

# BUDGET-2007



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# EXECUTIVE SUMMARY

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## FOREWORD

The union budget 2007-08 clearly signals that the government is committed to pursue its agenda of equitable growth through continuity in the tax regime and a greater thrust in areas such as agriculture, education, health care, and infrastructure.

There have been some major negative surprises as well such as: Raising of the dividend distribution tax on companies and money markets liquid mutual funds; bringing employee's stock options under fringe benefit tax (FBT); imposing a differential excise duty on cement; removing tax incentives in housing finance / infrastructure / IT and not continuing with exemption to Housing industry.

As a part of its anti-inflationary thrust, the budget reduced the peak custom duty rate for non-agri goods from 12.50% to 10% and removed the additional countervailing duty on crude and refined edible oils.

Farm credit targeted to be raised to Rs. 2,25,000 crores; and National Rural Employment Guarantee scheme to be extended from 200 to 330 districts, allocation raised to Rs. 12000 Crores and enhanced secondary education outlay, to be funded through a 1% increase in the education cess.

Two additional Ultra Mega power projects proposed and innovative infra financing schemes proposed in the budget would provide more avenues for further economic development.

Given our economic surge, it is also high time that India integrates with the world faster, and has a rationalized tax regime, which is liberal but equitable. We should

move firmly on the path to a unified and simpler Goods and Service Tax regime.

Given the high expectations, the budget 2007 will do a balancing act between different factors and priorities. It is hoped that the new budget 2007 pleases all with `inclusive growth and takes Indian growth trajectory to higher levels

Regards

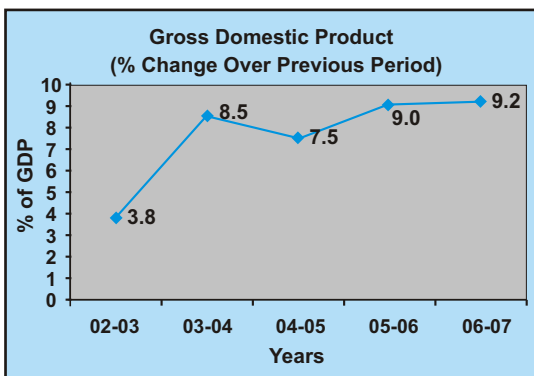


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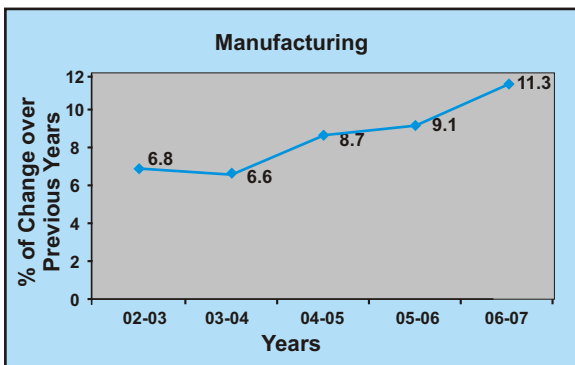
## ECONOMIC SURVEY: 2006-07

The dream run of Indian growth continues. With economy growing at over 9.2%, foreign exchange reserve of over \$ 188 billion, booming IT-Industry, service sectors, rapidly growing domestic markets, buoyant stock markets, and Indian Companies buying companies abroad, things have never looked better for India.

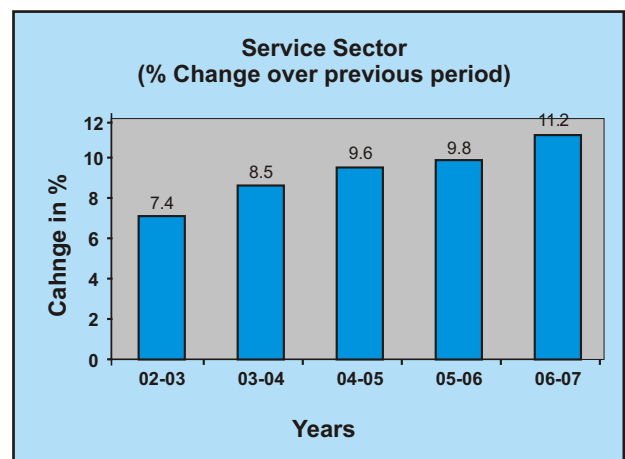
Indian economy is showing an upward trend over the period. The growth of economy in the year 2006-2007 is 9.2% which was 9% in 2005-06. This is the second year when growth rate has crossed the mark of 9%. The graph gives the movement of GDP over past five years.



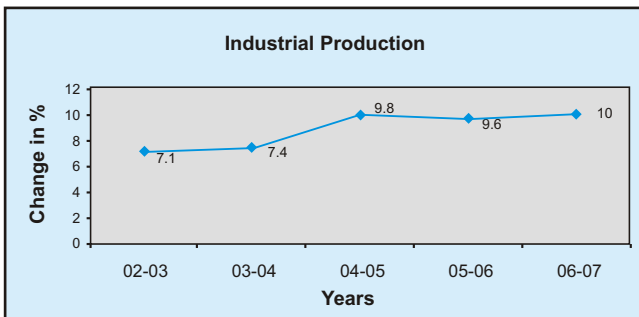
This growth in GDP is mainly on account of growth in manufacturing sector as well as in service sector. Manufacturing is the main driver of growth, and this augurs well for the future. In the last three years, the growth rate in manufacturing has accelerated from 8.7% to 9.1% and further to more than 10%.



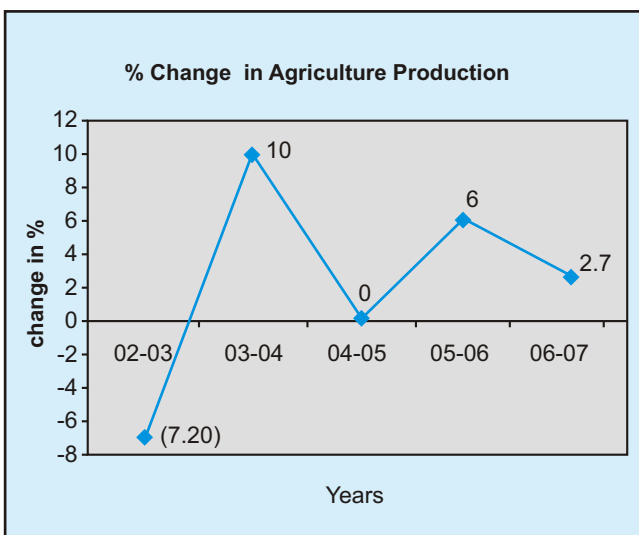
The service sector continues to maintain impressive growth and has recorded, in the three years, a growth rate of 9.6%, 9.8% and 11.2% respectively. The growth in service sector has been broad-based. The hotel, transport and communication services have continued the double digit growth trend for the fourth consecutive year. The information technology and finance sector have also added to the impressive double digit growth rate of the service sector. The growth in service sector may be attributed to globalization, cross border finance and the presence of growing multinationals in India.



There is increase in industrial production as compared to previous years. The growth impulses in the service sector seem to have spread to manufacturing sector. Industrial growth would have been even higher, had it not been for a relatively disappointing performance of the other two sub-sectors, namely, mining & quarrying and electricity, gas & water supply.

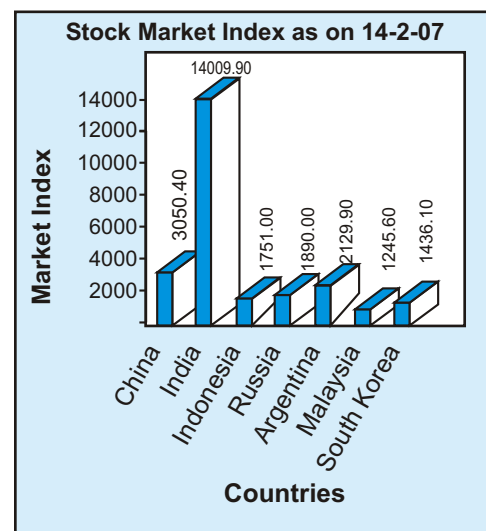


Growth of agricultural sector at only 2.7% in 2006-07, on a base of 6.0% growth in the previous year, is a cause of concern. Low investment, imbalance in fertilizer use, low seed replacement rate, a distorted incentive system and low post harvest value addition continues to drag on this sectors performance. India is unlikely to shut down its agricultural commodity futures anytime soon, if accolades from the Economic Survey are any indication, calling the ban on urad and tur futures is temporary. The survey has forecast that exchanges are likely to see even higher volumes and value of items traded in the coming fiscal. The total turnover of commodity derivatives market has already crossed 76% of India's GDP.

