Analysis of National Economy

V Pattabhi Ram

Data Courtesy :
Various sources

FIFTEEN

15

Michael Duke
Vice Chairman, Wal-Mart

"We are very eager.
We see a country, that offers us so much opportunity. A growing middle class, a growing consumer attitude…
the retail base today is already growing."

1991

PRIME ACADEMY
In Pursuit of Academic Excellence

Forex Reserve (bn)

Feb 2007

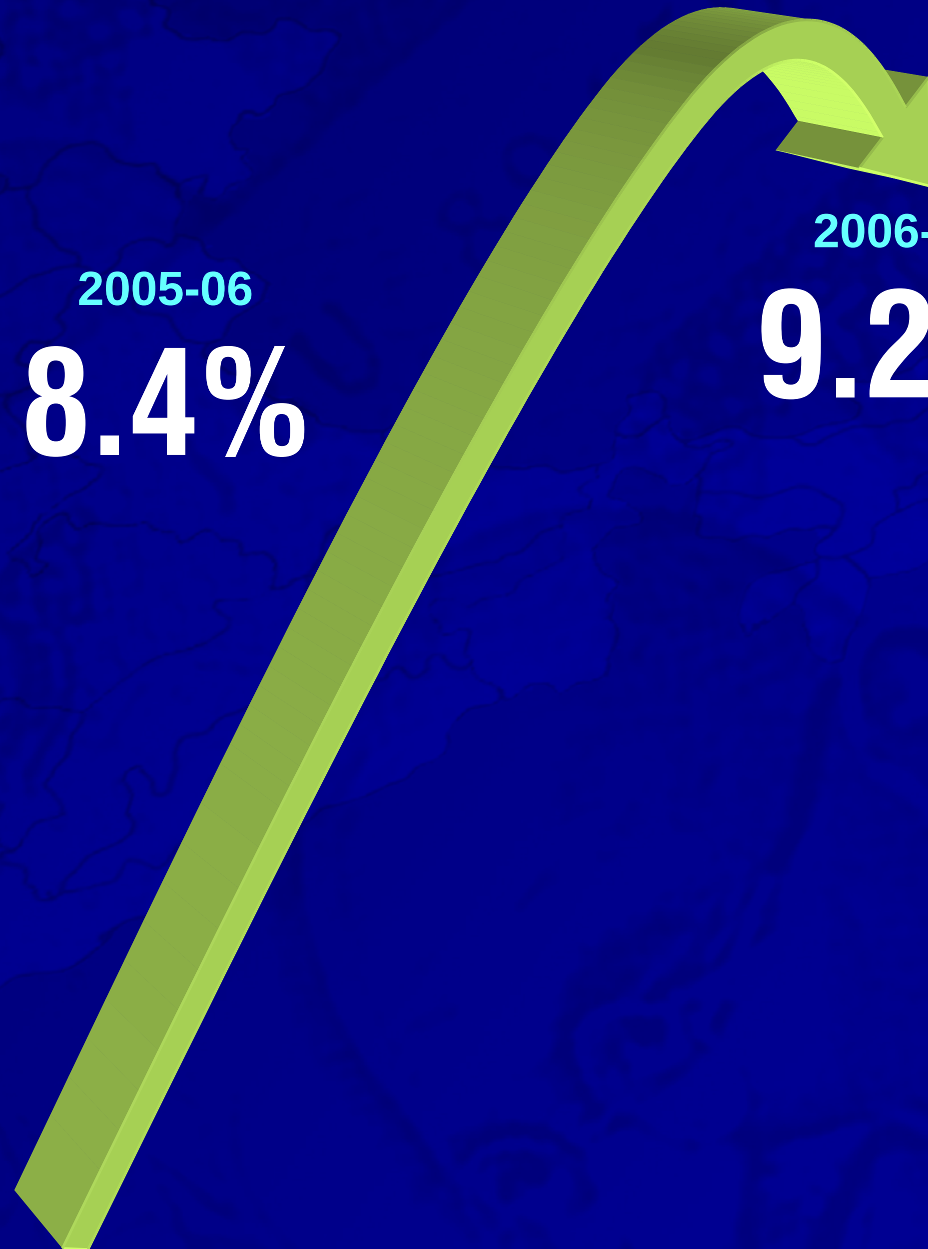
$181

August 1991

$1.1

PRIME ACADEMY
In Pursuit of Academic Excellence

GDP Growth Rate



Exports

PRIME ACADEMY
In Pursuit of Academic Excellence

Exchange Rate

2006

1US$=Rs.44.79

1991-92 (March)

1US$=Rs.26.45

Peak Customs duty

1991-92	1997-98	2006-07
150%	**40%**	**12.5%**

Inflation

1994-95 (in March 95)

16.9%

2006 (Dec.9)

