



INDIA BUDGET 2007 - HIGHLIGHTS

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INDIA
BUDGET 2007
- HIGHLIGHTS

February 2007



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EXECUTIVE SUMMARY

1.0 DIRECT TAX PROPOSALS

1.1 Tax Rates

- Introduction of secondary and higher education cess of 1% resulting in increase in education cess from 2% to 3%. The increase in education cess has resulted into marginal increase in overall tax rates.
- No surcharge to be levied on domestic companies, partnership firms and foreign companies having total income up to Rs. 1,00,00,000, resulting in an effective tax rate of 30.90% for domestic companies and firms and 41.20% for foreign companies.
- Effective tax rate for domestic companies and firms having taxable income exceeding Rs. 1,00,00,000 increased marginally from 33.66% to 33.99% and for foreign companies from 41.82% to 42.23%.
- Surcharge on Fringe Benefits Tax ('FBT'), Minimum Alternate Tax ('MAT'), Dividend Distribution Tax ('DDT') continues to remain same irrespective of whether the total income of the company/firm is up to Rs. 1,00,00,000 or more.
- Effective tax rate for MAT for domestic companies increased from 11.22% to 11.33% and for foreign companies increased from 10.455% to 10.558%.
- DDT has been increased from 14.025% to 16.995%.

1.2 Tax Incentives for Businesses

- Tax holiday to units in Special Economic Zones ('SEZ') for 15 years will be available only if the unit is not formed by splitting up or reconstruction of a business already in existence and the unit is not formed by transfer to a new business, of machinery or plant previously used for any purpose. This restriction would apply with retrospective effect from 10 February 2006.
- The limit for eligible investments for exemption of capital gains under section 54EC has been restricted to Rs. 50,00,000 per assessee per financial year for investments made on or after 1 April 2007.
- The tax holiday under section 80-IB to a unit set up in Jammu and Kashmir has been extended to units set up upto 31 March 2012.
- Undertaking carrying on business of laying and operating a cross-country natural gas distribution network, will be entitled to tax holiday under section 80IA for 10 years.

- Tax holiday under section 80-IA denied in case of amalgamation or demerger.
- Tax holiday under section 80-IA for 10 years extended to navigational channels in the sea.
- Tax holiday introduced under section 80-ID for hotels and convention centres in National Capital Territory and specified areas for 5 years.
- Weighted deduction of 150% available for expenditure on research and development (under section 35 of the Income tax act) has been extended up to 31 March 2012.

1.3 Proposals for Business Entities

- MAT extended to EOU/EHTP/FTZ/STP units resulting in effective tax liability @ 11.33%.
- 100% disallowance instead of present 20% disallowance of payments made in excess of Rs. 20,000 otherwise than by an account payee cheque / bank draft.
- Penalty @ 10% of undisclosed income of specified previous year under certain circumstances in case of search initiated on or after 1 June 2007.
- Individuals and HUFs whose books of account are required to be audited are made liable to withhold tax under section 194C for payment to contractors.
- Increase in TDS rate from 5% to 10% for payment of commission or brokerage as well as fees for professional or technical services and royalty.
- Decrease in TDS rate from 15%/20% to 10% for payment of rent on plant, machinery and equipment.
- Concession under Employee Stock Option Plans covered under FBT net and to be taxed at 33.99% in lieu of current exemption available to approved ESOP schemes.
- Wider definition of India to cover territorial waters, continental shelf, exclusive economic zone, maritime zone and air space for determining territorial jurisdiction.

1.4 Proposals for Personal Taxes

- Basic exemption limit for individuals / HUFs increased by Rs. 10,000.
- Deduction for entire amount of interest paid on a loan taken for higher education of spouse and children.
- The limit of deduction under section 80D for premium towards mediclaim increased from Rs. 10,000 to Rs. 15,000.

- TDS exemption limit increased from Rs. 5,000 to Rs. 10,000 on interest from Banks and Post Offices.
- TDS made applicable on interest on 8% Savings (Taxable) Bonds.
- Certain personal effects such as paintings, sculptures proposed to be covered within the definition of capital assets and brought within the ambit of capital gains tax.

1.5 Other proposals

- Restriction on eligibility of cases for disposal by the Settlement Commission.
- Limit for levy of BCTT increased from Rs. 25,000 to Rs. 50,000 for individuals and HUFs on cash withdrawals.
- Two Ultra Mega Power Projects (UMPP) in Sasan and Mundra awarded by Ministry of Power. Seven more UMPPs are under process.
- A committee has made a number of recommendations for innovative financing of infrastructure. One of the recommendations is to use a small part of the foreign exchange reserves without the risk of monetary expansion.
- A benign assessment procedure to be introduced for assessees engaged in diamond manufacturing and trading, who declare profits from such activities at 8% or more of the turnover.
- Various measures proposed with a view to promote capital markets. These include making PAN the sole identification number for all participants; allow short selling settled by delivery and securities lending and borrowing to facilitate delivery, by institutions.
- It is proposed to promote Mumbai as a world class financial centre and realise the objective of making 'financial services' the next growth engine for India.

2.0 INDIRECT TAX PROPOSALS

2.1 Service Tax

- There is no change in the basic rate of tax i.e. 12%. However, with the introduction of the new "Secondary and Higher education cess" @ 1%, the effective rate of tax shall be 12.36%.
- The threshold limit of tax exemption for service providers of Rs. 4,00,000 is being increased to Rs. 8,00,000 and threshold limit for obtaining registration has been increased from Rs. 3,00,000 to Rs. 7,00,000.

- Services proposed to be specifically included in the list of taxable services: Services provided in relation to renting of immovable property, other than residential properties and vacant land (as specified), for use in the course or furtherance of business or commerce; services provided in relation to the execution of a works contract; telecommunication services, development and supply of content for use in telecommunication services, advertising agency services and on-line information and database access or retrieval services; services in relation to mining of mineral, oil or gas; design services and asset management services.
- Amendments in the Export of Services Rules, 2005: It is proposed that the services would be treated as "Export of Services" if the same are provided from India and used outside India' instead of "delivered and used outside India", subject to certain other specified conditions.

2.2 Customs Duty

- Peak rate of duty on most non-agricultural products has been reduced from 12.5% to 10%.
- Duty on cut and polished diamonds has been reduced from 5 % to 3 %, rough synthetic diamonds from 12.5% to 5%.
- Export duty has been imposed on iron ores and concentrates of all sorts @ Rs.300 per metric tonne and on chromium ores and concentrates of all sorts @ Rs.2,000 per metric tonne.
- Reduction in duty on polyester fibers and yarns from 10% to 7.5%.

2.3 Excise Duty

- The exemption limit of SSI scheme has been increased from Rs. 1,00,00,000 to Rs. 1,50,00,000 with effect from 1 April 2007.
- Excise duty has been fully withdrawn on some products like certain biscuits, food mixes, bio-diesel, all pipes of outer diameter exceeding 20 centimeter used in water supply projects etc.
- Excise duty has been increased from Rs. 400 per metric tonne to Rs. 600 per metric tonne for cement of retail sale price exceeding Rs. 190 per 50 kg bag or Rs. 3,800 per metric tonne.
- Excise duty has been reduced on certain items like plywood, veneered panel, footwear parts, umbrellas etc. from 16% to 8%.
- With effect from 1 April 2007, e-payment has been made mandatory for payment of duty by all assessee's who have paid excise duty in cash (other

than CENVAT credit) of Rs. 50,00,000 or more during the preceding financial year.

- The excise invoice should also contain the address of the jurisdictional Central excise division to be a legally valid document with effect from 1 April 2007.

2.4 Value Added Tax ('VAT') and Central Sales Tax ('CST')

- The CST rate will be reduced from 4% to 3% with effect from 1 April 2007.
- Roadmap for introducing a national level GST with effect from 1 April 2010.

CHAPTER 1: INTRODUCTION

1.1 Background

The Indian economy with a current growth rate of 9.2% and a Gross Domestic Product of US\$ 817 billion has become the hotspot for the global business and financial community. With Tata's acquisition of Corus, UK for over US\$ 11 billion and Hindalco's acquisition of Novelis, USA for US\$ 6 billion, the past year has also signalled the arrival of Indian companies in the international arena. India's emergence as one of the most competitive global locations in the information technology/business process outsourcing, textiles, gems and jewellery as well as pharmaceutical sectors is well established. The opening of foreign direct investment in the lucrative real estate development sector and infrastructure sector as well as the single brand organised retailing segment has become the latest attraction for the international community. However, the increase in inflation rate to about 6% per annum and infrastructural constraints are looming large like dark clouds.

The Budget 2007 has marginally increased tax rates for large taxpayers from 33.66% to 33.99%. However, partnership firms and companies having taxable income of up to Rs. 1 crore would pay a lower tax of 30.9% as against 33.66%. The increase in the effective dividend distribution tax rate from 14.025% to 16.995% has been disappointing. The non extension of terminal date for tax exemption available to export-oriented units (EOUs) and software technology park (STP) units under section 10A/10B beyond 31 March 2009 and levy of minimum alternate tax (MAT) on such units @ 11.33% has been a major disappointment. Also, non extension of deduction under section 80IB for Housing Projects approved after 31 March 2007 is a set-back for the growth of realty sector. The inclusion of benefit under Employee Stock Option Plans for the levy of Fringe Benefits Tax (FBT) would make ESOPs tax inefficient. The grant of tax holiday to entities setting up cross country natural gas distribution network and sea navigation channels as well as certain hotels in the National Capital Territory and neighbouring areas, is a step in the right direction. The continuation of weighted deduction of 150% for in-house expenditure on scientific research for 5 years would drive productivity improvement and re-engineering efforts.

The reduction of central sales tax from 4% to 3% on inter state sales, the wide ranging reduction in customs duty and progress towards integration of the Goods and Services Tax into a single levy from 1 April 2010 is encouraging. The increase in threshold limit for service tax levy, marginal

increase in rate from 12.24% to 12.36% and inclusion of new services such as lease of commercial properties, design services, services embedded in works contracts and outsourced services for mining in hydro carbon sector are the key features of service tax reforms.

The proposals to introduce certain capital market reforms such as enabling setting up of dedicated infrastructural funds, enabling Indian companies to unlock a part of their holding in group companies by issue of Exchangeable Bonds and promoting Mumbai into a world class financial centre, are promising. The launch of a US\$5 billion infrastructure fund, facilitating innovative methods of financing infrastructural projects and approval for certain mega power projects are significant milestones in removing infrastructural constraints.

1.2 Scope and Limitations

In this booklet compiled by us, we intend to offer a broad outline of the highlights of the Union Budget 2007. We have discussed the significant proposals of general interest in respect of direct taxes. In respect of indirect taxes and other policy initiatives, only the highlights have been briefly enumerated. Preceding the budget proposals are the macro indicators of Indian economy which provide a backdrop to the legal and financial proposals.

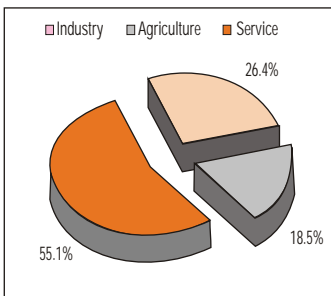
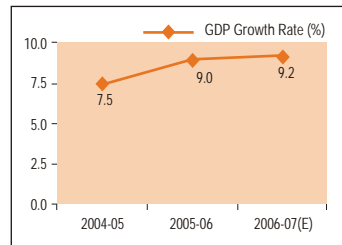
This booklet is not an offer, invitation or solicitation of any kind and it does not purport to be comprehensive, or to render legal, economic or financial advice. This booklet should not be relied upon for taking actions or decisions without appropriate professional advice as the facts of each case have to be studied and the legal position analysed properly before taking any action or decision in the matter. Further, this booklet contains only the proposals and amendments as given in the Finance Bill, 2007, which may be modified before it receives the approval and assent of the Parliament and the President. The proposals regarding direct taxes would become effective from Assessment Year 2008-09 (financial year 1 April 2007 to 31 March 2008), unless otherwise specified. In this booklet, the terms 'IT Act', 'the Rules' and 'the Bill' are used for the "Income-tax Act, 1961", "Income-tax Rules, 1962" and "Finance Bill, 2007" respectively.

While all reasonable care has been taken in preparation of this booklet, we accept no responsibility for any errors it may contain or for any omissions or otherwise or for any loss, howsoever caused or sustained, by the person who relies on it.

CHAPTER 2 : INDIAN ECONOMY - AN OVERVIEW

2.1 General Review

The growth story of the Indian economy continued strongly in the current year with an expected growth rate of 9.2% in 2006-07, making India one of the fastest growing economies in the world. A notable feature of the current growth phase is the sharp rise in the rate of investment in the economy. Investment, in general being a forward looking variable, reflects a high degree of business optimism.



Services contributed as much as 68.6% of the overall average growth in GDP in the last five years between 2002-03 and 2006-07. Virtually, the entire residual contribution came from industry. As a result, in 2006-07, while the share of agriculture in GDP declined to 18.5%, the share of industry and services improved to 26.4% and 55.1% respectively.

