

BUDGET 2009



Shankarlal Jain And Associates

Chartered Accountants

Head Office : 12, Engineer Building, 265, Princess Street, Mumbai-400 002.

Phone :- 022-22036623, 22065739 • FAX :- 91-22-22086269 • E-mail :- info@sljainindia.com

Branch Office : Shopper's Point, 5th Floor, H. B. Road, Fancy Bazar, Guwahati-781001.

Phone :- 0361-2600471

INDUSTRIES FINANCES INFRASTRUCTURE POWER URB
RURAL DEVELOPEMENT MODERNISATION EDUCATION
RESERVATIONS TRANSPORTATIONS GLOBALISATION



FOREWORD

BUDGET 2009 marks the first leg of the second innings of UPA Government which assumed office amidst great expectations of signaling a progressive way forward despite various challenges. Hon. Finance Minister presented the budget on the floor of the house clearly marking an end to the speculation that in its second innings the new Government would be a radical reformer aimed to build on its successful electoral platform, the Budget is directed to please aam aadmi.

Growth rate of Indian economy declined in 2008-09 to 6.7% which represents a decline of 2.1% from the average growth rate of 8.8% in previous five years. The decline in growth was spread all across the economy except for mining & quarrying and community, social & personal services which showed a positive growth. The global financial slowdown and recession in major developed economies has been a major factor in Indian economy slow-down. Despite

a slowdown in growth, investments have been relatively buoyant, growing at a rate higher than GDP. This reflects resilience of Indian enterprise in the face of a massive marginal increase in global uncertainty, risk aversion and freezing of highly developed financial market.

Indian economy has shock absorbers that will facilitate overall early revival of growth. Banks are financially sound and well capitalized, foreign exchange reserve position remains comfortable and the external debt position has been within the comfort zone. While there are indications that economy may have weathered worst of downturn, due to resilience of economy and also various monetary and fiscal measures initiated, nevertheless the situation warrants close watch on various economic indicators including impact of economic stimulus and developments taking place in the international economy.

The Finance Minister has tried to balance its act by expending huge amounts such that the overall size of the budget has exceeded Rs. 10 lac crores, an increase of 36% over the budget estimate of 2008-09. There has been substantial increase in allocation to various schemes providing welfare measures to common man. Tax proposals have remained largely neutral.

The re-assurance of implementation of a uniform Goods and Service Tax by 1st April 2010 and a new Direct Tax Code, merging authorities of advance ruling on direct and indirect taxes, promise to set up an Alternate Dispute Resolution Mechanism in Income Tax Department for Transfer Pricing cases and empowerment of the Central Board of Direct Taxes to formulate safe harbour rules for Transfer Pricing in international transactions. Enhancement of exemption limit and removal of surcharge on personal income tax is expected to promote consumption by increasing disposable income. Abolition of FBT and CTT indicates a move towards a simpler tax system by removing multiple taxes. Removal of FBT will lead to reduction in cost. In the corporate tax rate there is no change except for increase in rate of MAT which is increased to 15%. Nevertheless increase in carry forward tax credit of MAT to 10 years will neutralise the effect to certain extent. Extension of tax holiday for EOUs and STPs will promote growth of export. Extension of weighted deduction on expenses relating to research and development will be a boost to industry. The proposal of investment-linked exemption on the business of setting up cold chains, warehousing facilities for agricultural products and the business of laying and operating cross-country natural gas, crude or petroleum pipelines network for distribution on common carrier principle, will add to the much sought of investment in the area of not only

warehousing facilities for food products but also other areas.

Service Tax base has been broadened by including most legal services, rail and inland water freight and cosmetics and plastic surgery services by which the long outstanding debate on giving preferential treatment to lawyers which were not covered under service tax has been put to rest.

The immediate negative reaction from the stock market, if taken as a indication as the corporate sector and investment community seems disappointed, this could partly be a consequence of unrealistic expectations. The Budget seems to be well indented to address the needs of common man if reached to right people, which will in turn result into higher fiscal deficit, this needs to be tackled and disciplined in the near future.

Regards,



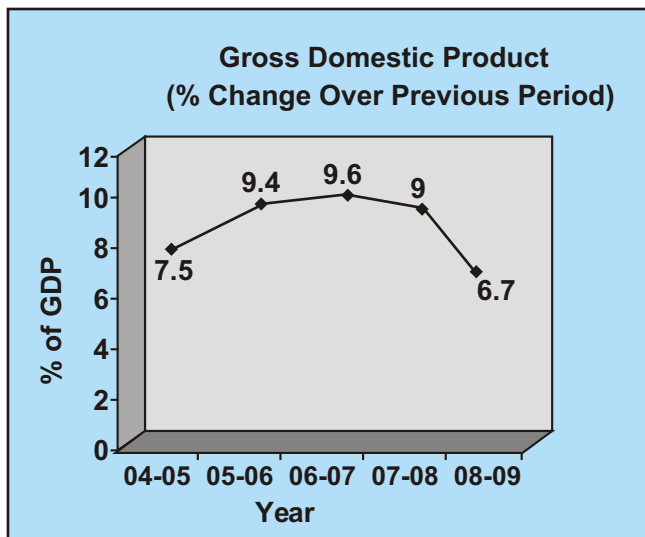
(S.L. JAIN)

ECONOMIC SURVEY: 2008-09

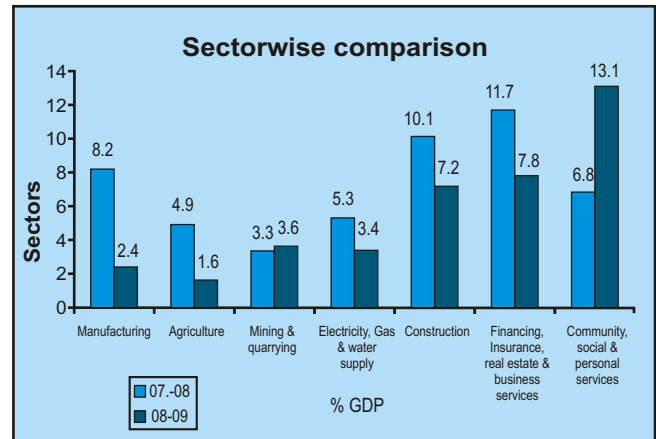
The economic survey presented before the Parliament shows growth of 6.7% as against 9% in previous year. The decline in growth is primarily on account of global financial meltdown and recession in various developed economies. Though the figure shows a decline in growth as compared to earlier years figures it is still significantly higher than the average 3.3 per cent per annum income growth during 1998-99 to 2002-03. Due to high expectation as a result of high growth rate in previous five years this growth rate is considered to be a slowdown in the economy.

The economic growth of 08-09 is 6.7%. As compared to previous year there is a decline in Gross Domestic Product which is depicted in the movement chart.

The deceleration of growth was spread all across the economy except for mining & quarrying and community social and personal services which show a positive growth in 08-09.



The industrial sector witnessed a sharp slowdown during 2008-09 as a consequence of the global financial crisis. The growth in first half was 5.3%. The pace of slowdown accelerated in the second half of 2008-09 with the sudden worsening of the international financial situation and the global economic outlook leading to negative growth of



0.5%. The year 2008-09 thus closed with the industrial growth at only 2.4 per cent as per the Index of Industrial Production (IIP) as against 8.2% of previous year. The downfall was mainly due to shrinkage in demand for exports sharply dented the performance of industries with high export intensity and other factor.

In 2008-09, the growth originating from agriculture and allied activities declined to 1.6 per cent (as per the revised estimates). The share of farming and allied services is 17% of GDP. There are various challenges faced by agricultural sector like lack of improvement in yield for crop, Soil erosion, water logging, reduction in groundwater table and decline in the surface irrigation. There is need to develop the rural infrastructure, improved irrigation systems, development of marketing infrastructure and storage and warehousing and cold chains and spot markets. Also there is need for innovative institutional mechanisms that provide credit and financial products so as the farmers can have access to sources of credit.

The fiscal year 2008-09 had been a very unusual year, marked by extremes in price movements. Overall inflation as at end-March 2009 registered 0.8 per cent as WPI. However WPI Food Index (combined) showing year-on-year inflation of 6.8 per cent which has been a cause for concern. The average WPI inflation for 2008-09 was 8.4 percent as against 4.7 per cent in 2007-08. Major differences were observed

between inflation measured by the Wholesale Price Index (WPI) versus the sectional Consumer Price Indices (CPIs). Inflation rate as per Consumer Price Index for Rural Labourers (CPI-RL) was 9.7 per cent and on CPI for Industrial Workers (CPI-IW) was 8 per cent as of end-March 2009. The average inflation on CPI-RL and CPI-IW for the year 2008-09 was 10.2 and 9.1 per cent, respectively.

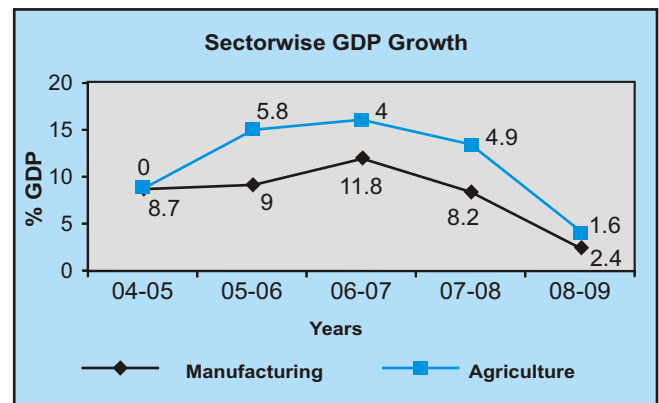
Physical infrastructure has a direct bearing on sustainability of growth and overall development. Evidence also suggests that creation of infrastructure, through its direct and indirect effects, has a significant impact on poverty reduction. In the Indian context, though there has been some improvement in infrastructure development in transport, communication and energy sectors in recent years, there are still significant gaps that need to be bridged. The capacity creation in infrastructure sectors presented a mixed picture in 2008-09. While telecom and petroleum sectors have done well in 2008-09, when compared to the recent years, the power sector exhibited considerable shortfall. The growth in electricity generation by power utilities during 2008-09 at 2.7 per cent fell much short of the targeted 9.1 per cent. Despite the sharp decline in hydro and nuclear generation in 2008-09, the growth in total electricity generation was positive due to the 5 per cent plus growth in thermal generation. It is further seen that, despite being quantitatively smaller, it is the visibly higher growth in power generation in the private sector compared to the Central and state sectors that pushed the growth in total generation close to 3 per cent. Generation of power from nuclear power stations also registered negative growth, mainly due to fuel supply constraints.

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0.5%. The year 2008-09 thus closed with the industrial growth at only 2.4 per cent as per the Index of Industrial Production (IIP) as against 8.2% of previous year.

The capital and commodity markets experienced downturn during 2008 against the backdrop of heightened uncertainties triggered by the international financial crisis, slowdown in the global economic growth, volatility in the international food, commodity and fuel prices and also due to volatility in international financial markets. During 2008, on a point-to-point basis, BSE Sensex and Nifty indices declined by 51.8 per cent and 52.4 per cent respectively.

After recording strong growth during 2006 and 2007,



the primary capital market received a set back in 2008. The number of new issues declined sharply in 2008. Total amount of capital raised through equity issues during 2008 was Rs. 49,485 crores, recording a decline of 15.7 per cent as compared to the level in 2007. The total numbers of initial public offerings (IPOs) were only 37 in 2008 as against 100 in 2007. The amount mobilized by IPOs at Rs. 18,393 crore was also lower by 45.8 per cent during 2008. However, the mean IPO size increased from Rs. 339 crore in 2007 to Rs. 497 crore in 2008. There was no debt issue in 2008. Private placement amounted to Rs. 1,75,061 crore in 2008 i.e., lower by 5.3 per cent over 2007.

