



Union Budget 2010-11

Aviation Industry

The Indian aviation industry is one of the fastest growing aviation industries in the world with private airlines accounting for more than 75% of the sector.

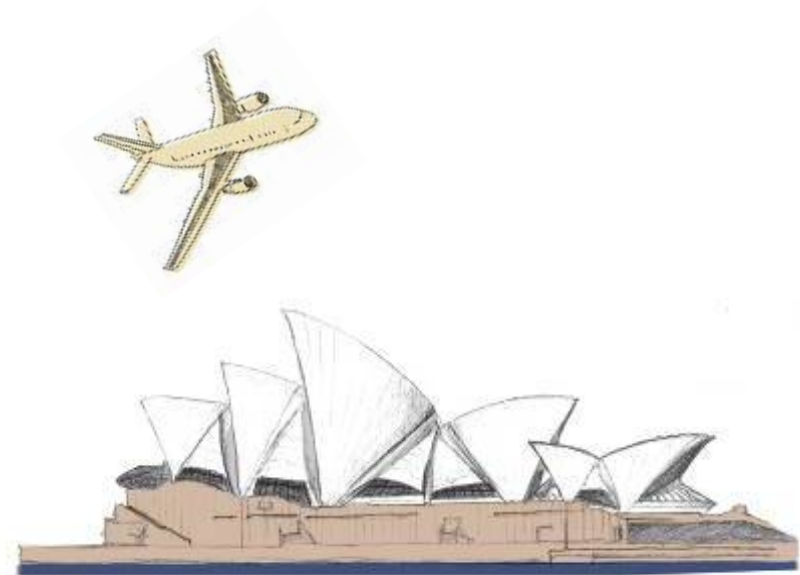
The industry has reflected a CAGR (Compounded Annual Growth Rate) of 18%.

There are 454 airports and airstrips in India, of which 16 are designated as international airports.

According to Investment Commission of India, investment opportunities of US\$110 billion are being envisaged up to the year 2020 with US\$80 billion in new aircraft and US\$30 billion in development of airport infrastructure.

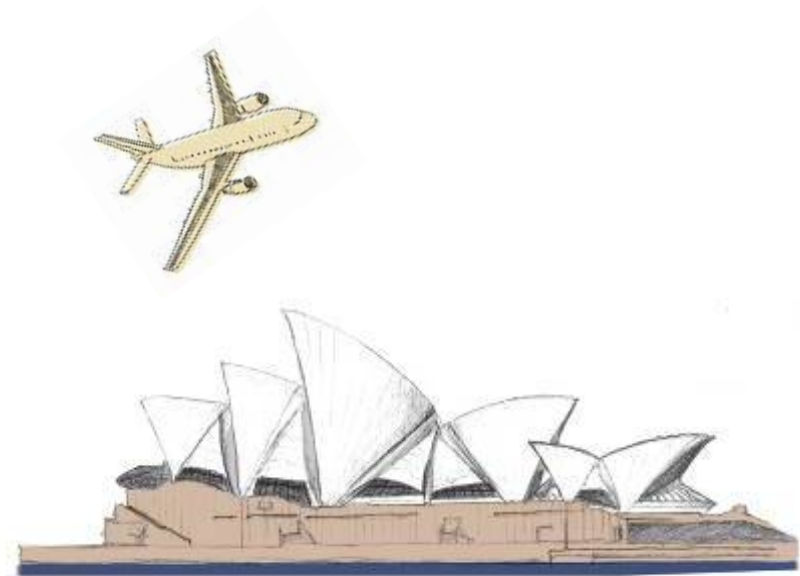
The sector has also seen a significant increase in number of domestic air travel passengers. Some of the factors that have resulted in higher demand for air transport in India are:

- The growing middle class and its purchasing power
- Low airfares offered by budget airlines
- Opening up of new international routes by the Indian government,
- Establishment of new airports and renovation and restructuring of the existing airports
- Increasing outbound travel from India



Key Expectations-Aviation

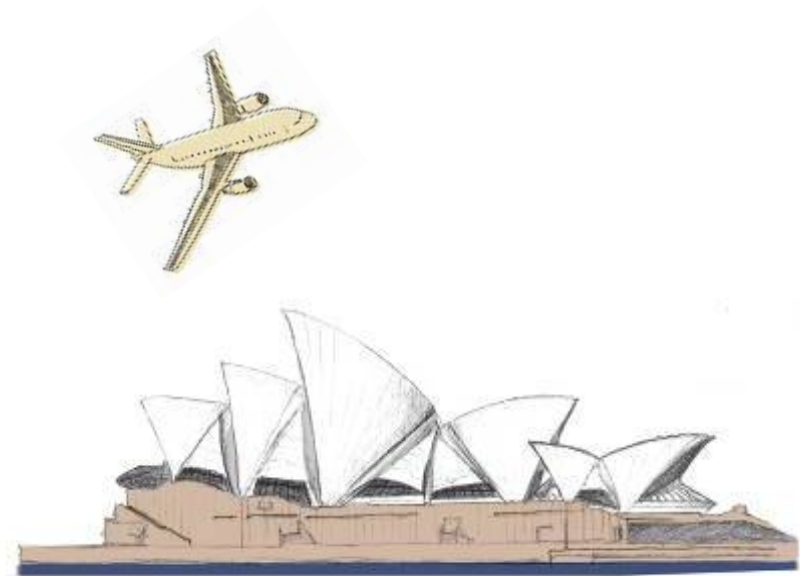
- Infrastructure status for Aviation sector so that the sector can avail benefits of deductions on profits and gains under Section 80-IA.
- Rationalise taxes on aviation turbine fuel (ATF), which constitutes over 40% of the operating cost by bringing the commodity under declared goods category.
- Concessions in airport fees and other charges.
- Removal of service tax on first and business class tickets.
- Removal of service tax on Landing charges, Airport fees and Air navigation fees.



