



Union Budget 2010-11

Infrastructure & Real Estate Sector

A Run-Up

The thrust of last year's budget was infrastructure sector. The Eleventh plan had also projected about USD 500 billion investment (about 9% of GDP) in infrastructure sector between 2007 and 2012. The growth of infrastructure is key to the next level of growth for the Indian economy.

Infrastructure is the buzzword these days. While most sectors were showing negative growth or are recession-prone, infrastructure is viewed as one of the sectors that can effectively counter global slowdown and accelerate economic development of our country. It is also one of the largest employers of semi-skilled manpower. However, infrastructure sector is highly capital intensive and thus the role of Government in framing and implementing the necessary policies in this regard is very essential.

The other sector which is linked to the infrastructure sector is the real estate sector. Real estate has been the fastest growing sector in India during the few years before the recession. However the year 2009-10 was very challenging for the real estate sector which witnessed decline in demand and prices, strained liquidity / credit positions resulting in delay in the completion of projects and high borrowing costs. The path from crisis to recovery is opening up and it is the opportune time to address issues that will help boost the growth of this sector in the long run especially considering that there is huge potential in this sector due to the large demand-supply gap.

To sum up, there is need to consider these sectors favourably by introducing policy measures which lay the foundation of accelerated infrastructural development to power double digit growth for India



Key Expectations

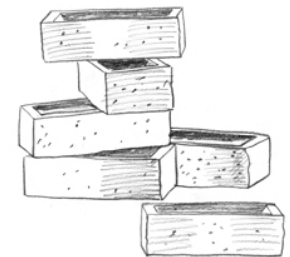
- Tax holiday to be extended to infrastructure undertakings becoming operational even after 31 March 2011 as a measure to boost economic development
- Infrastructure companies to be exempted from MAT (Minimum Alternate Tax)
- Facilitate PPP (Public- Private Partnership) as a means of financing key mega infrastructure projects
- Set up a single window clearance system for quick approval and implementation of power and road projects
- Raising long-term funds from retail investors
- Tax holiday benefits should be available to the amalgamating or resulting company in case of amalgamation or demerger of Infra undertakings
- Reintroduction of tax exemption under section 10(23G) to companies, which invest in infrastructure projects, on interest income and capital gains earned on investments
- Benefits of pass through status under section 10(23FB) to be extended to other projects in Infrastructure sector like telecom, power, etc to attract higher FDI (Foreign Direct Investment)
- Extension of tax breaks to Limited Liability Partnership

Construction sector

- Increase in government spending in infrastructure, especially for roads and urban projects
- Clarity on refinancing for IIFCL (India Infrastructure Finance Company Ltd) funding

Energy (Power) sector

- Tax incentives be increased for projects including low carbon power generation such as hydroelectricity and wind turbines or low carbon transport infrastructure
- Increasing the allocation towards the Government-led electrical infrastructure augmentation schemes namely RGGVY (Rajeev Gandhi Grameen Vidyutikaran Yojana) and R-APDRP (Restructured Accelerated Power Development and Reforms Programme)
- Reduction of import duty on thermal coal



