

### A. TAX PROPOSALS

- a) Tax reform, like all reforms, is a process and not an event. Thrust of reforms has been to improve the efficiency and equity of our tax system. This is sought to be achieved by eliminating distortions in the tax structure, introducing moderate levels of taxation and expanding the base and accompanied by requisite re-engineering of key business processes coupled with automation.
- b) Recent initiative, on direct taxes side, of the setting up of a Centralized Processing Centre (CPC) at Bengaluru where all electronically filed returns, and paper returns filed in entire Karnataka, will be processed.
- c) Centre's Tax-GDP ratio has increased to 11.5 per cent in 2008-09 from a low of 9.2 per cent in 2003-04. Share of direct taxes in the Centre's tax revenues has increased to 56 percent in 2008-09 from 41 percent in 2003-04, reflecting sharp improvement in equity of our tax system.
- d) Structural changes in direct taxes to be pursued by releasing the new Direct Taxes Code within the next 45 days and in indirect taxes by accelerating the process for the smooth introduction of the Goods and Services Tax (GST) with effect from 1<sup>st</sup> April, 2010.
- e) The Direct Taxes Code, along with a Discussion Paper, to be released to the public for debate. The Direct Taxes Code Bill will be finalised for introduction in Lok Sabha sometime during the Winter Session based on the inputs received.
- f) The Authorities for Advance Rulings on Direct and Indirect Taxes to be merged by amending the relevant Acts.
- g) Agreement has been reached on the basic structure of GST in keeping with the principles of fiscal federalism enshrined in the Constitution. Broad contour of the GST Model envisages dual GST comprising of a Central GST and a State GST.
- h) The Centre and the States will each legislate, levy and administer the Central GST and State GST, respectively.

### B. DIRECT TAXES

- a) No changes made in the Corporate Tax rates.
- b) Exemption limit in personal income tax raised by Rs.15,000 from Rs.2.25 lakh to Rs.2.40 lakh for senior citizens; by Rs.10,000 from Rs.1.80 lakh to Rs.1.90 lakh for women tax payers; and

by Rs.10,000 from Rs.1.50 lakh to Rs.1.60 lakh for all other categories of individual taxpayers. New Tax rates as follows:

Individuals, Hindu Undivided Families, Association Of Persons and Body of Individuals

Income Slab (Rs)		Tax Rates (%) (Inclusive of Education Cess of 3%)
From	To	
0	160,000*	NIL
160,001*	300,000	10.30% of the income exceeding Rs. 160,000
300,001	500,000	Rs. 14,420 plus 20.60% of income exceeding Rs. 300,000
500,001	And above	Rs. 55,620 plus 30.90% of income exceeding Rs. 500,000.

\* In respect of resident women tax payers below 65 years of age, the basic exemption slab is Rs. 180,000. In respect of resident individual tax payers above 65 years of age, the basic exemption slab is Rs. 240,000. The tax for the slabs would change accordingly.

- c) Deduction under section 80-DD in respect of maintenance, including medical treatment, of a dependent who is a person with severe disability being raised from the present limit of Rs.75,000 to Rs.1 lakh.
- d) Surcharge on various direct taxes to be phased out; in the first instance, by eliminating the surcharge of 10 percent on personal income-tax.
- e) Sun-set clauses for deduction in respect of export profits under sections 10A and 10B of the Income-tax Act being extended by one more year i.e. for the financial year 2010-11.
- f) Fringe Benefit Tax on the value of certain fringe benefits provided by employers to their employees to be abolished.
- g) Scope of provisions relating to weighted deduction of 150% on expenditure incurred on in-house R&D to all manufacturing businesses being extended except for a small negative list.
- h) Businesses to be incentivised by providing investment linked tax exemptions rather than profit linked exemptions. Investment linked tax incentives to be provided, to begin with, to the businesses of setting up and operating 'cold chain', warehousing facilities for storing agricultural produce and the business of laying and operating cross country natural gas or

crude or petroleum oil pipeline network for distribution on common carrier principle. Under this method, all capital expenditure, other than expenditure on land, goodwill and financial instruments to be fully allowable as deduction.

