

7th July 2009



Salient features of Union Budget 2009

Introduction

The Hon 'able Finance Minister Mr. Pranab Mukerjee presented the Finance (No. 2) Bill 2009 on 6th July 2009 in the Parliament. This budget update summarizes salient features of Union Budget 2009.

General

The Budget Speech seeks to address the three challenges facing the economy –

- to lead the economy back to the high GDP growth rate of 9 per cent per annum at the earliest,
- to deepen and broaden the agenda for inclusive development, and
- to energize government and improve delivery mechanism

The Budget estimates 2009-10 provide for a total expenditure of Rs. 10,20,838 crore. Out of it, Rs. 6,95,689 crore is non-Plan expenditure and Rs. 3,25,149 crore is Plan expenditure. Thus, the total expenditure this year is 36 per cent over that of 2008-09. The increase in Non-Plan expenditure comes to 37 per cent whereas the increase in Plan expenditure is 34 per cent. The gross tax receipts are budgeted at Rs. 6,41,079 crore, lower than last year while the non tax revenue receipts have been estimated at Rs. 1,40,279 crore - higher as compared to last year.

DIRECT TAX PROPOSALS

- **RATES OF INCOME-TAX FOR THE ASSESSMENT YEAR 2010-11**

- Basic exemption has been raised by Rs. 10000/- - 15000/- for individuals and HUF which is given by way of a chart below:

Tax Rates	Individual & HUF	Women Resident	Senior Citizens
0%	Below 1,60,000/-	Below 1,90,000/-	Below 2,40,000/-
10%	Between 1,60,001/- and 3,00,000/-	Between 1,90,001/- and 3,00,000/-	Between 2,40,001/- and 3,00,000/-
20%	Between 3,00,001/- and 5,00,000/-	Between 3,00,001/- and 5,00,000/-	Between 3,00,001/- and 5,00,000/-
30%	Above 5,00,000/-	Above 5,00,000/-	Above 5,00,000/-

The **surcharge** levied at the rate of ten percent in respect of individuals and HUFs having total income exceeding Rs. Ten Lacs have been **removed**.

- *Firms*
The rate of income tax is the same as for assessment year 2009-2010. The **surcharge** levied at the rate of ten percent in respect of firms having total income exceeding Rs. One Crore have been **removed**.
- *Companies*
The rates of income tax are the same as for the assessment year 2009-10. A surcharge shall be levied at 10% in the case of domestic companies having total income exceeding Rs. One Crore and at 2.5% in the case of Companies other than domestic Companies having total income exceeding Rs. One Crore. Marginal relief will be available.
- Education Cess shall continue to be levied at 2% of income tax in all cases. In addition to that, Secondary and High Education Cess will be levied at 1% on income tax in all cases.

- **AMENDMENTS RELATING TO TDS PROVISIONS**

- **Surcharge and / or cesses** are to **not be taken into account** in computation of TDS in case of domestic companies and other residents in India, except for TDS on Salaries.
- *Sec. 194A read with Finance Act* – The rate of TDS on interest other than on securities to companies has been **reduced from 20% to 10%** w.e.f. the date of enactment of Finance (No. 2) Act, 2009.
- *Sec. 194I* - The rate of TDS on payment by way of rent of machinery, plant and equipment is proposed to be **reduced from 10% to 2%** w.e.f. 01.10.2009. Also TDS on payment by way of rent of land, building or furniture is proposed to be **reduced from 15%/20% to 10%** w.e.f. 01.10.2009, irrespective of who the payee is.
- *Sec. 194C* – The distinction between contract and subcontract has been removed and in both cases TDS has to be made at similar rates. However, w.e.f. 1.10.2009, the rates of TDS would be based on status of payee i.e., if payment/credit for contract/sub-contract is made to **individuals / HUF** the TDS rate would be **1%** and where if payment/credit for contract/sub-contract is made to any person **other than individuals / HUF** the TDS rate would be **2%**. Further, in case of contractor/sub-contractor who is in **transport business no TDS** would be made if he/she/it furnishes his PAN to the deductor. Also the definition of work clarifies that it **would not include manufacturing** or supplying a product according to the requirement or specification of a customer by using material purchased from a person, other than such customer.

