

# GAS NEWS

## Supplement

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### CORE SECTOR GROWS 3.9% IN JULY

The six infrastructure industries grew 3.9% in July, marginally higher than in June, but the contraction in steel and cement production has raised doubts about the overall industrial output growth, which slowed to a 13-month low in June. The headline core sector growth in July is better than the 11-month low of 3.6% for June, but strong double-digit growth in crude and petroleum refining has masked an otherwise poor set of numbers. Cement and steel production has contracted by 0.2% and 0.9%, respectively from a year ago while production of electricity was up 3.8%, almost same as June.

The six core industries — crude oil, petroleum refining, coal, electricity, cement and finished steel — have a combined 26.7% weight in the index of industrial production, or IIP, and are considered an advance indicator of industrial activity.

### EXPORTERS, INDUSTRY WELCOME NEW FOREIGN TRADE POLICY INITIATIVES

Exporters and Industry hailed the new initiatives and sops worth Rs. 1052 crore announced in the annual supplement of the Foreign Trade Policy (FTP) stating that these steps would help India achieve the export target of \$200 billion this fiscal. In order to give immediate relief, a bonus incentive (over and above the present benefits) of 2 per cent has been announced by Commerce and Industry Minister Anand Sharma to various sectors. The extra sops are 2 per cent of the export value.

The sectors which were not doing well have been considered and extension of the Duty Entitlement Pass Book (DEPB) Scheme and interest subvention are welcome steps. The focus of the changes has been on continuity of the existing schemes, support to labour-intensive sectors such as leather, handicrafts, handlooms, tea, certain engineering products, textiles, silk carpets, marine, toys and sports goods, and reduction of transaction cost and time by simplifying procedures and streamlining decision-making. Extension of DEPB for six months and zero duty EPCG & SHIS for one year and their extension to additional sectors such as rubber, chemicals, sports goods, marine and toys will benefit these sectors.

### NEW DIRECT TAX CODE FROM APRIL 1, 2012

The Direct Tax Code Bill, which was tabled in the Lok Sabha today, has been delayed by a year. The Bill will now come into effect from April 1, 2012. The Direct Taxes Code Bill, introduced in the Lok Sabha on 30 August 2010 has sought to bring a slew of benefits for both individual taxpayers and domestic Corporates. The Bill proposes to mainly rationalise the income slabs so as to reduce the overall tax burden. The Bill proposes to raise the exemption limit on income tax from the current Rs 160,000 to Rs 200,000. Introduced by Hon'ble Finance Minister Shri Pranab Mukherjee, the Bill seeks to widen income tax slabs to levy 10 per cent rate on income between Rs 200,000 and Rs 500,000, 20 per cent on between Rs 500,000-10 lakh and 30 per cent above Rs.10 lakh (Rs 1 million).

For senior citizens, tax exemption is sought to be raised to Rs.250,000 from Rs.240,000. Currently, income between Rs.160,000 and Rs.500,000 attracts 10 per cent tax; between Rs.500,000 and Rs.800,000, 20 per cent and beyond Rs.800,000, 30 per cent. The lower end of the taxpayers will benefit the most. They account for 90 per cent of the income-tax payers. Even those earning over Rs 8 lakh will pay less tax under the new slabs.

Domestic companies too have been given a big relief both on the rate front as well as continuation of profit-linked deductions for industries enjoying tax breaks. The DTC also seeks to exempt long-term capital gains from the sale of shares through stock exchanges. The Finance Minister has refrained from introducing the reform he had originally proposed. This reform would have comprised bringing long-term capital gains to tax under a graded system.

The securities transaction tax will also continue. For domestic corporates, the tax rate has been pegged at 30 per cent, which is the current rate. However, there will be no surcharge. The Minimum Alternative Tax (MAT) rate will be 20 per cent and levied on book profits. Companies can carry forward MAT credit for 15 years.

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**FOOD INFLATION EASES MARGINALLY TO 10.05%**

Food inflation eased marginally for the second straight week as good rains boosted sowing of key crops, but the Reserve Bank of India is expected to maintain its hawkish stance on prices.

The food price index rose to an annual 10.05% in the week ended August 14 as against 10.35% in the previous week. The fuel price index remained steady at 12.57%.

**MANUFACTURING-LED GDP GROWTH UP BY 8.8%**

The Indian economy grew by 8.8 per cent during April-June quarter of 2010-11 fiscal against 6 per cent in the corresponding period of the previous fiscal on the back of robust manufacturing growth.

However, certain sectors like financial services restrained the growth. Agriculture and allied activities grew by 2.8 per cent against 1.9 per cent in the year-ago period. Manufacturing expanded by 12.4 per cent in April-June 2010-11 fiscal against 3.8 per cent in the same period last fiscal.

Construction too grew by 7.5 per cent compared with 4.6 per cent. Among services, financial, insurance and real estate expanded by just 8 per cent against 11.8 per cent, while community social and personal services growth slowed down to 6.7 per cent from 7.6 per cent. However, trade, hotels and communication services rose 12.2 per cent (5.5 per cent).

The Government expects economy to grow by 8.5 per cent this fiscal. Though the GDP numbers for the April-June quarter are higher than that of 8.6 per cent in the previous quarter, they are still behind the forecast of 8.9-9.4 per cent by various experts.

*continued from page 2 column 2*

In the case of foreign companies, the tax rate will be 30 per cent and there will also be a branch profits tax of 15 per cent. Special Economic Zones developers will continue to get current tax breaks for all the zones notified up to end March 2012. For SEZ units, the existing tax breaks will continue to be available if they commence operations before the end of March 2014. However, both MAT and dividend distribution tax will now be applicable on SEZs and SEZ units.

On international taxation, Mr Mukherjee has restored the position of allowing treaty override - an assessee can choose between domestic law or treaty provisions, whichever is beneficial. The original draft proposed to take away the treaty override benefit and suggested that neither the treaty nor the code shall have preferential status. It had then proposed that provision of treaty or the code, whichever is later in time, will prevail over the other. Now, the concept of preferential status and law later has not been pursued.

For individual tax-payers, the DTC proposes to provide Rs 1 lakh investment limit (the existing 80C level) besides introducing a new limit of Rs 50,000 for tax-payers looking to spend on life insurance premia, tuition fee for children and health insurance payment. They will also get Rs 1.5 lakh of interest paid on home loans as deduction. The original draft had mooted investment limit of Rs 3 lakh while proposing to introduce the concept of Exempt-Exempt-Tax system of taxation on withdrawal of savings.

Now, the Government proposes to continue with Exempt-Exempt-Exempt system of taxation, implying there will be no tax when an individual withdraws his savings from provident funds, pension fund commutation and post retirement schemes.