5.32%

Prime Lending Rate

1991	18-20%
2006	10.25-10.75%

Corporate tax rate

1990-91	54-64.8%
2006	33.66%

FIIs in equities

1993-94	Rs.5,444 Cr
2005-06	Rs.48,650 Cr

FDI

1991-92 $133 mn

2005-06 $20,243 mn

Domestic Air Passengers

1999 8.9 mn

2006 25 mn

Organised retail size

1999 Rs.15,000 Cr

2006 Rs.42,000 Cr

Consumer Boom

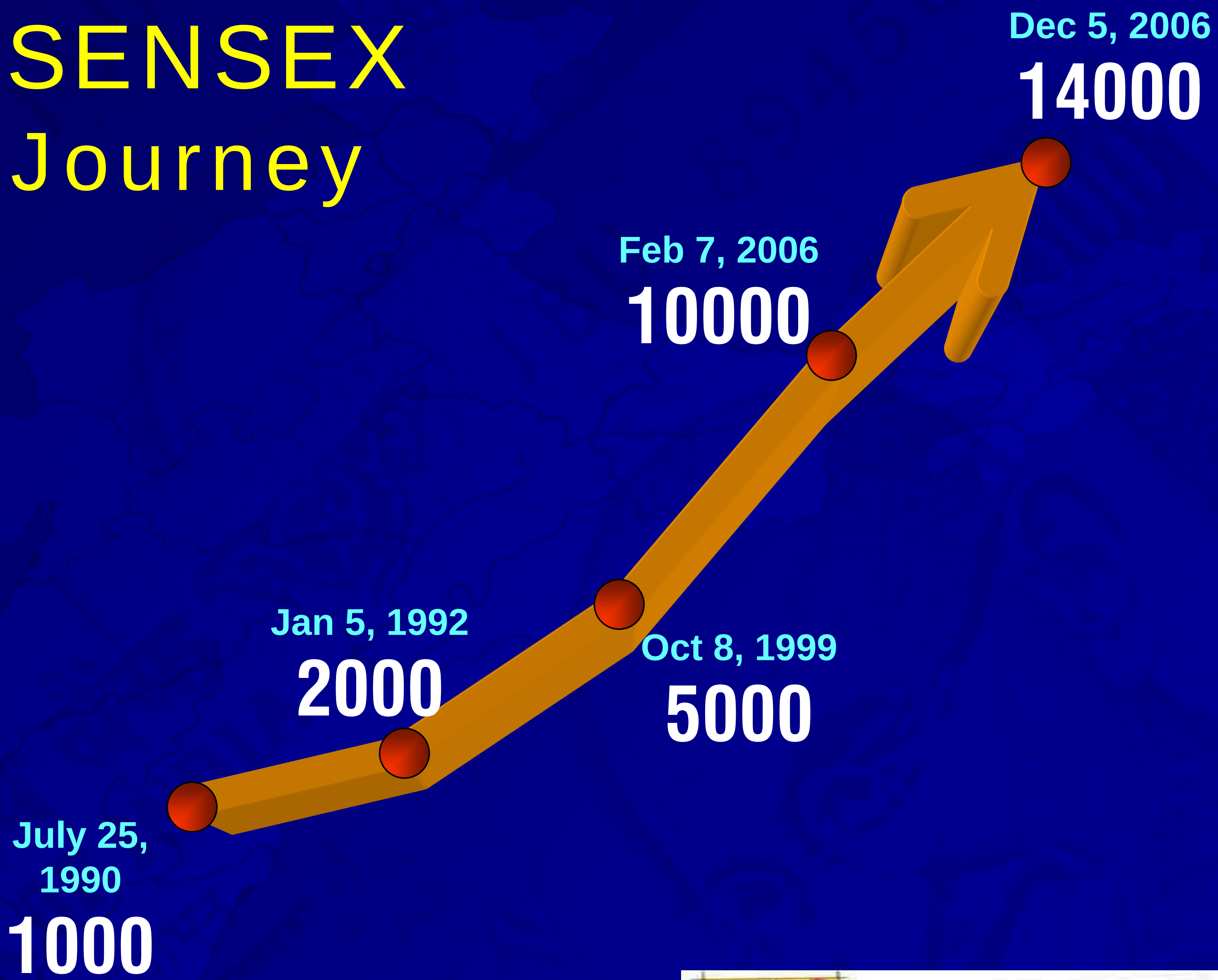
Mobile Subscribers

1995	0.03 mn
2005 (Feb)	50 mn
2006 (May)	100 mn
2006 (Oct)	136 mn

Internet Subscribers

1997	25,000
2006 (June)	7.71 mn

SENSEX Journey



PRIME ACADEMY
In Pursuit of Academic Excellence

