

## Indian Budget Signals a Shift Toward Policy Continuity

Partha Iyengar

India's Budget for 2009-10 didn't include the bold reformist policies that enterprises expected. Instead it indicated a move toward policy continuity and included some positive announcements for the IT industry.

## NEWS ANALYSIS

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### Event

On 6 July 2009, the Finance Minister of India, Pranab Mukherjee, presented the Indian government's budget for 2009-10. This is the first budget that the newly re-elected United Progressive Alliance (UPA) government has announced.

### Analysis

Indian budgets have typically been the communication vehicle for major policy changes and the government's economic philosophy. However, the Finance Minister indicated that the budget is not the appropriate vehicle for new or revised policies, signifying a marked shift from longstanding practice in India. India is now moving toward the more globally accepted practice of announcing policies through legislation in an ongoing manner.

The Indian IT industry anticipated that the new budget would include bold plans and intentions in key areas, such as disinvestment, policies friendly to direct foreign investment, and infrastructure and education. However, this budget did not contain any such announcements. It focused on welcomed rural development initiatives — which may create additional IT opportunities — but only included a few changes that directly affect industries in India.

The budget:

- *Extends the software technology park tax holiday by a year to March 2011:* This provides short-term relief to the IT industry during the global slowdown. The government did not concede to demands to extend the tax exemption for a further three years or more, which indicates that a further extension is unlikely.
- *Reveals plans to create transfer-pricing safe harbors and an alternative dispute resolution mechanism:* This will provide financial clarity and an attractive environment in which to create or expand multinational subsidiaries and back-office captive centers in India.
- *Increases the allocation of funds for urban renewal programs in major cities by 140%:* These programs will help address the urban gridlock in major Indian cities, which has reduced India's appeal as an offshore location for IT services.
- *Rationalizes taxes on packaged software:* This removed a tax anomaly that subjected companies to double taxation on packaged software purchases.
- *Eliminates fringe benefit taxes:* This will enable enterprises to more easily invest for business growth.

## RECOMMENDATIONS

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### Indian enterprises and global enterprises with a presence in India:

- Do not expect the Indian government's budget to include all policy announcements.
- Monitor IT-related legislation in India as you would in the other countries where you do business.

### Indian IT service providers:

- Expect that business will mostly continue as usual with no major positive or negative effects in the short to medium term.
- Look for increased competition from captive centers of global enterprises.

**Multinational IT service providers/captive centers in India:**

- Leverage the increased clarity and predictability of transfer pricing norms, as well as a faster adjudication process.

**RECOMMENDED READING**

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- "Historic Indian Election Results Bode Well for Indian IT" — India voted its current government in for a second five-year term, which could help deliver the political stability, legal reforms and economic growth needed to enable Indian industry to integrate and expand globally. **By Partha Iyengar**
- "Analysis of India as an Offshore Services Location" — India remained the leader in offshore services in 2008, despite the challenges of rising costs and competition for resources identified in 2007. **By Partha Iyengar and others**

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