

# Budget 2010

## Marching Forward





# Key Macro Initiatives

# Key Macro Policy Announcements

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- Commitment to GST & DTC roll-out from April 1, 2011
- Discussion Paper and Road-map for reducing fiscal deficit
- PSU divestment thrust reiterated
- Thrust on consistent FDI policy; decision on Retail sector soon
- Comprehensive overhaul of corporate law / financial services reforms – though no deadline provided

Thrust on achieving 10% GDP growth target



# Direct Taxes

# Personal Tax Rates

Tax Rates	Existing Slabs	Proposed Slabs
Nil	Upto INR 1.6 lakhs	Upto INR 1.6 lakhs*
10%	INR 1.6 lakhs to INR 3 lakhs	INR 1.6 lakhs to INR 5 lakhs
20%	INR 3 lakhs to INR 5 lakhs	INR 5 lakhs to INR 8 lakhs
30%	Above INR 5 lakhs	Above INR 8 lakhs

\* Basic exemption limit for women and senior citizens would be INR 1.9 Lakhs and INR 2.4 Lakhs respectively

Effective tax savings upto INR 51,500

## Personal deduction

- Investment in long-term infrastructure bonds upto INR 20K by Individual / HUFs in addition to INR 1 lakh deduction for other investments u/s 80C

# Corporate Tax Rates

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	Domestic Company		Foreign Company
	Existing Law	Proposed Law	Unchanged
Basic Rate	30%	30%	40%
Surcharge (Domestic company)	10%	7.5%	2.5%
Cess	3%	3%	3%
Effective tax rate	33.99%	33.22%	42.23%
Effective MAT rate	16.995%	19.931%	19.0035%
Effective DDT rate	16.995%	16.609%	-

# Oil or Gas Pipeline

- Proposal to align the condition of common carrier under section 35AD with regulation specified by Petroleum and Natural Gas Regulatory Board

	Existing Law	Proposed Law
Natural Gas Pipeline	1/3 <sup>rd</sup> of total capacity	1/3 <sup>rd</sup> of entity's own requirement and contracted capacity
Crude/petroleum oil pipeline	1/3 <sup>rd</sup> of total capacity	1/4 <sup>th</sup> of entity's own requirement and contracted capacity

# Section 35AD v. Chapter VIA

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- No benefit under section 35AD available for any year if the deduction under Section 80IA claimed and allowed

# Section 44DA v. Section 44BB

	Section 44BB	Section 44DA
Applicability	Non-resident oil and gas service provider	Non-resident - Royalty / FTS through PE in India
Effective Tax Rate	4.223% on gross basis	42.23% on net basis

Many services of O&G Service Provider not eligible for Section 44BB – Higher tax burden

# Source Rule

- Income of non-residents in the nature of FTS taxable in India irrespective of situs of rendering services
  - Specific clarification with retrospective effect from April 1, 1976

# R&D weighted deduction

- Weighted deduction proposed to be increased

	Existing Law	Proposed Law
In-house R&D	150%	200%
Payment to approved entities for scientific research	125%	175%

- 125% deduction proposed to be extended to contribution to social science / statistical research organisations

# Threshold Limits for small businesses

- Turnover threshold limits proposed to be increased

	Existing Law	Proposed Law
Limit for Tax Audit		
- Business	40 Lacs	60 Lacs
- Profession	10 Lacs	15 Lacs
Limit for presumptive taxation scheme (8% )	40 Lacs	60 Lacs

# Corporate Restructuring

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Conversion of small private limited company/unlisted public company to LLP

- Tax neutral subject to following conditions:
  - All assets and liabilities transferred
  - Shareholders become partners in shareholding ratio
  - No consideration other than share in profit
  - Aggregate profit sharing ratio of erstwhile shareholders > 50% for 5 years
  - No distribution of pre-conversion accumulated profits for 3 years
- MAT credit not available to successor LLP
- Accumulated Losses / Depreciation of the Company becomes loss / depreciation of the LLP for the year of conversion
  - Fresh life of 8 years ...?

## Gift of Shares

- Receipt of property being shares of closely held company, from any person, by a firm or a closely held company without or for an inadequate consideration – Taxable in the hands of recipient
- Cost of assets to the recipient at the time of future sale will be the FMV considered for computing income

# Rationalisation of TDS provisions

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- No disallowance of expense/payment to resident in case tax withheld is deposited on or before due date of filing corporate tax return
- Interest rate for delay in deposit of withholding tax after deduction increased from 1% to 1.5% p.m.
- Physical copy regime for claiming TDS credit to continue

# Rationalisation of TDS provisions

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- Threshold limit for TDS trigger enhanced w.e.f July 1, 2010

<b>Nature of Payment</b>	<b>Existing Limit (Rs)</b>	<b>Proposed Limit (Rs)</b>
Payment to contractors		
- Single Transaction	20,000	30,000
- Aggregate throughout the Financial Year	50,000	75,000
Insurance Commission	5,000	20,000
Commission and Brokerage	2,500	5,000
Rent	1,20,000	1,80,000
Fees for professional or technical services	20,000	30,000

