



INDIA
BUDGET 2008
- HIGHLIGHTS

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Courtesy : RSM International's India operations comprising of -

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- RSM McGladrey FPO India

February 2008

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EXECUTIVE SUMMARY

1.0 DIRECT TAX PROPOSALS

1.1 Effective Tax Rates

Personal Taxation

The effective present and proposed tax rates (including surcharge and cess) for the financial years 2007-2008 and 2008-2009 in case of individuals / HUFs/AOPs/BOIs are as follows

Income Slab (Rs.)	Tax Rates* (F.Y. 2007-08)	Proposed Tax Rates* (F.Y. 2008-09)
0 - 1,10,000#	Nil	Nil
1,10,001# - 1,50,000	10.30% of income exceeding Rs. 1,10,000	Nil
1,50,001# - 2,50,000	Rs. 4,120 plus 20.60% of income exceeding Rs. 1,50,000	10.30% of income exceeding Rs. 1,50,000
2,50,001 - 3,00,000	Rs. 24,720 plus 30.90% of income exceeding Rs. 2,50,000	Rs. 10,300 plus 10.30% of income exceeding Rs. 2,50,000
3,00,001 - 5,00,000	Rs. 40,170 plus 30.90% of income exceeding Rs. 3,00,000	Rs. 15,450 plus 20.60% of income exceeding Rs. 3,00,000
5,00,001 - 10,00,000	Rs. 101,970 plus 30.90% of income exceeding Rs. 5,00,000	Rs. 56,650 plus 30.90% of income exceeding Rs. 5,00,000
10,00,001 - and above	Rs. 2,82,117 plus 33.99% of income exceeding Rs.10,00,000**	Rs. 2,32,265 plus 33.99% of income exceeding Rs. 10,00,000**

* The tax rates are inclusive of education cess of 3%. 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. 1,80,000 and 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. 2,25,000. 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.

Corporate and other Taxation

- No change in the effective Corporate Tax Rate (33.99% for domestic companies having income exceeding Rs.1 crore), Minimum Alternate Tax Rate (11.33%), Fringe Benefit Tax (33.99%) and Dividend Distribution Tax Rate (16.995%).
- No change in the Corporate Tax Rate for foreign companies (42.23% for companies having income exceeding Rs.1 crore or Rs.10 million)
- No change in the effective Tax Rate of 33.99% for partnership firms (having income exceeding Rs.1 crore)
- Short Term Capital Gain Tax rate on sale of shares and securities through stock exchanges increased from 10% to 15% (excluding education cess and surcharge as may be applicable)
- No change in rates of Security Transaction Tax ('STT') upon purchase and sale of Shares and Securities.

1.2 Tax Incentives For Businesses

- 5 years tax holiday extended to hospitals which are constructed and start functioning at any time during the period beginning on the 1 April 2008 and ending on 31 March 2013 in Tier II and Tier III cities excluding specified Cities.
- 5 years tax holiday extended to new two-star, three-star or four-star category hotels located in specified districts having UNESCO-declared World Heritage Sites, and which have been constructed and start functioning at any time during the period beginning from 1 April 2008 and ending on 31 March 2013.
- No extension of tax holiday currently enjoyed by Software Technology Park (STP) Units and Export Oriented Units (EOUs) under section 10A / 10B of the Income Tax beyond March 31 2009
- No deduction under section 80-IB shall be allowed to an undertaking engaged in refining of mineral oil which begins refining on or after 1 April

2009.

1.3 Proposals for Business Entities

- The ultimate parent company allowed to set off the dividend received from its immediate subsidiary company against dividend distributed by the parent company provided the dividend received has suffered DDT and the parent company is not a subsidiary of another company
- Weighted deduction of 125% for research expenditure in respect of payments made by a person to a company having main object of scientific research and development and which has been approved by the prescribed governmental authorities
- Advancement of due date for filing of tax returns and FBT returns from 31 October to 30 September in case of companies and other non-corporate assesses whose accounts are required to be audited under the Income Tax Act
- Conversion of Foreign Currency Exchangeable Bonds (FCEBs) into shares or debentures of any company shall not be considered as transfer under the income tax act and accordingly not liable to capital gain tax
- Introduction of e-filing mechanism wherein the information related to the certificate and undertaking to be given while making remittance to the non residents under section 195 of the Income tax Act
- Business of production of seeds and manufacture of agricultural implements added to the list of companies allowed weighted deduction of 150 per cent on any expenditure on in-house scientific research.
- Aggregate payments exceeding Rs. 20,000 made to any person in a single day, otherwise than by an account payee cheque drawn on a bank or account payee bank draft, shall not be allowed as deductible expenditure
- Benefit of amortization of certain Preliminary Expenses under section 35D has now been extended to the assesses engaged in service sector
- Clarification regarding disallowance of Deferred Tax, Dividend Distribution Tax, etc. for calculating book profit under section 115JB
- Applicability of tax deduction at source while making payment to contractors under section 194C has been extended to AOP or BOI apart from other assesses
- Exemption from TDS on interest receivable from corporate debt instruments issued in demat form and listed on recognized stock exchanges.
- Expenditure incurred for Crèche facilities, sponsorship of an employee-sportsperson, organizing sports events for employees and guest houses excluded from the purview of Fringe Benefit Tax (FBT)

- The Fringe Benefit value has been reduced from 50% to 20% for the expenses incurred on festival celebration
- STT shall now be considered as deductible business expenditure against business income from trading in shares and securities and granting of rebate of STT available under section 80-E has been discontinued
- In case of options, STT shall be levied only on the premium and not contract value. Further, when the option is not exercised, the liability of the STT is on the seller. Wherein when the option is exercised the STT shall be levied on the settlement price and the liability of the same shall be on the buyer.
- Exemption norms for charitable trusts/institutions has been tightened by amending the Tax Laws to exclude entities carrying on regular trade, commerce or business or providing services in relation to any trade, commerce or business for a fee or cess or other consideration

1.4 Proposals for Personal Taxes

- Additional deduction of Rs.15,000 allowed under Section 80D to an individual paying medical insurance premium for his/her parent or parents.
- No change in limit of deduction under section 80C of Rs. 100,000
- Deduction under section 80C will be also available for investment in Post Office Time Deposit account and Senior Citizens Savings Scheme 2004
- Reverse mortgage would not be regarded as "transfer" and the stream of revenue received by the senior citizen would not be considered as taxable income.

1.5 Other proposals

- Levy of Banking Cash Transaction Tax on taxable banking transactions shall be withdrawn w.e.f 1 April 2009.
- Commodities Transaction Tax (CTT) to be introduced on the same lines as Securities Transaction Tax (STT) on options and futures.
- Consideration of Permanent Account Number as sole identity proof for all financial transactions above specified threshold limit

2.0 INDIRECT TAX PROPOSALS

2.1 Service Tax

- There is no change in the rate of tax. Thus, service tax shall continue to be

- levied at the present effective rate of 12.36%.
- The threshold limit of tax exemption for service providers of Rs. 8,00,000 is being increased to Rs. 10,00,000 and threshold limit for obtaining registration has been increased from Rs. 7,00,000 to Rs. 9,00,000.
 - Services proposed to be specifically included in the list of taxable services:
 - in relation to information technology software for use in the course, or furtherance, of business or commerce,
 - in relation to management of investment, under unit linked insurance business, commonly known as Unit Linked Insurance Plan (ULIP) scheme,
 - in relation to securities by a recognized stock exchange,
 - in relation to sale or purchase of any goods or forward contracts by a recognized association or a registered association (commodity exchange),
 - in relation to processing, clearing and settlement of transactions in securities, goods or forward contracts by a processing and clearinghouse,
 - in relation to supply of tangible goods without transferring right of possession and effective control of the tangible goods and
 - in relation to internet telecommunication.
 - The rate prescribed under the composition scheme for Works Contract Service has been increased from 2% to 4%.
 - It is proposed to provide that in respect of transaction of taxable service with associated enterprise "gross amount charged" shall include any amount credited or debited, to any account, in the books of account of a person liable to pay service tax.

2.2 Customs Duty

- There is no change in the peak rate of duty which is at present 10%.
- Customs duty has been reduced on unworked or simply prepared corals from 10% to 5%, on rough cubic zirconia from 5% to Nil and on cubic zirconia (polished) from 10% to 5%.
- Customs duty on project imports has been reduced from 7.5% to 5%.
- Customs duty has been reduced on specified convergence products from 10% to 5%, on specified raw materials and inputs for use in IT/electronic hardware industry from 10%/7.5% to Nil on end-use basis and on specified parts of set-top boxes from 7.5% to Nil on end-use basis.
- Customs duty has been reduced on iron or steel melting scrap and aluminum

scrap from 5% to Nil.

- NCCD of 1% on polyester filament yarn has been withdrawn.
- Exemption from additional duty of customs of 4% has been withdrawn from power generation projects (other than mega power projects), transmission, sub-transmission and distribution projects, and goods for high voltage transmission projects.
- Export duty rate on chromium ores and concentrates, all sorts, has been increased from Rs.2,000 per metric tonne to Rs.3,000 per metric tonne.
- The maximum period of retention for admissibility of drawback, in respect of goods which have been used after importation, has been reduced from 36 months to 18 months.

2.3 Excise Duty

- General peak rate of excise duty has been reduced from 16% to 14%. The other ad valorem rates of 24%, 12% and 8% remain unchanged.
- Excise duty has been increased on packaged software from 8% to 12%.
- Excise duty been reduced from 16% to 8% on all drugs (formulations).
- Excise duty has been reduced on small cars from 16% to 12%, on hybrid cars from 24% to 14%, on electric cars from 8% to Nil, on specified parts of electric cars from 16% to Nil, on end-use basis, on two-wheelers and passenger three-wheelers (upto 7 persons) from 16% to 12% and on buses and other vehicle for transport of more than 13 persons from 16% to 12%, and on the chassis of such vehicles from '16% +Rs.10,000' to '12% +Rs.10,000'.
- Excise duty has been reduced on specified convergence products from 16% to 8%.
- Excise duty has been revised on bulk cement from 'Rs.400 per tonne' to '14% or Rs. 400 per tonne', whichever is higher.
- Excise duty has been increased on cement clinkers from Rs.350 per tonne to Rs. 450 per tonne.
- NCCD at the rate of 1% has been imposed on mobile phones.
- The rate of duty applicable to clearances of goods to DTA from EOU, STP, EHTP etc. has been revised from '25% of the basic customs duty + excise duty payable on like goods' to '50% of the basic customs duty + excise duty payable on like goods'.
- Explanation has been inserted in the definition of 'excisable goods' to provide that goods include any article, material or substance which is capable of being bought and sold for a consideration and such goods shall be deemed to be marketable.

- Notes of certain chapters in the Central Excise Tariff Act, 1985 are being amended to align the definition of 'processes amounting to manufacture' with the definition of 'manufacture' in section 2 f (iii) of the Central Excise Act, 1944.
- Rules have been issued for determination of retail sale price of excisable goods to provide the manner of determination of retail sale price, where the same is not declared on the packages or tampered or altered or obliterated.

