

Under the
magnifying glass



Foreword

The Finance Minister presented the budget for 2009-10 in the backdrop of a global recession and economic slowdown. The Indian economy suffered some impact of the global events during the fiscal year 2008-09 with its real GDP growth slowing down to 6.7% breaking the high growth trajectory that was set in place over the past five years. The past year experienced increasing and then decreasing inflationary trends, significant volatility in the flow of Foreign Institutional Investors' funds with concurrent fluctuations in the stock markets, a burgeoning fiscal deficit that stood at 6.2% of GDP by end March 2009 and depressed output from the manufacturing and agricultural sector. The series of fiscal and administrative measures adopted by the Government along with the monetary initiatives by the Reserve Bank of India have been able to blunt the impact of the global credit crisis on the Indian economy. While these measures are indeed commendable, it is also important to note that global uncertainties remain and with greater constraints on the use of both monetary and fiscal policy instruments, the Government will have to contend with the risks emanating from such uncertainties with bold and innovative policy measures.

Not surprisingly, the FM has announced a budget keeping the "Aam Aadmi" in mind. A number of social sector projects have been announced which, while benefiting employment creation and infrastructure development, will further worsen the state of the fiscal balances. The pronouncement of releasing a new Direct Taxes Code as well as the introduction of the Goods and Services Tax from 1 April 2010, will hopefully streamline

and simplify the tax structure in the economy and is a welcome announcement. Despite the constraints faced by the Government on various fronts, the extension of the sun-set clause for deduction in respect of export profits under sections 10A and 10B of the Income tax Act, and the abolishing of the Fringe Benefit Tax, the Commodity Transaction Tax and the additional 10% surcharge on personal income taxes is supportive of stimulating consumption in a slowing economy. The FM has also provided a much needed boost to the production and refining of natural gas by extending the tax holiday under section 80-IB(9) of the Income Tax Act to these activities.

The aim to introduce an alternate dispute resolution mechanism for addressing transfer pricing disputes through the introduction of a safe harbour regime for IT and ITES companies is also a commendable step and will facilitate a business friendly environment for MNCs doing business in India.

On the indirect tax front, lowering or eliminating customs duties to provide a boost to the pharmaceutical and power sectors will be helpful but the impact is likely to be marginal. The increase in excise duties from 4% to 8% (with certain exceptions) will add to the manufacturing cost of several industries. Overall Pranab-babu has delivered a budget that should be greeted with some cheer but not a thundering applause.

6 July 2009

This booklet summarises the important provisions of the Budget 2009 proposals placed before Parliament. Preceding the budget proposals is a synopsis of the Economic Survey 2008-09 which provides a backdrop to the legal and financial proposals.

The topics presented in the booklet are grouped into Chapters and Sections to facilitate understanding of the proposals. These are not, however, mutually exclusive.

This booklet is not an offer, invitation or solicitation of any kind.

While all reasonable care has been taken in the preparation of this booklet, we accept no responsibility for any errors it may contain, whether caused by negligence or otherwise or for any loss, howsoever caused or sustained, by the person who relies on it.

Unless otherwise specified, the various provisions as outlined in this booklet will be effective from the financial year 2009-10. The proposals are, of course, subject to further amendment as the Finance Bill passes through Parliament.

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Indian Economy: An Objective Analysis

The Year in Retrospect

Highlights

The global economy is reeling under the impact of the ongoing recession which started with the sub-prime crisis in the US and was transmitted to the rest of the world economies. Defying the advocates of the 'decoupling' theory, India has not been spared the impact of this crisis although the impact has been somewhat muted compared to some emerging economies. During the last year, India's GDP (at constant 1999-2000 prices) grew at just 6.7% breaking the high growth trajectory that was set in place over the past five years. GDP started to slow down since the third quarter of 2008-09, as industrial output decelerated sharply to just 2.8% in 2008-09 compared to 8.8% in the previous year. Exports have been declining since October 2008 and capital flows have reversed. In this context, the immediate challenge would be to create an impetus for reviving growth through remedial measures.

The impact of the slowdown was clearly evident from the per capita GDP growth which broadly reflects the improvement in the income of the average person. It grew by an estimated 4.6% in 2008-09 compared to an average growth of 7.3% per annum during the previous five years.

Rising prices were a major cause of concern for the Government for the first half of the fiscal year after which the prices started moving along a downward trajectory. The series of fiscal and administrative measures adopted by the Government along with the monetary initiatives by the Reserve Bank of India led the WPI based inflation slip to an all time low of -1.67% from 12.9% in the first week of August 2008. The combined fiscal deficit of the Government, which stands at 11.6% of GDP, signifies greater need for fiscal restraint so as to retain the effectiveness of fiscal policy to combat the emerging issues in the months ahead.

There is an air of hope and anticipation on the outcome of Lok Sabha elections which heralded the Congress-led UPA Government not vulnerable to Leftist blackmail inducing a new confidence among investors. However, it is important to recognize the lurking dangers that can continue to keep the policymakers busy. India remains vulnerable to oil price shocks, vicissitudes in the flow of Foreign Institutional Investors' (FII) funds, sluggish manufacturing sector output and

stagnating export demand. With greater constraints on the use of both monetary and fiscal policy instruments, the Government will have to contend with the risks emanating from these shocks with bold and innovative policy measures.

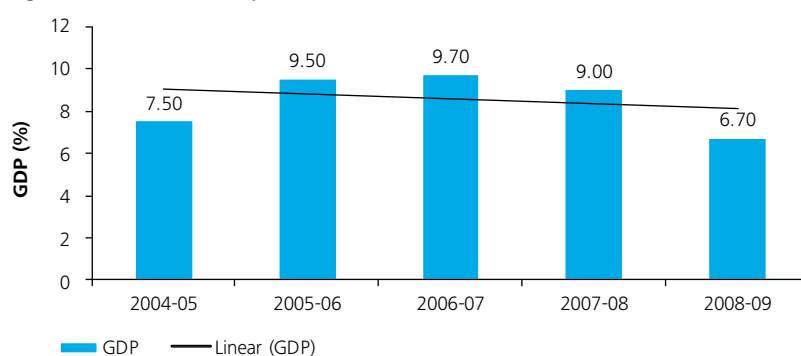
Output of Goods & Services

The Indian economy's GDP growth rate of 6.7% in 2008-09 is a clear break from the previous spurts in growth (Figure 1). This slowdown in growth can broadly be attributed to the fallout of the global slowdown on the Indian economy working through the fall in export demand, reversal in FII flows, slowdown in domestic investment as well as consumption and declining agricultural productivity. Considering the magnitude of the adverse economic developments in 2008, the projected drop from 9.0% last year to 6.7% this year is modest compared to several other economies.

The deceleration of growth in 2008-09 was spread across all sectors except mining & quarrying and community, social and personal services. The growth in agriculture and allied activities decelerated from 4.9% in 2007-08 to 1.6% in 2008-09, mainly on account of the high base effect of 2007-08 and due to a fall in the production of non-food crops including oilseeds, cotton, sugarcane and jute.

The manufacturing sector has taken the maximum hit with a growth of 2.4%, down from 8.2% in FY2007-08. This was mainly on account of fall in exports followed by a decline in domestic demand, especially in the second half of the year. Rising cost of inputs and the higher cost of credit (through most of the year) reduced manufacturing margins and profitability.

Figure 1: GDP at constant prices



Source: The Economic Survey 2008-09

Electricity and Construction sectors were down to 3.4% and 7.2%, respectively during 2008-09 from 5.3% and 10.1% in 2007-08. The slowdown in electricity sector was due to capacity constraints and scarce availability of coal, particularly during the first half of the year. The construction industry, consisting of different segments like housing, infrastructure, industrial construction, commercial real estate, etc. went through a boom phase with high growth rates until last year. Subsequently, the rise in input cost and interest rates started impacting the industry.

Services sector continued to contribute the largest share to the overall GDP with over 50%. This sector has also shown commendable resilience to withstand the impact of the economic slowdown in India.

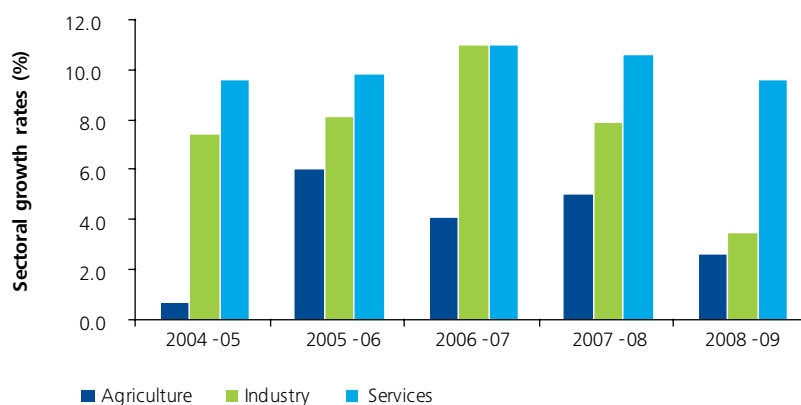
Growth rate in the industrial sector fell sharply during 2008-09 (at 3.5%) while industry and services maintained their moderate growth momentum (Figure 2).

Another major indicator of slowdown is the increase in unemployment rate which increased to 7.2% in the fiscal 2008-09 compared to 6.80% in the previous year. (Figure 3) Although a modest increase, this assumes significance in light of the fact that a large portion of India's working population is employed in the public sector which provides virtual employment guarantee; hence, most of this increased unemployment has been in the private sector.

The Monetary Sector

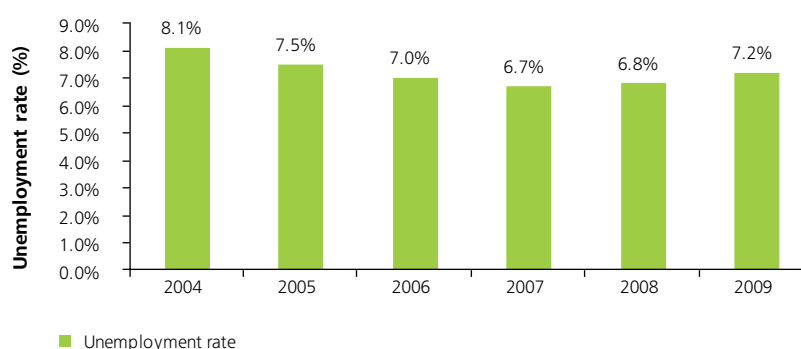
The first half of the fiscal year 2008-09 saw the monetary policymakers battling with the problem of rising inflation with the WPI peaking at 12.8% in August 2008, which was immediately followed by an equally sharp fall, with the WPI inflation falling to unprecedented level of close to zero % by March 2009. This was driven largely by the unbridled volatility in the global and domestic commodity prices during January 2008 to March 2009. The rising oil and commodity prices with their subsequent fall contributed to both the rise and the fall in prices.

Figure 2: Sectoral contribution to GDP in India



Source: Central Statistical Organisation

Figure 3: Unemployment rate (%)



Source: The Economic Survey 2007-08, The Economist Intelligence Unit

In order to contain the price levels, the RBI moved to signal a contractionary monetary stance. The repo rate (RR) was increased by 125 basis points in three tranches from 7.75% at the beginning of April 2008 to 9.0% with effect from August 30, 2008. The reverse-repo rate (R-RR) was however left unchanged at 6.0%. The cash reserve ratio (CRR) was increased by 150 basis points in six tranches from 7.50% at the beginning of April 2008 to 9.0% with effect from August 30, 2008. Bank rate remained at the same level of 6% (Figure 4). The Prime Lending Rate (PLR) moved up marginally from 12.8% to 13% during FY 2008-09. These policy initiatives coupled with a fall in commodity prices resulted in the WPI reaching close to 0.8% at end-March 2009 on a year-on-year basis for all commodities.

