



Union Budget 2010-11

IT/ITES Industry

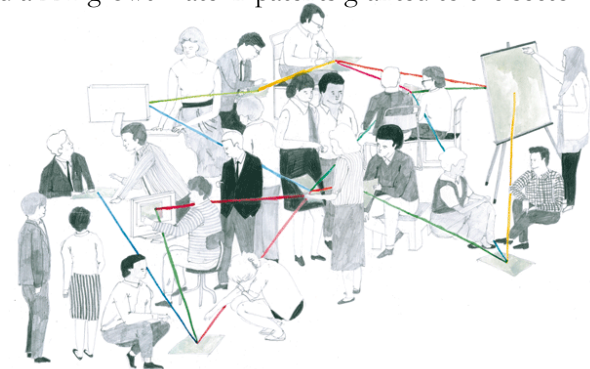
A Run-Up

In its latest sector performance estimates for FY09-10 update on 04 February 2009, India's premier IT (Information Technology)/ITES (IT enabled Services) Industry Association, NASSCOM, estimates the export revenues for the Indian IT/ITES industry to record a growth of 5.5%, to reach US\$49.7 billion in FY 09-10. During FY09-10, the industry has reinvented itself by increasing its cost efficiencies, utilisation rates, diversification into new verticals and markets and new business and pricing models. In the process, it was also able to turn itself into a business transformation enabler for its clients with a renewed value proposition.

Government IT spend estimated at INR150 billion in 2009 is expected to reach INR250b by 2011, with US\$9 billion business opportunity in e-Governance.

Indian IT-BPO industry continues to dominate the global market place with 51% market share. Growth in emerging verticals such as retail and healthcare has been 3x faster than core verticals. Infrastructure services are expected to be a key growth driver for the industry with an estimated growth of 10.5% .

The Indian IT/ITES Industry contributes over 25% of total exports from India, 5.9% of GDP and 10.5% to the Services Sector in FY09. The sector which accounts for over 10% of the total FDI in the last decade, has also had a 22x growth rate in patents granted to the sector between FY05 and FY08.



Key Expectations

Policy measures

- Outlay for higher education should be upped four fold
- Development of Tier 2 and Tier 3 cities
- Government should introduce a legal cell for expeditiously settling litigation cases
- Stable policy regime for the IT hardware industry
- The Government ought to **stimulate and encourage IP** (Intellectual Property) creation in India
- Government should provide **sops for improving the quality of education and skill building**
- Improved Infrastructure facilities- Roads, power, airports

Direct Tax

- Software Technology Parks of India (STPI) initiatives to be at par with the Special Economic Zone (SEZ) schemes.
- **Extension of the income-tax holiday to STPI/** Export Oriented Unit (EOU) schemes by at least 3 more years given the challenges faced by the sector.

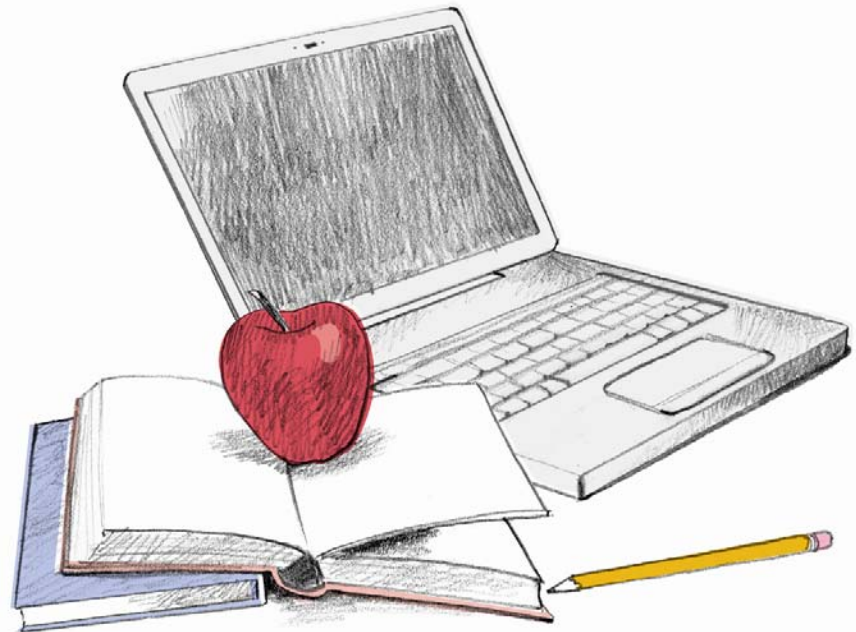
Indirect Tax

- Resolve the issue related to duplicity of indirect taxes for packaged software
- Provide clarity in policies for service tax refunds



Direct Tax Proposals

- Deduction for investment in R&D under sec 35(2AB) enhanced from 150% to 200%
- Increase of **MAT** from 15% to 18%
 - Reduction in surcharge from 10% to 7.5%
- **Proviso to sec 10AA(7)** introduced to make sub-section (7) effective for assessment year 2006-07 and subsequent assessment years
 - Sub-section (7) was introduced in sec 10AA by the Finance (No. 2) Act, 2009 This was done as the existing formula was perceived to be discriminatory in case of taxpayers who have multiple units in both the SEZ and the domestic tariff area (DTA) vis-à-vis those taxpayers who were having units in only the SEZ



Indirect Tax Proposals

Customs

- Exemption from additional customs duty on the value representing the consideration for transfer of right to use packaged or canned software provided the said transfer is for commercial exploitation. The condition of 'commercial exploitation' removed .

Excise

- NIL rate of excise duty on microprocessor for computer (other than motherboard), floppy disc drive, hard disc drive, CD-ROM drive, DVD Drive /DVD Writers, flash memory, combo drive, meant for fitment inside the CPU housing/laptop body. If used externally as a plug-in device, excise duty leviable @ 4%
- Accelerated depreciation of the credit amount has been allowed for reversing CENVAT credit taken on computer and computer peripherals when these are cleared after use by a manufacturer or service provider
- Exemption on the value representing the consideration for transfer of right to use packaged or canned software provided that the said transfer is for commercial exploitation. The condition of 'commercial exploitation' removed

Service Tax

- IT software services liable to service tax even if the service provided is used for purpose other than business or commerce
- IT software exempted for packaged or canned software intended for single use and packed accordingly, if appropriate excise duty has been paid



Expert Viewpoint

Direct tax

- The increase in weighted deduction for investment in R&D will significantly contribute towards growth in innovation & creation of intellectual property

Indirect Taxes

- Clarification of duty applicability for pre-packaged software as well as service tax refunds are harbingers of simplification of policies

Transfer Pricing

- Although, there is no mention of **Safe harbour** rules in the Budget, the promulgation of the same in the near future cannot be ruled out.



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