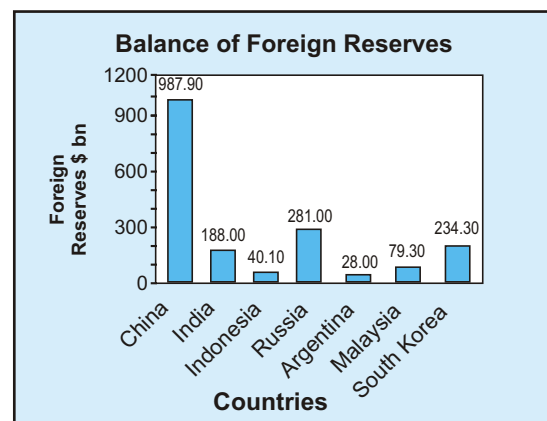


Further the year 2006-07 has also reflected bullish sentiments in domestic capital market. The BSE sensex bell-weather stock-index of the Bombay Stock

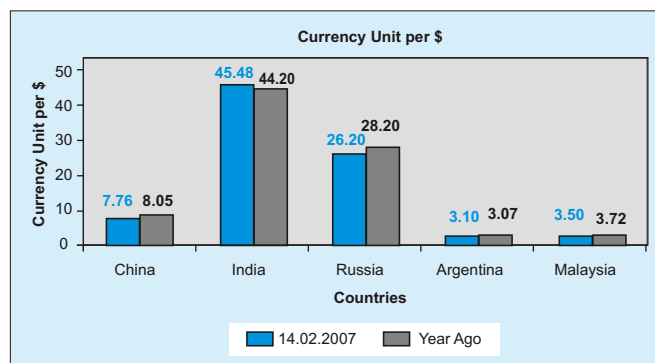
Exchange has rallied to an all time high of 14724 on 9th February 07. The rally from 13000 mark to 14000 mark in only 26 trading sessions was the fastest ever climb of 1000 points. India with a market capitalization of 91.5% of GDP compared favourably not only with the emerging markets but also with Japan and South Korea. The mobilization, through private placements and initial public offerings (IPOs) has grown by 30.5%, with about six IPOs every month on average



Foreign exchange reserves have grown from US \$ 141.5 billion at the end of March 2005 to US \$ 151.6 billion at the end of March 06. At the end of February 07 the Forex Reserves are at US \$188 billion. Forex reserves have climbed to a level where they can cover 11 months imports.



The average exchange rate (Rs. /US\$) is Rs.45.48 in 2006-07 as compared to 44.27 in 2005-06. The rupee has depreciated by 2.7 percent as compared to previous year.



Starting with a rate of 3.98%, the inflation rate in 2006-07 has been on a general upward trend with intermittent decreases. However, inflation rate at the end of February 07 is 6.7%. According to the Economic Survey, inflation can be contained if the banks stimulate the agricultural sector thereby increasing the production and keeping food prices under check. To tackle the rise in food prices, the survey says the agricultural sector needs to be better integrated with the financial sector to improve the credit flow. The India's low proportion of bank credit to GDP is expected to create room for credit to grow faster than GDP in future. Bankers said that a slowdown in credit could be due to a squeeze in liquidity and higher than expected economic growth, which has fuelled the current credit growth.

Growth in Credit		In %	
PARTICULARS	2004-05	2005-06	Sept 06/Sept 05
Housing	157.60	38.00	37.30
Durables	8.50	(9.00)	3.90
Real Estate	142.90	94.70	97.10
Individuals	103.00	27.00	3.70

Further, the credit deposit ratio has touched 74% in January 2007 against 64% in March 2005. Technically, this will give banks little elbow room to lend more, given that they have to invest 25% of the deposits in government securities. Loans to the Real Estate sector rose sharply, as on September 2006, on a year-on-year basis over the past three years. It rose by 142% in 2004-05, 94% in 2005-06 and 97% in September 2006 over September 2005 to stand at Rs. 35,574 crores.

A sense of optimism characterizes the current economic conjuncture. Fostering the momentum of growth continues to be a top priority. Sustainability of such growth will depend on carefully calibrating policies to tame inflation without dampening growth; formulating appropriate supply-side measures, particularly in agriculture; better design and more effective delivery of social services, such as education, health and poverty-alleviation, to make growth more inclusive; and putting fresh impetus behind infrastructure. To sum-up it can be estimated that while infrastructure remains dodgy, the current confidence stems from the recovery of the industrial sector from a poor 2.7% growth in 2001-02 to over 7% in 2002-03 and 2003-04. Double-digit growth is expected this year after the 9.50% clip in 2004-05 and 2005-06. While 8.7% industrial growth during 2002-07 will fall short of the 10% target set by the government, the current boom has boosted expectations of double digit growth in the Eleventh Five Year Plan period.

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## KEY FEATURES OF BUDGET 2006-2007

### BHARAT NIRMAN AND FLAGSHIP PROGRAMMES

In 2006-07, additional irrigation potential of 2,400,000 hectares to be created; until December 2006 - drinking water provided to 55,512 habitations, 12,198 kilometres of rural roads completed and 783,000 rural houses constructed with 914,000 houses under construction; 19,758 villages covered so far under the Rajiv Gandhi Grameen Vidyutikaran Yojana; 15,054 villages provided with telephone against target of 20,000 villages, and balance to be covered by the end of the year.

### ELEVENTH FIVE YEAR PLAN

- ❖ Objectives: "Faster and More Inclusive Growth"; growth rate of approximately 10% by the end of plan period; growth of 4% in the agriculture sector, faster employment creation, reducing disparities across regions and ensuring access to basic physical infrastructure and health and education services to all.
- ❖ Allocations for Major Sectors: Increase in provision for Bharat Nirman by 31.6% from Rs.18,696 crore to Rs.24,603 crore, for education by 34.2% to Rs.32,352 crore & for health and family welfare by 21.9% to Rs.15,291 crore.
- ❖ Sarva Shiksha Abhiyan (SSA) and Mid-day Meal Scheme: Increase in allocation for school education by 35% from Rs.17,133 crore to Rs.23,142 crore, of which Rs.10,671 crore for SSA, provision for strengthening of teachers training institutions to be increased from Rs.162 crore to Rs.450 crore with 200,000 more teachers to be appointed and 500,000 more class rooms to be constructed. Mid-day Meal Scheme to be provided Rs.7,324 crore; children in upper primary classes in 3,427 educationally backward blocks to be also covered; transfer to Prarambhik Shiksha Kosh to increase from Rs.8,746 crore to Rs.10,393 crore; provision for secondary education to double from Rs.1,837 crore to Rs.3,794 crore.
- ❖ Means-Cum-Merit Scholarships: National Means-cum-Merit Scholarship. Scheme to be introduced to arrest drop out ratio; selection through a national

test from among students who have passed class VIII; each student to be given Rs.6,000 per year; 100,000 scholarships to be awarded every year; a corpus fund of Rs.750 crore to be created this year, and augmented by a like amount annually over the next three years.

- ❖ Drinking Water and Sanitation: Allocation for Rajiv Gandhi Drinking Water Mission to be increased from Rs.4,680 crore to Rs.5,850 crore and for Total Sanitation Campaign from Rs.720 crore to Rs.954 crore.
- ❖ Health Sector: National Rural Health Mission: All districts to complete preparation of District Health Action Plans by March 2007; major emphasis to be on mother and child care and on prevention and treatment of communicable diseases; convergence sought to be achieved among various programmes such as immunization, ante natal care, nutrition and sanitation through Monthly Health Days (MHD) organised at Anganwadi centres; 320,000 Associated Social Health Activists (ASHAs) recruited with over 200,000 given orientation training; 90,000 link workers selected by the States; AYUSH systems being mainstreamed into health delivery system at all levels; increase in allocation for NRHM from Rs.8,207 crore to Rs.9,947 crore.
- ❖ HIV/AIDS: NACP-III, starting in 2007-08, to target high risk groups; access to condoms to be expanded and universal access to blood screening and safe blood to be ensured; more hospitals to provide treatment to prevent transmission of HIV/AIDS from mother to child; provision for AIDS control programme to be Rs.969 crore.
- ❖ Polio: Number of polio rounds to be increased, monovalent vaccine to be introduced, with intensive coverage in the 20 high risk districts of Uttar Pradesh and 10 districts of Bihar; provision of Rs.1,290 crore in 2007-2008.
- ❖ Integrated Child Development Services: To cover all habitations and settlements during Eleventh

Plan and to reach out to pregnant women, lactating mothers and all children below the age of six; allocation to be increased from Rs.4,087 crore to Rs.4,761 crore.

- ❖ National Rural Employment Guarantee Scheme: Allocation of Rs.12,000 crore for NREGS; coverage to expand from 200 districts to 330 districts; Rs.2,800 crore provided for Sampoorna Gramin Rozgar Yojana in districts not covered by NREGS; allocation for Swarnajayanti Gram Swarozgar Yojana to promote self employment among rural poor to increase from Rs.1,200 to Rs.1,800 crore.
- ❖ Urban Unemployment: Increase in allocation for Swarna Jayanti Shahari Rojgar Yojana from Rs.250 crore to Rs.344 crore.
- ❖ Jawaharlal Nehru National Urban Renewal Mission: 538 projects with a cost of Rs.23,950 crore sanctioned; allocation to increase from Rs.4,595 crore to Rs.4,987 crore.
- ❖ Targeted PDS and Antyodaya Anna Yojana: Scheme for evaluation, monitoring, management and strengthening of targeted PDS to be implemented, will include computerisation of PDS and an integrated information system in Food Corporation of India.
- ❖ Scheduled Castes and Scheduled Tribes: Allocation of Rs.3,271 crore in respect of schemes benefiting only SCs and STs and Rs.17,691 crore in respect of schemes with at least 20% of benefits earmarked for SCs and STs; increase in allocation for Rajiv Gandhi National Fellowship Programme from Rs.35 crore to Rs.88 crore; Post-Matric Scholarships: provision to be increased from Rs.440 crore to Rs.611 crore; a separate provision of Rs.91 crore proposed for similar scholarships to students belonging to socially and educationally backward classes.
- ❖ Minorities: Increase in share capital of National Minorities Development and Finance Corporation to Rs.63 crore; provision of Rs.108 crore for a multisector development programme in districts

with a concentration of minorities; allocation for Pre-matric scholarships at Rs.72 crore, Post-matric scholarships at Rs.90 crore and Merit-cum-Means scholarships at graduate and postgraduate levels at Rs.48.60 crore.