The growth of industrial sector has increased from over 8% in the past 2 years to 10% in 2006-07. There have been concerns on the inflation front. Starting with a rate of 3.98%, the inflation rate in 2006-07 has been on a general upward trend with point to point inflation as on 20 January 2007 standing at 6.11%. However, average inflation in the 52 weeks ending 3 February 2007 remained at 5%. The government has initiated several measures including the hike in the CRR by 75 basis points in the past 3 months with another increase of 25 basis points expected on 3 March 2007.

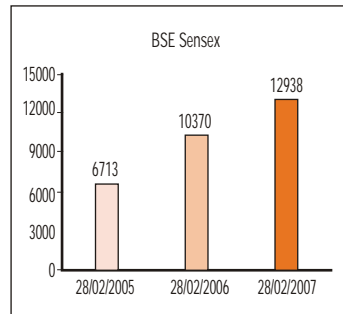
India's exports have been growing at a high rate of more than 20% since 2002-03. During 2005-06, with growth of a 23.4%, India's exports crossed the US\$100 billion mark. During 2006-07, exports gained momentum to grow by an estimated 36.3% in the first 9 months to reach US\$89.5 billion. Buoyancy of exports was driven by the

resurgence in the manufacturing sector and sustained demand from major trading partners.

India's foreign exchange reserves stood at US\$185.1 billion as on 9 February 2007.

The central fiscal deficit as a % of GDP is estimated to be 4% as compared to 4.1% in the previous 2 years.

The BSE Sensex, the stock-index of the BSE, rallied from a low of 8,929 on 14 June 2006 to an all-time intra-day high of 14,724 on 9 February 2007 making it one of the most attractive emerging markets.



The positive sentiments reflected also in most indicators such as resource mobilised through the primary market. Aggregate mobilisation, especially through private placements and IPOs, grew by 30.5% to Rs. 161,769 crores in calendar year 2006, with about 6 IPOs every month, on average. Net mobilisation of resources by mutual funds increased more than four-fold from Rs. 25,454 crores in 2005 to Rs. 1,04,950 crores in 2006.

The upbeat mood of the capital markets, reflecting the improved growth prospects of the economy, was partly also a result of steady progress made on the infrastructure front. Overall index of six core industries - electricity, coal, steel, crude oil, petroleum refinery products and cement, with a weight of 27% in IIP - registered a growth of 8.3% in April-December 2006 compared to 5.5% in April-December 2005.

The economy appears to have decidedly 'taken off' and moved from a phase of moderate growth to a new phase of consistent high growth.

2.2 India - Key Economic Indicators

Items	2003-04	2004-05	2005-06	2006-07	2003-04	2004-05	2005-06	2006-07
	Absolute values				% change over previous period			
Gross Domestic Product (at factor cost)								
(Rs. thousand crore)								
At current prices	2,549.4	2,855.9	3,250.9 Q	3,717.5 A	12.5	12.0	13.8 Q	14.4 A
At 1999-2000 prices	2,222.6	2,389.6	2,604.5 Q	2,844.0 A	8.5	7.5	9.0 Q	9.2 A
(US \$ billion - year-end exchange rate)								
At current prices	554.8	635.6	734.3	817.4	19.0	14.6	15.5	11.3
Foodgrains production (million tonnes)	213.2	198.4	208.6	209.2 +	22.0	-6.9	5.1	0.3 +
Index of industrial production (1)	189.0	204.8	221.5	239.0 ^	7.0	8.4	8.2	10.8 ^
Electricity generated (in billion kwh)	558.3	587.4	617.5	493.1 ^	5.0	5.2	5.1	7.5 ^
Wholesale Price Index (2)	180.3	189.5	197.2	209.2 #	4.6	5.1	4.1	6.7 #
Consumer Price Index for industrial workers (3)	504	525	551	588 \$	3.5	4.2	5.0	6.9 \$
Money supply (M3) (4) (Rs. thousand crore)	2,005.7	2,251.4 (2,332.7)##	2,729.5	3,071.7^(6)	16.8	12.3	17.0 @@	21.1^(5)
Imports at current prices (in Rs. crore)	3,59,108	5,01,065	6,60,409	5,98,287***	20.8	39.5	31.8	40.6^^
(in US \$ million)	78,150	1,11,518	1,49,166	1,31,212***	27.3	42.7	33.8	36.3^^
Exports at current prices (in Rs. crore)	2,93,367	3,75,340	4,56,418	4,08,394***	15.0	27.9	21.6	40.6^^
(in US \$ million)	63,843	83,536	1,03,091	89,489***	21.1	30.8	23.4	36.3^^
Foreign currency assets (5) (in Rs. crore)	4,66,215	5,93,121	6,47,327	7,64,501*	36.5	27.2	9.1	29.7*
(in US \$ million)	1,07,448	1,35,571	1,45,108	1,73,081*	49.5	26.2	7.0	29.4*
Exchange rate (Re./US \$) (7)	45.95	44.93	44.27	45.48@	5.3	2.3	1.5	-2.7@

Note : Gross Domestic Product figures are at factor cost (new series base 1999-2000).

Q - Quick Estimates;

A - Advance Estimates;

@ - Average exchange rate for April - January, 2006-07;

* - At the end of January 2007; ** - At the end of December, 2004

*** - April - December 2006(provisional).

\$ - As on December 2005; + 2nd advance estimates 2006-07;

- As on 3 February 2007;

^^ - April - December 2006 (on provisional over provisional basis);

- Outstanding balance as on 1 April 2005;

^ - April - December 2006;

@@ - Computed over comparable data i.e. 1 April 2005 due to 27 fortnight during 2005-2006.

1 Index of industrial production; (base 1993-94=100).

2. Index (with base 1993-94=100) at the end of fiscal year.

3. Index (with base 1982=100) at the end of fiscal year.

4. Outstanding at the end of financial year. .

5. As on 19 January 2006, year-on-year growth.

6. Out standing at the end of financial year.

7. Percent change indicates the rate of appreciation(+)/ depreciation(-) of the Rupee vis-a-vis the US Dollar.

CHAPTER 3 : TAX RATES

3.1 Individuals, Hindu Undivided Families, Association Of Persons And Body Of Individuals

3.1.1 Tax rates

The Bill proposes a new tax rate structure for individuals, HUFs, AOPs and BOIs. As a result, the effective present and proposed tax rates for the financial years 2006-07 and 2007-08 in case of individuals / HUFs / AOPs / BOIs are as follows:

Income Slabs (Rs.)	Tax Rates* (2006-07)	Income Slabs (Rs.)	Proposed Tax Rates* (2007-08)
0 - 1,00,000#	Nil	0 - 1,10,000#	Nil
1,00,001# - 1,50,000	10.20% of income exceeding Rs. 1,00,000	1,10,001# - 1,50,000	10.30% of income exceeding Rs. 1,10,000
1,50,001 - 2,50,000	Rs. 5,100 plus 20.40% of income exceeding Rs. 1,50,000	1,50,001 - 2,50,000	Rs. 4,120 plus 20.60% of income exceeding Rs. 1,50,000
2,50,001 - 10,00,000	Rs. 25,500 plus 30.60% of income exceeding Rs. 2,50,000	2,50,001 - 10,00,000	Rs. 24,720 plus 30.90% of income exceeding Rs. 2,50,000
10,00,001 - and above	Rs. 2,80,500 plus 33.66% of income exceeding Rs.10,00,000**	10,00,001 - and above	Rs. 2,82,117 plus 33.99% of income exceeding Rs.10,00,000**

* The tax rates are inclusive of education cess of 2% for financial year 2006-07 and 3% for financial year 2007-08. Further, in case of income exceeding Rs. 10,00,000, surcharge of 10% is also included.

In case of a resident woman below 65 years of age at any time during the previous year, the basic exemption income slab is Rs. 1,35,000 for financial year 2006-07 and Rs.1,45,000 for financial year 2007-08. Further, in case of a resident individual of the age of 65 years or more (senior citizen) at any time during the previous year, the basic exemption income slab is Rs. 1,85,000 for financial year 2006-07 and Rs.1,95,000 for financial year 2007-08. The tax for other slabs will change accordingly.

** Marginal relief is available to ensure that the additional income tax payable, including surcharge of 10% on the excess of income over Rs. 10,00,000 is limited to the amount by which the income is more than Rs. 10,00,000. However, no marginal relief shall be available in respect of the education cess.

3.1.2 Proposed tax incidence

The incidence of income tax for individuals, women and senior citizens, for the financial year 2007-08, having different income levels can be exemplified as follows:

(Rs.)

Income Level	Tax Liability		
	Individuals*	Women	Senior Citizens
1,10,000	-	-	-
1,45,000	3,605	-	-
1,50,000	4,120	515	-
2,00,000	14,420	10,815	1,030
2,50,000	24,720	21,115	11,330
3,00,000	40,170	36,565	26,780
5,00,000	1,01,970	98,365	88,580
10,00,000	2,56,470	2,52,865	2,43,080
15,00,000	4,52,067	4,48,102	4,37,338
20,00,000	6,22,017	6,18,052	6,07,288
25,00,000	7,91,967	7,88,002	7,77,238

* - The tax incidence for HUFs, AOPs and BOIs will be same as that of individuals.

3.2 Companies

3.2.1 Domestic companies

The Bill proposes no change in the existing tax rate of 30% for domestic companies. However, the effective tax rates will change as it is proposed that the surcharge, which is 10% shall only be levied on companies having total income exceeding Rs. 1,00,00,000 (Rs. 1 crore) and the education cess is proposed to be increased from 2% to 3%. As such, the effective tax rates for domestic companies for financial year 2006-07 and 2007-08 are as follows:

Domestic Company	Effective Tax Rates	
	2006-07	2007-08
Having total income exceeding Rs.1,00,00,000	33.66%	33.99% [(tax rate 30% plus surcharge 10% thereon) plus education cess 3% thereon]
Having total income upto Rs.1,00,00,000	33.66%	30.90% [tax rate 30% plus education cess 3% thereon]

The effective tax rate under MAT for domestic companies is proposed to be increased from 11.22% to 11.33% [(tax rate 10% plus surcharge 10% thereon) plus education cess 3% thereon].

3.2.2 Foreign companies

The effective tax rate for foreign companies will increase marginally from 41.82% to 42.23% [(tax rate 40% plus surcharge 2.5% thereon) plus education cess 3% thereon]. However, the effective tax rate for foreign companies having total income upto Rs.1,00,00,000 will be 41.20%.

3.2.3 Additional tax on dividend distributed by domestic companies

The Bill proposes to increase the effective DDT by domestic companies from 14.025% to 16.995% [(tax rate 15% plus surcharge 10% thereon) plus education cess 3% thereon].

3.3 Partnership Firms

The Bill proposes no change in the existing tax rate of 30% for Partnership firms. However, the effective tax rates will change as it is proposed that the surcharge will only be levied on firms having total income exceeding Rs. 1,00,00,000 (Rs. 1 crore) and the education cess is proposed to be increased from 2% to 3%. As such, the effective tax rates for Partnership firms for financial year 2006-07 and 2007-08 are as follows:

Partnership Firms	Effective Tax Rates	
	2006-07	2007-08
Having total income exceeding Rs.1,00,00,000	33.66%	33.99% [(tax rate 30% plus surcharge 10% thereon) plus education cess 3% thereon]
Having total income upto Rs.1,00,00,000	33.66%	30.90% [tax rate 30% plus education cess 3% thereon]

3.4 Additional Tax On Dividends Distributed By A Mutual Fund

The Bill proposes the following changes in the effective rate of tax on dividends distributed by a mutual fund:

Type of Income	Effective Tax Rates	
	2006-07	2007-08
Income distributed by a money market mutual fund or a liquid mutual fund to - an Individual or a HUF - Others	14.025% 22.44%	28.325%* 28.325%*
Income distributed by a mutual fund other than a money market mutual fund or a liquid mutual fund to - an Individual or a HUF - Others	14.025% 22.44%	14.163%* 22.66%*

* The tax rates are inclusive of surcharge of 10% and education cess of 3% thereon.

3.5 Other Entities

3.5.1 Co-operative societies

The Bill proposes no changes in the tax rates for co-operative societies. However, due to increase in education cess, the effective tax rates for financial year 2007-08 are as follows:

Income Slabs (Rs.)	Tax Rates
0 - 10,000	10.3%
10,001 - 20,000	Rs. 1,030 plus 20.60% of income exceeding Rs. 10,000
20,001 - and above	Rs. 3,090 plus 30.90% of income exceeding Rs. 20,000

3.5.2 Local authorities

The Bill proposes increase in the effective tax rate from 30.60% to 30.90% (tax rate 30% plus 3% education cess thereon) for Local Authorities.

CHAPTER 4: TAX INCENTIVES FOR BUSINESSES

The Income Tax Act, 1961 provides for far reaching tax holidays and other tax incentives for businesses. We have enumerated, in brief, the significant tax holidays and incentives available to businesses along with the nature of deductions, eligibility criteria, quantum of deduction and period for which the deductions are available. The tax holidays and incentives are subject to fulfillment of specified conditions. The changes proposed by the Bill have been given in bold.

