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INDIA BUDGET – 2011

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Engineering Growth

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FOREWORD

This is a plain budget from a seasoned Finance Minister. Amidst all the hullahs of scams and the ongoing Cricket World Cup fever, the FM presented a calm and a cautious Budget. In our view, the Finance Minister has put in place a budget that will preserve the balance that India has achieved between growth, sustainability, stimulus packages and inflation worries. On most fronts, the FM has decided to take a careful, but perhaps, pragmatic approach. For example, the fiscal consolidation.... the fiscal deficit as well as the net market borrowing numbers are surprisingly low. The FM hopes to peg the deficit in FY12 at 4.6% of GDP and has budgeted for net borrowings of about ₹ 340,000 Crores. At first glance there seems to be an upside risk of both fiscal deficit as well as net market borrowing numbers estimated by the Government. But perhaps, what he is signaling is that sometimes during the year, may be post assembly elections, he would look at doing away with administered pricing for diesel and kerosene. That would definitely reduce the subsidy burden.

On financial sector reforms, while he has not announced enhanced Foreign Direct Investment (FDI) in Insurance, but has announced two other significant initiatives. First is allowing FDI in domestic MFs which should come as huge relief to a battered sector and second is that the RBI will be announcing the final guidelines for new private sector banks. The budget speech also indicated further progress on the DTC as well as the GST, both critical measures. This is a welcome move, though one would have hoped for greater expeditiousness. The measures of making more foreign investments in infrastructure by raising the limit for FII investment into bonds by an additional USD 20Bn, taking the limit to USD 25Bn is welcome as the sector was facing a huge problem as most banks had reached their prudential limits of exposure to this sector.

On the corruption front, while formation of a Group of Ministers is by itself no policy announcement, but what it means is that from now onwards the Government will be forced to act more forcefully. This is also a welcome development. It is however left to be known, as to how much the Government is serious in bringing back the black money parked in the Swiss Bank Accounts.

The FM also sprung a few pleasant surprises for taxpayers in his Budget. Keeping his tax proposals revenue-neutral for the Government, he lightened the income-tax burden by a fraction for the country's 1 crore taxpayers, while raising excise taxes selectively to compensate for the losses from lower income-tax. The FM raised the exemption limit for personal income-tax from ₹ 1.6 Lacs to ₹ 1.8 Lacs, effectively saving tax-payers ₹ 2,000 annually. In addition, he lowered the threshold age for senior citizens - who now enjoy a higher tax-exemption limit of ₹ 2.5 Lacs - to 60 from 65, thus bringing a large number of people into the ranks of tax beneficiaries. He also created a new category named very senior citizens for those at the age of 80 and above, giving them an exemption limit of ₹ 5 Lacs.

This apart, the FM lowered the surcharge on corporate tax from 7.5% to 5%, which will lower the tax outgo - and improve net profits - for all Companies who do not have to pay their taxes under MAT. For the latter, the tax will be marginally higher, with the rate going up from 18% to 18.5%. In addition, developers and units of SEZ have been brought under MAT. Indian Companies with foreign subsidiaries have a lot to celebrate, as their dividend earnings would now be taxed at a lower rate of 15%.

Contrary to apprehensions, however, the FM did not roll back any of the excise duty cuts that he had effected in order to provide a stimulus to spending during the low-growth years following the global recession. He maintained the peak rate of excise duties and service tax at 10%, so that all items already at that level will not become more expensive. This may particularly please car-makers as well as car-buyers, who were prepared for an increase in prices. However, by bringing in a number of new items to the service-tax net and other measures in Indirect Tax, the FM has endeavored to make up the similar loss on account of Direct Tax proposals.

Having exceeded his direct tax targets for 2010-11, the FM reasoned that there was probably no need to raise tax rates to increase government revenue. Having set himself a stiff disinvestment target of ₹ 40,000 Crores for the year, he is obviously betting on other means for shoring up his revenues. That is something he must do if he is to bring the fiscal deficit down to 4.6% of the GDP in 2011-12, as he has proposed. The fact that the fiscal deficit for 2010-11 will come in at 5.1%, well lower than the targeted 5.5%, must have encouraged his decision to let the stimulus remain.

What was missing, however, were bold moves on the reforms axis. There was no announcement of allowing or increasing FDI in retail and insurance, as widely expected. Of course, such announcements do not necessarily have to be made in a budget speech, even though the platform has traditionally been utilised to announce such initiatives.

Much depends on how well the large number of points about implementation of various plans and schemes are actually executed. However, on the whole, it was a general signal that the economy is on a growth path, heading into double digits in the foreseeable future, and perhaps it's best for the government to eschew over-planning and focus on distribution and socioeconomic equity. If that is indeed the intent of FM’s annual financial statement, he may still end up having done a reasonable job, despite the lack of fireworks.

While we continue our journey of becoming Super Power in times to come, some deserving bold steps would have given a flip in achieving this very objective in a shorter span of time than it will otherwise take.

BUDGET HIGHLIGHTS

GENERAL

- Indian economy set to regain the pre-crisis growth momentum, expected to grow at 9% during 2011-12, (+ / -) 0.25%.
- Economy has recorded a GDP growth of 8.6% in 2010-11 in real terms.
- Exports have grown by 29.4%, while imports have recorded a growth of 17.6%.
- Actual fiscal deficit has been at 5.1% of GDP in 2010-11 against budget estimate of 5.5%.
- Rolling targets for fiscal deficit pegged at 4.6%, 4.1% and 3.5% for 2011-12, 2012-13 and 2013-14 respectively.
- Direct Tax Code (DTC) proposed to be effective from April 1, 2012 and Constitution Amendment Bill to be introduced for rolling out of Goods & Services Tax (GST).
- Amendments proposed to the Banking Regulation Act for providing additional banking licences to private sector players.
- Target to raise ₹ 40,000 Crores in 2011-12 through PSUs disinvestments.
- Mutual funds permitted to accept subscription from foreign investors for equity schemes.
- Raised FII limit by USD 20 Bn to USD 25 Bn for investments in infra corporate bonds, taking the total limit to USD 40 Bn for investment in bonds.
- Tax-free bonds of ₹ 30,000 Crores to boost infrastructure development.
- Several measures announced to deal with generation and circulation of black money.
- Direct transfer of cash subsidy to below poverty line people in a phased manner for better delivery of kerosene, LPG and fertilisers.
- Allocation for infrastructure accounts 48.5% of total plan allocation in 2011-12 (₹ 2,14,000 crore) i.e. an increase of 23.3% over 2010-11.
- Share of manufacturing in GDP expected to grow from 16% to 25% over a period of 10 years.

- Scaled up flow of resources to the rural areas by launching various social schemes and increased outlays in Agriculture areas.
- Allocation for social sector amounts to ₹ 1,60,887 Crores (36.4% of total plan allocation in 2011-12) i.e. an increase of 17% over 2010-11.
- Allocation for Bharat Nirman programme increased from ₹ 48,000 Crores in 2010-11 to ₹ 58,000 Crores in 2011-12.
- Credit flow for farmers raised from ₹ 3,75,000 crore in 2010-11 to ₹ 4,75,000 Crores in 2011-12.
- Interest subvention hiked from 2% to 3% for short-term crop loans to farmers.
- Existing scheme of interest subvention of 1% on housing loans further liberalised and loan limit hiked from ₹ 20 Lacs to ₹ 25 Lacs.
- Allocation for education increased by 24% (₹ 52,057 crore) over current year.
- ₹ 21,000 Crores allocated to Sarva Shiksha Abhiyan, which is 40% higher than Budget for 2010-11.
- Allocation for Defence increased to ₹ 1,64,415 Crores including ₹ 69,199 Crores for capital expenditure.
- Set up 15 more Mega Food Parks during 2011-12 to enhance food security and storage capacity.
- Proposal to introduce scheme for refund of taxes paid on services used for export of goods.
- Introduced a new simplified form 'Sugam' to reduce the compliance burden of small tax payers.
- The total expenditure proposed in the Budget Estimates is ₹ 12,57,729 Crores which is an increase of 13.44% over the last year.

DIRECT TAX

- Basic Exemption limit increased in case of individuals (Male) and senior citizen taxpayers.
- Age limit for senior citizens reduced from 65 years to 60 years.
- Concept of Very Senior Citizens (80 years and above) introduced with basic exemption of ₹ 5 Lacs.
- Surcharge on Domestic Companies reduced from 7.50% to 5% and on Foreign Companies from 2.50% to 2%.

