



# India Budget 2011

## In A Nutshell

- 1.0 DIRECT TAXES
- 1.1 Effective Tax Rates
- 1.1.1 Personal Taxation

The Finance Bill, 2011 ('the Bill') proposes certain modifications to the tax structure for Individuals, Hindu Undivided Families ('HUFs'), Association Of Persons ('AOPs') and Body of Individuals ('BOIs'). Consequently, the effective proposed and existing tax rates for the financial years 2011-12 and 2010-11 respectively, are as follows:

The rates of income-tax in the case of every individual (other than those specified below) or HUF are as under:

Budget, 2011	Tax Rates*	Existing	Tax Rates*
Upto q 1,80,000	Nil	Upto R 1,60,000	Nil
R 1,80,001 to R 5,00,000	10.30%	R 1,60,001 to R 5,00,000	10.30%
R 5,00,001 to R 8,00,000	20.60%	R 5,00,001 to R 8,00,000	20.60%
Above R 8,00,000	30.90%	Above R 8,00,000	30.90%

Females below the age of 60 years (existing limit - 65 years)

Budget, 2011	Tax Rates*	Existing	Tax Rates*
Upto R 1,90,000	Nil	Upto R 1,90,000	Nil
R 1,90,001 to R 5,00,000	10.30%	R 1,90,001 to R 5,00,000	10.30%
R 5,00,001 to R 8,00,000	20.60%	R 5,00,001 to R 8,00,000	20.60%
Above R 8,00,000	30.90%	Above R 8,00,000	30.90%

Senior Citizens - individuals between the age of 60-80 years (existing limit - 65 years)

Budget, 2011	Tax Rates*	Existing	Tax Rates*
Upto q 2,50,000	Nil	Upto q 2,40,000	Nil
Q 2,50,001 to q 5,00,000	10.30%	Q 2,40,001 to q 5,00,000	10.30%
R 5,00,001 to R 8,00,000	20.60%	R 5,00,001 to R 8,00,000	20.60%
Above R 8,00,000	30.90%	Above R 8,00,000	30.90%

Very Senior Citizens - individuals having age of 80 years or more

Budget, 2011	Tax Rates*	Existing (no special slabs for Very Senior Citizens)	Tax Rates*
Upto q 5,00,000	Nil	Upto q 2,40,000	Nil
		q 2,40,001 to q 5,00,000	10.30%
R 5,00,001 to R 8,00,000	20.60%	R 5,00,001 to R 8,00,000	20.60%
Above R 8,00,000	30.90%	Above R 8,00,000	30.90%

\* The tax rates are inclusive of Education Cess of 3%. No surcharge will be levied.

### 1.1.2 Corporate Taxation

- † Surcharge has been reduced from 7.5% to 5% for domestic companies.
- † Surcharge rate for foreign companies has been reduced from 2.5% to 2%.
- † Effective corporate tax rate for domestic companies having income exceeding ₹ 1,00,00,000 has been reduced from 33.2175% to 32.445%.
- † Effective Minimum Alternative Tax ('MAT') rate has been increased from 19.93% to 20.08% having income exceeding ₹ 1,00,00,000.
- † Effective Dividend Distribution Tax ('DDT') has been reduced from 16.60875% to 16.2225%.
- † Lower rate of 15% tax on dividend received by an Indian company from its foreign subsidiary resulting into reduction in the effective tax rate from 33.2175% to 16.2225%.

### 1.1.3 Partnership Firms / Limited Liability Partnerships ('LLPs')

- † The Bill proposes no change in the existing tax rate of 30.90% for partnership firms / LLPs.
- † The Bill proposes to apply MAT in case of LLPs also, resulting into effective tax @ 19.055% on its adjusted total income.

## 1.2 Proposals for Personal Taxation

- † In the case of salaried tax payer, where there is no other source of income, filing of tax return may not be required for certain persons as may be notified.
- † Additional deduction of ₹ 20,000 for investment in long-term infrastructure bonds has been extended for 1 more year.

## 1.3 Tax Incentive And Proposals for Businesses

- † Benefit of investment linked deduction by way of allowing 100% deduction in respect of expenditure of capital nature has been extended to businesses engaged in production of fertilisers and businesses engaged in developing and building of housing projects under a scheme of affordable housing.
- † The weighted deduction on payments made to National Laboratories or Universities or Indian Institutes of Technology or a specified person for the approved scientific research programme has been increased from 175% to 200%.
- † It is proposed to discontinue the exemption from MAT in case of Special Economic Zone ('SEZ') developers and units in SEZ.
- † It is proposed to discontinue the exemption from DDT in case of SEZ developers effective from 1 June 2011.
- † The terminal date for tax holiday available to power sector has been extended for 1 more year i.e. upto 31 March 2012.
- † No extension in terminal date for tax holiday in case of (Software Technology Park (STP) / Export-oriented Units (EOU) units.
- † Any sum paid by assessee as an employer by way of contribution towards a certain pension scheme shall be allowable expenditure to the extent of 10% of salary of the employee.



