Democrats recently unveiled the healthcare reform bill, America's Affordable Health Choices Act (HR 3200). The bill would create a public healthcare plan option, provide subsidies for low-income individuals to obtain coverage, require everyone to have insurance, mandate most employers to offer insurance, expand eligibility for Medicaid, and make extensive changes to Medicare payments and future rates-of-increase.

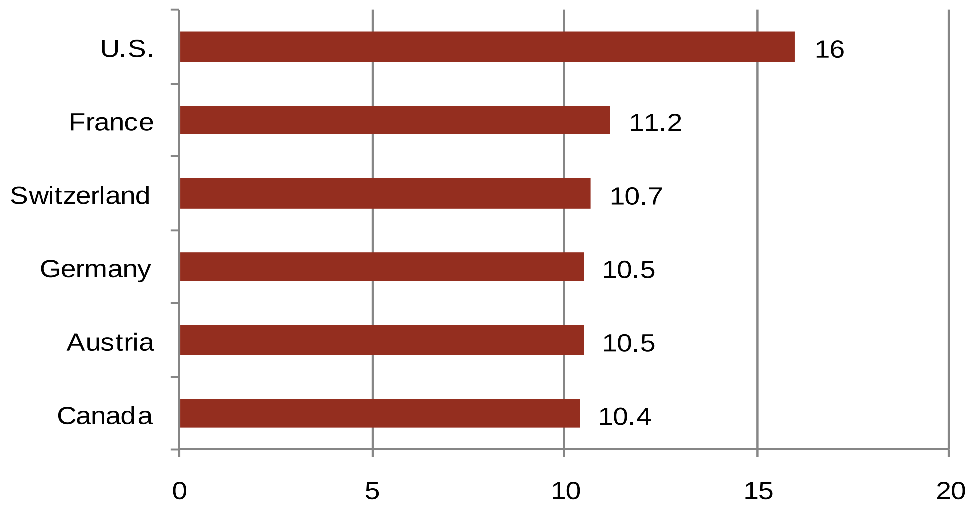
It has been estimated that the bill would cost US$1.042 trillion over 10 years. When healthcare reform is complete, nearly all individuals and businesses will be affected and will be dealing with new challenges. Some of these challenges will be immediate, some long term.

At the same time, the ever-rising demand for high-quality healthcare services creates the need for financing for even the most profitable providers. Consequently, many healthcare providers are scrambling to line up alternative financing as their previous lenders have exited the market.

Even the remaining lending institutions have tightened their underwriting standards and are commanding restrictive covenants in comparison with the past. This phenomenon presents opportunities for new healthcare players in the sector.

The impact to providers and insurance companies will be deep, since for many of them, reform means a change in how they will run their businesses.

Health expenditure as a share of GDP (in %)



Source: OECD Health Data 2010

As coverage expands to include more people over the next few years, it is also expected that hospitals will see some increase in volume and significant reductions in uncompensated care costs.

These broad level changes are likely to transform the U.S. healthcare sector in a substantial way, thus creating new possibilities of participation from private sector companies.

Insights: U.S. healthcare services sector

Meanwhile, consolidation in the healthcare industry is taking place at a record pace. Larger systems that have increased market share dramatically for many years are now strategically evaluating the markets that they want to be in and divesting from those that they do not.

In addition, struggling smaller systems are seeing that their very survival may be dependent on merging with or being acquired by another system. This is creating an environment where consolidation can be an opportunity for healthcare systems, large and small, to be better positioned to deliver cost-effective care.

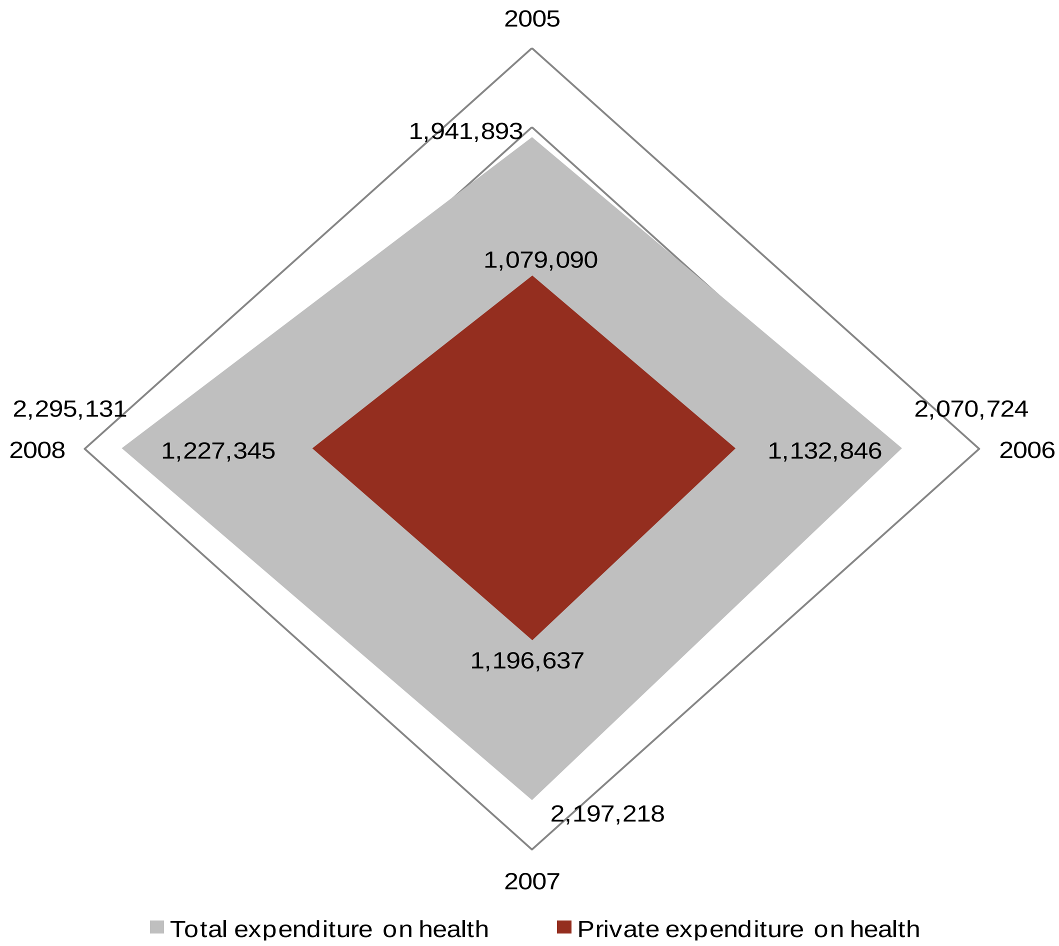
However, the forces competing for quality patient care, patient access and affordability — combined with the uncertainties surrounding healthcare reform and a challenging economic environment — exert a tremendous amount of pressure on the healthcare industry.

This pressure demands a back-to-basics approach that embraces sound business practices, which may have been ignored during earlier periods of growth and liquidity.

This means considering a range of strategic options and seeking help as needed from outside advisers, preferably before hospitals or health systems experience significant distress.

Organisations that do so effectively will not only have a greater number of options and alternatives available to them, but also will be better positioned to capitalise on opportunities in the future.

U.S. national expenditure on health (in million US$)



Source: World Health Organisation (WHO)

Insights: U.S. education sector

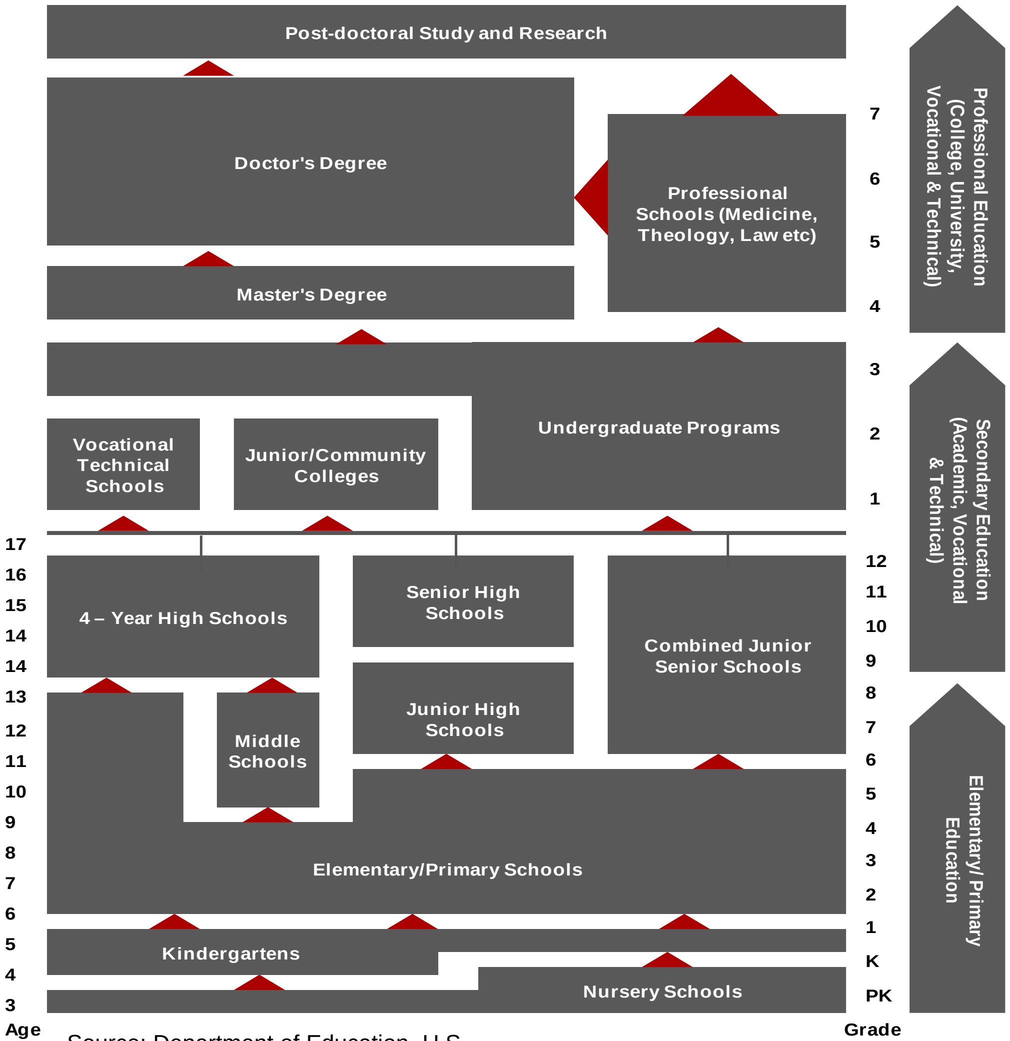
In view of expediting the economic recovery process, the U.S. government is geared to make considerable progress in advancing education across the country. Education, along with healthcare, tops the list of Presidential goals and this further opens the doors of opportunities for the Indian education sector companies.

