

**Benefits for Infrastructure Sector announced in the Union Budget from 1991-92 to
2007-08**

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Source: Finance Minister's Budget Speeches to Parliament

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1. Budget 2007-2008:

Finance Minister, Mr. P Chidambaram

Fiscal Benefits

- The benefit u/s 80 IA is extended to cross country natural gas distribution network, including gas pipeline and storage facilities integrated to network and also to navigation channel in the sea
- To facilitate the creation of urban infrastructure, issue of tax-free bonds is allowed through State Pooled Finance Entities for raising funds for a group of urban local bodies.
- A five-year holiday from holiday from income tax for two, three or four star hotels as well as for convention centers with a seating capacity of not less than 3000. They should be completed and begin operations in the National Capital Territory of Delhi or in the adjacent districts of Faridabad, Gurgaon, Ghaziabad or Gautam Budh Nagar during the period April 1, 2007 to March 31, 2010

Policy Incentives

- Allocation for Jawaharlal Nehru National Urban Renewal Mission (JNNURM) enhanced from Rs.4,595 crore in 2006-07 to Rs.4,987 crore in 2007-08

Transport

- A separate window for rural roads under the Rural Infrastructure Development Fund to continue under RIDF-XIII in 2007-08 with a corpus of Rs.4000 crore
- Provision for the National Highway Development Programme increased from Rs.9,945 crore in 2006-07 to Rs. 10,667 crore next year

Public Private Partnership

- Revolving fund with a corpus of Rs.100 crore set up to quicken project preparation of a shelf of bankable projects that can be offered under for competitive bidding. The fund will contribute upto 75% of the preparatory expenditure in the form of interest free loan that will be eventually recovered from the successful bidder

2. Budget 2006-2007:

Finance Minister, Mr. P Chidambaram

Fiscal Benefits

Industrial Park

- Under Section 80 IA of the Income Tax Act, which applies to infrastructure facilities, the terminal date for developing an industrial park has been extended from March 31, 2006 to March 31, 2009.

Power

- Under Section 80 IA of the Income Tax Act which applies to infrastructure facilities, the terminal date for power sector the date is extended to March 31, 2010

Policy Incentives

Cluster Development

- The Prime Minister has decided to constitute an Empowered Group of Ministers who will lay down the policy for cluster development and oversee the implementation

Telecommunications

- Rs.1500 crore from the Universal Services Obligation Fund in 2006-07 to achieve the ambitious target of 250 mn telephone connections by December 2007
- In order to extend financial support to infrastructure for cellular telephony in rural areas, the Minister of Communications will bring a Bill in the Budget session to amend the Indian Telegraph Act

Power

- In order to create an enabling and empowered framework to carry out reforms in Power sector, the Prime Minister will establish an Empowered Committee of Chief Ministers and Power Ministers

Transport

- The Budget support for NHDP enhanced from Rs.9320 crore to Rs.9945 crore in 2006-07
- A sum of Rs.550 crore for a special accelerated road development programme for the North Eastern region

3. Budget 2005-2006:

Finance Minister, Mr. P Chidambaram

Fiscal Benefits

Transport

- Exemption from tax on income of a foreign entity arising out of agreements between it and an Indian entity to acquire aircraft or aircraft engines on lease, extended up to September 30, 2005
- The cess on petrol and diesel increased by 50 paise per litre to raise additional resources exclusively for the national highways. A suitable amendment is being proposed to the Central Road Fund Act, 2000

Policy Incentives

Roads

- Increase in allocations for NHDP from Rs 65.14 billion in 2004-05 to Rs 93.20 billion in 2005-06.
- A special purpose vehicle (SPV) to finance infrastructure projects (roads, ports, airports and tourism) with Rs 100 billion borrowing limit and a provision of Rs 15 billion for viability gap funding for infrastructure projects. An Inter-Institutional

Group of banks and financial institutions will appraise the projects. Government will communicate the borrowing limit to the SPV at the beginning of each fiscal year.

