

Gaining Insights
Budget Analysis 2010



Foreword

Public sentiments leading up to Budget 2010 have been understandably upbeat with signs of a revival within the economy indicating that India has successfully overcome the ills of the slowdown that assumed center stage during the previous fiscal year. The expectations from the Union Budget 2010 centered on how the economy would attain fiscal consolidation, meet the impending challenges of burgeoning inflation and the game plan to revitalize the waning agricultural sector in India. The measures announced by the finance minister in the 2009 budget with regard to social sector projects and the impetus injected through the fiscal stimulus increased the fiscal deficit from 6.2% of GDP to 6.8%. Inflation reared its ugly head and the skyrocketing food price inflation (at over 17%) has led to a concern on whether the Government would compromise growth to tackle inflation.

The Finance Minister formally presented the budget for 2010-11 in an upbeat mood citing high GDP growth rates, improved manufacturing performance, revival of the export sector and robust capital markets that would pave the way for a 9% and higher growth rate in the not too distant future. At the same time, he remains cautiously wary of the high fiscal deficit and reminds the listeners of India's vulnerability to global shocks. Emphasis has been placed on the recommendations of the thirteenth Finance Commission that laid out a roadmap for attaining the targeted goals restoring fiscal balance in the system by 2014-15. Social sector priorities, coupled with continuing emphasis on infrastructure development and a focus to restore productivity and growth in agriculture have been highlighted as a part of the strategic policy direction of the Government over the next year.

Confirmation of the fact that "earnest efforts" would be made to implement the Direct Tax Code and the Goods and Service tax with effect from 1 April 2011 was welcome but questions on its form and shape remain unanswered to the taxpayers. A large section

of the population will benefit from the enhanced threshold limit for personal taxation as well as additional exemptions based on investments in specified schemes. The industry will experience a greater burden of tax from the increased MAT rate (from 15% to 18%) despite a marginal reduction in the rate of surcharge (from 10% to 7.5%). However, research-oriented businesses will be able to somewhat offset this tax burden from the increased weighted deduction of R&D expenses that have been announced. The service sector is disappointed with the fact that there was no mention of extending existing tax benefits under Section 10(A) and 10(B) – particularly in the light of the fact that this sector has been struggling to fight the global slump causing exports from this sector to remain sluggish. The increased MAT rate will also impact this sector the most as it is computed on book profits which is otherwise exempt from normal corporate income tax.

On the indirect tax front, excise duty rates have been partially revised (from 8% to 10%) as a first step towards restoring fiscal balance. This was largely in line with expectations leading up to the budget. Retaining service tax rates at the existing rate of 10% was a pleasant surprise since there was widespread speculation that this would also be revamped to pre-slowdown levels. Several changes in excise and customs duty rates – notable among which is the roll-back of excise duty rates on petrol and diesel to pre-slowdown levels of 7.5% – is predicted to increase revenues by Rs. 43,500 crores which is in line with the attempts to mop up additional tax revenue to meet the challenges posed by the high fiscal deficit. Overall, the Finance Minister has presented a budget that is in line with expected policy changes but is lackluster from the standpoint of tax policy.

26 February 2010

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Indian Economy: An Objective Analysis

A Look at the Year of the Crisis

The last fiscal and the first half of the current fiscal saw India dealing with the impact of the global slowdown that resulted in the GDP growth rate slowing down from an average of 9% achieved in the last five years to 6.7%, plummeting exports, a booming fiscal deficit and an alarming fall in the industrial production. Capital flows shrank and the stock market tumbled into an abyss landing a blow to the “decoupling” hypothesis. Despite these negative impacts, when compared to the rest of the world, India (along with China) stood out as the better performer and continues to remain a primary focus for many businesses.

The Recovery

The recently released Economic Survey for 2009-10 reveals that some of the key macroeconomic fundamentals of the economy have revived themselves over the past few months. Aided by the fiscal stimulus package and a loose monetary policy, the country's GDP growth rate for 2009-10 is expected to be 7.2%, industrial production has seen record levels (touching 11.7% in November 2009), exports have regained the lost momentum (US\$ 81.14 billion as on September 2009), domestic private consumption have increased from last years' level and the capital markets have remained strong and robust. The policymakers deserve credit for the well calibrated and synchronized policies that have helped restore the lost optimism in the future prospects of the economy.

The big question is “Can the economy continue to deliver?” Stable political conditions, healthier future prospects as well as a strong desire for growth makes this the ideal scenario for the policymakers to introduce a structured plan for drawing up a roadmap for India's long-term progress. India's future in the coming year(s) will be determined based on interplay of a number of factors. The country is faced with very high inflation that is expected to reach double digit levels by end April 2010. The fiscal deficit (at 6.8%), coupled with a public debt to GDP ratio of almost 90% (including quasi fiscal debt), calls for immediate action. Else, 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. Moreover, 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. The final wild card that

may impact India's growth path is the impact of China's emergence as a regional (or perhaps global) economic superpower and the trend and pace with which the country aligns itself to China.

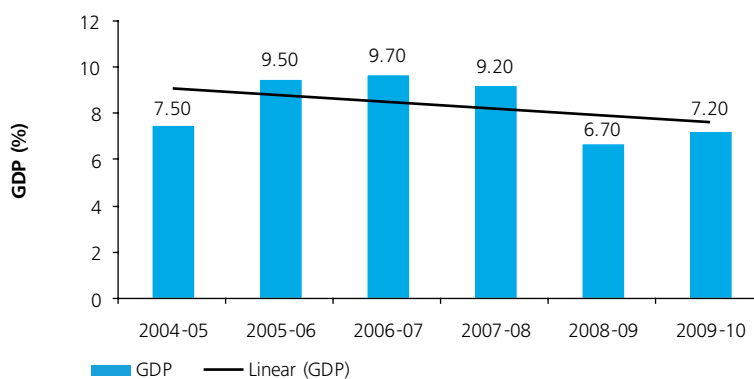
The Finance Minister is determined to lead the country towards a health fiscal scenario and the impending introduction of the GST and the Direct Taxes Code – which was reaffirmed to be implemented from 1 April 2011 – is expected to help in increasing tax revenue in the years to come. However, while the country's macroeconomic fundamentals are robust, there are latent risk factors that may derail the economy from the expected growth rate of 9% and more, as envisioned by the Finance Minister in his budget speech.

The Current State of the Economy

Healthy GDP growth rate

Over the last 12 months the Indian economy has picked up steam again. After the high of 9.2% achieved in 2007-08 followed by a dip in 2008-09 to 6.7%, the vital indicators of the economy are improving and the concerted efforts of the government through the fiscal stimulus and loose monetary policy have ensured that the Indian GDP growth rate has sped up to a respectable 7.2%. (Figure 1).

Figure 1: GDP at Constant Prices



Source: The Economic Survey, 2009-10

The stable economic growth is backed by strong domestic demand, rise in private consumption, investment & trade and positive capital inflows. While the growth rates of savings and consumption (both government and private) have dipped, there has been a pick-up in the growth of private investment demand. (Figure 2) Further, though the growth in gross fixed capital formation (a proxy for investment growth) in

2009-10 has recovered to 5.2% from 4% in 2008-09, it is still below the GDP growth rate unlike in the pre-global crisis phase. Gross domestic savings (GDS) in 2008-09 was 32.5% of GDP at market prices as against 36.4% in the previous year. (The corresponding estimate for 2009-10 as per the Central Statistical Organization is 34%).

The robust industrial sector growth (Figure 3) and rebound in some of the key sectors have ensured that India will march ahead in its journey towards economic prosperity. In the last fiscal, seven out of eight sectors/sub-sectors showed a growth rate of 6.5% or higher with the exception of the agriculture sector. Sectors including mining and quarrying, manufacturing, electricity, gas and water supply have significantly improved their growth rates at over 8% in comparison with 2008-09. The most notable development has come in the manufacturing sector which has grown at 8.9% in FY 2009-10, higher than that of services (at 8.7%) and industry (at 8.2%). (Figure 4)

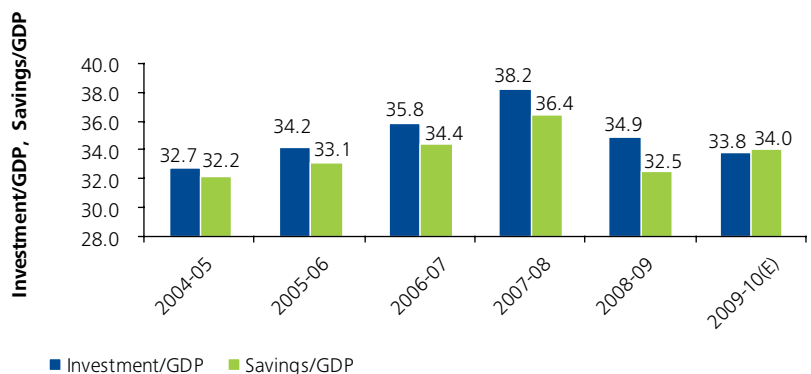
Construction sector and trade, hotels, transport & communication have also improved and grown at 6.5% and 8.3% respectively over the preceding year. Financing, insurance, real estate and business services have retained their growth momentum at around 10% in 2009-10. Sectors like Auto, BFSI, cement & steel, rubber, plastic, textile, wood products and chemical industries have shown a strong recovery. The growth rate was largely deterred by a shrinking in the agricultural sector by 0.2% in the last fiscal.

With healthy GDP growth rate, industrial production at record levels, sound savings rate and improved growth across various sub-sectors, the economic scenario looks stable in the medium term.

