

BUDGET-2010



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 • URL: www.sljainindia.com

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

Phone :- 0361-2600471

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M/s. Shankarlal Jain & Associates

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FOREWORD

The Finance Minister (FM) had the daunting task of balancing the fiscal deficit. With the rising inflation and the global recession in the last year, the Common Man was certainly looking up to Budget 2010 and hoping for reasonable tax reliefs. This year the expectations were fairly low and therefore in all probability the FM have anyway scored with most people. The FM has opted for the middle of the road budget, neither harsh nor soft, neither populist nor radical reformer. Given the political and fiscal constraints the budget appears to be imaginatively crafted, blending realism with rhetoric and modest effort at resource mobilization. Curbs on non-plan spending than stiff taxation will reduce fiscal deficit to 5.5% of GDP next year.

The GDP grew by 7.2% in current year as reflected by the Economy Survey, the FM averred that the fiscal stimulus, in conjunction with a proactive monetary stance, had made this possible and he sounded optimistic that a double digit surge is possible in the near future.

The announcement of RBI considering some additional banking licenses to private companies and NBFCs and banking facility to reach village with population over 2000 by March 2012 is a right step in expanding the fiscal consolidation, however the reason cited to issue new licenses so that it reaches the rural areas is questionable as it needs to be seen how many of the new players does so.

The FM acknowledged that the globally accepted phenomenon of increase in tax compliance being directly proportional to reduction of tax rates is true for India as well. With an intention to provide the common man with more net disposable income to combat the inflationary trends, the existing income slabs subject to tax have been modified. Without changing the tax rates or the minimum annual threshold limits, the FM has increased the income threshold at which the higher rates of tax apply. However, the much talked about education cess remains at 3 per cent. In line with the policy of boosting the infrastructure sector by promoting investments, an individual who invests in long term infrastructure bonds (to be notified by the Government) will now get an additional deduction for the amount invested in such bonds to the extent of Rs. 20,000. This is a good measure as presently there is a tax deduction limit of Rs 100,000 which is anyways having various investment options all lumped up together. An individual who invests in these infrastructure bonds will also be able to get incremental tax reliefs. Regarding the provisions relating to certain gift transactions being classified as taxable income, a welcome change is that immovable property transferred for inadequate consideration is no longer subject to tax in the hands of the recipient of the property. In many such immovable

property transfer transactions, there is a significant time gap between the booking of the property and obtaining possession of the same.

Continuing the Government's endeavor to simplify tax administration, individual salaried tax payers will now be able to furnish their return in a simpler two pager SARAL-2D form. This will hopefully further enhance voluntary tax compliance. The FM was persuaded to increase the taxable income slab rates, by the response of the Aam admi in increasing the tax compliance and consequently the tax collections. The new tax code is likely to be implemented by April 2011. How much of it will be implemented is a question that yet remained unanswered. GST is also to be implemented by 1st April 2011, hopefully!

Due to excise / custom duty hike, there are few items which will get expensive going forward - Cigars and cigarettes, TVs, air-conditioner, cars, petrol, diesel, gold and silver fall in this category. Fuel prices are also set to increase against the back drop of the announcement of restoration of basic duty on petrol, diesel and crude petroleum and a rise of Re 1 in central excise duty and 7.5 per cent levied on custom duty as against the earlier 2.5 per cent. This would roughly translate to an increase of Rs 2.67/litre on petrol and Rs 2.68/litre on diesel. There were tax concessions which made some goods cheaper - Mobile accessories, medical equipment, energy efficient CFL lamps, set top boxes, compact disc, toys and books. Hence here the effluent class has been made happy by reducing the cost of mobile, set top boxes, toys etc., whereas the aam admi will bear the brunt of increase in the value of petrol and diesel.

The FM had nothing much for reduction of food inflation / prices which would provide a huge relief to the 'Aam Janta' to everyone else. The FM did leave us with a view that there will be efforts to curb the upward spiraling food inflation over the next 2 months. We all have to keep an eye on inflation. Further, there was no encouragement to FDI which would have been desirable to provide steam to the economy and considering the aggressive infrastructure plans and lowering of fiscal deficit is significantly dependant on the disinvestment process.

In all the finance minister did not try anything spectacular. In summary, the budget while being a middle of the road budget has brought a few smiles on the faces of the common man.

Regards,

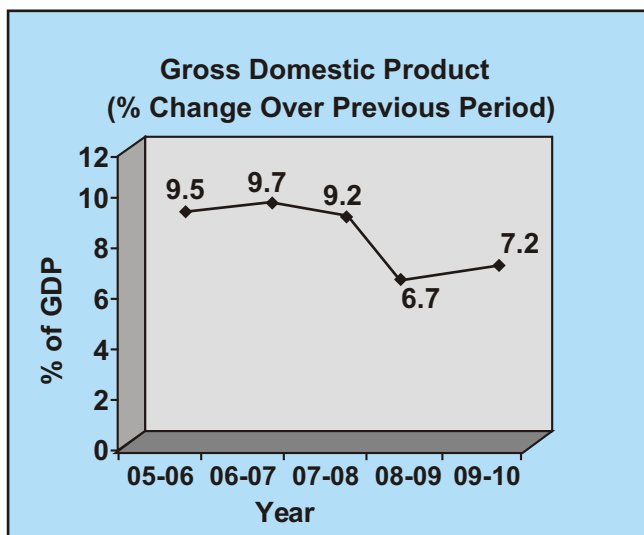


(S.L. JAIN)

ECONOMIC SURVEY: 2009-10

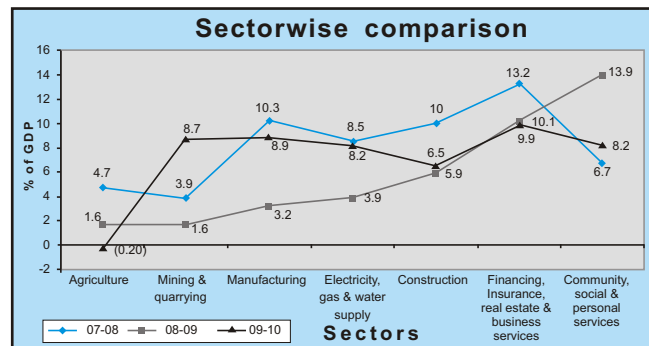
The economic survey presented before parliament showed a recovery. It shows growth of 7.2% as against 6.7% in previous year. The continued recession in the developed world, for the better part of 2009-10, meant a sluggish export recovery and a slowdown in financial flows into the economy. Yet, over the span of the year, the economy posted a remarkable recovery, not only in terms of overall growth figures but, more importantly, in terms of certain fundamentals, which justify optimism for the Indian economy in the medium to long term.

This recovery is impressive for at least three reasons. First, it has come about despite a decline of 0.2 per cent in agricultural output, which was the consequence of sub-normal monsoons. Second, it foreshadows renewed momentum in the manufacturing sector, which had seen continuous decline in the growth rate for almost eight quarters since 2007-08. Indeed, manufacturing growth has more than doubled from 3.2 per cent in 2008-09 to 8.9 per cent in 2009-10. Third, there has been a recovery in the growth rate of gross fixed capital formation, which had declined significantly in 2008-09 as per the revised National Accounts Statistics. The real turnaround came in the second quarter of 2009-10 when the economy grew by 7.9 per cent.



The economic growth of 09-10 is 7.2%. As compared to previous year there is a recovery in Gross Domestic Product which is depicted in the movement chart.

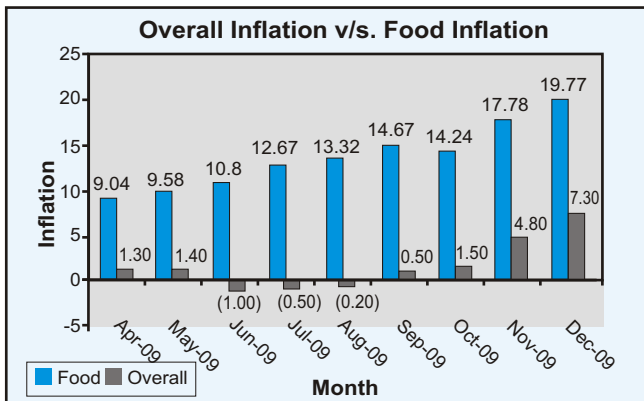
The recovery in growth as compared to previous year was spread all across the economy except for Agricultural sector, Community, Social & Personal services and Financing, Insurance, real estate & business services.



In the agricultural sector 2009-10, the impact of the delayed and sub-normal monsoon is reflected in terms of decline in growth rate. It affected the production and acreage data for kharif crops. Overall production of kharif cereals in 2009-10 has shown a decline of 18.51 million tonnes over 2008-09. In terms of acreage, the kharif 2009-10 season saw a decline of nearly 6.5 per cent in the area covered under foodgrains. There were various other problems apart from adverse impact of climate change causing a downtrend in agricultural sector such as low yield per crop, low Production and productivity in pulses and oilseeds, consistent decline in the share of private sector investment in the agriculture sector, inability of a large number of small and marginal farmers to directly access the agrimarkets, soil erosion, lack of irrigation facilities etc.

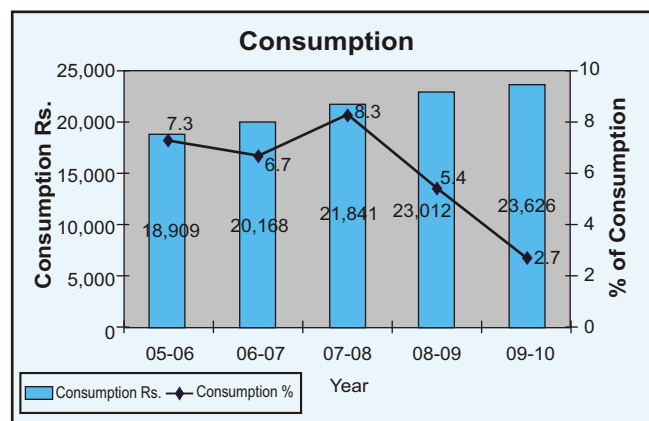
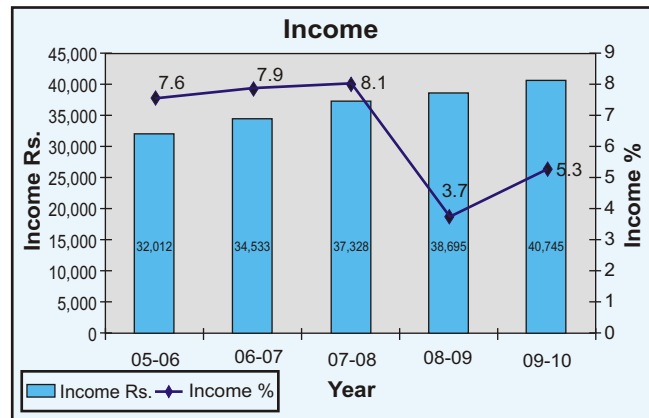
To sum up renewed attention needs to be paid to improving farm production and productivity, better utilization of agricultural inputs, proper marketing infrastructure and support, stepping up investment in agriculture with due emphasis on environmental concerns and efficient food management.

A major concern during the year 2009-10, especially in the second half, was the emergence of high double-digit food inflation. A significant part of this inflation can be explained by supply-side bottlenecks in some of the essential commodities, precipitated by the delayed and sub-normal southwest monsoons. Since December 2009, there have been signs of these high food prices, together with the gradual hardening of non-administered fuel product prices, getting transmitted to other non-food items, thus creating some concerns about higher than anticipated generalized inflation over the next few months. On a year-on-year basis, wholesale price index (WPI) headline inflation in December 2009 was 7.3 per cent but for food items (primary and manufactured) it was 19.8 per cent (WPI).