4. Budget 2004-2005:

Finance Minister, Mr. P Chidambaram

Fiscal Benefits

Power

- The benefit u/s 80 IA is extended to power sector projects undertaken during April 1, 2004 to March 31, 2006, in order to promote renovation and modernization of existing transmission and distribution lines

Healthcare

- The benefit u/s 80 IB is extended to new hospitals with 100 beds or more set up in rural areas. Such hospitals will be entitled to a 100% deduction of their profits for a period of 5 years

Telecommunications

- The terminal date for benefits u/s 80 IA to telecom sector is extended from March 31, 2004 to March 31, 2005. Under Section 80 IA, a telecom operator is entitled to 100 per cent exemption on taxable profit for 5 years and 30 per cent exemption for the next 5 years during the initial 15 years from the date of commencement of commercial operations.

Transport

- The concessional regime under Section 33AC will be withdrawn and shipping companies will now have only an option to pay the tonnage tax or normal corporate tax on profits. Under the proposed tonnage tax system, shipping companies will pay annual taxes based on a predetermined rate schedule for their net registered tonnage rather than being taxed on their net profits at a corporate tax rate of 35%

Policy Incentives

- Inter-Institutional Group (IDBI, IDFC, ICICI Bank, SBI, LIC, Bank of Baroda and Punjab National Bank) will pool their resources on a callable basis, and a sum of Rs. 40,000 crore will be made available as and when necessary to ensure speedy conclusion of loan agreements and implementation of infrastructure projects. Initially, airports, seaports and tourism will be the target sectors of the IIG
- The Ministry of Shipping proposes to establish a SPV to raise funds for the Sethusamudram Ship Canal Project. The Government will participate in the funding through a mix of equity support and debt guarantee

5. **Budget 2003-2004:**
Finance Minister, Mr. Jaswant Singh

Fiscal Benefits

Water Supply

- Depreciation @100% on plant and machinery and buildings that house such plant and machinery forming part of a water supply project or a water treatment system.
- Water supply projects are now totally exempt in regards to capital goods and machinery, both from customs and excise duties
- Pipes that bring raw water from source to the treatment plant and for conveying treated water to the storage place have been exempted from excise duty

Power

- Custom duty on specific equipment for high voltage transmission projects reduced from 25% to 5%

Petroleum

- Custom duty on LNG regassification plants reduced from 25% to 5%.

Policy Incentives

- The cess on diesel and motor spirit increased by 50 paise per litre to raise additional resources of Rs. 2600 crore for road development
- 48 projects have been identified where the traffic volume justifies four laning. These projects will be funded on a BOT basis, with Government providing a subsidy in the form of annuity flow to meet only the shortfall between anticipated revenue and loan repayment liabilities
- Ministry of Railways has established a SPV to take up projects worth Rs.8000 crore for the Golden Quadrilateral.
- The mega power project policy is further liberalised by extending all the various duty and licensing benefits to any power project that fulfils the conditions already prescribed for mega power projects
- Rs. 20 crore allocated to CSIR for research in solar energy, wind turbines and hydrogen fuels as alternatives to fossil fuels

6. **Budget 2002-2003:**
Finance Minister, Mr. Yashwant Sinha

Fiscal Benefits

- Shipping Industry: - Share premium reserve and General reserve to be considered while calculating the limit upto which amounts can be transferred to reserve for purchase of new ships. This has enlarged the deduction available to shipping industries. The reserve will not be considered while computing the book profits and shipping companies would thus be out of the purview of minimum alternate tax (MAT)
- The deduction available u/s 80HHD of the Income-tax Act in respect of foreign exchange earnings of hotels or tour operators will be enhanced to bring it in line with the deduction available to exporters u/s 80HHC
- A deduction of 50% of the profits earned by units setting up and operating large convention centers will be allowed for 5 years u/s 80-IB

- Customs duty on specified equipment for ports and airports reduced to 10%
- Aeroplanes, helicopters, gliders, simulators of aeroplanes and their parts and raw materials are exempt from duty

Policy Incentives

Transport

- The Pradhan Mantri Gram Sadak Yojana is further allocated Rs. 2500 crore for the year 2002-03
- It is proposed to corporatise major ports in a phased manner. With corporatisation of the existing ports and new private sector ports coming up, the regulatory structure will be strengthened
- Private sector participation in Greenfield airports will be encouraged through a package of concessions

Power

- A new interest subsidy scheme called Accelerated Rural Electrification Programme is introduced and an outlay of Rs.164 crore has been provided for this scheme in 2002-03.
- The APDP is being redesigned as the Accelerated Power Development and Reform Programme with an enhanced plan allocation of Rs.3500 crore for 2002-03. The focus of reform has shifted from generation to transmission and distribution

