



THE UNION **BUDGET** 2007
AN ANALYTICAL OVERVIEW



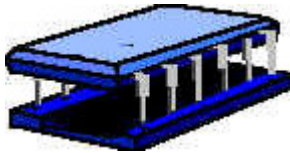
AGRICULTURE AND RURAL DEVELOPMENT



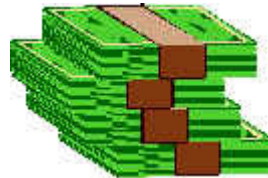
HOUSING



EDUCATION AND YOUTH



INFORMATION TECHNOLOGY



DIRECT TAXES



INDIRECT TAXES

And Much More.....

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Highlights of Budget 2007-08

Finance Minister P Chidambaram presented the Union Budget for 2007-08 in Parliament on Wednesday.

- ❖ **While Chidambaram kept income tax limit unchanged, he increased the threshold limit by Rs 10,000 giving every assessee a relief of Rs 1,000.**
- ❖ Deduction in respect of medical insurance under Section 80 (D) increased to Rs 15,000 and Rs 20,000 for senior citizens.
- ❖ Exemption limit for women was increased to Rs 145,000 and for senior citizens to Rs 195,000.
- ❖ **Dividend distribution tax raised from 12.5 to 15 per cent.**
- ❖ **ESOPs to be brought under FBT.**
- ❖ Expenditure on samples and free distribution items to be exempted from fringe benefit tax.
- ❖ Additional revenue from direct taxes to yield Rs 3000 crore and indirect taxes revenue neutral.
- ❖ Tax exemption on aviation turbine fuel sold to turbo prop aircraft extended to all small aircraft less than 40,000 kg.
- ❖ Withdrawals by central and state governments exempted from Banking Cash Transaction Tax. The limit for individuals and HUF raised from Rs 25,000 to Rs 50,000.
- ❖ Two lakh people to benefit out of service tax exemption. Govt to lose Rs 800 crore as a result.
- ❖ Service tax on Residents Welfare Associations whose members contribute more than Rs 3,000.
- ❖ Surcharge on Corporate income tax on companies below Rs one crore removed.
- ❖ Tax free bonds to be issued by state-owned urban local bodies.
- ❖ Five year tax holiday for two, three, four star hotels and convention centres with a seating capacity of 3,000 in NCT of Delhi, Gurgaon, Ghaziabad, Faridabad and Gautam
- ❖ Minimum Alternate Tax being extended.

- ❖ Benefits of investment in venture capital funds confined to IT, bio-technology, nano-technology, seed research, dairy among some others.
- ❖ Excise duty on cement reduced from Rs.400 per tonne to Rs.350 per tonne for cement bags sold at Rs.190 per bag at retail market. Those sold above Rs.190 will attract excise duty of Rs.600 per tonne.
- ❖ Corporate tax: No surcharge for firms with a taxable income of Rs 1 crore (Rs 10 million) or less.
- ❖ E-governance allocation to be increased from Rs.395 to Rs.719 crore.
- ❖ Indian investors to be allowed investment in overseas capital markets through mutual funds. Mutual funds to set up Infrastructure Fund schemes.
- ❖ Any requirement for security of the nation to be provided.
- ❖ Backward Regions Grant Fund to be raised to Rs 5800 crore.
- ❖ A high-powered committee report aimed at making Mumbai a world class financial centre submitted. Public suggestions will be invited.
- ❖ Rs 50 crore provided to begin work on vocational education mission for which Task Force in Planning Commission is chalking out a strategy.
- ❖ 1,396 Indian Technical Institutes to be upgraded to achieve technical excellence.
- ❖ An autonomous Debt Management Office in government to be set up.
- ❖ Government to create one lakh jobs for physically challenged. Government will reimburse the EPF contributions of employers in the case of physically challenged people taken on rolls of the company and included in the PF scheme. A fund of Rs 150 crore to be started which will go up to Rs 450 crore.
- ❖ An Expert Committee to be set up to study the impact of climate change in India.

- ❖ Rs 150 crore to be given to Ministry of Youth and Sports for Commonwealth Games and Rs 350 crore to the Delhi Government for the purpose. Rs 50 crore to be provided for the Commonwealth Youth Games in Pune.
- ❖ Rs 100 crore for recognising excellence in the field of agricultural research.
- ❖ VAT revenues increased by 24.3 per cent in the first nine months of 2006-07.
- ❖ A national level goods and services tax to be introduced from next fiscal.
- ❖ Fiscal deficit to be 3.7 per cent in the current year and revenue deficit two per cent.
- ❖ Fiscal management enabled States consolidate debt to the tune of Rs.1,10,268 crore and 20 states availed of debt waiver to the tune of Rs.8575 crores. The share of States from the revenue expected to touch Rs.1,42,450 crore during 2007-08 as against Rs.1,20,377 crore during 2006-07.
- ❖ Total expenditure estimated at Rs 6,81,521 crore.
- ❖ Increase in gross tax revenue by 19.9 per cent, 20 per cent and 27.8 per cent in first three years of UPA government. Intend to keep tax rates moderate.
- ❖ Peak customs duty rate on non-agricultural items reduced from 12.5 to ten per cent.
- ❖ All cooking oil fully exempted from duty from 20 to ten per cent.
- ❖ Customs duty on polyester to be reduced from ten per cent to 7.5 per cent.
- ❖ Fiscal deficit for 2007-08 pegged at 3.3 per cent of GDP at Rs.1,50,948 crore. Revenue deficit at Rs.72,478 crore which will be 1.5 per cent.
- ❖ Total expenditure during 2006-07 estimated at Rs.6,80,521 crore including Rs.40,000 crore for SBI shares.
- ❖ Duty on pet food reduced from 30 per cent to 20 per cent.
- ❖ Duty on sunflower oil to be reduced by 15 per cent.

