

The background of the slide is a collage of Indian currency notes, including a 1000 Rupee note and a 500 Rupee note, which are slightly blurred and overlaid with text.

*“The first challenge is to bring back the GDP (gross domestic product) growth rate to over 9 per cent per annum”*

*- Pranab Mukherjee, Finance Minister of India*

# Budget Snapshot 2009-10

*“The Union Budget 2009-10 is aimed at minimizing the impact of global recession”*

*- Manmohan Singh, Prime Minister of India*

# INDIAN ECONOMY – AN OVERVIEW 2008-09

## Economic Overview

- ✓ GDP Growth rate dipped to 6.7% during 2008-09 from a 3 year average of over 9%
- ✓ Whole Sale Price Index rose to nearly 13% in August '08. A sharp fall to 0% recorded in March '09
- ✓ Structure of Indian Economy changed over last decade with substantial increase in contribution of service sector and merchandise sale
- ✓ Economic recovery and growth recognized as cooperative effort of the Central and State Governments

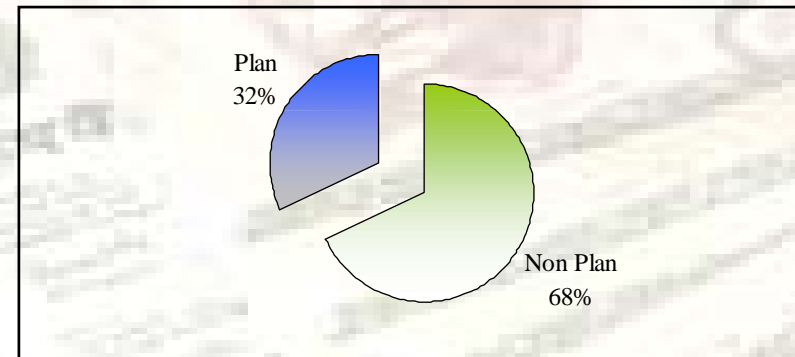
## Challenges

- ✓ To Lead Economy to High GDP Growth rate of 9% per annum
- ✓ To Deepen and Broaden agenda for inclusive development
- ✓ To improve delivery mechanisms of the Government

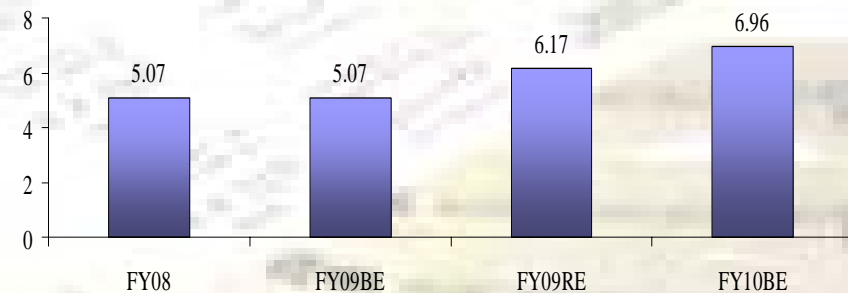
# BUDGET ESTIMATES

- ✓ Total Expenditure in B.E. 2009-10 increased y-o-y by 36%
- ✓ Non Plan Expenditure and Plan Expenditure registered 37% and 34% y-o-y growth respectively
- ✓ Subsidies up from Rs. 714 Billion in B.E. 2008-09 to Rs.1,112 Billion in B.E. 2009-10
- ✓ Gross Budgetary Support for Annual Plan 2009-10 enhanced by Rs.400 Billion over Interim B.E. 2009-10
- ✓ Interest payments estimated at 36% of Non Plan Revenue Expenditure in B.E. 2009-10