Key Expectations

Real Estate sector

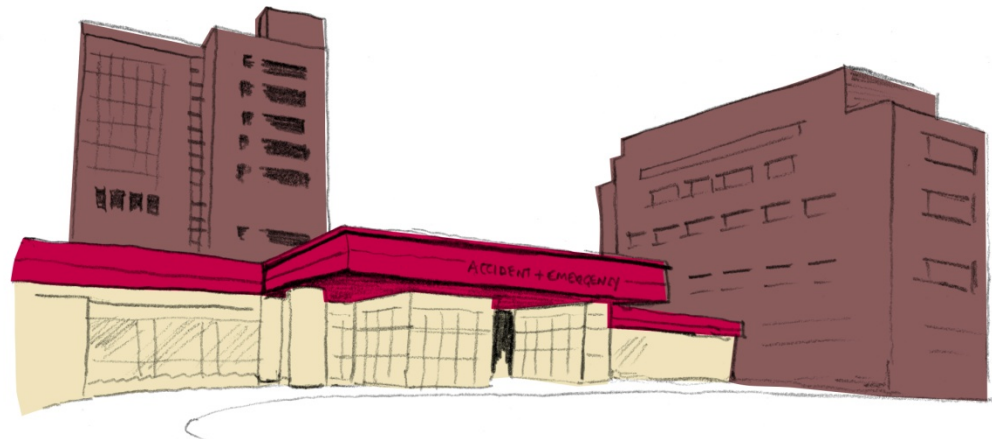
- Increasing priority sector housing loans to Rs. 30 lakhs from existing Rs. 20 lakhs
- Increase in allotment to the Rajiv Gandhi Awas Yojana (slum rehabilitation programme)
- Increasing tax breaks provided to housing finance and infrastructure lending companies
- Re-introduction of tax holiday for housing projects
- Tax concession on principal repayment of home loans should not be clubbed with other deductibles under section 80C
- An upward revision of tax exemption as compared to Rs. 1.5 lakh available on housing loan interest payment under section 24(b) should be made

Hotel sector

- To be included under section 80 IA (Infrastructure status) for all hotels across India and across all categories

Telecom sector

- Unification of tax regime from current differential taxation methods
- Reduction in license fee to 6%
- Clarity on 3G Auction timeline



Key Policy Initiatives

Infrastructure

- Increased allocation (approximately 46% of the total planned allocation) for upgrading infrastructure in both rural and urban areas
- Increased allocation for Road transport and Railways. Specifically, to complement the dedicated freight corridor, the Delhi-Mumbai Industrial Corridor project has been taken up for integrated regional development
- Construction of national highways targeted at the pace of 20km per day
- Disbursements by India IIFCL to reach around Rs. 20,000 crore by March 2011
- Refinancing of bank lending to infrastructure project by IIFCL to increase by more than double of Rs. 3,000 crore
- Take-out financing scheme initially to provide finance of Rs.25,000 crore in the next 3 years
- Allocation of Rs.48,000 crore to Bharat Nirman programmes
- To bridge the infrastructure gap in backward districts, increased allocation of 26% to Backward Region Grant Fund

Infrastructure...

- Project at Sagar Island to be developed to provide an alternate port facility in West Bengal

Energy (Power) sector

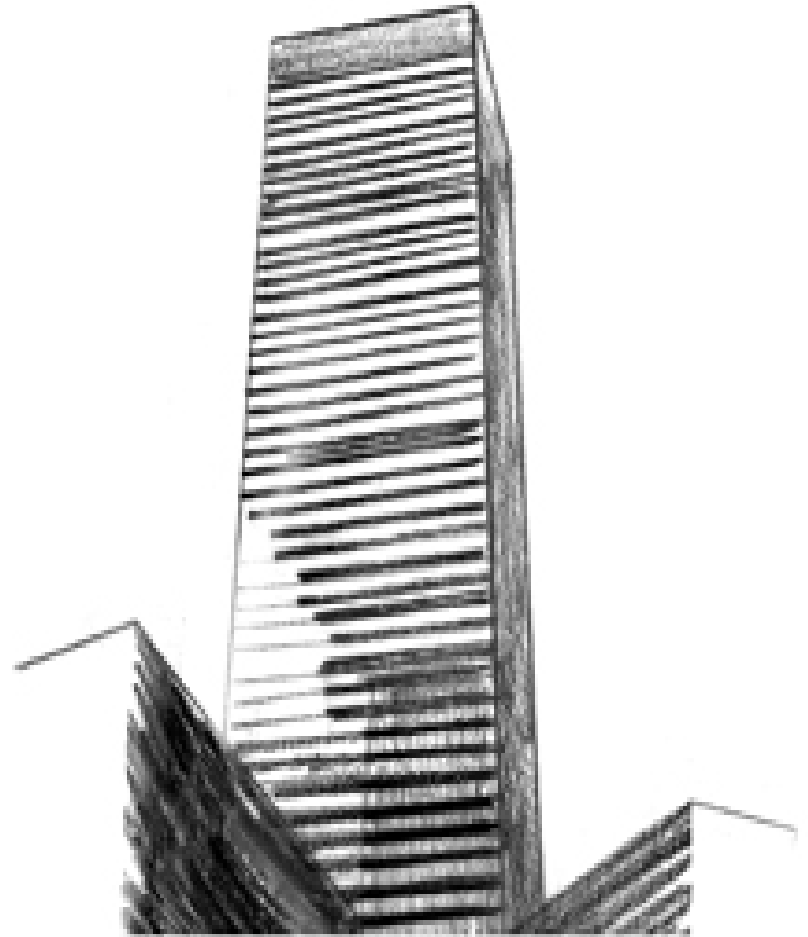
- Allocation to power sector (excluding RGGVY) raised to Rs.5,130 crore from Rs.2,230 crore
- Introduction of a competitive bidding process for allocation of coal block for captive mining
- Coal Regulatory Authority to be set up
- Plan outlay for the Ministry of New and Renewable energy raised by 61%
- Setting up a solar, small hydro and micro power projects of Rs.500 crore in Ladakh region of Jammu and Kashmir