The External Sector

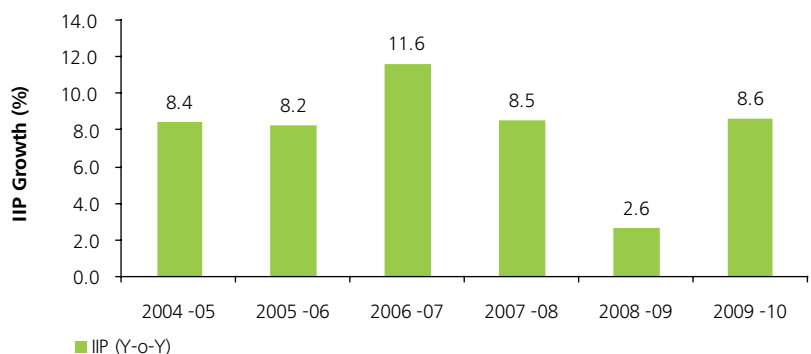
The external sector in India is picking up at a fair pace. Although the external debt stands at US\$ 242.82 billion as on Sept 2009, the foreign exchange reserve were healthy at US\$ 285.2 billion. When it comes to the trade balance, if prices remain relatively benign, India could attain its goal of attaining current account surplus in the near future. Exports are growing but imports are also growing at a faster rate. India's share in world merchandise exports, after remaining unchanged at 1.1% between 2007 and 2008, reached 1.2% in 2009 (January-June) mainly due to the relatively greater fall in

Figure 2: Savings and Investment Pattern in India



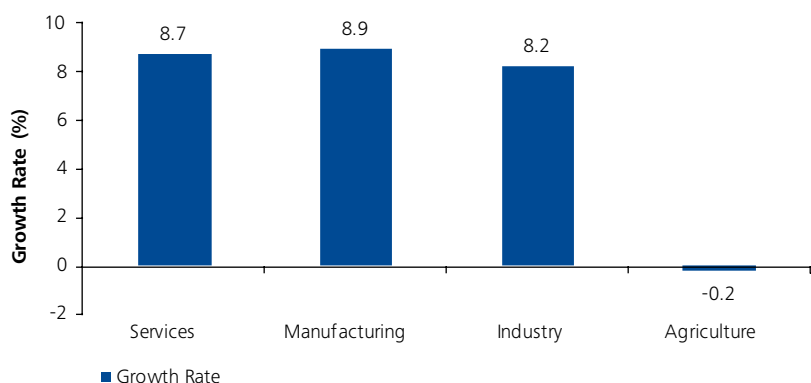
Source: Economic Survey, 2009-10

Figure 3: Index of Industrial Production



Source: Economic Survey Report 2009-10

Figure 4: Sectoral Performance for 2009-10



Source: Economic Survey, 2009-10

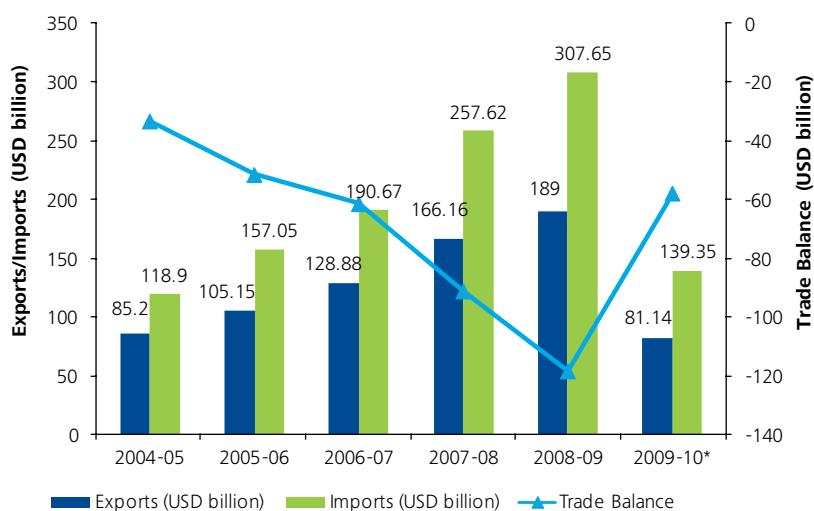
world export growth. There were substantial changes in the composition of exports in 2008-09 and 2009-10 (April-September) with the fall in share of petroleum, crude and products and primary products resulting in corresponding rise in share of manufactured goods. The export growth performance of different categories of exports in 2008-09 shows that while primary products and petroleum products buckled under the pressure of world recession, manufactured goods exports were more resilient, though there was a moderation in growth. However, India's exports of manufactures to the US market grew by only 2.2%. This was due to the accentuation of the negative growth in textiles exports and the growth in gems & jewellery exports to the US turning negative.

The composition of imports also underwent changes. Reflecting growing domestic concerns like inflation, the share of food and allied products imports which fell from 2.3% in 2007-08 to 2.1% in 2008-09 increased to 3.5% in the first half of 2009-10. The share of fuel imports fell from 34.2% in 2007-08 to 33.4% in 2008-09 and 33.2% in the first half of 2009-10. The share of fertilizers increased from 2% in 2007-08 to 4.3% in 2008-09 with growth in imports of nearly 250%, but fell to 2.5% in the first half of 2009-10. The most notable change is the fall in share of capital goods imports from 18.7% to 15.5% in 2008-09 and to 14.3% in the first half of 2009-10. (Figure 5) shows the position of India's trade balance from 2004-05 to 2009-10.

The directional pattern of India's trade has been changing constantly during the decade with the share of the top 15 trading partners increasing by 9.5 percentage points to 61.3% in between 2004-05 and 2008-09. In the first half of 2009-10, their share was 59.6%. A notable change in the pattern of India's trading partners is the replacement of USA as the major trading partner by UAE. However, in the first half of 2009-10, with oil prices moderating, China has gained a slight edge over the UAE to become India's major trading partner.

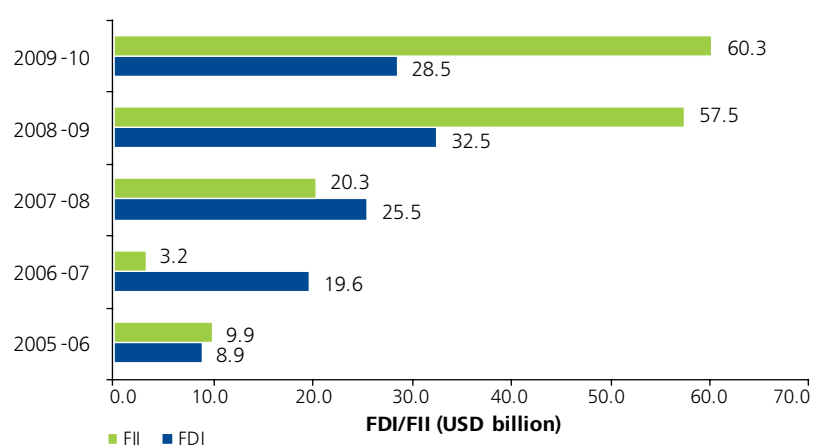
Net inward FDI into India remained buoyant at US\$ 21.0 billion during April-September 2009 (as against US\$ 20.7 billion in April-September 2008) reflecting the continuing liberalization and better growth performance of the Indian economy. (Figure 6) During this period, FDI was channeled mainly into manufacturing (21.4%) followed by communication services (12.8%) and the real estate sector (12.6%). Net outward FDI of India

Figure 5: India's Trade Balance



Source: Economic Survey, 2009-10
*Figures for April-Sept 2009

Figure 6: FDI and FII Inflow in India



Source: Economic Survey, 2009-10

at US\$ 6.8 billion in April-September 2009 remained at almost the same level as that of the corresponding period of 2008-09. Due to the large inward FDI, the net FDI (inward minus outward) was marginally higher at US\$ 14.1 billion in April-September 2009. Portfolio investment mainly comprising FII and ADRs/ GDRs witnessed large net inflows (US\$ 17.9 billion) in April-September 2009 (net outflows of US\$ 5.5 billion in April-September 2008). This was mainly due to large purchases by FIIs in the Indian capital market reflecting revival in the growth prospects of the economy and improvement in global investors' sentiment.

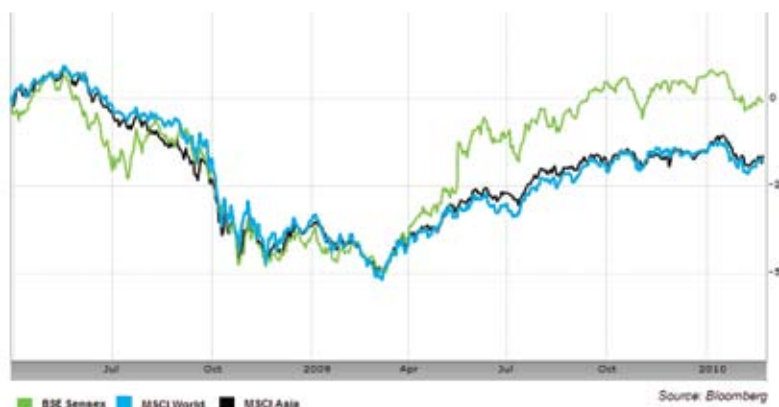
When it comes to exchange rate fluctuations, the Indian rupee has been worse-off as compared to the currencies of the other BRIC nations. The Indian currency has fluctuated the most, followed by the Rouble, the Yen and the Real. With high volatility of Rupee and limited interventions, it would be very difficult to predict its value in advance and hedge against the same.

The Indian Capital Market

The Indian capital markets continued to remain strong and robust despite the recent downturn, as illustrated by the comparison of BSE SENSEX with the broad global indices. (Figure 7) The growth momentum in the equity market has continued unabated and picked up during the latter months of 2009. The performance is attributed to reviving trend in monsoons, improvement in domestic demand and investment climate and better corporate tax filing. The Nifty and the SENSEX continued to perform well on account of augmented sectoral performance in Banking, Automobile, Healthcare and Information Technology (IT). The Futures & Options (F&O) segment continues to remain in its nascent state, dominated only by major foreign players, followed by private banks and individuals. Movement in equity indices in the Indian capital market is continuously aligning with the major international equity markets.

