

E-circular dt July 06, 2009– 2nd(8.30 pm)



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BUDGET 2009-10



Budget 2009 -

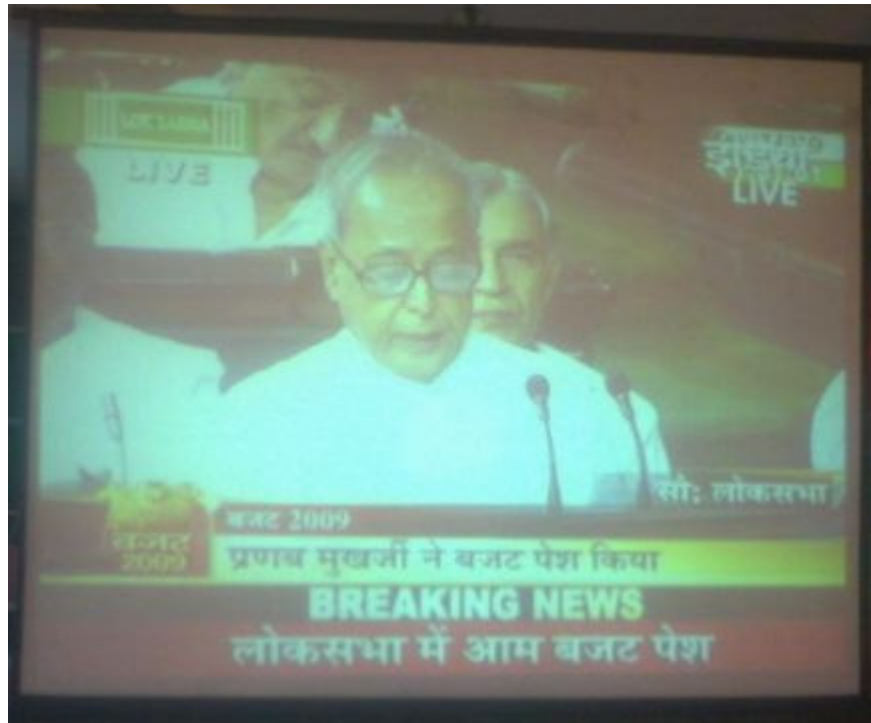
Yes it came out today. Good ... or Bad Time will tell.
Stock markets are down by 870 points.

Meanwhile, .

For the Second Consecutive Time in the history of Faridabad, we had an Instant and LIVE Budget Analysis, with a panel of Experts,

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- We had eminent Bankers, from Financial Institutions,
 - We had our own FSIA panel of Consultants.
- We had Chartered Accountants from the Faridabad C.A. Branch of NIRC or Institute of Chartered Accountants of India
- We had our own Mr Rajive Chawla, who later in the day was panel speaker and voice of SME at the Zee Business TV Channel at 9.30 pm direct telecast
- And we had the dynamic businessmen of Faridabad,.



It was Mr Pranab Mukherjee LIVE, via the Giant Television, in the Hotel Delite , before all the members of the FSIA Truly a memorable event.




Dear Members,

The Budget 2009 just came in, today morning. The final finer nuances will be apparent when we will go through the fine print. But till then, some big points → and our FSIA analysis on → How they effect you ?



| | | |
|--------|--------------------------------------|---|
| Part 1 | Major Highlights in this Budget 2009 | Important, things you saw on TV, but with FSIA special notes |
| Part 2 | Things you might have Missed | Unknown, unseen, things, in the "Fine Print", Which Media knows very little about |

So, let us start our review

| | | |
|--------|--------------------------------------|--|
| Part 1 | Major Highlights in this Budget 2009 |  |
|--------|--------------------------------------|--|

1. **FBT – Fringe Benefit Tax -- is GONE**
 - a. The FBT tax has been withdrawn
 - b. **FSIA says**
 - i. Congratulations
 - ii. That is itself a reduction in taxes by about 2% to 5% (in case of various companies)
 - iii. All companies save between Rs. 10000 to say about Rs. 10 lakh p.a.
2. **Income Tax Basic Exemption Limits Hiked.**
 - a. This is the Basic amount of income, till which, you do not have to pay any tax. (This is the tax free limit). Now this has been increased.
 - a. For normal people : Rs. 1,60,000
 - b. For women hiked to Rs 1,90,000
 - c. For Senior Citizens = Rs. 2,40,000

| <u>Basic Rates</u> | <u>Rate</u> |
|----------------------------|--------------------|
| Upto Rs. 1,60,000 | Nil |
| Rs. 1.60 lac - Rs.3.00 lac | 10% |
| Rs. 3.00 lac - Rs.5.00 lac | 20% |
| Rs. 5.00 lac onwards | 30% |

Surcharge

| | |
|---|-----|
| Those with taxable income upto Rs. 10 lakh | Nil |
| Those with taxable income above Rs. 10 lakh | Nil |

Education Cess , incl SHE cess 3% for all.

