

INDIA

Budget 2007 Highlights

TAX



Foreword

The Indian economy is poised to move from a phase of moderate growth to a new phase of high growth. Achieving the necessary speed to move into a sustained high growth phase comes with its own challenges. GDP growth of 9.0% in 2005-06 and 9.2% in 2006-07 has surpassed all expectations.

The economic survey presented before Parliament on 27 February 2007 has identified two issues and three priorities for consideration. The two issues are that high growth must be sustained, and that it should be inclusive, i.e. a larger part of the population should participate therein. As a result, the three areas of priority are:

- (a) managing and maintaining the growth rate;
- (b) bolstering fiscal prudence and high investment; and
- (c) improving effectiveness of Government intervention in critical areas like agriculture, infrastructure, education and healthcare.

Against this backdrop, the Finance Minister, Mr. P. Chidambaram (the FM) presented his sixth budget before the Indian Parliament. Many expected the architect of the 'dream budget' a decade ago to do an encore this time around.

Though the Budget has increased allocations and proposed policy measures for development of agriculture, increased the allocation for investment in infrastructure and announced a slew of measures to promote education and healthcare, especially amongst the rural sections of the country, taxpayers' expectations of reduction in taxes have largely remained unmet.

After taking into account the proposed changes in taxation, the Fiscal Deficit is estimated at Rs. 150,948 crore which is 3.3% of the Gross Domestic Product (GDP) and the Revenue Deficit is estimated at Rs 71,478 crore, which is 1.5% of GDP.

The summary that follows highlights the salient features of the Finance Bill 2007, in terms of direct and indirect taxes. Unless otherwise indicated, the proposed amendments relating to direct taxes will apply from assessment year 2008-09 and the amendments relating to indirect taxes will apply from 1 March 2007.

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Direct Tax

Corporate Tax

- There are no changes in the tax rates.
- Surcharge not leviable on companies and firms having total income upto Rs. 1 crore.
- Education cess increased from 2% to 3%, the additional 1% levy is towards secondary and higher education cess.
- Dividend Distribution Tax (DDT) rate increased from 12.5% to 15%. In case of income distributed by money market mutual fund or liquid fund, DDT would be 25%.
- Minimum Alternate Tax (MAT) made applicable to companies enjoying benefits under sections 10A and 10B.
- Income of a non-resident on account of interest, royalty or fees for technical services, deemed to accrue or arise in India, shall be taxable irrespective of whether the non-resident has a place of business or a business connection in India. This amendment will retrospectively apply from 1 June 1976.
- Income of a venture capital company or venture capital fund would be exempt from tax only for investment made in a venture capital undertaking engaged in specified business/ industries namely:
 - nanotechnology;
 - IT development relating to hardware and software;
 - seed research and development;
 - bio-technology;
 - research and development of new chemical entities in the pharmaceutical sector;
 - building and operating composite hotel-cum-convention centres with seating capacity exceeding 3,000;
 - dairy industry; and
 - poultry industry.
- Weighted deduction available to a company engaged in the business of biotechnology, production of drugs, pharmaceuticals, electronic equipment, etc. for expenditure incurred on scientific research, in-house research and development extended for further five years, i.e. up to assessment year 2012-13.
- Annual deduction in respect of creation and maintenance of special reserve by specified financial corporations, banking company, specified cooperative banks, housing finance company reduced from 40% to 20% of the profits derived from providing long-term finance in specified areas of development.





- Deduction in respect of special reserve, created and maintained, has been extended to a banking company, cooperative bank, housing finance company and any other financial corporations, including a public company.
- Deduction in respect of provision for bad and doubtful debts, as available to a scheduled bank, extended to cooperative banks other than a primary agricultural credit society or a primary cooperative agricultural and rural development bank.
- Deduction in respect of contribution by public financial institutions towards Exchange Risk Administration Fund withdrawn.
- Disallowance for payments made in excess of Rs 20,000 other than by way of an account payee cheque or account payee bank draft will be disallowed at 100% as against 20% currently.

