Tax Measures: 1998-99

28. The budget for 1998-99 continued the emphasis on tax base enlargement, rigorous enforcement, broadbanding and lowering of rates and buoyancy, reducing number of exemptions and concessions, simplifying procedural rules and regulations to make tax system more user friendly.

Direct Taxes

29. A number of amendments has been carried out by the Government in the Income Tax Act, 1961 through the Finance (No.2) Act, 1998 and Income Tax (Second Amendment) Bill, 1998. The emphasis was to continue tax reforms, to have laws which are simple and transparent, to widen the tax base, minimise the tax evasion, provide tax concessions mainly for infrastructure, restructure presumptive tax scheme, limit litigation and strengthen enforcement through tapping of the high value transactions. The major direct tax measures introduced in the 1998-99 budget and changes made subsequently are given in Box 2.2

Indirect Taxes

30. The major changes introduced in the indirect tax structure in 1998-99 are given in Box 2.3 and Box 2.4.

Collection Rates

31. Table 2.6 shows customs duty collection rates for selected import groups during the period 1990-91 to 1997-98. The average collection rate has fallen by about 20-percentage points from 47 per cent in 1990-91 to 27 per cent in 1997-98. The drop in collection rate is evident in chemicals, POL, non-POL and metals. The food product group, which experienced a fall in 1996-97, registered a major increase in 1997-98. The man-made fibre and others remained stagnant. The paper and newsprint, natural fibres and capital goods registered an increase. The dispersion of rates, as measured by the range between the maximum and minimum collection rates, though reduced is still wide. This leads to distortion of incentives and misallocation of resources.

Excise Measures

32. The objectives of the excise tax proposals were to move towards a Central Value Added tax system, further simplification of excise procedures, widening of tax base, further relief to SSI sector and reducing the disputes through settlement under “Kar Vivad Samadhan Scheme”.

Revenue Trends

33. The tax reforms have resulted in growth in the tax revenue and have induced structural shift in the composition of tax revenue (Table 2.7).

34. The share of direct taxes in the gross tax revenue has increased from 19.1 per cent in 1990-91 to 35.9 per cent in 1997-98(RE) and is expected to decline to 31.0 per cent in 1998-99(BE). The share of indirect taxes declined from 78.9 per cent in 1990-91 to 63.9 per cent in 1997-98(RE) and is expected to increase to 68.8 per cent in 1998-99(BE). The share of excise revenue in gross revenue has declined from 42.6 per cent in 1990-91 to 33.4 per cent in 1997-98(RE), and is expected to increase to 36.6 per cent in 1998-99(BE).

35. The direct tax revenue as a percent of GDP has increased from 1.9 per cent in 1990-91 to 2.8 percent in 1998-99(BE). The share of indirect taxes as a per cent of GDP declined from 7.8 per cent in 1990-91 to 6.1 per cent in 1998-99(BE).

Revenue Performance

36. The data available for gross collections from major direct and indirect taxes for the first nine months (April-December, 1998) of the current year show mixed trends. In the case of direct taxes, collections from personal income tax and corporation tax at Rs.29475 crore were higher by 15.4 per cent over the same period of the previous year. Collections from excise and custom duties were at Rs.64184 crore during April-December,1998 and posted a marginal increase of 1.9 per cent.

