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BUDGET - 2003

The importance of
Money flows from it
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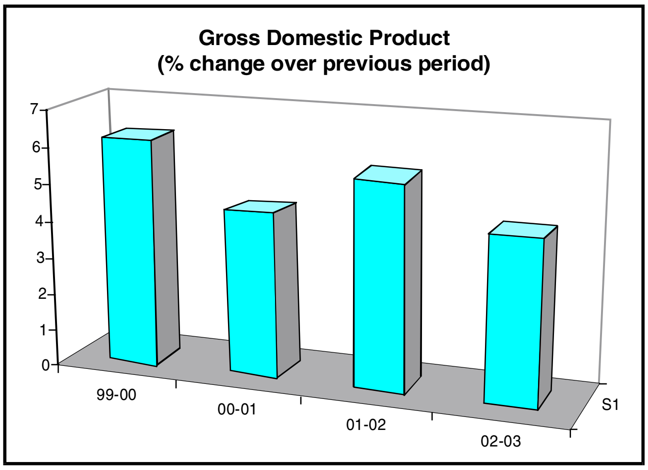
EXECUTIVE SUMMARY

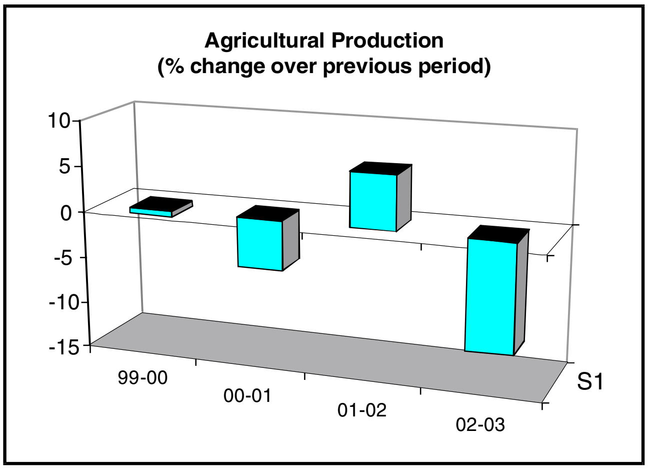
M/s. Shankarlal Jain & Associates

ECONOMIC SURVEY : 2002-2003

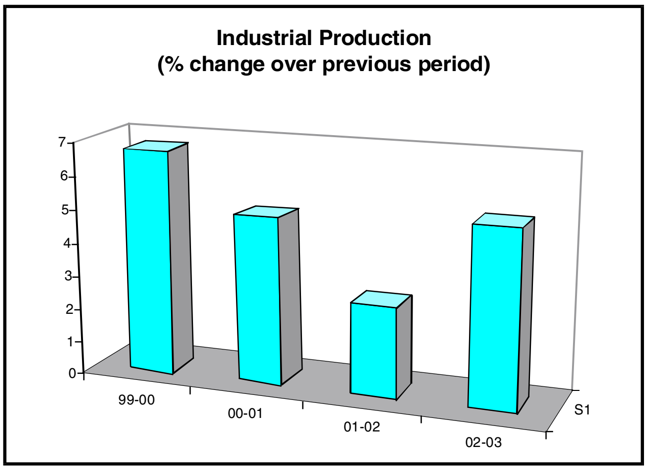
The Gross Domestic Product (GDP) grew at 5.6 percent in 2001-02. In 2000-01, GDP grew at 4.4 percent.



The pick-up in growth of the Indian economy observed in 2001-02 was stronger than what had been initially anticipated. The monsoon failure, in current year, however, affected agriculture severely, with agriculture and allied GDP declining by 3.1 percent.



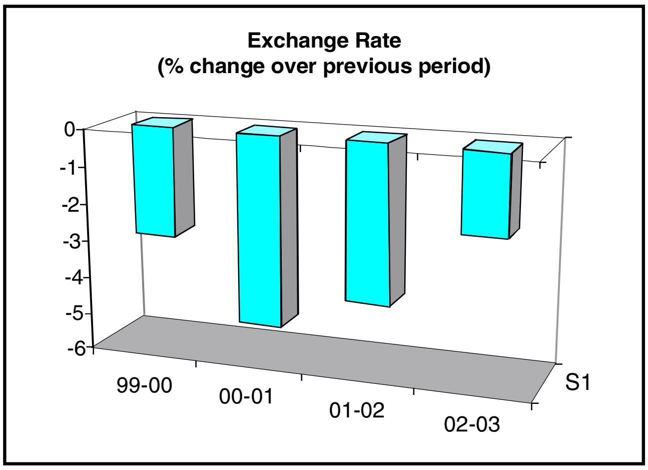
Overall GDP growth in the current year is likely to be only 4.4 percent. This agriculture-pulled deceleration in growth, in 2002-03, clouds an across-the-board improvement in the growth performance of industry and services from 3.3 percent to 6.1 percent, and from 6.8 percent to 7.1 percent, respectively, between 2001-02 and 2002-03. Indications are that, inspite of a severe monsoon deficiency, the rebound in growth observed since 2001-02 gained momentum in industry and services sectors in the current year.



The continued growth recovery in the first half of the current year is significant in view of the several downside risks prevailing in the international and domestic economy. The outlook of recovery in global economic activity and world trade has remained subdued. International financial flows have been affected by the unsettled conditions in Latin America and Turkey. Geo-political conditions have been highly volatile with the stand-off in Iraq. Moreover, the country has been affected by a most telling monsoon deficiency in two decades.

The growth recovery was accompanied by continued macroeconomic stability in terms of low inflation, orderly currency market conditions and comfortable reserves. In the past, droughts, with their impact on price and availability of foodgrains, have been particularly harsh on the poor. In the current year, notwithstanding the deficient monsoon, there were no shortages in availability of essential commodities, or flare-ups in their prices. The 52-week average inflation rate based on the Wholesale Price Index (WPI) was only 2.6 percent in mid January 2003. Prices of primary products remained below 4 percent for the larger part of the year, while inflation in manufactured products was around 3 percent. The transition to a market-based pricing regime for petroleum products was also devoid of disruptions, with fuel group inflation barely touching 5 percent for much of the year. However, the latest Gulf-related uncertainty has caused fuel price inflation to touch 6.4 percent in mid-January, 2003.

In spite of volatility in global currency markets following the events of September 11, 2001, appropriate and timely policy interventions moderated the volatility in the exchange rate of the rupee, which moved in a range of Rs.46.56-48.85 per US dollar during 2001-02, with average depreciation against the US dollar amounting to 4.0 percent. During the current financial year, after reaching an all time high of Rs.49.06 per US dollar in May 2002, the rupee strengthened against the dollar and stood at Rs.47.80 per US dollar at the end of December 2002, thereby appreciating by 2.1 percent over the end-March 2002 level. The rupee, however, has depreciated against pound sterling, euro, and yen by 8.9 percent, 14.9 percent and 7.4 percent respectively between April 2002-January 2003, reflecting in part the weakening of the US dollar against these currencies.



Foreign currency assets at end-March 2002 amounted to US $51.05 billion, up by US $11.5 billion over US $39.5 billion at end-March 2001. Out of this increase, a large part (US $9.10 billion) was realized during the second half of 2001-02. Reserve accretion accelerated in the first three quarters of the current financial year, with foreign exchange reserves reaching a record high of US $73.58 billion at the end of January 2003, with an increase of US $19.47 billion over the level of end-March 2002. A recent Reserve Bank of India (RBI) study shows that the major sources of reserve accretion in the current fiscal till end-November 2002 have been a surplus in the current account, non-debt creating capital flows and valuation gains.

The rapid growth in reserves was partly the result of a strong current account. After twenty-three years, the current account of India's balance of payments recorded a surplus equivalent to 0.3 percent of GDP in 2001-02. Stagnant exports and falling imports brought down the trade deficit by 0.5 percentage points in 2001-02. The current account showed a surplus mainly because of buoyant net invisible inflows equivalent to 2.9 percent of GDP, which, at US $14.05 billion, were the highest in the last decade. Invisibles are doing well in the current year too, primarily on account of heavy inflow of remittances. This, coupled with a sharp rise in exports, considerably enhances the possibility of recording a surplus in the current account for the second successive year.

While merchandise exports have grown well in 2002-03, services exports have also been an important area of success reflected in net invisible inflows of US $14 billion in 2001-02. India's share in world commercial services trade is larger than India's share in world merchandise trade. While software exports is a well-known success story, India is now an important venue for many tasks in services such as financial accounting, call centres, processing insurance claims, and medical transcription. The future potential for growth in these areas appears to be considerable.

Facilitated by relatively lower inflation, interest rates continued to soften during the year. The RBI reduced the bank rate by 25 basis points to 6.25 percent in October 2002. At its present level, the bank rate is the lowest since 1973. The cash reserve ratio (CRR) was reduced by 50 basis points to 5.0 percent from June 1, 2002, and further to 4.75 percent from the fortnight beginning November 16, 2002. The PLR of five major commercial banks declined from 11.00-12.00 percent to 10.75-11.50 percent in the current year. A noticeable development in the current year is sub-PLR lending by commercial banks. Yields on government securities continued to maintain their downward trend. The yield on 7.4 percent 12-year government paper reached a low of 6.13 percent on December 31, 2002.

Capital markets continued to be subdued. The NSE-50 index, which was at 1,087 in January 2002, was at 1,073 in January 2003, showing no significant change. This weakness in the secondary market led to a small volume of issuance on the primary market. However, the drop in the Indian equity market in the period after December 2001 is smaller than that in many other countries. Unlike the heavy inflows in the preceding years, there was a small outflow of foreign portfolio investment from India between April to November 2002.

The subdued conditions in domestic capital markets, however, conceal important structural reforms. The equity market has absorbed a new market design, with rolling settlement and equity derivatives trading. Liquidity, which was adversely affected in July 2001, has bounced back to strong levels from March 2002 onwards. In 2001, two Indian exchanges, National Stock Exchange (NSE) and Bombay Stock Exchange (BSE), ranked third and sixth among exchanges all over the world, sorted by the number of transactions.

The current year is the first year of the Tenth Five Year Plan (2002-07), which envisages an average annual growth rate of 8 percent. While the growth performance in recent years has been lower than this target, international evidence, as well as India's own experience, demonstrate that the target is indeed feasible. Malaysia, Republic of Korea, and Thailand, among other East Asian countries, sustained annual growth rates at levels equal to, or higher than what India is seeking to achieve in the Tenth Plan, for several years, before the outbreak of the East Asian crisis. The People's Republic of China, a large country like India in terms of both area and population, has been one of the best performers among the major economies of the world during the 1980s and 1990s, and has been maintaining high growth (7 percent plus) despite the recent slowdown in global economic activity. Furthermore, the acceleration in growth in these countries from fairly modest initial levels took place rapidly, almost in the manner of a jump-start.

The drivers of change and rapid growth acceleration have to be technology and competition, together with benchmarking to the best international practices. India is now taking advantage of all three factors. Technology is getting upgraded rapidly and competition in the market place has become fierce. The IT revolution, and the vibrant IT industry in the country, have been critical factors in making information available about state of the art technology and in bridging the technological divide in some sectors. With quantitative restrictions on imports a thing of the past, customs duties progressively coming down, and foreign investment - both direct and portfolio - liberalized, integration of India into the global economy is also progressing. Buoyant export performance, a surplus in the current account, and the strong balance of payments position demonstrate the success of the country in this integration process.

The virtuous interaction among technology and competition in India, while benchmarking to the best international practices, will need an enabling environment and will need to be facilitated by three factors: appropriate social and physical infrastructure, a suitable regulatory framework and an efficient tax system, and macro-economic stability.

Amongst the priority areas requiring focussed attention are the elimination of illiteracy, reduction in infant and maternal mortality rates, eradication of diseases such as malaria and polio, provision of quality transportation facilities in the form of roads, railroads, ports and airports, reliable and reasonably priced power supply, and safe drinking water and sanitation.

Fiscal consolidation requires a two-pronged strategy of augmenting revenues and restraining expenditure. An efficient, computerized, and impersonal tax system is critical for increasing the tax-GDP ratio. In non-tax revenue, there is a clear need for better cost recovery through appropriate user charges. On the expenditure front, it is critical to contain the growth of wages, salaries and pensions. There is a need to revise the rate of interest on small savings mobilised by the government in line with movements in market related interest rates.

With India emerging as a surplus producer of a number of exportable agricultural products, including foodgrains, in recent years, efficient management of the country's food economy has become a major policy issue. The comparative and regional advantage of some crops, has, however, been distorted by minimum support prices (MSP) for rice and wheat, thus generating both surpluses (sugar, rice, wheat) and shortages (oilseeds, pulses and fibres). Accumulation of large food stocks has posed serious issues with regard to the effect of current food management policy, not only on agricultural growth and diversification, but also on the fiscal deficit. The merits of the MSP in achieving the objective of food security is established. So is the general consensus that some food subsidy is absolutely essential for providing income support to the country's poor and vulnerable

The last quarter of the current financial year has seen rapid escalation of tensions in the Persian Gulf. The possibility of hostilities breaking out in the Middle East has cast doubts over the pace of global recovery in 2003. With global crude oil prices rising, there are serious concerns regarding the growth prospects of emerging market economies, particularly those in developing Asia, in the coming months. Apart from large food stocks held in the central pool, the huge volume of foreign exchange reserves held by the country provide comfort in an uncertain global situation. With reserves rising to more than US$73 billion, India is now one of the top reserve-holding, emerging market economies. The country is capable of financing higher import bills in the event of steep escalation in global oil prices or other exogenous developments. However, a prolonged conflict in the Middle East is likely to affect the export prospects of several economies of developing Asia, due to their heavy dependence on the US economy. Notwithstanding a marginal compression in export prospects, the overall growth performance of the Indian economy in the coming months is unlikely to be seriously affected by the developments in the Gulf, due to the clear signs of revival in domestic demand, and the resultant buoyancy imparted to domestic economic activity. Nevertheless, there is an imperative need to address the three issues of infrastructure, regulatory and tax reform, and fiscal consolidation, to establish the foundations of robust growth on a sustained basis.

KEY FEATURES OF BUDGET 2003-2004

BUDGET PRIORITIES

- ❖ Poverty eradication; addressing the 'life time concerns' of citizens, covering health, housing, education and employment;
- ❖ Infrastructure development;
- ❖ Fiscal consolidation through tax reforms and progressive elimination of budgetary drags, including reform of the additional excise duty, introduction of service tax, and introduction of Value Added Tax (VAT) from April 1, 2003 at the State level.
- ❖ Agriculture and related aspects including irrigation; and
- ❖ Enhancing manufacturing sector efficiency, including promotion of exports and further acceleration of the reform process.

