

Quotable Quotes of Finance Minister from Union Budget speech

The following are the quotable quotes of Finance Minister. These also indicate the *approach* of Government towards economic growth and tax reforms

“Certain events in the past few months may have created an impression of drift in governance and a gap in public accountability.”

“I see the budget for 2011-12 as a transition toward a more transparent and result oriented economic management system in India.”

“At times the biggest reforms are not the ones that make headlines, but the ones concerned with the details of governance, which affect the every day life of aam admi”

“While like last year, I seek the blessings of Lord Indra to bestow on us timely and bountiful monsoons, I would pray to Goddess Lakshmi as well. I think it is a good strategy to diversify one’s risks.”

Few Riddles in the Budget.

(There are severe challenges in achieving them!!)

- *Brave reduction in subsidy by Rs.20000 crore in 2011-12*
- *Government expenditure rising by just 3.5%*
- *Reducing fiscal deficit to 4.6% from 5.1% last year*
- *Annual inflation at just 5% in 2011-12*
- *Tax revenue rising 3 percentage point faster than nominal GDP growth*
- *Government debt as a proportion of GDP falling to 44% in 2011-12 from 52% last year.*

Few path-breaking moves by the Finance Minister

- *Allowing FII participation in mutual fund. This is likely to lift the industry reeling in the regime of falling retail participation.*
- *Direct transfer of cash subsidy to BPL families for fertilizer, kerosene and LPG at the backdrop of Aadhar (UID scheme) by March 2012. This is likely to reduce the menace of middlemen and corruption surrounding the process.*
- *Acknowledging corruption and governance deficit perhaps for the first time in Budget. This reflects the magnanimity of the issue in present India.*
- *Charging service tax on accrual basis from cash basis. First time introduced in India.*
- *eStamping in all districts in next 3 years. This is going to revolutionise real estate, improving the quality of ownership and smoothening procedures.*

Risk in Fiscal Arithmetic

Much of the fiscal estimates like fiscal deficit, tax collections, government expenditures etc. is based on assumption of tax led domestic growth. Thus, these have high concentration risk (though the Finance Minister spoke of diversifying risk, he acted otherwise). Below normal monsoons (Lord Indra!!), rise in commodity prices (including oil), uncertain global geopolitical and economic scenario, can throw the fiscal off mark. After all, we are living in an increasingly interconnected world!!

Macro Economic Impact

In our view following are the macro economic impact on Indian Economy following the proposals of Union Budget-2011.

I. Interest Rates

The increased participation of FIIs in bond market and capital market, lower promised government borrowings are likely to keep liquidity position comfortable. This will stabilize interest rates in the economy. However high inflation may force rise in interest rate.

II. Stoke Inflation

We see inflation as the worrying factor and deterrent to growth. Demand will rise with heavy bias on social spending. There is absence of steps to attend supply side constraints. Additional indirect tax levies and expected rise in oil prices will have cascading effect on prices.

III. Growth

Social spending at 36.6% of GDP, continuing double digit growth of services sector, respectable growth in agriculture (subject to monsoon) due to several policy measures (fertilizers, storage, crop loans, budgetary allocation etc), and maintained thrust on boosting infrastructure (constituting 48.5% of plan expenditure alongwith several other measures like tax free bonds, foreign debt funding of infrastructure projects etc.), including rural infrastructure, we expect Indian economy to grow at expected rate of 9%

IV. Reforms

The Finance Minister has demonstrated in no uncertain terms his commitment to reforms. He has simplified procedures – self declaration in customs, no need to file IT returns by small tax payers, no audit for small service providers etc. He has spoken of introducing constitutional amendment bill for GST and several financial sector reforms. There is reaffirmation of the introduction of direct tax code (DTC). This bears well for the economy. Controlled fiscal deficit and government borrowings (subject to implementation) are also positives towards reforms.

