

India Budget 2010

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Foreword

The Union Budget for 2010-11 was presented by the Finance Minister in Parliament today.

The year 2009-10 began as a difficult one. There was a significant slowdown in the growth rate in the second half of 2008-09, following the economic crisis that began in the developed world and spread to other parts of the world. The growth rate of the GDP in 2008-09 was 6.7%, with growth in the last two quarters hovering around 6%. There was apprehension that this trend would persist for some time, as the full impact of the economic slowdown in the developed world worked through the system. Yet, over the span of the year, the economy posted a remarkable recovery, not only in terms of overall growth figures but, more importantly, in terms of certain fundamentals, which justify optimism for the Indian economy in the medium to long run. A major concern during 2009-10, especially in the second half, was the emergence of high double digit food inflation.

In the run up to the Budget, there were expectations that the broad based nature of the recovery could result in the Government looking at a gradual rollback of some of the measures undertaken as part of the policy response to the global slowdown. In line with this expectation, the budget has proposed an increase in the excise duty rates by 2%.

Increase in the personal income-tax slabs is expected to promote consumption by increasing disposable incomes. To provide added incentive for companies to maintain their investment in innovation, and to attract new R&D activity, the proposals seeks to enhance the weighted deduction available for such expenditure. While corporate industry may not have expected a reduction in the tax rates, the proposal to increase the MAT rate to 18% may have come as a surprise, especially given that the rate was increased to 15% only in the last budget. There were expectations that the Government would consider another extension of the tax holiday for STP and EOUs. Absence of any such proposal may be a disappointment; but is perhaps understandable in view the stated policy of phasing out most tax incentives.

There was speculation in recent times on the status of the structural tax reforms initiated by the Government on both

the direct and indirect taxes. The Finance Minister has clarified that it expects to implement both the DTC as well as GST by 1 April 2011.

Overall, the Government appears to have adopted a balanced approach while framing the budget proposals. One can expect more activity on tax reforms in the coming months in view of the Government's intention to implement the DTC and the GST by the beginning of the next financial year.

26 February 2010

Ernst & Young

At a glance

Income-tax

- ▶ Basic exemption limit and income-tax rates for individuals remain unchanged. Income slab limits have been widened.
- ▶ Basic rates of corporate tax remain unchanged for both domestic and foreign companies.
- ▶ Surcharge on domestic companies reduced from 10% to 7.5%.
- ▶ MAT rate increased from 15% to 18% (plus applicable surcharge and education cess) of book profits.
- ▶ Place of rendering services not relevant for determining the taxability of the income of a non resident by way of interest, royalty or fees for technical services.
- ▶ Deduction for payments to residents on which taxes are withheld will be allowed if taxes are paid before the due date of filing the tax return.
- ▶ Royalty and fees for technical services excluded from presumptive taxation in case of non-residents having a permanent establishment in India for certain businesses.
- ▶ Threshold limit of turnover for tax audit in case of business increased from INR 4 million to INR 6 million.
- ▶ Threshold limit of turnover for tax audit in case of profession increased from INR 1 million to INR 1.5 million.
- ▶ Threshold limit of turnover for computing profits and gains of business (other than business of plying, hiring or leasing goods carriages) on presumptive basis increased from INR 4 million to INR 6 million.
- ▶ In order to qualify for deductions for capital expenditure, the condition for proportion of pipelines to be made available for use on common carrier basis would need to be as per the regulations prescribed by PNGRB.

- ▶ Capital linked incentive deduction to be allowed to taxpayers engaged in building and operating new hotels in India of two-star or above category.
- ▶ Weighted deductions for scientific research expenditure enhanced.
- ▶ Period for completion of housing projects approved on or after 1 April 2005 extended from 4 years to 5 years for availing incentive deduction for developing and building housing projects.
- ▶ Norms for built up area of shops and other commercial establishments included in eligible housing projects relaxed.
- ▶ Extension of time limit for commencement of operations of hotel or construction of convention centre in the NCT and other specified areas extended from 31 March 2010 to 31 July 2010.
- ▶ Method of computation of profits eligible for tax holiday in case of SEZ undertakings streamlined retrospectively.
- ▶ Transfer of immovable property for an inadequate consideration, by an individual or HUF, will not be taxable.
- ▶ Property received by an individual or HUF will be taxable only if it is in the nature of a capital asset in the hands of the recipient.
- ▶ Transfer of shares to a firm or a company (in which public is not substantially interested) for an inadequate or nil consideration, will now be taxable in the hands of recipient.
- ▶ Additional deduction of INR 20,000 for individuals and HUFs for investments in Central Government notified long term infrastructure bonds.
- ▶ Contribution by individuals to Central Government Health Scheme will be eligible for deduction.
- ▶ Tax neutrality (except non availability of MAT credit) on conversion of small private company or an unlisted company into LLP subject to satisfaction of stipulated conditions.

- ▶ Time limit for issue of notification to give effect to the scheme for centralized processing of returns by the Government extended to 31 March 2011.
- ▶ Maximum penalty for failure to get accounts tax audited increased from INR 100,000 to INR 150,000.
- ▶ Threshold limit of payments for applying withholding tax provisions has been raised.
- ▶ Interest on delay in payment of taxes withheld increased to 1.5% per month.
- ▶ Certificate for taxes withheld/ collected to be furnished even after 1 April 2010.
- ▶ Assessment/ reassessment proceedings initiated on account of search and requisition of books, assets, etc to come under the purview of Settlement Commission in case the additional tax payable on income disclosed in the application exceeds INR 5 million.
- ▶ The time limit for passing an order by the Settlement Commission in case of applications filed on or after 1 June 2010 extended to 18 months (earlier 12 months) from the end of the month in which the application is filed.
- ▶ High Court empowered to condone delay for sufficient cause in filing of appeals/ reference application.
- ▶ In computing the taxable income for non life insurance companies, only realized profit or loss on investments to be included.
- ▶ Revenue authorities to allot and quote DIN for every notice, letter, order or correspondence on or after 1 July 2011.
- ▶ Exemption of income of approved research associations engaged in social science research or statistical research.
- ▶ Commissioner has been granted powers to cancel the registration obtained prior to 1 April 1996 by a trust or institution engaged in charitable activities.

Customs duty

- ▶ No change in the peak rate of BCD.
- ▶ Retrospective withdrawal of exemption with effect from 26 June 2009 leading to levy of customs duty of 16% on supply of electrical energy from SEZ to DTA and to non processing areas of SEZ.
- ▶ Project Imports status granted to certain specified projects with concessional BCD at 5%.
- ▶ Relaxations granted in relation to Settlement Commission procedures.

Excise duty

- ▶ Partial rollback of fiscal stimulus. Peak excise duty rate for most non petroleum products from 8% to 10%.
- ▶ Provisions and procedures related to claiming refund of unutilised Cenvat credits used in relation to exported goods rationalised. Rationalisation to be effective from 14 March 2006.
- ▶ Clean energy cess will be imposed on coal, lignite and peat produced in India from a notified date.
- ▶ Relaxations granted in relation to Settlement Commission procedures.

Service tax

- ▶ No change in effective service tax rate of 10.3%.
- ▶ Service tax extended to various services including permitting use of copyrights relating to cinematographic films and sound recording, promotion of brands, health services undertaken for employees of business entities and services provided by Electricity Exchanges.
- ▶ Renting of immovable property, any service in relation to renting and use of vacant land for future construction to attract service tax from 1 June 2007.

- ▶ Amounts received from buyer prior to grant of completion certificate deemed to be construction service rendered by builder to buyer.
- ▶ Ambit of taxable IT services extended to include IT services provided for non commercial purposes.
- ▶ Sponsorship of sports to attract service tax.
- ▶ Definition of “India” for service tax to cover construction and operation of installations, structures and vessels for the purpose of prospecting, extracting or production of mineral oils and natural gas in the Continental Shelf and Exclusive Economic Zone of India.
- ▶ Condition of “service provided from India and used outside India” to qualify as export deleted. Performance based criteria for determining export of services by chartered accountant, cost accountant changed to “location of service recipient”.
- ▶ Exemption from service tax to packaged or canned software intended for single use, where excise duty or customs duty has been paid on entire amount received from buyer.
- ▶ Procedures outlined and provisions amended to simplify refund of service tax for exporters.
- ▶ No penalty imposed where service tax along with interest has been paid before issuance of notice.

Sales tax

- ▶ No change in the present CST rate of 2%.
- ▶ GST proposed to be implemented with effect from 1 April 2011.

Key performance indicators

The Economic Survey 2009-10 reports the estimated GDP growth for this year at 7.2% as against 6.7% in 2008-09. The continued recession in the developed world, for the better part of 2009-10, meant a sluggish export recovery and a slowdown in financial flows into the economy. Yet, over the span of the year, the economy posted a remarkable recovery, not only in terms of overall growth figures but, more importantly, in terms of certain fundamentals, which justify optimism for the Indian economy in the medium to long term.

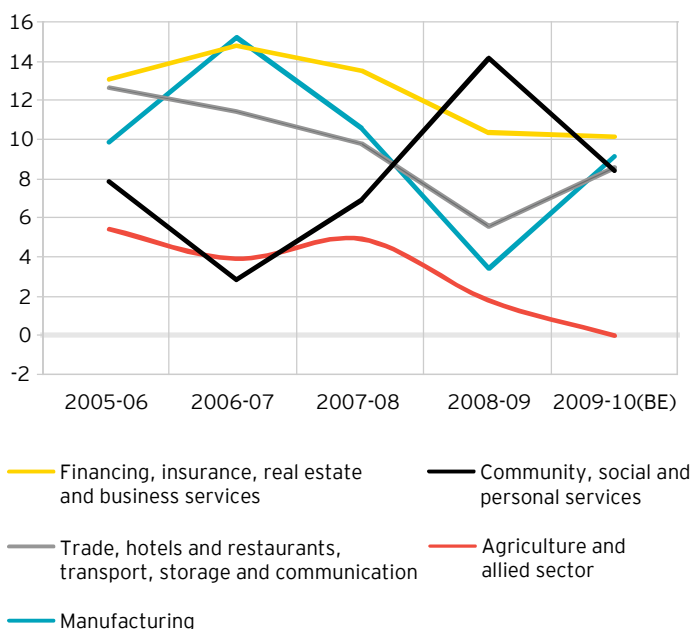
Agriculture and allied sector: The sector is estimated to have registered a negative growth of 0.2% in 2009-10 as against a growth of 1.6% in 2008-09 as a consequence of sub-normal monsoons.

Industry: The growth of the industrial sector has accelerated in the current year. The index of industrial production for 2009-10 points towards a sharp upward trend with an estimated growth of 8.2% as against 3.9% in 2008-09.

The manufacturing sector registered a growth of 8.9% in 2009-10 as against a growth of 3.2% in 2008-09. Mining registered a growth of 8.7% in 2009-10 as against a growth of 1.6% in 2008-09 while electricity registered a growth of 8.2% in 2009-10 as against a growth of 3.9% in 2008-09.

Services: The growth in the sector has been mixed. Trade, hotels, restaurants, transport and communication (together) reported a growth at 8.3% in 2009-10. Construction services registered a growth of 6.5% in 2009-10 as against a growth of 5.9% of GDP in 2008-09. Community services registered a growth of 8.2% in 2009-10 as against a growth of 13.9% in 2008-09. Likewise, growth in the financial, insurance, real estate and business services registered a growth of 9.9% in 2009-10 as against a growth of 10.1% in 2008-09.

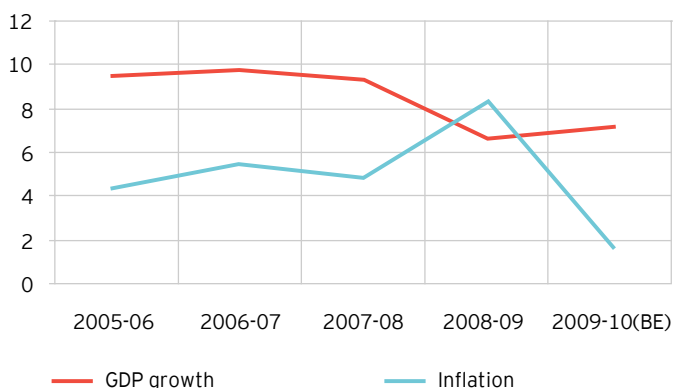
Sectoral growth rate (%)



Other key economic indicators are summarized below:

- The annual average rate of inflation in WPI terms for April-December 2009 was 1.6% as against 8.4% in 2008-09. A major concern during 2009-10, especially in the second half, was the emergence of high double-digit food inflation. Weekly food price inflation on a year-on-year calculation reached a maximum of 19.95% for the week ending 5 December 2009.

