

**GOVERNMENT OF INDIA
COMMUNICATIONS AND INFORMATION TECHNOLOGY
LOK SABHA**

UNSTARRED QUESTION NO:1043
ANSWERED ON:20.08.2007
GROWTH RATE IN IT SECTOR
Bose Shri Subrata

Will the Minister of COMMUNICATIONS AND INFORMATION TECHNOLOGY be pleased to state:

- (a) whether Indian IT and its enabled services are expected to register higher growth rates;
- (b) if so, the growth rate expected during 2007-2008 and the extent to which it is higher in comparison to last three years; and
- (c) the steps being taken to improve the growth rate?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY (DR.SHAKEEL AHMAD)

(a): No, Sir.

(b): As per the National Association of Software and Service Companies (NASSCOM), the total IT industry revenue during the financial year 2007-08 including exports is expected to reach US\$ 49 to 50 billion, recording a growth rate of about 26% over the year 2006-07. The growth rate achieved by the IT sector in the last three years is as follows:

Year IT Sector Revenue

(percentage growth rate)

2005-06: US\$ 22.6 billion. (35%)

2006-07: US\$ 30.3 billion (34%)

2007-08: US\$ 39.7 billion (31%)

(c): The steps taken by the Government for the growth of IT Sector are enclosed as Annexure.

Annexure

Steps taken by the Government to promote the IT Sector

1. Approvals for all foreign direct investment proposals relating to the Information Technology Sector, with the exception of Business-to-consumer (B2C) e-commerce are under the automatic route.
2. Peak rate of customs duty has been reduced to 10%. Customs duty on ITA-1 items (217 items) has been abolished from 1.3.2005. All goods required in the manufacture of ITA-1 items have been exempted from customs duty subject to Actual user condition. Information Technology (IT) Software is exempted from Customs duty.
3. Excise duty on computers is 12%. Microprocessors, Hard Disc Drives, Floppy Disc Drives, CD ROM Drives, DVD Drives/DVD writers, Flash Memory and Combo-Drives have been exempted from excise duty.
4. Supplies of Information Technology Agreement (ITA-1) items and notified zero duty telecom/electronic items in the Domestic Tariff Area (DTA) by Electronics Hardware Technology Park (EHTP)/Export Oriented Unit (EOU)/ Special Economic Zone (SEZ) units are counted for the purpose of fulfillment of positive Net Foreign Exchange Earnings (NFE).
5. Special Economic Zones (SEZs) are being set up to enable hassle free manufacturing and trading for export purposes. Sales from Domestic Tariff Area (DTA) to SEZs are being treated as physical export. This entitles domestic suppliers to Drawback/ DEPB benefits, CST exemption and Service Tax exemption. 100% Income Tax exemption on export profits is available to SEZ units for 5 years, 50% for next 5 years and 50% of ploughed back profits for 5 years thereafter.
6. Export Promotion Capital Goods scheme (EPCG) allows import of capital goods on payment of 5% customs duty. The export

obligation under EPCG Scheme can also be fulfilled by the supply of Information Technology Agreement (ITA-1) items to the DTA provided the realization is in free foreign exchange.

7. 100% depreciation is available to computers and computer peripherals over a period of 5 years for units under EOU/STP/SEZ schemes.

8. Second hand capital goods are freely importable.

9. Weighted deduction of 150% of expenditure incurred on in house R&D in case of a company engaged in the business of electronic equipment, computers and telecommunication equipment is available under clause (1) of sub-section (2AB) of Section 35 of the Income Tax Act.

10. Income by way of dividends or long-term capital gains of a Venture Capital Fund (VCF) or Venture Capital company from investment made by way of equity shares in a Venture Capital Undertaking, which has been expanded to include the Software and IT sectors, will henceforth not be included in computing the total income. To give thrust to Venture Capital finance, SEBI has been made the single point nodal agency for registration and regulation of both domestic and overseas venture capital funds.

11. Information Technology Act 2000 dealing with Cyber Security, Cyber Crime and other information security related legal aspects is in place to encourage expansion of e-commerce through Internet.