

Budget Flash 2009 - 2010

February 16, 2009

Overview

The Interim Budget, 2009 ('the Budget') was presented (due to imminent elections) in the Indian Parliament today.

The Budget does not have any tax proposals though there were various representations from industry. It even overlooked certain deadlines, which are expiring on 31 March, 2009.

However, the reiteration of the Government's commitment to introduce the Goods and Service Tax ('GST') from 1 April, 2010 is heartening.



Direct Taxes

Tax Rates

No changes in tax rates (corporate, individuals, minimum alternate tax, fringe benefit tax and dividend distribution tax)

Recognized Provident Fund

The Finance Act, 2007, amended Rule 4 (ea) of Part A of Schedule IV to the Income-tax Act, 1961 (Act), whereby the establishments maintaining their own private Provident Fund Trusts (PF Trust) were required to obtain exemption from the Central Provident Fund Commissioner under Section 17 of The Employees' Provident Funds and Miscellaneous Provisions Act, 1952 (PF Act) in order to avail recognition from the tax authorities. Proviso to sub Rule 1 of Rule 3 of Part A of Schedule IV to the Act was also amended which provided that the existing establishments having set up their own PF Trust prior to April 1, 2006 were required to obtain such exemption before expiry of March 31, 2007 (which was subsequently extended to March 31, 2008 and March 31, 2009, by the Finance Act 2007 and the Finance Act, 2008, respectively) in order to continue to be the recognized provident fund under the Act.

It may be noted that the Chief Commissioner may withdraw the recognition of the recognized PF Trust which fail to obtain the exemption under Section 17 of the PF Act, on or before March 31, 2009.

The Finance Bill, 2009, has not extended the above time limit of March 31, 2009 and therefore, it may put all those existing recognized PF Trust on a risk of losing their recognition if they do not get the approval before March 31, 2009. If this happens, the corporates who set up the PF Trust before April 1, 2006, may not get the corporate tax deduction for the contribution made to such funds while employees would not be able to avail benefit under Section 80C of the Act, in relation to the amount contributed to such PF Trust.

Tax Benefits to Industrial Parks

Section 80-IA provides for hundred per cent deductions in respect of profits and gains from certain industrial undertakings. The deduction was available to an undertaking, which develops, develops and operates or maintains and operates an industrial park in the period ending on the 31 March, 2009. In the absence of any extension of the period in the Finance Bill 2009, it appears that the new industrial parks commencing after the above date would not be eligible for tax benefits. One has to wait for budget proposals from the new Government to ascertain if the tax benefits are going to be extended by retrospective amendment.

Indirect Taxes

- As done in the case of Direct Taxes, the Budget did not contain any announcements related to changes in the tax rates.

- However, the likely approaches to key indirect tax reform measures were available in the speech. These are as follows:
 - in times of economic stress, as prevailing now, tax rates must fall and overall tax collections should be maintained or increased by widening the tax base while moderating tax rates as above.
 - the present rationalization of indirect tax rates has been done with a view to facilitating the introduction of the Goods and Service Tax (GST) with effect from 1st April, 2010.
 - the reiteration of the Government's resolve to introduce the GST from 1 April, 2010.



BUDGET FINANCIALS

The following table sets out the Key Budget Financials:

	(INR in crores)			
	2007-2008*	2008-2009	2008-2009	2009-2010
	Actuals	Budget	Revised	Budget
		Estimates	Estimates	Estimates
1. Revenue Receipts	541,925	602,935	562,173	609,551
2. Capital Receipts[^]	170,807	147,949	338,780	343,680
3. Total Receipts (1+2)[^]	712,732	750,884	900,953	953,231
4. Non-Plan Expenditure	507,650	507,498	617,996	668,082
5. Plan Expenditure	205,082	243,386	282,957	285,149
6. Total Expenditure (4+5)	712,732	750,884	900,953	953,231
7. Revenue Expenditure	594,494	658,119	803,446	848,085
8. Capital Expenditure	118,238	92,765	97,507	105,146
9. Revenue Deficit (7-1)	52,569	55,184	241,273	238,534
<i>As a percentage of GDP</i>	<i>1.1%</i>	<i>1.0%</i>	<i>4.4%</i>	<i>4.0%</i>
10. Fiscal Deficit (6 - (1+Recoveries of Loans+Other receipts))	126,912	133,287	326,515	332,835
<i>As a percentage of GDP</i>	<i>2.7%</i>	<i>2.5%</i>	<i>6.0%</i>	<i>5.5%</i>
11. Primary Deficit (10-Interest payments)	-44118	-57520.00	133821.00	107324.00
<i>As a percentage of GDP</i>	<i>-0.9%</i>	<i>-1.1%</i>	<i>2.5%</i>	<i>1.8%</i>

