India UK update

The UK and India represent two of the World's largest economies with a shared past and a bright future. Two of our Kreston member firms with strong relations, Kreston Reeves and Kreston SGCO set out some of the key economic, fiscal and business issues facing each country. There are significant opportunities for cross border activities and both firms are well placed to assist businesses.

Liza Robbins
CEO Kreston International

Economics

In terms of growth, India was the only sizeable economy in the top 10 growth countries for 2018 with GDP growth of 7.6%. Despite this, GDP per head is still relatively low at $2,200 which is roughly half that of China, 35% higher than Pakistan and 80% higher than Bangladesh.

Recent data published by the World Bank showed that the GDP of India surpassed that of France taking it to sixth position, and that it was on track to overtake the UK economy too. Interestingly, in terms of GDP across countries based on purchasing power parities (PPPs), India has been on third ranking and for several years has been ahead of both France and the UK.

Whilst China's slowdown is well documented, India continues to grow. 2019 is an election year for India and the general feeling is that it will be a tight contest for Narendra Modi and the BJP. The BJP continue to work hard to return to power with their business first agenda and further deregulation.

The benefits of growth have not been felt by all - even though the growth of the Indian economy has been strong compared to other countries. Ground level inflation ranges from 3% to 5% and unemployment around 7% to 8% what indicates that the promised new jobs have not come as much as expected. This is mainly due to structural changes being implemented across the business ecosystem.

It is predicted that in the long term there is going to be buoyancy and job creation should be an issue of the past.

The UK is currently facing the uncertainty over Brexit which is evidenced by a GDP growth of only 1.5% - lower than Germany at 1.8% but still stronger than the other major European economies. Inflation is running at 1.9% and unemployment is at an all-time low. A number of the UK's sectors are highly dependent on migrant labour from both the EU and the rest of the World and because of Brexit the UK is becoming a less attractive place to work.

The UK Government and the two main political parties cannot agree on what an acceptable Brexit agreement looks like and with splits across parliament and within political parties there is a high risk of failure. There is every possibility that the Prime Minister and the minority Conservative Government could also fail leading to an early General Election. One of the concerns for the UK economy around Brexit is any impact on the strength of Sterling which is already 10% lower than it was at June 2016.

Sectors

Infrastructure sector

Infrastructure sector is a key driver for the Indian economy. In his recent Budget speech in February 2019, the Finance Minister of India claimed that the government has built more than 15 million houses under the housing scheme. He added that under the Saubhagya Yojana, almost every house has been provided with an electricity connection.

India is estimated to become the third-largest construction market globally by 2022 and the real estate sector is estimated to grow to USD 650 billion by 2025. In the recent interim Budget presented by the Finance Minister of India on February 1, 2019, certain direct tax incentives have also been proposed to boost investment in the housing sector.

The number of operational airports in India crossed 100 with the commissioning of a new airport in Sikkim. Today, India is the fastest highway developer in the world with 27 km of highways built each day. Also, Indian Railways has experienced the safest year in its history. For the first time, India is commissioning commercial Inland Waterways in a big way and that will revolutionize the transport infrastructure in India.

In the UK there are three major infrastructure projects underway. The first two are the Cross Rail project and HS2 (High Speed 2). Cross rail travels east west through London and the HS2 project is a high-speed train line from London to the Birmingham and beyond. The third and more controversial project is a third runway for London Heathrow which is being met with strong opposition.

Logistics sector

The e-commerce retail logistics market in India is valued at $35 billion in 2018 and is projected to witness a growth of 36% in the coming five years. In 2018, India ranked 44th out of 167 countries in World Bank's Logistics Performance Index (LPI) 2018.

The Indian logistics sector is on a big growth tide. According to the domestic rating agency ICRA, Indian logistics sector is expected to grow at a rate of 8-10% over the medium term. The logistics industry of India is currently estimated to be around US$ 160 billion. With the implementation of GST, the sector is expected to benefit and touch US$ 215 billion over the next two years. The experts predict that it can be the largest job creator by 2022.

