

BUDGET 2002



*If you know
to spend less then you earn...
than budget is yours.*



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EXECUTIVE SUMMARY

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ECONOMIC SURVEY 2001-2002

The Indian economy is passing through a difficult phase caused by several unfavourable domestic and external developments. Domestic output and demand conditions were adversely affected by poor performance in agriculture in the previous two years. The global economy experienced an overall deceleration and is estimated to record an output growth of 2.4 percent during the past year. These tendencies were exacerbated in the aftermath of the terrorist attacks in United States in September 2001. Consequently export growth has suffered and industrial profitability has also been affected by the prevailing low commodity and product prices globally. Despite these constraints, growth in real GDP in 2001-02 is expected to be 5.4 percent. This growth rate marks some recovery over the low growth of 4 percent in 2000-01. It will also be one of the highest growth rates in the world in the current year.

The average annual growth rate during the Ninth Five Year Plan (1997-2002) is now estimated at 5.4 percent, which is lower than the plan target of 6.5 percent. Although this raises new challenges for reinvigorating growth in the Tenth Five Year Plan, the Indian growth record is one of the highest among the major economies in the world in recent years. The Indian economy has been resilient in the face of several external shocks during this period such as the East Asian crisis of 1997-98, the oil price increase of 2000-01, and the most recent world economic slowdown. Domestic shocks in the shape of an adverse security environment, natural disasters like the Orissa cyclone and Gujarat earthquake, and two consecutive years of poor agricultural performance, have also been faced successfully by the economy.

The overall growth of 5.4 percent in 2001-02 is supported by a growth rate of 5.7 percent in agriculture and allied sectors, 3.3 percent in industry and 6.5 percent in services. The acceleration of the overall GDP growth rate is basically due to a significant improvement in value added in the agriculture and allied sectors from a negative growth rate of (-) 0.2 percent in 2000-01 to 5.7 percent in 2001-2002. There has been significant deceleration in the growth rate of industry. However,

the performance of the service sector has improved moderately. The table given behind gives sectoral GDP growth over the years.

The deceleration in industrial growth may be attributable to various factors such as normal business and investment cycles, inherent adjustment lags of corporate restructuring and lack of both consumer and investment demand. Continued high real interest rates, infrastructure constraints in power and transport and delays in establishing credible institutional and regulatory framework for private participation in some key sectors might have also dampened private investment and industrial production.

Prospects of agricultural production in 2001-02 are considered to be bright as a result of normal monsoon and relatively favourable distribution of rainfall over time and regions. Overall agricultural output is estimated to increase by nearly 7 percent in 2001-02.

Financial and other services are doing well in the current year. However, performance of certain service sectors like transport (other than railways), tourism, business and social services has been adversely affected by slowdown in both domestic and external demand.

The average annual rate of inflation in terms of the Wholesale Price Index (WPI) increased significantly from 3.3 percent in 1999-2000 to 7.1 percent in 2000-01 due to a substantial rise in administered prices of petroleum products. During 2001-02, the inflation rate declined in terms of the WPI. The 52 weeks average inflation rate declined from 7 percent at the beginning of 2001-02 to 4.7 percent for the week ended January 19, 2002. The point-to-point inflation rate reached a low of 1.3 percent by the end of January 2002, which was the lowest in over two decades.

The inflation rate in terms of the Consumer Price Index for Industrial Workers (CPI-IW) remained below 4 percent until July 2001 and increased to 5.2 percent in August 2001. The Index displayed a downward trend during September-October, 2001. However, it increased again to 4.9 percent in November 2001 and further to 5.2 percent in December 2001.

The Union Budget envisaged a reduction of gross fiscal

deficit as a proportion of GDP from 5.1 percent in 2000-01 (RE) to 4.7 percent in 2001-02 (BE). With the availability of quick estimates of national income and provisional accounts for 2000-01 and advance estimates of national income for 2001-02, revised estimates of fiscal deficit for 2000-01 and budget estimates for 2001-02 have undergone change. The gross fiscal deficit as a proportion of GDP is now estimated at 5.5 percent for 2000-01 and 5.1 percent for 2001-02. As regards revenues, there are significant shortfalls in indirect taxes due to slowdown in industrial production and significant deceleration of both oil and non-oil imports. Direct tax collections are likely to be below target for the current year. There is also a shortfall in revenues from disinvestments. Disinvestment proceeds are now expected to pick up in the coming months due to a much smoother working of the disinvestment process. Various economy measures taken by the government for reducing non-plan and non-capital expenditure have helped to keep the overall expenditure under control. Despite these measures, the gross fiscal deficit of the Central government at the end of the year is likely to exceed the budgeted target.

India's Balance Of Payments remained reasonably comfortable in both 2000-01 and 2001-02. The current account deficit as a percentage of GDP declined from 1.1 percent in 1999-2000 to about 0.5 percent in 2000-01 due to a dynamic export performance and sustained buoyancy in invisible receipts. However, in the current year, exports have been almost stagnant and have recorded a growth of only 0.6 percent in April-December 2001. An assessment of the Balance of Payments (BOP) outlook conducted jointly by the Reserve Bank of India (RBI) and the Ministry of Finance for the current year indicates that the current account deficit as percentage of GDP may widen to some extent, though it will remain within 1 percent of GDP, which is quite manageable.

The exchange rate of the rupee in terms of the major currencies of the world remained reasonably stable during the year, despite occasional fluctuations caused by normal market forces of supply and demand. Foreign exchange reserves (including gold and SDR) reached a record level of nearly US\$ 50 billion at the end of January 2002, which is equivalent to almost 10 months

of estimated imports for the current year.

India's external debt situation has improved significantly in recent years as a result of effective external debt management by the Government. The External Debt-GDP Ratio decreased from 28.7 percent at the end of March 1991 to 22.3 percent at the end of March 2001 and further to 21 percent at the end of September 2001. The Debt Service Ratio declined from a peak level of 35.3 percent of current receipts in 1990-91 to 16.3 percent in 2000-01. It is particularly noteworthy that for the first time, the World Bank has classified India as a less-indebted country.

The Indian economy responded to the economic reforms of the 1990s with a higher growth performance than in previous decades. The economy has, therefore, shown that it is capable of achieving high growth rates in response to the implementation of appropriate economic reform policies. Consequently, higher growth rates in the rest of the decade can indeed be achieved through further deepening of the economic reform process. Second generation reforms have been initiated already and, as their implementation proceeds, acceleration in economic growth can be expected in the coming years. However, the crucial issue of fiscal imbalance at both the Central and State levels needs to be addressed with some urgency in order to improve the overall health of the economy.

Economic reforms are a continuous process, which need to be adjusted as the economic environment changes, both domestically and internationally. The year 2001 has been a difficult year for almost all economies of the world. World economic growth slowed down as did trade growth. The current signals are that recovery is expected in 2002. This should help in the expansion of international trade and in the rejuvenating of Indian export growth. As the world economy picks up, the deflationary trend experienced in the prices of commodities and manufactured products would also begin to be reversed enabling improved profitability in the Indian manufacturing sector as well. The continued implementation of reforms along with this upturn in the economic environment is likely to help in regeneration of economic activity in the months and years to come.

SECTORAL REAL GROWTH RATES IN GDP (AT FACTOR COST)

	Percentage change over in the previous year										NFYP*	
	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-2001	2001-2002	(A)		
	(P)										(Q)	(A)
I. Agriculture and allied	4.1	5.0	-0.9	9.6	-2.4	6.2	1.3	-0.2	5.7	2.1		2.1
II. Industry	5.2	10.2	11.6	7.1	4.3	3.7	4.9	6.3	3.3	4.5		4.5
1. Mining and quarrying	1.4	9.3	5.9	0.5	9.8	2.8	2.0	3.3	1.4	3.9		3.9
2. Manufacturing	8.5	12.0	14.9	9.7	1.5	2.7	4.2	6.7	3.3	3.7		3.7
3. Electricity, gas & water supply	-0.8	9.4	6.8	5.4	7.9	7.0	6.1	6.2	5.2	6.5		6.5
4. Construction	0.6	5.5	6.2	2.1	10.2	6.2	8.1	6.8	2.9	6.8		6.8
III. Services	7.7	7.1	10.5	7.2	9.8	8.3	9.5	4.8	6.5	7.8		7.8
5. Trade, hotels, transport and communication	7.1	10.4	13.3	7.8	7.7	7.7	7.7	5.3	6.3	6.9		6.9
6. Financial, real estate & business services	13.4	5.6	8.2	7.0	11.6	7.4	10.6	2.9	7.5	8.0		8.0
7. Community, social and personal services	3.5	3.2	7.9	6.3	11.7	10.4	11.6	6.0	6.0	9.1		9.1
IV. Total GDP	5.9	7.3	7.3	7.8	4.8	6.5	6.1	4.0	5.4	5.4		5.4

A : Advance estimates; Q : Quick estimates; P : Provisional; *:NFYP : Ninth Five Year Plan (1997-2002) annual average growth.

