



Education

Union Budget 2016

Post-Budget sectoral point of view



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Context

Where we are



- “India will provide the largest workforce to the world in the decades to come,” said Honourable Prime Minister, Shri Narendra Modi during his speech at the World Youth Skills Day.¹ This goal presupposes a conducive ecosystem in the education and skilling space, with next few years being crucial to get it right
- While universal access to school education has been achieved with 96 per cent enrollment in six to fourteen years, the drop out rates are very high with nearly half the students dropping out of the schools by class X
- In higher education the Gross Enrollment Ratio (GER) is at 23.6 per cent² and way below the targeted 30 per cent by 2020. Quality of higher education also needs to improve significantly – evidenced by very few globally ranked institutions in India
- There is a continued emphasis on skill development with a vision to make India the skill capital of the world.

Key issues/challenges



- Lack of guidelines for the preschool segment for common norms and minimum requirements in the areas of teacher quality, safety, security, and physical infrastructure
- Low levels of employability of the graduating students in Indian higher education (estimated at around 25 per cent of the outgoing students)
- Poor assessment of teaching and learning outcomes in the K12 segment resulting in inability to channelise efforts on improving quality in schools
- Academic research needs to be fostered at India’s higher education institutions
- Ineffective accreditation systems for both schools, colleges and universities leading to inadequate information on the quality of the existing institutes
- Delay in GST implementation hugely impacts the readiness of education service provider and end users.

Government’s stance



- Given the education and skilling sector’s budgetary constraints, effective utilisation of monetary allocations is critical. The emphasis should be on innovation, results and progress, backed by greater accountability and transparency in the entire system
- The government has expressed its intent to improve the quality of outcomes in the education and skilling sector with a focus on job creation.

Expectations (policy/fiscal/tax)



- Recognition for the growing private pre-school segment and lay down common norms and minimum requirements in the areas of teaching quality, safety, security and physical infrastructure
- Shift in the measurement parameters by provisioning a central body to focus on learning outcomes in schools
- Easy availability of education loans through a structured network of financial institutions
- Incentivising the sector by giving tax exemptions for vocational training institutions as well as industries that provide internship opportunities or on-the-job training to students
- Tax incentives for enrollment in skills certification courses
- Tax incentives on CSR spend to boost the education sector.

1. http://www.business-standard.com/article/news-ians/skill-india-mission-will-be-youth-s-war-against-poverty-modi-roundup-115071600002_1.html
 2. <http://www.indiatvnews.com/politics/national/gross-enrollment-ratio-in-ind-23-pc-34426.html>

Key policies/fiscal and tax proposals



Key announcements¹

Policy

Increased focus on skill development

- The Ministry of Skill Development and Entrepreneurship has allocated more funds, from INR1038 crore to INR1804 crore
- A total of INR1700 crore was allocated for setting-up of 1500 multi-skill training institutes, across the country. The regional training institutes would greatly benefit the last mile delivery of the skilling programmes. It has been our belief that an iconic centre in every district headquarters shall have a pull through effect and this in our view is a step in right direction. This is perhaps the first direct intervention, apart from the it is Industrial Training Institutes (ITIs) by the government
- A National Board of for Skill Development Certification in partnership with the industry and academia is proposed to be set-up. This move is aimed to improve the employability of our students and to also integrate the skilling and the academic ecosystem. We believe the National Skills Qualifications Framework (NSQF) efforts shall seamlessly merge with this board and provide an overarching body – beyond any private, industry, government dimensions
- To mentor entrepreneurs, Entrepreneurship Education and Training (EET) will be provided in 2200 colleges, 300 schools, 500 government ITIs and 50 vocational training centres through Massive Open Online Courses (MOOCs). This can support the 'Start Up India' programme of the government
- The new 'Digital Literacy Mission' for rural India aimed to cover around six crore additional households within the next three years will make it possible for rural India to be brought into the online learning ecosystem
- Nearly 35 million job aspirants have already registered in the National Career Service launched in July 2015
- The government proposes to make 100 model career centres operational by the end of FY2016-17 and inter-link state employment exchanges with the national career service platform. We believe this should be used as a pilot to bring about the national digital employment exchange and provide the much needed bridge between job seekers and job creators.