Tourism

- SPV will be permitted in tourism sector to raise resources from both public and private sectors for infrastructure development in these circuits

Infrastructure – Multi sector

- An Infrastructure Equity Fund of Rs.1000 crore will be set up to help in providing equity investment for infrastructure projects. Contributions to the Fund to be managed by the IDFC, would initially be made by public sector insurance companies, financial institutions and some banks
- An institutional mechanism is being set up to coordinate the debt financing by financial institutions and banks of infrastructure projects larger than Rs. 250 crore. IDFC will act as the coordinating institution with primary responsibility for different sectors being shared with IDBI and ICICI.
- Public private partnership will be encouraged for the provision of infrastructure facilities, the modalities for which are being worked out by a Task Force

7. Budget 2001-2002:

Finance Minister, Mr. Yashwant Sinha

Fiscal Benefits

Infrastructure – Multi sector

- A 10 year tax holiday proposed for core sectors of infrastructure viz., roads, highways, rail system, water treatment and supply, irrigation, sanitation and solid waste management systems, to be availed during the initial 20 years.
- A 10-year tax holiday is proposed for airports, ports, inland ports and waterways, industrial parks and generation and distribution of power, to be availed during the initial 15 years. The period of commencement of business for power and industrial parks is also being extended up to March 31, 2006
- Any income by way of interest, dividends or long-term capital gains from such investments (investors providing long term finance or investing in the equity

capital of the enterprises engaged in infrastructure facility) is fully exempt. This concession is extended to guarantee commissions and credit enhancement fees earned by FIs from infrastructure enterprises. Co-operative Banks will also be eligible for exemption of their income from investments in approved infrastructure facilities. This benefit has been withdrawn vide Finance Act 2006 wef FY 2006-07

SEZs

- To encourage development of industrial infrastructure, the 10-year tax holiday will be available to developers of SEZs on the same lines as developers of industrial parks. The income of investors making long term investment for the development of SEZs will also be exempt

Telecommunications

- A 5-year tax holiday and 30% deduction for next 5 years will be available to units in the telecommunications sector commencing the operations on or before March 31, 2003. These concessions will also be extended to internet service providers and broadband networks

Transport

- Tax holiday for 5 years and 30% deduction of profits for next 5 years to the enterprises engaged in the integrated business of handling, transportation and storage of food-grains
- Rate of depreciation increased to 25% for ships and inland water vessels

Policy Incentives

Transport

- With the objective of achieving rural connectivity, a central allocation of Rs.2500 crore is made towards the Pradhan Mantri Gramodaya Yojana. 50% of the diesel cess is earmarked for development of rural roads.

Power

- To improve the power distribution system in rural areas, a sum of at least Rs.750 crore out of RIDF has been earmarked for rural electrification works. REC is allowed to float capital gains tax exemption bonds along with NABARD and NHA under Section 54 EC of the Income Tax Act.
- The Central Government is accelerating the programme of reforms in SEBs on the basis of specific milestones that are being built into MOUs entered into with State Governments. Plan allocation to the Accelerated Power Development Programme has been stepped upto Rs.1500 crore next year from Rs.1000 crore this year. Priority under APDP would be given to those states that undertake reform
- Electricity Bill 2001 to be introduced within this session to accelerate the reform process in the power sector and to unify all existing central legislations in the sector

8. Budget 2000-2001:
Finance Minister, Mr. Yashwant Sinha

Fiscal Benefits

Telecommunications

- Basic customs duty on specified raw materials for manufacture of optical fibres reduced from 15% to 5%
- Duty on cellular phones reduced from 25% to 5%
- Concessional rate of 5% basic duty applicable to specified telecom equipment extended to internet service providers also

Urban Infrastructure

- Various tax benefits available to the infrastructure sector is extended to water treatment and solid waste management.
- Investments in public companies providing long term finance for urban infrastructure included as approved investments for charitable trusts

