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INDIAN UNION BUDGET HIGHLIGHT-2010-11



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HIGHLIGHT OF THE UNION BUDGET- 2010-11

Few of the important amendments, proposed to be effected by the Finance Bill, 2010 introduced on the floor of the Parliament on February 26, 2010 effective from **Assessment Year 2011-2012 or Financial Year 2010-11** are as under:

I. DIRECT TAXES:

A Personal Taxation

1. **Income Tax slab rates raised** - The income tax slab rates have been tweaked such that the maximum marginal rate of 30% now commences for income earned above Rs. 800,000/- instead of Rs. 500,000/- earlier. Similarly, the slab rate of 20% now commences at an income above Rs. 500,000/- instead of Rs. 300,000/- earlier. The proposed amendment shall result in a maximum saving of Rs. 51,500/- for all individual assessee's earning an income of Rs. 800,000 and above.
2. **Deduction for subscription to long term infrastructure bonds**- Individuals and HUF shall be eligible for an additional deduction of upto Rs. 20,000/- if subscription is made during the financial year commencing 1st April 2010 to long term infrastructure bonds as notified by the Central Government.
3. **Deduction on contribution made under CGHS**- Deduction in respect of health insurance premia of Rs. 15,000 or Rs. 20,000 in certain cases, is now proposed to be made available for contributions made to the Central Government Health Scheme (CGHS) also.
4. **Relaxation in meaning of 'Charitable Purpose'**- The Finance Act, 2008 had earlier w.e.f. 01.04.2009 narrowed down the meaning of 'charitable purpose' to exclude any object of general public utility if it involves carrying out of any activity in the nature of trade, commerce or business or any activity of rendering any service in relation to any trade, commerce or business. In the current Budget it has been proposed to exclude the said restriction on carrying out activity in the nature of trade, commerce or business for receipts aggregating Ten Lakh Rupee or less during a financial year.

B Corporate Taxation

5. Amendment in chargeability of Fee for Technical Services deemed to accrue in India-

The Explanation to Section 9, dealing with income deemed to accrue or arise in India, has been proposed to be substituted such that Income by way of Fee for Technical Services shall be deemed to accrue or arise in India of the non-resident whether or not the non resident has rendered services in India or not, subject to the satisfaction of the other conditions of that section.

6. Change in deduction available to SEZ made retrospective-

In the last Budget, the Finance (No.2) Act, 2009 had altered the manner of computing 'profits derived from export of articles or things or services' of a Special Economic Zone eligible for a deduction. The said amendment is now proposed to be made retrospective with effect from Assessment Year 2006-07 and onwards.

7. Research & Development Deduction-

- (i) A deduction of 175% in place of 125% for any amount paid to a research association, company to be used for scientific research, research association undertaking research in social science or statistical research or university.
- (ii) A deduction of 175% in place of 125% for payments made to a National Laboratory, University or an IIT or specified person to

be used for a specific research undertaken under a program approved by the prescribed authority.

- (iii) A deduction of 200% in place of 150% is proposed for any expenditure on scientific research (not being expenditure in the nature of cost of any land or building) on in house research and development facility as approved by the prescribed authority where a company is engaged in the business of bio-technology or in the business of manufacture or production of any drugs, pharmaceuticals, electronic equipments, computers, telecom equipments, chemicals or other article or thing notified by the Board.

8. Hotels allowed full deduction for Capital Expenditure-

Deduction of whole of the expenditure, incurred of capital nature wholly and exclusively for the purpose of the 'specified business' allowable in the year in which the expenditure is incurred, was introduced in the last Budget through Finance (No. 2) Act, 2009. It has now been proposed to extend this benefit to all new hotels of two star or above category built and operated anywhere in India on or after the 1st day of April 2010.

9. Disallowance due to TDS-

Earlier if any interest, commission or brokerage, rent, royalty, fee for technical service was payable to a resident during any month other than the last

month of the financial year and TDS thereon was either not deducted or after deduction had not been paid by the last day of the financial year, the said expense was disallowed. Now, it has been proposed to extend the time period for making payment upto the due date specified u/s 139(1). This would provide the assessee's additional time to fully discharge their TDS liabilities without attracting any disallowance.

10. **Limit of Tax Audit Increased**- The requirement for obtaining a Tax Audit Report was earlier mandatory for all businesses having a gross turnover in excess of Rs. 4,000,000 and in the case of professions having a gross receipt in excess of Rs. 1,000,000. It has now been proposed to increase this threshold limit to Rs. 6,000,000 and Rs. 1,500,000 for businesses and professions respectively.

