Union Budget 2010-11

An Analysis

Confederation of Indian Industry

Published by:

Confederation of Indian Industry (CII)

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27 February 2010

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Chapter 1
Key Features of the Union Budget 2010-11

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Key Features of Union Budget 2010-11

The Economy: An Overview

- India is among the first few countries in the world to implement a broad-based counter-cyclic policy package to respond to the negative fallout of the global slowdown, and the one of the first to emerge out of the global economic slowdown.
- The Advance Estimates for GDP growth for 2009-10 pegged at 7.2 per cent.
- The growth rate in manufacturing sector in December 2009 was 18.5 per cent – the highest in the past two decades.
- A major concern during the second half of 2009-10 has been the emergence of double digit food inflation. Government has set in motion steps, to bring down the inflation in the next few months and ensure that there is better management of food security in the country.

Challenges for the Economy

- To quickly revert to the high GDP growth path of 9 per cent and then find the means to cross the 'double digit growth barrier'.
- To harness economic growth to consolidate the recent gains in making development more inclusive.
- To address the weaknesses in government systems, structures and institutions at different levels of governance.

Fiscal Consolidation

- Fiscal policy shaped with reference to the recommendations of the Thirteenth Finance Commission, which has recommended a calibrated exit strategy from the expansionary fiscal stance of last two years.
- It would be for the first time that the Government would target an explicit reduction in its domestic public debt-GDP ratio.
- On the Direct Tax Code (DTC) the wide-ranging discussions with stakeholdershave been concluded – Government will be in a position to implement the DTC from April 1, 2011.
- Government actively engaged with the Empowered Committee of State Finance Ministers to finalise the structure of Goods and Services Tax (GST) as well as the modalities of its expeditious implementation. Endeavour to introduce GST by April, 2011.
- Ownership has been broad based in Oil India Limited, NHPC, NTPC and Rural Electrification Corporation while the process is on for National Mineral Development Corporation and Satluj Jal Vidyut Nigam. This will raise about Rs 25,000 crore during the current year.
- A Nutrient Based Subsidy policy for the fertiliser sector has been approved by the Government and will become effective from April 1, 2010.
- Expert Group to advise the Government on a viable and sustainable system of pricing of petroleum products has submitted its recommendations. Decision on these recommendations will be taken in due course.

Improving Investment Environment

- Methodology for calculation of indirect foreign investment in Indian companies has been clearly defined.
- Complete liberalisation of pricing and payment of technology transfer fee and trademark, brand name and royalty payments.
- An apex level Financial Stability and Development Council to be set up with a view to strengthen and institutionalise the mechanism for maintaining financial stability. This Council would monitor macro-prudential supervision of the economy, including the functioning of large financial conglomerates, and address interregulatory coordination issues.
- RBI is considering giving some additional banking licenses to private sector players. Non Banking Financial Companies could also be considered, if they meet the RBI's eligibility criteria.
- Rs.16,500 crore provided to ensure that the Public Sector Banks are able to attain a minimum 8 per cent Tier-I capital by March 31, 2011.
- Government to provide further capital to strengthen the Regional Rural Banks (RRBs) so that they have adequate capital base to support increased lending to the rural economy.
- Government has introduced the Companies Bill, 2009 in the Parliament to replace the existing Companies Act, 1956, which will address issues related to regulation in corporate sector in the context of the changing business environment.

Exports

- Extension of existing interest subvention of 2 per cent for one more year for exports covering handicrafts, carpets, handlooms and small and medium enterprises.

Agriculture Growth

Government will follow a *four-pronged strategy,* covering

(a) Agricultural production

- Rs. 400 crore provided to extend the green revolution to the eastern region of the country comprising Bihar, Chattisgarh, Jharkhand, Eastern UP, West Bengal and Orissa.
- Rs. 300 crore provided to organise 60,000 "pulses and oil seed villages" in rain-fed areas during 2010-11 and provide an integrated intervention for water harvesting, watershed management and soil health, to enhance the productivity of the dry land farming areas.
- Rs. 200 crore provided for sustaining the gains already made in the green revolution areas through conservation farming, which involves concurrent attention to soil health, water conservation and preservation of biodiversity.

(b) Reduction in wastage of produce

- Government to address the issue of opening up of retail trade.
- Deficit in the storage capacity met through an ongoing scheme for private sector participation – FCI to hire godowns from private parties for a guaranteed period of 7 years.

(c) Credit support to farmers

- For the year 2010-11, agriculture credit flow target has been set at Rs.3,75,000 crore.
- The period for repayment of the loan amount by farmers extendedby six months from December 31, 2009 to June 30, 2010 under the Debt Waiver and Debt Relief Scheme for Farmers.

- Incentive of additional one per cent interest subvention to farmers who repay short-term crop loans as per schedule, increased to 2% for 2010-11.

(d) Impetus to the food processing sector

- In addition to the ten mega food park projects already being set up, the Government has decided to set up five more such parks.
- External Commercial Borrowings to be available for cold storage or cold room facility, including for farm level pre-cooling, for preservation or storage of agricultural and allied produce, marine products and meat.

Infrastructure

- Rs 1,73,552 crore provided for infrastructure development which accounts for over46 per cent of the total plan allocation.
- Allocation for road transport increased by over 13 per cent from Rs. 17,520 crore to Rs 19,894 crore.
- Rs 16,752 crore provided for Railways, which is about Rs.950 crore more than last year.

India Infrastructure Finance Company Limited (IIFCL)

- IIFCL's disbursements are expected to touch Rs 9,000 crore by end March 2010 and reach around Rs 20,000 crore by March 2011.
- IIFCL has refinanced bank lending to infrastructure projects of Rs. 3,000 crore during the current year and is expected to more than double that amount in 2010-11.
- The take-out financing scheme announced in the last Budget is expected to initially provide finance for about Rs. 25,000 crore in the next three years.

Energy

- Plan allocation for power sector excluding RGGVY doubled from Rs.2230 crore in 2009-10 to Rs.5,130 crore in 2010-11.
- Government proposes to introduce a competitive bidding process for allocating coal blocks for captive mining to ensure greater transparency and increased participation in production from these blocks.
- A "Coal Regulatory Authority" to create a level playing field in the coal sector proposed to be set up.
- Plan outlay for the Ministry of New and Renewable Energy increased by 61 per cent from Rs.620 crore in 2009-10 to Rs.1,000 crore in 2010-11.
- Solar, small hydro and micro power projects at a cost of about Rs.500 crore to be set up in Ladakh region of Jammu and Kashmir.

Environment and Climate change

- National Clean Energy Fund for funding research and innovative projects in clean energy technologies to be established.
- One-time grant of Rs.200 crore to the Government of Tamil Nadu towards the cost of installation of a zero liquid discharge system at Tirupur to sustain knitwear industry.

- Rs.200 crore provided as a Special Golden Jubilee package for Goa to preserve the natural resources of the State, including sea beaches and forest cover.
- Allocation for National Ganga River Basin Authority (NGRBA) doubled in 2010-11 to Rs.500 crore.
- Schemes on bank protection works along river Bhagirathi and river Ganga-Padma in parts of Murshidabad and Nadia district of West Bengal included in the Centrally Sponsored Flood Management Programme.
- A project at Sagar Island to be developed to provide an alternate port facility in West Bengal.

Inclusive Development

- The spending on social sector has been gradually increased to Rs.1,37,674 crore in 2010-11, which is 37% of the total plan outlay in 2010-11.
- Another 25 per cent of the plan allocations are devoted to the development of rural infrastructure.

Education

- Plan allocation for school education increased by 16 per cent from Rs.26,800 crore in 2009-10 to Rs.31,036 crore in 2010-11.
- In addition, States will have access to Rs.3,675 crore for elementary education under the Thirteenth Finance Commission grants for 2010-11.

Health

- An Annual Health Survey to prepare the District Health Profile of all Districts shall be conducted in 2010-11.
- Plan allocation to Ministry of Health & Family Welfare increased from Rs 19,534 crore in 2009-10 to Rs 22,300 crore for 2010-11.

Financial Inclusion

- Appropriate Banking facilities to be provided to habitations having population in excess of 2000 by March, 2012.
- Insurance and other services to be provided using the Business Correspondent model. By this arrangement, it is proposed to cover 60,000 habitations.
- Augmentation of Rs.100 crore each for the Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund, which shall be contributed by Government of India, RBI and NABARD.

Rural Development

- Rs. 66,100 crore provided for Rural Development.
- Allocation for Mahatma Gandhi National Rural Employment Guarantee Scheme stepped up to Rs.40,100 crore in 2010-11.
- An amount of Rs.48,000 crore allocated for rural infrastructure programmes under Bharat Nirman.
- Unit cost under Indira Awas Yojana increased to Rs.45,000 in the plain areas and to Rs.48,500 in the hilly areas. Allocation for this scheme increased to Rs.10,000 crore.
- Allocation to Backward Region Grant Fund enhanced by 26 per cent from Rs.5,800 crore in 2009-10 to Rs 7,300 crore in 2010-11.
- Additional central assistance of Rs 1,200 crore provided for drought mitigation in the Bundelkhand region.

Urban Development and Housing

- Allocation for urban development increased by more than 75 per cent from Rs.3,060 crore to Rs.5,400 crore in 2010-11.
- Allocation for Housing and Urban Poverty Alleviation raised from Rs.850 crore toRs.1,000 crore in 2010-11.
- Scheme of one per cent interest subvention on housing loan upto Rs.10 lakh, here the cost of the house does not exceed Rs.20 lakh — announced in the last Budget — extended up to March 31, 2011. Rs.700 crore provided for this scheme for the year 2010-11.
- Rs.1,270 crore allocated for *Rajiv Awas Yojana* as compared to Rs.150 crore last year.

Micro, Small & Medium Enterprises

- High Level Council on Micro and Small Enterprises to monitor the implementationof the recommendations of High-Level Task Force constituted by Prime Minister.
- Allocation for this sector to be increased from Rs.1,794 crore to Rs.2,400 crore for the year 2010-11.
- The corpus for Micro-Finance Development and Equity Fund doubled to Rs.400 crore in 2010-11.

Unorganised Sector

- National Social Security Fund for unorganised sector workers to be set up with an initial allocation of Rs.1000 crore. This fund will support schemes for weavers, toddy tappers, rickshaw pullers, bidi workers etc.
- *Rashtriya Swasthya Bima Yojana* benefits extended to all such Mahatma Gandhi NREGA beneficiaries who have worked for more than 15 days during the preceding financial year.
- A new initiative, *"Swavalamban"* will be available for persons who join New Pension Scheme (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, wherein Government will contribute Rs.1,000 per year to each NPS account opened in the year 2010-11. Allocation of Rs.100 crore made for this initiative.

Skill development

- National Skill Development Corporation has approved three projects worth about Rs 45 crore to create 10 lakh skilled manpower at the rate of one lakh per annum.
- An extensive skill development programme in the textile and garment sector to be launched by leveraging the strength of existing institutions and instruments of the Textile Ministry to train 30 lakh persons over 5 years.

Social Welfare

- Plan outlay for Women and Child Development stepped up by almost 50 per cent.
- "*Saakshar Bharat*" to further improve female literacy rate launched with a target of 7 crore non-literate adults which includes 6 crore women.
- *Mahila Kisan Sashaktikaran Pariyojana* to meet the specific needs of women farmers to be launched with a provision of Rs 100 crore as a sub-component of the National Rural Livelihood Mission.
- Plan outlay of the Ministry of Social Justice and Empowerment enhanced by 80 per cent to Rs.4500 crore.
- Plan allocation for the Ministry of Minority Affairs increased by 50 per cent from Rs.1,740 crore to Rs.2,600 crore for the year 2010-11.

Strengthening Transparency & Public Accountability

- Financial Sector Legislative Reforms Commission to be set up to rewrite and clean up the financial sector laws to bring them in line with the requirements of the sector.
- Rs 1,900 crore allocated to the Unique Identification Authority of India (UIDAI) for 2010-11. UIDAI will be able to meet its commitments of issuing the first set of UID numbers in the coming year
- A Technology Advisory Group for Unique Projects (TAGUP) to be set up to look into various technological and systemic issues for effective tax administration and financial governance.
- Independent Evaluation Office (IEO) chaired by the Deputy Chairman, Planning Commission to be set up to evaluate the impact of flagship programmes.

Security and Justice

- Allocation for Defence increased to Rs. 1,47,344 crore including Rs 60,000 crore for capital expenditure.
- About 2,000 youth to be recruited as constables in five Central Para Military Forces from Jammu and Kashmir in the year 2010.
- Planning Commission to prepare an integrated action plan for the thirty-three left wing extremism affected districts. Adequate funds will be made available to support the action plan.
- Government has approved the setting up of the National Mission for Delivery of Justice and Legal Reforms to help reduce legal backlog in courts from an average of 15 years at present to 3 years by 2012.

Budget Estimates 2010-11

- The Gross Tax Receipts are estimated at Rs. 7,46,651 crore.
- The Non Tax Revenue Receipts are estimated at Rs. 1,48,118 crore.
- The net tax revenue to the Centre as well as the expenditure provisions in 2010-11

  have been estimated with reference to the recommendations of the Thirteenth Finance Commission.
- The total expenditure proposed in the Budget Estimates is Rs. 11,08,749 crore, which is an increase of 8.6 per cent over last year.
- The Plan and Non Plan expenditures in BE 2010-11 are estimated at Rs. 3,73,092 crore and Rs. 7,35,657 crore respectively. While there is 15 per cent increase in Plan expenditure, the increase in Non Plan expenditure is only 6 per cent over the BE of previous year.
- Fiscal deficit for BE 2010-11 at 5.5 per cent of GDP, which works out to Rs.3,81,408 crore.
- Taking into account the various other financing items for fiscal deficit, the actual net market borrowing of the Government in 2010-11 would be of the order of Rs.3,45,010 crore. This would leave enough space to meet the credit needs of the private sector.
- The rolling targets for fiscal deficit are pegged at 4.8 per cent and 4.1 per cent for 2011-12 and 2012-13, respectively.
- Against a fiscal deficit of 7.8 per cent in 2008-09, inclusive of oil and fertilizer bonds, the comparable fiscal deficit is 6.9 per cent as per the Revised Estimates for 2009-10.
- Conscious effort made to avoid issuing bonds to oil and fertilizer companies. Government would like to continue with this practice of extending Government subsidy in cash, thereby bringing all subsidy related liabilities into Government’s fiscal accounting.

Tax Proposals

- The Centralized Processing Centre at Bengaluru is now fully functional and is processing around 20,000 returns daily. This initiative will be taken forward by setting up two more Centres during the year.
- The Income Tax department has introduced "*Sevottam*", a pilot project at Pune, Kochi and Chandigarh through Aayakar Seva Kendras, which provide a single window system for registration of all applications including those for redressal of grievances as well as paper returns.
- Automation of Central Excise & Service Tax, has already been rolled out throughout the country this year. Similarly, a Mission Mode Project for computerization of Commercial Taxes in States has been approved recently. With an outlay of Rs. 1133 crore of which the Centre's share is Rs. 800 crore, the project will lay the foundation for the launch of GST.
- The income tax department to notify SARAL-II form for individual salaried taxpayers for the coming assessment year.
- Scope of cases which may be admitted by the Settlement Commission expanded to include proceedings related to search and seizure cases pending for assessment. Scope of Settlement Commission also expanded in respect of Central Excise and Customs to include certain categories of cases that hitherto fell outside its jurisdiction.
- Bi-lateral discussions commenced to enhance the exchange of bank related and other information to effectively track tax evasion and identify undisclosed assets of resident Indians lying abroad.

Direct Taxes

- Income tax slabs for individual taxpayers to be as follows
  - Income upto Rs 1.6 lakh Nil
  - Income above Rs 1.6 lakh and upto Rs. 5 lakh 10 per cent
  - Income above Rs.5 lakh and upto Rs. 8 lakh 20 per cent
  - Income above Rs. 8 lakh 30 per cent
- Deduction of an additional amount of Rs. 20,000 allowed, over and above the existing limit of Rs.1 lakh on tax savings, for investment in long-term infrastructure bonds as notified by the Central Government
- 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.
- Current surcharge of 10 per cent on domestic companies reduced to 7.5 per cent.
- Rate of Minimum Alternate Tax (MAT) increased from the current rate of 15 per cent to 18 per cent of book profits.
- To further encourage R&D across all sectors of the economy, weighted deduction on expenditure incurred on in-house R&D enhanced from 150 per cent to 200 per cent. Weighted deduction on payments made to National Laboratories, research associations, colleges, universities and other institutions, for scientific research enhanced from 125 per cent to 175 per cent.
- Payment made to an approved association engaged in research in social sciences or statistical research to be allowed as a weighted deduction of 125 per cent. The income of such approved research association shall be exempt from tax.
- Benefit of investment linked deduction under the Act extended to new hotels of two-star category and above anywhere in India to boost investment in the tourism sector.

- Pending projects allowed to be completed within a period of five years instead of four years for claiming a deduction of their profits, as a one time interim relief to the housing and real estate sector.
- Limits for turnover over which accounts need to be audited enhanced to Rs. 60 lakh for businesses and to Rs. 15 lakh for professions.
- Limit of turnover for the purpose of presumptive taxation of small businesses enhanced to Rs. 60 lakh.
- If tax has been deducted on payment by way of any expense and is paid before the due date of filing the return, such expenditure to be allowed for deduction. Interest charged on tax deducted but not deposited by the specified date to be increased from 12 per cent to 18 per cent per annum.
- To facilitate the conversion of small companies into Limited Liability Partnerships, transfer of assets as a result of such conversion not to be subject to capital gains tax.
- "The advancement of any other object of general public utility" to be considered as "charitable purpose" even if it involves carrying on of any activity in the nature of trade, commerce or business provided that the receipts from such activities do not exceed Rs.10 lakh in the year .
- Proposals on direct taxes estimated to result in a revenue loss of Rs. 26,000 crore for the year.

Indirect Taxes

- Rate reduction in Central Excise duties to be partially rolled back and the standard rate on all non-petroleum products enhanced from 8 per cent to 10 per cent *ad valorem.*
- The specific rates of duty applicable to portland cement and cement clinker also adjusted upwards proportionately. Similarly, the *ad valorem* component of excise duty on large cars, multi-utility vehicles and sports-utility vehicles increased by 2 percentage points to 22 per cent.
- Restore the 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 each.
- Some structural changes in the excise duty on cigarettes, cigars and cigarillos to be made coupled with some increase in rates. Excise duty on all non-smoking tobacco such as scented tobacco, snuff, chewing tobacco etc to be enhanced. Compounded levy scheme for chewing tobacco and branded unmanufactured tobacco based on the capacity of pouch packing machines to be introduced.

Agriculture & Related Sectors

- Project import status with a concessional import duty of 5 per cent provided for the setting up of mechanised handling systems and pallet racking systems in 'mandis' or warehouses for food grains and sugar as well as full exemption from service tax for the installation and commissioning of such equipment.
- Provide project import status at a concessional customs duty of 5 per cent with full exemption from service tax to the initial setting up and expansion of
  1. Cold storage, cold room including farm pre-coolers for preservation or storage of agriculture and related sectors produce ; and
  2. Processing units for such produce.
- Provide full exemption from customs duty to refrigeration units required for the manufacture of refrigerated vans or trucks.
- Provide concessional customs duty of 5 per cent to specified agricultural machinery not manufactured in India;

- Provide central excise exemption to specified equipment for preservation, storage and processing of agriculture and related sectors and exemption from service tax to the storage and warehousing of their produce; and
- Provide full exemption from excise duty to trailers and semi-trailers used in agriculture.
- Concessional import duty to specified machinery for use in the plantation sector to be, extended up to March 31, 2011 along with a CVD exemption.
- To exempt the testing and certification of agricultural seeds from service tax.
- The transportation by road of cereals, and pulses to be exempted from service tax. Transportation by rail to remain exempt.
- To ease the cash flow position for small-scale manufacturers, they would bepermitted to take full credit of Central Excise duty paid on capital goods in a single installment in the year of their receipt. Secondly, they would be permitted to pay Central Excise duty on a quarterly, rather than monthly, basis.

Environment

- The corpus of the National Clean Energy Fund to be built, clean energy cess on coal produced in India at a nominal rate of Rs.50 per tonne to be levied. This cess will also apply on imported coal.
- A concessional customs duty of 5 per cent to be provided to machinery, instruments, equipment and appliances etc. required for the initial setting up of photovoltaic and solar thermal power generating units and also exempt them from Central Excise duty. Ground source heat pumps used to tap geo-thermal energy to be exempted from basic customs duty and special additional duty.
- Exemption on a few more specified inputs required for the manufacture of rotor blades for wind energy generators from Central Excise duty.
- Central Excise duty on LED lights reduced from 8 per cent to 4 per cent at par with Compact Fluorescent Lamps.
- A nominal duty of 4 percent on electric cars and vehicle is imposed. Some critical parts or sub-assemblies of such vehicles exempted from basic customs duty and special additional duty subject to actual user condition. These parts would also enjoy a concessional CVD of 4 per cent.
- A concessional excise duty of 4 per cent provided to “soleckshaw”, a product developed by CSIR to replace manually-operated rickshaws. Its key parts and components to be exempted from customs duty.
- Import of compostable polymer exempted from basic customs duty.

Infrastructure

- Project import status given to ‘Monorail projects for urban transport’ at a concessional basic duty of 5 per cent granted.
- Resale of specified machinery for road construction projects is allowed on payment of import duty at depreciated value.
- Exemptions from basic, CVD and special additional duties extended to parts of mobile battery chargers and hands-free headphones. The validity of the exemption from special additional duty is being extended till March 31, 2011.

