

UNION BUDGET – 2007

An Overview



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① INTRODUCTION

The Hon'ble Finance Minister, Mr. P. Chidambaram presented the Union Budget for the Financial Year 2007-08 and the Finance Bill, 2007 before the Parliament (Lok Sabha) on 28th February 2007. This is the fourth budget of the United Progressive Alliance (UPA) Government since it assumed power in India in May 2004, and incidentally, this is also the fourth consecutive budget presented by Mr. Chidambaram. The UPA Government having completed half of its tenure, this budget, in a way, reflected the mid-term progress report for the government's economic achievements and the future plans.

As per the Economic Survey 2006-07 presented on the eve of the Budget day, the Indian economy is poised to grow consistently. GDP growth exceeded 9%, powered by the growing service and manufacturing sectors. Strong macroeconomic fundamentals, progressive fiscal consolidation and buoyant foreign exchange reserve indicate distinctly upbeat outlook. Sharp rise in the rate of investment in the economy reflects a high degree of business optimism. Buoyancy in the capital markets, both primary and secondary, with the Bombay Stock Exchange (BSE) Sensex expected to breach the magic figure of 15000 reflects the unprecedented confidence of the investor community in the Indian corporates. India Inc. is consistently reporting good corporate results quarter after quarter, which vindicates the overall economic growth. The tax collection, both corporate and personal, showed phenomenal growth improving the tax to GDP ratio from 9.2% in fiscal year 2003-04 to 11.4% in the current fiscal. Foreign direct investments continued to flow boosting the domestic capital markets sentiments. However, the low growth rate in the agricultural sector and the gradually rising inflation rate crossing 6% level are causes of concern. In the near future the real challenge for the government lies in how to control the rising inflation and the interest rate without affecting the process of economic reforms and growth.

Indian Corporates have taken India to the world with recent overseas mega-acquisitions. Not to be left behind at the individual level, the Finance Minister took steps to open up investment in world securities by Indians and by domestic mutual funds. India emerged as the South-Asia tourist destination with 10% growth and bearing more than half the arrivals in the sub-region. The Finance Ministry's just-presented annual Economic Survey holds, that along with tourism, organized retail, when given a boost, would link the distressed farm sector to booming industry and to services, and thereby generate large numbers of low-skilled jobs.

In the above economic context, and having regard to the economic policies articulated in the National Common Minimum Programme of the UPA, the Budget has focussed on economic growth, equity with social justice. The resources allocation for agriculture sectors, rural development, education, health, water resource management, power generation and other infrastructure are some of the welcome features of this budget.

The budget estimate of the fiscal deficit for the fiscal year 2007 – 08 stands at 3.3 % of GDP as against 3.8 % as per the revised estimate for the fiscal year 2006 – 07. In absolute terms, the total fiscal deficit is estimated at Rs.1,50,948/- crores (US \$ 33.54 billion) for the year 2007 – 08.

This booklet is meant to apprise our esteemed clients of the important budget proposals mainly in the field of direct taxes while an attempt has been made to cover indirect taxes also. We offer a broad outline of the major proposals.

+The changes proposed in the Finance Bill on direct taxes become effective from the Assessment Year (A.Y.) 2008 – 09, i.e. the financial year beginning on 1st April 2007, unless otherwise stated.

② EXECUTIVE SUMMARY

Direct Taxes

- ✓ No change in the personal tax rates. However, the basic exemption limit increased by Rs.10,000/-
- ✓ No change in corporate tax rates. However, surcharge on income-tax removed where the taxable income does not exceed Rs.1 crore.
- ✓ Education cess to remain unchanged at 2%.
- ✓ Additional levy of Secondary and Higher Education Cess @ 1% of income tax and surcharge
- ✓ Dividend Distribution Tax increased from 12.5% to 15%
- ✓ Dividend Distribution Tax on Money Market Mutual Funds and Liquid Funds raised to 25%
- ✓ Assessee claiming tax exemption u/s. 10A and 10B now brought under the Minimum Alternate Tax (MAT)
- ✓ Tax exemption for Venture Capital Funds/Companies restricted to certain industries like bio-technology, information technology, nanotechnology etc.
- ✓ A five - year income tax holiday for two, three or four star hotels and for convention centres with a seating capacity of not less than 3,000 in New Delhi and some adjacent areas.
- ✓ Deduction u/s. 80-D for Mediciam Insurance raised to Rs.15,000/-; for Senior Citizen – Rs.20,000/-
- ✓ ESOP is now subject to FBT; Expenditure on free samples and on displays to be excluded from the scope of Fringe Benefit Tax (FBT);
- ✓ Concession under section 35(2AB) to be extended for five more years until March 31, 2012.
- ✓ Concessions under section 80IA for infrastructure facilities to be extended to cross country natural gas distribution network, and to navigation channel in the sea.
- ✓ Provisions of section 80-IA not to apply to a person who executes a works contract entered into with the undertaking engaged in development of infrastructure facilities, Industrial Parks and Special Economic Zones
- ✓ Issue of tax-free bonds through State Pooled Finance Entities formed for raising funds for a group of urban local bodies to be allowed.
- ✓ A benign assessment procedure to be introduced for assessee engaged in diamond manufacturing and trading who declare profits from such activities at 8% or more of turnover.
- ✓ Settlement Scheme Revised

- ✓ Rates for Withholding taxes increased on Professionals fees, Brokerage and commission to 10%
- ✓ Capital Asset definition amended to include Art Work; Transfer of such Art work subject to capital gains
- ✓ Deduction on account of provision for bad and doubtful debts and deduction u/s. 36(1)(viii) extended to Co-operative Banks
- ✓ Withdrawals by central and state governments' establishments/offices exempted from Banking Cash Transaction Tax. The exemption limit for individuals and HUF raised from Rs 25,000 to Rs 50,000.

Indirect Taxes

Customs Duty

- ✓ Reduction in peak rate for non-agricultural products from 12.5% to 10%.
- ✓ Reduction in duty on most chemicals and plastics from 12.5% to 7.5%; on seconds and defectives of steel from 20% to 10%.
- ✓ All coking coal irrespective of ash content to be fully exempt.
- ✓ Reduction in duty on polyester fibres and yarns from 10% to 7.5% and on raw-materials such as DMT, PTA and MEG from 10% to 7.5%; on cut and polished diamonds from 5% to 3%; on rough synthetic stones from 12.5% to 5%; and on unworked corals from 30% to 10%.
- ✓ Dredgers to be fully exempt from import duty.
- ✓ To augment irrigation facilities and processing of agricultural products, reduction in duty on drip irrigation systems, agricultural sprinklers and food processing machinery from 7.5% to 5%.
- ✓ Reduction in general rate of import duty on medical equipment to 7.5%.
- ✓ To make edible oils more affordable, crude and refined edible oils to be exempt from additional CV duty of 4%; reduction in duty on sunflower oil, both crude and refined, by 15 percentage points.
- ✓ Reduction in duty on pet foods from 30% to 20%; on watch dials and movements and umbrella parts from 12.5% to 5%; to promote research and development, concessional rate of 5% duty to be extended to all research institutions registered with the Directorate of Scientific and Industrial Research; reduction in duty from 7.5% to 5% on 15 specified machinery for pharmaceutical and biotechnology sector.
- ✓ Duty of 3% (WTO bound rate) to be levied on all private import of aircraft including helicopters; such import to also attract countervailing duty and additional customs duty.
- ✓ Duty of Rs.300 per metric tonne to be levied on export of iron ores and concentrates and Rs.2,000 per metric tonne on export of chrome ores and concentrates.

