

INDIAN UNION BUDGET ANALYSIS-2008-09



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ANALYSIS OF THE UNION BUDGET- 2008-09

Few of the important amendments, proposed to be effected by the Finance Bill, 2008 effective from **Assessment Year 2009-2010 or Financial Year 2008-09** are as under:

I. DIRECT TAXES:

A Personal Taxation

1. **Tax Slabs Changed**- The tax rates have been left untouched however the slab has been increased as under resulting in a maximum saving of Rs. 49,852 for men, Rs. 49,286 for women and Rs. 43,621 for senior citizens as compared to the previous year 2007-08:

For Women

| | |
|-----------------------------|-------------|
| Up to Rs.1.80 lakh | Nil |
| Rs.1.80 lakh to Rs.3.0 lakh | 10 per cent |
| Rs.3.0 lakh to Rs.5.0 lakh | 20 per cent |
| Above Rs.5.0 lakh | 30 per cent |

For Senior Citizens

| | |
|-----------------------------|-------------|
| Up to Rs.2.25 lakh | Nil |
| Rs.2.25 lakh to Rs.3.0 lakh | 10 per cent |
| Rs.3.0 lakh to Rs.5.0 lakh | 20 per cent |
| Above Rs.5.0 lakh | 30 per cent |

For Other individuals

| | |
|-----------------------------|-------------|
| Up to Rs.1.50 lakh | Nil |
| Rs.1.50 lakh to Rs.3.0 lakh | 10 per cent |
| Rs.3.0 lakh to Rs.5.0 lakh | 20 per cent |
| Above Rs.5.0 lakh | 30 per cent |

Surcharge of 10 per cent will apply on the income of individuals, Hindu Undivided family, body of individuals, association of persons having taxable income in excess of Rs.10 lakh. Education cess remains at 2% along with Additional cess called Secondary and higher education cess of 1%.

2. **Deduction limit for Medical Insurance increased**- Deduction limit for persons who are paying medical insurance premium for his/ her parent or parents raised by Rs. 15,000 u/s 80D. Earlier the limit was Rs. 15,000/- and in case the assessee was a senior citizens the limit was Rs. 20,000/-.
3. **Investment basket widened u/s 80C**- Investments in Senior Citizen Savings Scheme 2004 and the Post Office time Deposit Account are also now eligible investment avenues u/s 80C under which deduction is available to individuals and Hindu Undivided Family (HUF) for investments made upto a maximum of Rs. 100,000.
4. **Reverse Mortgage Scheme Taxation clarified**- In a reverse mortgage, the property owner surrenders the title of the property to a financial entity. The financial entity doesn't pay the entire amount, but pays out a regular sum each month for the agreed time. The owner gets to stay in the property along with his/her spouse for their lifetime. Thus, the owner can ensure a regular cash flow in times of need and enjoy the benefit of staying in the property. After the owner's death, the property is transferred to the institution, and not to the heirs.
In the Budget it has been clarified that any amount received by an individual as a loan, either in lump sum or in installment, in a transaction of reverse mortgage

would be exempt from tax and further that the transfer of capital asset in such a scheme would not be treated as a transfer for the purpose of Income from Capital Gains.

5. **Short term Capital Gains Rate Increased**- The rate of tax u/s 111A on short term capital gains arising on equity or equity oriented Mutual Funds listed on a recognised stock exchange on which STT has been paid has been increased from 10% to 15%.
6. Any income which accrues or arises to a Sikkimese individual from any source in the State of Sikkim or by way of dividend or interest on securities is proposed to be exempt. The said exemption shall be effective from April 1, 1990.
7. **Agricultural Income definition widened**- Agricultural income shall include income derived from saplings or seedlings grown in a nursery.

B Corporate Taxation

8. **Definition of Charitable Purpose curtailed**- Earlier Charitable purpose was the relief of poor, education, medical relief and the advancement of any other object of general public utility. The institutions like FICCI, ASSOCHAM and CII being the organizations with an object of advancement of general public utility are exempt from tax even if they are earning some income the object of which are incidental for the attainment of the above said objective. Further they were also

required to comply with certain conditions of use, application and retention of their income.

However as per the new proviso inserted advancement of any other object of general public utility shall not be a charitable purpose, if it involves the carrying on of any activity in the nature of trade, commerce or business, or any activity of rendering any service in relation to any trade, commerce or business, for a cess or fee or any other consideration, irrespective of the nature of use or application, or retention of the income from such activity.