GDP growth and inflation (%)

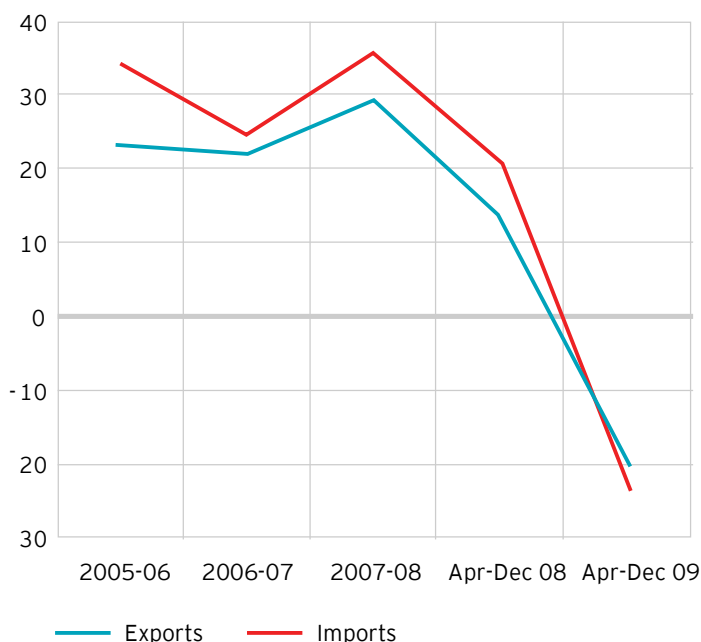


- Net capital inflows rose from a level of USD 12 billion in April-September 2008 to USD 29.6 billion in April-September 2009. All the components, except loans and banking capital, that comprise net capital inflows showed improvement during April-September 2009 from the level in the corresponding period in 2008-09.

The net inward FDI into India remained buoyant at USD 21 billion during April-September 2009 as against USD 20.7 billion in April-September 2008. Foreign exchange reserves increased by USD 31.5 billion from USD 252 billion in end March 2009 to USD 283.5 billion in end December 2009.

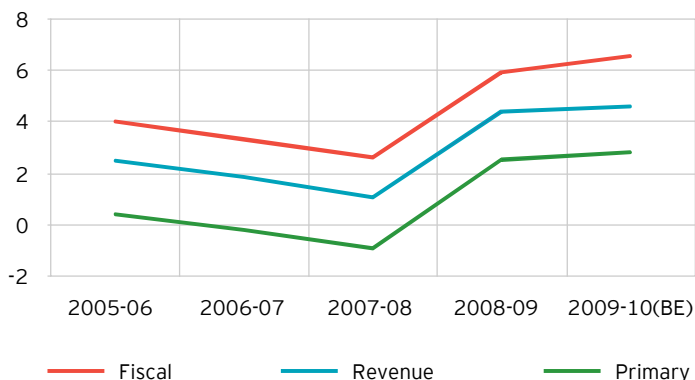
Merchandise exports registered a decline of 27% in the period April-September 2009 as against a growth of 48.1% in the corresponding period in 2008-09. Import payments registered a decline by 20.6% during the period April-September 2009 as against an increase of 51% in the corresponding period in 2008-09. The decline in imports is mainly attributed to the base effect and decline in oil prices.

Foreign trade (%)



- Fiscal deficit increased from 5.9% in 2008-09 to 6.8% of GDP in 2009-10. Primary deficit increased from 2.5% of GDP in 2008-09 to 2.8% of GDP in 2009-10. Revenue deficit increased from 4.4% of GDP in 2008-09 to 4.6% of GDP in 2009-10.

Fiscal, revenue and primary deficit (% of GDP)



- The Indian equity markets, which had declined sharply during 2008, reflecting the volatility in international financial markets and foreign institutional investment outflows, began the year 2009 on a subdued note. The market remained range bound during April-March 2009 but exhibited signs of recovery from April 2009. With the revival of FII interest in emerging market economies including India, the equity markets gained strength during May-July 2009.

The movement in equity indices in the Indian capital market was in line with trends in major international equity markets, a sign of increasing integration. Against the backdrop of these trends in Indian equity markets, the regulatory measures initiated during the year were clearly in the direction of introducing greater transparency, protecting investors' interests and improving efficiency in the working of Indian equity markets, while also ensuring the soundness and stability of the Indian capital market.

Recommendations of the Economic Survey 2009-10

The Economic Survey 2009-10 has recommended the following key initiatives:

- **Agriculture:** The agriculture sector faces various challenges which have to be addressed sooner rather than later. As farm productivity is not showing desirable

growth there is urgent need to focus on research as well as better agricultural practices to ensure that productivity levels are increased in the shortest time possible. The issue of efficient food stocks management and offloading of stocks in time also needs due consideration. Studies indicate adverse impact of climate change on agriculture. Crop improvement and research to develop drought-resistant, high-yielding varieties of seeds assumes importance with a view to combating adverse impact of drought on food production and to ensure food security.

Renewed attention needs to be paid to improving farm production and productivity, better utilization of agricultural inputs, proper marketing infrastructure and support, stepping up investment in agriculture with due emphasis on environmental concerns and efficient food management.

- **Industry:** The cyclical slowdown in the industrial sector that began in 2007-08 got compounded by the twin global shocks in 2008-09. The effects lingered on briefly in the current fiscal, but growth rebound is amply evident. The improvement in the cost structure of manufacturing companies seems to have catalyzed the process of recovery. While higher prices are an incentive to the producer, they also have implications for the cost structure and the demand for manufactured products. This trade-off needs to be carefully managed.

Growth in infrastructure should also be focused upon as it not only alleviates the supply side constraints in industrial production, but also stimulates additional domestic demand required for industrial growth. Apart from the need for sustaining the high growth in labor intensive sectors, another critical challenge in this respect would be to erase the skill deficit with a multi-faceted program for skill upgradation. Given the size of the Indian market and the unmet demand for industrial products, along with the growth momentum in the overall GDP, there is reasonable hope that demand would not by itself be a constraining factor. Besides, domestic financial market and external resource flows have given the impression that raising investible resources would not be a major problem. All these factors, combined with the inherent strength of industrial corporates brighten the industrial outlook in the medium term.

- **Finance:** Institutional players and corporates constitute major players in the Indian capital market. The retail investor participation remains limited in the corporate debt market and mutual funds. The interdependence between corporate and mutual funds has recently raised concerns relating to volatility in financial markets.

The recent global financial turmoil raised many issues about governance of financial intermediaries and awareness of investors. A simultaneous and coordinated effort on both fronts would help investors take well informed financial decisions besides protecting their interests and ensuring orderly conditions in markets. Greater effort therefore is needed for investor education and promoting investors' protection.

Pension reforms in India have generated widespread interest internationally. The PFRDA faces the challenge of expanding the distribution network of the NPS to cover the entire unorganized sector in the country, educate citizens to take appropriate investment decisions, based on their risk and return profile and contribute to improved financial literacy levels. Provision of a statutory status to the pension regulator would help the PFRDA perform its regulatory and developmental roles effectively. The success of pension reforms will not only facilitate the flow of long term savings for development, but also help establish a credible and sustainable social security system in the country.

Capital market solution for catastrophe risk insurance is another area that needs focus. This essentially transfers insurance risk of natural calamities like earthquakes, hurricanes and floods to the capital markets through issue of catastrophe bonds. The instrument is widely used in advanced countries and there is scope for introducing it in countries like India to provide insurance against contingencies.

- **Taxes:** As a proportion of gross tax revenue, direct taxes rose from a level of 19.1% in 1990-91 to reach 49.9% in 2007-08; in 2008-09 (provisional), they were at 55.5%. In terms of year-on-year growth, in 2008-09, reflecting the two distinct halves of the financial year with different economic environments, direct taxes grew by 14.3% with personal income-tax rising by 20.8%

and corporate income-tax by 10.8%. There was corresponding decline in the share of indirect taxes in the period from 1990-91 to 2007-08. However, service tax has emerged as a major component with a 10% share in 2008-09. In terms of year-on-year growth, in 2008-09, indirect taxes fared poorly with decline in both excise and customs while service tax moderating to a lower growth of 18.6%.

In view of the uncertainties associated with the impact of the crisis and not so strong signs of recovery, the budget for 2009-10 continued fiscal expansion to boost demand and acknowledged of bringing about structural changes in direct taxes through the draft DTC and moving towards a harmonized GST. Based on the trends available for April-December 2009, there is likely to be a shortfall in revenue receipts on account of the large decline in indirect taxes like customs and excise and the likely lower than budgeted non tax revenues.

The largely structural nature of fiscal deficits in India, the levels of recovery in the economy and the sustainability of the recovery without fiscal stimulus call for resumption of the process of fiscal consolidation in a gradual manner. Going forward, the nature of the fiscal consolidation - whether it should rely on revenue growth, which is in turn linked to the growth recovery, or on greater expenditure cuts is important in the traditional incremental adjustment process; but lasting fiscal consolidation could accrue with reforms in the design and delivery of plan schemes, outcome focused expenditure and institutional reforms.

- ▶ **FDI policy reforms:** The Economic Survey 2009-10 offers following FDI policy reform options:
 - ▶ Liberalization of FDI in the insurance sector of health insurance and removing the 10 year disinvestment clause.
 - ▶ Liberalization of FDI in the rural banking, higher education and the animation sector.
- ▶ **External trade:** The outlook for India's trade sector in 2010 has brightened with prospects of recovery in world output and trade volumes. In the Indian scenario, while in the short term relief and stimulus measures have worked, some fundamental policy changes are needed. For the merchandise sector, these include

furthering tariff reforms by lowering the peak duties from the present 10% to 7.5%, by tweaking the rates in the dominant intermediate goods category of imports besides capital goods, weeding out unnecessary customs duty exemptions, streamlining export promotion schemes, further reduction in excise duties, giving special attention to export infrastructure along with rationalization of port service charges, rationalizing the tax structure, fine tuning the trade strategy by targeting exports of dynamic products to developed markets and continuing with our proactive role in multilateral trade negotiations while taking care of livelihood concerns and the needs of the domestic sector.

Similar tax and regulatory reforms in the services sector along with systematic marketing of services, collection and dissemination of market information by setting up a portal for services and streamlining the services data system could help the services sector in making further strides.

- **Inflation:** The upsurge in prices in the second half of 2009-10 has been more concentrated and confined to food items only. A significant part of this inflation can be explained by supply side bottlenecks in some of the essential commodities, precipitated by the delayed and sub-normal southwest monsoons. Since December 2009, there have been signs of these high food prices, together with the gradual hardening of non administered fuel product prices, getting transmitted to other non food items, thus creating some concerns about higher than anticipated generalized inflation over the next few months. Proper and timely assessment of the supply demand situation and preventive action become the essence of supply-side management.

As of now, the outlook for inflation is conditioned by supply side pressures in the near term, possible return of pricing power with stronger recovery in growth, further revival in private demand with improving consumer and business confidence and possible spurt in global commodity prices in response to recovery in advanced economies.

While the fiscal issues are important, the transmission of the monetary policy stance to the monetary and real sectors is equally critical. It would be necessary for the policy authorities not only to address the inflationary

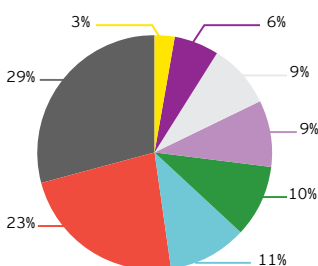
expectations but also to monitor and ensure that the growth in money supply and credit to productive sectors is at the envisaged levels so that the growth prospects in the near to medium terms are sustained without jeopardizing the price scenario.

- **Social sector programs:** The Government in recent years has launched several ambitious programs focused on the development of rural areas and population, in furtherance of its strategy of inclusive growth and raising the quality of life of the rural people. In spite of increased Government outlays in the social sector in recent years, lack of identity proof results in harassment and denial of services to the poor and marginalized. As a result, there are still leakages in the programs/ schemes and the benefits do not reach the intended target groups of individuals/ people in full. Providing identity proof to the poor and the marginalized through the UIAI will enhance their access to Government services, both at State and Central levels, and will enable smoother delivery of direct benefits to the poor. Specifically, it will improve the delivery of the flagship schemes of the Central Government. This will also help in preventing leakages as well as wastages in the form of implementation of schemes with overlapping objectives and beneficiaries.

Note: All figures are as per the Economic Survey 2009-10 BE: Budget Estimates
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Budget financials

Where the rupee comes from



Non-debt capital receipts

Service tax and other taxes

Customs

Income-tax

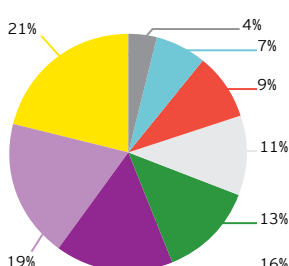
Union excise duties

Non-tax revenues

Corporation tax

Borrowings and other liabilities

Where the rupee goes to



Non-plan assistance to state and UT Govts.

Plan assistance to state and UT

Subsidies

Defence

Other non-plan expenditure

States' share of taxes & duties

Interest payment

Central plan

- The annual financial statements of the Government for 2009-10 are set to reflect a fiscal deficit of 6.7% (6.86% inclusive of oil and fertilizer bonds) of GDP, marginally lower than the budget estimate of 6.8% (6.97% inclusive of oil and fertilizer bonds). The target fiscal deficit for 2010-11, 2011-12 and 2011-13 is 5.5%, 4.8% and 4.1% respectively, improving upon the recommended fiscal deficit estimates of the Thirteenth Finance Commission. Revenue deficit for 2010-11 is estimated at 4.0% as against the revised estimate of 5.3% for 2009-10. The Government does not plan to issue bonds to oil and fertiliser companies and intends to continue with the practice of extending Government subsidy in cash, thereby bringing all subsidy related liabilities into fiscal accounting. Earlier, issues of such bonds were referred to as "below the line" items.
- Market borrowings are expected to finance 95.28% of the Government's fiscal deficit in 2009-10 and estimated to finance 90.45% of the fiscal deficit in 2010-11. As per the revised estimates, the interest outgo as a percentage of the revenue receipts is set to

increase from 35.57% in 2008-09 to 38.02% in 2009-10 and is estimated to be 36.45% in 2010-11.

