

Budget 2009 Snapshot

Specific proposals for Road sector

Economic Indicators

- For financial year 2008-09, overall GDP growth rate of India was 6.7% whereas fiscal deficit was 6.2%.
- Phase I & II of National Highway Development Programme (NHDP) envisaged 4/6 laning of about 14,330 kms of national highways. As against this 11,037 kms is completed as of March 31, 2009.
- Government approval has already been accorded to Phase III, IV, V, VI and VII of NHDP. The same comprises of 27,000 kms of lanes and expressways at a cost of Rs 145,000 crores (appx). This will expedite road development to a great extent.

Policy Initiatives

- Government has proposed to increase the investment in infrastructure to more than 9% of GDP by 2014.
- Allocation to NHDP is proposed to be stepped up by 23% over the 2008-09 budget expenditure. This will give necessary impetus to the road sector.
- Road Transport and Highway Ministry's target of constructing 20 km road per day have put road projects on a fast lane.

- Indian Infrastructure Finance Corporation Limited (IIFCL) will evolve a Takeout financing scheme which will facilitate incremental lending to infrastructure sector. IIFCL will refinance 60% of commercial bank loans for PPP projects in critical sectors over next 15 to 18 months. These measures will ease the liquidity crunch; however the key lies in effective coordination between Central and State government agencies to ensure that the funds percolate down to PPP projects.

Income Tax

- There is no change in rates of corporate tax and therefore, effective corporate tax rate for Indian companies remains at 33.99%.
- Government responds to Industry demands by abolishing Fringe Benefit Tax (FBT) which will save corporates from some tax outflow and more importantly, cumbersome compliance requirements.
- Rate of DDT has remained unchanged at 16.995%.

- Minimum Alternate Tax (MAT) rate is increased from 10% (effective 11.33%) to 15% (effective 16.995%) of book profits, which will increase the burden of infrastructure companies claiming tax holiday. The period to carry forward tax credit under MAT is increased from 7 to 10 years.
- It has been clarified that works contract awarded by any person (including Central or State Government) to undertake development or operation and maintenance or development, operation and maintenance of infrastructure facility will not be eligible for section 80-IA deduction.
- New Direct Taxes Code will be released within 45 days for public debate, which will hopefully simplify direct tax compliance.
- Proposed introduction for alternate dispute mechanism and safe harbor rules will facilitate cross-border transactions between group companies.
- The demand of the industry to widen the ambit of section 80-IA to cover upgradation/modernisation/expansion of roads has gone unheard.
- Limited Liability Partnership (LLP) will be taxed like general partnership firms. MAT, DDT and surcharge are not applicable to LLP, thereby reducing the overall tax cost in India. In order to enable road sector companies to avail benefit of LLP, NHAI needs to carry out an amendment in its model concession agreement.

Service Tax

- Service tax rate remains unchanged at 10.3%.
- Service providers providing taxable and exempt services, and not maintaining separate books of accounts, now have the option to pay tax at a reduced rate from 8% to 6% of the value of exempt service.

- Definition of input will not include 'cement, angles, channels and other items' used for construction of factory, shed, building or laying foundation or making structure for support of capital goods. Hence, the duty paid on such goods would not be eligible to claim Cenvat Credit.
- Gross value under Works Contract composition scheme to include value of all materials and services (including free supply). However, the same will not be applicable to contracts in progress or any payments made on or before July 7, 2009.

Customs Duty

- There is no change in the median rate of 10% Basic Custom Duty (BCD) on import of goods in India.
- BCD exemption withdrawn on specified concrete batching plants effective from July 7, 2009.
- BCD on bio-diesel reduced from 7.5% to 2.5% effective from July 7, 2009.
- BCD on rock phosphate reduced from 5% to 2% effective from July 7, 2009.

Central Excise

- Effective rate of Central Excise remains unchanged at 8.24%.
- Full exemption from excise duty on goods such as cement bricks, and articles of stone, asbestos and plaster manufactured at the site of construction for the use in construction at such site.

Central Sales Tax (CST)

- CST remain unchanged at 2%.

Goods and Service Tax (GST)

- Reiteration of enforcement of GST on April 1, 2010.
- Satisfactory progress on road map.
- Proposal on Dual GST - Central and State.



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