High Commission of India

London

(Economic & Commerce Wing)

***Economic & Commercial Report on the United Kingdom***

***March 2016***

**Overview of UK’s Economy**

The **Gross Domestic Product (GDP)** in volume terms was estimated to have increased by 0.6% between Quarter 3 (July to Sept) 2015 and Quarter 4 (Oct to Dec) 2015, revised up 0.1 percentage points from the second estimate of GDP published in February 2016. Between 2014 and 2015, GDP in volume terms increased by 2.3%, revised up 0.1 percentage points from the previous estimate. Between Quarter 4 2014 and Quarter 4 2015, GDP in volume terms increased by 2.1%, revised up 0.2 percentage points from the previously published estimate.

The **Consumer Prices Index** (CPI) rose by 0.3% in the year to February 2016, unchanged from January 2016. The largest downward contribution came from the transport sector, from price changes for items such as road passenger transport, second-hand cars and bicycles. Rising food prices, particularly for vegetables, offset this.

The **unemployment rate** was 5.1%, lower than for a year earlier (5.7%). There were 31.42 million people in work, 116,000 more than for August to October 2015 and 478,000 more than for a year earlier.

The **Index of Services** increased by 0.8% in Quarter 4 (Oct to Dec) 2015 compared with Quarter 3 (July to Sept) 2015. This figure was revised up 0.1% from the estimate used in the Second Estimate of GDP, published in February 2016.

The Bank of England’s **Monetary Policy Committee** (MPC) sets monetary policy to meet the 2% inflation target and in a way that helps to sustain growth and employment. At its meeting ending on 16 March 2016, the MPC voted unanimously to maintain Bank Rate at 0.5%. The Committee also voted unanimously to maintain the stock of purchased assets financed by the issuance of central bank reserves at £375 billion.

**UK Budget 2016: Highlights**

Rt Hon George Osborne, Chancellor of the Exchequer presented the UK Budget at the Houses of Parliament on March 16, 2016. The Highlights of the budget were:

### A surplus by 2019-20

This year the deficit will have been cut by almost two thirds from its peak. Over the next 4 years, the deficit will have been eliminated and the government will be running a surplus – where more tax is raised than is spent. To help achieve this, there will be a further £3.5 billion of savings from departmental spending in 2019-20, less than 50p in every £100 the government spends. There will be an efficiency review to inform future spending decisions.

### Lifetime ISA: a new £4,000 ISA that you can use to save for retirement or to buy your first home

From April 2017, any adult under 40 will be able to open a new Lifetime ISA. Up to £4,000 can be saved each year and savers will receive a 25% bonus from the government on this money. Money put into this account can be saved until you are over 60 and used as retirement income, or you can withdraw it to help buy your first home. The total amount you can save each year into all ISAs will also be increased from £15,240 to £20,000 from April 2017.

### The Personal Allowance will increase to £11,500, and the higher rate threshold will rise to £45,000 in April 2017

The Personal Allowance is the amount of income you can earn before you start paying Income Tax. This is currently £10,600 – it will already rise to £11,000 in 2016, and will now increase further to £11,500 in April 2017. The point at which you pay the higher rate of Income Tax will increase from £42,385 to £43,000 in 2016 and to £45,000 in April 2017.

### HS3 between Leeds and Manchester

£60 million has been announced to develop plans to cut journey times to around 30 minutes between Leeds and Manchester, as well as improving transport connections between other cities in the north.

### £80 million to give Crossrail 2 the go-ahead

This will be used to continue planning for Crossrail 2. The proposed Crossrail 2 route will connect South-West and North-East London, increase tube capacity and reduce the pressure on Victoria and Waterloo stations.

### £100 million to help people move on from emergency hostels and refuges

This will pay for 2,000 places to live for those who need to move on from emergency hostels and refuges. £10 million will also be available for schemes like No Second Night Out, which is aimed at helping people who have recently started rough sleeping to come off the streets after a single night.

### New tax allowances for money earned from the sharing economy

From April 2017, there will be two new tax-free £1,000 allowances – one for selling goods or providing services, and one income from property you own. People who make up to £1,000 from occasional jobs – such as sharing power tools, providing a lift share or selling goods they have made – will no longer need to pay tax on that income. In the same way, the first £1,000 of income from property – such as renting a driveway or loft storage – will be tax free.

### Fuel duty will be frozen again in 2016-17

Fuel duty will be frozen again in 2017-17, saving the typical motorist £75 a year. By the end of 2016-17 fuel duty will have been frozen for 6 years.