Section	Details of Exemption / Deduction	Period	Quantum of Deduction
10A / 10B	<ul style="list-style-type: none"> ➤ For newly established undertakings in Free Trade Zones or 100% Export Oriented Undertakings. ➤ For any new eligible undertaking set up in a SEZ after 1 April 2002. ➤ Exemption is available for profits from export of article or thing or computer software, manufactured or produced by an eligible undertaking. ➤ The term 'computer software' includes notified 'information technology enabled services'. ➤ The benefit is available to cutting and polishing of precious and semi-precious stones. ➤ The export proceeds must be realised within specified time. ➤ No deduction under these sections will be allowed unless the assessee files the return of income within prescribed time limit. ➤ It is proposed that units availing these deductions will be subject to MAT @ 11.33% [(tax rate 10% plus surcharge 10% thereon) plus education cess 3% thereon)]. * - The deduction is allowed only on creation of a specified reserve, which is utilized for specified purposes. 	First 10 years upto financial year 2008-09. First 5 years Next 2 years Next 3 years*	100% 100% 50% 50%
10AA	<ul style="list-style-type: none"> ➤ For any new eligible unit set up in a SEZ on or after 1 April 2005. ➤ Exemption is available for profits derived from export of article or thing or service, manufactured, produced or services provided by an eligible unit. ➤ There is no restriction on realisation of the export proceeds within a particular time frame for the purpose of claiming the deduction . 	First 5 years Next 5 years Next 5 years+	100% 50% 50%

Section	Details of Exemption / Deduction	Period	Quantum of Deduction
	<ul style="list-style-type: none"> ➤ The profits and gains derived from on-site development of computer software (including services for development of software) outside India shall be deemed to be the profits and gains derived from the export of computer software outside India. ➤ The term manufacturing includes processing such as cutting, polishing and as such cutting and polishing of precious and semi-precious stones would be entitled to this exemption. ➤ The bill proposes that the benefit under this section will be available if <ul style="list-style-type: none"> • the unit is not formed by splitting up or reconstruction of a business already in existence. • the unit is not formed by the transfer to a new business, of machinery or plant previously used for any purpose. <p>+ - The deduction is allowed subject to creation of a specified reserve, which is required to be utilised for specified purposes.</p>		
10BA	<ul style="list-style-type: none"> ➤ Exemption is available for profits from export of hand-made wooden articles or things manufactured or produced by an eligible undertaking. ➤ Exports of atleast 90% of total sales during any financial year is necessary for claiming the exemption. ➤ Employment of at least 20 workers in the manufacturing process during the year. ➤ The export proceeds must be realised within the specified time. 	Exemption is available upto financial year 2008-09	100%
33AB	<p>Tea development allowance -</p> <ul style="list-style-type: none"> ➤ Deduction is available to assessee engaged in the business of growing and manufacturing tea, coffee or rubber in India. ➤ Deduction equal to an amount deposited in a special account with the National Bank for Agriculture and Rural Development ('NABARD') from the profits is allowed. ➤ The amount has to be deposited within the specified period from the end of the financial year or before furnishing the return of income, whichever is earlier. ➤ The amount has to be utilized by the assessee for specified purposes. 	NA	Upto 40% of profits

Section	Eligibility Criteria, Quantum and Period of Deduction
32	<ul style="list-style-type: none"> ➤ Additional depreciation of 20% is allowed for new plant and machinery acquired and installed after 31 March 2005. ➤ General rate of depreciation for plant and machinery is 15% from financial year 2005 - 06.
35	<ul style="list-style-type: none"> ➤ Where any capital expenditure (other than expenditure on land) is incurred on scientific research related to the business carried on by the assessee, 100% of such expenditure can be claimed as deduction. ➤ Where any expenditure (other than expenditure on cost of land) on in-house research and development facility as approved by the prescribed authority, incurred by a company engaged in the business of bio-technology or in the business of manufacture or production of any drugs, pharmaceuticals, electronic equipments, computers, telecommunication equipments, chemicals or any other article or thing notified, the deduction shall be one and one-half (150%) of the expenditure incurred. The deduction is allowed only for expenditure incurred upto 31 March 2007. It is proposed to extend the terminal date to 31 March 2012. ➤ Where amount is paid to a scientific research association, which has objective of undertaking scientific research or to a university, college or other institution to be used for scientific research, the deduction shall be one and one-fourth (125%) of the amount paid, provided that such association, university, college or institution is approved by the Central Government. Similar deduction is available for amount paid to approved university, college or other institution to be used for research in social science or statistical research.
35DDA	Any expenditure incurred by way of payment of any sum to an employee in connection with his voluntary retirement is eligible for amortisation over 5 years, subject to specified conditions.
54G	Capital gains arising on transfer of plant, machinery, land, building or any rights in land / building effected in course of or in consequence of the shifting of an industrial undertaking situated in an urban area to any area (other than an urban area), shall be exempt to the extent of the amount of capital gains utilised within a period of 1 year before or 3 years after the date of transfer of the above assets, for purchase of new plant and machinery, land and building and for shifting expenses.
54GA	Capital gains arising on transfer of plant, machinery, land, building or any rights in land / building effected in course of or in consequence of the shifting of an industrial undertaking situated in an urban area to any SEZ, shall be exempt to the extent of the amount of capital gains utilised within a period of 1 year before or 3 years after the date of transfer of the above assets, for purchase of new plant and machinery, land and building and for shifting expenses, subject to specified conditions
54EC	Long-term capital gains shall be exempt from tax, if an assessee invests, within a period of six months from the date of transfer of a long-term capital asset, the capital gains in the specified assets. The specified asset must be held for a period of 3 years from the date of its acquisition. This exemption is restricted to investment in specified assets viz. bonds issued by National Highway Authority of India and the Rural Electrification Corporation Ltd. The investment is proposed to be restricted upto Rs.50,00,000 per assessee per financial year for investments made on or after 1 April 2007.

Section	Eligibility Criteria, Quantum and Period of Deduction
10(34)	Dividend referred to in section 115-O shall not be included in the total income of assessee, being a Developer or entrepreneur as defined under the SEZ Act.
10(38)	Capital gain arising from transfer of long term capital asset being an equity share in a company or a unit of an equity oriented fund, on which STT is charged, is exempt from tax. However, this exemption is not available for computation of MAT.
115JB (6)	The provisions of the section 115 JB i.e. the provisions relating to MAT @11.22% (11.33%) will not apply to income accruing or arising on or after 1 April 2005 from a unit in SEZ or from development of SEZ.
115O (6)	The undertaking and enterprise engaged in developing or developing and operating or developing, operating and maintaining a SEZ will not be liable to pay DDT on dividend declared, distributed and paid, out of current income, on or after 1 April 2005.

80 IA / 80 IB / 80 IC / 80 ID / 80 IAB / 80LA	Deductions of Profits derived by Newly Established Industrial Undertakings / Infrastructure Projects / Facilities / Developers of SEZs / Banking units etc.
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Sr. No.	Nature of activity and location	Type of organisation	Quantum of exemption	Number of years
i.(a)	<ul style="list-style-type: none"> ➤ Industrial undertaking located in notified industrially backward states. ➤ Manufacturing or producing any articles or things or operating cold storage plant which has commenced operations during 1 April 1993 to 31 March 2004. ➤ Industrial undertaking deriving profit from the business of setting up and operating cold chain facility for agricultural produce which has begun to operate such facility on or after 1 April 1999 but before 31 March 2004. ➤ The terminal date has been extended upto 31 March 2012 for setting up of industrial undertakings in the State of Jammu and Kashmir. ➤ A negative list is provided to specify the commodities, which should not be manufactured or produced by such undertakings. ➤ The deduction of 100% of the profits hitherto available under Section 80IB for a period of 10 assessment years to notified industries set up in North- 	<p>Company</p> <p>Co-operative Society</p> <p>Others</p>	<p>100% 30%</p> <p>100% 25%</p> <p>100% 25%</p>	<p>First 5 years Next 5 years</p> <p>First 5 years Next 7 years</p> <p>First 5 years Next 5 years</p>

Sr. No.	Nature of activity and location	Type of organisation	Quantum of exemption	Number of years
	<p>Eastern Region, will be available under section 80IC only, from financial year 2003-04.</p> <p>➤ It is proposed to extend the benefits of section 80-IA to any undertaking carrying on business of laying and operating a cross-country natural gas distribution network, including pipelines and storage facilities being an integral part of such network, with certain conditions.</p>			
i.(b)	<p>➤ Undertaking set up in any part of India for the generation or generation and distribution, of power, which has commenced operations during 1 April 1993 to 31 March 2010</p> <p>➤ Undertaking which undertakes substantial renovation and modernisation of the existing network of transmission or distribution lines between 1 April 2004 and 31 March 2010</p> <p>➤ The renovation / modernisation should result into increase of at least 50 percent of the book value of such plant and machinery as on 1 April 2004</p>	All	100%	Any 10 consecutive years out of first 15 years
i.(c)	Industrial undertaking located in industrially backward districts of categories A and B notified by Central Government, manufacturing or producing articles or things (except specified low priority items) or to operate its cold storage plant or plants which has commenced operations during 1 October 1994 to 31 March 2004.	A. Set up in category 'A' districts		
Company		100% 30%	First 5 years Next 5 years	
Co-operative Society		100% 25%	First 5 years Next 7 years	
Others		100% 25%	First 5 years Next 5 years	
B. Set up in category 'B' districts				
Company		100% 30%	First 3 years Next 5 years	
Co-operative Society	100% 25%	First 3 years Next 9 years		
Others	100% 25%	First 3 years Next 5 years		

Sr. No.	Nature of activity and location	Type of organisation	Quantum of exemption	Number of years
ii.	Industrial undertaking other than (i) above, manufacturing or producing articles or things (except specified low priority items) or operating cold storage plant, which has commenced its operations during 1 April 1991 to 31 March 1995. However, a small scale industrial undertaking manufacturing and producing any article or thing and commencing manufacturing operations or operating cold storage plant from 1 April 1991 to 31 March 2002 is eligible.	Company Co-operative Society Others	30% 25% 25%	First 10 years First 12 years First 10 years
iii.	Enterprise being company or consortium of companies registered in India, for carrying on business of (i) developing or (ii) operating and maintaining or (iii) developing, operating and maintaining of a new infrastructure facility like road, bridge, rail system, highway project and water supply project, water treatment system, irrigation project, sanitation and sewage system or solid waste management system, airport, port, inland waterways and inland ports, commencing its operations on or after 1 April 1995. Further, navigational channel in the sea is proposed to be included with effect from financial year commencing from 1 April 2007.	Company	100%	For 10 consecutive years out of first 15 years (first 20 years for road, bridge, rail system, highway, water supply project, water treatment system, irrigation project, sanitation and sewerage system or solid waste management system)
iv.	Approved hotel located in hilly or rural area or place of pilgrimage, which has started functioning during 1 April 1990 to 31 March 1994 or during 1 April 1997 to 31 March 2001.	Indian company with a minimum paid up capital of Rs. 5,00,000	50%	First 10 years
v.	Hotel located in any place other than a hilly or rural area or place of pilgrimage which has started functioning during 1 April 1991 to 31 March 1995 or during 1 April 1997 to 31 March 2001. (However, for both (iv) and (v), hotels located at a place within the municipal	Indian Company with a minimum paid up capital of Rs. 5,00,000	30%	First 10 years

Sr. No.	Nature of activity and location	Type of organisation	Quantum of exemption	Number of years
	jurisdiction of four metro cities of Kolkatta, Chennai, Delhi and Mumbai are not eligible if they start functioning during 1 April 1997 to 31 March 2001)			
vi.	Any company registered in India with its main object being scientific and industrial research and development and which is for the time being approved by the Department of Scientific and Industrial Research at any time after 31 March 2000 but before 1 April 2007.	Company	100%	For first 10 years (5 years if approved before 1 April 1999)
vii.	<ul style="list-style-type: none"> ➤ Any undertaking which starts providing tele-communication services, whether basic or cellular, including radio paging, domestic satellite service or network of trunking, broadband network and internet services on or after 1 April 1995 but before 31 March 2005. ➤ The restrictions on transfer of old plant and machinery and reconstruction of business are made applicable to the telecom sector with effect from 1 April 2004. 	All	100% 30%	First 5 years Next 5 years The above 10 years shall be consecutive assessment years out of first 15 years.
viii.	<p>Any undertaking which begins to develop or develops and operates or maintains and operates an industrial park or SEZ notified by the Central Government which has commenced operations during 1 April 1997 to 31 March 2009[#].</p> <p># - As per amendments by the SEZ Act 2005, the exemption will not be available for SEZs notified after 1 April 2005. Exemption will now be available under a new section 80 IAB.</p>	Company	100%	10 years out of first 15 assessment years
ix.	Any assessee being developer of a SEZ notified by the Central Government after 1 April 2005.	Any Assessee	100%	10 years out of first 15 assessment years
x.	Any undertaking, which begins commercial production of mineral oil in any part of India on or after 1 April 1997 and for refining of mineral oil on or after 1 October 1998.	All	100%	First 7 years

