

# Budget 2009 Snapshot

## Specific proposals for Power sector

### Economic Indicators

- For financial year 2008-09, overall GDP growth rate of India was 6.7% whereas the fiscal deficit was 6.2%.
- The total generation of power in India is 148.26 GW out of which thermal power plants account for 64.6%, hydel power 24.7%, renewable energy sources 7.7% and nuclear power 2.9% of the power generated in the country.
- India's power generation growth rate was at a low of 2.71% as against the target of 9.1%. However, the private sector stood out with a growth rate of 12.1%.
- To meet the shortage of power, the Government is planning to add over 14000MW capacity in the current fiscal year which will lead to reducing the gap .

### Policy Initiatives

- Government to increase investment in infrastructure to more than 9% of GDP by 2014.
- 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

- Government to take initiatives to remove policy, regulatory and institutional bottlenecks for speedy implementation of infrastructure projects.
- Allocation for the Accelerated Power Development and Reform Programme is increased by 160% to Rs. 2.08 billion. Further, allocation to Rajiv Gandhi Grameen Vidutikaran Yojana increased by 27% to Rs. 7 billion. This will boost the growth in the power 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%.
- 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.
- Rate of Dividend Distribution Tax (DDT) has remained unchanged at 16.995%.

## Income-tax

- 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
- Tax holiday for setting up undertaking for generation, transmission or distribution of power and renovation and modernisation of network has been extended for one more year, i.e. upto 31.3.2011.
- Tax holiday for an undertaking set up for reconstruction or revival of power generating plant, commencing the activity of generation, transmission or distribution of power has been retrospectively extended from 31.3.2008 to 31.3.2011.
- The inter-unit transfer of goods and services is to be determined at market value on as on the date of transfer. Accordingly, the power from captive power plants will have to be transferred to other units at the market price prevailing on the date of the transfer.
- 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.

## Service Tax

- Service tax rate remain unchanged at 10.30%.

## Customs

- There is no change in the median rate of 10% basic customs duty on import of goods in India
- The effective customs duty remains unchanged at 24.42%
- Basic customs duty on magnet used in mega generators (above 500KW ) for generation of wind operated electricity has been reduced from 7.5% to 5%.

## Central Excise

- Median rate of excise duty remain unchanged at 8.24% for majority products.
- Basic Excise Duty on Naptha has been reduced to 14%.
- Manufacturer of both exempted and taxable goods, not maintaining the separate books of accounts shall be liable to pay an amount equal to 5% of total price of exempted goods as against 10% earlier.
- Basic Excise Duty on Naptha has been reduced to 14%.

## Central Sales Tax (CST)

- CST remains unchanged at 2%.

## Goods and Services Tax (GST)

- Introduction of Goods and Service Tax is on time ( April 1, 2010). Dual model of GST has been proposed comprising of Central GST and State GST.



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