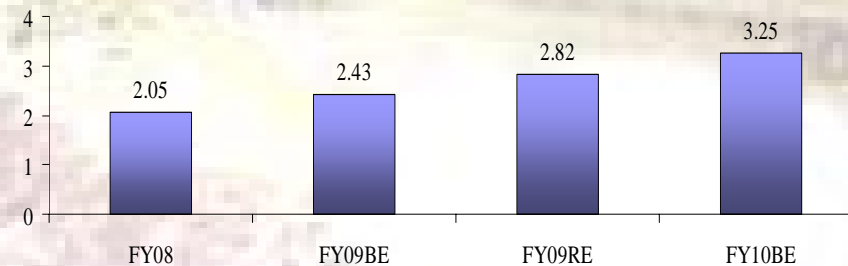
*Budgeted Plan/Non Plan Expenditure*



*Non Plan Expenditure (Rs. '000 Billion)*



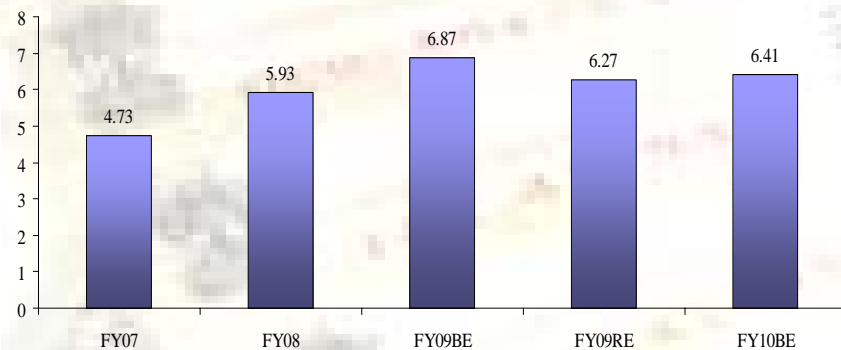
*Plan Expenditure (Rs. '000 Billion)*



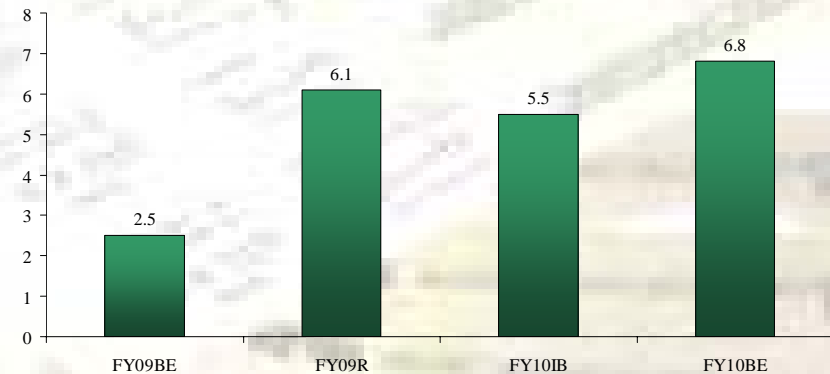
# BUDGET ESTIMATES

- ✓ Gross Tax Receipts budgeted at Rs. 6,410 Billion in B.E. 2009-10 compared to Rs. 6,877 Billion previous year budget
- ✓ Fiscal deficit as a percentage of GDP is projected at 6.8% compared to 6.1% in 2008-09
- ✓ Non Tax Revenue Receipts estimated at Rs. 1,402 Billion in B.E. 2009-10 compared to Rs. 957 Billion in previous year budget
- ✓ Revenue deficit projected at 4.8% of GDP in B.E. 2009-10 compared to 4.5% in 2008-09

