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Gaining Insights
Budget Analysis 2010

February 2010

Direct Taxes

Corporate Taxation

- Reduction in surcharge for domestic companies from 10% to 7.5%.
- Minimum Alternate Tax (MAT) increased from 15% to 18%.
- Weighted deduction rate enhanced for the following research activities:
  - 150% to 200% on in-house Research and Development (R&D) expenditure
  - 125% to 175% on payment to specified institutions for scientific research
  - 125% on payment to approved association engaged in research in social sciences or statistical research.
- Investment linked deduction extended to new two star and above hotels anywhere in India.
- Relaxation of conditions for claiming deduction on approved housing projects:
  - Time limit for completion of the projects approved on or after 1 April 2005 extended from 4 years to 5 years
  - Norms for built-up area of shops and other commercial establishments relaxed
- Turnover/ Gross receipts limits for tax audit increased from Rs. 4,000,000 to Rs. 6,000,000 for business and from Rs.1,000,000 to Rs.1,500,000 for profession.
- Payments to residents allowed as deduction if tax deducted at source at any time during the year is deposited on or before the due date for filing return of income.
- Income of non-residents in the nature of interest/ royalty/ fees for technical services utilized in India deemed to accrue or arise in India irrespective of the place of rendering services.
- Non-resident service providers for exploration activities will not be eligible for presumptive taxation if they have a fixed place of business in India.

Personal Taxation

- Income tax slabs for individuals broadened (20% for income between Rs. 500,000 – 800,000 and 30% for income above Rs. 800,000).
- Deduction of Rs. 20,000 on subscription to notified long term infrastructure bonds over and above the existing limit of Rs. 100,000.
- A two page form SARAL-II for individual tax returns to be notified.

Other Amendments

- Conversion of a private or unlisted public company (turnover up to Rs.6,000,000 in any of the preceding three years) into a Limited Liability Partnership (LLP):
  - conversion not subject to capital gains tax subject to prescribed conditions
  - carry forward of business loss and unabsorbed depreciation allowed to successor LLP
  - no carry forward for MAT credit
- Beneficial computation provisions for SEZ units amended vide Finance (No.2) Act, 2009 clarified to apply from assessment year 2006-07.
- Income of approved association engaged in social sciences and statistical research exempt from tax.
- Turnover limits for presumptive taxation of eligible business increased from Rs. 4,000,000 to Rs. 6,000,000.
- Interest charged on non-deposit of TDS within specified due date increased from 12% to 18% per annum.
- Increase in threshold limits for deduction of tax at source on certain payments to residents.
- Deductor/ Collector of TDS/ TCS to continue to furnish TDS/TCS certificates even after 1 April 2010.
- Transfer of shares for inadequate or no consideration brought within tax ambit:
  - Applies to a transfer of shares of a company (in which the public are not substantially interested) to a firm or company (in which the public are not substantially interested)
  - Specified business reorganizations excluded

Indirect tax

Customs Duty

- Peak rate of customs duty for non agricultural products retained @ 10%
- Basic customs duty on crude petroleum, petrol, diesel and other specified petroleum products increased by 5%
- Goods imported in pre-packaged form for intended retail sale and other goods namely ready-made garments, mobile phones and watches are exempted from Special Additional Duty
- Concessional rate of customs duty under project import scheme extended to specified type of projects
- Basic Customs Duty rate on all medical, surgical, dental and veterinary equipments and parts thereof reduced to 5% with complete exemption from Special Additional Duty
- Customs duty on import of motion pictures, music and gaming software in recorded media to be levied only on the cost of the medium, freight and insurance

- Electrical energy supplied from a Special Economic Zone to Domestic Tariff Area and non processing area of Special Economic Zone to attract 16% duty with retrospective effect from 26th June, 2009
- Condition of import of packaged or canned software 'for commercial exploitation' to claim exemption on the value representing consideration for grant of right to use software removed
- Specific restrictions for availing benefit under settlement of cases relaxed
- Countervailing duty on import of medicines liable for excise duty under Medicinal and Toilet Preparations (Excise Duties) Act, 1955 to be levied on the basis of MRP less amount of available abatement

Excise Duty

- General CENVAT rate increased from 8% to 10%
- Excise duty on petrol and diesel increased
- Clean energy cess proposed to be levied on coal, lignite and peat produced in India
- Supplies made to mega power projects exempted from excise duty subject to fulfillment of conditions. CEVNAT credits on inputs used in manufacture of such goods available.
- Requirement of pre-authentication of invoices dispensed with
- Sending of jigs, fixtures, moulds and dies to a vendor for production of goods according to the specification of the principal manufacturer without reversal of credit permitted
- Excise duty on goods covered under Medicinal & Toilet Preparation Act reduced from 16% to 10%
- No penalty shall be imposed where duty along with interest has been paid before the issuance of a demand notice by the Department. Similar provision inserted for Service Tax

Direct Taxes Code and Goods & Services Tax expected to be rolled out by April 1, 2011

Service tax

- Service Tax rate continues to be 10%
- Eight new taxable services introduced
- Scope of certain existing services expanded
- Service tax on the services provided in the continental shelf and Exclusive Economic Zone made applicable to construction and operation of installations, structures and vessels for the purpose of prospecting or extraction or production of mineral oils and natural gas and supply of any goods connected with these activities
- Export of services rules relaxed by removal of the condition of provision of services from India and use of such services outside India
- Transmission of electricity exempted from levy of service tax
- Pre-packaged Information Technology software, with the license for right to its use, is being exempted from service tax, subject to specified conditions
- Transportation of food grains and pulses by road exempted from levy of service tax
- Services provided by Indian news Agencies which are liable for service tax under the categories 'Online Information and Database Retrieval Service' and 'Business Auxiliary Service' exempted subject to specified conditions
- Exemption provided to 'Transport of Goods by Rail services' withdrawn with grant of abatement of 70% from value of taxable services. Exemption from service tax under this category to certain essential goods restored.
- Retrospective changes made in provisions and procedures governing refund of CENVAT credit to exporters of service.
- Provisions relating to Export and Import of services amended so as to change criteria for being qualified as export or import for specified taxable services and to substitute the definition of 'India'

Central Sales Tax

- Central sales tax rate against prescribed declaration form continues to be 2%
- For assessing transactions of transfer of goods, tax authorities provided with the power of re-assessment and revision under specific circumstances