- MAT rate increased from 18% to 18.5% on Corporate Assessees.
- Investment linked tax incentives extended to notified Affordable Housing Projects and to Production of Fertilizers.
- SEZ developers are now liable to MAT & DDT and SEZ units to MAT.
- DDT on profit distributed by mutual funds increased in case of assessees other than Individual and HUF.
- LLP brought under Alternative Minimum Tax (AMT) like Corporate Assessees.
- Weighted deduction for contribution to scientific research associations increased from 175% to 200%.
- Employers' Contribution towards Pension Scheme now allowable as deduction like PF/ESIC.
- Separate deduction allowed up to 10% of Salary/Gross Total Income in respect of contribution to Pension Scheme.
- Deduction for investment in long-term infrastructure bond up to ₹ 20,000 extended for one more year.
- Extension of sunset clause for tax holiday to power sector up to 31-3-2012.
- Due date for filing tax return for Companies, which are subject to Transfer Pricing audit, extended to 30th November.
- Dividends from a Foreign Subsidiary Company taxable at reduced rate of 15%.
- Direct Taxes Code proposed to be effective from April 1, 2012.
- Liaison offices of non-residents now to submit Annual Information Statement to the tax authorities in India.
- Eligibility conditions for filing an application before Settlement Commission relaxed and modified.

INDIRECT TAX

Central Excise

- Standard rate of Central Excise Duty maintained at 10% *ad valorem*.
- Excise Duty rates rationalised for cement industry.
- Air-conditioning equipment for cold storages exempt from Excise Duty.

- 1% Central Excise Duty levied on 130 new items in the list of consumer item.
- Mandatory levy of Excise Duty at 10% on branded garments. Credit of tax paid on inputs, capital goods and input services would be available to manufacturers of these products.
- Basic food, fuel, precious stones, gold and silver jewellery except branded ones, to be exempted.
- Lower rate of Central Excise Duty increased to 5% from 4%.
- Reduction in Central Excise Duty on sanitary napkins, baby and adult diapers from 10% to 1%.

Customs

- Peak rate of customs Duty maintained at 10% in view of the global economic situation.
- 20% *ad valorem* Export Duty levied on iron ore.
- Customs Duty on yarn reduced from 7.5% to 5%.
- Customs Duty on raw silk reduced from 30% to 5%.
- Basic Custom Duty on Pet Coke and Gypsum reduced to 2.5%.
- Basic Customs Duty on agricultural machinery reduced from 5% to 2.5%.
- Basic Custom Duty on micro-irrigation equipment reduced from 7.5% to 5%.
- De-oiled rice bran cake to be fully exempted from Basic Custom Duty on Imports. Export Duty of 10% to be levied on its export.
- Export Duty on all types of iron ore unified at 20% ad valorem.
- Customs Duty on solar lanterns reduced from 10% to 5%.
- Full exemption from Import Duty is available on spares and capital goods required by ship-repair units also extended to ship-owners.
- Basic Customs Duty on lactose for the manufacture of homoeopathic medicines reduced from 25% to 10%.

Service Tax

- Service Tax widened to cover i) Hotel accommodation charging above ₹ 1,000 a day, ii) A/C restaurants serving liquor, iii) Hospitals with 25 or more beds with facility of central air-conditioning.

- Service Tax on air travel increased by ₹ 50 for domestic travel and ₹ 250 for international travel in economy class. On higher classes, it will be 10% flat.
- Services provided by life insurance companies in the area of investment and some more legal services proposed to be brought under the Service Tax net.
- All individual and sole proprietor taxpayers with a turnover up to ₹ 60 Lacs freed from the audit premises at their premises.
- To encourage voluntary compliance, the penal provisions for Service Tax are being rationalized. Similar changes being carried out in Central Excise and Custom laws.
- Scope of Legal Services extended to include representational and arbitration services by individuals to business entities or vice versa. No tax on services provided by individuals to other individuals.
- Adoption of point of Taxation Rules, 2011 w.e.f 1st April, 2011 for services to shift the basis for tax collections from "Cash" towards "Accrual".

ECONOMY OUTLOOK

Economic Survey 2010-11

Overview

The Indian Economy has emerged successfully from the slowdown caused by the global financial crisis of 2007-09. With the growth in 2009-10, estimated at 8%, the turnaround has been quite fast. Growth has been strong in 2010-11 with a rebound in agriculture and continued momentum in manufacturing sector. Although there was a decrease in growth in the services sector caused mainly by the deceleration in community, social and personal services, reflecting the base effect of fiscal stimulus in the previous two years. The medium to long term prospect of the Economy, including the industrial sector, continues to be positive.

Reforms and convergence in various schemes are key takeaways for the social sector in the Economic Survey.

There has been an increase in the expenditure on social services. It increased since 2005-06, from 5.49% to 7.27% of GDP in 2009-10. However, the budget estimate for 2010-11 reveals a dip in the share to 6.63% of the GDP. This fits in with the Survey's emphasises on the Government's challenge in mobilising funds, especially in the area of higher education.

The financial situation remained orderly with a pickup in credit growth, vibrant equity market and stable foreign exchange market. The moderation in the current account of Balance of Payments position is likely with deceleration in imports and acceleration in exports as per the latest monthly merchandise trade data. Although downside risks of global events, particularly movement in prices of commodities like crude oil (marked by the current political turmoil in the North African & Middle East economies) remain, the Indian economy is poised to further strengthen.

Prices and Monetary Management

The challenge of maintaining the growth momentum in the economy with price stability is going to remain a key focus area for monetary policy and macro-economic management.

India's wholesale price index (WPI)-based inflation was at 8.23% in December, 2010, reflecting price shocks in essential commodities. Food inflation stood at 11.49% in the second week of February 2011.

The Reserve Bank of India has raised policy rates seven times in 2009-10, making borrowings costlier.

Non-food manufacturing inflation has remained sticky, reflecting optimistic demand. However, the domestic food prices situation could get worse by the increase in global prices.

Fiscal Deficit

Fiscal deficit in 2009-10 had surged to 6.3% of the GDP, primarily driven by stimulus spending to battle the financial slowdown in wake of the global financial economic crisis.

India's fiscal deficit is likely to be 4.8% for 2010-11, lower than the 5.5% projected in the last Union Budget, primarily due to auction of 3G spectrum and buoyancy in revenues.

Balance of Payments

On a BoP basis, India's current account deficit increased by 37.5% in 2009-10 to USD 38.4 Bn (2.8% of GDP) from USD 27.9 Bn in 2008-09 (2.3% of GDP). Going ahead, higher crude prices owing to geopolitical uncertainties could further increase India's current account deficit.

Global investors' perception about the Indian recovery encouraged a revival in capital inflows in 2009-10 primarily through FII inflows.

India's foreign exchange reserves continue to remain healthy at USD 297.3 Bn making India the fourth largest foreign exchange reserve holder – this shelters India from potentially extreme monetary flows and commodity price spikes.

India's external debt stood at USD 295.8 Bn at the end of September, 2010 out of which 77.7% was in the form of long-term debt; USD denominated debt stood at 53.9% of total external debt - there is now an increasing trend of private players in India's long-term debt showing resilience in India's private sector expansion plans and risk-taking ability.

Industry

The industrial sector needs another round of multifaceted reforms within the policy framework overseeing it, to sustain a double-digit output growth which will reduce the vulnerabilities in the sector over the medium-to-long term.

Of the 17 industrial groups covered under the manufacturing sector, only 9 groups registered a double-digit cumulative growth rate while only 5 witnessed less than 5% growth. Overall manufacturing output growth dipped from a peak of 18% in April, 2010 to 1% in December, 2010, indicating a similar pattern in the index of industrial production.

Annual industrial growth rate in 2010-11 is expected to remain close to last year's rate of 8.8% - the Index of Industrial Production (IIP) based cumulative industrial output growth rate during April-December, 2010 was recorded at 8.6%.

The manufacturing sector, which hugely drives the IIP, needs both policy and reforms boost to shore up the IIP.