The average WPI inflation for 2008-09 was 8.4% as against 4.7% in 2007-08. In a stark contrast to the movement in the WPI, the Consumer Price Indices (CPIs) remained at a fairly elevated level throughout the fiscal year 2008-09. The average inflation on Consumer Price Index for Rural Labourers (CPI-RL) and CPI for Industrial Workers (CPI-IW) for the year 2008-09 was 10.2% and 9.1%, respectively. (Figure 5)

The ongoing economic slowdown has seen the Government take an active role in trying to jumpstart and revive the Indian economy through a series of fiscal initiatives to boost Government spending on infrastructure and other demand and employment generating projects. The result has been a burgeoning fiscal deficit which stood at 11.6% of GDP as of March 2009 (Figure 6). Against this backdrop, fear surrounding its medium term non-sustainability has resulted in India's sovereign rating being recently revised downwards by several international rating agencies.

An additional concern arising from this fiscal deficit is the potential inflationary pressure this is likely to generate within the economy. A high inflation in the next fiscal will limit the Government's primary objective to fuel growth and revive the growth momentum within the economy.

Figure 4: Interest rates

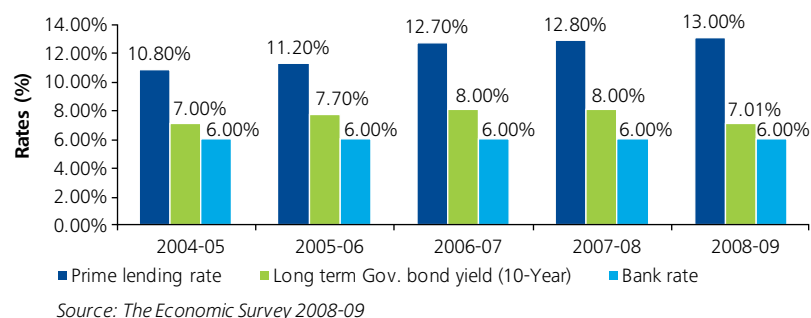


Figure 5: Inflation rate (%)

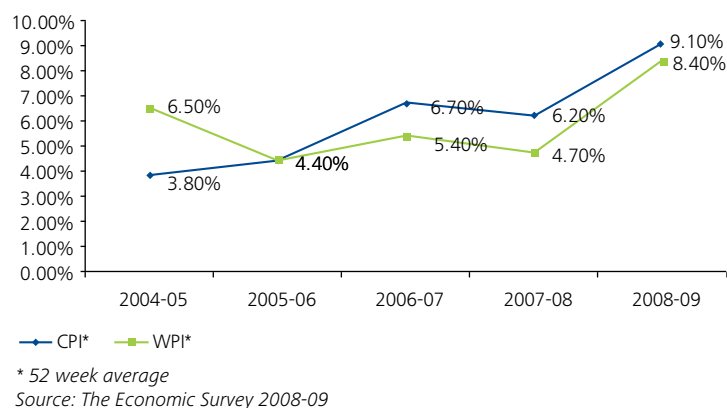
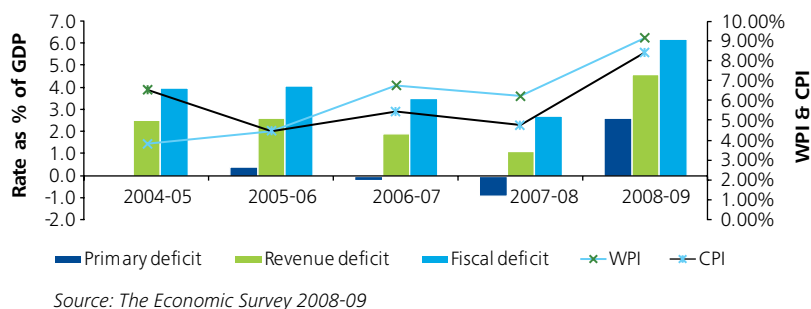
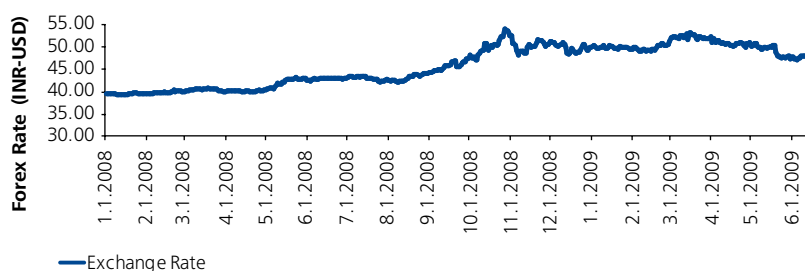


Figure 6: Trends in deficits and inflation



The supply-demand imbalance in the domestic foreign exchange market, brought about by the widening of the trade deficit and deceleration in capital flows led to the decline in the rupee exchange rate vis-à-vis US dollar. The value of rupee declined from Rs 40.0 in April 2008 to Rs 48.66 in October 2008. The collapse of the Lehman Brothers in September 2008 brought the currency under further stress. The Reserve Bank intervention aimed at augmenting supply in the domestic foreign exchange market in order to reduce undue volatility. The rupee thereafter attained a measure of stability. The exchange rate was Rs. 51.2 per US dollar in March 2009, reflecting 21.9% depreciation during the fiscal 2008-09. (Figure 7)

Figure 7: Exchange rate movement



Source: www.oanda.com

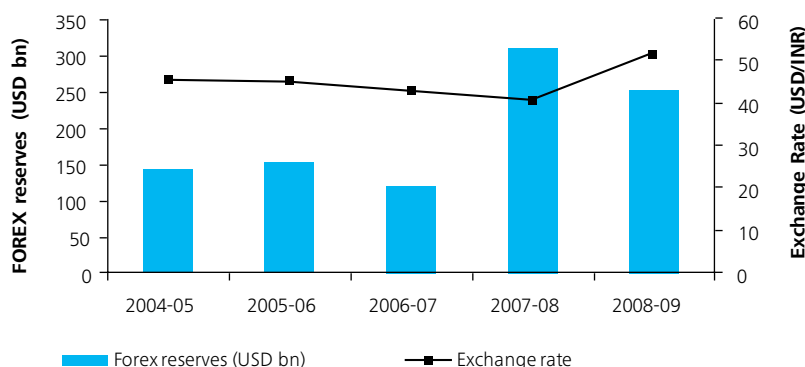
Further, the fallout of the global crisis and strengthening of the US dollar infected the country's foreign exchange reserve. During 2008-09 (April-December 2008), the current account deficit was 4.1% and capital account surplus of 1.8% of GDP, leading to decline in foreign exchange reserves of \$57.8 billion over the fiscal year 2008-09 as against the accretion to reserves of US\$ 47.6 billion during the previous fiscal.

The External Sector

The external sector in India saw a reversal in trend especially in the second half of 2008-09. This period was marked by adverse developments such as slowdown in domestic demand, reversal of capital flows and reduced access to external sources of credit. It is due to these reasons that India's external debt has grown this fiscal, but at a much slower rate as compared to the previous fiscal. The external debt stands at an alarming 26.2% of GDP this fiscal.

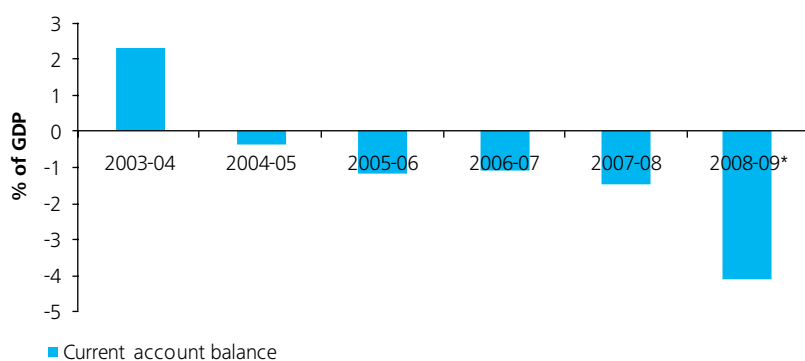
The foreign exchange reserves have declined by \$57.8 billion in the year 2008-09 (Figure 8) and stand at \$252 billion. The current account deficit has attained a low of 4.1% this fiscal (Figure 9). The sluggish growth of exports and the rising oil import bill has led to the worsening of the trade deficit which has nearly doubled over the past one year. These trends are indicative of the fact that much caution has to be exercised in bringing the state of the external economy to a strong, stable and healthy position.

Figure 8: Foreign exchange reserves with ER fluctuations



Source: *The Economic Survey 2008-09*

Figure 9: Current account balance



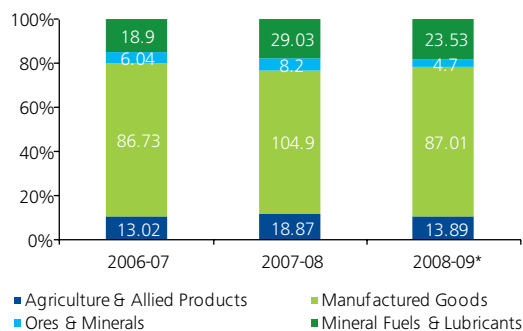
* FY 2008-09 (April to Dec)

Source: *The Economic Survey 2008-09*

Overall export growth during fiscal year 2008-09 was 3.6% (in US dollar terms) as opposed to 28.9% during the previous fiscal. Compared to exports, imports registered a growth of 14.4% (in US dollar terms) resulting in an overall increase in the current account deficit from 1.5% to 4.1%. The continuous decline in exports since October 2008 has been and continues to be a source of concern for policy makers.

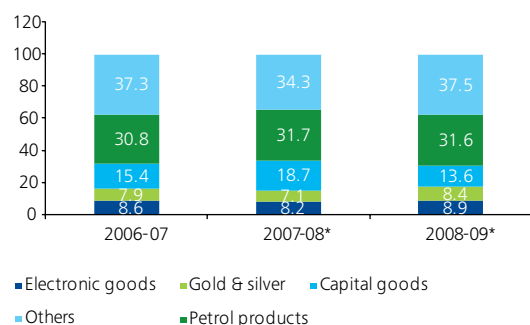
Overall growth rate of exports was due to the improved export performance of the chemicals and related products, engineering goods and automobiles (mostly two-wheelers) sectors. The growth was somewhat offset by the fall in overall exports in the manufacturing, textiles, steel and petroleum products sectors. On the import side, high domestic demand of edible oils and fertilizers increased imports of these sectors although electronics and petro products dominated the import basket. (Figures 10 and 11)

Figure 10: Export of principal commodities



* FY 2008-09 April to Dec
Source: The Economic Survey 2008-09

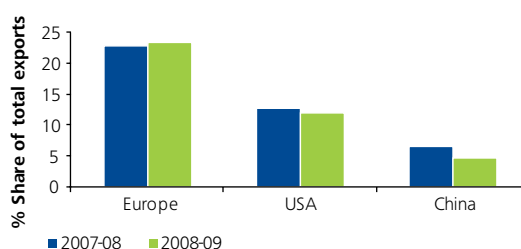
Figure 11: Import of principal commodities



* FY 2007-08, 2008-09 (April to Dec)
Source: The Economic Survey 2008-09

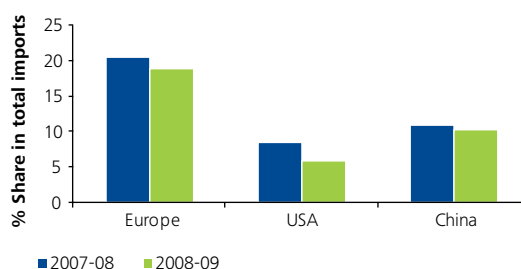
India's major trading partners have remained the same over the past two fiscals, though the share in exports and imports for most of the trading partners (with the exception of Europe) have fallen. India's imports from Europe, USA and China have contracted with imports from USA recording the steepest fall (Figure 12). Share of exports have also fallen in the case of USA and China, but have marginally increased in the case of Europe. (Figure 13)

Figure 12: India's major trading partners (Export)



Source: The Economic Survey 2008-09

Figure 13: India's major trading partners (Import)



Source: The Economic Survey 2008-09

Finally, the description of the external sector can hardly be said to be complete without a look at the volume of FDI and FII into India. These inflows have been major drivers of growth in several emerging market economies, and India is no exception. However, this fiscal evinced a severe decline in the FII investment, taking it into the negative territory. The net FDI inflow into the country, though not as impressive as the growth in the previous period, has displayed an increase (Figure 14).