Sr. No.	Nature of activity and location	Type of organisation	Quantum of exemption	Number of years
xi.	<ul style="list-style-type: none"> ➤ Any undertaking engaged in developing and building housing projects approved by a local authority before 31 March 2007 ➤ In case of projects approved on or after 1 April 2004, it should be completed within 4 years from the end of the financial year in which it is approved. ➤ In other cases it should be completed before 31 March 2008 ➤ The deduction is allowed subject to fulfillment of various other conditions like minimum area of the land, maximum built-up area of residential and commercial units etc. ➤ In case of multiple approvals from the local authority, the date of first approval will be considered for the calculation of time limit of completion. 	All	100%	Not applicable
xii	<ul style="list-style-type: none"> ➤ An undertaking deriving profit from the integrated business of handling, storage and transportation of food grains subject to such business beginning its operations on or after 1 April 2001. ➤ The benefit is extended to undertakings engaged in the business of processing, preservation and packaging of fruits and vegetables with effect from 1 April 2004. 	Company Others	100% 30% 100% 25%	First 5 years Next 5 years First 5 years Next 5 years
xiii.	Any undertaking engaged in the business of building, owning and operating a multiplex theater located at any place other than a place within the municipal jurisdiction of four metro cities i.e., Kolkatta, Chennai, Delhi and Mumbai and constructed at any time during the period 1 April 2002 to 31 March 2005.	All	50%	First 5 years
xiv	Any undertaking engaged in the business of building, owning and operating a convention center constructed at any time during the period 1 April 2002 to 31 March 2005	All	50%	First 5 years

Sr. No.	Nature of activity and location	Type of organisation	Quantum of exemption	Number of years
xv.	<ul style="list-style-type: none"> ➤ Any undertaking engaged in the business of operating and maintaining a hospital in a rural area. ➤ The undertaking shall be eligible for the deduction if such hospital is constructed in accordance with the local regulations in force, and has at least 100 beds for patients. ➤ The hospital should be constructed during the period beginning on 1 October 2004 and ending on 31 March 2008. 	All	100%	First 5 years
xvi	<p>New undertakings and enterprises, or substantial expansion of existing undertakings and enterprises located in the following states :</p> <ul style="list-style-type: none"> ➤ If located in Sikkim, the undertaking, which begins to manufacture or produce or undertakes substantial expansion during the period from 23 December 2002 to 31 March 2012. ➤ If located in Himachal Pradesh and Uttaranchal, the undertaking, which begins to manufacture or produce or undertakes substantial expansion during the period beginning from 7 January 2003 to 31 March 2012. ➤ If located in North Eastern States*, the undertaking, which begins to manufacture or produce or undertakes substantial expansion during the period beginning from 24 December 1997 to 31 March 2007 ➤ List of articles and products entitled / not entitled for such deduction have been prescribed <p>* - States of Assam, Tripura, Meghalaya, Mizoram, Nagaland, Manipur and Arunachal Pradesh</p>	<p>All</p> <p>Company</p> <p>Others</p> <p>All</p>	<p>100%</p> <p>100% 30%</p> <p>100% 25%</p> <p>100%</p>	<p>First 10 years</p> <p>First 5 years Next 5 years</p> <p>First 5 years Next 5 years</p> <p>First 10 years</p>

Sr. No.	Nature of activity and location	Type of organisation	Quantum of exemption	Number of years
xvii.	<ul style="list-style-type: none"> ➤ Offshore banking unit in SEZ. ➤ From the business referred to in section 6(1) of the Banking Regulation Act, 1949. ➤ From any unit of the International Financial Services Center from approved business. 	Scheduled Bank or any bank incorporated by or under the law of a country outside India. or a unit of an International Financial Services Center.	100% 50%	First 5 years (beginning with the year in which prescribed permissions are obtained) Next 5 years
80ID	Any undertaking engaged in business of convention centers or hotels in specified area of the National Capital Territory subject to fulfillment of certain specified conditions.	All	100%	First 5 years

Significant Conditions For Eligibility For Deduction Under Section 80IA/80IB

- An eligible industrial undertaking is one, which fulfils all of the following conditions:
 - ◆ It manufactures or produces any article or thing other than any non-priority article or thing (as specified in the Eleventh Schedule) or operates one or more cold storage plant or plants in any part of India. However, restriction regarding manufacture of non-priority article specified in eleventh schedule is not applicable to small-scale industrial undertakings and industrial undertakings located in backward states.
 - ◆ It employs (a) ten or more workers in a manufacturing process carried on with the aid of power or (b) twenty or more workers in a manufacturing process carried on without the aid of power.
 - ◆ It is not formed by splitting up, or reconstruction, of a business already in existence or by transfer to a new business machinery previously used for any purpose (except under certain circumstances).
- The profits and gains of an eligible business for the purpose of determining the quantum of deduction under this section for the assessment year be computed as if such eligible business were the only source of income of the

assessee during the previous year relevant to the assessment year for which the deduction is to be made.

- An eligible enterprise engaged in development, operation and maintenance of any infrastructure facility should have entered into an agreement with the Central Government / State Government / local authority / other statutory body for developing or operating and maintaining or developing, operating and maintaining a new infrastructure facility.
- The exemption is also available to profits and gains derived from ships and approved hotels subject to fulfillment of certain conditions. In the case of a hotel, a significant condition is that the business of the hotel should be owned and carried on by a company registered in India with a paid up capital of Rs. 5,00,000 or more.
- For the enterprise, where housing or other activities are an integral part of the highway project, then the exemption is available to profits and gains derived from such project subject to condition that the profit has been transferred to a special reserve account and the same is actually utilised for the highway project excluding housing and other activities before the expiry of 3 years following the year in which such amount was transferred to the reserve account and the amount remaining unutilised shall be chargeable to tax as income of the year in which transfer to reserve account took place.
- Where any amount of profits and gains of an industrial undertaking or of a hotel in case of an assessee is claimed and allowed under this section for any assessment year, deduction to the extent of such profits and gains shall not be allowed under any other provision of the Act and shall in no case exceed the profits and gains of the undertaking or hotel as the case may be.
- Any undertaking claiming aforesaid deduction under chapter VIA must furnish a report of audit in the prescribed form duly signed and verified by an accountant. For the purposes of clause (ii), any machinery or plant which was used outside India by any person other than the assessee shall not be regarded as machinery or plant previously used for any purpose, if the following conditions are fulfilled, namely :
 - (a) such machinery or plant was not, at any time previous to the date of the installation by the assessee, used in India;

- (b) such machinery or plant is imported into India from any country outside India; and
 - (c) no deduction on account of depreciation in respect of such machinery or plant has been allowed or is allowable under the provisions of this Act in computing the total income of any person for any period prior to the date of the installation of machinery or plant by the assessee. **It is proposed that this section will also apply to units covered under section 10AA.**
- Where in the case of an undertaking, any machinery or plant or any part thereof previously used for any purpose is transferred to a new business and the total value of the machinery or plant or part so transferred does not exceed twenty per cent of the total value of the machinery or plant used in the business, then, for the purposes of clause (ii) of this sub-section, the condition specified therein shall be deemed to have been complied with). **It is proposed that this section will also apply to units covered under section 10AA.**
- No deduction under 80IA, 80IB, 80IC will be allowed unless the assessee files return of income within the due date specified under section 139(1).

CHAPTER 5 : DIRECT TAXES - SIGNIFICANT CHANGES

5.1 Business Entities

5.1.1 Minimum Alternate Tax extended to EOU/EHTP/FTZ/STP Units

Section 115JB of the IT Act provides that in case of a company, if the tax payable on the total income as computed under the IT Act is less than 10% (excluding surcharge and education cess) of its book profit, such book profit shall be deemed to be the total income of the assessee and the tax payable for the relevant previous year shall be 10% of such book profit.

Presently, the companies who have set up EOU/EHTP/FTZ/STP Units are eligible for tax deduction under the provisions of section(s) 10A and 10B, and are out of purview of the MAT provisions of section 115JB of the IT Act.

The Bill proposes to provide that the amount of income to which any of the provisions of section 10A or section 10B apply, shall not be reduced from the book profit for the purposes of calculation of income tax payable under the aforesaid section.

As a result, the companies, enjoying 100% tax holidays under the section 10A / 10B, are now liable to pay MAT on its book profit. The effective tax rate for MAT purposes for domestic companies would work out to 11.33%.

5.1.2 Tax benefit only for new units in SEZs

As per section 10AA of the IT Act, deduction is available to an entrepreneur from his unit in the SEZ.

Under the existing provisions contained in section 10AA(4), it is provided that section 10AA is applicable to any undertaking being the unit, which has begun or begins to manufacture or produce articles or things or provide services during the previous year relevant to the assessment year commencing on or after 1 April 2006 in any SEZ.

The Bill proposes to substitute section 10AA(4) so as to provide that section 10AA is applicable to any undertaking, being the unit, which fulfils all the

following conditions, viz.

- a) it has begun or begins to manufacture or produce articles or things or provide services during the previous year relevant to the assessment year commencing on or after 1 April 2006 in any SEZ;
- b) it is not formed by the splitting up or the reconstruction of a business already in existence;
- c) it is not formed by the transfer to a new business, of machinery or plant previously used for any purpose.

The Bill also proposes to provide that the conditions of (b) shall not apply in respect of any undertaking, being the unit which is formed as a result of the re-establishment, reconstruction or revival by the assessee of the business of any such undertakings as is referred to in section 33B, in the circumstances and within the period specified in that section.

The Bill provides that for the purposes of clause (c), any machinery or plant previously used outside India (subject to other prescribed conditions) shall not be considered as ineligible plant and machinery. Further, used plant and machinery to the extent of 20% of the total value of the plant and machinery in the business, is considered as eligible for the above deduction.

This amendment will take effect retrospectively from 10 February 2006.

5.1.3 Increase in the rates of tax on distributed profits from 14.025% to 16.995%

Under the existing provisions, any amount declared, distributed or paid by a domestic company by way of dividends on or after 1 April 2003, whether out of current or accumulated profits, is chargeable to tax @ 14.025% [(tax rate 12.5% plus surcharge 10% thereon) plus education cess 2% thereon].

The Bill proposes to increase the rate of such tax on distributed profits to 16.995% [(tax rate 15% plus surcharge 10% thereon) plus education cess 3% thereon].

Further, under the existing provisions, any amount of income distributed by the specified company or a Mutual Fund to its unit holders shall be chargeable to tax and such specified company or Mutual fund shall be liable

to pay tax on such distributed income @ 14.025% on income distributed to any person, being an individual or a HUF and 22.44% on income distributed to any other person. No tax is payable on income distributed by an equity oriented mutual fund.

The Bill proposes to provide that where the income is distributed by a money market mutual fund or a liquid fund, such fund shall be liable to pay additional income-tax on such distributed income at the rate of 28.325%. For this purpose, the Bill proposes to provide definitions of "money market mutual fund" and "liquid fund" in the explanation to section 115T.

The existing rates of tax on income distributed by a fund other than a money market mutual fund or a liquid fund shall remain the same.

5.1.4 Tax holiday under section 80-IA extended to an undertaking laying and operating cross-country natural gas distribution network

The existing provisions of section 80-IA of the IT Act provide for 100% deduction for 10 years in respect of profits and gains of certain undertakings or enterprises engaged in the business of development, operation and maintenance of infrastructure facility, industrial parks and SEZ or generation, distribution or transmission of power, etc.

Considering the fact that tax subsidy for gas pipelines will enable substitution of the existing subsidy on LPG, the Bill proposes to provide that any undertaking carrying on the business of laying and operating cross-country natural gas distribution network, including gas pipelines and storage facilities being an integral part of the network, shall be eligible for deduction under the said section if it is:

- (a) owned by a company registered in India or by a consortium of such companies or by an authority or a board or a corporation established or constituted under any Central or State Act;
- (b) it has been approved by the Petroleum and Natural Gas Regulatory Board established under sub-section (1) of section 3 of the Petroleum and Natural Gas Regulatory Board Act, 2006 and notified by the Central Government in the Official Gazette;
- (c) one-third of its total pipeline capacity is available for use on common carrier basis by any person other than the assessee or an associated

- person;
- (d) it starts functioning on or after 1 April 2007; and
 - (e) it fulfils such other condition as may be prescribed.

The Bill also proposes to provide that the deduction shall be allowed for 10 consecutive assessment years out of 15 years beginning from the year in which an undertaking lays and begins to operate the cross-country natural gas distribution network.

Further, the Bill proposes to provide that any undertaking formed by way of reconstruction or splitting up or by transfer to a new business of old plant and machinery (subject to certain exceptions) shall not be eligible for the above deduction under section 80-IA.

5.1.5 Navigation Channels in sea to qualify as "infrastructure facility" for tax holiday under section 80-IA

Section 80-IA provides for a 10 year tax benefit to an enterprise engaged in development, operation and maintenance of infrastructure facilities. Under the existing provisions, an enterprise carrying on the business of developing or operating and maintaining or developing, operating and maintaining any infrastructure facility is eligible for a 100% deduction of profits for a period of 10 years, if it fulfils certain conditions specified therein. For this purpose, "infrastructure facility" 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.

Considering the fact that navigational channels in the sea is a high risk project (involving huge capital investment) and also has a long gestation period, the Bill proposes 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 10 year tax benefit under section 80-IA.