Medical Sector

- Uniform, concessional basic duty of 5 per cent, CVD of 4 per cent with full exemption from special additional duty prescribed on all medical equipments. A concessional basic duty of 5 per cent is being prescribed on parts and accessories for the manufacture of such equipment while they would be exempt from CVD and special additional duty.

- Full exemption currently available to medical equipment and devices such as assistive devices, rehabilitation aids etc. retained. The concession available to Government hospitals or hospitals set up under a statute also retained.
- Specified inputs for the manufacture of orthopaedic implants exempted from import duty.

Infotainment

- To address the difficulties experienced by film industry in importing digital masters of films for duplication or distribution loaded on electronic medium *vis-a-vis* those imported on cinematographic film, owing to a differential customs duty structure, customs duty to be charged only on the value of the carrier medium. The same dispensation would apply to music and gaming software imported for duplication. In all such cases the value representing the transfer of intellectual property rights would be subjected to service tax.
- Project import status provided at a concessional customs duty of 5 per cent with full exemption from special additional duty to the initial setting up "Digital Head End" equipment by multi-service operators.

Precious Metals

- Rates on precious metals indexed as follows:
    1. On gold and platinum from Rs.200 per 10 grams to Rs.300 per 10 grams
    2. On silver from Rs.1,000 per kg to Rs.1,500 per kg.
- Basic customs on Rhodium – a precious metal used for polishing jewellery reduced to 2 per cent.
- Basic customs duty on gold ore and concentrates reduced from 2 per cent *ad valorem* to a specific duty of Rs.140 per 10 grams of gold content with full exemption from special additional duty. Further, the excise duty on refined gold made from suchore or concentrate reduced from 8 per cent to a specific duty of Rs.280 per 10grams.

Other Proposals

- Full exemption from import duty available to specified inputs or raw materials required for the manufacture of sports goods expanded to cover a few more items.
- Basic customs duty on one of key components in production of micro-wave ovens, namely magnetrons, reduced from 10 per cent to 5 per cent.
- Value limit of Rs. 1 lakh per annum on duty-free import of commercial samples as personal baggage enhanced to Rs. 3 lakh per annum.
- Outright exemption from special additional duty provided to goods imported in a pre-packaged form for retail sale. This would also cover mobile phones, watches and ready-made garments even when they are not imported in pre-packaged form.

    The refund-based exemption is also being retained for cases not covered by the

    new dispensation.
- Toy balloons fully exempted from Central Excise duty.
- Reduction in basic customs duty on long pepper from 70 per cent to 30 per cent;
- Reduction in basic customs duty on asafoetida from 30 per cent to 20 per cent;
- Reduction in central excise duty on replaceable kits for household type water filters other than those based on RO technology to 4 per cent;
- Reduction in central excise duty on corrugated boxes and cartons from 8 per cent to 4 per cent;
- Reduction in central excise duty on latex rubber thread from 8 per cent to 4 per cent; and

- Reduction in excise duty on goods covered under the Medicinal and Toilet Preparations Act from 16 per cent to 10 per cent.
- Proposals relating to customs and central excise are estimated to result in a net revenue gain of Rs. 43,500 crore for the year.

Service Tax

- Rate of tax on services retained at 10 per cent to pave the way forward for GST.
- Certain services, hitherto untaxed, to be brought within the purview of the service tax levy. For the list of these services, kindly refer to the section on sectoral initiatives.
- Process of refund of accumulated credit to exporters of services, especially in the area of Information Technology and Business Process Outsourcing, made easy by making necessary changes in the definition of export of services and procedures.
- Accredited news agencies which provide news feed online that meet certain criteria, exempted from service tax.

Chapter 2
Macroeconomic Perspectives

Chapter 2

Macroeconomic Perspectives

I. Introduction

Budget 2010 was presented at a time when a strong recovery in economic indicators had raised questions about the relevance of the stimulus. CII continued to highlight that a sudden rollback of the stimulus measures could threaten the sustainability of the recovery which is still at a nascent stage. In the event, the Budget has largely maintained many of the stimulus measures. The general rate of excise duty on non-petroleum products has been increased by 2% as against the reduction of 6% that was done in aftermath of the global recession. The service tax rate which was reduced by 2% in 2009 has been left unchanged. And support to exporters through an interest rate subvention of 2% has been extended for another year, though an extension of such a facility to other critical sectors like engineering goods, textiles, and agro products would have been welcome in an environment where overcapacity arising out of economic slowdown in export oriented economies is distorting the exporter incentives.

What is truly impressive is that the Finance Minister (FM) has also made a serious effort towards fiscal consolidation. The FM has announced a commitment to target an explicit reduction in the government's debt-GDP ratio, as recommended by the Thirteenth Finance Commission. The fiscal deficit inclusive of oil and fertilizer bonds which was as high as 7.8% of GDP in 2008-09 is projected to decline to 6.9% in 2009-10 and further to 5.5% in 2010-11. As a result of the reduction in the deficit, net borrowing by the government is expected to decline from Rs. 398,411 crore this year to Rs. 345,010 crore in the coming year. This will allow interest rates to remain stable even as there is a recovery in private sector borrowing.

Of course, whether or not the deficit target is met will depend on whether revenue growth is strong enough. The FM has bet heavily in favour of growth, assuming that indirect tax collections will show strong growth. Overall gross tax revenue is assumed to grow by 17.6% in 2010-11 compared to a growth of just 4.6% in the previous year. While collections from excise are expected to accelerate, collections from customs and service tax are both expected to turn around from a decline in the previous year. CII believes this is a gamble worth taking, as revenue buoyancy is likely to pick up strongly with the recovery in the economy.

Estimated Tax Collections

	2008-09	2009-10 RE	2010-11BE
Gross tax revenue (Rs Crore)	605,298	633,095	744,398
Growth (%)		4.6%	17.6%
- Excise (Rs Crore)	108,613	102,000	132000
Growth (%)		-6.1%	29.4%
Customs (Rs Crore)	99,879	84,477	115000
Growths (%)		-15.4%	36.1%
- Service (Rs Crore)	60,941	58,000	68000
Growth (%)		-4.8%	17.2%
- Corporation (Rs Crore)	213,395	255,076	301331
Growth		19.5%	18.1%
- Income (Rs Crore)	120,593	131,421	128066
Growth		9.0%	-2.6%

II. Key Sectoral Initiatives

The Finance Minister announced some key initiatives to incentivize growth and develop the competitiveness of some key sectors of the economy. Special emphasis has been put on the developing value-addition in agricultural, help textiles industry become more competitive over the longer-term, and encourage the growth of renewable energy to ensure sustainable development. A concerted effort has been put on infrastructure development seen as the key to realizing the full entrepreneurial potential of India. This section provides a quick summary of the main sectoral initiatives in the budget 2010-2010.

Textiles

The budget recognized the need for sustainable development of textiles clusters and has made an allocation for meeting the cost of installation of a zero liquid discharge system at Tirupur that will address environmental concerns. As labor and environmental requirements become more stringent the world over, not just for the product, but for the process as well, helping textiles cluster meet their environmental obligations have the dual effect of ensuring sustainable growth as well as providing international brand equity for such clusters as environmentally friendly centers of production.

The finance minister has addressed the long-term competitiveness concerns of the industry by providing the incentives for private sector participation of in skill development of the textile workers. It is estimated that over 30 lakh workers could be potentially trained on an outcome based approach. As the textile sector moves to more sophisticated production techniques and products including blended and industrial textiles, availability of skills have become the bigger element of competitiveness rather than pure labor costs. A skilled workforce is also essential to move up the value chain in textiles. This initiative thus has the power to revolutionize the textiles sector and substantially add to India's export income from textiles over the longer-term

Agriculture

The Finance Minister addressed the three key issues that are hindrances for optimal growth of the value-added agriculture;

1. Infrastructure and the logistics
2. Reducing wastage
3. Access to technology and credit

In terms of incentivizing the development of logistics and infrastructure a whole range of initiatives have been announced;

- Development of 5 new mega food parks for processed agriculture
- Access to External Commercial Borrowing for farm level pre-cooling machinery, and for preservation or storage of agricultural and allied produce, marine products and meat
- Project import status with a concessional duty of 5% and exemption from services tax for the purchase and installation of mechanized handling and sorting machinery, cold storage and cold room machinery and materials, and processing units
- Full exemption from basic customs duty for refrigerating units for needed for the manufacture of refrigerated trucks that will help in the rapid development of cold chain facilities
- Concessional duty of 5% on farm machinery THAT IS NOT PRODUCED in India
- Excise exemption on specified equipment for preservation, storage and processing of agriculture and related sectors

- Exemption from service tax for storage and warehousing of agro produce

The budget addressed the issue of wastage by increasing the scheme allowing Food Corporation of India (FCI) to hire private warehouses on a guaranteed basis from 5 to 7 years. The budget has also increases the target for agriculture credit flow from Rs. 325 thousand crores to 375 thousand crores.

The Finance Minister provided a strong sense of future direction of policy in this sector in terms of access and investment in technology by indicating that the eastern river-fed states of Bihar, West Bengal, Eastern UP, Orissa, and Chhattisgarh will be the focus of a new green revolution and by providing 300 crores for water harvesting, watershed management and soil health, to enhance the productivity of the dry land farming areas. It has long been a complaint of farmers in the Eastern part of the country that the green revolution was too focused on irrigation-fed agricultural areas of the north and north-west of India and average yields in eastern India have remained typically lower than their counterparts in Western UP, Punjab, and Haryana. A focused initiative for agro development of Eastern India has the potential of substantially increasing India's food supply and creating a new group of middle-class consumers and investors in some of India's poorest regions.

Infrastructure

A total of Rs 1,73,552 crore provided for infrastructure development which accounts for over46 per cent of the total plan allocation, while allocation for road transport increased by over 13 per cent from Rs. 17,520 crore to Rs 19,894 crore. Rs 16,752 crore provided for Railways, an increase of Rs.950 crore over last year.
Besides the budgetary allocations a number of initiatives on public transport and road development have been put forward in this budget;

- Monorail projects for urban transport have been granted project import status allowing for a concessional basic duty of 5 per cent for imports connected to such projects

- Full exemption from import duty is available to specified machinery for road construction projects on the condition that the machinery shall not be sold or disposed of for a minimum period of five years. However, flexibility has been granted and importers can sell such machinery on payment of import duty at depreciated value. Additional flexibility has also been provided in that the importer is free to relocate such machinery to other eligible road construction projects. While this incentive will help road construction sector, domestic capital goods manufacturers might be negatively impacted in some cases.

Environmental Goods and Renewable Energy

The finance minister, in keeping with India's policy of taking bold unilateral initiatives towards sustainable development announced several new incentives for the development of renewable energy and environmental friendly products;

- Full exemption on basic customs duty and special additional duty has been granted to parts and components of electric vehicles subject to end-use condition. Such parts and components would also enjoy a concessional CVD of 4%. However the certification of end-use and verification might impose some transaction costs on such imports

- Concessional duty has been granted to parts and components used for rickshaws powered by solar-batteries (solekshaw). However, there is some concern that some of the parts and components used for such solekshaws would be dual use, i.e. they will be similar to the parts used in normal cycle-rickshaws and other manufactures leading to some challenge to domestic manufacturers of such products in the face of increased imports

- A concessional customs duty of 5 per cent has been applied to machinery, instruments, equipment and appliances required for the initial setting up of photovoltaic and solar thermal power generating units. While definitely a boost for the solar power industry and in general interest of the development of non-fossil fuel based energy in the country, this is a key strategic industry for the future and allowing easy imports might have an adverse impact on acquiring technology and developing domestic capacity in India for such products. A matching incentive for domestic production would have been very welcome

- The wind-powered energy sector has also been benefitted by a exemption on specified inputs required for the manufacture of rotor blades for wind energy generators

Services

Services account for about 60% of the economy, and are an increasingly larger component in global trade flows. However, as the minister pointed out services tax to GDP ratio stands at only 1%. The minister has retained the services tax rate of 10% and extended the coverage of the services tax to eight new sectors and the scope of coverage has been expanded for seven sectors. The new sectors being covered are:

1. Services of promoting, marketing and organizing of games of chance, including lottery;
2. Specified health services when payment is made by business entity or insurance company;
3. Maintenance of medical record.
4. Services related to promotion of brand.
5. Commercial use of any event.
6. Electricity exchange
7. Copyright related to cinematographic film and sound recording.
8. Special services provided by builders

The scope of coverage has increased for

The scope of following services has been expanded for the following services;

1. Sponsorship services, which will now include sports events.
2. Air passenger Transport Service, to include domestic journey and international journey of any class.
3. Information Technology services, even when provided to individuals.
4. Commercial Coaching & Training services, to include any consideration even when there is no profit motive.
5. Construction of complex service.
6. Renting has been defined a service.
7. Value of management of investment under ULIP services has been increased

Some other sector-specific initiatives in services are:

IT and ITES
With a view to incentivize services exports, especially in IT and ITES that has contributed tremendously both in terms of growth, export earnings, as well as employment creation, the minister has simplified the process of refund of accumulated credit to exporters of such services by making necessary changes in the definition of export of services and procedures.

Hospitality Services
The benefit of investment linked deduction has been extended to new hotels of two-star category and above anywhere in India. The development of tourism, both for the domestic and foreign segments has

been adversely affected by the lack of quality budget hotels that cater to middle-class needs. India has seen large number of middle-class tourists leave for destinations in South-East Asia and even Europe because these locations offer affordable but quality infrastructure. Thus, this is a very welcome move that will lead to the development of tourism industry and create a significant number of jobs.

Investment and Financial Services

Intellectual Property and FDI

The finance minister has made the acquisition of intellectual property by Indian firms simpler and easier by completely liberalizing the pricing and payment of technology transfer fee, trademark, and brand name and royalty payments. These payments can now be made under the automatic route. The other welcome development was the decision on consolidation of all regulations and guidelines related to FDI into one comprehensive document. This will reduce the information and transaction costs on potential foreign investors to India and make the country more competitive as an investment destination.

Banking

Important measures have been taken to consolidate regulation in the financial sector. The establishment of the Financial Stability and Development Council will help inter-regulatory co-ordination while the Financial Sector Legislative Reforms Council will provide an outline for the expected reforms in this sector. The provision of additional banking licenses to private sector entities will enable greater competition in banking even as public sector banks are strengthened through re-capitalization. The announcement on the provision of more capital to rural banks is also welcome as it will lead to increased consumption and investment in the rural area with the easing of availability of credit, as will the decision to increase access to banking through the decision to provide appropriate banking facilities to habitations having population in excess of 2000 by March, 2012.

III. Inclusive Development

Inclusive growth and development by its very definition implies an equitable allocation of resources with benefits accruing to every section of society. Reaffirming the government commitment for inclusive growth and development, the Budget 2010-11 has not only proposed significant augmentation of funding under various schemes but has also proposed a number of new initiatives leading to a significant increase in allocation of resources on various social schemes. The spending on social sector has been increased to Rs.1,37,674 crore in 2010-11. As much as 25 per cent of the plan allocations are devoted to the development of rural infrastructure.

Key Indicators of Inclusive Development Initiatives

	Budget Allocation Amount (Rs. Crores)
Social Sector (Increase of 37%)	137674
School Education (Increase of 16%)	31036
Elementary Education (13th Finance Commission Grant)	3675
Ministry of Health & Family Welfare (Increase of approx 14%)	22300
Financial Inclusion Fund & Financial Inclusion Technology Fund (Contributed by Government Of India, RBI, NABRAD)	100
Rural Development	66100
Mahatama Gandhi National Rural Employment Guarantee Scheme	40100
Backward Region Grant Fund (Increase of 26%)	7300

Urban Development (Increase of 75%)	5400
Housing & Urban Poverty Allocation	1000
Micro, Small & Medium Enterprise Development (Increase of 25%)	2400
Micro Finance Development & Equity Fund	400
National Social Security Fund	1000
Ministry of Social Justice & Employment (Increase of 80%)	4500
Ministry of Minority Affairs (Increase of 50%)	2600

School education and health, witnessed an increase in plan allocation to the extent of 16% and 14% respectively. Although this is a healthy increase, it may not be enough to move in the direction of rapidly scaling up the share of public spending on education to a desired level. Public spending on education in India constitutes only around 3% of GDP whereas that on health is even lesser at around 1% of GDP.

Intensification of financial inclusion has been another highlight of the Budget 2010-11. Though the banking sector has shown tremendous growth in volume, financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society. To promote financial inclusion, the Budget has proposed to provide appropriate Banking facilities to habitations having population in excess of 2000 by March, 2012. It has also proposed to augment Rs.100 crore each for the Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund, which shall be contributed by Government of India, RBI and NABARD.

Budget has also endeavoured to promote inclusive development through expansion of fund allocation on various social schemes related to rural and urban development. Rural development initiatives saw budget allocation on number of schemes including *Mahatma Gandhi National Rural Employment Guarantee Scheme*, rural infrastructure programmes under *Bharat Nirman*, *Backward Region Grant Fund* among others have been enhanced considerably. As regards urban development, the allocation has been increased by a significant 75 per cent during 2010-11 over the previous year. The Finance Minister has also raised the allocation for Housing and Urban Poverty Alleviation by 17.6%. Further, the 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, has been extended up to March 31, 2011, which besides ensuring the provision of houses to a large section of homeless urban population, will provide a boost to the construction sector that has been facing a slump due to the economic slowdown.

Budget has also tried to boost inclusive development by enhancing fund allocation on development of Micro, Small and Medium Enterprises (MSMEs)-that according to some estimates employ more than 42 million workers in over 13 million units and produce over 6000 products, ranging from traditional to high-tech items. The Budget has increased the funding for this sector by 25% and also doubled the corpus for Micro-Finance Development and Equity Fund from the previous year. It would have been even better if budget had taken a few more initiatives like providing flexibility in labour laws, easier and cheaper access to credit etc which are coming in the way of healthy growth of MSMEs in the country.

The Finance Minister has also endeavoured to reach out to the vulnerable unorganised sector that constitutes over 90% of the workforce. In a landmark initiative, he has announced setting up of a National Social Security Fund for unorganised sector workers with an initial allocation of Rs.1000 crore to cover weaker sections of society like tappers, rickshaw pullers, bidi workers among others. *He has also extended the Rashtriya Swasthya Bima Yojana* to all workers who have worked under the Mahatma Gandhi NREGA scheme for more than 15 days during the preceding financial year. In the Budget, the finance minister has also announced a new pension initiative, *"Swavalamban"* for persons who join New Pension Scheme (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.

Some additional Inclusive Development Indicators

	2009-10 (BE)	2010-11 (BE)	Growth (%)
National Rural Employment Gurantee Scheme (NREG)	39100	40100	2.6
Integrated Child Development Scheme (ICDS)	6705	8700	29.8
Centrally Sponsored Scheme on Micro Irrigation	430	1000	132.6
Rural Housing	8800	10000	13.6
Pradhan Mantri Gram Sadak Yojana	12000	12000	0.0
Rural Sanitation Programme	1200	1580	31.7
National Rural Health Mission	13930	15440	10.8
Intergerated Watershed Management programme	1911	2458	28.6
National Food security Mission	1200	1350	12.5
National Agriculture Insurance Scheme	644	950	47.5
Skill Development Mission	na	1167	
Sarv Shiksha Abhiyan	13100	15000	14.5
Mid Day Meal Scheme	8000	9440	18.0

Inclusive development has also found reflection in the increased allocation of funds on welfare of women and children. Plan outlay for Women and Child Development has been stepped up by almost 50 per cent. Similarly, the plan outlay of the Ministry of Social Justice and Empowerment has been enhanced by 80 per cent to Rs.4500 crore. With a view to improve the female literacy rate, *Saakshar Bharat* has been launched with a target to cover 7 crore non-literate adults which includes 6 crore women. Further, to meet the specific needs of women farmers, *Mahila Kisan Sashaktikaran Pariyojana* is proposed to be launched with a provision of Rs 100 crore as a sub-component of the *National Rural Livelihood Mission*.

Chapter 3
Fiscal Situation

Chapter 3

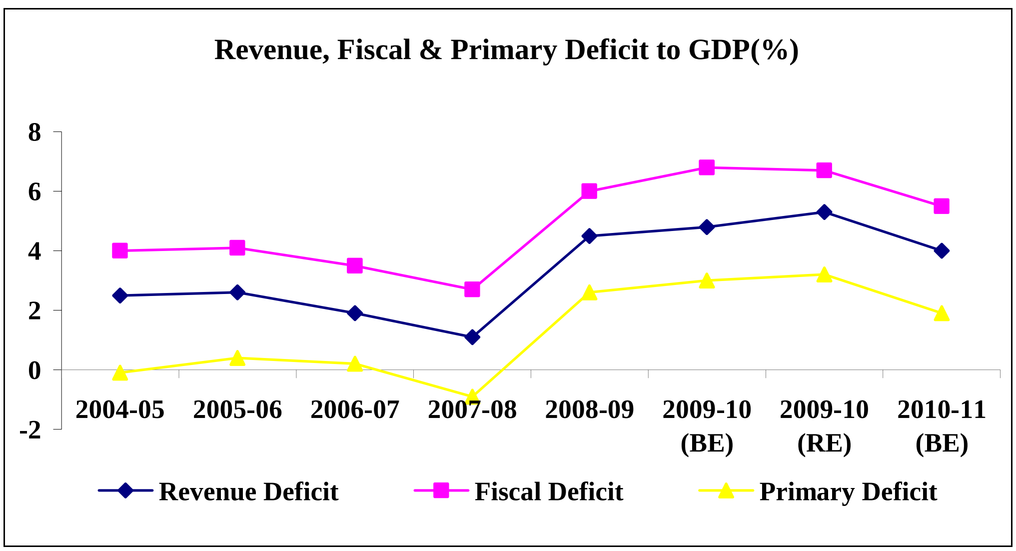
Fiscal Situation

I. Fiscal Deficit

Since the enactment of the Fiscal responsibility and Budget management Act (FRBMA) in 2003, improvements have been observed in the fiscal position of the government. FRBMA required that the Central Government's fiscal deficit should not exceed 3 percent of GDP by 2008-09, and that the deficit on the revenue account would be eliminated by the same date. In 2008-09 the economic scenario changed drastically, due to the global economic slowdown. The fiscal stimulus became the need of the hour and as a result deviations from FRBMA targets became inevitable.

