



India Union Budget 2006

and recent developments in regulatory framework

briefing

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FOREWARD

With the overall macroeconomic indicators signaling a positive and healthy outlook for the Indian economy with growth estimates of 8.1% this year, the buoyancy in revenues aided by the growth has helped in bringing the revenue and fiscal deficit numbers back on track with the Fiscal Responsibility and Budget Management (FRBM) roadmap. This has also helped in reduction of custom duties to be on par with Asean Rates. The Finance Minister has done well to maintain a good balance between sustaining the growth momentum and addressing socio-economic commitments.

Policy initiatives for growth in infrastructure and specific manufacturing sectors such as textiles, food processing, steel and small automobiles will have a positive long term impact. The thrust on Agriculture continues with targets to double farm credit, allocation for rehabilitation of water bodies, reduction in interest rates for short term loans and usage of alternative channels of credit. This could provide a push to the sector which has shown low levels of growth in the past few years.

Substantial increase in the budgetary allocation for the Bharat Nirman schemes emphasis the priority of the Government.

The increase in FII's investment limits in corporate debt and government securities may moderate the increase in interest rates, though it may not be sufficient to ease liquidity to meet the growing needs of corporate borrowers and large funding requirements of the infrastructure projects.

Whilst the corporate and personal tax rates have been kept unchanged, the rates for MAT and service tax have been increased. Though FBT has been retained, its incidence on travelling expenses and brand ambassador expenses has been reduced.

The peak customs duty rate has been reduced from 15% to 12.5% with a reduction of duty on a broad range of items. A major positive feature of the budget is the clear signal given by the finance minister in introducing a comprehensive goods and services tax (GST) by 2010, which should serve to integrate the economy.

Overall, the budget appears to be balanced and pragmatic and should continue the growth momentum in the Indian economy.



BDO LODHA

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MACRO ECONOMIC INDICATORS

Overall Growth

- As per advance estimates, the annual economic growth (real GDP growth) during 2005-06 is expected to be 8.1% as compared to 6.9% in 2004-05, largely owing to pick up in investments, modest inflation inspite of spiralling global crude prices and continuous growth in the industrial sector.
- As per CSO, growth rates in the first two quarters of 2005-06 were 8.1% and 8% respectively.

Sectoral growth

- After a somewhat subdued impetus from the farm sector in 2004-05 (0.7% growth) mostly on account of erratic rainfall, agriculture and allied sector's growth in 2005-06 is projected at 2.3% due to change in the rainfall pattern to near-normal distribution. With good Khariff and Rabi crop prospects, food grain production is expected to increase by 5 million tonnes (MT) in 2005-06.
- The GDP growth in industry is driven by robust performances from manufacturing and construction sectors and is expected to increase from 8.6% in the previous year to 9.0% in the current year, while growth in the service sector is expected to reduce from 9.9% in the previous year to 9.8% in the current year.

Fiscal and Budgetary Developments

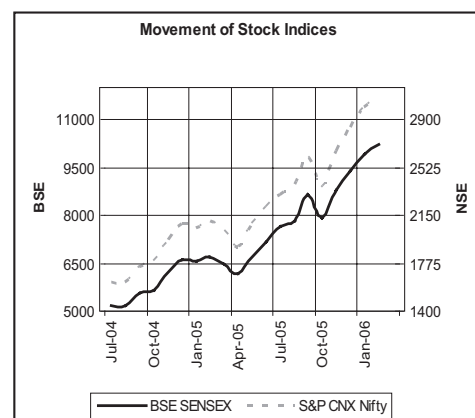
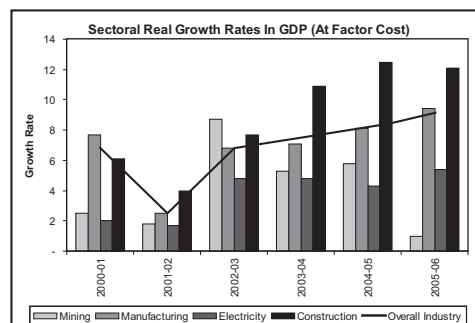
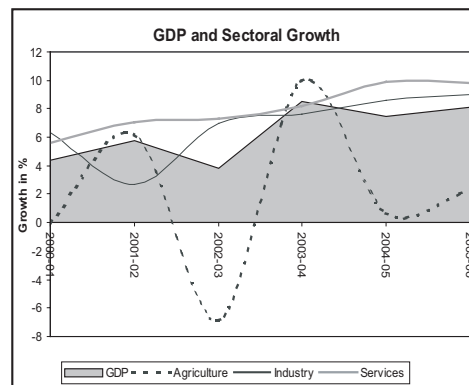
- The combined fiscal deficit of the Centre and States, reduced from 8.4% in 2003-04 to 8.3% in 2004-05 (as per Revised Estimates). For 2005-06, the combined fiscal deficit was budgeted at 7.7% of GDP.
- The revenue deficit of the Central Government is expected to increase from a provisional estimate of 2.6% in 2004-05 to a budgeted 2.7% in 2005-06.
- The fiscal deficit of the Central Government is budgeted at 4.3% of GDP in 2005-06 as compared to a provisional estimate of 4.1% for 2004-05.

Capital Markets

- The return on the BSE Sensex was a modest 13.1% in 2004 in comparison to the high return of 42.33% in 2005. The impressive returns on indexes in the past have been associated with fairly stable P/E ratios. This indicates that the bulk of the returns were obtained through growth in earnings of Companies.
- Overall public issues were lower at Rs. 30,391 crores in the current year as compared to Rs. 35,589 crores in the previous year. In the current year, Rs. 9,918 crores was raised by 55 companies which were listed for the first time (IPO's).
- The net investment from FII's on the equity spot market rose from Rs. 38,965 crores in the previous year to Rs. 47,182 crores in the current year.
- The zero-coupon rate on a 1-year bond rose from 6.09% in the previous year to 6.28% in the current year. Similarly, the zero-coupon rate on a 10-year bond rose from 6.78% in the previous year to 7.22% in the current year. Owing to this, the returns of the GOI bond index were negative in the current and previous years.

Interest Rates

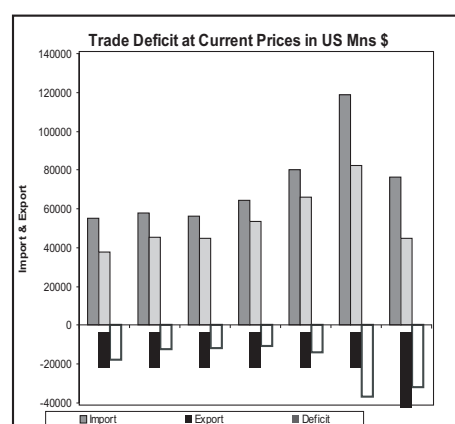
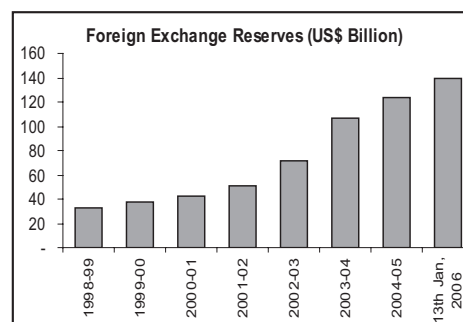
- Bank rate was maintained at 6% for the second year in succession. The Cash Reserve Ratio, which was 5% in February 2005, remains unchanged.
- Gross bank credit by Scheduled Commercial Banks (SCB's) increased significantly by 39.2% in the current year from 27.2% in the previous year. During the period (ending on January 20th 2006) of 2005-06, non-food credit increased by 25.2% from 15.2% in the previous year. During the current year food-credit declined by 7.4% compared to an increase of 15.2% in the previous year.
- The benchmark prime lending rate of five major banks as on 20th January 2006 was 10.25% - 10.75%.



- The deposit rates of five major banks stood at 5.25% – 6.25% as on 20th January 2006.

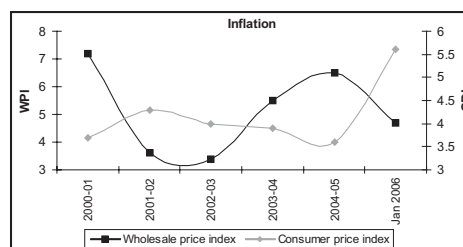
Balance of Trade and Balance of Payments

- Unlike the recent years, the 10 months period ended January 2006 has not experienced any addition to the stock of reserves. From a level of US\$135.6 billion at the end of March 2005, Foreign Currency Assets (FCA) have dropped to US\$133.8 billion at the end of January 2006, indicating an erosion of US\$1.8 billion. Similarly, total foreign exchange reserves have declined by US\$2.0 billion during the year to reach US\$139.2 billion as on January 27, 2006. The biggest declines were during the months of May and December 2005, to the order of US\$3.0 billion and US\$5.6 billion respectively, attributed to the foreign exchange outgo on account of redemption of India Millennium Deposits (IMDs).
- The current account balance deficit increased to US\$12.9 billion in the first half of the current year (April – September 2005) from US\$5.4 billion in the 2004-05. This deficit amounts to 3.1% of the gross domestic product (GDP).
- The balance of payments surplus during the first half of the current year stood at approximately US\$19.5 billion, roughly more than one and a half times what it was in April – September 2004.
- During the current year, robust FIIs inflows were more than eleven times higher than such inflows during April-September 2004. The bulk of this increase occurred during July-September 2005, in response to the rising buoyancy in the stock markets, increase in inflows of commercial borrowings and short term credits on account of lower interest rate spreads on external borrowings and higher import financing requirements. The expansion succeeded in retaining an overall surplus in the balance of payments and resulted in a net reserve accretion of US\$6.5 billion during April-September 2005, which was only marginally lower than the accretion of US\$6.9 billion during April-September 2004.
- External debt as a proportion of GDP went down from 17.8% at end March 2004 to 17.3% at end March 2005.



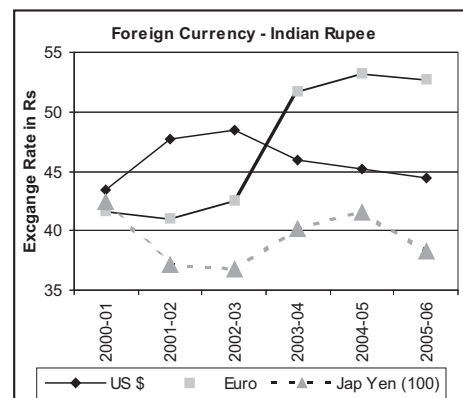
Inflation

- The overall inflation rate in terms of WPI remained below 5% for the most of the weeks during the first three quarters of the current financial year. The general decline in the inflation rate during 2005-06, was due to sound macro-economic management along with effective management of supply and demand for essential items. The year 2005-06 after starting with a point-to-point annual inflation rate of 5.9% in April 2005, witnessed a steep fall at 3.7% in August 2005 and stood at 4.02% as on February 11, 2006.
- The 52-week average inflation rate at 4.7% on January 21, 2006 was lower than the 6.5% registered last year.
- Retail Price Inflation as measured by Consumer Price Index for Industrial declined from 5% in April 2005 to 3.3% in June 2005 and then increased to 5.6% in December 2005.