Where a deduction of expenditure has been claimed, on provision basis, in an earlier assessment year and the payment is subsequently made in cash in excess of Rs 20,000, in another assessment year, the payment so made will be deemed to be the income of such assessment year in which the payment is made. Under the current provisions, the total income of the assessment year in which such expenditure had been allowed as a deduction is re-computed. It is further proposed that the above will not apply in certain prescribed circumstances having regard to the banking facilities available, business expediency or other relevant factors.

- Tax benefit of set-off and carry-forward of accumulated business loss and unabsorbed depreciation under amalgamation has been extended to public sector companies engaged in the business of operating aircraft, amalgamating with other public sector companies engaged in a similar business.
- Tax benefit available to an undertaking or enterprise engaged in infrastructure development will now be available only to those persons who make investments and execute the development work. Accordingly, sub-contractor will not be eligible for the exemption. The said amendment will retrospectively apply from assessment year 2000-01.
- Tax benefit available to an undertaking or enterprise engaged in infrastructure development has been extended to laying and operating a cross-country natural gas distribution network, including gas pipelines and storage facilities being an integral part of the network, subject to fulfillment of certain conditions. The same has also been extended to the business of laying a navigational channel in the sea.
- Tax benefit available under section 80-IA will not be available to undertaking/enterprise of Indian companies undergoing amalgamation or demerger after 31 March 2007.



- Tax benefit available to undertaking in the power sector for reconstruction or revival of a power generating plant is extended to 31 March 2008 from the earlier time limit of 31 March 2007.
- Tax benefit available for setting up of industrial undertakings in the state of Jammu and Kashmir engaged in the manufacture or production of articles or things or operation of a cold storage plant is extended from the earlier limit of 31 March 2007 to 31 March 2012.
- Tax holiday for hotels and convention centres in specified 'National Capital Region' areas would be available subject to fulfillment of certain conditions.
- The Finance Act, 2006 had introduced an additional condition for the provident funds to receive or retain recognition. The fund of an establishment, to which the specified provisions of the Employees' Provident Fund and Miscellaneous Provisions Act, 1952, (EPF Act) applied, and which was also exempt thereunder, could avail/ continue with the recognition. The recognition granted to existing funds was to be withdrawn if such funds did not satisfy the additional condition on or before 31 March 2007.

The time limit for complying with the new conditions for an existing fund of an establishment has been extended to 31 March 2008. All the new funds of an establishment would also be required to satisfy conditions for recognition. It has also been clarified that the additional conditions will not apply to existing recognised funds which have been exempted from the operation of the EPF Act by the Central Government.

Personal Tax

- There are no changes in the tax rates.
- Income tax slabs altered. Basic exemption limit increased from Rs. 100,000 to Rs. 110,000.
- Basic exemption limit for resident women below 65 years of age increased from Rs. 135,000 to Rs. 145,000.
- Basic exemption limit for resident individuals above 65 years of age increased from Rs. 185,000 to Rs. 195,000.
- Education cess increased from 2% to 3%, the additional 1% levy is towards secondary and higher education cess.
- The definition of "Capital Asset" expanded to include certain personal effects such as archeological collections, drawings, paintings, sculptures, or any work of art and transfer of such assets to attract capital gains tax.



- Any benefit provided by a company free of cost or at a concessional rate to its employees by way of allotment of shares, debentures or warrants directly or indirectly under any Employees' Stock Option Plan or Scheme of the company offered to such employees shall not be taxable as perquisite, but will be covered under the Fringe Benefit Tax provisions.

Currently, such benefit is not taxable as perquisite provided the Employees' Stock Option Plan or Scheme is in accordance with the Central Government Guidelines.

For the purpose of capital gains, the cost of acquisition of such specified securities or sweat equity shares will be the fair market value considered for levy of Fringe Benefit Tax.

