

REFORMS



Juggling with your...

**BUDGET
2006**

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EXECUTIVE SUMMARY

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FOREWORD

The Indian Economy is in buoyant stage with a growth rate of 8.1% in 2005-06 accompanied with a strong growth rate in manufacturing and service sector, optimistic economic indicators, BSE Sensex crossing 10,000 level and strengthened Indo- U.S. relationship with the visit of U.S. President to India indicating a vibrant upcoming year.

Unlike to its earlier Budget in which UPA Government had tried to rationalize the tax rates in turn leading to improved tax collection ratio to GDP, introduction of Security Transaction Tax (STT) and Fringe Benefit Tax (FBT) the current budget has attempted to maintain momentum of the Indian economy with the emphasis on rural development. The fiscal deficit is estimated at 3.8% and revenue deficit is estimated at 2.1 % as compared to 4.1 % and 2.6 % in 2005-06. The desire for modernization of tax administration and simplification, is recognised as a pre-requisite for a hassle-free tax system.

In his Budget Speech, The Finance Minister re-iterated: " The World is his who does his job", to fulfill this the Finance Minister has initiated various measures in the current budget for "Bharat Nirman". For which stress has been laid on development to irrigation, water supply project, rural road, housing, electrification and telephone. Importance on infrastructure development is given in the budget as an essential tool to achieve sustained economic growth continuously. This will also help in development of tourism and bringing in the much desired Foreign Direct Investment in the country.

The Budget 2006 has not brought in any change in tax structure. There has been increase in STT by 25% in all

categories of security transactions. Minimum Alternate Tax (MAT) is increased from 7.5% to 10%. There has been rationalization of Fringe Benefit Tax, Banking Cash Transactions Tax continues. Deduction allowable under section 80 IA for development of industrial parks and power sector has been further extended.

As per expectations there is reduction in peak Custom Duty rates and rationalization of Excise rates in various sectors. Service Tax net has been widened. Service tax rate has been increased from 10% to 12%, which is considered a step closer to introduction of national level Goods & Service Tax by April 2010.

Indian economy is directed towards achieving double digit growth rate. In this policy initiative, tax reforms and resources for rural development alongwith infrastructure support, will transpire the Indian dream "India shining".

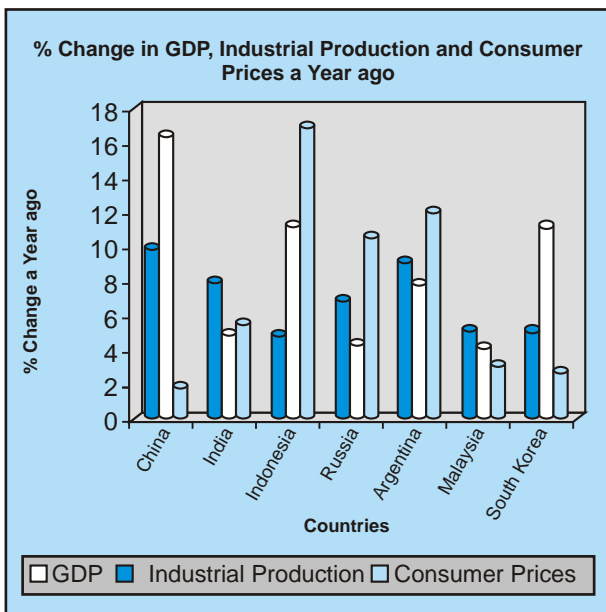
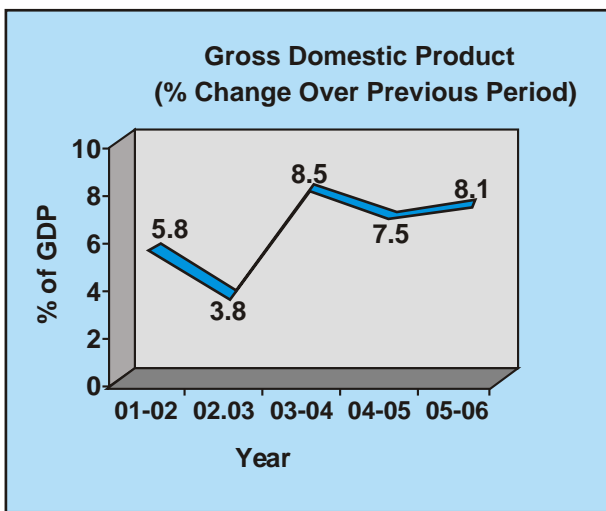
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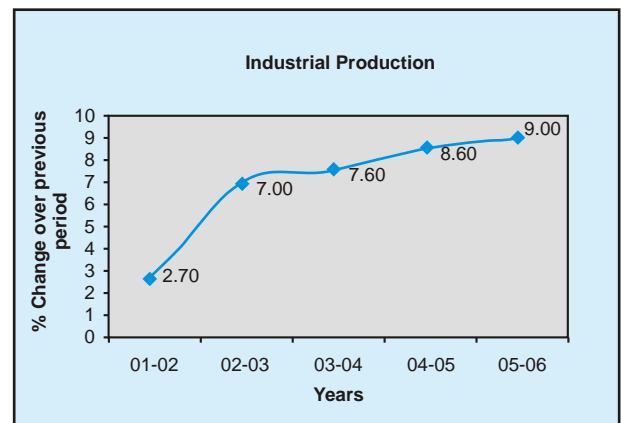
S.L. JAIN

ECONOMY SURVEY: 2005-06

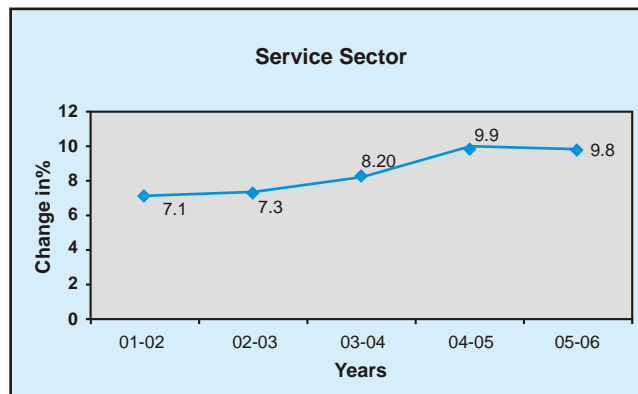
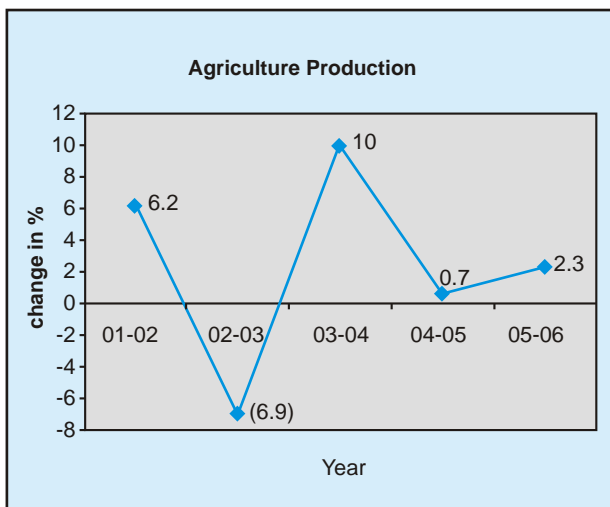
Economy is looked to grow at 8.1% during 2005-06 in comparison of 8.5 % and 7.5 % growths in previous two years. Growth of Gross Domestic Products (GDP) in excess of 8 % has yielded by economy in only five years of recorded history and out of these five years two years is in the last three years.



Industrial recovery that commenced from the second quarter of 2002-03 continues to accelerate. The industry sector has grown from 7.6% in 2002-03 and 8.6% in 2004-05 to 9 % in the current year. In the current year the industrial growth has doubled by robust performances from manufacturing and construction sector. Manufacturing growth has accelerated steadily from 7.1% in 2003-04 to 9.4 % in 2005-06. Construction growth figure has been in double digit in each of the last three years, substantive commercial bank credit flows to the housing, real estate and retail sector continued to provide support to the boom in construction and consumer durables. Deceleration in the growth of mining and quarrying due to fall in the level of crude oil production had a dampening impact on overall industrial growth which is as a result of the fire accident in July 2005 in Mumbai.

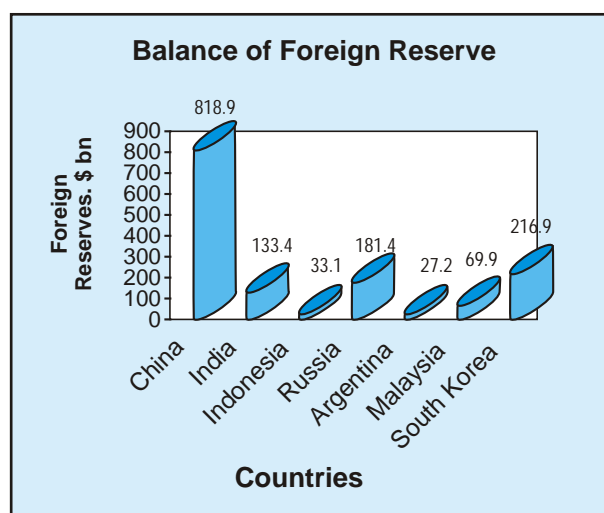


After dipping below 1% in 2004-05 mostly on account of erratic rainfall Agriculture and allied sector growth is projected at 2.3% in 2005-06. Food grain production is expected to increase by 5 Million Tons in the current year.

