

BUDGET 2010

What the FM said

An enabling government does not try to deliver directly to the citizens everything that they need. Instead it creates an enabling ethos so that individual enterprise and creativity can flourish. Government concentrates on supporting and delivering services to the disadvantaged sections of society

Key pointers:

The broad challenges as mentioned by the Finance Minister were:

- To quickly revert to the high GDP growth path of 9 per cent and target a double digit growth number.
- To harness economic growth and recovery in making development more inclusive and broad based
- To address the weaknesses in government systems, structures and institutions at different levels of governance.
- Find out the resources to combat challenges present in last budget for growth of education, health care and food sectors.

Direct & Indirect taxes

Income	Tax Rate
Up to Rs 1.60 lakh	Nil
Rs 1.60 lakh to Rs 5.0 lakh	10%
Rs 5.0 lakh to Rs 8.0 lakh	20%
Above Rs 8.0 lakh	30%

- Saving of Rs. 51,000 for income of Rs. 8.0 lakh and above
- The exemption limit for women remains at Rs 1.90 lakh and that for senior citizens at Rs 2.40 lakh.
- **New Tax Deduction for investment in infrastructure bonds** - Sec. 80CCF will offer a deduction of up to Rs. 20,000 next year (2010-11) onwards for investment made in infrastructure bonds. This Rs. 20,000 is over and above the Rs. 1,00,000 Sec. 80C limit. The details as to the term of these bonds, the lock-in period, the issuing institutions etc. are yet to come out.
- **Service Tax applicable for purchasing under-construction property:** If you are planning to buy a new house that is under construction, be prepared to shell out an extra 10.3% service tax. All under-construction activities are now under service tax.
- **NPS (New Pension Scheme)** - Now the Government proposes to contribute Rs.1,000 per year to each NPS account opened in the year 2010-11. This initiative, "Swavalamban" will be available for persons who join NPS, with a minimum contribution of Rs.1,000 and a maximum contribution of Rs.12,000 per annum during the financial year 2010-11.
- **Change in gift tax provisions** - In order to prevent the practice of transferring unlisted shares at prices much below their fair market value, it is proposed to amend section 56 to also include within its ambit transactions undertaken in shares of a company either for inadequate consideration or without consideration where the recipient is a firm or a company. Also, in several cases of immovable property transactions, there is a time gap between the booking of a property and the receipt of such property on registration, which results in a taxable differential. It is, therefore, proposed that Sec. 56 will only apply if the immovable property is received without any consideration and to remove the

stipulation regarding transactions involving cases of inadequate consideration in respect of immovable property.

- **More fund value from ULIPs:** Last year's budget brought the management of unit-linked insurance plans (ULIPs) of life insurance companies under the service tax net. The mortality portion of the premium was already being taxed but the budget made even the charges deducted from the premium taxable. In simple words, the service tax in ULIPs was charged on the entire amount that the insurer keeps after deduction of mortality charges and the investible amount. Much of it is reflected in the front-end premium allocation charge. The higher the charge, the higher is the impact. Budget 2010 has proposed to remove this anomaly and bring only the fund management charge under the service tax. The impact will result in an increase in fund value.
- **Surcharge on Corporate tax reduced** from 10% to 7.5%
- **MAT increased** from 15% to 18%
- On account of direct tax measures there would be loss of Rs. 26,000 cr to exchequer
- Besides contributions to health insurance schemes which is currently allowed as a deduction under the Income-tax Act, **contributions to the Central Government Health Scheme** also allowed as a deduction under the same provision.
- **Tax Audit limits increased** - Limits for turnover over which accounts need to be audited enhanced to Rs. 60 lakh for businesses and to Rs. 15 lakh for profession.
- Scheme of one per cent interest subvention on housing loan upto Rs.10 lakh, where the cost of the house does not exceed Rs.20 lakh — announced in the last budget extended to 31st March 2011.
- Restored basic duty of 5 per cent on crude petroleum; 7.5 per cent on diesel and petrol and 10 per cent on other refined products. Central Excise duty on petrol and diesel enhanced by Re.1 per litre.
- Rollback in excise duty by 200 bps across sector to 10%
- New services under Service Tax ambit (which would in turn raise the cost of these services/facilities by 10.3%):
 - Airfare
 - Lottery
 - Executive Health checkup
 - Film copyrights
 - IT & ITES
 - Marriage & Party halls
 - Tutorial centres
 - Electricity exchange
 - Brand promotion

(Rs bn)	2009-10 Budget Estimates	2009-10 Revised Estimates	2010-11 Budget Estimates
Agriculture and Allied Activities	10.6	10.1	12.3
Rural Development*	51.8	51.6	55.2
Irrigation and Flood Control	0.4	0.4	0.5
Energy	115.6	109.7	146.6
Industry and Minerals	35.7	30.7	39.0
Transport **	94.3	88.9	102.0
Communications	16.7	16.1	18.5
Science Technology & Environment	11.2	9.9	13.7
General Economic Services	6.3	5.4	7.6
Social Services***	103.9	101.4	127.6
General Services	1.4	1.4	1.5
Grand total	447.9	425.6	524.5

(Source: Religare)

	accounting for % of the total central plan outlay	increase of
Energy	28%,	34%,
Transport	19%	15%
social services	24%	26%

