

2009-10

INDIA BUDGET



From
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Editorial

India is looking forward to growth rate of 9% of GDP in these turbulent times when most of the world economies are in the red. US with negative growth rate of -5.7%, UK with -1.9%, Australia at marginal 0.4% and China at all time low of 9% (compared to 13% to 17% since last two decades) are all moving south.

Sustaining growth at this rate would call for huge borrowing by the Government, raising fiscal deficit as a percentage of GDP at 6.8%, which is a matter of concern. Out of total budget expenditure of Rs 10, 28,032 Cr. Government is already paying interest on borrowings to the tune of Rs. 195,326.08Cr - 19% of the total budget expenditure.

Since slowdown of global economies would continue to impact Indian economy as well, FM's claim of re-gaining 9% growth sounds unrealistic. Having said so, let may I hasten to add that impetus given to infrastructure development and rural sector is path breaking and only hope for India at this point of time.

We have attempted to analyze some of the announcements made in the area of infrastructure development and rural sector - an area full of opportunities for professionals, NGOs, consulting organizations to come forward and be a partner in India growth story.

Though radical reforms in tax code are expected sometime during this year to simplify tax laws, snapshot of changes made in tax front are listed for benefit of readers.

Sudhir Malik,

BUDGET IMPACT ON INFRASTRUCTURE AND RURAL SECTOR

Infrastructure Development

To attain growth led by demand, FM plans to spend 9% of GDP by 2014 in the infrastructure, i.e. telecommunications, power generation, airports, ports, roads, railways, roads and water.

A whopping Rs. 61,000 crores are expected to be spent this year for infrastructure areas like road, drinking water, urban development, civil aviation, shipping, railways. Though quite less in comparison to China - the largest growing economy which spends around 7% of its GDP on infrastructure and has committed \$725 billion (Rs. 36,25,000 crores) over the next three years.

In India, growth of infrastructure sector has been marred by lack of funding support apart from hindrances like poor policy and regulatory framework, land acquisition issues and availability of bankable projects. Infrastructure projects do not fancy commercial banks since they call for huge funding and have unusually long gestation period.

Partnership with private entrepreneurs – an alternate source of funding for public projects - which has not been fully exploited for public projects in India has emerged front runner in search for alternate funding source for public projects.

Following measures are announced:

- a) Encouraging Public Private Partnership (PPP) in infrastructure Projects: To attract private investment in public infrastructure projects and to ensure that infrastructure projects do not face financing difficulties arising from the current downturn, India Infrastructure Finance Company Limited (IIFCL) a SPV owned by Government of India would refinance up to 60% of commercial bank loans for PPP projects in critical sectors over the next fifteen to eighteen months.
- b) IIFCL and Banks to support projects involving a total investment of Rs.100,000 crores in infrastructures.
- c) FM has urged Central and State Governments to remove policy, regulatory and institutional bottlenecks for speedy implementation of infrastructure projects.

d) Introduction of Takeout Financing Scheme: Borrowed from developed economies, this conceptual tool will facilitate incremental lending to infrastructure sector. Institution/bank financing the infrastructure projects will have an arrangement with some financial institution for transferring to the latter outstandings, part or full, in respect of such financing in their books on a pre-determined basis.

For instance: A developer, applied for a construction loan on a office building. The construction lender requires the developer to obtain takeout financing in the form of a commitment from a permanent lender. The takeout loan will be granted following construction and leasing of at least 65% of Net Rentable Area to creditworthy tenants. Once the project is complete the bank will come out and permanent lender will take its place.

The takeout commitment is generally predicated upon specific conditions, such as a certain percentage of unit sales or leases, for the permanent loan to "takeout" the Construction Loan.

e) JNNURM – A Flagship Schemes for Urban Infrastructure gets larger

Mass exodus from rural India to urban India over the decades has strangled the urban infrastructure. Year after year attempts have been made to spruce up urban infrastructure on one hand and to create employment opportunities in rural India to stem migration to cities. This budget has outclassed all previous attempts by increasing allocation for JNNURM by 87% which now stands at a whopping Rs 12,887 crores.