The year 2009-10 has seen a reversal of trend in the Foreign Institutional Investor (FII) investments in the Indian capital market. The net FII inflow into the capital market, though low, is displaying a rising trend. A net inflow on INR 211 crore in May 2009 took the SENSEX up by nearly 28%. The number of registered FIIs rose to 1,706 at the end of 2009 from 1,594 in 2008. The overall limit for investments by FIIs and subaccounts is US\$ 5 billion for government securities and treasury bills and US\$ 15 billion for corporate debt. With

Figure 7: Relative Performance of MSCI and Sensex



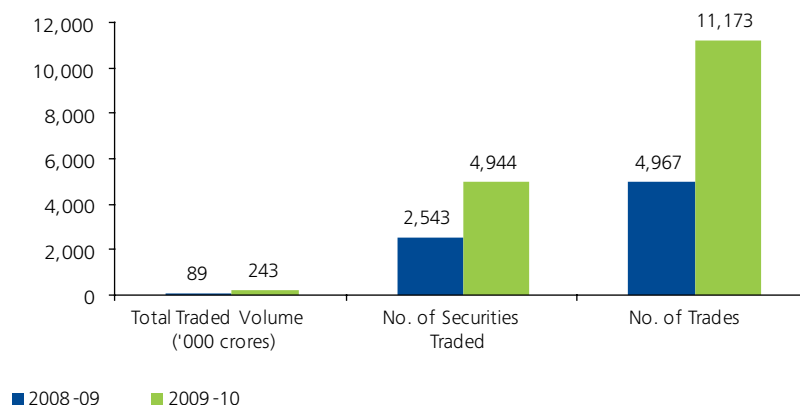
increased confidence in the stock market and enhanced investment climate in the country this trend is likely to continue and supplement the growth of the market.

There has been a noticeable surge in the issue Government of India (GoI) dated securities in 2009. The total volume¹ stands at Rs. 4,89,000 crores in 2009 as compared to Rs. 2,04,317 crore in 2008. The yields on the GoI bonds have declined to 7.1% in 2009 from 8.2% in 2008.

¹Total volume includes securities issued under the Market Stabilisation Scheme (MSS)

The year 2009-10 also reported higher volumes and number of corporate bonds traded in the market. The traded volume in corporate bonds during April-

Figure 8: Corporate Debt Market



Source: Economic Survey, 2009-10
NSE India

December 2009 was Rs. 242,686 crore, higher by 273.4% over the Rs. 88,750 crore during the same period last year. The yield on corporate debt paper softened till mid-May 2009 but remained above the 8.0% level thereafter. The spread between yield on five-year Govt bonds and corporate debt paper (AAA rating) with five-year maturity, which was around 330 basis points in the beginning of 2009, narrowed down to 150 basis points by end-June and further to around 110 points by end-December 2009, reflecting a gradual erosion of the risk premium in the Indian debt market. Figure 8 shows the development of the Indian corporate debt market.

While the macroeconomic indicators across various sectors (as discussed above) reflect a sense of buoyancy regarding the country's future growth prospects, it is perhaps too soon to conclude that the worst is behind. Balancing the good with the bad is a prudent exercise in determining the realistic prospects of the economy. Bearing this, we discuss some of the risk factors that will need close monitoring and attention to define India's growth prospects in the medium term.

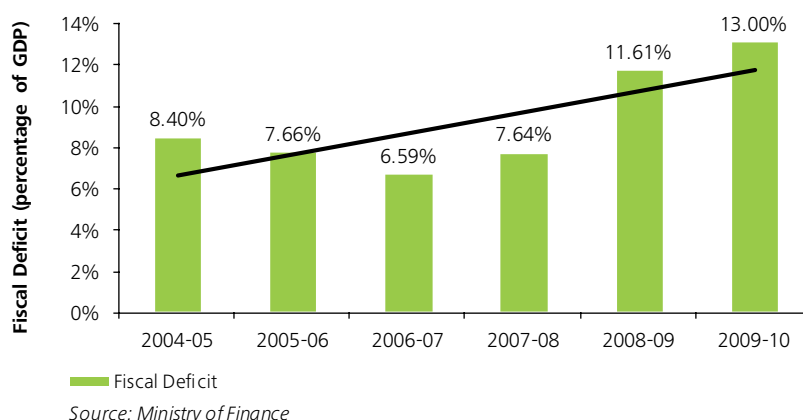
Fiscal Deficit

The fiscal expansion undertaken by the Central Government as a part of the policy response to counter the impact of the global economic slowdown in 2008-09 continued in fiscal 2009-10. The expansion took the form of tax relief to boost demand and increased expenditure on public projects to create employment and public assets. The net result was an increase in fiscal deficit from 6.2% of the GDP in 2008-09 to 6.8% in the budget estimates for 2009-10. As part of the fiscal stimulus, the Government also enhanced the borrowing limits of the State Governments by relaxing the targets by 100 basis points. As a result, the gross fiscal deficit of the States combined rose from 1.4% of the GDP in 2007-08 to 2.6% in 2008-09 and was estimated at 3.2% of the GDP in 2009-10.

The Centre's gross fiscal deficit in 2009-10 stands 6.8% of GDP which along with the States' deficit of 3.2% & quasi-fiscal deficit of approximately 3% of GDP in the form of off-Budget items makes the real combined fiscal deficit at 13% of GDP. These numbers are worrying and unless the government addresses this issue, the economy may be struggling to find ways to service

the gap without creating large-scale inflation. Figure 9 shows the Growing Fiscal Deficit in India.

Figure 9: Fiscal Deficit in India



Inflation

Monthly changes in headline inflation, year on-year, measured in terms of the wholesale price index (WPI) exhibited significant volatility during financial year 2008-09 and varied from 1.20% in March 2009 to 12.82% in August 2008. The volatility continues during the current financial year (2009-10). There is, however, fundamental difference in the reasons for volatility observed last year and those seen this year. The volatility observed in the first half of 2008-09 was due to increasing international fuel and commodity prices which pushed WPI inflation to a high of 12.8%. The subsequent decline in WPI inflation in the second half of 2008-09 was due to falling international fuel and commodity prices. International fuel and commodity prices stabilized in the first half of 2009-10 but at a relatively lower level than in the corresponding period of the last year.

Average food inflation which was 7.56% during fiscal 2008-09 increased to 13.54% in the period April to December 2009. Overall food inflation in December 2009 was 19.77%. A quarter-wise analysis of food inflation in the current WPI series during the last 15 years, reveals that before the current spell of high food inflation, there were two earlier episodes in the fourth quarter (Q4) of 1996-97 (13.6%) and third quarter Q3 of 1998-99 (17.1%). During this year, high food inflation was principally due to the rise in the price of onions and potatoes among vegetables, pulses, rice and wheat. Among manufactured products high prices were reported in the case of edible oils but sugar prices were

stable. The current spell of high food inflation is across the board except for edible oils.

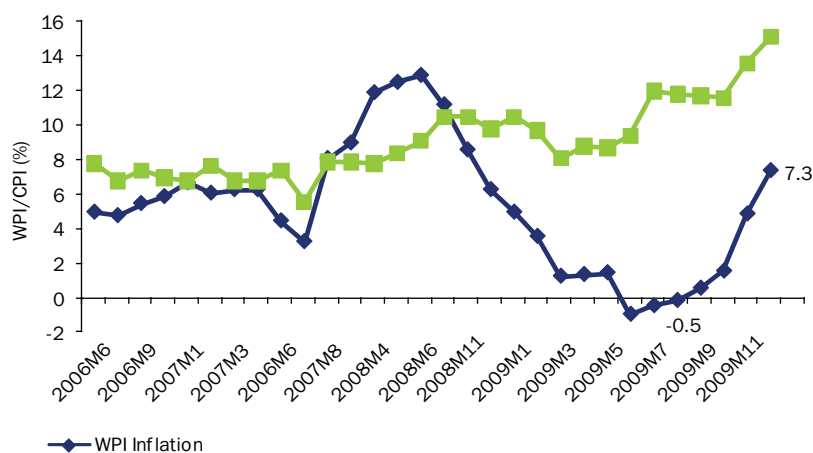
The recent trends in the levels of inflations are worrisome and do not bode well for the future. Inflation is not demand-push but driven by supply constraints – hence direct monetary and fiscal policy intervention will have limited impact. Monetary measures such as increase in CRR, interest rates etc may not be a solution for this inflation; rather, distribution from stocks, higher imports of food items for immediate consumption and better logistics may ease out the pressure in the short run. The Government has taken a number of short and medium-term measures to improve domestic availability of essential commodities and moderate inflation. The monetary policy stance for 2009-10, inter alia, has also been to maintain a monetary and interest rate regime consistent with price stability and financial stability, and supportive of the growth process. The RBI has also made a minor modification in the statutory liquidity ratio (SLR) and restored it to 25% of net demand and time liabilities (NDTL) with effect from the fortnight beginning November 7, 2009. The government has also adopted several fiscal policies to tackle the problem of rising inflation. The removal of import duties on hydrogenated oils and vegetable oils and also allowing import by sugar mills of raw sugar at zero duty under open general licence are just some of these. The National Agricultural co-operative Marketing Federation (NAFED) has been allocated 37,400 metric tonnes of wheat and 15,500 metric tonnes of rice for distribution through its outlets at the same rate at which allocations are made to State Governments.

However in spite of these policies, inflation will be in the high single digit levels for the next 8 to 9 months. High growth rates provide room for formulators of policy to tackle inflation – focus on agriculture will help ease prices of food grains. With increased fund flowing into the emerging countries with higher interest rates, there remains a threat of asset price bubbles developing in emerging economies like India. Figure 10 shows the trends in Inflation during the past few years.

M&A, IPO and PE Activity in India

The global financial crisis and the economic slowdown has certainly affected M&A and PE activity, bringing down volumes (in number) in 2009 to nearly half of what they were in 2008. While there has been a marginal improvement in the volume of domestic

Figure 10: Trends in (WPI and CPI) Inflation



Source: Economic Survey 2009-10

M&A's to US\$ 5.80 billion in the year 2009 from US\$ 5.09 billion in 2008, the performance of cross-border (inbound and outbound) has worsened significantly. While the inbound M&A value (US\$ billion) has declined by 75%, the value of outbound M&A has declined by nearly 95%.