- ❖ Women: Outlay for 100% women specific programmes is Rs.8,795 crore and for schemes where at least 30% allocation is for women specific programmes is Rs.22,382 crore.
- ❖ North Eastern Region (NER): Allocation increased from Rs.12,041 crore to Rs.14,365 crore; new industrial policy for NER, with suitable fiscal incentives, to be in place before March 31, 2007.
- ❖ Supplement to GBS: Allocations under Plan 'A' at Rs.205,100 crore; under Plan 'B', additional resources to the extent of Rs.7,000 crore to be found through better tax administration during the course of the year; under Plan 'C' resources available outside Budget to be leveraged for investment, especially in infrastructure.

#### **AGRICULTURE**

- ❖ Farm credit: Target of Rs.225,000 crore for 2007-08 with an addition of 50 lakh new farmers to the banking system; provision of Rs.1,677 crore for 2% interest subvention for short-term crop loans; a special plan being implemented over a period of three years in 31 especially distressed districts in four States involving a total amount of Rs.16,979 crore; of this, about Rs.12,400 crore to be on water related schemes; special plan includes a scheme with proposed provision of Rs.153 crore for induction of high yielding milch animals and related activities.
- ❖ Mission for Pulses: Integrated Oilseeds, Oilpalm, Pulses and Maize Development programme to be expanded with sharper focus on scaling up the production of breeder, foundation and certified seeds; Government to fund the expansion of Indian Institute of Pulses Research, Kanpur, and offer other producers a capital grant or concessional financing to double production of certified seeds within a period of three years.

- ❖ Plantation Sector: financial mechanisms for re-plantation and rejuvenation to be put in place for coffee, rubber, spices, cashew and coconut.
- ❖ Accelerated Irrigation Benefit Programme: 35 projects likely to be completed in 2006-07 and additional irrigation potential of 900,000 hectares to be created; outlay to be increased from Rs.7,121 crore to Rs.11,000 crore including grant component to State Governments of Rs.3,580 crore, an increase from Rs.2,350 crore.
- ❖ Rainfed Area Development Programme: Proposed allocation of Rs.100 crore for the new Rainfed Area Development Programme.
- ❖ Water Resources Management: Restoring Water Bodies: World Bank loan agreement signed with Tamil Nadu for Rs.2,182 crore to restore 5,763 water bodies having a command area of 400,000 hectares; agreement for Andhra Pradesh expected to be concluded in March 2007 to cover 3,000 water bodies with a command area of 250,000 hectares.
- ❖ Ground Water Recharge: 100% subsidy to small and marginal farmers and 50% subsidy to other farmers to be given to divert rain water into 'dug wells'; Rs.1,800 crore to be transferred to NABARD.
- ❖ Training of Farmers: Indian Council of Agricultural Research (ICAR) to set up one teaching-cum-demonstration model of water harvesting in each of 32 selected State Agricultural Universities and ICAR institutes; each institution to train 100 trainers and 1,000 farmers every year; interest free loan of Rs.3 crore to be provided to each institution to create a corpus fund.
- ❖ Extension System: New programme to be drawn up that will replicate earlier Training and Visit (T&V) programme; Agriculture Technology Management Agency (ATMA) now in place in 262 districts to be extended to another 300 districts; provision for ATMA to increase from Rs.50 crore to Rs.230 crore.
- ❖ Fertiliser Subsidies: Based on study to be conducted, a pilot programme to be implemented for delivering subsidy directly to farmer.
- ❖ Agricultural Insurance: National Agricultural Insurance Scheme to be continued for Kharif and Rabi 2007-08 with a provision of Rs.500 crore; a weather based crop insurance scheme to be started by Agricultural Insurance Corporation on a pilot basis as an alternative to NAIS; allocation of Rs.100 crore to be made in 2007-08.
- ❖ National Bank for Agriculture and Rural Development: To augment its resources for refinancing rural credit cooperatives, NABARD to issue Government guaranteed rural bonds to the extent of Rs.5,000 crore with suitable tax exemption.
- ❖ Rural Infrastructure Development Fund: Corpus of RIDF-XIII to be raised from Rs.10,000 crore to Rs.12,000 crore; separate window for rural roads to continue with a corpus of Rs.4,000 crore.
- ❖ Social Security: New scheme called 'Aam Admi Bima Yojana' to be introduced for death and disability insurance cover through LIC to rural landless households which enjoy no cover at all today; head of family or one earning member in family to be insured; Government to bear 50% of premium of Rs.200 per year per person; Rs.1,000 crore to be placed in a fund to be maintained by LIC.

#### INVESTMENT

- ❖ Gross domestic capital formation in 2005-06 grew by 23.7 per cent; in April-January, 2006-07, foreign direct investment amounted to US\$12.5 billion and outpaced portfolio investment of US\$6.8 billion; Central Public Sector Enterprises to invest Rs.165,053 crore through internal and extra budgetary resources in 2007-08; Government to provide equity support of Rs.16,361 crore and loans of Rs.2,970 crore.

#### INFRASTRUCTURE

- ❖ Power: Seven more Ultra Mega Power Projects under process and at least two to be awarded by July, 2007; other initiatives include facilitating setting up of merchant power plants by private developers and private participation in

transmission projects; Accelerated Power Development and Reforms Project being restructured to cover all district headquarters and towns with a population of more than 50,000; budgetary support for APDRP to increase from Rs.650 crore to Rs.800 crore; Rajiv Gandhi Grameen Vidyutikaran Yojana: allocation to increase from Rs.3,000 crore to Rs.3,983 crore.

- ❖ Coal: 26 coal blocks with reserves of 8,581 million tonnes and four lignite blocks with reserves of 755 million tonnes allotted to Government companies and approved end users; definition of specified end use to be enlarged to include underground coal gasification and coal liquefaction.
- ❖ National Highways: Provision for National Highway Development Programme to increase from Rs.9,945 crore to Rs.10,667 crore; road-cum-rail bridge at Bogibeel, Assam, over Brahmaputra, to be taken up as a national project.
- ❖ Public Private Partnership and Viability Gap Funding: Revolving fund with a corpus of Rs.100 crore to be set up to quicken project preparation; fund to contribute up to 75% of preparatory expenditure in the form of interest free loan to be recovered from the successful bidder.

#### **INDUSTRY**

- ❖ Petroleum and Natural Gas: 162 production sharing contracts awarded; investment of Rs.97,000 crore made in exploration; 23 coal bed methane blocks awarded for exploration.
- ❖ Textiles: Provision for Scheme for Integrated Textiles Parks to increase from Rs.189 crore to Rs.425 crore; Technology Upgradation Fund scheme to continue with provision of Rs.911 crore.
- ❖ Handlooms: Additional 100-150 clusters to be taken up in 2007-08; health insurance scheme to be extended to more weavers and also to be enlarged to include ancillary workers; allocation for the sector to be enhanced from Rs.241 crore to Rs.321 crore.
- ❖ Small & Medium Enterprises: Increase in outstanding credit from Rs.135,200 crore to Rs.173,460 crore at end December 2006.

- ❖ Coir Industry: Scheme for modernisation and technology upgradation with special emphasis to major coir producing States announced with a proposed provision of Rs.22.50 crore.

#### **SERVICES SECTOR**

- ❖ Foreign Trade: Merchandise exports expected to cross US\$125 billion by the end of the current fiscal.
- ❖ Tourism: Provision for tourist infrastructure to increase from Rs.423 crore to Rs.520 crore.

#### **FINANCIAL SECTOR**

- ❖ Banking: Under Differential Rate of Interest scheme providing finance at a rate of 4% to weaker sections of the community engaged in gainful occupations, limit of loan to be raised from Rs.6,500 to Rs.15,000 and limit of housing loan to be raised from Rs.5,000 to Rs.20,000 per beneficiary.
- ❖ Regional Rural Banks: To open at least one branch in 80 uncovered districts in 2007-08; Securitisation and Reconstruction of Financial Assets and Enforcement of Securitisation of Interest (SARFAESI) Act to be extended to loans advanced by RRBs; to be permitted to accept NRE/FCNR deposits; and those which have a negative net worth to be recapitalized.
- ❖ Housing Loans: National Housing Bank to introduce 'reverse mortgage' under which a senior citizen who is owner of a house can avail of a monthly stream of income against mortgage of his/her house, while remaining the owner and occupying the house throughout his/her lifetime, without repayment or servicing of the loan; regulations to be put in place to allow creation of mortgage guarantee companies.
- ❖ Insurance: Exclusive health insurance scheme for senior citizens offered by National Insurance Company; other three public sector insurance companies to offer a similar product to senior citizens; Micro Financial Sector (Development and Regulation) Bill and a comprehensive Bill to amend insurance laws to be introduced in Budget Session.