Trend in Deficits

Various counter cyclical fiscal measures undertaken through tax concessions and increased public spending, increased subsidies and salary hikes under the Sixth Central Pay Commission significantly impacted the deficit position of the Government in 2008-09 and 2009-10.



With economy recovering, the government is now determined to ensure that it does not lead to fiscal profligacy. The Union Budget 2010-11 shows this imperative. The Budgeted estimates for fiscal deficit for 2010-11 ith eis placed at 5.5 percent of GDP as compared to 6.7 percent as per revised estimates (RE) of 2009-10.

The revenue and primary deficits are placed at 4.0 percent and 1.9 percent respectively for 2010-11 (BE) as against 5.3 percent and 3.2 percent respectively for 2009-10 (RE) and 4.8 percent and 3.0 percent respectively for 2009-10 (BE).

Changes in Deficits (Rs Crores)

	2009-10	2009-10	2010-11	Growth (%)	
	BE	RE	BE	2009-10 (RE) over 2009-10(BE)	2010-11(BE) over 2009-10(RE)
Revenue Deficits	282,735	329,061	276,512	16.4	-16.0
Fiscal Deficits	400,996	414,041	381,408	3.3	-7.9
Primary Deficits	175,485	194,541	132,744	10.9	-31.8

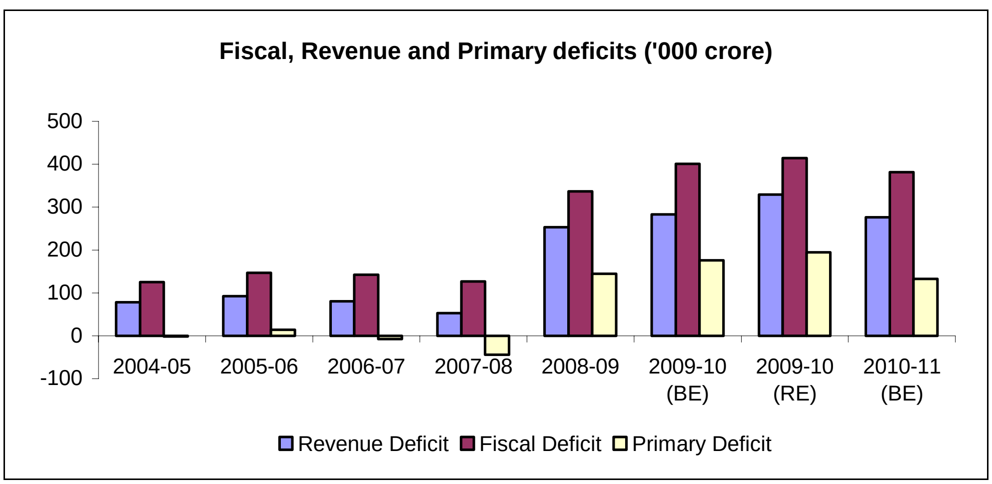
As % of GDP

Revenue Deficits	4.8	5.3	4.0
Fiscal Deficits	6.8	6.7	5.5
Primary Deficits	3.0	3.2	1.9

The fiscal deficit in absolute terms had increased from Rs.400, 996 crore in 2009-10 to Rs 414,041 crore as per revised estimates for 2009-10 recording a growth rate of 3.3 %. The budget estimates of 2010-11 estimates fiscal deficit to be Rs 381,408 crore thereby showing a decrease of 7.9% over the revised estimate of 2009-10.

The revenue deficit is estimated to be Rs 276,512 crore in 2010-11.This shows a decrease of 16.0% over the revised estimate of 2009-10. The latter however shows an increase of 16.4% over the budget estimates of 2009-10.

The primary deficit which reflects new borrowing requirement is estimated at Rs 132,744 crore for 2010-11, lower by 31.8% over the revised estimates (Rs 194,541) of 2009-10



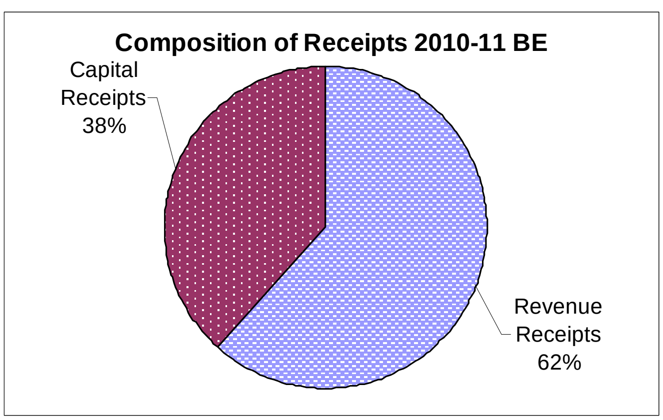
Overall the budget 2010-11 is a budget of consolidation and is a step towards fiscal consolidation, which will help stimulate economic growth by ensuring that high government borrowings doesn't lead to crowding out of private investment needs.

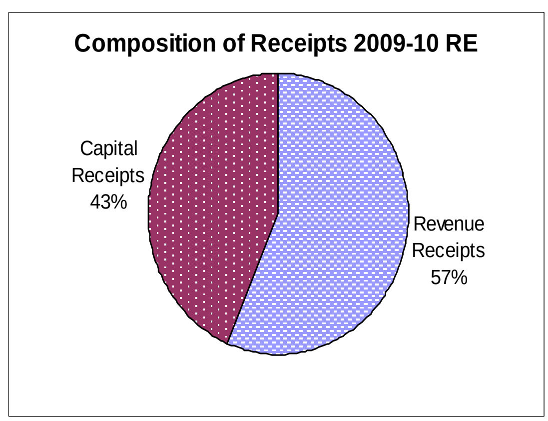
II. Receipts

The Budget estimates (BE) of the total receipts during 2010-11 stands at Rs. 1108749 crore, which is 8.54 percent higher than the Revised estimates (RE) for 2009-10. The Revised Estimates of the total receipts during 2009-10 stands at Rs. 1021547 crore.The variations between RE and BE for 2009-10 show a decline of 6 percent in revenue receipts whereas the capital receipts have shown an increase of 9.3 percent. As a result the overall receipts reflect a minor improvement of 0.07 percent.

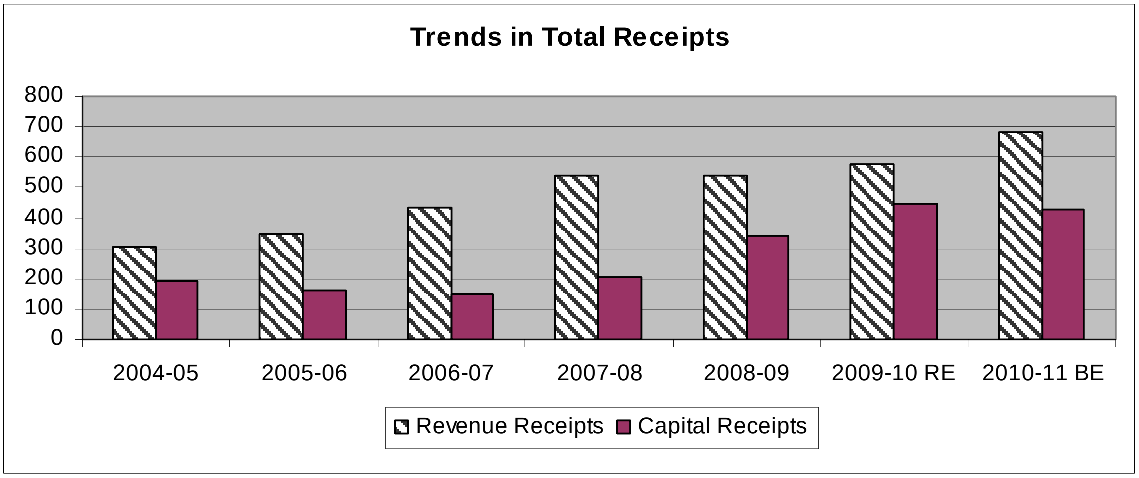
Receipts (Rs Crores)							
	2008-09	2009-10	2009-10	2010 -11	Growth (%)		
	Actuals	BE	RE	BE	2009-10 (RE) over 2008-09	2009-10 (RE) over 2009-10 (BE)	2010-11(BE) over 2009-10 (RE)
Revenue Receipts	**540259**	**614497**	**577294**	**682212**	**6.86**	**-6.05**	**18.17**
Tax Revenue	443319	474218	465103	534094	4.91	-1.92	14.83
Non-Tax Revenue	96940	140279	112191	148118	15.73	-20.02	32.02
Capital Receipts	**343697**	**406341**	**444253**	**426537**	**29.26**	**9.33**	**-3.99**
Recoveries of Loans	6139	4225	4254	5129	-30.71	0.69	20.57
Other receipts	566	1120	25958	40000	4486.22	2217.68	54.10
Borrowings and other liabilities	336992	400996	414041	381408	22.86	3.25	-7.88
Total Receipts	**883956**	**1020838**	**1021547**	**1108749**	**15.57**	**0.07**	**8.54**

In 2009-10 the revenue receipts comprised 57 percent of the total receipts whereas the share of the capital receipts was 43 percent. In 2010-11 the share of revenue receipts is estimated to be 62 percent of the total whereas capital receipts comprised 43 percent.



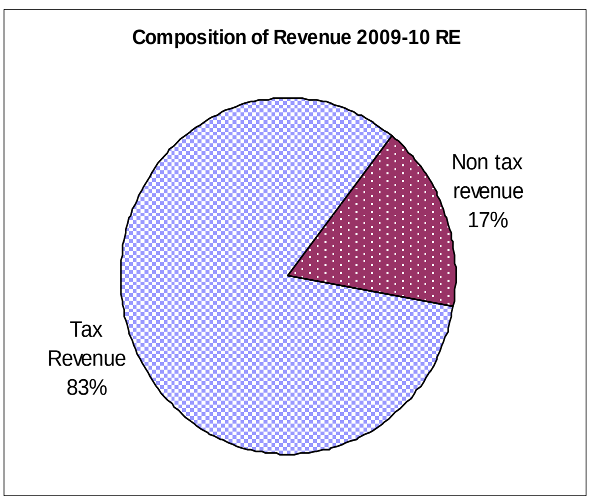


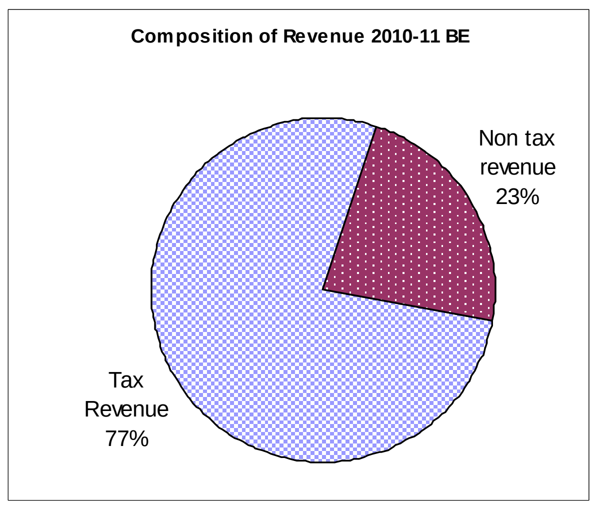
Revenue Receipts



The revenue receipts comprising of the tax revenue and the non tax revenue have continuously increased and have been a major contributor to the growth of total receipts. The revenue receipts have increased from Rs 305,992 crores in 2004-05 to Rs 577294 crores in 2009-10 RE.

The revenue receipts for 2010-11 are expected to increase by 18 percent over the 2009-10 RE with the expectation of greater receipts from both tax and non tax revenue heads .Tax revenue is estimated to be 14 percent higher than 2009-10 RE, whereas the non tax revenue is estimated to be 32 percent higher than 2009-10



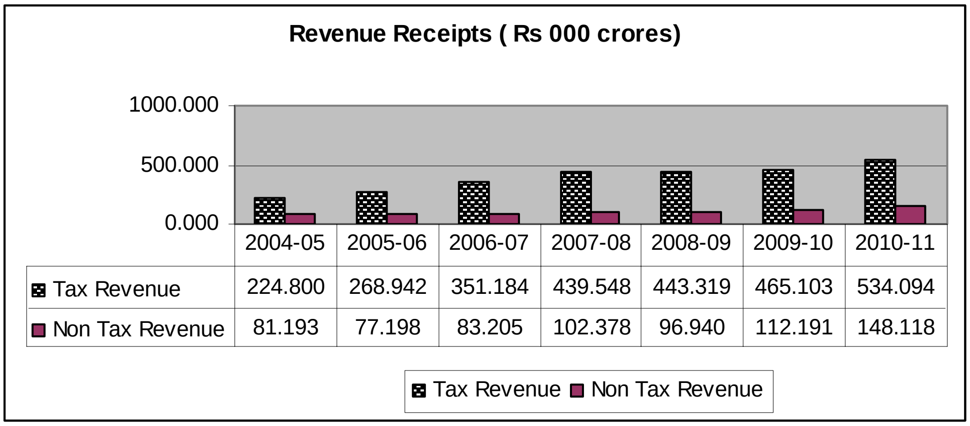


The decline of receipts in RE 2009-10 is mainly due to non tax revenue which hasa come down by 20 percent. Even the tax receipts have not shown a positive collection and have declined by 1.9 percent.

COMPOSITION OF REVENUE RECEIPTS

Tax Revenue

Tax revenue has been the major contributor to the revenue receipts. In 2010-11 BE receipts from tax revenue is estimated to be 14.83 percent higher than the revised estimates of 2009-10. This increase is largely on account of higher receipts from corporation tax which is estimated to grow by 18.3%.



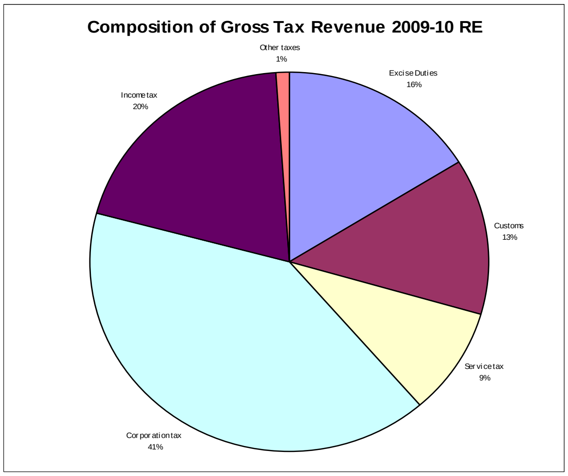
Further, the trend in tax revenue shows an increasing trend over the years and has grown around two times from Rs. 224000 crores in 2004-05 to Rs. 534000 crores in 2009-10. However, the growth in the non tax revenue has shown a fluctuating trend.

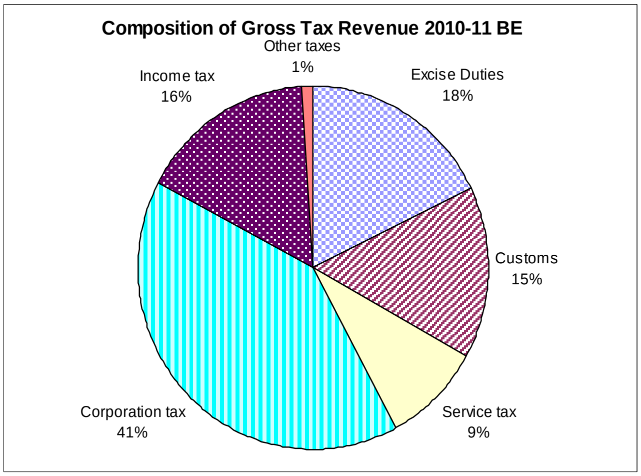
Comparing the 2009-10 RE with 2009-10 BE, the situation is not that comfortable. The net tax revenue shows a decline of 1.92 percent while the gross tax revenue has declined by 1.25 percent. This decrease is due to decline in receipts from all major tax heads except that of the income tax which showed an increase of 10.76 percent.

Overall in revenue receipts the net tax collection during 2009-10 contributed to Rs 465103 crore, whereas the remaining Rs 112191 crore was from the non-tax sources.

Gross Tax Revenue (Rs Crores)						
	2008-09	**2009-10**	**2009-10**	**2010-11**	**Growth (%)**	
	Actuals	**BE**	**RE**	**BE**	**2009-10 (RE) over 2009-10 (BE)**	**2010-11(BE) over 2009-10 (RE)**
Gross Tax Revenue	605298	**641,079**	**633095**	**746651**	-1.25	17.94
Corporation Tax	213395	256,725	255076	301331	-0.64	18.13
Income Tax	106046	112,850	124989	120566	10.76	-3.54
Other taxes & duties	14936	425	6943	8103	1533.65	16.71
Customs	99879	98,000	84477	115000	-13.80	36.13
Union Excise Duties	108613	106,477	102000	132000	-4.20	29.41
Service Tax	60941	65,000	58000	68000	-10.77	17.24
Taxes on Union Territories	1488	1,602	1610	1651	0.50	2.55

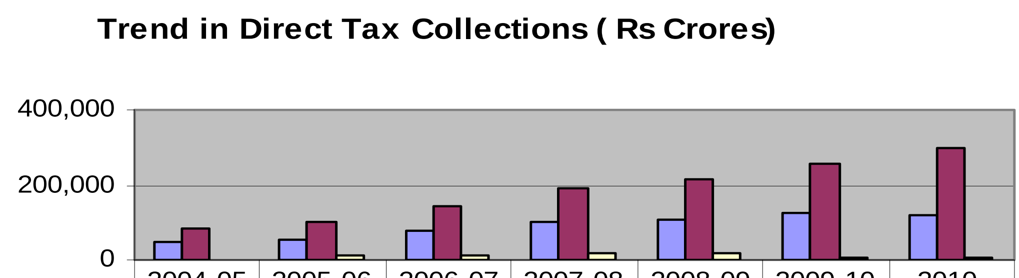
In 2010-11, the shares of excise and custom duties in Gross tax revenue are expected to go up. This would make up for the loss of revenue from direct tax collections as the share of income tax in gross tax revenue is expected to decrease from 20 percent to 16 percent.





Direct Tax

The direct tax receipts are estimated at Rs 430,000 crore in 2010-11BE showing a growth of 11 percent over the 2009-10 RE direct tax collections. Direct Tax collections have increased from Rs 134000 Crores in 2004-05 to Rs 387000 crores in 2009-10 RE.