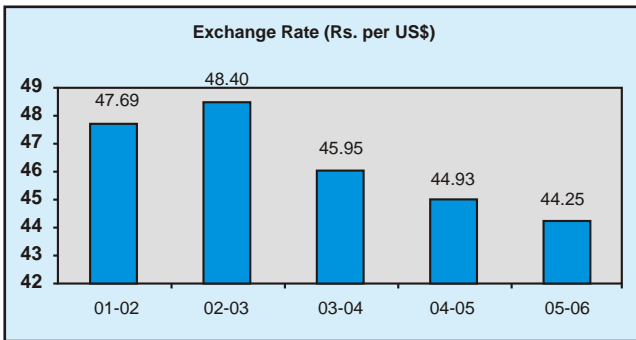
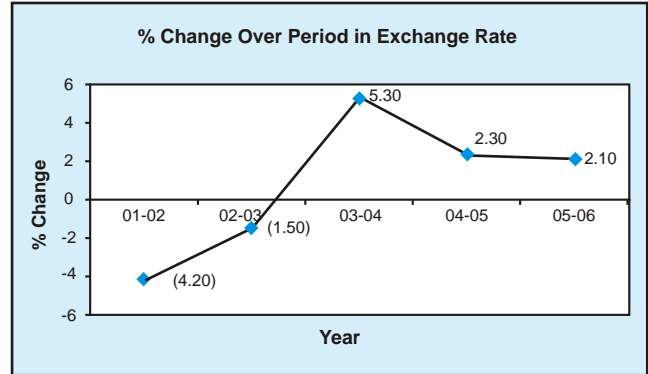


Service Sector growth has been broad-based and is expected to grow at 9.8 % in the current year. In the service sector trade, hotel, transport and communication services continued to grow at double digit rate for the three consecutive years. Impressive progress in installation of railways, additions to the existing telephone connections, mobile, etc. played a role in achieving such growth. Growth in financial services which had dipped in 2003-04 bounced back in the current year, maintaining the momentum with progressive maturing of Indian financial market and the on-going construction boom. A pick-up in investment, reflecting the high business optimism, not only strengthened industrial performance but also reinforced the growth outlook.

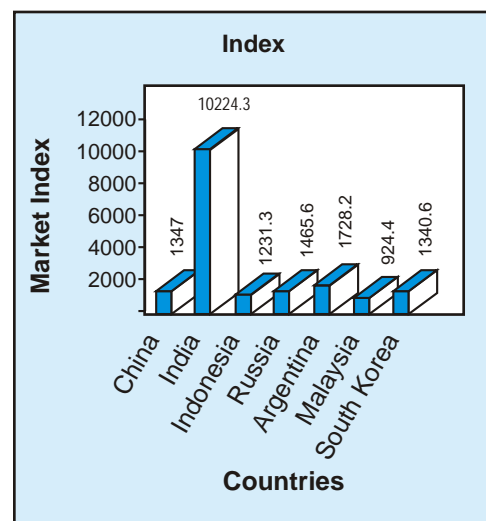
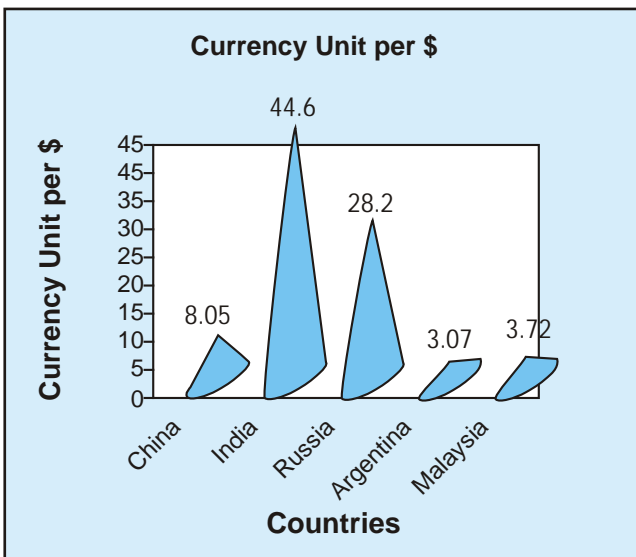
The pace of accretion of foreign exchange reserve has slowed sharply during the current year. There was reduction of US \$ 1.1 billion from end- March 2005 levels of US \$ 141.5 billion of foreign exchange reserve. The foreign exchange reserve was US \$ 133.4 billion as on January 2006. This is mainly on account of outgo of foreign exchange of US \$ 7.1 billion on IMD redemption, the weakening of US Dollar vis-à-vis other major global currencies.



During 2004-05 the Rupee had appreciated against the US \$ by 2.2%, while it depreciated against the Euro by 4.5%, Pound by 6.3 % and Japanese Yen by 2.6 %. However, in current period Rupee has strengthened against all major currencies. The appreciation against Japanese Yen is 6.4 %, Pound 4.5%, Euro 4.3 % and the US\$ 2.1 %. Average exchange rate (Rs./ US\$) which was 45.95 in 2003-04 dropped to 44.93 in 2004-05 which has further dropped to 44.25 in 2005-06.

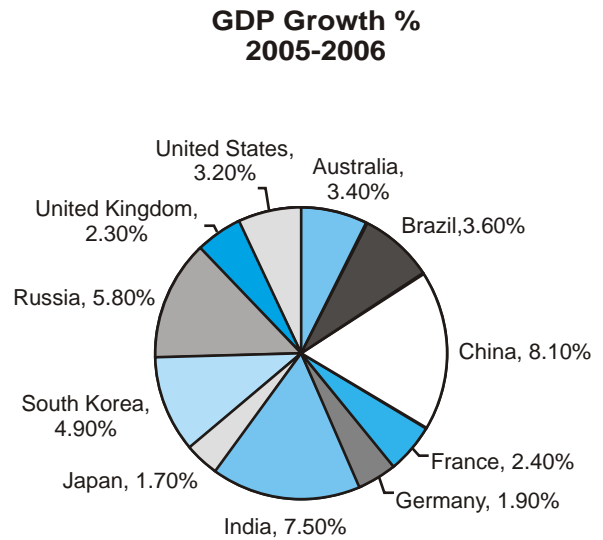
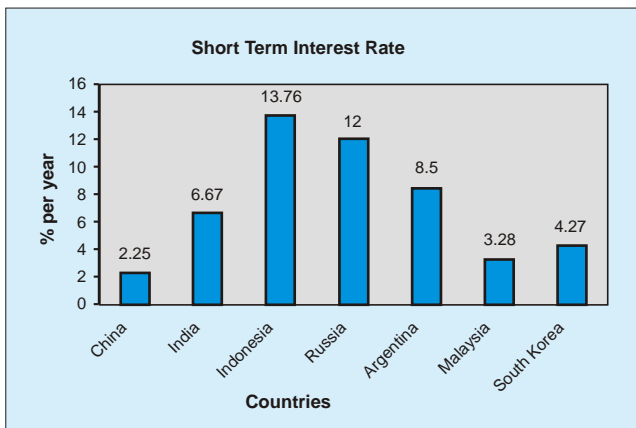


The equity market continue to boom with 11% return in 2004, followed by 36 % in 2005 provide a good measure of investor sentiments. Bombay Stock Exchange Index crossed 10,000 marks on February 6, 2006. There has been an upsurge in the Initial Public Offerings (IPO) in 2005 of Rs.30,325 crores of resources were raised on the Primary Market for equity. India Stock Market has performed well even in comparison to its peer's world over and has given reasons for investors to cheer.



With the increasing dependence on imported crude oil and growing openness, India is no longer insulated from the rest of the world in price developments. High and volatile international petroleum price impart an element of uncertainty in the inflation outlook not only for India but also the world economy. This inflation uncertainty, together with the unresolved global macroeconomic imbalances, casts its shadow on the interest rate scenario. A continued firming up of global interest rate beyond the limit poses risk of dampening the domestic investment boom.

countries GDP shows that India is on the right track and if the plan outlay translates into ground level realities the target of achieving double digit growth rate is feasible.



The journey for sustained economic growth and stability is a long one and quick fix solution for higher fiscal deficit to temporarily prop up growth through expansionary policies, albeit in increasing productive capacity, would prove to be counter productive. Instead there is better scope for higher productivity in expenditure and greater growth by deepening the reform process. A cross country evaluation of peer

KEY FEATURES OF BUDGET 2006-2007

BHARAT NIRMAN

- ❖ In the first year of implementation, 2005-06: Rs.944.18 crore released so far as grant under AIBP, target of 600,000 hectares of irrigation potential expected to be created this year; against target of 56,270 habitations, 47,546 habitations covered until January, 2006 under Accelerated Rural Water Supply Project; 5,337 habitations connected under rural roads programme by September, 2005, and Rs.3,749 crore released so far; 870,000 rural houses constructed, sum of Rs.2,260 crore released till January, 2006; Rs.1,100 crore released for rural electrification, target of covering 10,366 villages expected to be achieved; 17,182 villages provided with a telephone till December, 2005.
- ❖ Against Rs.12,160 crore in the current year, Rs.18,696 crore to be provided in 2006-07 for the programme, increase of 54 per cent.

