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Foreword

The Honorable Finance Minister Mr. P Chidambaram, presented the India Budget 2008 (containing the Finance Bill 2008 along with the budget statement for the fiscal year 2008-2009) before the House of Parliament on Friday 29th February 2008. In the last 60 years of annual Budget presentation, only on eight occasions a full Budget has been presented on February 29. For Mr. Chidambaram, it would also be a historic occasion as he presented his 7th full Budget - two under the United Front Government and the rest under the present UPA government. So far only Mr. Morarjee Desai has presented more than 7 full budgets.

The country's GDP expanded by 8.7% in the current year, and has grown by almost 9% over the three year, a truly impressive performance however this year there is fall in GDP growth over the previous fiscal year by nearly 1%.

The Government has outperformed its FRBMA commitments on revenue and fiscal deficits. The deficits stand at 1.4% and 3.1 % respectively, an improvement over Governments beginning of year projections of 1.5% and 3.3% respectively. In the next year, the central government expects to reduce its revenue and fiscal deficits further to 1% and 2.5% respectively.

As this budget is last full budget before the election so some kind of populism was expected from the budget. Finance Minister announces waivers and write offs of Rs. 60,000 crores of outstanding agriculture loans under one time settlement schemes. As expected the Finance Minister allocated a very large amount of money for health-care, education and agriculture sectors.

Aspirations of the India Inc. on tax reforms to bring it line with the International Best Practices and provide India Inc. the direction and momentum to scale new heights as India attains leadership position in the world economy seems to have been completely missed in the first budget in recent memory revenue collection specially from taxes exceeded budgetary estimates.

There are clear signals that the Indian economy is slowing down. The slow down has started in the manufacturing sector in early Months of 2007. GDP estimates also show a slow down in manufacturing growth from 9.3 percent in last quarter of 2006 to 7.2 percent in the third quarter of 2007. The world economy led by the U.S. is also experiencing slowdown in economic activity triggered by the sub-prime loans/mortgage crisis in the U.S.

It is a matter of debate whether the FM has done enough or not to stimulate growth and to shield the Indian economy from world recessionary trends. Some of the economists argue, that the FM has lost a unique opportunity of providing momentum to the reforms / growth story of India the adopting populist measures. The political compulsions have overtaken economic needs of the Nation.

I think the Nation would learn about it during the course of this fiscal year.

Pradeep Dinodia

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BUDGET AT A GLANCE

TAX PROPOSALS

- Tax to GDP ratio that was 9.2 per cent in 2003-04, set to rise to 12.5 per cent at the end of 2007-08.
- Set to achieve the Budget Estimates of indirect taxes and exceed the Budget Estimates of direct taxes.

A) *Direct Taxes*

- Threshold limit of exemption from personal income tax in the case of all assesses increased to Rs.150,000.

The slabs and rates of tax are :

Up to Rs.150,000	NIL
Rs.150,001 to Rs.300,000	10 per cent
Rs.300,001 to Rs.500,000	20 per cent
Rs.500,001 and above	30 per cent

- In case of a woman assessee, the threshold limit increased from Rs.145,000 to Rs.180,000; for a senior citizens, the threshold limit increased from Rs.195,000 to Rs.225,000.
- No change in the corporate income tax rates.
- No change in the rate of surcharge.
- Senior Citizen Saving Scheme 2004 and the Post Office Time Deposit Account added to the basket of saving instruments under Section 80C of the Income Tax Act.
- Additional deduction of Rs.15,000 allowed under Section 80D to an individual paying medical insurance premium for his/her parent or parents.
- Income Tax Act to be amended to provide that reverse mortgage would not amount to "transfer"; and the stream of revenue received by the senior citizen would not be "income".
- Tax income arising from saplings or seedlings grown in a nursery exempted.
- Business of production of seeds and manufacture of agricultural implements added to the list of companies allowed weighted deduction of 150 per cent on any expenditure on in-house scientific research.
- Benefit of amortisation of certain preliminary expenses under Section 35D allowed to assesseees in the services sector.
- Corporate debt instruments issued in demat form and listed on recognised stock exchanges exempted from TDS.

- Crèche facilities, sponsorship of an employee-sportsperson, organising sports events for employees and guest houses excluded from the purview of FBT.
- Parent company allowed to set off the dividend received from its subsidiary company against dividend distributed by the parent company; provided that the dividend received has suffered DDT and the parent company is not a subsidiary of another company.
- Insert a new sub-section (11C) in Section 80-IB to grant a five year tax holiday to hospitals located in any place outside the urban agglomerations especially in tier- 2 and tier-3 towns; this window will be open for the period April 1, 2008 to March 31, 2013.
- Five year holiday from income tax being granted to two, three or four star hotels established in specified districts having UNESCO-declared 'World Heritage Sites'; the hotel should be constructed and start functioning during the period April 1, 2008 to March 31, 2013.
- Coir Board included in Section 10(29A) and exempted from income tax.
- Rate of tax on short term capital gains under Section 111A & Section 115AD increased to 15 per cent.
- STT paid to be treated like any other deductible expenditure against business income; Levy of STT, in the case of options to be only on premium, where the option is not exercised; liability to be on the seller; where the option is exercised, levy to be on the settlement price and the liability on the buyer; no change in the present rates.
- Commodities Transaction Tax (CTT) to be introduced on the same lines as STT on options and futures.
- Law being amended to exclude entities carrying on regular trade, commerce or business or providing services in relation to any trade, commerce or business and earning incomes from claiming that their purposes also fall under "charitable purpose"; Genuine charitable organizations not to be affected in any way.
- Banking Cash Transaction Tax (BCTT) being withdrawn with effect from April 1, 2009.

B) Indirect Taxes

Customs duties

- No change in the peak rate of customs duty.

Excise duty

- General CENVAT rate on all goods reduced from 16 per cent to 14 per cent to give a stimulus to the manufacturing sector.
- Excise duty on all goods produced in the pharmaceutical sector reduced from 16 per cent to 8 per cent.
- Excise duty being increased on packaged software from 8 per cent to 12 per cent, bringing at par with customised software attracting a service tax of 12 per cent.
- NCCD of 1 per cent removed on polyester filament yarn and the levy shifted to cellular mobile phones.

Service tax

- Four services brought under service tax net namely, asset management service provided under ULIP, services provided by stock/commodity exchanges and clearing houses; right to use goods, in cases where VAT is not payable; and customized software, to bring it on par with packaged software and other IT services.
- Threshold limit of exemption for small service providers increased from Rs.8 lakhs per year to Rs.10 lakh per year; about 65,000 small service providers go out of the tax net.

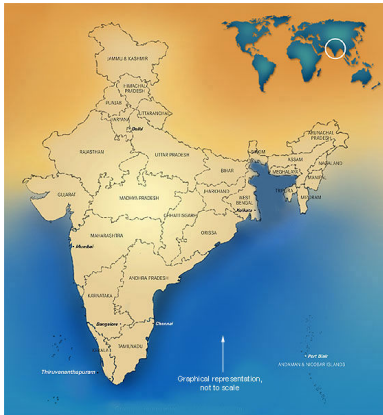
CST and a Roadmap towards GST

- Central Sales Tax rate being reduced from 3 per cent to 2 per cent from April 1, 2008.
- Roadmap for Goods and Service Tax being prepared for introduction of GST from April 1, 2010.

State of the Economy¹

The economy has moved decisively to a higher growth trajectory phase during the five years to 2007-08. Till a few years ago, there was still a debate among informed observers about whether the economy had moved above the 5 to 6 per cent average growth seen since the 1980s. There is now no doubt that the economy has moved to a higher growth plane, with growth in GDP at market prices exceeding 8 per cent in every year since 2003-04. In terms of GDP, the growth rate has averaged 8.7 per cent per annum during these five years. The projected economic growth of 8.7 per cent for 2007-08 is fully in line with this trend. There was acceleration in domestic investment and saving rates to drive growth and provide the resources for meeting the 9 per cent (average) growth target of the Eleventh Five-Year Plan. This indicates stability and sustainability. The growth is reflected in a near doubling of the pace at which the average income of our people is growing.

The Economic Survey states that the Indian economy slowed down to 8.7% in 2007-08, compared to 9.6% in the previous fiscal.



The higher economic growth trajectory and the projected growth of 8.7 per cent in 2007-08 is based on a quantum jump in savings and investment rates. The rate of investment (GCF) was 35.9 per cent of GDP in 2006-07 and is projected to increase in 2007-08. This is an unprecedented level of investment and shows the firm foundations on which the growth acceleration has been built. The saving rate has similarly scaled new highs reaching 34.8 per cent of GDP in 2006-07.

Given this solid foundation of domestic investment and saving, we are confident of meeting the Eleventh Plan (2007-08 to 2011-12) target of 9 per cent average growth. The Government will be able to mobilise the resources for meeting the growth target of 9 per cent, as set for the Eleventh Five Year Plan. Macro-economic fundamentals continue to inspire confidence and the investment climate is full of optimism. This is reflected, for instance, in the significant surge in capital inflows into the economy in the recent period, even when the global economy is showing distinct signs of slowing down. Buoyant growth of Government revenues has made it possible to maintain fiscal consolidation as mandated under the FRBMA. At the same time, we have the means to bridge and address the chronic gaps and weaknesses in our physical and social infrastructure.

Inflation, which had risen during the second half of 2006-07, has been brought under control. The year on year rate of inflation declined to less than 4% in August 2007 and had remained below 4 per cent for 23 consecutive weeks since then. The price inflation in primary articles has similarly been brought down to 3.8 per cent in January 2008. Given the high level of food, oil and other commodity prices in international markets, the risks to inflation remain. Thus keeping inflation under control in an uncertain global environment will be one of the major challenges in 2008-09. There are, also downside risks to growth arising from the slowdown and possible recession in the global economy.

There are several challenges to inclusive growth, namely agriculture, infrastructure, education and skill development. The last few years have seen a resurgence of the manufacturing sector and a continued broad based growth of the services sector. The agriculture sector/ dependent as it is on the monsoon, continued to fluctuate, though the five year period ending 2007-08 had the second lowest year to year variation since the five years ending 1956-57. We need to accelerate the pace of growth in agriculture on a sustained basis.

Despite efforts to accelerate the pace of Infrastructure development, the demand for infrastructure services has grown even faster than the supply. It is imperative to augment and upgrade infrastructure both physical and social. This requires mobilization of unprecedented amount of capital with macroeconomic stability, which can only happen if both the public and private sectors have the incentive and motivation to perform at their best. We have to harness our demographic potential and promote inclusive growth by providing the basic education and skills needed in the job market.

With international crude oil prices touching an all-time high of 102 dollars a barrel, the Economic Survey today advised privatization of old oil fields to raise output and reduce India's import dependence.

State-run firms Oil and Natural Gas Corp (ONGC) and Oil India Ltd (OIL) have seen oil output fall from old fields like those in Gujarat and Assam, and new technology will be needed to raise recovery.

India, which spent 48.389 billion dollars to import its crude oil needs in 2006-07, has already spent 48.02 billion dollars on crude imports in the first nine months of the current fiscal because of rise in international oil prices.

Projecting inflation at 4.4 percent, the survey says it continues to be a policy concern for the government. It states that rising capital inflows and various global monetary policy mechanisms have made structure of economy more complex to manage inflation. Slow modernization of Indian agriculture and high dependence of population on agriculture may also contribute to future inflationary trends.

The Major reforms suggested in the policy document to accelerate the growth rate include phasing out control on sugar, fertilizer and drugs, allowing foreign equity in the retail trade, raising share of the foreign capital in insurance and allow 100 per cent FDI in green field private-rural agricultural banks.

Reforms in the power sector, private - public partnership in the rail freight area, privatization of public transport in metros and large cities and selling of old oil fields to private sector are some other initiatives suggested to achieve double digit growth.

The fall in consumable durable goods sector is attributed to the hardening of interest rates affecting credit flow. The survey points that the expected slowdown of the US economy may also impact Indian economy moderately. Expressing concern over the appreciating rupee, it says the reason for this is depreciation of the US dollar against all major currencies and the surge in capital inflows.

The Finance Minister Mr. P. Chidambaram has expressed confidence of maintaining high growth and containing inflation in the country in the coming year. Concerned over constant slippages in capacity addition target and rising subsidy burden, the Economic Survey today stressed on improving financial viability of power utilities, particularly in states, to overcome the crisis.