- ▶ The Union Budget 2010-11 has estimated the following:
 - ▶ Gross tax revenues at INR 7,467 billion representing a considerable increase of approximately 17.94% over the revised estimates for 2009-10 of INR 6,331 billion.
 - ▶ Plan expenditure at INR 3,731 billion representing an increase of approximately 18.38% over the revised estimates of INR 3,152 billion for 2009-10. As a proportion of the total expenditure, plan expenditure is estimated at 33.65% against the revised estimate for 2009-10 of 30.85%. Non plan expenditure is estimated to increase to INR 7,357 billion representing an increase of 4.15% over the revised estimates for 2009-10. The expenditure provisions in 2010-11 have been estimated with reference to the recommendations of the Thirteenth Finance Commission.

Budget proposals

Direct tax

Income-tax

Rates of tax

Personal tax rates

Existing		Proposed	
Income (INR)	Rate (%) [@]	Income (INR)	Rate (%) [@]
0-160,000*	Nil	0-160,000*	Nil
160,001-300,000	10	160,001-500,000	10
300,001-500,000	20	500,001-800,000	20
500,001 and above	30	800,001 and above	30

[@] Education cess of 3% is leviable on the amount of income-tax, if any.

* The exemption limit is INR 190,000 in case of resident women below the age of 65 years and INR 240,000 in case of resident individuals of the age of 65 years or more.

Corporate tax rates

Basic rates of corporate tax remain unchanged for both domestic and foreign companies. However, surcharge on corporate tax for domestic companies will be reduced from 10% to 7.5%. Further, MAT will be increased from 15% to 18%.

The corporate tax rates including surcharge and education cess have been summarized below:

Description	Rate (%)
A) Domestic company	
Regular tax	33.22 [@]
DDT	16.61
B) Foreign company	
Regular tax	42.23 [#]

MAT is chargeable at 18% of book profits (plus applicable surcharge and cess).

@ 30.9% where the total income is equal to or less than INR 10 million

41.2% where the total income is equal to or less than INR 10 million

Definitions

Amendment to the definition of “charitable purpose”

- ▶ The definition of “charitable purpose” includes relief of the poor, education, medical relief and the advancement of any other object of general public utility.
- ▶ Presently, the term “advancement of any other object of general public utility” in the definition of charitable purpose excludes the following:
 - ▶ Activities in the nature of trade, commerce or business; or
 - ▶ Activities of rendering services in relation to trade, commerce or business.
- ▶ Now, the above exclusion will not be applicable if the receipt from such activities is less than or equal to INR 1 million.

Business income

Extension of time limit for payment of taxes withheld to avail corporate tax deduction

- Presently, amounts payable to residents, on which tax is deductible and deducted in March is allowed as a deduction in the financial year provided the taxes are deposited by the due date of filing the tax return. In all other cases, it is allowed as a deduction provided the taxes are deducted and deposited by the last day of the financial year.

Now, such amounts will be allowed as a deduction provided taxes are deducted and deposited by the due date of filing the tax return irrespective of whether it is deducted in March or any other month of the year.

Also, the amount on which taxes have been deducted in the subsequent year or deducted during the financial year but deposited after the due date of filing the tax return, will be allowed as a deduction in the year in which the taxes have been paid.

This amendment will take effect retrospectively from 1 April 2009

Presumptive taxation

Exclusion of royalty and fees for technical services from presumptive taxation for certain businesses

- Presently, in the case of non residents engaged in the business of providing services or facilities, or supplying plant and machinery on hire, used in prospecting, extraction or production of mineral oils, 10% of the specified amounts can be treated as income taxable in India on a presumptive basis. The specified amount includes amounts in connection with provision of services and facilities.

Further, royalty and fees for technical services arising to non residents having a permanent establishment in India, to which the right, property or contracts giving rise to such royalty or fees are effectively connected, are taxed as business income.

- Now, royalty and fees for technical services are excluded from presumptive taxation for non residents engaged in providing services or facilities, or supplying

plant and machinery on hire, used in prospecting, extraction or production of mineral oils.

Tax audit

Turnover limits for the purpose of tax audit increased as under:

Particulars	Existing limits (INR)	Proposed limits (INR)
Person carrying on business	4,000,000	6,000,000
Person carrying on profession	1,000,000	1,500,000

Presumptive taxation

- ▶ The threshold limit of turnover for computing profits and gains of business (other than business of plying, hiring or leasing goods carriages) on presumptive basis is increased from INR 4 million to INR 6 million.

Deductions from business income

Deduction for capital expenditure for specified businesses

- ▶ Presently, deduction is allowed for capital expenditure incurred by a taxpayer for the purpose of business of laying and operating of a cross-country natural gas, crude or petroleum oil pipeline, if at least one third of total pipeline capacity is made available for use on common carried basis.

Now for claiming a deduction for capital expenditure, the proportion of pipelines to be made available for use on common carrier basis would need to be as per the regulations prescribed by PNGRB.

- ▶ The deduction for capital expenditure will also be allowed to taxpayers engaged in building and operating new hotels of two star or above category, as classified by Central Government in India.
- ▶ Once the above deductions are claimed and allowed, the same will not be eligible for deduction under other provisions of the Income-tax Act.

Weighted deduction for expenditure on scientific research

- Presently, a weighted deduction of 125% is allowed for any sum paid to a scientific research association, national laboratory, etc for the purpose of scientific research.

The weighted deduction will now be enhanced to 175%.

- Presently, a weighted deduction of 150% is allowed to companies for expenditure incurred on scientific research or an approved in-house research and development facility.

The weighted deduction will now be enhanced to 200%.

- Presently, a weighted deduction of 125% is allowed for payments to approved university, college or institution for research in social science or statistical research.

The above deduction will be extended for payments made to approved and notified research associations which have the object of undertaking social science research or statistical research.

Deduction for undertakings engaged in developing and building housing projects

- Presently, an undertaking engaged in developing and building of housing projects approved on or after 1 April 2005 can avail deduction if project is completed within 4 years from end of the financial year in which project is approved by the local authority. Now, the time limit for completion is extended to 5 years.
- The norms of built up area of shops and other commercial establishments in housing projects has been amended from 5% of the total built up area or 2,000 sq ft whichever is lower to 3% of the total built up area or 5,000 sq ft whichever is higher.

This amendment will take effect retrospectively from 1 April 2009.

Deduction of profits of a hotel or a convention centre

- Presently, a deduction is available in respect of profits derived by an undertaking from business of hotels or convention centres in NCT and other specified areas if the hotel starts functioning or the convention centre is constructed between 1 April 2007 to 31 March 2010.

Now, the time limit for start of functioning of hotel or construction of convention centre is extended from 31 March 2010 to 31 July 2010.

Computation of profits eligible for tax holiday in case of SEZ undertakings

- Profits eligible for tax holiday in case of SEZ undertakings are to be computed as follows:

Profits of the business of the SEZ undertaking	X	Export turnover of the SEZ undertaking
		Total turnover of the SEZ undertaking

It is clarified that the above manner of computing profits eligible for tax holiday is applicable retrospectively with effect from 1 April 2005.

Income from other sources

Taxation of transactions for inadequate consideration

- Presently, immovable property received by an individual or HUFs for an inadequate or nil consideration (in excess of INR 50,000) is taxable. Now, transfer of immovable property received by an individual or HUF for an inadequate consideration will not be taxable.

The above amendment will take effect retrospectively from 1 October 2009.

Definition of “property”

- The definition of “property” has been restricted to include property which is in the nature of capital asset in the hands of the recipient individual/ HUF.

The above amendment will take effect retrospectively from 1 October 2009.

- In the case of an individual/ HUF, the definition of property has been widened to include “bullion”.

The above amendment will take effect from 1 June 2010.

Transfer of unlisted shares to a firm/ company

- Transfer of shares (other than specifically exempted) to a firm or a company (in which public are not substantially interested) for an inadequate or nil

consideration, will now be taxable if the difference between the fair market value and the consideration exceeds INR 50,000.

- ▶ The consideration or fair market value, as the case may be, would be considered as cost of acquisition for computing capital gains.

The above amendment will take effect from 1 June 2010.

Reference to valuation officer

- ▶ In case of transfer of a property (being a capital asset) or share, the assessing officer may refer to the valuation officer for determining fair market value.
- ▶ The above amendment will take effect from 1 July 2010.

Other deductions under Chapter VIA

Additional deduction for investment in notified long term infrastructure bonds

- ▶ Deduction of INR 20,000 will be available to individuals and HUF in respect of investment in long term infrastructure bonds notified by the Government. This is in addition to the existing limit of INR 100,000 for specified investments.

Contributions to the Central Government Health Scheme

- ▶ Presently, a deduction of INR 15,000 (INR 20,000 for senior citizens) is available to an individual for payments towards health insurance policy for self, spouse and dependent children.

Now, contribution made to Central Government Health Scheme will also be eligible for such deduction within the limit mentioned above.

MAT

Increase in MAT rate

- ▶ Presently, the rate prescribed for MAT is 15% of book profits (plus applicable surcharge and education cess). Now, the MAT rate has been increased to 18% of book profits (plus applicable surcharge and education cess).

Provisions relating to LLP taxation

Provisions relating to conversion of private company or unlisted public company into an LLP

- ▶ Conversion of private company or unlisted public company into an LLP will not be regarded as transfer where following conditions are satisfied:
 - ▶ All assets and liabilities of the company become assets and liabilities of the LLP;
 - ▶ Shareholders of the company become partners of the LLP in the same proportion as their shareholding in the company;
 - ▶ No consideration other than share in profit and capital contribution in the LLP arises to the partners;
 - ▶ Erstwhile shareholders of the company continue to be entitled to receive at least 50% of profits of the LLP for a period of five years from the date of conversion;
 - ▶ Total sales, turnover or gross receipts in the business of the company do not exceed INR 6 million in any of the three preceding years; and
 - ▶ No amount is paid, either directly or indirectly, to any partner out of the accumulated profit of the company for a period of three years from the date of conversion.
- ▶ If the stipulated conditions are not complied with:
 - ▶ The amount of profits or gains arising from transfer of capital assets by the private company or unlisted public company to the LLP on conversion will be deemed to be the profits and gains chargeable to tax of the LLP in the financial year in which the conditions are not complied with;
 - ▶ The set-off of loss or allowance of depreciation which had been allowed will be deemed to be income of the LLP in the financial year in which the conditions are not complied with.
- ▶ The accumulated loss and unabsorbed depreciation of the private company or unlisted public company will be deemed to be loss or allowance for depreciation of the

LLP for the financial year in which the business reorganization was effected.

- ▶ Actual cost of the block of assets in case of LLP will be the written down value of the block of assets as in the case of the company on the date of conversion.
- ▶ The cost of acquisition of capital assets for the LLP will be deemed to be the cost for which the company acquired it.
- ▶ MAT credit of the company will not be available to the LLP.

Depreciation allowance on conversion of private or unlisted public company into LLP

- ▶ Like in the case of amalgamation and demerger of companies, in case of succession of a private company or unlisted public company into LLP, the total depreciation allowable to the predecessor company and successor LLP will not exceed the total depreciation that would have been allowed if no succession had taken place.

Extension of amortization of expenditure incurred under VRS to successor LLP in case of reorganization of business

- ▶ Presently, in case of transfer of an undertaking of a company or reorganization of business of a partnership firm or a proprietary concern, the deduction for expenditure incurred on the VRS is available to the amalgamated or the resultant or the successor company.

Now, the above benefit will be extended to reorganization of business, where a private company or an unlisted company is succeeded by an LLP, as if the reorganization had not taken place.

- ▶ No deduction will be available to the company during the year in which the company is being succeeded by an LLP.

Assessment procedures

Centralized processing of returns

- Presently, the Government is empowered to issue a notification for giving effect to the scheme for centralized processing of returns till 31 March 2010.

The time limit for issue of such notification has been extended to 31 March 2011.

Penalty

Penalty for failure to get accounts audited increased

- Presently, if the taxpayer fails to get the accounts tax audited or fails to furnish a tax audit report as required, penalty equal to 0.5% of total sales, turnover or gross receipts in business or 0.5% of gross receipts in profession is leviable subject to a maximum of INR 100,000.

Now, the limit has been increased from INR 100,000 to INR 150,000.

Withholding tax

Threshold limit for withholding taxes

- Threshold limit of payments for withholding taxes has been raised:

Particulars	Existing threshold limit (INR)	Proposed threshold limit (INR)
Winnings from lottery or crossword puzzles	5,000	10,000
Winnings from horse races	2,500	5,000
Payment to contractors: ► For single transaction ► For aggregate transactions during a financial year	20,000 50,000	30,000 75,000
Insurance commission	5,000	20,000
Commission or brokerage	2,500	5,000
Rent	120,000	180,000

Particulars	Existing threshold limit (INR)	Proposed threshold limit (INR)
Fees for professional or technical services	20,000	30,000

These above amendments will take effect from 1 July 2010.