5.1.6 Tax holiday under section 80-ID introduced for hotels and convention centres in National Capital Territory and specified areas

With a view to provide adequate number of hotel rooms to meet the requirements for accommodating the visitors to the Commonwealth Games

which is to be hosted by India in 2010 and also to boost the number of convention centres, the Bill proposes to insert a new section 80-ID to provide for deduction in respect of profits and gains from the business of hotels and convention centres in specified areas.

The Bill proposes 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 5 consecutive assessment years beginning from the initial assessment year.

The Bill proposes to provide that the said section applies to any undertaking engaged in the business of hotel located in the specified area, if such hotel is constructed and has started or starts functioning at any time during the period beginning 1 April 2007 and ending 31 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 1 April 2007 and ending 31 March 2010.

Further, the Bill proposes to specify the conditions to be fulfilled by the undertaking for the purpose of deduction under the proposed new section.

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.

Further, the Bill proposes to amend section 80-AC so as to provide that no deduction under the proposed section 80-ID shall be admissible unless the assessee furnishes a return of his income for such assessment year on or before the due date specified under section 139 (1) of the IT Act.

5.1.7 Increase in TDS Rate to 10% for payment of fees for professional services under section 194J

Under the existing provisions of section 194J(1), a specified person is required to deduct an amount equal to 5% of any sum payable to a resident

by way of fees for professional services or fees for technical services or royalty. The Bill proposes to specify a higher rate of 10% (excluding surcharge and education cess) for TDS under section 194J.

This amendment will take effect from 1 June 2007.

5.1.8 Denial of tax benefits under Section 80-IA in case of amalgamation or demerger

The existing provisions of section 80-IA provide for 100% deduction for 10 years in respect of profits and gains of certain undertakings or enterprises engaged in the business of development, operation and maintenance of infrastructure facility, industrial parks and SEZ or generation, distribution or transmission of power, and similar benefit is proposed for laying and operating a cross-country natural gas distribution network, including gas pipelines and storage facilities being an integral part of the network, etc.

Section 80-IA (12) provides that where any undertaking of an Indian company which is entitled to deduction under the said section is transferred before expiry of the period specified therein, to another Indian company in a scheme of amalgamation or demerger, the provisions of the said section 80-IA shall apply to the amalgamated or the resulting company as they would have applied to the amalgamating or the demerged company if the amalgamation or demerger had not taken place.

The Bill proposes to insert a new sub-section (12A) in section 80-IA so as to provide that the provisions of sub-section (12) shall not apply to any undertaking or enterprise which is transferred in a scheme of amalgamation or demerger after 31 March 2007.

5.1.9 FBT levied on ESOP

It is proposed to bring ESOP within the purview of FBT so as to include any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer free of cost or at concessional rate to his employees (including former employee or employees), within the ambit of "fringe benefits". For this purpose, 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 shall be the value of fringe

benefits. Accordingly, the effective FBT payable shall be 33.99% [(Tax rate 30% plus surcharge 10% thereon) plus education cess 3% thereon] of the value of fringe benefit.

For the purposes of this clause, "fair market value" means the value determined in accordance with the method as may be prescribed by the Board.

5.1.10 FBT on certain promotional expenses liberalized

As per the existing provisions, certain expenditure on advertisement including publicity is excluded for the purpose of FBT. To expand the domain of such exceptions to provide relief to employers, it is proposed that the expenditure on display of products and on distribution of samples of any item either free of cost or at concessional rate to any person including doctors, shall not be included in 'sales promotion including publicity' for valuation of fringe benefits.

5.1.11 Alignment of due date for payment of advance tax on fringe benefits with that of advance tax on income

The advance tax payable in the financial year on the value of the fringe benefits referred to in section 115WC, shall be payable on or before the 15th day of the month following each quarter. However, the advance tax payable for the quarter ending on the 31st March of the financial year shall be payable on or before the 15th day of March of the said financial year.

It is proposed that the amount of advance tax on the current fringe benefits shall be payable in four installments in case of companies and three installments for others. The present installments and the proposed installments are as follows:

Due dates of installment	Present	Proposed	
		Companies	Other than companies
Upto 15th June	100% of FBT payable for the June quarter	15% of the FBT payable for the year	NA
Upto 15 September	100% of FBT payable for the September quarter	45% of the FBT payable for the year as reduced by the installments paid earlier	30% of the FBT payable for the year as reduced by the installments paid earlier
Upto 15 December	100% of FBT payable for the December quarter	75% of the FBT payable for the year as reduced by the installments paid earlier	60% of the FBT payable for the year as reduced by the installments paid earlier
Upto 15th March	100% of FBT payable for the March quarter	100% of the FBT payable for the year as reduced by the installments paid earlier	100% of the FBT payable for the year as reduced by the installments paid earlier

It is further proposed that where an assessee has failed to pay the advance tax payable by him on or before the due date for any installment or where the advance tax paid by him is less than the amount payable by the due date, he shall be liable to pay simple interest @ 1% of the amount by which the advance tax paid falls short of the amount payable by the due date for every month or part of the month for which the shortfall continues.

This amendment will take effect from 1 June 2007.

5.1.12 Exemption restricted for a Venture Capital Company or Venture Capital Fund from specified businesses or industries

Under the existing provisions of section 10(23FB), any income of a venture capital company or venture capital fund set up to raise funds for investment in a venture capital undertaking is exempt from tax.

The Bill proposes to amend the said clause so as to provide that such exemption will now be available only in respect of income of a venture capital company or venture capital fund, from investment in a venture capital undertaking engaged in certain specified businesses or industries.

For this purpose, it is also proposed to amend the definition of venture capital undertaking to mean such domestic company whose shares are not listed in a recognized stock exchange in India and which is engaged in the business of nanotechnology, information technology relating to hardware and software development, seed research and development, biotechnology, 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 3,000, or engaged in the dairy industry or poultry industry.

5.1.13 Weighted deduction for scientific research under section 35(2AB)(1) to be allowed for 5 more years

The existing provisions of section 35(2AB)(1), allow in the case of a company engaged in the business of biotechnology or in the business of manufacture or production of any drugs, pharmaceuticals, electronic equipment, computers, telecommunication equipment, chemicals or any other article or thing notified by the Board, a deduction of a sum equal to 150% of the expenditure incurred on scientific research (not being expenditure in the nature of cost of any land or building) on in-house research and development facility as approved by the prescribed authority. This provision is not applicable in respect of any expenditure incurred by a company after 31 March 2007 and no weighted deduction against expenditure incurred after that date is admissible. The Bill proposes to allow above weighted deduction for a further period of 5 years, i.e. in respect of the expenditure incurred up to 31 March 2012.

5.1.14 Strengthening the provisions of section 40A(3)

The existing provisions of section 40A(3) provide for disallowance of 20% of the payment for expenses in excess of Rs. 20,000, made otherwise than by an account payee cheque drawn on a bank or by an account payee bank draft. The Bill proposes to amend section 40A(3) to provide for 100% disallowance of payments which are made in violation of its provisions.

The Bill also proposes to substitute the present method of disallowance in an earlier year when the provision was made with a simplified method of contemporaneous disallowance by deeming the payments made in contravention of law in any subsequent year as profits and gains of business or profession of such year in which payment is made in violation of law.

The Bill further proposes to provide that no disallowance shall be made or no payment shall be deemed to be the profits or gains of business or profession if any payment exceeding Rs. 20,000 is made otherwise than by specified instruments, 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.

5.1.15 Clarification for non-availability of deduction under section 80-IA to works contractor

The Bill proposes to clarify that the provisions of section 80-IA shall not apply to a person who executes a works contract with the undertaking or enterprise referred to in the said section.

Thus, in a case where a person makes the investment and himself executes the development work i.e. carries out the civil construction work, he will be eligible for tax benefit under section 80-IA. In contrast to this, a person who enters into a contract with another person i.e. undertaking or enterprise referred to in section 80-IA for executing works contract, will not be eligible for the tax benefit under section 80-IA.

This amendment will take retrospective effect from 1 April 2000 and subsequent years.

5.1.16 Expansion of scope of TDS under section 194C for payment to contractors

The existing provisions of section 194C(1) provide for deduction of income-tax at source from any sum credited or paid to the resident contractor for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract between the contractor and the Government, local authorities, statutory corporations, companies, co-operative societies, statutory authorities engaged in providing housing accommodation (etc.),

registered societies, trusts, universities and firms. The rate of TDS is 1% in respect of advertising contracts and 2% in other cases. The existing provisions of section 194C(1) do not provide for deduction of tax at source on payments made by an individual or a HUF to a contractor.

The Bill proposes to include an individual or a HUF, whose total sales, gross receipts or turnover from the business or profession carried on exceed the monetary limits specified under clause (a) or clause (b) of section 44AB (presently Rs.40,00,000) during the financial year immediately preceding the financial year in which the sum is credited or paid to the account of the contractor. Further, the Bill proposes that the provisions of the section 194C(1) shall not apply in respect of payments made to a contractor by any individual or a member of a HUF exclusively for their personal purposes.

This amendment will take effect from 1 June 2007.

5.1.17 Increase in TDS Rate to 10% under Section 194H for payment of commission

The existing provisions of section 194H require deduction of tax at source @ 5% on payment of commission or brokerage. The Bill proposes to increase the existing rate from 5% to 10% (excluding surcharge and education cess).

Further, the Bill proposes that tax shall not be deducted on payments of commission or brokerage payable by Bharat Sanchar Nigam Limited or Mahanagar Telephone Nigam Limited to their public call office franchisees.

These amendments will take effect from 1 June 2007.

5.1.18 Decrease in TDS Rate to 10% under Section 194-I for Payment of Rent on Machinery or Plant or Equipment

The existing provisions of section 194-I provide for deduction of tax at source by the person paying any income by way of rent to a resident. The existing rate of deduction of tax is 15% if the payee is an individual or a HUF and 20% in the case of other payees. The definition of "Rent" as amended by the Taxation Laws (Amendment) Act, 2006 has come into force from 13 July 2006 and rent on three new items, viz. machinery, plant and equipment have been inserted. The Bill proposes to separately specify the rate of deduction

of tax at source at a lower rate of 10% in respect of any income payable by way of rent for the use of any machinery or plant or equipment.

This amendment will take effect from 1 June 2007.

5.1.19 Extension of time-limit for setting up of industrial undertakings in the State of Jammu and Kashmir for the purposes of tax benefit under section 80-IB(4)

Under the existing provisions contained in section 80-IB(4), industrial undertakings engaged in manufacture or production of articles or things or operation of a cold storage plant and set up during the period beginning on 1 April 1993 and ending on 31 March 2007 in the State of Jammu and Kashmir, are eligible for 100% deduction of profits for a period of 5 assessment years, followed by 25% (30% in the case of a company) for the next 5 assessment years. The deduction is subject to a negative list of articles or things specified in Part-C of the Thirteenth Schedule to the IT Act which should not be manufactured or produced by such industrial undertakings. The Bill proposes to extend the terminal date for setting up of industrial undertakings and commencement of eligible business in the State by 5 more years, i.e. from 31 March 2007 to 31 March 2012.

5.1.20 Deduction in respect of any provision for bad and doubtful debts to be allowed in the case of co-operative banks under section 36(1)(viiia)

Under the existing provisions of section 36(1)(viiia), deduction of an amount not exceeding 7.50% of the total income (computed before making any deduction under the said clause and Chapter VIA) and an amount not exceeding 10% of the aggregate average advances made by the rural branches of a scheduled bank or a non-scheduled bank, computed in the prescribed manner is allowed as deduction in the computation of income of such banks. "Scheduled bank", as defined in the Explanation to section 36(1)(viiia), does not include a co-operative bank. The Bill proposes to allow this deduction to co-operative banks not being a primary agricultural credit society or a primary co-operative agricultural and rural development bank.

5.1.21 Rationalisation of provisions relating to deduction in respect of creation and maintenance of special reserve under section 36(1)(viii)

The existing provisions of section 36(1)(viii) of the IT Act provide for a

deduction in respect of any special reserve created and maintained by,

(i) a financial corporation engaged in providing long-term finance for industrial or agricultural development or development of infrastructure facility in India; or

(ii) a public company formed and registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes.

The deduction allowable under the aforesaid clause cannot exceed 40% of the profits derived from the business of providing long-term finance.

The amendment, proposes to limit the deduction to 20% of the profits derived from the business of providing long-term finance.

5.1.22 Rationalisation of provisions relating to penalty for concealment of or furnishing inaccurate particulars of income

Under the existing provisions of clause (b) of explanation 4 to section 271(1), it has been provided that in a case to which Explanation 3 to the said subsection (1) applies, the amount of tax sought to be evaded shall mean the tax on the total income assessed.

The Bill proposes that the aforesaid amount of tax sought to be evaded shall mean the tax on the total income assessed as reduced by the amount of advance tax, tax deducted at source, tax collected at source and self assessment tax paid before the issue of notice under section 148.

This amendment will take effect from 1 April 2003 and subsequent years.

