

Unmasking the  
Implications  
Budget 2011





# Foreword

The Union Budget 2011-12 was presented amidst a generally optimistic growth outlook with notable improvements in private savings and investment rates as well as a resumption of private consumption demand. The Government has delivered on the task of elevating the GDP growth rate from 8% (FY 2010) to 8.6% (FY 2011), while bringing down the fiscal deficit to 4.8% of GDP. A better than expected monsoons resulted in the agricultural sector growing at 5.4% from an annual growth of merely 0.4% last fiscal. Domestic capital markets performed well in 2010 with primary markets financing record levels, including the largest-ever initial public offering (for Coal India).

While highlighting the strong and robust performance of the economy, the Finance Minister struck a tone of caution with respect to a number of challenges that the economy currently faces. Foremost among all was the trend of inflation that originated with supply bottlenecks but has become more generalized in recent times. Although the FM indicated that inflation will moderate in the months ahead, it continues to remain a key concern. The central fiscal deficit (at 4.8% of GDP as per the Economic Survey) was lower than the targeted level of 5.5% and the Government's announcement to reach the targeted level of 4.6% in the next fiscal without recourse to market borrowings is laudable. The size of the current account deficit is also a cause for concern, particularly since capital flows have been volatile and the financing of the deficit through services exports seem unpredictable at best.

Overall, the policy prescriptions outlined in the budget sends a signal that the general direction in which the economy is headed is on course to deliver high growth and therefore does not warrant any significant course correction. Continuing on its focus on infrastructure development, the Government has provided the much needed thrust to this sector by creating infrastructure debt funds and by proposing

to issue tax-free bonds of 300 billion rupees. The focus on the corporate bond market is also relevant. The budget has raised foreign institutional investor limit in 5-year corporate bonds for investment in infrastructure by \$20 billion. All of these changes will reinforce the growth momentum and help the economy continue along its proclaimed high growth trajectory in the medium term.

Reaffirmation by the Finance Minister of introducing the new Direct Tax Code from 1 April 2012 is reassuring. In the light of this, it is understandable that no significant changes have been proposed on the direct taxes in this year's budget. The FM has also recognized the need for transparency and governance to bring in accountability in tax administration although the form and manner in which it may be implemented is not yet clear. Finally, the budget could have addressed the issue of pending tax litigation and used this opportunity to put a mechanism in place to fast track an end to disputed tax demands exceeding ₹ 245,000 crores. Moreover, the imposition of MAT on developers of SEZ and units operating in them will likely have an adverse impact on the economics of the business.

Indirect tax proposals seemed to carry a clear GST theme. Central excise, customs and service tax rates have been retained at 10% by phasing-out certain exemptions to facilitate the introduction of a GST. On the service tax front, only two new services have been proposed to be made taxable. Rationalization, initiated a few years ago, has been continued and certain distortions and inversions have been addressed, though, the timing of certain proposals, with the GST background is quite surprising. However, although the implementation of GST was reiterated as being "on track", no formal commitment on the timing of its implementation was made explicit.

28 February 2011



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# State of the economy: how prepared are we for the future?



## Snapshot of the Economy

The global economy outperformed consensus growth estimates in the second half of 2010 and India has been no exception to that trend. The economy is expected to achieve a real GDP growth rate of 8.6 per cent for the current fiscal – a clear indication that India has displayed a phenomenal recovery from the financial crisis and attained growth indicators akin to pre-crisis levels. The robust growth momentum is propelled by the resumption of consumer demand, a pick up in the private savings and investment and continued growth

momentum for the manufacturing and services sector. The growth rates of over 8 per cent in the sectors of manufacturing; construction; trade, hotels, transport and communication; financing, insurance, real estate and business services contributed significantly to the growth story. In addition, the capital market fundamentals remained strong with a pickup in credit growth, vibrant equity market and stable foreign exchange market. The year gone by has also witnessed strong performances (as well as revival) of various industrial sectors, with increased mergers and acquisitions (M&A)

activity in key sectors providing clear evidence of the evolving strength of many core sectors of the economy.

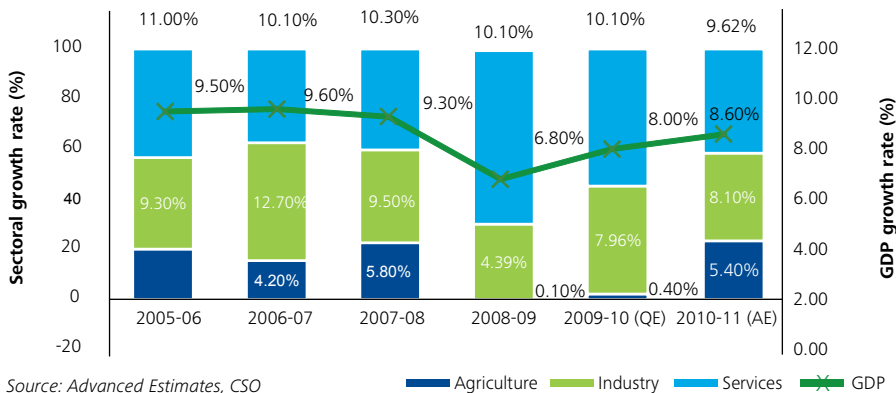
Despite the high growth rate in the current fiscal year, the future of India's growth story will depend on its ability to cope with the impediments that continue to beleague its growth. The growing inflation, with signs that it is becoming more structural, remains a concern. Unless concrete steps are taken to mitigate the current account deficit (CAD) and the fiscal deficit (FD), the sustainability of growth stands in question. Finally, India's growth story cannot be evaluated in isolation in an increasingly global and interconnected world. Global events such as the price of crude oil, process towards fiscal consolidation adopted by countries such as US, concerns surrounding sovereign debt, geo-political stability and the pace of recovery, are all critical factors that will impact India's future growth prospects.

This year, besides presenting the performance of the key sectors of the economy during the fiscal 2010-11, we also comment on the future prospects of the Indian economy.

### Robust GDP Growth Rate

Over the last 12 months the Indian economy has experienced a robust broad-based growth which has reinstated the recuperating economy back on its earlier high growth trajectory. After maintaining an average growth rate of 9 per cent for three consecutive years starting 2005-06, the growth rate slowed down owing to the global financial crisis. However, with a real GDP growth rate of 8 per cent for 2009-10 and an estimated growth rate of 8.6 per cent for the current fiscal, it is fair to conclude that India has managed to overcome the downsides of the slowdown and is poised for high growth in the future as shown in Figure 1.

**Figure 1: Growth Rate of GDP - Sector-wise Constant (2004-05) Prices**



Source: Advanced Estimates, CSO

The healthy economic growth is driven by rise in the domestic savings and investment rates, increased expenditure in private consumption and gross fixed capital formation. The pace of private final consumption expenditure was accentuated partly by the increase in agricultural growth. Also, gross fixed capital formation showed higher growth fueled by the strong growth in capital expenditure by the Government and robust corporate sector performance. India's export growth has remained strong but trade deficit for the year so far has widened which has contributed to the worsening of the current account deficit to an alarming 3.7 per cent of GDP.

The robust growth in the agricultural sector (estimated at 5.4 per cent) has been a major contributor to the current year's growth rate. The normal South-West monsoon and satisfactory progress of North-East monsoon have revived the prospects of the agricultural sector in 2010-11.

The industrial sector is estimated to grow at 8.1 per cent for 2010-11 even though it achieved a higher growth rate of 11.3 per cent in the first quarter of 2010-11, primarily driven by the mining and manufacturing sectors. However, in the second quarter of 2010-11, industrial sector growth rate declined to 9.1 per cent due to sharp drop in manufacturing sector growth from 12.6 per cent in the first quarter to 9.9 per cent in the second.

The index of industrial production (IIP) data for Q2 and Q3 of the current financial

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## The healthy economic growth is driven by rise in the domestic savings and investment rates, increased expenditure in private consumption and gross fixed capital formation.

year indicate that moderation has set in across all the broad sectors reflected in the IIP. The slump in the IIP is on account of poor performances of the basic goods and consumer non-durables segments, which constitute about 59 per cent of the IIP; a sizeable chunk of the industrial sector has not contributed significantly towards overall IIP growth. The growth has mainly been driven by the capital goods and the consumer durables segments.

The manufacturing sector is a key driver in the IIP carrying a weight of 79.36 per cent. The growth in manufacturing has been largely driven by a few sectors such as the automotive sector, along with a revival in jute and cotton textiles, leather, food products, and metal products. Sectors like basic chemicals and chemical products, wool, silk and man-made textiles and wood products performed poorly.

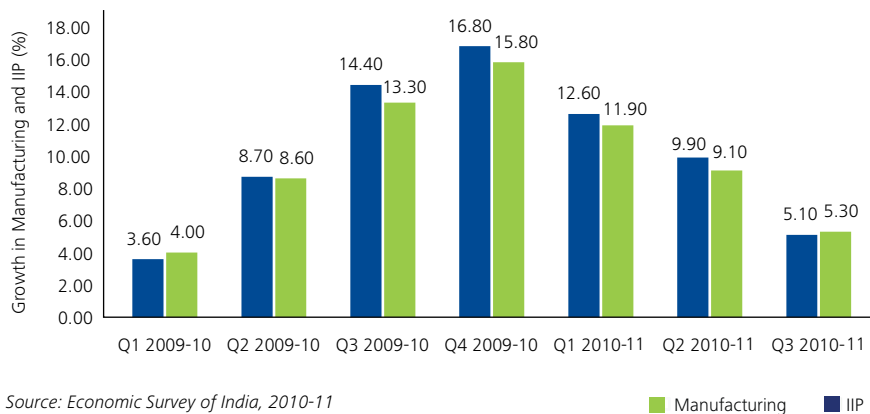
Manufacturing output growth has dipped from a peak of 18 per cent in April 2010 to 1.0 per cent in December 2010, as a result of which IIP growth has also come down from 16.6 per cent in April 2010 to 1.6 per cent in December 2010. However, this slowdown is partly attributed to the high base effect. The trend in the growth of manufacturing vis-à-vis the overall IIP is depicted in Figure 2.

The service sector (including construction) grew by 9.4 per cent in 2010-11 which reflects a decline from the growth rate of 10.1 per cent for 2009-10. The service sector led by trade, hotel, restaurant, transport, storage and communication (which is estimated to grow by 11.5 per cent) and financing, insurance, real estate and business services (estimated to grow by 10 per cent) exhibited significant progress in the current fiscal year. The construction sector contributed about

8 per cent to GDP in the current fiscal and as per advanced estimates grew at 8 per cent in 2010-11 over 7 per cent in the last fiscal. Growth in the construction sector has helped to offset the slowdown of growth in other subsectors like mining & quarrying and electricity, gas & water supply. FDI inflow, which had fallen by 29.1 per cent (in \$ terms) in the service sector for 2009-10, has failed to show much improvement in the first 9 months of 2010-11. During April 2000 to November 2010 financial and non-financial services contributed to about 21 per cent of total FDI equity inflows. The service sector contributed to about 35 per cent of the total exports with growth rates picking up in the first half of 2010-11 to surpass the pre-crisis average at 27.4 per cent.

However, predictions of high growth rates in the future (at 9 per cent ) is based on an

**Figure 2: Growth in Manufacturing and IIP**



Source: Economic Survey of India, 2010-11

■ Manufacturing ■ IIP

assumption that investment will remain at current levels (of 36.5 per cent of GDP) with the productivity of capital (ICOR) at 4.1. These assumptions can fall through unless enough is done to improve the productivity in all the three sub-sectors of the economy – namely agriculture, industry (with particular focus on manufacturing) and services. We need to usher in a second Green Revolution in agriculture, invest enough in R&D for manufacturing and embark on an aggressive skill development program to retain the productivity of the services sector.

### Fiscal Deficit

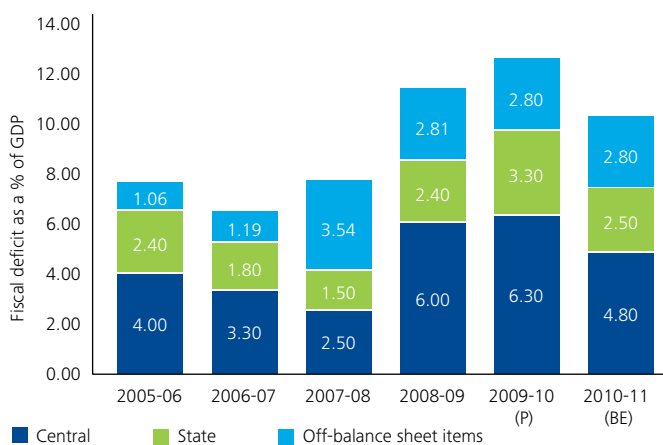
Budget 2010-11 had begun the process of fiscal consolidation and gradual withdrawal of stimulus measures in the face of an economic recovery. According to advanced estimates, budgeted fiscal and revenue deficits as a

proportion of the GDP for 2010-11 stands at 4.8 per cent and 3.5 per cent respectively, lower than the initial respective estimates of 5.5 per cent and 4 per cent. The trend in the consolidated fiscal deficit is depicted in Figure 3.

With the economy back on its pre-crisis growth path, revenue growth has been higher than budgeted revenue growth owing to good tax and non-tax collection like receipts from 3G and broadband wireless access (BWA) spectrum auctions. Gross tax revenue as a proportion of GDP stands at 9.5 per cent according to advanced estimates by the CSO. A key change in the recent past with regard to composition of taxes has been the growth in direct tax revenues, particularly corporate income tax, and in service tax revenues. Sectoral data of expenditure reveal that higher than budgeted growth in expenditure has occurred in the sectors of agriculture, rural development, education and health. The major constituents of expenditure this fiscal was the non-planned expenditure which was nearly double that of the planned expenditure. The big ticket items comprising non-planned expenditure include interest payments (25.9 per cent), grants to states and union territories (16.1 per cent), major subsidies (11.4 per cent), defence expenditure (9.1 per cent) and others (37.4 per cent).