Thus it is very much clear now that carrying on of any activity in the nature of trade, commerce etc. would attract income tax, even if it is incidental to the attainment of the objective of the organization.

9. **Research & Development Deduction**- A deduction of 125% is proposed for payments made to a Company to be used by it for scientific research. Earlier such a deduction was only available for payments made to certain associations, university, colleges or institutions but not to a Company. Now Companies which fulfill certain conditions are also eligible.

10. **Tax Holiday**-

- (i) Sunset clause inserted for seven year Tax Holiday available to undertakings engaged in refining of mineral oil. Accordingly, no undertaking which begins refining after March 31, 3009 shall be eligible for the tax holiday.
- (ii) Undertaking engaged in the business of operating and maintaining hospitals located anywhere in India other than in an excluded area (i.e.

urban cities of Mumbai, Delhi, Kolkata, Chennai, Hyderabad, Bangalore, Ahmedabad and districts of Faridabad, Gurgaon, Gautam Bhud Nagar, Ghaziabad, Gandhinagar, Secunderabad) shall enjoy a tax holiday for a period of 5 years, if the following conditions are met:

- i. Starts functioning at any time during the period from April 1, 2008 upto March 31, 2013
 - ii. Minimum 100 patient beds
 - iii. Construction is as per bye laws/ regulations of local authority
 - iv. Audit Report is furnished along with Return of Income in prescribed format
- (iii) Undertaking engaged in the business of hotels located in the specified district having World Heritage site (i.e. Agra, Jalgaon, Aurangabad, Kancheepuram, Puri, Bharatpur, Chatarpur, Thanjavur, Bellary, South 24 Parganas, Chamoli, Raisen, Gaya, Bhopal, Panchmahal, Kamrup, Goalpur, Nagaon, North Goa, South Goa, Darjeeling, Nilgiri) shall enjoy a tax holiday for a period of 5 years, if it starts functioning at any time during the period from April 1, 2008 upto March 31, 2013

11. **MAT**- The definition of book profit for the purpose of computing Minimum Alternate Tax (MAT) has been widened such that the Net Profit as shown in the Profit & Loss Account shall now also be increased by the amount of deferred tax provision. Further, the amendment defines the term “income Tax” to include the following:-

- (i) Tax on distributed profits u/s 115O or on distributed income u/s 115R

- (ii) Any interest charged under the IT Act
- (iii) Surcharge, education cess, Secondary and Higher Education Cess

12. **Shares and Stock Trading cost increased**- STT paid is proposed to be allowed as a deduction from business income of share and stock trading as opposed to the existing practice of allowing STT paid as a tax credit. The impact of the same is dual:-

- (i) Under the current proposal tax credit for only 30% of the STT paid is given versus 100% earlier. Therefore the cost increases to the assessee to the extent of 70% of STT paid.
- (ii) For an assessee who has a loss from business income in any given previous year, earlier benefit of STT paid could not be taken since there was no tax liability, however, now loss attributable to the STT paid would be eligible for a carry forward u/s 72.

13. **Written Down Value for Exempt Companies**- In case of an assessee who was earlier enjoying an exemption from tax and is now computing the depreciation charge, the written down value of the asset shall be the actual cost adjusted by (a) the amount of attributable to revaluation of such asset; (b) the book depreciation which is deemed to be depreciation actually allowed under Income Tax and (c) depreciation attributable to such revaluation shall be adjusted from depreciation under clause (b). The amendment is proposed to be effective from April 1, 2003.

C Tax Administration

14. **Due date for corporates and large assessee's preponed-** The due date of filing of return of income of a company or other persons whose accounts are required to be audited u/s 44AB is proposed to be advanced from October 31 to September 30. The amendment is proposed to be effective from April 1, 2008 and would be applicable for FBT returns also.
15. **Expenditure in excess of Rs. 20,000 other than by Cheque or Draft-** Currently payment for expenditure in excess of Rs. 20,000/- other than by way of account payee cheque or account payee draft were to be disallowed to the extent of 20% of such expenses. It is now proposed to disallow the entire expenditure and further payment of expense made to a person in a day in aggregate, in excess of the said limit of Rs. 20,000/- other than by way of account payee cheque or account payee draft shall also be covered under the purview.
16. **New Scheme of Intimation and Processing of Returns-** It is proposed to process returns in a BPO environment electronically using specialized software. In case there is any arithmetical error in the return or incorrect claim apparent from information in return dealing with any inconsistency or deduction claimed in excess of statutory limit, the same shall be corrected and an intimation of the amount payable, refund due or loss reduced as compared to the return of income filed shall be sent to the assessee.