The private sector mutual funds witnessed heavy redemption pressure in 2008 and recorded a net

outflow of Rs. 12,506 crore. The Unit Trust of India (UTI) also recorded net redemption to the extent of Rs. 2,704 crore in 2008, while the public sector mutual funds (other than UTI) mobilized higher amount of Rs. 14,587 crore in 2008 indicating changing risk preference of investors towards public sector institutions in times of global financial crisis.

During 2008-09, the total FDI equity inflows stood at Rs. 1,22,919 crore (US\$ 27,309 million) against Rs. 98,664 crore (US\$ 24,579 million) during 2007-08 signifying a growth of 25 per cent in terms of rupee and 11 per cent in terms of US dollar.

The global crisis began to impact emerging market economies through slowing down and reversal of capital flows. During 2008-09 (April- December 2008), the current account deficit was 4.1 per cent. Capital inflows were lower at 1.8 per cent of GDP during 2008-09 (April- December).

As an impact of fallout of the global crisis and strengthening of the US dollar vis-à-vis other international currencies the foreign exchange reserves declined to US\$ 247.7 billion at the end of November 2008 as compared to US\$ 290 billion on 6th February 2008 and were at US\$ 252.0 billion at the end of March 2009.

The daily movement of exchange rate during 2008-09 revealed that the rupee/US dollar exchange rate, which was Rs 40.4 per dollar at end March 2008, crossed Rs 50.1 per US dollar mark on October 27, 2008 and depreciated further to Rs 52.1 per dollar on March 5, 2009, before recovering to Rs 50.2 per dollar on March 20, 2009. The rupee depreciation during 2008-09 reflected mainly the supply-demand imbalance in the foreign exchange market, as a fallout of the global crisis.

The economy continues to face wide ranging challenges from improving its social and physical infrastructure to enhancing the productivity in agriculture and industry and addressing environmental concerns. Meeting these challenges

will be critical for improving India's social and human development indicators and the quality of life.

The fallout of the global financial crisis on the Indian economy has been palpable in the industry and trade sectors and has also permeated the services sector. While some segments, especially the export oriented industries, suffered during the second half of the year, the Indian economy has with stood the adverse global economic situation and posted a growth rate of 6.7 per cent in 2008-09. The economy continues to face wide ranging challenges from improving its social and physical infrastructure to enhancing the productivity in agriculture and industry and addressing environmental concerns. Meeting these challenges will be critical for improving India's social and human development indicators and the quality of life. At the same time, the Indian economy has shock absorbers that will facilitate early revival of growth. First, the banks are financially sound and well capitalized. The foreign exchange reserves position remains comfortable and the external debt position has been within the comfort zone. The rate of inflation has since abated and provides a degree of comfort on the cost side for the production sectors. Agriculture and rural demand continue to be strong and agriculture production prospects are normal. While there are indications that the economy may have weathered the worst of the downturn, in part, due to the resilience of the economy and also various monetary and fiscal measures initiated during 2008-09, nevertheless, the situation warrants close watch on various economic indicators including the impact of the economic stimulus and developments taking place in the international economy. Taking policy measures that squarely address the short and long-term challenges would help achieve tangible progress and ensure that the outlook for the economy remains firmly positive.

KEY FEATURES OF BUDGET 2009-2010

CHALLENGES

- ❖ To lead economy to high GDP growth rate of 9 per cent per annum at the earliest
- ❖ To deepen and broaden the agenda for inclusive development
- ❖ To improve delivery mechanisms of the government.

OVERVIEW OF THE ECONOMY

- ❖ Growth rate of Gross Domestic Product dipped from an average of over 9 per cent in the previous three fiscal years to 6.7 per cent during 2008-09.
- ❖ Whole sale price index rose to nearly 13 per cent in August, 2008 and had an equally sharp fall to zero per cent in March, 2009.
- ❖ The structure of India's economy changed over the last ten years with contribution of the services sector to GDP at well over 50 per cent and share of merchandise trade doubling to 38.9 per cent of GDP in 2008-09.
- ❖ Recognising economic recovery and growth as co-operative effort of the Central and State Governments, meeting with Finance Ministers of States held as part of preparation of the Budget. This is intended to become an annual feature.

TOWARDS ECONOMIC REVIVAL

Short-term Measures

- ❖ To counter the negative fallout of the global slowdown on the Indian economy, Government responded by providing three focused fiscal stimulus packages in the form of tax relief and increased expenditure on public projects along with RBI taking a number of monetary easing and liquidity enhancing measures.
- ❖ Fiscal accommodation led to an increase in fiscal deficit from 2.7 per cent in 2007-08 to 6.2 per cent of GDP in 2008-09.
- ❖ The fiscal stimulus at 3.5 per cent of GDP at current market prices for 2008-09 amounts to Rs.1,86,000 crore.
- ❖ Measures taken by the Government were effective in arresting the fall in GDP growth rate in

2008-09. 6.7 per cent growth rate was recorded in 2008-09.

Infrastructure Development

- ❖ IIFCL to evolve a Takeout financing scheme in consultation with banks to facilitate incremental lending to infrastructure sector.
- ❖ IIFCL to refinance 60 per cent of commercial bank loans for PPP projects in critical sectors over the next fifteen to eighteen months. IIFCL and Banks are now in a position to support projects involving total investment of Rs.1,00,000 crore.

Highway and Railways

- ❖ Allocation to National Highways Authority of India (NHAI) for the National Highway Development Programme (NHDP) increased by 23 per cent over B.E. 2008-09 in B.E. 2009-10 and allocation for Railways increased from Rs.10,800 crore in Interim B.E. 2009-10 to Rs.15,800 crore in B.E. 2009-10.

Urban Infrastructure

- ❖ Allocation under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) stepped up by 87 per cent to Rs.12,887 crore in B.E. 2009-10 over B.E. 2008-09. Allocation for housing and provision of basic amenities to urban poor enhanced to Rs.3,973 crore in B.E. 2009-10. This includes provision for Rajiv Awas Yojana (RAY), a new scheme announced.

Brihan Mumbai Storm Water Drainage Project (BRIMSTOWA)

- ❖ Provision for the project BRIMSTOWA initiated in 2007 and funded through Central Assistance to address the problem of flooding in Mumbai, enhanced from Rs.200 crore in Interim B.E. 2009-10 to Rs.500 crore in B.E. 2009-10 to expedite completion of the project.

Power

- ❖ Allocation under Accelerated Power Development and Reform Programme (APDRP) increased by 160 per cent to Rs.2,080 crore in B.E. 2009-10 over B.E. 2008-09.

Gas

- ❖ Blueprint to be developed for long distance gas pipelines leading to a National Gas Grid to facilitate transportation of gas across the length and breadth of the country.

Assam Gas Cracker Project

- ❖ Outlay for Assam Gas Cracker Project stepped up suitably in B.E. 2009-10.

AGRICULTURE DEVELOPMENT

- ❖ Target for agriculture credit flow set at Rs.3,25,000 crore for the year 2009-10. In 2008-09 agriculture credit flow was at Rs.2,87,000 crore.
- ❖ Interest subvention scheme for short term crop loans up to Rs.3 lakh per farmer at the interest rate of 7 per cent per annum to be continued. Additional subvention of 1 per cent to be paid from this year, as incentive to those farmers who repay short term crop loans on schedule. Additional allocation of Rs.411 crore over Interim B.E. 2009-10 made for this.

Debt Relief for Farmers

- ❖ Time given to the farmers having more than two hectares of land to pay 75 per cent of their overdues under Debt Waiver and Debt Relief Scheme extended from 30th June, 2009 to 31st December, 2009.
- ❖ Taskforce to be set up to examine the issue of debt taken by a large number of farmers in some regions of Maharashtra from private money lenders who were not covered by the loan waiver scheme announced last year.

Accelerated Irrigation Benefit Programme

- ❖ Allocation under Accelerated Irrigation Benefit Programme (AIBP) increased by 75 per cent over B.E. 2008-09.
- ❖ Allocation under Rashtriya Krishi Vikas Yojana (RKVY) stepped up by 30 per cent in B.E. 2009-10 over B.E. 2008-09.

RESTORING EXPORT GROWTH

- ❖ Adjustment assistance scheme to provide enhanced Export Credit and Guarantee Corporation (ECGC) cover at 95 per cent to badly hit sectors extended upto March 2010.

- ❖ Allocation for Market Development Assistance Scheme enhanced to Rs.124 crore in B.E. 2009-10.
- ❖ Interest subvention of 2 per cent on pre-shipment credit for seven employment oriented export sectors extended beyond the current deadline of September 30, 2009 to March 31, 2010.
- ❖ To facilitate flow of credit at reasonable rates, Rs.4,000 crore provided as special fund out of Rural Infrastructure Development Fund (RIDF) to Small Industries Development Bank of India (SIDBI). This will incentivise Banks and State Finance Corporations (SFCs) to lend to Micro and Small Enterprises (MSEs) by refinancing 50 per cent of incremental lending to MSEs during the current financial year.
- ❖ Stimulus package for print media comprising waiver of 15 per cent agency commission on DAVP advertisements and 10 per cent increase in DAVP rates to be paid as a special relief subject to documentary proof of loss of revenue in nongovernmental advertisements, extended from 30th June, 2009 to 31st December, 2009.

MEDIUM-TERM SUSTAINABILITY

- ❖ To bring the fiscal deficit under control, institutional reform measures to be initiated during the current year itself.

Fertilizer Subsidy

- ❖ To ensure balanced application of fertilizers for increasing agricultural productivity, Government intends to move towards a nutrient based subsidy regime so as to cover larger basket of fertilizers with innovative fertilizer products available in the market at reasonable prices.
- ❖ It is intended to move to a system of direct transfer of subsidy to the farmers in due course.

Petroleum and Diesel pricing Policy

- ❖ With almost three quarters of our oil consumption met through imports, it is important to recognise that domestic prices of petrol and diesel are broadly in sync with global prices. Government to set up an expert group to advise on a viable and sustainable system of pricing petroleum products.

Taxation

- ❖ SARAL – II forms to be introduced early.

People's ownership of PSUs

- ❖ While retaining at least 51 per cent Government equity in Public Sector Undertakings, people's participation in disinvestment programmes to be encouraged.
- ❖ Public Sector Enterprises such as banks and insurance companies to remain in public sector and will be given full support including capital infusion to grow and remain competitive.

Financial Sector

- ❖ The threshold for non-promoter public shareholding for all listed companies to be raised in a phased manner.
- ❖ Scheduled commercial banks allowed to set up off-site ATMs without prior approval subject to reporting.
- ❖ A sub-committee of State Level Bankers Committee (SLBC) to identify and formulate an action plan for providing banking facilities in under-banked/unbanked areas in the next three years. Rs.100 crore set aside as one-time grant in-aid to ensure provision of at least one centre/Point of Sales (POS) for banking services in each of the unbanked blocks.
- ❖ Government has established Competition Commission of India, an autonomous regulatory body. An Appellate body headed by a retired judge of Supreme Court also constituted.