And this is the Net taxable income , after all section 80 C deductions

You can invest upto Rs. 1 lac into Section 80 C investments

And the Medclaim u/s. 80D has become 15000 Normal + 15000 for mediclam of parents, if you are paying that.

- d. So, ?? All of you save HUGE in Income TAXES →
- e. Savings are → between Rs. 1000 to Rs. 50000. per person (saving on income of 20 lakh) , after effect of tax rate change and surcharge removal.



Please observe == effective Tax Rates, have become very very low

| Income | Net taxable income after 80C, HRA etc | Income Tax at New Rates | Cess and She Cess (Surch. is now NIL) | Total | Effective tax % | |
|-----------|---------------------------------------|-------------------------|--|---------|-----------------|---|
| 100,000 | 100,000 | 0 | 0 | 0 | 0.00% | |
| 200,000 | 150,000 | 0 | 0 | 0 | 0.00% | |
| 300,000 | 200,000 | 4,000 | 120 | 4,120 | 2.06% | % |
| 500,000 | 400,000 | 34,000 | 1,020 | 35,020 | 8.76% | % |
| 700,000 | 600,000 | 84,000 | 2,520 | 86,520 | 14.42% | % |
| 1,000,000 | 900,000 | 174,000 | 5,220 | 179,220 | 19.91% | % |

3. Service tax on Lawyers if both are “Business Entity” (NEW)

a. Does not Applies to whom ?

- i. If person giving the service is a “individual” , or
- ii. Receiver is a “individual”, then in both cases, NIL service tax.
- iii. Example : One Mr A K Bhatia, Advocate gives a Sales Tax consultancy to one M/s. ABC Polymers Pvt Ltd = Tax is NIL

b. Applies to whom ?

- i. When both parties are “non-individuals”(example Corporates etc)
- ii. Example : if a Leading law firm say “New Delhi Law Office” renders a legal service to “Bharti Airtel Limited”. Then, service tax will be leviable.

- c. **FSIA point** : Additional Payout to your Lawyers, only if they are practicing in a Firm/Company Form. (usually it is not so in Faridabad city). However it may be modvatable in case you claim rebate under Excise or Service Tax.

4. 10A and 10B limit increased for 1 more year ?

a. What ?

- i. For EOU and SEZ units, earlier there was no exemption after 31.3.2010
- ii. Now extended for one more year (till 31.3.2011)

b. FSIA point

- i. That is Great !!! .
- ii. Many FSIA members have EOU / SEZ units , connected with Noida SEZ etc, However, with completion of term in 31.3.2010, they were expected to shut shop from Faridabad/Noida. And they were expected to start new units in Backward areas of Uttaranchal / Himachal / Rajasthan , just to save this tax
- iii. Now, this is to continue for one more year.
- iv. Good news for them and their vendors etc

5. Small businesses – Turnover less than Rs. 40 Lakhs – Pay Tax on just the Deemed Profit @ 8% of Turnover only

a. What ?

i. Big new Policy change .

ii. First Time ever

- Earlier this scheme only for the Retail sector
- Now for all sectors , all businesses (except a small exception)

| Case | Turnover | Effect |
|------|-----------------------|--|
| A | Less than Rs 40 Lakhs | Deemed income just 8% of the turnover. Pay tax on this. |
| B | Over Rs. 40 lakhs | Normal laws and normal rates. |

b. FSIA point

- i. For the real small entrepreneurs and beginners, the government has made things really liberal.
 - Just say that you are a small business.
 - Compute “Deemed income” at just 8% of the turnover.
 - Pay tax on this.
 - Take 80C relief as per law.
 - No accounts required
 - No audit required
 - No accountant required
- ii. Good
- iii. But, do the FSIA want to be limited to this Rs. 40 Lakhs p.a. ? NO.
 - We want to grow.
 - So, we at FSIA editorial board will relish if our every member unit of our Association and the Associate Industrial

Associations , becomes big and remains big. Come on ! Grow and raise larger targets

- Meanwhile for the smaller units, this is a good welcome measure.

iv. What does this amount to ?

| Particulars | Case 1 = without 80C | Case 2 = with 80C savings |
|-----------------------------|-------------------------|------------------------------|
| Suppose, your Turnover | 4,000,000 | 4,000,000 |
| The Deemed income =8% is | 320,000 | 320,000 |
| Less LIC, PPF etc savings | | 100,000 |
| Net income | 320,000 | 220,000 |
| Tax due on above | 18,000 | 6,000 |
| Effective Tax as % of Sales | 0.45% | 0.15% |

So, that is the tax that you have to pay

And you can further reduce this by going for Medclaim etc

Moreover no Advance tax is payable.