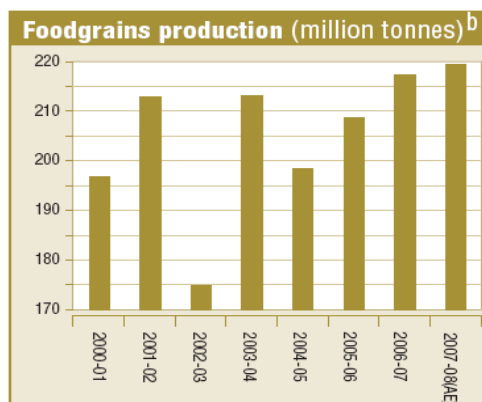
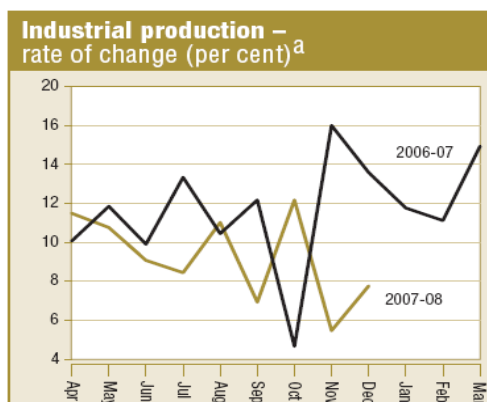
As per revised estimates, the gross subsidies for the power sector would grow to Rs 43,132.6 crore for 2007-08 as against the provisional figures of Rs 40,054 crore for 2006-07, the Economic Survey said. The amount could rise to Rs 46,087 crore in 2008-09.

To meet the demand for infrastructure services, there is a heightened urgency to augment and upgrade infrastructure both physical as well as social and in particular power, roads and ports. This requires mobilization of unprecedented amounts of capital with macroeconomic stability, which can only happen if both the public and private sectors have the incentive and the motivation to perform at their best.

Macroeconomic fundamentals continue to inspire confidence and the investment climate is full of optimism. Buoyant growth of government revenues made it possible to maintain fiscal consolidation as mandated under the Fiscal Responsibility and Budget Management Act (FRBMA). The decisive change in growth trend also means that the economy was, perhaps, not fully prepared for the different set of challenges that accompany fast growth. Inflation flared up in the last half of 2006-07 and was successfully contained during the current year, despite a global hardening of commodity prices and an upsurge in capital inflows. An appreciation of the rupee, a slowdown in the consumer goods segment of industry and infrastructure (both physical and social) constraints, remained of concern. Raising growth to double digit will therefore require additional reforms.

Per capita income and consumption

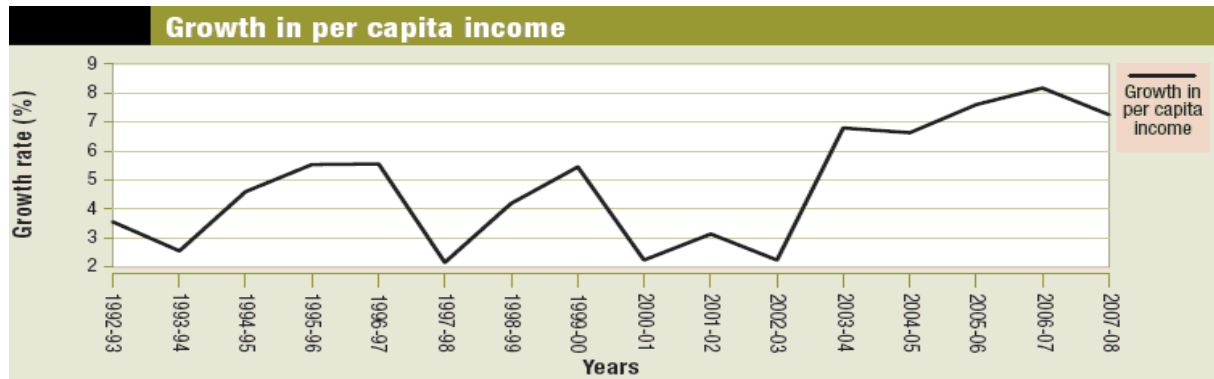
Growth is of interest not for its own sake but for the improvement in public welfare that it brings about. Economic growth, and in particular the growth in per capita income, is a broad quantitative indicator of the progress made in improving public welfare. Per capita consumption is another quantitative indicator that is useful for judging welfare improvement. It is therefore appropriate to start by looking at the changes in real (i.e. at constant prices) per capita income and consumption.



The pace of economic improvement has moved up considerably during the last five years (including 2007-08). The rate of growth of per capita income as measured by per capita GDP at market prices (constant 1999-2000 prices) grew by an annual average rate of 3.1 per cent during the 12- year period, 1980-81 to 1991-92. It accelerated marginally to 3.7 per cent per annum during the next 11 years, 1992-93 to 2002-03.

Since then there has been a sharp acceleration in the growth of per capita income, almost doubling to an average of 7.2 per cent per annum (2003-04 to 2007-08).

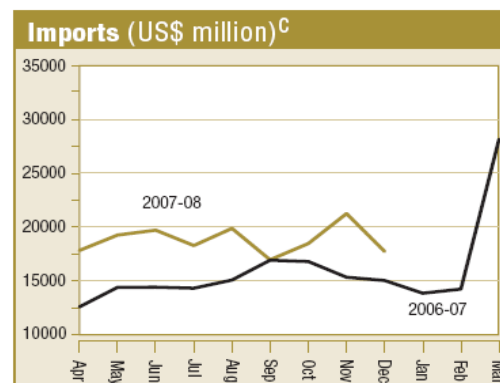
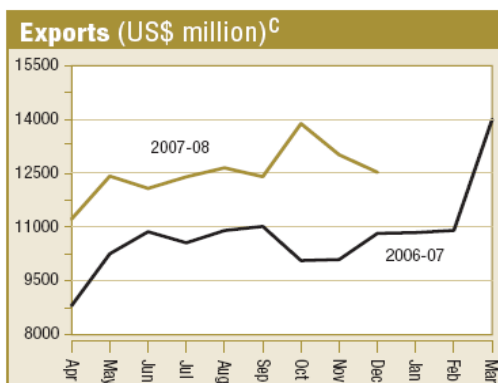
This means that average income would now double in a decade, well within one generation, instead of after a generation (two decades). The growth rate of per capita income in 2007-08 is projected to be 7.2 per cent, the same as the average of the five years to the current year.



Per capita private final consumption expenditure has increased in line with per capita income. The growth of per capita consumption accelerated from an average of 2.2 per cent per year during the 12 years from 1980-81 to 1991-92 to 2.6 per cent per year during the next 11 years following the reforms of the 1990s. The growth rate has almost doubled to 5.1 per cent per year during the subsequent five years from 2003-04 to 2007-08, with the current year's growth expected to be 5.3 per cent, marginally higher than the five year average. The average growth of consumption is slower than the average growth of income, primarily because of rising saving rates, though rising tax collection rates can also widen the gap

External trade

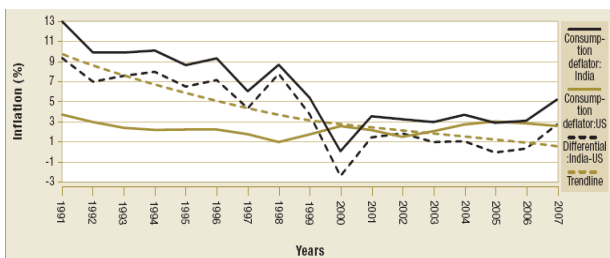
India's greater integration with the world economy was reflected by the trade openness indicator, the trade to GDP ratio, which increased from 22.5 per cent of GDP in 2000-01 to 34.8 per cent of GDP in 2006-07. If services trade is included, the increase is higher at 48 per cent of GDP in 2006-07 from 29.2 per cent of GDP in 2000-01, reflecting greater degree of openness.



India's merchandise exports and imports (in US\$, on customs basis) grew by 22.6 per cent and 24.5 per cent respectively in 2006-07, recording the lowest gap between growth rates after 2002- 03. Petroleum products (59.3 per cent) and engineering goods (38.1 per cent) were the fastest growing exports. The perceptible increase in share of petroleum products in total exports reflected India's enhanced refining capacity and higher POL prices. The rising share of engineering goods reflected improved competitiveness. The value of POL imports increased by 30 per cent, with volume increasing by 13.8 per cent and prices by 12.1 per cent in 2006-07. Non-POL import growth at 22.2 per cent was due to the 29.4 per cent growth of gold and silver and 21.4 per cent growth of non- POL non-bullion imports needed to meet industrial demand.

Inflation

GDP Deflators Indian and US Inflation (GDP Consumption Deflator)



The implicit deflator for GDP MP and its demand components is the most comprehensive measure of inflation on an annual basis. Overall inflation, as measured by the aggregate deflator for GDP MP, is projected to decline from 5.6 per cent in 2006-07 to 4.1 per cent in 2007-08. Thus the inflation rate is projected to be identical to that in 2005-06. The counterpart of the consumer price index (CPI), the

most commonly used inflation rate for monetary purposes, is the deflator for private final consumption expenditures (PFCE). Inflation, according to the PFCE deflator jumped from 3 per cent in 2005-06 to 5.1 per cent in 2006-07 and is projected to be 5.5 per cent in 2007-08. The projected decline in the overall inflation is therefore due to the deceleration in investment goods prices from 5.5 per cent growth in 2006-07 to 4.3 per cent growth in 2007-08. This should have a positive effect on investment.

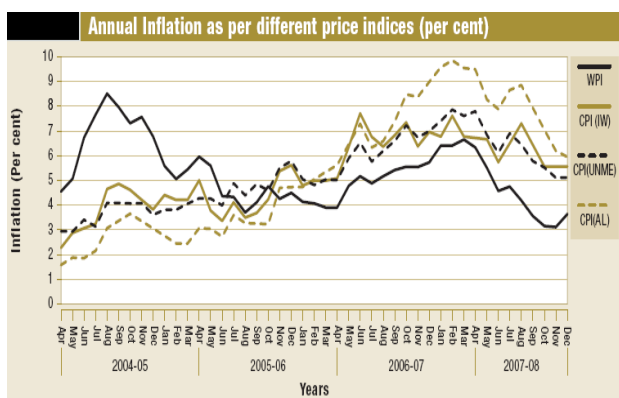
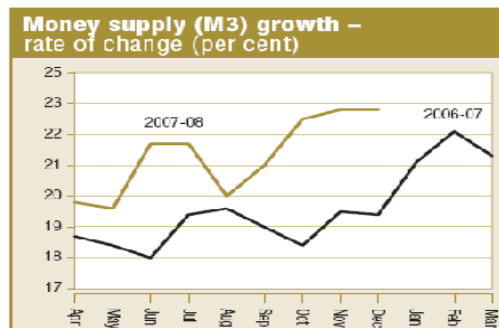


Figure shows the inflation rates as represented by the Indian and US GDP deflators for consumption. The trend reduction in the inflation gap has bottomed out in the last two years at around half a per cent, though the actual inflation in India was above this trend. The interaction between high tariffs on agricultural products coupled with the large share of food in the consumption basket and the slow modernisation of Indian agriculture and agro-processing, coupled with the high dependence of the population on agriculture may play a role in future inflation.

Money supply



The Reserve Bank of India's monetary policy stance is to serve the twin objectives of managing the transition to a higher growth path and containing inflationary pressures. For policy purposes for 2007-08, the RBI assumed a real GDP growth of 8.5 per cent with inflation close to 5 per cent, and targeted the monetary expansion in the range of 17-17.5 per cent and credit expansion in the range of 20 to 24 per cent as consistent with envisaged growth and inflation. Annual average growth of Money (M₃) reached a trough of 13 per cent in 2003-04 and has been on an accelerating trend since then, reaching 19.5 per cent in 2006-07.

Monetary Policy

The changes in the domestic and global economy, impacting the price level and financial stability, pose serious challenges in the conduct of monetary policy. The major thrust of the monetary policy has been to facilitate the growth of the economy in a non-inflationary environment. The Annual Policy Statement (APS) and its quarterly reviews by the Reserve Bank of India (RBI) are the principal modes of communicating policy signals to the system.

The APS for 2006-07 (April 2006) was formulated in the wake of higher real GDP growth and with a relatively lower rate of inflation than the preceding year. The APS 2006-07 had placed real GDP growth in the range of 7.5 to 8 per cent, rate of inflation in the range of 5 to 5.5 per cent. Broad money (M₃) was expected to expand by around 15 per cent and non-food credit growth was assumed at 20 per cent. Actual performance of these parameters during 2006-07 was in fact much higher. Real GDP growth was 9.6 per cent, annual rate of inflation was 5.9 per cent, M₃ grew by 21.3 per cent and non-food credit by 28.4 per cent.

