



**BUDGET 2010**  
**- A BDO INDIA SNAPSHOT**

# KEY TAKEAWAYS OF BUDGET 2010

## DIRECT TAXES

- Enhancement in the Income tax slabs for individuals
- Introduction of 2-pager Saral form
- Reduction of surcharge for Domestic companies
- Increase in threshold limit for Tax Audit
- Presumptive tax- Increase in threshold limit
- Hike in MAT rates
- Enhanced interest for non-deposit of tax deducted at source
- Scope of Income deemed to accrue in India in case of non-residents widened

## INDIRECT TAXES

- Goods and Service Tax (GST) to be implemented from April 1, 2011
- For the effective tax administration under the GST - the Technology Advisory Group is proposed to create the reliable IT projects
- Service tax rate retained at 10%
- Service tax net widened by adding eight new services
- Partial enhancement in standard excise duty to 10% Vs 8%
- Exemption from Additional Duties of Customs on goods imported in pre-packaged form for retail sale





# WHAT BUDGET 2010 HAS IN STORE FOR DIRECT TAXES

## PROPOSED DIRECT TAX AMENDMENTS FOR THE INDIVIDUAL TAX PAYER

- The enhancement in the tax slabs has created tax savings for assessees in different income groups;

INCOME TAX SLABS For a Male Assessee below 65 years			
Pre Budget 2010		Post Budget 2010	
Income Slab	Tax rate	Income Slab	Tax Rate
Below 1.6 lakhs	NIL	Below 1.6 lakhs	NIL
1.6 lakhs to 3 lakhs	10%	1.6 lakhs to 5 lakhs	10%
3 lakhs to 5 lakhs	20%	5 lakhs to 8 lakhs	20%
Above 5 lakhs	30%	Above 8 lakhs	30%

COMPARISON OF TAX LIABILITY (RS.) Assessee is Male(below 65 years)		
	Total Income (5 Lacs)	Total Income (8 Lacs)
Pre Budget 2010	54000	144000
Post Budget 2010	34000	94000
<b>NET SAVINGS</b>	<b>20000</b>	<b>50000</b>

- In addition to the existing investment linked deduction limit 1 lakh, in order to incentivise investments in long-term infrastructure bonds an additional deduction of Rs. 20,000 would be allowed under the new Section 80CCF
- Contributions to the Central Government Health Scheme are also now eligible for deduction u/s 80D ; however the maximum deduction allowed under this provision remains unaltered
- A simple 2 pager form 'SARAL-II' for Individual salaried taxpayers would be making Income tax return forms simpler and user friendly



## PROPOSED DIRECT TAX AMENDMENTS FOR THE CORPORATES

- All domestic companies having income above Rs. 1 crore would now be liable to **surcharge @ 7.5%** instead of the existing rate of 10% and Marginal relief would be provided
- The **Minimum Alternate Tax** u/s 115JB has been hiked to **18%** from 15%
- No capital gains tax liability on conversion of small private companies or unlisted public companies into **Limited Liability Partnership**



## OTHER PROPOSED DIRECT TAX AMENDMENTS

- Extension of time limit for completion of pending project to 5 years from 4 years in case of **housing and real estate sector**
- Relaxing norms for built up area of shop and commercial establishment in housing project to enable basic facility for their resident in case of housing and real estate sector
- Enhancement of weighted deduction of expenditure incurred on **in-house R&D** to **200%** from 150%
- Enhanced deduction on payment made to specified institutions for **scientific research** from 125% to 175%



## OTHER PROPOSED DIRECT TAX AMENDMENTS

- Threshold limit for Tax Audit increased to **Rs. 60 lakhs** from Rs.40 lakhs in case of business and to **Rs. 15 lakhs** from Rs. 10 lakhs in case of profession
- Presumptive taxation - increase in limit of turnover to **Rs.60 lakhs** from Rs. 40 lakhs
- **Allowance of expenses** in the same year if tax deducted in the year is deposited within the time limit of filing of return of income
- Enhancement of **interest at 18%** from 12% for failure to deposit the tax deducted at source within the time limits



- **Base limits of payments** subject to TDS increased
- **Weighted deduction of 125%** of payment made to an approved association engaged in research in social sciences or statistical research
- **Income of approved research association** exempted from tax liability
- **Extension of benefit of Investment linked deduction** to new hotels of two star category and above





