UNION BUDGET 2011

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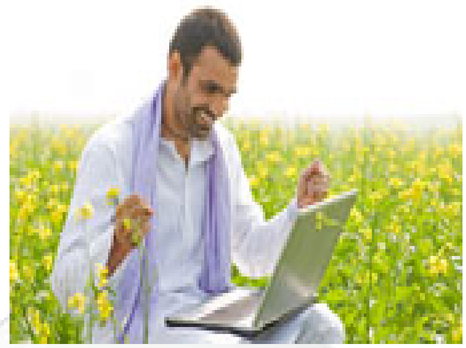
| ECONOMIC SURVEY |

The Union Finance Minister, Mr. Pranab Mukherjee presented the economic survey of 2010-11 on 25th February 2011 in the Parliament which predicted that India is on the path of becoming the fastest growing economy of the world.



The Indian Economy has emerged rapidly from the slowdown caused by the global financial crisis of 2007-09. Growth is strong in 2010-11 with a rebound in agriculture and continued momentum in manufacturing and private services.

The Highlights of the Economic Survey 2010-11:

- GDP growth expected at 8.6% for the current fiscal year and 9% in FY 2011-12 with 5.4% growth in agriculture.
- Index of Government Economic Power shows that India is now the fifth greatest global economic power after US, China Japan and Germany and is well ahead of Britain and France as against its tenth rank in the year 2000.
- GDP at market prices is estimated to grow by 9.7 %.
- Services sector has played a dominant role in the Indian economy with a 57.3% share in the GDP.
- Industrial output grows by 8.6% where, manufacturing sector registers 9.1%.
- Savings rate has gone up to 33.7%, while the investment rate is up at 36.5% of GDP.
- Six core industries registered a growth of 5.3 per cent (provisional) in April-December, 2010 as against 4.7 per cent during the same period in 2009-10.
- Exports in April-December 2010 up by 29.5 % and Imports by 19%.
- Production of Crude oil for the year 2010-11 estimated to be up by 12.67 %. C

- Trade deficit increased by 2.4 % to US$82.01 billion in April-December 2010 from US $ 80.1 billion in April-December 2009.
- Forex reserves estimated at $297.30 billion.
- Production of food grains estimated at 232.1 mn tones.
- Monthly average exchange rate of the rupee has been range bound in the range of Rs.44-47per USD between April and December 2010.
- Gross fiscal deficit decreases to 4.8% of GDP, down from 6.3 percent last year.
- Food inflation, higher commodity prices and volatility in global commodity markets cause of concern.
- Inflation expected to be 1.5 per cent higher than what it would be if the economy were not on growth path.
- The suggested roadmap for consolidated Central Government debt sets a target of reduction from 73% of GDP in 2009-10 to 64.9 % in 2014-15.
- It has called for efficient taxation of goods and services by a new GST, raising revenues, installing stronger safeguards and measures to accelerate financial inclusion.
- Gross capital Formation will rise 8.8 % in 2010-11 against 13.8% in preceding year.
- Growth in bank credit for 2010-11 stood at 12.2 % as on 17th December 2010 as compared to 6 % of 2009-10.
- The inclusive growth agenda of the Government is reflected in the 59 per cent rise in Net Bank Credit to Infrastructure.
- Increase influx of foreign capital by building close association with G-20 countries.
- Calls for new 'Green Revolution' for agricultural sector with higher investment and introduction of latest technologies.
- National Forest Land Bank to improvise the infrastructure projects.
- Investment in infrastructure to rise to 8.37 % of the GDP in 2012.
- Proposed Foreign direct investment in Multi brand retailing in a phased manner.
- Social programme spending stepped up by 5 percentage points of GDP over past 5 years.

| BUDGET ECONOMIC HIGHLIGHTS |

- Gross Domestic Product (GDP) estimated to have grown at 8.6 per cent in 2010-11 in real terms. Economy has shown remarkable resilience.
- Continued high food prices have been principal concern this year.
- Consumers denied the benefit of seasonal fall in prices despite improved availability of food items, revealing shortcomings in distribution and marketing systems.
- Monetary policy measures taken, expected to further moderate inflation in coming months.
- Average inflation expected lower next year and current account deficit smaller.
- Plan to give subsidy for fertilizers, kersone, LPG others by direct cash transfers.
- Regulations will be framed for Foreign Investors to invest in Indian Mutual Funds
- Policy to be brought out to liberalize foreign Direct Investments
- To boost infrastructure development, the Finance Minister proposes tax-free bonds worth Rs 30000 crores
- A bill to introduce to allow RBI to grant more banking licenses
- FIIs will be allowed to invest in corporate infra bonds too. The FII investment limit has been set at US$40 billion.
- Financial Year 2011-12 divestment target at Rs 40000 crore
- Preparation for rollout of unified Goods and Services tax in final stages

