



TAX

# Union Budget 2010 Highlights

KPMG IN INDIA

## DEMYSTIFYING TAXES

AUDIT ■ TAX ■ ADVISORY



# Foreword

The Honourable Finance Minister has presented the Union Budget amidst apprehensions that he might increase taxes to counter the rise in the fiscal deficit. The rise in the fiscal deficit was of course, brought about largely because of the need to give a large fiscal stimuli to revive the economy which had slowed down amidst the global financial crisis.

The Economic Survey 2009-10 identified the following challenges:<sup>1</sup>

1. Fiscal consolidation to put the country on the path of fiscal rectitude
2. Quick revert to the high Gross Domestic Product (GDP) growth rate of 9 percent and then find a path to cross the 'double digit growth barrier'
3. Making growth more inclusive and alleviate poverty
4. Managing inflation, especially that of food prices

The Growth Rate of the Indian economy marginally improved in 2009-10 to 7.2 percent from 6.7 percent in 2008-09 but was still lower than its average growth rate of 8.8 percent over the last five years (2003-04 to 2007-08). The

Government however was successful in warding off a sustained economic slowdown by increasing disposable income in the hands of the people, for instance by effecting reductions in indirect taxes and by increasing expenditure on programmes like National Rural Employment Guarantee Act (NREGA) and on rural infrastructure. The implementation of the Sixth Pay Commission recommendations and the debt relief to farmers also contributed to this end.

The net result of the above measures was an increase in fiscal deficit from 2.6 percent of the GDP in 2007-08 to 6.8 percent of GDP. The Gross Fiscal Deficit (including the States' share) therefore touched 10 percent of GDP.

In shaping the fiscal policy for 2010-11 and beyond, the recommendations of the Thirteenth Finance Commission (FC-XIII) have been taken on board. The FC-XIII has recommended a calibrated exit from the expansionary fiscal stance of 2008-09 and 2009-10, as the main agenda of the Central Government. Further it has suggested that the revenue deficit of the Centre needs to be progressively reduced and eliminated, followed by an emergence of the revenue surplus by 2014-15.

<sup>1</sup> [indiabudget.nic.in](http://indiabudget.nic.in)

What is reassuring is the directional stance in re-iterating the Government's commitment to bringing in a uniform Goods and Services Tax regime and the New Direct Taxes Code by 1 April, 2011.

At first glance, the Direct Taxes Proposals are relatively benign, save the increase in Minimum Alternate Tax to 18 percent from 15 percent, and seek to:

- Lower tax burden on individual tax payers by widening the tax slabs
- Allow small companies to convert to limited liability partnerships without attracting capital gains tax liability
- Increase turnover limits for applicability of compulsory tax audit
- Promote investment in research and development to enhance competitiveness
- Encourage savings to be channeled into infrastructure by providing a tax deduction on investment in long-term infrastructure bonds
- Simplify and rationalise provisions relating to tax deduction at source

On the Indirect taxes front, as expected, the fiscal stimulus was partly withdrawn by across the board increase in excise duty rate from 8 to 10 percent. The increase of excise duty on petrol and diesel was somewhat surprising, given the concern around inflation.

Service tax and customs duty rates were left at the same levels. However, the ambit of service tax is proposed to be

increased significantly by covering aviation, real estate, rail transport and specified health services. This appears to be a step towards the implementation of GST, which revolves around a concept of moderate tax rate with a larger tax base. Export of services rules have been simplified and certain procedural relaxations have been provided to service exporters.

Overall, if the immediate positive reaction from the stock markets is any indication, the corporate sector and investing community seems elated at having been spared an increase in headline direct tax rates; however, one will need carefully assess the impact of the provisions by analysing the fine print in the Finance Bill. The Budget seems to be well intended towards returning to the path to fiscal rectitude. Individual taxpayers may find that the money that they have saved due to the widened tax slabs may just about meet increased expenditures due to higher indirect taxes being levied on almost all goods and services, Corporates in general do not seem to have much to cheer about especially as the increase in the Minimum Alternate Tax is likely to result in an immediate cash outflow.