17. **Time Limit for issue of Scrutiny Notice changed-** Currently a notice for scrutiny assessment can be issued within 12 months from the end of the month during which the return has been filed. But now the same notice can be served within the period of 6 months from the end of the financial year in which the return has been filed. This change has resulted in an extension of time for the Assessing Officers to issue scrutiny notices in the case of individual assessee's.
18. **Power of Assessment or reassessment widened-** It is proposed to allow the Assessing Officer to initiate reassessment proceedings even where the assessment order for any assessment year itself is a subject matter of appeal/ reference/ revision. However, this power can be exercised only for those items of income which are specifically not the subject matter of the appeal/ reference/ revision in such assessment year. The amendment is proposed to be inserted with effect from April 1, 2008.

D Fringe Benefit Tax:

The following exclusions have been proposed in the provisions of FBT:-

- ❖ Employee welfare excludes (a) crèche facility for children of employee; (b) sponsorship of a sportsman, being an employee; (c) organization of a sports event for employees
- ❖ Maintenance of any accommodation in the nature of guest house shall no longer be subjected to FBT

II. INDIRECT TAXES:

A Excise Duty

1. General CENVAT rate on all goods reduced from 16 percent to 14 percent to give a stimulus to the manufacturing sector.
2. **The Central Excise (Determination of Retail Sale Price of Excisable Goods) Rules, 2008** are being issued under section 4A(4) of the Central Excise Act, 1944 to provide the manner of determination of retail sale price, where the same is not declared on the packages or tampered or altered or obliterated. **This change shall come into effect from 1st March, 2008.**
3. The changes in excise duty rates on individual items is stated hereunder in tabular form:

Respite in Excise Duty Rates

Down to 14%

| Goods | Existing Rate | New Rate |
|---|---------------|----------|
| General rate of excise duty has eased by 2% | 16% | 14% |

Down to 14%

| Goods | Existing Rate | New Rate |
|-------------|---------------|----------|
| Hybrid cars | 24% | 14% |

Down to 14%

| Goods | Existing Rate (%) | New Rate (%) |
|-----------------|-------------------|--------------|
| Small cars | 16% | 12% |
| Buses and other | 16% | 12% |

| | | |
|--|-----|----------------|
| vehicle for transport of more than 13 persons | | |
| chassis of such vehicles | 16% | 12%+ Rs.10,000 |
| Two-wheelers and passenger three-wheelers (upto 7 persons) | 16% | 12% |

Down to 8%

| Goods | Existing Rate | New Rate |
|--|----------------------|-----------------|
| Drugs & Pharmaceuticals (Formulation) | 16% | 8% |
| instant sterile dressing pads, burn therapy pads, corn removers etc. | 16% | 8% |
| sterile surgical catgut, sterile absorbable surgical and sterile tissue adhesive for wounds closure etc. | 16% | 8% |
| first aid boxes and kits, blood grouping reagents etc. | 16% | 8% |
| Muesli, corn flakes & similar breakfast cereals | 16% | 8% |
| Sharbats | 16% | 8% |
| Packaging material | 16% | 8% |

| | | |
|--|-----|----|
| <p>viz.:</p> <ul style="list-style-type: none"> • Open Top Sanitary (OTS) cans • Aseptic packaging paper • Aseptic bags | | |
| Specified Convergence Products | 16% | 8% |
| Water Filtration and Purification Devices | 16% | 8% |
| Veneers & Flush Doors | 16% | 8% |
| Heat resistant rubber tension tape | 16% | 8% |
| Inks for marker pens, highlighters etc. | 16% | 8% |
| Writing paper, printing paper and packing paper | 12% | 8% |
| paper and paper products, manufactured from non-conventional raw materials, beyond clearance of 3500 metric tonne per year from a unit (not having an attached bamboo/wood pulp plant) | 12% | 8% |

Down to Nil

| Goods | Existing Rate | New Rate |
|--|----------------------|-----------------|
| Anti-AIDS drug ATAZANAVIR, and bulk drugs for its manufacture. | 16% | Nil |
| Packaged tender Coconut water | 16% | Nil |
| Paws, mudi (puffed rice) and the like | 16% | Nil |
| Milk containing edible nuts | 16% | Nil |
| Tea/ coffee pre-mixes | 16% | Nil |
| Wireless data modem cards | 16% | Nil |
| paper and paper products, manufactured from non-conventional raw materials, upto clearance of 3500 metric tonne in a year from a unit. | 16% | Nil |
| Electric cars | 8% | Nil |
| Specified parts of electric cars | 16% | Nil |
| Polyester yarn | 1 | Nil |