BUDGET ESTIMATES 2011-12

- Gross Tax receipts are estimated at ₹ 9,32,440 crore.
- Non-tax revenue receipts estimated at ₹ 1,25,435 crore.
- Total expenditure proposed at ₹ 12,57,729 crore.
- Increase of 18.3 per cent in total Plan allocation.
- Increase of 10.9 per cent in the Non-plan expenditure.
- XI Plan expenditure more than 100 per cent in nominal terms than envisaged for the Plan period.
- Increase of 23 per cent in Plan and Non-plan transfer to States and UTs.
- Fiscal Deficit brought down from 5.5 per cent in BE 2010-11 to 5.1 per cent of GDP in RE 2010-11.
- Fiscal Deficit kept at 4.6 per cent of GDP for 2011-12.
- Fiscal Deficit to be progressively reduced to 3.5 per cent by 2013-14.
- “Effective Revenue Deficit” estimated at 2.3 per cent of GDP in the Revised Estimates for 2010-11 and 1.8 per cent for 2011-12.
- All subsidy related liabilities brought into fiscal accounting.
- Net market borrowing of the Government through dated securities in 2011-12 would be ₹ 3.43 lakh crore.

| DIRECT TAXES | Individual Taxes |

Personal Income Tax (PIT) (Individuals & HUF)

- Proposal to enhance the Basic exemption limits for Individual & HUF and qualifying age reduced for Senior Citizens from 65 years to 60 years:
- For Senior Citizens, age between 60 – 79 years being a resident in India the basic exemption is Rs.2,50,000/- from Rs.2,40,000/-
- For Senior Citizens, above the age of 80 years being a resident in India the basic exemption is Rs.5,00,000/-
- For Resident Woman Assesse aged less than 60 years, the limit remains at Rs.1,90,000/-
- For other assesses including HUF, it is increased from Rs.1,60,000/- to Rs.1,80,000/-
- The slabs for computing PIT has been amended to give higher tax benefits to Individuals. Comparison of existing and proposed tax slabs are:

General			
Existing Slabs		**Proposed Slabs**	
0 to 1,60,000	: Nil	0 to 1,80,000	: Nil
1,60,001-5,00,000	: 10%	1,80,001-5,00,000	: 10%
5,00,001-8,00,000	: 20%	5,00,001-8,00,000	: 20%
8,00,001 and above	: 30%	8,00,001 and above	: 30%
2% Education Cess plus 1% Secondary Higher Education Cess			

Senior Citizen (Age between 60 - 79 years)			
Existing Slabs		**Proposed Slabs**	
0 to 2,40,000	: Nil	0 to 2,50,000	: Nil
2,40,001-5,00,000	: 10%	2,50,001-5,00,000	: 10%
5,00,001-8,00,000	: 20%	5,00,001-8,00,000	: 20%
8,00,001 and above	: 30%	8,00,001 and above	: 30%
2% Education Cess plus 1% Secondary Higher Education Cess			

Very Senior Citizen (Age above 80 years)			
Existing Slabs**		**Proposed Slabs**	
Nil	: Nil	0 to 5,00,000	: Nil
Nil	: Nil	5,00,001-8,00,000	: 20%
Nil	: Nil	8,00,001 and above	: 30%
2% Education Cess plus 1% Secondary Higher Education Cess			

** Very Senior Citizens were treated on par with Senior Citizens till Asst. Year 2011-12.

Tax Impact before & after Budget is as follows:

Taxable Income (`)	For Individual Tax Payers			For Senior Citizen			For Very Senior Citizen		
	Tax Before Budget (₹)	**Tax After Budget (₹)**	**Tax Savings (₹)**	**Tax Before Budget (₹)**	**Tax After Budget (₹)**	**Tax savings (₹)**	**Tax Before Budget (₹)**	**Tax After Budget (₹)**	**Tax Savings (₹)**
2,00,000	4,120	2,060	2,060	-	-	-	-	-	-
5,00,000	35,020	32,960	2,060	26,780	25,750	1,030	26,780	-	26,780
10,00,000	158,620	156,560	2,060	150,380	149,350	1,030	150,380	123,600	26,780

Additional Deductions under Personal Income Tax Returns

- Additional Deduction of ₹ 20,000 of Investment in long term infrastructure bonds proposed to be retained for one more year as specified u/s 80 CCF.

| DIRECT TAXES | LLP, Firms & AOP's |

Tax Rates

- The effective tax rate for partnership firm & LLP will continue to be the same as those specified for Assessment Year 2011-12 i.e., 30.9%. No surcharge will be levied.

Special provisions for Limited Liability Partnership

- Finance bill 2011 has introduced special provision of **AMT (Alternate Minimum Tax)** with regard to payment of tax by limited liability partnership.
- With this new amendment, LLP is treated on par with that of the Company. Thereby LLP's has to pay the Alternate Minimum Tax **at the rate of 18.5%** under section 115JC. Further AMT is computed on the adjusted total income. Adjusted total income is arrived as under:

  - Income computed as per the provisions of the Income tax Act, ***as increased by***:
  - Deduction under chapter VIA &
  - Deduction under section 10AA

  Further, LLP can carry forward and avail the credit towards AMT paid for a period of 10 subsequent assessment years under section 115JD.

| DIRECT TAXES | Trusts |

Enhancement in the limits towards the Business Activity

- Advancement of any other object of general public utility will not be charitable purpose if the activity involves carrying of trade, commerce or business or rendering any service in relation thereto, for consideration irrespective of nature of use or application, or retention of income from such activity. However, such business activities would be considered to charitable in nature as long as the turnover was less than Rs.10 Lakhs up to financial year 2010 – 11. This Turnover Limit has been proposed to be enhanced from Rs. 10 Lakhs to Rs.25 Lakhs.