- i) Minimum Alternate Tax (MAT) to be increased to 15 per cent of book profits from 10 per cent. The period allowed to carry forward the tax credit under MAT to be extended from seven years to ten years.
- j) New Pension System (NPS) to continue to be subjected to the Exempt-Exempt-Taxed (EET) method of tax treatment of savings. Income of the NPS Trust to be exempted from income tax and any dividend paid to this Trust from Dividend Distribution Tax. All purchase and sale of equity shares and derivatives by the NPS Trust also to be exempt from the Securities Transaction Tax. Self employed persons to be enabled to participate in the NPS and to avail of the tax benefits available thereto.
- k) Alternative dispute resolution mechanism to be created within the Income Tax Department for the resolution of transfer pricing disputes. Central Board of Direct Taxes (CBDT) to be empowered to formulate 'safe harbour' rules to reduce the impact of judgemental errors in determining transfer price in international transactions.
- l) Commodity Transaction Tax (CTT) to be abolished.
- m) Donations to electoral trusts to be allowed as a 100 percent deduction in the computation of the income of the donor.
- n) Deduction under section 80E of the Income-tax Act allowed in respect of interest on loans taken for pursuing higher education in specified fields of study to be extended to cover all fields of study, including vocational studies, pursued after completion of schooling.
- o) To mitigate the practical difficulties faced by charitable organisations, anonymous donations received by charitable organisations to the extent of 5 percent of their total income or a sum of Rs.1 lakh, whichever is higher, not to be taxed.
- p) Scope of presumptive taxation to be extended to all small businesses with a turnover upto Rs. 40 lakh. All such taxpayers to have option to declare their income from business at the rate of 8 percent of their turnover and simultaneously enjoy exemption from the compliance burden of maintaining books of accounts. As a procedural simplification, they are also to be exempted from advance tax and allowed to pay their entire tax liability from business at the time of filing their return. This new scheme to come into effect from the financial year 2010-11.

- q) Tax holiday under section 80-IB(9) of the Income Tax Act, which was hitherto available in respect of profits arising from the commercial production or refining of mineral oil, to be extended to natural gas. This tax benefit to be available to undertakings in respect of profits derived from the commercial production of mineral oil and natural gas from oil and gas blocks which are awarded under the NELP-VIII round of bidding. The section to be retrospectively amended to provide that “undertaking” for the purposes of section 80-IB(9) will mean all blocks awarded in any single contract.

### C. INDIRECT TAXES

Proposals on indirect taxes to seek to achieve stable framework by maintaining the overall rate structure for customs and central excise duties as well as service tax.

#### a) Customs duties

1. Customs duty of 5% to be imposed on Set Top Box for television broadcasting.
2. Customs duty on LCD Panels for manufacture of LCD televisions to be reduced from 10% to 5%.
3. Full exemption from 4% special CVD on parts for manufacture of mobile phones and accessories to be reintroduced for one year.
4. List of specified raw materials/inputs imported by manufacturer-exporters of sports goods which are exempt from customs duty, subject to specified conditions, to be expanded by including five additional items.
5. List of specified raw materials and equipment imported by manufacturer-exporters of leather goods, textile products and footwear industry which are fully exempt from customs duty, subject to specified conditions, to be expanded.
6. Customs duty on unworked corals to be reduced from 5% to Nil.
7. Customs duty on 10 specified life saving drugs/vaccine and their bulk drugs to be reduced from 10% to 5% with Nil CVD (by way of excise duty exemption).
8. Customs duty on specified heart devices, namely artificial heart and PDA/ASD occlusion device, to be reduced from 7.5% to 5% with Nil CVD (by way of excise duty exemption).
9. Customs duty on permanent magnets for PM synchronous generator above 500 KW used in wind operated electricity generators to be reduced from 7.5% to 5%.

10. Customs duty on bio-diesel to be reduced from 7.5% to 2.5%.
11. Concessional customs duty of 5% on specified machinery for tea, coffee and rubber plantations to be reintroduced for one year, upto 06.07.2010.
12. Customs duty on 'mechanical harvester' for coffee plantation to be reduced from 7.5% to 5%. CVD on such harvesters has also been reduced from 8% to nil, by way of excise duty exemption.
13. Customs duty on serially numbered gold bars (other than tola bars) and gold coins to be increased from Rs.100 per 10 gram to Rs.200 per 10 gram. Customs duty on other forms of gold to be increased from Rs.250 per 10 gram to Rs.500 per 10 gram. Customs duty on silver to be increased from Rs.500 per Kg. to Rs.1000 per Kg. These increases also to be applicable when gold and silver (including ornaments) are imported as personal baggage.
14. Customs duty on cotton waste to be reduced from 15% to 10%.
15. Customs duty on wool waste to be reduced from 15% to 10%.
16. Customs duty on rock phosphate to be reduced from 5% to 2%.
17. CVD exemption on Aerial Passenger Ropeway Projects to be withdrawn. Such projects will now attract applicable CVD.
18. Customs duty exemption on concrete batching plants of capacity 50 cum per hour or more to be withdrawn. Such plants will now attract customs duty of 7.5%.
19. On packaged or canned software, CVD exemption to be provided on the portion of the value which represents the consideration for transfer of the right to use such software, subject to specified conditions.
20. Customs duty on inflatable rafts, snow-skis, water skis, surf-boats, sail-boards and other water sports equipment to be fully exempted.

