

AGENDA FOR DEVELOPMENT

PREPARED AND PRESENTED

BY THE

KUWAIT INDIA BUSINESS COUNCIL

TO THE

GOVERNMENT OF INDIA

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TABLE OF CONTENTS

AGENDA FOR DEVELOPMENT

Introduction to Kuwait India Business Council.....	1
Background.....	2
List of participants.....	3

A. IMPROVING BILATERAL BUSINESS RELATIONS.....4

1. Tourism.....	
2. Medical treatment.....	
3. Educational.....	
4. Foreign direct investment.....	
5. Indian investment in Kuwait.....	

B. ATTRACTING NRI INVESTMENTS.....

1. Proposed NRI Taxation.....	
2. Deduction of Tax at source.....	
3. Restriction of Investment by NRIs.....	
4. Mutual Funds: Capital gains tax.....	
5. IT Clearance Certificate.....	

C. RESOLVING OUTSTANDING NRI ISSUES.....

1. Creation of Special Task Bureaus.....	
2. Promotion of Indian workers employability.....	
3. NRI Welfare Activity.....	
4. Lower class investment opportunity.....	
5. Rationalisation of Airfares.....	
6. NRI Voting Rights.....	
7. Higher Education	
8. Consular Services.....	

B. ATTRACTING NRI INVESTMENTS

1. Proposed NRI Taxation

The Committee set up by Reserve Bank of India to look into the NRI Investments has recommended levying of Income Tax on repatriable income generated by NRIs in their external accounts in India. The proposed taxation would have been justified, if it had been introduced prior to 2001, when interest rates paid to NRIs was always 3% above the International Market rates/Domestic deposit rates. Now since Indian rates are on par with the International Market rates, NRIs will prefer investing as tax havens rather than investing in India.

Thus, India will be deprived of foreign exchange inflows, leading to a wide gap between the NRI community and the Indian Financial Institutions. Further, any attempt to canvas foreign exchange remittances in future in times of crisis will be an uphill task.

2. Deduction of Tax at source

As per the present regulations, any domestic income, be it interest, dividend or rent are charged at the maximum slab of 30% plus surcharge of 10% on the tax, at source. NRIs are thus subject to harsh treatment on account of their NRI status. This is a rather discriminative law as most of the NRIs do not have taxable income in India and are compelled to submit a return to reclaim tax deducted at source.

The Government of India must permit NRIs to submit form 15H wherein a declaration is made to the effect that the total income generated by the assessee is well below the permissible limit for levying the tax. This will avoid payment of fee to the auditors and the penalties levied for delayed submission. Further the TDS for NRIs is at the maximum slab whereas it is 11% for Domestic persons. The NRIs are charged at the maximum slab because they are not submitting returns. This argument does not hold good as NRIs can be easily identified with their Indian Passport and collection of tax will pose no problem in case of evasion.

3. Restriction of investment by NRIs on non-repatriation basis under the pretext of Arbitrage opportunities

NRIs are currently not permitted to invest in National Saving Schemes which include NSC Certificates, Post Office Savings Account, Public Provident Fund and Government of India taxable and non-taxable bonds as the RBI wants to curb all arbitrage opportunities.

While RBI's rationale is acceptable, RBI must allow NRIs who do not seek repatriation to invest in these schemes, if necessary with a ceiling. As most middle class NRIs are wage earners with the potential to save up to Rs. 40,000 per month, with no intention to repatriate their savings in foreign exchange to destinations outside India, they should be permitted to get the benefit of investing in National savings instruments because of the very low interest rates available for NRE deposits. This will encourage NRIs to invest on non-repatriation basis, thus providing stability to forex resources.