Expanding the horizons of higher education

- The Finance Minister announced that a scheme will be formulated aimed to enable ten public and ten private institutions to emerge as a world class teaching and research institutions. This is a positive move aimed at improving the rankings of the Indian institutions
- A Higher Education Financing Agency (HEFA) will be set-up with an initial capital base of INR1000 crore. These funds shall be used to finance improvements in infrastructure and be serviced through internal accruals. This is an innovative funding mechanism for institutions to borrow and while the allocation is small in size, this is a move in the right direction
- The FM has proposed to establish a digital depository for school leaving certificates, college degrees, academic awards and mark sheets, on the pattern of a securities depository. The aim is to create a body similar to National Securities Depository Limited (NSDL) and would aim to tackle the menace of fake/forged certificates and mark sheets.

Continuing focus on primary education

- The government has announced an allocation of INR28,010 crore to National Education Mission out of which INR22,500 crore is allocated to 'Sarva Sikshya Abhiyan.' During his Budget speech, FM said, that having achieved the universalisation of primary education throughout the country, the focus will now move to improving of the quality of education. This is a welcome move aimed to improve the learning outcomes and value for every rupee spent.

1. Union Budget 2016-17, <http://indiabudget.nic.in/glance.asp>, 29 February 2016

Direct tax

- Corporate tax rates remain unchanged except for start-ups and Small and Medium Enterprises (SMEs). No change in education cess rates for FY2016-17. Corporate tax rate for new manufacturing companies not claiming incentives/accelerated depreciation reduced to 25 per cent. Corporate tax rate for companies with total turnover lesser than or equal to INR5 crore reduced to 29 per cent for FY2016-17
- Tax holiday provided to start-ups established before 1 April 2019 for a period of three consecutive years out of a period of five years. Such start-ups to be subject to Minimum Alternate Tax (MAT) provisions
- Test of residency of foreign company based on Place of Effective Management (POEM) deferred by one year to FY2016-17
- Income by way of royalty in respect of a patent developed and registered in India taxable at the rate of 10 per cent
- Presumptive income equal to 50 per cent of gross receipts of persons engaged in any profession where gross receipts do not exceed INR50 lakh
- Withholding tax on commission reduced from 10 per cent to 5 per cent
- Accelerated depreciation reduced to 40 per cent
- Profit linked deductions for units in SEZ for profits derived from exports of articles or things or services available up to FY2019-20
- Income definition to exclude the subsidy or grant provided by the central government as corpus to a trust or institution established by the central government or a state government
- Deduction of an amount equal to 30 per cent of cost incurred for additional employees in certain cases introduced as an employment generation incentive
- Non extension of deduction beyond 31 March 2017, for expenditure incurred on certain eligible social sector projects or schemes
- Weighted deduction restricted on sums paid to approved scientific research association/national laboratory/universities/Indian institutes of Technology/specified person for the purpose of approved scientific research programme/scientific research on approved in-house research and development facility to 150 per cent from FY2017-18 to FY2019-20 and restricted to 100 per cent from FY2020-21. Balance weighted deductions for scientific research phased out from FY2017-18
- Income tax on the accreted income of charitable institutions in case of conversion into, or merger with, any non-charitable form or on transfer of assets of a charitable organisation on its dissolution to a non-charitable institution

- Rationalisation of assessment and penalty procedures to ensure transparency and ease to the taxpayer
- Income declaration scheme and new tax dispute resolution scheme introduced.

Indirect tax

- 'Krishi Kalyan' cess is proposed to be levied w.e.f 1 June 2016 on all taxable services at the rate of 0.5 per cent
- Exemption with respect to services provided to the government, local authority or a governmental authority by way of construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, or alteration of a structure predominantly for use as an educational establishment which was withdrawn last year has been restored. Accordingly, refund shall be made with regard to service tax paid
- Specific service tax exemptions extended with regard to educational services are to be omitted from the negative list and incorporated in the mega exemption notification with no change in the taxability
- Also the definition of 'approved vocational education course' is to be omitted from the Finance Act and to be incorporated in the mega exemption notification
- Services provided by Indian Institute of Management, to their students by way of (a) two year full time Post Graduate Programme in Management (PGPM) to which admissions are made on the basis of Common Admission Test (CAT) (b) Fellow Programme in Management (FPM) (c) five year integrated programme in management has been exempted from Service tax
- It has been clarified that services provided by Institutes of Language Management (ILMs) are not eligible for exemption under service tax
- Basic Customs Duty (BCD) increased from nil to 7.5 per cent on e-readers. However, BCD for manufacturing of parts and raw materials used to produce material for e-readers has reduced to 5 per cent, subject to prescribed condition
- Full exemption of BCD, Countervailing Duty (CVD) Special Additional Duty (SAD) on parts, components and accessories used in the manufacture of tablet computers and sub parts for use in manufacture of parts, components and accessories of tablet computer subject to actual user condition
- Exemption with respect to services provided to the government, by way of construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation or alteration of a structure predominantly for use as an educational establishment, withdrawn.