2.4 Central Sales Tax ('CST')

- The Finance Minister has indicated in his speech to reduce the CST rate from 3% to 2% (from a date to be notified) once the agreement is reached between the Central Government and the State Governments.

IMPACT ON SELECT INDUSTRIES

GEM & JEWELLERY INDUSTRY

Key Highlights



- The Gems & Jewellery Industry is the 3rd largest export oriented industry in the country.
- The total exports of gems and jewellery industry for the year 2007 is about to US\$ 20 billion.
- Gems and jewellery industry contributes over 15 per cent of India's total exports and provides employment to 1.3 million people directly and indirectly.
- India is the 3rd largest consumer of diamonds after USA and Japan in the world

Positive Proposals / Impact

- Reduction in personal taxation rates and increasing the threshold exemption for applicability of Income Tax would substantially benefit the employees / workers as the industry employs large workforce. The increase of the threshold limit to Rs. 150,000 would take a large workforce out of tax net.
- Reduction of excise duty from 16% to 14% is positive as it would reduce the effective cost of certain capital goods and other purchases being made by the industry.
- Customs duty reduction on unworked or simply prepared corals from 10 % to 5 %, on rough cubic zirconia from 5 % to Nil and on cubic zirconia (polished) from 10 % to 5 % would have some impact on local manufacturers.
- Increase in service tax threshold limit from Rs. 8 Lac to Rs. 10 Lac will benefit some small players including job workers.
- The proposal to remove Banking Cash Transaction Tax with effect from 1 April 2009 is positive.

Negative Proposals / Impact

- There is no proposal to extend the benefit of tax holiday enjoyed by EOU

Units beyond March 31, 2009. This would result in greater preference towards SEZ for new units resulting into additional costs and locational challenges.

- Commodities Transaction Tax has been introduced in respect of sale of an option in goods or an option in commodity derivatives.
- No major thrust on promotion of exports and granting benefits to export oriented industries including Gem and Jewellery sector.
- Instruction no. 2/2008 issued by CBDT on 22 Feb 2008 (which is applicable for assessment to be made in FY 2008-09) relating to "Benign Assessment Procedure" considers a taxable profit margin @ 6 % of sales in case of diamond manufacturers and/or traders. This presumptive tax charge will not benefit the industry substantially as the average net profit margin of the industry ranges between 2 % to 4 % and the taxable profit margin needs to be pronounced in advance to provide guidance to taxpayers rather than earlier years for which the tax returns have already been furnished. Further, it does not cover jewellery manufacturers and/or traders and EOU/SEZ units eligible for tax exemptions.
- The rate of duty applicable for clearances of goods to DTA from EOU, STP, EHTP etc. has been revised from '25% of the basic customs duty plus excise duty payable on like goods' to '50% of the basic customs duty plus excise duty payable on like goods'. In other words, this shall increase the cost of goods by additional 25% of custom duty payable on such goods.

REAL ESTATE AND INFRASTRUCTURE INDUSTRY

Key Highlights



- Real Estate and Construction is about US \$12 billion industry by revenue in India and expected to grow to US \$ 50 billion by 2010
- Key Contribution in maintaining steady growth of 9% of the GDP of the Indian Economy
- The Industry has a multiplier effect on other industries such as steel, cement, aluminum and petroleum.
- Second largest Indian industry in terms of employment generation after agriculture industry

- FDI Inflow of US \$ 985 Million in Construction sector in FY 06-07

Positive proposal / Impact

- Higher outlays for Bharat Nirman, irrigation projects, mega power projects, rural housing, etc, will help in infrastructure development.
- 5 years tax holiday extended to hospitals which are constructed and start functioning at any time during the period beginning on 1 April 2008 and ending on 31 March 2013 in Tier II and Tier III cities excluding specified Cities.
- 5 years tax holiday extended to new two-star, three-star or four-star category hotels located in specified districts having UNESCO-declared World Heritage Site and which have been constructed and start functioning at any time during the period beginning from 1 April 2008 and ending on 31 March 2013.
- Reduction in personal taxation rates and increasing the threshold exemption for applicability of Income Tax would substantially benefit the employees / workers as the industry is labour intensive. Further, lower tax outflows will enhance their capacity for buying house properties which will in turn boost the construction industry.
- The ultimate parent company allowed to set off the dividend received from its immediate subsidiary company against dividend distributed by the parent company provided the dividend received has suffered DDT and the parent company is not a subsidiary of another company
- The period for re-export of leased equipment and machinery, imported for temporary use in contracts, has been increased from 12 months to 18 months. The depreciation slab rates of duty applicable on such imports have now been provided on a quarterly basis as against the existing half yearly basis
- Reduction in Excise Duty from 16% to 14% will also help in constraining the cost of steel, especially for construction purposes. Customs duty reduction on project imports will have a favourable impact on capital costs
- Customs duty has been reduced on iron or steel melting scrap and aluminum scrap from 5% to Nil.
- Increase in service tax threshold limit from Rs. 8 Lac to Rs.10 Lac will benefit some small contractors, architects engineers etc

Negative proposal / Impact

- Under service tax regime, the rate prescribed under the composition scheme

for Works Contract Service has been increased from 2% to 4% which will increase the construction cost.

- Excise duty has been increased on cement clinkers from Rs. 350 per tonne to Rs. 450 per tonne.
- Excise duty has been revised on bulk cement from 'Rs. 400 per tonne' to '14% or Rs. 400 per tonne', whichever is higher.

INFORMATION TECHNOLOGY & ITES INDUSTRY

Key Highlights



- Contribution to the country's GDP has been increased to 5.2 per cent in FY07 and a multiplier effect on other sectors of the economy.
- Exports estimated at US\$ 34 billion and direct employment expected to be 2 million in FY08, growing at a compounded annual growth rate (CAGR) of 26 per cent in the last decade
- Foreign Direct Investment of USD 2.6 Billion in FY06-07

Positive proposal / Impact

- Reduction in personal taxation rates and increasing the threshold exemption for applicability of Income Tax would substantially benefit the employees as the industry employs large workforce. The increase of the threshold limit to Rs. 1,50,000 and reduction in effective taxation of employees drawing annual taxable salary of Rs. 5,00,000 by Rs. 45,320 would virtually benefit the entire workforce.
- Special initiatives and measures relating to skill development and higher education are critical from the point of view of long-term needs of the entire Information Technology Sector
- Customs duty has been reduced on specified convergence products from

10% to 5%, on specified raw materials and inputs for use in IT/electronic hardware industry from 10%/7.5% to Nil on end-use basis and on specified parts of set-top boxes from 7.5% to Nil on end-use basis. This will certainly reduce the cost of production / services.

- General rate of excise duty (CENVAT) has been reduced from 16% to 14% which will reduce the cost of hardware and the capital assets used in the industry
- Benefit of amortization of certain preliminary expenses under Section 35D has been now extended to company in the service sector which will benefit the companies under this industry.

Negative proposal / Impact

- There is no extension of tax holiday enjoyed by units in Software Technology Park (STP) under section 10A of the Income Tax Act, 1961 which shall come to an end on 31 March 2009. Since the performance of these units are already adversely affected due to the US recession, Rupee appreciation against the US \$, applicability of MAT etc., it would be a real challenge for this sector to sustain their performance in the coming years. As such, such units in STP would come under the full tax regime from the financial year ending on 31 March 2009.
- No major thrust on promotion of exports and granting benefits to export oriented industries including IT and ITES sector.
- Excise duty has been increased from 8% to 12% on packaged software. This will increase the cost of software for the users in various industries and in turn impact the domestic demand of packaged software.
- Under Service tax regime, Information Technology software services has been widely defined and added to the list of taxable services chargeable to tax @ 12.36%. This will be the additional burden on the domestic software user.
- The rate of duty applicable to clearances of goods to DTA from EOU, STP, EHTP etc. has been revised from '25% of the basic customs duty plus excise duty payable on like goods' to '50% of the basic customs duty plus excise duty payable on like goods'. In other words, this shall increase the cost of goods by additional 25% of custom duty payable on such goods.

CHAPTER 1: INTRODUCTION

1.1 Background

The Indian economy with a current growth rate of 8.7% and a Gross Domestic Product of over 1 trillion has been the hotspot for global businesses and financial investors. The exponential growth in the real estate and infrastructural sector, emergence as the preferred destination for information technology services and high growth in manufacturing and services sector, provide exciting business opportunities. The growing trade deficit due to appreciation of rupee against US\$ by 12% over the past 1 year and the impact of global slowdown on Indian economy are certain challenges facing the economy.

The Budget 2008 has provided substantial relief to individual taxpayers by increasing the threshold limit from Rs.110,000 to Rs.150,000 and liberalizing the slabs. As a result, a taxpayer having income of Rs.500,000 would get a tax relief of Rs.45,320 (about 9%). The relief from Dividend Distribution Tax in case of ultimate holding companies in respect of dividends received from their immediate subsidiaries to the extent of dividend redistributed, is a welcome relief and would facilitate proper corporate structure. However, lack of reduction of rate of corporate tax for domestic companies and tax rate for partnership firms which remains at 33.99%, has been disappointing. The extension of 5 years' tax holidays to certain hotels and hospitals are welcome incentives but the non-extension of tax holiday available to STP and EOU units has been a major disappointment. The extension of weighted deduction of 125% for outsourced research and development and eligibility of service organizations for amortization of preliminary expenses over 5 years would be helpful. The increase in Short Term Capital Gain Tax rate on sale of shares and securities through stock exchanges from 10% to 15% has disappointed capital markets. Certain measures to develop the bond markets and a national securities market would facilitate the growth of capital markets.

The reduction of excise duty from 16% to 14% and the proposed reduction in Central sales tax from 3% to 2%, would reduce the indirect tax incidence and benefit consumption. The increase in service tax limit from Rs. 8,00,000 to Rs. 10,00,000 would benefit the self employed and small service providers. However, the levy of service tax on customized software development for

domestic use would reduce the competitiveness of the domestic IT industry.

The proposals to waive overdue bank loans of farmers, withdraw banking Cash Transaction Tax (BCT) and the introduction of Commodities Transaction Tax (CTT) on the lines of Securities Transaction Tax (CTT), are the other key features of the Budget.

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 2008. 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, 2008, 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 2009-10 (financial year 1 April 2008 to 31 March 2009), 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, 2008" 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 Indian economy, with growth in Gross Domestic Product (GDP) exceeding 8% for the past 12 successive quarters, makes it one of the most exciting places globally from an economic point of view. The projected economic growth of 8.7% for 2007-08 is fully in line with this trend. The Indian economy (at market exchange rate) is projected to cross US\$1 trillion in the current fiscal year, making it the fifth largest economy in the world.

Inflation as measured by the Wholesale Price Index (WPI) is estimated at 4.8% for the current fiscal year. Foreign exchange reserves stood at an impressive US\$ 290.8 billion as on February 8, 2008.

