

Highlights of
**Union
Budget
2010**



.....A PRIME ACADEMY
RESEARCH REPORT

Prepared by:

Prime Academy Research Team

Caveat:

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Union Budget 2010

On 26th Feb, 2010 the UPA government's ace trouble shooter and the country's finance minister, Pranab Mukherjee, presented Budget 2010; the nation's blueprint for the 20th year of market reforms. Yes, it's 19 years since India transitioned from a closed, protected socialist economy to a open, market driven capitalist economy.

What does the Budget portend? But first a look at the big picture,

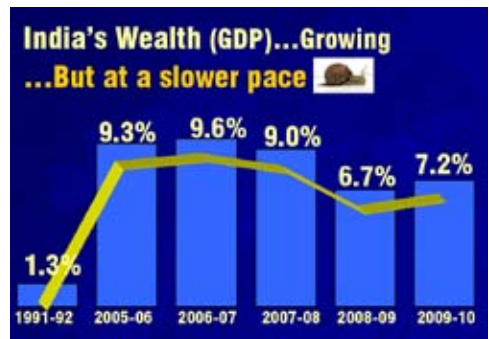
Budget

The government's statement of how it intends to raise money and spend money.

GDP Growth

A country's **Gross Domestic Product (GDP)** is the total value of goods and services turned out in a year.

- India's GDP is estimated to grow at 7.2% in 2009-10 which is a shade higher than the 6.7% clocked in the previous year.
- Given the fact that the world has spun into a recession, this growth is significant.



Fiscal Deficit

Fiscal Deficit

The amount of borrowing required by the Government to meet its expenditure.

- Fiscal Deficit as a percentage of GDP is estimated at 6.5% in 09-10 and is expected to drop down to 5.5% in 10-11.
- This is a sharp climb from the low of 2.7% that was achieved in 2007-08 but is considered to be alright given the global financial meltdown.
- What is of some concern is the rising Revenue Deficit. This is the excess of Revenue Expenditure over Revenue Receipt and is an indicator of spending beyond one's means. This Revenue Deficit is now 4%, significantly up from the 1% of 2007-08.

(Rs. In Thousand Cr)

	2007-08	08-09	09-10	10-11
Fiscal deficit	126	330	400	381
Revenue deficit	52	247	282	276
% of GDP				
Fiscal deficit	2.6%	5.9%	6.5%	5.5%
Revenue deficit	1.1%	4.4%	4.6%	4.0%

DIRECT TAX PROPOSALS

Corporate Tax Rates

- Tax Rates remain unchanged at 30%
- Surcharge has been reduced from 10% to 7.5%
- There will be no surcharge on companies with a total income under Rs 1 Cr.

Tax is shared between the central and state governments. Surcharge is pocketed by the central government.

Minimum Alternate Tax Up

- MAT for companies was 10% in the financial year ended 31-03-09
- Increased to 15% for FY 31-03-10
- Enhanced to 18% for FY 31-03-11

MAT incidentally is a part of the US federal tax system.

Personal Tax

- Tax slabs have been widened for FY 31-03-11
- This is the largest widening in recent times

Income Levels	Tax on Senior Citizen	Tax on Women	Tax on Others
Upto	1.60 L	Nil	Nil
1.60 L to 1.90 L	Nil	Nil	10%
1.90 L to 2.40 L	Nil	10%	10%
2.40 L to 5.00 L	10%	10%	10%
5.00 L to 8.00 L	20%	20%	20%
8.00 L and above	30%	30%	30%

Investment Benefits

- Investment in infrastructure bonds will qualify for deduction upto Rs 20,000 under section 80CCF. This is in addition to the current limit of Rs 100,000 UNDER 80C / 80CCC / 80CCD
- Effective FY 31-03-11.