The summary that follows highlights the salient features of the Finance Bill 2010, in terms of direct and indirect taxes. Unless otherwise indicated, the proposed amendments relating to direct taxes are to apply from the assessment year 2011-12 and unless otherwise indicated, the changes relating to Central Excise and Customs Duties come into effect immediately. Changes in Service tax are to come into effect from a date to be notified, after the enactment of the Finance Bill, 2010.

# Table of Contents

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<b>Direct Tax</b>	<b>1</b>
Corporate tax	1
Tax holidays	3
Non-resident related provisions	4
Withholding tax provisions	5
Personal taxation	6
Conversion of a company into an LLP	7
Other direct tax provision	9
<b>Indirect Tax</b>	<b>11</b>
Central excise	11
Service tax	15
Customs duty	20
Goods and services tax	22
Central sales tax	22
<b>Glossary</b>	<b>23</b>

# Direct Tax



## Corporate tax

- The Direct Taxes Code is likely to be effective from 1 April 2011
- The Corporate tax rate remains unchanged
- The basic rate of MAT increased to 18 percent from 15 percent
- The surcharge for domestic companies reduced to 7.5 percent from 10 percent
- In computing the taxable income of a non-life insurance company, adjustment is to be made for any gain or loss on the realisation of investments only if it is not credited or debited to the Profit and Loss Account. Additionally, any provision for diminution in the value of investments is to be added back in the computation if it is debited to the Profit and Loss Account
- Effective 1 June, 2010, in computing the income from other sources, transactions of transfer of shares of closely held company without or for inadequate consideration to a firm or to a closely held company to be taxable. The taxable income for the transferee is the fair value if the transfer is without consideration or the difference between the fair value and inadequate consideration over the stipulated threshold of INR 50,000
- The threshold limit for getting the accounts audited in case of persons carrying on business increased to INR 6,000,000 from INR 4,000,000 and in case of persons carrying on a profession to INR 1,500,000 from INR 1,000,000

- The penalty leviable for failure to get accounts audited or to furnish audit report increased to INR 150,000 from INR 100,000
- The income of Approved Research Associations undertaking research in social science or statistical research are to be tax-exempt
- The weighted deductions for scientific research and development increased as under:
  - For expenditure incurred by eligible company in the recognised in-house research and development facility, the weighted deduction increased to 200 percent from 150 percent
  - For payments to the National Laboratory or a University or an Indian Institute of Technology or a Research Association or a specified person, the weighted deduction has been increased to 175 percent from 125 percent
  - For payments to Approved Research Associations, undertaking research in social science or statistical research, the weighted deduction is to be allowed at 125 percent



## Tax holidays

- The eligible deduction for export profits of the SEZ units is to be computed with reference to the total turnover of the undertaking instead of the total turnover of the company. This provision is now made operational retrospectively from the financial year 2005-06
- Effective from financial year 2009-10, in respect of eligible deduction for housing projects:
  - For housing projects approved on or after 1 April 2005, the period for completion of such a project extended from four years to five years post approval by the local authority
  - The permissible built-up area of the shops and other commercial establishments, enhanced to 3 percent of the aggregate built-up area of the housing project or 5,000 square feet, whichever is higher. Earlier, the permissible built-up area for such purposes was 5 percent of the aggregate built-up area of the housing project or 2000 square feet, whichever is less
- In respect of eligible deduction for hotel and convention centre for the Commonwealth Games, the date of starting for hotel and construction for convention centre extended from 31 March 2010 to 31 July 2010
- The deduction in respect of specified capital expenditure extended to the business relating to building and operating a new hotel of two star or above category anywhere in India which starts operations on or after 1 April 2010
- With retrospective effect from financial year 2009-10, for deduction of capital expenditure with respect to business of laying and operating cross country natural gas or crude or petroleum oil pipeline network, the condition of one third of the total pipeline capacity to be made available for use on common carrier replaced by the capacity as specified by the Petroleum & Natural Gas Regulatory Board.



## Non-resident related provisions

- The income of a non-resident from rendering services in the nature of 'interest', 'royalty' and 'fees for technical services' are deemed to accrue or arise in India irrespective of whether the services are rendered in or outside India. This amendment to apply retrospectively from financial year 1976-77
- The income of a non-resident in the nature of a fee for technical services relating to exploration of mineral oils would be taxed as per general provisions and not on presumptive basis.





