

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:4709
ANSWERED ON:23.04.2010
TAX HOLIDAY FOR POWER PLANTS
Badal Harsimrat Kaur

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government proposes to provide further extension of tax holidays for the setting up of power plants;
- (b) if so, the details thereof; and
- (c) if not, the reasons therefor?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a) & (b): There is no proposal under consideration of the Government to provide further extension of tax holidays for setting up of power plants in terms of direct taxes under the existing provisions of the Income Tax Act. So far as Indirect Taxes are concerned, all items of machinery including prime movers, instruments, apparatus and appliances, auxiliary equipment as well as components/raw materials for manufacture of such equipment required for initial setting up of a mega power projects are fully exempt from duties of Customs. All such goods domestically procured for initial setting up of mega power plants awarded on International Competitive Bidding basis or Tariff Based Bidding are also fully exempt from payment of Central Excise duties. These exemptions are available without any specific time limits.

(c): During the period of almost two decades of benefiting from direct tax holidays, the power sector, particularly in the private sector, has significantly matured. It is found that tax incentives like exemptions and deductions are economically inefficient, inequitable, lead to revenue loss, breed rent -seeking behaviour, increase compliance cost and enhance administrative burden. The case for tax incentives is further weakened in the existing tax regime of moderate tax rates. Therefore, as a matter of principle, Government has taken a considered policy decision not to support tax incentives and to allow minimal exemptions and deductions,