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*

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