

**INDIA BUDGET 2007**

**Budget 2007 presented by the Finance Minister before the parliament on 28<sup>th</sup> February, 2007, is analysed in this document. Direct Tax proposals will be applicable from Assessment Year 2008-2009 and Indirect Tax proposals (except for Service Tax) will be applicable with immediate effect unless otherwise stated. Proposals for Service Tax will be applicable on enactment of Finance Bill unless otherwise stated. The proposals are subject to amendment as the Finance Bill is yet to be passed by the Parliament.**

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*foreword...*

MSN demystifies 2007, AAM AADMI BUDGET presented by Mr. P. Chidambaram, Minister of Finance in brief and crisp language without technical jargons.

Budget 2007 continues on the path laid down in earlier budgets presented by UPA government and FM continues to be one of the most genius tax collector. He has continued on tax collection spree despite once again tempering taxation of dividends, imposing 1% additional Cess, extending MAT, bringing ESOP into FBT ambit and above all, a master stroke to classify 'Rent' as 'Service' and levying 12.5% service tax on commercial renting.

Why FM hesitated to offer sops to public at large in the back drop of 9.2 % growth and smallest ever fiscal deficit is intriguing but on prodding further one finds that he has provided handsomely for those schemes, benefits of which would be apparent in long run, for instance insurance scheme for senior citizens and poorest of the poor, scholarships to stem school dropout rate, up- gradation of IIT's, extending farm credit etc.

'Curbing inflation without compromising growth' is daunting task in the face of very low growth in agriculture that slipped to 2.3% from estimated 4% a year. One would have to give some time to feel impact of specific measures announced in the Budget.

Major economic initiatives and clause wise direct and indirect tax proposals are listed in the document.

**SNAP SHOT – ECONOMIC INITIATIVES****Backward Classes**

- Allocation for schemes only for SCs and STs to be increased to Rs 3271 Crore.
- Rs 63 Crore for share capital for National Minorities Development Finance.
- Allocation for SC/ST scholarships enhanced from Rs.440 Crore to Rs.611 Crore.
- Scholarships programme for minorities students in pre-metric, graduate and postgraduate levels.
- 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.

**Agriculture**

- Targets doubling seed production in 3 years.
- Rs.100 Crore for the new Rainfed Area Development Programme.
- Additional Rs1800-cr to NABARD.
- Proposed provision of Rs.153 Crore for induction of high yielding milch animals and related activities.
- Water harvesting: Indian Council of Agricultural Research to set up one teaching-cum-demonstration model of water harvesting in 32 selected State Agricultural Universities and ICAR institutes.
- National Agricultural Insurance Scheme to be continued for Kharif and Rabi 2007-08 with a provision of Rs.500 Crore.
- *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.

**Textiles**

- Scheme for Integrated Textiles Parks to get Rs.425 Crore.
- Technology Up gradation Fund scheme to get Rs.911 Crore.
- Scheme for modernization and technology up gradation with special emphasis to major coir producing States to get Rs.22.50 Crore.
- Health insurance scheme to be extended to more weavers and also to be enlarged to include ancillary workers.

**Skills Training**

- 300 ITIs identified for up gradation.
- Secondary education allowance to be doubled from Rs.1,837 Crore to Rs.3,794 Crore.
- Two Lacs more teachers to be employed and Five Lacs more classrooms to be constructed.
- To prevent high school dropout rate, a National Means-cum-Merit scholarship to be implemented, with an allocation of Rs 6,000 per child.

**Infrastructure**

- Five year tax holiday for 2/3/4 star hotels and convention centres in NCT of Delhi, Gurgaon, Ghaziabad, Faridabad and Gautam Nagar for Asian Games.
- Funds to APDRP increased to Rs.800 Crore.
- Rajiv Gandhi Grameen Vidyutikaran Yojana allocation to increased to Rs.3,983 Crore.
- Provision for National Highway Development Programme to increase from Rs.9,945 Crore to Rs.10,667 Crore.

**Capital Market**

- Dividend distribution tax raised from 12.5% to 15% on income distributed by a domestic company to its shareholders by way of dividend w.e.f. 1<sup>st</sup> April'2007.
- 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 Organizations (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.

**CST**

- Central Sales Tax reduced from 4 % to 3%.

**SENIOR CITIZENS**

- 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.

**DIRECT TAX PROPOSALS****TAX RATES TINKERED**

a. 1% Additional Secondary and Higher Education Cess imposed on all categories of assesses.

**b. Individuals / AOP/ HUF**

While FM kept income tax rates unchanged, he increased the income threshold limit by Rs. 10,000.

Basic exemption limit for women resident in India has been raised from Rs.1,35,000 to Rs.1,45,000.