Excise Duties:

- ✓ Reduction in ad valorem component of excise duty on petrol and diesel from 8% to 6%.
- ✓ Relief provided to deserving cases especially job creating sectors
- ✓ To provide access to pure drinking water, water purification devices operating on specified membrane based technologies and domestic water filters not using electricity to be fully exempt; exemption on pipes used for carrying water from a water supply plant to a storage facility to be extended to all pipes of diameter exceeding 200 mm used in water supply systems.
- ✓ Reduction in the rate of duty from Rs.400 per metric tonne to Rs.350 per metric tonne on cement sold in retail at not more than Rs.190 per bag; rate of Rs.600 per metric tonne on cement that has a higher MRP.
- ✓ Specific rates of duty on cigarettes to be increased by about 5%; duty (excluding cess) on biris to be raised from Rs.7 to Rs.11 per thousand for non-machine made biris and from Rs.17 to Rs.24 per thousand for machine made biris; duty on pan masala not containing tobacco to be reduced from 66% to 45%; withdrawal of exemption for pan masala containing tobacco and other tobacco products given to units in the North Eastern States.

Service Tax

- ✓ Exemption limit for small service providers to be raised from Rs.400,000 to Rs.800,000 per annum
- ✓ *Extension of service tax to:*
 - services outsourced for mining of mineral, oil or gas;
 - renting of immovable property for use in commerce or business development;
 - supply of content for use in telecom and advertising purposes;
 - asset management services provided by individuals;
 - design services;
 - Services involved in execution of a works contract with an optional composition scheme under which tax will be levied at only 2% of the total value of works contract.
- ✓ *Exemption to:*
 - Services provided by Resident Welfare Associations to their members who contribute Rs.3000 or less per month for services rendered,
 - services provided by technology business incubators to their incubatees whose annual business turnover does not exceed Rs.50 lakhs to be exempt for first three years;
 - clinical trial of new drugs to make India a preferred destination for drug testing.

③ DIRECT TAX PROPOSALS

3.1 TAX RATES:

The Finance Bill, 2007 does not envisage any change in the basic rate of corporate and personal income tax. Accordingly, the rate applicable for A. Y. 2007-08 would continue to apply for A. Y. 2008-09. Although there has been no change in the basic corporate tax rate, there has been some relief for corporates and firms in that no surcharge would be payable by small corporates and firms having taxable income up to Rs.1Crore. There is no change in the education cess @ 2% of income-tax and surcharge. However, proposal to levy an additional levy called “Secondary and Higher Education Cess” @ 1% on income tax (including surcharge, wherever applicable) would result in a marginal increase in the effective tax rate.

There has been a marginal relief with an increase in the threshold limit by Rs.10,000/- in case of individuals.

Corporates:

Income Tax

The effective rate of corporate tax for domestic companies for A. Y. 2007-08 and 2008-09 are as follows:

Taxable Income	Taxes	EXISTING	PROPOSED
		Rates applicable for FY 2006-07 (AY 2007-08)	Rates proposed for FY 2007 – 2008 (AY 2008-09)
Upto Rs. 1 Crore	Income Tax	30 %	30 %
	Surcharge	10 %	-
	Education Cess	2 %	2 %
	Secondary & Higher Edu Cess	-	1 %
	Effective Tax Rate	33.66 %	30.9 %
More than Rs. 1 Crore	Income Tax	30 %	30 %
	Surcharge	10 %	10 %
	Education Cess	2 %	2 %
	Secondary & Higher Edu Cess	-	1 %
	Effective Tax Rate	33.66 %	33.99 %

[INR 1 Crore = USD 222K]

In case of foreign companies, the tax rate continues to be 40 %. The rate of surcharge continues to be 2.5 % where the total income exceeds Rs.1 Crore; while the education cess remains the same @ 2%, there will be an additional levy of 1% on income-tax and surcharge being secondary and higher education cess. In case of foreign companies, the effective tax rate for A. Y. 2008-09 works out to 42.23% as against the present rate of 41.82%. However, in case of foreign companies whose taxable income does not exceed Rs.1 Crore, the effective tax rate for A. Y. 2008-09 works out to 41.2% (unless a separate treatment is provided for in the relevant tax treaties).

Dividend Distribution Tax (DDT):

The tax rate on distributed income of domestic companies is proposed to be increased from 12.5% to 15%. After considering the impact of surcharge, education cess and secondary and higher education cess, the effective rate of DDT for financial year 2007-08 works out to 16.995% as against 14.025% in the financial year 2006-07.

Individuals, Hindu Undivided Family and certain Association of Persons etc.:

The rates of income tax for individuals, Hindu Undivided Families (HUFs), Association of Persons (AOPs), etc., (Other than Women and Senior Citizens) for the financial year 2007 – 2008, relevant to the assessment year 2008 – 2009 will be as follows:

EXISTING RATES		PROPOSED RATES	
For FY 2006 – 07 (AY 2007-08)	Income Slab (Rs.)	For FY 2006 – 07 (AY 2007-08)	Income Slab (Rs.)
Upto 1,00,000	NIL	Upto 1,00,000	NIL
1,00,001 - 1,10,000	10 %	1,00,001 - 1,10,000	NIL
1,10,001 - 1,50,000	10%	1,10,001 - 1,50,000	10 %
1,50,001 - 2,50,000	20 %	1,50,001 - 2,50,000	20 %
Above 2,50,000 **	30 %	Above 2,50,000 **	30 %

Applicable Tax Rates for Financial Year 2007-08 (AY 2008-09) in case of Women:

EXISTING RATES		PROPOSED RATES	
For FY 2006 – 07 (AY 2007-08)	Income Slab (Rs.)	For FY 2006 – 07 (AY 2007-08)	Income Slab (Rs.)
Upto 1,35,000	NIL	Upto 1,35,000	NIL
1,35,001 - 1,45,000	10 %	1,35,001 - 1,45,000	NIL
1,45,001 - 1,50,000	10 %	1,45,001 - 1,50,000	10 %
1,50,001 - 2,50,000	20 %	1,50,001 - 2,50,000	20 %
Above 2,50,000 **	30 %	Above 2,50,000 **	30 %

Applicable Tax Rates for Financial Year 2007-08 (AY 2008-09) in case of Senior Citizens:

EXISTING RATES		PROPOSED RATES	
Income Slab (Rs.)	For FY 2006 – 07 (AY 2007-08)	Income Slab (Rs.)	For FY 2007 – 08 (AY 2008-09)
Upto 1,85,000	NIL	Upto 1,85,000	NIL
1,85,001 - 1,95,000	20 %	1,85,001 - 1,95,000	NIL
1,95,001 - 2,50,000	20 %	1,95,001 - 2,50,000	20 %
Above 2,50,000 **	30 %	Above 2,50,000 **	30 %

**Persons in this slab having income-exceeding Rs.10,00,000 would be required to pay surcharge @10% on the income tax.

Note: The education cess @ 2% of income-tax and surcharge remains the same. An additional levy called "Secondary and Higher Education Cess" @ 1% on income tax (including surcharge, wherever applicable) is proposed.