Transport

- The existing provisions of 54EA and 54EB are deleted and replaced with a new provision whereby tax exemption from capital gains would be available only if investment is made in bonds to be issued by NABARD and NHAI. These bonds will have a lock-in period of five years and their proceeds will be used for providing finance to the agricultural sector and for the National Highway Development Project.
- Shipping industry allowed deduction of their entire profits, against 50% as at present, if these are kept in reserve to be used for purchase of new ships. This 100% deduction would be available for 5 years beginning of next year

Policy Incentives

- A new scheme for providing assistance to State utilities will be introduced. Under this scheme, additional Central Plan assistance of Rs.1000 cr will be provided to State and Union Territory Governments

9. Budget 1999-2000:
Finance Minister, Mr. Yashwant Sinha

Fiscal Benefits

Infrastructure Multi sector

- The maximum period for tax exemption u/s 80 IA of the Income Tax Act to infrastructure and other core sectors is made uniform at 15 years
- Power generation, coal mining, Refinery, telecom and fertilizer projects will now attract a nominal basic customs duty of only 5%. However, they will be subject to applicable rates of countervailing duty. Mega Power Projects also will be an exception to this.
- Development Corporations, and for other specified industries, in the North Eastern Region

Transport

- An additional duty of Re. 1 per litre on imported and domestic HSD, the revenue from which will accrue entirely to the Centre. 50 paise of this duty will be converted into a statutory cess and transferred to the Central Road Fund. 30% of the Fund will be transferred to the State Governments for development and maintenance of State Roads. The balance amount will be utilized for development and maintenance of National highways and expressways and by the Ministry of Railways

Power

- The activities of transmission and distribution of power, set up after 1.4.1999, will be eligible activities for fiscal incentives available to infrastructure units

Policy Incentives

- Infrastructure projects need long term funds, which, in turn, require a deep and well functioning debt market. With a view to modernizing the debt market and introducing paperless trading in this segment also, Government proposes to abolish stamp duty on transfer of debt instruments within the depository mode.

10. Budget 1998-1999:

Finance Minister, Mr. Yashwant Sinha

Fiscal Benefits

Power

- 100% tax holiday extended to power sector upto the year 2003

Transport

- Infrastructure status extended to inland waterways and inland ports
- Additional tax at the rate of rupee one per litre on petrol which will be used for the development of roads and entirely go towards augmenting the corpus of the National Highways Authority of India.
- Concession presently available to import of equipment for construction of National Highways to other road-construction projects also.

Telecommunications

- Tax holiday benefits proposed to radio paging services and services provided by satellite owners for telecommunication

Infrastructure Multi sector

- Provident funds are a potentially important source of funding for private sector infrastructure projects. Up to 10% of the new accretion to provident funds allowed to be invested in private sector securities which have an investment grade rating from at least two credit rating agencies
- Section 10(23G) of the Income Tax Act is being recast to serve the objective of infrastructure financing without misuse of the concession. This benefit has been withdrawn wef FY 2007

Policy Incentives

Power

- The Government passed an ordinance for establishing Central and State Electricity Regulatory Commission with the primary objective of rationalizing electricity tariffs
- Simplified the procedures for extending sovereign counter guarantees for a few "fast track" power projects which were held up for long

Infrastructure Multi sector

- IDFC was incorporated as a non-government company to enhance long term finance for infrastructure investment in the private sector

11. Budget 1997-1998:

Finance Minister, Mr. P Chidambaram

Fiscal Incentives

Telecommunications

- Telecommunications qualify as an infrastructure. Thus following benefits extended to this sector:
 - (i) Tax holiday u/s 80 IA
 - (ii) Amortisation of licence fees and
 - (iii) Inclusion of investments made in debentures and equity shares of a public company providing telecommunication services for the purposes of tax rebate u/s 88

Tourism

- Deduction of 50% of profits in respect of new hotels which are located in a hilly area or a rural area or a place of pilgrimage or a specified place of tourist importance. Exempted from levy of expenditure tax. In respect of hotels located in other places excluding the four metropolitan cities, the deduction shall be only 30% of the profits

Transport

- Rs. 900 crore, from the estimated revenue of Rs.1200 from the Service Tax on transportation of goods by road, will be used to augment the resources of the National Highway Authority

