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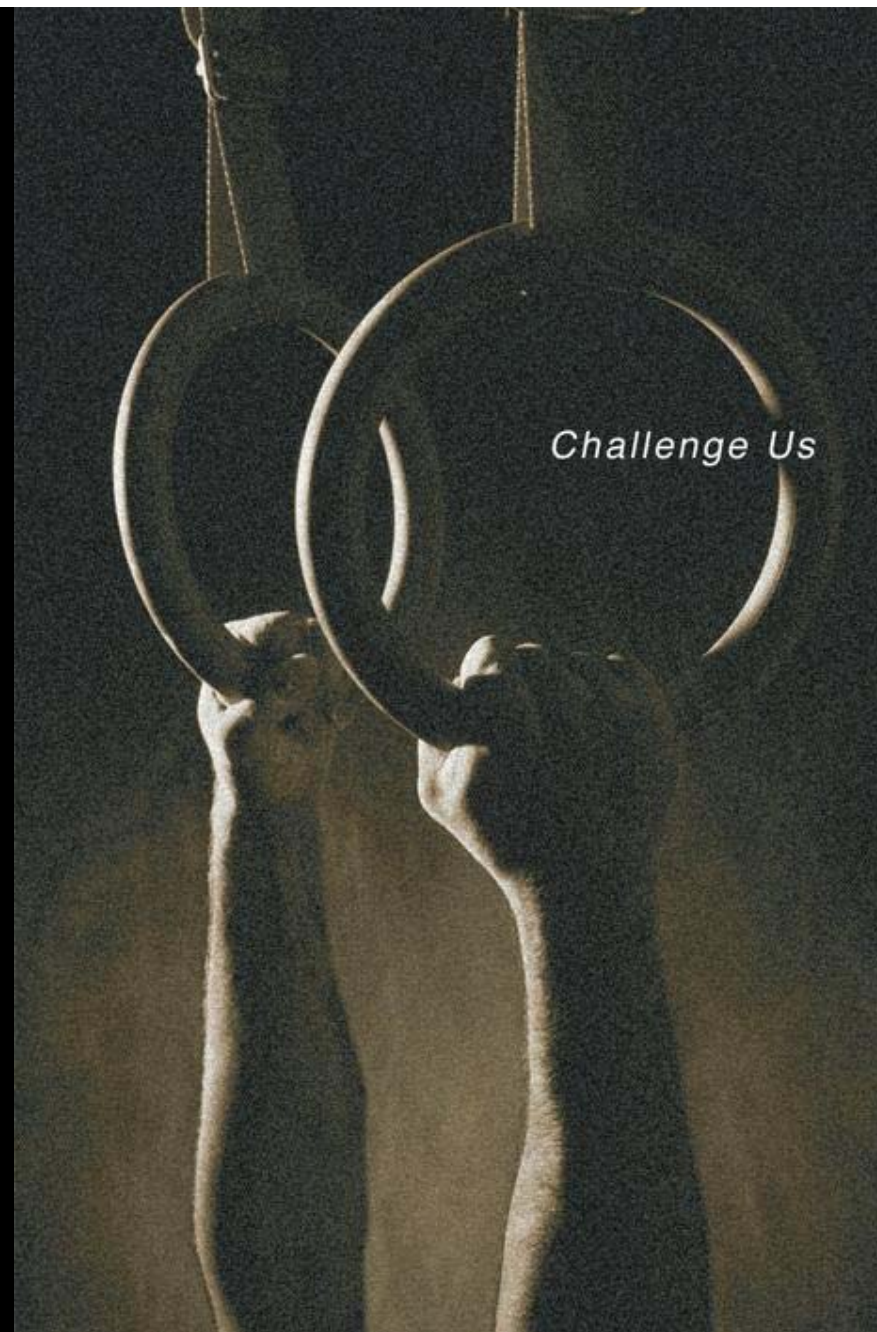
INDIA BUDGET 2008