Infrastructure, Communication and Energy

The Economic Survey has expressed concern over the lack of progress in key infrastructure projects, especially in roads, power and railways. More than half the Central projects have been delayed, resulting in higher costs. Of the 559 projects costing 150 Crores or more, 293 are behind schedule; 117 are on schedule, and a mere 14 projects are ahead of schedule. Of the balance projects, no dates have been fixed for commissioning. However, the telecom sector continues to do well and most of the projects are on schedule.

The survey noted that the infrastructure sector needs 41 Lacs Crores of Investments in the 12th Plan period, and at least half would have to come from the private sector.

Agriculture

The Economic Survey indicated a break-point coming up on the farm front: higher incomes, rising food costs, shifting demands (especially for high-end foods), slower supplies and missing market linkages — all point to a system about to stop breathing.

The decline in per capita availability of foodgrains is a matter of major concern. Today India ranks high in production of several commodities… However, this sector in India is at crossroads.

Farm growth is currently a robust 3.46%, very close to the government's target of 4%. By this financial year end, it will grow to 5.4%.

However, to achieve the 4% growth target for the entire plan period, the sector needs to grow at 8.5% this year alone.

Retail

The Economic Survey has made out a case for allowing foreign direct investment (FDI) in multi-brand retail, arguing that the move could help both the consumers and farmers to bring technical know-how to supply chains.

Permitting FDI in retail in a phased manner beginning with metros and incentivising the existing retail shops to modernise could help address the concerns of farmers and consumers.

Allowing FDI in multi-brand retail chains has been a contentious issue, as its opponents fear it could impact the sales of local kirana shops. India's retail sector is estimated at around 22 Lacs Crores, of which organised sector is only around 5%.

Exports

Trade deficits (on customs basis) increased by 2.4% to USD 82 Bn in 2010-11 (April-December) from USD 80.1 Bn in the corresponding period of the previous year. The relatively higher import growth compared to export growth rate in the first half of 2010-11 raised concerns of unsustainable current account deficit levels.

A moderation in the current account of balance of payments position is likely with deceleration in imports and acceleration in exports.

Economy Outlook for 2011-12

Based on the performance of the economy over the last five years and analysis of the underlying trends of critical variables, India's real GDP is expected to grow by 9% (+/-0.25%) in 2011-12 and is expected to revert to pre-crisis growth levels next year.

Looking further, into the medium to long term, the expectation is that India's pace of economic development will pick up even more. There are a couple of reasons for this expectation viz., the momentum in the savings and investment rates and also the fact that India's demographic dividend is yet to peak and there is evidence that the savings rate for the working age population of India, especially for those in the 30's and 40's is disproportionately high.

It is known that once an economy begins to operate close to its capacity, the savings and investment rates are no longer such effective drivers of GDP growth. Growth then much more depends on skill development and innovative activity in the country. Fortunately, there is awareness of this in India and efforts are afoot in terms of budgetary allocation and actual initiatives to boost the development of skill and human capital.

It is expected that these initiatives will gather steam and more than make up for eventually waning power of the savings rate as a driver of economic growth. As a consequence of which, the next two decades should see the Indian economy growing faster than it has done any time in the past.

Conclusion

To conclude, the Indian economy will breach the 9% mark in 2011-12. There would be much more focus on "aam aadmi" and higher funds for flagship programmes to realize the desired outcomes.

Notwithstanding the tightening money markets and moderate growth in deposits, there has been a pickup in credit growth, higher equity market volumes and stable foreign exchange market. A moderation in BoP position is likely with deceleration in imports and acceleration in exports.

Despite downside risks, particularly through movement in prices of commodities like crude oil, the Indian economy is poised to further improve and consolidate in terms of key macroeconomic indicators.

DIRECT TAX PROPOSALS

1. Threshold Limit/Rates of Tax

a. Individual, HUF, Association of Persons or Body of Individuals:

- Basic exemptions for male individuals increased from ₹ 1.60 Lacs to ₹ 1.80 Lacs.
- Basic exemptions for Senior Citizens increased from ₹ 2.40 Lacs to ₹ 2.50 Lacs.
- Age eligibility for Senior Citizens reduced from 65 years to 60 years.
- New category of Very Senior Citizens (aged 80 years & above) introduced with basic exemption limit of ₹ 5 Lacs.
- No change in Education Cess @ 2% and Secondary & Higher Education Cess @ 1%.
- The effective tax rate shall be as under:–

Taxable Income Slab (₹)	Tax Rates			
	General	Women	Senior Citizens	Very Senior Citizens
Up to 1,80,000	NIL	NIL	NIL	NIL
1,80,001 to 1,90,000	10.30%	NIL	NIL	NIL
1,90,001 to 2,50,000	10.30%	10.30%	NIL	NIL
2,50,001 to 5,00,000	10.30%	10.30%	10.30%	NIL
5,00,001 to 8,00,000	20.60%	20.60%	20.60%	20.60%
8,00,001 and above	30.90%	30.90%	30.90%	30.90%

b. Firm/Limited Liability Partnership (LLP):

- No change in tax rate.
- No change in Education Cess @ 2% and Secondary & Higher Education Cess @ 1%.
- Alternate Minimum Tax (AMT) on LLP
  It is proposed to bring LLP under the purview of AMT on its Adjusted Total Income @ 18.5% (excluding applicable Cess). Provisions in respect of credit of AMT paid by LLP are at par with provisions of MAT u/s 115JAA. (w.e.f. 1-4-2012).
- The effective tax rate shall continue to be 30.90%.

c. Corporate:

- No change in basic tax rate on income of Domestic as well as Foreign Company.
- Surcharge on Domestic Company reduced from 7.5% to 5%.
- Surcharge on Foreign Companies reduced from 2.5% to 2%.
- No change in Education Cess @ 2% and Secondary & Higher Education Cess @ 1%.
- Thus the effective tax rate shall be as under:–

Assessee Category	Total Income < = ₹ 1 crore	Total Income > ₹ 1 crore
Domestic Company	30.90%	32.45%
Foreign Company	41.20%	42.02%

- Minimum Alternative Tax (MAT) chargeable on book profit is increased from 18% to 18.50%. Thus effective tax under MAT shall be as under:

Assessee Category	Total Income < = ₹ 1 crore	Total Income > ₹ 1 crore
Domestic Company	19.06%	20.01%
Foreign Company	19.06%	19.44%

- Dividend Distribution Tax (DDT) reduced from 16.61% to 16.22% due to reduction in Surcharge.

d. Tax on Income distributed to unit holders. (w.e.f. 1-6-2011)

The rates of additional income tax payable by a Mutual Fund u/s 115R(2) on distribution of income are proposed to be revised as under–

Sr. No.	Recipient of Distributed Income	Nature of Mutual Fund	Present Rates	Proposed Rates
(i)	Individual or HUF	Money Market Mutual Fund or Liquid Fund	25%	25%
(ii)	Other Person	Money Market Mutual Fund or Liquid Fund	25%	30%
(iii)	Individual or HUF	Debt Fund other than Money Market or Liquid Fund	12.50%	12.50%
(iv)	Other Person	Debt Fund other than Money Market or Liquid Fund	20%	30%

2. Business Income

a. SEZ units and SEZ developers liable to MAT/DDT

- It is proposed to bring the SEZ units and developers of SEZ under the purview of Minimum Alternative Tax (MAT) u/s 115JB w.e.f. A.Y. 2012-13.
- It is also proposed to discontinue the exemption from DDT, which was available to undertakings engaged in developing, operating and/or maintaining SEZ for dividends declared, distributed or paid on or after 1-6-2011.

b. Increase in weighted deduction for scientific research

It is proposed to increase the weighted deduction u/s. 35(2AA)(a) for contribution made towards Scientific Research from 175% to 200%.

c. Extension of scope of Investment linked incentive – Section 35AD

- For investment linked deductions, following two new businesses included as specified business;
  - Developing and Building Affordable Housing Projects.
  - Production of Fertilizers.
- Accordingly, 100% deduction of any capital expenditure other than land, goodwill & financial instrument, shall be allowed if operations commences on or after 1st April, 2011. (w.e.f. 1-4-2012).
- It is further provided to remove the word "new" from existing definition of "specified business" (only hotel and hospitals). After this amendment, the loss of an assessee from such "specified business" would be freely allowed to be set off against the profit of another "specified business" u/s 73A. (w.r.e.f. 1-4-2011).

d. Deduction in respect of Pension Scheme

It is proposed to allow deduction u/s 36, in respect of any sum paid by the assessee as an employer by way of contribution towards pension scheme on account of employees to the extent it does not exceed 10% of the salary (Basic and dearness allowance).