BUDGET AT A GLANCE

	<i>(In crore of Rupees)</i>			
	2000-2001 Actuals	2001-2002 Budget Estimates	2001-2002 Revised Estimates	2002-2003 Budget Estimates
1. Revenue Receipts	192624	231745	212572	245105
2. Tax Revenue (net to centre)	136916	163031	142348	172965
3. Non-Tax Revenue	55708	68714	70224	72140
4. Capital Receipts (5+6+7)	132987	143478	151864	165204
5. Recoveries of Loans	12046	15164	15143	17680
6. Other Receipts	2125	12000	5000	12000
7. Borrowings and other liabilities	118816	116314	131721	135524
8. Total Receipts (1+4)	325611	375223	364436	410309
9. Non-Plan Expenditure	242942	275123	265282	296809
10. On Revenue Account of which	226782	250341	242471	270169
11. Interest Payments	99314	112300	107257	117390
12. On Capital Account	16160	24782	22811	26640
13. Plan Expenditure	82669	95100	99154	113500
14. On Revenue Account	51076	60225	61834	70313
15. On Capital Account	31593	34875	37320	43187
16. Lump sum provision for Additional Plan expenditure linked to disinvestment receipts	...	5000
17. Total Expenditure (9+13+16)	325611	375223	364436	410309
18. Revenue Expenditure (10+14)	277858	310566	304305	340482
19. Capital Expenditure (12+15+16)	47753	64657	60131	69827
20. Revenue Deficit (18-1)*	85234 (4.1)	78821 (3.2)	91733 (4.0)	95377 (3.8)
21. Fiscal Deficit * {(17-(1+5+6))}	118816 (5.7)	116314 (4.7)	131721 (5.7)	135524 (5.3)
22. Primary Deficit (21-11)*	19502 (0.9)	4014 (0.2)	24464 (1.1)	18134 (0.7)

** Figures of deficit as a percentage of GDP for 2000-01 have undergone change over last year mainly because of revision in GDP figures.*

KEY FEATURES OF BUDGET 2002-2003

BUDGET STRATEGY

- Continue the emphasis on agriculture and food economy reforms.
- Enhance public and private investment in infrastructure.
- Strengthen the financial sector and capital markets.
- Deepen structural reforms and regenerate industrial growth.
- Provide social security to the poor.
- Consolidate tax reforms and continue fiscal adjustment at both the Central and State levels.

AGRICULTURE AND RURAL DEVELOPMENT

- Amendment of the Milk and Milk Products Control Order (MMPO) to remove restrictions on new milk processing capacity, while continuing to regulate health and safety conditions.
- Removal of small scale industry reservations related to various agricultural equipment items.
- Decanalization of the export of agricultural commodities and phasing out of remaining export controls.
- Expansion of future and forward trading to cover all agricultural commodities.
- Group of Ministers (GOM) to be set up to propose legislative and other changes for preparing a modern integrated food law and related regulations.
- Additional allocations in respect of centrally sponsored schemes would be linked to decontrol and deregulation of the agricultural sector by the States.
- Additional allocation of Rs. 70 crores to Credit Linked Subsidy Scheme for construction of cold storages and rural godown schemes in 2002-03.
- The funds for RIDF VIII will be enhanced from Rs. 5000 crores to Rs. 5500 crores next year, while

the rate of interest will be reduced from 10.5 percent to 8.5 percent. Henceforth it will be fixed at the prevailing bank rate plus 2 percent. Assistance to the States from RIDF will be linked to reforms in the agriculture and rural sectors.

- Under the scheme of micro credit through Self Help Groups a target of 1.25 lakhs additional self-help groups set.
- Special One Time Settlement Scheme for small and marginal farmers will be announced by RBI to cover loans upto Rs. 50,000.
- A new Corporation for Agriculture Insurance to be promoted by the existing public sector general insurance companies.
- Allocation for the Accelerated Irrigation Benefit Programme (AIBP) increased from Rs. 2,000 crores this year to Rs. 2,800 crores in 2002-03.
- Allocation for agriculture research enhanced to Rs. 775 crores from Rs. 684 crores.

RURAL ROADS

- Allocation of Rs. 2,500 crores for the Pradhan Mantri Gram Sadak Yojana (PMGSY).

RURAL ELECTRIFICATION

- New interest subsidy scheme called the Accelerated Rural Electrification Programme to be introduced. An outlay of Rs. 164 crores provided.

RURAL EMPLOYMENT

- Jai Prakash Rozgar Guarantee Yojana (JPRGY) to be launched to provide employment guarantee to the unemployed in the most distressed districts of the country.
- Wardha Institute started by Mahatma Gandhi in 1935 to be upgraded as a National Institute to be called Mahatma Gandhi Institute for Rural Industrialisation.
- Rural local bodies, cooperatives and NGOs will be assisted to set up rural produce marketing centres and sub-centres at the district and block levels and to upgrade village haats.

KEY FEATURES OF BUDGET 2002-2003

- Insurance cover through a Master Policy for houses constructed by the poor under the Indira Awas Yojana (IAY) in disaster prone areas will be provided.

MANAGEMENT OF FOOD ECONOMY

- Number of steps taken by the Government to reduce high food stocks, like increased allocations for BPL families; launching of a major food for work programme under the SGRY; allocation of 30 lakh tonnes of free foodgrains to States for relief works in areas affected by natural calamities; open market sales of 30 lakh tonnes during 2001-02 compared to 5.5 lakh tonnes in 2000-2001; and enhanced incentives for export of food grains.

INFRASTRUCTURE POWER

- APDP being redesigned as the Accelerated Power Development and Reform Programme (APDRP), with an enhanced plan allocation of Rs. 3,500 crores for 2002-03. The focus of reform has shifted from generation to transmission and distribution.
- A high level monitoring group will oversee the progress of this programme. Allocation for this programme will be augmented by loans on concessional terms from the Power Finance Corporation (PFC).

ROADS, PORTS AND CIVIL AVIATION

- The Golden Quadrilateral will be completed substantially by December 2003, a year ahead of schedule.
- Major ports to be corporatised in a phased manner. Regulatory structure will be strengthened.
- International airports at Delhi, Mumbai, Chennai and Kolkata to be upgraded to the standards of world class airports by inducting private sector management and investment through long term leasing systems. Leasing process will be completed in 2002-03.
- Private sector participation in greenfield airport projects will be encouraged through a package of concessions.

URBAN DEVELOPMENT

- Urban Reform Incentive Fund (URIF) to be setup with an initial allocation of Rs. 500 crores to provide reform linked assistance to States. The Fund will seek to incentivise reforms in Rent Control Laws and repeal of Urban Land Ceiling Acts, rationalisation of high stamp duty regimes, revision of bye-laws to streamline the approvals process for construction of buildings, development of sites, etc., revision of municipal laws, levy of realistic user charges and resource mobilization by urban local bodies and initiation of public private partnership in the provision of civic services.
- A City Challenge Fund (CCF) to be set up as an incentive based facility that will support cities to fund transitional costs of moving towards sustainable and creditworthy institutional systems of municipal management and service delivery. A Pooled Finance Development Scheme also to be setup to provide credit enhancement to assist local bodies to access market borrowing on a creditworthy basis. Allocation for the issue of municipal tax free bonds increased to Rs. 500 crores from Rs. 200 crores.

TOURISM

- 6 tourism circuits would be identified for development to international standards during 2002-03, Special Purpose Vehicles (SPVs) will be permitted to raise resources from both public and private sectors for infrastructure development in these circuits and Hampi will be developed as an international destination for tourism.
- Plan Outlay for tourism increased by 50 percent to Rs. 225 crores.

INFRASTRUCTURE FINANCE

- An Infrastructure Equity Fund of Rs. 1,000 crores will be set up to help in providing equity investment for infrastructure projects.
- An institutional mechanism is being set up to coordinate the debt financing by financial institutions

and banks of infrastructure projects larger than Rs. 250 crores. IDFC will act as the coordinating institution with primary responsibility for different sectors being shared with the IDBI and ICICI.

PUBLIC INVESTMENT

- Total Plan outlay in power, roads and railways increased by 22 percent, 39 percent and 23 percent respectively, to a total of Rs. 37,919 crores.

FINANCIAL SECTOR AND CAPITAL MARKETS

DEBT AND CAPITAL MARKET

- Government Securities Bill to replace the old Public Debt Act 1949 to be introduced.
- Legislative changes will be proposed in the SEBI Act 1992 for investor protection, and to enhance the effectiveness of SEBI as the capital market regulator.
- Further legislative changes to be proposed during the year in the UTI Act to put in place other needed reform measures.
- FII portfolio investments not to be subject to the sectoral limits for foreign direct investment except in specified sectors.

BANKING SECTOR

- Additional fiscal relief is being offered to help banks and financial institutions to make provisions for NPAs.
- A new Bill on Banking Sector Reforms to be introduced in Parliament to strengthen creditor rights through foreclosure and enforcement of securities by banks and financial institutions.
- A pilot Asset Reconstruction Company to be set up by June 30, 2002 for initiating measures for taking over non performing assets in the banking sector and also developing a market for securitised loans.
- The Deposit Insurance Credit and Guarantee Corporation (DICGC) will be converted into the Bank Deposits Insurance Corporation (BDIC) to make it

an effective instrument for dealing with depositor's risks and for dealing with distressed banks.