Exchange Rate Developments

- At the end of the first ten months of 2005-06, the Rupee appreciated by around 2.1% against the US dollar compared to the corresponding period of the previous year. While the Rupee against US dollar displayed an appreciation trend, month-wise analysis reveals that after July 2005, the Rupee has depreciated against the dollar in all months upto November 2005. Within this period, the sharpest monthly depreciation (around 2.1%) was noted during October and November 2005. Since December 2005, the Rupee has started strengthening again.
- The trends of appreciation/depreciation displayed by the Rupee in nominal terms against the four major global currencies in 2004-05 changed somewhat during 2005-06. While, the Rupee depreciated against the other major currencies (i.e. the Euro, Pound Sterling and the Japanese Yen) during the 2004-05, it has strengthened during current year. The Real Effective Exchange Rate (REER) of the Rupee (5-country index with base 2000) strengthened from 104.91 in April 2005 to 110.12 in July 2005 and then declined to 105.26 in December 2005.



BUDGET HIGHLIGHTS

DIRECT TAXES

- No change in rates of personal income tax or corporate income tax except Minimum Alternate Tax. No new taxes imposed.
- Minimum Alternate Tax (MAT) rate increased from 7.5 % to 10%; long-term capital gains arising out of securities to be considered while calculating book profits; period of carry forward and set off of credit increased from five years to seven years.
- Securities Transaction Tax (STT) increased by 25% across the board on all rates of STT.
- Terminal date of deduction under section 80IA for developing an industrial park extended from March 31, 2006 to March 31, 2009 and for the power sector, extended upto March 31, 2010.
- Benefits of deductions under section 10B, 80IA, 80IAB, 80IB, 80IC not to be allowed in case return is not filed within the due date.
- Investments in fixed deposits in scheduled banks for a period of not less than five years now eligible for deductions upto Rs.1,00,000; limit of Rs.10,000 in respect of contribution to certain pension funds removed in section 80CCC and covered within the overall limit of Rs.100,000 under section 80C.
- Scope of section 54EC with regard to deduction of Capital gains arising on transfer of certain long-term assets in case of investment in bonds of specified entities restricted to two institutions, viz., NHA and REC and eligibility of investment in bonds of other institutions i.e. NABARD, SIDBI and NHB for enabling such deduction withdrawn.
- Proposal to tax voluntary donations received by specified trust or institutions if such trust or institutions do not maintain records in respect of identity of the donor.
- Fringe Benefit Tax (FBT) on Tours and Travels and Lodging and Boarding cut from 20% to 5%, no FBT on Superannuation Fund upto Rs. 1,00,000 per employee.
- Assessing officer empowered to allocate expenditure in prescribed manner in respect of expenditure in relation to income not forming part of total income.
- The One-by-six scheme obligating certain categories of persons to file return stands abolished.
- CBDT empowered to prescribe classes of person necessarily required to obtain PAN and make rules for suo-moto allotment of PAN by the assessing officers.
- Time limit for the completion of assessment and re-assessment and for issue of notice reduced.
- Requirement to furnish the annual return of TDS and TCS done away with; dematerialization of TDS and TCS return deferred.
- Launching of new scheme to facilitate submission of Tax return through Tax return preparers.
- Interest for non deduction / short deduction of tax at source to be paid before furnishing quarterly return.
- Assessing officer empowered to serve the notice after the end of the relevant assessment year to persons required to furnish return of income.
- No deduction under section 10AA in respect of the enhanced income of a SEZ unit if the total income of an assessee is recomputed having regard to Arms length price.
- Both open-ended and close-ended equity oriented fund exempted from the payment of dividend distribution tax.

INDIRECT TAX

Customs

- Apart from Information Technology Agreement bound items and specified inputs/raw materials used for manufacture of electronic/information technology items on which SAD @ 4% was imposed in earlier budget, this imposition has now been extended to cover all imported goods, agricultural as well as non-agricultural with some exceptions.
- Peak rate of customs duty on non-agricultural products has been reduced from 15% to 12.5% with a few exceptions.

Excise

- Excise duty has been reduced from 16% to Nil on Condensed Milk, Ice cream, Pectic substance, Pectinates and Pectates, Pectin Esterase, Yeast, Pasta, whether or not cooked or stuffed or otherwise prepared, storage devices, namely, DVD-Drives, Flash Drives and Combo Drives.
- Excise duty on all man made (like polyester, nylon, viscose and acrylic) fibres and filament yarns has been reduced from 16% to 8%.
- Duty on clearance of goods to DTA from EOU/STP/EHTP has been changed from 50% of aggregate of custom duties to 25% of the basic custom duty plus excise duty payable on like goods.

Service Tax

- The rate of service tax is being increased from 10 % to 12 %.
- The scope of service tax has been widened further to cover several new services e.g. service provided by the Registrar to an issue, Share Transfer and Recovery Agent, Automated Teller Machine operation, maintenance or management, Sponsorship services, Transport of goods in containers by rail, Business support services, Auctioneers' service, Public relations service, Ship management service, Internet telephony service, Transport of person by cruise ship and credit card, debit card, charge card or other card related services.
- The service tax has been levied under reverse charge method on taxable services provided from outside India to a recipient in India.
- Records related to service tax to be preserved for a period of at least five years immediately after the financial year to which the said records pertain.
- The scope of valuation extended by including those taxable services where the consideration payable for the services provided or to be provided is either not ascertainable or does not consist of money or consists of money in part.

OTHER MEASURES AND PRONOUNCEMENT

Bharat Nirman

- The Bharat Nirman Project was launched during year 2005-06. In the first year of its implementation, Rs. 12,160 crores have been expended for irrigation, roads, water supply, housing, rural electrification and rural telecom connectivity.
- For 2006-07 budgetary support for the project is proposed to be Rs. 18,696 crores, an increase of 54% from the previous year.

Agriculture and Rural Economy

- Farm credit is expected to increase to Rs.175,000 crores in 2006-07 with addition of 50 lakh farmers; a one time relief to be granted to farmers who have availed of crop loan from scheduled commercial banks, RRBs and PACS for Khariff and Rabi during 2005-06; an amount equal to two percentage points of the borrower's interest liability on the principal amount up to Rs.100,000, to be credited to his/her bank account before March 31, 2006.
- A Special Purpose Tea Fund to be setup, with contribution of Rs.100 crores in 2006-07.
- In the last two years The Self Help Group (SHG) involvement is making rapid strides; 801,000 SHGs credit-linked with disbursement of Rs.4,863 crores and another 385,000 SHGs are proposed to be credit-linked in 2006-07; NABARD to

open a line of credit for financing farm production and investment activities through SHGs.

Infrastructure

- An India Infrastructure Finance Company Limited is proposed to be incorporated; in principle approval granted for three road projects in Gujarat; 1,000 kms of access-controlled Expressways to be developed on the Design, Build, Finance and Operate (DBFO) model; Special accelerated road development programme for the North Eastern region at an estimated cost of Rs.4,618 crores approved with allocation of Rs.550 crores in 2006-07; Budgeted support for National Highways Development Programme enhanced from Rs.9,320 crores to Rs.9,945 crores in 2006-07.
- Rural Electrification is planned to cover 10,000 villages in 2005-06 and 40,000 more villages in 2006-07; Five ultra mega power projects of 4,000 MW each to be awarded before December 31, 2006; Rs.597 crores provided for non-conventional energy resources; tenth Plan target of 3,075 MW of installed capacity for non-conventional energy sources exceeded by December 31, 2005 with installation of 3,650 MW capacity.
- A provision of Rs.1,500 crores is proposed for Universal Services Obligation Fund in 2006-07; more than 50 million rural telephone connections proposed to be rolled out in three years.
- Coal reserves of 20 billion tonnes proposed to be de-blocked for power projects; definition of captive consumption to be amended to allow mining by producers with firm supply contracts with steel, cement and power companies.
- Under New Exploration Licensing Policy 55 new blocks and 355,000 sq kms of area is proposed to be offered and investment of Rs.22,000 crores expected in the refinery sector, in the next few years.
- A National Maritime Development Programme (NMDP) approved; plan allocation for Department of Shipping increased by 37 per cent to Rs.735 crores; work is in progress in 101 projects covering, inland waterways, shipping and ports including deepening of channels in Kandla, JNPT and Paradip; study to identify a suitable location for a new deep draft port in West Bengal to be carried out.
- The plan allocation for Department of Shipping increased by 37 per cent to Rs.735 crore.

Social Sector, Health and Education

- Under National Rural Employment Guarantee Scheme Rs.11,700 crores to be spent to create rural employment.
- Under Sarva Siksha Abhiyan number of children not in school has come down to about one crore and outlay is proposed to be increased from Rs.7,156 crores to Rs.10,041 crores in 2006-07. Also under Mid-day Meal Scheme 12 crores children are now covered and the allocation for the same enhanced from Rs.3,010 crores to Rs.4,813 crores.
- 56,270 habitations and 140,000 schools to be covered in the current year in Drinking Water and Sanitation programme and a non-recurring assistance of Rs.213 crores to be provided in 2006-07 for setting up district- level water testing laboratories and field- level water testing kits.
- It is proposed to allocate Rs.14,300 crores for rural employment in 2006-07 under National Rural Employment Guarantee Scheme.
- Assistance under National Social Assistance Programme for old age pension to destitutes above the age of 65 years increased from Rs.75 per month to Rs.200 per month; Rs.1,430 crores provided for 2006-07 in this respect.

Manufacturing

- The allocation for Technology Upgradation Fund (TUF) for Textiles enhanced from Rs.435 crores to Rs.535 crores and Rs.189 crores to be provided for the Scheme for Integrated Textiles Parks (SITP).

- A Jute Technology Mission to be launched and a National Jute Board to be established.
- In handloom sector, cluster development approach to continue with 100 clusters to be added at a cost of Rs.50 crores in 2006-07 and yarn depots to be established; scheme to be introduced to provide interest subsidy on term loans ; provision for the handloom sector to be increased from Rs.195 crores to Rs.241 crores.
- The food processing to be categorized as priority sector for bank credit and NABARD is to create a refinancing window with a corpus of Rs.1,000 crores, especially for agro-processing infrastructure and market development; National Institute of Food Technology Entrepreneurship and Management to be setup; Paddy Processing Research Centre, Thanjavur to be developed into a national- level institute.
- A Task Force setup to facilitate development of large Petroleum, Chemicals and Petro-chemicals Investment Regions and expected to develop three such Investment Regions in 2006-07.
- The India Infrastructure Finance Company Limited to provide equity and/or viability gap funding to new ventures in information technology.
- Small and Medium Enterprises to be recognised in the services sector and small scale enterprises in services sector to be treated on par with small scale enterprises in manufacturing sector, corpus of Credit Guarantee Fund to be raised from Rs.1,132 crores to Rs.2,500 crores in five years and insurance cover to be extended to 30,000 borrowers.