Powers of CIT to cancel registration of Charitable Trusts widened

- Commissioner is empowered for the cancellation of Registration of Charitable Trust even for those trusts which are in existence before Assessment Year 1997 – 1998.

| DIRECT TAXES | Corporate |

Tax Rates

- The Tax Rate for Companies will continue to be the same i.e., 30% in case of domestic companies and 40% in case of Foreign Companies.

- Surcharge has been reduced from 7.5% to 5% in case of domestic companies and from 2.5% to 2% in case of Foreign Companies.

- No change with respect to cess.

Increase in Minimum Alternative Tax (MAT)

- MAT Liability on Company is increased from 18% to 18.5% .This will have impact on the tax liability of the companies.
- Further, MAT has been made applicable for income of SEZ Developers and income of SEZ units also.

Classification of Income and Tax on dividend (Under section 115BBD)

- Domestic Company receiving dividends from its Foreign Subsidiary Company to be taxed at 15% on gross basis only for the Financial Year 2011 – 12. i.e; no expenses will be allowed for earning such income.

Dividend Distribution Tax (DDT) (Under section 115O)

- SEZ units are liable to pay DDT as per provisions of section 115O with regard to the dividends declared by them.

| DIRECT TAXES | International Taxation |

Transfer Pricing:

Under section 92C, Hitherto, where the prices of the international transactions are within the range of 5% of the arms' length price, such international transactions were said to be at arm's length. However, with the current amendment, the Central Government now has powers to notify such percentage periodically as they may deem fit.

- New section 94A has been inserted to bring in the international transactions under the purview of the Transfer pricing regulations, where such transactions are entered with parties located in those notified jurisdictional area with which India lacks effective exchange of information. Apart from this, the following are the additional provisions:

- The expenses shall not be allowed in the following cases, unless relevant documentation is provided:
    - In respect of any payment made to any financial institution located in a notified jurisdictional area.
    - In respect of any other expenditure or allowance (including depreciation) arising from the transaction with a person located in notified jurisdictional area.
- The amounts received by the assessee from any person located in such notified jurisdictional area shall be treated as income in the hands of the assessee, unless sufficient explanation is offered to the satisfaction of the assessing officer.

- Further, in case the tax deductible at source in case of payments to be made to persons located in such notified jurisdictional area, shall be made at the rate higher of the following:
    - at the rate or rates in force;
    - at the rate specified in the relevant provisions of this Act;
    - at the rate of thirty percent.
- The due date for filing of Form 3CEB under section 92E of the Act and the filing of tax returns for such companies , has been extended up to 30th November of the assessment year as against the erstwhile due date of 30th September.

| DIRECT TAXES | Withholding Tax |

- There are **no changes** with regard to rates as well as limits for withholding tax deduction.

- New **Section 194LB is inserted –** as per which, any interest income earned from Infrastructure debt fund by a **non resident including foreign Company,** shall be subject to withholding of tax at the **rate of 5%.**

| DIRECT TAXES | Deductions |

Enhancement in Deduction with respect to R& D –Sec 35(2AA)

- Finance bill 2011 has enhanced the weighted deduction of any contribution made by the assessee to any national laboratory or university or IIT from 175% to 200%.

Deduction with respect Infrastructure Projects –Sec 35AD

- 100% of the Capital Expenditure shall be allowed as deduction in the year in which it is incurred, with respect to the investment in
- In the specified business in the nature of developing and building a housing project under a scheme for affordable housing to be framed by Central or State Government – as per new clause (ad).
- in new plant or in a newly installed capacity in a existing plant for production of fertilizer.

Deduction with respect to contribution to Pension Fund –Sec 36

- Contribution towards Pension Fund specified under section 80CCD, on behalf of the employee, is allowable as expenditure, subject to a limit of 10% of salary of the employee. Further such portion is also allowed as a deduction in the hands of the employee under Section 80CCD which is over and above the Rs1 lac available under Sec 80CCE.

Deduction with Power Projects –Sec 80IA

- Deduction benefit extended for another year, i.e., till 31st of March 2012 (A.Y 2012 – 13) under section 80IA towards Generation, distribution of power and Laying and renovation of Transmission lines.

| DIRECT TAXES | Procedures | Others |

Procedures:

- Finance Minister has proposed simplified tax returns called "Sugam" for 'small taxpayers', i.e., for tax payers paying tax under presumptive taxation, having business turnover less than Rs.60 lakhs.

- Finance Minister has proposed to exempt assessees from filing of income tax returns, who have only Salary as the source of income and do not have any other income. This means to say, the assessees must not have even interest from Savings Bank Account also to become eligible for this benefit.

