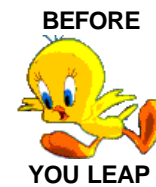


INDIA BUDGET 2005



PRESENTED BY





FINANCE ACT, 2005

HIGHLIGHTS & COMMENTS



}} *This Budget, Mr. Speaker, is an attempt to lay down a path in which growth and equity will* }}
reinforce each other and build a new India. }}

SMART CONSULTANTS PVT.LTD.

MUMBAI OFFICE :

29, Khimji Meghji House,
3rd Floor, 11/15, Issaji Street, Vadgadi,
Masjid (West), Mumbai – 400 003, India
Tel.: +91+22 2340 0882 • Fax. : 2342 0195
Gram : MASTERPLAN ↔ MASTERPLAY

Email : amcon.mumbai@amcount.com

PUNE OFFICE :

B/5, Shardaram Park,
34, Sasoon Road, Opp. Woodland,
Near Jehangir Hospital, Pune – 411 001.
Tel. /Fax. : +91 +22 (9520) 2611 3824

Email : amcon.pune@amcount.com

Website : <http://www.amcount.com>

Dear Friends,

Once again we have pleasure in laying in your hands our exclusive intensive analysis of the Finance Act, 2005.

The FM has continued with his multi-tax strategy. Following last year's E-tax, G-tax, S-tax and T-tax, he has introduced F-tax, B-tax and V-tax i.e. The Fringe Benefits Tax, The Banking Cash Transactions Tax and Value Added Tax and he has continued with expanding S-Tax (Services Tax)

The copy is also available on our website <http://www.amcount.com> In keeping with the internet age; we have decided not to continue with the booklet form. In case you still need it, you may drop a mail to us.

Thanking you and assuring you of our best services at all times.

For Smart Consultants Private Limited

Anand Mehta
(Director)

FINANCE ACT, 2005

THE 'GROWTH AND EQUITY' APPROACH

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A. INCOME-TAX

Sr. No.	Subject	
A1	Banking Cos- Amalgamation	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
Several	+	A.Y. 05-06

Highlights:

- In cases of amalgamation of companies, present provisions grant certain benefits in the form of exemption from liability on account of capital gains, carry forward of loss of amalgamating companies, etc. These benefits are restricted to specified cases and not available in all cases
- S. 47 is amended to provide that transfer of assets by 'banking company' to 'banking institution' in the event of their amalgamation brought into force by Central Government under Section 45(7) of Banking Regulation Act would not be treated as transfer and therefore exempt from tax on capital gain. Consequential change is made in section 49 to provide that cost of previous owner shall be deemed to be the cost of the succeeding owner. Similar amendment is made in S. 32(1)(iii).
- The term 'banking institution' is defined in the Banking Regulation Act to mean a company doing banking business in India and the term 'Banking Company' is defined to mean a banking company including State Bank of India, its subsidiaries and corresponding new banks. Section 45(7) of the Banking Regulation Act relates to amalgamations in pursuance of power of Reserve Bank of India to apply to Central Government for suspension of business of a bank and preparation of scheme of amalgamation.
- New Section 72AA is introduced permitting the Banking Institution to claim benefit of set off and carry forward of the accumulated losses and unabsorbed depreciation of the Banking company

Comments:

- These amendments will take effect from A.Y. 2005-06 unlike most other provisions, which take effect from 2006-07.
- The benefit of carry forward will be allowed for a fresh period of 8 years from the year in which amalgamation has taken place ignoring the years, which have already elapsed since the loss was originally incurred and determined. No conditions have been

prescribed for proposed benefit, probably because amalgamation would be as per proposal of RBI.

Sr. No.	Subject	
A2	Business Expenses	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
Various	+/-	Various

Highlights:

SEC 35(2AB) SCIENTIFIC RESEARCH

- Weighted deduction of one and half times of expenditure incurred on in-house research and development by companies engaged in the business of biotechnology, manufacture of drugs, pharmaceuticals, electronic equipments, computers, telecommunication equipment, chemicals etc. has been *extended* and would now be available until A. Y. 2007-08

SEC 35DDA: VOLUNTARY RETIREMENT

- Assessee's following mercantile system of accounting had doubts regarding payments made subsequent to retirement though towards VRS. Where whole of such a payment had not been made at the time of voluntary retirement, it was contended that though incurred, the same is not paid at the time of voluntary retirement.
- The payer will be allowed to amortize the VRS payment over the period of 5 years *irrespective* of whether the payment is made in the year of or *subsequent* to the year of retirement. This amendment is effective retrospectively from A.Y. 2004-05

SEC 40(ic) FRINGE BENEFIT TAX

- The Fringe Benefit Tax will not be deductible in computing the income from A.Y. 06-07

SEC 36(1)(xiii) BCTT

- The Banking Cash Transaction Tax will be deductible in computing the income.

Comments:

- Sec 35(2AB) has been extended
- Sec 35DDA has been expanded.
- Sec 40(ic) treating FBT as I.T. disallows it.
- Sec 36(1)(xiii) treating BCTT as ST allows it.

Sr. No.	Subject	
A3	Capital Gains	
	Amended	
Sec.	+ / -	w.e.f.
54EC, 54ED	+	A.Y. 06-07

Highlights:

- Where exemption has been claimed under Section 54EC in respect of cost of specified bonds, and under Section 54ED in respect of cost of specified equity shares, such cost did not qualify for the rebate under existing Section 88
- The reference is being replaced by the deduction under new Section 80C.

Comments:

These are clarificatory amendments.

A4	Deductions & Rebates- Income	
	Amended	
Sec.	+ / -	w.e.f.
Several		A.Y. 06-07

Highlights:

- Presently one gets a deduction u/s 80-L in respect of interest and other income from different sources.
- This deduction has now been abolished.



The FM has started working on a Gordian Knot in the Income-tax Act, saying, "I believe the time is ripe to clean up these exemptions." So, Section 88 rebate has got the axe, and Section 80L on deduction for interest and dividend is gone.

- The deduction to the offshore banking units and the international financial centre is granted in respect of the following incomes:

- From off-shore banking units
- From business with the developers of SEZ
- From any unit in the international financial services centre.

- S. 80IA allows deduction to enterprises engaged in the business of infrastructure development. This benefit will be available even to Government Bodies now.
- S. 80-IB(4) allows deduction to industrial undertaking located in the State of Jammu and Kashmir, which commences production before 31st March, 2005.
- Also, s. 80-IB(8A) allows deduction to companies engaged in the business of scientific research and development, if the company is approved before 1st April 2005.
- Section 80-IB is amended extending these time limits to 31st March 2007.

Sr. No.	Subject	
A5(A)	Deductions & Rebates- Payments-I	
	Amended	
Sec.	+ / -	w.e.f.
Several	Several	A.Y. 06-07

Highlights:

- Presently relevant part of scheme of various Deductions is as under :-

Sec	Particulars
80C	LIP/PPF etc omitted 1-Apr-91
80CC	New Shares omitted 1-Apr-93
80CCA	NSS
80CCB	ELSS
80CCC	Annuity Plans
80CCD	Pension Scheme

- Presently the relevant part of scheme of various Rebates is as under :-

Sec	Particulars
88	PPF, LIP etc
88A	New shares deleted 1-Apr-94
88B	Senior Citizens (>65 yrs)
88C	Women (<65 yrs)
88D	Income less than Rs 1 lac

3. The new scheme of Deductions is as under

Sec	Particulars
80C	Revived -LIP/PPF etc
80CC	As before -omitted 1-Apr-93
80CCA	As before-NSS,
80CCB	As before-ELSS
80CCC	As before -Annuity Plans, but not 88/80C
80CCD	As before -Pension Scheme but not 88/80C

4. The new scheme of Rebates is as under :-

Sec	Particulars
88	Rebate Deactivated
88A	As earlier-Omitted
88B	Omitted
88C	Omitted
88D	Omitted

Comments:

1. Instead of the Rebates u/s Sec 88 etc., the deduction will be allowable u/s 80C
2. The various sub-limits to the payments are no more relevant :-

Dealing with	Of Rs.
Mutual Funds	10,000
Repayment of Housing Loans	20,000
Tuition fee per child	12,000

3. The only limit which now prevails is under the PPF Act of Rs. 70,000/-
4. The various rates of 15% and 20% also are no more relevant.
5. While Rebates were not available to assessee whose income exceeds Rs. 5,00,000, there is no such limitation u/s. 80-C.
6. The reference to Section 88(2A) has been changed to Section 80C(3) to provide for the manner of calculation of actual capital sum assured for the purpose of determining what part of the proceeds of a Keyman Insurance Policy will be taxable u/s 80DD(3) / 80DDA(3).