Jawaharlal Nehru National Urban Renewal Mission launched in 2005-06 exhorts the municipal bodies to comply with reforms: like adoption of modern accrual-based double entry system, e-governance, property tax, GIS, simplification of legal and procedural frameworks, computerized process of registration of land and property etc, so that the urban local bodies become a self sufficient in generating income for meeting its financial demands, be able to go to public for raising funds through bonds and equity just like any other business entity to improve the civic amenities and services like drinking water supply, sewerage, solid waste water management. In short, corporatize urban India.

JNNURM mandates using professionals in identifying bankable projects, bringing in private investment through Public Private Partnerships (PPP), in creating world class amenities in urban India. It is estimated that over a seven year period Urban Local Bodies (ULBs) would require a total investment of Rs. 1,20,536 crores .

f) Rajiv Awas Yojana (RAY)

Rajiv Awas Yojana (RAY) to make the country slum free in the five year period the allocation has been increased to Rs.3,973 crores.

- The scheme will provide basic amenities such as water supply, sewerage, drainage, internal and approach roads, street lighting and social infrastructure facilities in slums and low income settlements.
- States will assign property rights to people living in slum areas.
- Formation of voluntary technical corps of professionals in all urban areas through JNNURM to support the development activities.
- legal framework to cover the provision of security of tenure to the urban poor and also make land available for affordable housing
- Partnerships between the urban poor, municipalities, private developers and the state government to create affordable homes.

ROADS:

NHAI - National Highway Authority of India: Allocation increased 23% from Rs. 6972.47 crores to Rs. 8578.45 crores.

NHAI sources its funds from Central Road Fund by way of cess on Petrol and Diesel, External Assistance, Market Borrowing through bonds and Private Sector Participation (PPP).

Higher allocation will cause a major surge in the number of construction projects that NHAI introduces in the market either through the traditional government procurement method or through PPP mode (BOT/SPV/Annuity).

Projects under PPP mode would be able to secure funding from outside sources at better terms since NHAI will be in a better position to provide any credit guarantees if needed.

PMGSY : Pradhan Mantri Grameen Sadak Yogna: A 100% Centrally Sponsored Scheme

Allocation increased: 59% to 12000 crore for new roads and Rs. 48,000 crore for up-gradation of existing roads.

Targets:

- 1,46,185 km of 'Rural Roads' are proposed to be constructed by 2009.
- Up-gradation of 1, 94,132 km of the existing Associated Through Routes.
- Providing connectivity to all unconnected habitations in the rural areas and hill states and desert areas
- It is expected to benefit about 1.67 lakh habitations

AGRICULTURAL SECTOR

National Rural Employment Guarantee Scheme (NREGS)

60% of our population is deriving sustenance from agriculture sector having a growth rate about 4 per cent per annum. To upgrade rural employment National Rural Employment Guarantee Act, (NREGA) was started in February 2006, which provided employment opportunities for more than 4.47 crores households in 2008-09 in sectors like agriculture, forests, water resources, land resources and rural roads. 115 pilot districts have been selected for convergence of multiple schemes operating in rural areas under Ministry of Rural Development.

An allocation of Rs.39,100 crore has been marking an increase of 144% over 2008-09 Budget Estimates to accelerate the efforts.

Agriculture credit stands at Rs.3,25,000 crore on which lower interest rates of 7% would apply for a loan up to Rs. 3 lacs.

ENVIRONMENT AND CLIMATE CHANGE

Eight Missions launched under National Action Plan representing a multi-pronged, long term and integrated approach are being funded adequately. Besides that National Ganga River Basin Authority '(NGRBA) is being set up and National River and Lake Conservation Plans would get Rs.562 in 2009-10 as compared to Rs.335 crore last year.

DIRECT TAX PROPOSALS

Major Tax Reliefs:

- Fringe Benefit Tax (FBT) abolished with effect from financial year 01.04.2009.
- Commodity Transaction Tax abolished with effect from financial year 01.04.2009.
- Small business exempted from maintaining books of accounts if their turnover does not exceed Rs.40 lakh. All such taxpayers will have the option to declare their income from business at the rate of 8 per cent of their turnover and simultaneously enjoy exemption from the compliance burden of maintaining books of accounts. As a procedural simplification they would be allowed to pay their entire tax liability at the time of filing their return and not by way of advance tax. Where eligible assessee is firm; the salary and interest paid to partners shall be separately deducted from income computed @ 8% as above. The WDV of assets used in the business shall be deemed to have been calculated as if depreciation has been claimed as actually allowed. In case such assessee claims his profits are lower than 8% he shall be required to keep and maintain books of accounts and get them audited.
- 10% surcharge on personal income tax eliminated.

