

EXCISE

Note :- (a) *AED (GSI)* means *Additional Duty of Excise levied under Additional Duties of Excise (Goods of Special Importance) Act.*
 (b) *RSP* means *Retail Sale Price.*

Major Proposals about Central Excise duties are the following :

All Changes would come into effect immediately.

A. EDUCATION CESS

An Education Cess is being levied on excisable goods manufactured in India. It shall be leviable @ 2% on the aggregate duties of excise leviable on such goods. The credit of cess paid on inputs and capital goods shall be available as credit for payment of cess on the final products, as per the provisions of Cenvat Credit Rules, 2002.

B. BROADENING OF TAX BASE AND MOVE TOWARDS A MEAN CENVAT RATE

(I) Excise duty of 8% has been imposed on following items:

- 1) Contact lenses.
- 2) Playing cards.

General SSI exemption is available to these items.

(II) Excise duty on following items has been increased from 8% to 16%:

- 1) Cakes and pastries.
- 2) Plastic insulated ware.
- 3) Vacuum flasks.
- 4) Scented supari.
- 5) Pre-fabricated buildings.
- 6) Laboratory glassware.
- 7) Clocks and watches of RSP not exceeding Rs.500 per piece.
- 8) Monochrome television receivers.
- 9) Populated printed circuit boards for monochrome television receivers.
- 10) Imitation jewellery.
- 11) Candles.

General SSI exemption would be available to all these items.

(III) Excise duty on matches made in semi-mechanized and mechanized sectors, has been changed from 8% without Cenvat credit, to 16% with credit.

(IV) Excise duty has been raised on iron and steel of chapter 72 from 8% to 12%.

(V) Excise duty of 16% has been imposed on following items:

- 1) Specified parts of pre-fabricated buildings such as blocks, slabs, concrete beams and stairs .
- 2) Parts of clocks and watches of RSP not exceeding Rs. 500 per piece.

General SSI exemption would be available to all these items.

C. RELIEF MEASURES

- 1) The RSP limit for excise duty exemption on footwear has been raised from Rs. 125 to Rs. 250 per pair. The exemption will now be available only if RSP is indelibly marked or embossed on the footwear itself.
- 2) Excise duty has been reduced from 16% to 8% on gas stoves of RSP not exceeding Rs. 2000 per unit.
- 3) The value limit for excise duty exemption on pens and refills of ball point pens has been raised from Rs. 100 to Rs.200 per piece.
- 4) Parts of pens and parts of refills of ball point pens have been exempted from excise duty.
- 5) Computers have been exempted from excise duty. Stand alone Central Processing Units (CPUs) will also be eligible for the exemption. Parts captively consumed in the factory of the manufacture of computers have also been exempted from excise duty.
- 6) Excise duty on non-alcoholic beverages, such as chocolates and malted food drinks, falling under chapter 18 or 19, prepared and dispensed through vending machines, has been exempted.

D. AGRICULTURE

- 1) Tractors of heading 87.01 have been exempted from excise duty. Parts captively consumed in the factory of the manufacture of tractors have also been exempted from excise duty.
- 2) Milking machines and dairy machinery of heading 84.34 have been exempted from excise duty.
- 3) Excise duty on branded and packed preparations of meat, fish and poultry has been reduced from 16% to 8%.
- 4) Excise duty on food grade hexane has been reduced from 32% to 16%.
- 5) Hand tools of heading No. 82.01 have been exempted from excise duty.
- 6) Specified plantation machineries have been exempted from excise duty. This exemption will be available upto 30th April, 2005.