Sr. No.	Subject
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A5(B)	Deductions & Rebates Payments-II	
	Amended	
Sec.	+ / -	w.e.f.
80E	+/-	A.Y. 06-07

Highlights:

1. The deduction in respect of loans for the purpose of higher education will be allowed only on interest payments and not on principal amount being repaid
2. However the deduction will be without any limit and the entire interest will be so eligible.
3. The deduction will be allowed for a period of 8 years beginning from the year from start of the interest

Comments:

The provision has been substantially recast yet simplified.

Sr. No.	Subject	
A6	Depreciation- Additional	
	Amended	
Sec.	+ / -	w.e.f.
32(1)(iia)	+/-	A.Y.06-07

Highlights:

1. Presently, initial (additional) depreciation of 15% is allowed in respect of new plant or machinery installed by a new industrial undertaking or an industrial undertaking increasing its installed capacity by at least 10%
2. Under the amended clause (iia),
 - a) Any concern engaged in manufacture or production will be entitled to claim such initial depreciation
 - b) There is now no condition of new industrial undertaking or increasing installed capacity
 - c) However, certain assets continue to be ineligible for initial depreciation
 - d) Requirement of filing report of an accountant has also been omitted
 - e) The rate at which initial depreciation will be allowed is enhanced from 15% to 20% of the actual cost of such plant or machinery

Comments:

1. The benefit under this provision is available only to an assessee engaged in the business of manufacture or production of any article or

thing. Accordingly this benefit of initial depreciation shall not be available to those not engaged in the processing of article or thing.

2. The reason given for reducing the rate of depreciation is to provide depreciation at rates that enable the investors to replace the assets before its economic life ends. The Finance Minister has calculated a period of five years within which the depreciation claim will be almost fully allowed by applying the initial rate of 20% and 15% each year. However, the total amount of depreciation allowed in the first five years will be only 65%. Further, the fact that in view of the fast changing technology, economic life of capital assets, particularly plant and machinery, cannot be assumed to be more than 3 to 4 years needs to be taken into consideration while estimating the life of an asset for the purpose of depreciation.

Sr. No.	Subject	
A7	Depreciation - Normal	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
32	+/-	A.Y. 06-07

Highlights:

1. General rate of depreciation for plant and machinery is proposed to be reduced to 15% from existing 25%.
2. Rates of depreciation in respect of other assets are also proposed to be reduced by amending the Rules.

Comments:

1. This exercise is being carried out in view of the reduction in the corporate tax rate. However, this reduction in the rate of depreciation shall be applicable to all taxpayers having income from business or profession whether it be a company or a firm or an individual or HUF.
2. Not only that, these rates will be applicable to both domestic as well as foreign companies. There is no reduction in the tax rate so far as the foreign companies are concerned, as such they will be required to pay same rate of tax on a higher income consequent to lower claim of depreciation.

Sr. No.	Subject
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A8	Minimum Alternate Tax	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
115JAA	+	A.Y. 06-07

Highlights:

1. Where the Income tax payable by a company in the previous year is less than 7.5% of its book profit the company is liable to pay 7.5% tax on book profits. No credit of such tax paid is allowed against the tax liability, which arises, in subsequent years under the normal provisions of the Act.
2. The amendment seeks to provide that if the minimum tax under the MAT provision has been applied for any assessment year beginning on or after 1.4.2006 has been charged, credit in respect of tax paid shall be allowed on the difference of tax so paid and the amount of tax that would have been payable had the income been computed under the normal provisions of the Act. The allowable credit can be carried forward and set off in a year when the tax becomes payable on the total income under normal provisions. Such carry forward will be allowed for 5 years only. Set off in respect of brought forward credit shall be restricted to the difference between normal tax and the tax that would have been payable under MAT in that assessment year. No credit will be allowed in respect of MAT paid in assessment year prior to the 2006-07

Comments:

1. This amendment shall be effective from the Assessment Year 2006-07 and, as such, any tax paid under MAT up to the Assessment Year 2005-06 shall not be eligible for set off.
2. This amendment may require/permit recognition of Deferred Tax Asset under Accounting Standard 22 depending on the circumstances of each company.
3. While there is no increase in the rate of minimum alternative tax chargeable u/s 115JB, the rate of surcharge is increased from 2.5% to 10% which will increase the effective rate considering the education cess, to 8.42%

Sr. No.	Subject	
A9	Non-Residents	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
10(4)/(15)	+	A.Y. 06-07

Highlights:

This amendment introduced by the Finance (No. 2) Act, 2004 of taxing interest earned on non-resident external account as well as foreign currency deposit amount, which was to be effective from 1st April, 2005 is being withdrawn

Comments:

As such, interest income from these bank accounts shall continue to be exempt.

Sr. No.	Subject	
A10	Rates/Slabs of Tax – General	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
2,FB 05	+/-	A.Y. 06-07

Highlights:

1. The tax is a subject matter of
 - a) Status: Ind. /AoP/ Co. etc
 - b) Age/ Sex : Senior Citizen/ Women
 - c) Residence / Non-Residence
 - d) Threshold: Basic/ Slab
 - e) Nature : Royalty & FTS
 - f) Tax: Basic, SC & EC
2. The above aspects have been touched upon in various ways. The principles or propositions followed are as under:

Sr. No.	Subject	
A11	Rates/Slabs of Tax- Status	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
2,FB 05	+	A.Y. 06-07

Highlights:

1. Individuals: Basic and Incremental slabs reduced
2. Firms and Domestic Cos. : Rates reduced from 35% to 30%
3. CHS, LA and Foreign Cos. : Unchanged

Comments:

1. The reduction in the basic rate is compensated to some extent by increasing the surcharge.
2. For various Tables, please see the Appendices

Sr. No.	Subject	
A12	Rates/Slabs of Tax- Age/Sex	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
2,FB 05	+	A.Y. 06-07

Highlights:

The slab rates have been reduced as under:

- a. Senior Citizens : 1,25,000
- b. Women 1,50,000

Comments:

For various Tables, please see the Appendices .

Sr. No.	Subject	
A13	Rates/Slabs of Tax- Residence	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
2,FB 05	+	A.Y. 06-07

Highlights:

While the rate of surcharge for Domestic Cos. is 10% that for the Foreign Cos. is 2.5 %

Comments:

The surcharge for Domestic Cos. has gone up from 2.5% to 10 % while that for the Foreign Cos. has remained the same.

Sr. No.	Subject	
A14	Rates/Slabs of Tax- Threshold	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
2,FB 05	+	A.Y. 06-07

Highlights:

1. The basic exemption limit has been raised from Rs 50,000 to Rs. 1,00,000
2. Resident Senior Citizens / Women who eligible for rebate of Rs 20000/ 5000 u/ss. 88B/ 88C will now not get that rebate but will have increased threshold of Rs. 1,50,000 / 1,25,000

Comments:

For various Tables, please see the Appendices

Sr. No.	Subject	
A15	Rates/Slabs of Tax-	

Nature of Income –FTS/DDS		
<i>Amended</i>		
Sec.	+ / -	w.e.f.
115A	+	A.Y. 06-07

Highlights:

- The Rates of income-tax for agreement made after 1st June, 2005 on Royalties and Fees for Technical Services
 - Foreign Companies
 - Non-Resident, not being company reduced from 20% to 10%
- However the rates of TDS has been reduced only for a) above and not for b) above.

Comments:

- The effective rate of dividend distribution tax payable under Section 115-O and 115-R shall go up from 13.06875% to 14.02%, an increase of almost 1%.
- For various Tables, please see the Appendices

Sr. No.	Subject	
A16	Rates/Slabs of Tax-Basic, Surcharge & Education Cess	
<i>Amended</i>		
Sec.	+ / -	w.e.f.
2,FB 05	+	A.Y. 06-07

Highlights:

- Surcharge will be levied on Tax on Total income as reduced by rebate u/s 80-E for the STT paid.
- Marginal relief is available to HUF, Individuals, AoP and BoI for surcharge but not for Education Cess.
- While the Surcharge will go up as shown in the Appendix, the Education Cess will continue at 2%

Comments:

- The surcharge of 2.5% goes for CHS and Local Authorities.
- For various Tables, please see the Appendices

Sr. No.	Subject	
A17	Return of Income	
<i>Amended</i>		
Sec.	+ / -	w.e.f.
139	-	A.Y. 06-07

Highlights:

- Presently as per provisions of Section 139(1), every person whose total income during the previous year exceeds the maximum amount, which is not chargeable to income tax, is required to furnish a return of his income.
- However a new provision is being inserted to provide that every person being an individual or HUF or Association of Persons or a body of individuals whether incorporated or not or an artificial juridical person, shall be required to file return of income, in case the gross total income exceeds the maximum amount which is not chargeable to income tax.
- It has also been provided that for the purpose of this section the total income is to be computed without giving effect not only to the provisions of Chapter VIA, but also without giving effect to the provisions of Section 10A, Section 10B or Section 10BA of the Act. As such, those persons having income above Rs. 1 lakh but are not required to pay tax because of the deduction under Section 80C in respect of life insurance premium, provident fund etc., shall be required to file return of income.
- The scope of Section 139(1) is being widened to provide that every partnership firm irrespective of the fact whether it has taxable income or not, shall be required to file return of income before the due date. In case of failure to file the return of income before the close of the Assessment Year, a penalty of R. 5,000 shall be leviable under Section 271F of the Act.
- It is also provided that only if the return of income is filed within the due date, the exemption u/s. 10A shall be allowed.