Performance during First Quarter Fiscal 2009-10

The Indian economy has been showing signs of marked improvement as indicated by the performance of the various sectors in the first quarter of the fiscal year 2009.

The Index of Industrial Production registered a positive growth of 1.4% year-on-year in April 2009. The Mining, Manufacturing and the Electricity Index also witnessed steady growth during this period. Four of the six core sectors Coal, Cement, Steel & Electricity have fared better in April 2009 as compared to the same period last year. This is primarily due to the increase in construction activity that has aided double growth of cement sales this quarter and the increase in the demand for steel.

The services sectors, especially Trade, Transport, Communication & Community Service also witnessed tremendous improvement during the first quarter of the current fiscal.

The capital inflows into India have increased with FIIs investing in Indian equities in the months of April and May 2009. The Indian rupee has also seen appreciation from around Rs. 52 in the month of March 2009 to around Rs. 46 in June 2009 reflecting the overall strengthening of the Indian rupee stemming mostly from the inflow of foreign funds into the Indian economy. The country has also seen increased savings and investment owing to the structural change in the economy. However, this data may not be indicative of an early revival as there are continuing uncertainties in the global market that can cause a rapid reversal of the trends leading to a negative impact on the Indian economy. Therefore, policy makers should remain cautious and actively monitor the events within and outside India to better manage the proposed transition into the high growth momentum that everyone is looking forward to.

Figure 14: FDI and FII net inflows



* FY 2008-09 April to Dec

Source: The Economic Survey 2008-09

Impact on Business

An overview of the key policy responses during the year

- Financial indicators show that the global economic downturn has had an effect on India primarily through the export and the capital markets. Money and credit markets have been affected through dynamic linkages. Proactive monetary and fiscal stimuli were needed to minimize the impact of the downturn in India.
- The Indian Government undertook various fiscal measures in the form of tax reliefs and higher expenditure on public spending particularly on infrastructure projects such as power generation, airports, ports, roads and railways.
- Indirect taxes such as excise and service tax were also reduced during the year. Recapitalization of banks and consolidation of financial sector institutions were also undertaken.
- With an objective to streamline and rationalize the FDI norms, the Government in 2008-09 introduced new FDI computation norms wherein the foreign investment through investing Indian companies was excluded from being considered as part of indirect foreign investment in case of Indian companies owned and controlled by Indian residents. This primarily proved beneficial for the retail, telecom, media and insurance industries.

- The Indian export sector was also addressed. Export credit for labour intensive exports, shipment credit availability, allocation for refund of terminal excise duty/CST and removal of duty on certain items were also undertaken.
- The RBI undertook multiple interventions (over 20 times) in the cash reserve ratio and the statutory liquidity ratio to ease the monetary pressures and enhance liquidity. Between August 2008 and March 2009, successive policy announcements reduced reverse-repo and repo rates to infuse liquidity in the system.
- To counter the effect of global crisis the External Commercial Borrowings (ECB) policy has been liberalized. The limit for FII investment in Government securities and corporate debt has been enhanced to US\$ 5 billion and US\$15 billion respectively. The effect of this policy change has not shown much effect over the period due to tight liquidity conditions overseas. The net ECB slowed down to US\$ 7.1 billion against US\$ 17.4 billion last year.

- The year saw the launch of Exchange traded currency futures in BSE and NSE.

What are some of the key sectors in the Indian economy?

- The economic downturn affected the industrial sector deeply through successive shocks. There was a sharp fall in growth rate owing to contraction of demand and rise in prices.
- Amongst all industries, iron and steel was the worst hit by the economic sluggishness. The liquidity crunch on the supply side and fall in prices emanating from the inadequate demand side led to 30% fall in both exports and imports.

In the wake of this scenario the following section identifies the growth prospects of some key sectors of the Indian economy. (Table 1)

Table 1: Key growth sectors of the Indian economy

Key Characteristics	Sectors			
	Retail	Construction	Pharmaceutical	Media & Entertainment
Key Drivers	Increasing urbanization. Rising disposable income. Growing share of young population and increased brand consciousness. Increased use of plastic money, availability of retail credit.	Growth in FDI inflows. Favourable policy changes, \$492bn investment outlay as per 11 th Five year plan. Growing population upcoming of SEZ, increasing industrialization.	Low manufacturing cost. Signing of the TRIPS agreement. Economic growth leading to expansion of healthcare sector, health insurance and infrastructural growth. Increased instance of chronic diseases.	Growing proportion of young population: high customer base. Rise in disposable income. Increased telecommunication and internet services. 100% FDI in film industry and print media.
Challenges	Multiple taxation - Central Sales tax, Entry tax, Octroi etc. Restricted FDI of 51%. Supply Chain bottlenecks leading to higher costs. Lack of infrastructure.	High degree of fragmentation, large unorganized sector. Working capital intensive. Withdrawal of tax benefits under section 80 IA of the Income Tax Act.	Lack of investment in R&D. Academic collaboration that is crucial to drug development. Patents and licensing requirements. Inadequate regulation and existence of spurious drugs.	Capital Intensive industry. Slowing ad spend, increasing operating costs. Lack of revenue visibility and pricing power. Restricted FDI in television and radio industry.

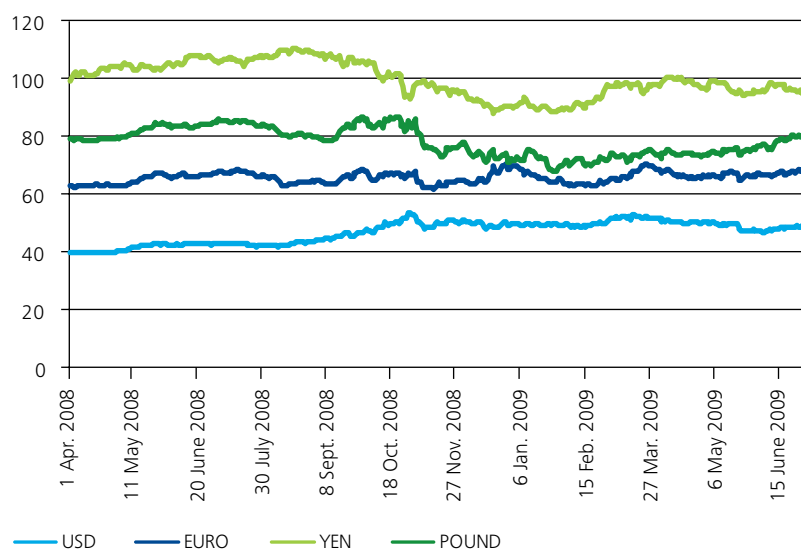
How have the major sectors performed?

- The industrial sector comprising Manufacturing, Mining, Electricity and Construction accounted for 54% of the Gross Capital Formation. These industries can be considered as the key growth driver in present economic circumstances.
- Iron & Steel, Textile, Automobile, Consumer Retail sectors witnessed fall in growth owing to surge in input cost, foreign exchange volatility, and reduced demand.
- Real estate, Telecom, Pharmaceutical, IT/ITES industries saw an uptrend growth due to strong domestic demand and high FDI inflows.
- Services and Manufacturing together accounted for 75% of the FDI inflows.

What has been the movement in exchange rates?

- During the past fiscal, due to high capital inflows in the early part of the year, rupee had appreciated significantly against the US dollar. Given the wide trade deficit and low capital inflows, the rupee had subsequently depreciated against most major international currencies with the exception of the British pound. (Figure 15)
- The rupee depreciation reflected the supply-demand imbalance in the foreign exchange market resulting in the RBI to intervene.

Figure 15: Exchange rate movement



Source: www.oanda.com

- The RBI has focussed on foreign exchange management with an intention to manage excess volatility and reserves.
- The sharp decline in the inflation rates in the past few months have resulted in correction of the overvaluation of the rupee.

What will the future interest rate scenario be?

- Amidst the global slowdown and recovery, the RBI has made necessary changes in the interest rate scenario. During the early part of the financial year, it had increased the key interest rates to contain inflation, and later on during the end of the year it had decreased it.
- In the current scenario, it is expected that the Government along with RBI make necessary reform changes and decrease interest rates, with the intent to increase consumer spending. Such a move is expected to be implemented in the short-medium term. Market interest rates are likely to rise marginally towards the end of the fiscal year. (Table 2)

How is the banking and financial sector gearing up to cater to Indian businesses?

- The increasing degree of financial integration of the Indian economy with global markets had earlier put the Indian banking and financial institutions on a common international platform. The impact of the economic downturn therefore had an impact on the liquidity available within the system. Most of the Indian banks have managed to cope with this relatively well and the impact of the downturn on the Indian financial sector has been comparatively moderate as compared to the effect globally.
- In most sectors, the significant expansion of credit granted by the commercial banks in the first half of the past fiscal year reduced. There were moderations in the credit growth overall from a 22.3% to 17.3%.
- The sectoral deployment of bank credit has also been rationalized. Deceleration in bank credit to the food processing, textiles, vehicles and transport equipment sectors is noticeable.

Table 2: Movement in interest rates

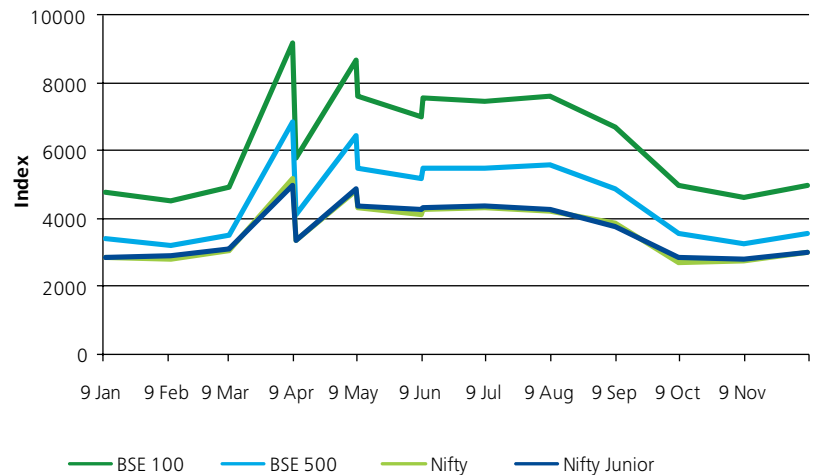
Date	Repo Rate	CRR	PLR
26 Apr. 2008	7.75	7.75	12.25-12.75
24 May 2008	7.75	8.25	12.25-12.75
25 June 2008	8.5	8.25	12.25-12.75
19 July 2008	8.5	8.75	12.75-13.25
30 Aug. 2008	9	9	13.25-14.00
25 Oct. 2008	8	6	13.75-14.00
8 Nov. 2008	7.5	5.5	13.75-14.00
6 Dec. 2008	6.5	5.5	12.50-13.25
24 Dec. 2008	6.5	5.5	12.75-13.25
31 Dec. 2008	6.5	5.5	12.75-13.25
5 Jan. 2009	5.5	5.5	12.00-12.50
17 Jan. 2009	5.5	5	12.00-12.50
31 Jan. 2009	5.5	5	12.00-12.50
5 Mar. 2009	5	5	11.50-12.50
21 Apr. 2009	4.75	5	11.50-12.50

- It is expected that these trends are temporary. The Indian banking system has responded well to the external shocks emanating from the economic downturn. If the monetary policy resorts to rate cuts, borrowings are expected to increase.
- Business can also rely on a robust system that will aid in credit and other needs in the medium-long term.