FLAGSHIP PROGRAMMES

- ❖ Allocation for eight flagship programmes to increase by 43.2 per cent from Rs.34,927 crore in 2005-06 to Rs.50,015 crore.
- ❖ North Eastern Region (NER): In addition 10 per cent of the Plan Budget of each Ministry/Department to be allocated for schemes and programmes in the North Eastern Region (NER); for the flagship programmes allocation of Rs.4,870 crore in 2006-07; total allocation for NER is Rs.12,041 crore.
- ❖ Sarva Siksha Abhiyan: 93 per cent of children in age group 6-14 years are in school, number of children not in school has come down to about one crore; outlay to increase from Rs.7,156 crore to Rs.10,041 crore in 2006-07; 500,000 additional class rooms to be constructed and 150,000 more teachers to be appointed; Rs.8,746 crore to be transferred to the Prarambhik Siksha Kosh from revenues through education cess.
- ❖ Mid-day Meal Scheme: 12 crore children now covered; allocation to be enhanced from Rs.3,010 crore to Rs.4,813 crore.
- ❖ Drinking Water and Sanitation: 56,270 habitations and 140,000 schools to be covered in the current year; non-recurring assistance of Rs.213 crore to be provided in 2006-07 for setting up district-level water testing laboratories and field-level water testing kits; provision for Rajiv Gandhi National Drinking Water Mission to be increased from Rs.3,645 crore to Rs.4,680 crore and for Rural Sanitation Campaign from Rs.630 crore to Rs.720 crore.
- ❖ National Rural Health Mission: more than 200,000 Associated Social Health Activists (ASHA) to be fully functional and over 1,000 block level community health centres to provide round the clock services; allocation increased from Rs.6,553 to Rs.8,207 crore.
- ❖ Integrated Child Development Services: additional 188,168 centres created; Centre assisting the States to the extent of 50 per cent of the actual expenditure incurred for supplementary nutrition or 50 per cent of the cost norms, whichever is less - cost estimated at Rs.1,500 crore and this assistance to increase to Rs.1,700 crore; total allocation for ICDS increased from Rs.3,315 crore to Rs.4,087 crore.
- ❖ National Rural Employment Guarantee Scheme: allocation of Rs.14,300 crore for rural employment in 2006-07 with Rs.11,300 crore under NREG Act and Rs.3,000 crore under SGRY, more funds to be provided according to need.
- ❖ Jawaharlal Nehru National Urban Renewal Mission: estimated outlay of Rs.6,250 crore for 2006-07 with grant of Rs.4,595 crore; Government to promote establishment of new towns, preferably focussed on a specific industry, for example Information Technology, or a specific theme, for example education or health.
- ❖ National Social Assistance Programme: old age pension to destitutes above the age of 65 years to increase from Rs.75 per month to Rs.200 per month; Rs.1,430 crore provided for 2006-07; State Governments urged to make an equal contribution; a system to be established, within two years, for pension to be credited directly to the account of the beneficiary in a post office or a bank.

- ❖ Women and Children: gender sensitivities of the budgetary allocations highlighted through an enlarged statement on gender budgeting to include schemes where 100 per cent of the allocation is for the benefit of women as well as schemes where at least 30 per cent of the allocation is targeted towards women; statement covers 24 demands for grants in 18 Ministries/Departments and five Union Territories and schemes with an outlay of Rs.28,737 crore; 32 Ministries and Departments have set up Gender Budgeting Cells.
- ❖ Scheduled Castes and Scheduled Tribes: a statement on schemes for welfare and development of SCs and STs included in Budget; allocations for schemes benefiting only SCs and STs enhanced by 14.5 per cent to Rs.2,902 crore and for schemes with at least 20 per cent allocation for SCs and STs enhanced by 13.9 per cent to Rs.9,690 crore; equity contribution to the National SC Finance and Development Corporation increased to Rs.37 crore and to the National Safai Karamchari Finance and Development Corporation to Rs.80 crore.
- ❖ Minorities: corpus of Maulana Azad Educational Foundation to be doubled to Rs.200 crore; Rs.16.47 crore to be contributed to strengthen equity base of National Minorities Development and Finance Corporation; Corporation to intensify efforts to reach to artisans and weavers in urban and peri-urban centres especially in districts with concentration of minorities; programme to focus on skill enhancement, credit and techno-managerial support; allocation to National Council for Promotion of Urdu Language increased from Rs.10 crore to Rs.13 crore; Government to finance 20,000 merit-cum-means based scholarships to encourage students to pursue higher studies.
- ❖ Kasturba Gandhi Balika Vidyalaya Scheme: 1,000 new residential schools for girls from SC, ST, OBC and minority communities to be opened in 2006-07; Rs.128 crore provided and an additional sum of Rs.172 crore to be provided during the year; as a further incentive to the girl child who passes the VIII Standard Examination and enrolls in a secondary

school, a sum of Rs.3,000 to be deposited in her name, to be withdrawn by her on reaching 18 years of age.

INVESTMENT

- ❖ Government to provide equity support of Rs.16,901 crore and loans of Rs.2,789 crore to Central PSEs (including Railways); infusion of Rs.1,180 crore in cash and non-cash sacrifices of Rs.2566 crore in last two years to restructure ten PSEs, including Indian Telephone Industries Limited and Heavy Engineering Corporation Limited; to develop India as a hub for gems and jewellery, an expert body to be constituted.

AGRICULTURE

- ❖ Irrigation: Outlay of Rs.4,500 crore under AIBP in 2005-06, grant component of Rs.1,680 crore; States expected to spend Rs.2,520 crore from their resources; outlay for 2006-07 increased to Rs.7,121 crore, with grant of Rs.2,350 crore; Command Area Development Programme to be revamped to allow participatory irrigation management through water users' associations ; 20,000 water bodies with a command area of 1.47 million hectares identified in the first phase for repair, renovation and restoration; estimated cost Rs.4,481 crore.
- ❖ Credit: Farm credit increased to Rs.125,309 crore in 2004-05; expected to cross target of Rs.141,500 crore for 2005-06; to increase to Rs.175,000 crore in 2006-07 with addition of 50 lakh farmers; banks asked to open a separate window for self- help groups or joint liability groups of tenant farmers; a one time relief to be granted to farmers who have availed of crop loan from scheduled commercial banks, RRBs and PACS for Kharif and Rabi 2005-06, and amount equal to two percentage points of the borrower's interest liability on the principal amount up to Rs.100,000, to be credited to his/her bank account before March 31, 2006; Rs.1,700 crore provided for this purpose.
- ❖ With effect from Kharif 2006-07 farmers to receive short-term credit at 7 per cent, with an upper limit of Rs.300,000 on the principal amount; subvention for this to be given to NABARD.

- ❖ Sanctions under Rural Infrastructure Development Fund (RIDF XI) at Rs.7,301 crore as on January 31, 2006; corpus for RIDF XII to increase to Rs.10,000 crore; specified projects under PPP model to be allowed to access RIDF funds; separate window for rural roads with a corpus of Rs.4,000 crore during 2006-07.
- ❖ Agricultural Insurance: National Agricultural Insurance Scheme to continue.
- ❖ Plantation Sector: A Special Purpose Tea Fund to be setup, expected contribution of Rs.100 crore in 2006-07.
- ❖ Micro Finance: 801,000 SHGs credit-linked in two years with credit of Rs.4,863 crore disbursed to these SHGs; another 385,000 SHGs to be credit-linked in 2006-07; NABARD to open a line of credit for financing farm production and investment activities through SHGs; Committee to be appointed on Financial Inclusion.
- ❖ Horticulture and Fisheries: terminal markets to be setup on PPP model-Rs.150 crore earmarked for this in 2006-07 under National Horticulture Mission; Central Institute of Horticulture to be established in Nagaland; National Fisheries Development Board to be constituted.

MANUFACTURING

- ❖ Employment: five industries with employment opportunities identified in manufacturing sector, these include textiles, food processing, petroleum, chemicals and petro-chemicals, leather and automobiles; in services, tourism and software can offer large number of jobs.
 - ❖ Textiles: allocation for Technology Upgradation Fund (TUF) enhanced from Rs.435 crore to Rs.535 crore; Rs.189 crore to be provided for Scheme for Integrated Textiles Parks (SITP), Jute Technology Mission to be launched; a National Jute Board to be established.
 - ❖ Handlooms: Cluster Development approach to continue with 100 clusters to be added at a cost of Rs.50 crore in 2006-07; yarn depots to be established; a 'handloom' mark to be launched;
- scheme to be introduced to provide interest subsidy on term loans ; provision for the handloom sector to be increased from Rs.195 crore to Rs.241 crore.
- ❖ Food Processing Industry: food processing to be a priority sector for bank credit; NABARD to create a refinancing window with a corpus of Rs.1,000 crore, especially for agro-processing infrastructure and market development; National Institute of Food Technology Entrepreneurship and Management to be setup; Paddy Processing Research Centre, Thanjavur to be developed into a national level institute.
 - ❖ Petroleum, Chemicals and Petro-chemicals: a Task Force setup to facilitate development of large PC&P Investment Regions; three such Investment Regions expected to be developed in 2006-07.
 - ❖ Information Technology: existing vehicle of viability gap funding and India Infrastructure Finance Company Limited to provide equity and/or viability gap funding to new ventures; window to be open for three years.
 - ❖ Small and Medium Enterprises: 180 items identified for dereservation; to give impetus to lending by SIDBI, SMEs to be recognised in the services sector and small scale enterprises in services sector to be treated on par with small scale enterprises in manufacturing sector; corpus of Credit Guarantee Fund to be raised from Rs.1,132 crore to Rs.2,500 crore in five years; Credit Guarantee Trust for Small Industries to be advised to reduce guarantee fee from 2.5 per cent to 1.5 per cent for all loans; insurance cover to be extended to 30,000 borrowers; ten schemes drawn up under a five-year National Manufacturing Competitiveness Programme, including promotion of ICT, mini tool rooms, design clinics and marketing support for SMEs; implementation to be in the PPP model.
 - ❖ Cluster Development: Empowered Group of Ministers to be constituted to lay down policy and oversee implementation.

SERVICES SECTOR

- ❖ Tourism: development of 15 tourist destinations and

circuits to be taken up; 50 villages with core competency in handicrafts, handlooms and culture, close to existing destinations and circuits, to be identified and developed; 4 new institutes of hotel management to be established in Chhattisgarh, Haryana, Jharkhand and Uttaranchal; Plan allocation increased from Rs.786 crore to Rs.830 crore.

- ❖ Foreign Trade: share in world exports to be doubled by 2008-09.

