safe eCollege Gateway to the Financial Markets

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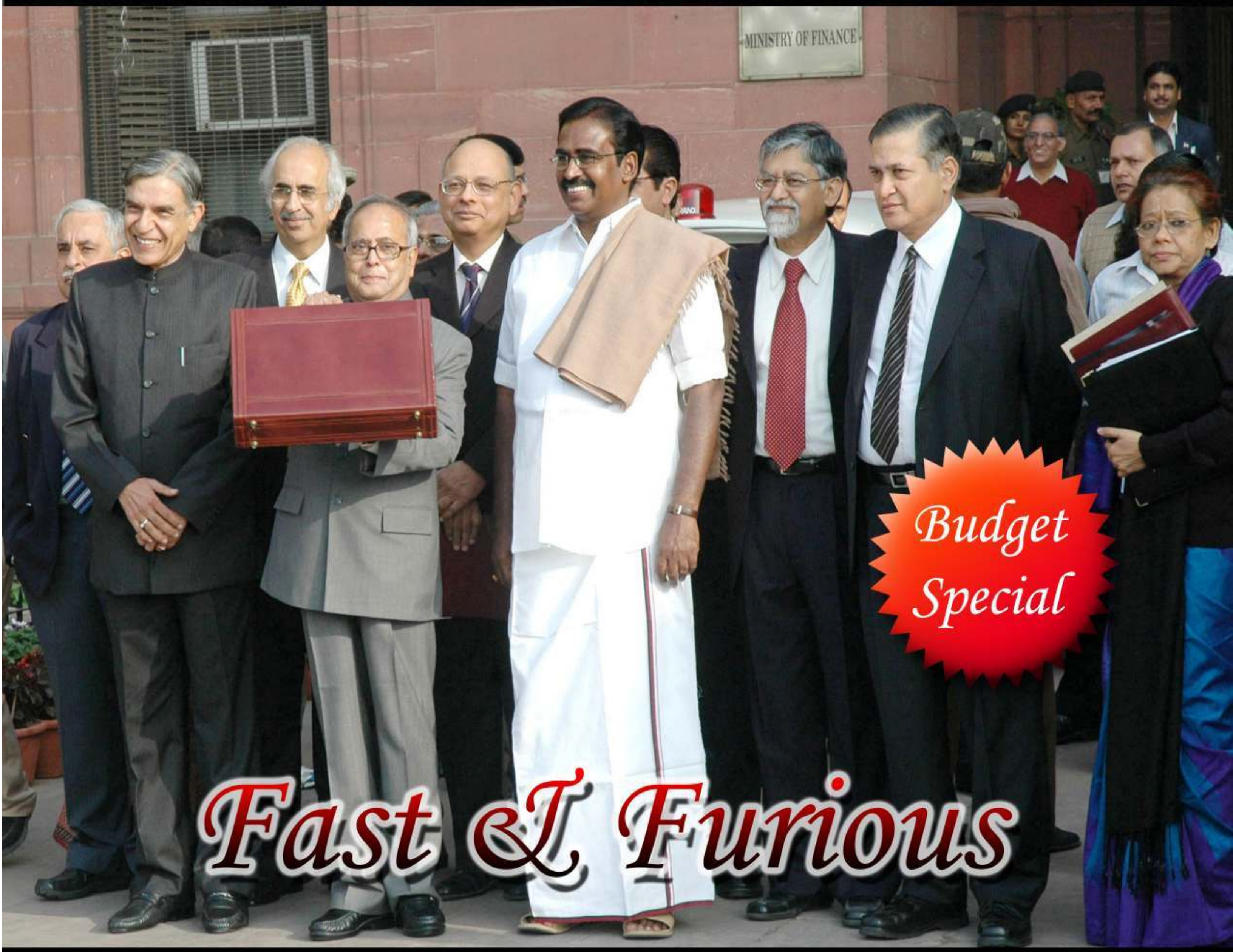

Safe Updates (Keep Informed)

The Securities Academy & Faculty of E-Education

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Editorial Preamble: **FAST & FURIOUS**

1. A HOUSE FOR COMMONS

BUDGET 2009-2010

July 6, 2009
Speech of Pranab Mukherjee Minister of Finance

Madam Speaker,
I rise to present the Budget for 2009-10

Just 140 days back, I had the privilege to present the Interim Budget for 2009-10. It is a rare honour that I have been called upon to present the regular budget after the new Government assumed office.

The Congress-led UPA Government has come back to power with a renewed mandate. As Prime Minister, Dr. Manmohan Singh, said recently "It is a mandate for continuity, stability and prosperity. It is a mandate for inclusive growth and equitable development." It is a mandate that we accept with humility and a firm resolve to do all that we can for the welfare of this nation.

I am deeply conscious of the faith reposed by the people in our government and the responsibilities that come with it. I am sensitive to the great challenge of rising expectations of a young India. It reflects a population that is restless, yet engaged and is ready to seize the opportunities that it is presented with. There are new and powerful reasons for us to create facilitate and sustain those opportunities.

The Government recognises the challenges, particularly at a time when the world is still struggling with an unprecedented financial crisis and an economic slowdown that has also affected India. While we are determined to convert our words into deeds, Members would appreciate that a single Budget Speech cannot solve all our problems, nor is the Union Budget the only instrument to do so. Yet, it is an important means to share the vision of the Government, particularly as we begin a new term. I propose to do just that for the next hour or so, as I dwell on the challenges and outline the approach of the government in the short term and medium term perspectives.

The first challenge is to lead the economy back to the high GDP growth rate of 9 % pa the earliest. The second challenge is to deepen and broaden the agenda for inclusive development; and the third challenge is to re-energise government and improve delivery mechanisms. Our institutions must provide high quality public services, security and the rule of law to all citizens with transparency and accountability.

Towards inclusive development

The UPA government has gone for a paradigm shift for making the development process more inclusive. It involves creating entitlements backed by legal guarantee to provide basic amenities and opportunities for livelihood to vulnerable sections. 'Aam Admi' is now the focus of all our programmes and schemes.

National Rural Employment Guarantee Scheme

(i) It is widely acknowledged that the National Rural Employment Guarantee Act, (NREGA) first implemented in February 2006, has been a magnificent success. During 2008-09, NREGA provided employment opportunities for more than 4.47 crore households as against 3.39 crore households covered in 2007-08. We are committed to providing a real wage of Rs.100 a day as an entitlement under the NREGA. To increase the productivity of assets and resources under NREGA, convergence with other schemes relating to agriculture, forests, water resources, land resources and rural roads is being initiated.

In the first stage, a total of 115 pilot districts have been selected for such convergence. Details of these measures and convergence guidelines will be announced by my colleague, the Minister of Rural Development. I propose an allocation of Rs.39100 crore for the year 2009-10 for NREGA which marks an increase of 144% over 2008-09 Budget Estimates.

National Food Security

(ii) I am happy to announce that the work on National Food Security Act has begun in right earnest. This will ensure that every family living below the poverty line in rural or urban areas will be entitled by law to 25 kilos of rice or wheat per month at Rs.3 a kilo. The Government proposes to put the draft Food Security Bill on the website of the Department of Food and Public Distribution for public debate.

Bharat Nirman

(iii) Bharat Nirman with its six schemes is an important initiative for bridging the gap between the rural and urban areas and improving the quality of life of people, particularly the poor, in the rural areas. I propose to step up the allocations for Bharat Nirman by 45% in 2009-10 over the BE of 2008-09.

The Pradhan Mantri Gram Sadak Yojana is one of the most successful programmes under Bharat Nirman. I propose to step up the allocation by 59% over BE 2008-09 to Rs.12000 crore.

I also propose to allocate Rs.7000 crore to *Rajiv Gandhi Grameen Viduytikaran Yojana* which represents a 27% increase over 2008-09 (BE).

Indira Awaas Yojana

(iv) The allocation for Indira Awaas Yojana is proposed to be increased by 63% to Rs 8800 crore in BE 2009-10. To broaden the pace of rural housing,

I propose to allocate, from the shortfall in the priority sector lending of commercial banks, a sum of Rs 2000 crore for Rural Housing Fund in the National Housing Bank (NHB) to boost resource base of NHB for refinance operations in rural housing sector.

Pradhan Mantri Adarsh Gram Yojana

(v) There are about 44000 villages in which population of SCs is above 50%. The new scheme (PMAGY) is being launched this year on a pilot basis, for the integrated development of 1000 such villages. I propose an allocation of Rs.100 crore for this scheme. Each village would be able to avail gap funding of Rs.10 lakh over and above the allocations under Rural Development and Poverty Alleviation Schemes.

Empowerment of Weaker Sections

The Swarna Jayanti Gram Swarozgar Yojna

(i) It is being restructured as the **National Rural Livelihood Mission** to make it universal in application, focused in approach and time bound for poverty eradication by 2014-15. Stress will be laid on the formation of women Self Help Groups (SHGs). Apart from providing capital subsidy at an enhanced rate, it is also proposed to provide interest subsidy to poor households for loans up to Rs. one lakh from banks.

The Women's Self Help Group

(ii) The Women's Self Help Group movement is bringing about a profound transformation in rural areas. There are today over 22 lakh such groups linked with banks. Our objective is to enrol at least 50% of all rural women in India as members of SHGs over the next five years and link these SHGs to banks.

The Rashtriya Mahila Kosh

(iii) The Rashtriya Mahila Kosh has been working towards the facilitation of credit support or micro finance to poor women and has developed a number of innovative schemes for their benefit. In recognition of its role as an instrument of socio-economic change and development, the corpus of the Kosh, which at present is Rs.100 crore, would be raised to Rs.500 crore, over the next few years.

Female literacy

(iv) The low level of female literacy continues to be a matter of grave concern. It has, therefore, been decided to launch a **National Mission for Female Literacy**, with focus on minorities, SC, ST and other marginalised groups. The aim will be to reduce by half, the current level of female illiteracy, in 3-years.

Integrated Child Development Services

(v) Government is committed to universalisation of the Integrated Child Development Services (ICDS) Scheme in the country. By March 2012, all services under ICDS would be extended, with quality, to every child under the age of six.

Student Loans to Weaker Sections

(iv) To enable students from economically weaker sections to access higher education, it is proposed to introduce a scheme to provide them full interest subsidy during the period of moratorium. It will cover loans taken by such students from scheduled banks to pursue any of the approved courses of study, in technical and professional streams, from recognised institutions in India.

Welfare of Minorities

(i) The Plan outlay of Ministry of Minority Affairs has been enhanced from Rs.1000 crore in BE 2008-09 to Rs.1740 crore in 2009-10, registering an increase of 74%.

This includes Rs.990 crore for *Multi-Sectoral Development Programme*, Grants-in-aid to *Maulana Azad Education Foundation*, and provisions for *National Minorities Development and Finance Corporation* and *Pre-Matric and Post-Matric Scholarships* for Minorities.

Allocations have also been made for the new schemes of *National Fellowship for Students* from the Minority Community and Grants-in-aid to *Central Wakf Council* for computerisation of records of State Wakf Boards.

(ii) *Aligarh Muslim University* has decided to establish its campuses at Murshidabad in West Bengal and Malappuram in Kerala. I propose to make an allocation of Rs.25 crore each for these two campuses.

Welfare of workers in the unorganised sector

The Unorganised Workers Social Security Bill, 2007

(i) The unorganised or informal sector of our economy accounts for 92% of the employment and absorbs bulk of the annual increase in our labour force. The Unorganised Workers Social Security Bill, 2007 has now been passed by both Houses of Parliament. I have already initiated action to ensure that social security schemes for occupations like weavers, fishermen and women, toddy tappers, leather and handicraft workers, plantation labour, construction labour, mine workers, bidi workers, and rikshaw pullers are implemented at the earliest. Necessary financial allocations will be made for these schemes.

Modernisation of Employment Exchanges

(ii) I propose to launch a new project for modernisation of the Employment Exchanges in public private partnership so that a job seeker can register on-line from anywhere and approach any employment exchange. Under the project, a national web portal with common software will be developed. This will contain all the data regarding availability of skilled persons on the one hand and requirements of skilled persons by the industry on the other. It will help youth get placed and enable industry to procure required skills on real time basis.

Mega handloom clusters

(iii) In the last Budget two mega handloom clusters at Varanasi and Sibsagar and two mega powerloom clusters at Erode and Bhiwandi were approved. They are under successful implementation. I propose to add one handloom mega cluster each in West Bengal and Tamil Nadu and one powerloom mega cluster in Rajasthan. These will help preserve the magnificent textile traditions in West Bengal and Tamil Nadu and generate thousands of jobs in Rajasthan. In addition, I propose to add new mega clusters for Carpets in Srinagar (J&K) and Mirzapur (UP).

Health

The National Rural Health Mission

(i) The National Rural Health Mission is an essential instrument for achieving our goal of Health for all. I propose an increase of Rs.2057 crore over and above Rs.12070 crore provided in the Interim Budget.

Rashtriya Swasthya Bima Yojana

(ii) Rashtriya Swasthya Bima Yojana was operationalised last year. The initial response has been very good. More than 46 lakh BPL families in eighteen States and UTs have been issued biometric smart cards. This scheme empowers poor families by giving them freedom of choice for using health care services from an extensive list of hospitals including private hospitals. Government proposes to bring all BPL families under this scheme. An amount of Rs.350 crore, marking 40% increase over the previous allocation, is being provided in 2009-10 Budget Estimates.

2. STOCK MARKETS

Back to basics on street

The Budget day, the sensex tanked 6% and gilt yields rose 30 basis points. The markets seemed to be repelled by P. Mukherjee's budget. In fact, the budget does a good job of dealing with a Great Recession. That is a substantial achievement, notwithstanding some confused thinking and lousy presentation.

The market skyrocketed 20% after the Congress election victory, thinking UPA-II would go for radical economic reforms to celebrate independence from the Left Front. This was irrational exuberance. A party that has achieved 9% GDP growth and won re-election will naturally opt for continuity, not radical reform. Mukherjee has opted for continued emphasis on the *aam admi*, infrastructure, anti-poverty spending, social spending and agriculture. Why change a winning formula? Congress is intrinsically left of centre, so it's logical for UPA-II to opt for Common Minimum Programme-II.

Union Budget 2009-2010 is Mukherjee's 'inclusive' budget that has pricked the bubble inflated by the post-election euphoria to the dismay of some punters, but fund managers betting on the long term will be happy that fundamentals could be back in vogue on Dalal Street.

Shorn of any headline-grabbing policy announcements on reforms, the budget saw the BSE sensex plunge 870 points, and it's widely expected that the market may spend the next few days in digesting the over 80% gains it registered since March this year. Market watchers feel that we are back to the core fundamental story.

Markets are dismayed by the rise in the fiscal deficit to 6.8% of GDP, up from 5.5% in the interim budget in February '09. Add state deficit of 4% plus extra oil and fertiliser subsidies, the total fiscal deficit may be 11-12% of GDP.

But so what? Fiscal deficits are solutions not problems. Having achieved 5.7% GDP growth in the two worst quarters for the world economy, India can take credit for handling the recession pretty well. In a recession, finance ministers are under pressure to resort to protectionist dramatics.

To his credit, Mukherjee has resisted such pressures. Most of his small changes in import duty lowered rather than raised tariffs. He also showed courage in extending service tax to railway traffic, creating a level playing field with road and air traffic. And he raised MAT to an effective 17%, reducing unwarranted benefits to low-tax corporates. Lawyers are a powerful lobby, but Mukherjee extended service tax to legal advice, consultancy and technical fees.