Market Cap of BSE

Demat Accounts

1997 (Dec) **7200**

2006 (Nov) **9.9mn**

PRIME ACADEMY
In Pursuit of Academic Excellence

INFOSYS
remains

2006

9K crores

1991

5 crores

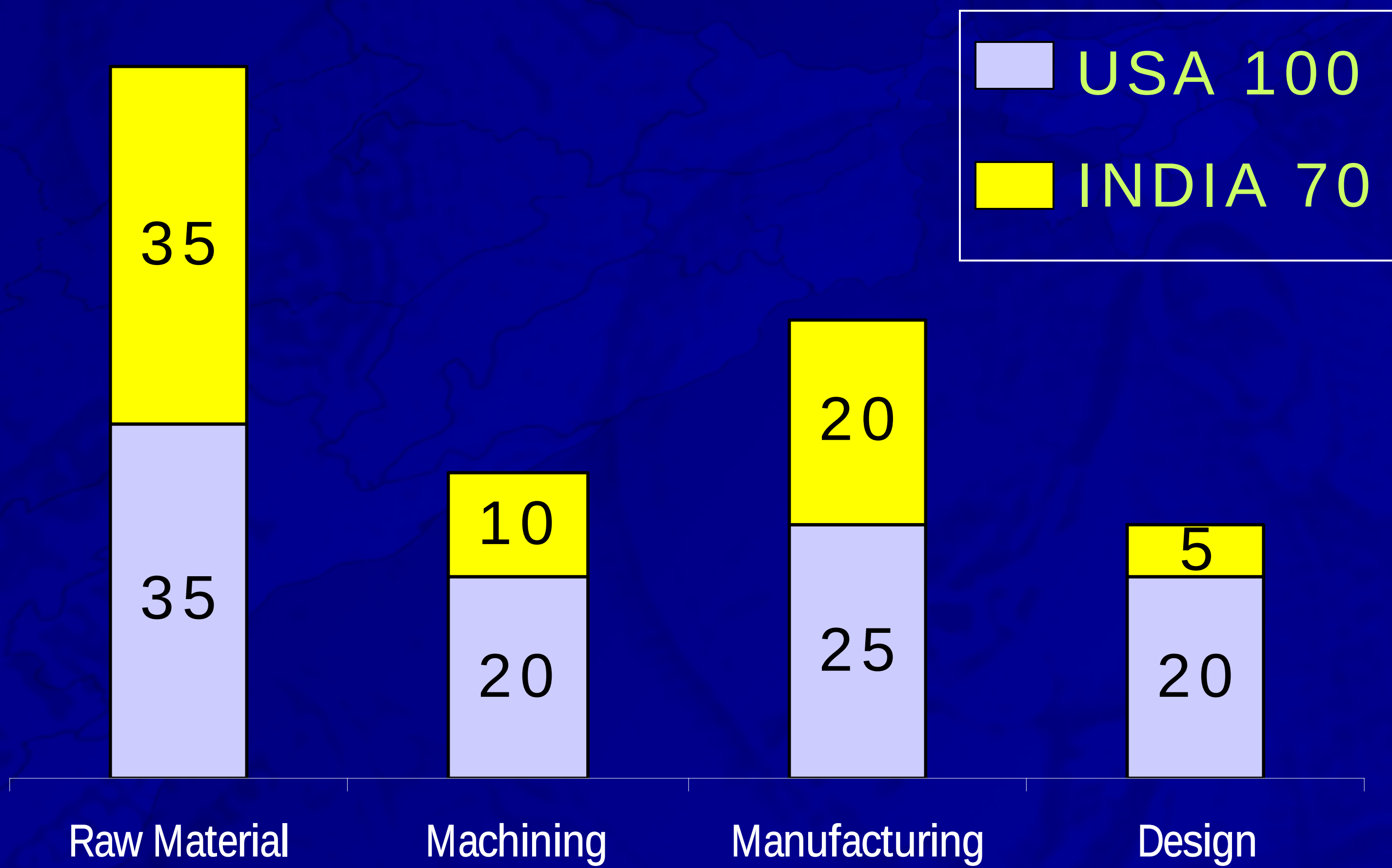
What drove the SERVICES BOOM…

- **India's population**
- **Knowledge of English**
- **Opening up of Telecom & Financial services**
- **Labor arbitrage**
- **Tax Holidays**

…and what can
TRIP IT UP

- **Lack of adequately-trained manpower**
- **Slowdown in global growth**
- **Anti-reform political platform**
- **Infrastructure bottlenecks**