TAX RATES

Individuals / AOP/ HUF

- While income tax rates remained unchanged, the income threshold limit has been increased by Rs. 10,000 from Rs. 1,50,000 to Rs. 1,60,000.
- Basic exemption limit for women resident in India has been raised from Rs.1,80,000 to Rs.1,90,000.
- Basic exemption limit for a senior citizen resident in India has been raised by Rs. 15,000 from Rs.2,25,000 to Rs.2,40,000.

Income slab (AY 09-10)	Income slab (AY 10-11)	Rates of Income Tax
Up to Rs. 1,50,000	Up to Rs. 1,60,000	Nil
Rs. 1,50,001 to Rs. 3,00,000	Rs. 1,60,001 to Rs. 3,00,000	10%
Rs. 3,00,001 to Rs. 5,00,000	Rs. 3,00,001 to Rs. 5,00,000	20%
Above Rs. 5,00,000	Above Rs. 5,00,000	30%

- 10% surcharge on personal income tax eliminated.

Firms / Corporate

- No change in corporate tax rate, education cess and additional secondary and higher education cess.
- Firms and Companies having taxable income of more than Rs.1Crore continue to pay 10% surcharge.
- Similarly, Foreign company having taxable income exceeding Rs. 1 Crore (Ten Million) continue to pay 2.5% surcharge.

Domestic Companies

- MAT (Minimum Alternate Tax) has been increased to 15% as against 10% last year. As a relief to corporate taxpayers, period has been extended to carry forward the tax credit under MAT from seven years to ten years.
- Corporate tax rate remains at 30 percent
- Education Cess : 2%
- Secondary and Higher Education Cess: 1%
- Surcharge : 10% if taxable income exceeds Rs. 1 Crore (10 million)

Foreign Companies

- The income tax rates remain unchanged at 40 per cent
- Surcharge: 2.5% if taxable income exceed Rs. 1 Crore (10 million)
- Education Cess : 2%
- Secondary and Higher Education Cess: 1%

Firms

- The income tax rate for firms remains unchanged at 30%

Salary: Perquisites redefined

- The value of any specified security or sweat equity shares allotted by employer or former employer, free of cost or at concessional rate.
- The amount of any contribution to approved Superannuation Fund by employer in respect of assessee to the extent it exceeds Rs. 1 Lakh.
- The value of any other fringe benefit or amenity as may be prescribed.

Remuneration to partners: Limits redefined

Up to Rs. 3,00,000/- of the book-profit or in case of a loss	Higher of Rs. 1,50,000 or 90% of the book profit
On the balance of the book-profit	60% of the book profit

DEDUCTIONS AND EXEMPTIONS

- Deduction under section 80-DD in respect of maintenance and medical treatment of a dependent with severe disability has been increased to Rs.1 lakh from the present limit of Rs.75,000.
- Deduction under section 80E allowed in respect of interest on loans taken for pursuing higher education in specified fields of study extended to cover all fields of study, including vocational studies, pursued after completion of schooling.
- Extension of tax holiday under section 80-IB(9) to undertakings in respect of profits derived from the commercial production of mineral oil and natural gas.
- 100% capital expenditure, other than expenditure on land, goodwill and financial instruments will be fully allowable to the businesses of setting up and operating 'cold

chain', warehousing facilities for storing agricultural produce and the business of laying and operating cross country natural gas or crude or petroleum oil pipeline network for distribution on common carrier principle.

- Sun-set clause for tax holidays in respect of export profits under sections 10A and 10B has been extended for the financial year 2010-11.
- Scope of the current provision of weighted deduction of 150% on expenditure incurred on in-house R&D has been extended to all manufacturing businesses except for a small negative list.
- Income of the New Pension System Trust exempted from income tax. Dividend paid to this Trust to be exempted from Dividend Distribution Tax. Purchase and sale of equity shares and derivatives by the NPS Trust will also be exempt from the Securities Transaction Tax.
- Donations to electoral trusts shall get a 100 per cent deduction in the computation of the income of the donor.
- Anonymous donations received by charitable organisations are not going to be taxed to the extent of 5 per cent of their total income or a sum of Rs.1 lakh, whichever is higher.