SUMMARY AND KEY ANALYSIS

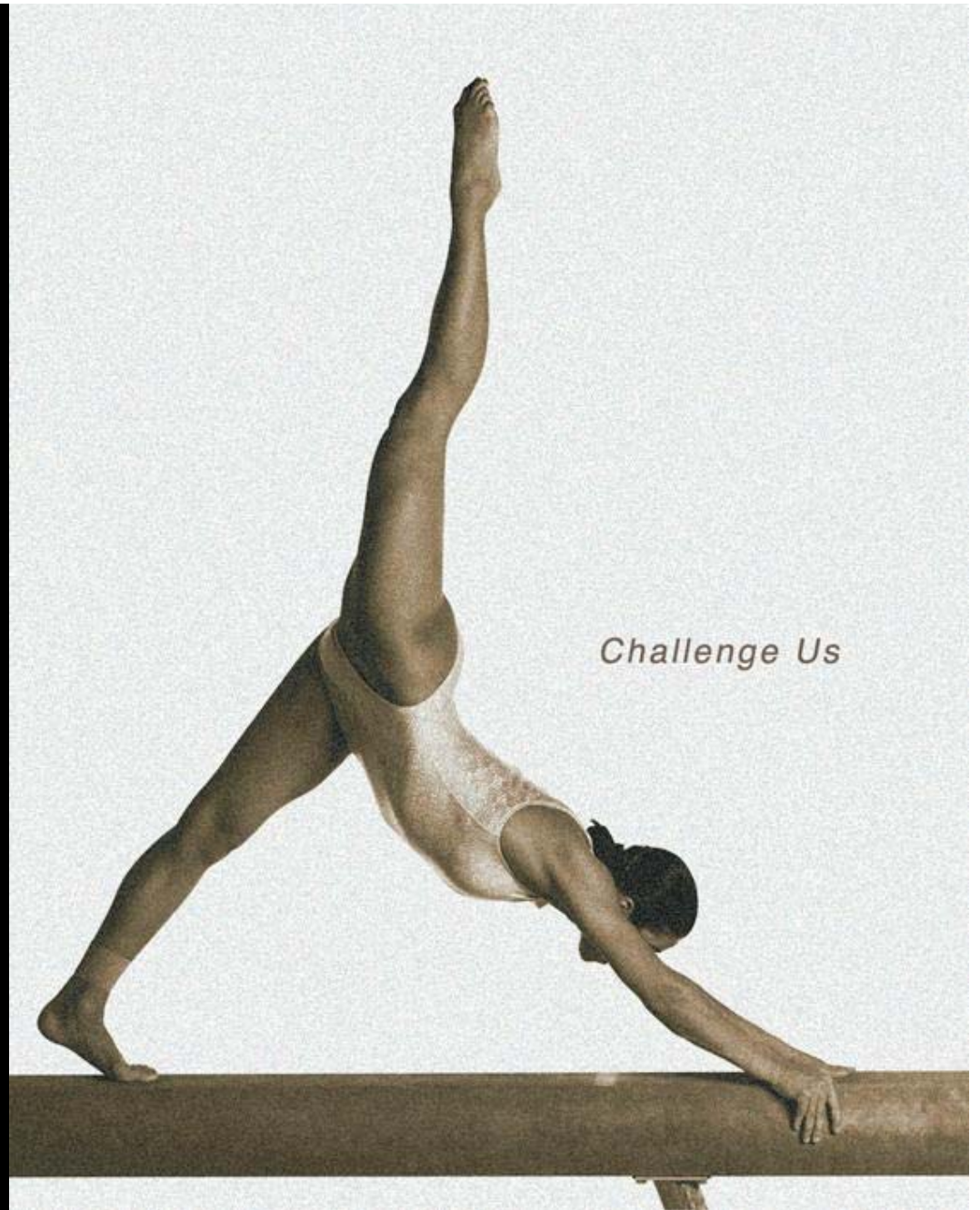
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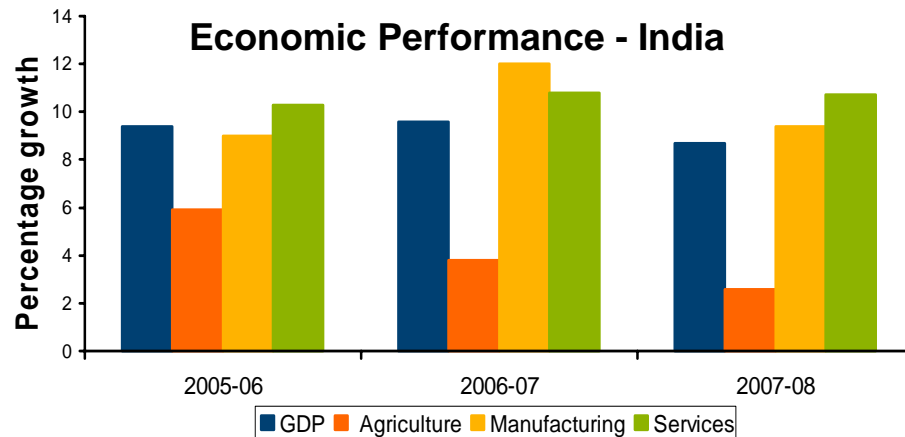
- Economic survey
- Policy announcements
- Direct tax proposals
- Indirect tax proposals