Cost of Production
India *vs* USA

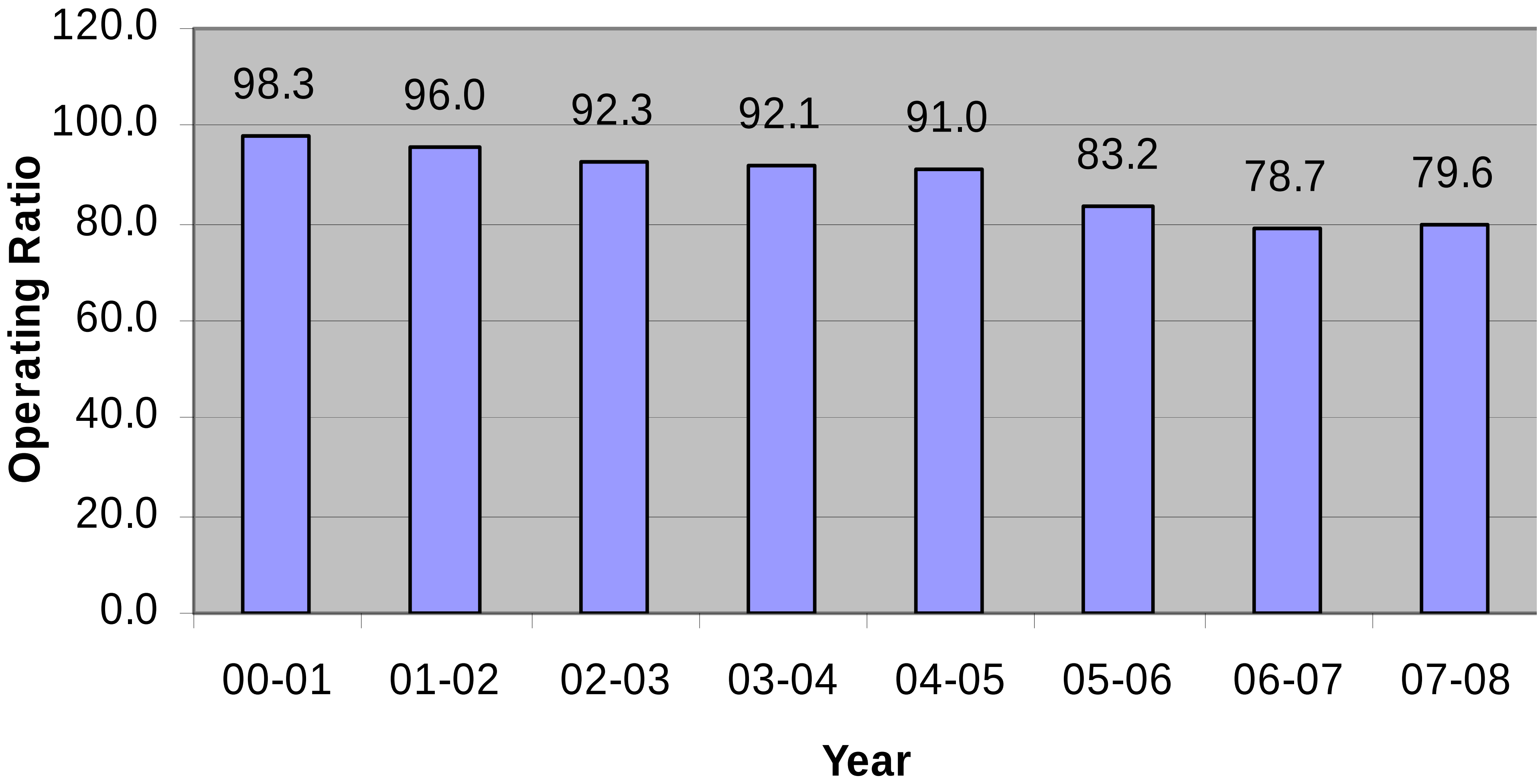


Manufacturing

- **forms 17% of India's GDP**
- **contributes 75% to exports**
- **accounts for over 50% of FDI**
- **employees 11% of the workforce**
- **generates $450 billion worth of output**

PRIME ACADEMY
In Pursuit of Academic Excellence

Laloo's Railway Card



PRIME ACADEMY
In Pursuit of Academic Excellence

Poverty

(People living below poverty line)

1991

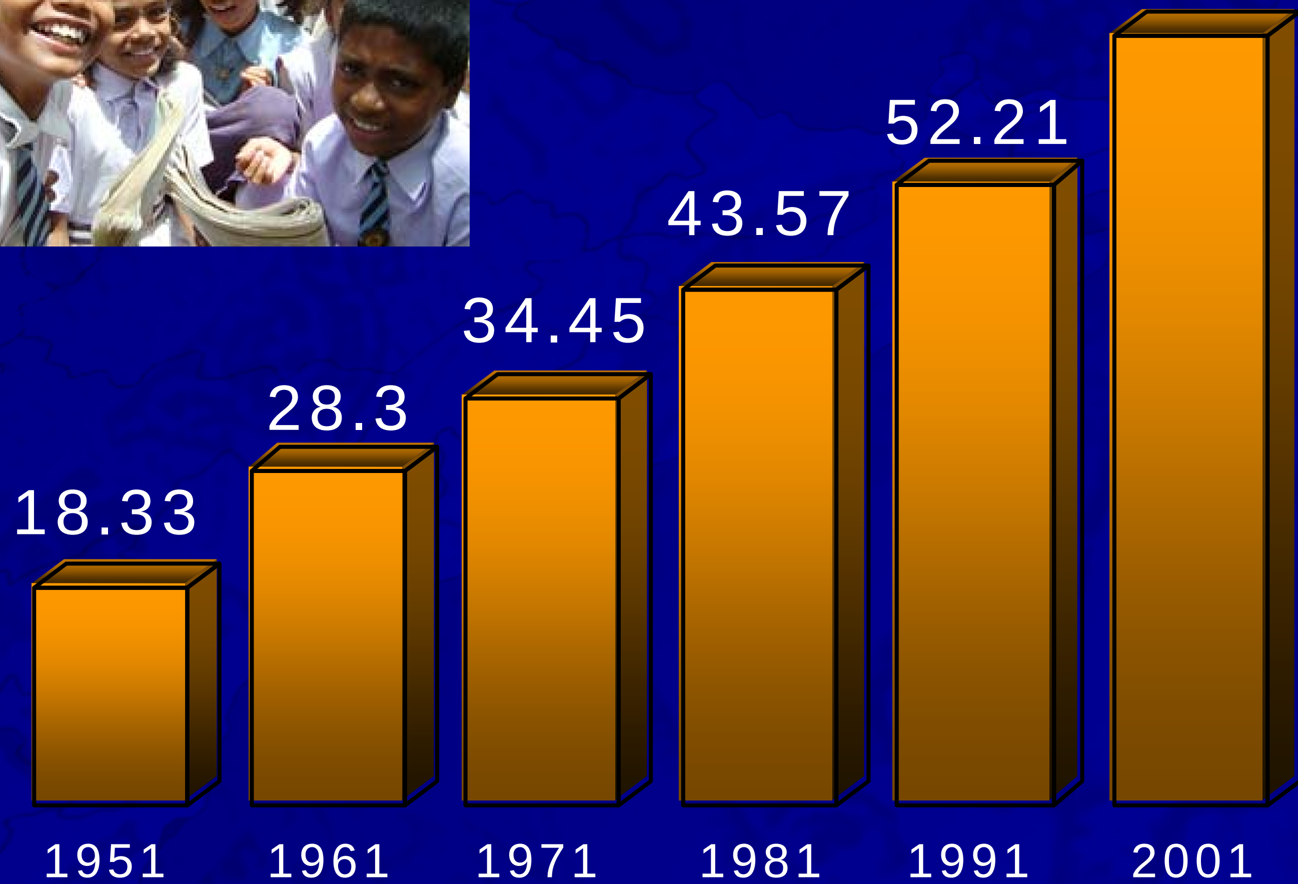
38%

2006

22%

PRIME ACADEMY
In Pursuit of Academic Excellence

Literate India



PRIME ACADEMY
In Pursuit of Academic Excellence

Figures in per cent

Powerless Literally worst states

	Total no. of inhabitated villages as per 2001	Total no. of villages Electrified	No. of unelectrified villages
Uttar Pradesh	97,942	57,042	40,900
Jharkhand	29,354	7,641	21,713
Bihar	39,015	19,251	19,764
Orissa	47,529	37,663	9,866
West Bengal	37,945	31,705	6,240

Corruption Index - India

2005 Survey		2006 Survey	
Index	Rank	Index	Rank
2.9	88	3.3	70

Human Development Index

HDI – 2005		HDI - 2006	
Rank	Value	Rank	Value
127	0.60	126	0.61

NEXT

15

PRIME ACADEMY
In Pursuit of Academic Excellence

Andrew Holland
Merrill Lynch's Head of Research in India

"India has **moved from being a small car** to being a Ferrari"