INFRASTRUCTURE

- ❖ Telecommunication: to reach 250 million connections by December, 2007, provision of Rs.1,500 crore for Universal Services Obligation Fund in 2006-07; more than 50 million rural connections to be rolled out in three years.
- ❖ Power: five ultra mega power projects of 4,000 MW each to be awarded before December 31, 2006; to create an enabling and empowered framework to carry out reforms an Empowered Committee of Chief Ministers and Power Ministers to be setup; Tenth Plan target of 3,075 MW of installed capacity for non-conventional energy sources exceeded by December 31, 2005 with installation of 3,650 MW capacity; Rs.597 crore provided for non-conventional energy resources; Rajiv Gandhi Grameen Vidyutikaran Yojana: 10,000 villages in 2005-06 and 40,000 more villages in 2006-07 to be electrified.
- ❖ Coal: reserves of 20 billion tonnes to be de-blocked for power projects; definition of captive consumption to be amended to allow mining by producers with firm supply contracts with steel, cement and power companies; capacity of Central Mines Planning and Development Institute Limited to drill in order to prove reserves to be expanded.
- ❖ Petroleum: under NELP VI., 55 blocks and area of 355,000 sq kms offered; investment of Rs.22,000 crore expected in the refinery sector, in the next few years.
- ❖ Road Transport: Budget support for NHDP enhanced from Rs.9,320 crore to Rs.9,945 crore in 2006-07; special accelerated road development programme for the North Eastern region at an estimated cost of Rs.4,618 crore approved with allocation of Rs.550 crore in 2006-07; 1,000 kms of access-controlled Expressways to be developed on the Design, Build, Finance and Operate (DBFO) model.
- ❖ Maritime Development: National Maritime Development Programme (NMDP) approved; work is in progress in 101 projects covering, inland waterways, shipping and ports including deepening of channels in Kandla, JNPT and Paradip; plan allocation for Department of Shipping increased by 37 per cent to Rs.735 crore; study to identify a suitable location for a new deep draft port in West Bengal to be carried out ; National Institute of Port Management, Chennai, renamed as National Maritime Academy, to be upgraded into a Central University with regional campuses at Mumbai, Kolkata and Visakhapatnam.
- ❖ India Infrastructure Finance Company Limited incorporated; in principle approval granted for three road projects in Gujarat.

FINANCIAL SECTOR

- ❖ Banking, Insurance and Pensions: net capital support to banking sector standing at Rs.22,808 crore, to be restructured to facilitate increased access of banks to additional resources for lending to the productive sectors; Bill on insurance to be introduced in 2006-07.
- ❖ Capital Market: limit on FII investment in Government securities to be increased from \$ 1.75 billion to \$ 2 billion and the limit on FII investment in corporate debt from \$ 0.5 billion to \$ 1.5 billion; ceiling on aggregate investment by mutual funds in overseas instruments to be raised from \$ 1 billion to \$ 2 billion with removal of requirement of 10 per cent reciprocal share holding; limited number of qualified Indian mutual funds to be allowed to invest, cumulatively up to \$ 1 billion, in overseas exchange traded funds; an investor protection fund to be setup under the aegis of SEBI; RBI's anonymous

electronic order matching trading module (NDS-OM) on its Negotiated Dealing System to be extended to qualified mutual funds, provident funds and pension funds; steps to be taken to create a single, unified exchange-traded market for corporate bonds.

OTHER PROPOSALS

- ❖ Research and Development: National Agricultural Innovation Project for research at frontiers of agricultural science to be launched in July, 2006; National S&T Entrepreneurship Board has setup Technology business Incubators, enabling concessions to be provided to incubatee-entrepreneurs.
- ❖ Institutions of Excellence: Universities of Calcutta, Mumbai and Madras to get a grant of Rs.50 crore each to mark the beginning of their 150th year celebrations, with another Rs.50 crore each to be given at the conclusion of the year; Punjab Agricultural University, Ludhiana to get grant of Rs.100 crore; status of an autonomous National Institute to be accorded to Rajiv Gandhi Centre for Biotechnology, Tiruvananthapuram, Kerala.
- ❖ Skills Development: Rs.97 crore allocated for upgradation of ITIs; Skills Development Initiative (SDI) taken up through a PPP scheme with initial provision of Rs.10 crore.
- ❖ Backward Regions Grant Fund: Rs.1,156 crore disbursed so far in current year, Rs.5,000 crore to be allocated in 2006-07.
- ❖ Jammu and Kashmir: State Plan for 2006-07 fixed at Rs.2,300 crore; additionally Rs.848 crore provided for the J&K Reconstruction Plan, including Rs.230 crore for the Baglihar Project; special central Plan assistance of Rs.1,300 crore provided for reforms in the power sector.
- ❖ Defence Expenditure: increased to Rs.89,000 crore including Rs.37,458 crore for capital expenditure.
- ❖ e-Governance: National e-Governance Plan to be approved shortly; 25 projects, in mission mode, to be launched in 2006-07.
- ❖ Celebrating History and Heritage: Rs.10 crore

allocated for celebration of 150th anniversary of the First War of Indian Independence; National Gandhi Museum, Rajghat and the Kasturba Gandhi National Memorial Fund, Indore to be given Rs.5 crore each; Rs.5 crore for safeguarding of old art forms and oral traditions.

FISCAL CONSOLIDATION

- ❖ Twelfth Finance Commission: Rs.94,402 crore to be released as State's share in gross tax revenues in current year compared to Rs.78,595 crore in 2004-05; grants-in-aid to States are Rs.25,134 crore in RE 2005-06 against Rs.12,081 crore in 2004-05.
- ❖ Subsidies: consensus sought on the issue of subsidies.
- ❖ Gross Budgetary Support and Gross Fiscal Deficit: Centre's gross tax-GDP ratio: 9.2 per cent in 2003-04, 9.8 per cent in 2004-05, 10.5 per cent in 2005-06 (RE), 11.2 per cent in 2006-07 (BE); Gross Fiscal Deficit is less than Gross Budgetary Support for Plan in 2004-05; revenue deficit for in 2005-06 to be 2.6 per cent and fiscal deficit 4.1 per cent.

BUDGET ESTIMATES FOR 2006-07

- ❖ Plan Expenditure: estimated at Rs.172,728 crore, up by 20.4 per cent; Non-Plan Expenditure: Rs.391,263 crore, up by 5.5 per cent.
- ❖ Revenue Deficit and Fiscal Deficit: revenue deficit estimated at Rs.84,727 crore, 2.1 per cent of the GDP; fiscal deficit estimated at Rs.148,686 crore, 3.8 per cent of the GDP.

TAX PROPOSALS

Indirect Taxes:

Customs

- ❖ peak rate for non-agricultural products reduced from 15 per cent to 12.5 per cent; duty on alloy steel and primary and secondary non-ferrous metals reduced from 10 per cent to 7.5 per cent; this will also be the rate of duty for ferro alloys; on steel melting scrap raised to 5 per cent and brought on par on par with primary steel;
- ❖ duty on mineral products reduced to 5 per cent, with

a few exceptions.

- ❖ duty on ores and concentrates reduced from 5 per cent to 2 per cent.
- ❖ duty on refractories and on a number of materials for manufacture of refractories reduced to 7.5 per cent.
- ❖ duty to be reduced on basic inorganic chemicals from 15 per cent to 10 per cent; on basic cyclic and acyclic hydrocarbons and their derivatives to 5 per cent; on catalysts from 10 per cent to 7.5 per cent.
- ❖ duty to be reduced on major bulk plastics like PVC, LDPE and PP from 10 per cent to 5 per cent; on naphtha for plastics to nil; on styrene, EDC and VCM which are raw materials for plastics to 2 per cent.
- ❖ reduction of customs duty on 10 anti-AIDS and 14 anti-cancer drugs to 5 per cent; on certain life saving drugs, kits and equipment from 15 per cent to 5 per cent ; these drugs also exempt from excise duty and CVD.
- ❖ duty on packaging machines to be reduced from 15 per cent to 5 per cent.
- ❖ concessional project rate of 10 per cent to be extended to pipeline projects for transportation of natural gas, crude petroleum and petroleum products.
- ❖ CVD of 4 per cent to be imposed on all imports with a few exceptions ; full credit to be allowed to manufacturers of excisable goods.
- ❖ Customs duty on vanaspati to be increased to 80 per cent.
- ❖ rates on clearances by EOUs to the Domestic Tariff Area (DTA) adjusted at 50 per cent of basic customs duty plus excise duty on like goods.
- ❖ reduction of: excise duty on all man-made fibre yarn and filament yarn from 16 per cent to 8 per cent; import duty on all man-made fibres and yarns from 15 per cent to 10 per cent ; import duty on raw materials such as DMT, PTA and MEG from 15 per cent to 10 per cent ; import duty on paraxylene to 2 per cent.

Excise

- ❖ with the intention to converge all rates at the CENVAT rate at 16 per cent; duty on aerated drinks and small cars to be reduced to 16 per cent.
- ❖ 8 per cent duty to be imposed on packaged software sold over the counter; customised software and software packages downloaded from the internet to be exempt; DVD Drives, Flash Drives and Combo Drives to be fully exempt from excise duty.
- ❖ condensed milk, ice cream, preparations of meat, fish and poultry, pectins, pasta and yeast to be fully exempt; duty on ready-to-eat packaged foods and instant food mixes, like dosa and idli mixes, to be reduced from 16 per cent to 8 per cent.
- ❖ vegetable tanning extracts, namely, quebracho and chestnut to be exempt from duty; duty on footwear with a retail sale price between Rs.250 and Rs.750 to be reduced from 16 per cent to 8 per cent.
- ❖ concessional rate of 8 per cent to be extended to all LPG stoves.
- ❖ duty on compact fluorescent lamps to be reduced from 16 per cent to 8 per cent.
- ❖ glassware to attract duty of 16 per cent on par with ceramicware and plasticware.
- ❖ excise duty on specified printing, writing and packing paper to be reduced from 16 per cent to 12 per cent.
- ❖ cess under the Oil Industries Development Act to be increased from Rs.1,800 per metric tonne to Rs.2,500 per MT.
- ❖ re-imposition of excise duty at 12 per cent on computers to enable domestic manufacturers to take CENVAT credit as well as to face competition from imports; price not to be impacted as duty to be eligible for full input tax credit,
- ❖ duty of 16 per cent to be levied on set top boxes with reduction in customs duty from 15 per cent to nil.
- ❖ increase in excise duty on cigarettes by about 5 per cent.
- ❖ excise and customs tariff exemptions that are end-use based or have outlived their utility or need certification or give rise to disputes being rescinded;

exemption for the SSI sector will remain.