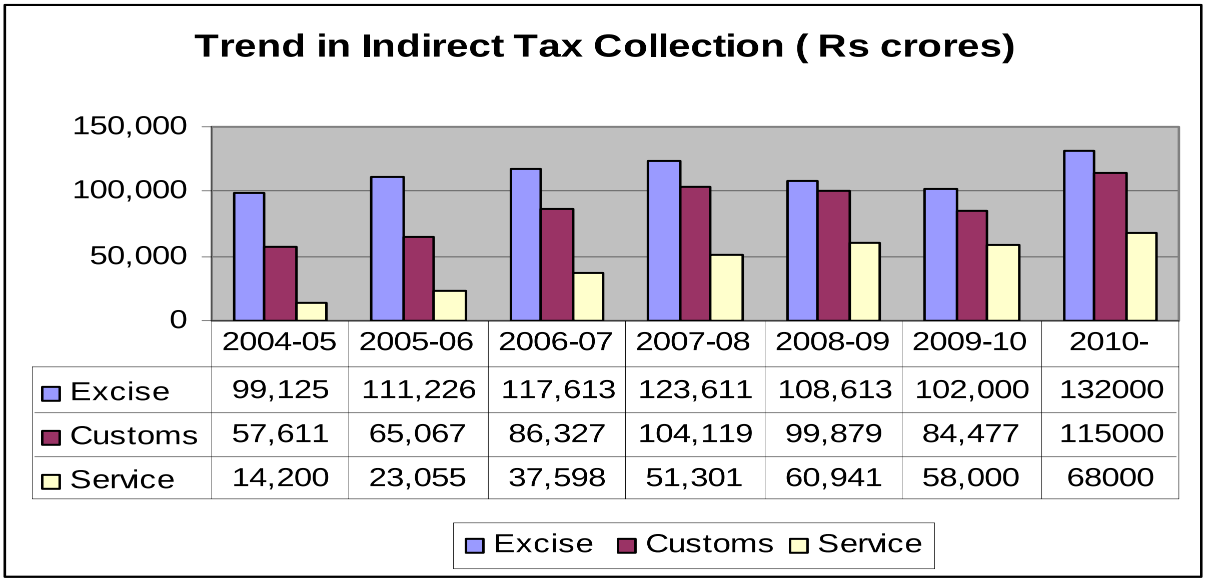


	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-
Income tax	49,268	55,985	75,093	102,644	106,046	124,989	120566
Corporate tax	82,680	101,277	144,318	192,911	213,395	255,076	301331
other Tax & Duties	2,074	9,541	12,563	18,561	14,936	6,943	8103

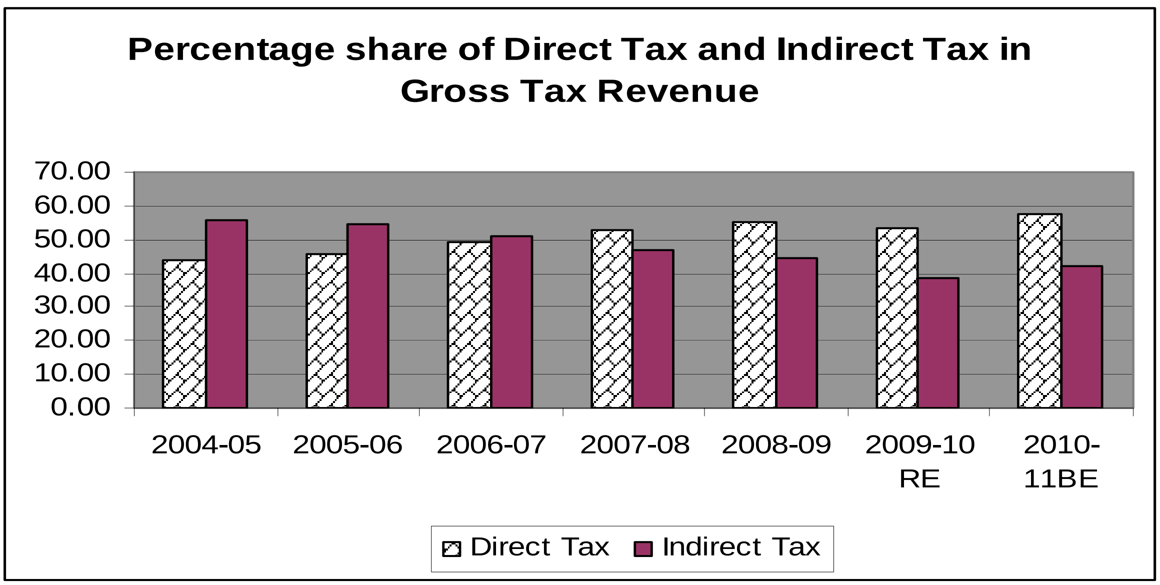
Income tax Corporate tax other Tax & Duties

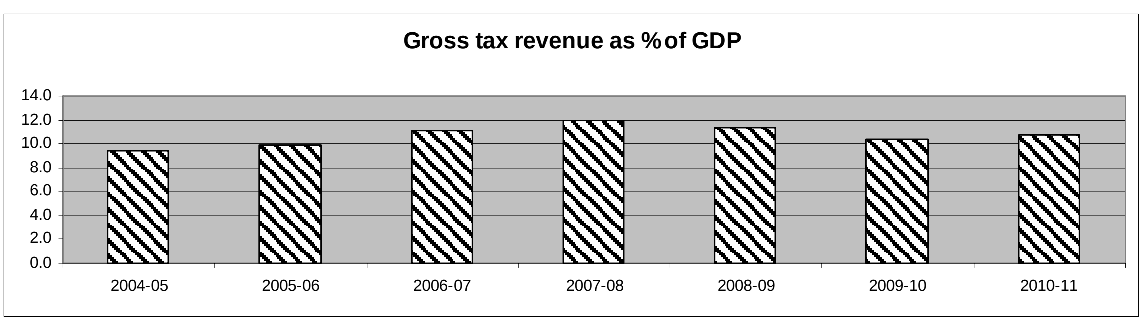
Indirect Tax

The indirect tax collections for 2010-11 BE have been estimated to Rs 315,000 crore registering a growth of 28.8 percent over the 2009-10 RE with excise, customs and service expecting to grow by 29.0, 36.0 and 17.0 percent respectively over 2009-10 RE



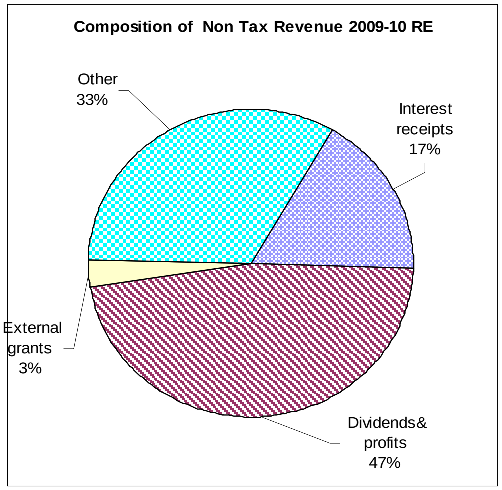
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-
Excise	99,125	111,226	117,613	123,611	108,613	102,000	132000
Customs	57,611	65,067	86,327	104,119	99,879	84,477	115000
Service	14,200	23,055	37,598	51,301	60,941	58,000	68000

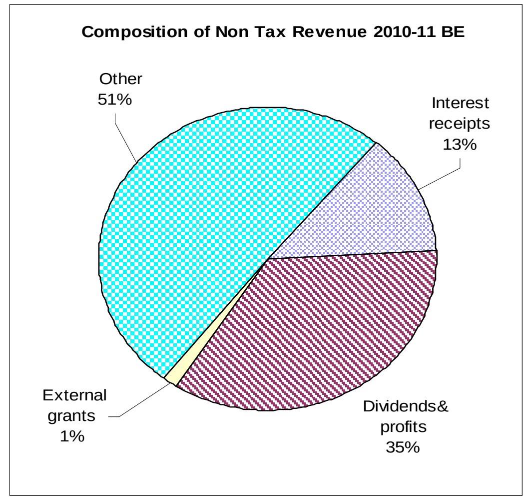




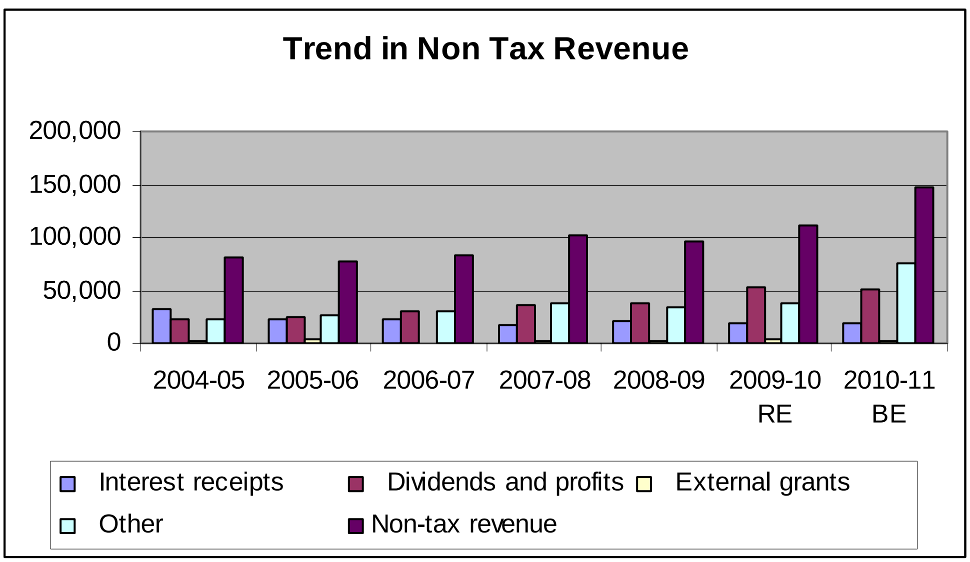
Non Tax Revenue

The 2010-11 BE of receipts from non tax revenue are estimated to be Rs. 148118 crores showing a 32 percent increase over 2009-10 RE. The composition of Non Tax Revenue is shown below:





The Non Tax revenue shows a rising trend over the years. It has increased from Rs. 81193 crores in 2004-05 to Rs. 111,118 crores in 2009-10 RE. The increase is on account of Dividends and profits from public sector enterprises and financial institutions and other Non Tax revenue receipts.



III. Expenditure

The total expenditure during 2009-10 marginally exceeded the budget estimates during 2009-10. The marginal increase in total expenditure over the budget estimates may be attributable to a decline of 3% in the plan expenditure over the budget estimates of 2009-10. The downturn in plan expenditure was led by fall in plan revenue expenditure, which declined by 5%, while the plan capital expenditure increased by 8.6%.

The non-plan expenditure, on the other hand, increased by 1.5% over the budget estimates during 2009-10. The increase in non-plan expenditure was led by increase in non-plan revenue expenditure, which increased by 3.7%, while the non-plan capital expenditure fell by 16.2%.

Trend in Major Components of Expenditure

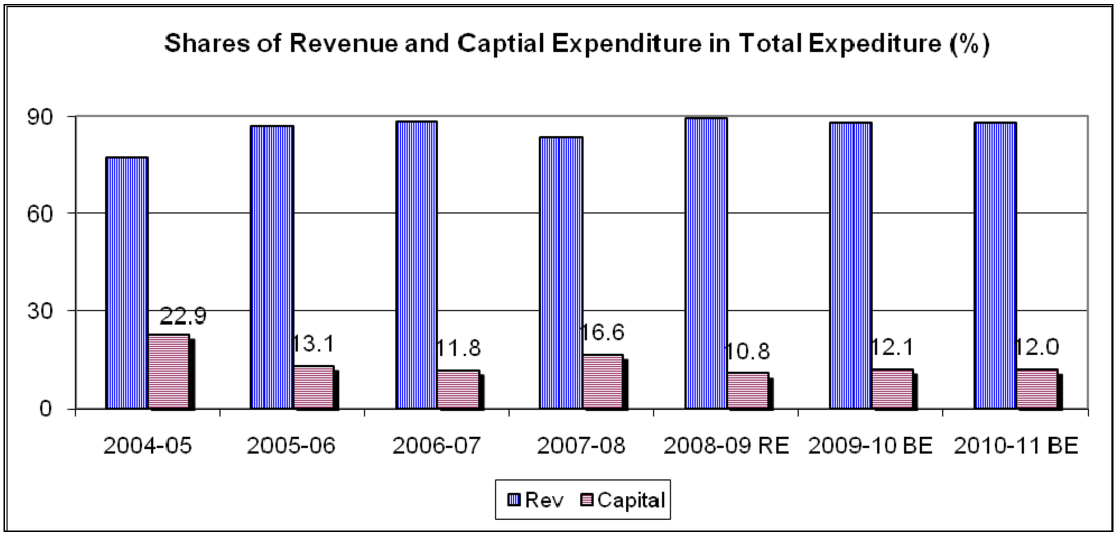
The budgeted total expenditure for 2010-11 stands at Rs 11,08,749 crore having increased by 8.5% from the revised estimates of 2009-10. It is satisfactory to note that the proposed rate of increase in expenditure is less than the rate experienced last year, reflecting the resolve of the government to return to fiscal prudence. The endeavour of the government to control expenditure has also been supported by the factors such as the absence of lower outgo on sixth pay commission arrears, lower outgo on farm loan waivers, slower expansion of debts etc.

Trends in Expenditure

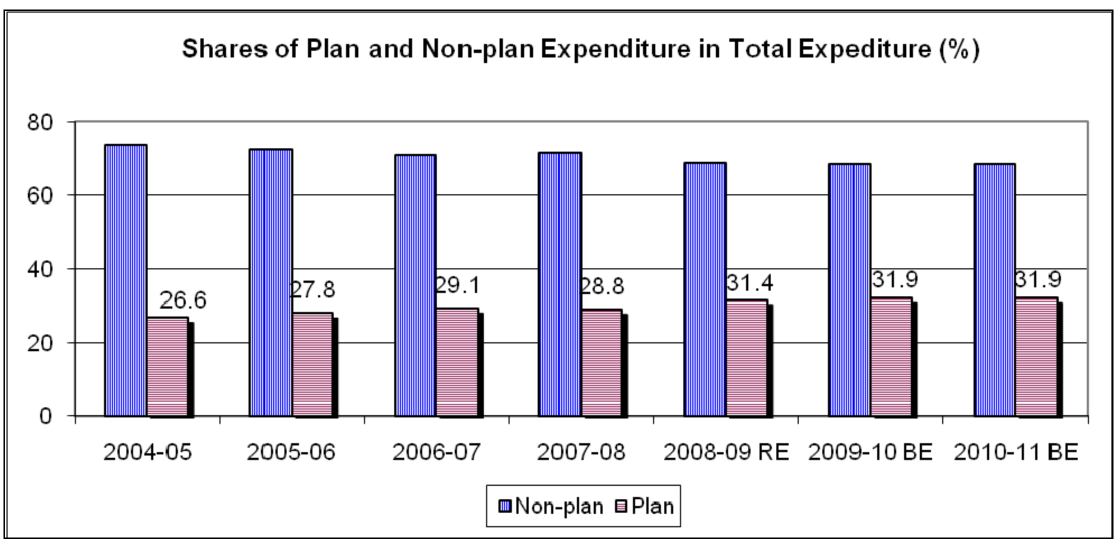
Expenditure (Rs Crores)							
	2008-09	2009-10	2009-10	2010-11	Growth (%)		
	Actuals	BE	RE	BE	2009-10 (RE) over 2008-09	2009-10 (RE) over 2009-10 (BE)	2010-11(BE) over 2009-10 (RE)
Non Plan Expenditure	**608721**	**695689**	**706371**	**735657**	**16.0**	**1.5**	**4.2**
On Revenue Account	559024	618834	641944	643599	14.9	3.8	0.3
On Capital Account	49697	76855	64427	92508	29.7	-16.2	43.6
Plan Expenditure	**275235**	**325149**	**315176**	**373092**	**14.5**	**-3.1**	**18.4**
On Revenue Account	234774	278398	264411	315125	12.6	-5.0	19.2
On Capital Account	40461	46751	50765	57967	25.5	8.6	14.2
Total Expenditure	**883956**	**1020838**	**1021547**	**1108749**	**15.6**	**0.1**	**8.5**
Revenue Expenditure	**793798**	**897232**	**906355**	**958724**	**14.2**	**1.1**	**5.8**
Capital Expenditure	**90158**	**123606**	**115192**	**150025**	**27.8**	**-6.8**	**30.2**

Within the total expenditure, revenue and capital expenditures are projected to increase by 5.8% and 30.2%, respectively, as compared to their corresponding figures of 14.2% & 27.8%, respectively, last year. The proposed slower growth in revenue expenditure and higher growth in capital expenditure are indications of the intention of the government to control deficit and sustain the economic growth in post global meltdown era. .

The share of plan expenditure in total expenditure has shown a slight positive trend since 2004-05. Efforts need to be made to gradually accelerate the momentum as the economy regains the fiscal prudence over the next few years.

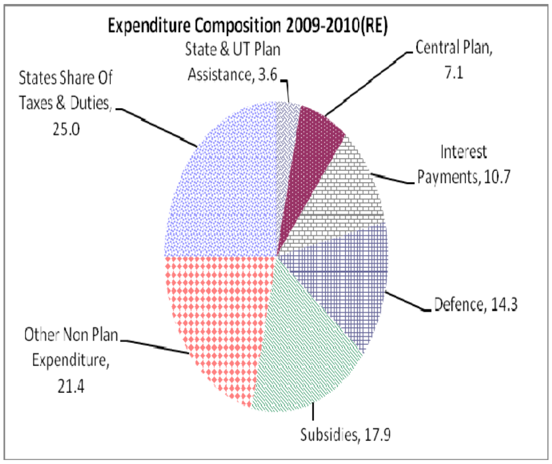


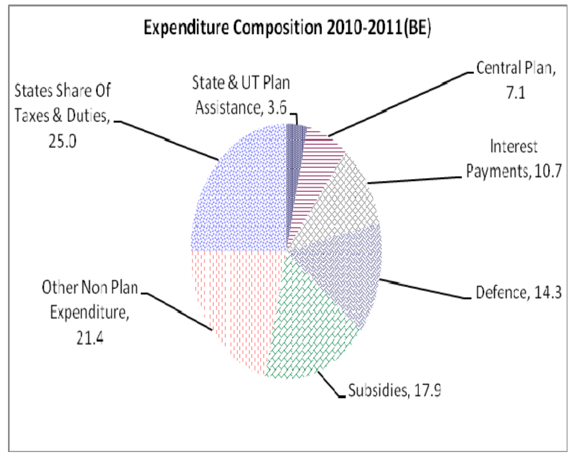
For 2010-11, the plan expenditure of the government has been proposed to be increased by 18.4%, which is higher than the growth of 14.5% witnessed during 2009-10. However, the higher increase in plan expenditure is led by increase in plan revenue expenditure, which has been proposed to be increased by 19.2% compared to 12.7% last year. The plan capital expenditure, on the other hand, is proposed to be increased by 14.2%, compared to 25.5% last year.



Composition of Total Expenditure

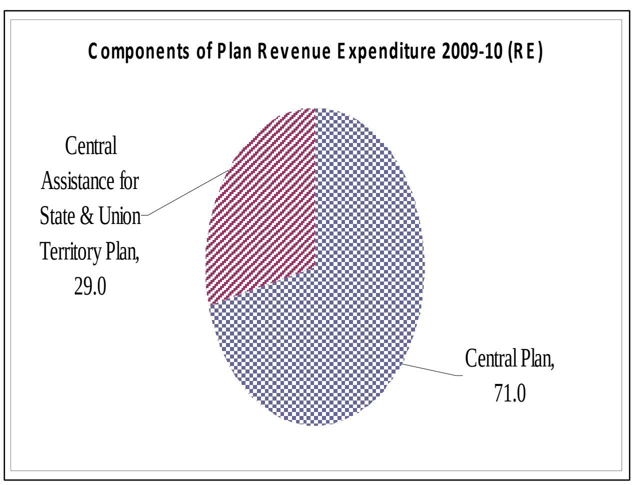
As per the revised estimates of 2009-10, subsidies and interest payments together accounted for 34.3% of total expenditure. The share of these two items is proposed to reduce to 32.9% during the next financial year. The recent announcement by the government to deregulate non urea prices would help in reigning in the share of subsidies to some extent. However, it should be followed by a full fledged reforms in subsidy regime. This would provide government a leeway to spend the resources for more productive purposes. Upward pressure on interest rates and continuing requirements of high borrowing could pose a challenge in controlling the interest payment even during the next year. There is also a need to increase the share of central plan outlay in total expenditure to provide a space to the government to meet the funding requirements in projects related to infrastructure sector.

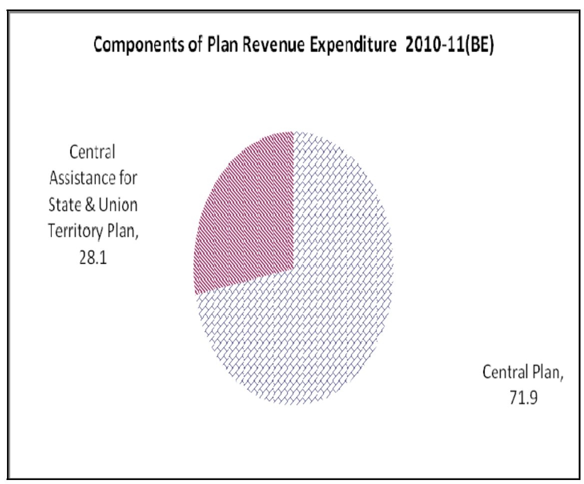


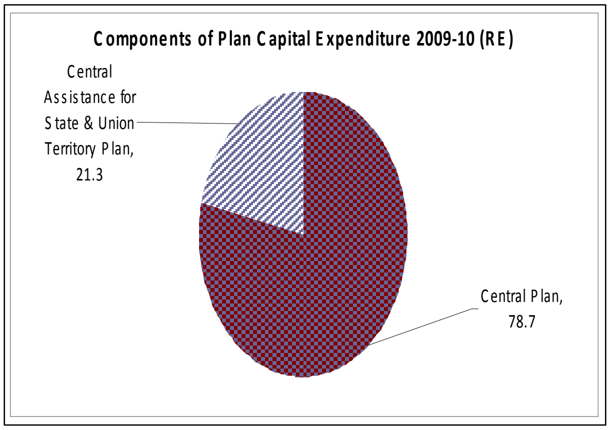


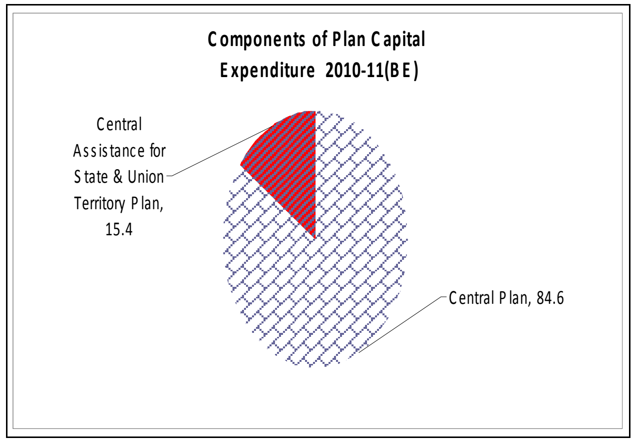
Composition of plan Revenue and Capital Expenditure

Of the total plan revenue expenditure, during 2009-10 (RE) 72% was spent on central plan and remaining 28.1% on central assistance for sates. In budget estimate, the share of central plan has increased to 73.2%. Similar trend is observed for plan capital expenditure. The share of central plan which was 81.4% in 2009-10 (RE) has been proposed to increase to 85.7% during the next financial year.



