

BUDGET 2011 HIGHLIGHTS

DIRECT TAX

- Finance Minister reiterated that the Direct Tax Code to come into effect from 01st April, 2012.
- Surcharge on tax for domestic companies reduced from 7.5% to 5% and for foreign companies reduced from 2.5% to 2%. The corporate tax rate remains unchanged.
- No change in tax rates applicable to partnership firms, LLPs, Association of Persons and other taxable units. The maximum marginal rate of tax is proposed to remain at 30% without any surcharge.
- Rate of Minimum Alternate Tax (MAT) increased from 18% to 18.5%. MAT to be levied on developers of Special Economic Zone (SEZ) as well as units operating in SEZ.
- Dividend Distribution Tax (DDT) @15% to be levied on developers of SEZs. Consequently, such dividends would be exempt in the hands of shareholders.
- Foreign dividend received by Indian Company from its foreign subsidiary to be taxed at the rate of 15%.
- Government to create special purpose vehicles in the form of infrastructure debt fund to attract foreign funds. Interest payment subject to withholding tax @ 5 % instead of 20%. Also, income from such funds to be exempted from tax.
- Rationalization of Transfer Pricing regulations.
- Proposal to enter into 11 new Tax Information Exchange Agreements and 13 new DTAAAs. Also, to revise 10 existing DTAAAs.
- Filing of annual information by non-residents regarding the activities of their liaison offices in India made mandatory.
- Introduction of Anti Avoidance provisions with reference to transactions involving jurisdictions that do not exchange of information to check tax evasion. These jurisdictions would be notified by the Government as 'non-cooperative jurisdictions'.

INDIRECT TAX

Central Excise

- Central Excise Duty to remain unchanged at 10%.
- 1% Excise Duty to be levied on 130 consumer items which were earlier exempted.

Customs

- Peak rate of Customs Duty maintained at 10%.
- To introduce self-assessment in customs EDI to expedite clearance of cargo – self declaration to be accepted.
- Specified hybrid auto parts to get Custom Duty exemption.
- Basic Customs Duty @2.5% being imposed on import of aircrafts for non-scheduled operations. Exemption from Additional Duty of Customs (CVD) and Special Additional Duty of Customs (SAD) would continue.

Service

- Service Tax rate remains unchanged at 10%
- 2 New categories of services added – (i) air conditioned restaurants serving liquor, (ii) short term hotel accommodation.
- Scope of certain existing taxable services has been expanded to bring within Service Tax net.

- Legal services expanded to include (i) legal services provided by business entities to any person, (ii) representational services before any court, tribunal or authority provided by any person to business entities, (iii) services of arbitration provided by arbitral tribunal to business entities.
- The above changes (new services & expansion) will come into effect from a date to be notified after enactment of Finance Bill, 2011.
- A new scheme is being introduced to refund of Service Tax to SEZ units and developers. Existing scheme is being superseded.

OTHER PROPOSALS

- New Companies Bill to be introduced in the current session of Parliament.
- Government to retain 51% control in central companies.
- Foreign Investors complying with the KYC norms permitted to invest in Mutual funds.
- FII limit in corporate bonds raised to USD 40 Billion.
- Food Security Bill to be introduced.
- Proposed further liberalization in FDI policy.
- Additional banking license to private sector players proposed
- Group of Ministers to be formed for environment clearances especially in mining.