

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2161

ANSWERED ON:12.08.2011

CONCESSIONS TO INDUSTRIES

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Will the Minister of FINANCE be pleased to state:

- (a) the category-wise details of tax concession extended and rates of interest charged on lending to the industries functioning in the country;
- (b) whether any such concession has been removed during the recent time;
- (c) if so, the details thereof alongwith the reasons therefor, category-wise; and
- (d) the fiscal and financial steps taken or proposed to help the Micro, Small and Medium Industries?

Answer

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

(a): The Direct Tax concessions available to industries in the country are in accordance with the provisions of the Income Tax Act, 1961. Some of the important tax concessions are as under:-

(i) Deduction of Income from the Taxable Income: As listed out in certain Sections of Chapter VIA of the Income Tax Act, 1961, such income of the industries as are specified therein, is not included in their taxable income provided prescribed conditions are satisfied. Some of the sections providing tax concessions in this regard include Sections 80IA, 80IAB, 80IB, 80IC, 80ID, 80JJA, 80JJAA and 80LA.

(ii) Exemptions of Income from payment of Tax: Direct Tax concessions are also available in the form of exempt income of specified industries in accordance with Sections 10A, 10B, 10AA and 10C of the Income Tax Act, 1961 subject to the fulfillment of prescribed conditions.

(iii) Other incentives: Incentives leading to tax concessions are also available under certain sections of Chapter IV of the Income Tax Act, 1961. These include incentive in the form of accelerated depreciation to certain industries, deduction of capital expenditure for certain specified industries, weighted deduction for expenditure on research, and know how etc. An exemption from capital gains is also provided to the Industries shifting from urban areas to special economic zones in accordance with section 54GA of the Income Tax Act.

So far as indirect taxes are concerned, exemptions from Customs and Central Excise duty are extended from time to time to industries functioning in the country so as to fulfill a variety of socio-economic objectives such as development of thrust sectors or backward regions/ States; encouragement of domestic value addition, protection to micro and small scale sector or to promote production or consumption of environment friendly goods. Some of these exemptions are meant to strengthen the physical and social infrastructure in the country. In the context of global financial crisis in 2008 the standard rate of central excise duty applicable to non-petroleum products was reduced from 14% to 8% in two installments. The rate of service tax was also dropped from 12% to 10% in February, 2009. These measures were part of fiscal stimulus packages announced by the Central Government.

(b) & (c) Since the overall policy direction is to contain the number of exemptions and moderate the overall rates of tax, these exemptions are reviewed from time to time.

The following deductions available under the Income Tax Act have lapsed on 31-03-2011:

(i) Section 10A of the Act, which provided for a deduction from the total income of 100 percent of profits and gains derived by an undertaking from the export of articles or things or computer software for a period of 10 consecutive assessment years till 31.03.2011;

(ii) Section 10B of the Act, which provided for a deduction from the total income of 100 percent of profits and gains derived by a 100 percent export-oriented undertaking from the export of articles or things or computer software for a period of 10 consecutive assessment years till 31.03.2011; and

(iii) Section 80-IA, which provided for 100 percent profit-linked deduction for 10 consecutive assessment years to any undertaking which develops, develops and operates or maintains and operates an industrial park notified by the Central Government up to 31.03.2011.

Also, prior to Finance Act, 2011, no sunset date was provided under section 115JB of the Act for exemption from minimum alternate tax (MAT) in the case of an entrepreneur or a Developer, in a Unit or SEZ or under section 115-O for exemption from dividend distribution tax (DDT) in case of an undertaking or enterprise engaged in developing or developing and operating or developing, operating and maintaining an

SEZ. Thus, the availability of exemption from MAT in the case of SEZ Developers and units in SEZs has now been sunset in the Income Tax Act for assessment year 2012-13 and subsequent assessment years. The availability of exemption from DDT in the case of SEZ Developers has also been discontinued under the Income-tax Act as well as the SEZ Act for dividends declared, distributed or paid on or after 01.06.2011.

Profit-linked deductions are being phased out of the Income Tax Act since they are inherently inefficient and liable to misuse. Such policy stand is also reflected in the Direct Taxes Code (introduced as a Bill in Parliament in August, 2010) wherein profit-linked deductions have been phased out.

So far as indirect taxes are concerned, as part of the proposals contained in the Budget for 2011-12, excise duty concessions were withdrawn on 130 items hitherto exempt from excise duty or chargeable to NIL rate of duty and a nominal excise duty of 1% without CENVAT and 5% with CENVAT has been imposed. This has been done in line with the policy of the Government to widen tax base for both goods and services with a view to signal movement towards GST. While doing so, it has been ensured that exemption from excise duty was withdrawn only on those goods that are currently chargeable to VAT and are in the nature of finished goods. Moreover SSI exemption would continue to be applicable on them. During the Budget 2010-11 the need to continue fiscal stimulus package was reviewed and taking into account the improvement in our economic performance and the need for fiscal consolidation, the reduction in central excise duty was partially rolled back from 8% to 10%.

(d) Concessions in customs and excise duty apply uniformly to manufacturers or importers regardless of their size. However, keeping in mind the special need of micro, small and medium industries turn-over based exemptions (commonly referred to as small scale exemptions) are available both under central excise and service tax.