

Tax Hotline

April 11, 2005

TAX BREATHER FOR INDIAN EXPORTERS

The Prime Minister of India ("PM"), with a view to give a fillip to the export market of India has referred certain tax issues to the Economic Council ("EC") for their consideration.

The issues referred by the PM to the EC are:

1. The extension of the sunset clause on the tax holiday available to export oriented undertakings ("EOUs"). As per the existing provisions, no tax holiday would be available on any export profits made after March 31, 2009.
2. The exemption of EOUs from levy of service tax. Currently, the service tax exemption is available in case of export of services, provided they fulfill certain specified conditions. This suggestion may be in an attempt to exempt EOUs from service tax completely.
3. The extension of "deemed export" benefit to domestic tariff area units for supply against the "served from India" scheme certificate.

The other issues of growing unrest among Indian exporters were the levy of tax on profits derived from the Duty Entitlement Pass Book Scheme (an import scheme available for exporters) and denial of deduction in respect of profits from exports (section 80HHC of the Income Tax Act, 1961). In this regard, the PM has issued a directive to the Indian revenue department to keep the ongoing tax proceedings and recovery of tax on these profits in abeyance.

If considered and implemented, these proposals would bring a boost to Indian exports.

Source: Times of India dated April 9, 2005, "Tax Breather for exporters." page 15,

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