

Tax Hotline

April 27, 2001

THE INDIAN UNION BUDGET 2001 - 2002

The Indian Finance Minister, Mr. Yashwant Sinha, tabled the Union budget for the financial year 2001 - 02 ("the **Budget**") before the Lower House of Parliament on Wednesday, April 25, 2001. The Budget was passed by the Lower House with some pertinent modifications and, somewhat predictably, was a more populist version of the Finance Bill 2001 ("the **Bill**"), which was announced earlier in February this year. The actual text of the Budget is still to come in; however the first information has been more positive than not.

For instance, Indian export companies have been given further latitude as to the proportion of export deduction available to them from the financial year 2001 - 02 upto 2004 - 05. Under the relevant section of the Indian Income-tax Act, 1961 ("the **Act**"), i.e. under Section 80HHC, the aforesaid export companies will now be progressively taxed on 30%, 50%, 70% and 100% of their profits respectively upto 2004 - 05, instead of the previous scale of 40%, 60%, 80% and 100% respectively.

The Finance Minister has exempted from tax, the transfer of assets under schemes of de-mutualization and corporatization of the Indian stock exchanges.

Another cause to bring out the bubbly is the continued availability of the tax benefits under the software export license held by a privately-held Indian export company even after its shareholding pattern has substantially changed (Section 10A and 10B of the Act). The provisions mooted by the Bill had permitted only those software export companies in which the public is substantially interested, to continue availing of the aforesaid tax benefits despite a change in the pattern of shareholding beyond 49% of the total paid up equity share capital. With the passing of the budget, it appears that this tax benefit will now be available to private companies in the software sector even after corporate restructuring.

However, the Budget has corrected the drafting error in the Bill concerning the levy of capital gains tax in the hands of unit-holders upon redemption of units to the Unit Trust of India or any other mutual fund. The Bill had set the Indian fund industry aglow with the promise of exemption of income accruing to unit holders upon the redemption of their units, in addition to the halving of dividend distribution tax from the erstwhile 20% to 10%.

As far as the introduction of transfer pricing provisions in India is concerned, the Finance Minister has explicitly stated that these provisions would apply to transactions entered into between a head office and the branch of an entity. In addition, it is clarified that an adjustment made to the transfer price in the case of one enterprise shall not, by itself, form the basis of a consequential adjustment in the case of the other enterprise.

The information technology industry will benefit from the addition of thirty-two (32) specified items in the list of machines and equipment that are allowed to be imported at a low rate of 5% basic customs duty.

Funds, which have been enjoying exemptions under Section 10(23C) of the Act, have been put on par with charitable institutions under Section 11 of the Act as far as the accumulation of their income is concerned. These funds will be permitted to accumulate upto 25% of their income without any time limit.

The domestic telecom industry will breathe a sigh of relief; the Finance Minister has ensured that customs duty on telecom parts and components will be reduced from 15% to 5%, to keep in line with the diminished customs duty on telecom equipment from 25% to 15%. This reduction from 15% to 5% has precluded the possibility of loss of production to the domestic segment.

In addition, an increase in the amount of standard deductions available to the salaried class, some sops on deductions for interest income, and an additional import duty on automobiles, which will be over and above the basic customs duty, has ensured that the Union budget retains its populist flavor. The Budget now awaits the approval of the Upper House of Parliament and the President of India.

DISCLAIMER

The contents of this hotline should not be construed as legal opinion. View detailed disclaimer.

This Hotline provides general information existing at the time of preparation. The Hotline is intended as a news update and Nishith Desai Associates neither assumes nor accepts any responsibility for any loss arising to any person acting or refraining from acting as a result of any material contained in this Hotline. It is recommended that professional advice be taken based on the specific facts and circumstances. This Hotline does not substitute the need to refer to the original pronouncements.

This is not a Spam mail. You have received this mail because you have either requested for it or someone must have suggested your name. Since India has no anti-spamming law, we refer to the US directive, which states that a mail cannot be considered Spam if it contains the sender's contact information, which this mail does. In case this mail doesn't concern you, please unsubscribe from mailing list.

Research Papers

Fintech

May 05, 2025

Medical Device Industry in India

April 28, 2025

Clinical Trials and Biomedical Research in India

April 22, 2025

Research Articles

2025 Watchlist: Life Sciences Sector India

April 04, 2025

Re-Evaluating Press Note 3 Of 2020: Should India's Land Borders Still Define Foreign Investment Boundaries?

February 04, 2025

INDIA 2025: The Emerging Powerhouse for Private Equity and M&A Deals

January 15, 2025

Audio

CCI's Deal Value Test

February 22, 2025

Securities Market Regulator's Continued Quest Against "Unfiltered" Financial Advice

December 18, 2024

Digital Lending - Part 1 - What's New with NBFC P2Ps

November 19, 2024

NDA Connect

Connect with us at events, conferences and seminars.

NDA Hotline

Click here to view Hotline archives.

Video

Vyapak Desai speaking on the danger of deepfakes | Legally Speaking with Tarun Nangia | NewsX

April 01, 2025

**SIAC 2025 Rules: Key changes &
Implications**

February 18, 2025