Macro Economic Financials**Key Measures**

- Economy expected to grow at 9% (+/- 0.25%) in 2011-12. As per advance estimates it grew in 2010-11 at 8.6%
- Fiscal deficit pegged at 4.6%. It is 5.1% as per Revised estimates of 2010-11.
- Nominal GDP for 2011-12 estimated at ₹90 lac crore.
- At market prices GDP projected to grow at 13.5% between 2011-12 and 2012-13.
- Plan expenditure estimated at ₹ 4.4 lac crore,
- Estimated Tax revenue 2011-12 ₹ 6.65 lac crore, Non tax revenue ₹1.25 lac crore, Market borrowing ₹4.12 lac crore,
- Total Expenditure is estimated at ₹12.58 lac crore.
- Target credit flow to farmers – ₹ 4.75 lac crore
- Education outlay at 0.7% of GDP amounting to ₹ 63 thousand crore.
- Interest payment – ₹ 2.68lac crore, Subsidies at ₹1.44lac crore.

Section	Particulars	Existing/ Changes	Effective Date
Sec 2(15)	Definition of Charitable Trust	Current monetary limit enhanced from ₹ 10 lac to ₹25 lac. This is a welcome relief to such trusts.	1 st April, 2012
Sec 10(47)	New sub-section in section 10 relating to exemption of income of Infrastructure Debt Fund	Central Government to notify any infrastructure debt fund which is set up in accordance with the prescribed guidelines. It will, however, be required to file a return of income. This will deepen bond market in India.	Date of notification
Sec 35	Weighted deduction for contribution made for approved scientific research program.	In order to encourage more contributions to such approved scientific research program, it is proposed to increase this weighted deduction from 175 per cent. to 200 per cent. This will boost expenditure towards scientific research	1st April, 2012.
Sec 35(AD)	Investment linked deduction in case of specified business.	<p>Two new businesses as "specified business", i.e.,-</p> <p>(a) Developing and building a housing project under a scheme for affordable housing framed by the Central Government or a State Government, as the case may be, and notified by the Board in this behalf in accordance with the guidelines as may be prescribed; and</p> <p>(b) Production of fertiliser in India.</p> <p>This will boost housing and fertilizer industry</p> <p><u>Loss set off section 73A</u></p> <p>Therefore, an assessee who currently operates a hospital or a hotel would be able to set off the profits of such business against the losses, if any, of a new hospital or new hotel which begins to operate after 1st April, 2010 and which is eligible for deduction of expenditure under section 35AD.</p> <p>This will clarify confusion on earlier use of word "new".</p>	<p>1st April, 2011</p> <p>Retrospective – 1st April 2010</p>
Sec 36 / 80CCE	Employer contribution to New Pension Scheme	Contribution made by the Central Government or any other employer to a pension scheme under section 80CCD(2) shall be excluded from the limit of one lakh rupees provided	1st day of April, 2012

	(NPS).	<p>under section 80CCE.</p> <p>Sum paid by the assessee as an employer by way of contribution towards a pension scheme, to the extent it does not exceed ten per cent. of the salary of the employee in the previous year, shall be allowed as deduction</p> <p>This will popularize NPS as saving and investment tool</p>	
Sec 80CCF	Investment in long-term infrastructure bonds as notified by the Central Government.	<p>Extend deduction on account of investment in notified long-term infrastructure bonds for the year 2011-12 (assessment year 2012-13) also.</p> <p>This is continue to provide added tax deduction to tax payers</p>	1 st April 2012
Sec 80 IA	A deduction of profits and gains is allowed to an undertaking engaged in power generation, distribution and transmission	<p>To extend the terminal date for a further period of one year, i.e., up to 31st March, 2012</p> <p>This will boost power sector.</p>	1 st April, 2012
Sec 80 IB	Deduction in respect of profits and gains from certain industrial undertaking other than infrastructure.	Provisions shall not apply to blocks licensed under a contract awarded after the 31 st day of March, 2011 under the New Exploration Licencing Policy	1 st April, 2012
Sec 92 C	Computation of Arms Length Price (ALP)	In section 92C of the Income-tax Act, in sub-section (2), in the second proviso, for the words "five per cent. of the latter", the words "such percentage of the latter, as may be notified by the Central Government. Flexibility is withdrawn. This will have adverse effect to assesses.	1 st April, 2012
Sec 92 CA	Transfer Pricing	<p>Transfer Pricing Officer (TPO) can determine the ALP in relation to an international transaction, which has been referred to the TPO by the Assessing Officer.</p> <p>Specifically provide that the jurisdiction of the Transfer Pricing Officer shall extend to the determination of the ALP in respect of other international transactions. TPO shall also</p>	1 st June 2011