Inbound M&A activity was primarily invited from US, Germany and France whereas the most preferred destinations for outbound M&A activity was US, UK and Australia. A good deal of M&A activity in the year 2009 has taken place in the oil and gas sector, followed by the telecom, pharmaceutical, healthcare and biotechnology sectors.

The value of PE investments too have displayed a marginal growth, increasing to US\$ 11.70 billion in 2009 from US\$ 10.42 billion in 2008. Of the total PE volume, US\$ 8.26 billion was through Qualified Institutional Placements (QIPs). Majority of PE investments and QIPs have targeted the real estate, infrastructure and banking industries.

Table: Patterns in M&A and PE Activity in India

	Volume (number)		Value (US\$ billion)	
	2008	2009	2008	2009
Domestic	171	142	5.09	5.8
Cross Border	282	125	25.67	4.23
Inbound	86	61	12.48	3.11
Outbound	196	64	13.19	1.12
Total M&A	453	267	30.76	10.03
PE Investment	306	172	10.42	11.7
QIP	-	49	-	8.26

The total number of initial public offering (IPO) declined to 20 in 2009 from 37 in 2008. The total amount mobilized through equity issues in 2009 was lower at Rs. 23,098 crore as compared to Rs. 49,485 crore raised in 2008. The amount raised through IPOs, however, increased slightly in 2009 to Rs. 19,296 crore from Rs. 18,393 crore in 2008. The mean IPO size increased to Rs. 965 crore in 2009 from Rs. 497 crore in 2008. Most of the IPO activity occurred during the second half of 2009 accounting for 15 of the 20 IPOs. Energy, power and Telecom, Media & Technology (TMT) remained the most attractive destinations for IPOs.

However, there is caution ahead. The level of FDI flows in the first quarter of 2009-10 slowed to US\$ 9.5 billion, as compared to US\$ 11.5 billion in the corresponding quarter in 2008-09. There is a decline in average risk aversion within global investors which is likely to impact stock markets in emerging economies such as India. Also, the growth rate in the GDP is slow as compared to China's robust 9.1%. The country is also experiencing a booming fiscal deficit averaging at 13.5% of GDP. The subsequent development of the economy will depend on the political stability of the country and the range of policies involved. India's future in the coming years will be based on several factors. The country is faced with spiralling inflation and the fiscal deficit, coupled with a public debt to GDP ratio of almost 90% (including quasi fiscal debt), calls for remedial measures to check increasing yields.

The vulnerability of the capital markets to the flows of FII is a major variable in the light of the fact that when the rest of the world revives, India's attractiveness as an investment option will take a beating. Also, the current competitive advantage in service sector is likely to die after 7-10 years. There is a strong urgency to prepare our labour force to meet emerging demand for skilled services and making manufacturing more competitive. With the impending uncertainties, the future of our economy would depend on a number of factors like how well we cope with the burgeoning fiscal deficit and counter inflation, pace of structural reforms in the country, extent and magnitude of the global recovery, extent of capital flows and exchange rate into the economy and surge in oil prices, if global recovery is stronger than expected. Also, as a final word of caution, it is important to note that the economic slowdown has revealed that India is not decoupled from the global economy. Hence, India's growth prospects are not detached from global economic shocks that can arise from sovereign defaults of emerging economies, the extent and magnitude of the global recovery, the direction of global fund flows and the role of China in the post slowdown world.

Budget Highlights

Direct Taxes

Policy Proposal

- Proposal to introduce DTC by 1 April 2011 reiterated.

Corporate Taxation

- No change in tax rates.
- Surcharge for domestic companies reduced from 10% to 7.5%.
- MAT increased from 15% to 18% of book profits.
- Income of a non-resident by way of interest, royalties or fees for technical services shall be deemed to accrue or arise in India (and hence liable to tax in India) whether or not the non-resident has rendered services in India.
- Where tax has been deducted on payments made at any time during the year and deposited into the exchequer on or before the due date for filing the tax return, such payments shall be allowed.
- Interest chargeable on tax deducted but not deposited (within the specified due date) to be increased from 1% to 1.5% per month.
- Beneficial computation provisions for SEZ units clarified to apply from financial year 2005-06.
- Investment linked deduction extended to new hotels of two star category and above.
- Relaxation of conditions for claiming deduction on approved housing projects:
 - Time limit for completion of projects approved on or after 1 April 2005 extended from 4 years to 5 years.
- Weighted deduction on expenditure incurred on in-house R&D enhanced from 150% to 200%.

Personal Taxation

- Tax slabs for individuals / HUFs, women taxpayers and senior citizens broadened resulting in relief.
- Additional benefit of Rs. 20,000 for investments made in long-term infrastructure bonds as notified by the Central Government.

- SARAL-II form to be re-introduced for individual tax returns.

Limited Liability Partnership Taxation

- Conversion of a private or unlisted public company (turnover up to Rs. 6,000,000 in any of the preceding 3 years) into a LLP tax neutral.
 - Consequential amendments made.

Other Amendments

- Threshold turnover limit in relation to presumptive taxation for small businesses increased from Rs. 4,000,000 to Rs. 6,000,000.
- Threshold turnover / gross receipts limits for compulsory audit of accounts increased from Rs. 4,000,000 to Rs. 6,000,000 for business and from Rs. 1,000,000 to Rs. 1,500,000 for profession.
- Receipt of shares by a firm or company (in which the public are not substantially interested) for inadequate or no consideration brought within tax ambit:
 - Applies to a transfer of shares of a company (in which the public are not substantially interested).
 - Specific business reorganizations excluded.
- Non-resident service providers for exploration activities will not be eligible for presumptive taxation if they have a fixed place of business in India.
- Threshold limits for deduction of tax at source rationalized.
- Deductor / Collector of TDS / TCS to continue to furnish TDS / TCS certificates even after 1 April 2010.
- High Court empowered to condone delay in filing appeal for sufficient cause.

Indirect Taxation

Customs Duty

- Peak rate of Basic Customs Duty for non-agricultural products retained @ 10%.
- Basic customs duty on crude petroleum, petrol, diesel and other specified petroleum products increased by 5%.
- Goods imported in pre-packaged form intended for retail sale and other goods namely ready-made

garments, mobile phones and watches are exempted from Special Additional Duty.

- Customs duty on import of motion pictures, music and gaming software in recorded media to be levied only on the cost of the medium, freight and insurance.
- Electrical energy supplied from a Special Economic Zone to Domestic Tariff Area and non-processing area of Special Economic Zone to attract 16% duty with retrospective effect from 26th June, 2009.
- Condition of import of packaged or canned software 'for commercial exploitation' to claim exemption on the value representing consideration for grant of right to use software removed.

Central Excise Duty

- General CENVAT rate increased from 8% to 10%.
- Excise duty on petrol and diesel increased by Re. 1 per litre.
- Clean energy cess proposed to be levied on coal, lignite and peat produced in India.
- Supplies made to mega power projects exempted from excise duty subject to fulfillment of conditions.
- Excise duty on goods covered under Medicinal & Toilet Preparation Act reduced from 16% to 10%.

Service Tax

- Service Tax rate continues to be 10%.
- Eight new taxable services introduced.
- Scope of certain existing services expanded.
- Service tax on the services provided in the continental shelf and Exclusive Economic Zone made applicable to construction and operation of installations, structures and vessels for the purpose of prospecting or extraction or production of mineral oils and natural gas and supply of any goods connected with this activities.

- Export of services rules relaxed by removal of the condition of provision of services from India and use of such services outside India.
- Transmission of electricity exempted from levy of service tax.
- Pre-packaged Information Technology software, with the license for its use, exempted from service tax, subject to specified conditions.
- Retrospective changes made in provisions and procedures governing refund of CENVAT credit to exporters of service.

Central Sales Tax

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

Goods and Services Tax

- Introduction of GST proposed from 1 April 2011.

Budget Proposals

Corporate Taxation

Rate of Tax

Currently, domestic companies are subject to tax at the rate of 30%. There will be no change in this tax rate.

MAT will be increased from 15% to 18% with effect from financial year 2010-11.

Surcharge for domestic companies will be reduced from 10% to 7.5% with effect from financial year 2010-11.

The effective rate of tax for domestic companies will therefore be as shown in Table 1 below.

Table 1: Tax Rates for Domestic Companies

Total Income	Rate of Income Tax (%)	Rate of MAT (%)	Rate of DDT (%)
Upto Rs. 10 mn	30.90	18.54	16.61
Exceeding Rs. 10 mn	33.22	19.93	16.61

Taxation of certain transactions without consideration or for inadequate consideration

Presently, any sum of money or specified property received without consideration or for inadequate consideration exceeding Rs. 50,000 by an individual or a HUF, is chargeable to tax in the hands of the recipient, subject to certain exceptions.

It is proposed to extend these anti-abuse provisions to transactions undertaken in property, being shares of a company (not being a company in which the public are substantially interested), either for inadequate consideration, or without consideration, where the recipient is a firm or a company (not being a company in which the public are substantially interested).

The proposed amendment will not apply to transfer of shares where the transfer is in the course of business reorganisation, amalgamation or demerger which are specifically exempt under the ITA.

The proposed amendment will take effect from 1 June 2010.

Clarification on computation of deduction for SEZ unit

Tax holiday is available under section 10AA of the ITA to a SEZ unit in respect of the profits and gains

derived from export business. The erstwhile method of computation of deduction which was based on the 'total turnover of the business of the assessee' was amended by the Finance (No. 2) Act, 2009 to provide that the deduction shall be computed with reference to the 'total turnover of the undertaking'. However, the said amendment was made applicable from financial year 2009-10.

It is now proposed that the above amendment made by Finance (No. 2) Act, 2009 will apply retrospectively from financial year 2005-06 and onwards.

Deduction for developing and building housing projects

Presently, deduction is available of profits derived by an undertaking from development and building of housing projects approved by a local authority before 31 March 2008, subject to certain conditions.