11. **Limit of computing profits of business on presumptive basis increased**- The threshold limit for applicability of the presumptive tax on small businesses, except plying, hiring or leasing goods carriage, is proposed to be increased to Rs. 6,000,000 from Rs. 4,000,000 previously. Further, it is proposed to exclude the income by way of royalty or fee for technical services received by a no-resident or a foreign company to the benefit of the presumptive tax.

12. **Conversion of Private Company or unlisted Public Company to LLP to be tax neutral-**

(a) It is proposed that any transfer of a capital asset or intangible asset by a private company or unlisted public company to a Limited Liability Partnership shall not be subjected to capital gains provided the following conditions are met:-

- (i) All the shareholders immediately before conversion become the partners of the LLP.
- (ii) The capital contribution and profit sharing ratio in the LLP are in the same proportion as their shareholding in the company
- (iii) The shareholders do not receive any benefit in the LLP other than the share in profit and capital contribution
- (iv) The aggregate of the profit sharing ration of the shareholders of the company in the LLP shall not be less than 50% during a period of 5 years from the date of conversion
- (v) Total sales in any 3 year preceeding the year of conversion does not exceed Rs. 6,000,000
- (vi) No amount is paid to any partner out of the balance accumulated profit standing in the accounts of the company on the date of conversion for a period of 3 years from date of conversion.

(b) In case the conditions of minimum profit sharing ratio and no distribution of

accumulated profits are not adhered to, then the capital gains not charged earlier shall be chargeable as capital gains in the hands of the LLP in such year.

- (c) Depreciation in the year in which conversion has taken place shall be apportioned between the company and the LLP in the ratio of the number of days for which the assets were used by them.
- (d) The amortization of expenditure incurred under voluntary retirement scheme shall continue to be available to the LLP after conversion in the same manner as was available to the company, if such conversion had not taken place.
- (e) The actual cost of the block of assets in the hands of the LLP shall be the written down value of the block of assets in the hands of the Company on the date of conversion.
- (f) The accumulated loss and the unabsorbed depreciation of the company going in for a reorganization shall be deemed to be the loss or allowance for depreciation of the successor LLP.
- (g) Tax credit in respect of tax paid on deemed income relating to certain companies shall not be available to LLP converted from a private company or unlisted public company.

13. Amendments in taxability of Gifts-

- (a) Earlier, if an assessee being an individual or a HUF received any immovable property without consideration or for inadequate

consideration, the value of the said property shall be treated as income in the hands of assessee and liable to tax. Now, it is proposed to restrict the applicability of the said clause only to immovable property received without any consideration and to remove the stipulation as regards inadequate consideration. This change is proposed to be made retrospectively effective from October 1, 2009.

- (b) It is proposed that gift of bullion without consideration or for inadequate consideration shall also now fall within the tax net. This change is proposed from June 1, 2010.
- (c) It is proposed to now include as income, the fair value of any shares of a company not being a company in which public are substantially interested, received by a firm or a closely held company without consideration or for inadequate consideration. This change is proposed from June 1, 2010.
- (d) For the purpose of assessment or re-assessment the Assessing Office can now refer the matter of assessing the fair market value of property gifted to the Valuation Officer.

14. Option for availing benefit of deduction to be

taken- The assessee's need to take a call on the option of whether the deduction available u/s 35AD on capital expenditure incurred in

specified businesses (namely, oil and gas pipeline, cold chain, warehousing, hotels) is to be taken or the deduction on income is to be taken for such specified businesses under the provisions of Section 80IA, 80IB, 80ID or 80IE. The option of going under section 35AD once availed in any one assessment year, no benefit by way of deduction on certain incomes in any other assessment year can be taken. This change is proposed to be made effective from April 1, 2011.

15. Extension of sunset clause for deduction available to Group Housing Projects-

- (a) The 100% deduction available for group housing projects was earlier available for projects approved by local authority on or after April 1, 2004 but before March 31, 2008 which were to be completed within 4 years from the end of the financial year in which the housing project is approved. It is now proposed that for projects approved on or after April 1, 2005 the projects should be completed within 5 years in place of the earlier 4 years.
- (b) Under the existing provisions, the built up area of the shops and other commercial establishments included in the housing project should not exceed 5% or 2000 sq. ft. whichever is less. It is now proposed to revise the existing limit to 3% of the aggregate built up area of the housing project or 5000 sq. ft., whichever is higher.

- (c) These changes are proposed to be made with retrospective effect from Assessment Year 2010-11 and subsequent years.