E. TEXTILES

- 1) The Cenvat Scheme has been made optional. There will be a mandatory excise duty only on man made fibres and filament yarns (including textured yarns)
- 2) Man made staple fibres i.e. tows and staple fibres and wastes thereof would continue to attract duty of 16%.
- 3) However, waste of manmade fibres, other than those arising during the course of manufacture of manmade fibres or filament yarns attracting mandatory duty, has been exempted.
- 4) Polyester filament yarns, including polyester textured yarns would continue to attract duty of 24%.
- 5) Excise duty on other synthetic and artificial filament yarns has been increased to 16%.
- 6) All other textile goods e.g. spun yarns, grey or processed fabrics, garments, made-ups and textile articles, of chapters 50 to 63, have been exempted from excise duty provided no credit under the Cenvat Credit Rules, 2002 is taken. The exemption is optional. For those opting to pay duty, the rates of excise duty will be as follows,-
 - (a) all textile goods made of pure cotton, not containing any other textile material - 4%.
 - (b) Other textile goods - 8%.

Those opting to pay duty will be eligible to avail Cenvat credit.

- 7) Textiles and textile articles, presently attracting 'Nil' tariff rate, would continue to do so, except for silk yarn, yarn spun from silk waste, woven fabrics of silk and silk waste (of heading Nos. 50.04 and 50.05). For these items an optional duty of Nil (without Cenvat credit) or 8% (with Cenvat credit) has been prescribed. The tariff rates for these items have been suitably amended.
- 8) All textiles and textile articles falling under chapter 50 to 63 have been fully exempted from duties under Additional Excise Duty (Goods of Special Importance) Act and Additional Excise Duty (Textiles and Textiles Articles) Act, wherever applicable.
- 9) Manufacture of polyester filament yarns on job work has been excluded from the purview of notification No. 214/86-Central Excise.

F. HEALTH

- 1) Existing concessional rate of excise duty of 16% to ambulances for Government run hospitals has been extended to all ambulances.
- 2) Rehabilitation aids such as talking books, talking calculators, talking thermometers, Braille writers, Braille computer terminals have been exempted from excise duty.
- 3) Excise duty exemption available to diagnostic kits used for detection of Hepatitis B has been extended to diagnostic kits used for detection of all types of Hepatitis.

G. MISCELLANEOUS

- 1) Newsprint in reels has been exempted from excise duty.
- 2) Existing excise duty exemption for naphtha/natural gasoline liquid (NGL) used for production of ammonia and synthesis gas, for use in manufacture of heavy water, has been extended to naphtha/NGL used in production of steam supplied to heavy water plants for manufacture of heavy water.
- 3) A sunset clause has been introduced in case of area based exemptions for Sikkim, Uttranchal and Himachal Pradesh so as to provide that the exemptions would be available only to those new units which are set up or existing units which are substantially expanded and commence commercial production on or before 31.03.2007.
- 4) Specific rates of excise duty on colour television receivers, prescribed in case RSP is not declared or is not correctly declared, have been withdrawn. Colour television receivers will now uniformly attract excise duty of 16%.
- 5) In the exemption scheme for specified units manufacturing tobacco products (other than cigarettes and biris) in the North East Region, the condition for investing the excise duty amount per quarter within six months from the end of the quarter has been relaxed. The amount can now be deposited in an escrow account with a condition that the amount would be invested in the North East Region within two years of the deposit in the said escrow account.

H. RETAIL SALE PRICE (RSP) BASED ASSESSMENT:

- (I) Changes in rates of abatement have been made consequent to changes in excise duty rates:
 - 1) Abatement on gas stoves of RSP not exceeding Rs. 2000 per unit, has been reduced from 40% to 35%
 - 2) Abatement on scented supari, has been raised from 30% to 35%
 - 3) Abatement on plastic insulated ware has been raised from 40% to 45%
 - 4) Abatement on vacuum flask has been raised from 35% to 40%
- (II) RSP based assessment has been extended to monochrome (black & white) television sets with an abatement of 35%.

AMENDMENTS IN CUSTOMS AND CENTRAL EXCISE ACTS AND RULES

Changes mentioned against S.Nos. 4, 5,6, 8,9 and 10 come into effect immediately. The other changes will come into effect on enactment of the Finance (No. 2) Bill, 2004.