- The Minister has proposed filing of Information for Liaison Office of every Non-Resident and such Returns as may be prescribed have to be submitted within 60 days from the end of every Financial Year.

Others:

Exemption

- New Clause (47) of Section 10 – any income of an infrastructure debt fund setup in accordance with the guidelines is exempt.

Tax on Distribution of Income on Mutual Funds -Sec 115R

- The Finance Minister has proposed the tax on distribution of income on Mutual funds as under:
  In case of Individuals & HUF (There is no change compared to previous year, provided only for information purpose)

- At 25% with respect to Money Market Mutual Fund or liquid Fund.

- At 12.50% with respect to Mutual Funds other than Money Market Fund or Liquid Fund.

- In case of assessees other than Individuals & HUF:

- At 30% with respect to Money Market Mutual Fund, liquid Fund or any other Fund.

| INDIRECT TAXES | Service Tax |

- Standard rate of Service Tax retained at 10 per cent.

- **The Point of Taxation rules for service has been changed**
  With effective from 1-Apr-2011 the basis for tax collection has been shifted from "cash" to "accrual" basis, i.e payable when the services shall be deemed to be provided. The general rule will be that the time of provision of service will be the earliest of the following dates:
  I. Date on which service is provided or to be provided
  II. Date of invoice
  III. Date of payment

  Consequential changes have also been made in the Service Tax Rules, 1994 to alter the payment of service tax from receipt of payment to provision of service and also to permit adjustment of tax when service is not finally provided. This would cause a cash flow issue and clarification would be required how to treat the service tax paid on non receipt of such charges in future.

- **Two new services have been proposed:**
  1) Hotel accommodation, in excess of declared tariff of `1,000 per day with an abatement of 50 per cent so that the effective burden is only 5 per cent of the amount charged. This would be applicable to hotels, inns , camps and others who provide short term accommodation of less than 3 months.

  2) Service provided by air-conditioned restaurants that have license to serve liquor, by giving an abatement of 70 per cent. Thus, the effective burden will be 3 per cent of the bill.

- **The following are the alteration or expansion made on existing service;**

1) **Authorized Service Station's Services:** The existing service is being replaced with a new definition to cover all persons and all motor vehicles other than those meant for goods carriage or three wheeler auto rickshaw.

2) **Life Insurance Service:** The scope of the service is proposed to be expanded to cover all services, including in relation to management of investments.

3) **Commercial Training or Coaching Service:** The scope of the service is proposed to be expanded to include all coaching and training that is not recognized by law irrespective of whether the institute is providing any other course(s) recognized by law.

4) **Club or Association Service:** The scope of the service is proposed to be expanded to include service provided to non-members as well.

5) **Business Support Service:** The scope of the service is being expanded to include operational or administrative assistance of any kind.

6) **Services by legal professionals:** The scope of the existing service is being expanded to include:

a) Services of advice, consultancy or assistance provided by a business entity to individuals as well;

b) Representational services provided by any person to a business entity; and

c) Services provided by arbitrators to business entities. Services provided by individuals to other individual will remain outside the levy.

7) **Services provided by clinical establishments:** The existing levy on health services is proposed to be replaced as follows:

a) Any service provided by a clinical establishment having the facility of central air-conditioning in any part of the establishment and more than 25 beds for in-patient treatment at any time of the year;

b) Diagnostic services provided by a clinical establishment with the aid of laboratory or medical equipment; and

c) Health-related services provided by doctors, not being employees, providing health-related services from the premises of clinical establishment mentioned as above.

8) **Transport of passengers by air service:** Service Tax on air travel increased as follows;

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

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

(c) Domestic (other than economy): now will be Standard rate of 10% of the ticket charges

- **Other important changes made under service tax**

- Exemption is being given to services rendered to an exhibitor participating in an exhibition held outside India.

- Exemption from service tax is being provided to works contract service rendered within a port, or other port or airport in specified areas

- All individual and sole proprietor tax payers with a turn over up to ` 60 lakh freed from the formalities of audit.

- Interest rate for delayed payment of service tax is being increased to 18% per annum, effective from 01.04.2011. A concession of 3% has been proposed in the Bill for tax-payers whose turnover during any of the years covered in the notice or the preceding financial year is below Rs 60 lakh.

- The maximum penalty for delay in filing of return under section 70 is proposed to be increased from Rs.2,000/-to Rs.20,000/-. However, the existing rate of penalty is being retained; the maximum penalty is presently reached after a delay of 40 days. The new limit will impact only those who delay filing of return for longer durations.