- *Sec. 200A* – Now similar to Income Tax Returns, the TDS Statements would also be **processed and intimation** for dues / refund would be send within one year from the end of the financial year in which statement is filed.
 - *Sec. 201* – Currently there is no **time limit** to hold a person in default for TDS compliances, now a time limit has been prescribed which is 2 years from the end of the financial year in which statement is filed and where no statement is filed, 4 years from the from the end of the financial year in which payment is made or credit is given.
 - *Sec. 206AA* – All correspondence, bills, vouchers, etc. should contain PAN. **Non-furnishing of PAN** would result in **higher TDS rate of 20%**. Also no certificate would be granted u/s 197 and no declaration under section 197A (Form 15G/H) would be valid if PAN of the deductee is not given. This proposal would be effective from 01.04.2010.
- **TAXATION OF LIMITED LIABILITY PARTNERSHIPS (LLP)**
 - LLP **status** would be akin to a firm for the income tax purposes. The **rate of tax** of LLP would be 30% plus cesses.
 - **Partners of LLP** would be treated similar to partners of a partnership firm under the income tax provisions. Salary to partners would be governed by section 40b, wherein 90% of the profit of first Rs. 3 lacs plus 60% of the balance profit would be allowable as salary.
 - Every partner shall be **jointly and severally liable** for tax due from LLP where such tax cannot be recovered from LLP, unless he proves that non-recovery cannot be attributed to his gross neglect, misfeasance or breach of duty.
- **FRINGE BENEFITS TAX (FBT)**
 - FBT abolished w.e.f. A.Y. 2010-11.
 - Consequent to abolition of FBT, definition of perquisite amended to include the following:
 - The value of any specified security or sweat equity shares allotted by employer or former employer, free of cost or at concessional rate.
 - The amount of any contribution to approved Superannuation Fund by employer in respect of assessee to the extent it exceeds Rs. 1 Lakh.
 - The value of any other fringe benefit on amenity as may be prescribed.
- **EXEMPTIONS**
 - Definition of “**Charitable Purpose**” amended to include “Preservation of Environment (including water sheds, forests and wild life) and preservation of monuments or places or objects of artistic or historic interest”. This is effective from A.Y. 2009-10.
 - Income of **New Pension System Trust** exempted.
 - Sun-set clauses for deduction in respect of export profits under **sections 10A & 10B** extended by one more year i.e. for the financial year 2010-11.
 - Voluntary contribution received by **Electoral Trust** not included in total income of that trust, if, ET distributes to any political party at-least 95% of aggregate donation received during the year plus surplus b/f from earlier years.
 - **Anonymous Donation** to the extent of 5% of total income or Rs. 1,00,000/- whichever is higher; not to be taxed u/s 115BBC.
 - Time limit for filing exemptions under **section 10(23C)** has been extended to the 30th September in the succeeding financial year.
 - Clarification regarding computation of exempted profits in case of units in **SEZ u/s 10AA(7)** has been issued to be effective from A.Y. 2010-11 to state that not total turnover of the assessee, but total turnover of the undertaking would be considered for the computation.

- **DEDUCTIONS**

- Approval u/s **80G(5) for donations** was allowed only for 5 years and was to be renewed. It is proposed, that approval once granted shall continue forever till withdrawn. Existing approvals expiring on or after 1.10.2009 would continue to be valid in perpetuity. Further, organizations who have ceased to be charitable by virtue of section 2(15) would be deemed to be charitable for the purpose of section 80G(5) for A.Y. 2009-10 only.
- Donations to **electoral trusts** to be allowed as a 100 percent deduction under section 80GGB and 80GGC in the computation of the income of the donor.
- 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.
- Deduction under **section 80DD** for medical treatment of a dependent suffering from severe disability increased from Rs. 75000 to Rs. 1 Lac.
- Sun-set clauses for tax holiday under **section 80-IA** for setting up of power generating and distribution units extended to 31.3.2011. Also it has been clarified that **works contract** would not be included for the purpose of tax holiday u/s 80-IA w.e.f. A.Y. 2000-01.
- **Section 80A** amended to prevent misuse of deductions, whereby deduction of same amounts would not be allowed in sections 10A or 10AA, or 10B or 10BA or Chapter VIA. Also the aggregate of the deductions shall not exceed the net profits of the eligible business / unit / enterprise / undertaking. Further no deduction would be allowed if not claimed in the return of income. These amendments are clarificatory in nature and are effective retrospectively from A.Y. 2003-04. Also the term '**market value**' has been defined for the purpose of transfer of goods and services to be effective from 01.04.2009.
- Under **section 80 – IB (9)** Public sector company was allowed deduction if it commenced refining not later than 31.03.2012, however, this date for private sector was 31.03.2009. This section has been amended to allow the private sector company also to avail deduction if it commences refining not later than 31.03.2012. Also it has been clarified that all blocks of wells licensed under a single contract would constitute single undertaking.
- **Section 80-IB(10)** has been amended w.e.f. A.Y. 2001-02 to clarify that any undertaking who executes the housing project as a works contract would not be eligible for the deduction. Further w.e.f. A.Y. 2010-11, certain related persons such as spouse, children, HUF, etc. would not be allowed to be allotted any other residential unit in the housing project for which deduction is claimed. Also one person would not be allotted two units in a housing project.
- Part B of the 13th schedule to the Income Tax Act amended to include items of **paper industry** for which tax holiday cannot be availed u/s 80-IC.