16. Sunset Clause for deduction on profits of Hotel and Convention Centre extended- The deduction available to undertakings deriving profits from the business of hotels and convention centres located in specified areas was earlier restricted to such hotels, convention centres which started functioning before March 31 2010. This deadline has now been extended to July 31, 2010.

17. MAT rate increased from 15 to 18%- It has been proposed that the Minimum Alternate Tax (MAT) chargeable u/s 115JB be increased from 15% of 'book profits' of the company currently to 18% of 'book profits' of the company. 'Book Profit' means net profit as shown in the profit and loss account prepared in accordance with the provisions of Schedule VI to the Companies Act, 1956 as increased or reduced by certain adjustments, as specified in that section. The change is proposed to be effective from the previous year relevant to the assessment year commencing on or after April 1, 2011. It is pertinent to highlight that in the previous Budget the rate was increased from 10% to 15% and now it has again been hiked.

C Tax Administration

18. Amendment in the threshold limits for triggering TDS-

The provisions of tax withholding for residents are dependent upon a minimum payment being made during the financial year. These limits have now been proposed to be increased, considering the inflationary pressures, effective from July 1, 2010 as follows:

- (a) TDS on winnings from lottery or crossword puzzles shall be applicable for payments exceeding Rs. 10,000 in place of Rs. 5,000 earlier.
- (b) TDS on winnings from horse race shall be applicable for payments exceeding Rs. 5,000 in place of Rs. 2,500 earlier.
- (c) TDS on payments to contractors shall be applicable for amounts paid or credited exceeding Rs. 30,000 in place of Rs. 20,000 earlier. Further, in the case of aggregate payments during a financial year made to a single contractor TDS would be applicable for amounts credited or paid exceeding Rs. 75,000 in place of Rs. 50,000 earlier.
- (d) TDS on insurance commission shall be applicable for amounts paid or credited exceeding Rs. 20,000 in place of Rs. 5,000 earlier.
- (e) TDS on commission or brokerage shall be applicable for amounts paid or credited exceeding Rs. 5,000 in place of Rs. 2,500 earlier.

(f) TDS on Rent shall be applicable for amounts paid or credited during the financial year exceeding Rs. 180,000 in place of Rs. 120,000 earlier.

(g) TDS on fee for professional or technical services shall be applicable for amounts paid or credited exceeding Rs. 30,000 in place of Rs. 20,000 earlier.

19. Proposal for doing away with TDS/ TCS

Certificates scrapped- It was earlier legislated that the requirement to furnish TDS/ TCS Certificates shall be done away with on or after April 1, 2010. It has now been proposed to delete the said clause, indicating the intention to retain the current system of issuing paper TDS Certificates.

20. Interest rate increased for failure to pay TDS-

It is proposed to increase the interest chargeable from 1.00% to 1.50% for every month or part of a month for tax deducted but not paid. Earlier failure of deduction or payment of tax was liable to simple interest at 1% for every month or part of the month. This change is proposed to be effective from July 1, 2010.

21. Amendment in Scope and procedure under Settlement Commission-

(a) Earlier the cases which could be referred to the Settlement Commission excluded a proceeding for assessment or reassessment referred to in clause (b) of sub-section (1) of

section 153A and clause (b) of sub-section (1) of section 153B. Section 153A deals with assessment in case of search or requisition and section 153B deals with time limit for completion of assessment u/s 153A.

- (b) Earlier an assessee could make an application before the Settlement Commission only if the additional amount of tax payable exceeded Rs. 300,000. Now it has been proposed to enhance the additional amount of tax payable limit to Rs. 5,000,000 in cases of assessment or reassessment u/s 153A or 153B and in all other cases to Rs. 1,000,000.
- (c) The Settlement Commission is required to pass an order currently within 12 months from the end of the month in which the application has been made. It is now proposed to permit the Commission to pass an order with 18 months from the end of the month in which the application has been made.
- (d) The aforesaid changes are proposed to be effective from June 1, 2010.

22. Time limit for filing appeal to High Court extended- It is now proposed to permit an appeal to be admitted after the expiry of the period of 120 days, if the High court is satisfied that there was sufficient cause for not filing the same within that period.

23. Penalty for Failure to get accounts audited increased- It has been proposed to increase the penalty for failure to get accounts audited u/s 44AB of the Act to Rs. 150,000 in place of the current amount of Rs. 100,000. The change is proposed from April 1, 2011.

24. Applicability of Document Identification Number postponed- The system of allotting Document Identification Numbers to all documents issued and received by the Revenue Office is proposed to be postponed to July 1, 2011 from October 1, 2010 earlier.

