

Budget 2011- Highlights

The Finance Minister has presented a Budget, which many industry analysts have felt is more "middle of the road" than being one which is a "game changer" for the Indian economy. The highlights of the Direct & Indirect Tax proposals are given below

I. Income Tax proposals:

What it means for the Individual Taxpayer

- Exemption limit for the general category of individual taxpayers enhanced from ₹1,60,000 to ₹1,80,000 and for senior citizens from ₹2,40,000 to ₹ 2,50,000 . Hence for Financial Year 2011-12 the tax rates will be as follows:

Tax slab rate	Nil	10%	20%	30%
Men	0 - 1.8 lakh	1.8 lakh - 5 lakh	5 lakh - 8 lakh	more than 8 lakh
Women	0 - 1.9 lakh	1.9 lakh - 5 lakh	5 lakh - 8 lakh	more than 8 lakh
Senior Citizen	0 - 2.5 lakh	2.5 lakh - 5 lakh	5 lakh - 8 lakh	more than 8 lakh

- Qualifying age reduced for senior citizens from 65 years to 60 years.



- Higher exemption limit for Very Senior Citizens, who are 80 years or above of ₹5,00,000.
- An Additional deduction of ₹20,000 for investment in long-term infrastructure bonds was introduced last year. This is proposed to be extended for one more year. Hence you can deduct a total of ₹120,000 (including Section 80C tax saving investments) from your income.

What it means for Business Taxpayers

- Surcharge on tax, currently at 7.5% for domestic companies proposed to be reduced to 5%.
- Rate of Minimum Alternative Tax (MAT) proposed to be increased from 18% to 18.5% of book profits.
- MAT to become applicable to SEZ Developers & units in the SEZ. This is a proposal which entrepreneurs who have set up units in SEZ will certainly not like.
- MAT becomes applicable on Limited Liability Partnerships (LLPs).
- Tax Holiday scheme for Export Oriented Units and Software units not extended.
- Investment linked deduction to businesses developing affordable housing introduced.
- Weighted deduction on payments made to National Laboratories, Universities and Institutes of Technology to be enhanced to 200%. Hence if a business gives, say Rs 5 lakhs for research to an IIT, it would be eligible for a tax deduction of Rs 10 lakhs.
- Dividends received by an Indian company from its foreign subsidiary will be taxed at a lower rate of 15%.
- Benefit of investment linked deduction extended to businesses engaged in the production of fertilisers.
- Return filing deadline extended to 30 November in case of businesses having international transactions. Certain other provisions relating to such businesses amended.
- Liaison Offices of Foreign Companies are now required to file Annual statements.



II. Indirect Tax Proposals (Service tax, Excise Duty & Customs):

What it means for the Consumer:

- Excise duty of 1% on Branded jewellery to be levied. 2-gram pendants to be costlier by ₹ 300.
- Excise on pastry, cakes & sugar confectionary increased from 1% to 5%.
- Medical bills including diagnostic tests to shoot up 5%.
- Branded garments to cost more as 10% excise is leviable.
- Passengers to pay ₹50 more on domestic air travel and ₹ 250 more on foreign travel.
- Laundry soaps to become cheaper.



What it means for the Service Provider (Service tax proposals):

- In a notification dated March 1, 2011 the Government has introduced a far reaching change, which will severely impact service providers- especially professionals.
- Currently the liability to remit Service Tax is when your client pays you your bill. **Now service tax will have to be remitted when you raise an invoice/bill.** The burden of paying the tax is now on the poor service provider even before he is paid for his services!
- Rate of Service Tax retained at 10%.
- In an attempt to make sure that you are punctual in your Service Tax obligations the interest rate for delays has been increased from 13% to 18%. Late filing of Service Tax Returns will be penalized heavily. **The penalty has been increased ten-fold from Rs 2000 to Rs 20,000.**
- The Tourism and Hospitality Industry is in for a set back as hotel rooms above ₹1000 per night is to be taxed at 5% and food served in air conditioned restaurants that have liquor license is to be taxed at 3%.
- Hospitalisation and medical check-ups to be costlier. Air conditioned Hospitals with more than 25 beds, diagnostic centres and any other health



- related services provided by doctors now attract 5% tax on their services.
- With a 2% rise in the service tax, domestic and international air travel becomes costlier by ₹150 and ₹750 respectively. Business class travel will attract a 10% tax.
 - The tax net of Services provided by Life Insurance Companies proposed to be made to include all services including management of investments.
 - Business exhibitions held outside the country will now be exempt from the service tax liability.
 - Commercial Training and Coaching services centres who also conduct non-recognised courses will now come under the Service tax net.
 - Services provided by Clubs or Associations even to non-members to be included in the Service tax net.
 - Business Support Service to be expanded to include operational or administrative assistance of any kind.
 - Lawyers who provide services to business entities will now be in the Service Tax net.

What it means for the Business (Excise Duty & Customs Duty):

- The standard rate of central excise is kept at 10%. However the lower rate has been raised from 4% to 5%.
- Reduction in number of exemptions in Central Excise rate structure.
- Nominal Central Excise Duty of 1% imposed on 130 items entering in the tax net.
- System of collection of information from foreign tax jurisdictions to be strengthened.