Basic exemption limit for a senior citizen resident in India has been raised from Rs.1,85,000 to Rs.1,95,000.

No Change in 10% surcharge on individuals having income-exceeding Rs. 10,00,000

<b>Income slab (AY 07-08)</b>	<b>Income slab (AY 08-09)</b>	<b>Rates of Income Tax</b>
Up to Rs. 1,00,000	Up to Rs. 1,10,000	Nil
Rs. 1,00,001 to Rs. 1,50,000	Rs. 1,10,001 to Rs. 1,50,000	10%
Rs. 1,50,001 to Rs. 2,50,000	Rs. 1,50,001 to Rs. 2,50,000	20%
Above Rs. 2,50,000	Above Rs. 2,50,000	30%

**c. Firms / Corporate**

Surcharge of 10% has been withdrawn on firms and companies with a taxable income of Rs.1 Crore or less to encourage small and medium enterprises. Firms and Companies having taxable income of more than Rs.1Crore continue to pay 10% surcharge.

Similarly, 2.5% surcharge of Foreign company would now be levied only if taxable income exceeds Rs. 1 Crore (Ten Million)

This will benefit about 12,00,000 firms and companies including foreign companies.

**d. Domestic Companies**

- 10% MAT (Minimum Alternate Tax) extended to EOU, FTZ, STPI and EHTP units
- Corporate tax rate remains at 30 percent
- Education Cess : 2%
- Secondary and Higher Education Cess: 1%
- Surcharge : 10% if taxable income exceeds Rs. 1 Crore ( 10 million)

**e. Foreign Companies**

- The income tax rates remain unchanged at 40 per cent
- Surcharge: 2.5% if taxable income exceed Rs. 1 Crore (10 million)
- Education Cess : 2%
- Secondary and Higher Education Cess: 1%

**f. Firms**

- The income tax rate for firms remains unchanged at 30%

**Comparative Tables**

**a. Income up to Rs.1 Crore**

<b>Status</b>	<b>Existing rates+ Surcharge + Education Cess</b>	<b>Proposed rates + Surcharge + Education Cess</b>	<b>Net Reduction in tax rate</b>
Domestic company	33.66 %	30.90 %	2.76 %
Foreign company	41.82 %	41.20 %	0.62 %
Partnership firm	33.66 %	30.90 %	2.76 %

**b. Income above Rs.1 Crore**

**c.**

<b>Status</b>	<b>Existing rates+ Surcharge + Education Cess</b>	<b>Proposed rates + Surcharge + Education Cess</b>	<b>Net Increase in tax rate</b>
Domestic company	33.66 %	33.99 %	0.33 %
Foreign company	41.82 %	42.23 %	0.41 %
Partnership firm	33.66 %	33.99 %	0.33 %

**DEDUCTIONS AND EXEMPTIONS****PENSION SCHEME EXTENDED**

Pension Scheme benefits of Sec.80CCD extended to cover all employers retrospectively with effect from 01.04.2004. Deduction of employer's and employee's contribution to notified pension scheme upto 10 % of salary ( Basic + DA ) each hitherto limited to only Central Government employees will now cover all employees w.e.f. 1<sup>st</sup> April'2004.

**DEDUCTION FOR MEDICAL INSURANCE PREMIA INCREASED**

To meet the increasing cost of medical insurance premium, the deduction available under section 80 D has been increased to Rs. 15000.

(Amount In Rupees)

<b>Particulars</b>	<b>Existing</b>	<b>Proposed</b>
Senior Citizen	15,000	20,000
Other than senior citizen	10,000	15,000

Besides making the payment through cheque, now payments for medical insurance premium through credit card/DD/Electronic transfer (other than cash) would also be eligible for deduction.

**SPOUSE AND CHILDREN ELIGIBLE FOR EDUCATION LOAN BENEFITS**

Till now the assessee was eligible for deduction of interest paid without any limits for self education loan only. Now the benefit is extended to cover education for higher education of spouse and children (Sec.80E). Period up to which one can avail deduction, however remains for a period of eight consecutive years starting from the year in which the repayment starts.

**DISASTER COMPENSATION EXEMPTED**

Amount received or receivable from Central Govt., State Govt. or local authority by an individual or his legal heir by way of compensation on an account of any disaster would now be exempt from income tax.

### **SUBCONTRACTING IN INFRASTRUCTURE PROJECTS LOOSES CHARM**

To promote investment in the infrastructure, tax exemption is granted under Section 80 IA. To ensure actual investment flows into the sector, a clarification in the form of retrospective amendment has been incorporated to ensure that only those who undertake and invest, executes the development work himself to be eligible for tax exemption under **(Section 80IA)**.