When the market crashed, the finance minister sought to reassure that he had by no means abandoned reform. He said it was not necessary to spell out every reform in the budget, and that the budget was only one of several instruments at the government's disposal.

Very True, Mukherjee presented the budget in his style – strong content, lousy presentation. Commentators may argue that his communication skills may have been wanting on budget day. But history will judge this budget not by the immediate stock market reaction but by its success in combating the recession. Mukherjee has raised the fiscal deficit, accelerated infrastructure and safety-net spending, and monetised half of government borrowing. Such boldness is entirely warranted in a recession.

The big risk is that he will not be able to be able to roll back the fiscal deficit in coming years. Let's cross that bridge when we come to it.

Beginning of the July '09 – Sensex raised 1%, ended near 15k before budget day

Daily review	26/06/09	29/06/09	30/06/09	01/07/09	02/07/09	03/07/09
Sensex	14,764.64	21.10	(291.90)	151.63	13.02	254.56
Nifty	4,375.50	15.45	(99.85)	49.80	7.95	75.04

Weekly review	26/06/09	03/07/09	Points	%
Sensex	14,764.64	14,913.05	148.41	1.01%
Nifty	4,375.50	4,424.25	48.75	1.11%

The stock market remained bullish amid high expectations about sops to the industry and economic reforms in the Union Budget to be presented on Monday (6/7/9). During the week, Economic Survey has recommended sweeping tax reforms and asked the government to revitalise disinvestment programme and plan to generate at least Rs 25,000 crore per year while the Railway Budget left freight rates and passenger fares unchanged with a focus on upgrading infrastructure.

1st week of July '09 – Budget week – Sensex lost over 9% post budget

Daily review	03/07/09	**06/07/09**	07/07/09	08/07/09	09/07/09	10/07/09
Sensex	14,913.05	**(869.60)**	127.05	401.30	(11.69)	(253.24)
Nifty	4,424.25	**(258.55)**	36.45	123.25	2.05	(77.05)

Weekly review	03/07/09	10/07/09	Points	%
Sensex	14,913.05	13504.22	(1,408.83)	(9.45%)
Nifty	4,424.25	4003.90	420.35	(9.50%)

Why markets don't like Pranab babu

Indian's stock market nose-dived after finance minister completed his nearly two-hour-long budget speech in Parliament on Monday. Why did the sensex plunge 869 points when the FM did not do anything negative in terms of imposing new taxes on the corporate world? Mr Mukherjee also removed the much disliked Fringe Benefit Tax which was a thorn in corporate India's flesh.

In fact, he surprised businesses on the upside by not rolling back the 4% central excise duty cut effected over the past several months as part of a massive fiscal stimulus to deal with the economic recession engulfing the developed and many developing economies. India, of course, survived the deep recession and registered 6.7% GDP growth during 2008-09.

He gave an even higher fiscal boost by increasing plan expenditure substantially. The total expenditure he had earmarked in his interim budget barely a month before the general elections was Rs 953,000 crore. He increased this to Rs 1020,000 crore in the full budget he presented on Monday. He increased allocations for various social sector projects in a big way. He tried to throw goodies at everybody. Yet the stock market gave him a thumb down. Why?

This is largely because expectations had run very high that UPA's first budget would outline a big vision for economic reforms of the kind the markets and foreign investors love. The Economic Survey presented two days ago also sounded very positive on these reforms.

These excessive expectations were belied so the market's first response was to tank 870 points. However, the market will soon realise its folly and start looking at the budget proposals in a different light in the days ahead. The notion of economic reforms is also changing rapidly in the backdrop of what is happened around the world today. Mr Mukherjee deliberately recalled bank nationalisation by Indira Gandhi as something that might have contributed to India's banking system weathering the global financial storm. The markets, perhaps, did not like the way the thoughts was articulated. It probably took it as a sign that financial sector reforms in India will happen very slowly, if at all.

After all India, as a growing economic power, would want its banks to achieve global scale and compete in the global market. But the notion of nationalisation can appear very inward looking. The overall perception Mr Mukherjee might have generated is one of being an old school, pre-liberalisation finance minister who couldn't care less if the government had to spend its way out of recession. Massive increase in the outlay for various social sector schemes only reinforced this impression. However, in these extraordinary times the markets will soon reconcile with more money being put in the hands of the poor. In fact, substantially higher public spending in rural areas – often denounced as profligate by market analysts - is what has kept up consumption demand and GDP growth so far in 2008-09. Of late, businesses have begun to appreciate acronyms like NREGA, JNNURM, etc!

The fact is the UPA government will pursue reforms at its own pace. The markets were expecting policy changes largely because the first budget of any government is full of big bang pronouncements. Most elected governments frontload market reforms. Such reforms stall when governments come closer to general elections. But, this time it was different. The first budget itself seemed like a very political one. This has happened because the Congress party now realises that the expectations of Bharat from relatively prosperous India are running high. Rural India is much more politically empowered now and demands its share of welfare from the government. The Congress, therefore, is taking the promises made in its election manifesto very seriously. Traditionally, political parties make tall promises in election manifestos, and forget about them after the elections. The UPA's first budget shows that there is a mindset shift in the way the political class treats manifesto promises.

The FM said at the beginning of his budget speech that young India had become very aspirational and demanding across the urban and rural segments. Delivery of public goods and services coupled with decent governance is what people of India expect. The UPA's first budget has tried to articulate that. Of course, the markets did not quite like it. But markets will soon realise reforms are taking on a totally new meaning, both in a political and conceptual sense.

2nd week of July '09 – Sensex gained over 9%

FM rekindles reform hopes in budget reply

Finance minister on Tuesday made good the reform deficit of his budget speech, asserting the government's commitment of disinvestment, financial sector reform, fiscal discipline and other policy and administrative reforms. He stoutly defended in Lok Sabha debate on the budget. He clarified that government's borrowing would not impact the cost and availability of funds for private sector investment.

He responded to the criticism on the runaway fiscal deficit, giving two-fold defence: one, without expanded and sustained government expenditure, it would not be possible to sustain the economy's growth momentum, and, two, the government is committed to bringing the deficit down to 5.5% of GDP in 2010-11 and 4% of GDP in 2011-12 as the economy gets back to its growth trajectory.

Rather than being defensive about the fiscal deficit, the FM said it is the government's expenditure, financed by unprecedented levels of borrowings that had allowed India to continue to grow even as most parts of the world contracted. "I have taken a tremendous step as finance minister with the hope that there will be a turnaround." On the back of positive signs in sectors like cement, steel, consumer durables and automobiles, the government said there were some early indications of economic recovery. "This is a small beginning. We are not out of it yet. International business scenario is still not out of the wood. It will take some more time. But our strategy of generating internal demand, enhancing purchasing power, has helped us," the finance minister said.

Brushing aside criticism, muted and vocal in varying degrees from allies Trinamool Congress and DMK, and leaving no room for doubt over the Congress' dominance of the ruling coalition, he asserted that the government would go ahead with selling shares in public enterprises. Pointing at reports on his "silence" on disinvestment issues in his budget speech, Mr Mukherjee said the President's address to the joint session of Parliament had clearly spelt out the government's policy on disinvestment.

Daily review	10/07/09	13/07/09	**14/07/09**	**15/07/09**	16/07/09	**17/07/09**
Sensex	13504.22	(103.90)	**453.38**	**399.54**	(2.99)	**494.67**
Nifty	4003.90	(29.85)	**137.35**	**122.10**	(2.10)	**143.55**

Weekly review	10/07/09	17/07/09	Points	%
Sensex	13504.22	14744.92	1240.70	9.19%
Nifty	4003.90	4374.95	371.05	9.27%

Periodic review

Month	June '08	June '09	July '09
Date	30.06.08	30/06/09	17/07/09
Sensex	13,461.60	14,493.84	14,744.95
Points			251.11
%			1.73%

6-Monthly review

Month	Dec '07	June '08	Dec. '08	June '09
Date	28/12/07	30.06.08	31/12//08	30/06/09
Sensex	20,206.95	13,461.60	9,647.31	14,493.84
Points	Base	**(6,745.35)**	(3,914.29)	**4,846.53**
%	Base	(33.38%)	(28.33%)	**50.24%**

3.1 INDIAN ECONOMY

Overview of the Economy

July 6, 2009
Speech of Pranab Mukherjee Minister of Finance

1. At the time of the presentation of the Interim Budget, I had given a detailed analysis of the economic situation. Without repeating myself, I would like to highlight that the development course charted by the UPA Government in the last five years has been possible due to a step up in the growth rate of the economy and improved revenue buoyancy. The principal growth driver in this period has been private investment, which has been predominantly funded by domestic resources.

During the year 2008-09, there has been a dip in the growth rate of GDP from an average of over 9% in the previous 3-fiscal years to 6.7%. It has affected the pace of job creation and the investment sentiments of the business community. It has also resulted in considerably lower revenue growth for the government. Another feature of the year 2008-09 was a sharp rise in the WPI to nearly 13% in August '08 and an equally sharp fall close to 0% in March '09. While a detailed analysis of the developments has been presented in the Economic Survey-2008-09, I draw your attention to a few aspects.

2. The structure of India's economy has changed rapidly in the last 10-years. External trade and external capital flows are an important part of the economy and so is the contribution of the services sector to the GDP at well over 50%. The share of merchandise trade (exports plus imports) as a proportion of GDP has more than doubled over the past decade to 38.9 per cent in 2008-09. Similarly, trade in goods and services taken together have also doubled to 47 per cent during this period. Gross capital flows rose to a peak of over 9 per cent of GDP in 2007-08 before falling in the wake of the global financial crisis.

3. The growing integration of the Indian economy with the rest of the world has brought new opportunities and also new challenges. It has made the task of sustaining high growth more complex. Over the past month, we have critically evaluated Government's efforts at both short term economic recovery as well as medium term economic growth. The economic recovery and growth is a cooperative effort of the Central and State Governments. That is why, for the first time, I held a meeting with Finance Ministers of States as part of the preparations for this Budget. I intend to make this an annual feature.

TOWARDS ECONOMIC REVIVAL

Short-term measures

4. To counter the negative fallout of the global slowdown on the Indian economy, the Government responded by providing three focused fiscal stimulus packages in the form of tax relief to boost demand and increased expenditure on public projects to create employment and public assets. The RBI took a number of monetary easing and liquidity enhancing measures to facilitate flow of funds from the financial system to meet the needs of productive sectors.

5. This fiscal accommodation led to an increase in fiscal deficit from 2.7% in 2007-08 to 6.2% of GDP in 2008-09. The difference between the actuals of 2007-08 and 2008-09 constituted the total fiscal stimulus. This fiscal stimulus at 3.5% of GDP at current market prices for 2008-09 amounts to Rs.186000 crore.

6. These measures were effective in arresting the fall in growth rate of GDP in 2008- 09 and we achieved a growth of 6.7%t. There are signs of revival in the domestic industry and the foreign investors have also returned to the Indian market in the last couple of months. It is possible that the two worst quarters since the global financial meltdown in September 2008 are behind us.

While the global financial conditions have shown improvement over the recent months, uncertainties relating to the revival of the global economy remain. We cannot, therefore, afford to drop our guard. We have to continue our efforts to provide further stimulus to the economy.

7. What I unfold now are only the 'First steps'. It will be my endeavour to make the process of budget formulation more participatory and a continuous exercise.

Infrastructure Development

8. To stimulate public investment in infrastructure, we had set up the India Infrastructure Finance Company Limited (IIFCL) as a special purpose vehicle for providing long term financial assistance to infra-projects. We will ensure that IIFCL is given greater flexibility to fulfil aggressively its mandate.

9. 'Takeout financing' is an accepted international practice of releasing long term funds for financing infrastructure projects. It can be used to effectively address the asset liability mismatch of commercial banks arising out of financing infrastructure projects and also to free up capital for financing new projects. IIFCL would, in consultation with banks, evolve a 'takeout financing' scheme which could facilitate incremental lending to the infrastructure sector.

10. Government has had some success in attracting private investment in a wide range of infrastructure sectors such as telecommunications, power generation, airports, ports, roads and even in railways through Public Private Partnerships (PPP). To ensure that infrastructure projects do not face financing difficulties arising from the current downturn, the Government has decided that IIFCL will refinance 60% of commercial bank loans for PPP projects in critical sectors over the next fifteen to eighteen months. The IIFCL and Banks are now in a position to support projects involving a total investment of Rs.100 thousand crore in infrastructures. Combined with the steps we are taking to increase public investment in infrastructure, this will provide a big boost to such investment.

11. The investment in infrastructure for the growth of economy is critical. I have urged my colleagues in the Central and State Governments to remove policy, regulatory and institutional bottlenecks for speedy implementation of infrastructure projects. I, on my part, will ensure that sufficient funds are made available for this sector.

Highway and Railways

12. The allocation during the current year to National Highways Authority of India (NHAI) for the National Highways Development Programme (NHDP) is being stepped up by 23% over the 2008-09 (BE). I have also increased the allocation for the Railways from Rs.10800 crore made in the Interim Budget for 2009-10 to Rs.15800 crore.

Urban Infrastructure

13. The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) has been an important instrument for refocusing the attention of the State governments on the importance of urban infrastructure. In recognition of the role of JNNURM, the allocation for this scheme is being stepped up by 87% to Rs.12887 crore in the current budget. To improve the lot of the urban poor, I propose to enhance the allocation for housing and provision of basic amenities to urban poor to Rs.3973 crore in the current year's budget. This includes the provision for Rajiv Awas Yojana, a new scheme announced in the address of the President of India. This scheme is intended to make the country slum free in 5 year period.

Brihan Mumbai Storm Water Drainage Project (BRIMSTOWA)

14. To address the problem of flooding in Mumbai, BRIMSTOWA was initiated in 2007. The entire estimated cost of the project at Rs.1200 crore is being funded through Central assistance. A sum of Rs 500 crore has been released for this project upto 2008-09. I have enhanced the provision for this project from Rs 200 crore in Interim BE to 500 crore to expedite the completion of the project.

Power

15. The Accelerated Power Development and Reform Programme (APDRP) is an important scheme for reducing the gap between power demand and supply. I propose to increase the allocation for this scheme to Rs.2080 crore, a steep increase of 160% above the allocation in the BE of 2008-09.

Gas

16. With the recent find of natural gas in the KG Basin on the Eastern offshore of the country, the indigenous production of Natural Gas is set to double with natural gas emerging as an important source of energy. LNG infrastructure in the country is also being expanded. Government proposes to develop a blueprint for long distance gas highways leading to a National Gas Grid. This would facilitate transportation of gas across the length and breadth of the country.

The Assam Gas Cracker Project

17. The Assam Gas Cracker Project sanctioned in April 2006 is being executed at a cost of Rs.5461 crore. The capital subsidy of Rs.2138 crore for the project is to be provided by the Central Government. The outlay for this project is being stepped up suitably.

Agricultural Development

18. Agriculture has been the mainstay of our economy with 60% of our population deriving their sustenance from it. In the recent past, the sector has recorded a growth of about 4% p.a. with substantial increase in plan allocations and capital formation in the sector.

Agriculture credit flow was Rs.287000 crore in 2008-09. The target for agriculture credit flow for the year 2009-10 is being set at Rs.325000 crore. To achieve this, I propose to continue the interest subvention scheme for short term crop loans to farmers for loans upto Rs.3 lakh per farmer at the interest rate of 7% p.a. I am happy to announce that, for this year, the Government shall pay an additional subvention of 1% as an incentive to those farmers who repay their short term crop loans on schedule.