- ❖ Financial Inclusion: A Financial Inclusion Fund to be established with NABARD for meeting cost of developmental and promotional interventions; a Financial Inclusion Technology Fund to be also established to meet costs of technology adoption; each fund to have an overall corpus of Rs.500 crore, with initial funding to be contributed by Government, RBI and NABARD.
- ❖ Capital Markets: PAN to be made sole identification number for all participants in securities market with an alpha-numeric prefix or suffix to distinguish a particular kind of account; idea of Self Regulating Organisations (SRO) to be taken forward for different market participants under regulations to be made by SEBI; mutual funds to be permitted to launch and operate dedicated infrastructure funds; individuals to be permitted to invest in overseas securities through Indian mutual funds; short selling settled by delivery, and securities lending and borrowing to facilitate delivery, by institutions to be allowed; enabling mechanism to be put in place to permit Indian companies to unlock a part of their holdings in group companies for meeting their financing requirements by issue of Exchangeable Bonds.
- ❖ Innovative Financing for Infrastructure: Funds from National Small Savings Fund may also now be borrowed by India Infrastructure Finance Company Limited; suggestions of Deepak Parekh Committee to be examined for establishment of two wholly-owned overseas subsidiaries of IIFCL with objectives to (i) borrow funds from RBI and lend to Indian companies implementing infrastructure projects in India, or to co-finance their ECBs for such projects, solely for capital expenditure outside India; and (ii) borrow funds from the RBI, invest such funds in highly rated collateral securities and provide 'credit wrap' insurance to infrastructure projects in India for raising resources in international markets.
- ❖ Information Technology: Allocation for e-governance to increase from Rs.395 crore to Rs.719 crore and for e-governance action plans at State levels to increase from Rs.300 crore to Rs.500 crore; Rs.33 crore to be provided for a new scheme of manpower development for software export industry.
- ❖ Backward Regions Grant Fund: Allocation to increase from Rs.5,000 crore to Rs.5,800 crore.
- ❖ Mumbai as a Financial Centre: Report of High Powered Expert Committee to be placed in public domain to obtain feedback.
- ❖ Vocational Education Mission: An initial provision of Rs.50 crore proposed for beginning work on a Vocational Education Mission; approach to be based on public-private partnership.
- ❖ Upgradation of ITIs: 1,396 ITIs to be upgraded into centres of excellence in specific trades and skills under public-private partnership; Government to provide financial assistance by way of seed money; an interest free loan up to Rs.2.5 crore to be granted to each ITI for upgradation and revision of courses; Rs.750 crore set aside for this purpose.
- ❖ Employment for Physically Challenged: To incentivise employers in organised sector to provide regular employment to physically challenged persons, a scheme proposed to reimburse employer's contribution to Employees Provident Fund and Employees State Insurance for first three years; to support creation of about 100,000 jobs every year for physically challenged persons with a salary limit of Rs.25,000 per month; Rs.1,800 crore earmarked.
- ❖ Debt Management Office: An autonomous DMO to be set up with a Middle Office in first phase to facilitate transition to a full-fledged DMO.
- ❖ Development Cooperation: Activities relating to development cooperation to be brought under one umbrella; India International Development Cooperation Agency (IIDCA) to be set up.
- ❖ Climate Change: An expert committee to be appointed to study impact of climate change on India and identify measures to be taken.

#### OTHER PROPOSALS

- ❖ Defence Expenditure: Allocation to increase to Rs.96,000 crore.

- ❖ Commonwealth Games: Provision of Rs. 150 crore to Ministry of Youth Affairs and Sports and Rs.350 crore to Delhi Government for Commonwealth Games 2010 in Delhi and of Rs.50 crore for Commonwealth Youth Games 2008 to be held in Pune.
- ❖ History and Culture: Rs.30 crore to be provided for Sabarmati Ashram, Ahmedabad; Sevagram Ashram, Wardha; Bhandarkar Oriental Research Institute, Pune; and Rajendra Smriti Sanghralhalaya, Patna; Rs.20 crore to be provided to reposition Nehru Memorial Museum and Library, Delhi, as a major centre of intellectual activity; scholars from Indian and foreign institutions to be engaged to work on specific projects and an initial grant of Rs.5 crore to be made to encourage this effort.
- ❖ Institutions of Excellence: Special grant of Rs.50 crore each to be made to Govind Ballabh Pant University of Agriculture & Technology, Pantnagar and Tamil Nadu Agricultural University, Coimbatore.

#### **PUBLIC FINANCE**

- ❖ Rs.110,268 crore of States' debt has been consolidated; twenty States have availed of benefit of debt waiver of Rs.8,575 crore; States' share of taxes & duties to increase from Rs.120,377 crore to Rs.142,450 crore; grants & loans to States and UTs to increase from Rs.90,521 crore to Rs.106,987 crore.
- ❖ VAT, CST and a Roadmap towards GST: Agreement reached with State Governments to phase out CST; rate to be reduced from 4% to 3% with effect from April 1, 2007; Rs.5,495 crore provided for compensation for losses, if any, on account of VAT and also on account of CST; a roadmap for introducing a national level Goods and Services Tax (GST) with effect from April 1, 2010 to be prepared.

#### **BUDGET ESTIMATES FOR 2007-08**

- ❖ Plan expenditure at Rs.205,100 crore; Non-Plan Expenditure (net of the SBI share acquisition) at

Rs.435,421 crore with increase over 2006-07 of only 6.5%; Revenue deficit estimated at Rs.71,478 crore (1.5% of GDP) and fiscal deficit at Rs.150,948 crore (3.3% of GDP).

#### **TAX PROPOSALS**

##### **Indirect Taxes:**

##### ***Customs duties:***

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

- ❖ Duty of 3% (WTO bound rate) to be levied on all private import of aircraft including helicopters; such import to also attract countervailing duty and additional customs duty.
- ❖ Duty of Rs.300 per metric tonne to be levied on export of iron ores and concentrates and Rs.2,000 per metric tonne on export of chrome ores and concentrates.

**Excise Duties:**

- ❖ Reduction in ad valorem component of excise duty on petrol and diesel from 8% to 6%.
- ❖ Relief to deserving cases especially job creating sectors: exemption limit for small scale industry (SSI) to be raised from Rs.1 crore to Rs.1.5 crore; to encourage food processing sector, biscuits whose retail sale price does not exceed Rs.50 per kilogram and all kinds of food mixes including instant mixes to be fully exempt; reduction in duty on umbrellas and parts of footwear from 16% to 8%; on plywood from 16% to 8%; biodiesel to be fully exempt.
- ❖ To provide access to pure drinking water, water purification devices operating on specified membrane based technologies and domestic water filters not using electricity to be fully exempt; exemption on pipes used for carrying water from a water supply plant to a storage facility to be extended to all pipes of diameter exceeding 200 mm used in water supply systems.
- ❖ Reduction in the rate of duty from Rs.400 per metric tonne to Rs.350 per metric tonne on cement sold in retail at not more than Rs.190 per bag; rate of Rs.600 per metric tonne on cement that has a higher MRP.
- ❖ Specific rates of duty on cigarettes to be increased by about 5%; duty (excluding cess) on biris to be raised from Rs.7 to Rs.11 per thousand for non-machine made biris and from Rs.17 to Rs.24 per thousand for machine made biris; duty on pan masala not containing tobacco to be reduced from 66% to 45%; withdrawal of exemption for pan masala containing tobacco and other tobacco products given to units in the North Eastern States.

**Service tax :**

- ❖ Exemption limit for small service providers to be raised from Rs.400,000 to Rs.800,000
- ❖ Extension of service tax to: services outsourced for mining of mineral, oil or gas; renting of immovable property for use in commerce or business (residential properties, vacant land used for agriculture and similar purposes, and land for sports, entertainment and parking purposes & immovable property for educational or religious purposes to be excluded); development and supply of content for use in telecom and advertising purposes; asset management services provided by individuals; design services; services involved in execution of a works contract with an optional composition scheme under which tax will be levied at only 2% of the total value of works contract.
- ❖ Exemption to: Services provided by Resident Welfare Associations to their members who contribute Rs.3000 or less per month for services rendered, services provided by technology business incubators, their incubatees whose annual business turnover does not exceed Rs.50 lakhs to be exempt for first three years; clinical trial of new drugs to make India a preferred destination for drug testing.
- ❖ Department of Telecommunications to constitute a committee to study the present structure of levies on telecom industry.

**Direct Taxes**

- ❖ Threshold limit of exemption in the case of all assessees to be increased by Rs.10,000 thus giving every assessee a relief of Rs.1,000; in the case of a woman assessee, threshold limit to be increased from Rs.135,000 to Rs.145,000 and in case of a senior citizen from Rs.185,000 to Rs.195,000 giving him or her a relief of Rs.2,000; deduction in respect of medical insurance premium under section 80D to be increased to a maximum of Rs.15,000 and, in case of a senior citizen, a maximum of Rs.20,000.

- ❖ Surcharge on income tax on all firms and companies with a taxable income of Rs.1 crore or less to be removed.
- ❖ Benefit of Section 36(1)(viii) to be available to cooperative banks; to be also allowed deduction in respect of provision for bad and doubtful debts under section 36(1)(viia); amalgamation and demerger of banking companies is tax neutral - benefit to be extended to cooperative banks.
- ❖ Concessions under section 80IA for infrastructure facilities to be extended to cross country natural gas distribution network, including gas pipeline and storage facilities integrated to the network; and to navigation channel in the sea.
- ❖ To facilitate creation of urban infrastructure, issue of tax-free bonds through State Pooled Finance Entities formed for raising funds for a group of urban local bodies to be allowed.
- ❖ A benign assessment procedure to be introduced for assessee engaged in diamond manufacturing and trading who declare profits from such activities at 8% or more of turnover.
- ❖ A five year income tax holiday for two, three or four star hotels and for convention centres with a seating capacity of not less than 3,000; they should be completed and begin operations in National Capital Territory of Delhi or in the adjacent districts of Faridabad, Gurgaon, Ghaziabad or Gautam Budh Nagar during April 1, 2007 to March 31, 2010.
- ❖ Concession under section 35(2AB) to be extended for five more years until March 31, 2012.
- ❖ Tax holiday to undertakings in Jammu & Kashmir to be extended for another five years up to March 31, 2012.
- ❖ Minimum Alternate Tax (MAT) to be extended to income in respect of which deduction is claimed under sections 10A and 10B; deduction under section 36(1)(viii) to be restricted to 20% of profits each year.
- ❖ Pass-through status to be granted to venture capital funds only in respect of investments in venture capital undertakings in biotechnology; information technology relating to hardware and software development; nanotechnology; seed research and development; research and development of new chemical entities in the pharmaceutical sector; dairy industry; poultry industry; and production of bio-fuels, and hotel-cum-convention centres of a certain description and size.
- ❖ Limit of Rs.50 lakh per investor per year with respect to capital gains bonds issued by NHA and REC under section 54EC to continue.
- ❖ Rate of dividend distribution tax to be raised from 12.5% to 15% on dividends distributed by companies; and to 25% on dividends paid by money market mutual funds and liquid mutual funds to all investors.
- ❖ Expenditure on free samples and on displays to be excluded from the scope of Fringe Benefit Tax (FBT); ESOPs to be brought under FBT.
- ❖ Cash withdrawals by Central and State Governments to be excluded from the scope of Banking Cash Transactions Tax (BCTT); exemption limit for individuals and HUFs to be raised from Rs.25,000 to Rs.50,000.
- ❖ An additional cess of 1% on all taxes to be levied to fund secondary education and higher education and the expansion of capacity by 54% for reservation for socially and educationally backward classes.
- ❖ List of declared goods under section 14 of the CST Act to be amended to cover all small aircraft with minimum takeoff mass of less than 40,000 kgs operated by scheduled airlines.