- Any amount received or receivable from the Central Government or a State Government or a local authority by an individual or his legal heirs by way of compensation (as stipulated) on account of any disaster would be exempt from income tax. This exemption will be available retrospectively from assessment year 2005-06.
- Deduction available to employees of Central Government in respect of contribution to a pension scheme notified by the Central Government has been extended to include employees other than Central Government employees. This deduction will be available retrospectively from assessment year 2004-05.
- The maximum amount of deduction in respect of medical insurance premia increased from Rs. 10,000 to Rs. 15,000. For senior citizens the limit has been increased from Rs. 15,000 to Rs. 20,000. Further, the mode of payment of the premium has been relaxed to include any mode of payment other than cash.
- Payment of interest on loan taken for pursuing higher education for spouse and children will qualify for deduction.

Fringe Benefit Tax (FBT)

- Fringe benefits to include any specified securities or sweat equity shares allotted or transferred, directly or indirectly by the employer free of cost or at a concessional rate to his employees (including former employee/s).

The 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 benefits.

- Expenditure on display of products and on distribution of samples either free of cost or at a concessional rate to be excluded from the category of "Sales promotion including publicity" for the purpose of valuation of fringe benefits.

- Advance tax due dates/ computation mechanism for FBT have been aligned with those prescribed for payment of advance tax on income. The amendment will be effective from 1 June 2007.

Other Tax Provisions

- The definition of 'India' to be amended to mean the territory of India, its territorial waters, seabed and subsoil underlying such waters, continental shelf, exclusive economic zone or any other maritime zone as referred to in the Territorial Waters, Continental Shelf, Exclusive Economic Zone and other Maritime Zones Act, 1976, and the air space above its territory and territorial waters. Similar amendment made under the Wealth Tax Act. This provision will retrospectively apply from 25 August 1976.
- Interest on bonds issued by State Pooled Finance Entities, set up in accordance with the Pooled Finance Development Scheme, and notified by the central government through the Official Gazette, will be exempt from tax.
- Income by way of contributions received from commodity exchanges or members thereof, of the Investor Protection Fund set up by commodity exchanges in India, shall be exempt from tax. However, to the extent that such income is shared with the commodity exchanges, it will be deemed to be the income of the Fund in the year in which it is so shared.
- Income received by any fund or institution established for charitable purposes or any trust or institution wholly for public religious purposes and charitable purposes will be exempt only if they have been approved by the prescribed authority. This provision will apply from 1 June 2007.
- Units set up in Special Economic Zones are required to satisfy two additional conditions for availing income-tax holiday:
 - not be formed by the splitting up or reconstruction of a business already in existence; and
 - not formed by the transfer to a new business of machinery or plant previously used for any purpose.
 This provision will apply retrospectively from 10 February 2006.
- The requirement for a charitable or religious trust or institution to file an application for registration with the Commissioner within one year from the date of its creation or establishment has now been dispensed with. Consequently, the power of Commissioner to grant registration for past years by condoning the delay in filing such application is also to be removed. In respect of applications filed on or after 1 June 2007, the exemption of income received by such trust or institution shall apply only from the year in which such application is made with the Commissioner.



- Investment ceiling in notified long-term capital gains bonds restricted to Rs 50 lakhs in any financial year retrospectively from 1 April 2006.
- With effect from 1 April 2007, exemption is available in respect of investment in capital gains bonds redeemable after three years and issued on or after 1 April 2007 by NHA1 or REC. This investment will be subject to a maximum ceiling of Rs 50 lakhs in any financial year.
- Time limit for completion of assessments/ reassessments increased by 12 months in cases where a reference is made to the transfer pricing officer. Order to be passed by the Transfer Pricing Officer before 60 days prior to the prescribed period of limitation. The Assessing Officer is required to compute total income of the Taxpayer in conformity with the arm's length price determined by the Transfer Pricing Officer. This provision will apply from 1 June 2007.
- The Board may make rules, both in the case of physical and electronic filing of income tax returns, providing for a class or classes of persons who may not be required to furnish documents, statements, receipts, certificates, audited reports or any other documents along with the return of income. However, the said documents, etc. will have to be produced as and when required by the Assessing Officer. This provision will apply from 1 June 2007.
- Assessing Officer, ordering a special audit under section 142(2A), is required to give the taxpayer an opportunity of being heard. Expenses of and incidental to such special audit (including remuneration of special auditor) are to be determined by the Chief Commissioner or Commissioner in accordance with Guidelines as may be prescribed and expenses so determined shall be paid by the Central Government. This provision will apply from 1 June 2007.
- With effect from 1 April 2007, assessment of non-residents engaged in shipping business covered by section 172 to be completed within nine months from the end of the financial year in which the return is furnished. For returns filed before 1 April 2007, assessment to be completed on or before 31 December 2008.
- Interest on 8% Savings (Taxable) Bonds 2003 to a resident will be subject to deduction of tax at source if the interest payable on such bonds exceeds Rs. 10,000 during a financial year. This provision will apply from 1 June 2007.
- Threshold for deduction of tax at source from interest (other than 'interest on securities') earned by a resident, from banking companies, cooperative societies engaged in the business of banking, or post office (in respect of notified schemes), raised from Rs. 5,000 to Rs. 10,000. This provision will apply from 1 June 2007.
- A benign assessment procedure to be introduced for taxpayers engaged in diamond manufacturing and trading who declare profits from such activities at 8% or more of turnover.