With the ongoing reforms, a strong northbound movement is expected in this sector. A potential doubling of degree-seeking students would boost higher-education sector while the focus on K12 segment would expand the sector further. The entry of for-profit educational institutes can bring in innovation and operational efficiencies. As regards the potential, about 1.8 million enrolments were registered at more than 2,800 for-profit institutions, during the academic session of 2008-09.

A staggering US$540 billion will be spent on 50 million students enrolled across 99,000 elementary and secondary schools. Out of this about 34,000 schools are private, as per the National Centre for Education Statistics of the U.S. Enrolment in colleges registered an impressive hike of 41.3% between 2000 and 2009, as per U.S. department of commerce. It has been further estimated that 6.6 lakh people will be awarded master's degree and 16,69,000 students will graduate from American varsities, in 2010-11 session.

The demand for quality education will rise incessantly with change in macro and micro economic environment, and Indian companies can consider leveraging opportunities in this sector, especially in the higher education segment. After loosening of regulations in the late 1990s, the U.S. for-profit higher education sector has witnessed an impressive growth. As many as 1.8 million enrolments were recorded in the for-profit higher education institutions in 2008 and this was considerably higher than 3,00,000 enrolments being recorded in 1986.

The structure of the U.S. education sector



Source: Department of Education, U.S.

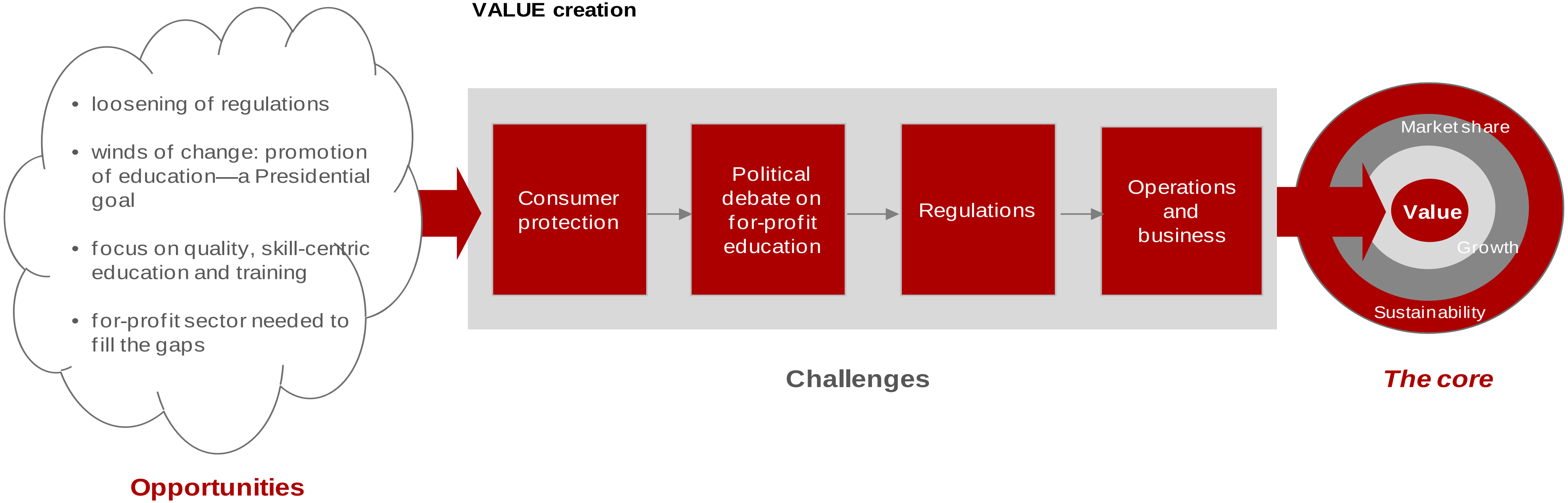
Insights: U.S. education sector

Furthermore, the year-on-year growth of 14% in undergraduate enrolments from 1998 to 2008 brought in the cumulative growth of about 271% in 10 years. Assuming that this growth pattern continues for the next 10 years, the total markets share of the for-profit postsecondary education would reach 21% from current 8%.

However, the for-profit education sector has to face certain challenges amidst ongoing debate on the "profit motive" in education. It has been argued that for-profit educational institutions are primarily driven by their own interests and this directly impacts the whole idea of education.

Nonetheless, these institutions are regulated by various bodies including the Department of Education (ED), General Accountability Office (GAO), Securities and Exchange Commission (SEC) and the Federal Trade Commission (FTC). At the same time, it has been widely acknowledged that profit motive encourages the notion of value creation, and it is better to leave it on the market forces to reward businesses, which do create value and bring down those which do not. Profit and consumer sovereignty—as well-established concepts of traditional economic theory—thus act as the engines of success for the for-profit education sector in the U.S.

Leveraging opportunities and meeting challenges through continuous VALUE creation



India: overview of the economic and business environment

India | Country profile

Geography and population

The Republic of India forms a natural subcontinent with the Himalayan mountain range to the North and two sections of the Indian Ocean – the Arabian Sea and the Bay of Bengal lie to West and the East respectively. India borders Pakistan to the northwest, China, Bhutan and the Nepal to northeast and Bangladesh and Myanmar to the east. Near the country's southern tip across the Palk Strait is Sri Lanka.

The climate varies from the tropical in the south to temperate in the north. India is a land of immense cultural, religious, linguistic and economic diversity and is the second most populated country with a population of around more than 1.15 billion. The Constitution of India has specified 18 languages, of which Hindi and English are the official languages.

India is rich in natural resources having the fourth largest reserves in the world for coal. Other resources include iron ore, manganese, mica, bauxite, titanium ore, natural gas, diamonds, petroleum, limestone, etc.

Political and legal system

India is the largest multi-party democracy in the world and under its Federal Constitution has adopted a Parliamentary System of Government with two Legislative Houses. The country is a Union of 28 States and 7 Union Territories, each governed by governments comprising elected representatives of the public. The Central and State Governments comprise a Council of Ministers headed by a Prime Minister and a Chief Minister respectively.

The Prime Minister and the Chief Minister is usually the head of the party, which has support of the majority members in the Parliament and the State Assembly respectively. Elections are usually held for the States, Union territories and the Centre once every five years.

The Central Government is based in the National Capital Territory of New Delhi and has exclusive jurisdiction over all matters of national interest such as defence, communication; banking and currency, international trade and foreign affairs The State Governments have primary responsibility for matters like law and order, education, health and agriculture.

Standard of living

The burgeoning and yet untapped middle and upper middle class market, is the reason for India being considered as an attractive, high growth market, and more so as the market penetration levels in India are high. The post liberalisation era has led to an unprecedented consumer boom with tremendous rise in the demand for both consumer durables and non-durables.

Although two third of the population still resides in the semi-urban and rural areas, the standard of living in the metropolitan cities is comparable to the best in other developing countries.

India | Country profile

Judiciary and law

India has a well established, independent judicial system. The Supreme Court of India is based in New Delhi and is the highest court of appeal. The High Courts are based in the respective State Capitals, along with subsidiary District Courts. All these courts collectively enforce the rule of law and safeguard the fundamental rights of citizens which are guaranteed by the Constitution.

India's legal framework is mainly adopted from English law. Based on the principles of equality and secularism, Indian laws are aimed at the protection and promotion of business entities and healthy industrial and social environment and labour protection.

Until 1991, the home-grown industry was protected by law against global competition; since then, the laws have been gradually amended to open up several sectors to foreign investors in keeping with the requirements of World Trade Organisation.

The laws governing the business environment can be categorised into:

- labour laws
- corporate and other allied laws
- taxation laws

The most important piece of financial legislation is the Union Budget, which is generally presented on the last day of February every year, and passed by the Parliament.

Economy

India's economic policies are designed to attract significant capital inflows into India on a sustained basis and to encourage technology collaboration agreements between Indian and foreign firms. Policy initiatives taken over the past few years have resulted in significant inflows of foreign investment in all areas of the economy, except those reserved for the public sector.

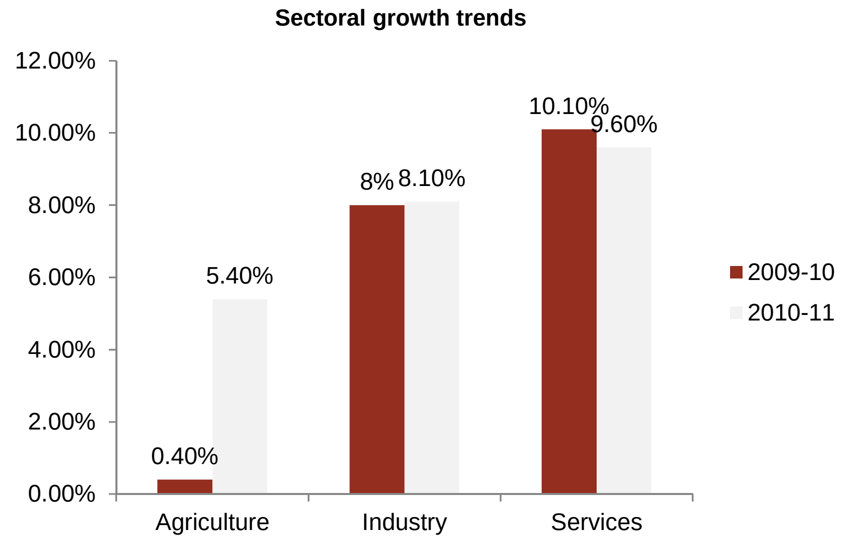
Today, India is one of the most exciting emerging markets in the world. Skilled managerial and technical manpower that match the best available in the world and a middle class whose size exceeds the population of the USA or the European Union, provide India the distinct cutting edge in global competition.

