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The Finance Minister presented the Union Budget before the Parliament on 6th July, 2009 under the dark shadow of recessionary clouds that have so ominously gathered over the global economic landscape in recent months. The Indian economy itself has stayed reasonably strong over the other world economies. However, with the Indian economy globalizing rapidly, it can no longer remain totally immune to the cyclicality of the world economy. The slowing down of the American economy and the upheavals in the global financial markets will need to be closely monitored.

As presented by the economic survey, Indian economy has recorded an economic growth of 6.7% during the financial year 2008-09; Per capita GDP grew by an estimated 4.6% in 2008-09; this represents a substantial slowdown from the average growth of 7.3% per annum achieved during the previous 5 years. The year has seen growth slowing across most of the sectors such as manufacturing and agriculture; service sector continues to power GDP expansion.

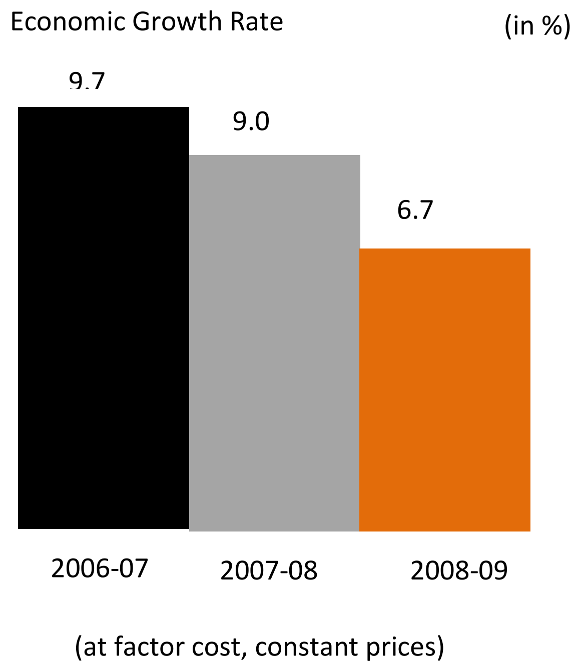
Nevertheless the survey believes that the slightly lower growth rate of 2008-09 cannot be seen as a sign of a shift of the economy to a lower growth trend; however it does conclude that in the current environment the new challenge will be to sustain growth at the high levels seen in the last 5 years.

The United Progressive Alliance government had a huge task of expectation before them to maintain the growth, to encourage FDI, to simplify taxes and tax measures, speed up public sector undertaking disinvestment, guarantee maximum possible security for the people at large etc., the finance minister had tried to reach all the expectations and in the process of huge allocation of funds the Budget has crossed Rs. 10 lakh crores. This is more than 35% increase as compared to the budget estimates for 2008-09. Substantial share has been given to the welfare schemes providing social benefits to the common man. The increase in the budget expense is not well supported by the tax collections, which remained neutral. The focus was largely on the common man leaving corporate entities nothing much to cheer as the benefit on removal of FBT has been off set by cash outflows due to increase in MAT rates.

Unless otherwise specified the amendments to the direct taxes will come into force for the assessment year 2010-11 and all the indirect & service tax amendments will come into force with effect from the date of such notification after the enactment of the Bill.

AN OUTLOOK OF INDIAN ECONOMY

Indian economy has recorded an economic growth of 6.7% during the financial year 2008-09. This represents a decline of 2.1% from the average growth rate of 8.8% in the previous five years (2003-04 to 2007-08). Per capita GDP growth, that broadly reflects the improvement in the income of the average person, grew by an estimated 4.6% in 2008-09. This represents a substantial slowdown from the average growth of 7.3% per annum during the previous five years.



While the year began on a reasonably optimistic note, sentiment was completely reversed as the year drew to a close. In the first two quarters of 2008- 09, the growth in GDP was 7.8 and 7.7% respectively. The growth fell to 5.8% in the third and in the fourth quarters of 2008-09.

Though the growth of the industrial sector started to slowdown in the first half of 2007-08, the overall growth during the year remained as high as 8.5%. The industrial sector witnessed a sharp slowdown during 2008-09 as a consequence of successive shocks, the most important being the knock-on effects of the global financial crisis. The pace of slowdown accelerated in the second half of 2008-09 with the sudden worsening of the international financial situation and the global economic outlook. The year 2008-09 thus closed with the industrial growth at only 2.4 percent as per the Index of Industrial Production (IIP).

Industrial Growth by Sectors

The performance of the industrial sector at the aggregate level needs to be viewed in light of the contribution made by a diverse range of products. In terms of the use-based categories, it is seen that the slowdown perhaps started with consumer durables even in the second quarter of 2007-08 but the overall growth in IIP was well supported by other use-based categories including intermediates and even consumer non-durables, albeit at lower rates of growth.

Growth in production of capital goods continued at a robust pace reflecting perhaps the high investment rates. However, with the decline in the growth of intermediate goods from Q1 of 2008-09, the growth in overall IIP showed a sharp dip that got accentuated in Q3 of 2008-09 when the remaining groups also showed a sharp drop in growth.

The growth in consumer non-durables has been boosted by the high growth in beverages and tobacco products, while the other major components—food products, chemicals and leather products showed sluggish/negative growth. The growth in basic goods is closely aligned to that in electricity and mining that constitute substantial part of the weight of basic goods; the most of the rest are chemical products, rubber, plastic and petroleum products and steel. Intermediate goods are a more dispersed group dominated by chemical, textile, rubber, metal product intermediates, most of which experienced negative growth in 2008-09. While the high growth of machinery and equipments bolstered the growth of capital goods, the poor to average performance of transport equipments dampened the overall growth of capital goods.

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 production of wheat was also marginally lower than in 2007-08. Though the economy is strong and the industry wise decline in the growth can be observed from below mentioned table.

Quarterly estimates of GDP 2007-08 and 2008-09
(percentage change - y-o-y)

Sectors(s)	2007-08					2008-09			
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4
Agricultural, Forest & Fishing	4.3	3.9	8.1	2.2		3.0	2.7	-0.8	2.7
Mining & quarrying	0.1	3.8	4.2	4.7		4.6	3.7	4.9	1.6
Manufacturing	10.0	8.2	8.6	6.3		5.5	5.1	0.9	-1.4
Electricity, gas & water supply	6.9	5.9	3.8	4.6		2.7	3.8	3.5	3.6
Construction	11.0	13.4	9.7	6.9		8.4	9.6	4.2	6.8
Trade, hotels, transport & Communication	13.1	10.9	11.7	13.8		13.0	12.1	5.9	6.3
Financing, insurance, real estate & business Services	12.6	12.4	11.9	10.3		6.9	6.4	8.3	9.5
Community, social & personal services	4.5	7.1	5.5	9.5		8.2	9.0	22.5	12.5
GDP at factor cost (total 1 to 8)	9.2	9.0	9.3	8.6		7.8	7.7	5.8	5.8

Source : Central Statistical Organization.