- Individuals and HUFs whose turnover/ receipts exceeding threshold limit for tax audit during the preceding financial year, are required to deduct tax at source from payments exceeding Rs. 20,000 to resident contractors, unless contract is exclusively for personal purposes. This provision will apply from 1 June 2007.
- Rate of tax to be deducted at source from payment of commission or brokerage increased from 5% to 10%. No tax to be deducted at source on commission or brokerage payable by Bharat Sanchar Nigam Limited or Mahanagar Telephone Nigam Limited to their public call office franchisees. This provision will apply from 1 June 2007.
- Rate of tax to be deducted at source on payment of rent for the use of any machinery or plant or equipment by a person to a resident reduced to 10%. This provision will apply from 1 June 2007.
- Rate of tax to be deducted at source from payment of fees for professional service, fees for technical services, royalty etc. increased from 5% to 10%. This provision will apply from 1 June 2007.
- Interest payable for non/ short deduction/ non payment of tax deducted at source to be calculated on a per-month basis, as against per annum basis currently prescribed.
- No tax to be collected at source by licensor/ lessor from the licensee or lessee in respect of a license, contract or lease relating to mining and quarrying of mineral oil. This provision will apply from 1 June 2007.
- A taxpayer shall now be eligible to file an appeal before the Appellate Tribunal against the Commissioner's order rejecting approval to certain charitable institutions and funds.
- A person deemed to be a taxpayer in default on his failure of collecting and paying tax to the government account will now be eligible to file an appeal before the Commissioner (Appeals). This provision is proposed to be effective from 1 June 2007. Any appeal filed by a taxpayer in default between 1 April 2007 and 1 June 2007 will also be deemed to be in compliance with the said provisions.
- Only a person who has borne the tax on behalf of the non-resident from payment of any income, other than interest, to such non-resident, can file an appeal before the Commissioner (Appeals), if he claims that no such tax was required to be deducted.
- Appellate Tribunal permitted to pass an order granting stay for a period upto 180 days in any proceedings relating to an appeal filed before it, and to further extend such period of stay upto 365 days in aggregate, in case the appeal is not disposed of within 180 days. Stay will automatically stand vacated upon expiry of 365 days.



- For the purposes of levying concealment penalty in certain specified circumstances, 'the amount of tax sought to be evaded' for default in furnishing return of income without any reasonable cause, shall mean tax on total income assessed, as reduced by taxes paid (including tax deducted at source) before the issue of notice for reassessment proceedings. This provision will apply retrospectively from assessment year 2003-04.
- Where during the course of search the taxpayer is found to be the owner of any undisclosed assets viz money, bullion, jewellery or other valuable articles or things or income for any previous year, which has ended before the date of search and the return for such year has not been filed till due date, then the taxpayer will be deemed to have concealed the particulars of his income or furnished inaccurate particulars of income without exception. This provision is proposed to be effective from 1 June 2007.
- In case of a search initiated after 1 June 2007, the penalty leviable in respect of concealment of undisclosed income not recorded in the taxpayer's books of accounts on or before the date of search shall be 10% of the undisclosed income of the previous year in which the search took place, provided that the penalty shall not be levied in case of specified circumstances.
- Offices or establishments of Central Government and State Governments excluded from the purview of the provisions of Banking Cash Transaction Tax. This provision will take effect from 1 June 2007.
- Exemption limit of taxable banking transactions, in case of individual and HUFs, raised to Rs. 50,000 from the present limit of Rs. 25,000. This provision will take effect from 1 June 2007.