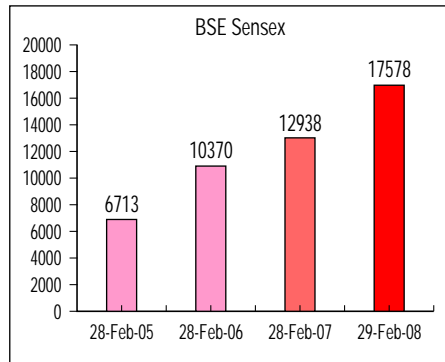
With the globalization of Indian enterprises, outward investment from India has shot up to US\$ 14.4 billion in 2006-07 from less than US\$ 2 billion in the period 2003-04. The trend continued in the current year with outward investment of US\$ 7.3 billion in April-September 2007. Net Foreign Institutional Investment (FII) inflow was US\$ 18.3 billion in April-December 2007, more than double the inflow during 2006-07, whereas the Foreign Direct Investment (FDI) was US\$ 12.7 billion during the above period making India one of the most preferred destinations for inbound investment.

During April-December 2007, exports reached US\$111 billion, representing an increase of 21.6% in US\$ terms whereas imports reached US\$ 169 billion, representing an increase of 25.9% in US\$ terms. While a substantial part of the trade deficit is met by export of information technology services (estimated at US\$ 30 billion), the widening trade deficit and current account deficit is a cause of concern.

The appreciation of rupee by 8.9% against the US\$ during the current financial year (between April 3, 2007 and February 6, 2008) and the recent slowdown in US would require a concerted effort to increase exports.

Stock markets, an important instrument of financial intermediation, saw increased activity in 2007-08, wherein primary market issue of debt and

equity increased along with private placement. The secondary market too showed a rising trend, notwithstanding intermittent ups and downs in the stock prices responding mainly to global developments. The Bombay Stock Exchange (BSE) Sensex rose from 13,072 at end-March 2007 to an all time high off 21,078 on 8 January



2008 and stood at 17,578 as on 29 February 2008. The current market capitalisation of BSE is around US\$ 1.47 trillion.

To summarize, while the Indian economy continues its growth march with an estimated GDP growth rate of 8.7% with robust capital inflows and moderate inflation, the infrastructural sector and widening trade deficit represent challenges in the next fiscal year.

2.2 India - Key Economic Indicators

Items	2004-05	2005-06	2006-07	2007-08	2004-05	2005-06	2006-07	2007-08
	Absolute values				% change over previous period			
Gross Domestic Product (at factor cost) (Rs. thousand crore)								
At current prices	2,878	3,276	3,790 ^o	4,283 ^a	13.4	13.8	15.7 ^o	13.0 ^a
At 1999-2000 prices	2,388	2,613	2,864 ^o	3,114 ^a	7.5	9.4	9.6	8.7 ^a
(US \$ billion - year-end exchange rate)								
At current prices	640.6	740.0	837.6 ^o	1,059.9 ^a	15.5	15.5	13.2 ^o	26.5 ^a
Foodgrains production (million tonnes)	198.4	208.6	217.3	219.3 ^a	-7.0	5.2	4.2	0.9 ^a
Index of industrial production ^c	204.8	221.5	247.1	261.4 ^b	8.4	8.2	11.6	9.0 ^b
Electricity generated (in billion kwh)	587.2	617.5	662.4	525.9 ^b	5.1	5.2	7.3	6.6 ^b
Wholesale Price Index ^d	189.5	197.2	210.4	217.4 ^e	5.1	4.1	5.9	4.1 ^e
Consumer Price Index for industrial workers ^f	525	551	588	620 ^g	4.2	4.9	6.7	5.5 ^g
Money supply (M ₃) ^h (Rs. thousand crore)	2,251.4	2,729.5	3,310.3	3,750.3 ⁱ	12.3	17.0	21.3 ^j	22.4 ⁱ
Imports at current prices (in Rs. crore)	5,01,065	6,60,409	8,40,506	6,82,088 ^k	39.5	31.8	27.3	11.5 ^p
(in US \$ million)	1,11,516	1,49,167	1,85,747	1,68,803 ^k	42.7	33.8	24.5	25.9 ^p
Exports at current prices (in Rs. crore)	3,75,340	4,56,418	5,71,779	4,48,377 ^k	27.9	21.6	25.3	7.7 ^p
(in US \$ million)	83,535	1,03,092	1,26,360	1,10,965 ^k	30.8	23.4	22.6	21.6 ^p
Foreign currency assets ^l (in Rs. crore)	5,93,121	6,47,327	8,36,597	11,12,080 ^m	27.2	9.1	29.2	41.7 ^m
(in US \$ million)	1,35,571	1,45,108	1,91,924	2,81,183 ^m	26.2	7.0	29.4	57.9 ^m
Exchange rate (Re./US \$) ⁿ	44.93	44.27	45.25	40.41 ^o	2.3	1.5	-2.2	12.0 ^o

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

^o Quick estimates;

^a 2nd advance estimates 207-08.

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

^e As on February 2, 2008.

^g As on December, 2007.

ⁱ As on January 4, 2008, year-on-year growth.

^j Computed over comparable data i.e. April 1, 2005 due to 27 fortnights during 2006-07

^l Outstanding at the end of financial year.

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

^p April-December, 2007 on provisional over revised basis.

^A Advance estimates;

^b April-December, 2007

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

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

^h Outstanding at the end of financial year.

^k April-December, 2007 (provisional).

^m At the end of February 8, 2008.

^o Average exchange rate for April-December, 2007

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 to restructure the income tax slabs for individuals, HUFs, AOPs and BOIs by lowering the burden. The effective present and proposed tax rates for the financial years 2007-08 and 2008-09 are as follows:

For 2007 - 08		For 2008 - 09	
Income Slabs (Rs.)	Tax Rates*	Income Slabs (Rs.)	Proposed Tax Rates*
0 - 1,10,000#	Nil	0 - 1,50,000#	Nil
1,10,001# - 1,50,000	10.30% of income exceeding Rs. 1,10,000	1,50,001# - 3,00,000	10.30% 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	3,00,001 - 5,00,000	Rs. 15,450 plus 20.60% of income exceeding Rs. 3,00,000
2,50,001 - 10,00,000	Rs. 24,720 plus 30.90% of income exceeding Rs. 2,50,000	5,00,001 - 10,00,000	Rs. 56,650 plus 30.90% of income exceeding Rs. 5,00,000
10,00,001 and above	Rs. 2,82,117 plus 33.99% of income exceeding Rs.10,00,000**	10,00,001 and above	Rs. 2,32,265 plus 33.99% of income exceeding Rs.10,00,000**

* The tax rates are inclusive of education cess of 3%. Further, in case of income exceeding Rs. 10,00,000, the 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. 1,45,000 for financial year 2007-08 and Rs. 1,80,000 for financial year 2008-09 and 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 2007-08 and Rs. 2,25,000 for financial year 2008-09. 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.

3.1.2 Present and proposed tax incidence

The incidence of income tax for individuals, women and senior citizens having different income levels, for the financial year 2008-09, can be exemplified as follows:

(Rs.)

Income	Tax Liability		
	Individuals*	Women	Senior Citizens
1,50,000	-	-	-
1,80,000	3,090	-	-
2,00,000	5,150	2,060	-
2,25,000	7,725	4,635	-
3,00,000	15,450	12,360	7,725
4,00,000	36,050	32,960	28,325
5,00,000	56,650	53,560	48,925
7,50,000	1,33,900	1,30,810	1,26,175
10,00,000	2,11,150	2,08,060	2,03,425
10,25,000	**2,36,150	**2,33,060	**2,28,425
15,00,000	4,02,215	3,98,816	3,93,718
20,00,000	5,72,165	5,68,766	5,63,668
25,00,000	7,42,115	7,38,716	7,33,618

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

** - As discussed in para 3.1.1 in respect of marginal relief, the tax liabilities for individuals has been restricted to Rs. 2,36,150 instead of Rs. 2,40,763 (similar adjustments have been made in respect of women and senior citizens).

3.2 Companies

3.2.1 Domestic companies

The Bill proposes no change in the existing tax rate for domestic companies and MAT. The effective tax rates for domestic companies and MAT for financial years 2007-08 and 2008-09 are as follows:

Domestic Company	Effective Tax Rates	Effective MAT Tax Rates
Having total income exceeding Rs.1,00,00,000	33.99% [(tax rate 30% plus surcharge 10% thereon) plus education cess 3% thereon]	11.33% [(tax rate 10% plus surcharge 10% thereon) plus education cess 3% thereon]
Having total income upto Rs.1,00,00,000	30.90% [tax rate 30% plus education cess 3% thereon]	10.30% [tax rate 10% plus education cess 3% thereon]

Marginal relief is available in respect of corporate tax and MAT to ensure that the additional income tax payable, including surcharge of 10% on the excess of income over Rs. 1,00,00,000 is limited to the amount by which the income is more than Rs. 1,00,00,000.

3.2.2 Foreign companies

The Bill proposes no change in the existing tax rate of 42.23% [(tax rate 40% plus surcharge 2.5% thereon) plus education cess 3% thereon] for foreign companies. Also, the effective tax rate for foreign companies having total income upto Rs.1,00,00,000 remains unchanged at 41.20%.

3.2.3 Additional tax on dividend distributed by domestic companies

The Bill proposes no change in the effective rate of 16.995% [(tax rate 15% plus surcharge 10% thereon) plus education cess 3% thereon] for additional tax on dividends distributed by domestic companies.

3.3 Partnership Firms

The Bill proposes no change in the existing tax rate for partnership firms. The effective tax rates for partnership firms for financial year 2007-08 and 2008-09 are as follows :

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

3.4 Additional Tax On Dividends Distributed By A Mutual Fund

The Bill proposes no change in the effective rate of tax on dividends distributed by a mutual fund. As such, the effective tax rates for financial year 2007-08 and 2008-09 are as follows :

Type of Income	Effective Tax Rates
Income distributed by a money market mutual fund or a liquid mutual fund to	
- an Individual or a HUF	28.325%*
- Others	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	14.163%*
- Others	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. The effective tax rates for financial years 2007-08 and 2008-09 are as follows:

Income Slabs (Rs.)	Tax Rates
0 - 10,000	10.30%
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 no change in the effective tax rates of 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 Finance Bill, 2008 are in red font.