D Wealth Tax:

The following major changes have been proposed in the provisions of Wealth Tax:-

- ❖ The powers of the Settlement Commission have been increased to consider proceedings for assessment or reassessment of Wealth Tax search or requisition matters also.
- ❖ The Settlement Commission is required to pass an order currently within 12 months from the end of the month in which the application has been made. It is now proposed to permit the Commission to pass an order with 18 months from the end of the month in which the application has been made.
- ❖ It is proposed to permit a reference or appeal to be admitted after the expiry of the period of 90 days or 120 days respectively if there was sufficient cause for not filing the same within that period.

II. INDIRECT TAXES:

A Excise Duty

Changes come into effect immediately unless otherwise specified.

1. **General CENVAT Rate for non-petroleum goods:**

The **standard rate of excise duty** on non-petroleum products is being increased from **8% to 10%** with a few exceptions.

2. **INCREASED RATE OF DUTY**

Ad-valorem component of excise duty on large cars, Multi Utility Vehicles and Sports Utility Vehicles etc. and chassis thereof is being increased from **20% to 22%**.

3. **REDUCED RATE OF DUTY**

Excise duty is being reduced from **8% to 4%** on LED lights/lighting fixtures.

The rates of excise duty on Motor Spirit (petrol) and HSD (diesel) are being increased **by Re. 1 per litre**.

Excise duty is being reduced from 8% to 4% on:

- Replaceable kits for all household type water filters (except those operating on RO technology)
- Corrugated boxes/ cartons manufactured by stand-alone manufacturers
- Latex rubber thread.

Excise duty on goods covered under the Medicinal and Toilet Preparations Act is being reduced from 16% to 10% to bring it at par with standard Cenvat rate.

4. **CLEAN ENERGY CESS**

Clean Energy Cess is being imposed on coal, lignite and peat produced in India. This cess would be levied and collected as a duty of excise with effect from a date to be notified after the enactment of the Finance Bill, 2010.

5. **EXEMPTION:-**

Full exemption -from excise duty presently available to 20 specified equipments for

preservation, storage or transport of agricultural produce is being extended to apiary, horticultural, dairy, poultry, aquatic & marine produce and meat as well as processing thereof.
- from excise duty is being extended to self-loading/self-unloading trailers & semi trailers for Agricultural Purposes.

- from excise duty is being provided to additional specified raw materials for the manufacture of rotor blades for wind operated electricity generators.

- from central excise duty presently available to goods supplied against International Competitive Bidding is now being extended to goods supplied to mega power projects from which power supply has been tied up through tariff-based competitive bidding.

- from excise duty to Articles of bedding wholly made of quilted textile materials, toy balloons made of natural rubber, betel nut product known as "Supari", dementholised oil, Deterpenated Mentha oil, Spearmint/ Mentha Piperita oils and all intermediates and by-products of Menthol.

6. **CONCESSIONAL RATE OF DUTY:-**

A uniform concessional rate of duty of 4% is being prescribed for parts, namely batteries including battery chargers, electric motors and AC or DC motor controllers required for manufacture of all categories of electrical vehicles including cars, two wheelers and three wheelers (like 'Soleckshaw') subject to actual user condition. This concession will be available till 31.03.2013. Such vehicles will also be charged to excise duty @ 4%.

7. **MSME/ SMALL SCALE SECTOR**

1) Changes are being made in the relevant provisions to provide certain facilities to Small Scale Industrial (SSI) units eligible for availing benefit under Notification No. 8/2003-CE as under:

- full Cenvat credit on capital goods in one instalment in the year of receipt of such goods.
- facility of payment of excise duty on quarterly basis.

The above changes come into effect from 1st April, 2010 and will be applicable even if an eligible unit opts not to avail of the SSI exemption.

2) While retaining the system of filing quarterly returns, the due date for filing of Central Excise returns by SSI units is being advanced to the 10th of the month following the quarter.

3) The relaxation from brand name restriction under the general SSI exemption scheme is being extended to plastic bottles and plastic containers used as packing material.

8. OTHER RELIEF MEASURES

8.1 RATIONALIZATION MEASURES

Excise duty on maize starch, tapioca starch and potato starch unified at 4%.

The rate of duty on all ceramic tiles, regardless of the fuel used for firing the kiln, is now being unified at 10% with Cenvat credit facility.

The rate of excise duty on umbrellas and all umbrella parts is being unified at 4%.

8.2 WITHDRAWAL OF EXEMPTIONS/CONCESSIONS

Full exemption from excise duty on following items is being withdrawn. They will now attract excise duty of 4%.