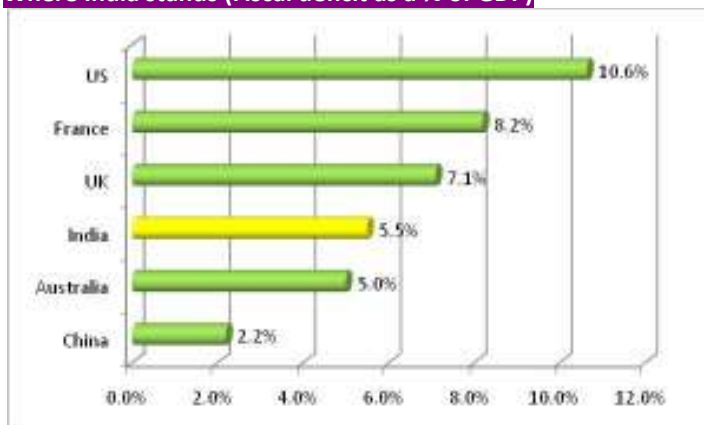
(Source: Religare)

Govt. has outlined 3 challenges (relevant for future too)

- High GDP growth ambition and to grow by double digits shorts
- Harness economic growth to make it more inclusive
- Remove bottleneck of public delivery mechanism
- Direct tax code to be implemented by Apr 1, 2011
- GST – Empowered group of ministers and Finance commission have given their suggestions. To be looked into. Want it to be implemented by Apr 1, 2011
- Disinvestments proceeds from FY10 expected to be 25,000 cr. Money to be used for capital expenditure of rural and social programs. Target for FY11 – 40,000 cr.
- Improving investment environment
- Banking sector license to be given to NBFC and private sector
- Rs 16,500 cr allocation for recapitalization of PSU banks. To ensure that all PSU banks have Tier I ratio higher than 8% by Mar 31, 2011
- Further capitalization of RRB
- Overhaul of Companies Act, 1956 (to make it more friendly for M&A)
- Fiscal deficit (Roadmap and targets is positive as it increases transparency and commitment)

FY09	7.8%
FY10	6.9% (RE)
FY11	5.5% (BE)
FY12	4.8% (Target)
FY13	4.1% (Target)

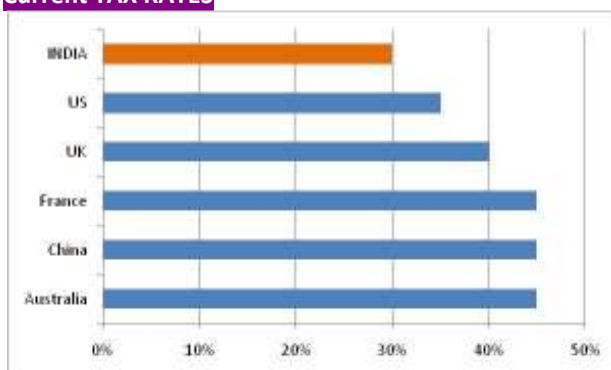
Where India stands (Fiscal deficit as a % of GDP)



INTERESTING FACTS & DATA

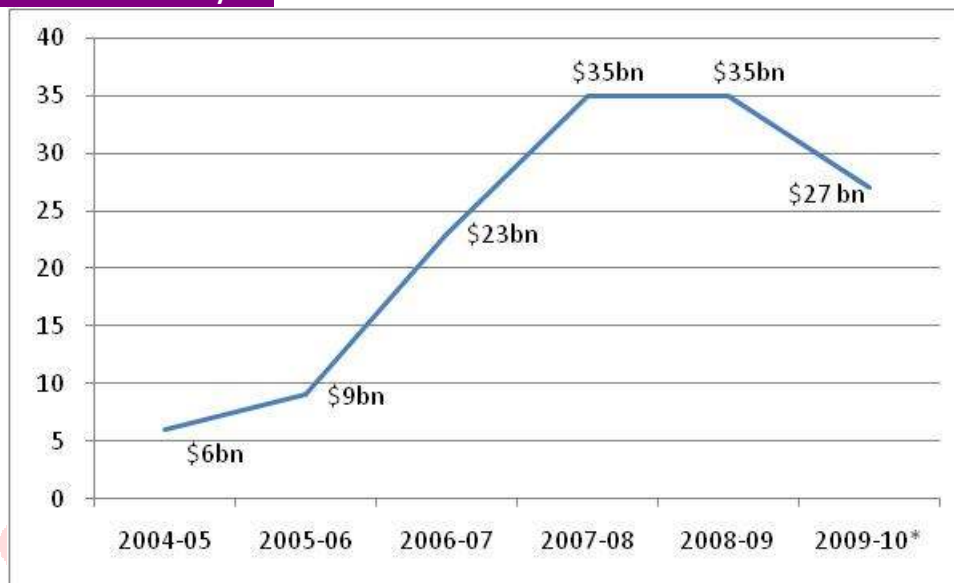
- ✚ The average Indian saves only about a quarter of he or she earns – about Rs 11,000 per year out of an estimated average income of Rs 43,749.
- ✚ 12% is spent on weddings, social ceremonies and unusual medical expenses
- ✚ Only 3% of household income goes into small savings instruments, stocks or insurance policies.

Current TAX RATES



- ✚ Soft drinks India consumes everyday 65 lakh litres
- ✚ New motorcycles sold in India everyday 22,000
- ✚ New cars purchased in India everyday 5,000
- ✚ New mobile phone connections added everyday 5 lakh
- ✚ Consumption of rice everyday 2.71 lakh tonnes
- ✚ Consumption of wheat everyday 2.21 lakh tonnes
- ✚ Consumption of milk everyday 2.87 lakh litres
- ✚ Consumption of eggs everyday 14.6 crore
- ✚ Consumption of fish everyday 19,526 kg
- ✚ Life expectancy at birth in India is 63.4 years as compared to 79.1 years in the US and 81.4 years in Australia.

FDI inflow into India over the years



* to Dec 2009

Sources: ET/valueresearchonline.com/Business Line/Business Standard /Personalfn.com /BSE /NSE/ Moneycontrol.com/BSLI website /SEBI/Outlook Money/Money Today/ DNA/Mint

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