Stock Market: boom or bust?

- The global slowdown emerging from the turmoil in the global financial markets had made it difficult for investors in all markets, including India. The movements in the Indian capital market were in tandem with trends in major international stock markets with a moderate lag.
- Fears of slowdown and shift in investors' preferences have led to significant outflow of funds by the FIIs. Equity price movements were in tandem with trends in the international markets. The Indian equity market declined further during the period September to December 2008.
- The volatile capital market scenario resulted in the decline in savings inflow into mutual funds. Steady rise of such instruments from 2005 onwards showed a decline in 2008.
- The recent increase in the stock market should be seen in the light of increasing confidence and potential volatility that might arise in the markets for emerging economies. Higher volatility index of 35% to 40% in India and in emerging market economies may not be cause for concern and investors can add value to the decision making process by looking at longer-term prospects. (Figure 16)

Figure 16: Stock market movement



Source: www.nseindia.com, www.bseindia.com

Budget Highlights

Direct Taxes

Corporate Taxation

- No change in the tax rates and surcharge.
- Tax holiday under sections 10A and 10B further extended till financial year 2010-11.
- Computation of profits exempt under section 10AA in the case of units in SEZ to be based on total turnover of undertaking as against total turnover of the business.
- Tax holiday benefit available for power sector extended to 31 March 2011.
- Tax holiday extended to undertaking engaged in commercial production of natural gas.
- Oil refineries to get tax holiday benefit for commercial production commencing before 31 March 2012.
- Weighted deduction of 150% for in-house scientific research extended to many other businesses.
- Investment-linked incentives introduced for setting up and operating cold chain facilities, warehousing and cross-country oil and gas distribution network.
- MAT increased from 10% to 15% of book profits.
- Period allowed for carry forward of MAT credit extended from seven years to ten years.
- FBT to be abolished.
- CTT to be abolished.

Transfer Pricing

- CBDT empowered to formulate safe harbour rules specifying the circumstances for acceptance of transfer price of the taxpayer.
- Where the AM of the ALP is within 5% of the transfer price, the transfer price shall be treated as the ALP and no adjustment will be made.
- ADRM to be constituted for speedy disposal involving international taxation disputes of foreign companies and cases involving transfer pricing matters.

Personal Taxation

- The basic exemption limit for levy of tax for individuals/ HUFs, women taxpayers and senior citizens increased to Rs. 160,000, Rs. 190,000 and Rs. 240,000, respectively.
- Surcharge of 10% to be eliminated.
- Fringe benefits by way of ESOPs, contribution to an approved superannuation fund in excess of Rs. 100,000 and any other prescribed fringe benefit or amenity to be taxed as perquisites.

Other Amendments

- Surcharge of 10% on firms to be eliminated.
- Scope of presumptive taxation extended to all small businesses with a turnover upto Rs. 4,000,000.
- The taxation scheme for LLPs to be on the same lines as that of general partnerships.
- Value of movable and immovable property received without consideration or for inadequate consideration to be taxed as income of the recipient.
- Anonymous donations received by charitable organizations to the extent of 5% of total income or Rs.100,000, whichever is higher, not to be taxed.
- Exemption limit for payment of wealth tax increased to Rs. 3,000,000.

Indirect Taxes

Policy Changes

- Proposal to introduce GST by 1 April 2010 reiterated.

- Common Advance Ruling Authority on Direct and Indirect Taxes.

Customs Duty

- Peak rate of Customs Duty for non-agricultural products retained at 10%.
- Tariff value fixed under Central Excise deemed to be the value for the purpose of CVD on import of like goods.

- Provision for refund of duty on imported goods which are defective or not in accordance with agreed specification introduced.
- CVD on packaged software exempted to the extent of value representing consideration for transfer of right to use the software, subject to specified conditions.

Excise Duty

- General CENVAT rate retained at 8%
- Rate of duty on items attracting 4% increased to 8% with certain exceptions.
- Manufacturer of dutiable and exempted goods to pay 5% value of exempted goods in case of non maintenance of separate records.
- Inputs for CENVAT Credit purposes shall not include cement, angles etc., used for construction of factory sheds or buildings.
- Exemption from duty granted on the value representing transfer of right to use packaged software, subject to specified conditions.

Service Tax

- Service Tax rate continues at 10%.
- Three new taxable services introduced.
- Applicability of service tax extended to installations, structures and vessels in the Continental Shelf of India and Exclusive Economic Zone of India.
- Scope of certain existing taxable services amended.
- Exemption granted to exporters of goods in respect of Goods Transport Agency services and commission paid to foreign agents, subject to specified conditions.
- Powers granted to Central Government to frame rules regarding date for determination of rate of service tax and the place of provision of taxable service.
- Provider of taxable and exempted services to pay 6% value of exempted services in case of non maintenance of separate records.

Budget Proposals

Corporate Taxation

Rate of Tax

Currently, domestic companies are subject to tax at the rate of 30%. There will be no change in this tax rate.

MAT will be increased from 10% to 15% with effect from financial year 2009-10.

FBT has been abolished with effect from financial year 2009-10.

The effective rate of tax for domestic companies will therefore be as shown in Table 1 below.

TABLE 1: Tax Rates for Domestic Companies

Total Income	Rate of Income Tax (%)	Rate of MAT (%)	Rate of DDT (%)
Upto Rs. 10 mn	30.90	15.45	16.995
Exceeding Rs. 10 mn	33.99	16.995	16.995

Definition of Zero Coupon Bonds extended to include Bonds issued by Scheduled Banks

Presently, Zero Coupon Bonds can be issued by any infrastructure capital company or infrastructure capital fund or public sector company.

Scheduled Banks will be empowered to issue zero coupon bonds.

The proposed amendment will take effect retrospectively from financial year 2008-09.

Extension of tax holidays

In order to promote exports by Indian entrepreneurs, the ITA provides for tax holidays under section 10A and 10B for eligible undertakings. This tax holiday was currently available upto the financial year 2009-10.

This benefit will extend by one year i.e. upto financial year 2010-11.

Clarification on computation of profits for SEZ unit

Currently, tax holiday is available on the total income derived from export business in a SEZ unit. While computing the said tax holiday, the total turnover of the assessee was considered.

The total turnover of the undertaking will have to be considered while computing the said benefit.

Deduction in respect of scientific research

Under the existing tax provisions, a weighted deduction of 150% is permitted to a company engaged in the business of or in manufacture or production of specified industry of any article or thing as notified and approved by the prescribed authority.

It is proposed to extend the benefit of weighted deduction for expenditure on research and development to companies engaged in the business of manufacture or production of any article or thing except those mentioned in the Eleventh Schedule to the ITA.

Introduction of investment-linked tax incentive scheme for specified business

A new section 35AD has been inserted which provides for deduction in respect of any expenditure of capital nature (other than expenditure incurred on the acquisition of any land or goodwill or financial instrument) which is incurred wholly and exclusively for specified business.

- Specified business means the business of:
 - setting up and operating a cold chain facility (commencing operation on or after 1 April 2009);
 - setting up and operating a warehousing facility for storage of agricultural produce (commencing operation on or after 1 April 2009);
 - laying and operating a cross-country natural gas or crude or petroleum oil pipeline network for distribution, including storage facilities being an integral part of such network (commencing operation on or after 1 April 2007).
- Salient features of the new scheme are:
 - carrying on the business of laying and operating a cross-country natural gas or crude or petroleum oil pipeline network for distribution, including storage facilities being an integral part of such network shall be allowed a further deduction in the financial year 2009-10 in respect of expenditure of capital nature incurred during any earlier year, if:
 - the business has commenced operation at any time beginning from 1 April 2007 and ending on the 31 March 2009; and

- no deduction for such amount has been allowed or is allowable to the assessee in any earlier previous year.
- No deduction in respect of the expenditure in respect of which deduction has been claimed, shall be allowed under any other provisions of the ITA.
- No deduction shall be allowed under the provisions of Chapter VIA in respect of the specified business.
- Any sum received or receivable on account of any capital asset, in respect of which deduction has been allowed which is being demolished, destroyed, discarded or transferred shall be treated as income and chargeable to income tax under the head 'Profits and gains of business or profession'.
- Any loss computed in respect of the specified business shall not be set off except against profits and gains, if any, of another specified business. To the extent the loss is unabsorbed the same will be carried forward for set off against profits and gains from any specified business.

Consequential amendment has been made where a tax holiday earlier provided in respect of the business of laying and operating a cross country natural gas distribution network will be discontinued so as to avail the benefit of the above deduction.

Further, consequential amendment has been made to provide that 'actual cost' of any capital asset on which the above deduction has been allowed or allowable will be treated as 'nil'.

For computing networth in the case of a slump sale, the cost of assets in respect of which deduction has been claimed under section 35AD will be 'nil'.

Special deduction to entities engaged in long-term financing of specified infrastructure facilities

Section 36(1)(viii) provides special deduction to specified financial corporations, banking companies and housing finance company of an amount not exceeding 20% of the profits subject to creation of a special reserve.

As per the proposed amendment, specified entities engaged in providing long-term finance (including re-financing) for development of housing in India will be eligible for this benefit.

Enhancement of limit for allowance of expenditure in cash made in the case of transporters

Currently, any expenditure incurred in respect of which an aggregate payment to a person in a day exceeds Rs. 20,000 otherwise than by an account payee cheque or account payee bank draft, is disallowed.

Considering special circumstances of the transport operators for incurring expenditure on long haul journeys, the above limit of payment for transporters engaged in plying, hiring or leasing goods will be raised to Rs. 35,000.

The proposed amendment will apply to transactions effected on or after 1 October 2009.

Computation of written down value of assets

Section 43(6)(b) of the ITA provides that WDV in the case of assets acquired before the previous year shall be computed by taking the actual cost less all depreciation 'actually allowed'.

The Apex Court in case of CIT vs. Doom Dooma India Ltd (310 ITR 392) has held that where any income is partially agricultural and partially from business chargeable to tax, depreciation deducted in arriving at the taxable income alone can be taken into account for computing the WDV in the subsequent year.

In view of the above decision, an explanation has been inserted under section 43(6) which provides that where income of assessee in partly from agriculture and partly from business chargeable to tax, while computing WDV, depreciation 'actually allowed' will be computed as if the entire income is chargeable to tax.