It is proposed that the period for completion of housing project to be eligible for deduction will be increased from 4 years to 5 years for housing projects approved on or after 1 April 2005.

It is also proposed to enhance the current norms for built-up area of shops and other commercial establishments in housing projects in order to enable basic facilities for the residents. The built-up area of the shops and other commercial establishments included in the housing project is proposed to be 3% of the aggregate built-up area of the housing project or 5,000 sq. ft., whichever is higher.

The proposed amendment will take effect retrospectively from financial year 2009-10.

Taxation of income of non-life insurance business

Under the ITA, computation mechanism for non-life insurance companies is separately provided.

The appreciation in the value of investments, being in the nature of unrealised gain is not taken into account for determining profit or loss of non-life insurance business as per the IRDA regulations. It is, therefore, proposed that the unrealised gains due to appreciation in the value of investments will not be included in the total income. Similarly, deduction will not be allowed for provision for losses due to diminution in the value of investments as this is not a realized loss.

Weighted deduction for Scientific Research and Development

Under the existing provisions, a company is allowed weighted deduction of 150% of the expenditure incurred on scientific research on an approved in-house research and development facility. It is proposed to enhance such weighted deduction to 200%.

Presently, a weighted deduction of 125% is allowed for any sum paid to certain specified institutions. It is proposed to enhance such weighted deduction to 175%.

Incentive to Hotel Sector

Investment-linked tax incentive is available to the business of setting up and operating cold chain facilities, warehousing facilities for storage of agricultural produce and laying and operating a cross-country natural gas or crude or petroleum oil pipeline network.

It is proposed to extend the above benefit to the business of building and operating a new hotel of two-star or above category, which starts functioning after 1 April 2010.

Incentive for Cross-Country Natural Gas or Crude or Petroleum Oil Pipeline Network

One of the conditions for availing investment-linked tax incentive in the case of laying and operating a cross-country natural gas or crude or petroleum oil pipeline network for distribution, including storage facilities being an integral part of such network, is that the business has made not less than one-third of its total pipeline capacity available for use on common carrier basis.

It is proposed to align the existing condition with the regulations specified by the Petroleum & Natural Gas Regulatory Board.

The proposed amendment will take retrospective effect from financial year 2009-10.

Disallowance of expenditure on account of non-compliance with TDS provisions

The existing provisions of ITA provide for the disallowance of expenditure like interest, commission, brokerage, professional fees, etc. if tax on such expenditure was not deducted, or after deduction was not paid during the previous year. However, in case the deduction of tax is made during the last month of the previous year, no disallowance is made if the tax is deposited on or before the due date of filing of return.

It is proposed to provide that no disallowance will be made if after deduction of tax during the previous year, the same has been paid on or before the due date of filing of return of income.

The proposed amendment will take retrospective effect from financial year 2009-10.

Limits of Total Sales or Turnover or Gross receipts for the purpose of audit of accounts

Currently, an assessee carrying on business or profession is required to get his accounts audited where the total sale/turnover/gross receipts exceeds the specified amount. The said limit is proposed to be enhanced as under:

Nature of activity	Limit of sale/turnover/gross receipts	
	Current	Proposed
Business	Rs. 4 mn	Rs. 6 mn
Profession	Rs. 1 mn	Rs. 1.5 mn

Limit of Turnover or Gross receipts for presumptive taxation

Currently, the limit of turnover for presumptive taxation of small business is Rs. 4 mn. The threshold limit is proposed to be increased to Rs. 6 mn.

Table 2: Tax Holidays**I: Tax holiday available to infrastructure undertakings or enterprises**

	Business Activity	Period for Commence- ment 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 31-3-2011	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 31-3-2011	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 31-3-2011	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
	(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

Table 2 (Contd.): Tax Holidays

II. Tax holidays available to other industrial undertakings

Business Activity	Period for Commencement of Operation	Tax Holiday (Years)		Rate of Deduction (%)	
		Co-op Soc.	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		12	10	100 for the first five years; thereafter,
	- other than Jammu and Kashmir (*)	1-4-1993 to 31-3-2004			30 for companies,
	- Jammu and Kashmir	1-4-1993 to 31-3-2012			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 2 - III)

Table 2 (Contd.): Tax Holidays

II. Tax holidays available to other industrial undertakings

Business Activity		Period for Commence-ment 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 within four years from the end of the financial year in which the housing project is approved on or 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	7	100
	(iii) Engaged in refining of mineral oil	1-10-1998 to 31-3-2012	7	100
	(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 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
	(vi) 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
	(vii) 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	(i) 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	5	100
	(b) Located in the specified district having a World Heritage Site	1-4-2008 to 31-3-2013	5	100

Table 2 (Contd.): Tax Holidays**II. Tax holidays available to other industrial undertakings**

Business Activity		Period for Commence-ment 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

Table 2 (Contd.): Tax Holidays**III: 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 (%)
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 31-3-2012	10	100
	Himachal Pradesh or Uttarakhand	7-1-2003 to 31-3-2012	10	100 for the first five years; thereafter 30 for companies, 25 for others
	North-Eastern States	24-12-1997 to 31-3-2007	10	100

Table 3: 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. Other interest	40 (d)	10	30 (d) / 20 (b)	10	30 (d)	10
5. Winnings from lottery / crossword puzzle/ horse race / card game and any other game	30	30	30	30	30	30
6. Payment to contractors / sub-contractors (including advertisement contracts)(i)	40 (d)	2	30 (d)	1	30 (d)	2 / 1 (g)
7. Insurance commission	40 (d)	10	30 (d)	10	30 (d)	10
8. Commission / brokerage	40 (d)	10	30 (d)	10	30 (d)	10
9. Rent for use of land or building or furniture or fittings	40 (d)	10	30 (d)	10	30 (d)	10
10. Rent for use of machinery or plant or equipment	10 (c) / 40 (d)	2	10 (c) / 30 (d)	2	10 (c) / 30 (d)	2
11. Royalty	10 (c)	10	10 (c)	10	10 (c)	10
12. Technical fee	10 (c)	10 (k)	10 (c)	10 (k)	10 (c)	10 (k)
13. Compensation on acquisition of certain immovable property	40 (d)	10	20 (n) / 30 (d)	10	30 (d)	10
14. Long-term capital gains (l)	20 (e) (h)	Nil	10 (b) / 20 (e)	Nil	20 (e) (h)	Nil
15. Short-term capital gains (o)	15 (h)	Nil	15	Nil	15 (h)	Nil
16. 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 FIIs.
- (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 2.5% where the payment exceeds Rs.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 (k) 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 Act or at the rate in force or at the rate of 20 %, whichever is higher.

Limited Liability Partnership Taxation

Rate of tax

Presently, LLP is subject to tax at the rate of 30%. There will be no change in this tax rate.

Conversion of a private company or an unlisted public company into a LLP

Conversion not regarded as transfer

The Finance (No.2) Act, 2009 provided for taxation of LLPs on the same lines as applicable to the partnership firms. LLP Act, 2008 allows conversion of a private company or unlisted public company into an LLP.

It is now proposed that the transfer of assets pursuant to the conversion of a company into an LLP will not be regarded as transfer for the purpose of capital gains, subject to satisfaction of the following conditions:

- All assets and liabilities of the company become the assets and liabilities of the LLP.
- All the shareholders of the company become the partners of the LLP and their capital contribution and profit sharing ratio in the LLP are in the same proportion as their shareholding in the company.
- No consideration is received by the shareholders for the conversion other than share in profit and capital contribution in the LLP.
- The aggregate profit sharing ratio of the shareholders of the company in the LLP should not be less than 50% at any time during a period of five years from the date of conversion.
- The total sales, turnover or gross receipts in business of the company in any of the three preceding previous years should not exceed Rs. 6,000,000.
- No amount is paid, either directly or indirectly, to any partner out of the balance in accumulated profit of the company for a period of three years from the date of conversion.

Withdrawal of exemption

If the conditions are not met, the benefit availed by the company will be deemed to be the profits and gains of the successor LLP chargeable to tax in the year of non-compliance.

Carry forward and set-off of business loss and unabsorbed depreciation

The successor LLP which fulfills the conditions will be allowed to carry forward and set-off of business loss and unabsorbed depreciation.

If the conditions are not complied with, then the set off of business loss or unabsorbed depreciation made in the earlier years will be considered as income chargeable to tax in the hands of the successor LLP in the year of non-compliance.

Tax credit in respect of MAT

The MAT credit in respect of tax paid by the company will not be allowed to the successor LLP.

Residual amendments

Certain other amendments are proposed in relation to depreciation allowance, amortization of VRS expenditure, etc.

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.

MAT will be increased from 15% to 18% with effect from financial year 2010-11.

The effective rate of tax for foreign companies will therefore be as shown in Table 4.

Table 4: Tax Rates for Foreign Companies

Total Income	Rate of Income Tax (%)	Rate of MAT (%)
Upto Rs. 10 mn	41.20	18.54
Exceeding Rs. 10 mn	42.23	19.0035

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

Tax on interest, royalty and fees for technical services

Currently, where income in the nature of interest, royalty and fees for technical services is deemed to accrue or arise in India, it is liable to tax in the hands of a non-resident, whether or not the non-resident has a residence or place of business or business connection in India.

A clarificatory amendment is proposed to provide that, besides the above, the said income will also be taxable whether or not the non-resident has rendered services in India.

The proposed amendment will take effect retrospectively from 1 June 1976.

Presumptive taxation not applicable to fees for technical services connected with permanent establishment

A clarificatory amendment is proposed to provide that presumptive taxation under section 44BB of the ITA will not be applicable to fees for technical services relating to the exploration sector which is effectively connected with the permanent establishment of the non-resident in India.

Personal Taxation

Rate of tax

The rates of personal tax will be revised as shown in Table 5.

