

# Budget Flash 2008 - 2009

February 29, 2008

## Policy announcements

### Agriculture

- Debt Waiver Relief:

Complete waiver of all loans to marginal / small farmers and One Time Settlement schemes for other farmers.

Total loans being waived estimated at INR 60,000 crores.

Fresh Agricultural Loans continued to be granted.

- Increase in target for agricultural credit.
- Short-term crop loans continue to be disbursed at 7% p.a.; provision for interest subvention.

- Water Resources:

Increased outlay under the Accelerated Irrigation Benefit Program (AIBP) and Rainfed Area Development Programme for management and augmentation of water resources.

Agreement for repair, renovation and restoration of water bodies expected between World Bank and Government of Orissa, West Bengal and some other States.

- Special emphasis for Irrigation projects:

Irrigation and Water Resources Finance Corporation (IWRFC) to be set up to fund long gestation major and medium irrigation projects.

Increased allocation for micro irrigation scheme.



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- 500 soil testing laboratories to be set up; allocation to Ministry of Agriculture for providing mobile soil testing laboratories in 250 districts.
- Special fund to be put in place for re-plantation and rejuvenation for cardamom, rubber and coffee.
- Government support for subsidized fertilizers to farmers; move towards a nutrient based subsidy regime.
- Central and State Government to implement Prof. Vaidyanathan Committee Report on reviewing the long term cooperative credit structure.

## Manufacturing Sector

- Goal to take manufacturing growth rate to double digit through reforms

## Infrastructure Sector

### Power

- Open bidding for 5 new Ultra Mega Power Projects with State Government support.
- National fund to be set up for transmission and distribution of power.

### Roads

- Increased allocation to National Highway Development Program for development of roads.

### Oil and Gas

- Bids invited for 57 blocks under NELP-VII - estimated to attract investments of US \$3.5 billion to US \$8 billion for exploration and discovery.

### Coal

- Coal Regulator to be appointed under the Coal Distribution Policy notified in October 2007.

## Information Technology

- Increased allocation for schemes to establish Internet Enabled Common Service Centers, State Wide Area Networks and State Data Centers.

## Textiles

- Schemes for Integrated Textile Parks (SITP) and Technology Upgradation Fund (TUF) to be continued with enhanced allocation to TUF.
- Development plans for Handloom / Powerloom/ Handicrafts through Cluster Approach.
- Health insurance scheme extended to more weavers

## Financial Sector

- Following recommendations of Committee on Financial Inclusion to be accepted
  - Addition of 250 rural household accounts every year.
  - Allow retired bank officers to be appointed as business facilitators / correspondent.
- NABARD, SIDBI and NHB to set up funds to enhance refinance operations to short term cooperative credit institutions, MSMEs and rural housing sectors.
- Eligibility criteria enhanced under Differential Rate of Interest scheme for weaker sections.

## Capital Markets

- Appropriate mechanism to be in place to expand the market for corporate bonds.
  - Launch exchange traded currency and interest rate futures.
  - Develop credit derivatives market.
  - Enhance the tradability of domestic convertible bonds.
- PAN requirement mandatory for all financial market transactions beyond applicable threshold limits.
- Central / State Government to help develop national security market.

## Defense

- Funding to Sainik schools to undertake infrastructure development for defense force training.
- Defense allocation increased by 10%.

## General

- Specific emphasis on health and education under the 11<sup>th</sup> Five Year Plan.
- SIDBI to set up Risk Capital Fund for MSME; reduction in guarantee fee and annual service fee.
- Continued support to export sector.
- Adherence to strict timelines and quality standards Commonwealth Games
- Strengthening the Public Distribution System through smart cards.

## Direct Tax

### Tax rates

- No change in corporate income tax rates.
- No change in the rate of surcharge and education cess.
- Base rate of tax on short term capital gains increased from 10% to 15%.
- Basic exemption limit for individuals\* increased in conjunction with revision in the slab rates:

Income (INR)	Tax Rates
Up to INR 150,000	Nil*
INR 150,001 to 300,000	10%
INR 300,001 to 500,000	20%
INR 500,001 and above	30%

\*Basic exemption for women increased to INR 180,000 and for Senior Citizens to INR 225,000.

