

Union Budget – First Cut Analysis

2009 - 2010

June 6, 2009

Union Budget 2009-10

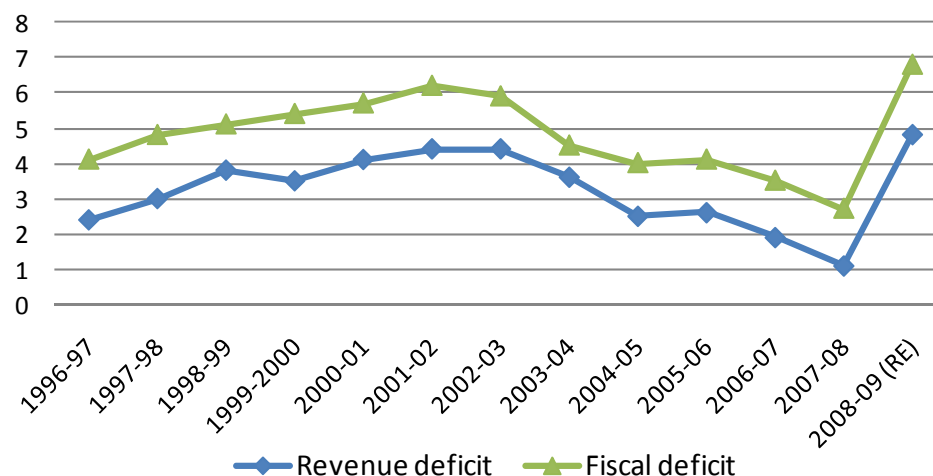
Stimulus Extended, Focus on Rural Infrastructure Continues

- ❑ Pranab Mukherjee opts for extending fiscal stimuli, hikes outlay to the rural sector, refrains from any big ticket announcement on FDI, Fuel Policy and Disinvestment
- ❑ Fiscal deficit seen at a whopping 6.8% of GDP for 2009-10 (6.1% interim budget estimate), revenue deficit at 4.8% (4.5% earlier estimate). GDP growth seen at 6.7%.
- ❑ No major changes in tax rates. Corporate tax rates left unchanged, FBT abolished while MAT hiked to 15% from 10%. Individuals need to pay little less with a hike in exemption limit and elimination of 10% surcharge. Commodity Transaction Tax scrapped. STT stays.
- ❑ Sector level impact is muted. Higher infra and rural spending will boost demand. Natural gas production and transporting companies will benefit from policy initiative and income tax clarifications.

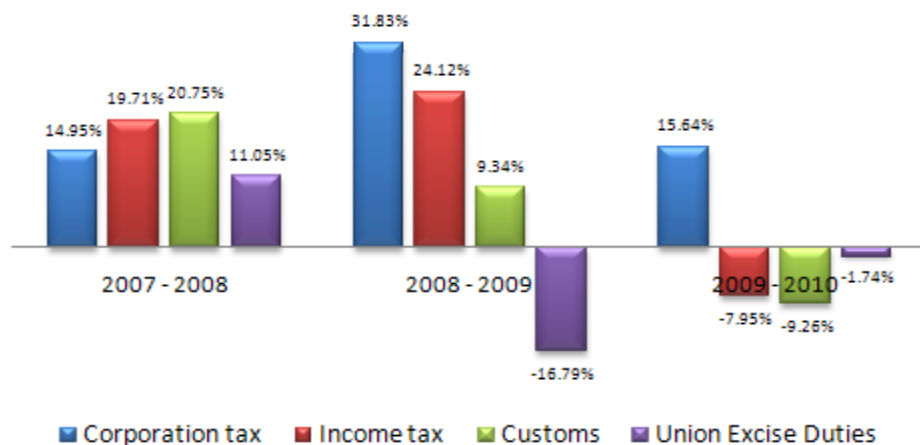
Macro Economy

- ❑ Fiscal and revenue deficits are at historical highs
- ❑ On the revenue side, Finance Minister expects growth only in corporate tax inflows while customs, excise and income tax growth seen to be negative.

