



BAKER TILLY
AIYAR

UNION BUDGET 2008

AN OVERVIEW

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an independent member of
BAKER TILLY
INTERNATIONAL



BUDGET 2008-2009

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① INTRODUCTION

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The Hon'ble Finance Minister P. Chidambaram presented the Union Budget, on the 29th of February 2008 in the Parliament, the 7th Budget and the United Progressive Government's last Budget - (as the next would be a vote-on-account just prior to the next general election). The Budget was in fact presented against the background of the general elections with most States going into elections in 2008 and 2009.

The Economic Survey of 2007-08 presented to parliament on the 28th of February 2008, predicted growth of GDP at 8.7% for the financial year 2007-08 as against in-excess-of-9% in the previous year. With economic fundamentals looking positive the 9% average growth predicted for the 11th Plan is achievable. For the first time the contribution of Direct Taxes to the GDP has been more than the Indirect Taxes, gravitating towards the pattern of developed economies. The Budget also had to meet the social, education and healthcare sectoral-needs without tampering overly with the existing tax structure. The Budget covered its social commitments largely based on the Common Minimum Program of the UPA Government.

The stock market witnessed corrections recently (after a sustained buoyancy) on account of fears of recession in USA, a global economic slowdown, apart from the fear of not meeting the growth targets owing to factors such as exports facing a challenge with the appreciation of the rupee by almost 10% and spiraling real estate prices. Non-extension of STPI shelters, imposition of Service Tax on Software, at this juncture, have not helped relieve this negative outlook. A major cause of concern is the low-growth of the agriculture sector, standing at 2.6% of GDP. Nearly 65% of population representing 'agriculture' are witnessing only 2 to 3% growth as against 8 to 9% seen by the remaining 35% in 'non-agriculture' sectors- a disturbing gap in the country's economic development.

The "Nano", the \$2,500 car unveiled by a domestic Indian auto-maker, in 2008 is a game-changer, typifying a "new" business-model, which is challenged by such macro-issues as critical shortages of talent. Therefore a promise to create many more IIMs , IITs, IISEs and Architecture Institutes, and several budgetary outlays for education, and rationalized indirect tax rates, is very well directed.

The fiscal deficit and revenue deficit which were 1.4% & 3.1% of the GDP respectively for the fiscal year 2007-08 are proposed to be brought down to 1% & 2.5% of the GDP even though it was envisaged to eliminate the revenue deficit. With as yet un-quantified consequences of pay-commission-proposals, waiver of farmers' loans (15 Billion USD) and issues of accountability with regard to state- and district-level implementation of Schemes, the process may therefore take longer.

This Booklet is meant to apprise our esteemed clients of the important budget proposals. We offer a broad outline of the major proposals.

+ The changes proposed in the Finance Bill on direct taxes become effective from the Assessment Year (AY) 2009-10, i.e. the financial year beginning on 1st April 2008, unless otherwise specified.

② EXECUTIVE SUMMARY

Direct Taxes

- ✓ Substantial changes in personal tax rates
- ✓ Basic exemption limit Increased for
 - Individuals by Rs.40000 to Rs.150000
 - Women (below 65 years) by Rs.35000 to Rs.180000.
 - Senior citizens (65 years & above) by Rs.30000 to Rs.225000
- ✓ No change in Corporate tax rates, Firm tax rates, Surcharge rates, Education Cess rates. Dividend Distribution Tax rate
- ✓ Relief in Dividend Distribution Tax for parent company for dividend received from subsidiary in certain cases
- ✓ Separate deduction of Rs.15000 u/s 80D for mediclaim insurance for parent/s
- ✓ Five year Tax holiday u/s 80 IB for Hospitals located outside specified urban conglomerations
- ✓ Tax benefit available under section 80 ID is extended to new two-star, three-star or four-star hotels, located in specified district having a World Heritage Site
- ✓ Tax holiday withdrawn for undertaking engaged in refining of mineral oil
- ✓ Income from samplings or seedlings grown in nurseries exempt
- ✓ Ban on Public Charitable Trust to carry out business activity
- ✓ Companies engaged in scientific research entitled to 125% weighted deduction u/s 35
- ✓ Amortization under section 35D allowed for non-industrial sector also
- ✓ Securities Transaction Tax is allowed as business expenditure for traders of securities
- ✓ Levy of Securities Transaction Tax in case of options shall be only on premium, if option is not exercised and on settlement price, if option is exercised
- ✓ Commodity Transaction Tax introduced on the lines of Securities Transaction Tax
- ✓ Disallowance of expenses in excess of Rs. 20000 otherwise than by crossed cheque or a demand draft in a day to the same person
- ✓ Conversion of bonds to shares or debentures is not a transfer
- ✓ Loan taken on reverse mortgage is neither income nor a transfer
- ✓ Banking Cash Transaction Tax withdrawn