# WHAT BUDGET 2010 HAS IN STORE FOR INDIRECT TAXES

## INDIRECT TAX HIGHLIGHTS- SERVICE TAX

- Rate of tax on services retained at 10 per cent to create foundation for GST
- **Service tax net widened by adding eight new services viz,**
  - Services of promoting, marketing or organizing of games of chance, including lottery (Presently covered under BAS)
  - Incorporation of Health care Services:
    - health check up undertaken by hospitals or medical establishments for the employees of business entities
    - 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 of a 'brand' of goods, services, events, business entity
- Services of permitting commercial use or exploitation of any event organized by person or organization
- Services provided by electricity exchanges
- Auxiliary services provided by builder etc. to the prospective buyers such as
  - providing preferential location
  - external or internal development of complexes on extra charges
- Services related to 'Intellectual Property Right (IPR)'
  - cinematographic films
  - sound recording
- In order to clarify the legislative intent and also bring in certainty in tax liability the definition of "Renting of Immovable Property Service" is being amended. This amendment is being given retrospective effect from 01.06.2007
- Additional exemption are introduced in existing seven category of services
- Amendment in expansion in scope of eleven existing services.
- Scope of definition of "India" has widened under Export of Services Rules, 2005 and Taxation of Services (Provided from Outside India & Received in India) Rules, 2006
- Definition of the term 'business entity' so as to include an association of persons, body of individuals, company or firm but to exclude an individual
- Simplification in process of refund of accumulated credit to exporters of services, especially in the area of Information Technology and Business Process Outsourcing
- No penalty shall be imposed where service tax along with interest has been paid before issuance of notice by the department
- Wrong availment or utilization of CENVAT Credit on input service, input or capital goods shall be liable to a penalty not exceeding the service tax on such services or rupees two thousand whichever is higher

# INDIRECT TAX HIGHLIGHTS

## CENTRAL EXCISE

- Standard rate of excise duty partially hiked from 8% to 10% on all non-petroleum products
- Levy of excise duty on Chewing and Branded Unmanufactured tobacco based on the capacity of pouch packing machines. In this regard, the Central Government has introduced Chewing Tobacco and Unmanufactured Tobacco Packing Machines (Capacity Determination and Collection of Duty) Rules, 2010 which shall come into force from March 8, 2010.
- 100% credit of excise duty paid on capital goods in the year of receipt for small - scale manufacturers
- Imposition of duty of excise @ 4% on electric cars and vehicles
- Reduction in excise duty from 16 to 10 on goods covered under Medicinal and Toilet Preparations Act
- Specific rate of excise duty adjusted proportionately on portland cement and cement clinker
- Restoration of basic excise duty on crude petroleum, diesel & petrol and other refined products
- Exemption from duty of excise on specified equipment for preservation, storage and processing of agriculture and related sectors
- Full exemption to trailers and semi- trailers used in agriculture
- Exemption to specified inputs required for manufacture of rotor blades for wind energy generators
- Reduction in central excise duty on CFL from 8% to 4%
- Full exemption to toy ballons from excise duty

## CUSTOMS

- Exemption from additional duty of customs on goods imported in a pre-packaged form and intended for retail sale like mobile phones watches etc.
- Relaxation in the conditions specified for the exemption of specified road construction machinery items to allow sale/ disposal of such machinery
- Gold ore and concentrate have been fully exempted from basic customs duty and special additional duty of customs but is chargeable to CVD @ Rs.140 per 10 gram
- Concessional duties granted to Medical Equipments
- Additional projects are notified under heading 98.01 of Customs Tariff as "Project Imports"
- Basic customs duty enhanced of products of precious metals and petroleum industry
- Clean energy cess on coal produced will be levied on imported coal at rate of Rs.50 per tonne
- The limit of duty free import of samples in terms of notification no. 154/94-Customs dated 13-7-94 is being enhanced to Rs.3 lakhs p.a. from Rs.1 lakh p.a.
- Exemption for electrical energy supplied from SEZ to DTA and non processing areas of SEZ would retrospectively attract CVD of 16% w.e.f. 26th June, 2009
- Full Exemptions granted in 9 category of products
- Concessional basic customs duty of 5% to 3 type of products
- Scope of cases extended to include proceedings related to search & seizure before the settlement commission

## PRIME IMPACT OF BUDGET 2010

- Government confident to introduce DTC & GST by April 1, 2011
- Huge relief to Individual tax payers, approx Rs. 50,000 plus - 60% taxpayers to benefits
- 80C deduction limit increased from Rs.1,00,000 to Rs.1,20,000 (Rs.20,000 to invest in Long Term Infrastructure Bonds)
- Two more Central Processing Centre - processing Rs.20,000 returns everyday - positive for taxpayer faster refunds.
- IT Return forms for individual to be further simplified - New 2 pages Saral-II form to be introduced
- Surcharge reduced to 7.5% from 10% for Corporate tax assessee
- MAT increased to 18% from 15% - negative for infrastructure sector enjoying tax holidays like, Power, Roads, etc.
- Conversion of Company to LLP will not attract capital gain

### Indirect Taxes

- No rate change in Service taxes indicate clear direction to move into GST Regime
- For IT / BPO industry government proposed to introduced faster refund scheme
- For SME it is proposed to introduce full Cenvat Credit on duty paid on capital goods in the first year and discharging payment liability on a quarterly basis - Positive cash flow impact to SMEs

### **Pharma company to benefit from:**

- Weighted deduction on expenditure incurred on in-house R&D enhanced from 150 % to 200 %.
- Weighted deduction on payments made to specified institutions for scientific research enhanced from 125 % to 175 %

### **Tourism**

- Benefit of investment linked deduction extended to new hotels category of two-star category and above earlier it was applicable only to Four star and above- This will give extra benefit to Hospitality sector who are venturing into Budget hotel and Business hotel category

### **Real Estate and Housing Sector to benefit for extending period completion date from four to five years for claiming tax exemption**

- Medical facilities to employees of business entity and health insurance scheme covered under service tax
- Economy class brought under service tax
- Retrospective amendment in renting of immovable property- answer to delhi high court judgement
- Definition changed from “in relation to” to “by” renting of immovable property



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