

Sustaining growth momentum

Union Budget 2011



pwc

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Introduction

In the words of the Honourable Finance Minister, 2010-11 has been a remarkable fiscal year. Growth has been broad based and included an agricultural rebound, services continued to see double-digit growth and industry is regaining momentum. Thus the remaining critical priority is inflation, which has made headlines throughout the year. Other continuing challenges include fiscal consolidation, FDI inflows, education and inclusion, infrastructure development and dealing with black money and corruption, the latter issue having gathered significant momentum during the last fiscal year. Continuing the agenda of greater public-private partnerships for efficient service delivery, the Finance Minister also gave positive signals of the Government's intent to work towards a consolidation of institutional infrastructure.

Broadly, the Budget does not signal bold reform measures, but instead reaffirms the commitment of the UPA regime to reform through a declaration of intent to table legislation such as the Insurance Laws Amendment Bill and the Banking Laws Amendment Bill as part of the drive for financial sector reform. Industry will be hoping that these legislative changes will see the light of the day soon and will open the door to enhanced foreign investment limits in the insurance sector, and issue of additional private sector banking licenses.

The continuation of reforms in insurance, banking and indications of gradual movement towards FDI in retail will make an indirect but significant contribution to the UPA agenda of inclusive growth. While inflation is expected to run its course, largely determined by factors such

as commodities and oil prices which are beyond the control of the government, relief for the poor is expected to come from improvements in the delivery of poverty alleviation programs and even direct cash transfers. Such measures rely on the success of programmes such as UID and the wider penetration of banking services.

The agricultural sector has received renewed emphasis in this Budget with indications of a multi-pronged strategy including more investment in the rural economy, direct transfers, and also enhanced private and public investment in the supply chain, ensuring remunerative prices for producers without resulting in a negative impact on end consumers.

Other notable elements of the Budget speech included the measures proposed for unearthing black money and



preventing money laundering. Time will tell whether these measures will have any effect or are just another exercise in rhetoric, but the emphasis on better evaluation of implementation measures and the push given to the amendment of archaic laws such as the Companies Act, Stamp Duty Act, APMC Act are welcome steps in this direction.

As regards his fiscal proposals, the Finance Minister has continued to walk the path of fiscal consolidation. In 2011-12, while he will not have the cushion of the 3G spectrum auction proceeds, he would partly rely on disinvestment proceeds. He has therefore prudently provided marginal relief to individual taxpayers and corporate assesseees but at the same time more than made up for these concessions by widening the Service Tax net and withdrawing some

indirect exemptions/relief. Levying MAT and DDT to SEZ developers creates an environment of uncertainty. On the policy front, the Government has reiterated its commitment to GST legislation and the Direct Taxes Code.

All in all, the Finance Minister has to his credit, delivered another balanced budget which will hopefully stimulate greater investment in critical sectors such as infrastructure and education, keep the country on the path of inclusive growth and provide relief from food inflation, all this without compromising the target of sustained double-digit economic growth.

Economic Performance: 2010-11

The Economic Survey 2010-11 (Survey), tabled in Parliament by the Finance Minister on 25 February, is the official assessment of the economic performance. The Survey gives an indication of the policy and tax measures that will be announced in the Budget and through the FY.

Overview of the Indian Economy

With GDP growth estimated at 8.0% during 2009-10 and 8.6% during 2010-11, India has made a quick and strong turnaround from the slowdown caused by the global and domestic challenges of recent years. The ripple effects of the global financial crisis continued into 2010-11. Domestically, following a year of negative growth in the agriculture and related sectors in 2008-09, erratic monsoons affected the sector again in the current FY. Despite these setbacks, the GDP growth was fairly broad-based and

is set to revert to its pre-crisis trajectory of 9% in FY12.

Key Indicators at a Glance			
	Unit	2009-10	2010-11
GDP at market prices	(in Rs crore)	6,550,271	7,877,947
GDP at factor cost	%	8.0	8.6
Investment Rate ^	% of GDP	36.5	37.0
Savings Rate ^	% of GDP	33.7	34.0
Inflation (WPI) 12 month avg.	% change	3.6	9.4
Inflation (CPI-IW) avg.	% change	12.4	11.0
Export Growth (USD)	% change	(3.5)	29.5
Import Growth (USD)	% change	(5.0)	9.0
Current Account Balance/GDP ^	%	(2.8)	(3.0)
Gross Fiscal Deficit	% of GDP	6.3	4.8

Source: Government of India Economic Survey 2010-11, ^ PM's Economic Advisory Council Report

The Survey projects that the fiscal deficit for the current FY will fall to 4.8%, against a budgeted 5.5%. In addition to robust GDP growth, a number of windfall gains such as disinvestment proceeds and 3G revenue spectrum auctions have helped bring down the deficit. However these are one-off benefits and will not be available going forward. There is still the need for caution in the face of the massive Government borrowing programme, which is projected at over INR 4 trillion in FY12. The Government needs to return to a position of fiscal consolidation through the gradual rolling back of stimulus measures and following the roadmap set out by the

Government Debt Report for the reduction of debt to the level of GDP during 2010-11 to 2014-15.

India's growth has been largely driven by the domestic economy. The economy was insulated from the global financial shocks by a number of measures: a calibrated approach to capital account liberalisation guarding against interest-rate arbitrage and the resulting surges and reversal of capital flow; strict supervision of banks has mitigated exposure to toxic assets; and the credit derivative instruments that played a key role in precipitating the global crisis, have not been introduced into the Indian market.

India's foreign exchange reserves increased from USD 279 bn in March 2010 to USD 297 bn in December 2010. It should be acknowledged that the forex reserves have

largely financed India's current account deficit. FDI inflows of USD 19bn were at almost the same level during April-November 2010 as during the corresponding period of the previous FY. However, portfolio investment increased sharply to USD 32.8 during April – November 2010 and the Survey cautions that this could lead to absorptive capacity issues within the economy, fuelling asset price bubbles, currency appreciation and inflation.

On the demand side, during 2009-10, domestic consumption increased. The savings rate was 33.7% while the investment rate was 36.5% of GDP. These indicators are returning to pre-crisis levels and with an incremental capital output ratio of 4, the Survey is optimistic about sustained output growth. The growing savings and investments

rates pave the way for a gradually winding down of the fiscal stimulus, although sudden withdrawal of stimulus measures could create vulnerabilities.

On the domestic front, growth has been driven by performance in all three sectors: a rebound in agriculture, continued momentum in industry and a slightly below par performance in services.

Inflation remains an area of concern as risks remain from domestic demand and high global commodity prices, in the wake of the West Asia crude shock. The New Normal for inflation is now higher at 4.5-5%, up from 3-3.5%. The unexpected developments in the Middle East have led to a sharp rise in oil prices and the Indian crude oil basket now stands at over USD 110 /barrel. This has a big impact on inflation and following

the price rise, supplies of fuel could be constricted with severe consequences for industry. If prices go beyond tolerable limits, the Government may explore ways of sharing some of the price burden- indeed the roadmap for diesel decontrol has already been deferred. The Government faces a major challenge in ensuring that measures to bring down inflation do not stifle economic growth and employment generation.

The pace of investment in infrastructure is cause for concern as the targets in some key sectors have not been achieved. During FY 2007-08 to FY 2009-10, capacity additions have been under targets in power, roads (NHDP), new railway lines, and the target of doubling the length of railway lines nationwide.

Overall, the major concerns are the management of challenges on both - the domestic and external fronts, particularly: the worsening current account deficit and the adverse debt ratios in the face of rising global uncertainty.



Policy Prescriptions

The Survey points to the need for strong measures to address areas of concern and to put the reform agenda back on track.