- 1) Provisions are being made in central excise and customs laws to allow compounding of offences either before or after initiation of proceedings.
- 2) A provision is being made in the Central Excise Act to enable recovery of arrears of revenue including interest from the person, to whom the person liable to pay arrears, has transferred his business property.
- 3) Provisions are being made in the Central Excise Act to debar the adjudicating authority, Commissioner (Appeals), and the Appellate Tribunal, from granting more than three adjournments of personal hearings to a party.
- 4) A section note is being inserted in section XV of the First Schedule to the Central Excise Tariff Act so as to provide that 'the process of drawing or redrawing a rod, wire or any other similar article, into wire' shall amount to 'manufacture'.
- 5) The Third Schedule to the Central Excise Act has been amended to extend the provisions of section 2(f)(iii) of the said Act to monochrome (black & white) television sets.
- 6) Amendments have been made in Cenvat Credit Rules, 2002, so as to provide that AED(GSI) paid on inputs on or after the 1st of April, 2000, would be eligible for utilization towards payment of Cenvat duty.
- 7) Customs Act, Central Excise Act and Finance Act, 1994 are being amended to provide for specified amount of fee to be paid when making appeal before appellate tribunal.
- 8) Rule 12 B of the Central Excise Rules, 2002 has been omitted.
- 9) Provision relating to endorsement of document under clause (e) of sub-rule (1) of Rule 7 and the provisions relating to transfer of credit by exempted textile manufacturer under rule 8A of the Cenvat Credit Rules have been omitted.
- 10) Notifications No. 83/2004-Customs (N.T.), dated the 30th June, 2004 and No. 38/2001-Central Excise (N.T.), dated the 26th June, 2001 (as amended) are being given retrospective effect from 11th May, 1982.
- 11) Section 9A of Customs Tariff Act is being amended to apply the provisions of Customs Act, relating to date of determination of rate of duty, interest, offences and penalties to anti-dumping duties.

SERVICE TAX

Changes in respect of (VI), (VII), (VIII) (3) and (VIII)(10) come into effect immediately. The other changes will come into effect on enactment of the Finance (No. 2) Bill, 2004.

(I) EDUCATION CESS

An Education Cess is being levied on services subjected to service tax. It shall be chargeable @ 2% of the service tax. The cess paid on inputs services shall be available as credit for payment of cess on output services.

(II) RATE AND INPUT CREDIT

- Credit of service tax and excise duty is being extended **across goods and services**.
- The rate of service tax is being raised from 8% to 10%.

(III) SERVICE TAX IS BEING IMPOSED ON THE FOLLOWING SERVICES:

- (1) Business exhibition services
- (2) Airport services
- (3) Transport of goods by road (by a goods transport agency)
- (4) Transport of goods by air
- (5) Survey and exploration of minerals
- (6) Opinion poll services
- (7) Intellectual property services other than copyrights
- (8) Forward contract service
- (9) Pandal or shamiana service
- (10) Outdoor catering
- (11) TV or radio programme production
- (12) Construction services in respect of commercial or industrial buildings or civil structures
- (13) Travel agents (other than air/rail travel agents)

(IV) SERVICE TAX IS BEING RESTRICTED TO THE RISK COVER IN LIFE INSURANCE SERVICE

(V) SCOPE OF CERTAIN EXISTING SERVICES IS BEING EXTENDED AS FOLLOWS:

- (1) Commission and installation of plant, machinery or equipment to include 'erection' thereof.
- (2) Stock brokers to include 'sub-brokers'.
- (3) Cable operator service to include 'Multi System Operators (MSO)'.
- (4) Business auxiliary service also to include service relating to procurement of inputs, production of goods or provision of services on behalf of client. However, activities amounting to manufacture are specifically excluded from the scope of the service tax.