- **SCHEME FOR SMALL BUSINESSES**

- Any resident assessee being Individual, HUF or a Partnership Firm is eligible for this scheme under **section 44AD w.e.f. A.Y. 2011-12**. Companies, LLP and those enjoying tax holidays are not eligible.
- Any business whose turnover / receipts does not exceeds Rs. 40 lacs is eligible. In such case its deemed profit would be **8% of total turnover** / gross receipts.
- Where eligible assessee is firm; the salary and interest paid to partners shall be separately deducted from income computed @ 8% as above.
- There would not be any need to maintain books of accounts and also advance tax provisions would not apply
- In situation assessee claims his profits are lower than 8%; it shall be required to maintain books of accounts and get them audited and furnish an audit report as per 44AB.
- Small businesses engaged in carriage of goods to compute presumptive monthly income from each heavy goods vehicle at Rs. 5000/- and other vehicles at Rs. 4500/- under **section 44AE**.

- **FOREIGN COMPANIES / NON-RESIDENTS**
 - Substitution of new section for **Section 90** related to DTAA.
 - Proviso to **Section 92C(2)** substituted for determination of arm's length price to provide that where more than one price is determined by the most appropriate method, the arm's length price shall be taken to be the arithmetical mean of such prices. Further if the variation between the arm's length price so determined and price at which the international transaction has actually been undertaken does not exceed 5% of the latter, the price at which the international transaction has actually been undertaken shall be deemed to be the arm's length price.
 - The determination of arms length price u/s 92C or 92CA to be subject to “**Safe Harbour Rules**” to be framed by CBDT. Safe Harbour Rules means circumstances in which AO shall accept the transfer price declared by assessee.
 - Assessment of foreign company and any person subject to order of transfer pricing officer to be subject to review of assessment order by **Dispute Resolution Panel**. Dispute Resolution Panel means collegiums of 3 CITs.

- **OTHER MATTERS RELATED TO BUSINESS INCOMES**
 - Minimum Alternative Tax (**MAT**) u/s 115JB increased from **10% to 15%**.
 - Amendment in **Section 115JA(2)** w.e.f. A.Y. 1998-99, which provides that for the purpose of calculating books profits, provision for diminution in the value of any asset, which has been debited to P&L shall be added to the net profit.
 - **Credit for MAT** under section 115JJA to be allowed to be carried forward for 10 years instead of 7 years.
 - As per newly inserted **Section 35AD**; all capital expenditure, other than expenditure on land, goodwill and financial instruments to be fully allowable as deduction incurred in 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.
 - 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.
 - Limit for disallowance of **cash expenditure** u/s 40A(3A) to be increased from Rs.20,000/- to Rs.35,000/- for payment made for plying, hiring or leasing goods carriages w.e.f. 1.10.09.
 - Substitution of new Section 145A; which provides that any interest received by an assessee on compensation or **enhanced compensation** shall be deemed to be income of the year in which it is received.
 - Limits of **remuneration allowable to partners** (for partnership firm as well as LLP) under section 40b amended. The old limits were separate for assesses having business income or professional income. The new limits (both for business and profession) are as under:
 - on the first of Rs. 3,00,000/- of the book-profit or in case of a loss – Rs. 1,50,000/- or 90% of the book-profit, whichever is more
 - on the balance of the book-profit – at the rate of 60 %.
 - The term ‘**manufacture**’ has been now defined under section 2(29BA).
 - Apex Court’s judgment in Doom Dooma case regarding depreciation “actually allowed” overcome. W.e.f. A.Y. 2010-11, **depreciation** would be computed as if total composite income of the assessee is chargeable to tax.