TOWARDS INCLUSIVE DEVELOPMENT

National Rural Employment Guarantee Scheme (NREGS)

- ❖ Allocation under NREGS increased by 144 per cent to Rs.39,100 crore in B.E. 2009-10 over B.E. 2008-09.
- ❖ To increase productivity of assets and resources under NREGS, convergence with other schemes relating to agriculture, forests, water resources, land resources, rural roads initiated. In the first stage 115 pilot districts selected for convergence.

National Food Security Act

- ❖ National Food Security Act to be brought in to

ensure entitlement of 25 kilo of rice or wheat per month at Rs.3 per kilo to every family living below the poverty line in rural or urban areas. Food Security Bill to be put on the website of the Department of Food and Public Distribution for public debate.

Bharat Nirman

- ❖ Allocation for Bharat Nirman increased by 45 per cent in 2009-10 over B.E. 2008-09. Allocations under Pradhan Mantri Gram Sadak Yojana (PMGSY) increased by 59 per cent over B.E. 2008-09 to Rs.12,000 crore in B.E. 2009-10. Under Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), allocation increased by 27 per cent to Rs.7,000 crore.
- ❖ Allocation under Indira Awaas Yojana (IAY) increased by 63 per cent to Rs.8,800 crore in B.E. 2009-10. Allocation of Rs.2,000 crore made for Rural Housing Fund (RHF) in National Housing Bank (NHB) to boost the resource base of NHB for refinance operations in rural housing sector.

Pradhan Mantri Adarsh Gram Yojana (PMAGY)

- ❖ New scheme Pradhan Mantri Adarsh Gram Yojana (PMAGY) with an allocation of Rs.100 crore launched on pilot basis for integrated development of 1000 villages having population of scheduled castes above 50 per cent.

EMPOWERMENT OF WEAKER SECTIONS

- ❖ The Swarna Jayanti Gram Swarozgar Yojana (SGSY) restructured as National Rural Livelihood Mission to make it universal in application, focused in approach and time bound for poverty eradication by 2014-15. In addition to capital subsidy at enhanced rate, interest subsidy to poor households to be provided for loans upto Rs.1 lakh from banks.
- ❖ There are over 22 lakh Women's Self Help Groups linked with banks. Reach of SHGs to be widened to enrol at least 50 per cent of all rural women in India as members of SHGs over the next five years.
- ❖ Corpus of Rashtriya Mahila Kosh to be increased from Rs.100 crore to Rs.500 crore over the next few years.

Female Literacy

- ❖ National Mission for Female Literacy to be launched with focus on minorities, SC, ST and other marginalized groups with the aim to reduce level of female illiteracy by half in three years.

Integrated Child Development Services (ICDS)

- ❖ All ICD Services to be extended to every child under the age of six by March, 2012.

Student Loans to Weaker Sections

- ❖ To enable students from economically weaker sections to access higher education, a scheme to provide full interest subsidy during the period of moratorium introduced to cover loans taken from scheduled banks to pursue any of the approved courses of study in technical and professional streams from recognised institutions in India.

Welfare of Minorities

- ❖ Plan outlay of Ministry of Minority Affairs enhanced from Rs.1,000 crore in B.E. 2008-09 to Rs.1,740 crore in 2009-10 registering an increase of 74 per cent. This includes Rs.990 crore for Multi-Sectoral Development Programme for Minorities, Grants-in-aid to Maulana Azad Education Foundation, National Minorities Development and Finance Corporation and pre and post matric scholarship for minorities.
- ❖ Allocations made for the new schemes of National Fellowship for Students from minority community and Grants-in-aid to Central Wakf Council for computerization of records of State Wakf Boards.
- ❖ Rs.25 crore each allocated for establishing new campuses at Murshidabad in West Bengal and Malappuram in Kerala by Aligarh Muslim University.

Welfare of workers in the unorganized sector

- ❖ Action initiated to ensure implementation of social security schemes for occupation like weavers, fishermen and women, toddy tappers, leather and handicraft workers, plantation labour, construction labour, mine workers, bidi workers and rickshaw pullers. Necessary financial allocation will be made for these schemes.

Employment Exchanges

- ❖ New project for modernization of Employment Exchange in public private partnership to be launched so that a job seeker can register on line

from anywhere and approach any employment exchange.

Handloom

- ❖ One handloom mega cluster each in West Bengal and Tamil Nadu and one powerloom mega cluster in Rajasthan to be set up. New mega clusters for carpets to be also set up in Srinagar (J&K) and Mirzapur (UP).

Health

- ❖ Allocation under National Rural Health Mission (NRHM) increased by Rs.2,057 crore over Interim B.E. 2009-10 of Rs.12,070 crore.
- ❖ All BPL families to be covered under Rashtriya Swasthya Bima Yojana (RSBY). Allocation under RSBY increased by 40 per cent over previous allocation to Rs.350 crore in B.E. 2009-10.

Environment and climate change

- ❖ In furtherance to National Action Plan on Climate Change, eight national missions representing a multi-pronged long-term and integrated approach to be launched.
- ❖ National Ganga River Basin Authority set up. Budgetary allocation under National River and Lake Conservation Plans increased from Rs.335 crore in B.E. 2008-09 to Rs.562 crore in B.E. 2009-10.
- ❖ Special one-time grant of Rs.100 crore given to Indian Council of Forestry Research and Education, Dehradun.
- ❖ Rs.15 crore each to be allocated to Botanical Survey of India and Zoological Survey of India. An additional amount of Rs.15 crore to be allocated for Geological Survey of India.

TOWARDS BUILDING ACCOUNTABLE INSTITUTIONS

Improving Delivery of Public Services

- ❖ Unique Identification Authority of India (UIDAI) to set up online data base with identity and biometric details of Indian residents and provide enrolment and verification services across country. Provision of Rs.120 crore made for this in the Budget.
- ❖ First set of unique identity number to be rolled out

in 12 to 18 months.

National Security

- ❖ Additional amount of Rs.430 crore provided over Interim B.E. 2009-10 to modernise police machinery in the States.
- ❖ Additional amount of Rs.2,284 crore proposed over Interim B.E. 2009-10 for construction of fences, roads, flood lights on the international borders.
- ❖ Programme for housing to create 1 lakh dwelling units for Central Para-military Forces personnel to be launched through innovative financing model.

One Rank One Pension for Ex-servicemen (OROP)

- ❖ Based on the recommendation of the Committee headed by the Cabinet Secretary on OROP, government has decided to substantially improve the pension of pre 01.01.2006 defence pensioners below officer rank and bring pre 10.10.1997 pensioners on par with post 10.10.1997 pensioners. The decisions to be implemented from 01st July, 2009 and will cost more than Rs.2,100 crore annually.

Education

- ❖ Provision for the scheme 'Mission in Education through ICT' substantially increased to Rs.900 crore and the provision for setting up and up-gradation of Polytechnics under the Skill Development Mission enhanced to Rs.495 crore.
- ❖ Rs.827 crore allocated for opening one Central University in each uncovered State.
- ❖ Rs.2,113 crore allocated for IITs and NITs which includes a provision of Rs.450 crore for new IITs and NITs.
- ❖ The overall Plan budget for higher education is to be increased by Rs.2,000 crore over Interim B.E. 2009-10.
- ❖ Rs.50 crore allocated for Punjab University, Chandigarh. Plan allocation for Chandigarh to be suitably enhanced during the year to provide better infrastructure to the people of Chandigarh.

Commonwealth Games, 2010

- ❖ Outlays to be stepped up from Rs.2,112 crore in Interim Budget to Rs.3,472 crore in regular Budget 2009-10.

Srilankan Tamils

- ❖ Rs.500 crore allocated for rehabilitation of internally displaced persons and reconstruction of the northern and eastern areas of Sri Lanka. Ministry of External Affairs to work closely with the Sri Lankan Government.

Cyclone Aila

- ❖ Rs.1,000 crore allocated for programme for rebuilding the damaged infrastructure caused due to cyclone Aila in West Bengal.

BUDGET ESTIMATE 2009-10

- ❖ Budget Estimates provide for a total expenditure of Rs.10,20,838 crore consisting of Rs.6,95,689 crore under Non-plan and Rs.3,25,149 crore under Plan registering an increase of 37 per cent in Non-plan expenditure and 34 per cent in Plan expenditure over B.E. 2008-09.
- ❖ Total expenditure in B.E. 2009-10 is increased by 36 per cent over B.E. 2008-09.
- ❖ Increase in Non-plan expenditure is mainly due to implementation of Sixth Central Pay Commission recommendations, increased food subsidy and higher interest payment arising out of larger fiscal deficit in 2008-09.
- ❖ Interest payments estimated at Rs.2,25,511 crore constituting about 36 per cent of Non-plan revenue expenditure in B.E. 2009-10.
- ❖ Subsidies up from Rs.71,431 crore in B.E. 2008-09 to Rs.1,11,276 crore in B.E. 2009-10.
- ❖ Outlay for Defence up from Rs.1,05,600 crore in B.E. 2008-09 to Rs.1,41,703 crore in B.E. 2009-10.
- ❖ Gross Budgetary Support for Annual Plan 2009-10 enhanced by Rs.40,000 crore over Interim B.E. 2009-10.
- ❖ State Governments to be permitted to borrow additional 0.5 per cent of their GSDP by relaxing the fiscal deficit target under FRBM from 3.5 per cent to 4 per cent of their GSDP. This will enable the States to borrow Rs.21,000 crore additionally over Interim B.E. 2009-10.
- ❖ Gross tax receipts budgeted at Rs.6,41,079 crore in B.E. 2009-10 compared to Rs.6,87,715 crore in B.E. 2008-09.

- ❖ Non-tax revenue receipts estimated at Rs.1,40,279 crore in B.E. 2009-10 compared to Rs.95,785 crore in B.E. 2008-09.
- ❖ Revenue deficit projected at 4.8 per cent of GDP in B.E. 2009-10 compared to 1 per cent in B.E. 2008-09 and 4.6 per cent as per provisional accounts of 2008-09.
- ❖ Fiscal deficit as a percentage of GDP is projected at 6.8 per cent compared to 2.5 per cent in B.E. 2008-09 and 6.2 per cent as per provisional accounts 2008-09.

TAX PROPOSALS

- ❖ Tax reform, like all reforms, is a process and not an event. Thrust of reforms has been to improve the efficiency and equity of our tax system. This is sought to be achieved by eliminating distortions in the tax structure, introducing moderate levels of taxation and expanding the base and accompanied by requisite re-engineering of key business processes coupled with automation.
- ❖ Recent initiative, on direct taxes side, of the setting up of a Centralized Processing Centre (CPC) at Bengaluru where all electronically filed returns, and paper returns filed in entire Karnataka, will be processed.
- ❖ Centre's Tax-GDP ratio has increased to 11.5 per cent in 2008-09 from a low of 9.2 per cent in 2003-04. Share of direct taxes in the Centre's tax revenues has increased to 56 percent in 2008-09 from 41 percent in 2003-04, reflecting sharp improvement in equity of our tax system.
- ❖ Structural changes in direct taxes to be pursued by releasing the new Direct Taxes Code within the next 45 days and in indirect taxes by accelerating the process for the smooth introduction of the Goods and Services Tax (GST) with effect from 1st April, 2010.
- ❖ The Direct Taxes Code, along with a Discussion Paper, to be released to the public for debate. The Direct Taxes Code Bill will be finalised for introduction in Lok Sabha sometime during the Winter Session based on the inputs received.
- ❖ The Authorities for Advance Rulings on Direct and Indirect Taxes to be merged by amending the relevant Acts.
- ❖ Agreement has been reached on the basic structure of GST in keeping with the principles of fiscal federalism enshrined in the Constitution. Broad contour of the GST Model envisages dual GST comprising of a Central GST and a State GST. The Centre and the States will each legislate, levy and administer the Central GST and State GST, respectively.