Provisions relating to levy of interest on delay in deduction or deposit of taxes

- Presently, where tax has not been deducted or deposited, simple interest at the rate of 1% for every month or part of the month is levied on the amount of tax from the date on which such tax was deductible to the date on which such tax is actually paid.

Now, simple interest on the amount of tax shall be levied as follows:

- at the rate of 1% for every month or part of the month from the date on which such tax was deductible to the date on which such tax is actually deducted; and
- at the rate of 1.5% for every month or part of the month from the date on which such tax was deducted to the date on which such tax is actually paid.

This amendment will take effect from 1 July 2010.

Requirement to issue tax withholding/ collection certificates

- Presently, there is a requirement to issue tax withholding/ collection certificates for taxes withheld/ collected only up to 31 March 2010. Now, tax withholding/ collection certificates will have to be issued for taxes withheld/ collected even on or after 1 April 2010.

Special provisions relating to non residents

Place of rendering services not relevant for determining taxability in India

- ▶ Presently, the income of a non resident by way of interest, royalty or fees for technical services, if deemed to accrue or arise in India, is includible in the total income of the non resident, whether or not the non resident has a residence or a place of business or business connection in India.
- ▶ Now, it is clarified that such income of the non resident shall be deemed to accrue or arise in India and shall be included in the total income, whether or not:
 - ▶ the non resident has a residence or a place of business or a business connection in India; or
 - ▶ has rendered services in India.
- ▶ The issue of relevance of the situs of rendering services for determining the taxability of such income in India has been a matter of litigation. This explanation seeks to overrule the judicial precedents which held that the income of a non resident from rendering services outside India but utilized in India are not taxable in India.

This amendment will take effect retrospectively from 1 June 1976.

Settlement Commission

Scope of Settlement Commission extended

- ▶ Presently, the Settlement Commission provisions exclude assessment/ reassessment proceedings resulting from a search or from requisition of books, assets, etc. Now, the scope of Settlement Commission provisions is extended to such proceedings. The date of issue of notice initiating such proceedings will be considered as date of commencement of the assessment/ reassessment proceedings.
- ▶ Similar provisions will also be incorporated in the Wealth-tax Act.

Increase in eligibility limit

- ▶ Presently, an application to the Settlement Commission can be made only in cases where the additional tax payable on income disclosed in the application exceeds INR 300,000. Now, the application can be made only if the said tax payable exceeds INR 1 million.
- ▶ Further, in cases of assessment/ reassessment proceedings resulting from a search or from requisition of books, assets, etc, application can be made if the additional tax payable exceeds INR 5 million.

Time limit for passing orders by Settlement Commission

- ▶ Presently, the Settlement Commission has to pass an order within 12 months from the end of the month in which the application is filed. Now, for applications filed on or after 1 June 2010, the order should be passed within 18 months from the end of the month in which the application is filed.
- ▶ Similar provisions will also be incorporated in the Wealth-tax Act.

The above amendments pertaining to Settlement Commission will take effect from 1 June 2010.

Appeals

Power of High Court to condone delay in filing appeals

- ▶ The High Court is now empowered to admit an appeal after the expiry of 120 days, if satisfied that there was sufficient cause for not filing the appeal within such period.
- ▶ A similar amendment has also been proposed in the Wealth-tax Act.

The above amendment will take effect retrospectively from 1 October 1998.

High Court empowered to condone delay in application

- ▶ For ITAT orders passed before 1 October 1998, the taxpayer/ Revenue authorities can file an application before the High Court within six months, requiring the ITAT to refer the case to the High Court.
- ▶ The High Court is now empowered to admit the above application beyond a period of six months, if satisfied

that there was sufficient cause for not filing the statement of case within such period.

- ▶ A similar amendment has been proposed in the Wealth-tax Act.

This provision will take effect retrospectively from 1 June 1981.

Others

Profit or loss on realization or revaluation of investments of non life insurance companies

- ▶ Presently, the income of non life insurance business is taken as per the profit and loss account of the company prepared in accordance with the regulations made by the IRDA. Profit on revaluation or realization of investments of non life insurance companies is argued to be not taxable.
- ▶ Now, any gain or loss on realization of investments would be taxable/ deductible. Any such gain or loss which is not included in the profit and loss account would be included in computing the taxable income of such taxpayers. A provision for diminution in the value of investment which is debited to the profit and loss account will be added back in computing the taxable income of such taxpayers.

Mandatory usage of DIN

- ▶ Revenue authorities will be required to allot and quote a DIN in respect of every notice, order, letter or any correspondence issued to any person including any other Revenue authority, on or after 1 July 2011.
- ▶ Any notice, order, letter or any correspondence received on or after 1 July 2011 by the Revenue authorities or on their behalf, will be accepted and valid only after allotting and quoting a DIN.

Exemption of income of research associations

- ▶ Presently, an exemption is available in respect of income of approved scientific research associations. The exemption has now been extended to include approved research associations engaged in social science research or statistical research.

Extension of deduction on payments towards scientific research

- Presently, deduction is allowed in respect of donations made to a university, college or other institution.

Now, the deduction will also be available for payments made to a research association whose objective is to undertake research in social science or statistical research.

Power of the Commissioner to cancel the registration of a trust or institution engaged in charitable activities

- Presently, there is an ambiguity on whether the Commissioner has power to cancel the registration obtained prior to 1 April 1996 by a trust or institution.
- Now, the Commissioner has been granted powers to cancel the registration obtained prior to 1 April 1996.

The above amendment will take effect from 1 June 2010.

Indirect tax

Customs duty

Policy changes

- ▶ Peak rate of BCD remains unchanged at 10%.
- ▶ Retrospective withdrawal of exemption with effect from 26 June 2009 leading to levy of customs duty of 16% and Nil special CVD on supply of electrical energy from SEZ to DTA and to non processing areas of SEZ.
- ▶ Import of goods covered under Medicinal and Toilet Preparations (Excise Duties) Act, 1955 liable to CVD on RSP less abatement, to be effective on enactment of the Finance Bill.
- ▶ Relaxations granted in relation to Settlement Commission procedures as follows:
 - ▶ Applications in case of misdeclaration, suppression, etc allowed.
 - ▶ Restriction for assessees to seek only one time settlement relaxed.
 - ▶ Settlement Commission empowered to extend the time limit of 9 months for disposal of applications by another 3 months.

Other changes

- ▶ SACD exemption granted to the following:
 - ▶ goods imported in pre packaged form and intended for retail sale requiring declaration of RSP;
 - ▶ readymade garments, mobile phones and watches;
 - ▶ carbon black feedstock, waste paper and paper scrap.
- ▶ Project import status granted to the following projects with BCD at 5%:
 - ▶ Mono rail projects for urban public transport
 - ▶ Installation of mechanised handling systems and pallet racking systems, in mandis or warehouses for

food grains and sugar. These projects are also eligible for exemption from CVD and SACD.

- ▶ Cold storage, cold room (including farm pre-cooling) or industrial projects for preservation, storage or processing of agricultural, apiary, horticultural, dairy, poultry, aquatic and marine produce and meat.
- ▶ Setting up of digital headend. These projects are also eligible for exemption from SACD.
- ▶ Import of digital masters/ stampers of films and import of music and gaming software (other than in pre-packaged form) on digital media for duplication to attract customs duty only on the value of carrier medium and customs duty on balance value to be exempt. However, customs duty payable on transaction value where imported for retail sale.
- ▶ Promotional materials such as trailers, making of films imported free of cost in the form of electronic promotion kits/ betacams exempted from BCD and CVD.
- ▶ Ambit of exemption in relation to transfer of right to use canned or packaged software is extended to all transfer of right to use including transaction where transfer of right to use is not for commercial exploitation.
- ▶ Parts for manufacture of accessories of mobile phones, such as battery chargers and hands free head phones exempted from all custom duties.
- ▶ Parts imported for manufacture of mobile phones and accessories exempted from SACD up to 31 March 2011.
- ▶ Additional specified capital goods and raw materials for manufacture of electronic hardware exempted from all customs duties.
- ▶ Tunnel boring machine for hydro electric power projects exempted from all custom duties.
- ▶ Machinery, instruments and appliances required for setting up solar power generation projects or facilities eligible for concessional BCD at 5% with full exemption from CVD.
- ▶ Ground source heat pump for geo thermal energy applications exempted from BCD and SACD.

- ▶ Specified items imported for manufacturing all categories of electrical vehicles exempted from BCD and SACD up to 31 March 2013, Only CVD to apply at 4%.
- ▶ Truck refrigeration units for manufacture of refrigerated vans/ trucks exempted from BCD.
- ▶ Sale or disposal of exempted specified road construction machinery permitted on payment of custom duties on depreciated value at applicable rate at the time of import, subject to specified conditions.
- ▶ All medical equipments (with some exceptions) exempted from SACD and to attract BCD at 5% and CVD at 4%.
- ▶ Parts required for manufacture and accessories of medical equipment to attract BCD at 5% and exempted from CVD.
- ▶ Spares for maintenance of medical equipment not eligible for concessional BCD (except in specified cases).
- ▶ Cobalt-chrome alloys, special grade stainless steel, etc for manufacture of orthopaedic implants exempted from BCD subject to actual user condition.
- ▶ Concessional BCD of 5% for specified machinery for tea, coffee and rubber plantation up to 31 March 2011.
- ▶ Gold ore and concentrate exempted from BCD and SACD and chargeable to CVD at INR 140 per 10 gram of gold content subject to actual user condition.
- ▶ Limit for duty free import of samples extended from INR 100,000 to INR 300,000.
- ▶ BCD exemption extended to certain additional specified components, raw materials and accessories for manufacture of sports goods.

Rate movement

- Changes in the basic rates of customs duty on some key items are set out below:

Items	Rate movement (%)		
	Basic Duty		Movement
	From	To	
Crude petroleum	Nil	5	↑
Petrol and diesel	2.5	7.5	↑
Specified petroleum products	5	10	↑
Serially numbered gold bars (other than tola bars) and gold coins	INR 200 per 10 gram	INR 300 per 10 gram	↑
Gold in any form (other than specified above)	INR 500 per 10 gram	INR 750 per 10 gram	↑
Silver in any form	INR 1000 per kilogram	INR 1500 per kilogram	↑
Platinum	INR 200 per 10 gram	INR 300 per 10 gram	↑
Specified agricultural machinery	7.5	5	↓
Long pepper	70	30	↓
Asafoetida (heeng)	30	20	↓
Bio polymer/ bio plastics	10	Nil	↓
Magnetrons of up to 1000 kw for manufacture of microwave ovens	10	5	↓
Rhodium	10	2	↓

Excise duty

Policy changes

- Partial rollback of fiscal stimulus. Peak excise duty rate for most non petroleum products from 8% to 10%.

- ▶ Excise duty of 4% imposed on specific parts used in manufacture of electrical vehicles including cars, two wheelers and three wheelers.
- ▶ Corresponding excise duty of 4% also imposed on above electrically operated vehicles.
- ▶ Exemption from excise duty extended to goods supplied under international competitive bidding to mega power projects where power supply is tied up through tariff-based competitive bidding.
- ▶ Cenvat credit to be allowed on inputs and input services used by manufacturer of exempted goods supplied to mega power projects from which power has been tied through the specified competitive bidding.
- ▶ Raw material required for manufacture of rotor blades for wind operated electricity generators exempted.
- ▶ Small scale units will be eligible to avail full cenvat credit on receipt of capital goods and will have the facility to pay excise duty on quarterly basis.
- ▶ Accelerated depreciation rates prescribed for computers and its peripherals, cleared after use, while computing the amount to be paid on removal of such goods.
- ▶ Cenvat credit allowed in respect of jigs, fixtures, moulds and dies sent by one manufacturer to another manufacturer for production of goods.
- ▶ Chewing tobacco and branded unmanufactured tobacco is brought under the compounded levy scheme.

This amendment will take place with effect from 8 March 2010.

- ▶ Ambit of exemption in relation to transfer of right to use canned or packaged software is extended to all transfer of right to use including transaction where transfer of right to use is not for commercial exploitation.
- ▶ Machinery, instruments and appliances required for setting up solar power generation projects or facilities granted exemption from excise duty.
- ▶ Clean energy cess will be imposed on coal, lignite and peat produced in India from a notified date.

The key changes mentioned below will take effect on enactment of the Finance Bill:

- ▶ In case of pending disputes, manufacturer of exempted and dutiable goods is allowed to reverse an amount equivalent to the credit attributable to goods/ services used for production of exempt goods based on certification by chartered accountant.

This option available on clearances of exempted and dutiable goods from 1 September 1996 to 31 March 2008.

- ▶ Provisions and procedures related to claiming refund of unutilised Cenvat credits used in relation to exported goods rationalised. Rationalisation to be effective from 14 March 2006.
- ▶ Penalty not to be imposed in case duty along with interest is paid before the issuance of the demand notice.
- ▶ Relaxations granted in relation to Settlement Commission procedures as follows:
 - ▶ Applications in case of misdeclaration, suppression, etc allowed.
 - ▶ Restriction for assessees to seek only one time settlement relaxed.
 - ▶ Settlement Commission empowered to extend the time limit of 9 months for disposal of applications by another 3 months.
- ▶ Central Government empowered to make rules for withdrawal of facilities/ imposition of restrictions on utilisation of cenvat credit on manufacturer/ exporter or suspension of registration of a dealer for dealing with evasion of duty or misuse of cenvat credit.