### **NEW HOTELS / CONVENTION CENTRE**

100% tax exemption will be allowed on the profits and gains derived from the business of hotel, owning and operating a convention center located in NCR (districts of Faridabad, Gurgaon, Gautam Budh Nagar and Ghaziabad) for five consecutive assessment years beginning from the initial assessment year.

Provided further, the functioning of such Hotel or Convention Centre must be started during 1st April 2007 to 31st March 2010. **(Section 80ID)**.

### **MEASURES TO PLUG REVENUE LEAKAGES**

**a) Cash Expenses above Rs. 20,000:** To curb tax evasion, payment of any expenditure made by means of other than A/c payee Cheque or DD exceeding Rs.20,000 will be wholly disallowed under modified sec.40A(3). In case the deduction of the expense has been taken in any previous year, but the cash payment is made in any subsequent financial year, then the cash payment would be treated as income of the financial year in which the payment has been made.

To capture, collate and compare data from varying sources, **PAN** is emerging as single most useful toll. Investors would be required to quote PAN while making investments in securities market.

**b) Banking Cash Transactions Tax (BCTT)** continues to be an extremely useful tool to track unaccounted monies and trace their source and destination. It has led the Income Tax Department to many money laundering and Hawala transactions. However exemption limit for individuals and HUFs raised from Rs.25,000 to Rs.50,000 effective 1<sup>st</sup> June'2007, while there is no change for companies as exemption limit remains at Rs.1, 00,000. Cash withdrawals by the Central and State Governments have been excluded from the scope of BCTT.



Definition of **Capital Assets** widened to include:

- Archaeological Collections
- Drawings
- Paintings
- Sculptures
- Any work of art

Sale of such items was till hitherto exempt as personal effects. Now on sale of such articles would attract capital gains tax varying from 10 to 30 % depending upon period of holding.

**c) Exemption on reinvestment of capital gain curtailed**

No tax is levied if long-term capital is invested in NHAI / RECL bonds that are redeemable after three years.( **Section 54EC**).

With effect from 01.04.2007 the tax benefit would be limited to investment up to Rs. 50 Lacs in a financial year thereby meaning an assessee would be forced to pay tax on capital gain exceeding Rs. 50 Lacs.

**ESOPS BROUGHT UNDER FRINGE BENEFIT TAX (FBT)**

ESOPs issued by the company to its employees would now be taxed under fringe benefit tax (FBT). Any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer free of cost or at concessional rate to his employees (including former employee or employees) will be liable to Fringe Benefit Tax.

**Calculation of fringe benefit of ESOP:** Fair market value of the specified security or sweat equity shares, on the date of exercise of the option by the employee as reduced by the amount actually paid by, or recovered from the employee in respect of such security or shares, shall be the value of fringe benefit.

**ADVANCE PAYMENT SCHEDULE OF FBT REMODELED**

a) All the companies, who are liable to pay the same in four installments during each financial Year and the due date of each installment and the amount of such installment shall be as specified in Table below:

<b>Due date of installment</b>	<b>Amount payable (As % of advance tax)</b>
On or before the 15th June	15 %
On or before the 15th September	45 %
On or before the 15th December	75 %
On or before the 15th March	100 %

b) All the assessee (other than companies), who are liable to pay the same in three installments during each financial year and the due date of each installment and the amount of such installment shall be as specified in Table below:

<b>Due date of installment</b>	<b>Amount payable (As % of advance tax)</b>
On or before the 15th September	30 %
On or before the 15th December	60 %
On or before the 15th March	100 %

Where an assessee has failed to pay the advance tax on or before the due date or where the advance tax paid by him is less than the amount payable then he shall be liable to pay simple interest at the rate of 1% p.m. or part of month.

**Note:**

Exemption from surcharge even if the taxable income is less than Rs.1 Crore (taxable income) is not available while calculating FBT.

**SCOPE OF TAX DEDUCTION AT SOURCE ENLARGED**

- Higher TDS on fees for Professionals/Technical Services, Commission and Brokerages.
- Rent on plant and machinery or equipment liable for TDS.

<b>Particulars</b>	<b>Existing</b>	<b>Proposed</b>
Commission or Brokerage (194H)	5 %	10 %
Rent for use of plant or machinery or equipment (194I)	-	10 %
Fee for professional or technical services (194J)	5 %	10 %

- With effect from 1<sup>st</sup> June'2007, 10% TDS will be deducted if interest exceeds Rs.10,000 on 8% Saving (Taxable) Bond'2003.
- Interest on Bank FDR/ Co-Operative Societies would now be subject to TDS only if interest exceeds Rs. 10,000 in a financial year. Earlier the limit was Rs. 5000.
- With effect from 01.06.2007, Individual / HUF would also be required to deduct TDS on payments to contractors if their turnover exceeds Rs. 10 Lacs in case of professionals and / Rs. 40 Lacs in case of others of will also be liable to deduct TDS on payment to contractor and sub-contractors w.e.f. 1st June'2007.