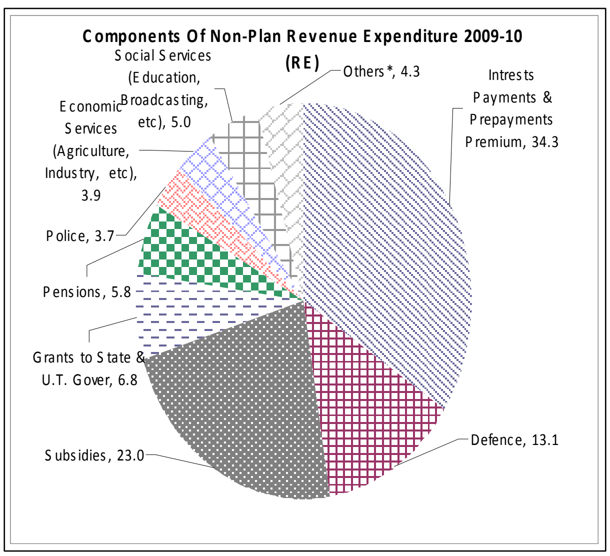


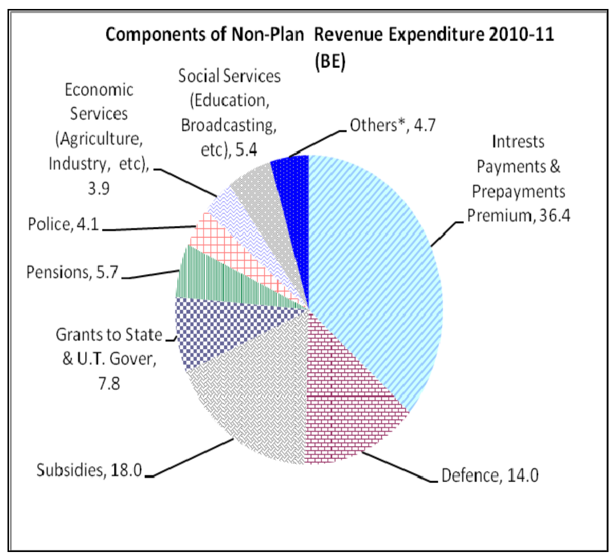


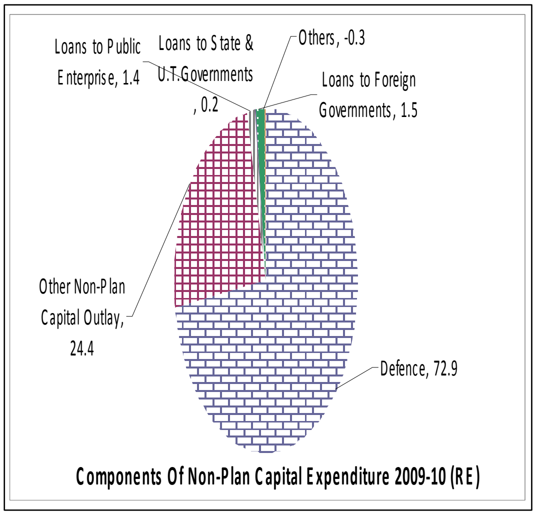


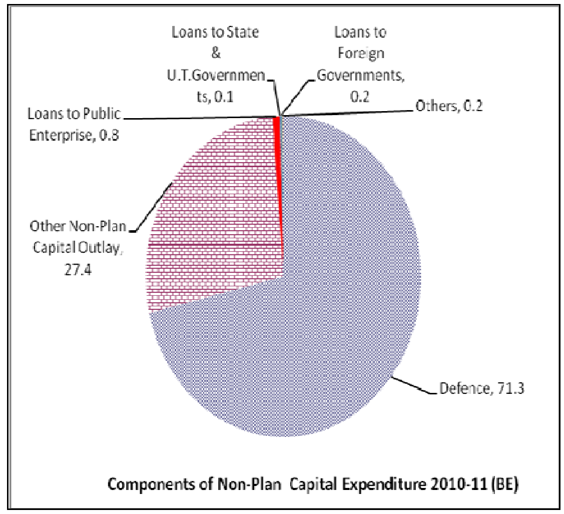
Composition of non-plan Revenue and Capital Expenditure

Non-plan revenue expenditure, which constitutes around 63% in the total expenditure, is dominated by three items of expenditure, namely, interest payments, subsidies and defence. These three items together constituted 62.2% of total non-plan expenditure in 2009-10 (RE). The government has proposed to bring down the combined share of theses items to 61%, of the total non-plan expenditure, during the next fiscal, which is a positive development.



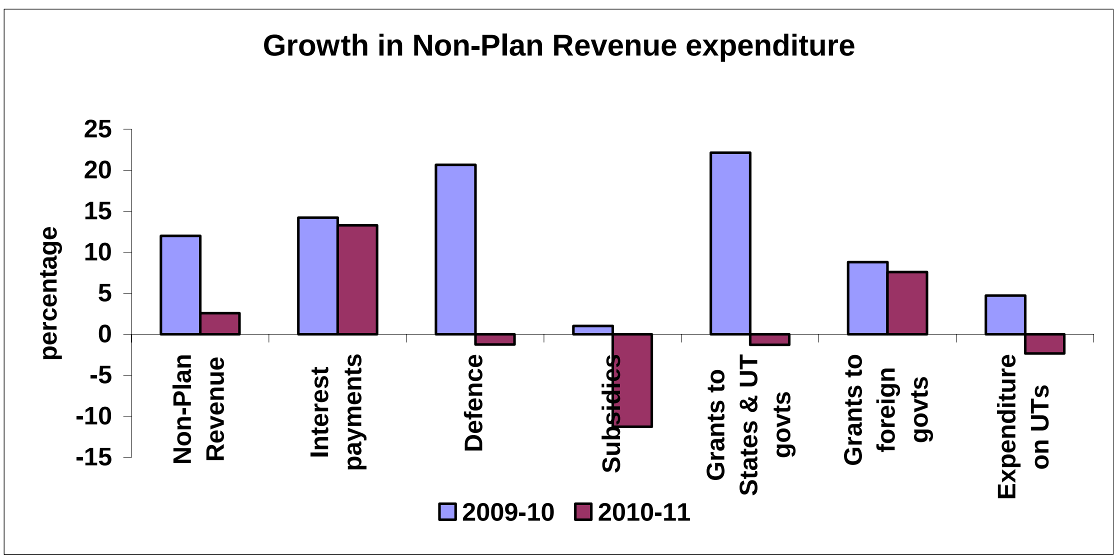






Growth of Non Plan expenditure

It is satisfactory to note that the non-plan expenditure has been proposed to increase by only 4.2%, compared to 2009-10 when the non-plan expenditure increased by 16.1%. The lower growth in non-plan expenditure is led by a marginal increase of 0.3% in non-plan revenue expenditure. The government has shown a great commitment to reduce down expenditure on subsidies as a whole. Total government spending on subsidies is expected to show a decline of 11% in 2010-11 over the revised estimates of 2009-10. Government's spending on interest payments continues to eat away a high proportion of non-plan revenue expenditure. During 2010-11, interest payments, have been projected to increase by 13%.



Trends and Composition of Central Plan Outlay

The budget for the Central plan outlay is proposed to be around 47.3% of the total expenditure for the year 2010-11. During the next financial year, the shares of plan outlay on energy, industry & minerals, science & technology, and general economic & social services are proposed to increase from its revised levels in the current year. As against this, the shares of agriculture, rural development, transport, and communications are to witnesses a decline, despite increased allocations in absolute terms. Notwithstanding continuing poor performance of the farm sector, the government's plan-budget allocation on the agriculture continues to be subdued. Given the stagnating productivity in agriculture and its continued reliance on monsoon, it may be desirous to rapidly increase the share of central plan expenditure in the sector. Similar need for expansion in plan outlay exists in other critical areas including science technology and environment, and general economic services.

Major Heads in Central Plan Outlay

	2009-2010 Revised Estimates (Rs Crores)	2010-2011 Budget Estimates (Rs Crores)	Growth 2010-11 (BE) over 2009-10 (RE) in %	Share 2009-10 (RE) in %	Share 2010-11 (BE) in %
Agriculture and Allied Activities	10123	12308	21.6	2.4	2.3
Rural Development	51560	55190	7.0	12.1	10.5
Irrigation and Flood Control	404	526	30.2	0.1	0.1
Energy	109685	146579	33.6	25.8	27.9
Industry and Minerals	30694	39019	27.1	7.2	7.4
Transport **	88948	101997	14.7	20.9	19.4
Communications	16099	18529	15.1	3.8	3.5
Science Technology & Environment	9908	13677	38.0	2.3	2.6
General Economic Services	5446	7554	38.7	1.3	1.4
Social Services	101370	127570	25.8	23.8	24.3
General Services	1353	1535	13.5	0.3	0.3
Grand Total	**425590**	**524484**	23.2	100.0	100.0

Chapter 4
Direct Taxes

Chapter 4

Direct Tax Proposals

With a commitment to implement the new Direct taxes Code and GST from April1, 2011, the Union Budget 2010-11 does not bring forward any major direct tax reforms. Nevertheless, the Budget continues on the path of initiating tax reforms for greater compliance with more focus on automation and re-engineering aimed at simplification of processes. The reform measures outlined in the Budget are:

- Additional Centralized processing center (CPC) to be set up for processing of tax returns;
- The Sevottam project introduced through Aayakar Seva Kendras, which provide a single window system for registration of all applications including redressal of grievance as well as paper return, to be extended to four more cities;
- Simplified Income Tax Return Form “Saral II” for individual taxpayers to be notified shortly;
- Expansion of scope of cases which may be admitted by settlement commission for fast resolve of the tax disputes;
- Bilateral discussion commenced to enhance the exchange of bank related and other information for effective tracking of tax evasion and identifying undisclosed assets of resident Indian lying abroad.

The following sections provide a quick analysis of the key direct tax proposals:

Key Direct Tax Proposals

- Union Budget 2010 has continued to extend relief to individual tax payers by revising the tax slabs. The income tax exemption limit and rates of income tax, though, remains the same, however the tax slabs are revised as under :

  Individuals

New Slab	Tax Rate
Upton Rs. 160000 *	NIL
160001 to 500000	10%
500000 to 800000	20%
800001 & above	30%

  ** In case of Resident Women Income 160000 is read as 190000*
  In case of Senior Citizen 160000 is read as 240000

  The proposal is welcome by the individual taxpayers, as it results in an overall tax saving of Rs. 50000 in case of Individuals (on income of Rs. 8 Lakh). Thus creating a virtuous cycle of putting more disposable income in the hands of the consumer – leading to greater demand buoyancy.

- The Union Budget proposed under section 80CCF of the Act an additional deduction of Rs. 20,000 to be allowed to individual or HUF from taxable income, for subscribing to long term infrastructure bonds as notified by the Government. This proposal is welcome as it would not only provide tax savings to individuals & HUF but also give stimulus to the infrastructure sector.

- Benefit of deduction under Section 80D is available in respect of premium paid by an individual or HUF to the health insurance policy upto Rs. 15000 or Rs. 20000, if the person insured is of age 65 yrs or above**.** Contribution made to “Central Government Health Scheme” has also been included u/s 80D. Such contribution made earlier by Government employees was not eligible for deduction. This would result in tax benefit to Government employees.

- The Minimum Alternate Tax (MAT) is proposed to be increased from 15% to 18% of book profits. This is not a welcome measure, as this dilutes the benefits of tax exemption.
- The Union Budget 2010-11 does not bring any change in Corporate Tax rate (i.e. 30%), in case of companies, however, the surcharge of 10%, in the case of a domestic companies, is proposed to be reduced to 7.5%. In case of companies other than domestic companies, the surcharge shall continue to be levied at the rate of 2.5%. In all other cases (including sections 115JB, 1150, 115R, etc) the surcharge is proposed to be reduced to 7.5%. Consequently the overall effective tax rate shall be reduced from 33.99% to 33.2175 % (30% + 7.5% + 3%) resulting in tax saving of 0.7725%. This is a welcome measure only for those domestic companies, who are not liable to MAT (which is proposed to be increased from 15% to 18%).
- The existing weighted deduction for expenditure incurred on an approved in-house scientific research and development, is proposed to be increased from 150% to 200%. Simultaneously, the existing weighted deduction of 125% in case of payment to approved scientific research associations, National Laboratory, University, etc for the purpose of scientific research programme is also proposed to increase to 175%**.** This proposal would give a major stimulus to the business sector to invest in R&D.
- Currently contributions to associations, which are engaged in social science research or statistical research, are not subject to weighted deduction. Now it is proposed to include approved research association, which has its object of undertaking research in social science or statistical research within the purview of section 35(i)(iii). This step would incentivise the associations in this sector.
- Under existing provisions of the Income Tax Act, conversion of company into LLP has various tax implications. It is proposed that transfer of assets on conversion of a company into LLP shall not be regarded as transfer for capital gains tax purposes, provided certain specified conditions are fulfilled. If the specified conditions are not fulfilled than the benefit availed by the company will be chargeable as profits and gains in the hands of successor LLP. Carry forward and set off of business losses and unabsorbed depreciation to the successor LLP is also allowed on fulfilling the conditions specified. The above benefits are restricted to small companies. This proposal would encourage more small companies to convert to LLP.
- Section 9(1) clauses (v), (vi) & (vii) of the Act specify the circumstances in which interest, royalty & fees for technical services are deemed to accrue or arise in India. In order to overcome various Supreme Court/High Court judgment against the revenue in absence of nexus of income with India, an explanation was inserted by the Finance Act 2007 to section 9(2) with retrospective effect from 1/06/1976 to clarify that such income shall be deemed to accrue or arise in India even if the non-resident has no residence or place of business or business connection in India. In the present budget, the explanation with retrospective effect from 1/06/1976, is extended to deem such income to accrue or arise in India whether or not (i) Non Resident has a residence / Place of business/ business connection in India, or (ii) Non Resident has rendered services in India.

  With this retrospective amendment, the Government has moved into extra territorial jurisdiction in such cases. This amendment may result into taxation of interest, royalty and fee for technical services in respect of services rendered outside India from June 1, 1976, as long as they are utilized in India. This may also result in reopening of the settled cases of past.
- The Budget proposed to increase the time limit for completion of housing projects approved after 1April, 2005 to 5 years from 4 years for the purpose of claiming benefit of deduction under section 80-IB. This proposal is welcome as it would help the housing sector, which is already suffering from the economic slowdown.
- The existing provisions provide for penalty under section 271B on account of failure to get accounts audited or to furnish such reports within due date at 0.5% of total sales, turnover or gross receipts or Rs. 100000, whichever is less. The amount of Rs. 100000 is proposed to be increased to Rs. 150000. Therefore any such failure could now entail additional penal amount of Rs. 50000.
- The Finance Bill, 2010, seeks to amend the applicability of Sec 282B of Act relating to allotment of Document Identification Number. Under the provisions of this section, the income tax authority is

required to allot a computer generated document identification number before issue of every notice, order, letter or any correspondence to any other income tax authority and such number shall be quoted thereon. The section 282B was to be effective from 1st October 2010.The effective date is now proposed to be 1st July, 2011 in order to cover the entire gamut of services mentioned in Section 282B on a PAN basis.

- The Finance Bill, 2010 proposed to extend investment linked incentive u/s 35AD of the Act to the Hotel sector irrespective of location. The definition specified business, under section 35AD for the purpose of claiming 100% deduction of capital expenditure incurred, is proposed to include business of building & operating a new hotel of two star or above category anywhere in India. This would be a boost to the Tourism sector. However, CII believes that this incentive should be extended to all manufacturing sectors, so as to promote investment and employment.

- Under section 44AB of the Act, every person carrying on business or profession is required to get his accounts audited every year if his total sales, turnover or gross receipts from his business or profession exceeds Rs 40 lakh or 10 lakh respectively. The limit has been enhanced to Rs 60 lakh or Rs 15 lakh respectively. This would give relief to the SMEs from both paper works and reduction in cost..

- Currently under section 80-ID 100% deduction for 5 years is available to the assessee from the business of two star, three star or four star category hotel or from the business of building, owing and operating a convention centre located in the NCR and other specified locations provided such hotels has started functioning or such convention center is constructed during the period 01/04/2007 to 31/03/2010 To provide some more time for these facilities to be set up in light of the Common Wealth Games being in Oct. 2010, it is proposed in the Finance Bill, 2010 to extend the date by which the hotel to start functioning or the convention centre has to be constructed from 31/03/2010 to 31/07/2010. This proposal would be welcome by the Hotel developers, who would have otherwise been subjected to two tier losses- one due to economic slowdown and other due to non availability of the Income Tax holiday after 31 March 2010.

- As per section 40(a)(ia) of the Act any expense in respect of Commission brokerage, Professional fees, etc is not allowed as deduction, if tax on such expenditure is liable to be deducted, was not deducted or after deduction not paid during the previous year. However, in case the deduction of tax is made during the last month of the previous year, no disallowance is made, if tax is deposited on before the due date of filing of return. It is now proposed that no disallowance will be made if after deduction of tax during the previous years, the same has been paid on or before the due date of filing of return of income specified u/s 139(1). This would avoid the hardship on the assesee resulting from disallowance of expense on account of delay in deposit of the tax deducted.

- In order to discourage the practice of delaying the deposit of tax after deduction, the Finance Bill, 2010 seeks to increase the liability of person to pay simple interests to 1.5% from 1% of every month or part of month on account of failure to deduct tax at source or payment of tax after deduction. The amendment will take effect from 1st July 2010.

- At present every person who is responsible for payment of any specified sum to a person, is required to deduct at source at the prescribed rate and deposit it with the Central Government within the specified time. However no deduction is required to be made if the payment do not exceed prescribed threshold limits. It is proposed to raise the threshold limit for deduction of tax on certain payments made as under:

Nature of payment	Existing threshold Limit of payment (Rupees)	Proposed threshold limit of payment (Rupees)
1) Winnings from lottery or crossword puzzle	5,000	10,000
2) Winnings from horse race	2,500	5,000
3) Payment to contractors	20,000 (for a single transaction)	30,000 (for a single transaction)
	50,000 (for aggregate of transactions during financial year)	75,000 (for aggregate of transaction during financial year)
4) Insurance commission	5,000	20,000
5) Commission or Brokerage	2,500	5,000
6) Rent	1,20,000`	1,80,000
7) Fees for professional or technical services	20,000	30,000

These amendments are proposed to take effect from 1st July 2010

- A clarification has been provided in the definition of "Charitable Purpose". It has been proposed to amend section 2 (15) to provide that advancement of any object of general public utility shall continue to be a "Charitable Purpose" if the total receipts from any activity/ rendering of services in the nature of trade/commerce or business does not exceed Rs. 10 Lakh in the previous year. This is welcome and would extend relief to the associations who were deprived of the benefit of tax exemption on account of meager receipts from trading or business activities.

Chapter 5
Indirect Taxes – Sector and Industry Specific Analysis

Chapter 5

Indirect Taxes: Sector and Industry Specific Analysis

Air Conditioning and Refrigeration

Industry Issues

Window/wall type self contained air conditioners and household compression type refrigerators are included in India-Thailand FTA and customs duty on these was reduced to NIL on 1st September 2006. During April – December 2008, import of window/wall type self-contained air-conditioners and refrigerators from Thailand were 26% and 73% respectively of total imports in value terms.

The main input for air-conditioner and refrigerator is the compressor and customs duty on it needs to be reduced from 7.5% to 5% with simultaneous reduction of customs duty on parts and other inputs for compressors. Parts of air-conditioners falling under tariff hading 8415 90 00 attract customs duty of 10% which needs to be reduced to 7.5%.

Excise duty is exempted on 21 specified equipment when used for installation of cold storage, cold room or refrigerated vehicles for preservation, storage or transport of agricultural produce. This list needs to be expanded to include insulated panels, cold store door and electrical control panels.

What CII Wanted

- Reduce customs duty from 7.5% to 5% on compressor used for manufacture of window/wall type self-contained air-conditioner and household compression type refrigerator along with reduction of customs duty to 5% on parts and other inputs for manufacture of such compressors.
- Reduce customs duty from 10% to 7.5% on parts of air-conditioners.
- Extend excise exemption to insulated compositive panels, cold store door and electrical control panels.

What the Government Gave

Item	% abatement of RSP	Excise Duty (%)			Customs Duty (%)		
		2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Window / wall type self contained or split air-conditioners (8415 10)	25	8	8	10	10	10	10
Household refrigerators compression type (8418 21 00)	35	8	8	10	10	10	10
Inputs							
Compressors (8414 30 00, 8414 80 11)		8	8	10	7.5	5	7.5
Thermostats (9032 1010) Electronic Controls (8537 10 10, 8543 89 99) Copper brass tubes and fittings (7411, 7412)		8	8	10	7.5	7.5	7.5
Parts of air-conditioners (8415 90 00)		8	8	10	10	7.5	10

Impact of Budget 2010-11

- Cold storage / cold room (including for farm level pre-cooling) or industrial projects for preservation, storage or processing of agricultural, dairy, poulty, aquatic and marine produce and meat has been notified under project import and will attract customs duty of 5%.
- Excise duty has been increased from 8% to 10%.

Alkalies

Industry Issues

The major user industries of caustic soda are pulp & paper, textile processing, aluminium, soaps & detergents and plastic polymers. At present, about 93% of the caustic soda plants are using the more efficient membrane cell technology.

Spare parts, other than membranes and parts thereof, required for the existing membrane cell plants attract customs duty of 7.5%. The concessional duty rate of 5% on the main equipment needs to be extended to such spare parts also.

Electric power and salt are the key inputs required for manufacture of caustic soda and power accounts for almost 60% of the total cost of production. Many caustic soda manufacturers have set up their own captive power plants and most of these are based either on coal or fuel oils like LSHS etc. Reduction in customs duty on steam coal from 5% to NIL would give some relief to the industry.

What CII Wanted

- Allow import of spares (other than membrane and parts thereof) for existing membrane cell caustic soda / caustic potash plants at 5% customs duty.
- Reduce customs duty from 5% to NIL on steam coal.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Caustic Soda (Sodium Hydroxide) (2815 11 & 2815 12)	8	8	10	7.5	7.5	7.5
Soda Ash (Disodium Carbonate) (2836 20)	8	8	10	7.5	7.5	7.5
Spare parts for caustic soda and caustic potash Membranes and parts thereof for replacement of worn out membranes (85 or any other chapter)	8	8	10	5	5	5
Other spare parts falling under chapter 84,85 or 90	8	8	10	7.5	5	7.5
Inputs for captive Power Plants - Steam coal (2701 19 20)	NIL	NIL	NIL	5	NIL	5
- Furnace oil, LSHS (2710 19 50)	14	14	14	5	5	5

Impact of Budget 2010-11

- Excise duty has been increased from 8% to 10% on alkalies.
- A new cess to be called "Clean Energy Cess" is proposed to be imposed on coal and will be collected as a duty of excise from coal mines. This cess would also apply to imported coal as CVD.