Service tax

- ❖ new services to be covered including ATM operations, maintenance and management; registrars, share transfer agents and bankers to an issue; sale of space or time, other than in the print media, for advertisements; sponsorship of events, other than sports events, by companies; international air travel excluding economy class passengers; container services on rail, excluding the railway freight charges; business support services; auctioneering; recovery agents; ship management services; travel on cruise ships; and public relations management services.
- ❖ coverage of certain services now subject to service tax to be expanded.
- ❖ leasing and hire purchase to be treated on par with loan transactions, interest and instalment of principal amount to be abated in calculating value of the service.
- ❖ proposal to set April 1, 2010 as the date for introducing national level Goods and Service Tax (GST); service tax rate increased from 10 per cent to 12 per cent as another step towards converge between service tax rate and the CENVAT rate; net impact likely to be very small in view of credit available for service tax or excise duty payable.

Direct Taxes

- ❖ no change in rates of personal income tax or corporate income tax; no new taxes are being imposed.
- ❖ one-by-six scheme will stand abolished.
- ❖ marginal revision in certain tax rates in the quest for equity-Minimum Alternate Tax (MAT) rate increased from 7.5 per cent of book profits to 10 per cent which is only one-third of the normal rate; long-term capital gains arising out of securities included in calculating book profits; period to take credit for MAT increased from five years to seven years.
- ❖ increase of 25 per cent, across the board, on all rates of STT.

- ❖ Section 80IA of the Income Tax Act applies to infrastructure facilities; terminal date for developing an industrial park extended from March 31, 2006 to March 31, 2009; for the power sector, the date extended to March 31, 2010.
- ❖ investments in fixed deposits in scheduled banks for a term of not less than five years included in section 80C of the Income tax Act; limit of Rs.10,000 in respect of contribution to certain pension funds removed in section 80CCC subject to overall ceiling of Rs.100,000.
- ❖ definition of open-ended equity-oriented schemes of mutual funds in the Income tax Act aligned with the definition adopted by SEBI; open-ended equity-oriented schemes and close-ended equity oriented schemes to be treated on par for exemption from dividend distribution tax.
- ❖ exemption under section 10(23G) removed.
- ❖ Primary Agricultural Credit Societies and Primary Cooperative Agricultural and Rural Development Banks to continue to be exempt from tax under section 80P of the Income Tax Act; all other cooperative banks excluded from the scope of that section.
- ❖ scope of section 54EC restricted to two institutions, viz., NHAI and REC; for NABARD, SIDBI and NHB, which are banks, route of zero coupon bonds to raise low cost funds already opened; if needed, appropriate support to be provided to these institutions to enable them to access resources to fulfil their mandate effectively; benefit of section 54ED withdrawn with effect from April 1, 2006.
- ❖ anonymous or pseudonymous donations to wholly charitable institutions to be taxed at the highest marginal rate; such donations to partly religious and partly charitable institutions/trusts to be taxed only if the donation is specifically for an educational or medical purpose; such donations to wholly religious institutions and religious trusts not to be covered by the new provision.
- ❖ constituency allowances of Members of State Legislatures to be treated at par with constituency allowance received by Members of Parliament.

- ❖ Permanent Account Number (PAN) is the critical element in capturing incomes and expenditures; scrutiny of Annual Information Returns (AIR) on high- value transactions reveals that 60 per cent of the transactions are without quoting PAN; hence proposal to take power to- issue PAN suo motu in certain cases and to direct persons to apply for PAN in certain cases; in due course, more transactions to be notified for which quoting of PAN to be mandatory, a few more transactions to be prescribed to be reported in AIRs.
 - ❖ Banking Cash Transaction Tax (BCTT) to continue for some more time until the AIR system is able to capture all significant financial transactions.
 - ❖ Fringe Benefit Tax (FBT) introduced last year as a revenue raising measure; justified on the principles of horizontal equity and vertical equity; on review, following changes being proposed-
 - ❖ Value the benefit in the form of 'tour and travel' at 5 per cent instead of 20 per cent;
 - ❖ Value benefit in the form of 'hospitality' and 'use of hotel boarding and lodging facilities', in case of airline companies and shipping industry, at 5 per cent instead of 20 per cent;
 - ❖ Exclude expenses on free samples of medicines and of medical equipment distributed to doctors;
 - ❖ Exclude expenses incurred on brand ambassador and celebrity endorsement; and
 - ❖ Prescribe a threshold of Rs.100,000 under section 115WB(1)(c) so that only a contribution by an employer to an approved superannuation fund in excess of Rs.100,000 per year per employee to attract FBT. Under section 80C there is already exemption up to Rs.100,000 for contribution by an employee to an approved superannuation fund.
 - ❖ Modernizing Tax Administration: The Departments of Income Tax and Customs and Central Excise to undergo Business Process Reengineering (BPR); nationwide networks to connect 745 income tax offices in 510 cities and 550 customs and central excise offices in 245 cities, creating national databases; national data centres, data warehousing facilities and disaster recovery sites being set up ;
 - jurisdiction-free filing of returns, online tracking of status of accounts and refunds of income tax to be possible ; introduction of a risk management system and Electronic Data Interchange (EDI) in the Customs Department to reduce dwell time for cargo; E-payments of customs and excise duties to be possible; both Departments to have fully computerised networks by end 2006.
 - ❖ a statement on revenue foregone, (tax expenditure statement), capturing the departures from the normal tax regime introduced.
- VAT and CST:
- ❖ in order to moderate the price, LPG (domestic) included in the list of 'declared goods' under the CST Act.

OVERALL SECTORAL IMPACT:

Sector	Policy	Impact	Effect
Automobiles	<ul style="list-style-type: none"> ❖ Reduction in Excise duty on certain level of cars ❖ Customs Duty has also been reduced on non-ferrous metals, alloy steel and CKDs 	<ul style="list-style-type: none"> ● Around 75 % of passenger cars sold are compact cars on which Excise Duty has been reduced. ● Reduction in Customs Duty will result in decrease of input costs. 	F
Power	<ul style="list-style-type: none"> ❖ Extension of Tax Holiday for power project. ❖ Availability of coal for Power Project. ❖ Rural Electrification thrust 	<ul style="list-style-type: none"> ● Easy availability of coal will reduce cost and boost growth. ● Companies will enjoy tax exemption. 	F
Cement	<ul style="list-style-type: none"> ❖ Reduction in Customs Duty from 15% to 12.5% ❖ Increase in spending on infrastructure projects. 	<ul style="list-style-type: none"> ● Reduction in Customs Duty is unlikely to affect cement companies since the imports are negligible. ● Increase in infrastructure spending will result in higher demand for various projects. 	F
Pharmaceuticals	<ul style="list-style-type: none"> ❖ Customs Duty reduced to 5% on Anti-HIV and Anti-Cancer drugs ❖ Fringe Benefit Tax rationalized. 	<ul style="list-style-type: none"> ● Will financially benefit companies dealing in specific drugs. ● Removal of FBT on free samples of medicines and medical equipments to doctors will lead to reduction in cost. 	N
Petrochemicals	<ul style="list-style-type: none"> ❖ Customs Duty has been reduced on chemical products ❖ Excise Duty cut on polyester 	<ul style="list-style-type: none"> ● Reduction in Customs Duty will lead to stiff competition for local companies ● Change in Excise Duty can aid volumes. 	N
Oil & Gas	<ul style="list-style-type: none"> ❖ Increase in cess on crude oil. 	<ul style="list-style-type: none"> ● No policy change for oil companies, which are mounting under heavy burden of subsidies. 	U
Non-Ferrous Metal	<ul style="list-style-type: none"> ❖ Custom Duty reduced to 7.5% ❖ Country to become global hub in metal production. 	<ul style="list-style-type: none"> ● Reduction in Customs Duty will lead to stiff pricing. 	U
Tele-Communication	<ul style="list-style-type: none"> ❖ Reduction of tariff to 12.5% ❖ Increase in Service Tax 	<ul style="list-style-type: none"> ● Service Tax increase is a tax on service provider which will be passed on to the consumer ● Application of MAT likely to have impact on tax liability. 	U
Information Technology	<ul style="list-style-type: none"> ❖ Excise duty of 12% on Computers ❖ Service Tax applicable to Call Centres and BPOs. 	<ul style="list-style-type: none"> ● Levy of Excise Duty not likely to affect manufacturers, as they will be eligible for input tax credit. 	N
Steel	<ul style="list-style-type: none"> ❖ Cut in custom duty to 7.5 % ❖ Duty on Steel Scrap increased to 5% 	<ul style="list-style-type: none"> ● It will affect stand alone steel companies by reduction in import duty. 	N
Textile	<ul style="list-style-type: none"> ❖ Excise Duty on Yarn and man-made fabric cut to 8%. ❖ Import Duty reduced to 10% 	<ul style="list-style-type: none"> ● Lower raw material cost. 	F
FMCG	<ul style="list-style-type: none"> ❖ Excise Duty on packaged foods reduced to 8% ❖ No Excise Duty on condensed milk ❖ Reduction in Import Duty on inputs for soaps and detergents. 	<ul style="list-style-type: none"> ● Price of packaged foods products to reduce ● Reduction in input cost ● Margin for the companies to improve 	F