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 eligible undertaking set up in a Special Economic Zone ('SEZ') after 1 April 2002 but before 31 March 2005. • Exemption is available for profits from export of such articles or things 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 units engaged in 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. • The unit availing these deductions will be subject to MAT @11.33% [(tax rate 10% plus surcharge 10% thereon) plus education cess 3% thereon] <p>* - The deduction is allowed only on creation of a specified reserve, which is utilized for specified purposes.</p>	<p>First 10 years upto financial year 2008-09.</p> <p>First 5 years Next 2 years Next 3 years*</p>	<p>100%</p> <p>100% 50% 50%</p>
10AA	<ul style="list-style-type: none"> • For any new eligible unit set up in a Special Economic Zone ('SEZ') on or after 1 April 2005. • Exemption is available to the entrepreneur as referred to in Section (2j) of SEZ Act, 2005 for profits derived from export of articles or things or services, manufactured, produced or 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. 	<p>First 5 years Next 5 years Next 5 years+</p>	<p>100% 50% 50%</p>

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, polishing of precious and semi-precious stones can be entitled to this exemption. 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, subject to certain exceptions. the unit is not formed by transfer of machinery and plant previously used for any purpose, for the new business subject to certain exceptions. <p>+ - The deduction is allowed only on creation of a specified reserve, which is required to be utilized 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 without use of imported raw materials by an eligible undertaking. Exports of at least 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 / Rubber / Coffee 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 specified period from 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. Additional Depreciation is available only in the year in which such machinery is first put to use. General rate of depreciation for plant and machinery is 15% from financial year 2005-2006.
35/35 (2AB)	<p><u>Expenditure on scientific research</u></p> <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 by CBDT, the deduction shall be one and one-half (150%) of the expenditure incurred. The deduction is allowed only for expenditure incurred upto 31 March 2012. Where amount is paid to a scientific research association, which has its object undertaking of 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. It is proposed to allow a weighted deduction of one and one-fourth (125%) of the amount paid by a person to a company to be used for scientific research, provided that the company complies with the specified conditions. It is also proposed to provide that a company approved under the provisions of the said section will not be entitled to claim weighted deduction of 150% under section 35(2AB). However, deduction to the extent of 100% of the sum spent as revenue expenditure on scientific research, which is available under section 35(1)(i) will continue to be allowed. This amendment will take effect from the financial year 2008-09.
35DDA	Any expenditure incurred by way of payment of any sum to 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 utilized 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 Special Economic Zone, shall be exempt to the extent of the amount of capital gains utilized within a period of 1 year before or 3 years after the date

Section	Eligibility Criteria, Quantum and Period of Deduction
	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 restricted upto Rs. 50,00,000 per assessee per financial year for investment made on or after 1 April 2007.
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 securities transaction tax 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 @11.33% will not apply to income accruing or arising on or after 1 April 2005 from a business carried on or services rendered, by an entrepreneur or a Developer, in a unit or SEZ.
115O (6)	The undertaking or 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 (31 March 2007 for state of Jammu and Kashmir). 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. 	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

Sr. No.	Nature of activity and location	Type of organisation	Quantum of exemption	Number of years
	<ul style="list-style-type: none"> 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 ten assessment years to notified industries set up in North-Eastern Region, will be available under Section 80IC only, from financial year 2003-04. The benefits under section 80IA is also available to undertakings carrying on business of laying and operating a cross-country natural gas distribution network and which has commenced operations on or after 1 April 2007. 	Indian Company	100%	Any 10 consecutive years out of first 15 years
i.(b)	<ul style="list-style-type: none"> 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. Undertaking which starts transmission or distribution by laying a network of new transmission or distribution lines between 1 April 1999 and 31 March 2010. Undertaking which undertakes substantial renovation and modernization of the existing network of transmission or distribution lines between 1 April 2004 and 31 March 2010. The renovation / modernization should result into increase in plant and machinery by at least 50% of the book value of such plant and machinery as on 1 April 2004. 	All	100%	Any 10 consecutive years out of first 15 years
i.(c)	Undertaking owned by Indian Company (formed before 30 November 2005) set up for reconstruction or revival of a power generating unit, which has commenced operations in power before 31 March 2007.	Indian Company	100%	Any 10 consecutive years out of first 15 years

Sr. No.	Nature of activity and location	Type of organisation	Quantum of exemption	Number of years
i.(d)	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		
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 1995 to 31 March 2002 is eligible.	Company	30%	First 10 years
		Co-operative Society	25%	First 12 years
		Others	25%	First 10 years
iii.	Enterprise being company or consortium of companies registered in India or any authority or board or a corporation or any other body established or constituted under any Central or state Act, 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 including toll road, bridge, rail system, highway project, 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	Company / any other body established or constituted under any Central or State Act	100%	For 10 consecutive years out of first 15 years (20 for road, bridge, rail system, highway project, water supply project, water treatment system, irrigation project, sanitation and sewerage system or solid

Sr. No.	Nature of activity and location	Type of organisation	Quantum of exemption	Number of years
	its operations on or after 1 April 1995. For navigational channel in the sea the benefit will be available from 1 April 2007.			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) & (v), hotel located at a place within the municipal 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)	Indian Company with a minimum paid up capital of Rs. 5,00,000	30%	First 10 years
vi.	Any company registered in India with its main object being scientific and industrial research and development, 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.

Sr. No.	Nature of activity and location	Type of organisation	Quantum of exemption	Number of 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 Special Economic Zones 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>	All	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.	<p>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. It is proposed that no deduction under this sub-section shall be allowed to an undertaking engaged in refining of mineral oil, if it begins refining on or after 1 April 2009.</p>	All	100%	First 7 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 calculation of time limit of completion. 	All	100%	Not applicable

Sr. No.	Nature of activity and location	Type of organisation	Quantum of exemption	Number of years
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 theatre located at any place other than a place within the municipal jurisdiction of four metro cities i.e., Kolkata, Chennai, Delhi and Mumbai and constructed at any time during the period of 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 of 1 April 2002 to 31 March 2005	All	50%	First 5 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. It is proposed to extend this benefit to hospitals located anywhere in India other than excluded areas viz. areas comprising the urban agglomerations of Greater Mumbai, Delhi, Kolkata, Chennai, 	All	100%	First 5 years

Sr. No.	Nature of activity and location	Type of organisation	Quantum of exemption	Number of years
	<p>Hyderabad, Bangalore and Ahmedabad, the districts of Faridabad, Gurgaon, Ghaziabad, Gautam Budh Nagar and Gandhinagar and the city of Secunderabad.</p> <ul style="list-style-type: none"> the tax benefit is proposed to be available to hospital which is constructed and has started or start functioning at any time during the period beginning on the 1 April 2008 and ending on the 31 March 2013. 			
xvi	<p>New undertakings and enterprises, which begins to manufacture or produce any article or commences any operation specified or undertakes substantial expansion of existing undertakings and enterprises located in the states of</p> <ul style="list-style-type: none"> If located in Sikkim, the undertaking, which begins to manufacture or produce any article or commences any operation or undertakes substantial expansion during the period beginning 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.	80IE New undertakings and enterprises, which begins to manufacture or produce any eligible article or thing or provide any services or undertakes substantial expansion or carry on any eligible business in any of the Northern Eastern states	All	100%	First 10 years
xviii.	<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
xix.	<ul style="list-style-type: none"> 80ID - Any undertaking engaged in business of convention centers or hotels in specified area of the National Capital Territory subject to fulfillment of certain conditions. Such convention centers or hotel must be constructed and started or start functioning at any time during the period beginning on the 1 April 2007 and ending on the 31 March 2010. It is proposed to extend the scope of tax benefits available in this section to new two-star, three-star or four-star category hotels located in specified districts having a World Heritage Site. Such hotels are required to be constructed and start functioning at any time during the period beginning on the 1 April 2008 and ending on the 31 March 2013. 	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:
 - i. 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.
 - ii. 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.
 - iii. It is not formed by splitting up, or reconstruction, of a business already in existence or by transfer to a new business of 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 three 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 the 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.
- From 1 April 2002, any undertaking claiming deduction under this section, must furnish a report of audit in the prescribed form duly signed and verified by an accountant.
- 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 Liberalization of provisions relating to DDT

The existing provision of section 115-O(1) relates to levy of Dividend Distribution Tax ('DDT') @ 15% on any amount declared, distributed or paid by a domestic company to its shareholders by way of dividends. This results in an effective tax rate of 16.995%

With a view to mitigate the cascading effect of DDT at the ultimate holding company level, the Bill proposes that the amount of dividend will be reduced by the amount of dividend received by the domestic company from its subsidiary, if

- the subsidiary has paid DDT under section 115-O on such dividend and
- the domestic company is not a subsidiary of any other company.

It is also proposed to provide that the same amount of dividend shall not be taken into account for such reduction, more than once. For the purpose of this section, a company shall be a subsidiary of another company, if such other company holds more than half in nominal value of the equity share capital of the company. The above proposal effectively means that the dividend received by the ultimate holding company from its immediate subsidiary shall not be liable to DDT to the extent redistributed as dividend.

This amendment will take effect from 1 April 2008.

5.1.2 Weighted deduction for sum paid to a company for scientific research purpose

Presently, section 35(1)(ii) of the IT Act provides for weighted deduction to the extent of 125% of the sum paid to an approved scientific research association, approved university, college or other institution to be used for scientific research, subject to certain other specified conditions.

It is proposed to insert a new section 35(1)(iia) of the IT Act to allow a weighted deduction of 125% of the amount paid by a person to a company to

be used for scientific research, if such company

- is registered in India
- has as its main object the scientific research and development
- is for the time being approved by the prescribed authority in the prescribed manner and
- fulfills such other conditions as may be prescribed

It is further proposed that to avoid multiple claim for deduction, a company approved under the above section will not be entitled to claim the weighted deduction of 150% under section 35(2AB) of the IT Act. However, deduction to the extent of 100% of the sum spent as revenue expenditure on scientific research, which is available under section 35(1)(i), will continue to be allowed.

5.1.3 5 year tax holiday for hotels located in specified districts having a world heritage site.

Presently, section 80-ID of the IT Act provides for a 5 year tax holiday to new hotels of two, three and four star categories and convention centres. It is a requirement that such hotel must be constructed and has started or starts functioning at any time during the period beginning on 1 April 2007 and ending on 31 March 2010. For availing the above benefit, the hotel or convention centre should be located in the specified area.

It is proposed to extend the scope of tax benefits available in this section to new two-star, three-star or four-star category hotels located in specified districts having a World Heritage site. Such hotels are required to be constructed and start functioning at any time during the period beginning on 1 April 2008 and ending on 31 March 2013.

Other conditions, already specified under the existing provisions shall also be applicable to the new hotels.

5.1.4 5 year tax holiday for hospitals located in certain areas

Presently, section 80IB (11B) of the IT Act provides a tax holiday for 5 consecutive assessment years to an undertaking deriving profits from the business of operating and maintaining a hospital in a rural area and the tax holiday is available to the hospitals constructed before the end of 31 March

2008. The hospital should have atleast 100 beds for patients and the construction should be in accordance with the regulations of the local authority.