Revised Settlement Scheme

It has been proposed that the scheme for settlement of cases be substantially revamped with effect from 1 June 2007. Broad features of the proposed scheme are as under:

- Application to the Income Tax Settlement Commission (ITSC) can only be made in respect of proceedings pending before the Assessing Officer excluding certain specified proceedings.
- Application to the ITSC permissible only if additional income tax payable exceeds Rs. 3 lakh as against Rs. 1 lakh currently. Further, additional income tax and interest thereon is to be paid on or before filing the application.
- Copy of the application also to be filed with the Assessing Officer on the date of making the application before the ITSC.



- Detailed transition provisions/ procedure prescribed for applications filed before 1 June 2007, including procedure for disposal of the said applications. These applications to be disposed off before 31 March 2008. Applications not disposed within the prescribed timeframe to revert to the same income tax authority.
- Detailed provisions/ procedure prescribed for applications filed on or after 1 June 2007. These applications to be disposed off within a timeframe of nine months. Applications not disposed within the prescribed timeframe to revert to the Assessing officer.
- The ITSC empowered to grant immunity from prosecution only under the Act and Wealth-tax Act, 1957. Under the existing provisions, the ITSC is empowered to grant immunity from prosecution under Indian Penal Code and any other Central Act including the Act and the Wealth-tax Act, 1957. This amendment is applicable only to applications filed on or after 1 June 2007.
- Where an application is filed on or after 1 June 2007, the ITSC is not empowered to reopen completed proceedings.
- After 1 June 2007, an application can be filed before the ITSC only once during the lifetime of the applicant. Application filed, but not admitted, would not be regarded as an application for this purpose.
- Changes on similar lines are also proposed for settlement of wealth tax cases.

Indirect Tax

Service Tax

Rate of service tax

- There is no change in service tax rate.
- New levy of Secondary and Higher Education cess of 1%, to be introduced from enactment of Finance Bill 2007, to be computed in the same manner as Education cess of 2%. CENVAT credit available for the same. Effective service tax rate stands increased from 12.24% to 12.36%.

Following services to become taxable from a date to be notified after enactment of Finance Bill 2007:

- Telecommunication services (by consolidating telephone, pager, leased circuit, telegraph, telex and facsimile services);
- Mining of mineral, oil or gas services;

- Renting of immovable property services for use in business or commerce;
- Services in relation to execution of specified works contracts. (Valuation of works contract likely to be notified separately. It is proposed to provide an optional composition scheme for payment of service tax at 2% of total contract value without claiming input tax credits);
- Development and supply of content services (for telecommunications, advertising, and internet/ web site);
- Asset management services, including portfolio management and all forms of fund management provided by persons not covered under 'Banking and Other Financial Services'; and
- Design services.

Scope of following existing services to be expanded from a date to be notified after enactment of Finance Bill 2007:

Service category	To include
Sale of space or time for advertisement services	Sale of space in business directories, yellow pages and trade catalogues
Rent-a-cab scheme operator's services	Services provided by motor vehicles capable of carrying more than 12 passengers
Mandap keeper's services, <i>pandal</i> or shamiana contractor's services, event management services	Social function to include marriage functions
Banking and other financial services	<ul style="list-style-type: none"> • Cash management services • 'Financial lease' now defined
Management consultant's service (to be renamed as 'Management or business consultant's service')	Business consultancy
Consulting engineer's service	Computer hardware engineering consultancy
Manpower recruitment and supply agency's services	Services in relation to: <ul style="list-style-type: none"> • pre-recruitment screening • verifying the credentials and antecedents of the candidate • authenticity of documents submitted
Management, maintenance or repair service	Management, maintenance or repair of computer software

Export of services

- Qualifying conditions for export of service amended. The words "provided from India and used outside India" substituted for the words "delivered outside India and used outside India" in Export of Services Rules, 2005.