- IDBI to be corporatised.
- A provision of Rs. 1300 crores is proposed for re-capitalisation support to the Indian Bank.
- Foreign banks to either operate as branches of their parent banks or to set up subsidiaries. Subsidiaries will have to adhere to all banking regulations, including priority sector lending norms, applicable to other domestic banks.
- Provision of Rs. 100 crores as Centre's share for introducing reform measures in the area of cooperative credit structure. Provision of additional funds to be considered based on pace of reforms.

HOUSING FINANCE

- NHB to launch a Mortgage Credit Guarantee Scheme, which would be provided to all housing loans to fully protect lenders against default.
- The target under the Golden Jubilee Rural Housing Finance Scheme increased to Rs. 2.25 lakhs for 2002-03.
- The allocation of the Indira Awas Yojana increased by 13 percent to Rs. 1,725 crore for 2002-03.

CAPITAL ACCOUNT LIBERALISATION

- Full convertibility of deposit schemes for Non Resident Indians. The schemes, which do not offer full convertibility to NRIs to be discontinued from April 1, 2002.
- NRIs will be free to repatriate in foreign currency their current earnings in India.
- Indian companies may now invest abroad up to US\$ 100 million on an annual basis through the automatic route, up from the existing limit of US\$ 50 million.
- Indian companies may make overseas investment in joint ventures abroad by market purchases without

prior approval up to 50 percent of their net worth.

- Indian mutual funds allowed to invest in rated securities in countries with fully convertible currencies, within the existing limits.
- Legislation to be brought for empowering the enforcement agencies to arrest and prosecute the hawala operators/money launderers suspected to be engaged in financial transactions linked with terrorist activities.

STRUCTURAL REFORMS

ADMINISTERED PRICING MECHANISM (APM)

PETROLEUM

- Administered Price Mechanism (APM) in the petroleum sector to be dismantled as of April 1, 2002.
- The pricing of petroleum products to be market determined.
- Issue of oil bonds to the concerned oil companies to liquidate the Oil Pool Account.
- Private companies to be permitted in distribution subject to specified guidelines.
- A Petroleum Regulatory Board would be set up to oversee the sector.
- Subsidy on domestic LPG and PDS Kerosene to be provided in the budget.
- Freight subsidies will continue to be provided for LPG and kerosene to far-flung areas.
- Price of diesel and petrol to come down by around 50 paise and Re 1 per litre respectively from March 1, 2002.
- Price of LPG is being raised by about Rs. 40 per cylinder and of kerosene oil for PDS by about Rs. 1.50 per litre from March 1, 2002. Subsidy on these products will be borne by the consolidated fund from April 1, 2002.
- The subsidies on LPG and kerosene will be on specified flat rate basis from April 1, 2002. The retail

prices to vary as the price of crude oil changes in the international market.

SMALL SCALE INDUSTRIES

- The limit for composite loans has been increased from Rs. 2 lakhs to Rs. 5 lakhs.
- The exemption limit for collateral security has been increased from Rs. 25,000 to Rs. 5 lakhs. The project cost limit under the National Equity Fund has been increased from Rs. 25 lakhs to Rs. 50 lakhs.
- Public Sector banks to introduce a scheme called Laghu Udyami Credit Card (LUCC) Scheme for providing simplified and borrower friendly credit facilities to small businessmen, retail traders, artisans and, small entrepreneurs, professionals and other self employed persons, including those in the tiny sector.
- Over 50 items of knitwear, certain agricultural implements, auto components, some chemicals and drugs, and others to be dereserved.

HUMAN DEVELOPMENT

EDUCATION

- Plan allocation to the Department of Elementary Education and Literacy enhanced from Rs. 4,000 crores this year to Rs. 4,900 crores.
- Loans amounting to about Rs. 670 crores have already been given to almost 50,000 students under the comprehensive educational loan scheme announced last year.

SOCIAL SECURITY

- An insurance scheme called "Janraksha" being designed by the public sector insurance companies to provide protection to the needy population. With a payment of Re. 1 per day as insurance premium, a person will be entitled to indoor treatment up to Rs. 30,000 per year.

WOMEN AND CHILDREN

- Plan allocation for the Department of Women and

Child Development increased by 33 percent to Rs. 2,200 crores.

- At least 100 scholarships a year to be instituted to encourage the entry of large numbers of women into scientific professions.
- Under the National Nutrition Mission food grains at subsidised rates would be made available to adolescent girls and expectant and nursing mothers belonging to below poverty line families through the ICDS structure.

INDIAN SYSTEM OF MEDICINE

- The National Institute of Siddha at Chennai provided Rs. 4 crores for commencing its activities. A National Ayurvedic Hospital to be set up at Delhi with private sector participation. Budgetary support for ISM enhanced by 25 percent to Rs. 150 crores.

SCHEDULED CASTES AND SCHEDULED TRIBES

- Allocation for the welfare and upliftment of Scheduled Castes increased from Rs. 792 crores this year to Rs. 879 crores in the coming year.
- Plan outlay for tribal welfare increased by 21 percent to Rs. 290 crores.

DEVELOPMENT OF NORTH EASTERN REGION

- The provision for expenditure in North Eastern States out of the Central Plan of various Ministries increased from Rs. 2,022 crores in the current year to about Rs. 3,700 crores next year.

SCIENCE AND TECHNOLOGY

- The plan allocation for the Department of Science and Technology raised by 52 percent to Rs. 625 crores.
- Allocation for Fund for the Improvement of Science & Technology (FIST) increased by 115 percent to Rs. 75 crores. Resources from fund may also be used to augment library facilities in the Universities.
- Micro venture capital fund to be set up for small innovations to be initiated by the Small Industries and

Development Bank of India (SIDBI), in cooperation with the National Innovation Foundation, to facilitate the transition of innovations into enterprises.

FISCAL CONSOLIDATION

EXPENDITURE MANAGEMENT

- Of the identified surplus manpower of 42,200 in 36 Ministries/Departments where ERC completed its work, nearly 12,200 posts expected to be abolished by the end of March 2002.
- Decision to limit fresh recruitment to 1 percent of total civilian staff strength to continue over the next 4 years.
- Modest increases in the issue price of urea, DAP and MOP by about 5 percent. Subsidy for SSP reduced by Rs. 50 per tonne. The prices of complex fertilisers also to be suitably modified.
- Compulsory levy on sugar to be reduced from 15 to 10 percent from March 1, 2002. Retail price of PDS sugar to be Rs. 13.50 per kg. from March 1, 2002.
- Modest increase in postal rates.

SMALL SAVINGS AND INTEREST RATES

- Administered interest rates to be benchmarked to the average annual yields of government securities of equivalent maturities in the secondary market.
- Most administered interest rates to be reduced by 50 basis points from March 1, 2002. Future adjustments to be made annually on a non-discretionary automatic basis.
- The benefit of reduction in interest rates on small savings deposits will be fully passed on to the States.
- Government Relief Bonds to have a reduction of 50 basis points in interest rate. A ceiling of Rs. 2 lakhs per year put on investment in these bonds.
- The entire net proceeds of small savings to be transferred to State Governments beginning April 1, 2002, up from the current transfer of 80 percent.
- State Governments may pre-pay their high cost debt

of the past from these additional lower cost resources.

- The interest rate on the loan portion of Central assistance to State plans reduced by 50 basis points.

DEFENCE

- Provision of Rs. 65,000 crores for defence expenditure for next year. As a measure of welfare of the defence forces and their families a major programme of housing construction for defence personnel also being taken up.

STATES FISCAL REFORMS

- Rs. 12,300 crores provided for reform linked assistance to States for a number of sectors like APDRP, AIBP, URIF, RIDF. A lump-sum amount of Rs. 2,500 crores has been provided for policy reforms in sectors which are constraining growth and development.

PRINCIPLES OF TAX PROPOSALS

- Tax proposals are against the backdrop of the current economic slow-down. Intended to revive demand, promote investment, accelerate economic growth, enhance productivity, widening the tax base, rationalization and simplification of tax structures and encouraging voluntary compliance.

INDIRECT TAXES

- Total indirect tax collection estimated at Rs. 1,43,702 crores.

EXCISE

- 16 percent special excise duty abolished on a number of items.
- LPG, kerosene, auto CNG and diesel engines upto 10 HP will now attract CENVAT rate of 16 percent.
- Excise duty at a moderate rate of 4 percent on a few items imposed last year increased to 8 percent. Excise duty at 4 percent imposed on a few more items, which have remained exempted so far.
- Cigars, cheroots and cigarillos of tobacco or tobacco substitutes shall attract 16 percent CENVAT.

- Changes in the duty structure of petroleum products. Cess on indigenous crude oil increased from Rs. 900 per metric tonne to Rs. 1,800 per metric tonne. Ad-valorem rate of excise duty applicable to motor spirit reduced from 90 percent to 32 percent. However, a surcharge of six rupees per litre imposed. The surcharge on ethanol doped motor spirit to be only Rs. 5.25 per litre.
- Special incentives for the textile industry.
- Refineries in the North Eastern region to be charged to excise duty at half of the normal rates of excise duty.
- Air travel to and from North East States exempted from Inland Air Travel Tax.
- Excise duty on tea reduced from Rs. 2 per kg to Re. 1 per kg.
- Specified anti-AIDS drugs exempted from excise duty.
- Three more equipment items added to the list of specified cold chain equipment exempt from excise duty.
- Excise duty exemption scheme withdrawn for granite in the small-scale sector.
- The scheme of excise duty assessment extended to 9 more categories of items this year, raising the number to 92 categories of items.
- Service tax extended to new sectors.
- Service tax exemption on the services provided by hotels extended upto 31st March 2003.