The revival of the economy has resulted in high revenues collection for the States as well. The gross State fiscal deficit in 2010-11 reduced to 2.5 per cent of GDP as compared to 3.3 per cent in 2009-10. Increases in the

**Figure 3: Trends in Consolidated Fiscal Deficit**



Source: Economic Survey of India, 2010-11

## The Indian economy continues to experience high inflation on account of high food, fuel, metal and mineral prices... and is proving to be detrimental to the Government's inclusive growth agenda.

prices of motor spirit and high speed diesel have further added to States' revenue from the sales tax on these items. A number of States have increased the value added tax (VAT) rate by one percentage point adding to further income. The high buoyancy of Central taxes has also resulted in buoyant tax devolution.

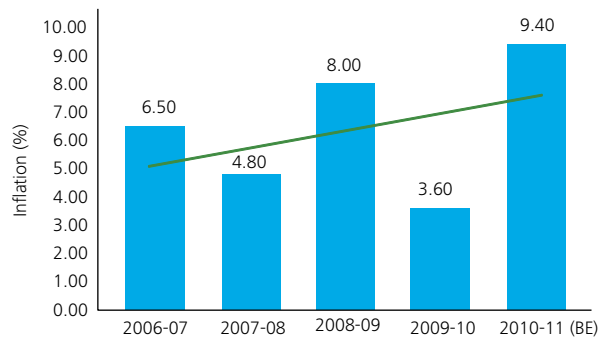
### Inflation

The Indian economy continues to experience high inflation on account of high food, fuel, metal and mineral prices. Food inflation has been hovering around double digit figures for more than a year now and is proving to be detrimental to the Government's inclusive growth agenda.

The year-on-year headline inflation was as low as 0.36 per cent in the first half of 2009-10 primarily on account of a high base effect. As the food prices kept rising, due to unfavourable agricultural supplies, and the base effect kept waning, the headline wholesale price inflation (WPI) reached a high of 10.23 per cent in March 2010. The 2010-11 fiscal began with a double digit headline inflation figures of 11 per cent in April 2010.

Double digit inflation rates persisted till July 2010, thereafter improving moderately during August- November 2010. The growth rate in WPI inflation over the years is presented in Figure 4.

**Figure 4: WPI Inflation**



Source: *Economic Survey of India, 2010-11*

■ WPI Inflation

During the period March-July 2010, the major contributors to inflation were primary food articles whose inflation lingered in the range of 14.7 per cent to 21.5 per cent and fuel which recorded inflation in the range of 10.3 per cent to 14.4 per cent. The inflation in November had come down to

7.5 per cent but increased to 8.4 per cent in December owing to steep rise in primary food articles, especially vegetables, and fuels prices. The overall average inflation from April-December 2010 was at 9.4 per cent - the highest recorded in the last ten years! Inflation currently remains above the Reserve Bank's comfort level and above the long-term average that was experienced during the pre-crisis high growth phase.

Fuel and non-fuel international commodity prices and demand-supply imbalances in some food items have been the major drivers of inflation. Crude oil prices were deregulated by the government this year to help the Oil Marketing Companies recover losses. Global

crude oil prices which were at about USD 75 per barrel in the second quarter of 2010-11 have surpassed USD 90 per barrel. This has exerted upward pressure on prices of freely priced products under the fuel group.

#### **Trade, Balance of Payments and Current Account Deficit**

India's export growth has been better than the global recovery in exports, accompanied by the diversification of the export basket as well as the export destinations. On the other hand, since October 2009, imports



have also registered strong growth. However, during October and November 2010 there was a slowdown in import growth followed by a decline (i.e. negative growth) during December. The growth in exports were spearheaded by engineering products, gems & jewellery, petroleum & oil products, cotton yarn & made-ups, electronic items and plastics & linoleum. Conversely, the growth in imports has primarily been led by petroleum, oil & lubricants, pearls & precious stones, gold & silver, machinery and iron & steel. Rising crude oil prices along with growth in quantity of oil imports has led to a higher oil import bill. However, it is to be noted that while the oil deficit has always been susceptible to price shocks, the distinctive feature of the recent trade deficits is the resilience of the non-oil trade deficit. Also, though the growth of exports has outpaced imports growth during April-December 2010, the trade deficit has widened in absolute terms. In the third quarter of 2010-11, with export growth significantly exceeding the import growth, the trade balance improved relative to the first two quarters.

The export basket has seen major compositional changes in the decade of 2000-01 to 2008-09, with a 10 per cent point fall in shares of manufactures, a 12.6 per cent gain in shares of petroleum crude and products, and a 3.3 percentage point fall in shares of primary products. As regards the import composition, the shares of food & allied products and fuel more or less remained the same over the current decade, whereas there is significant rise in the share of capital goods imports to total imports from 10.5 per cent in 2000-01 to 15 per cent in 2009-10. Also, there is no significant change in the top 15 trading partners for last two years. However, UAE replaced USA as the largest trading partner in the 2008-09 and continues to remain at the helm in 2009-10 and the first half of 2010-11.

The developments in India's service sector trade also contributed significantly to the large current account deficit. A noteworthy trend in this regard is a decline in the share of software exports in total service exports with an increasing share of business services in non-software services exports. Furthermore,

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**India's export growth has been better than the global recovery in exports, accompanied by the diversification of the export basket as well as the export destinations. Imports have also registered strong growth.**

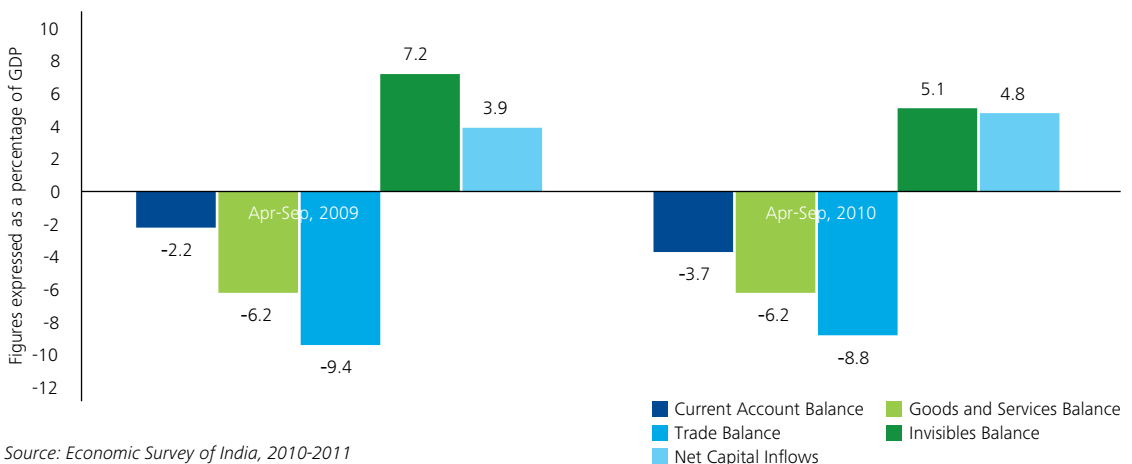
## The steady appreciation of the rupee also had an adverse impact on India's balance of payments, as also on the tradeable industrial and services sector. Net inward FDI into India moderated significantly.

the business services are also the most important category of services imports, followed by transportation and travel. Services trade surplus, which increased steadily in this decade to reach USD 53.9 billion in 2008-09, fell drastically in the global crisis year of 2009-10 to USD 35.7 billion. The low service trade surplus situation continued in the first half of 2010-11, thereby contributing to the

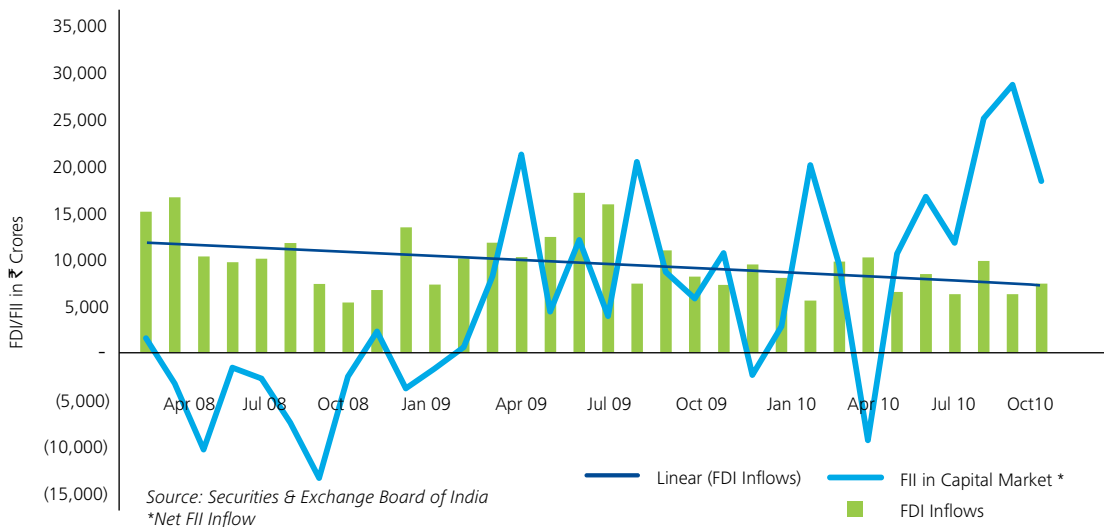
widening current account deficit. The current account deficit stands at 3.7 per cent of GDP for the period April-September, 2010 as against 2.2 per cent for the same period in the previous year as shown in Figure 5. The steady appreciation of the rupee in the last 18-20 months also had an adverse impact on India's balance of payments, as also on the tradeable industrial and services sector.

With regard to capital flows, its composition changed considerably in the first three quarters of 2010-11 with large increase in portfolio flows and lower FDI inflows. Net inward FDI into India moderated significantly to USD 5.3 billion April-September 2010 (as against USD 12.3 billion in April-September 2009). Lower FDI inflows were recorded under construction, real estate, business and

**Figure 5: Trade Balance**



Source: *Economic Survey of India, 2010-2011*

**Figure 6: FDI vs FII**

financial services as shown in Figure 6. Equity flows accounted for about 79 per cent of net capital flows during the first half of 2010-11, of which the share of FII investment was 77 per cent. Net inflows under ECBs and short-term trade credits reflected improved access to global financial markets and the need for financing higher demand for imports. However, FII inflows have displayed great volatility, which has led to volatility in the equity market, as well as in the exchange rate.

India's external debt stands at a staggering USD 295.8 billion as on September 2010, whereas the foreign exchange reserves stand at USD 292.9 billion as on the same date. The increase in India's external debt was mainly on account of higher commercial borrowings and

short-term debt. Taken together, these two components contributed over 70 per cent of the total increase in India's external debt. At the end of September 2010, the short-term debt at USD 66.0 billion accounted for 22.3 per cent of the total external debt, while the remaining 77.7 per cent was long-term debt. The share of Government debt in India's total external debt has decreased to 24.4 per cent as of September 2010 vis-à-vis 25.6 per cent at the end March 2010.

### Financial Markets

The global capital markets in 2010-11 have been characterized by volatility as a result of renewed concerns regarding sovereign debt crisis in the Euro zone. Moreover, the enhanced liquidity surge towards emerging

market economies (EMEs) as a result of the second phase of the Quantitative Easing (QE2) in the US exerted upward pressure on the currencies as well as asset prices of these countries. While this has prompted some of the EMEs to resort to capital control on short-term portfolio flows, India, given its need to finance the high current account deficit, has shied away from such moves.

The lure of higher returns in India with expectations of encouraging corporate profits has attracted foreign institutional investors (FIIs) which turned out to be net buyers during the period April-December 2010. This has led to an appreciation of the rupee vis-à-vis the US dollar and the stock market (both the BSE's Sensex and NSE's Nifty) reaching record levels. However, amid concerns on inflation, governance and a perception that the stock valuations have already reached their peak, there has been an exodus of FIIs as they have become net sellers in January 2011. In terms of the Indian benchmark indices, the BSE Sensex and Nifty increased by 17.0 per cent and 17.9 per cent, respectively over the closing value of 2009-10. Nifty Junior and BSE 500 also increased by 17.8 per cent and 15.1 per cent, respectively over their values in the previous financial year.

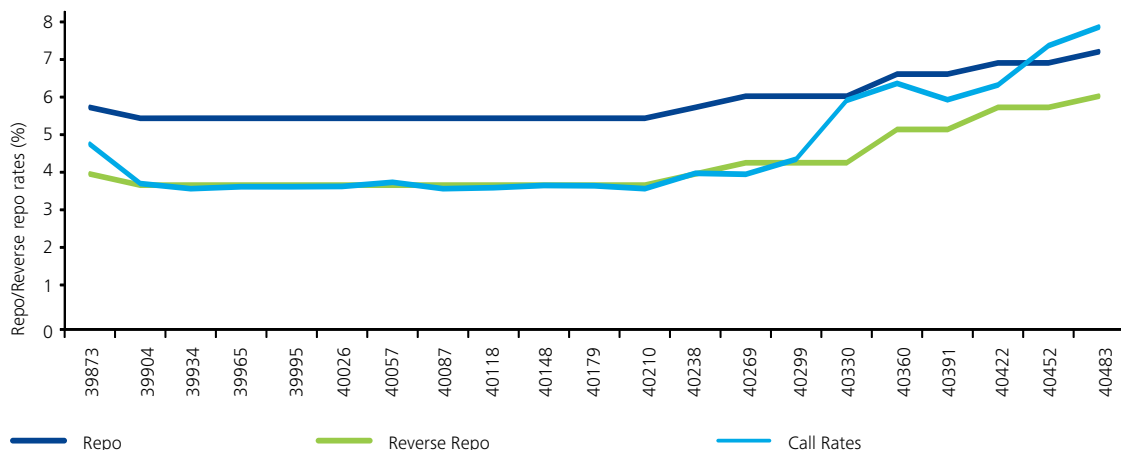
Indian capital markets have remained buoyant during April-December 2010, with more resources being mobilised through public issues during this period compared to the corresponding period in the previous year. During 2010-11, so far, 40 companies went

for an IPO with an average IPO size of ₹ 827 crore as opposed to 39 issues for the entire 2009-10 fiscal where the mean IPO size was ₹ 633 crore. 2010-11 has also witnessed the largest ever IPO in India, by Coal India (worth ₹ 15,199 crore), which single handedly accounted for 22 per cent of the year's total mobilization. The cumulative amount to be mobilized for 2010-11 through initial public offers (IPOs), follow-on public offers (FPOs) and rights issues is all set to cross the amount raised in the 2009-10 fiscal. As on 30 November, the figure for 2010-11 stood at ₹ 46,701 crore which is just marginally lower as than the ₹ 46,737 crore raised in the entire fiscal of 2009-10. On the other hand, there was a net outflow of resources mobilized by mutual funds during April-December 2010 due to redemption pressures as opposed to a net inflow in April-December 2009.