## OVERALL SECTORAL IMPACT:

Sector	Policy	Impact	Effect
Automobiles	<ul style="list-style-type: none"> <li>❖ Reduction in Excise duty on secondary &amp; defective steel from 20% to 10% , and reduction in peak custom duty to 10% from 12.50%</li> <li>❖ Reduction in Duty on plastics from 12.50% to 7.50%</li> <li>❖ For farm equipments the farm credit outlay to raise by Rs. 50,000 crores</li> </ul>	<ul style="list-style-type: none"> <li>● Automobile and ancillary companies will be benefited.</li> <li>● Positive impact for farm equipments and Tractor manufactures.</li> </ul>	<b>F</b>
Power	<ul style="list-style-type: none"> <li>❖ Facilitation of setting up of merchant power plants by private developers.</li> <li>❖ Hike in corpus of Rural Infrastructure Development fund to Rs. 12,000 Crores.</li> </ul>	<ul style="list-style-type: none"> <li>● Increase in corpus will boost rural electrification.</li> <li>● Setting up of merchant power plants will improve the private sector.</li> </ul>	<b>F</b>
Cement	<ul style="list-style-type: none"> <li>❖ Reduction in Customs Duty from 12.5% to nil</li> <li>❖ Provision for Bharat Nirman has been increased.</li> </ul>	<ul style="list-style-type: none"> <li>● Increase in the provision for Bharat Nirman will boost demand in the sector.</li> </ul>	<b>F</b>
Pharmaceuticals	<ul style="list-style-type: none"> <li>❖ Reduction in general rate of import duty on medical equipments to 7.50%</li> <li>❖ Free samples not under Fringe Benefit Tax.</li> <li>❖ Weighted deduction U/s 35 (2AB) @ 150% extended up to March, 2012.</li> </ul>	<ul style="list-style-type: none"> <li>● Lower cost to manufacture drugs.</li> <li>● Weighted deduction has a big positive impact.</li> <li>● Removal of F.B.T. on free samples will lead to reduction in cost.</li> </ul>	<b>F</b>
IT and BPO/KPO	<ul style="list-style-type: none"> <li>❖ Minimum Alternative Tax would be applicable to IT companies</li> <li>❖ FBT would be levied on employees stock option plan.</li> <li>❖ Allocation of Rs.33 Crores for manpower development</li> </ul>	<ul style="list-style-type: none"> <li>● Introduction of MAT and increase in the rate of dividend distribution will have negative impact.</li> <li>● Companies will benefit from the e-governance project for which the government has increased allocation.</li> </ul>	<b>U</b>
Oil & Gas	<ul style="list-style-type: none"> <li>❖ Advalorem excise duty on petrol and diesel reduced from 8% to 6%</li> <li>❖ Service tax to services outsourced for production of oil and gas.</li> </ul>	<ul style="list-style-type: none"> <li>● No policy change for oil companies.</li> </ul>	<b>N</b>
Education	<ul style="list-style-type: none"> <li>❖ Enhances allocation for education.</li> </ul>	<ul style="list-style-type: none"> <li>● The thrust on rural initiatives and education is likely to lead to higher demand for products and services like books, stationery, papers, etc.</li> </ul>	<b>F</b>

**[F]** Favourable

**[U]** Unfavourable

**[N]** Neutral

## OVERALL SECTORAL IMPACT:

Sector	Policy	Impact	Effect
Tele-Communication	<ul style="list-style-type: none"> <li>❖ Increase in Service Tax on developers and suppliers of content for use in telecom.</li> </ul>	<ul style="list-style-type: none"> <li>● Service Tax increase is a tax on service provider which will be passed on to the consumer</li> <li>● MAT likely to have impact on tax liability.</li> </ul>	<b>U</b>
Financial Services	<ul style="list-style-type: none"> <li>❖ To facilitate public private partnership in infrastructure financing.</li> <li>❖ Tax exemption on interest paid on home loan will be continued.</li> <li>❖ Regulations will be put in place to allow the creation of mortgage guarantee companies.</li> <li>❖ Surplus forex reserve shall be deployed in infrastructure financing schemes.</li> </ul>	<ul style="list-style-type: none"> <li>● Use of surplus forex reserve for infrastructure in nation building.</li> <li>● Creation of mortgage guarantee companies will encourage attractive resources to housing finance companies at a lower cost which will improve their profitability.</li> </ul>	<b>F</b>
Retail	<ul style="list-style-type: none"> <li>❖ Service tax @12.36% on all commercial renting of immovable property.</li> <li>❖ Additional levy of Education cess by 1% increases the service tax rate up to 12.36%</li> <li>❖ Reduction in CST rate from 4% to 3%.</li> </ul>	<ul style="list-style-type: none"> <li>● Service tax on commercial renting and additional education cess will have impact on net profit and retained earnings.</li> </ul>	<b>U</b>
Textile	<ul style="list-style-type: none"> <li>❖ The budget has increased the provision for scheme for integrated Textile Parks from Rs.189 Cr. To Rs. 425 Cr. For 2007-08.</li> <li>❖ The TUF will continue and with a higher provision of Rs.911 Crore.</li> <li>❖ Duty cut on important raw material like PTA and polyester fibers to 2.50% from 10%</li> <li>❖ For modernization of coir industry, the proposed allocation of Rs. 22.50 crores.</li> </ul>	<ul style="list-style-type: none"> <li>● Lower raw material cost.</li> <li>● Improve competitiveness in textile sector.</li> </ul>	<b>F</b>
FMCG	<ul style="list-style-type: none"> <li>❖ Excise Duty on cigarettes is increased by 5%.</li> <li>❖ 1% higher Cess to be charged.</li> <li>❖ Duty on sunflower oil, both crude and refined reduced by 15% and Excise duty on parts of footwear reduced from 16% to 8%.</li> </ul>	<ul style="list-style-type: none"> <li>● The impact of higher excise duty, higher cess and increase in distribution tax are likely to lead lower profit margin.</li> </ul>	<b>U</b>

**[F]** Favourable

**[U]** Unfavourable

**[N]** Neutral

## BUDGET AT A GLANCE

<i>(In crore of Rupees)</i>				
PARTICULARS	2005-06 Actuals	2006-2007 Budget Estimates	2006-2007 Revised Estimates	2007-2008 Budget Estimates
<b>1. Revenue Receipts</b>	<b>347462</b>	<b>403465</b>	<b>423331</b>	<b>486422</b>
2. Tax Revenue (net to centre)	270264	327205	345971	403872
3. Non-Tax Revenue	77198	76260	77360	82550
<b>4. Capital Receipts (5+6+7)</b>	<b>158661</b>	<b>160526</b>	<b>158306</b>	<b>194099</b>
5. Recoveries of Loans	10645	8000	5450	1500
6. Other Receipts	1581	3840	528	41651
7. Borrowings and other liabilities	146435	148686	152328	150948
<b>8. Total Receipts (1+4)</b>	<b>506123</b>	<b>563991</b>	<b>581637</b>	<b>680521</b>
<b>9. Non-Plan Expenditure</b>	<b>365485</b>	<b>391263</b>	<b>408907</b>	<b>475421</b>
10. On Revenue Account of which,	327903	344430	362183	383546
11. Interest Payments	132630	139823	146192	158995
12. On Capital Account	37582	46833	46724	91875
<b>13. Plan Expenditure</b>	<b>140638</b>	<b>172728</b>	<b>172730</b>	<b>205100</b>
14. On Revenue Account	111858	143762	144584	174354
15. On Capital Account	28780	28966	28146	30746
<b>16. Total Expenditure (9+13)</b>	<b>506123</b>	<b>563991</b>	<b>581637</b>	<b>680521</b>
17. Revenue Expenditure (10+14)	439761	488192	506767	557900
18. Capital Expenditure (12+15)	66362	75799	74870	122621
<b>19. Revenue Deficit (17-1)</b>	<b>92299</b>	<b>84727</b>	<b>83436</b>	<b>71478</b>
	<b>(2.6)</b>	<b>(2.1)</b>	<b>(2.0)</b>	<b>(1.5)</b>
<b>20. Fiscal Deficit {16-(1+5+6)}</b>	<b>146435</b>	<b>148686</b>	<b>152328</b>	<b>150948</b>
	<b>(4.1)</b>	<b>(3.8)</b>	<b>(3.7)</b>	<b>(3.3)</b>
<b>21. Primary Deficit (20-11)</b>	<b>13805</b>	<b>8863</b>	<b>6136</b>	<b>(-) 8047</b>
	<b>(0.4)</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>- (0.2)</b>

## FINANCE BILL 2007

The various changes and amendments brought out by the Finance Bill, 2007 are concised below:

### DIRECT TAX PROPOSAL

#### 1. RATES OF TAXES

There is no change in the tax rates for Assessment year 2008-09 except for the following :-

- (a) the exemption limit for individuals, HUF, AOP and BOI has been raised as per chart below

ENTITY	ASST. YEAR 2007-08	ASST. YEAR 2008-09
Individual, HUF, AOP & BOI	1,00,000	1,10,000
Senior Citizen	1,85,000	1,95,000
Women Assessee	1,35,000	1,45,000

In the above cases, income tax calculated is to be increased by a surcharge of 10% where total income exceeds Rs. Ten lakh, Education cess @2% on the taxes as before. A new cess, called secondary and Higher education cess, @ 1% on taxes has been levied w.e.f. assessment year 2008-09.