Special provisions for computation of full value of consideration

Currently, the value as adopted or assessed by the stamp valuation authority is to be considered for the purpose of computing the capital gains in the case of sale of a capital asset being land or building.

It is proposed to include in the above computation, capital gains as if the transaction were referred to the stamp duty authority.

This proposed amendment will take effect from 1 October 2009.

Computation of tax holiday under Chapter VI-A

A number of profit linked deductions are available under Chapter VI-A.

It is proposed to amend section 80A to prevent claim of multiple deduction, of the same profits.

The proposed amendment will take effect retrospectively from financial year 2002-03.

Further, it is also proposed that the transfer price of goods and services between the qualifying business and any other business will be determined at market value of the goods and services as on the date of transfer.

This amendment will take effect retrospectively from the financial year 2008-09 and is intended to be applied to all cases where proceedings are pending before authorities.

Tax holiday for oil & gas

Currently, deduction is available in respect of profits and gains derived from commercial production or refining of mineral oil.

It is proposed that all blocks licensed under a single contract which is awarded under the New Exploration Licensing Policy announced by the Government of India dated 10 February 1999 or has been awarded by the Central or State Government in any other manner shall be treated as a single 'undertaking'.

The proposed amendment will take effect retrospectively from financial year 1999-2000.

It is proposed that the benefit of deduction is available to the undertaking which is engaged in refining of mineral oil and which begins such refining on or after the 1 October 1998 but not later than the 31 March 2012.

The proposed amendment will take effect retrospectively from the financial year 2008-09.

The scope of tax holiday will include commercial production of natural gas. This benefit will be available to undertakings in respect of profits derived from the commercial production of natural gas from oil and gas blocks which are awarded under the New Exploration Licensing Policy-VIII round of bidding.

Tax holiday for housing projects

Under the existing provision, sub-section (10) of section 80-IB provides for 100% deduction of the profits derived by an undertaking from developing and building housing projects.

It is proposed that the tax holiday benefit will not be available to any undertaking which executes the housing project as a works contract.

This amendment will take effect retrospectively from the financial year 2000-01.

Further, the objective of the tax benefit for housing projects is to build housing stock for low and middle income households. This has been ensured by limiting the size of the residential unit.

In this context, it is proposed that deduction will be available to the undertaking which develops and builds the housing project however, it will not be allowed to allot more than one residential unit in the housing project to the same person, not being an individual, and in case of individual, no other residential unit in such housing project is allotted to any of the prescribed persons.

Computation of book profit for MAT

Currently, under MAT there is no adjustment towards provision for diminution in the value of assets while computing book profits.

It has been clarified that, provision for diminution in the value of any asset will not be allowed while computing book profits for the purposes of computing MAT.

The proposed amendment will take effect from financial year 1997-98 in respect of section 115JA and from financial year 2000-01 in respect of section 115JB.

Extension of MAT credit

The period allowed for carry forward of MAT credit will be extended from seven years to ten years.

Exemption of DDT

Currently any dividend declaration / payment / distribution is subject to DDT under section 115-O.

It is proposed to amend section 115-O to provide that any dividend paid to the New Pension Scheme Trust will be exempt from DDT.

The proposed amendment will take effect retrospectively from financial year 2008-09.

Method of Accounting

The existing provisions contained in section 145A provide accounting and valuation methods for determining income for purchase and sale of goods and inventory.

The method of accounting for arrears of interest computed on delayed or enhanced compensation whether cash or mercantile and its taxability has caused undue hardship to the tax payers.

In order to mitigate the hardship, it is proposed to amend section 145A to provide that the interest received by an assessee on compensation or enhanced compensation will be deemed to be his income for the year in which it is received, irrespective of the method of accounting followed by the assessee.

It is also proposed that the income by way of interest on compensation or enhanced compensation will be included as income from other sources.

Further, deduction of 50% of such income would be allowed.

Table 2: Tax Holidays**I: Tax holiday available to infrastructure undertakings or enterprises**

Business Activity		Period for Commence- ment of Operation	Tax Holiday (Years)	Rate of Deduction (%)
Undertakings	(i) Set-up in any part of India for generation, or, generation and distribution of power	1-4-1993 to 31-3-2011	10 out of initial 15	100
	(ii) Transmission or distribution of power by laying a network of new transmission or distribution lines	1-4-1999 to 31-3-2011	10 out of initial 15	100
	(iii) Transmission or distribution of power by undertaking substantial renovation and modernisation of the existing network of transmission or distribution lines	1-4-2004 to 31-3-2011	10 out of initial 15	100
	(iv) Set-up by a notified Indian Company for reconstruction or revival of a power generating plant	On or before 31-3-2011*	10 out of initial 15	100
Infrastructure Undertakings or Enterprises	(i) Development; or; operation and maintenance; or; development, operation and maintenance of infrastructure facility other than port, airport, inland waterway or inland port or navigational channel in the sea	On or after 1-4-1995	10 out of initial 20	100
	(ii) Development; or; maintenance and operation; or; development, maintenance and operation of any other infrastructure facility viz. a port, airport, inland waterway or inland port or navigational channel in the sea	On or after 1-4-1995	10 out of initial 15	100
	(iii) Basic or cellular telecommunication services including radio paging, domestic satellite services, network of trunking, broadband network and internet services	1-4-1995 to 31-3-2005	10 out of initial 15	100 for the first five years; thereafter 30.
	(iv) Development of a notified:		10 out of initial 15	100
	- Special Economic Zone or	1-4-1997 to 31-3-2005		
	- Industrial Park	1-4-1997 to 31-3-2009		
	(v) Development and operation, or, maintenance and operation of a notified:		10	100
	- Special Economic Zone or	1-4-1997 to 31-3-2005		
	- Industrial Park	1-4-1997 to 31-3-2009		
	(vi) Development, operation and maintenance of a Special Economic Zone notified by the Central Government	On or after 1-4-2005	10 out of initial 15	100

**Period for commencement has been extended from 31-3-2008 to 31-3-2011, retrospectively.*

Table 2 (Contd.): Tax Holidays

II. Tax holidays available to other industrial undertakings

Business Activity		Period for Commence- ment of Operation	Tax Holiday (Years)		Rate of Deduction (%)
			Co-op Soc.	Others	
Other Industrial Undertakings	(i) Small scale industrial undertakings manufacturing or producing article or thing or operating a cold storage plant	1-4-1995 to 31-3-2002	12	10	30 for companies, 25 for others
	(ii) Located in an industrially backward State specified in the Eight Schedule being		12	10	100 for the first five years; thereafter,
	- other than Jammu and Kashmir (**)	1-4-1993 to 31-3-2004			30 for companies,
	- Jammu and Kashmir	1-4-1993 to 31-3-2012			25 for others
	(iii) Located in industrially backward State of the North Eastern Region as notified by the Central Government (**)	1-10-1993 to 31-3-2004	10	10	100
	(iv) Located in an industrially backward district notified by the Central Government as Category A	1-10-1994 to 31-3-2004	12	10	100 for the first five years; thereafter, 30 for companies, 25 for others
	(v) Located in an industrially backward district notified by the Central Government as Category B	1-10-1994 to 31-3-2004	12	8	100 for the first three years; thereafter, 30 for companies, 25 for others
	(vi) Operating a cold chain facility for agricultural produce	1-4-1999 to 31-3-2004	12	10	100 for first five years; thereafter, 30 for companies, 25 for others

**** Deduction to be claimed under section 81C/80IE for industrial undertakings located in Sikkim, Himachal Pradesh, Uttaranchal and North-Eastern State from 1 April 2003 (see Table 3 - III)**

Table 2 (Contd.): Tax Holidays

II. Tax holidays available to other industrial undertakings

Business Activity		Period for Commence-ment of Operation	Tax Holiday (Years)	Rate of Deduction (%)
Undertakings	(i) Construction and development of housing projects approved before 31-3-2007	On or after 1-10-1998 and construction is completed within four years from the end of the financial year in which the housing project is approved		100
	(ii) Engaged in the commercial production of mineral oil in any part of India	On or after 1-4-1997	7	100
	(iii) Engaged in refining of mineral oil	1-10-1998 to 31-3-2012	7	100
	(iv) Engaged in the commercial production of natural gas in block licensed under NELP VIII	On or after 1-4-2009	7	100
	(v) Engaged in the business of processing, preservation and packaging of fruits and vegetables, integrated business of handling storage and transportation of foodgrains	On or after 1-4-2001	10	100 for first five years; thereafter, 30 for companies, 25 for others
	(vi) Engaged in operating and maintaining a hospital in a rural area	Constructed on or after 1-10-2004 but before 31-3-2008	5	100
	(vii) Engaged in operating and maintaining a hospital located anywhere in India, other than in an excluded area	Constructed and starts functioning on or after 1-4-2008 but before 31-3-2013	5	100
Companies	(i) Scientific and industrial research and development	Approved after 31-3-2000 but before 1-4-2007	10	100
Hotels	(i) Located in hilly area or rural area or place of pilgrimage not within Kolkata, Chennai, Delhi and Mumbai	1-4-1997 to 31-3-2001	10	50
	(ii) Located in any other area not within Kolkata, Chennai, Delhi and Mumbai	1-4-1997 to 31-3-2001	10	30
	(iii) (a) Located in the National Capital Territory of Delhi and in the districts of Faridabad, Gurgaon, Gautam Budh Nagar and Ghaziabad	1-4-2007 to 31-3-2010	5	100
	(b) Located in the specified district having a World Heritage Site	1-4-2008 to 31-3-2013	5	100
Multiplex Theatres	Building, owning and operating multiplex theatre in any place other than Kolkata, Chennai, Delhi or Mumbai	Constructed during the period 1-4-2002 ending with 31-3-2005	5	50
Convention Centres	(i) Building, owning and operating convention centres	Constructed during the period 1-4-2002 ending with 31-3-2005	5	50
	(ii) Located in the National Capital Territory of Delhi and in the districts of Faridabad, Gurgaon, Gautam Budh Nagar and Ghaziabad	Constructed during the period 1-4-2007 ending with 31-3-2010	5	100

Table 2 (Contd.): Tax Holidays**III: Tax holiday available to new or existing undertakings or enterprises in certain special category States**

Business Activity	State	Period for Commence-ment of Operation	Tax Holiday (Years)	Rate of Deduction (%)
New undertakings and enterprises, or substantial expansion of existing undertakings and enterprises, which are engaged in manufacture or production of articles or things, not specified in the Thirteenth Schedule, in any notified Export Processing Zone or Integrated Infrastructure Development Centre or Industrial Growth Centre or Industrial Estate or Industrial Park or Software Technology Park or Industrial Area or Theme Park/Manufacture or production of article or thing specified in Fourteenth Schedule	Sikkim	23-12-2002 to 31-3-2012	10	100
	Himachal Pradesh or Uttaranchal	7-1-2003 to 31-3-2012	10	100 for the first five years; thereafter 30 for companies, 25 for others
	North-Eastern States	24-12-1997 to 31-3-2007	10	100

Table 3: Withholding Tax Rates (%)