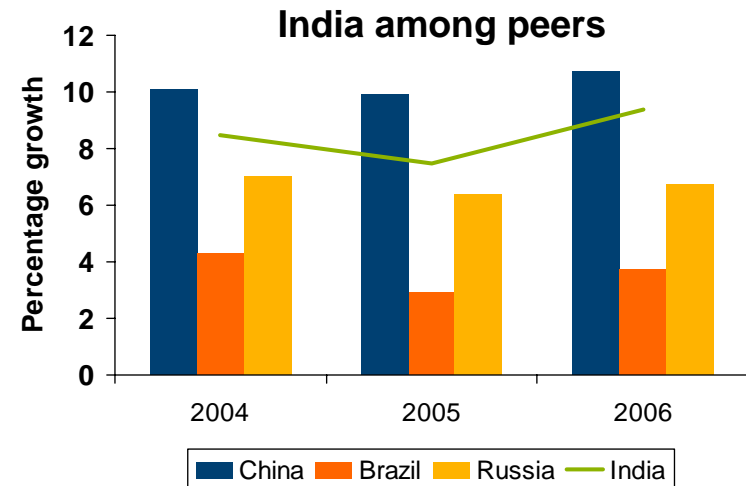
ECONOMIC SURVEY



WHERE DO WE STAND



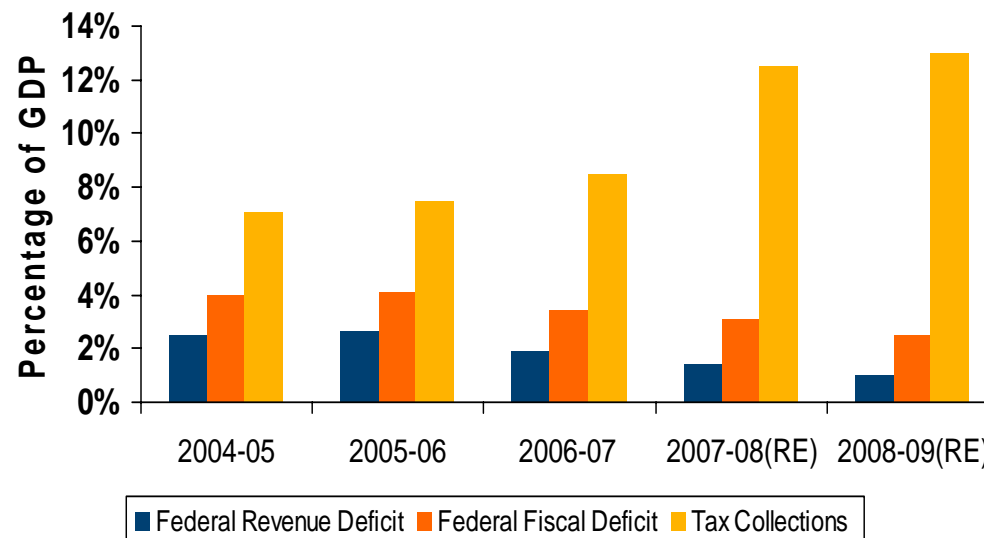
Source: Economic Survey 2007-08



Source: World Development Indicators 2007

- India amongst fastest growing economies - **GDP growth of 8.7 percent**
- Growth of agriculture 2.6 percent – budget addressed farmers concerns
- Widening trade deficit (6.9 percent) – buoyant imports (20.9 percent) offsetting exports (14 percent)
- Inflation remains a prime worry – caution against the pressures from rising foreign funds and global commodity price movement
- Infrastructure needs estimated at USD 500 billion by 2012

HOW DID THE DEFICIT TARGETS FARE ?