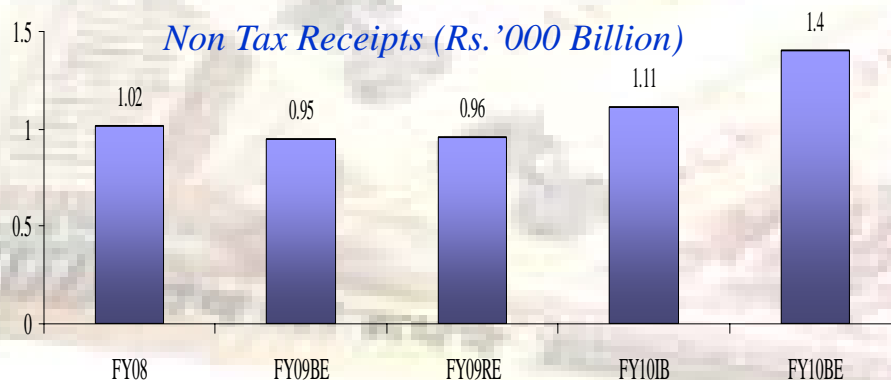
*Gross Tax Receipts (Rs.'000 Billion)*



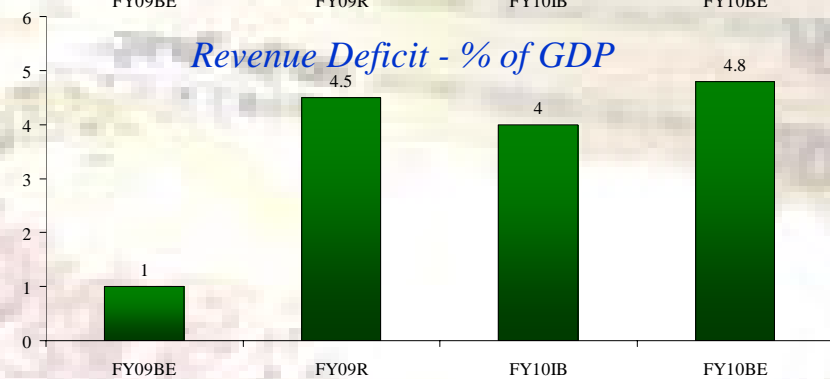
*Fiscal Deficit - % of GDP*



*Non Tax Receipts (Rs.'000 Billion)*



*Revenue Deficit - % of GDP*



# TAXATION

*“The budget also signals a move towards tax reforms, both on the direct and indirect taxes front, with measures towards simplifying taxes, increasing tax compliance and widening the tax base. The budget has left corporate income tax rates unchanged and has given some relief on personal income tax front. These measures would be positive for personal consumption as well as investment activity.”*

*- Chanda Kochar, Managing Director & CEO, ICICI Bank*

- ✓ Centre's Tax-GDP ratio has increased to 11.5% in 2008-09 from 9.2% in 2003-04
- ✓ Share of Direct taxes in the Centre's tax revenues has increased 56% in 2008-09 from 41% in 2003-04, reflecting sharp improvement in equity of tax system
- ✓ Structural changes in direct taxes to be pursued by releasing the new Direct Taxes Code within the next 45 days and in indirect taxes by accelerating the process for the smooth introduction of the Goods and Services Tax (GST) with effect from 1<sup>st</sup> April, 2010
- ✓ Accelerating the process for the smooth introduction of the Goods and Services Tax (GST) with effect from 1<sup>st</sup> April, 2010
- ✓ SARAL II Forms to be introduced early

# TAXATION – Direct Tax

## Corporate

- ✓ Corporate Tax Rates Remain Unchanged
- ✓ Weighted deduction of 150% on expenditure incurred for in-house R&D being extended to all manufacturing businesses
- ✓ Sun-set clauses for STP/EHTP Undertakings and 100% EOUs under sections 10A and 10B of the Income Tax Act being extended by one more year i.e. for the financial year 2010-11
- ✓ Scope of presumptive taxation to be extended to all small businesses with a turnover upto Rs. 4 Million
- ✓ Tax holiday under section 80-IB(9) of the Income Tax Act, available on profits from the commercial production/refining of mineral oil extended to natural gas

## Personal

- ✓ Exemption Limit

Assessee	Previous Limit	New Limit
Senior Citizens	Rs. 225,000	Rs. 240,000
Women	Rs. 180,000	Rs. 190,000
All other Individuals	Rs. 150,000	Rs. 160,000

- ✓ Surcharge of 10% on Personal Income Tax eliminated
- ✓ Donations to electoral trusts to be allowed as a 100% deduction in the computation of the income of the donor up to Rs. 100,000

# TAXATION

## Fringe Benefit Tax (FBT)

- ✓ Fringe Benefit Tax on the value of certain Fringe Benefits provided by employers to their employees to be abolished

## Minimum Alternate Tax (MAT)

- ✓ Minimum Alternate Tax (MAT) to be increased to 15% of book profits from 10%
- ✓ The period allowed to carry forward the tax credit under MAT to be extended from seven years to ten years
- ✓ Book profits shall be increased by provisions for diminution in value of any asset

## Commodity Transaction Tax (CTT)

- ✓ Commodity Transaction Tax (CTT) is to be abolished

*“I am happy on behalf of the whole industry that Fringe Benefit Tax has been abolished, but I am a little bit unhappy about MAT“*