		have the power of survey (as under sec 133A). This increases the power of TPO. This is likely to increase litigation	
Sec 139 in connection with Sec 92 E	Due date for filling of return	<p>Section 139 of the Income-tax Act stipulates 30th September of the assessment year as the due date for filing of return of income in case of corporate assesseees. In addition to filing a return of income, assesseees who have undertaken international transactions are also required (under the provisions of section 92E) to prepare and file a transfer pricing report in Form 3CEB before the due date for filing of return of income.</p> <p>Proposed to amend section 139 to extend the due date for filing of return of income by such corporate assesseees to 30th November.</p>	1 st April 2011
Sec 94	Toolbox of counter measures in respect of transactions with persons located in a notified jurisdictional area	<p>It is proposed to insert a new section 94A in the Act to specifically deal with transactions undertaken with persons located in specified country or area. The proposed section provides -</p> <ol style="list-style-type: none"> 1) Power to the Central Government to notify any country or territory having regard to the lack of effective exchange of information 2) Transfer pricing regulations shall apply to transactions with entities located in such notified place; 3) No deduction in respect of any payment made to any financial institution shall be allowed unless the assessee furnishes an authorization to seek relevant information from the said financial institution; 4) No deduction in respect of any other expenditure or allowance (including depreciation) arising from the transaction with a person located in a notified jurisdictional area shall be allowed unless prescribed 	1 st June 2011

		<p>documents are maintained;</p> <p>5) For sum received the onus is on the assessee to satisfactorily explain the source of such money</p> <p>6) Payment made to a person located in the notified jurisdictional area shall be liable to deduction of tax at the higher of the rates specified in the relevant provision of the Act or rate or rates in force or a rate of 30 per cent</p>	
Sec 115A	Reduction of withholding tax from payment to Non resident	Any interest received by a non-resident from notified infrastructure debt fund shall be taxable at the rate of five per cent. on the gross amount of such interest income.	1st June 2011
Sec 115 BBD	Dividend received from foreign companies is taxable at the rate of thirty per cent plus applicable surcharge and cess.	Dividends received from a foreign subsidiary by Indian company shall be taxable at the rate of fifteen per cent. (plus applicable surcharge and cess) on the gross amount of dividends. No expenditure in respect of such dividends shall be allowed under the Act.	1 st April 2012
Sec 115 JB	Minimum Alternate Tax (MAT)	It is proposed to amend this section to increase the rate of MAT to eighteen and one-half per cent. from the existing rate of eighteen per cent of such book profit.	1 st April 2012
Section 115JC	Alternate Minimum Tax (AMT)	Where the regular income-tax payable for a previous year by a limited liability partnership is less than the alternate minimum tax payable for such previous year, the adjusted total income shall be deemed to be the total income of such limited liability partnership and it shall be liable to pay income-tax on such total income at the rate of eighteen and one-half per cent."Adjusted total income" means total income before deduction under section 80A to 80U and 10AA for SEZ units	1 st April 2012
Section 115JD	Tax credit for Alternate minimum tax	Credit for tax (tax credit) shall be allowed to the extent of the excess of the alternate minimum tax paid over the regular income-tax. This tax credit shall be allowed to be carried forward up to the tenth assessment year immediately succeeding the assessment year for which such credit	1 st April 2012

