



India Budget 2010

By S LOHIA & ASSOCIATES

Chartered Accountants

India Budget 2010



(presented by the Honorable Finance Minister Shri Pranav Mukherjee on Feb 26, 2010)

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Introduction

Union Budget is the Annual Financial Statement of India presented every year on the last working day of February (this time on February 26, as February 28th is a Sunday)

The Budget refers to the 'Annual Financial Statement', laid before both the Houses of Parliament (Lok Sabha and Rajya Sabha). This statement of accounts is valid for one financial year. The financial year starts on April 1 every year and ends on March 31.

By this document, we hereby present the tax proposals provided in the budget in a simple language.

Budget Implications on Direct Taxes

Tax Rates

Individual/HUF – New Tax Slabs Inserted

Existing		Proposed	
Income (INR)	Rate (%)	Income (INR)	Rate (%)
0- 1,60,000	Nil	0- 1,60,000	Nil
1,60,001- 3,00,000	10%	1,60,001-5,00,000	10%
3,00,001- 5,00,000	20%	5,00,001-8,00,000	20%
5,00,001 and above	30%	8,00,001 and above	30%

1,60,000 shall be substituted with 1,90,000/ 2,40,000 for Female/Senior Citizen.

Impact: A person earning a total income of Rupees 8 lacs or more, will enjoy a tax benefit of Rupees 50,000 (plus education cess on same) .

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Companies

- Surcharge reduced from 10% to 7.5%
- Minimum Alternate Tax increased from 15% to 18% (*In previous budget i.e. Budget 2009 this rate was increased from earlier 10% to 15%*).

Deductions Under Chapter VIA

- Individual/HUF shall be allowed a new deduction u/s 80CCF, for an amount upto Rs 20,000, wrt subscription made to notified Long Term Infrastructure Bonds.
- Contribution made to CGHS (Central Govt Health Scheme) shall be considered for deduction u/s 80D.
- Conditions for availing deduction u/s 80IB (for Housing projects approved after April 1, 2005) have been marginally relaxed
 - o Project can be completed in 5 years (compared to earlier 4 years) from the year of approval
 - o Built-up shops/commercial establishments in the Housing project can be 3% or 5000 Sq ft, whichever is

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higher (compared to earlier '5% or 2000 sq ft which ever is lower')

- 2-3-4 Star hotels/ Convention centre (deduction u/s 80 ID) can start/complete the functioning/construction till July 31, 2010 (earlier March 31, 2010) – A Commonwealth Games Bonanza

Tax Deduction at Source (TDS) Provisions

- No disallowance of expenses (u/s 40(a) (i)), if TDS deducted in the FY of transaction and deposited on or before the due date of filing the ITR.
- Delay/failure in deposit of TDS will attract interest rate of 1.5% (as compare to earlier 1%).
- The requirement of furnishing TDS/TCS certificate shall continue even after 1st April 2010.
(In the previous budget the above requirement was dispensed with wef April 1, 2010. Now, considering the importance of TDS/TCS certificate (for its receiver) the requirement has been reinserted in law.)

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- Increase in Threshold limit for deducting TDS:

Sr. No	Section	Nature of Payment	Existing	Proposed
1	194B	Winning from Lottery or Crossword Puzzle	5,000	10,000
2	194BB	Winning from Horse Race	2,500	5,000
3	194C	Payment to Contractor	20,000 (50,000 for aggregate of transactions)	30,000 (75,000 for aggregate of transactions)
4	194D	Insurance	5,000	20,000

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Gift Taxation

Following amendments have been proposed in Section 56 (2) (vii)

- Applicable to firm and company as well i.e. if a firm/closely held company, receive shares of a closely held company without consideration/without adequate consideration, the difference between market value of shares and the consideration (if any) shall be considered as income if exceed Rs 50,000.
- In property definition 'bullion' has been inserted.
- Property definition will not include stock in trade, raw material, consumable stores of any business.
- Immovable property without adequate consideration is removed from the section.

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Limited Liability Partnership (LLP)

- Tax benefits for conversion of Pvt Ltd Co/Unlisted Public Co into LLP:
 - o Transfer of assets not a transfer under capital gain tax provisions of the Income tax Act (conditions apply)
 - o Carry forward and set off of business loss and unabsorbed depreciation allowed to LLP
 - o Tax credit of MAT u/s 115JAA is not allowed to LLP

Misc Provisions

- Document Identification Number (DIN) is to be provided from July 1, 2011.
(DIN was introduced by inserting new section 282B in the Act, by the Finance Bill 2009 wef Oct 1, 2010 to provide a number to each letter, order, notice or other correspondence issued from the Income Tax Department, otherwise that document shall be deemed as invalid.)
- It is proposed in Sec 12AA that Commissioner can cancel the registration obtained u/s 12A (i.e trust/charitable institution registration).
- Weighted deduction, for in-house research and development, has been increased from 150% to 200% of the expense.