- ✓ Deferred Tax Provision to be added for computation of book profits for Minimum Alternate Tax
- ✓ Relief granted for certain expenditure from levy of Fringe Benefit Tax
- ✓ Due Date for filing returns for companies and specified assessees advanced to 30th September from 31st October
- ✓ Procedure prescribed for cases of non-scrutiny assessments
- ✓ Short term capital gains tax on securities increased from 10% to 15%
- ✓ PAN to be sole identification number in all financial market transactions subject to suitable threshold exemption limits

Indirect Taxes

Customs Duties

- ✓ The peak rate of the customs duty on the non-agricultural products stays at 10%
- ✓ Customs duty removed on helicopter simulators to facilitate training of helicopter pilots
- ✓ Dairy and poultry business, fertilizer industry, gems and jewellery, pharma industry to benefit from the rate cuts on the raw material required for the industry
- ✓ Customs duty on Project Imports reduced, additional duty of customs imposed on power generation projects other than mega power projects, transmission, sub transmission and distribution projects and goods for high voltage transmission projects
- ✓ The rates of drawback in respect of goods which have been used after importation have been aligned with the rates prescribed for duty payable on leased equipment and machinery
- ✓ Prohibition on import of goods suspected of IPR Infringement

Excise Duty

- ✓ CENVAT rate on all goods reduced from 16 % to 14 %
- ✓ Rate cut to benefit manufacturers of two wheelers, three wheelers, hybrid cars, buses and chassis for buses
- ✓ Bulk cement and cement clinkers to attract higher excise duty
- ✓ Exemptions and rate cuts for various food products
- ✓ Packaged software to attract higher duty

- ✓ Pharma industry, paper and packaging industry to benefit by the rate cuts.
- ✓ Limitations introduced in CENVAT exemptions relating to Himachal Pradesh and Uttarakhand

Service Tax

- ✓ The Service tax rates have remained unchanged at 12 %
- ✓ The threshold limit of service tax exemption for small service providers is being increased from the present level of Rs. 8 lakh to Rs. 10 lakh
- ✓ Seven new services introduced for service tax
- ✓ Scope of several services amended
- ✓ Change in rules relating to export of services and import of services

Central Sales Tax

- ✓ Central Sales Tax rate reduced from 3 % to 2 % from 1 April 2008

③ DIRECT TAX PROPOSALS

3.1 TAX RATES:

The Finance Bill 2008 proposes changes in personal taxation rates while not effecting any change in corporate & firm tax rates. The surcharge & education cess also are retained at the existing rates for all assessees.

There has been a substantial tax relief across the existing slab rates providing a maximum relief of Rs.49,852 to an individual having a total income of above Rs. 5,00,000 (1USD 12500)

Income Tax:

For Individuals, HUF, AOP, BOI:

EXISTING RATES		PROPOSED RATES	
For FY 2007 – 08 (AY 2008-09)		For FY 2008 – 09 (AY 2009-10)	
Upto Rs.1,10,000	NIL	UptoRs.1,50,000	NIL
Rs.1,10,001 – Rs.1,50,000	10 %	Rs.1,50,001 – Rs.3,00,000	10%
Rs.1,50,001 – Rs.2,50,000	20%	Rs.3,00,001 – Rs.5,00,000	20 %
Above Rs.2,50,000	30 %	Above Rs.5,00,000	30 %

For women assessee (below 65 years of age):

EXISTING RATES		PROPOSED RATES	
For FY 2007 – 08 (AY 2008-09)		For FY 2008 – 09 (AY 2009-10)	
Upto Rs.1,45,000	NIL	Upto Rs.1,80,000	NIL
Rs.1,45,001 – Rs.1,50,000	10 %	Rs.1,80,001 – Rs.3,00,000	10%
Rs.1,50,001 – Rs.2,50,000	20 %	Rs.3,00,001 – Rs.5,00,000	20 %
Above Rs.2,50,000	30 %	Above Rs.5,00,000	30 %