- ❖ Duty reduced on watch dials and movements and umbrella parts from 12.5 to five per cent.
- ❖ Import duty of 15 specified machinery to be reduced from 7.5 per cent to five per cent.
- ❖ Economy grows 8.6 per cent in third quarter of this fiscal compared to 9.3 per cent in the year-ago period
- ❖ Three per cent import duty to be levied on private importers of aircraft including helicopters.
- ❖ No change in general CENVAT rate.
- ❖ Ad valorem duty on petrol and diesel to be brought down from eight to six per cent.
- ❖ Export duty on iron ore and concentrate at the rate of Rs.300 per tonne. Export duty on Chromium proposed at Rs 2000 tonne.
- ❖ Small-scale industries excise duty exemption raised from Rs one crore to Rs 1.5 crore.
- ❖ Manufacturing sector grows at 10.7 per cent, agriculture at 1.5 per cent during October-December 2006-07.
- ❖ Excise duty for plywood reduced from 16 per cent to eight per cent.
- ❖ Food mixes to be fully exempted from excise duty.
- ❖ Excise duty for plywood reduced from 16 per cent to eight per cent.
- ❖ Bio-diesel to be fully exempted from excise duty.
- ❖ Water purification devices, small and big, fully exempted from excise. Specific rates of excise duty on cigarettes increased.
- ❖ Excise duty on Pan Masala without tobacco as mouth freshners reduced from 66 per cent to 45 per cent.
- ❖ PAN to be made single identity card for all securities/stocks/MFs related transactions.
- ❖ Insurance companies to launch a senior citizens scheme in 2007-08.
- ❖ Defence budget increased to Rs 96,000 crore
- ❖ Tourism infrastructure to get an allocation of Rs.520 crore as against Rs.423 crore last year.

- ❖ The ceiling of loans for weaker sections under deferential rate of interest scheme will be raised from Rs 6500 to Rs 15,000 and in housing loan from Rs 5000 to Rs 20,000.
- ❖ Regulations would be put in place for mortgage guarantee company for housing loans.
- ❖ Regional Rural Banks, which are willing to take up greater responsibilities, to undertake aggressive branch expansion programme. One RRB branch for each of 80 districts so far uncovered. RRBs to accept NRE and FCNR deposits.
- ❖ FDI inflows between April and January this fiscal touched \$12.5 bn while portfolio investment reached \$6.8 billion
- ❖ Technology Upgration Fund in textiles to continue during the 11th Plan. Rs 911 crore to be provided for this.
- ❖ Allocation for National Highway Development programme to be stepped up from Rs 9,955 crore to Rs 12,600 crore.
- ❖ Work on Golden Quadrilateral road project nearly complete. Considerable progress made on North-South, East-West corridor and likely to be completed by 2009.
- ❖ Northeastern region will get Rs 405 crore for highway development. Road-cum-rail project over Brahmaputra in Bogibil, Assam.
- ❖ Health insurance cover for weavers to be enlarged to ancillary industries. Allocation increased from Rs 241 crore to Rs 321 crore.
- ❖ A scheme for modernisation and technological upgradation of choir industry for which Rs 23.55 crore has been earmarked.
- ❖ Manufacturing growth rate estimated at 11.3 per cent.
- ❖ **9.2 per cent GDP growth rate estimated in 2006-07.**
- ❖ **Average growth for last three years is 8.6 per cent.**
- ❖ **Saving rate of 32.4 per cent, investment rate of 33.8 per cent will continue.**
- ❖ A number of proposals to perk up agriculture to be announced.
- ❖ Average inflation in FY'07 to be 5.2-5.4 per cent; govt confident of managing inflation

- ❖ Bank credit rate grew by 29 per cent during first ten months of 2006-07
- ❖ Inflation during 2006-07 estimated at between 5.2 and 5.4 per cent against 4.4 per cent during the previous year.
- ❖ Abhijit Sen report on forward trading to be submitted in two months' time.
- ❖ Additional irrigation potential of 24 lakh hectares to be implemented, including nine lakh hectares under Accelerated Irrigation Benefit Programme.
- ❖ Economy in a stronger position than ever before.
- ❖ 15,054 villages have been covered under rural telephony and efforts to be made to complete the target of covering 20,000 villages by 2006-07.
- ❖ Allocation on Healthcare to increase by 21.9 per cent.
- ❖ Allocation for education to be enhanced by 34.2 per cent.
- ❖ Two lakh more teachers to be employed and five lakh more classrooms to be constructed.
- ❖ Secondary education allowance to be increased from Rs.1,837 crore to Rs.3,794 crore.
- ❖ Government committed to fiscal reforms.
- ❖ Foreign exchange reserves stand at 180 billion dollars.
- ❖ Allocation under Rajiv Gandhi Drinking Mission stepped up from Rs 4680 crore to Rs 5850 crore.
- ❖ Government concerned over inflation and would take all steps for moderating it.
- ❖ Already a number of steps on fiscal, monetary and supply management side have been taken.
- ❖ Annual target of 15 lakh houses under Bharat Nirmal Programme to be exceeded.
- ❖ Allocation for National Rural Health Mission stepped up from Rs 8207 crore to Rs 9947 crore.
- ❖ Gross budgetary support in 2007-08 raised to Rs 2,05,100 crore from 1,72,728 crore in 2006-07. Of this, budgetary

support to the Central plan will go up to 1,54,939 crore against 1,72,728 crore.

- ❖ School dropout rates high. To prevent dropout, a National Means-cum-Merit scholarship to be implemented, with an allocation of Rs 6,000 per child.
- ❖ Rs 1290 crore to be provided for elimination of polio. Intensive coverage will be undertaken in 20 districts in UP and 10 districts in Bihar. This will be integrated into NRHM.
- ❖ National AIDS Control Programme to achieve zero level disease.
- ❖ Measures for significant improvement of health care in rural area.
- ❖ Allocation for ICDS programme to be increased from Rs 4087 crore to Rs 4761 crore.
- ❖ 30 more districts under NREGA. Additional allocation of Rs.12,000 crore for it.
- ❖ Rs 800 crore for Sampoorna Gram Rozgar Yojana in districts not covered by NREGA. Swarna Jayanti Swarozgar Yojana allocation increased from Rs 250 crore to Rs 344 crore.
- ❖ Computerisation of PDS and integrated computerization programme for FCI.
- ❖ Allocation for schemes only for SCs and STs to be increased to Rs 3271 crore.
- ❖ Rs 63 crore for share capital for National Minorities Development Finance Corporation following Sachar Committee recommendations.
- ❖ Allocation for SC/ ST scholarships enhanced from Rs.440 crore to Rs.611 crore.
- ❖ Scholarships programme for minorities students to be of the order of Rs 72 crore for pre-metric, Rs 48 crore for graduate and postgraduate.
- ❖ Total Budget for the Northeastern region raised from Rs 12,041 crore to Rs 14,365 crore.
- ❖ New Industrial Policy for the northeastern region to be in place before March 31.