Rising demand for food items along with relatively slower supply responses for many commodities is resulting in frequent spikes in food inflation. Supply side initiatives, such as PDS must be revamped to stem leakages through smart cards and coupons to ensure that limited supplies are directed to the target beneficiaries. On the demand-side, the introduction of the Food Security Bill, along with inflation management through continued anti-inflationary monetary policy stance are required. There is also the need to encourage a second Green Revolution.

There needs to be a continued focus on promoting inclusive growth through better

monitoring of and improvements to the National Rural Employment Guarantee Scheme. Private sector participation in health and education through the PPP model is essential if the Government is to supplement its existing efforts to tackle the huge challenges on both these fronts.

The Survey suggests measures to create a more investor friendly environment by addressing bureaucratic hurdles, land acquisition and environmental clearances issues for infrastructure projects. The negative impact of the crude shock should be mitigated through innovative infrastructure policies, development of alternative fuels and the reduction of administrative delays. There is also a need to deepen the capital markets and stimulate further development of the corporate bond market. The efficient taxation of goods and

services through GST will lead to healthy revenue collections.

The Survey also gives an overview of the performance of various sectors.

The Civil Aviation sector in India is going through challenging times. With ATF prices in India almost 60% higher than internationally and the widening differential in ATF prices and the huge negative impact of this on airline balance sheets is eroding competitiveness. There is severe risk of dampening passenger market growth by placing air travel out of reach for a significant portion of the market which was fueling its growth. The losses being registered by Indian carriers will result in reduced connectivity, thereby affecting growth in this sector.



In the Power sector, reforms are now essential in three directions – strengthening regulation, improving distribution, the opening bulk supply to competition, the revision of tariffs to more economical levels.

For Highways, the Survey recommends auctions for an efficient cost effective and transparent system of award of PPP projects for national highway development.

In the Banking Sector, the Survey recommends moving ahead with banking reforms: 1) It indicates that a two track licensing policy may be looked at, to address two levels of operations: provision of basic banking services (can be read as deposit taking and micro lending) and full blown commercial banking; 2) In keeping with such a dual approach, it goes on to suggest a graded start-up capital requirement for

a new bank, in keeping with the risks of the business model; 3) It seems that the government is now amenable to consider issuing bank licences to corporates, MFIs and NBFCs.

The survey strongly recommends opening up FDI in multi-brand retail. Overall, the Survey points to the need for balance between growth and inflation and between growth and environmental protection. Effective implementation and monitoring of the various measures announced in previous Budgets, particularly in relation to infrastructure, where actual investment has fallen short of budgetary plans in earlier years, is of critical importance.

Key Policy Announcements

Foreign Investment & Capital Markets

- Foreign investors who meet the KYC norms, will be allowed to invest in the equity schemes of SEBI registered Mutual Funds. Currently, only SEBI-registered FIIs and NRIs are allowed to invest in Mutual Funds.
- The FII investment ceiling for corporate bonds (with residual maturity periods of a minimum of five years) issued by infrastructure companies, is proposed to be increased from USD 5bn to USD 25bn. To facilitate SPV level investments, FIIs would also be permitted to invest in the unlisted bonds of infrastructure companies. A minimum lock-in period of three years will apply (except for inter-se trading amongst FIIs).

- Further liberalisation of FDI Policy is underway. While no specific policy announcements were made, some of the issues on which discussion papers were issued for public comments in 2010 are:
 - FDI in LLPs
 - Enhancement of FDI ceiling in the Defense Sector
 - FDI in Multi-brand Retail Trading
 - Issue of shares to a non resident for consideration other than cash
 - Liberalisation of policy where there are existing ventures/collaborations in the same field

Financial Sector Reforms

- The Financial Sector Legislative Reforms Commission, which was set up to streamline the financial sector laws, rules and regulations, will issue its recommendations within 24 months.
- RBI will issue guidelines for private banking licences by 31st March 2011. In August 2010, RBI had issued a discussion paper seeking public comments on a possible policy framework. The Banking Regulation Act will be amended to enable the implementation of the proposed policy.
- The Government will put in place an appropriate framework to protect the interests of micro-finance borrowers.

- A Central Electronic Registry will be set up under the SARFAESI Act to prevent fraud in loan cases involving multiple lending from different banks. The Registry will become operational on 31st March 2011.
- The FDI ceiling in the insurance sector is proposed to be increased from 26% to 49%, and “Health Insurance” will be made a separate category of license.
- The following legislation is proposed to be tabled before Parliament this year in order to carry out the above and other long-awaited reforms in the sector:

- The Insurance Laws (Amendment) Bill, 2008
- The Life Insurance Corporation (Amendment) Bill, 2009
- The revised Pension Fund Regulatory and Development Authority Bill (first introduced in 2005)
- Banking Laws Amendment Bill, 2011
- Bill on Factoring and Assignment of Receivables
- The State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2009
- Bill to amend the RDBFI Act 1993 and SARFAESI Act 2002



Food and Agriculture

- The cold chain, post-harvest storage and fertilizer industry will be recognized as an infrastructure sub-sector.
- States will review the Agriculture Produce Marketing Acts (Mandi laws) to create a unified agriculture market across the country, improve the existing supply chain and facilitate farm-to-fork integration.
- Capital investment in the creation of modern storage capacity will be eligible for the viability gap funding scheme run by the Ministry of Finance.
- 15 further Mega Food Parks will be set up which will create infrastructure around farms and food transportation, logistics and centralized processing centers.

- A National Food Security Bill intended to provide the poor with a legal guarantee for cheaper rice and wheat, will be introduced in Parliament during this year.

Manufacturing Sector

- The Government will introduce a National Manufacturing Policy to increase the competitiveness of the Indian manufacturing industry by reducing the compliance burden.
- A National Mission for Hybrid and Electric Vehicles will be launched to provide green and clean transportation for the public at large.
- A Group of Ministers has been set up to consider issues relating to environmental concerns. The Group will suggest changes to the existing statutes, rules, regulations and guidelines.

Other Legislative/Policy Reforms

- The Companies Bill 2009 will be introduced in the 2011 Budget session of Parliament.
- The Stamp Act (enacted in 1899) will be amended into a modern law.
- Government will introduce a comprehensive policy for the development of infrastructure projects under PPP model.
- A national policy will be announced to strengthen the prevention of trafficking of narcotic drugs.

Budget Financials

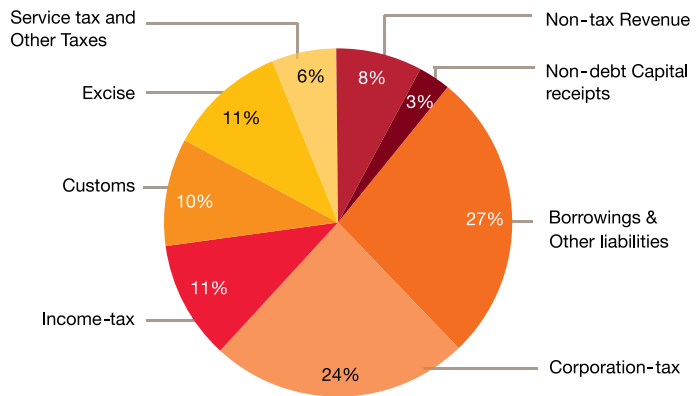
The following table sets out the Key Budget Financials:

(₹ in crores)	2009-2010 Actuals	2010-2011 Budget Estimates	2010-2011 Revised Estimates	2011-2012* Budget Estimates
1. Revenue Receipts	572,811	682,212	783,833	789,892
2. Capital Receipts ^	451,676	426,537	432,743	467,837
3. Total Receipts (1+2) ^	1,024,487	1,108,749	1,216,576	1,257,729
4. Non-Plan Expenditure	721,096	735,657	821,552	816,182
5. Plan Expenditure	303,391	373,092	395,024	441,547
6. Total Expenditure (4+5)	1,024,487	1,108,749	1,216,576	1,257,729
7. Revenue Expenditure	911,809	958,724	1,053,677	1,097,162
8. Capital Expenditure	112,678	150,025	162,899	160,567
9. Revenue Deficit (7-1) As a percentage of GDP	338,998 5.2%	276,512 4.0%	269,844 3.4%	307,270 3.4%
10. Fiscal Deficit (6 - (1+ Recoveries of Loans+ Other receipts) As a percentage of GDP	418,482 6.4%	381,408 5.5%	400,998 5.1%	412,817 4.6%
11. Primary Deficit (10-Interest payments) As a percentage of GDP	205,389 3.1%	132,744 1.9%	160,241 2.0%	144,831 1.6%

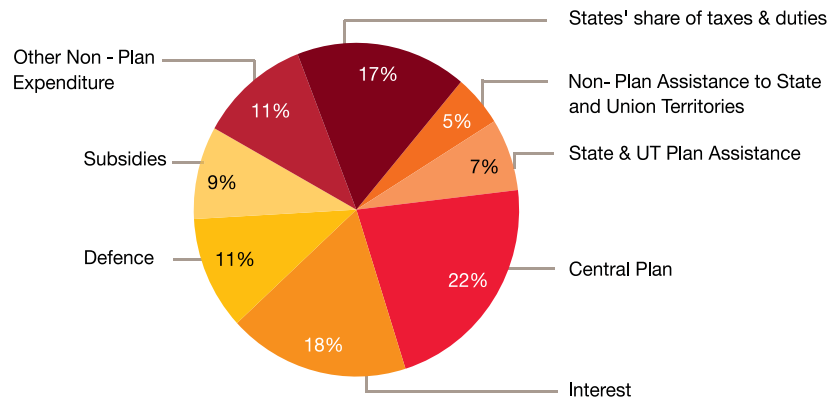
*GDP for BE 2011-12 has been projected at Rs. 89,80,860 crore assuming 14% growth over the advance estimate of 2010-11 (Rs 78,77,947 crore) released by CSO.

^ Does not include receipts in respect of Market Stabilization Scheme, which will remain in the cash balance of the Central Government and will not be used for expenditure.

Where the Rupee comes from



Where the Rupee goes to



Direct Tax Proposals

The Finance Minister, while presenting the tax proposals, mentioned that Government policy on direct taxes has already been outlined in the DTC and thus his focus would be on proposals which required urgent attention and prioritisation. These priorities included making taxes more moderate, simplifying payments for taxpayers and facilitating collection for the tax administration. Against this backdrop, the Finance Minister tabled his proposals on direct taxes which aligned the existing provisions with the proposed DTC and set the tone for a new and transparent tax system.

Direct Taxes Code

- The Government reiterated its intention of introducing the DTC from April 1, 2012.

Tax Rates

- Corporate tax rates are proposed to remain unchanged. However, MAT rate is proposed to be increased from 18% to 18.5%. In case of a domestic company or a foreign company having total income in excess of INR 10 million, the surcharge is proposed to be reduced from 7.5% to 5% and from 2.5% to 2% respectively. The revised effective tax rates are as follow:

Total Income	Existing		Proposed	
	Domestic Co.	Foreign Co.	Domestic Co.	Foreign Co.
Taxable income < INR 10 million (Normal corporate tax)	30.90%	41.20%	30.90%	41.20%
Taxable income < INR 10 million (MAT)	18.54%	18.54%	19.05%	19.05%
Taxable income > INR 10 million (Normal corporate tax)	33.22%	42.23%	32.45%	42.02%
Taxable income > INR 10 million (MAT)	19.93%	19%	20.01%	19.44%

- The effective DDT rate would be reduced from 16.61% to 16.22% due to the reduction in the surcharge.
- The tax slabs for individuals/HUF/AOPs are proposed to be revised as follow:

Existing slab rates		Proposed slab rates	
Income Slab (INR)	Tax Rate	Income Slab (INR)	Tax Rate
0-160,000	0%	0-180,000	0%
160,001-500,000	10%	180,001-500,000	10%
500,001-800,000	20%	500,001-800,000	20%
Above 800,000	30%	Above 800,000	30%

- The qualifying age for Senior citizens has been reduced from 65 years to 60 years.
- In the case of a resident woman (below 60 years of age), and a resident senior citizen (aged above 60 years but below

80 years), the amount of INR 180,000 shall be replaced with INR 190,000 and INR 250,000 respectively.

- A new category has been introduced for Very Senior Citizens (aged 80 years and above) wherein there will be no tax up to INR 500,000.

Infrastructure Debt Funds

- To augment long term and low cost funds from overseas for the infrastructure sector, it is proposed to set up dedicated infrastructure debt funds. The Government will issue guidelines in relation to this, and shall notify infrastructure debt funds to be set up in accordance with these guidelines.
- The income of the debt funds would be exempt from tax. However, the debt funds would be required to file tax

returns with the Indian tax authorities. Furthermore, any interest income received by a non resident taxpayer from such a fund would be liable to tax at a concessional rate of 5%. Consequently, the debt fund would also be required to withhold tax at the rate of 5% on gross interest payments to non-residents.

SEZ developers and SEZ units

- SEZ developers and SEZ units are allowed exemption from payment of MAT on book profits. It is proposed to discontinue the MAT exemption from FY 2011-12, meaning that SEZ developers/units would be required to pay MAT.
- SEZ developers are exempt from paying any DDT on profits distributed as dividends. It is proposed to discontinue the above DDT exemption

for any dividend distributed by the SEZ developers on or after June 1, 2011.

The above amendments align the existing provisions with DTC.

Business Income

- At present, a weighted deduction of 175% is available on payments made to National laboratories, research associations, universities and other specified persons. It is now proposed to increase the weighted deduction from 175% to 200%. DTC currently provides for a weighted deduction of 175% only.
- At present, the investment linked tax incentive is available to six specified types of businesses. It is proposed to extend the benefit to developing and building affordable housing projects notified by the CBDT, and to the production of

fertilizer in certain circumstances, if the date of commencement of operations is on or after April 1, 2011. However, DTC does not provide for a corresponding tax incentive for these businesses.

- Any sum paid by an employer as a contribution towards NPS shall be allowed as a deduction in computing its taxable income, subject to a maximum of 10% of the employee's salary.

Dividends received from foreign subsidiaries

- Dividends received by Indian Companies from their foreign subsidiaries are subject to tax at normal rates. It is proposed to tax these dividends at a concessional rate of 15%. However, no expenditure would be deductible while computing this dividend income. This amendment would be effective from FY 2011-12.

Deductions

- Contributions by employees and employers to the NPS are allowed as deductions up to an overall limit of INR 100,000. It is now proposed to exclude the employer's contribution from the above limit of INR 100,000.
- An investment of INR 20,000 in notified infrastructure bonds was allowed as a deduction in computing total income for the financial year 2010-11. This deduction was in addition to the overall limit of INR 100,000. It is proposed to extend this benefit to investments made in FY 2011-12.
- An undertaking engaged either in the generation, distribution, transmission of power or in substantial renovation and modernisation of the existing network

of transmission or distribution of power is currently allowed deduction for a period of ten years, if the undertaking commences operations on or before March 31, 2011. It is proposed to extend this date to March 31, 2012.