The growth rates in per capita income and consumption, which are gross measures of welfare in general, have declined in the last two years. This is a reflection of the slowdown in the overall GDP growth. While the growth in per capita income, measured in terms of GDP at constant market prices, has declined from a high of 8.1 per cent in 2007-08 to 3.7 per cent in 2008-09 and then recovered to 5.3 per cent in 2009-10, per capita consumption growth as captured in the private final consumption expenditure (PFCE) shows a declining trend since 2007-08 with its growth rate in 2009-10 falling to one third of that in 2007-08.

The industrial sector showed a recovery during the year the growth rate was 8.9%. The IIP industrial growth is estimated at 7.7 per cent for the period



April- November 2009-10, significantly up from 0.6 per cent during the second half of 2008-09. The manufacturing sector, in particular, has grown at the rate of 8.9 per cent in 2009-10.

The major industrial groups like automobiles, rubber and plastic products, wool and silk textiles, wood products, chemicals and miscellaneous manufacturing staged a strong recovery during April-November 2009, while machinery and textile products reinforced their growth led by cement, non-metallic mineral products also staged a recovery, albeit a modest one. After posting a growth of around 14 per cent annually in the eight-year period ending 2008-09, beverages and tobacco products experienced a slump in the current year. Product groups like paper, leather, food and jute textiles did not evince any visible recovery. Cotton textiles and metal products have also been experiencing lackluster growth since 2007-08. Overall, the picture is a mixed one in the analysis of major industrial groups.

Infrastructure services that were affected by the slowdown in general economic activity during the previous year have gradually revived in the current fiscal. The growth of power generation during April-December 2009 was about 6.0 per cent as compared to about 2.7 per cent during April-December 2008. The actual capacity addition during April- December 2009 was only 43.9 per cent of the target of 14,507 mega watt (MW) for the current fiscal, with the corresponding achievements by the Central, State and private sectors being at 29.4 per cent, 40.5 per cent and 54.8 per cent respectively. This was achieved despite constraints imposed by the inadequate availability of coal and fall of 7.4% in hydroelectricity generation owing to the failure of monsoons. There is robust growth momentum in telecommunications, particularly the wireless segment, continues with monthly additions exceeding 17.6 million connections.

Service sector comprising of the sub-sectors trade, hotels, transport and communications; financing, insurance, real estate and business services; and community, social and personal services grew at 8.7 per cent in 2009- 10 as against a growth of 9.8 per cent in 2008-09. There has been a significant dip in the growth of community social and personal services which is 8.2% in 2009-10 as against 13.9% in 08 -09. There was marginal downfall in Financing, Insurance, Real Estate & Business Services which show a growth of 9.9 % in 2009-10 against 10.1% in 2008 -09.

Indian capital markets recovered and gained strength during the year as a result of Positive domestic factors, such as better than expected performance of corporates and banks and higher GDP growth during the second quarter, foreign institutional investment inflows.

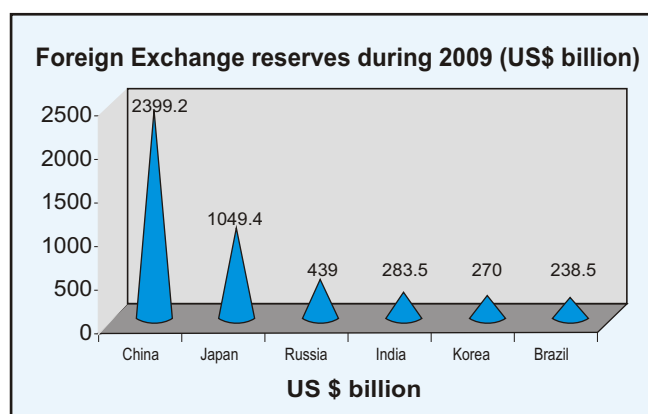
The Bombay Stock Exchange (BSE) Sensex recorded a high of 17,126.84 during the month of September 09. The resource mobilization from the primary market through equity investments was sluggish in

2009, there was an increase in debt market activity and private placements. Though the total number of initial public offerings (IPOs) declined to 20 in 2009 from 37 in 2008, The amount raised through IPOs, however, increased slightly in 2009 to Rs 19,296 crore from Rs 18,393 crore in 2008. The total amount mobilized through equity issues in 2009 was lower at Rs 23,098 crore as compared to Rs 49,485 crore raised in 2008. The total amount mobilized through three debt issues during 2009 was Rs 3,500 crore as against no issue in 2008. The amount raised through ADR/GDR was Rs 15266 crore in current year as against Rs.6271 crore in previous year report increase of 143.44%. The total amount raised through private placement of debt in 2009 at Rs 2,38,226 crore was higher by 53.0 per cent than its previous year's level of Rs 1,55,743 crore. Total resources mobilized through the primary market at Rs 2,80,090 crore recorded an increase of 32.4 per cent in 2009. Total resources mobilized through the primary market at Rs 2,80,090 crore recorded an increase of 32.4 per cent in 2009. During 2009, total net resources mobilized by MFs increased to Rs 1,43,775 crore as compared to net redemptions amounting to Rs 624 crore in 2008. The fresh issues of Government of India (GoI) dated securities in 2009 amounted to Rs 4,89,000 crore as against Rs 2,04,317 crore.

Total traded volume in corporate bonds during April-December 2009 was Rs 2,42,686 crore, that is higher by 173.4 per cent over the Rs 88,750 crore during April-December 2008. The total value of trades in the commodity futures market rose from Rs 50.34 lakh crore in 2008 to Rs 70.90 lakh crore during 2009. The average daily value of trades in the commodity exchanges improved from Rs 16,400 crore during 2008 to Rs 23,200 crore in 2009.

During fiscal 2009-10, foreign exchange reserves increased by US\$ 31.5 billion from US\$ 252.0 billion in end March 2009 to US\$ 283.5 billion in end December 2009. Out of the total accretion of US\$ 31.5 billion,

US\$ 11.2 billion (35.6 per cent) was on BoP basis (i.e. excluding valuation effect), because of higher inflows under FDI and portfolio investments, while accretion of US\$ 20.3 billion (64.4 per cent) was on account of valuation gain due to weakness of the US dollar against major currencies. During 2009-10, the accretion in foreign exchange reserves on a BOP basis was US\$ 9.5 billion in April-September 2009 as against a decline of US\$ 2.5 billion during the corresponding period of the previous year. This was mainly on account of higher capital inflows to the tune of US\$ 17.9 billion in the form of portfolio investment in current year vis-a-vis an outflow of US\$ 5.5 billion previous year. Country-wise details of foreign exchange reserves reveal that India is the fourth largest foreign exchange reserves holder in the world.



In fiscal 2009-10, the rupee has strengthened against the US dollar on the back of significant turnaround in FII inflows, continued inflows under FDI and NRI deposits, better macroeconomic performance of the Indian economy and weakening of the US dollar in international markets. The rupee exhibited significant strength against the US dollar in October 2009. The rupee/US dollar exchange rate, which was Rs 50.95 per dollar in end-March 2009, appreciated to Rs 46.64 per dollar as on January 1, 2010. At this level, the Indian rupee has appreciated by 9.2 per cent over its March 31, 2009 level. Over the same period, the rupee recorded an appreciation of 1.0 per cent against the euro and 3.5 per cent against the Japanese yen.

However, it depreciated by 3.4 per cent against the pound sterling.

During the first half of 2009-10, total external debt increased by US\$ 18.2 billion (8.1 per cent) to US\$ 242.8 billion (Rs 1,166,217 crore). Long-term debt posted an increase of US\$ 19.2 billion (10.6 per cent) to stand at US\$ 200.4 billion, while short term debt fell by US\$ 985 million (-2.3 per cent) to stand at US\$ 42.4 billion. The share of long-term debt was higher at 82.5 per cent in end-September 2009 as against 80.7 per cent in end-March 2009.

The Indian economy is pegged to grow marginally higher as compared to previous year, the medium term prospect of the Indian Economy are really strong. If, in addition to this, there are improvements in infrastructure, both urban and rural, and reform in governance and administration, which cuts down bureaucratic transactions costs that slow down enterprise in India and breed corruption, it is entirely possible for India to move into the rarefied domain of double-digit growth and even attempt to don the mantle of the fastest-growing economy in the world within the next four years.

OVERALL SECTORAL IMPACT

Sector	Policy	Impact	Effect
Automobiles	<ul style="list-style-type: none"> ❖ Ad valorem component of excise duty raised by 2% on small cars to 10% and large cars, multi utility vehicles and sports utility vehicles to 22%. ❖ Central Excise Duty on petrol and diesel increased by Re.1 per litre. 	<ul style="list-style-type: none"> ● There will be price rise due to pressure of roll back of excise duty benefit." 	U
Banking & Finance	<ul style="list-style-type: none"> ❖ Rs.16500 crore allocated for public sector banks in order to attain minimum 8% TIER I capital. ❖ RBI considering some additional banking licenses to private companies and NBFCs ❖ Banking facility to reach village with population over 2000 by March 2012. 	<ul style="list-style-type: none"> ● Lower budgeted fiscal deficit is positive. ● Additional licenses to increase competition. ● Continued commitment of government towards supporting public sector banks is positive. 	F
Cement	<ul style="list-style-type: none"> ❖ Increase in excise duty to 10% ❖ Import duty of Rs.50 on import of coal and coal produce in India. ❖ Increase in petrol and diesel by Re.1 per litre. 	<ul style="list-style-type: none"> ● The increase in excise duty will put pressure on pricing which will be passed on to customer. ● The increase in cost of coal will impact input cost of companies. ● Due to increase in fuel prices freight cost is expected to go up. 	U
Education	<ul style="list-style-type: none"> ❖ Allocation of funds to education sector increased to Rs.1.38 lakh crore. ❖ Planned allocation for school education has been raised to Rs.31,036 crore. 	<ul style="list-style-type: none"> ● Additional allocation of funds and increased allocation for the sector is positive move. 	F
FMCG	<ul style="list-style-type: none"> ❖ ECB policy for food processing sector. ❖ The sector to see five more mega food park projects. ❖ No increase in service tax. ❖ Relief in personal income tax slab. 	<ul style="list-style-type: none"> ● Increased focus on rural sector is positive. ● Relief in personal Income Tax slab will put more money in hand of consumer. ● Encouragement of private participation in food grain storage capacity and focus on food processing sector positive for food companies. 	F
Information Technology	<ul style="list-style-type: none"> ❖ No STPI extension. ❖ No change in service tax rates. ❖ Rs.1,900 crore allocated for UID project. 	<ul style="list-style-type: none"> ● Increased allocation to UID is positive. ● Funding for education, rural and urban infrastructure would hike demand for IT domestically. ● No STPI extension and increase in MAT will be detrimental. 	N

[F] Favourable

[U] Unfavourable

[N] Neutral

OVERALL SECTORAL IMPACT

Sector	Policy	Impact	Effect
Oil & Gas	<ul style="list-style-type: none"> ❖ Levy of customs duty of 5% on crude oil. ❖ Increase in customs duty on petrol and diesel to 7.5%. ❖ Increase in Excise Duty on petrol and diesel by Re.1 per litre. 	<ul style="list-style-type: none"> ● Retail prices of petrol and diesel likely to be increased. ● Increase in duties will lead to increase in input cost & under recovery will increase which be negative for oil companies. 	U
Pharmaceuticals	<ul style="list-style-type: none"> ❖ Increases allocation for health and family welfare to Rs.22,300 crore. ❖ At present, medical equipment attracting varying rates of customs duty and are spread over many lists. This multiplicity of rates is being done away with. ❖ Weighted deduction of expenditure incurred on in-house R & D increased to 200% 	<ul style="list-style-type: none"> ● Increase in allocation for health and family welfare positive. ● Increase in weighted deduction of expenditure in in-house R & D will affect drug makers engaged in research for developing new drugs 	F
Power	<ul style="list-style-type: none"> ❖ Plan allocation for power sector more than doubled to Rs.5,130 crore. ❖ Increased allocation for Ministry of new and renewable energy to Rs.1,000 crore. ❖ Ladakh region of Jammu & Kashmir has been allocated Rs.500 crore for setting up solar, small hydro and micro power projects. 	<ul style="list-style-type: none"> ● Solar energy to get big boost. ● Solar energy equipment makers will get boost due to waiver of Central Excise duty. ● Companies setting up solar power plants will be able to import technology easily due to concessional customs duty at 5%. 	F
Real Estate	<ul style="list-style-type: none"> ❖ Service tax of 10.3% applicable for projects under construction. ❖ Extension of completion of project timeline by one year u/s 80IB. ❖ Increased built up area for commercial spaces in housing projects. 	<ul style="list-style-type: none"> ● Extension u/s 80IB a breather for developer. ● Application of 10.3% service tax would make real estate costlier 	N
Retail	<ul style="list-style-type: none"> ❖ Increase focus on rural development and incentive for rural consumer. ❖ Revision in personal tax slab. ❖ No change in FDI. 	<ul style="list-style-type: none"> ● With no change in FDI retailer will have to seek other modes of fund raising. ● Focus on rural development may lead to increase in consumer base. 	N

F Favourable

U Unfavourable

N Neutral

FINANCE BILL 2010

Various amendments carried out by the Finance Bill, 2010 are summarized herein below.