Table 5: Tax Rates for Individuals

Slab of Income (Rs.)	Rate of Tax (%)
0 - 160,000	Nil
160,001 - 500,000	10
500,001 - 800,000	20
800,001 and above	30

Notes:

- i. In respect of women resident in India below the age of 65 years, the basic exemption limit will continue to be Rs. 190,000.
- ii. In respect of senior citizens resident in India, the basic exemption limit will continue to be Rs. 240,000.
- iii. Education Cess will be levied at the rate of 2% of Income Tax. Secondary and Higher Education Cess will be levied at the rate of 1% of Income Tax (not including Education Cess).

Taxation of certain transactions effected without or for inadequate consideration

Presently, any sum of money or any property in kind which is received without consideration or for inadequate consideration (in excess of Rs. 50,000) by an individual or a HUF is chargeable to income tax in the hands of the recipient under the head 'income from other sources'.

It is proposed to amend the definition of 'property' to mean a property, which is in the nature of a capital asset of the recipient and therefore would not apply to stock-in-trade, raw material and consumable stores of any business of such recipient.

It is further proposed that receipt of any immovable property for inadequate consideration will not result in any income in the hands of the recipient.

The proposed amendments will take retrospective effect from 1 October 2009.

The definition of 'property' will be extended to include bullion. This amendment will take effect from 1 June 2010.

Deduction for specified investments

Presently, deduction is available to an individual or a HUF in respect of certain specified investments/ payments. In addition, deduction to the extent of Rs. 20,000 will be available in respect of subscription to notified long-term infrastructure bonds.

Deduction for contribution to health scheme

Presently, deduction is available to an individual or a HUF in respect of premium paid towards health insurance policy for self, spouse, dependent children and parents. In addition, contribution can now also be made to the Central Government Health Scheme.

Other Amendments

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 for any consideration.

The proposed amendment provides that in case the aggregate value of receipts from the aforesaid activities is Rs. 1,000,000 or less in the financial year then the said activities will continue to be charitable purpose.

The proposed amendment will take effect retrospectively from financial year 2008-2009.

Cancellation of registration of charitable trust

The CIT is empowered to cancel the registration of any trust / institution granted under section 12AA of the ITA, if he is satisfied that the activities of such trust / institution are not genuine or have not been carried out in accordance with the objects of the trust/institution.

The proposed amendment provides that the powers of the CIT for such cancellation will also be extended to the trusts / institutions registered under section 12A of the ITA as it stood before amendment by Finance (No. 2) Act, 1996.

The proposed amendment will take effect from 1 June 2010.

Reference to valuation officer

The assessing officer is now empowered to make a reference to the valuation officer for making an estimate of fair market value of 'property' which is received without consideration or for a consideration which is less than the aggregate fair market value of the property, as the case may be.

The proposed amendment will take effect from 1 July 2010.

Threshold limits for tax deduction at source enhanced

With effect from 1 July 2010 the threshold limits for TDS on various payments have been increased as follows:

Nature of payment	Present threshold limit	Proposed threshold limit
Winnings from lottery or crossword puzzle	Rs. 5,000	Rs. 10,000
Winnings from horse race	Rs. 2,500	Rs. 5,000
Payment to contractors		
(a) For a single transaction	Rs. 20,000	Rs. 30,000
(b) Aggregate transactions during the financial year	Rs. 50,000	Rs. 75,000
Insurance Commission	Rs. 5,000	Rs. 20,000
Commission or Brokerage	Rs. 2,500	Rs. 5,000
Rent	Rs. 120,000	Rs. 180,000
Fees for professional or technical services	Rs. 20,000	Rs. 30,000

Interest on delay in deposit of tax after deduction

Under the existing provisions, a person is liable to pay simple interest at 1% for every month or part of month in case of failure to deduct tax or payment of tax after deduction.

With a view to discourage the practice of delaying the deposit of tax after deduction, it is now proposed to increase the rate of interest for non-payment of tax as under:

Stage of deduction	Existing (Rate per month or part of the month)	Proposed (Rate per month or part of the month)
From date when deductible till actual deduction	1%	1%
From date of deduction till payment	1%	1.5%

The proposed amendment will take effect from 1 July 2010.

TDS and TCS certificate

Under the existing provisions, in case of deduction or collection of tax at source on or after 1 April 2010, deductor or collector respectively was not required to issue TDS or TCS certificate.

Considering that the TDS and TCS certificate constitute an important document, it is now proposed that the deductor or collector will continue to furnish TDS and TCS certificates to the deductee or collectee even after 1 April 2010.

The proposed amendment will take effect from 1 April 2010.

Power of the High Court to condone delay

It is proposed to empower the High Court to admit an appeal even after the expiry of limitation if it is satisfied that there was sufficient cause for not filing the appeal within the stipulated period. Consequential amendments are also proposed to be made in the Wealth Tax provisions.

The amendment will take effect retrospectively from 1 October 1998.

There was also a limitation of filing an application to the High Court where the ITAT refuses to refer a case to the High Court. It is proposed to empower the High Court to admit an application even after the expiry of limitation if it is satisfied that there was sufficient cause for not filing the application within such period. Consequential amendments are proposed to be made in the Wealth Tax provisions.

The amendment will take effect retrospectively from 1 June 1981.

Penalty on failure to get accounts audited

Penalty on failure to get accounts audited will be increased to Rs. 150,000 from Rs. 100,000.

Indirect Taxation

Customs Duty

Rate Changes

Peak rate of Basic Customs duty retained at 10%.

Full Exemptions / Reduction in Rate

Project Import Scheme extended to following projects:

- Mono Rail Projects for urban public transport (BCD – 5%).
- Cold storage, cold room (including farm pre-coolers) or industrial projects for preservation, storage or processing of agricultural, apiary, horticultural, dairy, poultry, aquatic & marine produce and meat (BCD – 5%).
- Setting up of Digital Head End (BCD – 5%, SAD – exempt).
- Project for installation of Mechanized Handling Systems & Pallet Racking Systems, in mandis or warehouses for food grains and sugar (BCD – 5%, CVD & SAD exempt).

Full exemption from Customs duty (including CVD and SAD)

- Tunnel boring machines used for hydro-electric projects.
- Security thread, security fibers, M-features for use in the manufacture of security paper by Security Paper Mill, Hoshangabad.
- Parts/ sub-parts for the manufacture of mobile handsets or parts thereof and parts for manufacture of battery chargers and hands-free headphones.

Decrease in rate of BCD

Table 6: Decrease in rate of BCD

Description of goods	Upto 26 February 2010	Effective 27 February 2010
Medical		
All medical equipments (excluding few exceptions) and parts and accessories thereof	7.5%	5%

Description of goods	Upto 26 February 2010	Effective 27 February 2010
Electronic Hardware		
Batteries packs and chargers, AC/DC motor and motor controllers for manufacture of electrical vehicles including cars, two/ three wheelers	10%	Nil
Renewable Energy		
Geo-thermal ground source heat pump	7.5%	Nil
Others		
Magnetrons of upto 1,000 kw for manufacture of domestic microwave ovens	10%	5%
Gold ore and concentrate	5%	Nil
Truck refrigeration units	7.5%	Nil
Rhodium	10%	2%

Goods exempted from SAD

- Goods imported in pre-packaged form for intended retail sale and other goods namely ready-made garments, mobile phones and watches are exempted from Special Additional Duty.
- Medical, surgical, dental and veterinary equipments and parts thereof.
- Carbon Black Feedstock and Waste Paper.
- Geo-thermal ground source heat pump.
- Batteries packs and chargers, AC/DC motor and motor controllers for manufacture of electrical vehicles including cars, two/ three wheelers.

Other Changes

- Gold ore and concentrate are exempted from BCD and SAD but subject to CVD @ Rs. 140 per 10 gram of gold.
- Commercial samples worth Rs. 1 lakhs per annum imported as baggage were exempted. This limit is increased to Rs. 3 lakhs per annum.

Increase in rate of BCD

Table 7: Increase in rate of BCD

Description of goods	Upto 26 February 2010	Effective 27 February 2010
Petroleum Products		
Crude	Nil	5%
Petrol and Diesel	2.5%	7.5%
Other specified products	5%	10%
Precious Metals		
Serially numbered gold bars (other than tola bars) and gold coins	Rs. 200 per 10 gram	Rs. 300 per 10 gram
Other forms of gold	Rs. 500 per 10 gram	Rs. 750 per 10 gram
Silver	Rs. 1000 per kg	Rs. 1500 per kg
Platinum	Rs. 200 per 10 gram	Rs. 300 per 10 gram

Electrical Energy

- Electrical energy supplied from Special Economic Zone ('SEZ') to the Domestic Tariff Area and Non-Processing Areas of SEZ will be subject to only BCD of 16% or Rs 2000 per 1000 kwh, whichever is less.

The above will be retrospectively effective from 26 June 2009.

Other Relevant Changes

Goods required for construction of roads

- Goods imported for specified road projects are allowed to be sold or disposed off provided they are not required for the said projects and Customs duties on depreciated value at the rate of duty applicable at the time of import is paid.
- It is also clarified that the machineries imported under the said exemption are permitted to be used in other eligible road construction projects.

Motion pictures, music and gaming software recorded on media

- Customs duty on motion pictures, music or gaming

software for use on gaming consoles printed or recorded on cinematographic film or digital media, will now be charged only on the cost of carrier medium, freight and insurance charges, provided these are not imported in pre-packaged form for retail sale.

- Promotional material like trailers, making of films etc. imported free of cost in the form of electronic promotion kits (EPK)/Betacams are exempted from entire Customs duty including CVD and SAD.

IT Software

- Condition of import of packaged or canned software 'for commercial exploitation' to claim exemption on the value representing consideration for grant of right to use software removed.

The above exemptions and rate changes will be effective from 27 February 2010.

Changes in Acts

Changes in the Customs Act, 1962

Provision relating to settlement of cases through Settlement Commission has been liberalized by:

- removing the restrictions on the nature of the cases that may be settled;
- empowering Settlement Commission to extend the time limit of nine months for disposal of applications by another three months;

- removing the restriction on the number of times the Commission may be approached by an assessee. The above change will be effective from the date of enactment of the Finance Bill 2010.