Following services to be exempt from service tax effective from 1 March 2007:

- Delivery of cinematograph film in digital form to cinema theatres for exhibition directly through satellite, microwave or terrestrial communication line.
- Clinical trials for testing new drugs, including vaccines and herbal remedies, on human participants by clinical research organisations.
- Services provided by Resident Welfare Associations of residential complexes or localities to their members, where the monthly contribution of a member does not exceed Rs. 3000.

Following services to be exempt from service tax effective from 1 April 2007:

- Services provided by specified Technology Business Incubators (TBI)/ Science and Technology Entrepreneurship Parks (STEP), subject to conditions.
- Taxable services provided by incubatee (entrepreneur) exempt for first three years where total business turnover in the previous year does not exceed Rs. 50 lakh and incubatee is located within the premises of TBI or STEP.

Following amendments to be effective from 1 March 2007:

- Self-adjustment of excess service tax paid allowed, subject to specified conditions.
- Facility to file revised return within 60 days from return filing date.
- Original registration certificate not to be submitted for making amendments.
- CENVAT credit taken on inputs (lying in stock/ contained in taxable service pending to be provided) required to be reversed where taxable output service become subsequently exempted.

Following amendments to be effective from 1 April 2007:

- The exemption limit for small service providers increased from the present level of Rs. 4 lakh to Rs. 8 lakh.
- In case of sponsor located outside India, liability to pay service tax rests with service provider receiving the sponsorship income.
- Option provided to general insurance service providers to utilise CENVAT credit proportionate to the inputs and input services used for providing taxable services even though separate records are not maintained.





Following amendments to be effective from enactment of Finance Bill 2007:

- Fees to be prescribed for late filing of return.
- Authorities empowered to order cost audit to study abnormal utilisation of CENVAT credit.
- Committees to be constituted for review of orders passed by Commissioners and Commissioner (Appeals) for filing appeals by the Authorities before Tribunal.
- Concept of “Joint Venture” as regards applicant seeking Advance Ruling clarified, where one of the joint venture partners is required to be a non-resident with substantial interest and control.

Following amendments to be effective from a date to be notified after enactment of Finance Bill 2007:

- Definition of banking and other financial services amended to substitute the words “any other person” with “commercial concern”.

Customs Duty

Following amendments to be effective from 1 March 2007:

- Peak rate of Basic Customs Duty (BCD) on non-agricultural products reduced from 12.5% to 10%.
- New levy of Secondary and Higher Education cess of 1% introduced, to be computed in the same manner as Education cess of 2%.
- Export duty imposed on iron and chromium ores and their concentrates at specified rates.
- Benefit of concessional customs duty under Project Import Scheme extended to digital cinema development projects.
- Benefit of 5% BCD extended to additional equipment required for R&D in pharmaceutical and bio-technology sectors.
- Existing exemption to public funded and non-commercial research institutions extended to all research institutions registered with the Department of Scientific and Industrial Research.
- Exemption of additional customs duty on parts, components and accessories of cellular phones extended till 30 June 2009.
- Benefit of concessional customs duty available to specified machinery for plantation sector extended till 30 April 2009.

- All edible grade vegetable oils and their edible grade fractions oils, crude and refined, exempted from additional duty of customs of 4%.
- Exemption from additional customs duty of 16% withdrawn on specified parts of set-top boxes.
- Exemption of BCD is withdrawn on aircrafts and parts imported by those other than scheduled operators, government and PSUs.

Reduction of Basic Customs duty rates:

Item	Prior to 1 March 2007	With Effect From 1 March 2007
Dredgers	5%	Nil
Coking coal (irrespective of ash content)	5%	Nil
Specified plastics and articles thereof	12.5%	7.5%
Food processing machinery	7.5%	5%
Crude sunflower oil	65%	50%
Medical equipment	12.5%	7.5%
Sprinklers and drip irrigation systems for agricultural and horticultural purposes	7.5%	5%
Goods required for power transmission, sub-transmission or distribution projects	10%	7.5%
DMT, PTA and MEG	10%	7.5%
Inorganic chemicals (except Titanium Dioxide)	12.5%	7.5%
Organic chemicals (except Mannitol, Sorbitol and Caprolactum)	12.5%	7.5%

Following amendments to be effective from enactment of Finance Bill 2007:

- Valuation provisions in Customs Act aligned with existing valuation Rules by introducing 'transaction value' concept.