3. Deductions under Chapter VIA

a. The additional deduction of ₹ 20,000/- to individuals and HUF for investment in long term infrastructure bonds extended for A.Y. 2012-13. (u/s 80CCF).

b. It is proposed to amend Section 80CCE to provide that the employers' contribution made to a pension scheme u/s 80CCD(2) shall be allowed over and above the maximum deduction of ₹ 1 lac available u/s 80CCE.

4. International Taxation / Taxation for Non Resident

a. Reporting of Activities of Liaison Offices

In order to gather regular information from non-residents regarding the activities of their liaison offices in India, it is proposed to prescribe an Annual Information Statement which shall be submitted within sixty days from the end of the financial year.

b. Transfer Pricing

- It is proposed that instead of 5% allowable variation across all business transactions, the government will notify the allowable percentage of variations across the different segments of business activities. (w.e.f. 1-4-2012).
- It is provided that the jurisdiction of the Transfer Pricing Officer (TPO) shall extend to the determination of Arms Length Price in respect of international transactions other than those that are specifically referred by the Assessing Officer. (w.e.f. 1-6-2011).
- In order to enable the TPO to conduct on-the-spot enquiry and verification, it is proposed to authorize TPO to exercise powers of Survey u/s 133A. (w.e.f. 1-6-2011).
- In order to overcome the difficulty in getting comparable data for Transfer Pricing audits, the due date for filing of return of Income in the case of Corporate Assessees, where Transfer Pricing audit is applicable, is proposed to be extended to 30th November of the assessment year. (w.e.f. 1-4-2011).

c. Anti Avoidance Measures (w.e.f 1-6-2011)

In order to discourage transactions with persons located in certain notified jurisdictions that do not effectively exchange information with India, it is proposed that the Central Government will notify such jurisdictions. The following anti avoidance provisions have been proposed in this regards:

- If the assessee is entering into transaction with any party located in such jurisdictions, then all parties to such transaction shall be deemed to be Associated Enterprises and all the provisions of Transfer Pricing will be applicable.

- No deduction will be allowed for:
  - Any payment made to any financial institutions located in such jurisdiction, unless the assessee provides an authorization to the income tax authority to seek relevant information subsequently.
  - Any other expenditure or allowance arising from the transactions unless the assessee maintains such other documents as may be prescribed.
- If the assessee does not offer satisfactory explanation about the source of any sum received from transactions with any person located in such jurisdiction, such sum shall be deemed to be the income of the assessee.
- Any payment made to a person located in such jurisdiction shall be liable to Deduction of Tax at higher of the following rates;
  - at the rate or rates in force; or
  - at the rate specified in the relevant provisions of the Income Tax Act; or
  - at the rate of 30%.

d. Interest from Infrastructure Debt Fund received by a Non-Resident

It is proposed to tax the interest from an Infrastructure Debt Fund received by a Non-Resident at the rate of 5%. It is also proposed to introduce provisions for withholding of taxes @ 5% on such income u/s 194LB. (w.e.f. 1-6-2011).

e. Dividend from Foreign Subsidiary Company

It is proposed that Dividend declared, distributed or paid by a Subsidiary Foreign Company to an Indian Company shall be taxed @ 15%. It is also proposed that no deduction in respect of any expenditure or deduction shall be allowed against such dividend. (w.r.e.f. 1-4-2011).

5. Other Proposals :

a. Document Identification Number – Section 282B

The proposal for providing unique Document Identification Number for any correspondence made by a tax officer is proposed to be deleted. (w.r.e.f. 1-4-2011).

b. Provisions in relation to Settlement Commission.

- With a view to expand the benefit of Settlement Commission to the tax payers, it is now proposed to extend the eligibility of filing an application before Settlement Commission to the entities related (to be defined) to a tax payer on whom the search is initiated, if additional Income tax payable in their case exceeds ₹ 10 Lacs. The entities should also be subject to search (w.e.f. 1-6-2011).

- With a view to rectify any mistake apparent from record, it is also proposed that the Settlement Commission may amend any of its Order within 6 months from the date of such Order after giving an opportunity of being heard. (w.e.f. 1-6-2011). Similar amendments are proposed in Wealth Tax.

c. Hitherto, advancement of any other object of general public utility were not covered under the definition of "Charitable Purpose" if it involved carrying on of any activity in the nature of trade, commerce or business or any activity of rendering any service in relation thereto provided the aggregate value of the receipts from such activities is above ₹ 10 Lacs. It is now proposed to enhance the said monetary limit from ₹ 10 Lacs to ₹ 25 Lacs.

d. In order to augment long term, low cost fund from abroad for infrastructure sector, It is proposed to exempt u/s. 10(47) the income of an Infrastructure Debt Fund (w.e.f. 1/6/2011).

e. Collection of Information on request received from tax authorities outside India.

In order to facilitate the prompt collection of information, on requests received from tax authorities of other jurisdiction, pursuance of an agreement for exchange of information u/s 90 or 90A, an amendment is proposed in Section 131. It is proposed to provide that any income tax authority, not below the rank of Assistant Commissioner of Income-tax, shall be competent to exercise the powers currently conferred on income-tax authorities u/s 131 even if no proceedings are pending before it or any other income tax authority with respect to such person or class of persons. It is further proposed to empower the aforesaid authority to impound and retain any books of account and other documents produced before it in any proceeding under the Act. (w.e.f. 1/6/2011). Amendment on similar lines is also proposed in Section 133.

f. Extension of Time limit for assessments in case of exchange of information.

While computing the period of limitation for completion of assessments and reassessments, it is proposed to exclude from the statutory time limit prescribed for completion of assessment or reassessment, the time taken in obtaining information from the tax authorities in jurisdiction situated outside India. Accordingly, it is proposed to exclude the period commencing from the date on which a reference for exchange of information is made by an authority competent under an agreement referred to in Section 90 or Section 90A and ending with the date on which the information so requested is received by the Commissioner, or a period of six months, whichever is less. Similar amendments are proposed to be made to Section 153B of the Income-tax Act. (w.e.f. 1-6-2011).

g. With a view to reduce the compliance burden of small salaried tax payers, it is proposed that the Central Government may by notification in Official Gazette, may exempt any class or classes of persons from the requirement of filing of return of income u/s. 139(1). (w.e.f. 1-6-2011).

INDIRECT TAX PROPOSALS

CENTRAL EXCISE

(Note: Changes comes into effect immediately unless otherwise specified)

1. The standard rate of Central Excise Duty for non-POL products (non petroleum products) has been **maintained at 10%.** The merit rate of Excise Duty (CENVAT) for non-petroleum goods **has been increased from 4% to 5%.** The increased rate would apply to all such goods that hitherto attracted the rate of 4%. Some of the industries are analysed below:

a. Cement:

Rates of duty applicable to cement manufactured by mini-cement plants have been revised from specific rates to either *ad valorem* or *ad valorem* **+** specific rates with some reduction*.* The rate of duty on bulk cement (i.e. other than packaged form), whether manufactured in a mini-cement plant or not, is being unified at 10% *ad valorem*.

b. Branded ready-made garments and made-up articles:

- Excise duty at the rate of 10% shall now apply to **ready-made garments and made-up articles of textiles** falling under Chapters 61, 62 and 63 (heading nos. 63.01 to 63.08) of the Central Excise Tariff except those falling under heading nos. 63.09 and 63.10 **when they bear or are sold under a brand name**. **In the case of ready-made garments and made-up articles bearing a brand name or sold under a brand name, no such option would be available and a duty of 10% would be payable regardless of the composition of the item / article.**
- It is the practice in the garment and made up industry for brand owners to have goods manufactured from several job-workers. The brand owners may or may not, themselves, possess any manufacturing facility. **Central Excise Rules are being amended to incorporate sub-rule (1A) in rule 4 to prescribe that in such a situation the liability to pay duty and comply with Central Excise procedure shall be on the person on whose behalf the goods are manufactured by job-workers.**

c. Precious Metals

- Excise Duty on serially numbered gold bars, other than tola bars, when manufactured from the ore/ concentrate stage is being reduced from ₹ 280 per 10 grams to ₹ 200 per 10 grams. This concessional rate is also being extended when such bars are manufactured starting from the stage of "gold dore bars". Gold and Silver arise in the course of manufacture of unwrought copper from copper ore or concentrate through the smelting process. The rates of Excise Duty on such gold and silver are also being rationalized at ₹ 300 per 10 grams and ₹ 1500 per kg respectively.

d. Goods for Mega-Power Projects:

- Full exemption from Central Excise Duty is available to goods supplied to ultra-mega power projects subject to the fulfillment of certain conditions.