- (b) in the case of Firms and companies, tax rates remain unchanged. However, a surcharge @ 10% on income tax will be levied if the income is above Rs.1 crore.

#### I. Individual, HUF, AOP, BOI.

Slab of Income (Rs.)	Rate of Income Tax %
Rs.1,10,000	Nil
Rs.1,10,001 to Rs.1,50,000	10
Rs.1,50,001 to Rs.2,50,000	20
Above Rs. 2,50,000	30

- a. In case of resident women assessee below the age of 65, no tax will be payable upto income of Rs. 1,45,000/-.
- b. In case of resident senior citizen ( of 65 years and above ), no income tax will be payable upto income of Rs. 1,95,000/-
- c. On income exceeding Rs. 10,00,000/- surcharge @10% will be payable on tax after reducing it by rebate, if any, allowable under chapter VIII-A of the Income Tax Act.

#### II. Co-operative Society:

Income (Rs.)	Rate of Income Tax%
Upto 10,000	10
Rs.10,001 to Rs.20,000	20
Rs.20,001 & above	30

No Surcharge is applicable to the co-operative Society.

#### III. Firm:

Income (Rs.)	Rate of Income Tax %
On whole of Total Income	30

Surcharge @10% is payable by a firm if its income exceeds Rs.1,00,00,000/-

#### IV. Local Authority:

Income (Rs.)	Rate of Income Tax %
On whole of Total Income	30

No surcharge is payable.

**V. Domestic Company:**

Income (Rs.)	Rate of Income Tax %
On whole of Total Income	30

Surcharge is payable @10% if its income exceeds Rs.1,00,00,000/-

**VI. Foreign Companies.**

Income (Rs.)	Rate of Income Tax %
On whole of Total Income	40

Surcharge is payable @2.5%, if its income exceeds Rs.1,00,00,000/-.

Note : An additional surcharge called Education cess @2% on tax including surcharge is leviable. A further additional surcharge @ 1% called 'Secondary and Higher education cess' is levied on tax payable including surcharge.

**2. TAX TREATMENT OF SAVINGS :**

There is no change in tax treatment of savings.

**3. SALARIED TAX PAYER :**

(a) Section 17(iii) of the Act deems contribution made by Central Government to the account of an employee under a Pension scheme referred to in section 80CCD as income. By the Finance Bill an amendment has been proposed. The words " Central Government" have been changed to "Central Government or any other employer". There is a consequential change in sub clause (viii) of clause-1 of section 17.

(b) As per section 17, the value of any benefit or amenity granted or provided free of cost or at concessional rate is treated as perquisite. An explanation has been added to clause 2 of section 17 to explain the tax treatment of unfurnished or furnished accommodation

provided by government or any other employer. Once perquisite is calculated then the amount has to be subjected to TDS.

The explanation to be inserted in clause-2 details what constitutes concession in the matter of rent, various situations are :

- (A) Where an unfurnished accommodation owned by the employer is provided to the assessee by an employer (other than central or state government), the value of accommodation is determined at the rate of 10% of salary in cities having populations exceeding four lakhs as per 1991 censuses and at the rate of seven and a half percent of salary in other cities, in respect of the period during which the said accommodation is occupied by an assessee. The amount of concession is determined by reducing rent recovered from, or payable by the assessee from the valuation determined as per above methodology.
- (B) In a situation where the employer (not being central or state government) provides unfurnished accommodations, taken on lease or rent, the value of accommodation would be taken as actual rent (or lease rent) or 10% of the salary, whichever is lower, during the period of accommodation. The amount of concession is determined in the same manner as mentioned in 'A' above.
- (C) Where a furnished accommodation is provided by the Central or State government, the license fee determined as per rules framed in this behalf as increased by the value of furniture & fixtures for the period of occupation exceeds the rent realized from or payable by the assessee would represent the amount of concession.
- (D) Where furnished accommodation is provided by an employer (other than Central or State government) the value of furniture and fixture would be added to the value determined for

unfurnished accommodation. For determining the concession, amount realized from or payable by the assessee has to be deducted.

- (E) The value of furniture and fixture shall be ten percent of the cost of furniture or if the furniture is hired from a third person, then the value would be the actual hire charges.
- (F) Situations mentioned in A,B,C,D,E are retrospectively applicable from assessment year 2002-03 to 2005-06.
- (G) For Assessment year 2006-07 and subsequent assessment years, the censuses of 2001 has to be taken into consideration in place of 1991 census and 10% and 7.5% are to be replaced by 20% and 15%.

#### **4. BUSINESS INCOME :**

- (a) As per section 35(2AB) , if a company engaged in the business of bio-technology or in production of drugs etc. incurs expenditure on scientific research, a deduction of a sum equal to one and one half times of such expenditure is allowed as business expenditure. This provision was applicable for expenditure incurred upto 31.03.07. In the Finance Bill the benefit has been extended for expenditure to be incurred upto 31.03.2012.
- (b) Existing provisions of section 40A(3) stipulate a disallowance of 20% of certain expenditure incurred otherwise than crossed cheque or by a crossed bank draft. An amendment has been proposed in the bill. As per the proposals, any expenditure in respect of which payment is made in a sum exceeding twenty thousand rupees otherwise than crossed cheque or draft, no deduction would be allowed for such expenditure. Further, if no payment has actually been made but expenditure has been incurred and allowed and a tax payer makes payment in subsequent years, then such payment will be

treated as income of the previous year in which such payment has been made. Tax payers should take special note of these new provisions.

- (c) According to clause (ib) of subsection 1 of section 36, an amount paid by cheque by an assessee to keep in force an insurance on the health of employees is allowed as business expenditure. According to the Finance bill the word "cheque" is to be replaced by words "paid by any mode of payment other than cash".
- (d) Clause (viiia) of sub section 1 of section 36 provides for allow a provision for bad and doubtful debt of a scheduled bank as business expenditure. This benefit is being extended to by the Finance Bill to a co-operative bank also.
- (e) According to clause (viii) of subsection 1 of section 36, an amount up to 40%, if taken to reserve, by a financial institutions or public company (engaged in activities described in that clause) is to be deducted from profits and gains of business. The limit of 40% has been reduced to 20%.

#### **5. CAPITAL GAIN :**

- (a) According to section 2(14) personal effects are not treated as "Capital Assets". Obviously there is no Capital gain on transfer of personal effect. By the Finance bill it is being provided that, archeological collections, drawings, paintings, sculpture or any other work of art will not be treated as personal effects. Hence, it is clear that Capital gains would arise on surplus generated on transfer of above mentioned assets. However, according to existing provision, jewellery falls within the definition of Capital Asset.
- (b) According to amendment proposed in provision of section 115 WC, fringe benefit tax is to be levied on fair market value of specified security

or sweat equity (on the Date of exercise of option by the employees) as reduced by the amount paid by the employee. This provisions is applicable from Assessment Year 2008-09.

A consequential change has been made in section 49 of I.T act . capital gains arises to the employee on transfer of such specified security or sweat equity and the cost of acquisition is the cost as per provisions of section 115 WC . The term “specified security “ has been defined in Security Contract (Regulation)Act 1956. Sweat Equity has now been defined in section 115 WB. “sweat equity share “ means equity share issue by the company to its employees or director at a discount or for consideration other than cash for providing know now or making available rights in the nature of intellectual property rights or value additions , by whatever name called.

(c) section 54 EC provides that capital gains on transfer of long term Capital assets will not be charged to tax if invested in certain kind of bonds . The said section is being amended by finance bill to provide that investment made on or after 1.04.2006 in the long term specified asset during any financial year can not exceed Rs. Fifty Lac .

## **6. EXEMPTIONS AND DEDUCTIONS**

- (i) As per existing provision, contributions to pension scheme of Central Government by Central Government employees only was entitled to deduction u/s. 80CCD. According to proposed amendment contribution by any employee will be entitled to deduction.
- (ii) The deduction in respect of medical insurance provisions (section 80D) has been increased to Rs. Fifteen Thousand from Rs. Ten Thousand and to Rs. Twenty Thousand from Rs. Fifteen Thousand for senior citizens.

(iii) As per section 80E, deduction is allowed in respect of interest on loan taken for higher education . This deduction is to be allowed to the person who undertakes higher study. This section is being amended, so as to provide that deduction would be allowed even if a relative of the person who takes loan pursues higher study. Relative has been defined to mean spouse and children of the individual. This is a beneficial amendment.

(iv) A new clause, clause (10BC) is being inserted in section 10 so as to provide that receipts of any amount received or receivable from Central or State Government or Local Authority by an individual or his legal heirs by way of compensation on account of a disaster will not be chargeable to tax.

(v) Section 80IA is being amended to include profit of an undertaking engaged in the business of laying and beginning to operate cross country natural gas distribution network. This amendment may give a boost to above kind of undertaking .

(vi) It is also being provided that the benefit u/s. 80IA is not available to a person who executes a works contract entered into with the undertaking which is entitled to deduction / exemption u/s. 80IA. This stipulation is of clarificatory in nature.

(vii) Section 80IB provides for deduction in respect of profits from certain undertaking. According to this section the income of such undertaking located in Jammu & Kashmir was to get deduction if set up, up to 31.03.2007. This benefit is being extended upto 31.03.2012 by amending fourth proviso to sub-section (4) of section 80IB.

