

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:4404
ANSWERED ON:20.08.2010
TAX REBATE ON INVESTMENT IN IT SECTOR
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Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has made provisions for giving hundred percent income tax rebate on investment in establishing information technology centre/institution, etc. in certain States;
- (b) if so, the details thereof, State-wise and the time since when this provision has been made and the extent of Development made due to this;
- (c) the reasons for depriving other States of this facility; and
- (d) the time by when the same facility of rebate would be extended to other States particularly Gujarat, Maharashtra and Madhya Pradesh?

Answer

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

(a) & (b): Section 80-IC of the Income Tax Act, 1961 read with the Fourteenth Schedule thereof provides for 100 per cent deduction of profits and gains for five assessment years (AYs) commencing with the initial assessment year and thereafter, twenty-five per cent (thirty per cent in case of companies) to eligible undertakings or enterprises in the States of Himachal Pradesh and Uttarakhand including the business of "Information and Communication Technology Industry, Computer hardware, Call Centres", if the operations commence any time during the period 07-01-2003 to 31-03-2012. This deduction is available for a maximum of ten AYs. Further, deduction in respect of the profits and gains is available under section 80-IE of the Act at the rate of 100 per cent for 10 consecutive assessment years for undertakings in North-Eastern States commencing operations between 01-04-2007 to 31-03-2017 and carrying on any eligible business. 'Eligible business' includes running information technology related training centre; and manufacturing of information technology hardware.

Section 80-IC was inserted in the Income Tax Act, 1961 by the Finance Act, 2003 with effect from 01-04-2004 and section 80-IE, by the Finance Act, 2007, with effect from 01-04-2008.

(c) & (d): The rationale underlying the incentives to special category States like J & K, Himachal Pradesh, Uttarakhand and North-Eastern States was that these are faced with unique geographical adversities as they are located in hilly, remote and inaccessible areas, resulting in their relative economic backwardness.

Area bound exemptions erode the tax base. They create economic distortions and affect economic viability of units located in non-exempt areas. They are difficult to administer and prone to misuse. Moreover, the durability of investment attracted by such measures beyond the exemption period is also doubtful.

The existing deductions for certain states like Uttarakhand and Himachal have been objected to by many States on the grounds that these have the effect of diverting industries to Himachal Pradesh and Uttarakhand. In view of the above, profit-linked as well as area based deductions are being gradually phased out as per the conscious policy decision taken by the Government.