Charitable Trusts

- Under Income Tax Act, Charitable purpose includes the “advancement of any other object of general public utility”.
- This advancement of any other object of general public utility is not considered to be for charitable purpose if it involves the carrying on of any activity in relation to the trade, commerce, business or service for a consideration.
- Budget 2010 amends the law to provide that the advancement of any other object of general public utility shall continue to be a charitable purpose if the total receipts from any activity in the nature of trade, commerce, business or service for a consideration do not exceed Rs 10 lakhs a year.
- Applicable retrospectively from FY 08-09

Tax Deduction at Source

- An expenditure will be an allowed deduction if the TDS thereon is remitted before due date of filing return.
- Interest on delayed deposit is enhanced from 1% pm to 1.5% pm. This interest will not be tax deductible

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- The threshold limits beyond which TDS will apply will now be as under.

Section	Description	Proposed limit
194B	Winnings Lottery or Crossword Puzzle	10,000
194BB	Winnings Race Horse	5,000
194C	Payment to Contractors	Single Transaction: Rs.30,000 Aggregate in a year Rs.75,000
194D	Insurance Comm.	20,000
194H	Commission	5,000
194I	Rent	1,80,000
194J	Prof. or Tech. Fee	30,000

Limited Liability Partnership

The assets transferred on conversion of private limited companies to Limited Liability partnerships will not be subject to capital gains tax.

Tax Audit

Limit enhanced to Rs 60 lakhs for business and to Rs 15 lakhs for professional.

Maximum penalty delayed filing of Tax Audit Report increased to Rs 1.5 lakhs

Simply file

A simplified form Saral 2 to be introduced for filing of returns by salaried class

Promoting Research

- Weighted deduction on expenditure on in-house R&D increased to 200%
- Weighted deduction on payment to National Laboratories, research association, college, universities and other institution for scientific research increased to 175%.

GIFTS

- Property shall mean a capital asset only and not a stock-in-trade, raw material and consumable stores
- 'Bullion' included as property.
- Earlier the following would be Income of the assessee (Provided it exceeds Rs.50,000):
 - If the assessee receives any immovable property without consideration, the stamp duty value of the immovable property shall be considered as Income of the assessee.
 - If the assessee receives any immovable property for inadequate consideration, the stamp duty value of such property as exceeds such consideration will be considered as Income of the assessee.

Now, the second clause relating to 'inadequate consideration' has been removed.

- Where a firm or a Closely held company, receives, any shares of a closely held company:
 - i. without consideration, the aggregate fair market value of such shares will be treated as income of the assessee.
 - ii. for inadequate consideration when compared to fair market value, the difference would be treated as income of the assessee

Excise Duty

- Standard rate increased from 8% to 10%
- Duty on large cars up by 2%
- Duty on petrol and diesel increased by Rs 1

Indirect taxes to
fetch Rs.46000 Cr.

Customs

- The peak rate remains unchanged
- 5% basic customs duty on crude petroleum imposed
- Increase in duty from 2.5% to 7.5% in respect of petrol and high speed diesel oil

CST

The following will now be possible:

- Reassessment by the assessing authority on the basis of new facts discovered
- Filing of appeals to the highest authority of every State against the orders made by assessing authorities on issues involving stock transfer or inter state sale.
- Filing of appeal against any order passed by the highest appellate authority of a State on disputes of interstate nature relating to stock transfer or consignments of goods to the CST Appellate Authority.

Service Tax

7 new services added

- Health check up
- Games of chance
- Medical records services
- Brand promotion
- Promoting commercial use of any event
- Electricity exchange services
- Copyright for cinematographic films

Scope Enhancement

- All services provided within the port or airport would fall under the respective port services or airport services
- Tax on software services whether or not used in the course of business
- Sports sponsorship
- Construction of a complex intended for sales
- No service tax if entire payment for property is paid by the buyer only after completion of construction
- Certain services of builder to prospective buyers such as providing preferential location on extra charge
- Renting will now constitute a services

Disinvestment

- The Government proposes to offload a certain percentage of their stake in the Public Sector Units to rope in a minimum Rs 25,000 Cr.
- Auction of 3G spectrum budgeted to fetch Rs 75,000 Cr.

Another Rs 75000
Cr from auction of
3G spectrum

India Facts

- We are the 12th largest economy in the world
- Ranked 132 on per capita income
- Savings rate 32.5% of GDP in 2008-09
- 37% live below the poverty line
- Ranked 134th on the Human Development Index.