Rate movement

- ▶ For most non petroleum products duty rates enhanced from 8% to 10%
- ▶ In addition to above, changes in duty rates on some key items are set out below:

Items	Rate movement (%)		
CENVAT	Basic duty		Movement
	From	To	
Cement manufactured in a mini plant: Cleared in packaged form			
a) Where RSP does not exceed INR 190 per 50 kilogram bag	INR 145 per tonne	INR 185 per tonne	↑
b) Where RSP exceeds INR 190 per 50 kilogram bag	INR 250 per tonne	INR 315 per tonne	↑
Cleared other than in packaged form	INR 170 per tonne	INR 215 per tonne	↑
Cement manufactured other than in a mini plant: Cleared in packaged form			
a) Where RSP does not exceed INR 190 per 50 kilogram bag	INR 230 per tonne	INR 290 per tonne	↑
b) Where RSP exceeds INR 190 per 50 kilogram bag	8	10	↑
Cleared other than in packaged form	Higher of 8 or INR 230 per tonne	Higher of 10 or INR 290 per tonne	↑
Cement Clinker	INR 300 per tonne	INR 375 per tonne	↑
Electronically operated vehicles, including two and three wheeled electric motor	Nil	4	↑

Items	Rate movement (%)		
CENVAT	Basic duty		Movement
	From	To	
vehicles and battery operated cars			
Goggles other than those used for correcting vision	4	10	↑
High speed diesel intended for sale without a brand name	INR 3.60 per litre	INR 4.60 per litre	↑
High speed diesel intended for sale with a brand name	INR 4.75 per litre	INR 5.75 per litre	↑
Information technology software	8	10	↑
LED lights/ lighting fixtures	8	4	↓
Microprocessor (other than motherboards), floppy disc drives, CD drives, DVD drives/ DVD writers etc, when meant for external use with a computer or laptop as a plug- in device	Nil	4	↑
Mosquito nets impregnated with insecticide	Nil	4	↑
Motor spirit intended for sale without a brand name	INR 13.35 per litre	INR 14.35 per litre	↑
Motor spirit intended for sale with a brand name	INR 14.50 per litre	INR 15.50 per litre	↑
Parts, components of battery chargers and hands free headphones of mobile handsets	8	Nil	↓
Plain gold jewellery manufactured by EOU and cleared to DTA	INR 500 per 10 gram	INR 750 per 10 gram	↑
Plain silver jewellery manufactured by EOU and cleared to DTA	INR 1,000 per kilogram	INR 1,500 per kilogram	↑

Items	Rate movement (%)		
CENVAT	Basic duty		Movement
	From	To	
Sanitary napkins, baby diapers and clinical diapers	Nil	10	↑
Self loading or self unloading trailers and semi-trailers for agricultural purposes	8	Nil	↓

Service tax

Effective service tax rate remains unchanged

- ▶ Effective service tax rate remains unchanged at 10.3%.

The key changes mentioned below will take effect from a date to be notified after the enactment of the Finance Bill:

- ▶ Service tax will be levied on the following additional services:
 - ▶ Temporary transfer or permitting the use of copyrights relating to cinematographic films and sound recording other than original literary, dramatic, musical and artistic works.
 - ▶ Promotion of “brand” of goods, services, events, endorsement of name including trade name of business entities.
 - ▶ Providing preferential location or development of complexes on extra charges to prospective buyers.
 - ▶ Permitting commercial use or exploitation of any event.
 - ▶ Maintenance or storage of medical records of employees of business entity.
 - ▶ Health services undertaken by hospitals or medical establishments for employees of business entities and under health insurance schemes (on payments made directly by the business entity or insurance company).
 - ▶ Services provided by Electricity Exchanges.

- ▶ The scope of existing taxable services will be amended as follows:
 - ▶ Renting of immovable property for use in business, any other service in relation to such renting and vacant land given on lease or license for future construction will attract service tax. This amendment will take effect retrospectively from 1 June 2007. Accordingly, Delhi High Court judgement in the case of Home Solutions Private Limited on the relevant issue will be nullified.
 - ▶ Construction of complex and commercial or industrial construction will be deemed to be service provided by a builder to the buyer where any sum is received from buyer before grant of completion certificate.
 - ▶ Information technology software services will now also include services provided for other than business purpose.
 - ▶ Air passenger transport service will include domestic and international journeys in any class.
 - ▶ Sponsorship service will cover sponsorship of sports events.
 - ▶ Services of promoting, marketing or organisation of games of chance, including lottery now taxable under a separate category (earlier covered under business auxiliary service).
 - ▶ Port or airport service category will cover all services provided entirely within the port or airport, by any person.
 - ▶ Commercial training or coaching services will cover services provided for a consideration, irrespective of profit motive. This amendment will be applicable with retrospective effect from 1 July 2003.
 - ▶ Exclusion for auction services by Government to cover auction of Government property by any auctioneer.
- ▶ Value of taxable service for management of investment under Unit Linked Insurance Plan will be higher of actual amount charged by insurer or maximum amount of fund management charges fixed by regulatory authority.

- ▶ Definition of “business entity” to include association of persons, body of individuals, company or firm excluding an individual.
- ▶ No penalty to be imposed where service tax along with interest has been paid before issuance of notice. This change will take effect on enactment of the Finance Bill.

The following changes will be effective from 27 February 2010:

- ▶ Definition of “India” will be amended to cover construction and operation of installations, structures and vessels for the purpose of prospecting or extraction or production of mineral oils and natural gas in the Continental Shelf and Exclusive Economic Zone and services connected with the said activity.
- ▶ Similar amendment will be made to the definition of “India” under Taxation of Services (provided from outside India and received in India) Rules, 2006 and Export of Services Rules, 2005.
- ▶ Exemption from service tax to packaged or canned software intended for single use, where the manufacturer, duplicator, importer or person holding copyright to software has paid appropriate excise duty or customs duty on entire amount received from buyer.
- ▶ Export of Services Rules, 2005 will be amended as follows:
 - ▶ Condition of “service is provided from India and used outside India” will be deleted thereby reducing ambiguities in determining export of services.
 - ▶ Performance based criteria for determining export of “mandap keeper services” will be changed to “location of immovable property”.
 - ▶ Performance based criteria for determining export of “chartered accountant/ cost accountant/ company secretary services” will be changed to “location of recipient of service”.
- ▶ Procedures outlined and provisions to be amended to simplify refund of service tax for exporters including certification of refund claims by auditors.
- ▶ Statutory taxes charged by any Government on air passengers will be excluded from taxable value.

- ▶ Exemption from service tax to transmission of electricity.
- ▶ Exemption from service tax to erection, commissioning or installation of mechanised food grain handling systems, equipments for cold storage or processing of products such as agricultural, dairy and poultry.
- ▶ Exemption from service tax will be extended to transport by road of food grains and pulses.
- ▶ Exemption from service tax to specified news agencies under online information and database retrieval services and business auxiliary services.
- ▶ Exemption from service tax to technical testing and certification services for seeds provided by specified Central and State agencies.
- ▶ Definition of “vocational training institute” will cover only Industrial Training Institute or Industrial Training Centre offering courses in designated trades, as notified.
- ▶ Exemption from service tax to group personal accident scheme provided by Government of Rajasthan will be withdrawn.
- ▶ Service tax on transportation of goods by rail restored with abatement of 70% on gross value and full exemption to certain category of goods such as defence equipment, passenger luggage and food grains transported by rail. This change will take effect from 1 April 2010.

Central sales tax

- ▶ The CST rate remains unchanged at 2%.

Goods and service tax

- ▶ GST proposed to be implemented with effect from 1 April 2011.

Other key policy initiatives

The Government has proposed various policy initiatives in Budget 2010. Some of the key initiatives are as follows:

Industry

- ▶ The Government has approved a nutrient based subsidy policy instead of the current product based pricing subsidy regime which will become effective from 1 April 2010. This is expected to lead to an increase in agricultural productivity and reduce volatility in the demand for fertiliser subsidy. The new policy will also move towards direct transfer of subsidies to farmers.
- ▶ The expert group, constituted to advise the Government on a viable and sustainable system of pricing of petroleum products, has submitted its recommendations. The Ministry of Petroleum and Natural Gas will decide on these recommendations in due course.
- ▶ The interest subvention of 2% on pre-shipment credit for exports covering handicrafts, carpets, handlooms and small and medium enterprises is proposed to be extended from 31 March 2010 to 31 March 2011.
- ▶ To provide further impetus to the development of the food processing sector, the Government has decided to set up 5 more mega food park projects, in addition to the 10 parks already being set up.

Infrastructure

- ▶ The Government will provide INR 1,735.52 billion for accelerating the development of high quality infrastructure such as roads, ports and railways.
- ▶ The Government will raise the allocation of road transport from INR 175.20 billion to INR 198.94 billion.
- ▶ The Government has established IIFCL to provide long term financial assistance to infrastructure projects. The disbursements by IIFCL will touch INR 90 billion by March 2010 and INR 200 billion by March 2011. The

take-out financing scheme will provide finance for about INR 250 million in the next three years.

- ▶ The Government will increase the plan allocation for the power sector from INR 22.30 billion in 2009-10 to INR 51.30 billion in 2010-11.
- ▶ The Government will introduce a competitive bidding process for allocating coal blocks for captive mining to ensure greater transparency and increased participation in production of coal.
- ▶ The Government will set up a Coal Regulatory Authority to create a level playing field in the coal sector and to facilitate resolution of issues like economic pricing of coal and benchmarking of standards of performance.
- ▶ The Government will establish a National Clean Energy fund for funding research and innovative projects in clean energy technologies.
- ▶ The Government will develop a project at Sagar Island to have an alternate port facility in West Bengal.
- ▶ The Government will increase the allocation for school education from INR 268 million in 2009-10 to INR 310.36 billion in 2010-11.
- ▶ The Government has provided INR 167 billion to modernize and expand the railway network. Preparatory activities under the Delhi-Mumbai Industrial Corridor have been completed for creation of six industrial investment nodes with eco-friendly world class infrastructure.
- ▶ The Government increased the outlay for the Ministry of New and Renewable Energy from INR 62 billion to INR 100 billion, to facilitate reaching the target of 20,000 MW of solar power by 2022 under the Jawaharlal Nehru National Solar Mission.

Banking sector

- ▶ The Government has decided to set up an apex level Financial Stability and Development Council to strengthen and institutionalize the mechanisms for maintaining financial stability. This Council would monitor macro prudential supervision of the economy, including functioning of large financial conglomerates and address inter-regulatory coordination issues

without prejudice to the autonomy of present regulators.

- ▶ To increase geographical coverage and ensure that it grows in size to meet the needs of a modern economy, RBI is considering giving some additional banking licenses to private sector players and NBFCs. The license to NBFCs would be subject to satisfaction of RBI's eligibility criteria.
- ▶ The Government will set up a financial sector legislative reform commission to rewrite and clean up the financial sector laws, to bring them in line with the requirement of the sector.
- ▶ Budgetary allocation to the program for linking self help groups with the banking system will be increased to INR 4 billion.

To extend the benefits of banking services to the common man, it has been decided to provide appropriate banking facilities to habitations having population in excess of 2,000 by March 2012. It is also proposed to extend insurance and other services to the targeted beneficiaries.

Capital markets

- ▶ The Government has announced its intention to list National Mineral Development Corporation and Satluj Jal Vidyut Nigam during the financial year 2010-11. The proceeds from the divestment of equity will be utilized to meet the capital expenditure requirements of social sector schemes for creating new assets.

Urban development

- ▶ Budgetary allocation to the Swarna Jayanti Shahari Rozgar Yozna, aimed to create employment opportunities in urban areas, will be increased by more than 75% from INR 30.60 billion to INR 54 billion.
- ▶ The budgetary allocation for housing and provision of basic amenities to urban poor including for Rajiv Awas Yojana, a scheme that was announced for making the country slum free in the financial year 2009-10, is increased to INR 12.7 billion.

Rural development

- ▶ To increase the employment opportunities under the National Rural Employment Guarantee Scheme, the Government will increase the budgetary allocation to INR 401 billion.
- ▶ The Government will make a budgetary allocation of INR 480 billion to Bharat Nirman program, which has made a substantial contribution to the upgradation of rural infrastructure.
- ▶ The Government will increase budgetary allocation to Indira Awas Yojana, aimed at providing rural houses for weaker sections to INR 100 billion.
- ▶ The budgetary allocation to Backward Region Grant Fund, aimed at bridging the infrastructure gap in the backward districts of the country, will be increased by 26% from INR 58 billion to INR 73 billion.

Others

- ▶ Government plans to target an explicit reduction in public debt-GDP ratio and is aiming to bring out a status report giving a detailed analysis of the current situation and a road map for curtailing the overall public debt. This would be followed by an annual report on the subject.
- ▶ The Government has laid special emphasis to spur the growth of the agricultural sector and has drawn up a strategy which covers the following:
 - ▶ Increase in agricultural production, which includes extension of green revolution to eastern region of the country and organizing 60,000 pulses and oil seeds villages in rain fed areas.
 - ▶ Initiatives to reduce wastage of storage.
 - ▶ Improving the availability of credit to farmers which includes increase in farm loans, extension of repayment period under Debt Waiver and Debt Relief Scheme for farmers from 31 December 2009 to 30 June 2010 and 2% interest subvention for timely repayment of farm loans.