Direct Taxes

- ❖ No changes made in the Corporate Tax rates.
- ❖ Exemption limit in personal income tax raised by Rs.15,000 from Rs.2.25 lakh to Rs.2.40 lakh for senior citizens; by Rs.10,000 from Rs.1.80 lakh to Rs.1.90 lakh for women tax payers; and by Rs.10,000 from Rs.1.50 lakh to Rs.1.60 lakh for all other categories of individual taxpayers.
- ❖ Deduction under section 80-DD in respect of maintenance, including medical treatment, of a dependent who is a person with severe disability being raised from the present limit of Rs.75,000 to Rs.1 lakh.
- ❖ Surcharge on various direct taxes to be phased out; in the first instance, by eliminating the surcharge of 10 percent on personal income-tax.
- ❖ Sun-set clauses for deduction in respect of export profits under sections 10A and 10B of the Income-tax Act being extended by one more year i.e. for the financial year 2010-11.
- ❖ Fringe Benefit Tax on the value of certain fringe benefits provided by employers to their employees to be abolished.
- ❖ Scope of provisions relating to weighted deduction of 150% on expenditure incurred on in-house R&D to all manufacturing businesses being extended except for a small negative list.
- ❖ Businesses to be incentivised by providing investment linked tax exemptions rather than profit linked exemptions. Investment linked tax incentives to be provided, to begin with, to the businesses of setting up and operating 'cold chain', warehousing facilities for storing agricultural produce and the business of laying and operating cross country natural gas or crude or petroleum oil pipeline network for distribution on common carrier principle. Under this method, all capital expenditure, other than expenditure on land, goodwill and financial instruments to be fully allowable as deduction.

- ❖ Minimum Alternate Tax (MAT) to be increased to 15 per cent of book profits from 10 per cent. The period allowed to carry forward the tax credit under MAT to be extended from seven years to ten years.
- ❖ New Pension System (NPS) to continue to be subjected to the Exempt-Exempt-Taxed (EET) method of tax treatment of savings. Income of the NPS Trust to be exempted from income tax and any dividend paid to this Trust from Dividend Distribution Tax. All purchase and sale of equity shares and derivatives by the NPS Trust also to be exempt from the Securities Transaction Tax. Self employed persons to be enabled to participate in the NPS and to avail of the tax benefits available thereto.
- ❖ Alternative dispute resolution mechanism to be created within the Income Tax Department for the resolution of transfer pricing disputes. Central Board of Direct Taxes (CBDT) to be empowered to formulate 'safe harbour' rules to reduce the impact of judgemental errors in determining transfer price in international transactions.
- ❖ Commodity Transaction Tax (CTT) to be abolished.
- ❖ Donations to electoral trusts to be allowed as a 100 percent deduction in the computation of the income of the donor.
- ❖ Deduction under section 80E of the Income-tax Act allowed in respect of interest on loans taken for pursuing higher education in specified fields of study to be extended to cover all fields of study, including vocational studies, pursued after completion of schooling.
- ❖ To mitigate the practical difficulties faced by charitable organisations, anonymous donations received by charitable organisations to the extent of 5 percent of their total income or a sum of Rs.1 lakh, whichever is higher, not to be taxed.
- ❖ Scope of presumptive taxation to be extended to all small businesses with a turnover upto Rs. 40 lakh. All such taxpayers to have option to declare their income from business at the rate of 8 percent of their turnover and simultaneously enjoy exemption from the compliance burden of maintaining books of accounts. As a procedural simplification, they are also to be exempted from advance tax and allowed to pay their entire tax

liability from business at the time of filing their return. This new scheme to come into effect from the financial year 2010-11.

- ❖ Tax holiday under section 80-IB(9) of the Income Tax Act, which was hitherto available in respect of profits arising from the commercial production or refining of mineral oil, to be extended to natural gas. This tax benefit to be available to undertakings in respect of profits derived from the commercial production of mineral oil and natural gas from oil and gas blocks which are awarded under the NELP-VIII round of bidding. The section to be retrospectively amended to provide that "undertaking" for the purposes of section 80-IB(9) will mean all blocks awarded in any single contract.

Indirect Taxes

- ❖ Proposals on indirect taxes to seek to achieve stable framework by maintaining the overall rate structure for customs and central excise duties as well as service tax.

Customs duties

- ❖ Customs duty of 5% to be imposed on Set Top Box for television broadcasting.
- ❖ Customs duty on LCD Panels for manufacture of LCD televisions to be reduced from 10% to 5%.
- ❖ Full exemption from 4% special CVD on parts for manufacture of mobile phones and accessories to be reintroduced for one year.
- ❖ List of specified raw materials/inputs imported by manufacturer-exporters of sports goods which are exempt from customs duty, subject to specified conditions, to be expanded by including five additional items.
- ❖ List of specified raw materials and equipment imported by manufacturer-exporters of leather goods, textile products and footwear industry which are fully exempt from customs duty, subject to specified conditions, to be expanded.
- ❖ Customs duty on unworked corals to be reduced from 5% to Nil.
- ❖ Customs duty on 10 specified life saving drugs/vaccine and their bulk drugs to be reduced from 10% to 5% with Nil CVD (by way of excise duty exemption).

- ❖ Customs duty on specified heart devices, namely artificial heart and PDA/ASD occlusion device, to be reduced from 7.5% to 5% with Nil CVD (by way of excise duty exemption).
- ❖ Customs duty on permanent magnets for PM synchronous generator above 500 KW used in wind operated electricity generators to be reduced from 7.5% to 5%.
- ❖ Customs duty on bio-diesel to be reduced from 7.5% to 2.5%.
- ❖ Concessional customs duty of 5% on specified machinery for tea, coffee and rubber plantations to be reintroduced for one year, upto 06.07.2010.
- ❖ Customs duty on 'mechanical harvester' for coffee plantation to be reduced from 7.5% to 5%. CVD on such harvesters has also been reduced from 8% to nil, by way of excise duty exemption.
- ❖ Customs duty on serially numbered gold bars (other than tola bars) and gold coins to be increased from Rs.100 per 10 gram to Rs.200 per 10 gram. Customs duty on other forms of gold to be increased from Rs.250 per 10 gram to Rs.500 per 10 gram. Customs duty on silver to be increased from Rs.500 per Kg. to Rs.1000 per Kg. These increases also to be applicable when gold and silver (including ornaments) are imported as personal baggage.
- ❖ Customs duty on cotton waste to be reduced from 15% to 10%.
- ❖ Customs duty on wool waste to be reduced from 15% to 10%.
- ❖ Customs duty on rock phosphate to be reduced from 5% to 2%.
- ❖ CVD exemption on Aerial Passenger Ropeway Projects to be withdrawn. Such projects will now attract applicable CVD.
- ❖ Customs duty exemption on concrete batching plants of capacity 50 cum per hour or more to be withdrawn. Such plants will now attract customs duty of 7.5%.
- ❖ On packaged or canned software, CVD exemption to be provided on the portion of the value which represents the consideration for transfer of the right to use such software, subject to specified conditions.
- ❖ Customs duty on inflatable rafts, snow-skis, water

skis, surf-boats, sail-boards and other water sports equipment to be fully exempted.

Central excise duties

- ❖ Excise duty rate on items currently attracting 4% to be raised to 8% with following major exceptions:
 - Specified food items including biscuits, sharbats, cakes and pastries
 - Drugs and pharmaceutical products falling under Chapter 30
 - Medical equipment
 - Certain varieties of paper, paperboard and articles thereof
 - Paraxylene
 - Power driven pumps for handling water
 - Footwear of RSP exceeding Rs.250 but not exceeding Rs.750 per pair
 - Pressure cookers
 - Vacuum and gas filled bulbs of RSP not exceeding Rs.20 per bulb
 - Compact Fluorescent Lamps
 - Cars for physically handicapped
- ❖ Specific component of excise duty applicable to large cars/utility vehicles of engine capacity 2000 cc and above to be reduced from Rs. 20,000/- per vehicle to Rs.15,000 per vehicle.
- ❖ Excise duty on petrol driven trucks/lorries to be reduced from 20% to 8%. Excise duty on chassis of such trucks/lorries to be reduced from '20% + Rs.10000' to '8% + Rs.10000'.
- ❖ Excise duty on Special Boiling Point spirits to be reduced to 14%.
- ❖ Excise duty on naphtha to be reduced to 14%.
- ❖ Duty paid High Speed Diesel blended with upto 20% bio-diesel to be fully exempted from excise duties.
- ❖ The advalorem component of excise duty of 6% on petrol intended for sale with a brand name to be converted into a specific rate. Consequently, such petrol would now attract total excise duty of Rs.14.50 per litre instead of '6% + Rs.13 per litre'.
- ❖ The advalorem component of excise duty of 6% on diesel intended for sale with a brand name to be converted into a specific rate. Consequently, such diesel would now attract total excise duty of Rs.4.75 per litre instead of '6% + Rs.3.25 per litre'.

- ❖ Excise duty on manmade fibre and yarn to be increased from 4% to 8%.
- ❖ Excise duty on PTA and DMT to be increased from 4% to 8%.
- ❖ Excise duty on polyester chips to be increased from 4% to 8%.
- ❖ Excise duty on acrylonitrile to be increased from 4% to 8%.
- ❖ The scheme of optional excise duty of 4% for pure cotton to be restored.
- ❖ Excise duty for man-made and natural fibres other than pure cotton, beyond the fibre and yarn stage, to be increased from 4% to 8% under the existing optional scheme.
- ❖ An optional excise duty exemption to be provided to tops of manmade fibre manufactured from duty paid tow at par with tops manufactured from duty paid staple fibre.
- ❖ Suitable adjustments to be made in the rates of duty applicable to DTA clearances of textile goods made by Export Oriented Units using indigenous raw materials/inputs for manufacture of such goods.
- ❖ Full exemption from excise duty to be provided on goods of Chapter 68 of Central Excise Tariff manufactured at the site of construction for use in construction work at such site.
- ❖ Excise duty exemption on 'recorded smart cards' and 'recorded proximity cards and tags' to be made optional. Manufacturers have the option to pay the applicable excise duty and avail the credit of duty paid on inputs.
- ❖ EVA compound manufactured on job work for further use in manufacture of footwear to be exempted from excise duty.
- ❖ Benefit of SSI exemption scheme to be extended to printed laminated rolls bearing the brand name of others by excluding this item from the purview of the brand name restriction.
- ❖ On packaged or canned software, excise duty exemption to be provided on the portion of the value which represents the consideration for transfer of the right to use such software, subject to specified conditions.
- ❖ Excise duty on branded articles of jewellery to be reduced from 2% to Nil.