Comments:

- Thus, the number of persons filing return despite increase in the basic exemption limit shall go up in view of the withdrawal of standard deduction under Section 80L of bank interest etc.
- Making mandatory for every partnership firm to file return of income, may cause a genuine practical hardship to the small inherited family concerns being run by brothers such as retail trade as it may not have taxable income at all and the business may be too small and run in small village, town. Joining hands in such cases may not be because of business potential but because of lack of employment opportunity and the business inherited being only source of earning the livelihood.

3. Putting the precondition of filling the return is an unusual condition in respect of the deduction thereby asking the assessee to comply with the provisions more diligently.

Sr. No.	Subject	
A18	Salaries	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
16(i)	-	A.Y. 06-07

Highlights:

The Standard Deduction u/s 16 has been withdrawn.

Comments:

1. It may be possible to contest that as a result the tax is being levied on gross income and to that extent there is discrimination.
2. The reason given by the Finance Minister in the budget speech is that in view of the higher exemption limits, the need for separate personal allowance does not exist and that is why he has proposed to remove the standard deduction.
3. However, the issue is whether standard deduction is a personal allowance or not. Standard deduction while computing income from salary is allowed not as a personal allowance but on account of the expenditure, which an employee may have reasonably incurred in performance of his duties.
4. Earlier there used to be separate deduction in respect of various expenditure such as conveyance books and periodicals etc. In order to simplify and standardize this deduction on account of the expenditure incurred by an employee, the words 'Standard Deduction' was inserted and a fixed amount depending upon the salary was being allowed.
5. Accordingly the withdrawal of standard deduction does not appear to be justified. A taxpayer having income from business or profession shall be entitled to deduct all expenditure, which he may have incurred for earning that income whereas an employee shall not be entitled to claim such expenditure though incurred in the discharge of his duty for earning the salary income.

Sr. No.	Subject	
A19	Scientific Research	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.

35(2AB)	+	A.Y. 06-07
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Highlights:

1. The time limit for availing the weighted deduction under Section 35(2AB) in respect of the expenditure incurred on in-house research and development is extended by two more years i.e. up to 31st March, 2007.
2. The time limit for the purpose of availing tax holiday under Section 80-IB available to a company for carrying on scientific research and development is being extended by another two years. Now the companies which are approved by the prescribed authority before 1st April, 2007 shall be eligible to claim 100% deduction of the profits of such business for a period of ten Assessment Years.

Comments:

There is some more time given for this benefit while the trend is to withdraw deductions.

Sr. No.	Subject	
A20	Search Proceedings	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
153B	-	01-06-03

Highlights:

1. According to the existing provisions contained in Section 153B, the assessing officer is required to complete the search assessment for each of the six assessment years preceding the assessment year relevant to the previous year in which search was conducted u/s 132 or requisition u/s 132 was made within 2 years from the end of the financial year in which last of the authorization for search or for requisition was executed. The same time limit is applicable for making assessment or re-assessment in case of 'other persons' by the assessing officer having jurisdiction over the said other persons, in respect of whom, seized documents are received from the authorised. It is proposed that in respect of the other persons the reference to the date of initiation of search u/s 132 and requisition u/s 132(1) shall be construed as reference to the date of receipt of books of accounts by the Officer having jurisdiction over the other persons.
2. It has been further clarified by inserting a provision to Section 153C that the reference to the date of the initiation of the search in the

case of such other person shall be construed as reference to the date of receiving the books of accounts or documents or assets seized by the AO having jurisdiction over such other person.

Comments:

1. Sometimes it may happen that in respect of other persons, no return of income has been filed and no notice u/s. 142(1) has been issued or where return of income has been filed, no notice u/s 143(2) has been issued or regular assessments have been completed between the date of search and the date of receipt of seized documents. To take care of such situations, it is proposed to authorise the Assessing Officer to issue notice u/s 148 in such cases

2. This will mean that in the case of the person other than the person who is being searched, the reassessment shall be made up to the date on which the books of accounts are received by the AO and the period of 6 years shall be computed not with reference to the date of the search but with reference to the date on which the books of accounts or document seized are handed over. Consequential amendment has been made by inserting sub-section (2) in Section 153C giving power to the AO to assess or reassess income of the previous year in which the search was carried out. The above amendments are retrospective from 1st June, 2003 and are to take care of the problem where the AO of the other person is different than the AO of the person has been searched. However, the difficulty in completing the assessment of the person other than the person who has been searched is that, in case the AO of both the persons are same, shall continue to be there.

3. As the change from the earlier block method was done by the Finance Act, 2003, the amendment has been made retrospective from that date.

Sr. No.	Subject	
A21	Shipping Business	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
Several	+	Several

Highlights:

DEDUCTION- WITHDRAWAL RATIONALIZED

1. Section 33AC provides for deduction to

Sr. No.	Subject	
A22	Special Economic Zone	
	<i>Withdrawn</i>	
Sec.	+ / -	w.e.f.
80-IAB/ 10AA	+	A.Y. 18-19

Highlights:

1. The benefits to the Special Economic Zone is brought independently
 - a. To Developers of – u/s. 80-IAB as against presently u/s. 80-IB(4)
 - b. To units - u/s. 10AA as against presently u/s. 10A of the Act.
2. The conditions applicable to developers and the units in SEZ are provided under the Special Economic Zones Act, 2005.
3. The features of the said Act vis a vis the developers are:
 - a. Specified area to be identified
 - b. Specified operations.
 - c. Approval from the Central Government
4. The features of the said Act vis-a-vis units under SEZ are:
 - a. Seek approval from the Development Commissioner to set unit in SEZ.
 - b. Begin to produce during F.Y. 05-06.

- c. There is export of goods.
5. The deduction to the developers of SEZ is available for
- 100% for 1st 5 years
 - 50% for next 5 years.
6. Similarly, the units are granted the tax holiday u/s. 10AA in case of exports of goods
- 100% for 1st 5 years
 - 50% for next 5 years.
 - Further 50% for 5 years if the specified reserves are created.

Comments:

- The Special Economic Zones is regulated now by the provisions of SEZ Act, 2005 and the units/zones formed in accordance with the provisions of the said SEZ Act shall only be eligible for the benefits.
- Apart from the benefits from income-tax on the income, following benefits are available:
 - Income-tax on the income.
 - MAT provisions u/s. 115JB
 - Dividend tax u/s. 115O
 - Custom duty on import and export of goods
 - Excise duty on goods brought from DTA to SEZ
 - Duty drawback on goods or services brought from DTA to SEZ.
 - Service Tax on services
 - Inter-state tax on sale or purchase (CST Sales)
 - Stamp duty in respect of agreement in connection with carrying out of the purposes of SEZ.
 - Securities Transaction tax in respect of the transaction carried out through international financial service centre.

Sr. No.	Subject	
A23	Speculative Transactions	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
73	+/-	A.Y. 06-07

Highlights:**SEC. 43(5) : DERIVATIVES TRANSACTIONS**

1. Certain Transactions in Derivatives are now excluded from the definition of "Speculative Transactions" The features are:

- Transactions are entered into on a recognized stock exchange (fulfilling prescribed conditions) through a broker, sub-broker or SEBI registered

Sr. No.	Subject	
A24	Tax Collection/Deduction at Source	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
Several	+	Several

Highlights:**SEC 194C : TWO TRUCK CONTRACTOR**

1. In case of a truck operator owning not more than two trucks, being a sub-contractor who is an individual, no tax will be deducted if such operator gives a declaration in the prescribed form to the payer who in turn files the prescribed particulars with the tax authorities.

