

# Total Tax Contribution

How much in taxes do Indian companies really pay?\*

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# Foreword

PricewaterhouseCoopers (PwC), India and Federation of Indian Chambers of Commerce and Industry (FICCI) are delighted to present the results of the first Total Tax Contribution Survey performed in India.

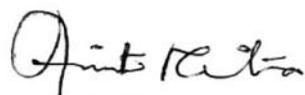
We believe that it is important that the impact of all taxes on business is properly understood for several reasons. These include, firstly, to understand the impact that all business taxes have on individual organisations, to enable appropriate disclosures and management of all such taxes. Secondly, to highlight to stakeholders and government the impact of the tax system, including its complexity and potential action steps in a rapidly changing economic environment.

Tax is and will continue to be a major component of doing business. In that context, it is not only corporate taxes that are borne by corporates, but also other taxes embedded in goods purchased and services acquired, that need to be considered. Indirect taxes are considered, in most cases, as costs which can be set off against outputs, but that is not always the case, due to varying rates, technicalities of set-offs and many other reasons. Also, the importance of taxes being collected by an organisation and paid out to the government, including its complexity, compliance burdens and several related issues are often overlooked.

The world at large (and India cannot be an exception) is going through one of the most vicious economic downturns ever. Due to robust domestic demand and certain macroeconomic steps, including a calibrated opening up of the banking sector, India has suffered less of an impact than many other countries. Cognisant of the downturn in the economy, the government has recently taken fiscal measures such as reduction in excise duties and service tax, to stimulate demand. We believe that even in this serious downturn, tax issues will continue to be extremely important.

A new Direct Tax Code is on the anvil and should see the light of day after the general elections later this year. The Goods and Services Tax regime for unification of several indirect taxes is also expected to become a reality with effect from 1 April 2010. In that context, the results of the Total Tax Contribution survey may be an important input for government reform and action. The Total Tax Contribution Framework can also be a good tool for companies (especially in the current economic environment) to ascertain the total quantum of business taxes (both in terms of number and amount) affecting their business and profitability.

We trust this report provides important insights into our tax system and its impact on business. We would particularly like to thank this year's participants for contributing to this survey and would encourage a larger participation in the years to come. In the meantime, we welcome feedback on how to enhance the usefulness of the survey.



**Amit Mitra**  
Secretary General  
FICCI



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Executive Director  
Tax & Regulatory Services  
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March 2009

# 01

## Executive summary



## Introduction

- This publication sets out the results of PricewaterhouseCoopers' (PwC) Total Tax Contribution (TTC) 2008 survey, which has been conducted for the first time in India in association with The Federation of Indian Chambers of Commerce and Industry (FICCI).
- The purpose of the TTC survey is to gather data on the business taxes borne and collected in India to provide a more comprehensive picture of what companies contribute in taxes.
- Currently, there appears to be a lack of transparency and understanding of what other business taxes companies are subject to and how much is actually being paid.
- The TTC survey is based on the PwC Total Tax Contribution Framework. This looks beyond Corporate Tax and provides a framework for measuring the taxes companies pay.

## The PwC Total Tax Contribution Framework

- The PwC TTC Framework provides a standardised approach to quantifying a company's overall tax contribution by looking at all direct and indirect taxes and other taxes to the government.
- It is a straightforward, not tax technical concept and relatively easy to understand for stakeholders.
- The framework is built around two simple criteria: The definition of a tax and the distinction between taxes borne and taxes collected on behalf of the government.
- A tax is defined as a mandatory payment to the government (central, state or local) to fund public expenditure, and for which there is no specific return of value.
- Taxes borne are the company's immediate costs, borne and paid by the company (for example, Corporate Tax) whereas taxes collected are taxes that the company collects on behalf of the government from others (for example, Service Tax collected on output services, tax withholding on employees' salaries and certain vendor payments).
- The framework continues to evolve and we are active in seeking views and input from business, government and other stakeholders.

## 2008 Survey – An overview

- For the purpose of the survey, 100 companies constituting the S&P CNX Nifty and CNX Nifty Junior indices as on 30 April 2008 were requested to participate in the survey.
- The participating companies completed a questionnaire providing data on payments of business taxes borne and collected for two accounting years ending 31 March 2007 and 31 March 2008.
- 11 Central Taxes have been considered for purposes of the survey. In view of the numerous states involved, only certain state taxes have been identified and considered for the purpose of the survey. In addition, the survey participants were requested to report aggregate of all municipal/local taxes, as a separate tax. Of the 23 taxes identified for the purpose of the survey, 11 were taxes levied by Central Government and 12 by State Governments or Municipal and Local authorities.
- Certain taxes are both a tax borne and a tax collected (for example, Service Tax). Of the 23 taxes identified, 22 taxes are borne and 13 taxes are collected by companies.
- The data provided by survey participants has not been audited, verified or validated and PwC does not make any representations or warranties with respect to the accuracy of the information contained in this report.
- The data provided has been rendered anonymous and aggregated to produce the survey results.

## Participation and provision of data

- Participation in the survey was excellent, with 41 companies of the 100 companies constituting the S&P CNX Nifty and CNX Nifty Junior indices providing data on their tax payments.
- This high response rate demonstrates the high level of interest and backing for the survey by a large part of the business community.
- More importantly, the size and scale of the 41 companies participating in the survey was such that they represented 55% of the market capitalisation of all companies invited to participate.

- The companies which participated in the survey are operating in varied industries and sectors, ensuring that the survey results are of high quality and show a representative picture of the contribution of this group of companies.
- The survey had five state-run companies, with the remaining 36 coming from the private sector.
- While the survey identified 23 taxes, the individual tax incidence differed widely in that not one participating company reported all 23 taxes.

## Survey results

### Taxes borne

- The respondents to the survey were found to have made a significant contribution to Indian tax revenues, paying nearly Rs 430,490 million as taxes borne.
- The total taxes borne by the participants contributed 4.9% of the government's total tax receipts (excluding municipal and local taxes).
- The total of Corporate Tax, Dividend Distribution Tax (DDT) and Fringe Benefit Tax (FBT) paid by the participating 41 companies alone constituted around 18% of the government's total Corporate Tax and FBT collections.

### Taxes collected

- The participants collected nearly Rs 418,533 million as taxes on behalf of the government.
- The total taxes collected by the participants contributed 4.8% of the government's total tax receipts (excluding municipal and local taxes).

### Total tax contribution

- The total tax contribution i.e., the total of taxes borne and collected by participants, was 9.7% of the government's total tax receipts (excluding municipal and local taxes).

- The survey results indicate, on an average, for every Re 1 of taxes borne the participants (excluding those who did not provide details for all taxes) collected taxes of Rs 1.80 on behalf of the government.

## Picture for individual participants

- In addition to data on taxes borne and collected, participants were asked to provide information to indicate the size of their Indian business and to put their tax payments into context. The aim was to calculate the Total Tax Rate (TTR) which is a measure of the burden of all taxes borne on a particular business.
- The mean average TTR, as calculated for individual companies included in the survey, is 35.9% for the financial year ending 31 March 2008.

## Future developments and use of the survey

- An important use of the Total Tax Contribution Framework is to help increase transparency around tax and how it is reported. It generates empirical data that is helpful in informing the tax policy making process and in particular, the debate around the competitiveness of the Indian fiscal regime.
- Today, there is a gap between the requirements in accounting standards on tax and the expectations and needs of the various stakeholders. The Total Tax Contribution Framework generates standardised data that can be reported on a regular basis and can help in responding to the growing interest in tax of many stakeholders.
- It is recommended that communication about the TTC of companies should include details as to the impact of tax upon the wider business strategy and results of the company as well as clear information regarding the economic contribution of all taxes paid by the company.
- We are currently considering how best to include data on compliance costs in next year's survey using the experience gained in other countries.
- The development of the framework is a dynamic process. Comments and feedback on the concept and the results of this survey are thus welcome to ensure that the usefulness of the output is optimised.