CUSTOMS

- By the year 2004-05 only two basic rates of customs duties, viz., 10 percent covering generally raw materials, intermediates and components and 20 percent generally covering final products. Peak rate reduced from 35 to 30 percent this year.
- Customs duty reduced by 10 percent on a number of refractory raw materials
- Basic customs duty on seconds and defectives of steel increased to the bound rate of 40 percent.
- Customs duty on copper, zinc and lead reduced from 35 percent to 25 percent and on aluminium and tin from 25 percent to 15 percent.

- Special Economic Zone would be entitled to procure duty free equipment, raw materials, components, etc.
- Customs duty on specified equipment for Ports and Airports reduced to 10 percent.
- Exemption to aeroplanes, helicopters, gliders, simulators of aeroplanes and their parts and raw materials.
- Zero duty regime on IT products made effective from 2005. Customs duty on a number of hardware inputs reduced to 5 percent and on certain capital goods to 15 percent. The duty on certain IT items to be reduced to 10 percent or 5 percent as per the WTO binding.
- Cellular phones and pagers exempted from CVD; basic customs duty increased from 5 percent to 10 percent.
- Customs duty on tea and coffee increased to 100 percent and on natural rubber, poppy seeds, pepper, cloves and cardamom to 70 percent and pulses to 10 percent.
- Customs duty on agricultural machinery and implements reduced from 25 percent to 15 percent.
- Eight more drugs used for treatment of cancer and some other critical diseases included in the list of fully exempted drugs.
- Customs duty on Glucometers and test strips reduced from 25 percent to 10 percent.
- Customs duty on non-PDS kerosene reduced from 35 percent to 20 percent and increased from 5 percent to 10 percent on kerosene sold under the PDS scheme.
- Customs duty on certain earth station equipment and studio equipment reduced from 35 percent to 25 percent.
- Customs duty on cement and clinkers reduced from 25 percent to 20 percent.
- Customs duty on certain items of personal use for passengers returning from abroad on transfer of residence reduced to 30 percent. Overall limit of value of the items permissible under this scheme raised from Rs. 1.5 lakhs to Rs. 5 lakhs.
- A nominal customs duty of 5 percent on some of the items that are exempt at present. Special additional

duty on certain other items that are currently subjected to 5 percent customs duty.

- In the next two years CENVAT to be reduced to one rate only, namely 16 percent.

DIRECT TAXES

- Direct tax revenue in 2002-2003 to be Rs. 91,585 crores.
- Personal Income tax rates unchanged.
- Additional depreciation at the rate of 15 percent allowed on new plant and machinery acquired on or after 1st April, 2002 for setting up a new industrial unit, or for expanding the installed capacity of existing units by at least 25 percent.
- Rate applicable to foreign companies reduced from 48 percent to 40 percent.
- Capital gains exemption under section 54EC allowed on amounts invested in bonds issued by SIDBI and NHB.
- Full exemption from tax to the income of Credit Guarantee Fund Trust for Small Industries.
- Deduction for interest payable on housing loans for self-occupied houses allowed even where such houses are acquired or constructed after 31st March 2003, as long as the acquisition or construction is completed within three years from the end of the financial year in which the loan was taken.
- Deduction against provisions for bad and doubtful debts by banks increased to 7.5 percent of the total income. Optional deduction of 5 percent of NPAs falling in the category of loss or doubtful assets enhanced to 10 percent. Similar option given to public financial institutions.
- Benefit of carry forward and set off of past losses extended to companies providing telecom services and eligible for deduction under section 80-IA. An expert group to examine the extension of this benefit to other companies in the services sector, including the financial services sector.

KEY FEATURES OF BUDGET 2002-2003

- Expenditure Tax on hotels to apply only to room charges exceeding Rs. 3,000 per day.
- Maximum deduction allowable under section 80HHD in respect of foreign exchange earnings of hotels or tour operators increased from 40 percent to 50 percent for the assessment year 2003-2004, and from 20 percent to 30 percent for the assessment year 2004-2005.
- Deduction of 50 percent of the profits earned by units setting up and operating large convention centres to be allowed for 5 years under section 80-IB.
- Deduction of 50 percent of the profits earned by units constructing and operating multiplex theatres in non-metropolitan towns allowed for the next five years.
- Deduction under section 35AC allowed in respect of amounts paid to a company or institution for carrying out projects of softwood plantation on degraded non-forest land. A deduction under this section will also be available in respect of payments towards conservation of natural resources and afforestation.
- The requirement of publishing their accounts by such charitable and religious trusts as well as certain other institutions claiming exemption under section 10(23C) whose total receipts during a year exceeded Rs. 1 crore withdrawn.
- No perquisites will be assessed for the assessment year 2002-2003 in the case of employees whose taxable salary, excluding perquisites, is upto Rs. 1,00,000. For subsequent years, option given to the employer to pay the tax on perquisites on behalf of his employees.
- Relief under section 89 on family pension received in arrears.
- Clearance to be obtained from the Appropriate Authority before registering a transfer of an immovable property abolished.
- Tax-exemption allowed to income earned by NDDB, Prasar Bharati and the Oil Industry Development Board withdrawn.
- Revised schedule of depreciation rates to be notified after taking into account public views.
- Distribution tax of 10 percent on companies and mutual funds on the dividends or income distributed by them abolished. Such income will henceforth be taxed in the hands of the recipients at the rates applicable to them, and will be subject to tax deduction at source at 10 percent. Income received during 2002-2003 by unit holders of equity oriented funds of the UTI and other mutual funds will be taxed only at 10 percent as at present.
- Taxable income between Rs. 1,50,000 and Rs. 5 lakhs to get a rebate of only 10 percent under section 88 of the amount invested. No rebate where taxable income exceeds Rs. 5 lakhs.
- Tax exemption to employees receiving amount upto Rs. 5 lakhs as VRS compensation extended to employees of certain institutions of National or State-level importance.
- A Scheme called "Sampark" to be launched to enable taxpayers to obtain information and forms through the Internet.
- Penalty of Rs. 10,000 in all cases where a false PAN is quoted in documents relating to specified transactions.
- Expenditure exceeding Rs. 25,000 incurred in cash on foreign travel, purchase of bank drafts exceeding Rs. 50,000 in cash and making cash deposits exceeding Rs. 50,000 in any bank account will require compulsory quoting of permanent account number.
- The 2 percent surcharge imposed last year in the wake of the Gujarat Earthquake abolished. A new surcharge of 5 percent across-the-board on all categories of taxpayers, except individuals and Hindu Undivided Families having total income upto Rs. 60,000 introduced.
- 100 percent deduction of export profits allowed to certain units under sections 10A and 10B of the Income-tax Act reduced to a 90 percent deduction for the assessment year 2003-2004.

FINANCE BILL 2002.

The various changes and amendments brought about by the Finance Bill, 2002, are concised below:

CAPITAL ACCOUNT LIBERALISATION

- Capital Account Convertibility has been in the agenda of the Government since long. The recent Budget proposal put forth will lead to further liberalising the capital account convertibility, the proposal are: -
- Full Convertibility of deposit Scheme for Non Resident Indians. The existing Foreign Currency Non-Resident [FCNR (B)] Scheme and the Non Resident External rupee (NRE) scheme will continue to be repatriable. The scheme which do not offer convertibility to NRIs will be discontinued from April 01,2002. The existing balance in the non-resident (non repatriable) rupee account will be allowed to be credited on maturity to the convertible NRE account.
- Indian Companies can now invest upto US\$ 100 Millions on an annual basis through automatic route, up from the existing limit of US\$ 50 Millions
- In Joint Venture abroad, Indian companies making overseas investments by market purchases are allowed to invest upto 50% of their Net Worth without prior approval. The current limit was of 25%.
- To give boost to charity by the Indian Entrepreneurs abroad, corporates with proven track record will be allowed to contribute funds from their foreign exchange earnings for setting up chairs in educational institutions and other welfare measures abroad which are likely to benefit the community abroad on a case to case basis.
- Indian Mutual Funds will now be allowed to invest in rated securities in countries with fully convertible currency within the existing limits. Earlier such investment was only permitted in ADR/GDRs issued by Indian companies in overseas markets.
- Pre-payment of External Commercial Borrowing is permissible to the extent of balances available in EEFC account, which was currently restricted to 50% of export proceeds.
- The Reserve Bank of India will be issuing guidelines for structuring various proposals discussed above. It has also been proposed to bring in suitable legislation for empowering the enforcement agencies

to arrest and prosecute hawala operators / money launderers suspected to be engaged in financial transactions linked with terrorist activities.

DIRECT TAX PROPOSAL

1. RATES OF TAXES.

Rates of taxes prescribed for assessment year 2003-2004 are as under:

I. Individual, HUF, AOP, BOI.

Income (Rs.)	Rate of Income Tax %	Surcharge on Tax %	Total %
Upto 50,000	Nil	Nil	Nil
50,001 to 60,000	10	Nil	10
60,001 to 1,50,000	20	5	21
1,50,001 & above	30	5	31.5

(Surcharge to be calculated on net tax after considering rebate u/s. 88, 88B and 88C, etc., under Chapter VIII of the Income Tax Act).