The third quarter witnessed a sharp fall in the growth of manufacturing, construction, trade, hotels and restaurants. Agriculture growth also turned negative adding a further dampener. On the other hand; community, social and personal services showed a large increase from the second quarter, mainly due to a step up in government expenditure. The last quarter saw an added deterioration in manufacturing due to the deepening impact of the global crisis and a slowdown in domestic demand. Sector wise growth rates are given in the following table –

Rate of growth at factor cost at 1999-2000 prices (%)						
	03-04	04-05	05-06	06-07	07-08	08-09
Agriculture, forestry & fishing	10.0	0.0	5.8	4.0	4.9	1.6
Mining & quarrying	3.1	8.2	4.9	8.8	3.3	3.6
Manufacturing	6.6	8.7	9.1	11.8	8.2	2.4
Electricity, gas & water supply	4.8	7.9	5.1	5.3	5.3	3.4
Construction	12.0	16.1	16.2	11.8	10.1	7.2
Trade, hotels & restaurants	10.1	7.7	10.3	10.4	10.1	*
Transport, storage & communication	15.3	15.6	14.9	16.3	15.5	*
Financing, insurance, real estate &business services	5.6	8.7	11.4	13.8	11.7	7.8
Community, social & personal services	5.4	6.8	7.1	5.7	6.8	13.1
Total GDP at factor cost	8.5	7.5	9.5	9.7	9.0	6.7

Source : Central Statistical Organization.

There is also sharp dip in the growth of private consumption from 8.5% in 2007-08 to 2.9% in 2008-09 which is attributable to uncertainty in the labor market and the negative wealth effect of declining security/property prices and spending. Besides, the slow down in private consumption has come along with the growth in fixed capital formation falling from 12.9% to 8.2%. Yet the slump in the aggregate demand has been partially offset by government consumption.

The economy continues to face wide-ranging challenges— from improving its social and physical infrastructure to enhancing the productivity in agriculture and industry and addressing environmental concerns. Meeting these challenges will be critical for improving India's social and human development indicators and the quality of life. At the same time, the Indian economy has shock absorbers that will facilitate early revival of growth. First, the banks are financially sound and well capitalized. The foreign exchange reserves position remains comfortable and the external debt position has been within the comfort zone. The rate of inflation has since abated and provides a degree of comfort on the cost side for the production sectors. Agriculture and rural demand continue to be strong and agriculture production prospects are normal.

Despite the slowdown in growth, investment remained relatively buoyant, growing at a rate higher than that of GDP. The ratio of fixed investment to GDP consequently increased to 32.2% of GDP in 2008-09 from 31.6% in 2007-08. This reflects the resilience of Indian enterprise, in the face of a massive increase in global uncertainty and risk aversion and freezing of highly developed financial markets.

A noteworthy development during the year was a sharp rise in Wholesale Price Index (WPI) inflation followed by an equally sharp fall, with the WPI inflation falling to unprecedented level of close to 0% by March 2009. This was driven largely by the rapid rise and equally rapid fall in global commodity prices during January 2008 to March 2009. Global food prices also went through a similar cycle, but have not declined to the same extent. Though domestic food prices are partially delinked from global prices, these global developments affected domestic prices to some extent. Domestic food price inflation, as measured by the WPI food sub-index, though declining, remains much higher than overall inflation.

WPI index rose and fell but the food sub index is still higher. This affects the common man the most.

During the last two years, the Indian economy has been buffeted by three major challenges originating in its external sector. First, a surge in capital inflows, which reached a crescendo in the last quarter of 2007-08. Second, an inflationary explosion in global commodity prices, which began even before the first challenge had ebbed, that hit India with great force in the middle of 2008. The biggest of all, the global financial meltdown and collapse of international trade, hit the world with severity. Despite some difficult choices and ambiguities, arising from the rapid changes in the global situation, the short-term challenges arising from these global shocks have been met. Each of these, however, has implications for the medium term, that requires a considered and integrated response if our objective of sustained high growth is to be realized. An analysis of the impact of these shocks brings to therefore the importance of pursuing reforms, including in the financial sector, to make the economy more competitive and the economic regulatory and oversight system more efficient and sensitive to new developments.

Economic survey 2008-09 has brought in a good number of suggestions around tax reforms and developing various segments of the financial markets. These are given below as highlights.

- Unleash reforms – phase out cesses, surcharges and transaction taxes (such as commodities transaction tax, securities transaction tax and Fringe Benefit Tax)
- Introduce new Income Tax Code that results in neutral corporate tax regime.
- Allow 49% FDI in defense and insurance; permit FDI in multi-format retail starting with food.
- Propose another round of fiscal stimulus including tax cuts and increase in expenditure.

- Decontrol petrol and diesel prices; end Government monopoly in railways, coal and nuclear energy.
- Lift all bans on future contracts to restore price discovery; decontrol sugar and fertiliser.
- Revitalise disinvestment programme to generate Rs 25,000 crore annually, list all PSUs and auction those beyond revival.
- Survey indicates FRBM-II to get back to path of fiscal consolidation.
- Complete the process of selling 5-10% equity in identified profit-making non-'Navratna' PSUs.
- List all unlisted PSUs and sell a minimum 10% equity to public.
- Auction all loss-making PSUs that cannot be revived.
- In PSUs with zero networth, allow negative bidding in the form of debt write-off.
- Auction 3G spectrum.
- The auctioned spectrum must be freely tradable, with capital gains on spectrum to be taxed under the Income Tax Act.
- Rationalise Dividend Distribution Tax to ensure full single taxation of returns to capital in the hands of the receiver.
- Reform petroleum (LPG, Kerosene), fertiliser and food subsidies to reduce leakages and ensure targeting.
- Limit LPG subsidy to a maximum of 6-8 cylinders per annum per household.
- Phase out kerosene supply-subsidy by ensuring that every rural household has a solar cooker and solar lantern.
- Review Customs duty exemptions and move to a uniform duty structure to eliminate inverted duties.
- Implement GST from April 1, 2010.
- Rapid operationalization of UID Authority within three months.

As a result of the plan expenditure, fiscal deficit in 2008-09 shot up to over 6% from 2.7% in 2007-08.

Unlike the previous surveys, the latest one has refrained from any firm projections for the current fiscal. Instead, it has advanced a wide range of "around 7.0 +/- 0.75 percent" (meaning 6.25% to 7.75%) estimate of growth during the forthcoming part of the financial year.

One thing can definitely be said is that though not all of these measures can really be implemented in a hurry; the overall direction is that of gradually getting back to the path of fiscal prudence, moving away from subsidies and leakages and adopting greater market-pricing on a selective basis.

INTERIM BUDGET- AN OVERVIEW

The UPA government presented its farewell budget (Interim Budget) on 16th February, 2009. The markets were disappointed that the proposals were devoid of a stimulus package as there were no sops for the Indian taxpayers.