(viii) A new section named 80ID is being added to the Income Tax Act to provide for a five year tax

holiday to a new hotel (2,3,4 star) which is constructed at any time between 1.04.2007 to 31.03.2010 in National Capital region and in the districts of Noida, Gaziabad, Gurgaon.

(ix) A new subsection, subsection (12A) is been introduced in section 80IA. As per this new subsection, any company undergoing an amalgamation or demerger after 31.03.2007 will not be able to enjoy the tax holidays. The time available between now and 31.03.2007 is very short.

(x) According to subsection(10) of section 80IB an undertaking developing and building housing project approved before 31.03.2007, was to enjoy hundred percent tax holiday. It was widely expected that the time would be extended by a few more years after 31.03.2007. The finance bill has not proposed any such extension.

#### **7. MINIMUM ALTERNATE TAX (MAT)**

Upto assessment year 2007-08, the profits and gains of 10A and 10B undertakings are to be excluded from Book profit for the purposes of MAT (Section 115JB). The section is being amended so as to withdraw this benefit w.e.f. assessment year 2008-09 to 10A and 10B companies.

#### **8. DIVIDEND DISTRIBUTION TAX**

(i) **TAX ON DISTRIBUTION OF INCOME BY COMPANIES (Section 115 O)**

The rate is being increased to 15% from 12.5% for dividend to be distributed after 1.04.2007.

(i) **TAX ON DISTRIBUTION OF INCOME BY MUTUAL FUNDS (Section 115 R)**

According to the existing provisions a mutual fund has to pay additional income tax on distribution of income to the unit holders. The rate of tax for income distributed to individual and HUF is 12.5% while it is 20% on income to be distributed to others. Above provisions remain. But if the distribution is by a money market mutual fund or a liquid fund, then the rate is twenty five percent. The terms money

market mutual fund or liquid fund are defined by SEBI act or rules.

#### **9. FRINGE BENEFIT TAX :**

(i) A proposed amendment regarding sweat equity has been discussed under the heading "Capital Gains" according to which sweat equity or specified securities is subjected to FBT.

(ii) According to amendment to section 115WJ, Fringe benefit advance tax installment have to be paid by the same scheme through which Income Tax or Corporate tax has to be paid.

The division of advance tax is various installment and dates of installment are the same as for advance tax payments.

(iii) Section 115WB (relates to Fringe Benefit Tax) is being amended to exclude expenditure on distribution of samples either free of cost or at concessional rate and expenditure on display of products from the ambit of FBT.

#### **10. TAX DEDUCTED AT SOURCE**

(i) By amendment to section 193 it is provided that on 8% savings (taxable bonds) 2003 interest paid by the Central Government to an individual or HUF exceeding Rs.10,000/- will be liable for TDS.

(ii) By amendment to section 194A it is provided that w.e.f. 1st June 2007 interest paid by a bank including Co-operative Bank to the extent of Rs.10,000/- no TDS is required to be deducted. As regards deductions other than banks, provisions remain the same.

(iii) The proposed amendment u/s. 194C provides that payments made by an individual or Hindu Undivided Family whose sales, or turnover from business or profession exceeds the limits provided u/s. 44AB during the financial year immediately preceding financial year in which such payment is made or credited to the account of contractor, such individual or HUF

assessee will be liable to deduct tax u/s. 194C w.e.f. 1st June 2007.

- (iv) By amendment to section 194H, in case of payment of commission rate of TDS has been increased from 5% to 10%. It is clarified that no TDS will be deductible by BSNL or MTNL from payments to their franchisees.
- (v) Similarly, by amendment to section 194J it is provided that in case of payment of professionals charges / fees for technical services TDS will be deductible @ 10% instead of rate of 5% at present.
- (vi) Section 194 I is proposed to be amended to require deduction of tax on rent paid for machinery, plant and equipment @ 10%. In case of rent for building and land tax will be deductible from individual or Hindu Undivided Family @ 15% and in case of other assesses @ 20%.

#### **11. ASSESSMENT OF SEARCH CASES**

- A. Procedure of assessment of search cases are contained in sections 153A, 153B, 153C. Assessment are to be completed by an assessing officer. By the proposed amendment, the assessment is either to be approved by an officer of the rank of joint commissioner or has to be made by an assessing officer of that rank.
- B. By amending section 153B it is being provided to extend the time for completing assessment if during the pendency of proceeding a reference to Transfer Pricing Officer is made u/s. 92 CA of income tax Act.
- C. (i) New provisions of penalty for undisclosed income are being introduced for searches to be initiated on or after 1.07.2007 That means provisions of sections 271(1)(c) will not apply to undisclosed income in regards to searches initiated on or after 1.07.2007.

(ii) Penalty will be at the rate of 10% of its undisclosed income assessed in assessment.

(iii) It is also provides that penalty will not be levied if the assessee

(a) in the course of the search , in a statement U/S 132 (4) admits undisclosed income and specifies the manner in which it was derived.

(b) States the manner in which such undisclosed income was derived and substantiates such manner.

(c) Pays the tax, together with interest, if any, in respect of such income

D. A new sections, section 292 C , is being introduce to provide for presumption regarding books of accounts, jewellery etc. Provisions of the said section are as under:

(i) such books of account, other documents, money, bullion jewellery or other valuable article or thing belong or belongs to such person;

(ii) the contents of such books of account and other documents are true; and

(iii) the signature and every other part of such books of account and other documents which purport to be in the handwriting of any particular person or which may reasonably be assumed to have been signed by, or to be in the handwriting of, any particular person, are in that person's handwriting, and in the case of a document stamped, executed or attested, that it was duly stamped and executed or attested by the person by whom it purports to have been so executed or attested.

#### **12. SETTLEMENT COMMISSION**

Certain thorough going changes have been made in Chapter XIX-A ( settlement of case) by the

finance bill. Some of the important changes are :

- (a) The word “Case” has been redefined to exclude proceedings pending u/s. 147,153A, 153B, 153C or a proceeding to make fresh assessment in pursuance of an order under section 254, 263, 264 setting aside on canceling an order.
- (b) The requirement of getting a report from commissioner before passing a case u/s. 245D(1) has been done away with. Further a time frame has been fixed for finalizing orders to be passed u/s. 245D(1) and 245D(4).
- (c) The power of settlement commission to grant immunity from prosecutions for any offence under Indian panel code or under any central act other than Income Tax and Wealth tax act is being withdrawn.

### **13. MISCELLANEOUS**

- (i) Section 132B delineates how assets seized u/s. 132 or 132A are to be treated. Section 132B(4) stipulates that interest on refunds to the assessee is entitled to interest @ 6% per annum. This is being amended. Accordingly, interest payable by Central government would be 0.5% for delay of refunds for every month or part of the month.
- (ii) Provisions for treating a return as “defective” is being omitted.
- (iii) Section 142(2A) gives powers to Income Tax Authority to order special audit and the fee to the special auditors is to be paid by the assessee. According to the proposed amendment the fees would be paid by Central Government.
- (iv) By an amendment of section 253, an appeal to Income Tax Appellate Tribunal has been provided against an order passed by commissioner of Income Tax u/s. 80G(5) ,

rejecting approval to a final or charitable institution.

- (v) The Income Tax Appellate Tribunal is vested with inherent power of stay of demand raised in an order passed by an Income Tax Authority which is pending disposal before the tribunal. The finance bill seeks to amend section 254. It is being expressly provided that total stay of demand to be granted by the tribunal can not exceed 365 days.
- (vi) Subsection 6A of section 206C treats a person who does not collect or any part of the tax or after collecting fails to pay any part thereof, such person is to be treated as an assessee in default in respect of such tax. An order passed u/s. 206C(6A) can now be challenged in appeal commissioner (appeal). This is being provided by amending section 246A of Income Tax.

### **14. BANKING CASH TRANSACTION TAX**

There is proposed amendment regarding banking transaction tax is as much as in cases of individual and HUF limit is enhanced from Rs.25,000/- to Rs.50,000/- and taxes will not be levied on withdrawals by central or state governments.

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## **INDIRECT TAX PROPOSAL**

### **A) SERVICE TAX:**

Major Changes are as under and the changes will come into effect from a date to be notified after the enactment of the Finance Bill 2006 unless otherwise stated.

#### **(I) SECONDARY AND HIGHER EDUCATION CESS :**

A cess @ 1% is being imposed on service liable to service tax. The cess paid on inputs services shall be available as credit for payment of cess on output services.

#### **(II) FOLLOWING SERVICES ARE INDIVIDUALLY SPECIFIED AS**

**TAXABLE SERVICES :**

- (1) Telecommunication service (includes various telecommunication related services which are presently specified as taxable service);
- (2) Services outsourced for mining of mineral, oil or gas;
- (3) Services provided in relation to renting of immovable property, other than residential properties and vacant land, for use in the course or furtherance of business or commerce (such services provided by or to religious body are excluded)
- (4) Services provided in relation to the execution of works contract (sales tax is levied on transfer of goods involved in the execution of works contract by states);
- (5) Development and supply of content for use in telecommunication services, advertising agency services and on- line information and database access or retrieval services;
- (6) Asset management services including portfolio management and all forms of fund management service provided by any person, except a banking company or a financial institution including a non banking financial company or any other body corporate or commercial concern ;
- (7) Design services

#### **(III) EXEMPTION FROM SERVICE TAX :**

The threshold limit of services tax exemption for small service providers is being increased from the present level of Rs. 4 lakh to Rs. 8 lakh.

#### **B) EXCISE DUTY**

NOTE : Changes come into effect immediately unless otherwise specified.