1. RATE OF INCOME TAX

- I. Following changes are sought to be made in rates of Income Tax and in the slabs in cases of individuals, Hindu Undivided Families, AOP, Body of Individuals and Artificial Juridical Persons.

Slab of Income (Rs.)		Rate of Income Tax %
Male Individual	Rs.1,60,000	Nil
Female Individual	Rs.1,90,000	Nil
Persons who are of the age of 65 years on any day in the previous year	Rs.2,40,000	Nil
Male Individual	Rs.1,60,001 to Rs.5,00,000	10
Female Individual	Rs.1,90,001 to Rs.5,00,000	10
Persons who are of the age of 65 years on any day in the previous year	Rs.2,40,001 to Rs.5,00,000	10
For all above	Rs. 5,00,001 to Rs. 8,00,000	20
For all above	Rs. 8,00,001 and above	30

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

III. Firm LLP and Local Authority:

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

There is no surcharge on all assesseees mentioned in parts I, II, III for Assessment Year 2011-12. However, education cess and secondary & higher education cess shall continue to be levied @ 2% and @ 1% respectively on Income Tax.

IV. Domestic Company:

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

Surcharge is payable @7.5% if its income exceeds Rs.1,00,00,000/- Marginal relief will be available for surcharge.

Surcharge is payable @ 7.5% in all payments falling under section 115JB, 115-O, 115R etc.

V. 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/-. Marginal relief will be available for surcharge.

Note : Education cess @ 2% and 'Secondary and Higher education cess' @ 1% is levied on Income tax payable including surcharge, if any, in cases of Domestic & Foreign companies.

2. MINIMUM ALTERNATE TAX (MAT):

Under the present provisions of Section 115JB, if tax payable by a company in any years is less than 15% of its book profit, such company is liable to pay MAT at 15% 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 the proposed

amendment, it is provided that for A.Y.2011-2012 in case income tax payable is lower than 18% of book profit, tax will be payable at 18% on its book profit. Surcharge, if any, and cesses are applicable.

3. TAX DEDUCTED AT SOURCE

I. Under the scheme of deduction of tax at source as provided in the Income-tax Act, every person responsible for payment of any specified sum to any person is required to deduct tax at source at the prescribed rate and deposit it with the Central Government within the specified time. However, no deduction is required to be made if the payments do not exceed prescribed threshold limits.

It is proposed to raise the threshold limit for payments mentioned in sections 194B, 194BB, 194C, 194D, 194H, 194-I and 194J as under :

II. Certificate of Tax Deduction at Source (TDS) and Tax Collection at Source (TCS):

The existing provisions of section 203(3) of the Income-tax Act dispense with the requirement of issuing of TDS certificates by the deductor to the deductee on or after 1st April, 2010. Similarly, under section 206C(5) of the Act, a collector of tax at source will also not be required to issue tax collection certificate to the person from whom tax has been collected on or after 1st April 2010. It is proposed that the deductor/collector will continue to furnish TDS/TCS certificates to the deductee/collectee even after 1st April, 2010.

III. Rate at which TDS is deductible continues to be same as in last year. No cess will be deductible.

4. DEDUCTION IN RESPECT OF LONG-TERM INFRASTRUCTURE BONDS

A new section 80CCF is proposed to be introduced providing that subscription during the financial year 2010-11 made to long term infrastructure bonds (as may be notified by the

Threshold limits for Tax Deducted at Source				
Sr.No.	Section	Nature of payment	Existing threshold limit of payment (Rupees)	Proposed threshold limit of payment (Rupees)
1	194B	Winnings from lottery or crossword puzzle	5,000	10,000
2	194BB	Winnings from horse race	2,500	5,000
3	194C	Payment to contractors	20,000 (for a single transaction) 50,000 (for aggregate of transactions during financial year)	30,000 (for a single transaction) 75,000 (for aggregate of transaction during financial year)
4	194D	Insurance commission	5,000	20,000
5	194H	Commission or Brokerage	2,500	5,000
6	194-I	Rent	1,20,000	1,80,000
7	194J	Fees for professional or technical services	20,000	30,000
These amendments are proposed to take effect from 1st July, 2010.				

Central Government), to the extent of Rs.20,000 shall be allowed as deduction in computing the income of an individual or a Hindu undivided family. This deduction will be over and above the existing overall limit of tax deduction on savings of upto Rs.1 lakh under section 80C, 80CCC and 80CCD of the Act.

5. DEDUCTION IN RESPECT OF HEALTH INSURANCE PREMIA [SECTION 80D]

Under the existing provisions of section 80D, deduction in respect of premium paid towards a health insurance policy upto a maximum of Rs.15,000 is available for self, spouse and dependent children. A further deduction of Rs. 15,000 is also allowed for buying an insurance policy in respect of dependent parents. The deduction is enhanced to Rs.20,000 in both cases if the person insured is of age of 65 years or above.

The central Government Health Scheme (CGHS) is a medical facility available to serving and retired Government servants. It is, therefore, proposed to also allow deduction in respect of any contribution made to CGHS by including such contribution under the provisions of section 80D. The deduction will be limited to the current aggregate as mentioned in the section.

6. CHARITABLE TRUSTS

I. For the purposes of the Income-Tax Act, "charitable purpose" has been defined in section 2(15) which, among others, includes "the advancement of any other object of general public utility". However, "the advancement of any other object of general public utility" is not a charitable purpose, if it involves the carrying on of any activity in the nature of trade, commerce or business, or any activity of rendering any service in relation to any trade, commerce or business, for a cess or fee or any other consideration, irrespective of the nature of use or application, or retention, of the income from such activity.

An absolute restriction on any receipt of commercial nature created hardship to the organizations which receive sundry considerations from such activities. It is, therefore, proposed to amend section 2(15) to

provide that "the advancement of any other object of general public utility" shall continue to be a "charitable purpose" if the total receipts from any activity in the nature of trade commerce or business, or any activity of rendering any service in relation to any trade, commerce or business do not exceed Rs.10 lakhs in the previous year.

The amendment is effective from 1st April, 2009

II. A power is proposed to be given to Commissioner to cancel registration granted u/s 12A by proposed amendment to Section 12AA. The amendment is to be effective from 1st June, 2010.

7. TAX AUDIT U/S 44AB

The limit for tax audit exists at Rs.40 lakhs for business and Rs.10 lakhs for professionals. The finance Bill proposes to increase the threshold limit to Rs.60 lakhs and Rs.15 lakhs for business and for professionals respectively. Maximum penalty imposable u/s 271B for default in getting accounts audited is proposed to be increased to Rs.1,50,000 from Rs.1,00,000.

8. DISALLOWANCE OF EXPENDITURE ON ACCOUNT OF NON-COMPLIANCE WITH TDS PROVISIONS

The existing provisions of section 40(a)(ia) of Income-tax Act provide for the disallowance of expenditure like interest, commission, brokerage, professional fees, etc., if tax on such expenditure was not deducted, or after deduction was not paid during the previous year. However, in case the deduction of tax is made during the last month of the previous year, no disallowance is made if the tax is deposited on or before the due date of filing of return.

It is proposed to amend the said section to provide that no disallowance will be made if after deduction of tax during the previous year, the same has been paid on or before the due date of filing of return of income specified in sub-section (1) of section 139.

This amendment is proposed to take effect retrospectively from 1st April 2010 and will, accordingly, apply in relation to the assessment year 2010-11 and subsequent years.

In other words, the tax deducted in the Financial

year 2009-10 could be paid to Government account within the time allowed for filing of return of Assessment Year 2010-11. However, if TDS is paid after the due date for filing of return of income, the expenses will be allowed in the year in which such TDS is paid.

Interest is imposed u/s 201(1a) on account of non-deduction of TDS @ 1 per cent for every month or part of the month in case of non-deduction of tax and non-payment thereof. Now it is proposed that in case of deduction of TDS and non payment thereof such interest will be imposable at 1.5% of every month or part thereof. In case of non-deduction interest will be charged at 1% for every month or part thereof.

9. WEIGHTED DEDUCTION FOR RESEARCH & DEVELOPMENT

- I. Under the existing provisions of section 35(2AB) of the Income-tax Act, a company is allowed weighted deduction at 150 per cent of the expenditure (not being expenditure in the nature of cost of any land or building) incurred on scientific research on an approved in-house research and development facility. To further facilitate research, the deduction is sought to be increased to 200%.
- II. The existing provisions of section 35(1)(ii) of the Income-tax Act provide for a weighted deduction from the business income to the extent of 125 per cent of any sum paid to an approved scientific research association that has the object of undertaking scientific research or to an approved university, college or other institution to be used for scientific research. Further, under section 35(2AA) of the Act, weighted deduction to the extent of 125 per cent is also allowed for any sum paid to a National Laboratory or a university or an Indian Institute of Technology (IIT) or a specified person for the purpose of an approved scientific research programme. In order to encourage more contributions to such approved entities for the purposes of scientific research, it is proposed to increase this weighted deduction from 125 percent to 175 per cent. These amendments are proposed to take effect from 1st April, 2011 and will accordingly, apply in relation to the

assessment year 2011-12 and subsequent year.

- III. By proposed amendment to section 35(1)(iii), it is proposed to include an approved research association which has as its object undertaking research in social sciences or statistical research. It is also proposed to provide exemption to income of such associations u/s 10(21). such association has to be approved for availing exemption. The benefit of deduction to the person having income through that business has been extended u/s 80GGA

10. 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 an undertaking. The term "undertaking" replaced the term "Assessee" w.e.f. Assessment Year 2010-2011. By the proposed amendment the term "undertaking" will have retrospective effect from Assessment Year 2006-2007.

11. INVESTMENT-LINKED DEDUCTION FOR SPECIFIED BUSINESS [SECTION 35AD]

Above kind of investment deduction is available as per existing law for laying and operating a cross-country natural gas or crude or petroleum oil pipe network provided the pipe line is used at least to the extent of 33% as a common carrier excluding the assessee and its associates. This provision is sought to be amended by providing that the proportion to be used as common carrier will be specified by Regulations made by Petroleum and natural gas Regulatory Board. This amendment is effective from 1.4.2010 w.e.f. Assessment Year 2010-11.

A second amendment in this section is also proposed by which investment made in a two star and or higher star hotel anywhere in India (other than on land, goodwill and financial instrument) incurred wholly and exclusively will be fully (100%) deductible subject to other conditions provided in the section. The star hotels start functioning after 1.4.2010 be entitled to deduction.

12. HOUSING PROJECTS

Under the existing provisions of section 80-1B(10), 100 per cent deduction is available in respect of profits derived by an undertaking from developing and building housing projects approved by a local authority before 31.3.2008. This benefit is available subject to, inter alia, the following conditions:

(a) the project has to be completed within 4 years from the end of the financial year in which the project is approved by the local authority.

(b) the built-up area of the shops and other commercial establishments included in the housing project should not exceed 5 per cent of the total built-up area of the housing project or 2,000 sq.ft whichever is less.