### Taxes introduced/abolished

- Commodities Transaction tax proposed in line with Securities Transaction Tax (STT).
- Banking Cash Transaction Tax (BCTT) abolished effective April 1, 2009.

### Dividend Distribution tax (DDT)

- Cascading effect of DDT mitigated up to one level by allowing set off of dividend received from subsidiary company. Provided the subsidiary company has paid the DDT and the holding company is not a subsidiary of any other company.

## Exemptions/Deductions

- Income arising from sapling or seedlings grown in nursery treated as agricultural income exempt from tax.
- Conversion of Foreign Currency Exchangeable Bonds into shares or debentures of any company not to be treated as 'transfer'. The cost of such converted shares or debentures to be the original cost of the corresponding bond.
- Reverse mortgages not to be considered as transfer; revenue stream received by senior citizens on reverse mortgage to be exempt from tax.
- Five year tax holiday extended:

To new hospitals located in specified areas which begin operations between April 1, 2008 and March 31, 2013.

To new Two, Three and Four star hotels located in UNESCO-declared world heritage sites which begin operations between April 1, 2008 and March 31, 2013.

- Benefit of amortization of preliminary expenses extended to all undertakings which were hitherto available only to industrial undertaking.
- Additional deduction of INR 15,000 allowed to an individual paying parent's health insurance premium.
- Investment made in Senior Citizen Saving Scheme, 2004 and Post Office Time Deposit eligible for tax deduction, within the overall ceiling of INR 100,000.
- Weighted deduction of 150 per cent on in-house R&D extended to the business of 'production of seeds' and 'manufacture of agricultural implements'.
- Weighted deduction of 125 per cent available to small companies outsourcing scientific research.
- STT paid in the course of business allowable as deduction against taxable business income.

## Minimum Alternate Tax

- For the purpose of computation of book profits under Minimum Alternate Tax ('MAT'), income tax is required to be added to 'book profits'. It is clarified that income tax shall include the following:
  - Deferred tax.
  - Dividend Distribution Tax.
  - Any interest charged under the Income-tax Act.
  - Surcharge and education cess.

## Fringe Benefit Tax

- Prepaid electronic meal card, crèche facilities, sponsorship of employee-sportsperson, organizing sports events for employees and guest houses expenses excluded from levy of Fringe Benefit Tax.

## Withholding tax

- Retrospective amendment (with effect from June 1, 2002) to treat person not withholding tax as an 'assessee in default'
- No withholding tax on interest earned on listed corporate bonds in dematerialized form.
- Withholding tax obligation on payment to contractors cast on AOP/BOI.
- Issue of tax withholding certificates in the dematerialized form postponed to April 1, 2010.

## Due date for filing tax return

- Due date for filing the tax return for corporate and non-corporate tax payers subject to tax audit, advanced to September 30.

## Indirect Tax

### Service Tax

- Service tax rate to continue at 12%
- Threshold exemption limit for small service providers increased to Rs.10 lakhs.
- Service tax imposed on following new services - to be effective from a date to be notified after enactment of the Finance Bill
  - services provided in relation to information technology software for use in the course or furtherance, of business or commerce (such as software development, up-gradation including right to use IT software for commercial exploitation and IT software supplied electronically)
  - asset management services under unit linked insurance business
  - services of a recognized stock exchange in relation to securities
  - services of a recognized association or a registered association in relation to sale or purchase of any goods or forward contracts
  - services of a processing and clearing house in relation to processing, clearing and settlement transactions in securities, goods or forward contracts
  - services in relation to transfer of right to use any goods not chargeable to sales tax/VAT (such as charter hire of vessels and equipment)
  - Internet telecommunication services
- Scope of following services amended - to be effective from a date to be notified after enactment of the Finance Bill
  - foreign Exchange broker services - services in relation to purchase and sale of foreign exchange currency now included
  - cargo handling services - definition of cargo handling services amended so as to include services of packing together with transportation of cargo or goods.

tour operator services - definition of tour operator amended so as to include services in relation to a journey in a vehicle which does not meet the criteria of tourist vehicles under the relevant state regulation.

renting of immovable property services - to include allowing or permitting the use of space.

service tax is to be paid even on mere crediting /debiting of amounts in the books of accounts. 'Associated enterprise' to have the same meaning assigned to it in Section 92A of the Income Tax Act, 1961.