- (5) Financial services also to include other specified financial services, namely, lending, issue of pay order, demand draft, cheque, letter of credit, bill of exchange, providing a bank guarantee, overdraft facility, bill discounting, safe deposit, lockers, or safe vaults and operation of bank accounts. The interest amount would, however, remain excluded from the purview of service tax. In addition to banking company, financial institutions including a non-banking financing company, body corporates, any other commercial concern providing financial services will also be covered.
- (6) Tour operator services will include such package tour operators also who organize tours involving any mode of transport.

(VI) FOLLOWING SERVICE TAX EXEMPTIONS ARE BEING REMOVED:

- 1) Exemption to services in relation to safe deposit lockers and vaults .
- 2) Maintenance or repairs of computers under a maintenance contract or by the manufacturer.
- 3) Mandap keeper services provided by hotels. However, 40% abatement will be allowed if catering is also provided.
- 4) Commission agents, other than those dealing in agricultural produce, under business auxiliary service.
- 5) Broadcasting service provided by cable operators.
- 6) Reduction of abatement from 90% to 60% for non-package tours.

(VII) EXEMPTIONS:

- 1) 40% abatement in convention service when catering is also provided.
- 2) 60% abatement to rent-a-cab scheme operators.

(VIII) CHANGES IN ACT AND RULES:

- 1) Compulsory verification of assessment by departmental officers is being done away with.
- 2) Mandatory penalty for non-registration is being removed. In all cases of *bona fide* procedural infringements, no penalty will be imposed.
- 3) Rule 6 of Service Tax Credit Rules has been amended. If the input service supplier has not paid service tax, the Service Tax credit cannot be recovered from the person availing the credit if he had taken reasonable steps in terms of rule 5.
- 4) The present rate of interest of 15% per annum on delayed payment of service tax is being replaced by a range, from 10% to 36% per annum. The Central Government will have the power to notify the rate of interest on delayed payment of service tax within this range.
- 5) Section 67 of the Finance Act, 1994, has been amended to provide that where the gross amount charged or received by a service provider is inclusive of service tax payable, the value of taxable service shall be such amount as with the addition of service tax payable thereon, is equal to the gross amount charged or received.
- 6) Sections 71 and 72 of the Finance Act, 1994, relating to verification of assessment and best judgment assessment respectively are being omitted.
- 7) The provisions of section 73 of the Finance Act, 1994, relating to recovery of service tax short levied or short paid or erroneously refunded are being redrafted on the lines of section 11A of the Central Excise Act. Consequent changes are also being made in section 74 (relating to rectification of orders), section 76 (which provides for penalty in case of fraud, misstatement etc.) and section 85 [relating to appeals before Commissioner (Appeals)].
- 8) Penalty provisions under Section 75A and 79 of the Finance Act, 1994, are being omitted. The provisions under Section 77 (which presently provides penalty for non filing of returns) are being modified to provide for penalty for committing any contravention of rules and procedures. Technical and consequent amendments are being made in section 76 and 80.
- 9) Section 81 dealing with prosecution of companies, being otiose, is being omitted.
- 10) Explanation is being inserted in rule 6 of Service Tax Rules to clarify that in case payment is received in advance, service tax will be payable on *pro rata* basis.

CENTRAL SALES TAX (CST) ACT, 1956

1. In order to ensure that there is a smooth resolution of disputes between various State Governments on matters relating to sale of goods in the course of inter-state trade or commerce certain amendments have been suggested in chapter VI of the CST Act.
2. Units situated in Special Economic Zones (SEZs) have been exempted from payment of central sales tax for setting up, operation and maintenance of such units. The benefit of exemption from payment of central sales tax is also being extended to developers of SEZs for the purpose of development, operation and maintenance of SEZs.

INDIAN STAMP ACT, 1899

1. The Indian Stamp Act, 1899 is being amended to provide definition of stamp in the Indian Stamp Act, 1899 so that alternative modes of payment of stamp duty can be employed.
2. Provisions have been made for payment of consolidated stamp duties in respect of policies of insurance.
3. Provisions have been made to raise the threshold level above which stamp duty in the form of revenue stamps is charged on receipts from the current level of Rs. 500/- to Rs. 5,000/-.