It is now proposed to increase the period allowed for completion of a housing project in order to qualify for availing the tax benefit under the section, from the existing 4 years to 5 years from the end of the financial year in which the housing project is approved by the local authority. This extension will be available for housing projects approved on or after 1.4.2005.

Further, it is also proposed to enhance the current norms for built-up area of shops and other commercial establishments in housing projects in order to enable basic facilities for the residents. The built-up area of the shops and other commercial establishments included in the housing project is proposed to be three per cent of the aggregate built-up area of the housing project or 5000 sq.ft, whichever is higher. This benefit will be available to projects approved on or after the 1.4.2005, which are pending for completion, in respect of their income relating to assessment year 2010-11 and subsequent years.

These amendments are proposed to take effect retrospectively from 1st April, 2010 and will, accordingly, apply in relation to the assessment year 2010-11 and subsequent years.

13. DEDUCTION OF PROFITS OF A HOTEL OR A CONVENTION CENTRE IN THE NATIONAL CAPITAL TERRITORY

Section 80-ID of the Income Tax Act provides for

100 percent deduction for five years of profits derived by an undertaking from the business of a two-star, three-star or four-star category hotel or from the business of building, owning and operating a convention centre located in the National Capital Territory of Delhi and the districts of Faridabad, Gurgaon, Gautam Budh Nagar and Ghaziabad, provided such hotel has started functioning or such convention centre is constructed during the period 1.4.2007 to 31.3.2010.

To provide some more time for these facilities to be set up in light of the Commonwealth Games in October, 2010, it is proposed to amend clauses (i) and (ii) of section 80-ID to extend the date by which the hotel has to start functioning or the convention centre has to be constructed, from the present 31st March, 2010 to 31st July, 2010.

14. INCOME OF NON RESIDENT OF ROYALTY OR FEES FOR TECHNICAL SERVICES

Income by way of royalty or fees for technical services earned by non-residents or foreign company through a permanent establishment in India or professional services provided from fixed place, income shall be computed as per books of accounts maintained. Now it is clarified by amendment to the said section that such income will not be taxable at 10% under the provisions of section 44BB of Income Tax Act.

15. BUSINESS INCOME TAXABLE ON PRESUMPTIVE BASIS

Under the provisions of section 44AD profit and gains from business are taxable on presumptive basis for any business at 8% of the turnover if such turnover does not exceed Rs.40 lakhs. Now it is proposed to extend the limit of turnover to Rs.60 lakhs. Business eligible to be taxed u/s 44AD in case of partnership firm, assessee will be entitled to deduct salary and interest paid to partners u/s 40(b) of Income Tax Act. Assessee eligible to avail section 44AD are individuals, HUF, partnership firm. The business of plying, hiring or leasing goods carriage to which section 44AE is applicable is outside the scope of this section.

16. CONVERSION TO LIMITED LIABILITY PARTNERSHIP

Conversion of a private company or an unlisted public company into a limited liability partnership (LLP)

The Finance (No.2) Act, 2009 provided for the taxation of LLPs to Income-tax Act on the same lines as applicable to partnership firms. Section 56 and section 57 of the Limited Liability Partnership Act, 2008 allow conversion of a private company or an unlisted public company (herein after referred as company) into an LLP. Under the existing provisions of Income-tax Act, conversion of a company into an LLP has definite tax implications. Transfer of assets on conversion attracts levy of capital gains tax. Similarly, carry forward of losses and of unabsorbed depreciation is not available to the successor LLP.

It is proposed that the transfer of assets on conversion of a company into an LLP in accordance with section 56 and section 57 of the Limited Liability Partnership Act, 2008 shall not be regarded as a transfer for the purposes of capital gains tax under section 45, subject to certain conditions. These conditions are as follows:

- (i) the total sales, turnover or gross receipts of business of the company do not exceed sixty lakh rupees in any of the three preceding previous year;
- (ii) the shareholders of the company become partners in the LLP in the same proportion as their shareholding in the company;
- (iii) no consideration other than share in profit and capital contribution in the LLP arises to partners;
- (iv) the erstwhile shareholders of the company continue to be entitled to receive at least 50 per cent of the profits of the LLP for a period of 5 years from the date of conversion;
- (v) all assets and liabilities of the company become the assets and liabilities of the LLP; and
- (vi) no amount is paid, either directly or indirectly, to any partner out of the

accumulated profit of the company for a period of 3 years from the date of conversion.

It is also proposed to allow carry forward and set-off of business loss and unabsorbed depreciation to the successor LLP which fulfills the above mentioned conditions. However, unavailed benefit u/s 115JAA will not be available to LLP.

It is also proposed that if the conditions stipulated above are not complied with, the benefit availed by the company shall be deemed to be the profits and gains of the successor LLP chargeable to tax for the previous year in which the requirements are not complied with.

It is also proposed that the aggregate depreciation allowable to the predecessor company and successor LLP shall not exceed, in any previous year, the depreciation calculated at the prescribed rates as if the conversion had not taken place.

It is further proposed that the actual cost of the block of assets in the case of the successor LLP shall be the written down value of the block of assets as in the case of the predecessor company on the date of conversion.

It is also provided that the cost of acquisition of the capital asset for the successor LLP shall be deemed to be the cost for which the predecessor company acquired it.

These amendments are proposed to take effect from 1st April, 2011 and will, accordingly, apply in relation to the assessment year 2011-12 and subsequent years.

Further as per existing provisions in sections 47 of I.T. Act 1961, no capital gains is chargeable on conversion of a firm or a proprietary concern to a company. Now according to proposed amendment only a private company or a company in which public is not substantially interested can be converted into a LLP without any capital gains liability. No such relief is provided for conversion of a firm or a proprietary concern to a LLP.

17. TAXABILITY OF GIFT RECEIVED

In case an individual or an HUF is recipient of gift from a non relative such gift is taxable as a income in the hands of recipients subject to

exemption up to Rs.50,000/-. These provisions were extended to gift of any property. Property as per clause (vii) of Section 56(2) includes immovable property being land and building or both, shares, jewelry, drawings, paintings etc. The term "property" meant both capital assets as also stock-in-trade of business.

By the proposed amendment the term property would not apply to stock-in-trade, raw material and consumable stores of the business of the recipient. In other words the word "property" for the purposes of taxation under section 56(2) would mean property in the nature of capital assets of the recipient. 'Property' will also include "bullion".

In the existing provisions immovable property transferred to a non-relative recipient is subject to tax if the transfer consideration is less than the stamp value fixed by the Government. The difference between the stamp value and stated consideration is subjected to tax in hands of recipient. This provision has been omitted w.e.f. 1.10.2009. However, if the immovable property is gifted outright the stamp duty value will continue to be income and taxed accordingly.

A sub clause (vii) is sought to be introduced in section 56(2) of the Act. This is done to prevent the practice of transferring shares of companies in which public are not substantially interested at prices below the fair market value, it is proposed to amend section 56 to also include within its ambit transactions undertaken in shares of a company (not being a company in which public are substantially interested) either for inadequate consideration or without consideration where the recipient is a firm or a company (not being a company in which public are substantially interested). These provisions will be effective from 1st June, 2010

18. TAXATION RELATING TO NON RESIDENTS

Section 9 provides for situations where income is deemed to accrue or arise in India.

Vide Finance Act, 1976, a source rule was provided in section 9 through insertion of clauses (v), (vi) and (vii) in sub-section (1) for income by way of interest, royalty or fees for

technical services respectively. It was provided, inter alia, that in case of payments as mentioned under these clauses, income would be deemed to accrue or arise in India to the non-resident under the circumstances specified therein.

The intention of introducing the source rule was to bring to tax interest, royalty and fees for technical services, by creating a legal fiction in section 9, even in cases where services are provided outside India as long as they are utilized in India. The source rule, therefore, means that the situs of the rendering of services is not relevant. It is the situs of the payer and the situs of the utilization of services which will determine the taxability of such services in India.

The Hon'ble Supreme Court, in the case of *Ishikawajima-Harima Heavy Industries Ltd., Vs DIT (2007)[288 ITR 408]*, held that despite the deeming fiction in section 9, for any such income to be taxable in India, there must be sufficient territorial nexus between such income and the territory of India. It further held that for establishing such territorial nexus, the services have to be rendered in India as well as utilized in India.

In government opinion, this interpretation was not in accordance with the legislative intent that the *situs* of rendering service in India is not relevant as long as the services are utilized in India. Therefore, to remove doubts regarding the source rule, an *Explanation* was inserted below sub-section (2) of section 9 with retrospective effect from 1st June, 1976 vide Finance Act, 2007. The *Explanation* sought to clarify that where income is deemed to accrue or arise in India under clauses (v), (vi) and (vii) of sub-section (1) of section 9, such income shall be included in the total income of the non-resident, regardless of whether the non-resident has a residence or place of business or business connection in India.

However, the Karnataka High Court, in a recent *judgement* in the case of *Jindal Thermal Power Company Ltd. vs DCIT (TDS)*, 321ITR31(Kart) has held that the *Explanation*, in its present form, does not do away with the requirement of rendering of services in India for any income to

be deemed to accrue or arise to a non-resident under section 9. It has been held that on a plain reading of the *Explanation*, the criteria of rendering services in India and the utilization of the service in India laid down by the Supreme Court in its judgement in the case of *Ishikawajima-Harima Heavy Industries Ltd.(supra)* remains untouched and unaffected by the *Explanation*.

In order to remove any doubt about the legislative intent of the aforesaid source rule, it is proposed to substitute the existing

Explanation with a new *Explanation* to specifically state that the income of a non-resident shall be deemed to accrue or arise in India under clause (v) or clause (vi) or clause (vii) of sub-section (1) of section 9 and shall be included in his total income, whether or not,

- (a) the non-resident has a residence or place of business or business connection in India; or
- (b) the non-resident has rendered services in India.

This amendment is proposed to take effect retrospectively from 1st June, 1976 and will, accordingly, apply in relation to the assessment year 1977-78 and subsequent years.

19. SETTLEMENT COMMISSION

The term "case" for the purposes of settlement commission has been defined in clause (b) of Section 245A. This clause underwent a drastic change w.e.f 1.6.2007 through Finance Act, 2007 and the effect of that change, inter alia, was to exclude from the definition of cases following type of proceedings :

- (i) a proceeding for assessment or reassessment for any of the assessment years referred to in clause (b) of section 153A in case of a person referred to in section 153A or section 153C;
- (ii) a proceeding for assessment or reassessment for the assessment year referred to in clause (b) of sub-section (1) of section 153B in case of a person referred to in section 153A or section 153C;

In other words, the effect was to exclude from the definition search cases and also cases

resulting on requisition of books of accounts or other documents for any assets initiated under the Income Tax Act.

The above said clause (b) is sought to be amended by bringing back provisions contained in (i) and (ii) above. In other words the position prevailing prior to 1.6.2007 is restored back. It should be made clear that the proceedings for assessment or re-assessment or re-computation u/s 147 continue to remain excluded from the definition of cases even in the proposed Finance Bill. It is also to be mentioned that consequential amendments are proposed to be made in Wealth Tax Act.

Under the existing provisions of section 245(C), an application can be filed before settlement Commission for the additional amount of Income Tax payable on the income disclosed in the application exceeds Rs.3 lakhs, amendment is proposed in the Finance Bill to hike the additional amount of Income Tax payable to Rs.50 lakhs in search cases and Rs.10 lakhs in other cases. These amendments are proposed to take effect from 1.6.2010.

Section 245D provides for passing an order by the Settlement Commission and it is 12 months from the end of the month in which an application is made. It is proposed to amend section 245D so as to provide that orders on an application filed on or after 1.6.2007 but before 1.6.2010 shall be passed within the period of 12 months. It is further proposed in the bill that in respect of an application made on or after 1.6.2010 an order should be passed within 18 months from the end of the month in which the application is made. Consequential amendments are also proposed regarding time limit in section 22D of Wealth Tax Act.