Av gas; Microprocessor for computers (other than motherboard), Floppy disk drive, Hard disk drive, flash drive, CD/DVD and Combo Drive meant for external use.

Full exemption from excise duty on baby & clinical diapers and sanitary napkins is being withdrawn. These items will now attract duty at 10%.

Concessional rate of excise duty on goggles is being withdrawn except those used for correcting vision. These items will now attract duty at 10%.

B Service Tax

9. Eight new services introduced in the Finance Bill, 2010:

i. Lottery and other Games Services

Service to any person, by any other person, for promotion, marketing, organising or in any other manner assisting in organising games of chance, including lottery, Bingo or

Lotto in whatever form or by whatever name called, whether or not conducted through internet or other electronic networks;

ii. Health Services

The following health services (a) health check up undertaken by hospitals or medical establishments for the employees of business entities; and (b) health services provided under health insurance schemes offered by insurance companies by any hospital, nursing home or multi-specialty clinic,—

(i) to an employee of any business entity, in relation to health check-up or preventive care, where the payment for such check-up or preventive care is made by such business entity directly to such hospital, nursing home or multi-specialty clinic; or

(ii) to a person covered by health insurance scheme, for any health check-up or treatment, where the payment for such health check-up or treatment is made by the insurance company directly to such hospital, nursing home or multi-specialty clinic;

iii. Medical Records Maintenance Service

Medical history of employee is maintained by certain business organizations to be used for medical purpose and to ascertain suitability of a person for job or promotion. This activity is outsourced for a consideration in several cases. Maintenance, storing or keeping of such medical records of employees by any business entity or any other person are activities proposed to be taxed under this new category. As per department clarification, designed hospital and independent record keepers providing such service for a charge are sought to be covered.

iv. Brand Promotion service

Brand promotion activity by celebrities is being introduced by Finance Bill, 2010 where promotional activity is not directly connected with a product or service. If the brand name/house mark etc. is promoted by a celebrity without reference to any specific product or services etc., it will not be

classified under Business Auxiliary Service but under this new service.

v. Commercial use or Exploitation of Event Service

This new service seeks to levy Service tax on granting right or permitting commercial use or exploitation of any event including an event relating to art, entertainment, business, sports or marriage.

vi. Electricity Exchange Service

Under this new service the charges recovered for services in relation to assisting, regulating, controlling the business of trading, processing and settlement of spot contracts, term-ahead contracts, seasonal contracts, derivatives or any other electricity-related contracts. Service Provider will be electricity exchange as approved by Central Electricity Regulatory Commission for the specified activities.

vii. Copy Right Service

Copyright in respect of recording of cinematographic films and sound recordings will come under new category while copyrights in respect of original literary, dramatic, musical and artistic works have been kept out of preview.

viii. Construction Services- Preferential Location and Development

In this category certain special services provided by builders and other construction service providers. As per new head, charges for prime/preferential location for allotting a flat/commercial space according to the choice of the buyer will be taxable.

10. Changes in the scope of existing services:-

a. Airport service and port service:- with this change all services provided within the port will be taxable and will be classification under Port service.

b. Auctioneer's service:- auctioneer's service specifically excludes auction by government. An explanation has been inserted to define auction by government as government property being auctioned by any person

acting as auctioneer. As per departmental clarification, the exclusion would mean an auction where government property is being auctioned and not when the government acts as an auctioneer for the private goods.

c. Investment management service under ULIP:-

a new explanation is being substituted for new method of valuation. As per the new explanation, taxable value will be the actual amount charged by the insurer for management of funds under ULIP or the maximum amount of fund management charges fixed by IRDA, whichever is higher.

d. Transport of passengers by Air service:-

The Finance Bill, 2010 proposes to fully expand the scope of this service by bringing domestic air travel also into the net. The exclusion to economy class is also being removed and all classes of air travel, will be liable to service tax as per the proposed changes.

e. Information Technology Software Service-scope expanded-

Information Technology Software Service presently covers specified activities relating to such software only if the software is used in the course or furtherance of business or commerce. Amendment proposed in Finance Bill, 2010 seeks to widen the net by including services provided in all cases i.e. whether or not used in the course or furtherance of business or commerce.

f. Commercial Training or Coaching Service:-

This service has been under subject of diverse interpretation with judicial fora mostly upholding plea of service providers that only those institutions run with profit motive are covered and non-commercial organizations are not covered. The Financial Bill, 2010 seeks to clarify the legislative intent by redefining the scope of commercial training and coaching service by way of insertion of an explanation. The word 'commercial' means any training or coaching that is provided for a consideration irrespective of the presence or absence an profit motive. The amendment also seeks to explain liability of coaching centres, irrespective of their registration as trust or society. This amendment will have

retrospective effect from July 2003. The departmental clarification specifically states that such back dated amendment will hold in resolution of disputes pending at different levels of the dispute settlement system.