## Withholding tax provisions

- Interest, commission or brokerage, rent, royalty, fees for professional or technical services, payments to contractors or sub-contractors incurred and payable to residents during the financial year to be deductible if the underlying tax withheld at source during the financial year, is paid on or before the due date of filing of the return of income
- Effective 1 July, 2010, the thresholds for deducting tax at source on payments to residents is to be revised as under:

Nature of Payment	Existing limit (INR)	Proposed limit (INR)
Winnings from lottery or crossword puzzle or card game and other game of any sort	5,000	10,000
Winnings from horse races	2,500	5,000
Payment to contractors	<ul style="list-style-type: none"> <li>• 20,000 (for a single transaction)</li> <li>• 50,000 (for aggregate of transactions during the financial year)</li> </ul>	<ul style="list-style-type: none"> <li>• 30,000 (for a single transaction)</li> <li>• 75,000 (for aggregate of transactions during the financial year)</li> </ul>
Insurance commission	5,000	20,000
Commission or brokerage	2,500	5,000
Rent	120,000	180,000
Fees for professional or technical services, royalty and non-compete fees	20,000	30,000

- Effective 1 July 2010, the interest rate for delay in deduction or payment of withholding tax is revised from 1 percent to 1.5 percent per month from the date on which tax is deducted till its payment. For the period from the date of obligation to deduct to the date of deduction of tax at source, the interest rate continues to be at 1 percent per month
- The Tax Deductor or Tax Collector obliged to furnish relevant certificate to the Payee for taxes deducted at source for financial year 2010-11 and onwards.



## Personal taxation

- No changes in the personal tax rates
- Basic exemption limits remain unchanged but income tax slabs have been altered, as under:

Current Slabs (INR)	Proposed Slabs (INR)	Basic rate of tax
Upto 160,000	Upto 160,000	Nil
160,001 to 300,000	160,001 to 500,000	10%
300,001 to 500,000	500,001 to 800,000	20%
Above 500,000	Above 800,000	30%

- Additional deduction upto INR 20,000 prescribed for investment in notified long term infrastructure bonds for individuals or Hindu Undivided Families
- The contribution to Central Government Health Scheme for self or family to qualify for deduction within overall ceiling limits
- The donations to Approved Research Associations to qualify for 100 percent deduction
- Simplified Form SARAL-II for individual salaried taxpayers to be notified.



## Conversion of a company into an LLP

- The conversion of a private company or unlisted public company (Company) into Limited Liability Partnership to be exempt from tax, subject to the following:
  - The total sales or turnover or gross receipts of the company do not exceed INR 6,000,000 in any of the immediate three preceding previous years
  - All the assets and liabilities of the company before conversion become those of the LLP
  - All the shareholders of the company become partners of LLP with their capital contribution and profit-sharing ratio remaining same as their shareholding in the company
  - Apart from the above, the shareholders of the company do not receive any other consideration or benefit, directly or indirectly
  - The aggregate profit sharing ratio of the shareholders of the company in LLP to be minimum 50 percent in the subsequent five years
  - The partners do not draw any amount out of accumulated profit on the date of conversion in the subsequent three years
- The cost of acquisition of capital asset for the LLP is to be the cost to the company plus the cost of improvement, if any, by the LLP or the company

- The actual cost of block of assets for the LLP is to be the written down value for the company on the date of conversion. The depreciation on capital assets to be apportioned between the company and LLP as per number of days of use
- The accumulated loss and unabsorbed depreciation of the company to be that of the LLP as stipulated
- The profits or gains on conversion and benefit of losses set off by LLP to be taxable for LLP if the stipulated conditions are not met
- The credit in respect of MAT paid by the company is not available to the LLP
- The five year amortization for expenditure on voluntary retirement scheme eligible to the company to be claimed by the LLP for unamortised instalments.