It is proposed to extend the benefit of this sub-section to hospitals located anywhere in India, other than the excluded area. Hence, it is proposed that

- the tax benefit shall be with respect to the profit derived from the business of operating and maintaining a hospital for a period of 5 consecutive assessment years, beginning from the initial assessment year
- the tax benefit will be available to hospital which is constructed and has started or will start functioning at any time during the period beginning on 1 April 2008 and ending on 31 March 2013
- the excluded area shall mean an area comprising the urban agglomerations of Greater Mumbai, Delhi, Kolkata, Chennai, Hyderabad, Bangalore and Ahmedabad, the districts of Faridabad, Gurgaon, Ghaziabad, Gautam Budh Nagar and Gandhinagar and the city of Secunderabad
- the area comprising an urban agglomeration shall be the area included in such urban agglomeration on the basis of the 2001 Census

5.1.5 Due date for filing of return is advanced to 30 September from 31 October

Under the existing provisions of section 139 of the IT Act, the due date for submission of return of income has been prescribed as 31 October of the assessment year for the following categories of assesseees:

- a company
- a person (other than a company) whose accounts are required to be audited or
- a working partner of a firm whose accounts are required to be audited

It is proposed to amend the existing provisions so as to provide that the due date for filing of return of income for the above categories of assesseees shall be 30 September of the assessment year.

Similarly, the due date for filing of return of fringe benefits is also proposed to be advanced to 30 September of the assessment year in case of such

assesseees.

There is no change in the due date of filing of returns in the case of all other categories of taxpayers.

These amendments will take effect from 1 April 2008 and accordingly shall apply for the return of income for the year ending 31 March 2008 i.e. assessment year 2008-09. As such, the return of income for the aforesaid assesseees for the financial year ending 31 March 2008 would be due on 30 September 2008.

5.1.6 Clarification regarding add back of 'deferred tax', 'dividend distribution tax', etc. for calculating book profit under section 115JB

Section 115JB of the IT Act provides for levy of MAT on the basis of book profits of a company. For this purpose, the expression "book profit" means net profit as shown in the profit and loss account prepared in accordance with the provisions of Part II and III of Schedule VI to the Companies Act, 1956 as increased or reduced by certain adjustments, as specified in that section. It provides for increasing the book profits by income-tax paid or payable and the provisions therefor; if debited to profit and loss account.

Section 115JB has not specifically provided for add back of some such "below the line" items like deferred tax, dividend distribution tax, etc., as they were thought to be included in the term "income-tax". However, there has been some ambiguity regarding add back of these items, if debited to profit and loss account. The Hon'ble Kolkata ITAT in a recent decision in the case of Assistant Commissioner of Income-Tax, Central Circle XIX, Kolkata v. Balarampur Chini Mills Ltd. [2007] (014 SOT 372) has held that deferred tax and DDT are different than income tax payable and as such, the same cannot be added back to arrive at the "book profit". Further, the Hon'ble Panaji ITAT in the case of Salgaocar Mining Ind. (P.) Ltd. v. Jt. CIT [2006] (102 ITD 289), has held that interest on income-tax cannot be added back to arrive at the "book profit".

With a view to clarifying the intention, it is proposed to provide that the book profit shall be increased by the amount of deferred tax and the provision therefor, if debited to profit and loss account.

Further, it is also proposed to clarify that the amount of income tax shall include,

- DDT under section 115-O or tax on distributed income under section 115R
- any interest charged under the IT Act
- surcharge, if any, as levied by the provisions of the Central Acts from time to time
- Education Cess on income-tax, if any, as levied by the Central Acts from time to time and
- Secondary and Higher Education Cess on income-tax, if any, as levied by the Central Acts from time to time

These amendments will take effect retrospectively from 1 April 2001 and will accordingly apply in relation to assessment year 2001-02 and subsequent assessment years.

Here it is worth noting that the above amendment does not cover FBT and accordingly, as per FAQ 103 of Circular No. 8/2005 of 29 August 2005, FBT continues to be eligible for deduction from the book profit.

5.1.7 Definition of Written Down Value ('WDV')

Section 32(1)(ii) provides that depreciation shall be allowed at the prescribed percentage on the WDV of any block of assets. Section 43(6)(b) provides that WDV in the case of assets acquired before the previous year means the actual cost to the assessee less all depreciation actually allowed to him under the IT Act.

Some entities were exempt from tax and, therefore, not required to compute their income under the head "profits and gains of business or profession". Upon withdrawal of exemption, such entities became liable to income-tax and hence, required to compute their income for income-tax purposes. In this context, dispute has arisen on the basis for allowing depreciation under the IT Act in respect of assets acquired during the years when it enjoyed exemption.

The Hon'ble Rajkot ITAT in its recent decision in the case of Kandla Port Trust v. Assistant Commissioner of Income-tax, Circle Gandhidham, Kutch [2007](104 ITD 001)(TRJK) has held that since there was no liability to tax, there was no occasion to compute the income of such person under the

provisions of the IT Act. Therefore, the depreciation provided in the books in the years when the income was exempt cannot be treated as the depreciation "actually allowed". Accordingly, it was held that the actual cost of the asset was the WDV for the purposes of claiming depreciation under the IT Act in the previous year in which such person first ceases to enjoy the income-tax exemption. This interpretation is not in conformity with the intent and purpose of the provisions of depreciation. Accordingly, it is proposed to provide that :

- the actual cost of an asset shall be adjusted by the amount attributable to the revaluation of such asset, if any, in the books of account
- the total amount of depreciation on such asset provided in the books of account of the assessee in respect of such previous year or years preceding the previous year relevant to the assessment year under consideration, shall be deemed to be the depreciation actually allowed under the IT Act for the purposes of section 43(6)
- the depreciation actually allowed as above shall be adjusted by the amount of depreciation attributable to such revaluation

This amendment will take effect retrospectively from 1 April 2003 and will accordingly apply in relation to assessment year 2003-04 and subsequent assessment years.

5.1.8 Streamlining the definition of "charitable purpose"

The existing provisions of section 2(15) of the IT Act defines "charitable purpose" to include relief of the poor, education, medical relief and the advancement of any other object of general public utility.

The Bill proposes to amend section 2(15) so as to provide that "the advancement of any other object of general public utility" shall not be a charitable purpose if it involves carrying on of –

- any activity in the nature of trade, commerce or business or
- any activity of rendering of any service in relation to any trade, commerce or business

for a fee or cess or any other consideration, irrespective of the nature of use or application of the income from such activity, or the retention of such

income, by the concerned entity.

5.1.9 Extending the provision of section 35D relating to amortization of preliminary expenses to all undertakings

Existing provision of section 35D provides for deduction of certain specified preliminary expenses for an amount equal to 1/5 of such expenditure for 5 successive previous years.

With a view to providing a level playing field to the services sector, it is proposed to substitute the words "industrial undertaking" with the word "undertaking" and the words "industrial unit" with the word "unit", in section 35D, to extend to the service sector, the same benefit of amortization of specified post-commencement preliminary expenses as is available to the manufacturing sector for the extension of an undertaking or the setting up of a new unit.

5.1.10 Satisfaction of the AO for initiation of penalty need not be recorded

Presently, under section 271(1) of the IT Act, the AO is required to record his satisfaction for certain offences listed for initiating penalty proceedings.

With a view to rest the controversy as to whether or not the satisfaction was recorded by the AO, the Bill proposes to provide that where any amount is added or disallowed in computing the total income or loss of an assessee in any order of assessment or reassessment; and such order contains a direction for initiation of penalty proceedings under section 271(1) of the IT Act, such an order of assessment or reassessment shall be deemed to constitute satisfaction of the AO for initiation of penalty proceedings.

Similar amendment has also been proposed in the WT Act.

These amendments will take effect retrospectively from 1 April 1989.

5.1.11 Amendment to the provisions of section 40A(3) of the IT Act

The existing provisions of section 40A(3) of the IT Act provides that any expenditure incurred in respect of which payment of a sum exceeding Rs. 20,000 is made otherwise than by an account payee cheque drawn on a bank or by an account payee bank draft, shall not be allowed as a deduction. It is

proposed to amend the existing provisions so as to overcome the splitting of payments to the same person made during a day. The amendment proposes to provide that where a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or account payee bank draft, exceeds Rs. 20,000, the disallowance of such expenditure shall be made.

5.1.12 Rationalisation of the FBT provision

The present FBT provisions provide that where an employer incurs any expenditure, inter alia, for the purposes of entertainment, hospitality, conference, and sales promotion (including publicity), such employer shall be deemed to have provided fringe benefits to its employees. It also provides for valuation of the fringe benefits provided by the employer.

With a view to rationalizing the provisions of FBT, the following amendments are proposed:

- Any expenditure on or payment through pre-paid electronic meal card shall also be excluded from the hospitality expenditure for calculation of the value of fringe benefit. Such electronic meal card should not be transferable, should be usable only at eating joints or outlets and should fulfill such other conditions, as may be prescribed
- Explanation to clause (E) is proposed to be amended to provide that any expenditure incurred or payment made to
 - provide creche facility for children of the employee or
 - sponsor a sportsman, being an employee or
 - organize sports events for employeesshall not be considered as expenditure for employees' welfare for the purpose of calculation of the value of fringe benefits
- Any expenditure on or payment made for maintenance of any accommodation in the nature of guest house, shall not be included for valuation of fringe benefits
- The value of fringe benefits on account of expenditure on festival celebration shall be 20% as against the existing rate of 50%

5.1.13 Enlargement of scope of TDS under section 194C to cover AOP and BOI

Existing provision of section 194C(1) of the IT Act provides for deduction of tax at source from any sum credited or paid to a 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, registered societies, trusts, universities, firms and those individuals/HUFs who are required to get their accounts audited under section 44AB.

A number of SPVs are being set-up to execute large works contracts. Some of these SPVs are structured as JVs/Consortiums in the nature of an AOP or BOI. The Bill proposes to amend section 194C(1) to provide that any AOP or BOI, whether incorporated or not shall be liable to TDS under section 194C(1).

This amendment will take effect from 1 June 2008.

5.1.14 Amendments to the provisions of dematerialisation of TDS and TCS certificates

A scheme for dematerialisation of TDS/ TCS certificates was introduced through the Finance (No. 2) Act, 2004, with effect from 1 April 2005, for any TDS/TCS made on or after 1 April 2005. The commencement of this scheme was postponed to 1 April 2006 by the Finance Act, 2005 and later to 1 April 2008 by the Finance Act, 2006. Since the national level information technology infrastructure of the Income-tax Department is not yet operational, the Bill proposes to extend the commencement of the scheme to 1 April 2010.

The system of allowing credit to the assessee for TDS/TCS needs a certain degree of flexibility considering the ongoing technological and business process changes. In view of this, the Bill proposes to substitute section 199 and section 206C(4) so that the manner in which credit of TDS/TCS is to be given will be governed by Rules to be framed under section 199 and section 206C(4) i.e. the Board may make such rules as may be necessary for the purpose of giving credit in respect of TDS/TCS or tax paid by employer on perquisite under section 192(1A).

These amendments will take effect from 1 April 2008.

5.1.15 Removal of TDS on Corporate Bonds.

Section 193 of the IT Act provides for TDS on any income by way of interest on securities payable to a resident.

In order to facilitate development of the corporate bond market for improving the availability of finances for infrastructure development, it is proposed to remove TDS on any interest payable to a resident on any security issued by a company where such security is in dematerialised form and is listed on a recognised stock exchange in India in accordance with the Securities Contracts (Regulation) Act, 1956 (42 of 1956) and any rules made thereunder.