For Individuals who are of age of 65 years and above (Senior Citizens):

EXISTING RATES		PROPOSED RATES	
For FY 2007 – 08 (AY 2008-09)		For FY 2008 – 09 (AY 2009-10)	
Upto Rs.1,95,000	NIL	Upto Rs.2,25,000	NIL
Rs.1,95,001 – Rs.2,50,000	20 %	Rs.2,25,001 – Rs.3,00,000	10%
Above Rs.2,50,000	30 %	Rs.3,00,001 – Rs.5,00,000	20 %
		Above Rs.5,00,000	30 %

Short Term Capital Gains Tax:

The existing rate of 10% on short term capital gains in respect of securities which have suffered security transaction tax is increased to 15% under section 111A.

3.2 NEW TAX INCENTIVES AND RELIEFS:

a. Exemption of plant nursery income:

It is proposed to insert an explanation 3 in clause 1A of section 2 to deem the income derived from saplings and seedlings grown in a nursery to be agricultural income

b. Transaction of reverse mortgage - clause (xvi) in section 47:

Any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government will not be regarded as transfer. This provision is being made applicable from 1st April 2008 and applicable to assessment year 2008-09

Consequently, it is proposed to insert clause 43 in section 10 whereby any amount received by an individual as a loan, either in lump-sum or installment, in a transaction of reverse mortgage will not amount to income. This provision is being made applicable from 1st April 2008 and applicable to assessment year 2008-09.

c. Deduction for expenditure on scientific research - Clause (ii)(a) in Section 35:

A deduction is proposed of an amount equal to one and one fourth times (125%) of any sum paid to an Indian Company which has as its main object Scientific Research & Development and which has been approved by the prescribed authority in the prescribed manner. No deduction will be allowed to such Company under sub-section 2AB of section 35 after 31st March 2008.

d. Deduction for Preliminary Expenses :

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, which means that the amortization of preliminary expenses on expansion hitherto available to industrial undertaking will now be available to non industrial undertakings also.

e. Deduction for Security Transaction Tax & Commodities Transaction Tax as business expenditure - Clause (xv) & (xvi) in sub-section (1) of section 36 :

Deduction will be allowed for Security Transaction Tax/Commodities Transaction Tax paid by the assessee in respect of the taxable securities/commodities transaction entered into in the course of his business during the previous year, if the income arising from taxable securities/commodities transaction is included as Business Income.

Consequently, the rebate under section 88E stands withdrawn. This provision is being made applicable from 1st June 2008.

f. Transaction not considered as transfer for Capital Gains - Clause (xa) in section 47:

Any transfer by way of conversion of Foreign Currency Convertible Bonds (FCCB's) or Global Depository Receipts (GDR's) into shares or debentures of any Company will not be regarded as transfer. The amendment is applicable for assessment year 2008-09.

The cost of acquisition (u/s 49) of such asset to the assessee shall be deemed to be that part of the cost of the debenture, debenture-stock, bond or deposit certificates in relation to which such asset is acquired by the assessee.

g. Amendments to section 80C - Tax Saving Investments:

It is proposed to include in the existing limit on investment of Rs. 100,000 two additional schemes namely: Senior Citizen Saving Scheme & 5 year Post Office Time Deposit.

It is also proposed that any interest withdrawn before the expiry of the period of 5 years on deposits specified above shall be treated as income in the year in which the amount is withdrawn, except in cases where the amount is received, including interest, by a legal heir or nominee of the assessee.

These provisions are being made applicable from 1st April 2008 and applicable to assessment year 2008-09.

h. Amendments to section 80D - Mediclaim:

An additional sum of Rs.15,000 per annum will be allowed as a deduction if the same is incurred in relation to any Medical Insurance Policy taken for the benefit of parent/s by an assessee. The said limit will be further increased by an amount of Rs. 5000 in case any of the parent/s is a senior citizen. Thus if parents are senior citizens the deduction shall stand enhanced to Rs. 20,000. It is also proposed to remove the condition of dependency of the parent/s on the assessee.

i. Amendments to section 80 IB :

It is proposed that the deduction under section 80 IB will not be allowed to an undertaking engaged in the refining of mineral oil, if it begins refining on or after 1st April 2009.