The picture by 2010…

- **Global professionals will be at the helm of affairs of Indian multinationals**
- **Made in India will be a brand to reckon with globally**
- **India's big business houses will be aggressive players in the retail sector**

PRIME ACADEMY
In Pursuit of Academic Excellence

...by 2020

- **India Inc would have consolidated dramatically domestically**
- **India BPOs will become global companies**
- **Rural India will be a significant contributor to India Inc's revenues**

PRIME ACADEMY
In Pursuit of Academic Excellence

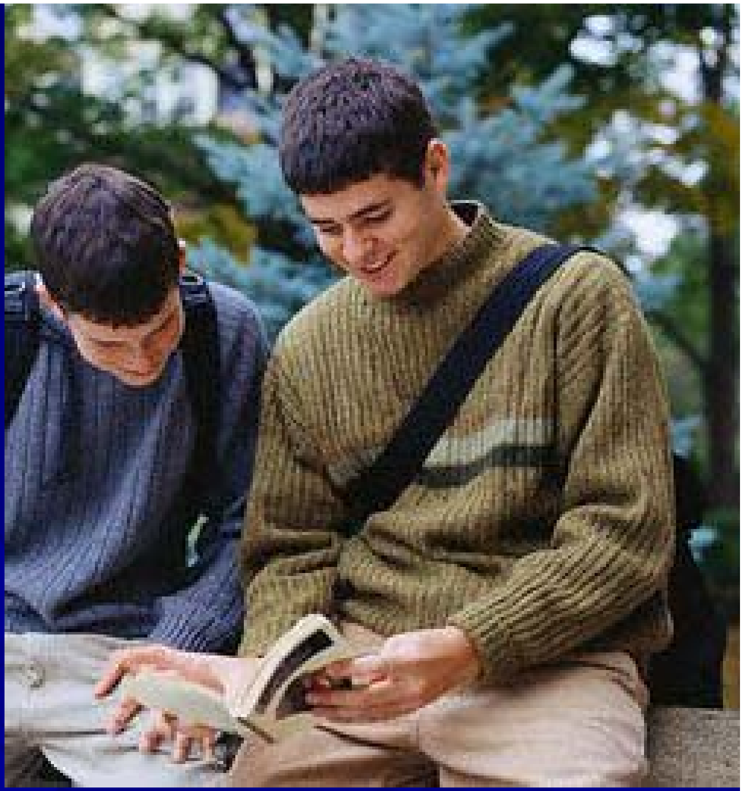
Place under the SUN

- 544 million to join the consuming middle class between 2006 and 2015; current size estimated at 250-300 million
- According to a Deutsche Bank report, India is likely to be the world's third richest economy by 2020, with a GDP of Rs.64 lakh crores

PRIME ACADEMY
In Pursuit of Academic Excellence

India Unbound
Gurcharan Das

Freedom at midnight
Collins and Lapierre



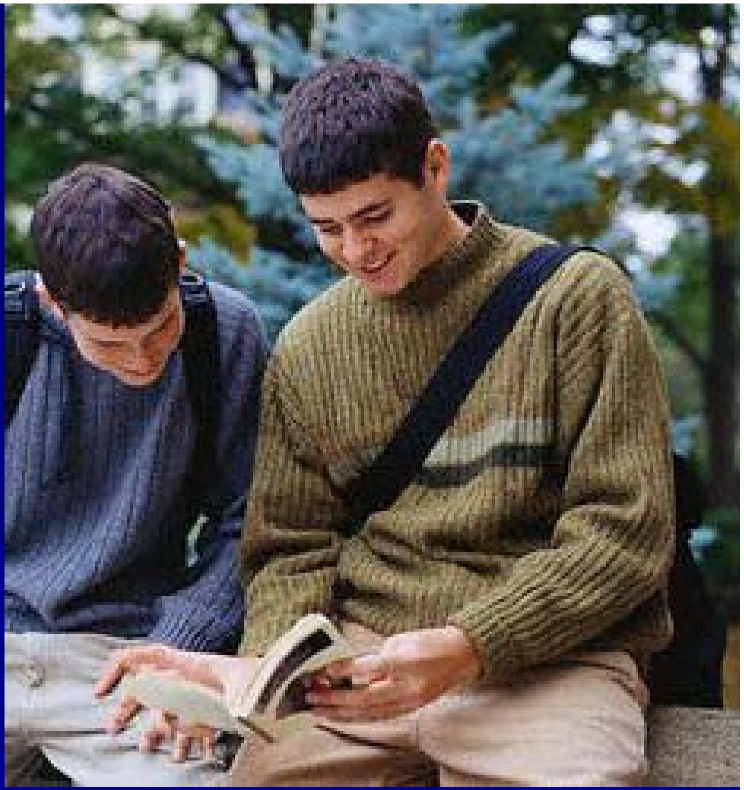
Books To Read

PRIME ACADEMY
In Pursuit of Academic Excellence

I was truly drained by the experience. The passions, the struggles, the glut and ultimately, the tragic freedom; it just left me amazed.

Before the book I just knew Gandhi as the name with the highest frequency in history books.

But after experiencing that book, I utter that name with holy reverence.