This amendment will take effect from 1 June 2008.

5.1.16 Presumption as to books of accounts, other documents extended to surveys

Section 292C of the IT Act provides for a rebuttable presumption with respect to books of account, other documents, money, bullion, jewellery or other valuable article or thing found in the possession or control of any person in the course of a search under section 132 of the IT Act.

It is proposed to extend this presumption also to books of account, other documents, etc., found in the possession or control of any person in the course of a survey operation.

This amendment will take effect retrospectively from 1 June 2002.

Further, it is proposed to extend this presumption also to books of account, other documents or assets which have been delivered to the requisitioning officer in accordance with the provisions of section 132A of the IT Act.

Similar amendment has also been proposed in the WT Act.

This amendment will take effect retrospectively from 1 October 1975.

5.1.17 Sunset provision for deduction for refining of mineral oil under section 80-IB(9)

The existing provisions of section 80-IB(9) provides for a 100% deduction of profits and gains derived from commercial production or refining of mineral oil. For the purpose of this section, the term 'mineral oil' does not include petroleum and natural gas, unlike in other sections of the IT Act.

The deduction under this sub-section is available to an undertaking for a period of 7 consecutive assessment years including the initial assessment year:

- in which the commercial production under a production sharing contract has first started or
- in which the refining of mineral oil has begun

The Bill proposes to insert a new proviso in section 80-IB(9), so as to provide that no deduction under this sub-section shall be allowed to an undertaking engaged in refining of mineral oil, if it begins refining on or after 1 April 2009.

5.2 Personal

5.2.1 Deemed payment of tax by the employee where FBT on securities allotted to him is recovered by the employer

The CBDT has issued Circular No. 9, dated 20 December 2007, clarifying certain issues relating to levy of FBT on ESOPs. Vide clarification to FAQ No 8, it has been clarified that in a case where FBT on account of share allotted or transferred under ESOPs, has been paid by the employer in respect of an employee based in India and subsequently recovered from him, the FBT is effectively paid by the employee in respect of fringe benefits enjoyed by him. Therefore, such employee can claim credit, in a foreign country, for the FBT, on account of shares allotted or transferred under ESOPs, paid by the employer in India.

Representations have been received from taxpayers suggesting that this clarification should be incorporated in the IT Act so as to provide a firm basis to enable the employees to claim credit for tax so paid. Thus it is proposed that where FBT (with respect to allotment or transfer of specified security or sweat equity shares) has been paid by the employer and subsequently recovered from the employee, the recovery of FBT shall be deemed to be the tax paid by such employee in relation to value of fringe benefits provided to him. The deeming provision shall apply only to the extent to which the

amount of recovery relates to the value of the fringe benefits provided to such employee.

It further seeks to provide that, notwithstanding anything contained in this Act, in the above situation, the employee shall not be entitled for any refund out of such deemed payment of tax and shall also not be entitled to claim any credit of such deemed payment of tax against tax liability on other income or against any other tax liability.

5.2.2 Additional deduction for health insurance premium paid for parents

The Bill proposes to allow an additional deduction of up to Rs. 15,000 under section 80D of the IT Act to an assessee, being an individual, on any payment made to effect or keep in force an insurance on the health of his parent or parents. The existing condition of 'dependent' with respect to parents is being dispensed with. This deduction shall be in addition to the existing deduction of Rs. 15,000 available to the individual assessee on medical insurance for himself, his spouse and dependent children.

It is further proposed that if either of the individual assessee's parents, who has been medically insured, is a senior citizen, the deduction would be allowed up to Rs. 20,000.

5.2.3 Amendment to give effect to reverse mortgage scheme

In the Union Budget 2007-08, it was announced that the National Housing Bank will introduce a reverse mortgage scheme for senior citizens. In context of the aforesaid scheme, it is therefore proposed to provide that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government, shall not be regarded as a transfer and therefore shall not attract capital gains tax.

Further, with a view to providing certainty in the tax regime to the senior citizen, the Bill proposes that any amount received by an individual as a loan, either in lump sum or installment, in a transaction of reverse mortgage referred to in clause (xvi) of section 47 will also not be included in total income. Consequent to these amendments, a borrower, under a reverse mortgage scheme, will be liable to income tax (in the nature of tax on capital gains) only at the point of alienation of the mortgaged property by the mortgagee for the purposes of recovering the loan.

These amendments will take effect from 1 April 2008 and will accordingly apply in relation to assessment year 2008-09 and subsequent assessment years.

5.2.4 Enlargement of the scope of eligible saving instruments under section 80C

The Bill proposes to include following investments to be eligible for deduction under section 80C within the overall ceiling of Rs. 1,00,000

- five year time deposit in an account under Post Office Time Deposit Rules, 1981 and
- deposit in an account under the Senior Citizens Savings Scheme Rules, 2004

Further, if any amount is withdrawn from such account before the expiry of a period of 5 years from the date of its deposit, the amount so withdrawn shall be deemed to be income of the assessee and shall be liable to tax in the previous year in which the amount is withdrawn. The amount liable to tax shall also include that part of the amount withdrawn which represents interest accrued on the deposit. However, if any part of the amount so received or withdrawn (including the amount relating to interest) has suffered taxation in any of the earlier years, such amount shall not be taxed again.

The proposed amendment shall apply to investments as above, made during the financial year 2007-08 and subsequent years.

5.2.5 TDS rate on 8% Savings (Taxable) Bonds

With effect from 1 June 2007, TDS was made applicable to the person responsible for paying to a resident any interest on 8% Savings (Taxable) Bonds, 2003 if interest payable on such bonds exceeds Rs. 10,000 during a financial year. However, the rate of tax was not prescribed and accordingly the said interest was subject to TDS @ 20%. The Bill proposes to apply TDS @ 10% on such interest.

5.3 Non Residents

5.3.1 Capital gains on transfer of FCEB

Presently, the conversion of FCCB into shares of the issuing company is not considered as a transfer for the purpose of capital gain. Further, the cost of shares received on conversion of such FCCB is the price at which FCCB was acquired.

In order to provide a level playing ground to FCEB, the Bill proposes to provide that conversion of FCEB into shares or debentures of any listed company shall not be treated as a transfer. Further, the cost of acquisition of shares received upon conversion of the bond, shall be the price at which the corresponding bond was acquired.

5.3.2 Provision for furnishing of information regarding TDS under section 195

The existing provision of section 195(1) requires any person responsible for paying any interest or any other sum chargeable to tax (except dividends and income under the head "salaries") to a non-resident or to a foreign company, to deduct tax at source at the rates in force.

Currently, the person making the remittance is required to furnish an undertaking (in duplicate) addressed to the AO accompanied by a certificate from an Accountant in a specified format. This undertaking and certificate is submitted to the RBI or its authorized dealers who in turn are required to forward a copy to the AO.

The purpose of the undertaking and the certificate is to collect taxes at the stage when the remittance is made as it may not be possible to recover the tax at a later stage from the non-residents. To monitor and track transactions in a timely manner, it is proposed to introduce e-filing of the information in the certificate and undertaking. The Bill proposes to provide that the person responsible for deduction of income tax shall furnish the information relating to payment of any sum to the non-resident or to a foreign company in a form and manner to be prescribed by the CBDT.

This amendment will take effect from 1 April 2008.

5.4 General

5.4.1 Tax rates on short term capital gain increased to 15%

The existing provisions of section 111A and 115AD of the IT Act provide for special tax rate of 10% (excluding surcharge and cess) on short-term capital gain arising from the transfer of a short-term capital asset, being an equity share in a company or a unit of an equity oriented fund, where such transaction is chargeable to STT.

It is proposed to increase the rate of tax on such short-term capital gain to 15% (excluding surcharge and cess).

5.4.2 Commodities Transaction Tax ('CTT')

A new tax called CTT is proposed to be levied on taxable commodities transactions entered in a recognized association.

It is proposed to define 'Taxable commodities transaction' to mean a transaction of purchase or sale in a recognised association of

- option in goods or
- option in commodity derivative or
- any other commodity derivative

The tax is proposed to be levied at the rate, given in the table below:

Sr.No.	Taxable commodities transaction	Rate	Payable by
1.	Sale of an option in goods or an option in commodity derivative	0.017 % on option premium	Seller
2.	Sale of an option in goods or an option in commodity derivative where option is exercised	0.125 % on the settlement price of the option.	Purchaser
3.	Sale of any other commodity derivative is sold	0.017 % of the price at which the commodity	Seller

The provisions with regard to collection and recovery of CTT, furnishing of returns, assessment procedure, power of AO, chargeability of interest, levy of penalty, institution of prosecution, filing of appeal, power to the Central Government etc., have also been provided.

This tax is proposed to be levied from the date of notification of Chapter VII of

the Bill in the Official Gazette by the Central Government.

The Bill further proposes to insert clause (xv) in section 36(1) of the IT Act, to provide that any amount of CTT paid by the assessee during the year shall be allowed as deduction subject to the condition that such income from taxable commodities transactions is included under the head 'profits and gains of business or profession'.

5.4.3 Rationalization of provision of STT

The present STT provisions provide that in the case of sale of a derivative, where the transaction of such sale is entered into in a recognized stock exchange, the STT will be @ 0.017% and will be payable by the seller.

It is proposed to provide that,

- in case of sale of an option in securities, STT shall be levied @ 0.017% of the option premium and shall be paid by the seller
- in case of sale of an option in securities, where option is exercised, STT shall be levied @ 0.125% of settlement price and shall be paid by the purchaser and
- in case of sale of a futures in securities, STT shall be levied @ 0.017% and shall be payable by the seller

This amendment will take effect from 1 June 2008.

At present, the amount of STT paid is allowed as rebate under section 88E of the IT Act. This rebate is allowed when the income from taxable securities transactions is included under the head 'profits and gains of business or profession'.

It is proposed to discontinue the rebate available to such assessee under section 88E of the IT Act. Hence, no rebate under section 88E shall be allowed to the assessee in, or after, the assessment year beginning on 1 April 2009.

Further, it is proposed that any amount of STT paid by the assessee during the year in respect of taxable securities transactions entered into in the course of business, shall be allowed as deduction under section 36 of the IT Act, subject to the condition that such income from taxable securities

transactions is included under the head 'profits and gains of business or profession'.

5.4.4 Correction of arithmetical mistakes and adjustment of incorrect claims under section 143(1)

Under the existing provisions of section 143(1) of the IT Act, there is no provision for correcting arithmetical mistakes or internal inconsistencies.

It is proposed to amend section 143(1) of the IT Act so as to provide that the total income of an assessee shall be computed under section 143(1) after making the following adjustments to the total income in the return:

- any arithmetical error in the return or
- an incorrect claim, if such incorrect claim is apparent from any information in the return

Further, these adjustments will be made only in the course of computerized processing without any human interface. For this purpose, the income tax department is in the process of establishing a system for Centralized Processing of Returns. Similar amendment has also been proposed in section 115WE of the IT Act, relating to fringe benefits.

These amendments will take effect from 1 April 2008.