### The headlines of the 2008 survey

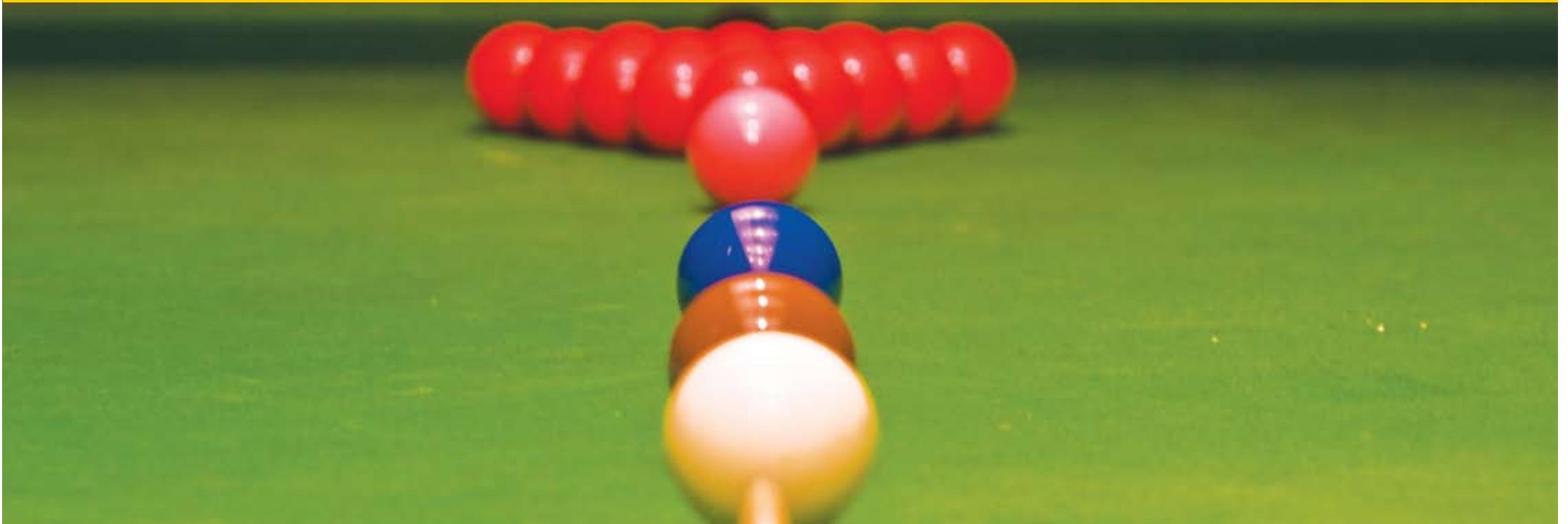
- 41 companies participated in the survey having a total turnover of Rs 6,844,040 million. They contributed 9.7% of total government tax receipts (excluding municipal and local taxes).
- The burden of taxation in India is manifested by the average amount of total taxes borne and collected by the participating companies, i.e. 16% of their turnover.
- The above is further substantiated by the average TTR of the participating companies, which is 35.9% of profit before all business taxes borne.
- The participating companies contribute substantially to the government tax revenues through tax collections; this is a very onerous responsibility with the resultant high compliance requirements.
- Participating companies encountered difficulties in obtaining data for a few taxes, especially indirect taxes, as they were embedded in the cost of goods/services.
- The burden of taxes indicates there is a clear need for awareness of the taxes being paid by the companies.



# 02

## Introduction

There is a lack of transparency and understanding of which business taxes companies actually pay. The purpose of this survey is to provide a more comprehensive picture of how much companies contribute in taxes, and support informed discussion between government and interested stakeholders regarding the competitiveness of the Indian tax system.



As part of its continued efforts to better understand and improve the tax system which companies in India have to comply with, the Federation of Indian Chambers of Commerce and Industry (FICCI), in cooperation with PricewaterhouseCoopers (PwC) launched a survey to identify the total tax contribution of large companies operating in India to the government tax collections.

The purpose of this survey is to gather and provide data on identified business taxes borne and collected in India as there is little transparency over most of these, with many taxes being embedded in other 'above the line' costs and only a few are usually identified in the financial statements. The data will, therefore, help provide a more comprehensive picture of what companies contribute in taxes, and on the current shape of the Indian tax system. It will also help support constructive dialogue with the government regarding the future shape and competitiveness of the Indian tax system. It is important also for companies themselves to be aware of all of the taxes that they pay when making commercial decisions in the context of specific transactions, and also regarding their business models in general. Further details of the taxes covered in the survey can be found in [Chapter 4](#).

The survey uses the PwC Total Tax Contribution Framework to identify the business taxes borne and collected. Businesses face a huge array of taxes over and above the tax on their profits. Their contribution to the economy in terms of taxes paid needs to be better understood. The PwC Total Tax Contribution Framework was initially developed in 2005 with the help and support of several large companies and various other interested stakeholders. It provides a standardised approach to identifying a company's overall tax contribution by looking at direct and indirect taxes and other payments to governments. PwC has already done extensive work in this domain in the UK and Australia and similar projects are currently underway in several countries.

The PwC Total Tax Contribution Framework encompasses all of the taxes that a company pays, and not only those which are currently disclosed and visible in a company's annual accounts. The PwC Total Tax Contribution framework is careful to make a distinction between taxes borne and taxes collected. Taxes borne are those which are a cost to the company, such as Corporate Tax and irrecoverable VAT (although, they will ultimately be passed on to customers, employees or shareholders). Taxes collected are those such as withholding tax on professional income, employee salary and net VAT (output tax less input tax) where the company is collecting and administering taxes on behalf of the government.

The full details of the framework and its components are explained further in [Chapter 3](#).

Data was collated and aggregated from questionnaires completed by companies constituting the S&P CNX Nifty and CNX Nifty Junior indices in India, representing a good cross section of all industries. The data was not verified, validated or audited, so PwC cannot make any representations or warranties with respect to the accuracy of the information contained in this report. The participation in the survey has been excellent, with 41 companies of the 100 companies completing the questionnaire. This level of participation underlines the interest that the business community has in the data that this survey is able to generate and manifest encouraging recognition of the concepts underlying TTC and the output of the survey. This participation level also ensures that the results are robust and representative. Further details of the participation are set out in [Chapter 5](#).

The survey results contain some important findings regarding the taxes borne and collected by participating companies, and the substantial contribution made by large companies to the public finances. These are set out in [Chapter 6](#).

The intention is to repeat the survey for the year ending 31 March 2009 to obtain data for another entire year, enable further analysis and monitor trends and changes.

# 03

## The PwC Total Tax Contribution Framework

A company pays several business taxes, but these are typically above the line and embedded in other costs and, thus, not easily visible

A stack of several orange pencils is shown against a dark background. The top pencil is in focus and has the PwC logo printed on it. The logo consists of the text "PRICEWATERHOUSECOOPERS" in a stylized font, followed by a small square icon containing the letters "PwC".

PRICEWATERHOUSECOOPERS 

The Total Tax Contribution (TTC) provides a framework and a standardised methodology for companies to measure and report on the taxes that they pay. PwC developed the framework in response to a perceived lack of transparency of what taxes companies pay. This may not be surprising since, ordinarily, only Corporate Tax, FBT are visible in the company's financial statements. In fact, a company may pay several other business taxes, but these are typically above the line, embedded in other costs, and thus not easily visible.

The Total Tax Contribution Framework provides information on all the taxes that companies pay. It is straightforward in concept, non tax technical and, therefore, relatively easy for stakeholders, many of whom will have limited knowledge of tax complexities, to understand. By focusing on payments, it provides a measure of companies' contributions to public finances.

The framework is built around two simple criteria:

- The definition of a tax, and
- The distinction between taxes that are the company's cost (taxes borne) and taxes that the company collects on behalf of the government (taxes collected).

## What is a tax?

- The first criterion is whether the payment is a tax. A tax is a payment to government, at any level (central, state or local) which is mandatory, for no return of value, and which is used by government as part of public finances to fund social expenditure. Not all payments made by companies to government will meet the definition of a tax. For example, royalties paid by mining companies for the right to extract minerals, or the licence fee paid by a television or telecom company for a license to operate, or cess paid by oil companies under Oil Industry Development Act. Payments may be significant, but probably give a return of value (the right to exploit/broadcast) and so are not considered taxes.
- Provident Fund (PF) and other similar contributions by the employers and employees are not considered as tax for purpose of this survey. This is on the understanding that PF payments are more akin to pension arrangements being paid into a personal employee fund.

## Taxes borne vs. taxes collected

- Taxes borne are the company's immediate costs that impact their results. The taxes borne will ultimately be passed onto shareholders, employees or customers along with all the company's other costs, depending on the final incidence, however, in the immediate term, they are paid and borne by the company.

