

## ***HIGHLIGHTS OF UNION BUDGET 2007-08 PRESENTED ON 28.2.2007***

### ***GENERAL***

Housing Loan: 'Reverse mortgage' is to be introduced under which a senior citizen who is owner of a house can avail of a monthly stream of income against mortgage of his/her house, while remaining the owner and occupying the house throughout his/her lifetime, without repayment or servicing of the loan; regulations to be put in place to allow creation of mortgage guarantee companies.

PAN allotted by Income-tax Dept. is to be made sole identification number for all participants in securities market with an alpha-numeric prefix or suffix to distinguish a particular kind of account. As of now each regulating agency in each field has been requiring to obtain an identification number like MIN etc.

*VAT, CST and a Roadmap towards GST:* Agreement reached with State Governments to phase out CST; rate to be reduced from 4% to 3% with effect from April 1, 2007; Rs.5,495 crore provided for compensation for losses, if any, on account of VAT and also on account of CST; a roadmap for introducing a national level Goods and Services Tax (GST) with effect from April 1, 2010 to be prepared.

In respect all taxes, whether direct or indirect, the present 2% education cess has been increased to 3% i.e an additional cess of 1% on all taxes to be levied to fund secondary education and higher education

### ***Indirect Taxes - Customs duties:***

- Reduction in peak rate for non-agricultural products from 12.5% to 10%.
- Reduction in duty on most chemicals and plastics from 12.5% to 7.5%; on seconds and defectives of steel from 20% to 10%.
- All coking coal irrespective of ash content to be fully exempt.
- Reduction in duty on polyester fibres and yarns from 10% to 7.5% and on raw-materials such as DMT, PTA and MEG from 10% to 7.5%; on cut and polished diamonds from 5% to 3%; on rough synthetic stones from 12.5% to 5%; and on unworked corals from 30% to 10%.
- To augment irrigation facilities and processing of agricultural products, reduction in duty on drip irrigation systems, agricultural sprinklers and food processing machinery from 7.5% to 5%.
- Reduction in general rate of import duty on medical equipment to 7.5%.
- To make edible oils more affordable, crude and refined edible oils to be exempt from additional CV duty of 4%; reduction in duty on sunflower oil, both crude and refined, by 15 percentage points.
- Customs duty of Rs.300 per metric tonne to be levied on export of iron ores

## **CENTRAL EXCISE**

- Exemption limit for small scale industry (SSI) raised from Rs.1 crore to Rs.1.5 crore;

### ***Service tax***

- Exemption limit for small service providers to be raised from Rs.400,000 to Rs.800,000

## **NEW SERVICES BROUGHT UNDER SERVICE TAX NET:**

- Services outsourced for mining of mineral, oil or gas;
- Renting of immovable property for use in commerce or business (residential properties, vacant land used for agriculture and similar purposes, and land for sports, entertainment and parking purposes & immovable property for educational or religious purposes to be excluded)
- Development and supply of content for use in telecom and advertising purposes
- Asset management services provided by individuals
- Design services
- Services involved in execution of a works contract with an optional composition scheme under which tax will be levied at only 2% of the total value of works contract.

### ***Income- Tax***

- Threshold limit of exemption in the case of all assessees to be increased by Rs.10,000 thus giving every assessee a relief of Rs.1,000; in the case of a woman assessee, threshold limit to be increased from Rs.135,000 to Rs.145,000 and in case of a senior citizen from Rs.185,000 to Rs.195,000 giving him or her a relief of Rs.2,000
- Deduction in respect of medical insurance premium under section 80D to be increased to a maximum of Rs.15,000 and, in case of a senior citizen, a maximum of Rs.20,000.
- No Surcharge on income tax on all firms and companies with a taxable income of Rs.1 crore or more.
- Minimum Alternate Tax (MAT) to be extended to companies which are 100% export oriented units, income in respect of which deduction is claimed under sections 10A and 10B
- Rate of dividend distribution tax to be raised from 12.5% to 15% on dividends distributed by companies;
- Banking Cash Transactions Tax (BCTT) - Exemption limit for individuals and HUFs to be raised from Rs.25,000 to Rs.50,000.

**Individual, Hindu undivided family, association of persons, body of individuals, artificial juridical persons**

The basic exemption limit for persons other than those specified in items II and III below, is proposed to be increased from Rs. 1,00,000/- to Rs. 1,10,000/-. In such cases, the rates of income-tax on total income shall be as follows-

Upto Rs. 1,10,000/-	Nil.
Rs. 1,10,001/- to Rs. 1,50,000/-	10 per cent.
Rs. 1,50,001/- to Rs. 2,50,000/-	20 per cent.
Above Rs. 2,50,000/-	30 per cent.

In the case of every individual, being a woman

Upto Rs. 1,45,000/-	Nil.
Rs. 1,45,001/- to Rs. 1,50,000/-	10 per cent.
Rs. 1,50,001/- to Rs. 2,50,000/-	20 per cent.
Above Rs. 2,50,000/-	30 per cent.

In the case of every individual, being a resident in India, who is of the age of sixty-five years or more

Upto Rs. 1,95,000/-	Nil.
Rs. 1,95,001/- to Rs. 2,50,000/-	20 per cent.
Above Rs. 2,50,000/-	30 per cent.

No surcharge shall be levied in the case Individuals or HUFs.

In case of firms or companies which declare a taxable income of Rs.1 Crore or more the surcharge is 10% and in case of every foreign company, having total income exceeding one crore rupees, the surcharge shall be 12.5%.

