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UNION BUDGET (2011-12)

INVESTMENT ENVIRONMENT & TAX ASPECTS

The Finance Minister in his Budget Speech for 2011-12 stated that *this year brought us some opportunities and many challenges as we moved ahead on the chosen path of fiscal consolidation and high economic growth.*

Whereas on one hand, the Indian economy is now back on track from the slowdown caused by the global financial crisis from 2007 to 2009 as the growth in 2010-11 is now estimated at 8.6% in real terms, on the other hand there is a need to effect adjustments in the composition of growth on demand and supply.

This Budget has given high importance to development of Infrastructure, Education, Agriculture, Rural sector and e-governance initiatives and also touched upon roadmap for liberalized Foreign Investments. Confidence has been given through emphasis on enactment of Direct Tax Code (DTC) w.e.f. 1st April 2012, Constitutional Amendment Bill is proposed to be introduced in this session of Parliament on proposed Goods and Services Tax (GST) and Companies Bill to be tabled in Lok Sabha during current session. Apart from this, Financial Sector Legislative Reforms committee is also proposed to be set up to rewrite and streamline the financial sector laws, rules and regulations and it is also expected that proposed amendment in Indian Stamp Act, 1899 would clear air in the ambiguities of Stamp Duty regime specifically under 'M&A'.

Changes in Direct Tax provisions are as such minimal as DTC is already placed before Parliament. However key changes include levy of MAT on developers of SEZ and units operating therein which would make SEZ also taxable. Similarly Alternate Minimum Tax (AMT) is proposed in case of Limited Liability Partnership (LLP) at same rate applicable to MAT for Companies along with increase in MAT rate slightly and a set of counter measures has been provided in relation to jurisdictions with which there is lack of effective exchange of information. Though basic exemption limit is increased in case of individuals which is expected to increase disposable incomes slightly and while companies would welcome the reduction in surcharge and a concessional rate of tax that is proposed on dividends received by Indian companies from their foreign subsidiaries, in view of the stated policy of phasing out most tax incentives, sunset clause is put to tax holiday benefits for STPI and EOU's.

On the Indirect Tax front, the rates of Tax remained unchanged but to achieve a closer fit between present indirect tax regime and GST, few new services and goods have been brought into the tax net to expand the tax base.

The key Investment environment and Direct Tax aspects proposed in Budget 2011 are summarized below. Take note that all the below mentioned changes shall come in effect w.e.f. April 1, 2012 i.e. Assessment Year (A.Y.) 2012-13 unless specifically specified.

1. CORPORATE TAXATION

1.1. CORPORATE TAX RATES

1.1.1. For Domestic Companies

- ⇒ Tax rates have been kept same at 30%,
- ⇒ However, current surcharge has been reduced to 5% from 7.5% (if Total Income exceeds ₹ 1 cr.) and Education cess @ 3% has remained unchanged.

UNION BUDGET (2011-12)...

⇒ Due date of Return for Transfer Pricing in respect of international transactions extended to November 30 of the Assessment Year.

1.1.2. For Foreign Companies

⇒ Tax rates have been kept same at 40%, Surcharge has been reduced from 2.5 to 2% (if Total Income exceeds ₹ 1 cr.) and Education cess @ 3% has remained unchanged.

1.2. MINIMUM ALTERNATIVE TAX (Section 115JB)

⇒ Rate of MAT increased from 18% to 18.5%

⇒ MAT Levied on developers of SEZ and units operating therein

⇒ Alternate Minimum Tax (AMT) levied in case of Limited Liability Partnership (LLP) at same rate applicable to MAT

⇒ Rules for Carry forward and set off of MAT credit remain unchanged.

1.3. DIVIDEND DISTRIBUTION TAX

⇒ Rates unchanged

⇒ w.e.f. June 1, 2011 SEZ Developers would have to pay tax on the dividends declared, distributed or paid as is applicable to other Companies.

2. FIRM TAXATION (INCLUDING LIMITED LIABILITY PARTNERSHIP)

- ⇒ For Partnership Firms (including Limited Liability Partnerships)
 - Tax rates have been kept same at 30% and Education cess @ 3%.
 - Surcharge is not applicable, as before.

3. INDIVIDUAL TAXATION

3.1 For Individual Tax Payers

Total Income	Tax Rate
For GENERAL Tax Payers	
Income upto ₹ 1.8 Lakhs	NIL
Income above ₹ 1.8 Lakh and upto ₹ 5 Lakhs	10%
Income above ₹ 5 Lakhs and upto ₹ 8 Lakhs	20%
Income above ₹ 8 Lakhs	30%
For WOMEN Tax Payers	
Income upto ₹ 1.9 Lakhs	NIL
Income above ₹ 1.9 Lakh and upto ₹ 5 Lakhs	10%
Income above ₹ 5 Lakhs and upto ₹ 8 Lakhs	20%
Income above ₹ 8 Lakhs	30%
For SENIOR CITIZENS	
Income upto ₹ 2.5 Lakhs	NIL
Income above ₹ 2.5 Lakh and upto ₹ 5 Lakhs	10%
Income above ₹ 5 Lakhs and upto ₹ 8 Lakhs	20%
Income above ₹ 8 Lakhs	30%

