

SALIENT FEATURES OF BUDGET 2010
An initial overview for the voluntary sector

INTRODUCTION

The budget 2010 has been presented in the parliament by Honorable Finance Minister Sh. Pranab Mukherjee on Feb 26, 2010.

Budget 2010 has brought in some amendments which shall allow the organizations working under the last limb of the definition of "Charitable Purpose" to carry on business activities upto a certain limit. Further amendments have been made under section 10 (21) and section 35 to allow exemptions to Social and Statistical Research Associations along with Scientific Research Associations.

The Finance Minister has proposed concessions to the individual tax payers in the salaried category. He has also reiterated that the Direct Tax Code, having undergone the public debate and response, is getting ready to be implemented with effect from 1st April 2011.

BUDGET OUTLAY (SOCIAL SECTOR)

- Total allocation to the social sector comes to Rs. 1.38 lakhs crore which is 37% of planned outlay.
- Allocation to school education has increased from Rs.26,800 Cr to Rs.31,036 Cr
- Allocation to Health sector is Rs.22,300 Cr
- Allocation to NREGA has increase from Rs.39,100 Cr to Rs.41,000 Cr
- Allocation to Bharat Nirman; Rs.48,000 Cr
- Allocation package of Rs.12,000 Cr towards assistance for drought in Bundelkhand
- Allocation to Indra Awas Yojna has increased from Rs.8,800 Cr to Rs.10,000 Cr
- Allocation for Rural Development has increased from Rs.51,769 to Rs.61,000 Cr

- Allocation has also been done to some new social scheme funds like that for workers in unorganized sectors and women farmers

REVENUE

There are some partial rollbacks of stimulus like;

- Increase of excise across the board from 8% to 10%,
- Increase in custom duty on crude oil to 5%, on diesel and petrol to 7.5% and other petroleum product to 10%

This may have ensuing negative effects on the revival of the economy. It may increase the inflation and reduce the liquidity which may again reduce the spending.

AMENDMENT IN FINANCE BILL

a) Section 2(15)

Prior to Finance Bill 2010

As it stands after the amendment by finance Bill 2009 is as under

" Charitable purpose includes relief of the poor, education, medical relief, and the advancement of any other object of general public utility:

Provided that advancement of any other object of general public utility shall not be a charitable purpose, if it involves the carrying on of any activity in the nature of trade, commerce of business, or any activity of rendering any service in relation to any trade, commerce or business, for a cess or fee or any other consideration, irrespective of any use or application, or retention, of the income from such activity;"

Amendments as per Finance Bill 2010 (Applicable w.e.f. 01.04.2009)

In the proposed Finance Bill 2010 the following para is added to the above definition

Provided further that the first proviso shall not apply if the aggregate value of the receipt from the activities referred to therein is **ten lakh rupees** or less in the previous year

Inference:

The above proposed amendment would imply that Non Profit Organizations (NPOs) would be able to have activities in nature of trade, commerce, business or any activity of rendering any service in relation to any trade commerce or business for a value of Rs.10 Lakhs per year. This is at least some relief to the NPO sector and would help in financial sustainability of smaller entities. However, medium and large sized organizations would continue to have the limitation under this section.

In our opinion it would have been useful to have the threshold limit at Rs.25 Lakhs instead of Rs.10 Lakhs.

b)Section 12AA; (Applicable w.e.f 01.06.2010)

In section 12AA of the Income-tax Act, in sub-section (3), after the word, brackets and figure "subsection (1)", the words, figures letter and brackets "or has obtained registration at any time under section 12A [as it stood before its amendment by the Finance (No. 2) Act, 1996]" shall be inserted with effect from the 1st day of June, 2010.

Inference:

Section 12AA was inserted by Finance (No. 2) Act 1996. Before section 12AA came into existence the NPOs were being granted registration u/s 12A. When sub-section 3 to the section 12AA was inserted , it had limited power to cancel registration of entities prior to 1996.

With the insertion of this phrase that anomaly has been removed.

c) Section 10(21)

Prior to Finance Bill 2010

Under the above section the income of scientific research associations approved under section 35 (1) (ii) shall be exempt subject to certain conditions .

Amendments as per Finance Bill 2010 (Applicable w.e.f. 01.04.2011)

The words **scientific research associations** have been replaced by **research association**. Thus the income of Social and Statistical Research Association approved u/s 35(i) (iii) will also be exempted subject to certain conditions

d) Section 35

Prior to Finance Bill 2010

The sections 35 (1) (ii),(iii), (iv) read as follows:

(ii) an amount equal to **one and one-fourth times** of any sum paid] to a scientific research association which has as its object the undertaking of scientific research or to a university, college or other institution to be used for scientific research.

(iii) an amount equal to one and one-fourth times of any sum paid] to a university, college or other institution to be used for research in social science or statistical research :

Provided that such university, college or other institution for the purposes of this clause

(A) is for the time being approved, in accordance with the guidelines, in the manner and subject to such conditions as may be prescribed; and

(B) such university, college or other institution is specified as such, by notification in the Official Gazette, by the Central Government.