Housing

- ❖ Interest deductible under income tax up to Rs.1,50,000, for construction or purchase of a self-occupied house property, to continue.
- ❖ Income from housing projects for construction of residential units of prescribed specification, approved by the local authorities up to March 31, 2005, exempt from income tax.

Education

- ❖ Education expenses up to Rs.12,000 per child for two children, made eligible for rebate under Section 88 of the Income Tax Act.
- ❖ Royalty income up to Rs.3 lakh per annum, received by authors of literary, artistic and scientific books fully exempt; as also royalty received by individuals from exploitation of patents.

Health

- ❖ Benefit of Section 10(23 G) of IT Act extended to such financial institutions as provide long-term capital to private hospitals with 100 beds or more.
- ❖ Rate of depreciation in respect of life saving medical equipment increased from 25 per cent to 40 per cent.
- ❖ Basic customs and excise duties on rough ophthalmic blanks reduced from 25 to 5 per cent, and from 16 to 8 per cent, respectively.
- ❖ Customs duty on specified life saving equipment reduced from 25 per cent to 5 per cent, with exemption from CVD (additional duty of customs). Life saving equipment already exempt from CVD, exempted from excise duty as well.
- ❖ Concessional duty rate of 5 per cent extended to more drugs. Life saving drugs currently attracting nil or 5 per cent customs duty also exempt from excise duty. Basic customs duty on glucometers and glucometer strips used by diabetics, reduced from 10 per cent to 5 per cent; with exemption from excise duty as well. Cyclosporine exempted from excise duty.

Health insurance

- ❖ A community-based universal health insurance scheme will be designed during 2003-04. Premium equivalent to Re.1 per day (or Rs.365 per year) for an individual, Rs.1.50 per day for a family of five, and Rs.2 per day for a family of seven, will entitle eligibility to reimbursement of hospitalisation expenses up to Rs.30,000, a cover for death due to accident for Rs.25,000, and compensation due to loss of earning at the rate of Rs.50 per day up to a maximum of 15 days. To make the scheme affordable to BPL families, Government to contribute Rs.100 per year towards their annual premium.

Disabled and handicapped

- ❖ Physically handicapped or persons with such dependents entitled for income tax purposes to a deduction of Rs.50,000 for permanent physical disability, and an enhanced deduction of Rs.75,000 in case of severe disability.
- ❖ Customs duty on hearing aids, crutches, wheel chairs, walking frames, tricycles, braillers and artificial limbs reduced to 5 per cent without Special Additional Duty (SAD). They will be exempt from CVD, and the domestic manufacturers will be exempt from excise duty. Customs duty on parts of hearing aids and wheel chairs reduced to 5 per cent without CVD and SAD.

The salaried

- ❖ Standard deduction for salaried employees raised to 40 per cent of salary, or Rs.30,000, whichever is less, for salary income up to Rs.5 lakh; and a deduction of Rs.20,000 allowed for salary income above Rs.5 lakh. VRS payments exempted up to Rs.5 lakh, even when taken in instalments.

Senior citizens and pensioners

- ❖ Tax rebate to senior citizens increased to Rs.20,000. As a result, their income up to Rs.1.53 lakh (Rs.1.83 lakh in the case of senior citizens on pension because of standard deduction) will henceforth become fully exempt from income tax. Self-declarations filed by senior citizens, in regard to no deduction of tax at source, to be accepted.

Insurance pension scheme

- ❖ A special pension policy to be called *Varishtha Pension Bima Yojana,* guaranteeing an annual return of 9 per cent, in the form of a monthly pension scheme to be launched by Life Insurance Corporation of India (LIC). The minimum and maximum monthly pensions proposed are Rs.250 and Rs.2,000 per month.

Ex-servicemen

- ❖ Income tax exemption to be granted to Corporations set up under a Central, or State Act for the benefit of ex-servicemen.

Restructured pension scheme

- ❖ A restructured pension scheme for new Central Government employees, (except in the armed forces) and for the general public. The scheme will be based on defined contribution, shared equally in the case of Government employees between the Government & the employees.

PHYSICAL INFRASTRUCTURE ROADS, RAILWAYS, AIRPORTS AND SEAPORTS

- ❖ A major thrust through innovative funding mechanisms to be provided covering the following:
  - 48 new **road projects** at an estimated cost of around Rs.40,000 crore; with a quarter of them being made of cement concrete.
  - **National Rail Vikas Yojana** projects worth Rs.8,000 crore funded through Rs.3,000 crore worth of equity, provided by the Government, and Rs.5,000 crore worth of loans;
  - **Renovation/modernisation of two airports, and two seaports** at an estimated cost of Rs.11,000 crore; and
  - establishing two global standard international convention centres at an estimated cost of Rs.1,000 crore.

Rural roads

- ❖ Apart from allocating the anticipated Rs.2,325 crore from the existing cess on diesel for 2003-04, additional funds will be made available for rural roads from the proposed additional cess on diesel of 50 paise.

Power

- ❖ The mega power project policy to be liberalised further by extending all the benefits to any power project that fulfills the conditions already prescribed for mega power projects. Customs duty on specific equipment for high voltage transmission projects reduced from 25 per cent to 5 per cent.
- ❖ A special allocation of Rs.20 crore to the Council for Scientific and Industrial Research, for launching incentive-driven research in the fields of solar energy, wind turbines, and hydrogen fuel as alternatives to fossil fuels

Drinking Water

- ❖ Water supply projects totally exempt in regard to capital goods and machinery, both from customs and excise duties. In addition, pipes exempted from excise duty for bringing raw water from source to the treatment plant and for conveying treated water to the storage place.

FISCAL CONSOLIDATION AND DEBT RESTRUCTURING

Cash Management

- ❖ Cash management to be initiated, on a pilot basis, in some major spending ministries, releasing budgetary allocations in a time-sliced manner.

External debt prepayment

- ❖ Government has effected premature repayment of 'high-cost' currency pool loans of the World Bank and of the Asian Development Bank totalling around $3 billion.

Domestic debt of the Central Government

- ❖ A buy back of banks' holding of Central Government domestic debt, contracted under the high interest regime of the past to be offered, entirely on a voluntary basis.

State Governments' debt

- ❖ A debt swap scheme has been introduced to enable States to prepay high cost debt. States will save an estimated Rs.81,000 crore in interest, and deferred loan repayments, over the residual maturity period of the loans.

AGRICULTURE

Diversification into horticulture, floriculture, etc.

- ❖ A new Central Sector Scheme on Hi-tech Horticulture and Precision Farming to be introduced. Major components of the scheme will be use of hi-tech interventions like fertigation, use of biotechnological tools, green food production, and hi-tech green houses.

Plantations

- ❖ With a view to providing stability in terms of income for the small growers, a Price Stabilisation Fund of

Rs.500 crore for the benefit of tea, coffee, and natural rubber growers will become operational in 2003-04.

- ❖ Excise duty of Re. 1 per kg. of tea to be replaced by a cess of Re.1 per kg., for creating a separate fund for development, modernisation and rehabilitation of the tea plantation sector.

Animal husbandry and veterinary medicine

- ❖ Basic customs duty on specified veterinary drugs reduced from 15 per cent to 10 per cent. To promote marine food industry, the customs duty on shrimp larvae feed reduced from 15 per cent to 5 per cent, with exemption from CVD.

Credit availability

- ❖ In order to pass on the benefits of lower rates of interest to agriculture and the SSI sector, the State Bank of India has announced an interest rate band of 2 per cent above and below its prime lending rate (PLR) for secured advances.
- ❖ By January 2003, bank credit of Rs.598 crore provided to about 25 lakh poor families through 1.50 lakh new Self-Help Group (SHGs) under the SHG – Bank Linkage Programme propagated by NABARD.
- ❖ The question of franchising agricultural credit, including through Post Offices will be examined afresh.

Fertiliser subsidy

- ❖ Issue price of fertilizers to be raised by a modest amount of Rs.12 for urea, and Rs.10 for DAP and MOP, per 50 kg bag. The price of complex fertilizers also to be suitably modified.

Water management and irrigation

- ❖ A bipartisan Task Force, headed by the Chief Minister of Andhra Pradesh, and with a Minister of Agriculture from another State, as one of the members, to be constituted to recommend measures needed to be adopted to expand the coverage of drip and sprinkler irrigation and to suggest safeguards so that the intended benefits actually reach the target groups.
- ❖ A Task Force appointed to suggest modalities for arriving at a consensus amongst the States on transfer of water to deficit areas and for identifying the priority links which could be implemented early, as well as a mechanism for their clearance and funding.
- ❖ A special programme, *Maru Gochar* Yojana,to be taken up for the desert districts of Rajasthan, for rehabilitation of traditional pastures – *'Oran'* or *'Gauchar'* – by developing at least one large pasturage nursery in each of the identified districts, as a Central scheme, for restoration of traditional water courses, and other measures so as to provide effective drought proofing.

INDUSTRY

Promoting investment: tax treatment of dividends and capital gains

- ❖ From April 1, 2003 dividends tax-free in the hands of the shareholders. Correspondingly, there will be a 12.5 per cent dividend distribution tax on domestic companies.
- ❖ All listed equities that are acquired on or after March 1, 2003, and sold after the lapse of a year, or more, exempt from the incidence of capital gains tax.

Research and development

- ❖ Tax holiday extended to R&D companies established up to March 31, 2004.

Textiles

- ❖ A package of incentives through rationalisation of excise duty to be introduced so as to have a moderate rate structure; to complete the CENVAT chain to promote compliance; to encourage modernisation; and to eliminate evasion.
- ❖ To encourage modernisation of the textile industry, customs duty on a large number of textile machinery and their parts reduced from the existing 25 per cent to 5 per cent.
- ❖ A Power-loom Package for Modernisation to be offered. A new Power- loom Workshed Scheme will be introduced by the Ministry of Textiles together with the State Governments. As a welfare measure, all powerloom workers will be covered under a Special Insurance Scheme.

Pharmaceuticals, Information technology (IT) and Bio-technology

- ❖ Income tax concessions to pharmaceuticals, bio-technology and information technology shall be at par.
- ❖ All drugs and materials imported or produced domestically for clinical trials exempt from customs and excise duties.
- ❖ Concessions extended to IT under Sections 10A and 10B of the Income Tax Act to continue, even in the case of amalgamation or de-merger.
- ❖ Value of pre-loaded software excluded for the purpose of charging excise duty on computers.
- ❖ Customs duty on a number of capital goods used

by the telecom and IT sector for manufacture of components reduced from 25 per cent to 15 per cent. For optical fibre cables, the customs duty reduced from 25 per cent to 20 per cent. Import duty on specified raw materials for the manufacture of e-glass roving used for making optical fibres reduced from 30 per cent to 15 per cent.

- In respect of R&D units with manufacturing facilities, the benefit of full customs duty exemption for specified equipment available for their manufacturing activity to the extent of 25 per cent of the previous year's export turnover.

Tourism

- A set of incentives to be provided through: withdrawal of the expenditure tax; extension of the benefit of Section 10(23 G) to financial institutions that advance long-term capital to hotels in three-star and above categories; benefit of set-off of unabsorbed loss and depreciation on amalgamation to be available to hotels under Section 72A of the Income tax Act; continuation of the exemption for the hotel industry from the levy of service tax; and reduction of basic customs duty on imported equipment for ropeway projects to 5 per cent without payment of CVD and SAD.

Gems and jewellery

- Customs duty on rough, coloured gem stones reduced from 5 per cent, and on semi-processed, half-cut or broken diamonds from 15 per cent to nil; on cut and polished diamonds and gem stones from 15 per cent to 5 per cent.
- Customs duty on imported gold reduced to Rs.100 per 10 grams, when brought in the form of serially numbered bars, gold coins.
- Benefits under Sections 10A and 10B of the Income tax Act extended to cutting and polishing of diamonds and gems.

Strengthening ECGC

- To enable ECGC to provide adequate underwriting support to project exports, Government has decided to increase its share capital to Rs.80 crore.

Small-scale industry (SSI)

- SSI reservation will be withdrawn from 75 items of laboratory chemicals and reagents, leather and leather products, plastic products, chemicals and chemicals products and paper products.

Disinvestment

- Details about the Disinvestment Fund and Asset Management Company to hold residual shares post disinvestment, shall be finalized early in 2003-04.

OTHER REFORMS

Banking

- Foreign direct investment (FDI) limit in banking companies will be raised from 49 per cent to 74 per cent.
- Limit of 10 per cent irrespective of shareholding, on the voting rights of any person holding shares of a banking company will be removed.

Interest rate

- Rates of interest on public provident fund, and small savings schemes, etc. will be reduced by one percentage point with effect from March 1. Interest on relief and savings bonds will also be reset.

Capital account

- Overseas investment under the automatic route will be permitted to corporates with a proven track record, even where the investment is not in the same core activity. Limit on such investment will be raised from 50 per cent of the net worth of the Indian company to 100 per cent.
- Prepayment of ECB dues under the automatic route will be permitted by removing the current ceiling of US $100 million.

External aid

- Government of India would now prefer to relieve certain bilateral partners, with smaller assistance packages. A debt relief package for the Heavily Indebted Poor Countries (HIPCs) will be announced.

TAX REFORM

- Additional Duties of Excise Act, 1957 being amended to allow States to levy sales tax on textiles, sugar and tobacco products at a rate not exceeding 4 per cent.
- Constitutional amendment proposed to give Central Government the power to levy service tax and both the Central and the State Governments powers to collect the proceeds.

Central Sales Tax

- Ceiling rate of CST for inter-State sale between registered dealers will be reduced to 2 per cent.

Direct taxes

- 5 per cent surcharge halved in the case of corporates and removed in the case of individuals and HUFs, except those earning an income above Rs.8.5 lakh. A 10 per cent surcharge on those earning above Rs.8.5 lakh.

- General deduction of Rs.9,000 given to individual taxpayers having income from dividends, interest, etc. increased to Rs.12,000. An additional deduction of Rs.3,000 allowable in respect of interest from Government securities.
- Individuals and HUF carrying on business or profession need not deduct tax at source, from payments made by them for personal purposes.