India | Country profile

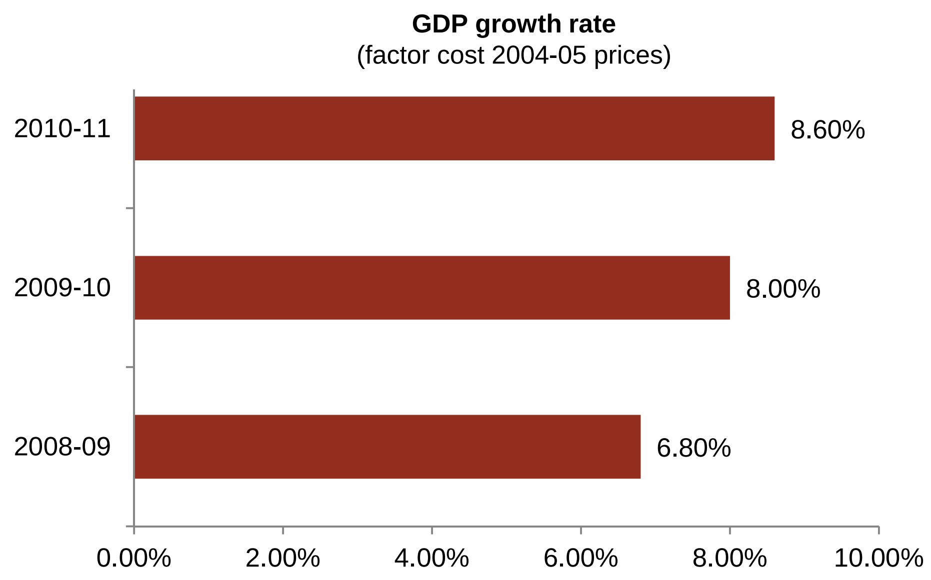
Key indicators related with macro-economic environment		
Development parameters	**India at present**	**India in 2020**
Composition of GDP (in %)		
-- Agriculture	16.1	6.0
-- Manufacturing	28.6	34.0
-- Services	55.3	60.0
International trade in goods as % of GDP (PPP - Purchasing Power Parity)	3.6	35.0
Foreign Direct Investment (FDI) as % of Gross Capital Formation (GCF)	2.1	24.5
Gross FDI as % of GDP (PPP)	0.1	3.5
International trade in goods as % of GDP (PPP - Purchasing Power Parity)	3.6	35.0
Foreign Direct Investment (FDI) as % of Gross Capital Formation (GCF)	2.1	24.5
Gross FDI as % of GDP (PPP)	0.1	3.5

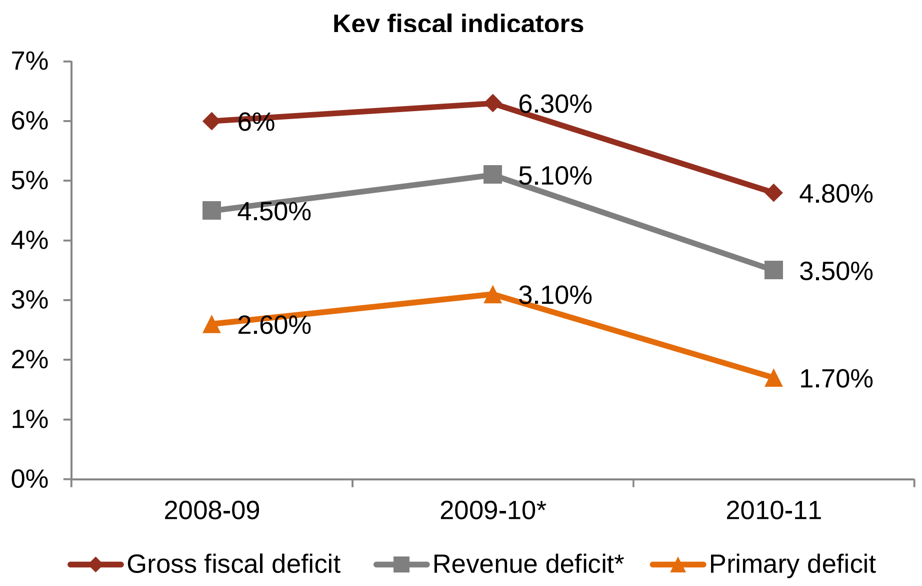
Source: World Development Indicators, CIA, CSO & Planning Commission

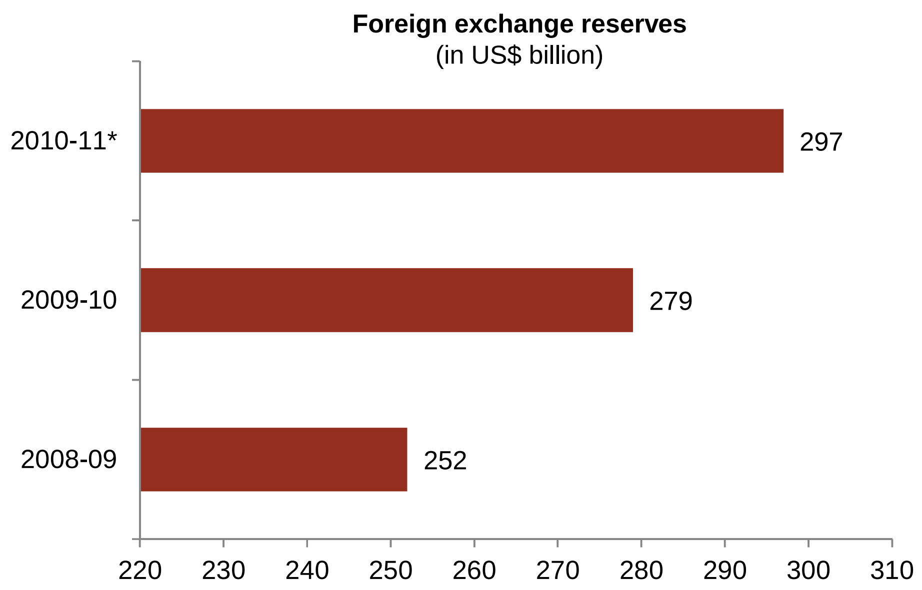
Key indicators related with demographic changes		
Development Parameters	**India at present**	**India in 2020**
Income distribution (gini index 100 = equality)	37.8	48.5
Life expectancy at birth (in years)	64.0	69.0
Unemployment rate	7.3	6.8
Commercial energy consumption (kg of oil equivalent)	486.0	2002.0
Electric power consumption (per capita/kwh)	384.0	2460.0
Telephones per 1000 population	34.0	203.0

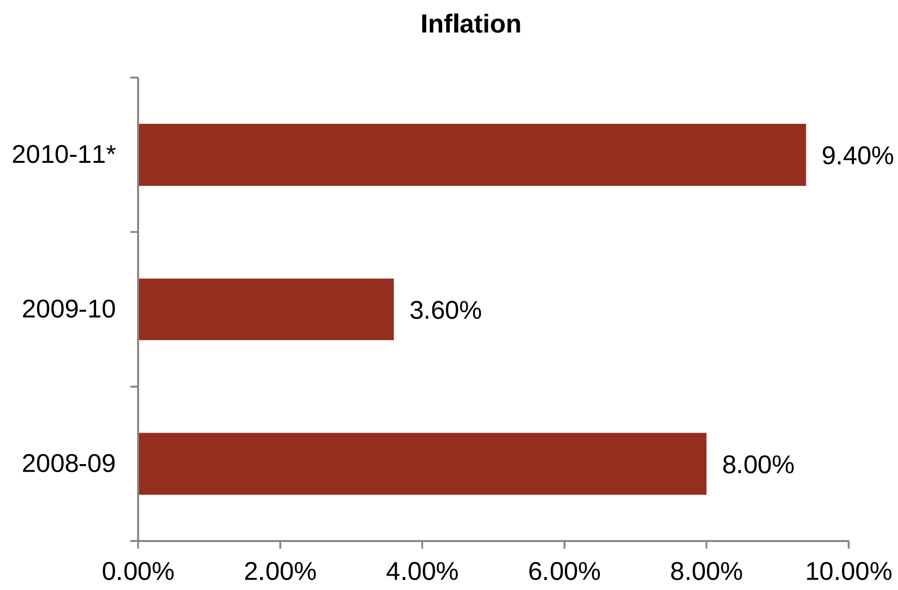


India | Country profile









Source: Economic Survey 2009-10

Tax and regulatory environment

Tax and regulatory environment – Direct tax

Income tax

Income tax is chargeable on taxable income computed in accordance with the provisions of the Income-tax Act, 1961 (the Act). All taxpayers are required to follow a uniform accounting year from April 01 to March 31 for tax purposes called as "previous year", irrespective of the financial year followed for accounting purposes. Income earned during the financial year is assessed to income-tax in the next year, called the "assessment year".

All taxpayers are required to file a Return of Income for the previous year within prescribed due dates in the assessment year. Different due dates have been prescribed for this purpose under the Act which are as in the table opposite.-

In case of:	
a company; or a person (other than a company) whose accounts are required to be audited under this Act or under any other law for the time being in force; or	30th day of September of the assessment year
a working partner of a firm whose accounts are required to be audited under this Act or under any other law for the time being in force in the case of a company which is required to file an accountant's report under transfer pricing regulations	30th day of November of the assessment year
in the case of any other assessee	31st day of July of the assessment year

Initial compliances

Permanent Account Number (PAN)

All taxpayers are required to make an application for the allotment of tax registration number which is called the Permanent Account Number (PAN). The application is to be made in Form 49A on or before 31 May of the assessment year for which the income is assessable to tax.

This number is to be quoted on all tax returns, correspondence with the tax authorities and on all documents relating to prescribed categories of transactions.

Tax Deduction Account Number (TAN)

Every person responsible for withholding tax in accordance with the provisions of the Act is required to make an application for the allotment of withholding tax registration number which is called as Tax Deduction Account Number (TAN). The application is to be made in Form 49B, within 1 month from the end of the month in which tax is deducted.

Tax and regulatory environment – Direct tax

Computation of business income

There are certain permissible deductions in computing the taxable income and there are certain disallowances in respect of expenditure incurred by the company. In arriving at taxable income, expenses on revenue account, incurred wholly and exclusively for business purposes are deductible. Certain expenses are specifically disallowed or the quantum of deduction is restricted. These include:

- interest, royalties, technical service fees or any other chargeable amounts paid to non-residents without the withholding of applicable tax. However, such expenditure is deductible in the year in which the tax is paid/deducted at source
- specified payments such as interest, contractual payments, rent, royalty, professional/technical service fees, etc paid to a person resident in India without withholding of applicable tax. However, such expenditure is deductible in the year in which the tax is paid/deducted at source
- income-tax/wealth tax paid
- provisions for taxes, duties, interest on loans from public financial institutions or on term loans from a scheduled bank and certain contributions to statutory funds on behalf of employees, not actually paid. However, such expenditure is deductible in the year in which it is actually paid
- security transaction tax paid, etc. unless the assessee is into the business of trading in securities.