Bank credit started picking up from the last quarter of 2009-10 and continued its momentum during 2010-11. Borrowings by telecom operators in order to pay the government for 3G and broadband and wireless spectrum auctions have significantly contributed to the credit growth in the first quarter of 2010-11. In a clear indication of renewed demand for funds during 2010-11, bank credit started picking up in a strong way from early June 2010 and since then has shown a continuous increase. The interest differential between India and the advanced economies also prompted Indian corporates to undertake greater external commercial borrowings.



Figure 7: Monetary Tightening



Source: RBI, Monthly Bulletin, February 2011

Figure 8: Institution-wise Issue of Commercial Papers

(₹ Crore)

End of Period	Leasing and Finance		Manufacturing		Financial Institutions		Total Outstanding
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)	
Mar-09	27,183	62	12,738	29	4,250	10	44,171
Jun-09	34,437	50	23,454	34	10,830	16	68,721
Sep-09	31,648	40	31,509	40	16,071	20	79,228
Dec-09	36,027	40	42,443	47	11,835	13	90,305
Mar-10	39,477	52	22,344	30	13,685	18	75,506
Jun-10	42,572	43	43,330	43	13,890	14	99,792
Aug-10	57,161	45	55,933	44	13,455	11	126,549
Sep-10	58,098	52	40,485	36	13,420	12	112,003
Oct-10	80,305	54	54,894	37	14,421	9	149,620
Nov-10	58,871	50	45,457	39	13,465	11	117,793
Dec-10	53,329	52	35,767	35	13,060	13	102,156 *

\* As on Dec. 15, 2010

Source: RBI Third Quarter Review, 2011

Indian money markets also experienced tighter liquidity conditions especially during the October-December 2010 quarter. This is mainly on account of 'large government cash balances, above-trend currency expansion and mismatch between growth in bank credit and deposits'. Signifying these tight liquidity conditions, the call rates remained above the upper bound of the Liquidity Adjustment Facility (LAF) corridor during the period as seen in Figure 7. Companies undertook measures to tap alternative sources of funding by issuing more commercial papers (CP) and commercial deposits to tide over the liquidity stress. Leasing and finance, and manufacturing companies were the major issuers of CP as shown in Figure 8.

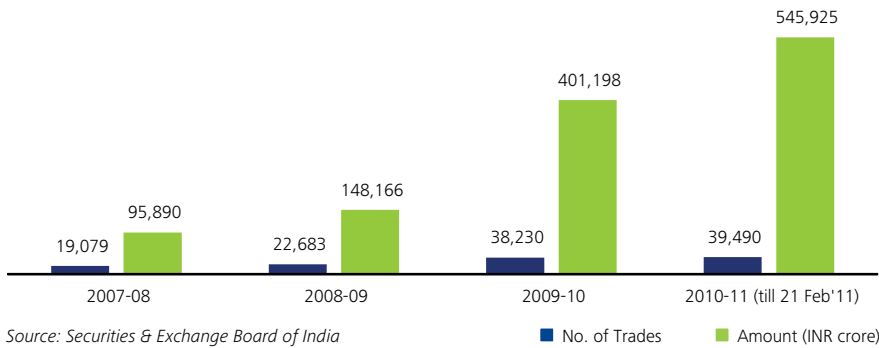
The yields on Government Securities (G-Secs) also hardened as the market participants expected a tighter monetary policy from the RBI to combat inflation. There was an upward movement in the primary as well as the secondary yields for short-term and the medium-term G-Secs in the October-December 2010 quarter. Spreads on five-year

corporate bonds over the corresponding government bond yield hovered in a narrow range of 73-85 basis points during October-November 2010, but increased during the second half of December 2010 partly reflecting the deficit liquidity conditions.

India is still in a transitory stage of development of debt markets, with development of technical and regulatory infrastructure required for debt markets seen in just the last two decades. Both, money (short-term) and bond (long-term) markets are dominated by Government debt, which is classified under T-bills and gilt, with no significant presence of corporate debt segment. In 2007, the share of Government in public debt market was 91 per cent against 27 per cent for the US and 47 per cent for the world. Government dominance, lack of a wide investor base (incl. investment restrictions on pension funds and insurance cos.), the opaqueness and information asymmetry are some of the reasons for the tepidity in the growth of the corporate bond market. The depth and appetite of this

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**Figure 9: Performance of Corporate Debt Market**

segment have started to expand lately, as evident from the annual figures as seen in Figure 9. Despite recent regulatory changes to develop corporate bond markets, such as introduction of credit default swaps, tax incentives for investment in infra bonds etc., a more sustained effort and long-term commitment is needed to realize the true potential. The Government's ambitious \$1 trillion infrastructure program will not succeed without a more robust corporate bond market, which currently is only about 14 per cent of the total bond market.

As per RBI's third quarter review estimates, nearly 89 per cent of the Central Government's gross market borrowing for 2010-11 was completed during the year (up to January 19, 2011). However, only about 50 per cent of the gross allocations for 2010-11 for the States were raised by 22 States up to January 19, 2011 as compared to 90 per cent of the gross borrowings raised during the comparable period of 2009-10.

The current financial year in general and the October-December 2010 quarter in particular has been associated with tight liquidity conditions. If the economy is to get back to the trajectory of a 9 per cent growth, the liquidity concerns in the financial sector need to be expeditiously addressed. In the medium-to-long term, it needs to be seen how the Government will go forward with the financial sector reform agenda. Also, there are challenges in terms of efficient allocation of new banking licenses by the RBI and its impact on financial inclusion as well the need to maintain macro prudential norms in the financial sector under the aegis of the newly formed Financial Stability and Development Council (FSDC).

### Mergers & Acquisitions

Reflecting an improved market environment as well as a trend towards consolidation and aggressive global positioning of Indian firms, there has been a sharp rise in Mergers & Acquisitions (MGA) activity in India since

January 2010. The flurry of activity on this front is evident from both the number as well as the total value of M&A deals as compared to last year. Between January and November 2010, there has been M&A activity worth US\$ 54 billion in 1,048 deals. This is a marked improvement over the US\$ 20 billion of M&A activity that occurred between January and December 2009 over as many as 1,239 deals as seen in Figure 10. Bharti's acquisition of Zain Africa (outbound, worth about US\$ 10 billion) and Vedanta's acquisition of Cairn India's stake (inbound, US\$ 8.7 billion), have significantly contributed to the higher M&A activity in the current year.

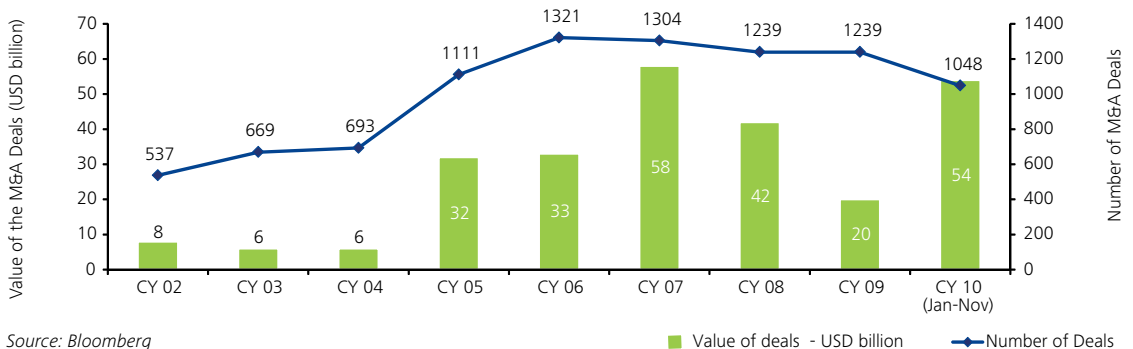
Among the sectors, the oil and gas sector attracted 28 per cent of the total deal value in India between January and November 2010, with the telecommunication sector coming a close second (27 per cent). Pharmaceuticals accounted for about 8 per cent of the total deal value.

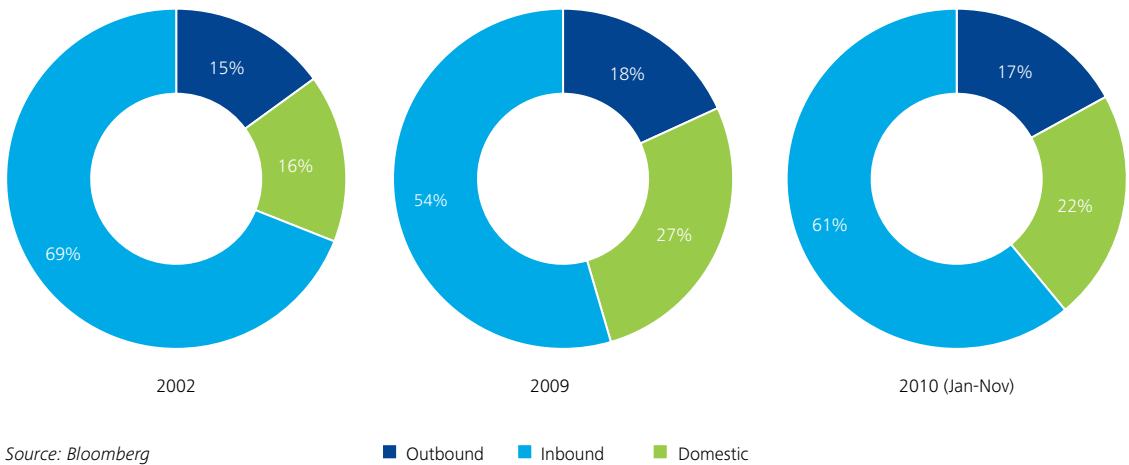
Reflecting an improved market environment as well as a trend towards consolidation and aggressive global positioning of Indian firms, there has been a sharp rise the Mergers & Acquisitions (M&A) activity in India.

Among the destinations for outbound M&A during January-November 2010, US accounted for a lion's share of 22 per cent, followed by UK at 13 per cent. At 28 per cent, US also accounts for the largest share in inbound M&A during the same period, followed by Mauritius (9 per cent) and UK (7 per cent).

Another perceptible trend in M&A activity over the recent years is a shift from predominantly

**Figure 10: Number of M&A Deals and their Value**



**Figure 11: Trends in M&A Activity**

domestic activity towards inbound, and to a lesser extent, outbound activity. In 2002, domestic M&A activity accounted for 69 per cent of the total number of deals. By 2009 it came down to 54 per cent and was at 61 per cent for the period from January-November 2010 (Figure 11). As the global markets recover completely from the economic crisis, we can expect more inbound as well as outbound M&A in 2011-12 contributing to a further drop in the share of domestic deals.

### Impact of Budget Announcements on Economy

Under the backdrop of the economic climate as discussed in the sections above, the budget for 2011-12 tabled by the Finance Minister sends a strong signal that the general policy

framework yielding robust growth does not require drastic revisions and therefore most of the changes that have been proposed can be seen as minor tinkering around the margins. The UPA Government has significantly scaled up the flow of resources to rural areas to give a more inclusive thrust to the development process. This is in line with the broader objective to maintain higher productivity in the agricultural sector. Increased outlays on education – both at the secondary level as well as skill based education – is a step in the right direction that will enable India to take advantage of the demographic dividend that will manifest itself over the next two decades.

A noteworthy feature is the Government's intention to finance the fiscal deficit through the issue of treasury bills rather than market

borrowings which would have crowded out private investments. Continuing on its focus on infrastructure development, the Government has provided the much needed thrust to this sector by creating infrastructure debt funds and by proposing to issue tax-free bonds of 300 billion rupees. The focus on the corporate bond market is also relevant. The budget has raised the foreign institutional investor limit in 5-year corporate bonds for investment in infrastructure by \$20 billion. All of these changes will reinforce the growth momentum and help the economy continue along its proclaimed high growth trajectory in the medium-term.

### Challenges Ahead: Time for Cautious Optimism

India's economic growth is widely expected to return to the trajectory of 9 per cent GDP growth in the next fiscal year. The growth momentum however, would depend on how the economy responds to the challenges that lies ahead. Some of the notable challenges are highlighted below.

#### Fiscal Deficit Sustainability

A glaring trend observed this fiscal is the emergence of inflationary conditions which may become structural in nature. The rise in demand, coupled with strong supply bottlenecks, is a catalyst for inflation, which is one of the growing concerns today. With rising inflation, the focus is inevitably shifted to the fiscal deficit. Although, we have contrived to meet the targeted fiscal deficit this year, the coming year(s) foresees a significant rise in expenditure.

The sustainability of the fiscal deficit in the future depends on prudent and calculated spending on social sector health and education schemes, while also minimizing the food and fertilizer bill, containing the expenditure on big ticket items such as interest payments and major subsidies which form 25.9 per cent and 11.4 per cent of the total revenue expenditure respectively. The possibility of broadening the tax base by introducing the GST also exists.

Although, the central fiscal deficit targets have been set at 4.8 per cent and 4.1 per cent of GDP for the years 2011-12 and 2012-13 respectively, the roadmap for how these targets are going to be achieved are nebulous. Although a significant portion of the expenditure in the coming fiscal can be financed through increased tax revenue and further disinvestment, there still exists a gap that will need to be financed by borrowing. The fiscal deficit of 4.6 per cent of GDP in 2011-12 works out to ₹ 395,000 crore. The extent of borrowings required to finance this deficit is conservatively estimated to be at ₹ 3.89 lakh crore for the year 2011-12. In addition, as per the budget announcements for 2011-12, the deficit is proposed to be partly financed by disinvestment (estimated at ₹40,000 crore) and issue of treasury bills (estimated at ₹15,000 crore). The Government has expressed its will to increase revenue from taxation and also regulate subsidies. This process has been put into action by increasing the price of kerosene by ₹ 3.

Unless the issues of inflation and rising deficit are addressed in conjunction, the need for the Government to borrow from the market to finance the deficit may crowd out private investment at the cost of slowing down growth.

