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Sustaining Growth Momentum

Budget Webcast



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Economic Performance

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Economic Performance¹

Economic Performance

¹Source: Economic Survey 2011 except Fiscal Deficit & FDI/FII

²Source : Budget estimates

³Source: DIPP Website

Budget 2011
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GDP Growth (FY 11)	8.6%	
GDP Growth (FY12E)	8.75 – 9.25%	
Fiscal Deficit² (FY11)	5.1%	
Fiscal Deficit (FY12E)	4.6%	
Foreign Exchange Reserves	\$297.3b	
FDI (Apr-Nov 10)³	\$19b	
FII (Apr-Nov 10)	\$31b	
Tax / GDP Ratio	9.5%	
Direct tax/ GDP	5.4%	
Indirect Tax/ GDP	4.0%	

Key Macro Initiatives

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Key Macro Policy Announcements

- Fiscal roadmap (FRBM) for next 5 years to be rolled out
- National Food Security Bill to be introduced
- NREGA wage rates to be indexed to inflation (CPI)
- Financial sector legislative reforms proposed (Insurance, Pension, etc)
- RBI guidelines for private banking licences by March 31, 2011
- “India Microfinance Equity Fund” to be set up to support smaller MFIs
- Infrastructure status for cold chains and warehousing facilities and fertiliser companies
- Disinvestment continued to be pursued; management control to be retained

Key Tax and Regulatory Announcements

- DTC to be effective from April 1, 2012
- Companies Bill and GST constitutional amendments to be introduced in Budget session
- Indian Stamp Act to be reviewed
- Foreign investment liberalisation talks on
 - FDI in mutual funds on the cards
 - FII investment limits in infrastructure corporate debt enhanced
- Facilitating infrastructure financing (Notified infrastructure debt funds, tax-free bonds, etc)
- Self-declaration for customs purposes
- Anti-tax evasion measures proposed

Direct Taxes

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Budget 2011
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February 2011
Slide 8

Personal Tax Rates

Tax Rates	Existing Slab Rates	Proposed Slab Rates	Proposed Slab Rates in Direct Tax Code
Nil	Upto Rs. 1.60 lakhs	Upto Rs. 1.80 lakhs	Upto Rs. 2 lakhs
10%	Rs. 1.60 lakhs to Rs. 5 lakhs	Rs. 1.80 lakhs to Rs. 5 lakhs	Rs. 2 lakhs to Rs. 5 lakhs
20%	Rs. 5 lakhs to Rs. 8 lakhs	Rs. 5 lakhs to Rs. 8 lakhs	Rs. 5 lakhs to Rs. 10 lakhs
30%	Above Rs. 8 lakhs	Above Rs. 8 lakhs	Above Rs. 10 lakhs
Special Threshold limit	Resident Women- upto Rs. 1.90 lakhs	Resident Woman- upto Rs. 1.90 lakhs	Resident Women- Silent
	Resident Senior Citizen (age 65 years)– upto Rs. 2.40 lakhs	Resident Senior Citizen (60 – 79 yrs)– upto Rs. 2.50 lakhs Resident Senior Citizen (80 yrs & above)– upto Rs. 5 lakhs	Resident Senior Citizen (65 yrs & above) – upto Rs. 2.50 lakhs
Education Cess	Education Cess – 2% SH Education Cess – 1%	Education Cess – 2% SH Education Cess – 1%	Silent

No change for resident woman tax payers

Effective tax savings of Rs. 2,060

Senior Citizen : 60-79 years : tax savings of Rs. 1,030

: 80 year & above – tax savings of Rs. 26,780/-

Corporate Tax Rates

Particulars	Effective Tax Rates		
	Current	Proposed in Union Budget 2011	Proposed in Direct Taxes Code*
Domestic Companies	33.22%	32.45%	30%
Non-Resident Companies	42.23%	42.02%	30% + 15% BPT
Minimum Alternative Tax	19.93%	20.01%	20%
Dividend Distribution Tax	16.61%	16.22%	15%

* DTC Bill is silent about Surcharge and Education Cess

Incentive Regime...



