

# Budget 2009 Snapshot

## Specific proposals for Entertainment & Media sector

### Industry Overview

- Estimated industry size pegged at USD 12 bn
- Industry growing at CAGR of 15 %
- Key dominating segment – Film and TV (USD 7 bn)
- Low media penetration in rural areas – 56% in rural areas as against 86% in urban areas

### Key Developments

- Introduction of IPTV guidelines – high quality interactive TV now a reality
- Proposed introduction of 3G spectrum – mobile TV to be enabled
- Proposal to revise FDI limit for FM Broadcasters to 24% and for DTH providers to 74%
- Digitization of Indian TV distribution space – DTH key driver
- With the IPL & T20 formats of cricket, sports now a key component of the entertainment industry

## **Budget Wish list**

### **Income Tax:**

- Tax holiday on export of content by Indian production houses should be revived.
- Clarification regarding taxability of Foreign Telecasting companies and Hollywood studios
- Clarification on taxability (i.e. nature of income and the year of taxability) of lumpsum payments received for allowing use of copyrights and also the tax deductibility of such payments in the hands of payers.
- Clarification regarding characterization of transponder hire charges earned by foreign satellite companies.
- Expenditure incurred outside India by film production companies should be exempt from FBT.

### **Indirect Tax:**

- Rationalization of multifarious taxes / levies into a unified levy and reduction if the overall rate of such taxes / levies
- Clarity / relaxation on customs duty valuation when content is imported into India
- Clarity on Cenvat credit availability on services consumed by foreign broadcasting companies when service tax on their revenues is paid by their Indian agent
- Parity in customs duty on import of gaming consoles vis-à-vis similar products such as computers, laptops, PDA, etc.
- Sale of advertisement time slots to be exempted from Service Tax

### **Others:**

- Liberalization of restrictions on cross-media ownership
- FDI in satellite radio should be permitted
- Existing limit on royalty payment for use of foreign brand and trademark at 1% for domestic and 2% for export sales should be enhanced

## **Budget - Proposed Amendments**

### **Income Tax – Industry Specific Provisions:**

- ⊗ Withholding tax on advertising contracts increased from 1% to 2% (excluding surcharge and cess)

### **Income Tax – Other Important Provisions:**

- ☺ New direct tax code to be released for public comments in 45 days
- ☺ No change in Corporate tax rate
- ☺ Exemption limit for individuals enhanced by Rs.10,000 / Rs.15,000. Surcharge on personal tax waived
- ☺ FBT abolished. Fringe benefits/perquisites now taxable in employees' hands
- ☺ CBDT empowered to formulate 'safe harbour' rules\*
- ☺ Alternative dispute resolution mechanism introduced for foreign companies and for Transfer Pricing adjustments
- ⊗ Effective rate of MAT increased from 11.33% to 17%; carry forward of MAT credit enhanced from 7 to 10 years
- ☺ Introduction of tax regime for LLPs. Income taxable in LLP's hands; exempt in the hands of Partners
- ☺ Withholding tax on use of equipment reduced from 10% to 2% and on use of land & building from 20%/15% to 10% (excluding surcharge & cess)
- ☺ Wealth tax exemption limit doubled to Rs 30 lakhs

### **Indirect Tax – Industry Specific Provisions:**

- ⊗ Basic Custom Duty ('BCD') of 5% levied on set top boxes
- ☺ BCD on LCD panels reduced from 10% to 5%
- ⊗ Excise duty on Mp3 and Mp4 increased from 4% to 8%

### **Indirect Tax – Other Important Provisions:**

- ☺ Median rate of BCD and excise duty maintained at 10% and 8.24% with some exceptions
- ☺ Median rate of service tax maintained at 10.30%
- ☺ Aggregate rate of customs duty remained unchanged at 24.42%
- ☺ Service providers providing taxable and exempt services, now have the option to pay at reduced rate of 6 percent of the value of exempt service (earlier it was 8%)

\* Safe harbour rule means circumstances in which Tax Authorities shall accept transfer prices declared by the taxpayer

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