**Delay In Deposit Of TDS**

- Interest payable for delay in deposit of TDS under section 201(1A) has been changed from 12 percent p.a. to 1 percent p.m. or part of the month.
- Reasonable opportunity would now be provided to the assessee before he is asked to get his accounts audited under section 142 (2A). Audit expenses till hitherto paid by the assessee would now be borne by the Central Government w.e.f. 1<sup>st</sup> June'2007.

## INDIRECT TAX PROPOSALS

### CENTRAL EXCISE

- Secondary and Higher Education Cess
- A Secondary and Higher Education Cess @ 1% of the aggregate of duties of excise has been imposed on excisable goods with immediate effect. This Cess would be in addition to the existing education Cess of 2% imposed in budget 2004.
- Credit of Secondary and Higher Education Cess will be allowed for the payment of Education Cess as well as Secondary and Higher Education Cess.

### SSI Exemption Scheme Increased To Rs. 1.5 Crore

Small Scale Industries will not be liable to levy normal excise duty on removal of goods up to Rs.1.5 Crore (aggregate assessable value).

### Extension of Exemption From Addition Duty Of Customs On Cell Phone

Cell phone parts, components and accessories, which were exempt from additional duty of customs of 4% till 30.04.2007, will remain exempt till 30.06.2009.

### Excise Duty Reduced/Removed

- Differential excise duty on cement introduced to stem artificial price hike. Excise duty on cement reduced from Rs.400 per tonne to Rs.350 per tonne for cement bags sold at Rs.190 per bag at retail market. Those sold above Rs.190 will attract excise duty of Rs.600 per tonne.
- Excise duty on petrol and diesel brought down from 8 % to 6 %.
- Excise duty on plywood reduced from 16 per cent to 8%.
- Bio-diesel exempted from excise duty.
- Water purification devices exempted from excise.
- Specific rates of excise duty on cigarettes have been increased.
- Excise duty on Pan Masala without tobacco as mouth fresheners reduced from 66 per cent to 45 per cent.
- Biscuits of having retail sale price of Rs. 50 per kg or less exempted.

## **SERVICE TAX**

### **Secondary and Higher Education Cess**

- Secondary and Higher Education Cess @ 1% is being imposed. The Cess paid on inputs services shall be available as credit for payment of Cess on output services. It will come into force from the date of enactment of the Finance Bill, 2007.
- Credit of Secondary and Higher Education Cess will be allowed for the payment of Education Cess as well as Secondary and Higher Education Cess.

### **Exemption Limit Increased To 8 Lacs**

- The threshold level of service tax exemption for small service providers has been increased from the present level of Rs.4 Lacs to Rs.8 Lacs with effect from 01.04.2007
- Consequent upon increase in threshold limit, limit for obtaining service tax registration raised from Rs. 3 Lacs to Rs. 7 Lacs.

### **Seven New Services Brought Under Service Tax Net:**

- Telecommunication services.
- Mining services.
- 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.
- Services component of a works contract, other than works contract in respect of roads, airports, railways, transport terminals, bridges, tunnels and dams.
- Development and supply of content service for use in telecommunication services, advertising agency services and on-line information and database access or retrieval services.
- Asset management 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.
- Design services, other than interior decorator's service and fashion designing service.

**Scope Expanded In Following Services:**

- Sale of space in business directories, yellow pages and trade catalogues (commercial purposes) has been specifically included in sale of space for advertisement.
- Motor vehicle having capacity of carrying more than 12 passengers have been included for purpose of Rent-a-cab service but such service will not be taxable if provided to educational body, imparting skill or knowledge or lessons on any subject or field, other than a commercial training or coaching centre.
- Marriage organization services have been specifically include services provided by Mandap keepers.
- Use of Pandal or Shamiana for organising marriage functions have been specifically included as services provided by Pandal or Shamiana contractor.
- Marriage organisation service have been specifically included in Event Management service.
- Pre-recruitment screening, verifying the credentials and antecedents of the candidate, and authenticity of documents submitted by the candidates services have been specifically included in Manpower recruitment or supply service.
- Banking and other financial services modified.
- Management consultant's service have been renamed as "Management or Business Consultant's Service" .
- Computer hardware engineering services have been specifically included as Consultancy Service.
- Computer software has been included in Management or Business & Consultancy Services.

**Revision of Service Tax Return**

Now Service Tax Return can be revised with in 60 days from the date of filing of such return for any clerical or arithmetical error with immediate effect.