Service tax

- ❖ Service Tax to be imposed on the following services:
 - Service provided in relation to transport of goods by rail
 - Service provided in relation to transport of coastal cargo; and goods through inland water including National Waterways
 - Advice, consultancy or technical assistance provided in the field of law (this tax would not be applicable in case the service provider or service receiver is an individual).
 - Cosmetic and plastic surgery service
- ❖ Exemption from service tax being provided to inter-State or intra-State transportation of passengers in a vehicle bearing 'Contract Carriage Permit' with specified conditions.
- ❖ Exemption from service tax (leviable under Banking and other financial services or under Foreign exchange broking service) being provided to inter-bank purchase and sale of foreign currency between scheduled banks.
- ❖ Two taxable services, namely, 'Transport of goods through road' and 'Commission paid to foreign agents' to be exempted from the levy of service tax, if the exporter is liable to pay service tax on reverse charge basis. However, present cap of 10% on commission agency charges is retained. Thus there would be no need for the exporter to first pay the tax and later claim refund in respect of these services.
- ❖ For other services received by exporters, service tax exemption to be operated through the existing refund mechanism based on self-certification of the documents where such refund is below 0.25 per cent of FOB value, and certification of documents by a Chartered Accountant for value of refund exceeding the above limit.
- ❖ Export Promotion Councils and the Federation of Indian Export Organizations (FIEO) to be exempt from service tax on the membership and other fees collected by them till 31st March 2010.

Tax proposals on direct taxes to be revenue neutral. On indirect taxes, estimated net gain to be Rs.2,000 crore for a full year.

OVERALL SECTORAL IMPACT

Sector	Policy	Impact	Effect
Automobiles	<ul style="list-style-type: none"> ❖ Weighted deduction of 150% for expenditure relating to in-house R & D. ❖ Reduction in Excise Duty on Petrol driven trucks for transportation within cities reduced to 8% from 20% ❖ Higher allocation towards NHA1 projects. 	<ul style="list-style-type: none"> ● Deduction for expenditure in in- house R & D beneficial to companies in the sector. ● Increase in outlay for road infrastructure to benefit industry. 	F
Banking & Finance	<ul style="list-style-type: none"> ❖ Banks and insurance companies to receive support and capital infusion ❖ Agricultural credit target increased to 13.2% and additional interest subvention of 1% for farmers who repay on schedule. 	<ul style="list-style-type: none"> ● Higher agricultural target and additional interest subvention to allow banks to lend more. 	N
Cement	<ul style="list-style-type: none"> ❖ A slew of incentives have been doled out to end-user of cement. ❖ Enhanced allocation for urban infrastructure and highway projects. ❖ Customs Duty of 7.5% imposed on concrete cement batching plant of capacity 50 cubic meters/ hour or more. 	<ul style="list-style-type: none"> ● Increase in allocation for roads and urban infrastructure will lead to increase in demand. ● Imposition of 7.5% customs duty on concrete cement batching plant likely to have negative impact on ready mix concrete manufacturers. 	F
Education	<ul style="list-style-type: none"> ❖ Increase in provision for various schemes including for higher education. ❖ Deduction u/s. 80E of Income Tax Act extended to all fields of studies ❖ National Mission for Rural Literacy to be launched with focus on minorities, S. C., S.T. and other marginalized groups. 	<ul style="list-style-type: none"> ● Lack of positive announcement relating to public private partnership in public school is negative. 	U
FMCG	<ul style="list-style-type: none"> ❖ Goods and Service Tax to come in effect from 01/04/2010. ❖ 4% duty maintained on paper, paper board, cakes and pastries. ❖ Investment linked tax incentives for cold chain facilities. ❖ Fringe Benefit Tax (FBT) abolished. ❖ Increase in tax exemption on personal income 	<ul style="list-style-type: none"> ● Personal Tax exemption and removal of FBT will boost demand and reduce cost. ● Tax incentive on cold chain warehousing facilities to boost food processing industry. ● More focus on rural area will lead to higher disposal of money for common masses. 	F
Oil & Gas	<ul style="list-style-type: none"> ❖ Government to set up an expert group to advise on a viable and sustainable system for petrol product pricing. ❖ FBT abolished. 	<ul style="list-style-type: none"> ● New expert group to bring more transparency and better discipline in subsidy sharing mechanism. ● Removal of FBT will save cost of the companies. 	F

F Favourable

U Unfavourable

N Neutral

OVERALL SECTORAL IMPACT

Sector	Policy	Impact	Effect
Information Technology	<ul style="list-style-type: none"> ❖ Extension of tax exemption for one more year u/s. 10. ❖ FBT abolished ❖ Removal of excise duty on packaged software ❖ Rate of Minimum Alternate Tax (MAT) increased from 10% to 15% 	<ul style="list-style-type: none"> ● Extension of tax incentive for one more year will boost companies in the sector. ● Abolition of FBT will result in saving of costs. ● Increase in MAT rate expected to increase tax liability. Nevertheless, increase in carry forward provision for tax credits to 10 years will have a positive impact. 	F
Pharmaceuticals	<ul style="list-style-type: none"> ❖ Customs duty on 9 life saving drugs reduced to 5% ❖ Weighted deduction of 150% on in-house R&D expenses extended. ❖ Provision of National Rural Health mission. 	<ul style="list-style-type: none"> ● Reduction in customs duty on life saving drugs will be a boost for companies in the field. ● Extension of in-house R&D expenses deduction will benefit pharmaceutical companies. 	F
Power	<ul style="list-style-type: none"> ❖ Allocation under Accelerated Power Development and Reforms Programme increased by 160%. ❖ Excise Duty on Naphta reduced to 14%. 	<ul style="list-style-type: none"> ● Increase in allocation to improve financial viability of state power utilities. ● Reduction in excise duty on Naphta will lead to lower electricity cost, for generation. 	F
Real Estate	<ul style="list-style-type: none"> ❖ Allocations under various housing schemes enhanced. 	<ul style="list-style-type: none"> ● As no incentive is given for affordable housing and fund raisings sector will be under pressure. 	U
Tele-Communication	<ul style="list-style-type: none"> ❖ Full exemption of CVD of 4% on accessories, parts and component imported for manufacture of mobile phones has been re-introduced for another year. ❖ Enhancement in allocation for National Rural Employment Guarantee Scheme by 144%. 	<ul style="list-style-type: none"> ● Increase in allocation will help in targeting more customers in rural areas. ● Lower CVD on accessories will help in keeping cost of hand-sets low. 	F
Textile	<ul style="list-style-type: none"> ❖ 4% Excise Duty on cotton textiles restored. ❖ 2% interest subvention for textile extended by six months to Mach 2010. ❖ Import Duty on cotton and wool waste to be reduced to 10%. ❖ Increase in excise duty on man-made fibre, natural fibre other than pure cotton and yarn from 4% to 8%. 	<ul style="list-style-type: none"> ● Restoration of excise duty on cotton textiles will enable manufacturers to avail of exports rebate of duty paid, but will have negative impact on manufacturers in local sales. 	N

F Favourable

U Unfavourable

N Neutral

BUDGET AT A GLANCE

<i>(In crore of Rupees)</i>				
PARTICULARS	2007-08 Actuals	2008-2009 Budget Estimates	2008-2009 Revised Estimates	2009-2010 Budget Estimates
1. Revenue Receipts	541864	602935	562173	614497
2. Tax Revenue (net to centre)	439547	507150	465970	474218
3. Non-Tax Revenue	102317	95785	96203	140279
4. Capital Receipts (5+6+7)\$	170807	147949	338780	406341
5. Recoveries of Loans	5100	4497	9698	4225
6. Other Receipts	38795	10165	2567	1120
7. Borrowings and other liabilities	126912	133287	326515	400996
8. Total Receipts (1+4)\$	712671	750884	900953	1020838
9. Non-Plan Expenditure	507589	507498	617996	695689
10. On Revenue Account of which,	420861	448352	561790	618834
11. Interest Payments	171030	190807	192694	225511
12. On Capital Account	86728	59146	56206	76855
13. Plan Expenditure	205082	243386	282957	325149
14. On Revenue Account	173572	209767	241656	278398
15. On Capital Account	31510	33619	41301	46751
16. Total Expenditure (9+13)	712671	750884	900953	1020383
17. Revenue Expenditure (10+14)	594433	658119	803446	897232
18. Capital Expenditure (12+15)	118238	92765	97507	123606
19. Revenue Deficit (17-1)	52569	55184	241273	282735
	(1.1)	(1.0)	(4.4)	(4.8)
20. Fiscal Deficit {16-(1+5+6)}	126912	133287	326515	400996
	(2.7)	(2.5)	(6.0)	(6.8)
21. Primary Deficit (20-11)	-44118	-57520	133821	175485
	- (0.9)	- (1.1)	(2.5)	(3.0)

FINANCE BILL 2009

Various amendments carried out by the Finance Bill, 2009 are summarized herein below.

I. RATE OF INCOME TAX

There is no change in the rate of taxes chargeable for Assessment Year 2010-11 except certain adjustment in basic exemption limit in case of Individual, HUF, AOP, BOI and Artificial Juridical Person. Basic limit is increased by Rs.10,000/- from Rs.1,50,000/-. Hence basic limit stand enhanced to Rs.1,60,000/- from Rs.1,50,000/-. In case of women assessee below age 65 years basic exemption limit is raised from Rs.1,80,000/- to Rs.1,90,000/- and in case of senior citizen such limit is raised from Rs.2,25,000/- to Rs.2,40,000/-.

New rate of income tax on total income in case of Individual, HUF, AOP, BOI and Artificial Juridical Person will be as below.

Slab of Income (Rs.)	Rate of Income Tax %
Rs.1,60,000	Nil
Rs.1,60,001 to Rs.3,00,000	10
Rs.3,00,001 to Rs.5,00,000	20
Above Rs. 5,00,001	30

No Surcharge is leviable in case of individual, HUF, AOP, BOI and AJP

II. In case of Co-operative Society:

Income (Rs.)	Rate of Income Tax%
Upto 10,000	10
Rs.10,001 to Rs.20,000	20
Rs.20,001 & above	30

No Surcharge will be leviable.

III. Firm LLP and Local Authority:

Income (Rs.)	Rate of Income Tax %
On whole of Total Income	30

No surcharge is applicable.

IV. Domestic Company:

Income (Rs.)	Rate of Income Tax %
On whole of Total Income	30

Surcharge is payable @10% if its income exceeds Rs.1,00,00,000/-

IV. Foreign Companies.

Income (Rs.)	Rate of Income Tax %
On whole of Total Income	40

Surcharge is payable @2.5%, if its income exceeds Rs.1,00,00,000/-.

Note: An additional surcharge called Education cess @ 2% and a further additional surcharge @ 1% called 'Secondary and Higher education cess' is levied on tax payable including surcharge, if any, in all cases.

2. MINIMUM ALTERNATE TAX (MAT):

- Under the present provisions of Section 115JB, if tax payable by a company in any years is less than 10% of its book profit, such company is liable to pay MAT at 10% of its book profit. The book profit is to be computed as per audited accounts as prepared as per provisions of Schedule VI of Companies Act. By amendment to section, it is provided that from A.Y.2010-2011 in case income tax payable is lower than 15% of book profit, tax will be payable at 15% on its book profit.
- By amendment to Section 115JAA, it is provided that tax credit determined under sub-section (2A) of Section 115JAA shall be allowed to be carried forward and set off upto ten assessment years immediately succeeding assessment year in which tax credit become allowable instead of seven years at present.
- By amendment to Section 115JB as well as 115JA, it is provided that the provisions for diminution in value of assets debited to P&L A/c. be added back for determining book profit. The Supreme Court took a view that provisions for bad and doubtful

debts, as also the provisions for diminution in value of investments and similar items are allowable deduction while computing book profit for MAT purposes with a view to nullify such decision the present amendment has been made. Amendment has been made to Section 115JA retrospectively w.e.f. 01.04.1998 and to Section 115JB w.e.f. 01.04.2001.