Inclusive Growth

Faster economic growth has also begun to translate into more inclusive growth, both in terms of employment generation and poverty reduction. The 61st Round of NSSO Survey estimated that 47 million additional work opportunities were created during 1999-2000 to 2004-05, at an annual average of 9.4 million as against an annual average of 4 million job opportunities during 1993-94 to 1999-2000. Employment growth accelerated to 2.6 per cent per annum during this period. The labour force, however, grew at 2.8 per cent per year, 0.2-percentage points faster than the work force, resulting in an increase in the unemployment rate to 8.3 per cent in 2004-05.

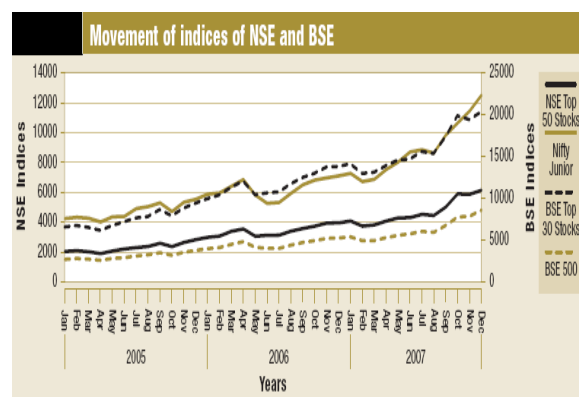
Rupee appreciation

With the demand for foreign exchange (debit side of BOP) not keeping pace with the supply of foreign exchange (credit side of BOP), the rupee appreciated by 8.9 per cent against the US dollar during the current financial year between April 3, 2007, and February 6, 2008. The rupee appreciation against the US dollar over the past 12 months on year-on-year basis (December 2007 over December 2006) at 13.2 per cent was even higher. While the rupee appreciated against other major currencies as well for most parts of the year, it was modest as compared to the rise against the US dollar. It even depreciated marginally against the Euro during the financial year (till February 6, 2008). The appreciation of the rupee against the US dollar could be attributed to the effect of depreciation of the US dollar against all the major currencies and the surge in capital flows. The REER (6 currency, trade- based weights) that indicates the real competitiveness by factoring the relative price levels, after depreciating in 2006-07, appreciated by 7.8 per cent in April-January 2007- 08. The appreciation of the rupee vis-à-vis the dollar, the main invoicing currency of exports, compared to the lower appreciation of competing countries coupled with the slow growth in imports of major trading partners like the United States, affected exports of some sectors with low import intensity. To mitigate the effect and facilitate adjustment, the government announced relief measures to selected sectors.



Stock markets

Stock markets are an important instrument of financial intermediation. They saw increased activity in 2007-08. Primary market issue of debt and equity increased along with private placement. The secondary market too showed a rising trend, notwithstanding intermittent ups and downs in the stock prices responding mainly to global developments. The Bombay Stock Exchange (BSE) Sensex rose from 13,072 at end-March 2007 to 18,048 as on February 18, 2008, while the National Stock Exchange (NSE) index Nifty 50 rose from 3,822 to 5,277 during the same period. Both the indices gave a return of around 38 per cent during this period.



The primary capital market grew in 2006 and 2007 after the set back of 2005. The amounts raised and the number of new issues which entered the market increased in 2007. The total amount of capital raised through different market instruments during 2007 was 31.5 per cent higher than during 2006, which itself had seen a rebound of 30.6 per cent over the lows of 2005.

Resource mobilization through primary market

Mode	(Rs. crore)			
	Calendar Year			
	2004	2005	2006	2007
1. Debt	2,383	66	389	594
2. Equity	33,475	30,325	32,672	58,722
<i>Of which, IPOs</i>	12,402	9,918	24,779	33,912
Number of IPOs	26	55	75	100
Mean IPO size	477	180	330	339
3. Private Placement	93,506	83,812	117,407	1,11,838 ^a
4. Euro Issues (ADR/GDR)	2,029	9,788	11,301	41,567
Total (1 to 4)	131,393	123,991	161,769	2,12,721

Source: SEBI and RBI (for Euro Issues)

^a Till November 2007

Industry and infrastructure

The industrial sector witnessed a slowdown in the first nine months of the current financial year. The growth of 9 per cent during April-December 2007, when viewed against the back drop of the robust growth witnessed in the preceding four years, suggests that there is a certain degree of moderation in the momentum of the industrial sector. The consumer durable goods sector in particular has shown a distinct slowdown. This is linked to the hardening of interest rates and therefore to the conditions prevailing in the domestic credit sector. In contrast, the capital goods industry has sustained strong growth performance during 2007-08 (April- December).

Social sectors

As per the UNDP's Human Development Report (HDR) 2007, in spite of the absolute value of the human development index (HDI) for India improving from 0.577 in 2000 to 0.611 in 2004 and further to 0.619 in 2005, the relative ranking of India has not changed much. In consonance with the commitment to faster social sector development under the National Common Minimum Programme (NCMP), the Central Government has launched new initiatives for social sector development during 2007-08.

Global warming and climate change

Issues like global warming and the resultant climate change have gained in importance in international discussions. Globally, carbon trading, has grown rapidly in recent years. There is, however, a need to balance the harmful effects of human activity on global warming against the need for poverty reduction and economic growth in developing and least developed countries.



The issue of global social justice cannot be delinked from the issue of global public goods like the atmosphere.

The Economic Survey identifies several challenges, policy response and medium term prospects. These may be summed up as follows:

- * If the upwardly trend in the GDP growth rate persists in the medium-term, the economy would average over 8.9 % per annum over the Eleventh Five Year Plan period. If we achieve the GDP growth target of the Eleventh Five Year Plan and step up the growth rate to 9.5 % in the succeeding year, the Indian economy would have averaged 9 % over a decade. This achievement would put India among the select group of about a dozen medium-large economies.
- * On the demand side the growth acceleration has been driven by investment and supported by private consumption. The economy is likely to remain domestic demand driven in the medium term.
- * A further convergence of both inflation and real interest rates is possible if we liberalize and develop India's debt and currency markets and remove the constraints on agriculture modernization and urban land supply.
- * Though our exports to the US have already been slowing in 2006 and 2007 a further slowdown may be unavoidable but may be relatively modest. The deceleration in world imports will also lead to a deceleration in growth of demand for commodities. The balance of these two factors will likely result in a modest increase in the goods and services trade deficit as long as a severe recession is avoided in the US.
- * On the supply side, the most critical challenge is the availability of adequate physical and financial infrastructure. It is instructive to look at the infrastructure in terms of public and private goods and a grey area in between - the 'quasi-public good'.
- * The medium term plan for road connectivity should target a network of highways linking all cities in the country, a network of State highways linking all towns at state level and connectivity of all villages with all weather district roads in every State.
- * For urban infrastructure, there are a number of policy measures that need to be urgently addressed. The Central sector program, JNNURM and SEZs have imparted some impetus in this direction, but the states, particularly poorer ones, need to do more on their own.
- * While 20 states have presented revenue surplus budgets in 2007-08, 15 States have budgeted for higher GFD over the previous year. The fiscal position of some states continues to remain weak and there are concerns regarding the sustainability of high level of debt in some of these states.
- * There is much that still needs to be done in terms of improving social sector and human development outcomes at state level which highlight inter state variation in important socio economic indicators.
- * The outcomes in the health sector also show significant disparities across states. A successful policy framework to bridge outcome gaps in this sector would require a strategic focus on public goods like vector borne and epidemic diseases, public health education and drainage.

- * For the success of the programs such as NREGP, Bharat Nirman and the Right to Information Act, it is necessary that ground level implementation is efficient.
- * Decentralization in planning and implementation of programs based on the principle of subsidiary is an essential supplement to enhance resource flow in achieving balanced regional development and participation and empowerment of the poor. The success stories of participatory project implementation and devolution of plan and non-plan funds must be systematically studies, recorded and replicated elsewhere with appropriate region-specific adaptations.
- * Though expenditure is an important indicator of the progress of plan implementation, it does not measure the effectiveness of the expenditure undertaken in generating the desired outcomes. It is, therefore, important to move systematically from financial monitoring to output and outcome monitoring.

Conclusion

The challenges and opportunities arise at two levels. It is incumbent on the Central Government to provide a conducive investment climate and manage the macro economy to facilitate non-inflationary growth.

The Central Government and the Planning Commission can in certain areas and sectors also play a leadership role in setting an agenda of policy and institutional reforms that will sustain high growth for several decades.

At a second level, the States must refocus their efforts on the provision of public goods, some of which have been neglected by states, and improve the quality of the service provided by these goods.

As the bureaucratic capacities to deliver these goods and services in sufficient quantity and adequate quality are heavily constrained, they must shed other activities that are best done by private profit and non-profit organizations and focus on excellence in these areas. Only then can they satisfy the majority of their citizens and meet their legitimate aspirations.

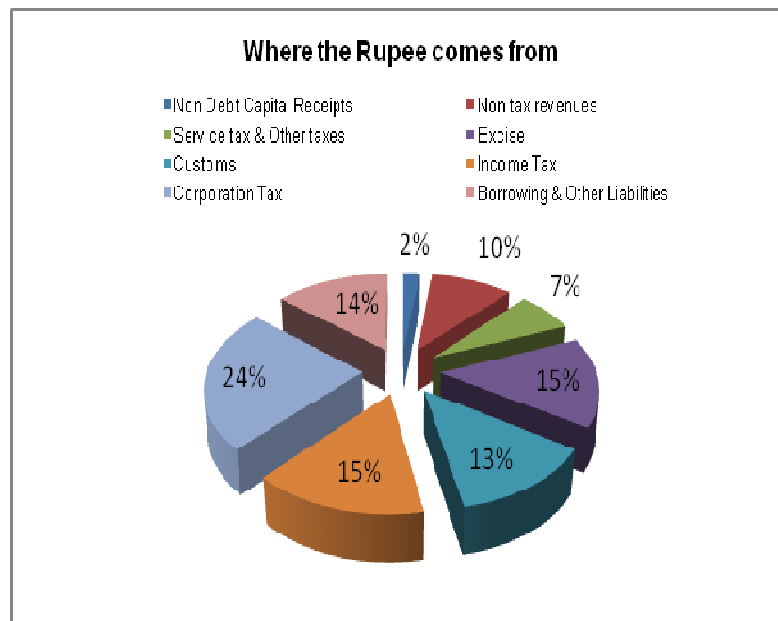
Finance Minister's Speech – Union Budget 2008-09

India's government promised higher spending for ailing farms and funds for rural revival in its budget but stuck to fiscal goals and pledged to keep inflation under control ahead of elections due in 2009.

Finance Minister Palaniappan Chidambaram, presenting the fifth and last full budget of the left-leaning administration, proposed \$15 billion to write off debt owed by small farmers to banks in a move analysts said was aimed at the ballot box.

He pledged higher spending on health and education to spread the benefits of an economic boom beyond the cities to rural voters and proposed raising the income tax threshold. Duties on small cars and two-wheelers will be cut to boost manufacturing.

The Gross Domestic Product increased by 7.5 per cent, 9.4 per cent and 9.6 percent in first three years, of the UPA Government resulting in an unprecedented average growth rate of 8.8 per cent. The drivers of growth continue to be 'services' and 'manufacturing' which are estimated to grow at 10.7 per cent and 9.4 per cent respectively. Growth rate in agriculture for 2007-08 is estimated at 2.6 per cent.



Saving rate and investment rate estimated to be 35.6 per cent and 36.3 per cent, respectively, by the end of 2007-08; between April- December 2007-2008. FDI amounted to US\$ 12.7 billion and FII to US\$ 18 billion.

Growth in capital goods still very high at 20.2 per cent. Goal to take manufacturing growth rate to double digit through more reforms.

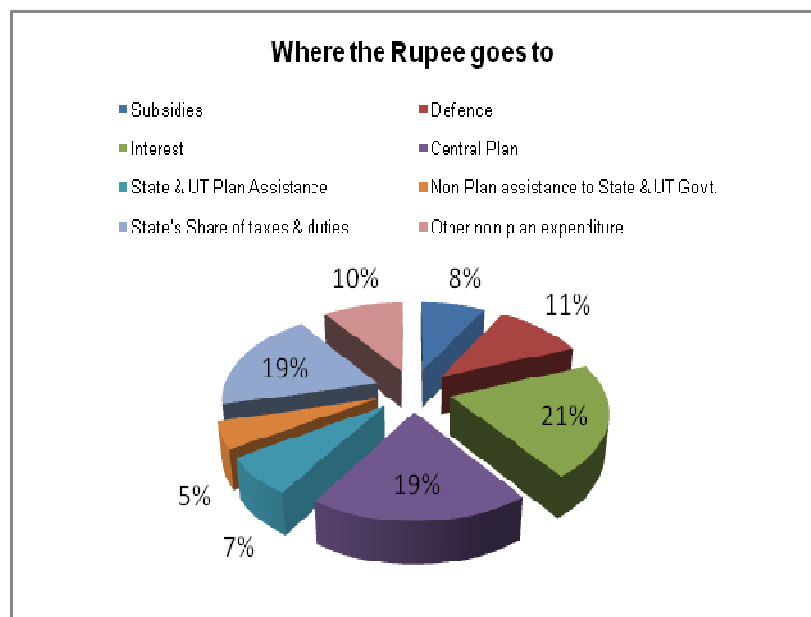
Relief given to exporters in three tranches amounting to over Rs.8,000 crore; Interest cost of sterilization through market stabilization bonds (MSS), which is in a sense, subsidy to the export sector, estimated at Rs.8,351 crore for the year 2007-08.