### Current Account Deficit Sustainability

The external sector in India continues to remain plagued with an alarmingly high current account deficit and highly volatile capital flows. On the trade front, even though export growth remained reasonably strong, robust import demand resulting from high domestic growth led to a large expansion in the size of the trade deficit. The net invisibles surplus also added to woes; it was lower by 8 per cent at USD 39.1 billion during April-September, 2010 compared to USD 42.5 billion during the corresponding period in 2009. This was essentially due to higher payments driven by all major categories of services and decline in gross investment income receipts. It is to be noted that net invisible surplus financed is about 58.3 per cent of trade deficit in April-September 2010 as against 76.1 per cent during the same period previous year. If this situation persists in the coming years, then the extra cushion provided by the services sector for trade balance will not be available. Previously the current account deficits were largely financed by the relatively high capital flows; however, the volatile nature of these flows has brought a concern on the widening current account deficit. The sustainability of the high deficit would therefore depend on export growth,

increase in net invisible surplus and net inflow of capital flows. Considering the fact that there has been a reversal of capital flows in the last couple of months as also deceleration in the foreign direct investment for the last one and half years, sustainability of current account deficit seems to be a major concern. Moreover, slowdown in advance economies in general (and that in European Union in particular) may affect the exports which would then raise questions about the sustainability of this looming deficit.

### Global Events

The momentum of India's growth in the coming year(s), inter alia, will be determined by the performance and the developments that take place globally. Some of the key developments likely to determine the pace of our growth are:

- The economic growth in developed economies, especially the Euro Zone and the US as well as the crude oil market will play a key factor in determining the extent of our trade deficit in 2011-12.
- Weak recovery of the advanced economies could hamper the growth of Indian exports
- Given the uncertain geo-political fallout on energy prices, inflation will continue to remain the bugbear for policymakers in 2011-12.
- The recent outflow (in the past few weeks) of both FII and FDI should possibly lead us to look deeper behind the euphoric coverage on market outlook. There is a possibility of capital moving out of India due to negative perceptions on

the domestic front (various scams, high inflationary levels, etc.) or global events like the European debt crisis or even positive economic developments in the US.

- The vulnerability of the capital markets to vicissitudes in the flow of FII may lower India's attractiveness as an investment option if, when the rest of the world revives, other investment options become more attractive.

To put India's economic growth in perspective or the broader development objectives, it is important to reflect that on key human development indicators, India lags behind many advanced and even emerging economies. In the human development rankings that were published by the United Nations Development Program (UNDP)

for the year 2010, out of a total of 169 countries, India ranks 119 lagging behind other emerging economies such as Russia (65th Rank), Brazil (73rd Rank), and China (89th Rank). Also, in the light of frequent comparisons with the Chinese economy, one needs to be wary of the fact that the Indian economy is about a decade behind the economy of China by GDP figures, while by per capita GDP numbers, it is behind by about fifteen years. With China back on the growth trajectory post crisis, the question of whether we can catch up with the Chinese economy remains as pertinent as before. The Indian economy has a huge potential to surge ahead provided we are able to meet our key challenges with focused policy measures and building an enabling infrastructure for growth and development going hand in hand.

# Budget highlights

## Direct Taxes

### Policy Proposal

- Rollout of Direct Tax Code effective from 1 April 2012 reiterated.

### Corporate Taxation

- No change in base corporate tax rate.
- Reduction in surcharge for domestic companies from 7.5% to 5% and for foreign companies from 2.5% to 2%.
- Minimum Alternate Tax (MAT) rate increased from 18% to 18.5%.
- Levy of MAT on developers of Special Economic Zones (SEZs) and units in SEZ.
- Levy of Dividend Distribution Tax on developers of SEZs.
- Concessional tax rate of 15% provided on dividends received by the Indian companies from their foreign subsidiaries during financial year 2011-12.
- Weighted deduction enhanced from 175% to 200% on payment to specified institutions for scientific research.
- Investment linked deduction extended to:
  - housing projects under a scheme for affordable housing
  - production of fertilizer in India
- Tax holiday for power sector extended to 31 March 2012.
- No deduction available for commercial production of mineral oil for specified blocks licensed under a contract awarded after 31 March 2011.

### Transfer Pricing

- 5% Variation currently allowed between the actual price of the transaction and the arm's

length price may be revised and notified by the Central Government.

- Effective 01 June 2011, the Transfer Pricing Officer can determine the arm's length price of any international transaction that comes to his notice, in addition to those referred by the Assessing Officer.
- Effective 01 June 2011, the Transfer Pricing Officer can conduct on-the-spot enquiry and verification in exercise of powers of survey under section 133A of the Act.
- Time limit for filing of tax return and transfer pricing accountants report extended to 30 November 2011, for corporate assessees having international transactions.
- Effective from 01 June 2011, transfer pricing provisions will apply to transactions with parties located in notified jurisdictional areas. The benefit of variation between actual and arm's length price will not apply to such transactions.

### Personal Taxation

- Basic exemption limit for individuals/Hindu Undivided Family and senior citizens increased to ₹ 1,80,000 and ₹ 2,50,000 respectively.
- Qualifying age of senior citizens lowered from 65 years to 60 years.
- New basic exemption limit of ₹ 5,00,000 introduced for individuals who are very senior citizens of 80 years and above.
- Contribution by the employer towards a notified pension scheme will be excluded from the overall limit of ₹ 1,00,000 provided for deduction for individuals.
- Additional deduction of ₹ 20,000 to an individual or Hindu Undivided Family on subscription to notified long-term infrastructure



- bonds extended by one more year.
  - Provisions introduced for empowering the Central Government to exempt, by notification, certain class or classes of persons from filing the return of income.
  - Time limit granted to establishments for filing applications with the Employees Provident Fund Organization for seeking exemption extended from 31 December 2010 to 31 March 2012. The said amendment will take effect retrospectively from 1 January 2011.
- Other Amendments**
- Central Government to be empowered to notify certain infrastructure debt fund to be exempt from tax.
  - With effect from 1 June 2011, withholding tax rate of 5% proposed for notified infrastructure debt funds on any interest paid by it to a non-resident.
  - With effect from 1 June 2011, provision for a set of counter measures in relation to jurisdictions with which there is a lack of effective exchange of information to be introduced.
  - Alternate Minimum Tax on Limited Liability Partnership (LLP) at the rate of 18.5% and consequential tax credit provisions proposed to be introduced.
  - Contribution by the employer towards a notified pension scheme on account of an employee will be allowed as a deduction to the extent it is not exceeding 10% of the salary.
  - With effect from 1 June 2011, reporting of activities of liaison offices by non-residents within sixty days from the end of financial year, in the prescribed form proposed to be mandated.

## Indirect Taxes

### Customs Duty

- Peak rate of customs duty for non-agricultural products retained @ 10%
- Basic customs duty rates of 2%, 2.5% and 3% are unified at the median rate of 2.5%
- Countervailing duty on packaged or canned software which do not require affixation of Retail Sale price, exempted to the extent of value representing consideration for transfer of right to use these software
- Cement and steel used for construction of power projects not entitled to customs and excise benefits
- Requirement of 'manufacture' in SEZ has been replaced with 'clearance' from SEZ for claiming exemption from levy of Special Additional Duties of customs
- Self-assessment system for import and export goods to replace the existing system of assessment of every bill of entry or shipping bill
- Rate of interest on delayed payments of duty has been enhanced from 15% to 18%. Similar provision incorporated in excise and service tax.
- Time limit for claiming refund of duty and interest enhanced from 6 months to 1 year
- Export under EPCG Scheme to simultaneously avail of benefits under export reward schemes such as Serve from India Scheme, Focus Product Scheme, Focus Market Scheme

### Excise Duty

- General CENVAT rate retained at 10%
- Concessional rate of Excise duty enhanced from 4 per cent to 5 per cent
- Nominal Excise Duty of 1% imposed on 130 items exempted or chargeable to Nil rate of



duty earlier. No CENVAT credit of the duty paid on input and input services will be available to manufacturer. Buyer of such goods will also not get CENVAT credit of the duty so paid.

- Mandatory levy of 10% excise duty imposed on branded garments and made up articles of textiles
- Excise duty exemption available to Mega/Ultra-Mega Power Project extended to development of specified facilities of such projects.
- Excise duty exempted on certain equipment for installation of cold chain infrastructure for specified purposes
- Scope of definition of input expanded to cover all goods used in the factory by the manufacturer of final product except those specified in negative list which includes goods used for construction of civil structure and those having no relationship with manufacture of final product



- Scope of input services curtailed to exclude among other, certain services that are used for construction of civil structure and that are used primarily for personal use or consumption of any employee

#### Service Tax

- Service Tax rate continues to be 10%.
- Two new taxable services introduced with specific abatement
- Scope of certain existing services expanded/ modified. These include legal consultancy services, health services, life insurance services and business support services
- Point of Taxation Rules, 2011 introduced. To be effective from 1 April 2011.
- Certain services have been re-grouped in the export/ import of services rules
- In case of service provider opting for Composition scheme of works contract, CENVAT credit shall be restricted to 40% of service tax paid on specified input services
- Works contract services exempted when provided within a port, other port or airport in specified areas

- Penalty for failure to pay tax halved in certain instances
- Power to waive penalty restricted to cases where the information is captured properly in specified records
- Prosecution provisions reintroduced for specific defaults such as provision of services without invoice, availment of credit without actual receipt of inputs or input services and non-payment of amount as service tax within six months of collection
- Provisions relating to exemption from service tax for services provided to SEZ amended

#### Central Sales Tax

- The maximum rate of tax chargeable on intra-state sale of declared goods increased from 4% to 5%

#### Goods and Services Tax

- GST Bill for constitution amendment to be introduced in the current session of Parliament
- The key business processes for GST rollout are in advanced stages of finalisation and pilot GST portal to be set up by June, 2011

# Budget proposals

## Direct Taxes

### Corporate taxation

#### Rate of Tax

**Table 1: Proposed Tax Rates for Domestic Companies**

Total Income	Rate of Income Tax (%)	Rate of MAT (%)	Rate of DDT (%)
Up to ₹ 10 mn	30.90	19.06	16.22
Exceeding ₹ 10 mn	32.45	20.01	16.22

#### Taxation of dividends from foreign subsidiary

Currently foreign dividends received by an Indian company are taxable at 30% (plus surcharge and cess).

It is proposed that where the total income of an Indian company includes any dividend declared, distributed or paid by a foreign subsidiary company, such dividend will be taxable at 15% (plus applicable surcharge and cess) on gross basis. No deduction in respect of any expenditure or allowance will be allowed in computing the said dividend income.

The proposed amendment will be applicable for the financial year 2011-12.

#### Changes in MAT

Currently every company is liable to MAT at 18% of its book profit. An exemption is however provided in respect of income from

any business carried on or services rendered by an entrepreneur having a unit in or a Developer of an SEZ.

It is proposed to remove the present MAT exemption available to SEZ Developers and SEZ units. It is also proposed to increase MAT from 18% to 18.5% of the book profit.

The proposed amendments will take effect from the financial year 2011-12.

#### Research & Development

Currently weighted deduction of 175% is available for contribution to specified persons including National Laboratory, Library or an Indian Institute of Technology for approved scientific research. The weighted deduction is proposed to be increased to 200%.

#### Investment linked incentives

Benefit of investment linked incentives is proposed to be extended to the following specified business:

- Developing and building of approved affordable housing project
- Production of fertilizer in India.

#### Tax holiday for power sector

Currently deduction is available to an undertaking set up for generation or generation and distribution of power, transmission or distribution of power by laying new network or by undertaking substantial renovation and modernisation of the existing network of transmission or distribution lines, if it commences operations by 31 March 2011.

It is proposed to extend the benefits of deduction to undertakings which begins operations by 31 March 2012.

#### **Tax holiday for commercial production of mineral oil**

Currently 100 percent deduction is available for seven years to an undertaking located in any part of India and which has commenced commercial production of mineral oil on or after 1 April 1997.

It is proposed to withdraw the deduction in case of blocks licensed under a contract awarded after 31 March 2011 under NELP announced on 10 February 1999 or in pursuance of any law for the time being in force or by the Central or State Government in any other manner.

The proposed amendment is effective from financial year 2011-12.

The complete tax holiday chart is presented in the Annexure I.

#### **DDT payable by SEZ Developers**

Currently SEZ Developers are exempt from payment of DDT in respect of dividend declared, distributed or paid out of its current total income from specified activities. Such distributed income is also exempt from tax in the hands of the recipient.

The aforesaid exemption is proposed to be withdrawn in respect of dividends declared, distributed or paid on or after 1 June 2011.



## Non-resident Taxation

### Rate of Tax

Currently foreign companies are subject to tax at the rate of 40%. There will be no change in this tax rate.

Surcharge will be reduced from existing 2.5% to 2% in case the taxable income exceeds ₹ 10 mn with effect from financial year 2011-12.

MAT will be increased from existing 18% to 18.5% with effect from financial year 2011-12.

The effective rate of tax for foreign companies will therefore be as shown in Table 2

**Table 2: Tax Rates for Foreign Companies**

Total Income	Rate of Income Tax (%)	Rate of MAT (%)
Upto ₹ 10 mn	41.20	19.055
Exceeding ₹ 10 mn	42.024	19.4361

For Individuals and Firms, see Sections on Personal Taxation and Other Amendments, respectively.

### Tax on interest from notified infrastructure debt fund

A new provision is proposed to be inserted to provide that any interest received by a non-resident from an infrastructure debt fund set up in accordance with guidelines to be prescribed and notified by the Central

Government will be taxed at the rate of 5% (plus applicable surcharge and education cess) on gross amount of such interest.

Currently there is no specific provision similar to the one mentioned above, and therefore, any interest received by a non-resident from the Government or an Indian concern on foreign currency loan is taxed at 20% (plus applicable surcharge and education cess) on gross amount of interest.

The proposed amendment will take effect from 1 June 2011.

### Reporting of activities of liaison offices

A new provision is proposed to be inserted to provide that a non-resident having a liaison office in India will be required to prepare and deliver a statement to the AO in respect of its activities within 60 days from the end of the financial year in a prescribed form.

The proposed amendment will take effect from 1 June 2011.

### Transfer Pricing

#### *Revision proposed to +/- 5% variation in computing arm's length price*

Currently if the variation between the arm's length and the actual price of the transaction is within a range of 5%, then a transfer pricing adjustment to the price is not made. Instead of 5%, the allowable variation will be such percentage as may be notified by the Central Government.