The rates of depreciation for different blocks of assets are as follows:

Block of assets	Rates (in %)
Residential buildings except hotels and boarding houses	5
Non residential purposes including hotels and boarding houses	10
Furniture and fittings	10
General plant and machinery	15
Intangible assets	25
Computers	60

Depreciation is normally calculated on the basis of declining balance method using varying rates depending on the nature of assets. All similar type of assets eligible for the same rate of depreciation are clubbed together in a block and depreciation is charged on the value of the block.

Depreciation is available for a full year, irrespective of the actual period of use of the asset. However, in the year of acquisition of the asset, depreciation is allowed at half the normal rates, if the asset is used for less than 180 days in that year. No depreciation is available in the year of sale of the asset. Depreciation on intangible assets such as know-how, patents, copyrights, trademarks, licences, franchises or other similar business or commercial rights, is also available.

In addition to above, additional depreciation at the rate of 20% (over and above normal depreciation) is available for Plant and Machinery (other than ships and aircrafts) upon fulfilment of prescribed conditions.

Tax and regulatory environment – Direct tax

Corporate tax rate

The corporate tax rates for the financial year 2010-11 are as follows:

Type of company
Domestic company
Rates (per cent)
32.45 per cent (30 per cent plus surcharge[2] at the rate of 5 per cent and education cess@ 3 per cent on tax and surcharge)

Type of company
Foreign company
Rates (per cent)
42.02 per cent (40 per cent plus surcharge[2] at the rate of 2 per cent and education cess @ 3 per cent on tax and surcharge)

Along with the aforementioned taxes, the direct tax spectrum also encompasses Dividend distribution tax (DDT), Withholding tax, Fringe benefits tax (FBT), Capital gains tax, Advance tax, Self assessment tax, Wealth tax, Gift tax and Estate duty

Minimum Alternate Tax (MAT)

MAT is payable by a company at following rates on the “book profits” of the company computed as specified where the income-tax liability determined under the normal tax provisions is lower than tax on “book profits”.

Type of company
Domestic company
Rates (per cent)
20.01 per cent (18.5 per cent plus surcharge[2] at the rate of 5 per cent and education cess @ 3 per cent on tax and surcharge)

Type of company
Foreign company
Rates (per cent)
19.44 per cent (18.5 per cent plus surcharge at the rate of 2 per cent and education cess[3] @ 3 per cent on tax and surcharge)

Tax credit for the difference between MAT and tax under normal provisions is allowed against tax liability in subsequent ten years, where tax becomes payable under normal provisions of the Act. From previous year 2006-07, long term capital gain on listed securities, which otherwise may be exempt, will have to be considered for calculation of “book profits” for MAT purposes. Similarly from previous year 2011-12, MAT provisions are applicable even to SEZ developers and units located in SEZ.

Tax and regulatory environment – Indirect tax

Service tax

The levy was introduced for the first time in the year 1994 through Chapter V of the Finance Act, 1994 (Act). The service tax law does not envisage taxation of all services. Only those services that are specified as taxable will be subject to service tax levy. Presently, more than 100 services are specified as taxable services on which service tax is required to be paid. Service tax is currently levied at the rate of 10 per cent of the value of taxable services. Also, a cess @ 3 per cent (2 per cent Education Cess and 1 per cent Secondary and Higher Education Cess) on the service tax is applicable, thereby making the effective rate of service tax equal to 10.30 per cent.

Further, an Indian resident shall be liable to pay service tax under the reverse charge method if he receives any taxable service from a service provider situated outside India.

Moreover, services provided outside India are not subject to service tax under the export of services provisions if the service provider satisfies prescribed conditions. Service providers are entitled to avail CENVAT credit of duty paid on inputs and capital goods and service tax paid on input services used in rendering output services.

Value Added Tax (VAT)

VAT is levied on sale or purchase of goods effected within a particular state, the same would qualify as an intra-state sale, and VAT would be levied under the relevant State VAT tax legislation. The rate of local VAT depends on the description of the goods, the rate of tax mentioned in the applicable state VAT tax legislation, various VAT tax concessions/exemptions as may be available in such state etc. However, the VAT regime envisages five rates of tax viz 0 per cent 1 per cent, 5 per cent, 13.5 per cent and 20 per cent.

Central sales tax

Where goods move from one state to another pursuant to a contract of sale, or a sale is effected by the transfer of documents of title during the movement of goods from one State to another, such a sale is known as an inter-state sale and is subject to Central Sales Tax ('CST'). Presently, the rate of CST on sales to registered dealers against Form C is 2 per cent. Under the CST Act, import from outside India and export of goods from India are not liable to VAT or CST.

Customs duty

Customs duty is leviable on imports/exports of goods into/from India at the rate defined under Customs Tariff Act, 1975 ('Customs Tariff'). The procedure relating to customs duty is governed by the Customs Act, 1962 ('Customs Act') and the rules/regulations made there-under. The customs duty is payable by the importer/exporter and consists of:

- Basic Customs Duty (BCD) @ 10 per cent
- Additional Customs Duty (CVD) @ 10.30% per cent (Equal to the duty of excise leviable on the same products if manufactured in India)
- customs Education Cess @ 3 per cent
- additional CVD (in lieu of VAT) @ 4 per cent.

General effective Customs duty rate – 26.85 per cent (at basic customs duty of 10 per cent).

Generally, no customs duty is leviable on export of goods from India except certain items as defined under second schedule of the Customs Tariff (iron & steel and other items which are essential for a nation's growth).

Tax and regulatory environment – Indirect tax

The various duties of customs leviable under Indian Customs laws are as follows:

BCD is levied on all imported items which are specified under the Customs Tariff Act, 1975. The peak rate of BCD is 10 per cent unless the imported item is subject to any exemption/concession.

CVD is levied on imported items if the imported article is such, as if produced in India and is liable to excise duty. The rate of CVD is 10 per cent plus cess @ 3 per cent. CVD is available for set off to the manufacturer/service provider towards payment of excise duty of manufactured products/service tax on services provided in India.

Special CVD is levied on imported goods to counter balance various internal taxes like sales tax and VAT and to provide a level playing field to indigenous goods which have to bear these taxes. The rate of special CVD is 4 per cent. Generally refund/set off of special CVD is available to manufacturers/traders selling/reselling goods in India.

Excise duty

Excise duty is levied on goods manufactured in India. The manufacturer is liable to pay excise duty at the time of clearance of goods from the factory. The rate of duty to be paid depends upon the classification of goods as per the Excise Tariff Act, 1985 ('Excise Tariff'). The procedure relating to Excise duty is governed by the Central Excise Act, 1944 ('Excise Act').

General Excise duty structure is India:

- generic rate @ 10 per cent
- Education Cess @ 2 per cent
- secondary and Higher Education Cess @ 1 per cent.

General effective Excise duty rate – 10.30 per cent (at basic Excise duty of 10 per cent).

However, this rate is subject to exemptions and concessions as may be notified from time to time. For the purpose of levying excise duty, manufacture has been interpreted to mean any process, which brings into existence a new commodity having a distinct name, character, use and marketability. However, the Central Government is empowered to declare any process, e.g. labelling, relabeling, packing, repacking etc. as manufacturing process.

Excise duty is generally charged on transaction value. However, in certain cases it is chargeable to maximum retail price printed under any law, after allowing certain abatement towards post manufacturing expenses. Manufacturers are entitled to avail CENVAT credit of duty paid on inputs and capital goods and service tax paid on input services used in the manufacturing process. Certain duty exemptions are also available to manufacturers having units in backward areas such as Kutch, Himachal Pradesh, Uttaranchal etc.

Tax and regulatory environment – Indirect tax

Octroi/ entry tax

Octroi/entry tax is a levy on the entry of goods into a particular municipal/state jurisdiction for use, consumption or sale. Depending on the municipal/state jurisdiction where the goods are proposed to be used, consumed or sold, either octroi or entry tax may be levied. As already noted above, octroi is predominantly a municipal specific levy. Within the state there may be several jurisdictions where octroi/entry tax may be levied depending on the specific rules thereof.

Other taxes

The other taxes that are levied are expenditure tax, luxury interest tax, stamp duty and research & development cess.

Goods and services tax

Goods and Services tax (GST) being introduced for the first time by France in 1954 is a comprehensive value added system of levying tax, operational in more than 140 countries today. India is working towards introduction of a dual GST which, most probably, would be introduced w.e.f. 1 April 2012 whereby the myriad of existing indirect taxes would be progressively merged into a common central tax (CSGT) and a state tax (SSGT).

GST would ideally be collected on the value added on goods and services at each stage of production via a tax credit mechanism. It would be similar to a last point retail tax, as the consumers being the last node in the supply chain have to bear this tax.

Primarily GST proposes to embody the following principles:

- uniform rate of taxation within a given jurisdiction
- sale of goods and services would be taxed under the destination principle
- low costs of compliance and administration
- each level of government to set its own tax rate subject to agreed ceilings and/or floors
- a substantively common tax base for Central and State governments
- substantial co-operation in tax administration between all levels of government
- simplification of statutes in order to reduce litigation and facilitate an easy interpretation.

The introduction of GST is a welcome change as it will do away with many distortions that exist under the current indirect tax legislations. Further with the advent of a common tax base for goods and services a service provider shall be entitled to avail credit on his purchase of goods and vice versa. This would substantially reduce tax cost and enhance competitiveness both in the domestic as well as International markets.

While the introduction of GST is much awaited, its implementation could be a difficult task. Further indirect taxes, such as excise duty, customs, and service tax are levied by the Central Government, whereas the state and local governments levy VAT, octroi, entry tax, entertainment tax, etc. Consequently the States could lose their authority to levy and collect taxes and would have to depend on the Central Government for the same. Tax experts believe that the solution lies in a dual structure wherein the Centre and states divide items on which each can impose the uniform levy of GST and there is no double taxation.