- Taxes collected are not the company's own costs. Hence, the company is collecting taxes on behalf of government from others. For example, income tax from employees in the Tax Deducted at Source (TDS) system. Some taxes appear both as taxes borne and taxes collected from their nature (for example, Value Added Tax.) Taxes collected are administered by the company and will involve cost of compliance. Taxes collected will also have an impact on the company's results since, for example, indirect taxes collected will impact prices to customers, and employee taxes the cost of labour.
- While, the focus of the 2008 survey has been on taxes borne and taxes collected, the framework can also be extended to include another important aspect: The cost for companies in complying with the tax system – both for taxes borne and taxes collected. It is hoped that data regarding the cost of tax compliance for Indian companies could be part of next year's survey.
- It is also possible to extend the framework to include other payments to and from government which do not meet the definition of a tax, and to factor in more indirect impacts of tax.
- In the Indian context, payments to the government include such taxes as Service Tax, since even companies bear such taxes in various contracts and operations that form a significant part of their day-to-day operations. These are in addition to other taxes, such as Corporate Tax and FBT.
- It is important to note that the PwC TTC Framework is not an economic model and does not, for example, address the final incidence of taxes borne. It provides a different perspective in that it looks at things from the company's perspective and the taxes it bears and collects. It provides greater transparency over what taxes are paid by companies and their impact.
- TTC also provides a framework to communicate to external stakeholders in a not tax technical and readily understandable form. It provides a measure of what companies pay into the public finances, and as such, may better meet the needs of some stakeholders than the normal tax disclosures in companies' financial statements.
- Confidentiality of response is paramount to the integrity of the Total Tax Contribution Framework, and participant responses are kept strictly confidential at all times, with only anonymous aggregated data reported.
- While the TTC concept has gained momentum in the UK, Australia, South Africa and other countries, and the framework itself has become widely accepted as a robust measure of the tax contribution of business, it has to be pointed out that it continues to evolve and PwC is actively seeking views and inputs from businesses, government and other interested parties.

# 04

## 2008 Survey – An overview

Each company that agreed to participate was asked to complete a questionnaire, with an undertaking of confidentiality



This Indian survey used the PwC Total Tax Contribution Framework to establish the total amounts of business taxes borne and collected in India. For the purpose of the survey, companies constituting the S&P CNX Nifty and CNX Nifty Junior indices were requested to participate in the survey. (A list of the 100 companies that make up these indices, as on 30 April 2008, is included in Appendix I).

A letter of invitation was sent on 30 June 2008 by FICCI, to the Finance Directors/Chief Financial Officers/Vice President - Finance (Appendix II), along with a docket explaining the TTC methodology. Each company that agreed to participate was asked to complete a questionnaire. The questionnaire requested data on payments of business taxes borne and collected for two accounting years ending 31 March 2007 and 31 March 2008. PwC provided an email and telephone helpline to assist participating companies in completing the questionnaire.

Upon receipt, each questionnaire was reviewed to identify any obvious errors (for example, amounts entered in precise numbers rather than in thousands), or where the data was not in line with our expectations. Survey responses were sense-checked by PwC and a number of participants queried on significant items of discrepant data. However, the data provided by survey participants has not been audited, verified or validated and PwC is unable to make any representations or warranties with respect to the accuracy of the information contained in this report. For participants who did not provide data on Profit Before Tax (PBT) and Turnover, the same has been considered from their published audited accounts (or in certain cases from 'Prowess' software developed by Centre for Monitoring Indian Economy).

Given the significant number of taxes impacting most companies, many survey participants reported that they found it difficult to identify the precise amount and, in some cases, number of taxes borne and taxes collected. In many cases, tax embedded in the cost of products (for example, Customs Duty), transaction-based taxes (for example, Stamp Duty) and a range of smaller state and local taxes were difficult for survey participants to separately identify and quantify. Accordingly, it is likely that the data presented in the survey understates the actual amount of taxes borne and taxes collected by survey participants.

Participants in the survey were given an undertaking of confidentiality and no list of actual participants will be published. The data provided has been rendered anonymous and aggregated with data provided by other participants to obtain the survey results.

The significant level of participation (41 of the 100 companies of the S&P CNX Nifty and CNX Nifty Junior indices as on 30 April 2008) has ensured that the survey results are of high quality and show a representative picture of the contribution of this group of companies.

Figure 4.1 Taxes borne and Taxes collected identified for the survey		
Taxes for which data is requested	Taxes Borne	Taxes Collected
Corporate Income Tax*	√	
Tax Deducted At Source (Including From Salary)*		√
Tax Collected At Source*		√
Dividend Distribution Tax	√	
Fringe Benefit Tax	√	
Wealth Tax	√	
Securities Transaction Tax	√	√
Banking Cash Transaction Tax	√	√
Profession Tax		√
Customs Duty	√	
Value Added Tax	√	√
Central Sales Tax	√	√
Service Tax	√	√
Octroi	√	
Luxury Tax	√	√
Vehicle Tax	√	
Entertainment Tax	√	√
Advertisement Tax	√	
Research And Development Cess	√	
Union Excise Duty	√	√
State Excise Duty	√	√
Stamp Duty and Registration Fees	√	
Land Revenue	√	
Electricity Duty	√	√
Municipal/ Local Taxes	√	
<b>Total</b>	<b>22</b>	<b>13</b>

\*Taxes Deducted at Source and Taxes Collected at Source are considered as part of Corporate Income Tax and are not separate taxes

## Taxes borne and taxes collected

The Figure 4.1 lists the taxes borne and taxes collected, as identified for the purpose of the survey, and for which data was requested. Certain taxes (for example, Service Tax) are both a tax borne and a tax collected.

The TTC India 2008 survey lists taxes as a tax borne only where the tax is separately charged to the company by the supplier. The survey covers 22 taxes that may be borne and 13 taxes that may be collected by companies. These comprise of taxes at three levels: Central, State and even Local (like Octroi or other municipal taxes)

## Central and State Taxes

India is divided into 28 States, six Union Territories and one National Capital Territory. States have their own government, whereas Union Territories are administered by the Central (Federal) Government. Each state has certain revenue collecting powers in respect of that particular state under the Constitution of India. Local governance in India, in cities and towns in each state, is typically through municipal corporations, municipalities, town area committees and notified area committees. Each State Government levies various state taxes and each municipality levies various local taxes/cesses.

11 Central Taxes have been considered for purposes of the survey. In view of the numerous states involved, only certain state taxes have been identified and considered for the purpose of the survey. In addition, the survey participants were also requested to report aggregate of all municipal/local taxes, as a separate tax.

Of the 23 taxes identified for the purpose of the survey, 11 were taxes levied by Central Government and 12 by State Government or Local authority.

Figure 4.2: Taxes classified as Central and State taxes

Taxes for which data is requested	Central	State & Local
Corporate Income Tax	√	
Dividend Distribution Tax	√	
Fringe Benefit Tax	√	
Wealth Tax	√	
Securities Transaction Tax	√	
Banking Cash Transaction Tax	√	
Profession Tax		√
Customs Duty	√	
Value Added Tax		√
Central Sales Tax	√	
Service Tax	√	
Octroi		√
Luxury Tax		√
Vehicle Tax		√
Entertainment Tax		√
Advertisement Tax		√
Research And Development Cess	√	
Union Excise Duty	√	
State Excise Duty		√
Stamp Duty and Registration Fees		√
Land Revenue		√
Electricity Duty		√
Municipal/ Local Taxes		√
<b>Total</b>	<b>11</b>	<b>12</b>



# 05

## Participation and provision of data

The survey includes a study on the taxes borne and collected by 41 participating companies

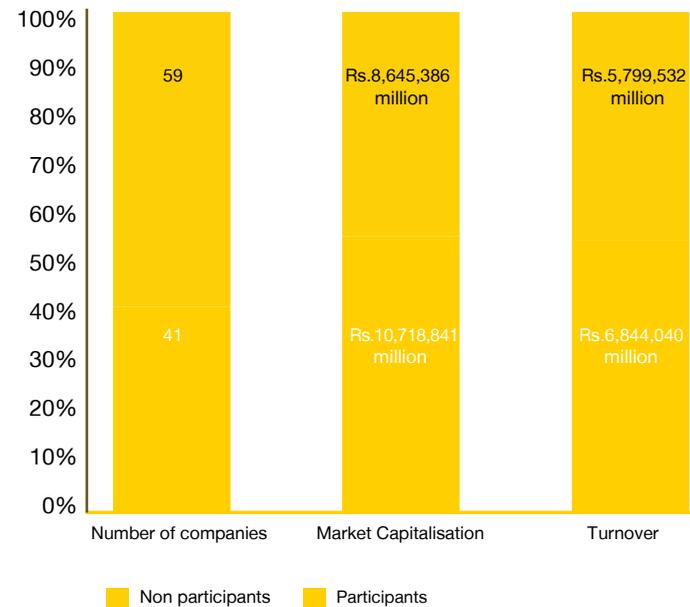


A letter of invitation was sent on 30 June 2008 by FICCI, to the Finance Directors/Chief Financial Officers/Vice President - Finance of the 100 companies constituting the S&P CNX Nifty and CNX Nifty Junior indices.