- The revised position relating to penalties and their mitigation or waiver is summed up in the following table (portion in italics being the changes):

Situation	Position in records	Penalty & Provision	Mitigation	Complete Waiver
No fraud, suppression etc.	Captured	1% of tax or Rs 100 per day up to 50% of tax amount: Sec 76	Totally mitigated if tax and interest paid before issue of notice: Section 73(3)	On showing reasonable cause under section 80
Cases of fraud, suppression etc.	Captured true & complete position in records	50% of tax amount: Proviso to Section 78	(a) 1% per month; max of 25% if all dues paid before notice: Sec 73(4A); (b) 25% of tax if all dues paid within 30 days (90 days for small assesses): Provisos to Section 78	-do-
	Not so captured	Equal amount: Section 78	No mitigation at all	Not possible

- Provisions relating to prosecution are proposed to be re-introduced and shall apply in the following situations:
  - (i) Provision of service without issue of invoice;
  - (ii) Availment and utilization of Cenvat credit without actual receipt of inputs or input services;
  - (iii) Maintaining false books of accounts or failure to supply any information or submitting false information;
  - (iv) Non-payment of amount collected as service tax for a period of more than six months.

- The Works Contract (Composition Scheme for Payment of Service Tax) Rules, 2007 vide Notification 1/2011-ST so as to restrict the Cenvat credit to 40% of the tax paid on services relating to erection, commissioning & installation; commercial or industrial construction and construction of residential complex, in case tax has been paid on full value of the service after availing Cenvat credit on inputs i.e. without availing exemption notification 1/2006-ST dated 01.03.2006. This has been done to ensure that the credit on inputs is not availed of indirectly while availing of the composition scheme.

Details of important changes made in Cenvat Credit Rules, 2004 that impact service tax are given follows;

<u>Input</u>

- "Input" has been defined to include, inter-alia, all goods used in a factory by the manufacturer and goods used for providing any output service;

- Goods that shall not constitute input have been specifically excluded. These shall include, besides petroleum items, any goods used for construction of a civil structure (by a manufacturer as well as a service provider) excepting when they are used in the provision of any of the specified construction services. Thus, goods used by a sub-contractor for rendering services of construction to the main contractor shall constitute input.

- Exclusions also cover goods such as food items, goods used in a guesthouse, residential colony, club or a recreational facility or a clinical establishment which are primarily meant for the personal use or consumption of the employees. When any of these goods are used directly in the manufacture of final products or provision of a service they will constitute input.

- Goods which have no relationship whatsoever with the manufacture have also been excluded.

Input Service

- The distinction between goods and services is diminishing and many goods can be received as services. Accordingly the definition of "input service" has been aligned with the definition of "input" such that goods that do not constitute "input" do not qualify as "input service". Thus a service relating to construction of civil structure will not constitute "input service" unless it is provided by a sub-contractor to the main contractor.

- Similarly services relating to motor vehicle i.e. rent-a-cab, use of tangible goods, insurance or repair of vehicle shall not constitute an "input service‟ except in respect of output services where credit on motor vehicle is permitted as "capital goods".

- On the same lines, a service meant primarily for the personal use or consumption of employees will not constitute an input service. A list of specific services has also been given by way of example in the definition. Most of these services constitute a part of the cost-to-company package of the employee and are provided either free of charge or on concessional basis to company employees.

- Expression "activities relating to business" has been deleted and Business exhibition and legal services added in the list of services that can be treated as input service.

- For the purpose of calculating proportionate credit for services used in both taxable and exempt service, exempt service also now includes trading services (i.e difference between sale price and purchase price of the goods).

- 17 input services which were prescribed to be eligible for 100% credit where it was used in providing taxable and exempt services have now been deleted. This would also now be eligible only for proportionate credit.

- Most of the Cenvat changes will come into effect from 01.04.2011 except a few that will be effective from 01.03.2011.

| INDIRECT TAXES | Excise |

Increase in Rate of Duty

- The Concessional central excise duty rate of 4% is being increased to 5% and thus all goods currently attracting 4% duty will now attract 5% unless otherwise specified
- Exemption Withdrawn on 139 items by Special Rate of 1% duty without CENVAT Credit facility
- Exemption on coffee or tea pre mixes, sauces, ketchup and the like, soups and broths and preparations, all kinds of food mixes, including instant food mixes, betel nut product known as " supari", ready to eat packaged food, milk containing edible nuts with sugar or other ingredients is being withdrawn.
- A concessional rate of 1% without CENVAT credit facility is being imposed on fruit pulp or fruit juice based drinks, Flavoured milk of animal origin, Tender coconut water.
- Central excise duty rates on cement and cement clinker are being revised to charge on ad valorem basis
- Exemptions from excise duty on following goods are being withdrawn and excise duty of 1% without Cenvat credit facility is being imposed on such goods :
  - ✓ Medicaments (including those used in Ayurvedic, Unani, Siddha, Homeopathic or Biochemic systems), manufactured exclusively in accordance with the formulae described in the authoritative books specified in the First Schedule to the Drugs and Cosmetics Act, 1940 (23 of 1940) or Homeopathic Pharmacopoeia of India or the United States of America or the United Kingdom or the German Homeopathic Pharmacopoeia, as the case may be, and sold under the name as specified in such books or pharmacopoeia