***Enhancement of TPO's jurisdiction***

The Act currently provides that the TPO can determine the arm's length price of an international transaction, only if such transaction is referred by the AO.

It is proposed that the jurisdiction of the TPO shall extend to the determination of arm's length price of any international transaction that comes to his notice in the course of proceedings. This is in addition to the international transactions referred by the AO. This amendment will be effective from 1 June 2011.

***Power of survey is conferred on the TPO***

The TPO can currently exercise powers of summoning and calling of details for the purposes of inquiry or investigation in determining an arm's length price. It is now proposed to grant additional powers of survey, so as to conduct on-the-spot enquiry and verification. This amendment will be effective from 1 June 2011.



## Personal Taxation

### Rate of Tax

The rates of personal tax will be revised as shown in Table 3.

**Table 3: Tax Rates for Individuals**

Slab of Income (₹)	Rate of Tax (%)
Upto 1,80,000	Nil
1,80,001 - 5,00,000	10
5,00,001 - 8,00,000	20
8,00,001 and above	30

### Notes:

- In respect of women resident in India below the age of 60 years, the basic exemption limit will continue to be ₹ 190,000 .
- In respect of senior citizens in India of the age 60 years or more (but less than 80 years of age), the basic exemption limit has been increased to ₹ 250,000 .
- In respect of very senior citizens in India of the age 80 years or more, the basic exemption limit will be ₹ 500,000 .
- Education Cess will continue to be levied at the rate of 2% of Income Tax. Secondary and Higher Education Cess will continue to be levied at the rate of 1% of Income Tax (not including Education Cess).

### Deduction for specified investments

Currently an additional deduction under section 80CCF of the Income Tax Act, to the extent of ₹ 20,000 is allowed in respect of subscription made during the FY 2010-11 to notified long-term infrastructure bonds. It is now proposed to allow this deduction in respect of subscription made during the FY 2011-12 to notified long-term infrastructure bonds.

### Tax benefits for New Pension System

Currently under section 80CCD, a deduction in respect of contributions made by an employee as well as employer (not exceeding 10% of salary) to NPS is allowed while computing the taxable income of the employee, subject to overall cap of ₹ 100,000 under section 80CCE. It is now proposed to exclude the employer's contribution to NPS from the overall cap of ₹ 100,000 with the result that the employer's contribution to NPS will no longer be eligible for deduction under this section and accordingly employee will have an additional benefit.

It is now proposed that the deduction on account of employer's contribution to NPS will be allowed to the employer under section 36(iva) (subject to certain limits) in the computation of Profits and Gains of Business and Profession.

### Tax on income distributed to unit holders

It is proposed to increase the rate of distribution tax by the mutual fund to unit holders other than individual and HUF.

It is now proposed to extend the said time limit to 31 March 2012. This amendment will take effect retrospectively from 1 January 2011.

**Table 4: Distribution Tax to Unit Holders**

Distribution by:	Distribution to:	Tax on distribution of income (At present) (%)	Tax on distribution of income (Proposed) (%)
Money market mutual fund or liquid fund	Individual or HUF	25%	25%
	Other person	25%	30%
Other fund	Individual or HUF	12.5%	12.5%
	Other person	20%	30%

The proposed amendment will take effect from 1 June 2011.

### According and withdrawal of recognition to Provident Funds

Currently the recognition granted to any provident fund prior to 31 March 2006 will be withdrawn if the fund does not satisfy, on or before 31 December 2010, the conditions laid down in Rule 4(ea) of Part A of the Fourth schedule to the Income Tax Act and any other condition which the Board may specify in this behalf.

### Requirement of furnishing Income Tax Returns for certain tax payers

Presently, a salaried individual with no other source of income is required to file an Income Tax Return even if his entire tax liability has been discharged by his employer by way of tax deducted at source.

It is proposed to amend section 139 to empower the Central Government to exempt, by notification in the Official Gazette, any class or classes of persons from the requirement of furnishing a return of income, subject to certain conditions, as may be notified.

This amendment will be effective from 1 June 2011.

## Other Amendments

### Taxation of LLP

Currently a LLP is not liable to MAT.

It is proposed that LLPs will be required to pay AMT similar to MAT. Accordingly the LLP will be liable to AMT at 18.5% of the adjusted total income where the income tax payable as per the normal provisions of the ITA is less than the AMT payable. The adjusted total income will be the total income as increased by deductions claimed under Chapter VI-A and section 10AA of the ITA.

A tax credit will be allowed for the AMT paid to the extent of the excess of the AMT over the regular income tax payable. The tax credit will be allowed to be carried forward upto ten years and will be allowed to be set off in the year in which the LLP is liable to tax as per the normal provisions of the ITA. The set off will be allowed to the extent of the excess of the tax as per the normal provisions over the AMT. No interest will be payable on the carried forward tax credit.

The LLP will be required to obtain an accountant's report certifying that the adjusted total income and AMT have been computed in accordance with the provisions of the ITA.

The proposed amendments will take effect from the financial year 2011-12.

### Transactions with persons located in a notified area

In order to discourage transactions with persons located in any country or jurisdiction which does not effectively exchange information with India, it is proposed to insert a new provision providing toolbox of counter measures in respect of such transactions.

The salient features of the provision are as under:

- The Central Government may notify any country or territory outside India as a notified jurisdictional area ("notified area");
- If a taxpayer enters into a transaction, where one of the parties to the transaction is located in a notified area, transfer pricing regulations will apply to such transaction;
- No deduction in respect of any payment made to any financial institution located in a notified area will be allowed unless the taxpayer furnishes an authorization authorizing the CBDT or any other income tax authority acting on its behalf, to seek relevant information from the said financial institution;
- No deduction in respect of any other expenditure or allowance (including depreciation) arising from the transaction with a person located in a notified area will be allowed under any provision of the ITA unless the taxpayer maintains such other documents and furnishes the information as may be prescribed;
- If any sum is received by a taxpayer from a person located in a notified area, the onus

will be on the taxpayer to satisfactorily explain the source of such money in the hands of such person or in the hands of the beneficial owner and in case of his failure to do so, the amount will be deemed to be the income of the taxpayer;

- Any payment made to a person located in a notified area will be liable to a deduction of tax at the highest of the following rates, namely:
  - (i) at the rate or rates in force;
  - (ii) at the rate specified in the relevant provisions of ITA;
  - (iii) at the rate of 30%.

Further, while applying the transfer pricing regulations, the proposed provision does not grant the benefit of allowable variation between the arm's length price and the actual price.

The proposed amendment will take effect from 1 June 2011.

#### **Income of notified infrastructure debt fund to be exempt**

Income of an infrastructure debt fund which is set-up in accordance with the prescribed guidelines and notified by the Central Government will be exempt. However, such debt funds will require to file return of income.

#### **Definition of 'charitable purpose' broadened**

Under the existing provisions, "the advancement of any other object of general public utility" is not considered to be a charitable purpose, if it involves the carrying

on of any activity in the nature of trade, commerce or business, or any service relating thereto, if the aggregate value of receipts exceed ₹ 1,000,000 in the financial year.

It is proposed to increase this monetary limit of ₹ 1,000,000 to ₹ 2,500,000 with effect from financial year 2011-12.

#### **Deduction for pension contributions**

It is proposed to allow deduction in respect of contribution by an employer towards a pension scheme to the extent of 10% of the employee's salary.

#### **TDS on interest from infrastructure debt fund**

It is proposed that the notified infrastructure debt fund will deduct tax at source at the rate of 5% (plus applicable surcharge & cess) on interest payable to a non-resident at the time of credit or payment, whichever is earlier.

The proposed amendment will take effect from 1 June 2011.

The complete withholding tax chart is presented in Annexure II.

#### **Due date for filing tax return**

Due date for filing tax return by companies which are required to furnish a report from a Chartered Accountant in Form 3CEB (Transfer Pricing Audit Report in relation to "international transactions" undertaken with any "associated enterprise") is proposed to be extended from 30 September to 30 November.

The proposed amendment would take effect from 1 June 2011.

### **Collection of information on requests received from tax authorities outside India**

Currently certain income-tax authorities have been conferred the same powers as are available to a Civil Court, while trying a suit, regarding discovery and inspection, production of books of account and other documents, etc.

In order to facilitate prompt collection of information on requests received from tax authorities outside India in relation to an agreement for exchange of information, it is proposed to confer the above powers to any income tax authority, as notified by the CBDT, for the purpose of making an inquiry or investigation in respect of any person or class of persons in relation to an agreement referred to in section 90 or section 90A of ITA, notwithstanding that no proceedings with respect to such person or class of persons are

pending before it or any other income tax authority.

It is also proposed to empower the aforesaid authority, to impound and retain any books of account and other documents produced before it in any proceedings under ITA.

Further, it is proposed to confer similar powers to the aforesaid authority, in respect of calling for information on transactions with any such person or class of persons.

The proposed amendment will take effect from 1 June 2011.

### **Period of limitation for completion of assessment / reassessment**

Currently certain specified periods are to be excluded while computing the period of limitation for completion of assessments and reassessments including those in relation to search and requisition.



# Budget proposals

## Indirect Taxes

It is proposed that the period commencing from the date on which a reference for exchange of information is made by a competent authority under an agreement with a country or territory and ending with the date of receipt of such information by the Commissioner, or a period of 6 months, whichever is less, will be excluded while computing the period of limitation for completion of assessments and reassessments.

The proposed amendment will take effect from 1 June 2011.

### Customs Duty

#### Rate Changes

- Peak rate of customs duty for non-agricultural products retained at 10%.
- Basic customs duty structure rates of 2% and 3% are unified with median rate of 2.5%.

#### Full Exemptions / Reduction in Rate

- Full exemption from customs duty (including CVD and SAD) extended to:
  - Tunnel boring machines and parts and components thereof used for highway development projects.
  - Spares and consumables required for repair of ocean going vessels by ship owners for such vessels which are registered in India.
- Full exemption from basic customs duty extended to:
  - Cash dispensers and parts of cash dispensers required for manufacture of cash dispensers on actual user basis.
  - Endovascular stents.
  - Parts, components for manufacture of PC connectivity cable and subparts of parts and components of PC connectivity cable, battery chargers and hands-free headphones of mobile handsets including cellular phones.
  - Crude palm stearin used in manufacture of laundry soaps subject to actual user condition.
- BCD at concessional rate of 5% extended to:
  - Parts and components for manufacture of 23 specified high voltage transmission equipment.
  - Specified raw material for manufacture of syringes, needles, catheters, cannulae.
- Exemption from CVD:
  - Portion of value representing the consideration paid or payable towards transfer of the right to use packaged or canned software, which do not require affixation of RSP under The Legal Metrology Act, 2009 or the rules made there under, subject to the importer being registered under the service tax.
  - DTA clearance from a SEZ of plastic material processed out of scrap or waste of goods falling under specified chapters.
- CVD at concessional rate of 5% extended to:
  - Parts and components for manufacture of 23 specified high voltage transmission equipments.
  - LEDs used for manufacture of LED lights and light fixtures.
  - Specified raw material for manufacture of syringes, needles, catheters, cannulae.
  - Parts of inkjet and laser-jet printers for manufacture of such printers.
  - Parts for manufacture of DVD writers, Combo drives and CD drives, subject to actual user condition.
- Exemption from SAD extended to:
  - LEDs used for manufacture of LED lights and light fixtures.
  - All clearances from SEZ into DTA exempted from SAD provided they are not exempted from levy of VAT /sales tax.
  - Parts for manufacture of DVD writers, Combo drives and CD drives subject to actual user condition.
  - Parts and components for manufacture of 23 specified high voltage transmission equipments.
  - Specified raw material for manufacture of syringes, needles, catheters, cannulae.

**Table 5: Decrease in the Basic Customs Duty**

Description of goods	Upto 28 February 2011	Effective 1 March 2011
<b>Food/Agro Processing Agriculture Products</b>		
Micro-irrigation equipment	7.5%	5%
Cranberry products	30%	10%
<b>Textiles</b>		
Raw silk (not thrown) of all grades	30%	5%
Polytetra Methylene Ether Glycol (PTMEG), Diphenylmethane4, 4-diisocyanate (MDI)	7.5%	5%
Acrylonitrile	5%	2.5%
Caprolactam	10%	7.5%
Sodium polycrylate	7.5%	5%
Nylon chips, fibre and yarn	10%	7.5%
Rayon grade wood pulp	5%	2.5%
<b>Capital Goods/Infrastructure</b>		
Specified gems and jewellery machinery	7.5%	5%
<b>Medical/Health Sector</b>		
Life-saving drugs namely Rasburicase, Nilotinib, Pneumococcal saccharide conjugate vaccine, Micafungin sodium for injection and their bulk drugs	10%	5%
Lactose for use in manufacture of homeopathic medicines	25%	10%
<b>Metals</b>		
Ferro-nickel	5%	2.5%
Vanadium pentoxide and vanadium sludge	7.5%	2.5%
<b>Others</b>		
Waste paper	5%	2.5%
Solar lantern or lamps	10%	5%
Carbon black feed stock	5%	2.5%
Petroleum Coke	5%	2.5%

**Table 6: Decrease in the Basic Customs Duty**

Description of goods	Upto 28 February 2011	Effective 1 March 2011
<b>Metals</b>		
All ores and concentrates	2%	2.5%
Aircraft for non-scheduled operation	0%	2.5%

The above changes will be effective 1 March 2011

- P&P medicines imported for retail sale.
- Parts of inkjet and laser-jet printers for manufacture of such printers.

### Changes in the Customs Act, 1962

- Section 17 is being amended to replace the existing system of assessment with self-assessment of duty on imported and exported goods by the importer or exporter. The revised provisions empower customs officer to verify self-assessment and if required, may conduct audit or reassess duty on the imported or export goods.
- Section 18 is being amended to provide for provisional assessment of goods where the importer is unable to self assess the same.
- Time limit for claiming refund of duty and interest is enhanced from six months to one year. This will bring uniformity for both

demanding duty and claiming refund.

- Provisions relating to notice of payment of duties, interest etc has been substituted with more coherent and clear provisions so as to harmonize the demand period in normal cases to one year.

The above changes will be effective from a date to be notified after the enactment of Finance Bill 2011

### Changes in the Schedules to the Customs Tariff Act, 1975

- The First Schedule is being amended to include editorial changes in Harmonized System of Nomenclature in certain chapters.

The change will be effective from 1 January 2012.