The growth in Asia's third-largest economy may slip to 7.1% from 9% or more during fiscal year 2009-10. There was a healthy 7.1% rate of GDP growth inspite of economic slowdown. The Finance Minister, has reconfirmed the various achievements and incentives extended by his government in the Interim Union Budget 2009-10. Agriculture, services, manufacturing, trade and construction sectors were declared as the major growth drivers.

Here are the key procurements of Interim Budget 2009-10:

- 7.1% rate of GDP growth in the current year makes India the second fastest growing economy in the world.
- The fiscal stimulus packages announced on December 7, 2008 & January 2, 2009 provides tax relief to boost demand and increase expenditure on public project.
- During 2007-08, the country received a record US$ 32.4 billion of FDI. In spite of global financial crisis, inward FDI flows during April-November 2008 were US$ 23.3 billion, representing a growth of 45% over the same period in 2007. To provide an impetus to foreign investment in India, guidelines are being further simplified and made homogenous and consistent across various sectors.
- Government approved 37 infrastructure projects worth Rs. 70,000 crores from August, 2008 to January, 2009.
- India Infrastructure Finance Company Ltd. ('IIFCL') has been mandated refinance up to 60% of commercial bank loans for Public Private Partnership ('PPP') infrastructure projects involving total investment of Rs. 100,000 crores over the next eighteen months by raising funds from the market.
- Interest subvention of 2% on pre and post shipment credit for certain employment oriented sectors.
- Expenditure approximating Rs. 953,231 crores is proposed for 2009-10.
- Tax to GDP ratio increased from 9.2% 2003-04 to 12.5% 2007-08.
- Total expenditure for fiscal 2009-10 estimated at Rs.953,231 crore. Plan expenditure estimated at Rs. 285,149 crore and Non-Plan expenditure at Rs. 668,082 crore.
- Infrastructure spending to be 9% of GDP by 2014.
- Several initiatives were announced though fiscal benefits were deferred for being taken up by the new government. The thrust of allocations seems to largely stimulate the economy.

The budget highlighted the impact of global inflation, economic recession and financial slowdown on the Indian economy as follows:

- No changes have been proposed in the interim budget in respect of taxation rates.
- More power and enforcements to regulatory bodies associated with securities markets.
- Substantial reforms for women and children.
- Reforms and schemes for farmers.
- Customs duty rates steadily reduced by 2%.
- Economy grew at 9% for straight 3rd year.

DIRECT TAXES

Corporate Taxation

- No change in the tax rates and surcharge.
- MAT on book profits increased from 10% to 15%.
- The period allowed for carry forward of tax credit under MAT to be extended from seven years to ten years.
- Roll back of Fringe Benefit Tax.
- Sun-set clauses for deduction in respect of export profits under sections 10A and 10B of the ITA extended by one more year i.e., upto AY 2010-11.
- Certain businesses to be incentivized by providing investment linked tax exemptions.

Wealth Tax

- Basic exemption limit under Wealth Tax Act increased from Rs. 15 lakh to Rs. 30 lakh with effect from AY 2010-11.

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 on individuals phased out.
- Additional deduction allowed under section 80DD.
- Deduction under section 80E extended to cover all fields of study, including vocational studies pursued after completion of schooling.
- Self employed persons to be enabled to participate in the New Pension System and to avail the tax benefits available thereto.

Taxation on International Transactions

- No change in rate of tax for foreign companies and firms.
- Central Government has been empowered to enter into an agreement with the government of any specified territory outside India in addition to foreign countries u/s 90 of the Income Tax Act, 1961.

- Sec. 92C amended to compute arm's length price in cases where more than one price is determined.
- Sec. 92CB introduced to empower board to make 'safe harbor rules'.

Other Amendments

- To mitigate the practical difficulties faced by charitable organizations, anonymous donations received by charitable organizations to the extent of 5% of their total income or a sum of Rs. 100,000, whichever is higher, not to be taxed.
- A 100% deduction for contributions to approved electoral trusts.
- CTT to be abolished.
- Amendment to the definition of 'charitable purpose'.
- New SARAL II form to simplify tax return filing process.
- New Direct Tax Code within 45 days.
- No education cess on TDS and TCS except TDS on salaries.
- AAR under Customs and Central Excise Legislations would be merged with AAR under Income Tax Act.
- Taxation of Limited Liability Partnership (LLP).
- Tax benefit for New Pension Scheme.
- Failure to furnish PAN to deductor attracts tax withholding at higher rates.
- Upward revision of existing limits of the remuneration to partners.
- Unique Identification project to roll out in 12-18 months.

INDIRECT TAXES

Customs Duty

- Peak rate of Customs duty continues at 10%.
- Customs duty on LCD panels for manufacture of LCD televisions to be reduced from 10% to 5%.
- Customs duty on bio-diesel to be reduced from 7.5% to 2.5%.

- Customs duty on cotton waste, wool waste to be reduced from 15% to 10%.
- Full exemption from 4% special CVD on parts for manufacture of mobile phones and accessories to be reintroduced for one year.
- On packaged or canned software, CVD exemption to be provided on the portion of the value which represents the consideration for transfer of the right to use such software.

Excise Duty

- Basic excise duty rate continue @ 8%.
- Specific component of excise duty applicable to large cars/utility vehicles of engine capacity 2000cc and above to be reduced from Rs. 20,000/- per vehicle to Rs. 15,000 per vehicle.
- Excise duty on branded articles of jewellery to be reduced from 2% to nil.
- On packaged or canned software, excise duty exemption to be provided on the portion of the value which represents the consideration for transfer of the right to use such software.

Service Tax

- Service tax rate continue @ 10%.

New Services Introduced

- Service provided in relation to transport of goods by rail including transportation by government rail.
- Service provided in relation to transport of coastal cargo; and goods through inland water including national waterway.
- Advice, consultancy or technical assistance provided in the field of law (this tax would not be applicable in case the service provider or service receiver is an individual).
- Cosmetic and plastic surgery service.

CST

- No change in rate of CST, the existing rate of 2% continues.

GST

- To be introduced from 1-4-2010.