### Making sure large companies can’t artificially shift profits out of the UK

Some large companies use excessive interest payments to reduce the tax they pay on their profits in the UK. Relief on interest payments will now be capped at 30% of UK earnings, with exceptions for groups with legitimately high interest payments.

Over the next 5 years, the government will raise nearly £8 billion from large companies and multinationals through changes to the rules on interest and other measures, including:

* introducing rules to prevent multinational companies avoid paying tax in any of the countries they do business in, a technique called hybrid mismatches
* taxing outbound royalty payments better – these are fees for using intellectual property like patents and copyrights – meaning multinationals pay more tax in the UK
* making sure offshore property developers are taxed on their UK profits

### Tax support worth £1 billion for the oil and gas industry

This includes effectively abolishing Petroleum Revenue Tax (a tax on profits from oil fields approved before 1993) and dramatically reducing the supplementary charge on oil and gas extraction.

### Cutting business rates for all rate payers

From April 2017, small businesses that occupy property with a rateable value of £12,000 or less will pay no business rates. Currently, this 100% relief is available if you’re a business that occupies a property (e.g. a shop or office) with a value of £6,000 or less. There will be a tapered rate of relief on properties worth up to £15,000. This means that 600,000 businesses will pay no rates.

### Capital Gains Tax rates will be cut from 6 April 2016, but residential property will still be taxed at current rates

Capital Gains Tax is a tax on the gain you make when you sell something (an ‘asset’) that has gone up in value. It is paid at a basic or higher rate depending on the rate of Income Tax you pay. From April 2016, the higher rate of Capital Gains Tax will be cut from 28% to 20% and the basic rate from 18% to 10%. There will be an additional 8 percentage point surcharge to be paid on residential property and carried interest (the share of profits or gains that is paid to asset managers). Capital Gains Tax on residential property does not apply to your main home, only to additional properties (for example a flat that you let out).

### Employers will pay National Insurance on pay-offs above £30,000 from April 2018

From April 2018 employers will now need to pay National Insurance contributions on pay-offs (for example, termination payments) above £30,000 where Income Tax is also due. For people who lose their job, payments up to £30,000 will remain tax-free and they will not need to pay National Insurance on any of the payment.

### Corporation Tax will be cut again to 17% in 2020

The main rate of Corporation Tax has already been cut from 28% in 2010 to 20%, the lowest in the G20. It will now be cut again to 17% in 2020, benefitting over 1 million businesses.

### Class 2 National Insurance contributions (NICs) for self-employed people will be scrapped from April 2018

Currently, self-employed people have to pay Class 2 NICs at £2.80 per week if they make a profit of £5,965 or over per year. They also pay Class 4 NICs if their profits are over £8,060 per year. From April 2018, they will only need to pay one type of National Insurance on their profits, Class 4 NICs. Paying Class 2 NICs currently enables self-employed people to build entitlement to the State Pension and other contributory benefits. After April 2018, Class 4 NICs will also be reformed so self-employed people can continue to build benefit entitlement.

### New stamp duty rates for commercial property from 17 March 2016

The way stamp duty on freehold commercial property and leasehold premium transactions is calculated will change. Currently, these rates apply to the whole transaction value. From 17 March 2016 the rates will apply to the value of the property over each tax band. The new rates and tax bands will be 0% for the portion of the transaction value up to £150,000; 2% between £150,001 and £250,000, and 5% above £250,000. Buyers of commercial property worth up to £1.05 million will pay less in stamp duty. Stamp duty rates for leasehold rent transactions will also change, with a new 2% stamp duty rate on leases with a net present value over £5 million.

### A new tax relief for museums and galleries will be introduced

This will be available to temporary and touring exhibitions from April 2017 – this will help museums and galleries create new exhibitions and display them around the UK. The government will consult on this during 2016.

### Veterans will be able to keep payments from war pensions rather than using this to pay for social care

From April 2017, 4,000 Armed Forces veterans will be able to keep payments from their war pensions if they need social care.

**UK-World Trade Review (in £million)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Year | UK Exports to the rest of the world | % change | UK Imports from the rest of the world | % change | Total | % change | UK’s Balance of Trade |
| 2015 | 305170 | -1.70% | 411878 | -2.27% | 717048 | -2.03% | -106708 |
| January 2016 | 22050 | -5.58% | 31559 | -6.80% | 53609 | -6.31% | -9509 |