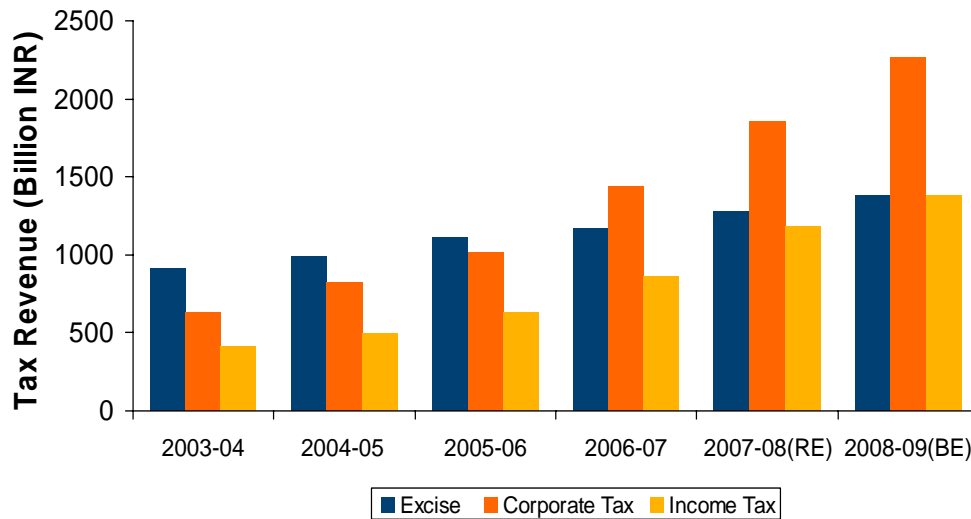


Source: Economic Survey 2007-08

- On course to meet Fiscal targets – **“zero fiscal deficit” in 2008-09 is at a distance**
- Rising import price of oil, revision of government employees compensation to add to the pressure
- Fiscal deficit at 3.1 percent and Revenue deficit 1.4 percent of GDP; food and petroleum subsidy not considered
- States have joined the fiscal discipline process, 26 states have enacted suitable legislations – **expenditure management remains a key**