Firms:

In the case of firms, the tax rate continues to be 30 %. However, the surcharge @ 10 % will be levied only where the total income exceeds Rs.1 Crore. The education cess continues @ 2%; while there is a proposal for levy of additional surcharge @1% being Secondary and Higher Education Cess. Thus, the effective tax rate for A.Y. 2008-09 works out to 33.99% as

against the present rate of 33.66%. However, in case of firms whose taxable income does not exceed Rs.1 Crore, the effective tax rate for A.Y. 2008-09 works out to 30.9%.

Co-operative Societies and Local Authorities:

In the case of co –operative societies and local authorities, there has been no change in the rates of income tax. These entities will not be liable to surcharge as in the last year. However, the education cess @2% and the new Secondary & Higher Education Cess @1% will be charged.

3.2 NEW TAX INCENTIVES AND RELIEFS:

a. Deduction for expenditure on in-house scientific research extended till A Y 2012-13:

A weighted deduction at 150% is allowed on the expenditure incurred on in-house research and development facility by a company engaged in the business of biotechnology, or in the business of manufacture or production of any drugs, pharmaceuticals, electronic equipments, telecommunication equipments or chemicals or any other article or thing notified by the Board. As per the existing provisions, the deduction is allowable only if the expenditure is incurred on or before 31st March 2007. It is now proposed to extend this period up to 31st March 2012.

b. Tax Holiday for hotels and convention centers in specified area:

It is proposed to insert a new section 80-ID to provide for deduction in respect of profits and gains from the business of hotels and convention centers in specified area. It is proposed to provide that where the gross total income of an assessee includes any profits and gains derived by an undertaking from the business of hotel or from the business of building, owning and operating a convention centre, 100% deduction of the profits and gains derived from such business shall be allowed for five consecutive assessment years beginning from the initial assessment year. It is, however, necessary that such hotel is constructed and has started or starts functioning at any time during the period beginning on 1st April, 2007 and ending on 31st March, 2010 or engaged in the business of building, owning and operating a convention centre, located in the specified area, if such convention centre is constructed at any time during the period beginning on 1st April, 2007 and ending on 31st March, 2010. For the purposes of the proposed section hotel shall mean a hotel of two-star, three-star and four-star category as classified by the Central Government and specified area shall mean the National Capital Territory of Delhi and districts of Faridabad, Gurgaon, Gautam Budh Nagar and Ghaziabad.

c. Limit u/s Section 80 D enhanced:

Presently, contribution to medical insurance premium up to a maximum of Rs.10,000/- qualify for a deduction in computing total income of an individual. The limit is now proposed to be enhanced to Rs.15,000/-. In case of a senior citizen, the limit will be raised to Rs.20,000/-.

d. Deduction u/s. 80 E enlarged to Relative:

Section 80E of the Income-tax Act provides for a deduction, from the gross total income of an individual, of the amount paid by him by way of interest on loan taken from any financial institution or approved charitable institution for the purpose of pursuing higher education. The deduction is available for eight assessment years beginning from the assessment year in which the payment of interest on the loan begins. It is proposed to amend section 80E so as

to allow the deduction of interest on loan taken by an individual for higher education of his relative also.

e. Deductions u/s. 36(1)(viia) and 36(1)(viii) extended to Co-operative Banks:

In the last year's budget, co-operative banks were brought within the net of taxation by denying deduction u/s. 80-P on the grounds that they compete with other commercial banks and, therefore, do not require special tax concession. However, the tax benefits allowable to scheduled banks u/s. 36(1)(viia) in respect of provision for bad and doubtful debts was not extended to co-operative banks. This anomaly is now proposed to be removed by extending the benefit of section 36(1)(viia) to co-operative banks other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank. Similarly, the tax deduction allowable u/s. 36(1)(viii) in respect of special reserve created and maintained by certain financial institutions and banking companies are now proposed to be extended to co-operative banks excluding a primary agricultural credit society or a primary co-operative agricultural and rural development bank.

f. Scope of Infrastructure Facility Under Section 80 IA expanded:

Section 80-IA, inter-alia, provides for a ten-year tax benefit to an enterprise engaged in development, operation and maintenance of infrastructure facilities. Infrastructure Facility is defined by Explanation to clause (i) of section 80IA(4) to mean a road including toll road, a bridge, a rail system, a highway project including housing or other activities being an integral part of the highway project, a water supply project, water treatment system, irrigation project, sanitation and sewerage system or solid waste management system, a port, airport, inland waterway or inland port. It is now proposed to expand the scope of the expression "infrastructure facility" so as to include a navigational channel in the sea within its ambit for the purposes of ten year tax benefit under section 80-IA. This amendment will apply in relation to the assessment year 2008-2009 and subsequent years.

g. Extension of time frame for revival of Power generating plant under section 80 IA:

Section 80-IA (4)(v) provides that an undertaking owned by an Indian company and set up for reconstruction or revival of a power generating plant is eligible for ten year tax benefit under the said section if in addition to the other prescribed conditions, the undertaking begins to generate or transmit or distribute power before 31st March, 2007. With a view to provide adequate time for revival of the power generating plant, it is proposed to extend the time limit by one year for generating or transmitting or distributing power i.e., before 31st March, 2008. This amendment will apply in relation to the assessment year 2008-2009 and subsequent years.

h. Fringe Benefit Tax: Expenditure on Free Samples excluded

Under the existing provisions of section 115WB(2), expenditure incurred on distribution of free samples of medicines or of medical equipments to doctors is included in the expenditure on sales promotion for the purpose of levy of FBT. It is now proposed that expenditure on distribution of samples either free of cost or at concessional rate shall not be considered as sales promotion expenditure. In other words, the scope of exemption in regard to expenditure on distribution of samples, either free of cost or at concessional rate, has been enlarged.

3.3 ADDITIONAL TAX BURDEN:

a. **Section 10A /10B undertakings to pay Minimum Alternate Tax (MAT):**

As per the existing provisions, the profits derived from undertaking eligible to claim exemption u/s. 10A/ 10B are excluded from the “book-profit” for the purpose of MAT u/s. 115JB. It is now proposed to amend section 115JB so as to include the profits of such undertakings within the ambit of book-profit u/s. 115JB. Export oriented units / software companies will now have to pay MAT although they would continue to enjoy tax exemptions u/s. 10B/10A as hitherto. It is noteworthy that units set up in Special Economic Zones (SEZ), which claim exemption u/s. 10AA, are not brought within the scope of MAT and, therefore, they would not be liable to MAT.