Administrative reform

- Outsourcing of non-core activities of Income Tax Department, namely allotment of PAN etc.;
- A computer generated, intelligent, random selection of only 2 per cent of the returns, annually for scrutiny;
- Direct crediting of all refunds to the bank account of the taxpayer, through electronic clearance system;
- Number of forms used for purposes of tax deduction and tax collection at source reduced from 42 to 22.
- Introduction of a one-page return form for individual tax payers, having income from salary, house property and interest, etc.;
- Electronic filing of returns;
- Abolition of tax-clearance certificates currently needed by a person leaving India, or any person submitting a tender for a government contract.

Excise Duty

- A 3-tier excise duty structure of 8 per cent, 16 per cent and 24 per cent will be prescribed.
- Duty on tyres, aerated soft drinks, polyester filament yarn, air-conditioners and motor cars reduced form 32 per cent to 24 per cent.
- Items of the ordinary citizen's use, currently attracting 4 per cent excise duty will be fully exempt: Unbranded surgical bandages; Registers and account books; Umbrellas; Kerosene pressure lanterns; Articles of wood; Imitation zari; Adhesive tapes; Tubular knitted gas mantle fabrics; Walking sticks; Articles of mica; Bicycles and parts; Toys; Mosaic tiles; Utensils and kitchen articles; Knives, spoons and similar kitchenware/ tableware; Glasses for corrective spectacles.
- Matches made by the non-mechanized sector will be fully exempt from excise duty. Matches made by semi-mechanized and mechanized sector will attract an ad-valorem duty of 8 per cent without CENVAT.
- Excise duty on medicines and toilet preparations containing alcohol reduced from present rates of 20 to 50 per cent to a uniform rate of 16 per cent.
- Excise duty on items pressure cookers, ophthalmic blanks, biscuits, boiled sweets and dental chairs reduced from 16 per cent to 8 per cent. Recorded audio compact discs (CDs) fully exempt.
- Duty on electric vehicles reduced from 16 per cent to 8 per cent.
- A fresh excise levy of 8 per cent imposed on the following items, with the CENVAT credit facility available to them: branded refined edible oil and vanaspati packed in sealed containers for retail sale – this will not apply to unbranded oil; lay flat tubing; chemical reagents; wood free particle or fibre board made from agro base; paper and paper board made from non conventional raw material; and populated printed circuit board for black and white TV sets.
- Specific rates on cement and clinker increased by Rs.50 per tonne.
- Additional excise duty of Rs.1.50 per litre imposed on light diesel oil.
- A 1 per cent National Calamity Contingency Duty imposed on polyester filament yarn, motor cars and two-wheelers and duty of Rs.50 per metric tonne on crude, domestic or imported.
- Scheme of central excise to be rationalized for textiles.
- Preloaded software on computers exempted from excise.

Customs Duty

- Peak rate of customs duty reduced from 30 per cent to 25 per cent excluding agriculture and dairy products.
- Customs duty on metallurgical coke and nickel rationalized to a uniform rate of 10 per cent.
- Duty on conch shells and seed lac reduced from 30 per cent to 5 per cent.
- Import duty on oleo pine resin, a raw material for rosin reduced from 15 per cent to 10 per cent.
- Value limit for a full customs duty exemption, for bonafide commercial samples and gifts raised from Rs.5,000 to Rs.10,000.
- Customs duty on passenger baggage reduced from 60 per cent to 50 per cent.
- Customs duty reduced on LNG regassification plants from 25 per cent to 5 per cent; on components of membrane cell technology used in the caustic soda industry from 15 per cent to 5 per cent; on spares for diesel locomotives, parts for conversion of locomotives from DC to AC from 25 per cent to 15 per cent on loco simulators for training of drivers from 25 per cent to 5 per cent; and on refrigerated trucks from 25 per cent to 20 per cent.

RECENT POLICY AMENDMENT :

FOREIGN INVESTMENT POLICY :
The Ministry of Industry has expanded the list of industries eligible for automatic approval of foreign investments and, in certain cases, raised the upper level of foreign ownership from 51 percent to 74 percent and further in certain cases to 100 percent. In January 1998, the RBI announced simplified procedures for automatic FDI approvals. The announcement further provided that Indian companies will no longer require prior clearances from the RBI for inward remittances of foreign exchange or for the issuance of shares to foreign investors.

Other policy changes have been introduced to encourage foreign direct and foreign institutional investment.

- The government has amended exchange control regulations previously applicable to companies with significant foreign participation.
- The ban against using foreign brand names/ trademarks has been lifted.
- Foreign brokers permitted to operate in India on behalf of registered Foreign Institutional Investors (FIIs).
- The condition of dividend balancing (offsetting the outflow of foreign exchange for dividend payments against export earnings) has been eliminated for all but 22 consumer goods industries.
- A 5-year tax holiday is extended to enterprises engaged in development of infrastructural facilities. Even without a registered office in India, foreign companies are allowed to start multimodal transport services in India.
- 100 percent foreign investment in the construction of roads/bridges.
- India presents a vast potential for overseas investment and is actively encouraging the entrance of foreign players into the market. No company, of any size, aspiring to be a global player can, for long ignore this country which is expected to become one of the top three emerging economies.
- Success in India will depend on the correct estimation of the country's potential, underestimation of its complexity or overestimation of its possibilities can lead to failure.
- India is the fifth largest economy in the world (ranking above France, Italy, the United Kingdom, and Russia) and has the third largest GDP in the entire continent of Asia.
- India is also one of the few markets in the world which offers high prospects for growth and earning potential in practically all areas of business.
- India is world's most populous democracy
- The Indian middle class is large and growing; wages are low; many workers are well educated and speak English.
- Indian investors are optimistic.
- The Indian market is widely diverse. The country has 17 official languages, 6 major religions, and ethnic diversity as wide as all of Europe. Thus, tastes and preferences differ greatly among sections of consumers.

INVESTMENT IN INDIA - FOREIGN DIRECT INVESTMENT:

Foreign Direct Investment (FDI) is permitted as under the following forms of investments.

- Through financial collaborations.
- Through joint ventures and technical collaborations.
- Through capital markets via Euro issues.
- Through private placements or preferential allotments.

FORBIDDEN TERRITORIES:
FDI is not permitted in the following industrial sectors:

- Arms and ammunition.
- Atomic Energy.
- Railway Transport.
- Coal and lignite.
- Mining of iron, manganese, chrome, gypsum, sulphur, gold, diamond, copper, zinc.

- **Sectors Specific guidelines for Foreign Direct Investment:**

An industry's specified limit for foreign direct investment of various sectors has been relaxed time an again? After incorporating the recent amendment the current limits for various sectors is discussed below.

S. No.	Sector	Guidlines
1.	**Private Sector Banking**	74% from all sources on the automatic route subject to guidelines issued from RBI from time to time.
	Non Banking Financial Companies (NBFC)	a. **FDI/NRI/OCB investments allowed in the following 19 NBFC activities shall be as per levels indicated below:** i. Merchant banking ii. Underwriting iii. Portfolio Management Services iv. Investment Advisory Services v. Financial Consultancy vi. Stock Broking vii. Asset Management viii. Venture Capital ix. Custodial Services x. Factoring xi. Credit Reference Agencies xii. Credit rating Agencies xiii. Leasing & Finance xiv. Housing Finance xv. Forex Broking xvi. Credit card business xvii. Money changing Business xviii. Micro Credit xix. Rural Credit b. **Minimum Capitalisation Norms for fund based NBFCs:** i) For FDI up to 51% - US$ 0.5 million to be brought upfront ii) For FDI above 51% and up to 75% - US $ 5 million to be brought upfront iii) For FDI above 75% and up to 100% - US $ 50 million out of which US $ 7.5 million to be brought upfront and the balance in 24 months

	(Non Banking Financial Companies) *cont...*	c. **Minimum capitalisation norms for non-fund based activities:** Minimum capitalisation norm of US $ 0.5 million is applicable in respect of all permitted non-fund based NBFCs with foreign investment. d. Foreign investors can set up 100% operating subsidiaries without the condition to disinvest a minimum of 25% of its equity to Indian entities, subject to bringing in US$ 50 million as at b) (iii) above (without any restriction on number of operating subsidiaries without bringing in additional capital) e. Joint Venture operating NBFC's that have 75% or less than 75% foreign investment will also be allowed to set up subsidiaries for undertaking other NBFC activities, subject to the subsidiaries also complying with the applicable minimum capital inflow i.e. (b)(i) and (b)(ii) above. f. FDI in the NBFC sector is put on automatic route subject to compliance with guidelines of the Reserve Bank of India. RBI would issue appropriate guidelines in this regard.
	INSURANCE	FDI up to 26% in the Insurance sector is allowed on the automatic route subject to obtaining licence from Insurance Regulatory & Development Authority (IRDA)
2.	**Domestic Airlines**	In the domestic Airlines Sector i. FDI upto 40% permitted subject to no direct or indirect equity participation by foreign airlines. ii. 100% investment by NRIs/OCBs. iii. The automatic route is not available.
	Airports	Up to 100% with FDI, beyond 74% requiring Government approval
3.	**Telecommunication**	i. In basic, cellular, value added services and global mobile personal communications by satellite, FDI is limited to 49% subject to licencing and security requirements and adherence by the companies (who are investing and the companies in which investment is being made) to the licence conditions for foreign equity cap and lock- in period for transfer and addition of equity and other licence provisions. ii. ISPs with gateways, radio-paging and end-to-end bandwidth, FDI is permitted up to 74% with FDI, beyond 49% requiring Government approval. These

	(Telecommunication) *cont...*	services would be subject to licencing and security requirements. iii. No equity cap is applicable to manufacturing activities. iv. FDI upto 100% is allowed for the following activities in the telecom sector : a. ISPs not providing gateways (both for satellite and submarine cables); b. Infrastructure Providers providing dark fibre (IP Category 1); c. Electronic Mail; and d. Voice Mail The above would be subject to the following conditions: e. FDI up to 100% is allowed subject to the condition that such companies would divest 26% of their equity in favour of Indian public in 5 years, if these companies are listed in other parts of the world. f. The above services would be subject to licensing and security requirements, wherever required. g. Proposals for FDI beyond 49% shall be considered by FIPB on case to case basis.
4.	**Petroleum (other than Refining)**	a. Under the exploration policy, FDI up to 100% is allowed for small fields through competitive bidding; upto 60% for unincorporated JV; and up to 51% for incorporated JV with a No Objection Certificate for medium size fields. b. For petroleum products and pipeline sector, FDI is permitted up to 51%. c. FDI is permitted up to 74% in infrastructure related to marketing and marketing of petroleum products. d. 100% wholly owned subsidiary(WOS) is permitted for the purpose of market study and formulation. e. 100% wholly owned subsidiary is permitted for investment/Financing. f. For actual trading and marketing, minimum 26% Indian equity is required over 5 years. The automatic route is not available.
	Petroleum (Refining)	a. FDI is permitted up to 26% in case of public sector units(PSUs). PSUs will hold 26% and balance 48% by public.Automatic route is not available. b. In case of private Indian companies, FDI is permitted upto 100% under automatic route.

5.	**Housing & Real Estate**	No foreign investment is permitted in this sector except for development of integrated townships and settlements where FDI upto 100% is permitted with prior Government approval. NRIs/OCBs are allowed to invest in the following activities. a. Development of serviced plots and construction of built up residential premises. b. Investment in real estate covering construction of residential and commercial premises including business centres and offices. c. Development of townships. d. City and regional level urban infrastructure facilities, including both roads and bridges. e. Investment in manufacture of building materials, which is also opened to FDI. f. Investment in participatory ventures in (a) to (e) above. g. Investment in housing finance institutions, which is also opened to FDI as an NBFC.
6.	**Coal and Lignite**	Private Indian companies setting up or operating power projects as well as coal or lignite mines for captive consumption are allowed FDI up to 100%. ii. 100% FDI is allowed for setting up coal processing plants subject to the condition that the company shall not do coal mining and shall not sell washed coal or sized coal from its coal processing plants in the open market and shall supply the washed or sized coal to those parties who are supplying raw coal to coal processing plants for washing or sizing. iii. FDI up to 74% is allowed for exploration or mining of coal or lignite for captive consumption. iv. In all the above cases, FDI is allowed up to 50% under the automatic route subject to the condition that such investment shall not exceed 49% of the equity of a PSU.
7.	**Venture Capital Fund(VCF) and Venture Capital Company(VCC)**	Offshore Venture Capital Funds/Companies are allowed to invest in domestic venture capital undertaking as well as other companies through the automatic route, subject only to SEBI regulations and sector specific caps on FDI.
8.	**Trading**	Trading is permitted under automatic route with FDI up to 51% provided it is primarily export activities, and the undertaking is an export house/trading house/super trading

	(Trading) *cont...*	house/star trading house. However, under the FIPB route:- i. 100% FDI is permitted in case of trading companies for the following activities: ● exports; ● bulk imports with ex-port/ex-bonded warehouse sales; ● cash and carry wholesale trading; ● other import of goods or services provided at least 75% is for procurement and sale of goods and services among the companies of the same group and not for third party use or onward transfer/ distribution/sales. ii. The following kinds of trading are also permitted, subject to provisions of EXIM Policy: a. Companies for providing after sales services (that is not trading per se) b. Domestic trading of products of JVs is permitted at the wholesale level for such trading companies who wish to market manufactured products on behalf of their joint ventures in which they have equity participation in India. c. Trading of hi-tech items/items requiring specialised after sales service d. Trading of items for social sector e. Trading of hi-tech, medical and diagnostic items. f. Trading of items sourced from the small scale sector under which, based on technology provided and laid down quality specifications, a company can market that item under its brand name. g. Domestic sourcing of products for exports. h. Test marketing of such items for which a company has approval for manufacture provided such test marketing facility will be for a period of two years, and investment in setting up manufacturing facilities commences simultaneously with test marketing. i. FDI up to 100% permitted for e-commerce activities subject to the condition that such companies would divest 26% of their equity in favour of the Indian public in five years, if these companies are listed in other parts of the world. Such companies would engage only in business to business (B2B) e-commerce and not in retail trading.