- **INCOME FROM OTHER SOURCES**

- Section 56(vi) related to '**gifts**' has been amended. Earlier only gifts in money aggregating more than Rs. 50000 was taxable. Now w.e.f. 01.10.2009, **any property** (moveable or immovable) is covered. Now where any individual or HUF receives
 - any sum of money,
 - any moveable property,
 - any other propertywithout consideration or inadequate consideration then such amount will be taxable as under:
 - in case of sum of money, whole of aggregate value of money which exceeds Rs. 50,000/-.
 - in case of immovable property;
 - received without consideration, the stamp value of which exceeds Rs.50,000/- the stamp value of such property
 - received for consideration which is less than stamp value by amount exceeding Rs. 50,000/-; the stamp value of such property as exceeds such consideration
 - in case of any other property:
 - received without consideration, the aggregate FMV of which exceeds Rs. 50,000/-; the whole of the aggregate FMV of such property
 - received for consideration which is less than aggregate FMV by amount exceeding Rs.50,000/-; aggregate FMV of such property as exceeds such consideration.
 - However this provision would not apply to any money or property received from relative or on occasion of marriage of individual or under will or in contemplation of death or from local authority or any fund referred in Sec. 10(23C) or institution registered u/s 12AA.
- Clause (viii) inserted in Section 56(2) to provide that income by way of interest received on compensation or on **enhanced compensation** as referred in Section 145A(2) will be taxable. However, a deduction of sum equal to 50% of such income would be allowed u/s 57(iv).

- **OTHER DIRECT TAX PROPOSALS**

- **Wealth Tax** exemption limit raised from Rs. 15 Lacs to Rs. 30 Lacs w.e.f. A.Y. 2010-11.
- Limit for **payment of advance tax** increased from Rs. 5000 to Rs. 10000 w.e.f. financial year 2009-10.
- Time limit for obtaining exemption from Employees' provident Fund Organization (**EPFO**) by Provident Fund Trusts extended from 31.03.2009 to 31.12.2010.
- Approval granting authorities shall have **power to withdraw approvals** u/s 293C w.e.f. 1.10.2009.
- Apart from infrastructure capital company/fund, now the schedule banks can also issue **zero coupon bonds**.
- **Section 132 and section 132A** has been amended retrospectively to clarify that Addl. Director or Addl. Commissioner or Jt. Commissioner or Jt. Director always had the power to issue authorization.
- **Section 147** amended retrospectively to clarify that the assessing officer may assess or re-assess income in respect of any issue which comes to his notice subsequently in course of proceedings under section 147.
- **National Housing Bank (NHB)** allowed special deduction under section 36(1)(viii).

- **OTHER DIRECT TAX PROPOSALS**

- Provisions for deemed valuation in certain cases of transfer of land and building under **section 50C** amended to include assessable value also apart from assessed value (stamp duty value)
- Section 89 has been amended to provide that no relief under section 89 would be granted on his **voluntary retirement** if an exemption in respect of such voluntary retirement has been claimed under section 10(10C). Vice-versa has also been provided under section 10(10C).
- Scope of **Explanation 5A of section 271(1)** clarified for search initiated under section 132 on or after 01.06.2007.
- Section 282B inserted w.e.f. 01.10.2010 to contain that all notices, order, letter, any correspondence issued by IT Authority shall contain computer generated “**Document Identification Number**”. Similarly all document, letter received by IT authority shall be accepted only after allotting and quoting computer generated document identification number. And, if any such document does not contain such document identification number, it shall be treated invalid and deemed to have never been issued or received.
- Section 281B relating to **provisional attachment of asset** amended retrospectively to exclude the period during which the proceedings for assessment or reassessment are stayed by the court for the purpose of calculating the period specified in second proviso to sub-section (2) of section 281B.
- Commodities Transaction Tax (**CTT**) abolished.
- **Section 10(23D)** amended to include “Other Public Sector Banks”.
- Income Tax exemption to special undertaking of UTI (**SUUTI**) extended by 5 years to 31.03.2014.
- New **Direct Tax Code** to be presented for public comments within 45 days.
- New **Saral 2** for Income Tax Return to be introduced soon.