- Full exemption from Central Excise Duty has also been extended to specified goods supplied to expansion projects of existing mega power projects, subject to certain conditions.

2. Withdrawal of exemptions/concessions

a. A number of exemptions from Central Excise Duty (about 130 exemption entries) are being withdrawn. These include some cases where the rate of duty is Nil by tariff. **A nominal duty of 1% *ad valorem* is being imposed on these items with the condition that no credit of the duty paid on input and input services is taken.** For ease of reference, this rate is being prescribed through a common notification no. 1/2011-CE dated 1st March, 2011.

b. In the case of jewellery of gold, silver or other precious metals as well as articles of these metals falling under heading no. 7114, the levy would apply only to goods either bearing a brand name or sold under a brand name. Full exemption from excise duty is being retained for unbranded products of this class.

c. The following amendments have been made in the Cenvat Credit Rules, 2004 for the implementation of the 1% scheme:

- The definition of "exempted goods" has been amended to include goods in respect of which the benefit of notification no. 1/2011-CE is availed. This would imply that the credit attributable to such goods would have to be reversed when common inputs and input services are used for both these goods and otherwise dutiable goods.

- Credit of duty paid on inputs or input services would not be available to a manufacturer of these goods. **Credit of the duty paid on items that are being subjected to the levy of 1% would not be available to a manufacturer or service provider who buys them**.

- It is also being prescribed in the Cenvat Credit Rules that the manufacturer of these goods cannot discharge the duty liability on them by utilizing Cenvat credit otherwise available in his books of accounts.

d. Full exemption from Excise Duty available to automatic looms and projectile looms is being withdrawn. Full exemption on micro-processors, other than motherboards; floppy disc drive; hard disc drive; CD-ROM drive; DVD drives / writers; flash memory and combo drives meant for fitment inside a laptop/CPU is also being withdrawn. All these goods would be chargeable to a concessional rate of 5%.

3. Other relief measures

Full exemption from excise duty has been provided in the following cases:

a. Air-conditioning equipment, panels and refrigeration panels for installation of cold-chain infrastructure for preservation, storage or transport of agricultural produce and others.

b. Conveyor belt systems for use in cold storages, mandis and warehouses for the storage of food grains and sugar

c. Goods required for expansion of an existing mega/ ultra mega power project

d. Cotton stalk particle board

e. Colour, unexposed cinematographic film in jumbo rolls of 400 feet and 1000 feet

f. Pipe fittings required for a water supply project

Concessional duty of 1% is being provided for the following:

- Sanitary napkins, baby and clinical diapers and adult diapers

- Water filters using pressurized tap water but no electricity and their replaceable kits

Excise duty is being reduced from 10% to 5% on:

- Kits for the conversion of fossil fuel vehicles into hybrid vehicles and parts of such kits
- Grease proof paper and glassine paper

4. Important legislative amendments in Central Excise Act

The provisions of Section 11A relating to the recovery of duty not levied, short levied, not paid, short paid or erroneously refunded have been redrafted with a view to improve the sequence in which provisions occur and simplify their language. The following important amendments have been proposed in this section:

a. A separate category has been carved out from cases involving extended period of limitation (fraud, collusion, willful mis-statement etc.) wherein a lower mandatory penalty of 50% of the duty would apply to the transactions entered in the specified records.

b. The facility of compounding the penalty amount has been confined only to the new category and if the person chargeable with duty (for an extended period) pays the duty in full or part along with interest **before** the issuance of a show cause notice, the penalty shall stand reduced to 1% per month but not exceeding 25% of the duty amount.

- The provisions of Sections 11AA and 11AB have been merged into a revised Section 11AA. Under the proposed provision, interest would be payable on any duty not levied, short levied, not paid, short paid or erroneously refunded from the first date of the month succeeding the month in which the duty ought to have been paid under the Act or from the date of erroneous refund.
- Section 11E is being inserted in the Central Excise Act to create a first charge on the property of a defaulter for recovery of Central Excise Dues subject to the provisions of the Companies Act, Recovery of Debt due to Bank and Financial Institution Act, 1993 and Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.
- It has been decided to empower the Joint Commissioner/ Additional Commissioner of Central Excise (instead of Assistant Commissioner) to carry out the search of any premises or to authorize a central excise officer to do so.

- The Standards of Weights and Measures Act, 1976 is being repealed with effect from 01.03.2011 and replaced by The Legal Metrology Act, 2009 . Section 4A of the Central Excise Act is being amended to incorporate a reference to the new Act.
- Amendments are being made in the Schedule to the Additional Duties of Excise (Goods of Special Importance) Act, 1957 to remove sugar, textile and textile products from its purview. This would enable the State Governments to levy VAT on these items.

5. Amendments in Central Excise Rules and Cenvat Credit Rules, 2004

Amendments have been made in the provisions of the Cenvat Credit Rules (CCR), 2004. The basic thrust of these changes is to broad base and simplify definitions to reduce disputes and to achieve a more realistic attribution when common inputs or input services are used for the manufacture of both dutiable and exempt goods.

a. The definition of 'Input' contained in rule 2(k) has been revised. All goods used in the factory by the manufacturer of the final product, except those specified in the negative list and goods having no relationship whatsoever with the manufacture of final product, would qualify for treatment as inputs.

b. The definition of 'Input Service' has also been rationalized to impart clarity and to achieve congruence between goods and services so that the services related to any goods excluded from the definition of 'inputs' are also excluded from the definition of 'Input Service'.

c. Ship breaking units are allowed to avail full credit of additional duty of customs paid on the ship when it is imported for breaking. CCR has been amended to prescribe that Cenvat Credit shall not be allowed in excess of 85% of the additional duty of customs paid on ships, boats etc. imported for breaking.

d. Rule 5B is being amended to require a manufacturer or service provider to pay an amount equivalent to the CENVAT credit taken in respect of inputs or capital goods even where the value of such inputs or capital goods is written off partially before being put to use. Currently, this is required only when the value is written off fully.

CUSTOM DUTY

(Note: Changes comes into effect immediately unless otherwise specified)

1. Rate Structure:

- There is no change in the peak rate of basic customs duty of 10%. The existing rates of 2%, 2.5% and 3% are being unified into a single rate of 2.5%. Consequently, all items that hitherto attracted basic customs duty of 2% or 3% would now be chargeable to median rate of 2.5%.
- Changes in basic rate of Custom Duty on some key items are:

Description	**Basic Custom Duty Rates**	
Food / Agro Processing/ Agriculture	**Present Rate**	**Revised Rate**
Micro - irrigation equipment covered under tariff item 8424, 8100	7.5%	5%
Sun- dried dark seedless raisins	100%	30%
Cranberry products	30%	10%
Textiles		
Raw silk (not thrown) of all grades	30%	5%
Poly Tetra Methylene Ether Glycol (PTMEG) and Diphenylmenthane 4, 4- Diisocyanate (MDI)	7.5%	5%
Nylon chips, fibre & yarn	10%	7.5%
Rayon grade wood pulp	5%	2.5%
Capital Goods/ Infrastructure		
Gems & Jewellery machinery	7.5%	5%
Environment- Friendly Items		
Solar lantern or lamps	10%	5%
Health Sector		
Lactose for use in manufacture of homoeopathic medicines	25%	10%
Paper		
Waste paper	5%	2.5%

Description	Basic Custom Duty Rates	
Metals	**Present Rate**	**Revised Rate**
Ferro-nickel	5%	2.5%
Vanadium pentoxide/sludge	7.5%	2.5%
Miscellaneous		
Carbon black feed stock	5%	2.5%
Petroleum coke	5%	2.5%
Mineral gypsum	5%	2.5%

2. Sector specific measures

a. Food / Agro Processing

- Basic Customs Duty (BCD) is being reduced from 5% to 2.5% on specified agricultural machinery such as paddy transplanter, laser land leveller, cotton picker,
- BCD is being reduced from 7.5% to 2.5% on parts and components required for the manufacture of equipment mentioned above.
- Exemption from basic custom duty is being extended to de-oiled rice bran oil cake.

b. Special Economic Zone

- All clearances from SEZ into DTA are being exempted from SAD provided they are not exempt from the levy of VAT/ Sales Tax.
- The CVD exemption currently available to plastic materials reprocessed in India out of the scrap or waste of goods falling under specified chapters is being extended to domestic tariff area clearances of such plastic materials manufactured in SEZ units also.

c. Textiles:

- Cotton waste is being fully exempted from BCD.

d. Capital Goods / Infrastructure:

- The scope for full Customs Duty exemption to water supply projects for agricultural and industrial use is being expanded to the water pumping station and water reservoir of such projects.
- The concessional import duty of 5% BCD, 5% CVD & Nil SAD currently applicable to high-speed printing machinery

is being extended to mailroom equipment compatible with such printing machinery imported by registered newspaper establishments.