- ▶ Budgetary allocation to the Micro, Small and Medium Enterprises sector will be increased from INR 17.94 billion to INR 24 billion.
- ▶ The Government will increase budgetary allocation to the defense sector to INR 1,473.44 billion.
- ▶ The Government will increase budgetary allocation to UIAI to INR 19 billion.
- ▶ The Government will set up a National Social Security Fund for provision of social security to unorganized sector with a budgetary allocation of INR 10 billion.
- ▶ The Government will enhance the plan outlay of the Ministry of Social Justice and Empowerment to INR 45 billion to support programs for the benefit of scheduled castes, other backward castes, persons with disabilities, senior citizens, etc.
- ▶ The Government will set up a Technology Advisory Group for unique IT projects such as Tax Information Network, NPS, National Treasury Management Agency, Expenditure Information Network, GST.
- ▶ The Government will set up an Independent Evaluation Office to undertake impartial and objective assessments of the various public programs to improve the effectiveness of public interventions.
- ▶ The Government will set up the National Mission for Delivery of Justice and Legal Reforms to provide timely delivery of justice. Its objective is to help to reduce legal backlog in courts from an average of 15 years to 3 years by 2012.
- ▶ An annual health survey to prepare the district health profile of all the districts shall be conducted in financial year 2010-11. This survey would benefit the major public health initiatives particularly the National Rural Health Mission.
- ▶ The Government will launch an extensive skill development programme for the textile and garment sector by leveraging on the strength of existing institution of the Ministry of Textile. The resources of the private sector would also be harnessed by incentivising training through an outcome-based approach. Through these instruments, the Ministry of

Textiles has set a target of covering 3 million people over 5 years.

- The Government will increase the plan allocation for school education from INR 268 billion in 2009-10 to INR 310.36 billion in 2010-11.

Recent policy changes

Significant policy initiatives during the period 16 June 2009 to 15 February 2010 have been summarized in the following paragraphs. Some of these initiatives may be impacted by the proposals announced in the Budget speech of the Finance Minister.

Foreign investment policy

With a view to further liberalize India's foreign investment policy, the following key changes have been made:

- ▶ FDI in MSE allowed subject to equity caps, entry route and other relevant sectoral regulations.
- ▶ FDI up to 24% allowed in an entity (not an MSE) manufacturing items reserved for MSE, under the automatic route. Investment beyond 24% requires prior FIPB approval. The entity would be required to obtain an industrial license for manufacturing items reserved for MSE sector and undertake to export 50% of the new or additional annual production of the MSE reserved items, to be achieved within a maximum period of three years.
- ▶ FDI up to 49% allowed in commodity exchanges with prior FIPB approval. In case of investment in a listed company, FII investment would be restricted up to 23% within the overall limit of 49% subject to specified conditions. An existing company having FDI in excess of 49% is required to comply with these conditions by 31 March 2010.
- ▶ Payments for royalty, lumpsum fee for transfer of technology and payments for use of trademark/ brand name allowed under the automatic route without any limits, subject to Foreign Exchange Management (Current Account Transactions) Rules 2000.

With a view to expedite foreign investment inflow into the country and also to save time and efforts for the FIPB/ CCEA, it has been decided that henceforth:

- ▶ Finance Minister will approve proposals (recommended by the FIPB) where the total foreign equity investment is less than INR 12 billion.
- ▶ CCEA would consider the proposals where total foreign equity investment is INR 12 billion and above.
- ▶ Additionally, for the following cases, where prior approval of FIPB/ CCEA for making initial investment has already been taken, any further approval from the FIPB/ CCEA would not be required:
 - ▶ Proposals where activities earlier required prior approval of the FIPB/ CCEA but subsequently such activities/ sectors have been placed under the automatic route;
 - ▶ Proposals where activities attracted sectoral caps earlier but subsequently such caps were removed or increased and the activity was placed under the automatic route; and
 - ▶ Proposals where prior approval of the FIPB/ CCEA had been obtained due to requirement of Press Note 18 (1998 Series)/ Press Note 1 (2005 Series) and are now proposing additional foreign investment.

Foreign exchange regulations

FEMA

- ▶ The RBI has clarified that all categories of earners of foreign exchange can credit up to 100% of their foreign exchange earnings to their EEFC account.
- ▶ The RBI has further liberalized the exchange control regulations by permitting a foreign/ Indian citizen employed by a foreign company outside India, who is on deputation to a LO/ BO/ JV/ subsidiary in India of such foreign company, to receive the entire post-tax salary in a foreign currency account opened/ maintained by him outside India.

- ▶ Foreign citizens, who are employed by an Indian company, have been permitted to remit outside India their entire post-tax salary received in India in INR.

Inbound/ outbound investments

- ▶ The Government has issued IDR rules to facilitate eligible companies resident outside India to issue IDRs through a domestic depository and to permit residents in and outside India to purchase, possess, transfer and redeem IDRs. For raising the funds through IDRs by financial/ banking companies which have a presence in India, either through branch or subsidiary, the approval of sectoral regulator(s) will be required before the issue of the IDRs.
- ▶ FEMA regulations shall not be applicable to persons resident in India for investments in IDRs and their subsequent transfer arising out of transaction on a recognized stock exchange.
- ▶ NRIs and FIIs, including their SEBI approved sub-accounts also have been allowed to invest, purchase, hold and transfer IDRs. Further, NRIs are allowed to invest in IDRs out of funds held in their NRE/ FCNR(B) account maintained with an AD.
- ▶ FEMA provisions shall not apply to holding of the underlying shares on redemption of IDRs by the FIIs including their SEBI approved sub-accounts and NRIs.

ECBs

- ▶ Corporates engaged in development of integrated townships were permitted to avail ECBs under the approval route, till 30 June 2009. This facility has now been extended till 31 December 2010.
- ▶ The RBI has permitted NBFCs exclusively involved in financing the infrastructure sector to avail of ECB from recognized eligible lenders including international banks under the approval route, subject to prescribed conditions.
- ▶ The RBI has dispensed with the requirement of maintenance of a minimum ratio of 3:1 between the direct lending portfolio for infrastructure projects in India by recognized lenders vis-à-vis their total ECB lending to NBFCs at any point of time.

- ▶ SEZ developers are now permitted to avail ECB under the approval route for providing infrastructure facilities (as defined in the ECB policy) within the SEZ. However, ECB shall not be permissible for development of integrated township and commercial real estate within the SEZ.
- ▶ Successful bidders in the telecom sector have been permitted to fund the payment for 3G spectrum allocation initially out of their INR resources and to refinance the same subsequently with a long term ECB, under the approval route, subject to specified conditions.
- ▶ Where loan agreements have been signed on or after 1 January 2010, the all-in-cost ceiling over 6 months LIBOR for ECBs under approval route, would be as follows:

Average maturity period	All-in-cost ceilings over six months LIBOR
More than three years and up to five years	300 basis points
More than five years	500 basis points

- ▶ With effect from 1 January 2010, the RBI has discontinued the facility provided to Indian companies to buy back their FCCBs both under automatic and approval route.
- ▶ As a measure of simplification, AD Category-I banks have been permitted to approve certain requests, such as change in draw down or repayment schedule, change in currency of borrowings etc, from ECB borrowers, subject to specified conditions.

Offices in India

- ▶ With the objective of achieving transparency, the RBI has announced the eligibility criteria for setting up and other procedural guidelines regarding functioning of BO and LO in India. The key elements of the same are discussed in the following paragraphs:

- ▶ Applications from foreign banks and insurance companies for opening of BOs/ LOs will continue to be received/ examined by the DBOD of RBI and the IRDA respectively.
- ▶ The RBI will also consider BO/ LO applications where the principal business of the foreign entity falls under sectors where 100% FDI is permitted. The RBI will consider other applications in consultation with the Government.
- ▶ Applications by foreign entities (other than foreign banks and insurance companies) are to be routed to the RBI through a designated AD Category-I bank.
- ▶ The designated AD Category-I bank after exercising due diligence in respect of the foreign entity would forward the application together with their comments/ recommendations to the RBI.
- ▶ Additional criteria such as net worth and profitability would be considered by RBI for granting approval.
- ▶ Approval of RBI would not be required to establish a BO in a SEZ for undertaking manufacturing/ service activities, subject to compliance with certain conditions.

Extension and closure of BO/ LO

- ▶ With a view to liberalize the existing procedure, certain powers have been delegated to the designated AD Category-I banks. Accordingly, with effect from 1 February 2010, AD Category-I banks would, inter alia, be permitted to undertake the following:
 - ▶ Extend the validity period of LOs (except LOs of foreign entities which are NBFCs and those engaged in construction and development sectors) for a period of 3 years from the date of expiry of the original approval/ extension granted, subject to prescribed conditions; and
 - ▶ Allow closure of the BO/ LO by closing the account maintained with them and remit the proceeds to the overseas entity, subject to prescribed conditions.
- ▶ In the event of any adverse findings being reported by the auditor of the BO/ LO or noticed by the designated

AD Category-I bank, the same would need to be reported immediately to the RBI.

Securities law and regulations

Listing agreement

- ▶ Listed companies are now prohibited from issuing shares with superior voting/ dividend rights vis-à-vis rights on equity shares that are already listed.

SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009

- ▶ ICDR Regulations notified in place of SEBI DIP Guidelines. Key provisions are as follows:
 - ▶ “Group companies” are now defined to mean companies, firms, ventures, etc promoted by the promoters of the issuer, irrespective of whether or not they are “bodies corporate under same management” as per the Companies Act, 1956.
 - ▶ Eligibility norms for IPOs are now uniformly applicable to all types of issuers. Exemptions earlier available to banking companies, corresponding new banks and infrastructure companies have been removed.
 - ▶ Companies are now prohibited from making an issue of securities if the issuer, any of its promoter, promoter group, director or person in control is debarred from accessing the capital market by SEBI. This shall also apply if such person is or was a promoter, director or person in control of any other company which is debarred by SEBI from accessing the capital markets. Earlier, this applied only to companies prohibited under any order or direction of SEBI.
 - ▶ Regulations governing offer for sale by listed companies have been now incorporated.

- ▶ Reservation on competitive basis in public issues are now provided for shareholders (other than promoters) of listed promoting companies in case of new issuers and listed group companies in case of existing issuers.
- ▶ Book building process now needs to be followed for 100% of issue size. Option of following the process for 75% of issue size has been omitted.
- ▶ It has been clarified that upfront payment made in respect of unexercised warrants shall be forfeited.
- ▶ In case of an IPO, all outstanding convertible instruments held by any person are now required to be compulsorily converted. Earlier, this requirement applied only in respect of outstanding convertible instruments held by promoters or shareholders.
- ▶ Lock-in provisions shall apply to preferential issue of equity shares made pursuant to a High Court approved scheme and to preferential issue made pursuant to conversion of loan/ option attached to convertible debt instruments under the Companies Act, 1956.
- ▶ Other provisions incorporated in ICDR Regulations are as follows:
 - ▶ In case of conversion of fully paid compulsorily convertible securities (including depository receipts) into equity shares and subsequent offer for sale, the holding period of such convertible securities as well as that of resultant equity shares shall now be considered for the purpose of calculation of eligibility period.
 - ▶ A new concept of “anchor investor” has been introduced in case of public issues through book building process. Subject to certain specified conditions, up to 30% of the portion allocated to QIBs will be available for allocation to anchor investors.

SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997

- ▶ The following clarifications have been made in case of an acquirer who together with persons acting in concert with him, holds 55% or more but less than 75% of the shares or voting rights in a target company:
 - ▶ Shares or voting rights up to a maximum of 5% (in addition to the existing annual “creeping acquisition” limit of 5% up to 55%) in the target company may be acquired by such acquirer in one or more tranches without making a public announcement. No restriction shall apply on the time frame within which such shares or voting rights can be acquired.
 - ▶ Consequent to acquisition of such 5% voting rights, the percentage of shareholding/ voting rights of the acquirer, together with persons acting in concert with him, in the target company, shall not increase beyond 75%.

Financial services

Banking

- ▶ The RBI has increased the daily limit for mobile banking transactions for both funds transfer and transactions involving purchase of goods/ services from the present caps of INR 5,000 and INR 10,000, respectively to INR 50,000 per customer. The RBI has also prescribed guidelines for facilitating the use of mobile phones for remittance of cash.

FIs/ sub-accounts

- ▶ SEBI has decided to allocate the unutilized investment limits for Government debt among FIs in the same manner as currently applicable for corporate debt.
- ▶ A single FI shall not be allocated more than INR 8 billion of the Government debt investment limit.

Mutual funds

- ▶ SEBI has directed mutual funds that they should not make any distinction among unit holders on the basis of amount of subscription while charging exit loads.
- ▶ In order to address the need for enhancing the geographic reach of mutual fund schemes, SEBI has permitted units of mutual fund schemes to be transacted on recognized stock exchanges through registered stock brokers.
- ▶ SEBI has permitted mutual funds to invest in IDRs subject to compliance with the mutual fund regulations.