- Amendments to Cenvat Credit Rules 2004 (effective April 1, 2008) include:
  - allowing removal of capital goods outside the premises of service provider without any restriction for its return
  - provisions with regard to provider of both taxable and exempt output services amended in order to afford an option to such provider to either reverse the proportionate credit on common services/goods used in provision of exempt services, based on detailed methodology prescribed therein or pay 8% of the value of exempted services. The third option of maintaining separate books of accounts continues to remain.
- Service tax on Works Contract service providers opting for composition scheme increased to 4% with effect from March 1 2008.
- The Export of Service Rules 2005 and Taxation of Services (Provided from Outside India and received in India) Rules, 2006 amended with effect from March 1, 2008 to provide that following services, in relation to any goods or material or any immovable property situated in India, shall be treated as services performed in India irrespective of actual place of performance of such services:
  - management, maintenance or repair services;
  - technical testing and analysis services;

technical inspection and certification services.

- The Service Tax Rules, 1994 amended with effect from March 1, 2008 to –

allow adjustment of service tax excess paid to the extent of Rs.1 lakh as against the earlier limit of Rs.50,000.

increase the time limit for filing revised returns under Rule 7(B) to 90 days.

extend the facility of service tax payments in advance to assesseees who are not centrally registered.



## Customs Duties

### Tariff

- Peak rate of basic customs duty (BCD) on all non-agricultural products remains unchanged at 10%
- Customs duty on project imports reduced to 5%
- BCD on following goods reduced
  - Crude and unrefined sulphur from 5 % to 2%
  - Phosphoric acid from 7.5 % to 5% irrespective of the use
  - unworked or simply prepared corals from 10 % to 5%
  - specified machinery for manufacture and export of sports goods from 7.5% to 5%
  - feed additives pre-mixes used in poultry reduced from 30 % to 20%
  - certain specified drugs from 10% to 5%
  - specified raw materials for tyre industry from 10% to 5%
- BCD on following goods reduced to NIL
  - Iron/ steel/aluminium scrap
  - Helicopter simulators
  - Bactofogus used in dairy
  - Tuna bait
  - rough cubic zirconia
  - specified raw materials for manufacture of specified electronics / IT hardware items
  - specified parts of set-top boxes
- BCD increased on specified tobacco products from 30% to 60%
- Export duty rate on chromium ores and concentrates increased from Rs. 2000 PMT to Rs. 3000 PMT

- Following exemptions stand withdrawn
  - 4% additional duty of customs on power generation, transmission, sub-transmission and distribution projects and specified goods for high voltage transmission projects
  - exemption to Naphta used in manufacture of specified polymers
- National Calamity Contingent Duty (NCCD) of 1% withdrawn on polyester
- Countervailing duty of 1% under Section 3(1) of the Customs Tariff Act, 1975, levied on import of mobile phones
- Concessional duty of 5% on specified convergence products

### Non-Tariff

- Period of re-export of leased equipment and machinery imported for temporary use increased from 12 to 18 months. The slab rates of duty applicable on such imports now applicable on quarterly basis as against earlier half yearly basis to bring them in line with the drawback schedule Eligibility period of duty drawback on re-exports reduced from 36 to 18 months
- Customs officers authorized to issue summons
- Central Government empowered to recover any excess customs duty collected by any person
- Interest payable on refunds delayed by more than three months
- Maximum amount of penalty for contravention of any provisions of the act increased from Rs.10,000 to Rs.1,00,000
- Maximum amount of penalty for contravention of any provisions of rules increased from Rs.500 to Rs.50,000



## Central Excise

### Tariff

#### General CENVAT Rate

- Effective March 1, 2008, general rate of excise duty has been reduced from 16% to 14%. The other ad valorem rates of 24%, 12% and 8% remain unchanged.
- Excise duty exempted on the following categories of products (effective March 1, 2008)

Anti- AIDS Drugs ATAZANAVIR and bulk drug for its manufacture

Packaged tender coconut water

Paws, mudi ( puffed rice) and the like

Milk containing edible nuts

Tea/ coffee pre-mixes

Specified Refrigeration equipment for installation of cold storage, cold room or refrigerated vehicle on end-use basis

Wireless Data modem cards

Paper and paper products , manufactured from non-conventional raw material upto clearance of 3500 metric tonne in a year from a unit

Composting machines

Menthol and menthol flakes

- Excise duty reduced on the following categories of products (effective from March 1, 2008)

Duty reduction from 16% to 8% on

All drugs (formulations)

Instant sterile dressing pads, burn therapy pads, corn removers etc.