SERVICE TAX PROPOSALS

- **NEW SERVICES ADDED**

- **Cosmetic Surgery or Plastic Surgery:** The service proposed to be taxed is cosmetic surgery and plastic surgery undertaken to preserve or enhance physical appearance or beauty. However, it does not include any surgery undertaken to restore or reconstruct anatomy or functions of body affected due to congenital defects, developmental abnormalities, degenerative diseases, injury or trauma.
- **Transport of Coastal Goods; and Goods transported through Inland water.** Coastal goods (as defined under the Customs Act) and transport of goods through National Waterways, and inland waters are proposed to be brought under tax net. Suitable abatement and exemption to specified goods would be provided through issuance of notification at the appropriate time.
- **Legal Consultancy Service:** As in the case of management consultancy or engineering consultancy service, any consultancy, advice or technical assistance provided in any discipline of law is proposed to be subjected to service tax. However, the tax would be limited to services provided by a business entity to another business entity. It has been defined that a business entity includes firms, associates, enterprises, companies etc. but does not include an individual. Thus, services provided by an individual advocate either to an individual or even to a business entity would be outside the scope of the taxable service. Similarly, the services provided by a corporate legal firm to an individual would also be outside the purview of taxable service. Any service of appearance before any court of law or any statutory authority would also be kept outside this levy.
- **Transport of Goods through Rail:** Presently, transportation of goods in containers by rail, by other than Government railways is taxable under section 65(105)(zzzp) since 2006. It is now proposed to impose service tax on goods transported by railways including Government railways, whether in containers or otherwise. Suitable abatement and exemption to specified goods would be provided through issuance of notification at the appropriate time.

- **EXTENSION OF SCOPE OF SERVICES OF EXISTING SERVICES**

- **Stock Broker Service** - The present definition of a stockbroker [section 65(101)] includes sub-broker as well. The sub-brokers have been excluded from the purview of service tax by making suitable amendment in the definition of stock-broker. Accordingly, services provided by sub-brokers are no more liable to tax. It is also clarified that such sub-broker should also not be charged to service tax as commission agents under Business Auxiliary Service.
- **Business Auxiliary Service** - It may be recalled that **production or processing of goods for or on behalf of a client** falls within the purview of this service. However, if any such activity amounts to manufacture within the meaning of section 2(f) of the Central Excise Act, the same is excluded from its purview. This exclusion has been modified to state that it would apply only if the activity results in manufacture of 'excisable goods'. The impact of this change would be that even if a process of manufacture is undertaken for the client, but the resultant product does not fall under the category of excisable goods, such as alcoholic beverages, the service tax would be attracted. Certain other goods which would also fall under BAS on account of the proposed change would be kept outside the tax net by way of exemption notification, to be issued at the appropriate time
- **Information Technology Software Service** - correction has been carried out in the definition of the taxable service by replacing the word 'acquiring' by the word 'providing', considering the fact that it is the providing of '**right to use**' and not the acquiring of 'right to use' is a taxable service.

- **EXEMPTION FROM SERVICE TAX**

- **Sale and purchase of foreign exchange/money** changing were made taxable in the past. The inter-bank transactions of purchase or sale of foreign currency, when undertaken by scheduled banks, is being exempted. (Notification No. 19/2009-ST dated 07.07.09 refers). Scheduled banks under this notification mean the banks, which are included in the Second Schedule of the Reserve Bank of India Act, 1934.
- **Private bus operators, who operate buses on specific inter-state or intra-state routes**, are required to pay service tax as they ply their buses having ‘contract carriage permits’ and thus fall within the definition of tour operators. On the other hand the State Undertakings run buses, which run on the same route carrying passengers, are not subjected to service tax as these buses bear ‘stage carriage permit’. In order to bring parity between the two, the services provided by the tour operators undertaking point-to-point transportation of passengers in a vehicle bearing contract carriage permit is being fully exempted from service tax, provided such transportation is not in relation to tourism or conducted tours, or charter or hire. (Notification No. 20/209-ST dated 07.07.09 refers).
- **Associations, including trade associations**, are taxable under clubs and association service. Federation of Indian Export Promotion Organization (FIEO) and twenty-one specified export promotion councils sponsored by the Department of Commerce or by the Ministry of Textiles are being exempted from the levy of service tax under the said service. This exemption would remain valid till 31.03.2010. (Notification No. 16/2009-ST dated 07.07.09 refers)
- The following two services have been exempted, if they are used for **export of goods** and where the liability to pay the tax on such services is on the exporter himself, on reverse charge basis –
 - Transport of goods by road, from the place of removal to any ICD, CFS, port or airport; or from any CFS or ICD to the port or airport; and
 - Services provided by a foreign commission agent for procuring orders.