[F] Favourable

[U] Unfavourable

[N] Neutral

BUDGET AT A GLANCE

<i>(In crore of Rupees)</i>				
PARTICULARS	2004-05 Actuals	2005-2006 Budget Estimates	2005-2006 Revised Estimates	2006-2007 Budget Estimates
1. Revenue Receipts	306013	351200	348474	403465
2. Tax Revenue (net to centre)	224798	273466	274139	327205
3. Non-Tax Revenue	81215	77734	74335	76260
4. Capital Receipts (5+6+7)	191669	163144	160231	160526
5. Recoveries of Loans	62043	12000	11700	8000
6. Other Receipts	4424	...	2356	3840
7. Borrowings and other liabilities	125202	151144	146175	148686
8. Total Receipts (1+4)	497682	514344	508705	563991
9. Non-Plan Expenditure	365406	370847	364914	391263
10. On Revenue Account of which,	296857	330530	326142	344430
11. Interest Payments	126934	133945	130032	139823
12. On Capital Account	68549	40317	38772	46833
13. Plan Expenditure	132276	143497	143791	172728
14. On Revenue Account	87495	115982	114153	143762
15. On Capital Account	44781	27515	29638	28966
16. Total Expenditure (9+13)	497682	514344	508705	563991
17. Revenue Expenditure (10+14)	384351	446512	440295	488192
18. Capital Expenditure (12+15)	113331	67832	68410	75799
19. Revenue Deficit (17-1)	78338	95312	91821	84727
	(2.5)	(2.7)	(2.6)	(2.1)
20. Fiscal Deficit {16-(1+5+6)}	125202	151144	146175	148686
	(4.0)	(4.3)	(4.1)	(3.8)
21. Primary Deficit (20-11)	-1732	17199	16143	8863
	-(0.1)	(0.5)	(0.5)	(0.2)

FINANCE BILL 2006

The various changes and amendments brought out by the Finance Bill, 2006 are concised below:

DIRECT TAX PROPOSAL

1. RATES OF TAXES

There is no change in rate of taxes and hence the same rate as applicable to AY: 2006-07 are applicable to AY: 2007-2008 as under:

I. Individual, HUF, AOP, BOI.

Slab of Income (Rs.)	Rate of Income Tax %
Rs.1,00,000	Nil
Rs.1,00,001 to Rs.1,50,000	10
Rs.1,50,001 to Rs.2,50,000	20
Above Rs. 2,50,000	30

- In case of resident women below age of 65 years, no tax will be payable upto income of Rs. 1,35,000/- and tax payable on income exceeding Rs. 1,35,000/- to Rs. 1,50,000/- @ 10%.
- In case of resident individual of age of 65 years, no income tax will be payable upto income of Rs. 1,85,000/-
- On income exceeding Rs. 10,00,000/- surcharge @10% will be imposable after reducing tax payable by rebate allowable under chapter VIII of the Income Tax Act., if any.

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.

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%.

VI. Foreign Companies.

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

Surcharge is payable @2.5%.

Note : Education cess @2% on income tax and surcharge is continued to be payable in all the cases.

2. TAX TREATMENT OF SAVINGS :

- Under Section 80 C, deduction of Rs.1 Lakh to any Individual or Hindu Undivided Family (HUF) is provided for certain sums invested in specified Schemes such as Life Insurance Premium, contribution to Provident Fund, PPF, Deferred

Annuities, purchase of Infrastructure Bond, payment of Tuition Fees, repayment of Principle amount of Housing Loan. Now it is provided that investment in Term Deposit for a period of not less than 5 years with any Scheduled Bank shall be eligible for deduction under section 80 C.

- ii] Section 80 CCC provides that on Individual shall be allowed deduction upto Rs.10,000/- from his total income of the amount paid or deposited by him to keep in force a contract for Annuity Plan on Life Insurance Corporation of India or any other Insurer for receiving Pension from the fund. Now the Section is amended so as to enable an assessee to make payment to the extent of Rs. 1 Lakh out of total income to effect or to keep in force a contract for Annuity Plan as referred to under Section 10 (23 AAB)
- iii] Aggregate amount of deduction under Section 80 C, 80 CCC as well as 80 CCD shall not exceed Rs.1 Lakh for all the Section together.

3. SALARIED TAX PAYER :

Any Salary paid to an employee is taxable u/s. 17 and a perquisite under the provisions of Section 17 (2) of the Income Tax Act,1961. However, any premium paid by an employer to keep in force any Insurance Policy on the health of employees, on any member of his family under a scheme approved by the Central Government or a Scheme framed by the Government Insurance Corporation and approved by the Central Government is excluded from the scope of perquisite. Now it is provided that such benefits will be available to the employees if such scheme is approved by the Insurance Regulatory and Development Authority (IRDA).

4. BUSINESS INCOME :

- i] Income tax paid is not deductible under the existing provisions of section 40. Any income tax paid on the profit earned is not eligible for deductions in computation of income. Certain doubts have been raised as to the deductibility of the tax paid outside

India while computing income. Now by amending to Section 40 (a)(ii) it is clarified that income tax paid on income earned outside India is not eligible as deduction in computation of income. However, the necessary credit for such taxes paid outside India will be allowable as per provisions of section 90 or section 91 of the Income Tax Act, 1961. The amendment is effective from 1st June, 2006.

- ii] Interest actually paid on loans borrowed from Financial Institutions or state financial Corporation is deductible under sub-section (d) on actual payment under Section 43B. Similarly interest payable on loan to Scheduled Bank is deductible under Clause (e) of Section 43B on the basis of actual payment. Now by inclusion of new explanation it is clarified that if a sum payable by the assessee as interest on borrowed funds or advance is converted into a loan or borrowed fund or advance, the Interest so converted are not actually paid and shall not be deemed to be actual payment and will not be allowable for computation of income u/s. 43 B. Such interest will be allowable on the basis of actual payment. This amendment is effective from 01.04.1989 and 01.04.1997 respectively and explanation is of clarificatory nature.

5. CAPITAL GAIN :

- i. At present under the provisions of section 54 EC Capital Gain arising on Long term Capital Assets is exempted from tax applicable as Capital gains if such Long Term Capital Gain is invested for Long Term Specified assets. The Long term Specified assets has been defined to include Bonds issued by following :-
 - (1) National Bank for Agricultural and Rural Development (NABARD)
 - (2) Small Industries Development Bank of India (SIDBI)
 - (3) National Housing Bank (NHB)
 - (4) National Highway Authority of India (NHAI)
 - (5) Rural Electrification Corporation Ltd (RECL)

By amendment to the Section, now it is provided w.e.f 1.4.2006, that Long Term Specified Assets will include only investment in Bond issued by (a) Rural Electrification Corporation Ltd and (b) National Highway Authority of India, hence bonds issued by the institutions 1 to 3 will not be entitled for such investment.

- ii. The exemption granted under Section 54 ED from Capital Gain arising on transaction of Long Term Capital Assets being listed Securities or shares or units of Mutual Fund is hereby deleted. The Capital Gain of the nature is otherwise exempt under the provisions of Section 10 (38) of the Income Tax Act, 1961.
- iii. Securities Transaction Tax (STT) rates are enhanced by 25% on all types of transactions.

6. TRUSTS AND INSTITUTIONS

i) With a view to tax anonymous donations received by such Charitable Trusts and Institutions, Section 115 BBC has been introduced which provides that such donation will be taxable @ 30% in the hands of following :-

- (a) any trust or institution referred to in section 11.
- (b) any university or other institution referred to in section 10(23C) (iiiad) and (vi)
- (c) any hospital or institution referred to section 10 (23C) (iii ae) (via)
- (d) any fund or institution referred to in section 10 (23C) (iv)

The following cases anonymous donations shall not be taxed.

- (e) Donations received by any trust or institution created or established wholly for religious purposes.
- (f) Donations received by any trust or institution created or established for both religious as well as charitable purposes other than any anonymous donation made with a specific direction that such donation is for any university or other educational institution or any hospital or

other medical institution run by such trust or institution.

- ii) A University, Educational Institution, Hospital or any other Institution or Fund or Trust as specified u/s. 10 (23C) is required now to make an application for exemption u/s. 10 (23 C) before the close of previous year relevant to the Assessment Year. Provisions are effective from 1st June 2006.. Till now there was no time limit for making such application.

7. REMOVAL OF EXEMPTIONS:

- i. The income of notified Investor Protection Fund under the provisions of Section 10 (23 EA) set up by Stock Exchanges in India is exempt from taxation. By amendment to the said Section, now it is provided that income of such notified Investor Protection Fund to the extent of contribution received from Stock Exchanges and members of such Stock Exchange will only be exempt, any other income such as investment income will be taxable.
- ii. Income from investment in Infrastructure and other projects under Section 10 (23 G) by way of dividend, interest or Long term Capital Gain of any infrastructural Capital Fund or Infrastructural Company in a eligible investment was exempt. Now this exemption is being withdrawn w.e.f 01.04.2007.
- iii. Exemption available to Cooperative Banks u/s. 80 P from the business income of such Cooperative Banks has been withdrawn w.e.f.01.04.2007. However, such exemption will be available to primary Agriculture Credit society or Primary Cooperative Agricultural and Rural Development Bank.

8. EXTENSION OF EXEMPTION

- i. Power Sector

Under the provisions of Section 80 IA, the profits and gains from Industrial undertaking or enterprises

engaged in India for generation or generation and distribution of Power or transmission or distribution by laying a network for the transmission or distribution line or substantial renovation and modernization of the existing net work of transmission and distribution line is exempted if such activities are commenced prior to 31st March, 2006. Now the date for setting up of such activities for exemption has been fixed at 31st March, 2010.

ii. Industrial Park

Under the provisions of Section 80 IA, profit and gains from industrial undertaking or enterprises which develops, develops and operates or maintains and operates an Industrial Park or Special Economic Zone as notified by Central Government, in accordance with the scheme framed were entitled for exemption of its income, if such industrial park or Special Economic Zone (SEZ) were set up before 31.3.2006. Now such date is extended to 31.3.2009.

9. EXEMPTIONS

- i. By amendment to Section 10 (17), allowance received by Member of State Legislator as Constituency Allowance is made fully exempt w.e.f. 01.04.2007
- ii. Under Section 10 (15A) provides for exemptions from IncomeTax on lease payment in respect of lease of a Aircraft or Aircraft Engine by Government of a Foreign State or a Foreign enterprises from an Indian Company engaged in the business of operation of Aircrafts, such exemption was available if agreement was entered into prior to 01.04.2006. Under the provisions of Section 10 (6BB), the tax payable by the Indian concern was not required to be taxed. Now this time limit is extended to 31.3.2007.