Nature of Payment	Status of Recipient					
	Company		Individuals		Others	
	Foreign (f) (k) (n)	Domestic (n)	Non-resident (f) (n)	Resident (n)	Non-resident (f) (n)	Resident (n)
1. Salaries	N.A.	N.A.	Slab rates	Slab rates	N.A.	N.A.
2. Interest on securities	40 (d)	10 (a)	30 (d) / 20 (b)	10 (a)	30 (d)	10 (a)
3. Interest paid to non-resident on foreign currency loan	20	N.A.	20	N.A.	20	N.A.
4. Other interest	40 (d)	10	30 (d) / 20 (b)	10	30 (d)	10
5. Winnings from lottery / crossword puzzle/ horse race / card game and any other game	30	30	30	30	30	30
6. Payment to contractors / sub-contractors upto 30 September 2009	40 (d)	2 / 1	30 (d)	2 / 1	30 (d)	2 / 1
7. Payment to contractors / sub-contractors (including advertisement contracts) w.e.f. 1 October 2009	40 (d)	2	30 (d)	1	30 (d)	2 / 1 (h)
8. Payment under advertisement contract upto 30 September 2009	40 (d)	1	30 (d)	1	30 (d)	1
9. Insurance commission	40 (d)	20	30 (d)	10	30 (d)	10
10. Commission / brokerage	40 (d)	10	30 (d)	10	30 (d)	10
11. Rent for use of land or building or furniture or fittings upto 30 September 2009	40 (d)	20	30 (d)	15	30 (d)	20 (g)
12. Rent for use of land or building or furniture or fittings w.e.f. 1 October 2009	40 (d)	10	30 (d)	10	30 (d)	10
13. Rent for use of machinery or plant or equipment upto 30 September 2009	10 (c) / 40 (d)	10	10 (c) / 30 (d)	10	10 (c) / 30 (d)	10
14. Rent for use of machinery or plant or equipment w.e.f. 1 October 2009	10 (c) / 40 (d)	2	10 (c) / 30 (d)	2	10 (c) / 30 (d)	2
15. Royalty	10 (c)	10	10 (c)	10	10 (c)	10
16. Technical fee	10 (c)	10 (l)	10 (c)	10 (l)	10 (c)	10 (l)
17. Compensation on acquisition of certain immovable property	40 (d)	10	20 (o) / 30 (d)	10	30 (d)	10
18. Long-term capital gains (m)	20 (e) (i)	Nil	10 (b) / 20 (e)	Nil	20 (e) (i)	Nil
19. Short-term capital gains (p)	15 (i)	Nil	15	Nil	15 (i)	Nil
20. Any other sum chargeable to tax	40 (d)	Nil	30 (d)	Nil	30 (d)	Nil

Notes:

- (a) No TDS on interest on specified securities.
- (b) On specified assets purchased by an NRI in convertible foreign exchange.
- (c) 20% in the case where the agreement is made on or after 1 June 1997 but before 1 June 2005.
- (d) On net income.
- (e) No TDS on income arising from the transfer of a unit of the Unit Scheme, 1964 and long-term capital gains on quoted equity shares acquired on or after 1 March 2003 but before 1 March 2004.
- (f) Rates are subject to treaty provisions.
- (g) 15% for HUF.
- (h) In the case of an HUF.
- (i) No TDS in respect of FII's.
- (j) No TDS in case of contract for transport of goods in case the deductee furnishes his PAN to the deductor.
- (k) Rates to be increased by surcharge of 2.5% where the payment exceeds Rs.10 mn.
- (l) Also in respect of professional service fee.
- (m) No TDS on income arising on sale of equity shares or a unit of an equity oriented fund which is chargeable to STT.
- (n) Rates (inclusive of surcharge referred to at (k) above) to be further increased by an additional surcharge (Education Cess) of 2% and additional surcharge (Secondary and Higher Education Cess) of 1%.
- (o) In case taxable as long-term capital gains.
- (p) Applicable in respect of income arising on the sale of equity shares or a unit of an equity oriented fund which is chargeable to STT.
- (q) With effect from financial year beginning 1 April 2010, the deductee is required to furnish its PAN to the deductor failing which tax shall be deducted at the rate mentioned in the relevant provisions of the Act or at the rate in force or at the rate of 20 %, whichever is higher.

Non-resident Taxation

Rate of tax

There will be no change in the rate of tax for foreign companies except for the change in the MAT rate.

The effective rate of tax for foreign companies will therefore be as shown in Table 4.

Table 4: Tax Rates for Foreign Companies

Total Income	Rate of Income Tax (%)	Rate of MAT (%)
Upto Rs. 10 mn	41.20	15.45
Exceeding Rs. 10 mn	42.23	15.8363

FBT is abolished with effect from the financial year 2009-2010

For Individuals and Firms, see Personal Taxation and Other Amendments, respectively.

Agreement with specified non-sovereign territories

The power of the Central Government to enter into Double Taxation Avoidance Agreement or Tax Information Exchange Agreement with the Government of any country outside India has been expanded. The Central Government will now be empowered to enter into similar agreements with non-sovereign territories outside India which may be notified by the Central Government.

The proposed amendment will take effect from 1 October 2009.

Transfer Pricing

Safe Harbour

- CBDT empowered to formulate safe harbour rules.
- Safe harbour rules to prescribe circumstances under which the income tax authorities shall accept the transfer price declared by the tax payer.

The proposed amendment will take effect retrospectively from 1 April 2009.

+/-5% variation to the AM

- Under the existing provisions, where more than one price is determined by the most appropriate method, the ALP shall be taken to be the AM of such prices, or, at the option of the tax payer a price which may vary from the AM by an amount not exceeding 5% of such AM.
- It is proposed to amend the above provision to provide that where more than one price is determined by the most appropriate method, the ALP will be taken to be the AM of such prices. If the AM so determined is within 5% of the transfer price, then the transfer price will be treated as the ALP.
- The proposal seeks to amend the computation of the +/- 5% variation from the ALP to the transfer price at which the international transaction has been undertaken by the taxpayer.
- The amendment seeks to put to rest conflicting interpretations with respect to the computation of +/- 5% variation.

The proposed amendment will take effect from 1 October 2009.

Alternative Dispute Resolution Mechanism

With a view to encourage the growth of foreign investment in India, a dispute resolution mechanism is proposed to facilitate expeditious resolution of disputes on a fast track basis. The salient features of the proposed ADRM are:

- DRP to consist of three CITs.
- Foreign companies and cases involving transfer pricing disputes eligible for ADRM.
- DRP has powers to confirm, reduce or enhance the adjustment; but cannot set aside any proposed variation or issue directions for further enquiry.
- DRP directions binding on the AO.
- Order of the AO consequent to the directions of DRP can be appealed only before the ITAT.
- Time frame of 9 months prescribed for completion of proceedings.
- ADRM mandatory for eligible taxpayers.

The proposed amendment will take effect from 1 October 2009.

Personal Taxation

Rate of tax

The rates of personal tax will be revised as shown in Table 5.

Table 5: Tax Rates for Individuals

Slab of Income (Rs.)	Rate of Tax (%)
0 - 160,000	Nil
160,001 - 300,000	10
300,001 - 500,000	20
500,001 and above	30

Notes:

- In respect of women residents below the age of 65 years, the basic exemption limit will be increased to Rs. 190,000 from Rs. 180,000.
- In respect of senior citizens resident in India, the basic exemption limit will be increased to Rs. 240,000 from Rs. 225,000.
- Surcharge of 10% of Income Tax will be withdrawn.
- Education Cess will be levied at the rate of 2% of Income Tax.
- Secondary and Higher Education Cess will be levied at the rate of 1% of Income Tax (not including Education Cess).

Compensation under voluntary retirement/separation scheme or on termination of service

Under section 10(10C) an exemption is provided in respect of any amount received under the voluntary retirement scheme or voluntary separation scheme or on termination of services to the extent of Rs. 500,000. Further, section 89 contains provisions granting relief, if on account of receipt of salary etc. in arrears or in advance, the tax liability is increased in the year of receipt.

With effect from the financial year 2009-10, where any relief has been allowed to any assessee under section 89 for any assessment year in respect of any amount received or receivable on voluntary retirement or termination of service or voluntary separation, no exemption under section 10(10C) will be allowed in relation to such amount. Likewise, no relief will be granted under section 89 in respect of any amount received or receivable by an assessee on his voluntary retirement or termination of service or voluntary separation, if an exemption has been claimed by the assessee under section 10(10C).

Expanding the scope of 'perquisites' in view of abolition of FBT

Currently, certain prescribed fringe benefits provided by an employer to his employees are liable to FBT in the hands of the employer. Such fringe benefits are not

included within the scope of 'perquisites' as defined in section 17. As FBT will now be abolished, 'perquisites' will include the following:

- Value of any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer, or former employer, free of cost or at concessional rate. The value will be determined in accordance with the prescribed method on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from the assessee in respect of such security or shares.
- The amount of any contribution to an approved superannuation fund by the employer in respect of the assessee, to the extent it exceeds Rs. 100,000.
- Value of any other fringe benefit or amenity as may be prescribed.

Cost of acquisition of the specified security or equity shares referred in section 17

Where any capital gain arises from the transfer of specified security or sweat equity shares, the cost of acquisition of such security or shares will be the value which has been taken into account for the purposes of computing the value of perquisites under section 17.

Deduction for specified Investments

Deduction is currently available to an individual employed by the Central Government or any other employer in respect of any contribution made under a pension scheme notified by the Central Government to the extent of 10% of his salary in the previous year. This deduction will be extended to other individual assessee.

Further, any amount received under the notified pension scheme will not be deemed to have been received if such amount is used for purchasing an annuity plan in the same financial year and accordingly the amount so received will not be charged to tax.

The proposed amendment will take effect retrospectively from the financial year 2008-09.

Deduction of interest on loan taken for higher education

Deduction under section 80E, currently allowed in respect interest on loans taken from any financial institution or any approved charitable institution for

pursuing higher education in the specified fields of study, will be extended to cover any course of study pursued after passing the Senior Secondary Examination or its equivalent from any school, board or university recognised by the Central or State Government or local authority or by any other Authority as authorised.

Expansion of scope of Income from Other Sources

Presently, any sum of money exceeding in aggregate of Rs. 50,000 received without consideration by an individual or HUF from persons other than relatives, subject to specified exceptions, is 'income'. Hence, anything which is received in kind having 'money's worth' i.e. property is outside the purview of the existing provisions.

It is proposed that the value of any property received without consideration or for inadequate consideration will be 'income'. Such properties will include immovable property being land or building or both, shares and securities, jewellery, archaeological collections, drawings, paintings, sculptures or any work of art.

The scope of said provisions will be extended to include receipt of any immovable property or any other property without consideration or for inadequate consideration where stamp duty value or fair market value of such property exceeds Rs. 50,000.

The proposed amendment will take effect from 1 October 2009.

Other Amendments

Meaning of the term 'charitable purpose' expanded

The definition of the term 'charitable purpose' is expanded to include preservation of environment (including watersheds, forests and wildlife) and preservation of monuments or places or objects of artistic or historic interest.

The proposed amendment will take effect retrospectively from financial year 2008-2009.

Meaning of the term 'manufacture'

The term 'manufacture' has been defined for the first time under the ITA.

The term 'manufacture' will mean a change in a non-living physical object or article or thing – (a) resulting in transformation of the object or article or thing into a new and distinct object or article or thing having a different name, character and use, or (b) bringing into existence of a new and distinct object or article or thing with a different chemical composition or integral structure.

Taxation of LLPs

- The definition of the terms 'firm', 'partner' and 'partnership' have been substituted so as to define in the context of an entity registered under the Limited Liability Partnership Act, 2008 in addition to the definitions in the context of a partnership formed under the Indian Partnership Act, 1932.
- In the case of LLP, the return of income shall be signed and verified by the designated partner and where for any unavoidable reason the designated partner is not able to sign the return of income or where there is no designated partner, by any other partner.
- In the case of liquidation of an LLP, every person who is a partner of the LLP at any time during the previous year shall be jointly and severally liable for the payment of any unrecovered tax unless he proves that the non-recovery cannot be attributed to any gross neglect, misfeasance or breach of duty on his part in relation to the affairs of the LLP.