Types of business entities

Business entities

Business entities

Forms of business entities in India:

- liaison office
- branch office
- project office
- partnership firms
- limited Liability Partnership firms (LLP)
- limited company (public or private).

Liaison office

A foreign company needs prior approval of the Reserve Bank of India to establish its liaison office (LO) in India. An LO is suitable for a foreign company, which wishes to set up a representative office as a first step to explore and understand the business and investment climate in the country. The LO acts as a communication channel between the parent company overseas and its present/ prospective customers in India. The LO can also be set up to establish business contacts or gather market intelligence to promote the products or services of the overseas parent company. The LO cannot undertake any business activity in India nor earn any income in India.

Branch office

A foreign company needs prior approval of the RBI to establish its branch office (BO) in India. The RBI does not permit a BO to undertake any manufacturing activity in India. The range of activities to be undertaken by a BO is also very restricted and permission has to be obtained from the RBI, each time any new activity is to be undertaken. The BO will not expand its activities or undertake any new trading, commercial or industrial activity other than that expressly approved by the RBI.

Project office

A foreign company may open a project office in India without prior approval from RBI provided it has met with prescribed conditions. The project office is generally opened to execute a specific project in India. Once the project execution is complete as per the terms of the contracts awarded, project office would need to be closed.

Partnership firms

Under the present Foreign Direct Investment policy of the Government of India and the Foreign Exchange Management law foreign investment into Indian partnership firms requires permission of the Reserve Bank of India. A partnership is an association of two or more persons to carry on as co-owners of a business for profit. Each partner of a partnership has unlimited liability.

Limited Liability Partnership (LLP) firms

A limited liability entity is a hybrid of existing partnership firms and full-fledged companies. It is a separate legal entity, liable to the full extent of its assets with the liability of the partners being limited to their agreed contribution in LLP. The act would facilitate creation of another business model which would enable growth of the economy. While there is no formal clarification, it appears that infusion of Foreign Direct Investment into a LLP requires prior approval of the RBI.

Limited company

As mentioned above, foreign investment into India is governed by the Foreign Direct Investment policy of the Government of India and the Foreign Exchange Management law. Under the present policy, all companies in India have to be incorporated under the Companies Act, 1956. The following are the requirements of the Companies Act, 1956.

Types of companies

Public Limited or Private Limited.

Capital requirements

Minimum capital requirement is INR 500,000 in case of public companies and INR 100,000 in case of private companies. Equity Shares and Preference Shares can by issued by Indian Companies. Although all equity shares have voting rights, the law allows issuance of equity shares with differential rights with respect to voting, dividend sharing, etc. There are specific rules and conditions to be complied with for issue of shares with differential rights in case of Public Companies.

Minimum number of subscribers, shareholders and directors required

The main features of public and private companies are as follows:

	Public	Private
Minimum numbers of subscribers/ shareholders/members	7	2
Maximum number of subscribers/ shareholders/members	No limit	50
Minimum number of directors	3	2

Equity restrictions

There are no debt/equity restrictions under the Company Law. However, limits are prescribed for acceptance of deposits by companies. There are no specific 'thin capitalisation' rules in India. However, there are certain restrictions under the Foreign Exchange which try to capture such transactions.

External commercial borrowings

External Commercial Borrowings (ECB) are permitted by the Government for providing an additional source of funds to Indian corporates. There are end-use restrictions to utilization of ECB such as financing expansion of existing capacity as well as for fresh investment. Subject to complying with specific conditions and limits, ECB are permitted under automatic route. Otherwise prior approval of the RBI is required. ECBs are approved by the Reserve Bank of India within an overall annual ceiling.

Corporates are free to raise ECB from any internationally recognized source such as banks, export credit agencies, suppliers of equipment, foreign collaborators, foreign equity holders, international capital markets etc. Offers from unrecognised sources are not entertained. Certain sectors are not permitted to avail of ECB.

Requirements for contribution in kind

There are no specific requirements as to contributions in kind except that the shares issued for consideration other than cash require disclosure in the annual accounts. However, FIPB approval is required for receiving FDI as contribution in kind except in few cases such as pre-incorporation/pre-operative expenses

Value of shares

The shares of a company whether preference or equity must have a nominal/par value.

Management of the company

Company is managed by the Board of Directors who may delegate powers, except where any transaction requires approval of Board of Directors under the Companies Act, to any director or managing director.

Citizenship of directors

There is no requirement for any director to be a citizen of India.

Requirements as to appointment of a company secretary

The law provides for compulsory appointment of a full time Company Secretary, where the paid up capital of a company exceeds the prescribed limit, (presently Rs 50 million). Where the paid up capital is Rs 1 million up to Rs 50 million a compliance certificate from a practicing company secretary is required every year.

Procedure for registration and incorporation

The promoters of the company have to apply to the Registrar of Companies for availability of the proposed name of the company. After obtaining approval, the Memorandum and Articles of Association of the proposed company are filed with the Registrar of Companies for registration. On registration, a Certificate of Incorporation is issued which is conclusive evidence of the company having been incorporated.

Commencement of business

A Certificate to commence business is required in case of a public limited company whereas in the case of a private limited company business can be started immediately after incorporation.

Insights on focus industries

Infrastructure, Real estate, Financial services, Healthcare and Education

Insights: India's infrastructure sector

To fuel the engine of high growth and fulfil the needs of its burgeoning population, India requires significant investments in infrastructure development.

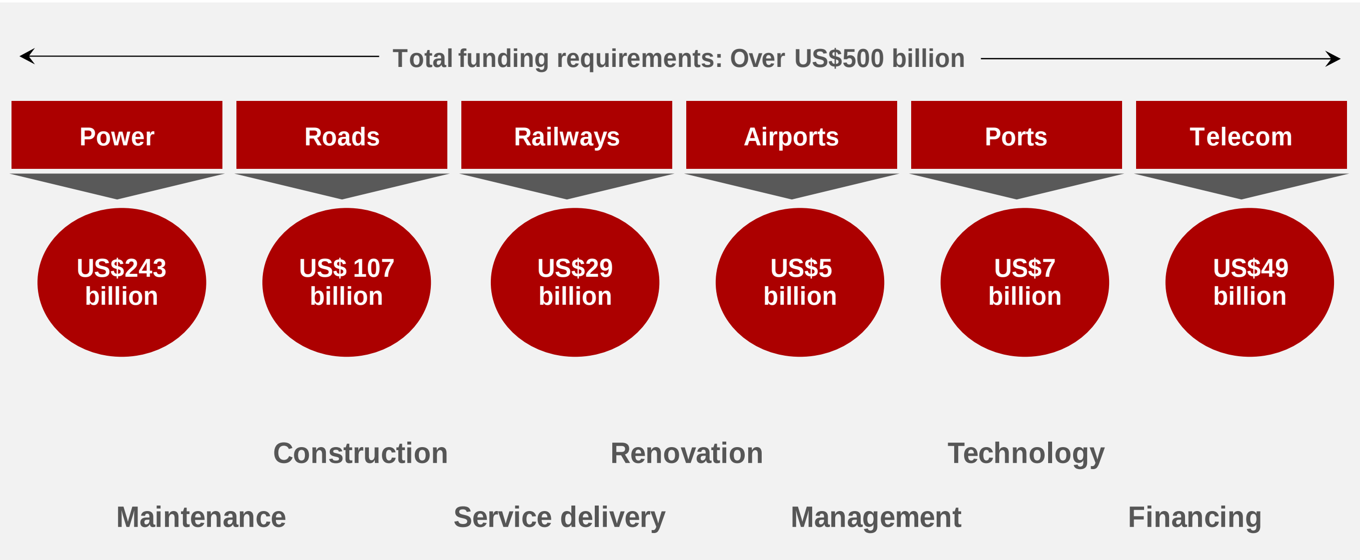
The 11th Five Year Plan (2007-12) envisaged a total investment of US$514 billion in the infrastructure sector for bridging the infrastructure deficit and for sustaining a growth momentum of 9% per annum.

As estimated, this ambitious target requires 30% of the total investment, i.e. US$154.17 billion, through private sector participation. Over a period of time, the Government of India has taken several initiatives to accommodate and accelerate private investments in the infrastructure sector.

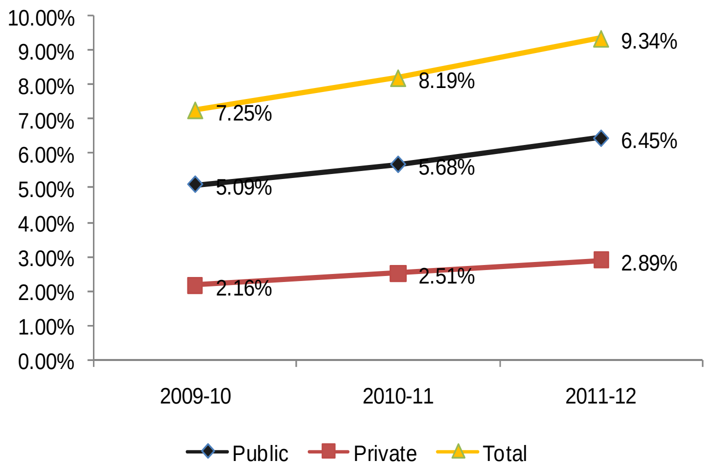
These include sector specific policies, providing incentives and tax holidays to attract private investments, permission of 100% FDI in the infrastructure sector, special provision of Viability Gap Funding (VGF) and boost to Public Private Participation (PPP).

Single window clearance system has been introduced for quick approval and implementation of power and road projects whilst infrastructure companies are also provided a number of tax benefits.

The 12th Five Year Plan is estimated to target US$1 trillion of investment with 50% contribution from the private sector.