2. Under the existing provisions contained in Section 194C(3), TDS Rs. 20,000/- made to a contractor. It was felt that this caused hardship to small truck owners, since income from each truck is estimated to be Rs. 42,000/- p.a., only, whereas exemption limit has been increased to Rs. 1 lakh. Accordingly, it is proposed to exempt from TDS provisions u/s. 194C payments made to individual in the course of the business of plying, hiring or

leasing of goods carriages who does not own more than two goods carriages during the year and on his furnishing a certificate to that effect. This Takes effect from 30-6-2005

SEC 139(9), 199(3) 203(3) AND 206C

DEMAT OF TDS POSTPONED

3. Up to 31-3-2005, return of income, which was not accompanied by TDS certificate, was deemed to be a defective return u/s 139(9). From 1.4.2005, the requirement to enclose TDS certificate with the return was done away with and Section 199(3) was amended to provide that w.e.f. A.Y. 2006-07 credit for TDS will be given on the basis of specified statement furnished by the tax deductor. This procedure was adopted on the basis of expectation that TDS certificates will be dematerialized before 1.4.2005. This could not be achieved. It is therefore proposed to provide that returns have to be accompanied with TDS certificates up to A.Y. 2006-07. It is further proposed by amendment to section 203 that w.e.f. 1.4.2006, tax deductor will be required to furnish TDS statement based on which, credit for TDS will be given to the deductee u/s 199 (3). Similar provisions are proposed in the matter of tax collection certificate u/s 206C.

SEC 206A : TDS DATA ON COMP MEDIA

4. A new Section 206A is inserted with effect from 1st June, 2005

- a) Requiring a banking company, a co-operative society, a public company referred to in provision to Section 194A(3)(i) responsible for paying to a resident, interest of Rs. 5,000/- or less to furnish quarterly returns on a computer readable media
- b) Empowering the Central Government to require any other person for any income to likewise furnish the returns.

SURCHARGE –CHANGE IN RATE

5. The rate of surcharge on tax deductible at source to be increased from 2.5% to 10% in cases of domestic companies and firms. In case of individuals and Hindu Undivided Families, the surcharge will be attracted after the threshold limit of Rs. 10 lakhs

Comments:

1. The change in respect of Trucks is to mitigate the marginal cases.
2. The demat of TDS certificate has not come through as expected.
3. At the same time it is going ahead with demat of the TDS return.

4. The increase in rate of surcharge will also influence the TDS.

Sr. No.	Subject	
A25	Zero Coupon Bonds	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
Severall	+	A.Y. 06-07

Highlights:

1. The amendment extends over several sections like 11, 2(42A), 2(47), 2(48), 36(1)(iii)
2. Specified tax treatment has been introduced for specified zero coupon bonds to be issued by an infrastructure capital company, infrastructure capital fund or public sector company on or after 1st June, 2005 and notified by the Central Government.
3. To be eligible, no payment or benefit should be receivable by bondholders of these bonds from the issuer till maturity or redemption. In other words, the bonds would have to be issued at a discount to the face value and redeemed at par, or issued at par and redeemed at a premium, with no provision for interest, since the discount or premium would be in lieu of interest.
4. The maturity or redemption of these bonds would amount to a transfer for the purpose of capital gains and the holding period of these bonds to qualify as long-term capital assets would be 12 months. In case the bonds are held as capital assets, long-term capital gains arising on transfer, maturity or redemption of such bonds would be taxed at 10% of the gains computed without cost indexation.
5. The discount or premium on the zero coupon bond would be allowable as a deduction to the issuer pro rata over the life of the bond to be calculated in a manner to be prescribed.
6. No tax would be deductible at source on the discount or premium.

Sr. No.	Subject	
A26	Other Items	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
139 (1)	+	A.Y. 06-07

Highlights:

1. Presently one of the criteria for compulsory filing of return was ownership of a mobile

phone.

2. Now that criteria has been replaced by another criteria of electricity expenses in excess of Rs. 50,000

B. BCTT- BANKING CASH TRANSACTIONS TAX

Sr. No. B1	Subject Banking Cash Transaction Tax – General	
	<i>Introduced</i>	
Sec.	+ / -	w.e.f.
93 TO 112, FB 2005	-	01-06-05

Highlights:

This is an entirely new tax, which can be analyzed under the following heads.

Sec	Particulars
95	Who is the assessee?
95	What is the rate of tax?
95, 96	What is the value to be taxed?
97	Who shall collect?
97	What are the procedural provisions?

Comments:

1. It is contradictory at the basic level.
 - a) A dishonest taxpayer will not route his transaction through bank. He will not pay any BCTT while an honest taxpayer will be branded dishonest and made to pay.
 - b) On the other hand, once you know that a transaction is routed through the bank, you have full control over it as a department. In fact, in this sense, the consequential provision requiring the banks etc to report all deposits, which are free of TDS is laudable.

Sr. No. B2	Subject Banking Cash Transaction Tax – Assessee	
	<i>Introduced</i>	
Sec.	+ / -	w.e.f.
95	-	01-06-05

Highlights:

1. The assessee is the person who, in respect of a taxable banking transaction
 - a) Withdraws cash
 - b) Encashment of term deposits
2. For this purpose, person is same as defined in Section 2(31) of Income Tax Act.

Comments:

1. Difficulty in collection of tax would arise in cases where bearer cheques are issued to third parties and such cheque is of the value less than Rs.10,000 though overall withdrawal from a single bank account on a single day is more than Rs. 10,000. In such a case, a third party presenting a bearer cheque of amount less than Rs. 10,000 would not be liable to tax but overall transaction is liable to tax. IN respect of third party bearer cheques, the issuer is not liable to tax to the extent of such third party bearer cheques though in accordance with Clause 96 of the FB 2005, total withdrawal of both self bearer and third party bearer cheques of a singles day have to be considered.
2. In subsequent clarification, Government has decided that inter banking transactions like withdrawal of cash from an account maintained by a scheduled bank or non-scheduled bank (including a cooperative bank) with a scheduled bank will not be liable to BCTT.
3. Similarly, the transactions of receipt of cash from any scheduled bank on encashment of term deposits in the name of a scheduled bank or non-scheduled bank (including a cooperative bank) will also not be liable to BCTT.

Sr. No. B3	Subject Banking Cash Transaction Tax – Rate	
	<i>Introduced</i>	
Sec.	+ / -	w.e.f.
95	-	01-06-05

Highlights:

The rate is 0.1% of the value of such transactions.

Comments:

This will be applicable to transactions entered on or after 1st day of June 2005.



Sr. No.	Subject	
B4	Banking Cash Transaction Tax - Value <i>Introduced</i>	
Sec.	+ / -	w.e.f.
96	-	01-06-05

Highlights:

- The value is
 - The cash withdrawn
 - The cash received, as the case may be
- One has to take the full value and not the excess over Rs. 10,000

Sr. No.	Subject	
B5	Banking Cash Transaction Tax – Collection <i>Introduced</i>	
Sec.	+ / -	w.e.f.
97	-	01-06-05

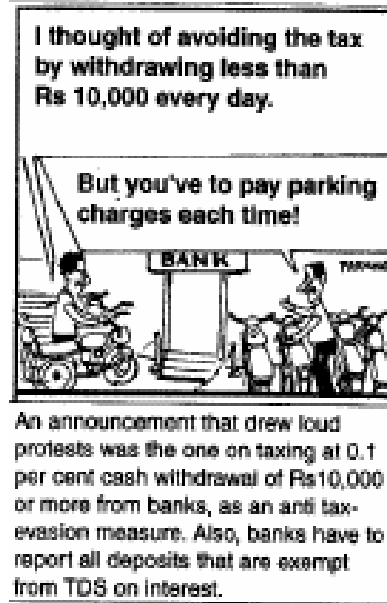
Highlights:

- The tax may be collected by the scheduled bank
- It has to be paid over before the 15th of the following month.

Comments:

Whether the bank has collected the tax or not, it is liable to pay tax.

Sr. No.	Subject	
B6	Banking Cash Transaction Tax – Procedures <i>Introduced</i>	
Sec.	+ / -	w.e.f.
97	-	01-06-05



"If there is a more acceptable way to tackle the problem of huge cash withdrawals, whose purpose is not always clear and apparent, we will go for it".

C. FRINGE BENEFITS TAX (FBT)



been received by the employees collectively.