Further, a new sub-section (11C) is inserted to extend a 5 year tax holiday on 100% of the profits derived from the business of operating and maintaining hospitals located anywhere in India, except seven urban agglomerations of Greater Mumbai, Delhi, Kolkata, Chennai, Hyderabad, Bangalore and Ahmedabad and the districts of Faridabad, Gurgaon, Ghaziabad, Gautam Budh Nagar and Gandhinagar and the city of Secunderabad. The said deduction is available subject to following conditions :

- the hospital is constructed and has started functioning during the period 1st April 2008 to 31st March 2013.
- the hospital should have at least 100 beds for patients
- the construction is as per the rules and by-laws of the local authority
- furnishing of audit report, as may be prescribed in this regard.

j. Amendments to section 80 ID :

It is proposed to extend the tax benefit available under section 80 ID to new two-star, three-star or four-star hotel, located in specified district having World Heritage Site as explained in the said sub-section, if such hotel is constructed and has started or starts functioning at any time during the period beginning on the 1st day of April, 2008 and ending on the 31st day of

March, 2013.

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k. Dividend receipts from Subsidiary Company - Amendments to Section 115 O:

The present rate of Dividend Distribution Tax is 15% and it is proposed that in case of a holding company which is not a subsidiary of any other company the dividend received by the holding company from its subsidiary will be allowed as a deduction for calculating Dividend Distribution Tax (DDT) payable by the holding company provided that the subsidiary has paid DDT on the same. For the purpose of this section, a company shall be a subsidiary of another company if such company holds more than 50% percent of the equity share capital of the company. This provision is being made applicable from 1st April 2008 and applicable to assessment year 2008-09.

I. Changes in the levy of Fringe Benefit Tax (FBT):

For the purpose of Fringe Benefit Tax the definition of specified security is extended to include Employee Stock Option Plan granted under any plan or scheme and the securities offered thereunder. FBT will not be payable on any expenditure on payment through non-transferable prepaid electronic meal card usable only at eating joints or outlets and which fulfills such other conditions as may be prescribed.

For the purpose of payment of FBT, employees' welfare will not include expenditure incurred or payment made to provide crèche facility for the children of the employee or sponsoring a sportsman, being an employee or organize sports events for employees. FBT is not payable on expenditure incurred on the maintenance of any accommodation in the nature of guest house. The fringe benefit value on festival celebrations shall be reduced to 20% from 50%.

Where an employee re-imburses FBT to his employer on ESOP grants, it will be deemed as FBT paid by the employee to the extent of such re-imburement and employee will not be allowed to claim any refund or credit for the same. This provision is being made applicable from 1st June 2008.

3.3 ADDITIONAL TAX BURDEN:

a. **Change in definition of charitable purpose :**

Presently "Charitable Purpose" is defined under sub-section 15 of section 2 to include relief of the poor, education, medical relief and the advancement of any other object of general public utility. It is now proposed to exclude any activity in the nature of trade, commerce or business or rendering any service, for a cess or a fee or any other consideration, irrespective of the nature of use or application or retention of the income from such activity from the meaning of **advancement of any other object of general public utility**. This implies that public charitable trusts may not be allowed to carry any business hereafter.

b. **Disallowance in respect of expenditure incurred in cash - sub-section (3A) of Section 40A:**

Section 40A to prohibit payment of cash more than Rs. 20,000 **in a day** to the same person for any expenditure incurred or any existing liability of previous year.

c. **Increase in the rates of Short Term Capital Gains .**

It is proposed to increase the rate of tax on short term capital gains arising on securities transactions, which have been subjected to Securities Transaction Tax, from 10% to 15% for all Indian Assesseees and Foreign Institutional Investors

d. **Amendments to calculation of Book Profit U/s 115 JB:**

The amount of Deferred Tax Liability/Asset, debited/credited to Profit and Loss Account is to be deducted/added for arriving at book profit. It is further explained that for the purpose of section 115JB the amount of income tax shall include –

- tax on distributed profits or on distributed income under section 115-O or section 115-R, respectively
- any interest charged under this Act
- surcharge
- education Cess on income-tax and
- secondary and Higher Education Cess on income-tax.