Key Policy Initiatives

Real Estate

- Unit cost under Indira Awas Yojana Scheme increased to Rs.45,000 in plain areas and to Rs.48,500 in hilly areas. Allocation for this scheme is increased to Rs.10,000 crore
- Allocation to Rajiv Awas Yojana increased to Rs.1,270 crore from Rs.150 crore
- Allocation to Housing and Urban Poverty Alleviation raised to Rs.1,000 crore from Rs.850 crore
- 1% interest subvention on housing loan up to Rs 10 lakh, (where cost of the house does not exceed Rs.20 lakh) extended to March 31, 2011



Direct Tax Proposals

Tax rates

- Corporate tax rate unchanged
- Existing surcharge for domestic companies proposed to be reduced from 10% to 7.5%
- MAT proposed to be increased to 18% from 15%

Specific to Real Estate sector

- With respect to housing projects approved on or after 1 April 2005, the conditions for claiming tax holiday are proposed to be relaxed (*retrospectively from 1 April 2009*) as under:

Particulars	Existing condition	Proposed condition
Time to complete the housing project	4 years from the end of the FY (Financial Year) in which the project is approved	5 years from the end of the FY in which the project is approved
Built up area for shops and other commercial establishment in a housing project	5% of the total built up area of the housing project or 2000 sq.ft. whichever is less	3% of the aggregate built up area of the housing project or 5000 sq. ft. whichever is higher

Specific to Real Estate sector...

- Threshold limit for withholding tax on rent payments proposed to be increased to Rs 1.80 lakhs per annum from Rs 1.20 lakhs per annum
- It is proposed to exclude transfer of immovable property for inadequate consideration out of the ambit of section 56(2).

Specific to Hotel sector

- 100% deduction in respect of capital expenditure (other than that for land, goodwill and financial instrument) is proposed to be allowed to business of building and operating a new hotel of two-star or above category, anywhere in India, which starts functioning after April 2010
- In order to claim deduction under section 80 ID in respect of profits of two, three or four star hotel or convention centre, the time limit for hotel to start functioning or convention centre to be constructed is proposed to be extended to 31 July 2010 as against the current time line of 31 March 2010

Direct Tax Proposals

Specific to petroleum and natural gas sector

- In order to claim 100% deduction in respect of capital expenditure for business of laying and operating cross country natural gas or crude or petroleum oil pipeline network, requirement regarding the proportion of the total pipeline capacity to be made available for use on common carrier basis has been proposed to be linked to that proportion as specified by the Petroleum and Natural Gas Regulatory Board

Deduction for R&D (Research and Development) expenses

- Benefit of weighted deduction for expenditure on in-house R&D is proposed to be increased to 200% from existing 150%
- Weighted deduction on payments made to specified entities for use in approved scientific research programmes is proposed to be enhanced from 125% to 175%
- The scope of the 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

Deduction in respect of long term infrastructure bond

- Subscription to long-term infrastructure bonds notified by the Central Government is proposed to be allowed as deduction to the extent of Rs. 20,000 to individual and HUF (Hindu Undivided Family). This deduction would be over and above the existing deduction of Rs. 1 lakh available under section 80C

