

Budget 2007: The IT Sector Deserves Better

1 March, Kris. Gopalakrishnan, President, Joint Managing Director and Chief Operating Officer, Infosys Technologies Ltd.: "This budget is a mixed bag. On the fiscal front, there have certainly been great improvements. Tax collections are up, growth is up. Spending has increased for the social sector, though nothing radical has been proposed. Neither are there any transformational initiatives. Higher education deserved much more, but we have seen less."

"Overall, the budget has certain positives, but the taxation proposals are neutral at best. On the tax front, reducing custom duty is welcome, extending the Technology Upgradation Fund to the textile industry is great, but one would have expected a reduction in the excise rates to expand the industrial market for India. Tax increases in the corporate sector will greatly hurt sentiments since tax collections on the corporate side have gone up by 40%. Certainly, the industry was looking for relief from surcharge levies. The increase in the dividend distribution rate and levy of 1% surcharge on tax rates has created enormous negative sentiments."

"The IT sector is growing at a rapid pace and the industry expected no change in the 10A, 10B regime while expecting an extension of time frame. Obviously, this has not come about in the budget but the changes in the budget to bring 10A and 10B companies under MAT is a retrograde step as commitments have been made to keep the exemption going till 2009."

"The IT sector this year will

create 380,000 jobs, which comprise 50% of the total jobs created globally, and the largest number of jobs in the organized sector in India. The FBT levy on stock options adversely affects one of the major employee retention tools for the IT sector. The IT sector deserves better because of its job creation potential."

"Overall, the budget does not have anything positive for the IT sector."

Nandu Kumar Pradhan, President and MD, Red Hat India: "The Budget clearly brings out the Government's commitment to drive societal change through education. This can be seen in the increase in budgetary allocation for the Sarva Shiksha Abhiyan and restructuring of ITIs amongst others. Commitment from the government with an increase in allocation for eGovernance projects both at the Center and State will help drive the growth of the Domestic IT industry."

"With the pass through status granted to Venture Capitalists in the areas of Biotechnology, Information Technology and Nano Technology, will help the Indian entrepreneurs create software, hardware products and Intellectual Property development.

Alok Gupta, Director Marketing, Unistal Systems: "The imposition of MAT at an effective rate of 11.22% on book profits has wiped away the benefits that we were to enjoy until 2009. Apart from this the imposition of fringe benefit tax on ESOPs has come up as a surprise for us. The Ministry did not concede the industry's demand to extend the tax holiday available to software and IT

enabled services companies under the software technology park (STP) scheme beyond 2009."

Mahendra Lalwani, MD, ZyXEL Technology India Pvt. Ltd.: "We welcome the government's decision to maintain the current excise and custom duty levels on IT products. But at the same time we are disappointed with the government's decision to extend the minimum alternate tax (MAT) and also their move to slap a fringe benefit tax on ESOPs."

Tripathi, MD, Infracsoft Technologies: "Since InfracsoftTech is a banking solutions company, first comment is that the regional rural banks are given a boost by the FM, permitting them to enter FX business and accept NRE and FCNR Deposits. Branch expansion has been permitted to RRBs. Hopefully, RRBs that have completely rural centric business model and HR to meet this business need, can benefit from this change."

"On other SSI businesses, excise waiver for companies up to sales of Rs. 1.50 crore is good for small sector. This won't help IT companies as this size is not feasible even for the start ups in IT and ITES industry."

"No surcharge on income tax for companies having taxable income up to Rs. 1 crore is good for generic industries, for companies ranging in turnover of about Rs. 10-15 crores, considering a 10%-15% profit margin for them on which they pay tax. However, most IT companies in this category have been exporters, thus may see no benefit from this."

"For right-sized SME and mid-cap IT and ITES companies who still

have to cross \$100 million in revenues or those who are not in the Billion Dollar Club, this budget is nothing, but bad news."

"The FM who himself had promised a ten year tax break till 2009, has gone ahead to introduce MAT for all the businesses, thereby taking away the tax break the IT industry had planned on the government's past assurances. The government fails to see the contribution the IT industry has made in terms of generating employment, infrastructure, exports and an international brand, that the tax collection in lieu would have never achieved."

"FBT on ESOPs is a badly calculated tax. ESOP price difference was already hitting profit and loss accounts of the current year for companies, instead of allowing a deduction from the net-worth of the company. IT companies thrive on current year PE multiples and thus would like to maximize their PAT. The issue of ESOPs for retention and participation of employees in services companies was therefore as such not getting conducive treatment by the government for years."

"The FM has assumed that companies are using ESOPs as a vehicle to lower their taxable income, which is grossly incorrect. The FM has also assumed that companies are using ESOPs as a vehicle to lower their taxable income, which is grossly incorrect. On top of it, adding FBT to ESOPs will further discourage people centric services companies to seek higher employee participation."

Deepak Prasad, Vice President, Global Sourcing, Safenet Infotech Pvt. Ltd.: "Not a very promising budget, really! No specific fillip for the

fledgling, growing Indian software product industry either. The IT sector, which has been doing well, will instead see a rise in taxes through MAT (specially the small to mid-sized firms). There is little or no mention on initiatives for export, instead, as I understand there have been increase in taxes on the software services exporters."

"The cost structure for companies will generally be impacted due to additional service taxes on rentals and also through additional dividend distribution tax for firms after they pay the requisite income taxes."

Col. Balwinder Singh, Director, Targus Technologies: "The budget is progressive and forward looking especially the allocation for e-governance, which has been enhanced by 82% to Rs. 719 crore in 2007-08 to fund the ambitious program. The planned expansion of expenditure on e-governance is a good signal for the IT industry. It will serve to expand the domestic market and IT firms will see government spending coming their way. I also welcome the decision to maintain the current excise and custom duty levels on IT products. Besides, the increase in SSI exemption limit for the IT hardware industry, which has been raised to 1.5 crores is also encouraging."

Umesh Srivastva, Managing Director, Accton Ei-En India: "In my opinion the budget is progressive and forward thinking. We welcome the increase in SSI limit, which has been raised to Rs. 1.5 crores. As far as end users are concerned there has been no change. We also welcome the decision to maintain the current excise and custom duty levels on IT

hardware. However, the Ministry has been tough on the software industry this time in imposing MAT and FBT on ESOPs."

Rahul Gupta, Vice Chairman, Storage Networking Industry Association (SNIA), India: "The Budget is very disappointing according to my view. In my opinion IT Industry contributes substantially to the Government tax and other receipts. I felt that the contribution by the IT industry was not even acknowledged suitably in the budget. There is also no such benefit for encouraging the IT industry."

Alekhya Talapatra, Director: Sales (Govt and PSU), Dell India Pvt. Ltd.: "The budget is progressive and forward looking especially the allocation for e-governance, which has been enhanced by 82% to Rs. 719 crores in 2007-08 to fund the ambitious program. The planned expansion of expenditure on e-governance is a good signal for the IT industry."

"Also, welcome is the increase in Defense allocation and will help Defense to speed up some of the projects related to electronics warfare and connectivity. It will serve to expand the domestic market and IT firms will see government spending coming their way."

"However, I expected some relief on current excise and custom duty levels on IT products and hopes were belied to this extent. To increase the PC penetration, this should have been a pre-requisite."