

# UNION BUDGET 2009

Key highlights and summary of Budget proposals

July 6, 2009

# Union Budget 2009-10

## Stimulus Extended, Focus on Rural Infrastructure Continues

- ❑ Finance Minister 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 (5.5% interim budget estimate), revenue deficit at 4.8% (4% earlier estimate). GDP growth FY 2009 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

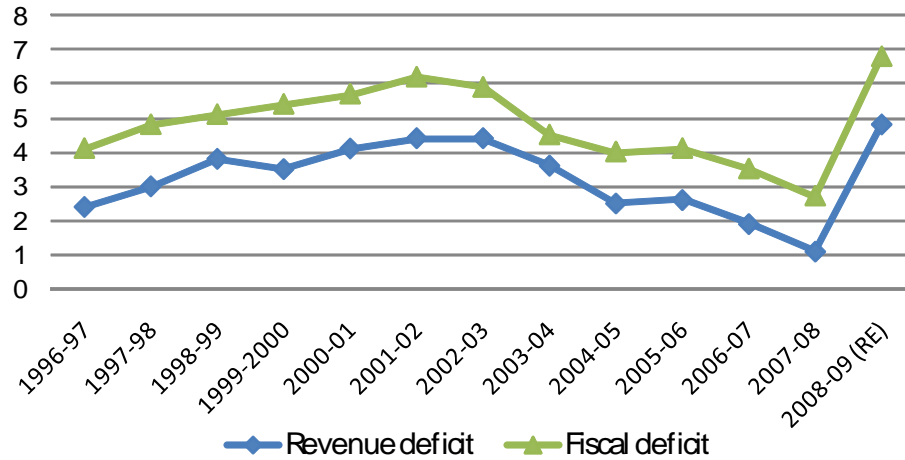


Pranab Mukherjee, Finance Minister, arriving Parliament House to present the Union Budget 2009-10

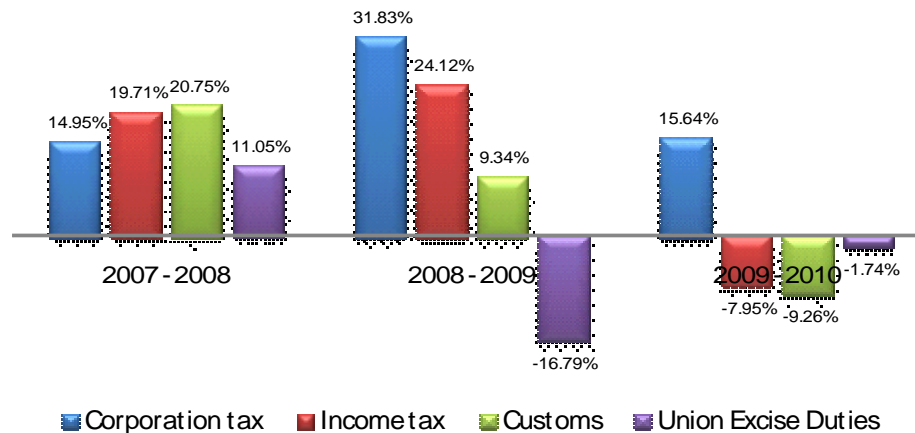
# Macro View – Key Numbers

- ❑ Fiscal and revenue deficits are historical highs
- ❑ On the revenue side, Finance Minister expects growth only in corporate tax inflows. Customs, excise and income tax growth expected to be negative
- ❑ Non tax revenues likely to move up 46% driven by Rs 35,000 cr revenue from 3G auction

## FISCAL & REVENUE DEFICIT



## TAX RECEIPTS

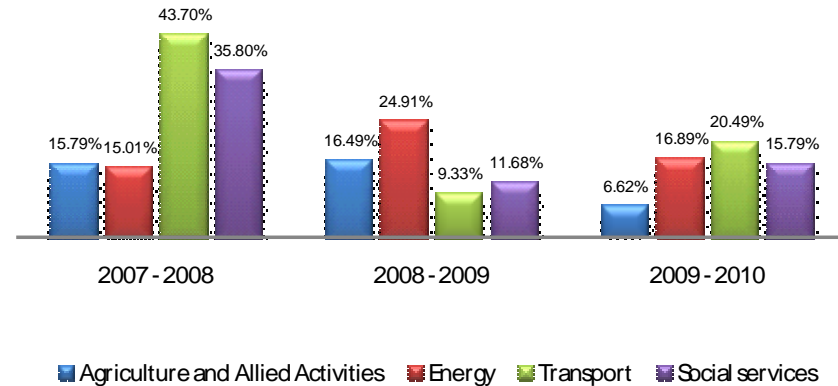


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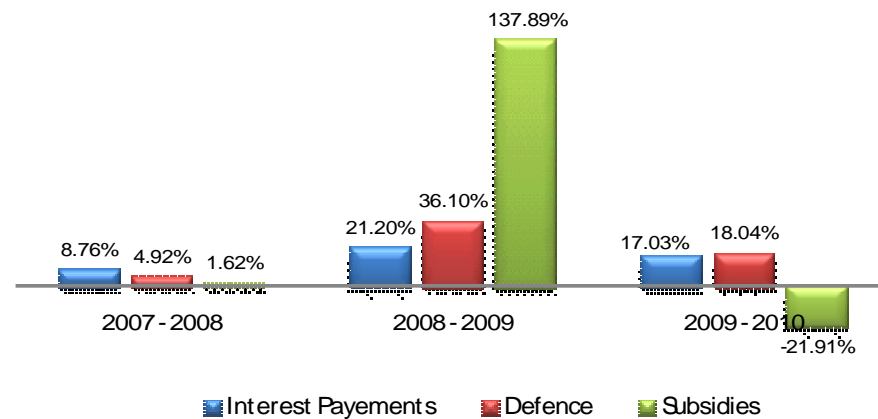
❑ On the expenditure side, forecasting a sharp drop in fertilizer subsidies

❑ Substantially higher government borrowings could push up interest rates

## PLAN EXPENDITURE



## NON-PLAN EXPENDITURE



# 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 Apr. 1, 2010
- ❑ Infrastructure Lending - IIFCL to refinance 60% of commercial bank loans for PPP projects in critical. Along with banks can support projects involving total investment of Rs.1,00,000 cr
- ❑ To set up an expert group to advise on a viable & sustainable system of pricing petroleum products
- ❑ 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 Jun. 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 continues to remain 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

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

□ **Effective tax rate for Mr. C 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

# Indirect Taxes

## Excise duty

- ❑ Duty on paper, paperboard, drugs, pharmaceuticals and medical equipment retained at 4%
- ❑ To scrap excise on petro-diesel blended with bio-diesel upto 20%
- ❑ 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.

# Indirect Taxes

## 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

Threshold for non-promoter public shareholding for all listed cos to be raised in a phased manner

## 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

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## Cement

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

## Fertilizers

- ❑ Move towards a nutrient based subsidy regime against current product pricing regime though desirable will bring in uncertainty
- ❑ Govt intends to move to a system of direct transfer of subsidy to the farmers in due course

## 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% agency commission on DAVP advertisements and 10% increase in DAVP extended from June 30, 2009 to Dec. 31, 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!

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