		<p>becomes allowable. It shall be allowed to be set off for an assessment year in which the regular income-tax exceeds the alternate minimum tax to the extent of the excess of the regular income-tax over the alternate minimum tax.</p>	
Section 115 R	Rationalisation of Tax on Income distributed to unit holders	<p>Under the existing provisions contained in section 115R(2) of the Income-tax Act, a Mutual Fund is liable to pay additional income-tax on the amount of income distributed to its unit holders.</p> <p>It is proposed to levy additional income-tax at a higher rate of 30 per cent. on income distributed by debt funds to a person other than an individual or HUF.</p> <p>Mutual Fund shall be liable to pay additional income-tax on such distributed income at the rate of -</p> <ul style="list-style-type: none"> (a) 25 per cent. if the recipient is an individual or HUF in case of distribution by a money market mutual fund or a liquid fund; (b) 30 per cent. if the recipient is any other person in case of distribution by a money market mutual fund or a liquid fund; (c) 12.5 per cent. if the recipient is an individual or HUF in case of distribution by a debt fund other than a money market mutual fund or a liquid fund; and (d) 30 per cent. if the recipient is any other person in case of distribution by debt fund other than a money market mutual fund or a liquid fund. There will be no change in the rate of income-tax in case of distribution to any individual or HUF. Distribution of income by an equity-oriented fund shall continue to be exempt from tax. 	1 st June 2011

Section 139 (1C) / 296	Exemption to class or classes of persons from furnishing a return of income	<p>Exempt, by notification in the Official Gazette, any class or classes of persons from the requirement of furnishing a return of income, having regard to such conditions as may be specified in that notification.</p> <p>Consequential amendments are also proposed to be made to the provisions of section 296 to provide that any notification issued under section 139(1C) shall be laid before Parliament.</p>	1 st June 2011
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New Income Tax Rate AY 2012-13					
Status	Individual	Woman	Age of 60 but less than 80	Age 80 or more	% Tax
Income	Up To ₹180000	Up To ₹190000	Up to ₹250000	Up to ₹500000	Nil
	₹180001-₹500000	₹190001-₹500000	₹250001-₹500000	-----	10%
	₹500001-₹800000	₹500001-₹800000	₹500001-₹800000	₹500001-₹800000	20%
	Above ₹800000	Above ₹800000	Above ₹800000	Above ₹800000	30%
Surcharge					
	Where the income or the aggregate of such incomes paid or likely to be paid and subject to the deduction exceeds one crore rupees.				
	Existing (AY 2011-12)		Proposed (AY 2012-13)		
	Domestic company	7.5%	5.0%		
	No surcharge (except foreign company) will be levied on deductions in other cases.				

SERVICE TAX

Scope of Service Tax extended to following specified services:

1. Services provided by:
 - a. air-conditioned restaurants
 - b. having a license to serve alcoholic beverages
 - c. in relation to serving of food and/or beverages.

2. Serviced provided in relation to :
 - a. Short-term accommodation provided by a hotel, inn, guesthouse, club or campsite, or any other similar establishment
 - b. for a continuous period of less than three months.

Effective date: After the enactment of Finance Bill, 2011.

Scope of following services to be extended or altered:

1. Life Insurance Service:
 - It is being widened to cover all services provided to a policyholder or any person, by an insurer, including re-insurer carrying on life insurance business.
 - Tax shall be charged on the portion of the premium other than what is allocated for investment, when the break-up of premium is shown separately in any document given to the policy holder.
 - The composition rate is also being increased from 1% to 1.5%.