- g. **Sponsorship Service-scope expanded:-** sponsorship service as per today's law provides for express exclusion in respect of sponsorships of sports events. With the increase in owning of sports clubs and sponsorships including advertisements, the service is being sought to be amended to include sports events also. Suitable exemption to certain categories of sports events would be considered at the appropriate time as per departmental clarification.
- h. **Construction Services:-** service tax liability on construction of residential complex has been subject to different interpretations with even the Department taking unsustainable position on this issue by tagging liability with transfer of property and interpreting provision based on private contracts. Now, the Finance Act, 1994 is being sought to be amended by deeming all such construction services as taxable except cases where no amount is received from or on behalf of prospective buyer by the builder before grant of completion certificate by competent authority. The proposed change also includes similar cases in respect of commercial or industrial construction service. The word service itself is being omitted from the expression-commercial or industrial construction.
- i. **Renting of Immovable Property Service:-**
(1) Renting per se was held as not liable to service tax by Delhi High Court in the case of Home Solution Retail India Ltd. v. UOI[2009(14) S.T.R. 433(Del.)]. As doubt has been cast on the very sustainability of service tax levy on renting activity, to clarify legislative intent, statutory definition is being sought to be amended with retrospective effect from 01-06-2007 to clarify that the activity of renting of immovable property as such and services in relation to renting would also constitute a taxable service.

(2) Renting of vacant land:- Vacant land is excluded from the purview of service tax under Renting of Immovable Property service. As vacant land is leased out in certain cases, on which construction is made subsequently by the leasee, service tax provisions are proposed to be amended to provide for taxing of rent of a vacant land if there is an agreement or contract between the lessor and leasee that a construction on such land is to be undertaken for furtherance of business or commerce during the tenure of the lease.

11. MAJOR CHANGES PROPOSED IN THE ACT:

No Penalty if duty paid with interest before SCN: by a new explanation to sub-section (3) of Section 73 of Finance Act, 1994, proposed to be inserted by Finance Bill, 2010, it has been specifically provided that penalty shall not be imposed under Finance Act, 1994 or the rules made thereunder if Service Tax is paid under the said sub-section along with interest. The said sub-section provides for non-issue of show cause notice if service tax is paid before such notice.

12. EXEMPTIONS

Information technology software service: Exemption has been granted to packaged or canned software intended for single use and packed accordingly. The exemption is subject to conditions like document on right to use such software having been packed with the software, excise duty has been paid and exemption under Notification No. 17/2010 –C.E. , dated 27-02-2010 is not availed. Similar exemption notification has been issued for the same purpose in case of imported software on which customs duty has been paid.(Notification Nos. 2/2010-ST and 17/2010-S.T. both dated 27-02-2010 refer)

Commercial Training or Coaching Service: Notification No. 24/2004-S.T. dated 10-09-2004, has been amended to provide for new definition of vocational training institute. Industrial Training Institute and other specified industrial training centres have been specified for this purpose. (Notification Nos. 3/2010-ST dated 27-02-2010 refer)

Goods Transport Agency Service:-

Notification 33/2004-ST, dated 03-12-2004, is amended to provide exemption for transport of food grains and pulses. Exemption is already available to transport of fruits, vegetables, eggs and milk. (Notification Nos. 4/2010-ST dated 27-02-2010 refer)

General Insurance Service: Notification No. 1/2000-S.T., dated 09-02-2000, providing exemption to taxable services provided by Government of Rajasthan under Group Personal Accident Scheme, to its employees in relation to general insurance business has been rescinded. (Notification Nos. 5/2010-ST dated 27-02-2010 refer)

Transport of Goods by Rail Service:

Notification No. 33/2009-S.T., dated 01-09-2009 is being rescinded from 01-04-2010. The said notification provides exemption to transport of goods by rail by government railways excluding transport of containerized goods by others. Exemption is being granted from 01-04-2010 for transport of specified goods like defence equipments, postal mail bags, buggage of train passengers, specified parcels, essential goods like food grains, flours and pulses, chemical manure, soap, milk, water, paper, coffee, tea, fruits and vegetables. Corresponding amendment to general exemption under Notification No. 1/2006-S.T., dated 01-03-2006 has also been made w.e.f. 01-04-2010. (Notification Nos. 7/2010-ST, 8/2010-S.T., and 9/2010-S.T. all dated 27-02-2010 refer)

