

Tax Hotline

August 25, 2000

TAX HOLIDAY TO BE EXTENDED TO REVENUES FROM "ON-SITE" SERVICES PROVIDED BY SOFTWARE COMPANIES

Prior to the changes brought about by the Finance Act 2000, income from "on-site" software services were exempt from tax in India by virtue of section 10 A of the Income Tax Act, 1961 (ITA).

The new section 10 A introduced by the Finance Act, 2000 does not provide this tax holiday to such income. The new section exempts from tax the profits from export of software earned by units in Software Technology Park, Hardware Technology Park or 100% Export Oriented Units. The definition of "software exports" does not include "on -site" services even though they result in foreign exchange earnings.

Approximately 58% of total computer software exports constitute 'on-site' services. Hence, the new provision would result in substantial tax burden to the software industry. Upon representation made by the industry to the Information and Technology Ministry, the Ministry sources said that the amendment required for this purpose in the ITA shall be presented to the Parliament in the Winter Session to reinstate the tax benefit to profits from 'on-site' services.

Source: *Business Standard*, August 25, 2000

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