3. FRINGE BENEFIT TAX:

Fringe Benefit Tax stands withdrawn w.e.f. 1st April, 2010 as consequence thereof provisions of perquisite taxable in the hands of the employees u/s.17(2) have been brought back in case of -

- (a) Sweat Equity Shares allotted by the employer or former employer free of cost or on concession rate to the assessee shall be considered for the purpose of perquisite. For the purpose of value of such Sweat Equity Shares shall be market value of such equity shares on the day on which option is exercised by the assessee as reduced by amount actually paid or recovered from the employee.
- (b) In case of contribution to Approved Super Annuation Fund by the employer in respect of any employees in excess of Rs.1,00,000/-.
- (c) Other perquisite or fringe benefits as may be prescribed such as free use of car, provision of servants, free electricity etc.

4. WEALTH TAX

Exemption limit of wealth tax has been enhanced from Rs. 15.0 lakhs to Rs. 30.0 lakhs

5. ADVANCE TAX

By amendment to section 208 now the threshold limit for payment of advance tax is Rs.10,000/- instead of Rs. 5,000/- as at present.

6. TAXATION TO LIMITED LIABILITY PARTNERSHIP FIRMS AND REMUNERATION TO PARTNERS

- (i) Limited Liability Partnership Firms (LLP) are now included in the definition of " firm" for the purpose of Income Tax. Hence a LLP will be taxable as a partnership firm.

- (ii) Under provisions of section 40(b) (v) remuneration payable to partners has been enhanced as under:

Profit Amount	Allowable Remuneration
On First Rs.3,00,000/- of book profit Or in case of loss	Rs.1,50,000/- OR 90% of book profit whichever is more
on balance book profit	at the rate of 60%

7. WEIGHTED DEDUCTION FOR IN-HOUSE RESEARCH & DEVELOPMENT

Weighted deductions for expenses on in-house research and development under the existing provisions of section 35 (2AB)is allowed to companies engaged in the business of bio-technology or in the business of manufacturing of drug, pharmaceuticals, electronic equipments, computers or telecommunication equipments or any other article or thing as notified. By an amendment, benefit of weighted deduction of 150% of expenses incurred is extended to all companies engaged in the business of manufacture or production of an article or thing except those falling in schedule 11 of the Act.

8. DISALLOWANCE U/S. 40A(3)

As per provisions of section 40A(3) any payment exceeding Rs.20,000/- paid otherwise than by account payee cheque or draft is disallowable under provisions of section 40A(3). By way of an amendment it is provided that payments to transport operator upto Rs. 35,000/- otherwise than by account payee cheque or draft will not be covered under provisions of section 40A(3). This provision will be effective from 01/10/2009.

9. CHARITABLE TRUSTS

- (i) Institutions exempt u/s. 10(23) is required to file application for recognition before year-end. Now it is provided that such application for recognition can be filed by 30th of September of the assessment year.
- (ii) Definition of charitable objects u/s.2(15) includes relief to poor, education, medical relief and

advancement of any other object of general public utility. Now it provides to add environments (including watershed, forest and wildlife) and preservation of monuments or place or object of artistic or historic interest. The newly added object will not be subject to conditions as applicable to other objects of general public utility of carrying on any activity of trade, commerce or business, etc.

- (iii) Anonymous donations are taxable in case of trusts which are charitable or partially charitable and partially religious u/s. 115BBC. Now it is being provided that trusts of above disciplines will enjoy exemption from tax to anonymous donations upto Rs. 1.0 lakh or 5% of total income whichever is higher.

10. DONATIONS U/S. 80 G

According to existing provisions, a charitable trust, if it engaged in any activity of trade or commerce, then it loses the benefit of section 11 and also of section 80G meaning thereby that donations to such trusts in financial year 2008-09 loses benefits of donations u/s.80 G. In view of hardships to donors by proposed amendment, the donations made upto 31/03/2009 even to trust carrying on trade and commerce are made entitled to deductions u/s. 80G.

Under provisions of section 80G(5)(vi) exemption granted to such charitable trust is valid for a period of five years. Now it is proposed to provide that such exemption certificate shall be valid in perpetuity. Hence such charitable institutions having exemption certificates valid as on 01/10/2009 will continue to be operative in perpetuity unless it is withdrawn by Income Tax authorities as per powers made available under section 293 C of Income Tax Act.

11. DONATIONS TO POLITICAL PARTIES U/S. 80 GGB/80GGC.

Contributions given to political parties by companies and other assesses are deductible from income to the extent of 100%. Now it is provided by amendment that any contributions made to electoral trusts is also deductible.

Income of such electoral trusts is exempted from taxes, under section 13B if it complies with the conditions prescribed.

12. INTEREST ON LOAN FOR HIGHER EDUCATION U/S. 80 E

Under existing provisions of section 80 E interest paid on loans from financial institutions or any approved charitable institution for pursuing higher education in a specific fields of higher study is deductible out of the income of the assessee if such loan is for studies of spouse or children of the said individual.

With a view to enlarge the scope of deduction it is provided now that interest so paid by an individual on borrowings will be allowable for all studies pursued after passing S.S.C. or equivalent school examination.

13. MEDICAL TREATMENT OF DISABLED DEPENDENT U/S. 80 DD

Any individual or HUF, who is a resident of India is entitled for deduction of expenses incurred on medical treatment, training, re-habilitation of a dependent suffering from disability and also amount paid to LIC or any other insurance in respect of a scheme for the maintenance of disabled dependants. Deduction is allowable to the extent of Rs. 50,000/- for dependent suffering from disability and Rs. 75,000/- for dependants suffering from severe disability. It is proposed to increase the said limit to Rs.1.0 lakh in case of severe disability.

14. EXEMPTION TO INDUSTRIAL UNITS IN THE STATE OF HIMACHAL PRADESH AND UTTARANCHAL U/S. 80 IC

Income of industrial units situated in the States of Himachal Pradesh and Uttaranchal carrying out production and manufacture of certain permissible articles are exempt to the extent of 100%. Now proposed amendment provides that certain items relating to paper and paper industry will fall under non-permissible items under the said provision.

15. INVESTMENT-LINKED TAX INCENTIVE FOR SPECIFIED BUSINESS

A new Section 35AD, is proposed to be introduced to allow investment linked incentive for businesses specified in the new section. Specified businesses are:

- (a) Setting up and operating cold chain facilities for specified products.
- (b) Setting up and operating a warehousing facility for storing of agricultural products.
- (c) Laying and operating a cross country natural gas or crude or petroleum oil pipeline network for distribution, including storage facilities being an integral part of such pipeline network.

Incentives allowed are:

- (i) 100% deduction to be allowed in respect of the whole of any capital expenditure [not being expenditure incurred on acquisition of any land or goodwill or financial instrument] incurred wholly and exclusively for specified businesses during the previous year in which such expenditure is incurred.
- (ii) The business of cold chain or warehousing should commence on or after 01.04.2009 while that of pipeline network should commence on or after 01.04.2007.
- (iii) The incentive is subject to certain conditions like business not being created by transferring from an earlier business or not by splitting or reconstructing an old business. As regards pipeline network business, the deduction is subject to some further conditions as also if it fulfills other conditions prescribed [conditioned are to be prescribed by CBDT].

The allowance of 100% deductions is also subject to condition that no other deductions, like deduction of depreciation or any deduction under Chapter VI-A of I.T. Act would be allowed. The provisions are applicable from Assessment Year 2010-2011.

A new Section 73A is proposed to be inserted to take care of carry forward of losses from such specified businesses. The main feature of Section

73A is that the loss in any specified business can be set off only against profits of any other specified business [as mentioned in Section 35AD] and not against the profits of any other business. Carried forward loss can also be set off against profit of a specified business.

16. EXTENSION OF SUNSET CLAUSES U/S. 80 IA & 80 IB

Section 80-IA provides for deduction in respect of profits and gains from an industrial undertaking or enterprises engaged in infrastructure development etc. Existing provisions of Section 80-IA(4)(v) provides for deduction of profit of an undertaking set up for reconstruction or revival of power generating plant. The terminal date for commencing the activities was 31.03.2008. By a proposed amendment the terminal date is extended to 31.03.2011.

Clause (vi) of sub-section (4) of Section 80-IA provided for deduction of profits from total income of an undertaking generating and distributing power if it beginning power generation, transmission etc. by 31.03.2010. By a proposed amendment of the above clause (vi), the terminal date is sought to be extended to 31.03.2011.

The undertakings engaged in refining of mineral oil are entitled for deduction u/s. 80 IB subject to compliance of certain conditions as prescribed under sub-section (9) of 80 IB. Such undertakings were entitled for such deductions if started production before 31/03/2009. Now the date has been extended to 31/03/2012. Certain other amendments have been made as to the conditions to be complied with for availing the benefit under the section.

It is also clarified that an undertaking for the purpose of mineral oil as well as natural gas shall be all blocks licensed under a single contract awarded under the new Exploration Leasing Policy announced by Govt. of India and each well will not be considered as a separate undertaking.

17. AMENDMENT IN CHAPTER VI A TO PREVENT ABUSES

Section 80A, the first section of Chapter VI-A of I.T. Act 1961, is titled "Deductions to be made in computing total income". In the existing scheme the section has three sub-sections. By the Finance Bill 2009, three more sub-sections, namely, 4, 5 and 6 are proposed to be added. The new sub-section 4 proposes that-

- (i) deduction in respect of profits and gains shall not be allowed under any provisions of section 10A or section 10AA or section 10B or section 10BA or under any provisions of Chapter VIA under the heading "C-Deductions in respect of certain incomes" in any assessment year, if a deduction in respect of same amount under any of the aforesaid has been allowed in the same assessment year;
- (ii) the aggregate of the deductions under the various provisions referred to in (i) above, shall not exceed the profits and gains of the undertaking or unit or enterprise or eligible business, as the case may be;
- (iii) no deductions under the various provisions referred to in (i) above, shall be allowed if the deduction has not been claimed in the return of income;

These amendments will take effect retrospectively from the 1st April, 2003, and will accordingly apply in relation to Assessment Year 2003-2004 and subsequent years.

Proposed sub-section 5 introduces a procedural change. It provides that any claim of deduction u/s.10A, 10AA, 10B or 10BA or under Chapter VI-A under the heading "C-Deductions in respect of certain income" unless made in the return of income shall not be allowed as deduction. An important point to be noted is that sub-sections 4 and 5 are sought to be made effective retrospectively from Assessment Year 2003-04.

Proposed sub-section 6 brings an omnibus amendment. It provides that the transfer price of goods and services between the undertaking or unit or enterprise or eligible business and any other undertaking or unit or enterprise or

business of the assessee shall be determined at the market value of such goods or services as on the date of transfer. In the new sub-section "market value" has been defined. The amendment is effective from 01.04.2009 and will accordingly apply to all cases where proceedings are pending before any authority on or after such date.

18. HOUSING PROJECTS:

Section 80-IB(10) allows deduction of 100% profits of undertaking developing and building housing projects. Certain conditions are attached to allowability of deduction. An explanation is proposed to be added in order that the intended object of providing benefit to a person who takes investment risk i.e. an actual developer. The explanation debars an undertaking which executes the housing project as a works contract awarded by any person including Central or State Government. This explanation is retrospectively applicable from Assessment Year 2001-02.

Further the benefits of Section 80-IB(10) are meant for project meant for middle or low income house holds. These provisions are obviated by selling adjacent flats to close relatives of a buyer of a flat. In order to plug the loop holes a clause is being added to sub-section 10 which provides that the developer will not be able to sell more than one residential unit in a housing project to the same person or to his very close relative [defined in the clause] and his HUF.