20. POWER OF THE HIGH COURT TO CONDONE DELAY IN FILING OF APPEALS

Section 260A provides that an appeal against the order of ITAT can be filed before the High Court within a period of 120 days from the date of receipt of order by the assessee or the Commissioner. There is no specific provision in Section 260A or Section 256(2) empowering the

High Court to condone the delay in filing of an Appeal or reference. Now it is provided in the Bill that the High Court has the power to condone the delay if it is satisfied that there was sufficient cause for not filing the appeal within the period of 120 days.

21. DOCUMENT IDENTIFICATION NUMBER

Section 282B (Allotment of Document Identification Number) is a new section inserted by the Finance (No.2) Act, 2009 in the Income-tax Act with effect from 1st October, 2010.

Under the provisions of this section, an income-tax authority is required to allot a computer generated Document Identification Number before issue of every notice, letter or any correspondence to any other income-tax authority or assessee or any other person and such number shall be quoted thereon. It also provides that every document, letter, correspondence received by an income-tax authority from or on behalf of such authority, shall be accepted only after allotting and quoting of a computer generated Document Identification Number.

In order to cover the entire gamut of services mentioned in section 282B on a pan-India basis, it would be essential to have the requisite infrastructure and facilities in place.

It is proposed to amend the provisions of section 282B so as to provide that Document Identification Number will be required to be issued on or after 1st July, 2011.

22. TAXATION OF INCOME/LOSS OF NON LIFE INSURANCE BUSINESS

Section 44 read with the First Schedule to the Income-tax Act provides the scheme of computation of income of insurance companies. According to Rule 5 of the said Schedule, the income of non-life business is taken as 'profit before tax and appropriations' as per the profit and loss account of the company, prepared in accordance with the regulations made by the Insurance Regulatory Development Authority (IRDA), subject to certain adjustments.

The Finance (No.2) Act, 2009 amended the First Schedule to provide that in case of non-life insurance business, appreciation of or gains on realization of investments taken credit for in the accounts shall be treated as income and be included in the computation of the total income.

The appreciation in the value of investments, being in the nature of unrealized gain is not taken into account for determining profit or loss of non-life insurance business as per the IRDA regulations. It is, therefore, proposed that the unrealized gains due to appreciation in the value of investments will not be included in the total income. Similarly, deduction will not be allowed for provision for losses due to diminution in the value of investments as this is not a realized loss.

It has also been provided that any gain or loss on realization of investments shall be added or deducted for the purpose of computation of the total income, if the same is not already credited or debited in the profit and loss account.

This amendment is proposed to take effect from 1st April 2011 and will, accordingly, apply in relation to the assessment year 2011-12 and subsequent years.

INDIRECT TAX PROPOSAL

(A) CUSTOM DUTY

(Changes comes into effects immediately unless otherwise stated.)

- Basic Rate structure remains unchanged i.e. 10%.
- **Custom Duty has been increased-**

Items	Present	Proposed
Crude Petroleum	Nil	5%
Motor Spirit (Petrol) and HSD (Diesel)	2.5%	7.5%
Some other specified petroleum products	5%	10%
Electrical energy supplied from a Special Economic Zone to the Domestic Tariff Area and non - processing areas of SEZ	Exempt	16% ad valorem + Nil Special CVD. Effective retrospectively w.e.f. 26.06.09
Precious Metals serially numbered Gold Bars (other than Tola Bars) and Gold Coins	Rs. 200 per 10 gm	Rs.300 per 10 gm
Other forms of gold	Rs.500 per 10 gm	Rs.750 per 10 gm
Silver	Rs.1000 per kg	Rs.1500 per kg
Platinum	Rs. 200 per 10 gm	Rs.300 per 10 gm

- **Custom Duty has been reduced-**

Items	Present	Proposed
Agricultural machinery such as Paddy Transplanter, Laser Land Leveler, Cotton Picker, Reaper-Cum-Binder, Straw Or Fodder Balers, Sugarcane Harvesters, Track used for manufacture of track-type combine harvester	7.5	5

Items	Present (%)	Proposed (%)
Long Pepper	70	30
'Asafoetida' (Heeng)	30	20
Magnetrons of upto 1,000 kw for the manufacture of microwave ovens.	10	5
Rhodium	10	2

❖ **Full exemption from Basic Custom Duty**

- Truck Refrigeration units for the manufacture of refrigerated vans/trucks.
- Bio - Polymer/bio-plastics (HS Code 39139090) used for manufacture of bio-degradable agro mulching films, nursery plantation & flower pots.
- Tunnel Boring machine for hydro-electric power projects. Further it will attract Nil CVD.
- Cobalt-chrome alloys, special grade stainless steel etc. for the manufacture of orthopaedic implants (subject to actual user condition).
- Parts for the manufacture of battery chargers and hands-free headphones (Also exempted from CVD)

❖ **Full exemption from Basic custom duty and special additional duty**

- Batteries including battery chargers, electric motors and AC or DC motor controllers imported for manufacturing all categories of electrical vehicles including cars, two wheelers and three wheelers (like Soleckshaw) which is subject to actual user condition. (This concession will be available till 31.03.2013.) These parts will attract CVD of 4%.
- Ground source heat pump (for geo-thermal energy applications).
- Gold ore and concentrate (Subject to actual user condition). This will attract CVD @ Rs.140 per 10 gram of gold content.
- ❖ **Project imports status (Concessional rate of basic customs duty of 5%)**
- The initial setting up or substantial expansion of, a cold storage, cold room (including farm pre-coolers) for preservation or storage or an industrial unit for processing of agricultural,

apiary, horticultural, dairy, poultry, aquatic & marine produce and meat.

- Installation of Mechanized Handling Systems & Pallet Racking Systems, in mandis or warehouses for food grains and sugar. Such systems are also being exempted from additional duty of customs (CVD) and special additional duty of customs.
- Mono Rail Projects for urban transport
- Setting up of Digital Head End (entertainment media)

❖ Other Relief Measures

- Outright Exemption is being provided to from additional duty of customs of 4% to goods imported in pre-packaged form and intended for retail sale, ready-made garments, mobile phones, watches, carbon black feedstock, waste paper and paper scrap.
- A concessional rate of basic customs duty of 5% is being provided to machinery items, instruments, appliances required for initial setting up of solar power generation projects or facilities. These items have been exempted from CVD also by way of excise duty exemption provided to them.
- Multiplicity of rates for medical equipments attracting varying rates is being done away with and now all medical equipments will attract 5% basic customs duty, 4% CVD/excise duty and Nil special additional duty of customs.
- Concessional rate of customs duty of 5% on specified machinery for tea, coffee and rubber plantation is being extended upto 31.03.2011. Excise duty exemption is also being re-introduced on these items upto 31.03.2011
- The current limit of Rs. 1 lakh per annum for duty free import of samples is being enhanced to Rs. 3 lakh per annum

(B) CENTRAL EXCISE DUTY

(Changes comes into effects immediately unless otherwise stated.)

Rate of central excise duty increased from 8% to 10% ad valorem.

• Increase in Standard Rate of Excise Duty.

Items	Present	Proposed
Non-Petroleum Products	8%	10%
Cement Mini Cement Plant Cleared in packaged form (i) of retail sale price not exceeding Rs. 190 per 50 kg bag or of per tonne equivalent retail sale price not exceeding Rs. 3800; (ii) of retail sale price exceeding Rs. 190 per 50 kg bag or of per tonne equivalent retail sale price exceeding Rs. 3800;	Rs.145 per tonne	Rs.185 per tonne
Cleared other than in packaged form	Rs. 250 per tonne	Rs. 315 per tonne
Cement Other than Mini Cement Plant Cleared in packaged form (i) of retail sale price not exceeding Rs. 190 per 50 kg bag or of per tonne equivalent retail sale price not exceeding Rs. 3800; (ii) of retail sale price exceeding Rs. 190 per 50 kg bag or of per tonne equivalent retail sale price exceeding Rs. 3800;	Rs. 170 per tonne	Rs. 215 per tonne
Cleared other than in packaged form	Rs.230 per tonne	Rs.290 per tonne
(i) of retail sale price not exceeding Rs. 190 per 50 kg bag or of per tonne equivalent retail sale price not exceeding Rs. 3800; (ii) of retail sale price exceeding Rs. 190 per 50 kg bag or of per tonne equivalent retail sale price exceeding Rs. 3800;	8 % of Retail Sale Price	10 % of Retail Sale Price
Cleared other than in packaged form	8% or Rs. 230 per tonne whichever is higher.	10% or Rs. 290 per tonne whichever is higher.
Cement clinker	Rs.300 per tonne	Rs.375 per tonne
Large cars, Multi Utility Vehicles and Sports Utility Vehicles etc. and chassis thereof	20%	22%
Motor Spirit Without Brand Name	Rs.13.35 per litre	Rs.14.35 per litre
With Brand Name	Rs.14.50 per litre	Rs.15.50 per litre

Items	Present	Proposed
HSD		
Without Brand Name	Rs.3.60 per litre	Rs.4.60 per litre
With Brand Name	Rs.4.75 per litre	Rs.5.75 per litre
DTA clearances of plain gold jewellery manufactured by a 100% EOU	Rs.500 per 10 gram	Rs.750 per 10 gram
DTA clearances of silver jewellery manufactured by a 100% EOU	Rs.1000 per kg	Rs.1500 per kg
Maize starch and tapioca starch	Exempt	4%
All ceramic tiles,	8%	10%
Mosquito nets impregnated with insecticides	Exempt	4%
Av gas	Exempt	4%
Microprocessor for computers (other than motherboard), Floppy disk drive, Hard disk drive, flash drive, CD/DVD and Combo Drive meant for external use.	Exempt	4%
Baby & clinical diapers and sanitary napkins	Exempt	10%
Open tin sanitary (OTS) cans	Exempt	10%
Goggles except those used for correcting vision	Exempt	10%

• Increase in Standard Rate of Excise Duty.

Items	Present (%)	Proposed (%)
LED lights/lighting fixtures.	8	4
Replaceable kits for all household type water filters (except those operating on RO technology)	8	4
Corrugated boxes/ cartons manufactured by stand-alone manufacturers	8	4
Latex rubber thread.	8	4
Goods covered under the Medicinal and Toilet Preparations Act	16	10
Potato starch	8	4
All umbrella parts	8	4

❖ Clean Energy Cess

Clean Energy Cess is being imposed on coal, lignite and peat produced in India. This cess would be levied and collected as a duty of excise with effect from a date to be notified after the enactment of the Finance Bill, 2010.

❖ Full exemption from Excise Duty to products

- Aapiary, Horticultural, Dairy, Poultry, Aquatic & Marine Produce and Meat as well as processing thereof.
- Self-loading / Self-unloading trailers & semi trailers for Agricultural Purposes
- Raw materials required for the manufacture of rotor blades for wind operated electricity generators.
- Goods supplied to mega power projects from which power supply has been tied up through tariff-based competitive bidding. The exemption would also be available where the mega power project has been awarded through tariff based competitive bidding.
- Articles of bedding wholly made of quilted textile materials.
- Toy, balloons made of natural rubber.
- Betel nut product known as "Supari".
- Dementholised oil, Deterpenated Mentha oil, Spearmint/ Mentha Piperita oils and all intermediates and by-products of Menthol.

❖ Other amendements in duty structure

- A uniform concessional rate of duty of 4% is being prescribed for parts, namely batteries including battery chargers, electric motors and AC or DC motor controllers required for manufacture of all categories of electrical vehicles including cars, two wheelers and three wheelers (like 'Soleckshaw') and such vehicle subject to actual user condition till 31.03.2013.
- Refined serially numbered gold bars made from the ore/concentrate stage will now attract excise duty of Rs.280 per 10 grams (instead of 8% ad valorem) with Cenvat credit facility on inputs and capital goods.

- Excise duty on Tobacco and tobacco products is redefined.

