Tax measures

2.29 The emphasis of the direct tax proposals in the Budget was to continue with the policy of stability in basic tax rates and widen the tax base, provide incentives for housing and infrastructure and development of capital market and information technology industry. The Venture Capital Funds (VCFs) providing finance to Venture Capital Undertakings (VCUs) have been accorded complete pass through status. Provisions relating to amalgamations, demergers and slump sales have been further rationalized to provide tax-neutrality of corporate restructuring. All tax concessions relating to earning in foreign exchange are being phased out in a five year-period. “One by-six” scheme criterion identifying potential tax-payers has been extended to 79 more cities. The details of various direct tax measures are given in the Box 2.2. To mobilise additional resources required for the relief and rehabilitation in the wake of Gujarat earthquake, a further surcharge of 2 per cent has been levied on income tax payable by domestic companies, firms etc. as well by other assessees (individuals, Hindu undivided families, etc.) having income above Rs. 60,000 for the current financial year.

BOX 2.2

Direct Taxes

- Surcharge at the rate of 10 per cent and 15 per cent levied for income of non-corporate assessees (including non-residents) with an income from Rs.60,000 to Rs.1,50,000 and with incomes above Rs.1,50,000 respectively.
- Domestic companies would pay surcharge at the rate of 10 per cent.
- Tax rebate for senior citizens has been increased from Rupees ten thousand to Rupees fifteen thousand.
- Tax rebate of Rupees five thousand has been introduced for women tax payers below 65 years of age.
- Deduction for repayment of loan for higher education has been enhanced from Rupees twenty five thousand to Rupees forty thousand.
- TDS exemption limit for non-banking interest was enhanced from Rs. 2,500 to Rs.5,000.
- The levy of Interest tax on credit institutions has been abolished in relation to interest arising on or after 1st April, 2000.
- Tax on dividends distributed by domestic companies and income distributed by Mutual Funds and UTI on debt -oriented schemes raised from 10 per cent to 20 per cent.
- Stock options are taxed as capital gain when sold by the assessee and not as perquisites on the exercise of such option.
- Non-agricultural income of farm houses made taxable.
- VCFs have been accorded complete pass through status, with the income being taxed only in the hands of investors when the same is received by them from the VCFs.
- Interest from bonds issued by local authorities as specified by central government made tax free.
- Tax holiday benefit extended to solid waste management and water treatment for developing urban infrastructure.
- To facilitate restructuring of authorities or bodies such as State Electricity Boards, the provisions relating to conditions under which such restructuring can be termed as demerger, with attendant fiscal benefits, have been modified. Such conditions will now be notified separately by the Government.
- Provisions relating to amalgamations, demergers and slump sales have been further rationalized.
- Tax exemption from capital gains would be available only if investment is made in bonds issued by National Bank for Agriculture and Rural Development and National Highway Authority of India. These bonds will have a lock in period of three years and their proceeds will be used for providing finance to the agriculture sector and for the National Highway Development Project.
- Investment in public companies formed with the main object of carrying on the business of providing long-term finance for urban infrastructure made one of the eligible modes of investment for religious and charitable trusts.
- Minimum Alternate Tax (MAT) to be charged at 7.5 per cent of the “book profits” by all companies as determined under the Companies Act instead of the effective rate of 10.5 per cent earlier. These provisions apply to all companies barring export profits during the period of phasing out of deductions.
- The condition of continuance of same business for the purposes of carry forward and set-off of unabsorbed depreciation was done away with.
- Investment or deposit in a public sector company continues to be one of the eligible modes of investment for charitable or religious trusts, for a period of three years (in the case of shares), and till the date of maturity of other investment or deposit from the date a public sector company ceases to be a public sector company.
- Tax holiday benefits in respect of newly established industrial undertakings in Free Trade Zones, Software Technology Park, Electronic Hardware Technology Park and for 100 per cent Export Oriented Undertakings were modified to allow deductions for all such units set up upto 31.3.2009. Also these tax concessions have also been extended for the manufacture of computer software including IT enabled services.
- Existing tax holiday benefits for small scale industries and industrial units set up in industrially backward states and districts extended for another two years, i.e. till 31st March, 2002.
- Tax holiday for housing projects extended to projects completed before 31.3.2003 (present limit 31.3.2001). Deduction of interest paid upto a limit of rupees one lakh allowed in respect of self occupied houses completed before 31.3.2003. Besides, limit of loan repayment on housing raised to Rs.20,000 under section 88 of the Income Tax Act. Exemption from long term capital gains also extended to investments made in house property even if the person already has one house existing on the date of the transfer.
- To enable the shipping industry to generate resources for strengthening and modernising its fleet, the provision of deduction at 50 per cent of shipping profits was raised to 100 per cent for a period of five years.
- To encourage investment in research and development activities, weighted deduction for expenditure incurred on scientific research on in-house research and development facility was enhanced from 125 per cent to 150 per cent. Also tax holiday for ten years accorded to companies engaged mainly in research and development.
- Benefit of exemption of export income by entertainment industry extended to non-corporate entities retrospectively with effect from financial year 1999-2000.
- All tax concessions relating to earnings in foreign exchange are being phased out over a period of five years starting with a 20 per cent withdrawal in these concessions from the financial year 2000-2001, and by 20 per cent in each subsequent year till they reach a zero level.
- Powers have been delegated to the Central Government to notify a class or classes of persons for whom it will be obligatory to apply for permanent account number.
- The system of advance rulings has been made applicable to any resident in relation to transaction undertaken or proposed to be undertaken by him with a non-resident.
- An advisory time limit has been provided for the Income Tax Appellate Tribunal to decide even those appeals, which have been filed by the Department, with a view to further reduce the time involved in litigation.
- “One-by-six” criteria introduced in the Budget 1998 for identifying potential tax payers extended to 79 more cities (from 54 cities) having population of 2 lakh or more, as per 1991 census.