Power

- Sunset clause for tax holiday for power sector extended till March 31, 2012

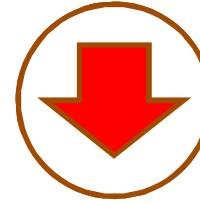
Investment-linked incentives

- Extended to affordable housing projects and new fertiliser production plants and newly installed capacity
- Deduction from new hotels and hospitals can be adjusted against income from existing hotels and hospitals

Infrastructure Debt fund (IDFs)

- Income of notified IDFs exempt
 - w.e.f. June 1, 2011; guidelines to be prescribed
- Interest payable to non-resident lender taxable at concessional rate of 5%
- Taxability of income distribution by notified IDFs ?

...Incentive Regime



SEZ Developers and Units

- MAT and DDT exemption for SEZ developers withdrawn
 - DDT levy on dividend declared after June 1, 2011
- MAT exemption for units in SEZ also withdrawn

Mineral Oil

- Tax holiday for commercial production of mineral oil - not available for blocks awarded after March 31, 2011, under NELP

Corporate Tax proposals...

Weighted deduction for Scientific Research

- Deduction for contribution to eligible scientific research institutions, etc raised to 200% from 175%

Dividend income from foreign subsidiary taxable at lower rate

- Indian company to hold more than half of the nominal value of equity capital
- Taxable at concessional rate of 15% on gross basis – effective tax rate 16.223%
- No deduction allowed for any expenditure or allowance (for above purpose)
 - Is interest expenditure otherwise deductible?

New Pension System (NPS)

- Employer contribution up to 10% of salary - allowed as tax deductible
 - Consequential amendment to Section 40A(9)?

...Corporate Tax proposals

Transfer Pricing

- Standard 5% variation for transfer pricing purposes done away with
 - Allowable % variation to be notified
- TPO provided with survey powers

Others

- Distribution tax rates enhanced for income distribution by debt funds from 20 / 25% to 30%
- Time limit for Approval from EPFO for seeking exemption - extended to March 31, 2012

LLPs Taxation & Individual

Alternative Minimum Tax for LLPs

- Adjusted Total Income taxable at 18.5%
- Adjusted total Income = Total Income + Deduction under Chapter VI-A and Section 10AA (SEZ unit income)
 - Other Section 10 items not to be included (exempt capital gains, dividends, etc)
- Credit allowed for 10 years

Individual taxation

- NPS Contribution by employer excluded from overall limit of Rs. 1 lakh for deduction under section 80C, etc.
- Additional deduction for investment in long term infrastructure bonds upto Rs. 20k extended by one year

Anti-evasion measures...

- Memorandum to Finance Bill

“In order to discourage transactions by a resident assessee with persons located in any country or jurisdiction which does not effectively exchange information with India, anti-avoidance measures have been proposed in the Income-tax Act”

- Transfer pricing provisions to apply
 - Deemed “associated enterprises” and “international transaction”
- Treatment of receipts
 - Potential taxation of Indian assessee if receipt is unexplained

...Anti-evasion measures

- Treatment of payments
 - Disallowance of expenditure/payments
 - If adequate supporting documentation not maintained (over and above TP documentation?)
 - Payments to financial institutions unless authorisation provided by resident tax payer to seek information from such financial institution
 - Higher withholding tax applicable on payments made (30% or higher applicable rate)
- Possible treaty override?

Tax Administration and Litigation

- Due date for tax returns by companies subject to Transfer Pricing, extended to November 30
- Notified classes of persons likely to be exempted from filing Tax Returns
- Liaison Offices required to file annual information statement
- National Litigation policy announced by the Government to reduce tax litigation

Indirect Taxes



General

- Significant progression towards introduction of GST
- No change in peak/standard rate of Customs Duty, Excise Duty and service tax
- Term 'Input', 'Input Services', 'Exempted Goods' and 'Exempted Services' re-defined
- Standard of Weights and Measure Act, 1976 replaced by Legal Metrology Act, 2009
- Tariff to be amended to include latest changes in the HSN effective 1.1.2012
- Point of taxation rules made effective from 1.4.2011
- Amendment made in line with National Litigation Policy
- Interest rate on delayed payment increased from 13% to 18%

Customs Duty...