- A concessional rate of 5% BCD, 5% CVD & Nil SAD is being extended to parts and components for manufacture of 23 specified high voltage transmission equipments.

e. Environment-friendly items:

- Concessional CVD @ 5% (by way of a central excise exemption) and full exemption from SAD is being provided to LEDs used for manufacture of LED lights and light fixtures.
- Full exemption from customs duty is being extended to toughened glass and silver paste imported for manufacture of solar cells or solar modules on actual user basis.

f. Health Sector:

- Endovascular stents are being fully exempted from BCD of 5%.
- A concessional import duty regime of 5% BCD, 5% CVD & Nil SAD is being prescribed on specified raw material for the manufacture of syringes, needles, catheters, cannulae on actual user basis.
- BCD on four specified life saving drugs and their bulk drugs is reduced from 10% to 5% with Nil CVD (by way of excise duty exemption).

g. Electronics Hardware:

- A concessional import duty structure of 5% CVD and Nil SAD is being prescribed on parts of inkjet and laser-jet printers imported for manufacture of such printers.
- Full exemption from SAD presently available upto 31.03.2011 on parts, components and accessories for manufacture of mobile handsets including cellular phones is being extended upto 31.03.2012.
- Full exemption from customs duty is being extended to additional specified capital goods and raw materials for the manufacture of electronic hardware.

- A concessional import duty structure of 5% CVD and Nil SAD is being prescribed on parts for manufacture of DVD writers, combo drives and CD drives subject to actual user condition.

h. Metals:

- Full exemption from BCD is being extended to stainless steel scrap.
- Iron ore pellets are being fully exempted from the export duty.
- Exemption from basic customs duty is being provided on the value of gold and silver contained in the copper concentrate.

i. Precious Metals:

- An import duty of Nil basic customs duty, CVD of ₹ 140 per 10 gram and Nil SAD is being prescribed for gold dore bars of upto 80% gold purity imported for refining and manufacturing serially numbered gold bars in India.

j. IT software

- The CVD on packaged software, which is not required to bear RSP is now required to pay CVD only on portion of value representing the value of the medium on which it is recorded along with freight and insurance.

k. Export Promotion:

- The list of specified goods, allowed to be imported duty free for use in manufacture of textile and leather garments, is being expanded by including anti-theft devices like labels, tags and sensors therein.
- Benefit of duty free import on trimmings, embellishments, components etc. for manufacture of leather goods, footwear and textile garments is being extended to merchant exporters subject to certain conditions.

3. Relief Measures:

- Full exemption from import duty is available to works of art imported for exhibition in a public museum or national institution. The scope of this exemption is being expanded to include imports made for exhibition of works of art in private galleries that allow unrestricted access to general public, subject to the fulfillment of certain conditions.

SERVICE TAX

1. New services included in Service Tax net

(Applicable from date of notification after enactment of Finance Bill 2011)

a. Services provided by air conditioned restaurants having a license to serve alcoholic beverages in relation to serving of food and/or beverages [Section 65(105)(zzzzv)]

b. Short term accommodation provided by a hotel, inn, guest house, club or campsite or any other similar establishment for a continuous period of less than three months. [Section 65(105)(zzzzw)]

2. Scope of existing services modified

(Applicable from date of notification after enactment of Finance Bill 2011)

a. The Scope of the "Life Insurance Service" is being widened to cover all services provided to a policyholder or any person, by an insurer, including re-insurer carrying on life insurance business. [Section 65(105)(zx)]

b. The scope of the "Club or Association Service" is being extended to include service provided to non members within its ambit. [Section 65(105)(zzze)]

c. The scope of Legal Consultancy Services is being expanded by bringing within its ambit :

- Services provided by a business entity to individuals in relation to advice, consultancy or assistance in any branch of law, in any manner;
- Representational service provided by any person to any business entity (representational services, provided to individuals will continue to be exempt) and
- Service of 'arbitration' provided by arbitral tribunal to any business entity.
- The definition of Business Support Services is being amended to include the services provide by way of operational or administrative assistance in any manner.
- The Scope of "Authorized Service Station" is being extended to :
    - Include services provide by any person

- Cover all motor vehicles other than those meant for goods carriage and three wheeler scooter, auto rickshaws; and
- Also cover the services of decoration and similar services in respect of vehicles along with services already covered.

- The definition of "Commercial Training or Coaching Service" is being amended to bring all unrecognized courses within the tax net, irrespective of the fact that such courses are conducted by an institute which also conducts courses which may lead to grant of recognized degree or diploma.

- The scope of Health Services is being expanded by including:
  - All services, including diagnostic services, provided by a centrally air conditioned (wholly or partially) clinical establishment having more than 25 beds for in-patient treatment during any part of the year;
  - Diagnostic services being provided by a clinical establishment with the aid of laboratory or other medical equipment; and
  - Services provided by a doctor, not being an employee of a clinical establishment, from the premises of such establishment.

3. Exemptions

(Applicable from date of notification after enactment of Finance Bill 2011)

a. Exemption is being provided to services provided by an organizer of business exhibitions in relation to business exhibition held outside India. [Ntfn No. 5/2011- Service Tax]

b. An abatement of 25% from the taxable value is being provided for the purpose of levy of service tax under "Transport of goods through coastal and inland shipping" [Ntfn No. 16/2011- Service Tax]

c. Value of air freight included in the assessable value of the goods for charging customs duties is being excluded from taxable value for the purpose of levy of service tax. [Ntfn No.9/2011- Service Tax Applicable from 01.04.2011]

d. Services related to transportation of goods by road, rail or air when both the origin and the destination are located outside

India is being exempted from service tax. [Ntfn No.8/2011-Service Tax Applicable from 01.04.2011]

4. Withdrawal or Amendments of Exemptions

Notification 26/2010-ST dated 22-6-2010 is being amended by Notification 4/2011-

ST and the service tax applicable in respect of "Transport of passengers by air service" is being revised as follows:

a. Domestic (economy) : From ₹ 100 to ₹ 150

b. International (economy) : From ₹ 500 to ₹ 750

c. Domestic (other than economy) : Standard rate of 10%.