Books To Read

PRIME ACADEMY
In Pursuit of Academic Excellence

ANALYSIS OF UNION BUDGET 2007 (DIRECT TAXES)

CA.R.BUPATHY

Economic Situation

Positive Indicators

• GDP Growth Rate	9.2%
• Growth in Manufacturing Sector	11.3%
• Growth in Service Sector	11.2%
• Increase in percapita income in 2005-2006	7.4%
• Buoyancy in Revenue Collections	

Economic Situation

Concerns

- **Growth in Agriculture Sector less than desired levels**
- **Trained Human Resources**
- **Infrastructure requirements**
- **Civic amenities & health sector**
- **Widening tax base**
- **Taming Inflation**

Focus of the Budget

Raise Resources for identified sectors without affecting the common man / small business enterprises, tame inflation, widening tax base, curb leakage of Revenue and rationalization of the provisions of Direct Tax Laws

STRUCTURE OF PRESENTATION

- Common Man / Small Business Enterprises
- Widening Tax Base
- Measures to Prevent Revenue Leakages
- Infrastructure and R & D
- Rationalization of Provisions of Direct Tax Laws
- Revised Settlement Scheme

PRIME ACADEMY
In Pursuit of Academic Excellence

Common Man / Small Business Enterprises

- **Threshold limit increased for**
  - **Income Tax by Rs. 10000**
  - **Service tax by Rs.400000**
  - **BCT Tax by Rs. 25000**
  - **Reduction in excise duty for household products**

Common Man / Small Business Enterprises

- **Compensation received / receivable on account of any disaster excluded from total income – Sec.10(10BC) wref 01.04.2005**
- **Extension of pension deposit scheme to non government employees - Sec.80CCD**

Common Man / Small Business Enterprises

- **Limit for Medical Insurance premium (Sec.80D) increased**
  - **Sr.Citizens Rs.15000 toRs.20000**
  - **Others Rs.10000 to Rs.15000** and
  - **Payment can be made otherwise than by cash**
- **Interest on loan for higher education of relative deductible – Sec.80E**
- **Firms & Companies liable to pay surcharge only when total income exceeds Rs.1 Cr.**

PRIME ACADEMY
In Pursuit of Academic Excellence

Widening Tax Base

- **Secondary and higher education CESS @ 1% of income tax & surcharge**
- **Conditions imposed for units in SEZ – Sec.10AA**
- **Units eligible for deduction u/s.10A / 10B brought under Book Profit Tax**
- **Cap of Rs.50 lacs on Investment in long term specified assets for claiming exemption u/s.54EC**

PRIME ACADEMY
In Pursuit of Academic Excellence

Widening Tax Base

- **Definition of personal effect expanded to include**
  - **Archaeological collections**
  - **Drawings**
  - **Paintings**
  - **Sculptures**
  - **Any work of art**

Widening Tax Base

- **Dividend Distribution Tax increased**

  •**Domestic Companies–12.5% to 15% (Sec.115-O)**

- **Income Distribution by Money Market Mutual Fund or Liquid Fund 12.5% to 25% - Sec.115R**

PRIME ACADEMY
In Pursuit of Academic Excellence

Widening Tax Base

New Definition of India

India means territory of India as referred in Article 1 of the constitution its territorial water, seabed and subsoil underlying such waters, continental shelf, exclusive economic zone and other Maritime zone and the air space above its territory and territorial waters

(IT / WT)

Measures to Prevent Revenue Leakages

- **Payment otherwise than by A/c Payee cheque exceeding Rs.20000 – 20% increased to 100% disallowance and**
- **Payment otherwise than by A/c payee cheque for earlier years liability allowed as deduction, taxable in the year of such payment – Sec.40A(3)**

Measures to Prevent Revenue Leakages

- **Penalty for concealment**
  - **Failure to file return within stipulated time**
  - **Return filed in response to notice u/s.148**
  - **Tax on income assessed is deemed to be tax sought to be evaded**
  - **Amendment - such tax amount should be reduced by AT / TDS / TCS / SAT Paid before the issue of such notice**
  - **Introduced wref 1st April 2003**

PRIME ACADEMY
In Pursuit of Academic Excellence

Measures to Prevent Revenue Leakages

- **Insertion of explanation 5A to Sec.271**
  - **Declaration u/s.132(4) cannot be made in respect of income which has not been disclosed for the AYs for which the due date of filing of return has expired as on the date of search**

Measures to Prevent Revenue Leakages

- **Insertion of Sec.271AAA**
  - **Search initiated on or after 1st Jun 07**
  - **AYs for which due date for filing of return has not expired and current FY**
  - **10% penalty on undisclosed income**
  - **Exception : Declaration u/s.132(4) admitting undisclosed income and manner in which such income has been derived and tax paid with interest.**

Measures to Prevent Revenue Leakages

- **In such situation penalty u/s.271(1)(c) cannot be levied**
- **Penalty order u/s.271AAA appealable**
- **Presumptions at the time of raid**
  - **Assets belong to the assessee**
  - **Handwriting / signature of a person**
  - **Books & Accounts are correct**

  may be extended to other proceedings under this Act – Sec.292C of IT Act & 42D of WTAct

PRIME ACADEMY
In Pursuit of Academic Excellence

Infrastructure and R&D

- **Time limit extended**

  Unit for Reconstruction or Revival of a power generating plant by 1 year i.e upto 31.03.2008

  Unit in State of Jammu & Kashmir by 5 years i.e., upto 31.03.2012

- **Benefit denied to amalgamation / demerger on or after 1st April 2007**

- **Benefit denied to persons executing works contract to undertaking / enterprises eligible for deduction (80-IA) wref 1.4. 2000**

Infrastructure and R&D

- **Assessees engaged in**

  •Business of BioTechnology

  •Manufacture of Drugs, Pharmaceuticals, Electronic Equipment, Computers, Telecommunication Equipment, Chemicals any other article or thing notified

- **Weighted Deductions of 1.5 times of the expenses incurred (other than cost of L&B) extended to 31.03.2012**