Investment

- Equity support of Rs.16,901 crores and loans of Rs.2,789 crores to Central Public Sector Enterprises (PSE)(including Railways); infusion of Rs.1,180 crores in cash and non-cash sacrifices of Rs.2566 crores in last two years to restructure ten PSEs.

Financial Sector

- It is proposed to increase the limit on FIIS investment in Government securities from \$ 1.75 billion to \$ 2 billion and the limit on FIIS investment in corporate debt increased from \$ 0.5 billion to \$ 1.5 billion.
- The ceiling on aggregate investment by mutual funds in overseas instruments proposed to be raised from \$ 1 billion to \$ 2 billion with removal of requirement of 10 per cent reciprocal share holding.
- A limited number of qualified Indian mutual funds are proposed to be allowed to invest in overseas exchange traded funds cumulatively up to \$ 1 billion.
- It is proposed to setup an Investor Protection Fund under the aegis of SEBI.
- It is proposed to extend RBI's anonymous electronic order matching trading module (NDS-OM) on its Negotiated Dealing System to qualified mutual funds, provident funds and pension funds. Steps are to be taken to create a single, unified exchange-traded market for corporate bonds.
- The net capital support to banking sector standing at Rs.22,808 crores is proposed to be restructured to facilitate increased access of banks to additional resources for lending to the productive sectors.
- A comprehensive bill on insurance is proposed to be introduced.
- Bills to amend the banking laws and to set up the Pension Fund Regulatory and Development Authority are already in the process.
- The National Agriculture Innovation Project for research at the frontiers of agricultural science is proposed, to be launched in July 2006.

BUDGET IMPACT ON CERTAIN INDUSTRIES

Automobiles /Auto- ancillaries

- There has been reduction in the excise duty from 24% to 16% on small cars (cars with length lesser than 4000 mm and with engine capacity not exceeding 1200cc for petrol cars or 1500cc for diesel cars) which will result in a reduction in final consumer prices. The reduction in peak custom duty from 15 per cent to 12.5 per cent, and the reduction in customs duty on raw materials such as non-ferrous metals and alloy steel from 10% to 7.5% expected to result in lower prices of imported components. However, import prices of tyres in the replacement market are expected to increase marginally due to the levy of 4% CVD. The expected increase in demand for cars, on account of the reduction in excise duty on small cars and the imposition of 4% of CVD on import of tyres will have a positive impact on auto ancillary demand.

Banking

- The proposal to include bank fixed deposits with a maturity period of 5 years and above for deduction under section 80C of the Income Tax Act will result in deposit growth. The proposal to unwind the special securities through conversion of these non-tradable securities into tradable, will facilitate increased access of the banks in additional resources for lending.

Capital Goods

- The peak customs duty has been brought down from 15% to 12.5%. In addition, a special additional duty (SAD) of 4 per cent would be levied on all imports, barring some imports in the power sector. Besides, greater incentives for the food-processing sector, an increased outlay for the refinery and irrigation sectors, and the continued emphasis on infrastructure- building projects would benefit engineering and power ancillary companies.

Power

- The benefit of the Sec. 80 IA of the Income Tax Act tax has been extended till 2010. The government has also proposed for the capacity augmentation in generation, transmission and distribution of power with a target of 40000 MW of additional power supply in next three years. The increased thrust on non-conventional power projects (Rs 570crores to be allotted in 2006-07) and opening of coal reserves for power projects would also have the significant benefit to the industry. Further, Rajeev Gandhi Grameen Bidyutikaran Yojana with a target electrification of 5000 villages by 2006-07, extension of MAT credit from 5 years to 7 years, will have favourable impact on the industry.

Cement

- The government's focus on infrastructure development (roads, ports, urban infrastructure and irrigation), Continued increase in the budgetary support to the Bharat Nirman programme to Rs 18696 Crores would be beneficial for the industry.

Textiles

- The reduction in excise duty on polyester staple fibre and polyester filament yarn from 16 percent to 8 per cent will make polyester yarns more competitive as compared with cotton yarn attracting 4% or nil excise duty. The industry is expected to be benefited from the enhancement of Budget allocation for the TUF Scheme from Rs 4.35 billion to Rs 5.35 billion. Excise duty on all man-made fibres has been reduced from 16 per cent to 8 per cent; reduction in customs duty from 15percent to 10 percent on all made-made fibres and feedstocks would lead to lower input costs.

Information Technology

- Excise duty at 12 per cent has been reimposed on computers. However, availing cenvat benefit will offset this. Excise duty of 8% has been imposed on packaged software. Further, the service tax exemption for taxable services provided by call centre and medical transcription centers have been withdrawn. The excise duty has been reduced from 16% to nil on DVD Drives, Flash Drives and Combo Drives.

Non-ferrous Metals

- The customs duties on aluminum, copper and zinc have been reduced to 7.5 per cent from 10 percent, while a 4 per cent special countervailing (CV) duty has been imposed. Credit for CVD is available against the payment of excise duty. Hence, the reduction in basic custom duty will reduce the effective landed costs.

Oil and Gas Industry

- The cess on crude oil production has been increased from Rs 1,800 per mt to Rs 2,500 per mt. This will have a negative impact on the industry. Service tax rate, which was levied on survey and exploration activities in the oil and gas sector, has also been increased to 12% from 10%. The concessional project duty of 10 per cent has been extended to pipeline projects for natural gas, crude and petroleum products.

Petrochemicals

- There has been reduction in customs duty on naphtha to zero percent. Further, custom duty on intermediates (styrene, EDC and VCM) and polymers has been reduced to 2 per cent and 5 per cent, respectively. An additional CVD of 4 per cent has been introduced on imports of the products.
- The customs duty on the downstream petrochemical products has been reduced to 12.5 per cent, and 10 per cent on methanol and vinyl acetate monomer. However, the customs duty on the feedstock remains unchanged at 5 per cent. A special additional customs duty of 4 per cent has also been imposed. The concession given to the export-oriented units (EOU) to sell in domestic markets after paying 3.1 percent (25 per cent of basic customs duty) will provide relief to EOU units.

Steel

- Customs duty on alloy and stainless steel has been reduced to 7.5 per cent from 10 per cent; a special countervailing (CV) duty of 4 per cent has also been imposed though the credit for the CV duty can be taken against the payment of excise duties. This will have a marginal negative impact on the alloy steel industry, as the import threat to the industry will be accentuated. Sponge iron players may not benefit from the increased import parity prices of melting scrap from 0 to 5%, because of the prevailing over-capacity situation in the industry. De-reserving coal blocks for power, cement and steel will ease coal shortages in the country over the medium to long term, and hence are a long-term positive factor for the steel sector. Further, the government 's move towards growth in infrastructure like power, road, etc. will have positive sectoral impact in the industry.

BUDGET PROPOSALS – DIRECT TAX LAWS

INCOME TAX RATES

- There is no change in the rates of personal income tax and corporate income tax.

FRINGE BENEFIT TAX (FBT)

Certain amendments have been proposed in the FBT, which are as under:

- Any benefit or amenity in the nature of free or subsidized transport or any such allowance provided by the employer to the employees for commuting between their residence and place of work shall not form part of fringe benefits.
- Contribution by an employer to an approved superannuation fund to the extent it does not exceed Rs.100,000 per employee shall not be liable to fringe benefit tax.
- The value of deemed fringe benefit in the case of tours and travels (including foreign travels) has been reduced from 20% to 5%. However, the above revision in rates would not apply to conveyance expenses which would continue to be considered at 20% for the purpose of FBT calculations.
- For companies in Airways and Shipping Industries, the value of Fringe Benefits in relation to hospitality, hotel, lodging and boarding shall be 5% instead of the existing rate of 20%.
- In case of sales promotion (including publicity), the expenditure on distribution of free samples of medicines or of medical equipment to doctors, and payment to brand ambassadors shall not be included for valuation of fringe benefits.

WIDER TAX BASE, RATIONALISATION AND ASSESSMENT

Taxation of certain anonymous donations

In order to tax unaccounted money being contributed to charitable, religious, educational, medical trusts and institutions, it has been proposed that any income by way of anonymous donations of these entities (specified in the newly inserted section 115BC) shall be excluded from the total income and taxed at the rate of 30%.

However, donation received by trust or institution created or established wholly for religious purposes and donation received by trust or institution created or established both for religious as well charitable purposes, other than those anonymous donations which have been made specifically for medical institutions, are not to be taxed.

Any voluntary donations received by specified trust or institutions if such trust or institutions does not maintain any records in respect of identity of the donor shall be treated as anonymous donation.

Minimum alternate tax (MAT)

It is proposed to amend section 115JB to provide that 10% of the Book Profit shall be the taxable income instead of 7.5%. Thus, effective rate including surcharge and education cess has been increased from 8.415% to 11.22%.

Further, it is proposed to increase the period of carry forward and set off of MAT credit from five years to seven years in respect of such payments made for assessment year 2006-07 and subsequent years.

The following new adjustments have been proposed in calculation of Book Profit for the purpose of MAT;

- Book Profit shall be increased by the full amount of depreciation debited to profit and loss account and reduced by depreciation (excluding depreciation on account of revaluation of the asset). Consequently, tax benefit in respect of depreciation on revalued assets charged to the Profit and Loss Account will no longer be available for MAT purpose.
- Hitherto, Long Term Capital gain arising on equity shares and mutual fund exempt under section 10(38), were reduced from the book profit for the calculation of MAT. Such deduction shall no longer be allowed. This implies that MAT would become payable even on long term capital gains exempt under section 10(38) to the extent the same are included in the book profit.

Credit of payment of MAT and other taxes in computation of interest for delay/default in filing of return/ payment of advance tax

It has been proposed that credit of the following amounts shall be taken into the account for the purpose of calculation of interest for delay/default in filing of return and payment of advance tax under section 234A, 234B and 234C.

- MAT credit to be set off from the tax on total income.
- Tax receipts in respect of taxes paid outside India as available under section 90, 90A and 91.

Method for allocating expenditure in relation to exempt income

It is proposed to amend section 14A so as to provide that the Assessing Officer shall determine the amount of expenditure incurred in relation to exempt income in accordance with the methods to be prescribed, if he is not satisfied with the correctness of assessee's claim or if no expenditure has been claimed against such exempt income by the assessee. However, this amendment will take effect prospectively, i.e. from assessment year 2007-08.

New scheme to facilitate submission of return through tax return preparers

A new scheme is proposed to be introduced whereby certain classes of non-corporate assessee not required to furnish a tax audit report may file returns through a person designated as a Tax Return Preparer (TRP). Detailed guidelines will be provided by the Government in this regard. The amendment will be effective from 1st June 2006.

Elimination of One by Six scheme for filing of return.

