



# Union Budget 2007-08: Expectations

February 2007

- Uniform excise duty of 16% on all passenger vehicles.
- Excise duty on 2-3 wheelers be reduced to 8%.
- Depreciation rate on plant & machinery to be increased to 25% from 15%.
- Benefit of weighted deduction @ 150% of R&D be extended for 10 years.

## **Tax sops on deposits**

We expect lowering of the minimum lock in period for savings in term deposits under Sec 80C from the existing 5 years.

## **Status quo on principal amount repayment on home loans**

We expect the government to maintain status quo on deduction allowed on repayment of principal amount of the housing loan under Sec 80C (current within the overall limit of Rs100,000)

## **FDI in insurance sector to be raised to 49% from the existing 24%**

This will clear plans by many insurance companies to raise capital to sustain high volume growth in business.

## **Tax sops for ARC trusts**

Tax exemption on income earned by Asset reconstruction companies would likely to broaden the market.

## Food Processing

- Tax breaks and incentives for setting up of Agro and food processing industries.
- Budgetary support for perishable commodities may be increased to over Rs10bn.
- Government may bring down excise duty on all processed food based on perishable farm produce and intermediate food products to zero.
- Government is considering scrapping excise duty on ready-to-eat packaged food and instant food mixtures like dosa and idli mixes.
- The food processing industry has also been demanding special tax soaps.
- Reduce customs duty to 5% for the sophisticated food processing machinery not manufactured in India.

## Tea

- The Indian Tea Association (ITA) has demanded full import duty exemption on filter paper and nylon cloth used in tea bags from current 12%.
- ITA has also sought the removal of 12.24% service tax on auctioneering to encourage movement of tea through auctions.
- Reduction in customs duty likely on filter, paper, craft and tissue paper used by tea exporters to give a boost to value added tea manufacturers.

## Personal Care

Industry demanding increase in abatement rate of excise on shampoos, toothpaste, soaps and detergents.

## Cigarettes

- Upto 5% increase in excise duty likely. Excise duty on filter premium cigarettes might increase at higher rate.
- States may extend VAT to cigarettes, to compensate for the loss in CST revenues.
- Additional excise duty might be replaced / reduced if VAT is implemented.

Infrastructure status for the hotel industry u/s 80IA of the I.T Act at par with other infrastructure industries. Currently the industry is granted a limited recognition u/s 10 (23) (g) of the I.T Act. Such a status would enhance the pace of room additions. Exempt hotels from payment of service tax on services received outside India.

- Custom Duty on ITA (Information Technology Agreement) items 1 & 2 was reduced to 0% and a countervailing duty of 4% was introduced in the last budget. Any further change is unlikely in the upcoming budget with virtually no scope left.
- Section 10A/10B benefits (on the corporate tax front) to continue till FY 2009-10. No change likely here.
- SEZs concessions to be extended to STPs. STP scheme is coming to a close in FY 2009-10.
- Withdrawal of service tax on maintenance and repair of software.
- Clarity in the definition of export turnover u/s 80HHE.

On January 23, 2007, the government reduced customs duty on host of items

<b>Metal</b>	<b>Customs Duty (%)</b>	<b>Duty reduced to in January (%)</b>
Alloy steel, ferro alloys, stainless steel and other alloys	7.5	5.0
Calcined alumina	7.5	5.0
Copper concentrate	5.0	5.0
Pipes from aluminium, copper and zinc	12.5	7.5
Refractories	7.5	5.0
Specific raw materials of refractories	10.75	5.0
Primary and semi finished forms of copper, aluminium, zinc and tin	7.5	5.0
Steel	5.0	5.0
Tubes, pipes and fittings of copper, aluminium and zinc	12.5	7.5

## Expectations

- No further change in custom duty expected.
- Excise duties on copper, aluminium and steel to be maintained at 16%.
- Excise duty on coking coal, non-coking coal and met coal to be maintained at 5%, refractories at 10%.



- Rangarajan committee recommendations should be implemented
- A 10-year tax holiday should be granted to pipelines, storage terminals and other related facilities for transportation and storage of petroleum products
- Undertakings engaged in the commercial production or refining of mineral oil should be given the option of claiming tax holiday.
- Cut in the ad-valorem excise duties on petro products in the Budget.
- Lowering of cess on production of crude oil and natural gas to attract higher investments in the field of exploration and production.
- Bringing clarity into the pricing of the four key products: Petrol, Diesel, Kerosene and LPG.

- Reduction in excise duty on medicines from 16% to 8%
- Continuation and enhancement in exemptions allowed on R&D
- More life-saving drugs to be brought under zero customs duty.
- The New Pharmaceutical Policy has been under consideration for quite some time. The Government should announce it soon, to remove uncertainty surrounding its implementation

### **Phase out of Sec 80 (IB) 10 related to tax exemption on income earned on mass housing \*.**

Currently only those projects valid under this segment, which have received approval from the local authority before March 2007 can avail 100% tax deduction provided the project is completed within 4 years. Developers would want this deduction to be continued for projects approved beyond March 2007.

Removal of this section would bring most of the real estate developers in the industry tax bracket of around 30% from the existing 12-15%.

\* Minimum developable area of 1 acre and 1000sq ft built up area within Mumbai and Delhi or within 25kms from the municipal limits of these cities, while 1500sq ft area in all other areas. 2000 sq ft built up area or maximum 5% of aggregate built up area for shops and commercial developments included in the housing projects.

### **SEZ Act Amendment Bill – Removal of tax sops would be a big negative**

Bill expected to be introduced in the budget session would likely consider the scope of the Act and re-examine tax sops offered to SEZ developers.

Removal of tax exemptions or other exemptions related to customs or excise could be a big negative for the sector.

- Lowering of revenue sharing licensee fee from 6-10% of AGR to 6% for all circles.
- Removal of additional duty of 4% on handsets
- Full 10 year tax exemption under sec 80IA vs. 5 year currently
- Industry has demanded no increase in service tax

Reduction in customs duty, which currently average about 37%, levied on import of variety of ship-building equipments. This would provide an impetus to the domestic ship-building industry

## Sugar

Reduction of excise duty on molasses from current flat rate of Rs750/ton to Rs170/ton or at 8% ad-valorem.

#### **India Infoline Research Team**

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