Thus, the interest rate for these farmers will come down to 6% p.a. For this, I am making an additional provision of Rs.411 crore over Interim BE.

Debt Relief for farmers

19. The one-time bank loan waiver of nearly Rs.71000 crore to cover an estimated 40 million farmers was one of the major highlights of the last Budget. Under the Agricultural Debt Waiver and Debt Relief Scheme (2008), farmers having more than two hectares of land were given time upto 30th June, 2009 to pay 75% of their overdues. Due to the late arrival of monsoon, I propose to extend this period by six months upto 31st December, 2009.

20. It is learnt that in some regions of Maharashtra, a large number of farmers had taken loans from private money lenders and the loan waiver scheme did not cover them. The matter requires special attention. To examine the matter and suggest the future course of action, I propose to set up a Taskforce.

Accelerated Irrigation Benefit Programme (AIBP)

21. I propose to provide an additional Rs.1000 crore over Interim BE for the AIBP, marking an increase of 75%t over the allocation in 2008-09(BE). The allocation for the Rashtriya Krishi Vikas Yojna (RKVY) is also being stepped up by 30 per cent over Budget Estimates of 2008-09.

Medium-term sustainability

22. The short term fiscal stimulus has to be balanced against long term prudence and fiscal sustainability objectives. To quote Kautilya, "In the interest of the prosperity of the country, a King shall be diligent in foreseeing the possibility of calamities, try to avert them before they arise, overcome those which happen, remove all obstructions to economic activity and prevent loss of revenue to the state". I intend to take Kautilya's advice and return to the FRBM target for fiscal deficit at the earliest and as soon as the negative effects of the global crisis on the Indian economy have been overcome. On the medium term fiscal perspective, I await the recommendations of the 13th Finance Commission.

23. To bring the fiscal deficit under control, we have to initiate institutional reform measures during the current year itself. This is essential for maintaining a stable balance of payments, moderate interest rates and steady flow of external capital for corporate investment. These measures have to encompass all aspects of the budget such as subsidies, taxes, expenditure and disinvestment.

Fertilizer subsidy

24. In the context of the nation's food security, the declining response of agricultural productivity to increased fertilizer usage in the country is a matter of concern.

To ensure balanced application of fertilizers, the Government intends to move towards a *nutrient based subsidy regime* instead of the *current product pricing regime*. It will lead to availability of innovative fertilizer products in the market at reasonable prices. This unshackling of the fertilizer manufacturing sector is expected to attract fresh investments in this sector. In due course it is also intended to move to a system of direct transfer of subsidy to the farmers.

Petroleum and Diesel pricing policy

25. Honourable Members are aware that global prices of oil and petroleum products had shot up to unprecedented levels in 2008-09. Most oil importing countries, including our neighbours, adjusted their domestic prices to reflect these global changes. Though prices have declined since then, they are already about double of the lows reached in the wake of the global financial crisis.

It is important to recognise that, with almost three-quarters of our oil consumption met through imports; domestic prices of petrol and diesel have to be broadly in sync with global prices of these items. Government will set up an expert group to advice on a viable and sustainable system of pricing petroleum products. Details will be announced by my colleague, the Minister of Petroleum and Natural Gas.

Towards building accountable institutions

July 6, 2009
Speech of Pranab Mukherjee Minister of Finance

Improving delivery of public services

1. As substantial resources, both public and private, are mobilized to fuel the growth of the economy and make it more inclusive in character, efficiency of delivery must become the focus of government programmes. The enactment of the Right to Information Act at the Centre and in many states has been an important and successful step in this direction, ushering in greater transparency and accountability in the public decision-making process.

2. The setting up of the Unique Identification Authority of India (UIDAI) is a major step in improving governance with regard to delivery of public services. This project is very close to my heart. I am happy to note that this project also marks the beginning of an era where the top private sector talent in India steps forward to take the responsibility for implementing projects of vital national importance.

The UIDAI will set up an online data base with identity and biometric details of Indian residents and provide enrolment and verification services across the country. The first set of unique identity numbers will be rolled out in 12 to 18 months. I have proposed a provision of Rs.120 crore for this project.

National Security

3. For modernisation of Police force in the States, an additional amount of Rs.430 crore is being proposed, over and above the provisions in the Interim Budget. The Government has also sanctioned special risk/hardship allowances to the personnel of Para Military Forces at par with Defence forces. Provisions for payment of these allowances are also being proposed in the Budget.

4. For strengthening Border Management, an additional amount of Rs 2284 crore, over and above the provision in the Interim Budget, is being provided for construction of fences, roads, flood-lights on the international borders.

5. Significant augmentation in the strength of para-military forces is being done. This calls for more investment in creating the necessary infrastructure, particularly in the area of housing. The Government, therefore, proposes to launch a massive programme of housing to create 1 lakh dwelling units for Central Para-Military Forces personnel. This will not only contribute to the morale of the forces, but will also enable leveraging of government's annual budgetary resources and create an innovative financing model.

One Rank One Pension for Ex-Servicemen (OROP)

6. Our country owes a deep debt of gratitude to our valiant ex-Servicemen. The Committee headed by the Cabinet Secretary on OROP has submitted its report and the recommendations of the Committee have been accepted. On the basis of these recommendations, the Government has decided to substantially improve the pension of pre 1.1.2006 defence pensioners below officer rank (PBOR) and bring pre 10.10.1997 pensioners on par with post 10.10.1997 pensioners. Both these decisions will be implemented from 1st July 2009 resulting in enhanced pension for more than 12 lakh jawans and JCOs. These measures will cost the exchequer more than Rs 2100 crore annually. Certain pension benefits being extended to war wounded and other disabled pensioners are also being liberalised.

Education

7. The demographic advantage India has in terms of a large percentage of young population needs to be converted into a dynamic economic advantage by providing them the right education and skills. The overall Plan budget for higher education is proposed to be increased by Rs.2000 crore over Interim BE.

The provision for the scheme, '**Mission in Education through ICT,'** has been substantially increased to Rs.900 crore. Similarly, the provision for setting up and up-gradation of Polytechnics under the Skill Development Mission has been increased to Rs.495 crore.

The government shall take forward its intent of having one Central University in each uncovered State and for this purpose I am allocating Rs.827 crore. I am also allocating Rs 2113 crore for IITs and NITs, which includes a provision of Rs.450 crore for new IITs and NITs.

8. Union Territory of Chandigarh is the capital of Punjab and Haryana. The facilities at Punjab University, Chandigarh, need to be improved. I, therefore, propose to make an allocation of Rs.50 crore for this university. To enable the Union Territory Administration to provide better infrastructure to the people, I propose to suitably enhance the Plan allocation for Chandigarh during the current financial year.

Commonwealth Games 2010

9. The Commonwealth Games present the country with an opportunity to showcase our potential as an emerging Asian Power. I propose to substantially enhance the allocations for the Commonwealth Games from Rs 2112 crore in the Interim Budget to Rs 3472 crore in the Budget for 2009-10.

10. The Government is committed to ensure that Sri Lankan Tamils enjoy their rights and legitimate aspirations within the territorial sovereignty and framework of Sri Lanka's Constitution. I propose to allocate Rs 500crore for the rehabilitation & reconstruction of the northern and eastern areas of Sri Lanka.

11. As Honourable Members are aware, *Cyclone Aila* struck the coast of West Bengal in the last week of May 2009. Extensive damage was caused to roads, houses and infrastructure. While immediate interim relief has been provided from the Calamity Relief Fund (CRF), it is proposed to draw up a programme for rebuilding the damaged infrastructure. For this purpose, I propose to allocate Rs 1000 crore.

Environment and Climate Change

1. The National Action Plan on Climate Change unveiled last year outlines our strategy to adapt to Climate Change and enhance the ecological sustainability of our development path. Following this, **eight national missions** representing a multi-pronged, long term and integrated approach are being launched. I propose to provide necessary funds for these missions.

2. Our government has already set up a 'National Ganga River Basin Authority' (NGRBA). I propose increasing the budgetary outlay for the National River and Lake Conservation Plans to Rs.562 crore in 2009-10 from Rs.335 crore in 2008-09.

3. I propose to make a special one-time grant of Rs.100 crore to the Indian Council of Forestry Research and Education, Dehradun in recognition of its excellence in the field of research, education and extension. I also propose an allocation of Rs.15 crore each for the Botanical Survey of India and Zoological Survey of India. An additional amount of Rs.15 crore is being allocated to Geological Survey of India.

Financial sector

July 6, 2009
Speech of Pranab Mukherjee Minister of Finance

1. The financial sector is the life blood of any economy. Our Government's approach to the banking and financial sector has been to ensure robust oversight and regulation while expanding financial access and deepening markets. The merit of this balanced approach has been borne out in the recent experience, as the turbulence in the world financial markets has left the Indian banking and financial sector relatively unaffected.

Never before has Indira Gandhi's bold decision to nationalise our banking system exactly 40 years ago - on 14th of July, 1969 - appeared as wise and visionary as it has over the past few months. Her approach continues to be our inspiration even as we introduce competition and new technology in this sector.

2. The average public float in Indian listed companies is less than 15 per cent. Deep non-manipulable markets require larger and diversified public shareholdings. This requirement should be uniformly applied to the private sector as well as listed public sector companies. I propose to raise, in a phased manner, the threshold for non-promoter public shareholding for all listed companies.

3. For a country like ours, with significant sections of unbanked population and regions, financial inclusion is vital for sustaining long term equitable development. As part of the financial inclusion drive, scheduled commercial banks have been opening 'no frills' accounts either with 'nil' or very low minimum balances. So far, these banks have opened 3.3 crore such accounts. The RBI has announced a further relaxation in its Branch Authorisation Policy. Scheduled Commercial Banks are now allowed to set up off-site ATMs without prior approval, subject to reporting.

4. Despite the expansion of banking network in the country, there are still some areas that remain under-banked or unbanked. A sub-committee of State Level Bankers Committee (SLB C) will identify such areas and formulate an action plan for providing banking facilities to all these areas in the next 3 years. I propose to set aside Rs.100 crore during the current year as one-time grant-in-aid to ensure provision of at least one centre/Point of Sales (POS) for banking services in each of the unbanked blocks in the country.

5. The Government has established Competition Commission of India, an autonomous regulatory body to promote and sustain competition in markets, protect interests of consumers and to prevent practices having adverse effect on competition. An Appellate body headed by a retired judge of the Supreme Court has also been constituted.

6. The benefits of competition should now come to more sectors and their users and consumers. Now is the time for us to work on these aspects to eliminate supply bottlenecks, enhance productivity, reduce costs and improve quality of goods and services supplied to consumers.

Investment environment

7. Private sector investment has been affected by the global macro economic conditions. Our Government is committed to creating a facilitating environment in which a competitive private sector can thrive and play its rightful role in nation's economic development. India's high growth of 8.5% per annum from 2004 to 2008 was fuelled in very large part by private investment. I look forward to working closely with industry and our vibrant entrepreneurial community to address their outstanding concerns.

Restoring Export Growth

July 6, 2009
Speech of Pranab Mukherjee Minister of Finance

1. Our exporters by virtue of their close links to the external sector have borne the brunt of the global economic crisis. It is, therefore, appropriate that we continue to provide all possible assistance to our exporters to help them overcome the short term disadvantages. More specifically:

(a) An adjustment assistance scheme to provide enhanced Export Credit and Guarantee Corporation (ECGC) cover at 95 per cent to badly hit sectors had been initiated in December 2008 to mitigate the difficulties faced by the exporters. In view of the continuing contraction in exports, I propose to extend the benefits of this scheme up to March 2010.

(b) The Market Development Assistance Scheme provides support to exporters in developing new markets. With many traditional markets still under financial stress, greater effort is required to identify and develop new markets. I propose to enhance the allocation for this scheme by 148% over BE 2008-09 to Rs.124 crore.

(c) With a view to insulating the employment - oriented export sectors from the global meltdown, Government had provided an interest subvention of 2 per cent on preshipment credit for seven such sectors. These sectors are textiles including handlooms, handicrafts, carpets, leather, gems and jewellery, marine products and small and medium exporters. I propose to extend the interest subvention beyond the current deadline of September 30, 2009 to March 31, 2010.

(d) Micro, Small and Medium Enterprises (MSMEs) have been affected by the slowdown in exports and the indirect effect of the global crisis on domestic demand. To support this sector, I propose to facilitate the flow of credit at reasonable rates, by providing a special fund out of Rural Infrastructure Development Fund (RIDF) to Small Industries Development Bank (SIDBI). This fund of Rs.4000 crore will incentivised Banks and State Finance Corporations (SFCs) to lend to Micro and Small Enterprises (MSEs) by refinancing 50 per cent of incremental lending to MSEs during the current financial year.

(e) In February, 2009 the Print Media was given a stimulus package comprising waiver of 15% agency commission on DAVP advertisements and a 10% increase in the DAVP rates to be paid as a 'special relief' subject to documentary proof of loss of revenue in non-governmental advertisements. Since Print Media is still passing through difficult times, I have decided to extend the stimulus package for another six months from 30th June, 2009 to 31st December, 2009.

2. In the Interim Budget for 2009-10, I had stated that the new Government would need to anchor its policies for 2009-10, in a medium term perspective that would have to:

- Support Indian industry to meet the challenge of global competition and sustain the growth momentum in exports;

- The Government recognizes the challenges that this task entails, particularly at a time when the world is still struggling with an unprecedented financial crisis and an economic slowdown that has also affected India.

3.5 WARNING SIGNALS

Budget estimates 2009-10

July 6, 2009
Speech of Pranab Mukherjee Minister of Finance

Madam Speaker, now I turn to the Budget Estimates for 2009-10.

1. The Budget Estimates 2009-10 provide for a total expenditure of Rs.10,20,838 crore consisting of Rs.6,95,689 crore towards Non Plan and Rs.3,25,149 crore towards Plan expenditure. The increase in Non Plan expenditure over BE 2008-09 is 37% whereas the increase in Plan expenditure is 34%. The total increase in expenditure in 2009-10 over BE 2008-09 is 36%.

2. The increase in Non Plan expenditure is mainly on account of the implementation of the Sixth Central Pay Commission recommendations, increased food subsidy and higher interest payment arising out of the larger fiscal deficit in 2008-09. Interest payments are estimated at Rs.225511 crore constituting about 36% of Non Plan revenue expenditure in BE 2009-10. The total provision for subsidies are up from Rs.71431 crore in BE 2008-09 to Rs.111276 crore in BE 2009-10. The outlay on Defence has gone up from Rs.105600 crore in BE 2008-09 to Rs.141703 crore in BE 2009-10.

3. Honourable Members may recall that while presenting the Interim Budget 2009-10, I had stated that the Plan expenditure for 2009-10 may have to be increased further as a part of counter-cyclical measures to minimise the impact of global recession and economic slowdown. Against the backdrop of limited fiscal space because of reduction in CENVAT and Service Tax rates, Government have taken a conscious and bold decision to enhance the Gross Budgetary Support (GBS) for the Annual Plan 2009-10 by Rs.40,000 crore over Interim Budget 2009-10. Bulk of this enhanced GBS is directed towards public investment in infrastructure with special emphasis on rural infrastructure, raising growth potential and leading to income generation. Besides, the State Governments will be permitted to borrow additional 0.5% of their GSDP by relaxing the fiscal deficit target under FRBM from 3.5% to 4% of their GSDP. This will enable the State Governments to raise additional open market loans of about Rs.21000 crore in the current year.