Sterile surgical catgut, sterile absorbable surgical and sterile tissue adhesive for wounds closure etc

First aids boxes and kits, blood grouping reagents etc.

Corn flakes and similar breakfast cereals

Sharbats

Packing Materials i.e.Aseptic packing papers and bags, open top sanitary (OTS) cans

Specified convergence products

Water filtration and purification devices

Veeners & Flush Doors

Heat resistant rubber tension tape

Inks for marker pens, highlighters etc

- Excise duty reduced on following goods (effective from March 1, 2008)

Small cars from 16% to 12%

Hybrid cars from 24% to 14%

Electric cars from 8% to NIL

Specified parts of electric cars from 16% to Nil on end-use basis

Buses and vehicles for transport for more than 13 persons from 16% to 12% and on chassis of such vehicles from '16% +Rs. 10,000' to '12% +Rs 10,000'

Two wheelers and three wheelers for transport of upto 7 persons from 16% to 12%

Paper, printing paper and packing paper from 12% to 8%

Paper and paper products , manufactured from non-conventional raw material, beyond clearance of 3500 metric tonne in a year from a unit (not having an attached bamboo/wood pulp plant) from 12% to 8%

Pan masala not containing tobacco, with betel nut

content not more than 15% from 16% to 8%. It has also been exempted from National Calamity Contingent Duty

- Excise duty increased on following goods (effective from March 1, 2008)

Packaged software from 8% to 12%

Bulk cement from 'Rs 400 per tonne' to "14% or Rs 400 per tonne", which ever is higher

Cement clinkers from Rs. 350 per tone top Rs 450 per tonne

Non filter cigarettes rates in par with filter cigarettes. Excise duty ( Basic + NCCD+ Health cess)

- Not exceeding 60 mm in length From Rs 68 per 1thousand to 819 per thousand
- Exceeding 60 mm but not exceeding 70 mm in length Rs 546 per thousand to Rs 1323 per thousand

Duty rates on unbranded Motor Spirit and HSD converted to specific rate from 'ad valorem + specific rate'

- Motor spirit from 6% + Rs 13 per litre to Rs 14.35 per litre
- HSD from 6% + Rs 3.25 per litre to Rs 4.60 per litre

Exemption from levy of Excise Duty withdrawn on shuttleless looms. These would now be attract 8% excise duty

NCCD @1% on PFY withdrawn

Imposed on mobile phones @ 1 %

- Others (effective March 1, 2008)

Rate of duty on clearance of goods to DTA from EOU, STP and EHTP enhanced to '50% of basic customs duty + excise duty payable on like goods' from '25% of the basic customs duty + excise duty payable on like goods'

Consequent upon the reduction in the excise duty rates, abatement rates for specified goods leviable to excise duty on MRP basis have been revised downwards

#### Non Tariff

- Explanation inserted to the definition of "excisable goods" to include any article, material or substance which is capable of being bought and sold for a consideration and such goods shall be deemed to be marketable (effective from a date to be notified)
- Section 11B of the Central Excise Act, 1944 amended to extend to refund of interest paid on duties (effective from the date to be notified)
- With effect from April 1, 2008, definition of input service amended to include input service used by the manufacturer for clearance of final product upto the place of removal instead of clearance of final product from the place of removal.
- The Central Excise (Determination of Retail Sale of Excisable Goods) Rules, 2008 introduced for determination of retail sale price, where the same is not declared on the packages or tampered or altered or obliterated. (effective from March 1, 2008)

#### CST

- Rate of Central Sales Tax proposed to be reduced from 3% to 2% from April 1, 2008.