Measures to expand the market for corporate bonds: Exchange-traded currency and interest rate futures to be launched and transparent credit derivatives market to be developed with appropriate safeguards; Tradability of domestic convertible bonds to be enhanced through the mechanism of enabling investors to separate the embedded equity option from the convertible bond, and trade it separately; Development of a market-based system for classifying financial instruments based on their complexity and implicit risks to be encouraged.

Budget Estimates

- Plan Expenditure estimated at Rs.243,386 crore.
- Non-Plan Expenditure estimated at Rs.507,499 crore.

- Revenue deficit for 2007-08 to be 1.4 per cent (against a BE of 1.5 per cent) and the fiscal deficit to be 3.1 per cent (against a BE of 3.3 per cent); Revenue receipts of Central Government for 2008-09 projected at Rs.602,935 crore and revenue expenditure at Rs.658,119 crore; Revenue deficit for 2008-09 estimated at Rs.55,184 crore, which amounts to 1.0 per cent of GDP; Fiscal deficit for 2008-09 estimated at Rs.133,287 crore which is 2.5 per cent of GDP; elimination of Revenue Deficit may need one more year; because of the conscious shift in expenditure in favour of health, education and the social sector.



- Thirteenth Finance Commission to be requested to revisit the roadmap for fiscal adjustment and suggest a suitably revised roadmap, after the obligations on account of the Sixth Central Pay Commission becomes clear.

Chidambaram said the government's aim was to boost employment and abolish poverty and inequality in the country of 1.1 billion people, where some 260 million struggle on less than \$1 a day.

High interest rates to combat inflation last year have put the brakes on consumption and economic expansion, and data showed annual growth of the \$1 trillion economy slowed to 8.4 percent in the Oct-Dec quarter from 8.9 percent in the Jul-Sept period.

India, the world's fastest growing major economy after China, clocked a scorching 9.6 percent in 2006/07, its fastest pace in 18 years.

With the growth accompanied by price pressures, the government is concerned that inflation hits the poor first.

India has a population of 1.1 billion and 60 percent or more live and work in rural areas.

Chidambaram set spending on a rural job guarantee scheme at 160 billion rupees and pledged 140 billion for rural infrastructure.

For he pledged reforms in coal and power and said the government would continue to take measured steps to open up the financial sector, as well as developing a market for exchange-traded currency and interest rate futures.

High capital inflows last year complicated monetary policy by pushing the rupee up against the dollar and Chidambaram said the government and central bank would take whatever temporary measures they thought necessary to moderate the flows.

"The solution lies in increasing the absorptive capacity of the economy in the medium term. In the short term it is our responsibility to manage the flows more actively," he said.

Budgetary Effects on the various Sectors of the Indian Economy

Investment, Infrastructure, Industry and Trade



- Saving rate and investment rate estimated to be 35.6 per cent and 36.3 per cent, respectively, by the end of 2007-08; between April- December 2007-2008. FDI amounted to US\$ 12.7 billion and FII to US\$ 18 billion.
- *Support to Central Public Sector Enterprises (CPSEs):* Government to provide Rs.16,436 crore as equity support and Rs.3,003 crore as loans to CPSEs in 2008- 09; 44 CPSEs listed as on date; Government policy is to list more CPSEs in order to unlock their true value and improve corporate governance.

Rural Infrastructure Development Fund

- Corpus of RIDF-XIV to be raised in 2008-09 to Rs.14,000 crore, with a separate window for rural roads.

Manufacturing Sector

- Growth in capital goods still very high at 20.2 per cent. Goal to take manufacturing growth rate to double digit through more reforms.



Power



- Against Eleventh Plan target for additional power generation capacity of 78,577 MW Commercial Operation Date (COD) on about 10,000 MW to be achieved by end March 2008.
- *Ultra Mega Power Project (UMPP)*: Fourth UMPP at Tilaiya to be awarded shortly; Chhattisgarh, Karnataka, Maharashtra, Orissa and Tamilnadu urged to bring five more UMPPs to the bidding stage by extending the required support.
- *Rajiv Gandhi Grameen Vidyutikaran Yojana* to be continued during the Eleventh Plan period with a capital subsidy of Rs.28,000 crore; allocation of Rs.5,500 crore for 2008-09.
- *Accelerated Power Development and Reforms Project*: Rs.800 crore to be provided in 2008-09, A National Fund for transmission and distribution reform to be created.

Roads

National Highway Development Programme (NHDP): Allocation for NHDP enhanced to Rs.12,966 crore in 2008-09 from Rs.10,867 crore in 2007-08; Completion rate in the Golden Quadrilateral is 96.48 per cent and in the North South, East West Corridor project is 23.36 per cent; Special attention being paid to SARDP-NE; programme devised for the North Eastern region; 180 kms of roads completed in 2007-08 and 300 kms. of road targetted for completion in 2008-09.

Oil and Gas

Seventh round of bidding under the New Exploration Licensing Policy; bids invited for 57 exploration blocks; estimated to attract investment of the order of US\$3.5 billion to US\$8 billion for exploration and discovery.



Coal

- 53 coal blocks with reserves of 13,842 million tonnes allotted during April-January 2007-08 to Government and private sector companies; new Coal Distribution Policy notified in October 2007; coal regulator to be appointed.

Information Technology



Allocation to the Department of Information Technology enhanced to Rs.1,680 crore in 2008-09 from Rs.1,500 crore in 2007-08; Two Schemes for establishing 100,000 broadband internet-enabled Common Service Centres in rural areas and State Wide Area Networks (SWAN) with Central assistance under implementation; new scheme for State Data Centres also approved; Rs.75 crore provided for the common service centres; Rs.450 crore provided for SWAN and Rs.275 crore for the State Data Centres.

Textiles

- Schemes for Integrated Textile Parks (SITP) and the Technology Upgradation Fund (TUF) to be continued in the Eleventh Plan period; Provision for SITP being maintained at Rs.450 crore in 2008-09; Provision for TUF to be increased to Rs.1,090 crore in 2008-09 from Rs.911 crore in 2007-08.
- *Handloom sector:* 250 clusters being developed and 443 yarn banks established under the cluster approach to the development of the handloom sector; Over 17 lakh families of weavers to be covered under the health insurance scheme by March 2008; Allocation being increased to Rs.340 crore in 2008-09; Infrastructure and production being scaled up by taking up six centres for development as megaclusters;



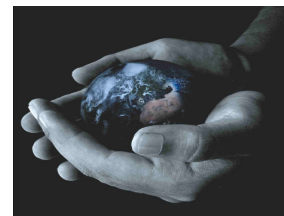
Varanasi and Sibsagar to be taken up for handlooms, Bhiwandi and Erode for powerlooms, and Narsapur and Moradabad for handicrafts; Each mega-cluster to require about Rs.70 crore; Initial provision of Rs.100 crore made in 2008-09.

Micro, Small and Medium Enterprises

- A risk capital fund being created in the Small Industries and Development Bank of India (SIDBI); Credit Guarantee Trust with SIDBI had extended guarantees to 89,129 units for an amount of Rs.2,479 crore as on January 31, 2008; SIDBI to reduce the guarantee fee from 1.5 per cent to 1 per cent and the annual service fee from 0.75 per cent to 0.5 per cent for loans up to Rs.5 lakhs.

Foreign Trade

- Relief given to exporters in three tranches amounting to over Rs.8,000 crore; Interest cost of sterilization through market stabilization bonds (MSS), which is in a sense, subsidy to the export sector, estimated at Rs.8,351 crore for the year 2007-08.



Financial Sector

- *Financial Inclusion:* Two recommendations of the Committee on Financial Inclusion proposed to be accepted viz (i) to advise commercial banks, including RRBs, to add at least 250 rural household accounts every year at each of their rural and semi-urban branches; and (ii) to allow individuals such as retired bank officers, ex-servicemen etc to be appointed as business facilitator or business correspondent or credit counselor; banks to be encouraged to embrace concept of Total Financial Inclusion; Government to request all scheduled commercial banks to follow the example set by some public sector banks and meet the entire credit requirements of SHG members, namely, income generation activities, social needs like housing, education, marriage etc., and debt swapping.
- (i) Fund of Rs.5,000 crore to be created in NABARD to enhance its refinance operations to short term cooperative credit institutions;
- (ii) Two funds of Rs.2,000 crore each to be created in SIDBI - one for risk capital financing and other for enhancing refinance capability to the MSME sector.
- (iii) Fund of Rs.1,200 crore to be created in NHB to enhance its refinance operations in the rural housing sector.



These funds are to be governed by the general guidelines that are now applicable to RIDF with some modifications.

- *Differential Rate of Interest (DRI) scheme:* Borrower's eligibility criteria for loan under the DRI scheme to the weaker sections of the community engaged in gainful occupations enhanced.

Capital Markets



- *Measures to expand the market for corporate bonds:* Exchange-traded currency and interest rate futures to be launched and transparent credit derivatives market to be developed with appropriate safeguards; Tradability of domestic convertible bonds to be enhanced through the mechanism of enabling investors to separate the embedded equity option from the convertible bond, and trade it separately; Development of a market-based system for classifying financial instruments based on their complexity and implicit risks to be encouraged.
- *Permanent Account Number (PAN):* Requirement of PAN extended to all transactions in the financial market subject to suitable threshold exemption limits.
- *National market for securities:* Empowered Committee of State Finance Ministers to be requested to work with the Central Government to create pan Indian market for securities that will expand the market base and enhance the revenues of the State Governments.

Conclusion

The outlook for 2008 is uncertain. Much depends on the U.S. economy, and it is on the verge of recession. Add the financial crisis, rising global commodity prices, record high oil prices, the looming prospect of a food crisis, inflation, high unemployment levels, and it should be clear that 2008 may be a year of low growth for the world economy. Trade growth may also suffer, and the pattern of global financial flows could change significantly as a result of on-going crisis.

For India, this kind of global economic scenario is a matter of serious concern. Even more so, if we recognize the economy is not yet firmly placed on 9 percent GDP growth. There is concern about structure of our GDP.

Agriculture's share has been falling, but industry's share remains unchanged. The real problem is that growth is still eluding real sectors. Justified concerns about our political economy, the high incidence of poverty, massive unemployment, and growing income inequality originate from here.

If we look at the comprehensive scenario of the global and domestic economy, it is obvious the preparation of Budget 2008-09 is a highly challenging task. From the point of view of pure economic strategy, the challenge is achieving a good mix of growth and equity. To achieve the latter purpose, the budget provisions have provided to encourage inclusive growth in view of, two things, namely (i) buoyant revenue collection and (ii) high growth. Still there is scope for boosting consumer demand through a focus on employment generation. The manufacturing sector seems to be in the grip of a slowdown, so particular attention has been given to the consumer goods industry, encouraging employment generation on one hand coupled with the reduction in indirect taxes on the other.

Union Budget 2008-09 Analysis

Direct Taxes

This section summarizes the significant proposals on direct taxes made by the Finance Minister on February 29th, 2008. The direct tax provisions in the Finance Bill would ordinarily apply to the Financial year commencing on April 1, 2008 (Assessment year 2009-10).

The proposals to the Finance Bill are subject to ratification from the Parliament of India.

Positive Effects of the Budget - Direct Taxes

Individual Taxation

- 1) **Insertion of a new clause (26AAA) in Section 10**
It has been proposed to exempt income which accrues or arises to a "Sikkimese" individual from any source in the State of Sikkim or by way of dividend or interest on securities.

Retrospective - Effective with retrospective effect from 1st April, 1990.

- 2) **Amendment to Section 10(43) and a corresponding amendment to section 47(b)(xvi) of the Income Tax Act**

The stream of revenue received by the senior citizens would not be "income" through a process of reverse mortgage and thus not liable to income tax. Also, the reverse mortgage would not amount to "transfer" and thus would not attract any capital gains tax either.