| INDIRECT TAXES | Customs |

Reduction in Duty

- As a measure of rationalization of duty structure the rates of 2% and 3% are being unified with the median rate of 2.5%. Accordingly basic customs duty on all goods currently attracting 2% has been increased to 2.5% and basic customs duty on those goods attracting 3% has been decreased to 2.5%.
- Basic customs duty is being reduced from 30% to 10% on Pistachios and Bamboo for use in the manufacture of agarbatti
- Basic customs duty is being reduced from 25% to 10% on Lactose for use in the manufacture of homeopathic medicine
- Basic customs duty on mineral gypsum, carbon black feed, petroleum coke, Acrylonitrile, Rayon grade wood pulp, waste paper, and specified agriculture machinery is being reduced from 5% to 2.5%
- Excise duty/ CVD is being reduced to 5% and SAD to NIL on parts of inkjet & laser jet printers imported by actual users for manufacture of printers.
- CVD / excise duty on the parts of optical disc drives viz. DVD Drives/ Writers, CD Drives and Combo Drives is being reduced to 5% and NIL SAD subject to actual user condition.
- Basic Customs Duty on specified gems and jewellery machinery is being reduced from 7.5%
- Basic customs duty on solar lantern/ lamps is being reduced from 10% to 5%.

Exempted / Nil Rate of duty

- Concessional rate of 5% of basic customs duty is being provided on four live saving drugs with Nil CVD along with on bulk drugs used in the manufacture of said drugs
- Basic customs duty on cotton waste is being reduced from 10% to nil.
- 'Nil basic customs duty, CVD of Rs.140 per 10 gram and Nil SAD is being prescribed for gold dore bars having gold content not exceeding 80%, imported for refining and manufacturing serially numbered gold bars in India

- Basic customs duty is being fully exempted on Stainless steel Scrap

- Full exemption from Basic Customs Duty and additional duty of customs (CVD) on tunnel boring machines boring machines and parts and components thereof for use in the assembly of Tunnel boring machines used for highway development projects is being provided

- Basic customs duty on cash dispensers is being reduced to nil. Parts of cash dispensers required for manufacture of cash dispensers are also being fully exempted from basic customs duty subject to actual user condition.

Increase in Rate of Duty

- Basic customs duty is being increased on all ores and concentrates from 2% to 2.5%.

- A basic customs duty @ 2.5 % is being imposed on imports of aircrafts for Non-scheduled operations while exemption from CVD and SAD would continue in this category. The restriction on the inter-changeability of aircraft imported for non-scheduled operations (passenger) and nonscheduled operations (charter) is also being removed.

Other points

- All clearances from SEZ into DTA are being exempted from SAD charged at 4% provided they are not exempt from the levy of VAT/Sales Tax.

- Full exemption from payment of Additional duty of Customs (CVD) is being granted on the portion of value representing the consideration paid or payable for the transfer of the right to use such goods to those packaged or canned software, which do not require affixation of RSP under The Legal Metrology Act, 2009 or the rules made there under, subject to the Importer being registered under the Service Tax.

- Export duty on Iron ore is being increased on both fines and lumps (other than pellets) to a unified rate of 20%. Iron ore pellets are exempt.

| INDIRECT TAXES | Commercial Tax |

Salient Features of changes made in Karnataka State Budget 2011 under different tax enactments under Commercial taxes in Karnataka.

Increase in VAT Rates effective from 1-Apr-2011:

- Increase in the VAT rate on goods currently taxable at 13.5 % to 14 %.
- Increase in the VAT rate on jewellery and articles of gold and other noble metals, precious and semi-precious stones from 1% to 2%.

Reliefs under VAT effective from 1-Apr-2011:

- Tax exemption on paddy, rice, wheat, pulses and products of rice and wheat continued for one more year from April, 2011.
- Tax exemption on coconuts (excluding copra).
- Tax reduction on barbed wire from 13.5 % to 5 %.
- Tax exemption on de-oiled rice bran.
- Reduction of tax to 5 % on school bags of prices up to Rs.500.
- Reduction of tax on all kitchen utensils from 13.5 % to 5 %.
- Reduction of tax on caps from 13.5 % to 5 %.
- Tax exemption on leasing of feature films and sale of copy rights relating to feature films.

Others facility for Dealers:

- Increase in the period of validity of stay orders of the Appellate Joint Commissioners regarding disputed tax from 120 days to 240 days.
- Reduction in the time limit for taking up assessment and re-assessment from 5 years to 4 years.
- Increase in the turnover limit for compulsory audit of accounts of dealers from 60 lakh rupees to 1 Crore rupees.
- Abolition of the provision requiring contractors to file copies of individual contracts.
- Increase in the penalty for clandestine transport of goods taxable at low rates.
- Increase in the rate of interest for delay in payment of tax from 15 % per annum to 18 % per annum.
- Exemption from registration to distributors of feature films.
- Under Luxury Tax provision for payment of composition amounts in lieu of regular tax by home-stay units.
- Betting Tax Increase in the totalisator composition amount payable by Bangalore Turf Club from 4 % to 8 %.

| FEMA |

Valuation of Shares Issue / Transfer of Shares of an Indian Company to Non Resident .