In other words, the total additionality in Plan expenditure by Centre and the States put together would be Rs.61000 crore over Interim Budget. I do believe that this fiscal expansion will go a long way in reversing the impact of economic slowdown and accelerate our growth revival in the medium term.

4. Madam Speaker, given the possibility of the economic downturn persisting in the current year, the gross tax receipts are budgeted at Rs.641079 crore in BE 2009-10, compared to Rs.687715 crore in BE 2008-09. The non tax revenue receipts are, however, likely to be better and are estimated at Rs.140279 crore in BE 2009-10 compared to Rs.95785 crore in BE 2008-09. The revenue deficit as a percentage of GDP is projected at 4.8% compared to 1% in BE 2008-09 and 4.6% as per provisional accounts of 2008-09. The fiscal deficit as a percentage of GDP is projected at 6.8% compared to 2.5% in BE 2008-09 and 6.2% as per provisional accounts 2008-09. This level of deficit is a matter of concern and Government will address this issue in right earnest to come back to the path of fiscal consolidation at the earliest.

5. Madam Speaker, before I turn to my tax proposals, I cannot resist the temptation of re-visiting Kautilya. He said and I quote, "Just as one plucks fruits from a garden as they ripen, so shall a King have revenue collected as it becomes due. Just as one does not collect unripe fruits, he shall avoid taking wealth that is not due because that will make the people angry and spoil the very sources of revenue."

Fast & Furious: Budget 2009-10

July 6, 2009
Speech of Pranab Mukherjee Minister of Finance

Madam Speaker, before I turn to my tax proposals, I cannot resist the temptation of re-visiting Kautilya. He said and I quote, “Just as one plucks fruits from a garden as they ripen, so shall a King have revenue collected as it becomes due. Just as one does not collect unripe fruits, he shall avoid taking wealth that is not due because that will make the people angry and spoil the very sources of revenue.”

TAX PROPOSALS

1. As the House is aware, the thrust of reforms over the last few years has been to improve the efficiency and equity of our tax system. This is sought to be achieved by eliminating distortions in the tax structure, introducing moderate levels of taxation and expanding the base. These policy changes have been accompanied by requisite re-engineering of key business processes coupled with automation, both for direct and indirect taxes. On the direct tax side, a recent initiative for further improving efficiency is the setting up of a Centralized Processing Centre (CPC) at Bengaluru where all electronically filed returns, and paper returns filed in entire Karnataka, will be processed.

2. These tax reform initiatives have produced impressive results. The Centre’s Tax-GDP ratio has increased to 11.5% in 2008-09 from a low of 9.2% in 2003-04. The healthy growth in tax revenues over the last 5 years is essentially attributable to growth in direct taxes. Further, the share of direct taxes in the Centre’s tax revenues has increased to 56% in 2008-09 from 41% in 2003-04. The Government is committed to furthering this process of tax reform.

3. Tax reform, like all reforms, is a process and not an event. Therefore, I propose to pursue structural changes in direct taxes by releasing the new Direct Taxes Code within the next 45 days and in indirect taxes by accelerating the process for the smooth introduction of the GST with effect from 1st April, 2010.

4. The Direct Taxes Code, along with a Discussion Paper, will be released to the public for debate. Based on the inputs received, the Government will finalise the Direct Taxes Code Bill for introduction in this House sometime during the Winter Session.

5. To further enhance efficiency in tax administration, I intend to merge the two Authorities for Advance Rulings on Direct and Indirect Taxes by amending the relevant Acts. This will enable the Authority for Advance Rulings set up under Section 245-O of the Income Tax Act, 1961 to also function as the Authority for Advance Rulings for Indirect Taxes.

6. I have been informed that the Empowered Committee of State Finance Ministers has made considerable progress in preparing the roadmap and the design of the GST. Officials from the Central Government have also been associated in this exercise. I am glad to inform the House that, through their collaborative efforts, they have reached an agreement on the basic structure in keeping with the principles of fiscal federalism enshrined in the Constitution.

I compliment the Empowered Committee of State Finance Ministers for their untiring efforts. The broad contour of the GST Model is that it will be a dual GST comprising of a Central GST and a State GST. The Centre and the States will each legislate, levy and administer the Central GST and State GST, respectively. I will reinforce the Central Government’s catalytic role to facilitate the introduction of GST by 1st April, 2010 after due consultations with all stakeholders.

4.1 FINANCIAL ADVISORS:
Weigh impact on investors

Rates of Income-tax

It is time that we complete the process that was started in 1991 for building a trust based, simple, neutral, tax system with almost no exemptions and low rates designed to promote voluntary compliance. The Income Tax Return Forms should be simple and user-friendly. I have asked the Department to work on SARAL-II forms for early introduction. We need a tax system which generates revenues on a sustained basis without use of coercive tax collection methods at the end of each year to meet targets.

It is my intention to make a modest start in this direction in the current year and ensure that the process is completed in the next four years. At the end of this process, I hope the Finance Minister can credibly say that our tax collectors are like honey bees collecting nectar from the flowers without disturbing them, but spreading their pollen so that all flowers can thrive and bear fruit. I shall now deal with direct taxes.

No change in corporate tax

There have been demands by the corporate sector for reduction in tax rates. However, tax rates are determined by the size of the tax base; if the tax base is higher, the tax rates can be lower. The Income Tax Act is riddled with a plethora of tax exemptions which substantially erode the tax base. The extent of this erosion is presented to this House in the form of a Revenue Foregone Statement. The growth in the direct tax revenue foregone is relatively higher than the growth in the direct tax revenues. Accordingly, I do not propose to make any change in the Corporate Tax rates.

No change in tax on firms

However, now no surcharge shall be levied in the case of a firm.

Relief in personal income tax

I propose to increase the personal income tax exemption limit by Rs.15000 from Rs.2.25 lakh to Rs.2.40 lakh for senior citizens. Similarly I also propose to raise the exemption limit by Rs.10000 from Rs.1.80 lakh to Rs.1.90 lakh for women tax payers and by Rs.10000 from Rs.1.50 lakh to Rs.1.60 lakh for all other categories of individual taxpayers.

No surcharge on personal income tax

In the past, surcharges on direct taxes have generally been levied to meet the revenue needs arising from natural calamities. The Government has set up the National Calamity Contingency Fund to build up resources to meet emergency situations. As a corollary, surcharge on direct taxes should be removed. However, this has to be balanced with the revenue needs of the Government. Therefore, in the first instance, I propose to phase out the surcharge on various direct taxes by eliminating the surcharge of 10 per cent on personal income tax.

Enhancement of the limit for payment of advance tax

Under the existing provisions of section 208 the Income-tax Act, liability for payment of advance tax during a financial year arises when the amount of such tax payable during that year is five thousand rupees or more. This limit was fixed in 1996. With a view to providing for inflation adjustment, it is proposed to raise the threshold limit for payment of advance tax from the present five thousand rupees to ten thousand rupees. The proposed amendment will take effect from the 1st April, 2009.

Minimum Alternate Tax

The Income-tax Act is riddled with a plethora of tax incentives which has the effect of considerable eroding the tax base. Since tax incentives are generally sticky in nature, their distortionary impact can be reduced / eliminated only by imposing a cap thereon.

The Minimum Alternate Tax (MAT) is designed to achieve this objective. Under the existing provisions of section 115JB of the Income Tax Act, a company is required to pay a minimum tax on its book profits, if the income-tax payable on the total income, as computed under the Act in respect of any previous year relevant to the assessment year commencing on or after the 1st day of April, 2007, is less than such minimum. The rate of the minimum tax is 10% of the book profit. It is proposed to amend sub-section (1) of section 115JB to increase the MAT rate to 15% from the existing level of 10%.

However, with a view to provide relief to the assessees, being companies, who pay Minimum Alternate Tax under section 115JB for any assessment year beginning on or after the 1st day of April, 2006, it is also proposed to amend the provisions of sub-section (3A) of section 115JAA so as to provide that the amount of tax credit determined under sub-section (2A) of section 115JAA shall be allowed to be carried forward and set off up to the tenth assessment year immediately succeeding the assessment year in which the tax credit becomes allowable under sub-section (1A) of the said section.

These amendments will take effect from 1st day of April, 2010 and shall accordingly, apply in relation to assessment year 2010-11 and subsequent years.

Clarification regarding add back of 'provision for diminution in the value of asset', while computing book profits

Section 115JB of the Income-tax Act provides for levy of minimum alternate tax (MAT) on the basis of book profits of a company. As per Explanation 1 after sub-section (2), the expression "book profit" means net profit as shown in the profit and loss account prepared in accordance with the provisions of Part-II and Part-III of Schedule-VI to the Companies Act, 1956 as increased or reduced by certain adjustments, as specified in that section.

It is proposed to insert a new clause (i) in Explanation 1 after sub-section (2) of the said section so as to provide that if any provision for diminution in the value of any asset has been debited to the profit and loss account, it shall be added to the net profit as shown in the profit and loss account for the purpose of computation of book profit.

Similar amendment is also proposed in section 115JA of the Income-tax Act by way insertion of a new clause (g) in the Explanation after sub-section (2) of the said section.

The amendment to section 115JA is proposed to be made effective retrospectively from 1st day of April, 1998 and will, accordingly, apply in relation to assessment year 1998-99 and subsequent years.

The amendment to section 115JB is proposed to be made effective retrospectively from 1st day of April, 2001 and will, accordingly, apply in relation to AY 2001-02 and subsequent assessment years.

4.2 FINANCIAL PLANNERS
Value unlocking for all stakeholders

Fringe Benefit Tax – abolished

The Finance Act, 2005 introduced a new levy, namely, Fringe Benefit Tax (FBT) on the value of certain fringe benefits. It is proposed to insert a new section 115WM to abolish the fringe benefit tax. Consequently, it is also proposed to restore the taxation of perquisites in the hands of the employees.

Commodities Transaction Tax – abolished

The provisions for levy of Commodities Transaction Tax were introduced by Chapter VII of Finance Act, 2008. However the levy has not yet been operationalised. In view of the recommendations of the Prime Minister's Economic Advisory Council, It is proposed to provide that the Chapter relating to levy of Commodities Transaction Tax shall not apply on or after 1st April, 2009.

Enhancement of cash payment to transporters – from 20000 to 35000/-

Under the existing provisions of the I-T Act, where an assessee incurs any expenditure, in respect of which payment in excess of Rs 20,000 is made otherwise than by an account payee cheque or account payee bank draft, such expenditure is not allowed as a deduction. Given the special circumstances of transport operators, it is proposed to raise the limit of cash payment to Rs 35,000/-. The existing limit for other categories of payments will remain at Rs 20,000/- subject to the exceptions in Rule 6DD of the Income-tax Rules. The proposed amendment will apply to transactions effected on or after the 1/10/09.

Deduction in respect of Interest on Education loan – available to all fields of studies after schooling

Sec 80E of the I-Tax Act provides for a deduction in respect of interest on loans taken for pursuing higher education in specified fields of study. With the objective of fostering human capital formation in the country, it is proposed to amend the provisions of section 80E of the I-T Act so as to extend its scope to cover all fields of studies (including vocational studies) pursued after completion of schooling.

Deduction for medical treatment of a dependent – increased from Rs 75000 to Rs 1 lakh

Section 80-DD of the Income Tax Act provides for a deduction to an individual or HUF, who is a resident in India, in respect of: (a) Expenditure for the medical treatment (including nursing), training and rehabilitation of a dependant, being a person with disability; and (b) Amount paid to LIC or other insurance in respect of a scheme for the maintenance of a disabled dependant. The present limit for deduction is Rs.50000 if the dependant is suffering from disability and Rs.75000 if the dependant is suffering from severe disability. It is proposed to increase the limit for severe disability to Rs.1 lakh. However, the limit for ordinary disability is proposed to be retained at the existing level of Rs.50000.

Enhancement of the limit for wealth tax – from 15 lakh to 30 lakh

Under the existing provisions of section 3 of the Wealth-tax Act, wealth tax is charged every year in respect of net wealth, on the valuation date, of every individual, Hindu undivided family and company at the rate of one per cent of the amount by which the net wealth exceeds fifteen lakh rupees. This limit was fixed in 1992. With a view to providing for inflation-adjustment, it is proposed to raise the threshold limit for payment of wealth tax from 15 lakh rupees to 30 lakh rupees.

4.3 WEALTH MANAGERS

Map out the details to translate into benefits

Tax benefits for New Pension System

The New Pension System (NPS) has become operational since 1st January, 2004 and is mandatory for all new recruits to the Central Government service from 1st January, 2004. Since then it has been opened up for employees of State Government, private sector and self employed (both organised and unorganized).

NPS Trust: NPS Trust has been set-up on 27th February, 2008 as per the provisions of the Indian Trust Act, 1882 to manage the assets and funds under the NPS in the interest of the beneficiaries. With a view to ensure that tax treatment of savings under this system is in synchronised with the "exempt-exempt-taxed" (EET) method and that there is no incidence of taxation at the accumulation stage, it is proposed to make the NPS Trust a complete pass-through in so far as taxation is concerned.

Participants: The tax benefit under section 80CCD of the Income-tax Act, 1961 was hitherto available to "employees" only. However, the NPS now has been extended also to "self-employed". Therefore, it is proposed to amend sub-section (1) of section 80CCD so as to extend the tax benefit there under also to "self-employed" individuals. It is also proposed to amend the Explanation to the said section to provide that for the purposes of the said section the assessee shall be deemed not to have received any amount in the previous year if such amount is used for purchasing an annuity plan in the same previous year.

These amendments will take effect retrospectively from 1st April, 2009 and will, accordingly, apply in relation to assessment year 2009-2010 and subsequent years.

Tax relief on anonymous donations in certain cases

Under the current provisions of section 115BBC,	In order to mitigate the compliance burden, it is proposed to provide relief by exempting a part of the anonymous donations from being taxed. The proposed amendment will result in the following:—
Wholly religious entities are outside the purview of taxation of anonymous donations.	Anonymous donations received by wholly religious institutions shall remain exempt from tax.
Partly religious and partly charitable entities have also been exempted from the taxation of anonymous donations, except where anonymous donation is made to an educational or medical institution run by such entity in which case such donations are taxed @ 30%.	In the case of partly religious and partly charitable institutions, anonymous donations directed towards a medical or educational institutions shall be taxable only to the extent such donations exceed 5 per cent of total income of such trust or institution or a sum of Rs.1 lakh, whichever is more.
In the case of wholly charitable entities, all anonymous donations are taxed @ 30%.	In case of wholly charitable institutions, anonymous donations shall be taxable to the extent such donations exceed 5% of total income of such trusts/ institution or a sum of Rs.1 lakh, whichever is more.

4.4 CREDIT COUNSELORS

Resolve convertibility and recompensation issue

Taxation of certain transactions without consideration or for an inadequate consideration as income from other sources

Sub clause (vi) of section 56 provide that any 'sum of money' (in excess of the prescribed limit of Rupees fifty thousand) received without consideration by an individual or HUF will be chargeable to income tax in the hands of the recipient under the head 'income from other sources'. However, receipts from relatives or on the occasion of marriage or under a will are outside the scope of the provisions of clause (vi) of sub-section (2) of section 56 of the Income-tax Act. Similarly, anything which is received in kind having 'money's worth' i.e. property is also outside the purview of the existing provisions.

It is, therefore proposed to amend section 56 of the Income-tax Act to provide that the value of any property received without consideration or for inadequate consideration will also be included in the computation of total income of the recipient. Such properties will include immovable property being land or building or both, shares and securities, jewellery, archaeological collections, drawings, paintings, sculptures or any work of art.