- A tax holiday of seven years was granted to entities engaged in the production of mineral oil. It is proposed to insert a sunset clause providing that the seven year tax holiday would not be allowed for blocks licensed under contracts awarded after March 31, 2011.

Alternate Minimum Tax on LLP

MAT provisions which were currently applicable only to companies have now been extended to LLPs in modified form of AMT. AMT will be applicable to LLPs at a rate of 18.5%. However, in the case of LLPs

AMT will apply to the adjusted total income (as per the Income Tax provisions) rather than the adjusted book profits, as is the case for companies. AMT credit is available to an LLP for 10 years. The amendment would be effective from FY2011-12.

Tax Return filing obligations

- The due date for filing tax returns in the case of companies falling within the ambit of transfer pricing regulations has been extended by two months to November 30. This will enable taxpayers use contemporary comparable data. This amendment is effective from FY2010-11.
- It is proposed that Government will be able to specify categories of persons who would be exempt from tax filing requirement. The Finance Minister in his speech referred to salaried individuals

for whom taxes have already been paid by the employer and reported in their withholding tax returns. This provision is proposed to be inserted from June 1, 2011.

Discouraging transactions with persons located in notified territories

In order to discourage transactions with persons located in any country/jurisdiction which does not effectively exchange information with India, certain anti-avoidance measures will be introduced with effect from June 1, 2011. These measures would enable the Government to designate any Country/jurisdiction not exchanging information with India as a 'notified jurisdictional area'. Once a country has been so notified, transactions between any taxpayer and a party located in a notified jurisdictional area would be deemed to

be a transaction between “associated enterprises” and transfer pricing regulations will apply accordingly. The following would also be implications of transacting with persons located in these jurisdictions:

- No deduction would be allowed on payments made to any financial institution unless an authorisation is issued to the income tax authorities to seek relevant information from the said financial institution.
- No deduction would be allowed for any expenditure or allowance (including depreciation) unless the taxpayer maintains the prescribed documents or provides the prescribed information to the tax authorities.
- On receipt of any sum from a person located in one of the above jurisdictional

areas, the burden would be on the taxpayer to explain the source of such money in the hands of the payer i.e. the taxpayer is required to explain the source of source of such money, , failing which the amount shall be deemed to be the income of the taxpayer.

- Payments chargeable to tax for persons located in notified jurisdictional areas would be liable for tax withholding at higher of the rates specified/rates in force or at the rate of 30%.

Promoting tax compliance

- In the budget proposals, there are several instances where the Government seems to be concerned with the menace of black money and tax avoidance by taxpayers using multiple tax jurisdictions. In light of this objective, it is proposed

to introduce an enabling provision to facilitate the prompt collection of information or documents from any person for the purpose of investigation by the tax authorities, at the request of tax authorities from outside of India, under various agreements entered into with foreign governments or specific associations.

- Similarly, in cases where the Indian tax authorities have requested information from their foreign counterparts, the time taken to collect this information or documents (subject to a maximum period of six months) would be excluded when computing the statutory time limit for the completion of an audit by the tax authority.

The above provisions are effective from June 1, 2011.

Increased compliance by Liaison Offices

In the recent past, the regulator, namely the RBI, had increased its scrutiny of LO activities in India and had directed them to file an Annual Activity Certificate, with a copy also sent to the Income Tax department. Now, the budget proposes to increase compliance and introduces a mandatory form to be filed annually by the LO with the tax department within sixty days from the end of the FY, starting from FY 2011-12 .



Settlement Commission

- In the Finance Act, 2010 the scope of the Settlement Commission, an alternative dispute resolution forum, was enlarged to include search and seizure cases of applicant taxpayers, provided they offered an additional Income Tax amount of INR 5 million. It is proposed to expand the class of applicants to include the relatives/ related enterprises of applicants, who can apply before the Commission by offering a lower additional income tax of at least INR 1 million in cases where an audit has been initiated by the tax authority against them.
- It is proposed to empower the Commission to rectify mistakes apparent from the record within six months from the date of passing its order. However, in cases where such rectification has the effect of modifying the liability of the taxpayer, the Commission shall grant an

opportunity of hearing to the taxpayer and the tax authority before doing so.

E-governance

There is continued effort on the part of the government to increase the use of information technology in Income Tax administration and compliance. There have been some delays in implementing the scheme of centralised processing of returns by CPCs and therefore it is proposed to provide them with an additional year to enable them to issue notification in this regard. Further, the Finance Minister mentioned that three more CPCs would be established during FY 2011-12 to cope with the increased work load.

Transfer Pricing

- Presently the arm's length range is based on a tolerance limit of +/- 5% of the transfer price. The Government has acknowledged that fixed variation is not appropriate and proposes to introduce appropriate variation limits from time to time. This amendment is effective from FY 2011-12.
- The TPO has been empowered to determine the arm's length price for any international transaction not referred to him by the tax officer.
- The TPO has been empowered to conduct surveys for spot inquiries and verification for subsequent investigation and collation of data. These amendments would be effective from June 1, 2011 and would apply to any audit proceedings pending as at that date

Mutual Funds

Mutual Funds	Existing		Proposed	
	Individual/HUF	Others	Individual/HUF	Others
Money market fund or a liquid fund	25%	25%	25%	30%
Other debt funds	12.5%	20%	12.5%	30%

Indirect Tax Proposals

Goods and services tax (GST)

While the Finance Minister did not indicate a specific deadline by which the GST would be introduced, he mentioned that there has been a considerable progress in the last four years and that the areas of divergence of opinion with the States have been narrowed.

As a step towards the roll-out of GST, it has been proposed to introduce the Constitution Amendment Bill in the current session of the Parliament. Work is also underway on drafting of the model legislation for the Central and State GST. Further, many of the amendments in the Central Excise, Customs and Service tax law, which include withdrawal of certain exemptions, retaining the present tax/duty rates and structure are aimed at aligning the present tax/duty structures consistent with the intended GST rates.

Public debate on taxing services based on a small negative list initiated

Customs

Budget 2011 has maintained the peak rate of Basic Customs Duty (BCD) on all non-agricultural products at 10%. Existing rates of 2%, 2.5% and 3% are being fused into a single rate of 2.5%. Self assessment both for imported and export goods being introduced.

The Import Tariff is proposed to be amended so as to achieve alignment with the international HSN effective 01.01.2012.

CENVAT

Standard rate of CENVAT maintained at 10%. The merit rate of CENVAT for non-petroleum goods has been increased from 4% to 5%. This would impact items such as medical equipment, drugs and

food products. With a view to prepare the ground for the transition to GST, a number of exemptions from CENVAT (about 130 entries) have been withdrawn. These include some cases where the rate of duty is Nil under the Tariff.

Service tax

The rate of service tax continues at 10%. The Government has broadened the service tax base by introducing two new categories of services and has expanded the scope of certain existing services.

The Government has introduced the Point of Taxation Rules, 2011 w.e.f. 01.04.2011. A modified scheme is being introduced to refund service tax to SEZ units and developers wherein, 'wholly consumed' services are defined in the notification in order to extend 'outright exemption' and

to permit refund of all other services on a proportionate basis. Penal provisions have been strengthened to ensure tax compliance.

Central sales tax

The rate of CST is maintained at 2% for inter-State sale of goods against Form C. States have been authorized to levy tax on declared goods @ 5% instead of 4%.

Proposals in Detail

CENVAT

Tariff

Notes to Chapter 15 (Animal or Vegetable Fats, Oils, Waxes, etc.), 22 (Beverages, Spirits and Vinegar), 26 (Ores, Slag and Ash), 63 (Made up of Textile Articles), 71 (Pearls, Precious Stones, etc.) and 72 (Iron and steel) have been amended to

prescribe certain process as amounting to 'manufacture'.