Increase in excise Duty Rate

Nil to 8%

| Goods | Existing Rate | New Rate |
|--------------------|---------------|----------|
| Shuttle-less looms | Nil | 8% |

Increase in duty

| Goods | Existing Rate | New Rate |
|---|---------------|----------|
| Non-Filter Cigarettes (rates are per 1000 cigarettes) | | |
| Not exceeding 60 mm in length | Rs. 168 | Rs.819 |
| Exceeding 60 mm | Rs.546 | Rs.1323 |

Change to establish higher duty

| Goods | Existing Rate | New Rate |
|------------------|-----------------------|--|
| Bulk Cement | 400 per tonne (INR) | 14% or INR 400 per tonne, which ever is higher |
| Cement clinkers | 350 per tonne (INR) | INR450 per tonne |
| Unbranded Petrol | 6%+INR 13 per litre | INR 14.35 per litre |
| Unbranded Diesel | 6%+INR 3.25 per litre | INR 4.60 per litre |

UP to 12%

| Goods | Existing Rate | New Rate |
|-------------------|---------------|----------|
| Packaged Software | 8% | 12% |

NCCD from Nil to 1%

| Goods | Existing Rate | New Rate |
|--------------|---------------|----------|
| Mobile phone | Nil | 1% |

B **Service Tax**

4. Service Tax rate remains unchanged, however exemption limit for service providers raised from Rs. 8 lakh to Rs. 10 lakh. The annual threshold limit of service tax registration for service providers is being increased from the present level of “seven lakh rupees”, to “nine lakh rupees”. These amendments shall be effective from April 1, 2008.
5. Additional Services liable to Service Tax - Service providers of the following services shall attract service tax:
 - a. Services provided in relation to information technology software for use in the course, or furtherance, of business or commerce;
 - b. Services provided in relation to management of investment, under unit linked insurance business, commonly known as Unit Linked Insurance Plan (ULIP) scheme;
 - c. Services provided by a recognised stock exchange in relation to securities;
 - d. Services provided by a recognised association or a registered association (commodity exchange) in relation to sale or purchase of any goods or forward contracts;

- e. Services provided by a processing and clearinghouse in relation to processing, clearing and settlement of transactions in securities, goods or forward contracts;
- f. Services provided in relation to supply of tangible goods, without transferring right of possession and effective control of the tangible goods;
- g. Services provided in relation to internet telecommunication. Consequently, reference to services provided in relation to internet telephony, being covered as part of internet telecommunication, shall be omitted.

The above changes will come into effect from a date to be notified after the enactment of the Finance Bill, 2008.

6. Scope of Specified Taxable Services amended:

(a) To include,-

- (i) purchase or sale of foreign currency, including money changing, by an authorized dealer or an authorized money changer, under **banking and other financial service**;
- (ii) purchase or sale of foreign currency, including money changing, by an authorized dealer or authorized money changer, under **foreign exchange broker services** provided by individual;
- (iii) packing together with transportation of cargo or goods, with or without one or more other services like loading, unloading, unpacking, under **cargo handling service**;

(iv) testing or analysis of information technology software under **technical testing and analysis service**;

(v) inspection, examination and certification of information technology software under **technical inspection and certification service**;

(vi) services provided in relation to a journey from one place to another in a contract carriage vehicle, under **tour operator service**. However, such services provided for use by an educational body, other than a commercial training or coaching centre, imparting skill or knowledge or lessons on any subject or field shall be excluded. Services provided in relation to a journey from one place to another in a tourist vehicle is already leviable to service tax under tour operator service;

(b) To omit,-

(i) from **business auxiliary service**, reference to information technology service consequent upon notifying information technology software service as a separate taxable service;

(ii) from **consulting engineer service**, exclusion of computer software engineering consultancy consequent upon notifying information technology software service as a separate taxable service;

(iii) from 39 specified taxable services, reference to service recipient as “client” or “customer” and replace with the words “any person”;

The above changes will come into effect from a date to be notified after the enactment of the Finance Bill, 2008.