In a case where an immovable property is received without consideration and the stamp duty value of such property exceeds fifty thousand rupees, the whole of the stamp duty value of such property shall be taxed as the income of the recipient.

If an immovable property is received for a consideration which is less than the stamp duty value of the property and the difference between the two exceeds fifty thousand rupees (inadequate consideration), the difference between the stamp duty value of such property and such consideration shall be taxed as the income of the recipient.

If the stamp duty value of immovable property is disputed by the assessee, the Assessing Officer may refer the valuation of such property to a Valuation Officer. In such cases, the provisions of existing section 50C and sub-section (15) of section 155 of the Income Tax Act shall, as far as may be, apply for determining the value of such property.

In a case where movable property is received without consideration and the aggregate fair market value of such property exceeds fifty thousand rupees, the whole of the aggregate fair market value of such property shall be taxed as the income of the recipient.

If a movable property is received for a consideration which is less than the aggregate fair market value of the property and the difference between the two exceeds fifty thousand rupees, the difference between the fair market value of such property and such consideration shall be taxed as the income of the recipient.

It is also proposed to provide that,—

(i) The value of moveable property shall be the fair market value as on the date of receipt in accordance with the method prescribed; and (ii) in the case of immovable property, the value of the property shall be the 'stamp duty value' of the property. This amendment will take effect from 1st October, 2009 and will accordingly apply for transactions undertaken on or after such date.

Provisions for deemed valuation in certain cases of Transfer

The existing provisions of section 50C provide that where the consideration received or accruing as a result of the transfer of a capital asset, being land or building or both, is less than the value adopted or assessed by an authority of a State Government (Stamp valuation authority) for the purpose of payment of stamp duty in respect of such transfer, the value so adopted or assessed shall be deemed to be the full value of the consideration received or accruing as a result of such transfer for computing capital gain.

However, the present scope of the provisions does not include transactions which are not registered with stamp duty valuation authority, and executed through agreement to sell or power of attorney.

With a view to preventing the leakage of revenue, it is proposed to amend the section 50C so as to provide that where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both is less than the value adopted or assessed or assessable by an authority of a State Government for the purpose of payment of stamp duty in respect of such transfer, the value so adopted or assessed or assessable shall be deemed to be the full value of the consideration received or accruing as a result of such transfer for computing capital gain. Further, it is proposed to insert a new explanation so as to clarify the meaning of the term 'assessable'. This amendment will take effect from 1st October, 2009 and shall accordingly apply in relation to transactions undertaken on or after such date.

Clarificatory amendment in respect of reassessment proceeding under section 147

The existing provisions of section 147 provides, *inter alia,* that if the Assessing Officer has reason to believe that any income chargeable to tax has escaped assessment for any assessment year, he may assess or reassess such income after recording reasons for re-opening the assessment. Further, he may also assess or reassess such other income which has escaped assessment and which comes to his notice subsequently in the course of proceedings under this section.

Some Courts have held that the Assessing Officer has to restrict the reassessment proceedings only to issues in respect of which the reasons have been recorded for reopening the assessment. He is not empowered to touch upon any other issue for which no reasons have been recorded. The above interpretation is contrary to the legislative intent.

With a view to further clarifying the legislative intent, it is proposed to insert an explanation in section 147 to provide that the assessing officer may assess or reassess income in respect of any issue which comes to his notice subsequently in the course of proceedings under this section, notwithstanding that the reason for such issue has not been included in the reasons recorded under sub-section (2) of section 148. This amendment will take effect retrospectively from 1st April, 1989 and will, accordingly, apply in relation to assessment year 1989-1990 and subsequent years.

Extension of sunset clause for units in free trade zone under section 10A and for export oriented undertakings under section 10B

Under the existing provisions, the deductions under section 10A and section 10B of the Income Tax Act are available only up to the assessment year 2010-11. It is proposed to amend sections 10A and 10B to extend the tax benefit under both these sections by one year i.e., the deduction will be available up to assessment year 2011-12.

4.5 INCLUSIVE CEOs

Innovative responses to problems

Investment-linked tax incentive for specified business

Under the present scheme of the I-T Act, tax exemptions are largely profit-linked. Such incentives are liable to misuse. Therefore, it is proposed to incentivise businesses by providing investment-linked tax exemptions, under which, all capital expenditure, other than expenditure on land, goodwill and financial instruments will be fully allowable as deduction. To begin with, I propose to provide investment-linked tax incentive by inserting a new section 35AD in the Income-tax Act for the following businesses:—

(a) Setting up and operating cold chain facilities for specified products;

(b) Setting up and operating warehousing facilities for storage of agricultural produce;

(c) Laying and operating a cross-country natural gas or crude or petroleum oil pipeline network for distribution, including storage facilities being an integral part of such network.

Remuneration to partners in a firm

Under the existing provisions of the Income-tax Act, the payment of salary, bonus, commission or remuneration (hereinafter referred to as “remuneration”) to a working partner of a partnership firm is allowed as deduction if it is authorised by the partnership deed and subject to the overall ceiling of monetary limits prescribed under sub-clause (v) of clause (b) of section 40.

It is proposed to make upward revision of the existing limits of the remuneration. It is also proposed to prescribe uniform limits for both professional and non professional firms for simplicity and administrative ease. The revised limits are proposed to be as under:

(a) on the first Rs. 3,00,000 of the book-profit or in case of a loss book-profit,	Rs. 1,50,000 or at the rate of 90 per cent of the whichever is more;
(b) on the balance of the book-profit	at the rate of 60 per cent;

Deduction in respect of contributions to political parties

Section 80GGB and section 80GGC of the Income-tax Act, 1961 provide for deduction in respect of contributions given to political parties by companies and any person respectively. With a view to reforming the system of funding of political parties it is proposed to amend section 80GGB and section 80GGC of the Income-tax Act, 1961 to provide that donations to electoral trusts shall be allowed as a 100 percent deduction in the computation of the income of the donor.

Further, “electoral trust” has been defined in the new clause (22AAA) of section 2 as a trust so approved by the Board in accordance with the scheme made in this regard by the Central Government.

Special provision for computing profits and gains of business on presumptive basis

The existing provisions of the Income-tax Act provide for taxation of income on presumptive basis in the case of *construction business*, *income from goods carriages* and *business of retail trade*.

Section 44AD prescribes a method of presumptive taxation for assessees engaged in the business of civil construction or supply of labour for civil construction in which a sum equal to 8% of the gross receipts is deemed to be the profits and gains from business. Section 44AE provides presumptive provisions for the assessees engaged in the business of plying, hiring or leasing up to 10 goods carriages. Under this scheme, a fixed amount of income per vehicle is taken @ Rs.3500/ - pm per vehicle for owners of heavy goods vehicle, and Rs.3150/- pm per vehicle for the owners of light goods vehicles. Section 44AF prescribes a method of presumptive taxation for retail trade, under which the presumptive income is computed at the rate of a sum equal to 5% of the total turnover.

There has been a substantial increase in small businesses with the growth of transport and communication and general growth of the economy. A large number of businesses and service providers in rural and urban areas who earn substantial income are outside the tax-net. Introduction of presumptive tax provisions in respect of small businesses would help a number of small businesses to comply with the taxation provisions without consuming their time and resources. In view of the above, it is proposed to expand the scope of presumptive taxation to all businesses by substituting **new sections 44AD & 44AE**.

The salient features of the proposed presumptive taxation scheme under new 44AD are as under:

(a) The scheme shall be applicable to individuals, HUFs and partnership firms excluding Limited liability partnership firms. It shall also not be applicable to an assessee who is availing deductions under sections 10A, 10AA, 10B, 10BA or deduction under any provisions of Chapter VIA under the heading "C.— Deductions in respect of certain incomes" in the relevant assessment year.

(b) The scheme is applicable for any business (excluding a business already covered under Sec. 44AE) which has a maximum gross turnover /gross receipts of 40 lakhs.

(c) The presumptive rate of income is prescribed at 8% of gross turnover /gross receipts.

(d) An assessee opting for the above scheme shall be exempted from payment of advance tax related to such business under the current provisions of the Income-tax Act.

(e) An assessee opting for the above scheme shall be exempted from maintenance of books of accounts related to such business as required under section 44AA of the Income-tax Act.

(g) An assessee with turnover below Rs 40 lakhs, who shows an income below the presumptive rate prescribed under these provisions, will, in case his total income exceeds the taxable limit, be required to maintain books of accounts and also get them audited.

It is proposed to enhance the presumed income per vehicle under section 44AE for the owners of– (i) Heavy goods vehicle to Rs.5000/- per month; and (ii) Other than heavy goods vehicles to Rs.4500/- per month. It is further proposed to provide an anti-avoidance clause stating that a prescribed fixed sum or a sum higher than the aforesaid sum claimed to have been earned by the assessee shall be deemed to be profits and gains of such business. The proposed amendment will take effect from the 1st April, 2011 and will, accordingly, apply in relation to assessment year 2011-12 and subsequent years.

4.7 MICRO-FINANCE PROFESSIONALS
Developing alternative delivery models: Document Identification Number – Section 282B

Introduction of Document Identification Number (DIN) and facility for electronic communication

It is now well accepted that "tax administration is tax policy". A tax administration designed to foster voluntarily compliance yields higher revenue than a sound tax policy administered by an inefficient tax administration. Therefore, it has always been the endeavour of the Income-tax Department to improve the standards of its service and transparency in its functioning.

Therefore, it is proposed to introduce a computer based system of allotment and quoting of Document Identification Number (DIN) in each correspondence sent or received by it so as to enable tracking of documents and minimise taxpayer's grievances.

With a view to give effect to the aforesaid, it is proposed to insert a new section 282B so as to provide that every income tax authority shall allot a computer generated DIN in respect of every notice, order, letter or any correspondence issued by him to any other income-tax authority or assessee or any other person and such number shall be quoted thereon.

It is further proposed that where the notice, order, letter or any correspondence issued by any income-tax authority does not bear a DIN, such notice, order, letter or any correspondence shall be treated as invalid and shall be deemed never to have been issued.

It is also proposed to provide that every document, letter or any correspondence, received by an income-tax authority or on behalf of such authority, shall be accepted only after allotting and quoting of a computer generated DIN. It is also proposed to provide that where the document, letter or any correspondence received by any income-tax authority or on behalf of such authority does not bear DIN, such document, letter or any correspondence shall be treated as invalid and shall be deemed never to have been received. This amendment will take effect from 1st October, 2010.

Service of notice or requisition

Under the existing provisions of section 282 a notice or requisition under the Act may be served on the person therein named either by post or as if it were a summons issued by a court.

It is proposed to amend the said provisions to provide that the service of notice or summon or requisition or order or any other communication may be made by delivering or transmitting a copy thereof by post or courier service or in such manner as provided in the Code of Civil Procedure, 1908 (5 of 1908) for the purposes of service of summons; or in the form of any electronic record as provided in Chapter IV of the Information Technology Act, 2000; or by any other means of transmissions as may be provided by rules made by the Board in this behalf.

It is also proposed that the Board may make rules providing for the addresses (including the address for electronic mail or electronic mail message) to which such communication may be delivered.

This amendment will take effect from 1st October, 2009.

4.8 TECH SAVVY PROFESSIONALS

Take first step to ensure efficient and reliable system

Taxation of Limited Liability Partnership (LLP)

The Limited Liability Partnership Act, 2008 has come into effect in 2009. LLP Rules (except some rules dealing with conversion) and forms have been notified w.e.f. 1st of April, 2009.

It is proposed to incorporate the taxation scheme of LLPs in the Income Tax Act on the same lines as the taxation scheme currently prevalent for general partnerships, i.e. taxation in the hands of the entity and exemption from tax in the hands of its partners. A “limited liability partnership” and a general partnership will be accorded the same tax treatment.

It is also proposed that the word ‘partner’ shall include within its meaning a partner of a limited liability partnership, the word ‘firm’ shall include within its meaning a limited liability partnership and the word ‘partnership’ shall include within its meaning a limited liability partnership as these terms have been defined in the Limited Liability Partnership Act, 2008.

The LLP Act provides for nomination of “designated partners” who have been given greater responsibility. It is proposed that the designated partner shall sign the income tax return of an LLP, or, where, for any unavoidable reason such designated partner is not able to sign the return or where there is no designated partner as such, any partner shall sign the return.

It is proposed to provide that in case of liquidation of an LLP, every partner will be jointly and severally liable for payment of tax unless he proves that non-recovery cannot be attributed to any gross neglect, misfeasance or breach of duty on his part.

As an LLP and a general partnership is being treated as equivalent (except for recovery purposes) in the Act, the conversion from a general partnership firm to an LLP will have no tax implications if the rights and obligations of the partners remain the same after conversion and if there is no transfer of any asset or liability after conversion. If there is a violation of these conditions, the provisions of Sec. 45 shall apply.

It is further proposed to make the amendments effective from the 1st day of April 2010 i.e. A.Y. 2010-11.

Centralized Processing of Returns

The Income-tax department is in the process of setting up a Centralised Processing Centre (CPC) at Bengaluru for centralised processing of Income-tax and Fringe benefits tax returns. For this purpose the Board had been empowered to relax, modify or adapt any provision of law relating to processing of returns subject to the condition that the notification for such relaxation, modification or adaptation is issued on or before the 31st March, 2009 and the said notification is laid on the table of the House.

Since the centre has still not been operationalised, it is necessary to allow the Board a further period of one year i.e. up to 31st March, 2010 to relax, modify or adapt any provision of law relating to processing of returns.

These amendments will take effect from 1st April, 2009.

Perpetuity of registration of charitable trust

As per clause (vi) of sub-section (5) of section 80G of the I-T Act, 1961, the institutions or funds to which the donations are made have to be approved by the CIT in accordance with the rules prescribed in rule 11AA of the I-T Rule, 1962. The proviso to this clause provides that any approval granted under this clause shall have effect for such A.Y. or years, not exceeding 5 A.Ys, as may be specified in the approval.

Due to this limitation imposed on the validity of such approvals, the approved institutions or funds have to bear the hardship of getting their approvals renewed from time to time. This is unduly burdensome for the bonafide institutions or funds and also leads to wastage of time and resources of the tax administration in renewing such approvals in a routine manner.

Therefore, it is proposed to omit the proviso to clause (vi) of sub-section (5) of section 80G to provide that the approval once granted shall continue to be valid in perpetuity.

Further, the Commissioner will also have the power of withdraw the approval if the Commissioner is satisfied that the activities of such institution or fund are not genuine or are not being carried out in accordance with the objects of the institution or fund.

This amendment will take effect from 1/10/2009. Accordingly, existing approvals expiring on or after 1/10/2009 shall be deemed to have been extended in perpetuity unless specifically withdrawn. However, in case of approvals expiring before 1/10/2009, these will have to be renewed and once renewed these shall continue to be valid in perpetuity, unless specifically withdrawn.

Power to withdraw approvals

Under the existing provisions of Income-tax Act, an approval is required to be granted by income-tax authority for availing of various incentives by the assessee. While some provisions of Income-tax Act specifically contain provisions for withdrawal of approval but in many cases there is no such specific provisions containing power of withdrawal. In order to provide explicit provisions for power to withdraw of approval, it is proposed to insert a new section 293C to provide that an approval granting authority shall also have the powers to withdraw the approval at any time.