This is w.e.f. 1st April, 2008, A.Y. 2008-09.

- 3) **80C Basket of Exemptions Enhanced**
Senior Citizen Saving Scheme 2004 and the Post Office Time Deposit Account subject to conditions and lock-in as prescribed have been added to the basket of saving instruments under Section 80C of the Income Tax Act under the overall limit of Rs. 1,00,000/-.

The principal amounts received by the nominee or the legal heirs of the assessee on his death is not liable to tax.

This is w.e.f. 1st April, 2008, A.Y. 2008-09.

4) **80D Deduction Limits Enhanced**

An additional deduction of Rs.15,000 allowed under Section 80D to an individual paying medical insurance premium for his / her parent or parents, thus increasing the total deduction available to Rs 30,000.

This is w.e.f. 1st April, 2009, A.Y. 2009-10.

5) **Threshold limit of exemption increased**

Threshold limit for Personal income tax slabs in the case of all assesses increased to Rs.150,000.

The revised slabs and rates of tax are:

Up to Rs.150,000	NIL
Rs.150,001 to Rs.300,000	10 per cent + Education cess etc. of 3%
Rs.300,001 to Rs.500,000	20 per cent + Education cess etc. of 3%
Rs.500,001 and above	30 per cent + Education cess etc. of 3%

In case of a woman assessee, the threshold limit increased from Rs.145,000 to Rs.180,000; In case of a senior citizens, the threshold limit increased from Rs.195,000 to Rs.225,000.

Increase in threshold limit of exemption will make a tax saving of Rs 4,000 for individuals, Rs 6,500 for women assesses and Rs 6,000 for senior citizens.

Impact of Budget on Income Tax on Individual Assesses /AOPs / BOIs

Taxable Income	Tax Payable (Pre Budget)	Tax Payable (Post Budget)	Savings
150,000	4,120	-	4,120
200,000	14,420	5,150	9,270
300,000	40,170	15,450	24,720
400,000	71,070	36,050	35,020
500,000	101,970	56,650	45,320
1,100,000	3,16,107	2,66,255	49,852

Impact of Budget on Income Tax on Woman Assesses

Taxable Income	Tax Payable (Pre Budget)	Tax Payable (Post Budget)	Savings
150,000	515	-	515
180,000	6,180	-	6,180
200,000	10,815	2,060	8,755
300,000	36,565	12,360	24,205
400,000	67,465	32,960	34,505
500,000	98,365	53,560	44,805
11,000,00	3,12,141	2,62,856	49,285

Impact of Budget on Income Tax on Senior Citizens Assesses

Taxable Income	Tax Payable (Pre Budget)	Tax Payable (Post Budget)	Savings
150,000	-	-	-
200,000	1,030	-	1,030
225,000	5,150	-	5,150
300,000	26,780	7,725	19,055
400,000	57,680	28,325	29,355
500,000	88,580	48,925	39,655
11,00,000	3,01,378	2,57,758	43,620

Note:

Surcharge and Education cess etc. has been added to the income tax amounts wherever applicable

Corporate Taxation - Business Income

- 6) **Amendments to definition section 2 of the Income Tax Act**
Growing saplings or seedlings in a nursery has been included in the definition of agricultural income and therefore exempt from tax like all other agricultural incomes.
- 7) **Amendment in section 10**
Coir Board included in Section 10(29A) and exempted from income tax.

This is w.e.f. 1st April, 2009, A.Y. 2009-10.
- 8) **Amendment to Section 35**
Amendment is proposed to allow a deduction of an amount equal to one and one-fourth times (125 per cent) of any sum paid to a company set up for carrying out scientific research, provided such company is registered in India; has as its main object the scientific research and development, approved by the prescribed authority in the prescribed manner and fulfils such other conditions as may be prescribed.

This is w.e.f. 1st April, 2009, A.Y. 2009-10.
- 9) **Addition to Companies eligible for Research & Development Deduction** Business of production of seeds and the manufacture of agricultural implements added to the list of companies allowed weighted deduction of 150 per cent on any expenditure on in-house scientific research.

This is w.e.f. 1st April, 2009, A.Y. 2009-10.
- 10) **Amendment to section 35D – Amortization of certain Preliminary Expenses** Benefit of amortization of preliminary expenses under Section 35D allowed to assessees in all sectors by substituting the words “industrial undertaking” by “undertaking” and “industrial units” by “units”.

This is w.e.f. 1st April, 2009, A.Y. 2009-10.
- 11) **Amendment to Section 36 – Other Deductions**
1) Section 36(1)(xv) inserted - Securities Transaction Tax (STT) shall be allowed as a deduction from Profits and Gains of Business or Profession as any other allowable deduction.

This is w.e.f. 1st April, 2009, A.Y. 2009-10.

Thus correspondingly section 40(a)(ib) stands omitted w.e.f. 1st April, 2009, which disallowed the tax so paid as a deduction from Business Income.

The corresponding Rebate of STT under section 88E also correspondingly stands omitted w.e.f. 1st April, 2009

There is no change in the present STT rates.

Levy of STT, in the case of options to be only on the premium

- where the option is not exercised – the liability is to be on the seller
- where the option is exercised - levy to be on the settlement price and the liability is to be on the buyer

STT is levied on the value of taxable securities transactions as under:

Transaction	Purchase/Sale of equity shares, units of equity oriented mutual fund	Sale of equity shares, units of equity oriented mutual fund	Sale of Futures / Options	Sale of unit of an equity oriented fund to the Mutual Fund	Sale of option where option is exercised
	(delivery based)	(non delivery based)			
Rates	0.125 per cent	0.025 per cent	0.017 per cent	0.25 per cent	0.125 per cent
Payable	Purchaser / Seller	Seller	Seller	Seller	Purchaser

2) Section 36(1)(xvi) - **Commodities Transaction Tax (CTT)**

CTT has been introduced by the Finance Bill, 2008 (details given in the later portion of the Analysis) and shall be allowed as a deduction from Profits and Gains of Business or Profession as any other allowable deduction.

This is w.e.f. 1st April, 2009, A.Y. 2009-10.

12) **Amendment to section 47 – Transfers not regarded as transfer for Capital Gains and corresponding amendment to section 49**

A new clause is proposed in section 47 to provide that any transfer by way of conversion of bonds referred to in section 115 AC (1)(a) into shares or debentures of any company (viz. Foreign Currency Convertible Bonds(FCCBs)) will not be regarded as a transfer.

Simultaneously, an amendment is made to section 49 (2A) which relates to cost with reference to certain modes of acquisition, to include the proposed clause in section 47 whereby, the cost of acquisition of such assets to the assessee will be deemed to be that part of the cost of the bond in relation to which such asset is acquired by the assessee.

This is w.e.f. 1st April, 2008, A.Y. 2008-09.

13) **Amendment to Section 80-IB – Deduction in respect of profits and gains from certain industrial undertakings other than infrastructural development undertakings.**

It is proposed to insert a new sub-section (11C) in Section 80-IB to grant a five year tax holiday to encourage hospitals to be set up anywhere in India, except certain specified urban agglomerations, and especially in tier-2 and tier-3 towns in order to serve the rural hinterland. This window will be open for the period April 1, 2008 to March 31, 2013, during which the hospital must commence operations.

This is w.e.f. 1st April, 2009, A.Y. 2009-10.

14) **Amendment to Section 80-ID - Deduction in respect of profits and gains from business of hotels and convention centers in specified area.**

It is proposed to grant a five year holiday from income tax being granted to two, three or four star hotels established in specified districts having UNESCO-declared 'World Heritage Sites';

The window shall be open for the period April 1, 2008 to March 31, 2013 within which the hotel should be constructed and start functioning.

This is w.e.f. 1st April, 2009, A.Y. 2009-10.

15) **Amendment to section 115O – Tax on distributed profits of domestic companies**

It is proposed to allow a Parent company to set off the dividend received from its subsidiary company against dividend distributed by the parent company, provided that the dividend received has suffered Dividend Distribution Tax (DDT) and the parent company is not a subsidiary of another company.

This is effective from 1st April, 2008, A.Y. 2008-09.

Assessment Provisions affecting all Assesses

16) **Amendment to section 143 – Assessment**

Sub-section (2) to section 143 has been amended to provide that the time limit for serving notice for scrutiny assessment has been reduced from 12 months from the end of the month in which such return was filed to 6 months from the end of the financial year in which the return is furnished.

This is w.e.f. 1st April, 2008, 2008-09.

17) **Amendment to section 147 – Income escaping assessment**

In section 147 of the Income Tax Act, the amendment is proposed which will grant the power to the assessing officer to only assess or reassess all incomes, other than the income involving matters which are subject matter of any appeal, reference or revision, which is chargeable to tax and has escaped assessment.

This is w.e.f. 1st April, 2008, A.Y. 2008-09.

Fringe Benefit Tax – Affecting Corporate Assesseees

18) **Amendment to section 115WB – Fringe Benefits**

Employees' welfare is also one of the Fringe Benefits. Presently, any expenditure incurred or payment made to fulfill any statutory obligation or mitigate occupational hazards or provide first aid facilities in the hospital or dispensary run by the Employer, shall not be considered as expenditure on employees' welfare. It is proposed to enlarge the scope of the exclusion in this explanation, by providing that the expenditure incurred or payment made to provide crèche facility for the children of the employees or to sponsor a sportsman, being an employee or organize sports events for employees, shall also not be considered as expenditure on employees' welfare for calculation of Fringe Benefit Tax.

A further amendment is that expenditure on maintenance of guest house would not be considered as a Fringe Benefit.

This is w.e.f. 1st April, 2009, A.Y. 2009-10

19) **Amendment to section 115WC – Valuation of Fringe Benefits**

Presently, the fringe benefit on festival celebration expense is valued at 50 per cent. The amendment proposes to reduce the deemed value of the fringe benefit at 20 per cent.

This is w.e.f. 1st April, 2009, A.Y. 2009-10.

20) **Insertion of new section 115WKB – Deemed Payment of FBT by employees.**

A new section 115WKB is inserted relating to deemed payment of tax by employees.

It states that where an employer pays Fringe Benefit Tax on allotment or transfer of specified security or sweat equity and subsequently recovers such tax from the employees, it shall be deemed that the Fringe Benefit Tax so recovered is the tax paid only to the extent to which the amount thereof relates to the value fringe benefit provided to the employee.

It further provides that the employee shall not be entitled to claim any refund or credit out of such payment against any other tax liability, nor can he claim the FBT paid as the cost of acquisition at the time of computing capital gains at the time of sale of such Esops.

However, the employee can claim credit of such FBT paid by him in foreign country.

This is w.e.f. 1st April, 2008, A.Y. 2008-09.

Withholding Tax Provisions

21) **Amendment to section 193 – Interest on securities**

The proposed amendment in section 193 of the Income Tax Act exempts from withholding tax any interest payable on any securities issued by a company, where such securities is in dematerialized form and is listed on recognized stock exchange in India in accordance with the Securities Contracts (Regulations) Act, 1956 and the rules made thereunder.

Securities will have the same meaning as given under the Securities Contracts (Regulations) Act, 1956

This is w.e.f. 1st June, 2008 A.Y. 2008-09.

22) **Banking Cash Transaction Tax (BCTT) being withdrawn**

Banking Cash Transaction Tax (BCTT) is levied at the rate of 0.1 per cent of the value of following 'taxable banking transactions' entered with any scheduled bank on any single day:

- Withdrawal of cash from any bank account other than a saving bank account; and
- Receipt of cash on encashment of term deposit(s).

Value of taxable banking transaction that attract BCTT:

In case of	Amount (Rs)
An individual or HUF	50,000 or more

Other than an individual or HUF	1,00,000 or more
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Now, the BCTT which was levied on cash transactions has been withdrawn and shall not be levied for transactions entered into on or after 1st April, 2009.

Thus, this is with effect from April 1, 2009.

Special Undertaking of Unit Trust of India (SUUTI)

The exemption to SUUTI from income tax or any other tax on any income, profit or gains derived or any amount received in relation to the specified undertaking, which was unavailable until 31 January 2008, has now been extended upto 31 March 2009.

Negative Effects of the Budget – Direct Taxes

Corporate Taxation

1) **Amendments to definition section 2 of the Income Tax Act**

The definition of 'charitable purpose' has been proposed to be amended by inserting a proviso which excludes from ambit of "advancement of any other object of general public utility"– two activities, viz. (i) any activity in the nature of trade, commerce or business, or (ii) any activity of rendering any service in relation to any trade, commerce or business, for a cess or fee or any other consideration, irrespective of the nature of use or application, or retention, of the income from any such activity.

Genuine charitable organizations will not to be affected in any way.

