



# Union Budget 2010-11

## Auto industry

The Auto sector in India has witnessed a tremendous growth in the recent past. India has traditionally been a low cost producer in the Auto sector and in recent times there has been a significant improvement in the quality standards and designing capability of the Indian players.

India is currently at the centre of the global auto industry canvas. International players are considering India as an emerging destination, both as a manufacturer and for customer base. Due to the economic recession, the Auto industry experienced a slow down which led to volume shrinks and delay of capacity expansion plans in India.

However, last year, the Government provided a stimulus package to the commercial vehicle segment which boosted the Auto industry to turnaround and get back on the growth path. Players in the sector are thriving on the expectation of the stimulus package continuing since the auto industry is still not out of the woods.





# Key Policy Initiatives

- Construction of national highways targeted at the pace of 20 km per day and the projects to be executed through PPP (Public Private Partnerships)
- The allocation of road transportation is proposed to be increased by over 13% from Rs. 17,520 crores to Rs. 19,893 crores
- A National Clean Energy Fund is proposed to be initiated to give a positive thrust to the generation of clean energy and for funding research on innovative projects in clean energy technologies



# Direct Tax Proposals

- Minimum Alternate Tax (MAT) rates increased from **15% to 18%**
- **Benefit of weighted deduction for expenditure on in-house R&D is proposed to be increased to 200% from existing 150%** for companies engaged in the business of manufacture or production of automobiles (including automobile components), helicopter and aircraft
- Retrospective amendment made in section 10AA i.e. units in SEZs. The tax benefit under the said section to be computed taking "**total turnover of the undertaking**" as the denominator instead of "total turnover of the business of the assessee" **with retrospective effect from 01 April 2005**
- **Weighted deduction** on payments made to specified entities for **use in approved scientific research programmes** is proposed to be **enhanced from 125% to 175%**
- **Scope of weighted deduction** in respect of any sum paid to be used for research in social science or statistical research has been proposed to be extended to any sum paid even to research associations carrying out **social science or statistical research**
- The proposed broadening of the individual tax slabs expected to provide substantial relief to large number of tax payers

## Amendments

**MAT rate increased to 18%**

**Weight deduction on R&D expenses incurred by Auto companies increased to 200%**



# Indirect Tax Proposals

The following changes in duty rate have been introduced in the Budget 2010:

## All automobile products

Rate of excise duty on all automobile products which are not exempted from excise duty, has been increased by 2%

## Excise on Sports Utility Vehicles (SUV) and Multi Utility Vehicles (MUV) products

Excise duty on SUV and MUV vehicles increased by 2% i.e from 20% to 22%

## Self loading / unloading trailers and semi trailers for agriculture purposes

Fully exempt from excise duty

## Electric vehicle

1. made exigible to excise duty @4%
2. manufacturer to avail Cenvat credit of excise duty paid on inputs

## Parts of electric vehicles

1. exempted from basic customs duty
2. chargeable to additional duty/ excise duty @4%

## Manufacturer of refrigerated VAN

Truck refrigerated units for manufacture would be exempt from excise duty



# Expert Viewpoint

- The key expectation of the industry was extension of the Stimulus package for some more time so that the industry could regain the momentum completely post the revival of the economy. However, the **budget 2010 did not provide any substantial support to the primary need of the sector**. In fact there has been a rollback of stimulus on excise duty applicable to SUV's and MUV's - would be a deterrent to the industry
- Relief at the **increase in excise duty only by 2% on** all the automobile products, however increased input cost has already begun to be passed on to consumers
- Increase in fuel price would be an additional dampener for the sector - fuel prices have already been increased with immediate effect
- While cost increases have been passed on, increase in disposable income in the hands of the consumers (due to broadening of tax base applicable to individuals) will begin to show results only from the following financial year
- **Increase in the weighted deduction on expenses incurred on in house R&D** demonstrates government's firm dedication to boost investment in this sector
- The impetus given to the development of infrastructure, particularly the national highway projects w also indirectly have a positive impact on this sector
- On an overall basis, although the stimulus package was not extended as per the expectations, the increased thrust on R&D could help the Auto industry to enhance the competitiveness of the Indian players and move up the value chain. Also, the increase in the disposable income could very well increase the demand of the sector and boost the growth of this sector in the following year



# Our Offices

## BANGALORE

3274/A, 11<sup>th</sup> Main  
HAL 2<sup>nd</sup> Stage  
Indiranagar  
Bangalore 560 008  
T +91 80 4243 0700

## CHANDIGARH

SCO 17  
2<sup>nd</sup> Floor  
Sector 17 E  
Chandigarh 160 017  
T +91 172 433 8000

## CHENNAI

Unit nos. 13, 14 and 16 11,  
Thiru-vi-ka Rd  
Royapettah  
Chennai 600 014  
T +91 44 4294 0000

## GURGAON

Centre Point  
3<sup>rd</sup> Floor  
Sushant Lok, Phase I  
Gurgaon 122 002  
T +91 124 462 8000

## HYDERABAD

Uptown Banjara  
Road No 3  
Banjarahills  
Hyderabad 500 034  
T +91 40 6452 8666

## MUMBAI

Engineering Centre, 6<sup>th</sup> Floor  
9, Matthew Road  
Opera House  
Mumbai 400 004  
T +91 22 6626 2600

## NEW DELHI

National Office  
Outer Circle  
L 41, Connaught Circus  
New Delhi 110 001  
T +91 11 4278 7070

## PUNE

401, Century Arcade  
Narangi Baug Road  
Off Boat Club Road  
Pune 411 001  
T +91 20 4105 7000

### About Grant Thornton International

Grant Thornton International is one of the world's leading organisations of independently owned and managed accounting and consulting firms. These firms provide assurance, tax and specialist advisory services to privately held businesses and public interest entities. Clients of member and correspondent firms can access the knowledge and experience of more than 2400 partners in over 80 countries and consistently receive a distinctive, high quality and personalized service wherever they choose to do business. Grant Thornton International strives to speak out on issues that matter to business and which are in the wider public interest and to be a bold and positive leader in its chosen markets and within the global accounting profession.

### About Grant Thornton India

Grant Thornton India is a member firm within Grant Thornton International. The Firm in India was established in 1935 and it is one of the oldest and most reputed accountancy firms in India. Grant Thornton India is also the leading firm in India advising business owners and entrepreneurs with international ambitions.

### Disclaimer:

This document is prepared for information purposes only. No reader should act on the basis of any statement contained herein without seeking professional advice. The firm expressly disclaims all and any liability to any person who has read this, document or otherwise, in respect of any thing, and of consequences of anything done, or omitted to be done by any such person in reliance upon the contents of this document.