Auto Components

Industry Issues

The automotive Mission Plan 2016 (AMP) envisions that the auto-component industry will need huge investments to augment capacity. In this sector, specially the SMEs require upgradation of technology and modernization of manufacturing process. This requires creation of Auto Component Technology and Modernization Development Fund by the Government.

As the customs duty on auto components is already low, there should be no further reduction of duty rates in the budget 2010.

As part of the fiscal stimulus packages announced by the Government, excise duty on auto components has reduced from 14% to 8%. Continuation of 8% excise duty would help the auto component sector.

What CII Wanted

- Create Auto Component Technology & Modernization Fund.
- There should be no further reduction in customs duty rates on auto components.
- Excise duty of 8% on auto components should be continued.

What the Government Gave

Item	% Abatement on RSP	Excise Duty (%)			Customs Duty (%)		
		2009 - 10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Engine for vehicles (8407 31, 8407 32, 8407 33, 8407 34, 8408 20)		8	8	10	7.5	7.5	7.5
Gear boxes (8708 40 00) Lighting or visual signaling equipment (8512 20)		8	8	10	10	10	10
Camshafts, crankshafts and bearing housings (8483) Parts suitable for use principally with vehicle engines (8409 91 and 8409 99)		8	8	10	7.5	7.5	7.5
Parts, components and assemblies of automobiles (any chapter)	30	8	8	10	As applicable	As applicable	As applicable

Impact of the Budget 2010 – 11

- Excise duty has been increased from 8% to 10%.

Automobiles

Industry Issues

Multi-utility vehicles (MUVs) are designed for transport 7 to 12 persons and provide mass transportation. These attracts excise duty of 20% which needs to be brought down to CENVAT rate of 8%.

Cars of engine capacity exceeding 1500 cc attract a very high rate of excise duty of 20% plus specific duty of Rs 15,000. The specific excise duty needs to be withdrawn.

Motor vehicles falling under CET 8703 and registered as taxi for transport up to 7 persons including driver have effective rate of 8% excise duty. The same benefit should be extended to vehicles registered as maxi – cab (taxi) having seating capacity of 8 - 10 persons.

Presently chassis of vehicles fitted with engine attract excise duty of 8% plus Rs.10,000 per unit. Specific duty of Rs. 10,000 on chassis of vehicles needs to be dispensed with.

1% National Calamity Contingent Duty (NCCD) on motor cars, MUVs and two wheelers needs to be withdrawn to reduce the impact of taxation.

What CII Wanted

- Reduce excise duty from 20% to 8% on MUVs.
- Withdraw specific excise duty element of Rs. 15,000 on passenger cars.
- Extend the existing benefit of excise duty refund for taxis to vehicles having seating capacity of 10 persons when registered as maxi-cab (taxi).
- Withdraw specific excise duty of Rs.10,000 on chassis fitted with engine of vehicles.
- Withdraw 1% NCCD on motor vehicles.

What the Government Gave

Item	Excise Duty			Customs Duty (%)		
	2009 – 10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2009-10
2-wheelers (8711), 3-wheelers (8703)	8%	8%	10%	60	60	60
Petrol, LPG or CNG driven small cars up to 1200 cc and length up to 4000 mm (8702, 8703) Diesel driven small cars up to 1500 cc and length up to 4000 mm (8702, 8703)	8%	8%	10%	60	60	60
Multi utility vehicles (MUVs) (8702, 8703)	20%	8%	22%	60/10	60/10	60/10
Motor vehicles (8702, 8703) of engine capacity exceeding 1500 cc	20% plus Rs 15,000	20%	22% plus Rs.15000	As applicable	As applicable	As applicable
Automobile chassis (8706 00 43, 8706 00 49, 8706 00 29, 8706 00 42)	8% plus Rs.10,000	8%	10% plus Rs.10000	10	10	10
Electrically operated vehicles including two and three wheeled electric motor vehicles.	NIL	NIL	4	60	60	60

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- Excise duty has been increased on all vehicles by 2%.
- Excise duty on all electrically operated vehicles and their specified parts has been increased from NIL to 4%.
- Excise duty has been fully exempted on self-loading or self-unloading trailers, and semi trailers for agricultural purposes.
- Chassis fitted with engines have also been brought under excise valuation based on retail price with abatement of 30%.

Capital Goods / Projects Imports

Industry Issues

Mega power projects, nuclear power projects, specified goods for coal bed methane operations and goods required for petroleum exploration licences / leases and petroleum operations under specified contracts under NELP and LNG attract zero customs duties. Such duty concessions puts the domestic industry at a cost disadvantage.

Exemption of 4% special CVD includes various types of projects and certain capital goods. This exemption erodes competitiveness of the domestic industry.

Excise duty exemption to goods required for setting up Ultra Mega Power Projects based on super critical coal-thermal technology with installed capacity of 3960 MW or above is available if the like goods when imported in India are exempt from customs duties. A specific entry for Ultra Mega Projects may be incorporated in customs notification 21/2002 for the sake of clarity.

Import of 23 specified equipments specified in list 44 of customs notification 21/2002-sl.no. 424 and used for high voltage transmission projects are allowed at concessional customs duty of 5% but there is no provision for concessional rate of duty on inputs.

Customs duty on capital goods falling under Chapter 84, 85 and 90 was reduced to 7.5% on 22 January 2007. However, there are certain inputs, which attract higher customs duty of 10%.

What CII Wanted

- Import of capital goods under 0% category should be removed.
- Impose 4% special CVD on all projects and others which involve import of capital goods.
- Incorporate a specific entry for exemption of customs duties on Ultra Mega Power Projects in customs notification 21/2002.
- Allow import of inputs by indigenous manufacturers at 5% customs duty for manufacture of 23 specified high voltage transmission equipment i.e. at par with the end product.
- Reduce customs duty from 10% to 7.5% on seamless tubes & pipes of non-alloy/alloy steel, castings & forgings of iron and steel and tubes / pipes & hoses of vulcanized rubber used in the manufacture of capital goods.

What the Government Gave

Item	Excise Duty (%)			Customs Duty +CVD +Spl. CVD (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Mega Power Projects (9801)	8	8	NIL	NIL+NIL+NIL	5+NIL+4	NIL+NIL+NIL
Specified goods for petroleum exploration. (84 or any other chapter)	8	8	10	NIL+NIL+NIL	5+NIL+4	NIL+NIL+NIL
Power generation projects (9801)	8	8	10	5+8+NIL	5+8+4	5+10+NIL
23 specified equipment for high voltage transmission projects (84 or any other chapter)	8	8	10	5+8+NIL	5+8+4	5+10+NIL
General machinery and equipment (84, 85, 90)	8	8	10	5+8+4	5+8+4	5+10+4

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- Excise duty has been exempted on goods supplied to mega power projects from which supply of power has been tied up through tariff based competitive bidding or a mega power project awarded to a developer on the basis of such bidding.
- Excise duty has been exempted on initial setting up of solar power generation project or facility.
- Monorail projects will attract customs duty of 5%.

Carbon Black

Industry Issues

The input for carbon black is carbon black feedstock (CBFS) which is a by-product of oil refineries and petrochemical industry. The raw material cost in the form of CBFS is about 70% of the sale price of carbon black. The requirement of CBFS is met partly from indigenous sources and partly by imports.

Excise duty on carbon black was reduced from 14% to 10% on 7 December 2008 and from 10% to 8% on 24 February 2009 where as there has been no corresponding reduction in excise duty on its input CBFS which continues at 14%. In case of imported CBFS, apart from 14% countervailing duty, 4% special additional duty is also applicable. This has resulted in accumulation of CENVAT credit for the manufactures of carbon black. The additional cost due to accumulation of CENVAT is making the industry uncompetitive.

What CII Wanted

- Reduce excise duty from 14% to 8% on carbon black feedstock.

What the Government Gave

Item	Excise Duty (%)			Customs Duty		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Carbon black (2803 00 10)	8	8	10	5	5	5
Input						
Carbon black feedstock (2710 19 90)	14	8	14	5	5	5

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- 4% additional duty of customs (SAD) has been exempted on import of carbon black feedstock.
- Excise duty has been increased on carbon black from 8% to 10%.
- With the above two changes, the problem of excess CENVAT credit being faced by carbon black manufacturers would be resolved.

Cement

Industry Issues

Customs duty on cement was reduced from 12.5% to NIL on 22nd January 2007 and still continues at the same rate.

Coal is the main fuel for manufacture of cement. Due to short supply of indigenous coal, the cement industry has to depend upon, imported coal and alternative fuel petroleum coke. There is a customs duty of 5% on coal and petroleum coke, which needs to be reduced to NIL.

In case of cement, excise duty is applicable on RSP without any abatement. Also specific excise duty is applicable in certain cases. There is need to rationalize excise duty structure on cement and allowing adequate abatement.

What CII Wanted

- Reduce customs duty from 5% to NIL on non-coking coal and petroleum coke.
- Allow abatement in excise duty charged on cement based on retail sale price.

What the Government Gave

Item	Excise Duty			Customs Duty%		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Cement of RSP not exceeding Rs.190 per 50 Kg bag (2523 29)	Rs.230 per tonne	Rs.230 per tonne	Rs.290 per tonne	NIL	NIL	NIL
Cement of RSP exceeding Rs.190 per 50 Kg bag (2523 29)	8% of RSP	8% of RSP	10% of RSP	NIL	NIL	NIL
Cement cleared in other than packaged form (252329)	8% or Rs. 230 per tonne which is higher	8% or Rs. 230 per tonne which is higher	10% or Rs. 290 per tonne which is higher	NIL	NIL	NIL
Cement clinkers (2523 10 00)	Rs.300 per tonne	Rs.300 per tonne	Rs.375 per tonne	10	10	10
Inputs						
Non-coking coal (2701 12, 2701 19 20)	NIL	NIL	NIL	5	NIL	5
Petroleum coke (2713 11 00)	14%	14%	14%	5	NIL	5

Impact of Budget 2010 – 11

- Excise duty has been increased on cement and cement clinkers.
- A new cess to be called 'Clean Energy Cess' is proposed to be imposed on coal, lignite and peat produced in India and will be collected as a duty of excise from coal mines. This cess would also apply to imported coal as CVD.

Cigarettes

Industry Issues

The specific excise duty structure on cigarettes introduced in 1987 has ensured revenue buoyancy, simple and transparent administration and a litigation-free environment with no valuation disputes. The specific duty structure needs to be continued even after implementation of GST.

The very high tax rates on cigarettes provide an attractive and profitable opportunity for evasion. A large number of small manufacturing units have been set up whose products are available at prices which are even lower than the applicable excise duty plus VAT. To enable the legitimate domestic cigarette industry to compete against such manufactures, a new excise duty slab be introduced for 'Filter Cigarettes not exceeding 65 mm in length' at a rate of Rs. 350 per 1000 cigarettes.

The high excise duty rates on domestic cigarettes provide an attractive tax arbitrage opportunity, resulting in the widespread availability of smuggled cigarettes and revenue loss to exchequer. This adversely affects domestic industry also.

What CII Wanted

- Maintain tax stability on cigarettes.
- Continue with the specific excise duty structure for cigarettes even after introduction of GST.
- Introduce a new slab of excise duty for filter cigarettes not exceeding 65 mm in length with excise duty of Rs. 350 per 1000 cigarettes.
- Increase surveillance and stricter implementation of anti-smuggling measures.

What the Government Gave

Item	Excise +NCCD+Health Cess Rs. Per 1000 Cigarettes			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Cigarettes non-filter (<=60mm) (2402 20 10)	819	819	669	30	30	30
Cigarettes non-filter (>60-70mm) (2402 20 20)	1323	1323	1473			
Cigarettes filter (<=60mm) (2402 20 30)	819	350	669			
Cigarettes filter (61-70mm) (2402 20 30)	819	819	969			
Cigarettes filter (71-75mm) (2402 20 40)	1323	1323	1473			
Cigarettes filter (76-85mm) (2402 20 50)	1759	1759	1959			
Cigarettes other (2402 20 90)	2163	2163	2363			
Cigarettes of tobacco substitutes	1208	1208	1408			

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- Excise duties has been reduced on non-filter as well as filter cigarettes not exceeding 60mm length from Rs. 819 to 669 per thousand sticks.
- Excise duties has been increased on all other slabs of non-filter, filter cigarettes including cigarettes of tobacco substitutes.
- Advolarem excise duty and AED on cigars, cheroots and cigarillos have been replaced by advolarem or specific excise duty whichever is higher.

Civil Aviation

Industry Issues

Modernization, expansion and operation of airports needs various sophisticated goods. Earlier eleven specified goods were allowed for import at concessional duty of 10% as per sl no. 232 of customs notification 21/2002 when the normal duty rate was higher. However, subsequent to reduction of peak rate of duty to 10% on 01.03.2007, sl no 232 was deleted. This entry needs to be reinstated with customs duty rate of 5%.

X-ray baggage and inspection system and parts thereof are allowed for import at NIL basic customs duty as per sl no. 382 of customs notification 21/2002 subject to fulfillment of condition no. 81 of the notification. Condition 81 specifies that import should be by Government or its authorized person for anti-smuggling or by CISF, Police Force, Central Reserve Police Force, National Security Guard or Special Protection Group for bomb detection and disposal. This provision needs to be amended to expand its scope to cover other security systems such as explosive detectors, bomb/suspect luggage containment vessels/unit, robots for handling of bombs or suspected baggage, parameter security intrusion system and accessories, access control system, hydraulic bollards, boom barriers and cameras for CCTV. Import of all these equipment should also be allowed by Airport operators subject to issuance of certificate from Ministry of Civil Aviation.

What CII Wanted

- Reinstate the earlier sl no 232 of customs notification 21/2002 with customs duty rate of 5% for the specified goods required for the airport.
- Extend the existing provision of duty free import of x-ray baggage and inspection system to airport operators and also include other security systems in the scope of duty free import.

What the Government Gave

- There is no change in the existing customs duty structure.

Cold Chain Infrastructure

Industry Issues

Cold chain infrastructure includes farm level pre-coolers, small capacity chill cold storage, refrigerated trucks, cold storage food processing plants, refrigerated display cabinets for retail shops and deep freezers. The Government has accorded high priority to the establishment of cold chain infrastructure and has already provided concessions in excise as well as customs duties on certain specified products.

Presently excise duty is exempted on 21 specified equipments and the list needs to be expanded to include other critical components of cold chain infrastructure.

Customs duty on refrigerated motor vehicles was reduced to NIL on 3rd May 2007. There are mainly three inputs to a refrigerated truck viz the automobile chassis, container and the refrigeration unit. Whereas the chassis and the container are indigenously available, truck refrigeration unit is imported. Allowing duty free import of truck refrigeration unit would bring down the overall cost of the indigenously manufactured refrigerated motor vehicles.

Customs duty on most of the equipment used in cold chain infrastructure is 7.5%. Reduction of customs duty to 5% on few specialized equipment may be considered.

What CII Wanted

- Extend excise exemption to insulated compositive panels, cold store door and electrical control panels.
- Reduce customs duty from 7.5% to NIL on truck refrigeration unit.
- Reduce customs duty from 7.5% to 5% on controlled atmosphere / modified atmosphere control equipment and parts, humidifiers and humidification system, refrigeration controls for plant automation and energy efficiency, data monitoring and control equipment for safety and energy efficiency and management of cold store / cold chain infrastructure.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
21 specified machinery and equipment for installation of cold storage, cold room or refrigerated vehicles for preservation, storage or transport of agricultural produce – list 4 of customs notification 21/2002 (84 or any other chapter)	NIL	NIL	NIL	As applicable	As Applicable	5*
Refrigerated motor vehicles (8704)	4	4	4	NIL	NIL	NIL
Truck refrigeration unit (8418 69 90)	8	8	10	7.5	NIL	NIL

* under project import

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- Customs duty has been reduced from 7.5% to NIL on truck refrigeration unit in line with CII recommendation.
- Cold storage / cold room (including for farm level pre-cooling) or industrial projects for preservation, storage or processing of agricultural, dairy, poulty, aquatic and marine produce and meat has been notified under project import and will attract customs duty of 5%. Description notified for 21 specified equipment covered by NIL excise duty has also been amended.

Drugs & Pharmaceuticals

Industry Issues

Excise duty on medicines falling under chapter 30 of the Central Excise Tariff was reduced from 16% to 8% on 1st March 2008 and further reduced to 4% on 7th December 2008 but there is no corresponding reduction of excise duty on formulations covered by M & TP Act.

Medicines containing alcohol and narcotic drugs are levied excise duty under M&TP Act and Rules. Whereas, provisions of the Central Excise Rules have undergone a radical change during last 6-7 years leading to simplified procedures, similar changes have not been made in M&TP Act and Rules.

Navelbine is a new medicine and is being imported for use in the therapy of treating Non-Small-Cell Lung Cancer (NSCLC). This needs to be included as a life saving drug in list 4 of customs notification.

In list 3, "Interferon alpha-2b/alpha-2a/interferon alpha-2a/Interferon NL (LNS)" appears at sl. no. 37 and attracts customs duty of 5%. Likewise, "Interferon beta-1b" is a newly developed life saving drug akin to the medicine and should be given the same concession.

List 3, also includes cancer drugs "Pegulated Liposomal Doxorubicin Hydrochloride injection" and "Doxorubicin" at sl. no. 89 and 128 respectively. Likewise, "Doxorubicin Hydrochloride Liposomal injection" is a medicine meant for treatment of cancer and needs to be included in the list.

What CII Wanted

- Reduce excise duty from 16% to 8% on medicines covered by M & TP Act.
- Make the provisions of M&TP Act as well as Rules simpler and hurdle free at par with Central Excise Act and Rules and also extend CENVAT credit on inputs for medicines containing alcohol.
- Include Navelbine as life savings drug for cancer in list 4 of customs notification 21/2002.
- Allow import of Interferon beta-1b and Doxorubicin Hydrochloride Liposomal injection at concessional customs duty of 5%.

What the Government Gave

Item	% Abatement of RSP	Excise Duty (%)			Customs Duty (%)		
		2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Drug formulations (3001, 3003, 3004, 3005, 3006)	35	4	4	4	10	10	10
126 specified life saving drugs / medicines including their salts and esters and diagnostic kits – list 4 of customs (28,29,30,38)		NIL	NIL	NIL	NIL	NIL	NIL
158 specified drugs, medicines, diagnostic kits or equipment – list 3 of customs (28,29,30)		NIL	NIL	NIL	5	5	5
Diagnosis reagents / laboratory reagents (3822)		8	8	10	10	10	10

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- CII recommendation has been accepted and excise duty on medical and toilet preparations will be reduced form 16% to 10% and CVD of 10% will be charged on imported goods. Both these changes will come into effect on enactment of the Finance Bill.

Earth Moving & Construction Equipment

Industry Issues

In the budget 2006, levy of 4% special CVD was extended to all imports with certain exceptions which includes sectors like power generation as well as oil exploration where earth moving and construction equipment are used. This defeats the basic principle of this levy i.e. compensating the indigenous manufacturers for state level taxes such as CST/VAT.

20 specified equipment used for construction of roads are allowed for import at NIL basic customs duty, NIL CVD and NIL special CVD as per customs notification 21/2002-sl.no.230 and customs notification 20/2006-sl.no.1. There is no corresponding provision for allowing import of inputs of these equipment by indigenous manufacturers at concessional rate of customs duties.

There are certain inputs such as seamless tubes/pipes of steel and hoses of vulcanized rubber, which are imported for manufacture of construction and mining equipment. These attract customs duty of 10%, which needs to be reduced to 7.5%.

What CII Wanted

- Impose 4% special CVD on all type of projects and others which involve import of earthmoving and construction equipment to counter balance taxes such as CST/VAT.
- Allow import of inputs by indigenous manufacturers at NIL customs duties for manufacture of 20 specified road construction equipment mentioned in list 18 of customs notification 21/2002.
- Reduce customs duty from 10% to 7.5% on seamless tubes and pipes of steel and hoses of vulcanized rubber used in the manufacture of earthmoving and construction equipment.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Complete equipment such as excavators / dozers / shovel loaders / mechanical shovels etc. (8429, 8430)	8	8	10	7.5	7.5	7.5
Complete Off-Highway dumpers (8704 10)	8	8	10	10	10	10
20 specified equipment for construction of roads – list 18 (84 or any other chapter)	8	8	10	NIL	NIL	NIL

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- Excise duty has been increased from 8% to 10%.
- The earlier restriction of no sale for period of 5 years on 20 specified road construction equipment, imported with NIL basic customs duty, has been relaxed. The importer can now dispose of such machinery on payment of customs duties on depreciated value.

Ferro Alloys

Industry Issues

Due to limited availability of vanadium bearing aluminium sludge produced by aluminium industry, ferro-vanadium producers are importing vanadium pentaoxide and vanadium sludge. 7.5% customs duty on vanadium pentaoxide and vanadium sludge is higher than 5% customs duty applicable on ferro-vanadium. This anomaly needs to be corrected.

