



***BUDGET* 2011**

Is the **wait?**
finally over ●

The title 'Budget Overview' is written in a large, white, italicized serif font with a thin black outline. A horizontal arrow points to the right from the end of the text. In the background, there is a faint, large clock face with numbers 12, 1, 2, 3, and 4 visible.

Hotel Grand Hyatt, Mumbai

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Presented by

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- Direct Tax Proposals
- Indirect Tax Proposals



Key Reforms

- Direct Taxes Code (DTC) to be effective from April 2012
- Five fold strategy- to deal with the problem of generation and circulation of black money
- SEBI registered Indian Mutual Funds to have direct access to foreign investors
 - Subject to fulfillment of KYC requirements.
- FII limit for investment in corporate bonds raised
 - Infrastructure sector to US Dollar 25 billion
 - Corporate bonds to US Dollar 40 billion

Key Reforms

- FII permitted to invest in unlisted bonds of Infrastructure companies with a 3 year lock in period
 - May trade amongst themselves during the lock in period.
- Capital investment in fertilizer production, cold chains and post harvest storage to be recognized as a infrastructure sub sector
- “Infrastructure debt funds” - To attract foreign funds for financing projects .



Direct Tax

Proposals



Tax Rates & Revision in Slabs

- Reduction in Surcharge rate
 - Domestic Companies from 7.5% to 5%.
 - Foreign Companies from 2.5% to 2%.
- MAT rate increased from 18 % to 18.5 %
- Income tax exemption limit raised from Rs 1.6 lac to Rs 1.8 lac for individual tax payers
- Senior citizens qualifying age reduced from 65 years to 60 years
 - Tax exemption limit raised to Rs 2.5 lac
- New very Senior Citizens category for 80+ years
 - Tax exemption limit of up to Rs 5 lac

Exemptions and Deductions

- Benefits to SEZs withdrawn
 - MAT applicable to developer of SEZ and the units set up in SEZ
 - SEZ developers are subject to DDT on distribution of dividends
- Weighted deduction on payments made to approved scientific research institutions enhanced from 175% to 200%
- More businesses specified for investment linked deduction
 - Developing and building a housing project under a scheme for affordable housing' and
 - Production of fertilizer, anywhere in India
- Extension of profit linked deduction to 31st March, 2012- for entities engaged in generation and distribution of power.

New Proposals

- Dividends received by an Indian company from its subsidiary foreign company will be subject to special tax rate of 15% but no deduction of expenditure allowed
- A Subsidiary Foreign Company means a Company in which the Indian Company holds more than half in nominal value of the equity share capital of the Company.
- Introduction of Infrastructure Debt Fund ('IDF')
 - Income earned by IDF is exempt
 - Foreign investors can invest and subject to tax @ 5%
 - Mandatory to file return

Limited Liability Partnership (LLP)

- Alternate Minimum Tax (AMT) is applicable to LLP
- AMT will be calculated on adjusted total income arrived at after excluding deductions under Chapter VIA and SEZ
- CA certified report needs to be submitted to the AO before the due date of filing return of income
- AMT credit allowed for 10 years

Transfer Pricing effective 1 June 2011

- 5% variation with the ALP done away with paving way for safe harbour rules.
- Powers of TPO widened
 - ALP in respect of other international transactions can be determined which are not referred to him but are noticed by him in the course of assessment
 - Can gather information by conducting survey
- Time limit for filing return of income extended to 30th Nov in respect of companies required to file TP report

International Tax Issues

- Liaison Offices to file Annual Information in prescribed Form to the AO within 60 days from financial year end
- Identifying 'Notified Jurisdiction Areas' (NJAs) i.e. countries or territories that lack effective exchange of information with India
 - Transfer pricing provisions applicable to all transactions with a person located in a NJA



International Tax issues

- ❑ Other restrictions with respect to 'NJAs'
 - ❑ No deduction in respect of any payment made to any financial institution located in NJA allowed,
 - ❑ Unless the payer authorizes the tax authorities to seek relevant information from the said financial institution
 - ❑ No deduction for any expenditure or allowance (including depreciation) arising from the transaction with a person located in a NJA shall be allowed
 - ❑ Unless the prescribed documents are maintained and furnished as required
 - ❑ Any sum received/credited from a person located in the NJA to be deemed income in the hands of the receiver
 - ❑ Unless the source of such money in the hands of person located in NJA is satisfactorily explained
 - ❑ Any payment made to a person located in the NJA and subject to withholding tax in India shall be liable to deduction of tax at the higher of the following -
 - ❑ Rates specified in the relevant provision of the act
 - ❑ Rate or rates in force
 - ❑ Rate of 30%