- ❖ Women's development allocation will be Rs.22,282 crore.
- ❖ Rs 7,000 crore allocation for better tax administration to be used for social schemes.
- ❖ Rs 2,25,000 crore farm credit proposed in the new budget. A target of additional 50 lakh farmers to be brought under farm credit.
- ❖ Farmers' credit likely to reach Rs.1,90,000 crore as against the targeted Rs.1,75,000 crore during 2006-07.
- ❖ Special Purpose Tea Fund to rejuvenate tea production.
- ❖ Rs 100 crore allocated for National Rainfed Area Authority.
- ❖ One hundred per cent subsidy for small farmers and 50 per cent for other farmers for water recharging scheme.
- ❖ World Bank signed agreement for revival of 5,763 waterbodies in Tamil Nadu. Loan component Rs 2,182 crore. To have a command area of four lakh hectares. Similar agreement with Andhra Pradesh in March for recharge of 2,000 bodies. Command area 2.5 lakh hectares.
- ❖ Bonds worth Rs 5,000 crore to augment NABARD to be issued.
- ❖ Death and disability cover for rural landless families to be introduced, known as 'Aam Aadmi Bima Yojana'.
- ❖ 70 lakh households to be covered under a social welfare scheme with LIC and with support from state governments.
- ❖ 50 per cent of the premium at Rs.200 per household to be given by the Centre. Rs.1,000 crore fund to be maintained by LIC for the purpose.
- ❖ Central public sector enterprises will be given Rs 16,261 crore as equity support and loans of over Rs 2600 crore.

DIRECT TAXES

FINANCE BILL, 2007

Unless otherwise specifically mentioned the amendments proposed are to be effective from A.Y. 2008-09 and are therefore applicable with respect to income arising on or after 1st April, 2007. Specific mention is made at the relevant places, when the effective date of a proposed amendment is other than 1st April 2007. Reference to the existing provisions; mean the provision; mean the provisions of the Act immediately prior to the amendments proposed in the Bill.

Any reference to the sections, unless otherwise state, is to the sections of the Income Tax Act, 1961

1. RATES OF TAX

In respect of rates of tax, the following changes have been proposed.

- ❖ Increase in the basic exemption limit by Rs. 10,000 applicable to all individuals, HUFs, AOPs and BOIs.
- ❖ Introduction of new secondary and Higher Education Cess of 1% on Income Tax and Surcharge.
- ❖ Introduction of threshold income level of Rs. 1 crore for levying surcharge for the firms and companies (domestic or otherwise) and accordingly firms and companies having income of Rs. 1 crore or less will now not be required to pay surcharge.
- ❖ Rate of Dividend Distribution Tax on companies has been increased to 15% (effective 16.995% with surcharge) for Companies from existing rate of 12.5% (effective 14.025%).

- ❖ Tax on distributed income to Unit Holders is proposed to be increased to 25% (effective 28.325%) in respect of Income distribution by Money Market Mutual Funds of Liquid Funds. Prior to amendment the distribution of such income attracted 12.5% (effective 14.025%) Tax if distribution was to an individual or an HUF and 20% (effective 22.44%) in other cases.

The proposed Income tax rates (including Surcharge, Education Cess and Secondary and Higher Education Cess) for the A.Y. 2007-08 have been given below in Table 1 for ready reference. These income tax rates are applicable on any income earned during the period from 1st April, 2007 to 31st March, 2008. The Table also contains the applicable rate for TDS

The rates of Dividend Distribution Tax (DDT) mentioned in Table 1 are applicable in respect of dividend declared, distributed or paid during the period from 1st April, 2007 to 31st March, 2008.

Table 1 – Rates of Tax

Particulars	Treshold Limit for surcharge	Tax Rates	
		Without surcharge	With surcharge
Individual, HUF, AOP & BOI	10,00,000		
Upto Rs. 1,10,000		NIL	NIL
Rs. 1,10,001 – Rs. 1,45,000		10.30%	11.33%
R. 1,45,001 – Rs. 1,50,000		10.30% **	11.33% **
Rs. 1,50,000 – Rs. 1,95,000		20.60% **	22.66% **
Rs. 1,95,001 – Rs. 2,50,000		20.60%	22.66%
Rs. 2,50,001 – Rs. 2,50,000		30.90%	33.99%

** Nill in case assessee is Senior Citizen or Women below age of 65 years.

** Nil in case assessee is Senior Citizen.

Partnership Firm	10000000	30.90%	33.99%
Domestic Company	10000000	30.90%	33.99%
Company other than Domestic Company	10000000	41.20%	42.23%
Local Authority	NIL	30.90%	30.90%
Co-operative Society	NIL		
Upto Rs. 10,000		10.30%	–
Rs. 10001 – Rs. 20,000		20.60%	–
Rs. 20001 onwards		30.90%	–
Minimum ALTERNATE tAX	10000000	10.30%	11.33%

STCG on Listed Securities

Individual, HUF, AOP & BOI	1000000	10.30%	11.33%
Partnership Firm	10000000	10.30%	11.33%
Domestic Company	10000000	10.30%	11.33%
Company other than Domestic Company	10000000	10.30%	10.5575%

STCG on assets other than listed

Securities

		As per	As per
		Slab	Slab
Individual, HUF, AOP & BOI	10,00,000		
Partnership Firm	100,00,000	30.90%	33.99%
Domestic Company	100,00,000	30.90%	33.99%
Company other than Domestic Company	100,00,000	41.20%	42.23%

LTCG on assets other than Listed

Securities

Individual, HUF, AOP & BOI	1000000	20.60%	22.66%
Partnership Firm	10000000	20.60%	22.66%
Domestic Company	10000000	20.60%	22.66%
Company other than Domestic Company	10000000	20.60%	21.115%

Fringe Benefit Tax	1000000	30.90%	33.99%
AOP/BOI	Nil	30.90%	33.99%
Domestic Company, Firm etc. Company other than Domestic Company	Nil	30.90%	31.6725%
Dividend Distribution Tax			
By Domestic Company			16.995%
By Money Market Mutual Fund or Liquid Fund			28.325%
By other Mutual Funds			
-For Income distributed to Individual /HUF			14.1625%
- For income distributed to others.			22.66%
Securities Transaction Tax			
Delivery based purchase of an Equity Share in Company or a Unit of an Equity Oriented Fund			0.125%
Delivery based sale of an Equity Share in Company or a Unit of an Equity Oriented Fund			0.125%
Non Delivery based sale of an Equity Share in Company or a Unit of an Equity Oriented Fund			0.025%
Derivatives (Futures & Options)			0.017%
Repurchase of Units of an Equity Oriented Fund			0.250%

Banking Cash Transaction Tax		0.1%
Individual or HUF	50000	
Other than individual or HUF (other than office or establishment of Central or State Government)	100000	0.1%

2. PERSONAL TAXATION

2.1. Deduction in respect of medical insurance premium 80D

In regard to deduction admissible for medical insurance premium the following changes have been made.