## Other direct tax provisions

- Effective 1 July 2011, a computer generated Document Identification Number to be allotted by Tax Authorities for any documents or correspondences
- Post 1 July, 2010, reference to the Valuation Officer stipulated for estimating fair market value of immovable property (being land and building, shares and securities, jewellery, archaeological collections, drawings, paintings, sculptures or any work of art) while computing income from other sources in respect of receipts without consideration or for inadequate consideration
- The carrying on any activity in the nature of trade, commerce or business for 'advancement of any other object of general public utility' is to be considered as for 'charitable purpose' provided aggregate receipts from such activities are INR 1,000,000 or less in the relevant financial year
- The Commissioner can revoke registration granted to a charitable trust or institution under erstwhile provision which existed till 1 April, 1997 if the activities of the trust / institution are not genuine or not carried out in accordance with its object
- In computing the income from other sources with respect to receipt of 'property', etc. without or for inadequate consideration as stipulated, the definition of property expanded to include 'bullion' and its ambit restricted to 'capital asset'. Further, only if the immovable property is received by an individual or HUF without consideration, then its value as per stamp duty legislation to be taxable and taxability in situation of inadequate consideration has been done away with.

- The High Courts have been empowered retrospectively to condone the delay in filing of appeal provided there exists sufficient cause for such delay
- Effective 1 June, 2010, with respect to the Settlement Commission:
  - The threshold of making an application with respect to additional tax payable increased to INR 1,000,000 from INR 300,000
  - The scope of cases to be admitted expanded to include proceedings resulting from search or from requisition of books of account or other documents or any assets where additional income tax payable on the income disclosed is in excess of INR 5,000,000. Consequential amendment also made in the Wealth Tax Act
  - The time limit for passing the order increased to 18 months where the application is filed on or after 1 June, 2010. Consequential amendment also made in the Wealth Tax Act.

# Indirect Tax



## Central excise

### General

- Rate of excise duty increased from 8 percent to 10 percent for non-petroleum goods

### Amendment (effective from date to be notified upon enactment of Finance Bill 2010)

- Clean energy cess proposed to be imposed on coal, lignite and peat produced in India

### Amendments (effective from 27 February, 2010)

- Benefit of availment of Cenvat credit on inputs and input services used in the manufacture of goods supplied under exemption to mega power projects
- Removal of moulds, dies, jigs, fixtures to vendors permitted without reversal of Cenvat credit. This benefit was earlier available only to job workers
- Lower percentage of Cenvat credit reversal in case computers, computer peripherals cleared from factory after use due to new accelerated depreciation rates
- The condition of transfer of right to use packaged software for 'commercial exploitation' has been deleted in the notification providing exemption from payment of excise duty

### Amendments (effective from 1 April, 2010)

- Small scale industry allowed benefit of claiming full Cenvat credit on capital goods in the first year of its receipt and paying excise duty liability on a quarterly basis instead of a monthly basis
- Procedural relaxation by removing the requirement of pre-authentication of invoices

### Amendments (effective from date of enactment of Finance Bill 2010)

- Scope of Settlement Commission widened to include cases where no proper records have been maintained. Restriction of allowing a settlement only once in a lifetime has been relaxed
- No penalty if duty and interest paid before issue of show cause notice in cases other than fraudulent evasion
- Enabling provisions introduced to make rules to act as deterrent in case of evasion of duties, by way of withdrawal of certain facilities and imposition of restrictions on utilisation of Cenvat credits, etc

### Increase in excise duty (effective from 27 February, 2010)

Sr. No.	Product	Upto 26 February, 2010	With effect from 27 February, 2010
1.	<b>Mini Cement Plant</b>		
	- Cleared in packaged form		
	(i) RSP upto INR 190 per 50 kg bag or INR 3,800 per tonne	INR 145 per tonne	INR 185 per tonne
	(ii) RSP more than INR 190 per 50 kg bag or INR 3,800 per tonne	INR 250 per tonne	INR 315 per tonne
	- Cleared in unpackaged form	INR 170 per tonne	INR 215 per tonne
2.	<b>Motor Spirit (petrol)</b>		
	- Intended for sale without Brand Name	INR 13.35 per litre	INR 14.35 per litre
	- Intended for sale with Brand Name	INR 14.50 per litre	INR 15.50 per litre
3.	<b>HSD (diesel)</b>		
	- Intended for sale without Brand Name	INR 3.60 per litre	INR 4.60 per litre
	- Intended for sale with Brand Name	INR 4.75 per litre	INR 5.75 per litre
4.	Ceramic tiles manufactured for firing kiln whether or not using electricity	8%	10%
5.	Open Top Sanitary (OTS) Cans	4%	10%
6.	Large cars, SUVs, etc	20%	22%
		20% + INR 15,000 per unit	22% + INR 15,000 per unit

