



Suggestions for Government of India by Japan Chamber of Commerce and Industry in India (JCCII) 2010

Introduction

Japan and India have been developing "Strategic and Global Partnership" further for the deepening of bilateral relations as well as peace and prosperity of Asia and the world. As one of the representatives of Japanese community in India, I am delighted to embrace that the two countries share common values of democracy, strong potentials for economic ties and similar cultural background. We respect India as a long-term partner and friend.

It is an encouraging trend that foreign direct investment from Japan to India and the number of Japanese companies are increasing rapidly. The member of Japan Chamber of Commerce and Industry in India (JCCII) has reached 253 this April. We would like to support such a trend, as it is evident that Japan and India can offer perfect combination and solution with each other in dealing with such issues as sustainable growth, demographic challenges, infrastructure development, technology transfer and job-creation, green economy, and so on.

It is with this recognition that we Japanese companies wish to be part of development of India and seek your guidance and support in order to resolve the issues that we are facing, such as taxation, visa issues, infrastructure, land acquisition, logistics, and finance. While appreciating the progress such as the exemption of Special Additional Duty (SAD), there remain many outstanding issues, and the solution of those issues would be beneficial not only to us but also to the Indian economy as a whole. As the Indian economy continues a high rate of growth, it would be all the more important to alleviate the bottlenecks so that the growth potential can be enlarged aggressively.

Subsequent to the last year's report, JCCII has compiled "Suggestion for Government of India 2010" for your kind consideration. We sincerely hope that the Suggestions and the subsequent interactions with the Indian authorities would contribute to the solution of individual issues, and wish that regular discussions between JCCII and DIPP and other relevant authorities of India are institutionalized.

5 April 2010


Yasuhiro KAWAMURA

President

Japan Chamber of Commerce and Industry in India

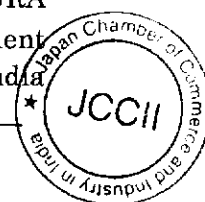
Japan Chamber of Commerce and Industry in India (JCCII)

Functional Office : Flat No. 106, Nilgiri Apartments,

9, Barakhamba Road, New Delhi - 110 001

Tel & Fax : +91-11-4358-6321 E-mail : jccii@jccii.in

(Registered Office : 7, Barakhamba Road, New Delhi - 110 001)



1. Tax System

(1) SAD (Special Additional Duty)

- The exemption of Special Additional Duty (SAD) should be applied to CBU (complete built unit) automobiles for retail.

(2) Transfer Pricing Taxation

- It is necessary to recognize that the function of trading companies is as not a management of project with risk but a provider of service. APA (Advance Price Agreement) system should be introduced at an early date. Before the introduction of APA, its draft framework and mechanism should be disclosed and public comments should be solicited from stakeholders.

(3) GST (Goods Service Tax)

- With the introduction of the Goods Service Tax (GST), we request the complete abolition of Surcharge (domestic companies 10%, foreign companies 2.5%), Education Cess (3%), and Central Sales Tax (CST). It is necessary to integrate Work Contract Tax (WCT) and Service Tax be integrated into GST. WCT and Service Tax are peculiar to construction industry, and make tax treatment cumbersome and complicated.
- We also request that different tax systems of each state like Octroi and Entry Tax be unified into GST.

(4) MRP (Maximum Retail Price)

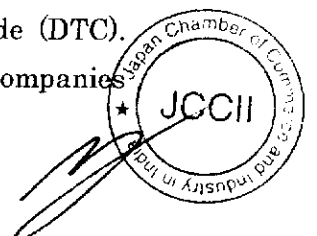
- As for taxation based on Maximum Retail Price (MRP) for imported products, it is unclear how the "abatement of discount" is calculated. However, regardless the MRP, companies who imported the products need to take into account possible inflation of actual prices when paying tax (i.e. deciding MRP), and consequently they pay excessive amount of tax than actual retail price. It is necessary to replace the tax calculation base from MRP to CIF (Cost, Insurance and Freight).

(5) DDT (Dividend Distribution Tax)

- Dividend Distribution Tax (DDT) is imposed on the dividend payer side. However, it should be imposed on the recipients of dividend in view of the purpose of the taxation.

(6) MAT (Minimum Alternative Tax)

- We do not support the introduction of new Minimum Alternative Tax (MAT) calculation which is based on gross asset, as suggested in Direct Tax Code (DTC). Such a calculation would lead to gross tax and create huge obstacles to new companies.



especially in manufacturing sector.