### **b) Central excise duties**

Excise duty rate on items currently attracting 4% to be raised to 8% with following major exceptions:

1. Specified food items including biscuits, sharbats, cakes and pastries
2. Drugs and pharmaceutical products falling under Chapter 30
3. Medical equipment

4. Certain varieties of paper, paperboard and articles thereof
5. Paraxylene
6. Power driven pumps for handling water
7. Footwear of RSP exceeding Rs.250 but not exceeding Rs.750 per pair
8. Pressure cookers
9. Vacuum and gas filled bulbs of RSP not exceeding Rs.20 per bulb
10. Compact Fluorescent Lamps
11. Cars for physically handicapped
12. Specific component of excise duty applicable to large cars/utility vehicles of engine capacity 2000 cc and above to be reduced from Rs. 20,000/- per vehicle to Rs.15,000 per vehicle.
13. Excise duty on petrol driven trucks/lorries to be reduced from 20% to 8%. Excise duty on chassis of such trucks/lorries to be reduced from '20% + Rs.10000' to '8% + Rs.10000'.
14. Excise duty on Special Boiling Point spirits to be reduced to 14%.
15. Excise duty on naphtha to be reduced to 14%.
16. Duty paid High Speed Diesel blended with upto 20% bio-diesel to be fully exempted from excise duties.
17. The ad valorem component of excise duty of 6% on petrol intended for sale with a brand name to be converted into a specific rate. Consequently, such petrol would now attract total excise duty of Rs.14.50 per litre instead of '6% + Rs.13 per litre'.
18. The ad valorem component of excise duty of 6% on diesel intended for sale with a brand name to be converted into a specific rate. Consequently, such diesel would now attract total excise duty of Rs.4.75 per litre instead of '6% + Rs.3.25 per litre'.
19. Excise duty on manmade fibre and yarn to be increased from 4% to 8%.
20. Excise duty on PTA and DMT to be increased from 4% to 8%.
21. Excise duty on polyester chips to be increased from 4% to 8%.
22. Excise duty on acrylonitrile to be increased from 4% to 8%.
23. The scheme of optional excise duty of 4% for pure cotton to be restored.

24. Excise duty for man-made and natural fibres other than pure cotton, beyond the fibre and yarn stage, to be increased from 4% to 8% under the existing optional scheme.
25. An optional excise duty exemption to be provided to tops of manmade fibre manufactured from duty paid tow at par with tops manufactured from duty paid staple fibre.
26. Suitable adjustments to be made in the rates of duty applicable to DTA clearances of textile goods made by Export Oriented Units using indigenous raw materials/ inputs for manufacture of such goods.
27. Full exemption from excise duty to be provided on goods of Chapter 68 of Central Excise Tariff manufactured at the site of construction for use in construction work at such site.
28. Excise duty exemption on 'recorded smart cards' and 'recorded proximity cards and tags' to be made optional. Manufacturers have the option to pay the applicable excise duty and avail the credit of duty paid on inputs.
29. EVA compound manufactured on job work for further use in manufacture of footwear to be exempted from excise duty.
30. Benefit of SSI exemption scheme to be extended to printed laminated rolls bearing the brand name of others by excluding this item from the purview of the brand name restriction.
31. On packaged or canned software, excise duty exemption to be provided on the portion of the value which represents the consideration for transfer of the right to use such software, subject to specified conditions.
32. Excise duty on branded articles of jewellery to be reduced from 2% to Nil.

### **c) Service tax**

Service Tax to be imposed on the following services:

1. Service provided in relation to transport of goods by rail
2. Service provided in relation to transport of coastal cargo; and goods through inland water including National Waterways

3. Advice, consultancy or technical assistance provided in the field of law (this tax would not be applicable in case the service provider or service receiver is an individual).
4. Cosmetic and plastic surgery service
5. Exemption from service tax being provided to inter-State or intra-State transportation of passengers in a vehicle bearing 'Contract Carriage Permit' with specified conditions.
6. Exemption from service tax (leviable under Banking and other financial services or under Foreign exchange broking service) being provided to inter-bank purchase and sale of foreign currency between scheduled banks.
7. Two taxable services, namely, 'Transport of goods through road' and 'Commission paid to foreign agents' to be exempted from the levy of service tax, if the exporter is liable to pay service tax on reverse charge basis. However, present cap of 10% on commission agency charges is retained. Thus there would be no need for the exporter to first pay the tax and later claim refund in respect of these services.
8. For other services received by exporters, service tax exemption to be operated through the existing refund mechanism based on self-certification of the documents where such refund is below 0.25 per cent of FOB value, and certification of documents by a Chartered Accountant for value of refund exceeding the above limit.
9. Export Promotion Councils and the Federation of Indian Export Organizations (FIEO) to be exempt from service tax on the membership and other fees collected by them till 31st March 2010.

Tax proposals on direct taxes to be revenue neutral. On indirect taxes, estimated net gain to be Rs.2,000 crore for a full year.