Remuneration to partner in the Partnership Firms

The existing clause provides that in case of working partners, remuneration will be allowed as a deduction subject to the limits as prescribed.

It is proposed to have uniform limits for both professional firms and non-professional firms as follows:

Table 6: Limit for deduction of remuneration

Book Profit	Maximum deductible remuneration
On the first Rs. 300,000 of the book-profit or in case of a loss	Rs. 150,000 or at the rate of 90% of the book-profit, whichever is more
On the balance of the book-profit	At the rate of 60%

Penalty for concealment of income

As per the existing penalty provisions, the assessee is deemed to have concealed income where during the course of search on or after 1 June 2007, the assessee is found to be the owner of (i) any money, bullion, jewellery or other valuable article or thing ('asset'); or (ii) any income based on any entry in any books of account or other documents or transactions and claims that such asset or such entry in the books of account or other documents or transactions represents either utilization of income or the income (wholly or in part) for any financial year which is ended before the date of search and due date for filing the return of income for such year has expired and the assessee has not furnished the return of income for such year.

The proposed amendment provides that in the above case, the assessee is deemed to have concealed income even in case where the return of income for such financial year has been furnished before the said date but such income has not been declared therein.

Taxation on presumptive basis applicable to any business

Taxation on presumptive basis which was hitherto applicable to business of civil construction and retail trade is proposed to be extended to any business (except business of plying, hiring or leasing goods carriages) whose total turnover or gross receipts in the financial year does not exceed Rs. 4,000,000 ('eligible business').

The proposed amendment applies to:

- any eligible resident assessee being an individual, HUF or a partnership firm (excluding an LLP) engaged in eligible business;
- who has not claimed deduction under sections 10A, 10AA, 10B, 10BA or a deduction in respect of incomes under Chapter VIA.

Under the proposed amendment:

- 8% of the total turnover or gross receipts or a higher sum claimed to have been earned by the eligible assessee is deemed to be the profits of eligible business chargeable to tax.
- no further deduction is allowable (except salary and interest deduction in case of a partnership firm subject to the limits specified under the ITA)
- eligible assessee is not required to make payment of advance income tax.
- eligible assessee is also not required to maintain books of accounts and get it audited unless it claims that its profits from the eligible business is lower than 8% of total turnover or gross receipts and its total income exceeds the maximum amount not chargeable to tax.

The proposed amendment will take effect from financial year 2010-2011.

Taxation of anonymous donation

Presently, any anonymous donation received by entities referred to in section 115BBC is taxed at the rate of 30%. Anonymous donation will now be taxable only to the extent it exceeds 5% of the total income or an amount of Rs. 100,000, whichever is higher.

Time limit for passing an order holding a person to be an assessee in default

Presently, no time limit is prescribed for passing an order holding a person to be an assessee in default.

It is now proposed that an order is to be passed within 2 years from the end of the financial year in which the statement of deduction of tax has been filed. Where no such statement is filed, order can be passed within 4 years from the end of the financial year in which payment is made or credit is given.

It is also proposed that an order for a financial year commencing on or before 1 April 2007 may be passed at any time on or before 31 March 2011.

The proposed amendment will take effect from financial year 2010-2011.

TDS on payments to contractor

Any Government of a foreign State or a foreign enterprise or any association or body established outside India is also required to deduct tax on payment to contractor under the proposed provision which was not specifically covered under the existing provision.

The proposed amendment will take effect from 1 October 2009.

Introduction of DIN

It has been proposed to introduce a computer based system of quoting of DIN in respect of every notice, order, letter or any correspondence sent or received by the Income Tax Department so as to enable tracking of documents. If any correspondence issued by any Income Tax Authority does not bear a DIN then such correspondence will be treated as invalid and shall be deemed never to have been issued.

The proposed amendment will take effect from 1 October 2010.

Contributions to Electoral Trust

The deduction in respect of contributions hitherto made to political parties now extended to contributions made to an Electoral Trust as defined.

Re-assessment in respect of issues not recorded in notice for re-opening

It is clarified that the AO may assess or re-assess income in respect of any issue which is not included in the reasons recorded for re-opening and comes to his notice subsequently during the course of reassessment proceedings.

The proposed amendment will take effect retrospectively from financial year 1987-1988.

Commodity Transaction Tax abolished

Commodity transaction tax applicable on taxable commodity transactions has been abolished.

Enhancement of limit for payment of wealth tax

Under the existing provisions, every individual, HUF and company is charged to wealth tax at 1% of the amount by which the net wealth exceeds Rs. 1,500,000. This limit will be enhanced to Rs. 3,000,000.

Indirect Taxation

Customs Duty

Rate Changes

Peak rate of Basic Customs duty retained at 10%.

Full Exemptions / Reduction in Rate

- Exemption from SAD on parts required for manufacture of mobile phones and accessories extended for a period of one year upto 6 July 2010.
- Exemption from Customs duty provided to:
 - inflatable rafts, snow skis, water skis, surf boats, sail boards, and other water sport equipments
 - items such as synthetic rubber bladder, table tennis rubber, etc. required by manufacturer-exporters of sports goods
 - items such as knitted ribs, metal fittings, etc. used by manufacturer-exporters of leather, textile and footwear industry.

Table 7: Decrease in the rate

Description of goods	Upto 6 July 2009	Effective 7 July 2009
Pharma		
Specified life saving drugs and vaccine and their bulk drugs	10%	5%
Specified heart devices	7.5%	5%
Textile		
Cotton Waste	15%	10%
Wool Waste	15%	10%
Electronic Hardware		
LCD Panels for manufacture of LCD televisions	10%	5%
Renewable Energy		
Permanent magnets for manufacture of PM synchronous generators for use in wind operated electricity generators	7.5%	5%
Bio Diesel	7.5%	2.5%
Others		
Rock Phosphate	5%	2%
Unworked Corals	5%	Nil

Withdrawal of Exemptions / Increase in Rate

- Customs duty exemption on set top box withdrawn. Set top boxes to attract duty of 5%.
- CVD exemption on Aerial Passenger Ropeway Project items withdrawn.
- Customs duty exemption on concrete batching plants of capacity 50 cum per hour withdrawn. These will now attract a duty of 7.5%.

Table 8: Increase in the rate

Description of goods	Upto 6 July 2009	Effective 7 July 2009
Precious Metals		
Gold bars having manufacturer's or refiners serial number engraved on the gold bar	Rs 100 per 10 gram	Rs 200 per 10 gram
Gold in any other form	Rs 250 per 10 grams	Rs 500 per 10 grams
Silver	Rs 500 per kg	Rs 1000 per kg

Other Relevant Changes in Rate

- Exemption from CVD provided to packaged software and canned software on the portion of value representing the consideration for transfer of right to use such software subject to specified conditions.
- Concessional Customs duty of 5% on specified machinery for use in tea, coffee and rubber plantation extended upto 6 July 2010.

The above exemptions and rate changes will be effective from 7 July 2009.

Changes in Acts

Changes in the Customs Act, 1962

- Refund of import duty paid at the time of clearance of imported goods to be allowed in case the goods imported:
 - are found to be defective;
 - do not conform to the specifications agreed between the importer and the supplier.
 The above refund is subject to the following conditions:

- the goods have not been worked, repaired or used after importation;
- the goods are identified;
- no drawback is claimed by the importer in respect of such goods;
- the goods are exported or the importer relinquishes his title to the goods or the goods are destroyed or rendered commercially valueless.

• High Courts have been empowered to condone delay in filing of appeals beyond the prescribed period with retrospective effect from 1 July 2003.

• High Courts have also been empowered to condone the delay in filing of applications or memorandum of cross objections beyond the prescribed period with retrospective effect from 1 July 1999.

• Amendment introduced to provide manner of compounding of offences; certain offences as provided will not be compoundable.

Changes in the Customs Tariff Act, 1975

• In case of goods where tariff value has been fixed for the purpose of collection of central Excise Duty, such tariff value to be adopted for calculation of CVD on import of like articles.

• Facility of rebate allowed in respect of goods procured locally and used in manufacture of goods exported under the DFIA Scheme.

The above changes will be effective from the date of enactment of the Finance (No.2) Bill 2009 unless otherwise stated above.

Central Excise Duty

Rate Changes

General CENVAT rate reduced from 14% to 8% as part of stimulus measures during Financial Year 2008-09 has been maintained.

Full Exemption

The following goods are exempted from the payment of Excise Duty:

- Branded Jewellery
- Packaged Software to the extent of value representing consideration paid or payable for

transfer of right to use such software, subject to specified conditions

- High Speed Diesel oil blended with upto 20% bio-diesel
- Specified goods manufactured at the site of construction for use in construction work at such site.

Decrease in CENVAT Rate

Table 9: Decrease in the rate

Description of goods	Upto 6 July 2009	Effective 7 July 2009
Automobiles		
Large cars / utility vehicles of engine capacity 2000cc and above	20%+Rs. 20,000	20%+Rs. 15,000
Petrol driven trucks / lorries (except dumpers)	20%	8%
Chassis of petrol driven trucks / lorries	20%+Rs. 10,000	8%+Rs. 10,000
Petroleum Products		
Naptha	16%	14%

Increase in CENVAT Rate from 4% to 8%

The Excise Duty on goods currently attracting 4% CENVAT Rate has now been increased to 8% CENVAT Rate except for the following:

- Specified food items including biscuits, sherbats, cakes and pastries
- Drugs and pharmaceutical products covered under Chapter 30
- Medical equipment
- Certain varieties of paper, paperboard and articles thereof
- Paraxylene
- Power driven pumps for handling water
- Footwear of RSP exceeding Rs. 250 but not exceeding Rs. 750 per pair

• Pressure cookers

- Vacuum and gas filled bulbs of RSP not exceeding Rs. 20 per bulb

- Compact Fluorescent Lamps

- Cars for physically handicapped persons.

Illustrative list of goods on which CENVAT Rate has been increased from 4% to 8% is as under:

- Manmade fibre and filament yarn
- Pure Terephthalic Acid, Dimethyl Terephthalate and Acrylonitrile
- Textile goods made of manmade and natural fibres other than pure cotton*
- Ink used in writing instruments
- Polyester chips
- Specified articles of wood
- Articles of Mica
- Solid or hollow building blocks including aerated or cellular light weight concrete block and slabs
- Liquefied Petroleum Gas Stoves
- MP3 / MP4 / MPEG Players
- Contact lenses
- Playing cards
- Paint brushes, shaving brushes, tooth brushes.

*Under optional scheme of payment of duty

Changes in Rate Structure for Petroleum Products

Table 10: Excise Duty Rate Structure for Petroleum Products

Description of goods	Upto 6 July 2009	Effective 7 July 2009
Petroleum Products		
Branded Petrol	6%+Rs. 13 per litre	Rs. 14.50 per litre
Branded High Speed Diesel Oil	6%+Rs. 3.25per litre	Rs. 4.75 per litre
Special Boiling Point Spirits	14%+Rs. 15 per litre	14%

Other Relevant Changes

- Rate of Excise Duty on textile goods made of pure cotton not containing any other textile material has been increased from Nil to 4% under optional exemption scheme for payment of duty.
- Permission / intimation is not required for availing full exemption or payment of duty by availing credit for textile related products.
- Exemption for recorded smart cards, recorded proximity cards and tags is now made optional.
- Excise duty exemption available to small scale industries extended to manufacture of printed laminated rolls bearing brand name of another person.
- Exemption from Excise Duty for Naptha and Natural Gasoline Liquid meant for use in manufacture of fertilisers restricted to Naptha or Natural Gasoline Liquid meant for:
 - use in fertilisers cleared as such from factory of production
 - use in manufacture of ammonia and such ammonia is used in manufacture of fertiliser cleared as such from factory of production.