Under the existing provisions of explanation 5 to section 271(1), it has been provided that where in the course of a search under section 132, the assessee is found to be the owner of any money, bullion, jewellery or other valuable article or thing (referred to as assets in this Explanation) and the assessee claims that such assets have been acquired by him by utilising (wholly or in part) his income (i) for any previous year which has ended before the date of the search, but the return of income for such year has not been furnished before the said date or, where such return has been

furnished before the said date, such income has not been declared therein; or (ii) for any previous year which is to end on after the date of the search, then, notwithstanding that such income is declared by him in any return of income furnished on or after the date of the search, he shall, for the purposes of imposition of a penalty under section 271(1)(c), be deemed to have concealed the particulars of his income or furnished inaccurate particulars of such income. However, penalty shall not be levied if certain conditions prescribed therein are fulfilled.

The Bill proposes that the provisions of the said Explanation shall be applicable only in a case where search under section 132 was initiated before 1 June 2007.

The Bill proposes to insert a new explanation 5A to section 271(1) so as to provide that where in the course of a search initiated under section 132 on or after the 1 June 2007, the assessee is found to be the owner of (i) any money, bullion, jewellery or other valuable article or thing (referred to as assets in the proposed new Explanation) or (ii) any income based on any entry in any books of account or other documents or transactions and claims that such assets or entry in the books of account or other documents or transactions represents his income (wholly or in part) for any previous year, which has ended before the date of the search and the due date for filing the return of income for such year has expired and the assessee has not filed the return, then, notwithstanding that such income is declared by him in any return of income furnished on or after the date of the search, he shall, for the purposes of imposition of a penalty under section 271(1)(c), be deemed to have concealed the particulars of his income or furnished inaccurate particulars of such income.

5.1.23 Additional tax on undisclosed income

The Bill proposes to insert a new section 271AAA so as to provide that, in a case where search has been initiated under section 132 on or after 1 June 2007, the assessee shall be liable to pay by way of penalty, in addition to tax, payable by him, if any, a sum computed at the rate of 10% (excluding surcharge and education cess) of the undisclosed income of the specified previous year.

However, provisions of this section shall not be applicable if the assessee

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

It is further proposed to provide that no penalty under the provisions of section 271(1)(c) shall be levied or imposed upon the assessee in respect of the undisclosed income referred to in proposed new section. The Bill also proposes to provide that the provisions of section 274 and section 275 shall, so far as may be, apply in relation to the penalty leviable under the proposed new section.

For the purposes of this section, the Bill proposes to define undisclosed income so as to mean

- any income of the specified previous years represented, either wholly or partly, by any money, bullion, jewellery or other valuable article or thing or any entry in the books of account or other documents or transactions found in the course of a search under section 132, which has not been recorded on or before the date of search in the books of account or other documents maintained in the normal course relating to such previous year; or which has otherwise not been disclosed to the Chief Commissioner or Commissioner before the date of the search; or
- any income of the specified previous year represented, either wholly or partly, by any entry in respect of an expense recorded in the books of account or other documents maintained in the normal course relating to the specified previous year which is found to be false and would not have been found to be so, had the search not been conducted.

For the purposes of this section, the Bill proposes to define specified previous year so as to mean the previous year:

- which has ended before the date of search, but the date of filing the return of income under section 139(1) for such year has not expired before the date of search and the assessee has not furnished the

return of income for the previous year before the said date or

- in which search was conducted.

The Bill also proposes to provide an appeal to the Commissioner against levy of penalty under the proposed new section 271AAA.

This amendment will take effect in cases where search under section 132 is initiated on or after 1 June 2007.

5.1.24 Extension of Time limitation for making assessment where a reference is made to the Transfer Pricing Officer

As per the existing provisions of the IT Act, the time limit for selection of cases for scrutiny is one year from the end of the month in which the return was filed. References to Transfer Pricing Officers are made mostly after one year of filing of the return. With a view that the Transfer Pricing Officers as well as the Assessing Officers get sufficient time to make the audit of transfer price and the assessment in cases involving international transactions, it has been proposed to increase the time limits specified in the IT Act, by twelve months for making the assessment or reassessment in cases where a reference has been made to the Transfer Pricing Officer. Accordingly, the present time limit for completion of assessment by the Assessing Officer for the year ended 31 March 2005 has been extended from 31 December 2007 to 31 December 2008 and similar time limit for completion of assessment for subsequent years shall be extended.

It is further proposed to provide that the Transfer Pricing officer shall determine the Arm's length price at least two months before the expiry of new statutory time limit for making the assessment or reassessment. Accordingly, for the year ended 31 March 2005, the Transfer Pricing Officer shall pass order on or before 31 October 2008.

Under the existing provisions, it has been provided that on receipt of the order of the Transfer Pricing Officer, the Assessing Officer shall proceed to compute the total income of the assessee having regard to the Arm's length price determined by the Transfer Pricing Officer.

It has been proposed to amend the said section 92CA(4) so as to provide that, on receipt of the order of the Transfer Pricing officer, the Assessing

Officer shall proceed to compute the total income of the assessee in conformity with the Arm's length price determined by the Transfer Pricing Officer. It appears that this amendment is to overcome the Delhi High Court decision in the case of Sony India (P) Ltd. V. Central Board of Direct Taxes 157 Taxman 125 (2006), wherein it was held that the report of the Transfer Pricing officer is not binding on the Assessing officer. Accordingly, now it is proposed that the order of the Transfer Pricing Officer shall be binding on the Assessing Officer.

These amendments will take effect from 1 June 2007 and shall also be applicable in cases where a reference to the Transfer Pricing Officer was made prior to 1 July 2007 but the Transfer Pricing Officer did not pass the order under section 92CA(3) before the said date.

5.1.25 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 IT 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.

The Bill proposes 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.

The Bill also proposes to amend section 249(2)(a) providing that where the appeal is under section 248, the prescribed time of 30 days for filing of appeal shall be counted from the date of payment of tax.

This amendment will take effect from 1 June 2007.

5.1.26 Enhancement of exemption limit in the provisions of BCTT

It is proposed to enhance the existing limit of taxable banking transactions from the present Rs. 25,000 to Rs. 50,000 for individuals and HUF.

This amendment will take effect from the 1 June 2007.

5.2 Personal

5.2.1 Increase in amount of deduction for medical insurance premium under section 80D

The Bill proposes to increase the maximum amount allowable under section 80D, from Rs.10,000 to Rs.15,000. In the case of senior citizens, the Bill proposes to increase the limit from Rs.15,000 to Rs.20,000. Further, the Bill proposes to amend the provisions of section 80D so as to provide that the payment of premium made by any mode other than cash, shall be eligible for deduction under these sections.

5.2.2 Clarification regarding method of determination of concession in the matter of rent

Section 15 of the IT Act provides that any salary due or paid or allowed or any arrears of salary paid or allowed to the assessee in the previous year by an employer or a former employer is chargeable to tax under the head 'salaries'. The term 'salary' has been defined in section 17 of the IT Act and it, inter-alia, includes perquisites or profits in lieu of or in addition to any salary or wages. The term 'perquisite' as defined section 17(2) of the IT Act, inter-alia, includes

- (i) the value of rent-free accommodation provided to the assessee by his employer;
- (ii) the value of any concession in the matter of rent respecting any accommodation provided to the assessee by his employer.

With a view to provide a clarification as to what constitutes concession in the matter of rent, the Bill proposes to provide the method of determination of such concession.

5.2.3 Extension of tax benefits under section 80CCD to employees of “other employers”

Under the existing provisions contained in section 80CCD, in the case of an individual, employed by the Central Government on or after 1 January 2004, who has paid or deposited any amount in a previous year in his account under a pension scheme notified or as may be notified by the Central Government, a deduction of such amount not exceeding 10% of his salary is allowed. Similarly, the contribution made by the Central Government to the said account of the individual under the pension scheme is also allowed as deduction to the extent it does not exceed 10% of the salary of the individual in the previous year. The Bill proposes to amend section 80CCD so as to extend the provisions of the said section also to an individual employed by any other employer on or after the 1 January 2004 and who has paid or deposited the specified amount in his account under the pension scheme referred to in section 80CCD(1) of the said section.

These amendments will take effect retrospectively from 1 April 2004 and will accordingly apply in relation to the assessment year 2004-2005 and subsequent years.

5.2.4 Exemption for compensation received or receivable on account of any disaster

In the wake of several natural and man-made disasters that have occurred in recent times, compensation has been granted, from time to time, to the victims and their families by the Central Government, various State Governments and local authorities. With a view to exempt any such compensation from income-tax, the Bill proposes to insert a new clause (10BC) in section 10 so as to provide exemption from income-tax to any amount received or receivable from the Central Government or a State Government or a local authority by an individual or his legal heir by way of compensation on account of any disaster. This amendment will take effect retrospectively from 1 April 2005 and will accordingly apply in relation to the assessment year 2005-2006 and subsequent years.

5.2.5 TDS Limit increased for interest payment by Banks or Post Office

The Bill proposes that the threshold limit for deduction of tax at source under

section 194A shall be increased from Rs. 5,000 to Rs.10,000 where the payer is a banking company or a co-operative society engaged in carrying on the business of banking or a Post Office in respect of notified schemes. In other cases, the threshold limit shall be retained at Rs. 5,000.

This amendment will take effect from 1 June 2007.

5.2.6 Deduction for entire amount of interest paid on a loan taken for higher education of a 'relative'

Section 80E of the IT 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 8 assessment years beginning from the assessment year in which the payment of interest on the loan begins. At present, the relief is not allowed to the parents, but to the student himself when he starts repaying the amount.

The Bill proposes 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. The Bill also proposes to define the term "relative" for the purposes of section 80E so as to mean spouse and children of the individual.

5.2.7 Widening the scope of capital assets to include certain personal effects

Under the existing provisions of section 2(14), a capital asset means property of any kind held by an assessee, whether or not connected with his business or profession. Personal effects held for personal use by the assessee or any members of his family dependent on him are excluded from the ambit of definition of capital asset. Presently, the only asset which is in the nature of personal effects, but is included in the definition of capital assets, is jewellery. With a view to widen the scope of 'capital assets', the Bill proposes to amend the said clause, so as to also exclude from the meaning of personal effects- archaeological collections, drawings, paintings, sculptures, or any work of art. Transfer of such personal effects will attract capital gain tax.

5.2.8 TDS made applicable on 8% Savings (Taxable) Bonds

The Bill proposes that the person responsible for paying to a resident any interest on 8% Savings (Taxable) Bonds, 2003 shall deduct income-tax if interest payable on such Bonds exceeds Rs.10,000 during a financial year, under section 193 of the IT Act.

This amendment will take effect from 1 June 2007.

5.3 Non Residents

5.3.1 Income deemed to accrue or arise in India

Section 9 provides for situations where income is deemed to accrue or arise in India.

Vide Finance Act, 1976, a source rule was provided in the said section through insertion of clauses (v), (vi), and (vii) for income from interest, royalty or fees for technical services. It was provided, inter alia, that in case of payments of interest, royalty or fees for technical services received from a resident payer, income would be deemed to accrue or arise in India, except where the interest or royalty or fees for technical services are relatable to a business or profession carried on by the resident payer outside India or for making or earning any income from any source outside India.

Legislative intent for introduction of clauses (v), (vi) and (vii) was to give legal sanctity to the source rule. This source rule is also recognised in India's DTAA. However, recent judicial opinion has been that despite the deeming fiction in the said section, for any such deemed income to be taxable in India, there must be sufficient territorial nexus between such income and the territory of India. It has been held that where any sum is payable to a non-resident by a resident, the deeming sweep of the said section cannot bring to tax, any income of a non-resident received outside India from Indian concerns for services rendered outside India. In regard to fees for technical services, it has been specifically held that for the fees to be taxable in India, the services have not only to be utilised in a business in India, but also have to be rendered in India.

As such, for removal of doubts, an explanation has now been inserted in

section 9 to specifically reaffirm the source rule provided in that section, to clarify that where income is deemed to accrue or arise in India under clauses (v), (vi) or (vii) of sub-section (1) of section 9, such income shall be included in the total income of the non-resident, regardless of whether the non-resident has a residence or place of business or business connection in India. In such cases, it is not necessary to establish the territorial nexus between the income deemed to accrue or arise to the non-resident under the said clauses and the territory of India.

This amendment will take effect retrospectively from 1 June 1976.

5.4 General

5.4.1 Limit imposed on investment in “long-term specified bonds” under section 54EC

Section 54EC of the IT Act provides tax exemption on capital gains arising from the transfer of a long-term capital asset to the extent such capital gains are invested in “long-term specified assets” such as notified bonds issued by National Highways Authority of India or by the Rural Electrification Corporation Limited within a period of 6 months from the date of such transfer.

The Bill proposes to amend the said section so as to provide for a ceiling on investment by an assessee in such long-term specified assets. Investments in such specified assets to avail exemption under section 54EC, on or after 1 April 2007, will not exceed Rs. 50,00,000 in a financial year.

This amendment shall take effect from 1 April 2007.

5.4.2 Wider definition of India

With a view to provide a comprehensive definition of India, the Bill proposes to amend section 2(25A) of the IT Act to define “India” to mean the territory of India as referred to in article 1 of the Constitution, its territorial waters, seabed and subsoil underlying such waters, continental shelf, exclusive economic zone or any other maritime zone as referred to in the Territorial Waters, Continental Shelf, Exclusive Economic Zone and other Maritime Zones Act, 1976 and the air space above its territory and territorial waters.

