

Tax Hotline

January 04, 2007

FORECAST: TECH COMPANIES MAY ENJOY SUNNY DAYS BEYOND MARCH 31, 2009

In a much awaited and anticipated move, the Department of Information Technology ("DIT") has put forth a proposal to extend the 10 year tax holiday currently available to export oriented and Information Technology Enabling Services ("ITES") companies established under the aegis of the Software Technology Parks of India ("STPI"). The present tax holiday of 10 years provided to these STPI units was introduced in the year 2000 under Section 10A and 10B of the Income Tax Act, 1961, and is set to expire on March 31, 2009. According to media reports, the government has prepared a note proposing the extension of the tax holiday beyond March 31, 2009, as an outcome of the recommendations received from all quarters, which will be tabled before the Cabinet for approval soon.

Recently, with the enactment of the Special Economic Zone Act in 2005 ("SEZ Act"), it was expected that the software companies could shift to this regime and claim tax benefits available under the SEZ regime. However, the widespread apprehension on the applicability of the tax benefits under this regime to companies which had already availed of the tax benefits under the STPI Scheme combined with the inherent success of the STPI Scheme, the possibility of smaller companies facing difficulty to set up a unit in an SEZ and locational inflexibility, had brought about recommendations from NASSCOM and the Information Technology Ministry for the extension of the STPI Scheme for a further period of ten years. Further, this issue has also been examined by the Prime Minister's Economic Advisory Council who has also recommended continuation of the tax exemption.

This move, if approved, would give an impetus to the burgeoning software exports, which as of today amount to US\$ 30 billion [1] with a 28% increase in the past one year. In fact, these exports are projected to exceed US\$ 60 billion by the year 2010, and may even touch US\$ 330 billion by year 2020. The DIT has said that given the huge contribution of these exports to India's GDP, phasing out of the tax exemption would cut India's competitive edge and would give other countries, such as China and Philippines an opportunity to enter the IT niche that India has carved for itself.

Reports have indicated that the proposal for the extension of the tax sops might come in before the Budget, which is to be announced on February 28.

[1] PP Thimmaya, "IT exports set to be \$30 bn this fiscal", Economic Times, January 04, 2007

- Nithya Reddy & Parul Jain

Source:

- The Economic Times, January 4, 2007
- The Financial Express, January 4, 2007

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

Compendium of Research Papers

January 11, 2025

FAQs on Setting Up of Offices in India

December 13, 2024

FAQs on Downstream Investment

December 13, 2024

Research Articles

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

January 15, 2025

Key changes to Model Concession Agreements in the Road Sector

January 03, 2025

The Revolution Realized: Bitcoin's Triumph

December 05, 2024

Audio

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

Renewable Roadmap: Budget 2024 and Beyond - Part I

August 26, 2024

NDA Connect

Connect with us at events, conferences and seminars.

NDA Hotline

Click here to view Hotline archives.

Video

"Investment return is not enough" Nishith Desai with Nikunj Dalmia (ET Now) at FI18 event in Riyadh

October 31, 2024

Analysing SEBI's Consultation Paper

on Simplification of registration for
FPIs

September 26, 2024

Scope of judicial interference and
inquiry in an application for
appointment of arbitrator under the
(Indian) Arbitration and Conciliation
Act, 1996

September 22, 2024