Weighted deduction for in-house research and development

Under the existing provisions of the Income-tax Act, under sub-section (2AB) of section 35, weighted deduction of 150 % is allowed to a company engaged in the business of biotechnology or in the business of manufacture or production of drugs, pharmaceuticals, electronic equipments, computers, telecommunication equipments, chemicals or any other article or thing notified by the Board and which has incurred expenditure (excepting on land and building) on in-house scientific research and development facility approved by the prescribed authority.

With a view to promoting research and development in all sectors of the economy, it is proposed to extend the benefit of weighted deduction to companies engaged in the business of manufacture or production of an article or thing except those specified in the Eleventh Schedule of the Income-tax Act.

Definition of the term "manufacture"

A number of tax concessions under the Income-tax Act are provided for encouraging manufacture of articles or things. However, the term "manufacture" has not been defined in the statute. Therefore, it has been the subject matter of dispute and resultant judicial review in a number of cases.

In order to remove any kind of ambiguity which may still persist in this regard, it is proposed to insert a new clause (29BA) in section 2 so as to provide that 'manufacture', with all its grammatical variations, shall mean a change in a non-living physical object or article or thing,—

(a) Resulting in transformation of the object or article or thing into a new and distinct object or article or thing having a different name, character and use; or

(b) Bringing into existence of a new object or article or thing with a different chemical composition or integral structure.

This amendment will take retrospective effect from the 1st day of April, 2009 and will, accordingly, apply in relation to assessment year 2009-2010 and subsequent years.

Definition of 'charitable purpose'

Charitable purpose has been defined in section 2(15) of the Income-tax Act to include:-

(a) Relief of the poor,

(b) Education,

(c) Medical relief and,

(d) The advancement of any other object of general public utility.

However, the "advancement of any other object of general public utility" shall not be a charitable purpose, if it involves the carrying on of any activity in the nature of trade, commerce or business, or any activity of rendering any service in relation to any trade, commerce or business, for a cess or fee or any other consideration, irrespective of the nature of use or application, or retention, of the income from such activity.

It is now proposed to amend section 2(15) to separately list specific preservation activities so that they would be excluded from the applicability of the aforesaid conditions which are applicable to the "advancement of any other object of general public utility".

- Preservation of environment (including watersheds, forests and wildlife) and
- Preservation of monuments or places or objects of artistic or historic interest

The proposed amendment shall be applicable with retrospective effect from 1st April, 2009.

Definition of "block of asset"

The term "block of assets" has been defined in clause (11) of section 2 and in Explanation 3 to sub-section (1) of section 32 of the Income-tax Act. However, these definitions are not identical and therefore they are subject to misuse. Accordingly, it is proposed to amend Explanation 3 of sub-section (1) of Section 32 of the Income-tax Act so as to delete the definition of "block of assets" provided therein.

Consequently, "block of assets" will derive its meaning only from clause (11) of section 2.

It is proposed to make the amendments effective from the 1st day of April, 2010 and will, accordingly, apply in relation to assessment year 2010-11 and subsequent years.

Definition of "written down value (WDV)" under section 43(6)

Clause (ii) of sub-section (1) of section 32 provides that depreciation is to be allowed and computed at the prescribed percentage on the WDV of any block of assets. Sub-clause (b) of clause (6) of section 43 provides that WDV in the case of assets acquired before the previous year shall be computed by taking the actual cost to the assessee less all depreciation "actually allowed" to him under the Income-tax Act.

Rules 7A, 7B and 8 of the Income tax Rules, 1962, deal with the computation of composite income where income is derived in part from agricultural operations and in part from business chargeable to tax under the Income tax Act, 1961 under the head "Profits & Gains of Business". These rules prescribe the method of computation in the case of manufacture of rubber, coffee and tea. In such cases, the income which is brought to tax as "business income" is a prescribed fixed percentage of the composite income.

The Hon'ble Supreme Court in the case of CIT Vs. Doom Dooma India Ltd (222 CTR 105) has held that in view of the language employed in sub-clause (b) of clause (6) of section 43 regarding depreciation "actually allowed", where any income is partially agricultural and partially chargeable to tax under the Income tax Act, 1961 under the head "Profits & Gains of Business", the depreciation deducted in arriving at the taxable income alone can be taken into account for computing the WDV in the subsequent year.

For instance, Rule 8 prescribes the taxability of income from the manufacture of tea. Under the said rule, income derived from the sale of tea grown and manufactured by seller shall be computed as if it were income derived from business, and 40% of such income shall be deemed to be income liable to tax. As a result of the Court decision on depreciation to be "actually allowed" for computing WDV, the resultant computation of depreciation is as per the following illustration:

	Rs.
Sale proceeds of made tea –	1,000
Less : Expenses –	
Depreciation –(10% of Rs. 1,000)	(100)
Others expenses-	(300)
Composite income -	600
Income subject to charge under the I.T. Act, 1961 by application of Rule 8 (40% of 600) -	240
Income not chargeable to income-tax (60% of 600) -	360

According to the interpretation of the Court, the W.D.V. of the fixed asset for the immediately succeeding year is to be taken at Rs.960/- (Rs.1000 minus Rs.40 being depreciation allocated for business income) and not Rs.900/- (Rs.1000 minus depreciation of Rs.100/- allowed for determining composite income). Thus the depreciation for which deduction is allowed to the assessee while computing its agricultural income is to be ignored for computing the W.D.V. of the asset according to the Court ruling.

The above interpretation is not in accordance with the legislative intent. WDV is required to be computed by deducting the full depreciation attributable to composite income. Hence in the above illustration, the WDV of the fixed asset for the immediately succeeding year is to be taken at Rs.900/- and not 960/- as held by the Supreme Court. The ambiguity in this case has arisen on account of the interpretation of the meaning of the phrase "actually allowed" in sub-clause (b) of clause (6) of section 43.

It is therefore proposed to provide that in the cases of 'composite income', notwithstanding that the assessee was not required to compute a part of his income for the purposes of Income-tax Act for any previous year, depreciation shall be computed as if the total composite income of the assessee is chargeable under the Income-tax Act and such depreciation shall be deemed to have been "actually allowed" to the assessee. This amendment will take effect from the 1st April, 2010 and will, accordingly, apply in relation to assessment year 2010-11 and subsequent years.

Provisional attachment of asset

The provisions of section 281B empower the AO to make provisional attachment of the assets of the assessee during the pendency of any proceedings for assessment or reassessment. The sub-section (2) further provides that every attachment order shall cease to have effect after the expiry of a period of six months from the date of order made under sub-section (1). However, the period of validity of provisional attachment order can be further extended by two years. The second proviso to sub-section (2) further provides that where an application for settlement under section 245C is made, the period commencing from the date on which such application is made and ending with the date on which the order under sub-section (1) of section 245D is made shall be excluded from the period specified in this sub-section.

In many cases, the assessees have filed writ petitions in High Courts and Supreme Court and have obtained stay of the assessment proceedings. Often, such stay remains in force for many years during which the validity of provisional attachment order expires. Therefore, it is proposed to amend sub-section (2) of section 281B to provide that the period, during which the proceedings for assessment or reassessment are stayed by any Court, shall be excluded in calculating the period specified therein. This amendment will take effect retrospectively from 1st April, 1988 and will accordingly apply in relation to assessment year 1988-89 and subsequent assessment years.

Interest received on delayed compensation or enhanced compensation

The existing provisions of Income-tax Act provide that income chargeable under the head "Profits and gains of business or profession" or "Income from other sources", shall be computed in accordance with either cash or mercantile system of accounting regularly employed by the assessee. Further, the Hon'ble Supreme Court, in the case of Rama Bai vs. CIT (181 ITR 400) has held that arrears of interest computed on delayed or enhanced compensation shall be taxable on accrual basis.

This has caused undue hardship to tax payers. With a view to mitigating the hardship, it is proposed to amend section 145A to provide that the interest received by an assessee on compensation or enhanced compensation shall be deemed to be his income for the year in which it is received, irrespective of the method of accounting followed by the assessee. Further, it is proposed to insert clause (viii) in sub-section (2) of section 56 to provide that income by way of interest received on compensation or on enhanced compensation referred to in sub-section (2) of section 145A shall be assessed as "income from other sources" in the year in which it is received. This amendment will take effect from 1st April, 2010 and shall accordingly apply in relation to assessment year 1998-99

4.11 GLOBAL OUTLOOK
Global pathways: Death knell tolls for G-8, new body likely

Determination of arm's length price in cases of international transactions

Section 92C of the Income-tax Act provides for adjustment in the transfer price of an international transaction with an associated enterprise if the transfer price is not equal to the arm's length price. As a result, a large number of such transactions are being subjected to adjustment giving rise to considerable dispute. Therefore, it is proposed to empower the Board to formulate safe harbour rules i.e. to provide the circumstances in which the Income-tax authorities shall accept the transfer price declared by the assessee.

This amendment will take effect from 1st April, 2009.

Further, the proviso to sub-section (2) of section 92C provides that where more than one price is determined by the most appropriate method, the arm's length price shall be taken to be the arithmetical mean of such prices, or, at the option of the assessee, a price which may vary from the arithmetical mean by an amount not exceeding five per cent of such arithmetical mean.

The above provision has been subject to conflicting interpretation by the assessee and the Income Tax Department. The assessee's view is that the arithmetical mean should be adjusted by 5 per cent to arrive at the arm's length price. However, the department's contention is that if the variation between the transfer price and the arithmetical mean is more than 5 per cent of the arithmetical mean, no allowance in the arithmetical mean is required to be made.

With a view to resolving this controversy, it is proposed to amend the proviso to section 92C to provide that where more than one price is determined by the most appropriate method, the arm's length price shall be taken to be the arithmetical mean of such price. However, if the arithmetical mean, so determined, is within five per cent of the transfer price, then the transfer price shall be treated as the arm's length price and no adjustment is required to be made.

This amendment will take effect from 1st October, 2009 and shall accordingly apply in relation to all cases in which proceedings are pending before the Transfer Pricing Officer (TPO) on or after such date.

Empowering Central Government to enter into agreement…
…with specified non-sovereign territories

Section 90 of the Income-tax Act empowers the Central Government to enter into Double Taxation Avoidance Agreement ('DTAA') with the Government of any other country outside India for granting double-taxation relief and facilitate exchange of information concerning avoidance or evasion of tax. The government now wishes to expand the scope of this cooperation by entering into a DTAA or TIEA (Tax Information Exchange Agreement) with non-sovereign jurisdictions.

In order to enable the government to enter into agreements with non-sovereign territories, it is proposed to make suitable amendments to section 90 of the Income Tax Act, 1961 and to the corresponding provisions under section 44A of the Wealth Tax Act so as to enable the government to notify such specified territories outside India.

The proposed amendment will be effective from 1st October, 2009.

4.12 ISSUES OF THE PRESENT

Freedom to get & fail in the system of free enterprise

Provision for constitution of alternate dispute resolution mechanism

The dispute resolution mechanism presently in place is time consuming and finality in high demand cases is attained only after a long drawn litigation till Supreme Court. Flow of foreign investment is extremely sensitive to prolonged uncertainty in tax related matter. Therefore, it is proposed to amend the Income-tax Act to provide for an alternate dispute resolution mechanism which will facilitate expeditious resolution of disputes in a fast track basis.

The salient features of the proposed alternate dispute resolution mechanism are as under:—

(1) The AO shall, forward a draft of the proposed order of assessment (hereinafter in this section referred to as the draft order) to the eligible assessee if he proposes to make, on or after the 1st day of October, 2009, any variation in the income or loss returned which is prejudicial to the interest of such assessee.

(2) On receipt of the draft order, the eligible assessee shall, within thirty days of the receipt by him of the draft order,-

(a) File his acceptance of the variations to the AO; or

(b) File his objections, if any, to such variation with, - (i) The Dispute Resolution Panel; and (ii) The AO.

(3) The AO shall complete the assessment on the basis of the draft order, if (a) The assessee intimates to the AO the acceptance of the variation; or (b) No objections are received within the period specified in sub-section (2).

(4) The AO shall, notwithstanding anything contained in section 153, pass the assessment order under sub-section (3) within one month from the end of the month in which, (a) The acceptance is received; or (b) The period of filing of objections under sub-section (2) expires.

(5) The Dispute Resolution Panel shall, in a case where any objections are received under sub-section (2), issue such directions, as it thinks fit, for the guidance of the AO to enable him to complete the assessment.

(6) The Dispute Resolution Panel shall issue the directions referred to in sub-section (5), after considering the following, namely: (a) Draft order; (b) Objections filed by the assessee; (c) Evidence furnished by the assessee; (d) Report, if any, of the Assessing Officer, Valuation Officer or Transfer Pricing Officer or any other authority; (e) Records relating to the draft order; (f) Evidence collected by, or caused to be collected by, it; and (g) Result of any enquiry made by, or caused to be made by it.

(7) The Dispute Resolution Panel may, before issuing any directions referred to in sub-section (5), (a) Make such further enquiry, as it thinks fit; or (b) Cause any further enquiry to be made by any income tax authority and report the result of the same to it.

(8) The Dispute Resolution Panel may confirm, reduce or enhance the variations proposed in the draft order so, however, that it shall not set aside any proposed variation or issue any direction under sub-section (5) for further enquiry and passing of the assessment order.

(9) If the members of the Dispute Resolution Panel differ in opinion on any point, the point shall be decided according to the opinion of the majority of the members.

(10) Every direction issued by the Dispute Resolution Panel shall be binding on the AO.

(11) No direction under sub-section (5) shall be issued unless an opportunity of being heard is given to the assessee and the AO on such directions which are prejudicial to the interest of the assessee or the interest of the revenue, respectively.

(12) No direction under sub-section (5) shall be issued after nine months from the end of the month in which the draft order is forwarded to the eligible assessee.

(13) Upon receipt of the directions issued under sub-section (5), the AO shall, in conformity with the directions, complete, notwithstanding anything to the contrary contained in section 153, the assessment without providing any further opportunity of being heard to the assessee, within one month from the end of the month in which the direction is received.

(14) The Board may make rules for the efficient functioning of the Dispute Resolution Panel and expeditious disposal of the objections filed, under sub-section(2), by the eligible assessee.

(15) For the purposes of this section,—

(a) “Dispute Resolution Panel” means a collegium comprising of three commissioners of Income-tax constituted by the Board for this purpose;

(b) “eligible assessee” means,- (i) any person in whose case the variation referred to in sub-section (1) arises as a consequence of the order of the Transfer Pricing Officer passed under sub-section (3) of section 92CA; and (ii) any foreign company.

Further, it is proposed to make consequential amendments—

(i) in sub-section (1) of section 131 so as to provide that “Dispute Resolution Panel” shall have the same powers as are vested in a Court under the Code of Civil Procedure, 1908 (5 of 1908);

(ii) in clause (a) of sub-section (1) of section 246 so as to exclude the order of assessment passed under sub-section (3) of section 143 in pursuance of directions of “Dispute Resolution Panel” as an appealable order and in clause (c) of sub-section (1) of section 246 so as to exclude an order passed under section 154 of such order as an appealable order;

(iii) in sub-section (1) of section 253 so as to include an order of assessment passed under sub-section (3) of section 143 in pursuance of directions of “Dispute Resolution Panel” as an appealable order.

These amendments will take effect from 1st October, 2009.

5. BANKING SECTOR

BUDGET 2009-10

Amendment to section 10(23D) of the Income Tax Act, 1961- Incorporating "Other Public Sector Banks" under the expression "Public Sector Bank"

The expression "public sector banks" has been defined in the explanation to section 10(23D). Reserve Bank of India has categorised a new sub-group called "other public sector banks". The Central Government holds more than 51% shareholding in IDBI Bank Limited which has been categorised under "other public sector banks" by RBI.