Policy Incentives

Petroleum

- New exploration licensing policy to be announced shortly by Ministry of State for Petroleum and Natural Gas. Some of the highlights of the policy include: Companies will be paid the international price of oil for new discoveries; Tax holiday for 7 years after commencement of commercial production for blocks in the North-East Region; a separate petroleum tax code will be put in place as in other countries to facilitate new investments
- Oil Exploration and industrial parks added to infrastructure category and will get five year tax holiday under Section 80IA of the Income Tax Act

12. Budget 1996-1997:
Finance Minister, Mr. P Chidambaram

Fiscal Benefits

- 5 year tax holiday u/s 80 IA extended to investment in irrigation, water supply, sanitation and sewerage systems
- To exempt infrastructure funds from income tax. Any dividend, interest or long-term capital gains of such funds or companies from investments in form of shares or long-term finance in any enterprise set up to develop, maintain and operate an infrastructure facility will be free of income tax. This benefit has been withdrawn wef FY 2007
- Investment in approved debentures and equity shares of public companies are eligible for tax rebate u/s 88 if the proceeds of such public issues are applied to create a new infrastructure facility or to generate or distribute power. The limit u/s 88 is raised from Rs 60,000 to Rs 70,000
- Companies in the infrastructure sector will be allowed to issue shares that are redeemable after the expiry of a period of 20 years from the date of issue.
- Duty on parts and sub-assemblies of telecommunication equipment to be reduced from 35% to 30% and on finished equipment from 50% to 40%. Customs duty on cellular phones, pagers and trunking handsets reduced to 30%

Policy Incentives

- Infrastructure Finance Development Company (IDFC) to be incorporated with an authorized share capital of Rs.5000 crore. IDFC will act as a direct lender, as a refinancing institution and as a provider of financial guarantees.
- Rs. 200 crore provided to strengthen the capital base of the NHAI

13. Budget 1995-1996:
Finance Minister, Mr. Manmohan Singh

Fiscal Benefits

- 5-year tax holiday proposed for any enterprise, which builds, maintains and operates infrastructure facilities in the area of highways, expressways and new bridges, airports, ports and rapid mass transport systems. This tax holiday will be available to enterprises, which commence operation after 1st April, 1995. As an incentive to FIs to provide long-term finance for development of such infrastructure, it is proposed to allow a deduction of upto 40% of taxable income derived from financing of these investments, provided this amount is credited to a special reserve

14. Budget 1994-95
Finance Minister, Mr. Manmohan Singh

Fiscal Benefits

Telecommunications

- Import duty on non-electronic parts for manufacture of telecom equipment reduced from 50% to 40% and on optical fibre from 85% to 40%

Policy Incentives

Infrastructure Multisector

- The Plan Outlays in Power, Petroleum and Natural Gas, Telecommunication, Railways and Transport, have all been increased

15. Budget 1993-94

Finance Minister, Mr. Manmohan Singh

Fiscal Benefits

Power

- 5-year tax holiday in respect of profits and gains of new industrial undertakings set up anywhere in India for either generation or generation and distribution of power. The 5-year holiday will begin from the year of generation of power. The 5-year tax holiday, in both these cases, will be part of section 80 IA OF THE income Tax Act. At the end of the 5-year period, these units will be entitled to the existing deduction under section 80-IA for the remaining period.
- Import duty on specified raw materials and items in the development of non-conventional energy sources is reduced by 15% to 20%. In respect of wind operated electricity generators the import duty is reduced from 40% to 25%

Environment

- Depreciation admissible on plant and machinery relating to environment protection and pollution control allowed at 100% instead of the existing 40% of capital cost under the Income tax rules.

Policy Incentives

Infrastructure Multisector

- The Plan Outlays in Power, Petroleum and Natural Gas, Telecommunication, Railways and Transport, have all been increased

16. Budget 1992-93

No announcements made

17. Budget 1991-92

Finance Minister, Mr. Manmohan Singh

Fiscal Benefits

Tourism

- Expenditure incurred in new approved hotels set up in hilly and other remote areas are exempt from expenditure tax for a period of 10 years. Such hotels will also enjoy a deduction of 50% from profits instead of the nominal 30% under section 80-I subject to certain conditions

Policy Incentives

Water Supply

- The provision of the rural water supply is being stepped upto Rs.758 crores so as to make it possible to set aside Rs.250 crores for ensuring complete coverage of "no-source problem" villages by end of 1992-93

Source: Finance Minister's Budget Speeches to Parliament