NBFCs

- ▶ The RBI has made it mandatory for NBFCs to comply with directions applicable to NBFC-ND-SIs once their asset size reaches INR 1 billion even if their asset size was below the said threshold as at the last audited balance sheet date. Further, the RBI has clarified that NBFC-ND-SIs need to continue to comply with the RBI directions until the submission of the next balance sheet even if their asset size falls below INR one billion.
- ▶ The RBI has issued Non Banking Financial Companies (Deposit Accepting) (Approval of Acquisition or Transfer of Control) Directions, 2009. Under the said directions, any acquisition of shares/ reorganization event that transfers control of a deposit taking NBFC would require prior permission of the RBI.
- ▶ The RBI has introduced a fourth category of NBFCs as "Infrastructure Finance Companies". An NBFC-ND-SI satisfying certain additional conditions shall be eligible for classification under the new category. IFCs have been permitted to exceed the concentration of credit norms presently applicable to NBFC-ND-SIs (not being IFCs).
- ▶ The RBI has permitted NBFCs to participate in the trading of IRFs on recognized stock exchanges for the purpose of hedging their underlying exposures and subject to RBI/ SEBI guidelines.

Foreign Venture Capital Investors

- ▶ In order to bring parity between FVCIs and domestic Venture Capital Funds, SEBI has made it mandatory for applicants seeking registration as FVCIs to obtain firm commitment from their investors for contribution of an amount of at least USD 1 million at the time of submission of applications to SEBI.

Insurance

- ▶ IRDA has issued a circular allowing life insurance companies having a deficit in their life fund, to pay bonus to the policy holders for a period of 10 years commencing from the year in which the life insurance business operations are started. Prior to the issuance of the circular this period was restricted to seven years.
- ▶ IRDA has made it mandatory for insurance companies to cap charges on ULIPs at specified levels. The limits specified are represented as caps on the maximum difference between gross yield and net yield. Based on the tenor of the insurance contract, the limits specified are as follows:
 - ▶ Tenor up to 10 years, 300 basis points.
 - ▶ Tenor of more than 10 years, 225 basis points.

In both the above cases, irrespective of the tenor of the contract, the fund management charges should not exceed 135 basis points.

Further, surrender charge cannot be levied for policies surrendered from the fifth year of the policy.

- ▶ IRDA has issued guidelines on “Corporate Governance for the Insurance sector” and has directed that insurance companies should take necessary action to comply with their guidelines starting from the financial year 2009-2010.
- ▶ IRDA has clarified that investments in IDRs by insurance companies would amount to an indirect investment made outside the country and hence is not permitted.

- ▶ IRDA has made it mandatory for insurance companies to collect PAN from all persons where the contracted annual premium per insurance policy exceeds INR 100,000. Insurance companies have also been advised to collect a signed declaration from persons exempted from the requirement of PAN, stating the provisions of the Income-tax Act under which they have been exempted.

Information technology

- ▶ The IT (Amendment) Act, 2008, along with the IT Rules, 2009, has come into force on 27 October 2009.
- ▶ The Government has taken the following key steps under the framework of this legislation:
 - ▶ Constitution of “Indian Computer Emergency Response Team” to serve as the national nodal agency in the area of cyber security.
 - ▶ Set-up of a Cyber Appellate Tribunal with the powers of a civil court, to hear appeals arising out of decisions on cyber contraventions.
- ▶ Procedures and safeguards have been notified for matters such as interception, monitoring and decryption of information, blocking for access of information by public and monitoring and collecting traffic data or information.

Retail and consumer products

- ▶ The Legal Metrology Bill, 2009 has been passed by the Rajya Sabha on 1 December 2009 to establish and enforce standards of weights and measures, regulate trade and commerce in weights, measures and other goods which are sold or distributed by weight, measure or number and for related matters. The Bill inter alia provides for regulation of weight or measure used in transaction, approval of model of weight or measure, verification of prescribed weight or measure by Government approved test centre and prescribing qualification of legal metrology officers appointed by the Central or the State Governments.

- ▶ The Rubber (Amendment) Bill, 2009 has been passed by Rajya Sabha to amend the Rubber Act, 1947 and to introduce suitable amendments in light of the several developments and changes in the rubber industry since the inception of the principal Act. Accordingly, the Bill seeks to delete the obsolete provisions and substitute some of the existing provisions in the Rubber Act, 1947 in order to strengthen it to meet the revised economic conditions.
- ▶ The Government has indicated (Press Note dated 16 December 2009) the Government has indicated that it proposes to put a regulatory framework in place in the form of Marine Fisheries (Regulation and Management Act). The objective of the legislation is to ensure that there is no unregulated fishing in the Exclusive Economic Zone beyond territorial waters of India, and to conserve fisheries resources through a fisheries management plan.

Media

Broadcasting

Suspension of applications for up linking/ down linking license

- ▶ MIB has decided to temporarily suspend receiving applications for permission to up link television channels from India and down link television channels in India. The applications which have already been received by MIB before 8 October 2009 will be processed according to the procedures.

Status of channels up linked from India before 2 December 2005

- ▶ All 164 television channels permitted to be up linked from India before 2 December 2005 were not registered to be down linked in India as there was no provision to register them at that time. The MIB has clarified that permission granted to channels shall be treated as registered television channel and can be carried or included in the cable service. Further, the period of registration would be taken as five years from the date

of guidelines ie 11 November 2005 and any renewal would be considered from such date.

Headend-In-The-Sky guidelines

- ▶ The Government has issued guidelines for HITS broadcasting service. HITS operator will operate like a conventional Multi System Operator, except virtually the headend is in the sky, instead of being located on the ground.
- ▶ Permission for providing the HITS service will be valid for a period of 10 years from the date of issue of license.
- ▶ The Government has imposed a cross media restriction of 20% of the total paid up equity for various segments of broadcasting services to avoid vertical integration and promote competition.
- ▶ Total foreign investment including portfolio and FDI into the licensed company should not exceed 74%, which needs to be certified every year. FDI up to 49% will be under automatic route.

Health sciences

- ▶ The CDSCO has issued a set of new rules containing 17 norms for pharma exporters. The rules which are effective from 1 January 2010, inter alia mandates obtaining NOC from ADC for export of drugs and cosmetics.
- ▶ The Union Cabinet has approved the Clinical Establishments (Registration and Regulation) Bill and the same is expected to be presented in the budget session of Parliament. The Bill provides for mandatory registration of all clinical establishments and prescribes enhanced penalty for defaulters. The Bill also prescribes minimum standards of facilities and services which may be provided by clinical establishments.
- ▶ The DCGI has introduced a new set of guidelines in respect of the BE studies conducted for export purposes. The new guidelines provides that all BE studies for export purposes should be conducted in the BE study centres approved by CDSCO. The new

guidelines also seek to streamline the application process for conducting such BE studies.

- ▶ The Centre has revised CLCSS guidelines to enable SSI units to avail benefit of the scheme for financial assistance for an expanded list of machineries/ equipment recommended for drugs and pharmaceuticals products from 32 to 179.
- ▶ The Union Cabinet has approved the Union Health Ministry's proposal to amend the Transplantation of Human Organs Act, 1994 in order to make organ transplantations more transparent and patient friendly, and to impose stringent penalties on persons/ hospitals violating the provisions of the above Act.
- ▶ The Government has issued draft Drugs and Cosmetics (4th Amendment) Rules, 2009 which provides for the product licenses for narcotic drugs and psychotropic substances to be issued by the CLAA which were earlier issued by SLAs.
- ▶ The DCGI has directed SLAs to issue CoPP till the Madras High Court delivers its verdict on the petition filed against the DCGI's earlier order to issue CoPP by the CDSCO.

Real estate

- ▶ The RBI increased the risk weightage on loans to CRE sector from 0.4% to 1% in November 2009.
- ▶ The Ministry of Housing has issued a draft of the new Model Real Estate (Regulation of Development) Act with a view to increase transparency in the real estate industry. Some of the key features of the draft bill are as follows:
 - ▶ Mandatory registration with the Real Estate Regulatory Authority for real estate projects before their promotion by the developers.
 - ▶ Formal sale agreement to be entered into with the buyer prior to accepting any advances.
 - ▶ Bank guarantee of 5% of the total project cost to be furnished. The same would be encashable on failure to complete the project on time or on violation of

the provisions of the Model Real Estate (Regulation of Development) Act.

- ▶ Any amount collected from buyers as deposit/ advance shall not be utilized for any purpose other than for completion of the project.
- ▶ The RBI has extended the permission granted to corporates to avail ECB for development of integrated townships from 31 December 2009 to 31 December 2010 (under the approval route).
- ▶ The RBI has issued the final guidelines clarifying the exposures to be classified as CRE. As per the guidelines, where repayment of funding is primarily dependent on the cash flows generated by real estate assets, the exposure would be classified as CRE.

Hospitality

- ▶ Overseas payouts towards royalty, transfer of technology and management fee by hotels were subject to limits under the FDI policy. The limits have been removed by Press Note 8 (2009 Series) dated 16 December 2009.
- ▶ The Ministry of Tourism has introduced a scheme of Assistance for Large Revenue Generating Projects. Under this scheme, PPP projects would be eligible for an assistance which is lower of:
 - ▶ Subsidy up to INR 500 million; or
 - ▶ 25% of total project cost; or
 - ▶ 50% of equity contribution of promoter.

Projects such as tourist trains, cruise vessels, cruise terminals, convention centres and golf courses would be covered under this scheme.

- ▶ The Ministry of Tourism has introduced the “Visa on Arrival” scheme. Currently the scheme is introduced on a pilot basis for one year for tourists coming from Singapore, Finland, New Zealand, Luxembourg and Japan.

- ▶ The RBI has clarified that loans to entrepreneurs who would operate hotels would not fall within the CRE exposure.

Oil and gas

- ▶ PNGRB has recently notified the technical standards and specifications for natural gas pipelines which are applicable to all entities authorized to lay, build, operate or expand natural gas pipelines. These standards are intended to ensure uniform application of design principles and shall primarily focus on safety aspects.
- ▶ The Kirit Parikh Committee has recently submitted its report on pricing of petroleum products. The committee has recommended immediate deregulation of pricing of transport fuel. In addition, the committee has recommended a marginal hike in price of domestic LPG and kerosene.

Mining

- ▶ The Government has introduced new mining royalty rates for 50 minerals with effect from 13 August 2009. The new rate structure primarily prescribes ad valorem rates.
- ▶ Export duty stands revised with effect from 24 December 2009 as follows:
 - ▶ On iron ore and concentrates, all sorts (except iron ore fines) it has been increased from 5% to 10%.
 - ▶ 5% ad valorem has been imposed on export of iron ore fines by removing the exemption which was earlier being granted.
- ▶ In order to implement the comprehensive reforms stated in National Minerals Policy, 2008 the existing Mines and Minerals (Development and Regulation Act), 1957 is in the process of being revised.

Infrastructure and transportation

- ▶ The Ministry of Shipping has issued draft policy guidelines to be adhered by major ports while awarding of port facilities under PPP mode for preventing private sector monopoly. The key features are as follows:
 - ▶ Existing private terminal operator (being the only operator) in the port for specific cargo will not be allowed to bid for the next terminal/ berth for the same cargo in the same port.
 - ▶ Existing private port operator will not be awarded the project if it has more than two BOT projects.
- ▶ Replacing the existing rates circular in November 2009, the Ministry of Railways has issued new policy guidelines on freight incentive scheme. The scheme will be applicable for freight traffic booked under provisions of Goods Tariff. Rail users already availing freight concession under notification issued by zonal railways may continue with the existing arrangement till completion of the contract period.
- ▶ In November 2009, the Ministry of Road Transport and Highway has relaxed the norms for executing National Highway projects and has inter alia approved the following modifications to the existing Model Concession Agreement, Request for quotation and Request for proposal for executing National Highway Projects:
 - ▶ Increase in equity grant to 40% by merging 20% equity and 20% Operation & Management grant into equity grant.
 - ▶ Termination provisions in Road Concession Agreements.
 - ▶ Exit policy for (Developer) Concessionaire in Ministry of Civil Aviation.
 - ▶ Under the Request for quotation process, project wise pre-qualification to be substituted with annual/ periodic pre-qualification.

- ▶ In September 2009, DGCA has constituted Aviation Regulations Advisory Panel to advise on areas such as airworthiness, flight operations, flight safety, licensing of personnel, air transport services, aerodrome and air navigation services.
- ▶ The MCA has accorded Miniratna Category-I status to AAI. AAI can now exercise enhanced autonomy, financial power, etc as per instructions issued by the Central Government from time to time and can implement projects costing up to INR 5 billion with the approval of its own board.

Power

- ▶ CERC has notified the open access regulations for inter state transmission for medium term and long term connectivity with a view to provide different varieties of transmission products, standardization of procedures and ensuring level playing field among different categories of market players. According to the regulations, it is mandatory to grant open access to any generating plant or bulk consumer having specified installed capacity, on making an application.
- ▶ The Cabinet has approved modifications to the existing mega power policy. The salient features of the amended policy are as follows:
 - ▶ Policy would be applicable to thermal projects of 1,000 MW or more and hydel projects of 500 MW or more.
 - ▶ Conditions requiring inter-state sale of power for getting mega power status removed.
 - ▶ Mega power projects would be required to tie up power supply through long term PPAs.
 - ▶ Mega power policy benefits to be available to brownfield expansion of existing mega projects.
 - ▶ Power purchasing state should have constituted Regulatory Commissions and shall undertake to carry out distribution reforms.
 - ▶ 15% price preference to domestic bidders not to apply for tariff based competitively bid projects of PSUs.