BUDGET FINANCIALS AT A GLANCE

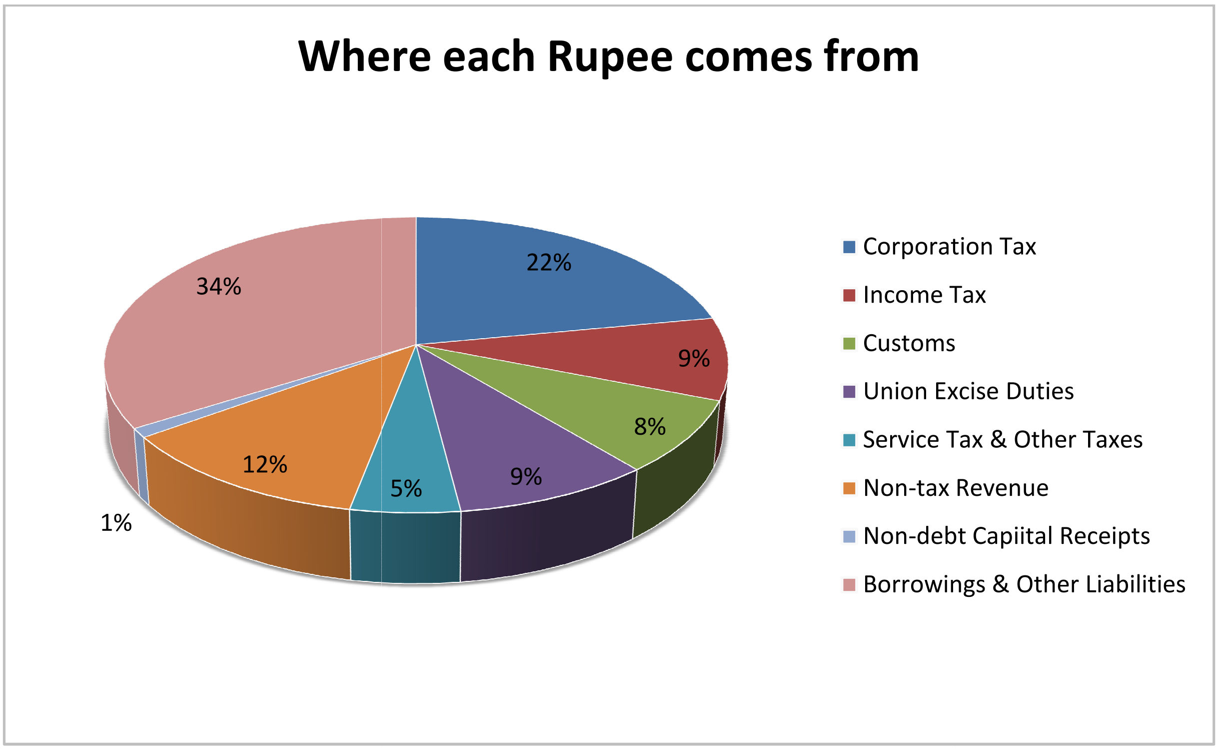
(Rs. Crore)

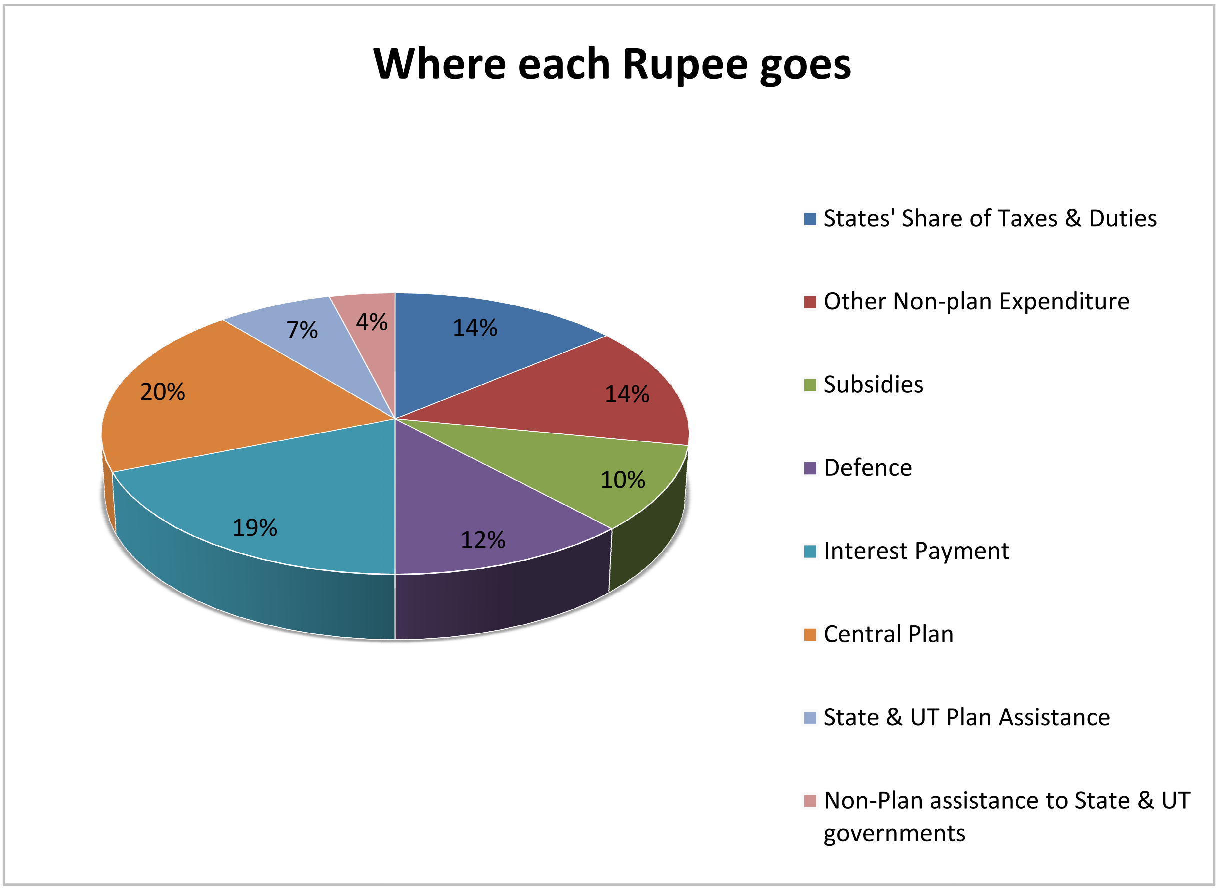
	Particulars		2007-2008 Actuals	2008-2009 Budget Estimates	2008-2009 Revised Estimates	2009-2010 Budget Estimates
1	Revenue Receipts (2+3)		541864	602935	562173	614497
	2	Tax Revenue (Net to Centre)	439547	507150	465970	474218
	3	Non-tax Revenue	102317	95785	96203	140279
4	Capital Receipts (5+6+7) #		170807	147949	338780	406341
	5	Recoveries of Loans	5100	4497	9698	4225
	6	Other Receipts	38795	10165	2567	1120
	7	Borrowings and other Liabilities *	126912	133287	326515	400996
8	Total Receipts (1+4) #		712671	750884	900953	1020838
9	Non-plan Expenditure		507589	507498	617996	695689
	10	On Revenue Account of which,	420861	448352	561790	618834
	11	Interest Payments	171030	190807	192694	225511
	12	On Capital Account	86728	59146	56206	76855
13	Plan Expenditure		205082	243386	282957	325149
	14	On Revenue Account	173572	209767	241656	278398
	15	On Capital Account	31510	33619	41301	46751
16	Total Expenditure (9+13)		712671	750884	900953	1020838
	17	Revenue Expenditure (10+14)	594433	658119	803446	897232
	18	Capital Expenditure (12+15)	118238	92765	97507	123606
19	Revenue Deficit (17-1)		52569	55184	241273	282735
	As a % of GDP		-1.1	-1	-4.4	-4.8
20	Fiscal Deficit {16-(1+5+6)}		126912	133287	326515	400996
	As a % of GDP		-2.7	-2.5	-6	-6.8
21	Primary Deficit (20-11)		-44118	-57520	133821	175485
	As a % of GDP		-0.9	-1.1	-2.5	-3

Does not include receipts in respect of Market Stabilization Scheme.