Changes in the Customs Tariff Act, 1975

- Countervailing duty on import of medicines liable for excise duty under Medicinal and Toilet Preparations (Excise Duties) Act, 1955 to be levied on the basis of MRP less amount of available abatement.

- Filter cigarettes of length including the length of the filter not exceeding 60 mm introduced as a new tariff item. The existing rate of duty of 30% has been prescribed for the same as well.

The above changes will be effective from the date of enactment of the Finance Bill 2010.

**Central Excise Duty
Rate Changes**

General CENVAT rate increased from 8% to 10%.

Lower rate of 4% continues for specified goods.

Full Exemption

The following goods are exempted from the payment of excise duty:

- Goods supplied to mega power projects set up through tariff based competitive bidding, or awarded through tariff based competitive bidding.
- Specified raw materials used for manufacture of rotor blades for wind operated electricity generators.
- Specified goods required for initial setting up of a solar power generation project or facility.
- Self-loading/self-unloading trailers & semi trailers used for agricultural purposes.
- Specified plantation machinery manufactured during the period 27 February 2010 to 31 March 2011.

Increase in CENVAT Rate

Table 8: Increase in rate

Description of goods	Upto 26 February 2010	Effective 27 February 2010
Automobiles		
Motor vehicles of engine capacity exceeding 1500cc	20%+Rs. 15,000	22%+Rs. 15,000
Utility vehicles	20%	22%
Chasis of large vehicles	20%	22%
Cement		
<i>Mini cement plant</i>		
1. Cleared in packaged form-		
(i) of retail sale price not exceeding Rs. 190 per 50 kg bag or Rs. 3800 per tonne;	Rs. 145 per tonne	Rs. 185 per tonne
(ii) of retail sale price exceeding Rs. 190 per 50 kg bag or Rs. 3800 per tonne	Rs. 250 per tonne	Rs. 315 per tonne
2. Cleared other than in packaged form	Rs. 170 per tonne	Rs. 215 per tonne
<i>Other than Mini cement plant</i>		
1. Cleared in packaged form-		
(i) of retail sale price not exceeding Rs. 190 per 50 kg bag or Rs. 3800 per tonne;	Rs. 230 per tonne	Rs. 290 per tonne
(ii) of retail sale price exceeding Rs. 190 per 50 kg bag or Rs. 3800 per tonne	8% of retail sale price	10% of retail sale price
2. Cleared other than in packaged form	8% or Rs. 230 per tonne, whichever is higher	10% or Rs. 290 per tonne, whichever is higher
Cement clinker	Rs. 300 per tonne	Rs. 375 per tone
Microprocessor for computers (other than motherboard), Floppy disk drive, Hard disk drive, flash drive, CD/DVD and Combo Drive meant for external use	Nil	4%
Baby & clinical diapers and sanitary napkins	Nil	10%
Gold bars bearing manufacturer's engraved serial number and weight expressed in metric units	Nil	Rs. 280 per 10gm
Electrically operated vehicles and parts thereof	Nil	4%
Glucometer and test strips	Nil	4%
Petroleum Products		
Branded Petrol*	Rs. 14.50 per litre	Rs. 15.50per litre
Branded High Speed Diesel Oil**	Rs. 4.75 per litre	Rs. 5.75 per litre
Non-Branded Petrol*	Rs. 13.35 per litre	Rs. 14.35 per litre
Non-Branded High Speed Diesel Oil**	Rs. 3.60 per litre	Rs. 4.60 per litre

* Includes Additional Excise duty @ Rs. 2 per litre and Special Additional Excise duty @ Rs. 6 per litre

** Includes Additional Excise duty @ Rs. 2 per litre

Decrease in CENVAT Rate

Table 9: Decrease in rate

Description of goods	Upto 26 February 2010	Effective 27 February 2010
LED lights/lighting fixtures	8%	4%
Corrugated boxes/ cartons manufactured by stand- alone manufacturers	8%	4%
Latex rubber thread	8%	4%

Changes in Excise duty slabs on Tobacco products

- New slab for levy of excise duty on filter cigarettes not exceeding 60mm introduced.
- The rate of excise duty on filter and non-filter cigarettes increased for cigarette length exceeding 60mm.
- Capacity based compounded levy introduced in respect of chewing tobacco and branded unmanufactured tobacco packed in pouches with the aid of packing machines.

Other Relevant Changes

- Clean Energy Cess to be levied and collected as a duty of excise on production of coal, lignite and peat from a date to be notified.
- Excise duty on DTA clearances of plain gold and silver jewellery manufactured by a 100% EOU increased as under:

Table 10: Increase in rate

Item	Existing	New
Gold	Rs. 500 per 10 gm	Rs. 750 per 10 gm
Silver	Rs. 1000 per kg.	Rs. 1500 per kg.

- Value attributable to transfer of right to use packaged software (whether or not used for commercial exploitation) exempted from payment of excise duty. The above changes will be effective from 27 February 2010.
- Excise duty on goods covered under Medicinal and Toilet Preparations Act reduced from 16% to 10%. The above change will be effective from the date of enactment of the Finance Bill 2010.

Amendment to Central Excise legislation

- In case of voluntary payment of duty and interest before issue of demand notice, penalty not to be imposed on the assessee.
- Procedure for filing of application to the Settlement Commission liberalized by removing restrictions on the nature of cases for which application can be made.
- Restriction on an applicant to approach the Settlement Commission only once is proposed to be dispensed with.
- Settlement Commission empowered to extend the time limit of nine months for disposal of applications for a further period of three months. The above changes will be effective from the date of enactment of the Finance Bill 2010.
- Specified assesseees in SSI sector permitted to avail the following:
 - Full Cenvat credit on capital goods in the year of receipt
 - Payment of duty on quarterly basis instead of monthly basis
- Requirement for pre-authentication of excise invoices by manufacturers proposed to be dispensed with. The above changes will be effective from 1 April 2010.

Changes in CENVAT Credit Rules, 2004 relevant to manufacturers

- Used computers and computer peripherals can now be removed on reversal of credit calculated with accelerated depreciation rates.
- Manufacturers permitted to avail Cenvat credit on jigs, moulds, fixtures and dies sent to another manufacturer or a job worker for production of goods.
- Cenvat credit permitted on inputs used in manufacture of goods supplied to specified Mega Power Projects.
- Incorrect availment of Cenvat credit on input services to attract penal provisions as applicable for inputs and capital goods. The above changes will be effective from 27 February 2010.

- Benefit of proportionate reversal of Cenvat credit, in case of manufacturers using inputs for the manufacture of dutiable and exempt products is being extended retrospectively for pending cases.

The above amendment will be effective on enactment of the Finance Bill 2010.

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 of promotion or marketing of a brand of goods, service, event or endorsement of name
- Services of permitting commercial use or exploitation of any event organized by a person or an organization
- Services in relation to temporary transfer or permitting the use of copyright in relation to cinematographic films and sound recording
- Health services provided by hospitals or medical establishments to the employees of business organizations and health services provided under health insurance schemes offered by insurance companies
- Services provided for maintenance of medical records of employees of a business entity
- Services of promoting, marketing or organizing of games of chance, including lottery
- Specified services provided by a builder of residential or commercial complex
- Specified services provided by Electricity Exchanges.

The above categories will be taxable from a date to be notified after the enactment of Finance Bill 2010.

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 covered for the purpose of Service Tax:

- Scope of 'Renting of Immovable Property Service' expanded to cover activity of mere renting as well, with retrospective effect from 1 June 2007. Further, Service Tax would be charged on renting of a vacant land to be used for construction undertaken for furtherance of business or commerce.
- The activity of construction provided by the builder to the prospective buyer will be deemed to be a taxable service under the category of 'Construction

of Complex Service' or 'Commercial or Industrial Construction Service' unless the entire consideration for the property is paid after issuance of completion certificate by the competent authority.

- Scope of 'Transport of passengers by air service' has been expanded to cover domestic journeys and journeys by all classes.
- Scope of 'Information Technology Software Service' has been expanded to cover services whether or not used in business or commerce.
- Scope of 'Sponsorship Service' expanded to cover sponsorship pertaining to sports events.
- Scope of 'Airport Services/Port Services/Other Port Services' extended to cover all the services provided entirely within the airport/port/other port premises by any person.
- Services provided in relation to 'Commercial Training or Coaching Service' shall cover training or coaching services provided for a consideration by any center or institute carrying on its activity with or without a profit motive. This amendment will be given retrospective effect from 1 July 2003.
- 'Auction by the Government' in case of 'Auctioneer Service' has been clarified to mean auction involving sale of Government property by any auctioneer and not when the Government acts as an auctioneer for sale of the private property.

The above changes will be effective from a date to be notified after the enactment of Finance Bill 2010, except as mentioned otherwise.

Valuation of Taxable Services

- The value of taxable service for 'Management of Investment under ULIP Service,' will be the maximum amount of fund management charges fixed by IRDA or the actual amount charged by the insurer for the said purpose, whichever is higher. This amendment will be effective from a date to be notified after the enactment of Finance Bill 2010.
- The value of the statutory taxes charged by any Government on air passenger will be excluded from taxable value for the purpose of levy of Service Tax under the category of 'Transport of passengers embarking in India for international journey by air service' when shown separately in the air ticket or in the invoice. This amendment is effective from 27 February 2010.

Exemptions under Service Tax

- Packaged software, containing the user license in the pack, to be exempted from Service Tax provided the Excise duty/Custom duty has been paid.
- Specified Indian News Agencies providing 'Online Information and Database Access or Retrieval Services' and 'Business Auxiliary Services' to be exempted from Service Tax subject to a certain condition.
- Services in relation to transmission of electricity to be exempted from Service Tax.
- Exemption for 'Erection, Commissioning or Installation Services' provided in relation to:
 - Mechanised Food Grain Handling Systems,
 - Equipment for setting up or substantial expansion of cold storage,
 - Machinery or Equipment for initial setting up or substantial expansion of units for processing agricultural and other specified products.
- Central or State Seed Testing Laboratory and Central or State Seed Certification Agency providing 'Technical Testing and Analysis Services' and 'Technical Inspection and Certification Services' to be exempted from Service Tax.
- Transport of specified goods by rail to be exempted from Service Tax with effect from 1 April 2010

The above changes will be effective from 27 February 2010, except as mentioned above.