9.	**Investing companies in infrastructure / service sector**	In respect of the companies in infrastructure/service sector, where there is a prescribed cap for foreign investment, only the direct investment will be considered for the prescribed cap and foreign investment in an investing company will not be set off against this cap provided the foreign direct investment in such investing company does not exceed 49% and the management of the investing company is with the Indian owners. The automatic route is not available.
10.	**Atomic Minerals**	The following three activities are permitted to receive FDI/ NRI/OCB investments through FIPB (as per detailed guidelines issued by Department of Atomic Energy vide Resolution No.8/1(1)/97-PSU/1422 dated 6.10.98): a. Mining and mineral separation. b. Value addition per se to the products of (a) above. c. Integrated activities (comprising of both (a) and (b) above. The following FDI participation is permitted: a. Up to 74% in both pure value addition and integrated projects. ii. For pure value addition projects as well as integrated projects with value addition upto any intermediate stage, FDI is permitted upto 74% through joint venture companies with Central/ State PSUs in which equity holding of at least one PSU is not less than 26%. iii. In exceptional cases, FDI beyond 74% will be permitted subject to clearance of the Atomic Energy Commission before FIPB approval.
11.	**Defence and strategic industries**	Foreign Direct Investment, including NRI/OCB investment, is permitted up to 26% with prior Government approval subject to licensing and security requirements.
12.	**Agriculture (including plantation)**	No FDI/NRI/OCB investment is permitted other than Tea sector, where FDI permitted up to 100% in Tea sector, including tea plantations with prior Government approval and subject to the following conditions: ● Compulsory divestment of 26% equity in favour of Indian partner/Indian public within a period of five years, and ● Prior State Government approval required in case of any future land use change.

	(Agriculture) *cont...*	The above dispensation would be applicable to all fresh investments (FDI) made in this sector.
13.	**Print media**	Government has announced Print Media policy recently. The policy & guidelines in respect of this sector will be notified by the Ministry of Information & Broadcasting in due course.
14.	**Broadcasting**	a. **TV Software Production** 100% foreign investment allowed subject to: i. all future laws on broadcasting and no claim of any privilege or protection by virtue of approval accorded, and ii. not undertaking any broadcasting from Indian soil without Government approval. b) **Setting up hardware facilities, such as uplinking, HUB, etc.** Private companies incorporated in India with permissible FII/NRI/OCB/PIO equity within the limits (as in the case of telecom sector FDI limit up to 49% inclusive of both FDI and portfolio investment) to set up uplinking hub (teleports) for leasing or hiring out their facilities to broadcasters Footnote: As regards satellite broadcasting, all T.V. Channels irrespective of the ownership or management control to uplink from India provided they undertake to comply with the broadcast (programme and advertising) code. c) **Cable Network** Foreign investment allowed up to 49% (inclusive of both FDI and portfolio investment) of paid up share capital. Companies with minimum 51% of paid up share capital held by Indian citizens are eligible under the Cable Television Network Rules (1994) to provide cable TV services. d) **Direct-to-Home** Company with a maximum of foreign equity including FDI/NRI/OCB/FII of 49% would be eligible to obtain DTH License. Within the foreign equity, the FDI component not to exceed 20%. e) **Terrestrial Broadcasting FM** The licensee shall be a company registered in India under the Companies Act. All share holding should be held by Indians except for the limited portfolio

	(Non Banking Financial Companies) *cont...*	investment by FII/NRI/PIO/OCB subject to such ceiling as may be decided from time to time. Company shall have no direct investment by foreign entities, NRIs and OCBs. As of now, the foreign investment is permissible to the extent of 20% portfolio investment. f) **Terrestrial TV** No private operator is allowed in terrestrial TV transmission. In all the above cases automatic route is not available.
15.	**Power**	Up to 100% FDI allowed in respect of projects relating to electricity generation, transmission and distribution, other than atomic reactor power plants. There is no limit on the project cost and quantum of foreign direct investment.
16.	**Drugs & Pharmaceuticals**	FDI up to 100% is permitted on the automatic route for manufacture of drugs and pharmaceutical, provided the activity does not attract compulsory licensing or involve use of recombinant DNA technology, and specific cell / tissue targeted formulations. FDI proposals for the manufacture of licensable drugs and pharmaceuticals and bulk drugs produced by recombinant DNA technology, and specific cell / tissue targeted formulations will require prior Government approval.
17.	**Roads & Highways, Ports & Harbours.**	FDI up to 100% under automatic route is permitted in projects for construction and maintenance of roads, highways, vehicular bridges, toll roads, vehicular tunnels, ports and harbours.
18.	**Hotels & Tourism**	100% FDI is permissible in the sector on the automatic route. The term hotels include restaurants, beach resorts, and other tourist complexes providing accommodation and/or catering and food facilities to tourists. Tourism related industry include travel agencies, tour operating agencies and tourist transport operating agencies, units providing facilities for cultural, adventure and wild life experience to tourists, surface, air and water transport facilities to tourists, leisure, entertainment, amusement, sports, and health units for tourists and Convention/Seminar units and organisations. For foreign technology agreements, automatic approval is granted if :-

	(Hotels & Tourism) *cont...*	i. up to 3% of the capital cost of the project is proposed to be paid for technical and consultancy services including fees for architects, design, supervision, etc. ii. up to 3% of net turnover is payable for franchising and marketing/publicity support fee, and iii. up to 10% of gross operating profit is payable for management fee, including incentive fee.
19.	**Mining.**	i. For exploration and mining of diamonds and precious stones FDI is allowed up to 74% under automatic route. ii. For exploration and mining of gold and silver and minerals other than diamonds and precious stones, metallurgy and processing FDI is allowed up to 100% under automatic route. iii. Press Note No. 18 (1998 series) dated 14.12.98 would not be applicable for setting up 100% owned subsidiaries in so far as the mining sector is concerned, subject to a declaration from the applicant that he has no existing joint venture for the same area and / or the particular mineral.
20.	**Postal services**	FDI up to 100% is permitted in courier services with prior Government approval excluding distribution of letters, which is reserved exclusively for the state.
21.	**Pollution Control and management**	FDI up to 100% in both manufacture of pollution control equipment and consultancy for integration of pollution control systems is permitted on the automatic route.
22.	**Advertising and films**	a) Advertising sector FDI up to 100% allowed on the automatic route b) Film sector (film production, exhibition and distribution including related services/products) FDI up to 100% allowed on the automatic route with no entry-level condition
23.	**Mass Rapid Metro Transit System**	FDI up to 100% is permitted on the automatic route in mass rapid transport system in all metros including associated real estate development.

24.	**Township Development**	FDI up to 100% is permitted for development of integrated townships including houses, commercial premises, hotels, resorts, city and regional level urban infrastructure facilities such as roads and bridges, mass rapid transit system; and manufacture of building materials. Development of land and providing allied infrastructure will form an integral part of township's development. FDI in this sector would be permissible with prior Government approval.
25.	**Establishment and Operation of satellite**	FDI up to 74% is permitted with prior Government approval
26	**Lottery business, gambling & betting**	Government has reiterated prohibition of foreign direct investment (FDI) / foreign technical collaboration (FTC) in any form in Lottery business, gambling & betting sector.

FOREIGN EXCHANGE MANAGEMENT ACT:

In the path of liberalization the Foreign Exchange Management Act was introduced replacing most stringent rules which prevailed under the regime of FERA. Since then there has been lot of relaxation brought about with regard to foreign currency transaction executed by Indian entrepreneurs abroad. The recent certain significant changes brought about by RBI by issue of various circulars for relaxing the limits specified in FEMA are discussed below:

- Exporters were permitted to grant trade related loans/advances not exceeding US$.3 million from their EEFC account to their overseas import customers, the ceiling of US$.3 million has been removed. The authorised dealer is permitted to extend trade related loans and advances by an exporter to overseas importers out of their EEFC balance without any ceiling.
- As a measure to further liberalise and in order to encourage Indian Companies to list ADR/GDR on the overseas exchange through the scheme of sponsoring ADR/GDR, it has been decided to permit resident shareholders of Indian companies to offer their shares for conversion to ADR/GDR and to receive the sale proceeds in foreign currency.
- At present residents are not permitted to make investments in equity of companies registered overseas except by way of setting up joint ventures or wholly owned subsidiaries. It has now been decided to permit relaxations as under :-

(i) **Corporates**

Listed Indian companies are permitted to invest abroad in companies,

(a) listed on a recognised stock exchange and

(b) which has the shareholding of at least 10 per cent in an Indian company listed on a recognised stock exchange in India (as on 1st January of the year of the investment). Such investments shall not exceed 25 per cent of the Indian company's net worth, as on the date of latest audited balance sheet.

(ii) **Individuals**

Resident individuals are permitted to invest in overseas companies indicated at (i) above without any monetary limit.

(iii) **Investment by Mutual Funds**

At present, Mutual Funds are permitted to invest in ADRs/GDRs of the Indian companies and rated debt instruments, within an overall cap of USD 500 million. It has now been decided to permit Mutual Funds to also invest in equity of overseas companies indicated at (i) above. It has also been decided to enhance the overall cap to USD 1 billion. Accordingly, Mutual Funds desirous of availing of this facility may approach the Reserve Bank after obtaining the necessary permission from SEBI in the matter.

The above relaxations are subject to the following:-

a. All transactions are routed through a designated authorised dealer and rupee payments received out of the bank account of the investor.

b. Authorised Dealer before allowing the remittances shall ensure that the investments are made strictly in accordance with the conditions stipulated in paragraph above, viz., that such investments are permitted in securities of companies listed on recognised stock exchange abroad and that such companies in turn have at least 10 per cent share holding in an Indian company listed on a recognised stock exchange in India.

c. Authorised Dealers shall retain with them full particulars of investments such as names / addresses of the investors, companies in which the investments are made and details of securities held.

d. Authorised dealer shall forward to the Chief General Manager, Exchange Control Department, Reserve Bank of India, Overseas Investment Division, Mumbai a monthly statement on or before 10th of the succeeding month indicating the amount of remittances allowed/received in respect of purchases/sales and the net investment outstanding in respect of each of the categories mentioned above.

- Reserve Bank of India has curtailed all prior approvals required for use of International Credit Cards for a resident to make payment towards expenses while on visit outside India to the extent of the limit of the Card. Further no separate monetary item wise ceiling is imposed for use of International Credit Cards. FEMA restriction on the use of ICC for purchase of prohibited items like lottery tickets, banned and prescribed magazines, sweep-stakes, payment of call back services, etc., would continue.

- It has now been decided to permit Indian Corporate, who has set up overseas offices to acquire immovable property outside India for their business as also for staff residence purposes with prior permission of RBI.

- The Limit of US$.20,000 for purchase of foreign securities by a resident individual, who is employee or Director of an Indian office or branch of a foreign company or a subsidiary in India of a foreign company or of an Indian company has been removed. Accordingly remittance for acquisition of foreign security under ESOP Schemes may be permitted by an authorised dealer as per terms offered without any monetary limits. The other conditions which requires to be complied with are:

  - Shares under the ESOP should be offered at the concessional price.
  - Foreign equity holding in Indian company should not be less than 51%.

- The authorised dealers are permitted to allow remittance of assets of foreign national including retired employees/widows of Indian citizens residing outside India and assets in India acquired by NRIs and persons of Indian origin by way of inheritance/ legacy upto US$.1,00,000. It has now been decided to remove the present dispensation of permitting different amount for different purposes and also to enhance the over all limit to US$.1 million per calendar year. Accordingly the authorised dealer will now allow remittance upto US$.1 million out of balance held in NRO account/sale proceeds of assets on production of an undertaking and certificate by a person making the remittance as specified under the rules.

- As a measure of further liberalization release of foreign exchange for private visits to any country (except Nepal and Bhutan) in one calendar year has been enhanced to US$.10,000/-.

- The earlier limit in case of non-resident Indian/ persons of Indian origin to repatriate sale proceeds of immovable property in India after 3 years from the date of acquisition of such property or from the date of payment of final installment of consideration for its acquisition, which ever is later, is now removed. The lock-in period has been removed and accordingly the authorised dealers are allowed to remit the sale proceeds of immovable property in India acquired by NRI/PIOs irrespective of the period for which the property was held.

BUDGET AT A GLANCE

(In crore of Rupees)

	PARTICULARS	2001-02 Actuals	2002-2003 Budget Estimates	2002-2003 Revised Estimates	2003-2004 Budget Estimates
1.	**Revenue Receipts**	**201449**	**245105**	**236936**	**253935**
2.	Tax Revenue (net to Centre)	133662	172965	164177	184169
3.	Non-tax revenue	67787	72140	72759	69766
4.	**Capital Receipts (5+6+7)**	**161004**	**165204**	**167077**	**184860**
5.	Recoveries of Loans	16403	17680	18251	18023
6.	Other Receipts	3646	12000	3360	13200
7.	Borrowings and other Liabilities	140955	135524	145466	153637
8.	**Total Receipts (1+4)**	**362453**	**410309**	**404013**	**438795**
9.	**Non-plan Expenditure**	**261259**	**296809**	**289924**	**317821**
10.	On Revenue Account of which	239954	270169	268979	289384
11.	Interest Payments	107460	117390	115663	123223
12.	On Capital Account	21305	26640	20945	28437
13.	**Plan Expenditure**	**101194**	**113500**	**114089**	**120974**
14.	On Revenue Account	61657	70313	72669	76843
15.	On Capital Account	39537	43187	41420	44131
16.	**Total Expenditure (9+13)**	**362453**	**410309**	**404013**	**438795**
17.	Revenue Expenditure (10+14)	301611	340482	341648	366227
18.	Capital Expenditure (12+15)	60842	69827	62365	72568
19.	**Revenue Deficit (17-1)**	**100162 (4.3)**	**95377 (3.8)**	**104712 (4.3)**	**112292 (4.1)**
20.	**Fiscal Deficit {16-(1+5+6)}**	**140955* (6.1)**	**135524 (5.3)**	**145466 (5.9)**	**153637 (5.6)**
21.	**Primary Deficit (20-11)**	**33495 (1.5)**	**18134 (0.7)**	**29803 (1.2)**	**30414 (1.1)**

* Based on provisional Actuals for 2001-2002.