Sr. No.	Subject	
C1	Fringe Benefit Tax – General	
	<i>Introduced</i>	
Sec.	+ / -	w.e.f.
As under	-	A.Y. 06-07

Highlights:

1. This set of new provisions extends over 2(7), 2(23A), 17(2)(vi), 40(a) (ic), 115W TO 115WL
2. This is an entirely new tax. The following are important points of reference :-

Sec	Particulars
--	What is the Purpose
--	What is the Scope
115W	Who is the assessee?
115WA	What is the rate of tax?
115WB	What is the value to be taxed?
115WD To 115WL	What are the procedures?

Sr. No.	Subject	
C2	Fringe Benefit Tax – Purpose	
	<i>Introduced</i>	
Sec.	+ / -	w.e.f.
--	-	A.Y. 06-07

Highlights:

The purpose is to levy tax on employers in respect of benefits received or deemed to have

Comments:

1. While trying to copy similar provision operative in Australia, we have lost sight that there once the concept of taxation at source is applied than the individual employees are not taxable separately in their hands and that such a law has not been adopted by any of the other developed nations.
2. Unfortunately, the way the provisions are brought in, it appears, as if tax is levied on, several day-to-day expenses incurred by the employer for business purposes irrespective of whether such expenses result into any benefit to the employees or not.

Sr. No.	Subject	
C3	Fringe Benefit Tax – Scope	
	<i>Introduced</i>	
Sec.	+ / -	w.e.f.
-	-	A.Y. 06-07

Highlights:

The two sides of the tax are that :-

- a. A new Chapter XII-H is inserted
- b. Corresponding exclusions are provided

Comments:

Let us see the scope in four different perspectives:

- a) Employer-Covered-Collectively

- b) Employer-Excluded-Collectively
- c) Employee-Covered-Individually
- d) Employee-Excluded-Individually

EMPLOYER-COVERED –COLLECTIVELY

1. The Chapter, which is discussed hereafter, covers the employer collectively.

EMPLOYER-EXCLUDED-COLLECTIVELY

2. FM has assured that the legitimate business expense will not be covered.

EMPLOYEE-COVERED-INDIVIDUALLY

3. All the employees will be individually covered for their own taxes.

EMPLOYEE-EXCLUDED-INDIVIDUALLY

4. Sec 17(2) (vi) defining "Perquisite" which was earlier used to include "such other fringe benefit as may be prescribed" has been used to exclude" Fringe benefits subject to FBT"

However no distinction has been made on just and fair grounds or considerations like location of the assessee, No. of employees, their level of income, basic threshold etc

Sr. No.	Subject	
C4	Fringe Benefit Tax – Assessee	
	<i>Introduced</i>	
Sec.	+ / -	w.e.f.
115W(a)	-	A.Y. 06-07

Highlights:

1. The relevant word here is "employer", which includes
 - a) Individual or HUF engaged in business or profession ;
 - b) All other entities like company, firm, AoP, BoI, Local Authority or even a Artificial Juridical Person.

Comments:

1. The requirement of being engaged in business is applicable only to an Individual or HUF and none others.
2. By its very nature, a person is employer only if he has employees.
3. The coverage is so wide that it may include-
 - a) A person incurring losses or having tax-free income (on account of exemption or deductions)
 - b) Local authorities, Government companies,
 - c) Charitable Trusts who are not carrying on any business and engaged only in pure charity; but not registered u/s. 12AA
 - d) Specific trusts formed to provide

Sr. No.	Subject	
C5	Fringe Benefit Tax - Value	
	<i>Introduced</i>	
Sec.	+ / -	w.e.f.
115WB(1)	-	A.Y. 06-07

Highlights:

1. The term "fringe benefits" is defined to mean:
 - a) Any privilege, service, facility etc. provided by an employer to his employees by reason of their employment (including former employees)
 - b) Any reimbursement made by an employer to his employees for any purpose (including former employees)
 - c) Any free or concessional ticket provided by the employer for private journeys of the employees or their family members; and



- d) Any contribution by the employer to an approved superannuation fund
2. The value is a function of
 - a) The nature of the benefit
 - b) The nature of business of the assessee
 - c) The prescribed percentage
3. This can be summarized as under :-

Nature Of Benefit	Nature Of Business	%age
1(a) to 1(d)	Any	100

2(A) to 2(K)	Any	20
A(L) to A(P)	Any	50

4. However, the following business are granted the special benefits by lowering the value of FB

Nature Of Benefit	Nature Of Business	%age
2(B)	Hotel	5
2(F)	Construction, Pharmaceutical, software	5
2(G)	Pharmaceutical, software	5
2(H)	Carriage of passenger / goods by motor car	5
2(I)	Carriage of passenger / goods by aircraft	5

Comments:

- The value of fringe benefits in respect of
 - Contribution to superannuation fund will be the actual contribution by the employer
 - In respect of free or concessional tickets would be the cost to the company less amount recovered from the employees
- The privilege, service, facility of amenity does not include items on respect of which tax is paid or payable by
 - The employer or
 - The employee.
- It also does not include any benefit or amenity in the nature of free or subsidized transport or any such allowance provided by the employer to its employees for journeys by the employees from their residence to the place of work or such place of work to the place of residence.
- FBT paid by the employer will not be allowed as deduction in computing the business income.
- We have had in the past various attempts to catch such benefits through
None of these have however succeeded fully.
 - Ss 37 to 40, 72A
 - Expenditure Tax Act.
 - Entertainment Tax Act

Sr. No.	Subject	
C6	Fringe Benefit Tax – Rate	
	<i>Introduced</i>	
Sec.	+ / -	w.e.f.
115WA	-	A.Y. 06-07

Highlights:

There will be additional income tax in respect of fringe benefits @ 30% of the value of such fringe benefits as increased by surcharge of 10 % and Education Cess of 2% aggregating 33.66 %

Comments:

- The tax is levied u/s 115WA. There is no amendment to S. 4
- Question may also arise as to whose income is it for which tax can be validly levied under the Income-tax Act?

Sr. No.	Subject	
C7	Fringe Benefit Tax – Procedures	
	<i>Introduced</i>	
Sec.	+ / -	w.e.f.
As Under	-	A.Y. 06-07

Sec	Particulars
115WD	Return
115WE	Assessment
115WF	Best Judgement Assessment
115WG	Reassessment
115WH	Notice for above
115WI	Payment of Tax
115WJ	Advance Tax
115WK	Interest for default on return
115WL	All other provisions of IT Act

Highlights:

These are provisions on the same lines as for general income tax.

Comments:

A study may show whether the provisions are really comprehensive enough.

Sr. No.	Subject	
C8	Fringe Benefit Tax – Rules	
	<i>Introduced</i>	
Sec.	+ / -	w.e.f.
17 (2)	+	A.Y. 06-07

Highlights:

1. Outside the Budget documents, Income-tax (Seventh Amendments) Rules 2005 have amended Rule 3
2. Rent Free Unfurnished House The value is increased from 10% and 7.5 % to 20% and 15% respectively for larger and smaller towns respectively.
3. Motor Car The mode of valuation has been deleted.
4. Transport Facility By A Transport Undertaking The mode of valuation has been deleted
5. Notified Fringe Benefits It has omitted the following items-
 - a. Meals, lunch, refreshment etc
 - b. Traveling, touring, accommodation,
 - c. Gift, voucher, token
 - d. Credit Card
 - e. Club
6. Residual Category Rule providing for valuation of residual category has been deleted.

Comments:

It needs detailed analysis as to what is the cumulative effect of such changes.

D. SECURITIES TRANSACTION TAX

Sr. No.	Subject	
D1	Securities Transactions Tax	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
124 FB'05	-	01-06-05

Highlights:

1. Finance (No. 2) Act, 2004 had introduced this tax.
2. Sec 98 thereof has been amended by Sec 124 of Finance Bill, 2005 to increase the rates.

Comments:

1. It was anticipated that once the market accepts the tax, the rate will go up.

Sr.	From	To
1	.075%	.1%
Delivery Based Transactions - payable by buyer and seller		
2	.015%	.02%
Non-delivery Based Transactions - payable by seller		
3	0.01	0.0133
Derivatives-Options & Futures – Payable by Seller		
4	0.15	0.2
Units in Equity Oriented Fund – Payable by Seller		

E. SERVICE TAX

Sr. No.	Particulars
E1	Act
E2	Rules
E3	Items Covered
E4	Exemption
E5	Rate
E6	Other Changes

Sr. No.	Subject	
E1	Service Tax – Act	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
As under	+/-	As Under

Highlights:

Finance Act, 1994 is being amended.

1. Section 65(105) a new explanation has been inserted to clarify that taxable services would include such services provided from outside India by any person to a recipient in India. Thus chargeability of service tax has been clearly pronounced in the Act itself. This will come in effect from a date to be notified

The following changes will be effective from the date of enactment of Finance Act, 2005

2. Section 67 now clarify that payments received, before, during, or after the provision of taxable service, would form part of gross amount for charging service tax.