Tariff value for charging duty on readymade garments and textile made-ups would be 60% of the retail sale price.

Optional levy of branded garments or made ups has been converted into a mandatory levy at unified rate of 10% without CENVAT credit facility. Further, SSI exemption has been extended to such goods.

Motor vehicles of headings 87.02 and 87.03 which are registered for use solely as ambulance after clearance are eligible to a concessional effective rate of 10% by way of a refund mechanism of the balance amount paid at the time of clearance. For factory-built ambulances, concessional effective rate of 10% can be claimed at the time of clearance from the factory.

A refund-based concession available to taxis with a seating capacity not exceeding seven persons including the driver has been extended to vehicles up to a seating capacity not exceeding 13 persons including the driver. Further, instead of a concessional effective rate of 10% ad valorem, the manufacturer of such vehicles would be entitled to a concessional effective rate equivalent to 80% of the excise duty paid on such vehicle at the time of clearance.

Exemption on goods required for Mega Power Project has been extended to power cables used within the generation facility of such a project. It has also been clarified by an explanation that ash disposal system including ash dyke, coal transportation and water intake systems are integral parts of such a project.



Rate of central excise duty on gold and silver arising in the course of manufacture of unwrought copper from copper ore or concentrate through the smelting process has been rationalised at Rs.300/- per 10 grams and Rs.1,500/- per kg respectively.

Concessional rate of provided for environment friendly and energy saving goods such as hydrogen vehicles and hybrid kits.

Excise duty on packaged software to be levied on media value, where MRP not required to be affixed

Illustrative list of items on which exemption from excise duty has been withdrawn and which would attract concessional rate of 1% without CENVAT facility:

- Coffee or tea pre mixes
- Sauces, ketchup and the like and preparation thereof

- Soups and broths and preparation thereof
- All kind of food mixes, including instant food mixes
- Ready to eat packaged food
- Fly Ash
- Ready-mix concrete
- Coal, Lignite, Peat, Coke, Tar, etc.

Excise duty exempted on the following categories of goods:

- Air-conditioning equipment, panels and refrigeration panels for installation of cold-chain infrastructure for preservation, storage or transport of agricultural produce and apiary, horticultural, dairy, poultry, aquatic & marine produce and meat as well as processing thereof

- Conveyor belt systems for use in cold storages and in mandis and warehouses for the storage of food grains and sugar
- Goods required for the expansion of an existing mega/ultra mega power project subject to specified conditions
- Specified parts of sewing machines (other than those with inbuilt motors)
- Parts of power tillers when cleared to another factory of the same manufacturer for manufacture of power tillers
- Parts/ components of PC connectivity cable required for its manufacture
- Colour, unexposed cinematographic film in jumbo rolls of 400 feet and 1000 feet
- Pipe fittings required for a water supply project

Swings In Excise Duty Rates (Illustrative)

Goods On Which Duty Reduced From 10% to 5%		
Goods	Existing Rate (%)	New Rate (%)
Kits for the conversion of fossil fuel vehicles into hybrid vehicles and parts of such kits	10	5
Grease proof paper and glassine p per	10	5
Parts of inkjet & laser-jet printers	10	5

Goods on which duty increased from NIL to 5%		
Goods	Existing Rate (%)	New Rate (%)
Micro-processors, other than motherboard; floppy disc drives; hard disc drive; CD ROM drive; DVD drives/ writers; flash memory and combo drive meant for fitment inside a Laptop/ CPU	NIL	5

Changes in rate of cement & clinker		
Goods	Existing Rate	New Rate
a. In case of mini-cement plant		
1. Cement cleared in packaged form -		
i. of RSP not exceeding Rs. 190 per 50 kg bag or of per tonne equivalent RSP not exceeding Rs. 3800	Rs. 185 per tonne	10% ad valorem
ii. of RSP exceeding Rs. 190 per 50 kg bag or of per tonne equivalent RSP exceeding Rs. 3800	Rs. 315 per tonne	10% ad valorem + Rs. 30 per MT
2. Cement cleared other than in packaged form	Rs. 215 per tonne	10% ad valorem
b. Other than mini-cement plant		
1. Cement cleared in packaged form -		
i. of RSP not exceeding Rs. 190 per 50 kg bag or of per tonne equivalent RSP not exceeding Rs. 3800	Rs. 290 per tonne	10% ad valorem + Rs. 80 per MT
ii. of RSP exceeding Rs. 190 per 50 kg bag or of per tonne equivalent RSP exceeding Rs. 3800	10% of the retail sale price	10% ad valorem + Rs 160 per MT
2. Cement cleared other than in packaged form	10% or Rs. 290 per tonne, whichever is higher	10% ad valorem
Cement clinker	Rs. 375 per tonne	10% ad valorem + Rs. 200 per MT

Miscellaneous		
Goods	Existing Rate (%)	New Rate (%)
Refined gold made from gold ore or concentrate	Rs. 280 / ten grams	Rs. 200 / ten grams

Non Tariff

Central Excise Act, 1944

(Changes to be effective upon the enactment of Finance Bill, 2011)

Section 4A has been amended to substitute the reference to Standard of Weight and Measures Act, 1976 with the Legal Metrology Act, 2009 w.e.f. 1st March 2011 since the earlier Act has since been repealed.

Section 11A and 11AC has been redrafted. Section 11AB has been omitted and Section 11AA has been amended to include the liability of interest in general.

While the earlier provisions have been retained, a new category under Section 11A(5) has been introduced, which provides that where during the course of audit, investigation or verification, any duty becomes payable, in respect of which

the limitation period is five years, general penalty of 50% of the duty would be payable.

A first charge on the property of the goods of the defaulter of central excise duty has been created by newly inserted Section 11E, subject to relevant provisions contained in the Companies Act, 1956, the RDBFI Act, 1993 and the SRFAESI Act, 2002.

The rate of interest payable under Section 11AA and 11AB has been increased from 13% to 18% w.e.f. 1st April 2011.

Parts, component and assemblies of vehicles (including chassis fitted with engine) falling under Chapter 87 excluding vehicle falling under heading 8712, 8713, 8715 and 8716 are included in the Third Schedule of the Central Excise Tariff retrospectively from

27.02.2010. Consequently, the packing or repacking, labeling or re-labeling, etc of such products would be covered within the ambit of 'deemed manufacture' under Section 2(f).

CENVAT Credit Rules, 2004

(Changes to be effective from 1st April, 2011)

Retrospective amendment in Rule 3 to include the eligibility of CENVAT credit of the service tax levied under Section 66A of the Finance Act, 1994 (reverse charge mechanism) w.e.f. 18th April 2006.

Definition of 'capital goods' has been widened to include goods used outside the factory of the manufacturer of the final products for generation of electricity for captive use within the factory.

Definition of 'exempted goods' has been amended to include goods on which nominal central excise duty @1% is discharged.

Definition of 'exempted services' has been amended to include taxable services, whose part of value is exempted on the condition that no credit of inputs or input services, used for providing such taxable service, has been taken. Further, an explanation has been inserted to also include 'trading' in the definition of exempted service.

'Input' has been redefined to mean all goods used in the factory by a manufacturer or for generation of electricity or steam for captive use or for providing output service and goods including accessories, cleared along with the final product, the value of which is included in the value of the final product and goods used providing free warranty for

final products subject to specified exclusions

Definition of input service has been amended to exclude specified services, relating to construction of a building or a civil structure or a part thereof and for laying a foundation or making of structures for support of capital good unless it is provided by a sub-contractor to the main contractor.