- ❖ the limit of deduction available is increased to Rs. 15,000/- and Rs. 20,000/- respectively for individual/ HUF and senior citizen from existing ceiling of Rs. 10,000 and Rs. 15,000/-
- ❖ Earlier the payment of the insurance premium was required to be made only by crossed A/c. payee cheque. Now all modes or payment, except cash is permissible.

(clause 20 of the Finance Bill)

2.2 Deduction in respect of contribution to pension scheme of Central Government u/s. 80CCD

Under the existing provisions of section 80CCD pension contribution was eligible for deduction only in respect of Central Government employees. It is proposed to extend the said benefit to the contribution made in notified pension scheme by employers other than Central Government. The deduction is admissible to the extent of 10% of the salary. A consequential amendment has also been made in section 7(iii) so as to include the contribution made by the employer to such pension fund as income chargeable to tax in the hands of the employees. The amendment is proposed to be made retrospectively from A.Y. 2004-05

It may be noted that deduction u/s. 80CCD is available subject to an overall cap. Of Rs. 1 lakh provided by u/s. 80CCE which includes deductions u/s. 80C and 80CCC as well.

(Clause 19 of the Finance Bill)

2.3 Deduction in respect of interest on loan taken for higher education u/s. 80E

Under the present scheme any individual is eligible for deduction of interest paid on education loan for his own higher studies under section 80E. It is now proposed that the deduction for interest will be available when the amount is borrowed by a person for the purpose of studies for either himself or that of his/ her spouse or children. This amendment has addressed a long standing demand of assesseees.

2.4 Perquisites in the form of Residential House Provided to employees u/s. 17(2)

- ❖ Deemed value of the perquisite in the form of unfurnished residential house owned by the employer would be difference between 10% of salaries and the rent recovered in case where accommodation is provided in large towns (with population of more than 4 lakh as per 1991 census) upto A.Y. 2005-06. In smaller town the difference has to be worked out with reference to 7.5% of Salaries.
- ❖ The aforesaid rate of 10% and 7.5% would increase to 20% and 15% for large towns and small towns respectively w.e.f. A.Y. 2006-07.

(Clause 10 of the Finance Bill).

2.5 Taxation of Employees “Stock Options u/s. 17(2)”

Hitherto, concession given to the employees at the time of allotting shares of the employer company under the Employees Stock Option Plan (ESOP) was specifically excluded from the definition of “perquisites” where the plan was framed in accordance with the guidelines issued by the Central Government. It is proposed to remove the specific exclusion from the definition of perquisite. A simultaneous amendment is also being made for taxing the ESOPs granted as Fringe Benefit in the hands of the employer. Though the amendment clearly is intended to tax ESOPs as fringe benefits, the amendments in the present form would need tuning to avoid a zealous tax official from imposing tax in the hands of the employees, while also levying the Fringe Benefit Tax in the hands of the employer.

(Clause 10 of the Finance Bill)

3. CORPORATE TAXATION

3.1. Minimum Alternative Tax (MAT) u/s. 115JB

Income of units established in Free Trade Zones or as Software Technology Parks Units (STP Units) or as 100% Export Oriented Units (EOUs) not only enjoyed complete tax exemption in respect of their export profits, but the said profits were also spared from the levy of MAT. It is now proposed that the said profits exempted u/s. 10A and 10 would be required to be included in the book profit for computing the Mat. This can have significant impact as the book profits of these companies could be much higher than the normal income under the tax laws. Accordingly these companies shall be liable to pay minimum Tax @ 11.33% (with surcharge) or 10.30% (without surcharge). MAT so paid is however available for set off against the normal tax payable for subsequent years.

Since unit in special Economic Zones are eligible to claim deduction u/s. 10AA (and not u/s. 10A/ 10B) they continue to remain out of the tax net even after the proposed amendment.

(Clause 26 of the finance Bill)

3.2 Dividend Distribution Tax u/s. 115-O

Rate of dividend distribution tax has been raised to 15% (effective 16.005%) from existing 12.5% (effective 14.025%) for the dividend declared distributed or paid after 1st April, 2007

(Clause 27 of the Finance Bill)

3.3 Territorial limits of Income tax Act to also include air space.

Income tax Act applies to the whole of the India. The term “India” definite u/s. 2 (25A) read with Territorial Waters, Continental Shelf, Exclusive Economic Zone and other Maritime Zone Act 1976 read with Article 297 of the Constitution of India and various notifications issued under the said Territorial Waters Act, included the territorial waters, continental shelf and exclusive economic zones and air space above that were considered as part of India for the purpose of taxing income arising therein. To clarify the said position, a retrospective amendment is proposed w.e.f. 25th August, 1976 for avoiding any possible argument about extending the scope of taxation to any of these territorial areas. This amendment can have wide ranging impact on the income attributable to satellites and the signals beamed through the air space. Taxation of various TV channels could also get affected by this proposed amendment.

(Clause 3 (f) of the Finance Bill)

3.4 Service rendered by Non Residents, Scope of taxation clarified (Section 9)

In an interesting decision of the Supreme Court in the case of *Ishikawajima Harima Heavy Industries Ltd. vs. DIT* (2007) 288 ITR 408 (SC) it was observed that in case of fees paid for Technical Services provided by a non resident cannot be taxed in India unless the services were utilized in India and rendered in India. This observation is contrary to the source rule enunciated in the

law and the position India had taken in the bilateral treaties with various countries.

To avoid likely escapement of Income due to the said observation of the Supreme Court, a retrospective clarificatory amendment is proposed in the bill herein it has been provided that interest, royalty and fees for technical services will be taxable in India if the same are deemed to have accrued or arisen in India by virtue of section 9 (1)(v), (vi) or (vii) irrespective of the fact that the recipient of such income does not have any residence, place of business or business connection in India. The Amendment is with retrospective effect from 1st day of June, 1976.

(Clause 5 of the Finance Bill)

3.5 Benefit of tax exemption denied to units migrated to SEZ u/s. 10AA

Normally under the provisions of the Income Tax Act which are in the nature of tax holidays for an undertaking benefit of deduction or exemption available to newly established undertakings is generally denied to undertaking which are reconstructed or split up. However in absence of such provisions in Section 10AA, there was no prohibition for units which were set up in a SEZ by the splitting up reconstruction of an existing business. These units were given deduction for a period of 15 years (i.e. 5 years 100%, next 5 years 50% and last 5 years 50% subject to creation of reserves) from the date on which the commenced production in the SEZ. There was amendment made in the SEZ rules to try to plug such reconstruction/ split up. Now a retrospective amendment is proposed in the bill (w.e.f. 10th February 2006) to provide that deduction will not be allowed to the unit which are.