FISCAL & REVENUE DEFICIT



TAX RECEIPT GROWTH

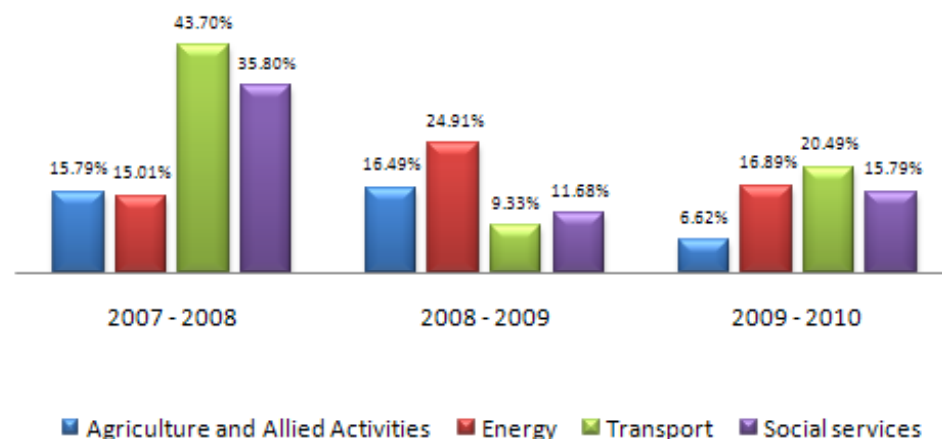


- ❑ Non tax revenues driven by Rs 35,000 cr revenue from 3G auction.

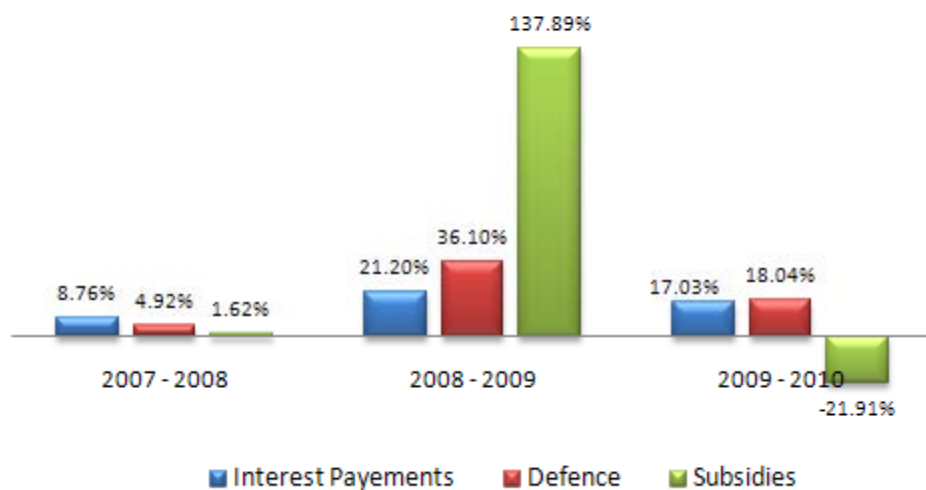
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- ❑ Allocation of expenditure for transport sector grows by almost 20%, with significant jump in rural roads, national highways and railways
- ❑ Substantially higher government borrowings could push up interest rates

PLAN EXPENDITURE GROWTH



NON-PLAN EXPENDITURE GROWTH



- ❑ Expenditure on subsidies drops substantially factoring in a drop in fertilizer subsidies
- ❑ Defense expenditure up by 34%

Economic Survey – Largely Ignored

- ❑ 7-7.5% growth possible in 2009-10, pegs last year growth at 6.7%
- ❑ Rs 250 billion disinvestment target
- ❑ Decontrol prices of petro products
- ❑ Unleash reforms - phase out cesses, surcharges & transaction taxes (such as commodities transaction tax, securities transaction tax and fringe benefit tax)
- ❑ Introduce new Income Tax Code that results in neutral corporate tax regime
- ❑ Allow 49% FDI in defense and insurance; permit FDI in multi-format retail starting with food
- ❑ Implement GST from April 1, 2010