#### 1.4 Proposals for Non-residents

- † It is proposed to facilitate setting-up of dedicated debt funds for infrastructure sector. Once notified, such funds are proposed to be exempted from tax. It is also proposed that the gross interest from such funds shall be liable to tax at a reduced rate of 5% in the hands of non-residents.
- † Non-residents operating through liaison office would be required to submit annual information within 60 days from the end of financial year in the prescribed manner.

#### 1.5 Other Proposals

- † Various provisions are proposed to be inserted to provide a set of counter measures in relation to jurisdictions with which there is a lack of effective exchange of information.
- † It is proposed to extend the due date of filing of tax returns till 30 November in case of corporate assessee, who are required to furnish the report in respect of their international transactions. However, non-corporate assessee having requirement of furnishing such report, have to file returns by 30 September.
- † Effective from 1 June 2011, the Transfer Pricing Officer ('TPO') will have power of survey.
- † In case of adjustment under Transfer Price ('TP'), if variation of price is +/-5% then adjustment is not to be made. It is proposed to remove such fixed percentage and instead, the allowable variation would be notified.
- † The TPO can determine Arm's Length Price ('ALP') in respect of even those international transactions, which are not referred by the Assessing Officer ('AO').
- † A new simplified form 'Sugam' to be introduced in order to reduce the compliance burden of small tax payers falling within presumptive taxation.



## 2.0 INDIRECT TAXES

### 2.1 Excise Duty

- † The concessional rate of duty of 4% is being increased to 5%.
- † A duty of 1% without Cenvat credit facility is being imposed on about 130 specified items, which were hitherto either fully exempt from excise duty or chargeable to nil rate of excise duty.
- † A mandatory duty of 10% is being imposed on readymade garments and textile made ups bearing a brand name or sold under a brand name.
- † Duty of 1% is being imposed on branded jewellery and branded articles of precious metals.
- † A concessional rate of duty of 10% is being prescribed for hydrogen vehicles based on fuel cell technology.
- † Duty on sanitary napkins, baby and clinical diapers and adult diapers is being reduced from 10% to 1% with no Cenvat credit.



### 2.2 Customs Duty

- † The general peak rate of 10% has been maintained.
- † The basic customs duty rates of 2%, 2.5% and 3% are being unified at the median rate of 2.5%.
- † The existing system of assessment shall be replaced with 'self-assessment' of duty on imported and export goods by the importer or exporter.
- † Statutory rate of export duty on iron ores is being increased from 20% to 30% while unifying the effective rate of export duty on iron ore fines and lumps at 20%. Iron ore pellets are being fully exempted from export duty.
- † CVD of ₹140 per 10 gram and Nil basic customs duty and SAD has been prescribed for gold dore bars of upto 80% gold purity imported for refining and manufacturing serially numbered gold bars in India.
- † Basic customs duty is being reduced from 7.5% to 5% for specified gems and jewellery machinery.
- † All clearances from SEZ into Domestic Tariff Area ('DTA') are being exempted from SAD, provided they are not exempt from the levy of Value Added Tax ('VAT') / Sales Tax.
- † Concessional CVD @ 5% and full exemption from SAD is being provided to LEDs used for manufacture of LED lights and light fixtures.
- † Concessional import duty structure of 5% CVD and Nil SAD has been prescribed on parts of inkjet and laser-jet printers imported for manufacture of such printers.
- † Full exemption from SAD presently available up to 31 March 2011 on parts, components and accessories for manufacture of mobile handsets including cellular phones is being extended up to 31 March 2012.
- † Certain notifications are being amended retrospectively to allow exports made under the Export Promotion Capital Goods Scheme to simultaneously avail of benefits under Export Reward Schemes such as Served From India Scheme, Focus Market Scheme etc.

### 2.3 Service Tax

- † There is no change in the current effective Service tax rate of 10.30%.
- † Service tax is proposed to be imposed on certain new specified category of services such as services provided by air-conditioned restaurants having a license to serve alcoholic beverages in relation to serving of food and/or beverages, short-term accommodation provided by a hotel/inn/guesthouse etc. for a continuous period of less than 3 months. Suitable abatement is also proposed to be prescribed in this regard.
- † Scope of certain existing categories of services such as life insurance service, club or association service, authorized service station service, business support services, legal consultancy services, commercial training or coaching service, health service is being expanded / altered.
- † Certain additional exemptions have been provided in respect of certain specified services which are covered under the category of business exhibitions service, transport of goods through coastal and inland shipping, works contract service, general insurance service and transportation of goods by road, rail or air.