Investment as % of GDP



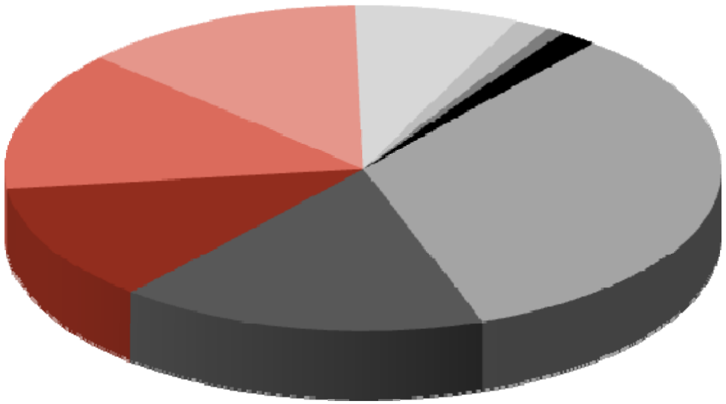
Source: CSO and Planning Commission

Insights: India's infrastructure sector

Infrastructure – Deficit and targets of 11th Five Year Plan

Sector	Deficit	Targets
Roads and highways	65590 km of NH comprise only 2% of network; carry 40% of traffic; 12% 4-laned; 50% 2-laned; and 38% single-laned	6-lane 6500 km in GQ; 4-lane 6736 km NS-EW; 4-lane 20000 km; 2-lane 20000 km; 1000 km Expressway
Ports	Inadequate berths and rail/road connectivity	New capacity: 485 m MT in major ports; 345 m MT in minor ports
Airports	Inadequate runways, aircraft handling capacity, parking space and terminal buildings	Modernise 4 metro and 35 non-metro airports; 3 greenfield in NER; 7 other greenfield airports
Railways	Old technology; saturated routes; slow speeds (freight: 22 kmph; passengers: 50 kmph); low payload to tare ratio (2.5)	8132 km new rail; 7148 km gauge conversion; modernize 22 stations; dedicated freight corridors
Power	13.8% peaking deficit; 9.6% energy shortage; 40% transmission and distribution losses; absence of competition	Add 78577 MW; access to all rural households
Telecom/IT	Only 18% of market accessed; obsolete hardware; acute human resources' shortages	Reach 600 m subscribers—200 m in rural areas; 20 m broadband; 40 m Internet

Sector-wise investment anticipated in the 10th Five Year Plan



Given our flourishing democracies, India and the U.S. are natural partners in every sphere of business, including in the area of world class infrastructure. India's rapidly growing free market economy, supported by a progressive FDI policy and financial sector reforms, provides a never before opportunity for companies in the U.S. and India to collaborate for mutual gain while working towards the larger objective of nation building.

Vikesh Mehta
Partner and Practice Leader – Government and Infrastructure Advisory, Grant Thornton India

Insights: India's real estate sector

The Indian real estate sector witnessed an exponential growth in the early years of the last decade. High levels of investor confidence, coupled with thriving demand helped the sector register a staggering growth rate. The past quarters, however, witnessed a slowdown, thus creating a considerable gap between the demand and supply of real estate.

The sector has now started making its way out of the downturn. The period of slowdown had provided the industry with an opportunity of introspection and the signs of leaning are quite apparent in the industry.

The sector, once identified as an unorganised sector, has been evolving quite well, in terms of project planning, size, technology, quality and financial management. A number of real estate companies now have access to organised financing through primary and secondary markets, financial institutions and alternative financing routes such as private equity.

According to a latest ASSOCHAM report, Foreign Direct Investment (FDI) in the Indian real estate sector will increase to US$25 billion in the next 10 years, from present US$4 billion. The capital inflow from the routes of FDI, Initial Public Offering (IPO), Qualified Institutional Placement (QIP) and bank loans have increased from US$15,795 million in 2008 to the tune of US$25,977 million in 2009.

The real estate industry's backward and forward linkages with the housing and construction industry, and more than 250 ancillary industries including cement, steel and other building materials, place this industry as the epicenter of India's growth story.

By 2020, India will become the third largest construction market in the world, from the current ninth position.

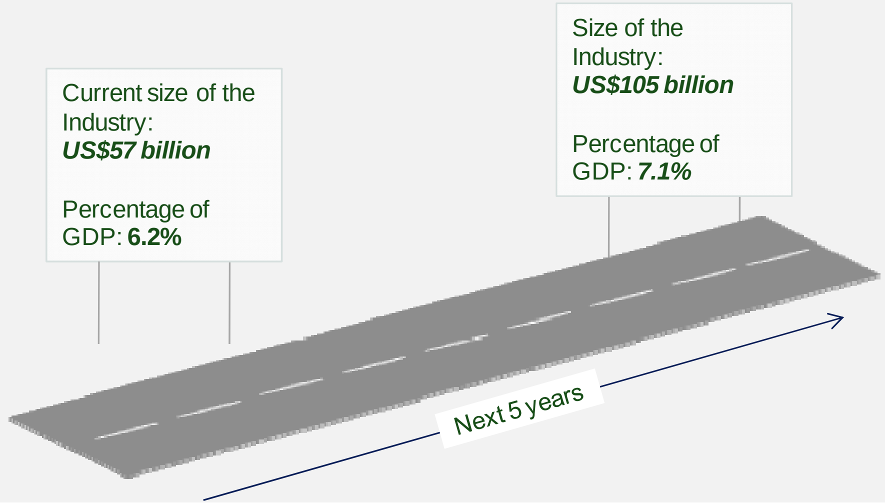
Oxford Economics and Global Construction Perspectives.

Past

- unorganised, fragemented industry
- characterised as local industry without any regional and national level players
- unaccounted sources of finance
- no access to public finance
- no transparency, weak systems and processes

Present

- phase of consolidation
- institutionalisation on pace
- corporatisation – national and regional level players
- listed real estate companies
- global investments
- improving transparency



Insights: India’s real estate sector

Governance and transparency

Transparency on customer services has also improved vis-à-vis delivery schedules, information sharing on issues and after sales. We also cannot ignore the positive developments on the fronts of policy reforms and the increasing recognition of real estate as an infrastructure service driving the economic growth engine of the country.

With so many “positive” signs, the sector has gained in a short period of time, the concern in the present perspective, however, arises as how to deal with the challenges posed by multi-pronged pressures on the front of regulatory environment, governance and of course, finance and capital management.

There is an opportunity of high growth, yet again, in the approaching times, and a planned and strategic approach will help seize this opportunity, at an optimum level.

India’s real estate sector structure

Office	Residential	Retail	Hospitality
• primarily driven by services sector, mainly IT/ITeS and financial services • over 7000 listed companies • more than 730,000 private companies • rising demand for plug-and-play offices	• 40 cities with over one million population • 85 cities with more than half-a-million population • 379 million people to move to urban areas from rural areas • huge shortage of housing units • demand for affordable housing	• top 20 cities generate over 30% of India’s disposable income • household income growth at 11.2% from 2004 to 2007 in these cities • opening market for global retail majors	• riding on the back of US$36 billion travel & tourism industry • double-digit growth in the foreign tourist arrivals in 2010 • Incredible India campaign attracted 4.93 million foreign tourists till November 2010 • domestic business and leisure travel on rise

Tier I cities: Mumbai, Delhi, Bangalore, Chennai, Kolkata

Tier II cities: Hyderabad, Pune, Ahmedabad, Chandigarh, among others

Tier III cities: Jaipur, Nagpur, Indore, Bhopal, among others

Drivers of growth

- strong economic fundamentals
- favourable demographics
- high domestic consumption
- booming services sector
- increasing disposable income
- availability of finance

Data source: The United Nations and Capital Line

Insights: India's banking and financial services sector

The fundamental strength of the Indian banking and financial services sector got reflected with its capacity to withstand the recent global financial crisis. Whilst the overall credit to GDP ratio rose to almost 55% in 2010, it is seen as structurally well below its potential.

The past year, at the same time, also witnessed a relative slowdown in banking deposits with depression in real interest rates, and extension of banking services has become an imperative to mobilise more savings and to add depth to the operations.

Such trends in the market have opened up doors of opportunities as the industry shows an appetite for innovative solutions that can deepen the market and intermediate opportunities.

The retail credit penetration at 10% indicates towards a huge opportunity of growth for retail banking services.

Furthermore, healthy savings rate coupled with a steady rise in per capita income with favourable demographics indicate exciting times for financial services companies, which can take first mover advantage in the smaller cities of India and tap unstructured saving patterns.

India's banking and financial services sector

Banking	Insurance	Mutual funds	NBFCs	Micro finance
• asset base: US$1259.20 billion, July 2010 • average growth rate: over 20% • Basel II compliant • one of the lowest levels of non-performing assets in the world: 1.1% • expected size by 2012: US$2130 billion	• life insurance and general insurance industry size: US$41 billion and US$8.7 billion respectively • average growth rate: life insurance: 32-34% general: 16-20% • expected size by 2013, life insurance: over US$80 billion & general insurance: plus US$18 billion	• a US$158-billion industry • average growth rate: over 25% • gross mobilisation of resources: US$2087 billion in 2009-10 • expected size by 2012: US$192.8 billion	• dominant in auto finance business • command 80% of hire purchase and equipment leasing	• 230 micro finance institutions (MFIs) • 22.6 million borrowers, in 2009 • exist in different forms: trusts, societies, NBFCs and not-for-profit organisations

- opportunity in retail bank credit: current market penetration level as low as 10%
- large population with rising disposable income
- domestic savings rate as high as 35%, presenting opportunities for investment products
- increasing awareness about insurance and investment products in both urban and rural areas

Insights: India's education sector

The Indian education sector is by far the largest capitalised space in India, with government spending of US$30 billion in 2006, representing 3.7% of GDP, and a large network of one million schools and 18,000 higher education institutes.