BOX 2.2

Major Direct Tax Measures in 1998-99

- The income tax exemption limit raised from Rs.40, 000 to Rs.50, 000 for non-corporate assessees.
- No change in the corporate tax rates.
- Standard deduction ceiling for salary earners having income upto Rs.1 lakh raised from Rs.20, 000 to Rs.25,000. Standard deduction withdrawn for persons earning income more than Rs.5 lakhs while status quo continues for other salary earners.
- Enhancement in the ceiling of tax-free reimbursement of medical expenses from Rs. 10,000 to Rs.15, 000.
- All the gifts made on or after 1.10.98 exempted from payment of gift tax by Finance (No.2) Act, 1998.
- To encourage investment in the house-building activity several incentives have been provided which interalia, include, 100 percent tax holiday on profits accruing out of approved housing projects for first five years and 30 per cent deduction for subsequent five years on projects completed on or before 31.03.2001; enhancement in the deduction limit for repairs and collection charges from 20 percent to 25 percent and that for payment of interest on borrowed capital in the case of self-occupied property from Rs.15,000 to Rs.30,000; carry-forward of losses from house property against future income for 8 years; deduction equal to 50 per cent of the profits to companies engaged in housing projects aided by the World Bank.
- Companies recruiting additional work force allowed 30 per cent deduction on the additional wages paid to the new workmen subject to certain conditions.
- 100 per cent deduction, subject to a ceiling of Rs.5 lakhs, to undertakings engaged in the collection or processing of biodegradable waste and for payments made to eco-friendly projects and schemes producing bacteria induced fertilisers.
- 100 percent tax deduction for activities for establishing and running of educational institutions, hospitals and medical facilities in rural areas exclusively for women and children and also crèches and schools for the children of workers.
- 100 percent tax deduction for payments to projects or schemes engaged in promoting road safety and traffic awareness and preventing accidents.
- 100 percent tax deduction on donations made to National Sports Fund/National Culture Fund.
- Extending tax holiday from 5 to 10 years to industrial undertakings set up in the free trade zones and units in the software technology parks.
- Tax holiday benefit to industries set up in industrially backward states and backward districts extended upto 31.03.2000, and that for power generating units extended to 31.03 2003.
- Infrastructure status accorded to inland waterways and inland ports for tax holiday benefits.
- Seven years tax holiday benefit for commercial production of mineral oil extended to oil refining units set up after 1.10.98.
- To boost the telecommunication sector, tax holiday benefits extended to radio- paging, trunking and EDI Network and domestic satellite service.
- Provisions allowing benefits to supporting software developers of software exporting companies have been modified to provide full deduction of profits from exports of software.
- Depreciation allowed at full rate of 40 per cent for commercial vehicles acquired in 1998-99, irrespective of the date of purchase. Further, depreciation rate hiked to 60 per cent for commercial vehicles acquired in 1998-99 and 1999-2000 in replacement of condemned vehicles of 15 years of age.
- Administrative measures to improve reporting and widening the tax base include: (i) introduction of a simple one page taxpayer-friendly return form called, ‘SARAL’, applicable to all non-corporate tax payers; (ii) making it obligatory for assessees to quote their PAN or GIR number in respect of certain high value transactions; (iii) the presumptive taxation scheme, introduced in 1997-98 budget in 12 cities, extended to 23 more cities in India taking the total coverage to 35 cities and two additional economic criteria added; and (iv) introduction of a new scheme called “KAR VIVAD SAMADHAN SCHEME” to recover the money locked in litigation both in direct and indirect taxes.

BOX 2.3

Major Import Tariff Measures in 1998-99

- Imposition of Special Additional Duty @ of 4% on imports to provide level playing fields for the domestic producers, with certain exemptions such as newsprint, life saving drugs etc.
- Reduction in import duty on 75 specified machinery from 25% to 15% to encourage investment in the information technology sector.
- Reduction in basic import duty to a level of 5% ad valorem on many items related to information technology.
- Full exemptions on imports of specified life saving medicines.
- Increase in customs duty by 5% on Cold Rolled Coils of Iron and Steel, Copper and Wrought articles, Photographic Chemicals.
- Increase in customs duty by 10% on paper and paper goods, particles and fibre goods, IC engines and parts of motor vehicles, Citric Acid and Methanol.
- Import duty on standard newsprint reduced from 10% to 5%.
- Reduction in duty on Caprolactum to the level of 25% so that all intermediates in the textile sector attract the same rate of duty.
- Reduction in customs duty on apparel grade raw wool, wool waste and garnetted stock of wool from 25% to 20%.
- Reduction in customs duty on crude oil.
- Full exemption of import duty on onions, pulses etc.
- Reduction in customs duty on edible oils for manufacture of vanaspati from 20% to 10% ad valorem.
- As a measure of environment protection import duty on sawn wood and other varieties of wood reduced from 30% to 25%
- Reduction in duty on bio-pesticides, on membrane electrolysers and on spodumane.
- Increase in the free baggage allowance for incoming passengers from Rs.6,000 to Rs.12,000.

TABLE 2.6

Collection Rates for Selected Import Groups

(in per cent)

S. No.	COMMODITY GROUPS	1990-91	1993-94	1994-95	1995-96	1996-97	1997-98
1	2	3	4	5	6	7	8
1	Food Products	47	19	22	23	19	30
2	POL	34	36	31	30	32	29
3	Chemicals	92	52	44	44	49	37
4	Man-made fibres	83	18	18	36	36	36
5	Paper & newsprint	24	13	11	8	11	13
6	Natural fibres	20	14	9	12	13	17
7	Metals	95	69	53	52	45	44
8	Capital goods	60	31	38	33	39	41
9	Others	20	10	11	13	14	14
10	Non POL	51	28	29	28	31	27
11	Total	47	30	29	29	31	27

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 and manufactures and printed books, newspapers and journals etc.