- ❖ Set up by splitting up, or the reconstruction of a business already in existence (except in the circumstances provided in section 33 B) or
- ❖ Formed by the transfer to the new business of machinery or plant previously used for any purpose in India consisting of more than 20% of the total value of the plant and machinery of the unit.

The retrospective amendment will cause hardship to all those units who relocated to the SEZs based on the existing law and does not appear to be consistent with the policy announcement in relation to SEZ which were brought about after extensive debate.

(Clause 7 of the Finance Bill)

3.6 Income of Venture Capital Company or Funds u/s. 10(23FB)

U/ s. 10 (23FB) entire income of a Venture Capital Company Fund (VC) is exempted from tax. Two major amendments are proposed in the Finance Bill in respect of income of the VC.

- ❖ Exemption will be admissible only in respect of investment in Venture Capital Undertakings and not of the entire income.
- ❖ Exemption for income from investment is limited to investments in the business of.
 1. nanotechnology.
 2. IT relating to hardware and Software development.
 3. Seed research and development.
 4. bio-technology.
 5. R & D of new chemical entities in the pharmaceutical sector
 6. production of bio-fuels or
 7. building and operating composite hotel cum convention centre with seating capacity of more than 3000 or
 8. in dairy or poultry industry.

With this amendment the tax neutrality afforded to the investors investing through such VCFs may be lost, especially where the VDFs are structured as companies.

(Clause 6(g) of the Finance Bill)

3.7 Weighted Deduction of 150% for scientific research on in-house R & D u/s. 35(2AB)

As per the existing provisions, companies engaged in specified industries are entitled to claim deduction of 150% of the expenses incurred on in-house scientific research provided their laboratory is approved by the appropriate authority on or before 31st March, 2007. The date by which the approval of the laboratory is to be obtained is extended to 31st March, 2012. It may be noted that this weighted deduction is available to the persons engaged in the business of bio-technology, drugs, pharmaceuticals, electronic equipments, computers, telecom equipments, chemicals, helicopter computer software and automobiles.

(Clause 11 of the Finance Bill)

4. DEDUCTION AND EXEMPTIONS

4.1 Compensation on account of Disaster u/s. 10(10BC)

Individual or their heirs receive compensation on account of loss of assets or personal injury inflicted during a disaster. Amendment is proposed for exempting the amount received as compensation by the individual or their heirs from Central or State Government or by a local authority. However, if compensation is for mitigating an expenses or losses deduction which is already given under the income-tax Act then to the extent of recoupment of such expenses or losses the compensation received is taxable.

4.2 Issuance of Tax Free Bonds by State Pooled finance Entity u/s. 10(15)(vii)

Provision is made for notifying the bonds issued by the State Pooled finance Entities set up under pooled finance development scheme of the Ministry of Urban Development as tax exempt bonds

and on such notification, interest on such bonds would be free from tax.

(Clause 6(b) of the finance Bill)

4.3 Deduction of profits from business of laying and operating distribution network of natural gas u/s. 80IA

It is proposed to introduce a new incentive in the form of deduction of profits from the business of laying and operating cross country distribution network of natural gas including pipeline and storage facilities being an integral part of such network. The deduction is admissible on the following terms and conditions.

- ❖ It is owned by an company registered in India or by a consortium of such companies or a statutory authority board or a corporation established under State or Central Act.
- ❖ It is approved by the Petroleum and Natural Gas Regulatory Board and notified by the Central Government.
- ❖ The operations starts on or after 1st April 2007.
- ❖ At least 1/ 3rd of its total pipeline capacity is available to persons other than associate concerns for its use on common carrier basis.
- ❖ This business should not have been set up by splitting up or the reconstruction of a business already in existence except in the manner provided in section 338 of the Act.
- ❖ It should not have been formed by transfer to the new business machinery or plant previously used for any purpose in India beyond 20% of the total value of machinery of plant used for the business.
- ❖ It also fulfills such other terms and condition as may be prescribed.

The term Associated Concern is defined to be a person.

- ❖ Who participate directly or indirectly in the management, control or capital of the assessee.
- ❖ Who holds directly or indirectly shares carrying at least 26% of total voting power.
- ❖ Who appoints majority of the directors on the Board or Members of the governing board or one or more executive directors/executive members of member such boards?
- ❖ Who guarantees at least 10% of the total borrowings by the assessee.

Deduction of 100% of the profits of such business is available for a period of 10 consecutive years out of first 15 years of commencement of operations.

(Clause 22 of the finance Bill)

4.4 Navigational channel in the sea included as infrastructure facility u/s. 80-IA(4).

Explanation to Section 80-IA(4) which defines the term infrastructure facility is proposed to be amended for giving the benefits of 80-IA to navigational channels in the sea. Deduction is available for a period of 10 consecutive assessment years out of the first 15 years of its operations. Such deduction is available to an enterprise carrying on the business of (i) developing of (ii) operating and maintaining or (iii) developing operating and maintaining, subject to fulfillment of other conditions applicable for eligibility of deduction u/s. 80-IA(4)

4.5 Deduction u/s. 80 IA/80 IB – Extension of Sunset Dates.

As per the existing provisions for being eligible for getting the deduction u/s 80-IA/80 IB the business were required to be set up or the production was required to commence on or before the specified dates. In respect of reconstruction or revival of a power generating plant (Dabhol) and new industrial undertaking in J & K

the specified date is 31st March 2007. Amendments have been proposed to extended the said period as mentioned below.

Sector	Clause of Section 80-IA/80-IB	Original last date for setting up	Proposed last date for setting up
Revival of Power Unit	80-IA(4)(v)	31/3/2007	31/3/2007
Industrial Undertaking in J & K	80-IB (4)	31/3/2007	31/3/2007

4.6 Deduction for newly set up Hotels/ Convention Centers around Delhi u/s. 80-ID.

For giving boost to the activity of setting up the hotels and convention centres in and around New Delhi to meet with the requirement of forthcoming Commonwealth Games in the year 2010, new incentives inserted for the Hotels and convention centres set up in and around New Delhi by inserting Section 80-ID. Proposed scheme of deduction as under.