3. Section 69 and 70 have been amended to incorporate enabling provisions for registration and filing of return by persons or class of persons other than person liable to pay service tax i.e. a representative assessee in the case of non resident in India.

4. Section 73 has been amended to extend the powers to issue show cause notice and determine the amount of short levy to a Central Excise Officer, instead of Asst. Commissioner of Central Excise or Dy. Commissioner of Central Excise. Consequential changes have also been made

5. A new section 83A have been inserted to make provisions regarding powers of adjudication and adjudication procedures of

service tax cases regarding penalty proceedings. The same will be notified through a separate notification.

6. Section 96A which deals with the person eligible for advance ruling has been amended to allow an existing Joint Venture in India to avail the benefit of Advance Ruling. Also, the Central Government is also being empowered to notify any class or category of persons as eligible for availing of the benefit of Advance Ruling in future.

Sr. No.	Subject	
E2	Service Tax – Rules	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
As under	+/-	1.04.05

Highlights:

1. Rule 2 prescribe that liability of person for payment of service tax, a new clause (v) is being inserted for business auxiliary services provided by the distributors of mutual funds will be on the recipient of service, namely, mutual funds.

2. Rule 4 till now allowed centralized registration under the service tax for only one office or premises where centralized billing or centralized accounting takes place. This was creating problem for many assessee especially the banks because they have many offices which had centralized billing or centralized accounting. The amendment now enables centralized registration of more than one premises.

3. Rule 4A which deals with the procedure and details to be included in the invoice to be issued for service provided did not have any time limit prescribed for issue of such invoice, the amendment now prescribe that the invoice is to be issued within 14 days from date of completion of provision of service or receipt of payment, whichever is earlier

4. Rule 6 which prescribes the due date of payment of service tax which at present is 25th of the next month/ quarter as the case may be has been amended to prescribe that due date for service tax payment by all service tax assessee would be 5th of the

following month or quarter, as the case may be. But for the month of March or quarter ending March of every financial year the payment will have to be made up to 31st of March of that year. So now it is applicable for every year. Let me remind you that the service tax for the month of March or the quarter ending March is to be paid on or before 31st March 2005.

5. The above changes will be effective for services rendered on or after 1st April, 2005.

Sr. No.	Subject	
E3	Service Tax- Items Covered	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
As Under	-	Date to be notified

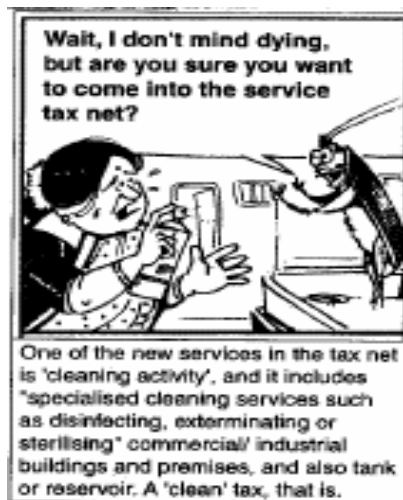
Highlights:

1. Service Tax to be charged for 9 new services:-

- Transport of goods through pipeline or other conduit
- Site preparation & clearance, excavation, earth-moving & demolition services
- Dredging services of rivers, ports, harbours, backwaters & estuaries
- Survey and Map making
- Cleaning Services
- Club or association memberships
- Packaging services
- Mailing lists compilation & mailing
- Construction of residential complexes

2. Scope of service tax extended or expanded with respect to following services :-

- Commercial/Industrial Const : Building etc renovation, repair, restoration and post-const finishing
- Erection/Commissioning/Installation : Electrical/electronic devices, plumbing, drain laying, escalators etc
- Maintenance/Repair : Extended to immovable properties
- Broadcasting : Will cover MSO and DTH
- Sound Recording : Will extend to any media.
- Video Tape Production : to include post production services
- Authorised Service Centers : To include recondition and restoration.



Comments:

- No definition has been provided of Service 1(a)
- Clubs may not include the Charitable ones like Mafatlal Club or societies like BCAS.
- Registrars & Transfer Agents may get covered by 1(f) above.
- An abatement is not given for item 1(g) above and may be announced soon.
- Under 2(a) earlier pure construction work was only covered. Now the scope is expanded

Sr. No.	Subject	
E4	Service Tax – Exemption	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
As under	+	As under

Highlights:

Notification No. 6 of 2005 dated 01.03.2005

- Those service providers whose

aggregate value of taxable services provided during the preceeding financial year was up to Rs. 4 lakhs will be exempted. This will be w.e.f. 1st April 2005.

Notification No. 8 of 2005 dated 01.03.2005

2. Exemption has been provided to all assessee from service tax on business auxiliary service namely production or processing goods on behalf of the client, subject to the condition that the said exemption shall apply only in cases where such goods are produced using raw materials or semi-finished goods supplied by the client and goods so produced are returned back to the said client for use in or in relation to manufacture of any other goods on which appropriate duty of excise is payable. This will come into effect immediately.

Comments:

1. The long-standing demand for exempting small service providers from the tax net has been accepted. The amount of course far exceeded the expectation.
2. If the value exceeds this amount the tax is payable on the excess and not the entire amount.
3. The above exemption is not available for taxable service provided under brand name/trade name of another person.

Sr. No.	Subject
E5	Service Tax – Rate
	<i>Amended</i>

Sec.	+ / -	w.e.f.
As under	-	A.Y. 06-07

Highlights:

The rate of service tax remains same i.e. 10%.

Sr. No.	Subject	
E6	Service Tax – Other Changes	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
As under	-	A.Y. 06-07

Highlights:

1. Notification No. 9/2005 dated 03.03.2005 has taken away the exemption granted to all service providers for services rendered outside India and the receipt of which is in convertible foreign exchange. The effective date of this notification is 15th March' 2005.
2. Thus Notification No. 21/2003 and 28/2004 has been withdrawn, which granted exemption to export of services.
3. Notification No. 4/2005 dated 01—03-05 has amended Notification No. 15/2004 dated 10-09-04 to provide that the abatement under the said Notification shall be available only when there is a composite contract for construction services i.e. gross amount includes value of material and goods.
4. Notification No. 3/2005 dated 26-02-05 has extended the registration for the services under the Goods Transport Services up to 31.03.05

F. SMALL SCALE INDUSTRIES

Sr. No.	Subject	
F1	SMALL SCALE INDUSTRIES	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
As Under	-	01.04.05



...Or, if you like, you may put it the other way—that we have had here a record yield compared to the previous years!

Highlights:

1. The value of clearances in the preceding year, for determining eligibility for the exemption, is being increased from Rs. 3 Crores to Rs. 4 Crores.
2. The exemption scheme, which provided for a concessional rate of 60% of normal rate with Cenvat credit up to clearances of Rs. 1 Crore, (notification No. 9/2003-CE) is being withdrawn.
3. SSI Units having annual turnover exceeding Rs. 40 lakh will now have to file a simple annual declaration

Saint Tiruvalluvar said:

“Pini Inmai Selvam Vilaivu Inbam Emam

Ani Enba Nattirkku Iv Iyndhu”

*(Health, wealth, produce, the happiness that is the result, and security
These five, the learned say, are the ornaments of a polity)*

G. STAMP ACT

Sr. No.	Subject	
G1	Stamp Act	
	<i>Amended</i>	
Sec.	+ / -	w.e.f.
As under		As under

In order to provide that this process of transformation through the scheme of corporatisation and demutualization and related instruments relating to the scheme are not liable to stamp duty, Indian Stamp Act is being amended, so as to keep to whole process tax-neutral 'vis-à-vis stamp duties

Highlights:

It has been decided to segregate ownership from management and governance of stock exchanges by converting the stock exchanges into corporatised and demutualised entity. During this process of conversion, there will be a national transfer of the assets of the existing mutualised stock exchanges when these are converted into demutualised stock exchanges

Then our new CEO backed up a moving van to the building and robbed us. At first we thought he was breaking the law, but he had a written opinion from his tax lawyer saying it was probably okay.

- SCOTT ADAMS

H. VALUE ADDED TAX

Sr. No.	Subject	
H1		
	<i>Introduced</i>	
Sec.	+ / -	w.e.f.
As under	-	01-04-05

The taxpayer: that's some one who works for the federal government but doesn't have to take the civil service examination

-Ronald Reagan

Highlights:

With the introduction of state level VAT, the overall tax burden will be rationalized. The first phase of implementation will cover a list of 550 goods excluding liquor, petrol, diesel and 46 other products. There will be two basic slabs – about 270 products will attract a rate of 4% including medicines, basic drugs, agricultural and industrial inputs, capital and declared goods and the rest will attract a rate of 12.5%. Gold and silver jewellery will have a special rate of 1%.