The proposed amendment is likely to affect the bottom-line of many software companies as they would now have to pay minimum alternate tax at 10% of their book-profits along with the surcharge, if any, and education cess (including higher education cess).

b. **Amendments in section 80-IA:**

Section 80 IA provides for 100% deduction for 10 years in respect of profits of certain undertakings or enterprises engaged in the business of development, operation and maintenance of infrastructure facility, industrial parks and generation, distribution or transmission of power etc. In view of sub-section (12), amalgamation or demerger is a tax neutral event for such undertaking / enterprise. In other words, the tax benefit available to the eligible enterprise or undertaking for the unexpired period is allowed to the amalgamated or resulting company, as the case may be. It is now proposed that such benefit will not be available where any such eligible undertaking or enterprise is transferred in a scheme of amalgamation or demerger after 31.03.2007. A new sub-section (12A) is proposed to be inserted in 80 IA for this purpose. While a business reorganization such as amalgamation or demerger is generally recognized to be tax neutral, it is difficult to understand why a discriminating treatment in this regard is given in the context of section 80 IA.

A clarificatory amendment is proposed in section 80 IA to provide that the benefit of section 80 IA shall not apply to a person who executes a works contract entered into with the undertaking or enterprise referred to in that section. Based on a Tribunal ruling, many construction companies have claimed tax benefits u/s. 80 IA although they themselves have not made any capital investment in the eligible undertaking / enterprise and, merely acted as executor of a works contract. This proposed retrospective amendment w. e. f 01.04.2000 will overrule the Tribunal’s ruling. Strictly speaking, though this is not an additional tax burden so to say, yet this is likely to affect many construction companies, which have claimed tax benefits on the basis of the Tribunal’s ruling.

c. **Fringe Benefit Tax on ESOP:**

Currently, the value of ESOP is not treated as a perquisite in the hands of the employee but the liability to tax arises as and when the security/ sweat equity share is sold. The value of ESOP is also not considered for the purpose of fringe benefit tax. It is now proposed to omit the proviso to section 17(2) (iii) so that the value of ESOPs will now be considered as part of the perquisite. However, the same will not be taxable in the hands of the employee as it is covered under the fringe benefit tax.

Section 115 WB (1) is proposed to be amended so as to include in the definition of ‘fringe benefit’ the allotment or transfer of any specified security or sweat equity shares by the employer to his employees either free of cost or at concessional rate. The same will be valued at the fair market value of the specified security or sweat equity shares on the date of

exercise of the option by the employee as reduced by the amount actually paid by, or recovered from, the employee in respect of such security or shares. The fair market value will be determined as per the method to be prescribed by the Board. In other words, on exercise of the option by the employee the value of the stock option will be included in the chargeable fringe benefits on which the employer will have to pay fringe benefits tax at 30%. Though the tax liability is shifted from the employee to the employer, it stands preponed in as much as it arises on the exercise of the option by the employee as against the actual sale of security / share by him. Secondly, under the existing provisions the entire value of benefit is assessed as capital gain in the hands of the employee where it is possible to claim certain tax concessions, especially where shares are held for more than 12 months and if they are sold on recognized stock exchange. Therefore, in case of employees of listed companies it is possible to enjoy tax shelter for ESOP benefit. Now, however, a portion of the benefit (as of the date of exercise of option) will be subjected to tax although by way of fringe benefit tax in the hands of the employer.

Consequent to the above proposal, it is also proposed to amend section 49 so as to provide that the cost of acquisition of the specified security or sweat equity shares allotted or transferred by the employer to the employee will be the value thereof u/s.115WC(1)(ba).

d. Dividend Distribution Tax:

Section 115-O provides for the levy of tax on distribution of dividend by a domestic company at the rate of 12.5% of such dividend. It is now proposed to increase this tax to 15%. Taking into account the surcharge and education cess as well as the secondary and higher education cess, the effective rate works out to 16.995%.

Similarly, section 115-R provides for tax on income distributed by Mutual Funds. Currently, tax is charged at the rate of 12.5% of income distributed by such Mutual Funds to any person being an individual or a Hindu Undivided Family; and at the rate of 20% to any other person. It is now proposed that where any income is distributed by a money market mutual fund or a liquid fund, as defined under the relevant regulations of Securities and Exchange Board of India (SEBI), the tax will be charged at the rate of 25% irrespective of the status of the recipient giving the effective tax rate of 28.325%. In other cases however, there is no change.

e. Section 36(1)(viii) – Reduction in the relief:

Under the existing provisions, a deduction is allowed to a financial corporation which is engaged in providing long term finance for industrial or agricultural or development of infrastructure facility in India or to a public company formed and registered in India with the main object of carrying on the business of long term finance for construction or purchase of houses in India for residential purposes. Deduction is allowed up to a maximum of 40% of profits derived from such eligible business computed under the head 'Profits and gains of business' before making any deduction under this provision. Provided a special reserve is created and maintained by the eligible assessee to that extent. It is now proposed to reduce the quantum of deduction from 40% to 20%.

f. Amendment in the definition of 'Capital asset'

Section 2 (14) defines the term 'capital asset' as property of any kind held by a person whether connected with his business or not, but excludes some specified assets from the purview of its scope. One of the items so excluded is "personal effect" i.e. to say moveable property held for personal use by the assessee or any member of his family. It is now proposed to amend the definition of capital asset so as to include along with jewellery the following items within the meaning of capital asset though otherwise they would be personal effects - archaeological collections, drawings, paintings, sculptures, or any work of art. Accordingly, profit arising on transfer of any of these items will be taxable as capital gains.

g. Tax exemption to Venture Capital Funds/Companies – Scope Curtailed

Under the existing provisions of section 10(23FB), any income of a venture capital company or a venture capital fund set up to raise funds for investment in venture capital undertaking is exempt from tax. The existing definition of venture capital undertaking refers to the definition provided under the Securities and Exchange Board of India (Venture Capital Funds) Regulations, 1996. It is now proposed to restrict the tax exemption only to the income of a venture capital company / fund from investment in an undertaking that is engaged in the business of nanotechnology, information technology relating to hardware and software development, seed research and development, bio-technology, research and development of new chemical entities in the pharmaceutical sector, production of bio-fuels, or building and operating composite hotel-cum-convention centre with seating capacity of more than three thousand, or engaged in the dairy industry or poultry industry.

h. Disallowance of expenditure in cash exceeding Rs.20,000 – section 40A(3)

The existing provisions of section 40A(3) provide for disallowance of 20% of the expenditure incurred, payment in respect of which is made in a sum exceeding twenty thousand rupees, otherwise than by an account payee cheque drawn on a bank or by an account payee bank draft. Earlier, the disallowance was made at 100 % instead of 20% though there were certain built-in exceptions prescribed in the Rules. It is now proposed to restore the earlier provisions of 100% disallowance subject to the exception being granted in such cases and under such circumstances, as may be prescribed, having regard to - (i) the nature and extent of banking facilities available, (ii) business expediency considerations and (iii) other relevant factors.