19. UNITS IN FREE TRADE ZONE U/S.10A AND 100% EXPORT ORIENTED UNDERTAKING U/S.10B:

Under the existing provisions exemption u/s.10A & 10B are available upto Assessment Year 2010-2011, the same is extended now to Assessment Year 2011-2012.

20. COMPUTATION OF DEDUCTION IN CASE OF UNITS IN SPECIAL ECONOMIC ZONE:

Section 10AA(7) provides that profit derived from export shall be the amount which bears to profit of the business of the undertaking being unit the same proportion as export turnover to the total

turnover of the business carried on by the assessee. Now by amendment to the said section, it provide that 'total turnover' for the purpose will be total turnover of the said unit only, as against total turnover of assessee's business . The amendment is made applicable only from A.Y.2010-2011 instead of A.Y.2007-08.

21. TAXABILITY OF GIFT RECEIVED

A new clause (VII) is proposed to added to section 56 (2) to bring within the fold of taxation receipts of immovable property as also any property (the word property has been defined in the explanation to Clause-(VII)). Not only this if declared value of the property received by the assessee is less than the value assessed or assessable under the Stamp Duty Act, then the difference is also to be treated as income of the assessee u/s.56. Similarly, if the property is supposed to be transferred to the recipient assessee at less than fair market value thereof, then the difference between fair market value of such property and declared consideration is to be taxed.

A few things needs to be clarified here:

- (a) The provisions of Clause-VII comes in operation w.e.f. 1st October,2009.
- (b) Receipts of money, immovable property or any property from relatives as and other excluded receipts remain exempted from taxation.
- (c) Section 50C was brought in Income Tax Act w.e.f. 1st April,2003 to take stamp duty value as to sale consideration for the purpose of computation of capital gain. It was also provided in that section that if adoption of stamp duty value is not agreeable by the assessee, matter should be referred to Valuation Officer of the department and his finding regarding valuation would be binding on the Assessing Officer. Similarly, provisions has been incorporated in the proposed Clause-VII inserted in sub-section (2) of Section 56.

22. TAXATION OF INTEREST RECEIVED ON COMPENSATION OR ENHANCED COMPENSATION

Sub-clause VIII has been introduced in sub-section (2) of section 56 which makes such receipts taxable in the year of receipt. The insertion reads as follows:

“Income by way of interest received on compensation or any enhanced compensation referred to in sub-section (2) of Section 145A”.

The un-amended provisions were that interest on the compensation or enhanced compensation was to be taxed in the assessment year to which such interest pertains. This clause is proposed to be inserted to simplify the taxation of such interest. An amendment has been proposed in Section 57 of the Income Tax Act vide which it is proposed to allow a deduction of 50% of such interest income as deduction therefrom. Thus 50% of such interest is only taxable.

23. CAPITAL GAIN:

Under the existing provisions of Section 50C in case of consideration of transfer of capital asset being land and/or building is less than value adopted by the stamp duty authorities of State Government for the purpose of payment of stamp duty value so adopted or assessed is deemed to be full value of consideration for the purpose of computation of capital gain. However, present provisions does not apply to transaction which are not registered with stamp duty authorities with a view to bring such transaction under the scope of Section 50C, an amendment has been made to provide that even if a transaction is not registered, consideration for transfer will be value assessable by the State stamp duty authorities. All other provisions of existing Section 50C continue to be applicable.

24. TAX DEDUCTED AT SOURCE:

- (I) The provisions of Tax Deducted at Source have been amended with regard to payment to contractors and sub-contractors by replacing Section 194C by a new Section. It is now provided that tax will be deducted on all payment to a contractors or sub-contractors at the following rates:

- (i) Payee being an Individual or HUF --- 1%
- (ii) Payee other than Individual or HUF --- 2%

Now distinction in contractors and sub-contractors and advertisement contractors and other contractors has been done away.

- (II) It is provided that in case of payment to Transporters, no TDS will be required to be made if the Transporter furnishes Permanent Account Number to the persons paying such sum. Particulars of such payments of Transporters without deduction of tax are required to be furnished to Income Tax Authorities.
- (III) With regard to manufacturing carried out as per requirement or specification of the customers it is clarified that in case of customers supply raw materials and then manufacturing is carried out it will be subject to Tax Deduction at Source u/s.194C. In such cases, TDS will be deductible on full bill value of supply, if raw materials not separately reflected in the bill. In case, in the sale bill value of raw materials is separately reflected, TDS will be deductible on balance amount. Where a manufacturer acquire raw materials on its own and not supplied by the customers, no TDS will be applicable u/s.194C.
- (IV) By amendment to Section 194I, TDS deductible on rent has been changed. Now on rent payable on plant and machinery, TDS is 2% as against 10% earlier and in case of rent being paid for land or building or furnitures and fittings, TDS is 10% in all cases as against 15% in case of Individuals or HUF is 20% in other cases earlier.
- (V) Proposed amendment to rate schedule for TDS for sections 193, 194A, 194D provides TDS rate at 10% for all categories of deductees while in the existing provisions different rates were applicable for different categories. Section 193, 194 A and 194 D are for interest on securities, interest other than interest on securities and insurance commission respectively.
- (VI) A new section has been added being Section 200A. It introduces a new system of processing of TDS statements while processing TDS statements any arithmetic errors or any incorrect claim shall be taken into account and interest payable shall be computed accordingly the sum

payable by the assessee or sum receivable by the assessee will be determined. In case of default of non deduction the same will also be determined. An intimation will be issued to the assessee accordingly, such intimation will be issued within one year from the end of financial year in which such tax deduction statement is filed. TDS statements may be processed by way of centralized processing.

- (VII) Under the existing provisions of Section 201, if a person who is required to deduct tax but fails to deduct tax or does not pay after deducting shall be treated as assessee in default in respect of such tax. Interest is payable by such assessee in default under the provisions of Section 201(1A) and such amount is recoverable by the government from such persons under the provisions of Section 201(2).

A new sub-section (3) has been introduced so as to fix the period under which such orders holding a person as assessee in default can be passed. No order will be passed after expiry of -

- (i) Two years from the end of the financial year in which the statement is filed. However, such orders for financial year prior to ending on 31/03/2007 can be passed on or before 31/03/2011.
- (ii) Four years from the end of the financial year in which payment is made or credit is given in any other cases.

- (VIII) By proposed introduction of Section 206AA it is made compulsory for every payee to furnish Permanent Account Number to the payer. In case of failure, tax will be deducted at higher of the following rates-

- (i) at the prescribed rate for the relevant payment.
- (ii) at the rate in force.
- (iii) at the rate of 20%

These provisions are applicable for payments to be made on or after 01/04/2010.

No certificate of lower deduction or no deduction will be granted u/s.197A by the Assessing Officer without PAN. Similarly, declaration u/s.197A in Form 15G or 15H without Permanent Account Number of the payee will not be considered. The payee is required to furnish his PAN in all

correspondences, bills and vouchers and other documents send. In case of such PAN is invalid or does not belongs to payee, deduction will be required to made at higher rate.

25. WRITTEN DOWN VALUE U/S. 43(6):

Written Down Value is defined u/s.43(6) of the I.T. Act, which provide that actually allowed depreciation be reduced out of the cost of the asset for arriving at written down value. In case of certain Industries like Tea, Coffee, Rubber, part of the income is considered as agricultural income. The Supreme Court held in such cases only to the extent of income taxable under the I.T. Act depreciation deemed to be allowed. As in the case of Tea 40%, depreciation will be deemed to be allowed and only 40% depreciation will be reduced for computing written down value. Now by amendment, it is provided that 100% depreciation be treated as allowed for the purpose of computation of written down value under the provisions of the act.

26. RE-ASSESSMENT OF INCOME U/S.147:

As per the provisions of existing Section 147 in case of assessment being reopened, the Assessing Officer may assess or re-assess such income after recording reasons for reopening assessment. Such reassessment is to be restricted to issues in respect of which the reasons have been recorded. Now it is clarified by inserting Explanation 3 to Section 147 that the Assessing Officer may assess or re-assess income in respect of any issues which has come to his notice subsequently in the course of proceedings without reference to reasons recorded. The amendment has been given effect from 1st April, 1989

27. NEW PENSION SYSTEM:

Under the existing provisions of Section 80CCD, the contribution to new pension system by an employee is allowable as deduction out of income. By amendment to section, it is provided that such contribution can be made by any individuals including self employed. It is provided that income of such new pension system will be exempt from tax u/s.10(44) of the act. No dividend

distribution tax will be payable on dividend paid to such pension system u/s.115O and no security transaction tax will be payable on purchase and sale of any shares by such new pension system. No TDS will be deducted on receipt of any income as provided u/s.197A. Hence all income received or accrued to New Pension System Trust as set up on 27th February,2008 be tax exempt. Any amount received from New Pension System will be taxable in the year of receipt. However if amount so received is utilized in the year of receipt for purchasing annuity plan, it will not be treated as received.

28. TAXATION RELATING TO NON RESIDENTS:

Section 90 of I.T. Act empowers the central government to enter into an agreement with the Government of any country outside India for granting relief in respect of income on which tax has been paid under Indian Income Tax Act and under Income Tax Laws of such other country. The finance bill proposes to empower the central government to enter into agreement even with non-sovereign jurisdictions. The proposed amendment would be effective from 01.10.2009.

29. DETERMINATION OF ARM'S LENGTH PRICE IN CASES OF INTERNATIONAL TRANSACTIONS:

- (i) Section 92C of the I.T. Act, empowers the Assessing Officer to make adjustment to the transfer price [shown by an assessee] of an international transactions. The price to be adopted is the "Arm's Length Price". Determination of such arm's length price has given rise to large number of litigation. Therefore it is proposed to empower CBDT, by way of sub-ordinate legislations, to frame and formulate "safe harbor" Rules. These rules will provide circumstances under which Assessing Officer shall accept disclosed price. Rules would be prescribed only after the finance bill is finally passed. This amendment will come in operation form 01.10.2009.
- (ii) The methods of determining arm's length price are mentioned in Section 92. Five methods have been named along with such method as may be prescribed by CBDT.

Different methods may lead to different transfer prices. Existing provisions are that average of such prices will be the arm's length transfer price. It is also provided that at the option of the assessee a price which may vary from arithmetical mean by an amount not exceeding five per cent is to be taken as arm's length price. These provisions have led to considerable conflict between assessee and Income Tax Department.

To resolve the conflict an amendment is proposed. As per amendment proposed arm's length price will be determined by the existing provisions. However, if the arithmetical mean, so determined, is less than five per cent of the transfer price adopted by the assessee, then the disclosed transfer price will be treated as arm's length price requiring no further adjustment by Transfer Pricing Officer or by assessing officer. This amendment will be effective from 01.10.2009 and would apply to all pending matters before Transfer Pricing Offices as on or after 01.10.2009. This amendment will reduce conflict to some extent.