The Bill also proposes to amend section 2(ka) of the Wealth-tax Act, so as to provide similar comprehensive definition of India for the purposes of the Wealth-tax Act.

These amendments will take effect retrospectively from 25 August 1976.

5.4.3 Revised Settlement Scheme

Chapter XIX-A of the IT 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, the Bill proposes to amend the provisions of said Chapter XIX-A of the IT Act. The important changes proposed to be made are:

- Under the existing provisions, an assessee may make an application to the Settlement Commission at any stage of the proceedings in his case pending before any Income-tax Authorities. It is proposed to provide that after 31 May 2007, an assessee can make an application to the Settlement Commission only during pendency of the proceedings before the Assessing Officer. However, an assessee shall not be allowed to make the application before the Settlement Commission during the pendency of prescribed assessment proceedings such as re-assessment proceedings under section 148 or assessment proceedings pursuant to search under section 132.
- Under the existing provisions, an application can be made only if the additional amount of income-tax payable on the income disclosed in the application exceeds Rs. 1,00,000. It is proposed to enhance this limit to Rs. 3,00,000.
- Under the existing provisions, 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 section 245D(1). It is proposed to provide 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. It is also proposed to provide the applicant shall send a copy of the application to the Assessing Officer on the date of making the application before the Settlement Commission.

- Under the existing provisions, it is provided that the Settlement Commission may grant immunity from prosecution under Indian Penal Code, IT Act and any other Central Act. The Bill proposes to provide that the Settlement Commission shall not grant immunity from prosecution under any law other than IT Act and Wealth-tax Act. However, in respect of pending applications, the existing provisions shall continue.
- Under the existing provisions, it is provided that the Settlement Commission may, if it is necessary or expedient to do so, reopen completed proceedings. It is proposed to provide that the Settlement 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 1 June 2007.
- It is also proposed to provide that after 1 June 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.
- The Bill proposes to bring similar amendments in the Wealth-tax Act also.

These amendments will take effect from 1 June 2007.

5.4.4 Provision relating to approval of charitable institutions and funds

Under the existing provisions of section 80G, deductions in respect of donations to certain funds, charitable institutions is available from the taxable income of the donor. The said section provides for two categories of funds one that are enumerated in section 80G(2) and those funds which are approved by the Commissioner under section 80G(5)(vi). The Bill proposes to amend section 253 so as to allow an appeal to be filed against order of the Commissioner referred to in section 80G(5)(vi) before the Appellate Tribunal.

This amendment will take effect from 1 June 2007.

5.4.5 Removal of the requirement for charitable or religious trusts or institutions to file for registration within one year of creation or establishment

Under the existing provisions of section 12A, in order to claim exemption under sections 11 and 12, a charitable or religious trust or institution is required to make an application for registration 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 Bill proposes to 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 in relation to any application made on or after 1 June 2007.

The Bill also proposes to provide that where an application has been made on or after 1 June 2007, the provisions of sections 11 and 12 shall apply in relation to the income of such trust or institution for the assessment year immediately following the financial year in which such application is made.

These amendments will take effect from 1 June 2007.

CHAPTER 6 : INDIRECT TAXES - SIGNIFICANT CHANGES

The changes effected in Customs and Central Excise regulations have been given effect to from 1 March 2007 or such date as is specified and the changes in Service Tax regulations shall be effective from a date to be notified after the enactment of the Bill, unless otherwise specified.

6.1 Service Tax

6.1.1 General

There is no change in the basic rate of service tax i.e. 12%. However, with the introduction of the new "Secondary and Higher education cess" @ 1%, the effective rate of service tax shall be 12.36% (service tax @ 12%, education cess @ 2% and secondary and higher education cess @ 1%) instead of the existing effective rate of 12.24%.

The above revised rate shall be effective from the date of enactment of the Bill.

6.1.2 Increase in threshold limit for service providers

The present threshold limit of Rs. 4,00,000 for service tax exemption for service providers is being increased to Rs. 8,00,000. Accordingly, the threshold limit for obtaining service tax registration has also been increased from Rs. 3,00,000 to Rs. 7,00,000.

The above changes will come into effect from 1 April 2007.

6.1.3 Services proposed to be specifically included in the list of taxable services

- Services provided in relation to renting of immovable property, other than residential properties and vacant land (as specified), for use in the course or furtherance of business or commerce (such services provided by or to a religious body or to a educational body other than a commercial training or coaching centre, are excluded).
- Services provided in relation to the execution of a works contract wherein transfer of property in goods is involved in the execution of

- such specified contracts is leviable to tax as sale of goods. Valuation of works contract and the details of composition scheme is expected to be notified separately.
- Telecommunication services to include various telecommunication related services, which are presently specified as separate taxable services.
 - Development and supply of content for use in telecommunication services, advertising agency services and on-line information and database access or retrieval services.
 - Services in relation to mining of mineral, oil or gas.
 - Design 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.

6.1.4 Extension of scope of existing services proposed

- Sale of space in business directories, yellow pages and trade catalogues, which are primarily meant for commercial purposes, to be covered under "sale of space or time for advertisement service".
- Renting of motor vehicles constructed or adapted for carrying more than 12 passengers, to be covered under rent-a-cab service. It is further provided that motor vehicle or maxicab 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, to be covered under mandap keeper service, pandal or shamiana service and event management service.
- Computer hardware engineering consultancy services, to be covered under consulting engineer's service.
- Banking and other financial services to include cash management.
- Management consultant service to be renamed as management or business consultant service and to explicitly include business consultancy within its scope.

6.1.5 Additional exemptions

- Exemption from service tax has been provided to Technology Business Incubators ('TBI') / Science and Technology

Entrepreneurship Parks ('STEP') recognized by National Science and Technology Entrepreneurship Board of Department of Science & Technology ('NSTEDB'), subject to certain conditions.

- Exemption from service tax has been provided to an entrepreneur located within the premises of a TBI/STEP recognized by NSTEDB whose total business turnover does not exceed Rs. 50,00,000 during the current or previous financial year, subject to certain specified conditions.

The above exemptions will come into effect from 1 April 2007.

- Exemption from service tax under "club or association services" has been provided in respect of taxable services provided by resident welfare associations to their members, where the monthly consideration from an individual member for the services does not exceed Rs. 3,000 per month.
- Exemption from service tax has been provided in relation to delivery of content of cinema in digital form after encryption, electronically.
- Exemption from service tax has been provided under technical testing and analysis services in relation to testing of new drugs, including vaccines and herbal remedies, on human participants by a Clinical Research Organization approved to conduct clinical trials by the Drugs Controller General of India.

The above exemptions will come into effect from 1 March 2007.

6.1.6 Amendments in the Export of Services Rules, 2005

- Presently, the regulation specifies that services are treated as "Export of Services" if the same are "delivered and used outside India". With a view to remove ambiguities which were arising on interpretation of the term, it is proposed that the services would be treated as "Export of Services" if the same are "provided from India and used outside India" subject to certain other specified conditions.
- It has been clarified that rules 3(1) and 3(2), both are to be satisfied for provision of service to be treated as export of service.

The above changes will come into effect from 1 March 2007.

6.1.7 Amendments to the existing regulations

- The following amendments are proposed from a date to be notified after the enactment of the Bill:
 - ◆ To substitute the words “any other person” with “commercial concern” in the case of banking and other financial services. Further, the term “financial leasing” is also explained.
 - ◆ To clarify that recruitment or supply of manpower service includes services in relation to pre-recruitment screening, verifying the credentials and antecedents of the candidate and authenticity of documents submitted by the candidates.
 - ◆ To clarify that the term “goods” referred to in management, maintenance or repair service includes computer software.

- The following amendments are proposed with effect from the date of enactment of the Bill:
 - ◆ To provide filing of return after the due date with the prescribed late fee.
 - ◆ To extend the applicability of certain Central Excise provisions to Service Tax including provision to enable ordering of a cost audit to study abnormal utilization of Cenvat credit.
 - ◆ To empower the Central Government to issue orders within one year from the date of the assent to the Bill for removal of difficulty in respect of implementing, classifying or assessing the value of any taxable service incorporated by the Bill.
 - ◆ For the purposes of advance ruling, it has been clarified that the clause “joint venture in India”, included in the definition of “applicant”, means a venture in which at least 1 of the participants, partners or equity holders shall be a non-resident having substantial interest in the joint venture and exercising joint control over it.

- The following amendments are proposed with effect from 1 April 2007:
 - To restrict the payment of service tax, under reverse charge mechanism in relation to sponsorship service, where the recipient

of service is located in India.

- The following amendments are proposed with effect from 1 March 2007:
 - ◆ To provide self-adjustment of excess service tax paid, subject to specified conditions.
 - ◆ To allow rectification of mistakes and filing of revised return within 60 days from the date of submission of original return, subject to specified conditions.
 - ◆ To enable submission of self-attested copy of the original registration certificate instead of original registration certificate while intimating any changes in the details given in the original registration certificate.

6.2 CUSTOMS DUTY

6.2.1 Significant amendments

- Peak rate of duty on most non-agricultural products has been reduced from 12.5% to 10%.
- Ad valorem component of customs duty on textiles, fabrics and garments has been reduced from 12.5% to 10%. However, there is no change in specific component of customs duty.
- Duty has been reduced from 20% to 10% on seconds and defectives of iron and steel.
- Valuation of goods for purposes of assessment shall be the transaction value of such goods, as determined in accordance with the new rules. Transaction value shall include any amount that the buyer is liable to pay for costs of transportation, commission, brokerage, engineering, design work, royalties and license fees. This change will come into effect from a date to be notified after enactment of the Bill.

6.2.2 Export duty on Iron ore

Export duty has been imposed on iron ores and concentrates of all sorts @ Rs.300 per metric tonne and on chromium ores and concentrates of all sorts @ Rs.2,000 per metric tonne.

6.2.3 Aircrafts (including helicopters)

Customs duty of 3% has been imposed on aircrafts and its parts. Counter vailing duty (CVD) of 16% and special additional duty of customs of 4% has also been imposed on such aircrafts. Imports by scheduled airline operators and the Government will be exempt. However, aircrafts, 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 exempt from all customs duties .

6.2.4 Gems and Jewellery

Rates of duty have been reduced for items listed below :-

Product description	Present duty	Revised duty
Cut and polished diamonds	5%	3%
Rough synthetic gemstones	12.5%	5%
Unworked or simply prepared corals	30%	10%

6.2.5 Research and Development (R & D)

- 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 a R&D wing and registered with Department of Scientific & Industrial Research. The list of such items has been expanded by including 15 additional items.

6.2.6 Significant changes in rates of duty of certain items

Product description	Present duty	Revised duty
Chemicals and Petrochemicals		
Most goods falling under Chapter 28, 29 and 31	12.5%	7.5%

Product description	Present duty	Revised duty
Most goods falling under headings 3201 to 3207 - Dyes, Colours, Paints and Tanning extracts	12.5%	7.5%
Goods falling under heading 3403 (Lubricating preparations)	12.5%	7.5%
Goods falling under headings 3901 to 3907 and 3909 to 3915 - Plastic and articles	12.5%	7.5%
Titanium Dioxide, pigments and preparations based on Titanium Dioxide	12.5%	10%
Agriculture		
Food processing machinery	7.5%	5%
Sprinklers and drip irrigation systems used for agricultural and horticultural purposes	7.5%	5%
Textiles		
Polyester staple fibres and tow polyester filament yarns and polyester chips	10%	7.5%
Health		
Medical equipment	12.5%	7.5%
Miscellaneous		
Dredgers	5%	Nil
High ash coking coal of certain types	5%	Nil
Ceramic colours	12.5%	5%
Watch dials and movements	12.5%	5%

6.2.7 Extension of exemption / concession

- Concessional rate of 5% customs duty plus Nil CVD / excise duty presently available up to 30 April 2007 for specified plantation machinery has been extended up to 30 April 2009.
- Cell phone parts, components and accessories are exempt from additional duty of customs of 4%, till 30 April 2007. The exemption has been extended till 30 June 2009.

6.2.8 Removal Of Duty/ Grant Of Exemption

- CVD of 8% has been withdrawn on raw, tanned or dressed fur skins.
- Aramid yarns for manufacture of bulletproof jackets for supply to

- armed forces have been exempted from both customs duty and CVD.
- All edible oil, crude as well as refined and roasted molybdenum ore and concentrate have been exempted from additional duty of customs of 4%.

6.2.9 Withdrawal of exemptions

- Customs duty exemptions/concessions have been withdrawn on chemicals used in 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. and specified goods for manufacture of fly ash based goods.
- CVD duty exemptions have been withdrawn on cold-set high speed printing machines for newspapers and specified parts of set top boxes. Such machines will attract CVD at 8%.

6.2.10 Other amendments

- An uniform customs duty of 5% has been prescribed for urea unconditionally.
- Customs duty of 7.5% would be attracted on digital cinema development projects, which have been notified as project imports under heading 9801.
- For the purposes of advance ruling, it has been clarified that the clause "joint venture in India" included in the definition of "applicant", means a venture in which at least one of the participants, partners or equity holders shall be a non-resident having substantial interest in the joint venture and exercising joint control over it.