Major proposal about central excise duty are the following:

I. secondary and higher education cess increased by 1%

#### **II. RELIEF MEASURES :**

- 1) Excise duty has been fully exempted on:
  - (a) Packed biscuits of maximum retail sale price (MRP) not exceeding Rs. 50 per kilogram;
  - (b) Food mixes (including instant food mixes );
  - (c) Specified water purification devices based on membrane technology;
  - (d) Household water filters not using electricity and pressured tap water;
  - (e) Biodiesels.
- 2) Excise duty has been reduced from 16% to 8% on;
  - (a) Umbrellas;
  - (b) Plywood, veneered panels and similar laminated wood;
  - (c) Footwear parts/components falling under heading 6406;
  - (d) Wadding, gauze;
  - (e) PETROLEUM : Advalorem component of excise duty on petrol and diesel has been reduced from 8% to 6%.
  - (f) TEXTILES:
    - 1) Excise duty has been reduced on caprolactum from 16% to 12 %.
    - 2) Excise duty has been reduced on benzene for manufacture of caprolactum from 16% to 12%.

## INDIRECT TAX PROPOSAL

- 3) Optional excise duty at 12% has been prescribed on fishner Grade nylon yarns, fishnet fabrics, fishnet twine and fishnet
- 4) Full exemption from excise duty on specified textile machinery has been withdrawn and an excise duty of 8% has been imposed thereon.
- (g) **SMALL SCALE INDUSTRIES :**  
Exemption limit for SSI scheme has been increased from Rs. 1 crore to Rs. 1.5 crore. This will be effective from 1.04.07.
- (h) **RESEARCH & DEVELOPMENT:** Exemption from excise duty has been extended to specified items .
- (i) **METALS :**  
The rate of compounded levy on aluminum circles has been increased from Rs. 7500/10000 per machine per month to Rs.12000 per machine per month .
- (j) **TOBACCO PRODUCTS:**  
1) Specific rates of total excise duty on cigarettes have been revised as under :

Description	Present Rate (Rs. Per 1000)	Proposed Rate (Rs. Per 1000)
<b>Non- Filter Cigarettes</b> Not exceeding 60mm in length	160	168
Exceeding 60mm but not exceeding 70mm	520	546
<b>Filter Cigarettes</b> Not exceeding 70mm in length	780	819
Exceeding 70mm but not exceeding 75 mm	1260	1323
Exceeding 75 mm but not exceeding 85 mm	1675	1759
Othercigarettes	2060	2163
Cigarettes of tobacco substitutes	1150	1208

- 2) Specific rates of total excise duty ( including cess) on biris have been revised as under :
- (a) Biris, other than paper rolled and manufactured without the aid of machines from Rs.12 to Rs.16 per thousand.
- (b) Other biris from Rs.22 to Rs.29 per housand.
- 3) The Exemption limit for 20 lakh unbranded biris in financial year will now be subject to the condition that any person wanting to avail of the exemption has to file a declaration with the central Excise Department.
- 4) Excise duty on pan masala not containing tobacco, falling under 2106 90 20, has been reduce from 66% to 45% consequently, the abatement from maximum retail sale price has been reduced from 50% to 44%.
- k. **CEMENT :**
- a) **General rate**
- 1) Excise duty has been reduced from Rs. 400 per metric tonne to Rs. 350 per metric tonne for cement of retail sale price not exceeding Rs. 190 per 50 kg bag or per metric tonne retail sale price equivalent not exceeding Rs.3800.
- 2) Excise duty has been increased from Rs. 400 per metric tonne to Rs.600 per Metric tonne for cement of declared retail sale price exceeding Rs.190 per 50 Kg. Bag or per metric tonne retail sale price equivalent exceeding Rs. 3800.
- b) **Mini Cement Plants**
- 1) Excise duty has been reduced from Rs.250 per metric tonne to Rs.220 per metric tonne for cement of declared retail sale price not exceeding Rs.190 per 50 Kg. bag or per metric tonne retail sale price equivalent not exceeding Rs.3800.
- 2) Excise duty has been increased from Rs.250 per metric tonne to Rs.370 per metric tonne for cement of declared retail sale price exceeding Rs.190 per 50Kg bag or per metric tonne retail sale price equivalent exceeding Rs.3800.

3) Cement has been included in the Third Schedule of the Central Excise Act to provide that in relation to products of heading 252329, packing or repacking in unit container, labeling or relabelling of packages, including the declaration or alteration of retail sale price on it or adoption of any treatment to render the product marketable to the consumer, shall amount to 'manufacture'.

**I. INFORMATION TECHNOLOGY :**

- 1) 'USB flash memory' is exempt from excise duty.
- 2) 'DVD drive' is exempt from excise duty.

**m. RETAIL SALE PRICE(RSP) BASED ASSESSMENT :**

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

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

**n. WATER SUPPLY PROJECTS :**

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

**o. WITHDRAWAL OF EXEMPTIONS :**

1. Excise duty exemptions/concessions on following items have been withdrawn :
  - a. Chemical reagents manufactured by Hindustan Antibiotics Ltd. for use in manufacture of kits for testing narcotics drugs and psychotropic substances;
  - b. Optical glass manufactured by the Centre Glass and Ceramic Research Institute, Calcutta for use by any Department of the Central Government;
  - c. Goods like brooms, hand operated mechanical floor sweepers, mops.
  - d. Recorded video cassettes intended for television broadcasting supplied in formats such as U-matic, Betacam or any similar format.
  - e. Nicotine polacrilex gum.

**C) Custom Duty**

Major proposals about customs duties are as under and changes comes into effect immediately unless otherwise stated:

**I. PEAK RATE OF AD VALOREM DUTY REDUCED:**

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

**II. 4% ADDITIONAL DUTY OF CUSTOMS:**

1. Following items have been exempted from additional duty of customs of 4% :
  - a) All edible oils, crude as well as refined,
  - b) Roasted molybdenum ore and concentrate,
2. Cell phones parts, components and accessories are exempt from additional duty of customs of 4% till 30.04.2007. The exemption has been extended till 30.06.2009.

**III. METALS AND THEIR INPUTS:**

Duty has reduced from 20% to 10% on seconds and defectives of iron and steel.

**IV. EXPORT DUTY :**

Export duty has been imposed on:

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

**V. Secondary and higher education cess increased by 1%**

**VI. AIRCRAFTS**

1. Customs duty of 3% has been imposed on aircrafts. CV duty of 16% and special additional duty of customs of 4% has also been imposed on such aircrafts, Imports by scheduled airline operators and Government will be exempt.
2. Customs duty of 3% CVD of 16% and 4% additional duty of customs has been imposed on parts of aircrafts, imported for use in such aircrafts. Imports by Government and scheduled airlines will be exempt.

**VII. CHEMICALS AND PETROCHEMICALS :**

1. Customs duty has been reduced from 12.5% to 7.5% on goods falling under Chapter 28 (except Titanium Dioxide), Chapter 29 (except Mannitol, Sorbitol and Caprolactum) and Chapter 31.
2. Customs duty has been reduced on glycerol waters and glycerol lyes from 30% to 20%,
3. Customs duty has been reduced on Denatured ethyl alcohol from 10% to 7.5%,
4. Customs duty has been reduced from 12.5% to 7.5% on goods falling under headings 3201 to 3207 (except pigments and preparations based on Titanium Dioxide),
5. Customs duty has been reduced from 12.5% to 7.5% on goods falling under heading 3403.

6. Customs duty has been reduced from 12.5% to 7.5% on goods falling under headings 3801 to 3807 and 3809 ( with few exception ) 3810, 3812, 3816, 3817, 3821 and 3824(except 3824. 60).

7. Customs duty has been reduced from 12.5% to 7.5% on goods falling under headings 3901 to 3907 and 3909 to 3915.

8. Customs duty has been reduced from 12.5% to 10% on Titanium Dioxide, and pigments and preparations based on Titanium Dioxide.

**VIII. AGRICULTURE :**

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

**IX. TEXTILES :**

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

**X. EXPORT PROMOTION :**

1. Customs duty on cut and polished diamonds has been reduced from 5% to 3%
2. Customs duty on rough synthetic gemstones

has been reduced from 12.5% to 5%

3. Customs duty has been reduced on unworked or simply prepared corals from 30% to 10%
4. Raw , tanned or dressed fur skins have been exempted from CVD of 8%.

**XI. RESERCH & DEVELOPMENT :**

Present concessional rate of 5% customs duty plus Nil CVD on specified items.

**XII. HEALTH :**

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

**XIII. PROJECT IMPORT**

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

**XIV. WITHDRAWAL OF EXEMPTIONS**

1. Customs duty exemptions / concessions on following items have been withdrawn :
  - a) Chemicals, for use in the manufacture of Centchroman;
  - b) Codeine phosphate or Nicotine, imported by Government alkaloid factories;
  - c) Recorded magnetic tapes for producing TV serials;
  - d) Specified goods like TV cameras (professional grade) audio recording equipment.
  - e) Specified goods for manufacture of fly ash based goods,
2. CVD/ Excise duty exemptions on following items have been withdrawn :

Cold-set high speed printing machines for newspapers. Such machines will attract excise duty / CVD at 8%

**XV. The value of imported goods and exported goods shall be the transaction value:**

It is proposed to substitute section 14 of the said

Act with a view to provide that the value of the imported goods and exported goods shall be the transaction value of such goods, as determined in accordance with the rules made in this behalf. It is further proposed to provide that the transaction value in the case of imported goods specified in sub-section (1) shall include any amount that the buyer is liable to pay for costs and services, including commission and brokerage, assists, engineering, design work, royalties and licence fees, costs for transportation to the place of importation, insurance and handling charges. It is also proposed to provide that where there is no sale or the transaction value of the imported goods or exported goods is not determinable, the value of such goods shall be determined in accordance with the rules made in this behalf. The said clause shall come into force from such date as the Central Government may, by notification in the official gazette, appoint.

**D) Central Sales Tax**

Present rate of 4% has been reduced to 3%