Technical Testing and Analysis service and Technical Inspection and Certification Service:

Exemption has been granted to technical testing and analysis and technical inspection and certification of seeds. This exemption is admissible to such service provided by specified laboratories or certification agencies. (Notification Nos. 10/2010-ST dated 27-02-2010 refer)

Services for electricity transmission exempted:

Taxable services provided for transmission of electricity has been exempted. (Notification Nos. 11/2010-ST dated 27-02-2010 refer)

Erection, Commissioning or Installation service:

Exemption has been granted to erection, installation or commissioning of

mechanized food grain handling systems, of equipments for setting up of or substantial expansion of cold storage, of machinery or equipment for initial setting up of or substantial expansion of units for processing agricultural, apiary, horticultural, dairy, poultry, aquatic and marine products and meat. (Notification Nos. 12/2010-ST dated 27-02-2010 refer)

Exemption to news agencies under Business Auxiliary Services and Online information service:

Exemption has been granted in respect of Business Auxiliary Services and Online information and database access or retrieval services to Indian News Agencies. (Notification Nos. 13/2010-ST dated 27-02-2010 refer)

13. Valuation Rules:

Service tax (Determination of Value) Rules, 2006 has been amended to provide for exclusion of taxes levied by government on air travel, if the same are shown separately on the ticket or invoice issued to the passenger. (Notification Nos. 13/2010-ST dated 27-02-2010 refer)

14. Export of Services Rules and Import of Services Rules:-

Category has been amended for certain taxable services by amendment to Export of Services Rules, 2005. Mandap keeper service which was hitherto under Category II (Part performance outside India) has been shifted to Category I (immovable Property located outside India). Chartered Accountant's service, Cost Accountant's service and Company Secretary's service have been shifted from category II to Category III. The crucial condition on services to be provided from India and used outside India has been omitted. Corresponding amendment has been to Import of Service Rules i.e. Taxation of Service (Provided from Outside India and Received in India) Rules, 2006. The definition of India in the relevant explanation in ESR has also been amended. (Notification Nos. 6/2010-ST and 16/2010-S.T. dated 27-02-2010 refer)

15. Other Changes:

Notification No. 1/2002-S.T., dated 01-03-2002 has been superseded by Notification No. 14/2010-S.T. dated 27-02-2010 to extend Service Tax provisions so as to cover services pertaining to construction of installations,

structures and vessels for purpose of prospecting or extraction or production of mineral, oil and natural gas and supply. The same will be applicable in case of such installations, structures or vessels in continental shelf and exclusive economic zone of India.

C Customs Duty

Major proposals about customs duties are the following:

Changes come into effect immediately unless otherwise specified.

16. INCREASE IN DUTY:-

1. Customs duty on crude petroleum is being increased from **Nil to 5%**.
2. Customs duty on Motor Spirit (petrol) and HSD (diesel) is being increased from **2.5% to 7.5%**.
3. Customs duty on some other specified petroleum products is being increased from **5% to 10%**.
4. Customs duty on serially numbered gold bars (other than tola bars) and gold coins is being increased from **Rs.200 per 10 gram to Rs.300 per 10 gram**.
5. Customs duty on other forms of gold is being increased from **Rs.500 per 10 gram to Rs.750 per 10 gram**.
6. Customs duty on silver is being increased from **Rs.1000 per kg to Rs.1500 per kg**.
7. Customs duty on platinum is being increased from **Rs.200 per 10 gram to Rs.300 per 10 gram**.

17. REDUCTION IN DUTY

Basic customs duty is being reduced:-

-from **7.5% to 5%** on specified agricultural machinery such as paddy transplanter, laser land leveler, cotton picker, reaper-cum-binder, straw or fodder balers, sugarcane harvesters, track used for manufacture of track-type combine harvester etc, from **70% to 30%** on long pepper, from **30% to 20%** on 'asafoetida' (heeng), from **10% to 5%** on magnetrons of upto

1,000 kw for the manufacture of microwave ovens.

18. EXEMPTION:-

Goods imported in pre-packaged form and intended for retail sale and certain specified goods namely, ready-made garments, mobile phones and watches are being provided an outright **exemption from additional duty of customs of 4%**. In addition, outright exemption from this duty is also being provided to Carbon Black Feedstock, waste paper and paper scrap.

Project imports status is being granted to installation of **Mechanized Handling Systems & Pallet Racking Systems**, in mandis or warehouses for food grains and sugar are being **exempted from additional duty of customs (CVD) and special additional duty of customs**.

Truck Refrigeration units for the manufacture of refrigerated vans/trucks are being fully exempted from basic customs duty.