FINANCE BILL 2003

The various changes and amendments brought about by the Finance Bill, 2003 are concised below :

DIRECT TAX PROPOSAL

1. **RATES OF TAXES.**
   Rates of taxes prescribed for assessment year 2004-2005 are same as per last year, except certain changes in surcharge charged. Rates of taxes 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	Nil	20
1,50,001 to 8,50,000	30	Nil	30
8,50,000 & above	30	10	33

(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	2.5	10.25
10,001 to 20,000	20	2.5	20.50
20,001 & above	30	2.5	30.75

III. Firm:

Income (Rs)	Rate of Income Tax %	Surcharge on Tax %	Total %
On whole of total income	35	2.5	35.875

IV. Local Authority:

Income (Rs)	Rate of Income Tax %	Surcharge on Tax %	Total %
On whole of total income	30	2.5	30.75

V. Domestic Company:

Income (Rs)	Rate of Income Tax %	Surcharge on Tax %	Total %
Whole of total income	35	2.5	35.875

VI. Foreign Companies.

Income (Rs)	Rate of Income Tax %	Surcharge on Tax %	Total %
On whole of total income	40	2.5	41

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

(I) In case of resident assessees other than company :

Particulars	Rate %
Income by way of interest	10
Winnings from lottery, puzzles, TV Games, Horse Races	30
Insurance commission.	10

(II) In case of Non Resident:

	Particulars	Rate %
(i)	Income by way interest on loans in foreign currency	20.00
(ii)	Income by way of winning from lotteries, crossword puzzles, winnings from horse race, TV games, etc.	30.00
(iii)	Long term capital gains falling u/s. 115E	10.00
(iv)	Other Long term capital gain	20.00
(v)	Income being investment income	20.00
(vi)	Any other income	30.00

(III) In case of Domestic Company:

	Particulars	Rate %
(i)	Income by way of interest	20.00
(ii)	Income by way of lotteries, crossword puzzles, winning from horse race, TV Games, etc.	30.00
(iii)	Any other income	20.00

(IV) TDS under other Provisions:

No.	Nature of Payment	Section of I.T. Act	Exemp-tion	Rate % of TDS
1.	Payment to contractors			
	i) Other than Advertisement	194C	20,000	2
	ii) Advertisement	194C	20,000	1
2.	Payment to sub-contractors	194C (2)	20,000	1
3.	Non-resident sportsman	194 E	—	10
4.	Payments of Deposits under NSS	194 EE	2,500	20
5.	Repurchase of units issued u/s. 80 CCB	194 F	—	20
6.	Commission on sale of Lottery tickets.	194 G	1,000	10
7.	Commission or brokerage	194 H	2,500	5
8.	Rent for Land, Building alongwith furniture & fittings paid to:			
	i) Individual or HUF	194 I	1,20,000	15
	ii) Any other case	194 I	1,20,000	20
9.	Fees for professional and technical services.	194 J	20,000	5
10.	Compensation or enhanced compensation for compulsory acquisition of any capital asset.	194 L	1,00,000	10

Surcharge for union purpose will be increased by 10% on income tax deducted, if income paid or likely to be paid to any individual or H.U.F. exceeds Rs.8,50,000/-, and in case of firms, local authorities, co-operative societies and companies at 2.5%.

(V) In case of Foreign Companies:

	Particulars	Rate %
(i)	Income by way of interest on foreign exchange borrowing	20.00
(ii)	Income by way of royalty:	
	(A) Agreement is made before 1st June, 1997	30.00
	(B) Agreement is made after 1st June, 1997.	20.00
(iii)	Income by way of fees for Technical Services:	
	(A) Agreement made before 1st June, 1997	30.00
	(B) Agreement made after 1st June, 1997.	20.00
(iv)	Income by way of lotteries, crossword puzzles, card games, horse race and TV games, etc.	30.00
(v)	Any other income	40.00

3. SALARY INCOME:

(i) Standard Deduction:

Under the existing provision in the case of an assessee having income from salary up to one lakh fifty thousand rupees before allowing a deduction for standard deduction, a sum equal to 33.1/3% of the salary or thirty thousand rupees, whichever is less, is allowed as a deduction from his salary. In the case of an assessee having income from salary which is more than one lakh fifty thousand rupees, but less than three lakh rupees, a deduction of sum of twenty-five thousand rupees shall be allowed. In the case of an assessee having income from salary which is more than three lakh rupees but less than five lakh rupees before allowing a deduction under this clause, a deduction of a sum of twenty thousand rupees shall be allowed and no deduction in case of salary exceeding five lakh rupees.

It is proposed to substitute the provisions of standard deduction so as to provide that an assessee whose income from salary, before allowing a deduction under this clause, does not exceed five lakh rupees, shall be allowed a deduction of a sum equal to forty percent of the salary or thirty thousand rupees, whichever is less and in case of an assessee whose income from salary, before allowing a deduction under this clause, exceeds five lakh rupees, shall be allowed a deduction of a sum of twenty thousand rupees.

(ii) Voluntary Retirement Scheme:

Under the existing provision as contained in clause (10C) of section 10, any amount received by an employee of a public sector company or any other company or any other employers as provided in the said section, at the time of voluntary retirement or termination of his service in accordance with any scheme or schemes of voluntary retirement, or in the case of a public sector company, a scheme of voluntary separation, to the extent such amount does not exceed five lakh rupees, is not included in computing the total income of such employee.

It is proposed to amend the said clause (10C) so as to provide that any amount, not exceeding five lakh rupees, received or receivable by such employee on his voluntary retirement or termination of his service shall not be included in computing the total income of such employee.

4. BUSINESS INCOME:

(i) **Deduction for repairs to building:**

Deduction for cost of repairs to the premises occupied by the assessee and not owned by him and an amount paid on account of current repairs for the premises occupied by the assessee as a owner thereof are allowable. Now it is proposed to clarify that the amount incurred as cost of repairs or current repairs shall not include any expenditure in the nature of capital expense.

(ii) **Deduction for repairs to plant and machinery, etc:**

Under the existing provisions as contained in section 31 the amount paid on account of current repairs to plant and machinery or furniture is allowed as deduction. Now it is proposed to clarify that the amount paid on current repairs shall not include any expenses of capital nature.

It is a settled law till now that in case of expenses incurred for repairs to the premises, which are not owned by the assessee even are of capital nature are allowable as business deduction. Similarly it has been held in numerous cases that current repairs may include replacement of a portion of plant and machinery or a substantial part thereof. After the proposed amendment, the Department may dispute such deductions on the plea that such expenses are of capital nature.

(iii) **Tea Development Account:**

Deduction allowable under section 33 AB known as Tea Development Act are now proposed to be extended to an assessee carrying on business of growing and manufacturing coffee also.

(iv) **Interest on Borrowings:**

Under the existing provision of section 36 deduction for interest is allowed in respect of capital borrowed for the purposes of business or profession, and in the computation of income, even if it is borrowed for acquisition of capital assets for its existing business or expansion thereof. The section is proposed to be amended to provide that no such deduction shall be allowed in respect of any amount of interest paid, in respect of capital borrowed for acquisition of new asset for extension of existing business or profession and such amount of interest for the period beginning from the date on which the capital was borrowed for acquisition of the asset till the date on which such asset was first put to use will not be available. It will not be material whether such interest paid for acquisition of capital assets is capitalized or not in the books of account.

Till now the Courts have taken the view that such borrowings made for the purpose of extension of business is for the business of the assessee and interest paid is an allowable deduction, even if the assessee has capitalized in books of account such interest paid. Now it is tried to be clarified by this amendment that interest paid on the borrowings made for the purpose of acquisition of assets for expansion of the existing business shall not be an allowable expenses. However, the mute question for determination now will be what is extension of existing business?

(v) **Bad Debts in case of banks:**

At present under the provisions of section 36 banks are allowed to claim certain deduction for bad and doubtful debts. It is now proposed to insert a further proviso to provide that a scheduled bank or a non-scheduled bank shall, at its option, be allowed a further deduction in excess of the limits specified in section 36 (1) (vii a), for an amount not exceeding the income derived from redemption of securities in accordance with a scheme framed by the Central Government, provided that such income has been disclosed in the return of income under the head "profit and gains of business or profession". The government has formed a scheme to allow banks to offer government securities for redemption to government and gain arising on such redemption to be used to provide for its NPA's.

(vi) In case of public financial institutions under proviso to section 36 (1) (ix) it is proposed to be provided that in computing business income a deduction shall be allowed in respect of any sum paid by such public financial institution by way of contribution towards any Exchange Risk Administration Fund set up by public financial institutions, either jointly or separately.

(vii) The expenses not being capital expenses incurred by the corporations established by Central or State Government or under a Provincial Act for the proposed objects for which such corporations are established shall be allowed deduction.

(viii) **Payment made without deduction of TDS:**

Under the existing provision as contained in section 40 any interest, royalty, fees for technical services or other sum chargeable under the Income Tax Act, which is payable outside India is not allowed as a deduction if tax thereon has not been paid or deducted at source. However, if tax is paid or deducted in respect of such amount in a subsequent year, the amount is allowed as a deduction in the subsequent year in which the tax is so paid or deducted.

It is proposed to provide that such payments, if taxable in India, whether payable outside India or in India to a non-resident, not being a company, or to a foreign company, if tax has not been deducted, or after deduction, has not been paid shall not be allowed as a deduction in computing the income. It is also provided that where in respect of any such sum tax has been deducted and paid before the expiry of the time prescribed under sub-section (1) of section 200, such sum shall be allowed as a deduction in computing the income of the previous year in which the liability to pay such sum was incurred. Further, where in respect of any such sum, tax has been deducted and paid in any subsequent year, such sum shall be allowed as a deduction in computing the income of the previous year in which such tax has been deducted and paid.

(ix) **Change in the Provisions of Section 43 B:**

(i) Under the Existing provisions of section 43 B (b) and (c) deduction for any sum payable by the assessee as employer by way of contribution to any provident fund, superannuation fund or gratuity fund or any other fund or any contribution made by the employees to such fund for the welfare of the employee are allowable only if such sums has actually been paid on or before the due date provided under respective Act. Now the provisions are proposed to be amended so as to allow such contributions as deduction in the year of payment or if paid before the due date for filing return of income in the year in which such liability has arisen. For the purpose the second proviso to section 43 B has been deleted and the first proviso has been amended.

(ii) Under the provisions of section 43 B (e) at present, interest payable by the assessee on any term loan from scheduled bank shall be allowed as deduction in the year in which it is paid or if paid before the due date of filing return of income. Under the proposed amendment these provisions are extended to all loans and advances from scheduled bank whether such loan are term loan or otherwise.

(x) **Maintenance of books of account:**

The non-resident assessees carrying on the business of exploration of mineral oil as provided under section 44 BB or foreign companies in the business of civil construction, erection of plant and machinery or turnkey power projects as provided under section 44 BBB shall be required to maintain books of account and get it audited, if profit for such business is claimed to be lower than the profit or gain deemed to be profit or gain from such business under the respective sections.

(xi) **Taxation of Royalty, etc., earned through Permanent Establishment:**

A new section has been inserted being section 44 DA for taxing royalty, technical services fees earned by non-resident or foreign companies through a permanent establishment in India, or performs professional services from a fixed place of profession situated therein, and the right, property or contract in respect of which the royalties or fees for technical services are paid is effectively connected with such permanent establishment or fixed place of profession, as the case may be, shall be computed under the head "profits and gains of business or profession" in accordance with the provisions of the Income Tax Act. However, no deduction shall be allowed, in respect of any expenditure or allowance which is not wholly and exclusively incurred for the business of such permanent establishment or fixed place of profession in India; or in respect of amounts, if any, paid (otherwise than towards reimbursement of actual expenses) by the permanent establishment to its head office or to any of its other offices. Such non-resident or foreign company is also required to maintain books of account and other documents and get its account audited.

(xii) Depreciation:

(i) Definition of plant:

At present the term "plant" is defined under section 43 (3) to include ships, vehicles, books, scientific apparatus and surgical equipments used for the purpose of business or profession. The Courts has taken the view that for determining whether an article is a plant or not, functional test has to be used. A building and fixture, which is used as plant shall be entitled for depreciation as plant. It is now proposed to amend the definition of "plant" as provided under section 43 (3) so as to specifically exclude "buildings and fittings", as a result of which even if on functional test a building or fitting is entitled for being treated as "plant" shall not be entitled for depreciation as plant.

(ii) Written Down Value:

WDV is defined under section 43 (6) (c) of the Act in case of block of assets. Explanation 2 B refers to effect of de-merger of the company on WDV of the block of assets, which provides that in case of de-merger of companies written down value of the block of assets in case of the resulting company shall be written down value of transferred assets, of de-merger company immediately before the de-merger. In the present explanation the term as appearing in the books of account is proposed to be omitted. It is an amendment of technical nature to clarify the intention of the Act to bring out the correct intention.

5. CAPITAL GAIN:

(i) Capital gain on compulsory acquisition:

A new sub-section (c) has been inserted to section 45 (5) providing that in case compensation or enhance compensation is reduced by any Court or Tribunal, the capital gain assessed shall be recomputed by deducting such reduced compensation. For the purpose provisions of section 155 are also amended by introducing sub-section (16) to section 155. It provides that period of 4 years shall be reckoned from the end of the financial year in which the order reducing the compensation has been passed by the Court.

(ii) Capital gain on Transfer of UTI-64:

Any Income arising on transfer of units of UTI-64 has been made exempt from taxation with effect from 01.04.2002 by inserting section 10 (33) to the Income Tax Act.

(iii) Capital gain in equity shares:

A new section has been introduced as section 10 (36) providing that income arising on sale or transfer of equity shares in any company listed in a recognized stock exchange and acquired after 01.03.2003, but before 01.04.2004 shall be exempt from income tax.

(iv) Corporatisation of recognized Stock Exchange:

Under the present law under section 47 (xiii) transfer of assets in the process of corporatisation of the recognized stock exchange is treated as exempt from capital gain. In the term "corporatisation" is proposed to be substituted by "demutulisation or corporatisation". It is provided under newly added sub-section (xiii a) that transfer of a membership right held by a member of a recognized stock exchange for acquisition of shares and trading or clearing rights acquired by such member in that recognized stock exchange as per scheme for demutualisation or corporatisation as approved by SEBI will not be treated as transfer of capital assets for capital gain. It is further provided that by amending section 55 that the cost of such trading right or clearing right of recognised stock exchange acquired by the shareholder shall be deemed to be nil.

6. DIVIDEND INCOME:

As per the provisions of Finance Bill 2002-2003 dividend income was made taxable in the hands of the assessee receiving the same. Now by insertion of section 10 (34) to the Income Tax Act income of the dividend to which provisions of section 115 O are applicable is proposed to be excluded from the income.

Similarly, the dividend received on units of mutual fund as specified under section 10 (23D) or units of UTI is declared to be exempt in the hands of the recipient unit holder by introduction of section 10 (35) to the Income Tax Act.