*Rahul Bajaj, Chairman, Bajaj Auto*

*“FBT was a nuisance tax. The hike in MAT maybe legal, but is unethical. It negates the benefits of other tax holidays”.*

*Adi Godrej, Chairman, Godrej Group*

# TAXATION – Indirect Tax

## Excise Duty

- ✓ Excise Rate hiked from 4% to 8% for a number of products barring specified food items, Drugs, and Pharmaceuticals, Medical Equipment, Paper and Paper Boards, Pressure Cookers and Cheap Footwear
- ✓ Excise Duty on Naptha slashed to 14% while high speed diesel blended with 20% Bio-Diesel fully exempted from excise
- ✓ Excise Duty on Man-made Fibre, Polyester Chips, PTA and DMT to be increased from 4% to 8%
- ✓ Manufacturer of taxable and exempted goods granted option to pay 8% on value of exempted goods and avail Cenvat credit

## Customs Duty

- ✓ Customs Duty on Bio-Diesel reduced from 7.5% to 2.5% on LCD Panels from 10% to 2.5% and on 10 Specified Life Saving Drugs/Vaccine from 10% to 5%
- ✓ Customs Duty on Gold increased from Rs. 250 per 10 Grams to Rs. 500 per 10 Grams

# TAXATION – Indirect Tax

## Service Tax

- ✓ No change in effective service tax rate of 10.3%
- ✓ Extended to transport of coastal goods through national waterways and inland waters, legal consultancy services and cosmetic and plastic surgery services
- ✓ Definition of stock broker to exclude “sub broker”
- ✓ Definition of “India” for service tax extended to installations, structures and vessels in the Continental Shelf and Exclusive Economic Zone of India
- ✓ Provider of taxable and exempted output services granted option to pay 6% on value of exempted services and avail Cenvat credit
- ✓ For works contract composition scheme, gross value to include value of goods used in works contract, whether supplied for consideration or otherwise under any other contract. No applicable to ongoing work contracts
- ✓ Exemption from service tax on road transportation services and foreign commission agency services. Refund to exporters on service tax charged on terminal handling charges

## Sales Tax

- ✓ No change in CST Rate
- ✓ GST proposed to be adopted with effect from 1 April 2010

# TAXATION – Other Provisions

- ✓ Allotment or transfer of specified securities or **sweat equity shares** taxable as perquisites in hands of employees
- ✓ *Perquisite valuation* to be based on difference between FMV (as per prescribed method) of securities as on date of exercise of option and amount actually paid/recovered from employee
- ✓ **FMV** considered for computing perquisite value in the hands of the employees shall be considered as cost of acquisition on sale of specified security or sweat equity shares
- ✓ In computing the taxable income for **non-life insurance business**, profit or loss on revaluation or realization of investments to be included or deducted
- ✓ Method of computation of profits eligible for tax holiday in case of **SEZ undertakings** streamlined

# TAXATION – Other Provisions

## Partnership Firms

- ✓ Revised uniform deduction in respect of partner's remuneration paid by firms
- ✓ Taxability of LLPs and partners in an LLP put on par with general Partnership Firms. Surcharge to be eliminated for all Partnership Firms
- ✓ Where the tax cannot be recovered from an LLP, partners of the LLP shall be jointly and severally liable for the payment of tax due from the LLP

## General Provisions

- ✓ Limit for payments, otherwise than by account payee cheques or an account payee bank draft to transporters, raised from INR 20,000 to INR 35,000
- ✓ Immovable property or any other property received without consideration or for adequate consideration by an individual or HUF shall be taxed as Other Income
- ✓ Interest received on compensation and enhanced compensation will be taxable on cash basis after allowing a 50% deduction.
- ✓ Benefit in respect of contribution to NPS extended to all individuals
- ✓ Receipts/ withdrawals from NPS utilized for purchase of other securities not taxable
- ✓ Investment linked Tax Incentives for Specified Business such as cold chain facility, warehouse facilities, laying & operating natural gas pipeline distribution network et al