You get credit of TDS also (if any)

6. MAT (Minimum Alternate Tax) – Section 115JB

a. **What ?** – The companies, who have book profits but don't pay income tax due to some deductions / exemptions, They have been forced to pay heavier taxes.

b. **Have a look !!**

| MAT | Earlier | Now |
|-------------------------|---------|--------|
| Earlier base rate | 10.00% | 15.00% |
| Surcharge | 1.00% | 1.50% |
| Cess | 0.33% | 0.50% |
| Total Effective MAT Tax | 11.33% | 17.00% |

c. However the period in which you can take the benefit of the brought forward MAT Credit is now extended from 7 years to 10 years.

d. **FSIA editorial team :**

- Look , for a EOU unit with a profit of Rs. 1 crores**, now income tax payable shall increase from 11.33 lakhs to 17 lakhs (about Rs. 5.67 lakhs extra)
- No wonder the Stock Markets took a plunge



| | | |
|--------|------------------------------|--|
| Part 2 | Things you might have Missed | Unknown, unseen, things, in the “Fine Print”, Which Media knows very little about |
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7. Major Changes in the TDS of Contractors

- a. Change in basic Rates - **Look at this closely !!**
- b. **Rates reduced to just 1% for some cases**

TDS Contractors

| | Basic rate | Surcharge | Cess | Total |
|-------------------------------|------------|-----------|------|-------|
| | | 10% | 3% | |
| <u>Individuals/HUF</u> | | | | |
| less than 10 lac | 1.00 | | 0.03 | 1.03 |
| more than 10 lac | 1.00 | | 0.03 | 1.03 |

Firm/Company

| | Basic rate | Surcharge | Cess | Total |
|----------------|------------|-----------|-------|-------|
| | | 10% | 3% | |
| less than 1 Cr | 2.00 | | 0.06 | 2.06 |
| more than 1 Cr | 2.00 | 0.20 | 0.066 | 2.266 |

- c. This is a major reduction. First time in last 30 years, TDS rates have come down so low.
- d. Reason = The Income tax rates for individuals have themselves come down so low.
- e. Changes w.e.f 1-10-2009

8. No TDS –Contractors from pymts to Transporters

- a. If he gives a valid PAN (permanent account number)
- b. What ??????

c. Read this again

d. No TDS (on Transporters)- if he has a “PAN”

e. Changes w.e.f 1-10-2009

9. TDS –Contractors even on Sale-Purchase Transactions if ...

- a. TDS is to be deducted on your Sales, if you are manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer.
- b. Details to be provided in our next circular
- c. Changes w.e.f 1-10-2009

10. **Penal TDS – if you don't have the PAN**

- a. **This is a new “deterrent” penalty**
- b. If the deductee does not give his valid PAN number to the deductor, the deductor shall deduct TDS at 20%.
- c. **FSIA editorial team :**
 - i. **Positive :** That is a big deterrent in future
 - ii. **Caution :** Suppose you give your PAN to the Bank but the bank employee does not enter the PAN in his database. Now, the software will automatically deduct your TDS at 20% !!!!!!!!!!!!!



- iii. Same is the case with wrong PAN quoted by your customer (in case your customer deducts your TDS)
- iv. **That 20% will be huge.**
- d. So, must take precautions in this .

e. Read this again
 f. **TDS is 20%** (on all)- if you don't have a “PAN”

11. **Major Changes in the TDS of Rent**

- a. **Rates reduced to just 2% for some cases, and 10% in others**

TDS Rent - Land and Buildings

| | Basic rate | Surcharge | Cess | Total |
|-------------------------------|------------|-----------|------|-------|
| <u>Individuals/HUF</u> | | | | |
| less than 10 lac | 10.00 | | 0.30 | 10.30 |
| more than 10 lac | 10.00 | | 0.30 | 10.30 |

Firm/Company

| | Basic rate | Surcharge | Cess | Total |
|----------------|------------|-----------|------|-------|
| less than 1 Cr | 10.00 | | 0.30 | 10.30 |
| more than 1 Cr | 10.00 | 1.00 | 0.33 | 11.33 |

TDS Rent - Plant and Machinery / Cars etc

| | Basic rate | Surcharge | Cess | Total |
|-------------------------------|------------|-----------|------|-------|
| <u>Individuals/HUF</u> | | | | |
| less than 10 lac | 2.00 | | 0.06 | 2.06 |
| more than 10 lac | 2.00 | | 0.06 | 2.06 |

Firm/Company

| | | | | |
|----------------|------|------|------|------|
| less than 1 Cr | 2.00 | | 0.06 | 2.06 |
| more than 1 Cr | 2.00 | 0.20 | 0.07 | 2.27 |

12. “Gifts in Kind” to be taxed ((as Income from Other Sources)) Sec-56 =

a. What ?