Miscellaneous

- Deduction of Rs.20 K for investment in long-term infrastructure bonds- extended for a year
- Employers contribution to NPS -excluded from the overall limit of Rs 1 lac
 - Hence additional deduction of employer's contribution to NPS which stands at 10% of salary.
- Returns
 - A simplified form 'Sugam' to be introduced to reduce the compliance burden of small tax payers falling within presumptive taxation.
 - Salaried taxpayers with entire tax liability discharged through TDS not required to file tax returns.
- Assessments
 - Introduction of Document Identification Number done away with
 - Time required for obtaining information from tax authorities outside India excluded from determining the time limit for completing assessment
 - Powers of tax authorities widened in terms of making inquiry or investigations outside India pursuant to DTAA even if no proceedings are pending

Miscellaneous

▣ Settlement Commission

- ▣ A person related to a person who was searched and made an application to the Settlement Commission can apply to the Settlement Commission if the tax liability on additional income is Rs. 10 lac instead of existing limit of Rs. 50 lac
- ▣ Rectification of order passed by Settlement Commission
- ▣ Time limit for the “EPF” to obtain exemption from the Employees Provident Fund Organization (EPFO) is extended from 31st December 2010 to 31st March 2012

Indirect Tax



Key Policy Reforms– Indirect Tax

- ❑ Pre-roll out of GST regime – option given to assesses
 - ❑ To pay 1% excise duty without Cenvat credit OR
 - ❑ To pay 5% excise duty with Cenvat credit
- ❑ Duty levied on textiles products rationalized after considering job worker stage manufacturing
- ❑ Tax base widened
 - ❑ Very few products are exempt from duty as of date
- ❑ Major amendments in definition of “input” and “input service” under Cenvat credit
- ❑ Only two new services notified

Central Excise Duty

- ▣ Affecting rates of duty
 - ▣ New scheme of levy of duty @ 1% introduced without Cenvat credit to cover 130 odd items mostly hitherto exempted or charged under MRP levy scheme
 - ▣ Also it proposes to levy excise duty on these goods @ 5% duty rate with Cenvat credit facility
- ▣ General exemption Notification amended to align Minimum duty rates to 5% from 4% in various cases

SSI Exemption Notification

- ❑ Scope of manufacturer to widen
 - ❑ To include a person who is even liable to pay excise duty for goods i.e. apparel, clothing accessories, other made up textile articles, etc.
- ❑ Scope of roasted chicory entry widened to include even extracts of coffee
- ❑ Scope of goods widened to include more products under Tariff 57 (carpets), 61 (clothing accessories), 63 (other made up articles), (65) hand woven products, and labels (68)
- ❑ Ceramic tiles also covered
- ❑ Textiles products under chapters 61, 62, 63 with Brand name will not enjoy exemption

Valuation of Canned/Packaged Software

- Separate Notification issued to clarify Valuation under Central Excise for packaged or canned software on which MRP is not required to be printed and that portion of consideration pertains to ‘right to use’ can be excluded from Transaction value provided it is disclosed to the revenue and also such manufacturer holds a valid service tax registration



Goods Exempted from Central Excise Duty Unconditionally

- Power tillers captively removed
- Specified Handicrafts
- Scented Chunnam (Lime)
- Vibhuthi (Thiruneeru)
- Contraceptives
- Enamelware
- Agriculture grade pyrites
- Coke-oven gas and blast furnace gas
- Sludge obtained in the sewage or effluent treatment plant belonging to municipal corporation, local authority or an industrial unit
- Animal drawn vehicles manufactured out of iron sheets, rods, bars, angles or wooden planks; and the following parts of animal drawn vehicles: Wheels; and Axles
- Erasers



Amendments under Cenvat Credit Rules

- Capital goods used even outside factory for generation of captive electricity are eligible for Cenvat credit
- The definition of exempted services to include “trading”
- New definition of “input” and “input services” have been substituted
- Restriction of Cenvat credit up to 85% of import duty specified on ship sector
- Clarification issued for Cenvat credit to be reversed on written off Capital/ Revenue expenses in the books
- Cenvat credit restricted on inputs/ input returned to supplier

Amendments under Cenvat Credit Rules

- Clarifications issued by amendments for availing Cenvat credit if taxable/exempted goods and services are provided by common entity
- Restriction imposed in the hands of Banking / NBFC for forgoing Cenvat credit up to 50% of all such credit availed in a month/period
- Similar restriction in the hands of life insurance service provider for foregoing Cenvat credit up to 20% of all such credit availed in a month/period
- The term “value” for the purpose of taxable services have been clarified in certain cases
- All assesses to file Excise tax return within 10 days from the end of the months/quarter

Customs duty

- Scope of duty free imports for the purpose of manufacture of various specified finished products is widened to include following with certain conditions;
 - Aluminum Tedlar; Toughened Glass; Silver paste falling under Ant tariff heading
- Zinc wire
- Capacitors
- Para Nitro Benzene Alcohol