Rule 3 has been amended in respect of the following –

- CENVAT credit of the duty of excise is not allowed when paid on goods in respect of which benefit of an exemption under Notification No. 1/2011-C dated 1st March 2011 has been availed.
- CENVAT credit is not allowed in excess of 85% of the additional duty of customs paid under section 3(1) of the Custom

Tariff Act on ship boats and other floating structures for breaking up.

- Restriction of utilisation of CENVAT credit towards payment of duty of excise on goods in respect of which benefit of an exemption under Notification No. 1/2011-C dated 1st March 2011 has been availed.
- Amount equal to credit availed not required to be paid on removal of input as such for providing free warranty for final products.

Amount equal to CENVAT credit taken on inputs or capital goods to be reversed even if the value of such inputs/capital goods is partially written off in the books of accounts.

CENVAT credit availed on input service to be reversed in proportion to amount paid back to service provider.

Rule 6 is being amended to –

- Reduce the requirement of payment of 6% of the value of exempted service to 5%.
- Provide an option to maintain separate accounts for inputs alone and reverse the amount of input service credit as per the allocation formula.
- Payment made under this Rule shall be treated as credit not availed for the purpose of an applicable exemption, with a condition for not availing CENVAT credit in the first place.
- Earlier facility of unconditional full credit on specified services under Rule 6(5) has been withdrawn.

50% of the credit availed will be available for utilisation towards payment of service tax under (banking and other financial service) by a Banking Company and

Financial Institutions and other provisions of Rule 6 will not be applicable

80% of the credit availed will be available for utilization towards payment of service tax by the providers of life insurance service and management of investment under ULIP and other provisions of Rule 6 will not be applicable

Provision of taxable services, without payment of service tax, to a Unit in SEZ or to a Developer of SEZ for their authorised operations, does not attract the provisions of Rule 6.

Manufacturers availing exemption under notifications based on value or quantity of clearances in a financial year shall file their returns within ten days of the close of the quarter to which such return relates instead of earlier 20 days.

Central Excise Rules, 2002

(Changes to be effective from 1st March 2011)

In respect of goods falling under Chapter 61, 62 or 63 of the First Schedule to the Central Excise Tariff Act, Central Excise Rules have been amended to prescribe that the liability to pay duty and comply with central excise procedures shall be on the principal manufacturer, on whose behalf goods would be manufactured by job workers. Alternatively, the job worker may be authorised to discharge the duty liability and comply with central excise procedures.



CUSTOMS

Tariff

The rate of BCD on the following goods has been reduced to NIL:

- specified raw material such as toughened glass, silver paste and polyester insulation tapes for use in manufacture of excisable products
- specified goods for use in manufacture of handicrafts for export
- specified materials and equipment for construction of roads based in bio-based asphalt
- PC connectivity cables and sub-parts and components required for manufacture of PC connectivity cables, battery charges, head phones for cellular phones
- de-oiled rice bran oil cake, fin fish feed, cotton waste, stainless steel scrap
- specified accessories for use in manufacture of textile or leather garments or leather/synthetic footwear or leather products
- value of gold and silver content in copper concentrate
- specified parts such as batteries for use in manufacture of electrically operated and hybrid vehicles
- tunnel boring machines, parts and components for assembly of tunnel boring machines used for highway projects
- cash dispensers and parts and components of cash dispensers
- endovascular stents
- spares and consumables for repair of ocean going vessels registered in India

A concessional rate of 5% BCD is applicable on the following goods:

- four life saving drugs along with the bulk drugs used therefore
- specified raw material for manufacture of syringes, needles, catheters and cannulae;
- mailroom equipment such as overhead conveyor, stacker, wrapper, labeller, strapper for use with high speed printing machines
- parts and components for manufacture of high voltage transmission equipment subject to actual user condition
- micro irrigation equipment falling under chapter 84
- polypropylene, stainless steel strip and stainless capillary tube for manufacture

of syringe needles, catheters , cannulae

- raw silk (not thrown), sodium polyacrylate
- PT MEG and MDI for the manufacture of spandex yarn
- specified machinery for the manufacture of gems and jewellery
- solar lanterns and lamps
- all ferro alloys other than ferro nickel

The following goods are chargeable to a concessional rate of BCD @2.5%:

- aircraft imported by non scheduled category operators for passenger or chartered operations
- specified agricultural machinery and parts and components thereof
- ferro nickel, rayon grade wood pulp,

acrylonitrile, petroleum coke , CBFS, gypsum

- all goods used in, or supplied to units for the manufacture of paper, paper board and news print
- new pneumatic tyres used on aircraft
- propellers, rotors and other parts of aircraft
- vanadium pentaoxide or vanadium sludge

BCD on the following goods has been reduced from 30% to 10%

- cranberry products
- raw pistachios
- live SPF L. Vannamei broodstock
- bamboo for use in manufacture of agarbatti
- lactose used in manufacture of homeopathic medicine

Reduction in BCD on from 10% to 7.5%

- caprolactum
- nylon chips, nylon yarn, nylon tow

The exemption from BCD available to pamphlets, brochures, leaflets and similar printed matters has been withdrawn

The following goods have been exempted from levy of export duty:

- iron ore pellets;
- chromium ores and concentrates, all sorts;
- raw cotton and cotton waste;

Export duty has been levied on the following products:

- 10% on de-oiled rice bran cakes
- 20% on agglomerate and non agglomerates iron ore and concentrates

except iron ore pellets;

The exemption from education cess and secondary and higher education cess available to aeroplanes and other aircraft has been withdrawn

The following goods have been fully exempted from customs duty:

- PC connectivity cables;
- sub-parts, component and accessories for manufacture of PC connectivity cables, battery chargers, hands free headphones of mobile handsets

The following goods have been specifically exempted from levy of additional customs duty in lieu of excise duty (CVD):

- specified accessories for use in manufacture of textile or leather garments or leather/synthetic footwear or leather products

- packaged software, not subject to RSP affixation requirements, are exempt from CVD to the extent of value of right to use.

Concessional rate of 5% CVD has been imposed on the following goods:

- specified mailroom equipment;
- specified raw material for manufacture of syringes, needles, catheters and cannulae;
- parts and components required for high voltage power transmission projects;
- batteries imported for electrically operated vehicles

The following goods have been exempted from levy of additional duty of customs in lieu of sales tax/VAT (ADC):

- copper dross, copper residues, copper oxide mill scale, brass dross, zinc ash;

- specified raw material for manufacture of syringes, needles, catheters and cannulae;
- parts of ink jet and laser jet printers;
- light emitting diodes for use in manufacture of LED lights and fixtures ;
- solar lanterns and lamps;
- parts and components required for high voltage power transmission projects;
- specified mailroom equipment;
- parts of DVD drive and DVD writers, combo drives and CD Rom drives
- patent and proprietary medicine

The ambit of “water supply projects” for Project Import benefit has been expanded to include water pumping stations, water storage and reservoir

The definition of ‘Completely Knocked Down’ has been included for purposes of classification of motor vehicles for BCD

The definition of Coking Coal has been included for purposes of exemption from BCD

Exemption to UMPP expanded to include ash handling system and water handling system

The current exemption from ADC has been extended to goods traded by an SEZ into DTA where not exempt from VAT/ Sales Tax



Non-Tariff

The Customs Act, 1962 is proposed to be amended to introduce self assessment of imported goods subject to verification and re-assessment, as necessary by the revenue authorities.

The requirement of cash security under Project Imports Scheme has been done away with maximum Bank Guarantee of INR 1 Crore option to importer.