Direct Tax Proposals

There are no Direct Tax proposals specifically affecting the Travel and Aviation sectors. However, some changes applicable to all companies in general will apply to this sector as well.

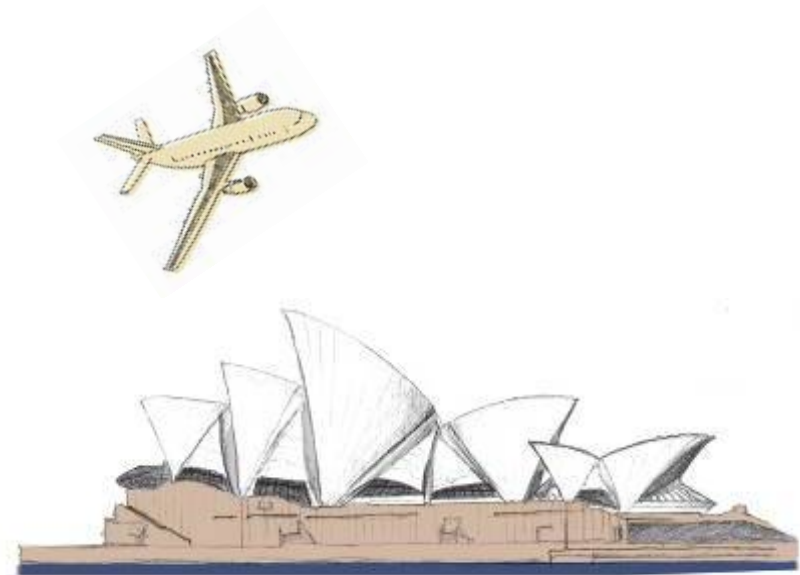
- Increase in MAT from 15% to 18% - However, since most airline companies are reeling under huge accumulated losses, there should not be any immediate additional cash outflow on account of this.
- Reduction in surcharge from 10% to 7.5% - Gradual reduction in effective corporate tax rate lifts the business sentiment even in an otherwise loss-making industry.
- But Government's increasingly aggressive posturing on international tax matters by emphasising Source rule under Section 9 may make imports costly if the foreign vendors pass on the additional India compliance and tax cost to the Indian buyers.



Indirect Tax Proposals

Increase in Service tax and Excise duty will push up costs in Aviation Sector

- Due to an across the board increase in excise duty by 2%, an increase in the duty rate on petrol and diesel and levy of service tax on transport by rail, overall cost of inputs and spares will go up.
- Logistic costs will also go up.
- Further the overall increase in input costs and logistic costs may also lead to an increase in the price of aviation turbine fuel (ATF)
- Proposals have been made via amendment to Section 65(10)(zzzo) of the Finance Act, 1994, to levy service tax on all class of domestic and international air travels. At present domestic air travel is not exigible to services tax and only first and business class of international air travel were exigible to services tax. Air travel cost will increase by 10.3%.
- All services provided within the airport or civil enclave by the airports authority or any other person is now chargeable to service tax under the category of 'Airport Services'. Specific authorization from airport authority would not be a pre-condition for taxing these services



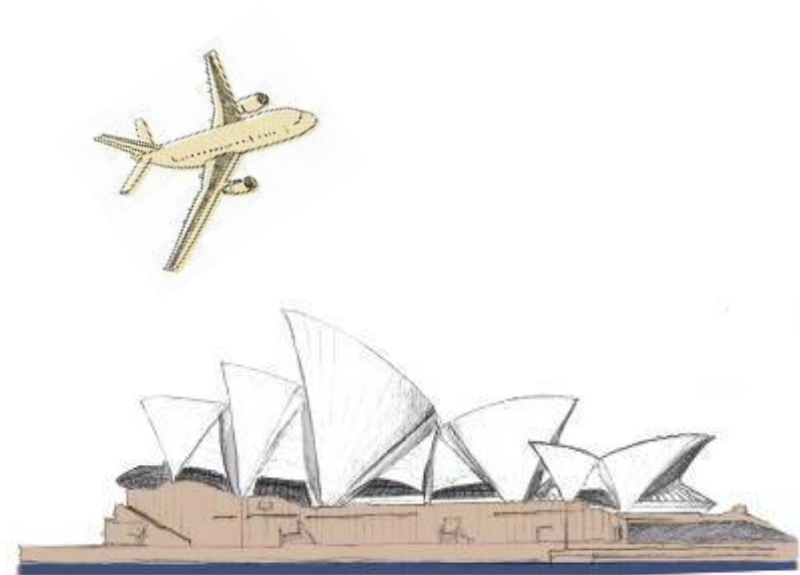
Expert Viewpoint

Direct Taxes

- Despite its steep losses, the aviation industry has not managed to get any concessions from the Government. It may be noted that unlike in the case of manufacturing undertakings, software companies and telecom service providers, there are no facilitating provisions for carrying forward tax losses of airline companies upon amalgamations / demerger etc.

Indirect Taxes

- Declared good status for ATF has been a long standing demand of the aviation sector. However, the Government has not heeded such requests yet as air travel continues to be perceived in India more as a luxury of elites than an essential transport option for the masses.
- Imposition of service tax on all domestic and international air travel will increase the ticket price, adversely affecting the air travelers.
- Considering the possibilities of inflow of foreign tourists on account of Commonwealth Games, Government should have provided some incentives to this sector to improve their services and infrastructure.



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