FINANCE MINISTER'S REPLY

TO THE DEBATE ON

FINANCE (NO.2) BILL, 2009

IN LOK SABHA on 27.7.09

Madam Speaker, at the outset, I would like to thank all the honourable Members who have participated in the discussion on the Finance (No.2) Bill, 2009. I would also like to thank all other stakeholders who have participated in the debate outside the House. I have immensely benefited from the valuable suggestions made both inside and outside the House.

I have studied and analysed the various suggestions made. I intend to remain focussed on our immediate priority of providing stimulus to generate economic activity in the present environment of economic slowdown. Accordingly, I propose to make certain changes to the Finance (No. 2) Bill, 2009 to achieve this objective.

Addition of new services to the list of taxable services or alterations in the scope of existing taxable services made through Finance Acts come into force from a notified date after the enactment of the Finance Bills. Trade and industry has requested that sufficient time be provided between notifying such changes and making them effective, thereby enabling adjustments in business accounting systems and software. I find merit in this suggestion. Accordingly, I have directed the Central Board of Excise and Customs to make the notifications prescribing levy of service tax on new services and alterations in the scope of existing services announced in the current Budget effective from the 1st day of September 2009.

Roads serve as a lifeline of the country. Therefore, the Government has accorded the highest priority in developing and maintaining roads across the country. This is adequately reflected in our expenditure allocation. On the tax front, construction or laying of new roads is excluded from service tax. However, repairs and maintenance of roads are chargeable to

service tax. Several requests have been received to exempt repairs and maintenance of roads from service tax. Therefore, I propose to remove this anomaly by also exempting repairs and maintenance of roads from service tax with immediate effect.

Clause 32 of the Bill proposes to amend the provisions of section 80E of the Income Tax Act so as to allow deduction in respect of interest paid on education loans for pursuing higher education in any field including vocational education. This deduction is available to an individual if the education loan is for self study or for studies by spouse or children of the individual. Representations have been received that the scope of the benefit should be expanded so as to also allow other persons responsible for the student to avail of the deduction. I, therefore, propose to amend clause 32 of the Bill so as to provide that the deduction will also be available to the legal guardian of the student.

Section 80-IA (4)(iii) of the Income Tax Act provides for tax holiday in respect of profits derived by an undertaking from development, operation or maintenance of an industrial park if the development is completed on or before 31st March, 2009. Representations have been received seeking extension of this scheme. With a view to providing stimulus to infrastructure sector to generate incomes in the wake of economic slowdown, I propose to extend the sunset clause for the Industrial Park Scheme by a further period of two years that is, up to 31st March, 2011.

Clause 37 of the Bill seeks to amend the provisions of sub-section (9) of section 80-IB of the Income Tax Act to provide tax holiday to an undertaking engaged in commercial production of natural gas in blocks licensed under the NELP-VIII Round. Representations have been received that this benefit should also be extended for commercial production of natural gas in blocks licensed under the IV Round of bidding for exploration of coal

bed methane. Accordingly, I propose to carry out necessary amendments to sub-section (9) of section 80-IB of the Income Tax Act. This benefit will be available prospectively from assessment year 2010-11 and subsequent assessment years.

Madam Speaker, housing, particularly lower and middle income housing, deserves to be supported. In order to stimulate this segment of house owners, I propose to provide support to borrowers by way of interest subvention of 1% on all housing loans up to Rs. 10 lakhs to individuals, provided the cost of the house does not exceed Rs.20 lakhs. The interest subsidy will be routed through the scheduled commercial banks and the housing finance companies registered with the National Housing Bank. This interest subsidy will be available for a period of one year. I propose to provide Rupees one thousand crores towards this end.

I also propose to provide further stimulus to the housing sector by providing some tax relief. Accordingly, I propose to

amend section 80 IB(10) of the Income Tax Act so as to allow the tax holiday in respect of profits derived from projects approved between the 1st April 2007 to 31st March, 2008 if such projects are completed on or before 31st March, 2012.

Madam Speaker, I expect the developers to pass on the benefit of the tax holiday to the home buyers by appropriately reducing their prices. I am sure that both the expenditure and tax foregone initiatives would provide relief to a large segment of prospective home owners and help revive the real estate sector.

Sub-section (11A) of section 80-IB of the Income Tax Act provides for tax holiday in respect of profits derived from the business of processing, preservation and packaging of fruits and vegetables. Representations have been received requesting that this tax holiday be extended to all food processing units, particularly, those based on perishable items like milk, poultry and meat etc. With a view to preserving perishable food items

like milk, poultry and meat, I propose to amend sub-section (11A) of section 80-IB to also provide tax holiday in respect of the business of processing, preserving and packaging of meat and meat products and poultry, marine and dairy products.

Under the existing provisions of section 80-U of the Income Tax Act, an assessee, being a person with disability or with severe disability, is eligible for deduction of Rs.50,000 or Rs.75,000 respectively. These limits were fixed in the financial year 2003-04. Keeping in view the sharp increase in the threshold limit and the inflation since 2003-04, I propose to amend section 80-U of the Income Tax Act so as to increase the deduction from the existing level of Rs.75,000 to Rs.1 lakh in the case of a person with severe disability.

I also propose to move certain amendments which are consequential or editorial in nature.

Madam Speaker, I have already stated in my Budget speech that the Government will release the Direct Taxes Code within 45 days (i.e. by the 20th August, 2009) for discussion. Many of the suggestions made in this House, especially regarding simplification, will find reflection in the preparation of the Code. Therefore, at this stage, I do not intend to burden this House with too many changes through the Finance (No.2) Bill, 2009.

I urge upon the honourable Members to wholeheartedly support the Finance (No.2) Bill, 2009 and the changes proposed thereto.