PRIME ACADEMY
In Pursuit of Academic Excellence

Infrastructure and R&D

- **Deduction u/s.80-IA extended to**
  - **Cross Country Natural Gas Distribution Network**
  - **Navigational Channel in the Sea**
  - **Common Wealth Games 2010 – an important event - Sec.80ID introduced**
  - **Hotels & Convention Centers in specified areas established during the period 01.04.2007 to 31.03.2010**
  - **Return to be filed within time specified u/s.139(1) – Sec.80AC**

Infrastructure and R&D
Venture Capital

- **Changes in definition of venture capital undertaking**
- **Venture capital undertaking means Domestic Companies engaged in**

1.The business of

a)Nano Technology

b)Hardware / Software Development

c)Seed Research & Development

d)Bio Technology

Infrastructure and R&D

Venture Capital

d) New Chemical entities in the pharmaceutical sector

e) Production of bio fuels

f) Building & operating composite hotel cum convention centre with seating capacity of more than 3000

2. Dairy or poultry industry

Rationalization of Provisions of Direct Tax Laws

- **Sum of money the aggregate value of which exceeds Rs.50000 included in definition of Income –Sec.2(24)**
- **Time frame for compliance with conditions listed in EPF & Misc. Provisions Act 1952 extended to 31.03.2008**
- **Procedure for registration of Charitable Trust – Sec.12A**

  •Power of CIT to Condone Delay in submitting application for registration withdrawn

Rationalization of Provisions of Direct Tax Laws

- **Decision of Supreme Court – Ishikawajima – Harima Heavy Industries – to attract Sec.9(1)(vii) the services must be utilised in India and rendered in India**
- **Explanation to Sec.9 inserted**
- **Clarification that interest, royalty and FTS is deemed to accrue or arise in India if the services are utilised in India even if the services are rendered from outside India wref 01.06.1976**

Rationalization of Provisions of Direct Tax Laws

- **Changes in TDS Rates**
- **Commission / Brokerage – increased from 5 to 10%**
  - **Commission paid by BSNL/MTNL to PCO franchisees – No TDS**
- **Professional services – increased from 5 to 10%**

Rationalization of Provisions of Direct Tax Laws

- **Rent on machinery, plant & equipment – reduced from 15 to 10%**
- **Threshold limits for TDS raised**
  - **Interest payable by a bank/co-op society – from Rs.5000 to Rs.10000 (Sec.194A)**
- **TDS on payment to contractors made applicable to individuals / HUF subject to tax audit for the immediately preceding PY**

Rationalization of Provisions of Direct Tax Laws

- **ESOPs made subject to FBT–Sec.115 WB**
- **Consequent amendment in computation of Capital gains on transfer of ESOPs – Sec.49(2AB)**

Rationalization of Provisions of Direct Tax Laws

- **Appeal Provisions**
- **Order of CIT rejecting application for recognition u/s.80G – made appealable to ITAT – Sec.253**
- **ITAT granting stay in any proceeding**
- **To dispose of the appeal within 180 days**

Rationalization of Provisions of Direct Tax Laws

- **Can extend stay by another 180 days if the delay is not attributable to the assessee - failing which the stay shall be automatically vacated – Sec.254**
- **Reference to TPO time limit for completion of assessment extended by 12 months**
- **TPO to determine ALP 2 months prior to time limit for completing assessment**

Rationalization of Provisions of Direct Tax Laws

Rules to dispense, furnishing the documents with return, – Sec.139C

eFiling of Returns by certain class or classes of persons without documents – Sec.139D

However such documents to be produced on demand

Special Audit – Sec.142(2A)

- **Opportunity of being heard to assessee before directing special audit**
- **Expenses (including audit fees) to be determined by CIT and paid by CG**

PRIME ACADEMY
In Pursuit of Academic Excellence

Revised Settlement Scheme

- **The following are not considered as pending proceedings for making an application to the settlement commission (SC)**
  - **Assessment / Reassessment proceedings – Sec.148**
  - **Assessment / Reassessment proceedings after search – Sec.153A**
  - **Fresh assessment proceeding where original assessment set aside by ITAT or CIT u/s.263 / 264**

Revised Settlement Scheme

- **Additional amount of tax for making an application to SC increased from Rs.1 lac to Rs.3 lacs**
- **Such tax and interest to be paid before submitting application and proof of payment to be attached**
- **Copy of application to be sent to the AO**

PRIME ACADEMY
In Pursuit of Academic Excellence

Revised Settlement Scheme

- **Requirement of complexity of case dispensed**
- **Power of SC to reopen completed assessments omitted**
- **Power of SC to grant immunity from prosecutions under Central Legislations other than IT/WT withdrawn**

PRIME ACADEMY
In Pursuit of Academic Excellence

Revised Settlement Scheme

- **Right of assessee to make an application to SC more than once is omitted**

  - **An application not admitted is not deemed as an application**

- **Similar provisions incorporated in W.Tax**

PRIME ACADEMY
In Pursuit of Academic Excellence

Revised Settlement Scheme

Time Frame Introduced

Receipt of Application by SC

Notice to ‘A’ within 7 days of receipt

Order accepting or rejecting application to be passed within 14 days

On expiry of 14 days application deemed to be accepted

Revised Settlement Scheme

Time Frame Introduced

After Acceptance of Application by SC

Notice to CIT within 30 days of acceptance of application

CIT's Report to SC within 30 days of receipt of notice from SC

SC to pass final orders within 9 months from the end of the month in which application was received

Revised Settlement Scheme

Transitional Provisions

- **Application made before 1st June 2007**
- **Deemed to be allowed if**
- **Tax & interest paid on or before 31.07.2007**
- **Application admitted but final order pending**
- **Tax & interest to be paid on or before 31st July 2007 even if SC has granted extension of time**
- **Notice to CIT to be issued by 07.08.2007**