4. Mutual Funds: Capital gains tax on Growth Option Schemes

While the income distributed periodically by Mutual Funds under various Equity and Bond Fund schemes is exempt from income tax in the hands of the investor, the income accumulated under the same schemes for payment at the end of the specific period is subject to payment of capital gains tax. It is observed that NRIs normally do not opt for periodical payment because they have adequate income in the short term and hence opt for Growth option. The Mutual Funds are also comfortable if the incomes are retained with them for re-investment as it adds stability to the portfolio. Under the circumstances, as the Mutual Fund pays the income tax under all its scheme upfront based on the income generated, NRI investors who opt for Growth Option should not be subjected to capital gains tax since the investors in the same scheme who draw the income periodically do not pay any tax.

5. IT Clearance Certificate

Indian citizens who want to buy a property in India have to submit an income tax clearance certificate and the department insists on such a certificate from NRIs as well. However, as most NRIs do not have taxable income and also the PAN number, they find it difficult to obtain the certificate and move from pillar to post as there is no records in their names available at the IT department.

We suggest that the NRIs should be permitted to obtain an inward remittance certificate from the bankers through whom they remitted their money and have it consularized at the Indian Embassy to prove the identification of the NRI. This will considerably activate the real estate market and is not fraught with any risk since the source of funds can be proved. If necessary, the concerned Indian authorities can verify the fund source with the certificate issuing bank.

C. RESOLVING OUTSTANDING NRI ISSUES

1. Special Task Bureaus attached to the Ministry of Non-Resident Indian Affairs be constituted.

The objectives of this bureau should be :

- 1) To control and regulate emigration
- 2) To promote Indian workers employability abroad
- 3) To look after the welfare of such NRIs
- 4) To promote investment in India by lower classes and assist in rehabilitation process of returnees

Control and regulate emigration by

- Simplifying Emigration Rules in order to facilitate overseas employment and to safeguard the interests of overseas workers
- Formulating a transparent National Policy on NRIs to assess and implement overseas employment regulations.
- Propose Labor Export agreements with Gulf countries and monitor reports of abuse and exploitation by agents and employers.

2. Promote Indian workers employability abroad

- Establish an Overseas Employment Corporation (OEC), as a limited company under the Ministry of NRI Affairs to promote employment opportunities for Indian manpower abroad
- Conduct employment studies and ways to present our people most effectively
- Seek employment opportunities in the public sector on a government-to-government basis.
- Approach potential employers and international contractors who are awarded with prestige contracts in the Middle East and seek their preference to Indian manpower
- Improve training facilities to adequately prepare workers for jobs at home and abroad
- Establish a vast data bank service to host CVs that are accessible by all Indian missions abroad to enable swift response to foreign manpower needs.
- Establish a website to host resumes of professionals, skill, semi-skill and un-skilled workers.

3. Enhance Welfare Activities of NRIs

- Establish social security measures by enhancing insurance and pension programs
- Render welfare assistance to emigrants working abroad through the Labor Welfare Attaches based in Indian embassies
- Solve problems faced by overseas Indians like non-implementation of service agreement and illegal termination of service.
- Oversee abuse and exploitation of labors by agents and employers

4. Promote Investment and Rehabilitation process

- * Establish NRI Cooperatives to provide investment opportunities for lower level investor groups.
- * Establish Workers' Welfare and Training Fund to provide job training
- * Setup NRI Development Corporation to utilize expertise and foreign experience of gulf returnees
- * Conduct initial survey returnees and prepare database on areas of expertise of returnees.

5. Rationalise the Airfare applicable to the Gulf Region and actively consider the following:

- * Introduction of low budget no frills airfare
- * Introduce labor and family fares
- * Introduce off-season fares

6. Voting Right for NRIs

- * Issue ID Cards for all NRIs
- * Allow NRIs to vote while they are in India during an election upon presenting the ID Card.

7. Higher Education

*Introduce entrance exam centers in gulf countries

*Allocate/increase quotas for NRIs in professional colleges

* Establish Professional Colleges for NRIs

8. Consular Services

*Reduce consular service charges (attestation charges, death, lost/damaged passport issuance)

*Allow to include children in mothers' passport