- The Second Schedule is being amended as given in Table 7:

**Table 7: Key Amendments in Second Schedule**

Sr No	Chapter Heading	Description	Rate of duty	Effective Rate	Change
1	2306	De-oiled rice bran oil cake	15%	10%	New entry
2	260111	Iron ore and concentrates, non-agglomerated	From 20% to 30%	From 5% to 20%	Change in rate
3	260112	Iron ore and concentrates, agglomerated - Iron ore pellets	From 20% to 30%	From 5% to 20% NIL	Change in rate
4	5310	Jute canvas, jute webbings, jute tarpaulin cloth and manufactures thereof when not in actual use as covering, receptacles or binding for other goods	₹ 200 per tonne	NIL	Change in description
5	5310	Sacking (cloth, bags, twist, yarn, rope and twine) when not in actual use as covering, receptacles or binding for other goods	₹ 125 per tonne	NIL	Change in description

The changes mentioned against 'Effective Rate' will be applicable from 1 March 2011.

## Central Excise Duty

### Rate Changes

General CENVAT rate retained at 10%.

Concessional rate of 4% increased to 5% for specified goods.

Excise duty of 1% imposed on 130 specified items which were earlier exempt or chargeable to nil rate of excise duty.

#### Full Exemption:

- Air conditioning equipment & panels of capacity 3 tonne and above to be used for installation of a cold storage, cold room or refrigerated vehicle for specified usage.
- Conveyer Belt Systems used in:
  - Cold storage facilities and;
  - Mandis & Warehouse for storage of Food grains and Sugar
- Parts, components of PC connectivity cable of mobile handsets including cellular phones.
- Pipe fittings such as joints, elbows coupling etc. used for delivery of drinking water from its source to the plant and further to the first storage plant.

Significant goods which will be subject to 1% ad valorem excise duty without availing CENVAT credit are as follows:

- Ready-mix concrete (RMC)
- Coffee or tea premixes
- Sauces, ketchup and the like and the preparation therefor
- Ready- to- eat packaged food
- Ink for fountain pen, ball pen and drawing

- Tooth powder
- Mobile handsets including cellular phones and radio trunking terminals
- Branded articles of jewellery
- Recorded Audio CD, Video CD and DVD
- Bicycles
- Spectacles and spectacle lenses.

**Table 8: Increase in rate**

Description of goods	Upto 28 February 2011	Effective 1 March 2011
Parts of hybrid motor vehicles namely battery pack, battery charger, AC/DC electric motors and motor controllers	4%	5% [till 31.03.2013]
Microprocessor for computer, other than motherboards, floppy disc drive, hard disc drive, CD-ROM drive, DVD Drive or DVD writer, flash memory, combo drive	Nil – meant for fitment inside the CPU housing/ laptop body 4% - other uses	5% for all uses
Biscuits, sugar confectionery, wafer biscuits, pastries and cakes, etc.	4%	5%
All goods of cotton, not containing any other textile material	4%	5%

**Increase in CENVAT Rate****Table 9: Decrease in rate**

Description of goods	Upto 28 February 2011	Effective 1 March 2011
Hybrid kits for conversion of fossil fuel vehicles to hybrid motor vehicles	10%	5%
Specified Textile Machinery and equipment	10%	5%
Parts of DVD Drive, DVD Writer, Combo drive, CD-ROM drive	10%	5%
Light emitting diodes (electro luminescent) for the manufacture of LED lights or fixtures	10%	5%
Parts of inkjet and laser-jet printers	10%	5%
Sanitary napkins, baby and clinical diapers	10%	1%

**Decrease in CENVAT Rate****Table 10: Changes in Duty Rates**

I	Mini Cement Plant	Upto 28 February 2011	Effective 1 March 2011
1.	Cleared in packaged form:		
	(i) of RSP not exceeding ₹ 190 per 50 kg bag or ₹ 3800 per tonne;	₹ 185 per tonne	10% ad valorem
	(ii) of RSP exceeding ₹ 190 per 50 kg bag or ₹ 3800 per tonne;	₹ 315 per tonne	10% ad valorem + ₹ 30 per tonne
2.	Cleared other than in packaged form;	₹ 215 per tonne	10% ad valorem
II	Other than Mini Cement Plant		
1.	Cleared in packaged form,-		
	(i) of RSP not exceeding ₹ 190 per 50 kg bag or ₹ 3800 per tonne;	₹ 290 per tonne	10% ad valorem + ₹ 80 per tonne
	(ii) of RSP exceeding ₹ 190 per 50 kg bag or ₹ 3800 per tonne;	10% of retail sale price 10% or ₹ 290 per tonne	10% ad valorem + ₹ 160 per tonne
2.	Cleared other than in packaged form;	whichever is higher	10% ad valorem
III	Cement Clinker	₹ 375 per tonne	10% ad valorem + ₹ 200 per tonne

***Revised duty rates for Cement******Changes in excise duty structure on textile goods***

- Branded ready-made garments and textile made-ups will now attract excise duty of 10%.
- The tariff value is fixed at 60% of the RSP.
- The present system of optional payment of excise duty will continue for unbranded readymade garments and textile made-ups.

***Changes in excise duty structure on specified automobiles***

- Factory-built ambulances duly fitted with all fittings, furniture and accessories will now be subject to a concessional duty rate of 10%.
- Motor vehicles with sitting capacity upto 13 persons including the driver and which are registered for use as taxi after clearance from factory will now attract a concessional rate of 80% of the excise duty. The Rules have been rationalized to provide a refund of 20% of excise duty paid on such vehicles.

***Exemption from excise duty for goods supplied to Mega Power Projects***

- Excise duty exemption for goods supplied to mega power projects and ultra mega power projects has been amended:
  - The requirement that the goods should be exempted from customs duty has been dispensed with.
  - The description of goods eligible for exemption has been amended to align the same with the description as

mentioned under project imports.

- Goods such as power cables used for generation of electricity, ash disposal system including ash dyke, coal transportation system and water intake will also be eligible for the exemption.
- Exemption will also be available to goods required for expansion of an existing mega power project.

***Other relevant changes***

- Certain processes in respect of goods such as ores, slags, branded garments, pearls, precious stones will now be regarded as deemed manufacture.
- Value attributable to transfer of right to use packaged or canned software which is not required to bear RSP will be exempted from payment of Excise Duty subject to specified conditions.

The above changes will be effective from 1 March 2011.

***Amendment to Central Excise Legislations***

- Person engaging job worker for manufacture of apparel, garments and textile made ups will be liable to pay excise duty on such manufacture. Alternatively, the job worker can also be authorized by such person to discharge all excise liabilities.

The above change will be effective from 1 March 2011.

- Interest on delayed/ non-payment of duty fixed at eighteen percent.



The above change will be effective from 1 April 2011.

- Non-payment or short payment of excise duty detected during audit, investigation or verification will be covered by extended period of limitation of five years provided details of such transactions are available in specified records. The penalty in such cases would be restricted to 50% of the duty not paid/ short paid. Further reduced penalty upto 25% will be applicable in case the assessee accepts the duty not paid/ short paid before issue of show cause notice.
- In any other case of non-payment or short payment of duty by suppression, fraud, collusion, etc. penalty of 100% along with duty and applicable interest will be levied.
- A new provision has been introduced to create a charge on the property of

defaulter of excise duty subject to the provisions of specified legislations.

- CENVAT Credit of service tax paid under reverse charge mechanism on services received from outside India included in the list of eligible credits.

The above changes will be effective from a date to be notified after the enactment of Finance Bill 2011.

#### ***Changes in CENVAT Credit Rules, 2004 relevant to manufacturers***

- Definition of exempted goods expanded to include goods subject to concessional excise duty rate of 1%.
- Specific provisions applicable to manufacturer of excisable goods availing benefit of concessional Excise Duty rate of 1%
  - CENVAT Credit facility for manufacture of such goods will not be available



- CENVAT Credit cannot be utilized for payment of Excise Duty on such goods
- Cenvat credit on goods subject to 1% Excise Duty will not be available to buyers of such goods.

The above changes will be effective from 1 March 2011

- Capital goods to include goods used for generation of electricity outside the factory of manufacturer of final products for captive use within the factory.
- The definition of input amended to mean:
  - all goods used in the factory by the manufacturer of the final product;
  - all goods cleared along with the final product whose value is included in the final product;
  - goods used for providing free warranty;
  - goods used for generation of electricity or steam for captive use;
  - all goods used for providing any output service.

Further, goods used for construction of civil structure and goods received primarily for personal use or consumption of any employee specifically excluded from the definition of input.

- Scope of input services curtailed to exclude among other, certain services that are used for construction of civil structure and that are used primarily for personal use or consumption of any employee.
- Reversal of CENVAT Credit will not be required in respect of inputs removed for providing free warranty for final products.
- Reversal of CENVAT Credit will be required in respect of partial write off or provision of inputs and capital goods.
- Manufacturers of excisable and exempted goods can now maintain separate accounts only in respect of inputs and reverse CENVAT Credit in respect of input services used for manufacture of excisable and exempted goods in accordance with Rule 6(3A).

The above changes will be effective from 1 April 2011.

## Service Tax

### Rate of Service Tax

The rate of Service Tax has been maintained at 10%.

### New Taxable Services

The following categories of taxable services have been brought within the purview of Service Tax:

- Services by air-conditioned restaurants having license to serve liquor; and
- Short-term accommodation in hotels, inns, clubs, guest houses, etc.

The above categories will be taxable from a date to be notified after the enactment of Finance Bill 2011.

### Expansion/Amendments in Service Tax

The following changes have been made to the existing categories of taxable services with a view to expand/amend the scope of services:

- Category of 'Authorised Service Station's Service' has been substituted as services provided by any person to any other person in relation to any service for repair, reconditioning, restoration or decoration or any other similar services, of any motor vehicle other than three wheeler scooter, auto rickshaw and motor vehicle meant for goods carriage.
- Scope of 'Life Insurance Service' expanded to cover all services, including in relation to management of investments.
- Scope of 'Commercial Training or Coaching Service' expanded to cover all coaching

and training that is not recognized by law irrespective of whether the institute is providing any other courses recognized by law.

- Scope of 'Club or Association Service' has been expanded to include services provided to any person other than members.
- Scope of 'Support Services of Business or Commerce' has been expanded to include operational or administrative assistance of any kind.
- Scope of 'Legal Service' has been extended to include:
  - services provided by a business entity to any person;
  - services provided by any person to any business entity in relation to representational services before any court, tribunal or authority; and
  - services provided by an arbitral tribunal to any business entity in respect of arbitration.
- Scope of 'Health Check up Service' is extended to cover:
  - any service provided by a clinical establishment having the facility of central air-conditioning in any part of the establishment and more than twenty five beds for in-patient treatment at any time during the financial year;
  - diagnostic services provided by a clinical establishment with the aid of laboratory or medical equipment; and
  - any service provided by a doctor, not being an employee of a clinical establishment, who provides services from such premises.

The above changes will be effective from a date to be notified after the enactment of Finance Bill 2011.

### Valuation of Taxable Services

- The value of taxable services in case of 'Telecommunication Service' will be the gross amount paid by the person to whom such service is provided by the telegraph authority.

The above amendment will be effective from 1 March 2011.

- The value of taxable services in relation to money changing activities is proposed to be based on the applicable RBI reference rate. In cases where the same is not available, the value will be 1% of the gross amount of INR provided or received by the person changing the money.
- The rate of composition available to a person liable to pay Service Tax in relation to purchase or sale of foreign currency has been lowered from 0.25% to 0.1% of the gross amount of money exchanged.

The above amendments will be effective from 1 April 2011.

### Exemptions under Service Tax

- Services in relation to business exhibition provided by an organizer for holding a business exhibition outside India to be exempted from payment of Service Tax.
- Services in relation to execution of works contract to be exempted from payment of Service Tax if provided fully within an airport.

- Services in relation to execution of works contract to be exempted from payment of Service Tax, if provided wholly within a port or other port for construction, repairs, alterations and renovation of wharves, quays, docks, stages, jetties, piers and railways.

The above exemptions will be effective from 1 March 2011.

- Services in relation to transportation of goods by air or road or rail provided to a person located in India to be exempted when the goods are transported from a place outside India to a destination outside India.
- Services in relation to transportation of goods by air to be exempted to the extent air freight is included in the value of goods determined under Section 14 of the Customs Act, 1962.

The above changes will be effective from 1 April 2011.



- The following taxable services provided during the respective period have been exempted from payment of Service Tax:

**Table 11: Services exempted from payment of Service Tax**

Category of Taxable Service	Period
Services provided by Club or Association formed for representing industry or commerce for which membership fee is collected	16 June 2005 to 31 March 2008
Specified services provided by a tour operator having a contract carriage permit for inter-State or intra-State transportation of passengers	1 April 2000 to 6 July 2009

Where such Service Tax has been collected, refund will be granted if applied within six months from the date on which the Finance Bill 2011 receives the assent of the President.

The above changes will be effective from date of enactment of Finance Bill 2011.

#### Withdrawal/Amendments to exemption notifications

- Abatement of 75% prescribed on services provided in relation to transport of coastal goods, goods transported through National waterways and Inland waters subject to fulfilment of specified conditions.

The above amendment will be effective from 1 March 2011.

- Service Tax liability in respect of taxable services provided by an aircraft operator to any passenger for domestic or international journey has been prescribed as follows:

**Table 12: Changes in Service Tax in respect of Transport of Passengers by Air Service**

Type of Journey	Service Tax
Domestic (economy class)	10% of the gross value of ticket or ₹ 150, whichever is less
International (economy class)	10% of the gross value of ticket or ₹ 750, whichever is less
Domestic and International (other than economy class)	Standard rate of 10%

The above amendment will be effective from 1 April 2011.

#### Changes with respect to export and import of Services

The following changes have been made in Export of Services Rules, 2005 and Taxation of Services (Provided from Outside India and Received in India) Rules, 2006 with respect to following taxable services:

- Change in criteria from Location of service recipient to Location of immovable property:
  - Specified services provided by a builder of residential or commercial complex
- Change in criteria from Location of service recipient to Place of performance of service:
  - Rail Travel Agent; and
  - Health check-up or preventive care

- Change in criteria from Place of performance of services to Location of the service recipient:
  - Credit Rating Agency;
  - Market Research Agency;
  - Transport of Goods by Air;
  - Goods Transport Agency;
  - Opinion Poll Agency; and
  - Transport of Goods by Rail.