**UK-India Bilateral**

**UK-India Trade Review (in £ million)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Year | UK Exports to India | % change | UK Imports from India | % change | Total | % change | India’s Balance of Trade |
| 2010 | 4017 | +36.49% | 5446 | +25.86% | 9463 | +30.16% | 1429 |
| 2011 | 5488 | +36.61% | 5868 | +7.74% | 11356 | +20.00% | +380 |
| 2012 | 4567 | -16.78% | 6010 | +2.41% | 10577 | -6.85% | +1443 |
| 2013 | 5118 | +12.06% | 6186 | +2.92% | 11304 | +6.87% | +1068 |
| 2014 | 3893 | -23.93% | 6566 | +6.14% | 10459 | -7.47% | +2673 |
| 2015 | 3911 | 0.46% | 6062 | -7.67% | 9973 | -4.64% | +2151 |
| January 2016 | 313 | +15.4% | 454 | -16.84% | 767 | -6.11% | +141 |

*(Source: Office for National Statistics and Overseas Trade Statistics, HM Customs & Excise)*

**Trade and Investment Enquiries from India**: 54

**Trade and Investment Enquiries from UK**: 01

**Tenders from India**: 07

**Investments from UK to India**

The UK is the 3rd largest inward investor in India, after Mauritius, and Singapore with a cumulative equity investment of US $ 22.71 billion (April 2000- December 2015). UK ranks first among the G20 countries and accounts for around 8% of all foreign direct investment into India for the period April 2000 – December 2015.

**Change of British High Commissioner to India**

Sir Dominic Asquith KCMG has been appointed British High Commissioner to the Republic of India in succession to Sir James Bevan KCMG.

**Visit of Lord Mayor of the City of London to India**

The Lord Mayor of the City of London, Jeffrey Mountevans, visited India from March 18-23, 2016 as part of the UK’s commitment to boosting economic ties between India and the UK. The Lord Mayor led a delegation of British professional and financial services providers to India’s political and financial centres - New Delhi and Mumbai. During his visit the Lord Mayor called on Shri Arun Jaitley, Hon’ble Minister of Finance, Government of India, where the Lord Mayor emphasised the UK’s commitment to cooperate on infrastructure financing, green financing and the continuation of broader financial sector collaboration under the India UK financial partnership. The Lord Mayor also met Shri Piyush Goyal, Hon’ble Minister of State for Power, Coal and New & Renewable Energy, Government of India, to discuss how the UK can support India’s clean energy ambitions, in particular the role of the City of London as a world hub for international finance including green finance. In Mumbai, the Lord Mayor met the Chairman of SEBI, Deputy Governor of RBI, British banks in India and other senior leaders from the financial and professional services sector, through one to one meetings and round tables.

**Visit of Sir David King, UK Climate Change Envoy, to India**

Sir David King, UK Climate Change Envoy visited India from March 15- 17, 2016 to further enhance UK-India bilateral cooperation on energy and climate change. During his visit Sir King met several senior ministers in Government of India and business leaders and also gave speeches at the opening of the India Smart Grid Forum Week and the 9th FICCI India Climate Policy and Business Conclave.

**Visit of Smt Nirmala Sitharaman, Hon’ble Minister of State for Commerce & Industry, Government of India, to the UK**

Smt Nirmala Sitharaman, Hon’ble Minister of State for Commerce & Industry, Government of India visited the UK on March 31, 2016. During the visit, The Minister met with Rt Hon James Brokenshire, Minister of State for Immigration to express concerns about the UK Government’s intention to accept recommendations of UK Migration Advisory Committee (MAC) on reviews of Tier 2 visa policy.

**Visit of Shri Nara Chandrababu Naidu, Hon’ble Chief Minister of Andhra Pradesh to the UK**

Shri Nara Chandrababu Naidu, Hon’ble Chief Minister of Andhra Pradesh visited the UK during March 11-12, 2016. He was accompanied by a 13 member delegation from Andhra Pradesh. During the visit, the Chief Minister met with the representatives of London Stock Exchange. The Minister was also briefed about the development and administration of Canary Wharf region by the Canary Wharf Management. During the visit, the Chief Minister called on Rt Hon Oliver Letwin, Chancellor of the Duchy of Lancaster and met with Mr. Alok Sharma MP, British PM’s Infrastructure envoy to India. The Chief Minister also participated in a roundtable meeting on UK Smart City experience in which more than 20 UK companies participated. The companies presented their profile and highlighted their capabilities to build Smart Cities. During the meeting, the Chief Minister requested the participating companies to invest in Amaravati, the proposed capital of Andhra Pradesh.