This is amended retrospectively from 1st of April 2001

3.4 CHANGES IN TAX PROCEDURES

a. **Changes in the Due Dates of Filing Returns:**

Section 139 is proposed to be amended with regard to the due date of the filing of the returns for companies and other assesseees required to be audited under this Act including the working partners of such assessee firms. Accordingly the due date shall be the 30th September instead of 31st of October of the respective assessment year. Likewise, the filing of Fringe Benefit Tax returns under section 115WD is also proposed to be amended. This provision is being made applicable from 1st April 2008 and applicable to assessment year 2008-09.

b. Reintroduction of prima-facie adjustments in section 143(1):

It is proposed that the tax administration will have a centralized processing arrangement for summary assessments. The income tax authorities will adjust the income return relating to arithmetical error, incorrect claim apparent from the information in the return.

The computerized processing will enable the department without any human interface to make appropriate adjustments in the computation of total income. This will expeditiously determine tax payable or refund due. This provision is being made applicable from 1st April 2008 and applicable to assessment year 2008-09.

c. Tax Deducted At Source under Section 193 :

It is proposed to do away with the requirement to deduct tax at source under section 193 in respect of any interest payable on any security issued by a Company, where such security is in dematerialised form and is listed on a recognized stock exchange in India in accordance with the Securities Contract (Regulation) Act, 1956 and the rules made thereunder. This provision is applicable from 1st June 2008.

d. Stay on collection of tax :

An order of stay granted by the Income Tax Appellate Tribunal under section 254 will stand vacated after 365 days, even if the delay in disposing of the appeal is not attributable to the assessee. This provision is being made applicable from 1st October 2008.

e. Consequence of non filing of appeal by the tax department - Section 268 A :

Non filing of the appeal by the tax department on any disputed issue cannot be taken as a contention or a defence by an assessee even if it is in the assessee's own case or in the case of any other assessee, whether in the same or any other assessment year. This provision is being made applicable retrospectively from 1st April 1999.

f. Intention for levying penalty – Procedure

It is proposed to insert sub-section (1B) in section 271 whereby for levy of penalty the requirement to record intention at the time of initiation of penalty proceedings is done away with. This provision is being made applicable retrospectively from 1st April 1989.

g. Grant of immunity from Penalty & Prosecution in settlement cases - Sections 273AA & 278AB:

The Commissioner has been empowered to grant immunity from penalty/prosecution in certain settlement cases, subject to certain conditions.

These provisions are being made applicable from 1st April 2008.

h. Service of notice & presumptions relating to books of account & documents:-

Notices/documents/letters served with stamp and name of the designated Income Tax Authority, without signature of such authority shall be deemed to be a valid notice. This provision is being inserted with the intention of the tax department to centralize issuance of notices/documents/letters using Information Technology. This provision is being made applicable from 1st June 2008 (Section 282A)

An appearance in any proceedings or co-operating in any inquiry relating to an assessment or re-assessment will be deemed to be considered as an acceptance of notice. This provision is being made applicable from 1st April 2008 (Section 292BB)

Presumption of books of account and other documents etc. hitherto applicable to search cases under section 132, are now made applicable to survey under section 133A as well. This provision is being made applicable retrospectively from 1st June 2002 (Section 292C)

④ **INDIRECT TAX PROPOSALS**

4.1 CUSTOMS DUTY:

a. Peak Rate Of Customs Duty Constant

The peak rate of the customs duty on the non-agricultural products stays at 10%

b. Aviation

Customs duty removed on helicopter simulators to facilitate training of helicopter pilots

c. Dairy And Poultry Industry

Customs duty reduced on vitamin premixes and mineral mixtures from 30 % to 20 % and on phosphoric acid from 7.5 % to 5 %. Customs duty reduced on bactofuges from 7.5 % to nil. The above changes will help this industry to achieve higher production and increase shelf life

d. Fertilizers

Customs duty reduced on crude and unrefined sulphur from 5 % to 2 %, in order to support domestic fertilizer production.