The one-by-six scheme obligating certain categories of persons to file return stands abolished from assessment year 2006-07 onwards

New class of persons for allotment of PAN and suo-motto allotment of PAN

It is proposed that the Assessing Officer may have regard to nature of the transactions as may be specified by the CBDT, allot the PAN to any person whether he is liable to pay tax or not.

It is proposed to insert a section whereby the Central Government by way of notification may specify any class of persons to apply for PAN within the prescribed time.

The above amendments will be effective from 1st June 2006.

Disallowance of deductions for non filing of return within due date

It is proposed that the following deduction shall not be allowed if the assessee does not furnish his return of income on or before the due date specified under section 139(1);

- Deduction of profits of newly established 100% export oriented undertaking (EOU) under section 10B;
- Deduction in respect of profits from Industrial undertakings engaged in infrastructure development and other business under sections 80-IA, 80-IAB and 80-IB.
- Deduction in respect of enterprises in notified areas or those engaged in thrust area activities under section 80-IC

The amendment shall be effective from 1st April 2006, and, will, accordingly, apply in relation to assessment year 2006-07 and subsequent years.

Deferment of de-materialization of TDS and TCS certificates

The process of dematerialization of tax deducted / collected at source certificate has been further deferred to 1st April 2008. Consequently, changes in regard to modalities for credit of tax deducted/credited have also been deferred and accordingly

- Certificate for tax deducted/collected at source will have to be issued.
- Return will have to be accompanied by TDS certificates.
- Credit for tax deducted / collected will be allowed only on furnishing of TDS/TCS certificate.

Penalty for false quoting of TAN

A person who is required to quote 'Tax deduction account number' or 'Tax collection account Number' in the challans, certificates, statements or other documents, quotes a number which is false, shall be liable to pay penalty of Rs. 10,000.

Penalty for non-collection of tax at source

Failure to collect the whole or any part of the tax at source as per the provisions of the Income Tax Act, 1961 shall attract penalty of a sum equal to the amount of tax which has not been collected.

Time limit for application for grant or continuation of exemption for certain trusts and institutions

Presently, there is no time limit for making an application for issue of notification / approval for exemption for certain charitable and religious trusts. It is proposed to provide a time limit for making such application for grant of exemption or continuation of exemption, which now has to be filed during the year for which the exemption is sought.

This amendment shall apply in respect of applications made on/after 1st June 2006.

Furnishing of annual TDS and TCS returns abolished

The requirement of furnishing of the annual return of tax deducted or collected at source in respect of taxes deducted or collected on/ after 1st April 2005 has been dispensed with. Having regard to the requirement to file quarterly returns of TDS/TCS, interest for non/short deduction of TDS/TCS will now be required to be paid along with the quarterly return.

Time limit for issue of notice

Presently, if a return of income is not filed by the due date as specified under section 139(1), a notice should be served under section 142(1) within the end of that relevant assessment year. Now it is proposed that the Assessing Officer may serve a notice even after the end of the relevant assessment year requiring such person to furnish his return of income.

Henceforth, where a notice under section 142(1) has been served on or after 1st April 1990 even after the end of relevant assessment year, such notice shall be deemed to be valid. This amendment will take effect retrospectively from 1st April, 1990.

In case of income escaping assessment as per section 147, where the return of income has been furnished between 1st October 1991 and 30th September 2005 in response to notice under section 148, a valid notice for scrutiny assessment under section 143(3) can be served at any time before the expiry of time limit for making assessment/reassessment as specified in section 153(2).

Reduction in the time limit for completion of assessment/ re-assessment

The time limit for completion of the assessment, re-assessment under the Income Tax Act and the Wealth Tax Act has been reduced from 24 months to 21 months.

This amendment will be effective from 1st June 2006.

EXEMPTION AND DEDUCTION

Restrictions of investments on long term capital gain under section 54EC

Under the existing provisions of section 54EC, capital gains arising from the transfer of a long term capital asset is exempt from tax if the capital gains are invested in any long term specified asset. The above benefit is now proposed to be restricted to investments in specified bonds redeemable after 3 years only issued by National Highways Authority of India or by the Rural Electrification Corporation Limited.

Consequently, the bonds issued by National Bank for Agriculture and Rural Development, National Housing Bank and Small Industrial Development Bank of India shall no longer be eligible investments for availment for benefit under Section 54EC. This amendment will take effect from 1st April, 2006.

Withdrawal of exemption under section 54ED

Under the existing provision of section 54ED, capital gains arising from transfer of long-term capital asset (being the gains arising from transfer of listed securities or units of mutual fund/UTI) are exempt from tax to the extent such gains are invested in equity shares forming part of the eligible issue of capital of a public Company.

Presently, gains arising out of the above transaction being exempt from tax, the benefit available under the above section is proposed to be withdrawn.

Interest not actually paid not eligible for deduction under section 43B

Under the existing section 43B, a clarificatory explanation has been inserted to clarify that any interest payable to any public or state financial institution or a state industrial investment corporation or scheduled bank, converted into loan / borrowing but not actually paid will not be available for deduction.

The above amendment relating to interest to financial institutions will take effect retrospectively from 1st April 1989 and the amendment relating to interest to scheduled bank will take effect retrospectively from 1st April 1997.

Exemption of income from investing in infrastructure and other project removed

Exemption available to an infrastructure capital fund, an infrastructure capital company or co-operative bank under section 10(23G) on any income by way of dividends, interest or long term capital gain from all existing as well as future investments made by way of shares or long term finance in approved business is proposed to be withdrawn.

Deduction of tax paid on income earned outside India

It is proposed to clarify that income tax paid outside India against tax payable in India against global income of the person will not be allowed under section 40(a) in computation of profits and gains of business and profession if the same is eligible for tax relief under section 90 and 91. However, the tax credit under section 90 and 91 of the Act in regard to income tax paid in a foreign country shall continue to be available.

This clarification is inserted under section 40(a)(ii) of the Act on 1st April 2006.

Extension of time limit for tax holiday to industrial parks

The time limit for Industrial Parks for the purpose of tax holidays under section 80-IA has been extended upto 31st March 2009.

Extension of tax benefit to power sector

The time limit for claiming deduction by undertakings engaged in the generation, transmission and/or distribution of power u/s 80-IA has been extended upto 31st March 2010.

Rationalization of tax treatment of savings

Presently, a deduction upto Rs.10,000 is available for contributions to certain specified pension funds under section 80CCC. Such deduction will now be available under section 80C upto Rs. 100,000. However, the aggregate deduction under section 80C, 80CCC and 80CCD will be subject to overall limit of Rs. 100,000.

Rationalization of provisions relating to payment of health insurance premium

Exemption under section 17(2) of the Income Tax for medical insurance premium paid by the employer has been extended to all health insurance schemes approved by the Insurance Regulatory Development Authority(IRDA).

Extending benefits under section 80C to fixed deposits with banks

Investment in term deposit for a fixed period of not less than five years with any scheduled bank shall be eligible for deduction under section 80C subject to overall limit of Rs.1,00,000.

Withdrawal of dividend distribution tax for close-ended equity oriented funds

Long term capital gains arising from sale of an equity oriented fund are exempt under section 10(38).

Minimum level of investment by equity oriented funds in equity shares of investor companies for being eligible for the above exemption has been enhanced from 50% to 65%. The amendment is effective from 1st June 2006.

OTHER AMENDMENTS

Security transaction tax (STT)

The STT rates on transaction (effective from 1st June, 2006) has been enhanced by 25% across the board. The revised rates are as under:

Nature of transaction	Existing Rates	Proposed Rates
On delivery based purchase/sale of equity share or unit to be paid by a buyer/seller	0.1%	0.125%
On non delivery based share or unit to be paid by seller	0.02%	0.025%
On derivatives	0.0133%	0.017%
On sale of units of Mutual Fund	0.2%	0.25%

Rationalization of provisions relating to transfer pricing

With a view to rationalize the provisions with respect to determination of arm's length price it is proposed to provide that no deduction u/s 10AA (i.e. deduction of profit and gains derived from exports) shall be allowed from the total income of the assessee where computation of income has been determined by the assessing officer pursuant to the provisions of chapter X of the Income Tax Act, 1961 on Transfer Pricing.

BUDGET PROPOSALS – INDIRECT TAX LAWS

CUSTOM DUTY

Extension of scope of Special Additional Duty of Customs (SAD)

- Apart from Information Technology Agreement bound items and specified inputs/raw materials used for manufacture of electronic/information technology items on which SAD @ 4% was imposed in earlier budget, this imposition has now been extended to cover all imported goods, agricultural as well as non-agricultural, with some exceptions like Goods which are fully exempt from VAT or both from basic and CV duty, specified petroleum products, fertilizers, newsprint, precious metals, cut diamonds, precious and semi precious stones etc.

Reduction in Peak Rate of Ad valorem Custom Duty

- Peak rate of customs duty on non-agricultural products has been reduced from 15% to 12.5% with a few exceptions.
- Ad valorem component of customs duty on textile fabrics and garments has been reduced from 15% to 12.5%. There has, however, been no change in specific component of customs duty.

REDUCTION IN DUTY

Metal and Inputs thereof

- Customs duty has been reduced from 10% to 7.5% on primary and semi-finished forms of Alloy steel, Aluminum, Copper, Zinc, Ashes and residues of copper and zinc, Tin, Base metals of Chapter 81 (such as, Tungsten, Magnesium, Cobalt, Titanium, etc.), Calcined alumina and Ferro alloys.
- Customs duty has been reduced from 5% to 2% on mineral ores and concentrates.

Minerals

- Customs duty has been reduced from 15% to 5% on mineral products of Chapter 25, except for cement, marble, granite and asbestos.

Refractories and Inputs for Refractories

- Customs duty has been reduced from 10% to 7.5% on Refractories and certain Raw materials for refractories like natural graphite powder, aluminous cement etc.

Chemicals and Petrochemicals

- Customs duty on specified basic inorganic chemicals such as hydrogen, carbon, sulphur, halogens etc. and on methanol, has been reduced from 15% to 10%.
- Customs duty has been reduced from 10% to 7.5% on catalysts of heading 3815.
- Customs duty on Ethyl Vinyl Acetate, Polymers of Ethylene (LDPE, LLDPE, HDPE, LHDPE, LMDPE), Polymers and copolymers of Propylene and Styrene and Polymers of Vinyl Chloride and organic chemicals falling under headings 2901 to 2904, with the exception of Chloromethanes and Trichloroethylene has been reduced from 10% to 5%.
- Customs duty on Styrene, Ethylene Dichloride and Vinyl Chloride Monomer has been reduced from 5% to 2%.
- Customs duty on naphtha for manufacture of specified polymers has been reduced from 5% to Nil.

Textiles

- Customs duty on man made fibres, filaments yarns, spun yarns, DMT, PTA, MEG and Caprolactum, specified textile machinery, and parts for manufacture of such machinery has been reduced from 15% to 10%.
- Customs duty on Paraxylene has been reduced from 5% to 2%;

Information Technology

- Customs duty on Set Top Boxes, whether or not covered under ITA (Information Technology Agreement), has been unified at Nil customs duty plus 16% CV duty plus 4% special additional duty of customs.
- CVD under Section 3(3) of the Customs Tariff Act has been withdrawn on computers consequent to imposition of excise duty at 12% on computers.