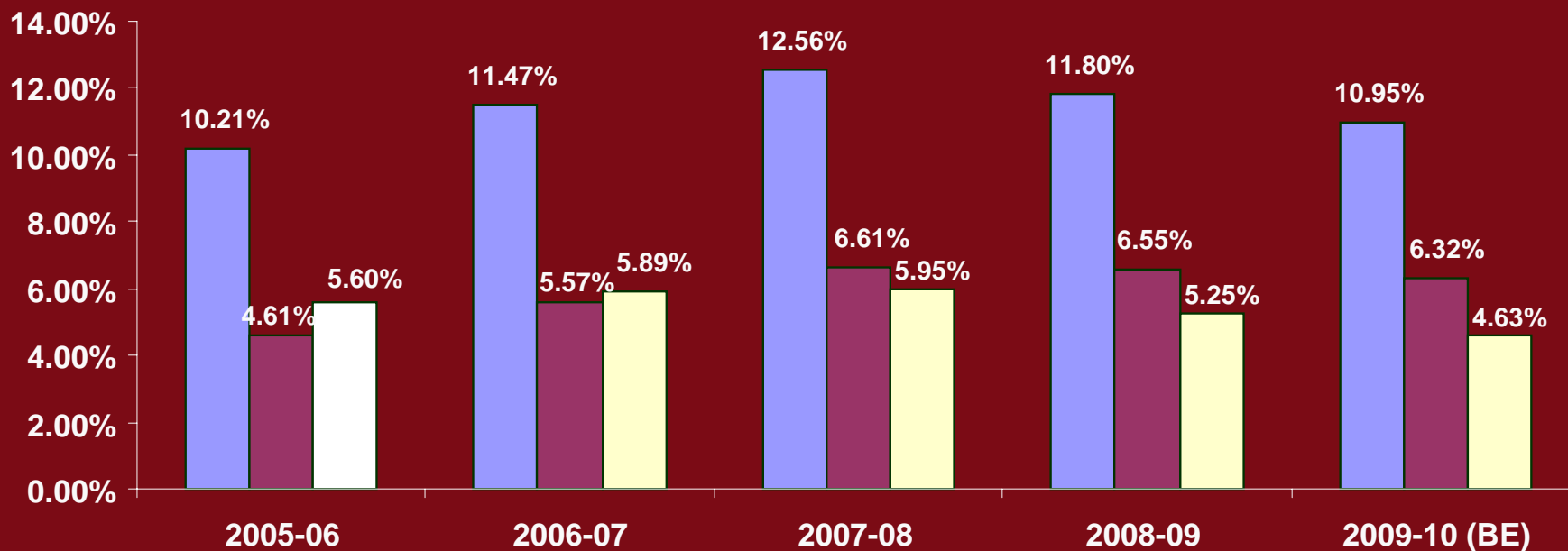
PAN and NOC requirement continue..



# Indirect Taxes

# Tax to GDP Ratios (Percentages)

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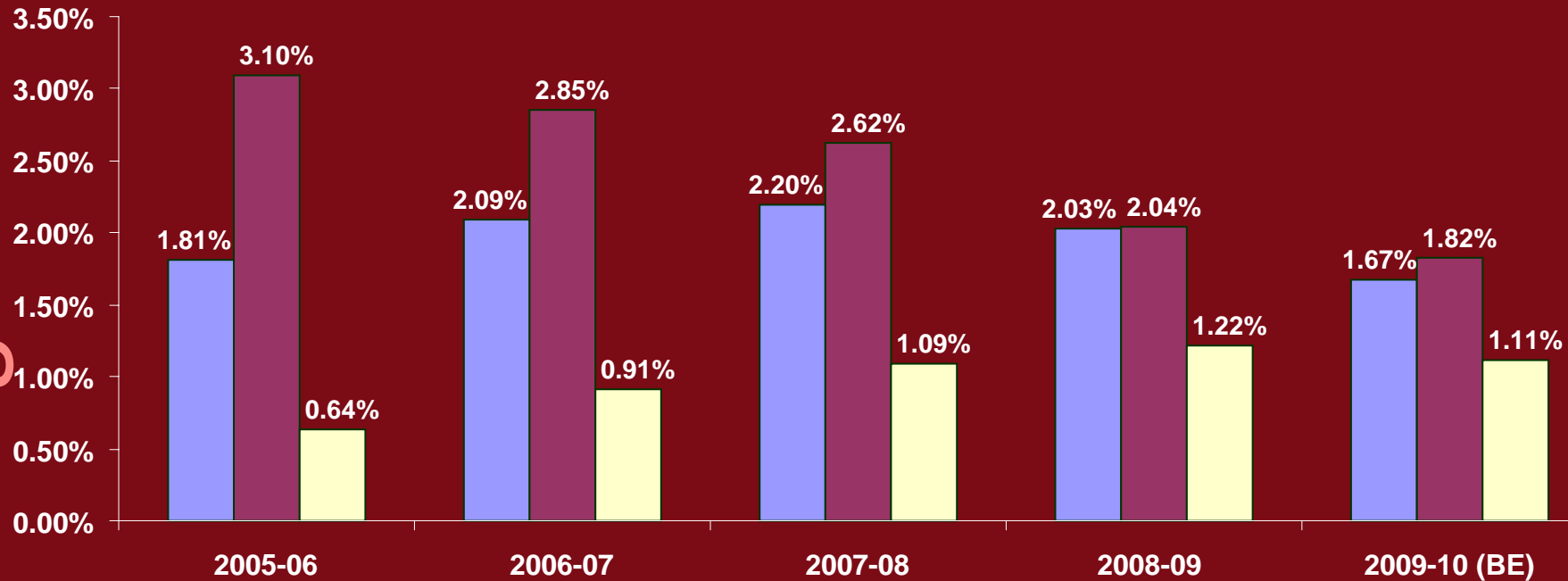