5. Amendment in Act/Rules/Notifications

a. Amendments in the Finance Act are:

- The maximum penalty for delay in filing of return u/s 70 is proposed to be increased from ₹ 2,000/- to ₹ 20,000/-.
- The provisions of Section 73 (1A) and both the Provisos of Section 73 (2) are proposed for deletion. As a result, the benefit of reduced penalty shall not be available in cases of fraud, mis-statement, suppression, collusion etc. in the ordinary course.
- Interest rate for delayed payment of service tax is being increased to 18% p.a, effective 01.04.2011 (Notification 15/2011-ST). A concession of 3% has been proposed for tax-payers whose turnover during any of the years covered in the notice or the preceding financial year is below ₹ 60 Lacs.
- Reduce the penalty for delayed payment u/s 76 from 2% to 1% per month or ₹ 100 per day, whichever is higher. Maximum penalty reduced to 50% of the tax amount.
- The maximum penalty u/s 77 for contravention of various provisions is proposed to increased from ` 5000/- to ` 10,000/-. However, the daily rate of penalty, wherever applicable, is being retained.
- Penalty u/s 78 is being altered from upto twice the amount of tax to an amount equal to the tax.
- Section 80 is being amended by substituting Section 78 with the words "proviso to Section 78" and thus the power

to waive penalty shall be available only in cases where the information is captured properly in the specified records.

b. The revised position relating to penalties and their mitigation or waiver is summed up in the following table:

- Power to issue search warrant u/s 82 is proposed at the level of Joint Commissioner and the execution of search warrant at the level of Superintendent.
- Provisions relating to prosecution are proposed to be re-introduced and shall apply in the following situations:
  - Provision of service without issue of invoice;
  - Availment and utilization of CENVAT credit without actual receipt of inputs or input services;
  - Maintaining false books of accounts or failure to supply any information or submitting false information;
  - Non-payment of amount collected as service tax for a period of more than six months.
  - There shall be no power of arrest and the prosecution can be launched only with the approval of Chief Commissioner.

c. Amendments in Rules & Notifications

- Point of Taxation Rules, 2011:

  Point of Taxation Rules, 2011 have been framed vide notification 18/2011-ST and made effective from 01.04.2011. These rules determine the point in time when the services shall be deemed to be provided. The general rule will be that the time of provision of service will be the earliest of the following dates:

  i. Date on which service is provided or to be provided

  ii. Date of invoice

  iii. Date of payment

  Consequential changes have also been made in the Service Tax Rules, 1994 to alter the payment of service tax from "receipt of payment" to "provision of service" and also to permit adjustment of tax when service is not provided.

CAPITAL MARKET

Equity Capital Market

The year 2010-11 has seen the Indian Capital Market put the worst behind and move towards strong growth. The cumulative amount mobilized as on 30th November, 2010 through IPO's, FPO's and Rights Issues stood at ₹ 46,701 Crores as compared to ₹ 46,737 Crores in 2009-10. During 2010-11, so far, 40 new Companies were listed both at the NSE and BSE amounting to ₹ 33,068 Crores as against 39 Companies amounting to ₹ 24,696 Crores in 2009. The mean IPO size for the current financial year is ₹ 827 Crores as compared to ₹ 633 Crores in the previous financial year, showing an increase of 30.6%. The amount of capital mobilized through private placements in 2010-11 (as on 30th November, 2010) is ₹ 1,47,400 Crores as compared to ₹ 2,12,635 Crores in 2009-10.

It has been a rebound year for Indian M&A and Private Equity investments after the weak activity levels seen in year 2009. The increasing confidence in the Indian Economy, buoyancy in the Capital Markets, significant improvements in global perceptions for India and improved performance of the earlier cross border transactions, resulted in India Inc's total M&A and PE activity reach USD 62.24 Bn registering a growth of 159% over 2009. This renewed momentum has taken the deal activity back to almost the levels seen in 2007.

Private equity investors have also returned to the markets in a significant way focusing on the key demand sectors of infrastructure during the year. There were total of 253 PE transactions worth USD 6.3 Bn in 2010 up from USD 3.45 Bn in the previous year.

Opportunities across sectors in India continued to fuel M&A activity. The increasing need for telecom infrastructure, oil & gas, primary and tertiary healthcare and power sectors ensured both growth and consolidation related transactions within these sectors and thus registering high value M&A deals.

With the capital markets opening up, India Inc's appetite for strategic M&A has more than quadrupled over 2009 clocking USD 49.78 Bn in 2010. With corporate debt raisings, IPOs and QIP helping Companies fund their acquisition plans, India Inc proceeded to make some of the largest deals ever in 2010. The telecom sector, driven by a massive demand for assets, in particular towers and infrastructure was the most sought after M&A sector in 2010.

Resource Mobilisation through Primary Market

₹ in Crores

Sr. No.	Mode	2007-08	2008-09	2009-10	2010-11*
1.	Debt	-	1,500	2,500	2,197
2.	Equity	54,511	2,082	46,737	46,701
3.	Private Placement	1,18,485	1,73,281	2,12,635	1,47,400
4.	Euro Issues (ADR/GDR)	NA	NA	NA	NA
	Total	**1,72,996**	**1,76,863**	**2,61,872**	**1,96,298**

Source: SEBI and RBI (Euro Issues)

Notes: NA indicates Not Available.

* *As on 30th November, 2010*

Resource Mobilization by Mutual Funds

During 2010-11 (as on 30th November, 2010), mutual funds mobilized ₹ 12,185 Crores from the market as compared to ₹ 83,080 Crores in 2009-10. The market value of assets under management stood at ₹ 6,65,282 Crores as on 30th November, 2010 compared to ₹ 6,13,979 Crores as on 31st March, 2010, showing an increase of 8.4%.

(₹ in Crores)

Sr. No.	Mode	2006-07	2007-08	2008-09	2009-10	2010-11*
1.	UTI	7,326	10,677	(3,659)	15,653	(5,237)
2.	Public	7,621	9,820	9,380	12,499	(2,956)
3.	Private	79,038	1,33,304	(34,018)	54,928	20,378
	Total	**93,985**	**1,53,801**	**(28,297)**	**83,080**	**12,185**

Source: SEBI and RBI (Euro Issues)

*Note: *As on 30th November, 2010*

The domestic mutual fund industry was impacted by liquidity tightening in the banking system, which resulted in systemic outflow from the industry. A key factor for the tight liquidity was the 3G auctions in the later half of the year, from which the Government collected over ₹ 1 trillion.

Secondary Market Performance

The year 2010 has been one of the strong growth for the Indian Capital Markets. Bulls tossed off the markets in the year 2010 to a net gain of 18%, following global recovery and with FII's pumping money in to the market on account of solid domestic growth coupled with a resurging corporate sector. Indices achieved record highs during the special one-hour muhurut trading on 5th November, 2010 with the Sensex touching 21004 and Nifty 6312 mark.

Indian markets have been making gains for eight quarters in a row, their longest winning run in at least 20 years. While 2009 was basically a year of recovery from the crisis year of 2008, 2010 was one of consolidation of gains. From 9647 on 31st Dec 2008, the Sensex climbed to 17464 on 31st December, 2009 and further consolidated its rally at 20509 on 31st December, 2010. The total market capitalization as on 31st December, 2010 stood at ₹ 72,96,725 Crores compared to ₹ 60,81,308 Crores as on 31st December, 2009.

For 2010, the domestic consumption story provided a push for the consumer durables, auto, FMCG, banking and healthcare sectors, helping the markets to deliver 18% returns. However realty, metals, power, infrastructure and oil & gas sectors underperformed the broader markets. Net FII inflow in 2010 was ₹ 627 Bn in the secondary equity markets.

The year 2011 has started with strong headwinds in the form of high inflation, rising crude prices, monetary tightening and dent in corporate credibility. These domestic concerns coupled with improvement in developed economies have so far led to net selling of over ₹ 30 Bn in the secondary equity markets. As a result, Indian markets have not only underperformed most of the developed markets but also most emerging markets significantly in the past two months.

Post Budget Market Reactions

The mood among investors was jittery ahead of the budget with stocks prices bruised by the opening correction and investors further worried that the Finance Minister might roll-back some of the stimulus used to fight the slowdown. The stock prices moved up with the Finance Minister's speech and surged further once the GDP growth for the fiscal was reiterated between 8.75% and 9.25% and various measures to improve agricultural output were announced.

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SECTORAL ANALYSIS

Banking & Finance — Positive

Budget Proposals

- ₹ 6,000 Crores to be provided during 2011-12 to enable public sector banks to maintain a minimum of Tier I CRAR of 8%.
- Existing scheme of interest subvention of 1% on housing loans liberalized further by extending the same to housing loans up to ₹ 15 Lacs where cost of house does not exceed ₹ 25 Lacs.
- To boost infrastructure development, tax-free bonds of ₹ 30,000 Crores proposed to be issued by Government undertakings during 2011-12.
- Mutual Funds allowed to accept subscriptions from foreign investors who meet KYC norms for equity schemes. Currently only FIIs and sub-accounts registered with SEBI are allowed.