PRIME ACADEMY
In Pursuit of Academic Excellence

Revised Settlement Scheme

Transitional Provisions

- **Further enquiry by SC - CIT to submit report within 90 days**
- **SC to pass order on or before 31.03.2008**
- **In respect of pending proceedings SC has got power to grant immunity from prosecution under all Central Legislations**

PRIME ACADEMY
In Pursuit of Academic Excellence

Holistic Review

• Selection of Key Areas	20/20
• Raising resources and inflation	15/20
• Common man	15/20
• Industry	10/20
• Rationalization	10/20
	70/100

SERVICE TAX

P.RAJENDRA KUMAR

PRIME ACADEMY
In Pursuit of Academic Excellence

Existing Services Amendments

Banking and other Financial services

- Any **<u>other person</u>** replaced by **<u>commercial concern</u>**
- **Exclusion to cash management withdrawn**
- **Financial leasing defined**

Rent a “CAB”

- Scope of the word CAB expanded
- Educational institutions excluded

PRIME ACADEMY
In Pursuit of Academic Excellence

Event Management

- To include marriage or any other event

Management, Maintenance or Repair

- Goods to include computer software

Management Consultant

- Scope expanded to include business consultant

Mandap , Pandal or Shamiana

- Social function to include marriage

Man power recruitment and Supply

To include

- Pre recruitment screening
- Verification of credentials , antecedents of candidates
- Verification of authentication of documents submitted by the candidate

Consulting Engineer

- Exclusion to computer hardware engineering withdrawn

Telephone , Pager , Leased circuit and Fax

- Merged into telecommunication service
- Telecommunication service and scope expanded

PRIME ACADEMY
In Pursuit of Academic Excellence

Sale of space or time for advertisement

- Business directories
- Yellow pages
- Trade catalogues
- For commercial purposes

PRIME ACADEMY
In Pursuit of Academic Excellence

New in the "NET"

PRIME ACADEMY
In Pursuit of Academic Excellence

DESIGN

To include designing of

- Furniture
- Consumer products
- Industrial products
- Packages
- Logos
- Graphics
- Web site
- Corporate identity

PRIME ACADEMY
In Pursuit of Academic Excellence

Development and Supply of Content

- Mobile value added services
- Music
- Movie clips
- Ring tones
- Wall paper
- Mobile games
- News
- Information and animation films

Mining of Mineral oil or Gas

- Service in relation to mining of mineral oil or gas

Works Contract

In relation to

- Construction of residential complex
- Construction of commercial complex
- Erection commissioning or installation
- Completion , finishing , repair , alteration , renovation or restoration relating to construction
- Turn key projects

PRIME ACADEMY
In Pursuit of Academic Excellence

Excludes

- Religious body to religious body and to educational body
- Hotels , hostels, boarding houses , holiday accommodation , tents , camping facilities
- Vacant land for agriculture , aqua culture , farming , forestry , animal husbandry , Mining
- Land for education, sports , circus, entertainment and parking

PRIME ACADEMY
In Pursuit of Academic Excellence

Renting of Immovable property

- Renting
- Letting
- Leasing
- Licensing
- Or other similar arrangement
- Of immovable property for business or commerce

Amendment to Rules

- Excess payments allowed to be adjusted against future liability
- Revised return can be filed
- Services delivered outside India replaced by provided outside India In export of services

Amendment in Act

- Late fee not exceeding Rs 2000 for delayed filing of returns to be prescribed

- Sec 14 AA of the Central Excise Act made applicable . Special Audit to be conducted by a Cost accountant

Exemptions

- Basic exemption limit raised from Rs 4 lacs to 8 lacs from April 1 2007. Compulsory registration after Rs 7 Lacs
- Residential welfare associations where individual member contribution does not exceed Rs 3000 .
- Technology business incubator or science and technology entrepreneurship park, provided turnover does not exceed 50 lacs
- Clinical trials by Drugs Controller of India
- Exhibition of films by digital mode.

Education Cess

- Secondary and Higher Education cess
- Levied at 1%
- Effective from the enactment of Finance Act 2007

EXCISE

PRIME ACADEMY
In Pursuit of Academic Excellence

- Electronic Payment of duty
- Power to remit duty enhanced
- Monetary penalty when goods confiscated reduced.
- Penalty on Bill Trading
- Valuation rule for Job work
- SSI exemption limit increased from 100 lacs to 150 lacs
- Pre deposit of duty to include interest
- Secondary and higher education cess @ 1% March 1 2007

PRIME ACADEMY
In Pursuit of Academic Excellence

TO COST LESS

- Biscuits
- Instant foods
- Plywood's
- Parts of footwear
- Umbrella
- Cement upto MRP 190

PRIME ACADEMY
In Pursuit of Academic Excellence

TO COST MORE

- Cigarettes and Biris
- Nylon fishnet
- Video Cassettes
- Aircraft
- Brooms and brushes excluding tooth brush
- Water filters

CUSTOMS

PRIME ACADEMY
In Pursuit of Academic Excellence

- Peak rate on non – agricultural goods reduced from 12.5 to 10

- Secondary and higher Education cess from March 1, 2007

TO COST LESS

- Seconds and defectives of Iron and steel
- Food processing machines
- Sprinklers and drip irrigation systems
- Crude sunflower oil
- Polyester and filament yarn
- Dog and Cat food
- Cut and polished diamonds

PRIME ACADEMY
In Pursuit of Academic Excellence

TO COST MORE

- Aircrafts
- Recorded magnetic tapes for TV serials
- Audio recording equipment
- Video mixer and switches

Valuation

- Existing section replaced

- Import and export goods to be valued at transaction value defined

PRIME ACADEMY

In Pursuit of Academic Excellence

Thank You