6.3 Excise Duty

6.3.1 Removal of excise duty

Excise duty has been fully withdrawn on:-

- Biscuits having a maximum retail sale price (MRP) of less than Rs. 50 per kg.
- Food mixes (including instant food mixes).
- Specified water purification devices.

- Bio - diesel.
- Specified items used for purpose of research (domestically procured) by research institution registered with Department of Science & Industrial Research .
- General flash memory and DVD writers.
- All pipes of outer diameter exceeding 20 centimeter, used in the water supply project .

6.3.2 Imposition / Increase of excise duty

- Increase in excise duty by 5% for filter and non-filter cigarettes.
- Excise duty has been increased from Rs. 400 per metric tonne to Rs. 600 per metric tonne for cement of retail sale price exceeding Rs. 190 per 50 kg bag or Rs. 3,800 per metric tonne.
- For mini cement plants, excise duty has been increased from Rs. 250 per metric tonne to Rs. 370 per metric tonne for cement of retail sale price exceeding Rs. 190 per 50 kg bag or Rs. 3,800 per metric tonne.
- Excise duty on aircrafts including helicopters and its parts, has been increased to 16%.
- Optional compounded levy on aluminum circles has been increased from Rs. 7,500 / Rs. 10,000 per machine per month to Rs. 12,000 per machine per month.
- Withdrawn of full exemption from excise duty on specified textile machinery, dust and powder of synthetic precious or semi-precious stone, high speed cold-set web offset printing machines with minimum speed of 70,000 copies per hour and video cassettes intended for television broadcasting and imposition of excise duty @ 8% on these items.

6.3.3 Significant changes in rates of duty

- Excise duty has been reduced on the following items

Product description	Present duty	Revised duty
Umbrellas and sun umbrellas	16%	8%
Plywood, veneered panel and similar laminated wood	16%	8%
Footwear parts	16%	8%
Wadding, gauze	16%	8%

Caprolactum and nylon chips	16%	12%
Benzene for manufacture of caprolactum	16%	12%
Pan masala not containing tobacco (Cenvat + NCCD + Health cess)	66%	45%
Cement of retail sale price not exceeding Rs. 190 per 50 kg bag or Rs. 3,800 per metric tonne	Rs. 400 per metric tonne	Rs. 350 per metric tonne
For mini cement plants - cement of retail sale price not exceeding Rs. 190 per 50 Kg bag or Rs. 3,800 per metric tonne	Rs. 250 per metric tonne	Rs. 220 per metric tonne
Ad valorem component of excise duty on Petrol and diesel	8%	6%

6.3.4 Exemption limit for Small Scale Industries (SSI) enhanced

The exemption limit of SSI scheme has been increased from Rs.1,00,00,000 to Rs. 1,50,00,000 with effect from 1 April 2007.

6.3.5 Other amendments

- With effect from 1 April 2007, e-payment has been made mandatory for payment of duty by all assesseees who have paid excise duty in cash (other than Cenvat credit) of Rs. 50,00,000 or more during the preceding financial year.
- Application for refund of duty in consequence of judgement, decree, order or direction, should be made before the expiry of one year from the relevant date. The relevant date in such case shall be the date of such judgment, decree, order or direction.
- For the purposes of advance ruling, it has been clarified that the clause "joint venture in India", included in the definition of "applicant", means a venture in which at least one of the participants, partners or equity holders shall be a non-resident having substantial interest in the joint venture and exercising joint control over it.
- The excise invoice, should also contain the address of the jurisdictional central excise division, to be a legally valid document with effect from 1 April 2007.
- Penal action can be taken against the person who issues Cenvat invoices without delivery of goods and person who is involved in fabricating central excise documents or any other document like

shipping bill, bill of lading etc.

- Cenvat credit rule 9 (2) has been amended to provide that Cenvat credit can be taken if all particulars as prescribed under the rules are available on the invoice or other duty paying document, subject to such exemption as may be granted by the Assistant / Deputy Commissioner.
- It has been provided that where a person opts for exemption from whole of duty (in case of conditional notification) or where a product becomes exempted absolutely, in such cases, the Cenvat credit taken on inputs lying in stock or in process or contained in the final product lying in stock should be reversed. Similar provision has been made in respect of cases wherein taxable services become exempted. However, no reversal of credit of input services is required to be made in such cases.
- Revised return can be filed to rectify mistakes, within 60 days from the date of filing of original return, subject to specified conditions.
- New rule 10A has been inserted in the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 with effect from 1 April 2007 to provide that where goods are manufactured by a job worker on behalf of a principal manufacturer, the value for payment of excise duty would be based on the sale value at which the principal manufacturer sells the goods. Presently, excise duty is being paid by the job worker on the cost of raw material plus his job work charges.

6.4 Value Added Tax ('VAT') and Central Sales Tax ('CST')

6.4.1 VAT

VAT has proved to be an unqualified success. VAT revenues of the implementing States has increased by 13.8% in FY 2005-06 and by 24.3% in the first nine months of FY 2006-07.

6.4.2 CST

- The CST rate will be reduced from 4% to 3% with effect from 1 April 2007.
- Section 14 of the CST Act, 1956 deals with certain goods of special importance in the inter-state trade or commerce. In this section for clause (iid), the following clause shall be substituted, namely.

(iid) Aviation Turbine Fuel sold to an aircraft with a maximum take-off mass of less than 40,000 kilograms operated by scheduled airlines.

Explanation- For the purposes of this clause, "scheduled airlines" means the airlines which have been permitted by the Central Government to operate any scheduled air transport service.

6.4.3 Roadmap towards Goods and Services Tax ('GST')

The empowered committee of State finance ministers has agreed to work with the Central Government to prepare a roadmap for introducing a national level GST with effect from 1 April 2010.

CHAPTER 7 : OTHER SIGNIFICANT PROPOSALS

7.1 New Industrial Policy for North Eastern Region

The new industrial policy for North Eastern Region, with suitable fiscal incentives, will be in place before 31 March 2007.

7.2 Agriculture

- The draft National Policy for Farmers submitted by the National Commission on Farmers is under consideration.
- Appointment of a Committee under Dr. R. Radhakrishna to examine all aspects of agricultural indebtedness.
- A Special Purpose Tea Fund has been launched for re-plantation and rejuvenation of tea. Similar financial mechanisms for coffee, rubber, spices, cashew and coconut will be soon put in place.

7.3 Infrastructure

7.3.1 Petroleum and natural gas

In the six rounds of NELP so far, 162 production sharing contracts have been awarded. Indian and foreign companies have already made an investment of Rs.97,000 crore in exploration. Similarly, after three rounds of bidding, 23 coal bed methane blocks have been awarded for exploration.

7.3.2 Power

Two UMPP in Sasan and Mundra awarded by Ministry of Power. Seven more UMPPs are under process and at least two more will be awarded by July, 2007. Other initiatives taken by the Ministry of Power include facilitating setting up of merchant power plants by private developers and private participation in transmission projects.

7.3.3 Coal

The definition of specified end use will be enlarged to include underground coal gasification and coal liquefaction.

7.3.4 Innovative financing for infrastructure

A committee chaired by Mr. Deepak Parekh has made a number of recommendations for financing infrastructure. One of the recommendations is to use a small part of the foreign exchange reserves without the risk of monetary expansion. The Committee has suggested the establishment of two wholly-owned overseas subsidiaries of IIFCL with the following objectives:

- (i) to borrow funds from the RBI and lend to Indian companies implementing infrastructure projects in India, or to co-finance their ECBs for such projects, solely for capital expenditure outside India; and
- (ii) to borrow funds from the RBI, invest such funds in highly rated collateral securities, and provide 'credit wrap' insurance to infrastructure projects in India for raising resources in international markets.

The loans by RBI to these two subsidiary companies will be guaranteed by the Government of India and the RBI will be assured of a return higher than the average rate of return on its incremental investment. Government proposes to examine the legal and regulatory aspects of the recommendation, in consultation with RBI, in order to find an innovative method of enhancing the financial resources for infrastructure.

7.4 Diamond Industry

The FM proposed a benign assessment procedure for assessee engaged in diamond manufacturing and trading who declare profits from such activities at 8% or more of the turnover. Instructions in this regard will be issued shortly.

7.5 Telecommunications Industry

It is proposed to form a committee by the Department of Telecommunications to study the present structure of levies and make suitable recommendations to Government in relation to unification of the multifarious taxes, charges and fees applicable to the industry into a single levy on revenue.

7.6 Capital Market

In order to promote capital markets, the FM proposed

- To make PAN the sole identification number for all participants in the securities market with an alpha-numeric prefix or suffix to distinguish a particular kind of account;
- To take forward the idea of Self Regulating Organisations for different market participants under regulations that will be made by SEBI and, if necessary, supported by an enabling law;
- To promote the flow of investment to the infrastructure sector by permitting mutual funds to launch and operate dedicated infrastructure funds;
- To converge the different regulations that allow individuals and Indian mutual funds to invest in overseas securities by permitting individuals to invest through Indian mutual funds;
- To allow short selling settled by delivery, and securities lending and borrowing to facilitate delivery, by institutions;
- To put in place an enabling mechanism to permit Indian companies to unlock a part of their holdings in group companies for meeting their financing requirements by issue of Exchangeable Bonds.

7.7 Insurance

7.7.1 An exclusive health insurance scheme for senior citizens is offered by National Insurance Company. The other three public sector insurance companies agreed to offer a similar product to senior citizens from 2007-08.

7.7.2 The Micro Financial Sector (Development and Regulation) Bill as well as a comprehensive Bill to amend the insurance laws will be introduced in the Budget Session.

7.8 Mumbai As A Financial Centre

The High Powered Expert Committee to make Mumbai a regional financial centre has submitted its report recently. It is proposed to promote a world class financial centre in Mumbai and realise the objective of making 'financial services' the next growth engine for India

Abbreviations

AMC	Asset Management Company
AOP	Association of Persons
ARC	Asset Reconstruction Companies
B2B	Business to Business
BCTT	Banking Cash Transaction Tax
BIFR	Board of Industrial and Financial Reconstruction
BOIs	Body of Individuals
BSE	Bombay Stock Exchange
BSNL	Bharat Sanchar Nigam Limited
CMTS	Cellular Mobile Telephony Service
CRR	Cash Reserve Ratio
DDT	Dividend Distribution Tax
DoT	Department of Telecom
DRT	Debt Recovery Tribunal
DTA	Domestic Tariff Area
DTAA	Double Taxation Avoidance Agreement
DTH	Direct-to-Home
ECB	External Commercial Borrowing
EOU	Export Oriented Unit
ERP	Enterprise Resource Planning
ESOP	Employees' Stock Option Plan
FBT	Fringe Benefits Tax
FCCB	Foreign Currency Convertible Bond
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Mangement Act
FI	Financial Institutions
FII	Foreign Institutional Investors
FIPB	Foreign Investment Promotion Board
FM	Finance Minister

GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GDR	Global Depository Receipts
HSN	Harmonised System of Nomenclature
HUF	Hindu Undivided Family
I&B	Information & Broadcasting
IDC	International Debit Cards
IFSC	International Financial Services Center
IIFCL	The India Infrastructure Finance Company Limited
ILD	International Long Distance
IMD	India Millennium Deposits
INR	Indian Rupees
IIP	Index of Industrial Production
IP	Infrastructure Provider
IPO	Initial Public Offer
IRDA	Insurance Regulatory and Development Authority
ISP	Internet Service Provider
IT	Information Technology
IT Act	Income-tax Act, 1961
ITES	Information Technology Enabled Services
LLP	Limited Liability Partnership
LNG	Liquified Natural Gas
MAT	Minimum Alternate Tax
NABARD	National Bank for Agricultural and Rural Development
NBFC	Non-banking Financial Company
NELP	New Exploration Licensing Policy
NFE	Net Foreign Exchange
NGO	Non Government Organisation
NHAI	National Highway Authority of India
NLD	National Long Distance
NPA	Non-performing Assets

NRI	Non-resident Indian
OBU	Off-shore Banking Unit
OCB	Overseas Corporate Bodies
OSP	Other Service Provider
PAN	Permanent Account Number
PIO	Person of Indian Origin
PO	Project Office
PSTN	Public Switched Telephone Network
PSU	Public Sector Undertaking
QIB	Qualified Institutional Buyer
R&D	Research & Development
RBI	Reserve Bank of India
RECL	Rural Electrification Corporation Limited
ROC	Registrar of Companies
SIDBI	Small Industries Development Bank of India
SEBI	Securities and Exchange Board of India
SEZ	Special Economic Zone
SME	Small and Medium Enterprises
SPV	Special Purpose Vehicle
SSI	Small Scale Industries
STT	Securities Transaction Tax
TCS	Tax Collected at Source
TDS	Tax Deducted at Source
T&D	Transmission & Distribution
TRAI	Telecom Regulatory Authority of India
TRS	Tax & Regulatory Services
UAS	Unified Access Service
VAT	Valued Added Tax

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