Since "other public sector banks", has not been included in the expression "public sector banks" as defined in the Explanation to section 10(23D), it is proposed to amend the relevant provisions of the Income-tax Act, 1961 to do so This amendment will take effect from 1st April, 2010 and will, accordingly, apply in relation to assessment year 2010-2011 and subsequent assessment years.

People's ownership of PSUs

The Public Sector Undertakings are the wealth of the nation, and part of this wealth should rest in the hands of the people. While retaining at least 51% Government equity in our enterprises, I propose to encourage people's participation in our disinvestment programme. Here, I must state clearly that public sector enterprises such as banks and insurance companies will remain in the public sector and will be given all support, including capital infusion, to grow and remain competitive.

Power to issue Zero Coupon Bonds

Under the existing provision of clause (48) of section 2, only infrastructure Capital Company or Infrastructure Capital Fund or Public Sector Company are empowered to issue zero coupon bonds when they are authorized to do so. With a view to empower the scheduled banks including nationalized banks to issue zero coupon bonds to source their long term funds, it is proposed to amend the section so as to include the scheduled banks as an eligible person to issue zero coupon bonds.

TAX DEDUCTION AT SOURCE (TDS)

Tax deduction at source is a method of collecting taxes on behalf of the Government at the time of payment or credit. The Income-tax Act casts a legal responsibility on the deductor to deduct tax on the correct amount, at the correct rate and deposit it to the Government account. The TDS rates are specified partly in the Finance Act and partly in the provisions of the Income tax Act.

Deductors are also required to compute surcharge and cess; And if the deductor fails to deduct the tax or fails to deposit the tax after deduction, interest, penalty and prosecution provisions may get attracted;

Further, if the deductor fails to deduct tax on a prescribed payment or fails to deposit the tax deducted in time, the entire expenditure is disallowed while computing his total income.

To assist deductors in complying with their TDS obligations and reduce their compliance burden, it is proposed to rationalise the provisions of TDS as under:

a. Rationalisation of TDS rates:

A. Under the existing provisions of section 194-I of the Income-tax Act, TDS on **rental payments** is prescribed at the rate of–

(a) 10% for the use of any machinery or plant or equipment,

(b) 15% for the use of any land or building or furniture or fittings, if the payee is an individual or HUF, &

(c) 20% if the payee is other than an individual or HUF.

The current rates need a downward revision as they are leading to blocking of working capital funds in many cases. It is therefore proposed to rationalise and reduce the TDS rates on rental payments as under:

(a) 2% for the use of any machinery or plant or equipment,

(b) 10% for the use of any land or building or furniture or fittings for all persons.

Nature of Payment (194 I): Rent	*Existing rate*	*Proposed rate* (w.e.f. 1-10-2009)*
a. rent of plant, machinery or equipment	10%	2%
b. rent of land, building or furniture to an individual and Hindu undivided family	15%	10%
c. rent of land, building or furniture to a per son other than an individual or Hindu undivided family	20%	10%
*** The rate of TDS will be 20 per cent in all cases, if PAN is not quoted by the deductee w.e.f. 1.04.2010.*		

B. Under the existing provisions of section 194C, TDS at the rate of 2% is deducted on **payment for a contract**. However, in the case of a sub-contract, TDS is deducted at the rate of 1%. Further, in the case of payment for an **advertising contract**, TDS is required to be deducted at the rate of 1%.

In order to reduce the scope for disputes regarding classification of contract as sub contract, it is proposed to specify the same rate of TDS for payments to both contractors as well as sub-contractors.

To rationalise the TDS rates and to remove multiple classifications it is also proposed to provide same rate of TDS in the case of payment for advertising contracts.

To avoid hardship to small contractors/sub-contractors most of whom are organised as individuals/HUFs, it is proposed to prescribe following rates of TDS:

(a) 1% where payment for a contract are to individuals/HUF

(b) 2% where payment for a contract are to any other entity.

Nature of Payment (194C)	*Existing rate*	*Proposed rate* (w.e.f. 1-10-2009)*
a. Individual/HUF contractor	2%	1%
b. Other than individual/HUF contractor	2%	2%
c. Individual/HUF sub-contractor	1%	1%
d. Other than individual/HUF sub-contractor	1%	2%
e. Individual/HUF contractor/sub-contractor for advertising	1%	1%
f. Other than individual/HUF contractor/ sub-contractor for advertising	1%	2%
g. Sub-contractor in transport business	1%	nil*
h. Contractor in transport business	2%	nil*
* The nil rates will be applicable if the transporter quotes his PAN. If PAN is not quoted the rate will be 1% for an individual/HUF transporter and 2% for other transporters up to 31.3.2010.		
** The rate of TDS will be 20 per cent in all cases, if PAN is not quoted by the deductee w.e.f. 1.04.2010.		

C. Further some of the rates of TDS specified for resident taxpayers have been reduced and converged to 10 per cent.

D. In order to ease the computation of TDS, it is proposed to remove surcharge and cess on tax deducted on non-salary payments made to resident taxpayers.

b. Provisions for payments and tax deducted at source to transporters:

Under Section 194C, tax is required to be deducted on payments to **transport contractors** engaged in the business of plying, hiring or leasing goods carriages.

However if they furnish a statement that they do not own more than two goods carriages, tax is not to be deducted at source. Transport operators report problem in obtaining TDS certificates as these are not issued immediately by clients and they are not able to approach the client again as they may have to move across the country for their business.

It is, therefore, proposed to exempt payments to transport operators (as defined in section 44AE) from the purview of TDS. However, this would only apply in cases where the operator furnishes his Permanent Account Number (PAN) to the deductor.

Deductors who make payments to transporters without deducting TDS (as they have quoted PAN) will be required to intimate these PAN details to the Income Tax Department in the prescribed format.

Further under the existing provisions of sections 40A(3) the Income-tax Act, if an assessee incurs any expenditure in respect of which payment in excess of Rs 20,000 is made otherwise than by an account payee cheque or account payee bank draft, such expenditure is not allowed as a deduction. As a large number of small truck owners/drivers have little working capital and do not have bank accounts outside their home cities, they insist on payment in cash for undertaking long haul journeys, as they need cash for incurring en-route expenses on diesel, food and repairs etc and such expenses generally exceed Rs 20,000/-. This causes operational problems to those who have to pay for their services.

To address this problem, it is proposed to raise the limit of cash payment to such transport operators to Rs 35,000/- from the existing limit of Rs 20,000/-. These amendments will take effect from the 1st day of October, 2009 and will accordingly apply to transaction on or after such date.

c. Clarification regarding "work" under section 194C.

There is ongoing litigation as to whether TDS is deductible under section 194C on **outsourcing contracts** and whether outsourcing constitutes work or not.

To bring clarity on this issue, it is proposed to provide that "work" shall not include manufacturing or supplying a product according to the requirement or specification of a customer by using raw material purchased from a person other than such customer as such a contract is a contract for 'sale'.

This will however not apply to a contract which does not entail manufacture or supply of an article or thing (e.g. **a construction contract**).

It is also proposed to **include manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer**, within the definition of 'work'. It is further proposed to provide that in such a case TDS shall be deducted on the invoice value excluding the value of material purchased from such customer if such value is mentioned separately in the invoice. Where the material component has not been separately mentioned in the invoice, TDS shall be deducted on the whole of the invoice value.

It is further proposed to make the amendments effective from the 1st day of October, 2009. Accordingly, the proposed amendments will apply to credits or payment effected on or after 1st October, 2009.

d. Improving compliance with provisions of quoting PAN through the TDS regime

Statutory provisions mandating quoting of PAN of deductees in TDS statements exist since 2001 duly backed by penal provisions. The process of allotment of PAN has been streamlined so that over 75 lakh PANs are being allotted every year. Publicity campaigns for quoting of PAN are being run since the last three years. The average time of allotment of PAN has come down to 10 calendar days. Therefore, non-availability of PAN has ceased to be an impediment. In a number of cases, the non-quoting of PANs by deductees is creating problems in the processing of returns of income and in granting credit for tax at deducted at source, leading to delays in issue of refunds.

In order to strengthen the PAN mechanism, it is proposed to make amendments in the Income Tax Act to provide that any person whose receipts are subject to deduction of tax at source i.e. the deductee, shall mandatorily furnish his PAN to the deductor failing which the deductor shall deduct tax at source at higher of the following rates

(i) The rate prescribed in the Act;

(ii) At the rate in force i.e., the rate mentioned in the Finance Act; or

(iii) At the rate of 20 per cent.

TDS would be deductible at the above-mentioned rates will also apply in cases where the taxpayer files a declaration in form 15G or 15H (under section 197A) but does not provide his PAN.

Further, no certificate under section 197 will be granted by the Assessing Officer unless the application contains the PAN of the applicant. These provisions will also apply to non-residents where TDS is deductible on payments or credits made to them.

To ensure that the deductor knows about the correct PAN of the deductee it is also proposed to provide for mandatory quoting of PAN of the deductee by both the deductor and the deductee in all correspondence, bills and vouchers exchanged between them.

This amendment will take effect from 1st April, 2010.

e. Processing of statements of tax deducted at source

Currently almost all statements of tax deducted at source are filed in an electronic mode. The processing of these statements should, therefore, be done only in a computerised environment. It is therefore proposed to provide for processing of statements of tax deducted at source on computer so that liabilities on account of interest and other defaults in TDS payment are promptly calculated and intimated to the deductor. In order to process TDS statements on computer, it is proposed to provide for electronic processing on the same lines as processing of Income-tax returns. It is proposed that the following adjustments can be made during the computerized processing of statements of tax deducted at source:

(i) Any arithmetical error in the statement; or

(ii) An incorrect claim, if such incorrect claim is apparent from any information in the statement, for example, in respect of rate of deduction of tax at source where such rate is not in accordance with the provisions of the Act.

It is proposed to provide that after making adjustments, tax and interest [e.g. u/s 201(1A)] would be calculated and sum payable by the deductor or refund due to the deductor will be determined. An intimation will be sent to the deductor informing him of his tax liability or granting him the refund due within one year from the end of the financial year in which the statement is filed. It is also proposed that the processing of these statements can be undertaken in a centralised processing centre.

This amendment will take effect from 1st April, 2010

f. Providing time limits for passing of orders u/s 201(1) holding a person to be an assessee in default

Currently, the Income Tax Act does not provide for any limitation of time for passing an order u/s 201(1) holding a person to be an assessee in default. In the absence of such a time limit, disputes arise when these proceedings are taken up or completed after substantial time has elapsed.

In order to bring certainty on this issue, it is proposed to provide for express time limits in the Act within which specified order u/s 201(1) will be passed. It is proposed that an order u/s 201(1) for failure to deduct the whole or any part of the tax as required under this Act, if the deductee is a resident taxpayer shall be passed within two years from the end of the financial year in which the statement of tax deduction at source is filed by the deductor. Where no such statement is filed, such order can be passed up till four years from the end of the financial year in which the payment is made or credit is given.

To provide sufficient time for pending cases, it is proposed to provide that such proceedings for a financial year beginning from 1st April, 2007 and earlier years can be completed by the 31st March, 2011.

However, no time-limits have been prescribed for order under section 201(1) where (a) The deductor has deducted but not deposited the tax deducted at source, as this would be a case of defalcation of government dues, (b) The employer has failed to pay the tax wholly or partly, under sub-section (1A) of section 192, as the employee would not have paid tax on such perquisites, (c) The deductee is a non-resident as it may not be administratively possible to recover the tax from the non-resident.

It is proposed to make these amendments effective from 1st April, 2010. Accordingly it will apply to such orders passed on or after the 1st April, 2010.

g. Filing of TDS and TCS statements

Sub-section (3) of section 200 of Income-tax Act provides that any person deducting tax in accordance with the provisions of Chapter XVIIB has to furnish, within the prescribed time, quarterly statements for the period ending on the 30th June, 30th September, 31st December and 31st March in each financial year.

Similarly, filing of quarterly returns for tax collection at source (TCS) have been provided in sub-section (3) of section 206C of the Act. Further section 206A provides furnishing of quarterly return in respect of payment of interest to residents without deduction of tax.

In order to provide administrative flexibility in deciding the periodicity of such TDS related statements, it is proposed to modify the existing provisions so as to allow the Government to prescribe periodicity of such TDS statements besides prescribing their form and manner.

These provisions will be applicable from 1st October, 2009.

7. INFLATION RETREATS: NOW ADDRESS GROWTH

The premises upon which Mr Pranab Mukherjee has based his budget are easy to understand: the Indian economy has shown surprising resilience and grown by 6.7% in 2008-09 – faster than almost anyone had predicted. There are indications that demand is reviving in several sectors of the economy, so the worst is over. The growth rate is likely to top 7% this year, but since this is still much below the 9% growth of past years, a fiscal package is still necessary. Mr Mukherjee intends to provide it not by increasing investment, but consumption. The huge increases in social outlays are intended to kill two birds with one stone – revive industry by stimulating consumer demand and make growth more ‘inclusive’.

Price shooting up, but **annual inflation still in red**

Annual inflation based on the wholesale price index (WPI) fell by 1.55% in the **week ended June 27**, even as prices continued to rise on a weekly basis. The fall in annual inflation can be attributed to the high annual inflation of over 12% in the year-ago period. WPI had scaled record highs last year due to a sharp rise in commodity prices. In contrast, on a weekly basis, prices continued to rise for the seventh straight week, and retail inflation could rise further when the recent increase in retail prices of petrol (Rs 4/litre) and diesel (Rs 2/litre) and their secondary effect are reflected in the inflation numbers. Besides, a poor monsoon could bring more pressure on food price.

Inflation still negative, despite fuel rise, food shows mixed trend

Inflation rose marginally to (-) 1.2% for the week ended July 4, mainly due to higher prices of fuel items. The wholesale price index during the corresponding week a year ago was as high as 12.19%. Economists described the fall as a statistical effect, which does not warrant any intervention from the central bank on the cost of funds. Overall prices remained firm on a weekly basis due to price gains in the fuel category. Food prices showed the mixed trend.

The latest wholesale price-based inflation number has little significance in terms of monetary policy as prices are firm on a month-on-month and week-on-week basis. Planning Commission deputy chairperson Montek Singh Ahluwalia said that negative inflation was a temporary phenomenon. “We are in favour of modest inflation; we (will) end the year, with inflation between 4% - 5%.

FAST & FURIOUS: ECONOMIC SURVEY 08-09

Replete with dozens of suggestions for economic reforms, the survey is clearly a Montek-Virmani document rather than a Sonia-Pranab Mukherjee one. It represents the reformism of technocrats rather than the realpolitik of politicians. Once upon a time, the Economic Survey used to be viewed as a declaration of intent of the government. This time it is better viewed as a declaration of despair by technocrats, listing reforms that are urgently needed but have no hope of political acceptance. The Economic survey is high on hopes & reforms and calls for sweeping reforms that may never take off.

Green shoots of recovery in full bloom

The survey argues that the worst may be over and the monetary and fiscal measures taken by the government could facilitate a quick U-shaped recovery. Subject to some caveats such as policy reforms, a normal monsoon and the US economy bottoming out by September 2009, it pegs the GDP growth in 2009-10 at 7.0+/-0.75%. However, in the event of prolonged global slump, the survey warns the recovery could be delayed to early 2010.