Participation in the survey was excellent with 41 companies of the 100 companies constituting the S&P CNX Nifty and CNX Nifty Junior providing data on their tax payments. This high response rate demonstrates the high level of interest and backing for the survey by a large part of the business community.

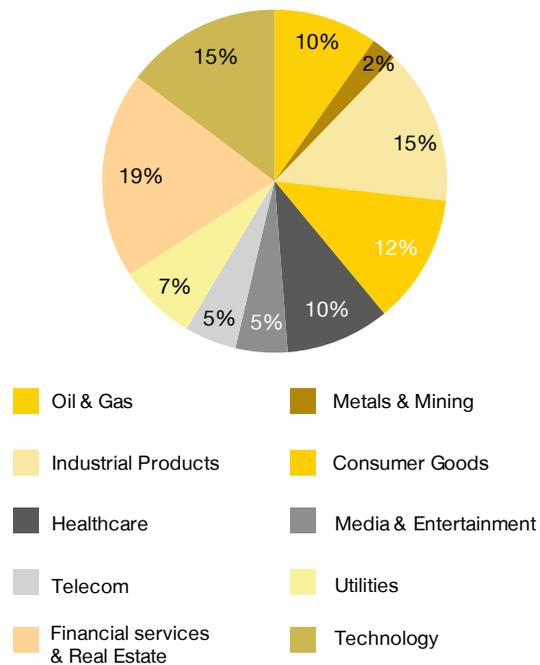
- More importantly, the size and scale of the 41 companies participating in the survey was such that they represented 55% of the market capitalisation as on 27 February 2009, of the companies requested to participate.
- The turnover of the 41 companies was a significant 54% of the turnover of the 100 companies constituting both the indices as on 31 March 2008.

Figure 5.1: Participation shown by number of companies, market capitalisation and turnover



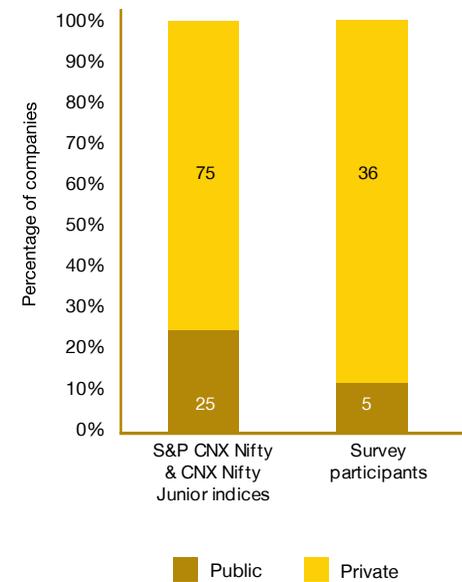
The 41 participants also represent a wide range of industry sectors. Maximum participation came from the Financial Services & Real Estate (19%), followed by Information Technology (15%).

Figure 5.2: Participants - Industry segment



In relation to public sector enterprises vis-à-vis participation in the survey, there are 25 public sector companies in the 100-companies constituting the S&P CNX Nifty and CNX Nifty Junior. However, the survey managed to evoke responses from only five such companies (with the remaining 36 coming from the private sector). As a result, the public sector was under-represented in the survey.

Figure 5.3: Classification of companies by Private and Public sector



### Taxes borne and collected

Participants were asked to indicate if each of the taxes listed was applicable to them or not. For each tax applicable to them, participants were asked to provide a value. Participants were also offered the use of a de minimus option where the data on a particular tax was hard to find and the amounts involved are thought to be below INR 1 million. In some cases participants either identified the tax as applicable to them but were unable to provide the data or provided no information on a particular tax, simply leaving that portion of the questionnaire blank.

### Taxes borne

On an average, the participants provided data on eight taxes borne (Figure 5.4).

Figure 5.4: Number of taxes borne reported

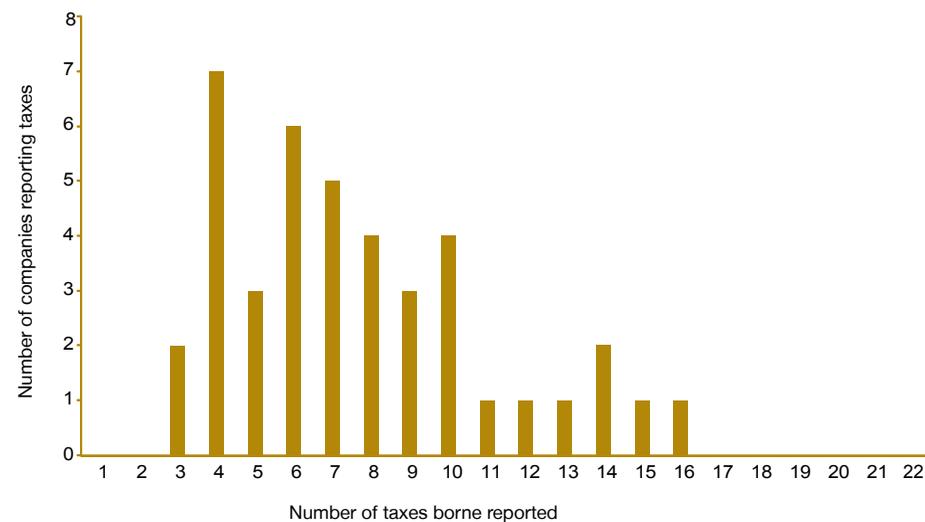
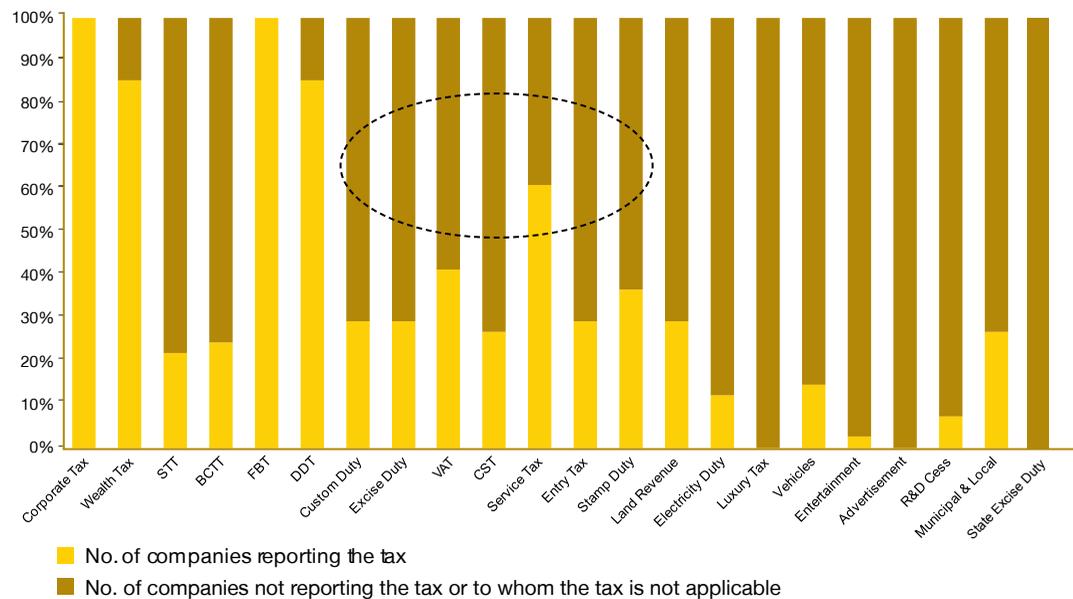


Figure 5.5: Percentage of companies reporting each tax borne



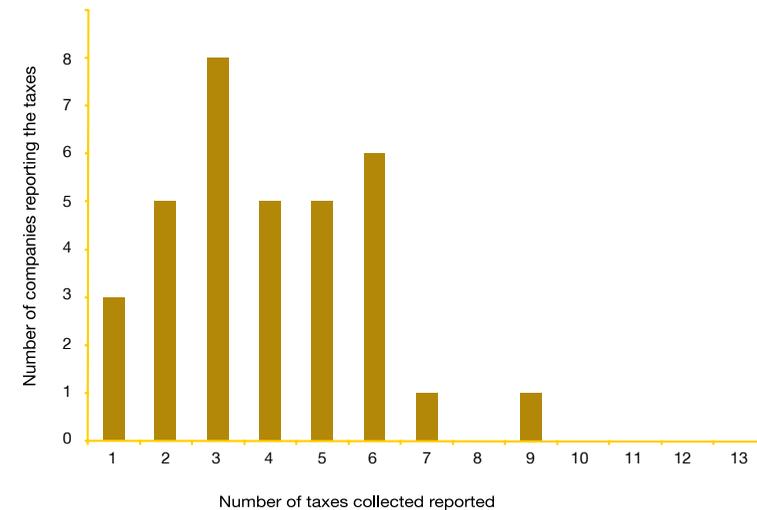
From the Figure 5.5, especially the circled portion, it appears that participating companies found difficulties in collating data for taxes other than direct taxes, since ordinarily such taxes would be embedded in the cost of goods or services.