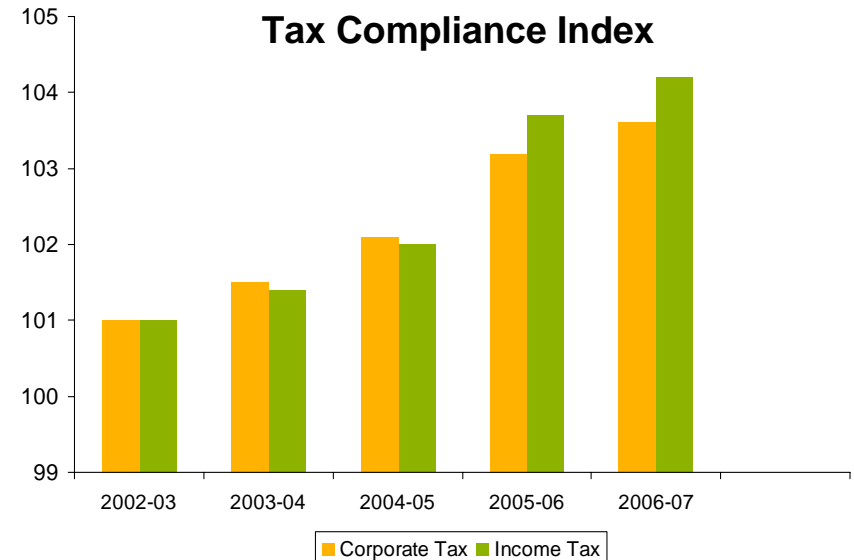
TAX REVENUES

Tax Collections



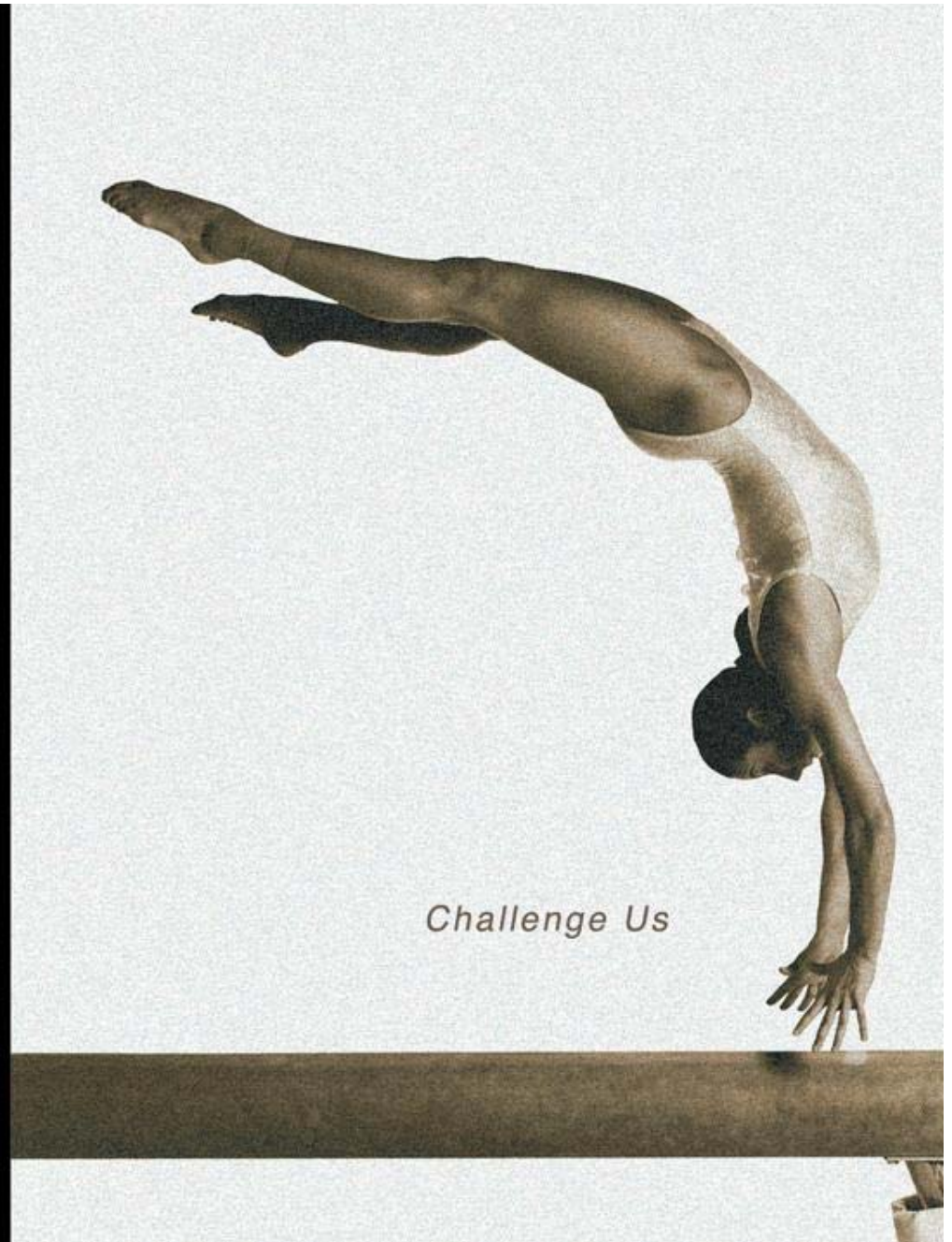
- Higher direct and Indirect tax led to overall increase in gross tax collections
- Direct tax / GDP ratio at 5.7 whereas Indirect tax / GDP ratio at 5.9 percent