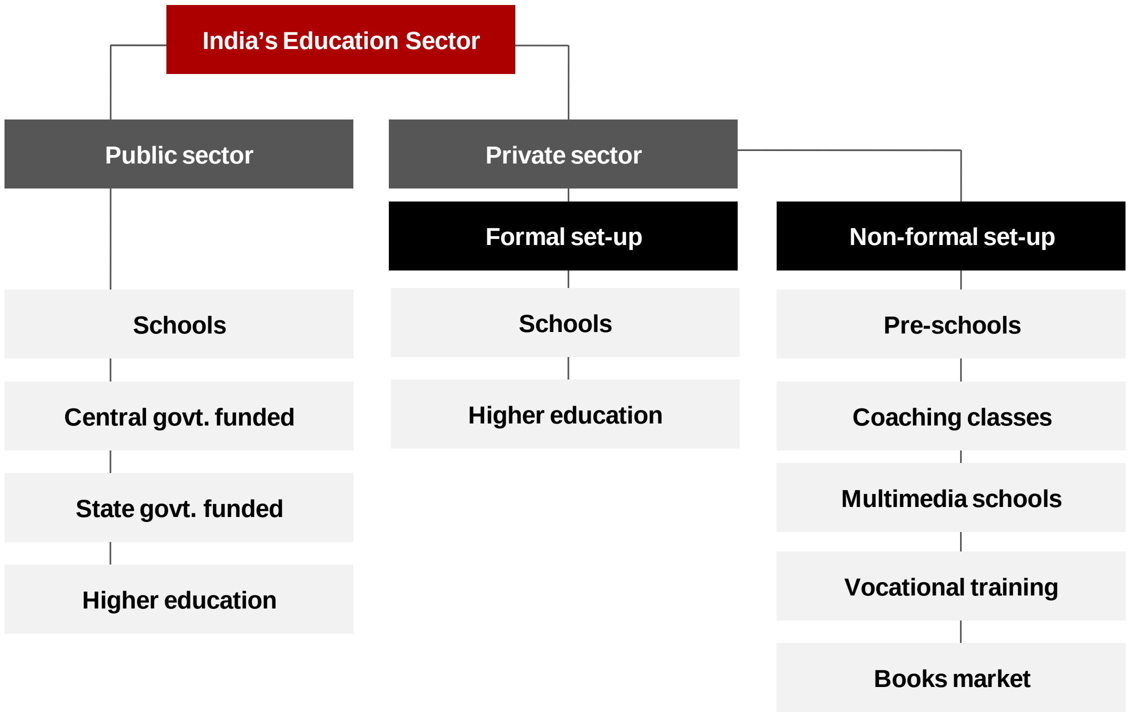
In its latest five-year plan, the government has allocated a six-fold increase in spending on education, yet this figure remains highly disproportionate to its target population: India's population of 572 million (2008) within the 0-24 years age group is the highest in the world and is expected to increase to 600 million by 2012.

As a result, despite having one of the world's largest education supply infrastructures, India is currently unable to meet the demand for education at almost all levels.

Due to the shortcomings in the quality and capacity of the public education system, there has been significant recent investment in the private sector education providers, which is now valued at $50 billion, rising to an expected $85 billion by 2012, at a CAGR of 14%.

The 'formal' sector comprises Kindergarten-12th grade (K12) schools (3-19 age group) and higher education colleges; institutions are regulated and must be run on a not-for-profit basis set up under a trust or society. An increasing number of corporate groups are entering the formal sector.

Over the last three to five years a completely new, unregulated segment – 'non-formal' private education (comprising pre-schools, coaching/tutoring classes, the provision of multi-media and information and communication technologies (ICT) to aid teaching in schools and colleges, vocational training and the books market) – has emerged and now represents 20% of the private education industry.



The US and India are predominantly knowledge-driven economies, and a closer collaboration on the front of education and training between the two would provide fuel imperative for keeping up the momentum of growth.

Vinamra Shastri
Partner and Practice Leader – Business Advisory Services
Grant Thornton India

Insights: India's education sector

Growth drivers

As India gears up for greater private investment in education and with new legislation to promote foreign inward investment on the way, it is clear that the government is shifting focus towards formal commercialisation of the sector. The growth and development of the Indian economy at large is also a significant driver for foreign investors:

Regulatory boosts: The forthcoming Foreign Education Providers Bill will liberalise the HE sector by allowing overseas universities to set up campuses in India.

Population/ demographic trends: India has over 1.1 billion people, the world's second most populous nation, with about one-third of the population able to be categorised as young.

Human capital potential: Quality of labour has played an increasing role in boosting India's growth. Literacy standards have improved substantially, rising from just 10% in 1951 to about 65% in 2001.

Increase in disposal income: Consumption and savings levels are rising, and per capita income has doubled over the past seven years. Education spending currently accounts for 5% of private consumption and is expected to rise to 9% by 2025.

Rapid urbanisation: Urbanisation is increasing rapidly, and with construction quality increasing this leads to improvements in infrastructure and civic facilities.

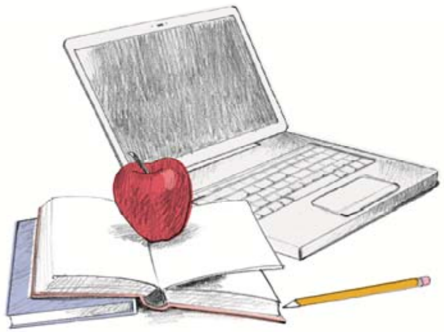
Challenges

There are two key challenges that any inward investor would face in planning to establish an education institution in India. Firstly, securing accreditation from the many and various education-specific regulatory bodies in India.

Secondly, setting up an operating structure/entity that is legally permitted to generate profits, given the restrictions in place in the K12 and higher education sectors.

However, these are balanced against the significant opportunities afforded by the growth of the Indian economy as a whole and the education sector in particular.

In addition to adhering to the regulatory frameworks covering the respective segments of the Indian education system, foreign education providers are also governed by a number of other specific regulations, including Establishment of and Maintenance of Standards in Private Universities Regulations (2003) and Regulations for Entry and Operation of Foreign Universities/Institutions Imparting Technical Education in India (2005).



Insights: India's healthcare services sector

India's rapid growth has brought about a noticeable transition in terms of shifting demographics, socio-economic transformations and changes in disease patterns. Healthcare, which is a US$37 billion industry in India, is expected to reach over US$75 billion by 2012 and US$150 billion by 2017.

The healthcare industry in India is expected to grow at the rate of 15% for the next 10 years and is predicted to account for 8.5% of the country's GDP, which is far less as compared to 15% of the U.S. This helps to put into perspective the role and importance of healthcare in a country's economy.

India currently allows 100% FDI under the automatic route into Health and Medical Services companies. The sector's growth will be driven by the country's growing middle class that can afford quality healthcare. With average household consumption expected to increase by more than 7% per annum, the annual healthcare expenditure is projected to grow at 10%.

The expanding global presence of many Indian pharmaceutical companies, the increasing investments in sophisticated R&D facilities in India, the corporatisation of hospitals and healthcare delivery, flourishing of organised pharma retail and diagnostics are examples of the growing maturity of the healthcare sector in India.

India will be the 9th largest pharma market in the world by 2015.

IMS, GSK, Monitor Analysis

Expected growth rate	
Pharma	17.5% (FY08-FY13)
Healthcare delivery	11.9% (2007-12)
Biotechnology	30.4% (FY08-FY15)

Data source: CRISIL Research

Insights: India's healthcare services sector

Diagnostics

The Diagnostic sector is divided into four major segments which are biochemistry, haematology, immunology and microbiology. The Indian pathological industry is geared up to become the most successful segment in the Indian healthcare industry. At 19%, diagnostics is the second major contributor to total bio-pharma revenues. It is a US$2.5 billion industry and the market is witnessing both rapid growth and increased competition.

Pharma retail

The Indian Pharma retail industry is expected to grow at a CAGR of 11% over the next 5 years. There are about 60,000 distributors covering almost 8 lakh pharmacies. The past few years have witnessed the rise of many pharma retail chains and the organised sector in general.

Life sciences

The Life Sciences sector mainly comprises the pharmaceuticals and biotechnology industries. The Indian biotech industry crossed the US$3 billion mark in 2010 witnessing a 23% growth over the previous year 2009. Exports accounted for 53% of the overall revenue indicating a growth of 5%, while the share of domestic firms stood at 47% marking a growth of 35% over the previous year. Biopharmaceuticals and bioservices have been the key segments that contributed to the growth of the Indian biotech sector.

R&D

India offers a considerable cost advantage for conducting healthcare related R&D. In India, for instance, the cost of conducting clinical trials that account for over 40% of the total cost of developing a new drug is almost 50% lower than the U.S.

Healthcare delivery

Even with over 15,000 hospitals across the country, India significantly lags behind in key ratios such as number of beds per thousand people, number of doctors/ nurses per thousand people and healthcare spend. As per an estimate, India needs to add 2 million hospital beds to the existing 1.1 million by 2027 and this requires investments of more than US$82 billion.

Future outlook

The healthcare sector in India is still evolving and rapidly moving up the value chain. From plain and simple active pharmaceutical ingredient manufacturing to start with, the healthcare sector has made rapid strides in the last decade and has come a long way.

The sector is now poised for rapid growth more than ever before and this offers great entrepreneurial opportunities across the entire spectrum of products as well as services.

Global concerns on the ever increasing healthcare costs, the relative India cost advantages, the huge bandwidth of scientific and medical talent available in India and a globally ageing population coupled with increasing lifestyle-related ailments offer tremendous potential for sustained growth of the healthcare sector in the years to come.

A significant gap in healthcare infrastructure in India, in terms of hospitals, personnel and medical technologies, makes India a high-potential investment destination.

Mahad Narayanamoni
Partner and Practice Leader – Healthcare and Life Sciences Advisory, Grant Thornton India

Insights from the leaders

Insights from the leaders: WNS

Founded as British Airways' captive back-office in 1996, WNS is today an icon in the outsourcing world with more than 200 clients, serviced by over 21,000 employees across 23 global delivery centers. The company delivers over 600 processes across industry and functional domains.

Keshav R. Murugesh, Group CEO, WNS Global Services shares his thoughts on the exciting times the company has been witnessing, and how it is all geared up to strengthen its footprint across the world.

Our biggest differentiator is our partnership approach to 'extend our client's enterprise' – this is built around WNS's 'Client First' value and demonstrates our commitment to our clients' success. We understand that working the way our clients work is key to BPO success. Clients choose to partner with us quite simply because our management practices, systems and processes are aligned to a simple fact ─ business process outsourcing succeeds when the outsourcing services provider works hand in glove with the client, bringing new processes and systems, new performance-enhancing techniques and skills, fundamentally solving business problems and moving the dial together, and not imposing their culture.

Our outcome-based 'focused' transformational solutions are effectively supported by proprietary frameworks, process excellence, technology and cutting-edge analytics. We leverage our strength in analytics to enable actionable insights that drive direct and sustainable business impact. We pride ourselves in helping our clients outperform through transforming their businesses into highly efficient entities.

Flexibility is the cornerstone of our success. Not all organisations seek to implement radical change. We engage with equal passion with clients seeking to implement a "trial and learn" model, one process at a time, and with those aiming to transform multiple processes or complete functions at once. Through our best-in-class combination of non-linear engagement and pricing models we have ensured sustainable profitability and growth for clients.

Through our network of global delivery centers and the right balance of onsite, nearshore and offshore models, we seamlessly bring together the right talent, tools, methodologies and assets to deliver the optimal BPO solutions with a strong measurable ROI. Our relentless focus on quality has been acknowledged independently by the industry. With certified quality professionals embedded in client engagements, backed by industry-specific service delivery capabilities built around customized platforms and led by top-notch domain specialists, we ensure that continuous improvement is built into our BPO program rather than managed as a one-off project.