Furthermore, it can be seen that – as would be expected – some of the taxes are applicable to only a relatively few participants. So, while Corporate Income Tax, FBT and Dividend Distribution Tax had good representation, other taxes like Luxury Tax and Advertisement Tax did not.

### Taxes collected

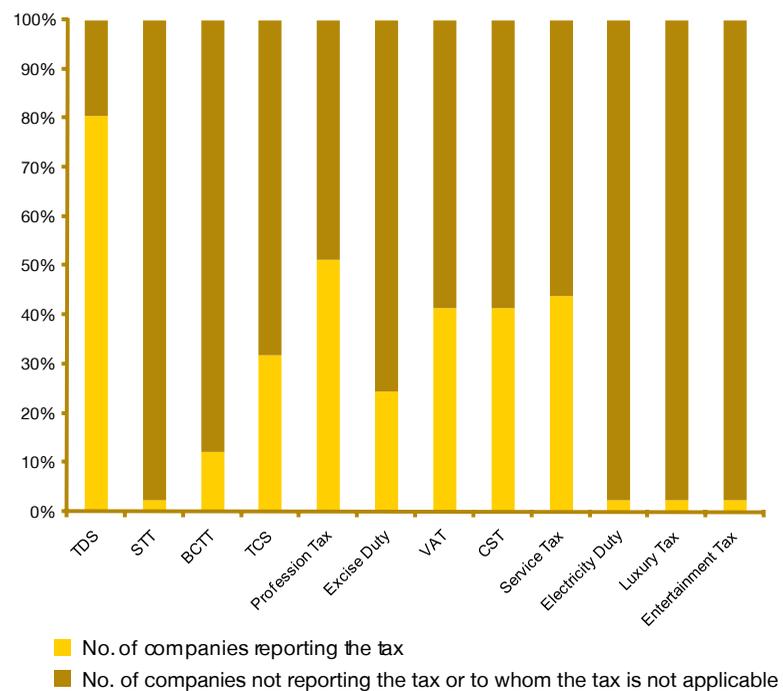
On an average, the participants provided data on three taxes collected. (Figure 5.6)

Figure 5.6: Number of taxes collected reported



Some taxes collected are only applicable to specific industries. For example, Luxury Tax for the hotel industry, Banking Cash Transaction Tax for the banking industry, etc. As can be seen from Figure 5.7, while Tax Deducted at Source has good representation (nearly 80%), other taxes like Securities Transaction Tax and Entertainment Tax did not, since they may have limited applicability to all participants. Only 50% of the respondents have reported data on Profession Tax collected, which is a tax on employment and would be collected by most respondents from their employees.

Figure 5.7: Percentage of companies reporting each tax collected



The quality of data is expected to improve in subsequent years, in parallel with improved understanding of definitions and increased familiarity with how the framework operates. It is expected that some companies will also be able to implement new systems to enable more accurate identification and monitoring of all taxes, in addition to Corporate Tax. Companies can use the exercise of responding to the survey as an opportunity to put in place an internal process to collect this information regularly.



# 06

## Survey results

The survey results provide a fair representation of the impact of taxes on large businesses in India



This chapter summarises the data on taxes borne and collected as provided by the 41 companies which participated in the survey.

### Total Tax Contribution

The survey results reinforce the importance of large Indian companies to government tax receipts. The total taxes borne and collected by the survey participants by 31 March 2008 is Rs 849,023 million which represented 9.7% of the total government tax receipts (excluding municipal and local taxes).

Figure 6.1: Total Taxes borne and collected

		Rs. In Millions
Taxes Borne	Corporate Tax	303,914
	Other Business Taxes	126,576
	<b>Total</b>	<b>430,490</b>
Taxes Collected		418,533
<b>Total Tax Contribution</b>		<b>849,023</b>

### Taxes borne

The taxes borne by the 41 companies participating in the survey totals to Rs 430,490 million, which accounts for 4.9% of the government's total tax receipts (excluding municipal and local taxes). Corporate Tax represented the most significant proportion of taxes borne by the survey participants. A total of Rs 303,914 million in Corporate Tax was paid by the survey participants, which accounts for 16.3% of the total government corporate tax receipts.

The total of Corporate Tax, DDT and FBT paid by the participating 41 companies constituted around 18% of the government's total Corporate Tax and FBT receipts.

Figure 6.2: Taxes borne by survey participants vs. Government receipts

Tax	Taxes Borne 2008	Govt. Receipts 2008	Figures in Rs. Million
			% of Govt. Receipts
Corporate Income Tax	303,914	1,861,250	16.3
Dividend Distribution Tax*	35,919	-	-
Fringe Benefit Tax	6,216	68,000	9.1
Excise Duty	5,709	1,277,027	0.4
Custom Duty	52,703	1,007,660	5.2
Central Sales Tax	8,986	199,081	4.5
Value Added Tax	2,706	1,368,440	0.2
Service Tax	6,518	506,030	1.3
Octroi	5,798	85,093	6.8
Research And Development Cess	399	2,444	16.3
Securities Transaction Tax	182	75,000	0.2
Wealth Tax	483	3,150	15.3
Land Revenue	128	32,866	0.4
Electricity Duty	330	90,524	0.4
Others#	172	2,204,577	**
<b>Sub-Total</b>	<b>430,165</b>	<b>8,781,140</b>	<b>4.9</b>
Municipal/ Local Taxes	325	-	-
<b>Total</b>	<b>430,490</b>	<b>8,781,140</b>	

Source of Govt. Receipts: Federal taxes (Revised Estimates 2007-08) as per 2008-09 Annual Financial Statement of Govt. of India; State & Union Territory taxes (Budget Estimates 2007-08) as per RBI's State Finances – A Study of Budgets of 2007-08

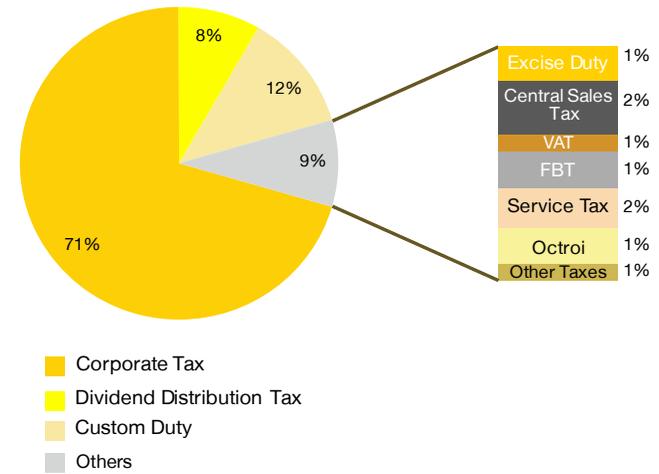
\*The Government receipts figure for DDT is included in the Government receipt for Corporate Income Tax.

#Others includes Banking Cash Transaction Tax, Entertainment Tax, Luxury Tax, Stamp Duty and Registration Tax, Vehicle Tax, State Excise Duty and Advertisement Tax.

\*\* Negligible



Figure 6.3: Taxes borne by survey participants as a percentage



As shown in Figure 6.3, Corporate Tax represents 71% of the taxes borne by the survey participants. The other business taxes borne by the survey participants of Rs 126,576 million represents 29% of their total taxes borne by participants. Direct taxes (Corporate Tax + Dividend Distribution Tax + Fringe Benefit Tax) constitute around 80% of total taxes borne by participants. On the indirect tax front, the survey participants reported that custom duty accounts for 12% of the total taxes borne.

## Taxes collected

In addition to taxes borne directly, business makes a further significant contribution to government revenue through its obligation to collect a range of taxes from their customers and employees on behalf of the government. Survey participants collected taxes of Rs 418,533 million in 2008. This represents 4.8% of the total government tax receipts (excluding municipal and local taxes).

The major taxes collected, as identified by survey participants, were indirect taxes such as Excise Duties, VAT, Service Tax and withholding taxes on employees' remuneration and other payments.

The 2008 survey discloses indirect taxes viz., VAT, Excise Duty and Service Tax, collected at the net amount remitted to the government by survey participants. Thus, this represents collections net of input tax credits. However, gross amounts could better represent the obligation of corporations to collect taxes under the tax system and the risk they assume.