- Total
- Direct Tax
- Indirect Tax

# Indirect Tax GDP Ratios in India

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(As a % of GDP)



- Customs
- Excise
- Service Tax

- GST to be rolled out by April 1, 2011
- Rate of tax on goods and services brought on par
- Rationalization and broadening of tax base
- Technology Advisory Group under Chairmanship of Shri Nandan Nilekani set up
- Administrations at Center and State to be revamped - ACES (at Center level) & Mission Mode Project (at State level)
- CST rate unchanged

# Key Proposals - Customs

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## General

- Median rate maintained at 10%
- Additional projects notified under project import scheme
- Outright exemption from SAD to goods imported in pre-packaged form for retail sale
- Stand alone exemption to mobile phones, watches and readymade garments from SAD
- Various custom duty exemptions to capital goods used in Agriculture sector
- CVD to be levied on MRP basis for goods falling under Medicinal and Toilet Preparations (Excise Duty) Act
- Scope of Settlement Commission expanded

# Key Proposals – Customs

## Oil and Gas

- Reintroduction of Basic Customs Duty (BCD) on import of Crude Oil at 5%
- BCD rate on petrol and diesel increased from 2.5% to 7.5%
- BCD rate on other specified petroleum products from 5% to 10%
- Naphtha, LNG, LPG, Petroleum gases and Pet Coke continue to attract 5% BCD

# Key Proposals – Central Excise

## General

- Excise duty rates increased from 8% to 10% on non petroleum products
- Excise duty on goods covered under medicine and Toilet Preparation Act reduced from 16% to 10%
- No penalty imposable where duty alongwith interest is paid before issuance of SCN
- CENVAT reversal not required in relation to jigs, fixtures and dies supplied to a manufacturer for production of goods in accordance with specification provided to such manufacturer

# Key Proposals – Excise

## Oil and Gas

Description	Effective rate of excise duty (pre-budget)	Effective rate of excise duty (post-budget)
Unbranded Petrol for Sale	Rs 13.35 per litre	Rs 14.35 per litre
Branded Petrol for Sale	Rs 14.50 per litre	Rs 15.50 per litre
Unbranded High Speed Diesel	Rs 3.60 per litre	Rs 4.60 per litre
Branded High Speed Diesel with brand name	Rs 4.75 per litre	Rs 5.75 per litre

\*Education Cess @ 2 % and Secondary & Higher Education Cess @ 1% would also be chargeable

# Key Proposals - Service Tax

## General

- Service tax rate maintained at 10%
- 8 new services taxable
- Expansion in scope of existing services
- Specified exemptions provided
- Service exporter
  - Criteria for service provided from India and used outside India has been deleted for services to qualify as exports
  - Relaxation of underlying procedural aspects concerning refunds

# Key Proposals - Service Tax

## Oil and Gas

### Applicability of service tax in CS and EEZ

Areas Covered	Purpose
Whole of CS and EEZ	All activities pertaining to construction of installation, structures and vessels for the purpose of prospecting or extraction or production of mineral oil and natural gas and supply thereof
Installation, structures and vessels in CS and EEZ for purpose of prospecting or extraction or production of mineral oil and natural gas and supply thereof	Any service provided or to be provided by or to such installation, structures and vessels and for supply of any goods connected with the said activity

# Conclusions

## General

- Significant directional clarity on GST
- Reinforcement of philosophy of broad based taxation with moderate rates
- Significant emphasis on tax administration
- Proposals on increase in excise duty rates on non-petroleum products and increase in no of taxable services

# Conclusions

## Oil and Gas

- Levy of BCD on crude oil reintroduced – negative for refinery but positive for domestic upstream sector
- Increase in BCD rates on petrol and diesel – positive for refinery but negative for marketing company
- Increase in excise duty rate on petrol and diesel – negative for marketing company

# Thank You