- **AMENDMENTS IN CENVAT CREDIT RULES**

- Rule 3(5B) of the CENVAT Credit Rules provide that, if value of any input or capital goods on which CENVAT credit has been taken, is written off fully or where provision to write off has been made in the books of account before being put to use, the ‘manufacturer’ shall pay an amount equivalent to the CENVAT credit taken on such item. Similar provision is presently not prescribed in case of taxable service provider. The said sub-rule is being amended to bring taxable service provider within the ambit of the said restriction. This provision would come into force immediately
- Rule 6(3) provides an option for a provider of taxable as well as exempt services, using common inputs or input services, but opting not to maintain separate accounts to pay an amount of 8% of the value of exempted service. This provision was made when the rate of tax on taxable services was 12%. Since the service tax rate has been reduced to 10%, the said amount payable on the exempted services is being reduced from 8% to 6% of the value of exempted service. This provision would come into force immediately

- **OTHER SERVICE TAX PROPOSALS**

- Changes in the scheme for refund of service tax to the exporters of goods
- **Changes in the Works Contract (Composition Scheme for Payment of Service Tax) Rules, 2007** - The Explanation appearing in sub-rule (3) is being amended to provide that the composition scheme would be available only to such works contracts where the gross value of works contract includes the value of all goods used in or in relation to the execution of works contract whether received free of cost or for consideration under any other contract. This condition would not apply to those works contracts, where either the execution of works contract has already started or any payment (whether in part or in full) has been made on or before the date of the amendment, i.e. 07.07.2009.
- **Legalisation to Exemption provided to Goods Transport Agents (GTAs):** GTAs receive several services from other service providers (such as warehouse keeper, cargo handlers, C&F agents) during the movement of goods, en-route. While these individual services are taxable at the hands the service providers, the GTA cannot take credit of tax paid on such services, as the abatement allowed to them is subject to condition that no credit should be availed. This matter was agitated by the GTAs, and the government agreed to exempt such services. Consequently, notification No. 1/2009-ST dated 05.01.2009 was issued. It was, however, pointed out by GTAs that litigation is pending for the past period. In this regard Board's letter F. No. 137/175/2007-CX.4 (Vol. II) dated 22.04.2009 was sent to the field formations to identify such cases, as the Government has promised to drop all past demands/litigation on this matter, latest by the end of August, 2009. In order to enable the field formations to dispose of the pending demands and discharge the notices issued for the past period, the said notification No. 1/2009-ST is being given retrospective effect (with effect from 01.01.2005) through changes made in the Finance (No. 2) Bill, 2009. Upon the enactment of the Bill, field formations must be directed to take up these cases on priority and ensure that all such cases are disposed of latest by 31st August, 2009
- **Revision of Order Under Section 84:** While most of the procedures under service tax law are aligned to that of the central excise, one of the exceptions is the treatment to an order-in-original passed by an officer subordinate to Commissioner, if the same is not acceptable to the Commissioner on account of its lack of legality or appropriateness. Field formations as well as trade have requested that the service tax procedure should be amended to make it in line with the central excise procedure. The same has been done by suitably amending section 84 with certain consequential amendments in section 86. This provision would come into effect from the date of enactment of the Finance (No. 2) Bill, 2009. All cases decided before this date would continue to be governed by the existing provisions.
- **Amendment in Section 94:** The service tax rules suffer from the deficiency of not having provisions relating to (1) relevant date for determination of rate of service tax and (2) place of provision of taxable services. For this purposes section 94 of the Act is being amended to empower the Central Government to make rules in this regard. This provision would come into effect from the date of enactment of the Finance (No. 2) Bill, 2009.