- ❖ The hotel should commence functioning and the convention centre is constructed during the period between 1st April 2007 and 31st March, 2010.
- ❖ The hotel should be classified as a two star three star of four star hotel by the Central Government and the convention centres should satisfy the conditions to be prescribed.
- ❖ Such hotel or convention centre should be situated in National Capital Territory of Delhi or in the Districts of Faridabad Gurgaon Gautam Budhnagar or Gaziabad.
- ❖ It is not set up by splitting up, or reconstruction of a business already in existence or by transfer to a new business the building machinery or palnt previously used for any purpose in India which it is permissible to use old machinery or plant to the extent of 20% of the total value of

machinery or plant, it is not possible to use any part of an existing building used for any purpose.

Deduction is available of 100% of the profits is available for period of 5 consecutive years, beginning with the year of commencement of operations.

(Clause 24 of the finance B ill)

4.7 Other Amendment in Section 80-IA

Two amendments have been made in the scheme for deduction u/s. 80-IA of the Act.

- ❖ Under the existing scheme, the deduction u/s. 80IA is continued to be allowed to an undertaking or business in the hands of the amalgamated company or resulting company consequent upon amalgamation or demerger by virtue of section 80 IA(12). The said sub-section also provides that in the year of amalgamation or demerger, the deduction would not be allowed to the amalgamating company or demerged company. This provision was causing hardship in cases of amalgamation/ demerger effective on dates other than the first date of the previous year and also in cases of transfer of undertaking and businesses otherwise than by way of amalgamation and demergers, say by way of sale as a going concern. In view thereof, it is provided that the provisions of section 80-IA(12) shall not apply in respect of amalgamation and demergers after 1st April 2007, it may however lead to difficulties in case one would wrongly tend to interpret that in the absence of the provisions, the deduction will not be allowed in the hands of the amalgamated or resulting company post amalgamation or demerger for amalgamation or demerger after 1st April, 2007.

❖ Retrospective amendment with effect from 1st April 2000 is sought to be made by inserting explanation to section 80-IA shall not be available to the persons engaged in the execution of works contract entered into with undertaking or enterprise eligible for deduction u/ s. 80-IA. The amendment appears to have been introduced in view of the deduction of Bombay bench of ITAT in the case of Patel Engineering Co. Ltd. (2005) 94 ITD 411 and of Hyderabad Bench of ITAT in the case of Ocean Sparkle Ltd. vs. Dy. CIT (2005) 99 TT) 582. The amendment appears to be sweeping and contrary to the basic provision of section 80-IA wherein specific deduction has been given for operating and maintenance without development thereof) of an infrastructure facility and given that these works are generally done under a contract for operations and maintenance being a works contract with the facility.

(Clause 22 of the Finance Bill)

5 TAX DEDICTED AT SOURCE

5.1. Rate of Tax Deducted at Source

Payment to	Individual/HUF (where payment or Likely payment during year is more than Rs. 10 Lakhs)								
Nature of Payment	Section	Existing				Proposed (w.e.f. 1 st June 2007)			
		Rate	SC @10%	EC @ 2%	Total	Rate	SC @ 10%	EC @ 3%	Total
Commission/Brokerage	194H	5	0.5	0.11	5.61	10	1	0.33	11.33
Rent for Machinery/Plant/Equipment	194-I	15	1.5	0.33	16.83	10	1	0.33	11.33
Professional Fees	194J	5	0.5	0.11	5.61	10	1	0.33	11.33

Payment to	Individual/HUF (where payment or Likely payment during year is less than Rs. 10 Lakhs)						
Nature of Payment	Section	Existing			Proposed (q.e.f. 1st June, 2007)		
		Rate	EC @ 2%	Total	Rate	EC @ 3%	Total
Commission/Brokerage	194H	5	0.1	5.1	10	0.3	10.3
Rent for Machinery/ Plant /Equipment	194-I	15	0.3	15.3	10	0.3	10.3
Professional Fees	194J	5	0.1	5.1	10	0.3	10.3

Payment to	Individual/HUF (where payment or Likely payment during year is more than Rs. 1.00 Crore)								
Nature of Payment	Section	Existing				Proposed (w.e.f. 1st June 2007)			
		Rate	SC @10%	EC @ 2%	Total	Rate	SC @ 10%	EC @ 3%	Total
Commission/Br okerage	194H	5	0.1	0.11	5.61	10	1	0.33	11.33
Rent for Machinery/Plan t/Equipment	194-I	20	2	0.44	22.44	10	1	0.33	11.33
Professional Fees	194J	5	0.5	0.11	5.61	10	1	0.33	11.33

Payment to	Companies/ Firms (Where payment or likely payment during the year is less than Rs. 1 cores)							
Nature of Payment	Section	Existing				Proposed (w.e.f. 1st June, 2007)		
		Rate	SC @ 10%	EC @ 2%	Total	Rate	EC @ 3%	Total
Interest on Securities (*)	193	20	2	0.44	22.44	20	0.6	20.6

Interest on other than Securities (*)	194A	20	2	0.44	22.44	20	0.6	20.6
Winning from Lotteries	194B	30	3	0.66	33.66	30	0.9	30.9
Contractors	194C	2	0.2	0.044	2.244	2	0.06	2.06
Sub-Contractors/Advertisement	194C	1	0.1	0.022	1.122	1	0.03	10.3
Insurance Commission (*)	194D	20	2	0.44	22.44	20	0.6	20.6

6. MISCELLANEOUS

6.1 Capital Gain

Works of Arts now liable to Capital Gains Tax – Section 2(14)

Capital gains is levied on transfer of capital assets. The term Capital Assets is defined in section 2 (14) and the said definition excludes personal effects. Accordingly, under the present definition gain arising from transfer of personal effects was not chargeable to tax, Archeological collections, drawings, paintings, sculptures or any other work of art which are kept by an Art lover or art collector and held for personal use were considered as personal effects and gains arising therefrom also escaped the tax net.

Amendment is proposed in the definition of capital asset contained in section 2(14) so as to include these items of Archeological collections, drawings, paintings sculptures and any work of art within the definition of capital asset and thus gain arising therefrom chargeable to capital gain tax.

(Clause 3(d) of the Finance Bill)

6.2 Eligible investment in specified securities u/s. 54EEC

Under the existing scheme of taxation. If the assessee makes an investment in the eligible securities (being bonds issued by national Highways Authority of India or Rural Electrification Corporation having maturity of not less than 3 years), long term capital gains to the extent of investment so made was exempted from tax. The benefit of investment was allowable without any monetary limits. During the financial year 2006, the Government while notifying the bonds decided to put an artificial ceiling of Rs. 50 lacs per year for investment in these bonds and accordingly no person could claim exemption of amount exceeding Rs. 50 lakh in a year. There were doubts about the competence of the Government to impose the ceilings, without there being authority to do so under the Act, Retrospective amendments are proposed to validate the notifications issued by the Government during the financial year 2006-07 placing the limit of Rs. 50 lakhs for investment in these securities.