Retail sector

The UK retail sector has been suffering throughout the course of 2018 and this continues in 2019 with some significant corporate failures such as House of Fraser, one of the largest UK retailers. Many businesses are being bought out of insolvency, but the underlying trading conditions are not changing. The key drivers here are weaker consumer demand, weaker Sterling which is squeezing margins, higher rents and high property taxes. However, the pain is not just being felt by the retailers on the high street. Some of the main online retailers are also experiencing tough trading conditions. It is interesting to see how India is using regulation to protect business from online trading platforms whilst the UK and the EU mull over transaction taxes on the likes of Amazon and others.

Technology sector

The UK Tech sector is red hot at the moment and is attracting significant private and corporate investment. Much of the technology and start up industries are centered around London Silicon Roundabout and cities such as Brighton. One of the other structural changes that come with this sector are big changes in the way people work with a rise in co-working spaces. We Work, a company that is less than 10 years old, is now the biggest occupier of private office space in London.

Financial Services sector

This is probably the most important sector in the UK and the City of London.   Albeit, there is concern over the impact of Brexit on the City and “passporting” to Europe it is important not to lose sight of the fact that the City is one of the major global financial services centers. To put this in context 37% of global forex trading is through London (7 times more than France and Germany combined) and 95% of interest rate swaps. Brexit or not, the City will continue to be an important global trading center.

Motor manufacturing sector

The UK no longer has any UK owned motor manufacturers and Brexit uncertainty is already impacting on long-term investment decisions. Plants are either being closed, or new models are now being manufactured in mainland Europe. With EU wide supply chains, the fear of tariffs and customs checks on components crisscrossing EU borders are beginning to bite.

Regulation and Capital Market

E- commerce regulation

E-commerce sector has been gradually on the rise in India. Recently, the Indian Government tweaked the regulations governing FDI in the ecommerce sector. Under the new norms, e-commerce companies cannot sell exclusive only products on their platform. To maintain a level playing field, e-commerce companies are debarred from influencing the prices of goods or services directly or indirectly. Cashback provided to buyers shall be fair and non-discriminatory. The changes are likely to impact the core business model of the likes of Amazon and Flipkart. On the other hand, the same regulations have been welcomed by the local Indian businesses which are competing with the large e-commerce players.

Start-up listing guidelines

An initial public offering (IPO) may no longer be a distant dream for young and growing start-ups in India. Recently, the government proposed changes in the Institutional Trading Platform (ITP), which was initially launched in 2013 to promote SMEs to go public. Since then it has been relaunched as Innovators Growth Platform (IGP) to encourage more start-ups to go public.

Start-ups looking at IPOs through this route will be able to raise capital much more easily and will also have greater operational freedom. There are already separate listing platforms for smaller companies which are performing well. Over a dozen tech start-ups are expected to go public by 2020.

Capital Markets

The Indian Government is considering a proposal wherein large corporates would be mandated to meet about one-fourth of their financing needs from the debt market. The proposal not only looks to develop a liquid and vibrant bond market but also tries to reduce dependence of corporates on banks for finances.

With this promising initiative, we should see a robust bond market soon. The reform initiatives recently undertaken in the realm of capital markets is likely to see an active market for IPOs even in the year 2019.

The UK capital markets are split between FTSE and the junior AIM market. Full or junior market listings are a significant undertaking for any organisation and recent years have seen the development of a well-trodden investment path. The investment path has seen initial private capital followed by Enterprise Investment Scheme (EIS) funding leading Series A funding (and beyond) with Private Equity Houses and Venture Capital funds.

The UK has not really faced any major changes in regulation but there is change along the way with the recent announcement that the Financial Reporting Council will be disbanded following some high profile corporate collapses.

Taxes and incentives

Goods and Service Tax

The Goods and Services Tax (GST) is the biggest tax reform implemented in independent India with the aim to streamline the country's indirect taxation system, underlining its promise of a unified domestic system of indirect taxes. Seventeen different taxes levied by the Central and State/UT Governments with a cascading effect of tax on tax, were consolidated into one GST. Its impact on the economy and various sectors have been largely positive, barring some initial teething problems that are only expected with a reform undertaken on such a large scale.