II. Co-operative Society:

Income (Rs.)	Rate of Income Tax %	Surcharge on Tax %	Total %
Upto 10,000	10	5	10.5
10,001 to 20,000	20	5	21
20,001 & above	30	5	31.5

III. Firm:

Income (Rs.)	Rate of Income Tax %	Surcharge on Tax %	Total %
On whole of total income	35	5	36.75

IV. Local Authority:

Income (Rs.)	Rate of Income Tax %	Surcharge on Tax %	Total %
On whole of total income	30	5	31.5

V. Domestic Company:

Income (Rs.)	Rate of Income Tax %	Surcharge on Tax %	Total %
On whole of total income	35	5	36.75

VI. Foreign Companies:

Income (Rs.)	Rate of Income Tax %	Surcharge on Tax %	Total %
On whole of total income	40	5	42

2. RATE OF TAX DEDUCTION AT SOURCE (withholding Tax).

(I) In case of resident assessee other than company, including surcharge:

Particulars	Rate %
Dividend	10.50
Interest on securities	10.50
Interest other than interest on securities	10.50
Winings from lotteries, puzzles, TV Games, Horse Races	31.50
Payment to Contractors	2.10
Payment to sub-contractors	1.05
Payment out of deposits under NSS etc.	21.00
Payment for repurchase of units by MF or UTI u/s. 80 CCB	21.00
Commission, etc., on sale of lottery ticket	10.50
Insurance commission.	10.50
Commission and brokerage paid. (w.e.f. 1.6.2002)	5.25
Rent paid to others	21.00
Rent paid to individuals and HUFs	15.75
Fees for professional or technical services.	5.25

(II) In case of Non Resident:

Particulars	Rate %
(I) Income by way of interest on loans in foreign currency	21.00
(II) Income by way of winning from lotteries, crossword puzzles, winnings from horse race, TV games, etc.	31.50
(III) Long term capital gain	21.00
(IV) Long term capital gains falling u/s. 115E	10.50
(V) Income being investment income	21.00
(VI) Non-resident sportsmen/sports association.	10.50

(III) In case of Domestic Company:

Particulars	Rate %
(I) Dividend	10.50
(II) Income by way of interest	21.00
(II) Income by way of lotteries, crossword puzzles, winning from horse race, TV Games, etc.	31.50
(III) Any other income	21.00

(IV) In case of Foreign Companies:

Particulars	Rate %
(I) Income by way of interest on foreign exchange borrowing	21.00
(II) Income by way of royalty:	
(A) Agreement is made before 1st June, 1997	31.50
(B) Agreement is made after 1st June, 1997.	21.00
(III) Income by way of fees for Technical Services:	
(A) Agreement made before 1st June, 1997	31.50
(B) Agreement made after 1st June, 1997.	21.00
(IV) Income by way of Long Term Capital Gain:	21.00
(V) Income by way of lotteries, crossword puzzles, card games, horse race and TV games, etc.	31.50
(VI) Any other income	42.00

3. PROVISIONS RELATING TO CHARITABLE TRUSTS:

- (i) At present Charitable Trusts are permitted to accumulate 25% of its current year's income. Now it is proposed that 100% of the current year's income be spent for the object of the Trusts. In case of income not received during the year, may be spent in the year of receipt, subject to option to be exercised within the time permitted for filing return of income by the Trust.
- (ii) By amending section 11 (2) it is provided that whole of the unspent income can be accumulated under the said section for a period not exceeding 5 years, and no amount can be spent out of such accumulated income by way of payment to any other trust, institution, universities, educational institutions, etc., during the course of such accumulation or thereafter. As a result of which the trust itself, has to spend the accumulated income for the object for which it is being accumulated.
- (iii) In case of donation collected for the Gujarat Earthquake Relief Fund. The period of spending for such donation collected has been extended to 31st March, 2003, or the unspent amount is required to be transferred to the Prime Minister's National Relief Fund by that date. It is further provided that account of such donation collected and spent shall be furnished to the prescribed authorities before 30th of June, 2003.
- (iv) Provisions of publication of account as prescribed in last year's budget has been dropped, and Trusts will not be required to publish their accounts.
- (v) Exemption granted under section 10 (23) to association or institution established in India with the object of control, supervision, regulation or encouragement of games, such as, Cricket, Hockey, Football, etc., has been withdrawn.
- (vi) Permission granted under section 10 (23A) to a professional association or under section 10 (23B) for development of Khadi & Village Industries can be withdrawn after affording an opportunity of hearing, if such institutions are found not to be carrying on its activities as approved or otherwise not complying with other provisions of the Act.
- (vii) The Trust or institution being recognized under section 10 (23) (c) a university, educational

institution or hospital or similar institution are required to spent whole of their income in the year in which it is received and can only accumulate the unspent income for a period of 5 years. Conditions of publication of account have been done away. It is also provided that out of the accumulated income such institution will not be permitted to make donations to other trusts, funds or institutions even if carrying on the similar activities, but has to spend the amount for their own objectives themselves. It is also provided that in case if it is found subsequently that the condition on which permission has been granted has not been complied with the approval can be withdrawn by giving a suitable opportunity for hearing.

- (viii) By amendment to section 139 it is provided that a scientific research association is exempt under section 10 (21) News Agency under section 10 (22B), games association under section 10 (23A), public charitable trust under section 10 (23B), educational and medical institution under section 10 (23C) and trade unions under section 10 (24) shall be required to furnish their return of income.

4. MODIFICATION OF THE PROVISIONS RELATING TO UNDERTAKING IN FREE TRADE ZONE, EXPORT PROCESSING ZONE, SPECIAL ECONOMIC ZONE AND 100% EXPORT ORIENTED UNITS:

It is provided that for assessment year 2003-2004 income of the units exempted under the provisions of 10 A and 10 B will be exempt only to the extent of 90% of the profit and gain derived by such undertaking from export of articles or things or computer software.

5. SALARY INCOME:

- (i) By amending section 17 it is provided that for assessment year 2002-2003 in case of employees whose taxable salary exclusive of value of perquisites does not exceed Rs.1 lakh, no value of perquisites will be assessed. It is also provided that the employer can pay the tax on the perquisites on behalf of employees, and in such case tax paid shall not be included in the income of the employer under section 10 (10 CC).
- (ii) Relief under section 89, which was available for arrears of salary or profit in lieu of salary, has now been extended to receipt in nature of family pension fund if arrears are received for more than 1 year.

- (iii) By amendment to section 139 it is provided that an assessee, at its option, can furnish its return of income with his employer as per scheme framed by CBDT before the due date, and employer shall furnish the returns of income of all the employees concerned on electronic media in the manner specified by CBDT.

6. HOUSE PROPERTY:

It is provided that in case self occupied residential house is constructed or acquired out of borrowed funds, and such acquisition/construction is completed within 3 years from the end of the financial year in which such borrowing was made, such interest allowable will be Rs.1,50,000/- and the assessee is required to furnish a certificate from the person to whom the interest is payable on the borrowed funds specifying the amount of interest paid or payable and the amount of borrowings remains to be repaid.

7. BUSINESS INCOME:

- (i) By amendment to section 28 it is provided that any sum received or receivable under an agreement of non-compete or not carrying on any activities in relation to a business or non-sharing any know how, patent, copy right, trademark or other commercial right or information, etc., shall be included as income in the hands of the recipient. The definition of income has been amended to suitably include these types of receipts.

(II) DEPRECIATION:

It is provided that in case an assessee acquires and install any new plant and machinery after 31st March, 2002, who is engaged in the business manufacturing or production of any article or thing a further depreciation @ 15% shall be allowable to such assessee. Such depreciation will be allowed to a new industrial undertaking or in case of expansion of an existing industrial unit if installed capacity is increased by 25% of such industrial unit. Such allowance will be made only in case of acquisition of altogether new machinery, even machinery used outside India will not be entitled for such further depreciation. Any machines installed in office premises or residential accommodation including guesthouse or office appliances or transport vehicles will not be

permissible. For the purpose of availing this further depreciation the assessee has to furnish the details of machinery or plant acquired, increase in installed capacity, alongwith return of income and also a report from the Chartered Accountant, certifying that deduction has been correctly claimed in accordance with the provisions of law.