Going forward an amendment is proposed in section 54EC for limiting the exemption to Rs. 50 lakhs per year.

(Clause 15 of the Finance Bill)

7. Advance Payment of FBT u/s. 115WJ(2)

Under the existing provision FBT required to be computed on a quarterly basis by all assesseees and the payment thereof is also requires to be made on quarterly basis within a period of 15 days after end for the respective quarter and in case of last quarter ending on 31st March on or before 1st 5th of March. This was causing lot of hardship to the assesseees as specific computations were required to be made for each quarter. Even return of FBT was calling for information on a quarterly basis. Amendments are proposed to obviate these difficulties and it is now provided that the Advance FBT is to be paid on the same dates as normal

advance tax by the corporate non-corporate entitles. Accordingly Advance FBT will be payable as under.

Due date of Payment	Extent of Payment	
	Company	Non-Company
15 th June	15% of Total FBT	NIL
15 th September	Upto 45%	30% of Total FBT
15 th December	Upto 75%	Upto 60%
15 th March	Balance	Balance

In case of shortfall of any of the installment interest @ 1% per month or part thereof.

(Clause 30 to 33 of the Finance Bill)

7.1 Taxation of Gifts received in the hands of recipient Section 56(2)(vi)

Finance (No. 2) 2004 w.e.f. 1st September 2004 had introduced a provision wherein the gifts received by an individual or HUF from any person would be required to be included as income from other sources unless such gift fell within exempted categories. Consequent to amendments made by Taxation Laws (Amendment) Act 2006 provisions of Section 56(2)(v) as originally introduced were amended and effectively the gifts were made taxable u/s. 56(2) of the Act. However consequential amendment were omitted to be made in section 3 (24) of the Act defining it is income. To correct this anomaly, amendment is proposed in section 2(24) w.e.f. A.Y. 2006-07 to include the gifts within the scope of income. Further, any gifts received from any local authority, any fund or foundation or university or other educational institution or hospital or other medical institution or any trust registered u/s 10(23C) or 12AA shall also not be taxable in the hands of the recipient of the gift. This is intended to have retrospective effect from Asst. Year 2005-06

(Clause 16 of the Finance Bill)

7.2 Disallowance of each expenditure exceeding Rs. 20,000 u/s. 40A(3)

As per the existing provisions only 20% of the expenditure incurred otherwise than by crossed account payee cheque or demand draft exceeding Rs. 20,000/- is disallowable, unless the payment falls within the exceptions carved out in Rule 6 DD of the Income Tax Rules. It is now proposed that whole of such expenditure will be disallowed. Attention is invited here to the Taxation Laws (Amendment) Act 2006 with effect from 13th July, 2006, as a result of which the payment can no longer be made by crossed cheque. The payment is now required to be made by crossed account payee cheque / drafts.

(Clause 13 of the Finance Bill)

VALUE ADDED TAX & CENTRAL SALES TAX

VAT & CST

In the budget speech, the Hon'ble Finance Minister has reiterated his commitment towards phasing out C.S.T. Act in order to prepare a roadmap for introducing Goods and Services Tax (GST) w.e.f. 1-4-2010. He has also expressed his appreciation towards the spirit of co-operative federalism displayed by the State Govts. & their Finance Ministers in implementing VAT all over the country. He has also acknowledged that Vat has proved to be an unqualified success. The revenues of the VAT implementing States have increased by 12.8% in 2005-06 & by 24.3% in first nine months of 2006-07.

The Hon'ble Finance Minister has declared that rate of C.S.T. on interstate sale will be reduced from 4% to 3% w.e.f. 1-4-2007 when such sales are supported with C/D forms. The readers are aware that an enabling provision was made in section 8(1) of the C.S.T. Act in 2003 w.e.f. 14-5-2003 by which the rate of CST was reduced

to 2%. This provision would become effective only upon a notification to be issued by the Central Govt. which has not yet been issued.

The Hon'ble Finance Minister has now proposed to reduce the rate of CST to 3% instead of 2% as stated in the section 8(i). Therefore, it appears that an amendment in the said section would be necessary to bring the desired outcome.

The Hon'ble Finance Minister has also assured to compensate the loss to the State Govt. arising out of reduction in rate of C.S.T.

The Hon'ble Finance Minister has made a remarkable change in the list of declared goods u/s. 14 of the C.S.T. Act. In 2001. Aviation turbine fuel sold to a Turbo Prop Aircraft was inserted under sub-entry No. (iid) of section 14. Since Turbo Prop Aircrafts have been replaced by new generation small aircrafts which have taken air services to smaller airports and in the remote parts of the country he has substituted the above entry as under.

(iid) Aviation Turbine fuel sold to an aircraft with a maximum take off mass of less than forty thousand kilograms operated by scheduled airlines.

Explanation:- for the purpose of this clause Scheduled airlines means the airlines which have been permitted by the Central Govt. to operate any scheduled air transport service.

Thus, ATF supplied to such aircrafts is liable to CST at 3% (w.e.f. 1-4- 2007) if it is an inter state sale supported with form C/ D. The local sales thereof are liable to Vat @ 4%. The States have to amend their scheduled under VAT law to make the aforesaid goods liable to Vat @ 4% which is an upper limit for declared goods as per restrictions imported u/ s. 15 of the C.S.T. Act. The states may however reduce the rate of tax payable on declared goods to 3% to bring it in line with section 8(1)

SERVICE TAX

1. CHANGES EFFECTIVE FROM 1-4-2007 EXEMPTIONS GRANTED/ENHANCED

1.1 Exemption to small service providers – Minimum/threshold limit increased from Rs. 4 lakhs to Rs. 8 lakhs.

Notification nO. 6/2005 dated 1-3-2005 provided for an exemption scheme to small service providers by providing a minimum/threshold limit of Rs. 4 lakhs. The limit of Rs. 4 lakhs is increased to Rs. 8 lakhs w.e.f. 1-4-2007 in response to various representations. Thus w.e.f. 1-4-2007 aggregate value of all taxable service upto rs. 8 lakhs in a financial year provided from one or more premises shall be exempt from service tax subject inter alia to various conditions as mentioned in the original Notification No. 6/2005 dated 1-3-2005. Consequently the limit for Compulsory registration in respect of service provider who is liable to register under service tax (Registration of Special Category of persons).