2.30 The thrust of the reforms in the field of indirect taxation i.e., customs and union excise duties undertaken since the last few years has been rationalisation and simplification of tax rates, procedures, rules and regulations. After a gap of three years, peak protective customs tariff rate were scaled down further from 40 per cent to 35 per cent ad valorem and five major ad valorem rates of basic customs duty were reduced to four ad valorem rates. A number of consumer goods and a large number of agricultural products were placed on the free list for imports effective 1st April, 2000 subject to the peak customs tariff rate of 35 per cent plus surcharge. The basic customs duty on crude petroleum and on petroleum products were reduced in the Budget and further scaled down during the course of the year. This involved trade-off between revenues and petroleum product prices. To encourage growth of Information Technology (IT) sector and reduce prices of IT products, further reductions in import duty for inputs and capital goods in the IT sector were effected. Major overhaul of the central excise system was undertaken with the introduction of a uniform 16 per cent basic Central Value Added Tax (CENVAT) at production stage. Special excise duty at the rate of 8 per cent, 16 per cent and 24 per cent continue on specified goods. Rules and procedures for availing CENVAT credit have been made short, simple and transparent. All inputs (except high speed diesel and motor spirit) and all capital goods are eligible for input tax credit. Also all finished goods (except matches) have been brought under the CENVAT credit scheme. The details of various indirect tax measures are given in Box 2.3. An Empowered Committee of Finance Ministers of States has been constituted by the Central Government to monitor the implementation of the decisions as regards reforms in the domestic trade tax system. The Empowered Committee has decided that all the States/Union Territories will introduce VAT by 1st April, 2002.

Collection Rates

2.31 The collection rate is defined as the ratio of realised import revenue (including additional customs duty/countervailing duty (CVD), and special additional duty) to the value of imports of a commodity. Therefore, collection rate also includes the special additional duty on imports levied to offset the incidence of domestic trade taxes other than union excise borne by domestic producers and the CVD on imports of goods meant to offset incidence of excise duty on similarly produced indigenous goods, etc. A pure measure of protection would take account of basic customs duty to the exclusion of other duties/levies and would be lower than the all inclusive collection rate seems to suggest.

2.32 Table 2.6 shows customs duty collection rates for selected import groups during the period 1990-91,1995-96 to 1999-2000. The average collection rate after declining to 23 per cent in 1998-99 from 27 per cent in 1997-98 increased to 24 per cent in 1999-2000. The collection rate for all the major commodity groups barring POL, paper and newsprint and capital goods edged upwards in 1999-2000 compared with 1998-99. The rise in collection rate for a large number of commodity groups is mainly the result of introduction of a uniform surcharge of 10 per cent and minimal protection duty of 5 per cent introduced in the Budget for 1999-2000. The dispersion of rates, as measured by the range between maximum and minimum collection rates also increased from 40 per centage points in 1998-99 to 56 per centage points in 1999-2000. The increase in dispersion in collection rates adds to distortions in the incentive structure.