* Includes draw-down of Cash Balance.

Note: GDP for BE 2009-2010 has been projected at Rs. 5,856,569 crore assuming 10.05% growth over the revised estimates of 2008-2009 (Rs. 5,321,753 crore) released by CSO. Deficit indicators in RE 2008-09 have been retained on the basis of advance estimate for 2008-09 (Rs. 5,426,277 crore).


Where each Rupee comes from
22%
9%
8%
9%
5%
12%
1%
34%
Corporation Tax
Income Tax
Customs
Union Excise Duties
Service Tax & Other Taxes
Non-tax Revenue
Non-debt Capiital Receipts
Borrowings & Other Liabilities


Where each Rupee goes
14%
14%
10%
12%
19%
20%
7%
4%
States' Share of Taxes & Duties
Other Non-plan Expenditure
Subsidies
Defence
Interest Payment
Central Plan
State & UT Plan Assistance
Non-Plan assistance to State & UT governments

BUDGET 2009- PROPOSALS

DIRECT TAXATION

Corporate taxation

Rate of Tax	No changes in tax rates & surcharge.
MAT	While computing book profits for the purposes of MAT, any provision for diminution in the value of any asset will also be included in the computation of book profit. This amendment will take effect retrospectively from 1st April, 1998. Also, the rate of MAT is proposed to increase from existing 10% to 15%. However, as a grant of relief carry forward of MAT credit is extended from seven years to ten years. This change will impact majorly companies falling u/s 80IA and 80IB.
FBT	Corporate India is a happy lot today, their irritant for the last few years, the FBT finally stands abolished. The tax, which added reams of paperwork to corporates but only Rs. 10,000 crore or 3% of total direct tax collections to the government's kitty has been repealed by finance minister.
Sec. 10A & 10B	Deduction in respect of export profits is available in respect of units in FTZ u/s 10A and for EOU u/s 10B of the ITA. The deduction under these sections were not available beyond FY 2009-2010. However in order to tide over the slowdown in exports, it is proposed to extend the sun-set clauses for these tax holidays by one more year i.e. upto FY 2010-11.
Presumptive Income	To facilitate the business operations of all small taxpayers and reduce their compliance burden the scope of presumptive taxation is expanded to all small businesses with a gross turnover or gross receipts of Rs. 40 lakh. The presumptive rate of income is prescribed at 8% of gross turnover or gross receipts. An assessee opting for the above scheme shall be exempted from payment of advance tax related to such business under the current provisions of Income Tax Act. This new scheme will come into effect from the FY 2010-11. Section 44AF is proposed to be made inoperative from AY 2011-12.

The limit u/s 44 AE is increased from Rs. 3500/- to Rs.5000/- for heavy goods vehicles and for others from Rs.3150/- to Rs.4500 per month or part of a month.

Section 35

In order to incentivize the corporate sector to undertake R&D work, the scope of the current provision of weighted deduction of 150% on expenditure incurred on in-house R&D is extended to all manufacturing businesses except for a small negative list.

Investment Linked Incentives

Certain businesses are incentivized by providing investment linked tax exemptions. The business to be proposed are setting up and operating 'cold chain', warehousing facilities for storing agricultural produce and the business of laying and operating cross country natural gas or crude or petroleum oil pipeline network.

Under this scheme, all capital expenditure other than expenditure on land, goodwill and financial instruments are to be fully allowed as deduction.

Capital Gain

The value assessed or assessable by any Stamp Duty Authority deemed to be the full value of consideration for computing capital gains on transfer of land and or buildings.

Personal Taxation

Rate of Tax

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

Tax Rates for Individuals			
Income Slab			Rate of Tax
0	-	160000	Nil
160001	-	300000	10%
300001	-	500000	20%
500001	and	above	30%

Notes:

- In respect of women residents below the age of 65 years, the basic exemption limit is Rs. 190,000.
- In respect of senior citizens, resident in India, the basic exemption limit is Rs. 240,000.
- Surcharge, no more applicable to individuals.
- 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).

Removal of Surcharge	In the past, surcharge on direct taxes have generally been levied to meet the revenue needs arising from natural calamities. The Government has set up the National Calamity Contingency Fund to build up resources to meet emergency situations. As a corollary, surcharge on direct taxes should be removed. Therefore in the first instance, surcharge is no more applicable to all non-corporate tax payers.
Deduction for Maintenance of Disabled Dependent	Deduction under section 80DD in respect of maintenance, including medical treatment, of a dependent who is a person with severe disability being raised from the present limit of Rs. 75,000 to Rs. 100,000.
Deduction for Repayment of Interest on Education Loan	Deduction under section 80E of the ITA allowed in respect of interest on loans taken for pursuing higher education in specified fields of study to be extended covering all fields of study, including vocational studies pursued after completion of schooling.

Taxation on International Transactions

Rate of Tax	No change in rate of tax for foreign companies and firms.
Central Government's Power to Enter into Agreement with Any Specified Territory	The powers of the Central Government to enter into an agreement has been extended to any specified territory outside India in addition to foreign countries outside India and for granting relief in respect of incomes on which tax has been paid both the contracting states. This amendment will take effect from 1st Oct' 09.

Determination of Arms Length Price

Where more than one price is determined by the most appropriate methods, the ALP shall be taken to be the arithmetical mean of such prices as against the present choice of the assessee. However, if the arithmetical mean so determined is within 5% of actual transfer price, then the transfer price shall be treated as ALP and no adjustment is required to be made. This amendment will take effect from 1st October, 2009.

Safe Harbour Rules Introduced

The present dispute resolution mechanism is time consuming and finality in high demand cases is attained only after a long drawn litigation. Flow of foreign investment is extremely sensitive to prolonged uncertainty in tax related matters. It is proposed to amend the Income Tax Act to provide an alternate dispute resolution mechanism to resolve despites on fast track basis.

Other Amendments

- Scope of definition of "charitable purpose" under the act extended:

  The amended definition includes: Preservation of environment, monuments or places or objects of artistic or historic interest.

- NPS trust shall be exempt from tax/DDT, purchase & sale of equity and derivatives by NPS trust shall be exempt from STT.
- Structural changes in Direct Taxes to be pursued by releasing new Direct Taxes Code within the next 45 days.
- The distinction between the professional and other firms for the purpose of calculation of remuneration has been taken out. Further the existing maximum permissible limit of remuneration paid by firm to working partners is proposed to be increased as follows:

Professional/ Nonprofessional Firm	Maximum Remuneration
Book profits upto Rs. 300,000	Rs. 150,000 or 90 % of book profit whichever is more
On balance of book profits	60 % of book profit

INDIRECT TAXATION

Customs Duty

Rate of Duty

Peak rate of customs duty continues at 10%. However, major ad valorem rates of 5% & 7.5% have also been retained.