Rule 2005 has also been increased from Rs. 3 lakhs to rs. 7 lakhs w.e.f. 1-4-2007 (Notification No. 4/2007-ST 5/2007-ST 6/2007-ST 7/2007 ST all dated 1-3-2007)

1.2 Service Tax rate maintained at 12% but additional Cess of 1%

The rate of service tax and education cess has been maintained at 12% and 2% respectively. However, an additional cess is proposed to be levied known as the secondary and Higher Education Cess @ 1% of service tax amount. Thus, after enactment of the Bill the effective rate of service Tax including Education Cess and Secondary & Higher Education Cess would be 12.35% (12%+2%+1%)

FINANCE BILL 2007 PROPOSALS – EFFECTIVE FROM A DATE TO BE NOTIFIED AFTER THE ENACTMENT OF THE BILL

2. SIX NEW SERVICES BOUGHT UNDER THE SERVICE TAX NET

Six new service are proposed to be specifically included in the list of taxable service. Their scope is explained below.

2.1 Services in relation to Mining

Presently, certain services in relation to deposits of minerals oil or natural gas such as surveying or map making are covered under the category of Surveying and Exploration of Minerals. The bill seeks to introduce a new category of service so as to comprehensively cover all services in relation to mining of mineral, oil or gas including exploration is exploitation of minerals oil or gas.

2.2 Renting of Immovable Property for Commercial Purpose

The Bill proposes to levy service tax on renting of immovable property for use in the course or furtherance of business or commerce (hereinafter referred to as “commercial use”) which includes use of immovable property as factories, office building, warehouses, theatres, exhibition halls and multiple-use buildings. Renting includes letting. Leasing, licensing or other similar arrangements. However,, the following cases are excluded viz. renting of immovable property :-

- I. By a religious body: or
- II. To a religious body: or
- III. To an educational body, other than “commercial training or coaching centre.”

The expression “ Immovable Property” includes :

- (a) Building and part outstanding a building, and the land appurtenant thereto ;

- (b) Land incidental to the use of such building or part of a building;
- (c) The common or shared areas and facilities relating thereto; and
- (d) In case of a building located in a complex or an industrial estate, all common area and facilities relating thereto, within such complex or estate,

However, “Immovable Property” would exclude the following:

- (a) Vacant land solely used for agriculture, aquaculture, farming. Forestry, animal husbandry, mining purposes;
- (b) Vacant land, whether or not having facilities clearly incidental to the use of such vacant land;
- (c) Land used for educational, sports, circus, entertainment and parking purposes; and
- (d) Building used solely for residential purposes and building used for the purpose of accommodation, including hotels, hostels, boarding houses, holiday accommodation, tents, camping facilities.

An immovable property which is used partly for commercial purpose and partly for residential or any other purpose shall be considered as used for commercial purpose and service tax would be payable on the entire amount of rent paid for use of such property.

Some points be noted :

- (i) Parking charges in building/ building compound will attract service tax but parking on land / street would not attract service tax.
- (ii) Common Area Maintenance (CAM) would attract service tax under this category.

2.3 Services provided in relation to execution of a works contract :

The Bill purpose to levy service tax on services involved in the execution of works contract. “ Work contract” has been defined to mean a contract where :-

- (a) transfer of property in goods involved in the execution of such contract is leviable to VAT / sales tax: and
- (b) the contract is of the following nature:-
 - (i) erection, commissioning or installation of plant, machinery, equipment or structures etc. or
 - (ii) construction of a new or a civil structure or a part thereof, or of a pipeline or conduit, primarily for the purposes of commerce or industry; or
 - (iii) construction of a new residential complex or a part thereof: or
 - (iv) completion and finishing services, repair, alteration, renovation or restoration of, or similar services, in relation to (ii) and (iii); or
 - (v) turnkey projects including engineering, procurement and construction or commissioning (EPC) projects:

thus in order to attract service tax the works contract should be liable for VAT/ sales tax and must be one of the five categories mentioned above failing which it would not be liable for service tax. However, work contract in respect of roads, airports, railways, transport terminals, bridges, tunnels and dams shall be executed.

The circular D.O.F.No. 334/1/2007-TRU dated 28th February,2007 issued by Ministry of Finance has vide para 6.4.2 clarified as follows:

“ Taxable value under this service is that part of the value of the works contract which is relatable to services provided in the execution of a works contract. Such value is to be determined on actual basis based on the records maintained

by the assessee. However, it is proposed to give an option to an assessee to opt for a composition scheme. Under the composition scheme, the assessee is required to pay 2% of the total value of the works contract as service tax. Assessee opting for the composition scheme is not entitled to avail CENVAT credit of capital goods, inputs and inputs services required for use in the works contract. Valuation of works contract and details of the composition scheme will notified separately.”

Service tax may be paid on the value of the works contract after deducting the value of material as provided in Notification No. 12/2003 dated 20.6.2003. The other alternative would be to avail of the composition scheme (to be notified) and pay service tax at 2% of the total value in which case no CENVAT credit should be claimed. However, in the first alternative CENVAT credit in respect of input services and capital goods may be claimed. Further, it appears that in case of works contract the material component would be exigible to state VAT and the labour/ service component would attract service tax. The relevant laws viz., State VAT and the service tax law provide option for valuation.

2.4 Development and supply of content :

The Bill seeks to levy service tax on the development and supply of content for use in telecommunication services, advertising agency services and on-line information and database access or retrieval services. Development and supply of content includes development and supply of mobile value added services, music, music, movie clips, ring tones, wall paper, mobile games, data, whether or not aggregated, information, news and animation films. Thus, content provider for mobile phones, web sites which inter alia includes ring tones, games, etc. would be liable for service tax.

Here an important point to be noted is that the circular D.O.F.No. 334/1/2007-TRU dated 28th February, 2007 contends that such services were liable under “Business Support Services.” In the author’ view this contention may not be correct.

2.5 Design Services :

Presently, interior design and fashion design services are liable for service tax under the category of “Interior decorator” and “Fashion designers.” The Bill proposes to tax design services other than the above, like designing of furniture, consumer products, industrial products, packages, logos, graphics, websites and corporate identity designing and production and production of three dimensional models. The nature of services specified above are not exhaustive but are only indicative.

2.6 Assets management including portfolio and all forms of fund management provided by individuals, etc.

The bill seeks to tax asset management including portfolio management and all forms of fund management provided by service provider other those within the ambit of banking and other financial services under a new category of service. This is specially to cover portfolio management services provided by individual service providers to high net worth individuals.