- Customs duty on MP3 Players and MPEG4 Players has been reduced from 15% to 5%.

Petroleum Products

- Customs duty on naphtha and Petroleum Coke has been reduced from 10% to 5%.
- Customs duty on natural gas including propane and butanes, has been unified at 5%.

Health

- Customs duty on 14 specified anti-cancer, 10 specified Anti-AIDS drugs, and bulk drugs for their manufacture has been reduced to 5% with Nil CVD by way of excise duty exemption.
- Customs duty on 4 specified drugs and bulk drugs for their manufacture and on 2 specified diagnostic kits and 1 equipment has been reduced to 5%. These drugs/ kits/equipment will be exempt from CV duty also by way of excise duty exemption.

INCREASE IN DUTY

Metal and Inputs thereof

- Customs duty of 5% has been imposed on iron and steel melting scrap.

Agriculture

- Customs duty has been increased from 30% to 60% on honey.
- Customs duty has been increased on vanaspati, bakery shortening, inter-esterified, re-esterified, elaidinised fats, margarine and similar boiled, oxidized, dehydrated, sulphurised, blown, polymerized or modified preparations of edible grade, falling under headings 1516, 1517 or 1518, from 30% to 80%.

Withdrawal of Exemptions

- Customs duty exemptions/concessions have been withdrawn inter-alia on Food preparations containing flour, meal, starch, etc. in a specified proportion meant for infant use and put up for retail sale, Food products (excluding alcoholic preparations) imported by hotels/tourism industry in terms of licenses issued under 1997-2002 Exim Policy, CVD on gold concentrate and Specified goods for manufacture of capital goods for setting up of a unit with an investment of Rs 5 crores or more.

Other Amendments

- Retrospective amendments have been proposed to notification number G.S.R. 619 (E), dated the 17th September, 2004 so as to allow benefit of DEPB to goods imported during the period from 1-10-2005 to 3-10-2005.
- Export obligations fixed under EPCG Scheme with respect to import of second hand capital goods based on notional value of corresponding new capital goods shall be refixed based on the actual CIF value assessed by an officer of customs. This has been amended retrospectively.

EXCISE DUTY

REDUCTION IN DUTY

Food Processing

- Excise duty has been reduced from 16% to Nil on Condensed Milk, Ice cream, Pectic substance, pectinates and pectates, pectin esterase, Yeast, and Pasta, whether or not cooked or stuffed or otherwise prepared.
- Excise duty has been reduced from 16% to 8 % on ready to eat packaged food, Texturised vegetable protein (Soya bari) and specified instant food mixes.
- Excise duty on processed meat, fish and poultry products has been reduced from 8% to Nil.
- Concessional rate of 8% of excise duty applicable on scented supari with retail sale price of 50 paise or less per pouch has been extended to scented supari with retail sale price of Re.1 or less per pouch.

Textiles Sector

- Excise duty on all man made (like polyester, nylon, viscose and acrylic) fibres and filament yarns has been reduced from 16% to 8%.

Information Technology

- Excise duty on MP3 players and MPEG4 players has been reduced from 16% to 8%
- Excise duty on storage devices, namely, DVD-Drives, Flash Drives and Combo Drives has been reduced from 16% to Nil.

Tobacco Products

- Excise duty rates have been unified at 66% for all types of pan masala. Proposed tariff value have been fixed for pan masala based on MRP and weight

Others

- Excise duty has been reduced from 24% to 16% on aerated waters, petrol/diesel cars of specified length and engine capacity.
- Excise duty has been reduced from 16% to 8% on Heat resistant latex rubber thread, LPG gas stoves of value exceeding Rs. 2000 per unit, compact fluorescent lamps and footwear of retail sale price between Rs. 250 and Rs. 750 per pair.
- Excise duty has been reduced from 16% to 12% on specified printing, writing and packing paper.
- Excise duty has been fully exempted on Gold concentrate for refining.

INCREASE IN DUTY**Petroleum**

- Cess leviable on domestic crude oil under the Oil Industry (Development) Act, 1974 has been increased from Rs.1800 per tonne to Rs. 2500 per tonne.

Tobacco Products

- Specific rates of excise duty on cigarettes have been revised based on type and specified length of Cigarettes.

Others

- Excise duty has been raised from 8% to 16% on Mosaic tiles, Glassware, Lay flat tubing and Cigarette filter rods.
- The rate of compounded levy on stainless steel patti/pattas has been increased from Rs. 15000/- per machine to Rs.30000/- per machine.

IMPOSITION OF EXCISE DUTY**Information Technology**

- Excise Duty of 12% has been imposed on computers.
- Excise duty of 16% has been imposed on set top boxes not covered under the Information Technology Agreement.
- Excise duty of 8% has been imposed on packaged software on electronic media.

Others

- Excise duty of 16% has been imposed on Parts and components of motor vehicles transferred to a sister unit for manufacture of goods falling under chapter 87 and Goods (other than Electrical stampings and laminations; Bearings; and Winding wires) supplied for manufacture of PD pumps for handling water. However, exemption upto Rs.1 crores would be available under the general Small Scale Industries (SSI) exemption scheme.

Small Scale Industries

- SSI exemption available to power driven pumps has been restricted only to those pumps, which conform to prescribe BIS standards. This will be effective from 01.04.2006.

WITHDRAWAL OF EXEMPTION

- Exemptions available on specified products manufactured without aid of power such as essential oils, bricks, ceramic tiles, roofing tiles, vitrified tiles, precious metals and metal clad with precious metals, biscuits and marble slabs etc. have been withdrawn.
- Exemptions available on specified products sold without a brand name such as mineral water, edible mixtures or preparations of animal or vegetable fats and oils (other than margarine and linoxyn) etc. have been withdrawn.

OTHER AMENDMENTS

- Duty on clearance of goods to DTA from EOU/STP/EHTP has been changed from 50% of aggregate of custom duties to 25% of the basic custom duty plus excise duty payable on like goods.

SERVICE TAX

Rate of Service Tax

- The rate of service tax is being increased from 10 % to 12 %.

Exemption from Service Tax

- Exemption from service tax has been provided to financial leasing services including equipment leasing and hire purchase, on that portion of the taxable value comprising of 90 per cent of an amount representing as interest i.e. the difference between the installment paid towards repayment of the lease amount and the principal.
- Exemption from service tax has been provided to testing and analysis services provided in relation to water quality testing by Government owned State and District level laboratories.
- Exemption from service tax has been provided to all taxable services provided by the Reserve Bank of India.

(The above exemptions will come into effect from 1st March 2006.)

Imposition of Service Tax

- Service tax has been imposed on the following items of services:
 - Service provided by the Registrar to an issue.
 - Service provided by the Share Transfer Agent.
 - Automated Teller Machine operation, maintenance or management.
 - Service provided by a recovery agent.
 - Sale of space or time for advertisement, other than in print media.
 - Sponsorship services provided to any body corporate or firm, other than sponsorship of sports events.
 - Transport of passengers embarking on international journey by air, other than economy class passengers.
 - Transport of goods in containers by rail by any person, other than Government railway.
 - Business support services.
 - Auctioneers' service, other than auction of property under directions or orders of a court of law or auction by the Central Government.
 - Public relations service.
 - Ship management service.
 - Internet telephony service.
 - Transport of person by cruise ship.
 - Credit card, debit card, charge card or other payment card related services.

(The above changes will come into effect from a date to be notified, after the enactment of the Finance Bill, 2006.)

Extension/Clarification of Scope of Existing Services

- The scope of the following services which are presently liable to service tax has been extended/clarified:
 - The references to 'commercial concern' in relation to seventeen taxable services are being substituted with 'person', so as to expand the scope of the service provider.
 - Banking and other financial services, to include transfer of money through different modes by any person and services provided as banker to an issue.
 - Management consultancy service, to specifically include consultancy in different areas of management.
 - The scope of General insurance service and Life Insurance service has been extended to include service provided

to “Policy holder or any person” by an “insurer, including a re-insurer”.

- The scope of Insurance auxiliary service concerning general insurance business and Life Insurance business has been extended to include service provided to “Policy holder or any person” or an “insurer, including a re-insurer”.
- Maintenance or repair service, to be renamed as “management, maintenance or repair” service, and to include management of movable property.
- Erection, commissioning or installation service, to include erection, commissioning or installation of structures, whether or not pre-fabricated.
- Consulting engineer service, to include engineering consultancy services provided by any firm or body corporate.
- Business auxiliary service, to include computerized data processing.
- Technical testing and analysis service to include clinical testing of drugs and formulations and excludes testing or analysis for the purpose of determination of the nature of diseased condition, identification of a disease, prevention of any disease or any disorder in human beings or animals.

(The above changes will come into effect from a date to be notified, after the enactment of the Finance Bill, 2006)

Service Tax Exemption Withdrawn

- The following service tax exemption have been withdrawn:
 - The exemptions in relation to general insurance where premium is received from re-insurance both domestic and overseas and all business for which premium is booked outside India.
 - Exemption for services, other than accounting, auditing, and statutory certification services, provided by a practicing chartered accountant, Company secretary or cost accountant in his professional capacity.
 - Exemption for taxable services provided by a Call Centre or a Medical Transcription Centre.
 - Exemption for taxable service provided in relation to Enterprise Resource Planning (ERP) software system provided by a management consultant in connection with the management of any organization.
 - Exemption for catering services provided on a railway train by an outdoor caterer;
 - Exemption for catering services provided within the premises of an academic institution or medical establishment by an outdoor caterer.

(The above changes will come into effect from 1st March 2006.)

Other Amendments

- It is clarified that taxable service includes any service provided or to be provided by any unincorporated association or body of persons (i.e. club, institute, co-operative housing societies) to its members.
- A new section 66A has been proposed which levies service tax on services received by a business or commercial establishment (other than individual) established in india from a person rendering services having business establishment in a country other than india. For this purpose, it has been specified that such taxable services shall be executed as if the receipt had himself provided the services in india and as such the onus of payment of tax will be on the receipt of services.

(The above changes will come into effect from a date to be notified after the enactment of the Finance Bill, 2006.)

- To intimate any change in information submitted to Central Excise Officer at the time of registration within 30 days of the said change.
- The records related to service tax needs to be preserved for a period of at least five years immediately after the financial year to which the said records pertain.

(The above change will come into effect from 1st March 2006.)

- Existing Section 67 on “Valuation of taxable services for charging service tax” have been substituted by new Section 67 providing for determination of value of taxable services. The scope of valuation has been extended by including those taxable services where the consideration payable for the services provided or to be provided is either not ascertainable or does not consist of money or consists of money in part.