Impact



- Education, skills and job creation were named by the Finance Minister as one of the nine distinct pillars to transform India. The announced measures aim to increase the efficacy of the money spent in the sector rather than giving 'more of the same' – these two messages are a clear shift in terms of the sector is viewed by the government and where investments can happen in future
- Incentives provided to the start-ups is a welcome step to boost the Indian economy
- The proposed amendment on concessional taxation for patents registered in India is an encouraging step to boost the research environment
- The phase out of weighted deductions on sums paid to approved scientific research can impact the research environment and should be adequately matched with corporate tax rate deductions in future
- Several provisions to build in transparency, reduce litigations and disputes which benefit the taxpayer.



Our point of view

- The Union Budget 2016 focusses on long-term measures and inclusive development. This is reflected in the measures relating to the education, skill development sector as well, with special focus on digitisation, promoting skill development and entrepreneurship without much increase in budgetary allocations for education. The overall spend in education and skilling has increased from INR70,238 crore (Budget 2015-16) to INR73,943 crore for The Ministry of Human Resource Development (HRD) a year-on-year increase of 5.27 per cent
- There are quite a few positive measures aimed at improving the quality of the education and skilling system, which is a fundamental shift on where investment happened in education and we believe there are a few misses as well
- From the tax perspective, Budget 2016 focusses on ease of doing business and simplifying the tax regime in India. The staggered phasing out of profit-linked deductions and weighted incentives undertaken with the reduction in the corporate tax regime can enable the government to meet its fiscal deficit targets while creating an equal playing field for business in India.



Unfinished agenda

What remains



Increased focus on learning outcomes

- Specific funds could have been allocated to improve teaching and learning outcomes. It's time Sarva Shiksha Abhiyan (SSA) looks at allocation and disbursement based on learning outcomes. This can happen if there is a fundamental shift in our measurement parameters, probably provisioning a central body to focus on learning outcomes in schools.

Incentives for teacher training programmes

- The centrally sponsored scheme of restructuring and reorganisation of teacher education has to be strengthened with specific interventions in teacher-training programmes and performance of teachers. A national plan for teacher training institutions, including strengthening existing institutes at all levels, is also required.

Focus on female literacy and skilling

- India has one of the world's largest gender gaps when it comes to labour force participation, with women accounting for 23 to 24 per cent of the total labour force and generating merely 17 per cent of the share of GDP, as per a recent study.¹ This is far below the global average where female workers generate 37 per cent of the world's GDP. The Budget could have announced specific initiatives aimed at improving the female participation in the labour work force.

Increased focus on revival of traditional, tribal and rural skills

- Increased budgetary allocation could have been provided for revival of traditional, tribal and rural skills. This could have been backed by employment/self-employment opportunities. Deen Dayal Upadhyaya Grameen Kaushalya Yojana for skilling rural youth—which had a budgetary allocation of INR1,500 crore could have been strengthened further.

Lack of mention of foreign institutions in the budget

- The lapse of the Foreign Educational Institutions (Entry and Operations) Bill in Parliament is a big miss. The tentative stance of successive governments (with ambiguous Bills) has raised concerns with foreign universities and it is time a clear stand is taken. The government's initiatives such as 'Make in India', 'Digital India', 'Smart Cities', 'Stand-up India' are expected to hugely benefit with the presence of these institutions.

No new higher education institution announced

- There is an increasing need for higher education institutions to reach the GER target of 30 per cent in 2020 (currently at around 23.5 per cent). However, no new IITs/IIMs were announced in this year's Budget which was a big change from the last year when several higher education institutes were announced. This could be because there are several institutes that were announced previously are yet to commence operations.

What is expected going forward



- Incentives to focus on teaching and learning outcomes can help in driving efficacy in the money being spent in education sector
- Incentives to encourage participation from private sector and foreign universities in India
- Reduction in the corporate tax rates to negate the impact of phasing out of incentives and profit linked deductions
- Tax rebate on skills development and skills certification courses
- Allow 100 per cent tax deduction on donations made to all educational institutions from the current rate of 50 per cent
- Delay in GST implementation impacts the readiness of education service provider and end users.

1. http://www.business-standard.com/article/news-ians/skill-india-mission-will-be-youth-s-war-against-poverty-modi-roundup-115071600002_1.html



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