This is with effect from April 1, 2009, A.Y. 2009-10.

2) **Amendment to Section 35**

No deduction shall be allowed in respect of expenditure which is incurred by a company engaged in the business of Bio-technology or in the business of manufacture or production of any drugs, pharmaceuticals, electronic equipments, computers, telecommunication equipments, chemicals or any other article or thing notified by the Board if such expenditure is incurred after 31st March, 2008.

This is with effect from April 1, 2009, A.Y. 2009-10.

3) **Amendment to Section 36 – Other Deductions**

Commodities Transaction Tax (CTT) to be introduced on the same lines as STT on options and futures. (Details discussed in the later part of this Analysis)

Levy of CTT, in the case of commodity derivative options

- where the option is not exercised – the liability is to be on the seller
- where the option is exercised – the liability is to be on the buyer
- sale of any other commodity derivative – the liability is to be on the seller

This is w.e.f. 1st April, 2009, A.Y. 2009-10.

4) **Amendment in section 40A(3) – Disallowance of certain cash payments**

At present no deduction is allowed for any expenditure incurred by an assessee where payments are made otherwise than by an account payee cheque or account payee bank draft for amounts exceeding Rs. 20,000/- unless covered by the exception in the proviso.

Section 40A (3) & (3A) are proposed to be inserted to substitute sub-section (3) to include any expenditure in respect of which a payment or aggregate of payments are made to a person in a day for amounts exceeding Rs. 20,000/- unless covered by the exception in the proviso. Thus, the disallowance of expenditure from Business income shall be of all such cash payment and / or payments made within the same day exceeding Rs. 20,000/-.

This is w.e.f. 1st April, 2009, A.Y. 2009-10.

5) **Amendment to Section 43**

It is proposed to insert explanation 6 to section 43(6), to define W.D.V of assets in case of assessee who are not required to compute total income for the purposes of the Income Tax Act (E.g. Charitable Trusts etc) wherein the actual cost of the assets is to be adjusted by the amount attributable to the revaluation of such assets (if any) as per the books and depreciation on such assets provided in the books shall be deemed to be depreciation actually allowed, which shall be adjusted by the amount of depreciation attributable to such revaluation.

Retrospective - This is with retrospective effect from 1st April, 2003

6) **Amendment to Section 80-IB – Deduction in respect of profits and gains from certain industrial undertakings other than infrastructural development undertakings.**

No deduction to be available to undertakings engaged in the refining of mineral oil if such undertaking begins refining on or after 1st April, 2009.

This is with effect from 1st April, 2009, A.Y. 2009-10.

7) **Amendment in Section 111A– Tax on short term capital gains in certain cases**

Rate of tax on short term capital gains under Section 111A proposed to be increased from 10 percent to 15 per cent.

This is with effect from 1st April, 2009, A.Y. 2009-10.

8) **Amendment in Section 115AD – Tax on income of FII from securities or capital gains from their transfer**

Rate of tax on short term capital gains under Section 115AD proposed to be increased from 10 percent to 15 per cent.

This is with effect from 1st April, 2009, A.Y. 2009-10.

Minimum Alternate Tax (MAT)

9) **Amendment in Section 115JB – Minimum Alternate Tax**

Explanation to section 115JB requires that for calculating the book profits of the companies, amongst others Income tax paid / payable and the provision therefore has to be added to the book profit.

A new clause has been inserted to provide that the book profits shall also be increased by the amount of deferred tax and the provision therefore, if debited to Profit & Loss A/c. Further, it is clarified that “income tax” shall include Dividend Distribution Tax.

Retrospective - This is with retrospective effect from 1st April, 2001

SRD View: No such corresponding clarification has been given for the reduction of the deferred tax asset, if the same has been credited to the profit and loss account. Thus, this shall not be reduced while computing the Book Profits for MAT purposes. However, in public forms the Finance Minister has assured Industry that the corresponding amendment shall be incorporated at the time of passing of the Finance Bill, 2008 by the Parliament.

Fringe Benefit Tax (FBT)

10) **Amendment to section 115WB – Fringe Benefits**

Under Section 115WB, relating to Fringe Benefits, the expression ‘specified securities’ has been defined, which includes employees’ stock option. It is proposed to amend this definition to include securities offered under an employees stock option plan or schemes, where the employees stock option has been granted.

This amendment is effective from 1st April 2008, A.Y.2008-2009.

Hospitality expenditure incurred by the Employer is considered a Fringe benefit. Presently, expenditure on food or beverages incurred by the Employer on the employees in the office or factory and expenditure paid through non transferable vouchers usable only at joints or outlets are excluded from the definition of Hospitality.

The amendment now seeks to provide that only expenditure or payment through non-transferable prepaid electronic meal card usable only at eating joints or outlets and which fulfills such other conditions, as may be prescribed, shall be excluded from the meaning of Hospitality expenditure for calculation of Fringe Benefits Tax.

This amendment is effective from 1st April, 2009, A.Y. 2009-2010.

11) Amendment to section 115WD – Return of Fringe Benefits –

The due date for filing Fringe Benefit Tax return for a company or a non- company assessee, whose accounts are required to be audited was 31st October of the assessment year. It is proposed to bring forward the due date to 30th September.

This amendment is effective from 1st April, 2008, A.Y. 2008-2009.

12) Amendment to section 115WE – Assessment of Fringe Benefits –

Section 115WE(1) lays down the manner in which the Fringe Benefit return is to be processed. Amendments have been made in the said section on the same lines as amendments to the manner of processing a return of income u/s 143 of the Act.

This amendment is effective from 1st April, 2008, A.Y. 2008-2009.

Assessment Provisions affecting all Assesses –**13) Amendment to section 139 - Due date for filing of return –**

The due date for filing of return of income in following cases has been pre-poned to 30th day of September of the assessment year as against existing due date of the 31st day of October of the assessment year for the following assesses:

- A Company
- A Person whose accounts are required to be audited under the Income Tax Act or any other law
- A working partner of a firm whose accounts are required to be audited under provision of the Act.

This proposal has been proposed to be effective from current assessment year and accordingly the return of income for Assessment year 2008 – 2009 shall be required **to be filed on or before 30th September 2008.**

Further, as per the amendments to sections 203 and 206C, the withholding tax certificates will now be required to be mandatorily filed / issued till 1st April, 2010 with the Return of Income filed, failing which will render the return so filed defective.

14) Amendment to section 142 – Inquiry before assessment

Presently the Assessing officer can extend the time limit for completion of a special audit only if an application is made on this behalf by the assessee and where there are good and sufficient reasons for such extension.

Now, the assessing officer has been granted the power to extend such time limit on his own aswell.

This is w.e.f. 1st April, 2008, A.Y. 2008-09.

15) Amendment to section 143 – Assessment

Under the existing provisions of section 143(1), there is no provision for correcting arithmetical mistakes or internal inconsistencies. This leads to avoidable revenue loss. With an objective to reduce such revenue loss, it is proposed to amend section 143(1) of the Income-tax Act.

It is proposed to provide that the total income of an assessee shall be computed under section 143(1) after making the following adjustments to the total income in the return:-

- (a) any arithmetical error in the return; or
- (b) an incorrect claim, if such incorrect claim is apparent from any information in the return.

Further it is proposed to clarify the meaning of the term “an incorrect claim apparent from any information in the return”. This term shall mean such claim on the basis of an entry, in the return, –

- (a) of an item, which is inconsistent with another entry of the same or some other item in such return;
- (b) in respect of which, information required to be furnished to substantiate such entry, has not been furnished under this Act; or
- (c) in respect of a deduction, where such deduction exceeds specified statutory limit which may have been expressed as monetary amount or percentage or ratio or fraction.

Further, these adjustments will be made only in the course of computerized processing without any human interface. In other words, the software will be designed to detect arithmetical inaccuracies and internal inconsistencies and make appropriate adjustments in the computation of the total income. For this purpose the Department is in the process of establishing a system for Centralized Processing of Returns. To facilitate this, it is also proposed that –

- (a) the Board may formulate a scheme with a view to expeditiously determine the tax payable by, or refund due to, the assessee;
- (b) the Central Government may issue a notification in the Official Gazette, directing that any of the provisions of this Act relating to processing of returns shall not apply or shall apply with such restrictions, modifications and adaptations as may be specified in the notification. However, such direction shall not be issued after 31st March 2009.
- (c) every notification shall be laid before each House of Parliament as soon as such notification is issued. Along with the notification, the scheme referred above is also required to be laid before each House of Parliament.

These amendments will take effect from 1st April, 2008, A.Y. 2008-09.

16) Amendment to section 151 – Sanction for issue of notice

It is proposed to amend section 151 of the Income-tax Act to provide that the Joint Commissioner, the Commissioner or the Chief Commissioner, as the case may be, are required only to be satisfied on the reasons recorded by the assessing officer about fitness of a case for the issue of notice under section 148. There is no further requirement for him to issue the notice himself.

Retrospective - This is w.r.e.f. 1st October, 1998.

17) Amendment to section 153 – Time limit for completion of assessment and reassessments

It is also proposed to amend section 153 of the Income tax Act so as to allow a minimum time period of one year to the Income tax authority for completion of assessment and / or re-assessment before whom the case was pending when the application was filed with the Settlement Commission.

Retrospective - This time limit is applicable retrospectively with effect from 1st of June 2007.

It shall be deemed that this revised time limit will apply to all cases where settlement proceedings have abated from 1st of June 2007 and thereafter.

18) Amendment to section 153A – Assessment in case of search or requisition

If assessment / reassessment proceedings pursuant to search are annulled in appeal / legal proceedings, the abated assessment / reassessment in respect of that year will stand revived. In case the order of annulment is set aside, such revival will cease to have effect.

Retrospective - This amendment will take effect retrospectively from 1st June 2003.

19) Amendment to section 153B – Time-limit for completion of assessment under section 153A (amended)

For computing the period of limitation under section 153B for assessment in the Explanation a new sub-clause (vii) has been inserted to read as “the period commencing from the date of annulment of a proceeding or order of assessment or re-assessment referred to in sub section (2) of section 153A till the date of the receipt of the order setting aside the order of such annulment, by the Commissioner”

Retrospective - This amendment will take effect retrospectively from 1st June 2003.

20) Amendment to section 153C – Assessment of Income of any other person

In section 153C of the Income Tax Act, in sub-section (1), in the proviso, for the word, figures and letters “section 153A”, the words, brackets, figure and letters “sub-section (1) of section 153A” shall be substituted.

Retrospective - This amendment will take effect retrospectively from 1st June 2003.

21) Amendment to section 153D – Prior approval necessary for assessment in cases of search or requisition.

In section 153D of the Income Tax Act, for the word, figures and letters “sub-section (1) of section 153A” shall be substituted.

Retrospective - This amendment will take effect retrospectively from 1st June 2003.

22) Amendment to section 156 – Notice of demand

In section 156 of the Income Tax Act, the following proviso shall be inserted, namely:- “Provided that where any sum is determined to be payable by the assessee under sub-section (1) section 143, the intimation under that sub-section shall be deemed to be a notice of demand for the purpose of this section.”

This is w.e.f. 1st April, 2008, A.Y. 2008-09.

23) Amendment to section 191 – Direct Payment

The Explanation to section 191 has now included the employer (same as under section 192 (1A)) as also responsible for the deduction and payment of withholding tax in addition to the principal officer of the Company and the assessee directly himself and if such employer does deduct or after deducting fails to pay the tax, he shall be deemed to be an assessee in default as per section 201(1) amended.

Retrospective - This is w.r.e.f. 1st June 2003.

Withholding Tax Provisions**24) Amendment to section 194C – Payments to contractors and sub-contractors**

In section 194C of the Income Tax Act now all AOPs or BOIs, whether incorporated or not will be liable to withhold taxes on payments made to contractors or sub-contractors.

This is with effects from the 1st day of June 2008

25) Amendment to section 195 – Other sums & Corresponding amendment in section 295 – Power to make Rules

In section 195 of the Income Tax Act, now all persons required to deduct and deposit withholding tax shall furnish the information relating to payment of any sum in such form and manner as may be prescribed by the Board.

The Board is empowered to prescribe the manner in which such information has to be filed under section 295(2)(fa).

With effect from 1st day of April 2008, A.Y. 2008-09.

26) Amendment to section 199 – Credit for tax deducted subject to CBDT Rule

Presently credit for taxes withheld / collected at source is subject to furnishing tax withholding / collection certificates. Now, the CBDT has been given power to make rule for granting credit for such taxes withheld / collected.

This amendment is w.e.f. 1st April, 2008, A.Y. 2008-09.