The time limit for filing of refund claim/issuance of show cause notice has been extended from 6 months to 1 year

The Customs Act, 1962 has been amended to create first charge on the property of defaulters towards recovery proceedings subject to the charges already created under various other acts.

The Customs Act, 1962 has been amended to provide retrospectively for in line with the National Litigation Policy

The benefit under available reward schemes such as Served from India Scheme, Focus Market Scheme, Focus Product Scheme etc. is proposed to be made available towards fulfillment of export obligation under EPCG Scheme.

Swings in Customs Duty Rates (Illustrative)

Goods on which duty reduced from 10% to 5%		
Goods	Existing Rate (%)	New Rate (%)
Solar lamps and lanterns	10	5
Specified life saving drugs and bulk drugs required for manufacture of the specified drugs	10	5

Goods on which duty reduced from 10% to 7.5%		
Goods	Existing Rate (%)	New Rate (%)
Caprolactum	10	7.5
Nylon Chips, fibre and tow	10	7.5

Goods on which duty reduced from 30% to 10%		
Goods	Existing Rate (%)	New Rate (%)
Raw pistachios	30	10
Cranberry products	30	10
Live SPF L. Vannamei broodstock	30	10
Bamboo for use in manufacture of agarbatti	30	10
Lactose used in manufacture of homeopathic medicine	30	10

Goods on which duty reduced from 30% to 5%		
Goods	Existing Rate (%)	New Rate (%)
Raw silk (not thrown)	30	5

Goods on which duty reduced from 7.5% To 5%		
Goods	Existing Rate (%)	New Rate (%)
Sodium polyacrylate	7.5	5
Specified gems and jewellery machines	7.5	5
Micro irrigation equipment	7.5	5

Goods on which duty reduced from 7.5% To 2.5%		
Goods	Existing Rate (%)	New Rate (%)
Parts and components of specified agriculture machinery	7.5	2.5

Goods	Existing Rate (%)	New Rate (%)
Ferro Nickel	10	2.5

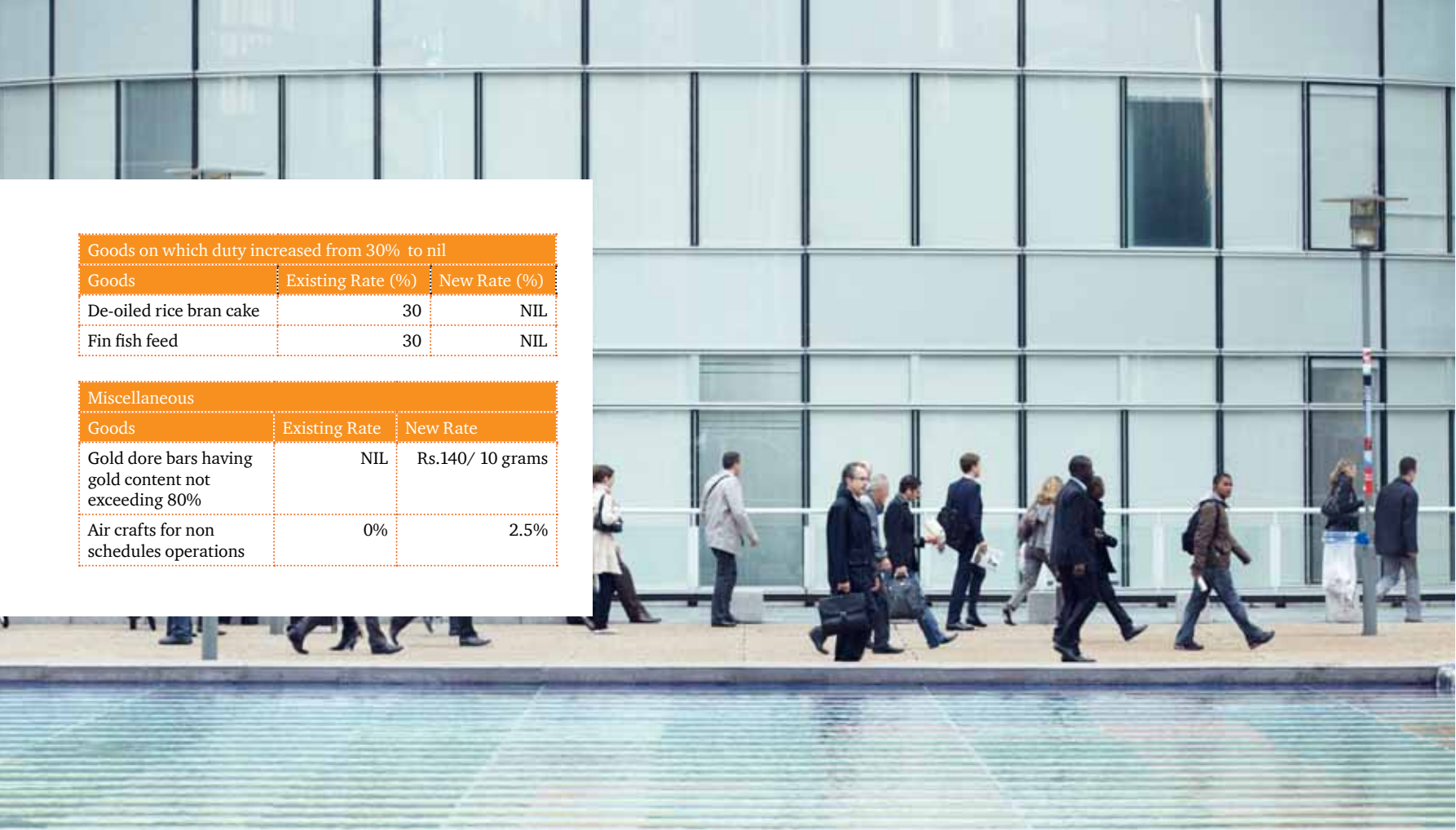
Goods on which duty reduced from 5% to 2.5%		
Goods	Existing Rate (%)	New Rate (%)
Rayon grade wood pulp	5	2.5
Paddy transplanter, laser land leveller, cotton picker, reaper-cum binder, straw or fodder baler	5	2.5
All goods used in or supplied for manufacture for paper, paper board and newsprint	5	2.5
Gypsum	5	2.5

Goods on which duty increased from 30% to nil

Goods	Existing Rate (%)	New Rate (%)
De-oiled rice bran cake	30	NIL
Fin fish feed	30	NIL

Miscellaneous

Goods	Existing Rate	New Rate
Gold dore bars having gold content not exceeding 80%	NIL	Rs.140/ 10 grams
Air crafts for non schedules operations	0%	2.5%



SERVICE TAX

Levy of service tax has been extended to the following two new categories of services:

- Services provided by air-conditioned restaurants with a license to serve alcoholic beverages (70% abatement for arriving at taxable value is proposed)
- Hotel, Inn, Guesthouse, Club or campsite, or any other similar establishment providing accommodation for a period less than three months (50% abatement for arriving at taxable value is proposed)

The above changes will come into effect from a date to be notified after the enactment of the Finance Bill, 2011.

The scope of some existing categories of taxable services has been amended as follows:

- 'Life Insurance service' being widened to cover all services provided, including re-insurer. The composition rate is also being increased from 1% to 1.5%
- 'Club or Association service' is being expanded to include services provided to non-members.
- 'Authorized Service Station service' is being expanded to cover decoration and other similar services
- 'Business Support services' is being expanded to include operational or administrative assistance in any manner
- Legal Consultancy services is being expanded to include:
 - a. Advice or consultancy services provided by a business entity to an individual and vice versa
 - b. Representational services
 - c. Service of 'arbitration' provided by an arbitral tribunal
- Commercial training or coaching service is being expanded to bring all training and coaching courses within the tax net
- Health services is being expanded to include:
 - a. All services, including diagnostic services provided by a Centrally air-conditioned (wholly or partially) clinical establishment with more than 25 beds for in-patient treatment during any part of the year;

- b. Diagnostic services being provided by a clinical establishment with the aid of laboratory or other medical equipment; and
- c. Services provided by a doctor who is not an employee of a clinical establishment, from the premises of such establishment.