Impact

- The proposed capital infusion in PSU banks to maintain a Tier I CRAR is aimed at further strengthening their capital structure and fund credit growth.
- Foreign investors (in addition to the FIIs and sub-accounts registered with SEBI) can now invest in Indian Mutual Funds thereby allowing these investors to access the expertise of the Indian fund managers. As a result the subscriber base for the mutual fund industry will increase and is likely to lead to higher assets under management.

Consumer Goods — Neutral

Budget Proposals

- Excise duty exemptions on 130 items withdrawn and now subject to minimum excise duty of 1%.
- Setting up additional 15 Mega Food Parks during 2011-12.

Impact

- Removal of 130 items from excise duty exemption and levying duty of 1% is expected to marginally increase their prices. Some of the items which are going to be affected owing to this change are instant food mixes and ready-to-eat foods. However, rise in the tax slab is expected to neutralise the negative impact by some extent.

Education — Positive

Budget Proposals

- The allocation for education has been increased by 24% over the current year to ₹ 52,057 Crores for the year 2011-12.
- The existing operational norms of Sarva Shiksha Abhiyan have been revised to implement the Right of Children to Free and Compulsory Education Act. For the year 2011-12, an allocation of ₹ 21,000 Crores has been made which is 40% higher than ₹ 15,000 Crores allocated in the Budget for 2010-11.
- A revised Centrally Sponsored Scheme "Vocationalisation of Secondary Education" is proposed to be implemented from 2011-12 to improve the employability of youth.

Impact

- The increased allocation will aid the Government in effectively implementing the RTE Act and is indicative of the Government's continued efforts to promote elementary and higher education within the country.
- The revised "Vocationalisation of Secondary Education" scheme introduced by the Government is a positive step towards increasing the employability of the burgeoning youth population of the country.

Gems and Jewellery — Neutral

Budget Proposals

Concessional Excise duty of 1% without CENVAT credit facility is being imposed on the following goods, namely:–

- Articles of jewellery manufactured or sold under a brand name.
- Branded articles of gold, silver, platinum, palladium, rhodium, iridium, osmium, or ruthenium.
- Excise duty reduced on serially numbered gold bars, other than tola bars, starting from ₹ 280 to ₹ 200 per 10 grams.
- Customs duty on specified gems and jewellery machinery reduced from 7.5% to 5%.

Impact

- Marginal impact of imposition of excise duty on serially numbered gold bars.
- The reduction of customs duty on specified gems and jewellery machinery is a step towards improving G&J manufacturing activity in India.

Hospitals and Healthcare — Neutral

Budget Proposals

- Service Tax on all services provided by hospitals (excluding government hospitals) which have 25 or more beds with a centralized air conditioning facility with an abatement of 50%.
- Service Tax to be levied on all diagnostic tests with an abatement of 50%.
- Planned allocation for healthcare stepped up by 20% to ₹ 26,760 Crores.

Impact

- The levy of service tax with regard to medical services rendered by hospital has been expanded to include the non-insurance patients which were hitherto applicable to patients where payment was made either by insurance company or business entity.
- Furthermore, the scope of service tax has also been expanded to cover all kinds of diagnostic tests. However, the hospitals are expected to pass on the incidence of tax to the recipient of service.

Oil and Gas — Positive

Budget Proposals

- Basic customs duty on petroleum coke is reduced from 5% to 2.5%.
- MAT to be levied on units operating in SEZ with changes in the tax rate effective from April 2012.
- Government will provide a direct cash subsidy on kerosene and LPG to BPL populace & the same direct cash subsidy is also proposed in case of LPG.

Impact

- The direct cash subsidy on kerosene given to below-the-poverty-line populace would significantly reduce the under-recoveries of the Oil Marketing Companies (OMCs). Subsidy on kerosene accounts for around 30-35% of the under-recoveries for the OMCs.

Real Estate — Neutral

Budget Proposals

- Interest subvention of 1% on housing loans up to ₹ 15 Lacs (from ₹ 10 Lacs) where the cost of the house does not exceed ₹ 25 Lacs (up from ₹ 20 Lacs). Also, home loan up to ₹ 25 Lacs would qualify as priority sector lending, up from ₹ 20 Lacs.
- Provision under Rural Housing Fund (RHF) enhanced to ₹ 3,000 Crores from ₹ 2,000 Crores.
- Tax-free bonds to be issued by HUDCO to the tune of ₹ 5,000 Crores.
- Investment-linked deduction to businesses developing affordable housing.

Impact

- Interest subvention as well as higher limit of home loan under priority lending is expected to boost demand for affordable housing.
- Developers catering to the affordable housing segment therefore will be benefited. Increase in tax slab, being marginal, may not have any impact on the sector while increased excise duty on cement, if passed on to the developers, would increase cost of construction.

Pharmaceuticals — Negative

Budget Proposals

- MAT applicable for Special Economic Zone (SEZ) developers and units operating in SEZ.
- Increase in concessional rate of excise duty from 4% to 5% on all goods attracting such duty.
- Increase in the weighted deduction on payments for scientific research from 175% to 200%.
- Increase in plan allocation for healthcare by 20% in 2011-12 to ₹ 26,760 Crores.

Impact

- Increase in the rate of MAT by 0.5% and inclusion of units operating in SEZ under MAT would negatively impact the Companies in SEZ.
- Increase in the concessional rate of excise duty from 4% to 5% will be applicable for formulation manufacturers. However,

the impact would be neutral as the excise duty rate on inputs is higher compared to that for the finished product resulting in accumulation of the CENVAT credit in the books of formulation Companies.

- Increase in plan allocation for health by 20% in 2011-12 will improve healthcare access in the country which is a positive for the sector.

Textiles — Negative

Budget Proposals

- Ready-made garments and made-ups of textiles are brought under mandatory excise duty at a unified rate of 10% from an optional excise duty regime.
- Credit of tax paid on inputs, capital goods and services would be available to manufacturers.
- Provision of ₹ 3,000 Crores to NABARD which would in turn benefit 15,000 co-operative societies and 3,00,000 handloom weavers.
- Reduction of basic customs duty from 5% to 2.5% on certain textile intermediates.

Impact

- Imposing mandatory excise duty of 10% on branded garments and made-ups from being an optional levy till now will put further pressure on margins unless manufacturers are able to pass on the cost to end users.
- Proposal of ₹ 3,000 Crores to NABARD is expected to ease the financial burden of handloom weavers.

Metals and Mining — Neutral

Budget Proposals

- Export duties on iron ore lumps and fines increased to a uniform rate of 20% from 15% and 5% respectively.
- Basic customs duty on ferronickel reduced from 5% to 2.5%.
- Stainless steel scrap exempt from basic customs duty.

Impact

- Negative for iron ore mining companies; positive for non-integrated steel players as it will reduce iron ore sourcing costs.

Roads and Highways — Positive

Budget Proposals

- The allocation during the current year to Infrastructure sector, Roads & Transport Sector has been proposed to be hiked by 23% to ₹ 2,14,000 Crores.
- Investment limit by FIIs in corporate bonds issued by infrastructure Companies raised to USD 25 bn from USD 20 bn.
- Creation of special vehicles in the form of notified infrastructure debt funds.
- Proposal for issuance of Tax-free bonds totalling ₹ 10,000 Crores by National Highways Authority of India in the year 2011-12.

Impact

- Attractive option for foreign funds investment thereby augmenting the funds accessible for overall infrastructure including, roads and highways sector.
- The impetus on infrastructure development should aid India's economic recovery.
- Enhanced availability of road construction equipments coupled with duty exemptions in select areas is expected to accelerate the pace of execution of highways projects and also make it more attractive for private sector participation.

Steel — Neutral

Budget Proposals

- Export duty on iron ore lumps and fines increased to 20% from earlier 15%.
- Customs duty on Stainless Steel Scrap exempted.

Impact

- Enhancement of export duty on iron ore fines and lumps from the existing 15% to the proposed 20% is in line with the demands of domestic steel manufacturing industry.
- The increase in duty aims at discouraging the mining companies from exports of iron ore, which will help conserve the iron ore reserves within the country.
- The 5% increase in export duty is unlikely to discourage the miners to export iron ore and the rise in export duty is likely to be passed on.
- Exemption of customs duty on stainless steel scrap is likely to be marginally positive for the stainless steel manufacturers.

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This document summarizes the proposals of the Union Budget 2011 and recent key policy announcements

Expert guidance may be sought before acting upon the proposals

INDIA BUDGET – 2011

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