Revenue Trends

2.33 Tax reforms have induced structural shift in the composition of tax revenue (Table 2.7).

2.34 The share of direct taxes in the gross tax revenue has increased from 19.1 per cent in 1990-91 to 30.2 per cent in 1995-96 and edged upto 34.7 per cent in 1997-98, declined to 33.6 per cent in 1999-2000 and is projected to improve to 36 per cent in 2000-2001(BE). Correspondingly the share of indirect taxes in gross tax revenue declined substantially from 78.4 per cent in 1990-91 to 69.1 per cent in 1995-96 and declined further to 64.5 per cent in 1997-98. The share of indirect taxes in gross tax revenue is placed at 65.6 per cent in 1999-2000 and is estimated at 63.4 per cent in 2000-2001(BE).

BOX 2.3
Indirect Taxes

Customs

- Peak protective customs tariff rate scaled down further from 40 per cent to 35 per cent ad valorem.
- Existing five major *ad valorem* rates of basic customs duty (5 per cent, 15 per cent, 25 per cent, 35 per cent and 40 per cent) were reduced to four *ad valorem* rates of 5 per cent, 15 per cent, 25 per cent and 35 per cent.
- Several consumer goods and a large number of agricultural products (other than cereals) were placed at the peak rate (35 per cent plus surcharge), except for a few items like capital goods. In particular, effective *ad valorem* rates of basic customs duty are at present above the peak rates in case of many agricultural items which among others include 100 per cent for wheat, 60-80 per cent for rice (depending on the variety), 100 per cent for sugar, 25-65 per cent for edible oils etc.
- The basic customs duty on crude petroleum was reduced from 20 per cent to 15 per cent and on petroleum products from 30 per cent to 25 per cent. The duty was further reduced to 10 per cent on crude petroleum and to 20 per cent on petroleum products with effect from 30th September, 2000.
- The basic duty on platinum and non- industrial diamonds was reduced from 40 per cent to 15 per cent; other significant duty reductions were: from 15 per cent to 5 per cent in case of ferro-nickel for manufacture of steel; from 25 per cent to 5 per cent on propane conversion kits and their parts; and from 35 per cent to nil on 17 specified life saving drugs.
- Import duty for specified inputs and capital goods for Information Technology were reduced as follows: computers, mother boards, floppy diskettes from 20 per cent to 15 per cent; microprocessor for computers, memory storage devices, CD ROMs, integrated circuits and micro assemblies, data graphic display tubes for colour monitors for computers from 5 per cent to nil; and specified capital goods for manufacture of semi conductors and integrated circuits from 15 per cent to 5 per cent.
- Further, import duty was also reduced on a number of items used in the telecommunications sector. These include reduction in import duty to a level of 5 per cent ad valorem on cell phones, pagers and radio trunking terminals and specified equipment.
- Basic customs duty on cinematographic cameras, and other related equipment, reduced from 40 per cent to 25 per cent.
- Basic customs duty reduced on colour positive films in jumbo rolls and colour negative films in rolls of certain sizes, from 15 per cent to 5 per cent together with exemption on additional duty of customs.

Excise

- Excise duty has been largely converted into a uniform 16 per cent Central Value Added Tax (CENVAT) at production stage. However, special excise duty at the rate of 8 per cent, 16 per cent and 24 per cent continues on specified goods.
- All inputs (except high speed diesel and motor spirit) and all capital goods are eligible for input tax credit.
- Availability of credit on capital goods will be spread over a period of two years with effect from 1st April, 2000.
- All finished goods (except matches) have been brought under the CENVAT credit scheme.
- The capacity based excise levy scheme for secondary producers of steel abolished and replaced by *ad valorem* levy of excise duty.
- Integrated steel plants have been allowed to pay duty at the ex-factory price on steel sold from their stock yards.
- 40 more items have been brought under the MRP based excise levy scheme, taking the total under this scheme to 85.
- The deemed wholesale price concept for payment of excise duty replaced by a new transaction value concept. Excise duty is now payable on the value of transaction, excluding taxes.
- The requirement of maintaining statutory records in prescribed format has been abolished and the private record of the assessee, which should contain certain minimum required information will be accepted for determination of tax liability. Advance payment of excise duty has been done away with and a new system of payment of excise duty on fortnightly basis for non-SSI units and on monthly basis for SSI units has been introduced.
- The full excise duty exemption limit for small scale units has been raised from Rs.50 lakh to Rs.1 crore in a financial year.
- Specific exemption for small scale units manufacturing articles of plastics, cosmetics and toilet preparations, tread rubber, air conditioning and refrigeration machinery and parts have been merged with the general SSI scheme.
- An expert group on service tax has been constituted to go into all aspects connected with the field of taxing the services and to make recommendations thereon.