Clarification on total turnover of the undertaking - SEZ

- It is clarified that the provision relating to computation of tax benefit under section 10AA for units in SEZ (Special Economic Zone) by taking "total turnover of the undertaking" as the denominator instead of "total turnover of the business of the assessee" would be applicable retrospectively with effect from 01 April 2005

Civil construction - Tax audit limit

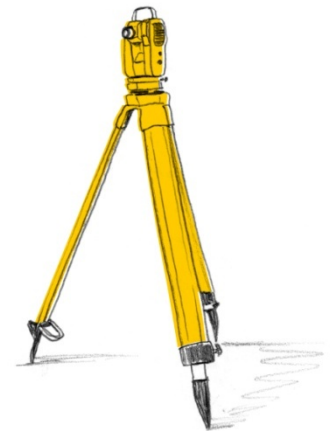
- Threshold limit for tax audit requirement under presumptive taxation for entities engaged in civil construction business proposed to be increased to a turnover of Rs 60 lakhs from existing limit of turnover of Rs 40 lakhs

Indirect Tax Proposals

- 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 logistics will go up
- The activity of 'renting' of immovable property for commercial purposes would be taxed retrospectively w.e.f 1 June 2007. The Decision of Hon'ble Delhi High Court in this regard has been proposed to be nullified
- Commercial renting of immovable property to also include renting of vacant land where there is an agreement between the lessor and lessee for undertaking construction activities on such land for commercial purposes during the tenure of the lease
- Certain additional services provided by a builder to prospective buyers such as preferential location or external or internal have been made taxable. All such charges except parking charges would bear service tax.
- All services charged for prior to a building obtaining a completion certificate would now bear service tax.
- packaged cement manufactured by units other than mini-cement plants of declared retail sale price exceeding Rs. 190 per 50 kg bag or Rs. 3,800 per tonne.
- The rate of duty on packaged cement of declared retail sale price not exceeding Rs. 190 per 50 kg bag or Rs. 3,800 per tonne, has been increased from Rs.230 per metric tonne to Rs.290 per metric tonne
- Excise duty on steel increased from 8% to 10%
- Goods related to Monorail projects for urban public transport can be imported at 5% concessional rate of customs duty under project import
- Specified road construction machinery imported without customs duty may now be relocated and redeployed which was not permissible earlier
- Basic Customs Duty on machinery including prime movers and other equipments for initial setting up of a solar power generation project or facility reduced from 7.5% to 5%
- Excise duty has been increased from 8% to 10%
- CENVAT credit allowed in full on inputs used in the manufacture of goods supplied, without payment of duty:
 - to a power project from which power supply has been tied up through tariff based competitive bidding;
 - to a power project awarded to a developer through tariff based competitive bidding
- Electrical energy supplied from a SEZ to the Domestic Tariff Area and non - processing areas of SEZ will attract Basic Customs Duty of 16% ad valorem retrospectively w.e.f. 26 June 2009

Expert Viewpoint

- The introduction of various policy measures and increased budgetary allocations essential for infrastructural development is a step in the right direction. However, the key would be effective implementation of these initiatives
- The changes that have been made in the policy framework especially in respect of projects being executed through PPP should be instrumental in effective implementation of the targeted construction of national highways at a pace of 20km per day
- Tax benefits on subscription to long-term infrastructure bonds is a welcome move since it would enable mobilisation of significant funds from retail investors. However, provision of tax exemptions to investors on their investment income from infrastructure companies has not been dealt with in this budget
- Demand of the industry for exemption / extension of tax holiday has not been addressed. To add to their misery, there is an increase in the MAT rate by 80% over the past 2 years (i.e. from 10% in 2008 to 18% as proposed)
- From a real estate perspective, there have been no major policy announcements. Expectations for initiatives to spur demand and availability of funds for this sector have unfortunately not been addressed. However, relaxation of conditions with respect to housing projects coupled with clarification on taxability of SEZ profits would definitely provide some reason to cheer for



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