- (iii) In case of shipping companies under the provisions of section 33 AC are allowed deduction of amount not exceeding 50% of the profit derived from the business or operation of shipping, if such amount is credited to a reserve account to be utilized for acquiring new ships or for acquisition of a ship for the business of the shipping company. Such transfer to reserve account to the extent of 50% of the profit was restricted to twice the amount of paid up capital of the shipping company. The provisions are further liberalized and now the amount to be transferred to reserve account is permitted to the extent of twice the aggregate paid up share capital, general reserve and amount credited to the share premium account.
- (iv) By amendment to section 35 AC it is provided that approval granted to a company or association under section 35 AC can be withdrawn and in such case amount received by a company or association shall be treated as income of such company/ association.
- (v) Deduction allowable under section 35 CCB for any programme of conservation of natural resource or of afforestation will not be allowable after 31st March, 2002.
- (vi) Under section 35 DDA expenses incurred by an assessee on payment to employees under VRS as per the scheme of Voluntary Retirement approved, 1/5th of the amount is deductible in computing the business income each year. Now it is provided that if such entitled company is amalgamated with another company the benefit under the section will be available to such amalgamated company. In case of demerger the benefit will be available to the resultant company after demerger, and on reorganization of proprietary concern or partnership firm to a company such benefit will be available to such successor company.
- (vii) The provisions for bad and doubtful debts was permitted to banks to the extent of 5% of its profit

or 5% of assets classified as doubtful assets or loss assets in accordance with the guidelines of RBI at the option of the bank. Now such provision for bad or doubtful debts allowable has been increased from 5% to 7.5%, and in place of 5% of doubtful or loss assets to 10% of such assets in question. These provisions will be applicable upto assessment year 2005-06. In case of financial institutions for a period of 2 years allowable deduction for which doubtful assets or loss assets will be allowed to the extent of provision made.

- (viii) In the budget of 2001 the provisions were made for computation of income from international transactions entered into between two or more associate enterprises on the principle of arms length price. The section has been replaced in the present budget by a new section making certain amendments and clarifications.
- (ix) Under the provisions of section 44 AE income of an assessee who owns not more than 10 goods vehicle can be assessed on the basis as provided in the said section. Income to be adopted in case of heavy vehicles has been increased w.e.f. 01.04.2003 to Rs.3,500/- instead of Rs.2,500/- at present, per month and similarly in case of other than heavy goods vehicle such income has been enhanced to Rs.3,150/- per vehicle instead of Rs.1,800/- per vehicle per month.

8. CAPITAL GAIN:

- (i) Under Section 47 (xv) it is provided that securities lent as per scheme framed by SEBI shall not be considered as transfer for the purpose of capital gain. Now it is provided that these securities lent as per scheme framed by SEBI or RBI shall not be treated as transfer for the purpose of capital gain.
- (ii) Provisions as contained in Chapter XXC enabling Central Government for Purchase of the property in case of under valuation under section 269 U to section 269 UA has been dropped w.e.f. 1st March, 2002.
- (iii) A new section 50 C has been introduced, which provides that in case consideration received or extension for transfer of capital assets being land or building is lesser than the value adopted by State Government authorities for the purpose of payment of stamp duty, the value adopted by stamp valuation authorities shall be deemed to be

consideration received on transfer of such assets, as a result of which capital gain tax will be payable not on the actual price received on transfer of assets, but on the value fixed by stamp valuation authorities. In case the assessee claims before the Assessing Officer that valuation put by stamp valuation authorities exceeds the fair market value of the property as on date of transfer of whether valuation so fixed by the stamp valuation authorities has not been disputed by the assessee in appeal or revision before any other authority, Court or High Court the Assessing Officer may refer the valuation of the capital assets sold to the valuation officer, and if the valuation adopted by such Officer exceeds the valuation adopted by the stamp valuation authorities value adopted by the stamp valuation shall be taken as well consideration received on transfer. If value adopted by State Stamp Valuation Authorities is amended on appeal, the assessment of capital gain will be suitably amended under section 155.

- (iv) The Bonds issued by National Housing Bank and Small Industries Development Bank of India has been recognized as eligible securities under section 54 EC.
- (v) By amendment to section 70 now it is provided that loss on short term capital assets shall be entitled to be set off against gain on other capital assets. In case loss on sale of long term capital assets, same will be set off against gain on long term capital assets only and balance loss will be allowed to be carry forward under the provisions of section 74 of the Income Tax Act. Now it is further provided that loss relating to short term capital assets can be set off against gain on long term capital assets, and loss on long term capital assets shall be adjusted against long term capital assets only.

9. DIVIDEND INCOME:

Under the existing provisions of law income of dividend from companies or mutual fund or UTI is not taxable in the hands of the recipient, but tax is required to be paid by the company/mutual fund declaring dividend @ 10% on dividend so declared. However, in case of open ended equity oriented scheme of mutual fund & UTI in case of distribution of dividend made upto 31st March, 2002. The provisions of section 10 (33) are deleted, as a result

of which, dividend will be taxable in the hands of recipient assessee from 01.04.2003. TDS is required to be deducted @ 10% alongwith surcharge @ 5% thereon. However, in case of open ended equity oriented scheme of UIT or mutual fund tax will be payable on the dividend received @ 10% for the year ended 31st March, 2003, by the recipient section 115 BBB.

10. PARTNERSHIP FIRMS:

At present a partnership firm can pay interest on the capital contributed by the partners @ 18%. Now it is proposed to be reduced the rate of interest to 12% w.e.f. 1st June, 2002.

11. EXEMPTIONS:

- (i) Deduction available under section 80 GGA for contribution made to scientific research or rural development funds or association has been withdrawn w.e.f. from 1st April, 2002.
- (ii) Deduction available under section 80 HHD to hotels and tour operators being income earned in foreign exchange, which was available for assessment year 2003-2004 @ 20% and for assessment year 2004-2005 @ 10% has been increased to 25% and 15% respectively to Put at par with deduction available under section 80 HHC.
- (iii) Section 80 IA provides deduction for various infrastructure development activities. By amending section 80 IA (2) activities of development, maintenance and operation of Special Economic Zone has been added, which in fact was already included under sub-section (4). This amendment is of clarifactory natures by amendment to section 80 IA (7) it is now provided that a report of a Chartered Accountant for deduction allowable under section 80 IA will be required to be furnished even by the companies or cooperative societies whose accounts are otherwise audited.
- (iv) By amending section 80 IB it is provided that 50% of the profit earned from the business of building owning and operating a multiplex theatre for a period of 5 consecutive years beginning the year in which the operation of multiplex theatre is started will be allowable. The multiplex theatre newly constructed during the period 01.04.2002 to 31.03.2005 will be entitled for such deduction, if the same are not at Bombay, Delhi, Calcutta and

Madras. The assessee will be required to file an audit report from a Chartered Accountant certifying that deduction has been correctly claimed.

- (v) Similarly, it is also provided that 50% profit derived by the assessee for the period of 5 consecutive years beginning the year in which the commercial operation has been started of a convention center newly constructed between the period 01.04.2002 to 31.03.2005 shall be exempt from tax. The assessee will be required to furnish audit report from a Chartered Accountant certifying that deduction has been correctly claimed. Necessary criteria for convention centres and multiplex theatres will be prescribed.
- (vi) Income received by a domestic company by way of dividend from another domestic company shall be reduced by the dividend distributed by such receiving company on or before due date for filing of return of income section 80 M. Thus, inter corporate deposit has been made exempted. However dividend received from mutual funds as per news reports will also be made entitled for such benefits under section 80 H and the section will be suitably amended.

12. REBATES:

Rebates allowable under section 88 on the eligible investment made in LIC, PPF, etc., is at present at 20%. Now it is restricted in case of assessee, being individual or HUF, whose gross total income does not exceed Rs.1,50,000/- at 20%. However, in case of employees whose gross total income includes income of salary not less than 90% and such salary does not exceed Rs.1,00,000/-, deduction will be available @ 30%. If the gross total income exceeds Rs.1,50,000/- but does not exceed Rs.5,00,000/-, such rebate will be @ 10% and in case gross total income exceeds Rs.5,00,000/- no rebate will be allowable. It is provided now that the sum on which rebate is claimed should not exceed gross total income of the assessee chargeable to tax during the year and condition that such contribution should be made out of taxable income is withdrawn.

13. SEARCH AND SEIZURE:

- (i) By amendment to section 113 w.e.f. 01.06.2002 it is provided that surcharge on income tax @ 60% chargeable in block assessment in search cases.
- (ii) By amendment to section 132 w.e.f. 06.01.2002

provisions relating to passing of order under section 132 (5) after search and appeals relating thereto has been omitted. It is clarified that if a person is found to be in possession of computer data or any other form of electronic data necessary facilities to inspect such data or other documents shall be afforded by the assessee during the course of search to the authorities concerned.

- (iii) At present that the books of account or other documents seized can be retained by the authorized officer for a period of 180 days, and for further period on the permission from Commissioner or Director General of Income Tax. Now it is provided that seized documents can be retained upto a period of 30 days from the completion of assessment for block period under section 158 BC or further period with permission.
- (iv) A prohibitory order issued under section 132 (3) against books of account or other assets is now provided to be valid only for a period of 60 days from the date of such order.
- (v) Under the present provisions of section 132 (9A) it is provided that the Authorised Officer not having jurisdiction over the assessee searched will hand over the books of account and other documents or assets to the Assessing Officer within a period of 15 days of such seizure. Now it is provided by amending the said section that the said seized books of account or assets shall be handed over by the Officer to the Assessing Officer within a period of 60 days from the date of conclusion of search.
- (vi) By amendment to section 132 B w.e.f. assets seized during the course of search are divided into two parts:
 - (a) Assets for which satisfactory explanation is given and has been found to be explained by the Assessing Officer, such assets can be adjusted by the Income Tax Department against determined pending demand and balance such assets will be released within a period of 120 days from the conclusion of search to the assessee.
 - (b) The other assets which are found to be not explained can be adjusted not only against existing demands, but also against demand raised under block assessments for such search period. It is provided that the assets

remaining after discharge of the liabilities will be handed over to the assessee forthwith, and the Government will pay interest at 8% p.a. on the aggregate amount of money seized, as found to be excessive after discharge of the liability for block assessment as well as existing liabilities.