Figure 6.4: Taxes collected by survey participants vs. Government receipts

Tax	Figures in Rs. Million		
	Taxes Collected 2008	Govt. Receipts 2008	% of Govt. Receipts
Tax Deducted At Source (Including From Salary) & Taxes Collected At Source	77,079	1,861,250	4.14
Profession Tax	451	30,018	0.02
Excise Duty	144,620	1,279,470	11.30
Service Tax	26,722	506,030	5.28
Value Added Tax	152,873	1,368,440	11.17
Central Sales Tax	14,406	199,081	7.24
Luxury Tax	1,292	25,149	5.14
Banking Cash Transaction Tax	927	5,500	16.86
Securities Transaction Tax	9	75,000	0.01
Entertainment Tax	5	8,508	0.06
Electricity Duty	149	90,524	0.16
Others	-	3,332,170	-
<b>Total</b>	<b>418,533</b>	<b>8,781,140</b>	<b>4.8</b>

Source of Govt. Receipts: Federal taxes (Revised Estimates 2007-08) as per 2008-09 Annual Financial Statement of Govt. of India; State & Union Territory taxes (Budget Estimates 2007-08) as per RBI's State Finances – A study of Budgets of 2007-08

Figure 6.5 : Taxes collected by survey participants as a percentage

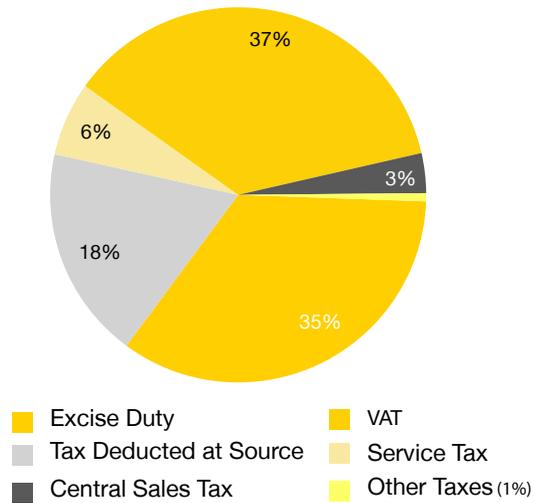


Figure 6.5 indicates that major taxes collected, as identified by the survey participants, are indirect taxes such as excise duties, VAT etc. The tax withholding obligations on various payments such as salaries and other vendor payments, also contribute significantly to the taxes collected by the survey participants.

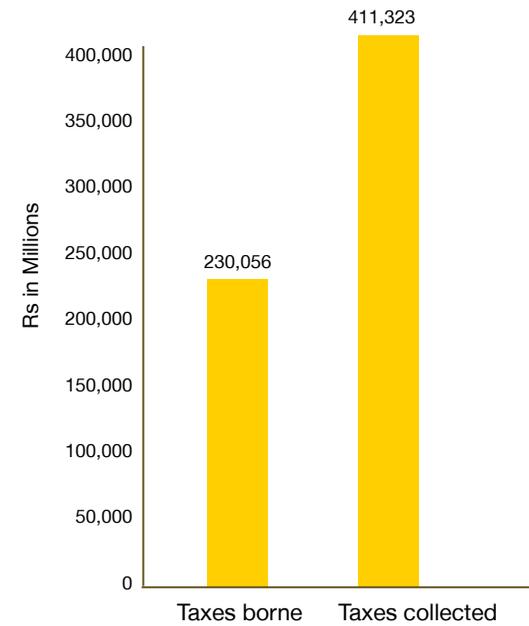
Companies are collecting substantial amount of tax on behalf of the Indian authorities. This not only generates very significant compliance costs but triggers important liabilities. Indeed, if and when a company fails in good faith to comply with the regulations (for example, erroneously failing to withhold salary related taxes at source), it will be held liable by the tax authorities for those shortfalls plus interest and penalties. Moreover, in most cases, from a practical point of view, it will be impossible to claim back the shortfall from the relevant counterparties (employees, customers, etc).



### Taxes borne to taxes collected

The survey results indicate, on an average, for every Re 1 taxes borne the participants (excluding those who did not provide details for all taxes) collected taxes of Rs 1.80 on behalf of the government

Figure 6.6: Taxes borne to Taxes collected for survey participants



Note: Participants who did not provide Indirect tax data and/or taxes collected have been excluded from this calculation.



# 07

## The picture for individual participants

The most meaningful figure for companies is the Total Tax Rate. This figure compares all taxes borne to profit before all business taxes borne, and thus provides a more complete picture of the real tax burden than the statutory Corporate Tax rate



In this survey, we have examined the impact of tax on business. In addition to data on taxes borne and collected, participants were asked to provide information to indicate the size of their business and to put their tax payments into context.

The information and how it has been used in analysing the figures is set out below:

Data requested*	Use in analysing participants' data
Accounting profit before Direct Tax	Total Tax Rate (all taxes borne as a percentage of profit before all taxes borne)
Turnover	Taxes borne and collected as a percentage of turnover

\* For participants who did not provide data on PBT and Turnover, the same has been considered from their published audited accounts (or in certain cases from Prowess software).

## Total Tax Rate

The Total Tax Rate (TTR) is a useful measure of the burden of all taxes borne on a particular business. In the calculation, the numerator is the total of all business taxes borne (total taxes borne) and the denominator is the profit before all business taxes borne (PBTTB). It is important to note that the profit figure used in the calculation (PBTTB) is not the traditional figure found in the annual accounts of the company, which is the profit before tax figure (PBT). As many of the taxes borne are deductible in calculating PBT, they must be added back in to obtain a figure for profit before all business taxes borne (PBTTB) to be used as the denominator in the calculation. In comparing the TTR with the statutory Corporate Tax (CT) rate it must, therefore, be remembered that the element of the TTR which represents Corporate Tax will always be below the nominal Corporate Tax Rate of 33.99%. In the example calculation below, the TTR is 53% of which 28% represents Corporate Tax and 25% other business taxes borne.

We have considered whether taxes borne could be expressed as a percentage of PBT rather than PBTTB. A factor that possibly favours the PBT measure is that

it may be easier to understand and relate better to data in a company's annual accounts. However, since many of the other taxes borne are deductible when calculating Corporate Tax, it appears that using the PBT figures may not be appropriate. For this reason, we have considered the calculation of TTR (total taxes borne compared to profit before all business taxes borne) to be a more realistic measure of the burden of business taxes borne.

TTR expresses total taxes borne as a percentage of the profit before total taxes borne. This represents a different way of looking at the tax burden.

Example of TTR calculation		
Profit before total taxes borne	a	120
Other business taxes	b	30
Profit before tax	$c = a - b$	90
Adjustments for tax*	d	10
Taxable profits	$e = c + d$	100
Corporation tax	f	33.99
Profit after tax	$g = c - f$	56.01
CT/PBTTB (33.99/120)		28%
TTR (63.99/120)		53%

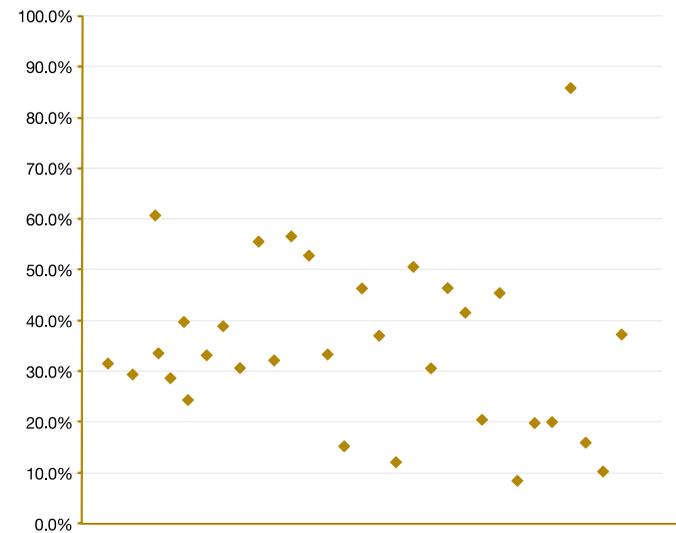
\* E.g. Disallowed expenses to be added

The mean average TTR as calculated for individual participants included in the survey is 35.9% for the financial year ending 2008. The range for the TTR for individual companies was quite wide, from a minimum of 8.9% to a maximum of 87.5%. Of the 35.9% TTR, 23.9% represents Corporate Tax and 12% represents other taxes borne.

