

IT/ITES

Sector Impact - Negative

Background

- The Global financial crisis during CY2008 and CY2009 led to a technology downturn during that period. IT/ITES global spending is estimated to have declined 5-6% in CY2009 which saw IT/ITES majors report an average 1-3% sequential decline during the first half of CY2009.
- However, with indications of economic recovery, global IT/ITES spend is expected to increase by 4.6% to US\$3.4 trillion in CY2010 (Forrester Research).
- The North American market and Banking, Financial services and Insurance (BFSI) space which stabilised in June 2009 quarter led to some stability in the revenues of IT/ITES sector in September and December quarter for FY10.
- However, prices are yet to spring back to their original levels and this may affect margins for IT/ITES companies. Also, a strengthening rupee could be a medium-term dampener for IT/ITES companies.
- Within the IT/ITES industry, the outsourcing segment also faces challenges from protectionist policies of the new US administration and competition from cost-effective outsourcing destinations like Philippines, Vietnam, China and Eastern European nations.
- Within geographies, business from the non US/UK geographies and domestic clients has increased and has given a growth momentum to the IT industry. Nevertheless, a recovery in Europe, which is expected to lag the US recovery by 1-2 quarters, would be crucial for the momentum to sustain.

Budget Proposals

1. Minimum Alternate Tax (MAT) has been increased from 15% to 18%.
2. The standard rate of excise duty has been enhanced from 8% to 10%.
3. Exemption of custom and excise duty is provided to packaged software or canned software whether or not for commercial exploitation.
4. An excise duty at 4% is levied on specified IT products like microprocessor other than motherboard, floppy disc drives, CD-Rom drives etc, when these items are meant for external use with a computer or laptop as a plug-in device.

Duty Structure

(%)	Existing	Proposed
CUSTOMS DUTY		
• Computers – Desktops, Notebooks	Nil	Nil
• HDDs/FDDs/CD-ROM Drives/DVDs/Flash Drives/Combo Drives	Nil	Nil
• Microprocessors, Motherboard & Populated PCBs	Nil	Nil
• Monitors (CRT & LCD)	Nil	Nil
• Printers and Plotters	Nil	Nil
• Under Export Promotion Capital Goods (EPCG)*	3	3
• Supply of goods categorised as “Deemed Exports” **	Nil	Nil
EXCISE DUTY***		
• Under STPI Scheme	Nil	Nil
• Computers – Desktops & Notebooks	8	10
• HDDs/FDDs/CD-ROM Drives/DVDs/Flash Drives/Combo Drives	Nil	Nil
• Microprocessors	Nil	Nil
• Motherboard & Populated PCBs	8	10
• Monitors (CRT & LCD)	8	10
• Printers and Plotters	8	10

- *Subject to an export obligation equivalent to 8 times of duty saved on capital goods imported under EPCG scheme, to be fulfilled in 8 years reckoned from Authorisation issue-date.
- ** Goods categorised as “Deemed Exports” under the Export-Import policy are exempted from customs duty
- ***4% additional duty on specified products; additional duty is refundable on finished goods
- Duty drawback scheme: Exporters are eligible for reimbursement of all custom duty paid on imported inputs of an export product.
- Service tax on IT services: 10%

Excluding: 3% cess

Budget Impact: Industry

1. The increase in MAT and non-extension of Software Technology Parks of India (STPI) would adversely impact the industry, which has already been hurt by the economic slowdown.
2. As most of the IT-ITES companies are export oriented, their tax liability is usually under MAT. The increase in MAT rate will impact the tax expenses of IT-ITES companies.
3. Increase in excise duty on some of the hardware will have marginal impact software providers but is likely to affect adversely the domestic manufacturers of hardware.

Budget Impact: Companies

Company	Products/Services	% of Sales	Applicable Proposals	Overall Impact
Infosys	Services - IT, Engineering, Consulting, BPO, Products & Platforms	96	1 and 2	▼
Wipro	Services – IT, Product Engineering, Technology Infrastructure, BPO, Consulting	97	1 and 2	▼
Tata Consultancy Services	Services- IT, Enterprise Solution, Consulting , BPO, Engineering	98	1 and 2	▼
HCL Technologies	Services- IT, Application, ERP, Engineering, Hardware	96	1 and 2	▼▼
Tech. Mahindra	Services-IT, R&D, Consulting and BPO Services	97	1 and 2	▼

Legends:

▲▲	Highly Positive	▼	Negative	◀▶	Neutral
▲	Positive	▼▼	Highly Negative	∅	No Proposals