Reserve Bank of India has issued a *Notification no. FEMA 205/2010-RB dated 7th April 2010 (Notification)*, which has amended the regulation in connection with pricing norms for issue / transfer of shares of an Indian company to a person resident outside India. This Notification comes into force from 21 April 2010. As per the above notification the Price of shares issued to persons resident outside India under this Schedule, shall not be less than –

a) in case of companies listed in Stock exchange in accordance with the guidelines as given by SEBI .

b) in case of Non Listed company the fair valuation of shares done by a SEBI registered Category - I Merchant Banker or a Chartered Accountant as per the **Discounted Free Cash Flow** method.

Prior to this the pricing norms were being adhered to valuation based on the erstwhile CCI guidelines.

Similarly valuation based on **Discounted Cash Flow Basis** is also required to be followed for transfer of shares from Non Residents to residents.

Opening of Foreign Currency Account by a Project Office in India.

Through notification number ***FEMA 204/2010-RB, dated 05/04/2010*** an Authorized Dealer in India may subject to the directions issued by the Reserve Bank of India , may permit the Project office in India open, hold and maintain non-interest bearing foreign currency account in India for the projects to be executed in India

Use of International Debit Cards / Store Cards / Change Cards / Smart Cards by Resident Indians While on visit outside India - RBI/2010-11/323 A.P. (DIR Series) Circular No. 29

Earlier the Authorized dealers where required to submit to RBI a statement on the 31st of December each year in case the aggregate forex utilization by the International Debit Card holders exceeds USD 100,000 in a calendar year .It has been now decided to do discontinue the submission of the afore said statement from the calendar year 2010.

Reporting by Branch Offices (BO) / Liaison Offices (LO) in India by Foreign Entities – RBI/2010-11/154 A.P. (DIR Series) Circular No. 06 dated August 09, 2010

Earlier the Branch Office / Liaison Offices in India were required to submit the Annual Activity Certificate for the year ended 31st March on or before April 30th of every year. In view of the difficulties expressed by some Liaison Offices / Branch Offices in submitting the AACs within the prescribed period, it has been decided to review the current calendar for the same. Accordingly, the AACs from the Auditors, as at end of March 31, along with the audited Balance Sheet may be submitted on or before September 30 of that year. In case the annual accounts of the LO/ BO are finalized with reference to a date other than March 31, the AAC along with the audited Balance Sheet may be submitted within six months from the due date of the Balance Sheet.

Changes to the Foreign Direct Investment Policy

Ministry of Commerce and Industry has issued the Circular 2 of 2010, updating all instructions and clarifications relating to FDI Policy, as on September 30, 2010.The substantive issues addressed/clarified in Circular 2 include the following:

(i) Clarification that 100% foreign owned NBFCs, with a minimum capitalization of $ 50 million, can set up subsidiaries for specific NBFC activities, without bringing additional capital towards minimum capitalization *{Para 5.2.18.2(iv)}***:**

The need for this clarification had arisen as requests had been received for clarifying whether such downstream subsidiaries were independently required to meet conditions relating to minimum capitalization.

(ii) Introduction of specific provision for downstream investment through internal accruals *{Para 4.6.6(iv)}***:**

It has now been explicitly clarified that downstream investments through internal accruals are permissible, subject to following of guidelines for downstream investments by Indian companies which are "owned and/or controlled by non-resident entities". This clarity was necessary as the FDI policy states that for the purpose of downstream investment, the operating-cum-investing/investing companies would have to bring in requisite funds from abroad and not leverage funds from the domestic market for such investments. While this would not preclude companies from making downstream investments through 'internal accruals', it had been noticed that, in certain cases, some companies had started accessing the Government approval route for downstream investments through internal accruals.

(iii) Clarification of the terms 'original investment' and 'lock-in period' in case of minimum capitalization of construction development projects *{Para 5.2.13.2(3)}***:**

It has been clarified that the term "Original investment" means the entire amount brought in as FDI. It has further been clarified that the lock-in-period of three years will be applied from the date of receipt of each installment/tranche of FDI or from the date of completion of minimum capitalization, whichever is later. This was necessary as a number of queries had been received in regard to the coverage of these terms.

(iv) Removal of the condition that 'wholesale trading made to Group companies should be for internal use only' in the guidelines for Cash & Carry Wholesale Trading *{Para 5.2.24.1.2(d)}***:**

This change has been made in response to requests for simplification of the guidelines received from stakeholders.

(v) Clarification that Minimum Capitalization includes share premium received along with face value of the shares only when it is received by the company upon issue of the shares to the non-resident investors *{Para 5.2.25.2 – Note below}***:**

This is relevant in sectors such as NBFC and construction development where "minimum capitalization" requirements have been stipulated. This clarification is expected to bring in requisite clarity on the issues of inclusion of share premium within minimum capitalization and on the circumstances under which such share premium can be counted towards minimum capitalization.

(vi) Amendment of Note below the definition of 'Capital' to allow for FDI in partly-paid shares and warrants through the Government route *{Para 2.1.5}***:**

At present, capital is defined as "equity shares, fully, compulsorily and mandatorily convertible preference shares, fully compulsorily and mandatorily convertible debentures". This clarification, allowing for FDI in partly-paid shares and warrants, through the Government route, is intended to bring in consistency with extant practice.