Reduction in Rate

Basic customs duty has been reduced on following items:

- Customs duty on LCD panels for manufacture of LCD televisions to be reduced from 10% to 5%.
- Customs duty on un-worked corals to be reduced from 5% to Nil.
- Customs duty on 10 specified life saving drugs/vaccine and their bulk drugs to be reduced from 10% to 5% with Nil CVD.
- Customs duty on specified heart devices, namely artificial heart and PDA/ASD occlusion device, to be reduced from 7.5% to 5% with Nil CVD (by way of excise duty exemption).
- Customs duty on permanent magnets for PM synchronous generator above 500 KW used in wind operated electricity generators, to be reduced from 7.5% to 5%.
- Customs duty on bio-diesel to be reduced from 7.5% to 2.5%.
- Customs duty on 'mechanical harvester' for coffee plantation to be reduced from 7.5% to 5%. CVD on such harvesters has also been reduced from 8% to nil, by way of excise duty exemption.
- Customs duty on cotton waste, wool waste to be reduced from 15% to 10%.
- Customs duty on rock phosphate to be reduced from 5% to 2%.

Re-levy of Customs Duty

- Customs duty of 5% to be imposed on Set Top Box for television broadcasting.
- Concessional customs duty of 5% on specified machinery for tea, coffee and rubber plantations to be reintroduced for one year, up to 06.07.2010.
- CVD exemption on Aerial Passenger Ropeway Projects to be withdrawn. Such projects will now attract applicable CVD.

Exemption from Customs Duty

- Full exemption from 4% special CVD on parts for manufacture of mobile phones and accessories to be reintroduced for one year.
- On packaged or canned software, CVD exemption to be provided on the portion of the value which represents the consideration for transfer of the right to use such software, subject to specified conditions.
- Customs duty on inflatable rafts, snow-skis, water skis, surf-boats, sail-boards and other water sports equipment to be fully exempted.
- Materials and equipment imported by manufacturer-exporters of leather goods, textile products and footwear industry which are fully exempt from customs duty, subject to specified conditions, to be expanded.

Increase in Customs Duty Rate

- Customs duty on serially numbered gold bars (other than tola bars) and gold coins to be increased from Rs. 100 per 10 grams to Rs. 200 per 10 gram. Customs duty on other forms of gold to be increased from Rs. 250 per 10 gram to Rs. 500 per 10 gram.
- Customs duty on silver to be increased from Rs. 500 per Kg. to Rs. 1000 per Kg. These increases also to be applicable when gold and silver (including ornaments) are imported as personal baggage.

Other Amendments

The major changes in the Customs Act and CTA are discussed below:

- Section 26A has been inserted in the Customs Act to provide for refund of import duty paid on imported goods if they are found to be defective or not conforming to the specifications agreed upon between the importer and the seller, subject to certain conditions.
- Section 28F of the Customs Act has been amended to provide that the central government may by notification authorize the authority for advance ruling constituted under Section 245-O of the ITA to act as an authority for the purposes of customs, central excise and service tax subject to some modification regarding the constitution of the authority. The change will come into effect from a date to be notified.
- Sections 130 and 130A of the Customs Act have been amended to empower the high court to condone the delay in filing of appeals/applications/memorandum of cross objections where it is satisfied that there is sufficient cause for delay.

Excise Duty

Rate of Duty

Basic excise duty rate is continued to be @ 8%.

Excise duty rate on items currently attracting 4% to be raised to 8% with following major exceptions on which 4% rate is retained:

- Specified food items including biscuits, sharbats, cakes and pastries.
- Drugs and pharmaceutical products.
- 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.

Reduction in Excise Duty Rate

- Specific component of excise duty applicable to large cars/utility vehicles of engine capacity 2000 cc and above to be reduced from Rs. 20,000 per vehicle to Rs. 15,000 per vehicle.
- Excise duty on petrol driven trucks/lorries to be reduced from 20% to 8%. Excise duty on chassis of such trucks/lorries to be reduced from '20% + Rs. 10000' to '8% + Rs. 10000'.
- Excise duty on special boiling point spirits to be reduced to 14%.
- Excise duty on naphtha to be reduced to 14%.
- The ad valorem component of excise duty of 6% on petrol intended for sale with a brand name to be converted into a specific rate. Consequently, such petrol would now attract total excise duty of Rs. 14.50 per litre instead of '6% + Rs. 13 per litre'.
- The ad valorem component of excise duty of 6% on diesel intended for sale with a brand name to be converted into a specific rate. Consequently, such diesel would now attract total excise duty of Rs. 4.75 per litre instead of '6% + Rs. 3.25 per litre'.
- The scheme of optional excise duty of 4% for pure cotton to be restored.
- Excise duty on branded articles of jewellery to be reduced from 2% to Nil.

Exempt from Excise Duty

- Duty paid high speed diesel blended with up to 20% bio-diesel to be fully exempted from excise duties.
- Full exemption from excise duty to be provided on goods of Chapter 68 of CET manufactured at the site of construction for use in construction work at such site.
- Excise duty exemption on 'recorded smart cards' and 'recorded proximity cards and tags' to be made optional.

- EVA compound manufactured on job work for further use in manufacture of footwear to be exempted from excise duty.
- Benefit of SSI exemption scheme to be extended to printed laminated rolls bearing the brand name of others by excluding this item from the purview of the brand name restriction.
- On packaged or canned software, excise duty exemption to be provided on the portion of the value which represents the consideration for transfer of the right to use such software, subject to specified conditions.

Increase in Excise Duty Rate

- Excise duty on manmade fibre and yarn, PTA and DMT, polyester chips, acrylonitrile to be increased from 4% to 8%.
- Excise duty for man-made and natural fibres other than pure cotton, beyond the fibre and yarn stage, to be increased from 4% to 8% under the existing optional scheme.

Other Amendments

The highlights of the legislative amendments in the central excise act and the first schedule to the CET Act are as under:

- In respect of 'betel nut product known as supari', it is being prescribed that the process of adding or mixing certain ingredients to betel nut in any form would be a process amounting to manufacture.
- Three notifications viz. notification Nos.33/1997-Central Excise [N.T.], dated 01.08.1997, 44/1997-Central Excise [N.T.], dated 30.08.1997 and 7/1998-Central Excise [N.T.], dated 10.03.1998 issued under the provisions of the compounded levy scheme for steel induction furnace units and re-rolling mills are being amended with retrospective effect so as to regularize fixation of rates of duty under these notifications.
- Rule (2) of Cenvat Credit Rules, 2004 has been amended to clarify that 'input' should not include cement, angles, channels, CTD/TMT bars etc. used for construction of shed, building or structure for support of capital goods.