5.4.5 Clarification regarding stay of demand by ITAT

The provisions relating to appeals to the ITAT are contained in section 252 to section 255 of the IT Act. Section 254(2A) provides that the ITAT, where it is possible, may decide an appeal within a period of 4 years from the end of the financial year in which such appeal is filed.

The intention behind these provisions has been that the ITAT cannot grant stay, either under the original order or under any subsequent order, beyond the period of 365 days in aggregate.

To make this intention clear, it is proposed to amend section 254 of the IT Act and further provide that the aggregate of the period originally allowed and the period or periods so extended or allowed shall not, in any case, exceed 365

days, even if the delay in disposing of the appeal is not attributable to the assessee.

This amendment will take effect from 1 October 2008.

5.4.6 Rationalisation of revised settlement scheme

Provision regarding immunity from penalty and prosecution and providing a time limit for assessment relating to abatement of settlement proceedings, is proposed to be introduced.

The Finance Act, 2007 carried out a comprehensive amendment to the scheme of settlement of cases. This scheme provides for abatement of proceedings before the Settlement Commission under various circumstances. In order to deal with the various issues that may arise in the event of abatement of proceedings before the Settlement Commission, it is proposed to amend the law to empower the CIT to grant immunity from penalty and prosecution in cases which abate.

It is also proposed to amend section 153 of the IT Act so as to allow a minimum time period of 1 year to the income tax authority before whom the case was pending when the application was filed with the Settlement Commission. This time limit is applicable retrospectively with effect from 1 June 2007. It shall be deemed that this revised time limit will apply to all cases where settlement proceedings have abated from 1 June 2007 and thereafter.

Similar amendments have also been proposed in the WT Act.

5.4.7 Discontinuation of Banking Cash Transaction Tax ('BCTT')

BCTT was introduced by the Finance Act, 2005. It provides for a levy of tax @ 0.1% on the taxable banking transaction. It is proposed that no BCTT shall be charged in respect of any taxable banking transaction after 31 March 2009.

CHAPTER 6 : INDIRECT TAXES - SIGNIFICANT CHANGES

The changes effected in Custom and Central Excise regulations have been given effect to from 1 March 2008 or such date as is specified and the changes in Service Tax regulations shall be effective from a date to be notified after enactment of the Bill, unless otherwise specified.

6.1 Service Tax

6.1.1 General

There is no change in the rate of tax. Thus, tax shall continue to be levied @ 12.36% (Tax @12%, Education Cess @ 2% and Secondary and Higher Education Cess @ 1%).

6.1.2 Increase in threshold limit for service providers

The present threshold limit of Rs. 8,00,000 for exemption to service providers is being increased to Rs.10,00,000. Correspondingly, the threshold limit for obtaining service tax registration has also been increased from Rs.7,00,000 to Rs. 9,00,000.

The above changes will come into effect from 1 April 2008.

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

- Services provided in relation to Information Technology (IT) software for use in the course, or furtherance, of business or commerce. The said service is proposed to include:
 - development (study, analysis, design and programming) of software, adaptation, up-gradation, enhancement, implementation and other similar services in relation to IT software.
 - provision of advice and assistance on matters related to IT software, including conducting feasibility studies on the implementation of a system, providing specifications for a database design, providing guidance and assistance during the start-up phase of a new system, providing specifications to secure a database, providing advice on proprietary IT software.

- acquiring the right to use IT software for commercial exploitation including right to reproduce, distribute and sell, software components for the creation of and inclusion in other IT software products and IT software supplied electronically.
- Services provided in relation to management of investment, known as segregated fund, under unit linked life insurance business, commonly known as Unit Linked Insurance Plan (ULIP) scheme.
 - Services provided by a recognized stock exchange in relation to securities.
 - Services provided by a recognised association or a registered association (commodity exchange) in relation to sale or purchase of any goods or forward contracts.
 - Services provided by a processing and clearing house in relation to processing, clearing and settlement of transactions in securities, goods or forward contracts.
 - Services provided in relation to supply of tangible goods, without transferring right of possession and effective control of said tangible goods.
 - Services provided in relation to internet telecommunication.

6.1.4 Extension of scope of existing services proposed

- Banking and other financial services and foreign exchange broker services to include purchase or sale of foreign currency, including money changing by an authorized dealer or an authorized money changer.
- Cargo handling service to include services of packing together with transportation of cargo or goods, with or without one or more other services like loading, unloading, unpacking, under cargo handling service.
- Technical testing and analysis service to include testing or analysis of information technology software.
- Technical inspection and certification to include inspection, examination and certification of information technology software.
- Tour operator services to include services provided in relation to a journey from one place to another, generally known as point-to-point tour, in a vehicle having contract carriage permit, even if the vehicle does not meet the criteria specified for tourist vehicles.
- Reference to service recipient as "client" or "customer" from 39 specified taxable services has been replaced with the words "any person".

6.1.5 Additional exemptions

- Exemption from service tax is being provided to the taxable service provided by a person located outside India for a customer located outside India and received by a hotel located in India, in relation to booking of an accommodation in the said hotel located in India.
- Unconditionally, exemption from service tax is being provided upto 75% of the gross amount charged as freight for services provided in relation to transport of goods by road in a goods carriage vehicle by a goods transport agency.

The above exemption will come into effect from 1 March 2008.

6.1.6 Withdrawal of exclusions

- Exclusion from business auxiliary service in respect of Information technology service has been deleted consequent to notifying information technology software service as a separate taxable service.
- Exclusion from consulting engineer's service in respect of computer software engineering consultancy has been deleted consequent upon notifying information technology software service as a separate taxable service.

6.1.7 Amendments in the Export of Services Rules, 2005 and Taxation of Services (Provided from Outside India and Received in India) Rules, 2006 ('Import of Services Regulations')

- To treat the following services as export of services which are provided remotely through internet or any electronic network including a computer network, or any means in relation to goods or material or any immovable property situated outside India at the time of provision of the following services:
 - management, maintenance or repair;
 - technical testing and analysis; and
 - technical inspection and certification
- Similar amendment has been made in the Import of Services ovide for

the aforesaid services as import of services and leviable to service tax under reverse charge method.

6.1.8 Amendments to the existing regulations

- The following amendments are proposed from a date to be notified after enactment of the Bill:

To clarify that “business auxiliary service” includes the services provided in relation to promotion or marketing of games of chance organized, conducted or promoted by the client.

To clarify that “renting of immovable property service” includes allowing or permitting the use of space in an immovable property, irrespective of the transfer of possession or control of the immovable property.

To clarify that “properties” referred to in “management, maintenance or repair service” includes information technology software.

To clarify that services provided by a consulting engineer in relation to advice, consultancy or technical assistance in the disciplines of both computer hardware engineering and computer software engineering shall also be classifiable under “consulting engineer service”.

- The following amendments are proposed with effect from the date of enactment of the Bill:

To insert a new section so as to authorize the Central Excise Officer to make assessment on the basis of best judgment after allowing assessee to represent his case, where assessee has failed to make service tax returns or failed to assess the tax.

To provide for penalty of upto Rs. 5,000 in case of failure to pay service tax electronically, issuance of incorrect or incomplete invoices and general contravention.

To provide for penalty, in case of failure to take registration, which may extend to Rs. 5,000 or Rs. 200 for every day during which such failure continues, whichever is higher.

In case of transaction of taxable service with any “associated enterprise”, “gross amount charged” shall include any amount credited or debited, as the case may be, to any account, in the books of account of a person liable to pay service tax. It is further provided

that the term "associated enterprise" shall have meaning as assigned to it in section 92A of the IT Act.

Further, as per departmental letter F. No. 334/1/2008-TRU dated 29 February 2008, it seems that rule 6(1) which provides for payment of service tax is also proposed to be amended. Accordingly, it is proposed that service tax would be leviable on taxable services provided by the service provider even if the amount is not actually received, but is credit or debited in the books of accounts of the service provider. This provision is proposed to be restricted to transactions between associated enterprises.

- The following amendments are proposed with effect from 1 March 2008:

To insert a new rule to extend the facility of advance payment of service tax to all taxable service providers and allow self-adjustment towards payment of service tax for the subsequent period.

To increase the monetary limit for self-adjustment of excess service tax paid, from Rs.50,000 to Rs.1,00,000.

To increase the time limit for rectification of mistakes and filing of revised returns from 60 days to 90 days.

To empower the Central Excise Officer to reduce or waive the penalty for delayed filing of return, where the gross amount of service tax payable is Nil.

- Works Contract (Composition Scheme for Payment of Service Tax) Rules, 2007 are being amended to enhance the rate prescribed for optional scheme for payment of service tax under works contract service from 2% of the total value of the contract to 4% of the total value of the contract. The change will be effective from 1 March 2008.

6.1.9 Amendment to the Cenvat Credit Rules, 2004

- The following amendments are proposed with effect from 1 March 2008:

To exclude goods transport agency service from the scope of "output service". Thus, goods transport agency shall not be allowed to avail

input credit.

To insert a new rule to provide for general penalty upto Rs. 5,000 in case of contravention of any provisions of the Cenvat Credit Rules, 2004, for which no specific penal provision exists.

- The following amendments are proposed with effect from 1 April 2008:

To allow removal of capital goods outside the premises of the provider of the output service without any time restriction, if the same is for providing output service.

To provide following options to a provider of output services, using common inputs or input services for providing taxable as well as exempted services and opting not to maintain separate accounts:

- either reverse the credit attributable (to be worked out in a manner prescribed in the rule) to the inputs and input services used for providing exempted service; or
- pay 8% amount of the value (determined in terms of section 67 of the Finance Act, 1994) of the exempted services.

To provide following options to a manufacturer, using common inputs or input services for manufacture of dutiable as well as exempted goods and opting not to maintain separate accounts:

- either reverse the credit attributable (to be worked out in a manner prescribed in the rule) to the inputs and input services used in the manufacture of exempted goods; or
- pay 10% amount of the value (to be determined in accordance with the provision of section 4/4A of the Central Excise Act, 1944) of the exempted goods.

6.2 Customs Duty

6.2.1 Significant amendments

- There is no change in the peak rate of duty, which is presently at 10%.
- Duty on project imports has been reduced from 7.5% to 5%.
- Duty on six specified drugs/kits and bulk drugs for their manufacture, %

to 5%. Further, the CVD has been reduced to Nil by way of excise duty exemption.

- Exemption from 4% additional duty of customs has been withdrawn from power generation projects (other than mega power projects), transmission, sub-transmission and distribution projects and goods for high voltage transmission projects.
- The maximum period of retention for admissibility of drawback, in respect of goods which have been used after importation, has been reduced from 36 months to 18 months.

6.2.2 Increase in Export Duty on Chromium ores

Export duty on Chromium ores and concentrates, all sorts has been increased from Rs.2,000 per metric tonne to Rs.3,000 per metric tonne.

6.2.3 Removal of Custom duty

Custom duty has been fully withdrawn on bactofuges, specified raw materials and inputs for use in information technology and electronic hardware industry on end use basis, specified parts of set-top boxes on end – use basis, iron or steel melting scrap, aluminium scrap, tuna bait, specified raw materials for manufacture of sports goods for exports, upto 3% of FOB value of exports in preceding year.