7. DISTRIBUTION TAX ON DIVIDEND DISTRIBUTED:

It is proposed to provide that on dividend distributed after 01.04.2003 the company so paying or distributing dividend shall be chargeable to additional income tax @ 12.1/2%. In case of mutual funds under section 115 R it is provided that mutual funds paying dividend to the unit holder shall pay additional tax on income distributed @ 12.1/2%. However, in case of open ended equity scheme on dividend distributed for a period of 1 year such additional income tax on income distributed will not be payable.

8. PARTNERSHIP FIRMS:

In the present provision under section 184 (5) it is provided that In case of assessment of any partnership firm is completed ex-parte under the provisions of section 144 or such firm has not complied with the provisions of section 184, the firm shall be assessed as an Association of Persons. Now by amending the said sections it is clarified that in such circumstances no deduction by way of interest, salary, bonus, commission or remuneration paid to partners be allowed in computing the income of the firm, as such, salary, interest, bonus, commission shall also not be taxed in the hands of the partner receiving such amounts.

9. SEARCH, SEIZURE AND SURVEY:

Procedure for search as well as assessment in search cases has been proposed to be revised with effect from 01.06.2003. A new procedure for assessment has been introduced under the newly inserted section 153A and 153B. Following amendments has been carried out in relation to the procedure to be adopted during search and seizure assessments:

Procedure during the course of search and survey:

(i) In case the search and seizure effected after 01.06.2003 neither "stock in trade" of a business will be seized nor a prohibitory order shall be issued. Only the authorised Officer shall make an inventory of such "stock in trade" of business found during the course of search.

(ii) Section 132 B was amended with effect from 01.06.2003, which provides that where the nature and source of acquisition of any assets seized is explained to the satisfaction of the Assessing Officer after deducting the existing tax liability, remaining seized assets shall be released with the prior approval of Chief Commissioner or Commissioner of Income Tax to the person from whom such assets were seized. The said proviso is proposed to be amended with effect from 01.06.2003 providing that if such person makes an application to the Assessing Officer within 30 days from the end of the month in which the assets were seized and such assets are explained, the same will be released, with the prior approval of Commissioner/Chief Commission to the person from whom it is seized within a period of 120 days from the date of last authorization for search.

(iii) Under the existing law books of account impounded during the course of survey can be retained for a period of 15 days (excluding holidays). Such impounded books could be continued to be retained for further period with approval of Chief Commissioner or Director General or Commissioner or Director. Now it is provided that such books of account can be retained only for a period of 10 days and thereafter with the approval of Chief Commissioner or Director General only. It is further clarified that no action under section 133 A shall be taken by Assistant Director, Deputy Director, Assessing Officer, Tax Recovery Officer, or Inspector of Income Tax without obtaining approval of Joint Director or Joint Commissioner.

Procedure of assessment in case of search:

The procedure for assessment in case of search has been amended with effect from 01.06.2003 by inserting a new section 153 A which provides that in case of search under section 132 or requisition under section 132 A the Assessing Officer shall issue a notice to the person searched and such person shall furnish the returns of income in respect for each of 6 assessment years falling prior to assessment year in which such assessee is searched. At the time of assessment tax and interest will be chargeable in respect of each of the assessment years. Such assessments, including assessment of search year will be completed within a period of two years from the end of the financial year in which last of the authorization of search or requisition was executed. It is also provided that in case, during the course of assessment proceedings the Assessing Officer is satisfied that certain money, jewellery or other valuable articles or things or books of account or documents seized or requisition belongs to a person other than the person searched, the such seized or requisitioned assets, books or documents shall be handed over to the Assessing Officer having jurisdiction over such person and notice will be issued to such person accordingly for filing the return of income under the provisions of section 153 A.

10. PROCEDURE FOR ASSESSMENT AND RELATED MATTERS:

(i) By amendment to section 139 it is now provided that an assessee can furnish its return of income by electronic media, such as, floppy, diskettes, magnetic cartridge, tape, CD rom or any other computer readable media at its option subject to rules to be framed by CBDT.

(ii) By amendment to section 143 the system of limited scrutiny introduced earlier is proposed to be discontinued with effect from 01.06.2003.

(iii) It is also clarified by the Hon'ble Finance Minister in the budget speech that only 2% of the case shall be taken for scrutiny on the basis of computer intelligence generated by the Department with the help of computers.

(iv) Annual Return of Financial Transaction:

A new section has been introduced being section 285 BA providing that any assessee, who enters into a financial transaction, as may be prescribed, shall furnish within the prescribed time an annual information return in such form and manner, a may be prescribed with regard to such financial transactions. This annual return will be the basis for generating computer intelligence.

(v) Income Tax Clearance Certificate done away:

By amendment to section 230 it is provided that an resident in India at the time of departure to foreign country will be required to furnish the details of his permanent account number, and no clearance certificate will be required, and if such person is not having a permanent account number a declaration will be required to furnish as to the purpose of visit outside India, estimated period of stay, etc. The clearance certificate required to submit alongwith government tenders, etc., are also not required to be filed now, as filing of permanent account number will be sufficient.

11. TAX DEDUCTED AT SOURCES:

Various provisions relating to TDS are amended with effect from 01.06.2003, which are as under:

(i) By adding explanation to section 191 it is provided that a person who is responsible for deduction of tax as well as the assessee out of whose income such deduction is required to be made, has failed to pay tax directly, such person as well as the assessee, who is required to pay income tax direct, shall be liable to be taxed as an assessee in default under section (1) of section 201.

(ii) By amendment to section 193 and 194 I it is clarified that tax will be deducted out of the payment of interest on securities and rent made to a resident only.

(iii) Exemption limit under section 194 and under section 194 K in case of dividend on shares and dividend on mutual funds units has been increased to Rs.2,500/- with effect from 01.08.2002. No TDS will be payable, if such dividend are subject to provisions of section 115 O.

(iv) Amendment to section 194 J it is clarified that in case of individual and Hindu Undivided Family, who are required to deduct tax out of payment for professional fees and technical services fees will not be required to deduct tax if fees are paid for their personal purposes.

(v) By amendment to section 196 A, 196 C and 196 D it has been provided that no tax will be deducted from 01.04.2003 on dividend and income distribution of mutual funds to non-resident, which now falls under the provisions of section 115 O.

(vi) By amendment to section 197 A it is provided that in case of tax deductible out of the income receivable by a senior citizen, and if no tax is payable on the senior citizen's income after deduction under section 88 B, if such senior citizen furnishes his declaration no tax will be deducted out of the interest on security, dividend, interest, repayment of National Savings Scheme, units, etc.

12. EXPORT BENEFITS:

(i) **A newly established undertaking in a free trade zone or special economic zone:**

(a) Under the existing provision of section 10 A, profits and gains of an industrial undertaking from export or articles or things or computer software for a period of ten consecutive assessment years. However, no deduction is allowable to any undertaking for the assessment year beginning on the 1st day of April, 2010, and subsequent years. Sub-section (1 A) of the said section provides that income of an undertaking set up in a special economic zone on or after the 1st day of April, 2003 is eligible for exemption for 100% for 5 years, and fifty per cent for further two assessment years. Under sub-section (9), no deduction is allowed to the assessee where the ownership or the beneficial interest in the undertaking is transferred by any means. However, this condition is not applicable where as a result of the reorganization of the business, a firm or sole proprietary concern is succeeded by a company. A new sub-section (7 A) has been introduced providing that where such company under the scheme of amalgamation or demerger is transferred the deduction will be allowable in the hands of the amalgamated or resulting company. However, no deduction shall be admissible to the amalgamating company or demerging company for the previous year in which amalgamation or demerger took place.

(b) The definition of “manufacture or produce” will now include cutting and polishing of precious and semi-precious stones.

(ii) **100 per cent EOU:**

Under the existing provisions profit and gain derived from an 100 per cent EOU is exempt under section 10 B. Similar type of amendment has been carried out in this section as under section 10 A as referred above.

(iii) The deduction was restricted to 90% of income in assessment year 2003-04 under section 10A as well as under section 10B, the same is now restored to 100%.

13. PROVISIONS EFFECTING INVESTORS:

(i) **LIC Policies:**

Under the existing provisions of section 10 (10 D) any sum received under a Life insurance policy, including the sum allocated by way of bonus on such policy other than any sum received under sub-section (3) of section 80 DDA or any sum received under a Keyman Insurance Policy is exempt.

It is proposed to substitute the said clause, so as to provide that any sum received under an insurance Policy in respect of which the premium paid during any year exceeds twenty per cent of the actual capital sum assured, shall not be exempt. However, such sum received on the death of a person shall be exempt.

Bima Nivesh Policies as issued by LIC and similar policies by the other insurance companies guaranteeing handsome return due to tax exemption on maturity are no more attractive. These provisions are also applicable to the policies already issued, but not matured for payment.

(ii) Interest on PPF and other similar saving schemes has been reduced from 9% to 8%.

(iii) It is declared by the Hon’ble Finance Minister that interest payable on Govt. of India Relief Bonds as well as Savings Bonds will be re-set.

(iv) A pension scheme has been announced for those above 55 years of age providing minimum and maximum pension of Rs.250 to Rs.2000 per month. It will enable such investor to invest upto Rs.2 lakhs, which will provide 9% guaranteed return on the investment. The scheme being Varishta Pension Bima Yojana, will be conducted by Life Insurance Corporation of India as per scheme to be framed.

14. INFRASTRUCTURE DEVELOPMENT:

Following amendments affecting the various assessees engaged in financing or develment of infrastructure projects:

(i) By amendment to section 10 (15) (iv) (g) as it exists interest paid by the Housing Finance Companies on foreign currency loan under an agreement approved by the Central Government is exempt from taxation. Now its is provided that such interest will be exempt only if such agreement are sanctioned prior to 01.06.2003.

(ii) Under the existing provision contained in section 10 (23 G), any income by way of dividends, interest or long-term capital gains of an infrastructure capital fund or an infrastructure capital company or a cooperative bank from investments made by way of shares or long-term finance in any infrastructure undertaking or a housing project as provided under section 80 IA is not included in computing its total income. In explanation 1 to the said clause, "infrastructure capital company" or "infrastructure capital fund" has been defined to be such company or fund which makes investment in an enterprise wholly engaged in the business of (i) developing, or (ii) maintaining and operating or (iii) developing, maintaining and operating any infrastructure facility.

It is also proposed to amend the said clause (23G) so as to bring projects for construction of hotels of three star category or more or projects for construction of hospitals also one hundred beds or more in the list of eligible business under that clause.

15. EXEMPTIONS:

(a) **Maintenance and medical treatment for disabled dependent under section 80 DD:**

Under the existing section 80 DD expenses incurred on medical treatment and amount deposited under the scheme framed by Life Insurance Corporation of India or other Insurance Companies for the benefit of handicapped dependent is allowable as deduction to the extent of Rs.40,000/- in case of an individual or Hindu Undivided Family. Now it is proposed to enhance such deduction to a sum of fifty thousand rupees. However, in cases where such dependent is a person with severe disability, the deduction shall be seventy-five thousand rupees instead of fifty thousand rupees.

(ii) **Cost of Medical Treatment of assessee or his dependents under section 80 DDB:**

Under the existing provisions of section 80 DDB a deduction is allowed to an assessee being an individual or a Hindu undivided family for expenditure incurred for the medical treatment of the individual himself or his dependant relative or any member of a Hindu Undivided Family in respect of disease or ailment which may be specified by the rules. The deduction is limited to forty thousand rupees. The senior citizens are allowed a deduction of sixty thousand rupees. The assessee shall have to submit a certificate in the prescribed form and from such authority as may be prescribed. In the proposed amendment it is prescribed that a certificate will be required to be furnished alongwith the return of income from a neurologist, an oncologist, a urologist, a haematologist, an immunologist or such other specialist, as may be prescribed, working in a Government hospital.

(iii) **Deduction to industrial undertaking or enterprise engaged in infrastructure development:**

Benefit available to the assessees engaged in developing or developing and operating or maintaining special economic zones which is available, if such units are set up upto 31.03.2003 has been extended to 31.03.2004. By amendment to section 80 IA (4) (iii) it is also provided that where an undertaking develops a special economic zone on or after 01.04.2001 and transfer the service and maintenance to another undertaking (transferee undertaking) deduction to the transferee undertaking shall be available for the remaining period of 10 assessment years.

(iv) **Deduction to Industrial Undertaking Under Section 80IB:**

By amendment to section 80 IB (8A) the existing provisions providing that a company carrying on scientific research and development will be entitled 100% exemption on profit for 10 consecutive assessment years provided it is approved by the prescribed authorities at any time after 31.03.2002, but prior to 10.04.2003. Now the said period has been extended to 01.04.2004.

(v) **Building Housing Projects:**

100% deduction of the profits to an undertaking developing and building housing projects is allowed if the housing project is approved by a local authority before 31st March, 2001, and completes such project before 31st March, 2003.

It is proposed to extend the time limit for obtaining approval from the local authority upto 31st March, 2005, and remove the time limit for completing the project.

Now profit of all housing projects which has been approved approval by local authorities upto 31st March, 2005, will be entitled for deduction without any time limit for completion of the same.

(vi) Cold storage project for agricultural produce income was exempt under the provisions of section 80 IB

(11) if such projects were set up within the period 01.04.99, but before 31.03.2003. Such period has been extended to 01.04.2004.

(vii) **Industrial unit on North East States, Sikkim, Himachal Pradesh, etc:**

(a) A new section 80 IC has been introduced in the Finance Bill to replace the provisions of section 10 C as it existed. The section applies to following types of industrial undertakings:

Any Industrial undertaking which states manufacturing any article not being an articles or thing specified in 13 Schedule, or the undertakes substantial expansion in any export processing zone, integrated development center or industrial growth center or industrial estate or industrial park or software technology park, etc., as may be notified by the CBDT any articles as specified in Schedule 14 in any area:

(i) During 23.12.2002, but before 01.04.2012 in the state of Sikkim.

(ii) During the period of 07.01.2003 to 01.04.2012 in the state of Himachal Pradesh or the state of Uttranchal, or;

(iii) During the period 24.12.97 to 01.04.2007 in any of the North Eastern states.

The above referred industrial units will be entitled for deduction to the extent of 100% of income in case of the industrial unit in Sikkim or in any of the North Eastern states for a period of 10 years. In case of industrial undertaking situated in Himachal Pradesh or Uttranchal 100% for a period of 5 years, and 50% of the income for balance period of 5 years. Substantial expansion has been referred to as additional investments in the plant and machinery of atleast 50% of the value of plant and machinery on the first day of previous year in which expansion has been carried out.