- (vii) Under the provisions of section 158 B undisclosed income for block period is defined. There were doubts whether any expenses, deduction or allowance claimed by the assessee and found to be false can be treated as undisclosed income. Now the definition of undisclosed income has been amended w.e.f. 01.06.2002 to include any expenses, deduction or allowances claimed under the Income Tax Act, which is found to be false.
- (viii) There has been controversies whether while making block assessment an estimate of income can be made by application of section 145. Now the section 158 BC has been amended w.e.f. 01.06.2002 to include the provisions of section 145.
- (ix) Certain amendments are made for computation of undisclosed income under block assessment by amending section 158 BB w.e.f. 01.06.2002.

14. SURVEY:

Till now the Assessing Officers were not having power during course of survey to impound or retain books of accounts or any other documents found during the course of survey. Now by amendment to section 133A w.e.f. 01.06.2002 it is provided that during the course of survey books of account any other documents found may be impound and retained by the Assessing Officer after recording the reasons for such impounding. Such books of account and other documents impound can be retained for a period not exceeding 15 days, but can be retained for a longer period after taking necessary approval from Commissioner of Income Tax and other authorities as provided.

15. PROCEDURE FOR ASSESSMENT:

- (i) The scrutiny of assessment to be made under section 143 has been now classified w.e.f. 01.06.2002 in two categories:
 - (a) Where the Assessing Officer has reason to

believe that any claim of loss, exemption, deduction, allowance or relief made in the return is inadmissible such assessments can be taken up for scrutiny for specific purpose.

- (b) In second category of cases return can be taken for scrutiny to ensure that the assessee has not understated its income or has not unpaid tax. In such cases notice for scrutiny are required to be issued within a period of 12 months from the end of the month in which the return of income was filed.
- (ii) By introducing section 155 (14) w.e.f. 01.06.2002 it is provided that if under intimation under section 143 (1) credit for taxes deducted at source has not been given as the certificate of TDS was not filed alongwith the return of income, and subsequently the certificate was produced before the Assessing Officer within two years from the end of the assessment year in which the income is assessable, the Assessing Officer shall amend the assessment or intimation by giving credit for the certificate of TDS filed.

16. TAX DEDUCTED AT SOURCES:

The provisions amended w.e.f. 01.06.2002 are as follows:

- (i) TDS on perquisites paid to employees at the option of employer may be paid by the employer.
- (ii) It is provided that no TDS will be deducted on interest payable on securities and dividend to LIC, General Insurance Corporation of India or to any other insurance company.
- (iii) Now it is provided that TDS out of interest, contract payments, commission, rent, professional charges, shall be deducted even by the individual and Hind Undivided Family, if their turnover exceeds the limit provided for tax audit under section 44 AB i.e., if the turnover of such proprietary concern is in excess of Rs.40,00,000/- during the financial year immediately preceding the financial year.
- (iv) Taxes deducted at source out of commission and brokerage paid has been reduced from 10% to 5%.
- (v) By amendment to section 194 K it is provided that on income distributed by mutual funds TDS @ 10% will be deductible.
- (vi) Section 197 A prescribes that an assessee may furnish necessary declaration in Form 15 G, 15 H or 15 I for non-deduction of tax out of dividend,

interest on security, other interest and payment under section 80 CCB if taxes payable on total estimated income will be nil. Said provision has been amended, providing that such declaration cannot be given, if, income under reference exceeds Rs.50,000/-.

17. INTEREST ON REFUNDS:

Interest payable on refunds under section 244 A shall be 8% in place of 9% w.e.f. 01.06.2002.

18. SETTLEMENT OF THE CASES BEFORE SETTLEMENT COMMISSION:

With effect from 01.06.2002 the following amendments are made:

- (i) An application before the Settlement Commission can be made in cases of search only after expiry of the period of 120 days from the date of seizure at present. Now this provision has been omitted, as a result of which application for settlement can be made at any time.
- (ii) Settlement Commission is required to decide to admit the settlement application or to reject the same under the provisions of section 245 D. Now it is provided that such order shall be passed where it is possible within a period of 1 year from the end of the month in which the application for settlement was made. Similarly, it is also provided that the application made before the Settlement Commission shall be decided within a period of 4 years from the end of the financial year in which the application was allowed to be admitted, where it is possible.
- (iii) The provisions permitting the Settlement Commission to send back the cases to the Assessing Officer has been omitted.

19. PENALTY:

- (i) Any deposit taken by an assessee is repayable only by account payee cheque or bank draft in the name of the person who deposited such amount, if such amount of deposit alongwith interest due thereon exceeds Rs.20,000/-. There was a controversy whether such deposits include loans also. Now the section has been amended to include loans and deposits both under section 269 T. It is also clarified that a loan or deposit held in a branch of the bank or with any other assessee in

his own name or jointly with any other person on the date of repayment together with interest due thereon, if exceeds Rs.20,000/-, provisions of section 269 T will be applicable w.e.f. 01.06.2002.

- (ii) The Commissioner of Income Tax has been authorized to impose penalty under the provisions of section 271 w.e.f. 01.06.2002.
- (iii) There was difference of opinion amongst the Courts whether in case of loss return if such loss is reduced on assessment penalty for concealment can be imposed. The Department's stand has been that in cases reduction of loss on assessment penalty is impossible for concealment of income. Now w.e.f. 01.04.2003 such reduction of loss will be treated as concealment of income.
- (iv) In case of the assessee, who have not filed the return of income within two years from the end of assessment year such assessee are deemed to have concealed the income and penalty is impossible even if returned income is found to be correct. However, under the present law if such assessee is an assessee who has been previously assessed and no notice for filing of return of income has been given penalty for concealment of income was not applicable. Now it is provided w.e.f. 01.04.2003 that even in case of assessee who have been previously assessed, who has not filed return of income within two years of the end of the assessment year shall be deemed to have concealed the income and penalty will be impossible.
- (v) A penalty of Rs.10,000/- has been prescribed for non-filing of application for permanent account number under section 272 B of the Income Tax Act w.e.f. If a person is required to quote permanent account number on certain documents and quoted a false permanent account number a penalty of Rs.10,000/- may be imposed on such person.
- (vi) During the course of search person searched is required to extent all the facilities to the authorized officers for inspection of electronic records and if such facilities are not provided he will be punished by rigorous imprisonment for a term of 2 years, and will also be liable for a fine.

20. MINIMUM ALTERNATE TAX:

- (i) In the case of companies section 115 JA as it existed prior to its substitution by Finance Act, 2000, has been amended w.e.f. 01.04.97 providing

that while calculating book profit of the companies brought forward loss or unabsorbed depreciation as per books of account, whichever is lower will be reduced, and for the Purpose of calculating such deduction, loss shall not include depreciation, and in case of brought forward loss or unabsorbed depreciation is nil, no deduction will be allowable under the said clause.

- (ii) The provisions of taxation of companies under MAT were substituted by a newly introduced section to 115 JB w.e.f. 01.04.2001. In the said section it was provided that 7.5% of book profit be tax payable by the company subject to certain adjustments provided in the said section. By amendment to the section with w.e.f. 01.04.2001, it is provided that book profit as computed under the provisions of section 115 JB be deemed to be total income of the assessee and tax will be payable @ 7.5% on such income. With regard to reduction of brought forward loss and unabsorbed depreciation similar amendments has been carried as in section 115 JA. It is also clarified that the amount transferred to reserve by shipping companies under the provisions of section 33 AC will not be added to the book income, while other transfer to the reserve and debited to profit and loss account will be so added. The section provides that book profit will be reduced by the amount withdrawn from any reserve or provision, if such amount is credited to profit and loss account. The amended proviso further provides that any amount withdrawn from any reserve or provision made in any previous year ended on and after 31.03.97, shall not be reduced from book profit unless the book profit in said years were increased by such creation of reserve or provision.

21. WEALTH TAX ACT:

The amendments in Wealth Tax Act are of procedural nature as carried out in Income Tax Act.

22. EXPENDITURE TAX ACT:

The expenditure tax is applicable on all expenses incurred in hotels wherein room charges are more than Rs.2,000/- per day per individual. Now the said limit of Rs.2,000/- has been increased to Rs.3,000/- per day.

All other amendments are of consequential nature.

INDIRECT TAX PROPOSAL

I. EXCISE DUTY

1. Peak rate of duty is remain unchanged i.e. 32% (16% on basic + 16% Special Excise Duty)
2. Special Excise duty @ 16% shall be confined to the following 8 items only:
 - i) Polyester Filament Yarn
 - ii) Motor Cars,
 - iii) Multi Utility Vehicles,
 - iv) Tyres,
 - v) Aerated Soft Drinks and Soft Drinks concentrates
 - vi) Air conditioners,
 - vii) Pan Masala,
 - viii) Chewing Tobacco & tobacco preparations.

Now, Special Excise Duty on cosmetics & toiletry preparation, White Cement & Other Special Cement is abolished.