Key Takeaways – Policy Announcements

- ❑ Dual GST to be implemented by April 1, 2010
- ❑ Infrastructure Lending - IIFCL to refinance 60 per cent of commercial bank loans for PPP projects in critical. Along with banks can support projects involving total investment of Rs.1,00,000 cr
- ❑ Special package for the export sector hit by the global crisis
- ❑ 2% interest subvention extended for exporters till March 2010
- ❑ Enhanced Export Credit and Guarantee Corporation cover at 95% to badly hit sectors extended upto March 2010.
- ❑ Specified raw materials for exporters exempt from customs duty
- ❑ Farmer Debt Waiver and Debt Relief Scheme extended from June 30, 2009 to Dec.31, 2009
- ❑ New direct tax code with in 45 days
- ❑ Tax reforms to improve collection mechanism for indirect taxes

Social and Defense Sector Garner the Bulk

- ❑ JNURM allocation increased by 87% to Rs 12887 cr
- ❑ Rural roads – 59% increase to Rs 12000 cr
- ❑ Bharat Nirman budget increased by 45%
- ❑ NREGA allocation at Rs 39100 cr, a whopping 144% increase over previous year
- ❑ NHAI budget sees an increase by 23% to Rs 15800 cr
- ❑ Indira Awaas Yojana allocation up by 63% to Rs 8800 cr
- ❑ Rural housing under National Housing Bank gets Rs 2000 cr
- ❑ Defense expenditure up by 34%, defense pension to get Rs 2100 cr

Direct Taxes - Corporate

- ☐ No change in corporate tax rate
 - ☐ Corporate tax rate continues to be 30%
- ☐ Sunset clause for section 10A and 10B extended to FY 2010-11
 - ☐ Export profits deductible for one more year
- ☐ Fringe benefits tax abolished
 - ☐ Fringe benefits will now be taxable in the hands of employees
- ☐ Tax exemptions to be investment linked rather than profit linked
 - ☐ Capital expenditure other than land, goodwill and financial instruments to be fully deductible
- ☐ MAT increased from 10% to 15%
 - ☐ MAT credit to be carried forward to 10 years

Direct Taxes - Corporate

- ❑ Commodities Transaction Tax abolished
- ❑ Scope of presumptive taxation extended to small businesses
 - ❑ Business with a turnover upto 40 lacs to declare income @ 8% of turnover
 - ❑ Small businesses exempted from keeping books and payment of advance tax
- ❑ Tax holiday under 80IB extended to natural gas
 - ❑ Available to oil and gas blocks awarded under NELP-VIII round of bidding

Direct Taxes - Individual

- ☐ Basic exemption limit for individuals increased
 - ☐ Senior citizens by Rs. 15,000 - Savings of atleast Rs.1,500
 - ☐ Women and others by Rs. 10,000 - Savings of Rs. 1,000
- ☐ 80DD deduction increased to Rs. 75,000 to Rs. 1,00,000
 - ☐ Rs. 25,000 additional deduction for treating a severely disabled dependent
- ☐ Surcharge abolished
- ☐ NPS to fall under Exempt-Exempt-Taxed (EET)
 - ☐ NPS Trust to be exempted from income tax, DDT, STT
 - ☐ Self- employed persons can participate in NPS
- ☐ 80E deduction to be extended to all fields of study
 - ☐ Interest on loan taken for vocational studies deductible