❖ **MSME/ Small Scale Sector**

- W.e.f. 1st April 2010 small scale manufacturers to be permitted to take full Cenvat credit in one installment of Central Excise Duty paid on capital goods in the year of their receipt.
- They will be permitted to pay Central Excise duty on quarterly basis rather than on monthly basis.
- The due date for filing of Central Excise returns by SSI units is being advanced to the 10th of the month following the quarter.
- The relaxation from brand name restriction under the general SSI exemption scheme is being extended to plastic bottles and plastic containers used as packing material.
- There are certain other amendments with regards to enactment of Law and procedures in the finance bill.

(C) SERVICE TAX

(The changes will come into effect from a date to be notified, after the enactment of Finance Bill, 2010.)

❖ **Service tax imposed on the following**

- Service of permitting commercial use or exploitation of any event organized by a person or organization.
- Copyrights on cinematographic films and Copyrights on sound recording are being brought under the ambit of service tax. However, copyright on original literary, dramatic, musical and artistic work would continue to remain outside the scope of service tax.
- Service tax on the following health services if the payment for such health check up or preventive care or treatment is made directly by the business entity or the insurance company to the hospital or medical establishment
 - (a) Health check up undertaken by hospitals or medical establishments for the employees of business entities; and

(b) Health services provided under health insurance schemes offered by insurance companies.

- Service provided for maintenance of medical records of employees of a business entity.
- Service provided by Electricity Exchanges.
- Additional services provided by a builder to the prospective buyers such as providing preferential location or external or internal development of complexes on extra charges except vehicle-parking space.
- Service of promoting of a 'brand' of goods, services, events, business entity etc.
- The promotion, marketing or organizing of games of chance, including lottery, is being introduced as a separate service.

❖ **Extension of scope of certain existing services is being expanded**

The scope of certain existing services has been expanded to include other services

- The scope of air passenger transport service to include domestic journeys, and international journeys in any class.
- The scope of information technology software service is being expanded to cover all cases irrespective of its use.
- 'Commercial training or coaching' service, would mean any training or coaching, which is provided for a consideration, whether or not for profit but excludes commercial vocational training courses. This change is being given retrospective effect from 01.07.2003.
- Sponsorship Service to include sponsorship pertaining to sports.
- In the 'Construction of complex service', it is being provided that unless the entire consideration for the property is paid after the completion of construction (i.e. after receipt of completion certificate from the competent authority), the activity of construction would be deemed to be a taxable service provided by the builder/promoter/developer to the prospective buyer and the service tax would be charged accordingly.

- Renting of immovable property service, definition amended to include the activity of 'renting' itself to be a taxable service. The change has been given retrospective effect from 01.06.2007. Further service tax is levied on rent of vacant land where there is an agreement or contract between the lessor and lessee for undertaking construction of buildings or structures on such land for furtherance of business or commerce during the tenure of the lease.
- 'Airport Services, 'Port services' and 'Other port services' to include (a) all services provided entirely within the airport/port premises (b) an authorization from the airport/port authority would not be a pre-condition for taxing these services.
- ❖ **Amendments in scope of certain existing services is being expanded**
- Definition of 'Management of Investment under ULIP Service' is being amended to provide that the value of the taxable service for any year of the operation of policy shall be the actual amount charged by the insurer for management of funds under ULIP or the maximum amount of fund management charges fixed by the Insurance Regulatory and Development Authority (IRDA), whichever is higher.
- An explanation is being added in 'Auctioneer's service' to clarify that the phrase 'auction by government' means an auction involving sale of government property and not when the government acts as an auctioneer for sale of the private property.
- ❖ **Exemptions granted to certain services from levi of Service Tax**

Certain services have been excluded from levi of service tax as given below. These changes will come into effect immediately.
- Statutory taxes charged by the foreign governments for Air passenger transport service.
- Services relating to 'Erection, Commissioning or Installation' of,-
 - (a) Mechanized Food Grain Handling Systems etc.;
 - (b) Equipment for setting up or substantial expansion of cold storage; and
 - (c) Machinery/equipment for initial setting up or substantial expansion of units for processing of agricultural, apiary, horticultural, dairy, poultry, aquatic, marine or meat products.
- Pre-packaged I.T. software, with the license for right to its use.
- Indian news agencies under 'Online Information and Database Retrieval Service'
- 'Technical Testing and Analysis Service' and 'Technical Inspection and certification service' provided by Central and State seed testing laboratories, and Central and State seed certification agencies.
- Transmission of electricity.
- Scope of exemption from service tax to extend to include transport of food grains and pulses in list of exempt products.
- ❖ **Withdrawal or amendments of exemptions:**
- Exemption from service tax on 'Service provided in relation to transport of goods by rail' is being withdrawn. The levy will come into effect from 01.04.2010.
- Exemption from service tax, presently available to Group Personal Accident Insurance Scheme provided by Govt. of Rajasthan to its employees, under General Insurance Service is being withdrawn. This will come into effect immediately.

KEY FEATURES OF BUDGET 2010-2011

CHALLENGES

- ❖ To quickly revert to the high GDP growth path of 9 per cent and then find the means to cross the 'double digit growth barrier'.
- ❖ To harness economic growth to consolidate the recent gains in making development more inclusive.
- ❖ To address the weaknesses in government systems, structures and institutions at different levels of governance.

OVERVIEW OF THE ECONOMY

- ❖ India among the first few countries in the world to implement a broad-based counter-cyclic policy package to respond to the negative fallout of the global slowdown.
- ❖ The Advance Estimates for Gross Domestic Product (GDP) growth for 2009-10 pegged at 7.2 per cent. The final figure expected to be higher when the third and fourth quarter GDP estimates for 2009-10 become available.
- ❖ The growth rate in manufacturing sector in December 2009 was 18.5 per cent – the highest in the past two decades.
- ❖ A major concern during the second half of 2009-10 has been the emergence of double digit food inflation. Government has set in motion steps, in consultation with the State Chief Ministers, which should bring down the inflation in the next few months and ensure that there is better management of food security in the country.

CONSOLIDATING GROWTH

Fiscal Consolidation

- ❖ With recovery taking root, there is a need to review public spending, mobilise resources and gear them towards building the productivity of the economy.
- ❖ Fiscal policy shaped with reference to the recommendations of the Thirteenth Finance Commission, which has recommended a calibrated exit strategy from the expansionary fiscal stance of last two years.
- ❖ It would be for the first time that the Government would target an explicit reduction in its domestic public debt-GDP ratio.

Tax reforms

- ❖ On the Direct Tax Code (DTC) the wide-ranging discussions with stakeholders have been concluded – Government will be in a position to implement the DTC from April 1, 2011.
- ❖ Centre actively engaged with the Empowered Committee of State Finance Ministers to finalise the structure of Goods and Services Tax (GST) as well as the modalities of its expeditious implementation. Endeavour to introduce GST by April, 2011

People's ownership of PSUs

- ❖ Ownership has been broad based in Oil India Limited, NHPC, NTPC and Rural Electrification Corporation while the process is on for National Mineral Development Corporation and Satluj Jal Vidyut Nigam. This will raise about Rs 25,000 crore during the current year.
- ❖ Higher amount proposed to be raised during the year 2010-11.

Fertiliser subsidy

- ❖ A Nutrient Based Subsidy policy for the fertiliser sector has been approved by the Government and will become effective from April 1, 2010.
- ❖ This will lead to an increase in agricultural productivity and better returns for the farmers, and overtime reduce the volatility in demand for fertiliser subsidy and contain the subsidy bill.

Petroleum and Diesel pricing policy

- ❖ Expert Group to advise the Government on a viable and sustainable system of pricing of petroleum products has submitted its recommendations.
- ❖ Decision on these recommendations will be taken in due course.

IMPROVING INVESTMENT ENVIRONMENT

Foreign Direct Investment

- ❖ Number of steps taken to simplify the FDI regime.
- ❖ Methodology for calculation of indirect foreign investment in Indian companies has been clearly defined.
- ❖ Complete liberalisation of pricing and payment

of technology transfer fee and trademark, brand name and royalty payments.

Financial Stability and Development Council

- ❖ An apex level Financial Stability and Development Council to be set up with a view to strengthen and institutionalise the mechanism for maintaining financial stability.
- ❖ This Council would monitor macro-prudential supervision of the economy, including the functioning of large financial conglomerates, and address interregulatory coordination issues.

Banking Licences

- ❖ RBI is considering giving some additional banking licenses to private sector players. Non Banking Financial Companies could also be considered, if they meet the RBI's eligibility criteria.

Public Sector Bank Capitalisation

- ❖ Rs.16,500 crore provided to ensure that the Public Sector Banks are able to attain a minimum 8 per cent Tier-I capital by March 31, 2011.

Recapitalisation of Regional Rural Banks (RRB)

- ❖ Government to provide further capital to strengthen the RRBs so that they have adequate capital base to support increased lending to the rural economy.

Corporate Governance

- ❖ Government has introduced the Companies Bill, 2009 in the Parliament to replace the existing Companies Act, 1956, which will address issues related to regulation in corporate sector in the context of the changing business environment.

EXPORTS

- ❖ Extension of existing interest subvention of 2 per cent for one more year for exports covering handicrafts, carpets, handlooms and small and medium enterprises.

AGRICULTURE GROWTH

- ❖ Government will follow a *four-pronged strategy*, covering

(a) Agricultural production

- ❖ Rs. 400 crore provided to extend the green revolution to the eastern region of the country comprising Bihar, Chattisgarh, Jharkhand, Eastern UP, West Bengal and Orissa.
- ❖ Rs. 300 crore provided to organise 60,000 "pulses and oil seed villages" in rain-fed areas during 2010-11 and provide an integrated intervention for water harvesting, watershed management and soil health, to enhance the productivity of the dry land farming areas.
- ❖ Rs. 200 crore provided for sustaining the gains already made in the green revolution areas through conservation farming, which involves concurrent attention to soil health, water conservation and preservation of biodiversity.

(b) Reduction in wastage of produce

- ❖ Government to address the issue of opening up of retail trade. It will help in bringing down the considerable difference between farm gate, wholesale and retail prices.
- ❖ Deficit in the storage capacity met through an ongoing scheme for private sector participation – FCI to hire godowns from private parties for a guaranteed period of 7 years.

(c) Credit support to farmers

- ❖ Banks have been consistently meeting the targets set for agriculture credit flow in the past few years. For the year 2010-11, the target has been set at Rs.3,75,000 crore.
- ❖ In view of the recent drought in some States and the severe floods in some other parts of the country, the period for repayment of the loan amount by farmers extended by six months from December 31, 2009 to June 30, 2010 under the Debt Waiver and Debt Relief Scheme for Farmers.
- ❖ Incentive of additional one per cent interest subvention to farmers who repay short-term crop loans as per schedule, increased to 2% for 2010-11.

(d) Impetus to the food processing sector

- ❖ In addition to the ten mega food park projects already being set up, the Government has decided to set up five more such parks.

- ❖ External Commercial Borrowings to be available for cold storage or cold room facility, including for farm level pre-cooling, for preservation or storage of agricultural and allied produce, marine products and meat.

INFRASTRUCTURE

- ❖ Rs 1,73,552 crore provided for infrastructure development which accounts for over 46 per cent of the total plan allocation.
- ❖ Allocation for road transport increased by over 13 per cent from Rs. 17,520 crore to Rs 19,894 crore.
- ❖ Rs 16,752 crore provided for Railways, which is about Rs.950 crore more than last year.

India Infrastructure Finance Company Limited (IIFCL)

- ❖ IIFCL's disbursements are expected to touch Rs 9,000 crore by end March 2010 and reach around Rs 20,000 crore by March 2011.
- ❖ IIFCL has refinanced bank lending to infrastructure projects of Rs. 3,000 crore during the current year and is expected to more than double that amount in 2010-11.
- ❖ The take-out financing scheme announced in the last Budget is expected to initially provide finance for about Rs. 25,000 crore in the next three years.