S.No 6 includes raw wool and silk.

S.No. 7 includes iron and steel and non-ferrous metals.

S.No. 8 includes non-electronic machinery and project imports, electrical machinery.

BOX 2.4
Major Excise Tax Measures in 1998-99

- A number of items which were earlier exempted from duty, would now attract nominal duty of 8 percent ad valorem viz. packaged tea, tractors of engine capacity not exceeding 1800cc, generic allopathic medicines, slide fasteners, milking and dairying machinery, roasted chicory and coffee substitutes and certain branded food and dairy products.
- Excise duty on a number of products, which were attracting a low rate of duty, viz. malt, cartons/boxes of paper board, unrecorded audio cassettes, parts of electrically operated vehicles and sun glasses other than powered sun glasses was raised by 5 percentage points.
- Excise duty in respect of pagers, cellophane, diesel engine sets upto 10 HP, surgical and medical examination gloves and matches was reduced.
- In order to give relief to the construction sector, a number of products like wood free particle boards, fibre boards, bricks containing more than 25 per cent by weight of fly ash, pre-fabricated buildings and their components used in construction have been exempted from excise levy.
- The major benefits for the SSI Sector include: (i) full excise duty exemption limit raised from Rs.30 lakhs to Rs.50 lakhs; and (ii) concessional duty of 5 percent ad valorem for clearances in excess of Rs.50 lakhs but not exceeding Rs.100 lakhs.
- A new scheme called “Kar Vivadh Samadhan Scheme” has been introduced to provide for a quick and voluntary settlement of customs and excise duties outstanding as on March 31, 1998 by offering waiver of a 50 percent of the arrears of taxes and interest and providing immunity against institution of prosecution and imposition of penalty.
- The coverage of service tax was widened to cover 12 more services such as services rendered by architects, interior decorators, management consultants, chartered accountants, cost accountants, company secretaries, credit rating agencies, market research agencies, under writers, private security/detective agencies, real estate agents and consultants, and mechanised slaughter houses.
- Availability of MODVAT credit was reduced from 100 per cent to 95 per cent in respect of inputs used in the manufacture of finished goods with effect from June 2,1998. However, in respect of capital goods the availability of MODVAT credit continues to be 100 per cent.

TABLE 2.7
Sources of Tax Revenue

	1990-91	1994-95	1995-96	1996-97	1997-98 (RE)	1998-99 (BE)
1	2	3	4	5	6	7
Tax Revenue as a Percentage of Gross Tax Revenue						
Direct (a)	**19.1**	**29.2**	**30.2**	**30.2**	**35.9**	**31.0**
PIT	9.3	13.0	14.0	14.2	13.1	13.3
CIT	9.3	15.0	14.8	14.4	15.0	16.8
Indirect(b)	**78.9**	**70.6**	**69.6**	**69.6**	**63.9**	**68.8**
Customs	35.9	29.0	32.1	33.3	28.7	30.5
Excise	42.6	40.5	36.1	35.0	33.4	36.6
Tax Revenue as a Percentage of Gross Domestic Product*						
Direct(a)	**1.9**	**2.6**	**2.8**	**2.8**	**3.3**	**2.8**
PIT	0.9	1.2	1.3	1.3	1.2	1.2
CIT	0.9	1.3	1.4	1.3	1.4	1.5
Indirect(b)	**7.8**	**6.3**	**6.4**	**6.4**	**5.8**	**6.1**
Customs	3.5	2.6	2.9	3.0	2.6	2.7
Excise	4.2	3.6	3.3	3.2	3.1	3.3
Total#	**9.9**	**8.9**	**9.1**	**9.1**	**9.1**	**8.9**

Note : (a) also includes expenditure, interest, wealth & gift taxes, estate duty and VDIS for 1997-98;
(b) also includes other taxes and duties and service tax; #:includes taxes referred in (a) & (b) and taxes of Union Territories. Tax revenue figures for the years 1997-98 and 1998-99 are revised and budget estimates respectively, and for preceding years these are actuals.

*** : Refers to gross domestic product at current market prices. For the year 1998-99 the ratio has been arrived at by estimating the GDP figure.**

Note : Please see Note given in Table 2.1.