- Excise duty of 4 percent levied on specified IT products like microprocessors other than motherboards, floppy disk drives, hard disk drives, CD ROM drives, etc. meant for external use with computer / laptop as a plug-in device
- Excise duty of 4 percent levied on all electrically operated vehicles and battery operated cars (including electric motor assisted cycle rickshaws driven by rechargeable solar batteries)
- Excise duty of 10 percent levied on baby and clinical diapers, sanitary napkins



Following specified processes in relation to certain goods deemed to be manufacturing process **(effective from 27 February, 2010)**

Sr. No.	Specified Processes	Goods
1.	Cutting or sawing or sizing or polishing or any other process for converting of stone blocks into slabs or tiles	Monumental or building stones and articles of cement, concrete or artificial stones
2.	Drawing or redrawing	Aluminum tubes and pipes

### **Reduction in excise duty (effective from 27 February, 2010)**

Sr. No.	Product	Upto 26 February, 2010	With effect from 27 February, 2010
1.	Cartons, boxes and cases of corrugated paper or paperboard manufactured by standalone manufacturers	8%	4%

### **Exemptions (effective from 27 February, 2010)**

- Exemption extended to goods supplied to mega power projects in which power supply is tied up through tariff-based competitive bidding
- Exemption to specified items intended to be used for the installation of cold storages, cold room or refrigerated vehicles for preservation, storage, transport or processing of apiary, horticultural, dairy, poultry, aquatic, marine produce and meat
- Exemption on parts and components of battery chargers and hands-free head phones of mobile handsets (including cellular phones)
- Exemption to machineries required for initial setting up of solar power generation project or facilities subject to specified conditions

## Other amendments

- Assessment of duty based on the retail sale price extended to vehicles (chassis fitted with engines). Exclusion provided for carriages for disabled, trailers, etc.
- Retrospective amendment to allow the proportionate reversal of Cenvat credit attributable to inputs used in manufacture of exempted goods – applicable only to pending disputes

## M&TP Act

- Units operating in SEZ excluded from the scope of M&TP Act
- Rate of duty reduced from 16 percent to 10 percent
- Rate of abatement revised from 40 percent to 35 percent





## Service tax

### General

- Service tax rate remains unchanged at 10 percent as a pre-cursor to GST

### **Introduction of eight new taxable services (effective from a date to be notified upon enactment of Finance Bill 2010):**

- Services for promoting, marketing, organising / assisting in organising games of chance, including lottery, bingo or lotto
- Health services provided by hospitals, nursing homes or multi-specialty clinics to:
  - Employees of business entity in relation to health check-up or preventive care
  - Persons covered by health insurance schemes in relation to health check-up or treatment, when payment for such services are made by 'business entity' or insurance company. 'Business entity' defined to include an association of persons, body of individuals, company or firm, specifically excluding individuals
- Services in relation to storing, keeping or maintaining medical records of employees of a business entity
- Services of promoting or marketing of 'brand' of goods, services, events or endorsement of a name, including a trade name, logo or house mark of a business entity
- Services of granting the right or permitting commercial use / exploitation of any event including events related to art, entertainment, business, sports or marriage
- Services provided by electricity exchanges in relation to trading, processing, clearing or settlement of spot contracts, term ahead contracts, seasonal contracts, derivatives or any other electricity related contract
- Services in relation to copyright of cinematographic film and sound recording
- Services of preferential location or development of complex provided by a builder / his authorized representative to prospective buyers, excluding services in relation to parking space

**Amendments (expansion / modification) in the scope of existing services (effective from a date to be notified upon enactment of Finance Bill 2010):**