10. EXEMPTIONS FROM LEVY ON DISTRIBUTION TAX OF MUTUAL FUNDS

Under the existing provisions of section 115 R (2), Dividend Distribution Tax is not payable in respect of

income distributed to Unit holders of a open-ended Equity oriented funds in respect of any dividend distributed by such funds. Now it is provided that a Mutual fund will not be required to pay dividend distribution tax even in case of close ended Equity oriented funds. It is also provided that percentage of investment to be made in equity shares by such scheme will be to the extent of 65% in place of 50% of limit provided at present.

11. DEFINITION OF INFRASTRUCTURAL CAPITAL COMPANY AND INFRASTRUCTURE CAPITAL FUND

At present the same are defined u/s. 10 (23 G). the Section 10 (23 G) is proposed to be deleted and infrastructure capital company is defined as under:-

- i) "Infrastructure Capital Company" means such company which makes investment by way of acquiring share or providing Long Time Finance to any enterprise or undertaking wholly engaged in the business referred to in sub-section (4) of sub-section (1) of 50 Section 80-IAB or an undertaking developing and building a house project. Referred to in sub-section (10) of Section 80 IAB or a project for constructing A hotel not less than 3-Star category as Classified by the Central Government or a project for constructing a hospital with one hundred beds for patients" Section 2 (26AA).
- ii) "Infrastructure Capital Fund" means such that operating under a trust deed registered under the provisions of the Registration Act.1908. established to rise monies by the trustees for investment by way of acquiring shares or providing Long Term finance to any enterprises s or undertaking wholly engaged in the business referred to in sub-section (4) of Section 80 IA or sub-section (1) of Section 80 IAB or an undertaking developing and building a house project referred to in sub-section (10) of Section 80 IB or a project for constructing a Hotel of not less than 3-Star category as classified by the

Central government or a project for constructing a Hospital with at least one hundred beds for patients" Section 2 (26AA).

12. ASSESSMENT PROCEDURES

- i. It is proposed to provide that while calculating interest u/s. 234A, 234B and 234C credit for taxes paid in a country outside India which is available for relief under the provisions of Section 90 or Section 91 as well as MAT credit u/s.115JAA shall be reduced out of tax payable and interest will be calculated. The provisions are made applicable from 01.04.2007.
- ii. It is provided that the Assessing Officer may issue notice requiring an assessee to file its return of income under the provisions of Section 142 (1) even after the close of the Assessment year and such notice issued will be valid. Amendment is being carried out w.e.f 01.04.1990.
- iii. Notice u/s. 143 (2) for making assessment or re-assessment u/s. 147 is required to be issued within 12 months from the date of filing of return of income. By amending the provisions of the Act, , it is provided that in case of the return of income filed between 1st October, 1991 to 31st September, 2005, even if the notice is issued u/s. 143(2) after the expiry of One year from the date of filing of return of income but prior to the date of completion of assessment as provided u/s. 153 (2), such notices will be valid. However, in case the return filed after 01st October, 2005, notice u/s. 143 (2) is required to be issued within one year from the date of filing of return of income.
- iv. Time period for completion of assessment reduced;
 - For assessment year 2004-05 and onward, the time limit for completion of assessment which is at present 2 years has been reduced to 21 months.
 - Similarly in case where notice under Section 148 is served after 01.04.2005, the period for completion of assessment has been reduced from one year to Nine months.

- Similarly in case of order passed under Section 254, 263, 264 on or after 01.04.2005, the time limit has been reduced to Nine months in place of One year.
- Similarly in case of assessment to be made u/s. 153 B for search case, the period available for assessment has been reduced to 21 months.
- Time for assessment of 'Fringe Benefit Tax' has been reduced to 21 months.

13. METHOD OF ALLOCATION OF EXPENDITURE IN RELATION TO EXEMPT INCOME U/S. 14 A.

Section 14A provides that no deduction will be allowable in respect of expenditure incurred by the assessee in relation to an income which does not form part of total income, and assessable to tax. However disputes are arising as to the computation and determination of such expenditure under the provisions of Section 14A. Now it is proposed to insert a new Section 14A (2) that such expenses will be determined by the Assessing officer, in accordance with such method as may be prescribed.. the Assessing Officer will adopt prescribed method if he is not satisfied as to the correctness of the claim of the assessee in relation to expenditure computed by the assessee related to such exempt income or if assessee claims that no expenses has been incurred for earning of such income.

14. TDS PROVISIONS.

- i. Annual Return for TDS and TCS is required to be filed under the provisions of Section 206 and 206 (c) of the Income Tax Act, 1961. Now the quarterly returns are required to be filed for TDS and TCS w.e.f. 01.04.2005 under the provisions of Section 200 (3) and Section 206 (3). It is felt that filing of Annual Return is of no consequence, hence the same has been dispensed with w.e.f. 01.04.2005.
- ii. Interest on delayed payment of TDS, TCS is required to be paid now by way of self assessment alongwith each quarterly return by the assessee by

- the amendment of the provisions of Section 201 (1A) of the Income Tax Act, 1961, w.e.f. 01.06.2006.
- iii. Under the present provisions of Section 272 B if a person do not apply for Tax Deduction or Tax Collection Account Number, he is liable for a penalty of Rs.10,000/-. The assessee is required to quote such number in all challans, certificates and return and other documents. Now it is provided that if a person who is required to quote the TDS Account Number or TCS Account Number in Challan, Certificate, statement or other documents as referred to in Section 203 A (2) quotes a number which is false and which he either knows or believed to be false or does not believe to be true, such person will be liable for penalty of Rs.10,000/-
- iv. In certain cases the Seller is required to collect tax from buyer on the sale of specified products. In case of such person fails to make such collection he will be liable to pay penalty under the newly introduced Section 271 CA, equal to the amount failed to so collect.
- v. TDS and TCS Certificates were proposed to be dematerialized and credit was required to be given on the basis of certificate to be issued by the Tax Authorities. However, the system could not be established and hence now it is provided that TDS certificate will be issued by the Deductor and dematerialization provision stand deferred till 01.04.2008.
15. RETURN OF INCOME :
- i. It is provided that benefit u/s. 80 IA, 80 IB and 80 AB, 80 IC and 10 B will not be available to the assessee although he is entitled to the same if a person fails to file the return of income within the time allowed u/s. 139 (1) of the Income Tax Act, 1961. w.e.f 01.04.2006.
- ii. With effect from 2006-2007, one by six scheme for filing returns of income is dropped.
16. NEW SCHEME FOR SUBMISSION OF RETURN THROUGH TAX RETURN PREPARER.
- A new scheme has been proposed to provide that for the purpose of enabling any specified class or classes of persons to prepare and furnish return of income. The Board will, by notification frame a scheme that such class of person shall furnish the return of income through A Tax Return Preparer as authorised under the scheme. Such Tax Return Preparer will assist the assessee in furnishing the return of income and will affix his signature on such return of income. The education qualification and other conditions under the scheme will be announced.
17. PERMANENT ACCOUNT NUMBER (PAN)
- It is proposed that the Central Government by notification will specify any class or classes of persons and such person shall apply for allotment of Permanent Account Number even otherwise if they are not required to be allotted such Permanent Account Number. It is also provided that the Income Tax Authorities can issue the Permanent Account Number (PAN) on its own to any class of persons.
18. MINIMUM ALTERNATE TAX (MAT)
- i. Under the provisions of Section 115 JB in case of a Company, if tax payable on the total income as computed under the Income Tax Act in respect of any previous year is less than 7-1/2% of its book profit, such book profit shall be deemed to be total income of such company and tax payable will be @ 7-1/2% of book profit. As per the new amendment of the Section w.e.f. 01.04.2007, such taxes payable will be 10% on such book profit. The book profit for the purpose of Section 115 JB is to be computed as per P & L account as prepared in accordance with the provisions on Schedule VI of the Companies Act. Such profit is required to be reduced by certain adjustments as specified under explanation and is required to be increased by certain adjustments as

provided under the explanation. Now it is provided that capital gain arising on sale of shares, securities as exempted u/s. 10 (38) which was not required to be added to such profit will be required to be added while computing book profit. It is also provided that depreciation will be allowed on original value of the assets and enhanced depreciation claimed on account of re-valuation of assets will not be allowable in the computation on book profit.

- ii. Under the provisions of Section 115JAA, difference of taxes paid for any assessment year under Section 15JA or 115 JB as the case may be and the amount of taxes payable under the normal provisions of the Income Tax Act, is allowed to be carried forward as MAT credit for subsequent assessment years for 5 years and will be adjustable in the year where taxes payable as computed in the normal provisions of the Income Tax Act, exceeds the tax payable on book profit under the provisions of Section 115 JB. Under the present provisions such MAT credit is available for 5 years. Now it is provided that in case of MAT credit available on account of taxes paid u/s.115JB, such MAT credit will be available for a period of 7 years immediately succeeding assessment year for which taxes were paid under the provisions of the Section 115 JB.

19. FRINGE BENEFIT TAX :

Fringe Benefit Tax was imposed in the Finance Bill-2005 in spite of strong opposition, the Finance Minister has justified the imposition of Fringe Benefit Tax (FBT) on the basis of equity. However, certain amendments has been made giving certain reliefs for calculating imposition of Fringe Benefit Tax such as ;

- i] expenses on distribution of free samples of medical or medical equipments to Doctor as well as payment to persons of repute i.e. Celebrity For promoting sale of goods or

services being sales promotion expenses will not be included for valuation of Fringe Benefit Tax, Section 115 WB (2) (d) stands amended to that extent.

- ii] Expenditure incurred by the employer on employees including subsidized transport or any allowance provided by the employer to his employees for journey from place of residence to the place of work or vice versa has been excluded from the charge of Fringe Benefit Tax.
- iii] Annual amount of contribution by the employer to an approved Superannuation Fund for the employees not exceeding Rs.1 Lakh per Year, per employee has been excluded from the charge of Fringe Benefit Tax.
- iv] In the case of Tours and Travels (including Foreign Travelling) to the extent of 5% such expenses will be subject to Fringe Benefit Tax as against 20% provided earlier.
- v] In case of Hospitality and use of Hotel and Boarding & Lodging in case of assesses engaged in the business of carriage of passenger or goods by Air Cargo or Ship, the value of Fringe Benefit will be restricted to 5% of such expenses. The amended provisions are applicable from AY-2007-2008.