The above changes will be effective from 1 April 2011.

#### Service Tax Rules

- The applicable rate of tax will be the rate prevailing at the time when the services are deemed to have been provided under the POTR to be introduced in this regard.
- Where Service Tax has been paid in respect of an invoice issued or payment received, for services which are not subsequently provided and amount has been refunded or credit note issued to the recipient, the service provider can take credit of such excess Service Tax paid by him.
- The limit of suo moto adjustment of excess amount of Service Tax paid by an assessee having centralised registration to be increased from ₹ 100,000 to ₹ 200,000.

The above changes will be effective from 1 April 2011.

#### Works Contract Composition Scheme

- In case of payment of Service Tax under Works Contract (Composition Scheme for Payment of Service Tax) Rules, 2011,

CENVAT Credit of tax paid on input services has been restricted to 40% of tax paid on services relating to 'Erection, Commissioning and Installation', 'Commercial or Industrial Construction' and 'Construction of Residential Complex.' This restriction is applicable where the tax has been charged on full value of the services by availing CENVAT Credit of duty paid on inputs.

The above amendment will be effective from 1 March 2011.

#### Point of Taxation Rules, 2011

- The POTR determine the point in time when the services will be deemed to be provided.
- The point of taxation, including in respect of services provided from outside India and received in India, will be determined in following manner:
  - Provision of service will be treated to have taken place when a service is provided or to be provided;
  - If an invoice is issued or payment is received before the provision of service, the service, to such extent, will be deemed to be provided at the time of issue of invoice or receipt of payment, whichever is earlier.
- In case of an advance, the point of taxation will be the date of receipt of such advance.
- In case of change in rate of tax, the point of taxation will be determined in the following manner:

**Table 13: Point of taxation where taxable services are provided before change of rate**

Issue of invoice	Receipt of payment	Point of taxation
After change of rate	After change of rate	Date of payment or invoice, whichever is earlier
Prior to change of rate	After change of rate	Date of invoice
After change of rate	Prior to change of rate	Date of payment

**Table 14: Point of taxation where taxable services are provided after change of rate**

Issue of invoice	Receipt of payment	Point of taxation
Prior to change of rate	After change of rate	Date of payment
Prior to change of rate	Prior to change of rate	Date of payment or invoice, whichever is earlier
After change of rate	Prior to change of rate	Date of invoice

- In case of services being taxed for the first time:
  - No tax will be payable to the extent invoice has been issued and payment received before such services became taxable;
  - No tax will be payable if the payment is received before the services become taxable and the invoice is issued within the period specified as per Service Tax Rules, 1994.
- In case of continuous supply of services, i.e. services provided or to be provided

under a contract for a period exceeding three months, including in respect of services provided from outside India and received in India:

- Where the whole or part of services is determined or payable periodically or from time to time, the point of taxation will be the date on which the payment is liable to be made to the service receiver, if such date is specified in the contract;
  - If, before the aforesaid time, the service provider issues an invoice or receives a payment, the point of taxation will, to the extent of such invoice or receipt, will be the time when the invoice is issued or payment is received, whichever is earlier; and
  - In case of advance receipts, the point of taxation will be the date of receipt of such advance.
- In case of associated enterprises, as defined in Section 92A of the ITA, the point of taxation will be the date on which the payment is made or invoice issued or debit or credit in the books of accounts of the person liable to pay Service Tax, whichever is earlier.
  - In case of royalties and payments pertaining to copyrights, trademarks, designs or patents, the entire consideration for provision of services is not ascertainable at the time when the services are performed and subsequent use or the benefit by a person other than the provider gives rise to payment of consideration. In such cases, the services will be treated as

having been provided each time when the payment is received in respect of such use or benefit, or issue of invoice, whichever is earlier.

- The POTR will not be applicable in case of invoices issued prior to 1 April 2011.

The POTR will be effective from 1 April 2011.

#### Other Changes

- Interest on delayed payment and excess collection of Service Tax to be increased from 13% to 18% with effect from 1 April 2011.
- In case of assesseees whose value of taxable services in the preceding financial year does not exceed ₹ 6,000,000, the rates of interest will be reduced by 3%. This will be effective from the date of enactment of Finance Bill 2011.
- Provisions similar to Central Excise in respect of issuance of Show Cause Notice

have been proposed in Service Tax.

- Section 80 to be amended to provide that power to waive penalty only for cases where the information is captured properly in the specified record.
- Amendment to be introduced to provide for prosecution in case of following offences:
  - Provision of taxable services without invoices;
  - Availment and utilisation of CENVAT credit without actual receipt of excisable goods or input services;
  - Maintaining false books of accounts or failure to supply any information or submitting the false information;
  - Non-payment of amount collected as Service Tax for period of more than six months
- Provisions relating to prosecutions are summarised as below:

**Table 15: Details of penalty for various offences**

Particulars	Existing Provisions	New Provisions
Maximum amount of late fees for non-filing of Service Tax returns	₹ 2,000	₹ 20,000
Penalty for delayed payment of tax	2% of tax per month or ₹ 200 per day up to 100% of tax payable	1% of tax per month or ₹ 100 per day up to 50% of tax payable
Penalty in cases involving fraud, suppression etc.	Twice the amount of Service Tax	Equal to amount of Service Tax
Maximum penalty for contravention of provisions for which no penalty specified	₹ 5,000	₹ 10,000

- Prosecution can be launched only with the approval of Chief Commissioner.

**Table 16: Details of penalty for various offences**

Type of offence	Maximum term of imprisonment
In case of offence where the amount exceeds ₹ 5,000,000	Up to 3 years
In any other case	Up to 1 year
For second and every subsequent offence	Up to 3 years

The above changes will be effective from the date of enactment of Finance Bill 2011.

#### **Changes in CENVAT Credit Rules, 2004 relevant to service providers**

- The definition of 'exempted services' to be expanded to include the following:
  - Trading; and
  - Taxable services whose part of value is exempted on the condition that no credit of inputs and input services used in providing such taxable services must be taken.
- The definition of 'input services' excludes:
  - Certain specified services such as architect, port services, airport services, commercial or industrial construction services, construction of complex services and works contract services, except for provision of such output services, when used for:
    - Construction of a building or a civil structure or a part thereof; or

- Laying of foundation or making of structures for support of capital goods.
- General insurance services, rent a cab services, authorised services station services and supply of tangible goods services except when used for provision of services for which credit on motor vehicle is available as capital goods;
- Services such as outdoor catering services, beauty treatment services, health services, life insurance, health insurance, travel benefits extended to employees on vacation such as leave travel concession, etc when such services are used for personal use or consumption of any employee.
- Where any payment or part thereof made towards an input service is returned, the service provider who has taken credit thereof will pay an amount proportionate to the credit on such amount returned, along with the Service Tax payments for the month.
- Following changes to be made in respect of a service provider providing taxable and exempted services and not maintaining separate records:
  - Amount payable in respect of exempted services to be reduced from 6% to 5%;
  - A banking company and a financial institution including non-banking financial company providing services covered under the category of 'Banking and Other Financial Services' will be required to pay an amount equal to

50% of the credit availed on inputs and input services in that month;

- Life Insurance and management of investment under Unit Linked Insurance Plan service providers will be required to pay an amount equal to 20% of the credit availed on inputs and input services in that month;
- The value of services in case of trading activities will be the difference between the sale price and the purchase price of traded goods and the payment of 5% or proportionate reversal will be made accordingly.
- Services can be provided, without payment of Service Tax, to a Unit in SEZ or a Developer thereof for their authorised operations. These services do not require maintenance of separate records, proportionate reversal or payment of an amount equal to 5%. This change will be effective from 1 March 2011.

The above changes will be effective from 1 April 2011 except as provided above.

#### **Changes with respect to refund claims for a SEZ Developer or Unit thereof**

- Exemption is available by way of a refund of Service Tax paid on specified services received for authorised operations in a SEZ.
- In cases where services are wholly consumed within the SEZ, an option has been provided for not paying Service Tax rather than claiming an exemption by way of a refund by following the prescribed procedures.
- The term “wholly consumed” has been explained as:
  - Location specific services covered in the Export of Services Rules in relation to immovable property situated within the SEZ;
  - Performance based services covered in the Export of Services Rules as are wholly performed within the SEZ; and
  - Other services provided to a Developer or a Unit who does not own or carry on any business other than the operations in the SEZ.
- Where the specified services received by Developer or SEZ Unit, are not wholly consumed within the SEZ, the refund will be restricted to the extent of ratio of export turnover of SEZ Unit to the total turnover for the given period.
  - The term ‘total turnover’ will mean the total of the value of output services, exempted services and exported services, excisable and non-excisable goods including exported goods and bought out goods sold.

- ‘Turnover of SEZ Unit’ will mean the total value of final products and output services exported during the period.
- The refund claim needs to be filed within one year from the end of the month in which the actual payment of Service Tax was made by the Developer or the Unit to the registered service provider.

The above changes will be effective from 1 March 2011.

### Central Sales Tax

The maximum rate of tax to be charged on intra-State sale or purchase of ‘declared goods’ has been enhanced from 4% to 5%.

### Goods and Services Tax

- Constitution Amendment Bill for introduction of GST to be introduced in the current Budget Session of the Parliament.
- Drafting of model GST legislations for Centre and State GST is in progress and key business processes such as registration, submission of returns and payment of tax are at advanced stages of finalisation.
- Pilot GST portal of National Information Utility that will establish and operate the IT backbone for GST is expected to be ready by June, 2011.

# Policy proposals

## Indirect Taxes

- Self-assessment system for import and export goods to replace the existing system of assessment of every bill of entry or shipping bill.
- Point of Taxation Rules, 2011 to be introduced so determine the point in time when the services shall be deemed to be provided.
- Provisions relating to exemption from service tax for services provided to SEZ amended.
- Establish efficient supply chain and higher production of vegetables and increase production of cereals, upgrade their processing technologies and create awareness regarding their health benefits.
- Setting up National Mission for Protein Supplements to promote animal based protein production through livestock development, dairy farming, piggery, goat rearing and fisheries.
- Promote organic farming methods, combining modern technology with traditional farming practices like green manuring, biological pest control and weed management.
- Capital investment in the creation of modern storage capacity will be eligible for viability gap funding scheme of the Finance Ministry.
- Increase in the additional subvention from 2% to 3% to the farmers who repay the crop loans in time.
- Review and enforce a reformed Agriculture Produce Marketing Act.

## Direct Taxes

- Two more CPCs will become operational in Manesar and Pune by May 2011 and a fourth CPC will come up in Kolkata in financial year 2011-12.

## Stamp Duty

- A Bill to amend Indian Stamp Act proposed to be introduced.
- Modernization of stamp and registration administration and roll out e-stamping in the next 3 years.

## Agriculture

- Promote pulses villages in rainfed areas.
- Increase hectareage under oil palm plantation.

## Infrastructure

- FII limit for investment in bonds of infrastructure companies, with residual maturity of over 5 years is being raised by \$ 20 billion.

- Comprehensive Policy to develop public-private partnership.
- Issue of tax free bonds of ₹ 30,000 crore by various Government undertakings to boost infrastructure development in railways, ports, housing and highway development.
- Creation of Notified Infrastructure Debts Funds to attract foreign funds in infrastructure financing.
- Recognition to cold chains and post-harvest storage as an infrastructure sub-sector.
- Recognition for capital investment in fertiliser production as an infrastructure sub-sector.
- Provide Rural Broadband Connectivity to all 250,000 Panchayats in the country in three years.

### Manufacturing

- Manufacturing policy to bring down the compliance burden on the industry through self-regulation and to make Indian industry globally competitive.
- National Mission for Hybrid and Electric Vehicles will be launched to provide green and clean transportation for the masses.
- Set-up 7 mega leather clusters during the financial year 2011-12. Jodhpur is included for the development of a handicraft mega cluster.

### Banking and Financial

- Foreign investors who meet KYC requirements are permitted to invest in the equity schemes of SEBI registered Mutual Funds.
- Amendments in the Reserve Bank of India Act, 1932 are proposed to be introduced in Parliament.
- Setting up Central Electronic Registry under the SARFAESI. The registry will become operational by 31 March 2011.
- Setting-up a Financial Sector Legislative Reforms Commission to rewrite and streamline the financial sector laws, rules and regulations. Commission will complete its work in 24 months.
- Companies Bill is to be introduced in the Parliament.

### Microfinance

- Creating a dedicated fund "India Microfinance Equity Fund" of ₹ 100 crore with SIDBI for providing equity to smaller Mutual Fund institutions.
- Creation of a "Women's SHG's Development Fund" of ₹ 500 crore to empower women and promote their SHG.

### Education

- Budget allocation of ₹ 52,057 crore for universalising access to secondary education, increasing the percentage of scholars in higher education and providing skill training.

- “Vocationalisation of Secondary Education Scheme” will be implemented to improve the employment of youth.
- The National Knowledge Network to link 1,500 Institutes of Higher Learning and Research through an optical fibre backbone.
- Special grants to specified universities and institutions as a recognition of excellence.
- Additional fund of ₹ 500 crore to the National Skill Development Fund.

### Environment and Climate Change

- Allocate funds from NCEF for Green India Mission and launching environmental remediation programmes.

### Housing

- Creation of a Mortgage Risk Guarantee Fund under Rajiv Awas Yojana to guarantee housing loans taken by Economically Weaker Sections and Lower Income Group households and enhance their credit worthiness.

### Other Proposals

- A group of ministers has been constituted to consider measures for tackling corruption.
- TAGUP has submitted its report and its recommendations have been accepted in principle. The modalities of implementation are being worked out.
- Government has formulated five-fold strategy to tackle black money. The strategy consist of (a) Joining the global crusade against ‘black money’; (b) Creating an appropriate legislative framework; (c) Setting up institutions for dealing with illicit funds; (d) Developing systems for implementation; and (e) Imparting skills to the manpower for effective action.
- Set-up of a dedicated Cell for effectively handling exchange of information in relation to tax and transfer pricing issues.
- Comprehensive National policy proposed for strengthening controls over prevention of trafficking and improving the management of narcotic drugs and psychotropic substances.