Such units are already exempt from excise duty. Full exemption from basic customs duty is being provided to **bio-polymer/bio-plastics** (HS Code 39139090) used for manufacture of bio-degradable agro mulching films, nursery plantation & flower pots.

Tunnel Boring machine for hydro-electric power projects is being fully exempted from basic customs duty with Nil CVD.

Specified road construction machinery items are presently fully exempt from customs duty subject to specified conditions.

Full exemption from basic customs duty and special additional duty of customs is being extended to specified parts namely, **batteries including battery chargers, electric motors and AC or DC motor controllers** imported for manufacturing all categories of electrical vehicles including cars, two wheelers and three wheelers (like Soleckshaw).

Ground source heat pump (for geo-thermal energy applications) is being fully exempted from basic customs duty and special additional duty of customs.

Full exemption from basic customs duty and CVD/excise duty is being retained for specified **medical devices** (exempt by description) as well as for assistive devices, rehabilitation aids and other goods for disabled (List 41).

Battery chargers and hands-free headphones are the basic accessories of mobile phones. Full exemption from basic customs duty and CVD presently available for parts, components, accessories for manufacturing of mobile handsets including cellular phones and parts thereof is being extended to parts for the manufacture of battery chargers and hands-free headphones also.

Full exemption from 4% special additional duty of customs presently available upto 06.07.2010 on parts, components and accessories for manufacture of **mobile handsets including cellular phones**, parts thereof (except accessories) is being extended to parts of two specified accessories also upto 31.03.2011.

Full exemption from customs duty is being extended to additional specified capital goods and raw materials for the manufacture of electronic hardware.

19. CONCESSIONAL RATE OF BASIC CUSTOMS DUTY :-

- 1) Project imports status is being granted to the initial setting up or substantial expansion of, a cold storage, cold room (including farm pre-coolers) for preservation or storage or an industrial unit for processing of agricultural, apiary, horticultural, dairy, poultry, aquatic & marine produce and meat. These projects would attract **concessional rate of basic customs duty of 5%**.
- 2) Project imports status is being granted to installation of Mechanized Handling Systems & Pallet Racking Systems, in mandis or warehouses for food grains and sugar, with **concessional rate of basic customs duty of 5%**. Such systems are also being exempted from additional duty of customs (CVD) and special additional duty of customs.
- 3) **Mono Rail Projects** for urban transport are being granted project imports status under

Heading No. 98 01 and would accordingly attract concessional rate of 5% basic customs duty.

- 4) Concessional rate of customs duty of 5% presently available upto 06.07.2010 on **specified machinery for tea, coffee and rubber plantation** is being extended upto 31.03.2011.
- 5) Concessional rate of basic customs duty of 5% is being provided to machinery items, instruments, appliances required for initial setting up of solar power generation projects or facilities.
- 6) Parts required for the manufacture and accessories of medical equipment will also attract 5% concessional basic customs duty with Nil special CVD.
- 7) Cobalt-chrome alloys, special grade stainless steel etc. for the manufacture of orthopaedic implants are being exempted from basic customs duty subject to actual user condition.

20. **DETERMINATION OF RATE**

At present, medical equipments attract varying rates of customs duty and are spread over many lists. This multiplicity of rates is being done away with and now all medical equipments (with some exceptions) will attract 5% basic customs duty, 4% CVD/excise duty and Nil special additional duty of customs [i.e. effective duty of 9.2%].

D Central Sales Tax

The provisions of CST Act are being amended so as to provide for:

(i) reassessment by the assessing authority on the basis of new facts discovered or revision by a higher authority.

(ii) filing of appeals to the highest authority of every State against the orders made by assessing authorities on issues involving stock transfer or inter state sale including incidental issues relating to rate of tax, computation of assessable turnover, penalty and procedure.

(iii) filing of appeal against any order passed by the highest appellate authority of a State on disputes of interstate nature relating to stock transfer or consignments of goods to the CST Appellate Authority. The above changes will come into effect on enactment of the Finance Bill.

III. OTHER MATTERS:

- ❖ The Direct Tax Code (DTC) is proposed to be introduced with effect from April 1, 2011 as per the speech of the Hon'ble Finance Minister.
- ❖ Goods and Service Tax (GST) is proposed to be introduced from April 1, 2011. The earlier target date for implementation by the Government has therefore been postponed by a year.

Contact: Mr. Raghu Marwah
Partner
R.N. Marwah & Company
Email- raghu.m@rnm.in
Tel- +91 11 4319 2000-2100
Fax- +91 11 4319 2021

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