TAX DEDUCTION AT SOURCE

- TDS on Rent (Sec. 194I):
 - TDS for the use of any machinery or plant or equipment reduced from 10% to 2% for all payees.
 - TDS for use of land, building, furniture, fittings reduced to 10% for all payees.
- TDS on Contract (Sec. 194C):
 - TDS @ 1% where payment made to or credit to an individual or HUF.
 - TDS @ 2% where payment made / credit to person other than individual or HUF.
No TDS on contract for manufacturing / supply product according to requirement of customer by using material purchased from a person other than such customer.

INDIRECT TAXES

Customs Duty

- Cell phone parts, components and accessories, which were exempt from additional duty of customs of 4% till 30.06.2009, will remain exempt till 30.06.2010.
- Full exemption from basic customs duty available to settop boxes has been withdrawn. They will now attract basic duty of 5%.
- Basic customs duty on LCD panels for manufacture of LCD televisions has been reduced from 10% to 5%.
- Full exemption from 4% special CVD on parts for manufacture of mobile phones and accessories has been reintroduced for one year i.e. up to 06.07.2010.
- Raw materials and equipments imported by manufacturers/exporters of leather products, textile garments, footwear as well as sports goods are exempted from custom duty. More items have been added to the lists.
- Full exemption of basic customs duty to rough corals.
- Basic customs duty on permanent magnets for manufacture of Wind Operated Electricity Generators has been reduced from 7.5% to 5%.
- Customs duty has been reduced from 10% to 5% on nine specified life saving drugs and on bulk drugs used for their manufacture. They also have total exemption from excise duty and countervailing duty.
- Customs duty on two specified life saving devices used in treatment of heart conditions has also been reduced from 7.5 per cent to 5 per cent. These devices will be fully exempt from excise duty and countervailing duty also.
- Rates of basic customs duty on gold and silver have been increased as under:-

Item	From	To
Gold bars, other than tola bars	Rs. 100 per 10 gm	Rs. 200 per 10 gm
Gold in any form excluding jewellery and gold bars specified above	Rs. 250 per 10 gm	Rs. 500 per 10 gm
Silver in any form excluding jewellery	Rs. 500 per Kg	Rs. 1,000 per Kg

These revised rates shall also apply to gold and silver, including ornaments that are not studded, when imported by a *bona fide* passenger as baggage.

- Basic customs duty on cotton waste and wool waste has been reduced from 15% to 10%.
- Basic customs duty on rock phosphate has been reduced from 5% to 2%.
- Countervailing duty exemption has been withdrawn from Aerial Passenger Ropeway Projects.
- Basic customs duty of 7.5% on concrete batching plants of capacity 50 cum per hour or more.
- Basic customs duty on bio-diesel has been reduced from 7.5% to 2.5%.
- Basic customs duty on inflatable rafts, snow-skis, water skis, surf-boats, sail-boards and other water sports equipment has been fully exempted.

Service Tax

New Services Brought Under Service Tax Net:

- Cosmetic Surgery or Plastic Surgery
- Transport of Coastal Goods; and Goods transported through Inland water.
- Legal Consultancy Service except appearance before any court, tribunal or authority and service provided by an individual.
- Transport of Goods through Rail. TAX - 1

Excluded:

- Sub-brokers have been excluded from the purview of service tax.
- The inter-bank transactions of purchase or sale of foreign currency, when undertaken by scheduled banks, is being exempted.
- Services used for export of goods and where the liability to pay the tax on such services is on the exporter himself, on reverse charge basis –
 - Transport of goods by road, from the place of removal to any ICD, CFS, port or airport; or from any CFS or ICD to the port or airport
 - Services provided by a foreign commission agent for procuring orders. 4 (

Clarified:

- Goods Transport Agents (GTAs) receive several services from other service providers (such as warehouse keeper, cargo handlers, C&F agents) during the movement of

goods, en-route. While these individual services are taxable at the hands the service providers, the GTA cannot take credit of tax paid on such services, as the abatement allowed to them is subject to condition that no credit should be availed. This matter was agitated by the GTAs, and the government agreed to exempt such services. Consequently, notification No. 1/2009-ST dated 05.01.2009 was issued. It was, however, pointed out by GTAs that litigation is pending for the past period. The said notification No. 1/2009-ST is being given retrospective effect (with effect from 01.01.2005).

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