- Valuation rules for determining the value of goods exported out of India to be notified.
- Relevant date for claiming refund of customs duty arising out of any judgment/ order to be determined from the date of such judgment/ order.
- Concept of “Joint Venture” as regards applicant seeking advance ruling clarified, where one of the joint venture partners is required to be a non-resident with substantial interest and control.
- Provisions governing Settlement Commission to be revised:
 - Application can be filed only in cases pending before adjudicating authority;
 - A person will be allowed to approach the Settlement Commission only once; and
 - Power to grant immunity from prosecution will be available only for offences under Customs Act.

Central Excise Duty

Following amendments to be effective from 1 March 2007:

- New levy of ‘Secondary and Higher Education Cess’ of 1% introduced, to be computed in the same manner as Education Cess of 2%. CENVAT credit available for the same.
- CENVAT credit taken on inputs (lying in stock/ contained in un-cleared, finished products) required to be reversed where final goods become subsequently exempted.

Reduction in Central Excise Duty

- Ad -valorem component of motor spirit (or petrol) and high speed diesel oil (HSD) reduced from 8% to 6%.
- Excise duty on cement reduced from Rs. 400 pmt to Rs. 350 pmt, where retail sale price is less than Rs. 190 per bag.
- Complete exemption from excise duty provided for the following:
 - Packed biscuits, where retail sale price per kilogram is less than Rs. 50;
 - All kinds of food mixes, including instant food mixes;
 - Water purification equipment based on membrane technology and water filters functioning without electricity;
 - Flash memory and DVD writer.



- Existing exemption to public funded and non-commercial research institutions extended to all research institutions registered with the Department of Scientific and Industrial Research.
- Excise duty rate for specified inputs for the textile industry reduced from 16% to 12%.

Increase in Central Excise duty

- Excise duty on cement increased from Rs. 400 pmt to Rs. 600 pmt, where retail sale price is more than Rs. 190 per bag.
- Excise duty of 16% imposed on aircrafts and parts thereof other than those supplied to a scheduled operator, government and PSUs.
- Specified textile machinery, exempted earlier, to now attract duty of 8%.
- Exemption withdrawn on the following:
 - Recorded video cassettes intended for television broadcasting; and
 - Cold-set, high speed printing machine.

Following amendments to be effective from 1 April 2007:

- SSI exemption limit increased from Rs. 1 crore to Rs. 1.5 crore.
- Job worker valuation – excise duty to be levied on sale price of the principal.
- E-payment of excise duty mandatory for assesseees who have paid more than Rs. 50 lakh excise duty in cash in the last financial year.

Following amendments to be effective from enactment of Finance Bill 2007:

- Relevant date for claiming refund of excise duty arising out of any judgment/ order to be determined from the date of such judgment/ order.
- Concept of 'Joint Venture' as regards applicant seeking Advance Ruling clarified, where one of the joint venture partners is required to be a non-resident with substantial interest and control.
- Provisions governing Settlement Commission to be revised:
 - Application can be filed only in cases pending before adjudicating authority.

- A person will be allowed to approach the Settlement Commission only once.
- Power to grant immunity from prosecution will be available only for offences under Excise Act.

Following amendments to be effective from a date to be notified after enactment of Finance Bill 2007:

- IT goods such as computer hardware, printers, scanners, fax machines, modems and set-top boxes to be brought under the MRP levy.
- Packing / labeling of IT goods to be deemed as “manufacture”.

Central Sales Tax (CST)

- CST rate proposed to be reduced from 4% to 3% from 1 April 2007.
- “Aviation Turbine Fuel” sold to small aircrafts operated by scheduled airlines to attract VAT/ sales tax not exceeding 4%.



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