ENERGY

- ❖ Plan allocation for power sector excluding RGGVY doubled from Rs.2230 crore in 2009-10 to Rs.5,130 crore in 2010-11.
- ❖ Government proposes to introduce a competitive bidding process for allocating coal blocks for captive mining to ensure greater transparency and increased participation in production from these blocks.
- ❖ A "Coal Regulatory Authority" to create a level playing field in the coal sector proposed to be set up.
- ❖ Plan outlay for the Ministry of New and Renewable Energy increased by 61 per cent from Rs.620 crore in 2009-10 to Rs.1,000 crore in 2010-11.
- ❖ Solar, small hydro and micro power projects at a

cost of about Rs.500 crore to be set up in Ladakh region of Jammu and Kashmir.

ENVIRONMENT AND CLIMATE CHANGE

- ❖ National Clean Energy Fund for funding research and innovative projects in clean energy technologies to be established.
- ❖ One-time grant of Rs.200 crore to the Government of Tamil Nadu towards the cost of installation of a zero liquid discharge system at Tirupur to sustain knitwear industry.
- ❖ Rs.200 crore provided as a Special Golden Jubilee package for Goa to preserve the natural resources of the State, including sea beaches and forest cover.
- ❖ Allocation for National Ganga River Basin Authority (NGRBA) doubled in 2010-11 to Rs.500 crore.
- ❖ Schemes on bank protection works along river Bhagirathi and river Ganga-Padma in parts of Murshidabad and Nadia district of West Bengal included in the Centrally Sponsored Flood Management Programme.
- ❖ A project at Sagar Island to be developed to provide an alternate port facility in West Bengal.

INCLUSIVE DEVELOPMENT

- ❖ The spending on social sector has been gradually increased to Rs.1,37,674 crore in 2010-11, which is 37% of the total plan outlay in 2010-11.
- ❖ Another 25 per cent of the plan allocations are devoted to the development of rural infrastructure.

Education

- ❖ Plan allocation for school education increased by 16 per cent from Rs.26,800 crore in 2009-10 to Rs.31,036 crore in 2010-11.
- ❖ In addition, States will have access to Rs.3,675 crore for elementary education under the Thirteenth Finance Commission grants for 2010-11.

Health

- ❖ An Annual Health Survey to prepare the District Health Profile of all Districts shall be conducted in 2010-11.

- ❖ Plan allocation to Ministry of Health & Family Welfare increased from Rs 19,534 crore in 2009-10 to Rs 22,300 crore for 2010-11.

Financial Inclusion

- ❖ Appropriate Banking facilities to be provided to habitations having population in excess of 2000 by March, 2012.
- ❖ Insurance and other services to be provided using the Business Correspondent model. By this arrangement, it is proposed to cover 60,000 habitations.
- ❖ Augmentation of Rs.100 crore each for the Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund, which shall be contributed by Government of India, RBI and NABARD.

Rural Development

- ❖ Rs. 66,100 crore provided for Rural Development.
- ❖ Allocation for Mahatma Gandhi National Rural Employment Guarantee Scheme stepped up to Rs.40,100 crore in 2010-11.
- ❖ An amount of Rs.48,000 crore allocated for rural infrastructure programmes under Bharat Nirman.
- ❖ Unit cost under Indira Awas Yojana increased to Rs.45,000 in the plain areas and to Rs.48,500 in the hilly areas. Allocation for this scheme increased to Rs.10,000 crore.
- ❖ Allocation to Backward Region Grant Fund enhanced by 26 per cent from Rs.5,800 crore in 2009-10 to Rs 7,300 crore in 2010-11.
- ❖ Additional central assistance of Rs 1,200 crore provided for drought mitigation in the Bundelkhand region.

Urban Development and Housing

- ❖ Allocation for urban development increased by more than 75 per cent from Rs.3,060 crore to Rs.5,400 crore in 2010-11.
- ❖ Allocation for Housing and Urban Poverty Alleviation raised from Rs.850 crore to Rs.1,000 crore in 2010-11.
- ❖ Scheme of one per cent interest subvention on housing loan upto Rs.10 lakh, where the cost of

the house does not exceed Rs.20 lakh announced in the last Budget — extended up to March 31, 2011. Rs.700 crore provided for this scheme for the year 2010-11.

- ❖ Rs.1,270 crore allocated for *Rajiv Awas Yojana* as compared to Rs.150 crore last year.

Micro, Small & Medium Enterprises

- ❖ High Level Council on Micro and Small Enterprises to monitor the implementation of the recommendations of High-Level Task Force constituted by Prime Minister.
- ❖ Allocation for this sector to be increased from Rs.1,794 crore to Rs.2,400 crore for the year 2010-11.
- ❖ The corpus for Micro-Finance Development and Equity Fund doubled to Rs.400 crore in 2010-11.

Unorganised Sector

National Social Security Fund for unorganised sector workers

- ❖ National Social Security Fund for unorganised sector workers to be set up with an initial allocation of Rs.1000 crore. This fund will support schemes for weavers, toddy tappers, rickshaw pullers, bidi workers etc.
- ❖ Rashtriya Swasthya Bima Yojana benefits extended to all such Mahatma Gandhi NREGA beneficiaries who have worked for more than 15 days during the preceding financial year.
- ❖ A new initiative, "Swavalamban" will be available for persons who join New Pension Scheme (NPS), with a minimum contribution of Rs.1,000 and a maximum contribution of Rs.12,000 per annum during the financial year 2010-11, wherein Government will contribute Rs.1,000 per year to each NPS account opened in the year 2010-11. Allocation of Rs.100 crore made for this initiative.

Skill development

- ❖ National Skill Development Corporation has approved three projects worth about Rs 45 crore to create 10 lakh skilled manpower at the rate of one lakh per annum.
- ❖ An extensive skill development programme in the textile and garment sector to be launched by leveraging the strength of existing institutions

and instruments of the Textile Ministry to train 30 lakh persons over 5 years.

Social Welfare

- ❖ Plan outlay for Women and Child Development stepped up by almost 50 per cent.
- ❖ The ICDS platform being expanded for effective implementation of the Rajiv Gandhi Scheme for Adolescent Girls.
- ❖ "Saakshar Bharat" to further improve female literacy rate launched with a target of 7 crore non-literate adults which includes 6 crore women.
- ❖ Mahila Kisan Sashaktikaran Pariyojana to meet the specific needs of women farmers to be launched with a provision of Rs 100 crore as a sub-component of the National Rural Livelihood Mission.
- ❖ Plan outlay of the Ministry of Social Justice and Empowerment enhanced by 80 per cent to Rs.4500 crore. With this enhancement, the Ministry will be able to revise rates of scholarship under its post-matric scholarship schemes for SCs and OBC students.
- ❖ Plan allocation for the Ministry of Minority Affairs increased by 50 per cent from Rs.1,740 crore to Rs.2,600 crore for the year 2010-11.

STRENGTHENING TRANSPARENCY & PUBLIC ACCOUNTABILITY

- ❖ Financial Sector Legislative Reforms Commission to be set up to rewrite and clean up the financial sector laws to bring them in line with the requirements of the sector.
- ❖ Rs 1,900 crore allocated to the Unique Identification Authority of India (UIDAI) for 2010-11. UIDAI will be able to meet its commitments of issuing the first set of UID numbers in the coming year
- ❖ A Technology Advisory Group for Unique Projects (TAGUP) to be set up to look into various technological and systemic issues for effective tax administration and financial governance.
- ❖ Independent Evaluation Office (IEO) chaired by the Deputy Chairman, Planning Commission to be set up to evaluate the impact of flagship programmes.

Security and Justice

- ❖ Allocation for Defence increased to Rs. 1,47,344 crore including Rs 60,000 crore for capital expenditure.
- ❖ About 2,000 youth to be recruited as constables in five Central Para Military Forces from Jammu and Kashmir in the year 2010.
- ❖ Planning Commission to prepare an integrated action plan for the thirty-three left wing extremism affected districts. Adequate funds will be made available to support the action plan.
- ❖ Government has approved the setting up of the National Mission for Delivery of Justice and Legal Reforms to help reduce legal backlog in courts from an average of 15 years at present to 3 years by 2012.

BUDGET ESTIMATES 2010-11

- ❖ The Gross Tax Receipts are estimated at Rs. 7,46,651 crore
- ❖ The Non Tax Revenue Receipts are estimated at Rs. 1,48,118 crore.
- ❖ The net tax revenue to the Centre as well as the expenditure provisions in 2010-11 have been estimated with reference to the recommendations of the Thirteenth Finance Commission.
- ❖ The total expenditure proposed in the Budget Estimates is Rs. 11,08,749 crore, which is an increase of 8.6 per cent over last year.
- ❖ The Plan and Non Plan expenditures in BE 2010-11 are estimated at Rs. 3,73,092 crore and Rs. 7,35,657 crore respectively. While there is 15 per cent increase in Plan expenditure, the increase in Non Plan expenditure is only 6 per cent over the BE of previous year.
- ❖ Fiscal deficit for BE 2010-11 at 5.5 per cent of GDP, which works out to Rs.3,81,408 crore.
- ❖ Taking into account the various other financing items for fiscal deficit, the actual net market borrowing of the Government in 2010-11 would be of the order of Rs.3,45,010 crore. This would leave enough space to meet the credit needs of the private sector.
- ❖ The rolling targets for fiscal deficit are pegged at 4.8 per cent and 4.1 per cent for 2011-12 and 2012-13, respectively.

- ❖ Against a fiscal deficit of 7.8 per cent in 2008-09, inclusive of oil and fertilizer bonds, the comparable fiscal deficit is 6.9 per cent as per the Revised Estimates for 2009-10.
- ❖ Conscious effort made to avoid issuing bonds to oil and fertilizer companies. Government would like to continue with this practice of extending Government subsidy in cash, thereby bringing all subsidy related liabilities into Government's fiscal accounting.

PART B TAX PROPOSALS

- ❖ The Centralized Processing Centre at Bengaluru is now fully functional and is processing around 20,000 returns daily. This initiative will be taken forward by setting up two more Centres during the year.
- ❖ The Income Tax department has introduced "Sevottam", a pilot project at Pune, Kochi and Chandigarh through Aayakar Seva Kendras, which provide a single window system for registration of all applications including those for redressal of grievances as well as paper returns. The scheme will be extended to four more cities in the year.
- ❖ Automation of Central Excise & Service Tax, has already been rolled out throughout the country this year. Similarly, a Mission Mode Project for computerization of Commercial Taxes in States has been approved recently. With an outlay of Rs. 1133 crore of which the Centre's share is Rs. 800 crore, the project will lay the foundation for the launch of GST.
- ❖ The income tax department to notify SARAL-II form for individual salaried taxpayers for the coming assessment year.
- ❖ Scope of cases which may be admitted by the Settlement Commission expanded to include proceedings related to search and seizure cases pending for assessment. Scope of Settlement Commission also expanded in respect of Central Excise and Customs to include certain categories of cases that hitherto fell outside its jurisdiction.
- ❖ Bi-lateral discussions commenced to enhance the exchange of bank related and other information to effectively track tax evasion and identify undisclosed assets of resident Indians lying abroad.

Direct Taxes

- ❖ Income tax slabs for individual taxpayers to be as follows:

Income upto Rs 1.6 lakh	Nil
Income above Rs 1.6 lakh and upto Rs. 5 lakh	10%
Income above Rs.5 lakh and upto Rs. 8 lakh	20%
Income above Rs. 8 lakh	30%

- ❖ Deduction of an additional amount of Rs. 20,000 allowed, over and above the existing limit of Rs. 1 lakh on tax savings, for investment in long-term infrastructure bonds as notified by the Central Government
- ❖ Besides contributions to health insurance schemes which is currently allowed as a deduction under the Income-tax Act, contributions to the Central Government Health Scheme also allowed as a deduction under the same provision.
- ❖ Current surcharge of 10 per cent on domestic companies reduced to 7.5 per cent.
- ❖ Rate of Minimum Alternate Tax (MAT) increased from the current rate of 15 per cent to 18 per cent of book profits.
- ❖ To further encourage R&D across all sectors of the economy, weighted deduction on expenditure incurred on in-house R&D enhanced from 150 per cent to 200 per cent. Weighted deduction on payments made to National Laboratories, research associations, colleges, universities and other institutions, for scientific research enhanced from 125 per cent to 175 per cent.
- ❖ Payment made to an approved association engaged in research in social sciences or statistical research to be allowed as a weighted deduction of 125 per cent. The income of such approved research association shall be exempt from tax.
- ❖ Benefit of investment linked deduction under the Act extended to new hotels of two-star category and above anywhere in India to boost investment in the tourism sector.
- ❖ Allow pending projects to be completed within a period of five years instead of four years for claiming a deduction of their profits, as a one time interim relief to the housing and real estate

sector. Norms for built-up area of shops and other commercial establishments in housing projects to be relaxed to enable basic facilities for their residents.