2. Club or Association Services:
 - It is being expanded to include service provided to non-members within its ambit.

3. Authorized service station service:
 - include services provided by any person;
 - cover all motor vehicles other than those meant for goods carriage and three-wheeler scooter auto-rickshaws; and

- also cover the services of decoration and similar services in respect of vehicles along with the services already covered.
4. Legal consultancy services
 - The scope of Legal consultancy services is being expanded and now excludes only those legal consulting (not representation) services provided by individual to individual
 5. Business Support Services:
 - The definition of 'Business support services' is being amended to include the services provided by way of operational or administrative assistance in any manner. Thus this has become enhanced enough to encompass most of such services.
 6. Commercial Training or Coaching Service
 - In the Commercial Training or Coaching service, the definition of "Commercial training or coaching centre" is being amended to bring all unrecognized courses within the tax net.
 7. Health Services:
 - The scope of Health services is being expanded by including All services, including diagnostic services, provided, by a centrally air-conditioned (wholly or partially) clinical establishment having more than 25 beds for in-patient treatment during any part of the year;
 - Diagnostic services being provided by a clinical establishment with the aid of laboratory or other medical equipment; and,
 - Services provided by a doctor, not being an employee of a clinical establishment, from the premises of such establishment.

Exemption:

1. Exemption is being provided to services provided by an organizer of business exhibitions in relation to business exhibitions held outside India.
2. An abatement of 25% from the taxable value is being provided for the purpose of levy of service tax under 'Transport of goods through coastal and inland shipping'.
3. Exemption is being provided to 'Works contract' service provided for construction or finishing of new residential complex under 'Jawaharlal Nehru National Urban Renewal Mission' and 'Rajiv Awaas Yojana'.

4. Exemption is being provided to services provided within a port or other port or an airport under the 'Works contract' service for specified purposes.
5. Exemption is being provided to 'Rashtriya Swasthya Bima Yojana' under the 'General insurance' service
6. Freight included in the assessable value of goods for charging customs duties is being excluded from taxable value for the purpose of levy of service tax under the 'Transport of goods by air' service.
7. Services related to transportation of goods by road, rail or air when both the origin and the destination are located outside India is being exempted from service tax.
8. A modified scheme is being introduced to refund service tax to SEZ units and developers and notification No. 9/2009-ST is being superceded. In the modified scheme, 'wholly consumed' services are being defined in the notification in order to extend 'outright exemption' and to permit refund of all other services on a proportionate basis.

The changes at S. No. (1) to (5) and (8) will come into effect immediately. Changes at S. No. (6) and (7) will be effective from 01.04.2011.

CUSTOMS

Heading	Description	Existing	Proposed	Remarks
FOOD/AGRO PROCESSING/AGRIC ULTURE	Specified Agricultural machinery	5%	2.5%	
	Part or components required for the manufacture of above equipment	7.5%	2.5%	
	Micro irrigation equipment	7.5%	5%	
	raw pistachios	30%	10%	
	sun-dried dark seedless raisins	100%	30%	
	cranberry	30%	10%	
	De-oiled rice bran oil cake			Exempted
Automobiles	Hybrid Vehicles, namely, battery pack, battery chargers, AC/DC electric motors and motor controllers			concessional CVD @5%
	Import of spare battery packs for the electric vehicles			concessional CVD @5%
Textiles	Raw Silk	30%	5%	
	Cotton waste			Exempted
	Nylon chips, fibre & yarn	10%	7.5%	
	Rayon grade wood pulp	5%	2.5%	

Capital Goods / Infrastructure	Gems & jewellery	7.5%	5%	
Concession to environment Friendly Items	Lantern or Lamps	10%	5%	
	Toughened Glass & Silver paste for manufacture of Solar cells			
Health Sector	Endovascular stents	5%	Nil	
	Specified life saving drugs and their bulk drugs	10%	5%	
	Lactose	25%	10%	
Electronic Hardware	Ink Jet & laser printer			5% CVD
	PC connectivity cable & other parts			Exempt
	Parts & accessories of Mobile handset			Exempt
Air Craft	Import of Aircraft	2.5%		Education Cess & higher Education cess will be applicable
Export Promotion	Specified Goods			Exempt
	vannamei broodstock	30%	10%	
	bamboo used for manufacture of agarbattis	30%	10%	
Paper	Waste Paper	5%	2.5%	
Metals	Ferro nickel	5%	2.5%	