Changes in RSP Based Assessment

The following changes are made in the rate of abatement in respect of goods subject to RSP based assessment:

Table 11: Increase in the rate of abatement

Description of goods	Upto 6 July 2009	Effective 7 July 2009
Vitrified tiles, whether polished or not	40%	45%
Glazed tiles	40%	45%
Liquified Petroleum Gas stoves	30%	35%
MP3 Player or MPEG 4 Player	30%	35%
Toothbrush	25%	30%

The above changes will be effective from 7 July 2009.

Changes in Act and Rules

Changes in the Central Excise Act, 1944

The following changes will be effective from the date of enactment of the Finance (No.2) Bill, 2009, unless otherwise stated.

- Amendment introduced to provide manner of compounding of offences; certain offences as provided will not be compoundable.
- Chief Commissioner of Central Excise can now nominate a Chartered Accountant for conducting Special Audit under Sections 14A and 14AA, hitherto restricted only to Costs and Works Accountants.
- High Courts empowered to condone delay in filing of appeals beyond the prescribed period under Section 35G, retrospectively with effect from 1 July 2003.
- High Courts empowered to condone delay in filing of applications or memorandum of cross objections beyond the prescribed period under Section 35H, retrospectively with effect from 1 July 1999.

Changes in CENVAT Credit Rules, 2004 relevant to manufacturers

The following changes will be effective from 7 July 2009.

- Inputs for CENVAT purposes shall not include cement, angles, channels, Centrally Twisted Deform bar or Thermo Mechanically Treated bar and other items used for construction of factory shed, building or

laying of foundation or making of structures for support of capital goods.

- Manufacturer of dutiable and exempted goods who do not maintain separate records, shall pay an amount equal to 5% of total value of exempted goods instead of 10% prevailing earlier.

Service Tax

Rate of Service Tax

The rate of Service Tax which was reduced from 12% to 10% effective 24 February 2009 remains unchanged.

New Taxable Services

The following categories of services have been brought within the purview of Service Tax:

- Cosmetic and Plastic Surgery Services
- Transport of Coastal Goods, Goods transported through Inland water and National waterways
- Legal Consultancy Services provided by and to business entities excluding appearance before Authorities, Tribunal or Courts.

The above categories will be taxable from a date to be notified after the enactment of Finance (No. 2) Bill, 2009.

Expansion/Amendments in Service Tax

- The transport of goods by Government railways are now covered by the category of 'Transport of goods by rail services'. The category also now covers transport of goods other than in containers.
- The exclusion of manufacture from the purview of 'Business Auxiliary Services' is now restricted to manufacture of excisable goods.

The above changes will be effective from a date to be notified after the enactment of Finance (No. 2) Bill, 2009.

- Service Tax provisions extended to installations, structures and vessels in the Continental Shelf of India and the Exclusive Economic Zone of India. Similar change made in Taxation of Services (Provided from outside India and Received in India) Rules 2006 by amending the definition of 'India'. These changes will be effective from 7 July 2009.

- Retrospective amendment from 16 May 2008 in the category of 'Information Technology Software Services' so as to substitute the word 'acquiring' with the word 'providing' the right to use Information Technology Software.

Exemptions /Abatements under Service Tax

- Exemption provided to interbank transactions of purchase and sale of foreign currency between Scheduled Banks from the categories of 'Banking and Other Financial Services' and 'Foreign Exchange Broker's Services'.
- Transport of passengers by a tour operator having a contract carriage permit exempted from Service Tax except in specified cases.
- 'Club or Association Services' provided by Federation of Indian Export Organisations, Engineering Export Promotion Council and other specified Councils exempted from Service Tax upto 31 March 2010.

The above changes will be effective from 7 July 2009.

- Sub-brokers have been excluded from the purview of Service Tax. This change will be effective from a date to be notified after the enactment of Finance Bill (No. 2), 2009.
- Service Tax exemption on specified services availed by Goods Transport Agencies to be given retrospective effect from 1 January 2005.

Refund mechanism for exporters of goods

- Exemption granted to exporters of goods from payment of Service Tax under reverse charge mechanism in respect of following services:
 - Transport of goods by road directly from the place of removal or from any container freight station or inland container depot to the port or airport.
 - 'Business Auxiliary Services' provided by foreign commission agents. The exemption limit in respect of services provided by foreign commission agents has been restricted to 1% of the FOB value of exports.

The above exemption is subject to fulfilment of certain conditions including filing of half-yearly return along with specified documents.

- A simplified refund mechanism for exporters of goods
 - List of eligible services for refund of service tax now amended to include terminal handling charges
 - Refund claim to be filed within one year from the date of export of goods.
 - Specified conditions to be fulfilled in respect of all services on which refund is to be claimed.
 - Refund to be filed on certification basis; self certification in case the value of refund is upto 0.25% of FOB value of exports and certification by Chartered Accountant in case the value of refund exceeds this amount.
 - Refund to be granted within one month from the receipt of claim without any pre-audits irrespective of the amount of the claim, subject to certain conditions.

The above changes will be effective from 7 July 2009.

Composition scheme under the category of Works Contract Services

- The meaning of the term 'gross amount charged' under the Works Contract (Composition Scheme for Payment of Service Tax) Rules, 2007 has been expanded to include value of all goods used in or in relation to the contract whether supplied free of cost or for consideration under any other contract excluding VAT or sales tax paid on goods and cost of machinery and tools used in the contract except hire charges. The option can be claimed only in cases where the declared value of works contract is not less than gross amount charged for such works contract.

The above change will be effective from 7 July 2009.

Changes in CENVAT Credit Rules, 2004 relevant to service providers

- Service providers providing both taxable and exempted services who do not maintain separate records, will now need to pay an amount equal to 6% of total value of exempted services instead of 8% prevailing earlier.
- Service providers need to reverse the CENVAT credit taken on inputs or capital goods which have been written off before being put to use.

These changes will be effective from 7 July 2009.

Policy Proposals

The following are the other significant policies announced by the Finance Minister.

Infrastructure

- IIFCL, in consultation with banks, to evolve a 'takeout financing' scheme to facilitate incremental lending to the infrastructure sector.
- IIFCL will refinance 60% of commercial bank loans for PPP projects in critical sectors over the next fifteen to eighteen months.

Education

- One Central University to be established in each uncovered State.
- Scheme to be introduced to provide full interest subsidy on loan from scheduled banks to students from economically weaker sections pursuing any of the approved courses of study during the period of moratorium.

Agriculture

- A target of Rs. 325,000 crore for agriculture credit set for the coming year.
- The scheme of debt waiver and relief for small and marginal farmers extended with the following highlights:
 - Interest subvention scheme for short term crop loans to farmers for loans upto Rs. 300,000 at interest rate of 7% per annum to continue;
 - Additional subvention of 1% to farmers who repay on schedule;
 - Time limit for payment of overdue loan under the Agricultural Debt Waiver and Debt Relief Scheme extended from 30 June 2009 to 31 December 2009;
- Fertilizer subsidy will move towards a nutrient base subsidy regime instead of the current product pricing regime and in due course move to a system of direct transfer of subsidy to farmers.

Export Promotion

- Interest subvention of 2% on pre-shipment credit for the seven specified sectors to be extended beyond the current deadline of 30 September 2009 to 31 March 2010.
- A special fund of Rs. 4,000 crore to be provided out of RIDF to SIDBI for incentivising Banks and State Finance Corporations to lend to MSEs by refinancing 50% of incremental lending to MSEs during the current financial year.

Other Flagship Programmes

- The draft Food Security Bill will soon be hosted on the Website of the Department of Food and Public Distribution for public debate and consultations.
- Pradhan Mantri Adarsh Gram Yojana will be launched for the integrated development of 1000 villages with an allocation of Rs. 100 crore.
- At least 50% of rural women to be enrolled as members of self help groups over the next five years and linked to banks.
- New project to be launched for modernisation of Employment Exchanges by developing a national Web portal containing data on availability of skilled persons and requirements of skilled persons by the industry.
- One handloom mega cluster each to be added in West Bengal and Tamil Nadu; powerloom mega cluster to be added in Rajasthan and new mega clusters for Carpets to be added in Srinagar and Mirzapur.
- UIDAI will set up an online database with identity and biometric details of Indian residents and provide enrolment and verification services. First set of unique identity numbers will be rolled out in twelve to eighteen months.
- Necessary allocation to be made for the eight national missions launched under the National Action Plan on Climate Change.

Other Policy Proposals

- An expert group to be set up to advise on a viable and sustainable system of pricing petroleum products.
- Public sector enterprises such as banks and insurance companies will remain in the public sector.
- The Swarna Jayanti Gram Swarozgar Yojna restructured as the 'National Rural Livelihood Mission' wherein interest subsidy will be provided to poor households for loans upto Rs. 100,000 from banks, in addition to capital subsidy.
- All services under Integrated Child Development Services to be extended to every child under the age of six by March 2012.

Glossary

ADRM	–	Alternative Dispute Resolution Mechanism
ALP	–	Arm's Length Price
AM	–	Arithmetic Mean
AO	–	Assessing Officer
AOP	–	Association of Persons
BCD	–	Basic Custom Duty
BOI	–	Body of Individuals
BSE	–	Bombay Stock Exchange
CBDT	–	Central Board of Direct Taxes
CENVAT	–	Central Value Added Tax
CIT	–	Commissioner of Income Tax
CTT	–	Commodities Transaction Tax
CVD	–	Countervailing Duty
DDT	–	Dividend Distribution Tax
DFIA	–	Duty Free Import Authorisation
DIN	–	Document Identification Number
DRP	–	Dispute Resolution Panel
DTA	–	Domestic Tariff Area
ESOP	–	Employee Stock Option Plan
FBT	–	Fringe Benefit Tax
FDI	–	Foreign Direct Investment
FII	–	Foreign Institutional Investor
FM	–	Finance Minister
FOB	–	Free on Board
GDP	–	Gross Domestic Product
GST	–	Goods and Services Tax
HUF	–	Hindu Undivided Family
IIFCL	–	India Infrastructure Finance Company Limited
IT	–	Information Technology
ITA	–	Income Tax Act
ITAT	–	Income Tax Appellate Tribunal
ITES	–	Information Technology Enabled Services
LCD	–	Liquid Crystal Display
LLP	–	Limited Liability Partnership
MAT	–	Minimum Alternate Tax
MNC	–	Multinational Company
MSE	–	Micro and Small Enterprises
NELP	–	New Exploration Licensing Policy
NHAI	–	National Highways Authority of India
NREGA	–	National Rural Employment Guarantee Act

NSE	–	National Stock Exchange
PAN	–	Permanent Account Number
PPP	–	Public Private Partnership
RBI	–	Reserve Bank of India
RIDF	–	Rural Infrastructure Development Fund
RSP	–	Retail Sale Price
SAD	–	Special Additional Duty
SEZ	–	Special Economic Zone
SIDBI	–	Small Industries Development Bank of India
SLBC	–	State Level Bankers' Committee
STP	–	Software Technology Park
TDS	–	Tax Deducted at Source
UIDAI	–	Unique Identification Authority of India
VAT	–	Value Added Tax
WDV	–	Written Down Value

Notes

Notes

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