Figure 7.1: Total Tax Rates for survey participants 2008		
Total Tax Rate	2008	
Calculated for participants as a group		
Total taxes borne as a % of total profit before all business taxes	33.3%	
Calculated for individual participant companies		
Mean average of TTR rates for individual companies	35.9%	
Calculated for individual participant companies		
Median average of TTR rates for individual companies	34.0%	
Calculated for individual participant companies		
Trimmed mean average of TTR rates for individual companies	34.9%	
Range of TTR for individual participant companies	Min	Max
	8.9%	87.5%

*Note: Participants who did not provide indirect tax data have been excluded in the calculations for this chart*

Figure 7.2: Total Tax Rates for survey participants



Each point represents a company. The ordering is random.

## Total Tax Contribution as a percentage of Turnover

Taxes borne and collected as a percentage of turnover are a measure of what a company contributes to government tax receipts.

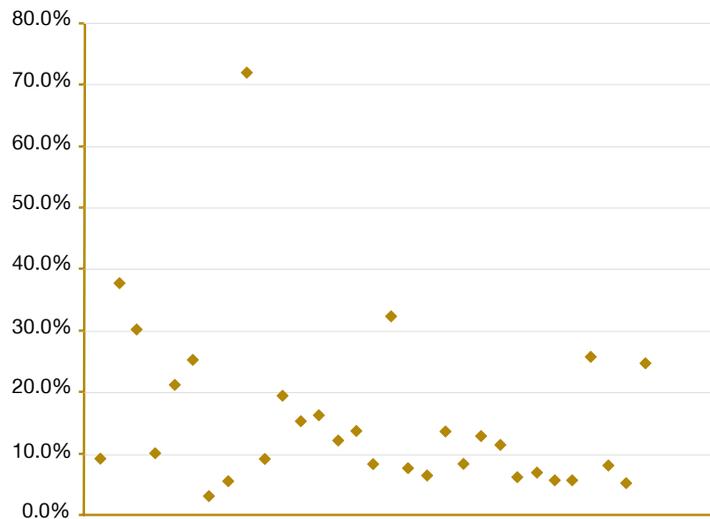
- We have taken a simple calculation with taxes borne and collected as the numerator and the turnover as the denominator.
- We have not adjusted turnover; for example, for VAT collected that is not reflected in turnover.
- Mean average of ratio of TTC calculated as a percentage of turnover for individual companies participating in the survey was 16%.
- Range of ratios of TTC as a percentage of turnover for individual participant companies was again very wide, with the minimum being 3.4% and the maximum 71.9%.

Figure 7.3: Total Tax Contribution		
Total Tax Contribution as a percentage of turnover	2008	
Calculated for participants as a group TTC as a percentage of turnover	13.3%	
Calculated for individual participant companies Mean average of ratio of TTC as a percentage of turnover for individual companies	16.1%	
Calculated for individual participant companies Median average of ratio of TTC as a percentage of turnover for individual companies	12.0%	
Calculated for individual participant companies Trimmed mean average of ratio of TTC as a percentage of turnover individual companies	12.3%	
Range of ratios of TTC as a percentage of turnover for individual participant companies	Min	Max
	3.4%	71.9%

*Note: Participants who did not provide indirect tax data and/or taxes collected data have been excluded in the calculations for this chart*

Figure 7.4 depicts the distribution across the survey population for taxes borne and collected as a percentage of turnover. The chart shows that most individual respondents had a total tax contribution as a percentage of turnovers in the range of 6 - 15%.

Figure 7.4: Total Tax Contribution a percentage of turnover



Each point represents a company. The ordering is random.

### Ratio of other taxes borne to corporate taxes borne

The survey also calculated proportion of other taxes borne to the Corporate Taxes to ascertain the relationship between the two. We have taken a simple calculation with other taxes borne as the numerator and the Corporate Taxes as the denominator. The mean average ratio for individual companies participating in the survey was 0.7%. The range of ratios of other taxes borne to Corporate Taxes for individual participant companies was found to be varying from a minimum of 0.02% to a maximum of 3.8%.

Figure 7.5: Other Taxes Borne to Corporate Taxes Borne		
Other taxes borne to corporate tax	2008	
Calculated for participants as a group	0.50	
Total other taxes borne to Corporate Tax ratio		
Calculated for individual participant companies	0.72	
Mean average of other taxes borne to Corporate Tax ratio for individual companies		
Calculated for individual participant companies	0.43	
Median average of other taxes borne to Corporate Tax ratio for individual companies		
Calculated for individual participant companies	0.45	
Trimmed mean average of other taxes borne to Corporate Tax ratio for individual companies		
Range of other taxes borne to Corporate Tax ratio for individual participant companies	Min	Max
	0.02	3.78

Note: Participants who did not provide indirect tax data have been excluded in the calculations for this chart



# 08

## Future developments and use of the survey

The Total Tax Contribution Framework generates standardised data that enables transparency and improved communication with stakeholders about the economic contribution of all taxes paid by the company



An important use of the Total Tax Contribution Framework is to increase transparency, and to inform the debate around tax policy. It is important that the findings of the survey are widely communicated.

There appears to be a strong interest in the results of this survey and in the TTC concept in general. The framework generates empirical data that normally should not otherwise be available and which may be helpful to inform the tax policy making process and, in particular, the debate around the competitiveness of the Indian fiscal regime.

This report shows that participation in the survey has been good. By completing the TTC questionnaire, the participants now have data on an individual company basis, which gives them the opportunity to improve their reporting of tax information. In today's world, there is a gap between accounting standards on tax requirements and the expectations and needs of the various stakeholders. The opportunity offered by the Total Tax Contribution Framework is the generation of standardised data that can be reported on a regular basis, and which meets the needs of those stakeholders interested. We recommend that companies use the Total Tax Contribution Framework to report on their tax contribution and in PwC's publication Tax Transparency Framework, we have set out nine possible areas to consider as set out below.

#### Suggested framework for communicating about tax to stakeholders

##### 1. Tax strategy and risk management should include:

- A clear discussion of the company's tax objectives and strategy
- Disclosure of how the company's tax strategy and function is managed and who in the organisation has responsibility for governance and oversight
- Clear disclosure of the material tax risks faced by the company

##### 2. Tax numbers and performance should include:

- A clear explanation as to why the current tax charge is not equivalent to the statutory rate of Corporate Tax
- A transparent reconciliation of the company's cash tax payments to the tax charge included in the income statement
- Disclosure of the forward looking measures for tax, including forecast of accounting tax rate and cash tax rate

##### 3. Total Tax Contribution and the wider impact of taxes should include:

- Details as to the impact of tax upon the wider business strategy and results of the company
- Disclosure of the impact of tax on shareholder value
- Clear communication regarding the economic contribution of all taxes paid by the company

The intention is to repeat the survey for the year ending 31 March 2009. We will continue to enhance the survey both in terms of the questions asked and the extent of data requested. The most consistent request now made by stakeholders is for data relating to compliance costs and the benefit of having this data can be seen in the results generated in the UK and Australian surveys. There is an important debate around the complexity of the tax regime, and having such data available will help illustrate the time and effort that is required by the country's largest companies in complying with tax legislation. When the survey is repeated next year, it will hopefully be extended to include data on compliance costs.

In the international context, it is also worth noting that PwC works with the World Bank Group to review the ease of paying taxes in 178 countries worldwide as part of the World Bank Doing Business 2008 project. The findings are based on a survey using a case study of a standard medium-sized company and are published each November in a report called Paying Taxes – the Global Picture. The World Bank bases its tax indicators on the PwC Total Tax Contribution Framework methodology, in particular for the calculation of a Total Tax Rate for each country. The output generates some very interesting results and commentary and is actively being used by the World Bank to inform its reform agenda and, more specifically, the pursuit of an economic win-win scenario on tax for governments and business and in a broader context to deal with poor governance, corruption and poverty.

Appreciation of the TTC concept has gained significant momentum. It is becoming more widely recognised as a robust measure of taxes contributed by companies to government treasuries and as a means of improving companies' focus on the risks and management of all taxes. As mentioned previously, the development of the framework is a dynamic process. The framework has the potential to cover five areas - taxes borne, taxes collected, tax compliance costs, other payments to and from government and indirect economic impacts. Comments and feedback on the concept and the results of this survey are thus welcome to ensure that the usefulness of the output is optimised.