(viii) **Deduction under section 80 L:**

Under the existing provisions any individual or HUF is entitled for deduction to the extent of Rs.9,000/- in case of interest on government securities, national savings certificates, certain debentures issued by public sector companies, deposits with banks, etc., to the extent of Rs.9,000/- and further exemption not exceeding Rs.3,000/- in case of interest on government securities. Now it is provided that such deduction will be available to the extent of Rs.12,000/- and a further deduction of interest on government securities of Rs.3,000/-, making total deduction at Rs.15,000/-.

(ix) **Royalty on books:**

A new section 80 QQB has been inserted providing that in case of an individual resident in India, if received royalty for any book of literacy, artistic or scientific nature, such royalty to the extent of Rs.3,00,000/- will be exempt from taxation.

(x) **Royalty for patent:**

A new section 80 RRB has been inserted providing that in case of an individual resident in India, who hold a patent registration on and after 01.04.2003 under the Patents Act, 1970, and receives royalty, such royalty to the extent of Rs.3,00,000/- will be exempt from taxation.

(xi) **Handicapped entitled for deduction under section 80 U:**

It is provided that an individual being Indian resident certified by the medical authority with the specified disability would be entitled for tax deduction of Rs.50,000/- and in case of severe disability the sum is Rs.75,000/-. Such person has to enclose a certificate from the medical authority alongwith the return of income. In case such disability requires re-confirmation, a certificate of reconfirmation is required to be enclosed.

16. REBATES AND RELIEFS:

(i) Rebate under section 88:

(a) **Education allowance:**

It is provided under the proposed amendment that in case of individual or an HUF fees paid to an educational institution, such as, university, college or school or any other educational institution situated in India, but excluding any donation for the purpose of full time education of children to the extent of Rs.12,000/- per child not exceeding two child shall be entitled for necessary relief under section 88.

(b) It is also provided that deduction for insurance premium will be restricted to 20% of the capital sum assured.

(ii) Rebates to Senior Citizens under section 88 B:

Rebates available to senior citizens at present Rs.15,000/- has been increased to Rs.20,000/-.

17. INTEREST CHARGEABLE TO ASSESSEE:

A new section 234 D has been introduced, which provides that if refund has been issued to the assessee under section 143 (1), and at the time of final assessment no refund is due or the amount of refund is lesser than the amount refunded, such assessee is liable to pay simple Interest @ 9% on the excess amount of refund. In case of variance on account of giving effect to the appellate order or revision order, such interest will also be revised.

18. PROVISIONS AFFECTING NON-RESIDENT:

(i) **Powers to enter DTA:**

By amendment to section 90 (1) (a) the government has acquired the right to enter into Double Taxation Avoidance Agreement with Foreign Governments with a view to promote mutual economic relations, trade and investment. There was a great confusion regarding investments made by FIIs through Mauritius, and the matter has been litigated as to the power of the Government in Supreme Court. Now the Government has acquired power to enter into such agreement with a view to promote mutual economic relations, trade and investment and thereby giving a concession in tax. By amendment to the said section it is also provided that if any term used in a "treaty", is not defined under Act or treaty, the same can be defined by a notification issued in official gazette.

(ii) **Business Connection:**

The term "business connection" was not defined in Income Tax Act. By introducing a fresh explanation to section 9 the term "business connection" has been defined to include person acting on behalf of non-resident in following scenarios:

(a) If such person has, and habitually exercises in India, an authority to conclude contracts on behalf of the non-resident, unless his activities are limited to the purchase of goods or merchandise for the non-resident;

(b) If such person has no such authority, but habitually maintains in India a stock of goods or merchandise from which he regularly delivers goods or merchandise on behalf of the non-resident;

(c) If the person habitually secures orders in India, mainly or wholly for the non-resident or for that non-resident and other non-residents controlling, controlled by, or subject to the same common control as that non-resident.

However, this will not include services rendered by an independent agent, who does not work mainly or wholly for the non-resident or for person controlled by such non-resident. Thus, the concept of agency PE has been introduced in the Income Tax Act.

(d) **Not Ordinary Resident:**

The term "Not Ordinary Resident" has been changed by proposed amendment as under:

(i) An individual who has been a non-resident in India in nine out of the ten previous years preceding that year, or has during the seven previous years preceding that year been in India for a period of, or periods amounting in all to seven hundred and twenty-nine days or less; or

(ii) A Hindu Undivided Family, whose manager has been a non-resident in India in nine out of the ten previous years preceding that year, or has during the seven previous years preceding that year been in India for a period of, or periods amounting in all to seven hundred and twenty-nine days or less.

It will affect taxation of non-residents including expatriated employees, who has remained in India for more than 2 years. Their foreign income will be taxable. However, tax paid in foreign country will be eligible for deduction under DTA provision.

Other miscellaneous amendments has not been dealt with:

INDIRECT TAX PROPOSALS

(A) EXCISE :-

Major Proposals about Central Excise duties are the following :

1. Three-tier duty structure of 8% , 16% and 24% will continue.

2. **SPECIAL EXCISE DUTY :.**

   Special Excise duty has been reduced from 16% to 8% on following five items:

   - Tyres
   - Aerated soft drinks and their concentrates
   - Polyester Filament Yarns
   - Air conditioners and components
   - Motor Cars.

3. **FOLLOWING ITEMS HAVE BEEN EXEMPTED FROM EXCISE DUTY.**

   - Bicycle and parts
   - Toys
   - Mosaic tiles
   - Utensils and kitchen articles of metals
   - Knives, Spoons and similar items of kitchenware / tableware
   - Unbranded surgical bandages
   - Recorded audio CDS
   - Articles of Wood
   - Imitation zari
   - Adhesive Tape
   - Tubular knitted gas mantle fabric for use in incandescent gas mantles
   - Umbrellas
   - Walking sticks, riding -crops and like
   - Kerosene pressure lanterns
   - Glass for corrective spectacle lenses, flint buttons
   - Register, accounts books etc.,
   - Slag arising in the manufacture of iron and steel

4. **EXCISE DUTY ON FOLLOWING ITEMS HAS BEEN REDUCED FROM 16% TO 8% WITH CENVAT CREDIT..**

   - Pressure cookers
   - Biscuits
   - Boiled sweets, sugar confectionery (excluding white chocolate)
   - Rough ophthalmic blanks
   - Dental chairs
   - Electric vehicles
   - Scented supari
   - Nicotine Polacrilex gum

5. **PRESENT DUTY OF 4% WITHOUT CENVAT CREDIT OR 16% WITH CENVAT CREDIT HAS BEEN RATIONALIZED AT 8% WITH CENVAT CREDIT ON THE FOLLOWING ITEMS:-**

   - Light weight concrete building blocks. The 8% rate is being extended to aerated and cellular lightweight concrete blocks and slabs.
   - Laboratory glassware
   - Crankshafts for sewing machines
   - Power driven pumps for handling water
   - Medical equipments
   - Prefabricated buildings.

6. **EXCISE DUTY OF 8% WITH CENVAT CREDIT HAS BEEN IMPOSED ON THE FOLLOWING ITEMS:-**

   - Refined edible oils (branded and packed for retail sale)*
   - Vanaspati, margarine and other similar edible preparations (branded and packed for retail sale)*

     * In respect of these products, labeling or relabelling of containers and repacking or adoption of any treatment to render the goods marketable will amount to manufacture.
   - Lay flat tubing (LFT)
   - Chemical reagents for specified end use.
   - Wood-free particles or fibreboard made from agro waste.
   - Paper and paper board manufactured from atleast 75% non-conventional raw materials
   - Populated printed circuit boards for black and white televisions.

7. **PETROLEUM PRODUCTS:**

   - Additional duty of Excise on motor spirit and high speed diesel oil has been increased from Rs.1 per litre to Rs.1.50 per litre.
   - Excise duty on light diesel oil (LDO) has been increased by Rs.1,50 litre

- No CENVAT credit will be allowed in respect of duty paid on LDO like HSD and Petrol.

8. NATIONAL CALAMITY CONTINGENT DUTY (NCCD);.

For replenishment of the National Calamity Contingent Fund, duty on following items has been imposed.

- 1% on polyester filament yarn, motor cars, multiutility vehicles and two-wheelers.
- Rs 50/- per metric tonne on domestic crude oil
- This levy will be valid for one year (upto 29.2.2004)

9. AED (GOODS OF SPECIAL IMPORTANCE) ACT, 1957

- To enable the states to levy sales tax on sugar, textiles, and tobacco products at a rate not exceeding 4% without being denied the 1.5% of total tax revenue, suitable amendments have been made in the above Act. This will come into effect from a date to be notified later.

10. TEA

- Tea has been exempted from excise duty of Rs.1 per Kg and in its place duty of Rs.1 per Kg by way of surcharge for development of tea plantation sector has been introduced.

11. HEALTH:

Following items have been exempted from excise duty.

- Specified life saving drugs and life saving equipments
- Glucometer and glucometer test strips
- Cyclosporin
- CAPD fluid system, its accessories and parts
- Drugs and materials for clinical trial
- Parts of wheel chairs
- Drug intermediates used captively in the factory of production has been exempted from excise duty.

12. SMALL SCALE INDUSTRIES - EXEMPTION SCHEME:.

- Value of exempted goods will be included (excluding export turnover) for calculating the eligibility limit of Rs.3 Crores under SSI exemption with effect from 1.4.2003 for the financial year..
- SSI exemption has been withdrawn on the following items with effect from 1.4.2003..
- Ceramic tiles but, printed ceramic tiles made from duty paid tiles outside the factory will be exempted from excise duty.
- Stainless steel patties / pattas
- Dereservation of 75 items from SSI sector - it includes mainly Laboratory chemicals, leather / plastic products, chemicals and plastic products.

13. CEMENT.

- Excise duty on cement has been increased by Rs.50/- per metric tonne on all type of cement

14. MEDICINAL TOILET PREPARATIONS:

- Duty on toilet preparations containing alcohol or narcotic substances has been reduced by 20% or specific rates to 16%.
- Full exemption on ayurvedic/Unani/Indigenous medicines, containing self-generated alcohol and not capable of being consumed as alcoholic beverage, has been retained.
- Toilet preparations containing alcohol or narcotic substances will be assessed on retail sale price (RSP) basis, with an abatement of 40% on RSP.

15. MATCHES:

- Specific duty rates on matches, manufactured in the mechanized and semi-mechanized sector, have been replaced by an uniform excise duty of 8% without CENVAT credit.
- Matches made by non-mechanized sector have been exempted from excise duty.

16. TEXTILES.

(a) Yarns

- 8% excise duty is being retained only for cotton yarn not containing any other textile material.
- Uniform rate of 12% excise duty has been prescribed on polyester cotton, cotton viscose and all other spun yarns (present rates are 8% for some cotton viscose yarn and 16% for others).
- Excise duty on polyester filament yarn has been reduced from 32% to 24%.
- Excise duty on all other filament yarns (such

as viscose filament yarn, nylon filament yarn) has been reduced from 16% to 12%.

- Specific duty rates on Texturizing or twisting of polyester filament yarn carried on by independent Texturiser is being withdrawn. Such yarns will attract duty of 24% (w.e.f. 01.04.2003).

(b) Fabrics.

- Excise duty on all woven cotton, manmade and woollen fabrics has been reduced from 12% to 10%.
- Duty on knitted / crocheted fabrics has been reduced from 12% to 8%.
- Duty on non-cotton knitted / crocheted fabrics has been reduced from 12% to 10%.
- All industrial fabrics including knitted or crocheted rubberized textile fabrics presently attracting duty rates of Nil, 21%, 16% and 16% plus specific rates will be charged to duty at 16%.
- Deemed credit scheme under which credit can be taken without production of duty paying documents is being withdrawn with effect from 01.04.2003.
- Following exemptions are being removed with effect from 01.4.2003.
- Knitted and woven fabrics unprocessed i.e. Power loom sector - At present optional exemption vide Notification 14/2002 dated 01/3/2002 is available upto 31.3.2003 and thereafter duty will be levied @ 10%.
- Exemption to hand processors. (If power or steam is used in any processes).
- Cotton fabrics used in the manufacture of cotton absorbent lint (will be covered under SSI exemption).
- Rubberized textile fabrics.
- Woven, unprocessed cotton betting
- Narrow woven fabrics.
- Pleated, embossed fabrics made from duty paid processed fabrics.
- Fabric subjected to dew-drop process.
- Printing frames captively consumed.
- Processing of embroidery fabrics.
- SSI exemption to be removed on woven pile and chenille fabrics, terry toweling fabrics, tufted fabrics, tufted and net fabrics.
- Processed wollen fabrics (below Rs.150/- per square metre) made from shoddy yarn etc for manufacture of shoddy blankets.
- Fabrics and garments manufactured by non-profit charitable institutions have been exempted from excise duty.

(c) Garments and other made-up articles:

- Excise duty on all woven (including cotton) garments and made ups has been reduced from 12% to 10%.
- Duty on cotton knitted or crocheted garments is being reduced from 12% to 8% while on other knitted or crocheted garments duty has been reduced from 12% to 10%.
- The duty on woven, knitted and crocheted clothing accessories has been reduced from 16% to 10%.
- The following exemptions are being withdrawn with effect from 1.4.2003.
  - Raincoats and clothing accessories like handkerchief, ties and gloves. These goods will be covered under SSI exemption.
  - Textile articles made from handloom fabrics (SSI exemption would be available)
  - SSI exemption on ready made garments.
  - Blanket of wool and shoddy yarn below certain price.
- Garments made by tailors, on job work basis, for personal use of customers and not intended for sale, have been exempted from excise duty.

(d) Textile Machinery

- Twelve textile machinery items, which are presently exempt from additional duty of customs, are being exempted from excise duty.

17. MISCELLANEOUS CHANGES IN DUTY:-:

- For the purpose of charging excise duty on computers, the value of pre-loaded software will be excluded.
- Excise duty on CD-ROMs of educational nature etc and on cell phone and their parts, has been exempted.
- Good supplied for construction of ships for coast guard have been exempted from excise duty.
- Rope, twine and similar items are being

exempted from excise duty.

- Excise duty on chassis of motor vehicles has been increased from 16% to 16% plus Rs.10,000/- per chassis.
- Excise duty exemption on animal driven vehicle tyres has been withdrawn. Such tyres will attract duty at 24%.