RECENT DEVELOPMENTS IN REGULATORY FRAMEWORK

FOREIGN DIRECT INVESTMENTS IN INDIA

The following changes have been made to further liberalize the FDI regime:

Sector/Activity	Sectoral Cap [%]	Particulars
Airports –		
Greenfield Projects	100%	FDI upto 100% is permitted under the Automatic route.
Existing Projects	100%	FDI ceiling has been increased to 100% from 74% earlier. to require FIPB approval. However, FDI beyond 74% to require FIPB' approval.
Mining -		
Coal & Lignite	100%	FDI ceiling under the Automatic route increased to 100% from 74% earlier, for captive consumption by power projects and iron & steel, cement production and other eligible activities permitted under the Coal Mines (Nationalization) Act, 1973.
Diamonds and precious stones	100%	Automatic approval subject to the Mines & Minerals (Development & Regulation) Act, 1957.
Power Trading	100%	FDI upto 100% under the Automatic route is now permitted subject to compliance with the Regulations under the Electricity Act, 2003.
Alcohol – Distillation & Brewing	100%	FDI upto 100% under the Automatic route is permitted in respect of distillation and brewing of potable alcohol subject to license by appropriate authority.
Petroleum & Natural Gas sector	100%	FDI upto 100% under the Automatic route is permissible in respect of laying of Natural Gas/ LNG pipelines, market study & formulation and Investment financing in the Petroleum & Natural Gas sector. FDI ceiling is increased to 100% under the Automatic route for setting up infrastructure relating to marketing in Petroleum & Natural Gas sector. The investment is subject to sectoral regulations issued by the Ministry of Petroleum & Natural Gas.
Manufacturing	100%	FDI upto 100% under the Automatic route is extended to manufacturing activities requiring Industrial License under the Industries (Development & Regulation) Act, 1951 and are located within 25 kms of the Standard Urban Area limits. FDI upto 100% under the Automatic route is permitted for manufacturing industrial explosives /hazardous chemicals. FDI upto 100% with FIPB approval is permitted for manufacturing Cigars & Cigarettes.
Coffee & Rubber processing and Warehousing	100%	FDI upto 100% under the Automatic route is permitted.
Trading	100%	FDI upto 100% under automatic route is permitted in respect of cash and carry wholesale trading and export trading.
	51%	FDI upto 51% with prior FIPB approval in retail trade of 'Single Brand products' is allowed subject to specified conditions.

Sector/Activity	Sectoral Cap [%]	Particulars
Telecommunication Basic and cellular, Unified Access Services, National / International Long Distance, V-Sat, Public Mobile Radio Trunked Services (PMRTS), Global Mobile Personal Communications Services (GMPCS) and other value added telecom services	74%	FDI ceiling increased to 74% from earlier 49%, subject to certain safeguards and Government policies. FIPB approval required beyond 49%. Resident Indians would need to hold at least 26% stake at all times. The 74% ceiling includes but is not limited to investment by FIIs, NRIs, FCCBs, ADRs, GDRs, convertible preference shares and proportionate foreign investment in Indian promoters/investment companies including their holding companies etc.
Townships, housing, built-up infrastructure and construction development projects	100%	FDI upto 100% under the Automatic route in townships, housing, built-up infrastructure and construction development projects including but not limited to, housing, commercial premises, resorts, educational institutions, recreational facilities, city and regional level infrastructure is permitted, subject to certain investment criteria and technical/ legal specifications.
Broadcasting- <ul style="list-style-type: none"> • FM Radio • Cable Network • Direct-To-Home • Setting up hardware facilities (Up-linking HUB/Teleports) • Up-linking a News & Current Affairs TV Channel • Up-linking a Non-News & Current Affairs TV Channel 	20% 49% 49% 49% 26% 100%	The investment is subject to guidelines issued by the Ministry of Information & Broadcasting:- FDI upto 20% with FIPB approval is permitted; the 20% ceiling includes investments by NRIs, PIO investments and portfolio investments. FDI upto 49% with FIPB approval is permitted; the 49% ceiling include investments by FIIs also. FDI upto 49% with FIPB approval with FDI component not to exceed 20% is permitted; the 49% ceiling include investments by FIIs also. FDI upto 49% with prior FIPB approval is permitted; the 49% ceiling includes investments by FIIs also. FDI upto 26% with prior FIPB approval including investments by FIIs also is permitted subject to specified conditions. FDI upto 100% with prior FIPB approval is permitted.
Print Media	26%	FDI and portfolio investment within the composite ceiling of 26% is permitted with prior FIPB approval in publication of newspaper and periodicals dealing with news and current affairs.
Satellites – Establishment and operation	74%	FDI upto 74% with prior FIPB approval is permitted.
Asset Reconstruction Companies (ARCs)	49%	FDI (other than FIIs) upto 49% of equity capital of ARCs (registered with RBI) with FIPB approval is permitted. Where any individual investment exceeds 10% of the equity, compliance with provision of section 3(3)(f) of securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 which provides that the sponsor, is not a holding Company of the securitisation or reconstruction Company, or, does not otherwise hold any controlling interest in such securitisation or reconstruction Company.
Others	100%	FDI upto 100% under the Automatic route is permitted in respect of Floriculture, Horticulture, Development of Seeds, Animal Husbandry, Pisciculture, Aqua-culture, cultivation of vegetables, mushrooms under controlled conditions and services related to agro and allied sectors.

- All investments made or proposed to be made by Non Resident Indians will be on repatriable basis provided the sector/activity in which the investment is made/ proposed to be made is on the automatic route for FDI.
- Acquisition of shares in an existing Company by non-residents is put on the automatic route, subject to compliance with the FDI sectoral policy.
- The requirement of mandatory divestment of 26% foreign equity in B2B e-Commerce has been dispensed with.

SEBI GUIDELINES, RULES AND REGULATIONS

Changes made in IPO norms

Definitions

- The definition of Retail Individual Investor has been amended to include investor applying or bidding for securities of or for a value not more than Rs. 1 lacs (earlier Rs. 0.5lac).

Allotment Criteria

- For unlisted companies not fulfilling the conditions for making an initial public offer of shares, allotment criteria to Qualified Institutional Buyers (QIBs) has been amended from '50% of the issue size' to mandatory '50% of net offer to public'. This shall also be applicable to a listed Company making further public issue of shares and not satisfying the conditions specified in the Guidelines.
- In case of an offer made through the 100% book building route, allocation to the retail individual investor has been enhanced from 25% to 35% of the net offer to the public and in case of non-institutional investor, reduced from 25% to 15% of the net offer to the public.
- In respect of issues made under Rule 19(2)(b) of Securities Contract (Regulation) Rules 1957, with 60% mandatory allocation to QIBs, the percentage allocation to retail individual investors and non-institutional investors shall be 30% and 10% respectively.
- The allotment of shares to QIBs shall be made on a proportionate basis, which hitherto was at the discretion of the Issuer/ Lead Manager to the Issue.
- Of the portion available for allocation to QIBs, 5% shall be reserved for proportionate allotment amongst Mutual Funds. In addition, Mutual Funds shall also be eligible to participate with other QIBs for proportionate allocation out of the balance available for QIBs.

Advertisement

- SEBI's observations on the draft prospectus/ draft red herring prospectus shall be advertised in the format specified in Part A of Schedule XX – A and in the manner specified for pre-issue/ opening and closing of issue advertisement.
- The pre-issue advertisement and advertisement in respect of opening or closing of the issue shall disclose details with respect to the issue, promoters, proposed listing, Lead Managers / Book Running Lead Managers / Co-Book Running Lead Managers, Compliance Officer of the Issuer Company, Credit rating, availability of application forms and Prospectus and the date of the opening and closing of the issue.

Book-building guidelines

- Exemption has been granted in case of further public issue of a class of securities already listed on a recognized stock exchange not to disclose the floor price of the securities offered or the price band along with the range within which the price can move, if any, in the red-herring prospectus, if the same is disclosed by way of an announcement made by the issuer or the merchant banker at least one day before the opening of the bid in all the newspapers where pre-issue advertisement was released.
- Lead book runner may reject a bid placed by a QIB for reasons to be recorded in writing provided that such rejection is made at the time of acceptance of the bid and the reasons for the same are disclosed to the bidders and necessary disclosures in this regard are made in the offer document.
- The period for which the bidding process shall remain open has undergone change. Henceforth, the bidding period shall be open for at least three working days (earlier five) and not more than seven working days (earlier ten), extendable to a maximum of ten working days (earlier 13) in case of revision in the price band of the issue
- The stock exchanges shall display data pertaining to book built issues in a uniform format giving, inter alia, category

wise details of bids received on a continuous basis and shall display the same on their website for a period of at least three days after closure of the bids.

Offer Document

- The proposed manner of allocation among respective categories of investors in case of under subscription is required to be made in the Offer Document.
- The Issuer Company shall disclose in the prospectus/abridged prospectus, the modes in which it shall make refunds to applicants in case of oversubscription of the issue and, where the Company proposes to make use of more than one mode for making refunds, the respective cases where each such mode will be adopted shall also be separately disclosed
- The Undertaking required to be provided by the Issuer Company in the prospectus that the funds required for making refunds to unsuccessful applicants will be made available on time to the Registrar to the Issue has been extended to cover refunds made through electronic transfer facilities.

Refunds

- The benefit of electronic transfer has been extended to select cities for transferring refund amounts to unsuccessful applicants, bank details of whom shall be obtained by the Issuer companies directly from the Depositories.
- Interest at 15% per annum payable on delayed refund has been extended to cover electronic transfers, including the cases where refund instructions have not been given to the clearing system in the manner specified.
- Where refunds are made through electronic transfer of funds, a suitable communication shall be sent to the applicants within 30 days (in case of a fixed price issue) or 15 days (in case of a book-built issue) of the closure of the issue giving details of the bank where refunds shall be credited alongwith the amount and expected date of electronic credit of refund.

CORPORATE GOVERNANCE IN LISTED COMPANIES – AMENDMENTS TO CLAUSE 49 OF THE LISTING AGREEMENT

- The following changes to certain provisions of the revised clause 49 have been made:
- The maximum time gap between two Board meetings has been increased from three months to four months.
- Sitting fees paid to non-executive directors as authorized by the Companies Act, 1956 would not require the previous approval of shareholders.
- Certification of internal controls and internal control systems by CEO/ CFO would be for the purpose for financial reporting.

Guidelines for Execution of Block Deals on Stock Exchanges

- SEBI has issued guidelines for execution of block deals on the stock exchanges:
- Deal involving minimum quantity of 5,00,000 shares or minimum value of Rs.50 million executed through a single transaction on the separate trading window to be kept open from 9.55 am to 10.30 am of the stock exchange will constitute a “block deal”.
- The deal pricing should be in the range of (+/-) 1 % of the ruling market price or the previous day closing price, as applicable.
- The deal should result in delivery and shall not be squared off or reversed.

KEY CHANGES IN FEMA / EXCHANGE CONTROL LAWS

Changes in procedures relating to Imports

- **Clarification on follow up for evidence of imports**

Authorized dealers (AD's) need not follow up submission of evidence of import involving amount of USD 100,000 or less provided they are satisfied about the genuineness of the transaction.