Affecting Rates of Duty

- Certain imports under the category of- work of art, pictures for public benefits/ places, memorials of public character, antiques for public museums are excluded from exemption category
- Certain Air crafts, air planes, etc. falling under ITC HS 88, have been excluded from Exemption from education cess
- Scope of import items for the purpose of duty exemptions with regard to head phones, battery chargers, PC connectivity cables, etc. widened to include more items
- Limited products falling under different chapters have been exempted from Import duty (SAD)
- Exemptions from levy of import duty (SAD) are provided on parts, components and accessories under certain conditions

Affecting Rates of Tax

- Exemptions from levy of import duty (SAD) is provided on Patents and proprietary medicines
- Import duty rates on copper concentrates- aliened to meet newly introduced central excise provisions
- Import duty (CVD) on packaged software is exempted where MRP is not required to be declared
- Export duty levied to discourage exports on certain items
- Certain amendments carried out in the Custom Tariff (Identification, Assessment and Collection of Anti-dumping Duty on Dumped Articles and for Determination of Injury) Rules, 1995
- Acetate tow and filter rod exempted from Import duty provided they are used in certain finished goods only

Other Amendments

Increase in the interest rates

- Rate of interest on delayed payments of duty U/s 28AA and 28AB increased from 15% to 18%

Project imports

- Clarification- importers under Project import scheme to furnish Cash security up to 2% of the value of imports or Rs. 50 lacs whichever is less, towards security deposit. Any security exceeding Rs. 50 lac can be given by way of Bank Guarantee

Provisions related to SEZ

- While applying exemption from SAD to clearances from SEZ in India, the scope of the word clearance is widened to include not only goods manufactured but any clearance from SEZ

Service Tax- Rates of Tax

- Quantum of Service tax in case of Air fare in case of Domestic travel increased from Rs. 100 to Rs. 150 and for International travel from Rs. 500 to Rs. 750. The condition of comparing it with 10% of freight remains unchanged
- Rate of Service Tax in the hands of service provider under the category of Services provider for exchange of foreign currency services reduced from 0.25% to 0.1% while providing Services of purchase/ sale of foreign currency

Service Tax- Valuation Provisions

- Difference between the transaction rate and the RBI reference rate shall be considered as value of taxable service on the date of transaction
- Where RBI reference rate is not available, taxable value will be calculated at 1% of the gross amount of INR transacted (either sold or received)
- Where neither of the currencies exchanged is INR, taxable value will be determined at 1% of the lesser of two amounts converted @ RBI reference rate
- It is clarified under Rule 5B that the rate should be the rate prevailing at the time of providing service
- Major amendment proposed under Rule 6 by which Service tax is to be paid from date of providing the taxable services as against date of receipt of consideration

Service Tax- Valuation Provisions

- Monetary limit for adjustment of excess service tax paid earlier is enhanced to Rs. 2 lac from existing Rs. 1 lac per such payment
- New Rule 6A has been inserted to strengthen the recovery mechanism in cases of unpaid service tax under self assessment regime
- Henceforth, recovery can be made for such dues in the manner prescribed in section 87, which allows the central government to recover such amount by attachment of property or adjustment of dues if any, from the central govt.
- Power to issue search warrant is given to the levels of JC and to execute the same is with Supdt.

Provisions related to exemptions

- Services provided by an organizer of the business exhibition for holding a business exhibition outside India is exempted from the whole of the Service Tax leviable there on
- An exemption from services tax on 3 categories are provided (Aircraft operator, Agency for Goods Transport by road and Transport by Rail) in case the goods are transported from the place located outside India to a final destination which is also located outside India
- Exemption from Service tax is provided in the hands of Air craft operator to the extent so much of the value of Air freight included in the value determined for the Customs purpose

Export of Services

- Services provided by persons involved in the construction work are considered under Category 1 as Location based for export of services
- Following category of services have been removed from the performance based category to recipient based category
 - Transport of goods by air
 - Transport of goods by road
 - Technical testing and analysis
 - Transport of goods by Aircraft
 - Credit rating agency
 - Market research agency
- following category of services have been brought in the 'performance based category':
 - Rail travel agent
 - Health check up and Treatment services



Works Contract Service

- CENVAT credit is now available under such rules in respect of following 3 categories:
 - Commissioning & installation
 - Commercial or industrial construction
 - Construction of complex
 - However credit is restricted to 40% of service tax paid in respect of above categories



Service Tax Management

- More stringent provisions are proposed for the first time:
- A comprehensive compliance mechanism established
- Search warrant provisions introduced
- Provisions for prosecution reintroduced
- No power to arrest
- Penalty for delayed returns increased from Rs. 2,000 to Rs. 20,000
- General Penalty increased from Rs. 5,000 to Rs. 10,000

Thank You

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