



Budget 2009 Snapshot

Specific proposals for Housing and Construction Sector

Economic Indicators

- For financial year 2008-09, overall GDP growth rate of India was 6.7% whereas fiscal deficit was 6.2%.
- The construction sector as a whole grew at 7.2% during financial year 2008-09 as compared to 10.1 % during financial year 2007-08. However, the economic survey suggests that worst is behind us and the sector is likely to improve in financial year 2009-10.
- Despite the slowdown, the Indian construction industry is expected to attract 42% of total investment in infrastructure proposed of around US\$ 500 billion in period 2007-2012.

Policy Initiatives

• Infrastructure Financing

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.

• Impetus for Rural Housing

Allocation for Indira Awaas Yojana increased by 63 % to Rs.88,000 million.

A sum of Rs.20,000 million allocated to Rural Housing Fund which will boost the resource base of National Housing Bank for their refinance operations in rural housing sector.

• Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

Allocation to JNNURM is increased by 87% to Rs.128,870 million. This includes provision for Rajiv Awaas Yojana (RAY), a new scheme parameters of which are being worked out and which is intended to make India slum free in the five year period.

• RBI Sops

In order to address the liquidity crunch faced by the real estate sector, RBI has extended the refinance facilities to National Housing Bank and has relaxed the provisioning norms for the real estate sector.

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 Dividend Distribution Tax (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.
- 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.
- It has been clarified, with retrospective effect from April 1, 2001, that deduction under section 80IB (available to approved housing projects) would not be available to works contractor i.e. it would be available to developers alone.
- It has been further provided that to claim tax holiday under section 80IB, a developer should not allot more than one residential unit as under:
 - in case of an individual, no allotment should be made in the name of spouse or minor children, or HUF of which he is a Karta or any person representing such individual.
 - in any other case, to the same person.

Limited Liability Partnership (LLP)

- LLP will be treated as opaque entity i.e. similar to that of partnership firms. The share of profits of LLP would be exempt in the hands of the partners.
- LLP is a useful form of entity as it gives lot of operational flexibility. Currently, MAT & DDT are not applicable to LLP, thereby reducing the overall tax cost.

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- Wherever feasible, housing and construction companies can explore setting up LLP as joint venture to execute the contracts. This will bring in greater amount of operational flexibility as well as reduced compliance costs.

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 would 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 Customs 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

- The 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 rate remains 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.