TABLE 2.6

Collection Rates for Selected Import Groups

(in per cent)

S. No.	COMMODITY GROUPS	1990-91	1995-96	1996-97	1997-98	1998-99	1999-2000
1	Food products	47	23	19	16	15	17
2	POL	34	30	32	29	29	27
3	Chemicals	92	44	49	37	34	37
4	Man-made fibres	83	36	36	36	49	65
5	Paper & newsprint	24	8	11	13	11	9
6	Natural fibres	20	12	13	17	22	24
7	Metals	95	52	45	44	51	53
8	Capital goods	60	33	39	41	42	40
9	Others	20	13	14	15	11	12
10	Non POL	51	28	31	27	23	23
11	Total	47	29	31	27	23	24

S.No. 1 includes cereals, pulses, milk and cream, fruits, vegetables and animal fats.
S.No. 3 includes chemical elements, compounds, pharmaceuticals, dyeing and colouring materials, plastic and rubber.
S.No. 5 includes pulp and waste paper, newsprint, paperboards & manufactures and printed books, newspapers and journals etc.
S.No. 6 includes raw wool and silk.
S.No. 7 includes iron & steel and non-ferrous metals.
S.No. 8 includes non-electronic machinery and project imports, electrical machinery.

TABLE 2.7

Sources of Tax Revenue

	1990-91	1995-96	1996-97	1997-98	1998-99	1999-2000@	2000-2001(BE)
Tax Revenue as a Percentage of Gross Tax Revenue							
Direct (a)	19.1	30.2	30.2	34.7	32.4	33.6	36.0
Income tax	9.3	14.0	14.2	12.3	14.1	14.8	15.8
Corporation tax	9.3	14.8	14.4	14.4	17.1	17.9	20.0
Indirect(b)	78.4	69.1	69.1	64.5	66.7	65.6	63.4
Customs	35.9	32.1	33.3	28.9	28.3	28.2	26.7
Excise	42.6	36.1	35.0	34.5	37.0	36.2	35.6
Tax Revenue as a Percentage of Gross Domestic Product at current market prices*							
Direct(a)	1.9	2.8	2.8	3.2	2.7	3.0	3.3
Income tax	0.9	1.3	1.3	1.1	1.2	1.3	1.4
Corporation tax	0.9	1.4	1.4	1.3	1.4	1.6	1.8
Indirect(b)	7.9	6.5	6.5	5.9	5.5	5.8	5.8
Customs	3.6	3.0	3.1	2.6	2.3	2.5	2.5
Excise	4.3	3.4	3.3	3.2	3.0	3.2	3.3
Total#	10.1	9.4	9.4	9.1	8.2	8.8	9.2

Note: (a) also includes taxes pertaining to expenditure, interest, wealth, gift, estate duty and VDIS for 1997-98 & 1998-99;(b) also includes service tax;

 # : includes taxes referred in (a) & (b) and taxes of Union Territories and "other" taxes. Tax revenue figures for 2000-2001 are budget estimates, and for 1998-99 and earlier years these are actuals.

@ : Based on Provisional unaudited tax figures as per Controller General of Accounts.

*** : The ratios to GDP at current market prices for 2000-2001 are based in CSO's Advance Estimates.**

2.35 The direct tax revenue as a per cent of GDP has increased from 1.9 per cent in 1990-91 to 3 per cent in 1999-2000 and is estimated at 3.3 per cent in 2000-2001(BE). On the other hand, the share of indirect taxes as a per cent of GDP declined from 7.9 per cent in 1990-91 to 6.5 per cent in 1995-96 and fell to an estimated 5.8 per cent in 2000-2001(BE) which is the same as in the previous year.

Revenue Performance

2.36 The data available for gross collections from major direct and indirect taxes for the first nine months (April-December, 2000) of the current year show strong recovery in direct tax collections. In case of direct taxes, collections from personal income tax and corporation tax at Rs.44352 crore were higher by 30.5 per cent over the same period of last year. This compares with 15.3 per cent increase for these taxes in the same period of the previous year. Collections from excise and custom duties at Rs. 82356 crore during April–December, 2000 posted a growth of 7.1 per cent compared with an increase of 19 per cent in April-December 1999.