Service Tax

Rate of Service Tax	Service tax rate is continues to be @ 10%.
New Services Included in the Purview of Service Tax	Service tax to be imposed on the following services: • Service provided in relation to transport of goods by rail including transportation by government rail. • Service provided in relation to transport of coastal cargo; and goods through inland water including national waterway. • Advice, consultancy or technical assistance provided in the field of law, however this tax would not be applicable in case the service provider or service receiver is an individual. • Cosmetic and plastic surgery service.
Exemption from Service Tax	• Exemption from service tax being provided to inter-state or intra-state transportation of passengers in a vehicle bearing 'Contract Carriage Permit' with specified conditions. • Exemption from service tax (leviable under Banking and other financial services or under foreign exchange broking service) being provided to inter-bank purchase and sale of foreign currency between scheduled banks. Two taxable services, namely, 'Transport of Goods through Road' and 'Commission Paid to Foreign Agents' to be exempted from the levy of service tax, if the exporter is liable to pay service tax on reverse charge basis. However, present cap of 10% on commission agency charges is retained. • Export promotion councils and the FIEO to be exempt from service tax on the membership and other fees collected by them till 31st March 2010.
Changes Contemplated in the Scope of Existing Taxable Services	The following alteration/modifications have been done in the existing taxable services. • Modification in BAS: It may be recalled that production or processing of goods for or on behalf of a client falls within the purview of this service. However, if any such activity amounts to manufacture within the meaning of Sec 2(f) of the central excise act, the

same is excluded from its purview.

- Stock-broker service:
  The sub-brokers have been excluded from the purview of service tax by making suitable amendment in the definition of stock-broker.
- IT Software Service:
  A correction has been carried out in the definition of the taxable service by replacing the word 'acquiring' by the word 'providing', considering the fact that it is the providing of 'right to use' and not the acquiring of 'right to use' is a taxable service. This amendment would have retrospective effect from 16.05.2008, when the service came in to effect.

CENVAT Credit Rules - Amendments

Rule 3(5B)	Rule 3(5B) of the CENVAT credit rules provide that, if value of any input or capital goods on which CENVAT credit has been taken, is written off fully or where provision to write off has been made in the books of account before being put to use, the 'manufacturer' shall pay an amount equivalent to the CENVAT credit taken on such item. Similar provision is presently not prescribed in case of taxable service provider. The said sub-rule is being amended to bring taxable service provider within the ambit of the said restriction. This provision would come into force immediately.
Amended Rule 6(3)	Amended rule 6(3) provides an option for a manufacturer of goods or a provider of taxable as well as exempt services, using common inputs or input services, but opting not to maintain separate accounts shall pay an amount of 5 % of value of exempted goods or 6% of value of exempted services. This provision would come into force immediately (refer notification No: 16/2009-CE (NT), dated 07.07.2009).
GST	Going be introduced from 1-4-2010.

SECTOR IMPACT ANALYSIS

Banking & Finance

- Credit growth fell to 17.3% year-on-year in 2008-09 due to the slowdown in retail advances and borrowing by corporates.
- Credit growth is expected to remain at 16-18% in 2009-10 on account of weak business confidence and consumer sentiment coupled with rising credit risk concerns of banks.
- Although deposit rates are expected to fall, deposits are estimated to grow at 17-19% in 2009-10 compared with 19.8% in 2008-09 due to lack of alternative investment avenues.
- The falling pace of high-cost deposits vis à vis repricing of loans and the expected rise in gross non-performing assets to 3.9% in 2009-10 from 2.7% in '08-09, would determine margins in the near future.

Impact on Sector

- The overall impact is expected to be neutral.
- The emphasis is on priority sector lending. The proposed Refinance schemes totaling to Rs. 6,000 crore will improve credit flow to micro and small enterprises and rural housing.
- For 2009-10, banks have been directed to lend Rs. 325,000 crore to the farm sector — a 13% rise over '08-09. Lowering of the targeted growth rate will give banks a breather to consolidate their origination systems.
- However, profitability may be impacted by interest subvention scheme, additional subvention of 1% and extension of bank loan waivers.

Infrastructure

- If there is any sector that can boast of walking away with most goodies from the Budget 2009-10, it is infrastructure. Be it the allocation for highways or irrigation programmes, rural development or accelerated power reforms, the increased infrastructure spending has been the key highlight of the Budget. Clearly, the sector is being viewed as the key driver of economic growth.

- Investment of about Rs. 600,000 crore is expected to flow into the sector between 2009-10 and 2013-14 for the development of roads, ports and airports, with roads making up nearly 80% share of the total funds.
- Private sector participation is expected to drive investment in road projects of National Highways Development Project (NHDP), airports and ports sectors.

Impact on Sector

- The overall impact is expected to be neutral.
- Implementation of NHDP is expected to remain slow due to policy issues despite a 23% increase in allocation.
- Although allocations under the Pradhan Mantri Gram Sadak Yojana have increased to 59%, to Rs. 12,000 crore, they are expected to be inadequate.

Information Technology

- IT and ITES export growth rates are expected to plummet due to the cut in IT spends in major developed economies and delay in decision-making cycles.
- Export revenue of IT services is expected to stay flat. The growth rate of ITeS is expected to decelerate to 7-8% in fiscal year 2009-10.

Impact on Sector

- The overal impact is expected to be marginally negative.
- The extension of the information technology tax exemption by a year to March 31, 2011, the scrapping of the fringe benefit tax and the removal of duty on packaged software, are favourable.
- However, the positive impact of extension is expected to be more than offset by an increase in MAT to 15%.
- Tier-II players would be relatively more impacted by an increase in the minimum alternative tax (MAT) rate compared with Tier-I players.

Power

- Demand is expected to grow approximately 7-8% over the medium term.
- Capacity additions of approximately 45 GW (giga watts) would result in a marginal reduction in the demand-supply deficit to 10% by the end of the Eleventh Plan.
- The generation segment has opened up significantly with the entry of private players.
- However, the transmission and distribution segments are yet to see significant private participation with the exception of certain areas.

Impact on Sector

- There were no major announcements that impacted the sector.
- IIFCL has been given greater flexibility to re-finance infrastructure projects.
- Budgetary allocation for the APDRP and RGGVY programmes has been increased to Rs. 2,080 crore and Rs. 7,000 crore, respectively.

Telecom

In 2008-09, the telecom subscriber base registered a 43% growth to touch 430 million, driven by a sharp rise in the number of mobile subscriptions.

- The wireless segment added a record 130 million subscribers and stood at 391 million at the end of 2008-09.
- The wireless subscriber base is expected to reach 611 million by 2010-11, fuelled by increased focus on the rural market, changing competitive dynamics and the rollout of 3G services by private players.
- Investment is expected to peak in 2009-10 with new licensees launching services and existing players expanding their footprints across the country.

Impact on Sector

- The overall impact on the telecom services sector is expected to be marginally negative.
- While the fringe benefit tax has been abolished, the increase in MAT to 15% of book profits will more than offset the benefit from the fringe benefit tax elimination.
- The government has extended the full exemption from special additional duty of customs on components and accessories of mobile handsets, including cellphones, for a year, thereby ensuring the affordability of owning a mobile connection.