- ▶ CERC has issued new regulations fixing the trading margin for short term inter-state trading in electricity.
- ▶ The Government has approved a new policy on the development of solar energy by launching the Jawaharlal Nehru National Solar Mission. The program calls for the development of 1.3 GW of solar power over the next three years and 20 GW by 2022 through a national feed-in tariff for solar energy.
- ▶ The Ministry of New and Renewable Energy has announced generation based incentive for grid interactive wind power projects. The incentive will be provided to wind electricity producers at INR 0.50 per unit of electricity fed into the grid for a period of 4 to 10 years. The financial outlay for the scheme during the Eleventh Plan period is INR 3.8 billion and will cover a maximum of 4 GW of wind projects. A project can claim either accelerated depreciation benefit ie 80% in the first year or the incentive. Wind projects feeding the grid at regulated rates and captive projects are eligible for the incentive.

SEZ

- ▶ Guidelines issued for exemption from stamp duty on instruments executed for purchase of land in SEZ area by SEZ developer units.
- ▶ Guidelines issued for Transfer of in-principle or formal approval issued by a SEZ developer to its subsidiary or special purpose vehicle
- ▶ Guidelines issued for change in area of SEZ.
- ▶ Clarifications issued for calculation of NFE that provides for NFE to be calculated in rupee terms only.
- ▶ SEZ developers allowed to credit up to 100% of specified foreign earnings to EEFC account.
- ▶ SEZ developers allowed to avail ECB for providing infrastructure facilities within SEZ. However, ECB not permissible for integrated township and commercial real estate within SEZ.
- ▶ Guidelines issued for consideration of proposals for authorized operations by the BoA.

- ▶ Norms issued for building infrastructure within non processing area of SEZ.

Indirect tax

Customs duty

- ▶ BCD on import of goods for expansion of mega power projects reduced to 2.5%.
- ▶ Mega power projects exempted from CVD, SAD and education cess.
- ▶ Concessional rate of BCD on goods imported under Free Trade Agreement from ASEAN countries.

Service tax

- ▶ Clarification issued for refund of input service tax credit for export of services with an additional requirement of a certified correlation statement between input services and services exported.

Foreign trade policy

- ▶ The new FTP replaces the FTP 2004-09 with effect from 27 August 2009.
- ▶ 26 new countries included in the Focus Market Scheme, including Latin America and Asia-Oceania.
- ▶ The Incentive under the Focus Market Scheme increased from 2.5% to 3%.
- ▶ Benefit under Focus Product Scheme extended to a large number of products such as agricultural machinery, clock and watches, railway locomotives, wind mills, wind turbines and electric operated vehicles.
- ▶ Incentive under Focus Product Scheme increased from 1.25% to 2%. Special focus products such as sports goods, toys and handicrafts entitled to credit scrips at higher rate of 5%.
- ▶ EPCG scheme at zero duty extended till 31 March 2011. Application and redemption forms under EPCG scheme simplified.

- ▶ Export obligation on import of spares, moulds etc under EPCG Scheme reduced to 50% of the normal specific export obligation.
- ▶ DEPB scheme extended from 31 December 2009 to 31 December 2010.
- ▶ Service providers in telecom sector and foreign exchange remittances for services provided by airline and shipping lines not entitled to benefit under the "Served from India Scheme". Hotels, restaurants, other service providers in tourism sector entitled to duty credit scrip equivalent to 10% of free foreign exchange.

Others

Visa

- ▶ Business (B) visa to be issued only for specified set of activities like attending board meetings, project monitoring, trade exhibitions, exploring business ventures, procurement of goods and services from India etc.
- ▶ Employment (E) visa to be granted only to skilled and qualified professionals keeping in mind the availability of comparable resources in India. Indian Missions empowered to issue E Visas up to 1% of the visa sponsor's Indian workforce subject to a maximum of 20 (40 in case of power and steel sector up to June 2010). No restrictions up to 5 E Visas. Visas in excess of 1%/ 20 employees, to be approved by Ministry of Labour & Employment.

Social security agreement

- ▶ India's SSAs with Belgium and Germany have now entered into force. In addition, India has now signed SSA with France, Switzerland, Netherlands, Luxembourg and Denmark that are yet to enter into force.

Global tax update

The world of tax has seen some very significant developments in recent times. Even though officially recession seems to be fading away, the global tax landscape has undergone an unprecedented change in the last one year on account of the measures taken by Governments to provide fiscal stimulus. Governments are addressing this new environment by trying to protect revenues and collaborate with one another like never before. A number of countries have tax reform process underway or are about to start the process.

Obama Administration's financial year 2011 tax proposals

The Obama Administration's budget for financial year 2011 contains a number of proposals from last year as well as some significant new provisions. Like last year's budget, the new budget released on 1 February 2010 would make permanent the research credit, codify the economic substance doctrine, tax carried interest as ordinary income, etc. New in this year's budget are proposals to impose a "financial crisis responsibility fee" on large financial institutions, restrict ability to transfer intangible property to offshore subsidiaries, etc. The budget does not include a proposal from last year to curtail the use of the "entity classification rules".

These changes, if enacted, could dramatically change the competitive position of US multinational businesses across all industries.

Developments in China

On 16 December 2009, the China State Administration on Taxation announced Circular 698 which provides guidance on taxation of gains derived by non residents on sale of shares. The circular imposes an obligation on non residents to supply information and documents regarding indirect sales.

If a non resident investor indirectly disposes of a Chinese resident company's shares by selling the shares of an intermediate holding company located in a jurisdiction where the effective tax rate is less than 12.5% or which exempts offshore income from tax, Circular 698 requires the seller to submit information and documents to the tax

authority within 30 days of the conclusion of the share transfer agreement. If the existence of the intermediate holding company is found to have no commercial purpose except the avoidance of tax liabilities, Circular 698 asserts the Chinese right to invoke general anti-avoidance rules and disregard the intermediate holding company.

The China State Administration on Taxation also issued Circular 601 in October 2009 which clarifies beneficial ownership status for treaty benefits for incomes in the nature of royalty, interest and dividends. The circular states that a beneficial owner is a person who has the ownership and control rights of such income or of the rights or property that result in the income. The circular further states that treaty intent and substance over form principle must be used to determine the status of the beneficial owner on a case by case basis.

Reform of CFC regimes

The 2009 UK budget included a number of significant international tax changes. UK companies will no longer be taxable on dividends received on or after 1 July 2009 from both UK and non UK sources, subject to conditions. Building on the dividend exemption regime, the UK Revenue has been working on the new CFC regime and has published a 'direction of policy' document. The UK Revenue has now issued a discussion document as well.

In January 2010, the Australian Government released a consultation paper setting out proposed reform of the CFC rules. The reforms were initially announced in May 2009 as part of broader reforms to Australia's international tax regime.

Transfer pricing update

On 9 September 2009 the OECD released the proposed revision of the Transfer Pricing Guidelines. The main changes contained in the proposed revision are as follows:

- ▶ Replacement of the hierarchy of transfer pricing methods with the most appropriate method.
- ▶ Detailed discussion on importance and requirements of a comparability analysis.
- ▶ Guidance on application of transaction profit methods.

This represents an important update of the existing guidance and once finalized, it should provide greater clarity to taxpayers and the tax administration on application of transfer pricing rules.

In another development, a meeting of a UN transfer pricing subcommittee was convened to discuss transfer pricing issues from a developing countries perspective. The work of the subcommittee is expected to result in the development of a UN manual on transfer pricing.

There was a significant setback to the arm's length principle in the recent US Court of Appeal decision in the case of Xilinx Inc. The appeals court, however, subsequently withdrew its controversial opinion early this year.

Global transparency and tax information exchange

International tax evasion and the implementation of the OECD's internationally agreed tax standards have continued to take high position on the global political agenda. All 84 countries surveyed by the OECD have now endorsed the OECD standards and have agreed to implement them. In addition, there has been a rapid increase in the number of tax information exchange agreements signed by countries.

Other developments

- ▶ UK's pre-budget report released in December 2009 has proposed a 50% bank payroll tax (a windfall tax payable on bonuses in excess of GBP 25,000). However, there remains considerable uncertainty over the precise coverage and further development is expected.
- ▶ The UK Revenue is also exploring an ADR mechanism. It is anticipated that the ADR mechanism will follow the same arbitration and reconciliation approach that has been adopted for other legal disputes.
- ▶ France has continued with its tax reform package, begun in 2007, with introduction of new anti-avoidance and CFC rules.
- ▶ The US Internal Revenue Service has announced that it is developing a new schedule intended for use by business taxpayers with assets over USD 10 million to disclose uncertain tax positions on their tax returns. The schedule will require a concise description of each

uncertain tax position and the maximum amount of potential federal tax liability attributable to those positions.

- Indirect tax reform is also high on the agenda of Governments. Around the world many countries have introduced or are anticipating major reforms to their VAT/ GST systems. Even well established VAT/ GST systems are not immune to significant changes. The EU and Switzerland, for example, have both introduced major VAT changes on 1 January 2010 that have a significant impact on the VAT treatment of a range of international services.

The past year has witnessed a dizzying array of tax legislation, reforms and stepped up tax enforcement efforts in virtually every jurisdiction around the world. The pace of change may only accelerate as Governments and businesses reflect on lessons learned from the global economic crisis.

Glossary

AAI	Airport Authority of India
AD	Authorized dealer
ADC	Assistant Drugs Controller
ADR	Alternative Dispute Resolution
ASEAN	Association of South East Nations
BCD	Basic customs duty
BE	Bioequivalence
BO	Branch office
BoA	Board of Approval
BOT	Build operate transfer
CCEA	Cabinet Committee on Economic Affairs
CDSCO	Central Drugs Standard Control Organization
CENVAT	Central value added tax
CERC	Central Electricity Regulatory Commission
CFC	Controlled Foreign Corporation
CLAA	Central Licensing Approval Authority
CLCSS	Credit Linked Capital Subsidy Scheme
CoPP	Certificate of Pharmaceuticals Products
CRE	Commercial Real Estate
CST	Central sales tax
CTT	Commodities transaction tax
CVD	Countervailing duty
DBOD	Department of Banking Operations and Department
DCGI	Drug Controller General of India

DDT	Dividend distribution tax
DEPB	Duty Entitlement Pass Book
DGCA	Directorate General of Civil Aviation
DGCEI	Director General of Central Excise Intelligence
DIN	Document identification number
DTA	Domestic tariff area
DTC	Direct tax code
ECB	External commercial borrowings
EEFC	Exchange Earners' Foreign Currency
EHTP	Electronic hardware technology park
EPCG	Export promotion capital goods
EOU	Export oriented undertaking
ESOP	Employee stock option plan
EU	European Union
FCCB	Foreign currency convertible bond
FCNR(B)	Foreign currency non resident Bank
FDI	Foreign direct investment
FEMA	Foreign Exchange Management Act, 1999
FII	Foreign institutional investors
FIPB	Foreign Investment Promotion Board
FTP	Foreign trade policy
FVCIs	Foreign venture capital investor
GBP	Great Britain pound
GDP	Gross domestic product
GST	Goods and service tax
GW	Gigawatts
HITS	Headend-In-The-Sky
HUF	Hindu undivided family

ICDR Regulations	SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009
IDR	Indian depository receipt
IFC	Infrastructure Finance Companies
IIFCL	Indian Infrastructure Financial Corporation Limited
Income-tax Act	Income-tax Act, 1961
INR	Indian rupee
IPO	Initial public offering
IRDA	Insurance Regulatory and Development Authority
IRFs	Interest rate futures
ITAT	Income-tax Appellate Tribunal
IT	Information technology
JV	Joint venture
LED	Light emitting diode
LIBOR	London inter bank offered rate
LLP	Limited liability partnership
LO	Liaison office
LPG	Liquefied petroleum gas
MAT	Minimum alternate tax
MCA	Ministry of Corporate Affairs
MIB	Ministry of Information and Broadcasting
MNP	Mobile number portability
MSE	Micro and small enterprise
MW	Megawatts
NBFC	Non banking financial company
NBFCs-ND-SI	Systemically important non deposit taking non banking financial company
NCT	National capital territory

NFE	Net foreign earnings
NOC	No objection certificate
NPS	New pension system
NRE	Non Resident External Rupee (Account)
NRI	Non resident Indian
OECD	Organization for Economic Cooperation and Development
PAN	Permanent account number
PFRDA	Pension Fund Regulatory and Development Authority
PNGRB	Petroleum and Natural Gas Regulatory Board
PPAs	Power purchase agreements
PPP	Public private partnership
PSUs	Public sector undertakings
QIB	Qualified institutional buyer
R&D	Research and development
RBI	Reserve Bank of India
RSP	Retail sale price
SAD	Special additional duty
SACD	Special additional customs duty
SEBI	Securities Exchange Board of India
SEBI DIP Guidelines	SEBI (Disclosure of Investor Protection) Guidelines, 2000
SEZ	Special economic zone
SLA	State Licensing Authorities
SSA	Social security agreement
SSI	Small scale industry
STP	Software technology park
UIAI	Unique Identification Authority of India

ULIP	Unit linked insurance product
UN	United Nations
USD	United States Dollar
VAT	Value added tax
VRS	Voluntary retirement scheme
Wealth-tax Act	Wealth-tax Act, 1957
WPI	Wholesale price index

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