3. Concessional rate of 8% Excise Duty applicable to LPG, Kerosene, Auto CNG, & Diesel Engine (Upto 10 HP) has been withdrawn, which will now attract 16%.
4. Excise Duty is increased to 8% from 4% on few specified goods which are as under: -
Tooth brush, imitation jewellery, powered goggles, table & kitchenware of glass, black & white T.V.Sets, watches & clocks upto Rs.500/- per piece, candles & bulbs upto Rs.20/- per piece.
5. Excise Duty @ 4% is imposed on certain few items and similarly Cigars, cheroots, Tobacco substitutes which have been exempted so far, shall attract 16% CENVAT.
6. **TEA:**
Excise Duty on Tea reduced to Rs.1/- per Kg from Rs.2/- per Kg.
7. **TEXTILE:**
 - i) Excise exemption on Cotton Yarn in Hank form is withdrawn and now attracts excise duty @ 8% but Hand loom weavers will get reasonable subsidy on hank yarn purchased.
 - ii) Excise Duty on processed fabrics reduced from 16% to 12% and in the case of all unprocessed fabrics excise duty of 12% is made optional to avail CENVAT credit.

- iii) Duty exemption on hand loom fabrics processed with the aid of power will continue subject to approval by Handloom development Agency.
- iv) Excise duty on made ups and ready made garments reduced to 12% from 16% but ready made garments made from Handloom fabrics exempted subject to compliance of certain conditions.
- v) Compounded Levy Scheme for independent textile processors is abolished.
- vi) Independent Hand Processors of Textile exempt from Excise Duty even if power used on 12 specified processes in case of cotton fabrics or 7 specified processes in case of man made fabrics. Now it will be confined to 3 processes only, namely Scouring, Hydro-extraction and Calendering.
- vii) Certain specified machineries like automatic Shuttle-less looms, silk reeling, processing machinery, weaving & twisting machinery are exempted from excise duty.

8. PETROLEUM: -

Major changes are as under: —

- i) Cess on domestic crude oil increased from Rs.900/- per MT to Rs.1800/-per MT.
- ii) Excise duty on petrol is reduced from 90% to 32%.
- iii) Surcharge @ Rs.6/- per litre is imposed on Petrol.
- iv) Excise Duty on HSD reduced from 20% to 16%.
- v) Petro refineries in the North East Region will pay duty @ 50% of the normal rate of duty w.e.f. 1.3.2002.

9. COLD STORAGE EQUIPMENT:

Certain specified equipments relating to Cold Storage are exempted from Excise Duty if these are supplied to them.

10. Specified Anti-AIDS Drugs have been exempted from Excise Duty

11. SSI: -

- i) SSI exemption has been withdrawn on granite industry.
- ii) SSI exemption has been extended to Air guns, air rifles etc being exempted from the Provisions of Arms Act.
12. Certain items have been included in the Scheme of MRP based assessment. Now total 92 items

were covered under this scheme.

13. Minimum Interest rate reduced from 18% p.a. to 10% p.a., on delayed payment of duty.

14. Rate of Interest on delayed refund shall be 8% p.a.

15. Major Sectors will be benefited due to decrease in duty:-

- Petroleum particularly situated in North East Region.
- Textile & Synthetic Fibres
- Tea.
- Cosmetics & Toiletries.

16. Major Sectors will be looser due to increase in duty

- Cigar & tobacco Substitutes.
- Tyres & Tubes of Cycle & Auto Rickshaws
- Wood Articles
- Printing Stationery / Paper Labels.
- Umbrellas & Parts thereof.
- Laboratory Glassware
- Cutlery Spoons,
- Water Pumps
- Audio Cassettes
- Bicycle & other Cycles.
- Certain Optical & surgical Instruments
- Toys, dolls etc.

17. Now appeal shall be disposed by Tribunal within a period of three years from the date of appeal is filed, provided that where an order of stay is made relating to an appeal filed, the Tribunal shall dispose off the appeal within a period of 180 days from the date of such stay order.

18. Certain processes are treated as amounts to manufacture like :-

- Galvanization of Metal
- Packing and repacking of goods

II. CUSTOM DUTY

Major proposals about Custom Duties are as under: —

1. Peak rate of duty is reduced from 35% to 30% .

2. Major changes in Custom Duty Sector wise are as under: —

(I) AGRICULTURE

(i) Duty on Tea & Coffee increased from 70% to 100%.

(ii) Duty on Spices, Natural rubber, Poppy Seeds increased from 35% to 70%.

(iii) Duty on Pulses increased from 5% to 10%.

(iv) Duty on specified agricultural machinery & Equipments is reduced from 25% to 15%.

(II) STEEL

(i) Duty on refractory raw materials, low silica lime stone and graphite electrode etc is reduced by 10%.

(ii) HR SS Coils for Coin blanks is exempted from Duty.

(iii) Duty on ships for breaking has been increased from 5% to 15% alongwith exemption from CVD and SAD.

(iv) Duty on seconds & defectives of steel is increased to 40%.

(III) NON-FERROUS METAL.

(i) Duty on Copper, Zinc and Lead has been reduced from 35% to 25%.

(ii) Duty on Tin and Aluminium reduced from 25% to 15%.

(IV) INFORMATION TECHNOLOGY.

(i) Duty on specified I.T.Products reduced to 10% / 5%.

(ii) Duty on specified inputs for I.T. /Electronics / Telecom Sectors reduced from 25% / 35% to 5%.

(iii) Duty on specified Capital Goods reduced from 25% to 15%.

(iv) Duty on Cellular Phone, Pagers, increased from 5% to 10% alongwith exemption of CVD.

(V) PETROLEUM.

(i) Duty on Kerosene Oil for PDS increased from 5% to 10%.

(ii) Duty on Kerosene Oil for Open Market reduced from 35% to 20%.

(VI) PHARMACEUTICALS.

(i) Duty @ 5% has been imposed on specified drugs for critical diseases which were included earlier in the list of fully exempted drugs.

- (ii) Vaccine for Japanese Encephalitis is exempted fully.

(VII) LIQUORS

- (i) Duty on Liquors is reduced from 210% to 182%.
(ii) CVD on Liquors is modified as under :
- | | | |
|----------------------|---|-----|
| Upto USD 25 per case | : | 75% |
| Others | : | 50% |

(viii) TEXTILE MACHINERY.

Duty on specified items of reeling, twisting, weaving and processing machinery for Silk textile industry is reduced from 25% to 10%

(IX) MISCELLANEOUS.

Duty on the following items has also been reduced:-

- Cement & Clinkers from 25% to 20%
- Specified Fire Fighting Equipment from 25% to 20%.
- Specified Studio Equipment from 35% to 25%.
- Raw Material for manufacturing of Sports goods from 35% to 15%.
- PTA / MEG from 25% to 20%.

3. Custom Duty @ 5% is imposed on certain items which were exempted fully. Main items are Onions, specified drugs/ medical equipments / Recorded magnetic tape, floppy etc imported by specified R & D institutions.

4. Special Additional duty of custom is also imposed on certain items.

5. TRANSFER OF RESIDENCE BAGGAGE:

- (i) Value Limit on baggage under Transfer of Residence Rules (TR)
Increased from Rs.1.5 Lakhs to Rs.5 Lakhs
- (ii) Duty on TR baggage is reduced from 35% to 30%.
- (iii) Certain items like Laptops, Desktop computers, Portable Photocopy Machine, DVD, LPG Cooking Range are now added in the concession list.

6. SPECIAL ECONOMIC ZONES:

Special Economic Zones are eligible to procure duty free equipments, raw materials, components etc whether imported or indigenous. The benefit of such exemption shall be applicable to both the developers of SEZs as well as Units located therein.

III. SERVICE TAX

(A) Service tax @ 5% imposed on following services :-

- (i) Life insurance including insurance auxiliary service to life insurance.
- (ii) Cargo handling (only inland cargo).
- (iii) Storage and warehousing services (except for agriculture produce and cold storage).
- (iv) Event Management.
- (v) Rail travel Agents,
- (vi) Health club & fitness centers,
- (vii) Beauty Parlours
- (viii) Fashion designers
- (ix) Cable Operators
- (x) Dry Cleaning services.

Now, total 53 services are covered under Service Tax net.

(B) Service tax on specified banking and financial services applicable to Banks, Financial Institutions including Non-Banking Financial Companies, has now been extended to corporate bodies that provide similar services.

(C) Exemption of Service Tax on Hotels has been extended upto 31.3.2003.

(D) Important legislative changes relating to Service Tax are as under:-

- a. To enhance the time limit for issue of notice for recovery of service tax from 6 months to one year and prescribing the 'relevant date' for issue of notices for recovery of service tax in specified situations:
- b. To allow credit of service tax paid on input services for payment of service tax on output services provided both the input and output services fall in the same category.
- c. Enhancement of value limit for imposition of penalty by Asst. Commissioner / Dy.Commissioner from Rs.25,000/- to Rs. 2 Lakhs without prior approval of the Commissioner of Central Excise.
- d. Amendments in the definitions relating to Broadcasting service with retrospective effect from 16th July, 2001 to clarify the scope of the levy and recovery of duty accordingly.
- e. Interest on delayed payment of Service Tax is reduced from 24% p.a. to 15% p.a.

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