- **Export of Goods and Services - Liberalisation - GR Approval for export:**

AD's banks have been delegated the power for grant of GR approval in cases where goods are being exported for re-import after repairs/ maintenance/ testing/ calibration, etc. subject to the condition that the exporter shall produce relative Bill of Entry within one month of re-import of the exported item from India .

Risk Management and Inter-bank Dealing – Commodity Hedging

RBI has delegated the authority to select commercial bank AD's, which satisfy minimum norms, to grant permission to companies listed on a recognized stock exchange to hedge the price risk in respect of any commodity (except gold, silver, petroleum and petroleum products) in the international commodity exchanges/market.

Revision in External Commercial Borrowings (ECB) Guidelines

RBI has liberalized the ECB policy as indicated below:

- **Under the Automatic Route**

Eligible Borrower to include the following:

Non-Government Organizations (NGOs) engaged in micro finance activities can raise ECB up to USD 5 million, subject to compliance of certain conditions, during a financial year and utilizing the ECB proceeds for lending to self-help groups or for micro-credit or for bonafide micro finance activity including capacity building.

Eligible Lender to include the following:

- Foreign Equity Holder provided that the minimum holding of equity in the borrower Company is as under:
- ECB up to USD 5 million – minimum equity of 25 per cent held directly by the lender,
 - ECB more than USD 5 million – minimum equity of 25 per cent held directly by the lender and debt-equity ratio not exceeding 4:1 (i.e., the proposed ECB not exceeding four times the direct foreign equity holding).
 - Overseas organization and individuals complying with the specified safeguards may provide ECB to NGOs engaged in micro finance activities subject to compliance of certain conditions.

- **Under the Approval Route**

Eligible Borrower to include the following:

- Banks and financial institutions which had participated in the textile or steel sector restructuring package as approved by the Government are permitted to borrow to the extent of their investment (net off any ECB already availed for this purpose) in the package, subject to assessment by RBI based on prudential norms.
- Non-Banking Financial Companies (NBFCs), provided that the ECB has a minimum average maturity of 5 years and is obtained from multilateral financial institutions, reputable regional financial institutions, official export credit agencies and international banks to finance import of infrastructure equipment for leasing to infrastructure projects.
- Special Purpose Vehicles (SPVs) or any other entity, notified by the Reserve Bank, set up to finance infrastructure companies/projects exclusively .
- Multi-State Co-operative Societies engaged in manufacturing activity as considered by RBI, provided they comply with certain conditions.

- Housing Finance Companies to raise Foreign Currency Convertible Bonds (FCCB), provided they comply with certain conditions.

Eligible Lender to include the following:

- Foreign Equity Holder' provided the minimum equity held directly by the foreign equity lender is 25 per cent but debt-equity ratio exceeds 4:1 (i.e., the proposed ECB exceeds four times the direct foreign equity holding).
- Banks have been allowed to issue guarantees, standby letters of credit, letters of undertaking or letters of comfort in respect of ECB with a view to facilitate capacity expansion and technological upgradation in the Indian textile industry after the phasing out of Multi-Fibre Agreement.
- In order to enable corporates to raise resources domestically and hedge exchange rate risks, domestic rupee denominated structured obligations are permitted by the Government to be credit enhanced by international banks/ international financial institutions/ joint venture partners. Such applications would henceforth be considered by the Reserve Bank under the Approval Route.

- **Other changes**

ECB proceeds parked overseas can be invested in the following liquid assets:

- Deposits or Certificate of Deposit or other products offered by banks rated not less than AA(-) by Standard & Poor/Fitch IBCA or Aa3 by Moody's;
- Deposits with overseas branch of an Authorised Dealer in India; and
- Treasury bills and other monetary instruments of one year maturity having minimum rating as indicated above.
- Prepayment of ECB up to USD 200 million may be allowed by ADs without prior approval of RBI subject to compliance with the stipulated minimum average maturity period as applicable to the loan .

Foreign Investments in India - Transfer of security by way of gift – Procedure

RBI has modified the procedure for seeking approval by a person resident in India who proposes to transfer, by way of gift, to a person resident outside India any security including shares/convertible debentures. Additionally, certain factors that will be considered to grant the approval are now specified for e.g. the value of the gift does not exceed 5 per cent of the paid-up capital of the Indian Company. The applicable sectoral cap/ FDI limit in the Indian Company is not breached; the transferor (donor) and the transferee (donee) are close relatives as defined in the Companies Act 1956 and the value of security to be transferred together with any security transferred by the transferor, as gift, to any person residing outside India does not exceed the rupee equivalent of USD 25,000 during a calendar year, etc.

Overseas Direct Investment

- The total financial commitment of the Indian party in Joint Ventures/ Wholly Owned Subsidiaries has been increased to 200% from 100% of the net worth of the Indian Party as on date of the last audited balance sheet.
- In addition to the existing facility of making investments in Indian Rupees, direct investments in Bhutan in freely convertible currencies are now allowed. All dues receivable on such investments as well as their sale/ winding up proceeds are required to be repatriated to India in freely convertible currencies only.

Foreign Direct Investment in India: Clarification on Transfer of Shares/ Convertible Debentures by way of sale

Transactions detailed below are covered under the power delegated to AD banks, subject to the terms and conditions specified therein:

- To deal with transfer of shares/convertible debentures from resident to non-resident and vice-versa.
- To deal with transfer of shares/convertible debentures of an Indian Company, engaged in an activity earlier covered under FIPB/SIA route but now falling under Automatic Route of RBI, but not engaged in any activity in the financial service sector (i.e. Banks, NBFCs and Insurance), by a resident to a non-resident.
- To deal with transfer of shares by a non-resident to an Indian Company under buy-back and/or capital reduction scheme

of the Company.

Foreign Currency Convertible Bond and Ordinary Share (Through Depository Receipt Mechanism) (Amendment) Scheme, 1993.

In order to bring the ADR/GDR guidelines in alignment with Securities and Exchange Board of India (SEBI) guidelines on domestic capital issues, the following changes have been incorporated in to the GDR/ADR guidelines by amending the Foreign Currency Convertible Bonds (FCCB) and Ordinary Shares (Through Depository Receipt Mechanism) Scheme:

For Listed Companies

- FCCB and Ordinary Shares through GDR will not be allowed to be issued by an Indian Company, which is not eligible to raise funds from the Indian Capital Market, including a Company, which has been restrained from accessing the securities market by the SEBI.
- Overseas Corporate Bodies (OCBs) who are not eligible to invest in India through the portfolio route and entities prohibited to buy, sell or deal in securities by SEBI will not be eligible to subscribe to FCCB and ordinary shares through GDR.
- GDR and FCCB issues should be made at a price not less than the higher of the following two averages:
 - The average of the weekly high and low of the closing prices of the related shares quoted on the stock exchange during the six months preceding the relevant date;
 - The average of the weekly high and low of the closing prices of the related shares quoted on a stock exchange during the two weeks preceding the relevant date.
 - The relevant date means the date thirty days prior to the date on which the meeting of the general body of shareholders is held to consider the proposed issue.

For unlisted companies:

- Unlisted companies, which have not yet accessed the GDR / FCCB route for raising capital in the international market, would require prior or simultaneous listing in the domestic market, while seeking to issue FCCB and Ordinary Shares through GDR.
- Unlisted companies, which have already issued GDR / FCCB in the international market, would now require to list in the domestic market on making profit beginning financial year 2005-06 or within three years of such issue of GDR / FCCB, whichever is earlier.

Import of Aircraft on Operating Lease – Security Deposits

- AD's may permit airline companies (other than a Government or Quasi-Government agency) to remit up to USD 1,000,000 per aircraft as security deposit (for payment of lease rentals) for import of aircraft/ aircraft engine/ helicopter on operating lease without a standby letter of credit or a guarantee from a reputed international bank abroad or a guarantee of an AD in India against the counter-guarantee of a reputed international bank abroad subject to certain specified conditions.
- AD's may permit an airline Company in the Public Sector or a Department/ Undertaking of the Government of India/ State Governments, to remit amounts exceeding USD 100,000 per aircraft as security deposit (for payment of lease rentals) subject to certain specified conditions and a specific waiver of bank guarantee from the Ministry of Finance, Government of India .

Investments in Security Receipts issued by Asset Reconstruction Companies (ARCs)

General permission is granted to Foreign Institutional Investors (FIIs) registered with Securities and Exchange Board of India (SEBI) to invest in Security Receipts (SRs) issued by ARCs registered with RBI. FIIs can invest upto 49% of each tranche of scheme of SRs subject to the condition that investment of a single FIIS in each tranche of scheme of SRs shall not exceed 10% of the issue.

Guideline on Anti-Money Laundering for Authorized Money Changers

Anti-Money Laundering (AML) Guidelines have been prescribed to prevent the system of Authorised Money Changers (AMCs)

engaged in the purchase and/ or sale of foreign currency notes/ Travellers cheques from being used for money laundering. Salient features of these guidelines are as under:

- All the transaction should be undertaken only after proper identification of the customer, i.e., Know Your Customers (KYC).
- For verification of the identity of customer for encashment in excess of USD 500 or its equivalent, a photo identity document such as passport, driving licence, PAN Card, or any other suitable document of identification like ration card, driving licence should be obtained.
- Requests for payment of sale proceeds in cash may be acceded to the extent of USD 1,000 or its equivalent per transaction. In all other cases AMCs should make payment by way of "Account Payee" cheque/ demand draft only. In case of sale of foreign exchange, irrespective of the amount involved, for identification purpose, the passport of the customer should be insisted upon. Payment in excess of Rs. 50,000 towards sale of foreign exchange should be received only by account payee cheque/ demand draft.
- All encashment/ purchases by a person within one month may be treated as single transaction for this purpose.

Foreign Investment in Tier I and Tier II instruments issued by banks in India:

Permission has been granted to banks in India to augment their capital through issue of Perpetual Debt Instruments eligible for inclusion as Tier I capital and Debt capital instruments as upper Tier II capital. Foreign Institutional Investors (FIIs) registered with SEBI, and Non-Resident Indians (NRIs) are permitted to subscribe to these instruments as foreign investors subject to the following conditions:

- The investment by all FIIs in Perpetual Debt instruments (Tier I) should not exceed an aggregate ceiling of 49 per cent of each issue, and investment by individual FIIs should not exceed the limit of 10 per cent of each issue.
- The investments by all NRIs in Perpetual Debt instruments (Tier I) should not exceed an aggregate ceiling of 24 per cent of each issue and investments by a single NRI should not exceed 5 percent of the issue.
- The investment by FIIs in Debt capital instruments (Tier II) shall be within the limits stipulated by SEBI for FIIs investment in corporate debt.
- Investment by NRIs in Debt capital instruments (Tier II) shall be in accordance with the extant policy for investment by NRIs in other debt instruments.

General Permission for Acquisition of foreign securities as qualification / rights shares

An Indian Company in the Knowledge Based Sector (as compared to only a software Company earlier) can now allow its resident employees (including working directors) to purchase foreign securities under the ADR/GDR linked stock option schemes subject to certain specified conditions.