Another important amendment proposed to be made is regarding deemed business income arising on account of disallowance u/s. 40A(3) resulting from cash payments exceeding the prescribed limit of Rs.20,000/- made in a later year in respect of the expenditure allowed in the earlier year on accrual basis. It is now proposed that an assessee will now have an obligation to report such cash payments to report such deemed income in the year of payment unless his case is covered within the exceptions.

i. Insertion of new section 271AAA:

It is proposed to insert a new section 271AAA for levy of penalty at the rate of 10% of the undisclosed income of the specified previous year in a case where search u/s. 132 has been initiated on or after 1st June, 2007. This penalty will not be imposed if the assessee –

- a. in the course of the search, in a statement u/s. 132(4), admits the undisclosed income and specifies the manner in which such income has been derived;
- b. substantiates the manner in which the undisclosed income was derived; and
- c. pays the tax, together with interest, if any, in respect of the undisclosed income.

However, penalty u/s. 271 (1)(c) for concealment of income or for furnishing of any inaccurate particulars thereof will not be levied in respect of the undisclosed income referred to above.

Specified previous years are defined to include the previous year which has ended before the date of the search but in respect of which the due date u/s. 139(1) for filing the return of income has not expired before the date of search, and the previous year in which search was conducted.

3.4 CHANGES IN TAX PROCEDURES

a. Tax Deducted at Source:

Under section 194A (3), tax is not required to be deducted from interest if the interest income does not exceed Rs.5, 000/- during any financial year. This limit is proposed to be increased to Rs.10000/- in a case where the payer is a banking company referred to in the Banking Regulation Act, 1949, or a co-operative society engaged in the business of banking, or where the interest is payable on any deposit with post office under any scheme framed by the Central Government and notified by it in this behalf.

Section 194C provides for deduction of tax at source from any sum payable to a contractor for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract between him and the person specified in that section. This section is presently not applicable where the payer is an individual or a Hindu Undivided Family. However, it is now proposed that the same will also be applicable in the case of an individual or a Hindu Undivided Family who is subject to tax audit under sub-clause (a) or sub-clause (b) of section 44AB during the financial year immediately preceding the relevant financial year in which the liability for tax deduction arises. It may, however, be noted that such individual or Hindu Undivided Family shall not be liable to deduct income tax u/s. 194C where the sum is credited or paid to the contractor exclusively for the personal purposes of such individual or any member of the Hindu Undivided Family.

Presently, income tax is deducted u/s.194H @ 5% from commission / brokerage payable to a person. It is now proposed to increase the rate from 5% to 10%. Similar amendments are also proposed in case of tax to be deducted at source u/s. 194-J in respect of professional fees or fees for technical services.

Provisions of tax deduction at source u/s. 194-I are proposed to be rationalized whereby it is proposed that tax @ 10% will be deducted from the rent payable for the use of any machinery or plant or equipment irrespective of the status of the recipient, while in respect of rent payable for use of any land or building (including factory building) or land appurtenant thereto the existing rate of 15% is continued where the payee is an individual or a Hindu Undivided Family and in any other case, the present rate of 20% is retained.

All the above changes are proposed with effect from 1st June 2007.

b. Revised Settlement Scheme

Chapter XIX-A of the Income-tax Act contains provisions relating to settlement of cases by the Settlement Commission. With a view to avoid delay in determining the tax liability of an assessee which is caused because of factors like duplication of proceedings, absence of statutory time frame for settling the case, and also with a view to streamline the proceedings before the Settlement Commission, it is proposed to amend the provisions of said Chapter XIX-A of the Income-tax Act.

The important changes proposed to be made are—

- i. After 31st May, 2007, an assessee can make an application to the Commission only during the pendency of the proceedings before the Assessing Officer, and not where proceeding is pending before any Income Tax Authority.
- ii. Further, an assessee shall not be allowed to make the application before the Commission during the pendency of following proceedings of assessment—

- ❖ Assessment / reassessment proceedings in response to a notice under section 148.
 - ❖ assessment or reassessment proceedings under section 153A for each of six assessment years preceding the assessment year relevant to the previous year in which a search under section 132 was conducted or a requisition under section 132A was made; and also the assessment or reassessment proceedings in case of such persons for the assessment year relevant to the previous year in which the search under section 132 was conducted or the requisition under section 132A was made.
 - ❖ proceedings of making fresh assessment where original assessment was set aside under section 254 by the Appellate Tribunal or under section 263 or section 264 by the Commissioner.
- iii. Presently, an application can be made only if the additional amount of income-tax payable on the income disclosed in the application exceeds one lakh rupees. It is proposed to enhance this limit to three lakh rupees.
- iv. Presently, the income-tax payable on the income disclosed in the application has to be paid after the application is allowed to be proceeded with under sub-section (1) of section 245D. It is proposed that such tax along with interest, if any, shall be paid on or before the date of making the application and proof of such payment shall be attached with the application.
- v. Currently, the Commission, on receipt of an application, calls for a report from the Commissioner. After considering the material contained in such report and having regard to the nature and circumstances of the case or the complexity of the investigation involved, the Commission passes an order to reject the application or to allow the application to be further proceeded with. Under the existing provisions, there is no statutory time limit for passing the order for rejecting or allowing the application to be proceeded with. It is now proposed that the Settlement Commission, within 7 days of receipt of the application, shall issue a notice to the applicant to explain as to why his application should be admitted.
- vi. Thereafter, within 14 days from the date of receipt of the application, the Settlement Commission shall pass an order for rejecting the application or allowing the application to be proceeded with. Complexity of the investigation involved in a case shall not be the criteria for admitting or rejecting the application. Further, where no order or rejection or admission of an application is passed within the aforesaid period, the application shall be deemed to have been allowed to be proceeded with.
- vii. On receipt of the report of the Commissioner, the Settlement Commission shall hear the applicant and the Commissioner within fifteen days from the date of receipt of the report. If it is found that the application was not a valid application, the Commission by passing an order may declare the application invalid.
- viii. The Commission shall, after giving an opportunity to the Commissioner and to the applicant and considering the reports of the Commissioner and other material available with it, pass the settlement order.
- ix. Currently, the Commission has powers to grant immunity from prosecution under Indian Penal Code, Income-tax Act and any other Central Act. It is proposed that the Commission shall not grant immunity from prosecution under any law other than Income-tax Act and Wealth-tax Act. However, in respect of pending applications, the existing provisions shall continue.