- † The rates of service tax on travel by air are being revised from R 100 to R 150 for domestic travel (economy class), from R 500 to R 750 for international travel (economy class) and 10% (standard rate) for domestic travel (other than economy class).
- † A modified scheme is being introduced to refund service tax to SEZ units and developers.
- † The Export of Services Rules, 2005 and Taxation of Services (provided from outside India and received in India) Rules, 2006 are being amended so as to move some of the specified services from one category to another.
- † The Works Contract (composition scheme for payment of service tax) Rules are being amended to provide that the credit of tax on input services of 'erection, commissioning or installation, commercial or industrial construction and construction of complex services as available to a person providing works contract service shall be restricted to 40% of tax paid, when such tax has been paid on full value of the service after availment of Cenvat credit on inputs.
- † The Point of Taxation Rules, 2011 shall be effective from 1 April 2011. These rules determine the point in time when the services shall be deemed to be provided.
- † Interest on delayed payment of Service tax is being increased from 13% to 18% per annum.
- † Significant changes have been made in the Cenvat Rules including the definition of input, input services, capital goods, exempted goods and exempted services.

### 3.0 GST ROADMAP LAID OUT

Areas of divergence with States on proposed Goods and Services Tax ('GST') have been narrowed. As a step towards roll out of GST, Constitution Amendment Bill proposed to be introduced in this session of Parliament. Significant progress in establishing GST network, which will serve as Information Technology ('IT') infrastructure for introduction of GST. However, there is still no clarity as regards the date of implementation of GST.

### 4.0 CAPITAL MARKET INITIATIVES

- † Securities Exchange Board of India ('SEBI') registered mutual funds permitted to accept subscription from foreign investors who meet Know Your Customer ('KYC') requirements for equity schemes.
- † To enhance flow of funds to infrastructure sector, the Foreign Institutional Investors ('FIIs') limit for investment in corporate bonds issued in infrastructure sector being raised by US \$ 20 million to US \$ 25 million. This will raise the total limit available to FIIs for investment in corporate bonds to US \$ 40 billion.
- † R 40,000 crore to be raised through disinvestment in 2011-12.

### 5.0 GENERAL

- † Gross Domestic Product ('GDP') estimated to have grown at 8.6% in 2010-11 in real terms.
- † Indian economy expected to grow at 9% with an outside band of +/- 0.25% in 2011-12.
- † Exports have grown by 29.4%, while imports have recorded a growth of 17.6% during April to January 2010-11 over the corresponding period last year.
- † Direct Taxes Code ('DTC') to be finalised for enactment during 2011-12. DTC proposed to be effective from 1 April 2012.
- † 5-fold strategy to tackle unaccounted income and wealth.
- † Foreign tax division of CBDT has been strengthened to effectively handle increase in tax information exchange and transfer pricing issues.
- † The Companies Bill to be introduced in the Lok Sabha during current session.
- † The Bill to amend the Indian Stamp Act proposed to be introduced shortly.
- † 3 more benches of Settlement Commission to be set-up to fast track the disposal of the cases.
- † Share of manufacturing in GDP expected to grow from about 16% to 25% over a period of 10 years. The Government will come out with the National Manufacturing Policy.



For further information please contact:

RSM Astute Consulting Private Limited  
13th Floor, Bakhtawar,  
229, Nariman Point,  
Mumbai - 400 021.

T: (91-22) 6696 0644 / 6121 4444

F: (91-22) 2287 5771 / 2820 5685

E: [emails@astuteconsulting.com](mailto:emails@astuteconsulting.com)

[www.astuteconsulting.com](http://www.astuteconsulting.com)

Offices: Mumbai, New Delhi - NCR, Chennai, Kolkata, Bengaluru,  
Surat, Ahmedabad, Hyderabad and Gandhidham.

RSM Astute Consulting Private Limited is an independent member firm of RSM international, an affiliation of independent accounting and consulting firms. RSM International is the name given to a network of independent accounting and consulting firms each of which practices in its own right. RSM International does not exist in any jurisdiction as a separate legal entity.

This publication is general in nature. In this publication, we have endeavoured to analyze briefly, certain significant aspects of the Union Budget 2011, presented by the Honorable Finance Minister of India, Mr. Pranab Mukherjee on 28 February 2011. The effective dates of budget proposals would vary. It may be noted that nothing contained in this publication should be regarded as our opinion and facts of each case will need to be analyzed to ascertain applicability or otherwise of the said publication and appropriate professional advice should be sought for applicability of legal provisions based on specific facts. We are not responsible for any liability arising from any statements or error contained in this publication.

February 2011

© RSM Astute Consulting, 2011