6.2.4 Gems and Jewellery

Rates of duty have been reduced for the following items:

Product description	Present duty	Revised duty
Unworked or simply prepared corals	10%	5%
Rough cubic zirconia	5%	Nil
Cubic zirconia (polished)	10%	5%

6.2.5 Leased equipment and machinery imported for temporary use in contract

The period for re-export of leased equipment and machinery, imported for temporary use in contracts, has been increased from 12 months to 18 of duty applicable on such imports have now been provided on a quarterly basis as

against the existing half yearly basis.

6.2.6 Changes in rates of duty of certain items

Product description	Present duty	Revised duty
Crude and unrefined sulphur	5%	2%
Feed additives/pre-mixes	30%	20%
Specified convergence products	10%	5%
Specified raw material for tyre industry	10%	5%

6.2.7 Withdrawal of exemption

- Duty exemption presently available on 'naphtha' for manufacture of specified polymers, has been withdrawn.
- Concessional custom duty of 5% on polymer long rod insulators has been restricted to polymer long rod insulators of 765 KV rating only.

6.2.8 Other amendments

- Custom duty on phosphoric acid has been unified at 5%, irrespective of its use.
- Following amendments are proposed from the date of the enactment of the Bill:

Maximum amount of penalty for contravention of any provision of the Customs Act is proposed to be increased from existing Rs.10,000 to Rs.1,00,000 where no express penalty is provided elsewhere.

Maximum amount of penalty for contravention of any provision of the Customs Rules is proposed to be increased from existing Rs.5,000 to Rs.50,000 and for contravention of Regulations from Rs.2,500 to Rs.50,000.

6.3 Excise Duty

6.3.1 General

- General rate of excise duty has been reduced from 16% to 14%. The other ad valorem rates of 24%, 12% and 8%, remain unchanged.
- It is proposed to insert an explanation in the definition of "excisable goods" to provide that "goods" include any article, material or substance

which is capable of being bought and sold for a consideration and such goods shall be deemed to be marketable.

6.3.2 Removal of excise duty on certain items

Excise duty has been fully withdrawn on electric cars and specified parts of electric cars, specified items of packaged food including tea/ coffee pre-mixes, specified refrigeration equipments for the installation of cold storage, cold room or refrigerated vehicle, on end-use basis, wireless data modem cards, paper and paper products manufactured from non-conventional raw materials, composting machines etc.

6.3.3 Imposition/ increase of excise duty

- Excise duty on packaged software has been increased from 8% to 12%.
- Excise duty on bulk cement has been revised from Rs. 400 per tonne to 14% or Rs. 400 per tonne, whichever is higher.
- Excise duty on cement clinkers increased from Rs. 350 per tonne to Rs. 450 per tonne.
- Excise duty on motor spirit revised from 6% plus Rs. 13 per litre to Rs. 14.35 per litre.
- Excise duty on high speed diesel revised from 6% plus Rs. 3.25 per litre to Rs. 4.60 per litre.
- Excise duty has been imposed on shuttle-less looms at 8%.

6.3.4 Significant changes in rates of duty

Excise duty has been reduced on the following items

Product Description	Present duty	Revised duty
All drug formulations	16%	8%
Sterile surgical catgut, sterile absorbable surgical	16%	8%
First aid boxes and kits, blood grouping reagents	16%	8%
Buses / vehicles for transport of more than 13 persons	16%	8%
Chassis of such vehicles	16% plus 10,000	12% plus 10,000
Small cars	16%	12%

Product Description	Present duty	Revised duty
Hybrid cars	24%	14%
Two wheelers / passenger three wheelers (up to 7 persons)	16%	12%
Paper and paper products manufactured from non-conventional raw materials (beyond 3,500 metric tones clearance from a unit)	12%	8%
Water filtration / purification devices	16%	8%
Information Technology (specified convergence product)	16%	8%
Inks for marker pens, highlighters etc.	16%	8%
Writing paper, printing paper and packing paper	12%	8%

6.3.5 Other amendments

- 1% NCCD levied on manufacture of mobile phones. CVD of 1% will be levied on import of mobile phones.
- Withdrawal of 1% NCCD on polyester filament yarn.
- Rate of duty applicable for clearance of goods to DTA from EOU, STP, EHTP etc. has been increased from 25% of the basic custom duty plus excise duty payable on like goods to 50% of the basic custom duty plus excise duty on the like goods.
- Section 11B of the Central Excise Act, 1944 which provides for claim of refund of duty has been amended to provide for refund of interest paid on any duty of excise.
- To insert a new section to provide for interest on pre deposit made by an appellant who has succeeded in the appeal and the amount of pre deposit is not refunded within a period of three months from the date of communication of the order.
- New rules have been prescribed for determination of retail sale price of excisable goods to provide for determination of retail sale price, where the same is not declared on the packages or tampered or altered or obliterated.

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

6.4.1 VAT

- The initial experience of implementation of VAT has been very

encouraging and the same has been well received by all the stakeholders.

- During the financial year 2006-2007, the tax revenue of the 31 VAT States and Union Territories had collectively registered a growth rate of about 21% over the tax revenue of 2005-2006. Further, during the first six months of financial year 2007-2008, the tax revenue of 32 VAT States and Union Territories has shown a further growth of 14.6% as compared to the corresponding period of last financial year.
- The Central Government had announced a compensation package under which the States were to be compensated for any revenue loss on account of VAT introduction at the rate of 100% of revenue loss during 2005-2006, 75% during 2006-2007 and 50% during 2007-2008. Accordingly, the Central Government has received claims amounting to Rs.13,167.30 crores during 2005-2006, 2006-2007 and upto 31 January 2008. Out of the above, the Central Government has already released Rs. 9,247.60 crores and claims of the balance amount are in process.

6.4.2 CST

The Finance Minister has indicated in his speech the Central Governments intention to reduce the CST rate from 3% to 2% (from a date to be notified) once an agreement is reached between the Central Government and State Governments.

6.4.3 Goods and Services Tax ('GST')

The design and roadmap for implementation of GST, which is targeted to be introduced with effect from 1 April 2010, is being finalized in consultation with the Empowered Committee of the States and considerable progress has been made on this front.

CHAPTER 7 : OTHER SIGNIFICANT PROPOSALS

7.1 Capital Markets

7.1.1 Measures to expand the market for corporate bonds

- Exchange-traded currency and interest rate futures to be launched and transparent credit derivatives market to be developed with appropriate safeguards.
- Tradability of domestic convertible bonds to be enhanced through the mechanism of enabling investors to separate the embedded equity option from the convertible bond, and trade it separately.
- Development of a market-based system for classifying financial instruments based on their complexity and implicit risks, to be encouraged.

7.1.2 Permanent Account Number ('PAN')

Requirement of PAN extended to all transactions in the financial market, subject to suitable threshold exemption limits.

7.1.3 National market for securities

Empowered Committee of State Finance Ministers to be requested to work with the Central Government to create a pan Indian market for securities that will expand the market base and enhance the revenues of the State Governments.

7.2 Debt Waiver And Debt Relief

The proposal for waiver of agricultural loans taken by small and marginal farmers will provide the much relaxation to the farmer community who have been reeling under tremendous pressure of mounting agri based debts. However, the benefit to the lending banks would be dependant on the relief/subsidy to be provided by the Government. Even partial subsidy/ relief to the lending banks would provide some benefit as most of these loans were non performing assets for the lenders.

7.3 Power

The fourth Ultra Mega Power Project (UMPP) at Talaiya will be awarded by Ministry of Power. Chhattisgarh, Karnataka, Maharashtra, Orissa and Tamilnadu urged to bring five more UMPPs to the bidding stage by extending the required support.

7.4 Oil and Gas

The 7th round of bidding under the New Exploration Licensing Policy (NELP) was launched in December 2007 and bids have been invited for 57 exploration blocks with likely investments of US\$3.5 billion to US\$8 billion for exploration and discovery.

7.5 Information Technology

The Government's forward looking policy is driving the growth of Information Technology and Information Technology Enabled Services. A scheme for establishing 100,000 broadband internet-enabled Common Service Centres in rural areas and a scheme for establishing State Wide Area Networks (SWAN) with Central assistance are under implementation. A new scheme for State Data Centres has also been approved.

Abbreviations

AMC	Asset Management Company
AO	Assessing Officer
AOP	Association of Persons
ARC	Asset Reconstruction Companies
BCTT	Banking Cash Transaction Tax
BOI	Body of Individuals
BSE	Bombay Stock Exchange
BSNL	Bharat Sanchar Nigam Limited
CBDT	Central Board of Direct Taxes
CIT	Commissioner of Income Tax
CST	Central Sales Tax
CTT	Commodities Transaction Tax
CVD	Additional Duty of Customs levied under section 3 of the Customs Tariff Act, 1975
DDT	Dividend Distribution Tax
DTA	Domestic Tariff Area
DTAA	Double Taxation Avoidance Agreement
ECB	External Commercial Borrowing
EHTP	Electronic Hardware Technology Park
EOU	Export Oriented Unit
ESOP	Employees' Stock Option Plan
FAQ	Frequently Asked Questions
FBT	Fringe Benefits Tax
FCCB	Foreign Currency Convertible Bond
FCEB	Foreign Currency Exchange Bond
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act
FI	Financial Institutions
FII	Foreign Institutional Investors

FIPB	Foreign Investment Promotion Board
FM	Finance Minister
GDP	Gross Domestic Product
GST	Goods and Services Tax
HUF	Hindu Undivided Family
IT Act	Income-tax Act, 1961
ITAT	Income Tax Appellate Tribunal
JVs	Joint Ventures
LLP	Limited Liability Partnership
MRP	Maximum retail Sale Price
MAT	Minimum Alternate Tax
NABARD	National Bank for Agricultural and Rural Development
NBFC	Non-banking Financial Company
NCCD	National Calamity Contingent Duty
NHAI	National Highway Authority of India
NRI	Non-resident Indian
NSTEDB	National Science and Technology Entrepreneurship Board of Department of Science & Technology
OCB	Overseas Corporate Bodies
PAN	Permanent Account Number
PIO	Person of Indian Origin
PSU	Public Sector Undertaking
QIB	Qualified Institutional Buyer
R&D	Research & Development
RBI	Reserve Bank of India
RECL	Rural Electrification Corporation Limited
SEBI	Securities and Exchange Board of India
SEZ	Special Economic Zones
SME	Small and Medium Enterprises
SPV	Special Purpose Vehicle
SSI	Small Scale Industries

STEP	Science and Technology Entrepreneurship Parks
STP	Software Technology Park
STT	Securities Transaction Tax
TBI	Technology Business Incubators
TCS	Tax Collected at Source
TDS	Tax Deducted at Source
UMPP	Ultra Mega Power Projects
VAT	Value Added Tax
WTAct	Wealth Tax Act, 1957
WDV	Written Down Value