- Tax collections for 2006-07 have exceeded expectations - shift in structure of taxes from indirect to direct taxes
- Revenue from service tax increased rapidly due to buoyant sectoral growth and creeping rates
- Buoyancy needs to be ensured in time of decelerating growth



Source: Economic Survey 2007-08, Budget at a glance, Economic and Political Weekly

POLICY ANNOUNCEMENTS



Challenge Us

POLICY ANNOUNCEMENTS

- Waiver / relief for farmer debts ~ USD 15 billion impact – Government to shoulder the burden
- Focus on health, education and agriculture – enhanced allocations and new schemes
- Permanent institutional mechanism for combating climate change
- Measures to expand the market for corporate bonds
- Tax identification requirement for all capital market transactions

DIRECT TAX PROPOSALS



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CORPORATE TAX

- No change in corporate tax and surcharge rates
- Weighted deduction of 125 percent for outsourced R&D
- Securities Transaction Tax (STT) now deductible expense - rebate system discontinued
- Commodities Transaction Tax (CTT) introduced on options and futures - deductible expense
- Short term capital gains on listed securities increased to 15 percent
- Cascading effect of Dividend Distribution Tax (DDT) mitigated

CORPORATE TAX

➤ Tax holidays

- Discontinued for refining of mineral oil beginning April 1, 2009
- Introduced for new hospitals (outside excluded urban areas) for 5 years
- Introduced for 2/3/4 star hotels in specified districts with UNESCO declared '**World Heritage Sites**' for 5 years

➤ Deferred Tax, Dividend Distribution Tax – to be added for computing Minimum Alternate Tax (MAT)

➤ Service sector eligible for 5 year amortization of preliminary expenses / setup costs

➤ Book depreciation to be deducted for computing WDV of assets of erstwhile tax exempted entities

CORPORATE TAX

- Listed corporate debt instruments exempted from withholding tax
- Banking Cash Transaction Tax to be abolished from April 1, 2009
- Tax return filing date for corporates advanced to September 30 – effective from AY 2008-09
- Tightening of penal provisions for concealment of income and procedural matters pertaining to notices for tax scrutiny
- Both measures would override tax court decisions
- Procedural changes made in scrutiny of search cases

INDIVIDUAL TAX

➤ Rationalization of slab rates:

Current Slab	Proposed Slab	Rate
Upto Rs 110,000	Upto Rs 150,000	Exempt
Rs 110,001 – 150,000	Rs 150,001 – 300,000	10 percent
Rs 150,001 – 250,000	Rs 300,001 – 500,000	20 percent
Rs 250,001 and above	Rs 500,001 and above	30 percent

- Exemption limit for women and senior citizens raised to INR 180,000 and INR 225,000 respectively
- Tax savings scheme rationalized with enhanced limit
- Health insurance limit enhanced by INR 15,000 to cover parents
- Reverse mortgage scheme for senior citizens to be tax free – capital gains to be levied only on ultimate sale of property

FRINGE BENEFIT TAX

- FBT now exempt on:
 - guest house expenditure
 - expenditure on sports event for employee
 - expenditure on sponsoring a sportsman employee
 - expenditure on creche facility for employees
 - pre-paid electronic meal card
- Value of benefit for festive celebrations reduced from 50 to 20 percent
- Deemed tax status for FBT on ESOP's recovered from employees

INDIRECT TAX PROPOSALS

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BUDGET 2008 - BACKDROP

- Expectations from Budget 2008 were influenced by:
 - Significant domestic economic growth
 - Buoyant revenue collections
 - Indicators of global slowdown
- India is in midst of continuing economic and tax reforms; expectation of reform policies continuing with directional support

CUSTOMS

- Peak rate of customs duty retained at 10 percent; contrary to expectations
- Basic duty reduced on Project Imports from 7.5 to 5 percent
- Mixed bag for power sector due to:
 - Reduction in duty on transmission and distribution projects to 5 percent
 - Increase in duty upon removal of exemption from Special CVD
- Pharmaceutical sector benefited by reduction in duty from 10 to 5 percent on select life saving drugs and bulk drugs
- Consumer electronics sector to gain from wider duty free imports, including media players and components for set-top boxes
- IT hardware sector benefited by wider coverage of duty free components
- Construction sector likely to be impacted by:
 - Reduction of temporary import period
 - Curtailment of scope of exemption for internationally funded projects

