

# Tax Hotline

January 09, 2004

## TAX BENEFITS ANNOUNCED BY THE INDIAN FINANCE MINISTER PRIOR TO THE ANNUAL BUDGET EXERCISE.

The annual budget in India, as a rule is scheduled to be presented by the Finance Minister ("FM") on February 28. On this date, generally the FM presents the Finance Bill at that time, wherein he proposes the changes in the tax policies in India. It is likely that the current government may not have enough time to pass the Finance Bill 2004 in the present parliament, since it is expected that the general elections will be announced soon and the current parliament will be dissolved. It would also not be possible for the FM to announce any tax benefits after the elections are announced. With a view to give additional boost to the economy and increase the depth of the "feel good" factor, the FM has, in an expected move, made announcements of slashing certain indirect tax rates and introduced a more people friendly tax regime. It is expected that a cut in the customs duty will increase the competitive pressures on domestic manufacturers; it will also ease the inflation build-up.

### DIRECT TAXES

In a bid to introduce a more people friendly tax regime a few changes are made to the current direct taxation laws. The stress has been on simplifying the tax laws. The changes would come into effect from April 1, 2004 and are as follows:

- Employees with salary income up to INR 150,000 would not be required to file income tax returns if the entire tax payable by them is deducted at source by the employer. Salary certificate furnished by the employer to the Income Tax Department would be treated as return.
- Pensioners not having taxable income would be exempt from filing income tax returns even if they were to be covered by the on-by-6 criteria for filing the returns.
- Interest for housing loans etc for the purpose of computing perquisite valuation would be reduced, to bring them in line with the prevailing market rate of interest.
- Tax-exempt entities like trusts etc. would now be able to obtain a single certificate from the Assessing Officer for no tax deduction at source, which such entities can provide to the various persons from whom they receive income.
- Infrastructure projects to be granted one time approval for purpose of exemption under section 10 (23G) to replace the present system of seeking periodical renewals.

Some administrative measures have also been proposed. Notifications in this connection will be issued next week and these too shall come into force from April 1, 2004. These are.

- Furnishing of paperless income-tax returns by the introduction of direct filing through Internet under digital signatures for salaried taxpayers, professionals like doctors, accountants etc.
- Expansion of computer network to cover all 501 Income-Tax offices in the country by June 2004.
- Number of challan forms for payment of TDS will be reduced from four to one.

### INDIRECT TAXES

Numerous reforms have been introduced as regards the customs and central excise duties. The overall customs duty structure has been modified. These are aimed at boosting economic sentiment and fuelling growth and come into effect from Jan 9, 2004. These modifications are:

- Peak rate of customs duty on non-agricultural goods has been reduced from 25 per cent to 20 per cent.
- Special additional duty of customs at 4 per cent has been abolished.
- Customs duty on project imports with investment of at least INR 50 million, in plant and machinery, has been reduced from 25 per cent to 10 per cent.
- Customs duty on coal has been reduced from 25 per cent to 15 per cent.
- Customs duty on nickel and articles thereof has been reduced from 10 per cent to 5 per cent.

### SECTOR SPECIFIC REFORMS

#### POWER SECTOR

To attract investments and give a fillip to the power sector, a cue has been taken from the NK Singh task force and Customs duty on transmission and distribution equipment and electricity meters has been slashed from 25 per cent to 10 per cent and 15 per cent, respectively.

#### INFORMATION TECHNOLOGY (IT)/ELECTRONICS

Customs duty on Information Technology Agreement-bound items has been reduced as per government commitments. For the Information and Communications segment, the Customs duty on raw materials used for manufacture of electronic components for optical fibres and cables, has been cut from 15- 5 per cent to 5-0 per cent. In a bid to boost mobile telephony specified infrastructure equipment for basic/cellular/Internet, V-SAT, radio paging

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and public mobile radio trunked services and parts of such equipments are exempted from basic customs duty. Moreover, customs duty on cellular phones has been reduced from 10 per cent to 5 per cent. Computers too will become cheaper due to the halving of excise duty from 16 to 8 per cent. Customs duty on specified capital goods used for manufacture of electronic goods has been reduced from 15 per cent/10 per cent to nil. In a move to provide boost to the entertainment industry's war against piracy, recorded video compact discs and digital videodiscs are exempted from excise duty.

#### HEALTH

Healthcare has become more affordable by cutting the Customs duty on specified life-saving bulk drugs and medical equipment by 5 per cent besides exempting them from the countervailing duty. Customs duty on parts of artificial limbs and specified rehabilitation aids has been reduced to 5 per cent. These items are also now exempted from CVD by way of excise duty exemption.

#### WATER SUPPLY

Exemption from customs and excise duties available to water supply projects for drinking purposes has been extended to water supply projects for industrial as well as agricultural purposes.

#### CIVIL AVIATION

In consonance with the Naresh Chandra Committee Report, the civil aviation sector has witnessed the following changes. This will enable lower airfares and give a boost to passenger air travel volumes. The excise duty on Aviation Turbine Fuel (ATF) has been slashed by half from 16 per cent to 8 per cent. The Inland Air Travel Tax (IATT) of 15 per cent along with the Foreign Travel Tax of INR 500 per passenger has been abolished.

#### TRADE FACILITATION MEASURES

Baggage rules have been liberalised. Laptops and cinematographic films, exposed but not developed, brought as part of personal baggage are exempted from customs duty. The duty-free limit of quantity of liquor and wines has been enhanced to two litres from the present one litre. Manufacturers would now be allowed to remove semi-finished goods and finished goods for further processing or testing without payment of excise duty. Duty on VCD/VCR, washing machines, personal computers, laptop computers, refrigerators of capacity up to 300 L, and cooking range under Transfer of Residence are now allowed duty free. The duty on seventeen other items has been slashed from 30 per cent to 15 per cent under transfer of residence rules.

Customs clearance would now be much faster, since the government has decided that round-the-clock electronic filing of customs documents for clearance of goods, presently available in 9 customs formations, will be extended to 23 customs formations. Customs clearances will be based on self-assessment and selective examination. Electronic filing of service tax returns, presently allowed only in respect of 10 services, has been extended to all the 58 taxable services. Service providers providing more than one taxable service will be allowed to take single registration and file a single return. Only a simple verification will now be made for grant of registration for service tax n

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