



The Union Budget 2010 was eagerly awaited and industry had high expectations on continuation of reforms and impetus, considering the relatively comfortable win by the UPA in the Lok Sabha elections. FM expressed the government's wish to return to 9% growth rate from last fiscal's growth rate of 6.7% and fiscal deficit at 6.2%. However, Industry found union budget failing to explain or provide any clear direction or vision of achieving this growth rate.

To achieve this kind of growth, the government needed to urgently focus on amongst other infrastructure sectors, the power sector and provide it the necessary impetus. This was sadly lacking in this budget exercise. Also considering government's promise of 'Electricity For All by 2012,' the only specific mentions in the entire Union Budget for the power sector were the allocations of Rs 7,000 crores for RGGVY and Rs 2,080 crore for RAPDRP programme, which are miniscule in nature in relation to the huge investments required by this sector.

To put in perspective the Indian power sector scenario, total power generation 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 shortage of power, the Government is planning to add over 14,000MW capacity in current fiscal year which will lead to reducing the gap. Addition of 1 MW of power requires an investment of approximately Rs 5 crores and a similar amount is needed for evacuating and distributing 1 MW of power to the consumers.

The government is looking at the doubling of generating capacity to almost 300,000 MW by 2017 and investments of few lakhs of crores of rupees would be required for this. It is not clear how these funds will be made available. The government, meanwhile, has announced Rs 1 lakh crore fund availability for building new infrastructure over the next 18 months through Indian Infrastructure Financial Corporation Limited (IIFCL). IIFCL will use this fund for refinancing 60% of the bank loans for public/private partnership projects (PPP), but how much of it will really go towards the power sector is not clear.

Further, even for these funds to be properly utilized, effective coordination between Central and State government agencies is required to ensure that the funds percolate down to PPP projects. On the upside government has promised to take initiatives to remove policy, regulatory and institutional bottlenecks for speedy implementation of infrastructure projects.

IEEMA has been requesting the Government for full infrastructure status and benefits under Section 80 - IA of IT Act, 1961, for boosting the power sector reforms and attracting more investments. Similar incentives have made available to the Telecom, Housing, Road Sector, resulting in their unqualified success. Unfortunately, the government has still to expand scope of this facility to the power sector.

The government however has extended tax holiday for one more year, i.e. up to 31.3.2011 for setting up of undertaking for generation, transmission or distribution of power and renovation and modernization of network. Similar extension of facility to organizations for undertaking for setting up of reconstruction or revival of power generating plant,

commencing the activity of generation, transmission or distribution of power too has been retrospectively provided from 31.3.2008 to 31.3.2011.

IEEMA's request for release of additional funds to CPRI for augmentation of its test facilities in view of the increasing test requirements was also ignored. This will force equipment manufacturers to send equipment overseas for testing, resulting in huge additional costs and unnecessary time delay of months.

A few positives in this budget which may have an indirect effect on the electrical industry are the increased allocation of Rs 2,130 crores for higher education (putting up new IITs and NIITs) and extending full interest subsidy to needy and economically backward students. The Government also has extended the scope of weighted deduction of 150% on expenditure incurred on in-house R&D to all manufacturing industry. This may help provide impetus for much needed R&D in the core electrical industry.

Mercifully, there is no change in the median rate of 10% basic customs duty on import of goods in India. The effective customs duty therefore remains unchanged at 24.42%.

Excise duty rate was also largely untouched barring an increase to 8% from 4% for number of items, however with few exceptions such as Medical equipment, Certain varieties of paper, paperboard and articles thereof, Power driven pumps for handling water, Vacuum and gas filled bulbs of RSP not exceeding Rs.20 per bulb, Compact Fluorescent Lamps.

One good thing has been addressed in this budget, where reversal of credit has been reduced to 5% from 10%, when the manufacturer does not maintain the separate account on dutiable and non-dutiable goods. This had created an anomaly as the rate of Excise Duty is 8% and reversal was maintained at 10% and this issue was taken up with CBEC by IEEMA.

The government has also abolished the Fringe Benefit Tax (FBT), a long awaited industry demand but instead has apparently put the onus on the employees by taxing their perquisites at normal rate of income tax (clarifications are awaited). Another sop to the Corporates is the abolition of Commodity Transaction Tax (CTT).

For Small and Micro organizations the Government has announced flow of credit at reasonable rates, Rs 4,000 crore provided as special fund out of Rural Infrastructure Development Fund (RIDF) to Small Industries Development Bank of India (SIDBI). This will incentivise Banks and State Finance Corporations (SFCs) to lend to Micro and Small Enterprises (MSEs) by refinancing 50 per cent of incremental lending to MSEs during the current financial year.

On the taxation side, the scope of presumptive taxation has been extended to all small businesses with a turnover upto Rs 40 lakh. All such taxpayers

will have option to declare their income from business at the rate of 8 percent of their turnover and simultaneously enjoy exemption from the compliance burden of maintaining books of accounts. It is further proposed to simplify the procedure, as they to be exempted from advance tax and allowed to pay their entire tax liability from business at the time of filing their return. This new scheme is to come into effect from the financial year 2010-11.

Two taxable services, namely, 'Transport of goods through road' and 'Commission paid to foreign agents' are also exempted from the levy of service tax, if the exporter is liable to pay service tax on reverse charge basis. However, present cap of 10% on commission agency charges is retained. Thus there would be no need for the exporter to first pay the tax and later claim refund in respect of these services. For other services received by exporters, service tax exemption will be operated through the existing refund mechanism based on self-certification of the documents where such refund is below 0.25 per cent of FOB value, and certification of documents by a Chartered Accountant for value of refund exceeding the above limit.

On the other hand, government has imposed Service Tax on services provided in relation to transport of goods by rail and goods through inland water including National Waterways. Advice, consultancy or technical assistance provided in the field of law (this tax would not be applicable in case the service provider or service receiver is an individual) would also now attract service tax.

The proposed long awaited goods and services tax (GST) will be introduced from 1st April, 2010 probably leading to reduction in day-to-day procedures and litigations. GST may also help release important organizational resources like time and money and human capital to be diverted to more productive uses and add to national growth.

Ending on an optimistic note, reportedly power projects to the tune of 62,000MW are under construction and at various stages of completion. H'on'able Union Power Minister had recently constituted an empowered committee to address bottlenecks in clearances concerning financial, environmental, land and fuel linkages etc especially for PPP. Demand for electricity is on the upswing and demand for electrical equipment will continue to be strong and sustainable. The government needs to focus on the power sector if it wants to achieve 9% growth and sustain the same in coming years.



Anil Nagrani
IEEMA, Mumbai