27) Amendment to section 201 – Consequences of failure to deduct or pay

Assessee in default to include person required to withhold tax – A clarification has been introduced to provide that an 'assessee in default' includes any person required to withhold tax u/s 192 irrespective of whether such taxes have been withheld

Retrospective - This is w.e.f. 1st June 2002.

28) Amendment to section 203 – Certificate for tax deducted - Requirement to issue tax withholding / collection certificates

There was going to be no requirement to issue tax withholding / collection certificates for tax withheld / collected on or after 1st April 2008. Now, the date has been extended to 1st April 2010.

Hence, tax withholding / collection certificates will have to be issued for taxes withheld / collected up to March 31st 2010. This amendment is w.e.f. 1st April, 2008, A.Y. 2008-09.

29) Amendment to section 206C – Profits and gains from business of trading in alcoholic liquor, forest produce and scrap etc.

A corresponding amendment has been made to section 206C in addition to section 203, since the requirement of a tax withholding certificate has been extended to from 1st April, 2008 to 1st April, 2010. Therefore now, till 1st April, 2010 withholding tax certificates need to be issued for the claiming of tax credit at the time of filing of return of income.

This amendment is w.e.f. 1st April, 2008, A.Y. 2008-09.

Appeals to Appellate Tribunal

30) Amendment to section 254 – Orders of Appellate Tribunal - Time limit for grant of stay by ITAT

Now, the ITAT will not grant a stay beyond an aggregate period of 365 days, even if the delay in disposing of the appeal is not attributable to the assessee.

This amendment is w.e.f. 1st October, 2008

General Provisions under Chapter XX

31) Amendment to section 268A – Filing of Appeal or application for reference by income tax authority

A new provision is introduced to protect the right to appeal by the income tax authorities, as per the provision, the CBDT is to regulate filing of an appeal / application for reference by the income tax authorities.

Retrospective - This provision will be applicable retrospectively with effect from 1st April 1999.

Penalties Imposable & Offences and Prosecution

32) Amendment to section 271 – Failure to furnish returns, comply with notices, concealment of income, etc. - Deemed satisfaction for initiation of penalty proceedings

It is now clarified that where any amount is added or disallowed in computing the total income or loss of an assessee and the order contains a direction for initiation of penalty proceeding, the same shall be deemed to constitute satisfaction for the assessing officer to initiate penalty proceeding.

Retrospective - This provision will be applicable retrospectively with effect from 1st April 1989.

33) Insertion of new sections 273AA & 278AB – Power of Commissioner to grant immunity from penalty and prosecution

Immunity from penalty and prosecution in case of abatement of settlement proceedings

- A new scheme for settlement of cases was introduced by the Finance Act 2007. As per the scheme, if an order for settlement is not passed within prescribed period, the proceedings before the Settlement Commission will abate and the income tax authority will resume and complete the proceedings.

- In such case of abatement, the following scheme has been introduced for immunity from penalty:
 - The taxpayer can make an application to the Commissioner at any time for immunity if the penalty was levied before or during the pendency of settlement proceeding. However, if no such penalty was levied till the time of abatement of settlement proceedings, then the assessee may apply for immunity before imposition of penalty by the income tax authority.

 - Immunity can be granted by the Commissioner on satisfaction of the fact that the assessee has cooperated in the proceeding after abatement and has made a full and true disclosure of the income and the manner in which such income is derived.

 - Immunity granted can be withdrawn, if the condition for immunity are not complied with or the Commissioner is satisfied that after abatement, the assessee concealed any particulars from the income tax authority or gave false evidence.

Similar provisions have been introduced for immunity from prosecution.

This amendment is w.e.f. 1st April, 2008, A.Y. 2008-09

In case of abatement, a minimum period of one year will be allowed to the income tax authority for completion of assessment. This amendment will take effect from 1st June 2007.

23) **Insertion of new section 292BB – Notice deemed to be valid in certain cases**

Presently, a notice is required to be served on an assessee on time and in a prescribed manner.

Now, an assessee will be deemed to have been served a notice in accordance with the income tax act where an assessee has appeared in any proceedings or co-operated in an inquiry related to any assessment or re-assessment. For the, such assessee will be precluded from taking any objections in any proceedings of inquiry that the notice was not served, not served in time or served in an improper manner.

This amendment is w.e.f. 1st April, 2008, A.Y. 2008-09

24) **Amendment to section 292C – Presumption as to assets, books of accounts etc.**

Presently, the presumption that the books of account, other documents and specified assets found in the possession and or control of the person belong to such person and such books of account and documents are correct applies in cases of search.

Now, such presumption has been extended to survey operations also w.r.e.f. 1st June 2002.

The above presumption will also extend to books of account, other documents and assets delivered to the requisitioning officer w.r.e.f. 1st October 1975

Now, such presumption has been extended to survey operations also w.r.e.f. 1st June 2002.

The above presumption will also extend to books of account, other documents and assets delivered to the requisitioning officer.

Retrospective - This provision will be applicable retrospectively with effect from 1st October 1975.

Others

COMMODITY TRANSACTION TAX (CTT)

Scope

Commodities Transaction Tax shall extend to whole of India and shall be applicable to taxable commodities transactions entered into on or after the date which the Central Government in the Official Gazette may notify.

CTT is levied on the value of taxable commodities transactions as under:

Transaction	Sale of an option in goods or an option in commodity derivative where option is not exercised	Sale of an option in goods or an option in commodity derivative where option is exercised	Sale of any other commodity derivative
Rate	0.017 per cent	0.125 per cent	0.017 per cent
Payable by	Seller	Purchaser	Seller

Definitions

Various terms and expressions have been defined in the chapter and the words and expressions used but not defined shall have the same meaning as assigned to them in the Forward Contracts (Regulations) Act 1952, the Income Tax Act, 1961 and the rules made there under.

Taxable Commodities Transaction

Taxable commodities transaction has been defined to mean a transaction of purchase or sale of option in goods, or option in commodity derivative, or any other commodity derivative, traded in recognized associations.

Computation of Value of Taxable Commodities Transactions

The method and manner for computing the value of a taxable commodities transaction is provided as under:

- In the case of sale of an option in goods or an option in commodity derivative, where option is not exercised – The option premium
- In the case of sale of an option in goods or an option in commodity derivative, where option is exercised – The settlement price of the option in goods or option in commodity derivative, as the case may be.
- In the case of sale of any other commodity derivative – The price at which the commodity derivative is sold.

Collection and Recovery of Commodities Transaction Tax and Furnishing of Return

- The amount of tax collected by the recognized association shall be paid to the credit of the central government by 7th day of the month following the month in which the commodities transaction tax is collected.
- The association shall be responsible to furnish a return in respect of all taxable commodities transactions entered into during the financial year in prescribed manner setting forth such particular as may be prescribed.
- The assessing officer shall have the power to issue notice requiring the stock exchange to furnish such return within such time as specified in the notice.

Bird's Eye-view

Positive Effects of the Budget - Direct Taxes		Negative Effects of the Budget – Direct Taxes	
Individual Taxation		Individual Taxation	
Sections	Effective Dates	Sections	Effective Dates
Insertion of a new clause (26AAA) in Section 10	Retrospective - 1st April, 1990.	Amendment in Section 111A– Tax on short term capital gains in certain cases	This is with effect from 1st April, 2009, A.Y. 2009-10.
Amendment to Section 10(43) and a corresponding amendment to section 47(b)(xvi) of the Income Tax Act	This is w.e.f. 1 st April, 2008, A.Y. 2008-09.		
80C Basket of Exemptions Enhanced	This is w.e.f. 1 st April, 2008, A.Y. 2008-09.		
80D Deduction Limits Enhanced	This is w.e.f. 1 st April, 2009, A.Y. 2009-10.		
Threshold limit of exemption increased	This is w.e.f. 1 st April, 2009, A.Y. 2009-10.		
Corporate Taxation		Corporate Taxation	
Amendments to definition section 2 of the Income Tax Act		Amendments to definition section 2 of the Income Tax Act	This is with effect from April 1, 2009, A.Y. 2009-10.
Amendment in section 10	This is w.e.f. 1 st April, 2009, A.Y. 2009-10.	Amendment to Section 35	This is with effect from April 1, 2009, A.Y. 2009-10.
Amendment to Section 35	This is w.e.f. 1 st April, 2009, A.Y. 2009-10.	Amendment to Section 36 – Other Deductions	This is w.e.f. 1 st April, 2009, A.Y. 2009-10.
Amendment to section 35D – Amortization of certain Preliminary Expenses	This is w.e.f. 1 st April, 2009, A.Y. 2009-10.	Amendment in section 40A(3) – Disallowance of certain cash payments	This is w.e.f. 1 st April, 2009, A.Y. 2009-10.
Amendment to Section 36 – Other Deductions	This is w.e.f. 1 st April, 2009, A.Y. 2009-10.	Amendment to Section 43	Retrospective - This is with retrospective effect from 1st April, 2003

Positive Effects of the Budget - Direct Taxes		Negative Effects of the Budget – Direct Taxes	
Section 36(1)(xvi) - Commodities Transaction Tax (CTT)	This is w.e.f. 1 st April, 2009, A.Y. 2009-10.	Amendment to Section 80-IB – Deduction in respect of profits and gains from certain industrial undertakings other than infrastructural development undertakings.	This is with effect from 1st April, 2009, A.Y. 2009-10.
Capital Gains Tax		Capital Gains Tax	
Amendment to section 47 – Transfers not regarded as transfer for Capital Gains and corresponding amendment to section 49	This is w.e.f. 1 st April, 2008, A.Y. 2008-09.	Amendment in Section 111A– Tax on short term capital gains in certain cases	This is with effect from 1st April, 2009, A.Y. 2009-10.
Other Deductions			
Amendment to Section 80-IB – Deduction in respect of profits and gains from certain industrial undertakings other than infrastructural development undertakings.	This is w.e.f. 1 st April, 2009, A.Y. 2009-10.	Amendment in Section 115AD – Tax on income of FII from securities or capital gains from their transfer	This is with effect from 1st April, 2009, A.Y. 2009-10.
		Minimum Alternate Tax (MAT)	
Amendment to Section 80-ID - Deduction in respect of profits and gains from business of hotels and convention centers in specified area.	This is w.e.f. 1 st April, 2009, A.Y. 2009-10.	Amendment in Section 115JB – Minimum Alternate Tax	Retrospective - This is with retrospective effect from 1st April, 2001
DDT			
Amendment to section 115O – Tax on distributed profits of domestic companies	This is effective from 1 st April, 2008, A.Y. 2008-09.		
Fringe Benefit Tax – Affecting Corporate Assesseees		Fringe Benefit Tax – Affecting Corporate Assesseees	
Amendment to section 115WB – Fringe Benefits	This is w.e.f. 1 st April, 2009, A.Y. 2009-10	Amendment to section 115WB – Fringe Benefits	This amendment is effective from 1 st April 2008, A.Y.2008-2009.
Amendment to section 115WC – Valuation of Fringe Benefits	This is w.e.f. 1st April, 2009, A.Y. 2009-10.	Amendment to section 115WD – Return of Fringe Benefits	This amendment is effective from 1 st April, 2008, A.Y. 2008-2009.
Insertion of new section 115WKB – Deemed Payment of FBT by employees.	This is w.e.f. 1st April, 2008, A.Y. 2008-09.	Amendment to section 115WE – Assessment of Fringe Benefits	This amendment is effective from 1 st April, 2008, A.Y. 2008-2009.

Positive Effects of the Budget - Direct Taxes		Negative Effects of the Budget – Direct Taxes	
Assessment Provisions affecting all Assesses		Assessment Provisions affecting all Assesses –	
Amendment to section 143 – Assessment	This is w.e.f. 1 st April, 2008, 2008-09.	Amendment to section 139 - Due date for filing of return	This is with effect from A.Y 2008-2009
Amendment to section 147 – Income escaping assessment	This is w.e.f. 1 st April, 2008, A.Y. 2008-09.	Amendment to section 142 – Inquiry before assessment	This is w.e.f. 1 st April, 2008, A.Y. 2008-09.
		Amendment to section 143 – Assessment	With effect from 1st April, 2008, A.Y. 2008-09.
		Amendment to section 151 – Sanction for issue of notice	Retrospective - This is w.r.e.f. 1 st October, 1998.
		Amendment to section 153 – Time limit for completion of assessment and re-assessments	Retrospective - This time limit is applicable retrospectively with effect from 1st of June 2007.
		Amendment to section 153A – Assessment in case of search or requisition	Retrospective - This amendment will take effect retrospectively from 1 st June 2003.
		Amendment to section 153B – Time-limit for completion of assessment under section 153A (amended)	Retrospective - This amendment will take effect retrospectively from 1 st June 2003.
		Amendment to section 153C – Assessment of Income of any other person	Retrospective - This amendment will take effect retrospectively from 1 st June 2003.
		Amendment to section 153D – Prior approval necessary for assessment in cases of search or requisition.	Retrospective - This amendment will take effect retrospectively from 1 st June 2003.
		Amendment to section 156 – Notice of demand	This is w.e.f. 1 st April, 2008, A.Y. 2008-09.