Withdrawal/Amendments to exemption notifications

- The definition of vocational training institute for exemption under 'Commercial Training or Coaching Services' has been restricted to specified institutes.
- Amendments regarding applicability of service tax provisions to continental shelf and exclusive economic zones are as under:

Table 11: Continental Shelf and Exclusive Economic Zone

Area	Purpose
Whole of continental shelf and exclusive economic zones	Services provided for all activities pertaining to construction of installations, structures and vessels for the purposes of prospecting or extraction or production of mineral oil and natural gas and supply thereof.
Installations, structures and vessels within the continental shelf and exclusive economic zones, constructed for the purposes of prospecting or extraction or production of mineral oil and natural gas	Services provided by or to such installations, structures and vessels and for supply of any goods connected with the said activity.

- Exemption to services provided in relation to transport of goods by rail has been withdrawn. Consequential amendment made to provide for an abatement of 70% on such services subject to specified conditions with effect from 1 April 2010.

The above changes will be effective from 27 February 2010, except as mentioned above.

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:

Table 12: Export and Import of Services

Category of taxable service	Criteria Applicable (till 26 February 2010)	Criteria Applicable (effective 27 February 2010)
Mandap Keeper Services	Place of performance of services	Location of the immovable property
Chartered Accountant's Services	Place of performance of services	Location of the service recipient
Cost Accountant's Services	Place of performance of services	Location of the service recipient
Company Secretary's Services	Place of performance of services	Location of the service recipient

- Definition of the term 'India' has been amended so as to include the installations, structures and vessels located in the continental shelf of India and the exclusive economic zone of India, for the purposes of prospecting or extraction or production of mineral oil and natural gas and supply thereof.

- The condition of provision of services from India and use outside India in Export of Service Rules, 2005 has been deleted.

The above changes will be effective from 27 February 2010.

Other Changes

- The term 'business entity' has been defined so as to include association of persons, body of individuals, company or firm but excluding an individual.

- No penalty will be imposed where service tax has been paid along with interest before issuance of notice.

The above changes will be effective from a date to be notified after the enactment of the Finance Bill 2010.

Changes in CENVAT Credit Rules, 2004 relevant to service providers

- Accelerated depreciation can be claimed in respect of computers and computer peripherals for the purpose of determining the amount payable on removal of such goods after being used.
- The provisions pertaining to confiscation and penalty for service providers are now in parity with manufacturers whereby the maximum amount of penalty leviable will be the amount of excise duty or service tax paid on such goods or services.

The above changes will be effective from 27 February 2010.

Changes with respect to refund claims

- Refund will be allowed on all inputs and input services on which CENVAT credit can be claimed by the exporter of goods or services.
- The refund of CENVAT credit will not be restricted to CENVAT credit taken in a particular period for which the claim is being filed.

The above changes are made retrospectively effective from 14 March 2006.

- Exporters will be required to give the details pertaining to inputs, input services, final products and output services in a prescribed tabular format.

- These details will be required to be certified by the Statutory Auditor or Tax Auditor in case the refund exceeds Rs. 5 lakhs in a quarter and self certified in other cases.

The above changes will be effective from 27 February 2010.

Central Sales Tax

The provisions of CST Act are being amended so as to provide for:

- Inquiry by an assessing officer to satisfy himself that no interstate sales have been effected in respect of stock transfer by a dealer.
- Reassessment or revision under specified circumstances in respect of stock transfer of goods.
- Filing of appeals to the highest appellate authority of a State and thereafter to CST Appellate Authority in respect of stock transfer of goods.

The above changes will be effective from the date of enactment of Finance Bill 2010.

Policy Proposals

Agriculture

- The Government intends to follow a four-pronged strategy, to stimulate the growth in the agricultural sector which covers (a) agricultural production; (b) reduction in wastage of produce; (c) credit support to farmers; and (d) a thrust to the food processing sector.
- Target of Rs. 375,000 crore for agriculture credit flow set for 2010-11.
- Debt Waiver and Debt Relief Scheme for farmers extended with the following highlights:
 - In view of the drought and floods in some parts of the country, period for repayment of loans by farmers extended by six months to June 30, 2010;
 - Interest subvention scheme for timely repayment of crop loans raised from 1% to 2% for 2010-11.
- Five mega food parks to be set-up in addition to the existing ten mega food park projects.
- Definition of infrastructure under the ECB policy has been broadened to include cold storage or cold room facility, including farm level pre-cooling, for preservation or storage of agricultural and allied produce, marine products and meat.
- Fertiliser Subsidy moved towards a nutrient base subsidy regime instead of pricing policy regime and Government will ensure that the nutrient based fertiliser prices during the transition year 2010-11 remain around current MRPs. In due course, the plan is to move towards direct transfer of subsidies to the farmers.

Energy

- Mega power plant policy modified to lower cost of generation of power.
- Competitive bidding process for allocating coal blocks for captive mining power plants to be introduced.
- Coal Regulatory Authority to be set up, to resolve issues of economic pricing of coal and benchmarking of standards of performance.
- Plan outlay for ministry of new and renewable energy increased to Rs. 1,000 crore.

Financial Sector

- Appropriate Banking facilities to be provided to habitations having population in excess of 2000 by March, 2012.
- To give momentum to the pace of financial inclusion, contribution of Rs. 100 crore each to Financial Inclusion Fund and the Financial Inclusion Technology Fund to be made by GoI, RBI and NABARD.
- RBI considering issuing banking licences to private sector & NBFCs if such NBFCs meet the eligibility criteria.
- Government to provide Rs. 16,500 crore to ensure that the Public Sector Banks attain a minimum 8% Tier-I capital by March 31, 2011.
- Government to provide more funds to strengthen the RRBs lending to the rural economy.
- Financial-Sector Legislative Reforms Committee to be set up to rewrite and clean up the financial sector laws to bring them in line with the requirements of the sector.

Environment and Climate

- NCEF to be created for funding research and innovative projects in clean energy technologies.
- One-time grant of Rs. 200 crore provided to Tirupur textile cluster in Tamil Nadu for effluent treatment plant.
- Special Golden Jubilee package of Rs. 200 crores for Goa to preserve natural resources.
- Allocation for "Mission Clean Ganga 2020" doubled to Rs. 500 crore.

Education

- Allocation for school education increased from Rs. 26,800 crore to Rs. 31,600 crore in 2010-11.
- In addition, States will have access to Rs. 3,675 crore for elementary education under the Thirteenth Finance Commission grants for 2010-11.

Unorganised Sector

- National Social Security Fund for unorganised sector workers to be set up with initial allocation of Rs. 1,000 crore to provide social security to such workers.
- Extension of Rashtriya Swasthya Bima Yojana to Mahatma Gandhi NREGA beneficiaries who have worked for more than 15 days during the preceding financial year.

Strengthening Transparency & Public Accountability

- UIDAI authority to roll out the first set of UID numbers in the coming year, which will provide an effective platform for financial inclusion and targeted subsidy payments.
- TAGUP to be set up to look into various technological and systemic issues for effective tax administration and financial governance.
- IEO chaired by the Deputy Chairman, Planning Commission to be set up. IEO will evaluate the effectiveness and impact of flagship programmes and place the findings in the public domain.

Foreign Direct Investment

- Setting up of apex-level Financial Stability and Development Council to strengthen and institutionalise the mechanism for maintaining financial stability. This Council will monitor macro prudential supervision of the economy, including the functioning of large financial conglomerates, and address inter-regulatory coordination issues.
- Intention to make FDI policies user-friendly by consolidating all prior regulations and guidelines into one comprehensive document.

Other Policy Proposals

- Government proposes to provide Rs.66,100 crore for Rural Development
- Interest subvention of 2% on pre-shipment export credit for exports covering handicrafts, carpets, handlooms and small and medium enterprises extended to 31 March 2011.
- Annual Health Survey to prepare the District Health Profile of all Districts in 2010-11.
- Plan outlay for the ministry of social justice and empowerment raised by 80% to Rs. 4,500 crore for target population groups covering the scheduled castes, other backward classes, disabled, senior citizens, victims of alcoholism and substance abuse.
- Setting up of the National Mission for Delivery of Justice and Legal Reforms to help reduce legal backlog in courts.

Glossary

BCD	– Basic Custom Duty
CENVAT	– Central Value Added Tax
CIT	– Commissioner of Income Tax
CVD	– Countervailing Duty
DDT	– Dividend Distribution Tax
DIN	– Document Identification Number
DTA	– Domestic Tariff Area
DTC	– Direct Taxes Code
ECB	– External Commercial Borrowing
EOU	– Export Oriented Unit
GoI	– Government of India
GM	– Gramme
GST	– Goods and Services Tax
HUF	– Hindu Undivided Family
IEO	– Independent Evaluation Office
IIFCL	– India Infrastructure Finance Company Limited
IRDA	– Insurance Regulatory Development Authority
ITA	– Income Tax Act
KG	– Kilogramme
LED	– Light Emitting Diode
LLP	– Limited Liability Partnership
MAT	– Minimum Alternate Tax
MM	– Millimetre
MRP	– Maximum Retail Price
NABARD	– National Bank for Agricultural and Rural Development
NBFC	– Non Banking Financial Companies
NCEF	– National Clean Energy Fund
NREGA	– National Rural Employment Guarantee Act
R & D	– Research and Development
RBI	– Reserve Bank of India
RRBs	– Regional Rural Banks
SAD	– Special Additional Duty
SEZ	– Special Economic Zone
SSI	– Small Scale Industry
TAGUP	– Technology Advisory Group for Unique Projects
TCS	– Tax Collection at Source
TDS	– Tax Deducted at Source
UIDAI	– Unique Identification Authority of India
ULIP	– Unit Linked Insurance Policy
VAT	– Value Added Tax
VRS	– Voluntary Retirement Scheme

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