- Current MAT system places a heavy burden on new manufacturers which have cost depreciation from its huge initial investment for equipments c.t.c, Additionally it is proposed hike in the MAT rates from 15% to 18 % and discontinuation of the provision to carry forward of MAT credits in DTC. Those become obstacle for the facilitation of investment from Japan especially from manufacture sector.

2. Visa

As the economic interactions between India and Japan have become more intense, the number of Japanese companies in India is increasing rapidly, and the visa problems are becoming all the more serious. We request the following measures:

- To extend the duration of validity by 3 year for employment visas.
- To remove or relax the limitations of employment visa for foreign personnel to the extent of 1 % of the total persons employed on the project.
- To flexibly relax the 2 year stay requirement when one applies for business visa or employment visa from Indian mission in the third countries.
- It takes awfully long time and energy to complete the employment visa-extension process among the Ministry of Home Affairs and FRO/FRRO. It is necessary to speedup the procedure for applying visa-extension, to systematize or to unify window works, and to clarify and to simplify the documentation.

3. Infrastructure

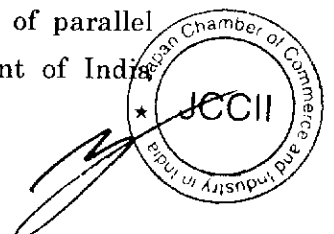
- It is necessary to expand, maintain and improve roads around Chennai and access roads to Ennore Port. Japanese Chamber of Commerce & Industry Chennai submitted its proposals in December 2009.

4. Road Permit

- Road permit prevents smooth logistics because of complex procedures. It is necessary to systematize or to unify window works, and to clarify and to simplify the documentation.

5. e-Waste

- Government of India is now considering the introduction of e-Waste regulation. If “gray” or used products were subject to the regulation, it would cause confusion or unreasonable disadvantages to companies without solving the problem of parallel imports and clarifying the scope of user’s responsibilities. Government of India



should consider that end-users bear the cost for e-Waste just as the Japanese recycle system.

6. Land acquisition

- Indian legislation prescribes that it is possible to collect additional payments from the purchasers of land even after the acquisition of land is completed. Government of India should consider how to improve such a rule, as it creates huge obstacles for Japanese companies to make a planning of their business expansion.

7. Social Security Agreement

- We request an early conclusion of the social security agreement between India and Japan.

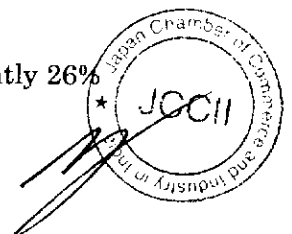
8. Logistics Distribution

- It is necessary to simplify and to increase procedural efficiency of custom clearance.
- It is essential to construct better roads and to undertake adequate repair/maintenance of the existing roads in and around the ICD (Inland Container Depo), as well as to undertake steps to reduce traffic jam in and around the ICD. Such improvements will help the companies to operate efficiently without incurring any time lag in distribution due to the traffic jam and damage to the fragile products such as precision machinery caused by uneven roads. Especially a) Tughlaqabad ICD (Delhi ICD) and b) Patpargang ICD require urgent improvement.
- Companies are required to register the manifest (invoice) of goods with the custom system in advance before the arrival of the goods. But in case of emergency shipment or if it is handled by Air Mode from nearby Asian countries, this procedure is practically impossible to comply. If the registration could not be done in advance, penalty is called and serious delay occurs. We request to modify the procedure.

9. Financial sector

We request the following measures:

- To ease the restriction of borrowing from Head Office to stabilize the fund management of the foreign banks and to facilitate their supply of the fund to the domestic market. Currently, foreign banks in India can borrow the money from Head Office up to ten million dollars or 50% of its capital.
- To grant permission to foreign banks to open branch offices in metropolitan area in India in a more liberal and prompt manner.
- To raise the upper limit of foreign direct investment in insurance sector (currently 26%



of the equity share) immediately.

-To abolish the motor pool system in general liability insurance for commercial vehicle, or to amend the insurance rate.

-To further relax the regulations related to foreign exchange and capital transfer, and to further simplify and speedup various bank procedures (Especially, the formalities related to foreign currency remittance and trading). To systematize the procedures of FIRC (Foreign Inward Remittance Certificate) issue and to simplify procedures of FIRC reissue.

-To remove regulations related to the foreign bank's operation which restrict the increase in the number of expatriate. Japanese banks need to increase the number of Japanese expatriate flexibly along with the expansion of their business.

- To further relax the regulations related to ECB in order to enable ECB to be used for working capital.