Positive Effects of the Budget - Direct Taxes		Negative Effects of the Budget – Direct Taxes	
		Amendment to section 191 – Direct Payment	Retrospective - This is w.r.e.f. 1 st June 2003.
Withholding Tax Provisions		Withholding Tax Provisions	
Amendment to section 193 – Interest on securities	This is w.e.f. 1 st June, 2008 A.Y. 2008-09.	Amendment to section 194C – Payments to contractors and sub-contractors	This is with effects from the 1 st day of June 2008
Banking Cash Transaction Tax (BCTT) being withdrawn		Amendment to section 195 – Other sums & Corresponding amendment in section 295 – Power to make Rules	With effect from 1 st day of April 2008, A.Y. 2008-09.
		Amendment to section 199 – Credit for tax deducted subject to CBDT Rule	This amendment is w.e.f. 1 st April, 2008, A.Y. 2008-09.
		Amendment to section 201 – Consequences of failure to deduct or pay	Retrospective - This is w.e.f. 1 st June 2002.
		Amendment to section 203 – Certificate for tax deducted - Requirement to issue tax withholding / collection certificates	This amendment is w.e.f. 1 st April, 2008, A.Y. 2008-09.
		Amendment to section 206C – Profits and gains from business of trading in alcoholic liquor, forest produce and scrap etc.	This amendment is w.e.f. 1 st April, 2008, A.Y. 2008-09.
		Appeals to Appellate Tribunal	
		Amendment to section 254 – Orders of Appellate Tribunal - Time limit for grant of stay by ITAT	This amendment is w.e.f. 1 st October, 2008
		General Provisions under Chapter XX	
		Amendment to section 268A – Filing of Appeal or application for reference by income tax authority	Retrospective - This provision will be applicable retrospectively with effect from 1 st April 1999.

Positive Effects of the Budget - Direct Taxes		Negative Effects of the Budget – Direct Taxes	
		Penalties Imposable & Offences and Prosecution	
		Amendment to section 271 – Failure to furnish returns, comply with notices, concealment of income, etc. - Deemed satisfaction for initiation of penalty proceedings	Retrospective – This provision will be applicable retrospectively with effect from 1 st April 1989.
		Insertion of new sections 273AA & 278AB – Power of Commissioner to grant immunity from penalty and prosecution	This amendment is w.e.f. 1 st April, 2008, A.Y. 2008-09
		Insertion of new section 292BB – Notice deemed to be valid in certain cases	This amendment is w.e.f. 1 st April, 2008, A.Y. 2008-09
		Amendment to section 292C – Presumption as to assets, books of accounts etc.	Retrospective - This provision will be applicable retrospectively with effect from 1 st October 1975.

Wealth Tax - Highlights

- It has been proposed, effective 1st April, 2008, that the assessing officer shall be empowered to assess or reassess net wealth, which has in his view escaped assessment, which is chargeable to tax by issuance of appropriate notice only with regard to those net wealth which involves matters which are not the subject matter of any appeal, reference or revision. It has been further clarified that such notices need not be issued by Joint Commissioner, Commissioner or Chief Commissioner.
- Effective 1st June 2007, where proceedings before settlement commission has been abated, the time limit for completion of assessments would be a maximum period of one year.
- New sections have been inserted, with effect from 1st April, 2008, relating to the power of Commissioner to grant immunity from penalty as well as prosecution, under specified circumstances on fulfillment of specified conditions.
- All documents, books of accounts & assets delivered to the requisitioning officer on a Search would be presumed to belong to the assessee & its contents would be presumed, with effect from 1st October 1975, to be true & binding on the assessee.

Indirect Taxes

Customs duties

Main Highlights

- No change in the peak rate of customs duty.

Rate Movement

- Customs duty on Project Imports to reduce from 7.5 per cent to 5 per cent; 4 per cent special CVD to be imposed on a few specified projects in the power sector.
- Customs duty being reduced on steel melting scrap and aluminum scrap from 5 per cent to nil.
- Customs duty to be reduced from 10 per cent to 5 per cent on certain specified life saving drugs and on the bulk drugs used for the manufacture of such drugs. They are also being exempted from excise duty or countervailing duty.
- Customs duty is being reduced on vitamin premixes and mineral mixtures from 30 per cent to 20 per cent and on phosphoric acid from 7.5 per cent to 5 per cent to reduce cost of manufacture of dairy and poultry feeds.
- Customs duty being reduced on bactofuges from 7.5 per cent to nil for the benefit of dairy industry and to increase shelf life of milk
- Specified parts of set top boxes and specified raw materials for use in the IT/ electronic hardware industry to be exempted from customs duty.
- Customs duty on convergence products to be reduced from 10 per cent to 5 per cent to establish parity between devices used in the information/ communication sector and the entertainment sector
- Customs duty being reduced on specified machinery from 7.5 per cent to 5 per cent to provide fillip to the manufacture of sports goods; duty also being exempted on specified raw materials for sports goods.
- Customs duty to be exempted on rough cubic zirconia and being reduced on polished cubic zirconia from 10 per cent to 5 per cent, in order to encourage value addition and exports by gem and jewellery industry; Customs duty on rough coral being reduced from 10 per cent to 5 per cent.
- Customs duty removed on helicopter simulators to facilitate training of helicopter pilots
- Customs duty reduced on crude and unrefined sulphur from 5 per cent to 2 per cent, in order to support domestic fertiliser production
- Customs duty exemption is proposed to be withdrawn on naphtha for use in the manufacture of polymers in order to correct price distortions and revenue losses. Naphtha for use in the manufacture of polymers will be subjected to normal rate of 5 per cent. Naphtha imported for the production of fertilizers will continue to be exempt from import duty.
- Export duty on chrome being increased from Rs.2,000 per metric tonne to Rs.3,000 per metric tonne in order to conserve and make it available for value added manufacture in India.

Rate Movement

Changes in the rates of custom duty on some key items are set out below:-

Item	Rate of Movement (%)		Movement
	From	To	
Aluminum Scrap	5	Nil	↓
Bactofuges	7.5	Nil	↓
Cigars, Cheroots and Cigarillos	30	60	↑
Crude or unrefined sulfur	5	2	↓
Feed Additives/pre-mixes	30	20	↓
Helicopter Simulators	10	Nil	↓
Live Saving Drugs and bulk drugs for manufacturing	10	5	↓
Melting scrap of iron or steel	5	Nil	↓
Project Imports	7.5	5	↓
Phosphoric Acid	7.5	5	↓
Polished Cubic Zirconia	10	5	↓
Rough Cubic Zirconia	5	Nil	↓
Specified parts of set top boxes	7.5	Nil	↓
Specified convergence products	10	5	↓
Specified machinery for manufacture of sports goods	7.5	5	↓
Specified raw materials for tyre industry	10	5	↓
Tuna bait	30	Nil	↓
Unworked or simply prepared corals	10	5	↓
Vitamin mix for poultry feed	30	20	↓

Excise duty

Main Highlights

- General CENVAT rate on all goods reduced from 16 per cent to 14 per cent to give a stimulus to the manufacturing sector.
- Excise duty on all goods produced in the pharmaceutical sector reduced from 16 per cent to 8 per cent.
- Excise duty being increased on packaged software from 8 per cent to 12 per cent, bringing at par with customised software attracting a service tax of 12 per cent.
- NCCD of 1 per cent removed on polyester filament yarn and the levy shifted to cellular mobile phones.

Rate Movement

- Excise duty reduced on buses and their chassis from 16 per cent to 12 per cent.
- Excise duty reduced on small cars from 16 per cent to 12 per cent and on hybrid cars from 24 per cent to the general revised rate of 14 per cent.
- Excise duty reduced on two wheelers and three wheelers from 16 per cent to 12 per cent.
- Excise duty to be reduced on paper, paper board and articles made there from manufactured out of non-conventional raw materials by units not having an attached bamboo/wood pulp making plant from 12 per cent to 8 per cent with a further reduction on clearances up to 3,500 MT from 8 per cent to nil. Excise duty on certain varieties of writing, printing and packing paper is to be reduced from 12 per cent to 8 per cent.
- Excise duty is to be reduced from 16 per cent to nil on a few mass consumption items including composting machines, wireless data cards, packaged coconut water, tea and coffee mixes, and puffed rice.
- Excise duty reduction from 16 per cent to 8 per cent on a few more items including water purification devices, veneers and flush doors, sterile dressing pads etc. specified packaging material and breakfast cereals.
- Anti AIDS drug, Atazanavir, as well as bulk drugs for its manufacture are to be exempted from excise duty.
- Excise duty being exempted on end-use basis, on refrigeration equipment (consisting of compressor, condenser units, evaporator, etc) above 2 TR (tonne refrigeration) utilising power of 50 KW and above.
- Excise duty rates on bulk cement and packaged cement brought on par; bulk cement to attract excise duty of Rs.400 per Metric Tonne or 14 per cent ad valorem, whichever is higher; cement clinkers excise duty at Rs.450 per Metric Tonne.
- Excise duty on both filter and non-filter cigarettes brought on par by applying higher rates on non-filter cigarettes.
- Ad valorem part of the excise duty on unbranded petrol and unbranded diesel being abolished and replaced by an equivalent specific duty of Rs.1.35 per litre; there will be only a specific duty of Rs.14.35 per litre on unbranded petrol and Rs.4.60 per litre on unbranded diesel; there will be no impact on retail prices.

Rate Movement

Changes in the basic duty rates on some key items are set out below:-

Item	Rate of Movement (%)		Movement
	From	To	
Drug Formulations	16	8	↓
Small Cars	16	12	↓
Hybrid Cards	24	14	↓
Two Wheelers and Passenger	16	12	↓
Cornflakes and breakfast cereals	16	8	↓
Tea and coffee pre-mixes	16	Nil	↓
Wireless data modern cards	16	Nil	↓
MP4 Player	16	8	↓
Water filtration and purification devices	16	8	↓
Cigarettes (non filtered)			
• Length not exceeding 60 mm	Rs. 168 per thousand	Rs. 819 per thousand	↑
• Length exceeding 60 mm	Rs. 546 per thousand	Rs. 1323 per thousand	↑
Inks for marker pens and highlighters	16	8	↓
Clinker	Rs. 350 per MT	Rs. 450 MT	↑
Printer – line, dot matrix, laser, daisy wheel and inkjet	16	Nil	↓
Packaged Software	8	12	↑

Service tax

Main Highlights

Four New Services under Tax Net

- Four services brought under service tax net namely, asset management service provided under ULIP, services provided by stock/commodity exchanges and clearing houses; right to use goods, in cases where VAT is not payable; and customized software, to bring it on par with packaged software and other IT services.

Exemption Limit Raised

- Threshold limit of exemption for small service providers increased from Rs.8 lakhs per year to Rs.10 lakh per year; about 65,000 small service providers go out of the tax net.

Service Tax Disputes Resolution Scheme 2008

Highlights of the scheme:

- Applicable in cases where tax arrears include service tax amount more than twenty thousand and where notice or order has been issued.
- A declaration shall be made before designated authority in such form and manner within the specific time frame
- Designated Authority shall pass the order on the basis of the declaration received.
- The matter once determined will not be open for such dispute before any court of law or before any other forum.
- Amount paid in pursuance of the declaration shall not be refundable under any circumstances.
- Central Government empowered to make rules for carrying out the provision of the scheme and the same are to be laid before each house of parliament.
- It has been clarified that following service provider are liable to pay Service Tax, although it is widely believed that need not:
 - Money changers
 - Persons running games of chance and
 - Tour operators using contract carriage vehicles

Sources

Speech of Hon'ble Finance Minister P.Chidambaran

Finance Bill, 2008

Economic Survey of India 2008

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This booklet summarizes the important proposals included in the budget speech made by the Honorable Finance Minister on 29th February 2008. Whilst every care has been taken in the preparation of this document it may contain inadvertent errors for which we shall not be held responsible. It must be stressed that the finance bill may contain proposals which have not been referred to in the budget speech and additionally, the detailed proposals are liable to amendment during the passage of the finance bill through Parliament. The information given in this document provides a bird's eye view on the changes proposed and should not be relied for the purpose of economic or financial decision. Each such decision would call for specific reference of the relevant statutes and consultation of an expert.

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