Establishment of Liaison offices in India by Foreign Insurance Companies

An Insurance Company can now establish a Liaison Office in India if it has obtained the approval of Insurance Regulatory and Development Authority established under section 3 of Insurance Regulatory and Development Authority Act, 1999. The general permission is subject to conditions specified by RBI and other conditions that may be stipulated by the IRDA from time to time.

Investments in Foreign Securities other than by way of Direct Investment

For the purpose of calculation of equity holding by a person resident in India, shares held directly and indirectly (Indirectly for this purpose means indirect foreign equity holding through a special purpose vehicle or a step down subsidiary) will now be considered.

Project offices- Intermittent remittances and foreign currency accounts in India.

RBI has allowed authorized dealer to open foreign currency accounts for the project offices (established under the general/

specific approval of RBI) as well as allow intermittent remittances by project offices without RBI approval subject to stipulated conditions. Earlier, RBI approval was required.

Use of international debit card (IDCs) /store value card /charge card/ smart cards by resident Indians while on a visit outside India

RBI has clarified that IDCs /store value cards /charge card/ smart card/etc. issued by AD banks can be used only for permissible current accounts transactions and subject to the prescribed limit under the Foreign Exchange Management (Current Account Transactions) Rules, 2000 as amended from time to time. The AD banks have to submit an annual statement in case the aggregate forex utilization by the IDC holder exceeds USD 100000 in a calendar year.

Booking and cancellation of forward contracts.

To provide greater flexibility to residents in managing their exposures, RBI has allowed all forward contracts, booked by residents to hedge current account transactions, regardless of tenure to be cancelled and rebooked freely. It is clarified that this relaxation will not be applicable to forward contracts booked on past performance basis without documents as also forward contracts booked to hedge transactions denominated in foreign currency but settled in Indian Rupee, where the current restrictions will continue.

Operations in Non Resident External (NRE)/ Foreign currency Non-Resident (Bank) (FCNR(B)). Accounts by the Resident Power of Attorney Holder

ADs were earlier allowed to allow operations on the NRE account in terms of POA granted in favour of a resident by the non- resident account holder, provided such operations were restricted to withdrawals for local payments.

RBI has allowed ADs, in addition to the existing facility, to permit a resident POA holder to remit, through normal banking channels, funds out of the balances in NRE/FCNR(B) account to the non -resident account holder provided specific powers for the purpose have been given. The remittances under POA are permitted only to non -resident account holder.

Remittance of assets by Non Resident Indians (NRIs)/Persons of Indian Origin (PIO)

NRIs/PIOs are currently allowed to remit funds upto USD 1mn, per calendar year out of balances held in NRIs accounts/ sale proceeds of assets/assets in India acquired by way of inheritance/ legacy, on production of certain documents.

This remittance facility has also been allowed to a NRI/PIO on demise of a settler under a deed of settlement made either by parents or close relative.

SPECIAL ECONOMIC ZONES ('SEZ') ACT- 2005

The Special Economic Zones (SEZs) Act 2005 along with the rules comes into force with effect from 10th February 2006. The SEZ Rules, inter-alia, provide for simplification of procedures and for single window clearance on matters relating to Central as well as state governments. The SEZ Act provides for establishing SEZs by public, private, joint sector and State Governments. The key players in SEZs would be Developers of a SEZ, Units in SEZs including OBU's and Units in International Financial services Centres ('IFSC').

The SEZ Rules provide for:

- Simplification of procedures for development, operation, and maintenance of the Special Economic Zones and for setting up and conducting business in SEZs;
- Single window clearance for setting up of an SEZ;
- Single Window clearance on matters relating to Central as well as State Governments;
- Simplified compliance procedures and documentation with an emphasis on self-certification; and
- Setting up of SEZ for manufacture of goods-multi product SEZs / sector specific SEZs; as a Free Trade and Warehousing Zone (FTWZ) and for rendering services.

Minimum area requirements stipulated for various categories of SEZs are:

- Multi-product SEZs to have an area of 1000 hectares or more.
- Services-Sector SEZs to have an area of 100 hectares or more.
- To support sectors where India has a competitive advantage, such as gems and jewellery, information technology, bio-technology, sector-Specific SEZs in these sectors can be set up over an area of 10 hectares or more;
- For all other sectors, the area must be atleast 100 hectares.
- The area requirement for multi-product SEZs has been relaxed to 200 hectares and for Sector-Specific SEZs to 50 hectares, for certain States (Assam, Meghalaya, Nagaland, Arunachal Pradesh, Mizoram, Manipur, Tripura Himachal Pradesh, Uttaranchal, Sikkim, Jammu & Kashmir, Goa) and Union Territories, keeping in view the difficulty in finding large tracts of contiguous land in such States/Union Territories.
- At least 50% of the total area in any sector-specific or port or airport based SEZ should be earmarked for developing processing area.
- SEZs are deemed to be outside customs territory of India and the SEZ Act has overriding effect over all existing central acts.

THE RIGHT TO INFORMATION ACT, 2005

The Act is effective from October 12, 2005 and deals with the right of every citizen to access information under the control of public authorities and to promote transparency and accountability in the working of every public authority, which includes:

- Inspect works, documents, records;
- Take notes, extracts or certified copies of documents or records;
- Take certified samples of material;
- Obtain information in form of printouts, diskettes, floppies, tapes, video cassettes or in any other electronic mode or through printouts;
- Provides for constitution of a Central Information Commission and State Information Commission;
- Every public authority to appoint a public information officer (PIO) and a senior officer as the appellate authority.

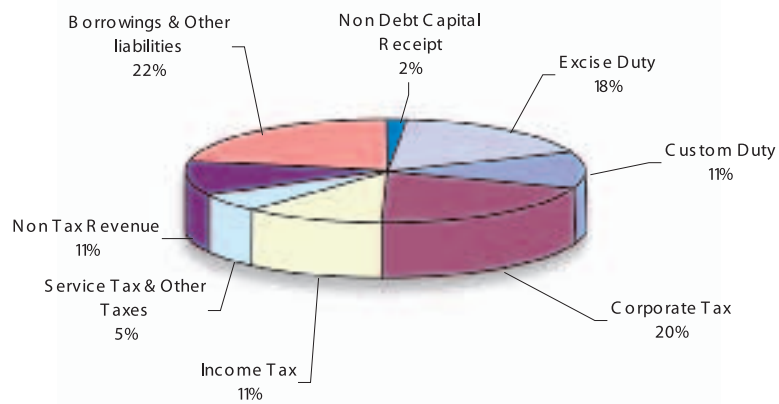
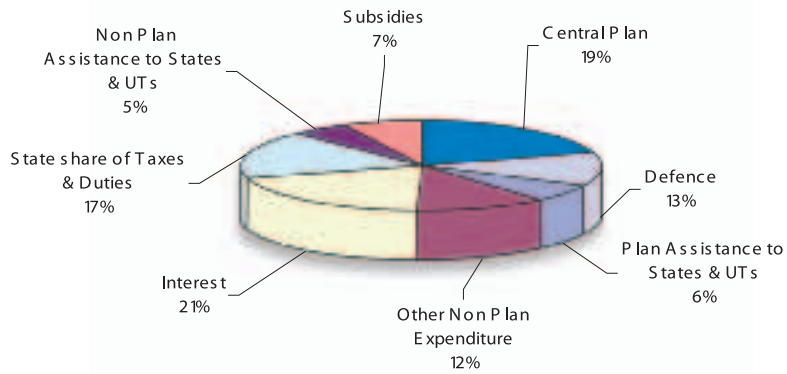
BUDGET AT A GLANCE

Amount in Rs. Crores

	2004-05	2005-06	2005-06	2006-07
	Actuals	Budget Estimate	Revised Estimate	Budget Estimate
1. Revenue Receipts	306013	351200	348474	403465
2. Tax Revenue(net to centre)	224798	273466	274139	327205
3. Non-Tax Revenue	81215	77734	74335	76260
4. Capital Receipts	191669	163144	160231	160526
5. Recoveries of Loans	62043	12000	11700	8000
6. Other Receipts	4424	-	2356	3840
7. Borrowings and other liabilities	125202	151144	146175	148686
8. Total Receipts (1+4)	497682	514344	508705	563991
9. Non-Plan Expenditure	365406	370847	364914	391263
10. On Revenue Account of which	296857	330530	326142	344430
11. Interest Payments	126934	133945	130032	139823
12. On Capital Account	68549	40317	38772	46833
13. Plan Expenditure	132276	143497	143791	172728
14. On Revenue Account	87495	115982	114153	143762
15. On Capital Account	44781	27515	29638	28966
16. Total Expenditure (9+13)	497682	514344	508705	563991
17. Revenue Expenditure	384352	446512	440295	488192
18. Capital Expenditure	113330	67832	68410	75799
19. Revenue Deficit (17-1)	78339	95312	91821	84727
- As a % of GDP	(2.5 %)	(2.7 %)	(2.6 %)	(2.1 %)
20. Fiscal Deficit* {16-(1+5+6)}	125202	151144	146175	148686
- As a % of GDP	(4.0 %)	(4.3 %)	(4.1 %)	(3.8 %)
21. Primary Deficit (20-11)	(1732)	17199	16143	8863
- As a % of GDP	(-0.1 %)	(0.5 %)	(0.5 %)	(0.2 %)

RECEIPTS AND PAYMENTS 2006-07

Rupee Goes To



NATIONAL NETWORK

Kolkata • New Delhi • Mumbai • Chennai • Jaipur • Hyderabad



INTERNATIONAL NETWORK

Algeria • Angola • Argentina • Australia • Austria • Bahamas • Bahrain • Belgium • Bolivia • Botswana • Brazil
British Virgin Islands • Bulgaria • Canada • Cape Verde • Cayman Islands • Chile • Comoros • People's Republic of China
Colombia • Czech Republic • Denmark • Dominican Republic • Ecuador • Egypt • Estonia • Fiji • Finland • France
Germany • Gibraltar • Greece • Guatemala • Guernsey • Hong Kong • Hungary • India • Indonesia • Ireland • Isle of Man
Israel • Italy • Jamaica • Japan • Jersey • Jordan • Kazakhstan • Korea • Kuwait • Latvia • Lebanon • Liechtenstein
Lithuania • Luxembourg • Macao • Madagascar • Malaysia • Malta • Mauritius • Mexico • Morocco • Mozambique
Namibia • Netherlands • Netherlands Antilles • New Zealand • Nigeria • Norway • Oman • Pakistan • Paraguay • Peru
Philippines • Poland • Portugal • Qatar • Reunion Island • Romania • Russia • Saudi Arabia • Senegal • Serbia &
Montenegro • Seychelles • Singapore • Slovak Republic • Slovenia • South Africa • Spain • Sri Lanka • Sweden
Switzerland • Taiwan • Thailand • Tunisia • Turkey • Turkmenistan • Ukraine • United Arab Emirates • United Kingdom
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