- x. The Commission shall not have powers to reopen the completed proceedings in a case where an application under section 245C has been filed on or after 1st June, 2007.
- xi. If the application made on or after 1.7.2007 is rejected or such application is declared invalid or an application is not allowed to be further proceeded with or the settlement order is not passed within the specified period, the proceedings before the Commission shall abate and the Assessing Officer or other income-tax Authority before whom the proceeding were pending at the time of making the application, as the case may be, shall resume and complete the proceeding. Credit shall be allowed for the tax and interest paid by the applicant by the Assessing Officer.
- xii. After 1.6.2007, an assessee can apply for settlement only once during his lifetime. For this purpose, an application which was not admitted shall not be deemed to be an application.

c. Registration of Charitable Trust – Section 12A:

Presently, for claiming exemption under sections 11 and 12, a charitable or religious trust or institution is required to make an application for registration u/s. 12A in the prescribed form and in the prescribed manner to the Commissioner within one year from the date of its creation or establishment and has to be registered under section 12AA. The section also provides that where such application is made after the aforesaid period, the Commissioner may condone such delay, if he is satisfied that the application was delayed for sufficient reasons. On such condonation of delay, the provisions of section 11 and 12 shall apply in respect of the income of such trust or institution from the date of creation of the trust or establishment of the institution. But where the Commissioner is not so satisfied, the provisions of section 11 and 12 shall apply only from the 1st day of the financial year in which the application is made.

The proposed amendments provide that a trust or institution will no longer be required to file an application for registration within one year from the date of its creation or establishment. Besides, the power of the Commissioner to grant registration for past years, by condoning the delay in filing such application, shall stand removed. Accordingly, in respect of applications filed on or after the 1st day of June, 2007, the provisions of sections 11 and 12 shall apply from the assessment year relevant to the financial year in which the application is made.

d. Appeals:

Provision of appeal by a person denying liability to deduct tax

Under the existing provisions of section 248, it is provided that where any person has deducted and paid tax in accordance with the provisions of sections 195 and 200 in respect of any sum chargeable under the Act, other than interest and who denies his liability to make such deductions, may make an appeal to the Commissioner (Appeals) to be declared not liable to make such deductions.

With effect from 1st June 2007 it is proposed to substitute section 248 so as to provide that where under an agreement or other arrangement, the tax deductible on any income, other than interest, under section 195 is to be borne by the person by whom the income is payable, and such person having paid such tax to the credit of the Central Government, claims that no tax was required to be deducted on such income, he may appeal to the Commissioner (Appeals) for a declaration that no tax was deductible on such income.

Provision relating to approval of charitable institutions and funds

Presently, no appeal lies to the Appellate Tribunal against the order of rejection of approval by the Commissioner under section 80G (5) (vi). With effect from 1.6.2007 it is proposed to amend section 253 so as to allow an appeal to be filed against such orders of the Commissioner before the Appellate Tribunal.

Prescribing time-limit for grant of stay by the Appellate Tribunal

Currently, where the Appellate Tribunal grants stay in any proceeding relating to an appeal filed before it, it is expected to dispose of the appeal within a period of one hundred and eighty days from the date of such order. If the appeal is not decided within the period for which the stay was granted, the stay order shall be vacated after the expiry of the stay period.

With effect from 1.6.2007, it is proposed that where such appeal is not disposed of within the aforesaid period of stay, the Appellate Tribunal may extend the period of stay or pass an order of stay for a further period or periods as it thinks fit. Such extension in the period of stay is to be granted on an application made in this behalf by the assessee and after the Appellate Tribunal is satisfied that the delay in disposing of the appeal is not attributable to the assessee. It is further proposed that the aggregate of the period originally allowed and the period or periods so extended or allowed shall not in any case exceed three hundred and sixty five days. The Appellate Tribunal shall dispose of the appeal within the period or periods of stay so extended or allowed. If the appeal is not disposed of within the period originally allowed or within the period or periods, subsequently extended, the order of stay shall stand vacated after the expiry of such period or periods.

e. FBT Advance Tax

With effect from 1st June 2007, it is proposed to align the due dates of payment of advance fringe benefit tax with those of income tax. Accordingly, companies liable to fringe benefits tax will now have to pay advance fringe benefits tax in four installments, while non corporate assessees will need to pay advance fringe benefit tax in three installments

f. Special Audit u/s. 142A

It is proposed that the Assessing Officer shall give an opportunity to the assessee of being heard before directing a special audit u/s. 142(2A) in his case.

④ **INDIRECT TAX PROPOSALS**

4.1 CUSTOMS DUTY:

A. PEAK RATE OF AD VALOREM CUSTOMS DUTY REDUCED:

- Peak rate of customs duty on non-agricultural products has been reduced from 12.5% to 10% with a few exceptions.
- Ad valorem component of customs duty on textiles fabrics and garments has been reduced from 12.5% to 10%. There is, however, no change in specific components of customs duty.

B. 4% ADDITIONAL DUTY OF CUSTOMS:

Following items have been exempted from additional duty of customs of 4%:

- All edible oils, crude as well as refined,
- Roasted molybdenum ore and concentrate,
- Cell phone parts, components and accessories are exempt from additional duty of customs of 4% till 30.04.2007. The exemption has been extended till 30.06.2009.

C. METALS AND THEIR INPUTS:

- Customs duty has been reduced from 20% to 10% on seconds and defectives of iron and steel.

D. EXPORT DUTY:

Export duty has been imposed on:

- Iron ores and concentrates, all sorts @ Rs.300 per metric tonne.
- Chromium ores and concentrates, of all sorts @ Rs.2000 per metric tonne:

E. SECONDARY AND HIGHER EDUCATION CESS

- An Education Cess of 1% of the total duties of customs has been imposed on imported goods. The proceeds from this cess shall be utilized to finance secondary and higher education. The manner of levy of this cess would be the same as in the case of Education Cess of 2% imposed in budget 2004 for financing basic education.

F. AIRCRAFTS

- Customs duty of 3% has been imposed on aircrafts. CV duty of 16%, and special additional duty of customs of 4% has also been imposed on such aircrafts. Imports by scheduled airline operators and Government will be exempt.
- Customs duty of 3%, CVD of 16%, and 4% additional duty of customs has been imposed on parts of aircrafts, imported for use in such aircrafts. Imports by Government and scheduled airlines will be exempt.
- Aircraft, not registered in India, which are brought for the purpose of flight to or across India and ultimately removed within six months from the date of arrival are, however, exempt from all duties of customs.

G. CHEMICALS AND PETROCHEMICALS:

- Customs duty has been reduced from 12.5% to 7.5% on goods falling under Chapter 28 (except Titanium Dioxide), Chapter 29 (except Mannitol, Sorbitol and Caprolactum) and Chapter 31.
- Customs duty has been reduced on glycerol waters and glycerol lyes from 30% to 20%.
- Customs duty has been reduced on Denatured ethyl alcohol from 10% to 7.5%.
- Customs duty has been reduced from 12.5% to 7.5% on goods falling under headings 3201 to 3207 (except pigments and preparations based on Titanium Dioxide).
- Customs duty has been reduced from 12.5% to 7.5% on goods falling under heading 3403.
- Customs duty has been reduced from 12.5% to 7.5% on goods falling under headings 3801 to 3807 and 3809 (with few exceptions), 3810, 3812, 3816, 3817, 3821 and 3824 (except 3824 60).
- Customs duty has been reduced from 12.5% to 7.5% on goods falling under headings 3901 to 3907 and 3909 to 3915.
- Customs duty has been reduced from 12.5% to 10% on Titanium Dioxide, and pigments and preparations based on Titanium Dioxide.