- i. If you get a gift from someone (value over Rs.50000 p.a.), You pay tax on it.
- ii. And if you get something and pay for it, but the “consideration” is insufficient to cover the fair market price, then, that difference is to be taxed.

b. FSIA point

- i. Beware, even a transfer of Shares, Work of Art, other non-money transactions are also going to be covered by this.

13. Wealth Tax limit increased to Rs. 30 lakhs (Old was Rs. 15 lakhs) (NEW)

a. What ?

- i. Earlier if you had Gold / Jewellery / Vacant Urban Land etc for more than Rs. 15 lakhs, you had to pay 1% Wealth Tax.
- ii. Now this limit is increased to Rs. 30 Lakhs

b. FSIA point

- i. That is Great !!! .
- ii. With value of Gold rising 5 times and Plots 10 times in last 10 years, this increase in limit by 2 times is infact modest. But a welcome point.
- iii. But this was a hidden point. (it was not discussed in the budget speech at all)

14. Limited Liability Partnerships – Taxation

a. What ? This is a new form of Business just as you have Limited companies, now you will also have limited partnerships

- i. Clause 2(23) amended.
- ii. LLP equated with partnership
- iii. So, same taxation

b. Matter is clear now.

15. Partners’ Maximum permitted Salary Limits increased

a. What ?

- i. Old salary limits were fixed in 1992.
- ii. Now after 17 long years, the limit has been increased as follows

| Case | Book Profits | Allowable Salary to Partners |
|------|---|--|
| A | (a) on the first Rs.3,00,000 of the Book Profits or in case of a loss | → Rs.1,50,000 or at the rate of 90 per cent. Of the book-profit, whichever is more |
| B | (b) on the balance of the book-profit | → at the rate of 60 % |

b. FSIA point

- i. That is Good again !!! .
- ii. Many FSIA members are “Partnership Firms”

- iii. And the existing limits of just 40% of profits above 75000 were too low. (abysmally low).
- iv. Now it will be 60%
- v. Cool !

16. Maximum Cash Payment Limits increased to Rs.35000

(only for payments to Transporters) (NEW)

a. What ?

| Case | Cash payment to | Limit |
|------|-------------------------|-------------------|
| A | Payment to Transporters | Rs. 35000 / day |
| B | Payment to others | Rs. 20000 per day |

b. FSIA point

- i. That is Good again !!! .
- ii. Today the normal Full Truck cartage charge from any long distance shipment is over Rs. 20000 per truck.
- iii. And these truck wala's want "Hard Cash"
- iv. This is another government relief to them
- v. No TDS (if he have a PAN no) and no problem of Cash payment.

17. Deemed Income provisions for Truck operators changed (section 44E)

a. What ?

| Case | Truck category | Deemed income |
|------|----------------|------------------------------|
| A | Heavy Truck | Rs. 5000 per month per truck |
| B | Other Trucks | Rs. 4500 per month per truck |

b. FSIA point

- i. That is a point for Transporters
- ii. Old Deemed income was Rs. 3500 and 3150 p.m. respectively
- iii. This is now increased , with inflation .

18. Pension Scheme – Section 80CCD

a. **What ?** – This scheme was earlier only for Central Govt Employees, now it is available for everybody (all individuals).

b. FSIA point (meaning)


- i. If you have a income of 5 lakhs, you invest 0.50 lakhs in 80CCD pension scheme.
 - So ? -- 100% of this will be a deduction for you.
 - That's it !!
- ii. You now can deposit upto 10% of your annual income in this scheme and make it 100% tax free for you. (it is invested)

- Its interest income etc is also tax free (till it remains invested)
- iii. And it get taxed later on , when you withdraw it as pension etc
 - And further, if in that year, that “receipt” is further re-invested in a further annuity plan, then that is further deemed as tax free till finally received.

19. Interest on Enhanced Compensation on Acquisition of Land etc :

- a. Now to be taxed in the year of receipt.
- b. (This is important for a lot of our members who have land in the area, that has been notified for the upcoming IMT Faridabad)

For queries, suggestions and feedback , you can e-mail us at :

| | |
|--|---|
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