CENTRAL EXCISE PROPOSALS

- Excise duty rate on items currently attracting 4% to be raised to 8% with following major exceptions:
 - Specified food items including biscuits, sharbats, cakes and pastries
 - Drugs and pharmaceutical products falling under Chapter 30
 - Medical equipment
 - Certain varieties of paper, paperboard and articles thereof
 - Paraxylene
 - Power driven pumps for handling water
 - Footwear of RSP exceeding Rs.250 but not exceeding Rs.750 per pair
 - Pressure cookers
 - Vacuum and gas filled bulbs of RSP not exceeding Rs.20 per bulb
 - Compact Fluorescent Lamps
 - Cars for physically handicapped
- 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.
- 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'.
- Excise duty on Special Boiling Point spirits and naphtha to be reduced to 14%.
- Duty paid High Speed Diesel blended with upto 20% bio-diesel to be fully exempted.
- 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'.
- 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'.
- Excise duty on manmade fibre and yarn; PTA and DMT; polyster chips; and acrylonitrile to be increased from 4% to 8%.
- The scheme of optional excise duty of 4% for pure cotton to be restored. 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. 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.
- 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
- 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.
- 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.
- EVA compound manufactured on job work for further use in manufacture of footwear to be exempted from excise duty.
- 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.
- 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.
- Excise duty on branded articles of jewellery to be reduced from 2% to Nil

CUSTOMS PROPOSALS

- There is no change in the overall rate structure of customs duties. As such, the peak duty rate for industrial goods has been retained at 10% and the major ad valorem rates of 5% and 7.5% have also been retained.
- Concessional rate of basic customs duty of 5% was earlier available to specified plantation machinery till 30.04.2009. This concessional rate of 5% has now been restored for one more year i.e. upto 06.07.2010.
- Basic customs duty on 'mechanical harvester' for coffee plantation has been reduced from 7.5% to 5%. Such harvesters have also been exempted from CVD by way of excise duty exemption.
- Basic customs duty on permanent magnets for manufacture of PM synchronous generators above 500KW for use in wind operated electricity generators has been reduced from 7.5% to 5%.
- Rates of basic customs duty on gold and silver have been increased.
- Full exemption from basic customs duty available to set top boxes has been withdrawn. They will now attract basic duty of 5%.
- Basic customs duty on LCD panels for manufacture of LCD televisions reduced from 10% to 5%.
- Full exemption from 4% special CVD on parts for manufacture of mobile phones and accessories has been reintroduced for one year i.e. up to 06.07.2010.
- Basic customs duty on cotton waste and wool waste has been reduced from 15% to 10%.
- On packaged or canned software, CVD exemption has been provided on the portion of the value which represents the consideration for transfer of the right to use such software, subject to specified conditions. This portion of the value is leviable to service tax as "Information Technology Software Service".
- Basic customs duty on nine specified drugs and bulk drugs for their manufacture, and vaccine has been reduced from 10% to 5%. CVD on these items would also be exempted by virtue of full exemption from excise duty.

OTHER PROPOSALS

- Government to meet the deadline for implementation of GST from April 1, 2010, though CST has not been reduced.
- Indian Infrastructure Financial Corporation Limited (IIFCL) to evolve financing mechanism for giving increased support to infrastructure projects. Indian Infrastructure Finance Company Limited will re-finance commercial bank loans upto 60% in critical projects through public-private partnership to the tune of Rs1,00,000 crore, to raise investment in the sector.
- Target for agriculture credit raised to Rs3,25,000 crore in 2009-10 from Rs2,87,000 crore
- Extension of interest subvention scheme extended to March 2010 to cover sectors like handicrafts and handlooms.
- Extension of stimulus package for print media by another six months beyond June 30 in view of the economic downturn
- National Mission for Female Literacy with emphasis on minorities, scheduled castes and scheduled tribes to be launched. Fifty per cent of all rural women to be brought into self-help group programmes
- First Unique Identification Card to citizens to roll out in 12-18 months; provision of Rs120 crore for the project made.
- Allocation for Commonwealth Games increased to Rs3,472 crore from Rs2,112 crore.
- Fiscal deficit in 2009-10 is proposed at 6.8% of GDP.

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