Customs duty exemption withdrawn on naphtha used in the manufacture of polymers and now would be subject to 5 % duty. However, naphtha for use in the manufacture of fertilizers will continue to be exempt from import duty

e. Gems And Jewellery

Rough cubic zirconia exempted from the payment of customs duty. Customs duty reduced on polished cubic zirconia from 10 % to 5 %. Customs duty on rough coral being reduced from 10 % to 5 %

f. It And Electronic Products

Specified parts of set top boxes and specified raw materials for use in the IT/ electronic hardware industry to be exempted from customs duty

Customs duty on convergence products to be reduced from 10 % to 5 % which will help achieve parity between instruments used for information/ communication sector and the entertainment sector

g. Pharma Industry

Customs duty reduced from 10 % to 5 % on certain specified life saving drugs and on the bulk drugs used for the manufacture of such drugs. Exemption is also granted from the countervailing duty. Customs duty reduced from 10 % to 5 % on specified raw materials for manufacture of ELISA kits.

h. Project Imports

Customs duty on Project Imports reduced from 7.5 % to 5 %. However, additional duty of customs in lieu of sales tax/VAT @ 4 % has been imposed on power generation projects (other than mega power projects), transmission, sub transmission and distribution projects and goods for high voltage transmission projects.

i. Sports And Games

Customs duty reduced on specified machinery used for the manufacture of the sports goods from 7.5 % to 5 %, further exemption from duty granted on specified raw materials for sports goods.

j. General

Customs duty reduced on steel melting scrap and aluminium scrap from 5 % to nil. Customs duty reduced from 10 % to 5 % on specified raw materials for tyre industry. Customs duty increased from 30% to 60% on cigars, cheerots and cigarillos. Countervailing Duty (CVD) of 1% levied on mobile phones

The period of re-export of leased equipment and machinery, imported for temporary use, has been increased from 12 to 18 months. The concessional rates of duty applicable on such imports reduced to 3 months from 6 months.

The rates of drawback in respect of goods which have been used after importation have been aligned with the rates prescribed for duty payable on leased equipment and machinery, depending upon the period of retention in India. The maximum period of retention of such goods, for admissibility of drawback, has been reduced from 36 to 18 months.

k. Exemptions

Exemption from customs duty granted on tuna bait, ground equipment for testing of satellites and payloads.

Exemption from customs duty withdrawn on polymer long rod insulators except those of 765 KV rating.

l. Amendments To Customs Act And Rules

The maximum penalty for contravention of any provisions of the Customs Act, 1962, increased from Rs 10, 000 to Rs 1,00,000. The maximum penalty for contravention of any provisions of a rule or regulation increased from Rs 500 / Rs. 200 to Rs 50,000

The power to issue summons has now been extended to all customs officers. Central Government empowered to recover any excess customs duty collected by any person. Interest payable on refunds delayed by more than three months.

Prohibition on import of goods suspected of IPR Infringement.

4.2 EXCISE DUTY

a. Peak Rate

CENVAT rate on all goods reduced from 16 % to 14 %.

b. Automobile

Excise duty reduced on two wheelers and three wheelers from 16 % to 12 %, on small cars from 16 % to 12 %, on hybrid cars from 24 % to 14 % and on buses and their chassis from 16% to 12 %.

c. Cement Industry

Bulk cement to attract excise duty of Rs. 400 per Metric Tonne or 14 % ad valorem, whichever is higher, as against the earlier Rs. 400 per Metric Tonne. Cement clinkers excise duty at Rs.450 per Metric Tonne as against the earlier Rs. 350 per Metric Tonne.

d. Food And Food Products

Exemption from excise duty for packaged tender coconut water, tea and coffee mixes, mudi (puffed rice), paws, menthol/menthol crystal, milk containing edible nuts with sugar or other ingredients

Duty reduced from 12% to 8% on breakfast cereals, sharbats, pan masala not containing tobacco.

e. It And Electronic Products

Excise duty being increased on packaged software from 8 % to 12 %, this will bring the packaged software at par with customized software.

Wireless data modems cards, compositing machines exempted from excise duty.

f. Paper Industry

Excise duty reduced on paper, paper board and articles made therefrom manufactured out of non-conventional raw materials by units not having an attached bamboo/ wood pulp making plant from 12 % to 8 % with a further reduction on clearances up to 3,500 MT from 8 % to nil. Excise duty on certain varieties of writing, printing and packing paper is reduced from 12 % to 8 %.

g. Pharma Industry

Excise duty on all goods produced in the pharmaceutical sector reduced from 16 % to 8 %

Anti AIDS drug, Atazanavir, as well as bulk drugs for its manufacture exempted from excise duty.

h. Petroleum

Ad valorem part of the excise duty on unbranded petrol and unbranded diesel being abolished and replaced by an equivalent specific duty of Rs.1.35 per litre; there will be only a specific duty of Rs.14.35 per litre on unbranded petrol and Rs.4.60 per litre on unbranded diesel; there will be no impact on retail prices.

i. General

Excise duty reduced from 16 % to 8 % on water purification devices, veneers and flush doors, sterile dressing pads etc, specified packaging material and breakfast cereals.