What CII Wanted

- Reduce customs duty from 7.5% to 5% on vanadium pentaoxide.
- Reduce customs duty from 7.5% to 2% on vanadium sludge.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Ferro-manganese (7202 11 00, 7202 19 00) Ferro-silicon (7202 21 00, 7202 29 00) Ferro-chromium (7202 41 00, 7202 49 00) Ferro-molybdenum (7202 70 00) Ferro-vanadium (7202 92 00)	8	8	10	5	5	5
Ferro-nickel (7202 60 00)	8	8	10	5	NIL	NIL
Inputs						
Ores of manganese, chrome, molybdenum, vanadium etc (26)	NIL	NIL	NIL	2	2	2
Vanadium pentaoxide (2825 30)	8	8	10	7.5	5	7.5
Vanadium sludge (2841 90 00)	8	8	10	7.5	2	7.5

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- Excise duty increased from 8% to 10% on ferro alloys and their excisable inputs.
- No change in customs duty.
- A new cess to be called 'Clean Energy Cess' is proposed to be imposed on coal, lignite and peat produced in India and will be collected as a duty of excise from coal mines. This cess would also apply to imported coal as CVD.

Medical Equipments

Industry Issues

Medical equipment fall under CTH 9018 to 9022 and attract basic customs duty of 7.5%. Presently almost 85% of the medical equipment used in India are imported. Many medical equipment attract customs duty of 5% by notification. There is need to rationalize the customs duty structure by reducing the basic customs duty from 7.5% to 5% on medical equipment as well as their accessories, parts and spare parts.

Haemodialysors are used by kidney patients to clean blood and attract 5% basic customs duty as per sl.no.9 of list 37 of customs notification 21/2002 – sl.no.363 and NIL CVD as per excise notification 6/2006 sl. no. 61. Automated peritoneal dialysis (APD) equipment is also used for the same purpose and attract basic customs duty of 7.5% and CVD of 4% under tariff heading 9018 90. The tariff inconsistency between the two types of equipment needs to be rectified.

Orthopedic implants are eligible for import at NIL basic customs duty and NIL CVD. Due to customs duties on raw materials for manufacture of these implants, local manufacturers are unable to compete. This anomaly in duty structure needs to be removed.

Endo stents are used for treatment of patients with cardiovascular disease. Customs duty on coronary stents is NIL as per sl no. 543 of customs notification 21/2002 where as endo stents attract duty of 7.5%. Endo stents needs to be exempted from customs duty.

What CII Wanted

- Reduce customs duty from 7.5% to 5% on medical equipment (CTH 9018 to 9022) including their accessories, parts and spare parts.
- Reduce customs duty to 5% and CVD to NIL on automated peritoneal dialysis equipment.
- Reduce basic customs duty and CVD to NIL on implantable special grade stainless steel, titanium alloys, cobalt-chrome alloys and high density polyethylene used for manufacture of orthopedic implants.
- Reduce customs duty from 7.5% to NIL on endo stents.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Specified assistive devices, rehabilitation aids and other goods in list 41 (90 or any other chapter)	NIL	NIL	NIL	NIL	NIL	NIL
111 Specified medical equipment in list 37, their accessories and parts	NIL	NIL	NIL	5	5	5
47 ophthalmic equipment specified in list 38 and their parts (90 or any other chapter)	NIL	NIL	NIL	5	5	5
Other Breathing appliances and gas masks (9020)	8	8	8	7.5	5	5
Orthopedic appliances (9021)	NIL	NIL	NIL	7.5	5	5
Medical Equipment (9018, 9019, 9022)	4	4	4	7.5	5	5

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- Customs duty has been reduced from 7.5% to 5% on all medical, surgical, dental and veterinary equipment, accessories and parts in line with recommendations of CII. These goods have also been exempted from 4% SAD.
- Exemption from CVD on imports of hospital equipment for use in specified hospitals and life saving equipment has been withdrawn. These inputs will now attract CVD of 4%.
- Customs duty has been exempted on special grade stainless steel, titanium alloys, cobalt-chrome alloy and high-density polyethylene used for manufacture of orthopaedic implants as recommended by CII.

Mega/Ultra Mega Power Projects

Industry Issues

Import of goods for setting up Mega Power Project are exempted from basic customs duty and additional Customs Duty (CVD) as per sl. no. 400 of Customs notification 21/2002.

As per Foreign Trade Policy, deemed export benefits i.e import of raw materials/ components/ consumables at 'nil' duty and exemption / reimbursement of the excise duty for mega power projects are available to domestic manufacturers only if International Competitive Bidding (ICB) procedure has been followed for procurement of the equipment. On the other hand, a project developer can import equipment from foreign supplier at 'Nil' customs duty without following ICB procedure and placing orders on foreign suppliers based on negotiations.

This in effect means that in the case of a Large Size (Mega) Project, the Project Authority can source equipment from foreign supplier without taking recourse to ICB procedure and still derive the benefit of project cost reduction by way of exemption of custom duties.

Similar benefits are not available in case the Project authority negotiates the price with domestic manufacturer and places orders. This puts the indigenous supplier in a disadvantages position. This disparity needed to be corrected.

What CII Wanted

- The disparity in treatment of foreign suppliers and domestic suppliers for supply of goods to mega power projects needs to be corrected when ICB procedure is not followed by the project authority.

What the Government Gave

- Excise duty has been exempted on goods supplied to mega projects from which supply of power has been tied up through tariff based competitive bidding or a mega power project awarded to a developer on the basis of such bidding.
- A new cess to be called 'Clean Energy Cess' is proposed to be imposed on coal and will be collected as a duty of excise from coal mines. This cess would also apply to imported coal as CVD.
- Customs duty and CVD has been exempted for tunnel boring machines used for hydro-electric projects.

Microwave Ovens

Industry Issues

Microwave oven is a kitchen appliance that cooks or heat food by dielectric heating. The use of microwave oven in India has increased considerably. Presently, major portion of the demand is being met through import of completely built units mostly from China, Thailand and Malaysia.

Magnetron which generates and transmits non-coherent microwaves is a major input for microwave ovens and it is not yet made in India. Customs duty on magnetron is 10% which is at par with the customs duty on microwave oven. Reduction of customs duty on magnetron would help the indigenous manufacturers of microwave ovens to increase their market share.

What CII Wanted

- Reduce customs duty from 10% to 5% on magnetrons used for domestic microwave ovens.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Microwave oven (8516 50 00)	8	8	10	10	10	10
Main Input						
Magnetron (8540 71 00)	8	8	10	10	5	5

Impact of Budget 2010 – 11

- CII recommendation has been accepted and customs duty on magnetron has been reduced from 10% to 5%.
- Excise duty has been increased from 8% to 10% on microwave ovens as well as magnetron.

Non-ferrous Metals

Industry Issues

In India, the secondary producers of non-ferrous metals can be divided into two categories viz. the organized sector and unorganiszed sector. The organized sector finds itself in a disadvantageous position due to the following:

- Customs duty on scrap of non ferrous metals (except aluminium) is 5% which is at par with customs duty on non-ferrous metals;
- Unable to utilize the CENVAT credit of 8% CVD and 4% Special CVD paid on imported scrap due to low value addition in conversion of scrap into metal form.

There is need to encourage recycling of copper, zinc and lead by reducing basic customs duty and special CVD on scrap of these non-ferrous metals.

What CII Wanted

- Reduce customs duty from 5% to NIL on scrap of copper, zinc and lead.
- Exempt 4% Special Additional Duty on scrap of copper, zinc and lead.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Unwrought aluminium (7601) Unwrought copper, copper anodes (7402) Unwrought zinc (7901) Unwrought lead (7801)	8	8	10	5	5	5
Scrap of Non-Ferrous Metals						
Aluminium waste and scrap (7602)	8	8	10	NIL	NIL	NIL
Copper waste and scrap (7404) Zinc waste and scrap (7902) Lead waste and scrap (7802)	8	8	10	5	NIL	5

Impact of Budget 2010 – 11

- There is no change in customs duty structure. Consequently problem of excess CENVAT credit will continue for recyclers of copper, zinc and lead scrap.
- Excise duty on metals as well as scrap has been increased from 8% to 10%.

Oil & Gas Sector

Industry Issues

Government has given exemption from customs duties on goods specified in list 12 of customs notification 21/2002 when imported for petroleum operations in specified areas. One of the conditions for this exemption is that the importer submits to the customs authorities an Essentiality Certificate issued by the Directorate General of Hydrocarbons (DGH).

DGH is putting re-export condition in the Essentiality Certificate and consequently Indian companies importing equipment on outright purchase basis are finding difficult to avail the benefit of customs duty exemption and therefore re-export condition needs review and deletion.

Indian companies, who have imported the equipment / tools on outright purchase basis should be allowed to retain such equipment after completion of the project / contract for use in the projects eligible for customs duty exemption in future against fresh Essentiality Certificates issued by DGH or to retain the equipment on payment of customs duty on the depreciated value under the Customs Valuation Rules at the duty rate applicable on the date of fresh assessment.

What CII Wanted

- Remove the condition of re-export in case of outright purchase and import of the equipment /tools by the Indian companies for petroleum operations in specified areas.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Specified goods mentioned in list 12 for petroleum exploration under NELP, specified contracts, lease renewals (84 or any other chapter)	8	8	10	NIL	NIL@	NIL
@ without re-export condition for Indian companies						

Impact of Budget 2010 – 11

- There is no change in the conditions imposed on imports at NIL customs duty.
- Increase in excise duty from 8% to 10% will not have any impact on this sector as CVD is exempted on imported goods and refund of excise duty is admissible to indigenous manufacturers under deemed export.

Paper & Paper Board

Industry Issues

The main constituent of paper is cellulose which is usually produced from wood, bamboo, waste paper and agro-residue like bagasse, jute, straw etc. The declining availability of wood and bamboo because of shrinking forest cover, ecological concerns and other priority uses of forest based raw materials have resulted in increased usage of waste paper as an input for manufacture of paper.

India imported waste and scrap of paper worth Rs.1701 crores during 2007-08 and Rs.1518 crores during April – December 2009. Presently customs duty on waste and scrap of paper is 5% which needs to be reduced NIL.

Coal is used in paper industry for producing steam and power. Paper mills suffer due to higher power cost and erratic/inadequate supply of coal. Imported coal attracts 5% basic customs duty which needs to be reduced to NIL.

What CII Wanted

- Reduce customs duty from 5% to NIL on waste & scrap of paper.
- Reduce customs duty from 5% to NIL on coal.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Newsprint in specified form and size (4801)	NIL	NIL	NIL	NIL	NIL	NIL
Light weight coated paper (LWC) for printing of magazines (4810)	NIL	NIL	NIL	NIL	NIL	NIL
Coated paper and paper board other than LWC (4810)	4	4	4	10	10	10
Uncoated paper and paper board (4802)	4	4	4	10	10	10
Inputs						
Wood pulp for newsprint (47)	NIL	NIL	NIL	NIL	NIL	NIL
Wood pulp for other paper (47)	NIL	NIL	NIL	5	5	5
Waste and scrap of paper (4707)	8	8	10	5	NIL	5
Coal (2701 12, 2701 19 20)	NIL	NIL	NIL	5	NIL	5

Impact of Budget 2010-11

- 4% additional duty of customs (SAD) has been exempted on import of waste paper and paper scrap.
- A new cess to be called ‘Clean Energy Cess’ is proposed to be imposed on coal and will be collected as a duty of excise from coal mines. This cess would also apply to imported coal as CVD.
- Excise duty has been reduced from 8% to 4% on cartons, boxes and cases of corrugated paper or paperboard manufactured by standalone manufactures who use bought out kraft paper and not having the facility to manufacture kraft paper in the same factory..

Petrochemicals

Industry Issues

Naphtha is the basic petrochemical feedstock. Customs duty on naphtha was NIL, when used for manufacture of specified bulk polymers, but it was increased to 5% in the budget 2008. Some of the primary petrochemicals and intermediates such as styrene (2902 50 00), ethylene dichloride (2903 15 00) and vinyl chloride (2903 21 00) attract customs duty of 2% whereas NIL customs duty is there on p-Xylene (2902 43 00). Customs duty on these products is less than 5% customs duty on naphtha This amounts to anomalous duty structure.

Customs duty is 5% on other primary petrochemicals ethylene (2901 21 00) and propylene (2901 22 00) which is at par with customs duty on naphtha.

The other feedstock used by the petrochemical sector is liquefied propane gas which also attracts customs duty of 5%.

Reduction of customs duty on naphtha and propane from 5% to Nil would help in reduction of input cost for petrochemical sector.

What CII Wanted

- Reduce customs duty on naphtha and liquefied propane gas from 5% to NIL.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Feedstocks						
Naptha (2710)	14	14	14	5	NIL	5
Liquified propane (2711 12 00)	8	8	10	5	NIL	5
Primary Petrochemicals						
Styrene (2902 50 00)	8	8	10	2	2	2
Ethylene (2901 2100) Propylene (2901 22 00)	8	8	10	5	5	5
Polymer Intermediates						
Ethylene dichloride (EDC) (2903 15 00) Vinyl Chloride (VCM) (2903 21 00)	8	8	10	2	2	2
Polymers						
Polymers of ethylene – LDPE, LLDPE, HDPE, LMDPE, LHDPE (3901) Polymers of propylene (PP) (excluding poly iso butylenes) (3902) Polymers of styrene (PS) (3903) Polymers of vinyl chloride (PVC) (3904)	8	8	10	5	5	5
Polymers of vinyl acetate (3905) Acrylic polymers (3906)	8	8	10	7.5	7.5	7.5

Impact of Budget 2010 – 11

- Basic customs duty on crude has been increased from NIL to 5%.
- Excise duty has been increased from 8% to 10%.
- There is no change in excise duty of 14% on naphtha.

Quilted Textile Made-ups

Industry Issues

CBEC vide its Circular No. 903/23/2009 – CX dated 20 October 2009 has issued clarification about classification of quilts and quilted bed spreads. This circular mentions that though the general practice as per the trade has been to classify these products under tariff heading 5811, the correct classification is under tariff heading 9804 for applicability of excise duty.

Excise duty has been exempted on most of the textile products falling under chapter 50 to 63 including tariff heading 5811 as per excise notification 30/2004 dated 09.07.2004 if CENVAT credit on inputs has not been availed. This gives an option to the manufacturer either to avail this exemption without availing CENVAT credit or pay applicable excise duty after availing CENVAT credit. Most of the Small and Medium Scale Enterprises (SMEs) have opted for this exemption.

Due to the clarification issued about classification of quilts and quilted bed spreads under 9804, the benefit of excise notification 30/2004 is not available to the manufactures of these products.

A large number of SME units are engaged in the manufacture of quilted textile made-ups falling under tariff heading 9404 and need encouragement by bringing this textile product under optional payment of excise duty.

What CII Wanted

- Extend optional excise duty exemption to quilted textile made-ups falling under 9404 by including these in excise notification 30/2004.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Quilted textile made-ups (9404)	8	Optional exemption	NIL	10	10	10

Impact of Budget 2010 – 11

- CII recommendation has been accepted and excise duty has been exempted on products wholly made of quilted textile materials without any condition.

Set Top Box for Free-to-Air Transmission

Industry Issues

Free-to-Air (FTA) transmissions are major means of mass communication and entertainment to the larger percentage of population from lower income group who are unable to afford or incur regular expenses for accessing television entertainment. This FTA transmission is a life time free source of entertainment without any recurring cost and has a good market share in the rural areas.

The consumer has to incur only the cost of purchasing the Set Top Box (STB) and the dish antenna which is a one time cost. Through this STB, the consumer has access to all the Free-to-Air channels as well as the channels under the Doordarshan bouquet.

This source of communication can be made more affordable to the consumers by reducing excise duty levied on FTA-STBs. Further it will also help to curb the unregulated grey market of FTA-STBs which are currently being sourced from abroad.

What CII Wanted

- Reduce excise duty from 8% to NIL on Free-to-Air set top box.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Integrated decoder receiver i.e. set top box (8528 71 00)	8	8	10	5	5	5
Set top box for free-to-air transmission (8528 71 00)	8	NIL	10	5	5	5

Impact of Budget 2010 – 11

- Excise duty on set-top box has been increased from 8% to 10%. Consequently CVD will also increase from 8% to 10% which will make the set-top box costlier.

Steel

Industry Issues

Nickel in various forms is the main raw material in alloy / stainless steel and is not indigenously available. It attracts customs duty of 2% which needs to be reduced to NIL.

Customs duty on ferro-alloys including ferro-nickel is 5%. Ferro-nickel is not produced indigenously and imported by alloy steel manufacturers. Customs duty on ferro-nickel needs to be reduced to NIL.

What CII Wanted

- Reduce customs duty from 2% to NIL on unwrought nickel not alloyed and nickel-oxide sinters.
- Reduce customs duty on ferro-nickel from 5% to NIL

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Iron and non-alloy steel Ingots, billets, blooms, slabs, hot/cold rolled flat products, bars, rods, angles, shapes, sections, wires etc. (7206 to 7217)	8	8	10	5	5	5
Stainless steel and other alloy steel Ingots, billets, hot/cold rolled flat products, bars, rods, angles, shapes, sections, wires etc. (7218 to 7229)	8	8	10	5	5	5
Articles of iron & steel Castings, forgings, tubes, pipes etc. (73)	8	8	10	10	10	10
Inputs for steel			10			
Melting scrap of iron or steel (7204)	8	8	NIL	NIL	NIL	NIL
Scrap of stainless steel for melting (7204 21)	8	8	10	5	5	5
Metallurgical coke (metcoke) (2704)	NIL	NIL	10	NIL	NIL	NIL
Ferro-nickel (7202 60 00)	8	8	10	5	NIL	5
Nickel Oxide sinters (7501) Unwrought nickel not alloyed (97502 10 00)	8	8	10	2	NIL	2

Impact of Budget 2010 – 11

- There is no relief in customs duty on nickel and ferro-nickel.
- Excise duty has been increased from 8% to 10%.
- A new cess called ‘Clean Energy Cess’ is proposed to be imposed on coal and will be collected as a duty of excise from coal mines. This cess would also be applicable on imported coal as CVD.

Synthetic Fibres and Yarns

Industry Issues

5% customs duty is applicable on PSF, PSY and all other manmade fibres except nylon fibres and yarns. Customs duty on paraxylene used for manufacture of synthetic fibres is NIL. However, customs duty on naphtha, which is the basic feedstock for manufacture of various inputs including paraxylene for synthetic fibres and yarns is 5% and it needs to be reduced to NIL.

Caprolactum is used for manufacture of nylon tyre yarn and attracts customs duty of 10%. Caprolactum is also the main input for nylon staple fibre /nylon filament yarn. Nylon 6, 12 chips are used for manufacture of nylon monofilament and attract customs duty of 10%. Customs duty on these two inputs should be at least 2.5% less than the duty on end products.

With customs duty of 5% on PSF/PSY, customs duty on inputs viz spin finish oil needs to be reduced from 7.5% to 5% and on titanium dioxide anatase grade from 10% to 7.5%.

What CII Wanted

- Reduce customs duty from 5% to NIL on naphtha.
- Reduce customs duty from 10% to 7.5% on caprolactum, nylon 6, 12 chips and titanium dioxide anatase grade.
- Reduce customs duty from 7.5% to 5% on spin finish oil.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Fibres / Filaments						
Polyester staple fibre (PSF) and tow (5501 20 00, 5503 20 00, 5506 20 00)	8	8	10	5	5	5
Nylon staple fibre (5503 11 00)	8	8	10	10	10	10
Yarns			10			
Polyester filament yarn (PFY) (5401, 5402, 5406 00 16)	8	8	10	5	5	5
Nylon filament yarn (NFY) (5402,5406 10 00)	8	8	10	10	10	10
Nylon tyre yarn (5402 19 10)	8	8	10	10	10	10
Inputs						
Naptha (2710)	14	14	14	5	NIL	5
Spin finish oil (3403 11 00)	8	8	10	7.5	5	7.5
Caprolactum (2933 71 00)	8	8	10	10	7.5	10
Nylon 6, 12 Chips (3908)	8	8	10	10	7.5	10
Titanium dioxide anatase grade (2823 00 10)	8	8	10	10	7.5	10

Impact of Budget 2010 – 11

- There is no relief on customs duty on inputs.
- Excise duty has been increased from 8% to 10%.

Telecommunication

Industry Issues

There are two segments of Telecommunication industry viz wireless telephony and fixed line. Over the last 5 years, the fixed line industry has been overshadowed by the mobile phone sector. Despite much larger share of wireless connectivity, fixed line has remained equally competitive in terms of call rate pricing to the end consumer.

There are about 37 million fixed lines and about 472 million wireless phones users. One of the key reason for success of mobile phones can be attributed to NIL duties on wireless equipment. Similar benefits have not be provided to fixed line phones.

With scarce spectrum in wireless, there is need to supplement wireless growth with fixed-line as it will always be the scaleable option.

One of the important factor for increase in wireless growth is the reduction in price of wireless handsets due to exemption of duties. Similar treatment needs to be given to fixed line Consumer Premise Equipments (CPE) like telephones and modems to give boost to this sector.

What CII Wanted

- Exempt excise duty on the fixed-line phones and broadband consumer premise equipment as well as on their parts used for the manufacture.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Specified goods and parts thereof for basic/cellular mobile telephone services, internet service or closed user's group 64 KBPS domestic data network via INSAT satellite system service, radio paging/Public mobile radio paging services - list 22, 23,24 (84,85,90)	8	8	10	NIL	NIL	NIL
Cellular phones and radio trunking terminals (8517, 8525 60)	NIL	NIL	NIL	NIL	NIL	NIL
Parts, components and accessories of mobile handsets including cellular phones (85 or any other chapter)	NIL	NIL	NIL	NIL	NIL	NIL
Fixed-line telephone hand sets (8517 11 10)	8	NIL	10	NIL	NIL	NIL
Modems for fixed line phones (8517 62 30)	8	NIL	10	NIL	NIL	NIL

Impact of Budget 2010 – 11

- Excise duty exemption applicable to parts, components and accessories of mobile handsets including cellular phones has been extended to parts, components of battery chargers and hands-free headphones of these devices.
- Mobile phones have been exempted from 4% SAD when imported in pre-packaged form intended for retail sale.