Comments:

The Central Govt. will reimburse the states from the Central Sales Tax pool for potential loss on indirect tax revenues. The critical issue would be to get all states to implement VAT. The Govt. has promised to move towards common goods and service tax in the future in line with global practices.



No use being critical all the time. We are much better off now than we were before the budget. Admit it!

Like mothers, taxes, are often misunderstood but seldom forgotten

- LORD BRAMWELL

I. APPENDICES

Sr. No.	Particulars	App
H1	Statement of Rates of Taxes-Individuals A.Y. 2006-07	A
H2	Statement of Rates of Taxes-Other than Individuals A.Y. 2006-07	B
H3	Statement of Rates of Surcharge A.Y. 2006-07	C
H4	Statement of changes in Dividend Distribution Tax	D
H5	Comparative Statement of Changes in Taxes	E
H6	Evolution of Personal Tax Structure	F
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H8	Impact of Finance Act on Billionaires	H
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A Statement of Rates of Taxes Individuals A.Y. 2006-07			
Particulars	S.C.	W	O
	%	%	%
Total Income up to Rs. 10 Lakhs			
Up to 1,00,000	Nil	Nil	Nil
1,00,001 to 1,25,000	Nil	Nil	10.20
1,25,001 to 1,50,000	Nil	10.20	10.20
1,50,001 to 2,50,000	20.40	20.40	20.40
Above 2,50,000	30.60	30.60	30.60
Total Income above Rs. 10 Lakhs			
Up to 1,00,000	Nil	Nil	
1,00,001 to 1,25,000	Nil	Nil	11.22
1,25,001 to 1,50,000	Nil	11.22	11.22
1,50,001 to 2,50,000	22.44	22.44	22.44
Above 2,50,000	33.66	33.66	33.66
SC= Senior Citizen W= Women <65 yrs O=Others			

B Statement of Rates of Taxes Other than Individuals A.Y. 2006-07	
	%
Partnership Firm	33.66
Domestic Company	33.66
Co. Other than Domestic Co.	41.82
Local Authority	30.60
Co-op Society (Marginal)	30.60

C Statement of Rates of Surcharge A.Y. 2006-07	
Individual, HUF, AoP and Bol	
If Total Income < 10,00,000	Nil
If Total Income > 10,00,000	10%
Firm, Domestic Co., AJP	10%
Co-ops and Local Authority	Nil
Foreign Company	2.5%

D Statement of changes in Dividend Distribution Tax		
	'06-07	'05-06
Domestic Company	14.025	13.068
MF to Indl/HUF	14.025	13.068
MF to others	22.44	20.91

E Comparative Statement of Changes in Taxes		
Particulars	'06-07	'05-06
Individuals, HUFs, Body of Individuals and AOPs		
Total Income Below Rs. 10 lakhs		
UP to Rs. 50,000	Nil	Nil
Rs. 50,001 – 60,000	Nil	10.20
Rs. 60,001 – 1,00,000 *	Nil	20.40
Rs. 1,00,001 – 1,50,000	10.20	20.40
Rs. 1,50,001 – 2,50,000	20.40	30.60
Above Rs. 2,50,000	30.60	30.60
LTCG on assets other than listed securities	20.40	20.40
STCG on listed securities	10.20	10.20
STCG on assets other than listed securities	As per Slab	As per Slab
Total income above Rs. 10 lakhs		
Up to Rs 50,000	Nil	Nil
Rs. 50,001 – 60,000	Nil	11.22
Rs. 60,001 – 1,00,000	Nil	22.44
Rs. 1,00,001 – 1,50,000*	11.22	22.44
Rs. 1,50,001 – 2,50,000	22.44	33.66
Above Rs 2,50,000	33.66	33.66
LTCG on assets other than listed securities	22.44	22.44
STCG on listed securities	11.22	11.22
STCG on assets other than listed securities	As per Slab	As per Slab
General Rates for Firms & Domestic Company		

Partnership firm	33.66	36.59
Domestic Company	33.66	36.59
Special Tax Rates for firms & Domestic Company		
LTCG on assets other than listed securities	22.44	20.91
STCG on listed securities	11.28	10.46
STCG on assets other than listed securities	33.66	36.59
Company other than domestic company		
General Rate	41.82	41.82
LTCG on assets other than listed securities	20.91	20.91
STCG on listed securities	10.46	10.46
STCG on assets other than listed securities	41.82	41.82
Dividend Distribution Tax		
By Domestic Companies	14.03	13.07
By Open ended Equity Oriented Mutual Funds	Nil	Nil
By other Mutual Funds for dividend to individual / HUF	14.03	13.07
By other Mutual Funds for dividend distributed to others	22.44	20.91
Special Rates to Tax on Royalties and Fees for Technical Services of non-resident (not being foreign company) u/s. 115A		
On agreements made before 1-6-05 (after 31-5-97)	22.44	22.44
On agreement executed on or after 1-6-05	11.22	-
Special Rates of Tax on Royalties and Fees for Technical Services of foreign company U/s. 115 A		
On agreement made before 1-6-05 (after 31-5-97)	20.91	20.91
On agreement executed on or after 1-6-2005	10.46	
Security Transaction Tax w.e.f. 1-6-2005		
Delivery based transaction of equity shares and units of EOF from seller	0.10	0.08
On above from Purchaser	0.10	0.08

Repurchase of Units of EOF from seller	0.20	0.15
Day-trading (or non-delivery based)	0.02	0.02
Derivatives (futures and options)	0.01	0.01

Basic exemption limit proposed for A. Y. 2006-07 for women below 65 years is Rs. 1,25,000 and for senior citizens is Rs. 1,50,000. These increase in basic exemption limit is proposed in substitution of rebates u/s. 88C and 88B respectively.

Rebate u/s. 88D is available so as to reduce the tax to Nil.

Source: WIRC Newsletter

F	Evolution of Personal Tax Structure				
	Year	EL	NoR	ER	PR
49-50	1.5	4	4.69	25.00	15
55-56	2	5	4.93	26.25	
60-61	3	7	3.15	26.25	20
70-71	5	11	11	93.5	200
71-72	5	11	11	93.5	200
72-73	5	11	11	93.5	200
73-74	5	11	11	93.5	200
74-75	6	8	13.2	77	70
80-81	8	8	15	66	100
85-86	18	4	25	50	100
90-91	22	4	20	56	100
95-96	40	3	20	40	120
97-98	40	3	10	30	150
98-99	50	3	10	30	150
99-00	50	3	10	33	150
00-01	50	3	10	35.1	150
01-02	50	3	10	30.6	150
02-03	50	3	10	31.5	150
04-05	60	3	10	33.6	850
Prop.	100	3	10	33.6	1000

EL=Exemption Limit (in '000),

NoR= Number of Rates

ER=Entry Rate

PR=Peak Rate

IPR: Income at which Peak Rate applies (in '000s)

Source: TOI

G	Impact of the Tax Rate Change
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Taxable Income	Exis. Tax L.	New tax
50000	Nil	Nil
55000	Nil	Nil
60000	Nil	Nil
75000	Nil	Nil
100000	Nil	Nil
150000	19380	5100
200000	34680	15300
300000	65280	408000
500000	126480	102000
750000	202980	178500
800000	218280	1938000
850000	233580	209100
855000	238680	210630
1000000	307428	255000

GOVT'S LEFT VS RIGHT HAND

An FM can make of government richer or poorer by his own hand, with market response to the Budget impacting PSU scrips. Here's how this Finance Act affected the big PSUs.

Scrip	% Eq	VOH	Rs	G/L
BHEL	68	14283	228	-55
BPCL	66	8196	8495	299
GAIL	67	13714	13654	-59
HPCL	51	5952	6079	128
LOC	82	46498	47087	589
MTNL	56	4711	4764	53
NTPC	90	68299	68631	332
ONGC	74	89052	90045	993
SCI	80	3631	3673	42
SAIL	86	22332	23217	889
PSUS OF 40 PSUs		325580	328889	3309

Value of Govt. holding on Feb 25: Rs. 3.29 Lakh Cr. Value on Feb 28 Rs 3.28 Lakh Cr. Gain to Govt in 40 PSUs: Rs. 3309 Cr.

TIMES TRACKER

How much is Rs. 1 Lakh invested in 10 leading stocks the day before the budget - worth after it?