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.

1. Rate of service tax is being increased from 10% to 12% for all taxable services.

2. New Services Introduced :

Following 15 services are covered under the service tax:-

- Registrar to an issue
- Share Transfer Agents
- ATM's Operation & maintenance
- Recovery Agents
- Sale of space or time for advertisement other than in print media.
- Sponsorship Services provided other than sports event
- International air journey other than economy class
- Transport of goods in containers by Rail.
- Business support services including infrastructure support
- Auctioneer's Services
- Public relation Service
- Ship Management Service
- Internet Telephony
- Travelling by Cruise ship
- Credit and other cards related service

Now total 96 services are taxable under the service tax.

3. Extension of existing services

- a) In relation to specified seventeen services where service tax is levied on commercial concern. Now any person including individual is covered.
- b) Banking and other financial service, now include the following services:-
 - Transfer of money through different modes by

any person

- Banker to an issue.

c) Management Consultancy include different areas of management.

d) Insurance service provided by insurer including reinsurer

e) Repairs and Maintenance include management service also.

f) Erection & Commissioning include installation of structure whether or not pre fabricated.

g) Consulting Engineer - Now includes service provided by body Corporate.

h) Business Auxiliary - Service includes computerized data Processing also.

i) 'Technical Testing' include clinical testing of drug and formulation but excludes pathology lab for disease identification.

4. Following exempted services are being withdrawn with effect from 1st March, 2006.

- ◆ Reinsurance premium both domestic and outside
- ◆ Premium on business of outside India.
- ◆ Services other than Accounting, Auditing and certification services provided by Chartered Accountant, Company Secretary or Cost Accountant i.e. Now all services are taxable.
- ◆ Call Centre or Medical Transcription Centre
- ◆ Railway Catering services and other catering services provided in any Institution by outdoor caterer.

5. Gross amount charged for providing taxable services, now includes payment by cheque, credit card, deduction from account, issue of credit / debit note and book adjustment.

6. Separate provision is being inserted to levy service tax on a service provided from outside India to a recipient in India excluding individual recipient who has no business or commercial use of such service.

7. Provision has been made for conclusion of adjudicating proceedings in respect of a person who

has deposited voluntarily service tax amount alongwith interest and penalty equal to 25% of tax.

8. Section 73A is being inserted for recovery of amount of voluntary payment or recovery of any amount representing service tax that has been collected by a person but not deposited with the Central Government
9. Preservation of records related to service tax for a period of at least five years is mandatory.
10. Exemption of Service (w.e.f. 1st March 2006)
 - a. Financial Leasing including hire purchase transactions where taxable value comprising 90% as interest.
 - b. Water Quality Testing by Government owned laboratories.
11. Simplified procedure for cancellation of registration.
12. Penalty U/s. 75 for delay in depositing service tax is being imposed Rs. 200/- per day or 2% p.m. of such Tax whichever is higher, subject to the maximum limit of service tax payable.

B] EXCISE DUTY

Major proposals are as under and changes comes into immediate effect unless otherwise stated.

1. Reduction in Duty

Items	Present (%)	Proposed (%)
Aerated Water	24	16
Petrol/Diesel Small Car	24	16
Man Made Fibres & Filament Yarn	16	8
Specified Printing, Writing and Packaging Paper	16	12
LPG Gas Stove (exceeding Rs. 2000 per unit)	16	8
Compact Lamps	16	8
Footwear (RSP between Rs. 250 to Rs750)	16	8
Storage Device, DVD/Flash Drive	16	Nil
Mp3 Players	16	8

Items	Present (%)	Proposed (%)
Food processing, Condensed Milk, Ice Cream, Yeast, Processed Meat, Poultry Products and pasta	16	Nil
Ready to eat packaged food, instant food mixes	16	8
Drawing Inks	8	Nil
Gold Concentrate for Refining	8	Nil

2 Imposition & Increase in Duty

Items	Present (%)	Proposed (%)
Goggles, Wood Articles	Nil	8
Stationery like registers, accounts books (excluding note book & exercise book)	Nil	8
Roofing Tiles, 100% wood free fibre board.	Nil	8
Parts of drawing & mathematical instruments	Nil	8
Umbrellas & parts thereof	8	16
Soaps manufacturing under Janta Soap Scheme	Nil	16
Tableware, Kitchenware parts	Nil	16
Railway Track Machines	Nil	16
Specified Goods for display in exhibition	Nil	16
Mosaic Tiles	8	16
Glass Ware	8	16
Lay Flat Tubing	8	16
Computers	Nil	12
Packaged Software	Nil	8
Stainless Steel Patti/pattas (per machine)	15,000/-	30,000/-
Crude Oil (Petroleum) Cess per ton	1,800/-	2,500/-

(Assessee now can take cenvat credit on input and capital goods and SSI exemption upto Rs. 1 crore is also available in all the cases)

3. Retails Sale Price

- RSP base assessment is being extended in the following articles (date to be notified) :
parts, components for automobiles, plant regulators, tooth brushes.
- Abatement from RSP has been reduced due to reduction in excise duty tariff in the following articles : Aerated Water, compact lamps, footwear (between Rs. 250 to Rs. 750).
- Existing rate of 50% of abatement in case of Pan masala will also apply where RSP is not mandatory.

4. Export Oriented Units (EOU/STP/EHTP)

In case of clearance of goods to Domestic Tariff Area total Duty has been reduced from 50% of aggregate Custom Duty to 25% of basic Custom Duty plus applicable excise duty.

5. No major change is proposed for Small Scale Units except certain items have been dereserved.

6. Withdrawal of exemption on unbranded goods :-

Specified unbranded products are exempted from excise duty since these are manufactured generally by small units. However due to withdrawal of exemption, small unit is eligible for SSI exemption following items are mainly - Mineral Water, Custard Powder, Food flavouring Matters, Beverages containing milk, preparation of vegetables and fruits.

7. Withdrawal of exemption on goods manufactured without the aid of power :-

Exemption on the following goods have been withdrawan , however assessee is eligible for SSI exemption .

- Essentail oils, perfumes, ceramic building bricks, roofing tiles, vitrified tiles, pad locks, locks of base metal, metal containers, soaps, biscuits, marble slab and tiles. Veneer sheets and sheets

for plywood thickness (not exceeding 6mm), sugar.

8. Following Activities are considered an amount to manufacturing activity :-

- ♦ Cutting, sizing or polishing of blocks into slabs or tiles.
- ♦ Labelling or relabing of containers and repacking of bulk pack to retail packs for chapter 3204 & 3206 i.e. Food colouring matter & other colouring matter.
- ♦ Metallizing of plates, sheets, film, foils of plastics.
- ♦ Drawing or redrawing bar, rod, wire into bright bar (chapter 72).
- ♦ Coating with cement or other plastic material of pipes and tubes (chapter 7304 & 7305).

C] CUSTOM DUTY

Major proposals for custom duty are as under and changes comes into effect immediately unless otherwise stated.

1. Peak Rate of duty on non agricultural products is being reduced from 15% to 12.5%.

2. Reduction in Duty

Items	Present (%)	Proposed (%)
Primary & Semi Finished metals like Alloy Steel, Copper, Zinc, Tin etc	10	7.5
Mineral Ores & Concentrate	5	2
Mineral Products of Ch. 25 except for cement, marble, granite etc.	15	5
Refractories & Input of retractors	10	7.5
Inorganics Chemicals (Ch. 2801 to 2805)	15	10
Organic Chemicals (Ch. 2901 to 2904)	10	5
Syrene, VCM	5	2
Catalyst	10	7.5

Items	Present (%)	Proposed (%)
Polymers of Ethylene (LDPE, HDPE etc)	10	5
Atlantic, Salmon (Agriculture)	30	10
Man Made Fibres, Filament Yarns, spun yarn	15	10
DMT, PTA, MEG (Textile)	15	10
Specified Textile Machinery & Parts	15	10
MP3 Players	15	5
Naphtha, Petroleum Coke	10	5
Specified Anti Cancer / Anti Aids drug	15	5
Non Edible Grade Oil for Soaps	15	12.5
Crude Glycerine	30	12.5
Packaging Machinery	15	5
Textile Fabrics & Garments	15	12.5

3. Increase of Duty

Items	Present (%)	Proposed (%)
Iron & Steel Scrap	Nil	5
Honey	30	60
Vansapati, Bakery Shortening modified, Preparation of edible Grade	30	80

4. Additional Duty of customs (CVD levied U/s. 3 of the Custom Tariff Act, 1975.

CVD @ 4% has now been extended to cover all imported goods agricultural as well as non agricultural imports earlier it was imposed on ITA bound items and inputs thereof. However, the following major exemption from CVD are as under :

- ◆ Goods which are fully exempt from VAT
- ◆ Goods which are fully exempt from basic duty & CVD
- ◆ Petroleum crude, LPG & Kerosene for PDS
- ◆ Goods under Export Promotion Scheme where Duty attract 'Nil'
- ◆ DTA Clearance of EOU/EHTP/STP/SEZ
- ◆ Passenger Baggage

- ◆ Jewellery will attract concessional rate @ 1% instead of 4%
- ◆ Specified Plantation machinery - Exemption extended upto 30/4/07
- ◆ Anti Cancer / Anti Aids Drugs

5. Withdrawal of exemption / Concessions in respect of the following items :

- ◆ Inputs for Medical X'ray films
- ◆ Spare Parts for Textile Machinery
- ◆ Food Preparation / Food Products items under Exim Policy.

6. First Schedule to the Custom Tariff is being amended with effect from 01/01/2007.

7. Provisions relating to relinquishment of title to imported goods is not available to the importer in case such goods are involved in any offence.

D. CENTRAL SALES TAX

Present rate of 4% will continue.