

# Budget divides Indian IT down the middle

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A day after the local IT hardware industry uncorked the bubbly for receiving unprecedented sops from the Indian 2006 Budget that gave local manufacturing a fillip, it appears that it would have to spend the next few months fighting none other than its own brethren and peers -- the local software industry and the foreign hardware makers.

The Indian budget it appears has vertically split the country's IT industry by bringing in a rift between not only its hardware and the software sectors, but also between the local and foreign hardware makers. And more importantly it has brought its two main industry lobbies, the National Association of Software Services Companies (NASSCOM) and the Manufacturing Associations of Information technology (MAIT or the hardware lobby) at loggerheads.

Bowing to pressure from local hardware manufacturers, India's finance minister brought back the 12 percent excise duty that was removed in earlier years, while allowing input tax credit to local manufacturers to enable them to face competition from imports. The budget also removed a 16 percent excise duty on components like DVD drives, flash drives and combo drives to "bring down the prices of these entertainment and storage devices."

Earlier, while fully built computers were exempted from the excise duty, a 16 percent excise duty was levied on the input components, as a result of which the manufacturers were unable to offset the taxes on their input components. This discouraged local sourcing from the upstream industry.

"The IT manufacturing industry is glad that anomalies of inverted excise tariff structure for the computer manufacturing industry have been removed," said Vinnie Mehta, the executive director of the hardware lobby MAIT, "thus promoting indigenous manufacturing of computers and high-end products such as notebooks and servers."

But while the budget provided these sops to the hardware industry for the first time ever, it also dealt a blow to the software industry by imposing 8 percent excise duty on packaged software and bringing the so far exempted IT-enabled services, or the back office outsourcing services sector under the services taxes fold thereby imposing a 10.2 percent services tax on the sector.

Clearly these taxes have not gone down well on the software industry. Both NASSCOM -- the software lobby -- and local as well as MNC software companies in India are crying foul. "We are deeply concerned about the increase in levies on packaged software and on IT hardware, which will be a setback to efforts to promote IT utilization in the Indian economy and for vital applications like education and health," said Kiran Karnik, president NASSCOM, while Microsoft India managing director Neelam Dhawan said that the 8 percent excise on software will not only increase prices, but also lead to rise in piracy.

The budget though, has exempted customized software and software packages downloaded from the Internet from any duty.

Nevertheless, as a consequence of the new impositions, NASSCOM has not only decided to fight its cause with the government but has also decided to go against the local hardware sector's -- and thus MAIT's -- interest, by urging the government to withdraw the 12 percent hardware excise duty too

"At a time when the trend is towards lowering of PC prices, it (the 12

percent excise duty) is a retrograde step," Karnik is reported to have said in a comment to the local media. "The move to impose a duty is detrimental to IT penetration in India. We will urge the government to take it back."

Foreign computer makers too are at loggerheads with their local counterparts. Even as Rajendra Kumar, president MAIT, who is also the vice-president of a local hardware giant HCL Infosystems has applauded the 12 percent excise duty re-imposition, multi-national companies like Lenovo and Hewlett Packard have dissociated themselves from MAIT.

"We strongly dissociate ourselves from MAIT on this view," said Hewlett Packard president Ravi Swaminathan in an interview to the local media "We also manufacture PCs in India. There is no inverted tariff structure as claimed by MAIT."

Lenovo's and Hewlett Packard's ire stems from the fact that while the re-imposition of the excise duty gives a major boost to the domestic manufacturers, it makes their product more expensive than the locally made computers.

Personal computer makers HP, Acer, LG and Lenovo say that they will soon have to hike prices of their computers by 5 to 6 percent. Clearly that (increase in prices of PC) will dampen our growth rate, said an official of Acer India.

Meanwhile, there seems to be at least one area where all in the Indian IT industry is united at the moment. Reportedly, the industry is planning to take advantage of the three-day visit of George Bush that started Thursday to raise a few issues like the cap on H-1B visas and social security tax imposed on Indian companies and professionals in the U.S. for a resolution in Indian IT's favor.

The IT industry is hoping that the high-level Indo-U.S. discussion on bilateral trade following President Bush's visit will also result in a resolution of these issues, said a spokesperson of NASSCOM.

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