H. AGRICULTURE:

- Customs duty has been reduced on food processing machinery from 7.5% to 5%.
- Customs duty has been reduced on sprinklers and drip irrigation systems used for agricultural and horticultural purposes from 7.5% to 5%.
- Concessional rate of 5% customs duty plus Nil CVD/excise duty presently available to specified plantation machinery upto 30.04.2007, has been extended upto 30.04.2009.
- Customs duty has been reduced on crude sunflower oil from 65% to 50% and on refined sunflower oil from 75% to 60%.
- Customs duty has been reduced on Dextrose monohydrate from 30% to 20%.

I. TEXTILES:

- Customs duty on polyester staple fibres and tow and polyester filament yarns has been reduced from 10% to 7.5%.
- Customs duty on polyester chips has been reduced from 10% to 7.5%.
- Customs duty on DMT, PTA and MEG has been reduced from 10% to 7.5%.

J. EXPORT PROMOTION:

- Customs duty on cut and polished diamonds has been reduced from 5% to 3%.
- Customs duty on rough synthetic gemstones has been reduced from 12.5% to 5%.
- Customs duty has been reduced on unworked or simply prepared corals from 30% to 10%.
- Raw, tanned or dressed fur skins have been exempted from CVD of 8%.

K. RESEARCH & DEVELOPMENT

- Present concessional rate of 5% customs duty plus Nil CVD on specified items, available to public funded research institutions and non-commercial research institutions, has been extended to all research institutions registered with the Department of Scientific & Industrial Research, subject to certain conditions.
- At present concessional rate of 5% customs duty is available on specified items for pharmaceutical and biotechnology sector when imported for R&D purposes, by an importer or a manufacturer having an R&D wing, registered with Department of Scientific

& Industrial Research. The list of such items has been expanded by including 15 additional items.

L. HEALTH

- Customs duty on medical equipment has been reduced from 12.5% to 7.5%.

M. PROJECT IMPORT

- Digital Cinema Development Projects have been notified as project imports under Heading 9801, and will thus attract the project rate of 7.5% custom duty.

N. MISCELLANEOUS

- Customs duty has been reduced on dredgers from 5% to Nil.
- Customs duty has been reduced on high ash coking coal from 5% to Nil.
- Customs duty has been reduced on butyl rubber from 10% to 5%.
- Customs duty has been reduced on natural boron ore from 5% to 2%.
- Customs duty has been reduced on borax or boric acid from 10% to 5%;
- Customs duty has been reduced on frit from 10% to 5%;
- Customs duty has been reduced on specified ceramic colours from 12.5% to 5%.
- Customs duty has been reduced on watch dials and movements from 12.5% to 5%.
- Customs duty has been reduced on parts of umbrella, including umbrella panels, from 12.5% to 5%.
- Customs duty has been reduced on dammar batu from 30% to 20%.
- A uniform customs duty rate of 5% has been prescribed for urea unconditionally.
- Aramid yarns for manufacture of bulletproof jackets for supply to armed forces have been exempted from both customs duty and CVD.
- Customs duty has been reduced on pet food from 30% to 20%.

O. WITHDRAWAL OF EXEMPTIONS

- Customs duty exemptions/concessions on following items have been withdrawn:
- Chemicals, for use in the manufacture of Centchroman;
- Codeine phosphate or Nicotine, imported by Government alkaloid factories;
- Recorded magnetic tapes for producing TV serials;
- Specified goods like TV cameras (professional grade), audio recording equipment, tabletop desk production video machine, 8 channel video mixer/switches etc.;
- Specified goods for manufacture of fly ash based goods.
- CVD/Excise duty exemptions on following items have been withdrawn:
- Cold-set high speed printing machines for newspapers. Such machines will attract excise duty/CVD at 8%
- Specified parts of set top boxes.

4.2 CENTRAL EXCISE:

Major proposals about central excise duty are the following:

A. SECONDARY AND HIGHER EDUCATION CESS:

- A Secondary and Higher Education Cess @ 1% has been imposed on excisable goods manufactured in India. The proceeds from this cess will be utilized to finance secondary and higher education. It shall be chargeable on the aggregate duties of excise leviable on such goods. The credit of this Education Cess paid on inputs and capital goods shall be available as credit for payment of Education Cesses on the final products.

B. RELIEF MEASURES:

- Excise duty has been fully exempted on:
 - Packed biscuits of maximum retail sale price (MRP) not exceeding Rs.50 per kilogram;
 - Food mixes (including instant food mixes)
 - Specified water purification devices based on membrane technology;
 - Household water filters not using electricity and pressured tap water;
 - Biodiesels.
- Excise duty has been reduced from 16% to 8% on:
 - Umbrellas;
 - Plywood, veneered panels and similar laminated wood ;
 - Footwear parts/components falling under heading 6406;
 - Wadding, gauze;

C. PETROLEUM:

- Ad valorem component of excise duty on petrol and diesel has been reduced from 8% to 6%.

D. TEXTILES:

- Excise duty has been reduced on caprolactum and nylon chips from 16% to 12%.
- Excise duty has been reduced on benzene for manufacture of caprolactum from 16% to 12%.
- Optional excise duty at 12% has been prescribed on fishnet grade nylon yarns, fishnet fabrics, fishnet twine and fishnets.
- Full exemption from excise duty on specified textile machinery has been withdrawn and an excise duty of 8% has been imposed thereon.

E. SMALL SCALE INDUSTRIES:

- Exemption limit for SSI scheme has been increased from Rs 1 crore to Rs.1.5 crore. This will be effective from 1.4.2007.

F. RESEARCH & DEVELOPMENT:

- Exemption from excise duty has been extended to specified items when domestically procured by all research institutions

- Registered with Department of Scientific & Industrial Research, for the purpose of research, subject to certain conditions.

G. METALS:

- The rate of compounded levy on aluminium circles has been increased from Rs.7500/10000 per machine per month to Rs.12000 per machine per month

H. CEMENT:**General rate**

- Excise duty has been reduced from Rs.400 per metric tonne to Rs.350 per metric tonne for cement of retail sale price not exceeding Rs.190 per 50 Kg. bag or per metric tonne retail sale price equivalent not exceeding Rs.3800.
- Excise duty has been increased from Rs.400 per metric tonne to Rs.600 per metric tonne for cement of declared retail sale price exceeding Rs.190 per 50 Kg. bag or per metric tonne retail sale price equivalent exceeding Rs.3800.

Mini cement plants

- Excise duty has been reduced from Rs.250 per metric tonne to Rs.220 per metric tonne for cement of declared retail sale price not exceeding Rs.190 per 50 Kg. bag or per metric tonne retail sale price equivalent not exceeding Rs.3800.
- Excise duty has been increased from Rs.250 per metric tonne to Rs.370 per metric tonne for cement of declared retail sale price exceeding Rs.190 per 50 Kg. bag or per metric tonne retail sale price equivalent exceeding Rs.3800.
- Cement has been included in the Third Schedule of the Central Excise Act to provide that in relation to products of heading 252329, packing or repacking in unit container, labeling or relabelling of packages, including the declaration or alteration of retail sale price on it or adoption of any other treatment to render the product marketable to the consumer, shall amount to 'manufacture'.