(Government hospitals are kept outside this scope. 50% abatement for arriving at taxable value is proposed)

Exemption from Service Tax w.e.f. 1st March 2011 has been provided to:

- Services provided by an organizer of Business Exhibitions in relation to Business Exhibitions held outside India.
- Transport of goods through coastal and inland shipping to an extent of 25% from the taxable value

- Works Contract service provided for construction or finishing of new residential complex under 'Jawaharlal Nehru National Urban Renewal Mission' and 'Rajiv Awaas Yojana'.
- Services provided within a port or other port or an Airport under the 'Works contract' service for specified purposes.
- 'General insurance' service provided under the 'Rashtriya Swasthya Bima Yojana' Scheme

Exemption from service tax w.e.f. 1st April 2011 has been provided to:

- 'Transport of goods by air service to the extent of value of air freight included in the assessable value of goods for charging Customs duties
- Services related to transportation of goods by road, rail or air when both the

origin and the destination are located outside India

Exemption from Service Tax w.e.f. 1st April 2011 has been withdrawn/amended as under:

- The rates of service tax on travel by air are being revised as follows:
 - a. Domestic travel (economy class): Exemption in excess of 10% of the gross value of the ticket or Rs.150/- per ticket (earlier Rs.100/-) whichever is less
 - b. International travel (economy class) - Exemption in excess of 10% of the gross value of the ticket or Rs.750/- per ticket (earlier Rs.500/-) whichever is less
 - c. Domestic travel (other than economy class) – 10% of the gross value of ticket

Compliance mechanism and amendments proposed in the Act:

- Interest on delayed payment to be increased
 - a. For assesses having turnover upto Rs. 60 Lakhs p.a.- from 13%p.a. to 15% p.a. to be effective from a date to be notified
 - b. For other assesses - from 13% p.a. to 18% p.a. to be effective from 01.04.2011.
- Provisions relating to penalty streamlined.
- Penalty for delay in filing of return increased from Rs. 2,000/- to Rs. 20,000/-.
- A new section 88 is being inserted so as to create first charge on the property of the

defaulter for recovery of Service Tax dues from such defaulter subject to provisions of section 529A of the Companies Act, the RDBFI Act, 1993 and SRFAESI Act, 2002.

- The provisions relating to prosecution under section 89 to be reintroduced in the following situations:
 - a. Provision of service without issuance of invoice;
 - b. Availment and utilization of CENVAT credit without actual receipt of inputs or input services;
 - c. Maintaining false books of accounts or failure to supply any information or submitting false information; and

d. Non-payment of amount collected as service tax for a period of more than six months.

Amendments in Rules w.e.f. 1st April 2011:

- Monetary limit for adjustment of excess tax paid increased from Rs. 1,00,000/- to Rs. 2,00,000/-.
- Rules prescribed for determination of value of service in relation to money changing taxable under Banking and Financial Services
- Amendment has been brought in to prescribe that in relation to telecommunication services, the value of the taxable service shall be the gross amount paid by the ultimate service recipient.



Amendments in Rules and Notifications
w.e.f. 1st March 2011

- Credit on certain input services like 'Erection, Commissioning or Installation', 'Commercial or Industrial Construction' and 'Construction of Complex Services' available to a person providing 'Works contract service' to the extent of 40% of tax paid, when such tax has been paid on full value of the service after availment of CENVAT credit on inputs.

Criteria for the following taxable services amended in the Export of Service Rules, 2005, w.e.f. 1st April 2011:

- 'Special service provided by builder' to fulfill the criterion of location of immovable property outside India

- Rail travel agent services, health check up and preventive care services to fulfill the performance based criterion
- Credit rating agency services, market research agency services, technical testing and analysis services, transport of goods by air services, goods transport agency services, opinion poll services and transport of goods by rail services to fulfill the criterion of location of recipient outside India

Identical changes have been made in the Taxation of Services (Provided from Outside India) Rules, 2006, in relation to the above mentioned services.

The Point of Taxation Rules, 2011 have been framed and made effective from 01.04.2011. These rules determine the point of time when the services shall be

deemed to be provided. The earliest of the following shall be deemed to be the time of provision of service in the case of domestic services:

- Date on which service is provided or to be provided
- Date of invoice
- Date of payment

The earliest of the following shall be deemed to be the time of provision of service in case of import of services:

- Date of invoice
- Date of payment

Consequent to these changes, the liability to remit service tax will be shifted from the currently receipt of payment to the time of the earliest of provision of service, date of invoice or date of payment.

A modified scheme is being introduced to refund Service Tax to SEZ units and developers where ‘wholly consumed’ services are defined in the notification in order to extend ‘outright exemption’ and to permit refund of all other services on a proportionate basis

Abbreviations

ADC	Additional Duty of Customs
AMT	Alternate Minimum Tax
AOP	Association of Persons
APMC Act	Agriculture Produce Marketing Committee Act
ATF	Aviation Turbine Fuel
BCD	Basic Customs Duty
bn	Billion
CBDT	Central Board of Direct Taxes
CE Act	Central Excise Act, 1944
CENVAT	Central Value Added Tax
CPC	Central Processing Centres
CSO	Central Statistical Organisation
CST	Central Sales Tax
CVD	Countervailing Duty
DDT	Dividend Distribution Tax
DTC	The Direct Taxes Code, 2010

EPCG	Export Promotion Capital Goods Scheme
FDI	Foreign Direct Investment
FII	Foreign Institutional Investor
FOB	Free on Board
FY	Financial year
GDP	Gross Domestic Product
GST	Goods and Services Tax
HSN	Harmonised System of Nomenclature
HUF	Hindu Undivided Family
INR	Indian Rupees
KYC	Know Your Customer
LLP	Limited Liability Partnership
LO	Liaison Office
MAT	Minimum Alternate Tax
mn	Million
MRP	Maximum Retail Price
NHDP	National Highways Development Project

NPS	New Pension System
NRI	Non Resident Indian
PDS	Public Distribution System
PPP	Public Private Partnership
RBI	Reserve Bank of India
RDBFI Act	Recovery of Debts Due to Banks and Financial Institutions Act, 1993
SARFAESI Act	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
SEBI	Securities and Exchange Board of India
SEZ	Special Economic Zone
SPV	Special Purpose Vehicle
SSI	Small Scale Industry
TPO	Transfer Pricing Officer
UID	Unique Identification
UMPP	Ultra Mega Power Projects

UPA	United Progressive Alliance
USD	U.S. Dollar
Valuation Rules	Service Tax (Determination of Value) Rules, 2006
VAT	Value Added Tax

Notes

Notes

Select Award Wins

2010

India Tax Firm of the Year 2010 by ITR

Best Tax Services 2010 for funds by Asian Investor

Best Tax Services 2010 for real estate sector by Euromoney magazine

2009

India Tax Firm of the Year 2009 by ITR

2008

India Tax Controversy Firm of the Year 2008 by ITR

Best Tax Planning Team of the Year 2008 by European CEO magazine

Business Superbrand 2008 by Superbrands India

2007

Tax Firm of the Year 2007 by ITR

2006

India Transfer Pricing Firm of the Year 2006 by ITR

2005

India Transfer Pricing Firm of the Year 2005 by ITR

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