Pharmaceuticals

- Fuelled by the growing generics and outsourcing opportunity in regulated markets, overall exports are likely to grow at a compound annual growth rate (CAGR) of 20-22% to $15-17 billion by 2010-11 compared with a 30% CAGR in the past two years.
- The domestic formulations segment is expected to grow moderately at a CAGR of 13-15% and range between $10 billion and $11 billion by 2010-11.
- Accordingly, the overall Indian pharmaceutical market is expected to grow at a CAGR of 18-20% to touch $25-27 billion by 2010-11.

Impact on Sector

- The overall impact on the sector is expected to be neutral.
- The reduction in the customs duty from 10% to 5%, and exemption of CVD on imports of select life-saving drugs and their bulk drugs for treating ailments such as breast cancer, hepatitis, rheumatic arthritis and so on, will have a negligible impact, as life-saving drugs account for a marginal share of the formulations market.

Real Estate Industry

- In contrast to earlier occasions, in terms of special packages granted to realty sector, this budget may have fallen short of expectations.
- While on the one hand, the allocation of Rs. 3,973 crore towards housing for urban poor and eradication of slums could help broaden the opportunities for real estate companies
- On the other hand clarification made u/s 80 IB (10) directing that only developer (one who bears the investment risk) can avail of the tax benefits; not the contractor who builds the project, could be a drawback for the contractors.

Impact on Sector

- Also, increase in MAT would be an additional cause of concern for the industry which is already operating on thin profit margins.

Agriculture

- Real heroes of our economy are farmers.
- 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.
- A target of Rs. 325,000 crore for agriculture credit set for the coming year.

Impact on Sector

- 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.
- Agricultural Debt Waiver and Debt Relief Scheme extended from 30 June 2009 to 31 December 2009, resulted in positive support to the sector.

FDI 2008-09 – AN OVERVIEW

In the past year, the Indian as well as the global economy has witnessed a very high degree of uncertainty and volatility. While the year began on a reasonably optimistic note - particularly for the Indian economy - sentiment was completely reversed as the year drew to a close. The FDI policy for the year was amended by the RBI on July 1, 2009 and brought into effect from July 1, 2009.

Despite India's foreign investment policy allowing 100% Foreign Direct Investment (FDI) in most sectors, India has thus far failed to reach its full potential as a destination for FDI. The government's attempts at increasing FDI inflows have been hampered by the several impediments including pervasive corruption, an unwieldy bureaucracy, and a significant deficit in critical infrastructure.

The government initiated changes that further opened-up certain sectors such as insurance, telecom and retail, to FDI. The government's move didn't alter the FDI caps in place in these sectors but instead permitted foreign equity investments beyond the limit to occur indirectly.

During the fiscal year 2008-09 the FDI inflows were US $ 33,613 Mn. (with 11% increase) against last fiscal US $ 34,362 Mn. (51%).

Financial Year	Total FDI Inflows (Amount US$ million)	Total FDI Inflows (Amount Rs million)	% of growth over previous year (%)
2000-01	4,029	181,647	
2001-02	6,130	292,145	52
2002-03	5,035	242,284	-18
2003-04	4,322	197,407	-14
2004-05	6,051	263,400	40
2005-06	8,961	394,911	48
2006-07	22,826	1,003,317	146
2007-08	34,362	1,431,177	51
2008-09	33,613	1,543,005	11

Sectors attracting highest equity inflows in the recent past

(Rs. Crore)

Sector	2007-08	2008-09	% of Total FDI inflows
Services sector (financial & non-financial)	26,589	28,411	23 %
Computer software & hardware	5,623	7,329	11 %
Telecommunications (radio paging, cellular mobile, basic telephone services)	5,103	11,727	8 %
Housing & real estate	8,749	12,621	6 %
Construction activities (including roads & highways)	6,989	8,792	6 %
Automobile industry	2,697	5,212	4 %
Power	3,875	4,382	4 %
Metallurgical Industries	4,686	4,157	3 %
Petroleum & natural gas	5,729	1,931	3 %
Chemicals (other than fertilizers)	920	3,427	3 %

There are no major changes in the existing FDI policy announced by the RBI. In the recent FDI policy announced by the RBI on July 1, 2009, there are 2 sectors in which FDI limit has been enhanced. This is effective from July1, 2009. They are as below –

Sector	Earlier Limit	Enhanced Limit
Mining covering exploration and mining of diamonds & precious stones; gold, silver and minerals.	74% under Automatic Route	100% under Automatic Route
Single Brand Product retailing	51% under FIPB route	100% under FIPB route

GLOSSARY

AAR	Authority for Advance Ruling
ALP	Arms Length Price
APDRP	Accelerated Power Development Programme
ASD	Atrial Spetal Defect
AY	Assessment Year
BAS	Business Auxiliary Service
CAGR	Compound Annual Growth Rate
CBDT	Central Board of Direct Taxes
CENVAT	Central Value Added Tax
CET	Central Excise Tariff
CST	Central Sales Tax
CTA	Customs Tariff Act
CTT	Commodities Transaction Tax
CVD	Counter Veiling Duty
CDT	Centrally Twisted Deform
DDT	Dividend Distribution Tax
DMT	Di-Mathyl Terephthalate
FBT	Fringe Benefit t Tax
FDI	Foreign Direct Investment
FIEO	Federation of Indian Export Organizations
FRBM-II	Fiscal Responsibility and Budget Management
FTZ	Free Trade Zone
FY	Financial Year
GDP	Gross Domestic Product
GST	Goods and Service Tax
HSEC	Higher Secondary Education Cess
HUF	Hindu Undivided Family
IT	Information Technology
ITA	Income Tax Act
LCD	Liquid Crystal Display
MAT	Minimum Alternate Tax

NPS	New Pension System
PAN	Permanent Account Number
PDA	Patent Ductus Arteriosus
PM	Permanent Magnet
PSU	Public Sector Undertaking
PTA	Pure Terephthalic Acid
R&D	Research & Development
RBI	Reserve Bank of India
RGGVY	Rajiv Gandhi Grameen Vidyutikaran Yojana
RSP	Retail Sale Price
SSI	Small Scale Industry
STT	Security Transaction Tax
TDS	Tax Deducted at Source
TCS	Tax Collected at Source
TMT	Thermo Mechanically Treated
UPA	United Progressive Alliance
UID	Unique Identification
UT	Union Territory

Disclaimer

This booklet summarizes various amendments proposed in the final union budget 2009-10.

The information containing herewith is general in nature & should neither be regarded as comprehensive nor sufficient for decision making.

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 crept in due to negligence or other wise.

Unless otherwise specified the amendments specified herein are effective from the assessment year 2010-11. While these are the proposals put forward before the Lok Sabha by the Finance Minister, there may be changes, major or minor as the bill passes through the Parliament and eventually becomes Finance Act.