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- Weighted deduction increased from 125% to 175%, for contribution paid to Approved Scientific Research Association, Approved University/College/Institution, National Laboratory, University, IIT etc.
- Power has been granted to High Court for condoning the delay in filing of appeals.
- Direct Tax Code shall be made effective April 1, 2011.

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Budget Implications on Indirect Taxes

GST to be made effective from April 1, 2011.

Service Tax

- 8 new services have been brought in Tax net including selected health services.
- Scope of existing services is expanded /altered e.g. journey by air is included in air passenger transport service.
- No penalty if service tax along with interest is deposited before the issuance of notice by the department.
- Scope of exemption from service tax, in case of transport by road (GTA), has been increased by including food grains and pulses therein.
- Exemption from service tax on service providers in relation to transport of goods by rail has been withdrawn.

Excise Duty

- Standard rate of excise duty increase from 8% to 10% in case of non-petroleum goods.
- Excise duty on cigarettes and tobacco products increased.
- Excise duty on Motor spirit and HSD increased by Rs 1 per ltr.
- Ad-valorem component excise duty on large cars increased from 20% to 22%.

Custom Duty

- Duty increased from nil to 5% on Crude petroleum
- Duty increased from 2.5% to 7.5% on petrol and HSD.
- Duty increased on precious metals i.e. gold, silver, platinum etc.
- Basic custom duty reduced on agriculture/horticulture.

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Budget Impact On Stock Market



Stock market reacted positively to the budget . By the end of the day Sensex remained up by 175.35 points (closed at 16429.55) and Nifty remained up by 62.55 points (closed at 4922.30).

Sectoral Impact



Capital Goods

- BHEL 2349.30 (28.10 down)
- L&T 1564.30 (28.70 up)

Oil and Gas

- Reliance 978.95(15.85 up)
- IOC 317.40 (4.50 down)

IT

- TCS 761.80 (4.45 down)
- Infosys 2601.95 (15.40 down)

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Budget Summary

Increase in customs duty and excise duty will result in rise in fuel prices through the country. A bad news for aam admi as well industry.

In direct tax –individuals earning upto Rs 3 lac total income will get no benefit, however, individuals earning more than Rs 8 lac shall enjoy a benefit of Rs 50,000 plus education cess. Further, taking into account of additional deduction for investing in the infrastructure bonds, the benefits may go upto 58,000 approx, thereby big saving for Aam Adami. Surcharge for companies reduced to 7.5% from 10%, which will be positive for India Inc. However, the MAT is increased from 15% to 18%, which will be negative for companies like RIL, HUL, Bharti and Reliance Comm.

No change in service tax, thereby positive for service sector industry as well other industry.

Excise duty hiked to 10% from 8% and there will be partial rollback of excise duty relief on large cars, cement and cement products. This will be

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negative for auto, steel and cement companies.

Interest subvention of 1% on low cost housing will spur demand and subvention will be applicable for loans upto Rs 20 lakh. It is positive news for reality companies like HDIL.

FM increased excise duty on cigarettes and all other non-smoking tobacco. Negative for companies like ITC and Godfrey Phillips.

Defence allocation increased to Rs 1.4 lakh crore. Positive for defense sector companies like L&T, BEL, etc

FM increased weighted deduction from 150% to 200% for in house R&D. This will be a positive for auto and pharma companies.

FM also declared Rs 1.73 lakh crore for infrastructure development. Road development allocation hiked to Rs 19,894 crore, thereby positive for IRB, HCC, Gammon, IVRCL, L&T, Punj Lloyd and Nagarjuna cosntr.

RBI will consider banking licences for NBFCs, thereby positive for IFCI and Rel Capital.

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The government doubled allocation for power sector to Rs 5,130 crore, which will be positive for NTPC, Reliance Power and Adani Power.

For agriculture, interest rate subvention for farm loans hiked to 2% and FM says, govt will extend farm loan payment by 6 months. FY11 bank farm loan target raised to Rs 3.75 lakh crore.

For the banking sector, the focus shall be made on recapitalization of banks, which will be positive for Syndicate Bank & Dena Bank and Uco Bank & Central Bank of India.

The government put clean energy cess on imported, domestic coal, which will be negative for Tata Power.

The government exempted agriculture seeds from service tax; positive for Advanta India.

Cut in excise duty for wind farm unit and inputs for making rotor blades for wind turbines and wind mills exempt from excise. Good News for wind energy related companies like Suzlon.

Budget Impact

The products which will be costlier

- ACs
- TVs
- Big Cars/SUVs
- Petrol/Diesel
- Cigarettes and Cigars
- Non-Smoking tobacco products
- Air Travel (due to the rise in fuel prices)
- Gold & Silver
- Air Travel
- Cement



The products which will be cheaper

- Mobile phones & Accessories
- Medical Equipment
- Agricultural Equipment
- CFL bulbs
- Clean energy equipments like solar panels
- Set top boxes
- Compact Disc
- Toys
- Books
- Watches
- Refrigerators
- Microwave Ovens
- Long pepper & Asafoetida



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