<b>Service category</b>	<b>Amendments / Clarifications</b>
Airport service, port service and other port service	<ul style="list-style-type: none"> <li>Any service provided wholly within the airport / port premises covered irrespective of category</li> <li>Authorization of service not required from airport / port authorities</li> </ul>
Auctioneer's service	<ul style="list-style-type: none"> <li>The term 'auction by government' clarified to mean an auction of government property by any person acting as auctioneer</li> </ul>
Management of investment under ULIP service	<ul style="list-style-type: none"> <li>Value of taxable service to either be actual amount charged by insurer from policy holder or maximum amount fixed by IRDA as fund management charges, whichever is higher. Prior to this, value of taxable service was computed as difference between the premium paid for ULIP reduced by risk premium and amount for aggregated investment</li> </ul>
Transport of passenger by air service	<ul style="list-style-type: none"> <li>To include domestic as well as international journey in any class, for passenger embarking in India. Prior to this, only travel by business class for international journey was covered</li> </ul>
IT software service	<ul style="list-style-type: none"> <li>To include IT software service whether or not for use in the course of, or furtherance of, business or commerce</li> </ul>
Commercial training or coaching service	<ul style="list-style-type: none"> <li>The expression 'commercial training or coaching centre' defined to clarify training service provided against consideration are taxable whether or not there is profit motive (Retrospectively amended from 1 July, 2003)</li> </ul>
Sponsorship service	<ul style="list-style-type: none"> <li>To include service in relation to sponsorship of sports event</li> </ul>
Commercial or industrial construction service	<ul style="list-style-type: none"> <li>To be considered as service if the builder or his authorised representative receives any consideration from prospective buyer before obtaining the completion certificate</li> </ul>
Construction of Complex service	<ul style="list-style-type: none"> <li>To be considered as service if the builder or his authorised representative receives any consideration from prospective buyer before obtaining the completion certificate</li> </ul>
Renting of immovable property service	<ul style="list-style-type: none"> <li>'Renting' activity itself regarded as taxable service (Retrospectively amended from 1 June, 2007)</li> <li>Renting of vacant land for construction of building / temporary structure at later stage for furtherance of business or commerce</li> </ul>



### **Exemptions from service tax (effective from 27 February, 2010)**

- 'Erection, commissioning or installation' service: To exempt 'erection, commissioning or installation' of :
  - Mechanised food grain handling systems
  - Equipment for setting up or substantial expansion of cold storage
  - Machinery / equipment for initial setting up or substantial expansion of units for processing of agricultural, apiary, horticultural, dairy, poultry, aquatic, marine products and meat
- IT software service: To exempt packaged or canned software intended for single use where excise duty / customs duty is paid subject to the fulfillment of certain other conditions
- 'Online information and database access or retrieval service' and 'Business auxiliary service': To exempt services specified in these categories provided by any Indian news agency subject to fulfillment of specified conditions
- 'Technical testing and analysis service' and 'Technical inspection and certification service': To exempt service provided by specified agencies in relation to seeds
- To exempt service of transmission of electricity

### **Withdrawal or amendments to existing exemptions from service tax (effective from 27 February, 2010)**

- Commercial training or coaching service: Definition of vocational training institute restricted to mean industrial training institutes (ITIs) or an industrial training centre affiliated to the National Council of Vocational Training, offering courses in designated trades
- Transport of goods by road: To exempt services provided by a goods transport agency in relation to the transport of food grains and pulses
- General insurance service : Withdrawal of exemption granted to the Government of Rajasthan in relation to the Group Personal Accident Scheme provided to its employees

## **Withdrawal or amendments to existing exemptions from service tax (effective from 1 April, 2010)**

- Transport of goods by rail: Withdrawal of exemption granted to Government railways

## **Amendments (effective from 27 February, 2010)**

### *Export rules*

- Mandap keeper's service shifted from the 'performance category' to 'location of immovable property category' to qualify as exports
- Following services shifted from the 'performance category' to 'recipient category' to qualify as exports:
  - Chartered accountant service
  - Cost accountant service
  - Company secretary service
- Export rules simplified by deleting condition of 'provided from India and used outside India'

### *Import rules*

- Mandap keeper's service shifted from the 'performance category' to 'location of immovable property category' to qualify as imports
- Following services shifted from the 'performance category' to 'recipient category' to qualify as imports:
  - Chartered accountant service
  - Cost accountant service
  - Company secretary service

### *Others*

- The levy of service tax earlier extended to installations, structures and vessels in the continental shelf of India and the exclusive economic zones of India has now been restricted for the purpose of prospecting or extraction or production of mineral oil and natural gas and supply thereof. The definition of 'India' similarly amended in Export and Import rules
- Value of taxable service in case of 'Air passenger transport service' to exclude statutory taxes charged by any government (including foreign governments where a passenger disembarks)