Direct Taxes - Individual

Tax Bites at 3 Levels

	Ram (3,00,000)		Shyam (9,00,000)		Soham (15,00,000)	
	A.Y.2009-10	A.Y.2010-11	A.Y.2009-10	A.Y.2010-11	A.Y.2009-10	A.Y.2010-11
	Rs.		Rs.	Rs.	Rs.	Rs.
Salary Income	300000	300000	900000	900000	1500000	1500000
Less: Profession Tax	2500	2500	2500	2500	2500	2500
Income chargeable under the head salaries	297500	297500	897500	897500	1497500	1497500
Interest paid on housing loan	0	0	150000	150000	150000	150000
Interest income from Savings in Bank	7500	7500	15000	15000	15000	15000
Dividend Income (Exempt)	0	0	0	0	0	0
Gross Total Taxable Income	305000	305000	762500	762500	1362500	1362500
Less: Deductions under Section 80C, 80CCC, 80CCD	100000	100000	100000	100000	100000	100000
Deduction for Medical Insurance Premia 80D	30000	30000	30000	30000	30000	30000
Net Taxable Income	175000	175000	632500	632500	1232500	1232500
Tax Liability before surcharge	2500	1500	94750	93750	274750	273750
Add: Surcharge thereon	0	0	0	0	27475	0
Total Tax Payable	2500	1500	94750	93750	302225	273750
Add: Education Cess thereon (3%)	75	45	2843	2813	9067	8213
Total Net Tax Payable (Rounded off to nearest tens)	2580	1550	97590	96560	311290	281960
Effective tax rate on net taxable income	1.47%	0.89%	15.43%	15.27%	25.26%	22.88%

- Effective tax rate for **Soham** reduced by 2.38% due to surcharge elimination

Indirect Taxes

Customs duty

- ❑ To maintain overall customs and excise duty structure
- ❑ Goods and service tax to be rolled out from April 1, 2010
- ❑ Following are few specific proposal which have marginal impact
- ❑ 5% customs duty introduced on set up boxes
- ❑ Customs duty on LCD panels cut from 10% to 5%
- ❑ Customs duty will also be reduced from 7.5% to 5% on two specified life saving devices used in treatment of heart conditions. These devices will be fully exempt from excise duty and CVD also.
- ❑ Customs duty on bio-fuel diesel cut to 2.5% vs. 7.5%
- ❑ Full exemption from CVD of 4% was available to accessories, parts and components imported for the manufacture of mobile phones extended to 1 more year

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Excise duty

- ❑ Duty on paper, paperboard, drugs, pharmaceuticals and medical equipment retained at 4%
- ❑ To scrap excise on petro-diesel blended with bio-diesel
- ❑ Unified excise duty for cars - specific component of excise duty on large cars/utility vehicles (of engine capacity 2000 cc & above) reduced from Rs. 20,000 to Rs. 15,000 per vehicle. Excise duty on petrol driven trucks/lorries cut from 20% to 8% . Duty on chassis for trucks/lorries reduced from 20% + Rs. 10,000 to 8% + Rs. 10,000
- ❑ Excise duty on branded jewellery to be reduced from 2% to Nil.

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Service Tax

- ☐ Service tax rates remain unchanged
- ☐ New services brought under service tax net like transport of coastal goods and goods through national waterways, transport of goods by rail and legal consultancy services
- ☐ Certain services received by exporters exempted from service tax. No need for the exporter to first pay the tax and later claim refund.
- ☐ Proposed Indirect Tax changes to yield a net gain of Rs. 2000 crore in 2009-10

Sector impact – largely muted

Budget announcements do not have any major positive or negative impact, absence of expected announcements lead to market correction

Automobiles

- ❑ Excise duty cut on large cars/ utility vehicles to marginally benefit Tata Motors, Ashok Leyland, M&M

Infrastructure

- ❑ Incremental lending, increased allocation for roads, highways, railways and urban infrastructure to benefit select companies, especially rural infrastructure or NHAI focused

Cement

- ❑ Higher allocation to roads and rural housing likely to improve demand

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Fertilizers

- ☐ Drastic reduction in fertilizer subsidy is a cause for concern
- ☐ Move towards a nutrient based subsidy regime against current product pricing regime though desirable will bring in uncertainty

Oil and Gas

- ☐ Deduction under 80 IB to be extended to production of natural gas
- ☐ Cross country natural gas pipelines get tax benefits

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Media

- ☐ Stimulus package for print media comprising waiver of 15 per cent agency commission on DAVP advertisements and 10 per cent increase in DAVP extended from 30th June, 2009 to 31st December, 2009.

IT

- ☐ Sun-set clause extended - Deductions under section 10A & 10B for profits from exports would now be extended for another year
- ☐ FBT abolished

Thank You!

Contact us at:

IRIS Business Services (India) Pvt Ltd.
T-131 International Infotech Park,
Vashi, Navi Mumbai - 400703.

Board: +91 22 67231000

Fax: +91 22 27814434