WNS and the U.S.

As a company listed on the New York Stock Exchange (NYSE), WNS has a significant client base in the U.S., and is looking to build upon that base by expanding its presence with existing clients, while utilizing those excellent references to win new clients in its key vertical segments.

WNS has been very successful in the U.K. market for insurance. In 2011, the company is spreading its insurance-based offerings to the U.S. market. With the U.S. government ringing in radical reforms in the healthcare sector, WNS is looking to offer vertical-led solutions to the client base. WNS is also focusing on bringing its industry-specific solutions to the Utilities and Energy market. Shipping and Logistics is another vertical we are looking to strengthen in the U.S. FedEx, a key client of ours has endorsed the winning partnership, and even has a Center of Excellence in our first tier 2 destination – Nasik.

Insights from the leaders: WNS

"The market for BPO will only get bigger with time with its ability to move into high-end work, be it in voice or data. Clients will focus on five essential areas. I call it the 'Five Spokes of the Outsourcing Wheel' — non-linear models; domain expertise and innovation; analytics; focus on technological advancements and transformation solutions — even though these might mean cannibalization in the short-term.

These five spokes will be potent forces in deciding the fate of the industry in the near future. I see clients asking for disruptive ideas in the year ahead; asking for consulting and business models/ insights as never seen before. Outsourcing will surely touch less tapped areas like Public Sector, Retail and Shipping and Logistics. But the rules of engagement will change. There will be sharper focus on outcomes; longer hauls in signing the contracts; and higher risk to be encountered.

But these changes will hardly act as deterrents as businesses see new destinations, especially those closer home, opening up. There will be more on-site models due to the simple fact that certain areas like Public Sector cannot allow information to be offshored so easily. But the surprising fact is that we will still be able to provide around 20 percent cost reduction owing to talented manpower; effective internal operations; and a strong focus on quality standards.

India and China will continue their battle to capture a bigger share of the pie. But, the fact is, India will retain its stronghold owing to its inherent advantages – proficiency in the English language, availability of talent, a population that can promise scale and security of operations. Though countries like the Philippines and Costa Rica are fast gaining popularity due to their nearshore advantage and language proficiency, they still cannot offer scale due to their size of population.

2011 will also be the harbinger for many of the international standards coming into play. Thus, businesses will have to closely evaluate the role of outsourcing in their efforts to adapt and align with the standards."

- Keshav R. Murugesh

5 spokes of outsourcing wheel

About us:
IACC & Grant Thornton

About IACC

Established in 1968, the Indo-American Chamber of Commerce (IACC) is a non-government, industry led and industry-managed organisation, playing a proactive role in India's development process and serves as a much needed link between the business communities of India and the United States of America. IACC is the only bilateral Chamber of Commerce in India, which is committed to development of Indo-US business and trade relations.

The major objective of IACC is to promote Indo-American business, trade and economic relations. IACC promotes bilateral trade, investment and technology transfer, facilitates business collaborations, joint ventures, marketing tie-ups and strategic alliances through a set of proactive business-oriented initiatives. In particular has established the following objectives:

- facilitate exports of manufactured and agricultural products from India
- facilitate US-based SMEs to do business with India
- promote Environment-related trade between India and US
- facilitate Collaboration between Hollywood & Bollywood
- facilitate US Investments in India's Real Estate sector
- facilitate outsourcing of services from US to India

In addition, the chamber will initiate debates and prepare issue based white papers on Indo-US trade related issues in the context of Double Taxation, Intellectual Property Rights and Totalisation Treaty.

IACC acts as a catalyst for sustainable growth of business between India and the US. In its four decades of existence, IACC has established operational connectivity with a host of business, research and developmental institutions in India and US in order to leverage each others capabilities for enhancing Indo-US business relations. The Chamber continuously interacts with the Indian and US Governments, and provides them feedback on bilateral issues relating to trade and investment. In essence, IACC also acts as a forum for its member companies to interact with senior functionaries of both the Governments.

IACC has over 2,600 members who together represent a wide spectrum of business and economic segments : manufacturing, exports, services et al. IACC member companies are involved in a cross-section of business domains such as manufacturing, engineering, construction, consumer goods, electronics, IT, pharmaceuticals, consulting, travel and tourism, etc.

The geographical spread of IACC is unique as it operates through 11 offices located throughout the country. These are in Ahmadabad, Bangalore, Bhubaneswar, Chennai, Cochin, Delhi, Hyderabad, Kolkata, Mumbai, Pune and Varanasi.

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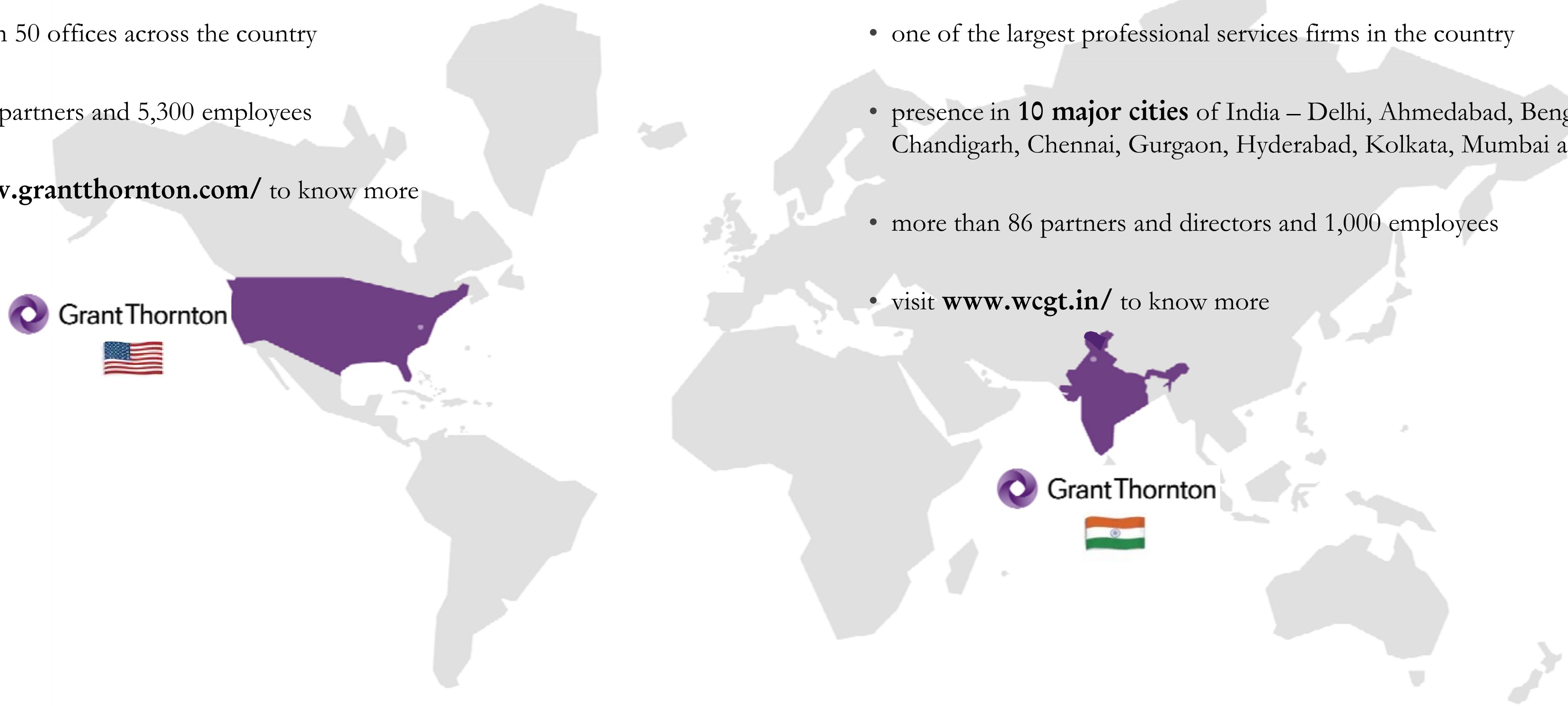
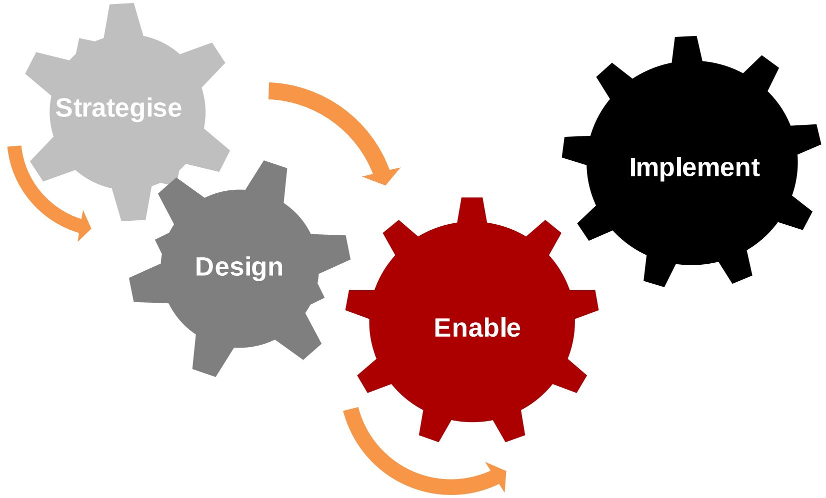


Solutions for companies aspiring to do business in the U.S. or India

Considering the diversity and dynamic nature of these market, an organisation interested in establishing its business in the U.S. or India needs an adviser who can help explore the best opportunities, with an on-ground assessment of the associated risks and rewards.

We at Grant Thornton have developed a unique 4-step approach to facilitate a smooth entry of such organisations in these countries.



Strategise

- U.S./ India primer
- concept, product & idea validation
- industry & market assessment
- location analysis – selection & attractiveness
- business case development

Design

- competition landscape mapping
- define positioning & value proposition
- develop business & operating model
- business planning & feasibility study
- evaluation of various investment and operating vehicles

Enable

- organisation structure
- identification & selection of vendors
- HR policy manuals
- rewards & recognition programmes (short term & long term)
- acculturation

Implement

- choosing an appropriate investment vehicle
- choosing an appropriate entity
- entity setup & formation of a company
- compliance with regulations
- assistance in application filing
- tax and investment structuring
- tax planning & ongoing support
- transfer pricing

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