## Other amendments

- No penalty if duty and interest paid before the issue of show cause notice in cases other than fraudulent evasion
- Relaxation in the conditions for claiming refunds by service exporters with retrospective effect mainly to give a legal backing to the circular issued in this regard, with retrospectively amended provisions





# Customs duty

## General

- Customs duty rates remain unchanged. However, the effective rate should increase due to change in the excise (CVD) rates

## Amendments (effective from 27 February, 2010)

- Upfront exemption from ADC on imported pre-packaged goods and other specified goods intended for resale. Existing notification providing exemption through refund of such duty to continue for other imported goods
- Project import benefit extended to the following specified projects:
  - Mono Rail Project for urban transport
  - Setting up of digital headend
  - Installation of mechanised food grain handling system and pallet racking system in mandis and warehouse
  - Cold storage / cold room or industrial projects for preservation, storage or processing of agricultural, apiary, horticultural, dairy, poultry, aquatic, marine produce and meat
- Full exemption from custom duty subject to specified conditions: Tunnel boring machine for hydro-electric power projects, specified capital goods and raw materials for the manufacture of electronic hardware, etc
- Concessional BCD rate of 5 percent for specified agricultural machinery, machinery / instruments / appliances required for the initial setting up of solar power generation projects or facilities, subject to specified conditions
- Road construction machinery imported under exemption can be sold on payment of customs duty on the depreciated value subject to specified conditions
- Rationalisation of rate structure for medical, surgical, dental and veterinary equipment - BCD 5 percent, CVD 4 percent, ADC exempted (effective rate 9.6 percent)



- Parts required for manufacture of accessories for medical equipment would attract BCD of 5 percent
- Movies, music and gaming software (meant for use with gaming consoles), other than pre-packaged form, recorded on cinematographic film or digital medium to attract customs duty only on cost of film / digital medium, freight and insurance subject to conditions
- The condition of transfer of right to use packaged software for 'commercial exploitation' has been deleted in the notification providing exemption from payment of CVD
- Illustrative changes in BCD rates:

Items	Upto 26 February, 2010	With effect from 27 February, 2010
Crude petroleum, Petroleum oils and oils obtained from bituminous minerals	Nil	5%
Motor Spirit (petrol) and HSD (diesel)	2.5%	7.5%
Petroleum products other than naphtha, LPG,LNG, petroleum gases and petroleum coke	5%	10%

## Amendments (effective from the date of enactment of Finance Bill, 2010)

### *Customs Act, 1962*

- Scope of Settlement Commission widened and restriction allowing settlement only once in the lifetime relaxed in line with the excise law

### *Customs Tariff Act, 1975*

- CVD on goods covered by M&TP Act to be computed on MRP less prescribed abatement

## Other amendments

- Electrical energy supplied from SEZ to DTA / non-processing areas to attract customs duty at the rate of 16.48 percent retrospectively from 26 June, 2009



## Goods and services tax

- GST proposed to be rolled out from April 2011
- Several proposals under the existing tax regime should facilitate a move towards GST:
  - Focus on building robust IT infrastructure
  - Further rationalisation of rates under Excise and Customs

## Central sales tax

- Besides submitting Form F, additional responsibility cast upon the dealer to prove that the inter-State movement of goods was not by way of sale

# Glossary

ADC	-	Additional duty of Customs
BCD	-	Basic Customs Duty
CENVAT	-	Central Value Added Tax
CST	-	Central Sales Tax Act, 1956
CVD	-	Countervailing Duty
DTA	-	Domestic Tariff Area
GST	-	Goods and Services Tax
HUF	-	Hindu Undivided Family
IRDA	-	Insurance Regulatory and Development Authority
IT	-	Information Technology
LLP	-	Limited Liability Partnership
M&TP Act	-	Medicinal and Toilet Preparations (Excise Duties) Act, 1955
MAT	-	Minimum Alternate Tax
MRP	-	Maximum Retail Price
RSP	-	Retail Sale Price
SEZ	-	Special Economic Zone
ULIP	-	Unit Linked Insurance Plan

## KPMG in India

### Bangalore

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### Chennai

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Fax: +91 44 3914 5999

### Delhi

4B, DLF Corporate Park  
DLF City, Phase III  
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### Hyderabad

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Reliance Humsafar, 4th Floor  
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Hyderabad - 500 034  
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Printed in India.