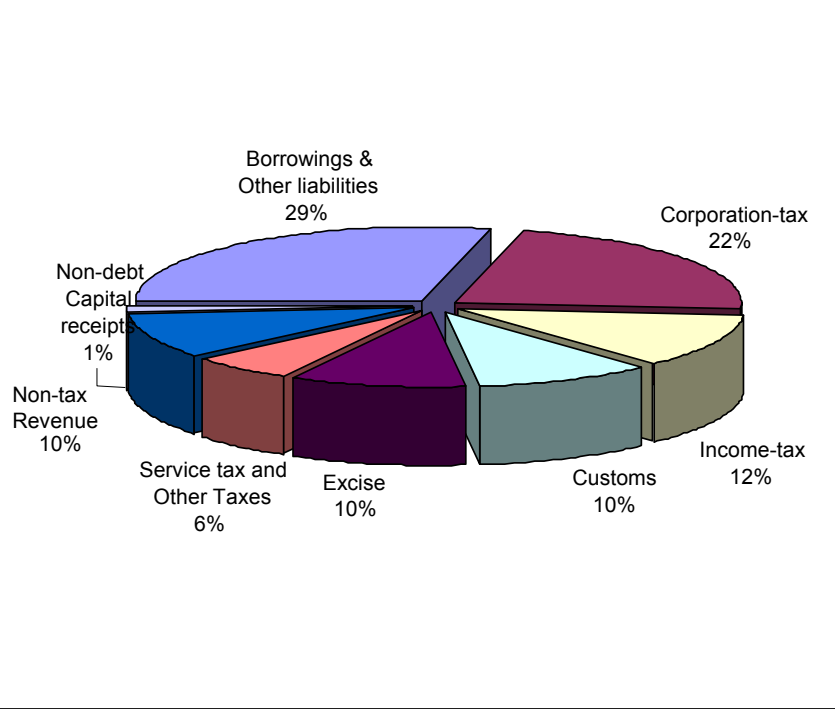
* Actuals for 2007-08 are provisional

GDP for BE 2009-2010 has been projected at Rs. 6,021,426 crore assuming 10.97% growth over the advance estimate of 2008-2009 (Rupees 5,426,277 crore) released by CSO

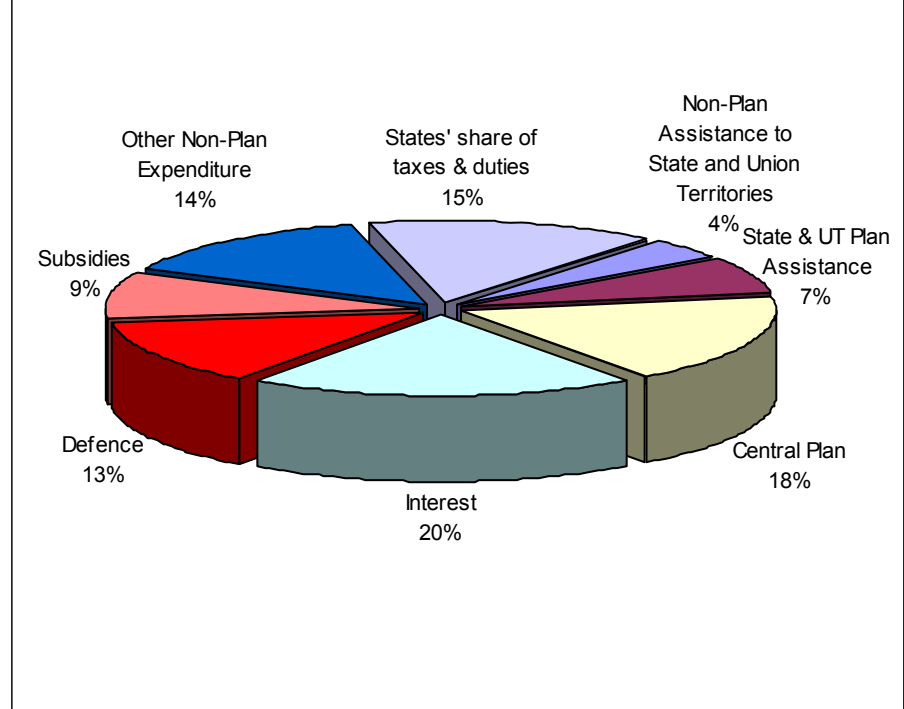
[^] Does not include receipts in respect of Market Stabilization Scheme

BUDGET FINANCIALS

Where the Rupee comes from



Where the Rupee goes to



For private circulation only

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