EXCISE / CENTRAL VAT

- Duty reduced from 16 to 14 percent
- Definition of excisable goods amended to deem marketability
- Notable rate reductions in auto sector:
 - Small car - 16 to 12 percent
 - Two wheelers and passenger three wheelers - 16 to 12 percent
 - Buses and other vehicles for transport of more than 13 persons - 16 to 12 percent
- Duty on packaged software increased from 8 to 12 percent
- Domestic sales by EOU made costlier
- MRP abatement reduced
- Duty reduced on food products, drugs, IT products and paper

SERVICE TAX

- Rate of service tax (inclusive of cess) remains unchanged at 12.36 percent
- Works Contract composition rate increased from 2 to 4 percent
- Significant change for taxing transactions between “associated enterprises” proposed:
 - Definition of “associated enterprises” linked to Income Tax
 - Stated intention to tax at the time of credit/ debit in books
 - Suitable amendments to operationalize currently awaited
 - Likely to cover output tax as well as reverse charge tax
- Rationalization of CENVAT Scheme for Service Providers
 - Capital Goods used outside their premises
 - Common inputs and input services
 - Widening distribution of credits across different offices

SERVICE TAX

- Definition introduced for IT Software (wider than 'computer software')
- Active attempt to cover all aspects related to Software either under excise or service tax
- New taxable category for IT Software introduced covering:
 - Software development, design, programming, upgradation, and implementation
 - Software license fees for commercial exploitation, including fees for software supplied electronically
 - Only if used in furtherance of business or commerce(?)
- Other categories rationalized / expanded to tax Software related services
 - Business auxiliary
 - Maintenance or repair
 - Technical testing / Technical inspection
 - Consulting engineer

SERVICE TAX

- Relief to exporters providing software maintenance, testing, inspection and certification services
 - 'Export' status linked to physical location of goods worked upon (eg servers)
 - Provisions specifically cover services provided remotely through internet, etc
 - Consequential changes in Import Rules
- Other services brought to tax:
 - Supply of tangible goods without transferring right of possession and effective control
 - Asset Management for Unit-linked policies
 - Services provided by Stock Exchanges and Commodity Exchanges
 - Clearing House services

SERVICE TAX

- Scope of existing categories expanded / clarified to include:
 - Use of space irrespective of transfer of possession or control
 - Services of money changers
 - Promotion or marketing of games of chance
- Other changes
 - Threshold limit of exemption increased
 - Best judgment assessment introduced
 - Exemption to sales support provided to hotels by foreign agents
 - Taxation of Goods Transport Agency services rationalized
 - Advance payment of tax allowed with appropriate filings
 - Service Tax Disputes Resolution Scheme

IN SUMMARY – INDIRECT TAX

- Stable rate regime expected
- Service tax to be the revenue engine
- CST phase-out continues
- GST Vision 2010 restated

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GLOSSARY

AY	Assessment Year
CENVAT	Central Value Added Tax
CVD	Countervailing duty
CST	Central Sales Tax
CTT	Commodities Transaction Tax
DDT	Dividend Distribution Tax
EOU	Export Oriented Unit
ESOP	Employees Stock Option Plan
FBT	Fringe Benefit Tax
GDP	Gross Domestic Product
GST	Goods and Services Tax
INR	Indian National Rupee
IT	Information Technology
MAT	Minimum Alternate Tax
MRP	Maximum Retail Price
R&D	Research and Development
STT	Securities Transaction Tax

UNESCO	United Nations Educational, Scientific and Cultural Organization
USD	US Dollar
VAT	Value Added Tax
WDV	Written Down Value

DISCLAIMER

- This presentation summarizes the proposals of **India Budget 2008**
- The proposals are subject to amendment as the **Finance Bill** is passed by the legislature and receives Presidential assent
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