(vii) Changes in the paragraphs relating to issue price of shares and addition of a paragraph on share-swaps, consistent with extant instructions *{Para 3.4.2 and 3.5.6}***:**

The latter has been included as a number of cases of share swaps are now being considered under the Government approval route. Prior to this, the issue of share swaps had not been explicitly mentioned under the FDI policy. This is expected to bring in clarity on the aspect of share swaps requiring approval of Government.

| CORPORATE LAW & OTHER LAWS |

Company Law

- **Rectification of Mistakes made while incorporating a company:** Some times, erroneously some wrong data/ info may be provided at the time of company incorporation or registering a foreign company in India eg: wrong email address, wrong address etc. This wrong data used to be permanently be part of the company database. There was no procedure to rectify the same. It is now possible to rectify the mistakes in Form 1 or Form 1A (form used for company incorporation) or Form 44 (form used for registering a foreign company) by filing for rectification in Form 68 with in 365 days.

- **Remuneration to Managerial Personnel- Amendment to Sch XIII:** Henceforth Unlisted public companies need not approach the Central Government for seeking approval for paying remuneration to the managerial personnel subject to the satisfaction of all other conditions enlisted in Sch XIII. However, the relaxation is not applicable for subsidiary of a listed company. This would be applicable for public companies having a loss or insufficient profits to pay the remuneration as prescribed under Sch XIII. Obtaining approval from the Central Government was very time consuming.

- **Reporting requirements relaxed for Holding Companies:** The Ministry has now granted exemption to all holding companies from attaching the accounts of the subsidiary companies along with its Directors report. It is sufficient if the same is placed before the shareholders in the Annual General Meeting of the company and the same is audited by the statutory auditors and other prescribed conditions.

- **Relaxation of reporting quantitative details in Balance Sheet & P& L:** Companies were required to provide quantitative details of the products they manufactured or traded in great detail. Many companies were seeking exemption from providing these details. The ministry has amended this requirement by granting a general exemption from disclosure of certain clauses of Schedule VI relating to such quantitative details , based on the sector / business activity that the Company is involved in.

- **Extension of Easy Exit Scheme :** A scheme was formulated for closure of defunct companies . The process of exit under this scheme is comparatively very less compared to the normal exit u/s 560 of the Companies Act. This had expired on 31st August 2010. Since many defunct companies were not able to make use of this opportunity the same is now extended upto 31st April 2011. Defunct companies can make use of this opportunity to get struck off form the list of active companies.

- **Increase in Fees for Delay in Filing Form with Registrar of Company**:

Period of Delay	Fixed rate of additional fee
Up to 30 days	**200% of normal fee**
More than 30 days and up to 60 days	**400% of normal fee**
More than 60 days and up to 90 days	**600% of normal filing fee**
More than 90 days	**900% of normal filing fees**

- **Notification of IFRS standards for Implementation of IFRS by Indian Companies:** the Ministry of Corporate Affairs (MCA) notified thirty five accounting standards that are converged with IFRS (referred to as Ind AS). We believe that this is an important step in the adoption of Ind AS by Indian companies. The press release also stated that Ind AS will be implemented after various issues such as tax related issues etc are resolved with other government agencies. The MCA is yet to specify whether the earlier prescribed dates of IFRS applicability for few companies from financial year beginning with 1st April 2011 would continue or will it be deferred. Prior to implementation many amendments would be required for in the company law such as disclosure under Sch VI, calculation of distributable profits etc. The Ind AS can be accessed on - http://mca.gov.in/Ministry/accounting_standards.html

SEBI Amendments:

Foreign Venture Capital Investors Amendment Regulations, 2010 has included the following additional requirements for set up of FVCI

- to furnish firm commitment letter(s) from investors for an aggregate amount of US$ 1 million
- to furnish the Financial Statements along with their investors' Financial Statements , who have provided firm commitment letters for the previous Financial Year preceding the year in application is made.
- To furnish name, address, contact number & the email address of all the directors.
- To furnish similar details as above for the investors who have provided the firm commitment letters.

Minimum 25% shareholding with Public for listed companies

The Government has made amendments to the Securities Contracts (Regulation) Rules in June 2010 certain major changes amongst them are as follows:

a) The minimum threshold level of public holding will be 25% for all listed companies.

b) Existing listed companies having less than 25% public holding have to reach the minimum 25% level by an annual addition of not less than 5% to public holding.

c) Every listed company shall maintain public shareholding of at least 25%. If the public shareholding in a listed company falls below 25% at any time, such company shall bring the public shareholding to 25% within a maximum period of 12 months from the date of such fall.

Labour Law

- Provident Fund Regulation on International workers.
- Provident Fund contribution was made applicable to International workers. Now they have brought an amendment to such rules where the Provident Fund withdrawal is not possible until the International Worker retires or reaches 58 years of age, whichever is later (except under specific circumstances).
- Bank account in India has been made a pre-requisite for obtaining refund from Provident Fund Authorities (except where the assignee is covered under a Social Security Agreement).

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THANK YOU

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