# Annexures

## Annexure I: Tax Holidays

### 1. Tax holiday available to infrastructure undertakings or enterprises

	Business Activity	Period for Commencement of Operation	Tax Holiday (Years)	Rate of deduction (%)
Undertakings	i) Set-up in any part of India for generation, or, generation and distribution of power	1-4-1993 to <b>31-3-2012</b>	10 out of initial 15	100
	ii) Transmission or distribution of power by laying a network of new transmission or distribution lines	1-4-1999 to <b>31-3-2012</b>	10 out of initial 15	100
	iii) Transmission or distribution of power by undertaking substantial renovation and modernisation of the existing network of transmission or distribution lines	1-4-2004 to <b>31-3-2012</b>	10 out of initial 15	100
	iv) Set-up by a notified Indian Company for reconstruction or revival of a power generating plant	On or before 31-3-2011	10 out of initial 15	100
Infrastructure Undertakings or Enterprises	i) Development; or; operation and maintenance; or; development, operation and maintenance of infrastructure facility other than port, airport, inland waterway or inland port or navigational channel in the sea	On or after 1-4-1995	10 out of initial 20	100
	ii) Development; or; maintenance and operation; or; development, maintenance and operation of any other infrastructure facility viz. a port, airport, inland waterway or inland port or navigational channel in the sea	On or after 1-4-1995	10 out of initial 15	100

Business Activity	Period for Commencement of Operation	Tax Holiday (Years)	Rate of deduction (%)
iii) Basic or cellular telecommunication services including radio paging, domestic satellite services, network of trunking, broadband network and internet services	1-4-1995 to 31-3-2005	10 out of initial 15	100 for the first five years; thereafter 30.
iv) Development of a notified: - Special Economic Zone or - Industrial Park	1-4-1997 to 31-3-2005 1-4-1997 to 31-3-2011	10 out of initial 15	100
v) Development and operation, or, maintenance and operation of a notified: - Special Economic Zone or - Industrial Park	1-4-1997 to 31-3-2005 1-4-1997 to 31-3-2011	10	100
vi) Development, operation and maintenance of a Special Economic Zone notified by the Central Government	On or after 1-4-2005	10 out of initial 15	100

## 2. Tax holidays available to other industrial undertakings

	Business Activity	Period for Commencement of Operation	Tax Holiday (Years)		Rate of Deduction (%)
			Co-op Society	Others	
Other Industrial Undertakings	i) Small scale industrial undertakings manufacturing or producing article or thing or operating a cold storage plant	1-4-1995 to 31-3-2002	12	10	30 for companies, 25 for others
	ii) Located in an industrially backward State specified in the Eight Schedule being - other than J&K (*) - J&K	1-4-1993 to 31-3-2004 1-4-1993 to 31-3-2012	12	10	100 for the first five years; thereafter, 30 for companies, 25 for others
	iii) Located in industrially backward State of the North Eastern Region as notified by the Central Government (*)	1-10-1993 to 31-3-2004	10	10	100
	iv) Located in an industrially backward district notified by the Central Government as Category A	1-10-1994 to 31-3-2004	12	10	100 for the first five years; thereafter, 30 for companies, 25 for others
	v) Located in an industrially backward district notified by the Central Government as Category B	1-10-1994 to 31-3-2004	12	8	100 for the first three years; thereafter, 30 for companies, 25 for others
	vi) Operating a cold chain facility for agricultural produce	1-4-1999 to 31-3-2004	12	10	100 for first five years; thereafter, 30 for companies, 25 for others

\* Deduction to be claimed under section 80IC/80IE for industrial undertakings located in Sikkim, Himachal Pradesh, Uttaranchal and North-Eastern State from 1 April 2003 (see Table 3 - ii)

**2. (Contd.) Tax holidays available to other industrial undertakings**

	Business Activity	Period for Commencement of Operation	Tax Holiday (Years)	Rate of Deduction (%)
Undertakings	i) Construction and development of housing projects approved before 31-3-2008	On or after 1-10-1998 and construction is completed before 31-3-2008 where the housing project is approved before 1-4-2004; On or after 1-10-1998 and construction is completed within four years from the end of the financial year in which the housing project is approved on or after 1-4-2004 and before 31-3-2005 On or after 1-10-1998 and construction is completed within five years from the end of the financial year in which the housing project is approved is on or after 1-4-2005		100
	ii) Engaged in the commercial production of mineral oil in any part of India	On or after 1-4-1997 The deduction shall not be available in case of commercial production of mineral oil for blocks licensed under a contract awarded after 31 March 2011 under NELP announced by the Government of India vide resolution No. o-19018/22.95-ONG.DO.VL dated 10 Feb 1999 or in pursuance of any law for the time being in force or by Central or State Government in any other manner	7	100
	iii) Engaged in refining of mineral oil	1-10-1998 to 31-3-2012	7	100

## 2. (Contd.) Tax holidays available to other industrial undertakings

	Business Activity	Period for Commencement of Operation	Tax Holiday (Years)	Rate of Deduction (%)
	iv) Engaged in the commercial production of natural gas in block licensed under NELP VIII	On or after 1-4-2009	7	100
	v) Engaged in the commercial production of natural gas in block licensed under the IV round of bidding for award of exploration contracts for Coal Bed Methane Blocks	On or after 1-4-2009	7	100
	vi) Engaged in the business of processing, preservation and packaging of fruits and vegetables, integrated business of handling storage and transportation of foodgrains	On or after 1-4-2001	10	100 for first five years; thereafter, 30 for companies, 25 for others
	vii) Engaged in the business of processing, preservation and packaging of meat and meat products or poultry or marine or dairy products	On or after 1-4-2009	10	100 for first five years; thereafter, 30 for companies, 25 for others
	viii) Engaged in operating and maintaining a hospital in a rural area	Constructed on or after 1-10-2004 but before 31-3-2008	5	100

## 2. (Contd.) Tax holidays available to other industrial undertakings

	Business Activity	Period for Commencement of Operation	Tax Holiday (Years)	Rate of Deduction (%)
	ix) Engaged in operating and maintaining a hospital located anywhere in India, other than in an excluded area	Constructed and starts functioning on or after 1-4-2008 but before 31-3-2013	5	100
Companies	Scientific and industrial research and development	Approved after 31-3-2000 but before 1-4-2007	10	100
Hotels	i) Located in hilly area or rural area or place of pilgrimage not within Kolkata, Chennai, Delhi and Mumbai	1-4-1997 to 31-3-2001	10	50
	ii) Located in any other area not within Kolkata, Chennai, Delhi and Mumbai	1-4-1997 to 31-3-2001	10	30
	iii) (a) Located in the National Capital Territory of Delhi and in the districts of Faridabad, Gurgaon, Gautam Budh Nagar and Ghaziabad	1-4-2007 to 31-7-2010 1-4-2008 to 31-3-2013	5 5	100 100
	(b) Located in the specified district having a World Heritage Site			

## 2. (Contd.) Tax holidays available to other industrial undertakings

	Business Activity	Period for Commencement of Operation	Tax Holiday (Years)	Rate of Deduction (%)
Multiplex Theatres	Building, owning and operating multiplex theatre in any place other than Kolkata, Chennai, Delhi or Mumbai	Constructed during the period 1-4-2002 ending with 31-3-2005	5	50
Convention Centres	i) Building, owning and operating convention centres	Constructed during the period 1-4-2002 ending with 31-3-2005	5	50
	ii) Located in the National Capital Territory of Delhi and in the districts of Faridabad, Gurgaon, Gautam Budh Nagar and Ghaziabad	Constructed during the period 1-4-2007 ending with 31-7-2010	5	100

### 3. Tax holiday available to new or existing undertakings or enterprises in certain special category States

	Business Activity	State	Period for Commence-ment of Operation	Tax Holiday (Years)	Rate of Deduction (%)
Undertaking or enterprise	i) New undertakings and enterprises, or substantial expansion of existing undertakings and enterprises, which are engaged in manufacture or production of articles or things, not specified in the Thirteenth Schedule, in any notified Export Processing Zone or Integrated Infrastructure Development Centre or Industrial Growth Centre or Industrial Estate or Industrial Park or Software Technology Park or Industrial Area or Theme Park/ Manufacture or production of article or thing specified in Fourteenth Schedule	Sikkim	23-12-2002 to 31-3-2007	10	100
		Himachal Pradesh or Uttaranchal	7-1-2003 to 31-3-2012	10	100 for the first five years; thereafter 30 for companies, 25 for others
		North-Eastern States (excluding Sikkim)	24-12-1997 to 31-3-2007	10	100
	ii) Undertakings which begins to manufacture eligible article / thing, or undertakes substantial expansion to manufacture or produce eligible article / thing, or carries on any eligible business	Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura	1-4-2007 to 31-3-2017	10	100

## Annexure II: Withholding Tax Rates

	Nature of Payment	Status of Recipient					
		Company		Individuals		Others	
		Foreign (f) (j) (m)	Domestic	Non-resident (f) (m)	Resident	Non-resident (f) (m)	Resident
1	Salaries	N.A.	N.A.	Slab rates	Slab rates	N.A	N.A
2	Interest on securities	40 (d)	10 (a)	30 (d) / 20 (b)	10 (a)	30 (d)	10 (a)
3	Interest paid to non-resident on foreign currency loan	20	N.A.	20	N.A.	20	N.A.
4	Interest to non-resident on infrastructure debt fund	5	N.A.	5	N.A.	5	N.A.
5	Other interest	40 (d)	10	30 (d) / 20 (b)	10	30 (d)	10
6	Winnings from lottery / crossword puzzle/ horse race / card game and any other game	30	30	30	30	30	30
7	Payment to contractors / sub-contractors (including advertisement contracts)(i)	40 (d)	2	30 (d)	1	30 (d)	2 / 1 (g)
8	Insurance commission	40 (d)	10	30 (d)	10	30 (d)	10
9	Commission / brokerage	40 (d)	10	30 (d)	10	30 (d)	10
10	Rent for use of land or building or furniture or fittings	40 (d)	10	30 (d)	10	30 (d)	10
11	Rent for use of machinery or plant or equipment	10 (c) / 40 (d)	2	10 (c) / 30 (d)	2	10 (c) / 30 (d)	2
12	Royalty	10 (c)	10	10 (c)	10	10 (c)	10
13	Technical fee	10 (c)	10 (k)	10 (c)	10 (k)	10 (c)	10 (k)
14	Compensation on acquisition of certain immovable property	40 (d)	10	20 (n) / 30 (d)	10	30 (d)	10
15	Long-term capital gains (l)	20 (e) (h)	Nil	10 (b) / 20 (e)	Nil	20 (e) (h)	Nil
16	Short-term capital gains (o)	15 (h)	Nil	15	Nil	15 (h)	Nil
17	Any other sum chargeable to tax	40 (d)	Nil	30 (d)	Nil	30 (d)	Nil

**Notes**

- a) No TDS on interest on specified securities.
- b) On specified assets purchased by an NRI in convertible foreign exchange.
- c) 20% in the case where the agreement is made on or after 1 June 1997 but before 1 June 2005.
- d) On net income.
- e) No TDS on income arising from the transfer of a unit of the Unit Scheme, 1964 and long-term capital gains on quoted equity shares acquired on or after 1 March 2003 but before 1 March 2004.
- f) Rates are subject to treaty provisions.
- g) In the case of an HUF.
- h) No TDS in respect of FILs.
- i) No TDS in case of contract for transport of goods in case the deductee furnishes his PAN to the deductor.
- j) Rates to be increased by surcharge of 2% where the payment exceeds ₹ 10 mn.
- k) Also in respect of professional service fee.
- l) No TDS on income arising on sale of equity shares or a unit of an equity oriented fund which is chargeable to STT.
- m) Rates (inclusive of surcharge referred to at (j) above) to be further increased by an additional surcharge (Education Cess) of 2% and additional surcharge (Secondary and Higher Education Cess) of 1%.
- n) In case taxable as long-term capital gains.
- o) Applicable in respect of income arising on the sale of equity shares or a unit of an equity oriented fund which is chargeable to STT.
- p) With effect from financial year beginning 1 April 2010, the deductee is required to furnish its PAN to the deductor failing which tax shall be deducted at the rate mentioned in the relevant provisions of the ITA or at the rate in force or at the rate of 20 %, whichever is higher.
- q) With effect from 1 June 2011, if the non-resident recipient is located in a notified jurisdictional area, tax shall be withheld at the rates mentioned in the relevant provisions of the ITA or 30% whichever is higher.

# Glossary

AMT	–	Alternate Minimum Tax	NREGA	–	National Rural Employment Guarantee Act
AO	–	Assessing Officer	NRI	–	Non-resident Indian
BCD	–	Basic Custom Duty	PAN	–	Permanent Account Number
CBDT	–	Central Board of Direct Taxes	POTR	–	Point of Taxation Rules, 2011
CENVAT	–	Central Value Added Tax	R&D	–	Research and Development
CIT	–	Commissioner of Income Tax	RBI	–	Reserve Bank of India
CPC	–	Centralised Processing Centre	SAD	–	Special Additional Duty
CVD	–	Countervailing Duty	SARFAESI	–	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests Act, 2002
DDT	–	Dividend Distribution Tax	SEZ	–	Special Economic Zone
DTA	–	Domestic Tariff Area	SHG	–	Self Help Groups
EOU	–	Export Oriented Unit	SIDBI	–	Small Industries Development Bank of India
FII	–	Foreign Institutional Investor	SSI	–	Small Scale Industry
FM	–	Finance Minister	STT	–	Securities Transaction Tax
GoI	–	Government of India	TAGUP	–	Technology Advisory Group for Unique Projects
GM	–	Gramme	TCS	–	Tax Collection at Source
GST	–	Goods and Services Tax	TDS	–	Tax deducted at source
HUF	–	Hindu Undivided Family	TPO	–	Transfer Pricing Officer
INR	–	Indian Rupee	VAT	–	Value Added Tax
ITA	–	Income Tax Act	VRS	–	Voluntary Retirement Scheme
J&K	–	Jammu and Kashmir			
KG	–	Kilogramme			
KYC	–	Know Your Customer			
LED	–	Light Emitting Diode			
LLP	–	Limited Liability Partnership			
MAT	–	Minimum Alternate Tax			
MM	–	Millimetre			
MN	–	Million			
MRP	–	Maximum Retail Price			
NBFC	–	Non Banking Financial Companies			
NCEF	–	National Clean Energy Fund			
NELP	–	New Exploration Licencing Policy			
NPS	–	New Pension Scheme			

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