- Definition of 'Completely Knocked Down' added for concessional customs duty
- CVD on packaged software to be levied on media value, where MRP not required to affixed
- BCD @2.5% levied on import of aircraft by non scheduled operators
- Exemption from BCD, SAD and CVD @5% on specified parts of hybrid vehicles
- All clearances (manufactured or traded) from SEZ to DTA exempt from SAD provided VAT/CST is not exempt
- Exemption from full customs on parts, component and accessories for manufacture of PC connectivity cables/battery chargers/hands free headphones of mobile handsets

...Customs Duty

- List of specified raw materials for use in electronics/IT industry, eligible for custom duty exemption expanded
- Exemption from SAD to P&P Medicines imported for retail sale
- Requirement of cash security done away under project imports which will be subject to a maximum BG of INR 1 Crores
- Time limit for filing of refund claim/ issuance of show cause notice extended from 6 months to 1 year
- Provisions of self assessments and audits introduced

Excise Duty...

- 1% duty has been imposed on 130 specified items which were earlier exempted, subject to non-availment of CENVAT credit
- Full exemption from duty withdrawn on IT products such as micro processors for computers etc.
- Duty rates on cement changed from specific rate to ad valorem
- Concessional rate of duty on merit goods increased from 4% to 5%. This would impact items such as medical equipment, drugs and food products
- Full exemption granted to equipment (air-conditioning/conveyer belt) for used for cold storage
- Concessional rate of provided for environment friendly and energy saving goods such as hydrogen vehicles and hybrid kits

...Excise Duty

- Excise duty on packaged software to be levied on media value, where MRP not required to affixed
- Amendments made to carve out special category of cases (where five years limitation period is invoked) to provide 50% of the penalty amount in those cases where the assessee has recorded the transaction in its books
- The Third Schedule has been amended to provide packaging, re-packaging of parts of earthmoving equipments as manufacture w.e.f.29/4/2010

Service Tax...

- 2 new services introduced
 - Services by air-conditioned restaurants having license to serve liquor
 - Short-term accommodation in hotels/inns/clubs/guest houses etc.
- Expansion in scope of existing services, including:
 - Health Services
 - Legal Services
 - Life Insurance Services
 - Business Support Services
- Point of Taxation Rules, 2011 effective from 1.4.2011 and corresponding alignment in Service Tax Rules
- Penalty provisions redefined

...Service Tax

- Port, Airport and railways related exemptions provided
- Provisions relating to Prosecution reintroduced
- Export & Import of Services Rules amended
- Modified scheme introduced to refund service tax to SEZ units and Developers

CENVAT Credit...

- Definition of inputs and input services has been amended to exclude inputs/input services used for construction of building /civil structure, laying of foundation, etc.
- Definition of inputs to include goods cleared for free warranty
- Definition of input services amended to exclude trading activity
- Inputs and inputs services primarily used for personal use or consumption of employees excluded – services such as outdoor catering, health insurance, life insurance, etc. has been specifically excluded
- Credit required to be reversed when inputs or capital goods have been partially or fully written off in the books of accounts. Earlier, the provision was applicable only when the inputs were fully written off in books of accounts

...CENVAT Credit

- Definition of inputs and input services has been amended to exclude inputs/input services used for construction of building / civil structure, laying of foundation, etc.
- Rule 6 (5) of the Credit rules has been omitted. Now the manufacturer or service provider is eligible to claim proportionate credit on all services attributable to taxable activity in terms of Rule 6(3A)
- The amount payable on exempted services (when credit on common inputs/input services has been claimed) has been reduced from 6% to 5%
- Service tax paid under reverse charge to qualify as eligible credit under Rule 3 of CENVAT Credit Rules, 2004 from 18.4.2006
- The restriction on credit under Rule 6 is not applicable in case the taxable services are provided without payment of service tax to SEZ unit/zone/developer

Unfinished Agenda

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Unfinished Agenda

- Definite roadmap for FDI in retail and insurance
- Roadmap for IFRS convergence
- Advance Pricing Agreements and Safe Harbour provisions
- Extension of sunset clause for tax holiday for STPIs/EOUs and Industrial Parks
- Mitigation of DDT cascading effect in case of multi-tier structure
- Budget proposals a step towards GST, but no clear roadmap for its introduction
- Integration of Excise and Service tax on the output side
- Steps towards mitigating inflation like abolition of additional duty of customs (SAD)
- Elimination of tax cascading same transaction subject to Central & State levies (e.g.) Trade Marks

Contact us

Ketan Dalal

Ketan.Dalal@in.pwc.com

Nitin Karve

Nitin.Karve@in.pwc.com

Vivek Mishra

Vivek.Mishra@in.pwc.com

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