In a survey, it was found that 10-11 types of taxes were being levied on the road transport businesses. The GST framework will be helpful in reducing transportation cost by eliminating such multiple taxes. In a research done by NCAER, it is suggested that GST would be the key revolution in Indian Economy and it could increase the GDP by 1.0 to 3.0%.

Post GST regime, India has climbed 23 notches higher to be ranked 77 in the 2018 World Bank report on The Ease of Doing Business, making India one of the top-ranked nations in South Asia.

Making Tax Digital

Whilst India is embracing a new tax in GST the UK is facing the challenge of Making Tax Digital (MTD). This is a significant change in the way VAT and, in due course, trading profits are reported to the UK tax authorities on a quarterly basis. If the UK follows the path of nations with SAF -T then accounting information will need to be submitted in accordance with the standard which is promoted by the OECD.

Angel Tax

As start-ups turn out to be a major source of revenue and employment, governments from across the world have been going out of their way to facilitate the entrepreneurial dream. Even India has done its fair bit to support start-up dreams by means of its flagship 'Make in India' programme and a plethora of other schemes like 'Start-up India'. But even with all these schemes and options, one thing that has still been a potential cause of worry is the so-called angel tax.

Many unlisted and early-stage start-ups rely heavily on funding from angel investors to build the groundwork necessary to get further funding from VC groups. Taxing this investment discourages and drives away angels, effectively stifling the much-needed flow of money to the fledgling start-ups.

In Europe, countries like Germany and the UK have passed laws and implemented policies to offer generous tax incentives to start-ups and angel investors. Across the world, Australia's tax incentives for investment in innovative start-ups (introduced in 2016) have been called "arguably the most generous in the world". Against such a backdrop, the problems posed by India's Angel Tax become even starker. Under the income tax laws funds, from investors are subject to over 30% tax in the hands of the investee company to the extent the funds received are more than the fair market value. The government has however been working on providing an appropriate exemption to start ups from these provisions.

Enterprise Investment Scheme (EIS)

EIS is a highly attractive scheme for private investors either directly into company or via EIS qualifying funds. The main attractions are that the funds invested are eligible for Income tax relief at 30% and are not subject to any capital gains tax on subsequent sale, subject to the qualifying conditions.

UK trade deals

Once the UK has left the EU it will be free to negotiate its own trade deals. It was claimed that these would all be ready for a smooth transition but currently there are only six signed with Israel, the Palestinian Authority, Switzerland, The Faroe Islands, Eastern and Southern Africa and Chile. These are hardly significant trading partners for the UK.

Whilst a UK India trade deal has been drafted the sticking point seems to be the concession on UK visas.

Resources

To learn more about doing business in the UK and India please see the resources below:

- **Doing Business in the UK guide**
- **Doing Business in India guide**
- **Setting up your business in the UK video**
- **Kreston SGCO video**

About Kreston International

Kreston International is a global network of independent accounting firms. As trusted, long-term counsellors, we combine expertise with empathy to help you achieve your professional and personal goals.

About Kreston SGCO

We focus on adding value to our client's business and optimizing business processes to help them grow exponentially.

With our head office in Mumbai, Kreston SGCO has its network spread across entire India as well as globally which makes it well equipped to cater to client needs in a comprehensive manner.

We offer a wide gamut of services including Accounting, Governance, Risk & Compliance, Tax Advisory, Transaction & business advisory to domestic as well as global clients.

About Kreston Reeves

We advise dynamic businesses, not for profit organisations, private individuals and families on all areas of business, tax and wealth. We help you make confident decisions about the future.

With offices across London, South East England and international reach via Kreston International, we are dedicated to meeting and exceeding the needs of all our clients wherever their ambition takes them.

We provide a full range of accountancy, business advisory and financial services that will help you to achieve your personal and business goals.

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Sunil Goyal is the Founder and Managing Partner of Kreston SGCO Advisors LLP. He is also the Founder and Managing Director of Ladderup Group, which provides pragmatic solutions to large and medium-sized companies in the field of investment banking, corporate finance and wealth management. He has made valuable contributions as the past chairman of Western India Regional Council of The Institute of Chartered Accountants of India (WIRC). He is a highly networked professional and also serves on the board of several public and private companies.

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