# Appendix I List of S&P CNX Nifty and CNX Nifty Junior companies (as on April 2008)

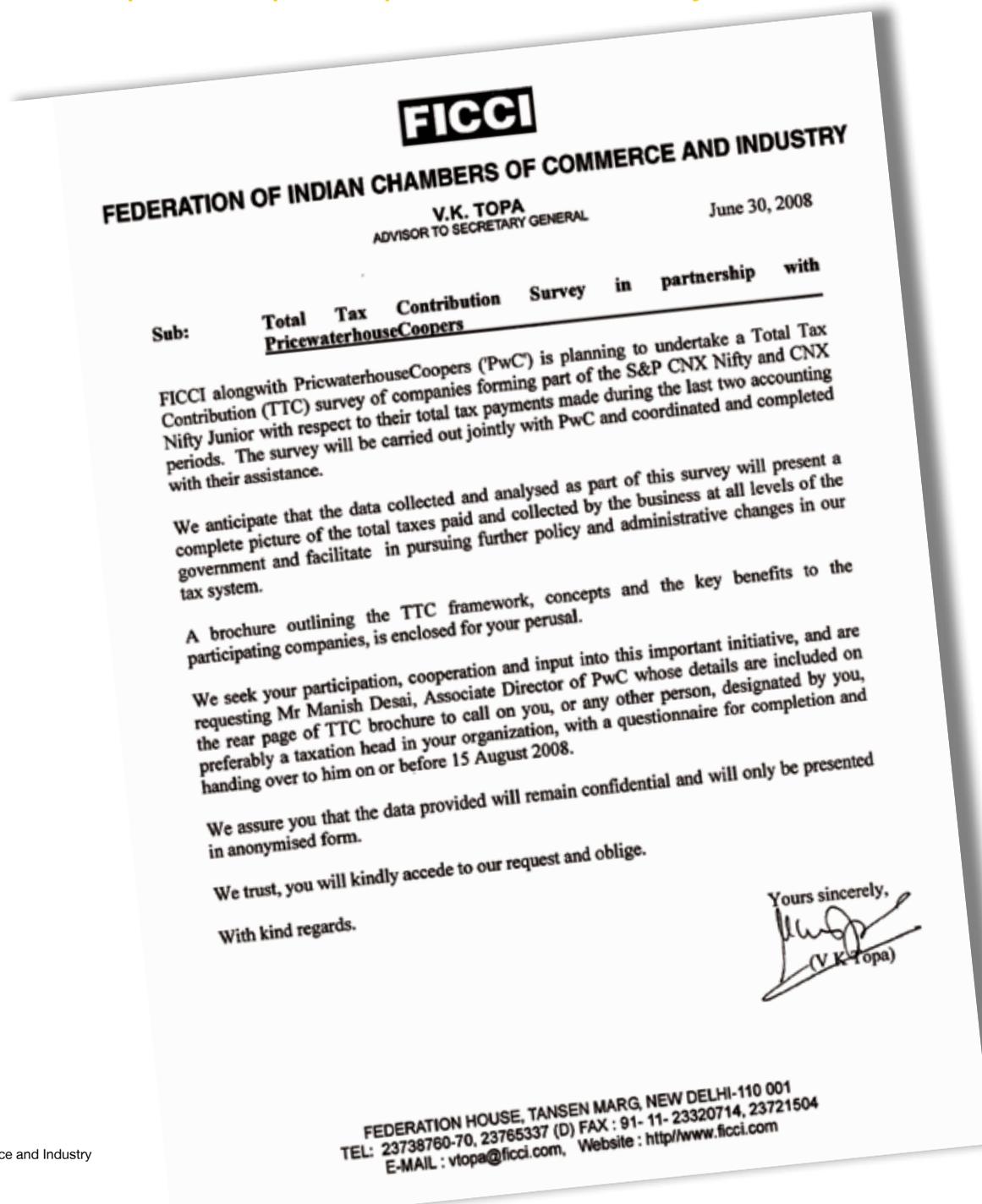
## S&P CNX Nifty companies

1. ABB Ltd.
2. ACC Ltd.
3. Ambuja Cements Ltd.
4. Bharat Heavy Electricals Ltd.
5. Bharat Petroleum Corporation Ltd.
6. Bharti Airtel Ltd.
7. Cairn India Ltd.
8. Cipla Ltd.
9. DLF Ltd.
10. Dr. Reddy's Laboratories Ltd.
11. GAIL (India) Ltd.
12. Grasim Industries Ltd.
13. HCL Technologies Ltd.
14. HDFC Bank Ltd.
15. Hero Honda Motors Ltd.
16. Hindalco Industries Ltd.
17. Hindustan Unilever Ltd.
18. Housing Development Finance Corporation Ltd.
19. I T C Ltd.
20. ICICI Bank Ltd.
21. Idea Cellular Ltd.
22. Infosys Technologies Ltd.
23. Larsen & Toubro Ltd.
24. Mahindra & Mahindra Ltd.
25. Maruti Suzuki India Ltd.
26. NTPC Ltd.
27. National Aluminium Co. Ltd.
28. Oil & Natural Gas Corporation Ltd.
29. Power Grid Corporation of India Ltd.
30. Punjab National Bank
31. Ranbaxy Laboratories Ltd.
32. Reliance Communications Ltd.
33. Reliance Energy Ltd.
34. Reliance Industries Ltd.
35. Reliance Petroleum Ltd.
36. Satyam Computer Services Ltd.
37. Siemens Ltd.
38. State Bank of India
39. Steel Authority of India Ltd.
40. Sterlite Industries (India) Ltd.
41. Sun Pharmaceutical Industries Ltd.
42. Suzlon Energy Ltd.
43. Tata Communications Ltd.
44. Tata Consultancy Services Ltd.
45. Tata Motors Ltd.
46. Tata Power Co. Ltd.
47. Tata Steel Ltd.
48. Unitech Ltd.
49. Wipro Ltd.
50. Zee Entertainment Enterprises Ltd.

## CNX Nifty Junior companies

1. Aditya Birla Nuvo Ltd.
2. Andhra Bank
3. Apollo Tyres Ltd.
4. Ashok Leyland Ltd.
5. Asian Paints Ltd.
6. Aurobindo Pharma Ltd.
7. Aventis Pharma Ltd.
8. Axis Bank Ltd.
9. Bank of Baroda
10. Bank of India
11. Bharat Electronics Ltd.
12. Bharat Forge Ltd.
13. Biocon Ltd.
14. Cadila Healthcare Ltd.
15. Canara Bank
16. Chennai Petroleum Corporation Ltd.
17. Container Corporation of India Ltd.
18. Corporation Bank
19. Cummins India Ltd.
20. GMR Infrastructure Ltd.
21. I-Flex Solutions Ltd.
22. IFCI Ltd.
23. ING Vysya Bank Ltd.
24. Indian Hotels Co. Ltd.
25. Indian Overseas Bank
26. Industrial Development Bank of India Ltd.
27. Infrastructure Development Finance Co. Ltd.
28. Jaiprakash Associates Ltd.
29. Jindal Steel & Power Ltd.
30. Kotak Mahindra Bank Ltd.
31. LIC Housing Finance Ltd.
32. Lupin Ltd.
33. Moser Baer India Ltd.
34. Mphasis Ltd.
35. Nirma Ltd.
36. Patni Computer Systems Ltd.
37. Pfizer Ltd.
38. Power Finance Corporation Ltd.
39. Raymond Ltd.
40. Reliance Capital Ltd.
41. Reliance Natural Resources Ltd.
42. Syndicate Bank
43. TVS Motor Company Ltd.
44. Tata Teleservices (Maharashtra) Ltd.
45. Tech Mahindra Ltd.
46. UltraTech Cement Ltd.
47. Union Bank of India
48. United Spirits Ltd.
49. Vijaya Bank
50. Wockhardt Ltd.

## Appendix II Request to participate letter sent by FICCI



## Appendix III Related PwC Global Publications



### Total Tax Contribution

PricewaterhouseCoopers LLP  
2008 survey for The Hundred  
Group in UK  
*Published February 2009*



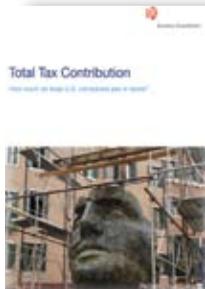
### Total Tax Contribution

How much do large South  
African companies really pay?  
PricewaterhouseCoopers  
survey in South Africa  
*Published October 2008*



### Total Tax Contribution

PricewaterhouseCoopers survey  
for the Federation of Belgium  
Enterprises 2007 survey  
*Published March 2008*



### Total Tax Contribution

How much do large U.S.  
companies pay in taxes?  
*Published February 2009*



### Tax Transparency Framework

A review of the tax  
communications of the largest  
listed Companies in Belgium,  
the Netherlands and UK  
*Published October 2008*



### What is your company's Total Tax Contribution?

2007 survey results  
PricewaterhouseCoopers  
survey in Australia  
*Published March 2008*



### Paying Taxes 2009

The global picture  
*Published jointly with the World  
Bank November 2008*



### Total Tax Contribution

PricewaterhouseCoopers survey  
for the Canadian Council of CEOs  
*Published May 2008*

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