30. ALTERNATIVE DISPUTE RESOLUTION MECHANISM:

Large number of disputes are arising as regards determination of transfer pricing and other foreign transactions of foreign companies. Such disputes take years and years before getting resolved. The Finance Minister in his budget speech indicated about his proposal of creating an Alternative Dispute Resolution Mechanism. A new section, Section 144C is being inserted to establish a dispute resolution panel and the mechanism of operation thereof. Salient features are:

- (i) Whenever an assessing officer, in regard to an eligible assessee, makes any variations [prejudicial to the assessee] in the income or loss, then he will prepare a draft order and send to the Dispute Resolution Panel [consisting of three commissioner level officers].
- (ii) The assessee may file his objection within 30 days of receipt of draft order by him.
- (iii) The DRP will give an opportunity of hearing to parties. DRP may make its own inquiry and even issue summons u/s.131 for finalizing the matter.
- (iv) After enquiry if any and after hearing the assessee, DRP will issue its directions which would be binding on Assessing Officer.
- (v) The collegian of commissioners has to pass an order within 90 days of the receipt of draft order.
- (vi) If members of DRP differ in opinion on any point, the point shall be decided according to opinion of the majority of members.
- (vii) The Assessing Officer shall pass the order accordingly as the order of DRP is binding on Assessing Officer.
- (viii) The appeal against such order of the Assessing Officer will be before the Income Tax Appellate Tribunal.

31. SPECIAL PROVISIONS FOR COMPUTING PROFIT AND GAINS OF BUSINESS ON PRESUMPTIVE BASIS.:

Under the existing provisions of law, income is taxable under presumptive taxation basis u/s. 44AD of civil construction work or supply of labour and u/s. 44AF retail business. Now Section 44AD is proposed to be replaced providing that profit on business from any nature of activities not being activities covered u/s. 44AE having turnover not exceeding Rs. 40.0 lakhs, profit will be computed at 8% of gross turnover /gross receipt. The assessee opting for the scheme is not obliged to maintain books of account and shall not be liable for payment of advance tax. It can be clarified that Partnership Firm, LLP can claim deduction for remuneration payable to Partners or interest as may be applicable. In case of income returned is below 8% such assessee will be required to maintain account and get account audited.

32. PRESUMPTIVE INCOME FOR TRUCK OWNERS U/S. 44AE

Under the existing scheme, the assessee engaged in the business of plying, hiring or leasing goods

carriers not owning more than 10 goods carriers at any time during previous year is entitled to be assessed under the presumptive taxation at the rate of Rs.3,500/- per month in case of heavy vehicles and Rs. 3,150/- per month in case of light vehicles. Now it is proposed to enhance the presumptive income for vehicle owners:

- (i) heavy goods vehicles to Rs. 5,000/- per month
- (ii) Other than heavy goods vehicles to Rs. 4,500/- per month.

33. DEFINITION OF MANUFACTURE

A new clause (29BA) is added to Sec. 2 to provide definition of 'manufacture'. It is defined as :

'Manufacture' with its grammatical variations, means a change in non-living physical object or article or thing-

- (a) resulting in transformation of the object or article or thing into a new and distinct object or article or thing having a different name, character and use; or
- (b) bringing into existence of a new and distinct object or article or thing with a different chemical composition or integral structure."

It will be applicable from 01.04.2009

34. DEDUCTION U/S. 36(1) (VIII) TO NATIONAL HOUSING BANK (NHB).

Finance Corporations and banking companies are entitled for creation of a reserve not exceeding 20% out of its profit under the existing provisions. Now, these benefits has been extended to National Housing Bank by the proposed amendment to the section.

35. INCOME TAX EXEMPTION TO SPECIAL UNDERTAKING OF UNIT TRUST OF INDIA (SUUTI)

Income of such undertaking was exempt from income tax vide sec. 13(1) of the Unit Trust of India (Transfer of Undertaking and Repeal) Act 2002 upto 31.01.2008. The exemption is extended till 31.03.2009

36. TAXATION OF INCOME/LOSS OF NON LIFE INSURANCE BUSINESS:

Taxable income of non life insurance is computed under sec. 44 read with rule 5 of First Schedule based on income disclosed in annual account as required under the Insurance Act 1939 subject to certain adjustments. Now accounts of insurer has to include profit or loss on realization/sale of investment in profit and loss account. Hence such gain/loss be considered in computation of income.

37. COMPENSATION ON VOLUNTARY RETIREMENT/TERMINATION OF SERVICES UNDER A SCHEME OF VOLUNTARY RETIREMENT. (VRS)

Compensation received under VRS Scheme is exempt to the extent of 5,00,000/- u/s. 10 (10C) of the Act. The assesseees have, simultaneously, claimed benefit u/s. 89 also which is being upheld by Courts. It is now provided by an amendment to sec. 89 and sec. 10(10C) that relief be available under one section. If relief is claimed in one section , it will not be allowable under another section.

38. COMMODITY TRANSACTION TAX:

It is proposed to be dropped.

39. DOCUMENTATION IDENTIFICATION NUMBER AND FACILITIES FOR ELECTRONIC COMMUNICATION :

With a view to improve communication, it is proposed to introduce a computer based system of allotting and quoting of Documentation Identification Number (DIN) in each correspondence send or received by I.T. Department. By way of amendment to Section 282B, it is provided that no correspondence to I.T. Department or from I.T. Department be valid unless bear a DIN Number. The provision will be effective 1st October, 2010. It is also proposed that any notice or summons or any other communications can be made by courier, any electronic records, such as E-mail, etc., and such services will be valid.

INDIRECT TAX PROPOSAL

(A) Custom Duty

(Changes comes into effects immediately unless otherwise stated.)

Major proposals about Custom Duties are as under :-

- Peak Rate structure remain Unchanged i.e.10%
- Custom Duty has been increased-

	Present	Proposed
Set top Box	-	5%
Gold bar and gold Coins	Rs 100 per 10gm	Rs 200 per 10 gm
Other form of golds	Rs 250 per 10gm	Rs 500 per 10gm
Silver	Rs 500 per kg	Rs 1000 per kg
Concrete batching plants (upto 50 Cum)	Nil	7.5%

- Custom Duty has been Reduced

Items	Present (%)	Proposed (%)
LCD Panels	10%	5%
Cotton waste / wool waste	15%	10%
Specified Raw materials/inputs for sports goods	5%	Nil
Unworked corals	5%	Nil
10 specified life savings drugs	10%	5%
Specified heart devices	7.5%	5%
Permanent magnets for generator above 500kw	7.5%	5%
Bio Diesel	7.5%	2.5%
Specified machinery for Tea, cotton & rubber plantations for one year	7.5%	Nil
Rock phosphate	5%	2%

Items	Present (%)	Proposed (%)
Part of mobile phone (extended for one year)	Nil	Nil
Mechanical harevester for coffee plantation	8%	Nil
Aerial passenger ropeway	Nil	4%
Packaged software / canned software	4%	Nil

(B) CENTRAL EXCISE DUTY

(Changes comes into effects immediately unless otherwise stated.)

- Basic rate structure is unchanged.
- Major Proposal in Excise duty are as under

Items	Present (%)	Proposed (%)
To have broadly uniform rate Certain concessional items except Food items like Biscuits, Cakes, Sharbat, drugs & pharmaceutical products under chapter 30, certain varities of paper, paperboard, pressure cooker etc.	4%	8%
Man made fiber & yarn	4%	8%
Beyond fibers and yarn stage optional	4%	8%
PTA / DMT	4%	8%
Polyster chips	4%	8%
Pure cotton optional	Nil	4%
Branded Articles & jewellery	2%	Nil
Large car / utility vehicle component	Rs20000 per vehicle	Rs15000 per vehicle
Truck / lorries	20%	8%
Special sprits	20%	14%
Naphatha	20%	14%
High speed diesel with 20% bio Diesel (obtained from vegetable oil)	8%	Nil

- Full exemption from excise duty has been provided on goods of chapter 68 manufactured at the site of construction for use in construction work at such site.
- Benefit of SSI exemption scheme has been extended to printed laminated rolls bearing the brand name of another person by excluding this item from the purview of the brand name restriction.
- On packaged or canned software, excise duty exemption has been provided on the portion of the value which represents the consideration for transfer of the right to use such software, subject to specified condition.
- Section 14A and 14AA of the central Excise Act are being amended so as to empower the chief commissioner of central excise to nominate a chartered accountant for conducting special audit under these provision.
- A new rule is being inserted in central excise rules, 2002 to provide that records seized by the department during an investigation but not relied upon in the show cause notice should be returned to the party within 30 days of issue of show cause notice.
- An explanation is being inserted in rule 2 of Cenvat credit rules, 2004 so as to clarify that inputs shall not include cement, angles, channels, CTD or TMT bars and other items used for construction of shed, building or structure for support of capital goods.
- Rule 6(3) of the Cenvat Credit rules, 2004 is being amended to prescribe that a manufacturer of both dutiable and exempted goods, who does not maintain separate accounts of inputs, shall pay an amount equal to 5% of the total price of the exempted goods instead of 10%.
- High court is empowered to condone delay in filing of appeals in cases where appeal is filed beyond 180 days.

(C) SERVICE TAX

- Major changes are as under and the changes will come into effect from date to be notified after the enactment of the finance bill (2), 2009 unless otherwise stated.

- No change in rate of service tax i.e. 10%
- Annual threshold limit of service tax exemption for small service provider is remain unchanged i.e. Rs 10 lacs p.a.

Service tax imposed on the following

- Transport of goods by rail.
- Transport of coastal cargo and inland water.
- Advice, consultancy duty in the field of law provided service provider and service receiver are not an individual.
- Cosmetics & plastic surgery.

Exemption from service tax with effect from 7/7/2009

- Transportation of passenger under contract carriage permit with specific condition i.e. point to point destination.
- Foreign currency transaction between scheduled banks.
- Transport charges to GTA & commission paid to foreign agent (upto 10% of FOB) are exempted if exporter is liable to pay service tax under reverse mechanism subject to compliance of certain conditions.
- Exporter promotion councils / FIEO service like membership fees & other charges.
- Sub broker under stock broker service is now outside the purview of service tax.
- Refund of service tax to the exporter.

0.25% of FOB value	Self declaration by exporter
Beyond 0.25% of FOB Value	Certification by CA.

- Rule 6(3) of the Cenvat credit Rules, 2004 is being amended so as to provide that a service provider of both taxable and exempted services, who does not maintain separate accounts of inputs, shall pay an amount equal to 6% of the value of exempted services instead of 8%.
- Rule 3 (5B) of the cenvat Credit rules, 2004 is being amended so as to provide that a service provider shall pay back the amount of credit taken on inputs/capital goods fully written off.

Revised rate of abatement under MRP base assessment

	Present Abatement	Proposed Abatement
Vitrified / Glazed tiles	40%	45%
LPG gas stove	30%	35%
Mp3 Player	30%	35%
Tooth Brush	25%	30%

(E) Central Sales Tax (CST)

CST rate has remain unchanged i.e.2%.

OTHER CHANGES

Under Business Auxiliary service-

- At present all manufacturing activities are excluded from service tax. Now exemption is restricted to the manufacturing activity of excisable goods which are specified in central excise tariff.

Information technology software service-

- Include the activity of providing the right to use information technology software instead of acquiring the right to use (w.e.f.16/05/2008)
- Retrospective benefit of exemption to service provided to goods transport agent by specific service providers has been granted (w.e.f.1/1/2005) now. GTA can get refund on such service.
- Valuation under work contract composite scheme 2008:Rate of tax applicable is 4.12%. Now gross amount for computing tax under the scheme will include the value of goods whether sold separately or supplied free of cost by the client (w.e.f.7/7/2009)
- Justification of levy of service tax has been extended to installation, structure and vessels in the entire continental shelf of India and exclusive economic zone of India (w.e.f.7/7/2009)

(D) Goods & service tax (GST)

- Introduction of GST w.e.f.1/4/2010
- GST roadmap with a dual GST structure i.e. central as well as state level whereby the centre and state will each legislate, levy and administer the central GST and state GST respectively.

NOTES