# TAXATION – Other Provisions

## **Withholding Tax**

- ✓ Withholding tax rate on rental payments reduced to 2% for the use of any plant, machinery or equipment and 10% for the use of any land, building, furniture or fittings, for all persons
- ✓ Withholding tax rate on contractual payments revised to 1% where the payee is an individual or HUF and 2% where the payee is an entity
- ✓ No taxes required to be withheld on payments made to transporters engaged in the business of plying, hiring or leasing goods carriage

## **Transfer Pricing**

- ✓ Arm's length price amended to be the arithmetic mean of prices determined under the most appropriate method. Where the variation does not exceed 5% of the price declared by the assessee, the transfer price declared by the assessee is deemed to be at arm's length
- ✓ Determination of arm's length price is as per safe harbor rules
- ✓ Creation of a dispute resolution panel to deal with disputes pertaining to transfer pricing and taxation of foreign companies
- ✓ The orders passed by the Revenue Authority pursuant to directions of the dispute resolution panel appealable directly before the ITAT

# SECTOR ALLOCATION

## Infrastructure

- ✓ IIFCL to evolve a Takeout Financing Scheme in consultation with banks to facilitate incremental lending to infrastructure sector & to refinance 60% of commercial bank loans for PPP projects in critical sectors, hence be in a position to support projects involving total investment of Rs.1,000 Billion, together with other banks
- ✓ Allocation to National Highways Authority of India for the National Highway Development Programme (NHDP) increased by 23% in B.E. 2009-10 and allocation for Railways increased from Rs.108 Billion in Interim B.E. 2009-10 to Rs.158 Billion in B.E. 2009-10
- ✓ Allocation under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) stepped up by 87% to Rs.128.87 Billion in B.E. 2009-10 over B.E. 2008-09
- ✓ Allocation for housing and provision of basic amenities to urban poor enhanced to Rs. 39.73 Billion in B.E. 2009-10
- ✓ 10 year tax holiday for power sector extended to undertakings which become operative by 31 March 2011
- ✓ Execution of works contracts not eligible for Infrastructure-Linked Tax Holiday

*“The gradual ramp-up of investment in infrastructure in excess of to 9% of gross domestic product (GDP) by 2014 indicates clear focus on infrastructure and flexibility to India Infrastructure Finance Company Ltd (IIFCL)”*

*- Gautam Adani, Chairman, Adani Group*

# SECTOR ALLOCATION

## Education

- ✓ The overall plan budget for higher education is to be increased to Rs. 20 Billion over interim B.E for 2009-10
- ✓ Rs. 21.13 Billion allocated to development of IITs and NITs in India

## Housing Projects

- ✓ Deduction on developing and building housing projects will not be available to undertakings which execute the housing project as a works contract
- ✓ Conditions introduced to prevent misuse of deduction available for developing and building housing projects
- ✓ Where assessable value for stamp duty purposes is higher than actual consideration for transfer of land or building or both, such value shall be full value of consideration for the purpose of capital gains

*High Government  
Spending to continue to  
stimulate the Economy*

# SECTOR ALLOCATION

## Exports

- ✓ Adjustment assistance scheme to provide enhanced Export Credit and Guarantee Corporation (ECGC) cover at 95% to badly hit sectors extended up to March 2010
- ✓ Interest subvention of 2% on pre-shipment credit for seven employment oriented export sectors extended beyond September 30, 2009 to March 31, 2010
- ✓ To facilitate flow of credit at reasonable rates, Rs. 4,000 crore provided as special fund out of Rural Infrastructure Development Fund (RIDF) to Small Industries Development Bank of India (SIDBI)
- ✓ Eligible undertakings claiming specified export oriented tax holidays will not be permitted to claim deduction for such profits and gains under any other provisions

## Health

- ✓ Allocation under National Rural Health Mission increased by 17% over Interim budgeted estimate
- ✓ All families Below Poverty Line (BPL) to be covered under Rashtriya Swasthya Bima Yojna

# SECTOR ALLOCATION

## Agricultural Development

- ✓ Target for agriculture credit flow set at Rs. 3,250 Billion for the year 2009-10. In 2008-09 agriculture credit flow was at Rs. 2,870 Billion. Allocation under Accelerated Irrigation Benefit Programme (AIBP) increased by 75%
- ✓ Interest subvention scheme for short term crop loans and additional incentive to farmers repaying short term crop loans on schedule.
- ✓ Time given to the farmers having more than two hectares of land to pay 75% of their overdues under Debt Waiver and Debt Relief Scheme extended from 30th June, 2009 to 31st December, 2009.