18. MRP BASE VALUATION :—

(i) Two items are covered under MRP base valuation-

a) Chewing tobacco and preparations. Abatement @ 50% of RSP is prescribed.

b) Pesticides and insecticides. Abatement @ 35% of RSP is prescribed.

(ii) Similarly sanitary-ware and fixtures of ceramics (heading 69.08) have been excluded from MRP base valuation..

(iii) Rate of abatement under MRP base valuation has been reduced pursuant to reduction in duty on following items:—

S. No.	Items	Proposed Rate	Present Rate
a)	Aerated Waters	45%	50%
b)	Air Conditioner	35%	40%
c)	Biscuits	35%	40%
d)	Sugar Confectionery	35%	40%
e)	Pressure Cookers	30%	35%

19. CHANGES IN EXCISE ACT AND RULES:—

(i) Fortnightly payment of duty is replaced by monthly payment. Now duty is required to pay by the 5th of the next month.

(ii) In case of payment of duty by cheque, the date of presentation of cheque in the bank will be treated as date of payment. However, in case of cheque dishonoured, interest will be levied @ 2% p.m. or Rs.1,000/- per day whichever is higher.

(iii) Now Assessing Officer cannot deny Cenvat credit to the assessee on the ground of procedural lapses of Cenvat credit provided the duty on inputs has been paid.

(iv) Notional interest on advance deposit from buyer not to be included for valuation purpose unless there is specific evidence that such deposit has the effect of lowering the price.

(v) Prior approval of show cause notice by Chief Commissioner / Commissioner is being withdrawn. Now DC/AC can issue show cause notice.

(vi) It has been provided that a manufacture will be required to reverse only that portion of credit which was availed of by him at the time of receipt of inputs/capitals goods in his factory, when such inputs or capital goods are cleared as such from the factory.

(vii) The powers of Commissioner have been delegated to Deputy Commissioner / Assistant Commissioner for allowing transfer of credit under Rule 8 (2) of the CENVAT Credit Rules, 2002.

(viii) ‘Section 2 (f) (ii) of the Central Excise Act, which enables the Central Government to declare a process as “manufacture “ is being rescinded.

(ix) Section 4 (3) (c) of the Central Excise Act is being amended so as to provide that place of removal would also include a depot, premises of a consignment agent or any other place from where the excisable goods are sold after clearance from the factory. The definition of “ time of removal” has also been accordingly modified.

(x) Section 4 of the Central Excise Act is being amended so as to provide that the total amount received by an assessee would be deemed to comprise the value for assessment plus duly payable on such value, and that additional consideration received in addition to the com-duty will be deemed as consisting of value plus duty.

(xi) Powers of Central Government to issue adhoc exemption order under Section 5 A (2) of the Central Excise Act in circumstances of an exceptional nature is being restored.

(xii) The nomenclature of the “Customs, Excise and Gold (Control) Appellate Tribunal” is being changed to “ Customs Excise and Service Tax Appellate Tribunal” .

(xiii) Section 11 A (1) of the Central Excise Act is being amended so as to do away with the requirement for the prior approval of the show Cause Notices for demand of duty by the

Commissioner of the Chief Commissioner, as the case may be.

(xiv) The provision to dispense with show cause notices and adjudication proceedings if short levy is paid with interest under Section 11 A (2B) of the Central Excise act being extended to cases where the department detects the short levy.

(xv) A new section 11 DD is being inserted enabling recovery of interest on the amount recoverable under section 11 D of the Central Excise Act.

(xvi) Section 13 of Central Excise act is being amended to provide that power of arrest can be exercised by a Central Excise Office not below the rank of inspector only with prior approval of the Commissioner.

(xvii) The scope of rulings given by the advance Rulings authority is being widened to cover all notifications under the Finance Act, CENVAT credit and matters of Service Tax and to allow wholly owned subsidiary Indian company of a foreign company also to avail of the benefit of Advance Ruling.

(xviii) Deputy Commissioners/Assistant Commissioners have been authorised to condone technical lapses or procedural infringements on the part of assessee for availment of CENVAT credit so long as duty paying nature of the inputs / capitals goods and their use is beyond doubt.

(xix) The jurisdictional Deputy Commissioner / Assistant Commissioners have been permitted to allow manufacturer to store inputs, in respect of which credit of duty has been taken, outside the factory, subject to suitable safeguards.

(xx) Full rebate of excise duty paid on petroleum products exported as stores for consumption on board an aircraft on foreign run has been allowed.

(xxi) The present scheme of payment of excise duty on fortnightly basis is being replaced by payment on monthly basis.

(B) CUSTOMS

Major proposal about custom duty are the following:-

1. Peak rate customs duty has been reduced from 30% to 25%.
2. Major reduction of Duty sector-wise due to WTO commitments are as under :-

	PARTICULARS	Proposed (Rate)	Present (Rate)
i)	Non-ferrous metals		
	Nickel	10%	5 to 15%
	Lead	20%	25%
ii)	Information Technology		
	Specified telecom capital equipments	15%	25%
	Optical Fibre Cables	20%	25%
	Specified raw material for mfg,of E-glass	15%	30%
	Roulers, modems & fixed wireless terminals	10%	15%
	Specified telecom equipments for basic Telephone, Celluler Mobile etc. (Concessional rate will continue till 31.03.04)	5%	5%
iii)	LNG Regassification Plants	5%	25%.
iv)	Health		
	Life saving Drugs & Equipments	5%	10 to 15%
	CVD on 88 specified life saving drugs.	Nil	5%
	Glucometer & glucometer test strips	5%	10%
	Rough ophthalmic blanks	5%	25%
	Specified veterinary drugs	10%	15%
	Drugs and materials for clinical trial	Nil	15%
	Import of specified goods by Research Institutes at Concessional duty of	5%	15%
	Hearing aids and their parts	5%	15%
	Crutches, wheel chairs, parts of Wheel chair Tricycles(whether or not motorized) for liabled (exempted from SAD& CVD also)	5%	15%
	Brailors & artificial limbs	5%	15%
v)	Textiles		
	Apparel grade raw wool	5%	15%
	Specified textile machinery and parts	5%	25%
	Paraxylene	5%	10%
vi)	Liquors	166%	182%
vii)	Biotechnology		
	Specified equipments for R & D subject to compliance of certain conditions & limit	NIL	15 to 25%
viii)	Power		
	Specified equipments for high voltage power transmission	5%	25%
xi)	Gold Bars & Gold Coins	Rs. 100 (per 10gm)	Rs. 250 (per 10gm)
x)	Cut & Polished Diamonds / Gem Stones	5%	15%
xi)	Refrigerated Truck	20%	25%
xii)	Loco Simulators	5%	25%
	Spary for Diesel Loco motives	15%	25%
xiii)	Cash Dispenser	15%	30%
xiv)	Baggage (However Duty free entitlement limit unchanged)	50%	60%
xv)	Aerial Passanger Rope way projects	5%	25%

3. 80% tariff items of duty slab of 30% have been moved downward to 25% slab.
4. No change of duty on agriculture and dairy products.
5. **Additional Duty:**

a) Additional duty @ Rs. 1/- per kg. On tea & tea waste is levied.

b) Additional duty is increased from Rs. 1/- to Rs. 1.5 per liter on motor spirit & HSD.

6. **National clamity contingent duty (NCCD)**

   This duty is levied for one year :-

   a) Rs. 50/- per mt. On imported crude oil has been imposed.

   b) 1% on polyester filament yarn, two wheelers, cars & multi utility vehicles is imposed.
7. Bonafide commercial samples & gifts has been exempted upto the value of Rs. 10,000/- (present limit is Rs. 5000/-).
8. Goods intended to be use in 100% EOU can be warehoused for the period of 3 years instead of one years as applicable at present.
9. Interest free period for warehoused goods has been increased from 30 days to 90 days.
10. Now interest is payable to exporter if duty draw back claim is not paid within one month. At present, period of two month is given.
11. Provision for confiscation of export goods in case of misdeclaration of value or false export is made. Further, prosecution can be made u/s 135 of Custom Act.
12. Now it is clarified that additional duty u/s 3 of Custom Tariff Act will be calculated as under:

    Value of imported goods + Landing charges + Basic custom duty.
13. Similarly Special Additional Duty (SAD) will be calculated as under:

    Value of Imported Goods + Landing Charges + Basic Custom Duty + Additional Duty u/s 3.

    Other duties such as anti dumping duty, safe guard duty etc. shall not be taken into account while determing the both duties.
14. CVD on Alcoholic beverages has been modified.
15. Concurrent Audit of Import documents will be replaced by post clearance audit.

C. SERVICE TAX :

1) Rate of service tax is being raised from 5% to 8%. (Effective date will be from the date of enactment of finance bill 2003)
2) Service Tax @ 8% is being imposed on the following seven services (Effective date yet to be notified).
   a) Commercial vocational institutes, coaching centers and private tutorials.
   b) Technical testing and analysis (excluding health and diagnostic testing), technical inspection and certification.
   c) Maintenance and repair services namely, Annual Maintenance Contracts (AMC) and authorized maintenance and repair services.
   d) Commissioning and installation services.
   e) Business promotion and support services including customer care services. These services include launching of products, customer education programmes, conduct of seminars, help desk services, managing front offices, enquiry bureaus, etc. However computer computer enabled services, namely, data processing, networking, back office processing, computer facility management shall not be subjected to Service Tax.
   f) Internet cafe
   g) Franchise Services
3) Extension of Service Tax net on the following services.
   a) On port services to minor ports;
   b) Authorized automobile services to multi-utility vehicles.
   c) Banking and Other Financial services to all FOREX brokers. Presently the services provided by banks and body corporates in relation to foreign exchange are covered under Service Tax. The proposal is to extend the same to proprietorship, partnership and other individual concerns providing such services.
4) Now the total 59 services are covered under services tax net.
5) The present exemption from service tax on hotels has been extended beyond 31.03.2003. i.e. exemption will continue without time limit.
6) Exemption from service tax when payments are received in convertible foreign exchange has been withdrawn.
7) Credit of Service Tax paid on input services for payment of service tax on output services, is being extended across all services (only after enactment of the finance bill). Now availing credit, condition of same category of service is withdrawn.
8) Provision is being made for transfer of service tax credit in the case of sale, merger, amalgamation etc.

OVERALL SECTORAL IMPACT :

Sector	Policy Announcement	Impact	Effect
Automobiles	• Excise duty on cars and utility vehicles reduced from 32% to 24%. • Reduction in peak customs duty to 25%.	• Reduce the cost of car and utility vehicles. • Will help reduce raw material costs.	F
Hotels	• Expenditure tax withdrawn completely. • Exemption on service tax to continue.	• A major boost to the industry.	F
Housing	• Tax exemption on housing loans have been retained at Rs. 1.5 lakh per annum. • Construction companies will get income tax exemption for approved housing projects upto 2005. • Cut in interest rates of 100 basis points on small savings.	• Boost for housing sector growth. • Housing finance companies to benefit with increase in demand for credit.	N
IT	• Restoration of tax benefits on export profits u/s 10A/B to earlier levels of 100%. • 10A/B benefits extended even to M&As. • Removal of excise duty on pre-loaded software.	• Improve profitability and reinstate confidence among industry players. • Will make branded PCs more affordable.	F
Media	• Recorded audio compact discs (CDs) will be fully exempt from excise duty. • Service tax rate increase from 5 per cent to 8 per cent. • Custom duty reduction on conditional access system (CAS)-enabling set-top boxes fail to materialise.	• Will help reduce piracy. • Increase service tax burden will fall on customers.	N
Non Ferrous Metals	• Peak customs duty reduction from 30% to 25%. • Customs duty on nickel has been rationalized at 10%. • Customs duty on lead down from 25% to 20%.	• Leaving the customs duty on finished products intact should bring in temporary relief to the domestic industry. • There will be some paring in input costs for the aluminium producers owing to a reduction in effective duty on caustic soda.	N
Oil & Gas	• Additional duty imposed on MS and HSD • Crude oil royalty increased.	• Prices of petrol & diesel will go up. • Royalty on crude oil increased could impact ONGC.	U
Paints	• Custom duty reduced for key inputs from 30-25%.	• Positive for the industry.	F
Personal Care	• Imposition of value added tax (VAT) across states. • Peak custom duty rate reduced from 30% to 25%.	• Imposition of VAT will be a negative for some players in the industry. • Reduction of peak custom duty on caustic soda will come down by 5% which is a positive for the industry.	N

Sector	Policy Announcement	Impact	Effect
Pharmaceuticals	• Income tax exemption under section 10A and 10B on par with IT. • Peak customs duty reduced to 25% from 30%. • Raw material used for clinical trials exempted from custom and excise duties.	• The industry will gain from concessions offered to the healthcare industry as well as the new medical insurance scheme for masses announced by the finance minister. • Benefits of tax exemption under Section 10A/10B, extended to pharmaceutical and biotechnology industries, will lead to substantial growth in exports.	F
Steel	• Duty reduction on cold rolled coils, galvanised sheets from 30 to 25%. • No Change in excise duty structure for steel • Increased spending on infrastructure and housing. • The restructuring of rail freight to result in saving of Rs. 50-75 per tonne on freight cost per 1,000 km for major steel producers.	• No major impact on domestic industry as domestic steel prices compare favourably with import parity prices.	N
Telecom	• Extension of tax holidays for telecom service companies by one more year to March 31, 2004 • Reduction in customs duty on optical fibre cable from 25 - 20%. • Customs duty on capital goods used for manufacture will be reduced from 25% to 15% • Reduce import duty on specified raw materials for manufacture of e-glass roving from 30% to 15%. • Service tax on telephone service will increase from 5% to 8%.	• Will reduce capital cost for telecom service industry. • Will improve financial viability for new private operators. • Domestic producers of OFC will face increased competition from imports. • Increase in service tax burden will fall on the customer.	F
Tourism	• Extension of 10(23)(g) and Sec 72 A of the Income Tax Act to the tourism sector. • Restoration of LTC benefits to government employees.	• Likely to bring in additional investment into the sector. • Consolidation to take place.	F
Tyres	• Reduction in customs duty on natural and styrene butadiene rubber, an important raw material. • Excise duty reduction on tyres, tubes and flaps from 32% to 24%.	• The reduction in duties will help maintain the growth buoyancy in automobile sector. • Further boost in demand for vehicles and hence for tyres.	F

U : Unfavourable F : Favourable N : Neutral