Excise duty exempted on end-use basis, on refrigeration equipment (consisting of compressor, condenser units, evaporator, etc) above 2 tonne refrigeration utilising power of 50 KW and above.

Consequent to reduction in duty rates for the goods covered under MRP based assessment, abatements rates have been suitably reduced effective from 1 March 2008.

j. National Calamity Contingency Duty (Nccd)

NCCD of 1 % removed on polyester filament yarn and cellular mobile phones.

k. Amendments To Central Excise Act And Rules

Location based exemptions in the North-East extended

The Government has notified revised excise duty benefits for goods manufactured by industrial units in the region subject to such units commencing production before 31 March 2017. The excise duty benefit will be available for a period of 10 years from the date of commercial production.

Reversal of CENVAT Credit on inputs/capital goods whose value is written off in the books

Provision made in the CENVAT Credit Rules for reversals of credits availed on inputs or capital goods whose values are fully written off in the books of accounts, before being put to use. The Rules further provide that if such goods are subsequently used by the manufacturer, he shall be entitled to avail the benefit of the CENVAT credit already reversed.

Reversal of CENVAT credit on used capital goods

Provision made in the CENVAT Credit Rules that if used capital goods are removed from the factory of use, the manufacturer shall pay an amount equal to the CENVAT credit availed on such goods reduced by 2.5% thereof for each quarter of a year or part thereof from the date of availing such credit.

Limitations introduced in CENVAT exemptions relating to Himachal Pradesh and Uttarakhand

Exemption from CENVAT available to new and existing units in excise free zones located in Himachal Pradesh & Uttarakhand is now restricted to units engaged in manufacture and not available to units where goods have been merely subjected to preservation during storage, cleaning operations, packing or repacking of such goods in a unit container or labeling or re-labeling of containers, sorting, declaration or alteration of retail sale price and have not been subjected to any other process or processes amounting to manufacture.

MRP based valuation scheme made applicable to IT products

The Government has notified the information technology products such as computers and their accessories such as printers etc. under the MRP based valuation scheme under Section 4A of the CE Act and has also prescribed the relevant percentages of abatement.

Definition of marketable goods modified to include goods capable of being sold for consideration.

Interest to be paid on refund of pre-deposit made after expiry of three months from the date of communication of favorable order by adjudicating authority.

An option for reversal of credit attributable to common inputs or input services used in relation to manufacture of both dutiable and exempted goods now provided in Rule 6 of the CENVAT Credit Rules, 2004.

The rate of duty applicable to clearance of goods to Domestic Tariff Area from 100% EOU's has been revised from 25% of Basic Customs Duty + excise duty payable on like goods to 50% of Basic Customs Duty + excise duty payable on like goods.

4.2 SERVICE TAX

a. Rate of Tax

The Service tax rates have remained unchanged at 12 %

b. Threshold exemption limit increased

The threshold limit of service tax exemption for small service providers is being increased from the present level of Rs. 8 lakh to Rs. 10 lakh. This would be applicable from 1 April 2008.

c. New services introduced

Services provided in relation to information technology software for use in the course or furtherance of business or commerce such as software development, up-gradation including right to use IT software for commercial exploitation and IT software supplied electronically.

Asset management services under unit linked insurance business plans.

Services of a recognized stock exchange in relation to securities.

Services of a recognized association or a registered association in relation to sale or purchase of any goods or forward contracts.

Services of a processing and clearing house in relation to processing, clearing and settlement transactions in securities, goods or forward contracts.

Services in relation to transfer of right to use tangible goods not chargeable to sales tax/VAT.

Internet telecommunication services.

D. Scope of some services is amended

Banking and other financial service and foreign exchange broker services provided by individuals 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 packing, together with transportation of cargo or goods.

Technical testing and analysis service to include testing or analysis of information technology software.