**DEDUCTION OF INTEREST PAID BY PARENTS ON EDUCATIONAL LOANS OF CHILDREN:**

Section 80E of the Income-tax Act provides for a deduction, from the gross total income of an individual, of the amount paid by him by way of interest on loan taken from any financial institution or approved charitable institution for the purpose of pursuing higher education. The deduction is available for eight assessment years beginning from the assessment year in which the payment of interest on the loan begins.

The tax benefit was introduced with a view to sustain high quality human resources in the country and to encourage talented men and women to take up higher studies despite the constraints of resources. The relief is not allowed to the parents, but to the student himself when he starts repaying the amount.

It is proposed to amend section 80E so as to allow the deduction of interest on loan taken by an individual for higher education of his relative also.

It is also proposed to define the term “relative” for the purposes of section 80E so as to mean spouse and children of the individual.

This amendment will take effect from 1st April, 2008 and will, accordingly, apply in relation to the assessment year 2008-2009 and subsequent years.

#### **Expansion of scope of the provisions of section 194C**

Until now the Individuals and HUFs were not required to deduct TDS for payments in respect of contracts.

The present amendment proposes to include such individual or a Hindu undivided family, whose total sales, gross receipts or turnover from the business or profession carried on exceed the monetary limits specified under clause (a) or clause (b) of section 44AB during the financial year immediately preceding the financial year in which sum is credited or paid to the account of the contractor.

This amendment will take effect from 1st day of June, 2007.

#### **Reduction in the rate for deduction of tax at source on rent for the use of any machinery or plant or equipment under Section 194-I**

Now the rate of deduction TDS under section 194I is 15%.

Now this amendment proposes to separately specify the rate of deduction of tax at source at a lower rate of ten per cent. in respect of any income payable by way of rent for the use of any machinery or plant or equipment.

This amendment will take effect from 1st day of June, 2007.

#### **Enhancement of the rate of TDS under section 194J of the Income-tax Act**

Now the rate of deduction TDS under section 194J is 5% applicable to payment of any sum by way of fees for professional services or fees for technical services or royalty or any sum referred to in clause (va) of section 28.

Now this amendment proposes to specify a higher rate of 10% for TDS under section 194J. The increased rate for deduction of tax at source shall be applicable to payment of any sum by way of fees for professional services or fees for technical services or royalty or any sum referred to in clause (va) of section 28.

This amendment will take effect from 1st June, 2007.

**Exemption u/s 80-IA of the Income-tax Act, 1961 for income from power generation, like through windmills**

It is proposed to extend the time limit by one year for generating or transmitting or distributing power i.e., before 31st March, 2008.

This amendment will take effect from 1st April, 2008 and will, accordingly, apply in relation to the assessment year 2008-2009 and subsequent years.

**NO MORE CASH PAYMENTS IN EXCESS OF RS.20,000 PER BILL PER PERSON:**

**Strengthening the provisions of section 40A(3)**

The existing provisions of sub-section (3) of section 40A provide for disallowance of twenty per cent of the expenditure incurred, payment in respect of which is made in a sum exceeding twenty thousand rupees, otherwise than by an account payee cheque drawn on a bank or by an account payee bank draft.

It is proposed to amend sub-section (3) of section 40A to provide for hundred per cent disallowance of payments which are made in violation of its provisions

**Removal of the requirement for charitable or religious trusts or institutions to file for registration within one year of creation or establishment**

Under the existing provisions of section 12A, in order to claim exemption under sections 11 and 12, a charitable or religious trust or institution is required to make an application for registration in the prescribed form and in the prescribed manner to the Commissioner within one year from the date of its creation or establishment and has to be registered under section 12AA. The section also provides that where such application is made after the aforesaid period, the Commissioner may condone such delay, if he is satisfied that the application was delayed for sufficient reasons. On such condonation of delay, the provisions of section 11 and 12 shall apply in respect of the income of such trust or institution from the date of creation of the trust or establishment of the institution. However, where the Commissioner is not so satisfied, the provisions of section 11 and 12 shall apply only from the 1st day of the financial year in which the application is made.

**APPEAL PROVISION FOR DENYING LIABILITY TO DEDUCT TDS:**

**Provision of appeal by a person denying liability to deduct tax**

IT is proposed to provide that where under an agreement or other arrangement, the tax deductible on any income, other than interest, under section 195 is to be borne by the person by whom the income is payable, and such person having paid such tax to the

S.Murali Dharan & Co  
Chartered Accountants

credit of the Central Government, claims that no tax was required to be deducted on such income, he may appeal to the Commissioner (Appeals) for a declaration that no tax was deductible on such income.

This amendment will take effect from 1st June, 2007.

## **APPEAL PROVISION FOR DENYING S.80G EXEMPTION TO ACHARITABLE TRUST:**

### **Provision relating to approval of charitable institutions and funds**

Under the existing provisions of section 80G, deductions in respect of donations to certain funds, charitable institutions is available from the taxable income of the donor. The said section provides for two categories of funds- one that are enumerated in sub-section (2) and the secondly, those funds which are approved by the Commissioner under clause (vi) of sub-section (5) of the said section.

Presently, under section 253, no appeal lies to the Appellate Tribunal against the order of rejection of approval by the Commissioner under section 80G (5) (vi). It is, therefore, proposed to amend section 253 so as to allow an appeal to be filed against such orders of the Commissioner before the Appellate Tribunal.

This amendment will take effect from 1st June, 2007.

## **FRINGE BENEFIT TAX**

Employees' Stock Option Plan commonly known as sweat equity for employees is brought within the purview of fringe benefit tax.