Stock	Value of investment on Profit from		
ACC	10000	10172	172
Bajaj A.	10000	10132	132
Dr Reddy	10000	10117	117
HPCL	10000	10215	215

ICICI B.	10000	10368	368
Infosys	10000	10262	262
L & T	10000	10036	36
Reliance	10000	10299	299
Tata Power	10000	10176	176
Tisco	10000	10307	307
Total Gain Or Loss			2084

(Assuming Rs. 10,000 is invested in each stock)

Total gain to investors Rs. 2,084

H Impact of Finance Act on Billionaires

Most of this edition has been dedicated to gauging the Finance Act's impact on people with incomes of between Rs. 1 lakh and Rs. 1 crore a year. But what about those with wealth running into hundreds and thousands of crores? What does the Finance Act to their sense of well-being?

%ote	Price (Rs)		Wealth (Rs)		CW (Cr)
	F. 25	F. 28	F. 25	F. 28	
5.88	217 9	2237	3453	3543	
NARAYANA MURTHY & FAMILY (Infosys)					
3.82	217 9	2237	2242	2301	59
NANDAN M NILEKANI (Infosys)					
3.82	217 9	2237	2242	2301	59
AZIM PREMJI (Wipro)					
83.18	67 4	699	39389	40832	1443
KUMAR MANGALAM BIRLA (I. Rayon)					
25.92	139 5	1395	3342	3342	-0.12
KUMAR MANGALAM BIRLA (I. Rayon)					
24.92	448	450	668	672	4
KUMAR MANGALAM BIRLA (Grasim)					
21.94	131 9	1346	2652	2706	54
ANJI REDDY (Dr. Reddys')					
83.18	674	699	39389	40832	1443

BM MUNJAL (H.Honda)					
26.01	521	544	2702	2826	124
SHIV NADAR (HCL T)					
70.34	329	338	7344	7535	191
SHIV NADAR (HCL IF)					
60.33	856	844	1710	1688	-22
SUNIL MITTAL (B. TELE)					
46.40	220	225	18907	19358	451
KIRAN MAZUMDER SHAW (Blecon)					
46.10	453	461	2088	2123	35
RAMALINGA RAJU B (Satyam)					
9.11	401	411	1164	1196	32
SUBHASH CHANDRA (ZEE)					
21.64	144.4	142	1289	1266	-23
SUBHASH CHANDRA (ESSEL PRO.)					
36.24	278	271	316	308	-8

The hardest thing in the world to understand is income tax. This (preparing my tax return) is too difficult for a mathematician. It takes a philosopher - Albert Einstein



H	IMPORTANT TERMS
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AD-VALOREM DUTIES: These are the duties determined as a certain percentage of the price of the product.

APPROPRIATION BILL: This Bill is like a green signal enabling the withdrawal of money from the Consolidated Fund to pay off expenses. These are instruments that Parliament clears after the demand for grants has been voted by the Lok Sabha.

BUDGETARY DEFICIT: Such a situation arises when the expenses exceed the revenues. Here the entire budgetary exercise falls short of allocating enough funds to a certain area.

BUDGET ESTIMATES: These estimates contain an estimate of Fiscal Deficit and the Revenue Deficit for the year. The term is associated with the estimates of the Center's spending during the financial year and the income received as proceeds of tax revenues.

CAPITAL GOODS: Capital Goods are those

goods that are used in the manufacturing of finished products.

CAPITAL BUDGET: The word, capital, is long-term in nature. Capital Budget keeps track of the government's capital receipts and payments. This accounts for market loans, borrowings from the Reserve Bank and other institutions through the sale of Treasury Bills, loans acquired from foreign governments and recoveries of loans granted by the Central government to state governments and Union Territories.

CAPITAL PAYMENTS: Expenses incurred on acquisition of assets are termed capital payments.

CENVAT: This is a replacement for the earlier MODVAT scheme and is meant for reducing the cascade effect of indirect taxes on finished products. The scheme is a more extensive one with most goods brought under its preview.

CURRENT ACCOUNT DEFICIT: This deficit

shows the difference between the nation's exports and imports.

CUSTOM DUTIES: These duties are levied on goods whenever they are either brought into the country or exported from the country. The importer or the exporter pays custom duties.

COUNTERVAILING DUTIES: This is levied on imports that may lead to price rise in the domestic market. It is imposed with the intention of discouraging unfair trading practices by other countries.

CONSOLIDATED FUND: This is one big reservoir where the government pools all its funds together. The fund includes all government revenues, loans raised and recoveries of loans granted.

CONTINGENCY FUND: It is more or less similar to that extra little bit of savings that all mothers set aside in case of an emergency. Likewise, the government has created this fund to help it tide over difficult situations. The fund is at the disposal of the President to meet unforeseen and urgent expenditure, pending approval from Parliament. The amount that is withdrawn from the fund is recouped.

CAPITAL EXPENDITURE: Long-term in nature they are used for acquiring fixed assets such as land, building, machinery and equipment. Other items that also fall under this category include loans and advances sanctioned by the Center to the State governments, union territories and public sector undertakings.

CAPITAL RECEIPT: Loans raised by the Center from the market, government borrowings from the RBI & other parties, sale of Treasury Bills and loans received from foreign governments all form a part of Capital Receipt. Other items that also fall under this category include recovery of loans granted by the Center to State governments & Union Territories and proceeds from the dilution of the government's stake in Public Sector Undertakings.

CENTRAL PLAN: It refers to the government's budgetary support to the Plan and, the internal and extra budgetary resources raised by the Public Sector Undertakings.

DIRECT TAXES: Taxes imposed directly on the

customers such as the Income Tax and the Corporate Tax fall under this category.

DISINVESTMENT: The dilution of the government's stake in Public Sector Undertakings is called as disinvestment.

DEMAND FOR GRANTS: It is a statement of estimate of expenditure from the Consolidated Fund. This requires the approval of the Lok Sabha.

EXCISE DUTIES: These duties refer to duties imposed on goods manufactured within the country.

FISCAL DEFICIT: It is the difference between the Revenue Receipts and Total Expenditure.

GROSS DOMESTIC PRODUCT: Total market value of the goods and services manufactured within the country in a financial year.

GROSS NATIONAL PRODUCT: Total market value of the finished goods and services manufactured within the country in a given financial year, plus income earned by the local residents from investments made abroad, minus the income earned by foreigners in the domestic market.

INDIRECT TAXES: Taxes imposed on goods manufactured, imported or exported such as Excise Duties and Custom Duties.

MODVAT: It stands for Modified Value Added Tax and is a way of giving some relief to the final manufacturers of goods on Excise Duties borne by their suppliers.

MONETIZED DEFICIT: Measures the level of support the RBI provides to the Center's borrowing program.

PEAK RATE: It is the highest rate of Custom Duty applicable on an item.

PERFORMANCE BUDGET: It is a compilation of programs and activities of different ministries and departments.

PUBLIC ACCOUNT: It is an account where money received through transactions not relating to consolidated fund is kept.

PLAN EXPENDITURE: Consists of both Revenue Expenditure and Capital Expenditure of the Center on the Central Plan, Central Assistance to States and Union Territories.

PRIMARY DEFICIT: Fiscal Deficit minus Interest payments.

REVENUE DEFICIT: It is the difference between Revenue Expenditure and Revenue Receipts.

REVENUE SURPLUS: Opposite of Revenue Deficit, it is the excess of Revenue Receipts over Revenue Expenditure.

REVISED ESTIMATES: Usually given in the following budget, it is the difference between the Budget Estimates and the actual figures.

REVENUE BUDGET: Consists of Revenue Receipts and Revenue Expenditure of the government.

REVENUE RECEIPT: Consists of duties imposed by the Center, interest and dividend on investments made by the government.

REVENUE EXPENDITURE: Expenditure incurred for the normal functioning of the

government departments and various other services such as interest charges on debt incurred by the government.

SUBSIDIES: Financial aid provided by the Center to individuals or a group of individuals to be competitive. The grant of subsidies is also aimed at improving their skills of those who benefit from the subsidies.

NON-PLAN EXPENDITURE: Consists of Revenue and Capital Expenditure on interest payments, Defense Expenditure, subsidies, postal deficit, police, pensions, economic services, loans to public sector enterprises and loans as well as grants to State governments, Union territories and foreign governments.

FINANCE BILL: Consists the government's proposals for the imposition of new taxes, modification of the existing tax structure or continuance of the existing tax structure beyond the period approved by the Parliament.

VALUE ADDED TAX: It is based on the difference between the value of the output over the value of the inputs used