Technical inspection and certification service to include inspection, examination and certification of information technology software.

Tour operator service to include services provided in relation to a journey from one place to another in a contract carriage vehicle.

Reference of information technology service to be removed from business auxiliary service consequent upon notifying information technology software service as a separate taxable service.

Reference to computer software engineering consultancy to be removed from consulting engineer service, consequent upon notifying information technology software service as a separate taxable service.

The reference of "client" or "customer" as service recipient, as the case may be, replaced with the words "any person" from 39 specified taxable services.

The above changes will come into effect from a date to be notified after the enactment of the Finance Bill, 2008

E. Amendments to service tax law

Export of Services Rules, 2005

Services provided remotely through the internet or any electronic network including a computer network in relation to goods or materials or any immovable property situated outside India at the time of provision of service to be considered as export of services in case of the following categories

- management, maintenance or repair
- technical testing and analysis
- technical inspection and certification

The Taxation of Services (Provided from Outside India and Received in India) Rules, 2006

Services provided remotely through the internet or any electronic network including a computer network in relation to goods or materials or any immovable property situated in India at the time of provision of service to be considered as import of services and leviable to service tax in case of the following categories

- management, maintenance or repair;
- technical testing and analysis;
- technical inspection and certification;

The CENVAT Credit Rules, 2004

Goods transport agency service excluded from the scope of “output service”.

Removal of capital goods allowed outside the premises of the provider of the output service, without restriction, for providing output services.

Provider of taxable and exempt output services, using common inputs or input services and opting not to maintain separate accounts may follow any one of the options given below:

Either reverse the credit attributable to the inputs and input services used for providing exempted service, to be worked out in a manner prescribed in the rules.

Pay 8% amount of the value (determined in terms of Section 67 of the Finance Act, 1994 of the exempted services). This is effective 1st April 2008.

The Service Tax Rules, 1994

Limit for adjustment of excess service tax paid increased from Rs 50,000 to Rs 1,00,000

Time limit for rectification of mistake in return increased from 60 days to 90 days

Advance payment of an amount towards service tax to the credit of the Central Government now specifically permitted, this advance payment can be adjust towards payment of service tax for the subsequent period.

Exemption from tax has been provided to taxable services provided by a person located outside India to a hotel located in India, in relation to booking of accommodation in the said hotel (effective 1 March 2008)

Unconditional abatement for 75% of the gross amount charged as freight for services provided in relation to transport of goods by road in a goods carriage by a goods transport agency.

4.3 CENTRAL SALES TAX

Central Sales Tax rate reduced from 3 % to 2 % from 1st April 2008.

Roadmap for Goods and Service Tax being prepared for introduction of GST from 1st April 2010.

5. OTHER MAJOR CHANGES:

a. Wealth Tax :

Amendments similar to that in Income Tax Act have also been proposed in the Wealth Tax Act in respect of the following .:

- a. Power to grant immunity from penalty and prosecution.
- b. Service of notices.
- c. Presumptions as to books of accounts.

b. Commodities Transaction Tax (CTT):

In line with the Securities Transaction Tax the Finance Minister has proposed to introduce CTT on the transaction entered in a recognized association for commodities trading. Taxable commodities transactions are defined to include purchase or sale of options in goods, commodity derivatives and any other commodity derivative traded in the recognized association. The obligation has been cast on the recognized association to collect such tax from every buyer or seller who enters into such transactions. The following table elaborates the rate of CTT applicable to different types of commodity transactions:

S. No	Taxable Commodity Transaction	Value of Taxable Commodity Transaction.	Rate	Payable By
1	Sale of an option in goods or an option in commodity derivatives.	Option Premium	0.017 %	Seller
2	Sale of an option in goods or an option in commodity derivatives, where option is exercised.	Settlement Price	0.125%	Purchaser
3	Sale of any other commodity derivative	The price at which the Commodity is sold.	0.017%	Seller

c. Capital market for corporate bonds :

Following the recommendations of the R.H. Patil Committee the Finance Minister has proposed to create an Exchange-Traded market for Corporate Bonds. The corporate bond market would be developed using BSE and NSE as platforms. Relevant measure have been proposed to develop a transparent trading mechanism for bonds, currency and derivative markets, interest rate futures which would enable the investors to separately trade in the bond market.

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