Textile Machinery

Industry Issues

Customs duty on textile machines is 7.5%. However, some of the inputs like rubber components, seamless steel tubes and ceramic compactors attract 10% customs duty.

Accessories, parts and components of textile machinery fall under tariff heading 8448 and attract customs duty of 7.5% which needs to be reduced to 5%.

Shuttleless looms are allowed for import at concessional customs duty of 5%. Shuttleless looms (rapier, air jet, water jet) have been developed by indigenous manufacturers and only few dedicated components, not manufactured in India, are imported. Reduction of customs duty on such components from 5% to NIL would help the indigenous manufacturers to be competitive.

There are 40 items of machinery or equipment in list 2 of Central excise notification 6/2006 on which excise duty is 4%. Components for these machine attract excise duty of 8%. This anomalous situation needs to be corrected.

What CII Wanted

- Allow the indigenous manufacturers of textile machines to import rubber components, seamless steel tubes and ceramic components at duty rate of 7.5%.
- Reduce customs duty from 7.5% to 5% on accessories, parts and components of textile machines falling under tariff heading 8448.
- Reduce customs duty from 5% to NIL on imported components of shuttleless looms.
- Reduce excise duty from 8% to 4% on components of 40 specified textiles machinery and equipment to bring at par with the excise duty applicable on complete machines/ equipment.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Textile machinery (8444 to 8447, 8451 except 8451 21 00)	8	8	10	7.5	7.5	7.5
Inputs						
Auxiliary machinery, parts and components for textile machinery of headings 8444 to 8447 (8448)	8	8	10	7.5	5	7.5
Components of 40 specified equipment for textile industry – list of excise (84,85,90 or any other chapter)	8	4	10	As applicable	As applicable	As applicable

Impact of Budget 2010-11

- Excise duty has been increased from 8% to 10%.

Tiles

Industry Issues

Customs duty on ceramic tiles is 10% whereas inputs attract customs duty of 5%, 7.5% and 10%.

China became member of Bangkok Agreement (now known as Asia – Pacific Trade Agreement) with effect from 1st January 2004 and ceramic tiles imported form China are eligible for 57% concession on the applied rate of customs duty. Presently customs duty rate on ceramic tiles from China is 4.3% since 1st March 2007 which is less than customs duty on any input for tiles creating an anomalous situation. In the year 2007-08, out of total imports of Rs. 59,965 lakh of tiles under tariff heading 6907and 6908, imports form China were Rs.45,477 lakh.

Import of ceramic and vitrified tiles from Sri Lanka attracts NIL customs duty under India-Sri Lanka Free Trade Agreement with effect from 18th March 2003.

Taking these factors into account customs duty on basic input i.e clays needs to be reduced.

In the budget 2009, excise duty on tiles manufactured without using electricity for firing the kiln was increased from 4% to 8% by amendment to sl no. 13 of excise notification 5/2006 and the condition of non-availment of CENVAT credit has been retained.

What CII Wanted

- Reduce customs duty from 5% to 2% on clays.
- Tiles manufacturers operating under sl.no. 13 of excise notification 5/2006 should be allowed to avail CENVAT credit on inputs by deletion of condition 7.

What the Government Gave

<table>
<tr><th rowspan="2">Item</th><th rowspan="2">% abatement of RSP</th><th colspan="3">Excise Duty (%)</th><th colspan="3">Customs Duty (%)</th></tr>
<tr><th>2009-10</th><th>What CII wanted</th><th>Budget 2010-11</th><th>2009-10</th><th>What CII wanted</th><th>Budget 2010-11</th></tr>
<tr><td>Glazed ceramic tiles (6908)</td><td>45</td><td>8</td><td>8</td><td>10</td><td rowspan="3">10</td><td rowspan="3">10</td><td rowspan="3">10</td></tr>
<tr><td>Ceramic tiles manufactured in a factory not using electricity for firing of kiln and without taking CENVAT Credit (69)</td><td></td><td>8
w/o CENVAT Credit</td><td>8
With CENVAT Credit</td><td>10
With CENVAT Credit</td></tr>
<tr><td>Vitrified tiles, whether polished or not (6907 10 10, 6907 90 10))</td><td>45</td><td>8</td><td>8</td><td>10</td></tr>
<tr><td colspan="8">Inputs</td></tr>
<tr><td>Clays (2508 40)</td><td></td><td>NIL</td><td>NIL</td><td>NIL</td><td>5</td><td>2</td><td>5</td></tr>
<tr><td>Carboxymethyl cellulose (CMC) and Polikim (3912 31 00)</td><td></td><td>8</td><td>8</td><td>10</td><td>7.5</td><td>7.5</td><td>7.5</td></tr>
<tr><td>Abrasives and diamond impregrated cutting and grinding tools
(6804 21 90, 6804 10 00, 6804 21 10)</td><td></td><td>8</td><td>8</td><td>10</td><td>10</td><td>10</td><td>10</td></tr>
</table>

Impact of Budget 2010 – 11

- CII recommendation has been accepted and the condition of non-availment of CENVAT credit has been withdrawn in case of tiles manufactured without using electricity for firing of kiln.
- Excise duty has been increased from 8% to 10% on tiles as well as excisable inputs.

Tractors

Industry Issues

Government has exempted excise duty on tractors vide excise notification 6/2006-sl.no.40. Excise duty is also exempted vide excise notification 6/2006-sl.no.92 on parts produced and used within the factory of manufacture of tractors. This helps the companies having single location unit in reducing the cost of their tractors.

Most of the tractors manufactures are having multi locational units and parts manufactured in one unit are transferred to other units. Such manufacturers have to pay excise duty of 8% on parts so transferred for which no CENVAT credit can be availed. This adds to their cost. The exemption of excise duty on tractor parts vide sl.no.92 of excise notification 6/2006 needs to be extended to such cases also.

What CII Wanted

- Extend the existing provision of NIL excise duty on parts of tractors when produced in any factory of the manufacturer.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Tractors (except road tractors for semi-trailers of engine capacity more than 1800 cc (8701)	NIL	NIL	NIL	10	10	10
Inputs						
Parts of tractors (8708 or any other chapter)	8	8	10	As applicable	As applicable	As applicable
Parts used within the factory of production for manufacture of tractors (any chapter)	NIL	NIL	NIL	As applicable	As applicable	As applicable
Parts manufactured and transferred to other unit of same manufacturer (any chapter)	8	NIL	10	As Applicable	As Applicable	As Applicable

Impact of Budget 2010 – 11

- With the increase in excise duty on inputs from 8% to 10%, this sector would be adversely affected as no input tax credit is admissible due to NIL excise duty on tractors if excess excise burden is not passed on to buyers who are mainly farmers.

Transfer of Residence by NRIs

Industry Issues

Table A of Customs notification 137/1990 specifies 6 categories of goods which are totally exempted from customs duty in case of transfer of residence by an Indian from abroad to India subjected to fulfillment of certain conditions.

Table B of Customs notification 137/1990 specifies 17 types of goods which are allowed for import on payment of 15% customs duty provided the total value of such goods does not exceed Rs. 5 lakh. The limit of Rs 5 lakh was fixed by an amendment to this notification on 01.03.2002 and duty rate of 15% is applicable since 08.01.2004.

Government is encouraging Non Resident Indians (NRIs) to return India and number of NRIs are permanently transferring their residence back to India. There is need to relax the present provision related to payment of customs duty on goods imported by NRIs at the time of transfer of their residence.

What CII Wanted

- Allow basic exemption limit of Rs. 25 lakh to the NRIs coming back to India and levy nominal rate of customs duty above Rs. 25 lakh.

Impact of Budget 2010 – 11

- No change in the earlier provision of customs duty on transfer of residence by NRIs has been made.

Tyres & Tubes

Industry Issues

Concessional / preferential customs duty on automotive tyres under various Trade Agreements is NIL to 8.6%, which is lower than the applied rate of 10%. Import of tyres under tariff heading 4011 increased from Rs.28,565 lacs in 2005-06 to Rs.63,868 lacs in 2006-07, Rs.99,667 lacs in 2007-08 and Rs 106, 496 lacs in April – December 2008. Major portion of import of tyres is from China and that too under concessional tariff of 8.6%.

Tyre industry is raw material intensive and natural rubber is one of the main input. Customs duty on tyres has been gradually reduced from 50% in 1996-97 to 10%, whereas, there has been no reduction in customs duty on natural rubber smoked sheets and technically specified natural rubber (TSNR) and duty on these continues at 20% since 23rd July 1996. This is an anomalous situation and needs to be corrected in such a way that indigenous rubber grower's interest is not adversely affected.

What CII Wanted

- Reduce customs duty from 20% to 7.5% on natural rubber smoked sheets (4001 21 00) and technically specified natural rubber (4001 22 00) subject to tariff rate quota allocation in a financial year.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Pneumatic tyres of truck, bus, car, LCV, tractor and two wheelers (4011)	8	8	10	10	10	10
Inputs						
Natural Rubber-smoked sheets (4001 21 00) Natural Rubber – Technically specified (4001 22 00)	Cess Rs.1.50/kg	Cess Rs.1.50/kg	Cess Rs.1.50/kg	20	7.5	20
Chlorobutyl or bromobutyl rubber (4002 39 00) Butyl rubber (4002 31 00) Carbon black (2803 00 10)	8	8	10	5	5	5
Nylon tyre cord fabric (NTCF) (5902 10) Steel tyre cord (7312 90 00)	8	8	10	10	10	10
Polyester tyre cord fabric (5902 20)	8	8	10	5	5	5

Impact of Budget 2010 – 11

- The long outstanding demand of this sector about reduction of customs duty on natural rubber has not been accepted.
- Excise duty has been increased from 8% to 10% on tyres as well as inputs.

Vanaspati (Hydrogenated Oils)

Industry Issues

Vanaspati industry is largely using imported crude palm oil as raw material to manufacture vanaspati and other hydrogenated vegetable oil products such as bakery shortening and margarine.

With the support of the Government by keeping the customs duty at NIL on crude palm oil since 01.04.2008, this industry is able to make the product available to the consumers at affordable prices. Against the total consumption of 120 lakh MT of edible oils, 60 lakh MT is in the form of palm oil products.

Before reduction of customs duty on crude palm oil to zero, the vanaspati industry had suffered badly due to duty free import of vanaspati from Sri Lanka, Nepal and Bhutan. The nil customs duty on crude palm oil needs to be continued.

What CII Wanted

- NIL customs duty on crude palm oil used for manufacture of vanaspati should be continued.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2009-10	What CII wanted	Budget 2010-11	2009-10	What CII wanted	Budget 2010-11
Vanaspati (1516 20)	NIL	NIL	NIL	7.5	7.5	7.5
Vanaspati from Sri Lanka under FTA	NIL	NIL	NIL	NIL	NIL	NIL
Vanaspati from Nepal under Indo-Nepal Treaty	NIL	NIL	NIL	NIL	NIL	NIL
Crude Palm Oil	NIL	NIL	NIL	NIL	NIL	NIL

Impact of Budget 2010 – 11

- There is no change in customs and excise duty structure.

Annexures

Annexure: I

Budget at a Glance

(In Crore of Rupees)

	Items	2008-09 (Actuals)@	2009-10 Budget Estimates	2009-10 Revised Estimates	2010-11 Budget Estimates
1	**Revenue Receipts**	**540,259**	**614,497**	**577,294**	**682,212**
	2. Tax Revenue (net to centre)	443,319	474,218	465,103	534,094
	3. Non-Tax Revenue	96,940	140,279	112,191	148,118
4	**Capital Receipts (5+6+7)***	**343,697**	**406,341**	**444,253**	**426,537**
	5. Recoveries of Loans	6,139	4,225	4,254	5,129
	6. Other Receipts	566	1,120	25,958	40,000
	7. Borrowings and other liabilities**	336,992	400,996	414,041	381,408
8	**Total Receipts (1+4)***	**88,3956**	**1,020,838**	**1,02,1547**	**1,10,8749**
9	**Non-Plan Expenditure**	**608,721**	**695,689**	**706,371**	**735,657**
	10. On Revenue Account of which	559,024	618,834	641,944	643,599
	11. Interest Payments	192,204	225,511	219500	248664
	12. On Capital Account	49,697	76,855	64427	92508
13	**Plan Expenditure**	**275,235**	**325,149**	**315,176**	**373,092**
	14. On Revenue Account	234,774	278,398	264411	315,125
	15. On Capital Account	40,461	46,751	50,765	57,967
16	**Total Expenditure (9+13)**	**883,956**	**1,020,838**	**1,021,547**	**1,108,749**
	17. Revenue Expenditure (10+14)	793,798	897,232	906,355	958,724
	18. Capital Expenditure (12+15)	90,158	123,606	115,192	150,025
19	**Revenue Deficit (17-1)**	**253,539 (4.5)**	**282,735 (4.8)**	**329,061 (5.3)**	**276,512 (4.0)**
20	**Fiscal Deficit (16-(1+5+6))**	**336992 (6.0)**	**400,996 (6.8)**	**414041 (6.7)**	**381408 (5.5)**
21	**Primary Deficit (20-11)**	**144,788 (2.6)**	**175,485 (3.0)**	**194,541 (3.2)**	**132,744 (1.9)**

Note:

- @ Actuals for 2008-09 are provisional.
- * Does not include receipts in respect of Market Stabilization Scheme.
- ** Includes draw- down of cash balance.
- GDP for BE 2009-10 has been projected at Rs. 6934700 crore assuming 12.5% growth over the advance estimates of 2009-2010 (Rs. 6164178 crore) released by CSO.

Annexure: II

Key Indicators (2006-07 to 2009-10)

	Data categories and components	Units	2006-07	2007-08	2008-09	2009-10
1	**GDP and Related Indicators**					
	GDP (current market prices)	Rs Lakh Crore	42.8	49.5	55.7 [QE]	61.6 [AE]
	Growth Rate	%	15.6	15.5	12.7	10.6
	GDP (factor cost 2004-05 prices)	Rs Lakh Crore	35.6	38.9	41.5[QE]	44.5[AE]
	Growth Rate	%	9.7	9.2	6.7	7.2
	Savings Rate	% of GDP	34.4	36.4	32.5	na
	Capital Formation (rate)	% of GDP	35.5	37.7	34.9	na
	Per Cap. Net National Income (factor cost at current prices)	Rs	31080	35430	40141	43749
2	**Production**					
	Foodgrains	Mn tonnes	217.3	230.8	233.9 [a]	na
	Index of Industrial Production(growth)	Per cent	11.6	8.5	2.6	na
	Electricity Generation (growth)	Per cent	7.3	6.3	2.7	na
3	**Prices**					
	Inflation (WPI) (52-week average)	%change	5.4	4.7	8.4	1.6 [b]
	Inflation CPI (IW) (average)	%change	6.7	6.2	9.1	11.4 [b]
4	**External Sector**					
	Export Growth (US$)	Per cent	22.6	29	13.6	-20.3 [c]
	Import Growth (US$)	Per cent	24.5	35.5	20.7	-23.6 [c]
	Current Account Balance (CAB)/GDP	Per cent	-1	-1.3	-2.4	-3.3 [d]
	Foreign Exchange Reserves	Us$ Bn.	199.2	309.7	252	283.5 [e]
	Average Exchange Rate	Rs/ US$	45.25	40.26	45.99	47.94 [f]
5	**Money and Credit**					
	Broad Money (M3) (annual)	Per cent	21.7	21.4	18.6	16.5 [g]
	Scheduled Commercial Bank Credit (growth)	Per cent	28.1	22.3	17.5	13.9 [g]
6	**Fiscal Indicators (Centre)**					
	Gross Fiscal Deficit [i]	% of GDP	3.3	2.6	5.9 [h]	6.5 [j]
	Revenue Deficit [i]	% of GDP	1.9	1.1	4.4 [h]	4.6 [j]
	Primary Deficit i	% of GDP	-0.2	-0.9	2.5 [h]	2.8 [j]
7	**Population**	Million	1122	1138	1154	1170

AE GDP figures for 2009-10 are advance estimates;

QE Quick estimates na not yet available / released for 2009-10; na not yet available / released for 2009-10

a For 2008-09 the figures are the 4th advance estimates as on July 21, 2009.

b Average Apr.-Dec. 2009.

c Apr.-Dec. 2009.

d CAB to GDP ratio for 2009-10 is for the period Apr.-Sept. 2009

e As of December 31, 2009

f Average exchange rate for 2009-10 (Apr.-Dec. 2009).

g As on January 15, 2010.

h Fiscal indicators for 2008-09 are based on the provisional actuals for 2008-09.

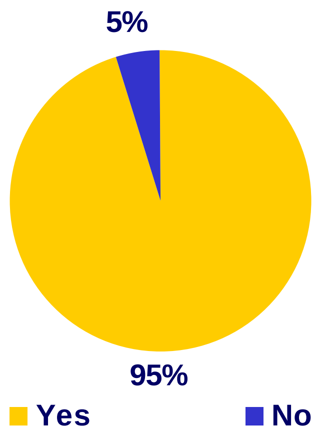
i Fiscal indicators are as per revised GDP at current market prices based on National Accounts 2004-05 series.

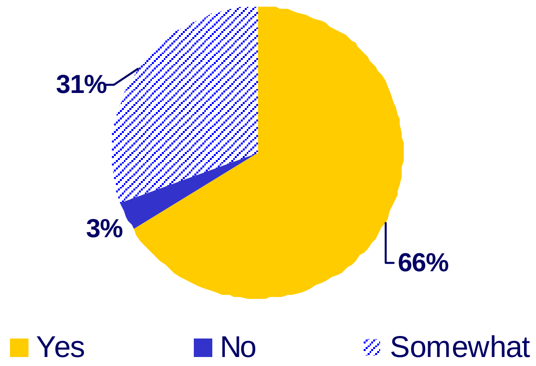
j Fiscal deficit, revenue deficit and primary deficit were envisaged at 6.8, 4.8 and 3.0 per cent of GDP respectively at the time of presentation of the 2009-10 Budget.

Annexure: III
Union Budget 2010-11, Budget Viewing Session

CEO Opinion Poll

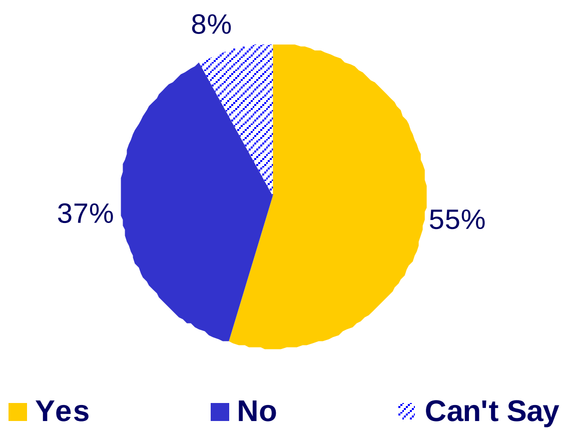
Percentage of respondents feel the Union Budget 2010-11 would help sustain economic recovery

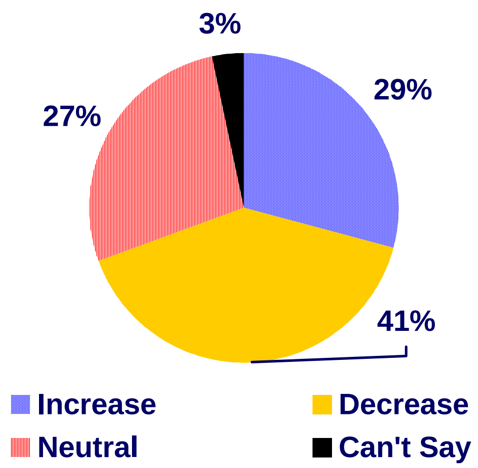




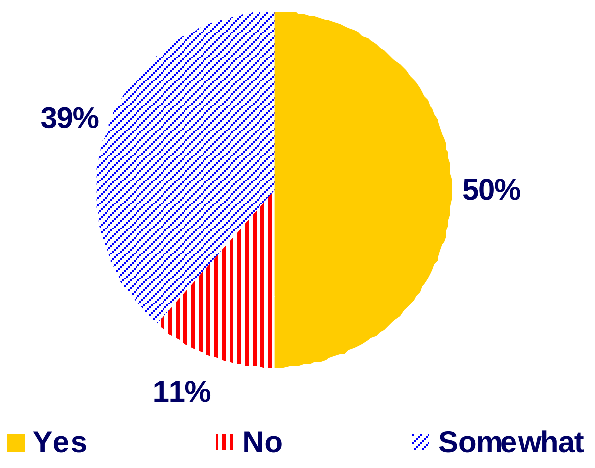
Percentage of respondents feel the Union Budget 2010-11 will continue to encourage consumption of the economy

Percentage of respondents feel the budget will enhance the cost competitiveness of the industry

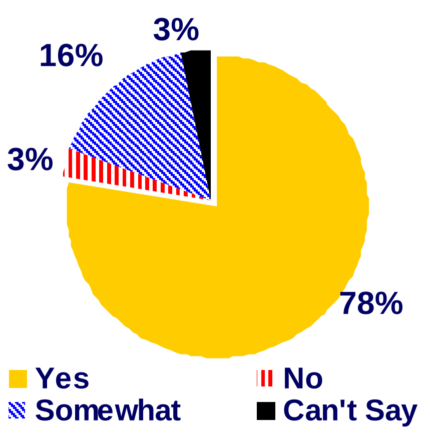




Impact of budget on their Tax Burden



Does the Union Budget meet their expectation?



The overall budget direction will help providing boost to investment in the infrastructure sector

Number of respondent = 62