(c) To clarify that services provided by a consulting engineer in relation to advice, consultancy or technical assistance in the disciplines of both

computer hardware engineering and computer software engineering shall also be classifiable under consulting engineer service;

(d) To clarify by way of removal of doubt that,-

(i) “service in relation to promotion or marketing of service provided by the client” under business auxiliary service includes any service provided in relation to promotion or marketing of games of chance, organized, conducted or promoted by the client;

(ii) renting of immovable property service includes allowing or permitting the use of space in an immovable property, irrespective of the transfer of possession or control of the immovable property;

(iii) “properties” referred to in management, maintenance or repair service includes information technology software.

7. The following services have been exempted:

a. the taxable service provided by a person located outside India for a customer located outside India, and received by a hotel located in India, in relation to booking of an accommodation in the said hotel located in India;

b. 75% of the gross amount charged as freight for services provided in relation to transport of goods by road in a goods carriage by a goods transport agency (GTA), unconditionally. Consequently, 75% abatement provided under notification No.1/2006-Service tax, dated the 1st March, 2006 is withdrawn.

Exemption specified in,-

a. 2(i) and 2(ii) will come into effect from 1st March, 2008, and

b. (1) will come into effect from 1st April, 2008.

8. A Scheme for resolution of dispute relating to service tax arrears pending as on 1.3.2008 and involving amount not exceeding Rupees twenty five thousand is being introduced (**Service Tax Dispute Resolution Scheme, 2008**). The scheme is valid during 1st July, 2008 to 30th September, 2008.

C Customs Duty

9. No change in the peak rate of customs duty.

10. Respite in Customs Duty Rates- The following major changes have been made in the Customs Duty front:-

Down to 5%

| Goods | Existing Rate | New Rate |
|--|----------------------|-----------------|
| Unworked or Simply prepared corals | 10% | 5% |
| Specified raw materials for manufacture of ELISA | 10% | 5% |
| Specified convergence products | 10% | 5% |
| Chlorobutyl rubber/Bromobutyl rubber | 10% | 5% |
| Polyester tyre cord | 10% | 5% |

| | | |
|---|-----|----|
| fabric | | |
| Specified lifesaving drugs and bulk drugs for their manufacture | 10% | 5% |
| Polished cubic zirconia | 10% | 5% |

Down to 5%

| Goods | Existing Rate | New Rate |
|---|---------------|----------|
| Specified machinery for manufacture of sports goods | 7.5% | 5% |
| Project imports | 7.5% | 5% |

Down to 2%

| Goods | Existing Rate | New Rate |
|-----------------------------|---------------|----------|
| Crude and unrefined sulphur | 5% | 2% |

Down to Nil

| Goods | Existing Rate | New Rate |
|---|---------------|----------|
| Rough Cubic Zirconia | 5% | Nil |
| Helicopter simulators | 10% | Nil |
| Melting scrap of Iron and Steel | 5% | Nil |
| Aluminum scrap | 5% | Nil |
| Specified parts of set top boxes for use in manufacture of set- | 7.5% | Nil |

| | | |
|---|------|-----|
| top boxes | | |
| Specified raw material and inputs for IT/Electronic hardware industry | 10% | Nil |
| Bactofuges | 7.5% | Nil |
| Ground equipment for testing of satellites and payloads | 10% | Nil |
| Tuna Bait | 30% | Nil |
| Air Rifles or Air Pistols of 0.177 caliber | 10% | Nil |
| Specified raw materials for manufacture of sports goods for subsequent export | 10% | Nil |
| Specified raw materials and inputs for IT/Electronic hardware industry | 7.5% | Nil |

Down and Up

| Goods | Existing Rate (%) | New Rate(%) |
|---|--------------------------|--------------------|
| feed additives/pre-mixes | 30% | 20% |
| naphtha for manufacture of specified polymers | Nil | 5% |
| cigars, cheroots and cigarillos | 30% | 60% |
| polymer long rod | Nil | 5% |



| | | |
|------------|--|--|
| insulators | | |
|------------|--|--|

D Central Sales Tax

11. Rate of Central Sales Tax is proposed to be reduced from 3% to 2%
12. Road map for Goods and Service Tax being prepared for introduction of GST from April 1, 2010.

III. OTHER MATTERS:

- ❖ Banking Cash Transaction Tax (BCTT) proposed to be withdrawn with effect from April 1, 2009
- ❖ Commodities Transaction Tax (CTT) on the same lines as STT is proposed to be introduced on commodity futures. CTT shall come into effect from the date of notification in the Official Gazette