**Review of European Portfolio of Tata Steel**

On March 30, 2016, the Tata Steel Board reviewed the recent performance of the European business of the Company, more specifically, of Tata Steel UK. It noted the deteriorating financial performance of the UK subsidiary in the last twelve months. The Tata Steel Board reviewed the proposed restructuring and transformation plan for Strip Products UK, prepared by the European subsidiary in consultation with an independent and internationally reputed consultancy firm. Based on the review conducted, the Tata Steel Board came to a unanimous conclusion that the Plan is unaffordable, requires material funding support in the next two years in addition to significant capital commitments over the long term, the assumptions behind it are inherently very risky, and its likelihood of delivery is highly uncertain. Therefore, the Board concluded that it would not be able to support the investment necessary to proceed with the proposed Strip Products UK Transformation plan. The Company has also been in deep engagement with the UK Government in recent months seeking its support to achieve the best possible outcome for the UK business, within the restrictions of State Aid Rules and other statutory limits. These discussions are ongoing and will continue. Discussions will also continue with Greybull in relation to a sale of the UK Long Products business. The UK Government is also involved in the latter discussions. Following the strategic view taken by the Tata Steel Board regarding the UK business, it has advised the Board of its European holding company i.e. Tata Steel Europe, to explore all options for portfolio restructuring including the potential divestment of Tata Steel UK, in whole or in parts. Given the severity of the funding requirement in the foreseeable future, the Tata Steel Europe Board will be advised to evaluate and implement the most feasible option in a time bound manner.

**Innovative technology to treat water showcased**

Aquapurum, a Bengaluru based startup in collaboration with UK’s Hydro Industries launched an innovative water treatment technology. Aquapurum is a joint venture between two UK companies - Intelligent Energy and Hydro Industries. The water treatment systems employed by Aquapurum uses a new technology in the drinking water industry in India: electro-coagulation (EC). EC is a clean technology, reducing the need for chemical and biological intervention and in some cases avoiding the need all together. Based on proven electro coagulation technology, Aquapurum’s solutions are able to convert borewell or surface water into potable water in a matter of minutes. Aquapurum has successfully begun installation of its machine - EC 100 – in Rohan Ashima – a residential society in Bengaluru. The system is connected to the main tank that provides water supply to the entire community, where residents are using the water for general purposes, including bathing, cooking, washing and drinking. Some residents have also opted to remove water purifiers from their kitchens, recognizing that the water coming out of their taps is of drinking quality. Residents have also noted the water quality is much better after treatment than the untreated borehole water that was being supplied, which is generally hard water due to Karnataka’s groundwater quality and resources.

**Campden UK enters India; ties up with RAAY investments**

RAAY investments prompted by Amit and Arihant Patni of erstwhile Patni Computers, have tied up with UK based Campden Wealth to cater to investment needs of ultra-high net worth community and family business owners. The joint statement stated that Campden is a first of its kind of alliance which aspires to establish a premiere Indian ultra-high net worth membership community providing global networking opportunities as well as access to international best practices in family business, family office and generational education.

**Double Taxation Avoidance Agreement benefits applicable to partnership firms in India, UK**

Ending uncertainty over tax treatment, the Central Board of Direct Taxes (CBDT) has said that benefits under the India-UK Double Taxation Avoidance Agreement (DTAA) would be applicable to partnership firms in the UK as well as India. Apprehensions that the term ‘person’ in the DTAA does not specifically include partnership were brought to the notice of the CBDT and clarity was sought on whether the provisions of the treaty are applicable to a partnership. In circular, the CBDT said the provision of the DTAA would be “applicable to a partnership i.e, a resident of either India or the UK, to the extent that the income derived by such partnership, estate or trust is subject to tax in that state as the income of the resident either in its own hands of its partner or beneficiaries. DTAA is a pact between two countries with an objective to avoid taxation of the same income in both countries. India has comprehensive DTAA with over 80 countries.

**Punjab University gets approval for India-UK training school**

Punjab University has received the approval for the setting up of an India-UK Advanced Training School (IUATS) under the Newton-Bhabha Fund programme. Under this project, PU had proposed specialising in ‘skill development and training in advanced waste water treatment’. Director of Sophisticated Analytical Instrumentation Faculty (SAIF) and PU Chemistry professor S K Mehta will lead a group of 10 scientists from Chandigarh for a workshop to be held in July 2016 in UK. Only two proposals from India have been selected, with one workshop to be held in India and another in UK. IIT Gandhinagar is the other Indian institution whose proposal has been approved under the Newton-Bhabha Fund programme. In India, the Newton Bhabha Fund is worth £50 million over five years and is supported by the Indian and British governments through a ministerial agreement. The programme also aims to train participants in advanced research techniques and methodologies and to create opportunities for exchange of knowledge and good practice between UK and India. The proposed IUATS is aimed at imparting knowledge, skill and training in all aspects of waste water treatment or management science and technology to enable participants and stakeholders impact social and economic life of local and urban populations as well as deliver mutual benefits to participating countries.

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