The survey pooh-poohs the dire, sub-6% growth forecasts of western, capitalist outfits such as the World Bank and the OECD for India. The economy is poised for a U-shaped recovery, with the last two quarters of the last fiscal and the first two quarters on 2009-10 forming the trough. And growth thereafter would be robust enough to push up the overall growth rate for 2009-10 to anything between 6.25% and 7.75%, depending on how well the world economy fares. And economy-wide inflation was only 6.2% for 2008-09 and is expected to remain muted this fiscal as well.

The upbeat mood continues when it comes to suggesting reforms across the board, including labour reform, disinvestment to raise Rs 25k crore a year and a ban on foreign institutional investors bringing in anonymous investors through sub-accounts. The survey prognosticates sustained growth in foreign capital inflows. The only place where it suggests a less-than-happy story is in the balance of external payments.

A key suggestion is to aim for deficit targets over the business cycle, rather than at every point of it, recognising the counter-cyclical potential of the fiscal policy. However, a target of 0% over the cycle seems too severe. The survey claims the fiscal deficit would shrink sharply beginning 2010-11. By then, it would shed two burdens: farm loan waiver and arrears of the Sixth Pay Commission award to civil servants. Fiscal consolidation would have to be aided by sharp curtailment of fuel subsidies, deregulation of oil prices when crude prices are below $80, reorganisation of subsidy by making most transfers directly to the beneficiary using smart cards.

When ministers change, the survey too changes its tune. It suggests that taxes introduced over the last five years, such as the securities transaction tax, the commodities transaction tax, fringe benefit tax and cesses are ill-advised. Instead of a dividend distribution tax on companies, dividends should be taxed in the hands of investors. In the world of demat accounts, this is not a difficult scheme to implement, and would be fairer to minority shareholders.

Indeed, the survey calls for pressing ahead financial sector reform, on the ground that this is the only way to ensure that funds are intermediated to dynamic entrepreneurs and that they will have sufficient means to hedge assorted risks. To its credit, the survey is also big on governance reform to achieve institutional efficacy and accountability. An innovative suggestion to this end is a web-based Public Accounting Information System that puts in the public domain all data on projects, funds and those employed so that anyone can challenge it and hold the system accountable.

Worst is over but a long way to go

The economic survey blames the global downturn for the sharp deceleration in industrial growth. Though it sees risks of increased dumping in the current environment and agues for a balanced approach to tackle it, in the long term it urges the industry to build and maintain cost advantage. It sees large domestic market as an insurance against global shocks and wants the industry to reach to the bottom of the pyramid to build on that strength.

A steady decline in industrial growth over the last two fiscals, especially in manufacturing sector, calls for an array of policy reforms. However, there are a number of positives such as revival in power generation, an improvement in cement dispatches and higher credit offtake indicating that the worst may be over for the Indian industry, which is now moving towards a recovery.

The reforms could include allowing FDI in multi-format retail starting with food retailing, raising FDI limit in defence industries to 49%, decontrolling sugar and fertiliser industry, limiting drug price control to essential drugs and creating an internet-enabled data system to help small and micro businesses. The survey also suggested a review of labour laws to encourage economic activity.

One of the main reasons for poor performance of the industrial sector over the past year was the high raw material prices. By July 2008, Indian crude oil basket was priced at $132 per barrel. The persistent rise of crude impacted petro-based industrial inputs, adding to fuel cost.

An increase in the prices of other commodities, particularly metals and ores, from the latter half of 2006-07 to the second half of 2008-09 also increased inputs costs of the manufacturing sector. In fact, cost on account of consumption of raw materials rose as much as 38% to 44% during the first two quarters of 2008-09, compared with 16% and 12% in the first two quarters of the previous fiscal.

A sharp increase in interest costs, especially from the Q3 of 2007-08, also added to the woes of the sector.

Lowering of prices of raw materials is one big factor on which the country is resting its hopes of an industrial revival. The decline in crude prices, input prices and interest rates should help the industry to improve profit margins which have been under pressure. Lead indicators and other related information collected by various research analysts also point to an upward movement in terms of demand and supply.

The sustained inflow of FDI points to foreign investor confidence in the Indian economy, especially in the industry. The survey said that India, on account of its market size, output generation and prices, would continue to be an attractive destination for foreign investment at this time when prospects for industrial output and prices in most industrial economies seem to be grim.

On labour, the survey pointed out that a decline in the number of strikes and lockouts indicated an improvement in industrial relations in the country. During 2008, Tamil Nadu experienced the maximum instances of strikes and lockouts followed by Kerala, Andhra Pradesh and Karnataka. Industrial unrest was concentrated mainly in financial intermediation, textiles, transport, mining of coal, and food products. The survey said it was imperative to facilitate the growth of labour intensive industries, especially by reviewing labour laws and labour market regulations. The government, however, has always been cautious about proposing changes in labour regulations as labour is a sensitive issue and all state governments need to be brought on board.

July 6, 2009
Speech of Pranab Mukherjee Minister of Finance

Madam Speaker, I turn to my main proposals on indirect taxes.

A. I will first take up **CUSTOM DUTIES**.

Although our domestic industry has weathered the impact of the global financial crisis and the resultant slowdown with resilience, it is yet to fully find its feet. Manufacturing growth, this had turned negative in October 2008 on a year-on-year basis and remained in that zone till March this year, appears to be barely turning the corner. However, the global scenario remains worrisome and it is my view that the paramount need is to provide industry with a stable framework. My proposals seek to achieve this by maintaining the overall rate structure for customs and central excise duties as well as service tax. I have not hesitated to act where distortions provide a compelling reason or where relief would provide a healing touch.

1. Full exemption from basic customs duty was provided to Set Top Boxes in 2006 to enable their free import for the smooth introduction of the Conditional Access System (CAS). Now that production capacity has come up in the country, I propose to impose a nominal basic customs duty of 5% on such Set Top Boxes to encourage domestic value addition.

2. The electronic hardware industry has a strong potential for creating employment especially in the SME sector. I intend to reduce the basic customs duty on LCD panels from 10% to 5% to support indigenous production of LCD televisions.

3. Full exemption from CVD of 4% was available to accessories, parts and components imported for the manufacture of mobile phones till the 30/06/09. I propose to reintroduce this exemption for another year.

4. Industries having an export-orientation have been adversely impacted by the demand compression in global markets. Presently, exporters of leather products, textile garments, footwear, and sports goods are permitted to import raw materials, consumables etc. upto 3% of the fob value of their exports free of duty. I propose to add a few more items to these lists.

5. The contribution of new and renewable energy sources of power is to be enhanced if we have to combat the phenomena of global warming and climate change. I am reducing the basic customs duty on permanent magnate – a critical component for Wind Operated Electricity Generators - from 7.5% to 5%.

6. On influenza vaccine and nine specified life saving drugs used for the treatment of breast cancer, hepatitis-B, rheumatic arthritis etc. and on bulk drugs used for the manufacture of such drugs, I propose to reduce the customs duty from 10% to 5%.

7. Customs duty will also be reduced from 7.5% to 5% on two specified life saving devices used in treatment of heart conditions.

8. Gold bars currently attract customs duty at the specific rate of Rs.100 per ten grams while other forms of gold (excluding jewellery) are chargeable to a duty of Rs.250 per ten grams. These rates were fixed in 2004 and have not been reviewed even as the price of gold has increased manifold. I propose to partially restore the incidence by increasing these rates to Rs.200 and Rs.500 respectively. Along the same lines, the customs duty on silver (excluding jewellery) will be increased from Rs.500 per kg to Rs.1000 per kg.

B. I will now come to **CENTRAL EXCISE DUTIES.**

Hon'ble Members are aware that the Government announced a series of fiscal stimulus packages, one of the key elements of which was the sharp reduction in the advalorem rates of Central Excise duty for non-petroleum products by 4 percentage points across the board on 7/12/08 and by another 2 percentage points in the mean CENVAT rate on the 24/2/09.

1. With the Government's proclaimed objective of introducing a Goods and Services Tax (GST) both at the national and State level, some more steps in that direction are necessary. One measure that would facilitate the process is the further convergence of central excise duty rates to a mean rate - currently 8%. I have reviewed the list of items currently attracting the rate of 4%, the only rate below the mean rate. There is a case for enhancing the rate on many items appearing in this list to 8%, which I propose to do, with the following major exceptions: Food items; and Drugs, pharmaceuticals and medical equipment. Some of the other items on which I propose to retain the rate of 4 per cent are:

- Paper, paperboard & their articles;
- items of mass consumption such as pressure cookers, cheaper electric bulbs, lowpriced footwear, water filters/purifiers, CFL etc.;
- Power driven pumps for handling water; and • Paraxylene.

The details are available in the relevant notifications.

2. Bio-diesel, obtained from vegetable oils and used for blending with petro-diesel, is currently exempt from excise duty. I now propose to fully exempt petro-diesel blended with bio-diesel from excise duty. In order to encourage the use of this environment friendly fuel and augment its availability in the country, I also propose to reduce basic customs duty on bio-diesel from 7.5% to 2.5% - at par with petro-diesel. With these proposals I hope to see a smile on the faces of the green brigade!

3. Petrol driven trucks provide a useful means of transport within cities and across short distances. These are chargeable to excise duty of 20 per cent. I propose to reduce excise duty on these trucks to 8% to equate the duty with similar vehicles run on diesel.

4. My other proposals on central excise duties seek to address distortions that the manufacturing industry has been complaining about.

(a) **The IT industry** has pointed out that it is facing difficulties in *the assessment of software which involves transfer of the right to use* after the levy of service tax on IT software service. To resolve the matter, I propose to exempt the value attributable to the transfer of the right to use packaged software from excise duty and CVD.

(b) **The construction industry** has represented that they are facing difficulties on account of withdrawal of exemption on *goods manufactured at site*. I propose to restore full exemption to such goods, including pre-fabricated concrete slabs or blocks, when used for further construction at site.

Madam Speaker,

I fear that my proposals relating to gold and silver on the customs side would somewhat dent my popularity with women. I propose to salvage this by fully exempting branded jewellery from excise duty.

C. I now turn to my proposals on **SERVICE TAX**.

1. It is an international practice to zero-rate exports. To achieve this, a scheme was announced in 2007, granting refund of service tax paid on certain taxable services used after the clearance of export goods from the factory. For some time now, the exporters have been expressing dissatisfaction over the difficulties faced in obtaining such refunds. Several procedural simplifications attempted in the past have also not yielded satisfactory results. The solution seems to lie in placing greater trust on the claims filed by the exporters. Keeping this in view, I propose to make the following changes in the scheme: • Services received by exporters from goods transport agents and commission agents, where the liability to pay service tax is *ab initio* on the exporter, would be exempted from service tax. Thus, there would be no need for the exporter to first pay the tax and later claim refund. • For other services received by exporters, the exemption would be operated through the existing refund mechanism based on self-certification of the documents where such refund is below 0.25% of fob value and certification of documents by a Chartered Accountant for value of refund exceeding the above limit.

2. In the goods transport sector, service tax is currently levied on transport of goods by road, by air, through pipelines and in containers. However, goods carried by Indian railways or those carried as coastal cargo or through inland waterways are not charged to service tax. In order to provide a level playing field in the goods transport sector, I propose to extend the levy of service tax to these modes of goods transport.

3. As the Hon'ble Members are aware, services provided by chartered accountants, cost accountants, and company secretaries as well as by engineering and management consultants are presently charged to service tax. As such, I propose to extend service tax on advice, consultancy or technical assistance provided in the field of law. This tax would not be applicable in case the service provider or the service receiver is an individual.

4. Vehicles having 'Stage Carriage Permits' and run by State undertakings are exempted from service tax. However, transportation of passengers undertaken by private enterprises in vehicles having 'Contract Carriage Permits' is, subjected to service tax. In order to bring parity in tax treatment, I propose to exempt such transportation also from the levy of service tax.

5. In July, 2008 goods transport agents (GTA) went on strike with several demands. One of the demands that were accepted by the government was to exempt certain services, such as packing, cargo handling and warehousing, provided to GTAs en route, from service tax. It was also demanded that the proceedings already initiated against such service providers should be dropped. The Government has accepted this genuine demand. Therefore, I propose to make certain legislative changes required to fulfil this promise.

Copies of notifications giving effect to the changes in customs, central excise and service tax will be laid on the Table of the House in due course. My tax proposals on direct taxes are revenue neutral. On indirect taxes, they are estimated to yield a net gain of Rs.2000 crore for a full year.

CONCLUSION

As we begin this five year journey, the road ahead will not be easy. We will have to manage uncertainties and there will be as many problems as there would be solutions. Mahatma Gandhi said and I quote, "Democracy is the art and science of mobilizing the entire physical, economic and spiritual resources of various sections of the people in the service of the common good of all." This is precisely what we will have to do. With strong hearts, enlightened minds and willing hands, we will have to overcome all odds and remove all obstacles to create a brave new India of our dreams. Madam Speaker, with these words I commend the budget to the House.

The Finance Minister has introduced the Finance (No.2) Bill, 2009 in the Lok Sabha on 6th of July, 2009. Clause 112 of the Bill covers all the changes relating to Chapter V of Finance Act, 1994.

The following **new services** are proposed to be included in the list of taxable services. The service would get covered under the list of taxable services from a date to be notified after the enactment of the Bill.

1. Transport of goods through Rail;
2. Transport of Coastal Goods; and Goods transported through inland water;
3. Legal Consultancy Service;
4. Cosmetic and Plastic Surgery service;

Legal Consultancy Service: As in the case of management consultancy or engineering consultancy service, any consultancy, advice or technical assistance provided in any discipline of law is proposed to be subjected to service tax. However, the tax would be limited to services provided by a business entity to another business entity. It has been defined that a business entity includes firms, associates, enterprises, companies etc, but does not include an individual. Thus, services provided by an individual advocate either to an individual or even to a business entity would be outside the scope of the taxable service. Similarly, the service provided by a corporate legal firm to an individual would also be outside the purview of taxable service. Any service of appearance before any court of law or any statutory authority would also be kept outside this levy.

The following **alteration/modifications** have been done in the existing taxable services. These changes would come into effect from a date to be notified after the enactment of the Bill.

1. Modification in the Business Auxiliary Service (BAS) [section 65(19)];
2. Stock broker Service [section 65(105)(a)];
3. Information Technology Software Service [section 65(105)(zzzze)]

Business Auxiliary Service (BAS) - It may be recalled that production or processing of goods for or on behalf of a client falls within the purview of this service. However, if any such activity amounts to manufacture within the meaning of section 2(f) of the Central Excise Act, the same is excluded from the purview of this service. This exclusion has been modified to state that it would apply only if the activity results in manufacture of 'excisable goods'. The impact of this change would be that even if a process of manufacture is undertaken for the client, but the resultant product does not fall under the category of excisable goods, such as alcoholic beverages, the service tax would be attracted. Certain other goods which would also fall under BAS on account of the proposed change would be kept outside the tax net by way of exemption notification, to be issued at the appropriate time.

Stock-broker Service – The present definition of a stock-broker [section 65(101)] includes sub-broker as well. A number of cases have been booked in the recent past where the sub-brokers have been asked to pay tax on the remuneration they receive from the stockbroker. Previously, the sub-brokers could issue contract note and receive amounts from the investors. With effect from 01.06.2005, SEBI regulations have prohibited sub-brokers from these activities. The role of sub-brokers has thus reduced substantially. Considering that the entire broking charge are anyway taxable at the hands of stock-broker and a large number of small sub-brokers have to comply with the service tax laws, the sun-brokers have been excluded from the purview of service tax by making suitable amendment in the definition of stock-broker.

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