*All time high Fiscal deficit weighs heavily on Govt. Finances & Markets*

## Medium Term Sustainability

- ✓ To bring fiscal deficit under control, institutional reforms are to be initiated
- ✓ It is intended to move to a system of direct transfer of subsidy to the farmers
- ✓ Government looking to raise Rs. 112 Billion from Disinvestment of Public Sector Undertakings (PSUs)

*"Disinvestment is now on the anvil"*

**Kamal Nath, Cabinet  
Minister, GOI**

# SECTOR ALLOCATION

## Petroleum & Diesel Policy

- ✓ Government to set up an expert group to advise on a viable and sustainable system of pricing petroleum products

## Financial Sector

- ✓ Scheduled commercial banks allowed to set up off-site ATMs without prior approval subject to reporting.

## Improving Delivery of Public Services

- ✓ Unique Identification Authority of India (UIDAI) to set up online database to provide enrolment and verification services across the country.
- ✓ First set of UINs to be rolled out in 12-18 months

# SECTOR ALLOCATION

## Towards Inclusive Development

### National Food & Security Act

- ✓ Entitlement of 25 kilo of rice or wheat per month at Rs. 3 per kilo to every family living below the poverty line in rural or urban areas

### Bharat Nirman

- ✓ Allocation for Bharat Nirman increased by 45% in 2009-10 over B.E. 2008-09
- ✓ Allocation of Rs. 20 Billion made for Rural Housing Fund (RHF) in National Housing Bank (NHB) to boost the resource base of NHB for refinance operations in rural housing sector

*Rural Infrastructure & Social Spending retain priority*

### National Rural Employment Guarantee Scheme

- ✓ Allocation under NREGS increased by 144% to Rs. 391Billion in B.E. 2009-10 over B.E. 2008-09

*“The IT/BPO industry will be keen to partner with the Government in expanding e-governance initiatives including modernization of employment exchanges, the UIAD project, and smart cards for healthcare services so as to achieve enhanced governance. Increased capital outlays on the education and infrastructure sector will also address growth challenges that the country has faced.”*

*Pramod Bhasin  
NASSCOM*

# IN THE PIPELINE

## Capital Markets

- ✓ The threshold for non promoter public holdings is to be increased with a view to increasing the average public float in Indian Listed Companies which currently stands at about 15%
- ✓ SEBI to work on a policy to allow certain categories of FIIs to invest in Indian Securities Markets through Automatic Route, without having to register themselves, subject to KYC Requirements. It is also likely to issue guidelines for Foreign Investors seeking registration under the 'Foreign Corporate' Category

The **Companies Bill 2008** which was approved by the cabinet on 29<sup>th</sup> August 2008, to replace existing Companies Act 1956

## Insurance

- ✓ The Insurance Laws (Amendment) Bill 2008 likely to be tabled in Parliament which proposes permissible Foreign Equity in Indian Insurance Company to be raised to 49% from 26% and to permit Foreign re-insurers to open branches in India subject to compliance with net owned funds requirement.

## Real Estate

- ✓ Uniformity and reduction in stamp duty rates are on the anvil in order to reduce the cost of the transaction and prevent manipulation of prices

# IN THE PIPELINE

## FDI Policy Reforms

- ✓ Frame Rules for foreign equity up to 49% in Nuclear Power
- ✓ Allow FDI in multi-format retail, starting with Food Retailing
- ✓ Raise FDI in Defense Industries from 26% to 49%
- ✓ Further simplification of Downstream and Indirect Foreign Investment Rules

The Development of ***Corporate Bond & Securitization Markets*** in India has been an important area which has received policy attention. A reasonably well developed bond market is required to supplement the banking system in meeting the requirements of the corporate sector for long term capital investment

## Education

- ✓ Government expected to introduce 'The Regulation of Foreign University Entry and Operation (Maintenance of Quality & Prevention of Commercialization) Bill 2007 allowing Foreign Universities to be set up in India

## Telecom

- ✓ Spectrum allocation for roll-out of 3G Services by 2010 and operating guidelines for MVNOs to enter India

# Thank You

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