I. INFORMATION TECHNOLOGY:

- 'USB flash memory' is exempt from excise duty. The exemption has now been extended to 'flash memory' in general.
- 'DVD drive' is exempt from excise duty. The exemption has now been extended to 'DVD drive/DVD writer'.

J. RETAIL SALE PRICE (RSP) BASED ASSESSMENT:

RSP based assessment is being extended from a date to be notified to:

- Personal computers (including laptops and other portable computers)
- Printers, whether or not combined with the functions of copying or facsimile transmission.
- Monitors of a kind used solely or principally in an automatic data processing machine.
- Computer key boards
- Scanners
- Computer mouse
- Computer plotter
- Facsimile machines
- Modems (modulator-demodulators)
- Set top boxes for gaining access to internet
- Set top boxes for television sets.

K. WATER SUPPLY PROJECTS:

- At present, exemption from excise duty is available for pipes used for taking water from water treatment plant, including its reservoir, to the first storage point. This is being continued. In addition, exemption has now been extended to all pipes of outer diameter exceeding 20 centimeter, when such pipes are integral part of the water supply project. Such pipes will be eligible for the exemption irrespective of whether they are used for taking water from treatment plant to the first storage point or from one storage point to another storage point.

L. WITHDRAWAL OF EXEMPTIONS:

- Excise duty exemptions/concessions on following items have been withdrawn:
 - Chemical reagents manufactured by Hindustan Antibiotics Ltd. for use in manufacture of kits for testing narcotics drugs and psychotropic substances;
 - Optical glass manufactured by the Centre Glass and Ceramic Research Institute, Calcutta for use by any Department of the Central Government;
 - Goods like brooms, hand operated mechanical floor sweepers, mops, feather dusters, prepared knots and tufts of broom or brush; pain pads & rollers, squeezes etc.;
 - Recorded video cassettes intended for television broadcasting, supplied in formats such as U-matic, Betacam or any similar format.
 - Nicotine polacrilex gum;
 - Dust and powder of synthetic stones.
- Exemption from excise duty on pan masala containing tobacco and other tobacco products manufactured by specified units in the North East Region have been withdrawn.

4.3 SERVICE TAX:**4.3.1 Tax Rate:**

The Service tax rates have remained unchanged. However, an additional cess of 1% is being imposed on services liable to service tax, bringing the effective services tax rate to 12.36%. The cess paid on inputs services shall be available as credit for payment of cess on output services. It will come into force from the date of enactment of the Finance Bill, 2007.

4.3.2 Threshold exemption limit increased:

The threshold limit of service tax exemption for small service providers is being increased from the present level of Rs.4 lakh to Rs.8 lakh. This would be applicable from 01.04.2007.

4.3.3 Taxable Services specified:

- Telecommunication service (includes various telecommunication related services which are presently specified as separate taxable services) ;
- Services outsourced for mining of mineral, oil or gas;

- Services provided in relation to renting of immovable property, other than residential properties and vacant land, for use in the course or furtherance of business or commerce (such services provided by or to a religious body are excluded);
- Services provided in relation to the execution of a works contract (sales tax is levied on transfer of goods involved in the execution of works contract by States);
- Development and supply of content for use in telecommunication services, advertising agency services and on-line information and database access or retrieval services;
- Asset management services including portfolio management and all forms of fund management service provided by any person, except a banking company or a financial institution including a non-banking financial company or any other body corporate or commercial concern;
- Design services.

The above changes will come into effect from a date to be notified after the enactment of the Finance Bill, 2007.

4.3.4 Scope Of Specified Taxable Services Amended:

- Specified Taxable Services to include,-
 - sale of space in business directories, yellow pages and trade catalogues which are primarily meant for commercial purposes under sale of space or time for advertisement service;
 - renting of motor vehicles capable of carrying more than twelve passengers under rent-a-cab service. Motor vehicle or maxi-cab rented to an educational body, other than a commercial training or coaching centre, will be excluded from the scope of this service;
 - services provided in relation to marriage functions under mandap keeper service, pandal or shamiana service and event management service;
 - computer hardware engineering consultancy under consulting engineer's service;
- Banking and other financial services, amended to substitute "any other person" with "commercial concern" in the definition of taxable service; to include cash management within its scope; and explain the term "financial leasing";
- Management consultant service amended so as to rename it as management or business consultant service and to include explicitly business consultancy within its scope;
- It is clarified that recruitment or supply of manpower services also includes services in relation to pre-recruitment screening, verifying the credentials and antecedents of the candidate, and also the authenticity of documents submitted by the candidates;
- It is also clarified that computer software is included in "goods" referred to in management, maintenance or repair service.

The above changes will come into effect from a date to be notified after the enactment of the Finance Bill, 2007.

4.3.5 Exemption from Service Tax:

Exemption from service tax is being provided to-

- All taxable services provided by Technology Business Incubators (TBI)/Science and Technology Entrepreneurship Parks (STEP) recognized by National Science and Technology Entrepreneurship Board of Department of Science & Technology also known as “incubators”; (Effective 01.04.07)
- Taxable services provided by an incubatee (entrepreneur) whose total business turnover in a year does not exceed Rs. 50 lakh and is located within the premises of an incubator, subject to specified conditions; (Effective 01.04.07)
- Services provided by resident welfare associations to their members, where the monthly contribution of a member does not exceed Rs. 3000/- per month; (Effective 01.03.07)
- Services provided in relation to delivery of content of cinema in digital form after encryption, electronically; (Effective 01.03.07)
- Technical testing and analysis services provided in relation to testing of new drugs, including vaccines and herbal remedies, on human participants by a Clinical Research Organization (CRO) approved to conduct clinical trials by the Drugs Controller General of India. (Effective 01.03.07)

5. OTHER MAJOR CHANGES:

a. Amendments to Banking Cash Transaction Tax (BCTT):

It is proposed to amend the definition of persons under the Banking Cash Transaction Tax Act, so as to exclude the establishments and offices of the Central and State Government from the purview of BCTT. In view of the same, any cash withdrawal by such establishments will now be exempt from BCTT.

Presently, cash withdrawals of Rs. 25,000 from savings accounts/term deposits by individuals and Hindu Undivided Families are exempt from BCTT. It is now proposed to increase this exemption limit from Rs. 25,000 to Rs.50,000.

b. Amendment to Central Sales Tax:

To implement the phasing out of CST, it is proposed to reduce the tax rate of 4% under the CST Act to 3% with effect from 1st April 2007.

c. Capital Markets:

It is proposed to:

- Make PAN the sole identification number for all participants in the securities market
- Permit Mutual funds to launch and operate infrastructure funds
- Converge regulations relating to overseas investments by permitting individuals to invest through Indian mutual funds
- Allow short selling settled by delivery, and securities lending and borrowing to facilitate delivery by institutions
- Permit Indian companies to raise finances by issue of Exchangeable Bonds against holdings in Group companies

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