(iv) in respect of any expenditure of a capital nature on scientific research related to the business carried on by the assessee, such deduction as may be admissible under the provisions of sub-section (2) :

[Provided that the scientific research association, university, college or other institution referred to in clause (ii) or clause (iii) shall make an application in the prescribed form and manner to the [Central Government] for the purpose of grant of approval, or continuance thereof, under clause (ii) or, as the case may be, clause (iii) :

Provided further that the [Central Government] may, before granting approval under clause (ii) or clause (iii), call for such documents (including audited annual accounts) or information from the scientific research association, university, college or other institution as it thinks necessary in order to satisfy itself about the genuineness of the activities of the scientific research association, university, college or other institution and that [Government] may also make such inquiries as it may deem necessary in this behalf

Amendments as per Finance Bill 2010 (Applicable w.e.f. 01.04.2011)

As per the amendments made the sections 35 (1) (ii), (iii) and (iv) will read as follows:

ii) [an amount equal to one and three-fourth times of any sum paid] to a scientific research association which has as its object the undertaking of scientific research or to a university, college or other institution to be used for scientific research

(iii) [an amount equal to one and one-fourth times of any sum paid] any sum paid to a research association which has as its object the undertaking of research in social science or statistical research or to a university, college or other institution to be used for research in social science or statistical research :

[Provided that such association, university, college or other institution for the purposes of this clause (A) is for the time being approved, in accordance with the guidelines, in the manner and subject to such conditions as may be prescribed; and

(B) such association, university, college or other institution is specified as such, by notification in the Official Gazette, by the Central Government.]

(iv) in respect of any expenditure of a capital nature on scientific research related to the business carried on by the assessee, such deduction as may be admissible under the provisions of sub-section (2) :

[Provided that the research association, university, college or other institution referred to in clause (ii) or clause (iii) shall make an application in the prescribed form and manner to the [Central Government] for the purpose of grant of approval, or continuance thereof, under clause (ii) or, as the case may be, clause (iii) :

Provided further that the [Central Government] may, before granting approval under clause (ii) or clause (iii), call for such documents (including audited annual accounts) or information from the research association, university, college or other institution as it thinks necessary in order to satisfy itself about the genuineness of the activities of the research association, university, college or other institution and that [Government] may also make such inquiries as it may deem necessary in this behalf

Inference:

The effect of all the above amendments under section 35(1) (ii), (iii) and (iv) is that earlier the deduction was allowed only for approved scientific association however now the same shall be available to social science and statistical research associations also.

Further the amount of Weighted deduction increased from 125% to 175% of the expenditure and the contribution to social science and statistical research associations.

Weighted deducted increased from 150% to 200% of the expenditure on in house research and development.

The above amendment would promote the research and development and would make the scope of the same broader.

e) Tax for Individuals:

The budget has also introduced a concession for salaried individual by broadening the three tax slabs which is as under

For salaried men

New tax slabs:

Slabs (Rs)	Rate
0 – 160000	0
160001 – 500000	10
500001 – 800000	20
800001 and above	30

Old tax slabs:

Slabs (Rs)	Rate
0 – 160000	0
160001 – 300000	10
300001 – 500000	20
500001 and above	30

Impact:

Taxable income (Rs)	Tax -before budget (Rs)	Tax after budget (Rs)	Saving (Rs)
200000	4120	4120	0
500000	55620	35019	20601
1000000	210120	158619	51501
1200000	271919	220419	51500
1500000	364619	313119	51500
2000000	519119	467619	51500
2500000	673619	622119	51500
4000000	1137119	1085619	51500

Female individual taxpayer

New tax slabs:

Slabs (Rs)	Rate
0 – 190000	0
190001 – 500000	10
500001 – 800000	20
800001 and above	30

Old tax slabs:

Slabs (Rs)	Rate
0 – 190000	0
190001 – 300000	10
300001 – 500000	20
500001 and above	30

Impact:

Taxable income (Rs)	Tax -before budget (Rs)	Tax after budget (Rs)	Saving (Rs)
200000	1029	1029	0
500000	52529	31929	20600
1000000	207029	155529	51500
1200000	268829	217329	51500
1500000	361529	310029	51500
2000000	516029	464529	51500
2500000	670529	619029	51500
4000000	1134029	1082529	51500

Senior Citizens

New tax slabs:

Slabs (Rs)	Rate
0 – 240000	0
240001 – 500000	10
500001 – 800000	20
800001 and above	30

Old tax slabs:

Slabs (Rs)	Rate
0 – 240000	0
240001 – 300000	10
300001 – 500000	20
500001 and above	30

Impact:

Taxable income (Rs)	Tax before budget (Rs)	Tax after budget (Rs)	Saving (Rs)
200000	0	0	0
500000	47379	26780	20599
1000000	201879	150379	51500
1200000	263679	212179	51500
1500000	356379	304879	51500
2000000	510879	459379	51500
2500000	665379	613879	51500
4000000	1128879	1077379	51500

In addition to this, the Rs 1,00,000 tax exemption limit under [section 80C](#), has been increased by Rs 20,000, allowing investments in long-term Infrastructure bonds to be considered for tax exemption.

CONCLUSION:

The budget 2010 has however given some welcome news to the social sector through the amendment in Section 2(15), even though it would have been better to have increased threshold limit. This relaxation should reach to more NPOs to promote their sustenance.

The change in the tax slabs for the salaried individuals too is a good step which will certainly give reason to them respite from the present inflationary situation especially of the food items.

There is however also reason to worry as the increase in the excise duty and more so on petrol and diesel will fall heavy on the pocket of general public. There are chances of increase in inflation which may take away liquidity to some extent. The exact picture will however roll out only after few months into 2010-11.

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