- ❖ Limits for turnover over which accounts need to be audited enhanced to Rs. 60 lakh for businesses and to Rs. 15 lakh for professions.
- ❖ Limit of turnover for the purpose of presumptive taxation of small businesses enhanced to Rs. 60 lakh.
- ❖ If tax has been deducted on payment by way of any expense and is paid before the due date of filing the return, such expenditure to be allowed for deduction. Interest charged on tax deducted but not deposited by the specified date to be increased from 12 per cent to 18 per cent per annum.
- ❖ To facilitate the conversion of small companies into Limited Liability Partnerships, transfer of assets as a result of such conversion not to be subject to capital gains tax.
- ❖ "The advancement of any other object of general public utility" to be considered as "charitable purpose" even if it involves carrying on of any activity in the nature of trade, commerce or business provided that the receipts from such activities do not exceed Rs. 10 lakh in the year .
- ❖ Proposals on direct taxes estimated to result in a revenue loss of Rs. 26,000 crore for the year.

Indirect Taxes

- ❖ Rate reduction in Central Excise duties to be partially rolled back and the standard rate on all non-petroleum products enhanced from 8 per cent to 10 per cent ad valorem.
 - ❖ The specific rates of duty applicable to portland cement and cement clinker also adjusted upwards proportionately. Similarly, the ad valorem component of excise duty on large cars, multi-utility vehicles and sports-utility vehicles increased by 2 percentage points to 22 per cent.
 - ❖ Restore the basic duty of 5 per cent on crude petroleum; 7.5 per cent on diesel and petrol and 10 per cent on other refined products. Central Excise duty on petrol and diesel enhanced by Re.1 per litre each.
- ❖ Some structural changes in the excise duty on cigarettes, cigars and cigarillos to be made coupled with some increase in rates. Excise duty on all non-smoking tobacco such as scented tobacco, snuff, chewing tobacco etc to be enhanced. Compounded levy scheme for chewing tobacco and branded unmanufactured tobacco based on the capacity of pouch packing machines to be introduced.

Agriculture & Related Sectors

- ❖ Provide project import status with a concessional import duty of 5 per cent for the setting up of mechanised handling systems and pallet racking systems in 'mandis' or warehouses for food grains and sugar as well as full exemption from service tax for the installation and commissioning of such equipment.
- ❖ Provide project import status at a concessional customs duty of 5 per cent with full exemption from service tax to the initial setting up and expansion of
 - Cold storage, cold room including farm pre-coolers for preservation or storage of agriculture and related sectors produce;
 - Processing units for such produce.
- ❖ Provide full exemption from customs duty to refrigeration units required for the manufacture of refrigerated vans or trucks.
- ❖ Provide concessional customs duty of 5 per cent to specified agricultural machinery not manufactured in India;
- ❖ Provide central excise exemption to specified equipment for preservation, storage and processing of agriculture and related sectors and exemption from service tax to the storage and warehousing of their produce; and
- ❖ Provide full exemption from excise duty to trailers and semi-trailers used in agriculture.
- ❖ Concessional import duty to specified machinery for use in the plantation sector to be, extended up to March 31, 2011 along with a CVD exemption.
- ❖ To exempt the testing and certification of agricultural seeds from service tax.

- ❖ The transportation by road of cereals, and pulses to be exempted from service tax. Transportation by rail to remain exempt.
- ❖ To ease the cash flow position for small-scale manufacturers, they would be permitted to take full credit of Central Excise duty paid on capital goods in a single installment in the year of their receipt. Secondly, they would be permitted to pay Central Excise duty on a quarterly, rather than monthly, basis.

Environment

- ❖ To build the corpus of the National Clean Energy Fund, clean energy cess on coal produced in India at a nominal rate of Rs.50 per tonne to be levied. This cess will also apply on imported coal.
- ❖ Provide a concessional customs duty of 5 per cent to machinery, instruments, equipment and appliances etc. required for the initial setting up of photovoltaic and solar thermal power generating units and also exempt them from Central Excise duty. Ground source heat pumps used to tap geo-thermal energy to be exempted from basic customs duty and special additional duty.
- ❖ Exempt a few more specified inputs required for the manufacture of rotor blades for wind energy generators from Central Excise duty.
- ❖ Central Excise duty on LED lights reduced from 8 per cent to 4 per cent at par with Compact Fluorescent Lamps.
- ❖ To remedy the difficulty faced by manufacturers of electric cars and vehicles in neutralising the duty paid on their inputs and components, a nominal duty of 4 per cent on such vehicles imposed. Some critical parts or sub-assemblies of such vehicles exempted from basic customs duty and special additional duty subject to actual user condition. These parts would also enjoy a concessional CVD of 4 per cent.
- ❖ A concessional excise duty of 4 per cent provided to "soleckshaw", a product developed by CSIR to replace manually-operated rickshaws. Its key parts and components to be exempted from customs duty.
- ❖ Import of compostable polymer exempted from basic customs duty.

Infrastructure

- ❖ Project import status to 'Monorail projects for urban transport' at a concessional basic duty of 5 per cent granted.
- ❖ To allow resale of specified machinery for road construction projects on payment of import duty at depreciated value.
- ❖ To encourage the domestic manufacture of mobile phones accessories, exemptions from basic, CVD and special additional duties are now being extended to parts of battery chargers and hands-free headphones. The validity of the exemption from special additional duty is being extended till March 31, 2011.

Medical Sector

- ❖ Uniform, concessional basic duty of 5 per cent, CVD of 4 per cent with full exemption from special additional duty prescribed on all medical equipments. A concessional basic duty of 5 per cent is being prescribed on parts and accessories for the manufacture of such equipment while they would be exempt from CVD and special additional duty.
- ❖ Full exemption currently available to medical equipment and devices such as assistive devices, rehabilitation aids etc. retained. The concession available to Government hospitals or hospitals set up under a statute also retained.
- ❖ Specified inputs for the manufacture of orthopaedic implants exempted from import duty.

Infotainment

- ❖ To address the difficulties experienced by film industry in importing digital masters of films for duplication or distribution loaded on electronic medium vis-a-vis those imported on cinematographic film, owing to a differential customs duty structure, customs duty to be charged only on the value of the carrier medium. The same dispensation would apply to music and gaming software imported for duplication.

In all such cases the value representing the transfer of intellectual property rights would be subjected to service tax.

- ❖ Provide project import status at a concessional customs duty of 5 per cent with full exemption

from special additional duty to the initial setting up "Digital Head End" equipment by multi-service operators.

Precious Metals

- ❖ Rates on precious metals indexed as follows:
 - On gold and platinum from Rs.200 per 10 grams to Rs.300 per 10 grams
 - On silver from Rs. 1,000 per kg to Rs.1,500 per kg.
- ❖ Basic customs on Rhodium – a precious metal used for polishing jewellery reduced to 2 per cent.
- ❖ Basic customs duty on gold ore and concentrates reduced from 2 per cent ad valorem to a specific duty of Rs.140 per 10 grams of gold content with full exemption from special additional duty. Further, the excise duty on refined gold made from such ore or concentrate reduced from 8 per cent to a specific duty of Rs.280 per 10 grams.

Other Proposals

- ❖ Full exemption from import duty available to specified inputs or raw materials required for the manufacture of sports goods expanded to cover a few more items.
- ❖ Basic customs duty on one of key components in production of micro-wave ovens, namely magnetrons, reduced from 10 per cent to 5 per cent.
- ❖ Value limit of Rs. 1 lakh per annum on duty-free import of commercial samples as personal baggage enhanced to Rs. 3 lakh per annum.
- ❖ Outright exemption from special additional duty provided to goods imported in a pre-packaged form for retail sale. This would also cover mobile phones, watches and ready-made garments even when they are not imported in pre-packaged form. The refund-based exemption is also being retained for cases not covered by the new dispensation.
- ❖ Toy balloons fully exempted from Central Excise duty.
- ❖ Reduction in basic customs duty on long pepper from 70 per cent to 30 per cent;

- ❖ Reduction in basic customs duty on asafoetida from 30 per cent to 20 per cent;
- ❖ Reduction in central excise duty on replaceable kits for household type water filters other than those based on RO technology to 4 per cent;
- ❖ Reduction in central excise duty on corrugated boxes and cartons from 8 per cent to 4 per cent;
- ❖ Reduction in central excise duty on latex rubber thread from 8 per cent to 4 per cent; and
- ❖ Reduction in excise duty on goods covered under the Medicinal and Toilet Preparations Act from 16 per cent to 10 per cent.
- ❖ Proposals relating to customs and central excise are estimated to result in a net revenue gain of Rs. 43,500 crore for the year.

Service Tax

- ❖ Rate of tax on services retained at 10 per cent to pave the way forward for GST.
- ❖ Certain services, hitherto untaxed, to be brought within the purview of the service tax levy. These to be notified separately.
- ❖ Process of refund of accumulated credit to exporters of services, especially in the area of Information Technology and Business Process Outsourcing, made easy by making necessary changes in the definition of export of services and procedures.
- ❖ Accredited news agencies which provide news feed online that meet certain criteria, exempted from service tax.
- ❖ Proposals relating to service tax are estimated to result in a net revenue gain of Rs.3,000 crore for the year.
- ❖ Proposals on direct taxes estimated to result in a revenue loss of Rs. 26,000 crore for the year. Proposals relating to Indirect Taxes estimated to result in a net revenue gain of Rs.46,500 crore for the year. Taking into account the concessions being given in the tax proposals and measures taken to mobilise additional resources, the net revenue gain is estimated to be Rs. 20,500 crore for the year.

BUDGET AT A GLANCE

(In crore of Rupees)				
PARTICULARS	2008-09 Actuals	2009-2010 Budget Estimates	2009-2010 Revised Estimates	2010-2011 Budget Estimates
1. Revenue Receipts	540259	614497	577294	682212
2. Tax Revenue (net to centre)	443319	474218	465103	534094
3. Non-Tax Revenue	96940	140279	112191	148118
4. Capital Receipts (5+6+7)\$	343697	406341	444253	426537
5. Recoveries of Loans	6139	4225	4254	5129
6. Other Receipts	566	1120	25958	40000
7. Borrowings and other liabilities	336992	400996	414041	381408
8. Total Receipts (1+4)\$	883956	1020838	1021547	1108749
9. Non-Plan Expenditure	608721	695689	706371	735657
10. On Revenue Account of which,	559024	618834	641944	643599
11. Interest Payments	192204	225511	219500	248664
12. On Capital Account	49697	76855	64427	92508
13. Plan Expenditure	275235	325149	315176	373092
14. On Revenue Account	234774	278398	264411	315125
15. On Capital Account	40461	46751	50765	57967
16. Total Expenditure (9+13)	883956	1020838	1021547	1108749
17. Revenue Expenditure (10+14)	793798	897232	906355	958724
18. Capital Expenditure (12+15)	90158	123606	115192	150025
19. Revenue Deficit (17-1)	253539	282735	329061	276512
	(4.5)	(4.8)	(5.3)	(4.0)
20. Fiscal Deficit {16-(1+5+6)}	336992	400996	414041	381408
	(6.0)	(6.8)	(6.7)	(5.5)
21. Primary Deficit (20-11)	144788	175485	194541	132744
	(2.6)	(3.0)	(3.2)	(1.9)

NOTES

